The SESCO Report

Attract and Retain Talent
Develop an Effective Compensation System

As an employer in 2018, you can no longer say, "Come to work, do a good job and we'll take care of you." Those days of hiring someone who was simply looking for a long-term opportunity and would stay with that company for their entire career is long gone. Today, applicants are interviewing employers and they want to know position responsibilities, compensation, benefits, hours of work, training and development opportunities and other practical offerings. Furthermore, current employees are constantly scanning the market for opportunities. There's so much available on the worldwide web in terms of surveys, job openings and head hunters contacting them that they are many times more aware of the market than their employer.

It is incumbent, no matter what size of organization you are in terms of revenue and number of employees, that you are able to answer these basic questions to applicants and employees and it is critical to do so through a written/public compensation program.

Here at SESCO we are experienced in developing compensation systems and the following are our staff recommendations.

- **Step 1: Establish a Pay Philosophy -** The first step in designing a plan is determining pay philosophy. This is not just how much we want to pay employees but what we call a "total compensation plan" - a compensation plan also includes factors like benefits, performance compensation, incentives and other company perks.

Inside This Issue

In developing your compensation philosophy, you should question yourself to determine if the plan meets the needs of the three (3) primary legs that undergird the stool, which are:

1. **Internal Equity -** Will our plan provide for fairness and equity based on position value, employee effort, and performance and ensuring that the organization does not chase after talent, re: bringing in new hires too close to, at or above existing employee pay rates.

2. **External Equity -** Your organization will never be the highest payer in town, nor should it be. However, we must understand the market both locally as well as regionally and within the industry that you operate. We must know and understand what our current pay opportunities are as a percent to the market so that we can be as competitive as affordability allows.

3. **Affordability -** Is the plan affordable? Is our percent of compensation to revenue manageable? In the end, the compensation plan must be affordable and yield an effective return.

- **Step 2: Wage Surveys -** When checking the market, be very careful about looking wages up on the internet or buying published surveys. We have found over our many years of service that the accuracy of such data is suspect. Further, we don't know who is responding to these surveys, what industry they are in, their size and scope of company and other relevant factors.

SESCO first suggests that you check with your national or state association that you may be members. Many times, these associations will conduct surveys every year or two (2) on behalf of their membership. These published surveys are practically

the only ones that we recommend considering.

Even if your association publishes a survey, we strongly suggest that you conduct a custom survey. Through working with SESCO, you would identify those organizations within your immediate area and/or within your industry to survey. The survey would be customized to include positions and position descriptions and other relevant questions. These custom surveys are very accurate and provide excellent information to consider when establishing pay opportunities as compared to the market.

- **Step Three: Establish Pay Ranges -** In this step, we establish pay ranges for each position. These pay ranges will typically include a minimum, a midpoint (target rate) and a maximum. Pay ranges will identify our hire rate or hire range and the rate that should be paid if someone is up and running, doing a good job and performing as expected with normally two (2) to three (3) years' experience.

Setting salary/hourly pay rates and ranges is not a science. You will consider the market survey, you will consider what you are currently paying and then obviously you will consider affordability - what can we pay? Once the pay range is established, you should run a "costing" which will identify the cost of adopting the new pay range. SESCO can assist in processing the costing as well as the rules in implementing employees/positions into the new pay ranges.

- **Step 4: Compensation Administration Guidelines -** Once you've established your basic pay ranges, it is then necessary to establish policies and procedures for not only implementation but ongoing management thereof. For example, questions to be answered in policy include:

RETAIN TALENT -

- How do we hire into the new pay range?

- What if the employee brings with them previous experience?

- What do we do about performance/behavioral issues and compensation?

- How do we measure performance and what percent increase should be applied to cost-of-living and/or performance increases?

As you can imagine, there are a number of questions that must be answered to ensure that the plan is administered fairly and consistently.

