

Compensation and Benefits

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Angelina was wondering if she should apply for a position at the new restaurant soon to open. It seemed like an opportunity to advance but the new restaurant was not offering benefits, although the pay was better. She liked her current restaurant and got along with everyone, but occasionally, she wanted more of a challenge and opportunity.

Angelina is not alone. There are millions of Americans who are not enjoying healthcare insurance and other benefits. For many smaller employers it is too expensive for them to offer health insurance and other benefits. They offer mostly part-time positions so they can avoid paying the additional costs of nonmandated benefits.

In this chapter we will help you to:

- **Design a compensation program for a hospitality organization.**
- **Distinguish between exempt and nonexempt employees.**
- **Identify key legal issues in compensation and benefits.**
- **Explain how wages are determined.**
- **Discuss profit-sharing plans.**
- **Recognize the importance of benefits to employees and employers.**
- **Describe the benefits required by law.**
- **Discuss the various voluntary benefits employers may offer.**
- **Realize the complexities and costs of benefit programs.**



Compensation Programs

COMPENSATION PHILOSOPHY

Most *compensation philosophies* have the same basic goals: to attract, retain, and motivate the best employees. But where you go from there determines whether the philosophy is a paper abstraction that sits on a shelf or a vital tool that allows you to equitably and consistently implement your compensation programs.¹ A well crafted compensation philosophy “Helps tell the story of who you are as an organization and what you value as an organization,” says Lynn Sport, director of human resources for the Carnegie Endowment for International Peace. Ms. Sport adds that the philosophy can help guide HR compensation managers in assessing where the company fits in the marketplace when it comes to trying to attract talent.²

Compensation philosophies

The approach a company takes toward the compensation of associates.

In challenging economic times it is difficult for human resource directors and managers to balance “our employees are our most valuable asset,” by giving them the best possible compensation package, including benefits, which are constantly costing more; while, at the same time protecting ownership interests.³ Naturally, we want the best for our employees but at the same time owners want a return on their investment. Can these two seemingly competing forces balance and please both? Yes, they can—but it is a challenge. Figure 5-1 shows the steps in formulating a compensation program.

It begins with the philosophy to provide an attractive, flexible, and market-based total compensation program tied to performance and aligned with shareholder interests.⁴ Notice, interestingly, this does not say the best . . . Yet the discussion intensifies when we consider that many hospitality operations do not make huge profits. This is partially due to high labor costs. Yes, we are a labor-intensive industry. Our labor costs vary from around 18 to 30 percent of sales and benefits can be around 6 percent depending on how many people qualify for them. This of course, presents yet another discussion: Who should receive benefits, which includes the all-important healthcare coverage? Now, only those who are employed full time—over 30 hours per week—are covered.

Marriott International says, “At Marriott, success begins with our associates. We make sure our associates have the tools and training they need to improve their skills every day.⁵ At Marriott we reward our employees with the kinds of benefits and opportunities you’d expect from an industry leader. Marriott provides success you can experience.”⁶ Under the heading “Total Compensation: A Rewarding Experience,” they recognize their associates for their hard work, provide for their health and the well-being of their family members, open avenues of growth and career development, ease the balance between work and the personal life—all of which are a part of their associate-centered environment.⁷

COMPENSATION LEADERSHIP

When most of us use the term compensation we think of wages for hourly employees—usually paid weekly, or salaries—usually paid monthly or bi-monthly. However, as we shall see, wages and salaries are only a part of the total compensation package.

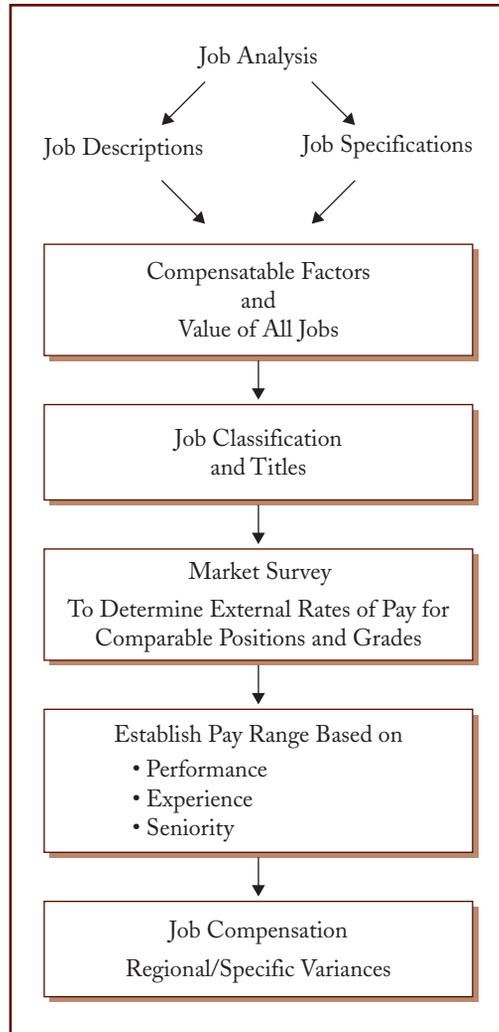


FIGURE 5-1: The Steps in Formulating a Compensation Plan.

It's all forms of financial returns, tangible services, and benefits employees receive as part of an employment relationship. The phrase "financial returns" refers to pay, and "services and benefits" refers to such things as insurance, paid vacation and sick days, pension plans, and employee discounts.⁸ Compensation is divided into *direct* compensation and *indirect* compensation. Direct compensation has two components: The first and generally largest element is *base compensation*, the fixed pay an employee receives on a regular basis—either wage or salary. The second component of total compensation is *pay incentives*, programs designed to reward employees for good performance—bonuses and profit sharing.⁹

Base compensation

The base amount for a particular job that may be incrementally increased.

Pay incentives

Programs designed to reward employees for good performance.

There are some issues that need to be addressed when designing or administering a compensation plan:¹⁰

- Who should be responsible for making salary decisions?
- Should pay be dictated by what other employers are paying?
- What types of activities should be rewarded with higher salaries?
- What criteria should be used to determine salaries?
- Which employee groups should receive special treatment when scarce pay resources are allocated?
- What rate of pay should tipped employees receive?
- How do we set up grades or levels of pay for various jobs?
- How do we handle longevity?
- What benefits will we offer? And at what cost?

