SHRM Compensation and Benefits

Module 5: Base Compensation



Module 5: Base Compensation

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Time:  2 minutes

Running time: 2 minutes

**Objective**: Introduce the topic of base compensation

**Description**:  Introduction to the topic and why it is important to compensation and benefits

**Instructional Method**: Lecture/ice breaker

**Script:**

The most basic form of payment for services of employees is known as base compensation. This compensation is provided in exchange for work performed and is frequently offered at a set rate of pay. This type of compensation is based largely on the knowledge, skills, and abilities of the employee, and is frequently identified on a compensation plan within a range of compensation for a particular category of employees. Whether an employee is exempt or nonexempt, paid by the hour or paid through a salary, all employees have a base wage from which their compensation is calculated.

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Time:  2 minutes

Running time: 4 minutes

**Objective**: Introduce the learning objectives.

**Description**: Show the objectives.  Answer any questions.

**Instructional Method**: Lecture

**Script**:

Here are the objectives for this module:

* Define terms related to base compensation
* Identify the various components of base compensation
* Evaluate how base compensation is used in executive compensation
* Assess how base compensation relates to internal and external competitiveness
* Examine how base compensation is regulated by various laws

**Facilitator Notes:**

Use the objectives topics to create evaluation for the review.

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Time:  8 minutes

Running time: 12 minutes

**Objective**: Define key terms for base compensation.

**Description**: Match Key terms to the correct definition.

**Instructional Method**: Game

**Script**:

Let’s play a game to define some key terms used in the compensation and benefits profession.

**Exercise**:  Key terms

1. The instructor will state the definition of each term.
2. Have students choose which term fits the definition.
3. Click to “light up” the correct answer.

*Virtual*

1. Use chat or annotate/stamp.
2. Read the definition and have students choose the term.

**Define Terms:**

1. **Base Pay-** *What an employee receives for the work they complete.*
2. **Hourly Pay***- Paid to nonexempt employees under the organizational compensation plan.*
3. **Direct Compensation**- *Money paid to employees in exchange for work.*
4. **Indirect Compensation**- *A benefit employees receive as the result of being an employee. This type of benefit also has some financial value.*
5. **Severance Pay*-*** *Compensation provided to employees upon separation from the organization.*
6. **Total Rewards**- *The wholeness of the rewards system for an organization’s employees to include not only compensation, benefits, incentives, and bonuses, but also includes opportunities for professional development and advancement, work conditions, autonomy, and recognition.*
7. **Variable Pay***- Compensation that is tied to performance, productivity, or some other variable measure related to the profitability of the organization.*
8. **Pay Structure***- The formal design of a compensation plan that identifies all of the various jobs in an organization that identifies the differences in value of each to the organization.*

**Facilitator Notes:**

**On the next slide**

1. **Pay Mix***- The various forms of compensation offered to employees, including not only base pay and benefits, but also bonuses and other incentives.*
2. **Pay Increases***- An increase in the base compensation level for employees.*
3. **Pay Banding**- *Established pay ranges established by companies for the various jobs/positions within an organization.*
4. **Pay Compression***- When new employees are highered at a pay rate near or equal to that of a seasoned employee in the same position. Also called salary or wage compression.*
5. **Wage Differentials***- Additional compensation paid to certain employees for working in roles that are more dangerous or undesirable. For example, employees who work the night shift are often paid a shift differential (more money). This incentivizes people to work the less desirable hours.*
6. **Deferred Compensation***- A term used to describe types of compensation that the employee will receive at some point in the future. Examples are stock options and pension/retirement plans.*

Graphical user interface, text, application, chat or text message

Description automatically generated

Time:  6 minutes

Running time: 18 minutes

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**Instructional Method**: Game

**Script**:

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**Define Terms:**

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Time:  5 minutes

Running time: 23 minutes

**Objective**: Explain how the chart relates to total rewards.

**Description**: Explain chart and all components of total rewards.

**Instructional Method**: Lecture

**Script**:

The concept of ‘Total Rewards’ refers to more than just base compensation and is an introduction of the various types of compensation an employee may encounter throughout their career.

