

INCENTIVE LABOR PAYMENTS . . .

To Recruit and Retain Dairy Labor

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Finding and keeping good farm labor is becoming extremely difficult. Competent labor is especially valuable to a dairy operation. Employment policy for a dairy farm should stress longevity because training is expensive and work efficiency increases with experience of the individual operator.

To recruit, motivate and retain good labor, a comprehensive program of base pay, fringe benefits and an incentive payment plan should be considered. A complete payment program encompasses all of these factors and is based on mutual trust and understanding. Both employer and employee should understand fully the program and its purpose to reward efficiency and increase profits. Ideally, the overall payment plan should cause the worker to view his job in the same light as the owner. Increased efficiency should mean more income for both parties.

Base Pay

Base pay is the amount the worker receives, regardless of production. It can be for any time period (daily, weekly or monthly) agreeable to both parties. The wage rate must be competitive with the pay scale of other employment opportunities having comparable working conditions and requiring similar skills and abilities. The primary function of base pay is security for the worker and his family. This pay can be negotiated on work hours or the number of cows milked. Hourly rates penalize the more efficient and faster workers.

Weekly or monthly pay rates (regardless of actual hours worked) may result in unsatisfactory work or disagreement unless work standards are

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established clearly. Variations in work load will require adjustments in pay rates and work standards.

An important factor in determining base pay is the number of cows milked. The exact rate per cow should be in relation to the efficiency of the milking facilities. Poorly planned facilities resulting in slow and difficult milking require a higher base payment rate per cow than facilities where milking is done efficiently and easily.

Table 1 shows a suggested procedure for arriving at a daily base pay rate according to the number of cows milked. Weekly base pay can be determined by multiplying the daily rate by the number of days worked each week. Obviously, there is a physical limit to the number of cows one man can milk. However, the principle can be applied for herds requiring more than one worker. The exact division of pay among workers should be according to responsibility and work load.

Table 1. Computation of daily base pay for milking*

No. of cows milked	Daily pay rate per cow		
	15¢	18¢	20¢
50	\$ 7.50	\$ 9.00	\$10.00
80	12.00	14.40	16.00
130	19.50	23.40	26.00
200	30.00	36.00	40.00

*Amounts suggested are for example purposes and to demonstrate the principle and procedure. They are not necessarily applicable to any specific dairy. Use a daily amount per cow suitable to all parties and arrive at a weekly rate by multiplying the number of days worked per week.

Base pay provides income security. Fringe benefits and incentive payments also should be considered in the overall payment program.

Fringe Benefits

Fringe benefits are defined as compensation other than taxable income.¹ They include:

- Housing and transportation
- Insurance — hospitalization and life
- Leave policy and sick benefits
- An atmosphere of mutual understanding
- Time off and daily work schedule

Housing and transportation may or may not be taxable to the employee. Insurance may be deductible by the employer and nontaxable to the employee. A life insurance policy provided by the employer which has a growing cash value can encourage longevity of employment. The amount of this policy can be increased periodically as family needs increase. Adequate life and hospitalization insurance plans give the employee additional security for his family.

Vacation, sick leave and other benefits should be specified clearly in a written labor agreement.

Another important fringe benefit is an atmosphere of mutual respect, trust and understanding between employer and employee. Success in this area is one reason why some employers retain employees while other employers have high labor turnovers, although both offer the same economic incentives. All employers should be familiar with the basic principles of supervision and labor management.

Incentive Payments

Incentive payments encourage the employee to develop an interest in the operation and allow him, as well as the employer, to share in its success.² Incentive payment plans should contain:

1. A base pay and fringe benefit package as the basis for average production.
2. Incentive pay scaled to production increases *within reach*.
3. Means of correcting production problems under the control of the worker.

¹Whether fringe benefits are taxable under Internal Revenue Service regulations depends on certain assumptions and facts outside the scope of this discussion. In general, if the benefits are not cash paid directly to the worker and are for the employer's benefit and not intended to reduce compensation, they are not taxable to the employee and are the employer's business expense. The entire area of IRS regulations, as applicable to fringe benefits, should be studied thoroughly with a qualified tax accountant.

²Strictly speaking, an incentive payment is an earned wage and not a bonus. However, for the purpose of this publication, the terms are used interchangeably.

4. A limited number of factors that are relatively uncomplicated and easy to observe and measure.
5. Provisions for prompt and regular payment of bonuses.
6. Assistance in achieving both short- and long-range management goals.

Incentive payments for the dairy farm can be based on the following factors:

1. *Production.* Average pounds of daily milk from DHIA summary. Herds not on DHIA or other testing program can compute the daily average milk per cow by adding the shipping weights for the month and dividing by the total number of cow days in the month. Obtain total cow days by multiplying total cows in herd by the number of days in the month. See Table 2 for a suggested pay rate based on daily milk production.
2. *Sanitation* (based on inspection by Health Department). The factors in Table 3 are found on all inspection forms and have been assigned dollar values. The employee is primarily responsible for satisfactory completion of these nine items. A bonus of \$15 would be paid if no marks were received. Each item failing to pass inspection would reduce the bonus by the specified amount.
3. *Herd health.* A bonus can be based on a somatic cell count made by the Health Department and requested through the sanitarian. The somatic cell count is an indicator of sub-clinical or chronic mastitis. High counts show the need of screening tests to identify and treat infected cows. The following pay scale could be used.

