

Human Resource Management

Eleventh Edition

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Chapter 14

Managing Employee Benefits

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SECTION 4
Compensating
Human Resources

Learning Objectives

- After you have read this chapter, you should be able to:
 - Define a benefit and identify four strategic benefit considerations.
 - Distinguish between mandated and voluntary benefits and list three examples of each.
 - Discuss the shift of retirement plans from defined-benefit to defined-contribution plans.
 - Explain the importance of managing the costs of health benefits and identify some methods of doing so.
 - Describe the growth of financial, family-oriented, and time-off benefits and their importance to many employees.
 - Summarize benefits communication and flexible benefits as considerations in benefits administration.

Benefits

- **Benefit**
 - An indirect compensation given to an employee or group of employees as a part of organizational membership.
- **Strategic Perspectives on Benefits**
 - Benefits absorb social costs for health care and retirement.
 - Benefits influence employee decisions about employers (e.g., recruitment and retirement).
 - Benefits are increasingly seen as entitlements.
 - Benefit costs average over 40% of total payroll costs.

How the Typical Benefits Dollar Is Spent



Source: Based on information from the U.S. Department of Labor, Bureau of Labor Statistics, *National Compensation Survey: Employee Benefits in Private Industry in the United States*, 2003; and *Employee Benefits Study*, 2003 ed. (Washington, DC: U.S. Chamber of Commerce, 2004).

<http://www.deden08m.com>

Figure 14-1

Strategic Benefits Considerations

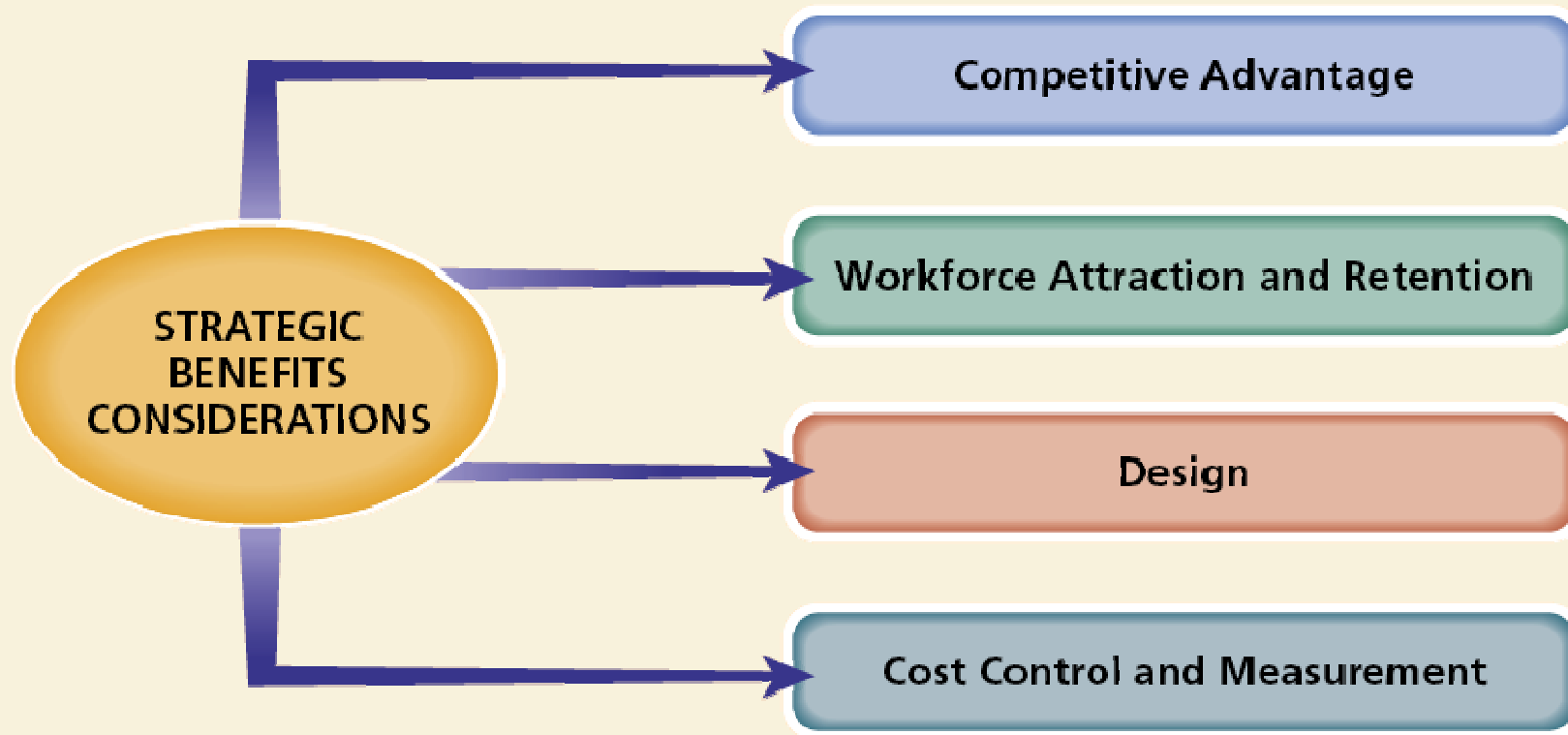


Figure 14–2

Benefit Design

- Decisions Affecting Benefit Design:
 - How much total compensation?
 - What part of total compensation should benefits comprise?
 - What expense levels are acceptable for each benefit?
 - Which employees should get which benefits?
 - What are we getting in return for the benefit?
 - How will offering benefits affect turnover, recruiting, and retention of employees?
 - How flexible should the benefits package be?


