Narrator: Welcome to Module 5! This week, we will focus total rewards. These include direct, indirect, and non-financial compensation for the employees of the organization.

There is much that goes into figuring out what will attract candidates and retain employees within the organization. A large part of this is in the total rewards or total compensation that the organization offers. This figure shows the components of a total compensation program.

Text on screen: Components of Total Compensation Program:

- **External Environment**
- **Internal Environment: Compensation**
  - **Financial**
    - **Direct**
      - Wages
      - Salaries
      - Commissions
      - Bonuses
  - **Indirect (Benefits)**
    - Legally Required Benefits
      - Social Security
      - Unemployment Compensation
      - Workers’ Compensation
    - Discretionary Benefits
      - Payment for Time Not Worked
      - Health Care
      - Life Insurance
      - Retirement Plans
      - Disability Protection
      - Employee Stock Option Plans
      - Employee Services
      - Premium Pay
  - **Voluntary Benefits**
    - Non-Financial
      - The Job
        - Meaningful
        - Appreciated
        - Satisfying
        - Learning
        - Enjoyable
        - Challenging
Narrator: Compensation theory alone has never been able to provide a completely satisfactory answer as to what an individual's job is worth. Therefore, organizations typically use a number of factors entailing the organization, the labor market, the job, and the employee to determine any given individual's financial compensation.

Managers tend to view financial compensation as both an expense and an asset. It is an expense in the sense that it reflects the cost of labor. However, financial compensation is clearly an asset when it helps recruit good people and encourages them to put forth their best efforts and to remain in their jobs.

Text on screen: Primary Determinants of Direct Financial Compensation
Organization, Employee, Labor Market, Job
**Narrator:** Exempt employees are categorized as executive, administrative, professional, or outside salespersons.

Executives are basically any managers with broad authority over subordinates.

An administrative employee, although not a manager, occupies an important staff position in an organization, such as account executive or market researcher.

A professional employee performs work requiring advanced knowledge in a field, normally acquired through a prolonged course of specialized instruction, such as company physician or corporate attorney. These employees are considered “exempt” from the Fair Labor Standards Act overtime rules, whereas nonexempt employees are eligible for overtime pay.

It is important to ensure that employees are classified appropriately. The most significant law affecting compensation is the Fair Labor Standards Act of 1938. The purpose of the Act was to establish minimum national labor standards, eliminate low wages, and reduce long working hours. This law provides guidance on these classifications and should be consulted when there are any questions.

**Text on screen:** Exempt and Nonexempt Employees

**Exempt employees:** Categorized as executive, administrative, professional, or outside salespersons

**Nonexempt employees:** Those in jobs not conforming to the definition above

**Narrator:** Forms of indirect financial compensation are shown in this slide. According to the U.S. Bureau of Labor Statistics, benefits account for nearly 30 percent of employers’ total compensation costs, but over the past decade, the cost of benefits has outpaced the change in the cost of wages and salaries. Some employers are shifting more responsibilities to employees, as with self-funded 401(k) retirement plans instead of pensions. Keep in mind that these benefits can be just as costly to the organization as an employee’s direct salary.

**Text on screen:** Indirect Financial Compensation (Benefits) in a Total Compensation Program: External Environment and Internal Environment: Compensation

Financial

**Indirect (Benefits)**

*Legally Required Benefits*

Social Security

Unemployment Compensation

Workers’ Compensation

*Discretionary Benefits*

Payment for Time Not Worked

Health Care

Life Insurance
Narrator: How many paid holidays are employers required to provide? The answer may surprise you, but it is none. Employers are not required to provide any paid holidays to the employees. However, they are required to provide certain other benefits. Employers voluntarily provide most benefits, but the law requires others. These legally required benefits currently account for about 10 percent of total compensation costs and include Social Security, unemployment insurance, and Workers’ Compensation.

Text on screen:
Mandated Benefits (Legally Required)
Social Security
Unemployment Compensation
Workers’ Compensation

End Production