



## Objective-Based Incentive Plan Design Process Steps

**Objective-based incentive plan overview:** An objective-based incentive plan links individual employees typically at the exempt level and above directly to company goals and objectives. The plan design typically has corporate financials (1 or 2 measurements), other corporate-based objectives as well as individual management by objectives (MBOs) components. *This plan design is the most used design amongst organizations.*

**All relevant email templates, meeting agendas, module training, plan costing templates and plan document templates mentioned throughout this document are assessable by using the “Quick Links” under the Objective-Based Incentive Plan Incentive / Bonus Plan Development Module Resources. See Attachment A.**

**Step 1 – Planning Phase:** Phase II is the first step in creating the actual structure of the incentive plan chosen by the client and is known as the Planning Phase. Send email #2 Incentive Plan Option Selected. To facilitate this phase of the project, schedule a meeting with the client and use the Incentive Compensation Plan Project Meeting Agenda #2. *(Refer to Meeting Agenda Template folder.)*

1. Meeting Agenda #2: During this meeting, the following items will be discussed.
  - a. Incentive compensation plan structure.
  - b. Plan components and weighting for each employee group(s) in the plan.
  - c. Financial measurements: top line revenue, profitability, and/or combination of metrics.
  - d. Payout triggers: minimum revenue or profitability that must be achieved for the plan to payout or is there a willingness to pay on individual objective(s) if the financial trigger is not met?
  - e. Determine eligible target bonus as a percent by plan participants / employee group.
  - f. Determine the pay frequency and will frequency of payout be the same for all plan participants / employee groups or will there be different payout schedules?
2. Determine employee group(s): The objectives-based plan is typically established by employee group, e.g., exempt, supervisor, managers, directors, and executives.
  - a. Determine the number of different employee groups with the client.
3. Identify potential plans measures and weightings based on the various employee groups.
  - a. Discuss with the client the corporate financial metric to be used, for example, top line revenue or profitability or a combination of both? Financials (1 to 2 measurements) tend to be weighted more heavily for executives. The financial weighting percentage then tends to be reduced by a percentage for each of the other plan participants / employee group(s).
  - b. Should the plan have a trigger that must be achieved for the plan to pay, such as some sort of revenue or profitability figure?



- c. Is the client willing to pay on individual objectives if the financial trigger(s) are not achieved?
  - d. Once the percent weightings for all corporate measures are decided upon, the remaining measurements tend to be placed under individual objectives.
  - e. All weightings should total 100%. (Refer to the sample Objectives-Based structure presented to the client for an illustration).
4. After weightings have been decided, determine payout thresholds, targets, and upside / maximums for the plan measures:
- a. The threshold is typically a minimal financial metric that must be achieved before the plan will pay.
    - i. Clients set this through one of the plan metrics; others set a threshold on top of plan metrics.
    - ii. Discuss with the client how objectives will be measured and tracked.
    - iii. Establish the payout threshold, target, and maximum payout trigger points for each of the metrics.
      - a. Below is an example of objective-based plan components and associated weightings.

Plan Component	Executives	Directors	Managers	Supervisors
Corporate Financials	80%	70%	60%	50%
Individual Objectives	20%	30%	40%	50%
Eligible Percent of Pay	TBD	TBD	TBD	TBD

5. Once the structure has been established, the next step is to determine the eligible percent of pay for all participants by employee group(s). The objective-based plan typically is based on a percent of pay by employee group.
- a. Set entry level management's percent first; then increase the percentage by for each additional employee group. The more senior level management roles, the higher the percentage.
6. The final decision in the Planning Phase is to determine how frequently the plan will pay. The objective-based plans are typically paid annually, but sometimes a client will want to pay semi-annually.
7. Once the incentive plan structure and all plan components are agreed upon and approved by the client, send email #3 Incentive Compensation Structure Completed. (Refer to Email Templates folder.)
- a. If the structure is not finalized, send the email when the structure is complete.
  - b. Once the structure is finalized, the next step in the process is to create / build the Objectives template.