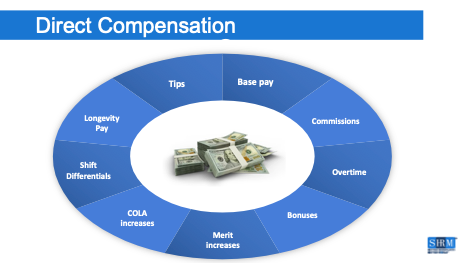
**Facilitator Notes:**

**Components of a Total Reward System-** The graphic shows the various components of a total rewards system. Most employers don’t rely on base compensation alone to attract and retain employees, but rather includes not only base compensation but also incentives, benefits, perks, and any other compensation that has a cash value assigned to it.

a. **Fixed Rewards**- Financial rewards that are pre-determined and do not vary in amount from pay period to pay period.

b. **Variable Rewards**- Financial rewards that are tied to a performance standard that can vary with the financial profitability of an organization.

* **Video 3:10 Minutes** [**Total Rewards**](https://www.youtube.com/watch?v=asuWMK9Ixh8)



Time:  15 minutes

Running time: 38 minutes

**Objective**: Identify the various components of base compensation.

**Description**: Have students research base and direct compensation.

**Instructional Method**: Exercise and Lecture

**Script**:

Direct compensation is money paid in exchange for work performed. It comes in several forms:

1. Base pay
2. Commissions
3. Overtime
4. Bonuses
5. Merit increases
6. COLA increases
7. Shift Differentials
8. Longevity Pay
9. Tips

**Exercise**:

1. Break students into 9 groups
2. Give each group 1 form of direct compensation to research (5 minutes)
3. Have students choose a spokes person for the group to give the definition and a few examples of their type of compensation. (1 minute)
4. Add more information if the groups were not thorough.

**Facilitator Notes:**

**Video**

36:11 Minutes [**Direct Compensation**](https://www.youtube.com/watch?v=bDDzN8sS-g0)

**1.** [**Base pay**](https://www.youtube.com/watch?v=zOJEgcK1F7Y)**-** The taxable basic compensation an employee receives for the work they complete. Base pay rates can range from [minimum wage](https://www.dol.gov/agencies/whd/minimum-wage) up to as much as a given employer is willing to pay. It can be in the form of an hourly rate or a [salary](https://www.dol.gov/agencies/whd/fact-sheets/17g-overtime-salary). Keep in mind the minimums required in the [Fair Labor Standards Act](https://www.dol.gov/agencies/whd/flsa) for exempt employees of [$684 per week](https://www.dol.gov/agencies/whd/fact-sheets/17a-overtime). When evaluating internal compensation, it is appropriate to compare base pay rates first, to ensure that the base pay rates are equitably aligned within the pay structure and based on the value of the position. In the same manner, when comparing your organization’s base pay to that of a competitor you would also start with an assessment of base pay. It is inappropriate as well to pay a male employee a higher base pay rate than a female who performs the same work, but offer her a bigger bonus at the end of the year to ‘make up the difference’. The base pay of any individuals who perform substantially similar work should have a substantially similar base rate of pay that falls within a standardized pay range for that position. We will discuss it more in Module 8 when we discuss pay equity.

**2.** [**Commissions**](https://www.youtube.com/watch?v=gP4CKgwGeh8)**-** Taxable compensation earned as the result of employee performance- usually related to sales. One way to incentivize performance is to offer the opportunity to earn additional compensation based on sales. [Outside Sales Professionals](https://www.dol.gov/agencies/whd/fact-sheets/17f-overtime-outside-sales) frequently are able to earn more compensation than they could make if they received a regular salary, so they work on a purely commission basis (often called straight commission). Outside sales professionals are unique in that the [Fair Labor Standards Act](https://www.dol.gov/agencies/whd/flsa) does not require that these employees be paid either a minimum wage or overtime. Their performance dictates their compensation entirely. Keep in mind that in order for an employee to be classified as an Outside Sales Professional, they must meet all the tests in the FLSA; otherwise, they are not exempt from minimum wage and overtime rules.

