

Bonus Plans for Farm Employees

A Summary of an Iowa Survey



IOWA STATE UNIVERSITY
University Extension

FM 1840 Revised October 1999

Motivating and rewarding employees is one of the most frequent concerns voiced by farmers who hire full-time labor. Besides a basic wage or salary, many employers offer added bonuses or incentives to encourage good job performance.

There are almost as many types of bonuses as there are employers. In two surveys by Iowa State University, farmers with full-time employees were asked to describe bonus plans that they used. In the most recent survey, funded by the Leopold Center for Sustainable Agriculture, more than 43 percent of the employees were paid some type of bonus. The value of the bonus payment ranged from \$50 to \$9,658 for one year, with the average value being \$2,192. Most of the plans were based on one of four factors: volume, performance, longevity, or profitability.



▶ Volume

The most common bonus mentioned was a fixed payment per unit of output from the farm. Hog farms commonly paid from 50 cents to \$2 per pig weaned or sold. This guarantees that the employee's wages increase when the volume of production and the work load increase. Improved efficiency, such as more pigs weaned per litter, also is rewarded, although at a modest rate.

Other bonuses based on volume included a fixed payment of \$1 to \$2 per acre for crop farms, \$5 per calf sold, or a bonus for each cow milked in a dairy herd. Typically these bonus plans amounted to \$500 to \$2,000 annually per employee.

▶ Performance

Some hog operations put more emphasis on performance by paying employees a bonus of \$1 to \$2 per head for each pig weaned over a specified average per litter, or per sow per year. This provides a much stronger incentive for carrying out the extra duties or late hours necessary to save more pigs. This type of bonus is effective only when the employee has direct responsibility over the factors on which the bonus is based, however. For grain farms, for example, bonuses based on crop yields are difficult to implement fairly because yields depend on many factors beyond the employee's control.

Another type of performance bonus is a lump sum paid at the end of the year based on the employer's overall assessment of the employee's work. Although this involves less record keeping, the amount paid becomes very subjective. If the bonus is less than was paid the previous year it may actually become a disincentive to the worker. Performance bonuses should be paid soon after the work is performed to have the greatest positive effect.

▶ Longevity

Some employers pay a bonus for each year the employee has worked on the farm, such as \$200, or 1 percent of the normal wage. This recognizes the value of experience and continuity to the farm.

For newer employees, paying a bonus simply for completing the year or staying through harvest avoids the problem of frequent turnover or being short-handed at critical times. Bonuses of \$200 to \$2,000 at the end of the year were commonly reported. Some employers simply pay an extra month's salary as a holiday bonus.

▶ Profitability

Bonuses based on the profitability of the farm or a particular enterprise allow the employee to share in some of the financial risks and rewards of the business. Control of key expense areas such as machinery repairs also can be the basis for a bonus. Long-time employees may be more willing and able to be paid on this basis than new employees.

If the bonus is calculated as a percent of net income or profits, then the employer must be willing to share this information with the employee. In many cases, the bonus is simply a lump sum based on the employer's discretion, for example, if the farm has a "decent year."

▶ In-kind Payments

Employee bonuses do not always have to be paid in cash. A new appliance, a gift certificate, or a paid holiday at a resort may be highly appreciated, especially by the employee's family. Some employers allow workers to use tools, shop space, vehicles, livestock buildings, and even crop machinery for personal enterprises. This benefit involves little or no extra cost to the employer. Some bonuses are paid in the form of commodities. Current tax laws do not subject payments to employees in the form of commodities to Social Security tax if certain conditions are met.

A good bonus plan needs to be discussed in advance. If performance or profitability determines the amount that is paid, an example should be worked out so that both parties understand the procedure to follow. However the incentive plan is structured, the expectations and conditions need to be made clear to the employee, and strictly followed by the employer.

On the following pages is a list of all the bonus plans reported in the last two surveys.



Bonus and Incentive Plans for Iowa Farm Employees

(1998 survey) (1991 survey)

Swine

Pay \$3.50 per pig sold (total wage)

Pay \$1 per pig sold (\$12,000)

Pay \$.50 per pig sold (\$6,000)

Pay \$.25 per pig produced (\$3,600)

Pay \$.10 per pig produced (\$1,350)

Based on pigs per sow per year (\$2,000)

Based on pigs per sow per quarter above base rate (\$2,800)

Based on pigs per sow per quarter above base rate (\$1,600)

Bonus per pig weaned above 18.5 per sow per year

Bonus for higher hog production

Pay 50 cents per hog sold (\$1,600)

Pay \$1 per market hog sold (\$2,500)

Pay \$1 per hog sold (\$1,600)

Pay \$1 per head for 0-1,000 sold, \$3 for 1,000-2,000 sold, and \$5 per head for over 2,000 sold (\$8,000)

Pay \$1.15 per pig sold (\$12,000)

Pay \$1 per hog sold, \$2 per gilt sold for breeding (\$6,000)

Pay \$1 per pig weaned, \$1 per market hog sold, \$5 per calf weaned (\$2,500)

Pay \$1 per feeder pig sold (\$2,500)

Pay \$2 per pig sold (\$2,000)

Pay \$2.25 per pig sold over 130 head sold per week

Pay \$7 per breeding gilt sold

Pay \$5 per pig sold over established base

Pay \$.04 per pound of pork sold (\$19,000) plus 10 percent of profits

Employee can sell one hog for each 100 head marketed (\$2,100)

