

# What is Compensation and Benefits?

## Worksheet

Compensation = direct pay (salary, bonus); benefits = indirect pay (insurance, retirement, paid leave). Together, they form total rewards that should be competitive, fair, and aligned with organizational strategy.

## Questions

1. Which is an example of direct compensation?

- A) Health insurance
- B) Retirement plan contribution
- C) Performance bonus
- D) Gym membership

2. Total compensation typically includes what percentage of benefits value?

- A) 5-10%
- B) 15-25%
- C) 40-50%
- D) 70-80%

3. What is vesting in stock options or retirement plans?

- A) The maximum value you can earn
- B) The gradual earning of ownership over time
- C) A one-time payment
- D) A bonus for length of service

4. Which benefit is most commonly offered?

- A) Stock options
- B) Gym membership
- C) Health insurance
- D) Tuition reimbursement

5. Compare two job offers: Company A (salary \$60K, 5% bonus, health plan) vs. Company B (salary \$55K, 10% bonus, full health + dental, 4-week PTO).

6. A tech startup offers stock options worth 'up to \$100K' over 4 years, vesting annually. What's the real value?

7. Calculate total compensation: \$50K salary + \$5K annual bonus + \$8K health insurance + \$3K retirement match.

8. Define: What is compensation?

9. Define: What are benefits?

10. Define: What is total rewards?

## Answer Key

1. C) Performance bonus - Bonus is cash paid directly for performance; the others are indirect (benefits).
2. B) 15-25% - Benefits often add 15-25% on top of base salary, making total rewards much higher.
3. B) The gradual earning of ownership over time - Vesting = earning entitlement over time (e.g., 25% per year over 4 years).
4. C) Health insurance - Health insurance is universal; other benefits vary by company and industry.
5. Company A:  $\$60K + \$3K$  (bonus) =  $\$63K$  direct. Benefits: standard health. Company B:  $\$55K + \$5.5K$  (bonus) =  $\$60.5K$  direct. Benefits: enhanced (dental, more time off). Total value depends on personal priorities: base security vs. flexibility and health coverage.
6. Worst case: startup fails  $\$0$  realized value (high risk). Best case: startup IPOs  $\$100K$  realized (but taxable). Analysis: Compare present value of options to a guaranteed salary bump elsewhere; factor in company risk.
7. Direct compensation:  $\$50K + \$5K = \$55K$ . Benefits value:  $\$8K + \$3K = \$11K$ . Total reward value:  $\$55K + \$11K = \$66K$  (often worth 15-25% more than base salary).
8. Direct pay: salary, bonuses, commissions, and incentives paid to an employee.
9. Indirect pay: health insurance, retirement plans, paid leave, life insurance, wellness, and other perks.
10. The combined value of compensation and benefits; often 15-25% higher than base salary.

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