



Why Are Bonus Programs Impactful?

Bonus programs provide financial incentives, which can increase employee satisfaction and financial well-being when the company is successful, and lead to a more engaging and positive work environment. Bonus programs can help a company keep fixed costs under control while aligning compensation with company and employee performance. When different groups are all able to benefit from the same successes, a sense of shared purpose arises that is beneficial to all. In addition, employees are far more likely to become better stewards of the company's resources if they have a personal stake in the economic success of the organization.

Bonus plans can be effective ways to address the issues of income inequality and uneven wealth distribution, while also increasing employee engagement. Bonus programs can take many forms:

- **Profit-sharing:** Rewarding employees based on the performance of the company makes them feel like valued contributor and can lead to improved employee performance.
- **Year-end bonuses:** Often tied to individual performance goals and paid in one lump sum.
- **Production-based bonuses:** Rewards based on meeting or exceeding goals, whether monthly or quarterly. These bonuses can even encourage cooperation among team members, building a more amiable workplace environment.
- **Non-cash bonuses:** These can include gift cards, flexible work schedules, extra vacation days, and work-from-home opportunities.

Considerations when Developing Bonus Systems

[Cleverism](#) provides insights to help companies design and implement effective bonus plans.

Design

- Management should determine the ultimate goals of the program. Creating these goals allows the company to measure program is success down the road.
- Be realistic about business and financial constraints, including cash reserves, existing assets, etc.
- Research market and industry trends, especially if using bonus systems to increase employee retention.
- Talk to employees about their preferences so that the created plan is motivating to them.

Implementation

- Make sure the bonus plan is articulated in writing. This helps to reduce misunderstandings about the policies.
- Communicate the plan to the employees. If employees don't know about the program, it cannot be a source of motivation.
- Base the plan on specific, measurable, and quantifiable rewards.
- Employee incentives should be tied to the bonus program and help the company achieve its goals.
- Make sure everyone gets something, potentially by creating a tiered system of goals and incentives.
- Financial rewards should be large enough to incentivize behavior.

Steps to Create a Profit Sharing Plan

The [Department of Labor](#) created a guide for small businesses to help businesses create profit sharing plans. The guide suggests the following approach for creating a profit sharing plan.

1. Determine if you can create the plan yourself, or if you need to consult a professional or financial institution. Consider consulting a bank, mutual fund provider, or insurance company.
2. Create a written document for your plan. The plan should document the day-to-day operations which will inform the profit-sharing plan. The plan should define:
 - The formula for determining contribution allocated to individuals (likely to an account)
 - The vesting schedule
 - The process for testing annually to ensure contributions for rank-and-file employees are proportional to those in management
 - When and which employees can participate in the plan

Tip – Make sure your document aligns with the features required by law

3. Select a trustee. There needs to be at least one trustee who handles contributions, plan investments, and distributions. This individual is essential to successful implementation.
4. Arrange a trust for the assets of the plan. The assets of the plan must be in a trust that solely benefits the participants and their beneficiaries. Plans set up through insurance contracts do not need to be held in a trust.
5. Develop a recordkeeping system. An accurate recordkeeping system should track attribute contributions, earnings and losses, plan investments, expenses, and benefits distributions. If you are working with an external firm, they will likely set up the system. A recordkeeping system is also essential to support annual reporting to the Federal Government.
6. Distribute information to employees about eligibility. Participants must receive a summary plan description (SPD) which informs them about the plan and how it operates. It should also be shared with beneficiaries.

Resources

- Villanova shares [How to Motivate Employees With a Bonus Program](#)
- Forbes shares [Does the Year-End Bonus Still Motivate Your Team?](#)
- The National Center for Employee Ownership describes [How ESOPs, Profit Sharing Plans, and Stock Bonus Plans Differ as Employee Ownership Vehicles](#)
- [How to Structure an Employee Bonus Plan](#) from Cleverism
- [Is Profit Sharing Right for Your Small Business](#) from Quickbooks
- Review the [Department of Labor guide](#) on profit sharing plans

Associated Resource Guides

- Living Wage & Wage Equity
- Employee Handbooks
- Supplementary Benefits

