

## 13

# Managing Employee Benefits

*After you have read this chapter, you should be able to:*

- Define a benefit and identify four strategic benefits considerations.
- Summarize why benefits management and communications efforts are important.
- Distinguish between mandated and voluntary benefits and list three examples of each.
- Explain the importance of managing the costs of health benefits and identify some methods of doing so.
- Discuss the shift of retirement plans from defined-benefit to defined-contribution and cash balance programs.
- Describe the growth of financial, family-oriented, and time-off benefits and their importance to many employees.

## Behavioral Economics Guides Benefits Administration



(JAY DIRECTO/AFP/Getty Images)

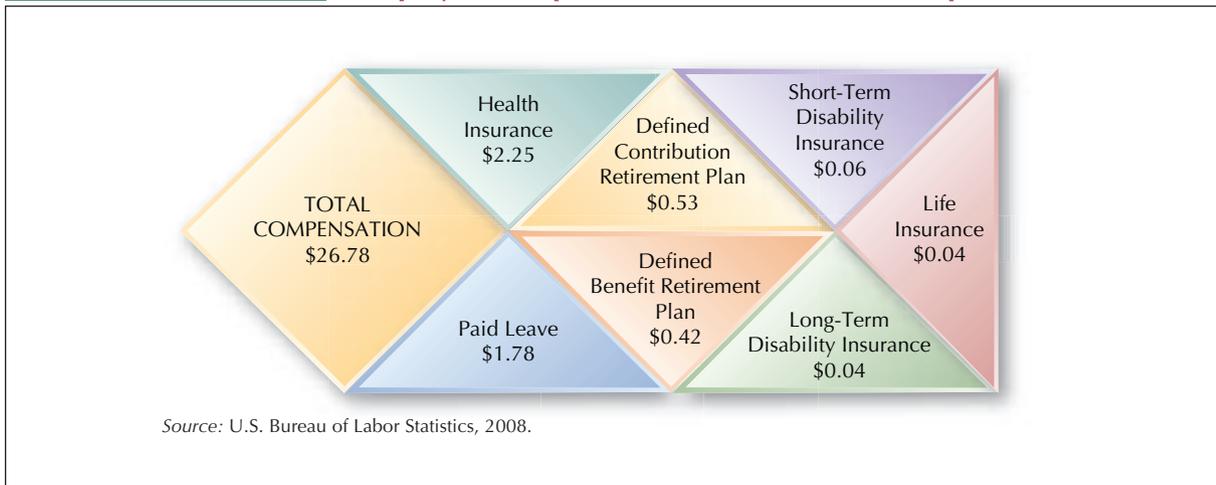
**R**esearch shows that employees do not always make the right choices about how to use the benefits provided to them by their employers. In fact, employees' behaviors can be outright counterproductive and counterintuitive when it comes to taking advantage of benefits programs. As a result, the benefit portfolios are less likely to improve employees' opinions of the organization and, more importantly, less likely to enhance individual well-being. Many top managers have become highly interested in the psychological and behavioral aspects of benefits administration, and the field of

behavioral economics. This field, which assumes that people are consistently irrational, is growing dramatically in the human resource management arena.

Many companies are starting to incorporate elements of behavioral economics (rewards, punishments, peer pressure, etc.) in the management of employee benefits. For instance, companies such as Lowe's participate in a program called Select Home Delivery, which provides employees mail-order pharmacy benefits and home delivery. In order to protect individuals from making poor health care decisions, employees must opt out of the program if they want to fill prescriptions at local pharmacies. Other companies such as Abbott Laboratories use a program called Know Your Numbers, which encourages individuals to evaluate their personal health compared to certain benchmarks.<sup>1</sup>

FIGURE 13-1

## Employer Compensation and Benefits Costs per Hour



An employer provides benefits to workers for being part of the organization. A **benefit** is an indirect reward given to an employee or group of employees for organizational membership. Benefits often include retirement plans, vacations with pay, health insurance, educational assistance, and many more programs.

In the United States, employers often fill the role of major provider of benefits for citizens. In many other nations, citizens and employers are taxed to pay for government-provided benefits, such as health care and retirement programs. Although federal regulations require U.S. employers to provide certain benefits, U.S. employers voluntarily provide many others.

