

10

Indirect Financial Compensation (Employee Benefits)

CHAPTER OBJECTIVES After completing this chapter, students should be able to:

- 1 Define *indirect financial compensation* (employee benefits).
- 2 Describe legally required benefits.
- 3 Define *discretionary benefits* and explain the various types of discretionary benefits.
- 4 Discuss the alternative types of health care plans.
- 5 Explain the various kinds of retirement plans.
- 6 Summarize life insurance and disability insurance.
- 7 Describe alternative paid time off policies.
- 8 Identify employee service benefits.
- 9 Describe the premium pay benefit practice.
- 10 Discuss voluntary benefits.
- 11 Explain the various employee benefit laws.
- 12 Describe customized benefit plans.
- 13 Discuss global issues in employee benefits.
- 14 Summarize the issues of communicating information about benefit plans.
- 15 Explain workplace flexibility (work-life balance).

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OBJECTIVE 10.1

Define *indirect financial compensation* (employee benefits).

indirect financial compensation (employee benefits)

All financial rewards that are not included in direct financial compensation.

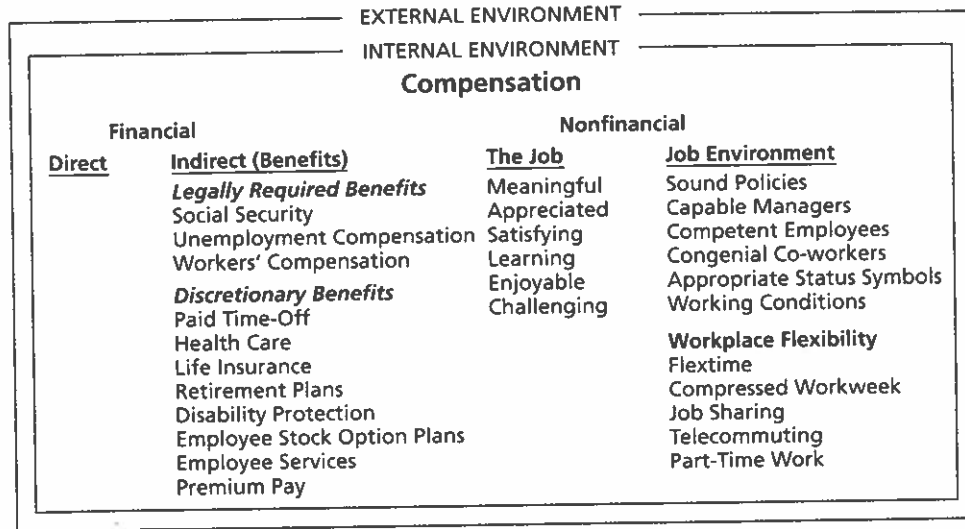
Indirect Financial Compensation (Employee Benefits)

Most organizations recognize that they have a responsibility to their employees to provide certain benefits such as insurance and other programs for their health, safety, security, and general welfare (see Figure 10-1). **Indirect financial compensation (employee benefits)** consists of all financial rewards not included in direct financial compensation. They typically account for about 30 percent of a firm's financial compensation costs. In December 2013, employers spent, on average, \$9.80 per hour worked for each employee to provide benefits. The most expensive benefit was health insurance, which cost \$2.70 per hour worked for each employee.¹ Despite the rising costs of benefits, firms continue to offer them to attract and retain highly qualified employees.² In addition, according to a recent SHRM survey, benefits are the second most important driver of job satisfaction, coming in just behind job security.³ Although benefits cost the firm money, employees usually receive them indirectly. For example, an organization may spend thousands of dollars a year contributing to health insurance premiums for each employee. The employee does not receive the money but does obtain the health insurance coverage benefit such as regular visits to their physicians.

As a rule, employees receive benefits because of their membership in the organization. Benefits are typically unrelated to employee productivity; therefore, although they may be valuable in recruiting and retaining employees, they do not generally serve as motivation for improved performance.⁴ As the name indicates, *legally required benefits* are mandated by law. Legislation mandates some benefits, and employers provide other discretionary and voluntary benefits. *Discretionary benefits* are benefit payments made as a result of unilateral management decisions in nonunion firms and from labor-management negotiations in unionized firms. *Voluntary benefits*, on the other hand, are usually 100 percent paid by the employee, but the employer typically pays the administrative cost. Voluntary benefits have two distinct advantages: (1) they are generally nontaxable to the employee and (2) the cost may be much less for large groups of employees than for individuals. Often a hybrid situation exists in which



FIGURE 10-1
Indirect Financial Compensation (Employee Benefits) in a Total Compensation Program



HR Web Wisdom

Total Rewards

<http://www.worldatwork.org/aboutus/html/aboutus-waw.html>

Total rewards include everything the employee perceives to be of value resulting from the employment relationship.

nonfinancial compensation
 Satisfaction that a person receives from the job itself or from the psychological and/or physical environment in which the person works.

employers pay a portion of the benefit and the employee pays the remainder. For example, both firms and employees contribute to the cost of health insurance coverage. In 2013, employers paid approximately 80 percent of the cost to provide health insurance coverage whereas the employee paid the remainder. Employers paid a lower share of the cost (about 70 percent) for employees whose health insurance coverage includes family members.⁵

Historically, compensation departments have not dealt with nonfinancial factors. However, the new compensation model suggests that this is changing. **Nonfinancial compensation** consists of the satisfaction that a person receives from the job itself or from the psychological or physical environment in which the person works. The components of nonfinancial compensation consist of the job itself and the job environment are also listed in Figure 10-1. Our focus in this chapter will be on indirect financial compensation.

OBJECTIVE 10.2

Describe legally required benefits.

Legally Required Benefits

The U.S. government established programs to protect individuals from catastrophic events such as disability and unemployment. Legally required benefits are protection programs that attempt to promote worker safety and health, maintain family income streams, and assist families in crisis. The cost of legally required benefits to employers is quite high. As of September 2012, U.S. companies spent an average of \$5,000 per employee annually to provide legally required benefits.⁶ Human resources (HR) staffs and compensation professionals in particular must follow a variety of laws as they develop and implement programs.

Legally required benefits historically provided a form of social insurance. Prompted largely by the rapid growth of industrialization in the United States in the early 19th and 20th centuries and the Great Depression of the 1930s, initial social insurance programs were designed to minimize the possibility that individuals who became unemployed or severely injured while working would become destitute. In addition, social insurance programs aimed to stabilize the well-being of dependent family members of injured or unemployed individuals. Furthermore, early social insurance programs were designed to enable retirees to maintain subsistence income levels. These intents of legally required benefits remain intact today.

The most substantial legally required benefits include various kinds of Social Security benefits, unemployment insurance, and workers' compensation.

Social Security

The Social Security Act of 1935 created a retirement benefits program. It also established the Social Security Administration. Subsequent amendments to the act added other forms of protection, such as disability insurance (1965) and survivors' benefits (1939). The acronym—OASDI—stands for the Old-Age (that is, retirement), Survivor, and Disability Insurance programs. Medicare was established in 1965.

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Disability insurance protects employees against loss of earnings resulting from total incapacity. *Survivors' benefits* are provided to certain members of an employee's family when the employee dies. These benefits are paid to the widow or widower and unmarried children. Unmarried children may be eligible for survivors' benefits until they are 18 years old. In some cases, students retain eligibility until they are 19. *Medicare* provides hospital and medical insurance protection for individuals 65 years of age and older and for those who have become disabled at an earlier age.

The Federal Insurance Contribution Act (FICA) requires that employees and employers pay a portion of the cost of OASDI and Medicare coverage. Both the employer and employee each pay 6.2 percent of an employee's pay for the Social Security portion and 1.45 percent for Medicare. These amounts are deducted from an employee's paycheck and usually appear as FICA and Medicare (or HI for hospital insurance). Self-employed individuals pay the entire amount (15.3 percent). The Social Security rate is applied to a maximum taxable wage of \$113,700, which is subject to increase each year. That is, annual pay above this amount is not subject to FICA tax. The rate for Medicare applies to all earnings. Approximately 95 percent of the workers in this country pay into and may draw Social Security benefits. In 2013, approximately 57 million people were receiving at least one type of Social Security benefits.⁷ The Social Security program currently is running a deficit, which is expected to increase, and the retirement of the 77-million-member baby-boom generation has begun, which will hasten the deficit increase. Unless Congress makes changes by 2033, the program will no longer be able to pay full benefits.⁸

The age for receiving full Social Security benefits (that is, retirement age) has been increased slowly until it reaches 67 in 2022. These changes will not affect Medicare, with full eligibility under this program holding at age 65.

Unemployment Insurance

Unemployment insurance provides workers whose jobs have been terminated through no fault of their own monetary payments for up to 26 weeks or until they find a new job. The basic program is state-run with oversight from the U.S. Department of Labor. States pay the benefits; the federal government pays the states for administrative costs. Employers pay the Federal Unemployment Tax at a rate of 6.2 percent on the first \$7,000 each employee earns. If they pay it on time, the percent is offset by 5.8 percent so the actual rate is 0.8 percent. The permanent Extended Benefits Program provides an additional 13 or 20 weeks of compensation to workers who exhaust basic benefits in states where unemployment has worsened.

The intent of unemployment payments is to provide an unemployed worker time to find a new job equivalent to the one lost without suffering financial distress. Without this benefit, workers might have to take jobs for which they are overqualified or end up on welfare. Unemployment compensation also serves to sustain consumer spending during periods of economic adjustment. In the United States, unemployment insurance is based on both federal and state statutes, and although the federal government provides guidelines, the programs are administered by the states and therefore benefits vary by state. A payroll tax paid solely by employers funds the unemployment compensation program. Unemployment rates range from 3.0 percent in North Dakota to 9.5 percent in Nevada.⁹

Unemployment insurance

Provides workers whose jobs have been terminated through no fault of their own monetary payments for up to 26 weeks or until they find a new job.



ETHICAL DILEMMA

A Poor Bid

You are vice-president of HR for a large construction company, and your company is bidding on an estimated \$2.5 million public housing project. A local electrical subcontractor submitted a bid that you realize is 20 percent too low because labor costs have been incorrectly calculated. It is obvious to you that benefits amounting to more than 30 percent of labor costs have not been

included. In fact, the bid was some \$30,000 below those of the other four subcontractors. But accepting it will improve your chance of winning the contract for the big housing project.

1. What would you do?
2. What factor(s) in this ethical dilemma might influence a person to make a less-than-ethical decision?

workers' compensation
Provides a degree of financial protection for employees who incur expenses resulting from job-related accidents or illnesses.

OBJECTIVE 10.3

Define *discretionary benefits* and explain the various types of discretionary benefits.

discretionary benefits
Benefit payments made as a result of unilateral management decisions in nonunion firms and from labor-management negotiations in unionized firms.

Workers' Compensation

Workers' compensation provides a degree of financial protection for employees who incur expenses resulting from job-related accidents or illnesses in the form of coverage of rehabilitation costs and temporary or permanent partial income replacement based on severity. As with unemployment compensation, the various states administer individual programs, which are subject to federal regulations. Employers pay the entire cost of workers' compensation insurance, and their past experience with job-related accidents and illnesses largely determines their premium expense. These circumstances should provide further encouragement to employers to be proactive with health and safety programs.

