

FIFTEENTH EDITION

# HUMAN RESOURCE MANAGEMENT



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## CHAPTER 13

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# Managing Employee Benefits

# Learning Objectives

- Define a benefit and identify four strategic benefits considerations
- Analyze the differences between employee benefits in the United States and those in other countries
- Distinguish between mandated and voluntary benefits and list three examples of each

# Learning Objectives

- Discuss the trends in retirement plans and compare defined benefit and 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

# Benefits

- **Benefit:** Tangible indirect rewards provided to an employee or group of employees for organizational membership

# Benefits

- Include retirement plans; paid time off; health, life, and disability insurance; and more
- U.S. employers often provide benefits
- Taxes pay for many other countries' benefits
- U.S. benefit cost average 33%–50% of payroll expenses
- Health insurance is the largest percentage

# Figure 13-1: Employer Compensation and Benefit Costs per Hour

Compensation Element	Private Industry Employers		State and Local Government Employers	
	Dollar (\$)	Percentage (%)	Dollar (\$)	Percentage (%)
Total compensation	31.32	100	43.95	100
Wages and salaries	21.72	69.4	28.17	64.1
Total benefits	9.60	30.6	15.78	35.9
Legally required benefits	2.50	8.0	2.59	5.9
Paid leave	2.16	6.9	3.20	7.3
Supplemental pay	1.10	3.5	0.35	0.8
Insurance	2.54	8.1	5.22	11.9
Retirement and savings	1.30	4.2	4.42	10.1

Source: U.S. Bureau of Labor Statistics, 2014.

# Benefits and HR Strategy

- Benefits approach adopted as part of total rewards depends on many factors, such as:
  - Size of the organization
  - Workforce competition
  - Organizational life cycle
  - Employee demographics
  - Financial circumstances
  - Corporate strategic approach

# Benefits as a Competitive Advantage

- Benefits are offered to:
  - Aid recruiting and retention
  - Improve organizational performance
  - Meet legal requirements
  - Reinforce the company philosophy of social and corporate citizenship



# Benefits as a Competitive Advantage

- Benefits can influence employees' decisions about:
  - Which employer to work for
  - Whether to stay with or leave an organization
  - When to retire

# Tax-Favored Status of Benefits

- Most benefits are not taxed as income to employees
  - Except for paid time off
- **Gross-up:** To increase the net amount of what the employee receives to include the taxes owed on the amount

# Global Benefits

- Benefits differ significantly across the globe
  - Total hourly compensation
  - Retirement and health insurance plans
  - Amount of paid leave and vacation time
  - Paid time off for childbirth and medical disability
  - Paid sick leave policies
- In many countries, employers and employees are taxed heavily to pay into government funds

# Global Benefits

- Multinational companies must determine how to compensate both host-country nationals and expatriates
  - So that all employees will feel that they are being treated fairly
- Decisions about compensation impact global attraction and retention of employees for international employers

