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

# DEFINING AND EXPLORING EMPLOYEE BENEFITS

Let’s start off with a brief definition of employee benefits. Next, we put employee benefits in the context of total compensation systems in companies (Exhibit 1.1) and from there expand the definition of employee benefits. Finally, we examine strategic considerations essential for establishing and maintaining effective employee-benefits programs.

#### EXHIBIT 1.1

**Employee Benefits in the Total Compensation Scheme**

Adjustments to Core Compensation

ore Compensation Hourly wage Annual salary

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•

Total Compensation

* Seniority
* Cost of living
* Merit
* Incentive

Person focused Legally Required Employee Benefits

* Social Security Act
* Workers’ compensation laws
* Family & Medical Leave Act
* Patient Protection and A"ordable Care Act of 2010

Discretionary Employee Benefits

* Disability insurance
* Life insurance
* Retirement plans
* Paid time o"
* Accommodation and enhancement

**Defining Employee Benefits**

**Employee benefits** refer to compensation other than an hourly wage or salary. Examples of specific employee benefits include paid vacation, health-care cover- age, tuition reimbursement, and many more. To organize the vast amount of benefits information efficiently, it is helpful to group benefits based on the role that the benefits serve for recipients and the source of the benefits.

**The Fundamental Roles and Sources of Employee Benefits** Three fundamental roles characterize benefits programs: protection, paid time off, and accommodation and enhancement. **Protection programs** provide family ben- efits, promote health, and guard against income loss caused by catastrophic factors such as unemployment, disability, and serious illnesses. **Paid time-off** policies compensate employees when they are not performing their primary work duties under particular circumstances such as vacation or illness. **Accommodation and enhancement benefits** promote opportunities for employees and their families. Employers may choose to offer one or more of these benefits, including wellness programs, flexible work schedules, and educational assistance.

Employee benefits derive from two broad sources. First, the U.S. federal government requires that most employers, employees, or both make contributions so that certain government-sponsored benefits can be provided to employees. These are referred to as *legally required benefits*. Laws such as the Social Security Act of 1935 mandate a variety of programs designed to provide income to retired workers, disability income, survivor benefits, and health care for older Americans. Legally required benefits can take other forms such as workers’ compensation insurance, which the employer purchases and administers. And, it should be noted that some cities and states have legislation that enhance federal government benefits such as paid sick leave. Second, companies may choose to offer additional benefits such as educational benefits and retirement savings plans as just two examples. Choice benefits are referred to as *discretionary benefits*.

Exhibit 1.2 lists typical employee benefits offered in U.S. companies. As this

exhibit shows, legally required benefits focus on protection, and companies may choose to offer additional protection programs, which often enhance or supple- ment legally required benefits. For instance, discretionary disability protection, when added with Social Security disability insurance, could generate a higher income stream than would otherwise be possible.

Prior to the passage of the Patient Protection and Affordable Care Act of 2010, which mandates that most companies provide health-care coverage, companies offered health- care benefits on a discretionary basis. However, some companies still treat health care as a discretionary benefit. In lieu of offering health-care benefits, they are willing to pay a penalty to the federal government based on provisions of the law. More recently, it is possible that employer-sponsored health care will return to discretionary benefit status because President-elect Donald Trump has promised to seek the law’s repeal.

## Employee Benefits in the Total Compensation Scheme

Employee benefits are a part of a company’s total compensation system. **Total com- pensation** represents both core compensation (wages, salaries, and adjustments), and

#### EXHIBIT 1.2

**Legally Required Benefits**

Old-Age, Survivor, and Disability Medicare

Insurance (OASDI) Unemployment insurance

Health-care coverage Workers’ compensation

Prescription drugs Family and Medical leave Mental health and substance abuse

Maternity care

**Discretionary Benefits**

*Protection Programs* Nonproduction time Dental care Volunteerism

Vision care Life insurance

Disability insurance (short- and long-term)

Retirement programs

*Paid Time Off*

Holidays Vacation Sick leave

Personal leave

Bereavement or funeral leave Sabbatical leave

Jury duty and witness duty leaves Military leave

*Accommodation and Enhancement*

*Programs*

Employees’ and family members’ mental and physical well-being

Employee assistance programs Wellness programs

Family assistance programs Educational benefits for employees

Educational assistance programs Tuition reimbursement programs Scholarship programs

Support programs for daily living Transportation services Physical fitness

**Typical Employee Benefit Offerings in the United States**

employee benefits represent compensation other than wages or salaries (see Exhibit 1.1). Compensation professionals establish core compensation programs to reward employ- ees according to their job performance levels or for acquiring job-related knowledge or skills. Monetary compensation lies at the heart of core compensation. After briefly defining specific core and employee-benefits practices, we will subsequently discuss the origins of employee benefits. Understanding the origins enables employee-benefits professionals to better understand the rationale for benefits design.

***Core Compensation***

Employees receive **base pay**, or money, for performing their jobs. Companies disburse base pay to employees in one of two forms. Employees can earn an hourly pay, or a wage, for each hour worked, or they can earn a salary for performing their jobs, regard- less of the number of hours worked. Companies measure salary on an annual basis.

### *Adjustments to Core Compensation*

Over time, employers may choose to adjust employees’ base for one or more reasons: increases in the cost of living, differences in employees’ job performance, or differences in employees’ attainment of job-related knowledge and skills. These elements are defined next.

**Cost-of-living adjustments (COLAs)** represent periodic base-pay increases often set to periodic changes in the U.S. Bureau of Labor Statistics’ Consumer Price Index (CPI). COLAs enable workers to maintain purchasing power by having their base pay adjusted for inflation. Over time, most everything we buy costs more money, such as the price of a gallon of milk. Most companies choose not to apply COLAs to base pay. However, this practice is a common feature in the unionized workforce and in government employment.