Discretionary Benefits

Discretionary benefits are benefit payments made as a result of unilateral management decisions in nonunion firms and from labor-management negotiations in unionized firms. An employee's desire for a specific benefit may change, requiring organizations to continuously check the pulse of its workforce to determine the most sought after benefits. Discretionary benefits fall into three broad categories: protection programs (health insurance and retirement plans), paid time off, and services. Protection programs provide family benefits, promote health, and guard against income loss caused by such catastrophic factors as unemployment, disability, or serious illnesses. Paid time off provides employees time off with pay for such events as vacation. Services provide such enhancements as tuition reimbursement and day-care assistance to employees and their families.

As we noted, social maladies prompted some federal and state legislation that created particular employee benefits. Quite different from these reasons are other factors that have contributed to the rise in discretionary benefits.

Most discretionary benefits originated in the 1940s and 1950s. During both World War II and the Korean War, the federal government mandated that companies not increase employees' wages or salaries, but it did not place restrictions on companies' employee benefits expenditures. Companies invested in expanding their offerings of discretionary benefits as an alternative to pay hikes as a motivational tool to enhance worker productivity.

Separate from the benevolence of employers, employee unions *directly* contributed to the increase in employee welfare practices through the National Labor Relations Act (NLRA) of 1935, which legitimized bargaining for employee benefits. Union workers tend to participate more in benefits plans than do nonunion employees (92 percent versus 72 percent). Unions also *indirectly* contributed to the rise in benefits offerings because nonunion companies often fashion their employment practices after union companies as an approach to minimize the chance that their employees will seek union representation and may offer their employees benefits that are comparable to the benefits received by employees in union settings.

OBJECTIVE 10.4

Discuss the alternative types of health care plans.

Health Care

Health care represents the most expensive item in the employee benefits package. In fact, according to research from the Kaiser Family Foundation, the United States spends more per capita on health care than any other country.¹⁰ These costs threaten to go even higher.¹¹ The Office of Management and Budget estimates that the United States spends more than \$900 billion per year in health care costs and annual expenditures are expected to exceed \$1 trillion as soon as 2014.¹² An additional \$360 billion per year is spent in the administration of the system.¹³ Some companies have reduced or eliminated salary increases or bonuses, or both, to provide increasingly expensive medical benefits for employees.

A number of factors have combined to create the high cost of health care:

- An aging population
- A growing demand for medical care
- Increasingly expensive medical technology
- Inefficient administrative processes

Two long-standing forms of health insurance programs include fee-for-service plans and managed care plans. Larger employers commonly offer employees one or more types of health insurance programs. An emerging class of health insurance programs is based on *consumer-driven health care*, in which employees play a greater role in decisions on their health care, have better access to information to make informed decisions, and share more in the costs. We discuss each one in turn.

Fee-for-Service Plans

Fee-for-service plans provide protection against health care expenses in the form of a cash benefit paid to the insured or directly to the health care provider after the employee has received health care services. These plans pay benefits on a reimbursement basis. Three types of eligible health expenses are hospital expenses, surgical expenses, and physician charges. Under fee-for-service plans, policyholders (employees) may generally select any licensed physician, surgeon, or medical facility for treatment, and the insurer reimburses the policyholders after medical services are rendered.

Fee-for-service plans provide three types of medical benefits under a specified policy: hospital expense benefits, surgical expense benefits, and physician expense benefits. Companies sometimes select major medical plans to provide comprehensive medical coverage instead of limiting coverage to the three specific kinds just noted or to supplement these specific benefits.

Fee-for-service plans contain a variety of stipulations designed to control costs and to limit a covered individual's financial liability. Some of the common fee-for-service stipulations include deductibles, coinsurance, out-of-pocket maximums, and maximum benefits limits. Over a designated period, employees must pay for services (i.e., meet a deductible) that before insurance benefits become active. The deductible amount is modest, usually a fixed amount ranging anywhere between \$100 and \$500 depending on the plan. Deductible amounts may also depend on annual earnings, expressed either as a fixed amount for a range of earnings or as a percentage of income.

Insurance plans feature coinsurance, which becomes relevant after the insured pays the annual deductible. **Coinsurance** refers to the percentage of covered expenses paid by the insured. Most fee-for-service plans stipulate 20 percent coinsurance. This means that the plan will pay 80 percent of covered expenses, whereas the policyholder is responsible for the difference, in this case 20 percent. Coinsurance amounts vary according to the type of expense. Insurance plans most commonly apply no coinsurance for diagnostic testing and 20 percent for other medical services. Many insurance plans provide benefits for mental health services. Coinsurance rates for these services tend to be the highest, usually 50 percent.

As discussed previously, health care costs are on the rise. Despite generous coinsurance rates, the expense amounts for which individuals are responsible can be staggering. These amounts are often beyond the financial means of most individuals. Thus, most plans specify the maximum amount a policyholder must pay per calendar year or plan year, known as the **out-of-pocket maximum** provision.

Managed Care Plans

Managed care plans emphasize cost control by limiting an employee's choice of doctors and hospitals. Two common forms of managed care are *health maintenance organizations* (HMOs) and *preferred provider organizations* (PPOs).

HMOs are sometimes described as providing **prepaid medical services** because fixed periodic enrollment fees cover HMO members for all medically necessary services only if the services are delivered or approved by the HMO. HMOs generally provide inpatient and outpatient care as well as services from physicians, surgeons, and other health care professionals.

HMO plans share several features in common with fee-for-service plans, including out-of-pocket maximums, pre-existing condition clauses, preadmission certification, second surgical opinions, and maximum benefits limits. HMOs differ from fee-for-service plans in three important ways. First, HMOs offer prepaid services, whereas fee-for-service plans operate on a reimbursement basis. Second, HMOs include the use of primary care physicians as a cost-control measure. Third, coinsurance rates are generally lower in HMO plans than in fee-for-service plans.

fee-for-service plans

Insurance protection for three types of medical expenses: hospital expenses, surgical expenses, and physician's charges.

coinsurance

The percentage of covered expenses paid by the insured. Most fee-for-service plans stipulate 20 percent coinsurance. This means that the insured will pay 20 percent of covered expenses, whereas the insurance company pays the remaining 80 percent.

out-of-pocket maximum

The maximum amount an employee pays for health care during a calendar or plan year.

managed care plans

Health care delivery that emphasizes cost control by limiting an employee's choice of doctors and hospitals. These plans also provide protection against health care expenses in the form of prepayment to health care providers.

prepaid medical services

HMOs are sometimes described as providing prepaid medical services because fixed periodic enrollment fees cover HMO members for all medically necessary services only if the services are delivered or approved by the HMO.

primary care physicians

Designated by HMOs to determine whether patients require the care of a medical specialist. This functions to control costs by reducing the number of medically unnecessary visits to expensive specialists.

preferred provider organization (PPO)

Managed-care health organization in which incentives are provided to members to use services within the system; out-of-network providers may be used at greater cost.

HMOs designate some of their physicians, usually general or family practitioners, as primary care physicians. HMOs assign each member to a primary care physician or require each member to choose one. **Primary care physicians** determine when patients need the care of specialists. HMOs use primary care physicians to control costs by significantly reducing the number of unnecessary visits to specialists. As primary care physicians, doctors perform several duties. The most important duty is perhaps to diagnose the nature and seriousness of an illness promptly and accurately, after which the primary care physician refers the patient to the appropriate specialist.

The most common HMO copayments apply to physician office visits, hospital admissions, prescription drugs, and emergency department services. Office visits are nominal amounts, usually \$15–\$50 per visit. Hospital admissions and emergency department services are higher, ranging between \$50 and \$250 for each occurrence. Mental health services and substance abuse treatment require copayments as well. Inpatient services require copayments that are similar in amount to those for hospital admissions for medical treatment; however, copayments for outpatient services such as psychotherapy are generally expressed as a fixed percentage of the fee for each visit or treatment. HMOs usually charge a copayment ranging between 15 and 25 percent.

Under a **preferred provider organization (PPO)**, a select group of care providers agrees to furnish health care services to a given population at a higher level of reimbursement than under fee-for-service plans. Physicians qualify as preferred providers by meeting quality standards, agreeing to follow cost-containment procedures implemented by the PPO, and accepting the PPO's reimbursement structure. In return, the employer, insurance company, or third-party administrator helps guarantee provider physicians' minimum patient loads by furnishing employees with financial incentives to use the preferred providers.

PPO plans include features that resemble fee-for-service plans or HMO plans. Features most similar to fee-for-service plans are out-of-pocket maximums and coinsurance, and those most similar to HMOs include the use of nominal copayments. Pre-existing condition clauses, preadmission certification, second surgical opinions, and maximum benefits limits are similar to those in fee-for-service and HMO plans. PPOs contain deductible and coinsurance provisions that differ somewhat from other plans.

Specialized Insurance Plans

Employers often use separate insurance plans to provide specific kinds of benefits and are often referred to as specialized insurance plans. We will focus on dental plans, vision plans, prescription drug plans, and mental health and substance abuse plans because of the rampant inflation in prescription drug costs and the increased recognition that mental health disorders may hinder worker productivity. Dental and vision care are popular benefits in the health care area.

Dental and vision care plans usually operate on a fee-for-service or managed care basis. Employers typically pay the entire costs for both types of plans except for a deductible, which may amount to \$50 or more per year. Dental plans may cover, for example, 70 to 100 percent of the cost of preventive procedures and 50 to 80 percent of restorative procedures. Most health care plans offer dental coverage. Some plans also include orthodontic care.

The American Academy of Ophthalmology estimates that vision-related diseases cost the United States \$139 billion per year and rank as the fourth most costly chronic disease category, surpassing the direct costs of hypertension, diabetes and stroke.¹⁴ Vision care plans may cover all or part of the cost of eye examinations and eyewear.

Prescription drug plans cover the costs of drugs. These plans apply exclusively to drugs that state or federal laws require to be dispensed by licensed pharmacists. Prescription drugs dispensed to individuals during hospitalization or treatment in long-term care facilities are not covered by prescription drug plans. Insurers prepare formulary lists, which specify which prescription drugs are covered, how much they will pay, and the basis for paying for drugs.

Approximately 20 percent of Americans experience some form of mental illness or substance abuse at least once during their lifetimes.¹⁵ **Mental and substance abuse plans** provide mental health and substance abuse benefits designed to cover treatment of mental illness and chemical dependence on alcohol and legal and illegal drugs. Mental health and substance abuse plans cover the costs of a variety of treatments, including prescription psychiatric drugs (e.g., antidepressant medication), psychological testing, inpatient hospital care, and outpatient care (e.g., individual or group therapy). Mental health benefits amounts vary by the type of disorder. Psychiatrists and psychologists rely on the *Diagnostic and Statistical Manual of Mental*

prescription drug plans

Coverage of the costs of drugs that state or federal laws require be dispensed by licensed pharmacists.

mental and substance abuse plans

Mental health and substance abuse benefits are designed to cover treatment of mental illness and chemical dependence on alcohol and legal and illegal drugs.