Benefits are costly for the typical U.S. employer, averaging from 30% to 40% of payroll expenses. In highly unionized manufacturing and utility industries, they may be over 70% of payroll. Figure 13-1 shows the per-hour costs employers expend for average wages and salary amounts, as well as different types of benefits, as reported by *BenefitsMarketplace*. Health insurance represents the largest percentage of total compensation (7.9%) and is the most costly for the average employer, followed by paid leave (7.0%), defined-benefit retirement plans (2.6%), and defined-contribution retirement plans (1.8%). Notice that of the average total compensation of \$26.86, employers are paying \$8.04 for benefits, 25% of which are for health insurance benefits.<sup>2</sup> Surveys conducted nationally and in various states indicate that the costs of benefits are increasing, sometimes faster than inflationary rates, causing some organizations to require employees to help pay for these benefits.<sup>3</sup> These numbers illustrate why benefits have become a strategic concern in HR management.

**Benefit** An indirect reward given to an employee or group of employees for organizational membership.

## BENEFITS AND HR STRATEGY

In the United States, a challenge for employers is how to best manage the balancing act between the growing costs of benefits and the use of those benefits in accomplishing organizational goals. For instance, organizations can choose to compete for or retain employees by providing different levels of

base compensation, variable pay, and benefits. Indeed, several recent surveys determined that while the lagging economy caused organizations to downsize or cut various programs, some companies have remained focused on benefits, exploring new benefits options and adopting a more comprehensive approach to compensation management.<sup>4</sup> This is why benefits should be looked at as a vital part of the total rewards “package” when determining organizational strategies regarding compensation.

The benefits approach chosen to be part of total rewards depends on many factors, such as workforce competition, organizational life cycle, and corporate strategic approach. For example, a relatively new technology firm may choose to have slightly lower base pay and use highly variable incentives to attract new employees, but keep the cost of benefits as low as possible for a while. Or an organization that hires predominantly female employees might choose a family-friendly set of benefits, such as child-care assistance, to attract and retain employees, but offer little variable pay and only market-level base pay.

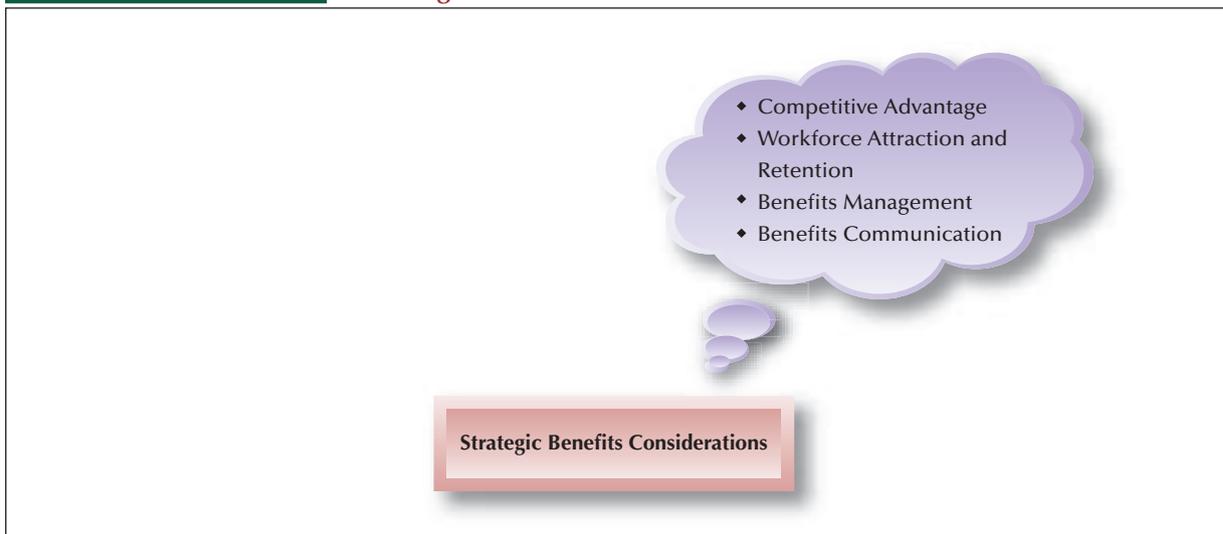
The reasons why employers offer benefits are multifaceted and tie into strategic considerations. As Figure 13-2 indicates, there are several aspects to looking at benefits strategically.

