

Bonus Plans for Farm Employees - Results of a 2011 Iowa Survey

Ag Decision Maker

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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 an added bonus or incentive to encourage good job performance.

In a 2011 survey of full-time farm employees conducted by Iowa State University and the North Central Risk Management Education Center, 65 percent of the employees were paid some type of bonus. The value of the bonus payment ranged from \$100 to over \$20,000, with the average value being \$2,351 for employees who received a bonus. There are almost as many types of bonuses as there are employers. Most of the plans reported were based on one of four factors: performance, volume, longevity or profitability.

Performance

Paying employees a bonus based certain performance criteria that lead to greater profits provides them an incentive for paying attention to details and putting in the extra time necessary to save more pigs or reduce the somatic cell count in milk, for example. 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 sub-

jective. 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.

Volume

Some bonuses are a fixed payment per unit of output from the farm. Hog farms often pay from \$.50 to \$2.00 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, is also 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 amount to \$500 to \$2,000 annually per employee.

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 shorthanded at critical times. Bonuses of \$200 to \$2,000 at the end of the year were commonly reported. Many employers simply pay an extra month's salary or other lump sum as a holiday bonus.

Profitability

Bonuses based on the profitability of the farm or a particular enterprise allow the employee

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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.

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.

The following is a list of all the bonus plans reported in the last ISU farm employee survey.

Bonus and Incentive Plans for Iowa Farm Employees (2011 Survey)

Swine

- Sold five hogs in his name each month (\$10,800)
- Loading pigs on weekends and after five on weekdays (\$1,950)
- Number of pigs weaned
- Based on farrowing rates (\$1,100)
- Based on gestation data (\$1,100)
- Based on pig performance (\$200)
- If pigs/mated female/ year is greater than 25 each quarter, they get a bonus (\$1,550)
- Bonus/pig (\$1,083, \$3,250)

Dairy

- Based on calf survival, cow production, SCC count, cull rate (\$960)
 - Bonus for quality milk production (\$960)
 - Low somatic cell count (\$1,000)
 - Milk quality (\$1,200)
 - SCC under 150 average/month (\$240)
 - Somatic cell count bonus \$.15-.30/hour, based on performance (\$750)
 - Paid for milk from cows he owned (\$5,000)
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Beef

One cow/year and calf crop (\$4,000)
Bonus given for calving, planting and harvest (\$1,800)
Received bonus when steers were sold (\$800, \$1,500)

Crops

\$500/year accident free, \$500/year on time
Based on crop yield (\$2,000)
Yearly bonus minus avoidable repairs (\$500, \$1,000, \$2,000)
Was gifted 40 acres of farmland that we rent from him (\$14,900)
Commodity gift of 104 bushels of beans (\$1,200)

Profitability

Health insurance and profit sharing (\$5,800)
Profit sharing (\$110)

Cash Payment

Christmas, \$.25/each hour worked (\$661, \$866)
Christmas bonus and 1.5 time on Sundays
Christmas gift (\$100, \$500)
Cash bonus (\$500)
End of year (\$2,000)
Quarterly bonus (\$7,000, \$14,000)

Other

Help with health insurance and cell phone bill (\$2,400)
Vehicle repair plus gas (\$6,500)
Formula driven based on hours worked, years of service, attitude and safety (\$2,500, \$3,500)



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