Disorders V (DSM-V) to diagnose mental disorders based on symptoms, and both fee-for-service and managed care plans rely on the *DSM-V* to authorize payment of benefits. As discussed previously, HMOs usually charge a copayment ranging between 15 and 25 percent.

Consumer-Driven Health Care Plans

Managed care plans became popular alternatives to fee-for-service plans mainly to help employers and insurance companies more effectively manage the costs of health care. As discussed, managed care plans by design imposed substantial restrictions on an employee's ability to make choices about from whom they could receive medical treatment—the gatekeeper role of primary care physicians—and the level of benefits they could receive based on designated in- and non-network providers.

Despite the cost control objectives of managed care, health care costs have continued to rise dramatically over the years while also restricting employee choice. **Consumer-driven health care** refers to the objective of helping companies maintain control over costs while also enabling employees to make greater choices about health care. This approach may enable employers to lower the cost of insurance premiums by selecting plans with higher employee deductibles. Membership in these plans has increased steadily since 2009 from 7 percent to 22 percent in 2014.¹⁶ They are a good way for employers to provide the same caliber of benefits to their employees while also reducing premiums and involving employees in the cost of coverage. Patients who pay for health care services using pre-tax funds are not subject to the same lengthy, burdensome payments cycle. General Electric requires its salaried U.S. employees and retirees under the age of 65 to choose a consumer-driven health plan, which includes deductibles that run as high as \$4,000 a year.¹⁷ Consumer-driven plans are more popular with large employers with 1,000 or more workers, and about one-third of these sponsor such plans. According to America's Health Insurance Plans, the average premiums for consumer-driven plans are approximately 15 to 20 percent lower than average premiums in the overall market.¹⁸ A recent McKinsey & Company study found that with these plans, patients are twice as likely to ask about costs and three times as likely to choose less-expensive treatment options. Thirty percent are more likely to get an annual check-up. Chronic patients are 20 percent more likely to carefully follow physicians' orders.¹⁹

The most popular consumer-driven approaches are health savings accounts, health reimbursement accounts, and flexible spending accounts. These accounts provide employees with resources to pay for medical and related expenses not covered by higher deductible insurance plans at substantially lower costs to employers.

A **health savings account (HSA)** is a tax-free health spending and savings account available to individuals and families who have qualified high-deductible health insurance policies as determined by IRS regulations. HSAs are an important tool in the search to change consumers' health care spending behaviors and better manage health costs. It gives individuals a stake in managing their own health care dollars. Individuals and their employers deposit up to \$6,550 a year in a pretax account that can be used for deductibles for doctor visits, prescriptions, and other health expenses, as well as saving for future and long-term medical expenses. HSA-eligible health plans typically have lower premiums than other plans because of their higher deductibles. Another advantage is that even if a worker takes another job, the HSA stays with that individual.²⁰

Health reimbursement accounts (HRAs) allow an employer to set aside funds to reimburse medical expenses paid by participating employees. Although HRA plans are flexible, the primary requirement for an HRA is that the plan must be funded solely by the employer. There is no limit on the employer's contributions, and a credit balance in the employee's account can be rolled over from year to year like a savings account.

A **flexible spending account (FSA)** is a health benefit plan established by employers that allows employees to deposit a certain portion of their salary into an account to be used for eligible health care and prescription drug expenses. Payroll contributions made to an FSA are exempt from federal income tax, Social Security taxes and, in most cases, state income tax. As a result, employees who use an FSA can essentially shield a portion of their income from taxes to pay for approved medical and dependent care expenses. A major disadvantage of an FSA is that generally employees forfeit any amounts left unspent in the accounts at year end. Currently, employees may contribute up to a maximum of \$2,500 annually to an FSA.

consumer-driven health care

Refers to the objective of helping companies maintain control over costs while also enabling employees to make greater choices about health care.

health savings account (HSA)

Tax-free health spending and savings accounts available to individuals and families who have qualified high-deductible health insurance policies as determined by IRS regulation.

health reimbursement accounts (HRAs)

Allows an employer to set aside funds to reimburse medical expenses paid by participating employees.

flexible spending account (FSA)

Benefit plan established by employers that allows employees to deposit a certain portion of their salary into an account (before paying income taxes) to be used for eligible expenses.

OBJECTIVE 10.5

Explain the various kinds of retirement plans.

qualified plans

Welfare and pension plans that meet various requirements set forth by the Employee Retirement Income Security Act of 1974; these plans entitle employees and employers to favorable tax treatment by deducting the contributions from taxable income. Qualified plans do not disproportionately favor highly compensated employees.

nonqualified plans

Welfare and pension plans that do not meet various requirements set forth by the Employee Retirement Income Security Act of 1974 (ERISA), disallowing favorable tax treatment for employee and employer contributions.

defined benefit plan

Retirement plan that provides the participant with a fixed benefit on retirement.

defined contribution plan

Retirement plan that requires specific contributions by an employee or an employer to a retirement or savings fund established for the employee.



HR Web Wisdom

Types of Retirement Plans

<http://www.dol.gov/dol/topic/retirement/>

Retirement information from the U.S. Department of Labor.

Retirement Plans

Retirement income security is a major concern to individuals of all ages, but particularly to members of the baby boom generation who are entering retirement in unprecedented number. Individuals rely on three sources for retirement income. Employer-sponsored retirement plans provide employees with income after they have met a minimum retirement age and have left the company. Second, as we discussed previously in this chapter, the Social Security OASDI program provides government-mandated retirement income to employees who have made sufficient contributions through payroll taxes. Third, individuals may use their initiative to take advantage of tax regulations that have created such retirement programs as individual retirement accounts (IRAs) and Roth IRAs. Our focus will be on employer-sponsored retirement plans.

Tax incentives encourage companies to offer pension programs. Some of the Employee Retirement Income Security Act (ERISA) of 1974 provisions set the minimum standard required to “qualify” pension plans for favorable tax treatment. Failure to meet any of the minimum standard provisions “disqualifies” pension plans for favorable tax treatment. Pension plans that meet these minimum standards are known as **qualified plans**. **Nonqualified plans** refer to pension plans that do not meet at least one of the minimum standard provisions; typically, highly paid employees benefit from participation in nonqualified plans.

The current tax treatment of qualified plans continues to provide incentives both for employers to establish plans and for employees to participate in them. In general, a contribution to a qualified plan is deductible in computing the employer’s or employee’s taxes based on who made the contribution. Employees pay taxes only on the amount they withdraw from the plan each year.

Companies establish retirement or pension plans following one of three design configurations: a defined benefit plan, a defined contribution plan, or hybrid plans that combine features of traditional defined benefit and defined contribution plans. Defined benefit plans guarantee retirement benefits specified in the plan document. This benefit usually is expressed in terms of a monthly sum equal to a percentage of a participant’s preretirement pay multiplied by the number of years he or she has worked for the employer. Defined contribution plans require that employers and employees make annual contributions to retirement fund accounts established for each participating employee, based on a formula contained in the plan document.

Defined Benefit Plans

Retirement plans are generally either *defined benefit* or *defined contribution*. A **defined benefit plan** is a formal retirement plan that provides the participant with a fixed benefit on retirement. Although defined benefit formulas vary, they are typically based on the participant’s final years’ average salary and years of service. Plans that are considered generous provide pensions equivalent to 50 to 80 percent of an employee’s final earnings. Use of defined benefit plans has declined in recent years. However, many workers lost considerable money in their 401(k)s during the recent recession, causing them to have more faith in defined benefit plans.

In today’s job markets, younger workers are more interested in defined benefits plans but are often unable to obtain them. In a Towers Watson study, nearly two-thirds of workers younger than age 40 said defined benefit plans are a key factor in their decision to stay with their companies compared with only a quarter of those with defined contribution plans. As firms begin to hire again, retirement benefits are becoming a factor for employees. David Speier, senior retirement consultant in Towers Watson’s Arlington, Virginia, office, said, “I think younger individuals are looking at their parents and seeing the struggles they are going through—having to delay retirement—and are reacting.”²¹

Defined Contribution Plans

A **defined contribution plan** is a retirement plan that requires specific contributions by an employer to a retirement or savings fund established for the employee. One of the most significant changes in the composition of individual retirement savings over the past 10 years has been the shift from *defined benefits* to *defined contribution* pension plans such as 401(k). Only as far back as 1996, most companies with retirement plans had defined benefit plans. However, today a majority of *Fortune 100* companies offer employees only a defined contribution plan. Employees know in advance how much employers will contribute to a defined benefit plan; the amount of retirement income from a defined contribution plan will depend on the investment success of the investment fund.

401(k) plan

Defined contribution plan in which employees may defer income up to a maximum amount allowed.

cash balance plan

Retirement plan with elements of both defined benefit and defined contribution plans.

A **401(k) plan** is a defined contribution plan in which employees may defer income up to a maximum amount allowed. Some employers match employee contributions 50 cents for each dollar deferred. Although employers typically pay the expenses for their defined benefit pension plans, there is a wide variety of payment arrangements for 401(k) plans. Some plan sponsors pay for everything, including investment fees and costs. Others pay for virtually nothing, with the result that nearly all fees are paid out of the plan's assets. In the middle are those plans in which the sponsor and participants share the expenses.

The recent recession was not kind to 401(k) accounts. As a result, some firms reduced or eliminated their matches to accounts. As the economy improved, employers began reinstating their matching contributions, usually at the same level, but sometimes higher or lower than the original match.²²

Cash Balance Plans

For some organizations, a hybrid arrangement may be the desired approach to retirement plans. A **cash balance plan** is a plan with elements of both defined benefit and defined contribution plans. During the recent recession, many 401(k) accounts took a beating. As a result, many employers felt having employees assume 100 percent of the risks was too much. A middle ground was found using a cash balance plan in connection with a defined contribution plan. When used as a stand-alone plan, a cash balance plan provides all of the benefits that would otherwise be available under a standard defined benefit plan. It resembles a defined contribution plan because it uses an account balance to communicate the benefit amount. However, it is closer to being a defined benefit plan because the employer normally bears the responsibility for and the risks of managing the assets.²³

Coca-Cola has a cash balance plan for all employees. Kevin Wagner, a senior retirement consultant in the Atlanta office of Watson Wyatt Worldwide, which worked with Coca-Cola in designing the cash balance plan, said, "It is refreshing to see a company understand the value of its defined benefit plan, which, at least in Coca-Cola's situation, brings great value to both the company and its employees."²⁴ Other companies that have converted to cash balance plans include FedEx, IBM, MeadWestvaco, SunTrust Banks, and Dow Chemical.

OBJECTIVE 10.6

Summarize life insurance and disability insurance.

term life insurance

Protection for providing monetary payments to an employee's beneficiaries upon the employee's death and offered only during a limited period based on a specified number of years or maximum age.

whole life insurance

A type of life insurance that provides protection to employees' beneficiaries during employees' employment and into the retirement years.

