Both to reduce costs (because ... working on call, and working as an independent contractor. ceive) and to permit easier expansion and contraction of production/services, contracting ... benefits are reduced to 50% of what full-time workers re- offers a viable way to meet rapidly changing environmental conditions.

Your **Turn** Adapting Benefits to a Changing Strategy

McDonald's is in the news quite a bit these days. As profits fall or fail to meet Wall Street expectations, senior management scrambles for answers to a changing environment: millennials are perceived to prefer products that are healthier; customers complain about long wait times in the drive thru; competitors offer burgers made to order that seem to resonate with today's customers. In response McDonald's has made a number of major changes. It is reducing the size of its menu to reduce the amount of preparation time. On the other hand, they have introduced a new kiosk environment where customers can build their own burger at the cost of a rise in wait time of several minutes. In addition, over the past years McDonald's has worked hard to reduce its turnover. Among other efforts they have moved their average employee age up to the high 20s. They recently announced wage increases and more paid time off for all its corporately owned stores. Given what we've told you here and what you can glean from news reports about McDonald's, what do you think is going on? Specifically, how do corporate strategy and wage/benefit decisions either support or conflict with each other?

Summary

Since the 1940s, employee benefits have been the most volatile area in the compensation field. From 1940 to 1980, dramatic changes came in the form of more and better types of employee benefits. The result should not have been unexpected. Employee benefits are now a major, and many believe prohibitive, component of doing business. Look for this century to be dominated by cost-saving efforts to improve the competitive position of American industry. A part of these cost savings will come from tighter administrative controls on existing benefit packages. But another part, as already seen in the auto industry, may come from a reduction in existing benefit packages. If this does evolve as a trend, benefit administrators will need to develop a mechanism for identifying employee preferences (in this case "least preferences") and use them as a guideline to meet agreed upon savings targets.

Review Questions

1. James A. Klingon has a mandate from his boss to cut employee benefit costs. In a company expanding by 10 percent in employees every year, Jim decides to control costs through his selection strategy. Is he crazy? Or crazy like a fox? Explain.
2. Explain the concept of experience rating using examples from unemployment insurance. Would the same concept apply to workers' compensation? Using the Internet, find out if experience rating plays a role in insurance coverage.
3. The CEO of Krinkle Forms Inc says there is a serious problem with turnover, with data for her observation provided below.

Seniority	Turnover Rate
0–2 yrs	61%
2–5 yrs	21%
5+yrs	9%

   The CEO wants to use employee benefits to lessen this problem. Before agreeing to look at this as the solution, what should run through your mind as a trained professional? What might you do, specifically, in the areas of pension vesting, vacation and holiday allocation, and life insurance coverage in the effort to reduce turnover?
4. Why are defined contribution pension plans gaining in popularity in the United States and defined benefit plans losing popularity?
5. Some experts argue that consumer-directed health care is, amongst other things, a great communications tool for employee benefits. Defend this position.

Endnotes

1. R. McCaffery, *Managing the Employee Benefits Program* (New York: American Management Association, 1972), pp. 1–2.
2. Lisa Cornwell, "Some Employers Charge Smokers More for Health Insurance," *Buffalo News*, February 17, 2006, pp. D1, 8.
3. www.lung.org, visited April 6, 2012.
4. Ann Zimmerman, Robert Matthews, and Kris Hudson, "Can Employers Alter Hiring Policies to Cut Health Costs?" *The Wall Street Journal*, October 17, 2005, p. B1.