TN Department of Human Resources

POLICY

Approved by: Juan Williams, Commissioner	**Policy Number:** 25-001
Signature:	**Supersedes:** N/A
Application: Executive Branch Agencies and Employees	**Effective Date:** November 1, 2025
Authority: T.C.A. § 4-3-1703, T.C.A. § 8-30-104, T.C.A. § 8-30-105, T.C.A. § 8-30-207	**Rule:** Chapter 1120-04

Bonus Program

This policy provides a framework for agencies to use when developing a bonus program. Agencies may develop a bonus program to achieve their objectives as a part of a strategic talent management plan. Bonus awards are intended to attract, motivate, and retain employees who provide exemplary achievement, meet specified criteria, or provide critical services that are in short supply. Clear goals and predefined criteria are essential for a successful bonus program. Therefore, an appointing authority must develop specific targets to be achieved, define the review process, and determine employee eligibility. Agencies are encouraged to tailor their review processes to best fit their operational needs while maintaining alignment with this policy. To ensure success and consistency across agencies, this policy provides criteria and guidelines for the program's usage. Before implementing, an appointing authority must submit a request to implement an individual bonus or a bonus program in writing to the Department of Human Resources (DOHR). As part of the approval process, the appointing authority and the Finance and Administration Budget Office must certify the agency's ability to fund the requested bonuses.

Bonus Types

Hiring/Sign-On Bonus

Definition: A hiring/sign-on bonus is a recruiting incentive most often used to attract employees for hard-to-fill positions or to obtain specialized experience required for critical roles.

Guidelines: This type of bonus is not meant to be offered for every new hire at an agency; however, it may be appropriate to offer this type of bonus to every new hire for certain critical roles. Agencies should articulate the need for this type of bonus before implementation, as part of a talent management plan. A repayment/forfeiture agreement for employees who leave prior to a specified timeframe should be included.

Eligibility: The hiring/sign-on bonus is used for external hires rather than internal transfers, even if the internal transfer would fill a specialized or hard-to-fill position. Full-time and part-time employees are eligible, with the exception of seasonal employees, temporary employees, and 120-day retirees.

Amount: The hiring/sign-on bonus can be offered as a one-time payment or in installments. Payouts for an employee hiring/sign-on bonus are limited to 10% of annual base salary, not to exceed $30,000.

Metrics: Key metrics to measure bonus effectiveness may include retention rate, turnover rate, and percentage of offers accepted.

<u>Referral Bonus</u>
Definition: A referral bonus is a recruiting incentive to encourage current employees to refer qualified external candidates for jobs within Tennessee State Government (TSG).

Guidelines: When developing a referral bonus, agencies should articulate the reasons for needing the bonus, define long and short-term goals, and identify the anticipated outcomes as part of a talent management plan.

Eligibility: The referred candidate must not be a current state employee. To qualify for the referral bonus, the referred employee typically remains with the hiring agency for a minimum of six months. In certain cases, the bonus may be paid earlier based on agency business needs. Employees in recruitment roles or those who oversee recruitment functions are not eligible. Additionally, the referring employee must be actively employed in state government at the time the bonus is paid. Full-time and part-time employees are eligible, with the exception of seasonal employees, temporary employees, and 120-day retirees.

Amount: Referral bonuses are limited to $3,000 per referral and may be issued as a one-time payment or in installments.

Metrics: Key metrics to measure bonus effectiveness may include retention rates of referred new hires versus new hires sourced from other recruiting methods.

<u>Retention Bonus</u>
Definition: A retention bonus is an incentive offered to retain employees who possess a specialized skillset or are in job classifications that are hard-to-fill or have high turnover.

Guidelines: When determining whether to provide a retention bonus, consider targeting job classifications with significant turnover which hinders operations. Also consider timing retention payments to address turnover patterns of the position. A repayment/forfeiture agreement for employees who leave prior to a specified timeframe may be included.

Eligibility: To be eligible for a retention bonus an employee must not have received disciplinary action within a one-year period prior to receiving the award. For purposes of this provision, disciplinary action includes a written warning, suspension, involuntary demotion, or dismissal. A retention bonus is not considered a contract of employment with TSG. Full-time and part-time employees are eligible, with the exception of seasonal employees, temporary employees, and 120-day retirees.

