SHRM Learning System 2025

PEOPLE

TOTAL REWARDS

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Total Rewards Strategy

PEOPLE

Inputs

HR goals:
- Recruitment
- Engagement
- Retention

Process

Alignment with:
- Strategy
- Culture
- Market
- Employment laws & regulations

Outputs

Total rewards strategy:
- Compensation & benefits
- Rewards (financial & developmental)
- Incentives (financial & developmental)

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Key Terminology

Total rewards	Encompasses direct and indirect remuneration approaches that employers use to attract, recognize, and retain workers; "remuneration" and "compensation and benefits" have the same meaning.
Benefits	Tangible payments or services provided to broad groups of employees to cover common issues (for example, retirement and paid time off) in addition to those required by law.
Compensation	Refers to all other financial returns (beyond any tangible benefits payments or services), including salary and allowances.
Perquisites	Compensation provided on an individual basis in the form of goods or services (for example, automobiles and mobile devices).
Incentives or premiums	Payments in return for the achievement of specific, time-limited, targeted objectives; often calculated as a percentage of base salary and paid as lump sums or ongoing payments.

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Compensation Philosophy

A short (but broad) statement documenting the organization's guiding principles and core values about employee compensation

Philosophy should be:

- ✓ Equitable
- ✓ Defensible
- ✓ Perceived as fair
- ✓ Fiscally sensitive
- ✓ Legally compliant
- ✓ Easy to communicate

Programs offered should be:

- ✓ Fair
- ✓ Competitive
- ✓ Aligned to philosophy and policies

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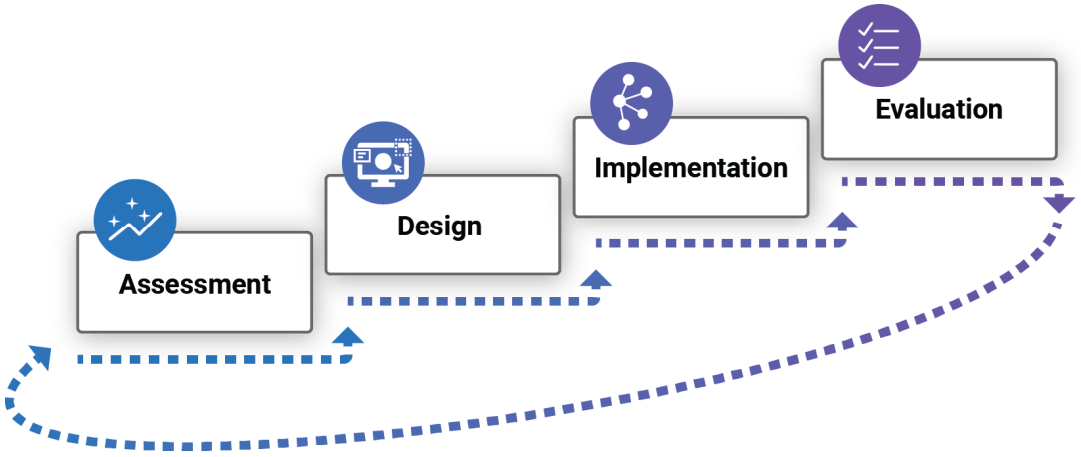
Process to Develop a Total Rewards Strategy



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Evaluating a Total Rewards Strategy



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Pay Strategies

Lag

- Controls labor costs by setting pay below that of other organizations
- May be due to economic necessity; may help offset costs
- Typically coupled with other benefits

Match

- Offers wages and benefits similar to that of competition
- Referred to as externally competitive; most common

Lead

- Offers higher wages or better benefits
- Justified by higher productivity from high-quality employees

Lead-Lag

- Leads the market during first half of the fiscal year, lags in the second half

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Global Influences

- Standardization versus localization
- Culture
- Competitive labor market
- Collective bargaining, employee representation, government mandates
- Economic factors
- Taxation

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Importance of Total Rewards Strategy Communication

- Educating employees about the organization's total rewards practices
- Achieving employees' buy-in and making them aware of the overall value
- Supporting the organization's strategic objectives
- Supporting the organization's goals for performance management

A total rewards program is a powerful motivator when it is understood and accepted by employees.