Life Insurance and Disability Insurance

Employer-sponsored life insurance protects employees' families by paying a specified amount upon the employee's death. These plans often include accidental death and dismemberment claims, which pay additional benefits if death was the result of an accident or if the employee incurs accidental loss of a limb. The cost of group life insurance is relatively low, costing employers about \$100 annually.²⁵ Perhaps because of the low cost, approximately 95 percent of employers pay the entire life insurance premium.²⁶ Two of the more common life insurance plans are term life and whole life. **Term life insurance** provides protection to employees' beneficiaries only during a limited period based on a specified number of years subject to a maximum age. After that, the insurance automatically expires. **Whole life insurance** pays an amount to the designated beneficiaries of the deceased employee, but unlike term life policies, whole life plans do not terminate until payment is made to the beneficiaries.

Workers' compensation protects employees from job-related accidents and illnesses. Some firms, however, provide additional protection that is more comprehensive. When the short-term plan runs out, a firm's long-term plan may become active; such a plan may provide 50 to 70 percent of an employee's pretax pay. Long-term disability provides a monthly benefit to employees who as a result of illness or injury are unable to work for an extended period.

OBJECTIVE 10.7

Describe alternative paid time off policies.

Paid Time-Off

In providing payment for time not worked, employers recognize that employees need time away from the job for many purposes. Discussed in the following sections are paid vacations, sick pay and paid time off, sabbaticals, and other forms of paid time off.

Vacation

Vacation time serves important compensation goals. For instance, paid vacations help workers to be more creative and productive, reduce stress, brings families and friends closer, and improves job performance.²⁷ They may also encourage employees to remain with the firm.²⁸ Paid vacation

time typically increases with seniority. For example, employees with 1 year of service might receive two weeks; 10 years' service, three weeks; and 15 years' service, four weeks.

In a climate of increased outsourcing and job insecurity, it is not surprising that many Americans do not take full advantage of their vacation benefits. In a Right Management survey, 70 percent of employees said they were not using all their annual leave in 2012, which is consistent with activity in 2011.²⁹ Some employees believe their employers do not want them to take vacations or are afraid to ask for time off. As compared with other countries, the average 13 days Americans take annually is small. According to the Center for Economic and Policy Research, many countries, excluding the United States, have laws that provide for annual paid vacation. For example, the French take 30 days, British take 28 days, Italians take 20 days, the Japanese take 10 days, and Canadians take 10 days.³⁰ In the absence of a paid vacation law in the United States, companies choose whether to offer paid vacation. Typically, U.S. companies offer 10 paid vacation days per year.³¹ In one survey, 63 percent of Americans work more than 40 hours a week and lose more than \$21 billion in unused vacation each year.³²

A standout example of paid vacation policy can be found in the Internet company FullContact. Not only do employees receive their pay while on vacation, which is standard, but the founder of this company also provides each employee with \$7,500 cash to spend on their vacation. The following Watch It video describes this unique approach to paid vacations and the company's rationale for offering it.

★ Watch It I

If your instructor has assigned this, go to MyManagementLab to watch a video titled *Best Boss Ever Pays Employees to Go on Vacation* and respond to questions.

Sick Pay and Paid Time Off Banks

Each year, many firms allocate to each employee a certain number of days of sick pay they may use when ill. Employees who are too sick to report to work continue to receive their pay up to the maximum number of days accumulated. As with vacation pay, the number of sick pay days often depends on seniority.

Some managers are critical of sick pay programs. At times, individuals have abused the system by calling in sick when all they really wanted was an additional day of paid vacation. One approach in dealing with the problem of unscheduled absences is *paid time off banks*.³³ In lieu of sick leave, vacation time, and a personal day or two, a growing number of companies are providing **paid time off (PTO) banks**, a certain number of days off provided each year that employees can use for any purpose. With a PTO bank, all categories of time off such as sick leave, vacation, and personal days are grouped together. Possible benefits from PTOs include simpler administration, fewer carryover issues, high employee satisfaction, fewer creative excuses for time off, earlier advance notice of time-off needs, fewer last-minute absences, and fewer conflicts about time-off usage.

Some companies are experimenting with different forms of PTO plans. A few companies are using what is referred to as a *results-only work environment (ROWE)*. This plan allows employees to work wherever and whenever they wish as long as they complete projects on time. It often provides the "perfect blend" to the younger generation or those who are young at heart where both work life and personal life can be enjoyed.³⁴ The attitude of many workers today is that if I can get it done, and get it done well, why does it matter where or when I work?³⁵ Employers Resource Council, a HR services company based in Mayfield Village, Ohio, gives employees all the time off that they want. There is no schedule and no limit for earned vacation and leave time. The firm's 30 employees just have to get their work done on time.³⁶

Sabbaticals

Sabbaticals are temporary leaves of absence from an organization, usually at reduced pay. Although sabbaticals have been used for years in the academic community, they are now entering the private sector. In fact, more than 20 percent of companies on *Fortune* magazine's list of the Top 100 Best Companies to Work For provide sabbaticals.³⁷ Often sabbaticals help to

paid time off (PTO) banks

Means of dealing with the problem of unscheduled absences by providing a certain number of days each year that employees can use for any purpose.

sabbaticals

Temporary leaves of absence from an organization, usually at reduced pay.

reduce turnover and keep workers from burning out, hopefully returning revitalized and more committed to their work. At Clif Bar and Company, which manufactures organic food products (for example, protein bars), workers who complete seven years with the company are eligible to take an eight-week sabbatical with full pay.³⁸ Stonyfield Farm instituted a two-month paid sabbatical for anyone who has worked at least five years with the firm. Xerox has a Social Service Leave program where selected employees are given six-month paid leaves to provide service to the community.³⁹

Other Types of Paid Time Off

Although paid vacations, sick pay and PTO banks, and sabbaticals constitute the largest portion of paid time off,⁴⁰ there are numerous other types that companies use. It is common for organizations to pay workers for their time in performing civic duties. For example, companies often give employees time off to work with the United Way. At times, an executive may be on loan to work virtually full-time on such an endeavor.

Some companies routinely permit employees to take off during work hours to handle personal affairs without taking vacation time. When a worker is called for jury duty, some organizations continue to pay their salary; others pay the difference between jury pay and their salary. When the National Guard or military reserve are called to duty, as has been the case in Afghanistan and Iraq, some companies pay their employees a portion of their salary while on active duty. Further, during an election, many companies permit employees voting time. Still other firms permit bereavement time for the death of a close relative. Finally, there is the payment for time not worked while at the company such as rest periods, coffee breaks, lunch periods, cleanup time, and travel time. The Fair Labor Standards Act does not require employers to give workers a rest break, and only nine states require it to be given. In these states, usually the break mandated is 10 minutes for every four hours worked.

OBJECTIVE 10.8

Identify employee service benefits.

Employee Services

Organizations offer a variety of benefits that can be termed “employee services.” These benefits encompass a number of areas, including child care, educational assistance, food services/subsidized cafeterias, scholarships for dependents, relocation benefits, and benefits for domestic partner and individuals in same-sex marriages.

Child Care

A benefit offered by some firms is subsidized child care. According to the National Conference of State Legislatures, an estimated 80 percent of employees miss work because of unexpected child-care coverage issues. It is estimated that every \$1 invested in backup child care yields \$3 to \$4 in returned productivity and benefit. At the Abbott Laboratories headquarters campus 30 miles north of Chicago, the company has built a \$10 million state-of-the-art child-care center for more than 400 preschool children of Abbott workers. For parents who prefer a different arrangement, if their babysitter is sick, Abbott provides emergency backup service. Company child-care arrangements tend to reduce absenteeism, protect employee productivity, enhance retention and recruiting, promote the advancement of women, and make the firm an employer of choice.

Educational Assistance

Educational assistance plans can go a long way in improving employee retention. In a recent survey of HR professionals, 58 percent said their organizations offered educational assistance for undergraduate education, and 54 percent offered graduate assistance.⁴¹ Some companies reimburse employees after they have completed a course with a grade of “C” or above, whereas others provide for advance payment of these expenses. Other employers provide half the reimbursement up front and the rest on satisfactory completion of the course. United Technologies Corporation pays for an employee’s entire tuition and books up front. It also offers paid time off—as much as three hours a week, depending on the course load—to study. IBM has a unique form of tuition reimbursement; employees could contribute up to \$1,000 a year to an interest-bearing education account supplemented by company-paid matches. The funds do not have to be used for education related to the employees’ present job. Mutual of Omaha provides 100 percent

repayment up to \$150 per credit hour at the employee's school of choice, with an annual maximum of \$3,600 for employees working 30 or more hours per week. Employees can select any course pertinent to their job or that would be helpful in helping them advance professionally and become accomplished employees.⁴² Internal Revenue Service regulations allow for educational assistance benefits to be nontaxable up to \$5,250 per year.

Food Services/Subsidized Cafeterias

There is generally no such thing as a free lunch. However, firms that supply food services or subsidized cafeterias provide an exception to this rule. What they hope to gain in return is increased productivity, less wasted time, enhanced employee morale, and in some instances, a healthier workforce. Most firms that offer free or subsidized lunches feel that they get a high payback in terms of employee relations. Northwestern Mutual is one such company. Free lunches are available in its cafeterias, where the menus list calories instead of prices. Keeping the lunch hour to a minimum is an obvious advantage, but employees also appreciate the opportunity to meet and mix with people they work with. Making one entree a heart-healthy choice and listing the calories, fat, cholesterol, and sodium content in food is also appealing to a large number of employees.

Scholarships for Dependents

Often companies provide scholarships for dependents of employees. Scholarship programs can help boost employee recruitment and retention. Franciscan Health Systems, a nonprofit health care provider in Tacoma, Washington, targets its awards primarily to employees' children who are interested in entering the health care field, although it also awards scholarships for study in other areas.

Relocation

Relocation benefits are company-paid shipments of household goods and temporary living expenses, covering all or a portion of the real estate costs associated with buying a new home and selling the previously occupied home. Relocation packages vary but most companies will pay for household moving and packing expenses and temporary living expenses for up to six months until the home sells. Companies may also pay for weekly or bimonthly trips back home over the weekends. It has been estimated that approximately \$9.3 billion was spent in 2012 on corporate relocation within the United States.⁴³

Although relocating can be a hassle, it can also produce many benefits. Employees typically feel an investment has been made by their employer if they are asked to relocate and the firm pays all relocation expenses. Some companies have programs that help trailing spouses or partners secure employment. Some firms also provide outplacement help to spouses.

Often employees who once viewed a transfer as a step up are now taking a closer look at not only the economic impact of the move, but also what it does to quality of life. Recently, the primary reasons for declining a relocation were housing and mortgage concerns, followed by family issues/ties and spouses' or partners' jobs. John A. Challenger, CEO of the outplacement firm Challenger, Gray & Christmas Inc., said, "Continued weakness in the housing market is undoubtedly a leading factor behind the decline in relocation."⁴⁴ Losing money on the sale of their house is certainly not an enticement to relocate.