Compensation in a growing economy can be very challenging. If you do not have a compensation system, we find that many clients and employers will "chase after" talent when they are in desperate need and this is when mistakes happen. We must understand that compensation **does not motivate employees**. However, a poorly designed compensation system or no compensation system at all can and will demotivate employees. **A compensation plan will protect ourselves from ourselves and will simply help us answer those basic questions that the workforce is demanding in today's environment.**

Feel free to contact SESCO to review your current compensation system or discuss these basic steps and how we can be of assistance to you in developing an effective program.

2019 Forecast

The following provides a forecast on a range of expenses and economic activity.

- GDP growth will be solid in 2019, rising 2.8%

- Inflation will hold steady in 2019. The Consumer Price Index will rise 2.5% which will match 2018's pace.

- The cost of borrowing money will increase as the prime lending rate will hit 6.25%.

- **Business investment will be strong, a likely 8% increase after a 7% gain in 2018**. A growing economy, a healthy manufacturing sector and corporate tax cuts will contribute to robust business spending.

- Corporate profits will jump up 8% matching the rise expected in 2018. Credit the tax cuts and strong economy. Companies and industries across the board from energy and healthcare to tech and financial services will reap higher profits.

- Average pay raises will be 3.3% up from 3% in 2018 as tight labor markets spark wage hikes for high-skilled folks as well as low-paid food and service workers.

- Payroll taxes will rise as the base wage rate goes from $128,400 to $132,300.

- The cost of employer-sponsored healthcare will increase about 5% in 2019. Shifting cost to employees or cutting benefits is mostly over. Competitive health benefits are a must to attract and retain good employees in this labor market. Managing high-cost employee patients will be a focus.

- Expect a 5% to 10% rise for commercial property insurance. Directors' or officers' insurance will also see a 5% rate hike for public companies **while private and nonprofit rates will decrease 5%**.

- Legal costs will continue to rise up 5% in 2019, although many legal fees should be negotiated lower.

In Summary

In addition to these forecasts, it is critical that employers understand their labor costs as a percent to total revenue and manage that percentage. Labor costs remain the only controllable (variable) expense as it is ultimately up to the employer how many employees it will employ, what their wages and benefits will be, what type of scheduling will be employed and how effectively they manage the performance and subsequent return of this largest, single controllable cost. See compensation article.

Wage and Hour Quiz

1. **Can we suspend an exempt employee without pay?**

There are limited times when an employer can reduce or deduct from an exempt employee's salary. These times can include for reasons of safety infractions, use of Family and Medical Leave even on an intermittent basis (partial day) and when defined by policy and the exempt employee has exhausted all earned leave time. It is critical, however, that you understand when you can deduct from a guaranteed salary and ensure that you comply with federal and state laws.

2. **Does an exempt employee who calls in sick the day before Thanksgiving get holiday pay?**

To answer this question, it will be primarily up to company policy. Policy should obvi-

ously identify those holidays in which we pay. Furthermore, your policy as previously stated in the question above needs to identify if an exempt employee earns sick pay. If they have earned time to use certainly the time would and should be credited against their bank. If they have exhausted their earned time or have not been granted such time then, yes, the day can go unpaid.

3. **If I guarantee a salary for a position, I don't have to worry about overtime, correct?**

The Fair Labor Standards Act uses the terms exempt and nonexempt. Exempt is not always a salary pay plan nor is nonexempt always an hourly pay plan. Any employee can be paid a salary or an hourly rate or a combination thereof to include

commissions, etc. To determine whether or not an employer has to pay overtime, we must consider the white-collar exemptions. The Fair Labor Standards Act has issued exemptions to include Executive, Administrative, Outside Sales, Professional, and Computer. There are specific duties that must be performed **and** also the position must be paid at least $455 per week. As such, paying someone on a salary does not in itself exempt us from overtime payments.

SESCO strongly recommends that all pay plans be reviewed annually to determine compliance to these white-collar exemptions as well as the other technical requirements of the FLSA.

