ABOUT EMPLOYMENT BONUSES AND BENEFITS

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*Compensation for a job can be more than just wages. In addition to wages, employers may offer employees monetary incentives called **"bonuses"** or pay all or part of the cost of specific employee personal and/or family needs called **"benefits**." The value of these forms of compensation can be significant. Benefits alone may be worth as much as 35 % of employee base salary or earnings.*

Because bonuses and benefits are important parts of employment compensation you need to evaluate them, as well as wages, when you are searching for a job. This requires a good knowledge of what bonuses and benefits are and how they work. The following information, organized in three sections, will help you get started. The sections are: Bonuses: Key Terms and Concepts; Benefits: Key Terms and Concepts; and Core Benefits: How They Work

Once you have the learned the basics, keep learning. Your goal is to make good choices at the earliest point in your career. This gives you the best chance of meeting your needs and it can also mean money in the bank!

BONUSES Key Terms and Concepts

Hiring Bonus – All job offers include a starting salary or wage. In addition, some employers add a lump sum payment of cash or a "hiring bonus" to further entice a candidate to accept the offer. The amount of money varies by employer and position. Hiring bonuses are usually offered when the employer needs to compete in a tight job market for hard-to-find skills and knowledge. Hiring bonuses ….

- Are paid after the candidate starts the job.
- May be paid in increments according to a schedule.
- Are subject to income and FICA (Social Security) taxes.
- May be negotiated by the candidate.

Performance Bonus - A lump sum of cash provided to employees as a reward for good job performance. The criteria for awarding these bonuses is usually based on "performance standards" that are defined by the employer, such as meeting certain goals (e.g. a sales target, finishing a project) or demonstrating desired behaviors (good communication, problem-solving), etc.. New employees may not be eligible until they have completed a specified amount of time on the payroll. Performance bonuses….

- Are paid out at specified intervals, (e.g. annually, biannually and/or quarterly) according to the employer's compensation plan
- Are taxed.
- Are generally tied to "employer performance" (profits, funding levels, etc.) with respect to frequency and amount.

Stock Option Awards - The employer awards stock to employees as a form of "hiring bonus" and/or a "performance bonus." These kinds of bonuses are more common at the executive level. However, they have also been used by cash-poor, start-up companies to augment low starting salaries or wages for non-executive positions. Stock option awards….

- Vary from several hundred to thousands of shares.
- Usually cannot be sold without authorization from a Board or Directors or Trustees.

BENEFITS Key Terms and Concepts

Benefit Plans –A description of the benefits an employer offers to employees. The description includes the specific terms and conditions for each benefit, how and when the employee eligible for the benefits, and the cost, if any, to the employee.

Most employer plans typically include one or more of the following "**core benefits**."

- Savings Plans (401Ks, Pensions, Stock Purchases)
- Insurance Coverage (Medical, Dental, Vision, Life, Accidental Death and Dismemberment, Disability)
- Paid Time Off Work (Vacation, Sick, Holidays, Bereavement, Jury Duty)

In addition, employers may offer such benefits as....

- Education or Training (College Tuition, Professional Certification or Training)
- Discounts On Purchases Of Employer Products, Services, Or Merchandise
- Organized Social And Sporting Events
- Paid Time Off For Community Service
- Subsidized or Complimentary Meals
- Flexible Hours
- Transportation Or Parking
- On-site Child Care

Flex Benefit Plans - Benefit plans that give employees a *selection of benefit options* to choose from. The options vary by coverage and cost.

Benefits Eligibility - The minimum requirements for employee benefits eligibility. This includes eligibility for benefits in general or for specific benefits. Factors that influence eligibility include employment status (full-time/part-time), work schedule (regularly scheduled/on-call), length of time on the payroll.

Contribution – The amount paid toward the cost of a benefit. **Employer Contribution** – The amount the employer pays toward the cost of a benefit. **Employee Contribution** – The amount the employee pays toward the cost of a benefit.

Shared Contribution - Employees and employers both pay or “contribute” to the cost of a benefit. The amount of the employee’s share can vary from benefit to benefit and year to year. The employee share is typically deducted from the employee's paycheck at specified pay periods.

Before-Tax Contributions – Employee contributions that are deducted from the employee’s paycheck BEFORE federal, FICA (Social Security) and most state income taxes are calculated. Before-Tax Contributions….

- Reduce the employee’s taxable income.
- Typically available only for medical, vision, and dental insurances.

After-Tax Contributions – Employee contributions that are deducted from the employee’s paycheck AFTER federal, FICA (Social Security), and other income taxes are calculated. Usually applies to optional insurances.

Flex Credit Programs - Employers give employees a dollar amount in the form of "Flex Credits" that employees can apply to the costs of benefits the employee selects from a Flex Benefits Plan" (see Flex Benefit Plan, above). If the employee selects benefit options that cost more than the total Flex Credits awarded, the employee must revise her/his selection to match the Flex Credit amount or pay the additional cost with before-tax or after-tax contributions.