Domestic Partner Benefits and Same-Sex Marriage

A challenge facing managers and HR professionals is deciding whether to offer domestic partner benefits. Unmarried domestic partners are more often being included as qualified for coverage under employee benefit plans with larger companies. Of *Fortune* 500 companies, about 57 percent offer same-sex partner benefits. Among the *Fortune* magazine list of best companies to work for, 89 offer gay-friendly benefits.⁴⁵ A number of companies are reimbursing gay and lesbian employees for the additional taxes they incur for their same-sex domestic partnership health care benefits. For example, New York-based Ernst & Young recently announced it would reimburse eligible employees for the tax, which averaged \$1,100 per employee annually.⁴⁶

There are also a growing number of counties, states, and municipalities that offer domestic partner benefits and provide a basis for comparison of policies, legal hurdles, coverage, and costs. Many states, such as California, Connecticut, New Jersey, Illinois, Iowa, New York, and

relocation benefits

Company-paid shipments of household goods and temporary living expenses, covering all or a portion of the real estate costs associated with buying a new home and selling the previously occupied home.

Vermont, have joined this trend, as have hundreds of cities and counties. Recently, Blue Cross & Blue Shield of Rhode Island began covering domestic partners. Domestic partners must be of the same sex, have resided together for a year or more prior to application, and be financially interdependent. In addition, supporting documentation, including a Declaration of Domestic Partnership, is required; but once the domestic partner is added, dependent children are also eligible for coverage.⁴⁷

Some states have legalized such marriages. Thus far, the District of Columbia and 19 states—California, Connecticut, Delaware, Hawaii, Illinois, Iowa, Maine, Maryland, Massachusetts, Minnesota, New Hampshire, New Jersey, New Mexico (eight counties), New York, Oregon, Pennsylvania, Vermont, Rhode Island, and Washington—had laws permitting same-sex marriage. In June 2013, the U.S. Supreme Court ruled that Section 3 of the Defense of Marriage Act is unconstitutional. Specifically, the Court's ruling applies to the part of the law which had previously denied federal benefits to gay and lesbian couples in states where such unions are permitted. The ruling means that same-sex couples lawfully married in their state can receive the same federal benefits as heterosexual couples, such as possible tax advantages by filing jointly, benefits for veterans' spouses, and inheritance-tax exemptions. The U.S. Supreme Court maintained that Section 3 violates the U.S. Constitution's guarantee of equal protection under the law and treated marriage between same-sex individuals as less worthy than marriage between heterosexual couples.

OBJECTIVE 10.9

Describe the premium pay benefit practice.

premium pay

Compensation paid to employees for working long periods of time or working under dangerous or undesirable conditions.

hazard pay

Additional pay provided to employees who work under extremely dangerous conditions.

shift differential

Additional money paid to employees for the inconvenience of working less-desirable hours.

Premium Pay

Premium pay is compensation paid to employees for working long periods of time or working under dangerous or undesirable conditions. Payment for overtime is legally required for nonexempt employees who work more than 40 hours in a given week. However, some firms voluntarily pay overtime for hours worked beyond 8 in a given day and pay double time, or even more, for work on Sundays and holidays.

Additional pay provided to employees who work under extremely dangerous conditions is called **hazard pay**. A window washer for skyscrapers in New York City might receive extra compensation because of the precarious working conditions. Military pilots collect extra money in the form of *flight pay* and *combat pay* because of the risks involved in the job. When the U.S. State Department was having difficulty enticing members of the Foreign Service to be assigned to the U.S. Embassy in Baghdad, Iraq, it offered a form of hazard pay. It enticed workers to take jobs in unstable regions with a 70 percent boost in base salary, premium pay for overtime, and 10 weeks off.

Some employees receive **shift differential** pay for the inconvenience of working less-desirable hours. This type of pay may be provided as additional compensation per hour and is used extensively in the health care and technical occupations. For example, employees who work the second shift (swing shift), from 4:00 P.M. until midnight, might receive \$2.00 per hour above the base rate for that job. The third shift (graveyard shift) often warrants an even greater differential; for example, an extra \$3.00 per hour may be paid for the same job. Shift differentials are sometimes based on a percentage of the employee's base rate.

OBJECTIVE 10.10

Discuss voluntary benefits.

voluntary benefits

Benefits that are 100 percent paid by the employee but the employer typically pays the administrative cost.

Voluntary Benefits

Many firms are moving away from discretionary benefits where the cost is shouldered totally or partially by the company to voluntary benefits. **Voluntary benefits** are 100 percent paid by the employee but the employer typically pays the administrative cost. Employees gain because their premiums typically reflect group discounts and thus are lower than the employees could obtain on their own. Elana D'Arciprete, southeast vice-president at Colonial Life, said, "Voluntary benefits set employers apart by allowing them to offer a more expansive benefits package at any or little direct cost to them."⁴⁸ Some of the discretionary benefits in this chapter have been converted either partially or fully to voluntary benefits. Voluntary benefits can be grouped into four categories: health, wealth accumulation, security, and unique personal interests or requirements.⁴⁹ The most common voluntary products provided include term life insurance, vision insurance, long-term care insurance, long-term disability insurance, accident insurance, and dental insurance. Other voluntary benefits include automobile insurance, homeowners'/renters' insurance, debt

counseling and financial planning, identity theft coverage, college savings plans, and pet insurance. Of recent, many firms are offering discount programs. A recent survey of HR managers found that 58 percent of their employers had employee discount programs. Possible discounts provide a range of options, including Sprint or AT&T cell phones and discounted tickets, such as for amusement parks.⁵⁰

OBJECTIVE 10.11

Explain various employee benefit laws.

Employee Benefits Legislation

Seven pieces of important federal legislation related to employee benefits are discussed in the next sections.

Employee Retirement Income Security Act

In 1974, ERISA was established to regulate the implementation of various employee benefits programs, including medical, life, and disability programs, as well as pension programs. The essence of ERISA is protection of employee benefits rights.

ERISA addresses matters of employers' reporting and disclosure duties, funding of benefits, the fiduciary responsibilities for these plans, and vesting rights. Companies must provide their employees with straightforward descriptions of their employee benefit plans, updates when substantive changes to the plan are implemented, annual synopses on the financing and operation of the plans, and advance notification if the company intends to terminate the benefits plan. The funding requirement mandates that companies meet strict guidelines to ensure having sufficient funds when employees reach retirement. Similarly, the fiduciary responsibilities require that companies not engage in transactions with parties having interests adverse to those of the recipients of the plan and not deal with the income or assets of the employee benefits plan in the company's own interests.

Consolidated Omnibus Budget Reconciliation Act

With the high cost of medical care, an individual without health care insurance is vulnerable. The Consolidated Omnibus Budget Reconciliation Act (COBRA) of 1985 was enacted to give employees the opportunity to temporarily continue their coverage, which they would otherwise lose because of termination, layoff, or other changes in employment status. The act applies to employers with 20 or more employees. Under COBRA, individuals may keep their coverage, as well as coverage for their spouses and dependents, for up to 18 months after their employment ceases. Certain qualifying events can extend this coverage for up to 36 months. The individual, however, must pay for this health insurance.

Companies are permitted to charge COBRA beneficiaries a premium for continuation coverage of up to 102 percent of the cost of the coverage to the plan. The 2 percent markup reflects a charge for administering COBRA.

Older Workers Benefit Protection Act

The Older Workers Benefit Protection Act (OWBPA), the 1990 amendment to the Age Discrimination in Employment Act, placed additional restrictions on employer benefits practices. When employers require employee contributions toward their benefits, under particular circumstances, employers can require older employees to pay more for health care, disability, or life insurance than younger employees because these benefits generally become more costly with age; older workers may be more likely to incur serious illnesses, thus, insurance companies may charge employers higher rates to provide coverage to older workers than younger ones.

In addition, employers can legally reduce the coverage of older workers for benefits that may become more costly as they further age. Benefits that may meet this criterion include disability insurance, health insurance, and life insurance. The employer may reduce the coverage of these benefits *only if* the costs for providing insurance to them are significantly greater than the cost for younger workers and not simply assumed to be more expensive.

Health Insurance Portability and Accountability Act

The Health Insurance Portability and Accountability Act (HIPAA) of 1996 provides protection for Americans who move from one job to another, who are self-employed, or who have pre-existing medical conditions. The prime objective of this legislation is to make health insurance

portable and continuous for employees and to eliminate the ability of insurance companies to reject coverage for individuals because of a pre-existing condition. As an element of HIPAA, there is now a regulation designed to protect the privacy of personal health information.

Family and Medical Leave Act

The Family and Medical Leave Act (FMLA) of 1993 applies to private employers with 50 or more employees and to all governmental employers. The FMLA provides employees up to 12 weeks a year of unpaid leave in specified situations. The overall intent of the act is to help employees balance work demands without hindering their ability to attend to personal and family needs. FMLA rights apply only to employees who have worked for the employer for at least 12 months and who have at least 1,250 hours of service during the 12 months immediately preceding the start of the leave. FMLA guarantees that health insurance coverage is maintained during the leave and also that the employee has the right to return to the same or an equivalent position after a leave.

The first major revisions to the FMLA were instituted in January 2009. The changes created leave opportunities for the military and required employees to adhere to stricter guidelines for taking leave. Relatives of seriously injured members of the military may take up to 26 weeks off to care for their injured military family members. In addition, relatives of members of the National Guard or reserves who are called to activity duty may receive up to 12 weeks of leave to attend military programs (official send-off of the family member's troop), arrange child care, or make financial arrangements. Nonmilitary workers who claim to have chronic health conditions (e.g., ongoing back pain) must see their doctor at least twice per year for documentation.

Pension Protection Act

The Pension Protection Act is designed to strengthen protections for employees' company-sponsored retirement plans in at least two ways. First, this law should strengthen the financial condition of the Pension Benefit Guaranty Corporation (PBGC) by requiring that private sector companies that underfund their defined benefit plans pay substantially higher premiums to ensure retirement benefits. The PBGC is a government agency that ensures that employees owed benefits under private-sector employer defined benefit pensions receive those benefits in the event that a company terminates its plan.

Second, the Pension Protection Act makes it easier for employees to participate in such employer-sponsored defined contribution plans such as 401(k) plans. Millions of workers who are eligible to participate in their employers' defined contribution plans do not contribute to them. There are a variety of reasons why employees choose not to participate; however, a prominent reason is that most individuals feel they do not have sufficient knowledge about how to choose investment options (e.g., a high-risk mutual fund versus a fixed-rate annuity) that will help them earn sufficient money for retirement. In addition, once employees make the decision to participate in these plans and have been making regular contributions, they are not likely to stop. With these issues in mind, the Pension Protection Act enables companies to enroll their employees automatically in defined contribution plans and provides greater access to professional advice about investing for retirement. In addition, this act requires that companies give multiple investment options to allow employees to select how much risk they are willing to bear. As an aside, risky investments usually have the potential for substantial gains or losses in value. Less risky investments usually have the potential for lower gains or losses. Some companies previously limited investment opportunities to company stock, which exposes employees to substantial investment risk.

Patient Protection and Affordable Care Act

The Patient Protection and Affordable Care Act of 2010, often called the "Health Care Reform Bill" or "Obama Care," created considerable political debate because it effectively reshaped major portions of the health care industry in the United States.⁵¹ The act is based on the idea that when more people have health insurance—young, healthy people in addition to older, sicker people—risk will be spread out and costs will come down. Following are some of the major features of the bill:

1. All individuals are required to have health insurance coverage if they do not receive health coverage through their employer. Those who choose not to have insurance will pay a penalty.
2. Employers are required to offer employees affordable health insurance or pay a penalty. Coverage is considered excessive if an employee premium contribution is above

- 9.5 percent of family income. To handle this situation, some companies are considering offering wage-based premiums where lower-wage earners pay less than those who are more highly paid.⁵²
3. Children can stay on their parents' policy until they are 26.
 4. Insurance companies cannot cancel a policy if the insured gets sick.
 5. A person cannot be denied insurance simply because of a pre-existing condition.
 6. There is no maximum limit on insurance coverage.
 7. There is no waiting time with regard to coverage for pre-existing conditions.

