Chapter 6

Pay, Benefits, and Working Conditions

6.1 Understanding Pay and Benefits
6.2 Work Schedules and Unions
Lesson 6.1

Understanding Pay and Benefits

GOALS

- Compute payroll deductions and net pay.
- Identify optional and required employee benefits.
Gross Pay, Deductions, and Net Pay

- **Gross pay** is the total amount you earn before any deductions are subtracted.
- Amounts subtracted from your gross pay are called **deductions**.
- When all deductions are taken out of your gross pay, the amount left is your **net pay**.

\[
\text{Gross Pay} - \text{Deductions} = \text{Net Pay}
\]
Gross Pay Calculation

- Gross pay with overtime
  - **Overtime** is time worked beyond the regular hours.
  - Overtime rate is 1½ times the regular rate.

Regular Pay + Overtime Pay = Gross Pay
## Example of Gross Pay Calculations for Hourly Employee

<table>
<thead>
<tr>
<th>Type of Pay</th>
<th>Hours</th>
<th>Rate</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Regular pay</td>
<td>40</td>
<td>$8.00 per hour</td>
<td>$320.00</td>
</tr>
<tr>
<td>Overtime pay</td>
<td>4</td>
<td>$12.00 per hour</td>
<td>48.00</td>
</tr>
<tr>
<td>Gross pay</td>
<td></td>
<td></td>
<td>$368.00</td>
</tr>
</tbody>
</table>
Salary

- Salary may be stated as an annual amount.
- The annual amount is divided into equal amounts to be paid each pay period.

Common pay periods

- Monthly
- Twice a month
- Every two weeks
- Weekly
Example of Gross Pay Calculations for Salaried Employee

<table>
<thead>
<tr>
<th></th>
<th>Annual Salary</th>
<th>÷</th>
<th>Pay Period per Year</th>
<th>=</th>
<th>Gross Pay per Paycheck</th>
</tr>
</thead>
<tbody>
<tr>
<td>Monthly</td>
<td>$24,000</td>
<td>÷</td>
<td>12</td>
<td>=</td>
<td>$2,000</td>
</tr>
<tr>
<td>Twice a month</td>
<td>$24,000</td>
<td>÷</td>
<td>24</td>
<td>=</td>
<td>$1,000</td>
</tr>
<tr>
<td>Every two weeks</td>
<td>$24,000</td>
<td>÷</td>
<td>26</td>
<td>=</td>
<td>$923.08</td>
</tr>
<tr>
<td>Weekly</td>
<td>$24,000</td>
<td>÷</td>
<td>52</td>
<td>=</td>
<td>$461.54</td>
</tr>
</tbody>
</table>
Deductions

- Amounts subtracted from your gross pay are called **deductions**.
  - Some deductions, such as Social Security tax and federal income tax, are required by law.
  - Other deductions are optional.
Net Pay

- When all deductions are taken out of your gross pay, the amount left is your **net pay**.
  - Amount of your paycheck
  - "Take-home pay"
  - Amount you can actually spend as you wish
Self-Employed Requirements

- Estimated tax payments quarterly (four times during the year)
- Social Security tax and Medicare tax
  - **Self employment tax** is the total Social Security and Medicare tax, including employer-matching contributions, paid by people who work for themselves.
  - The total tax rate is 15.3 percent of gross income.
    - Social Security tax is 12.4 percent
    - Medicare tax is 2.9 percent
Benefits and Incentives

- Profit sharing
- Paid vacations and holidays
- Employee services
- Child care
- Sick pay
- Leaves of absence

- Insurance
- Bonuses and stock options
- Pension and savings plans
- Travel expenses
Profit Sharing

- Profit sharing is a plan that allows employees to receive a portion of the company’s profits at the end of the corporate year.
- The more profits the company makes, the more the company has to share with employees.
- Profit sharing is considered incentive pay—money offered to encourage employees to strive for higher levels of performance.
Paid Vacation

- Most businesses provide full-time employees with a set amount of paid vacation time.
- While you are on vacation, you are paid as usual.
- The amount of vacation time often varies with years of service.
Paid Holidays

- Paid holidays typically include: Christmas, Thanksgiving, Fourth of July, Labor Day, and Memorial Day.

- Other holidays that many companies consider paid holidays are New Year’s Day, Veterans Day, Martin Luther King Day, and Presidents Day.

- An employee required to work on a holiday is usually paid double or more than double the regular hourly rate of pay.
Employee Services

- Employee services are the extras that companies offer in order to improve employee morale and working conditions.
- Examples include:
  - Employee discounts
  - Social and recreational programs
  - Free parking
  - Tuition reimbursement for college courses
  - Wellness programs
  - Counseling for employee problems
Child Care

- Onsite child-care facilities
- Coverage of child-care expenses as a part of employee benefit packages
Sick Pay

- Many businesses also provide an allowance of days each year for illness, with pay as usual.

- It is customary to receive three to ten days a year as “sick days” without deductions from pay.
Leaves of Absence

- Some employers allow employees to temporarily leave their jobs (without pay) and return to their jobs at a later time.

