

The background of the top half of the cover is a collage. On the left, there is a historical map with various place names in Latin script, such as 'Desert', 'Harahotun', 'Pekin', 'Tsinan', 'Nankin', and 'Futcheou'. On the right, there are modern banknotes, including a 10,000 Japanese Yen note and a 20 Euro note, both partially visible. The entire image has a green color overlay.

TOTAL REWARDS  
INSTRUCTOR'S MANUAL

**SHRM**<sup>®</sup>  
SOCIETY FOR HUMAN  
RESOURCE MANAGEMENT

Total Rewards: It's More  
Than Just a Paycheck!

*By Audra H. Nelson, M.S.*

## PROJECT TEAM

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# Learning Module Summary

This learning module examines compensation (e.g., base and variable pay, benefits) and non-compensation elements (e.g., job satisfaction, growth opportunities and relationships with other people) that comprise an organization's total rewards system. The module also provides an overview of the considerations necessary to develop a compensation system that is internally and externally equitable and fiscally responsible, including the use of salary surveys and job evaluation. Just as important as the development of sound compensation systems is the ability to communicate the components of the total rewards system to prospective and existing employees. As such, class projects for this module focus on applicant and employee communications. Finally, because U.S.-based compensation systems are governed by a number of federal laws (e.g., Fair Labor Standards Act, Equal Pay Act, IRS regulations), this module explains the relevance of those laws to compensation systems. This module pertains specifically to U.S. employment law relevant to compensation and benefits systems without consideration of international employment law.

## TARGET AUDIENCE

This learning module was designed for an undergraduate audience in an entry-level introduction to human resource management course.

## LEARNING OBJECTIVES

By the end of this learning module, students will be able to:

- Distinguish between total rewards and total compensation and identify compensation and non-compensation elements of total rewards.
- Define job evaluation and its use to develop internally equitable compensation systems.
- Identify the implications of using salary surveys to ensure externally equitable and fiscally responsible compensation systems.
- Effectively communicate a total rewards system to current and prospective employees.
- Recognize pertinent U.S. laws that relate to compensation and benefits systems.

## SUGGESTED READINGS

In addition to any undergraduate compensation management text, federal laws that apply to compensation systems are also appropriate suggested reading material. References are listed below. Other course texts related to human resource management (e.g., introduction to human resource management) may supplement the material found in this learning module as well.

Society for Human Resource Management. *Patient Protection and Affordable Care Act of 2010*. Retrieved June 11, 2010, from [www.shrm.org/LegalIssues/FederalResources/FederalStatutesRegulationsandGuidanc/Pages/PatientProteccionandAffordableCareAct.aspx](http://www.shrm.org/LegalIssues/FederalResources/FederalStatutesRegulationsandGuidanc/Pages/PatientProteccionandAffordableCareAct.aspx).

U.S. Equal Employment Opportunity Commission. *Equal Pay/Compensation Discrimination*. Retrieved June 2, 2010, from [www.eeoc.gov/laws/types/equalcompensation.cfm](http://www.eeoc.gov/laws/types/equalcompensation.cfm).

U.S. Department of Labor. *Equal Pay Act of 1963, as amended*. Retrieved June 2, 2010, from [www.dol.gov/oasam/regs/statutes/equal\\_pay\\_act.htm](http://www.dol.gov/oasam/regs/statutes/equal_pay_act.htm).

U.S. Department of Labor. *Health plans & benefits: Continuation of Health Coverage – COBRA*. Retrieved June 2, 2010, from [www.dol.gov/dol/topic/health-plans/cobra.htm](http://www.dol.gov/dol/topic/health-plans/cobra.htm).

U. S. Department of Labor. *Health plans & benefits: Employee Retirement Income Security Act (ERISA)*. Retrieved June 2, 2010, from [www.dol.gov/dol/topic/health-plans/erisa.htm](http://www.dol.gov/dol/topic/health-plans/erisa.htm).

U.S. Department of Labor. *The Fair Labor Standards Act (FLSA)*. Retrieved June 2, 2010, from [www.dol.gov/compliance/laws/comp-flsa.htm](http://www.dol.gov/compliance/laws/comp-flsa.htm).

