



## What Is an Employee Compensation Plan?

A compensation plan includes a company's set of guidelines for delivering employees' base pay, bonuses, and equity. A well-designed plan may also provide strategy for future company goals around employee compensation. A compensation plan can play an important role in an organization's overall budgeting and planning process. It can assist an organization in setting their budgets for employment-related expenses.

### The Importance of a Compensation Strategy and Its Benefits

1. Generally, a compensation strategy includes the goal of attracting, motivating, and retaining top talent for the organization.
2. A compensation strategy should align with the company's values and objectives along with an explanation of how the plan will be implemented. The strategy should support the company's overall mission, vision, corporate culture, and strategy.
3. In developing a compensation strategy, the organization should determine whether they will set compensation at, above, or below market values and the degree to which employee benefits should complement the compensation package.
4. A company should be aware of external factors (comparison of your business owners pay practices within an industry), pay transparency laws, and internal factors (how your business owners pay their existing employees versus each other and as compared to new employees).
5. Having a comprehensive and documented compensation strategy helps when an organization is looking to hire and retain talent. With a solid strategy in place, an employer can:
  - Set pay ranges that can be used to assist in planning and budgeting
  - Show employees how their compensation is tied to company values and the strategic plan for success
  - Guide compensation decisions for newly created positions within the company
  - Implement a methodology that helps to ensure that employees with similar knowledge, experience, and job duties are paid in a fair and consistent manner

When based on a solid strategy, a compensation plan can provide the following benefits to employers:

- Helps the company attract and retain talent
- Improves job engagement and job satisfaction for existing employees
- Sets parameters around compensation spending and provides a resource employers can use to evaluate their compensation practices against the industry standards
- Assists with compliance with pay transparency laws

**If your business owners are creating or revising their company's compensation policies, the HR professionals from Paychex [HR Consulting Services](#) can offer guidance and support.**