**Part One: Introduction to Employee Benefits**

**Chapter One: Introducing Employee Benefits**

1. **Learning Objectives**

In chapter one, you will gain an understanding of:

1. The fundamentals of employee benefits and fit in the total compensation scheme
2. The field of employee-benefits practice
3. Legal and regulatory influences on discretionary employee-benefits practices
4. The strategic importance of benefits and approaches to strategically planning a benefits program
5. Information used to develop strategic benefits plans

Welcome to *Employee Benefits: A Primer for Human Resource Management Professionals*. Understanding employee-benefits practices is a worthwhile endeavor no matter whether you plan to become a specialist working in an employee-benefits department, a human resource generalist, or a manager in any department. For instance, employee-benefits professionals are experts in paid time-off policy design. These experts work with HR generalists who oversee all HR activities for employee groups and share developments in the employee-benefits offerings. Employee-benefits professionals also work with managers who are ultimately responsible for carrying out HR policies such as approving paid time off or knowing when to encourage a distressed worker to seek help through an employee assistance program. Let’s not forget, most people work for a living and either currently have or will likely have access to at least one employee benefit. As a bonus, this book will help you to understand the components of your benefits and the employer’s rationale for offering them.

1. **Defining and Exploring Employee Benefits**

This section starts with a brief definition of employee benefits

Next, the text puts employee benefits in the context of total compensation systems in companies (Exhibit 1.1) and from there expands the definition of employee benefits

Finally, the text examines strategic considerations essential for establishing and maintaining effective employee-benefits programs

* 1. **Defining Employee Benefits**
     1. **Employee benefits** refers to compensation other than hourly wage or salary, including:
        1. Health care
        2. Paid time-off
        3. Accommodation and enhancement programs (such as tuition reimbursement)
     2. Organized using two dimensions:
        1. The role that the benefits serve the employees
        2. The funding source of the benefit
  2. **The Fundamental Roles and Sources of Employee Benefits**
     1. Three fundamental roles characterize benefits programs:
        1. **Protection Programs** provide family benefits, promote health, and guard against income loss caused by such things as
           1. Unemployment
           2. Disability
           3. Serious illness
        2. **Paid time-off** policies compensate employees when they are not performing their primary work duties under particular circumstances.
           1. Vacation
           2. Illness
        3. **Accommodation and enhancement benefits** promote healthful living opportunities for employees and their families, including:
           1. Wellness programs
           2. Flexible work schedules
           3. Educational assistance
     2. Employee benefits derive from two broad sources
        1. *Legally required benefits*
           1. Mandated by the federal government like the Social Security Act of 1935
           2. May take other forms such as workers’ compensation insurance
           3. Some cities and states have enhanced federal benefits, such as paid sick leave
        2. *Discretionary benefits*
           1. Additional benefits not required by the government
           2. Examples include educational benefits and retirements savings plans
     3. Exhibit 1.2 lists typical employee benefits offered in U.S. companies
        1. As this exhibit shows, legally required benefits focus on protection, and companies may choose to offer additional protection programs, which often enhance or supplement legally required benefits
        2. Prior to passage of the Affordable Care Act, companies offered health-care benefits on a discretionary basis
        3. Some companies choose to pay a penalty rather than offer health-care benefits
  3. **Employee Benefits in the Total Compensation Scheme**
     1. **Total compensation** includes both core compensation (wages, salaries, and adjustments) and employee benefits (compensation other than wages) – See Exhibit 1.1
        1. Core compensation programs reward employees for job performance or for job-related knowledge and skills
        2. Monetary compensation lies at the heart of core compensation

*Core compensation*

* + - 1. Employees receive **base pay**, for performing their jobs, disbursed in one of two ways
         1. Hourly pay
         2. An annual salary

*Adjustments to Core Compensation*

* + - 1. Employers may adjust base pay for one or more reasons:
         1. Increases in the cost of living
         2. Differences in employees’ job performance
         3. Differences in employees’ knowledge and skills
      2. **Cost-of-living adjustments (COLAs)**
         1. Periodic base-pay increases often set to periodic changes in the U.S. Bureau of Labor Statistics’ Consumer Price Index (CPI)
         2. Enables workers to maintain their purchasing power by adjusting base pay for inflation
         3. Most companies choose not to apply COLAs but the practice is common in unionized and government workforces
         4. Rising costs erode purchasing power when wages do not also increase