**3.** [**Overtime**](https://www.youtube.com/watch?v=NPr-yBMCPMk)**-** Taxable compensation paid at least 1.5x the normal rate for hours worked over 40 in a workweek for nonexempt employees under the [Fair Labor Standards Act](https://www.dol.gov/agencies/whd/flsa). Recall our discussion in Module 2 of the difference between exempt and nonexempt employees and the rules for determining who qualifies for overtime pay. Employers can choose to pay more than 1.5x the normal rate if they choose to do so for overtime. Sometimes, certain employers who run 24 hour shifts will offer additional overtime rates to incentivize employees to work hard-to-fill shifts such as weekends and holidays. Also keep in mind that there is no limit to the number of hours an employee can work in a workweek, so long as they are at least 16 years old. Overtime is usually limited by employers because it is expensive, but in some instances, strategic use of overtime can encourage current employee to meet a deadline or complete a project more quickly and without the hiring of additional staff. It provides the employer with a cheaper way to get the work done (1.5x the rate is cheaper than hiring an additional employee), and profides the employee a chance to make some extra cash!

**4.** [**Bonuses**](https://www.dol.gov/agencies/whd/fact-sheets/56c-bonuses)**-** Taxable compensation paid to employees on the basis of organization, team, or individual performance. This can be based on a one-time project, or an ongoing bonus pay plan. [Bonuses](https://www.youtube.com/watch?v=RUuMnu59ONY) are also subject to the [Fair Labor Standards Act](https://www.dol.gov/agencies/whd/flsa), and they are two types: [Discretionary and Nondiscretionary](https://www.dol.gov/agencies/whd/fact-sheets/56c-bonuses) (we have copied the exact language of the law below).

**Discretionary bonuses** are excludable from the regular rate of pay.  A bonus is discretionary only if all the statutory requirements are met:

* The employer has the sole discretion, until at or near the end of the period that corresponds to the bonus, to determine whether to pay the bonus;
* The employer has the sole discretion, until at or near the end of the period that corresponds to the bonus, to determine the amount of the bonus; and
* The bonus payment is not made according to any prior contract, agreement, or promise causing an employee to expect such payments regularly.

Examples of some common bonuses that may be excludable discretionary bonuses if they meet the statutory requirements include:

* Bonuses for overcoming a challenging or stressful situation;
* Bonuses to employees who made unique or extraordinary efforts not awarded according to pre-established criteria;
* Employee-of-the-month bonuses;
* Severance bonuses; and
* Referral bonuses to employees not primarily engaged in recruiting activities (subject to additional criteria).

The label assigned to the bonus and the reason for the bonus do not conclusively determine whether the bonus is discretionary.  While a bonus may be labeled discretionary, if it does not comply with the provisions of the statute, then the bonus is not an excludable discretionary bonus.  The determination must be made on a case-by-case basis depending on the specific circumstances.

A discretionary bonus may not be credited towards overtime compensation due under the [FLSA](https://www.dol.gov/agencies/whd/flsa).

A **nondiscretionary bonus** is a bonus that fails to meet the statutory requirements of a discretionary bonus.  Nondiscretionary bonuses are included in the regular rate of pay, unless they qualify as excludable under another statutory provision (see below).

Examples of nondiscretionary bonuses that must be included in the regular rate include:

* Bonuses based on a predetermined formula, such as individual or group production bonuses;
* Bonuses for quality and accuracy of work;
* Bonuses announced to employees to induce them to work more efficiently;
* Attendance bonuses; and
* Safety bonuses (i.e., number of days without safety incidents).

Such bonuses are nondiscretionary because the employees know about and expect the bonus.  The understanding of how an employee earns one may lead to an expectation to receive the bonus regularly.  The fact that the employer has the option not to pay the promised bonus does not make the bonus discretionary.

**5.** [**Merit Increases**](https://www.dol.gov/general/topic/wages/meritpay)- Merit increases are a taxable increase in base pay as the result of an employee’s job performance. These can be based on a good performance evaluation, the achievement of a specific goal, or the outcome of a project. But they are adjustments to the base rate of pay. A [merit increase](https://www.youtube.com/watch?v=VnXWNiLPRNI) should not cause the employee’s base rate to exceed the boundaries of the wage structure set for that position. The [FLSA](https://www.dol.gov/agencies/whd/flsa) doesn’t cover merit increases so these are entirely at the discretion of the employer.