How exactly does inflation affect purchasing power? Let’s assume, for example, that a local grocery store employs college students, paying them $11 per hour. Let’s also assume that a student works 10 hours per week, for a total of $110. Further, let’s assume a student typically drives his car, paying $20 per week for gasoline. As gas prices rise, the weekly gasoline cost could increase to $30. As long as the hourly wage rate remains the same, the student will have 10 fewer dollars available for other pur- suits. Rising costs erode purchasing power when wages do not increase accordingly. **Seniority-pay** systems reward employees with periodic additions to base pay, according to length of service. Over time, employees presumably refine existing skills or acquire new ones that enable them to work more productively. This rationale comes from human capital theory, which states that employees’ knowledge and skills generate productive capital, known as human capital. A person employed in a com- pany for a long time knows rules and procedures from which he or she develops the skills (i.e., human capital) necessary to perform a job more quickly than newly hired employees. Today, most unionized private-sector and public-sector organiza- tions continue to base salary on seniority or length of employee service, though the number of unionized workplaces is steadily declining. In 2015, the overall unioniza- tion rate was 11.1 percent. During the same period, unionization in the private sector was 6.7 percent and 35.2 percent in the public sector. Members of union-bargaining units whose contracts include seniority provisions, usually rank-and-file as well as clerical workers, receive automatic raises based on the number of years they have been with the company. In the public sector, most administrative, professional, and

even managerial employees receive such automatic pay raises.1

**Merit-pay** programs assume that employees’ compensation over time should be determined based on differences in job performance. Employees earn permanent increases to base pay according to their performance, which rewards excellent effort or results, motivates future performance, and helps employers retain valued employees. Merit pay increases are expressed as a percentage of current base pay, with higher percentage increases for better performers. For instance, an employee currently earning $25,000 annually receives a 10 percent merit pay increase, mak- ing her total annual pay $27,500 after the pay raise takes effect: [$25,000 + (10 per- cent of $25,000 = $2,500)]. In 2016, employees earned average merit increases of

* 1. percent across all industries, and the projected average increase for 2017 was
	2. percent.2 This average increase did not vary significantly, except for nonexempt hourly employees whose average merit increase was 2.9 percent in 2016. In addi- tion, most companies relied on market-based pay increases. Most U.S. companies rely on merit pay to recognize employee performance.

**Incentive pay** rewards employees for partially or completely attaining a pre- determined work objective. Incentive pay is defined as compensation other

than base wages or salaries that fluctuates according to the attainment of individual or group goals (for example, $1,000 to a customer sales representa- tive whose customer-service ratings increased each month over a six-month period), or company earnings (for instance, employees share 2 percent of com- pany profits when the company substantially exceeds its performance projec- tions). Commonly used incentive plans include piece rate, gain sharing, and profit sharing.

**Person-focused pay** rewards employees for acquiring new knowledge and skills through designated curricula sponsored by an employer. This approach recognizes the range, depth, and types of skills or knowledge employees are *capable* of apply- ing productively to their jobs following training. This feature distinguishes pay- for-knowledge plans from merit pay and incentive pay, which reward actual job performance. Some targeted studies and anecdotal information suggest that com- panies of various sizes use person-focused pay programs. Many of the companies known to be using this kind of pay system employ between approximately 150 and 2,000 employees, the majority operate in the manufacturing industry, and the average age of the companies is approximately 10 years.3 Overall, the pay method is least commonly used among all U.S. companies, in part because companies fear training employees to join the competition later.

# THE FIELD OF EMPLOYEE-BENEFITS PRACTICE

Virtually every company offers at least one benefit to employees, and most companies offer several. This book emphasizes the importance of benefits in achieving legal compliance and competitive advantage and how companies achieve these goals. Meeting these imperatives requires benefits professionals who work in departments within the broader human resource function or as external consultants offering expert advice. Employees in benefits departments span the organizational hierarchy, including clerical staff members, managerial employees, and executives.

One survey revealed that the typical number of employees working in a com- pany’s benefits department is 5.3, of whom 3 are professional or managerial staff and 2.3 are support or clerical staff.4 In addition, the number of staff members varied by company size, ranging from an average of 2.9 employees in smaller companies to 11.3 in larger companies.

So, with which issues do employee-benefits professionals work? According to the *Occupational Outlook Handbook*:

Benefits managers plan, direct, and coordinate retirement plans, health insurance, and other benefits that an organization offers its employees.5

Performance standards are established by members of the profession rather than by outsiders. Most professions also have effective representative organi- zations that permit members to exchange ideas of mutual concern. Several well-known organizations serve the benefits profession. Among the more

prominent are the International Foundation of Employee Benefit Plans and WorldatWork.

Opportunities for employment as compensation and benefits managers are projected to grow at an annual rate of 6 percent through 2024.6 The median annual compensation for compensation and benefits managers was $108,070, which is more than double the median annual earnings for all jobs.7 The salary levels vary on a number of factors, including relevant work experience, educa- tional credentials, and industry. For example, the mean annual compensation was lowest in local government ($95,880) settings and highest in the financial securi- ties industry ($158,760).

While the employee-benefits group is on the same team as HR, inevitably tensions arise. Employee-benefits professionals are inclined to develop the bene- fits program, but competition for limited funds creates challenges. For instance, recruitment professionals may wish to purchase costly selection tests to improve the quality of hires. Training and development professionals vie for greater resources to incorporate expensive technology into curricula. Let’s take a closer look at the components of benefits packages to gain an appreciation of the scope of employee benefits.

## Legally Required Benefits

Legally required benefits are mandated by several laws, some of which include: the Social Security Act of 1935 (Chapter 7), various state workers’ compensation laws (Chapter 6), the Family and Medical Leave Act of 1993 (Chapter 8), and the Patient Protection and Affordable Care Act of 2010 (Chapter 5). All provide protection programs to employees and their depen- dents. A basic summary of each benefit follows, with detailed treatment deferred to the relevant chapters.

### *The Social Security Act of 1935*

The economic devastation of the Great Depression era prompted the federal gov- ernment into action because most people had used up their life savings to survive, and opportunities for gainful employment were scarce. **The Social Security Act of 1935** set up two programs: a federal system of income benefits for retired workers, and a system of unemployment insurance administered by the federal and state governments. Amendments to the Social Security Act established the disability insurance and Medicare programs. **Old-Age, Survivor, and Disability Insurance (OASDI)** refers to the programs that provide retirement income, income to the survivors of deceased workers, and income to disabled workers and their family members. **Medicare** serves nearly all U.S. citizens aged at least 65, as well as dis- abled Social Security beneficiaries, by providing insurance coverage for hospitaliza- tion, convalescent care, major doctor bills, and prescription drug coverage.

### *State Compulsory Disability Laws (Workers’ Compensation)*

Workers’ compensation insurance came into existence during the early decades of the 20th century, when industrial accidents were very common and workers

suffered from occupational illnesses at alarming rates.8 During the early years of industrialization of the U.S. economy, no laws required employers to ensure the health and safety of employees. Seriously injured and ill workers were left with virtually no recourse because social insurance programs to protect such workers were nonexistent. **State compulsory disability laws** created workers’ compensa- tion programs. **Workers’ compensation** insurance programs are designed to cover employee expenses incurred in work-related accidents or injuries.