Making $150 a week and paying $20 for gas

If gas goes up to $30, that is less purchasing power

* + - 1. **Seniority-pay** systems
         1. Rewards employees with periodic additions to base pay according to their length of service
         2. Based on the human capital theory which states that employees’ knowledge and skills generate capital known as human capital
         3. Unionized organizations continue to base salary on seniority though the number of these workplaces is steadily declining

2020’s overall unionization rate was 12.1 percent

With 7.2 percent in the private sector and 38.4 percent in the public sector

* + - 1. **Merit-pay** programs
         1. Increases are determined by differences in job performance
         2. Permanent increases to base pay according to performance
         3. Rewards excellent effort, motivates, and helps retain employees
         4. Expressed as a percentage of current base pay with higher percentage increases for better performance

An employee making $50,000 annually and then receives a 10 percent merit pay increase, received an annual pay of $55,000

In 2020, employees earned an average merit increase of 3.0 percent across all industries

The projected average for 2021 is 2.9 percent

* + - * 1. Most companies rely on merit pay to recognize employee performance
      1. **Incentive pay**
         1. Rewards employees for partially or completely attaining a predetermined work objective
         2. Fluctuates according to the attainment of individual or group goals, or company earnings

$1,000 to a customer sales representative whose customer-service rating increased each month over a six-month period

Employees share 2 percent of company profits when it exceeds performance projections

* + - * 1. Common plans include piece rate, gain sharing, and profit sharing
      1. **Person-focused pay**
         1. Rewards employees for acquiring new knowledge and skills though designated curricula sponsored by an employer
         2. Recognizes the range, depth, and types of skills or knowledge employees are *capable* of applying to their jobs

The manufacturing industry uses this method

More recently, tech companies favor this method as cybersecurity and AI are not plentiful in the labor market

Rather than pulling from outside the company, they focus on investing in upskilling current employees

1. **The Field of Employee-Benefits Practice**

Most companies offer at least one benefit to employees, and most offer several

This text emphasizes the importance of benefits in achieving legal compliance and competitive advantage and how companies achieve these goals

Benefits professionals work within the broader human resource function or as an external consultant

Benefits managers plan, direct, and coordinate retirement plans, health insurance, and other benefits that an organization offers its employees

Opportunities for employment as compensation and benefits managers are projected to grow at an annual rate of 3% through 2029 with median annual compensation of $122,270

Though the employee-benefits group is on the same team as HR, tensions arise due to competition for limited funds spread between benefits, recruitment, or training and development

* 1. **Legally Required Benefits** 
     1. Are mandated by several laws, some of which include:
        1. Social Security Act of 1935 (Chapter 7)
        2. Various state workers’ compensation laws (Chapter 6)
        3. The Family and Medical Leave Act of 1993 (Chapter 8)
        4. State and local paid leave laws (Chapter 8)

*The Social Security Act of 1935*

* + 1. Was enacted due to economic devastation of the Great Depression
    2. The **Social Security Act of 1935** originally set up two programs:
       1. A retirement system
       2. An unemployment insurance program
          1. Amended to add

**Old-Age, Survivor, and Disability Insurance (OASDI)** provides income to survivors of deceased workers and income to disabled workers and families

**Medicare** provides insurance coverage for those over 65 for hospitalization, convalescence, doctor bills and drug coverage

*State Compulsory Disability Laws (Workers’ Compensation)*

* + 1. Enacted during industrial expansion in early 1900s
       1. Employees had no rights or economic protections from work related accidents orillnesses
       2. Injured workers had no recourse as other programs did not exist
    2. Programs are run by the states
       1. **State compulsory disability laws** create workers’ compensation programs
       2. **Workers’ compensation** insurance programs are designed to cover employee expenses incurred in work-related accidents or injuries

*The Family and Medical Leave Act (FMLA) of 1993*

* + 1. **FMLA** requires employers to allow employees unpaid time-off work in case of family or medical emergency
    2. Employees can take up to 12 workweeks in 12-month period
    3. Employees retain the right to return to the same position, with the same pay rate and benefits

*Paid Leave*

* + 1. Many states and some cities have mandatory sick and family leave requirements
    2. Likened to FMLA but with pay
    3. Each state’s provisions vary in terms of criteria for leave qualification, the length of leave, and level of pay replacement during leave