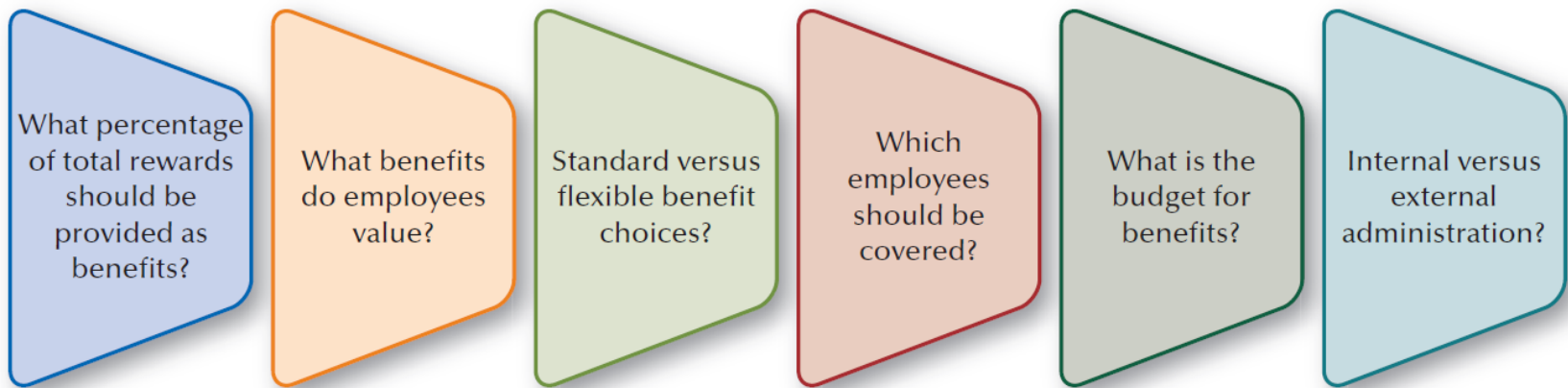
# Public-Sector Benefits

- Public sector workers
  - Enjoy more benefits than those in the private sector
  - Belong to labor unions at a much higher rate than nongovernment workers
  - Their union contracts include:
    - Free health care
    - Traditional defined benefit pension plans

# Managing Benefits

- Benefits Design – goal is providing value for employees while remaining cost-effective
- Flexible Benefits
- Part-Time Employee Benefits and Status
- Domestic Partner Benefits
- Older Workers Benefit Needs

# Figure 13-3: Benefit Design Decisions



# Flexible Benefits

- **Flexible benefits plan:** Allows employees to select the benefits they prefer from options established by the employer
- Challenges faced when providing choices:
  - Employees may choose an inappropriate package
  - Younger employees may decide not to participate in the retirement plan
  - **Adverse selection:** Only higher-risk employees select and use certain benefits
  - Higher administrative costs for the organization



# Part-Time Employee Benefits

- Part time employees:
  - Most do not receive employee benefits
  - Are least likely to receive health and life insurance benefits
- Employers create their own full- and part-time thresholds

# Figure 13-4: Access to and Participation in Selected Employee Benefits for Private-Sector Workers

Benefit Category	Part-Time Employee		Full-Time Employee	
	Access (%)	Participation (%)	Access (%)	Participation (%)
Retirement	37	19	74	58
Medical care	23	12	86	63
Life insurance	13	11	72	71

Source: U.S. Bureau of Labor Statistics, 2014.

*Note:* Access means that the employee is offered the opportunity to enroll in the benefit plan.

*Participation* means that the employee actually enrolls in the benefit plan or receives the benefit.

# Domestic Partner Benefits

- U.S. Supreme Court voted against DOMA
- Same-sex spouses may be entitled to benefits
- In states where gay marriage is legal:
  - Companies determine whether to treat same-sex spouses the same as traditional married couples with regard to benefits
  - Insurance issuers cannot deny coverage to same-sex married couples
  - Employers must provide benefits provided under federal law

# Domestic Partner Benefits

- Not providing benefits to married same-sex couples may result in litigation under Title VII of the Civil Rights Act
- Providing benefits to married same-sex couples shows that the organization:
  - Is accommodating and respectful of all employees
  - Can enhance recruiting, employee satisfaction, and retention

# Older Workers Benefit Needs

- Benefits attractive to older workers
  - Modified work schedules
  - Part-time benefits
  - Simplified seasonal travel
  - Wellness programs
  - Annual financial planning counseling
- Phased retirement programs allow employees to work part time and withdraw some retirement funds at the same time

# Benefits Administration and Technology

- **Open enrollment:** Time when employees can change their participation level in various benefit plans and switch between benefit options
- Outsourcing benefits administration
  - Many organizations must make coordinated efforts to administer benefits programs
  - **Third-party administrator (TPA):** Vendor that provides administrative services to an organization

