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1 TOTAL COMPENSATION

LEARNING OBJECTIVES

After studying this chapter and completing the exercises, you should be able to:

1.1 Identify the changes in the nature of the employment relationship.

1.2 Describe the importance of compensation from an employer and employee perspective.

1.3 Explain the evolution of total compensation to total rewards.

1.4 Describe the components of the WorldatWork Total Rewards Model.

1.5 Explain how compensation decisions can result in unintended consequences.

1.6 Explain the ongoing challenge of pay equity.

What goes through your mind when you think about your future earnings as an employee? Are you nervous about earning enough to pay your bills? Are you worried that you may not have health insurance and could be bankrupted by a medical emergency? Are you concerned your job won't be satisfying? Or are you at the other end of the continuum where you envision a six-figure income with a host of enticing benefits from an employer who values your contributions? Do you anticipate that you will feel a deep sense of accomplishment and look forward to going to work? Perhaps you dream of working for an employer like St. John Properties.

Compensation in the News

St. John Properties is a large privately owned commercial real estate firm located in Baltimore, Maryland. In December 2019, at its annual holiday party, company founder and CEO Edward St. John announced that each of its 198 employees would receive a share of a $10 million bonus for reaching a goal of developing 20 million square feet of commercial space. The amount that each employee would receive was based on their length of employment with the company and averaged $50,000 per employee. This special bonus was in addition to an annual year-end bonus and generous employee benefit package.[1]

Certainly, the employees at St. John Properties were very fortunate to receive such a large bonus, but this type of special bonus is an exception rather than the rule. Most people neither love nor hate their jobs. Instead, they are somewhere in the middle when it comes to their satisfaction with what they earn and with the work they do. For example, they might be very happy with their pay but find their benefits lacking, or vice versa. They might even be happy with both their pay and benefits but don't feel like they are valued by their employer. However you feel about your job, it is important to understand your compensation and how it relates to your employment alternatives. If you plan to work in the field of human resources, working with compensation systems will likely be an aspect of your job. Thus, we begin our journey of learning about compensation systems: how they are designed, implemented, and managed; how they support an organization's goals and strategy; and the impact they have on employees.

NATURE OF THE EMPLOYMENT RELATIONSHIP

Much has changed in the relationship between employers and employees over time. Long gone are the days when a father worked diligently for a single employer for most of his working life and was the sole support for the family, while the mother stayed home to tend to family and household matters. The **psychological contract**, which is the unwritten understanding between employees and employers as to their mutual obligations in the employment relationship, has changed dramatically. Traditionally, it was a **relational psychological contract**, where employers were paternalistic toward their employees, and, in return, employees remained loyal to that single employer their entire career. Today, in many cases, the relational psychological contract has been replaced by a **transactional psychological contract**, an economic approach where the focus is on the exchange of employee labor for rewards provided by the employer. In this situation, the relationship is often short term. As a former coworker of one of the authors likes to say, "You pay me, I work; at the end of the week, we are even."

This shift has resulted in significant changes for employers and employees alike. Employees no longer work for a single employer until they are of traditional retirement age and eligible for government-sponsored health care. Indeed, they are much more likely to leave a job that doesn't suit them. Individuals no longer rely on Social Security and an employer-provided pension as a means of support in their so-called golden years. Gone too is the seemingly endless supply of workers to easily fill all the jobs and do all the work the employers need to have done. This means employers need to focus more on attracting and retaining employees who have the necessary knowledge, skills, and abilities (KSAs) for the employer to be successful.

When looking at the supply of workers, the most often cited statistic is the unemployment rate reported monthly by the U.S. Bureau of Labor Statistics (BLS). The BLS tracks multiple measures of unemployment. The most commonly cited **unemployment rate** is the percentage of the labor force that is not working, available for work, and actively seeking employment. Note that this does not include people who are not actively looking for a job or who are working part-time and would like full-time employment.

Following the Great Recession in 2007–2009, unemployment rates in the United States began trending downward as U.S. employers began adding workers to their payrolls. In January 2020, the civilian unemployment rate hit a low of 3.5% from a high of 10% in October of 2009.[2] However, in April 2020, the unemployment rate rose to 14.7%, likely as a result of workforce disruption associated with the COVID-19 pandemic. Since then, the unemployment rate has returned to lower levels, and as of March 2024 it was 3.8%.[3] Today, there is a shortage of workers in many industries. According to the BLS, the U.S. economy had 8.8 million unfilled jobs, but only 5.4 million people looking for work as of March 2024.[4] As a result, employers face a talent war: competition for employees is fierce, and employers need to market themselves to prospective employees.

Obviously, when the unemployment rate is low, it is more difficult for employers to attract and retain workers, but that is not the only factor in the supply of labor. The **labor force participation rate** is the percentage of the civilian noninstitutional population age sixteen and over who are employed and unemployed.[5] In other words, it is the number of people who either are working or want to work expressed as a percentage of the noninstitutional population. As more people retire or choose not to work, the labor force participation rate decreases. With an aging population, the labor force participation rate has been steadily decreasing for a number of years. During the pandemic, more people chose to leave the labor force for a variety of reasons (e.g., to minimize the risk of getting COVID-19 or to care for their children who were not able to be in school). Obviously, a smaller labor force also makes it more difficult for employers to hire the needed employees.

The labor force participation rate also has an impact on the unemployment rate. Some would argue that the current unemployment rate is artificially low because of the decreased labor force participation, but we will leave that debate and related calculations for a textbook on labor economics. From a compensation standpoint, what matters is that employers today are having difficulty finding enough qualified workers and are having to make changes in their approach to attracting employees.

One of the things that employers are doing to make themselves more attractive to prospective employees is to create an employer brand. An **employer brand** refers to the company's reputation as a place to work and what the employer offers of value to its employees. Essentially, it is a tool employers can use to market themselves to prospective employees. A **positive employer brand** signals that an organization is a good employer and place to work, which enhances recruiting and helps build a qualified workforce, as well as engage and retain employees. Ultimately, a positive employer brand can help improve organizational performance. Companies who are known for their positive employer brands include Google, Cisco Systems, Netflix, Starbucks, and Southwest Airlines.

For employees today, quality of life, work-life balance, opportunities for growth, and the reputation of the organization may have greater value than the size of their paycheck. Essentially, employees are willing to trade some of their earnings for other aspects of a job. This is easier to do, because most two-person households today are dual income, which provides a buffer in case one person wants to pursue different employment. There are also more **nontraditional workers**, individuals who perform work for an organization but are not full-time employees of that organization. This category includes temporary agency workers, on-call workers, leased employees, and independent contractors or freelancers. We will explore these arrangements in more detail in Chapter 11.

These work arrangements offer new options for employees and employers alike, creating what is termed the **gig economy**, a labor market characterized by freelance work and short-term work assignments as opposed to traditional long-term jobs. Workers in the gig economy are often connected to jobs through an online intermediary such as Uber or TaskRabbit, which makes it easier for them to find quick, temporary work. According to a 2018 Gallup study, it is estimated that around 57 million people in the United States were participating in the gig economy before the COVID-19 pandemic, and it is projected that in 2027, that number will rise to 86.5 million people or 50.9 percent of the total U.S. workforce.[6]

The changing nature of the employment relationship, worker shortage, nontraditional work arrangements, and the gig economy have all had a significant impact on the role and scope of compensation in organizations. Employers have to be more creative in how they reward employees for their work, and employees have more choices and different views of how they should work and be compensated for their work efforts. More than ever, compensation is on the minds of employees and employers.

PERSPECTIVES ON THE IMPORTANCE OF COMPENSATION

While compensation is very important to both employers and employees, they view it from different perspectives. For employers, compensation is a cost of doing business that needs to be managed. For employees, compensation is what allows them to pay for things they need and want in life.

Employer Perspective

Many employers today face increasingly competitive markets for their goods and services, which means they can't simply pass along cost increases to the consumers. This puts pressure on employers to control all their costs. To further complicate the situation, employers have to choose where in the organization to allocate limited financial resources. Should they spend more on developing new products, advertising, marketing, obtaining new equipment, or increasing employee compensation? The competition for increases can be intense, especially when the current cost is already substantial. Organizations typically spend one-fifth to one-half of their operating budget on compensation costs to attract, retain, and motivate employees, although labor costs vary dramatically from industry to industry, as shown in Table 1.1.

TABLE 1.1 ■ Total Hourly Compensation Costs by Industry

Industry	Total Hourly Compensation
All workers	$43.11
Information	$74.85
Financial activities	$58.15
Professional and business services	$56.06
Education and health services	$46.28
Manufacturing	$43.68
Trade, transportation, and utilities	$35.91
Leisure and hospitality	$19.42

Source: https://www.bls.gov/news.release/pdf/ecec.pdf

While it's important for all employers to contain labor costs, some industries have very small profit margins, which creates additional pressure. For example, while the table shows that the hourly compensation in the leisure and hospitality industry is lower than in other industries, labor costs are a major expense. Think about how many people work in a restaurant. There are servers, cooks, dishwashers, and depending on the type of restaurant, there may be hosts/hostesses, bussers, catering staff, and/or event planners. The goal in the industry is to keep labor costs to 28–33% of total revenue.[7] If you think about the additional expenses for the cost of food, supplies, and facilities, you can understand why the average profit margin for a restaurant is 3–5%.[8] It also explains why so many restaurants go out of business.

Employers also have to consider the broader impact of their compensation decisions on others. Shareholders typically choose to invest their money where it will have the greatest return. Increases in labor costs reduce profits, and subsequently returns to shareholders in the form of dividend payouts and higher stock values, unless those increases in labor costs are offset by increases in productivity. For example, when Amazon announced it would be raising its minimum wage to $15 per hour for all U.S. workers effective November 1, 2018, the price of shares fell based on that news, potentially due to investor concerns over higher wages. Thus, shareholders typically have an interest in keeping labor costs low. The exception is the minority of shareholders who choose to invest their money in organizations that treat their employees fairly, but even those socially conscious shareholders expect to see a competitive return on their investment.

Similarly, many customers seek to find the best value in their purchases and often make their purchasing decisions based primarily on cost. Since businesses often pass on the cost of higher wages by raising the price of goods and services, customers may be impacted by wage increases. As with shareholders, there are some who are more likely to support (or not) companies based on how they treat and pay their employees. There was a time when some people refused to shop at Walmart because they were known for paying their employees such low wages that they qualified for food stamps or other forms of public assistance. Since the labor shortage fueled by the pandemic, Walmart has made a number of changes to their compensation plan, which has increased the pay of many of its employees. Whether or not this has changed customers' views of the retailer remains to be seen.

Other employers who employ workers with the same knowledge, skills, and abilities are referred to as **labor market competitors**, and they too have an interest in an employer's compensation policies. If another employer is paying its employees more, this puts pressure on its labor market competitors to increase their pay in order to attract and retain qualified workers. Imagine that you could work for either of two employers where the jobs are identical except for pay. Wouldn't you choose the employer who is paying more? Thus, it should be no surprise that in October 2018, after announcing they were increasing their minimum wage to $15 per hour, Amazon received a company record of approximately 850,000 work applications for hourly positions in the United States, more than double the previous record for the most applications received in a month.[9] If most potential employees wish to work for the higher paying employer, that employer can hire the best of the employees available. This creates what is known as the **spillover effect**, which is the pressure on a lower-paying employer to increase their pay rates to be able to attract and retain enough qualified workers.

Employee Perspective

Employees have a variety of bills to pay. This includes housing, food, transportation, medical care, insurance, student loans, dependent care, entertainment, and a multitude of other things. Every year the cost of living increases, and if an employee's pay does not increase at least as much as the rate of inflation, they will lose purchasing power and be less able to afford to pay those bills than they were the previous year. Unless they are independently wealthy, compensation is key to an employee's economic survival and standard of living.

Beyond an employee's economic concerns, compensation signals the employer's priorities and how much the employer values the employee's efforts. Compensation influences an employee's willingness to accept a job and remain with an employer. Employees know their value and will seek a position that pays accordingly. Often the first thing a prospective employee wants to know when offered a job is what their compensation will be. When an employee receives a performance appraisal or promotion, they want to know how much of a pay increase they will receive. When a union contract is negotiated, the members want to know what will happen to their compensation over the life of the contract.

Pay can increase or decrease an employee's motivation and subsequently their performance. Think about it. Would you put more effort into a job where you felt you were being paid well or a job where you felt you were being underpaid? But there is much more to attracting, retaining, and motivating employees than just their pay. With the changing nature of the psychological contract, increasing mobility of employees, and shortage of workers, employers are having to put more thought and effort into compensation systems to attract and retain qualified employees. In short, employers can't simply keep increasing wages to attract and retain qualified employees. They need to become more creative in their compensation plans and focus on a broad definition of compensation.

FROM TOTAL COMPENSATION TO TOTAL REWARDS

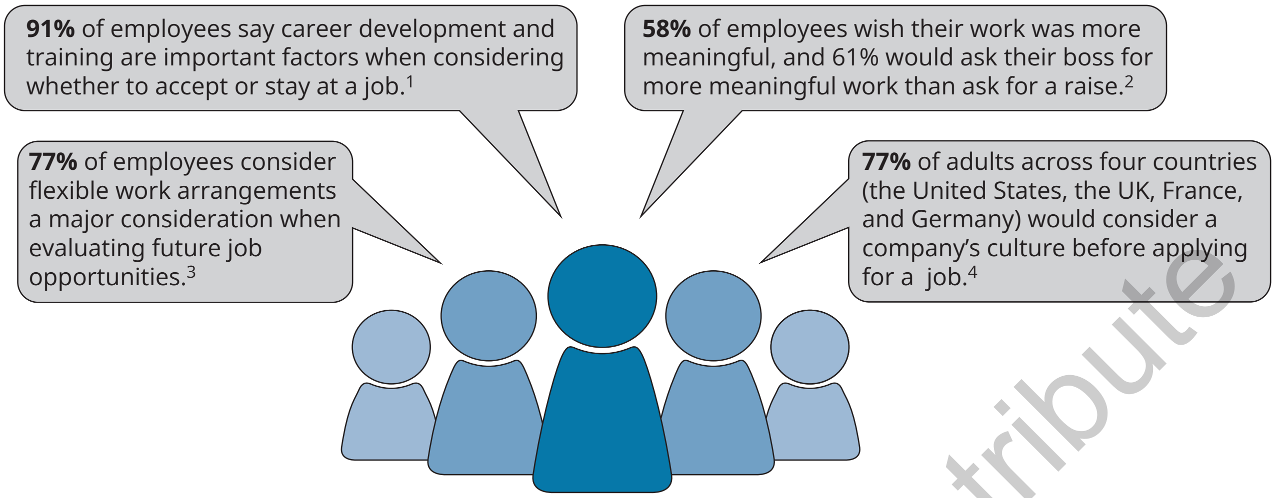
Total compensation is the total of all direct and indirect payments earned by an employee in exchange for the work they perform for their employer. Direct payments are monetary sums paid to an employee and include wages and bonuses. Indirect payments have a monetary value to both the employer and employee but are not paid as a sum of money. They include such things as paid time off, health insurance, and access to employee services (e.g., child/elder care assistance, financial/retirement planning). Historically, these were the focus of employers when trying to attract and retain employees, but most employees receive other things they value from their jobs such as flexible work hours, recognition of their accomplishments, and developmental opportunities. All of these rewards are considered **extrinsic rewards**, which are tangible things of value employees receive from the employer, often to reinforce or incentivize employee behavior.

Not all employee rewards are extrinsic. **Intrinsic rewards** are something of internal value to an employee that comes from performing the job. They include such things as the feelings of engagement or enjoyment inherent in completing the work or the sense of purpose associated with helping others. Employers may be unaware of the intrinsic rewards related to work that an employee experiences, or they may attempt to design jobs in such a way that employees find them intrinsically rewarding. For example, employers may build autonomy into a job, hoping that providing the employee with decision-making authority will make the job more interesting and intrinsically motivating. Indeed, most employees today have interests in work that go beyond pay and benefits, as shown in Figure 1.1.