*The Patient Protection and Affordable Care Act of 2010*

* + 1. A comprehensive law requiring employers to offer health-care benefits to employees
       1. **Health care** covers the costs of a variety of services promoting sound health
    2. Companies can rely on one or more of four broad approaches to proving health care:
       1. **Fee-for-service plans,**
       2. **Alternative managed-care plans,**
       3. **Consumer-driven health care**
    3. Companies may offer additional care options:
       1. **Dental care**
       2. **Vision care**
       3. **Prescription drug plans**
       4. **Mental health and substance abuse plans**

*The SECURE Act of 2020*

* + 1. 2020 saw the passage of the **Setting Every Community Up for Retirement Enhancement (SECURE Act)** extending access to employer-sponsored retirement plans to long-term part-time employees
       1. More in Chapters 3 and 4
  1. **Discretionary Benefits**
     1. These benefits fulfill three main roles:
        1. *Protection programs* offer protections due to income loss or ill health
        2. *Paid time off* allows employees time for many purposes
        3. *Accommodation and enhancements* offer improvements through wellness programs and educational assistance among others

*Protection Programs*

* + 1. Disability Insurance
       1. Replaces income for employees unable to work due to illness or injury
       2. More comprehensive than workers’ compensation as benefits apply to both work and non-work related illnesses and injuries (Chapter 6)
    2. Life Insurance
       1. Employer-sponsored **life insurance** protects family members by paying a specified amount upon the employee’s death
       2. Most policies pay some multiple of the employee’s salary
       3. Frequently includes accidental death and dismemberment claims which pay additional benefits (Chapter 6)
    3. Retirement Plans
       1. **Retirement plans** provide income to individuals and beneficiaries throughout retirement (Chapter 4)
       2. Companies may establish defined contribution plans, defined benefit plan, or hybrid plans
          1. Under a **defined contribution plan**, employees make annual contributions to their accounts based on chosen percentage of annual pay

At their discretion, companies make matching contributions determined by a formula

* + - * 1. A **defined benefits plan** awards a monthly sum equal to a percentage of a participant’s preretirement pay multiplied by the number of years worked

The level of required employer contributions fluctuates from year to year

* + - * 1. Hybrid plans combine features of defined contribution and defined benefit plans

*Paid Time-Off*

* + 1. **Paid time-off policies** compensate employees when they are not performing their primary work duties (Chapter 8)
       1. Examples include vacations, holidays, and sick leave
       2. May also include jury duty, funeral leave, and military leave
    2. Union workers can negotiate added benefits in collective bargaining agreements

*Accommodation and Enhancement Programs*

* + 1. These benefits promote opportunities for employees and family members (Chapter 10)
    2. Following are four objectives, along with an example
       1. Mental and physical well-being (stress management)
       2. Family assistance programs (child care)
       3. Skills and knowledge improvement opportunities (tuition reimbursement)
       4. Programs to better manage daily challenges (transportation services)

*Basic Design Considerations for Discretionary Benefits*

* + 1. Employee-benefits professionals possess substantial leeway when designing discretionary benefits
       1. Numerous design considerations are reviewed throughout this text and general design considerations are discussed in Chapter 11
    2. As noted here and in Chapter 2, companies strive to offer cost–effective benefits that promote the recruitment and retention of highly qualified employees
       1. Chapter 2 addresses these issues from a psychological perspective as well as from an economic perspective
    3. The following is a basic introduction to common features of employee-benefits programs
       1. *Eligibility provisions*
          1. Companies must decide whether to limit participation to current employees, their dependent family members, and survivors of deceased current or retired employees
          2. Many companies exclude part-time employees
       2. *Kinds of benefits*
          1. Companies may sponsor a variety of broad benefits and then select specific benefits from these broad categories
          2. For instance, defined contribution retirement plans are often preferred as they are more cost-effective
       3. *Level of benefits*
          1. Companies choose benefits based on maximum benefit limits
          2. For example, life insurance policies specify the dollar benefit amount upon the death of an employee
       4. *Waiting periods* 
          1. Specify the minimum number of months an employee must remain employed before becoming eligible for one or more benefits
          2. Some waiting periods correspond to the length of probationary periods, others are limited by law
       5. *Financing benefits*
          1. Employers choose from one of four approaches

