

Pro-Rating Plan Payouts

Formula for Pro-Rating Incentive Plan Payouts

When actual performance falls between two levels of performance on an incentive plan (i.e., between Threshold and Target, or between Target and Outstanding), or when performance exceeds Outstanding, it is necessary to pro-rate in order to determine the proper payout. Sometimes this can be a bit tricky. Below is a step-by-step description of how these calculations are done.

Follow this procedure when performance is anywhere between THRESHOLD and OUTSTANDING

- Step 1 -- Calculate difference in goals for the performance levels ABOVE & BELOW and below actual performance.
- Step 2 -- Calculate difference in payout for the performance levels ABOVE & BELOW and below actual performance.
- Step 3 -- Divide result from Step 2 by result from Step 1 to get payout amount per dollar of production.
- Step 4 -- Calculate difference between actual production and next lower goal
- Step 5 -- Multiply result from Step 4 times result from Step 3
- Step 6 -- Add the result from step 5 to the payout associated with the lower of the two payouts used in Step 2.

Follow this procedure when performance is above OUTSTANDING

- Step 1 -- Calculate difference in goals between TARGET and OUTSTANDING.
- Step 2 -- Calculate difference in payout between TARGET and OUTSTANDING.
- Step 3 -- Divide result from Step 2 by result from Step 1 to get payout amount per dollar of production.
- Step 4 -- Calculate amount production exceeded OUTSTANDING.
- Step 5 -- Multiply result from Step 4 times result from Step 3.
- Step 6 -- Add the result from step 5 to the payout associated with OUTSTANDING.

Sample Calculation

	Threshold	Target	Outstanding
Goal:	\$23 million	\$26 million	\$29 million
Payout:	\$5,000	\$10,000	\$20,000

EXAMPLE (Based on performance = \$24,650,000)

- Step 1 -- \$26,000,000 minus \$23,000,000 = \$3,000,000
- Step 2 -- \$10,000 minus \$5,000 = \$5,000
- Step 3 -- \$5,000 divided by \$3,000,000 = \$0.00167
- Step 4 -- \$24,650,000 minus \$23,000,000 = \$1,650,000
- Step 5 -- \$1,650,000 x \$0.00167 = \$2,750 = \$2,750
- Step 6 -- \$2,750 plus \$5,000 = \$7,750 <-- THIS IS THE PAYOUT

EXAMPLE (Based on performance = \$31,970,000)

- Step 1 -- \$26,000,000 minus \$23,000,000 = \$3,000,000
- Step 2 -- \$20,000 minus \$10,000 = \$10,000
- Step 3 -- \$10,000 divided by \$3,000,000 = \$0.0033
- Step 4 -- \$31,970,000 minus \$29,000,000 = \$2,970,000
- Step 5 -- \$2,970,000 x \$0.0033 = \$9,801 = \$9,801
- Step 6 -- \$9,801 plus \$20,000 = \$29,801 <-- THIS IS THE PAYOUT