



THE VISIONLINK
ADVISORY GROUP



The Great Compensation Mystery

Balancing all forms of your rewards strategy



THE VISIONLINK
ADVISORY GROUP

Today's Presenter:

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- Founded in 1996
- Over 450 Clients in North America
- Focus: Compensation design and management that drives growth
- “VisionLink” = rewards alignment between shareholders and employees

If you have a question...

There will be time at the end of the presentation
to ask questions

A blue sky with white clouds, where several question marks are formed by the clouds themselves. The question marks are scattered across the sky, with some being larger and more prominent than others. The overall scene is bright and clear.

However, I would love to have your participation!

Compensation:



The Scariest Topic on Earth!

My Noble Commitment

- I will not be using too many numbers
- Any numbers presented will be at a 3rd grade level
- All hard/probing questions will be rhetorical
- I will use pictures
- All of my slides are available to you before and after the presentation



What is Compensation?

- Is it a reward?
- Is it a guarantee?
- Is it fixed?
- Is it security?
- Is it a benefit?
- Is it a contract?
- Is it simply a necessary evil?
- **Compensation is an investment in your employees**





compensation

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com·pen·sa·tion

/,kämpən'sāSH(ə)n/

noun

something, typically money, awarded to someone as a recompense for loss, injury, or suffering.

"seeking compensation for injuries suffered at work"

synonyms: [recompense](#), [repayment](#), reimbursement, [remuneration](#), requital, indemnification, [indemnity](#), [redress](#); [More](#)

- the action or process of awarding someone money as a recompense for loss, injury, or suffering.

"the compensation of victims"

- **NORTH AMERICAN**

the money received by an employee from an employer as a salary or wages.

plural noun: **compensations**



Translations, word origin, and more definitions

Wheel of Compensation

Salaries

Competitive with market standards?
Tied to strong performance management process (merit)?
Managed within a flexible but effective structure?

Performance Incentives

Tied to productivity gains?
Clear, achievable and meaningful?
Self-financing?

Sales Incentives

Challenging yet achievable?
Reinforcing the right behaviors?
Differentiating your offering?

Growth Incentives

Linked to a compelling future?
Supporting an ownership mentality?
Securing premier talent?

Core Benefits

Responsive to today's employee marketplace?
Allocating resources where most needed?
Evaluated to eliminate unnecessary expense?

Executive Benefits

Flexible enough to address varying circumstances?
Communicating a unique relationship?
Reducing employee tax expense?

Qualified Retirement Plans

Giving employees an opportunity to optimize retirement values?
Operated with comprehensive fiduciary accountability?
Avoiding conflicts and minimizing expenses?

Nonqualified Retirement Plans

Optimizing tax-deferral opportunities?
Aligning long-term interests of employees with shareholders?
Structured to receive best possible P&L impact?



Wheel of Compensation

- Each piece of the pie should reinforce business objectives
- Reflects key organization philosophy
- What priorities does your total pay mix set for your employees?
- Who does your pay mix attract?
- Does your mix of pay help retain?

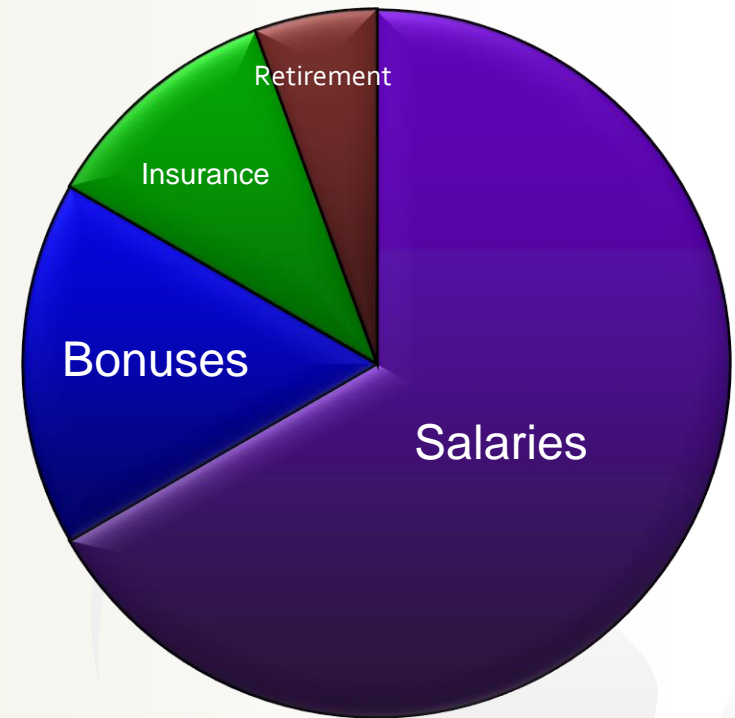


What are each of these elements



What is the right mix of these elements?