Employees (and job applicants) today are interested in everything associated with a job, shifting the focus from total compensation to total rewards. **Total rewards** is the sum value of an employee's total compensation and everything the employee values as part of the work experience and employer/employee relationship. Financial rewards may be the most obvious; however, recognition, developmental opportunities, flexible work hours, and quality of work life may be equally or more important in the eyes of employees and have a greater impact on the recruitment, performance, and retention of top talent. Rewards may also be social in nature. For example, positive interactions with a supervisor and co-workers can make the employee feel welcomed, respected and appreciated. Think about what you might value in your job and the organization for which you work. It is likely more than the pay and benefits you would receive. You might value the organization's reputation and culture, your co-workers, the work you perform, and the opportunity to learn new things.

A closely related concept frequently used in employer branding is the **Employee Value Proposition (EVP)**, which is an employer's promise of what they will provide to employees in return for the skills, capabilities, and experience they bring to a company. It includes material things (e.g., pay, benefits),

FIGURE 1.1 ■ Employee Interests



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[3]Zenefits (2018). The State of Flexible Work Arrangements 2018. Available at https://learn.zenefits.com/flexible-work-report.html?utm_source=blog&utm_medium=footer&utm_campaign=0718FWAreport

[4]Glassdoor (2019). Glassdoor's Mission & Culture Survey 2019. Available at https://about-content.glassdoor.com/en-us/workplace-culture-over-salary/

opportunities for growth and development, connection and community (e.g., social relationships, being valued), and meaning and purpose.[10] As you can see, EVP is a broad concept that encompasses a variety of intrinsic rewards.

Historically, intrinsic rewards were left to the realm of job design. While the primary focus of this book is on extrinsic rewards, we believe it is important to take into consideration the value of intrinsic rewards to employees, as there are often tradeoffs between extrinsic and intrinsic rewards. A classic example is that nonprofits and religious organizations tend to pay less than for-profit organizations, yet are still able to attract, retain, and motivate high-quality employees. Similarly, jobs in human services, such as social work, tend to pay less than those in other fields. If it were strictly a matter of extrinsic rewards, no one would work in human services or for a nonprofit, yet many people do because they have the intrinsic reward of doing work that helps people and makes a difference.

Today, both intrinsic and extrinsic rewards play a critical role in motivating employee performance, especially given the changing nature of the employment relationship and desires of employees. Thus, employers need to take a more holistic approach to compensation and create a total rewards strategy that supports their organizational and business strategies. A **total rewards strategy** is an employee-focused approach to designing and delivering a total rewards program aligned with the business strategy and targeted toward performance outcomes. Once an employer determines the types of employee attitudes, behaviors, and competencies needed to achieve organizational goals, the employer must come up with a total rewards program that will attract and retain the right types of employees, and mechanisms to motivate and guide their performance. A positive exchange of effort by the employees for organizational rewards can maximize motivation, organizational commitment, and organizational performance. Developing a compensation strategy will be addressed in detail in Chapter 3, but for now we will introduce you to the WorldatWork Total Rewards Model.

WORLDATWORK TOTAL REWARDS MODEL

WorldatWork is the leading global nonprofit association for compensation professionals. Founded in 1955 in Toledo, Ohio and originally named the Ohio Wage and Salary Association, WorldatWork is credited with popularizing the idea of Total Rewards. Today, WorldatWork has more than 70,000 members and subscribers worldwide, and 93 percent of Fortune 500 companies employ a WorldatWork member. WorldatWork offers its members useful resources in the form of salary data, benchmarking surveys, research, education and training, professional certification, and networking opportunities. Their total rewards model is shown in Figure 1.2.

FIGURE 1.2 ■ WorldatWork Total Rewards Model

Source: WorldatWork, 2023. Used with permission.

The WorldatWork total rewards strategy involves the integration of five key elements that, when developed and executed in alignment with the business strategy, are designed to attract, motivate and retain a productive, inspired, and committed workforce.[11] The five elements are:

1. *Compensation.* Fixed and variable pay provided by an employer to workers in exchange for their contributions to the organization.
2. *Benefits.* Programs focused on health and welfare, income protection, financial preparedness, retirement, and pay for time not worked.
3. *Well-being.* Programs that support workforce success inside and outside of work such as diversity and inclusion initiatives, work-place flexibility, wellness programs, and community volunteer programs.
4. *Careers.* Rewards and opportunities to advance one's skills, competencies, sense of purpose, responsibilities, and contributions, such as performance feedback, tuition reimbursement, training opportunities, mentorship programs, and career planning.
5. *Recognition.* Formal and informal programs that thank, validate, recognize, and celebrate workforce contributions. Examples include spot awards, service awards, employee of the year awards, and appreciation events such as luncheons or dinners.

In conjunction with the total rewards strategy, WorldatWork developed a Total Rewards Inventory that lists a wide variety of rewards that employers may offer in today's workplace. The inventory is shown in Figure 1.3.

As you can see in the figure, there are a multitude of possible rewards. WorldatWork groups them under the labels of compensation, benefits, workplace well-being, recognition, and development. While their labels may be debated (for example, compensation includes benefits), the inventory provides a good list of options for employers when rewarding employees. We will address them throughout the book with the exception of those related to job design, which is beyond the scope of a compensation textbook. For now, we focus on the inputs and outcomes of the total rewards model.

External Influences

There are two types of influences on a total rewards strategy, external and internal. **External influences** are factors outside of an organization that impact an employer's rewards program. They include the economy, society, labor market, AI and technology, and compliance.

Economy

Total Rewards Programs are influenced by the markets in which firms compete. Generally, limited competition among sellers allows for higher market prices for goods and services and higher total rewards for employees. Conversely, greater competition among sellers tends to result in a lower market price for goods and services and lower total rewards for employees. However, competition can influence total rewards programs in other ways. Competition may drive a firm to seek out niche markets by producing specialized goods and services that require specialized labor inputs, thus leading to higher total rewards.

Society

Society refers to the social norms that comprise the commonly held perceptions and values within a community. They influence compensation practices and total rewards. For example, changing social norms regarding cohabitation and marriage in families have resulted in organizations offering health benefits to same-sex or opposite-sex domestic partners. While definitions may vary depending on the source, the BLS defines domestic partners as "two unrelated, unmarried adults who share the same household.[12] In 2019, about one-third of firms offering health benefits to their employees also offered coverage to their domestic partners.[13] Note that subsequent reports do not include this information. As social norms change—and they inevitably do—firms need to adjust their total rewards program to align with employee expectations. Organizations that fail to adjust their total rewards offerings in light of social norms may find it difficult to recruit, motivate, and retain workers.

Labor Market

The **labor market** refers to the demand for and supply of labor. The term may be applied to the total supply and demand for workers, or it can be used to refer to a subset of particular types of workers (e.g., the labor market for registered nurses). When used to refer to a subset, it can help identify workers with specific KSAs that an employer needs. The labor market is constantly changing as the demand and supply of labor changes. When the labor market changes, employers need to adjust their total rewards programs. For example, a shortage of truck drivers in the United States has resulted in average pay increases and improved working conditions for truck drivers. In 2022, Walmart announced plans to increase average pay for new truck drivers from $87,500 a year to a range of $95,000 to $110,000[14] as part of the company's push to improve recruiting and retention of professional drivers. We can expect total rewards programs for truck drivers to continue to improve over the coming years, given that the *American Journal of Transportation* estimates that the United States will be short 160,000 drivers by 2030.[15]

AI and Technology

Technology has changed almost everything in today's world, and the explosive use of AI will surely do the same. Both influence total rewards programs. The use of **people analytics**, a data driven approach to managing people at work, allows firms to make better total rewards decisions. By using technology to access and analyze employee data, employers can determine how different rewards influence important outcomes such as employee engagement, performance, and turnover. It facilitates monitoring of employee compensation to ensure compliance with employment laws and ensuring fairness in compensation systems. Technology makes collecting information and evaluating the effectiveness of total rewards programs easier, thus enabling compensation professionals to help organizations make

FIGURE 1.3 ■ Worldatwork Total Rewards Inventory

WorldatWork Total Rewards Association — 65 YEARS 1955-2020

TOTAL REWARDS MODEL INVENTORY

Compensation

Base Wages
- ☐ Salary Pay
- ☐ Hourly Pay
- ☐ Piece Rate Pay

Premium Pay
- ☐ Shift Differential Pay
- ☐ Weekend/Holiday Pay
- ☐ On-call Pay
- ☐ Call-in Pay
- ☐ Hazard Pay
- ☐ Bilingual Pay
- ☐ Skill-based Pay

Variable Pay
- ☐ Commissions
- ☐ Bonus Programs
  - ☐ Referral Bonus
  - ☐ Sign-on Bonus
  - ☐ Retention Bonus
  - ☐ Project Completion Bonus
  - ☐ Spot Bonus
  - ☐ Quality Bonus
  - ☐ SPIFF

Incentive Programs
- ☐ Short-term
  - ☐ Profit Sharing
  - ☐ Individual Performance-based
  - ☐ Performance Sharing
- ☐ Long-term
  - ☐ Performance Shares
  - ☐ Stock Options/Stock Appreciation Rights (SARs)
  - ☐ Restricted Stock/ Restricted Stock Units
  - ☐ Performance Cash
  - ☐ Employee Stock Purchase Plan

Severance Pay and Outplacement Services

Benefits

Legally Required/Mandated
- ☐ Unemployment Insurance
- ☐ Workers' Compensation Insurance
- ☐ Social Security
- ☐ Medicare
- ☐ State Disability Insurance (if applicable)

Health and Welfare
- ☐ Medical Plan
- ☐ Dental Plan
- ☐ Vision Plan
- ☐ Prescription Drug Plan
- ☐ Flexible Spending Accounts (FSAs)
- ☐ Health Reimbursement Accounts (HRAs)
- ☐ Heath Savings Accounts (HSAs)
- ☐ Behavioral Health Plan
- ☐ Telemedicine Services
- ☐ Employee Life Insurance
- ☐ Spouse/Domestic Partner/Dependent Life Insurance
- ☐ Accidental Death and Dismemberment (AB&D) Insurance
- ☐ Short-Term/Long-Term Disability Insurance
- ☐ Global Wrap Benefits
- ☐ Adult Disabled Dependents
- ☐ Adoption reimbursement

Retirement
- ☐ Defined Benefit Plan
- ☐ Defined Contribution Plan
- ☐ Nonqualified Deferred Compensation Plan
- ☐ HSA for Retirement
- ☐ Retiree Health Care Benefits
- ☐ Retirement Transition Program/Benefits

Pay for Time Not Worked
- ☐ Vacation
- ☐ Holiday
- ☐ Sick Leave
- ☐ PTO Bank
- ☐ Bereavement Leave
- ☐ Jury Duty
- ☐ Pet Bereavement
- ☐ Parental Leave
- ☐ Adoption Leave
- ☐ Sabbaticals
- ☐ Paid Leave Bank
- ☐ Personal Leave

Benefits *(continued)*
- ☐ Shared Leave Program
- ☐ Military Leave and Compensation Offsets
- ☐ PTO Donation, Sale or Conversion Program

Voluntary Benefits
- ☐ Long-term Care
- ☐ Auto/Home Insurance
- ☐ Pet Insurance
- ☐ Legal Insurance
- ☐ Employee Discounts
- ☐ Concierge Services
- ☐ Parking

Perquisites
- ☐ Company Car/Car Allowance
- ☐ Mobile Phone
- ☐ Laptop Computer
- ☐ Free Food
- ☐ Transportation Accounts

Workplace Well-Being

Workplace Culture
- ☐ Diversity/Inclusion Initiatives
- ☐ Work Environment Initiatives
- ☐ Results-based Work Environment

Work Flexibility
- ☐ Telework
- ☐ Full-time Remote
- ☐ Flex time
- ☐ Compressed Workweek
- ☐ Shift Flexibility
- ☐ Part-time/Reduced Work Schedule
- ☐ Job Sharing
- ☐ Phased Return to Work
- ☐ Seasonal Schedules
- ☐ Phased Retirement
- ☐ Career On/Off Ramps
- ☐ Alternate Worksites
- ☐ Integration of Employed and Gig Workers

Physical Well-Being
- ☐ Employee Assistance Program
- ☐ Outcomes-based Wellness Program
- ☐ Participatory Wellness Program
- ☐ Health Risk Assessments
- ☐ On-site and Remote Biometric Screenings

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(Continued)

FIGURE 1.3 ■ Worldatwork Total Rewards Inventory (*Continued*)

WorldatWork Total Rewards Association — 65 YEARS 1955-2020

TOTAL REWARDS MODEL INVENTORY

Workplace Well-Being (*continued*)

- ☐ Wellness Screenings
- ☐ On-site Fitness Facilities
- ☐ Fitness Club Memberships or Subsidized Club Rates
- ☐ Weight Management Program
- ☐ Tobacco Cessation Program
- ☐ On-site Massage
- ☐ Stress Management Programs
- ☐ Immunization Clinics
- ☐ Nutritional Counseling
- ☐ Healthy Cafeteria options
- ☐ Healthy Vending Machines
- ☐ Wellness Challenges
- ☐ On-site Health Clinic
- ☐ On-site Nurse/24-Hour Nurse Line
- ☐ On-site Seminars (well-being, parenting, etc.)
- ☐ Health Coaching Health Fairs (On Site, Virtual)

Community Involvement

- ☐ Corporate Social Responsibility Programs
- ☐ Green Initiatives
- ☐ Disaster Relief Funds
- ☐ Alumni Networks
- ☐ Community Volunteer Programs (Paid/Unpaid)
- ☐ Matching Gift Programs
- ☐ In-Kind Donations
- ☐ Employee Grants for Community Service
- ☐ Team-based volunteer experiences

Caring for Dependents

- ☐ Resources and Referrals (Childcare/Elder Care)
- ☐ Childcare Spending Accounts, Subsidies, and Vouchers
- ☐ Discount Programs with Local and National Providers
- ☐ On-Site Childcare/Elder-care Center
- ☐ Emergency Backup Care (Center-based, In-home or Elder-care Services)
- ☐ After School Care Programs
- ☐ Summer or Holiday Camps
- ☐ Special Needs Care (Child/Adult/Elder)
- ☐ Dependent Care Travel-Related Expense Reimbursement
- ☐ Caregiver Support
- ☐ Special Dependent-Care Services

Workplace Well-Being (*continued*)

Financial Well-Being

- ☐ Financial Well-Being Program
- ☐ Financial Planning Services and Education
- ☐ Tax Preparation Assistance/Services
- ☐ Adoption Reimbursement
- ☐ New Home Down Payment Assistance
- ☐ Scholarships/Student Aid/Loans)
- ☐ Commuter Benefits
- ☐ Transit Subsidies
- ☐ Pretax Parking Benefits
- ☐ College Savings Plans
- ☐ College Loan Repayment Programs
- ☐ Emergency Savings Programs
- ☐ Identity Theft Insurance
- ☐ Outplacement or Severance Benefits

Recognition

- ☐ Culture of Celebration
- ☐ Informal and Formal Communication Mechanisms
- ☐ Service Awards
- ☐ Retirement Awards
- ☐ Peer Recognition Awards
- ☐ Spot Awards
- ☐ Managerial Recognition Program
- ☐ Organization-wide Recognition Program
- ☐ Employee of the Month/Year Awards
- ☐ Appreciation Luncheons, Outings, Formal Events
- ☐ Goal-Specific Awards (Quality, Efficiency, Cost Savings, Productivity, Safety)
- ☐ Employee Suggestion Program
- ☐ Major Career Events
- ☐ Major Family Events

Development

Growth and Feedback

- ☐ 1:1 Meetings
- ☐ Coaching
- ☐ Mentoring
- ☐ Performance Planning/Goal Setting Sessions
- ☐ Performance Reviews
- ☐ Project Completion/Team Evaluations
- ☐ Pay Alignment and Connection with Rewards

Learning Opportunities

- ☐ On-the-Job Learning
- ☐ Stretch Assignments
- ☐ Tuition Reimbursement
- ☐ Tuition Discounts
- ☐ Corporate Universities
- ☐ New Technology Training
- ☐ Outside Seminars and Conferences
- ☐ Classroom Learning
- ☐ Virtual Learning
- ☐ Podcasts, Webinars
- ☐ Self-Development Tools
- ☐ On-Line Degree Programs

Coaching/Mentoring

- ☐ Leadership Training
- ☐ Exposure to Resident Experts
- ☐ Access to Information Networks
- ☐ Formal or Informal Mentoring Program
- ☐ Executive/Leadership Coaching

Advancement Opportunities

- ☐ Equal Opportunity Job Posting/Selection
- ☐ Job Advancement Including Lateral and Promotion
- ☐ Internships
- ☐ Apprenticeships
- ☐ Overseas Assignments
- ☐ Career Ladders, Lattices, and Pathways
- ☐ Talent and Development Planning
- ☐ Succession Planning
- ☐ On/Off Ramps Through Career Life Cycle
- ☐ Job Rotations
- ☐ Returnship Programs

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Source: WorldatWork, 2023. Used with permission.

strategic people decisions. It can also improve the employee's total rewards experience by making critical compensation-related information accessible to them at any time and from anywhere, and it can enhance communication and transparency regarding the total rewards program.

