Service Awards: How Companies Reward Loyalty
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This paper summarizes the findings of a recent study of employment service recognition awards by employers. The survey was conducted through the New England Compensation Consortium in February-March, 2007 and includes responses from eighteen (18) companies.   The following provides a summary of other similar studies as well as key findings from this survey.

Recognition programs for length of employment or service awards have been around for a long time and are used by many established companies. In a 2003 Recognition Survey by WorldatWork, 87% of the respondents indicated that they have a formal recognition program. Of those with a formal program, 71% indicated they have a separate budget for recognition, which averaged 2% of total annual payroll. The most common programs were Length of Service.

Studies on the effectiveness of these programs often site the following elements as key to their success:

Specific -	The goals or desired outcomes are clear and well understood.
Meaningful -	The rewards are meaningful to the recipient.
Achievable -	The desired results are challenging and achievable.
Reliable -	Individuals have trust and confidence in the integrity of the program.
Timeliness -	The rewards are sufficiently timely that the program is viewed as an on-going program within the organization.

Service awards are unique in that they are not linked to performance of the company, business unit or individual, they are based on an individual's continued employment by the company. In short, an individual needs to remain employed by the company for a specific timeframe (5 years, 10 years, etc.) and the organization will "reward" this person with something of value. When there are annual ceremonies as well as tangible awards associated with these programs, they become viewed as something the organization does on a regular basis and employees tend to regard them favorably. While they seldom make a significant impact on retention, they do communicate the value of continued service to the company. This reinforces the importance of loyalty to one's employer.

What to Award

There is usually a combination of awards used in recognition programs. They include:

- Symbolic awards, such as certificates, trophies and plaques.

- Tangible gifts, such as watches, pins, article of clothing.
- Cash type programs with awards such as cash payments, stock awards or contributions to charities.
- Ceremonies including lunches, dinners or other events.
- Activities such as trips, week-end retreats, spa packages, tickets to sporting events, or extra time off or vacation days, etc.

Research has shown that the most meaningful award is one that someone selects for the individual based on the knowledge of one's special interests or personal activities. This communicates two points: (1) I appreciate what you did, and (2) I value you as a person. But, it is often difficult to administer formal programs of this nature. Some awards fail because they often reflect the interests of the "provider" than the recipient. Consequently, some companies provide individuals with "credits" to a catalogue type service to select something that one values them selves. A key principle of successful programs is to provide awards that the individual can proudly say to their friends and family that "my company awarded this for me."

Some organizations provide items that have the company's logo embedded or printed on the item, others don't. There is no research that indicates the relative value of these items; it depends on the organization. Finally, regardless of what the reward, they are often more meaningful if they are provided to the individual in a meaningful ceremony. This often provides additional opportunities for the individual to be recognized and appreciated by others within their company.

A note to remember: The recipient determines the value of the award, the organization can only create the conditions whereby the individual feels truly value for what they have accomplished.

Tax Liability

The IRS is very specific about the taxation of Employee Achievement Awards. (See the IRS Document: "Taxable Fringe Benefit Guide" January 2007.) The award must be an item of tangible personal property that is awarded solely for length of service or safety. It does not qualify as a length of service award if the employee receives the award during his/her first 5 years of employment or if he/she received another length of service award during the same year or in any of the prior 4 years. If an award is taxable, it is valued at fair market value and the taxable amount depends on whether the award is made under a qualified or nonqualified plan.

> **Qualified Plan** – Awards made under an established written plan, AND does not discriminate in favor of highly paid employees, AND the average cost of all awards (both qualified & nonqualified) made by the employer in a single year does not exceed $400. Do not include awards less than $50 in this calculation.

> **Nonqualified Plan** – Awards not made under a qualified plan. Nonqualified awards can discriminate in favor of highly paid employees. Most programs fall under the nonqualified category.

The maximum amount of excludable awards made to a single employee during a calendar year is limited to $400 for awards under a nonqualified plan and $1,600 in total awards made under both qualified and nonqualified plans.

Regardless of cost or fair market value the following awards are considered taxable by the IRS:

- Cash or its equivalent (i.e., savings bonds, gift certificates)
- Recognition awards unless they qualify as de minims
- Awards for Customer Service, EE of the month, etc.
- Achievement awards that do not meet excludable treatment requirements
- Length of service that do not meet limitations
- Non-cash prizes won through random drawings at company sponsored events

Parts of the IRS code call for taxation of anything of value. It is always wise to consult a tax professional regarding specific regulations relative to your awards program.

Sources for Awards

Many companies can be found on the web for program administration. The following websites are a small selection of the hundreds that offer a variety of services. As we have not used their programs, we cannot offer any recommendations.

- www.globoforce.com
- www.mcfawards.com
- www.pegasusgroup.com
- www.terryberry.com
- www.diamondh.com
- www.octanner.com
- www.awardsnetwork.com
- www.therobbinsco.com
- www.rymaxinc.com

Implementing a Program

To make a service awards program formal and on-going process, it is important to have the program well defined and documented. The company should adopt policies and assign the administration of the program to appropriate individuals within the company. Many companies adopt program descriptions which include:

Purpose – Goal and key objectives of the program

Timing – Time intervals awarded – 1 year, 5 years, 10 years, 20 years, etc.

