Primer on MBA Compensation

MBA compensation packages can be very different than the packages you received prior to the MBA, especially if you worked in another country. Below is a summary of compensation items. Compensation generally refers to the entire package, primarily consisting of salary (cash and cash equivalents) and benefit. Your compensation package may not include all these components. Mention is made of what might be negotiable. Disclaimer - this is intended as an introductory guide to persons not familiar with US compensation systems. You should contact the HR department of the company granting the offer to verify all information relative to the position you accept.

SALARY: Cash and Cash-Equivalents
- Salary (negotiable)
- Signing Bonus: A one time bonus enticing you to sign on with the firm, paid when you accept, start, one year later, or a combination. (negotiable)
- Guaranteed Annual Bonus: Some firms guarantee an annual cash bonus regardless of your or the firm's performance.
- Annual Bonus/Incentives: Quarterly or annual bonuses in cash, stock, or retirement benefit. They depend on the performance of you, your division/unit, the corporate, or a combination. When paid in stock or retirement contribution this is deferred compensation and therefore only accessible to you after you remain with the company for some period of time. Deferred compensation is usually taxed when used, not when earned.
- Grossing-Up: Cash and some other bonuses are taxed as income, so your net is less than the gross. Some employers, recognizing this, will pay increase the gross amount (gross-up) so that after taxes (net) your bonus is the promised amount.
Salaried employees are “exempt” from the federal wage and hour laws.

BENEFITS: See other side

MISCELLANEOUS BENEFITS
- Flexible Spending Accounts: Health insurance typically involves some expense to you, in terms of your co-pay, deductible, and premiums. The premiums you pay from your paycheck are not taxed. These accounts allow you to deduct an estimated amount from your paycheck for co-pay and deductible expenses without being taxed. The money remains in an account for you to be reimbursed from by the company. However, if you do not use all the money in the account in any given year, you will lose the balance of the money set aside. There are also similar plans for child-care expenses.
- Cafeteria Plans: In these plans you choose and receive only the benefits you need most, which allows the company to keep costs down by not paying for all benefits for all employees. (for instance, why pay for health care if your spouse has it as well. Instead you may benefit from improved dental care or more life insurance).
- *Perquisites (Perqs) - Companies also provide a number of unique benefits from their firm. These are typically negotiable and include such things as use of a company car, child care assistance, tuition reimbursement, health club memberships, professional association memberships, discounts on personal travel and car rental, personal computers, beepers, cell phones, etc.

FEDERALLY MANDATED BENEFITS: These are not negotiable and typically will not even be mentioned in your offer letter or compensation package.
- Workers compensation: Workers compensation provides some income guarantee in case you are injured in the course of your work. This is an insurance benefit paid by the employer and administered by the state in which you are employed.
- Unemployment Insurance: If you are involuntarily separated from your employer you may be eligible for some income from the state in which you were employed, for a limited amount of time. The amount of income is rather modest.
- Social Security: Social Security (FICA) is a retirement fund set up for you by the federal government. It is one part of your retirement savings. You will share the cost of social security through a tax deducted from each paycheck.
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<th>HEALTH-RELATED BENEFITS: The amount of coverage is not negotiable, however, the start time may be.</th>
<th>TIME-RELATED BENEFITS: The amount and date when you are eligible for sick, personal, and vacation time may be negotiable.</th>
<th>RETIREMENT PLANS:</th>
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<td>Various health benefits typically begin some time after your employment with the firm (up to one year). Often you share in the cost of the benefit, which is deducted from your paycheck. • Health Insurance: Most employers offer a selection of plans, varying in the amount of your contribution to the premium, co-pay, and benefit you receive. Prescription medicine coverage may be included in this or separated out as a separate insurance policy. • Life Insurance: Is typically offered paid by the employer for some base amount (one year's salary) with an option for you to purchase more. This would be paid to your beneficiary as a one-time payment. Shop around for the best rate for additional life insurance, and lock in lower rates while young. • Dental Insurance: Some employers offer this, and perhaps even a range of policies to choose from. • Vision insurance: Is more common in some industries than others, and has limited choices. You will likely pay a substantial portion of the premium. • Accidental Death and Dismemberment: Reimburses you for loss of health or life as a result of business-related work. This is a one-time payment like life insurance. This may be paid by your firm on your behalf, with the option of purchasing additional coverage.</td>
<td>Vacation: Employers provide a limited number of paid days off throughout the year, typically starting with two weeks off then adding more days/year as your tenure with them grows. Often there is a limit to encourage you to take time off. • Sick: These paid days are provided for care of your health. Often sick time has no limit on accrual, so it can build as you continue your employment with the company. • Personal: Is like vacation time, but much more flexible in its use. • Holiday: Paid, choice of days varies by co. • Time Banks: It is common in some industries for sick, vacation, and personal time to be combined into one pool of time. • Short Term Disability (STD): This is provided as income protection should you be injured off the job. It typically lasts up to 6 months at a reduced rate of pay. Typically, all vacation, personal, and sick time is used before this insurance pays out. • Long Term Disability (LTD): This is provided as income protection should you be injured off the job. It typically starts after 6 month off the job at a reduced rate of pay. • Leave of Absence: In some industries, especially education and high tech, employees are allowed up to one year off without pay after achieving some level of tenure with the firm.</td>
<td>Most companies have a retirement plan, such as a 401(k) in which you contribute a portion of your pay, which the employer matches at a rate of 50-200%. That represents an immediate gain for you. • This money is then invested in any number of ways, but the employer limits investment options. One company, for example, only allows the money to be invested in its own stock. Most companies, however, use retirement funds that allow a large number of investment options in various stock or bond portfolios. • Retirement income is deferred compensation, and therefore is not taxed on your paycheck, but will be taxed when it is paid out after you retire. If you attempt to withdraw this money before you retire, you will pay not only a substantial penalty, but additional taxes as well. • If you leave an employer, depending on their program and your new employers program, the money from one 401(k) may transfer from one account to another, may be allowed to stay in the former employers account, or may need to be withdrawn and invested in an Individual Retirement Account (IRA) to avoid taxes. • Vesting is the process by which you begin to have access to the money that has been set aside by you and the firm.</td>
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<td>Consolidated Omnibus Budget Reconciliation Act (COBRA) - This federal law guarantees that upon separation from an employer's health insurance, (end of employment, divorce from policyholder/spouse), you and/or your family can continue that insurance coverage for a limited time, and pay 101% of the full premium for that policy yourself. This is intended to allow people to carry some health insurance while waiting for a new employer's insurance.</td>
<td>Family Medical Leave Act (FMLA): Allows employees up to 12 weeks off work for the care of their own or an immediate family member's health. It guarantees that if you return to work in this period your employer will provide an equivalent position. Note that many employees are excluded from this act. It does not provide compensation, rather, vacation, sick, personal, STD, and workers compensation may provide for income continuation.</td>
<td>401(k) accounts are federally insured, that is, if the fund in which you invest goes bankrupt, you will still have access to the money you and your employer contributed. A FINAL NOTE: Also keep in mind that there are three aspects to retirement planning. Two are discussed above: federal social security and employer's retirement. The third portion is your personal savings through Individual Retirement Accounts (IRA) and other investments you make.</td>
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