**Step 2 - Objective Monitoring and Assessment Worksheet:** This next step utilizes an additional Objective Monitoring and Assessment template tailored for each employee group. *(Refer to Assessment Worksheet Template folder.)* The template will be used to facilitate the discussion of the plan measurements, weightings, metrics, etc., needed for this type of plan design. Schedule another meeting with the client. To facilitate this step in the project, use the Incentive Compensation Plan Project Meetings Agenda #3. *(Refer to Meeting Agenda Template folder.)*

1. During this meeting, the following items will be discussed.
  - a. Review revised incentive compensation plan structure. Are there any changes needed?
  - b. Review objective template and how it works?
  - c. Determine wording for how financial metrics will be measured.
  - d. Determine threshold, target, and outstanding numbers for financial metrics.
  - e. Determine what percent will pay at threshold / minimum, target, and upside / maximum performance.
2. Determine the specific corporate objectives.
  - a. For any corporate objectives, the wording needs to be determined on how each objective will be measured in that all plan participants will have this objective.
    - i. This should be a brief description. For example, the Corporate Revenue (objective) → Top line annual revenue (measurement); Corporate Profit (objective) → EBIDTA (measurement).
3. Individual objectives and how their measurements will be determined are completed later by the direct manager and employee.
4. Next, the actual metric to be achieved for each corporate objective is determined and put in the minimum/threshold box, target box, and upside/outstanding box.
5. The final decision for the Objective Monitoring and Assessment worksheet is what percent of target will pay for minimum performance.
  - a. Minimum performance payout is typically set anywhere between 50 and 90%.
  - b. Target always pays at 100%.
  - c. Upside /maximum performance payout is typically set anywhere between 110 and 150%.
    - i. Be sure the client understands that if the financial objective is revenue and the minimum performance is set at 90% this does not mean it has to pay out at 90%. The two do not have to correlate.
    - ii. Revenue minimum performance might be 90% of target, but only pay out at 75% of target pay.
  - d. Below is an example of an Objective Monitoring and Assessment worksheet.



Job Title					CLIENT LOGO GOES HERE		
Objectives Monitoring and Assessment Sheet							
Employee Name:	Sally Sample				Planning Period:	1/1/20 - 12/31/20	
Position:	HR Manager				Number of Months Eligible:	12	
Annual Base Salary:	\$80,000.00				Evaluation Date:	12/31/2020	
Bonus Target:	\$10,000						
Objective	How Measured	Minimum Performance (xx% of target)	Target Performance (100% of target)	Upside Performance (xxx% of target)	Overall weight	Performance Percentage (% of target)	Award
1.					40%	100%	\$4,000.00
2.					40%	100%	\$4,000.00
3.					10%	100%	\$1,000.00
4.					10%	100%	\$1,000.00
5.					0%	100%	\$0.00
					100%	Bonus Total	\$10,000.00
Participant Signature					Management Approval		
					Calculated Fields		Required Field for Calculation

The Award \$\$s will automatically calculate based on the bonus target, overall weight and performance percentage achieved.

6. Frequency of payment: The final decision in the Planning Phase is to determine how frequent the plan will pay.
  - a. While an annual payout is most common, sometimes a client will want to pay semi-annually.
7. Once the objective template is complete and agreed upon, send email #4 Objectives Template Finalized. (Refer to Email Templates folder.)
  - a. A sample of a completed Objectives Monitoring and Assessment Sheet is provided in the Email Templates folder.

**Step 3: Terms and Conditions template:** All incentive plans have a document which outlines the terms and conditions of the plan. The Terms and Conditions document has areas requiring decisions relative to plan administration. (Refer to Plan Documents Template folder.) Schedule another meeting with the client. To facilitate this step in the project, use the Incentive Compensation Plan Project Meetings Agenda #4. (Refer to Meeting Agenda Template folder.) Prior to the meeting, create and send a draft of the Terms and Conditions document to the client along with the meeting agenda. The consultant should make comments and/or recommendations based on their working knowledge of the client. The template has a place for you to document company decisions made during this meeting.

1. During this meeting, the following items will be discussed.
  - a. Discuss terms and conditions (previously sent) and gather feedback.