**Noncontributory financing** (company pays it all)

**Contributory financing** (company and employee share the costs)

**Employee-financed** **benefits** (employee pays it all)

Or some combination

* + - * 1. Majority of benefit plans today are contributory, largely because benefits costs have risen dramatically
      1. *Employee choice*
         1. Traditionally, a company provided the same benefits to most or all of its employees
         2. Increasingly, companies offer employees varying degrees of choice

**Flexible benefits** **plans**

Enable employees to choose from among a set of benefits and different levels of these benefits (Chapter 11)

Increasing diversity of the workplace makes standardized benefits less practical

Employees with preschool-age children have different needs than an employee nearing retirement

**Voluntary benefits**

Supplemental benefits companies offer on an employee-financed basis, such as

Identity theft protection

Home or renter’s insurance

College savings plans

Or even pet insurance

Why offer these benefits?

Employers negotiate a lower rate than employees could get on their own

Increases the benefit appeal to a diverse workforce

* + - 1. *Communication*
         1. Employees might be unaware of or undervalue their benefits
         2. Communicating the features and costs of benefits is essential
  1. **Origins of Employee Benefits** 
     1. Different forces account for legally required and discretionary benefits in US
        1. Legally required benefits are protection programs
        2. They attempt to promote health, maintain family income streams, and assist families in crisis
     2. Historically, legally required benefits provided a form of social insurance prompted by industrialization and the Great Depression
        1. Aimed at preventing destitution of unemployed or injured
        2. Stabilizing well-being of dependents
        3. Enabling retirees to maintain subsistence income
     3. Contemporary discretionary benefits evident in late 1800s when American Express offered retirement plans
        1. Became prominent in 1940s and 1950s due to federal government’s wage freezes
        2. “**Welfare practices**” used to describe employee benefits
           1. Defined as “anything for the comfort and improvement, intellectual or social, of the employees, over and above wages paid, which is not a necessity of the industry not required by law”
           2. Employer sponsorship of health care became common
           3. Unions contributed directly to the increase in welfare practices

National Labor Relations Act legitimized bargaining for benefits

Nonunion companies strive to minimize unionization by offering employees benefits similar to those received by unionized employees

* + 1. Employees typically view benefits as entitlements
       1. They feel benefits are given because they work there and are not tied to job performance
    2. Until recently, companies also treated benefits as entitlements
       1. Rising benefits costs, increased foreign competition, and the Great Recession (2007 through 2009) led companies to question this
       2. Increasingly, companies are shifting responsibility for the cost of some benefits to employees
          1. Chapter 5 discusses employer-sponsored, high-deductible health care plans

1. **Legal and Regulatory Influences on Discretionary Benefits Practices** 
   * 1. While employers are free to offer discretionary benefits, specific laws influence the application of these practices
     2. It is necessary to distinguish between “private sector” employers and governmental employers – different regulations influence discretionary benefits practices in these two sectors
        1. Private sector refers to nongovernmental employers that strive to maximize profits or offer charitable services (nonprofits)
           1. Apple and PepsiCo are examples of for-profit companies
           2. American Red Cross and United Way are nonprofits
           3. In 2020, private-sector companies employed 122 million persons, mostly for-profit
           4. Employers expect workers to be productive yet containing pay and benefit costs contributes to profit maximization
     3. Conflicting goals between employers and employees necessitate laws and regulations to protect employees from unfair treatment
        1. Prior to passage of the National Labor Relations Act, employees had no rights
        2. Before 1974 and passage of the Employee Retirement Income Security Act (ERISA), employees could lose retirement benefits
     4. Public sector employers include US federal, state, and local entities
        1. Approximately 2.9 million employees in this sector in three braches – executive, judicial, legislative
        2. Government employers must operate within a budget to provide pay and benefits to employees
     5. It is important to note that the government is a buyer and consumer of the products and services that private-sector companies produce
        1. Spending more than $1 trillion each year on these items
        2. Various laws require the government to pay contract employees the customary wage in the local area
        3. This is important because many benefits, such as retirement earnings, are tied to pay levels
2. **Strategic Planning for a Benefits Programs**

Often high-performing companies align total compensation programs with business objectives

Increasingly, companies emphasize the importance of employing diverse workforces to promote the inventive processes necessary for innovation

