

Bonus Program Practices

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research



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Introduction & Methodology

This report summarizes the findings from a WorldatWork survey comparing current bonus program practices with findings from 2002 and 2005. WorldatWork researched prevalence, eligibility criteria, payout averages and other information about how employers administer bonus programs.

For the purpose of the survey, each type of bonus was defined as follows:

Sign-on bonus: a cash bonus given at the beginning of a service period, usually for accepting an employment offer.

Referral bonus: a cash award paid to a current employee for referring a successfully hired job applicant.

Spot bonus: a type of informal recognition that is delivered in cash, spontaneously or “on the spot.”

Retention bonus: a cash award typically tied to the length of service or some other milestone.

In September 2008, surveys were sent electronically to a random representative sample of 4,760 WorldatWork members. A total of 575 members participated in this survey during a two-week period, generating a 12-percent response rate.

The demographic profile of survey respondents is representative and similar to that of the WorldatWork membership as a whole. The typical WorldatWork member works at the managerial level or higher in the headquarters of a large company in North America. Ninety-five percent of the Fortune 1,000 companies have at least one employee who is a member of WorldatWork. More detail regarding respondent demographics can be found in the Demographics section at the end of this report. (See *Figures 24-26*).

Summary of Key Findings

Bonus programs remain a common element of the total rewards package offered to most employees. This is expected, as more and more employers look to differentiate rewards based on performance and build in flexibility to focus budget dollars where they are most needed. It appears, however, that bonus programs are utilized more to attract talent rather than to retain it — sign-on and referral bonuses are more common than spot and retention bonuses.

When bonus programs are in place their application is fairly broad-based. Most employee groups are eligible for all types of bonuses. The two exceptions are a common tendency to limit eligibility for clerical-level employees more so than other employee groups, and referral and spot bonus programs show less prevalent eligibility for higher level positions — executives and top management in particular. Other key findings include:

Sign-On Bonus

- Nearly three out of five respondents (58 percent) indicated that their organization uses a sign-on bonus program to attract new talent.
- Sign-on bonuses continue to be fairly prevalent for all levels within organizations with clerical employees being least prevalent. However eligibility for this group has increased by 14 percent since 2005 to 40 percent.
- Sign-on bonuses are awarded as a flat dollar amount by 80 percent of participating organizations who offer this type of bonus.
- Few organizations (30 percent) split the award so that a portion is received upon hiring and the remainder is awarded after a set period of time.
- Most employee groups are typically paid amounts between \$1,000 and \$9,999, but over half of executives receive more than \$10,000 and half of clerical workers typically receive less than \$1,000.

Referral Bonus

- In line with survey data from previous years, the majority of organizations have a referral bonus program (66 percent) and another 18 percent are considering implementing one.
- Eligibility for referral bonuses is widespread by position up to the management level. Executive and upper management employees are often not eligible for these programs; only 33 percent of organizations indicate that executives are eligible to receive a referral bonus.
- For the most part, organizations seem to be decreasing the wait period to award referral bonuses when compared to 2005 results. Today, the length of service required before a referral bonus will be paid is most commonly between one and six months of service (73 percent).

Spot Bonus

- There continues to be almost an even split between those organizations who do (49 percent) and those who do not (51 percent) offer spot bonuses.
- Spot bonuses are most commonly used to provide special recognition to an employee and/or reward employee performance that is considered “above and beyond”.
- Like referral bonus programs, eligibility for most employee groups is common, although top management is less likely to qualify for a spot bonus. Upper management and executives are eligible in only 59 percent and 41 percent of companies, while all other employee groups are eligible in 85 percent to 98 percent of participating companies.
- There is a range of spot bonus awards, likely because the types of behavior and achievement that can prompt these awards are so much more varied than the other bonuses programs. However, large awards are not uncommon; 30 percent to 40 percent of spot bonus award maximums for employees below top management are between \$2,500 and \$7,499. The maximum award for executives — when eligible — was reported as greater than \$10,000 by half of companies (47 percent).
- Only 13 percent of companies always increase the amount of the award to offset any tax impact (also known as “grossing-up”), and almost half (47 percent) never do.

Retention Bonus

- Retention bonus programs continue to be much less prevalent than the other types of bonuses — only three in every 10 organizations uses them.
- Consistent with findings from 2001 and 2005, formalized programs have been steadily declining. Today, most programs in place are informal and subject to management discretion (78 percent).
- When used, retention bonus programs are broadbased, but as with the other types of bonuses, clerical employees are excluded more often than any other group. Only 60 percent of companies report that clerical employees are eligible as compared to eligibility of other groups at 80 percent to 90 percent.
- Retention bonus payments are typically awarded in the form of one lump-sum payment (70 percent).
- The methodology for determining the bonus award is simple: either a set flat dollar amount or there is complete management discretion.