- b. Discuss and gather information to model the cost of the plan.
2. Topics to be discussed and decided upon are as follows.
  - a. Eligibility: Who is eligible to participate in the plan? Date of effective date of responsibility or if hired by a certain point in year?
  - b. Corporate Policies: Any there any corporate policies that must be followed, i.e., Code of Business Conduct, quality, etc.?
  - c. Internal Transfers: How will the payout be calculated if an employee gets promoted or demoted? Prorate for time in both positions? Annual pro-rated as well but paid out at normal payout period? Must be employed on December 31 or fiscal year-end or at pay-out time to receive annual parameters.
  - d. Terminations: If an employee resigns or is terminated, is the employee eligible for a prorated payment? Prorated payment for monthly or quarterly factors? Annual factors not paid unless employed on December 31 or fiscal year-end or at pay-out time?
  - e. Disability: Is eligibility maintained when on an approved leave?
  - f. Payment Review: Are employees responsible for reviewing and confirming the accuracy of their bonus payments? If so, does the company want a payment responsibility clause? For example, "Within XX days after a payout is received, an employee can bring forward any discrepancies in calculation for consideration. After the XX-day period following receipt of a payout, if the employee or the company does not bring forward any issues and/or concerns, the calculation and payment are considered final."
  - g. Plan Modifications: Will the company have a statement that the company reserves the right to interpret the provisions of any Incentive Compensation Plan, and to amend, suspend or terminate any plan at any time without notice?
3. Below is an example of the Terms and Conditions document.



Area	Comment and Recommendation	Company Name Decision
Eligibility	Eligible to participate on effective date of responsibility or if hired by a certain point in year?	
Corporate Policies	Any corporate policies that must be followed – i.e. Code of Business Conduct, Quality, etc?	
Internal Transfers	Pro-rate for time in both positions? Annual pro-rated as well but paid out at normal payout period? Must be employed on December 31 or fiscal year-end or at pay-out time to receive annual parameters.	
Terminations	Pro-rated payment for monthly or quarterly factors? Annual factors not paid unless employed on December 31 or at pay-out time?	
Disability	Eligibility maintained while on leave. Typically have a statement with all leave laws.	
Draws/Deficit Incentive Compensation Payments	Not applicable for this plan.	
Payment Reversals	Not applicable for this plan.	
Special Incentive Programs	Not applicable for this plan.	
Payment Review	Employees on Incentive Compensation Plans are responsible for reviewing and confirming the accuracy of their bonus payments. Within xx days after a payout is received, an employee can bring forward any discrepancies in calculation for consideration. After the xx day period following receipt of a payout, if no issues have been raised by the employee or the company, the calculation and payment are considered final.	
Plan Modifications	Will have a statement that the company reserves the right to interpret the provisions of any Incentive Compensation Plan, and to amend, suspend or terminate any plan at any time without notice.	

Company decisions should be discussed and entered in the spaced provided.

4. A plan document will be written once the terms and conditions of the plan are finalized.
5. Send email #5” “Terms and Conditions Determined” once all decisions have been made and agreed upon by the client. *(Refer to Email Templates folder.)*
6. The last agenda item is to gather information needed to cost model the plan. *(Refer to Step 4 for detailed information on Financial Modeling.)*
  - a. Share with the client the Objective Based Blank Census Template. *(Refer to Plan Costing Template folder.)* The census should contain the employees name, position title and annual salary (as of specified date) of all incentive plan participants.
  - b. Ask the client to complete the worksheet and return to the Consultant.

**Step 4 – Building Phase: (Phase III on the Incentive Compensation Plan Development Process Collateral sheet) Draft Plan Document:** Throughout the



incentive compensation design process, the consultant has obtained the necessary concepts, plan design elements and terms and conditions to prepare the plan document.