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Effective Communication of Total Rewards

Requires attention to a variety of factors, such as:

- ✓ Type of information (required and voluntary communication)
- ✓ Communication plans
- ✓ Direct communication
- ✓ Individualized total compensation statements
- ✓ Self-service technologies
- ✓ Consistent key messages

Starts with an overarching strategy and standard implementation guidelines but adaptable to organizational specifications and local conditions and norms.

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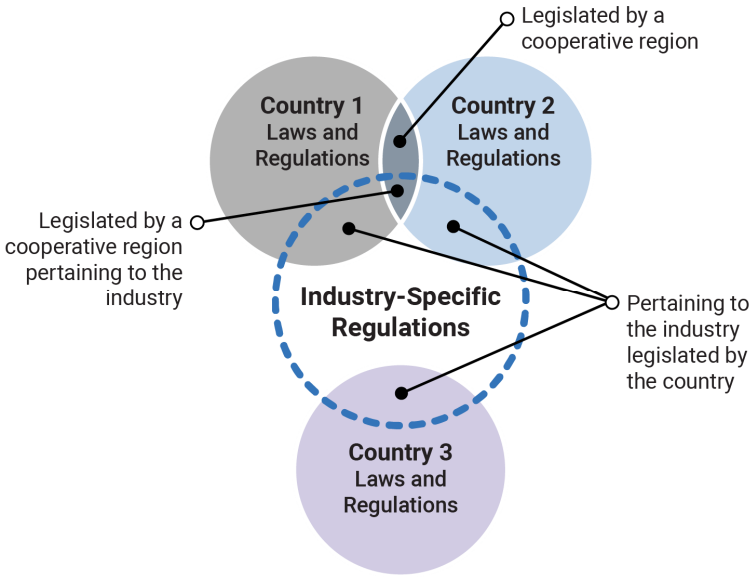
Legal Compliance



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Legal Compliance Complexities

Due diligence should include an understanding of relevant:

- International standards and regulations.
- Extraterritorial application of national law.
- Application of national laws to international-owned subsidiaries operating within a nation's borders.

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Finance and Accounting Knowledge

- Total rewards are a significant component of an organization's operating expenses.
- Understanding key finance and accounting terms and concepts, financial statement basics, and payroll provides critical insights.

Partnering with finance colleagues is always helpful as well as consulting "finance for non-finance professionals" resources.

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Payroll Considerations

- Must be efficient, effective, and compliant.
- May be delivered:
  - Internally
  - Externally (outsourced)
  - Hybrid of both internal and external
- Payroll is closely related to many HR activities.

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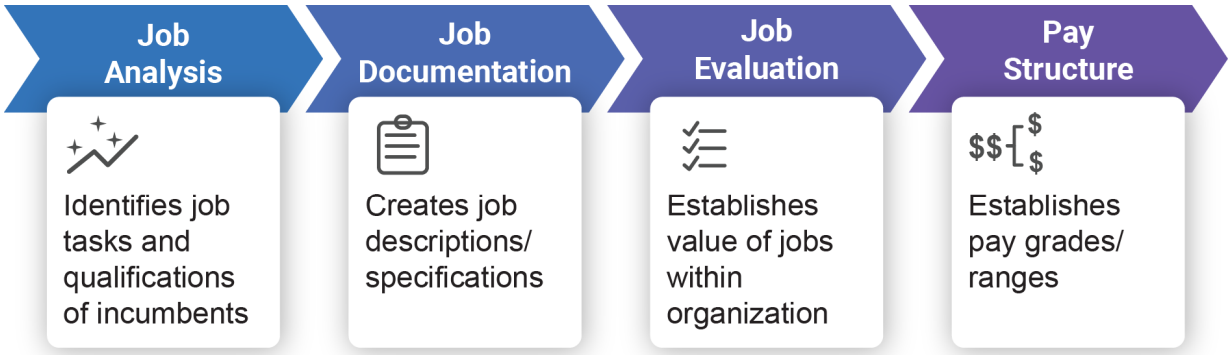
Compensation System Design



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Job Documentation Elements

Job description

- Written description of job and essential functions and requirements
- Includes tasks, KSAs, responsibilities, and reporting structure

Job specifications

- Written statement of minimum qualifications necessary to perform job

Job competencies

- Clusters of highly interrelated attributes, including KSAs
- Should be part of competency model

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Job Evaluation

- Determines value and price of job to place and compare it within organization as well as attract and retain employees
- Supports need for total rewards strategy
- Intertwined with pay equity concerns

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Job-Content-Based Job Evaluation

Determines the relative worth and pay structure of different jobs based on assessment of their content and relationship to other jobs in the organization

May be:

- Nonquantitative
  - Job ranking
  - Job classification
- Quantitative
  - Point-factor system

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Market-Based Job Evaluation

Determines the relative worth and pay structure of different jobs based on their market value or the going rate in the marketplace

- Sometimes called “market pricing.”
- Data collection includes survey formats, survey analysis, and slotting.
- Job content or internal job relationships may be secondary considerations.