The compensation system is very important because it is one key way to attract and retain employees.



HR professionals and department heads meet to formulate compensation goals and strategies.

Compensation Goals and Strategies

Human resource professionals and managers need to decide on the goals for any compensation program.

- Legal, ethical, and moral: The program must conform to all prevailing legislation and it should be ethical and moral, meaning appropriate in all situations.
- To pay in the top 10 percent of a competitive set.



- To offer the best possible total compensation program in the 90 to 100 percent range of comparable companies.
- Pay equity.
- To recruit and retain the best employees.
- To reduce unnecessary turnover and the associated costs.
- Controlling labor costs.
- Rewarding longevity.
- Rewarding superior performance.
- To establish a pay system that employees consider fair and equitable.

A compensation strategy is the “what needs to be done—to get where we want to go” or how we meet the goals. For example, if we want to offer a wage and salary package that is in the top 10 percent of our competitive set of businesses we would need to do a salary survey identifying the range of wages and salary for each position. Today, many human resources directors can obtain all the information they need from a competitive set of properties or stores from organizations like Wage Watch online. A weighted average of only similar properties in a geographic area is readily available—for a fee! Figure 5-2 shows a salary survey for rooms division employees.

Competitor		Competitor			
Embassy Suites Hotel Tampa Downtown		Grand Hyatt Tampa Bay			
Hilton Tampa Airport Westshore		Hyatt Regency Tampa			
Intercontinental Tampa		Renaissance Tampa International			
Saddlebrook Resort		Sheraton Suites Tampa Airport			
Tampa Airport Marriott		Tampa Marriott Waterside			
Bell Person					
Question	Reporting	25%ile	Median	75%ile	
Current Average Rate	10	\$4.48	\$4.66	\$6.61	
Starting Rate	10	\$4.00	\$5.00	\$5.25	
Probationary Adjustment	5	\$0.00	\$0.00	\$0.16	
Maximum Rate for Position	5	\$6.00	\$6.67	\$7.50	
Lowest Paid Incumbent	10	\$4.00	\$4.00	\$5.40	
Highest Paid Incumbent	10	\$5.24	\$5.85	\$6.67	
Number of Employees	10	5	6	8	
Incentives, Other Comp Eligible?	9	(N/A)	(N/A)	(N/A)	
Incentives, Other Comp	0	-	-	-	

FIGURE 5-2: A salary survey (selected) for rooms division employees.

Unionized?	10	(N/A)	(N/A)	(N/A)
Pay Structure	9	(N/A)	(N/A)	(N/A)
Concierge				
Question	Reporting	25%ile	Median	75%ile
Current Average Rate	6	\$8.84	\$9.81	\$10.02
Starting Rate	6	\$8.50	\$8.63	\$9.00
Probationary Adjustment	6	\$0.25	\$0.33	\$0.36
Maximum Rate for Position	4	-	-	-
Lowest Paid Incumbent	6	\$8.75	\$8.98	\$9.36
Highest Paid Incumbent	6	\$8.84	\$10.28	\$10.80
Number of Employees	6	1	2	3
Incentives, Other Comp Eligible?	6	(N/A)	(N/A)	(N/A)
Incentives, Other Comp	0	-	-	-
Unionized?	6	(N/A)	(N/A)	(N/A)
Pay Structure	6	(N/A)	(N/A)	(N/A)
Front Desk/Shift Supervisor				
Question	Reporting	25%ile	Median	75%ile
Current Average Rate	7	\$10.66	\$11.24	\$12.00
Starting Rate	7	\$10.00	\$10.50	\$11.00
Probationary Adjustment	6	\$0.40	\$0.43	\$0.50
Maximum Rate for Position	5	\$12.15	\$14.25	\$15.40
Lowest Paid Incumbent	7	\$10.50	\$10.66	\$11.44
Highest Paid Incumbent	7	\$10.94	\$11.44	\$12.00
Number of Employees	7	1	2	2
Incentives, Other Comp Eligible?	7	(N/A)	(N/A)	(N/A)
Incentives, Other Comp	0	-	-	-
Unionized?	7	(N/A)	(N/A)	(N/A)
Pay Structure	6	(N/A)	(N/A)	(N/A)
Front Desk Agent				
Question	Reporting	25%ile	Median	75%ile
Current Average Rate	10	\$8.86	\$9.25	\$9.86
Starting Rate	10	\$8.75	\$9.00	\$9.00
Probationary Adjustment	8	\$0.32	\$0.35	\$0.40
Maximum Rate for Position	6	\$12.60	\$13.50	\$14.00
Lowest Paid Incumbent	10	\$8.50	\$9.00	\$9.36
Highest Paid Incumbent	10	\$9.28	\$9.75	\$10.43

FIGURE 5-2: (continued)



Number of Employees	10	5	6	8
Incentives, Other Comp Eligible?	9	(N/A)	(N/A)	(N/A)
Incentives, Other Comp	0	-	-	-
Unionized?	10	(N/A)	(N/A)	(N/A)
Pay Structure	9	(N/A)	(N/A)	(N/A)
Housekeeper/Room Attendant				
Question	Reporting	25%ile	Median	75%ile
Current Average Rate	10	\$7.54	\$8.13	\$8.75
Starting Rate	10	\$7.00	\$7.41	\$7.75
Probationary Adjustment	8	\$0.25	\$0.25	\$0.31
Maximum Rate for Position	6	\$10.15	\$11.03	\$11.63
Lowest Paid Incumbent	10	\$7.25	\$7.41	\$7.75
Highest Paid Incumbent	10	\$8.91	\$10.45	\$10.81
Number of Employees	10	16	20	26
Incentives, Other Comp Eligible?	9	(N/A)	(N/A)	(N/A)
Incentives, Other Comp	0	-	-	-
Unionized?	10	(N/A)	(N/A)	(N/A)
Pay Structure	9	(N/A)	(N/A)	(N/A)

Courtesy of Hyatt Hotels

FIGURE 5-2: (continued)



Labor Market Conditions

Labor market conditions refer to the market conditions in the area of the business. For example, in some cities in America it is very difficult to find employees for some positions like housekeeping. In this case, companies may have permission to increase the wages for this and other positions. In a tight labor market, which generally occurs in good economic times, with low unemployment, good employees are hard to find and in order to avoid the “warm body” syndrome employers have to become more creative in not only recruiting, but also in compensating employees. Some hotels will literally bus people in from several miles or arrange accommodation for employees. Increasingly, employers in desperation are resorting to going overseas to countries like Brazil and the Philippines to recruit employees on H2B temporary worker visas. Instead of employing these workers directly, they use an agency that has a supervisor on property. By contrast, when the labor market is loose, and unemployment higher, employees are easier to find.

