

Creative Compensation

By Timothy M. Foster

As if competition for new business isn't tough enough, consider the competition for talented employees. Today's workers have a mindset that is much different from those of previous generations. Simply put, they expect more from their employers, especially when it comes to compensation and work culture. Employers who want to find and keep qualified, motivated, top-performing employees need to re-evaluate the compensation packages they are offering in order to accomplish this goal. As is the case in other market sectors, salary is no longer the only drawing card in the construction industry. Today, it takes more thought, effort and ingenuity in creating total compensation packages that deliver on the proverbial "carrot."

The Basics

The cornerstone of all sound compensation plans is base pay. This is the fixed portion for salaried employees or wages earned by hourly workers. In addition to base pay, one way to create a competitive advantage and attract workers is to include a compensation program that offers regularly scheduled step increases for employees who stay with the company. Another strategy is to offer increased pay or bonuses for defined achievement. Bonuses allow firms to recognize performance without increasing fixed costs. This type of compensation can be tied to company goals and can be used as a tool for motivating employees who demonstrate specific and desirable behavior such as working overtime, making significant contributions to team efforts, and providing referrals to new employees.

Added Value

Benefit packages add value to the total compensation plan.

Some of the most common and desirable benefits include medical and dental insurance, sick/personal leave, paid holidays and paid vacations. In addition, some companies are offering optical/vision insurance, life insurance, 401(k) plans, deferred compensation plans, pensions, profit sharing, expense reimbursement, tuition reimbursement and even free health club memberships.

To many employees, benefit packages are as important as the jobs themselves. While some of these benefits mean out-of-pocket expenses to companies, some do not. In either case, the expense often makes the difference in a company's ability to recruit qualified employees.

Investing in the Future

401(k) plans are one of the most popular options construction companies can offer to their employees. These plans enable employees to build up a tax-deferred retirement account. Some companies offer an amount of matching funds relative to the individual's contributions. There is a maximum amount that can be contributed by the employee. Because a 401(k) is a taxdeferred plan for retirement, there are steep penalties for withdrawing funds early. It's important to provide an overview of the pros and cons of certain benefits to employees so they can make informed decisions if you decide to offer this benefit.

Other options employers can use to attract and retain a talented work force are deferred compensation plans. These are

FAST FACTS

Dollar for Dollar

The U.S. Department of Labor Statistic reports that employer costs for employee compensation averaged \$25.87 per hour worked in March 2005.

Wages and salaries, which averaged \$18.22, accounted for 70.4 percent of these costs, while benefits, which averaged \$7.65, accounted for the remaining 29.6 percent.

plans where employees or owners defer a portion of their income until a future date. Wages earned in one period are paid at a later time. Life insurance can be a type of deferred compensation plan. Deferred amounts are used to pay premiums for the policies. The cash value is then available at retirement or is provided to the beneficiary if the insured dies.

Qualified and Nonqualified Plans

There are two types of deferred compensation plans: qualified and nonqualified plans. A qualified retirement plan offers every employee the opportunity to save for retirement. Examples of qualified plans are 401(k) plans, money purchase pension plan and profit sharing plans. For a company to qualify, the plan must be non-discriminatory and offered to every employee. Employees are not immediately taxed on the contributions made to their retirement account, and employers get to deduct their contributions to such plans. These plans are eligible for favorable tax treatment under the Internal Revenue Code. This type of plan benefits both employees and the employer.

Qualified retirement plans, however, do not always provide the flexibility and options that best suit employees and employers. Another way to create a similar benefit is through a nonqualified deferred compensation plan. A nonqualified plan allows for the deferment of income to a select group of key employees. The plan doesn't have to be made available to every worker, nor is this type of benefit subject to the same reporting and regulatory requirements as qualified plans.

A nonqualified agreement may allow for the deferral of salary, bonuses or supplemental compensation. In some cases, the individual can elect whether to defer compensation or to receive it immediately. This is similar to a salary reduction or cash-deferred arrangement under a qualified plan. On the other hand, the agreement can stipulate that compensation only be paid upon the occurrence of certain future events.

Also, nonqualified deferred compensation plans are generally considered a form of executive compensation. Deferring payment may be attractive because individuals can delay compensation to the future where their tax burden may be lower. In fact, some deferred compensation arrangements may allow the employer a current deduction while deferring income recognition to the employee until the date that the income is received. Another reason an employee may opt for this type of benefit is to defer payment of current income until after the planned retirement. Deferred compensation can supplement an employee's 401(k) cash or other arrangements. Other individuals may

want to put off compensation to provide for future expenses such as college tuition for their children.

Tax Codes and Regulations

In a competitive environment, a cafeteria approach (where employees can pick the types of benefits most attractive to them) is highly desirable. Depending on the compensation plan choices made, there can be tax advantages to both employers and employees. For this reason, knowing the rules and regulations of the tax codes is critical.

Because there is so much material to cover regarding the tax codes, it is important to seek out qualified advisors who are well versed on the rules and regulations. Many firms cannot afford to have a full-time staff member handle these duties, so relying on outside experts to assist with compensation plan design is one way to help companies get creative, develop a competitive edge and recruit talented staff.

Necessary Rewards

In the employee/employer relationship, nothing means more to the employee than compensation. While recognition is appreciated, satisfaction is most often based on the quality/quantity of the workers' services in exchange for the owner's money and other benefits. Simply put, the greater the value of the employee, the more compensation they expect to receive.

In order to grow their firms, builders and contractors need to develop innovative ways to offer superior compensation plans for their people. If they don't, current employees are likely to feel unappreciated and therefore more vulnerable and susceptible to offers from other firms. Employees are likely to choose the workplace that offers the more attractive compensation plans.

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