Econ 308 Prof Chapman  
Spring 2015 JH 4234

**Compensation Plan Exercise**

Your job will be to design a compensation package for the *Auto Cheapus* Company that spends $10,000 per month on middle level managers. The package should include some salary, as well as appropriate choices of the fringe benefits listed below. Your task includes one major complexity: you have managers in two different countries. Specifically, there is a division in Adamskia and another in Manerus.

Fill out the Compensation Package Worksheet describing the combination of salary and fringe benefits you would provide to workers in Adamskia and Manerus. Then write a 1 page essay (double spaced, 1 inch margins, 12 point type, and indented paragraphs) that uses concepts developed in class and in the text to explain why you have selected that particular compensation package. Emphasize why you would want different packages for workers in different countries.

**The Countries**

*Adamskia*

The income tax rate is a flat 30% on all income in Adamskia. The government provides no national health insurance and it taxes all expenditures on employee health insurance as if it was salary. GDP per capita in Adamski is in the bottom third of all countries in the world.

*Manerus*

For every dollar earned less than $100,000 must pay 20% of their income in tax, but for every dollar earned beyond $100,000 must pay 60% in tax. There is no national health insurance plan, but all forms of health insurance (including Dental Insurance and Vision Insurance) are tax free. GDP per capita in Manerus is among the highest in the world.

**Possible Fringe Benefits**

*Preferred Provider Organization Inc (PPO Inc) Health insurance*

This health insurance plan costs $2000 per month when the company buys it and $2,200 when a private individual buys it. It lets customers choose primary care physicians from a long list and provides very generous benefits for the insured and their families.

*HMO Inc*

This health insurance costs $1000 per month when the company buys it and $1,200 when a private individual buys it. Customers are assigned a doctor and that doctor must approve all subsequent care. Coverage for ordinary problems is generous, but coverage of unusual problems is spotty at best.

*Deductibles R Us*

This insurance pays for any health insurance expenditure above a $1000 deductible each year. It costs $1,200 when the company buys it and the same when private individuals buy it.

*Fitness 123*

This outfit provides health club memberships at its widespread international set of stores for $100 per month. It charges the same for private individuals.

*Auto Luxurius*

This company will rent cars to the company for $600 per month. *They’re cool, and filled with leather…and drives like a luxury tank.* Their safety record is great. Cost to private customers is the same as the company.

*Tooth 2000*

The company will provide up to a maximum of $2000 per enrollee family member of dental care each year. They charge the company $100 per month per employee. Cost to private customers is the same as the company.

*Dental Dynamo (DD)*

The company covers serious dental problems. It has a $800 deductible, but will cover any non-cosmetic dentistry required. They charge $100 per month per employee. Cost to private customers is the same as the company.

**Your Company**

*Auto Cheapus*

Your company makes cars. They’re clean, and efficient, but fairly ugly. The marginal cost of providing a car for a month is $350, though the company usually charges customers $400 per month. 70% of employees are married and have children while most of the rest don’t have kids. Employees tend to be older and slightly overweight.