# Benefits Administration and Technology

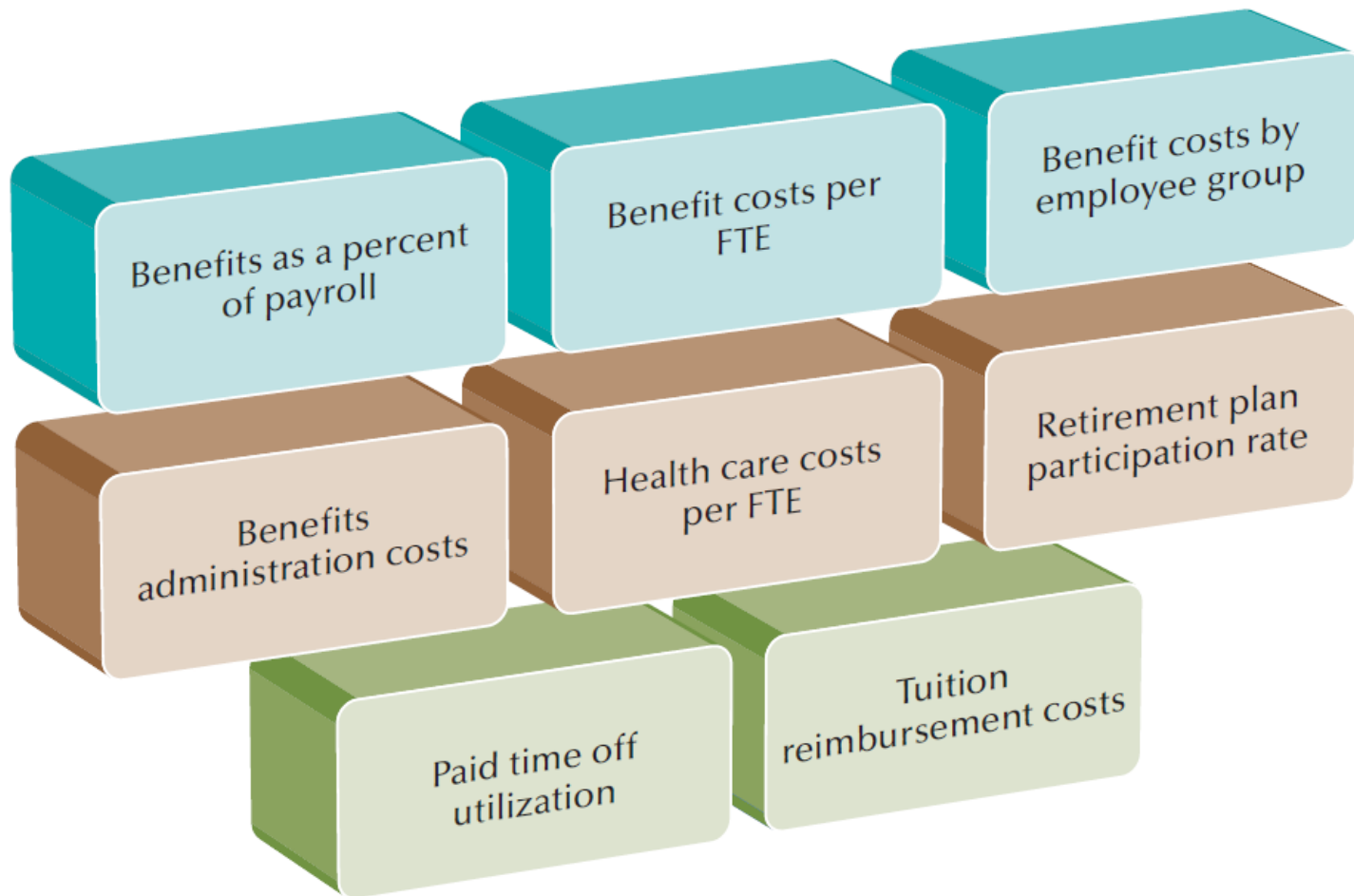
- Technology and employee self-service
  - Internet and computer-based systems are being used to:
    - Communicate benefits information
    - Conduct employee benefits surveys
    - Facilitate benefits administration
    - Decrease expenses
    - Increase positive communication
    - Effectively connect people across many HR functions