Compliance

Legal requirements often lead to changes in an organization's total rewards program. These regulations are imposed by federal, state, and local governments. Minimum wage legislation, immigration reform, prevailing wage laws, and health insurance regulations are just some examples of legislation that affects compensation. In addition to impacting wages, regulations can result in required adjustments to benefit programs, work schedules, company compensation policies, and reporting requirements. In Chapter 2, we will take a closer look at the legal environment for U.S. compensation practices.

Internal Influences

In addition to external influences, there are **internal influences**, which are factors within the organization that influence the design and implementation of total rewards programs. They include the organizational strategy, business lifecycle, people strategy, culture, and leadership.

Organizational Strategy

Different competitive organizational and business strategies require different employee behaviors. Once an employer determines its overall strategy, it needs to decide on a human resource strategy and create a total rewards strategy that supports the unique human resource needs of the organization. Each organization develops an HR strategy to support the overall strategy and build the human capital needed to achieve organizational objectives. To attract, retain, and motivate employees, the company must also implement a total rewards program that aligns with the human resource strategy and fits with their competitive strategy. Alignment among the different strategies helps ensure workplace effectiveness, increase employee efforts, and drive organizational performance. Let's say an organization's competitive business strategy is to differentiate itself from its competitors based on customer service. Given the emphasis on customer service, the human resource strategy should focus on developing programs (recruiting, training, performance management) that result in employees with superior customer service skills. The total rewards strategy needs to align with the business strategy and human resource strategy by offering competitive pay and benefits along with incentive plans that recognize employees' performance and drive customer satisfaction.

Business Lifecycle

Where an organization is in terms of its lifecycle impacts its total rewards strategy. For example, a company that has just formed or is in its early years will likely have more constraints on its budget than one that has been successfully operating and profitable for a number of years. Businesses that are just starting simply don't have the financial resources to offer large salaries and generous benefit packages to employees. In many small companies, the owners often work for little to no pay until the business becomes established. Essentially, they are betting that the business will be successful and that they will reap greater rewards in the future. Start-up companies often extend this wager to their employees by asking them to trade a smaller initial salary for an equity (i.e., ownership) stake in the company. This has been quite common in the tech industry, where employees who took the bet were very well rewarded once the company became successful, and the early employees became very wealthy as a result.

People Strategy

With unemployment rates very low, it is even more critical for employers to create total rewards programs that employees find both attractive and motivating. However, the organization's workforce may be comprised of employees from four or even five different generations. A one-size-fits-all total rewards program may not be effective in attracting, motivating, and retaining Baby Boomer, Millennial, and Gen X, Y, and Z employees. Baby Boomers may be most interested in health and welfare benefits, while Millennials and Gen Z employees may favor developmental opportunities. Total rewards programs need to be designed and communicated in a way that responds to the varying needs, preferences, and desires of a multigenerational workforce. Different generations will favor different rewards, and providing rewards that are valued is the key to attracting, retaining, and motivating the workforce.

Culture

Compensation directly reflects **organizational culture**, or the set of shared values and beliefs that form over time as people interact and work together. An organization's culture influences its total rewards program, and total rewards offerings can reinforce cultural norms.[16] If an organization's culture values learning and experience, then you would expect employees to be rewarded and recognized based on their knowledge and experience. Rewards based on employee knowledge and experience would encourage other employees to increase their knowledge and stay with the organization, thus reinforcing the organization's values. Organizations should ensure alignment between their cultural values and their total rewards offering in order to leverage and maintain their organizational culture.

Many organizations today are striving to make their culture more inclusive in order to attract and retain top talent, facilitate innovation, and improve customer relations and business performance. Building an organizational culture that values diversity and creates a welcoming and inclusive environment requires policies and practices that support diversity. Some organizations tie the achievement of diversity goals to financial benefits to encourage leaders to take diversity initiatives seriously. For example, Microsoft established diversity as a strategic performance goal that determines 50% of executives' annual cash incentives.[17] Staff recruiters at Facebook are given points for successfully recruiting diverse candidates. These points apply to Facebook's internal ratings system and lead to stronger performance reviews and potential bonuses.[18] Compensation professionals can help organizations achieve greater diversity while building an inclusive culture by designing total rewards programs that support diversity initiatives, ensuring pay equity and transparency, offering career development opportunities for all employees, and providing inclusive benefits that align with the diverse needs of their employees.

Leadership

As with any organizational initiative, it's imperative to have the genuine support of the leadership team. If the leadership is silent or simply pays lip service to an initiative, employees often do not take the initiative seriously. Thus, total rewards programs are most effective when leaders actively and visibly promote employee understanding and appreciation of the rewards programs. As they say, actions speak louder than words. We know, for example, that rewards designed to motivate performance are more effective when managers link rewards to employee performance.[19] Managers need to make employees aware of all of the rewards available and encourage employees to use them. Similarly, compensation professionals must work with the leadership team to ensure that total rewards initiatives align with the organization's goals, and that they are well-understood, used, and appreciated by workers for maximum impact.[20]

Total Rewards Results

When a total rewards strategy is properly designed and successfully implemented, organizations experience a number of positive outcomes. A successful total rewards strategy helps achieve optimal organizational performance and provides an elevated workforce experience for employees.

Optimal Organizational Performance

Total rewards programs can be a powerful driver of business success and provide a competitive advantage in the market. Organizations that properly design and execute a total rewards strategy in response to external and internal influences increase the value of their human capital. It helps motivate employees to focus on key business objectives. This positively impacts organizational performance as employees expand their capabilities as a competitive organization. It also ensures that the organization's success will be sustainable in the long term.

Elevated Workforce Experiences

Carefully designed total reward programs combine compensation, benefits, employee well-being, developmental opportunities, and recognition to create positive workforce experiences that drive employee engagement and productivity. The intrinsic and extrinsic rewards employees receive as part of the total rewards program contribute to the employee experience and have important impacts on employee attraction, motivation, engagement, and retention. Overall, employees become more committed to the organization and are inspired to help the organization be successful, as they are more likely to feel their work is rewarding and meaningful.

Clearly, adopting a total rewards strategy is beneficial for organizations and employees alike. That said, there are still unexpected problems that can arise and ongoing challenges to be addressed.

THE UNINTENDED CONSEQUENCES OF PAY

Compensation has been praised for producing "spectacularly good results" and similarly blamed for producing "spectacularly bad results."[21] Successfully designed and implemented reward programs are central to organizational effectiveness; however, unintended consequences may arise, especially when organizations use pay to incentivize performance. The **unintended consequences of pay** are the unanticipated (and often undesired) outcomes that result from certain compensation decisions. Research has shown that these unintended consequences may include excessive risk-taking by employees,[22] excessive competition among employees,[23] employees focusing on achieving performance measures that trigger rewards at the expense of other important performance measures,[24] gaming or manipulating the system in order to trigger a reward,[25] and resisting change if employees feel the change may negatively impact their ability to achieve a reward. When designing a total rewards program, designers need to carefully consider potential employee reactions, as certain aspects of a compensation plan may lead to outcomes other than what was intended.

The unintended consequence of employees focusing on achieving performance measures that trigger rewards at the expense of other important performance measures is consistent with Goodhart's Law, named after British economist Charles Goodhart. **Goodhart's Law** holds that when a measure or performance metric becomes a target, it becomes the primary focus of a job and ceases to be effective. In other words, you get what you measure. Thus, it is important for employers to choose incentives wisely and value what they measure. If they don't, the result may be the opposite of what they anticipated.

The **cobra effect** happens when something intended to solve a problem either makes it worse or creates a new and different problem. It comes from the time of British rule of colonial India, when the city of Delhi suffered from a proliferation of cobras. In order to address the problem, the local government offered a monetary reward for every dead cobra. Initially the solution led to a decrease in the cobra population, as snakes were killed for the reward. However, once the cobra population fell and it became harder to earn the bounty, people began breeding cobras to kill in order to collect the reward. When local authorities realized what was happening, they cancelled the bounty. As a result, the cobra farmers stopped raising cobras and released the remaining ones they had. The released cobras returned to Delhi, and in the end, the city had a bigger problem with cobras after the bounty ended than before it began.[26]

A classic example of the cobra effect is a retail environment where salespeople are paid based on what they sell. The goal is to encourage salespeople to be more attentive to customers and ultimately sell more products. Desired employee behaviors would include greeting customers quickly when they enter the business, helping them find what they are looking for, showing them additional products, encouraging them to purchase additional products, and being attentive to the customers. These behaviors would presumably result in increased sales, customer satisfaction, and repeat business. However, offering a sales incentive may focus employees' attention on selling at the expense of customer service and teamwork and set the stage for high levels of competition between salespeople to increase their pay and decreases in customer satisfaction and sales.

We've all been in a retail store where as soon as you walk through the door one or more salespeople swoop in to claim you as their customer. This is fine as long as you are looking for something specific and would like assistance, but what if you just want to look around? Having multiple salespeople approach you, or a single salesperson approaching you multiple times while you are browsing, can be annoying. Instead of having a positive experience purchasing items in the store, your experience is negative, and you don't look forward to returning. You may even walk out empty-handed, determined to make your purchases elsewhere, just to get away from aggressive salespeople.

ONGOING CHALLENGES: PAY EQUITY

There are many reasons for differences in pay across organizations and fields. Indeed, many of those factors will be covered throughout this book. One in particular that has been a challenge for many years is, **pay equity** the concept that jobs of equal value should be paid the same. While there are many comparisons that can be made between various groups, the one that has received the most attention is the difference between the earnings of men and women.

On average, women have always earned a fraction for every dollar a man makes. This is known as the **gender pay gap**, which is the difference per dollar of earnings between women and men. While some today may believe that there are no significant differences in earnings based on gender, this is factually incorrect. Table 1.2 shows the difference per dollar in men's and women's median earnings since the passage of the Equal Pay Act in 1963 (covered in detail in Chapter 2). While this gap has decreased over time, the decreases are minimal, averaging less than one-half percent per year.

TABLE 1.2 ■ The Gender Pay Gap Over Time: Median Earnings of Men and Women

Year	Women's Earnings	Men's Earnings	Difference	%
1963	$16,908	$28,684	$11,776	58.9%
1968	$18,836	$32,389	$13,553	58.2%
1973	$21,397	$37,381	$15,984	57.2%
1978	$22,617	$38,051	$15,005	59.4%
1983	$22,961	$36,106	$13,055	63.6%
1988	$24,774	$37,509	$12,735	66.0%
1993	$25,579	$35,765	$10,186	71.5%
1998	$27,290	$37,296	$10,006	73.2%
2003	$30,724	$40,668	$9,944	75.5%
2008	$35,745	$46,367	$10,622	77.1%
2013	$39,157	$50,033	$10,876	78.3%
2018	$45,097	$55,291	$10,194	81.6%
2023	$52,260	$55,291	$10,194	83.6%

Sources: National Committee on Pay Equity, 2019 https://www.pay-equity.org/info-time.html; https://www.bls.gov/opub/ted/2024/womens-earnings-were-83-6-percent-of-mens-in-2023.htm

We must note that throughout this book, when we report statistics on employee earnings, we will typically use the median, or middle number, instead of the mean. This is a standard practice when reporting any type of income information, since the mean would be skewed by very high earners. To illustrate this point, make a mental list of people with very high incomes. Your list is likely to include Jeff Bezos, Bill Gates, Warren Buffet, and Mark Zuckerberg—all male. Even if you included Oprah or other females, your list is far more likely to include men than women. If you were to factor in the high-wage earners by using averages, the numbers for women would be worse. Even when using the more conservative median, the gender differences are significant. One visible indicator of this is **Equal Pay Day**, the annual symbolic marker of how much longer women have to work into the next year to equal what men earned in the previous year. For example, in 2024, March 12 was Equal Pay Day, meaning that women had to work an extra 71 days into 2024 to make what their fathers, husbands, brothers, and male colleagues earned in 2023.

A common misconception is that when women are educated, the gender pay gap is eliminated or at least reduced. On the contrary, the gender pay gap widens with higher levels of education. As shown in Table 1.3, women with less than a high school diploma earn 82 cents for every dollar that a man with less than a high school diploma makes. For women with a bachelor's or advanced degree, it is only 77 cents!

TABLE 1.3 ■ 2023 (2nd qtr.) Usual Weekly Earnings for Men and Women by Education

	All	Women	Men	%
Overall	$1,157	$1,050	$1,255	83.7
Less than high school diploma	713	623	761	81.9
High school graduate, no college	889	764	984	77.6
Some college or associate degree	1,010	887	1,158	76.6
Bachelor's degree or higher	1,588	1,425	1,811	78.7
Bachelor's degree	1,467	1,280	1,662	77.0
Advanced degree	1,787	1,591	2,068	76.9

Source: U.S. Bureau of Labor Statistics 2023 https://www.bls.gov/cps/earnings.htm#education

But how can these numbers all be lower if the gender pay gap percentage overall is 83.6%? In short, it's because the number includes men and women of all levels of education, and, on average, women are more educated than men, as shown in Table 1.4. Since the total number for the gender pay gap includes the earnings of more educated women and less educated men, it appears that the gender pay gap is smaller than it actually is. While there has been research that shows that women need to be more educated than men in comparable positions to come close to wage equity,[27] those studies do not receive the same publicity as those dealing with just the total gap for all women and men.

TABLE 1.4 ■ Estimated 2022 Educational Attainment

	All	Men	Women
Less than 9th grade	4.7%	4.8%	4.5%
9th to 12th grade, no diploma	5.7%	6.3%	5.2%
High school graduate (includes equivalency)	26.1%	27.5%	24.7%
Some college, no degree	19.1%	19.0%	19.2%
Associate degree	8.8%	7.9%	9.6%
Bachelor's degree	21.6%	21.1%	22.1%
Graduate or professional degree	14.0%	13.4%	14.7%

Source: U.S. Bureau of Labor Statistics 2023 https://data.census.gov/table?t=Educational+Attainment&tid=ACSST1Y2022.S1501

While the gender pay gap is usually thought of in terms of its current impact on women, the implications over the long term are even more significant. It's been estimated that over one's lifetime (forty-seven years of full-time work) this gap amounts to a loss in wages for a woman of $700,000 for a high school graduate, $1.2 million for a college graduate, and $2 million for a professional school graduate.[28] Lower earnings also translate into lower values for anything that is calculated relative to earnings. This includes employer contributions or matching amounts for retirement or savings plans, Social Security benefits, life insurance, and any type of bonus or other financial reward that is determined as a percentage of **base pay**, which is the cash compensation an employee regularly earns for performing work for an employer.

Besides the impact on working women, the gender pay gap is a major focus for employers today. After working on it for several years, Apple announced in 2016 that it had closed the gender pay gap for employees in the United States and was taking steps to close the gap worldwide.[29] Closing the gap is a gradual process. For Apple employees in the UK, the pay gap closed by just 2% from 2017 to 2018; however, the gap for Apple employees was only at 10% compared to 18% for all industries in the UK.[30] Note that, since 2017, employers with more than 250 employees in the UK have had to report their pay gap figures annually, which triggers additional impetus to work on closing the gap.

Many companies have not done as well as Apple with closing the pay gap. One high-profile example is Google, which has been embroiled in allegations of gender-based pay discrimination for a number of years. It began with a routine review by the U.S. Department of Labor in 2015 that revealed widespread gender pay differences. A class action lawsuit for gender-based pay discrimination was subsequently filed in September 2017. In 2022, a $118 million settlement was granted.[31] The company had fought to avoid disclosing their pay data since the pay differences first surfaced. In large part they have been successful in not releasing pay data and are aided in doing so, because unlike the UK, the United States has no laws requiring disclosure of pay gap figures.