- Salary – 50%
- Performance Incentives – 10%
- Growth Incentives 15%
- Sales Incentives – 5%
- Employee Benefits – 8%
- Qualified Retirement – 7%
- Non Qualified Retirement – 5%



How do you transition to the right mix of pay elements for your company

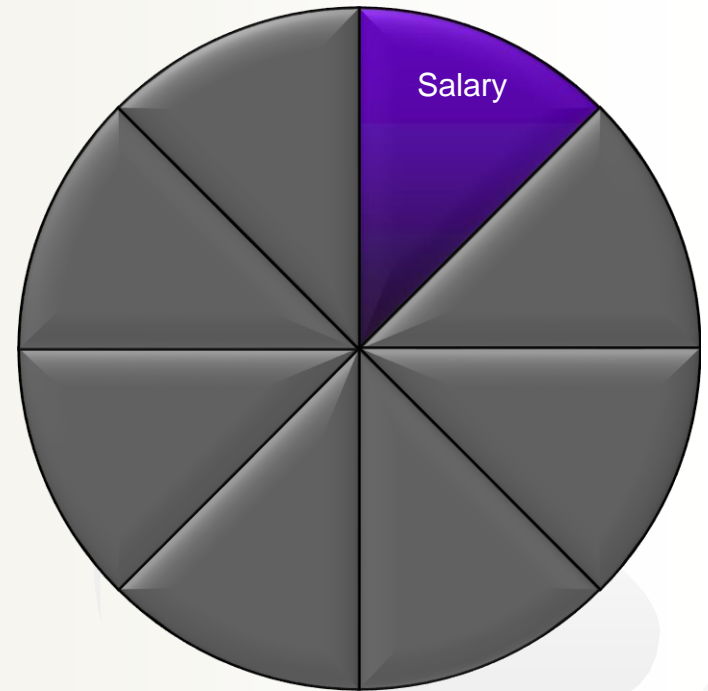


Salary

- Probably one of the largest investments in any organization
- Fixed Pay
- Easy to Give
- Hard to Take Away

Key Objectives:

- Provides employee security
- Minor Pay for Performance tool



Where are salary programs most important?



Younger Employees

- All employees value salaries
- However, younger employees typically prefer higher salaries with lower incentives
- Which would you prefer?

	Option A	Option B
Salary	40,000	42,500
Bonus Opp	10,000	2,500
Total Cash	\$50,000	\$45,000

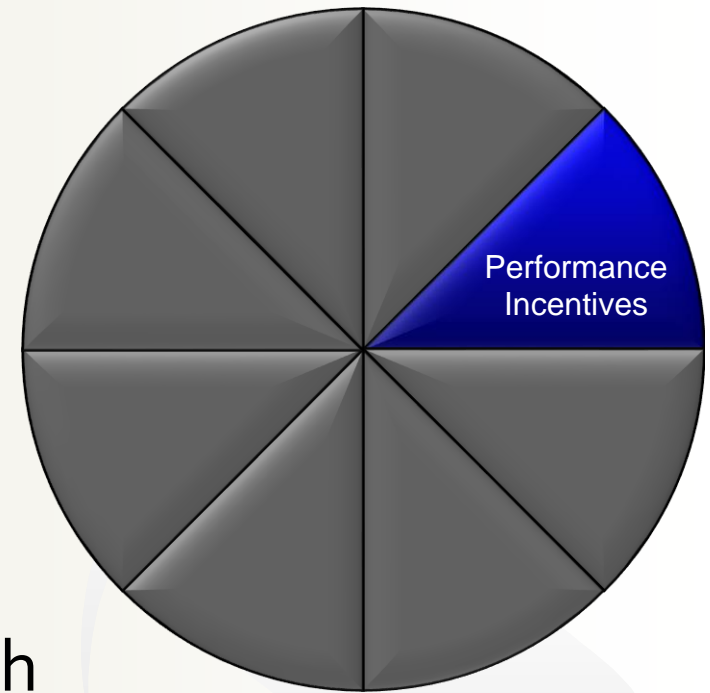
- High salaries are particularly important to younger demographics

Performance Incentives

- Typically expressed in the form of cash bonus
- Variable Pay
- Short-Term Focus
 - Annual, Monthly, Quarterly
- Selective eligibility

Key Objectives

- Align individual performance with department, division, and company objectives
- Key Pay For Performance



Where are performance incentives most important?