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Remuneration Surveys

Collect information on prevailing market compensation and benefits practices

Internal surveys

Allow for more control over survey technique and data analysis

External surveys

Offer different options for externally published data

Considerations between internal and external surveys:

- Internal time and expertise required
- Relevance/match of external surveyed jobs to organization’s jobs
- How current external survey data is
- Expense associated with type of survey

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Global Market Survey Considerations

What are the best sources of salary data?

How much information is available?

How frequently does the market change?

Does the data for the jobs available match or compare to the ones being compared?

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Data Analysis

Salary data may need to be aged, leveled, and/or factored for geography.

- Aging uses movement in market rates to adjust outdated salary data.
- Leveling adjusts salaries when surveyed jobs are similar but not identical to jobs in the organization.
- Since wage rates will vary by location, the organization should factor any national salary survey data for geography.

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Additional Information Sources

Benchmarking

- Initiatives range from informal networking and knowledge sharing to formal engagements with private firms.
- Helps to identify gaps in policies and procedures compared to competitors and best practices.

Other Sources

Typical sources include:

- Governments (for example, ministries of labor or government statistical bureaus).
- International organizations (for example, International Labor Organization).
- Membership-based business organizations (for example, employer federations and local chambers of commerce).
- Professional, trade, and industrial associations.

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Creating a Pay Structure

Establish pay grades.

- Group jobs that have approximately the same worth in organization.
- Pay the same rate or within the same pay range.

Set pay ranges.

- Set upper/lower bounds of possible compensation for individuals whose jobs fall in a pay grade.
- Market data from surveys used to determine a midpoint.

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Compa-Ratios

- Divide the pay rate of an employee by the midpoint of the range.
  - Given a range of $16 to $20 an hour, a midpoint of $18, and a salary of $16 an hour, the compa-ratio is:

$16 ÷ $18 = .89 or 89%.

- Compa-ratios below 1.00 mean wages are below the midpoint; compa-ratios greater than 1.00 mean wages exceed the midpoint.

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Broadbanding

Combines salary grades to create larger ranges

- Allows people to move within their job without outgrowing the pay scale.
- Avoids having too many grades with small midpoint differences between them.

Management

$50,000 ⟷ $105,000

Technical **Supervisory**

$22,000 ⟷ $68,000

Service Experts

$17,000 ⟷ $38,000

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Broadbanding Advantages and Disadvantages

Advantages	Disadvantages
▪ Provides wider ranges ▪ Reduces the number of job grades ▪ Supports de-layering ▪ Provides more autonomy to line managers ▪ Enhances employee mobility	▪ Reduces the value of ranges ▪ Affords less control ▪ Creates overly broad ranges ▪ Difficult to maintain perception of equity ▪ Reduces the opportunity for promotion ▪ Can lead to divergence from the market

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Wage and Hour Law Compliance

Considerations include:

- Minimum wage and increases
- Overtime and holiday pay
- Equal pay
- Exemption
- Cap on hours worked
- Special issues under local law
- Taxation

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Base-Pay Systems

Single- or flat-rate	▪ Employees receive the same rate of pay, regardless of performance or seniority. ▪ Generally corresponds to target market survey data for the job. ▪ May be a training wage in a flat-rate job.
Time-based step-rate	▪ Rate based on longevity. ▪ Increases occur on pre-determined schedule: – Automatic by percentage and time. – Affected by performance. – Combination of step-rate and performance (when job rate is reached).