# Benefits Administration and Technology

- **Self-service:** Technology that allows employees to:
  - Change their benefits choices
  - Track their benefit balances
  - Submit questions to HR staff members and external benefit providers



# Figure 13-5: Frequently Used Benefit Metrics



# Benefits Cost Control

- **Reducing or Dropping Benefits**
- **Cost Sharing with Employees**
- **Sponsoring Wellness Programs**
- **Fostering Employee Health Education**
- **Changing Prescription Drug Programs**
- **Consolidating of Benefits Packages**

# Benefits Communication

- Employees often are not aware of values and costs of benefits
- Employers develop benefit communication systems using:
  - Online/Print Materials
  - Group Sessions
  - Personal Counseling
  - Benefits Website and Social Media

# Benefits Communication

- When communicating benefit information, consider:
  - Timing and Frequency
  - Communication Methods
  - Significant Changes to Benefits
  - Rationale
- **Personal benefits statement:** Translates benefits into dollar amounts
  - Help employees see the value of their benefits

# Types of Benefits

- Employers offer both legally mandated and voluntary benefits
- Employers offer a broad variety to compete for and retain employees
- **Cafeteria benefit plan:** Employees are given a budget and can purchase the bundle of benefits most important to them from the “menu” of options offered by the employer

# Figure 13-6: Types of Benefits

Legally required benefits
  Voluntary benefits

Health Care Benefits	Time-Off Benefits	Retirement Benefits
<ul style="list-style-type: none"> <li>◆ COBRA and HIPAA provisions</li> <li>◆ PPACA</li> <li>◆ Medical plans</li> <li>◆ Medicare</li> </ul>	<ul style="list-style-type: none"> <li>◆ Military-service leave</li> </ul>	<ul style="list-style-type: none"> <li>◆ Social Security</li> <li>◆ ADEA and OWBPA provisions</li> </ul>
<ul style="list-style-type: none"> <li>◆ Dental and vision care</li> <li>◆ Wellness programs</li> </ul>	<ul style="list-style-type: none"> <li>◆ Public-service leave</li> <li>◆ Vacation</li> <li>◆ Holidays</li> <li>◆ Bereavement leave</li> </ul>	<ul style="list-style-type: none"> <li>◆ Defined benefit plans</li> <li>◆ Defined contribution plans</li> <li>◆ 401(k) plans</li> <li>◆ Cash balance pension plans</li> <li>◆ Phased retirement programs</li> </ul>
Financial Benefits	Family Benefits	Security Benefits
<ul style="list-style-type: none"> <li>◆ Life, disability, and long-term care insurance</li> <li>◆ Education assistance</li> <li>◆ Relocation/home buying assistance</li> <li>◆ Severance pay</li> </ul>	<ul style="list-style-type: none"> <li>◆ FMLA provisions</li> </ul>	<ul style="list-style-type: none"> <li>◆ Workers' compensation</li> <li>◆ Unemployment compensation</li> </ul>
	<ul style="list-style-type: none"> <li>◆ Domestic partner benefits</li> <li>◆ Adoption benefits</li> <li>◆ Child care and elder care</li> </ul>	

# Legally Required Benefits

- Social Security Act of 1935 – Provides old age, survivor's, disability, and retirement benefits
- Medicare – government-operated health insurance for Americans 65 and older
  - Taxed on both employer and employee
    - Social security tax is 6.2% (total of 12.4%)
    - Medicare tax is 1.45% (total of 2.9%)
    - Additional 0.9% Medicare tax for higher-income employees
- Long-term viability of both taxes is in question