U.S. Department of Labor. *Health plans & benefits: Portability of Health Coverage (HIPAA)*. Retrieved June 2, 2010, from [www.dol.gov/dol/topic/health-plans/portability.htm](http://www.dol.gov/dol/topic/health-plans/portability.htm).

Henderson, R.I. (2006). *Compensation management in a knowledge-based world, 10<sup>th</sup> edition*. New Jersey: Pearson Prentice Hall.

WorldatWork. (2008). *Total rewards model*. Retrieved June 2, 2010, from [www.worldatwork.org/waw/adimLink?id=28330](http://www.worldatwork.org/waw/adimLink?id=28330).

## REFERENCES

Byars, L.L., & Rue, L.W. (2004). *Human resource management, 7th edition*. New York: McGraw Hill/Irwin.

Henderson, R.I. (2006). *Compensation management in a knowledge-based world, 10th edition*. New Jersey: Pearson Prentice Hall.

Kushner, G. (June 2010). Now it's employer's turn. The health care reform law will reshape your benefits agenda, starting this year. *HR Magazine*, 34-39.

Mathis, R.L., & Jackson, J.H. (2006). *Human resource management, 11th edition*. Ohio: South-Western.

Society for Human Resource Management (2010). *Patient Protection and Affordable Care Act of 2010*. Retrieved June 11, 2010, from [www.shrm.org/LegalIssues/FederalResources/FederalStatutesRegulationsandGuidanc/Pages/PatientProteccionandAffordableCareAct.aspx](http://www.shrm.org/LegalIssues/FederalResources/FederalStatutesRegulationsandGuidanc/Pages/PatientProteccionandAffordableCareAct.aspx).

WorldatWork. (2008). *Total rewards model*. Retrieved June 2, 2010, at [www.worldatwork.org/waw/adimLink?id=28330](http://www.worldatwork.org/waw/adimLink?id=28330).

U.S. Bureau of Labor Statistics. (2010, March 10). *Employer costs for employee compensation*. Economic News Release. Retrieved June 3, 2010, from <http://data.bls.gov/cgi-bin/print.pl/news.release/ecec.nr0.htm>.

## LENGTH OF TRAINING

This learning module was designed to be delivered in 150 minutes and can be presented in two 75-minute classes or three 50-minute classes. Potential breaking points are displayed in the chart below. There are several learning aids included in this module, and they may be used as in-class or outside-of-class activities. Allowable in-class time recommendations are included per slide and per activity in the PowerPoint presentation.

	Two 75-minute classes	Three 50-minute classes
<b>Session I</b>	<b>Slides 1–16</b> <ul style="list-style-type: none"> <li>▪ Objectives</li> <li>▪ Total rewards defined</li> <li>▪ Compensation and non-compensation elements of total rewards</li> <li>▪ Recognizing value in total rewards</li> <li>▪ Communicating total rewards</li> </ul>	<b>Slides 1–11</b> <ul style="list-style-type: none"> <li>▪ Objectives</li> <li>▪ Total rewards defined</li> <li>▪ Compensation and non-compensation elements of total rewards</li> </ul>
<b>Session II</b>	<b>Slides 17–29</b> <ul style="list-style-type: none"> <li>▪ Distribution of responsibility</li> <li>▪ Determining what to pay employees</li> <li>▪ Job evaluation</li> <li>▪ Wage/salary surveys</li> <li>▪ Pay ranges</li> <li>▪ Compensation philosophy</li> <li>▪ Compensation and the law</li> </ul>	<b>Slides 12–19</b> <ul style="list-style-type: none"> <li>▪ Non-compensation elements of total rewards</li> <li>▪ Recognizing value in total rewards</li> <li>▪ Communicating total rewards</li> <li>▪ Distribution of responsibility</li> </ul>
<b>Session III</b>	N/A	<b>Slides 20–29</b> <ul style="list-style-type: none"> <li>▪ Determining what to pay employees</li> <li>▪ Job evaluation</li> <li>▪ Wage/salary surveys</li> <li>▪ Pay ranges</li> <li>▪ Compensation philosophy</li> <li>▪ Compensation and the law</li> </ul>

## TEACHING NOTES

Teaching notes for the PowerPoint presentation can be found in the notes section of the PowerPoint slides.