The market rates prevail, meaning that in some parts of the country certain types of positions are more difficult to fill, therefore the rate of pay for that position will likely increase. Remember the hospitality industry is in competition for employees with many

Internal labor market

Giving internal candidates opportunities, for a brief period, to apply for a position ahead of external advertising.

retail businesses. But also remember that employees of other industries such as healthcare and technology are in more demand and consequently receive higher wages and salaries.

Check Your Knowledge

1. What do we mean by compensation philosophy?
2. Compensation leadership?
3. Goals and strategy?

There is also an *internal labor market* where companies give priority to present employees in promotions and transfers. Some companies list the position internally for a period of, say, two weeks, and then they advertise externally. There is a definite advantage for internal recruitment as it provides opportunities for employee development and advancement.



Legislation and Legal Issues of Compensation

There are a number of legislative and legal issues affecting compensation, which include:

Fair Labor Standards Act (FLSA)

The law that covers wages and salaries that applies to employers with two or more employees.

The Fair Labor Standards Act

The Fair Labor Standards Act (FLSA) of 1938 is the law that covers wages and salaries and it applies to employers with two or more employees. To comply with the FLSA, employers must keep accurate records of earnings, including tips, and hours worked by all covered employees and must report this information to the Wage and Hour Division of the U.S. Department of Labor. Most businesses are covered by the FLSA, except those with only one employee or annual gross sales of under \$500,000.¹¹ The FLSA covers recordkeeping, minimum wage, maximum hours, overtime pay, equal pay, child labor, employee meals and meal credits, tips, tip credits, tip pooling procedures, uniform and uniform maintenance, and exempt versus nonexempt employees.¹²

Exempt and nonexempt employees

Under FLSA, there are two categories of employees: *exempt* and *nonexempt*. Exempt employees are not eligible to receive overtime. Hourly employees are considered nonexempt employees because they are not exempt from federal and state wage and hour laws. In other words, they are covered by these laws and are therefore guaranteed a minimum wage and overtime pay—at time and a half their normal rate—after working 40 hours in a workweek. Managers and supervisors are considered exempt employees; they are not covered by the wage and hour laws and therefore do not earn overtime pay when certain conditions are met: when they spend 50 percent or more of their time managing, when they supervise two or more employees, and under federal law they are paid \$1,000 or more per month (or more if the state imposes a higher standard).

Minimum wage

Minimum wage legislated by FLSA from July 24, 2008 until July 24, 2009 is \$6.55 per hour and after July 24, 2009 it will be \$7.25 per hour. However, some state, county, and city laws established higher minimum wages. Tipped employees may be paid less than minimum wage if their tips are sufficient to ensure minimum wage is met.

Overtime

The FLSA requires nonexempt employees be paid one and a half times the normal hourly rate if they work more than 40 hours in a workweek.

Equal Pay Act

The Equal Pay Act of 1963 prohibits companies from paying different wages or salaries to men and women for jobs that require the same skills, efforts or responsibilities, and working conditions.

Reporting tip income

Traditionally in the hospitality industry positions like servers, guest services, and bartenders receive tips from guests for their service. In fact, servers are usually paid below minimum wage (unless state law says otherwise, as in California), because tips bring their wages above minimum wage. Under the Fair Labor Standards Act (FLSA) of 1938 and the Internal Revenue Code, employers and employees are required to report tip income. It is the responsibility of the employee to report their tips to their employer on a monthly basis. Naturally, the IRS has a form for this and yes, employees need to report tip income along with any other income on their tax returns. Employers need to report all tip income that each employee earns each year. Plus, they need to withhold and pay taxes on tip income.



Developing a Compensation Plan

Developing a compensation plan begins with a job analysis (discussed in Chapter 3).

Job Analysis Descriptions and Specifications: The job analysis gathers information on job specific tasks, duties, and responsibilities. This information is obtained through personal observation, interview, questionnaires, and managers. This information leads into job descriptions and job specifications—also discussed in Chapter 3. From the job description and specification we can determine the compensable factors and value for all jobs.

Job Classification and Titles: The next step is job classification and titles. Here all jobs are classified into groupings of a similar nature and value to the company.

The classification of jobs makes it easier to create job titles, because we now have a detailed knowledge of the job. To illustrate, someone may be a cook, but there can be several classifications of cook.

Job Skills Approach: Obviously, some jobs require greater skill levels and interpersonal skills, communication abilities, whereas other positions may need greater conceptual capabilities. Some of the hospitality companies use a *job skills approach* to determine compensation.

A skill-based program includes:¹³

1. Identify tasks that need to be performed.
2. Determine what skills are needed to perform the tasks.
3. Develop tests or measures to determine whether an individual has learned the skills.
4. Price each skill based on its value to the organization.
5. Communicate to employees the skills they can learn and how much they will be paid for learning them.

The skills needed for the job and the values to the company are considered. For example, a dishwasher may receive \$8.00 per hour but the value to the organization is so important and good dishwashers are so hard to find that they receive an additional \$1.00 per hour.

Job skills approach

A method of assessing the various skills required to do a particular job.

Points Factor Method: A *points factor method* is used by many hospitality companies once the job descriptions are completed. Key jobs are examined by taking important factors into consideration. Normally a team of about five, including HR and department managers, develops a list of *skills, knowledge, effort, responsibility, job conditions, problem solving, and accountability* for the key jobs like cook, server, busser, front desk associate, housekeeper, and so on.

Points factor method

Key jobs are examined by taking important factors into consideration.

Wage and salary survey

A survey to assess what comparable companies are paying employees.