Common Measurements of Benefits Effectiveness

- ❖ Benefits as a percentage of payroll (pattern over a multi-year period)
- ❖ Benefits expenditures per full-time equivalent (FTE) employee
- ❖ Benefits costs by employee group (full-time vs. part-time, union vs. non-union, office, management, professional, technical, etc.)
- ❖ Benefits administration costs (including staff time multiplied by the staff pay and benefits costs per hour)
- ❖ Health-care benefits costs per participating employee

Figure 14–3

Types of Benefits

| Security | Health Care | Family Oriented |
|--|---|--|
| <ul style="list-style-type: none"> ♦ Workers' compensation ♦ Unemployment compensation | <ul style="list-style-type: none"> ♦ COBRA and HIPAA provisions | <ul style="list-style-type: none"> ♦ FMLA provisions |
| <ul style="list-style-type: none"> ♦ Supplemental unemployment benefits (SUBs) ♦ Severance pay | <ul style="list-style-type: none"> ♦ Medical and dental ♦ Prescription drugs ♦ Vision ♦ PPO, HMO, and CDH plans ♦ Wellness programs ♦ Flexible spending accounts | <ul style="list-style-type: none"> ♦ Adoption benefits and dependent-care assistance ♦ Domestic partner benefits |
| Retirement | Financial | Time Off |
| <ul style="list-style-type: none"> ♦ Social Security ♦ ADEA and OWBPA provisions | <ul style="list-style-type: none"> ♦ Financial services (e.g., credit unions and counseling) ♦ Relocation assistance ♦ Life insurance ♦ Disability insurance ♦ Long-term care insurance ♦ Legal insurance ♦ Educational assistance | <ul style="list-style-type: none"> ♦ Military reserve time off ♦ Election and jury leaves |
| <ul style="list-style-type: none"> ♦ Early retirement options ♦ Health care for retirees ♦ Pension plans ♦ Individual retirement accounts (IRAs) ♦ Keogh plans ♦ 401 (k), 403 (b), and 457 plans | | <ul style="list-style-type: none"> ♦ Lunch and rest breaks ♦ Holidays and vacations ♦ Family leave ♦ Medical and sick leave ♦ Paid time off ♦ Funeral and bereavement leaves |
| | | Miscellaneous |
| | | <ul style="list-style-type: none"> ♦ Social and recreational programs and events ♦ Unique programs |

 Government mandated

 Employer voluntary

Figure 14–4

Security Benefits

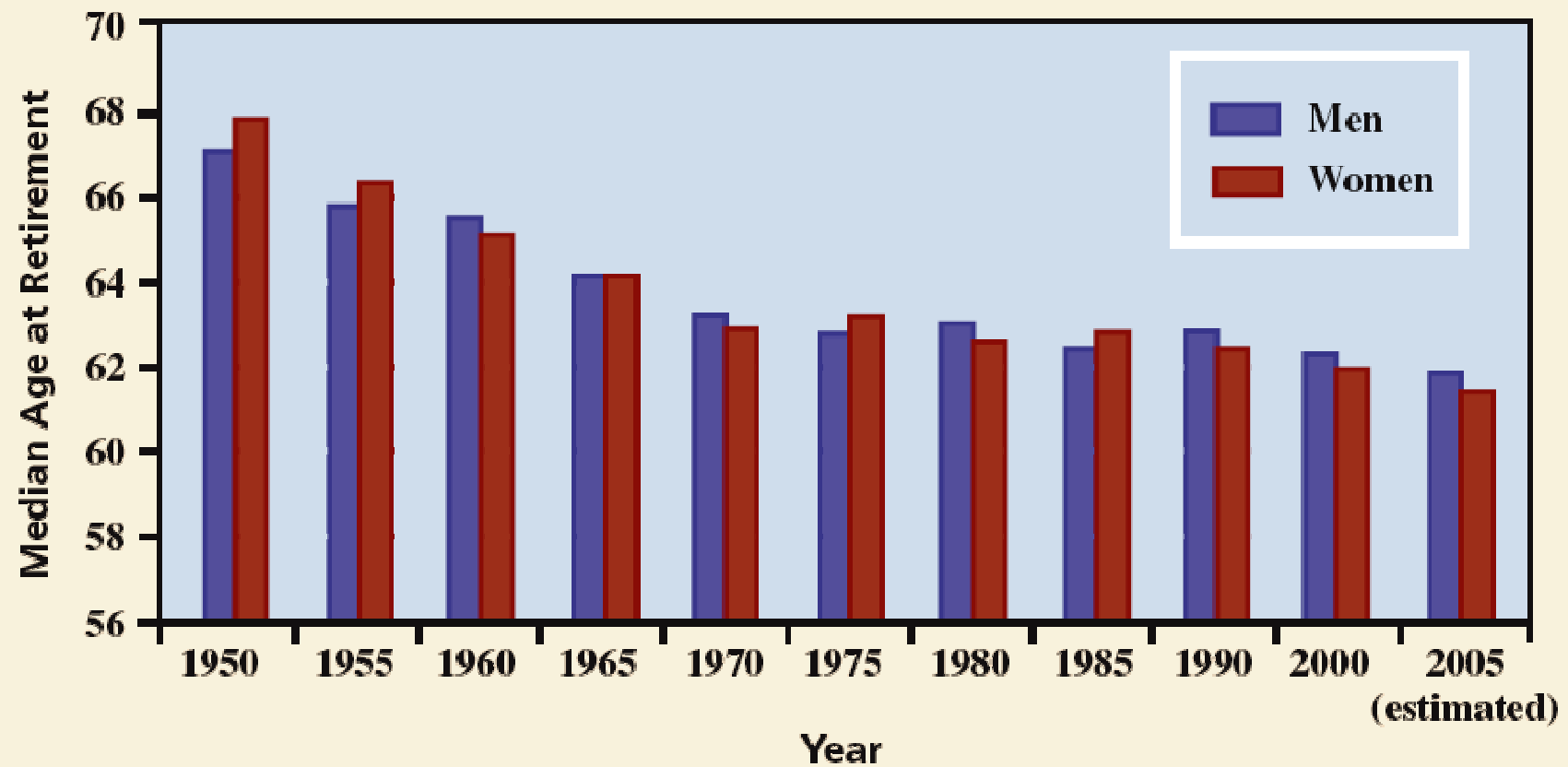
- **Worker's Compensation**
 - Benefits provided to persons injured on the job.
- **Unemployment Compensation**
 - A Federal/state payroll tax that funds state unemployment systems.
 - Involuntary unemployment and actively seeking work is required for persons to claim benefit.
- **Supplemental Unemployment Benefits (SUB)**
 - A union-negotiated benefit provision that pays a supplemental amount to laid-off employees who are drawing unemployment compensation.