Table of Figures

Sign-On Bonus

| | |
|---|---|
| Figure 1: Prevalence of Sign-On Bonus Program | 5 |
| Figure 2: Eligibility | 5 |
| Figure 3: Payout Method | 6 |
| Figure 4: Payout Split | 6 |
| Figure 5: Time Threshold for Voluntary Leave | 6 |
| Figure 6: Average Payment Amount | 7 |

Referral Bonus

| | |
|--|---|
| Figure 7: Prevalence of Referral Bonus Program | 7 |
| Figure 8: Eligibility | 8 |
| Figure 9: Positions Awarded Upon Recruitment | 8 |
| Figure 10: Payout Split | 9 |
| Figure 10a: Length of Service Requirement | 9 |
| Figure 11: Average Payment Amount | 9 |

Spot Bonus

| | |
|---|----|
| Figure 12: Prevalence of Spot Bonus Program | 10 |
| Figure 13: Reasons for Award | 10 |
| Figure 14: Eligibility | 11 |
| Figure 15: Maximum Award Level | 11 |
| Figure 16: Adjustments to Minimize Tax Impact | 12 |

Retention Bonus

| | |
|--|----|
| Figure 17: Prevalence of Retention Bonus Program | 12 |
| Figure 18: Type of Program | 12 |
| Figure 19: Eligibility | 13 |
| Figure 20: Length of Service Requirement | 13 |
| Figure 21: Payment Method | 14 |
| Figure 22: Calculation Method | 14 |
| Figure 23: Average Payment Amount | 15 |

Demographics

| | |
|---------------------------------|----|
| Figure 24: Organization Size | 16 |
| Figure 25: Responsibility Level | 16 |
| Figure 26: Industry | 17 |

Detailed Survey Results

Sign-On Bonuses

Figure 1: Prevalence of Sign-On Bonus Programs

Does your organization currently have a sign-on bonus program?

| | 2001 (n=133) | 2005 (n=477) | 2008 (n=240) |
|-----|-----------------|-----------------|-----------------|
| Yes | 62% | 54% | 58% |
| No | 38% | 46% | 42% |

More than ninety percent of companies who did not have a sign-on bonus program in place in 2008 have no intention of adding one in the foreseeable future, which is consistent with findings from previous years.

Figure 2: Eligibility

Which of the following positions in your organization are eligible for sign-on bonuses?

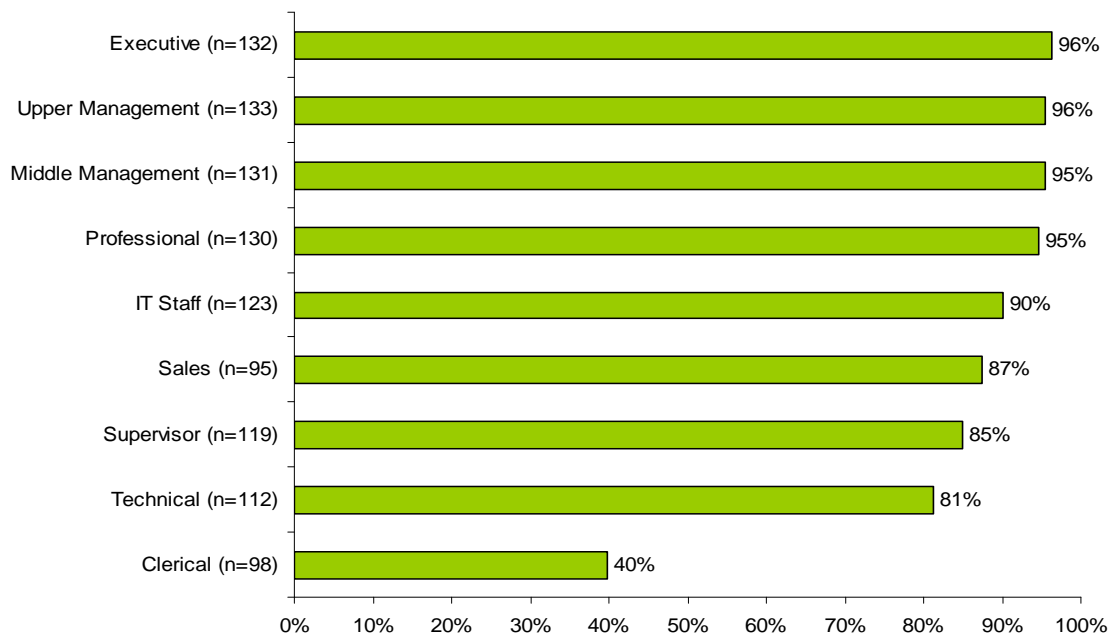


Figure 3: Payout Method

For the positions above that you indicated receive sign-on bonuses, how are the sign-on bonuses awarded?

| | Flat dollar amount | Percent of base pay | Can be either or a combination |
|---------------------------|--------------------|---------------------|--------------------------------|
| Executive (n=127) | 83% | 3% | 14% |
| Upper Management (n=127) | 84% | 2% | 13% |
| Middle Management (n=124) | 86% | 2% | 11% |
| Supervisor (n=100) | 85% | 3% | 12% |
| Professional (n=122) | 85% | 3% | 12% |
| Sales (n=84) | 77% | 4% | 19% |
| IT Staff (n=110) | 86% | 1% | 14% |
| Technical (n=92) | 86% | 1% | 13% |
| Clerical (n=41) | 88% | 0% | 12% |

The use of flat dollar awards continue to be most common with sign-on bonuses increasing by at least 10 percent for all groups with the exception of the clerical staff which increased by 20 percent.

