About This Policy

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Responsible University Office:
University Human Resources

Responsible University Administrator:
Vice President and Chief Financial Officer

Policy Contact:
University Human Resources
hrpolicy@iu.edu

Related Information

* Payroll and Tax Withholding
* USSS-17 Ban on Incentive Compensation Related to Student Services

Related Forms

* Employee Recognition Award Plan
* Incentive Pay or Commission Plan

Scope

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History
1. Indiana University supports the unique circumstances listed within this policy as the basis for providing eligible Staff and Temporary employees with lump-sum compensation that is outside of base salary or wages. Unique circumstances for which additional compensation may be considered, include:
   a. Employee Recognition Award
   b. Discretionary Bonus
   c. Incentive Pay or Commission

2. Eligibility
   a. To be eligible for an Employee Recognition Award or Discretionary Bonus, the recipient must be a University employee on the date that the payment is awarded.
   b. To be eligible for Incentive Pay or Commission, the recipient must be an Indiana University employee on the last day of the predefined period for achieving the plan’s objectives. (The recipient does not have to be a University employee on the date the payment is made.)

3. Tax treatment of bonus payments
   a. Employee recognition awards may be grossed up to cover taxes if the documented award plan provisions indicate that such payment will be grossed up.
   b. Discretionary bonuses, incentive pay or commission plan payments shall not be grossed up to cover taxes, under normal circumstances.

4. Payments under this policy may not relate in any way to student enrollments or awarding financial aid. Such payments are not supported by Indiana University and would violate the Department of Education regulations:
   Section 487(a)(20) of the Higher Education Act prohibits schools that receive Title IV student aid funds from providing any commission, bonus, or other incentive payment based directly or indirectly on success in securing enrollments or financial aid to any person or entities engaged in any student recruiting or admission activities or in making decisions regarding the award of student financial assistance.

5. Employee Recognition Award: An established award such as a university, campus or school award that is designed to recognize and reward performance of select employees. The award is paid after-the-fact in the form of a one-time, lump-sum payment. The awards are not intended to be provided for length of service recognition.
   a. Criteria for the award should be determined in consultation with the Campus HR Office.
   b. Payments should be administered based on documented and approved eligibility and award provisions and an established selection process.
   c. Prior to communication to employees and payment of the award, documentation of the rationale for the award must be reviewed and approved by the campus HR office and the following campus approvals obtained:
      i. RC or campus approval protocol shall be followed and approvals obtained;
      ii. Vice President, Chancellor, or RC Head;
      iii. Campus Budget Office
   d. Examples of these awards: a campus or school staff merit award given for exemplary performance; the Glenn W Irwin, Jr. M.D. Experience Excellence Recognition Award which recognizes employees working on the IUPUI campus for service “above and beyond the call of duty”; and the Living Legend Award which honors employees working on the Bloomington campus “whose accomplishments are legendary in their impact on our campus and/or broader society.”
   e. Employee Recognition Awards are not included in the calculation of overtime pay.

6. Discretionary Bonus: After-the-fact, discretionary lump-sum payment provided to reward exemplary performance and achievement of quantifiable results beyond the normal expectations for a position.
   a. A Discretionary Bonus may be used to reward an employee’s exemplary overall performance or significant achievement on a project, or major assignment.
      i. “Exemplary” overall performance is demonstrated by an employee who consistently goes well beyond the normal expectations in performing the duties and responsibilities assigned to his/her position.
iii. Significant achievements include a project or a major assignment or effort that supports the university’s goals and initiatives and/or results in a meaningful improvement in efficiency or cost reduction. The expectation is that the employee’s overall performance is satisfactory and the significant achievement is well beyond the normal expectations for an employee’s position.

b. The Discretionary Bonus is delivered after the fact and should not be communicated to an employee in advance of performing the work.

i. A bonus payment that is communicated to an employee before the work is performed cannot be treated as a discretionary bonus under the Fair Labor Standards Act (FLSA). A forward thinking bonus must meet the policy provisions for Incentive Pay or Commission plans.

c. A lump-sum Discretionary Bonus payment(s) of up to $1,500 for a Temporary employee and $5,000 for a Staff employee in a fiscal year may be considered. Under exceptional circumstances, the President or a Vice President may approve a higher amount.

d. The department head will obtain approval for the Discretionary Bonus, including the following required approvals:

i. The unit’s fiscal officer shall indicate that funds are available;

ii. Campus HR Office should be consulted;

iii. RC or campus approval protocol shall be followed and approvals obtained;

iv. Vice President, Chancellor, or RC Head based on appropriate written justification; and

v. The campus HR office must approve the additional pay e-doc before the Discretionary Bonus payment is communicated to an employee.

e. Discretionary Bonus payments can be considered for a limited number of employees in an RC or distinguishable department whose overall performance would be considered exemplary relative to the normal expectations for their positions. Generally, the expectation is that less than ten percent of eligible staff and Temporary employees in a RC or on a campus will receive a Discretionary Bonus during a fiscal year.

f. A Discretionary Bonus is not included in the calculation of overtime pay.