* 1. **Basic Strategic Planning Concepts**
     1. **Strategic planning** entails a series of judgments, made under uncertainty, that companies direct toward making strategic decisions
     2. Business professionals make two kinds of decisions:
        1. Strategic decisions which guide the activities of the company in the market
        2. And, in the context of employee benefits, the design of specific practices such as retirement plans – which support the fulfillment of those strategic decisions
        3. Exhibit 1.3 shows the relationship between strategic decisions as well as the design of employee-benefits practices
     3. Strategic planning should support over-all business objectives
        1. **Competitive strategy** – planned use of company resources (technology, human resources, capital) to create and sustain competitive advantage
     4. Human resource executives collaborate with other company executives to develop **HR strategies** specifying the use of multiple HR practices
        1. These are consistent with a company’s competitive strategy
     5. Compensation and benefits managers work with HR executives and the company’s budget officers to prepare total compensation strategies
        1. **Total compensation strategies** is the use of compensation and benefits to support HR strategies and competitive practices
     6. Benefits professionals craft **benefits strategies** based on information contained in strategic benefit plans
     7. **Strategic benefit plans** detail different scenarios that may reasonably affect the company and emphasize long-term changes in how a company’s benefit plan operates
        1. These plans are based on interpretation of pertinent information in the external and internal environments
     8. As Exhibit 1.3 shows, managers throughout a company make decisions to specify policy for promoting competitive advantage
        1. Benefits decisions are based on two questions
           1. Does offering particular benefits support the company’s benefits strategy?
           2. What is the optimal design?
        2. Descriptions of five employee benefits practices at ExxonMobil:
           1. *Education Assistance* – pays 100% of tuition costs to maintain or improve skills
           2. *Matching Gifts Program* – 3 to 1 matching funds for gifts to employees’ college
           3. *Volunteer Involvement Program* – grant money for volunteering at eligible nonprofits
           4. *Flexible Work Arrangements* – adjustable work hours, telecommuting, time off, etc
           5. *Life Assistance Resources* – child care, elder care, adoption, teen issues, stress, and a variety of other issues
  2. **Approaches to Strategic Benefits Planning** 
     1. Two possible general approaches characterize strategic benefit planning
        1. The **top-down** **approach** represents a proactive process
           1. Companies regularly review their entire benefits programs or particular parts of the programs
           2. The process may lead to a reformulation of an entire program or specific parts
           3. Exhibit 1.4 illustrates how the top-down approach unfolds
        2. **Backing-in approach** is a reactive process as companies evaluate benefits programs only when unexpected problems arise
           1. A company may start recording high turnover and exit interviews show the reason is tied to wage freezes, steep rises in employee contributions for health-care coverage, and the termination of dental benefits.
           2. However, intense economic pressures necessitated these cuts, which makes it difficult to reduce turnover.
           3. Exhibit 1.5 illustrates how this approach unfolds

1. **Information Used in Strategic Benefits Planning**

Companies review and interpret several types of information for strategic benefits planning

Two information sources include the external market environment and the internal company environment

* 1. **External Environment**

*Industry Prospects, Economic Conditions, and Forecasts*

* + 1. Prospects and conditions determine the establishment of strategic benefits plans
       1. Prospects and forecasts are indicators of the future of the industry
          1. Forecasts indicating growth may call for strengthening the benefits plan to recruit and retain qualified employees
          2. Pessimistic forecasts may force the employer into cost saving measures,

Such as switching from an employer-sponsored defined benefit retirement plan to an employer-sponsored defined contribution plan

* + - * 1. Pessimistic forecasts may also expand a company’s use of outplacement services in anticipation of large-scale layoffs
    1. Regardless of the forecast, employers will continue to sponsor employee benefits plans because:
       1. The IRC and ERISA create tax advantages (Chapter 3)
       2. Benefits plans are instrumental in attracting and retaining a qualified workforce (Chapter 2)

*Employer Costs for Compensation and Benefits*

* + 1. This data can be found on the Bureau of Labor Statistics website(<http://www.bls.gov>)
       1. Benefits professionals use these data to benchmark current benefits costs or as a starting point for budget planning
       2. According to a recent BLS news release
          1. Private employer costs for employee compensation averaged $36.64 per hour worked in March 2021
          2. Wages and salaries averaged $25.80 per hour worked, accounting for 70.4 percent of employer costs
          3. Benefits averaged $10.83 and accounted for 29.6% of total compensation costs
          4. Employer costs vary by industry, region, union status, and size
    2. Assume an employee works 1,850 hours per year, an employer spends nearly $20,000 for each employee, per year, on benefits alone