# Workers' Compensation

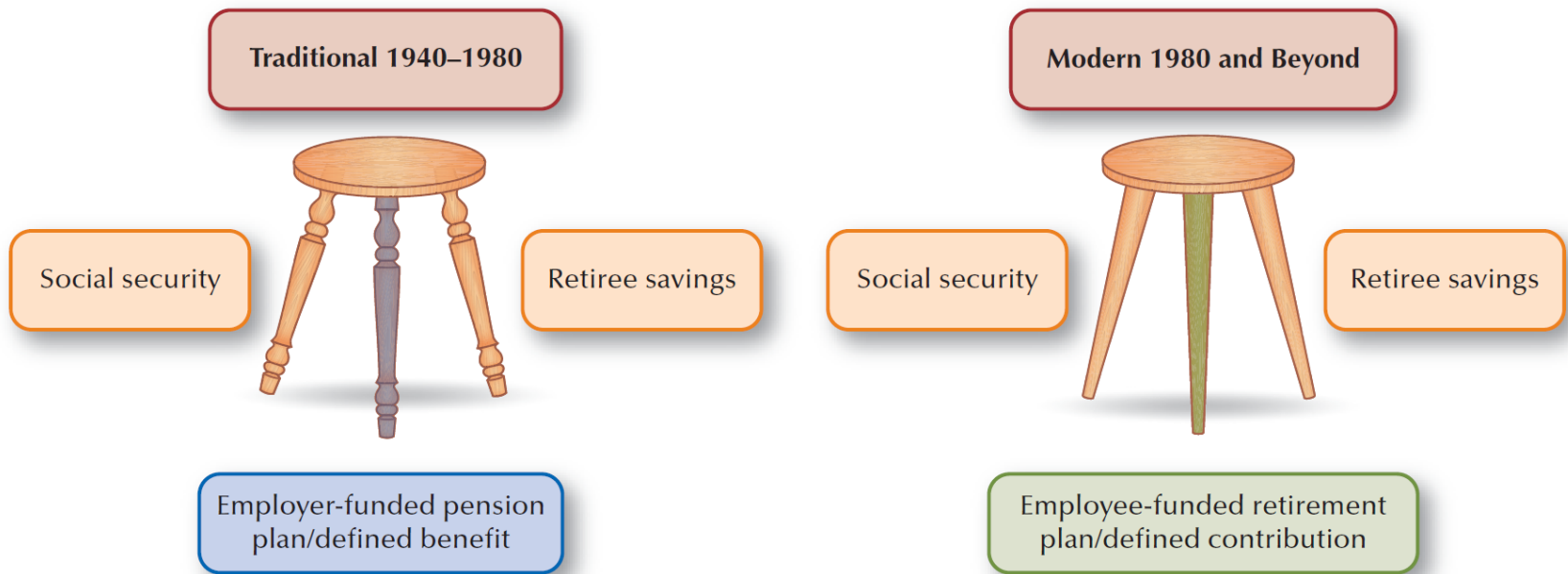
- **Workers' compensation:** Security benefits provided to workers who are injured on the job
- Concepts that balance the rights of employers and employees under workers' compensation:
  - **No-fault insurance:** Injured worker receives benefits even if the accident was the employee's fault
  - **Exclusive remedy:** Workers' compensation benefits are the only benefits injured workers may receive from the employer to compensate for work-related injuries



# Unemployment Compensation

- Established by the Social Security Act of 1935
- Provides a minimum level of benefits for workers who are out of work
- Each state operates its own system, so benefits differ by state
- Companies pay an unemployment tax
- Out-of-work and actively-looking employee can receive 26 weeks of 50–80% pay

# Figure 13-8: The Three-Legged Stool of Retirement Income



# Retirement Plan Concepts

- **Vesting:** Benefit that cannot be taken away
  - No pension rights accrue if they have not been employed long enough to be vested
- **Portability:** Retirement plan feature that allows employees to move their retirement benefits from one employer to another
  - Once workers are vested they can transfer their retirement benefits from one employer to another

# Retirement Plan

- **Retirement plan:** Program established and funded by the employer and/or employees to fund employee's retirement years

