Today's HR Daily Advisor Tip:

Forget About Cash Compensation?

Topic: **Compensation**

Whenever your company is thinking about giving out some additional compensation, it seems so easy to go with cash. But Bryan Van Noy, a compensation expert and cofounder of Sonic Boom Wellness, says that cash compensation lacks what really matters about compensation: staying power, not to mention originality.

When it comes to wellness incentives, cash is quite common. It's commonly abused, commonly ineffective, and oh-so-commonly unoriginal. The jury may still be out on the superiority of carrots over sticks, but don't fall victim to this obviously rotten carrot. Just because employees request cash above all other forms of incentives doesn't mean employers should succumb. There are better (and not so uncommon) alternatives. Here are six reasons why you shouldn't use cash as a wellness incentive.

It's Fungible

Money is inherently fungible, meaning that if you give employees $100 for losing weight, those five new $20 bills automatically and seamlessly mix with the bills already living in their wallet—and they soon (if not immediately) forget how they got that $100 in the first place. Whether it came from a standard paycheck, a meaningful health achievement, or a slot machine, cash is cash (is cash). And worse—there's nothing preventing employees from buying beer and Twinkies with their hard-earned "wellness" dollars.

It Has No Trophy Value

Tangible, noncash awards have "trophy value." Cash does not. Trophy value means that the reward serves as an emblem of achievement … a constant reminder of success. Employees using a water bottle every day, which they won by engaging in the wellness program, are reminded with each sip how they earned the prize. These kinds of low-cost, tangible items also help promote the wellness program and have higher perceived value for recipients. It's a win-win-win for employee motivation, engagement rates, and your budget.

It's Addicting (Like a Drug)

One of the biggest problems with financial incentives—especially cash—is that they're subject to dose tolerance. In other words, if you had to incentivize me (read: pay me) $250 to take a health assessment this year (which I didn't want to do, otherwise such an incentive wouldn't be necessary), next year I'm going to expect $275 (or more) for the same effort. You have to keep upping the "dose" because money, much like any other drug, is a drug unto which we build up a tolerance.

It's Indistinguishable from Ordinary Income

Cash incentives must be reported as ordinary income (and are taxed as such). It's no surprise, then, that employees view cash incentives as compensation (as does the IRS). What's more, employees often perceive these one-time cash incentives as a permanent raise. Removal of the cash incentive ends up being viewed as a pay cut—met with hostility and resentment.

It’s Unimaginative

Come on, employers—get creative! The best news for employers of any budget is that the most powerful rewards are recognition-based, not financial. Think about it. After you lose 10 pounds, hearing someone say, “Wow! You look fantastic. Have you lost some weight?” is more gratifying and inspirational than someone from HR giving you a $50 gift card for doing so. Peer-to-peer recognition and the “social” rewards that result from interpersonal interaction and influence drives more success than any form of financial incentive.

In fact, up to 60 percent of our decision to adopt a new health habit is under the direct control or influence of the people who surround us. So, if we’re trying to figure out why people exercised today, it usually has less to do with their personal motivation or ability (or someone paying them to do so) and more to do with the habits of those who surround them (e.g., a workout buddy, a spouse …).

Tomorrow we’ll hear a little bit more about why cash compensation isn’t all that, plus an introduction to PayScale’s free report, *Define Your Comp Strategy.*