## STUDENT PROJECT: TOTAL REWARDS/COMPENSATION COMMUNICATIONS

A competitive and desirable total rewards system will not be effective if employees and prospective employees don't know what is in it. This makes communication of the system just as important as the system itself. This project requires students to develop a total rewards or total compensation communication plan and applicable communication materials for a real or fictitious organization.

There are two components to this project. First, students must outline a plan to communicate relevant total rewards and/or total compensation information to existing and prospective employees. Students must be able to answer the following questions and explain why they made the decisions they did:

- Is the plan for a real or fictitious company?
- Who is the audience—existing employees, prospective employees or both?
- Will you market total rewards or total compensation information?  
What is your message? Why?
- How and when will the organization communicate this information?
- Why did you select the format you did?
- Who in the organization should be the person to communicate this information?

The second deliverable is the actual communication plan. This plan should be as clear, concise and professional as possible with no misspellings, typos or grammatical errors. Be sure to consider the organization's branding and the format in which other forms of communication are presented at this organization. HR strives to be a partner in its organization, and it needs to uphold the organization's branding objectives in its communications, too.

These instructions are intentionally vague to ensure that creativity is not limited or stifled. Instructors may ask students to obtain approval for their ideas to be sure they understand the scope of this project. Instructors may also opt to have students present their communication plans to the class so others have an opportunity to witness the creativity used to complete this project.

Two sample communication documents may be distributed to students to give them an idea of what may be submitted for this project. Both of the samples are print materials, so be sure to let students know that print materials are not the required format for this project. Students may decide to create YouTube videos, radio advertisements, electronic/Internet materials, etc.

### **Summary Sheet: Employee Benefits Programs (2010) (Addendum 1)**

This communication material is a high-level summary of the benefits package offered to employees at a fictitious company. It was designed for prospective employees but can be presented to existing employees as well, although existing employees may need additional detail that may not be appropriately presented in such a summary format. The summary sheet is a great addition to any information packet provided to prospective employees, ideally during the employment interview. This summary may also be used at job fairs or other venues where employee recruitment is an objective. A summary document such as this is brief and relatively inexpensive to print. Existing employees may access copies of this document to present to friends or family members they want to recruit for employment as well.

## **Total Rewards Statement (Addendum 2)**

The total rewards statement was also developed for a fictitious company. It itemizes the dollar value of each component of the organization's total compensation package. An organization may provide this summary of individualized compensation and benefits information on a one-time basis or on a regular basis (such as annually) to ensure that existing employees have a complete picture of the total value of being an employee at the organization. This statement could be in print or electronic form, but having it in printed form allows it to be shared with family outside of the workplace. The human resource department is likely the party responsible for the assembly and distribution of this document. However, there may be added benefits if supervisors took the time to present and discuss the information in the document to their direct reports to ensure they understand it and to thank them for their contributions to the organization.



# Student Project: Total Rewards/Compensation Communications

## PROJECT INSTRUCTIONS

A competitive and desirable total rewards system will not be successful if employees and prospective employees don't know what is in it. This makes communication of the system just as important as the system itself. This project requires you to develop a total rewards or total compensation communication plan and applicable communication materials for a real or fictitious organization.

There are two parts to this project. First, you must outline a plan to communicate relevant total rewards and/or total compensation information to existing and prospective employees. You must be able to answer the following questions and explain why you made the decisions you did.

- Is the plan for a real or fictitious company?
- Who is the audience—existing employees, prospective employees or both?
- Did you choose to market total rewards or total compensation information? What is your message? Why?
- How and when will the organization communicate this information?
- Why did you select the format you did?
- Who in the organization will communicate this information?

The second deliverable is the actual communication plan itself. This plan should be as clear, concise and professional as possible with no misspellings, typos or grammatical errors. Be sure to consider the organization's branding and the format in which other forms of communication are presented at your organization. HR strives to be a partner in its organization, and it needs to uphold the organization's branding objectives in its communications, too.

Two sample communications are attached to give you idea of what may be submitted for this project. Both samples are print materials, but print materials are not necessarily the required format for this project. You may decide to do YouTube videos, radio advertisements, electronic/Internet materials, etc.