### *The Family and Medical Leave Act of 1993*

The **Family and Medical Leave Act (FMLA)** provides job protection to employees in cases of a family or personal medical emergency. FMLA permits eligible employ- ees to take up to 12 workweeks of unpaid leave during any 12-month period. These employees retain the right to return to the position they left when the leave began or to an equivalent position with the same terms of employment, including pay and benefits. The passage of the FMLA reflected growing recognition that the parents of many employees are becoming elderly, rendering them susceptible to serious illnesses or medical conditions as well as the changing role of men regarding child care.

### *The Patient Protection and Affordable Care Act of 2010*

The Patient Protection and Affordable Care Act (PPACA), enacted on March 23, 2010, is a comprehensive law that requires employers to offer health-care benefits to employees. **Health care** covers the costs of a variety of services that promote sound physical and mental health, including physical examinations, diagnostic testing (X-rays), surgery, and hospitalization. Companies can choose to rely on one or more of four broad approaches to providing health care, including **fee-for-service plans, alternative managed-care plans, point-of- service plans**, and **consumer-driven health care**. Companies may offer addi- tional care options: **Dental care** benefits may cover routine preventative proce- dures and necessary procedures to help restore the health of teeth and gums. **Vision care** plans usually cover eye examinations, prescription lenses, frames, and fitting of glasses. **Prescription drug plans** cover a portion of the costs of legal drugs. **Mental health and substance abuse plans** cover the costs for treat- ing mental health ailments such as clinical depression and alcohol or chemical substance abuse.

## Discretionary Benefits

Discretionary benefits fulfill three main roles. The first, *protection programs,* most closely parallels legally required benefits by offering protections to employ- ees and family members due to income loss or ill health. The second, *paid time off,* affords employees time off with pay for many purposes, including illness or to celebrate designated holidays. The third variety, *accommodation and enhancements,* offers improvements to employees and their families in many ways. Wellness programs and educational assistance programs are just two examples.

### *Protection Programs*

***Disability Insurance*** Disability insurance replaces income for employees who become unable to work on a regular basis because of an illness or injury. Employer-sponsored disability insurance is more encompassing than workers’ compensation because these benefits generally apply to both work- and non- work-related illness or injury. Disabil- ity insurance programs are reviewed in greater detail in Chapter 6.

***Life Insurance*** Employer-sponsored **life insurance** protects family members by paying a specified amount upon the employee’s death. Most policies pay some multiple of the employee’s salary—for instance, benefits paid at twice the employee’s annual salary. Employees usually have the option of purchasing additional coverage. Frequently, employer-sponsored life insurance plans also include accidental death and dismember- ment claims, which pay additional benefits if death was the result of an accident or if the insured incurs accidental loss of a limb. Life insurance is reviewed in Chapter 6.

***Retirement Plans* Retirement plans**, provide income to individuals and benefi- ciaries throughout retirement. Individuals may participate in more than one retirement plan. Companies may establish retirement plans as defined con- tribution plans, defined benefit plans, or hybrid plans that combine features of defined contribution and defined benefit plans. Under a **defined contribution plan**, employees make annual contributions to their accounts, based on chosen percentage of annual pay. At their discretion, companies make matching contri- butions, which are determined by a formula. The amount each participant receives in retirement depends on the performance of the selected investment choices (for example, company stock or government bonds). A **defined benefit plan** awards a monthly sum equal to a percentage of a participant’s preretirement pay multiplied by the number of years worked for the employer. The level of required employer contributions fluctuates from year to year as necessary to ensure that promised benefits will be honored. Retirement plans are discussed in Chapter 4.

### *Paid Time Off*

The second type of discretionary benefits is paid time off. **Paid time-off** policies compensate employees when they are not performing their primary work duties. Companies offer most paid time off as a matter of custom, particularly paid holidays, vacations, and sick leave. In unionized settings, paid time-off provisions are specified within the collective bargaining agreement. Relatively common paid time-off practices are jury duty, funeral leave, military leave, holidays, and vacations.

### *Accommodation and Enhancement Programs*

Accommodation and enhancement benefits promote opportunities for employees and family members. These benefits are discussed in Chapter 9. Following are four objectives, with an example stated in parentheses:

▯ Mental and physical well-being of employees and family members (e.g., stress management).

* + Family assistance programs (e.g., child care).
	+ Skills and knowledge acquisition through educational programs (e.g., tuition reimbursement).
	+ Opportunities to manage daily challenges (e.g., transportation services).

### *Basic Design Considerations for Discretionary Benefits*

Employee-benefits professionals possess substantial leeway when designing dis- cretionary benefits. Numerous design considerations are reviewed throughout this book as specific benefits are examined, and general design considerations are discussed in Chapter 10. As noted later in this chapter and in Chapter 2, companies strive to offer cost-effective benefits that will promote the recruit- ment and retention of highly qualified employees. Chapter 2 addresses these issues from a psychological perspective as well as from an economic perspec- tive. The following is a basic introduction to common features of employee- benefits programs.

* + *Eligibility provisions.* Companies must decide whether to limit participation to current employees, their dependent family members, and survivors of deceased current or retired employees. Companies may limit participation to current employees. For instance, many companies exclude part-time employees as a cost-control measure.
	+ *Kinds of benefits.* Which benefits do companies offer to eligible individuals? Companies may sponsor a variety of broad benefits, including retirement plans, health care, and paid time off. Then they select specific benefits from these broad categories. For instance, defined contribution retirement plans are often preferred because these plans are more cost-effective than defined benefit plans.
	+ *Level of benefits.* Companies choose benefits based on maximum benefit limits. For example, life insurance policies specify the dollar benefit amount for the death of an employee.
	+ *Waiting periods.* Waiting periods specify the minimum number of months an employee must remain employed before becoming eligible for one or more benefits. Some waiting periods correspond with the length of proba- tionary periods, while others are limited by law. Companies impose proba- tionary periods to judge a newcomer’s job performance, and they explicitly reserve the right to terminate employees who demonstrate low job performance.
	+ *Financing benefits.* Employers choose from four approaches: noncontributory, contributory, employee-financed programs, or some combination. **Noncontrib- utory financing** means that the company pays the total costs for designated discretionary benefits. Under **contributory financing**, the company and its employees share the costs. Under **employee-financed benefits**, employees bear the entire cost. The majority of benefit plans today are contributory, largely because benefits costs have risen so dramatically.
		- *Employee choice.* Traditionally, a company provided the same benefits to most or all employees. Increasingly, companies offer employees varying degrees of choice. **Flexible benefits plans** enable employees to choose from among a set of benefits and different levels of these benefits (Chapter 10). The increasing diversity of the workforce has made standardized benefits offerings less practical because of greater differences in needs and prefer- ences for particular benefits. For instance, workers with preschool-age chil- dren find day-care assistance programs most appealing, and workers nearing retirement age find value in company-sponsored retiree health-care benefits. Voluntary benefits provide additional options. **Voluntary benefits** are supplemental benefits that companies offer on an employee-financed basis, whereas flexible benefits provide employees with a choice from a menu of benefits, which follow contributory or noncontributory financing approaches. Examples of voluntary benefits include identity theft protec- tion, home or renter’s insurance, college savings plans, or, even pet insur- ance. Why offer these benefits when employees can purchase them outside the employment setting? Employers negotiate a lower rate than employees could ascertain on an individual basis. Also, the variety of discounted ben- efits should be appealing to a diverse workforce. For example, younger employees with children may find a college savings plan an attractive ben- efit compared to employees approaching retirement whose children have already completed their education.
		- *Communication.* Oftentimes, employees either are unaware of or undervalue their benefits. Communicating the features and costs of benefits is essential. Effective communication creates an awareness of, and appreciation for, the way current benefits improve the financial security and physical and mental well- being of employees.