Beyond the legal implications for employers, an organization's gender pay gap can adversely affect its ability to attract, motivate, and retain top performing female employees and can diminish the reputation of the organization. Since most pay disparities begin when an employee is hired, one small step employers can take is to cease asking applicants about their salary history. As will be discussed in Chapter 2, there are some states and cities that have passed laws prohibiting employers from asking applicants about their salary history. This is based on the notion that basing the pay of new hires on their previous pay perpetuates pay disparities.

While the BLS has been tracking and the media reporting on the gender pay gap for many years, there is also a racial pay gap that is beginning to receive more attention. The BLS numbers are shown in Table 1.5.

TABLE 1.5 ■ Earnings Disparities by Race and Ethnicity

Race or Ethnicity	Percentage of Workers	Average Weekly Earnings	Earnings per Dollar
White	62.67%	$1,046.52	$1.00
Black	11.43%	$791.02	$0.76
Native American/American Indian	0.67%	$801.99	$0.77
Asian/Pacific Islander	6.47%	$1,168.82	$1.12
Hispanic/Latino	17.26%	$762.80	$0.73
Multiracial	1.49%	$852.18	$0.81

Source: https://www.dol.gov/agencies/ofccp/about/data/earnings/race-and-ethnicity

The racial gap is similar to the gender pay gap with one notable exception. Asian/Pacific Islanders actually earn more on average than whites. As with gender-based differences, these numbers can be further broken down to look at differences between males and females by race or ethnicity. There are likely pay gaps with other marginalized groups that have not been studied but might be in the future. With any of the pay gaps, a number of factors influence the disparities, including differences in occupations and industries where people tend to work, as well as gaps in employment. We will leave the detailed analysis and explanations to political scientists and sociologists. From a compensation perspective, it is enough to know that there are significant differences overall and that some employers may wish to address the discrepancies.

OVERVIEW OF THE BOOK

This book helps you understand the intricacies of compensation systems and apply what you are learning to reinforce the concepts. In addition to viewing compensation from the traditional employer perspective, we also address compensation from an employee perspective to foster a more thorough understanding of compensation decisions and policies. This balanced approach will help you regardless of your role within an organization. If you end up working in human resources with responsibilities for the compensation system, understanding how employees might view policies and decisions regarding their compensation will help you anticipate and reduce potential negative consequences of those decisions. Similarly, if you are a manager, understanding and anticipating how your employees may react to changes in their compensation and benefits can position you to deal with the ramifications of those changes. Finally, as an employee understanding how compensation systems work and the logic behind decisions related to compensation can help you better cope with those decisions and work within the system.

Each chapter begins with a "Compensation in the News" example to help you make connections between the chapter material and current events in business and industry, and sets the stage for the material to follow. The "Ethical Dilemma" at the end of every chapter encourages you to think about the ethical implications of compensation decisions and policies. Each chapter also considers the possibility of unintended consequences of compensation decisions and policies. A variety of experiential exercises at the end of each chapter allows you to practice applying the concepts covered in that chapter to facilitate a deeper understanding of the material.

The book begins by laying the foundation for compensation and the laws that impact it. Chapter 1 provides an introduction to the field of compensation and the Total Rewards Model, plus an overview of the book. Chapter 2 examines the laws that affect compensation. This includes laws dealing with minimum wages, overtime, child labor, and prevailing wages laws, as well as the antidiscrimination laws that prohibit discrimination in the compensation, terms, and conditions of employment.

From there, we move to how compensation systems are designed. Chapter 3 focuses on the importance of establishing a compensation strategy and clearly defined objectives that provide a good fit with and support the organization's strategy. We also explore how a compensation system can be used to attract and retain employees with the needed KSAs and to motivate desired employee behaviors.

In Chapter 4, we explore the different bases for paying employees, including the type of work being done (i.e., job-based) and the knowledge, skills, and abilities an employee possesses (i.e., skill-based), as well as variations in job-based and skill- or person-based pay. The chapter addresses compensating differentials and how they are used to equalize jobs that have either negative or positive characteristics. You will learn how employers use different bases of pay and compensating differentials to attract and motivate employees.

Chapter 5 covers internal equity, which involves determining the relative value of jobs within an organization. It addresses different methods of job analysis and job evaluation and how to use a point factor method to create a pay structure. It also explores establishing the internal value of jobs using person-based structures or market pricing.

Chapter 6 addresses external equity (i.e., determining how much to pay employees relative to what other employers are paying) and designing a pay structure that is competitive in the market to facilitate attracting and retaining qualified employees. We cover the process for creating pay grades and pay ranges, as well as how to evaluate individual and group pay to ensure that the compensation actually being paid is consistent with the stated ranges.

Next, we shift the focus to rewarding employee performance. Chapter 7 begins with how incentives are used to motivate individual employees before exploring a variety of alternatives for evaluating employee performance. It then shifts to examining a number of approaches to motivating and rewarding individual performance that includes merit pay, bonuses, commission, piecework, and standard hour plans.

Chapter 8 continues with measuring and rewarding performance, but at a group level. We explore types of groups, measuring their performance, and challenges in rewarding group performance. We then explore types of group rewards including various gainsharing plans, profit sharing and employee stock ownership plans, incentive stock options, and nonfinancial group incentives.

In Chapters 9 and 10, we tackle all types of employee benefits that are a critical part of an employee's total rewards. Chapter 9 addresses benefits that are legally required. This includes Social Security, unemployment and workers' compensation as well as family and medical leave, mandatory health care, and the rights of employees who are returning from service in the armed forces.

Chapter 10 continues the coverage of employee benefits with a focus on those that employers offer voluntarily. These include various retirement plans and health insurance plans, as well as other types of insurance. Different types of paid time off and cafeteria plans are discussed, as well as the importance of a needs assessment and managing the system.

Chapter 11 addresses the compensation of special groups of employees including those in sales, supervisors, contingent workers, directors, and executives. Laws that are applicable when workers are unionized are covered, as well as the impact of unions on compensation for both union and nonunion employees. The chapter also covers compensation issues related to employees who work less than fulltime.

Chapter 12 is devoted to international compensation including differences in employment relationships and employment requirements in various countries. It explores employee rights and representation, and union influence around the world. The chapter also addresses the different types of international workers and various approaches to compensating expatriates and other types of employees who are working in another country.

In Chapter 13 we address the administration of a compensation system. This includes managing communications concerning compensation and benefits, pay transparency, issues of fairness, and the need for an appeals process for handling pay disputes. Managing compensation costs, evaluating the effectiveness of the system, and managing change are also covered. The intent is to ensure that employees understand their compensation.

Chapter 14, the final chapter, ties together all the components of a compensation system and gives an overview of careers and professional certification in compensation with a look toward the future of compensation. It takes an in-depth look at work-life balance and integration. This includes the higher priority that employees today put on their nonwork lives, and how you can apply what you have learned to your own life to find balance while meeting the needs of your employer.

Finally, Appendix A contains information on Responsible Furniture Industries (RFI) Inc., a fictitious company designed to help you see the big picture of how the components of a compensation system work together to support the achievement of organizational objectives. You will use this information when completing many of the experiential exercises at the end of the chapters to apply the materials presented in the book.

SUMMARY

- Nature of the employment relationship
  - There has been a shift from a relational psychological contract to a transactional psychological contract.
  - Low unemployment gives workers more power.
  - Different types of employees and employment arrangements today.
- Employer perspective
  - Employers need to attract and retain qualified employees while controlling costs.
  - Shareholders seek good returns on their investments.
  - Customers seek best value.
  - Competitors' compensation packages affect an organization's ability to attract and retain talent.

- Employee perspective
  - Employees need adequate pay and benefits and to maintain purchasing power.
  - Compensation can increase or decrease employee motivation and performance.
- From total compensation to total rewards
  - Broader concept
  - The value to an employee of everything they receive from their work experience.
  - Extrinsic rewards are the financial and nonfinancial rewards employees receive for work.
  - Intrinsic rewards are things of value to an employee that come from performing the job.
  - EVP is the unique set of rewards that an employee receives in return for the skills, capabilities, and experience they bring to an organization.
- WorldatWork Total Rewards Model
  - Key elements: compensation, benefits, well-being, careers, and recognition
  - External influences are factors outside the organization and include the economy, society, labor market, AI and technology, and compliance.
  - Internal influences are factors inside the organization and include the organizational strategy, business lifecycle, people strategy, culture, and leadership.
  - Total rewards help achieve optimal organizational performance and provide an elevated workforce experience for employees.
- Unintended consequences of pay
  - The unanticipated outcomes that come from compensation decisions
- Ongoing challenge: pay equity
  - The concept that jobs of equal value should be paid the same.
  - Gender pay gap is the difference per dollar of earnings between men and women.
  - Equal Pay Day is a symbolic marker of how much longer a woman needs to work into the next year to equal what men earned in the previous year.
  - Less studied is the racial pay gap.

KEY TERMS

Base pay
Cobra effect
Employee value proposition
Employer brand
Equal Pay Day
External influences
Extrinsic rewards
Gender Pay Gap
Gig economy
Goodhart's Law
Internal influences
Intrinsic rewards
Labor force participation rate
Labor market
Labor market competitors
Nontraditional workers
Organizational culture
Pay equity
People analytics
Positive employer brand
Psychological contract
Relational psychological contract
Spillover effect
Total compensation
Total rewards
Total rewards strategy
Transactional psychological contract
Unemployment rate
Unintended consequences of pay

DISCUSSION QUESTIONS

1. Describe why compensation policies are important to employers, employees, shareholders, customers, and competitors.
2. Explain the concept of total compensation and why it is more important to consider than salary alone.

3. Describe the gender pay gap and the implications for women in the workforce.
4. Identify and explain the components of the Total Rewards Model.
5. Explain how compensation decisions can lead to unintended consequences that may result in negative outcomes for an employer.
6. Discuss the importance of intrinsic and extrinsic rewards to employees.

ETHICAL DILEMMA: THE COST OF PAY EQUITY

While the gender pay gap is still significant in many organizations, some have taken steps to address and remedy the gap. A number of them have achieved the goal of pay equity, including Adobe, Apple, Starbucks, and Intel.[32] Another example is Salesforce, a highly successful tech company that provides customer-relationship management services and enterprise applications focused on customer service, marketing automation, analytics, and application development. It was ranked first in Fortune's list of 100 Best companies to work for in 2018[33] and second in 2019.[34] In 2015, Salesforce undertook an audit of the pay of women and men and found significant differences. They had committed to remedying any differences the audit uncovered and doing so cost them $3 million in the first year.[35] They assumed that the problem was solved but a few years later they did another audit after acquiring a number of companies. While they had remedied the original differences, they found that the compensation systems of the companies they had acquired also resulted in significant pay differences between men and women. Once again, they remedied the differences which cost an additional $3 million.[36] While the cost of these pay adjustments is significant, Salesforce has annual revenues of well over $10 billion and can presumably afford to make the adjustments in pay.

Questions

1. To what extent do employers have an obligation to strive for and achieve pay equity?
2. What factors might influence an organization's ability to achieve pay equity? Why?
3. How might an organization's stance on pay equity impact their ability to attract and retain qualified employees?

EXERCISE 1-1 INTRINSIC AND EXTRINSIC REWARDS

For this exercise, you will need to conduct an interview with someone working in the field of management. Provide the individual with a copy of the WorldatWork Total Rewards Model Inventory presented earlier in the chapter. Ask them to fill out the inventory based on their current position. After they complete filling out the inventory, ask the individual the following questions and record their answers:

1. Which rewards do you find most motivating and why?
2. Which rewards do you find least motivating and why?
3. Which rewards were most and least important to you when accepting this position? Why?
4. Has your opinion on the importance of rewards changed since joining this organization? If so, how?

Complete the following questions:

1. Classify the benefits discussed in their answers as intrinsic or extrinsic.
2. Discuss how the result of your interview aligns with what you have learned in this chapter about intrinsic and extrinsic rewards?

EXERCISE 1-2 WHY IS THIS JOB WORTH WHAT AN EMPLOYER IS PAYING?

This exercise is intended to get you thinking about the reasons for differences in pay for a particular job. Based on the information in Table 1.6, respond to the questions below.

TABLE 1.6 ■ Compensation and Benefits Manager Annual Wages in May 2022[37, 38]

U.S. Overall:	
Average	143,140
Median	131,280
Industry:	**Median**
Food Manufacturing	107,670
Chemical Manufacturing	161,970
Fabricated Metal Product Manufacturing	103,760
Transportation and Warehousing	108,070
Software Publishers	159,800
Broadcasting and Content Providers	162,800
Insurance Carriers	135,970
Administrative and Support Services	96,880
Educational Services: State government owned	101,370
Nursing and Residential Care Facilities	77,590
Accommodation and Food Services	70,690
Federal, State, and Local Government	105,120
State:	**Median**
Arkansas	102,050
California	134,610
Colorado	157,810
Florida	115,290
Louisiana	89,350
Minnesota	132,930
New Jersey	167,800
New York	172,260
Oregon	116,580
Texas	112,030
Washington	156,150
Metropolitan Area:	**Median**
Austin-Round Rock, TX	126,790
Dallas-Fort Worth-Arlington, TX	108,630
Denver-Aurora-Lakewood, CO	159,390
Houston-The Woodlands-Sugar Land, TX	119,780

(Continued)

TABLE 1.6 ■ Compensation and Benefits Manager Annual Wages in May 2022[37, 38] (*Continued*)

Indianapolis-Carmel-Anderson, IN	133,260
Los Angeles-Long Beach-Anaheim, CA	131,580
Miami-Fort Lauderdale-West Palm Beach, FL	118,940
Minneapolis-St. Paul-Bloomington, MN-WI	133,100
New Orleans-Metairie, LA	103,040
New York-Newark-Jersey City, NY-NJ-PA	177,600
Orlando-Kissimmee-Sanford, FL	105,210
Portland-Vancouver-Hillsboro, OR-WA	126,990
Riverside-San Bernardino-Ontario, CA	119,960
Rochester, NY	161,760
San Antonio-New Braunfels, TX	103,150
San Francisco-Oakland-Hayward, CA	171,870
Seattle-Tacoma-Bellevue, WA	166,200
Tallahassee, FL	75,210
Tampa-St. Petersburg-Clearwater, FL	126,980
Washington-Arlington-Alexandria, DC-VA-MD-WV	145,880

Questions

1. Explain the difference between the average and median for the United States overall.
2. Discuss the potential reasons for differences in median wages for the same job in different industries.
3. Discuss the likely reasons for differences in median wages for the same job in different states.
4. Discuss the likely reasons for differences in median wages for the same job in different cities.

EXERCISE 1-3 RFI INC.: EVALUATING PAY SATISFACTION

You are reviewing the results of a recent pay satisfaction survey administered to the employees of RFI Inc. Employees were given the survey at the end of the year and asked to indicate their degree of agreement with the following questions, using a scale where 1 = "strongly disagree," 2 = "disagree," 3 = "neither agree nor disagree," 4 = "agree," and 5 = "strongly agree."

1. Overall, I am satisfied with my pay.
2. I am satisfied with the level of my pay.
3. I am satisfied with my benefits.
4. I am satisfied with the raises I have received over the last three years.
5. I am satisfied with the way pay decisions are made in my organization.

Out of all RFI employees, 81% participated in the survey. In addition to responding to the questions, employees were asked to comment on their satisfaction with their pay. Not all of the employees included comments with their survey. The quantitative survey results and comments are included in the Appendix.

Questions

1. What does the quantitative data indicate?
2. What does the qualitative data indicate?
3. Does the data tell you anything about what is most important to the employees of RFI?
4. What can you infer about intrinsic and extrinsic rewards from the data?
5. Does RFI have any potential problems with pay? If so, what are they?
6. What additional information would you like to know?

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2 LAWS AFFECTING COMPENSATION

LEARNING OBJECTIVES

After studying this chapter and completing the exercises, you should be able to:

2.1 Explain the minimum wage, overtime, and child labor provisions of the Fair Labor Standards Act; the impact of an employee being classified as exempt or non-exempt; and the process for keeping employee records and handling complaints under the FLSA.

2.2 Describe the impact of prevailing wage laws on compensation.

2.3 Evaluate the efficacy of the Equal Pay Act, Title VII of the Civil Rights Act, Age Discrimination in Employment Act, Pregnancy Discrimination Act, Americans with Disabilities Act, and other anti-discrimination laws in preventing pay discrimination.