- There are often restrictions on the reason for a leave, such as having children or completing education.
  - Disadvantage: Unpaid
  - Advantage: Job security
Personal Days

- Some employers allow personal days (absences for personal reasons) so that employees can attend to important matters without calling in “sick” when they aren’t sick.
Insurance

Most large companies provide group insurance plans for all employees.

- A few plans are paid for almost entirely by the employer, as a part of employee compensation.
- Most plans require that employees pay for part of their own coverage, as well as to cover dependents.

Common types of insurance plans

- Group health insurance
- Group life insurance
- Group dental insurance
- Group vision insurance
Bonuses and Stock Options

- Bonuses are incentive pay based on quality of work done, years of service, or company sales or profits.
- Stock options give employees the right to buy a set number of shares of the company’s stock at a fixed price.
Pension and Savings Plans

- Pension plans are funded by the employer.
- Retired employees receive a monthly check.
- Employees become **vested** (entitled to the full retirement account) after a specified period of time, such as five years.
Employer-Sponsored Retirement Savings Plans

- Common plans
  - 401(k) for private employers
  - 403(b) for government employers
- Employees put money in these accounts.
- The employer may also (but is not required to) contribute money to the employee’s account.
Travel Expenses

- Company car
- Mileage allowance
- Daily allowance to cover hotel, meals, and other travel expenses
- Expense reports and receipts
Evaluating Employee Benefits

- Benefits generally are not taxable to employees (except bonuses and other benefits paid in cash), yet they provide valuable coverage and advantages.

- Generally, large companies provide more extensive optional benefits than do small companies.

- In recent years, employee benefits have been expanded to meet the needs of different life situations.
Lesson 6.2
Work Schedules and Unions

GOALS

- Describe flexible work arrangements for employees.
- Describe the role of unions and professional organizations.
Flexible Work Arrangements

- Many employers are responding to the changing lifestyles and needs of their employees.
- By designing more flexible jobs, employers can reduce absenteeism, burnout, and turnover.
Altered Workweeks

- Many firms have experimented with altered workweeks to get away from the standard eight-hours-a-day, five-days-a-week work schedule.
- Two examples are flextime and the compressed workweek.
Flextime

- Flexible scheduling, or flextime, is a work schedule that allows employees to choose their working hours within defined limits.
  - Core time period
  - Negotiated starting and ending times
Compressed Workweek

- A **compressed workweek** is a work schedule that fits the normal 40-hour workweek into less than five days.

- The typical compressed workweek is ten hours a day for four days, followed by three days off.
Job Rotation

- **Job rotation** is a job design in which employees are trained to do more than one specialized task.
- Employees “rotate” from one task to another.
- Advantages of job rotation include:
  - Gives employees variety in their work and allows them to use different skills
  - Reduces boredom and burnout, leading to greater job satisfaction
  - Allows for free exchange of information and ideas
  - Keeps work flowing when one worker is absent
Job Sharing

- **Job sharing** is a job design in which two people share one full-time position.
- They split the salary and benefits according to each person’s contributions.
- Job sharing is especially attractive to people who want part-time work.
- By satisfying employees’ needs for more personal time, job sharing reduces absenteeism and tardiness, lowers fatigue, and improves productivity.
Permanent Part-time

- Many employees choose to work only part time (16–25 hours a week).
- Companies can save on salary and benefits by hiring permanent part-time employees.
- Part-time work usually provides some benefits to the employee, such as job security, while allowing freedom to spend more time away from work.
Telecommuting

- Advances in technology have made telecommuting possible.
- Telecommuters can work at home or on the road and stay in contact with their manager and coworkers through e-mail, fax, cell phone, and other technologies.
- Employees who telecommute often do computer-related work, such as data entry, Web design, information processing, or software development.
- Working at home is convenient and gives the worker flexibility.
- Telecommuting does not work well in some jobs.
Labor Unions

- Unions are groups of people joined together for a common purpose.
- A labor union is a group of people who work in the same or similar occupations, organized for the benefit of all employees in these occupations.
Functions of Unions

- Recruit new members
- Engage in collective bargaining
- Support political candidates who support members’ interests
- Provide support services for members
Collective Bargaining

- The main function of unions is **collective bargaining**, which is the process of negotiating a work contract for union members.

- Terms of the contract set working conditions, wages, overtime rates, hours of work, and benefits.
Collective Bargaining

- Work contracts spell out grievance procedures.
  - A grievance is a formal complaint, by an employee or by the union, that the employer has violated some aspect of the work contract.

- Work contracts often provide for seniority rights.
  - **Seniority** refers to the length of time on the job
  - It is used to determine transfers, promotions, and vacation time according to most union contracts.
Types of Unions

- Craft unions
- Industrial unions
- Public-employee unions
A professional organization consists of people in a particular occupation that requires considerable training and specialized skills.

Professional organizations also collect dues from members and provide support services.
Examples of Member Services

- Establish and maintain professional standards
- Administer exams, accreditations, and admission requirements
- Publish professional journals to help keep members up to date in their field
- Provide pension, retirement, and insurance benefits for members
- Participate in political action activities, such as **lobbying**, which is an attempt to influence public officials to pass laws and make decisions that benefit the profession