If we look at a server's job we can identify skills like the ability to carry a tray with four plates—or however many the restaurant has as its requirement. Other skills would include verbal and perhaps written communication skills to allow a person to take a guest's order. We say perhaps written because a person who cannot write might be able to make a mark or use a personal digital assistant system to take a guest's order. Knowledge would include knowledge of the menu, not only what's on the menu but how each item is cooked and what the ingredients are. Effort would include the ability to lift a certain amount and the ability to walk so far—depending on each restaurant's individual circumstances. Responsibility would include handling guest checks, cash and credit cards, and tip reporting. Job conditions would include standing for extended periods of time—from three to six or even eight hours per shift. Another job condition is that serving can be stressful when the restaurant is busy. Problem solving might include handling difficult guests or situations like responding to requests. Accountability includes being accountable for money and banking—accurately submitting end-of-shift reports, cash and credit cards sales, tip reporting and following the operating procedures of the restaurant.

Wage and Salary Survey: An external market *wage and salary survey* is done to find out what comparable companies are compensating their employees. Normally, this takes the form of a salary survey. The outcome of the wage and salary survey provides HR professionals and managers information on wage and salary ranges for each job position and allows comparison to aid decision making.

Determining Numbers of Employees Required

Human resource professionals and department managers work together to determine the type and number of positions required to meet service goals. If we consider a hotel with 200 rooms, then we can determine the number of housekeepers required to service rooms to the standards set by the hotel—it is usually 15 to 18 rooms on average. Allowing for stay-overs versus departures a hotel determines that it needs

$200 \div 15 = 13.333$ housekeepers. To allow for days off that becomes 16 housekeepers.

Do You Know?

How would you determine the wage levels for cooks in a restaurant kitchen?

Establish Pay Grades

Given that one of the goals of a compensation package is to be equitable and to attract and retain the best employees, a pay grade is established based on performance, experience, and seniority. In the hospitality industry we can see that jobs vary in their importance and value to the company, so we compensate those of greater value with higher pay and possibly benefits based on a grade system. The grade system determines the number of points for each pay grade.

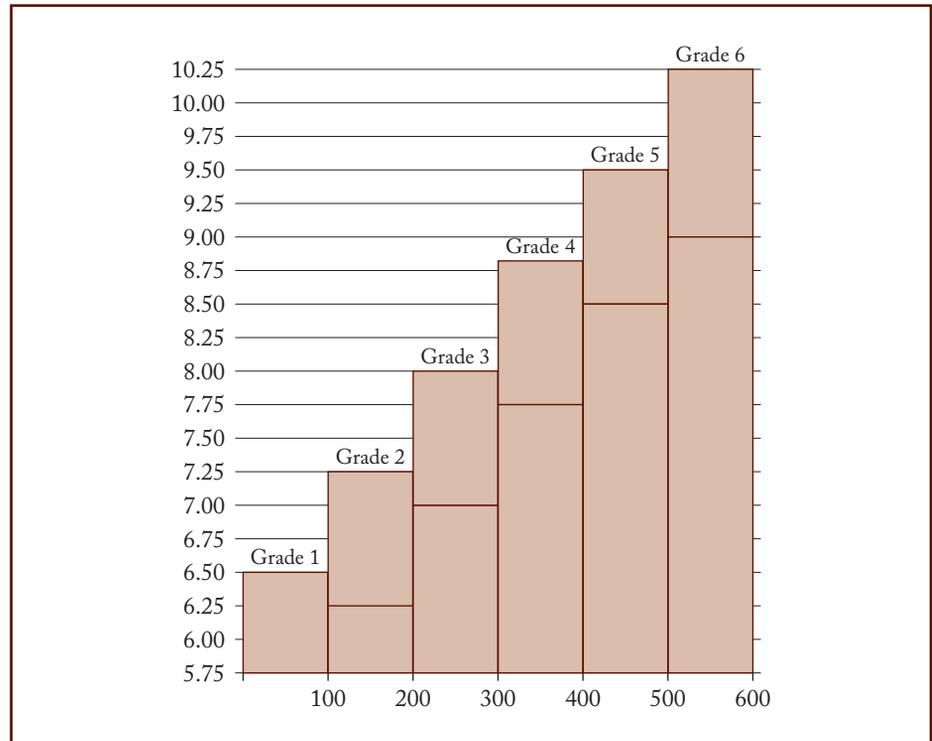


FIGURE 5-3: Pay Grades.

Adapted from David A. DeCenzo and Stephen P. Robbins, *Fundamentals of Human Resource Management*, Ninth Edition. John Wiley & Sons, Inc., Hoboken, NJ. 2007, p. 295.



Pay for Performance

Pay for performance includes raises based on performance and bonuses based on specific results. An assistant manager who has consistently performed well may be given a pay raise similarly; a housekeeper may receive a pay raise after successfully completing 90 days with the company, followed by an annual raise.

Bonuses are frequently given in the hospitality industry, an example being a chef who receives a bonus based on the food cost percentage. Or a manager gets a bonus for financial results. More recently companies have bundled several factors together because a restaurant general manager may make “good numbers” (restaurant lingo for good financial performance) at the expense of guest and employee satisfaction. The restaurant would be adversely affected in the future. By including several factors in the criteria for a bonus, the overall well-being of the restaurant's future is protected.

INCENTIVES

Incentives are frequently given to hotel sales professionals based on the room nights or revenue they bring to the property. Incentives may be given to both individuals and groups. A hotel manager offers an incentive to the front desk team to improve



Establishing good pay rates with grades and performance incentives helps retain employees.

guest satisfaction scores from 86 to 95 percent in one month. Smart companies set the incentive with input from employees, because they will work harder to reach the goal if they have been a part of setting it and in determining the incentive for reaching or exceeding it.

PROFIT-SHARING PLANS

A profit-sharing plan or stock bonus plan is a defined contribution plan under which the plan may provide, or the employer may determine, annually, how much will be contributed to the plan (out of profits or otherwise). The plan contains a formula for allocating to each participant a portion of each annual contribution. A profit-sharing plan or stock bonus plan may include a 401(k) plan, which is discussed later in this chapter.¹⁴

Some hospitality companies give their employees a share of the profits in the organization. This makes the employee almost feel like part owner and encourages loyalty. Some independent restaurants offer profit-sharing plans to the chef and senior management.