*Government Regulation of Employee Benefits*

* + 1. Four broad forces contribute to an employer’s choice of discretionary benefits and its ability to fund them
       1. The first two, adequacy of legally required benefits and employee expectations, directly influence an employer’s choice
       2. The third, the cost of legally required benefits, influences a company’s ability to fund discretionary benefits
       3. The fourth entails a variety of economic considerations, discussed in Chapter 2
    2. First, the workers’ plight during industrialization and Great Depression led to legally required benefits
       1. Examples include workers’ compensation and both retirement income and health care under the Social Security Act (Chapters 6 and 7)
       2. Our free-market economy holds we should not depend on government benefits or support following injury, disability, or retirement
       3. The cost of living has risen more quickly than the dollar amount of government benefits
       4. Legislators during the early part of the 20th century could not anticipate the current very high costs of health care
       5. These changes make the funding formulas inadequate to meet today’s realities
    3. Second, the federal government’s imposition of wage freezes during WWII gave rise to many present-day discretionary benefits
       1. Employers withdrew costly offerings after the government ended the wage freeze – creating worker discontent
       2. Employees strongly reacted to the withdrawal of health-care benefits
       3. Health-care subsequently became a mandatory subject of collective bargaining in union settings
    4. Third, the federal government requires companies to support legally required benefits
       1. For example, the **Federal Insurance Contributions Act (FICA)** supports OASDI
       2. **Federal Unemployment Tax Act (FUTA)** and state taxes fund unemployment benefits (Chapter 7)
       3. Under the **Patient Protection and Affordable Care Act of 2010**, most employers must provide health-care coverage for full-time workers, or face stiff monetary penalties

*Changing Demographics of the Labor Force*

* + 1. According to Bureau of Labor Statistics, the labor force diversity will continue to increase based on gender, age, race, and ethnicity
       1. An employer-sponsored benefits program is most effective when the workforce is relatively similar in terms of needs and preferences
       2. If a company has a workforce that is 60 percent women of child-bearing years and 40 percent men in their 50s and 60s
          1. Chances are most of the women may place a higher value on day-care benefits
          2. While most of the men will not have a need for such benefits as their children are likely near or at adulthood
    2. Employees are more likely to endorse employer-sponsored benefits as long as these benefits fulfill their needs and preferences
       1. Also, employees should believe that contributions to receive benefits are determined fairly
       2. Workforce diversity challenges a company’s quest to establish benefits that satisfy the needs and preferences of workers
          1. Younger workers may benefit from family assistance programs and educational assistance programs
          2. Older workers may rely on generous health-care benefits and defined benefit plans that support retirement-income streams
          3. Health-care benefits may be redundant for some dual-income families
          4. Differences in employee preferences and needs call for flexible benefits offerings

*COVID-19 Pandemic*

* + 1. The COVID-19 pandemic impacts most aspects of work and life
       1. Companies moved to remote work arrangements
       2. School closures and remote learning put parents in the role of educator
       3. Individuals living alone were susceptible to social isolation
       4. Unemployment rose dramatically
       5. All of these stressors led to higher rates of burnout and depression
    2. Many companies reconsidered the strategic role of benefits
       1. Using the backing-in approach, they focused on developing current or new benefits to help employees and family members better cope
       2. Enhanced emphasis was placed on wellness program and employee assistance (Chapter 10) which led to
          1. Improved childcare benefits – where affordable
          2. Financial wellness education to plan retirement
          3. Enhance paid time-off
    3. After life returns to normal, many companies may continue to emphasize various wellness programs
  1. **Internal Environment**

*Workforce Demographics*

* + 1. Workforce diversity continues to increase
       1. Employee needs and preferences are often associated with life events
       2. Exhibit 1.6 shows typical benefits preferred by employees according to demographic characteristics and probably life events
    2. Companies should probably not presume employee’s needs and preferences
       1. Benefits professionals may use surveys once every year or two
       2. Then compare current offerings with survey results

*Collective Bargaining Agreements*

* + 1. **Collective bargaining agreements** specify terms of employment for union workers, like pay, benefits, and working conditions – arise from negotiation
    2. Chapter 3 discusses the National Labor Relations Act of 1935
       1. Established that both labor unions and employers possess a duty to bargain in good faith
       2. It also set forth mandatory subjects of bargaining, including retirement plans, health care, and paid time off
       3. As noted earlier, private sector employers spend more money on benefits for union workers ($20.49 per hour) than nonunion workers ($10.03 per hour)

**VII. Summary**

This chapter provided a definition of employee benefits and its placement in the total compensation framework. It also introduced the difference between discretionary benefits and legally required benefits. Further, employee benefits are heavily regulated, setting parameters on the design of discretionary benefits. Finally, the text put the employee benefits field in a business strategy context and explained two approaches for casting employee benefits strategically. Internal and external environmental factors were discussed as considerations in the strategic benefit planning process.

