**READING DISCUSSION**

**SENIORITY PAY**

[Seniority pay](http://online.vitalsource.com/books/9780558694203/content/id/bm01gloss355) systems reward employees with periodic additions to base pay according to employees’ length of service in performing their jobs ([Chapter 3](http://online.vitalsource.com/books/9780558694203/content/id/ch03)). These pay plans assume that employees become more valuable to companies with time and that valued employees will leave if they do not have a clear idea that their wages will progress over time. This rationale comes from [human capital theory](http://online.vitalsource.com/books/9780558694203/content/id/bm01gloss191),[3](http://online.vitalsource.com/books/9780558694203/content/id/ch01en03) which states that employees’ knowledge and skills generate productive capital known as [human capital](http://online.vitalsource.com/books/9780558694203/content/id/bm01gloss190). Employees can develop such knowledge and skills from formal education and training, including on-the-job experience. Over time, employees presumably refine existing skills or acquire new ones that enable them to work more productively. Seniority pay rewards employees for acquiring and refining their skills as indexed by length (years) of employment.

**MERIT PAY**

**Merit pay** programs assume that employees’ compensation over time should be determined, at least in part, by differences in job performance ([Chapter 3](http://online.vitalsource.com/books/9780558694203/content/id/ch03)). Employees earn permanent increases to base pay according to their performance. Merit pay rewards excellent effort or results, motivates future performance, and helps employers retain valued employees.

**INCENTIVE PAY**

[**Incentive pay**](http://online.vitalsource.com/books/9780558694203/content/id/bm01gloss196) or [**variable pay**](http://online.vitalsource.com/books/9780558694203/content/id/bm01gloss405) rewards employees for partially or completely attaining a predetermined work objective. Incentive pay is defined as compensation (other than base wages or salaries) that fluctuates according to employees’ attainment of some standard based on a preestablished formula, individual or group goals, or company earnings ([Chapter 4](http://online.vitalsource.com/books/9780558694203/content/id/ch04)).

**PAY-FOR-KNOWLEDGE PLANS AND SKILL-BASED**

[**PAY Pay-for-knowledge**](http://online.vitalsource.com/books/9780558694203/content/id/bm01gloss300) plans reward managerial, service, or professional workers for successfully learning specific curricula ([Chapter 5](http://online.vitalsource.com/books/9780558694203/content/id/ch05)). [**Skill-based pay**](http://online.vitalsource.com/books/9780558694203/content/id/bm01gloss364), used mostly for employees who perform physical work, increases these workers’ pay as they master new skills ([Chapter 5](http://online.vitalsource.com/books/9780558694203/content/id/ch05)). Both skill- and knowledge-based pay programs reward employees for the range, depth, and types of skills or knowledge they are capable of applying productively to their jobs. This feature distinguishes pay-for-knowledge plans from merit pay, which rewards employees’ job performance. Said another way, pay-for-knowledge programs reward employees for their potential to make meaningful contributions on the job.

**Employee Benefits**

Earlier, we noted that employee benefits represent nonmonetary rewards. Employee benefits include any variety of programs that provide paid time off, employee services, and protection programs. Companies offer many benefits on a discretionary basis. We refer to these as [**discretionary benefits**](http://online.vitalsource.com/books/9780558694203/content/id/bm01gloss104) (Chapters 9 and 10). In addition, the U.S. government requires most employers to provide particular sets of benefits to employees. We refer to these as [**legally required benefits**](http://online.vitalsource.com/books/9780558694203/content/id/bm01gloss233) ([Chapter 11](http://online.vitalsource.com/books/9780558694203/content/id/ch11)). Different forces led to the rise of legally required and discretionary employee benefits, which we discuss shortly.