## Origins of Employee Benefits

Different forces account for legally required and discretionary employee benefits. The U.S. government established programs to protect individuals from cata- strophic events such as disability and unemployment. As highlighted earlier, legally required benefits are protection programs that attempt to promote health, maintain family income streams, and assist families in crisis.

Historically, legally required benefits provided a form of social insurance, which were prompted largely by the rapid growth of industrialization in the United States during the late 19th and early 20th centuries as well as the Great Depression of the 1930s. Early social insurance programs were designed to minimize the possibility of destitution for individuals who were unem- ployed or became severely injured while working. In addition, social insur- ance programs aimed to stabilize the well-being of dependent family members. Further, early social insurance programs enabled retirees to maintain subsis- tence income levels. These objectives remain the cornerstones of today’s ben- efits practices.

The first signs of contemporary discretionary employee benefits were evident in the late 1800s, when large companies such as American Express offered retirement plans. For the next few decades, the development in employee-ben- efits practice resulted from government legislation. Then, discretionary benefits offerings became more prominent in the 1940s and 1950s due in large part to federal government wage freezes. Employee benefits were not subject to those restrictions, allowing expansion of discretionary benefits as an alternative to wage increases or as a motivational tool. During that period, the term *welfare practices* described some of the employee benefits. **Welfare practices** were “any- thing for the comfort and improvement, intellectual or social, of the employees, over and above wages paid, which is not a necessity of the industry nor required by law.”9

The opportunities available to employees through welfare practices varied. For instance, some employers offered libraries and recreational areas, while others provided financial assistance for education and home improvements. In addition, employer sponsorship of health care became common. Employee unions also con- tributed directly to the increase in employee welfare practices. The National Labor Relations Act (NLRA) of 1935 legitimized bargaining for employee benefits. Union workers have access to more benefits, and lucrative ones, than nonunion employ- ees do.10 Still, unions contributed indirectly to the rise in benefits offerings in nonunion settings. Nonunion companies strive to minimize unionization by offer- ing their employees benefits comparable to those received by employees in union companies.

Employees typically view employer-sponsored benefits as entitlements. Anecdotal evidence suggests that most employees still feel this way: Company membership entitles them to benefits because participation in benefits pro- grams are not tied to job performance. Until recently, companies also treated virtually all elements of benefits as entitlements. However, rising benefits costs, increased foreign competition, and the so-called Great Recession (2007–2009) led companies to question this entitlement ethic. Increasingly, companies are shifting responsibility for the cost of some benefits to employees. For example, in Chapter 5, employer-sponsored high-deductible health care plans are discussed.

# LEGAL AND REGULATORY INFLUENCES ON DISCRETIONARY BENEFITS PRACTICES

While employers are free to offer discretionary benefits, specific laws influence the application of these practices. To understand these influences, it is necessary to distinguish between private-sector employers and governmental employers, because different regulations influence discretionary benefits practices in these sectors of the U.S. economy. The private sector refers to nongovernmental employ- ers that strive to maximize profits or offer charitable services to the public in need (nonprofit companies). Apple and PepsiCo are examples of for-profit companies,

and the American Red Cross and the United Way are examples of nonprofit companies. In 2016, private-sector companies employed about 122 million per- sons—all U.S. civilian employees, and most of the companies were for-profit. Profit maximization is the foundation of the U.S. economy. Private-sector employers strive to increase profits, market share, and returns on investment for the owners and shareholders. Employers expect workers to be as productive as possible to promote these goals. At the same time, containing pay and benefits costs contrib- utes to profit maximization.

Conflicting goals between employees and profit-oriented employers necessi- tate regulations to protect employees from unfair treatment. The following excerpt captures the natural clash between employers and employees, employer profit maximization goals, and employee desires for equitable and fair treatment:

As competition increased in the textile industry, the original concern of the mill owners for their employees gave way to stricter controls which had nothing to do with the well-being of the workers. Employers reduced wages, lengthened hours, and intensified work. For a workday from 11.5 to 13 hours, making up an average week of 75 hours, the women operatives were generally earning less than $1.50 a week (exclusive of board) by the late 1840s, and they were being compelled to tend four looms whereas in the 1830s they had only taken care of two . . . [The manager] ordered them [the female textile workers] to come before breakfast. “I regard my work-people just as I regard my machinery. So long as they can do my work for what I choose to pay them, I keep them, getting out of them all I can.”11

Employees strive to attain high wages, comprehensive benefits, safe and health- ful work conditions, and job security. Prior to the passage of the National Labor Relations Act, employees were not required to negotiate terms and conditions of employment. As a result, many workers were subjected to unsafe and unhealthful working conditions, inadequate pay and benefits, and excessive work hours. Today, employment legislation and labor unions protect the rights and status of workers, and employer abuses are much less prevalent than before legal protec- tions and labor unions. For example, prior to the Employee Retirement Income Security Act (ERISA) of 1974, employees could easily lose company retirement benefits after decades of service simply because the employer chose to use retire- ment funds for other purposes that benefited company profits. Also, employees did not possess the right to keep their retirement assets if they left a company before reaching retirement age. Years of congressional testimony and investiga- tions led to the passage of ERISA based on the conclusion that employer-sponsored retirement plans were essential to the country’s economic security and as an essential supplement to government-sponsored retirement programs through the Social Security Act of 1935.

Public-sector employers include the U.S. federal government, state govern- ments, and local governments. Approximately 2 million people are employed in the federal government’s three branches: executive, judicial, and legislative. Public-sector employers work on behalf of citizens, and none exists to make

profits. At the state and local levels, public-sector employers include local police forces, community colleges, state colleges and universities, court systems, social service agencies, and public works departments (such as road maintenance), total- ing approximately 20 million workers. Although government employers do not seek profits, they still must operate within a budget to provide pay and benefits to employees and services to citizens.