Security Benefits (cont'd)

- **Severance Pay**

- A security benefit voluntarily offered by employer to employees who lose their jobs.
- Payments are determined by the employee's level within the organization and years of employment.
- Other benefits (e.g., outplacement and continued health insurance) may be offered in lieu of cash severance payments.

Median Age at Retirement by Gender



Source: U.S. Bureau of Labor Statistics www.bls.gov.

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Figure 14-5

Retirement Benefits

- Retirements and Age Discrimination
 - Age Discrimination in Employment Act (ADEA) prohibits mandatory retirement age provisions.
 - Older Workers Benefit Protection Act (OWBPA)
 - ❖ Amended the ADEA and overturned a decision by the U.S. Supreme Court in *Public Employees Retirement System of Ohio v. Betts*.
 - ❖ This act requires equal treatment for older workers in early retirement or severance situations in setting forth specific criteria that must be met when older workers sign waivers promising not to sue for age discrimination.

Retirement Benefits (cont'd)

- Social Security Act of 1935
 - Established a system providing *old age*, *survivor's*, *disability*, and *retirement* benefits.
 - ❖ Federal payroll tax (7.65%) on both the employer and the employee.
 - ❖ Medicare taxes are 2.9%
 - ❖ Benefit payments are based on an employee's lifetime earnings.
 - Administered by the Social Security Administration.



Pension Plans

- Pension Plans

- Retirement benefits established and funded by employers and employees.

- Traditional Benefit Plans

- Defined-benefit plans

- ❖ Employees are promised a definite pension amount based on age and length of service.

- Defined-contribution plans

- ❖ Employer makes an annual payment to an employee's account.

- ❖ Benefit payout is determined by the financial performance of the employee's retirement.

Worker Participation in Pension Plan

| Category of Workers | Type of Pension Plan | |
|-----------------------------------|----------------------|----------------------|
| | Defined Benefit | Defined Contribution |
| All | 20% | 40% |
| White-collar | 22% | 51% |
| Blue-collar | 24% | 38% |
| Service | 7% | 16% |
| Full-time | 24% | 48% |
| Part-time | 8% | 14% |
| Union | 72% | 39% |
| Non-union | 14% | 40% |
| In firms with 1–99 workers | 8% | 51% |
| In firms with 100 or more workers | 33% | 51% |

Source: U.S. Bureau of Labor Statistics, 2004, www.bls.gov.

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Figure 14–6

Pension Plans (cont'd)

- **Cash Balance Plans**
 - Benefits are based on an accumulation of annual company contributions, expressed as a percentage of pay, plus interest credited each year.
- **Employee Retirement Income Security Act (ERISA)**
 - Regulates pension funds to assure their soundness.
 - ❖ Requires firms to offer retirement plans to all employees if offered to any employees.
 - ❖ Accrued benefits must be paid to departing employees.
 - ❖ Requires minimum funding for IRS approval and purchase of plan termination insurance.