## STUDENT HANDOUTS

### **Summary Sheet: Employee Benefits Programs (2010)**

#### **Addendum 1**

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## Addendum 1

### Employee Benefits Programs (2010)

#### Medical Insurance

- Administered by Best Care Health Insurance Company
- Effective on the first day of employment
- Physician office co-pay: \$20
- Prescription drug co-pay: \$10/\$35/\$50
- Coinsurance: 80%/20%
- Deductible (single/family): \$500/\$1,000
- Out-of-Pocket Maximum (single/family): \$2,000/\$4,000

#### Premiums

Years of Service	Single	Employee + Spouse	Employee + Child(ren)	Family
<2	\$0	\$50	\$40	\$75
2-5	\$0	\$45	\$35	\$70
>5	\$0	\$40	\$30	\$65

#### Dental Insurance

- Administered by Best Care Dental Insurance Company
  - \$25 per person / \$75 per family deductible
- Coverage:
- Preventative and diagnostic services: 100%
  - Basic services: 85%
  - Major services: 50%
  - \$3,000 lifetime orthodontics maximum

#### Premiums

Years of Service	Single	Employee + Spouse	Employee + Child(ren)	Family
<2	\$0	\$10	\$8	\$13
2-5	\$0	\$9	\$7	\$12
>5	\$0	\$8	\$6	\$11

#### Life and Accidental Death & Dismemberment Insurance

- Underwritten by Best Care Life Insurance Company
- Employee coverage is two times yearly earnings
- Spousal coverage: \$10,000; dependent coverage: \$3,000
- \$3/pay period

#### Short-Term and Long-Term Disability Insurance

- Underwritten by Best Care Disability Insurance Company
- Short-term disability covers 80% of your pay for up to 90 days
- Long-term disability covers 70% of your pay until recovered
- \$4/pay period

#### Paid Time Off

Years of Service	Hours/Year
<2	80
2-5	120
>5	150

#### Holidays

Christmas Day, Thanksgiving Day, Easter

#### 401(k) Retirement Plan

- Dollar-for-dollar match up to 3%
- 100% vested after three years of service

#### Education and Certification Reimbursement

- 100% of fitness certification fees
- \$500/year for continuing education credits toward recertifications.

All premiums are deducted from 24 pay periods throughout the year. All benefits effective on first day of employment.

## **Total Rewards Statement**

### **Addendum 2**

The total rewards statement was also developed for a fictitious company. It itemizes the dollar value of each component of the organization's total compensation package. An organization may provide this summary of individualized compensation and benefits information on a one-time basis or on a regular basis (such as annually) to ensure that existing employees have a complete picture of the total value of being an employee at the organization. This statement could be in print or electronic format, but having it in a printed format allows it to be shared with family outside of the workplace. The human resource department is likely the party responsible for the assembly and distribution of this document. However, there may be added benefits if supervisors take the time to present and discuss the information in the document with their direct reports to ensure they understand it and to thank them for their contributions to the organization.

**Addendum 2 (Continued on page 12)**

**Additional Benefits**

In addition to the benefits already presented in this statement, Maximum Results Personal Training provides or makes available the following:

**Education and Training**

- In 2010, Maximum Results Personal Training spent more than \$100,000 to provide continuing educational support for employees.

**Employee Recognition Programs**

- Maximum Results Personal Training offers many opportunities to recognize employees, including Top Trainer and Trainer of the Month awards, years of service awards, perfect attendance and company-sponsored events, such as the summer and holiday events and gifts. In 2010, Maximum Results Personal Training spent more than \$30,000 to provide recognition programs for employees.

**Fitness Services**

- In 2010, Maximum Results Personal Training spent nearly \$140,000 to provide gym memberships, personal training and other fitness-related services to employees.

Other benefits include an employee assistance program, adoption assistance, flu shots, scholarships, voluntary benefits and employee mortgage assistance plan.

**About Your Statement**

Your statement has been prepared by Maximum Results Personal Training for your use only and should be regarded as an informative estimate only. This statement presents a summary of benefits available to you based on information as of January 1, 2010, except where otherwise noted.

The applicable benefits plan documents govern the operation of the benefits plans and the payment of all benefits to you. These benefits plan documents cannot be modified by the contents of this statement or any other written or verbal statements to you from benefits administrators or other personnel. Copies of the applicable benefit plan documents are available on the P-Net. Your eligibility for any benefit shown depends upon you satisfying the requirements of the appropriate plan at the time an actual claim is made.