Figure 4: Payout Split

Does your organization typically split the sign-on payout so that part of the award is given upon hire and the remainder after a set period of time?

| | 2001 (n=n/a) | 2005 (n=256) | 2008 (n=135) |
|-----|-----------------|-----------------|-----------------|
| Yes | 34% | 30% | 30% |
| No | 66% | 70% | 70% |

Figure 5: Time Threshold for Voluntary Leave

For the positions that receive sign-on bonuses, what is the time threshold (if any) for employee forfeit or payback of the bonus if they voluntarily leave?

| | No provision for forfeit or payback | First three months | First six months | First year | Other |
|---------------------------|-------------------------------------|--------------------|------------------|------------|-------|
| Executive (n=123) | 15% | 3% | 5% | 65% | 12% |
| Upper Management (n=124) | 15% | 5% | 7% | 62% | 12% |
| Middle Management (n=125) | 13% | 5% | 6% | 65% | 11% |
| Supervisor (n=99) | 13% | 4% | 7% | 62% | 14% |
| Professional (n=120) | 13% | 4% | 6% | 63% | 14% |
| Sales (n=81) | 14% | 5% | 7% | 62% | 12% |
| IT Staff (n=108) | 13% | 5% | 6% | 66% | 11% |
| Technical (n=92) | 14% | 4% | 7% | 62% | 13% |
| Clerical (n=45) | 20% | 7% | 4% | 51% | 18% |

Figure 6: Average Payment Amount

On average, during the past 12 months, what is the amount paid as a sign-on bonus for the following positions?

| | <\$1,000 | \$1,000-\$4,999 | \$5,000-\$9,999 | \$10,000-\$24,999 | \$25,000-\$49,999 | >\$50,000 |
|---------------------------|----------|-----------------|-----------------|-------------------|-------------------|-----------|
| Executive (n=90) | 1% | 4% | 11% | 30% | 27% | 27% |
| Upper Management (n=100) | 1% | 8% | 24% | 40% | 18% | 9% |
| Middle Management (n=105) | 3% | 22% | 39% | 31% | 6% | 0% |
| Supervisor (n=79) | 5% | 46% | 42% | 8% | 0% | 0% |
| Professional (n=103) | 3% | 50% | 38% | 9% | 0% | 1% |
| Sales (n=65) | 5% | 34% | 35% | 22% | 3% | 2% |
| IT Staff (n=83) | 6% | 55% | 31% | 7% | 0% | 0% |
| Technical (n=73) | 12% | 53% | 26% | 8% | 0% | 0% |
| Clerical (n=29) | 45% | 48% | 7% | 0% | 0% | 0% |

Referral Bonuses

Figure 7: Prevalence of Referral Bonus Program

Does your organization currently have a referral bonus program?

| | 2001 (n=188) | 2005 (n=474) | 2008 (n=238) |
|-----|-----------------|-----------------|-----------------|
| Yes | 70% | 56% | 66% |
| No | 30% | 44% | 34% |

Eighty-two percent of companies who do not have referral bonus programs in place have no intention of adding them in the foreseeable future, which is only slightly less than in 2005.

Figure 8: Eligibility

Which employees are eligible to receive a bonus for referring a new employee?

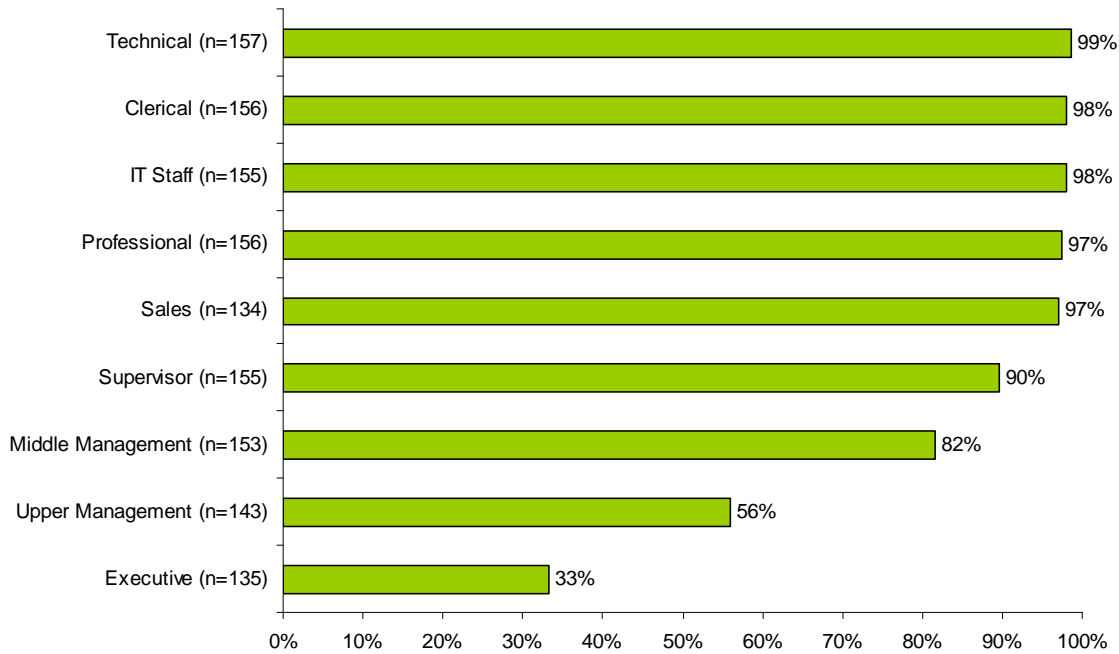


Figure 9: Positions Awarded Upon Recruitment

For which types of positions does your organization award referral bonuses upon recruitment?