# Types of Retirement Plans

- Types of Retirement Plans
  - **Defined Benefit Plan:** Employees are promised a pension amount based on age and years of service
  - **Defined Contribution Plan:** Employer and/or employee makes an annual payment to employee's retirement account
  - **Cash Balance Plan:** Benefits are base on accumulated annual company contributions (% of pay + interest)

# Figure 13-9: Comparison of Defined Benefit and Defined Contribution Retirement Plans

## Defined Benefit

- ◆ Typically funded at least in part by employer
- ◆ Amount of benefit paid at retirement is predetermined
- ◆ Investment risk borne by employer
- ◆ Benefit guaranteed by Pension Benefit Guaranty Corporation (PBGC)
- ◆ Amount of contribution changes on the basis of actuarial assumption
- ◆ Common in public sector and unionized workforces

## Defined Contribution

- ◆ Typically funded by employee and employer
- ◆ Amount of benefit at retirement is determined on the basis of investment performance
- ◆ Investment risk borne by employee
- ◆ Benefit not guaranteed
- ◆ Amount of contribution is defined by employee participation level and company match
- ◆ Common in private sector and nonunion workforces

# Common Defined Contribution Plans

- Profit-Sharing Plans
- Employee Stock Ownership Plans (ESOPs)
- **401(k) plan:** Plan allows for a percentage of an employee's pay to be withheld and invested in a tax-deferred account
  - **Auto-enrollment:** Employee contributions to a 401(k) plan are started automatically when an employee is eligible to join the plan

# Legal Requirements of Retirement Benefits

- Employee Retirement Security
  - Employee Retirement Income Security Act (ERISA) in 1974
  - Retirement Benefits and Age Discrimination (ADEA) in 1986
  - Older Workers Benefit Protection Act (OWBPA) in 1990



# Health Care Benefits

- Health plans are one of the most important benefits companies offer
- Can cover medical, dental, prescription drug, and vision care expenses
- Compared to the year 2000:
  - Fewer Americans are covered by health plans
  - Fewer private companies provide health plans
  - Fewer employees enrolled in health plans

# Increases in Health Benefit Costs

- Since the year 2000:
  - Single worker premiums increased 100%
  - Family premiums increased 125%
  - Employees pay more of the premiums
  - Average health care coverage expenses expected to increase to \$11,304 per year
  - Employees predicted to pay 23.6% of premiums (\$2,664) and \$2,487 in out-of-pocket expenses

# Health Care Reform Legislation

- Patient Protection and Affordable Care Act (PPACA) phased in to coverage in 2014
- Debate and litigation continues regarding PPACA
- PPACA specifies 30 hours a week is full time
- Employer-sponsored health benefits will continue to change

# Figure 13-10: Key Provisions of the Affordable Care Act

Requires most individuals to maintain minimum essential coverage or pay a penalty

Requires companies with 50 or more employees (who work 30 hours a week or more) to provide health care coverage or pay a penalty

Extends dependent coverage up to age 26

Eliminates lifetime and unreasonable annual benefit limits

Requires coverage for preventive services

Restricts insurance companies from setting rates based on an individual's health status, medical conditions, other health-related factors

Creates state-run health care exchanges through which insurance companies will offer competitive health plans

# Controlling Health Care Benefit Costs

- **Reducing or Dropping Benefits**
- **Cost Sharing with Employees**
- **Sponsoring Wellness Programs**
- **Fostering Employee Health Education**
- **Changing Prescription Drug Programs**
- **Consolidating of Benefits Packages**

# Increasing Employee Contributions

- Types of programs that attempt to reduce health care costs paid by employers
  - **Managed care:** Approaches that monitor and reduce medical costs through restrictions and market system alternatives
  - Spousal exclusions: Limit access to a company's health plan when employee's spouse works for another company that offers health insurance

# Consumer-Driven Health Plans

- **Consumer-driven health (CDH) plan:** Provides employer financial contributions to employees to help cover their health-related expenses
- Gives employees ownership of their health care dollars