**VIII. Discussion Questions**

Describe how employee benefits fit into the total compensation function.

Main Points

* Employee benefits refer to compensation other than an hourly wage or annual salary.
* Employee benefits are a part of a company’s total compensation system.
* Total compensation includes both monetary and nonmonetary rewards. Total compensation includes core compensation, adjustments to core compensation, legally required benefits, and discretionary benefits. Monetary compensation represents core compensation.
* Nonmonetary rewards include protection programs, paid time-off, and accommodation and enhancement benefits, collectively called employee benefits.

Offer some suggestions for how companies might lessen the entitlement mentality among employees toward employee benefits.

Main Points

* Employees generally view employee benefits as entitlements.
* Mostly, employees either are unaware of or undervalue their benefits.
* As stated in the textbook, overall, benefits accounted for approximately 30% of total compensation costs.
* Companies should communicate the features and costs of their benefits program with their employees. With an effective communication, employees can be aware of the value of their current benefits.

Companies possess limited budgets to fund employee benefits. From an employee’s perspective, which employee benefits practices should be funded? Which are easily dispensable? Now respond to these questions as a company representative. Explain your answers.

Main Points

* *Employee perspective:* The answer would change depending on the preferences and needs of an employee profile. For instance, a younger employee may prefer to receive family assistance programs and educational assistance programs. On the other hand, an older employee would be more interested in receiving generous health care benefits and retirement plans. For unmarried employees, physical fitness programs and generous vacation allowances might be more preferable. For dual-income families, health care benefit could be dispensable as one of them can be covered as a family member under the spouse’s plan. For some employees educational assistance programs could be easily dispensable.
* *Company perspective:* Offering generous benefits facilitate a company’s attempt to attract and retain the best qualified employees. For instance, they might offer tuition reimbursement programs to attract employees motivated to get MBA degrees. Also, employers design certain benefits programs to satisfy the needs and preferences of their workforce. If their workforce mostly consists of married couples, they might offer day care assistance, life insurance, and education benefits for children. Similarly, day care assistance could be dispensable if the workforce is not comprised of employees with children.

Describe the differences between strategic benefits plans and benefits practices. Should strategic benefits plans be developed before setting benefits tactics? Explain your answer.

Main Points

* Strategic benefit plans detail different scenarios that may affect the company and these plans emphasize long-term changes in how a company’s benefit plan operates.
* Companies establish strategic benefit plans on the interpretation of information in the external and internal environments.
* Benefit tactics answer two questions: 1) does offering particular benefits (e.g. paid vacation) support the company’s benefits strategy? And 2) what is the optimal design (of vacation benefits)?
* Yes, strategic benefits plans should be developed before setting benefits practices since benefit practices are used to fulfill the strategic benefit plans.

Consider the varieties of internal and external information that companies consider when planning a benefits program. Which piece of information do you believe is most important to this planning process? Least important? Explain your answers.

Main Points

* Two sources of information include external market environment and the internal company environment.
* External environmental factors include:
  + industry prospects, economic conditions, and forecasts,
  + employer costs for compensation and benefits,
  + government regulation of employee benefits, and
  + changing demographics of the labor force
* Internal environmental factors include: workforce demographics and collective bargaining agreements.
* One student may argue that changing demographics of the labor force is the most important information in the planning process since there will be substantial differences in terms of needs and preferences of different employee profiles. Another student may argue that industry prospects, economic conditions, and forecasts information is the least important information among others as companies will likely offer competitive benefit plans to attract and retain the best qualified employees despite the economic conditions.

**IX. Cases**

**Understanding Your Employee Benefits:**

**Understanding a Job Offer**

1. If two different companies list the same benefits offerings, should you assume the value of the benefits are the same?
2. What are some benefits offered from this company that you should find more information about in order to fully understand a job offer from the company? Why?
3. Why don’t all companies just offer the same benefits?