COST OF LIVING ADJUSTMENTS

We all know that it costs more to live and work in a city compared to a small town in any state. So, it's natural to expect a cost of living adjustment to at least make up part of the difference in living costs. The *consumer price index*, which is published by the Bureau of Labor Statistics, part of the Department of Labor, is used as an indicator of real purchasing power.

Consumer price index

Measures the cost of living by averaging several elements over time.

Check Your Knowledge

1. What are the main provisions of the Fair Labor Standards Act?
2. How does the points factor method of developing a pay system work?

The consumer price index measures the cost of living by averaging several elements at a certain time, then measures the same elements after a given time period. A rise in the consumer price index is also known as inflation and is expressed as a percentage—so, if there is a 4 percent increase in the consumer price index we know that the rate of inflation is also 4 percent.

Hospitality companies have to be realistic and pay additional substantial cost of living adjustments for those employees who live and work in major cities.

TIPPING

A tip is a gratuity given to a service employee as a thank-you for the service received.

Hospitality employees are advised by the National Restaurant Association to report their tips every day as this reduces the chance of being audited by the IRS.



Employee Benefit Programs

Employee benefit programs are divided into two groups: those required by law and those the company decides to offer. Benefits are viewed as a way of attracting and retaining employees. A good benefits package can make an employment decision in favor of one company over another. If a company offers nonmandated benefits, they are available for all full-time employees and are independent of performance. Figure 5-4 shows a listing of employee benefits that may be offered by employers.

Do You Know?

Look at compensation from an employee's and an employer's perspective. How would you balance both these sometimes opposing views and come up with a fair and realistic wage scale for each hourly paid employee in a restaurant?

Health Insurance	Paid Time Off
Medical care	Holidays
Dental	Vacations
Vision	Personal leave
Retirement Plans	Bereavement leave
Defined benefits	Jury duty leave
Defined contributions	Military leave
Health Promotion Programs	Sick leave
Wellness programs	Miscellaneous
Employee assistance	Job-related travel assistance
Fitness center	Educational assistance
Family Benefits	Life insurance
Child care	Short-term disability insurance
Long-term care	Long-term disability insurance
Adoption assistance	

Source: U.S. Department of Labor

FIGURE 5-4: A Listing of Employee Benefits.

PROFILE Mario Marini, Executive Chef The Founders Club, Sarasota

Compensation and Benefits: a Chef's Navigation Manual



The complexity of today's contracts makes job choices harder than in the past. Your hiring agreement is not going to be easily changed, so many factors should influence your decision of joining an organi-

zation, and many variables should be added to the monetary rate. This is how I make up my mind when I have the opportunity to open a new career chapter.

As a family man, the most important benefit to me is a valid health insurance plan, but this is just as important for a single individual, since it has become necessary to keep uninterrupted coverage in order to avoid what the system calls "pre-existing conditions." I calculate an average figure of what my annual medical expenses were in the past three years and I calculate what it would become with the proposed options; after that I subtract the figure from the offered salary, so that I can compare all opportunities.

Other obvious, but fundamental, benefits a job offers are the working hours and how they fit your personal life,

the commute and transportation expenses, the amount of tasks and responsibility, the title that comes with the job. All these aspects of a job can be evaluated mathematically, using a point scale or a cold dollar value, but you should not make a commitment without considering some intangible variables that will affect your career and are, by all means, part of your retribution.

I am completely convinced that there cannot be success in the hospitality world without a deep passion for the job. The industry is driven by ambitious and knowledgeable individuals, innovators, and risk takers. Many of us have a strong desire to succeed in the profession, make a name for ourselves, and reach a position that will allow the full expression of personal creativity as well as professional rewards. This is a long-term goal, and everybody should have a good deal of humility and choose a learning career path over a fast money-making job. Many hospitality operations will hire you at a good rate, open up with grand fanfare, only to go out of business after a short period of time, leaving you without a job, no added experience, and a hole on your résumé. To avoid finding yourself in

 **EMPLOYEE BENEFITS REQUIRED BY LAW**

There are three benefits required by law: *workers' compensation*, *Social Security*, and *unemployment insurance*.

Workers' compensation

Insurance paid by the employer that gives medical care, income continuation, and rehabilitation expenses for people who sustain job-related injuries or sickness.

Workers' Compensation

Workers' compensation is insurance paid by the employer that gives medical care, income continuation, and rehabilitation expenses for people who sustain job-related injuries or sickness. "Workers' comp" also provides income to the survivors of an employee whose death is job-related.¹⁵ Workers' compensation provides support for any employee injured on the job regardless of who was at fault.

Social Security

The Social Security Act of 1935, as amended to include disabled employees and for survivors of deceased employees, gives financial support to those retirees who have paid into the system when they retire. Eligibility for Social Security benefits requires a



(continued)

this frustrating situation always evaluate the company before you take a job:

1. **Solidity and Longevity:** How long has this company been in business? How is business going? What is your personal impression of the owners, are they experienced professionals or just investors who think that their common sense is more valuable than your experience? How are the current employees feeling about their jobs? Is there a plan for the future?
2. **Reputation and Visibility:** This is a résumé builder, work for a company that is well known in the community and famous for offering great products and services, and the next time you go for an application you will have a little advantage, since your interviewer can only determine how valuable you are by your past experience. It is also a point of personal pride to show a business card from a reputable company, and if you are ashamed of your affiliation there is no money that can compensate that.
3. **Learning Opportunity:** Often the reputation of a company is just a facade, and once you start working you will realize that the standards are not quite as high as you expected, so it is

imperative that you investigate accurately the business practices. You don't want to walk into your new office to discover that the work systems have not been updated in years, or start your first day in the kitchen by opening a can of soup. Check the rooms, ask questions, read the menus, and, if you can, sample the food as a customer; this will give you a better idea if you will be able to learn anything and improve your craft, or if you will leave the job the same way you came, or worse, with some bad habits and a taste for shortcuts. Sometimes you will feel challenged by your job, you will constantly give all you have, you will be worried about keeping up with the demands, and you will feel mentally and physically exhausted; when this happens be happy and proud of yourself, it means that you are growing stronger and you are adding a few new tricks to your repertoire. Soon you will look back at yourself and see how far you have gone. Keep that job until it has nothing else to throw at you and move on.