## Benefits as Competitive Advantage

It is important that benefits be used to help create and maintain competitive advantages.<sup>5</sup> Benefits should not be viewed entirely as cost factors because they can positively affect HR efforts. Given the intense competition for competent workers, companies should consider investing in benefits packages that are attractive for those employees. Recent research indicates that company benefits are linked to individual job satisfaction in the United States.<sup>6</sup> Despite this finding, evidence also suggests that benefits do not always meet the needs of both employers and workers, so more efforts are needed to successfully position benefits as a driver of employee relations.<sup>7</sup>

**FIGURE 13-2**

### Strategic Benefits Considerations



Employers may offer benefits to aid recruiting and retention, impact organizational performance, and meet legal requirements. Also, some employers see benefits as reinforcing the company philosophy of social and corporate citizenship. Employers that provide good benefits are viewed more positively within a community and the industry by customers, civic leaders, current employees, and workers in other firms. Conversely, employers who are seen as skimping on benefits, cutting benefits, or taking advantage of workers may be viewed more negatively. A list of excellent employers indicated that companies such as Google and Genentech offered innovative benefits including healthy workplace initiatives, work-family balance programs, and sabbaticals, and these benefits have increased profitability and retention.<sup>8</sup>

Another company that has used benefits as part of a total rewards strategy is Jackson's Food Stores, based in Idaho, with 87 stores. The firm has expanded its variable pay and benefits package for both full-time and part-time employees. Consequently, employee retention has increased, which has resulted in better customer service and enhanced organizational results. Other firms such as Howalt-McDowell Insurance, ITA Group, and Argon ST have been recognized for offering benefits packages that have enhanced several components of organizational performance.<sup>9</sup>

The primary reasons executives see for offering benefits is to attract and retain talent and meet responsibilities to employees. According to a survey by an international consulting firm, 48% of executives see benefits as extremely important to a company's competitive effectiveness and another 41% saw benefits as somewhat important. This survey and others confirm that benefits are viewed by both employers and employees as a part of being an "employer of choice" when attracting and retaining individuals.<sup>10</sup>



**Global Benefits** Benefits vary from country to country. In many countries, retirement, health, and other benefits are provided as part of government services. Employers are taxed heavily to pay into government funds that cover the benefits. This model is very different from the one in the United States, where most benefits are provided by employers directly.

Retirement and pension systems are provided by the government in many countries as well. National pension programs in Germany, France, and Japan, among other countries, are facing significant financial pressures due to their aging workforces and populations. Such challenges also face the Social Security and Medicare systems in the United States.

Health care benefits also differ significantly worldwide. Many countries, including Great Britain and Canada, have national health services. Some global firms require employees to use the medical services available from host countries, whereas other global employers provide special coverage that allows expatriates to receive health care from private providers. Arranging quality private coverage becomes an especially important issue for global employees located in various underdeveloped countries where the availability and quality of medical facilities and treatment vary widely.

The amount of leave and vacation time also vary significantly around the globe. Of all of the major countries, only the United States, Australia, and Ethiopia do not provide paid leave for new parents. Additionally, the annual leave/vacation in European countries averages 36 days per year, whereas the United States and Canada average about 10 to 12 days, the lowest amounts

**LOGGING ON****International Society of Certified Employee Benefit Specialists (ISCEBS)**

For information on benefit program research surveys, visit the ISCEBS website at [www.iscebs.org/surveys](http://www.iscebs.org/surveys).

of annual vacation leave among developed countries. These examples illustrate the benefits challenges faced by firms that have employees located in different countries.<sup>11</sup> How these challenges are handled impacts global attraction of employees for the international employers.