QUIZ

4. Does the Fair Labor Standards Act require employers to provide meal or break periods?

No. On a federal basis, the Fair Labor Standards Act does not require an employer to provide meal or rest periods. However, if an employer is not going to pay for a period of time whether it's a break, meal or personal time, the unpaid period of time must be at least 30 minutes or longer. As such, if an employer provides for 5, 10 or 15 minute break periods these are required to be paid. If an employee is interrupted during a 30 minute lunch by an email, telephone call or conversation, the entire 30 minute meal period must be paid.

Many states do require break and meal periods within their regulations. As such, ensure that state Wage-Hour rules and regulations are understood.

5. We have outside sales representatives. Do we have to pay them a minimum guaranteed salary like the other white-collar exemptions or at least minimum wage for all hours worked?

No, the Outside Sales Exemption does not require that an employer guarantee an employee any wages. Thus, an employee could be paid on straight commissions, salary plus commission or a combination thereof and, further, there is no minimum pay requirement.

6. We provide incentive bonuses. These include bonuses for good attendance, good safety and good overall production. We pay these out quarterly to employees. Sometimes these include gift cards or other items of value. Are there any obligations regarding this pay?

Yes, this incentive compensation is considered non-discretionary bonuses and as such are wages earned. Therefore, these bonuses need to be prorated back across the previous quarter that they cover and subsequently overtime must be computed on the weekly rate if the employee worked overtime during that workweek.

Note - This is one of the number one violations that Wage and Hour assesses during audits. Therefore, ensure that all monies earned to include hourly rate, salary, commissions or incentive bonuses are included for the purposes of computing overtime for hours worked in excess of 40 hours per week.

7. An employee comes into work before their starting time and clocks in. Then they go to the break room until it's time to start work. Can I deduct or alter their time card?

Yes, you can alter the time card and should. The law requires employers to pay for actual hours worked. If the employee did not perform any work whatsoever, then, yes, the time card should be edited and changed, the supervisor and employee both initial the change. Further, SESCO recommends that policy be developed and placed into handbooks that prevent employees from clocking in prior to their start time which may include 5 minutes before. We also recommend the use of the 7/8 minute rounding option where time is rounded to the nearest quarter of an hour. This prevents substantial cost over time based upon paying to the minute.

Now on the other hand, if the employee who clocked in early, even though they were not required to do so, goes to their work station and starts their computer, begins to prepare for the day, etc., this can be considered working time and thus needs to be paid.

In Summary

SESCO retainer clients receive an annual employment law compliance assessment which includes a thorough review of all pay practices to determine compliance with the Fair Labor Standards Act. Feel free to contact SESCO to discuss our Service Agreement and auditing practice at:

423-764-4127
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New Feature

SESCO Projects

We constantly receive the question from clients and prospective clients, "What can you provide our company?" To keep clients informed, we will provide a summary of projects.

- **Compensation Program Development -** SESCO is currently working with a large City to review and update their compensation practices. This includes a wage survey, evaluation of all positions to identify their value to the organization, propose new pay ranges and policies and procedures.

- **EEOC Charge -** SESCO is working with a large restaurant to conciliate a discrimination charge in which the EEOC found the employer at fault.

- **Harassment Training -** SESCO is providing an Arby's chain harassment training for their management team.

- **Screening/Hiring an Executive Director -** SESCO is assisting a community health system in hiring a new Executive Director. This will include developing and placing advertisements, receiving and reviewing resumes, conducting initial telephone interviews and making final recommendations of two (2) to three (3) candidates to the Board of Directors.

- **Affirmative Action Program Development -** SESCO is preparing an AAP for an independent Pepsi distributor to ensure compliance with OFCCP regulations. This includes receiving employment and applicant data, scrubbing and editing the data and updating the plan to include outreach goals.

SESCO
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RETURN SERVICE REQUESTED

Merry Christmas &
Happy Holidays

We would like to express our sincere appreciation for the trust you have placed in us. Best wishes to you and your family for a happy holiday season. Looking forward to continue the warm association we share in the coming year.

~ The SESCO Staff

Special Thanks to New SESCO Clients!

Clear Creek Baptist Bible College
Pineville, KY

Hogan and Sons, Inc.
South Riding, VA

Huntington University
Huntington, IN