My recommendation to anyone who wants to start in this business is: work hard, maintain your integrity, and one day you will be rewarded (and paid!).

Social Security

Gives financial support to retirees and their survivors if they have paid into the system for 10 years or more.

Unemployment insurance

Gives financial support to employees who are laid off for reasons they cannot control.

person to have worked 40 quarter-year periods (which equals 10 years of total employment) and have earned a minimum of \$650 per quarter.

The money to pay for Social Security comes from employers, employees, and self-employed persons. Currently 7.65 percent tax on an employee's pay (up to \$97,500 for all you well-tipped servers) is paid by the employer to fund Social Security's Old-Age, Survivors, and Disability Insurance (OASDI), of that 1.45 percent is paid to fund Medicare to provide healthcare for the aged.¹⁶ Generally, we can expect to receive about 25 percent of our earnings in an average year of the final few years pay. Thus a person retiring in 2009 might receive about \$900 to \$2,200 a month, depending on their preretirement earnings. The minimum age for retirement is based on expected longevity and keeps on creeping up. There is also a choice of ages to take retirement at: 65, 67, or 70 with increasing amounts received for later retirement.

Unemployment Insurance

Unemployment insurance is financial support given to employees who are laid off for reasons they cannot control. Companies that have terminated fewer employees pay less

to the unemployment insurance fund; thus, organizations have an incentive to keep terminations to a minimum.¹⁷

Unpaid Leave

Employees are allowed to take time off under the Family Medical Leave Act of 1993 (FMLA). Under this act employers with 50 or more employees and employers with multiple facilities within a 75-mile radius are required to allow up to 12 weeks unpaid leave for eligible employees for:¹⁸

Unpaid leave

Under the Family Medical Leave Act of 1993 (FMLA) employees may take unpaid leave for up to 12 weeks under certain conditions.

- The birth and care of a newborn child of the employee
- Placement with the employee of a son or daughter for adoption or foster care
- To care for an immediate family member (spouse, child, or parent) with a serious health condition
- To take medical leave when the employee is unable to work because of a serious health problem that interferes with effective job performance

The important thing for human resources professionals and managers to remember is that if an employee takes leave and returns, their position or a similar one (same pay and responsibilities) must be available. Several expensive law suits and court decisions have favored employees who found only a lesser position was given on their return.



Benefits are an important part of the total compensation package.

Voluntary Benefits

Today, hospitality owners and managers are keen to offer competitive voluntary benefits but are afraid that the costs are ever increasing at an alarming rate.



HEALTH INSURANCE PLANS

Health insurance plans

A voluntary benefit, meaning that employers are not obliged to offer all employees a health insurance plan.

Fee-for-service plans

Traditional plans offered by insurance companies that act as an intermediary between the patient and the healthcare provider—an example is Blue Cross which has a plan that pays for 80 percent of most medical expenses.

Health maintenance organizations (HMOs)

HMOs offer full service medical services to employees and their families. HMOs are the most cost-effective and more popular.

Preferred Provider Organizations (PPOs)

With PPOs, medical groups of doctors and hospitals are contracted at a lower fee due to the larger number of patients.

Cafeteria plans

An employee can “select” the parts of a plan that they want.

Health insurance plans may not be as widely used in some segments of the hospitality industry due to the widespread practice of employing part-timers who are generally not eligible to receive voluntary benefits. However, many chain hospitality companies including hotels, resorts and lodging, restaurants and foodservice, managed services, theme parks, transportation, and convention and meetings industries (both large and small) offer voluntary benefits to a large number or all employees, depending on the individual circumstances. Today, health insurance plans are being offered to spouses and in a few but a growing number of cases, domestic partners, meaning: unmarried heterosexual or homosexual partners.

There are several kinds of healthcare plans from basic to inclusive. However, there are four main types of healthcare plans.

Fee-for-Service Plans

Also known as traditional plans, these are offered by insurance companies that act as an intermediary between the patient and the healthcare provider. Blue Cross Blue Shield and others offer this kind of plan that pays for about 80 percent of medical expenses. The other 20 percent is a deductible that the employee must pay. These plans cover surgical costs, doctors’ care, hospital stays but not regular check-ups or most preventative medicine.

Health Maintenance Organizations (HMOs)

HMOs provide full-service medical services to employees and their families for an annual fee. The employer makes a payroll deduction for the amount and employees pay a co-payment of \$15 for a primary care visit or \$25 for a specialist. HMOs are very popular because they are the most cost-effective health plan and they offer preventative care plus they do not require several forms to be completed for a visit to a doctor. The only possible downside is that you must go to doctors in the plan—and people prefer to select their own doctors. Blue Cross Blue Shield and United Healthcare are among the main providers of HMOs. Dental and optical plans are also available with HMOs.

Preferred Provider Organizations (PPOs)

In PPO healthcare plans insurance companies or employers have contracted with a medical group of doctors and hospitals. Employees are given a list of participating doctors and select a primary care doctor, from whom they must get a referral to see a specialist. By grouping numbers of employees there is a cost reduction for the employer—a lower fee is charged by the doctor than they would otherwise charge because they have a larger number of patients. Providers avoid unnecessary charges and hospitalization as much as possible. Participants can, if they wish, go outside the network of doctors and hospitals; however, they pay additional amounts and higher deductibles and co-payments. Dental and optical plans are also available with PPOs.

Cafeteria Plans

Some companies offer a cafeteria plan where employees can “select” the parts they want. The company contracts with a vendor that has several different options for employees to choose from.

RETIREMENT BENEFITS

Most of us look forward to retirement but not everyone plans well for it. When we retire Social Security will only provide about 25 percent of preretirement earnings. We will have to rely on personal savings and retirement benefits to maintain a reasonable standard of living in our retirement. These monies will supplement Social Security. Companies are offering free seminars and workshops where retirement specialists provide information on various plans. The benefits in these plans are protected, with certain limitations, by federal insurance provided through the Pension Benefit Guaranty Corporation.