**Instructor Notes**

Organizations offer benefits as an important component of the total compensation offered to employees. While many organizations offer common elements in their benefit plans, the actual value of the benefits can vary widely. For example, an organization can offer paid time-off as a benefit, however, a few days of paid time-off is much less valuable than several weeks of paid time-off. Organizations must provide some benefits based on legal requirements, but most of a company’s benefit offerings are discretionary. Organizations determine their benefits as part of the organizations strategic planning process in order to attract and retain the right employees. As individuals consider job offers, it is important for them to not only be aware of the types of benefits offered, but also the value of those benefits.

**Student Responses**

1. If two different companies list the same benefits offerings, should you assume the value of the benefits are the same?

While many organizations offer some common elements in their benefit plans, the value of those elements can vary widely based on the structure of the specific benefits. For example, employers can choose different financing of benefits. An employer could offer noncontributory financing of health care and pay the full cost, or the employer could offer contributory financing where the employees must pay part of the premium for the health care. The bottom line financial value of the insurance benefit is different for the employee for each of these financing models. If the employee is contributing to the financing of the benefit, the value of the benefit is reduced.

1. What are some benefits offered from this company that you should find more information about in order to fully understand a job offer from the company? Why?

The legally required benefits such as workers’ compensation are going to be consistent from one organization to the next. However, most other benefits require more information to fully understand. In this case, you would want to understand how the retirement plan is structured and the amount of the contribution that is made by the employer. You need to know how much vacation and other time-off is provided. With the health and dental insurance, you need to know how much of the insurance premium is paid by the employer versus the employee and also what type of coverage is provided. You need to know how much tuition reimbursement is provided and what services are provided by the employee assistance program. Finally, you should understand your eligibility for benefits, that is, in the job you are taking are you eligible to receive all of the benefits described? And if so, is there a waiting period to enroll? All of these factors could affect the overall value of the benefit offerings.

1. Why don’t all companies just offer the same benefits?

Employers use employee benefits to attract and maintain the employee talents to help the organization to succeed. The type of employee the organization is looking to attract may be different, and thus, a different employee benefit offering may be needed. Employers may use a benefit package as a way to differentiate themselves from other organizations as well.

**Managing Employee Benefits:**

**Strategic Benefit Planning at Makers Crafts**

1. What kind of strategic planning approach is Latonya taking for Makers Crafts? Is this an effective approach?
2. What kind of information does Latonya need for the strategic benefit planning process for Makers Crafts?

**Instructor Notes**

Organizations have discretion in how they design benefit plans, tailoring their plans to the needs and preferences of their workforce. In order for organizations to design a benefit program that helps the organization recruit and retain talented workers, the benefit planning process must be aligned with the organization’s strategic plans. As Makers competitive strategy focuses on the customer service provided by a talented and committed staff, it seems that the benefit program is not aligned. Makers Crafts needs to include a strategic benefit plan in their strategic planning process moving forward in order to assure this alignment.

**Student Responses**

1. What kind of strategic planning approach is Latonya taking for Makers Crafts? Is this an effective approach?

At this point Latonya is taking a backing-in approach to planning. The loss of employees to Easy Crafts has created a need for Makers to react and determine what changes are needed to their benefits. While this is necessary at this time, it seems that the benefits at Makers are important to support the overall competitive strategy of drawing on the talent of committed workers. Thus in the future the company should take a top-down approach and include benefit planning as part of their overall strategic planning process. Part of a strategic planning process is an environmental scan which will identify concerns such as emerging competitors that Makers can proactively prepare to compete against.

1. What kind of information does Latonya need for the strategic benefit planning process for Makers Crafts?

Latonya should collect both external and internal information. From an external perspective, Latonya needs a better understanding of the industry. The invasion of Easy Crafts into the industry seems to have caught Makers off guard. She also should make sure she understands the current and future economic condition as this could affect the availability of talented workers. Latonya should make sure she understands current and proposed tax laws that may provide opportunities for cost savings through offering certain benefits. It would also be valuable to understand the demographics of the local labor market so that the benefits program will be attractive to the workers that Makers is likely to attract. Internally, she needs information about the workforce demographics as well as the needs and expectations of the workers. For example, if she uncovers a growth in single parents in the workforce, she may want to develop benefits to meet life events such as child-care.