Also, the government is a buyer and consumer of the products and services that private-sector companies produce. Indeed, the government spends more than

$1 trillion each year on these items. The government uses energy to run its build- ings, and it engages in contracts with private-sector companies for a multitude of goods and services ranging from building construction to multimillion-dollar defense systems. Various laws require the government to pay contract employees the customary wage in the local area. This is an important fact because many benefits, such as retirement earnings, are tied to pay levels.

# STRATEGIC PLANNING FOR A BENEFITS PROGRAM

The development of successful benefits programs matches the priorities of ongoing strategic planning efforts within companies. One survey found that high-perform- ing companies align total compensation programs with business objectives.12 Many

U.S. companies build their success through creating and marketing innovative products and services to customers. Increasingly, companies emphasize the impor- tance of employing diverse workforces to promote the inventive processes neces- sary for innovation. For instance, Bristol-Myers Squibb pledges to “foster a globally diverse workforce and a companywide culture that encourages excellence, leader- ship, innovation, and a balance between our personal and professional lives.”13

## Basic Strategic Planning Concepts

**Strategic planning** entails a series of judgments, made under uncertainty, that com- panies direct toward making strategic decisions. Companies base their decisions on environmental scanning activities, which are discussed later in this chapter. Busi- ness professionals make two kinds of decisions: strategic decisions and, in the con- text of employee benefits, the design of specific practices such as retirement plans. Briefly, strategic decisions guide the activities of companies in the market. The choice about the design of employee-benefits practices support the fulfillment of strategic decisions, which are discussed shortly. Exhibit 1.3 shows the relationship between strategic decisions as well as the design of employee-benefits practices.

Strategic planning supports business objectives. Company executives commu- nicate business objectives in competitive strategy statements. **Competitive strategy** refers to the planned use of company resources—technology, capital, and human resources (HR)—to promote and sustain competitive advantage. For example, Exx- onMobil Corporation, a company in the oil and gas exploration industry, strives to be the world’s premier petroleum and petrochemical company by achieving superior financial and operating results while simultaneously adhering to high

#### EXHIBIT 1.3

**Relationship between Strategic Decisions and Employee- Benefits Practices**

**Strategic Decisions**

General

**General Employee- Benefits Practices**

**Specific Employee-**

**Benefits Practices (Retirement Plan Alternatives)**

Specific

* Defined Benefit Plans
* Defined Contribution Plans
* Cash Balance Plans
* Money Purchase Plans
* Age-Weighted Profit Sharing
* O"er of One or More Plans
* Health Care
* Life Insurance
* Retirement Plans
* Paid Time O"
* Competitive Strategy
* Human Resource Strategy
* Benefits Strategy

ethical standards.14 Eli Lilly and Company, a manufacturer of pharmaceutical products, pursues a competitive strategy, which focuses on creating innovative medicines that improve patient health outcomes.15

Human resource executives collaborate with other company executives to develop **HR strategies**, which specify the use of multiple HR practices. These statements are consistent with a company’s competitive strategy. For example, Eli Lilly is well known for the innovative environment that it creates for employees to make discoveries for pharmaceutical products that will enhance the life of people throughout the world.16

Compensation and benefits managers and executives work with the lead HR executive and the company’s chief budget officer to prepare total compensation strategies. **Total compensation strategies** describe the use of compensation and benefits practices that support both HR strategies and competitive strategies. Ben- efits professionals craft **benefits strategies** based on information contained in strategic benefit plans.

**Strategic benefit plans** detail different scenarios that may reasonably affect the company, and these plans emphasize long-term changes in how a company’s ben- efit plan operates.17 Companies establish strategic benefit plans based on the inter- pretation of pertinent information in the external and internal environments, which will be discussed shortly.

At Lilly, it is evident that the use of compensation and benefits practices sup- ports both human resource strategies and competitive strategies. Eli Lilly is well known for offering a balanced compensation and benefits program which recog- nizes employee contributions and embraces employees through recognition of their needs outside the workplace.

As Exhibit 1.3 shows, managers throughout a company make decisions to specify policy for promoting competitive advantage. Benefits decisions are based on two questions: Does offering particular benefits (e.g., paid vacations) support the company’s benefits strategy? and What is the optimal design (of vacation benefits)? Descriptions of five employee benefits practices at ExxonMobil follow.

1. *Education assistance*—After employment, ExxonMobil reimburses 100 percent of college-related expenses for approved courses to maintain or improve your skills.
2. *Matching gifts program*—Three-to-one matching funds for employee and alumni donations to their alma mater.
3. *Volunteer involvement program*—Grant moneys awarded for volunteering at eli- gible nonprofit organizations.
4. *Flexible work arrangements*—Options for adjustable work hours, telecommuting, part-time extensions for family-care needs, and personal time off.
5. *Life assistance resources*—For child care, elder care, adoption, teen issues, stress, and a variety of other issues.18

## Approaches to Strategic Benefits Planning

This section begins with a review of two approaches to strategic benefit planning. Afterward, the kinds of information that companies use in this planning process will be touched upon. In most companies, either compen- sation or benefits-program executives (in some companies, one person is responsible for both) take the lead in strategic benefit planning. Two possible general approaches characterize strategic benefit planning: top-down and backing-in.19 The **top-down approach** represents a proactive process: Com- panies regularly review their entire benefits programs or particular parts of the programs. This process may lead to a reformulation of an entire program or specific parts. Exhibit 1.4 illustrates how the top-down approach unfolds and shows the representative time frames for particular stages of this process.

The **backing-in approach** is a reactive process because companies evaluate the benefits program only when unexpected problems arise. Exhibit 1.5 illustrates how the backing-in approach unfolds, along with the representative time frames for particular stages of this process. For instance, Company A, a manufacturing company, built a reputation as a great place to work for many reasons, including competitive pay and benefits. Recently, excessive turnover has occurred among its assembly-line employees, many of whom have taken jobs at another local

**EXHIBIT 1.4 A Top-Down Approach to Strategic Benefit Planning: A Conceptual Framework**

Source: V. Barocas. *Strategic Benefits Planning* (New York: The Conference Board, 1992), 15.