## Role of Benefits for Workforce Attraction and Retention

As stated previously, benefits can influence employees' decisions about which particular employer to work for, whether to stay with or leave an employer, and when to retire. What benefits are offered, the competitive level of benefits, and how those benefits are viewed by individuals all affect employee attraction and retention efforts of employers. An additional concern is that the composition of the U.S. workforce is changing, and expectations about benefits by different generations of employees are affecting benefit decisions.<sup>12</sup> For instance, many baby boomers who are approaching retirement age are concerned about retirement benefits and health care, while the younger generation of workers is more interested in flexible and portable benefits. However, all generations have concerns about the nature of and changes in health insurance. Having benefits plans that appeal to the different groups is vital to attracting and retaining all different types of employees.

A major advantage of benefits is that they generally are not taxed as income to employees. For this reason, benefits represent a somewhat more valuable reward to employees than an equivalent cash payment. For example, if employees categorized in a 25% tax bracket earn an extra \$400 working on a special team project, they must pay \$100 in taxes on this amount (disregarding exemptions). But if their employer provides prescription drug coverage in a benefits plan, and they receive the \$400 as payments for prescription drugs, they are not taxed on the amount, and they receive the entire value of \$400, not just \$300. This feature makes benefits a desirable form of compensation to employees if they understand the value provided by the benefits.

## BENEFITS MANAGEMENT AND COMMUNICATIONS

Based on the strategic benefits decisions made, benefits programs must be designed, administered, measured, and communicated. Figure 13-3 highlights the key components of effective benefits management.

### Benefits Design

Benefits plans can provide flexibility and choices for employees, or they can be standardized for all employees. Increasingly, employers are finding that providing employees with some choices and flexibility allows individuals to tailor their benefits to their own situations. However, the more choices available, the higher the administrative demands placed on organizations.<sup>13</sup> A number of key decisions are part of benefits design:

FIGURE 13-3

## Benefits Management Components



- How much total compensation, including benefits, can be provided?
- What part of the total compensation of individuals should benefits constitute?
- Which employees should be provided which benefits?
- What expense levels are acceptable for each benefit offered?
- What is being received by the organization in return for each benefit?
- How flexible should the package of benefits be?

**Part-Time Employee Benefits** Another key design issue is whether or not to provide benefits coverage to part-time employees. Many employers do not provide part-time employee benefits, except some time-off leave benefits. According to data from the U.S. Bureau of Labor Statistics, about one-fourth of part-time workers are involved in company retirement plans, and a minority of them is eligible for health care benefits.<sup>14</sup> Part-time employees who do receive benefits usually do so in proportion to the percentage of full-time work they provide. Companies such as Barnes and Noble, Whole Foods, and Starbucks have been recognized as exceptional employers because they offer various benefits to part-time workers.<sup>15</sup>

**Flexible Benefits** As mentioned, as part of both benefits design and administration, many employers offer employees choices for benefits. A **flexible benefits plan** allows employees to select the benefits they prefer from groups of benefits established by the employer. Sometimes called a *flex plan* or *cafeteria plan*, these plans have a variety of “dishes,” or benefits, available so that each employee can select an individual combination of benefits within some overall limits.

As a result of the changing composition of the workforce, flexible benefits plans have grown in popularity. Flexible benefits systems recognize that individual employee situations differ because of age, family status, and lifestyle. For instance, dual-career couples may not want the same benefits from two different employers. Under a flex plan, one of them can forgo some benefits that are available in the partner’s plan and take other benefits instead.

**Flexible benefits plan**

Program that allows employees to select the benefits they prefer from groups of benefits established by the employer.

A problem with flexibility in benefits choice is that an *inappropriate benefits package* may be chosen by an employee. A young construction worker may not choose a disability benefit, but if that person is injured, the family may suffer financial hardship. Part of this problem can be overcome by requiring employees to select a core set of benefits (life, health, and disability insurance) and then offering options on other benefits.

Another problem can be **adverse selection** by employees, whereby *only* higher-risk employees select and use certain benefits. For example, only employees with chronic illnesses might choose health insurance. Because insurance plans are based on a group rate, the employer may face higher rates if insufficient numbers of healthy employees select an insurance option.

Because many flexible plans have become so complex, they require more administrative time and information systems to track the different choices made by employees. Despite the disadvantages, flex plans will likely continue to grow in popularity.

