

# Chapter 5: Compensation and Benefits and Record Keeping

## Overview

There are many laws and regulations governing the areas of compensation and benefits. This chapter outlines a lot of that information. It is full of important details for students to be aware of in the area of compensation, benefits, and records management. While it is important for people in the HR area to understand these concepts, it is equally important that all employees are aware of the issues.

## Lecture Notes

### A. Compensation Administration

Compensation is a means of rewarding employees for their labor. It is also a common complaint and source of dissatisfaction with employees.

1. **Wage and Salary Administration** is the most complex and difficult challenge in management. It may include many elements:
  - a. Wage and salary levels and structures
  - b. Individual wage determination
  - c. Method of payment
  - d. Indirect compensation, fringe benefits
  - e. Exempt employees
  - f. Management control
  - g. Compensation equity
2. **Compensation Plans** should meet the goals of the organization and employees.
  - a. Objectives should include goals related to controlling costs, minimizing discontent, easy administration, incentives, minimum income and payments, and benefits.
  - b. Types of compensation plans include:
    - Direct compensation plans pay employees for their work in straight salary or output-based (or combination).
    - Indirect compensation plans are also known as fringe benefits, like social security, worker's comp, and unemployment.
  - c. Benefits for executives can present special problems because of the wide range of special compensation.
3. **Legal Restraints** govern a variety of employment issues.
  - a. Fair Labor Standards Act (Wage & Hour Law) sets minimum wage; it includes most businesses. The current minimum wage is \$5.15.
  - b. Equal Pay Act (1963) says discrimination based on gender is illegal.
  - c. Compensation and union-management relations are monitored carefully to ensure fairness on both sides.
  - d. Compensation (pay) equity relates to fairness and equity in compensation.
  - e. Compensation trends have moved to skill-based or competency-based pay systems to reward employees for good work.

## B. Employee Benefits

1. **Required Benefits** are governed by law.
  - a. Federal Social Security Act sets withholding amounts and distribution. Employers withhold the tax each employee owes, and they match that amount.
  - b. Worker's compensation laws provide for those (and dependents) hurt on the job regardless of who is at fault.
  - c. Unemployment insurance provides partial wages during involuntary unemployment. In most states the employer is the only contributor to this fund, but employees make contribution in a few states.
  - d. Family and Medical Leave Act provides up to 12 weeks of unpaid leave in a year for specified situations like the birth or adoption of a child, serious health condition of a family member, or the health condition of the employee. The employee is guaranteed the same or equivalent position upon his or her return.
2. There is an **Emphasis on Meeting Personal Needs** related to insurance; the continued increase in cost has prompted the changes.
3. **Growth in Benefits** include:
  - Health, dental, life insurance
  - Paid vacations
  - Profit sharing, stock options
  - Retirement
  - Birthdays off with pay
  - Employee discounts
  - Company services
  - Bonuses
  - Educational assistance, tuition
  - Maternity, family leave
  - Flexible scheduling
  - Day care
  - Transportation
  - Outplacement assistance
  - Wellness programs
  - Company car, cell phone
4. **Trends in Benefit Administration** include:
  - a. Cafeteria style plans allow employees choices of salary and benefit options to meet their needs.
  - b. Salary reduction plan or 401(k) plan reduces taxes paid and builds an investment fund.
  - c. Income protection programs set guidelines for disability insurance. Short-term disability provides benefits for less than six months; long-term may require a six-month waiting period.
  - d. Medical savings accounts save for medical expenses; money deposited into these accounts is tax deductible.

## C. Rewards for Employee Involvement

1. An **Emphasis on Employee Participation for Improved Productivity** encourages involvement in decision-making.
2. The concept of giving **Incentives** or rewards is debatable.
  - a. Monetary rewards may include cash payments, stocks, vacation days, and trips.
  - b. Nonmonetary incentives may be in the form of recognition certificates or gifts.

#### D. Record Keeping

1. **Effective Records Management** provides many advantages for an organization; they include:
  - a. Better service of customers
  - b. Increased productivity
  - c. Centralized access to records
  - d. Elimination of duplication
  - e. Reduced storage space
  - f. Compliance with applicable laws and regulations
2. The **Records Life Cycle** includes four steps.
  - a. Creation of new forms and records when they are justified
  - b. Utilization of records, retrieving and delivering as needed
  - c. Storage in a protected location accessible to users
  - d. Disposition of records when no longer required
3. A **Retention Schedule** specifies the length-time a record is kept before being destroyed. Development of the schedule includes five steps.
  - a. Authorization to develop the schedule
  - b. Conduct a records inventory
  - c. Classify each record
  - d. Set up the retention schedule
  - e. Obtain management approval
4. There are four **Methods of Disposition**.
  - a. Protection from fire is achieved by storing vital records in safes and vaults.
  - b. Transfer from active to inactive status depends on frequency of use. Records may be transferred to a lower-cost area if it is not accessed regularly. Two methods of transfer are perpetual (continuous) and periodic (scheduled).
  - c. Microrecording reduces the space needed for storage and produces a duplicate.
  - d. Destruction (burn, shred, recycle) occurs as necessary; some records may require a Certificate of Destruction.