O N G O I N

S T R A T E G I C

T A C T I C A L

G INTERNAL INFLUENCES

(e.g., employee demographics, benefit utilization data)

BENEFIT MISSION

OVERALL CORPORATE BENEFIT STRATEGY

EXTERNAL INFLUENCES

(e.g., government legislation, cost projections, entitlement programs)

3

T Strategy:

O Benefit

Management

5

Y

Strategy: Innovative & Non- ERISA Benefits

Strategy: Health & Welfare Plans

Strategy:

Pension & Capital Accumulation Plans

E A R S

**19**

1

T

O Management Information

Systems (MIS)

3

Y Benefit

E Administration

A

1. Benefit
2. Communications

Design and management of:

work-family benefits; group legal; relocation benefits; life (e.g., financial, retirement) planning; other banking &/or industry-specific benefits

HEALTH BENEFIT STRATEGY

Design and management of health plans, like:

medical, dental, vision; prescription drugs; mental health/ substance abuse; retiree health care, etc.

DISABILITY BENEFIT STRATEGY

Design and management of:

long- and short- term disability plans and workers’ compensation

DEATH BENEFIT STRATEGY

Design and management of death plans:

including: term life; group universal life; paid-up life; dependent life; accidental death

and dismemberment, etc.

DEFINED BENEFIT PLAN

Design and management of:

defined benefit plan

DEFINED CONTRIBUTION PLANS

Design and management of:

work plans, em- ployee stock option plans, profit sharing programs; savings/ thrift plans; cash

or deferred arrange- ments, etc.

HYBRID PLANS

Design and management of:

money pur- chase plans; target benefit plans or floor/o"set plans

**EXHIBIT 1.5 A Backing-in Approach to Strategic Benefit Planning**

Source: V. Barocas, *Strategic Benefits Planning* (New York: The Conference Board, 1992), 16.

3. Which health-

7. Do our health,

1. What is the relationship of benefits to
	1. Which health-care costs

are

care benefit

designs, like managed care, or management procedures, such as utilization review, will provide the greatest return

5. How do

workers’ compensation and short-/long- term disability programs

a"ect health benefit costs?

welfare, and retirement plans form an integrated benefit program?

compensation

and other human resource programs?

TACTICAL QUESTION:

How should our health plan be changed

increasing most rapidly?

on investment? STRATEGIC

QUESTION:

How do benefits support

to control employee health- care costs?

* 1. What programs, like employee assistance programs, wellness, and

communications, can be used

to ensure cost-e"ective utilization?

4. What is our

commitment to retiree health

care?

6. What is our corporate

approach to all health-related benefits?

the corporate business mission?

8. What is our mission regarding employee benefits?

manufacturing company. Company A’s HR staff conducted exit interviews to iden- tify possible causes of turnover. Most exit interviews revealed significant dissatis- faction with wage freezes, steep rises in employee contributions for health-care coverage, and the termination of dental benefits. Company management had instituted these changes in response to inflated raw material costs. Its goal was to maintain profits while keeping the prices for company products constant. Intense economic pressures necessitated cuts, and these cuts made it difficult for the company to reduce turnover.

# INFORMATION USED IN STRATEGIC BENEFIT PLANNING

Companies review and interpret several types of information for strategic benefits planning. This process permits business professionals to understand their compa- ny’s standing in the market. For example, companies with strong potential to

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increase sales levels tend to be in better standing than companies with weak potential to maintain or increase sales. Companies in strong standing should be able to devote more financial resources to fund benefits programs than companies in weak standing. Two information sources include the external market environ- ment and the internal company environment.

## External Environment

External environmental factors include:

* Industry prospects, economic conditions, and forecasts
* Employer costs for compensation and benefits
* Government regulation of employee benefits
* Changing demographics of the labor force

### *Industry Prospects, Economic Conditions, and Forecasts*

The first two factors, industry prospects and current and anticipated economic conditions, set the backdrop for establishing strategic benefits plans. Industry prospects and economic forecasts set the backdrop for strategic benefits planning because these factors are indicators of the future of companies. Forecasts indicat- ing growth possibly call for strengthening discretionary benefits offerings and levels to help recruit and retain the most-qualified employees. Pessimistic forecasts emphasize the need to save costs by shifting more of the responsibility on employ- ees. For example, more and more companies require that employees share a greater percentage of the cost of health-care plans. Also, there has been a shift away from employer-sponsored defined benefit retirement plans to employer- sponsored defined contribution plans, which makes it easier for companies to predict their costs. Further, negative outlooks may lead companies to expand outplacement services (i.e., helping unwanted employees find jobs elsewhere) in anticipation of large-scale layoffs. Still, employers will very likely continue to spon- sor employee benefits despite economic conditions for two reasons. First, the Internal Revenue Code and the Employee Retirement Income Security Act create tax advantages for companies that offer qualified benefits plans (see Chapter 3). Employers may exclude limited contributions to these plans from taxable annual income, leading to reduced tax payments to the federal government. Second, as we discuss in Chapter 2, generous benefits offerings facilitate a company’s attempt to attract and retain the best-qualified employees. Although employer-sponsored benefits costs are significant, well-qualified workforces presumably create lucrative advantages for companies, as evidenced by high-quality customer service, compe- tent business functions such as innovative marketing, and research and development.

### *Employer Costs for Compensation and Benefits*

The U.S. Bureau of Labor Statistics (BLS) regularly publishes current information about employer costs for employee compensation and benefits in the United States (and changes in these costs over time) on its Web site, at [www.bls.gov](http://www.bls.gov/). Benefits

professionals may use these data to benchmark current benefits costs against reported averages or as a starting point for budget planning. The following is an excerpt from a BLS news release.

In the private sector, employer costs for employee compensation averaged $31.53 per hour worked in September 2015, the U.S. Bureau of Labor Statistics reported today. Wages and salaries averaged $21.98 per hour worked and accounted for

69.7 percent of these costs, while benefits averaged $9.55 and accounted for the remaining 30.3 percent.20

The BLS presents data for average hourly pay and specific benefits for the entire civilian workforce, private industry, state and local governments, and by particular categories: industry, occupational group, region, establishment size, and worker characteristics, such as bargaining status and full- or part-time status. Employer costs per hour worked are available for five major occupational groups. Employer compensation costs also vary by industry, region, and establishment size. Exhibit

1.6 shows employer costs for employee compensation in the private sector, based on some of those characteristics. Preliminary data for 2016 show minute increases. Overall, benefits accounted for approximately 30 percent of total compensation costs in the private sector. At first glance, the cost of specific benefits does not appear to be particularly high because employers spent an average of $9.55 per employee per hour to provide discretionary and legally required benefits. How- ever, aggregating these costs for a one-year period (per employee) paints a differ- ent picture. Assuming that a typical service employee works 1,850 hours per year, an employer spends $17,667.50 for each employee annually for employee

benefits.

