

February 2017 Compensation Connections



Dear Friend,

Happy New Year! Its been a few months and the world is still turning. I've got some great information for you in this next issue of the Compensation Connections. Please read on !

What Kind of Variable Pay Do You Have?

There are a lot of things you could be thinking about as the new year begins other than your company variable pay plan. For example:

Will our department reorganize again?

Will spontaneous protests erupt if the minimum wage increases?

Will the Cubs win the World Series again?

Chances are you aren't giving a lot of thought to whether you should be making changes to your company bonus plan. After all, haven't you heard at least once or nine times, "If it ain't broke, don't fix it!!" But if it is truly an annual plan, then the most responsible approach is to put it as an item on your annual calendar – "Evaluate Bonus Plan Alignment and Effectiveness" – probably a few months ago, but it may not be too late to at least consider a few thoughts.

1. Is it a bonus plan or is it an incentive plan? The difference is fairly straightforward. A bonus plan is considered "backward-looking" while an incentive is "forward-looking." I prefer to think in different terms – incentives are intended to influence behavior while bonuses are rewards given for results. I usually think of sales plans as more incentive-oriented ("go do it") while other types of plans reward individuals or groups for achieving longer-term goals,

either short or long term.

2. What do your top performing employees think about their bonuses? Was it worth it?
3. Do your managers know how to have the difficult discussion with an employee who should not be getting a bonus?



4. Do all employees expect to get a bonus *Employees “riding the bus” in your plan?* because they were “on the bus” all year?
5. Are you even rewarding employees for what’s important and producing results aligned to business strategies and objectives? Or is it just profit-sharing?

It’s not all bad if things aren’t exactly how you’d like them to be, but know that if you think things should be different then this is the time to try and effect change – some change, any change may be enough to get started. For example, if you plan is really just profit-sharing where just about everyone gets target pay without a lot of differentiation, but you’d like to start really calling out your top performers, here are a couple of ways to get started.

1. Before you calculate the employee bonuses, “skim” some of the pool to be given to the top 15% or so of employees.
2. A variant of #1; make 10%-15% of the pool variable; in that way your top performers can get a truly differentiated award, and you can still manage to give most of your employees something close to the average payout.
3. Change the payout distribution calculation by summing the pool of bonus monies then allowing managers to determine the amount of an award, not just a percentage of target.

Thinking ahead to merit or raises, are you still trying to figure out how to split 3% and pay-for-performance? Managers have few opportunities during the year to really make pay-for-performance decisions, and now (bonus time) “merits” special consideration for a change, especially if bonus and/or merit has become more of an entitlement. If you don’t do something now, another 12 months will pass, and once again you’ll be thinking:

Will our department reorganize again? (I wish I hadn’t volunteered to take payroll...!)

How did the Patriots win again?!

Will the Cubs win the World Series again? (It's an odd year, so no Giants)!

Overtime / Exemption Status Update

(WorldatWork supplied the majority of the information here)

You may remember the changes proposed in what makes an employee eligible or not for payment of overtime from late last year. It was to change the salary threshold to \$47,476 (that doesn't have the same rhythm as Jenny at 867-5309)!

But wait -- a federal court in Texas issued a nationwide injunction on November 22 stopping the U.S. Dept. of Labor's (DOL) overtime changes, and now we all wait with bated breath wondering if the regulations will ever be enforced. The answer is probably not, but we're not out of the woods yet.



The Obama administration immediately appealed the ruling. But there's a new sheriff in town... On January 25, the Justice Department asked the Fifth Circuit Court of Appeals to extend its deadline 30 days to March 2 for delivering final briefs on the appeal. The government wrote in its motion that this was "necessary to allow incoming leadership

personnel adequate time to consider the issues." The plaintiffs — attorneys general from several states — indicated they were fine with the delay, and the next day the court agreed with the request.

Trump's Labor Department Secretary-nominee Andrew Puzder is also a vocal opponent of the Obama-era rule. Writing in a May 2016 Forbes magazine editorial, he stated, "This new rule will simply add to the extensive regulatory maze the Obama Administration has imposed on employers, forcing many to offset increased labor expense by cutting costs elsewhere."

Experts assume that the Trump Justice Department will simply drop its appeal. If the appeal is dropped, the original Texas court could then issue a permanent injunction on the rule granting the summary judgment motion filed by the state attorneys generals and a coalition of business groups. If this happens, Obama's overtime regulation would be permanently blocked. It would then be up to the DOL to determine whether it intends to go through a new round of formal rulemaking to update the regulations. This could extend the time for a final determination by another year or so.

The district court could also side with the initial DOL filing and rule that the Obama-era overtime rules are constitutional. But that seems unlikely given the judge's original temporary injunction order in which he wrote: "The Department exceeds it

delegated authority and ignores Congress's intent by raising the minimum salary level such that it supplants the duties test."

Congress is keeping an eye on the court case (but they've been a little busy lately). Prior to the change in the White House, there were a number of legislative options on the table to either delay the overtime regulation effective date or to phase in the high salary test over the course of five years. While no similar legislation has yet been introduced in the 115th Congress, the federal legislature could step in with legislative options if the case remains unresolved.



Jim Harvey is Founder and Principal Consultant for Columbia Compensation Consulting Inc. His 35+ years' experience encompasses high-tech, aerospace, utility and health care industries, specializing in leading companies in the formulation and execution of their rewards strategies in support of business objectives. His global work experience and collaborative reputation includes translating business needs and ideas into tangible and measurable deliverables, and a hands-on results-

oriented attitude with a strong track record of driving large-scale projects through to delivery and implementation.

At Columbia Compensation Consulting, you are working with someone with over 35 years of expertise in executive, equity, incentive, sales and base compensation. My consultative style includes a D-T-S approach to working with clients: D for Do, since most clients have already identified the need and are looking for specific deliverables; T for Teach, where those opportunities present themselves and transferring knowledge to the client can enable self-sufficiency in the future, and S for Support either through ongoing retainer support or coaching of those then delivering. For more information please visit www.columbiacomp.com.

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