

# Financially Invest in Your Staff with Temporary Pay Increases or Bonuses



**DECAL**  
**Thriving Child Care**  
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Financially investing in staff is a good way to leverage any stimulus and grant funds that are available. In this resource, we will explain how and when to financially appreciate your staff, focusing on bonuses and temporary pay increases.

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The pandemic and lingering strains on the workforce exacerbated challenges faced by child care businesses. Owners and staff responded by working harder, putting in longer hours, and adapting to unusual circumstances and constraints. Grants and other funds you have received provide an opportunity to invest in your business and reward hard-working employees through temporary pay increases and bonuses. This also offers providers a means to attract and retain staff in a competitive job market so their business can grow.

For the child care sector, investing in staff is a critical way to ensure your business is healthy, poised to meet goals, and can continue to provide services to children and families. You may be wondering where to start with providing financial incentives and if these can be affordable in the future. To avoid long-term implications, there are several key steps to properly implement temporary pay increases or bonuses. Here, we review the types of payrolls and how you can use bonuses and temporary pay increases to show appreciation for your staff while protecting your business's interests for the long term.

## Types of Pay

Generally, there are two types of pay:

1. Regular pay is the payroll you're familiar with, where you provide regular compensation to your staff for their work on an hourly, weekly, or annual basis. Regular payroll is taxed for income as well as unemployment, social security, and other programs.
2. Supplemental pay is pay that is above and beyond regular pay and can include: overtime, tips, bonuses or rewards, payments for accumulated or unused time off, severance pay, back pay, or retroactive pay increases. These wages are reported in a separate part of the W-2 that you provide your employees at the end of the year instead of under regular wages. Supplemental pay is taxed at a different rate and most payroll taxes are not included.

Supplemental pay can be added to a regular paycheck that you issue weekly, bi-weekly, or monthly, depending on your payroll cycle, or you can issue it separately. It may be helpful to issue a bonus as a separate paycheck, so it is clearly a separate income. If you are offering a temporary pay increase, include it in a weekly paycheck or as a separate retroactive paycheck (see below).

## Bonuses

Bonuses are additional, one-time funds, typically for efforts that have gone above and beyond normal expectations. Most child care providers issue bonuses in two ways. First, many programs give bonuses as a thank you to their staff. Second, some child care businesses are using bonuses to attract or retain staff in the current competitive job market.

For example, you can give an existing employee a retention bonus if they remain at your child care program for an additional six months. In the case of a new hire, a bonus could be given after the first 90 days of employment, which acts as an incentive to accept a position at your child care program.

Just like any action taken that affects pay, a bonus should have a formal written communication to your employee, either by letter or email, which includes:

1. Why they are receiving the bonus.
2. The time period it affects.
3. How much the bonus is.
4. When they will receive the funds.

A simple communication to an employee might be:

*Dear [Employee],*

*Thank you so much for your additional efforts over the past six months. Your contributions helped ensure that the children in our care stayed safe and continued to learn.*

*In gratitude for these efforts, we are going to award you a bonus in the amount of [\$ Amount], which will be paid out in your next pay period on [Month, Day, Year].*

*Thank you again for your efforts.*

*Sincerely,*

*[Employer]*

The communication can be very simple and short, but it must record the terms of the bonus.

If you are using a bonus as an incentive for remaining in your employment, you should also put it in writing at the time you make the commitment. Similarly, include the time

period, the amount, how it will be paid out, and make sure that this payment is clearly not a guarantee. In other words, clearly state that if there is poor performance or disciplinary issues along the way, the employee forfeits the bonus.

In this case, an example letter you might give to an existing employee or new employee might be:

*Dear [Employee],*

*Thank you for your commitment to work [or for continuing to work] at our child care program. As part of our efforts to keep the best staff members, we are offering you the potential to earn a bonus at the end of six months, provided you continue to have satisfactory performance and remain employed with our organization during this time. The bonus will be [\$ Amount] paid out in your payroll as of the date six months from now on [Month, Day, Year].*

*We are excited about your continued work and contributions to our child care program.*

*All the best,*

*[Employer]*

As you can see, this document contains some clear caveats and stipulations. You never want to imply that a bonus is guaranteed in any way. Instead, it is always based to some degree on performance and timing. This prevents you from having to pay the bonus to an employee who underperforms, is terminated, or leaves.

