

## Another New Year – Time to Think about Bonuses

With 2019 over and at the dawn of a new decade, it's an ideal time to think about bonuses for 2020.

Organizations of all sizes and across all industries use bonus programs as an important component of total compensation. Over 60% of respondents in a 2016 World at Work survey reported using some type of bonus or variable pay program, as did 73% of respondents in a more recent 2019 Payscale survey.

There are many different types of bonus programs. They fall into 2 main categories: discretionary and non-discretionary.

### **Discretionary Bonuses**

Discretionary bonuses are just what the name implies – bonuses given at an employer's discretion. If your organization had a successful 2019, and you decided to give each employee say \$500 or \$1000, you awarded a discretionary bonus. The bonus recognizes organizational achievement but isn't linked to specific goals and objectives. Discretionary bonuses are more common in smaller organizations that do not have more formal programs.

Other key features of discretionary bonuses include:

- Award amounts vary and are not linked to the achievement of specific goals or objectives.
- Typical award timeframe at end of fiscal or calendar year or on holidays. If you're closing out your 2019 financials as you're reading this, it is the perfect time to award discretionary bonuses.
- Award amounts do not factor into an employee's regular pay rate and overtime calculations.
- Award amounts are typically unbudgeted.
- May be "expected" and difficult to take away if circumstances change
- Simple administration

### **Non-Discretionary Bonuses**

Unlike discretionary bonuses, non-discretionary bonuses are generally tied to the achievement of specific goals and objectives and/or are governed by written policies and procedures. There are many types of non-discretionary bonuses. Four of the most common are outlined below:

#### **1. Annual Incentive Bonus**

This type of bonus is one of the most frequent and fastest-growing. It allows organizations the opportunity to link payments to the achievement of specific goals that impact profitability. Annual incentive bonuses can be an effective way to reward top performers, and since these payments are generally one-time occurrences that don't increase base salaries, the amounts awarded can often be larger and more meaningful to employees.

Setting appropriate goals and objectives is often challenging and time-consuming. Goals for some positions may be obvious – timeframes and error rates are easy examples – but for other jobs they may be hard to quantify and document and results may not be within an employee's control.

Individual incentive plans are most common, but team and/or group incentive plans are also valuable as a way to reward collective performance.

Organizations with incentive bonus plans usually require that goals be established early in the calendar/fiscal year for payout the next year. It is also common to establish a fixed budget and manage the program within budget parameters.

## **2. Sign-On Bonus**

In today's tight labor market, where increased competition from a shrinking pool of skilled qualified workers can present major recruiting challenges, an increasing number of organizations use sign-on bonuses to attract new candidates. According to the World at Work survey mentioned previously, this is the most commonly used bonus program.

These bonuses are most frequently paid as flat-dollar amounts, and may be paid at hire or structured as split payment plans that pay a portion of the bonus at time of hire and the remainder after successful completion of a specified period of service. They are particularly useful in situations where desirable candidates ask for salaries that are higher than those of current employees doing comparable work.

Organizations that offer sign-on bonuses typically do not establish a budget for these payments.

## **3. Referral Bonus**

Like the sign-on bonus, the referral bonus can be an effective recruitment tool in a tight labor market. 65% of the World at Work survey respondents report using this type of bonus program.

Most organizations using referral bonuses have some type of written guidelines that specify which positions are eligible for bonus payments (high-level management positions are often

excluded) and what employees are eligible to receive these payments (high-level managers and employees involved in recruiting activities are generally not eligible).

These bonuses are also most frequently paid as flat-dollar amounts, and the typical payout structure is a split payment plan that pays a portion of the referral bonus at time of hire, with the remainder paid after the new employee completes a specified period of service.

Respondents to the World at Work survey reported that 13% of their new hires came from employee referrals.

#### **4. Spot Bonus**

Spot bonuses are awards given in recognition of one-time, significant contributions made by employees. Awards may be given for contributions such as completion of a special project, implementation of a work improvement idea, or successful performance of job duties under difficult conditions (e. g. doing the work of a colleague who is out ill, or other instances where an employee goes “above and beyond”).

These bonuses are most frequently paid as flat-dollar amounts, and organizations often establish a budget for these types of payments.

Spot awards aren’t always monetary payments. Gift cards, movie passes, and tickets to sporting events are common rewards for one-time contributions that may not warrant a large financial payment. This type of award is an effective recognition tool and may help to retain employees.

So what type(s) of bonus program will help your organization achieve its 2020 goals and objectives? Now is the time to decide. We at Affinity HR Group can help you plan and implement programs that work. Just email us or call us at 877-660-6400.

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