Somatic cell count	Payment per cow per month
500,000 or less	50 cents
500,000 to 600,000	40 cents
600,000 to 700,000	30 cents
700,000 to 800,000	20 cents
800,000 to 900,000	10 cents
900,000 to 1,000,000	5 cents
1,000,000 or over	0 cents

4. *Calving intervals.* The calving interval is important in herd management. Cows in heat must be detected and bred at the proper time to maintain a minimum dry period and a low calving interval. In a 100-cow herd, no bonus is suggested for calving intervals of more than

13 months. A calving interval of 12.5 to 12.9 months would earn a \$10 monthly bonus and a \$15 bonus if the calving interval is under 12.5 months. This factor can be taken from the DHIA herd summary. Herds not on a production record system probably will not use this factor in an incentive pay program. The calving interval and bonus can be adjusted upward for larger herds.

Table 2. Production incentive payment rates*

Pounds of daily milk production per cow		Bonus per cow per month**
Large breeds	Small breeds	
Less than 35 lb.	Less than 23 lb.	No bonus
35.0 - 35.9	23.0 - 23.9	10 cents
36.0 - 36.9	24.0 - 24.9	12 cents
37.0 - 37.9	25.0 - 25.9	14 cents
38.0 - 38.9	26.0 - 26.9	16 cents
39.0 - 39.9	27.0 - 27.9	18 cents
40.0 - 40.9	28.0 - 28.9	21 cents
41.0 - 41.9	29.0 - 29.9	25 cents
42.0 - 42.9	30.0 - 30.9	29 cents
43.0 - 43.9	31.0 - 31.9	33 cents
44.0 - 44.9	32.0 - 32.9	37 cents
45.0 - 45.9	33.0 - 33.9	42 cents
46.0 - 46.9	34.0 - 34.9	47 cents
47.0 - 47.9	35.0 - 35.9	52 cents
48.0 - 48.9	36.0 - 36.9	57 cents
49.0 - 49.9	37.0 - 37.9	62 cents
50.0 - 50.9	38.0 - 38.9	68 cents
51.0 - 51.9	39.0 - 39.9	74 cents
52.0 - 52.9	40.0 - 40.9	80 cents
53.0 - 53.9	41.0 - 41.9	86 cents
54.0 - 54.9	42.0 - 42.9	92 cents

*Average daily production taken from DHIA herd summary. Herds not on DHIA or other record programs may arrive at daily average milk for the month by adding all the shipping weights for the month and dividing cow days in the month. Obtain total cow days by multiplying total cows in herd by the number of days in month.

**Amounts suggested are to demonstrate the principle and procedure and are not necessarily applicable to any specific dairy. An increasing rate is used to reflect the difficulty of obtaining additional increases in production as the daily milk production reaches higher levels.

Table 3. Suggested sanitation bonus*

Milking barn or parlor	
Clean and free of litter	\$ 3.00
Cow yard clean and properly maintained	1.00
Manure stored away from cows	1.00
Milk room	
Good repair (windows, doors, hose port)	1.00
Doors and windows closed during dusty weather	1.00
Cleanliness (floors, walls, windows, tables)	3.00
Utensils and equipment	
In good repair, accessible for inspection	1.00
Utensils and equipment clean	3.00
Storage (left in treating chamber or sanitizing solution until used, stored properly)	1.00
Total all items satisfactory	\$15.00

*Amounts suggested are to demonstrate the principle and procedure. They do not apply to any specific dairy. These items may be changed or adjusted to meet individual conditions and personal preferences agreeable to both parties.

SUMMARY

Example: Complete labor payment for a herd of 85 Holstein cows
Base pay

18¢ per day times 85 cows equal \$15.30 daily
base pay multiplied by 30 days worked per
month equals a monthly base pay of **\$459.00**

Incentive pay

Production Av. daily milk 42.5 pounds
85 cows × 29¢ = monthly
production bonus of **\$24.65**

Sanitation Health officer marked
Utensils not clean (\$15-3) =
monthly sanitation bonus of **\$12.00**

Health Somatic cell count 650,000
(\$.30 × 85 cows = \$25.50)
= monthly herd
health bonus **\$25.50**

Calving interval 12.8 months equals **\$10.00**

TOTAL INCENTIVE PAY \$ 72.15
TOTAL PAY PER MONTH \$531.15

Other fringe benefits

- (1) Housing, utilities and specified conditions of transportation.
- (2) Insurance, hospitalization and life policy payable to family of employee.³
- (3) Vacation or leave time as mutually agreed upon.

³A type of increasing endowment policy will encourage longevity of employment and be part of the incentive and fringe benefit program. A qualified insurance representative will be helpful with this phase of your program.