### *Government Regulation of Employee Benefits*

Four broad forces contribute to an employer’s choice of discretionary benefits and its ability to fund them. The first two, adequacy of legally required benefits and employee expectations, directly influence an employer’s choice. The third, the cost of legally required benefits, influences a company’s ability to fund discretionary benefits. The fourth entails a variety of economic considerations, which will be discussed in Chapter 2.

First, the workers’ plight during the industrialization of the U.S. economy and the Great Depression promoted the rise of many legally required benefits. Exam- ples include workers’ compensation and both retirement income and health care under the Social Security Act (Chapters 6 and 7). The U.S. economy is based on free-market principles, not on socialist principles more commonly found in many Eastern European countries and in large segments of the People’s Republic of China where government benefits are represent the lion’s share of support fol- lowing injury, disability, or in retirement. In addition, the cost of living has risen more quickly than the dollar amount of government benefits. Finally, legislators during the early part of the 20th century could not anticipate the very high costs of health care due, in large part, to advances in medicine and health-care tech- nology. The entire structure of the health-care industry is fundamentally different

**23**

**EXHIBIT 1.6 Employer Costs per Hour Worked for Employee Compensation and Costs as a Percent of Total Compensation: Private Industry Workers, by Major Occupational Group and Bargaining Unit Status, September 2015**

Source: U.S. Bureau of Labor Statistics, "Employer Costs for Employee Compensation--September 2015," USDL 15–2329.

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
|  |  | **Occupational Group** |  | **Bargaining Unit Status** |
|  | **All Workers** | **Management, Professional,****and Related Service** | **Production, Transportation, and Material Moving** | **Union Nonunion** |
| **Compensation Component** | **Cost Percent** | **Cost Percent Cost Percent** | **Cost Percent** | **Cost Percent Cost Percent** |
| Total compensation | $31.53 100.0 | $55.69 100.0 $14.57 100.0 | $27.24 100.0 | $46.38 100.0 $30.04 100.0 |
| Wages and salaries | 21.98 69.7 | 38.55 69.2 11.07 76.0 | 17.94 65.8 | 27.87 60.1 21.39 71.2 |
| Total benefits | 9.55 30.3 | 17.14 30.8 3.50 24.0 | 9.30 34.2 | 18.51 39.9 8.65 28.8 |
| Paid leave | 2.17 6.9 | 4.69 8.4 0.56 3.9 | 1.65 6.1 | 3.26 7.0 2.06 6.9 |
| Vacation | 1.13 3.6 | 2.49 4.5 0.29 2.0 | 0.86 3.1 | 1.66 3.6 1.08 3.6 |
| Holiday | 0.66 2.1 | 1.37 2.5 0.17 1.2 | 0.55 2.0 | 0.95 2.1 0.63 2.1 |
| Sick | 0.26 0.8 | 0.59 1.1 0.07 0.5 | 0.18 0.7 | 0.47 1.0 0.24 0.8 |
| Personal | 0.12 0.4 | 0.25 0.4 0.03 0.2 | 0.06 0.2 | 0.17 0.4 0.11 0.4 |
| Supplemental pay | 1.04 3.3 | 2.23 4.0 0.24 1.6 | 0.99 3.6 | 1.41 3.0 1.00 3.3 |
| Overtime and premium1 | 0.27 0.8 | 0.19 0.3 0.11 0.7 | 0.57 2.1 | 0.89 1.9 0.20 0.7 |
| Shift differentials | 0.06 0.2 | 0.10 0.2 0.04 0.3 | 0.09 0.3 | 0.18 0.4 0.05 0.2 |
| Nonproduction bonuses | 0.71 2.2 | 1.95 3.5 0.09 0.6 | 0.33 1.2 | 0.34 0.7 0.75 2.5 |
| Insurance | 2.59 8.2 | 3.99 7.2 0.93 6.4 | 2.95 10.8 | 6.14 13.2 2.23 7.4 |
| Life | 0.04 0.1 | 0.08 0.2 (2) (3) | 0.04 0.1 | 0.07 0.2 0.04 0.1 |
| Health | 2.44 7.7 | 3.71 6.7 0.90 6.2 | 2.78 10.2 | 5.77 12.4 2.11 7.0 |
| Short-term disability | 0.06 0.2 | 0.11 0.2 (2) (3) | 0.06 0.2 | 0.18 0.4 0.05 0.2 |
| Long-term disability | 0.05 0.1 | 0.09 0.2 (2) (3) | 0.07 0.3 | 0.12 0.3 0.04 0.1 |
| Retirement and savings | 1.25 4.0 | 2.54 4.6 0.24 1.7 | 1.14 4.2 | 4.05 8.7 0.97 3.2 |
| Defined benefit | 0.55 1.7 | 1.00 1.8 0.10 0.7 | 0.61 2.2 | 2.92 6.3 0.31 1.0 |
| Defined contribution | 0.70 2.2 | 1.54 2.8 0.14 1.0 | 0.53 1.9 | 1.13 2.4 0.65 2.2 |
| Legally required benefits | 2.51 7.9 | 3.68 6.6 1.52 10.4 | 2.57 9.4 | 3.66 7.9 2.39 8.0 |
| Social Security and Medicare | 1.82 5.8 | 3.12 5.6 0.94 6.5 | 1.53 5.6 | 2.31 5.0 1.77 5.9 |
| Social Security4 | 1.45 4.6 | 2.46 4.4 0.76 5.2 | 1.23 4.5 | 1.84 4.0 1.42 4.7 |
| Medicare | 0.36 1.2 | 0.65 1.2 0.18 1.2 | 0.30 1.1 | 0.47 1.0 0.35 1.2 |
| Federal unemployment insurance | 0.04 0.1 | 0.04 0.1 0.05 0.3 | 0.04 0.1 | 0.04 0.1 0.04 0.1 |
| State unemployment insurance | 0.20 0.6 | 0.20 0.4 0.18 1.2 | 0.21 0.8 | 0.28 0.6 0.19 0.6 |
| Workers’ compensation | 0.45 1.4 | 0.33 0.6 0.36 2.5 | 0.80 2.9 | 1.02 2.2 0.39 1.3 |

1Includes premium pay (such as overtime, weekends, and holidays) for work in addition to the regular work schedule.

2Cost per hour worked is $0.01 or less.

3Less than 0.05 percent.

4Social Security refers to the Old-Age, Survivors, and Disability Insurance (OASDI) program. Note: The sum of individual items may not equal totals due to rounding.

now than it was in the 1930s. Since then, medical research and development have led to the ability to diagnose diseases in the early stages, and thus life expectancy of people born in more-recent years has increased notably. These changes make the funding formulas inadequate to meet today’s realities.

