

3.6: Complete Guide to Compensation and Benefits



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People are a vital asset to an organization, and compensation and benefits are essential pillars of a team member's satisfaction in the workplace. A rewarding compensation and benefits plan can attract loyal, motivated and engaged candidates and may reduce the turnover rate of people in a company. Understanding compensation and benefits can help you manage staff retention and advance your career as a human resources manager. In this article, we explain what compensation and benefits are, discuss their differences and importance and list essential components of non-financial compensation that provide organizations with a competitive advantage.

What are compensation and benefits?

Compensation and benefits are crucial functions of human resource management. A rewarding compensation and benefits plan attracts high-performing candidates and helps foster staff motivation, retention and a positive workplace experience. Compensation is the financial value that a team member receives in exchange for their services. This monetary value can include wages, salary, commissions and bonuses. Benefits are non-monetary, additional perks or rewards that a company provides for a team member. Certain benefits may have a financial value, even though a team member receives no cash. Examples of benefits with a monetary value include equity, stock options, health insurance and retirement savings plans. Non-monetary benefits may be a flexible working schedule, paid time off or learning and development opportunities.

What are the differences between compensation and benefits?

Compensation and benefits are both parts of the employment package that an organization offers a candidate. Companies often use compensation as a collective term to describe a remuneration package, but compensation is cash remuneration paid to a team member. Benefits are non-financial rewards given to team members besides their cash payment for the services they offer to the organization. The main difference between the two is whether they're financial or non-financial forms of remuneration. Human resource managers use compensation to attract talented candidates and improve staff retention. They use benefits to motivate team members, encourage engagement and improve performance in the workplace. Each team member and potential candidate has different needs, and employers can motivate some people with financial rewards and others with non-financial rewards. In addition, compensation is a monetary value and is subject to taxation. In contrast, some benefits are tax-free, such as meals provided for the convenience of a team member. Some benefits also have a portion that's exempt from taxation, such as transportation benefits.

Why are compensation and benefits important?

Excellent compensation and benefits packages can differentiate a company from other employers in the marketplace. A business hires people to achieve its organizational goals, and candidates can join companies to earn money and advance their careers. Companies that develop a competitive and well-designed compensation and benefits strategy may enjoy these benefits:

- [Attracting high-performance candidates and improving retention](#)

Companies must continually recruit high-performance candidates and manage the retention of team members for business continuity. Often, talented people know how to highlight their value and negotiate for the best compensation and benefits options. Compensation specialists consider a combination of compensation and benefits to recruit high-performance candidates and reduce staff turnover. A desirable mix of monetary and nonmonetary options can make an organization more competitive in the marketplace, attract talent and reduce recruitment costs.

- **Motivated team members**

When compensation is below the average in an industry, employers may find it challenging to keep team members highly motivated. Fair compensation boosts morale and increases workplace satisfaction, which motivates people to deliver their best efforts, reduces absenteeism and improves staff retention. Besides direct compensation, benefits, such as a workplace gym, prepaid meals, additional paid vacation time or a gift card for achieving a goal, can motivate team members to perform their tasks.

- **Increased loyalty and engagement**

When an organization values and appreciates team members, it fosters a belief in the company's overall mission, helps improve staff retention and increases loyalty and engagement. Examples of benefits that make people feel valued and understood in the workplace include stock options, flexible schedules, personal days, child care, gym memberships and product discounts. The benefit of a service recognition program is that it inspires loyalty and engagement and can improve staff retention.

- **Improved productivity**

Team members who feel undervalued or under-compensated might spend more time on personal projects or offer a minimum service in proportion to their compensation. In contrast, a successful compensation and benefits plan rewards team members for their efforts and can inspire increased efficiency and productivity in the workplace. Performance-based reviews, sales incentives and team rewards can motivate team members and improve productivity.

- **Enhanced workplace experience**

Although competitive compensation is essential, benefits such as health and wellness programs, paid time off, rewards and incentives can enhance the workplace experience and reduce absenteeism. For instance, offering insurance options benefits team members and can allow them to focus on workplace tasks. When team members are excited about coming to the workplace, they might provide better customer service and talk positively about the organization to their friends and family.

Components of non-financial compensation

Many organizations understand the benefit of competitive financial compensation. Still, a well-structured combination of compensation and benefits can optimize engagement, productivity, absenteeism and financial resources and help meet organizational goals. Benefits that can motivate team members and make a company more competitive include:

Benefits with a monetary value

Certain benefits have a monetary value, but team members don't receive compensation in cash. Examples include:

- **Disability insurance**
- **Dental and vision insurance**
- **Health insurance**
- **Life insurance**
- **Paid gym membership**
- **Retirement benefits**
- **Stock options**
- **Student loan repayments**
- **Worker's compensation plan**

Benefits with no monetary value

Some benefits with no monetary value include:

- **Family leave:**
 - this benefit includes extended leave allowance for bereavement, maternity and paternity leave.
- **Flexible working schedule:**
 - AN organization can offer flexible work hours and the option to work remotely for a few days a week as long as team members complete their assignments on time.
- **Paid time off:**
 - depending on the length of service, organizations may allow team members to schedule paid days off for some personal time.

- **Training and development:**
 - Employers develop training programs to enable team members to learn specific skills or gain knowledge to improve their performance.
- **Use of company equipment:**
 - Some companies provide access to computer equipment, cellphones and tablets for the duration of a candidate's service contract.

Source

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