Types of Pension Plans

A *pension plan* accrues pretax income that employees set aside and, in some cases, employers make a matching contribution. The Employee Retirement Income Security Act (ERISA) covers two types of pension plans: *defined benefit plans* and *defined contribution plans*. Both plans have eligibility requirements such as having worked for the company for a specific time period—a year or longer—and being a full-time employee to become *vested* in the plan. Once vested in the plan no one can take your money away from you not even if after several years you leave for another company. Normally you would become vested in the new company's plan—so you would actually have two plans.

DEFINED BENEFIT PLANS

A defined benefit plan, also called a pension, is a retirement plan that promises to pay a fixed dollar amount of retirement income based on a formula that takes into account the average of the employee's last three to five years' earnings before retirement.¹⁹ The amount in the plan increases with the number of years of service. So, someone with 30 years' service based on an annual salary of \$60,000 would likely receive \$25,000 a year pension. With defined benefit plans the employer takes all the risk in providing the pension when it is needed by the employee. Needless to say, not too many hospitality companies opt for this kind of plan.

Pension plan

Plans that accrue pretax income that employees set aside, and in some cases, employers make a matching contribution.

Defined benefit plans and defined contribution plans

Both plans have eligibility requirements—working for the company for a specified period and being full-time employees.

DEFINED CONTRIBUTION PLANS

A defined contribution plan does not promise a specific amount of benefits at retirement. In these plans, the employer or the employee (or both) contribute to the employee's individual account under the plan, sometimes at a set rate, such as 5 percent of annual earnings. These contributions are generally invested on the employee's behalf as the employee wishes. The employee ultimately receives the balance of the account, which is based on contributions plus or minus investment gains or losses. The value of the account will fluctuate due to the changes in the value of the investments.

An example of a defined contribution plan for a hospitality manager of a chain hotel where the employee sets aside 5 percent of their income and the employer does the same for a total pension contribution of 10 percent of earnings. For the employee they can avoid paying taxes on that money until they withdraw it—normally when they retire and have reduced income—so it's not such a financial burden. For the employer,



the advantage is they are more likely to retain employees for a longer time period—thus reducing their labor turnover. In either case, money is invested with the goal of supplementing Social Security in old age.

Examples of defined contribution plans include: 401(k) plans, 403(b) plans, employee stock ownership plans, and profit-sharing plans.²⁰

A *401(k) plan* is a defined contribution that is a cash or deferred arrangement. Employees can elect to defer a portion of their salary which is instead contributed on their behalf, before taxes, to the 401(k) plan. Sometimes the employer may match these contributions. There are special rules governing the operation of a 401(k) plan. For example, there is a dollar limit on the amount an employee may elect to defer each year. An employer must advise employees of any limits that may apply. Employees who participate in 401(k) plans assume responsibility for their retirement income by contributing part of their salary and, in many instances, by directing their own investments.²¹

401(k) plan

A defined contribution that employees can elect to defer from their salary before taxes—some employers match these contributions. There are limits on the dollar amount that can be deferred each year.

EMPLOYEE STOCK OWNERSHIP PLANS

Employee stock ownership plans (ESOPs) are based on the corporation's performance. In the case of a public corporation like Darden restaurants, the overall performance is reflected in the value of their stocks. A discounted stock purchase plan is available to management of Darden restaurants after one year of employment, so is a stock option grant program. Employees at all levels within a company often use ESOPs as a low-cost retirement benefit because stock contributions made by the company are nontaxable until the employee redeems the stock.²² Employees whose retirement plans are based partly or solely on ESOPs are exposed to risk. The price of the company's stock may fluctuate as a result of general stock market activity or mismanagement of the company.²³ Fortunately, the stock market has been a good investment and many hospitality managers have done very well with their employee stock options—some have even become millionaires. For the company, the payoff is increased commitment and loyalty.

Employee stock ownership plans (ESOPs)

These plans are based on the performance of the company plus employees may purchase company stock at a discount.

LIFE INSURANCE

Life insurance plans are of interest to employees in the hospitality industry because we work hard and may want to ensure that our dependents are not destitute if we pass away. Just think if a family has a mortgage, kids in school, car payments, and so on, what would happen if the principal earner was no longer able to financially support the family? This is where life insurance comes into play. In the event of an untimely death the life insurance company pays the beneficiaries named on the policy. Some life insurance companies require a medical examination and blood testing and have no pre-existing clauses in their policies. Life insurance coverage is normally for about one or two year's salary and the amount to be paid for this coverage is less the younger you are.

LONG-TERM DISABILITY INSURANCE

Long-term care insurance (LTC) is acquiring a higher profile as baby boomers move into retirement and seek this specialized coverage for people who need care in nursing or assisted living facilities. In some cases long term insurance covers parents. The price

of coverage varies with the age and medical condition of an applicant. The older the person is at the time of coverage, the more they are likely to pay for coverage. Younger people seldom think of LTC because it's so far into the future.

PAID TIME OFF

Vacation pay, sick leave, holidays, and severance pay are all employer paid time off. Paid time off is expensive for employers yet we in the U.S. receive far fewer time off benefits compared to Europeans and others who get up to 30 days off the first year and six weeks or more paid vacation after five years. Companies offer sick leave for employees who have a short-term illness that prevents them from doing their job. A set number of sick days are allowed a year and if not used accumulate. Over time they add up and may be received as a cash benefit upon leaving or retiring from the company. Jury duty is also paid time off at many companies.

SHORT-TERM DISABILITY INSURANCE

Check Your Knowledge

1. List the benefits that some employers offer.
2. What is the difference between a defined benefit plan and a defined contribution plan?

Short-term disability insurance is offered by some companies for employees who suffer a serious injury away from their employment. This kind of insurance helps employee's pay for on-going expenses like mortgages, car payments, tuition fees for kids in college, and so on. Since we never know what may happen in the future it is a good thing for employers

to offer employees because the cost is low and the coverage is good for this kind of emergency.

Employee Services

There are a number and variety of employee services offered in the hospitality industry.

Uniforms

Many hospitality companies require employees to wear uniforms. In some cases the employer purchases them and in other cases when the employee has to purchase their own uniform, the employer is obliged to reimburse them on or before the following pay day. Some employers, particularly hotels, resorts, and theme parks, launder or dry clean their employee's uniforms.