Established Professionals

- Employees whose basic life needs are met and seek supplemental income
 - Recreation
 - New Car
 - Swimming Pools
- Most employees want some form of performance based pay

	Option A	Option B
Salary	65,000	70,000
Bonus Opp	7,500	-
Total Cash	\$ 72,500	\$70,000

Sales Incentives

- Most variable form of pay
- Sometimes offset with salary or a draw
- Performance Differentiation
- Very Select Participation

Key Objectives

- Drives Revenue/Sales
- Pay For Performance



**Where are sales incentives
most important?**



Dedicated Sales Professionals

- Only attractive to risk attracted employees
- Should not be incorporated as a company-wide bonus
- Most employees want some form of performance based pay, but not company wide sales incentives.

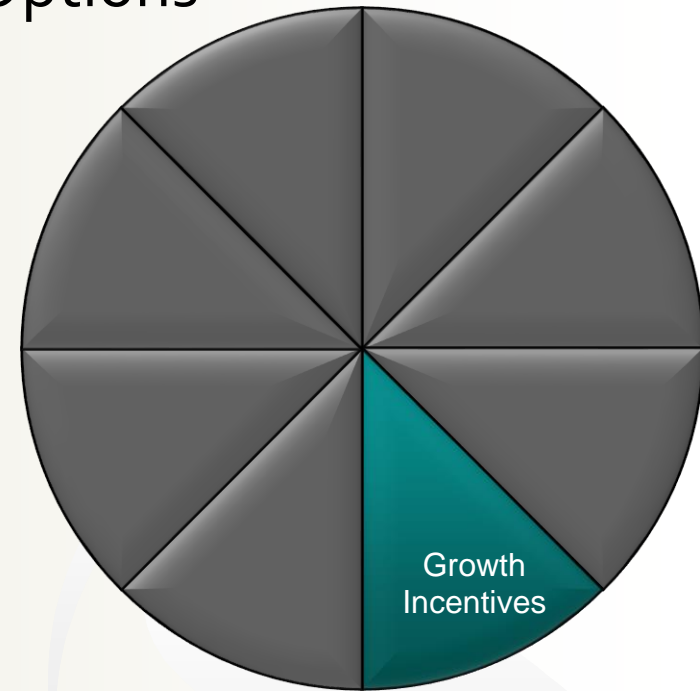
	Option A	Option B
Salary	-	75,000
Bonus Opp	100,000	5,000
Total Cash	\$100,000	\$80,000

Growth Incentives

- Typically Restricted Stock or Stock Options in Public Companies
- Phantom Stock or Cash based programs in Private Companies
- Long-Term Focus
 - 3-5 Year Payout

Key Objectives

- Aligns long-term company objectives with pay
- Pay For Performance
- Long-Term Retention



**Where are growth incentives
most important?**



Key Employees

- Executive/Sr Mgmt
- Entrepreneurial/Innovative Employees
- Provides line of sight to grow organization
- Provides retention tool through vesting
- Have less risk appetite than sales professions but more than professional employees

	Option A	Option B
Salary	100,000	115,000
Bonus Opp	20,000	25,000
Total Cash	\$ 120,000	\$ 140,000
Long-Term	40,000	-
Total Comp	\$ 160,000	\$ 140,000

Variable vs. Fixed Pay

- Fixed Pay = Salaries
- Variable Pay = Incentives
- Balancing Act
- Too much variable pay may frighten away younger employees. Too little variable pay may not attract professional/key employees