The law does not require an individual to drop the health coverage he or she had on the date of enactment. Existing employer plans are "grandfathered" under the new law and can continue to renew current employees and enroll new employees.

It may appear odd to have a topic regarding smoke-free workplaces in the chapter on benefits, but the Patient Protection and Affordable Care Act justifies the placement. The cost gap for health care between smokers and nonsmokers likely will widen beginning in 2018 when, under a provision of the act, companies with health plans that spend much more than average will have to pay an additional federal tax. It is well documented that smokers increase health care costs. Therefore, employers have two choices: cut benefits or cut the trend of rising medical costs to avoid the levy. Many firms are taking the second choice. The following paragraphs highlight the cost of smoking to organizations.

Ann Skye, wellness manager at Quintiles Transnational Corporation, said, "Smoking is the number one culprit in poor health, and its negative effects are indisputable. We feel it would be irresponsible for any employee wellness program not to aggressively address tobacco use."⁵³ Smoking is the biggest factor in controllable health care costs. According to the Centers for Disease Control and Prevention, cigarette smoking is the leading cause of preventable death in this country, accounting for roughly 443,000 deaths, or one out of every five deaths. Numerous studies have concluded that workplace smoking is not only hazardous to employees' health, but also detrimental to the firm's financial health. Statistics show that cigarette smoking costs \$92 billion in productivity losses in the workplace annually.⁵⁴ Employees who smoke consume more health care resources, experience greater absenteeism, and tend to be less productive while at work.

Employers have grown increasingly intolerant of smokers and many workplaces are smoke-free, although about 21 percent of adult Americans continue to smoke.⁵⁵ Even though some smokers remain adamant that passive cigarette smoke is not harmful, the Surgeon General has concluded that there is no safe level of secondhand smoke exposure. The evidence that secondhand tobacco smoke causes serious harm becomes more concrete every day and may be an under-recognized cause of heart attack deaths. Having smoke-free workplace policies helps to fulfill an employer's legal obligation to provide a safe workplace under the Occupational Safety and Health Act's general duty clause, which requires organizations to furnish a workplace free from recognized hazards that are causing or are likely to cause death or serious physical harm. The policy also reduces the risk of litigation, potentially reduces workers' compensation premiums, and protects employees from harm.

According to the American Lung Association, 50,000 people die from exposure to secondhand smoke each year.⁵⁶ A study released by the University of Minnesota Cancer Center revealed that nonsmoking employees had up to 25 times more nicotine in their bodies on days when they worked in restaurants and bars than on days they were not at work.⁵⁷

Recently companies are also using penalties against workers for unhealthy behaviors. The most common penalty is higher premium benefits and increased deductibles. At PepsiCo, smokers pay an annual \$600 insurance surcharge, and Gannett Publishing charges an additional \$60 a month. Some business owners have taken a personal stand against smoking in general, not just smoking in the workplace. Alaska Airlines, Union Pacific, and Turner Broadcasting have refused to hire smokers for more than 20 years.⁵⁸ Four employees from Weyco, a firm that manages benefit plans for workers on behalf of other companies, were fired after refusing to take a nicotine test to determine whether they had smoked. President Howard Weyers said, "Some call this a violation of privacy. pointing to the principle that what you do in your own home is your

own business. But they forget the part about so long as it doesn't harm anyone else."⁵⁹ There potentially may be a problem with such a policy because 30 states and the District of Columbia have "lifestyle" statutes that limit an employer's ability to make adverse employment decisions based on what employees or applicants do while off duty. Some of those statutes may prevent an employer from terminating an employee or refusing to hire an applicant who smokes.⁶⁰

OBJECTIVE 10.12

Describe customized benefit plans.

Customized benefit plan

Benefit plan that permits employees to make yearly selections to largely determine their benefit package by choosing between taxable cash and numerous benefits.

Customized Benefit Plans

Customized benefit plans permit employees to make yearly selections to largely determine their benefit package by choosing between taxable cash and numerous benefits.

Not long ago, firms offered a uniform package that generally reflected a typical employee based on tradition, budgets, and management choices. Today, the workforce has become considerably more heterogeneous, and this prototype is no longer representative. Different interests must be served in this new workforce today.⁶¹ With four generations of workers now in the workplace, customization and flexibility become important in developing a benefits package that meets the needs of everyone. Workers have considerable latitude in determining how much they will take in the form of salary, life insurance, pension contributions, and other benefits. Customized cafeteria plans permit flexibility in allowing each employee to determine the compensation components that best satisfy their needs.⁶²

Obviously, organizations cannot permit employees to select all their benefits. For one thing, firms must provide the benefits required by law. In addition, it is probably wise to require that each employee have core benefits, especially in areas such as retirement and medical insurance. However, the freedom to select highly desired benefits would seem to maximize the value of an individual's compensation. Employees' involvement in designing their own benefit plans would also effectively communicate to them the cost of their benefits. In keeping the program current, management depends on an upward flow of information from employees to determine when benefit changes are needed.

The downside to customized benefit plans is that they are costly. Development and administrative costs for these plans exceed those for traditional plans. Even though customized benefit plans add to the organization's administrative burden, some firms apparently find that the advantages outweigh shortcomings.

OBJECTIVE 10.13

Discuss global issues in employee benefits.

Global Customized Benefits

The trend in the United States is to customize benefit plans and not offer a uniform package that generally reflects a typical employee. That approach also applies to the global environment and often provides a major challenge for organizations. Global companies must recognize that a standardized benefits program for all employees may be impractical and unsuccessful in achieving key benefits objectives. Employers must understand the culture of each country because the culture will have a major impact on the benefits workers desire.⁶³

There are three basic groups of global benefits: government-provided, government-mandated, and voluntarily provided by the company. Government-provided benefits are administered and provided directly by the government. Typically they consist of health care and retirement benefits, but may include life insurance, disability insurance, or unemployment insurance. Government-mandated benefits are those provided by employers because the law requires them to do so. Voluntary benefits are provided at the discretion of the employer.⁶⁴

The first thing that a firm must do when considering a benefit package in the global environment is to establish a global corporate benefits strategy and determine what the company identity should be. For example, Helsinki-based Tieto Corporation, an information technology services company with 17,000 employees, wants to present an image that it provides the best benefits in the marketplace. On the other hand, the benefit approach for Nalco Company, a Naperville, Illinois-based water treatment company with more than 11,500 employees operating in 130 countries, just wants to be at the 50th percentile among companies for benefits.⁶⁵ These two philosophies will likely have a significant impact on the benefit package offered.

A company operating in India will likely offer an assortment of child incentives, home incentives, and health plans that include grandparents. They also expect a “dearness allowance” that helps to offset inflation as part of the compensation plan.⁶⁶ For India’s Informa employees, private health insurance, flexible benefits, and dependent coverage are top commodities. But in the United Kingdom, the wellness programs such as gym memberships and health screenings are highly valued benefits.⁶⁷

U.S. multinationals have discovered that U.S. insurance plan designs were not universally acceptable in other countries. This is caused by labor and tax regulations, which strongly influence employee expectations. For instance, U.S. group life insurance plans deliver lump-sum death benefits, but such benefits are not tax-favored in the Netherlands, where employees expect survivorship annuities to spouses and children in the event of death in service. U.S. firms also place a high priority on health care benefits, whereas many European countries have government-sponsored health care arrangements that differ in design in each country. Additionally, in some countries, employer-paid private medical plans are considered taxable income to the employee.⁶⁸

Going global has its challenges with regards to total rewards. An employer not only has to ensure that its strategy fits with the benefits available in each country as well as its culture, but also has to consider issues of communication including language, media, and currency. Elliott Webster, flexible benefits director at consultants PIFC, says, “Different cultures can also be a challenge. For example, in the UK life insurance is seen as a benefit provided by a company but in Norway it is seen as a right.”⁶⁹

The United States ranks ninth in terms of the percentage of companies offering flexible work arrangements to their employees according to a survey released by Grant Thornton International. The top two countries in the survey were Finland (92 percent) and Sweden (86 percent), with Australia and Thailand (85 percent) tied at third. The three worst countries, in terms of companies offering flexible work arrangements, were Japan, Greece, and Armenia.⁷⁰

OBJECTIVE 10.14

Summarize the issues of communicating information about benefit plans.

Communicating Information about the Benefits Package

Employee benefits can help a firm recruit and retain a top-quality workforce. Organizations spend millions of dollars each year for benefits. Yet, many do not do a good job of communicating the value of this investment to the employees. Often organizations do not have to improve benefits to keep their best employees; rather, workers need to fully understand the benefits that are provided them.

The HR Director of Elm City Market discusses a variety of HR issues, including educating employees about their employee benefits options. The following Watch It video describes some of the benefit package components.

Watch It 2

If your instructor has assigned this, sign into mymanagementlab.com to watch a video titled Elm City Market: Designing and Administering Benefits and respond to questions.

ERISA provides still another reason for communicating information about a firm’s benefits program. This act requires organizations with a pension or profit-sharing plan to provide employees with specific data at specified times. The act further mandates that the information be presented in a manner that is easy to understand. Also, under the Patient Protection and Affordable Care Act, employers must provide a benefits summary and coverage explanation to all applicants and enrollees at the time of initial enrollment and at the annual enrollment, in addition to the summary plan description required by ERISA.

OBJECTIVE 10.15

Explain workplace flexibility (work–life balance)

Workplace Flexibility (Work–Life Balance)

Effective work–life balance programs focus on solving any personal issues that can detract from an employee’s work. For employers, creating a balanced work–life environment can be a key strategic factor in attracting and retaining the most talented employees. As Tina Tchen, executive

director of the White House Council on Women and Girls, said, "Flexible work policies are an economic imperative for American families and companies."⁷¹ Workplace flexibility is high on employees' lists of company benefits desired and continues to grow. It has moved from being a great benefit that a company can offer to a business necessity. By providing such an environment, employees are better able to fit family, community, and social commitments into their schedule. The homogeneous workforce that the United States once had is quite different now. Consider the following statistics and envision how the workplace profile has changed: 27 percent of single parents are men, 40 percent of the workforce is unmarried, one in five workers is 50 or older, and four million households are multigenerational. Also, nearly 25 percent of Americans are caring for elders.⁷²

For men and women seeking to balance their work and personal lives, time is nearly as important as money and may even be more important for some.⁷³ According to a Baylor University study, new mothers who return to work are more likely to stay on the job if they have greater control over their work schedules.⁷⁴ More employees are requesting workplace flexible benefits to achieve a better work and life balance. Marcee Harris Schwartz, the New York-based director of BDO USA's Flex program, said, "We do not think of flexibility as a set of options, or an employee benefit, or even a program. We really see it as a business strategy—a strategy that can help employees manage their own working life."⁷⁵ Some companies offer many of the factors typically associated with workplace flexibility. State Street Corporation, a multinational financial services provider with more than 29,000 employees in 26 countries, provides five options that give employees flexibility on when, how, and where they work.⁷⁶ These include flextime, compressed workweek, job sharing, two-in-a-box, telecommuting, and part-time work.

