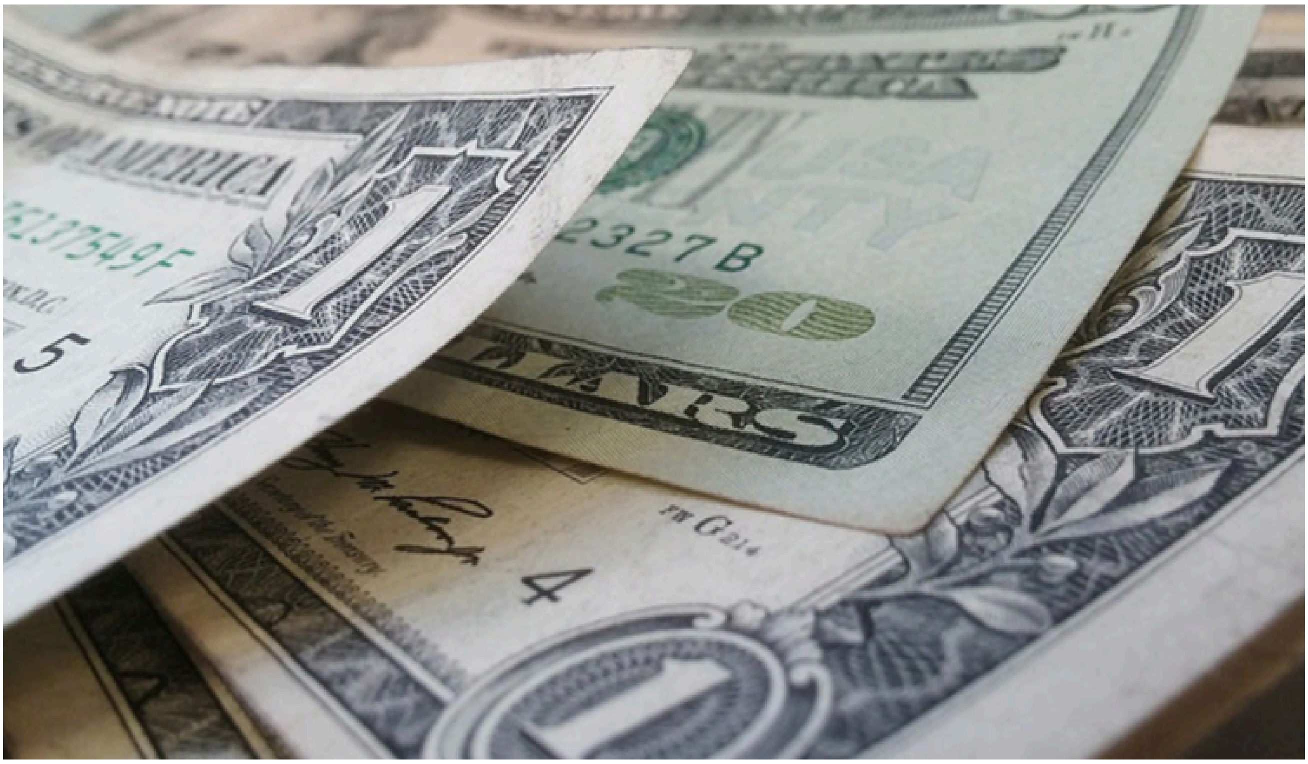
# ACCOUNTING TODAY. Using Deferred Cash Bonus to Retain Employees

William Dorsa, CPA, CCIFP, Manager, at Grassi & Co (March 04, 2019)



One issue plaguing the some industries has been labor shortage. This has been a hot topic the last few years and is likely to continue in 2019 as companies continue to earn higher and higher revenues and maintain healthy and growing backlogs. One difficulty has been finding and retaining the labor necessary and part of the issue is voluntary turnover of key employees.

The loss of a key employee can cost a company direct dollars such as recruitment fees, training expense, onboarding cost and lost productivity.  There are also indirect costs such as lost knowledge and company morale, which can have a direct effect on a business's bottom line. Turnover can be contagious and the loss of a key employee can cause other employees on the fence to make the jump to a competitor.

Based on research and an article written by Amy Adkins of Gallup, millennials are the most likely the generation to switch jobs with approximately 60% open to new job opportunities.  The ADP Research Institute reported in 2018 that the construction industry is averaging a monthly turnover rate of 6.2% of employees. Common factors contributing to voluntary turnover are pay, promotion, overtime, commuting, experience and other job related issues.

So the question is, how does a company limit its voluntary turnover? Common strategies are offering flexible scheduling, promotion, employee recognition and, most commonly, compensation. The structure of compensation, which is typically made up of salary and an annual bonus, can be used to help curb the voluntary turnover of key employees. Most construction companies offer their key employees a bonus—which could be project based, a percentage of the bottom line or some other calculation based on revenues or EBITDA. The crucial piece of the puzzle is the timing of the bonus.

Most companies make the mistake of paying 100% of the bonus awarded to key employees in the year it is earned or shortly thereafter. The structure that should be employed is deferring a large portion (typically 50%) of the bonus to be paid out in a future period. For example, a key project manager gets a $100,000 bonus awarded in 2018. They get $50,000 (50% x $100,000) paid out in 2018 and the remaining $50,000 paid out at the end of 2021. This process rolls forward every year and once the employee has been in the program for three years always has a three-year rolling deferral on their cash bonus.

There are a few distinct advantages for the company that are achieved by deferring a portion of the bonus into a future period:

Employee Retention - by deferring a portion of the cash bonus to a future period the employee is more likely to remain employed or lose the deferred portion of the cash bonus

Cash Flow – by building a deferred cash bonus program the company keeps all the deferred cash on their balance sheet, which allows it to be invested and earn a return

Never Having to Pay – how many times does a key employee get their bonus and tender their resignation shortly after? If an employee resigns, the company never has to pay the employee the deferred portions of the bonus, which saves compensation expense

There are a few considerations to be aware of before implementing a plan like this. First, if your company has been paying 100% of employee bonus in the year it is earned, or shortly thereafter, implementing a deferral plan where a portion of the cash is deferred could get a negative response from the employee group. There are also alternative strategies to consider which are non-cash such as Stock Appreciation Rights (SAR), which is defined by Investopedia as “a bonus given to employees that is equal to the appreciation of company stock over an established time period.”

Any company considering implementing a new bonus program should consult with a Certified Public Accountant to ensure they comply with any relevant Internal Revenue Service Codification and an attorney to ensure the plan is structured properly to protect the company.

For more information, contact William Dorsa, CPA, CCIFP, Manager, Grassi & Co., wdorsa@grassicpas.com [2].

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