Maximum Results Personal Training expects to continue these current benefits but reserves the right to revise, amend and/or terminate them at any time at its discretion. This statement does not provide a guarantee of continued benefits.

**Your 2010  
Total Rewards Statement**

**MAXIMUM  
RESULTS  
PERSONAL  
TRAINING**

**<EMPLOYEE NAME>**

Location: <Location>  
Supervisor: <Reports to>

**Addendum 2 (Continued from page 11)**

	Your Total Rewards	Retirement, Disability and Survivor Benefits																																																										
<p>Dear &lt;Employee Name&gt;:</p> <p>We are pleased to present you with your 2010 Total Rewards Statement. Maximum Results Personal Training assembles this summary of individualized compensation and benefits information annually to ensure that employees have a more complete picture of the total value of being a Maximum Results Personal Training employee. Total compensation consists of more than just wages, salaries and incentives. We have the ability to identify the monetary value of the health and wellness, survivor, retirement, and government-required benefits that make up a significant portion of your total compensation package, and we wish to share that with you.</p> <p>Maximum Results Personal Training strives to ensure the competitiveness of its compensation and benefits package by completing market analyses on an ongoing basis. We are committed to providing you with a comprehensive program that rewards your individual efforts that are appreciated by not only your colleagues and ourselves, but also the customers we serve. Thank you for being a part of the Maximum Results Personal Training team.</p> <p>Sincerely,</p> <p>Audra Nelson President and CEO Maximum Results Personal Training</p>	<p>As a Maximum Results Personal Training employee, your compensation consists of more than just your paycheck. This section of your Total Rewards Statement details the total dollar amounts that you and Maximum Results Personal Training contribute to your overall compensation and benefits package.</p> <p><b>The overall cost of your benefits package provided by Maximum Results Personal Training makes up &lt;XX&gt;% of your total rewards, while direct compensation makes up &lt;XX&gt;%.</b></p> <table border="1" style="width: 100%; border-collapse: collapse; margin-top: 10px;"> <thead> <tr> <th style="width: 60%;"></th> <th style="width: 20%; text-align: center;">Your Contribution</th> <th style="width: 20%; text-align: center;">Employer's Contribution</th> </tr> </thead> <tbody> <tr> <td><b>Benefits*</b></td> <td></td> <td></td> </tr> <tr> <td>Medical</td> <td style="text-align: right;">\$</td> <td style="text-align: right;">\$</td> </tr> <tr> <td>Dental and vision</td> <td style="text-align: right;">\$</td> <td style="text-align: right;">\$</td> </tr> <tr> <td>Disability</td> <td style="text-align: right;">\$0.00</td> <td style="text-align: right;">\$</td> </tr> <tr> <td>Life and AD&amp;D</td> <td style="text-align: right;">\$0.00</td> <td style="text-align: right;">\$</td> </tr> <tr> <td>401(k) plan</td> <td style="text-align: right;">\$</td> <td style="text-align: right;">\$</td> </tr> <tr> <td>Social Security and Medicare tax</td> <td style="text-align: right;">\$</td> <td style="text-align: right;">\$</td> </tr> <tr> <td>Workers' comp. &amp; unemployment insurance tax</td> <td style="text-align: right;">\$0.00</td> <td style="text-align: right;">\$</td> </tr> <tr> <td><b>Total Benefits</b></td> <td style="text-align: right;"><b>\$</b></td> <td style="text-align: right;"><b>\$</b></td> </tr> <tr> <td><b>Compensation</b></td> <td></td> <td></td> </tr> <tr> <td>Wages/salary</td> <td></td> <td style="text-align: right;">\$</td> </tr> <tr> <td>Variable pay</td> <td></td> <td style="text-align: right;">\$</td> </tr> <tr> <td>Overtime pay</td> <td></td> <td style="text-align: right;">\$</td> </tr> <tr> <td>Total Compensation</td> <td></td> <td style="text-align: right;">\$</td> </tr> <tr> <td><b>YOUR TOTAL REWARD</b></td> <td></td> <td style="text-align: right;"><b>\$</b></td> </tr> </tbody> </table>		Your Contribution	Employer's Contribution	<b>Benefits*</b>			Medical	\$	\$	Dental and vision	\$	\$	Disability	\$0.00	\$	Life and AD&D	\$0.00	\$	401(k) plan	\$	\$	Social Security and Medicare tax	\$	\$	Workers' comp. & unemployment insurance tax	\$0.00	\$	<b>Total Benefits</b>	<b>\$</b>	<b>\$</b>	<b>Compensation</b>			Wages/salary		\$	Variable pay		\$	Overtime pay		\$	Total Compensation		\$	<b>YOUR TOTAL REWARD</b>		<b>\$</b>	<p><b>401(k) Retirement Plan</b></p> <p>Maximum Results Personal Training offers the 401(k) retirement plan to help you save for your retirement. Specific eligibility factors apply. Maximum Results Personal Training will match your contributions dollar for dollar up to 3%. Your account is immediately 100% vested, which means you own all employer matching contributions made to your account. You must be employed on December 31 of the plan year to be eligible for employer match contributions. As of 1/1/10, you have elected to contribute &lt;XX&gt;% of your pay to the 401(k) retirement plan.</p> <p><b>Life Insurance</b></p> <p>Maximum Results Personal Training offers group term life and accidental death &amp; dismemberment (AD&amp;D) insurance to full- and part-time employees. The plan provides financial protection to you and your beneficiaries in the event of death. If you die while employed by Maximum Results Personal Training, your beneficiaries may receive the following:</p> <table border="1" style="width: 100%; border-collapse: collapse; margin-top: 5px;"> <tbody> <tr> <td style="width: 80%;">Basic life insurance</td> <td style="text-align: right;">\$</td> </tr> <tr> <td>401(k) balance (as of 1/1/10)</td> <td style="text-align: right;">\$</td> </tr> <tr> <td>AD&amp;D (if result of accident)</td> <td style="text-align: right;">\$</td> </tr> <tr> <td>Social Security death benefit</td> <td style="text-align: right;">\$255.00</td> </tr> <tr> <td><b>Total Benefit</b></td> <td style="text-align: right;"><b>\$</b></td> </tr> </tbody> </table> <p><b>Disability Insurance</b></p> <p>Full-time employees are also covered under the short- and long-term disability programs designed to provide you with continued income should you become disabled. Specific eligibility requirements apply. After one year of employment, you may be eligible for short-term disability benefits after missing 10 consecutive calendar days due to illness or injury. These benefits provide salary continuation at 75% of your pay for up to 90 days. If you are still unable to work after 90 days of continuous disability, you may qualify for salary continuation at 60% of your pay until you recover under the long-term disability plan.</p>	Basic life insurance	\$	401(k) balance (as of 1/1/10)	\$	AD&D (if result of accident)	\$	Social Security death benefit	\$255.00	<b>Total Benefit</b>	<b>\$</b>
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# Additional Student Exercises