# Figure 13-11: Timeline of COBRA Notification Requirements

Event	Notification Deadline
1. COBRA Initial Notice must be provided	1. Within <i>30 days</i> after the employee first becomes enrolled in the group health plan
2. Employer to notify plan administrator	2. Within <i>30 days</i> after the qualifying event date
3. COBRA Qualifying Event Notice	3. <i>14 days</i> from the date the plan administrator receives notification from employee
4. Qualified beneficiary has right to elect COBRA Coverage	4. <i>60 days</i> from the date of COBRA notice
5. Qualified beneficiary initial premium due	5. <i>45 days</i> from the date of electing COBRA
6. Monthly COBRA premium grace period	6. <i>30 days</i> after the first day of each month
7. Employee/qualified beneficiary to notify plan administrator of a qualifying event	7. <i>60 days</i>
8. Continuation period ends	8. <i>18 months</i> after qualifying event for terminated employees <i>29 months</i> after qualifying event for disabled terminated employees <i>36 months</i> after qualifying event for spouse and dependent children plan participants

Source: Adapted from <https://www.goigoe.com/Employers/COBRATimelines.aspx>



# Health Insurance Portability and Accountability Act (HIPAA) of 1996

- Allows employees to switch their health insurance when they change employers
- Requires employers to:
  - Provide privacy notices to employees
  - Not disclose of health information without authorization
  - Consider an entity that handles health information a business associate
  - Consider any disclosure of information a breach

# Figure 13-12: Common Types of Financial Benefits



## Insurance

- ◆ Medical
- ◆ Dental
- ◆ Life
- ◆ Disability
- ◆ Long-term care
- ◆ Legal

## Financial Services

- ◆ Credit union
- ◆ Purchase discounts
- ◆ Stock purchase plan
- ◆ Financial planning
- ◆ Discount club membership

## Education Assistance

- ◆ Tuition reimbursement
- ◆ Trade training
- ◆ Professional certification or licensure
- ◆ Learning materials

# Insurance Benefits

- Common Types of Insurance Benefits
  - Life Insurance – Typical level of coverage is one and one-half or two times an employee's annual salary
  - Disability Insurance – Provide continuing income protection for employees who become disabled and are unable to work
  - Long-term care insurance – Allow employees to purchase insurance to cover costs for long-term health care in a nursing home, assisted-living facility, or at a home
  - Legal insurance – Employees (or employers) pay a flat fee for a fixed number of hours of legal assistance each month

# Family-Oriented Benefits

- Family and Medical Leave Act (FMLA)
- FMLA covers:
  - Employers with 50 or more employees who live within 75 miles of the workplace
  - Employees who have worked at least 12 months and 1,250 hours in the previous year

# Family Medical Leave Act (FMLA)

- FMLA leave provisions:
  - Maximum of 12 weeks of unpaid, job-protected leave during any 12-month period for the following situations:
    - Childbirth and newborn care within one year of birth
    - Adoption or foster care placement of a child
    - Caring for a spouse, child, or parent with a serious health condition