## HR and Benefits Administration

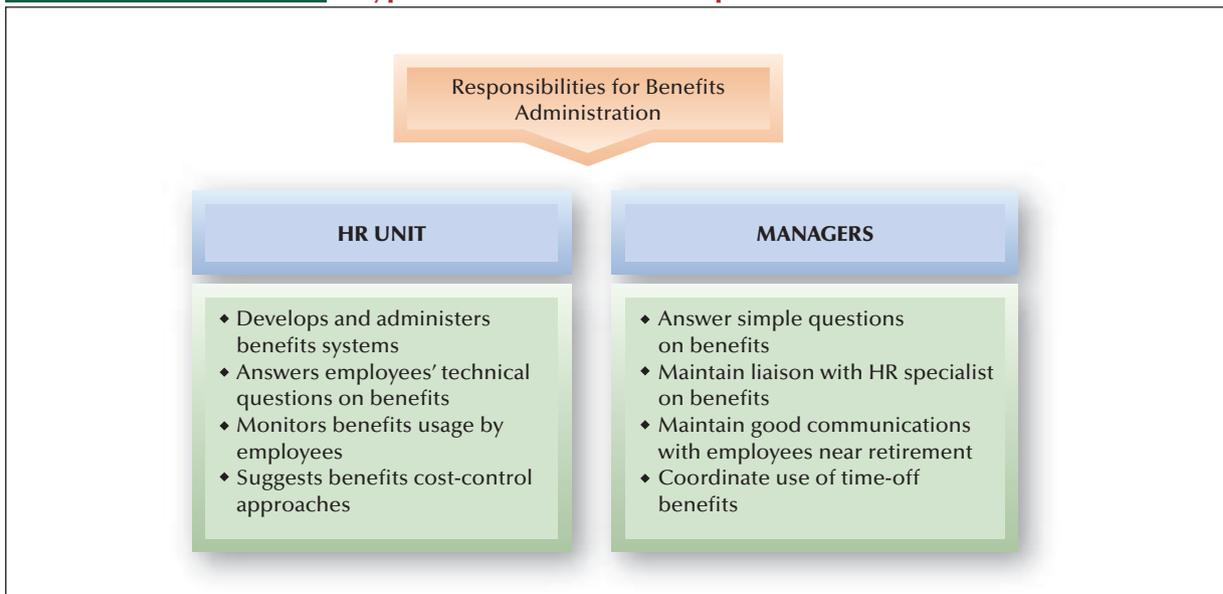
With the myriad of benefits, it is easy to see why many organizations must make coordinated efforts to administer benefits programs. Figure 13-4 shows how benefits administration responsibilities can be split between HR specialists and operating managers. HR specialists play the more significant role, but managers must assume responsibility for some of the communication aspects of benefits administration.

One significant trend affecting HR is that outsourcing of benefits administration may be necessary. A sizable majority of corporations in one study indicated that they were outsourcing more benefits functions.<sup>16</sup> The most frequently outsourced item is Employee Assistance Plans. Administrative activities related to retiree benefits, 401(k) plans, and flexible spending accounts also are often outsourced.

**Adverse selection** Situation in which *only* higher-risk employees select and use certain benefits.

**FIGURE 13-4**

### Typical Division of HR Responsibilities: Benefits Administration



## HR Technology and Benefits

The spread of HR technology, particularly Internet-based systems, has significantly changed the benefits administration time and activities for HR staff members. Internet and computer-based systems are being used to communicate benefits information, conduct employee benefits surveys, and facilitate benefits administration. Recent research shows that these systems can decrease expenses, increase positive communication, and effectively connect people across many different HR functions, including benefits management.<sup>17</sup>

Information technology allows employees to change their benefits choices, track their benefits balances, and submit questions to HR staff members and external benefits providers. Some systems such as Workday provide prepackaged connections with benefits providers so that information technology requirements are minimized. Use of the Internet for benefits enrollment has increased significantly in a three-year period. The greatest use has been to allow employees to sign up for, change, or update their benefits choices through Web-based systems. Previously, HR departments had to send out paper forms, hold numerous benefits meetings, and answer many phone calls from employees. The switch to online enrollment and communications has led to reductions in HR staff and benefits administration costs. Interest in virtual benefits fairs is also increasing because information about available services can be delivered more conveniently to employees. Finally, as part of the recent stimulus plan's push for electronic health documents, many companies such as Wal-Mart, Intel, BP, and IBM are using digitized employee health records and information to facilitate individual wellness management.<sup>18</sup> These efforts should all serve to streamline the efforts required to deliver benefits to employees.