1. At this point in the process, the consultant should prepare a draft of the plan document using the Objective-Based Plan Document template. *(Refer to Plan Documents Template folder.)*
2. Finalize any incomplete items e.g., plan measurements, descriptors, etc.
3. Customize the plan document to the Client.
  - a. Add Client logo, Client Name throughout the document, modifying plan definitions, eligibility, objectives, awards, weighting guidelines, performance assessment, award calculation, terms, and conditions, etc.
  - b. Include a picture of the client’s Objectives Monitoring and Assessment sheet as Attachment A. *(Attachment B is an example and does not need modifying.)*
4. A draft of the plan document should be held until the Cost Modeling is completed. See Step 6 for when to send the Plan Document.

**Step 5 – Testing Phase: (Phase IV on the ICP Development Process Collateral sheet)**

**Financial impact / Cost Modeling:** Modeling the cost to implement the proposed incentive plan is critical to its’ success.

1. Modeling needs to be conducted at all plan targets, thresholds, and maximum payout levels. *(Use Excel template titled “Objective-Based Bonus Modeling Blank Template” template; Refer to Plan Costing Template folder.)*
2. The consultant will typically conduct the cost modeling activity.
3. Copy and paste the three columns of employee data (Employee Name, Position Title, and Annual Base Salary) from the Objective-Based Completed Census Template into the Objective-Based Bonus Modeling Blank Template. *(Refer to Plan Costing Template folder.)*
4. Next, enter the respective bonus category and bonus target percentage for each plan participant.
  - a. The bonus target dollar amount will automatically be calculated using the plan participant’s current annual salary and the bonus target percentage. (The formula to calculate the bonus target is in the column titled “Bonus Target.”)

EE Name	Position Title	Annual Base Salary as of xx.xx.xx	Bonus Category	Bonus Target	% of Pay
Employee A	Director Accounting	\$108,148.35	VP/Director	\$21,629.67	20%
Employee B	Chief Financial Officer	\$178,161.98	VP/Director	\$35,632.40	20%
Employee C	Director Sales	\$108,122.07	VP/Director	\$21,624.41	20%
Employee D	Director Marketing	\$113,504.35	VP/Director	\$22,700.87	20%
Employee E	Manager Accounting	\$84,453.41	Department Manager	\$10,134.41	12%
Employee F	Manager Marketing	\$86,745.78	Department Manager	\$10,409.49	12%
Employee G	Manager Business Development	\$91,673.30	Department Manager	\$11,000.80	12%
Employee H	Human Resources Manager	\$82,396.70	Functional Manager	\$6,591.74	8%
Employee I	Facilities Manager	\$83,403.63	Functional Manager	\$6,672.29	8%
Employee J	Purchasing Manager	\$85,503.18	Functional Manager	\$6,840.25	8%
Employee K	Risk Manager	\$86,510.11	Functional Manager	\$6,920.81	8%
Employee L	Customer Success Manager	\$89,616.59	Functional Manager	\$7,169.33	8%
Employee M	Manager IT	\$91,844.69	Functional Manager	\$7,347.58	8%