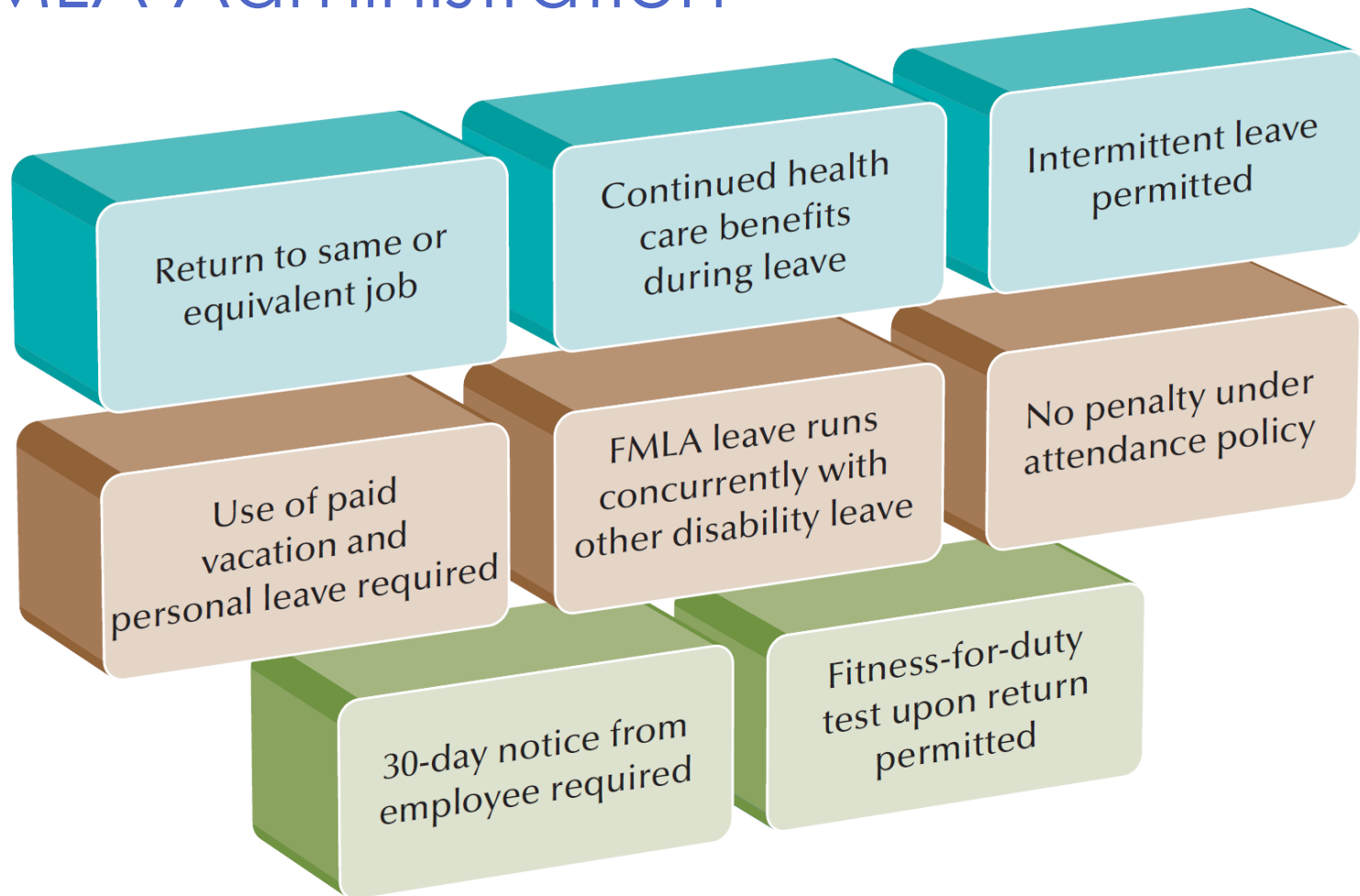
# Family Medical Leave Act (FMLA)

- **Serious health condition** of the employee: Illness or injury that requires inpatient care or continuing treatment by a health care provider for medical problems that exist beyond three days
- Military family members who must handle the affairs for military members called to active duty
- 26 weeks leave to care for a military servicemember injured while on active duty

# Family Medical Leave Act (FMLA)

- Impact of the FMLA
  - Significant percentage of employees have taken family and medical leave
  - Employers have to cover the workload for employees on family leave
    - Placed significant demands on HR professionals to ensure compliance with FMLA provisions

# Figure 13-13: Guidelines Regarding FMLA Administration



Source: <http://www.dol.gov/whd/fmla>.



# Family-Care Benefits

- Family-Based Benefits
  - Adoption Benefits
  - Child-Care Assistance
  - Elder-Care Assistance

# Time-Off and Other Benefits

- Time-Off and Other Benefits
  - Vacation and Holiday Pay
  - Family and Sick Leave
  - Leaves of Absence
  - Paid-Time-Off (PTO) Plans
  - Employee-Paid Group Benefits
  - Vacation and Holiday Pay