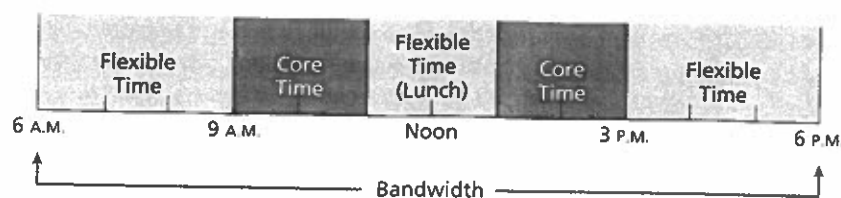
Flextime

Flextime is the practice of permitting employees to choose their own working hours, within certain limitations. Even when the economy was depressed, flexible work hours remained high on the priority list of what companies could offer in lieu of a salary increase, although guaranteed job security ranked number one. For many old-economy managers who think they must see their employees every minute to make sure they are working, this may be difficult. Another benefit of flextime is that it can bring better health to employees by reducing employee stress levels.

In a flextime system, employees typically work the same number of hours per day as they would on a standard schedule. However, they work these hours within what is called a bandwidth, which is the maximum length of the workday (see Figure 10-2). Core time is that part of the day when all employees must be present. *Flexible time* is the period within which employees may vary their schedules. A typical schedule permits employees to begin work between 6:00 A.M. and 9:00 A.M. and to complete their workday between 3:00 P.M. and 6:00 P.M. Marianne Mondy, a legislative auditor for the State of Louisiana goes to work at 6:30 and is off at 3:00, a schedule she very much enjoys. This permits her to miss much of Baton Rouge's horrible traffic congestion.

Because flexible hours are highly valued in today's society, providing a flexible work schedule gives employers an edge in recruiting new employees and retaining highly qualified ones.⁷⁷ Also, flextime allows employees to expand their opportunities. For example, it may be easier for them to continue their education than if they were on a traditional work schedule. The public also seems to reap benefits from flextime. Transportation services, recreational facilities, medical clinics, and other services can be better used by reducing competition for service at conventional peak times. Yet, flextime is not suitable for all types of organizations. For example, its use may be severely limited in assembly-line operations and companies using multiple shifts.

FIGURE 10-2
Illustration of Flextime



flextime

Practice of permitting employees to choose their own working hours, within certain limitations.

compressed workweek

Any arrangement of work hours that permits employees to fulfill their work obligation in fewer days than the typical five-day workweek.

Compressed Workweek

The **compressed workweek** is an arrangement of work hours that permits employees to fulfill their work obligation in fewer days than the typical five-day, 8-hour-a-day workweek. A common compressed workweek is four 10-hour days. Another form of the compressed workweek is four 9-hour days and a half day on Friday. Some hospitals permit their registered nurses to work three 12-hour days during a workweek. Still other firms are allowing employees to work longer but fewer days in the summer in exchange for a day off each week. There are endless different combinations of compressed workweeks.

Working under this arrangement, employees have reported greater job satisfaction. In addition, the compressed workweek offers the potential for better use of leisure time for family life, personal business, and recreation. Employers in some instances have cited advantages such as increased productivity and reduced turnover and absenteeism. Other firms, however, have encountered difficulty in scheduling workers' hours and at times employees become fatigued from working longer hours. In some cases, these problems have resulted in lower product quality and reduced customer service.

Job Sharing

In **job sharing**, two part-time people split the duties of one job in some agreed-on manner and are paid according to their contributions. It is an attractive option to people who want to work fewer than 40 hours per week.

Some have equated the benefits job sharing provides to that of running a marathon. Given equal athletic ability, two athletes running half a marathon back to back will invariably run faster than one runner going the entire distance alone. Although the arrangements vary, the outcome is the same: Job sharing provides the flexibility to enjoy life. It provides an option to retain workers, particularly women who often opt out of the workforce to raise families. Often job sharers work as hard in, say, three days, as those working full-time and are pleased to have the opportunity to combine work and motherhood or other interests.

There appears to be a growing trend as more companies offer job sharing. Two Ford Motor Company engineers used job sharing as a means of advancing their careers and still have time with their newborns. Julie Levine and Julie Rocco were joint program manager for the 2011 Explorer Crossover and each earned 80 percent of their full-time salaries and benefits. Rocco and Levine supervise 10 people. Rocco worked Monday, Wednesday, and Thursday, and Levine worked Tuesday, Wednesday, and Friday. Both worked about 40 hours a week each, which is considered part-time in the automobile industry.⁷⁸

Job sharing also provides a means of encouraging older workers to remain on the job past retirement age. Sharing jobs has potential benefits that include the broader range of skills the partners bring to the job. For job sharing to work, however, the partners must be compatible, have good communication skills, and have a bond of trust with their manager. Job sharing also can pose challenges, including the need for additional oversight—such as conducting administrative tasks and performance reviews for two employees rather than one. However, if the option is the loss of two valued employees, the additional effort is certainly worth it.

Two-in-a-Box

Some companies are giving two executives the same responsibilities and the same title and letting them decide how the work is to be divided (**Two-in-a-Box**). Unlike job sharing, it is a full-time job for both executives. It certainly has some risk, as in the case of the 1998 DaimlerChrysler Corporation disaster of an attempt at Two-in-a-Box when one executive was unwilling to share authority, resulting in the resignation of the other executive. Problems certainly can occur as the egos of two executives meet, but it has proven successful in certain instances. A major advantage of this approach is that it can ease transition, permitting a newer manager to learn from a more experienced manager. It is also useful as managers confront the requirement of global traveling. One manager could be at the home office taking care of regular business while the other is traveling. For two-and-a-half years, two executives shared a job as heads of Cisco's routing group. The two had complementary skills and each gained experience from the other. Cisco typically combines a technically oriented manager with a business-oriented one.⁷⁹ The Two-in-a-Box approach requires work and constant communication, but for the right two executives, the benefits derived are worth it.

job sharing

Two part-time people split the duties of one job in some agreed-on manner and are paid according to their contributions.



HR BLOOPERS

The Job-Sharing Problem at SunTrust Bank

As the HR Manager at SunTrust Bank, Jerry James manages the company's generous benefit program that includes flexible work options. Many employees telecommute or take advantage of the company flextime policy. Generally employees appreciate the flexible work options, but right now Jerry has a problem in the Loan Processing department. Two different employees from Loan Processing approached him several months ago about their desire for a flexible work option. Both employees had recently started families and both wanted part-time work, so Jerry suggested job sharing. No workers have requested this option before, but because these two employees did the same job for the company, Jerry thought it was a great idea. The two

could share one job, and he could easily hire a new employee to take on the other job. But after finishing another stressful call from one of the employees and reading a frustrated e-mail message from the other, Jerry knows they need some help working together. Jerry first recommended that they talk to their manager, but both of the employees told Jerry that they really didn't trust their manager to help them. The employees now don't seem to be even talking to each other at all and Jerry's discussion with their manager about their problems was not very helpful. The manager told Jerry he was surprised when these two employees requested the job sharing arrangement to begin with because they did not get along with each other very well. Now Jerry isn't sure what to do.

★ If your professor has assigned this, go to mymanagementlab.com to complete the HR Bloopers exercise and test your application of these concepts when faced with real-world decisions.

There are other examples of Two-in-a-Box. Aon Consulting is chaired by co-CEOs Kathryn Hayley and Baljit Dail.⁸⁰ In 2010, German business software provider SAP AG appointed Bill McDermott and Jim Hagemann Snabe as co-CEOs.⁸¹ Other companies that use co-CEOs include BlackBerry maker Research in Motion and restaurant chain P. F. Chang's China Bistro.

Telecommuting

Telecommuting is a work arrangement whereby employees, called "teleworkers" or "telecommuters," are able to remain at home (or otherwise away from the office) and perform their work using computers and other electronic devices that connect them with their offices.

Telecommuting has become more popular in recent years, and it is estimated that by 2020 up to 30 percent of the workforce will be telecommuting because of traffic congestion and frustration with commuting and high gas prices. According to a WorldatWork survey of 566 North American companies, 34 percent provided full-time positions away from the office.⁸² For self-motivated workers, telecommuting can increase worker productivity and improve job satisfaction and loyalty. Modern communications and information technologies permit people to work just about anywhere. Today, physical location is largely immaterial when it comes to working. Telecommuting is significantly changing not just the way people work but also where they do it. One study indicates that employees who telecommute for the majority of the time are more satisfied with their jobs than those working primarily in an office.⁸³ Workers like telecommuting because there are fewer interruptions, less company politics, and less face-to-face communication. These benefits improve their work-life balance.

Telecommuters generally are information workers. They accomplish jobs that require, for example, analysis, research, writing, budgeting, data entry, or computer programming. Teleworkers also include illustrators, loan executives, architects, attorneys, and publishers. Employees can accomplish both training and job duties without losing either efficiency or quality by using the Internet. Thanks largely to telecommuting, when the New York City transit union went on strike, knowledge workers were able to work from home, which greatly lessened the effect of the strike.

Another advantage of telecommuting is that it eliminates the need for office space. The expense of employees is not just their salaries and benefits, but also the overhead associated with their office space. Deloitte LLP offers most of its 45,000 employees nationwide the option to telecommute as many as five days a week and have been doing this for 15 years. As leases come up for renewal, the firm is able to reduce office space and energy costs by 30 percent. The facilities are then reconfigured to accommodate mobile workers who do not need permanent offices.⁸⁴

telecommuting

Work arrangement whereby employees, called "teleworkers" or "telecommuters," are able to remain at home (or otherwise away from the office) and perform their work using computers and other electronic devices that connect them with their offices.



HR Web Wisdom

Telecommuting

<http://www.telework.gov/>

Governmental Web site for employees who think they might like to telecommute (or are already doing so), for managers and supervisors who supervise teleworkers, and for agency telework coordinators.

Also, commuting distances are not a factor for teleworkers. The average time it takes to get to work continues to increase, which often contributes to tardiness and lost work hours. With telecommuting, firms may hire the best available employees located virtually anywhere in the world for many jobs. The ability to employ disabled workers and workers with young children further broadens the labor market. Finally, telecommuting is being used as an alternative for executives who are unwilling to relocate. If the company is willing to permit the executive to not work out of headquarters, telecommuting may be the answer.

