

Difference Between Compensation and Benefits

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Key Difference - Compensation vs Benefits

Compensation and benefits form the [remuneration](#) package of employees in an organization and are the main motivators to perform the job. Companies have to provide an attractive remuneration package consisting of both financial and non-financial elements in order to attract competent workers. The key difference between compensation and benefits is that **compensation is referred to as the financial payments paid to an employee in return for their contribution to the organization performing a designated job** whereas **benefits are non-financial forms of value provided in addition to compensation to the employee in return for their contribution to the organization.**

What is Compensation?

Compensation is referred to as the financial payments paid to an employee in return for their contribution to the organization performing a designated job. Compensation includes the following factors.

- Equitable [wages and salaries](#) including bonuses
- Commissions
- Cost of living increases (salary increase in line with [inflation](#))

Compensation is very important since this is directly linked to cost of living. The main objective of an occupation is to cover the living expenses. Compensation also becomes the deciding factor in recruiting new employees; an attractive compensation should be offered if the company is to attract competent employees. Compensation for an employee is subjected to a number of factors such as the educational qualifications, number of years of work experience and the nature of work experience. Compensation increases in value depending on the performance of the employee and when an employee progresses within the organizational hierarchy.



Figure 1: Salary is the most common form of compensation.

What are Benefits?

Benefits are non-financial forms of value provided in addition to compensation to the employee in return for their contribution to the organization. Thus, benefits can be explained as a form of non-financial compensation and include all rewards that are not a part of compensation. The number of benefits and the nature of benefits are different from one organization to another and take the following forms.

Insurance Plans

- [Life insurance](#), supplementary health, vision, dental

Social Security Benefits

- Retirement plans, educational allowances, vehicle allowances

Paid Absences

- Holidays, sick leaves, vacation, educational leave, compensation leave

Benefits also include other aspects that ensure smooth progression of careers where employees are motivated. These are not included in job descriptions or documented remuneration packages; however, they should be present and are a part of performing a job.

E.g. Fair practices and policies, work life balance, authority, autonomy, opportunity for recognition, recognition of hard work, competent supervision, safe working environment, flexible scheduling

Most organizations tend to focus on financial rewards, and non-financial rewards are increasingly being overlooked. Benefits are also very important since motivation does not result by financial rewards alone. Similar to compensation, the number of benefits and the nature of the benefits will increase when an employee progresses in the organizational hierarchy.



Figure 02: Insurance plans are provided for employees as benefits.

What is the difference between Compensation and Benefits?

Compensation vs Benefits

Compensation is referred to as the financial payments paid to an employee in return for their contribution to the organization performing a designated job.

Benefits are non-financial forms of value provided in addition to compensation to the employee in return for their contribution to the organization.

Nature	
Compensation is quantitative in nature.	Benefits form a qualitative way of compensating employees.
Types	
Wages and salaries are the main types of compensation.	Insurance plans, social security benefits, and paid absences are various types of benefits.

Summary - Compensation vs Benefits

The difference between compensation and benefits can be identified based on whether it is financial or non-financial. While compensation is the most important part of the remuneration package, benefits are also vital and should not be ignored. Every employee has his or her own set of needs and motivators. As a result, it is wrong to assume that everyone shares the same motivators and needs; some will be motivated by financial rewards and others with non-financial rewards.

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