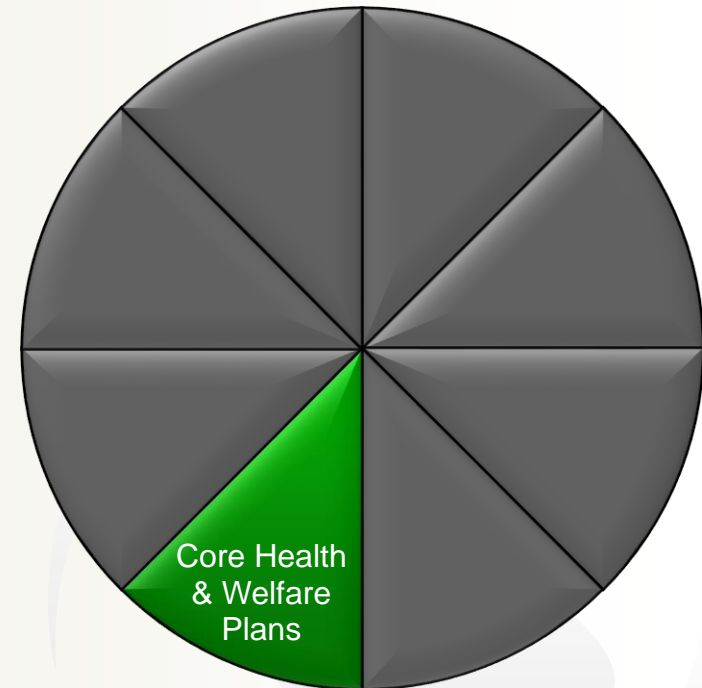


Core Health & Welfare Plans

- Health, Life, Dental and other Employee Insurance Programs
- Increasingly more expensive
- Employers becoming selective with supplemental insurance

Key Objectives

- Remain Market Competitive
- Provide Employee Security



Where are employee benefits most important?



Employees with Dependents

- The Affordable Care Act has placed more stress on employers to cover Health programs
- Cost of providing security programs is a major financial factor for employees with dependents
- Providing top notch employee benefits can be a competitive advantage for employers whose employee base have dependents at home.

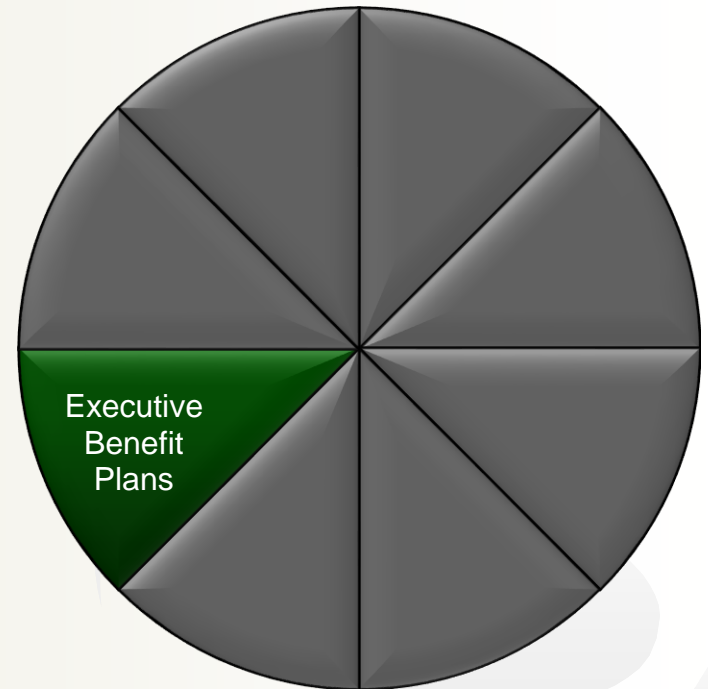


Executive Benefit Programs

- Supplemental executive insurance, health, as well as car, phone, and other executive perquisites.
- Highly customized & specific

Key Objectives

- Key Attraction for top talent



Where are executive benefits most important?



Executive Benefits

- Key & Executive Employees
- Helpful in the attraction and retention of key leadership and innovators
 - Country Club
 - Car
 - Medical Reimbursement
- Often provide supplemental security to highly compensated individuals
(Supplemental Insurance)

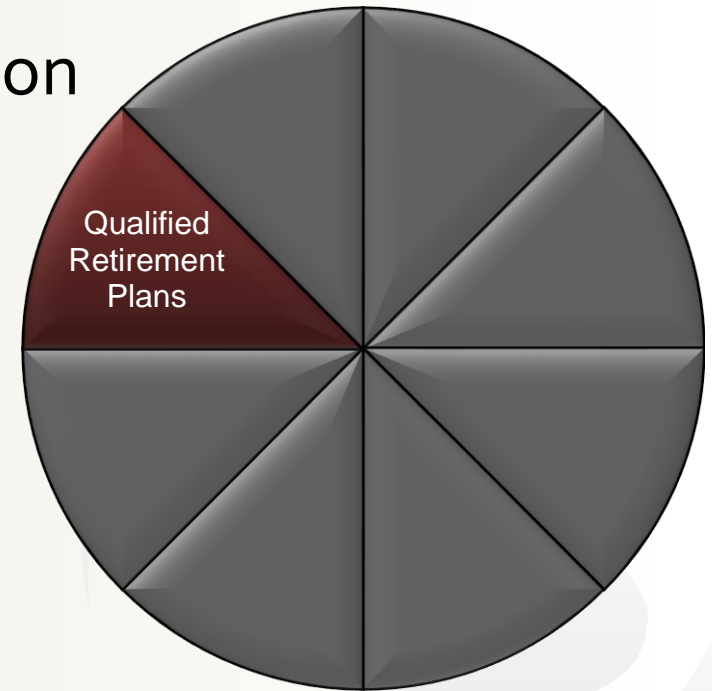


Qualified Retirement

- Company wide retirement plans
- Typically 401(k)
- Qualified retirement = contribution limitations

Key Objectives

- Modest Long-Term Security
- Remain Market Competitive



Where are qualified retirement benefits most important?