2.4 Discuss the importance of staying current and complying with the laws impacting compensation.

As with all laws in the United States, there are different levels of laws that cover the employment relationship. At the highest level is the U.S. Constitution. No law at any level may conflict with the U.S. Constitution. The next highest level are the federal laws which cover employers regardless of where they are located in the United States. While federal laws provide coverage nationwide, states also enact state-level legislation that employers operating in that state must abide by. These laws may not conflict with federal laws or the U.S. Constitution. Going beyond federal and state laws are local laws, sometimes referred to as ordinances or regulations. These laws apply to employers operating within the local jurisdiction and must not conflict with state or federal laws or the U.S. Constitution. In this chapter, we focus primarily on the federal laws affecting compensation since they apply to all employers operating in the United States.

There is much misunderstanding of what federal laws do and don't require of employers and who is covered by the laws. Some people believe that any form of discrimination is illegal. To discriminate means to treat a person or group differently. Depending on the situation, it may or may not be illegal. For example, employers regularly pay high-performing employees more than low-performers. Is this discriminating against the poor performers? Of course, it is. Is it illegal? No, because there are no laws that provide legal protection based on job performance. At the same time, it would be illegal for an employer to rate all employees of color as poor performers simply because they weren't white.

The language used in the laws is very specific, and unlike words used in everyday language, it does not change unless the law is formally amended. Historically, some people used the term minority to refer to anyone who wasn't a white Christian. Even today, there are people who believe that only people who meet that description are protected by anti-discrimination laws. That is not true. Technically speaking, a minority is anyone who is not in the majority, which can change depending on the situation. If I am an African American in a room filled with Caucasians, I am in the minority; but if I am an African American in a room filled with other African Americans and only one Caucasian, I am in the majority. Even in situations where a person is not in the minority, they are still protected if they are treated differently based on protected characteristics, as happened at Novant Health.

Compensation in the News

David Duvall, a white male, had been employed by Novant as a senior vice president of marketing and communications at one of their facilities in North Carolina. His performance appraisals were very good prior to his sudden termination in July 2018. He was immediately replaced in what was alleged to be an effort to meet Novant's racial and gender diversity targets. He filed discrimination charges under Title VII of the Civil Rights Act of 1964. In October 2021, a jury awarded him a total of $10 million. Novant appealed the case to the U.S. Court of Appeals. In March 2024, a three-judge panel ruled in favor of Duvall, albeit for a reduced sum of over $3.4 million plus interest for lost pay.[1] Of course, Novant could still appeal that decision to the U.S. Supreme Court. Obviously, these cases take time before they are finally resolved.

[1]*Duvall v. Novant Health, Inc., No. 22-2142 (4th Cir. 2024)*

To further complicate matters, some people today use the term *marginalized* when referring to groups or individuals who are disadvantaged in some way, such as those who are low income or the unhoused. *Marginalized* is a very broad and subjective term that can elicit strong emotions on both sides. Some argue very passionately that there should be more protections for marginalized people, while others argue with equal passion that the existing laws already go too far in regulating employers. We are not here to take one side or the other. We will leave that to the political scientists and sociologists. We are here to inform you on the laws that impact the employment relationship, who they cover, and what they require using the terminology used in the laws. With that, we begin our journey through the laws.

FAIR LABOR STANDARDS ACT

The **Fair Labor Standards Act (FLSA)** is a federal law that establishes a federal minimum wage, requires overtime pay, and regulates child labor. It is administered by the Wage and Hour Division of the Department of Labor (DOL). It was passed in 1938 as part of President Franklin D. Roosevelt's New Deal to help stimulate the U.S. economy after the Great Depression. The law was based on the principles of **demand-side economics**, a macroeconomic theory that holds that putting more money into consumers' pockets will increase economic growth. In other words, if workers earn more money, they will spend more. The higher demand for goods and services will encourage employers to produce more, which typically requires them to hire more people, who will then have more money to spend, again creating more demand, and so the cycle continues.

The law has been amended a number of times over the years, which has resulted in a complex web of coverage. If you consider the original three areas of FLSA regulation in the context of the Great Depression, the law was straightforward in its attempt to stimulate the economy. A federal minimum wage meant that workers would be guaranteed at least that amount of pay for each hour they worked. In many cases, this increased employee earnings. Requiring additional pay after a certain number of hours worked would either result in employees earning more or the employer hiring additional workers to avoid paying the higher hourly pay rate. Finally, placing restrictions on child labor was meant to result in employers hiring more adult workers. On the whole, increasing workers' earnings and encouraging employers to create more jobs helped achieve Roosevelt's goal of helping the country emerge from the Great Depression.

Exempt versus Non-Exempt Employees

The law initially covered only employees engaged in interstate commerce or in the production of goods for interstate commerce, essentially people who worked in manufacturing and transportation. In 1961, the coverage was expanded to include employees in large retail and service enterprises as well as local transit, construction, and gasoline service station employees. In 1966, coverage was extended to state and local government employees of hospitals, nursing homes, and schools, and to laundries, dry cleaners, and large hotels, motels, restaurants, and farms. Subsequent amendments extended coverage to the remaining federal, state and local government employees who were not covered by the 1966 amendment, to certain workers in retail and service trades previously exempted, and to certain domestic workers in private household employment. Today, virtually all industries are covered, although the law defines a number of employees as exempt. **Exempt employees** are excluded from the minimum wage and overtime provisions of the FLSA, while **non-exempt employees** are covered by those provisions.

Generally speaking, whether or not an employee is exempt is based on their job duties, and for some categories of workers, how much and how they are paid. This is sometimes referred to as a **three-pronged test** for determining if an employee is exempt. The first prong is the job-duties test, which addresses the type of work the employee does, specifically if they are an executive, administrative, professional, computer, outside sales, or highly compensated employee. The second prong is the salary-level test, which requires that exempt employees be paid at least $684 per week on a salary basis.[1] The salary requirements do not apply to outside salespersons and certain "learned professionals," including teachers, and medical or legal professionals.[2] Exempt computer professionals may be paid on an hourly basis, but in that case, the minimum hourly rate is $27.63 per hour.[3] This equates to $1,105.20

if the person works a full 40-hour week, which is substantially higher than $684 per week threshold for a salaried employee. The third prong is the salary-basis test, which requires that exempt employees regularly receive a predetermined amount of pay each pay period, and that amount may not be reduced due to variations in the quality or quantity of the employee's work.[4] The exemption criteria are detailed in Table 2.1.

TABLE 2.1 ■ FLSA Exemptions

Type of Exemption	Criteria
Executive Exemption	To qualify for the executive employee exemption, all of the following tests must be met: • The employee must be compensated on a salary basis (as defined in the regulations) at a rate not less than $684 per week; • The employee's primary duty must be managing the enterprise, or managing a customarily recognized department or subdivision of the enterprise; • The employee must customarily and regularly direct the work of at least two or more other full-time employees or their equivalent; and • The employee must have the authority to hire or fire other employees, or the employee's suggestions and recommendations as to the hiring, firing, advancement, promotion or any other change of status of other employees must be given particular weight.
Administrative Exemption	To qualify for the administrative employee exemption, all of the following tests must be met: • The employee must be compensated on a salary or fee basis (as defined in the regulations) at a rate not less than $684 per week; • The employee's primary duty must be the performance of office or non-manual work directly related to the management or general business operations of the employer or the employer's customers; and • The employee's primary duty includes the exercise of discretion and independent judgment with respect to matters of significance.
Professional Exemption	To qualify for the learned professional employee exemption, all of the following tests must be met: • The employee must be compensated on a salary or fee basis (as defined in the regulations) at a rate not less than $684 per week; • The employee's primary duty must be the performance of work requiring advanced knowledge, defined as work that is predominantly intellectual in character and that includes work requiring the consistent exercise of discretion and judgment; • The advanced knowledge must be in a field of science or learning; and • The advanced knowledge must be customarily acquired by a prolonged course of specialized intellectual instruction. To qualify for the creative professional employee exemption, all of the following tests must be met: • The employee must be compensated on a salary or fee basis (as defined in the regulations) at a rate not less than $684 per week; • The employee's primary duty must be the performance of work requiring invention, imagination, originality, or talent in a recognized field of artistic or creative endeavor.
Computer Employee Exemption	To qualify for the computer employee exemption, the following tests must be met: • The employee must be compensated either on a salary or fee basis (as defined in the regulations) at a rate not less than $684 per week or, if compensated on an hourly basis, at a rate not less than $27.63 an hour; • The employee must be employed as a computer systems analyst, computer programmer, software engineer, or other similarly skilled worker in the computer field, performing the duties described below; • The employee's primary duty must consist of: **1.** The application of systems analysis techniques and procedures, including consulting with users, to determine hardware, software, or system functional specifications; **2.** The design, development, documentation, analysis, creation, testing, or modification of computer systems or programs, including prototypes, based on and related to user or system design specifications; **3.** The design, documentation, testing, creation, or modification of computer programs related to machine operating systems; or **4.** A combination of the aforementioned duties, the performance of which requires the same level of skills.

(*Continued*)

TABLE 2.1 ■ FLSA Exemptions (*Continued*)

Type of Exemption	Criteria
Outside Sales Exemption	To qualify for the outside sales employee exemption, all of the following tests must be met: • The employee's primary duty must be making sales (as defined in the FLSA), or obtaining orders or contracts for services or for the use of facilities for which a consideration will be paid by the client or customer; and • The employee must be customarily and regularly engaged away from the employer's place or places of business.
Highly Compensated Employees	Highly compensated employees performing office or non-manual work and paid total annual compensation of \$107,432 or more (which must include at least \$684 per week paid on a salary or fee basis) are exempt from the FLSA if they customarily and regularly perform at least one of the duties of an exempt executive, administrative, or professional employee identified in the standard tests for exemption.

Source: U.S. Department of Labor Wage and Hour Division Fact Sheet #17A: Exemption for Executive, Administrative, Professional, Computer and Outside Sales Employees under the Fair Labor Standards Act (FLSA)

Blue-collar workers and police, firefighters, paramedics, and other first responders are explicitly non-exempt from the minimum wage and overtime provisions, regardless of how highly paid they are. Blue-collar workers include nonmanagement employees in production, maintenance, construction, and similar occupations, such as carpenters, electricians, mechanics, plumbers, iron workers, craftspeople, operating engineers, longshoremen, construction workers, and laborers.[5] Police, fire fighters, paramedics, and other first responders, including police officers, detectives, deputy sheriffs, state troopers, highway patrol officers, investigators, inspectors, correctional officers, parole or probation officers, park rangers, firefighters, paramedics, emergency medical technicians, ambulance personnel, rescue workers, hazardous materials workers and similar employees, regardless of rank or pay level, who perform work such as preventing, controlling or extinguishing fires of any type; rescuing fire, crime or accident victims; preventing or detecting crimes; conducting investigations or inspections for violations of law; performing surveillance; pursuing, restraining and apprehending suspects; detaining or supervising suspected and convicted criminals, including those on probation or parole; interviewing witnesses; interrogating and fingerprinting suspects; preparing investigative reports; or other similar work.[6]

As you might guess, it can be challenging to determine whether a particular employee is exempt or non-exempt. Even if it seems daunting, you just need to take it one step at a time and work your way through the exemption criteria using a process of elimination. The steps in the process are as follows:

1. Is the employee a blue-collar worker, police officer, firefighter, paramedic, or first responder? If the answer is yes, they are non-exempt, and you are done. If the answer is no, you need to work through the rest of the process, step by step, until you have made a determination.
2. Does the employee perform office or non-manual work, earn at least \$107,432 per year (that includes at least \$684 per week paid on a salary or fee basis), and regularly perform at least one of the duties of an exempt executive, administrative, or professional employee shown in Table 2.1? If yes, they are exempt under the highly compensated employee exemption.
3. Is the employee's primary duty making sales or obtaining orders away from the employer's place(s) of business? If yes, they are exempt under the outside sales exemption.
4. Is the employee employed as a computer professional whose primary duty meets the criteria for the computer employee exemption listed in Table 2.1, and do they earn a salary or fee of at least \$684 per week or an hourly rate of at least \$27.63? If yes, they are exempt under the computer employee exemption.
5. Does the employee earn a salary or fee of at least \$684 per week, and does their primary duty require advanced knowledge in a field of science or learning usually obtained through a prolonged course of specialized intellectual instruction, and regularly require the exercise of discretion and judgment? If all of these are true, the employee is exempt under the learned professional exemption.

6. Does the employee earn a salary or fee of at least $684 per week, and is their primary duty the performance of work requiring invention, imagination, originality, or talent in a recognized field of artistic or creative endeavor? If yes, the employee is exempt under the creative professional exemption.
7. Does the employee earn a salary or fee of at least $684 per week, and do they perform office or non-manual work directly related to the management or general business operations of the employer or its customers and require the exercise of discretion and independent judgment with respect to matters of significance? If all of the answers are yes, they are exempt under the administrative employee exemption.
8. Does the employee earn a salary of at least $684 per week, their primary duty is managing the enterprise or a generally recognized department of subdivision of it, they regularly direct the work of at least two other full-time or equivalent employees, and they have the authority to hire, fire or make recommendations about the employment status of other employees that are given particular weight? If all of the answers are yes, they are exempt under the executive employee exemption.
9. If you have reached this point in the process and the employee's status is still in question, then they are non-exempt.

As with any law, the FLSA can't possibly explicitly identify every possible combination of circumstances in the text of the law. There is also a fair amount of grey area when interpreting the language. For example, what constitutes giving "particular weight" to a suggestion or recommendation about the status of another employee? Different people and even different judges could interpret that differently depending on the situation. That is why when there is a dispute over coverage, it can result in a court case to determine the outcome, and even those decisions can be appealed to a higher court. We will cover the record keeping requirements and enforcement of the FLSA later in the chapter.

Minimum Wage

The **federal minimum wage** provisions of the FLSA established a minimum hourly amount that non-exempt employees can legally be paid in the United States. When first enacted, the minimum wage was $.25 per hour. That amount has been increased a number of times, although not on any regular schedule, and now not for more than a decade, as shown in Table 2.2. While $7.25 is the current minimum wage for most employees, the FLSA allows for a subminimum wage of $4.25 per hour for employees under twenty years of age during their first ninety consecutive calendar days of employment with an employer. This is sometimes referred to as a training wage. In addition, the FLSA allows employers to pay an employee who receives at least $30 per month in tips a minimum wage of $2.13 per hour.[7]

TABLE 2.2 ■ Changes in the Federal Minimum Wage

Effective Date	Minimum Wage	% Increase	Years Between Increases
10/24/1938	$0.25	-	-
10/24/1939	$0.30	20%	1.0
10/24/1945	$0.40	33%	6.0
1/25/1950	$0.75	88%	4.3
3/1/1956	$1.00	33%	6.1
9/3/1961	$1.15	15%	5.5
9/3/1963	$1.25	9%	2.0
2/1/1967	$1.40	12%	3.4

(Continued)

TABLE 2.2 ■ Changes in the Federal Minimum Wage (*Continued*)

Effective Date	Minimum Wage	% Increase	Years Between Increases
2/1/1968	$1.60	14%	1.0
5/1/1974	$2.00	25%	6.2
1/1/1975	$2.10	5%	0.7
1/1/1976	$2.30	10%	1.0
1/1/1978	$2.65	15%	2.0
1/1/1979	$2.90	9%	1.0
1/1/1980	$3.10	7%	1.0
1/1/1981	$3.35	8%	1.0
4/1/1990	$3.80	13%	9.3
4/1/1991	$4.25	12%	1.0
10/1/1996	$4.75	12%	5.5
9/1/1997	$5.15	8%	0.9
7/24/2007	$5.85	14%	9.9
7/24/2008	$6.55	12%	1.0
7/24/2009	$7.25	11%	1.0

Source: https://www.dol.gov/agencies/whd/minimum-wage/history/chart

There has been much discussion over the last decade about the need to increase the federal minimum wage. In 2013, and again in 2021, fast food workers across the United States walked off the job in protest of low wages. Their battle cry became "Fight for 15," which referred to a minimum wage of $15 per hour. Their fight continues today, though the Raise the Wage Act of 2023 was recently proposed by members of Congress. The act would increase the minimum wage to $9.50 per hour in 2023 and eventually to $17 per hour by 2028[8]. It is unclear whether Congress will approve the Raise the Wage Act, and employer groups have vigorously opposed minimum wage increases.