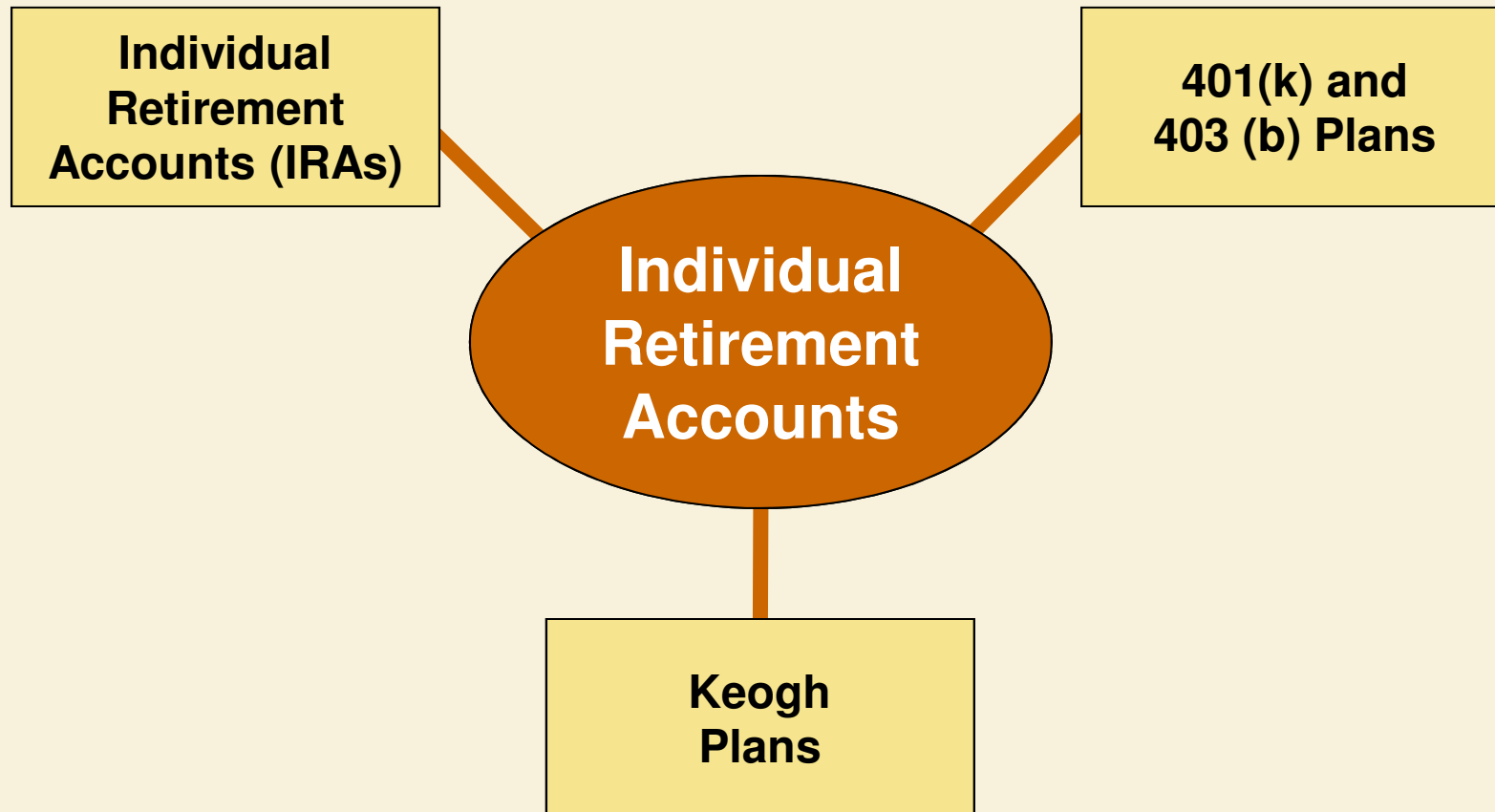
Retirement Equity in Pension Plans

- *Arizona Governing Committee v. Norris*
 - U.S. Supreme Court decision requiring the use of “unisex” mortality tables.
- **The Retirement Equity Act**
 - An amendment to ERISA and the Internal Revenue Code—liberalized pension regulations affecting women, guaranteed access to benefits, prohibited pension-related penalties due to absences from work, and lowered the vesting age.
- **Qualified Domestic Relations Order (QDRO)**
 - An agreement between a divorcing couple that identifies who gets assets in a retirement plan.