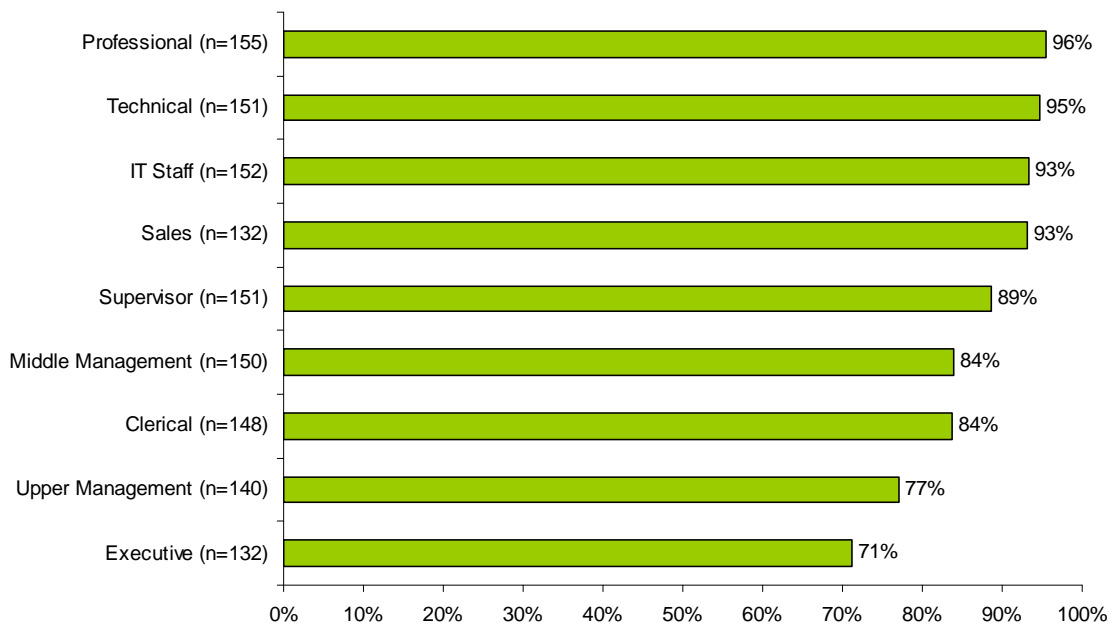


Figure 10: Payout Split

Does your organization typically split the referral bonus payout to the referring employee so that part of the bonus is given upon hire of the person referred (or shortly thereafter) and the remainder of the bonus is given after a set period of time?

| | 2001 (n=269) | 2005 (n=265) | 2008 (n=159) |
|-----|-----------------|-----------------|-----------------|
| Yes | 42% | 31% | 35% |
| No | 58% | 69% | 65% |

Figure 10a: Length of Service Requirement

If you do not split the payout, how long does the new employee have to stay before the referring employee receives the full bonus?

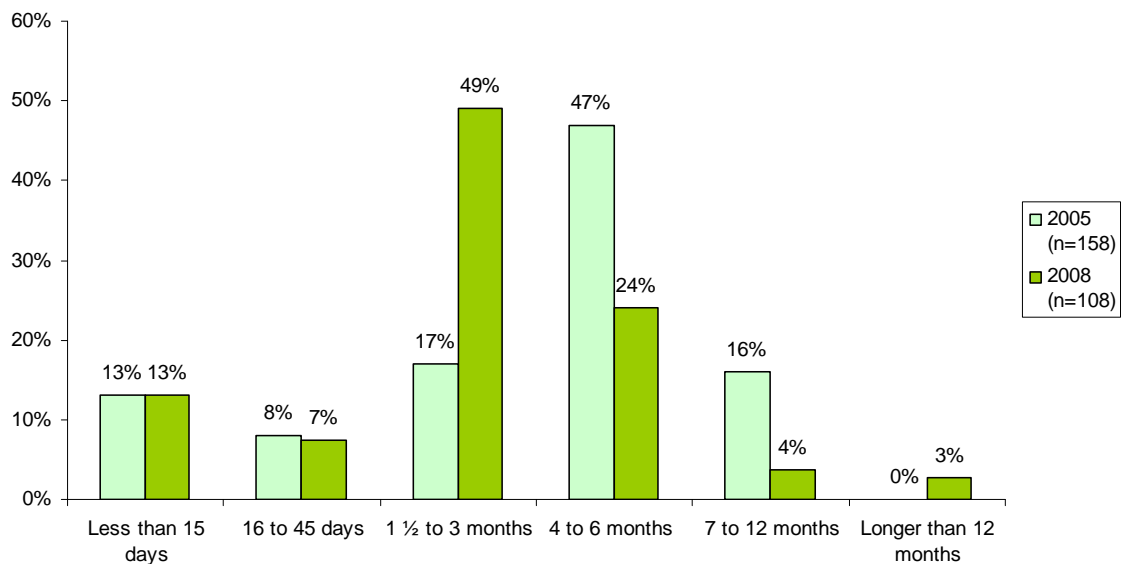


Figure 11: Average Payment Amount

For recruiting the following types of positions, during the past 12 months, what has been the average referral bonus awarded to the referring employee if the new hire stays the required amount of time?

| | <\$250 | \$250-\$499 | \$500-\$999 | \$1,000-\$2,499 | \$2,500-\$5,000 | >\$5,000 |
|---------------------------|--------|-------------|-------------|-----------------|-----------------|----------|
| Executive (n=72) | 4% | 8% | 18% | 40% | 22% | 7% |
| Upper Management (n=92) | 8% | 8% | 17% | 38% | 26% | 3% |
| Middle Management (n=120) | 8% | 9% | 22% | 41% | 20% | 1% |
| Supervisor (n=128) | 10% | 10% | 27% | 39% | 13% | 1% |
| Professional (n=144) | 8% | 10% | 26% | 41% | 14% | 0% |
| Sales (n=119) | 10% | 13% | 25% | 39% | 13% | 0% |
| IT Staff (n=137) | 10% | 12% | 29% | 35% | 14% | 0% |
| Technical (n=137) | 12% | 14% | 29% | 34% | 12% | 1% |
| Clerical (n=121) | 14% | 22% | 36% | 24% | 5% | 0% |