The primary arguments against raising the minimum wage are that it could have a negative impact on workers and businesses by increasing the cost of doing business, resulting in a loss of jobs and increased automation, and that it would disproportionally hurt small businesses, potentially driving them out of business. Even without a minimum wage increase, businesses are increasingly automating low-skilled work. While you are likely too young to remember a time when you didn't have to pump your own gasoline, there was a time when that task was handled by an employee of the gas station, typically earning minimum wage. Today, the trend toward customers performing some of the tasks when making a purchase has continued with many, if not most, large supermarkets shifting to self-serve checkouts. Similarly, a call to a customer service center often means that instead of having an operator route your call to the appropriate person, you have to navigate your way through a myriad of prompts in an automated system asking you to enter information or try various things to resolve the problem before being able to speak with an actual employee.

In spite of the strong opposition to increasing the federal minimum wage, the worker protests may have had some success, as evidenced by the number of states and U.S. territories with a higher minimum wage. When the state or territory minimum wage is higher than the federal minimum wage, the state or territory wage prevails. The minimum wage rates as of January 1, 2024, are shown in Table 2.3.

The table shows the basic minimum wage for each location; however, some states have lower minimums for small employers (e.g., Minnesota, Montana, New Jersey, and Ohio). Nevada allows a lower wage for employers who offer qualifying health insurance, while Oregon allows employers in nonurban counties to pay a lower wage. In Arizona, annual increases in the state minimum wage are based on the rate of inflation.[9] In general, the state minimum wages reflect the economic conditions

TABLE 2.3 ■ Minimum Wage for U.S. States/Territories as of January 1, 2024

Minimum Wage	State/Territory
$17.00	DC
$16.28	WA
$16.00	CA
$16.00	NY
$15.69	CT
$15.45	OR
$15.13	NJ
$15.00	MA
$15.00	MD
$14.42	CO
$14.35	AZ
$14.15	ME
$14.00	HI
$14.00	IL
$14.00	RI
$13.67	VT
$13.25	DE
$12.30	MO
$12.00	FL
$12.00	NE
$12.00	NM
$12.00	VA
$11.73	AK
$11.25	NV
$11.20	SD
$11.00	AR
$10.85	MN
$10.50	VI
$10.45	OH
$10.33	MI
$10.30	MT
$9.50	PR
$9.25	GU
$8.75	WV

(*Continued*)

TABLE 2.3 ■ Minimum Wage for U.S. States/Territories as of January 1, 2024 (*Continued*)

Minimum Wage	State/Territory
Same as Federal Minimum $7.25	IA, ID, IN, KS, KY, NC, ND, NH, OK, PA, TX, UT, WI
No minimum required	AL, GA, LA, MS, SC, TN, WY, AS

Source: U.S. Department of Labor, Wage and Hour Division, Consolidated Minimum Wage Table https://www.dol.gov/agencies/whd/mw-consolidated

and cost of living in the state. The table shows that the highest minimum wages are in Washington, DC, Washington State, California, New York, and Connecticut, all of which have a high cost of living.

Urban areas often have an especially high cost of living. Thus, in addition to the state minimum wage laws, some cities and counties have passed their own local ordinances requiring a higher minimum wage for employees working within their jurisdiction. As of July 1, 2023, West Hollywood, CA, had the highest minimum wage in the United States at $19.08 per hour for all employers.[10] Prior to this increase, employers with fewer than fifty employees could pay $.50 per hour less than employers with fifty or more employees.[11] On April 1, 2024 a California law took effect that raised the minimum wage for fast food (i.e., limited or no table service) workers that are part of a national chain with sixty or more locations nationwide to $20 per hour.[12] Clearly, tracking minimum wages for various cities and states can get very complicated, especially for employers doing business in multiple locations throughout the United States. If at some point you need to work with things related to minimum wages, be sure to research the current requirements for that location.

As you might guess, people can become very passionate about how high the minimum wage should be and even about the purpose of a minimum wage. Again, we are not here to push a social agenda one way or the other. Our purpose is to provide information about current events that are affecting compensation practices today or could in the future. It is up to you to form your own opinions about how things should be.

Some argue that the minimum wage is supposed to be for young people who are just entering the labor market with no specific skills, who are working to earn money to spend on extras or perhaps just trying out different jobs to gain some basic knowledge about what it is like to have a job. Those against increasing the minimum wage often argue that higher wages will be passed along to consumers and lead to higher inflation. They also cite the additional burden that it puts on small businesses who struggle financially to continue operations and for whom increases in their costs may put them out of business.

On the other hand, some argue that there are many people working minimum wage jobs to support a family and that the current minimum wage does not go far enough because it doesn't provide enough income to meet basic living expenses. Thus, in addition to arguing for a higher minimum wage, some maintain that the minimum wage should be what is referred to as a living wage. A **living wage** is based on the cost of living and includes the cost of housing, food, healthcare, childcare, transportation, and other basic necessities, in a particular geographic area. Because of the differences in the cost of living, a living wage in a rural area is typically going to be significantly less than a living wage in a major metropolitan area. For example, a living wage for a single adult in Brownsville, Texas, is $14.74[13] per hour, while in Manhattan, New York, it is $25.65 per hour.[14] Of course, this assumes that the person is working 2,080 hours per year (40 hours/week x 52 weeks). Even then, there is a significant difference between what it costs to live each year and what a person earns in a minimum wage job, as shown in Table 2.4. The additional hours per year that a person would have to work to make up the shortfall is significant. Even with a $15.00 per hour minimum wage, a single person in Manhattan would have to work over 28 additional hours per week to reach the living wage and in Brownsville it would be just over 41 additional hours per week.

TABLE 2.4 ■ Comparison of Minimum and Living Wages

	Brownsville, TX	Manhattan, NY
Minimum wage per hour	$7.25	$15.00
Minimum wage per year	$15,080.00	$31,200.00
Living wage (hourly)	$14.74	$25.65
Living wage (annual)	$30,659.20	$53,352.00
Shortfall (annual)	$15,579.20	$22,152.00
Additional hours needed per year	2,149	1,477
Additional hours needed per week	41.3	28.4

Source: https://livingwage.mit.edu/

Unfortunately, many minimum wage jobs are not full time (i.e., forty hours per week) which exacerbates the problem. The result is that many of these low-wage workers piece together multiple part-time jobs in an effort to make ends meet. We must also point out that these examples are for a single person. When an employee has children, expenses and shortfall increase.

In addition to the states and municipalities that have passed legislation to help low wage workers, some individual employers have taken steps on their own to address the needs of their employees. As noted in Chapter 1, Amazon raised its minimum wage to $15 for all U.S. workers, effective November 1, 2018. Costco followed suit in March 2019.[15] In June 2019, Target increased its minimum wage to $13/hour as part of their multi-year plan to increase it to $15/hour by the end of 2020,[16] but by the end of 2019, there were media reports of Target employees complaining their hours had been cut,[17] which supports the argument that employees may actually be hurt by increasing the minimum wage.

One company that has really embraced the notion that all employees should be paid a living wage is Gravity Payments, a credit card processing and financial services company based in Seattle. In 2015, Gravity co-founder and CEO Dan Price announced that over the next three years they would begin phasing in a minimum salary level for all employees at $70,000 per year at a total cost of $1.8 million.[18] The move was highly publicized. Business surged and profits were higher than ever. In 2018, they processed $10.2 billion in payments, which was more than double the $3.8 billion in 2014, one year before their announcement.[19] As you might guess their ability to attract and retain superior employees was off the charts. In 2016, they acquired an independent subsidiary in Boise, Idaho. In 2019, Price gave all employees in Boise an immediate $10,000 raise and announced that they would begin phasing in the $70,000 per year minimum salary there, which would be fully implemented by 2024.[20] While Gravity's approach to compensation wouldn't be practical for most employers, it is an example of how an inventive approach to compensation can lead to very positive outcomes for an organization.

There is no end in sight to the debates about the minimum wage, what it represents, and how high it should be. Some employers, like Gravity Payments, approach it from a social standpoint with a focus on the employees' cost of living. These employers may choose to set their minimum pay at a level that is more akin to a living wage, and they are free to do so. Many other employers approach it from an economic standpoint and focus on the value of the work they are paying to have performed. In their view, it makes no sense to pay large sums of money for what is in most cases unskilled labor. Instead, they set their wages based on the applicable minimum wage laws with adjustments, so they are able to attract and retain qualified employees, which they are equally free to do. In the end, it's a complicated issue with no one right answer. Employers and individuals alike need to form their own opinions and make their own decisions based on their value systems.

Overtime

The **overtime** provisions of the FLSA require employers to pay non-exempt workers at least one and a half times their regular hourly rate for hours worked in excess of forty per week. Again, when the law was enacted, it was intended to boost the economy. An argument in favor of overtime was that making it more costly for an employer to have employees work more than forty hours per week would entice them to hire more employees, thereby stimulating the economy. It is a common belief that employees who are paid an hourly wage are entitled to overtime pay, and those who are paid a salary are not; this is not true. The entitlement to overtime pay is based on whether an employee is classified as exempt from the law or not, which is based on the type of work they do, and in some cases, how much and how they are paid as discussed earlier.

The workweek is defined as a fixed and regularly recurring period of 168 hours, which is seven consecutive twenty-four-hour periods. The workweek may begin on any day and at any time of the day and does not have to correspond with the traditional calendar week. The FLSA does not require overtime pay for weekends or holidays unless overtime is worked on those days. Thus, an employee who works eight hours per day Wednesday through Sunday would not be entitled to overtime pay, even if it happens to be over the Thanksgiving holiday. While not legally required, some employers choose to pay a premium for working weekends, holidays, or even nonstandard shifts. It is typically used as an incentive for employees to work during those times. When employees are unionized, the union may negotiate the additional pay as part of the collective bargaining agreement. When that happens, employers pay the premium, not because of the law, but because of the union contract. We will address the impact of unions on compensation in much more detail in Chapter 11.

When legally required, overtime pay must be calculated based on the "average hourly rate," whether an employee is paid based on a salary, piece-rate, commission, or another basis.[21] Piece-rate, commission, standard hour plans, and variations of those will be explained in detail in Chapter 7. For now, we provide a very simple example of a piece-rate plan to illustrate the overtime calculation. The average hourly rate is determined by dividing the total pay for a workweek by the total number of hours actually worked, and it must not be less than the minimum wage. As shown in Table 2.5, an employee who is paid a fixed amount of $.50 per piece produced and works eight hours per day, five days per week, would have an average hourly rate of $12.00. If that employee worked an additional four hours on Saturday and produced 100 pieces, their weekly earnings would be $554.00. You should note that even though the hourly average for Wednesday in the example is less than the minimum wage, that is legal, because the hourly average for the week of $12.00 is higher than the minimum.

TABLE 2.5 ■ Overtime Calculation for Piece Rate

	Hours worked	Pieces produced	Earnings per piece	Earnings	Hourly average
Monday	8	250	$0.50	$125.00	$15.63
Tuesday	8	225	$0.50	$112.50	$14.06
Wednesday	8	110	$0.50	$55.00	$6.88
Thursday	8	175	$0.50	$87.50	$10.94
Friday	8	200	$0.50	$100.00	$12.50
Total	40	960	$0.50	$480.00	$12.00
Saturday	4	100	$0.50	$50.00	$12.50
Overtime premium:					
1/2 average hourly rate		$6.00			

(Continued)

TABLE 2.5 ■ Overtime Calculation for Piece Rate (*Continued*)

	Hours worked	Pieces produced	Earnings per piece	Earnings	Hourly average
Hours > 40		4			
		$24.00			
Weekly earnings:					
Monday–Friday		$480.00			
Saturday		$50.00			
Overtime premium		$24.00			
Total		$554.00			

Employers and employees may not voluntarily agree to waive overtime pay. Even if an employer announces that no overtime work will be allowed, or that overtime work will not be paid without advance authorization, the employee still has the right to be paid for the compensable overtime hours they work,[22] provided the employer knows or has reason to believe that the employee is continuing to work. For example, an employee who remains at their desk and regularly answers the phone and responds to emails during a lunch period is working even if the employer considers it an unpaid lunch period.

The FLSA requires employers to pay for **compensable time**, which is the hours an employee actually works and for which they must be paid. The **Portal-to-Portal Act**, a 1947 amendment to the FLSA, addressed what is considered compensable time. It specifically excludes from hours worked the time a worker spends on activities before or after they perform the principal activities for which they were hired. This includes time spent traveling to and from work on a regular basis and incidental activities before and after work. What is considered incidental has been challenged in the courts. The U.S. Supreme Court has ruled that the act requires compensation for activities that are "integral and indispensable" to an employee's principle activities.[23] For example, a nurse working in an operating room would have to be paid for the time spent donning the required clothing to enter the operating room since that is an integral part of the job, while a letter carrier would not have to be paid for putting on their uniform.

Another grey area is "waiting time." Whether or not waiting time is considered hours worked under the Act depends upon the particular circumstances. Generally, the facts may show that the employee was engaged to wait (which is work time) or conversely that the employee was waiting to be engaged (which is not work time). For example, a receptionist who surfs the Internet while waiting for visitors to arrive or a firefighter who plays video games while waiting for an alarm is working during such periods of inactivity. In both cases these employees have been "engaged to wait." Employees who are on-call are generally not required to be paid as long as they are free to use the time for their own purposes and as long as they are not required to remain on the employer's premises. While not required, some employers opt to pay employees a flat rate for on-call time to compensate them for being at the ready.

As noted earlier, time spent traveling to and from work on a daily basis is not included in hours worked; however, there are cases where time spent traveling is included. If an employee who regularly works at one location is required to travel to another city to work and returns home the same day, the time spent in traveling to and returning from the other city is work time, except that the employer may deduct/not count the time the employee would normally spend commuting to the regular work location. If an employee is required to travel from location to location as part of their regular daily work activities, that is considered work time and must be counted as hours worked. An example of this would be an account representative who travels to see customers. If an employee is required to travel away from home overnight, the time spent traveling is work time when it occurs during the employee's regular workday and also during corresponding hours on nonwork days. Time spent traveling away from home outside of regular working hours as a passenger on an airplane, train, automobile, etc., is not considered work time.

Any time an employee spends in required training and seminars during regular work hours must be paid. If the training is outside the employee's regular work hours, it may or may not be paid. If attendance is actually voluntary, it is not directly related to the employee's job, and the employee doesn't perform any productive work while attending, it does not need to be paid. Similarly, employers may or may not be required to pay employees for rest and meal periods. Short breaks of twenty minutes or less are usually paid. Meal periods that are thirty minutes or more need not be paid as long as the employee is completely relieved of their work duties, and in most cases, is not required to remain on the employer's premises.

While it sounds similar to compensable time, compensatory time is completely different. **Compensatory or comp time** is an arrangement by which eligible employees are entitled to time off in lieu of overtime pay. In May of 2017, the U.S. House of Representatives passed the Working Families Flexibility Act that would have amended the FLSA to allow employers and employees to agree to allow for compensatory time off in lieu of cash payment for non-exempt private sector employees at a rate of 1.5 hours for each hour of overtime worked.[24] The bill raised concerns among worker advocacy groups that employees would be coerced into forgoing cash payment for overtime worked and would not receive any additional legal protection. The bill was raised again in 2021 but did not receive a vote.[25]

While the FLSA does not currently allow for comp time in lieu of cash payment for non-exempt private sector employees, government employees may be eligible. Under certain conditions, state or local government employees may receive compensatory time off, at a rate of not less than 1.5 hours for each overtime hour worked instead of a cash overtime payment.[26] In addition, law enforcement, fire protection, and emergency response personnel and employees engaged in seasonal activities may accrue up to 480 hours of comp time, while all other state and local government employees may accrue up to 240 hours.[27] These employees must be permitted to use compensatory time on the date requested unless doing so would "unduly disrupt" the operations of the agency. Federal government employees may also be eligible for comp time for irregular or occasional overtime work; however, it is at the rate of one hour for each overtime hour worked, not one and a half times.[28]

As with minimum wage, a few states have laws that go beyond the requirements of the FLSA, and employers must comply with the higher standard. These laws may require overtime pay for working more than eight hours in a single day and/or for working more than six days per week. For example, California requires time and one half for working more than eight hours per day, double time for working more than twelve hours per day, and on the seventh day an employee must be paid time and one half for the first eight hours and double time for more than eight hours, although there are exemptions.[29]

While overtime pay is not required by the FLSA for exempt employees, employers are free to pay them an additional amount for working more than forty hours per week without violating the salary basis requirement, as long as they receive the minimum weekly salary of $684.[30] If an employer opts to do this, they should be sure to document what they are doing in a company policy that clearly states that it is voluntary on their part and does not change an employee's exempt status. The additional amount can be paid as commission on sales, a percentage of sales or profits, a flat amount, a bonus, paid time off, straight-time hourly pay, time and one-half pay, or any other basis.[31] Note that it may be, but is not required to be, one and a half times the employee's regular pay. Employers may simply pay a flat hourly rate, even if that is less than the employee's regular rate of pay. While this may seem unfair, the reality is the employer isn't required to pay anything, so in that respect any payment is better than none. Similarly, employers may allow exempt employees to take compensatory time off for working more than forty hours per week, but it can be any amount of time and not necessarily one and a half times the amount of extra time the individual worked. This is all possible because exempt employees are not entitled to any overtime pay. It is similar in concept to employers to paying employees for holidays, vacation, sick, or personal time, although there is no legal requirement to do so.