5. **Managing Records** is necessary because of the large number of records used and stored in organizations. The system should allow access in an efficient manner.
- a. Bar coding is used to trace the location of a record; a bar-code label is placed on each document.
  - b. Indexing allows a record to be located with a key word search; documents are digitized and stored electronically.
  - c. Electronic storage can be used to save storage space and for easy locating.
6. **Legal Issues** impact the retention and disposition of records.
- a. E-mail messages are subject to the same legal requirements as other records; they must be produced on request.
  - b. Personnel records may have to be produced for legal matters no matter what the organization would prefer. The Code of Federal Regulation identifies what records must be kept, and for how long.
7. **Ethical Issues** related to new technologies and safe management of records.
- a. Reliability, authenticity, integrity, and usability of electronic documents must be considered.
  - b. Ethical principles are protected under laws like the Freedom of Information Act.
8. **Trends in Records Management** include:
- a. Paper-based to paperless recordkeeping
  - b. Perceived value and importance of e-files vs. paper records
  - c. Data processing to document processing
  - d. Documents to virtual documents
  - e. Records management from an administrative to information system function
9. **Federal Requirements** for Personnel Records set minimum standards. In a legal matter records can be a company's best defense, so it may be advisable to keep certain records longer.
- a. Age Discrimination in Employment Act requires employment records be kept for a minimum period of time.
  - b. Americans with Disabilities Act requires records and forms be kept a minimum of a year, except medical information that is maintained separately must be kept for a minimum of three years.
  - c. Employee Polygraph Protection Act says that documentation related to testing must be kept three years from the date of the test, and protects the test results from wide disclosure.
  - d. Equal Pay Act requires that documentation related to job and compensation records and wage differentials be kept a minimum of two years.
  - e. Fair Labor Standards Act requires that employee information, payroll records, union agreements, and notices be kept a minimum of three years.

- f. Family and Medical Leave Act requires that all information related to FMLA be kept a minimum of three years.
- g. Federal Unemployment Tax Act requires annual records be retained for four years after the tax is due or paid.
- h. Immigration Reform and Control Act requires I-9 forms be kept separate from the personnel files. It also requires copies of information be kept for at least three years.
- i. Occupational Safety and Health Act requires forms 300, 301, and 300A; documents must be kept for five years.
- j. Title VII of the Civil Rights Act requires companies with 100 or more employees file the Standard Form 100 each year. Currently there are no broad requirements for how long records must be kept.
- k. Employee access to review and copy their own personnel files is protected by many state laws; however, the Federal Privacy Act and Freedom of Information Act covers access to government records only.

### **Additional Resources for Students**

Recommended readings (no texts should be more than two years old):

- Carrell, Michael R. *Human Resources Management*. John Wiley & Sons, Inc.
- DeCenzo, David A. and Stephen P. Robbins. *Human Resource Management*. John Wiley & Sons.
- Dessler, Gary. *Human Resource Management*. Prentice-Hall.
- Gomez-Mejia, Luis, David Balkin, and Robert Cardy. *Management Human Resources*.
- Harris, Michael. *Human Resource Management*.
- Ivancevich, John M. *Human Resource Management*. Irwin/McGraw Hill.
- Milkovich, George T. and John W. Boudreau. *Human Resources Management*.
- Mondy, Noe and Premeaux. *Human Resource Management*. Prentice-Hall.
- Sherman, Arthur W. Jr. and George W. Bohlander. *Managing Human Resources*. South-Western Publishing Co.

Current issues of periodicals or business publications are also an excellent resource. Some of the following periodicals have an accompanying Web site.

<b><i>Current Periodical</i></b>	<b><i>Web Address</i></b>
<i>BusinessWeek</i>	<a href="http://www.businessweek.com">http://www.businessweek.com</a>
<i>IAAP Complete Office Handbook</i>	<a href="http://www.iaap-hq.org/products/handbook.htm">http://www.iaap-hq.org/products/handbook.htm</a>

*Modern Office  
Technology*

*OfficePro*

<http://www.iaap-hq.org/officepro/toc.htm>

*The Office*