## INSTRUCTOR'S NOTES

Two scenarios are presented below to which students may respond verbally as part of a classroom discussion or in written form, depending on instructor preference and available class time. These scenarios were designed to elicit the broad spectrum of items to consider when making compensation decisions. Encourage students to think of all the questions that need to be answered and additional pieces of information that need to be collected to respond wisely to these scenarios.

### Scenario 1: Balancing Internal Alignment and External Competitiveness

An employee says she received an offer from another employer and is considering accepting the offer. Money is a huge factor. She currently makes \$60,000 per year and the offer is for \$68,000 per year. The employee says she will decline the offer if you agree to a \$5,000 pay increase. What should you consider in this situation to make a responsible decision about how to proceed?

**Listed below are some questions that should be considered to determine an appropriate decision in this scenario. Allow students to make suggestions (either verbally or in writing) regarding what additional bits of information they need to know to make a responsible decision.**

- What is this employee's performance record on the job?
- Do we want to retain this employee?
- Was this employee seeking other employment opportunities? If so, why? Is money (an increase in base pay) going to make this employee want to stay with the organization and perform at desired levels?
- Is there a pay range into which this employee's salary fits? If so, where in the pay range does this employee's current salary fall? Is it closer to the minimum, midpoint or maximum? Is it completely outside of the pay range?
- What does the market data show for this type of position? Does the organization have access to market data? Is the job accurately matched (benchmarked) to the appropriate job in the market survey? Is the available market data the most up-to-date data, and does it include appropriate industry and geographical data markers?