UNINTENDED CONSEQUENCES: TOO MUCH OF A GOOD THING?

Although some employees take advantage of any and all opportunities to work overtime to gain the additional income, there can be a serious and sometimes deadly downside to working long hours. While the additional money may be helpful for paying bills or extra purchases, over long periods of time it can have detrimental effects on the employee's health and well-being. At a minimum it can lead to fatigue and time away from family, but it can also lead to negative impacts on one's health including impaired sleep, depression, heavy drinking, diabetes, impaired memory, and heart disease.[32] In Japan the problem is so prevalent they use the word karoshi which translates to death by overwork. It includes employees who commit suicide or suffer from heart failure or stroke because of long work hours. Karoshi deaths reached a record high of 1,456 in 2015[33], and 2,968 suicides related to problems at work were recorded for 2022.[34] This has led to a number of lawsuits. One such case was filed after the Chiba Labour Standards Inspection Office officially recognized the December 2016 suicide of an unnamed sales manager at Honda Cars Chiba, an affiliate of Honda Motor as karoshi.[35] While the problem has been openly discussed in Japan for decades, the rest of the world is finally taking notice[36], as working very long hours is likely to have similar impacts on workers in other countries, whether or not they are documented.

Child Labor

The **child labor** provisions of the FLSA place restrictions on employers hiring workers under the age of 18 to prevent oppressive child labor, protect the minor's educational opportunities by limiting the hours and times they could legally work, and protect their health and safety by prohibiting them from working in conditions that could be hazardous. The minor's age determines which rules apply. Anyone under age 18 may not work in any job that has been declared hazardous. These are often jobs that involve the use of power-driven machinery where the minor may be injured. Examples include jobs in manufacturing or that require driving a motor vehicle, or the use of saws, balers, compactors, meat-processing machines, etc.[37] There are no restrictions on the times and days that a sixteen- or seventeen-year-old can work, but there are for a fourteen- or fifteen-year-old. These restrictions require that any work be performed outside of school hours and place limits on the number of hours that may be worked, whether or not school is in session.[38] Children working for parents are excluded from coverage, based on the assumption that parents wouldn't put their children in danger.

FLSA Record Keeping and Enforcement

The FLSA requires covered employers to display an official poster outlining the provisions of the FLSA (available at https://www.dol.gov/agencies/whd/posters) and keep certain accurate records for non-exempt employees. While there is no specific format for the records, they must contain the information on the employee, hours worked, and wages earned, as shown in Table 2.6. Employers must also preserve payroll records, collective bargaining agreements, and sales and purchase records for at least three years. Records used for computing wages such as timecards, work schedules, etc., must be kept for two years. These records may be kept at the place of employment or in a central records office.

The Wage and Hour Division of the U.S. Department of Labor is responsible for administration and enforcement of the FLSA and may conduct investigations to facilitate enforcement. An investigation may be triggered by a complaint or a variety of other reasons. Low wage industries in particular are targeted due to high rates of violations or egregious violations, the employment of vulnerable workers, or rapid change (e.g., growth or decline) in the industry.[39] In many instances the employer will be notified in advance, although this is not required. When there is a complaint, it is confidential and the name of the person who filed the complaint and the nature of the complaint are not disclosed. Even the existence of a complaint may not be disclosed.

When an investigator arrives at a workplace, they must identify themselves, present official identification, and explain the investigation process and types of records required for the investigation. Investigators are allowed to collect information on the business in general and wages, hours, and other employment practices, and take notes and make copies of the records. They are also allowed to interview employees in private. After this is complete, the investigator meets with the employer or their representative who has the authority to make decisions and commit the employer to corrective action if it is determined there have been violations. If an employer doesn't take the required corrective action, the Department of Labor may file a lawsuit in U.S. District Court on behalf of the employees. If an

TABLE 2.6 ■ FLSA Record Keeping Requirements

1.	Employee's full name and social security number.
2.	Address, including zip code.
3.	Birth date, if younger than 19.
4.	Sex and occupation.
5.	Time and day of week when employee's workweek begins.
6.	Hours worked each day.
7.	Total hours worked each workweek.
8.	Basis on which employee's wages are paid (e.g., "$9 per hour," "$440 a week," "piecework")
9.	Regular hourly pay rate.
10.	Total daily or weekly straight-time earnings.
11.	Total overtime earnings for the workweek.
12.	All additions to or deductions from the employee's wages.
13.	Total wages paid each pay period.
14.	Date of payment and the pay period covered by the payment.

Source: U.S. Department of Labor, Wage and Hour Division, Fact Sheet #21 Record Keeping Requirements under the Fair Labor Standards Act (FLSA).

employee files a private lawsuit to recover back wages, the Department of Labor will not seek the same back wages on the employee's behalf. Employers may not retaliate against an employee who files a complaint. Doing so may result in a lawsuit for relief, including reinstatement with back pay and damages.

If you are the one who needs to file a complaint, you should have the following the information:

- Your name
- Your address and phone number (how you can be contacted)
- The name of the company where you work(ed)
- Location of the company (this may be different from where you worked)
- Phone number of the company
- Manager or owners name (who should we ask to speak to?)
- Type of work you did
- How and when you were paid (e.g., cash or check, every Friday)[40]

Any additional information that you can provide such as copies of pay stubs, personal records of hours worked, or other information on your employer's pay practices is also helpful.

PREVAILING WAGE LAWS

In addition to the minimum wage provisions of the FLSA, the minimum that an employer is legally required to pay an employee may also be subject to **prevailing wage laws**. Prevailing wage laws establish a rate of pay and benefits for work performed on federal government contracts and subcontracts. The prevailing wage is made up of two components: (1) an hourly base rate and (2) an hourly fringe benefit rate. It is the rate of pay that is believed to be standard for similar work in a particular area. Implicit in these laws is that wages often vary based on geographic location. Their goal is to prevent employers from taking unfair advantage of workers who may be drawn to an area for work on a large government project.

The first of the federal prevailing wage laws was the **Davis-Bacon Act of 1931**, which requires that mechanics and laborers be paid the local prevailing wage. It covers employers holding government contracts for public construction over $2,000. The **Walsh-Healey Public Contracts Act of 1936** as amended provides coverage to contractors and manufacturers who manufacture or furnish more than $15,000 in goods (i.e., materials, supplies, articles, or equipment) to the U.S. government or the District of Columbia. In addition to the payment of prevailing wage and benefit rates, it requires an eight-hour day and forty-hour week, time and a half for overtime, and stipulates that the work be done under safe and healthful conditions. The **McNamara-O'Hara Service Contract Act of 1965** requires contractors and subcontractors performing services on contracts in excess of $2,500 to pay service employees in various job classes no less than the wage rates and fringe benefits found prevailing in the area.

As with minimum wages, state and local governments may also pass prevailing wage laws that apply to work performed on their government contracts. In 2023, there were twenty-six states that had such legislation. The threshold amounts ranged from $1,000 in California and Rhode Island to $1,000,000 in Connecticut, and there were six states that did not specify a threshold amount for contracts.[41] The state and local laws are subject to change more often than the federal laws. There are states that had previously had prevailing wage laws but subsequently repealed them. Thus, if you need to work with compensation for work involving government contracts, you should seek out the most current information for your geographic location. But the laws affecting compensation do not end here.

ANTI-DISCRIMINATION LAWS

In addition to the FLSA and prevailing wage laws, there are a number of anti-discrimination laws with which employers must comply. While these laws generally cover all aspects of the employment relationship, our focus is on how they impact compensation.

Equal Pay Act

The first of the federal anti-discrimination laws was the **Equal Pay Act (EPA) of 1963**, an amendment to the FLSA that prohibited sex-based wage discrimination for men and women performing the same job in the same workplace. The law was intended to eliminate wage disparities based on sex. While today it might be hard to imagine a time when it was acceptable to pay women less for doing the same job as a man, it was actually quite common. The assumption was that men needed to work to support their family, while women only worked for "pin money," literally money to purchase sewing notions or other nonessential items. Indeed, at the time the EPA was vigorously opposed by the Chamber of Commerce, the Retail Merchants Association, and other powerful business groups. While the EPA did not originally cover people excluded from coverage under the FLSA (i.e., those working in an executive, administrative or professional capacity, or as an outside salesperson) Congress passed an amendment to the FLSA in 1972 to extend EPA coverage to these employees.

The U.S. Supreme Court addressed the question of whether or not jobs had to be identical to be deemed equal under the EPA in 1970.[42] Their ruling was that the jobs only needed to be "substantially equal," not identical. Four factors are used to determine if the work is substantially equal; skill, effort, responsibility, and whether the work is performed under similar working conditions. Skill includes the ability, education, experience, and training required to do the job. Note that this is what the job requires, not the skills that a particular employee has. For example, an employee who has an MBA would not be paid more than an employee who has a bachelor's degree if the job only requires a bachelor's degree. Effort is the amount of mental or physical exertion needed to perform the job. Responsibility is the amount of accountability required when performing the job. This would include responsibility for material things (e.g., money, equipment, etc.) or for other people. Working conditions involve the extent to which there are hazards inherent in performing the job or the job involves working in adverse physical surroundings like those where there are extreme temperatures, fumes, or poor ventilation.

An employer has four legitimate defenses, and the burden of proof, for justifying differences in pay between men and women in substantially equal jobs. The four defenses are when the pay is based on seniority, merit, quality or quantity of production, or any factor other than sex. For example, if an employer pays employees based on their length of service or the results of their performance appraisals, and a man who has more seniority or has received better performance evaluations than a woman in an equal job is paid more, there would be no violation of the law. The same would be true if an employer pays employees based on their production and a man produces more than a woman in the same job. The fourth possible defense—any factor other than sex—is more ambiguous. Generally speaking, the courts have interpreted this broadly. Common "factors other than sex" that can be defenses under the Equal Pay Act include employees' job-related education, experience, and training; shift differentials; and market forces. For example, the court has "held that an employer may take into account market forces when determining the salary of an employee," although cautioning in a footnote against employers taking advantage of market forces to justify discrimination.[43] Often an employer will maintain that it is a business necessity, which can result in a dispute as to whether or not it is really necessary. Because this can be open to interpretation, the plaintiffs usually focus on showing a "pattern of practices" that result in discrimination to prove their case.

Title VII of the Civil Rights Act

A year after passage of the EPA, Congress passed sweeping civil rights legislation that addressed discrimination in many areas of society, including employment. **Title VII of the Civil Rights Act (Title VII) of 1964** prohibits employers from discriminating with regard to any term, condition, or privilege of employment based on race, color, sex, national origin, or religion. While people often assume that the law only provides protection for women and racial minorities, that is simply not true. If that were the case, the law would specify women instead of sex or African Americans instead of race. That said, the majority of charges filed under Title VII have been from women and racial minorities because they have been far more likely to experience discrimination in the workplace. One early example of a sex discrimination case brought by a man was *Diaz v. Pan American World Airways*. Celio Diaz applied to be a flight attendant at Pan American but was rejected because they only hired females for those jobs claiming it was a business necessity because customers expected flight attendants to be females. The case was decided in favor of Diaz by the U.S. Court of Appeals for the Fifth Circuit in 1971. Note that even though Diaz is a Hispanic surname, this case was solely based on sex discrimination.

The courts recognize two types of discrimination, disparate treatment and disparate or adverse impact. **Disparate treatment** occurs when people are treated differently based on their membership in a protected class, as was the case with Diaz. **Disparate or adverse impact** happens when an apparently neutral employment practice has a disproportionate impact on members of a protected class. An example of this involved height and weight requirements for police and firefighters. Prior to the courts' ruling that these requirements were discriminatory, it was common for police and fire departments to require applicants to be at least 5'8" and weigh at least 160 pounds to be eligible for hire. Since women and some ethnic groups are on average smaller in stature, they were disproportionally impacted. While the employers usually argued that this was a business necessity, the courts ruled otherwise, and the height and weight requirements were subsequently replaced with physical ability requirements (e.g., strength, endurance, etc.) that were more directly related to job performance.

Title VII created the **Equal Employment Opportunity Commission (EEOC)** which enforces the anti-discrimination laws. After a series of Supreme Court decisions that weakened protections under Title VII, Congress passed the **Civil Rights Act of 1991**. This act was an amendment to Title VII that increased access to jury trials, allowed for limited compensatory and punitive damages where there was intentional discrimination, and extended coverage to additional federal employees and U.S. citizens working for U.S. companies abroad.

Similarly, Congress passed the **Lilly Ledbetter Fair Pay Act of 2009** in response to another Supreme Court ruling, reducing the time restrictions on wage discrimination complaints. The act was named after Lilly Ledbetter, who had worked for Goodyear Tire and Rubber for nineteen years before receiving an anonymous note informing her that she was earning thousands of dollars less per year than men in the same position. Ledbetter filed a sex discrimination complaint that made its way to the Supreme Court who ruled that because the discrimination had been ongoing for many years, Ledbetter had missed the window of opportunity to file suit. Of course, she didn't file a complaint until she learned of the discrimination, because one can only act on the information they have at the time. While you could argue that the Supreme Court ruling was unfair, the court followed the law as it was written at the time. Thus, the goal of the Fair Pay Act was to rectify that problem by stating that each paycheck where there is discrimination is a new violation regardless of when the discrimination began. While Ledbetter lost her case and didn't receive the backpay based on the laws in effect at the time, others since then have benefited from the law named for her.

Age Discrimination in Employment Act

The **Age Discrimination in Employment Act (ADEA) of 1967 prohibits** discrimination in hiring, promotion, discharge, compensation, or terms, conditions or privileges of employment against applicants and employees age forty and up on the basis of age. In this respect, it essentially added age as a protected class. The ADEA was amended in 1990 by the **Older Workers Benefit Protection Act of 1990 (OWBPA)**, which prohibits employers from denying benefits to older employees and defines requirements for early retirement incentives. In certain circumstances employers may be allowed to require older workers to contribute more toward their benefits. The legal requirements impacting retirement and other voluntary benefits will be addressed in more detail in Chapter 10.

Pregnancy Discrimination Act

The **Pregnancy Discrimination Act (PDA) of 1978**, an amendment to the 1964 Civil Rights Act, requires employers to treat pregnancy, childbirth, or pregnancy-related medical conditions the same as any other medical condition. Prior to its passage, employers regularly excluded these from coverage under their sick time and health insurance plans. Thus, not only did employees and their families have to bear the entire cost of medical bills when they had a child, they also lost the income of the mother while she was unable to work. Note that this did not force employers to provide health insurance or sick pay, but if they did, they had to treat pregnancy and related conditions the same as they would any other medical condition.

Many people incorrectly assume that the PDA only covers female employees, since they are the ones that can physically give birth. While male employees don't carry the babies, they may have insurance through their employer that covers their spouse or a covered dependent who may become pregnant. In this case, the PDA requirements that pregnancy be treated as any other medical condition with respect to health insurance coverage, applies to the covered dependents of male employees too.

Americans With Disabilities Act

The **Americans with Disabilities Act (ADA) of 1990** was the first comprehensive anti-discrimination law protecting people with physical or mental disabilities. Like Title VII, it addressed discrimination in numerous areas. In the area of employment, ADA requires employers to make reasonable accommodation for otherwise qualified disabled individuals who are able to perform the essential functions of the job, with or without accommodation, provided it does not cause undue hardship for the employer. It is a complex law with many provisions that impact many areas of Human Resources. Our focus here is strictly on compensation, so we will leave a detailed explanation of the law to other textbooks on employment law, selection, and Human Resources. From a compensation standpoint, the ADA prohibits employers from lowering a covered employee's pay to offset the cost of any accommodations they may provide.