**6. COLA Increases**- Cost of Living (COLA) increases are a taxable increase in the base wages, salaries, and benefits to counteract inflation. When an across the board COLA increase is provided, it should shift the entire pay structure by the percentage of the COLA increase. That way, a COLA increase won’t cause any one employee to be increased out of their designated pay range. There is no set law or metric that all employers must use to determine COLA adjustments and they are optional. Some employers use the [Consumer Price Index (CPI)](https://www.bls.gov/cpi/) to determine COLA adjustments, while others use the [Social Security Administration recommendation](https://www.ssa.gov/oact/cola/latestCOLA.html). Additionally, some organization are bound by union contracts to provide a standard COLA increase based on some pre-determined factor on a pre-determined basis.

**7. Shift Differentials**- Additional taxable wages paid to employees for working undesirable shifts or in undesirable locations. This is in addition to the base rate and are used to entice employees to work in hard-to-fill shifts.

**8.** [**Longevity Pay**](https://www.youtube.com/watch?v=rtaQOhNWAew)- Some organizations (such as municipal governments) pay an additional amount of taxable compensation based on the years the employee has invested in the organization. This can be any rate the employer chooses, but is often a fairly modest sum at first. However, the longer an employee stays, the larger the pay becomes. Sometimes, this compensation is given as a part of a regular paycheck, other times, it is saved up and given to employees at the beginning of summer or during the holiday season.

**9.** [**Tips**](https://www.dol.gov/agencies/whd/flsa/tips)- Tips are additional taxable additional wages beyond base compensation that some employees receive as a reward for service directly from customers. Employers may legally pay employees who receive tips less than the federal or state minimum wage if the employee receives more than $30 per month in tips. So, while the federal minimum wage under the [FLSA](https://www.dol.gov/agencies/whd/flsa) is $7.25 per hour, employers are allowed to take a tip credit against the minimum wage, so they can reduce taxable hourly wage to $2.13 per hour. Individual state laws on this vary but the DOL provides a handy [chart](https://www.dol.gov/agencies/whd/state/minimum-wage/tipped) to help employers ascertain the proper rate. Employers are liable for ensuring that tipped employees’ compensation doesn’t fall below minimum wage in a given workweek if they take the tip credit, which is one of the reasons many employers require tipped employees to report their tips following every shift.

Calendar

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Time:  15 minutes

Running time: 63 minutes

**Objective**: Assess how base compensation and fringe benefits relate to internal and external competitiveness

**Description**: Have students participate in the exercise to get a list of fringe benefits

**Instructional Method**: Exercise

**Script**:   Indirect Compensation is also known as fringe benefits, this type of compensation is typically non-taxable, and the employer pays the premiums (or a portion thereof) on behalf of the employee, rather than providing additional compensation in lieu of the benefits. These can be virtually unlimited in nature and can range from a small as providing free lunch in the cafeteria to the use of company cars and jets. Fringe benefits are one of the most attractive ways of attracting and retaining quality employees.

Exercise:

1. Put students into groups of 3.
2. Have each group choose a profession listed above and make a list of types of indirect compensation they would give this person in the job. Have them justify their decisions. Remember, you want to keep this person. (it does not matter if more than 1 group chooses the same profession)
3. Have students in each group write the name of the profession and **all** of the benefits they would give the person. (5 minutes)
4. Galley walk – have students walk around and view each group’s work. ( 5 minutes)  
   If virtual – have each group share or give to the instructor and the instructor will show each whiteboard or document to the entire class.

**Note**: Students tend to choose crazy benefits and forget more standard benefits like health care. Let them list the benefits for their then show the list on the next slide to compare to their lists.

**Facilitator Notes:**

Common fringe benefits:

**1. Health Insurance**- One of the most common benefits offered to employees and potentially their dependents is health insurance. This type of benefit also includes dental and vision insurance. Many employers cannot afford to pay for all of the insurance premiums for all employees, but they can frequently negotiate better options and prices for group health coverage than individual employees can.

**2. Life Insurance**- Many employers also offer some sort of life insurance coverage options. Employers typically can negotiate low rates that offer a small plan to all employees (regardless of health) and the option to purchase more life insurance (based on eligibility). Again, this is not a required benefit.