- What is company protocol for this sort of situation? How much discretion does a manager have with regard to giving such counter or equity adjustments? Is there an organization policy that prohibits or allows for this? What has been done in similar situations in the past at this organization?
- When is this employee due for a cost-of-living or merit pay increase? Is the organization offering cost-of-living or merit pay adjustments this year? Does the \$5,000 fall within what the employee could expect for a cost-of-living or merit pay adjustment, or is this significantly above what the employee could expect?
- Is there money in the budget for a pay increase?
- Are there other components of total compensation that may be adjusted if a \$5,000 increase in base pay is not an option? What about adding a \$5,000 (or some other amount) to a variable compensation component? Why could this be considered a more or less desirable option for the employer and the employee?
- Are there other employees in the same job who are performing at nearly the same level being paid more or less than this employee? Is job tenure a consideration, too? How would the increase (or lack of increase) to this employee's salary affect internal alignment? It may be a violation of employment law (e.g., National Labor Relations Act) to prohibit employees from discussing their pay with others, so there is a chance that other employees could learn about any action you take in this situation. How will you handle any fallout from other employees if you decide to go ahead with a pay increase?
- Could you ask the employee to show you the offer letter from the other employer?
- Does the employee clearly understand all of the compensation, including benefits programs and non-compensation element of total rewards that current and potential employers have to offer? Is the employee considering the whole picture and not just the base pay when determining if the offer is worth the \$8,000 pay increase? How can you help this employee understand or see the whole picture, at least with your organization?

### **Scenario 2: Adjusting Compensation**

As the hiring manager for an open position in your department, you decided to offer the job to an employee who works in another department in the organization. The position is classified two pay grades higher than the employee's current position. What additional questions must be answered, and what additional information do you need to make a responsible decision regarding how much, if any, of a pay increase is appropriate in this case? How will you determine an appropriate starting pay for this employee's pending promotion?



**Here are considerations to think about to determine an appropriate decision in this scenario. Allow students to make suggestions (either verbally or in writing) regarding what additional information they will need to know to make a responsible decision in this case.**

- Does the organization have a policy regarding adjusting compensation for promotions (e.g., 5 percent per pay grade difference)?
- How has the department manager, hiring manager and/or the organization handled compensation adjustments for promotions in the past?
- Where does the employee's current pay rate fall within the pay range of the new pay grade? Is the employee below the minimum, above the midpoint or above the maximum? What if it will take a 20 percent pay increase to get the employee to the minimum of the new pay range? Is that too much of a pay increase? What if the employee is already being paid at least the midpoint of the new pay range? Isn't that amount usually reserved for those who are fully competent in the role? Is this employee going to be fully competent from outset? What if the employee is already being paid above the maximum of the new pay range? What is the organization's philosophy about paying people outside of their pay range? Can we really promote an employee but not give a pay increase with the promotion? Why would anyone want to take a promotion—with more work but no extra pay to go along with it?
- When is this employee due for a merit pay or cost-of-living increase? How long has it been since the employee's last increase? Does it make a difference if the employee is scheduled for a pay increase in two months of the promotion versus a full year down the road?
- What are others in the same position in your department being paid? What is their competence level, performance level, etc.? Are there any with a similar competence level as the new employee?
- What is available in the budget to pay this new employee?
- What are the employee's salary requirements for taking the new position?

## **ADDITIONAL STUDENT EXERCISES: STUDENT HANDOUT**

Two compensation-related scenarios are presented below. Before you respond, what questions need to be answered and what additional pieces of information do you need to respond wisely to these scenarios?

### **Scenario 1: Balancing Internal Alignment and External Competitiveness**

An employee says she received an offer from another employer and is considering accepting the offer. Money is a huge factor. She currently makes \$60,000 per year and the offer is for \$68,000 per year. The employee says she will decline the offer if you agree to a \$5,000 pay increase. What should you consider in this situation to make a responsible decision about how to proceed?

### **Scenario 2: Adjusting Compensation**

As the hiring manager for an open position in your department, you decided to offer the job to an employee who works in another department in the organization. The position is classified two pay grades higher than the employee's current position. What additional questions must be answered, and what additional information do you need to make a responsible decision regarding how much, if any, of a pay increase is appropriate in this case? How will you determine an appropriate starting pay for this employee's pending promotion?

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