Thus far, the anti-discrimination laws we have covered are all cases of the government acting in its traditional role to pass laws to protect citizens from unfair or discriminatory treatment by employers. There are also cases where the government imposes regulations on employers in its role as a customer of its suppliers. This is significant when you consider the breadth and depth of what the government purchases from tanks to toilet paper. It is no different than any other large customer requiring certain things of its suppliers if they want to keep them as a customer. One example of this is **Executive Order 11246** issued in 1965 that prohibits government contractors and subcontractors with contracts of $10,000 or more from discriminating on the basis of race, color, sex, national origin, or religion. It also requires government contractors with fifty or more employees and $50,000 or more in annual contracts to file an annual report detailing the demographic composition of their workforce. E.O. 11246 is enforced by the Department of Labor's Office of Government Contract Compliance Programs (OFCCP).

In addition to anti-discrimination laws, other federal laws impact compensation and benefits. The following will be covered in detail in Chapters 9 and 10 on employee benefits:

- Employee Retirement Income Security Act (ERISA) of 1974 sets minimum standards for most voluntarily established retirement and health plans to protect people covered by these plans in private industry.
- Family and Medical Leave Act (FMLA) of 1993 is a federal law passed in 1993 that requires employers to provide up to twelve weeks unpaid leave upon the birth or adoption of a child or the serious illness of the employee or an immediate family member.
- Health Insurance Portability and Accountability Act (HIPAA) of 1996 protects health insurance coverage for employees and their families when they change or lose their job, prohibits discrimination against employees and dependents based on their health status, and protects personally identifiable information from being disclosed without the patient's consent or knowledge.
- Patient Protection and Affordable Care Act (ACA) of 2010 was designed to make healthcare more widely available, affordable, and understandable.

State and Local Anti- Discrimination Laws

In addition to the federal laws, many states and cities have enacted a variety of anti-discrimination laws. Often these laws extend coverage to groups not covered by the federal regulations. Many of these laws have been in effect for many years. For example, Michigan's Elliott-Larsen Civil Rights Act, passed in 1976, also provides protection against discrimination on the basis of height, weight, familial status, and marital status, and extends coverage to workers of all ages. More recently, the focus has shifted to providing protections for LGBTQ employees. While there has yet to be any federal legislation, more than twenty states have either passed laws that explicitly prohibit discrimination based on sexual orientation or gender identity or have explicitly interpreted existing laws against sex discrimination to include sexual orientation or gender identity.

Laws forbidding questions about salary history are spreading across the U.S. Since 2016, at least twenty-one states and twenty-two cities have passed **salary history bans** that prohibit employers from asking prospective employees about their pay history in an attempt to further curb pay discrimination and reduce the gender pay gap. Proponents argue that requiring prospective employees to disclose current or previous pay information is unrelated to what the pay should be for a job and puts them at a disadvantage when negotiating their compensation for a new position. When prior salaries have been low, perhaps as a result of discrimination, basing a future salary on an applicant's past salary perpetuates any past discrimination, even if it is unintentional. While the trend is certainly toward these types of laws, in 2018, two states, Michigan and Wisconsin, passed laws prohibiting local governments from passing such laws. Even when there is a law, enforcement can be difficult. Most applicants would be hesitant to challenge an employer who asks about their salary history lest it make them a less desirable candidate for the job.

In most cases, passing a new law at any level is a slow process that can easily take years. An extreme example of this on the federal level is the **Equal Rights Amendment (ERA)**, a proposed amendment to the U.S. Constitution that would explicitly state that women have equal rights under the law. Its passage in 1972 started the clock ticking to get a required three-fourths (thirty-eight) states to ratify the amendment within a seven-year timeframe. From the beginning, the amendment was very controversial. By 1977, thirty-five states had ratified the ERA and Congress voted to extend the deadline to 1982. That deadline passed without any additional states ratifying it, so the amendment did not take effect and things remained status quo for many years.

For many years there was a decline in organized activity to increase protections for women. There were still people who believed additional protection was needed and continued to work for change, but there wasn't a concerted effort. The movement started gaining traction again in the early 2010s and came to the fore in 2017 with the #MeToo movement and the Women's March on Washington. Nevada became the 36th state to ratify the ERA in 2017, although it was only symbolic because the deadline for ratification had long passed. Similarly, Illinois ratified the amendment in 2018, followed by Virginia in 2020.[44] While this brought the total to the required 38 states, it was simply too late according to the Justice Department's Office of Legal Counsel.[45] There were those who disagreed with that opinion and the House of Representatives voted to waive the deadline on February 13, 2020.

In a separate action, House and Senate Democrats introduced legislation to start the ratification process anew with little to no progress until July 2023. The ERA Caucus filed a 'discharge petition' and continue to rally for the 218 needed House votes for a full chamber vote to recognize the ERA as the Twenty-Eighth Amendment to the Constitution.[46] If legislation to begin the ratification process anew were to pass both houses and get presidential approval, it would still likely be several years before it was ratified, if at all. In the meantime, employers must comply with the laws currently in effect with respect to compensation decisions.

LEGAL COMPLIANCE

To help ensure that they are paying employees fairly, organizations can conduct a **pay equity audit**. This involves analyzing the compensation of employees who are performing comparable work to identify differences in compensation that are not based on work experience, education, or job performance, and investigating and addressing the causes of unexplained differences. The first step is to gather data on employees' pay, job classification, experience, education, seniority, and various demographic characteristics (e.g., gender, race, and age). The data is then statistically analyzed to identify potential problems. Pay adjustments are then made as appropriate. A 2019 study by WorldatWork and global consulting firm Korn Ferry found that pay equity increases result in an average 5% increase for 1% to 5% of an organization's employees with a cost of 0.1% to 0.3% of total base pay.[47]

It is imperative that employers meet all of their legal obligations at the federal, state, and local levels. The laws governing the employment relationship are complex and ever changing. When working in this environment, it is important to stay informed and seek outside assistance as needed. Along with the federal laws related to compensation practices, you will need to understand and keep current with applicable state and local laws and proposed changes in the laws. It can be very helpful to join a professional organization specifically aimed at compensation professionals such as WorldatWork, which was discussed in Chapter 1. Another more general professional organization for people working in Human Resources is the Society for Human Resource Management (SHRM). These organizations provide regular updates on changes in the laws and current trends.

Large organizations may have an HR Compliance Manager or even a Compliance Department. If that is the case where you work, you will need to work with these people. If you are in a smaller organization that doesn't have these types of positions, you will likely need to consult with the organization's legal counsel if a complaint is filed. It is illegal to retaliate against anyone for filing a complaint or participating or testifying in any investigation, proceeding, or litigation under any of these laws, so you need to be sure you don't treat anyone any differently if there is a complaint or investigation.

SUMMARY

- Fair Labor Standards Act
  - Employees are classified as exempt or non-exempt.
  - Minimum wage is the lowest amount non-exempt employees can be paid.

- Employers must pay non-exempt employees one- and one-half times their regular hourly rate for hours worked in excess of forty hours per week.
- There are restrictions on the work that can be done by workers under eighteen years of age.
- Employers are required to keep accurate records of employees, hours worked, and pay under the FLSA.

- Prevailing wage laws
  - Certain employers doing work for the government are required to pay workers the typical rate of pay for similar work in their area.

- Anti-Discrimination Laws
  - Designed to prevent discrimination against employees based on their demographic characteristics.
  - Equal Pay Act prohibits pay discrimination based on sex for workers performing substantially equivalent work in the same workplace.
  - Title VII of the Civil Rights Act prohibits discrimination in all employment practices on the basis of race, color, sex, national origin, or religion.
  - Age Discrimination in Employment Act prohibits employers from discriminating against people age forty and up.
  - Pregnancy Discrimination Act requires employers to treat pregnancy the same as any other short-term disability.
  - Americans with Disabilities Act requires employers to make reasonable accommodation for otherwise qualified handicapped individuals.
  - Laws at the federal, state, and local levels all affect compensation.

- Legal compliance
  - Employers must comply with all applicable laws.

KEY TERMS

Age Discrimination in Employment Act (ADEA) of 1967
Americans with Disabilities Act (ADA) of 1990
Child labor
Civil Rights Act of 1991
Compensable time
Compensatory or comp time
Davis-Bacon Act of 1931
Demand-side Economics
Disparate or adverse impact
Disparate treatment
Equal Employment Opportunity Commission (EEOC)
Equal Pay Act (EPA) of 1963
Equal Rights Amendment (ERA)
Executive Order 11246
Exempt employees
Fair Labor Standards Act (FLSA)
Federal minimum wage
Lilly Ledbetter Fair Pay Act of 2009
Living wage
McNamara-O'Hara Service Contract Act of 1965
Non-exempt employees
Older Workers Benefit Protection Act of 1990 (OWBPA)
Overtime
Pay equity audit
Portal-to-Portal Act
Pregnancy Discrimination Act (PDA) of 1978
Prevailing wage laws
Salary history bans
Three-pronged test
Title VII of the Civil Rights Act of 1964
Walsh-Healey Public Contracts Act of 1936

DISCUSSION QUESTIONS

1. Describe the differences in federal, state, and local minimum wages in your geographic area.
2. Assess the differences between minimum wage and a living wage for your geographic area.

3. Explain the difference between compensable time and compensatory time.
4. Describe the process for handling complaints under the FLSA.
5. Discuss the role of anti-discrimination laws on compensation.

ETHICAL DILEMMA: NICE IN THEORY OR A MORAL IMPERATIVE?

Low wage employees and their advocates have become increasingly vocal about the need to increase wages to address the workers' financial needs. The arguments in favor of this are that people who are working fulltime should not have to rely on public assistance programs (e. g., Medicaid, food stamps, Earned Income Tax Credit) to survive, that allowing everyone to earn a living wage would reduce the need for these taxpayer funded programs, and stimulate the economy. As discussed earlier in the chapter, a few companies like Amazon and Costco have voluntarily taken steps to increase their minimum wage to $15 per hour and Gravity Payments has gone far beyond that with a $70,000 per year minimum salary. While these efforts are commendable, the vast majority of organizations only increase their minimum pay when absolutely necessary to attract and retain qualified employees. The primary argument in favor of this is that employers must limit increases in their labor costs in order to remain competitive. In other words, they simply cannot afford to dramatically increase their labor costs.

Questions

1. What are the advantages and disadvantages for an employer of paying a living wage?
2. What factors might influence an organization's decision to pay employees a living wage? In what way would those factors influence the decision?
3. To what extent, if any, do employers have a moral responsibility to their shareholders to maximize profits above all else? Why or why not?
4. To what extent, if any, do employers have a moral responsibility to help ensure their employees are earning a living wage? Why or why not?

EXERCISE 2-1 EXEMPT OR NON-EXEMPT: A JOB CLASSIFICATION EXERCISE

Review the job descriptions below and classify the positions as exempt or non-exempt based on the FLSA White Collar Exemptions "Duty" Test. https://www.dol.gov/agencies/whd/fact-sheets/17a-overtime

If the position is exempt, specify the white-collar exemption (executive, administrative, or professional) and provide an explanation using information from the appropriate FSLA Fact Sheet. If the position is non-exempt, specify why it does not fulfill the white-collar exemption.

1. **Supervisor**

   Responsible for supervising the warehousing and shipping of incoming and outgoing materials.

   Responsibilities:
   - Staff, train, evaluate, and develop team members.
   - Supervise the daily activities of the warehouse.
   - Schedule warehouse team members to meet the demands of the facility.
   - Assist and maintain appropriate inventory levels and product loss control.
   - Oversee shipping and receiving functions as applicable.
   - Manage within labor and operating budgets.

   Position Requirements:
   - High school diploma or GED required.
   - Bachelor's degree preferred.

- Two years warehouse/inventory experience required.
- One year of experience managing people/budgets

2. **Workers' Compensation Specialist**

   Manage the administration of claims for employee incidents for our US operations as well as provide HR support in other areas as needed.

   Responsibilities
   - Review and manage all incident reports for employee incidents from initial report through conclusion/closure of claim
   - Design and implement process and workflows that are efficient and aligned with our culture
   - Submit claims to the Third-Party Administrator/insurance carriers and provide required information
   - Act as the Liaison between the employee and the Third-Party Administrator
   - Oversee and monitor the claim process from beginning to end to ensure proper and timely closing
   - Verify wages, work injuries, and work restrictions
   - Train Administrators and Department Managers on the internal claim reporting process
   - Coordinate with all departments and business units to ensure the proper state forms are completed and procedures are followed
   - Coordinate leaves of absence, short- and long-term disability, FMLA, etc.

   Qualifications
   - Three years workers' compensation experience
   - College degree preferred

3. **Engineering Technician**

   Responsible for working within a lab environment supporting engineering prototype, development, and validation test activities.

   Responsibilities:
   - Assisting with assembly of sample prototype builds.
   - Executing component testing and related data analysis.
   - Supporting material and quality control activities including LOTO, safety action items, part inventory and storage, and other items as necessary.
   - Championing process change to improve quality, performance, cost reduction, and standardization within the lab.

   Qualifications:
   - Associate degree in engineering, technology, or science from an accredited institution and a minimum of two years of experience in engineering.

4. **HR Coordinator**

   Assists in providing a wide range of HR support and in the following areas: onboarding, compliance, recruitment, performance management, and employee relations.

   Responsibilities:
   - Processes confidential employment documents in accordance with established procedures or standing instructions.
   - Processes insurance invoices, COBRA, 401(k), unemployment claims, and worker's compensation claims
   - Coordinates, prepares, schedules, and conducts employment related programs including new hire orientation.
   - Provides guidance, advice, and assistance on such matters as employee services and benefits, management-employee communications, performance management, conflict resolution, and equal employment opportunity.

- Assists in the coordination of temporary employee program.
- Acts as custodian of all employee records.

Qualifications:

- Associates degree in Human Resources or Business
- Minimum of two years of experience in an HR role
- HRIS experience

EXERCISE 2-2 EVALUATING THE EFFICACY OF ANTI-DISCRIMINATION LAWS IN PREVENTING PAY DISCRIMINATION

For this exercise, you will work individually and then in a small group to assess the effectiveness of the EEO laws covered in the chapter in preventing pay discrimination. Each person in your group will find at least one case involving pay discrimination using the EEOC website, http://www.eeoc.gov/eeoc/newsroom/. Note you will need to coordinate with other members of your group to ensure you are each researching a different case. Individually, you will complete the following worksheet for your case.

Worksheet: Pay Discrimination Case Summary

Case name: ____

Applicable law(s): ______________________________________

Parties involved: _______________________________________

Summary of the case: ____________________________________

____

____

____

____

____

Current status/outcome: __________________________________

____

____

____

Working in your group you will share your summaries, research statistics on wages for various demographic groups, discuss your findings, and respond to the questions listed below. As you respond to the questions, be sure to cite specific examples and wage statistics to support your assertions. Your responses should be documented in a well-written, succinct, two- to three-page paper, with proper citations for your sources. Your instructor may have you submit your case summaries individually or as an appendix to your group paper and have you share your results with the class, either in person or via an online discussion board.

1. To what extent do the EEO laws go far enough in protecting the various groups (e.g., women, minorities, people with disabilities, etc.) from pay discrimination?
2. To what extent, if any, do the existing laws go too far?
3. Are there additional groups that need legal protection against pay discrimination? Why or why not?
4. Are there groups that no longer need legal protection against pay discrimination? Why or why not?

EXERCISE 2-3 RFI INC.: RECORDKEEPING FOR THE FLSA

As RFI has continued to grow, the need for formal policies and procedures has come to the forefront. Your boss has just tasked you with developing a process for documenting and keeping the employee records required under the FLSA. You will need to create a form for recording the required information for each employee. The form should be complete, concise, visually appealing, and easy to complete. You need to write the procedure for gathering, recording, and storing the required information. You will also need to write instructions for anyone who needs to complete the form. These instructions should be complete, easy to follow, succinct, and leave

EXERCISE 2-4 RFI INC.: EVIDENCE OF PAY DISCRIMINATION

In this exercise, you will prepare a brief (two- to three-page) analysis of RFI's potential exposure to allegations of pay discrimination based on the employee information provided in the Appendix. Your report should address each of the federally protected classes discussed in the chapter and identify any areas of concern that require further investigation.