**Determining Employee Compensation:**

Employee compensation can be a sensitive subject, and people get very passionate when trying to determine the most appropriate compensation plan for any business. Many human resource-related concerns need to be addressed, but equally important is understanding the financial aspects of employee compensation. Employee compensation is much more than just the direct amount that you pay an employee. There are other costs that need to be incorporated in the overall payroll budget. Here are five areas to consider when figuring out how to compensate employees:

1. Incentives and bonus plans need to have clear guidelines to minimize any confusion. They shouldn't be seen as a guaranteed payment, but instead should be measured by performance of the individual, team or company. If end-of-the-year bonuses are given every year regardless of performance, they no longer serve as a motivating factor; they are expected payments. Incentives and bonus payments should be reserved for employees who go above and beyond their everyday performance to help the company exceed its profitability goals.

2. Understand the costs of a benefit plan before you offer it. Offering benefits is a nice incentive for employees, but they can be a very costly burden to the company. So when assessing what benefits to add, consider not only today's direct costs, but also long-term expenses. Adding and removing benefits can be very demoralizing to your staff. So don't add anything you don't plan to continue long term. Of course, unexpected situations can always arise that may affect your ability to continue offering a certain benefit, but employees will become disgruntled when benefits are added and removed frequently.

3. You also need to calculate employer payroll taxes into your overall payroll budget. Employers incur expenses, such as Social Security and Medicare tax, unemployment insurance for both state and federal entities, and workers' compensation insurance.

4. What type of position will the individual hold? Does it best correlate with direct payment on an hourly or salaried basis or is commission a better arrangement? Employees in sales-related positions should have commission as a part of their compensation package. Whether they're 100 percent commission or some other combination depends on the circumstances. These types of positions are most successful when their compensation is tied to their performance. It's a win-win for both the company and the employee.

5. Payroll budgeting is a necessity. There are many aspects to budgeting for a company, and a payroll budget is one component that should be done as well. Payroll budgets need to include direct wage and salary payments, commissions, bonuses, incentives, payroll taxes and insurance, along with any other directly related costs the business incurs in the payroll function. There will only be so much money that can be allocated to the complete compensation package and knowing that up front will help you in setting your commission, incentive, bonus and raise strategies up front.

Compensating employees is a delicate balance between meeting the employees' expectations and the company's financial goals. Assessing these five areas when putting together or evaluating your compensation program will help you ensure you're proactively moving your company in the right direction. Our employees are our most valuable assets and we should make sure we're treating them that way.