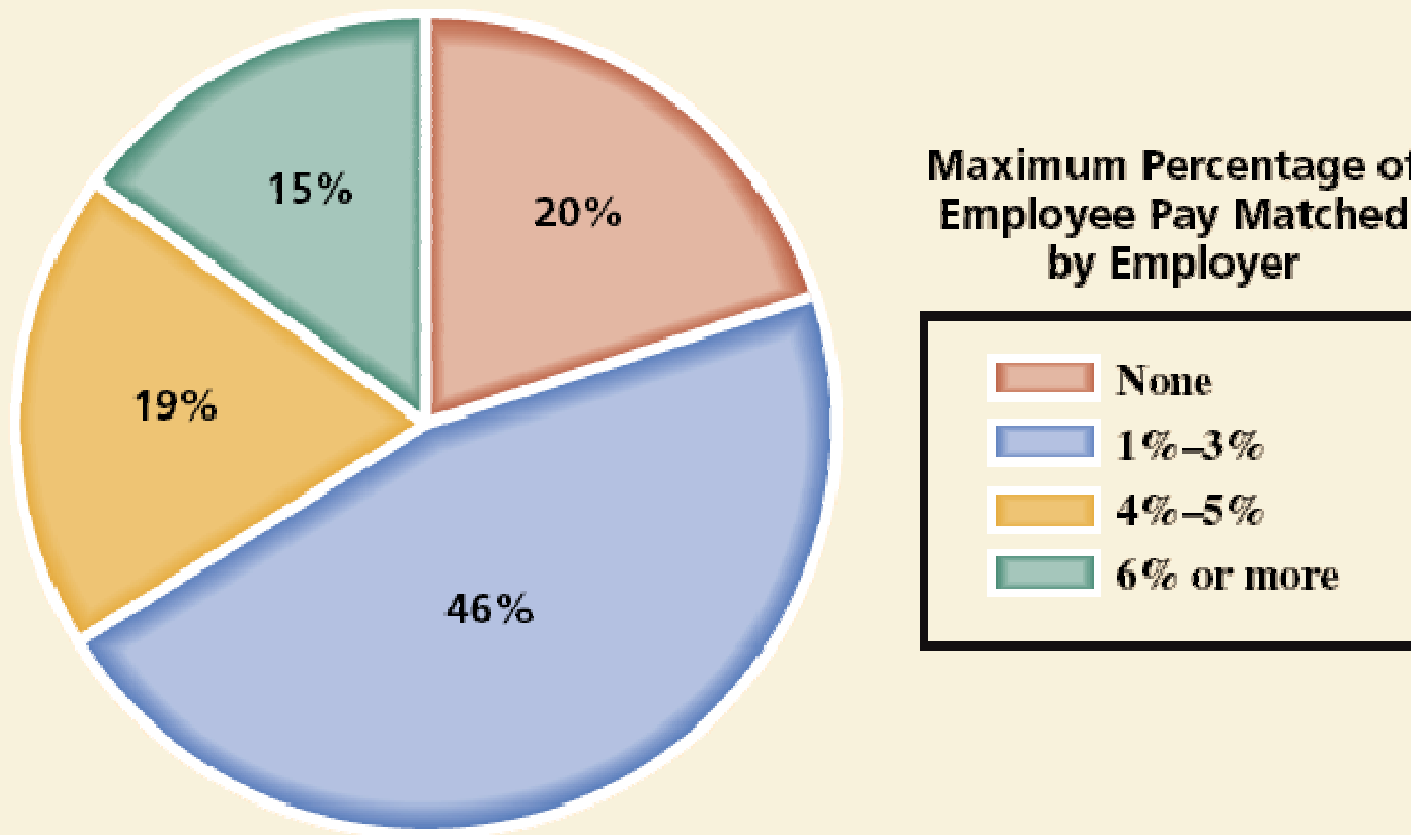
Pension Terms and Concepts

- **Contributory Plan**
 - Both employer and employee pay money into the retirement fund.
- **Non-contributory Plan**
 - All pension benefits funding is paid by the employer.
- **Vesting**
 - The right of employees to receive certain benefits from their pension plans.
- **Portability**
 - A pension plan feature that allows employees to move their benefits from one employer to another.

Individual Retirement Options



Employer Maximum Matches of 401(k) Contributions



Source: EBN/Hay Benefits Survey, 2003. Used with permission.

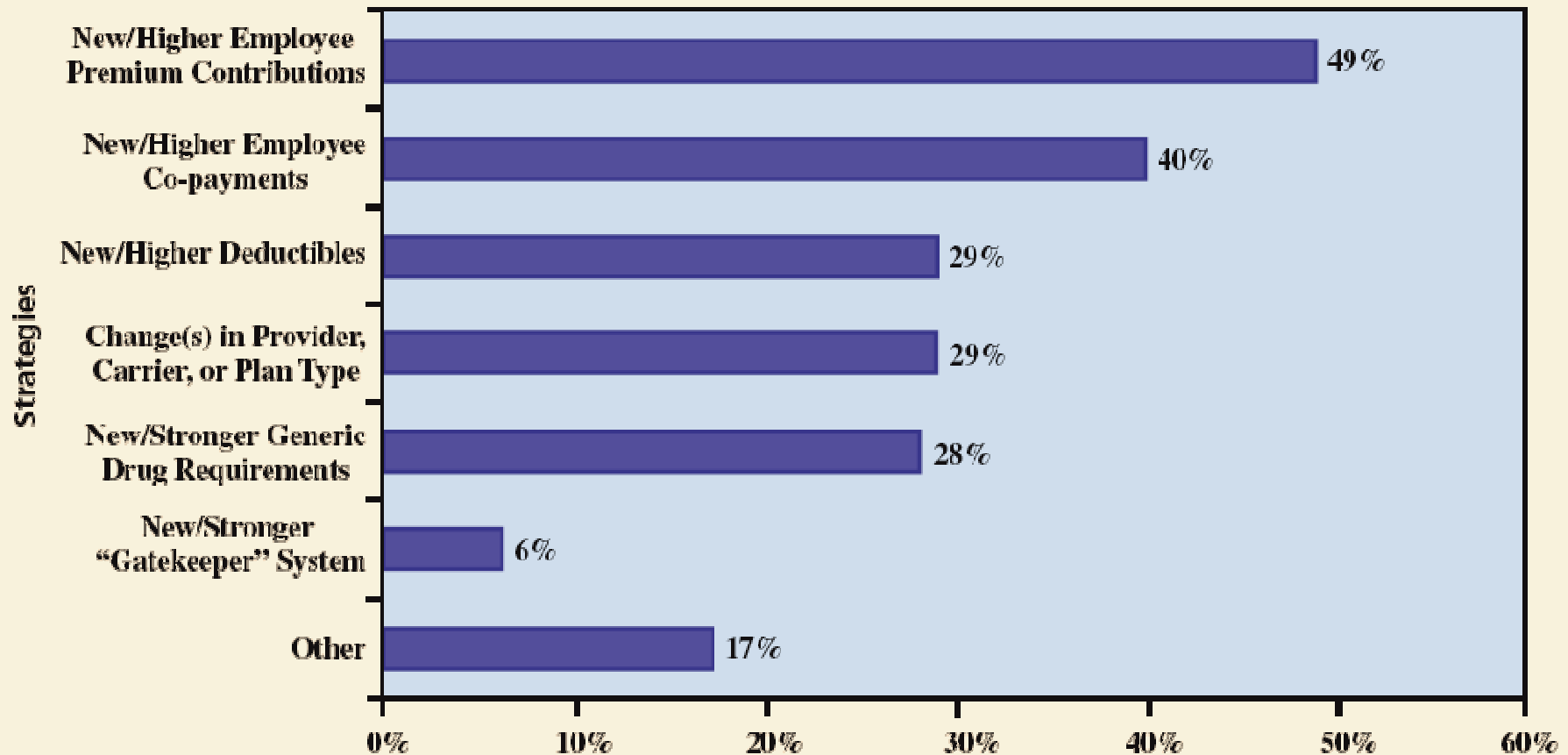
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Figure 14–7

Controlling Health-Care Benefits Costs

- Changing Co-Payment and Employee Contributions
 - Employees are required to pay a portion of the cost of both insurance premiums and medical care through increases in per-person deductibles.
 - Elimination of first dollar coverage.
- Utilization Review
 - Audit of the services and costs billed by health-care providers.
 - ❖ Requiring a second opinion, a review of the procedures done, and a review of the charges for procedures done.