As in 2001 and 2005, referral bonuses continue to be a good motivational tool for recruiting. In 2001, 92 percent of the respondents perceived their referral programs to be successful. In 2005 organizations stated that on average 14 percent of new hires in 2004 came from employee referrals. This figure grew in 2007 as 2008 survey participants indicated that, on average, 16 percent of their organization's new hires came through employee referrals. The most common response and median in 2008 was 10 percent.

Spot Bonuses

Figure 12: Prevalence of a Spot Bonus Program

Does your organization currently have a spot bonus program through which employees can receive cash (please do not count gift card or gift certificate programs)?

| | 2001 (n=317) | 2005 (n=479) | 2008 (n=236) |
|-----|-----------------|-----------------|-----------------|
| Yes | 53% | 47% | 49% |
| No | 47% | 53% | 51% |

Nearly nine in every 10 companies who do not have a spot bonus program in place have no intention of adding one in the foreseeable future, which is only slightly higher than in 2005.

Figure 13: Reasons for Award

Does your organization award spot bonuses for any of the following reasons? (Check all that apply.) (n=113)

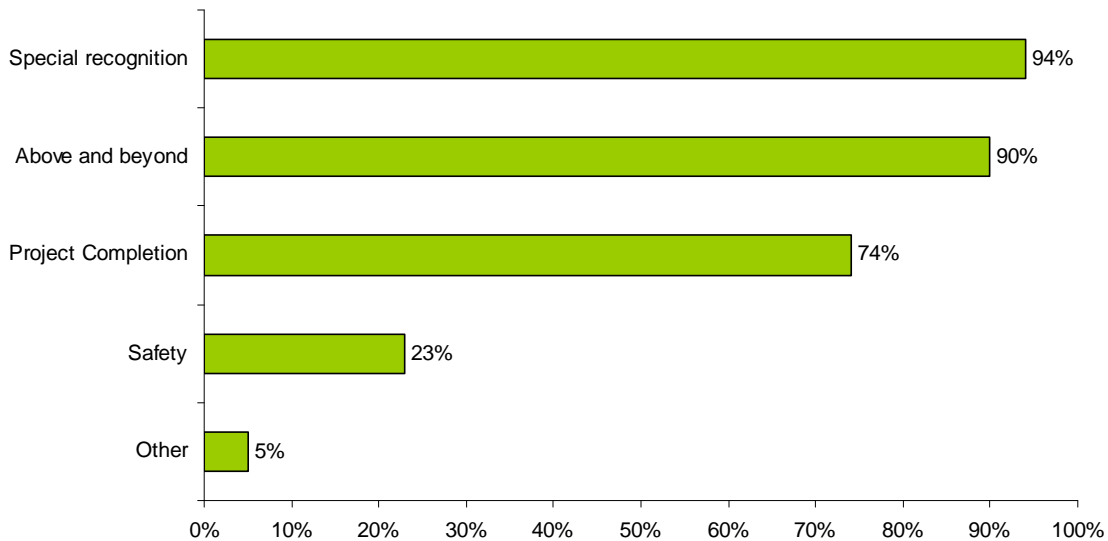


Figure 14: Eligibility

Which of the following positions in your organization are eligible for spot bonuses?

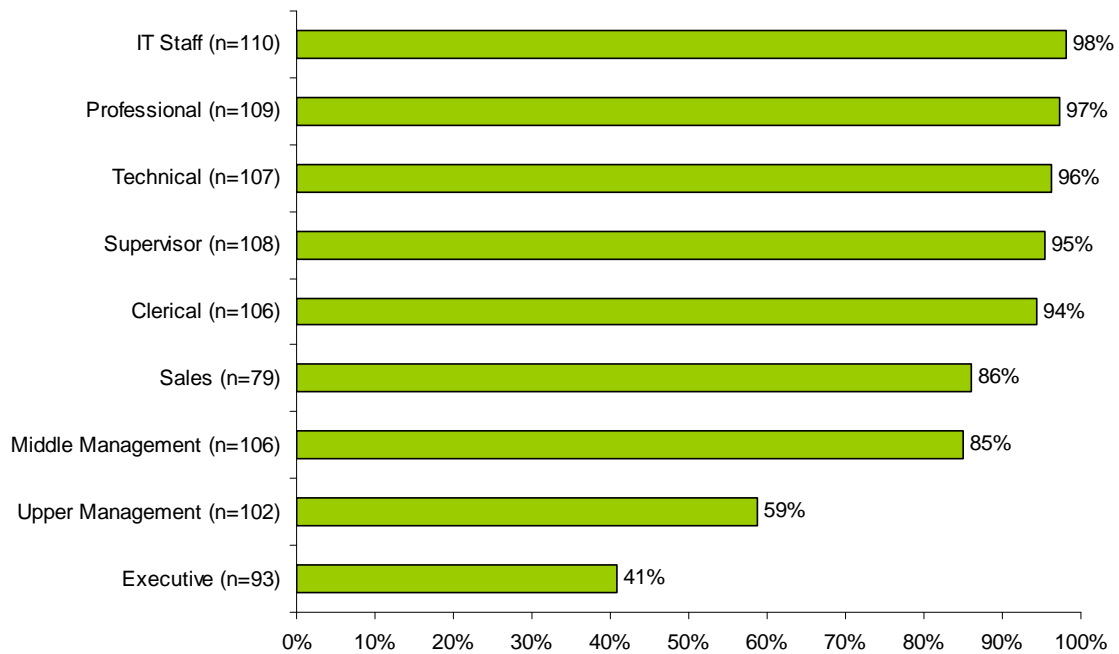


Figure 15: Maximum Award Level

For the positions eligible for spot bonuses, identify the maximum level of award:

| | <\$250 | \$250-\$499 | \$500-\$999 | \$1,000-\$2,499 | \$2,500-\$5,000 | \$5,000-\$7,499 | \$7,500-\$9,999 | >\$10,000 |
|--------------------------|--------|-------------|-------------|-----------------|-----------------|-----------------|-----------------|-----------|
| Executive (n=34) | 3% | 9% | 6% | 9% | 12% | 12% | 3% | 47% |
| Upper Management (n=52) | 6% | 10% | 8% | 12% | 12% | 15% | 10% | 29% |
| Middle Management (n=75) | 11% | 7% | 7% | 17% | 17% | 15% | 9% | 17% |
| Supervisor (n=87) | 10% | 7% | 13% | 20% | 16% | 15% | 6% | 14% |
| Professional (n=92) | 9% | 11% | 12% | 20% | 20% | 12% | 4% | 13% |
| Sales (n=61) | 12% | 8% | 12% | 15% | 25% | 15% | 2% | 13% |
| IT Staff (n=92) | 9% | 10% | 16% | 19% | 17% | 15% | 5% | 9% |
| Technical (n=92) | 11% | 17% | 12% | 17% | 19% | 12% | 4% | 8% |
| Clerical (n=90) | 10% | 18% | 16% | 20% | 17% | 10% | 3% | 7% |

A number of respondents reported maximum awards of greater than \$10,000 even for clerical and technical employees. This is an area of slight increases since 2005. But it should be noted that an option was not provided for those companies who do not have a maximum threshold, and therefore, could have caused them to select the “Greater than \$10,000” level, although awards of that size are not typically granted to these employees.

Figure 16: Adjustments to Minimize Tax Impact

With cash spot awards, does your organization increase the amount of the stated award amount in order to offset the tax impact (might also be known as “grossing up” the award)? (n=110)

| | 2008 (n=110) |
|---|-----------------|
| Never | 47% |
| Sometimes, depends on the size and type of spot award | 40% |
| Always | 13% |

Retention Bonuses

Figure 17: Prevalence of Retention Bonus Program

Does your organization currently have a retention bonus program?

| | 2001 (n=772) | 2005 (n=474) | 2008 (n=235) |
|-----|-----------------|-----------------|-----------------|
| Yes | 34% | 26% | 30% |
| No | 66% | 74% | 70% |

Consistently, more than 90 percent of companies who do not have a retention bonus program are not considering the addition of such programs.

Figure 18: Type of Program

Is your retention bonus program:

| | 2001 (n=264) | 2005 (n=121) | 2008 (n=69) |
|---|-----------------|-----------------|----------------|
| Formal with defined eligibility criteria and rules or guidelines? | 42% | 32% | 22% |
| Based on management discretion? | 58% | 68% | 78% |

Figure 19: Eligibility

Which of the following employees are eligible to receive retention bonuses?