**3. Retirement Savings Plans**- Another common example of indirect compensation are retirement/pension plans. These funds are frequently taken out of an employee’s paycheck on a pre-tax basis (as they are taxed when they are distributed) and placed into various types of retirement/pension funds. Some employers provide a matching percentage to the funds an employee invests, others do not. Most retirement plans are covered by the [Employee Retirement Income Security Act (ERISA)](https://www.dol.gov/general/topic/retirement/erisa).

ERISA requires plans to provide participants with plan information including important information about plan features and funding; sets minimum standards for participation, vesting, benefit accrual and funding; provides fiduciary responsibilities for those who manage and control plan assets; requires plans to establish a grievance and appeals process for participants to get benefits from their plans; gives participants the right to sue for benefits and breaches of fiduciary duty; and, if a defined benefit plan is terminated, guarantees payment of certain benefits through a federally chartered corporation, known as the [Pension Benefit Guaranty Corporation (PBGC)](https://www.pbgc.gov/)

**4. Uniforms**- Uniforms are not required by every employer, but many who do require them also provide them, including the laundering of those uniforms. This type of fringe benefit is important to employers who are concerned with what employees are wearing. The U.S. Military is a good example of an organization that provides uniforms.

**5. Paid Sick Leave/Vacations**- Many employers allow workers to earn paid time off that includes some time for employees to be out of work due to occasional sick leave and regularly scheduled vacations. These policies are completely at the employer’s discretion and there are no laws that set minimum time off to go on vacation. Employers often require a specific time on the job prior to allowing employees to use sick or vacation leave. This is another benefit that employees find very attractive and helps in attracting and retaining employees.

**7.** [**Social Security**](https://www.ssa.gov/history/35act.html)**-** Passed in 1935, the Social Security Act provides for the welfare of aged and those with physical and mental disabilities. [This is funded through employee and employer contributes of 6.2% of each employee’s compensation](https://www.ssa.gov/news/press/factsheets/HowAreSocialSecurity.htm). An individual can draw Social Security after becoming permanently and totally disabled or reaching the [age of 62 or 67](https://www.ssa.gov/benefits/retirement/learn.html). This is a mandatory benefit required by law.

**8. Worker’s Compensation**- “The [Office of Worker’s Compensation Programs](https://www.dol.gov/agencies/owcp) administers disability compensation programs that provide employees with wage replacement benefits, medical treatement, vocational rehabilitation for some workers and/or dependents who experience work-related injury or occupational disease” (<https://www.dol.gov/general/topic/safety-health>).

**9. Unemployment Compensation**- Unemployment compensation is a benefit paid to people who lose their jobs through no fault of their own. Most employers pay both a federal (FUTA) and a state unemployment tax. [The FUTA tax rate is 6.0%](https://www.irs.gov/taxtopics/tc759). State unemployment (SUTA) tax rates vary so you should check with your state unemployment office to determine what that rate is.

**10.  Work/Life Balance Programs**- Work/life balance has been a buzz word around the workplace for many years. However, the COVID-19 Pandemic has thrust this concept into the spotlight again. Millions of workers were forced to work from home, educate their children, and live their lives from their homes and the reality is that many people really liked it. We are still seeing a large number of employees leaving workplaces that do not provide opportunities to work from home so they can have better work/life balance two years after the pandemic ended. Employers who offer this kind of benefit to employees are seeing less demand for employees than those employers who are unable to allow working from home.

Diagram

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Time:  10 minutes

Running time: 73 minutes

**Objective**: Evaluate how base compensation is used in executive compensation

**Description**: Debrief the exercise by discussing standard indirect compensation methods and competition for different types of employees.

**Instructional Method**: Exercise follow up and large group discussion

**Script**:   Let’s discuss more standard forms of Indirect Compensation.

**Exercise debrief:**

**Ask**: How many of you forgot more standard benefits such as health insurance and retirement plans?

**Facilitator Notes:**

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Diagram

Description automatically generated

Time:  7 minutes

Running time: 80 minutes

**Objective**: Examine how base compensation is regulated by various laws

**Description**: Discuss how laws regulate different groups of employees

**Instructional Method**: Lecture

**Script**:

Let’s discuss how base compensation is used in executive compensation and other types of employees. Also, which laws are in effect for which types of employees to protect them.