Enrollment – The process during which employees select and sign-up for benefits.
How often enrollment takes place varies by benefits and employer. For some benefits, enrollment is annual, others are bi-annual. New employees enroll for benefits shortly after they start work.

Elect Benefits – Same as "select" benefits. Employee benefits plans frequently describe employees as "electing" benefits from among options.

Apply for a Benefit – Some benefits require application by the employee and approval by the employer before the employee can use them. This is common for employer-paid coursework or training and any time off work (community service, vacation, sick leave, other leaves).

Purchase Coverage - Usually refers to insurance plans. Under some plans, the employer fully pays for a defined, maximum amount of coverage. The employee then has the option paying for or "purchasing" additional coverage.

Vested – Applies primarily to savings (retirement) plans. When an employee terminates employment, the employee keeps any monies she/he has contributed to a retirement plan. When an employee is "vested" in a retirement plan, the employee *also* keeps any monies the *employer* has contributed to the retirement plan on the employee's behalf. Some companies permit employees to be vested in a plan immediately. Others require employees to wait as long as 5 years. Employees who leave an employer before they are vested usually forfeit the employer's contribution.

Beneficiaries – Who inherits a benefit if an employee is disabled or dies. Usually employees are asked to name primary beneficiaries and secondary beneficiaries as a part of enrollment.

- Commonly applies to savings and insurance benefits.
- *Tip: Before you sign-up for benefits, make sure you identify who your beneficiaries will be and have their contact information (addresses and phone numbers, etc).*

Decline Benefits - Employees can usually decline benefits if they don't want them. Employees who are already covered by other medical, dental, or vision insurance plans will be *required* to decline coverage, unless they terminate the other plan. Insurance regulations and contracts usually prohibit "double" coverage.

Negotiate Benefits - In general, changes or additions to benefits are not permitted. The employee either accepts or declines benefits as the employer has defined them. *The exception is vacation leave*.

- As part of a job offer, an employer may agree to add additional vacation leave to an employee's base allotment.
- Usually employers will only consider granting additional vacation for experienced employees.
- Once an employee is on the employer's payroll, vacation leave is usually fixed and cannot be changed.
- Some employers do not negotiate vacation leave.

Benefits Termination - What happens to benefits when an employee terminates employment?

- The employer usually pays the employee for accumulated, unused vacation time. Payment is likely to be in the form of a lump sum amount that is taxable.
- The employee keeps monies in retirement savings accounts and can either withdraw the cash in a lump sum (taxable) or “roll over” the money to another retirement account (in which case the money stays untaxed).
- The employee keeps stock purchases and may be able to keep stock options, subject to approval.
- All other employer benefits cease when the employee is no longer on the payroll.
- If the employer terminates the employee (involuntary termination), the employee may be eligible to continue coverage of some insurance benefits (health and life) for up to 18 months under a federal regulation called COBRA. Under COBRA, the employee pays the entire cost of coverage on a month by month basis.

CORE BENEFITS How They Work

401K Plans A retirement savings plan that is governed by federal regulations. Basically, the employee contributes money to a retirement fund and the employer matches the employee contribution. When the employee retires, the amount in the fund is paid out to the employee as income (which is taxed) over a period of years. Features of 401K plans include:

- Employees contribute a percentage of their base salary or earnings to the fund (regulations permit a maximum of 15% of annual pre-tax base salary or earnings).
- Employee contributions are made through pay-roll deductions.
- Employee contributions are not subject to federal income tax. This means that if the employee chooses to contribute 15% of their earnings to a 401K, their taxable income is *reduced* by 15%.
- Employees keep any money they have contributed to the fund if they terminate employment. Employees may also be eligible to keep any money the employer has contributed (see Vested, above).
- Employees can usually transfer or "roll over" 401K monies in an account if they terminate employment.
- Early (pre-retirement) withdrawals are subject to federal income tax.

What Employers Do

- Select investment funds for the employee to choose from (usually mutual funds from major fund management companies like Fidelity or Vanguard.)
- Match the employee's contribution in part or fully. Matches usually range from 25 cents to dollar for dollar.
- Define when an employee is "vested" in the plan (see Vested, above).

What Employees Do

- Elect to participate (it's optional).
- Select the percentage they will contribute to the fund. Federal regulations allow employees to contribute up to 15% of annual pre-tax base salary or earnings.)
- Select funds from among those offered.

Pension Plan. Similar to a 401K plan, except the employer invests the money on behalf of the employee and pays the employee a fixed monthly income after retirement.

Stock Purchases. Employers allow employees to buy company stock at a discount.

- The employee buys the stock by making regular contributions to a "stock purchase fund."
- Employee contributions are “after-tax.”
- At a specified time during the year, all the money accumulated in the employee’s stock purchase fund is then used to buy stock in the employee’s name.
- The purchase price of stock is usually based on a formula that gives employees the lowest price plus a discount.