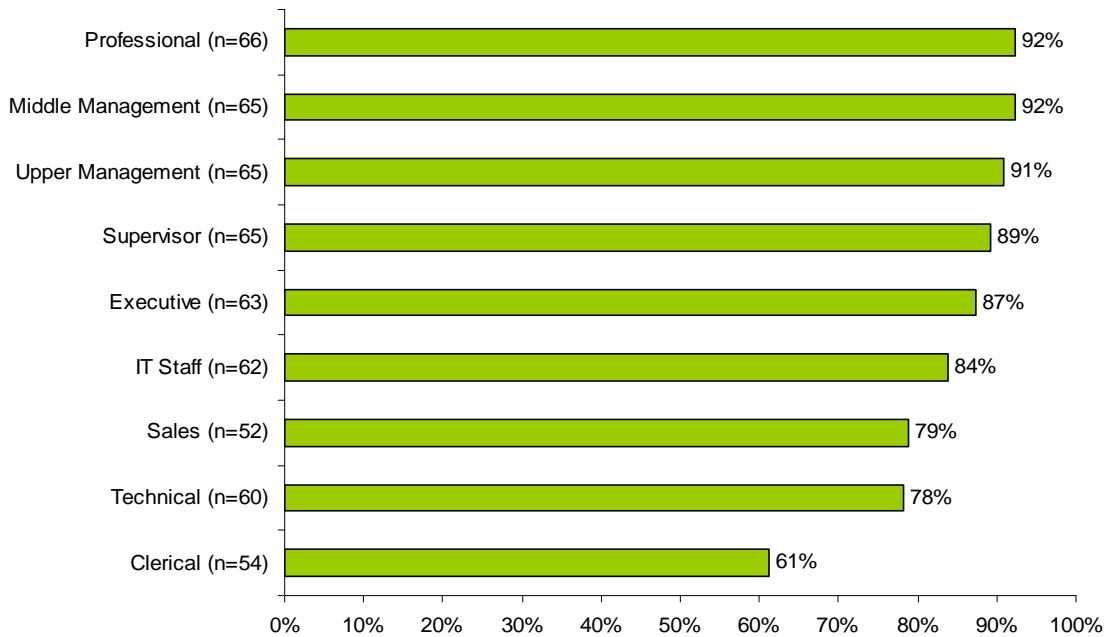


Figure 20: Length of Service Requirement

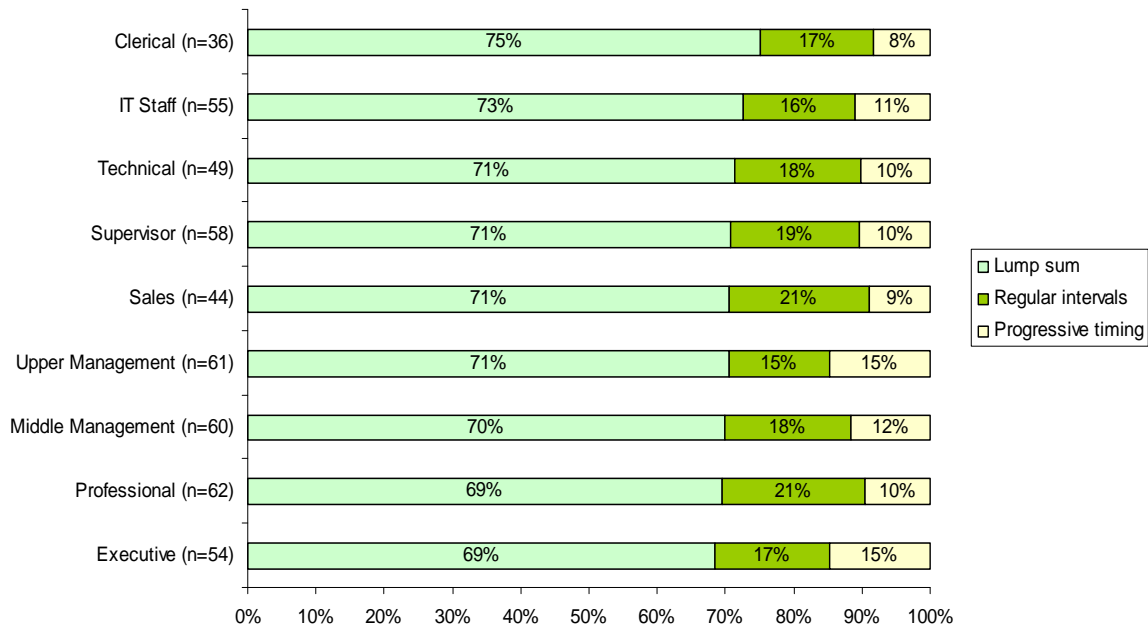
What length of service, if any, is required for employees to become eligible to participate in the retention bonus program?

| | Not tied to length of service | <90 days | 90 days to 6 months | 6 months to 1 year | >1 year |
|--------------------------|-------------------------------|----------|---------------------|--------------------|---------|
| Executive (n=52) | 69% | 2% | 2% | 8% | 19% |
| Upper Management (n=57) | 68% | 2% | 2% | 7% | 21% |
| Middle Management (n=56) | 68% | 2% | 2% | 7% | 21% |
| Supervisor (n=55) | 67% | 2% | 4% | 7% | 20% |
| Professional (n=57) | 68% | 2% | 4% | 7% | 19% |
| Sales (n=42) | 67% | 2% | 0% | 7% | 24% |
| IT Staff (n=50) | 72% | 0% | 2% | 6% | 20% |
| Technical (n=46) | 65% | 0% | 4% | 9% | 22% |
| Clerical (n=36) | 64% | 0% | 3% | 11% | 22% |

The number of organizations that do not tie granting the award to the length of employee service has declined an average of 6 percent for all positions since 2005.

Figure 21: Payment Method

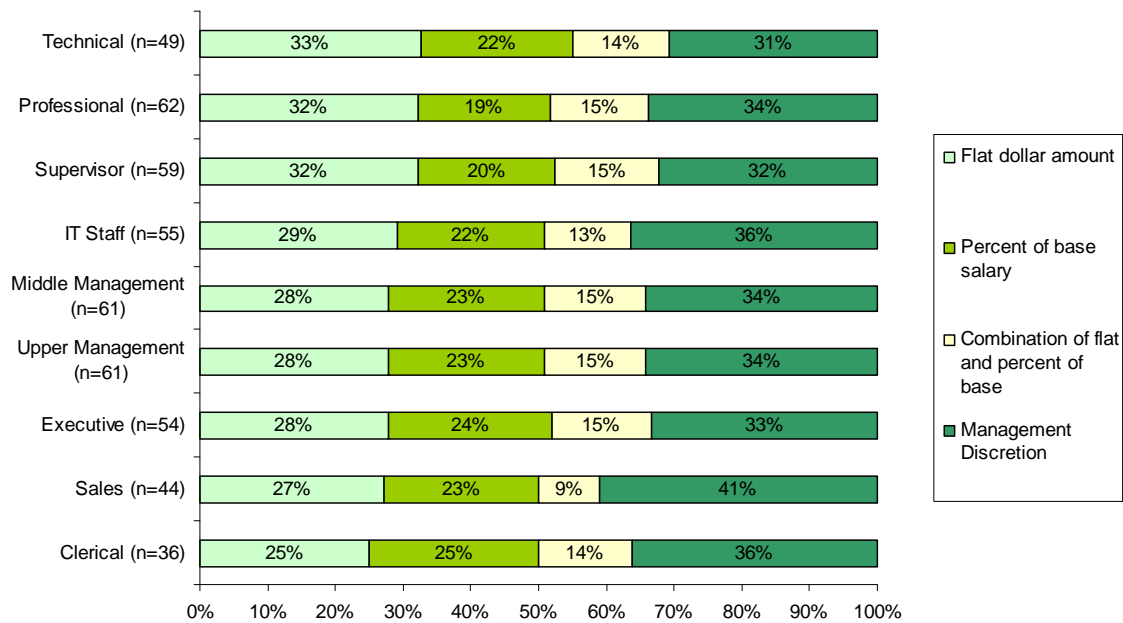
What method of payment is most commonly used for the cash retention bonus?