General Employee Population

- Qualified Retirement Plans are the market norm
- 401(k), Profit Sharing, Defined Benefit Plans, Money Purchase Plans
- Not taxed until money withdrawn
- Contribution limits!
- Great for supplementing retirement, probably not sufficient to retire on alone

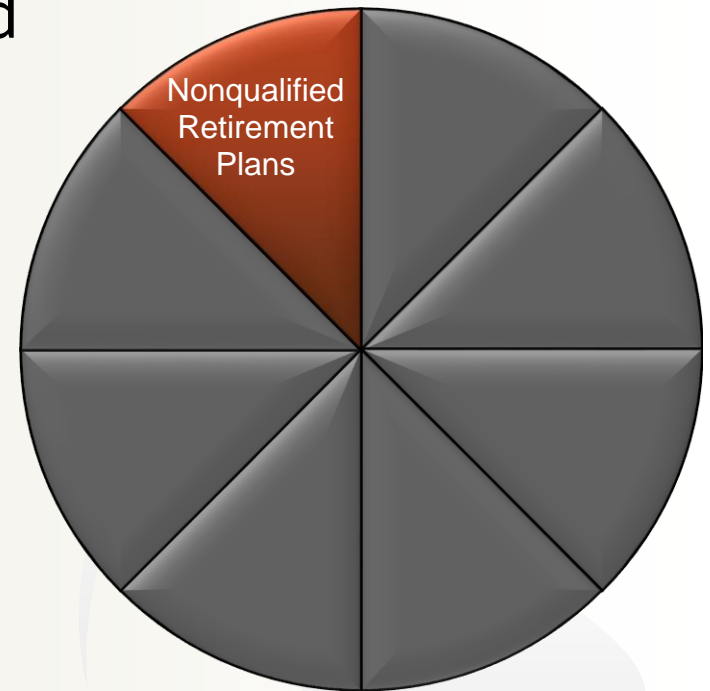


Nonqualified Retirement

- Supplemental Retirement Programs
- Deferred Compensation/ Defined Benefit Programs
- Nonqualified retirement = increased contribution & increased risk

Key Objectives

- Provide for key employee retirement
- Long Term Security



Where are nonqualified retirement benefits most important?



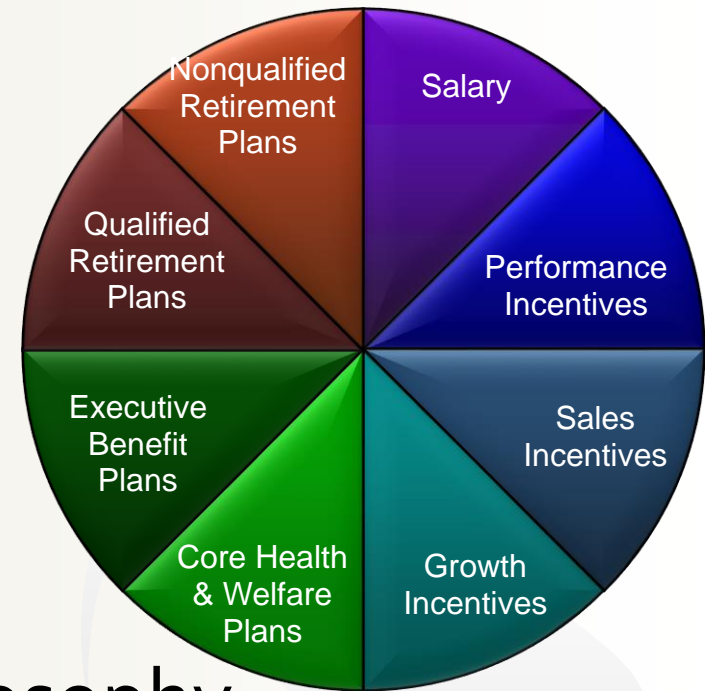
Key & Executive Employee Population

- Have higher risk than Qualified Plans
- Deferred Compensation, SERP, Split Dollar Life Insurance, Group Carve Out
- Allow highly compensated individuals the opportunity to accrue higher retirement balances at greater risk



Do I need all 8 pieces?