Based on number of pigs moved from nursery to grower unit

Based on pigs weaned per sow, paid every 6 months (\$4,000)

Pay 50 cents per pig over 9.0 average per litter (\$1,000-2,000)

Pay \$2 per pig weaned over 8.0 per litter average (\$500)

Pay 50 cents per pound for each pig over 9.0 pigs per crate every 4 weeks (\$2,400)

Pay \$1 per pig weaned over 8.5 per litter average, minus death loss in nursery (\$400)

Pay \$1.50 per pig weaned over 7.0 per litter, \$3 per pig over 8.0 (\$1,200)

Pay \$10 per pig over 8.0 average (\$1,200)

Based on pigs weaned per sow per year over 16 (\$500)

Bonus paid if number of pigs weaned is greater than projected (\$1,800)

Bonus paid if death loss is less than 2 percent (\$2,000)

Employee owns 10 percent interest in hogs (\$3,500)

Employee owns 15 percent of the hog operation

Pay employee 4 percent of gross swine income

Crops

Employee receives 1,500 bushels of corn
Bonus based on bushels of grain sold and pounds of meat produced
Pay 50 cents per acre worked (\$1,200)
Employee receives special custom rates for work done on own land
Bonus of \$1,000 if crop year is decent
Employee receives 2 acres of crops to sell (\$600)
Bonus of \$600 for running the baler
Bonus based on crop profits (\$500-1,000)
Bonus paid at end of year according to a formula based on yields and machinery repairs
Pay 10 cents per bu. for bean yields over 30/bu./acre, 5 cents per bu. for corn yields over 100 bu./acre

Cattle

Pay two percent of calf sales
Ten calves and 150 bushels of soybeans
Increase ownership share of cow herd
Bonus of \$1 per pound of rolling herd average above the state average, plus \$300 per calf weaned over 90 percent (\$3,000)
Percent of income over market price for 4-H club calves
Pay 25 percent of quality payment from milk check
Pay \$5 per calf sold

Longevity

Bonus equal to 0.5 percent of pay for each year employed, minimum of 6 %, maximum of 12 %
Bonus for each 12 months worked
Bonus of one month's salary for staying the full year (\$1,250)
Bonus of \$25 per week after 6 months (\$1,200)
Bonus for staying through harvest (\$300-500)
Bonus equal to 10-20 percent of gross wages for completing the harvest season (\$300-400)

Profitability

Quarterly bonus if profit goals met (\$1,250 each time)
Bonus based on profits for the year (\$700)
Bonus based on profits (\$9,000)
Year-end bonus based on profits (\$500)
Bonus equal to 10 percent of management return (\$6,000)
Bonus based on profits (\$1,500)
Bonus equal to 5 percent of IRS schedule F net farm profit (\$1,500)
Bonus if farm has a good year (\$2,000 to \$2,500)
Bonus of one month's salary, depending on profits, longevity
Bonus according to farm's net income (\$1,000)
Bonus based on profits at end of year (\$500)
Bonus of 10 percent if hogs sell above \$60 per cwt. during pay period
Bonus of 5 percent of hog profits distributed among employees (\$2,000)
Distribute 30 percent of management return among employees

Cash Payment

Cash bonus at end of year (\$600)
Cash bonus at end of year (\$250)
Cash bonus at end of year (\$2,500)
Cash bonus at end of year (\$1,500)
Year-end bonus (\$1,600)
Extra cash payments (\$1,200)
Cash bonus (\$200)
Cash bonus quarterly (\$1,200 total)
Cash bonus at mid-year and end of the year (\$400)
Cash bonus at mid-year and end of the year (\$150)
Cash for extra hours in spring and fall (\$150)
Cash bonus winter, spring, and fall (\$1,500 total)
10 percent of annual pay (\$3,000, \$1,500, and \$1,000)
\$1 per hour worked during the year (\$3,000, \$3,000 and \$2,500)
Extra cash for Christmas, birthday (\$250)
Cash for Christmas, vacation, back to school (\$500)
Christmas bonus (\$200)
Christmas bonus (\$2,200)
Christmas bonus (\$300)
Bonus of one week's pay at end of year
Bonus of \$500, not guaranteed
Bonus of approximately \$1,000
Bonus of \$500-1,000
Bonus of \$1 per hour overtime after 40 hours per week, \$500 at end of year
Bonus of \$300-500 annually
Bonus of \$100-500 at end of year
Bonus of \$500 if vacation not used
Tax free bonus of \$6,500
Bonus based on work done and hours (\$1,500)
Bonus of 25 cents per hour worked at end of year
Bonus based on performance for month (\$1,200)
Bonuses of \$250 at harvest, \$250 at end of year
Bonus at employer's discretion (\$500)
Bonus of \$100 at end of year
Bonus at end of year (\$200)

Other

One-third of seed corn sales commission
Bonus for extra egg production (\$3,000)
Take out for pizza at end of the season
Airline tickets (\$500)
Spring and harvest bonus if equipment is treated right (\$600)

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Issued in furtherance of Cooperative Extension work,
Acts of May 8 and June 20, 1914, in cooperation with
the U.S. Department of Agriculture. Stanley R.
Johnson, director, Cooperative Extension Service,
Iowa State University of Science and Technology,
Ames, Iowa. [A] File: Economics 1-5