Cell contains a formula that will automatically calculate bonus target \$\$\$

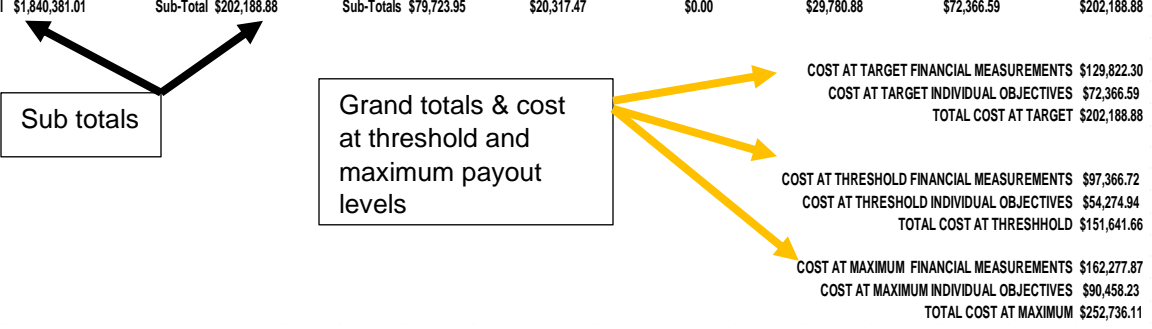


5. Next, in separate columns add the objectives metrics and percent targets for each of the agreed upon measurements.
  - a. The column heading is the objective metric and the percentages below the column heading represent the respective weighting for each objective by employee group.
  - b. The cost modeling of the target bonus dollars for each objective are automatically calculated.  
 =SUM(employee bonus target dollars\*objective's target percent
  - c. The cost modeling template has a column titled "Total Weight %" to ensure all weighting adds up to 100%
6. Add sub-totals to the bottom of the following columns.
  - a. Annual base salary as of XX.XX.XX
  - b. Bonus target
  - c. Each target objective that has a dollar figure (see illustration below)
7. Add overall grand totals to the bottom of the spreadsheet indicating a total for the financial measures and a total for the individual measurements at target, threshold / minimum, and maximum / upside performance levels.
  - a. Note: Modify the formulas in accordance with the plan's design.
8. Below is an example of a completed cost modeling template.

EE Name	Position Title	Annual Base Salary as of xx.xx.xx	Bonus Category	Bonus Target	% of Pay	Corp Profit %	Corp Profit \$	Corp Rev %	Corp Rev \$	Reg Sales/Profit %	Reg Sales/Profit \$	Dept Budget %	Dept Budget \$	Indiv Obj %	Indiv Obj \$	Total Weight %	Total Dollars
Employee A	Director Accounting	\$108,148.35	VP/Director	\$21,629.67	20%	60%	\$12,977.80	20%	\$4,325.93	0%	\$0.00	20%	\$4,325.93	0%	\$0.00	100.00%	\$21,629.67
Employee B	Chief Financial Officer	\$178,161.98	VP/Director	\$35,632.40	20%	60%	\$21,379.44	20%	\$7,126.48	0%	\$0.00	20%	\$7,126.48	0%	\$0.00	100.00%	\$35,632.40
Employee C	Director Sales	\$108,122.07	VP/Director	\$21,624.41	20%	60%	\$12,974.65	20%	\$4,324.88	0%	\$0.00	20%	\$4,324.88	0%	\$0.00	100.00%	\$21,624.41
Employee D	Director Marketing	\$113,504.35	VP/Director	\$22,700.87	20%	60%	\$13,620.52	20%	\$4,540.17	0%	\$0.00	20%	\$4,540.17	0%	\$0.00	100.00%	\$22,700.87
Employee E	Manager Accounting	\$84,453.41	Department Manager	\$10,134.41	12%	20%	\$2,026.98	30%	\$3,040.32	0%	\$0.00	30%	\$3,040.32	0%	\$0.00	100.00%	\$10,134.41
Employee F	Manager Marketing	\$86,745.78	Department Manager	\$10,409.49	12%	20%	\$2,081.90	30%	\$3,122.85	0%	\$0.00	30%	\$3,122.85	0%	\$0.00	100.00%	\$10,409.49
Employee G	Manager Business Development	\$91,673.30	Department Manager	\$11,000.80	12%	20%	\$2,200.16	30%	\$3,300.24	0%	\$0.00	30%	\$3,300.24	0%	\$0.00	100.00%	\$11,000.80
Employee H	Human Resources Manager	\$82,396.70	Functional Manager	\$6,591.74	8%	30%	\$1,977.52	0%	\$0.00	0%	\$0.00	0%	\$0.00	100%	\$2,374.85	100.00%	\$2,374.85
Employee I	Facilities Manager	\$83,403.63	Functional Manager	\$6,672.29	8%	30%	\$2,001.69	0%	\$0.00	0%	\$0.00	0%	\$0.00	100%	\$2,374.85	100.00%	\$2,374.85
Employee J	Purchasing Manager	\$85,503.18	Functional Manager	\$6,840.25	8%	30%	\$2,052.08	0%	\$0.00	0%	\$0.00	0%	\$0.00	100%	\$2,375.92	100.00%	\$2,375.92
Employee K	Risk Manager	\$86,510.11	Functional Manager	\$6,920.81	8%	30%	\$2,076.24	0%	\$0.00	0%	\$0.00	0%	\$0.00	100%	\$2,375.92	100.00%	\$2,375.92
Employee Y	Administrative Assistant	\$47,497.01	Non Management	\$2,374.85	5%	0%	\$0.00	0%	\$0.00	0%	\$0.00	0%	\$0.00	100%	\$2,374.85	100.00%	\$2,374.85
Employee Z	Administrative Assistant	\$47,518.43	Non Management	\$2,375.92	5%	0%	\$0.00	0%	\$0.00	0%	\$0.00	0%	\$0.00	100%	\$2,375.92	100.00%	\$2,375.92
Sub-Total		\$1,840,381.01	Sub-Total \$202,188.88		Sub-Totals \$79,723.95			\$20,317.47	\$0.00	\$29,780.88	\$72,366.59	\$202,188.88					