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Base-Pay Systems

Performance-based or merit pay (P4P or PfP)	▪ Linked to measures of work quality or goals. ▪ Employers must be able to defend practices. ▪ Global differences must be addressed: – Types of incentives and remuneration. – Individual vs. collective performance. – Impact on risk.
Productivity-based	▪ Based on output. ▪ Straight piece-rate (base plus). ▪ Differential piece-rate (rate increases in steps after standard is met).
Person-based	▪ Affected by employee's knowledge, skill, or competencies.

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Pay Adjustments

- Pay adjustment matrix
- COLAs
- General pay increases
- Seniority increases
- Lump-sum increases
- Market-based increases

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Differential Pay

Time-Based

- Based on when an employee works
- Examples:
  - Shift pay
  - Emergency-shift pay
  - Premium pay
  - On-call or call-back pay
  - Reporting pay
  - Travel pay
  - Overtime pay

Geographic

Differentials:

- For labor costs
- To attract workers to certain locations
- For foreign countries

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Incentive Pay

- Motivates employees to perform at higher levels
- Pays for performance beyond base-pay expectations
- Must be related to aspects of the job that an employee can influence with achievable goals
- Can be structured to reward short-term accomplishments or long-term results or a balance of both short- and long-term goals

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Types of Incentives

Individual	Group	Organization-wide
Purpose is to improve individual performance *Examples:* piece rate, commissions, noncash reward programs	Used when measuring individual performance is difficult or when performance requires cooperation *Examples:* gainsharing plans, team bonuses	Reward overall results *Examples:* profit sharing, stock ownership, bonus programs

Challenges for global organizations include designing and awarding culturally appropriate incentives and regulatory compliance.

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Types of Executive Compensation

- **Annual salary**
- **Stock option plans**
- **Stock purchase plans**
- **Restricted stock grants**
- **Phantom stock**
- **Restricted stock units**
- **Performance grants**

HR's role in executive remuneration varies and may include:

- Consulting on strategy.
- Participating in selecting outside experts.
- Monitoring and evaluating compensation systems.

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Direct Sales Compensation

Straight salary	Salary plus commission and/or bonus	Straight commission
Use when:	**Use when:**	**Use when:**
More time is spent on service than sales. Measuring sales performance is difficult. Individual sales and support efforts are hard to separate. Sales cycle is long.	Organization needs to reward behaviors that support strategy. System needs to be adaptable and allow for readjustments. Competitors use the same strategy.	Organizational objective is to increase volume (even if it means less service). Holding down cost of sales is important. Competitors use the same strategy.

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Compensation for Outside Directors

- Base pay or retainer
- Fees paid for various events or services
- Benefits (for example, liability and life insurance)
- Perquisites
- Nonqualified stock options/grant plans
- Nonqualified deferred compensation programs

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Pay Variations

Red-circle rates — Rates above the range maximum

Green-circle rates — Rates below the range minimum

Pay compression — Small differences in pay regardless of experience, skills, level, or seniority

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Choosing Benefits/Perquisites

- Which benefits are required by law?
- Which benefits enable an employer to compete for employees?
- Which benefits are cost-effective to purchase and to administer?
- Which benefits do employees prefer?
- Which benefits provide creative choices?



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Variations in Benefits

- **Government-provided benefits**
- **Government-mandated benefits**
- **Voluntary or discretionary benefits**
- **Market practice benefits**
- **Tax treatment of benefits**

Standardization is difficult because of variations in benefits.

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Benefits Needs Assessment

Review strategy.

Review philosophy.

Analyze workforce demographics.

Analyze benefits design and utilization data.

Conduct gap analysis.

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Types of Benefits

Paid-Time-Off and Family-Oriented Benefits	
Paid-time-off (PTO) benefits	Often legislated or part of collective bargaining agreements; embedded in culture and tradition. *Examples:* vacation, public holidays, parental leave, leave for illness.
Family-oriented benefits	Help employees balance work roles with family roles. *Examples:* flexible work hours, child and elder care, domestic partner benefits.

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Types of Benefits

Health and Welfare Benefits	
Health	Funded through social or private insurance; affected by culture and location. *Examples:* medical, dental, wellness, employee assistance programs.
Disability	Pays employees unable to work because of illness or injuries; causes may be in or outside the workplace; may be funded by government, employer, and employee. Short-term, long-term, and permanent.
Life insurance	Funded through social insurance and/or private insurance; paid to beneficiary.