Child care owners often ask: “How much is a typical bonus?” Unfortunately, there is no hard or fast rule for this. Data from the Society of Human Resource Managers, the national association for human resource professionals, indicates typical bonuses range between 5% and 20% of annual salary. However, they can be higher or lower considering circumstances. Another guide from the US Small Business Administration related to the Paycheck Protection Program defines a “reasonable” bonus as 10% or less of the annual salary. Keep in mind there is no guidance on the frequency of bonuses, so theoretically, you can give one bonus a month for retention, or quarterly bonuses to new employees who stay with you. Research in the early education field shows that adding \$1500 a year to a child care provider’s income dramatically curbs turnover. While you may or may not be able to meet this level of additional compensation, every effort you make in this area matters.

### **Temporary Pay Increases**

More and more child care providers are using temporary pay increases to compensate employees for the additional efforts during the COVID-19 pandemic, as well as providing increased wages in a particularly competitive labor market. While temporary pay increases could have a powerful impact on ensuring staff morale and retaining staff

members, they also need to be implemented carefully.

You want to ensure that in no way are you making or communicating a commitment to a permanent pay increase. Once again, there should be something in writing that tells the employee clearly what the terms of this agreement are, specifically:

- The amount of the temporary pay increase,
- Why they are receiving it,
- How long it will last, and
- That the increase is, of course, dependent upon continued satisfactory performance.

A sample letter to an employee might be:

*Dear [Employee],*

*I'd like to confirm that we are temporarily increasing your salary by [% Percentage], as we've discussed, in recognition of your hard work and dedication. This moves you from [\$ Current Amount] an hour to [\$ New Amount] an hour. This is a temporary pay increase and will start on [Month, Day, Year] and end on [Month, Day, Year] (with your continued satisfactory performance and employment with our organization).*

*We look forward to being able to compensate you at a higher level during this period to reflect your extra efforts.*

*Sincerely,  
[Employer]*

### **Retroactive & Back Pay**

You may want to apply bonuses and additional temporary pay increases for past time. For example, you receive funding from the state that covers current costs, plus any costs incurred from the beginning of the calendar year. If applicable, your payroll company will need to be involved to complete this action, but it's important to note there are two different types of historical pay. **Back pay** is used to correct mistakes that may have been made in the past. For example, you issued a payroll a month ago and then realized you forgot to include a staff member's overtime pay. **Retroactive pay** is paying somebody for past efforts, whether it's their salary or a bonus, but those past efforts at the time were not ones that you would have committed to pay at that level.

In the first case, perhaps you have an employee who is getting paid \$15.00 an hour and you missed three hours of their time last month, well, that will mean \$45.00 in back pay. If instead, in the second case, you have an employee who was making \$15.00 an hour and you want to make them eligible for a temporary pay increase of \$2.00 an hour, that goes back the previous month, that would mean an additional \$2.00 an hour of retroactive pay for that entire month.

## Final Thoughts

Documentation is critical for implementing bonuses or temporary pay increases effectively. Make sure that any transactions are well documented in a letter with a signed copy provided both for yourself and your employee. If the terms change for any reason, especially around a temporary pay increase, make sure you write a new letter. For example, if you get some additional grant money and you want to extend your temporary pay increase another three months, you will want to note that in writing a second letter stating the new terms and amending the information from the original letter. It can feel a bit tedious and does increase your paperwork, but this is an important legal protection that helps you prepare in case there is any question in the future about whether the payment was one-time, temporary, or a permanent change.

Hopefully, this tool has helped you understand some of the practices you can use to provide incentives and additional compensation for your staff.

## Additional Resources

**If you have questions or need help, assistance is available.**

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