- You only need the pieces necessary to attract, reward, and retain the talent you need
- Focus on:
 - Demographics?
 - Business Model?
 - Competition?
- Define a Compensation Philosophy



Compensation Philosophy

- Every Company needs a defined and consistently applied Compensation Philosophy
- The Philosophy should be a “guiding star” for all pay decisions
- Your Compensation Philosophy should identify a competitive advantage within your pay programs



What should be included?

- Why we pay?
- What we pay for?
- How much we pay?
- How we pay?



Purpose of a Compensation Philosophy



- The Compensation Philosophy should be written down and shared with current and future employees
- It should cover all areas of pay (salaries, incentives, benefits, retirement, perquisites, etc).
- The philosophy statement should help to eliminate inconsistencies in style and individual pay preferences from manager to manager

Conservative Pay Profile

Profile	Base Pay	Short-Term Incentives	Long-Term Incentives	Core Benefits	Profile
Conservative	High	Low	Moderate	High	Moderate

Provides a high degree of employee security at the expense of variable pay

High base salaries and low incentives

Generally offers high level of core benefits

Cash friendly stable organization

Generally attractive to a younger employee population

Can inhibit the hiring of “high performers”

Rewards performance through merit/promotion

Retains executive leadership through moderate long-term awards

Moderate Pay Profile

Profile	Base Pay	Short-Term Incentives	Long-Term Incentives	Core Benefits	Retirement
Moderate	Moderate	Moderate	Moderate	Moderate	Moderate

Provides a middle of the road approach to pay

Base salaries at middle of market

Some upside incentive potential

Performance rewarded moderately

Attracts a diverse employee population

Rewards performance through multiple facets

Tries to provide a balanced approach without any distinguishing element of pay

Variable Pay Profile

Profile	Base Pay	Short-Term Incentives	Long-Term Incentives	Core Benefits	Retirement
Variable	Low	High	High	Moderate	Moderate

Provides a high degree of upside earning potential with higher level of risk

Base salaries at low end of the market

Rewards tied directly to business performance

Entrepreneurial mindset – less cash friendly

Attracts high performers, frightens risk averse

Rewards performance through incentive pay

Promotes high level of value sharing

Attracts entrepreneurial leadership through long-term awards

Competitive Pay

- Lets assume an Accountant should be paid between \$45,000 and \$47,500
- How much of that should be salary and how much should be variable should be decided internally

Professional Accountant	Base Salary	Incentives	Total Cash Comp
Option A	44,000	1,000	45,000
Option B	42,500	4,000	46,500
Option C	40,000	7,500	47,500

- Are either of these company less “competitive” than any other?

Competitive Pay

■ Option A - Conservative

- Has an advantage around base salary
- Has higher fixed costs

Professional Accountant	Base Salary	Incentives	Total Cash Comp
Option A	44,000	1,000	45,000

■ Option B - Moderate

- Middle ground for both salaries and incentives

Professional Accountant	Base Salary	Incentives	Total Cash Comp
Option B	42,500	4,000	46,500

■ Option C - Variable

- Has a competitive advantage around incentives and Total Cash Comp
- Risk when no incentives paid

Professional Accountant	Base Salary	Incentives	Total Cash Comp
Option C	40,000	7,500	47,500

Which Philosophy Is Right For Me?

- Not a right or wrong answer
- Perhaps none of the models is the right model for you.
- Focus on having a Total Compensation Strategy and not simply on one or two programs
- Need to find and define your competitive advantage



Defining Your Philosophy



- Who are you looking to attract, hire, & retain?
 - Are they motivated by salaries or incentives
- How does your business operate?
 - Can you afford to have high salaries or do you need to defer to variable pay programs?
- Who is your competition? How do they generally target pay?
 - Do you want to be different than your competition or pay the same way?
- How critical is your leadership team to achieving business results?

Pay Mix Considerations



Demographics

- Younger/Nonexempt employees value predictable pay
 - Prefer higher salaries and lower total cash compensation
- Entrepreneurial/Mature employees want upside pay potential
 - Will accept lower salaries with higher total cash opportunity
 - Usually seek both short and long-term incentives
- Diverse employee populations may require different focus on pay at different levels
 - Usually accommodated within compensation structure/salary ranges

Pay Mix Considerations



Owner/Shareholder attitudes on pay

- Public vs. Privately held companies tend to have different pay mixes
 - Privately held companies tend to place more pay in variable programs
 - Public companies have the capital to pay higher salaries
 - Public companies may offer equity to offset salary or incentive pay
 - Public companies can be limited to additional shareholder/fiduciary concerns around pay
 - Nonexempt organizations also share restrictions around pay mix

