



JUMP START

After writing job descriptions and placing ads in the local newspaper, Kim now has candidates lined up for interviews. She went back to Richard for more advice. Richard suggested that she make a list of questions to ask all applicants. Kim realized that the information gathered during the interview, along with the applicants' references and application forms, would help her decide whom to hire. Richard reminded her that the applicants would probably have questions for her as well—such as how much she was going to pay. Kim had not yet decided on pay rates. Richard explained the various ways of compensating employees, including benefits. Kim knew she had some homework to do before her first interview. Why do you think the salary and benefits Kim offers will be so important?

GOALS

Determine how to pay employees
Describe the benefits portion of a compensation package

KEY TERMS

wages, p. 135
salaries, p. 135
bonus, p. 135
profit sharing, p. 136
commission, p. 136



Types of Pay

As an entrepreneur with paid employees, you will need to create a compensation package. The package should include payment and may provide a variety of benefits.

Wages are payments for labor or services that are made on an hourly, daily, or per-unit basis. The paycheck for a person earning a wage will vary depending on how many hours are worked or how many units are manufactured. **Salaries** are fixed payments for labor or services stated on an annual basis. Regardless of the number of hours salaried employees work, the amount of money they are paid does not vary.

Employees may also receive a **bonus**, which is a financial reward made in addition to a regular wage or salary. Bonuses usually depend on reaching an



TEAMWORK

In small groups, make a list of jobs that are commonly paid by a wage, a salary, and a commission. Discuss why you think the different methods are used for each job.

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What type of compensation plan would you prefer? Why?

established goal. **Profit sharing** is another compensation arrangement in which employees are paid a portion of the company's profits. Some employees are paid a **commission**, which is a percentage of a sale paid to a salesperson. A commission-based salary varies from month to month, depending on sales. Those receiving this type of salary may be paid using a commission-only plan or a combination plan, which combines a commission with a salary or hourly wage.

In most markets, wages and salaries are competitively determined. This means that an employer who offers much less than the going wage or salary rate is not likely to find qualified workers.

To offer competitive wages or salaries, you will have to find out how much similar businesses in your area are paying their employees. You should also find out what people are earning in jobs with similar qualifications. Once you know what the going wage or salary is, you will have to decide whether you want to offer more than, less than, or about the same as other businesses. Offering more than other businesses will attract the best employees.



Business Math Connection

Lyn Kovacs sold \$490,000 worth of electronic devices last year. If she receives a 10 percent commission, what is her annual commission? If she is paid on a combination plan with a \$20,000 salary plus a 5 percent commission, what is her annual pay? Does she make more on the commission-only plan or on the combination plan?

SOLUTION

Use the following formula to calculate a commission.

$$\begin{array}{rclcl} \text{Amount sold} \times \text{Percent of commission} & = & \text{Amount of commission} \\ \$490,000 \times 0.10 & = & \$49,000 \end{array}$$

On a commission-only plan, Lyn's annual pay is \$49,000.

For the combination plan, first calculate the amount of commission.

$$\$490,000 \times 0.05 = \$24,500 \quad \text{Amount of commission}$$

Then, add the base wages or salary and the amount of commission to calculate the total pay.

$$\begin{array}{rclcl} \text{Base salary} + \text{Amount of commission} & = & \text{Total pay} \\ \$20,000 + \$24,500 & = & \$44,500 \end{array}$$

On the combination plan, Lyn's annual pay is \$44,500. She would make more on the commission-only plan.

CheckPOINT

What are the different ways employees are paid?

Benefits

Benefits are employment rewards for service in addition to pay. They include paid days off from work, various kinds of insurance, and retirement plans.

Paid Leave

Almost all employers offer paid vacation and sick leave. Both kinds of leave represent costs to employers because employees are paid while they are not working. Be aware that some employees may abuse paid sick leave. Someone in your business should keep a record of the paid leave employees take.

Vacation Businesses handle vacation in various ways. Many offer one or two weeks of paid vacation a year to new employees. Employees usually gain more vacation time the longer they work at a business. Some businesses let employees carry vacation days from year to year while others require employees to use their vacation time in one year.

Sick Leave Sometimes your employees will not be able to make it into work because of illness. The number of days of sick leave provided varies from business to business. Some businesses offer only five sick days a year. Others allow employees unlimited sick leave. You will have to develop a sick leave policy that is fair to your employees but not excessively costly to you.

Insurance

Most large businesses offer insurance as a benefit. Because of high costs, this kind of benefit is less common among small businesses, although many do provide such coverage. When businesses do offer insurance benefits, employees often have to pay a portion of the cost. Usually, all full-time employees are eligible for this benefit. You can decide to offer these benefits to part-time employees as well.

Health Benefits Business owners with many employees may be able to purchase discounted group medical insurance or enroll employees in a health maintenance organization (HMO). You can offer either or both options to your employees as a benefit of working for your business. People with medical insurance or HMO coverage pay a monthly fee whether or not they are sick. In return, the insurance company or HMO agrees to cover most of their medical bills.



SOCIAL SECURITY IN GREECE

In the United States, employers and employees both make contributions to the Social Security Administration to provide coverage for benefits for workers upon retirement and medical insurance through Medicare. In Greece, the largest social security organization is IKA. The cost of IKA is 350 euros (approximately \$500 U.S.) every two months, which is split 50-50 by the employer and employee. IKA covers employees in Greece or abroad for a Greek-based employer. IKA also covers workers who offer full-time or part-time labor on commissioned work agreements and are not insured with any other insurance agency. The main role of social security in Greece is to offer free or low-cost insurance coverage to its members for medical examinations and treatments at IKA laboratories. IKA also provides hospitalization and prescription drug coverage as well as dental care.

Think Critically

Would you consider participation in this system to be an employee benefit? Why or why not?

Other Kinds of Insurance Some businesses also offer other kinds of insurance. *Dental insurance* covers the cost of dental and orthodontic expenses. *Life insurance* is intended to provide financial support for families after the income earner dies. *Accidental insurance* provides financial support to people who are in accidents.

Retirement Plans

Some businesses help employees save for retirement by offering 401(k) plans. Employees that participate in 401(k) plans have a percentage of their earned income withheld by the employer to be deposited into a professionally managed investment account. Some employers will match employee's 401(k) contributions as much as 50 cents per dollar invested. The funds will continue to grow tax-free until they are withdrawn by the retiree upon reaching retirement age. Pension plans are another type of employer-sponsored retirement savings plan, but they are not as common because they are more costly to a company.

CheckPOINT

List three types of non-salary benefits a business might offer.