Employees Covered – Full-time, part-time (minimum number of hours worked).

Awards – The type and value of the awards by the time interval of the program, including the decision for whom and how the tax liability is covered.

Schedule – When are awards presented and who presents them.

Administration – Definition of the department with accountability for managing the program, including the relationship with a vendor who supplies the awards.

Budget -- The annual budget for the program including the awards and ceremonies associated with their distribution.

Executive and Management Involvement – The activities and level of involvement by executives, members of senior management, and the direct supervisor of the eligible employee in making the awards to him or her.

The program description and policies need to be consistent with the stated objectives and meet the criteria outlined above. Finally, communication and promotion of the program will be an essential element of its success. Depending on the company's history with similar programs, this task should not be underestimated or under-resourced.

Service award programs are highly specific and can be an important element of how an organization communicates the value of its employees. They can do what they do very well, but they cannot be the primary mechanism by which an organization rewards employee performance and loyalty. One should regard these programs as part of a larger portfolio of rewards, each program focused on specific goals and principles, and each serving to enhance the ability of other programs to create a great place to work.

Special Survey Results

A survey of NECC members was conducted via email in March 2007. It was highly focused and limited, and asked three key questions regarding service awards. The actual responses by the participating companies are shown on the pages that follow.

1. If you use a web-based tool/software to help administer awards given to employee under a recognition or service award program, what is the name of the company and what has been your experience?

Eleven (61%) respondents indicated that they do not use a web-based program. Of the remaining, two (11%) did not respond and five (28%) use a company to administer their program. The following companies were listed:

- OC Tanner
- Awards Network
- Robbins Company (Tharpe Company merged with Robbins)
- Rymax Incorporated

2. In cases where the awards are taxable, do you gross up the awards or include the award as taxable income? WorldatWork recently asked a similar question about cash spot awards and there was an even number of responses that said (1) "we never gross up awards" and (2) "sometimes, it depends on the size of the award". The third and least common response was "we always gross up awards."

- Seven (39%) companies do not gross up any awards.
- Three (17%) companies gross up all awards.
- Three (17%) companies did not respond.
- The remaining companies (27%) gross up some awards and do not gross up others. Please see the detail in the spreadsheet that follows.

3. If you have implemented a new service award program, how did you treat the employees whose current service exceeds the awards levels? For example, someone with seven years of service and a five year award is being implemented for the first time, would the seven year employee receive a 5 year award?

- Nine (50%) companies have had programs in place for many years and this is not applicable to them.
- Four (22%) companies did not respond.
- Of the remaining five companies, three (17%) include employees retroactively as needed, and two (11%) make employees wait until they reach the next level.

Company #	Q 1: Web-based Tool/Software	Q 2: Gross Ups	Q 3: New Program	Comments
1	No; nomination form on intranet	Yes	N/A	Former company retroactively granted awards to subsidiary employees when they were transitioned into the corporate program
2	Yes - OC Tanner - happy with services	NR	NR	
3	No	Yes; no awards under $100	N/A	3 year award eliminated
4	No	Sometimes, depending on size of award	N/A	In market for new program
5	No	No	N/A	
6	Yes - Awards Network (used OC Tanner in past)	No-gifts only, no cash	N/A	
7	No	No	Looking at options, will probably include people who missed out if they add a 5 year award	Award includes debit card, significant and gift; 10 years only; employees have a choice of one week's pay or one extra week of vacation
8	No	No, include award as taxable income	N/A	
9	Yes - Robbins Company	Yes - Lower level awards not factored in as income; higher levels (25+) were grossed up	All employees affected by changes were given retroactive awards, even if it meant they received awards for two levels	Current company does not have program; info is for former company
10	Yes - Rymax Incorporated	Awards are taxable; gross up over $250	N/A	

Company #	Q 1: Web-based Tool/Software	Q 2: Gross Ups	Q 3: New Program	Comments
11	NR	NR	NR	Consultant whose experience found that when awards were not grossed up, the perceived value by the recipient was significantly reduced. Communicating the tax implications up front helped diffused the disappointment. Decision to gross up often resides with company President and is more philosophical than cost.
12	Yes - Tharpe Company (recently merged with Robbins Company); contact is Jerry Antonellis 800.310.3144	Yes, at 35 years	Program has been in place for years, but a custom designed company ring was added at 25 years. When it was rolled out 4 years ago, employees at 26-29 years were allowed to get the ring.	At 35 years they award $2,500 as a vacation award. The employee must present company with an itinerary (does not have to equal $2,500) to receive award. Employee is then presented with a net check for $2,500 which was grossed up.

Company #	Q 1: Web-based Tool/Software	Q 2: Gross Ups	Q 3: New Program	Comments
13	No	No - Cash awards not grossed up, but managers are provided with information that shows them what the net award would be; Amazon.com gift certificates for Service Awards are not grossed up	Wait until next level	American Express Gift Certificates for Recognition Awards are grossed up
14	No	NR	NR	
15	No	Always	N/A	
16	NR	No	N/A	Choice of clocks awarded at 10 years
17	No	No	NR	In the process of integrating programs as a result of merger
18	No, just Access database	Only occasionally, standard is not to do so	Wait until next level	