Cost-Control Strategies for Health-Care Benefits



Source: *Bulletin to Management*, Bureau of National Affairs, (Washington, DC, 2002), February 14, 2002, S2. To purchase this publication and find out more about other BNA HR solutions visit <http://hrcenter.bna.com> or call 800-372-1033. Used with Permission.

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Figure 14-8

Controlling Health-Care Costs

- **Managed Care**
 - Approaches that monitor and reduce medical costs using restrictions and market system alternatives.
- **Preferred Provider Organization**
 - A health-care provider that contract with an employer group to provide health-care services to employees at a competitive rate.
- **Health Maintenance Organization (HMO)**
 - A managed care plan that provides services for a fixed period on a prepaid basis.

Controlling Health-Care Costs (cont'd)

- **Consumer-Driven Health (CDH) Plan**
 - Also known as defined-contribution health plans,
 - Employers contribute a set amount to employees to cover their own health-related expenses.
- **Advantages**
 - More of the increases in health-care benefits are shifted to employees
 - The focus of controlling health-care usage falls on employees, who may have to choose when to use and not use health-care benefits.

Health-Care Legislation

- Consolidated Omnibus Budget Reconciliation Act (COBRA) Provisions
 - Former employees are eligible to purchase group insurance at no more than 102% of group insurance premium rate.
 - Former employees, their spouses, and eligible dependents are covered for 18 to 36 months
 - COBRA requirements incur additional paperwork and related costs for employers.

Health-Care Legislation (cont'd)

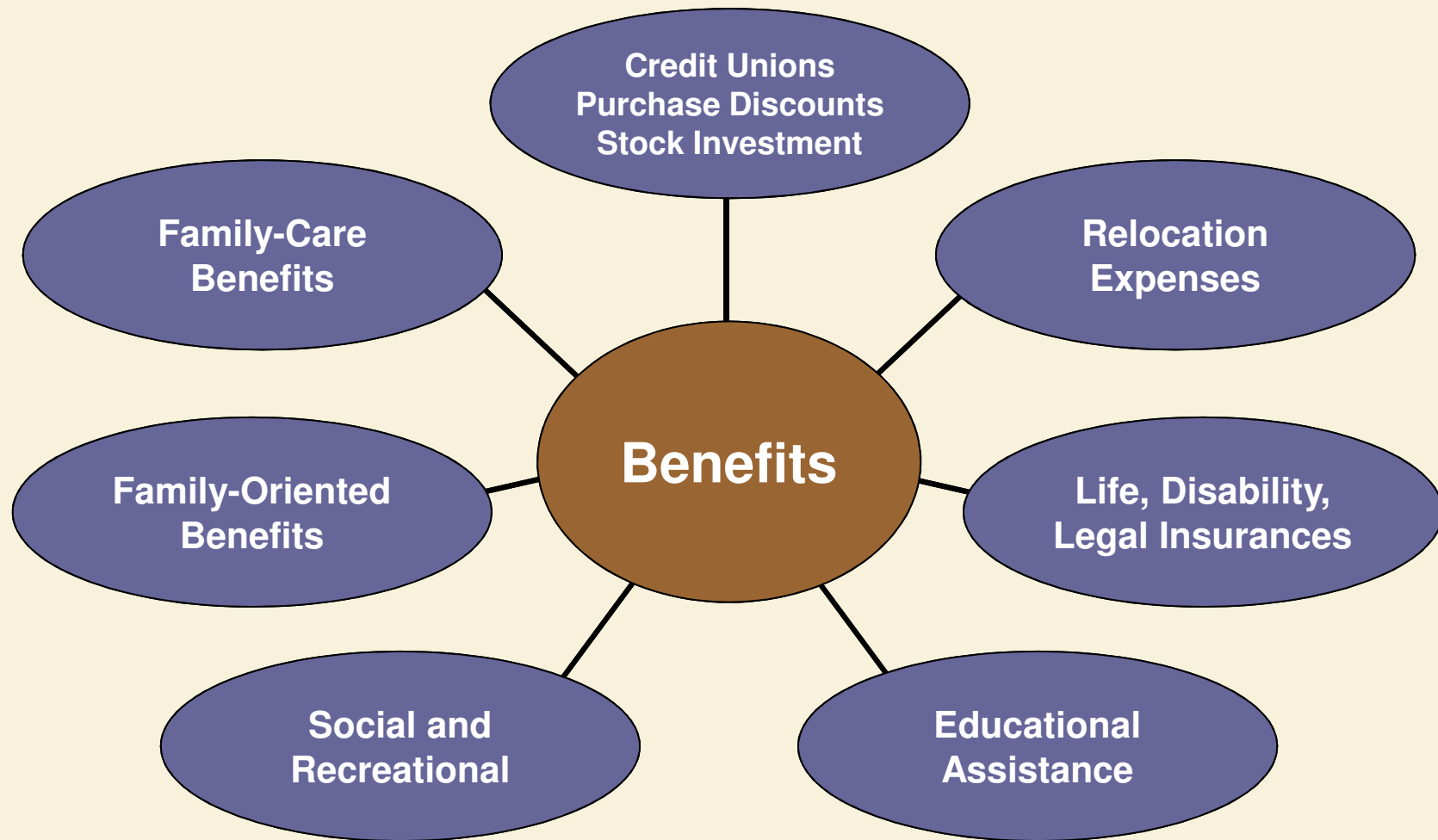
- Health Insurance Portability and Accountability Act (HIPAA) of 1996 Provisions
 - Allows employees to switch their health insurance plan from one company to another, regardless of pre-existing health conditions.
 - ❖ Health plans must continue to cover sick employees.
 - Require employers to provide privacy notices to employees.
 - Regulate the disclosure of protected health information without authorization.