Add metrics / objectives and corresponding target percentages

Cells contain formulas that automatically calculate bonus target \$\$\$



Refer to the Plan Costing Template folder for an example of an Objective-Based Completed Bonus Modeling Template.





**Step 6 – Review of Costs Modeling and Plan Document:** This next step in the project involves ensuring the organization can afford to implement the incentive plan, the financial modeling of plan costs, finalizing the plan design and making any revisions to the plan document.

1. Schedule a meeting with the client to discuss the results of the financial modeling.
  - a. Prior to the meeting send the completed cost modeling spreadsheet as a PDF file or as an excel file (with all formulas removed) and the draft plan document along with the Meeting Agenda #5 (*Refer to Meeting Agenda Templates folder.*)
2. The agenda for the meeting is as follows:
  - a. Review cost modeling. Are any changes needed?
  - b. Review of the “draft” plan document.
3. Conduct the meeting.
  - a. Is the client comfortable with the plan costs?
  - b. If the client approves the cost modeling, send email #6 “Plan Costing Completed” after the meeting. (*Refer to the Email Templates folder.*)
  - c. If no, move to Step 7: Revision of Plan Costing.
4. Review the draft plan document with the client and discuss any concerns or requested revisions to the plan document.

**Step 7: Revision of Plan Costing:** Based on the cost modeling meeting, the client may find that the plan costs are more than anticipated.

1. If this occurs, modify the eligible percentages of pay the client feels the plan cost are too high.
2. Revised the cost modeling spreadsheet based on the plan modifications.
3. Send a revised cost modeling copy to the client.
4. Continue modeling the plan costs until such time the client gains alignment.
  - a. Once the final cost modeling is completed and approved by the client, send email #6 “Plan Costing Completed”. (*Refer to Email Templates folder.*)

**Step 8 – Finalization Phase (*Phase V on the Incentive Compensation Plan Development Process Collateral sheet*) Finalization of Plan Document and**

**Resolution of Outstanding Issues:** After the client has reviewed the draft plan document (*Step 6; # 4*), schedule another meeting with the client with the purpose of gaining alignment on the final plan document.

1. Prior to the meeting send Meeting Agenda #6 (*Refer to Meeting Agenda Templates folder*) along with the final plan document. The agenda for the meeting is as follows.
  - a. Review final plan document.
  - b. Wrap-up any outstanding issues.
2. This meeting serves as the “final walk-through” for the plan document and to wrap up any outstanding issues.
3. During this meeting, ask the client if there are any outstanding issues. Discuss and resolve any issues.



4. Once the plan document is complete and finalized, and all outstanding issues relative to the plan have been resolved, send email #7 "Plan Document Completed". (*Refer to Email Templates folder.*)

**Step 13 – Final Step of the Project:** Once all documents have been completed, sent to client, and all outstanding issues are resolved and finalized, send the final email #8 "All Deliverables Completed". (*Refer to Email Templates folder.*)



## ATTACHMENT A

### INCENTIVE / BONUS PLAN DEVELOPMENT MODULE RESOURCES OBJECTIVE-BASED INCENTIVE PLAN DEVELOPMENT MODULE RESOURCES