Part-Time Work

Historically, part-time employees have been viewed as basically second-class citizens. These were the workers who reluctantly accepted a low-paying job until a full-time career break occurred. Today, increasing highly educated professionals are choosing part-time opportunities in their fields to address both job and personal needs. Alison Doyle, an About.com job search and employment expert, said, "Professional moms would be thrilled to lower their hours to spend more time with their children, and they don't mind giving up benefits to achieve that work/life balance."⁸⁵

At Deloitte, each employee's performance is discussed during twice-a-year evaluations focused not just on career targets but also on larger life goals. Employees can request to do more or less travel or client service. The employee can also request to move laterally into a new role—that may or may not come with a pay cut. About 10 percent of employees choose to "dial up" or "dial down" at any given time. The program is in response to Millennials demanding a better work-life balance and boomers looking to ease into retirement.⁸⁶

Just described were the positive aspects of part-time. The recent recession caused many workers to take part-time jobs because they could not find full-time ones. In August 2013, the underemployed rate was 13.7 percent.⁸⁷

Summary

1. **Define indirect financial compensation (employee benefits).** Some companies are experimenting with what some might call unique benefits as they attempt to brand their organization as a good place to work. They want to stand out from the pack. For example, one company gives employees a six-month sabbatical (extended paid time off) to engage in community service.

Indirect financial compensation (employee benefits) includes all financial rewards that generally are not paid directly to the employee in the form of a wage, salary, or performance-based pay.

2. **Describe legally required benefits.** Legally required benefits currently account for about 10 percent of total compensation costs. These include Social Security, unemployment insurance, and workers' compensation. Legally required benefits were often prompted by poor social or economic conditions.
3. **Define discretionary benefits and explain the various types of discretionary benefits.** *Discretionary benefits* are

benefit payments made as a result of unilateral management decisions in nonunion firms and from labor-management negotiations in unionized firms.

Categories of discretionary benefits include paid time off, health care (prior to requirements imposed by health reform), life insurance, retirement plans, disability protection, employee stock option plans (ESOPs), and employee services.

4. **Discuss the alternative types of health care plans.**

Companies can choose from a variety of health insurance set-ups based on its objectives. There are two long-standing approaches—*fee-for-service* plans and *managed care* plans. Some give employees a vast amount of choice over health care providers (*fee-for-service plans*), whereas others are more restrictive such as is the case for *managed care plans*. Health maintenance organizations and preferred provider organizations are examples of managed care plans that provide higher reimbursement rates for health care providers who operate within the insurance

plan's network. Specialized insurance provides for dental, vision, and mental health care and may be established as fee-for-service plans or managed care plans. An emerging approach, *consumer-driven health care*, is the least costly to employers, but employees bear greater costs for health care services, often because these plans have high deductible features. This approach requires that individuals be more well-educated about their health and health care choices.

5. **Explain the various kinds of retirement plans.** Two standard designs are *defined benefit plans* and *defined contribution plans*. The former pays a monthly benefit throughout retirement. The latter is a tax-preferred savings account from which money may be drawn during retirement. *Hybrid plans* combine the features of both.
6. **Summarize life and disability insurance.** *Life insurance* provides a payment to a designated beneficiary in the event that the policy holder passes away. There are a variety of life insurance plan options. *Disability insurance* provides partial income replacement after an employee becomes unable to work. There are short- and long-term disability plan options.
7. **Describe alternative paid time off policies.** There are a variety of paid time off benefits such as vacation, sick leave, and sabbatical leave as examples.
8. **Identify employee service benefit options.** Employers may choose to offer one or more benefits such as child care, educational assistance, subsidized meals, and scholarships for dependents.
9. **Describe the premium pay benefit practice.** *Premium pay* is compensation paid to employees for working long periods of time or working under dangerous or undesirable conditions.
10. **Discuss voluntary benefits.** Many organizations are moving to *voluntary benefits*, which are essentially 100 percent paid by the employee. However, the employer typically pays the administrative cost for employees to have these benefits. Employees gain because their premiums typically reflect group discounting and thus are lower than the employees could obtain on their own.
11. **Explain the various employee benefit laws.** Several laws regulate the practice of employee benefits, such as the Employee Retirement Income Security Act, the Consolidated Omnibus Budget Reconciliation Act, the Older Workers Benefit Protection Act, the Health Insurance Portability and Accountability Act, the Family and Medical Leave Act, the Pension Protection Act, and the Patient Protection and Affordable Care Act. These laws define the obligation of employers and the rights of employees.
12. **Describe customized benefit plans.** *Customized benefit plans* permit employees to make yearly selections to largely determine their benefit package by choosing between taxable cash and numerous benefits.
13. **Discuss global issues in employee benefits.** When dealing with benefits on the global stage, employers must recognize that a standardized benefits program for all employees across the globe may be impractical and unsuccessful in achieving key benefits objectives.
14. **Describe the importance of communicating information about the benefits package.** Organizations spend millions of dollars each year for benefits. Yet, many do not do a good job of communicating the value of this investment to the employees. Often organizations do not have to improve benefits to keep their best employees; rather, workers need to fully understand the benefits that are provided them.
15. **Explain workplace flexibility (work-life balance).** Workplace flexibility factors include flextime, the compressed workweek, job sharing, Two-in-a-Box, telecommuting, and part-time work.


Key Terms

indirect financial compensation (employee benefits) 257	prescription drug plans 262	whole life insurance 265
nonfinancial compensation 258	mental and substance abuse plans 262	paid time off (PTO) banks 266
unemployment insurance 259	consumer-driven health care 263	sabbaticals 266
workers' compensation 260	health savings account (HSA) 263	relocation benefits 268
discretionary benefits 260	health reimbursement accounts (HRAs) 263	premium pay 269
fee-for-service plans 261	flexible spending account (FSA) 263	hazard pay 269
coinsurance 261	qualified plans 264	shift differential 269
out-of-pocket maximum 261	nonqualified plans 264	voluntary benefits 269
managed care plans 261	defined benefit plan 264	customized benefit plan 273
prepaid medical services 261	defined contribution plan 264	flextime 275
primary care physician 262	401(k) plan 265	compressed workweek 276
preferred provider organization (PPO) 262	cash balance plan 265	job sharing 276
	term life insurance 265	telecommuting 277



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Exercises

- 10-1.** Think of a job you have worked in the past or a job that your parents held. What discretionary and voluntary benefits were provided? In order of importance to you or your parents, rank the value of each benefit. How valuable was the total benefit package?
-  **10-2.** Customized benefit plans permit employees to make yearly selections to largely determine their benefit package by choosing between taxable cash and numerous benefits. What do you believe would be the most valuable benefits for the following employees?
- single person who recently graduated from college
 - forty-year-old married man with two children in college
 - single mother with two young children

Questions for Review

- 10-3.** Define *indirect financial compensation (employee benefits)*. Distinguish between discretionary and voluntary benefits.
- 10-4.** What are the mandated or legally required benefits? Briefly describe each.
- 10-5.** What are the basic categories of discretionary benefits? Describe each.
- 10-6.** What items are included in the discretionary benefit of paid time off?
- 10-7.** Define each of the following:
- fee-for-service plan
 - health maintenance organization (HMO)
 - preferred provider organization (PPO)
 - consumer-driven health care plan
 - health savings account (HSA)
 - health reimbursement account (HRA)
 - flexible spending account (FSA)
- 10-8.** There are numerous forms of retirement plans. Describe each of the following:
- defined benefit plan
 - defined contribution plan
 - 401(k) plan
 - cash balance plan
- 10-9.** What are topics included within employee services?
- 10-10.** Distinguish among premium pay, hazard pay, and shift differential pay.
-  **10-11.** What is the purpose of a customized benefit plan?
- 10-12.** Define each of the following benefit laws:
- Employee Retirement Income Security Act
 - Consolidated Omnibus Budget Reconciliation Act
 - Health Insurance Portability and Accountability Act
 - Family and Medical Leave Act
 - Older Workers Benefit Protection Act
 - Pension Protection Act
 - Patient Protection and Affordable Care Act
- 10-13.** What is the relationship between smoke-free workplaces and the Patient Protection and Affordable Care Act?
- 10-14.** Define each of the following workplace flexibility factors:
- flextime
 - compressed workweek
 - job sharing
 - telecommuting
- 10-15.** What is the purpose of the staffing practice called Two-in-a-Box?
-  **10-16.** Why is it important to customize benefits in the global environment?

INCIDENT 1 Flextime

Kathy Collier is a supervisor of a government office in Washington, D.C. Morale in her office has been quite low recently. The workers have gone back to an 8:00 A.M. to 4:30 P.M. work schedule after having been on flextime for nearly two years.

When the directive came down allowing Kathy to place her office on flextime, she spelled out the rules carefully to her people. Each person was to work during the core period from 10:00 A.M. to 2:30 P.M.; however, they could work the rest of the eight-hour day at

any time between 6:00 A.M. and 6:00 P.M. Kathy felt her workers were honest and well motivated, so she did not bother to set up any system of control.

Everything went along well for a long time. Morale improved, and all the work seemed to get done. In November, however, an auditor from the General Accounting Office investigated and found that Kathy's workers were averaging seven hours a day. Two employees had been working only during the core period for more

than two months. When Kathy's department manager reviewed the auditor's report, Kathy was told to return the office to regular working hours. Kathy was upset and disappointed with her people. She had trusted them and felt they had let her down.

Questions

10-17. What are the advantages and disadvantages of flextime?

10-18. What could Kathy have done to keep the situation from occurring?

10-19. Are there other workplace flexibility arrangements that Kathy might use to improve morale?

INCIDENT 2 A Benefits Package Designed for Whom?

Wayne McGraw greeted Robert Peters, his next interviewee, warmly. Robert had an excellent academic record and appeared to be just the kind of person Wayne's company, Beco Electric, was seeking. Wayne is the university recruiter for Beco and had already interviewed six graduating seniors at Centenary College.

Based on the application form, Robert appeared to be the most promising candidate to be interviewed that day. He was 22 years old and had a 3.6 grade point average with a 4.0 in his major field, industrial management. Robert was not only the vice-president of the Student Government Association, but also activities chairman for Kappa Alpha Psi, a social fraternity. The reference letters in Robert's file reveal that he was both active socially and a rather intense and serious student. One of the letters from Robert's employer during the previous summer expressed satisfaction with Robert's work habits.

Wayne knew that discussion of benefits could be an important part of the recruiting interview. But he did not know which aspects of Beco's benefits program would appeal most to Robert. The company has an excellent profit-sharing plan, although 80 percent of profit distributions are deferred and included in each employee's retirement

account. Health benefits are also good. It also has long-term care insurance. The company's medical and dental plan pays a significant portion of costs. A company lunchroom provides meals at about 70 percent of outside prices, although few managers take advantage of this. Employees get one week of paid vacation after the first year and two weeks after two years with the company. Two weeks are provided each year for sick leave. In addition, there are 12 paid holidays each year. Finally, the company encourages advanced education, paying for tuition and books in full, and under certain circumstances, allowing time off to attend classes during the day. It also provides scholarships for dependents.

Questions

10-20. What aspects of Beco's benefits program are likely to appeal to Robert? Explain.

10-21. In today's work environment, what additional benefits might be more attractive to Robert? Explain.

10-22. What aspects of Beco's benefits program would likely be the least appealing to Robert? Discuss.

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Go to mymanagementlab.com for Auto-graded writing questions as well as the following Assisted-graded writing questions:

10-23. Why have some firms gone to voluntary benefits as opposed to discretionary benefits?

10-24. Why is it important to communicate information about the benefits package?

Endnotes

Scan for Endnotes or go to <http://www.pearsonhighered.com/mondy>