Organizations continue to prefer the lump-sum method of awarding cash retention bonuses for all positions. On average, the lump-sum award methodology has increased by 6 percent from 2005. Most positions saw a shift away from progressive timing to lump-sum awards, with sales positions experiencing the greatest shift.

Figure 22: Calculation Method

When the cash retention bonus is calculated, what is it most commonly based on?



At least one third of the organizations favor calculating bonuses based on management discretion. All methodologies used to calculate cash retention bonuses, with the exception of percent of base, which declined by 14 percent, increased against 2005.

Figure 23: Average Payment Amount

During the past 12 months, what has been the actual dollar amount, on average, as a percent of base pay per employee? (Note: Due to low response rates in each category, caution should be taken when using this data.)

| | <5.99% | 6.0%-9.99% | 10.0%-20.0% | >20.0% |
|--------------------------|--------|------------|-------------|--------|
| Executive (n=21) | 5% | 14% | 24% | 57% |
| Upper Management (n=26) | 12% | 12% | 31% | 46% |
| Middle Management (n=28) | 11% | 14% | 43% | 32% |
| Supervisor (n=29) | 21% | 24% | 38% | 17% |
| Professional (n=29) | 24% | 24% | 38% | 14% |
| Sales (n=22) | 18% | 27% | 41% | 14% |
| IT Staff (n=25) | 16% | 24% | 44% | 16% |
| Technical (n=21) | 24% | 19% | 33% | 24% |
| Clerical (n=15) | 33% | 20% | 40% | 7% |

Demographics

Figure 24: Organization Size

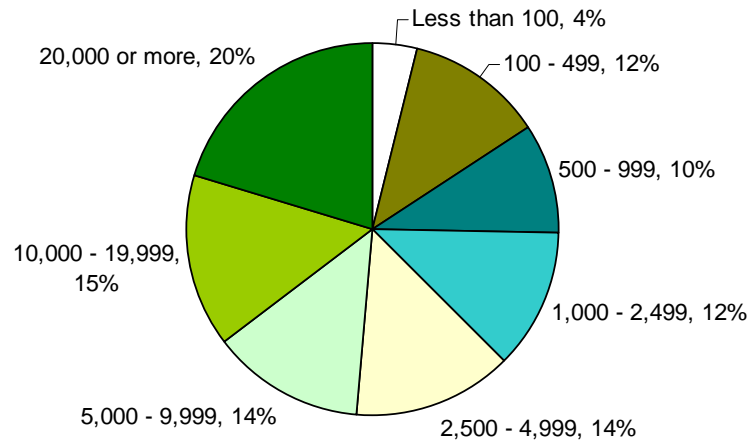


Figure 25: Responsibility Level

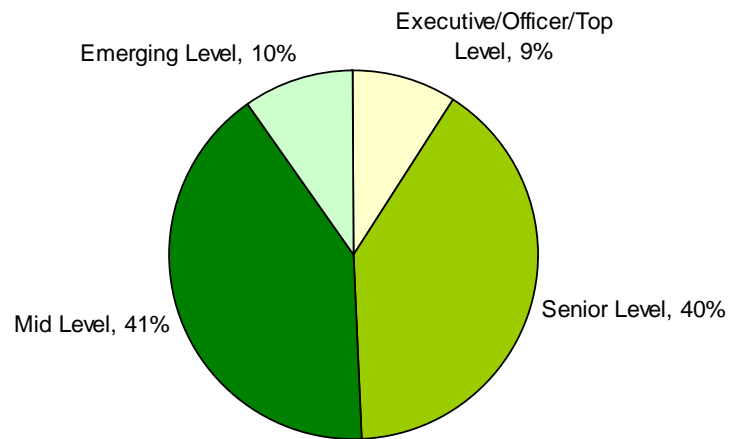


Figure 26: Industry

| Industry | 2008 |
|---|-------------|
| Finance & Insurance | 13% |
| Health Care & Social Assistance | 10% |
| All Other Manufacturing | 8% |
| Retail Trade | 8% |
| Utilities | 7% |
| Manufacturing | 6% |
| Information | 6% |
| Professional, Scientific & Technical Services | 5% |
| Public Administration | 4% |
| Transportation & Warehousing | 4% |
| Educational Services | 4% |
| Accommodations & Food Services | 3% |
| Computer and Electronic Manufacturing | 2% |
| Construction | 2% |
| Pharmaceuticals | 2% |
| Wholesale Trade | 2% |
| Agriculture, Forestry, Fishing & Hunting | 1% |
| Real Estate & Rental & Leasing | 1% |
| Arts, Entertainment & Recreation | 1% |
| Management of Companies & Enterprises | 1% |
| Mining | 1% |
| Other | 16% |