**Facilitator Notes:**

Special workforce groups

**1.** [**Domestic workers**](https://www.dol.gov/agencies/whd/field-operations-handbook/Chapter-11)- Workers who work in a household setting in a private home in the roles of companions, child-care providers, housekeepers, gardeners, etc., are subject to the [Fair Labor Standards Ac](https://www.dol.gov/agencies/whd/flsa)t. They are entitled to minimum wage if they work more than 8 hours in a workweek or make at least $2000 per year from one employer.

**2. Expatriates**- Expatriates are employees who work for a U.S.-based company at an overseas location. Employers typically try to provide a combination of compensation and benefits that are comparable to what someone in their position in the U.S. would be making. Frequently, this means that expatriates are offered housing, transportation, and education benefits to make the position more attractive.

**3. Executives**- Recall from Module 2 that executives are classified as exempt employees under the [Fair Labor Standards Act](https://www.dol.gov/agencies/whd/flsa), exempting them from minimum wage and overtime requirements. They must meet the minimum salary basis of $684/week.

**4. Shift Workers**- Shift workers are employees who work in a set shift, frequently in a manufacturing or health care environment. These shifts can be any set amount of hours, but typically you will see 8, 10, or 12 hour shifts, but sometimes you will also see 24-36-48 hour shifts for positions like firefighters, nurses, etc. Their compensation is still based on the workweek and other regulations in the [FLSA](https://www.dol.gov/agencies/whd/flsa).

**5.  Part-time Workers**- Typically, part-time employees are not benefit eligible but do receive an hourly base compensation rate in line with other workers performing the same type of work in a fulltime capacity.

**6.** [**Public Employees**](https://www.youtube.com/watch?v=gEVnfvYHTp0)- Persons employed by federal, state, or local governments are called public employees and they are often compensated differently than private employees. While the FLSA still applies, public employees often receive lower rates of compensation, but better benefits than private employees.



Time: 5 minutes

Running time: 85 minutes

**Objective**: Students will review the material by answering the questions on the slide.

**Description**: Students will review the material by answering the questions on the slide.

**Instructional Method**: Pair and share discussions, exercises, homework

**Script:** Answer the questions on the slide and think about the last time you negotiated for compensation.

**Facilitator Notes:**

[**13 Companies That Offer Unlimited Vacation Days**](https://money.usnews.com/careers/slideshows/companies-that-offer-unlimited-vacation-days?slide=5)

**Discussion Prompts:**

1. What are the best sources for determining what base compensation to negotiate for when starting a new job?
2. What factors influence the value employees place on their total rewards package?

**HR Skills Exercises:**

The CEO would like your suggestions for some ways your organization can improve work/life balance for your employees. Your organization is a manufacturing facility that makes computer chips for cell phones and your business operates 24/7. The vast majority of the work to run the organization must take place within the facility as special tools and safety procedures are required. Provide and explain at least 5 recommendations that your CEO could consider (you can disregard potential costs at this time, consider this a detailed brainstorming session).



Time:  5 minutes

Running time: 90 minutes

**Objective**: Review main points in this module.

**Description**:  Be sure that students have a fun way to remember the material.

**Instructional Method**: Game – Review

**Script**:

Let’s see how much we remember about this module.

**Facilitator Notes:**

Review Exercise:  Create a fun game to review the material.  Remember to use the objectives to measure learning:

* Define terms related to base compensation
* Identify the various components of base compensation
* Evaluate how base compensation is used in executive compensation
* Assess how base compensation relates to internal and external competitiveness
* Examine how base compensation is regulated by various laws

* Have each student submit a question on a piece of paper, crumple it up and toss it in a bucket (clean wastebasket), Instructor will then read them and give points to each team with the correct answer.
* Any game show – Family Feud, Jeopardy, $10,000 pyramid, Password, Tic Tac Toe
* Extra credit quizzes

*Virtual*

There are many ways to review material virtually or in person.  Students can use their phones or computers to navigate to various online review websites.

A few are:

* Kahoot
* Quizlet