Pay Mix Considerations



Capital

- High salaries provide ease in hiring talent but carry heavy fixed costs
 - During poor performance years, high salaries can be a heavy burden
- Incentive use offers a way of self-funding compensation based on company performance
 - When performance objectives are not hit and no incentives are paid, this philosophy carries a big turnover risk
- Ultimately, your pay mix needs to correspond to your business plan

Sample Philosophy

- Joe Miller Enterprises is a brand new start-up Company
- Looking to 10-15 hire professional level employees
- Limited capital
- Privately owned
- My competition focuses on having high salaries and above market benefits
- How should I frame up my philosophy?



Joe Miller Enterprises

Profile	Base Pay	Short-Term Incentives	Long-Term Incentives	Core Benefits	Retirement
JME	Moderate	High	Moderate	Low	Low

Can not afford high base salaries - target middle of the market

Offset salaries with high Short-Term Incentives

Phantom Stock Plan for Key Employees

When JME performs well, my employee's total cash compensation leads the market

Low but competitive employee health and retirement benefits. Not important to my employee base at this time

My leadership team will be drawn in with my Incentive Programs

Communicate Your Philosophy

- Don't be afraid of your philosophy
- Communicate It!
 - New Hires
 - Current Employees



Communicate to New Hires

- Not everyone will agree with your philosophy
- Those employees who don't agree with your philosophy are probably not your ideal employees
- If everyone doesn't agree with your philosophy it may be a problem with your philosophy



Communicate to Current Employees



- Lot of information available online
- Explain how you pay
- Employees who understand your compensation philosophy will spend less time worrying about compensation and more time on doing their job

Provide Compensation Statements

JoeMillerEnterprises Your Personal Statement of Total Compensation 2015



Personal Data for John Smith

Please contact Human Resources if any of the following is incorrect:

Employee Number: 12345	Date of Hire: 11/18/13
Name: John Smith	FLSA Status: Exempt
Title: Press Operator	