What Employers Do

- Establish the purchase price of stock.
- Establish the amount the employee can buy (usually up to 15% of pre-tax base salary or earnings.)
- Establish the frequency when purchases can be made (usually twice a year).

What Employees Do

- Elect to participate (it's optional)
- Elect how much to put into the fund (usually up to 15% or pre-tax earnings).
- Own the stock. They can sell the stock after a specified period or keep the stock, even if they change jobs and work for another employer.

Health Insurances (Medical, Dental, and or Vision). The employer pays a portion of the cost of health insurance for the employee and/or the employee's dependents. It is rare for the employer to pay to entire cost.

What Employers Do

- Define **what** health treatments will be covered and **how much** the insurance will pay toward those treatments.
- Which doctors, clinics and hospitals can be used ("In Network" providers.)
- Whether or not health insurance can also cover treatments at other doctors, clinics, and hospitals ("Out-of-Network" providers).
- Whether or not health insurance covers employees' dependents or partners.
- How much employees contribute toward the cost of the insurance. (This is usually defined on a year-to-year basis).
- When employees can elect coverage or change coverage (usually bi-annually).

What Employees Do

- Elect to participate (it's optional). Note: Employees already covered by another plan (through a spouse or parent) must usually "decline" coverage, unless they want to withdraw from the other plan. Most health insurance providers do not permit employees to be covered by 2 different plans.
- Choose the kind of coverage they want. Most employers provide a range of choices and costs.

Life Insurance. The employer pays all or part of the cost of life insurance for the employee. Usually the employer automatically pays for coverage up to a maximum amount and the employee is not required to elect or sign up.

- The employer pays all the cost up to a maximum amount (for example, one times the employee's annual base salary).
- Sometimes the employee can purchase additional coverage at a discount (election or sign-up is required.)

Accidental Death and Dismemberment (AD&D) Insurance. A source of income protection for the employee and/or the employee's family. If the employee has a serious injury or dies as the result of an accident, the employee or the employee's family receive a specified amount of money.

- The terms and conditions of these plans vary greatly from employer to employer.
- Usually employers pay the full cost of insurance up to a maximum amount.
- Employees may purchase additional coverage.

Disability Insurance Provides employees with an alternate source of income, if an injury or illness keeps them from working for an extended period of time. Income can be as much as 60% of the employee's annual base salary. There are two kinds of disability insurance: **Short-Term Disability** and **Long-Term Disability.** The difference between the two is the number of days covered and the amount of the coverage.

- Usually employers pay the full cost of basic coverage both Short-Term and Long-Term.
- Employees may be able to purchase additional coverage.

Long Term Care Insurance Care is a nursing home or health care facility. Basic coverage may be paid for by the employer or employee contributions.

Health Care and/or Dependent Care Accounts (sometimes call pre-tax accounts). Employees have the option of setting up accounts with tax-free dollars to pay the costs of dependent (usually child) care and/or health-care costs not covered by medical, dental, vision insurance plans. Basically employees put money into the account and employers reimburse them throughout the year for expenses. Employee contributions to these accounts are…

- Not subject to income or social security taxes.
- Generally not matched by the employer.
- Based on cash amounts per year that the employee chooses ($100 per year, or $500 per year, or $2500 per year, etc.). **These cash amounts are usually "fixed" and cannot be altered over the course of the year.**
- Made through "pro-rated" payroll deductions each pay period for a year.
- **Not refunded if any money is left-over in the account at the end of the year!**

What Employers Do

- Establish a minimum and maximum annual amount employees can contribute to an account.
- Set-up payroll deductions so employees can gradually pay for throughout the year.
- Reimburse employees for expenses or reimburse providers for expenses *as these expenses occur*.

What Employees Do

- Elect to participate.
- Elect how much to put into the account.
- Submit reimbursement requests and receipts to the employer.

Example:
An employee desires to have laser eye surgery so she/he doesn't have to wear glasses. This kind of surgery is not covered by the employer's medical or vision insurance plan and the employee must pay for it out of their own pocket. The surgery is estimated to cost $1500. In November during the employer's benefits enrollment period, the employee elects to set up a **health care account** for $1500 for the next benefits year. The account becomes effective January 1 and runs through December 31. There are 24 pay periods during that time frame and each pay period $62.50 ($1500 divided by 24) is deducted from the employee's paycheck and put into the account. This amount is deducted before income and social security taxes are calculated. In March, the employee has the eye surgery, pays the surgeon, and then submits the receipts to the employer for reimbursement. In March or early April (ideally) the employee is fully reimbursed,. The deductions for $62.50 continue through January 31. If the cost of the surgery is $1550, the employer may pay the additional $50 and may not require the employee to make an additional contribution to the account. However, if the cost of the surgery ends up being $1450, the additional $50 will not be refunded at the end of the year.