7. Incentive Pay or Commission Plan: A documented, defined bonus plan designed to reward achievement of specific, measurable results that are defined at the beginning of the performance period (i.e. calendar year, fiscal year or semester). The individual or team results should advance the university’s strategic goals and initiatives. An Incentive Pay or Commission Plan is a forward thinking arrangement.

a. Incentive Pay and Commission are administered through a formal, approved plan document with specific, predefined employee or team performance goals and quantifiable measurements during a predefined period of time. The payment amount is also specified in the plan document and payable upon achieving the predefined goals.

b. A unit head or supervisor may develop and recommend a formal Incentive Pay or Commission Plan for one or more employee(s) in the unit. The Campus HR Office is available to consult on the design of the plan. The eligibility provisions and payment amounts must be determined in consultation with University Human Resources.

c. The plan document must include the following:

i. Plan goals and how accomplishing them will further campus, school or division/department’s goals;

ii. Staff eligible to participate in the plan (full-time, part-time, Temporary);

iii. Award period (calendar year, fiscal year, semester, etc.)

iv. Performance criteria beyond normal expectations and quantifiable measurements that will be used to evaluate individual or team performance against the plan goals;

v. Estimated plan cost, including number and amount of awards

vi. When the Incentive Pay or Commission payments will be paid

vii. Plan Administrator responsible for communicating and administering plan, including securing approval for individual payments, in accordance with the approved plan document.
d. Prior to any communication to employees and implementation of the plan, all Incentive Pay or Commission Plan documents must be reviewed and approved by the campus HR office in conjunction with the University Human Resources Office and the following approvals obtained:

i. The unit’s fiscal officer shall indicate that funds are available;
ii. RC or campus approval protocol shall be followed and approvals obtained;
iii. Vice President, Chancellor, or RC Head;
iv. Campus Budget Office; and
v. University Human Resource Services Office.

e. Incentive and Commission payments are included in calculating overtime pay.

8. General Guidelines

a. Eligible employees may receive more than one bonus per fiscal year if the payment is based on achievement of specific criteria and measurements documented in an approved Incentive Pay or Commission Plan document.

b. Bonuses are not a substitute for base salary increases or an alternative to salary adjustments that would otherwise be appropriate to recognize a significant change in position responsibilities, or internal or external pay equity.

c. All Employee Recognition Awards, Discretionary Bonuses, Incentive Pay or Commission Plan payments must be approved before communicating to an employee.

d. Payments for a Discretionary Bonus or Incentive Pay are not typically permissible from sponsored projects. (Contact Research Administration for details.)

Reason For Policy

This policy provides University managers and supervisors with guidelines and procedures for bonus, incentive pay and commission plans for Staff and Temporary employees.

Procedure

1. Approvals needed for individual payments

   a. Employee Recognition Award – A campus/school should consult with the campus HR office and obtain the necessary approvals.

   b. Discretionary Bonus - A division/department should consult with the campus HR office and obtain the necessary RC and campus approvals.

   c. Incentive Pay or Commission – Payments predefined in an approved plan document should be confirmed by the Plan Administrator and campus HR office.

2. The campus, school or division/department is responsible for retaining documentation of the individual payments, including an explanation of the performance or specific achievement recognized and the required approvals.

3. Approved payments to Staff and Temporary employees should be initiated by the campus, school or division/department through the Additional Pay e-doc process and include the following comments within the e-doc:

   a. Campus or School/Unit Award – reference the established campus or school plan; confirmation that the required approvals have been obtained.

   b. Discretionary Bonus - brief explanation of the employee’s exceptional performance; confirmation that the required approvals have been obtained.

   c. Incentive Pay or Commission Plan - plan number for the approved plan and the period of time over which the bonus or commission was earned.
Definitions

1. **Staff Merit Award** - Documented plan that is designed primarily to reward extraordinary performance and achievement of campus, school or RC goals and initiatives.

2. **Commission Plan** – Documented plan that is designed primarily to reward achievement of quantifiable sales/revenue goals.

Sanctions

Managers, supervisors, and employees who violate this policy are subject to disciplinary action, up to and including termination.

Additional Contacts

Plan Design and Policy Interpretation
UHR
812-855-7321
salaryiu@iu.edu

Tax Withholding
5-0375
taxpayer@indiana.edu

History

This policy replaces the Reward and Recognition Plans Policy: AFSCME (BL) 3.2; AFSCME (SB) 3.2; CWA 9.5; PA/SS 2.4; Temporary 4.4.