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Terminations and Severance

Terminations

- Voluntary terminations
  - When an employee resigns or retires
- Involuntary terminations
  - When employers discharge employees for cause or workforce adjustments
- Circumstances under which an organization can terminate employment are prescribed by law and differ by country.

Severance

- If required, severance pay must be compliant and fairly compensate terminated employees to avoid discrimination lawsuits and regulatory fines and penalties.
- Circumstances, requirements, and amount varies by country; some similarities within regions.

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Unemployment Insurance

Applies toward paying a percentage of an employee's salary in the case of the employee losing his or her job through no fault of the employee.

Helps workers who have been terminated to transition from one job to another equally suitable job.

May require a waiting period; benefit period is limited, as is the financial payout.

Other terms associated with this benefit are employment insurance, job seekers' allowance/benefit, redundancy funds.

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Retirement Plans

Defined benefit plan

- Promises payment of a specific benefit amount at retirement.
- Vesting schedule is set up.
- Benefits are based on service and perhaps salary; decided by a formula.
- Provides a pre-specified level of benefits.
- Employer bears investment risk.

Defined contribution plan

- Money contributed regularly is specified.
- No promise is made regarding the future value of the benefit.
- Employees receive 100% of their investment and the vested employer portion.
- Requires individual employee accounts.
- Amount at retirement depends on the return.
- Employee bears investment risk.

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Fiduciary Responsibility

Fiduciary duty

Implies legal obligation of one party (for example, employer) to act in best interest of another (for example, employees).

Fiduciary

Refers to obligated party (individual or party entrusted with care of money or property).

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Social Security

- Varies by country.
- Generally refers to:
  - Social insurance, where people receive benefits or services in recognition of contributions to an insurance program.
  - Services provided by government or designated agencies responsible for social security provision.
  - Basic security irrespective of participation in specific insurance programs where eligibility may otherwise be an issue.

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Perquisites

- Free/discounted products or services
- Mobile devices
- Professional organizations/certifications
- Training programs
- Education fees
- Housing
- Company car and/or cash car allowances
- Club memberships
- Meal allowances

Perquisites vary by country and culture.

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Common Benefits Metrics

Metric	Description/Formula	Strategic Value
Benefits costs as a percentage of total payroll costs	Reflects the total costs of benefits divided by the total payroll costs for the organization. $\frac{\text{Total benefit costs}}{\text{Total payroll costs}}$	This metric identifies the proportion of benefits costs.
Health-care expense per employee	Measures the health-care expense per employee for a given fiscal year. Total expenses include employee- and company-paid premiums, stop-loss insurance, and administrative fees. $\frac{\text{Total health-care expenses}}{\text{Number of employees enrolled in health-care plan}}$	This measurement can show the per capita cost of the benefit (for example, the average per person).

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Common Benefits Metrics

Metric	Description	Strategic Value
Annual increase/decrease in health-care benefit costs	Represents the expected increase/decrease in the organization's health-care expense for a given fiscal year; a comparison of the current health-care expense per employee metric to previous years and projected.	This measurement alerts an organization to the increasing costs of health-care benefits and helps the organization assess if actions must be taken to control benefits costs.
Insurance participation rate	Indicates total percentage of employees enrolled in insurance benefits. $\frac{\text{Number of employees enrolled}}{\text{Total number of employees}}$	Helps provide feedback as to the quality and value of the benefit; helps in evaluating competitiveness of total compensation strategy.

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Knowledge Item #1

A company has struggled to reach revenue projections for several consecutive quarters. It has avoided a reduction in force to this point. Senior leadership believes that the primary reason for the recent struggles can be traced back to understaffing across the organization, leading to employees being overworked and unable to reliably complete necessary tasks. Which pay strategy would best serve the organization as it creates new positions to help augment the current staff and address the revenue issue?

A. Match market competition
B. Lead market competition
C. Lag market competition
D. Lead-lag market competition

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Knowledge Item #2

A small organization with a single HR specialist wants to conduct a job evaluation to assist with updates to the compensation program. Which form of job evaluation is the best choice for the organization?

A. Job classification
B. Remuneration surveys
C. Benchmarking
D. Job ranking

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Knowledge Item #3

Which compensation system is best suited to compensate direct salespeople who are only asked to secure sales and do not have responsibilities associated with servicing customers?

A. Straight salary
B. Salary plus commission/bonus
C. Time-based differential pay
D. Geographic differential pay

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