Overview of COBRA Provisions

| Qualifying Event | Qualified Beneficiaries | Coverage Period |
|---|--|-----------------|
| Employee termination / reduction in hours (except for misconduct) | Employee, spouse, and dependent children | 18–29 months |
| Divorce or death of employee | Spouse and dependent children | 36 months |

Figure 14–9

Other Benefits



Family Medical Leave Act (FMLA)

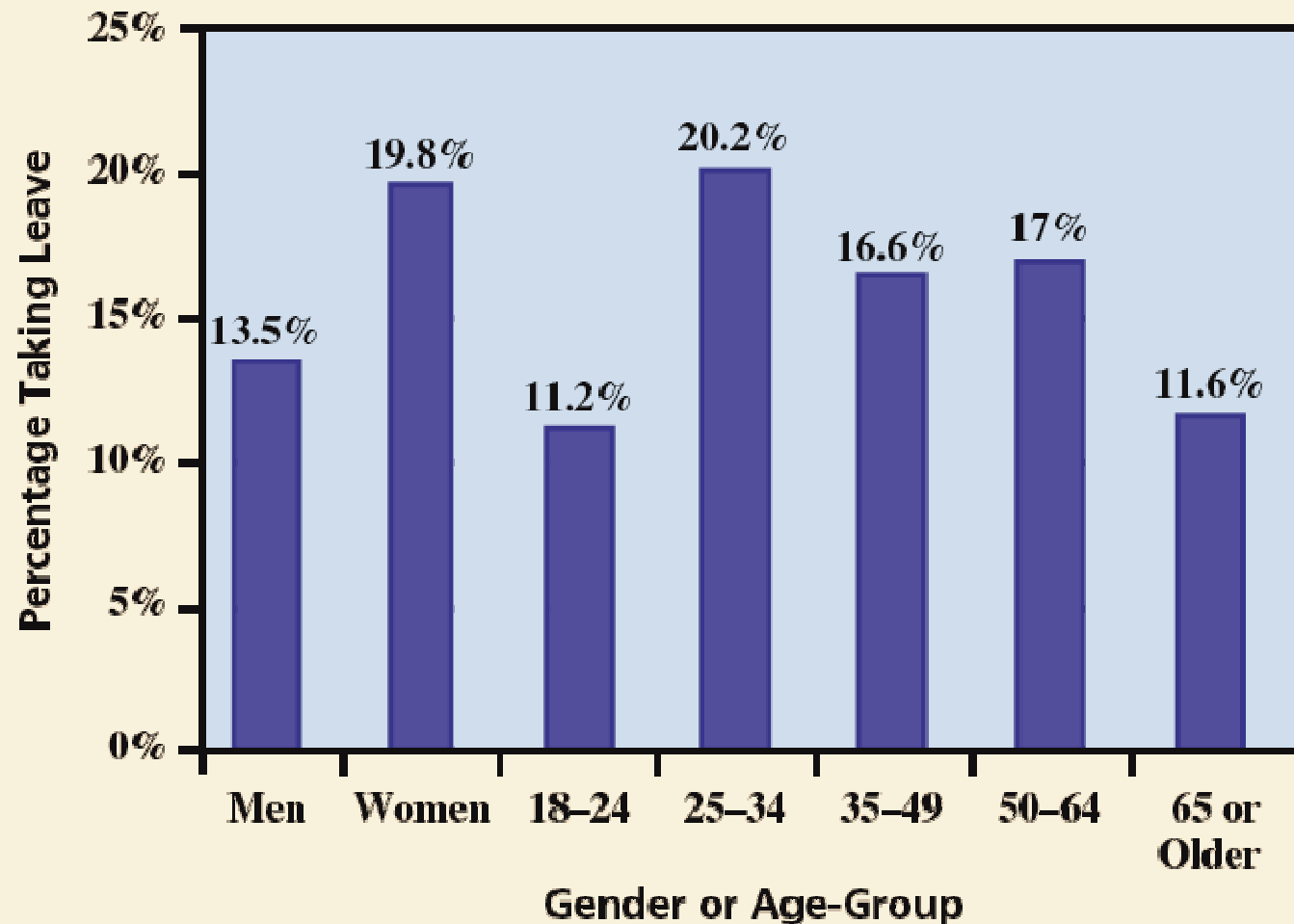
- Coverage

- Employers with 50 or more employees
- Employees who have worked at least 12 months and 1,250 hours in the previous year.

- Requirements

- Employers must allow eligible employees to take up to a total of 12 weeks of unpaid leave in a 12-month period to attend to a family or serious medical condition.
- Employees have the right to continued health benefits and the right to return to their job.

Percentages of Employees Taking Family or Medical Leave



Source: Jane Wald Fogel, "Family and Medical Leave," *Monthly Labor Review*, September 2001, 17-23; and U.S. Bureau of Labor Statistics, www.bls.gov.

