Sharp Capital Consulting, LLC

Human and Financial Capital Consulting Services

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Paying Incentive Compensation to Your Hourly Field Employees

This topic comes up regularly, and it is one of the most misunderstood areas of compensation in the construction industry. A company wants to pay incentive compensation to their hourly field employees to encourage them to improve efficiencies with project labor and materials. The concept is simple; the company will share savings of project labor dollars and/or material buyout dollars with the field employees. The only issues are who participates, how much to share with those participants, and how to pay the project-based incentives, right?

This is one of the biggest compensation "gotchas" around. **Incentive compensation paid to hourly field employees is potentially governed by the Fair Labor Standards Act (the "Act")**. Basically, the Act says that incentive compensation for nonexempt (hourly) employees that is based on production goals, savings, or quotas must be considered when paying overtime compensation. In other words, if you pay overtime to your hourly field workers (and who doesn't), you must convert any paid incentive compensation to an hourly rate, add it to their base hourly rate, and use that combined rate to determine their overtime rate. For some contractors, this is a big deal since their field workers are cranking out 500 to 1000 hours of overtime annually. There is also a timing issue since overtime is paid weekly, but incentives are usually paid at the end of a job or at milestone dates. Failure to follow these regulations may have severe consequences. A Labor Department audit will dig into every hourly worker going back a number of years to determine if additional overtime must be paid. You can imagine the hours of work that this effort would require from you and your employees and the end result may be that your company must track down and pay thousands of dollars of additional overtime to current and former employees.

There are two ways to pay incentives to hourly field workers without incurring the "overtime penalty". The first way is simple. You can pay purely discretionary incentives, such as periodic discretionary spot awards, without penalty. When I say discretionary, I mean no formulas, no goals, no savings, and no incentive plan document. The other way is more complicated and can be based on shared savings, goals, or quotas if the hourly employees' overtime compensation is considered when determining their incentive compensation. Basically an incentive plan determines a percentage that is multiplied by an employee's base hourly wages plus overtime wages on a project for some time period and that percentage is determined based on whatever project metrics you want, such as labor savings, material savings, or some other production metrics.

Setting up an incentive plan for hourly field workers is not for do-it-yourselfers. **My advice is to hire a consultant that has experience with construction industry compensation plans and understands the issues in the Act associated with such plans.** It is well worth spending the consulting dollars to keep you and your company out of trouble.

Article Spotlight

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A Word from Rick Sharpnack

Current data indicates that construction industry salaries are increasing on average between 3% to 4% annually. The rate of increase is higher in some "hot" markets and certain craft workers wages are increasing at much higher rates. These are rates that we saw prior to the recent recession. It is important to stay on top of salaries for your staff, particularly if you are in a market with high demand for workers. It doesn't take long for salaries to fall behind competitive levels when industry salaries are increasing at a compound rate of 4%. It is worth the cost of obtaining industry compensation data to ensure that your people aren't dissatisfied with their salaries and looking around.

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