Second, the federal government’s imposition of wage freezes during World War II gave rise to many present-day discretionary benefits. Employers withdrew costly offerings after the government ended the wage freeze. The withdrawal of these benefits created discontent among employees, because many viewed employer-sponsored benefits as an entitlement. For instance, employees strongly reacted to the withdrawal of health-care benefits. Legal battles followed based on unions’ and workers’ claims that employer-sponsored health care is a fundamental right. Health-care benefits subsequently became a mandatory subject of collective bargaining in union settings.

Third, the federal government requires companies to support legally required benefits. For example, the **Federal Insurance Contributions Act (FICA)**21 helps support the Social Security Old-Age, Survivor, and Disability Insurance program (OASDI). Unemployment insurance benefits are financed by federal and, some- times, state taxes levied on employers. A federal tax is levied on employers under the **Federal Unemployment Tax Act (FUTA).**22 Both acts are discussed more fully in Chapter 7. Under the **Patient Protection and Affordable Care Act of 2010,** most employers are required to provide health-care coverage to full-time workers; oth- erwise, they face stiff monetary penalties.

### *Changing Demographics of the Labor Force*

According to the Bureau of Labor Statistics, labor force diversity will continue to increase based on gender, age, race, and ethnicity. An employer-sponsored bene- fits program is most effective when the workforce is relatively similar in terms of needs and preferences. For example, let’s assume that a company’s workforce has 60 percent women and 40 percent men. Most of the women are of child-bearing age and most of the men range in age between their 50s and 60s. On the surface, one could say that this workforce is not very similar in terms of needs and pref- erences for benefits because its composition varies considerably by gender and age. Below the surface, one could reasonably conclude that there will be substan- tial differences in the needs and preferences for benefits. Chances are that most of the women may place a high value on day-care benefits, while most of the men will not have a need for such benefits because their children are likely to be near or at adulthood.

Employees are more likely to endorse employer-sponsored benefits as long as these benefits fulfill their needs and preferences. Also, employees should believe that contributions to receive benefits are determined fairly. Workforce diversity challenges a company’s quest to establish benefits that satisfy the needs and preferences of workers. For example, the younger segment of the workforce may benefit from family assistance programs and educational assistance programs, while the older segments of the workforce rely on generous health-care benefits and defined benefit plans that support progressive retirement-income streams.

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Health-care benefits may be redundant for some dual-income families. One spouse or partner will not elect these benefits because he or she already receives coverage as a family member under the other’s plan. As employee needs diver- sify and desires for benefits become apparent to workforce members, some employees will likely protest benefits that they believe disproportionately suit coworkers. Certainly, differences in employee preferences and needs based on life stage and life circumstances call for flexible benefits offerings, which will be discussed shortly.

## Internal Environment

Internal environmental factors include workforce demographics and collective bar- gaining agreements.

### *Workforce Demographics*

The workforce characteristics of companies usually represent the characteristics of the broad labor force. Over time, company workforces have become more demographically diverse as labor force diversity has increased. Not surprisingly, workforce diversity has created challenges for companies in establishing benefits programs. Demographic characteristics to a large extent symbolize employee needs and preferences, which are often associated with life events. Exhibit 1.7 shows typical benefits preferred by employees according to demographic charac- teristics and probable life events.

Should companies presume the needs and preferences of employees? Probably not. Benefits professionals may use surveys once every year or two to collect information about employee demographics, needs, preferences, recent or

#### EXHIBIT 1.7

**Likely Preferred Benefits According to Demographics and Life Events**

**Demographics Life Events Benefits**

Unmarried male and female employees Physical fitness programs (uncoupled employees) Generous vacation allowances

Employees with dependent elderly Elder care benefits parents or relatives Flexible work schedules

Married male and female employees Flexible work schedules Employees with children, male or Day-care assistance

female, coupled or uncoupled Life insurance

Health care with dependent coverage Education benefits for children

Older workers (nearing retirement) Retirement plans with accelerated

benefits accumulation

Health-care coverage with prescription drug benefits

Generous sick-leave allowances Disability insurance

Retiree health-care benefits

anticipated life changes, and the extent to which they find particular benefits useful. Statistical analyses will show whether there is an association among these factors. Then, benefits professionals may compare current offerings with survey results. Over time, they can determine whether changes in age, family status, needs, and preferences influence employees’ views of benefits.

### *Collective Bargaining Agreements*

**Collective bargaining agreements** specify terms of employment, including pay, benefits, and working conditions. These agreements arise out of negotiations between management and labor unions that represent some or all employees in a company. In Chapter 3, we discuss the National Labor Relations Act of 1935 established that both labor unions and employers possess a duty to bar- gain with the other party in good faith over terms of employment. Also, this act sets forth mandatory subjects of bargaining in the benefits area, including retirement plans, health care, and paid time off. Over the years, unions have successfully negotiated generous benefits for employees. As shown in Exhibit 1.6, private-sector employers spend more money on benefits for union workers ($18.51 per hour worked) than nonunion workers ($8.65 per hour worked).

**Key Terms** employee benefits, *5*

protection programs, *5*

paid time off, *5* accommodation and enhancement benefits, *5*

total compensation, *5*

base pay, *6*

cost-of-living adjustments (COLAs), *7*

seniority pay, *7*

merit pay, *7*

incentive pay, *7*

person-focused pay, *8* Social Security Act of 1935, *9*

Old-Age, Survivor, and Disability Insurance (OASDI), *9*

Medicare, *9*

state compulsory disability laws (workers’ compensation), *10*

workers’ compensation, *10*

Family and Medical Leave Act (FMLA), *10*

health care, *10*

fee-for-service plans, *10* alternative managed-care plans, *10*

point-of-service plans, *10* consumer-driven health care, *10*

dental care, *10*

vision care, *10*

prescription drug plans, *10* mental health and substance abuse plans, *10* life insurance, *11*

retirement plans, *11* defined contribution plan, *11* defined benefit plan, *11* paid time-off policies, *11*

noncontributory financing, *12*

contributory financing, *12* employee-financed benefits, *12*

flexible benefits plans, *13*

voluntary benefits, *13*

welfare practices, *14*

strategic planning, *16*

competitive strategy, *16* human resource strategies, *17*

total compensation strategies, *17*

benefits strategies, *17* strategic benefit plans, *17*

top-down approach, *18*

backing-in approach, *18* Federal Insurance Contributions Act (FICA), *24* Federal Unemployment Tax Act (FUTA), *24*

Patient Protection and Affordable Care Act of 2010, *24*

collective bargaining agreements, *26*