<http://www.deden08m.com>

Figure 14-10

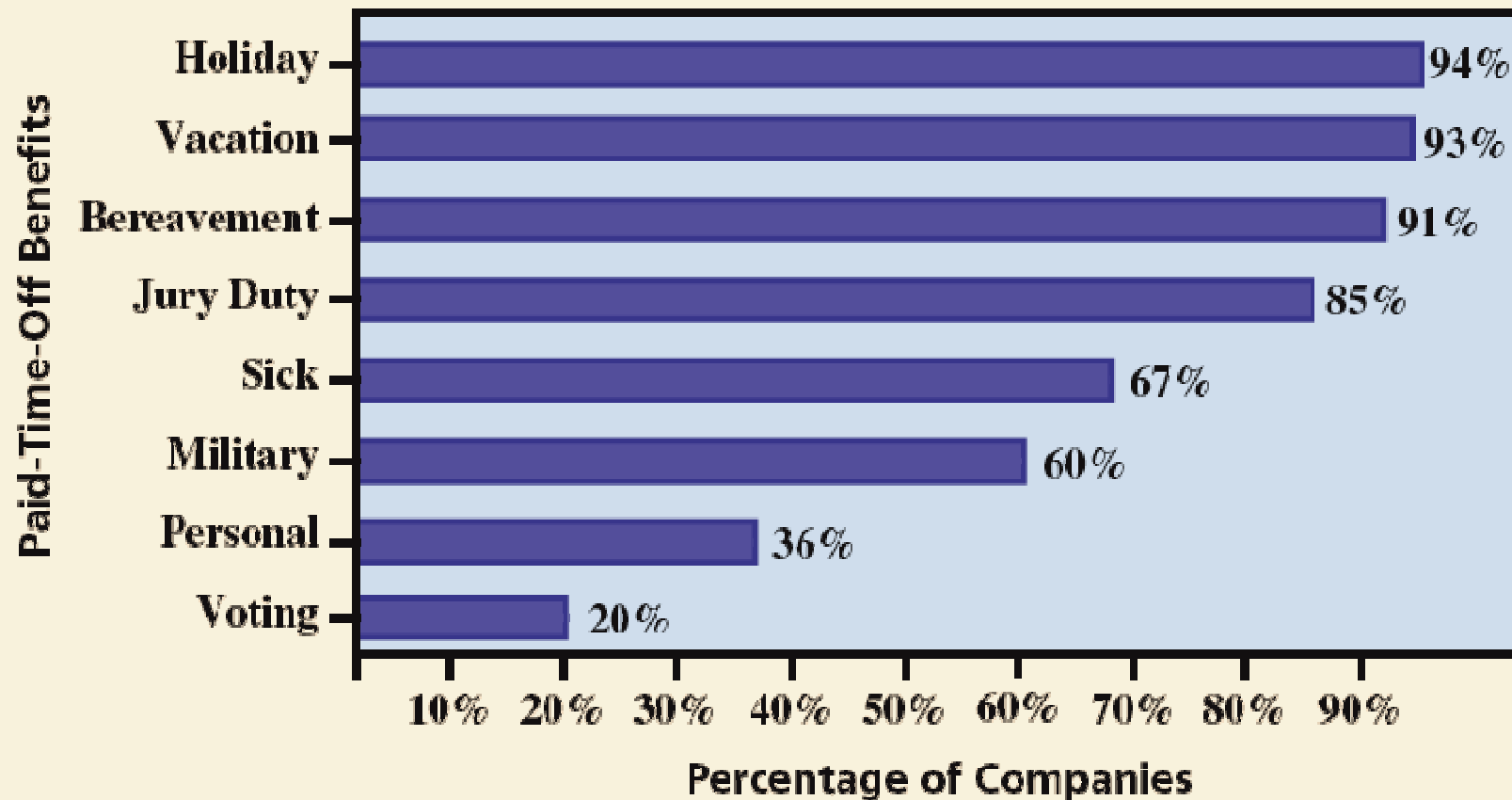
Benefits for Domestic Partners

- Domestic Partners or Spousal Equivalents
 - Unmarried employees who are living with individuals of the opposite sex
 - Gay and lesbian employees who have partners
- Affidavit of Spousal Equivalence
 - Each is the other's only spousal equivalent.
 - They are not blood relatives.
 - They are living together and jointly share responsibility for their common welfare and financial obligations.

Time-Off Benefits

- **Holiday Pay**
 - Eligibility
- **Vacation Pay**
 - Eligibility and scheduling
- **Leaves of Absence**
 - Family Leave
 - Medical and Sick Leave
 - Military Leave
 - Election Leave
 - Jury-duty Leave
 - Funeral Leave
- **Paid Time-Off (PTO) Plans**
 - Combine all sick leave, vacation time, and holidays into a total number of hours or days that employees can take off with pay.

Percentage of Companies with Various Paid-Time-Off Plans



Source: U.S. Bureau of Labor Statistics, www.bls.gov. 2004.

<http://www.deden08m.com>

Figure 14–11

Benefits Administration

- Benefits Communication

- Benefits Statements

- ❖ Annual “personal statement of benefits” that translates the benefits into dollars to show their worth.

- The Internet and Benefits Communication

- ❖ Web-based HR information systems allows employees to change their benefit choices, track their benefit balances, and seek benefit information on-line.



Typical Division of HR Responsibilities: Benefits Administration

| HR Unit | Managers |
|--|---|
| <ul style="list-style-type: none">◆ Develops and administers benefits systems◆ Answers employees' technical questions on benefits◆ Monitors benefits usage◆ Suggests benefits cost-control approaches | <ul style="list-style-type: none">◆ Answer simple questions on benefits◆ Maintain liaison with HR specialist on benefits◆ Maintain good communications with employees near retirement◆ Coordinate use of time-off benefits |

Figure 14–12

Flexible Benefits

- Flexible Benefit Plan
 - A plan (*flex or cafeteria plan*) that allows employees to select the benefits they prefer from groups of benefits established by the employer.
- Problems with Flexible Plans
 - Inappropriate benefits package choices
 - Adverse selection and use of specific benefits by higher-risk employees
 - Higher administrative const