Employee Meals

Because employees are needed at busy times like meal periods, it makes more sense to offer free or low-cost employee meals on property, in the case of a hotel, resort, or lodging operation. The same applies to a restaurant, where it is a good idea for servers and others to have tasted all the menu offerings, that way they can make more informed recommendations to guests.

Transportation

In several locations across America it is necessary for employers to provide transportation for their employees. Hospitality employers in major cities like San Diego, California, on the West Coast, Nashville, Tennessee, and Boston, Massachusetts, on the East Coast operate minivans or buses to bring employees to work. As one San Diego human resources director said, “We can’t find housekeepers here so we have to go where they are and provide transportation, because the public transportation is inadequate.”²⁴ They run buses to the Mexican border so the employees who live in Tijuana can more easily get to and from work every day.

Housing

In some locations where the cost of living is high or others that are remote, employers occasionally provide housing, generally in the form of small apartments. A few hospitality companies offer help with home purchases for key employees.

Moving Expenses

Expenses for employees moving are also paid by some companies to assist employees who need to relocate some distance.

Purchase Discounts

A large number of hospitality employers offer a staff discount on purchases from hotel room bookings to meals and beverages.

Tuition Reimbursement

Companies like Hyatt, Marriott, and others offer employees tuition reimbursement for college and university courses taken providing the course is passed with a certain grade—say a B or better—and generally the courses must be approved hospitality industry or job related courses. In some cases, employees must sign a contract stating that they will return the course tuition fees if they leave within a specified period.



Cost of Benefits

Benefits can add up to a whopping 35 to 40 percent of payroll.²⁵ Using 40 percent as an example: For every \$12 per hour employee you add \$4.80 totaling \$16.80, now multiply that by the number of employees there are in a full service hotel and we are talking serious dollars. As the cost of benefits continues to escalate, employers are looking for innovative ways to offer the same level of benefits but at a reduced cost. This is attempted by grouping insurance plans for health and other benefits and “shopping” for the best price by using a broker or direct purchase. When a large company buys they have power in their numbers so rates drop. Some employers may offer a basic plan with options for employees to consider taking—not everyone may want a particular benefit—so they can choose which are appropriate for them.



KEY POINTS

1. Compensation and benefits programs begin with a philosophy and leadership.
2. Goals and strategies for achieving the goals are formulated.
3. Labor market conditions and the many legal considerations are taken into account and adhered to by human resources professionals and managers.
4. Pay rates are established by using a job assessment including a job skills approach or points factor method and a wage survey.
5. Pay rates are determined and may include pay grades, pay for performance, incentives, profit-sharing plans, and cost of living adjustments.
6. Employee benefit programs are divided into two groups: those required by law and those the company decides to offer. Workers' compensation, Social Security, and unemployment insurance are required by law.
7. Voluntary benefits include health insurance plans, retirement programs, pension plans, life insurance, short- and long-term disability insurance.
8. Employee services may include uniforms, meals on duty, purchase discounts, and moving expenses.
9. Benefits can cost up to about 40 percent of payroll.



KEY TERMS

base compensation	job skills approach
compensation philosophies	pay incentives
consumer price index	points factor method
cost of living adjustment	Social Security
employee stock ownership plans (ESOPs)	wage and salary survey
exempt and nonexempt employees	workers' compensation
The Fair Labor Standards Act (FLSA) of 1938	unemployment insurance
internal labor market	



REVIEW QUESTIONS

Answer each question in complete sentences. Read each question carefully and make sure that you answer all parts of the question. Organize your answer using more than one paragraph when appropriate.

1. Are compensation philosophy, leadership, and goals and strategy important? If so, why?
2. Describe each of the legal issues of compensation.
3. What are the steps involved in developing a compensation plan?
4. What employee benefits are required by law?
5. Explain the difference between an HMO and a PPO.
6. What are the advantages of a 401(k) plan, an employee stock ownership plan, and a profit-sharing plan?



ACTIVITIES AND APPLICATIONS

1. Group Activity: Benefits

In groups, write down the benefits that a good hospitality company offers and approximate the value per year, then multiply that number by the number of years you might work and share your total and how you arrived at it with the other participants in your class.

2. Group Activity: Pay Plan

In groups, establish a pay plan for a hospitality company (with annual sales of \$1,000,000) listing the pay grades and ranges, and the number of employees in each position. Give the total payroll amount.

3. Problem Solving

Identify some problems or potential problems in the hospitality industry regarding compensation and benefits and what can be done to solve those problems?

4. Case Study: To What Extent Can Employee Turnover be Reduced by Improved Benefits?

Primo hospitality group's annual employee turnover was 123 percent. After consulting with you, the HR director, the company president asked you to conduct an extensive employee survey to find out why the turnover rate was so high and what could be done to reduce it. The findings revealed that most (86 percent) of the hourly employees were either not eligible (17 percent) for or not taking advantage of the benefits program.

The president also wanted to know what the cost of employee turnover was. After careful analysis, you determine the cost of employee turnover to be between \$5,000 for an hourly paid position and \$10,000 per employee for a supervisor or managerial position. The president is asking for your recommendations to reduce employee turnover, including modifying the benefits program and how to communicate the recommendations to a diverse group of employees earning between \$8 and \$14 per hour.

Case Study Questions

1. What questions would you ask on the survey?
2. Make recommendations for reducing the cost of labor turnover.
3. How will you communicate the necessary information to a diverse group of associates?



WEB ACTIVITY

Select a hospitality company and see what benefits they offer. Based on the findings of the class, which company offers the best package?



RELATED WEB SITES

Benefits and Compensation Solutions Magazine	www.bcsolutionsmag.com
Family and Medical Leave Act	www.dol.gov/esa/fmla.htm
Federal Wage and Labor Institute	www.fwlli.com
STAT-USA	www.stat-usa.gov

U.S. Bureau of Labor Statistics	http://stats.bls.gov
U.S. Census Bureau	www.census.gov
U.S. Government Employment Standards Administration (ESA)	www.dol.gov/dol/esa
U.S. Wage and Hour Division	www.dol.gov/dol/esa/public/whd_org.htm



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