Amount: Retention bonuses are limited to 15% of annual base salary, not to exceed $30,000, and are typically paid in installments over a period. Timing of installment payments should be aligned to address turnover patterns of the position.

Metrics: Key metrics to measure bonus effectiveness may include percentage of employees staying in position, duration of tenure, voluntary turnover rate, and employee satisfaction and intent to stay as measured through engagement surveys.

Project-Based Bonus

Definition: A project-based bonus is compensation paid to an employee or group for future completion of a critical, high impact project. An eligible project in this category must have clearly identified milestones, as determined by the appointing authority, that would have an adverse impact on the business if not completed. The project must specify individual project responsibilities that must be completed. A project-based bonus is not intended for recurring standard work that is the expected output of a position.

Guidelines: The amount requested and milestones for payment must be preapproved by DOHR. A project-based bonus may be paid in full at the successful completion of the project, or in installments as the employee/project team completes designated project milestones. The agency may include a repayment/forfeiture agreement for employees who leave prior to project/milestone completion.

Eligibility: Full-time and part-time employees are eligible, with the exception of seasonal employees, temporary employees, and 120-day retirees.

Amount: The amount of a project-based bonus will be limited to 10% of annual base salary, not to exceed $15,000. The decision regarding the amount of the bonus must be dependent upon the scope, complexity, and impact of the project, as determined by the appointing authority.

Metrics: Key metrics to measure bonus effectiveness may include percentage of project milestones completed on time and within scope/budget, quality of project deliverables, and employee satisfaction as measured through engagement surveys.

Ad Hoc/Spot Awards

Definition: Ad hoc/spot awards are used to recognize achievement and extraordinary effort when an employee goes above and beyond the scope and responsibilities of their role. This bonus is not a reward when the outcome is an expectation of the job responsibilities. These incentives are immediate recognition to reward employees after an event or project has been completed, usually without pre-determined goals.

Guidelines: An agency should establish criteria to ensure consistent application. Ad hoc/spot awards should be awarded as soon as possible after completion of the event.

Eligibility: Full and part-time employees may be eligible for ad hoc/spot awards if they have not already been compensated for the same achievement. Seasonal employees, temporary employees, and 120-day retirees are not eligible.

Amount: Ad hoc/spot awards should not exceed $2,000, should be paid in a lump sum per event, and no employee may receive more than $2,000 in total for ad hoc/spot awards in any fiscal year.

Metrics: Key metrics to measure effectiveness may include percentage of employees staying with the agency in position and duration of tenure after receiving ad hoc/spot award, voluntary turnover rate, and employee satisfaction and intent to stay as measured through engagement surveys.

Performance Bonus

Refer to DOHR Policy 24-001 for information regarding performance bonuses.

Summary of Bonus Types

Bonus Type	Purpose	Maximum Award Amount
Hiring/ Sign-On	A recruiting incentive most often used to attract employees for hard-to-fill positions or to obtain specialized experience required for critical positions. Awards may be paid as a one-time payment or in installments determined by agency.	Up to 10% of annual base salary, not to exceed $30,000
Referral	A recruiting incentive for current employees to refer qualified external candidates for TSG positions. Typically paid as a one-time award but may be issued in installments based on business needs.	Up to $3,000
Retention	An incentive to retain employees who possess a specialized skillset or are in job classifications that are hard-to-fill or have high turnover. Awards should be paid in installments aligned to address turnover patterns of the position.	Up to 15% of annual base salary, not to exceed $30,000
Project-Based	An incentive awarded for future completion of a critical, high impact project with clearly identified milestones that would have an adverse impact on the business if not completed. May be paid in full upon successful completion of the project, or in installments upon completion of the designated project milestones.	Up to 10% of annual base salary, not to exceed $15,000
Ad Hoc/ Spot Award	An incentive to recognize exceptional achievement and extraordinary effort when an employee goes above and beyond the scope and responsibilities of their role. Awards should be paid as a lump sum.	Up to $2,000
Performance	One-time reward given to employees to recognize performance at the end of the standard performance management cycle. Amounts vary based on performance rating and approved budget. (DOHR Policy 24-001)	Varies

Exceptions to Monetary Award Amounts

Exceptions to the award limitations may be considered on a case-by-case basis and must have the approval of the Governor's Chief Operating Officer, Commissioner of Finance and Administration, and Commissioner of DOHR.

Questions regarding this policy should be submitted to the Compensation Division.