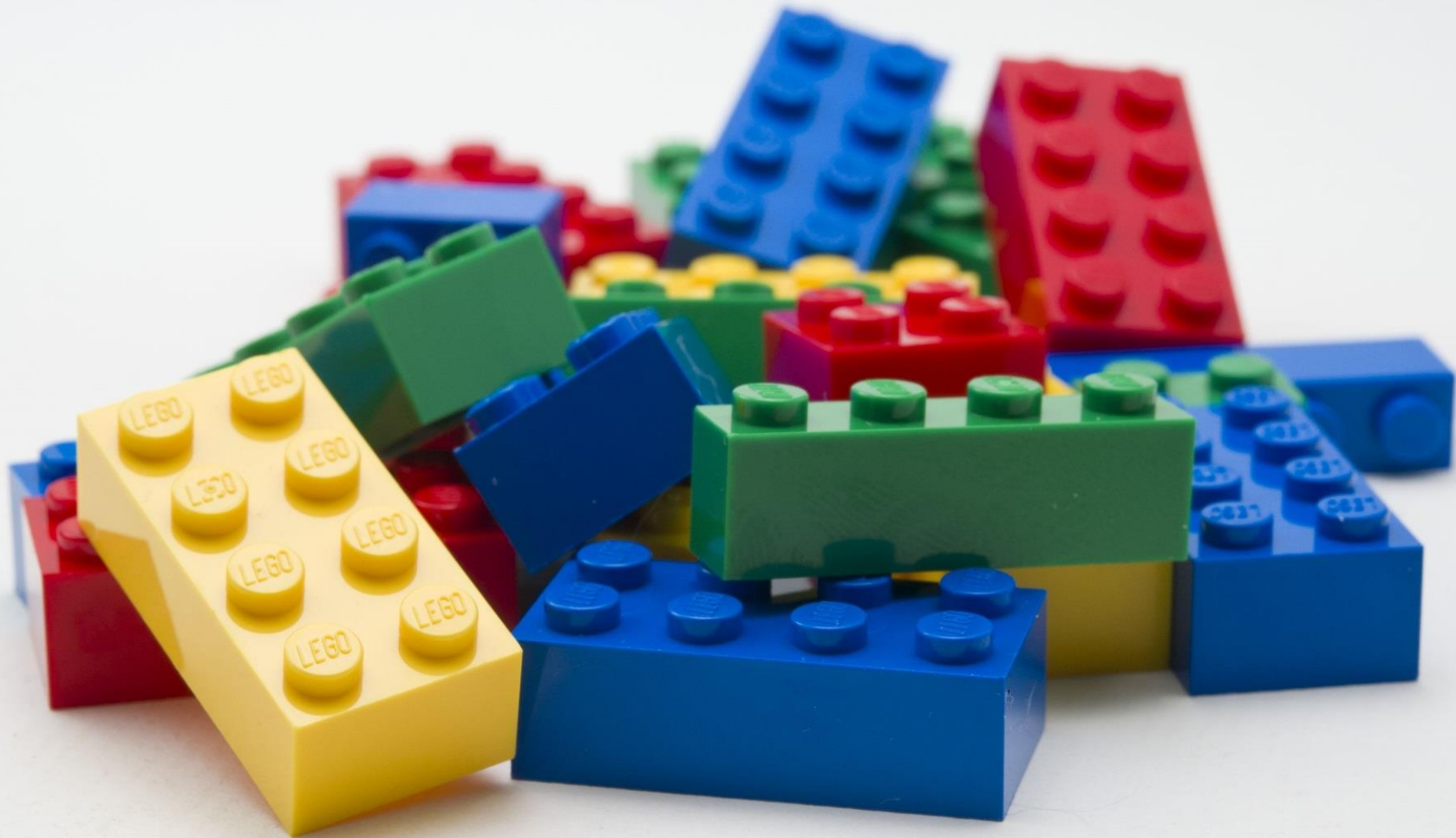
Estimated Total Compensation Package

Annualized Salary	Annual Incentive Target %	Annual Incentive Target Opportunity \$
\$30,500	5%	\$1,525

Position Salary Range		
Minimum	Midpoint	Maximum
\$25,250	\$31,850	\$36,740

Employee Benefits		
2014 Benefits Contribution	2014 401(k) Match	ESOP Contribution
\$4,875	\$1,850	\$5,432

Compensation is not really a mystery



What is Compensation?

- Each program is a building block aimed at creating a bigger picture
- Needs to be arranged appropriately
- Means of attracting, rewarding, and retaining employees
- **Employees are the key to achieving business objectives**



Upcoming VisionLink Online Seminars:

The 3 “Habits” of Highly Effective Pay Plans <i>How to Ensure Your Rewards Programs will Succeed</i>	August 25th
How to Achieve a Competitive Advantage in Pay (HR Audience)	Sept 9th
The 4 Secrets to Retaining Top Talent <i>How to Solve the Key Performer Retention Problem</i>	Sept 22nd
I’m Paying My Top 4 People \$1 Million -- What am I Getting For It? <i>How to Measure the Return on Your Compensation Investment</i>	Oct 27th
How to Build and Manage a Total Compensation Structure (HR Audience)	Nov 11th
Performance-Based Pay that Actually Performs <i>How to Engineer Rewards that Drive the Outcomes You Want</i>	Dec 8th

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The screenshot shows the Phantom Stock website homepage. At the top left is the logo for Phantom Stock, 'The Equity Alternative', featuring a green line graph with an upward-pointing arrow. To the right of the logo is a dark green navigation bar with white text links: 'KNOWLEDGE CENTER', 'TOOLS', 'BUILD A PLAN', 'BLOG', 'ABOUT US', and 'CONTACT'. In the top right corner, it says 'POWERED BY VISIONLINK'. Below the navigation bar is a large light green banner. On the left side of the banner, there are three stacked dark green arrow-shaped buttons pointing right, containing the text 'WHAT IS IT?', 'WHAT WILL IT CHANGE?', and 'WHERE DO I BEGIN?'. To the right of these buttons, the text 'A way to share ~~equity~~ Value' is displayed, with 'equity' crossed out and 'Value' written in red cursive. In the top right corner of the banner, there is a red play button icon and the text 'Phantom Stock Watch overview'. Below the banner is a white section with four columns. Each column has a title, an icon, and a short description. The columns are: 1. 'KNOWLEDGE CENTER' with an information icon and the text 'Explore our wiki and find the answers to your Phantom Stock questions.' 2. 'TOOLS' with a brown briefcase icon and the text 'Decide whether Phantom Stock is a fit for your company.' 3. 'BUILD A PLAN' with a wrench and screwdriver icon and the text 'For "do-it-yourselfers." Follow this guide to create your own plan.' 4. 'BLOG' with an RSS icon and the text 'Read the latest discussions about Phantom Stock and other value sharing strategies.' At the bottom of the page is a dark green footer bar with white text: 'Knowledge Center Tools Build a Plan Blog About Us Contact' on the left and '© 2012 PhantomStockOnline.com' on the right.



Questions?

Thank You



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