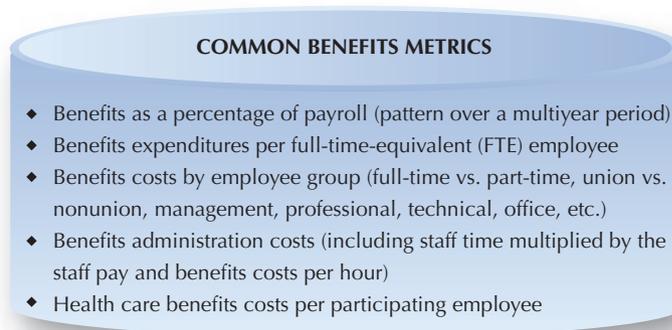
## Benefits Measurement

The significant costs associated with benefits require that analyses be conducted to determine the payoffs for the benefits. With the wide range of benefits that are offered, numerous HR metrics can be used.<sup>19</sup> Some examples are shown in Figure 13-5.

Other metrics are used to measure the return on the expenditures for various benefits programs provided by employers. Some common benefits that employers track using HR metrics are workers' compensation, wellness

**FIGURE 13-5**

### Common Benefits Metrics



programs, prescription drug costs, leave time, tuition aid, and disability insurance. The overriding point is that both benefits expenditures generally, and costs for individual benefits specifically, need to be measured and evaluated as part of strategic benefits management.

## Benefits Cost Control

Because benefits expenditures have risen significantly in the past few years, particularly for health care, employers are focusing more attention on measuring and controlling benefits costs, even reducing or dropping benefits offered to employees. For example, Goodyear Tire & Rubber cut contributions to employee 401(k) accounts in 2003, and while the company recently reimplemented a modest 401(k) match program, it halted some pension programs. Likewise, General Motors, Sears Holdings, and Eastman Kodak have initiated cutbacks to retirement benefits.<sup>20</sup>

Another common means of benefits cost control is cost sharing, which refers to having employees pay for more of their benefits costs. Almost 60% of firms use this means. The next three means of health care cost control are using wellness programs, adding employee health education efforts, and changing prescription drug programs. Sometimes it is more cost effective for individuals to purchase benefits directly from providers, and some companies also are negotiating contracts with providers to offer benefits at reduced rates. Companies might also consider consolidating benefits packages into more streamlined offerings so that costs can be minimized.<sup>21</sup>

## Benefits Communication

Employees generally do not know much about the values and costs associated with the benefits they receive from employers. This ignorance is illustrated by a survey in which only 5% of HR executives identified that their employees appreciated their total compensation package. More than one-third stated that employees do not understand the dollar value of benefits. However, other research suggests that some companies are communicating extensively with employees because individuals are now expected to make their own decisions about benefits and generalized health.<sup>22</sup>

Benefits communication and satisfaction of employees with their benefits are linked. For instance, employees often do not fully understand their health benefits, a situation that can cause individual dissatisfaction. Consequently, many employers should consider developing special benefits communication systems to inform employees about the monetary value of the benefits they provide. Employers can use various means, including videos, CDs, emails, electronic alerts, newsletters, and employee meetings. All these efforts are done to ensure that employees are knowledgeable about their benefits. Some of the important information to be communicated includes the value of the plans offered, why changes have to be made, and the fundamental financial costs of the plans. The Employee Retirement Income Security Act (ERISA) also requires sponsors of health programs to write a *summary plan description* that details the rights and benefits associated with particular plans, and these documents must be easy to understand.<sup>23</sup>

When planning benefits communication efforts, it is important to consider factors such as the timing and frequency, the communication sources, and the specialized content. Any significant changes to benefits, such as cuts to 401(k) matches, should be communicated by the top managers in the organization,

## Using Online Technology to Combat Presenteeism

Presenteeism, which occurs when employees report to work but do not accomplish their assigned tasks effectively, can be a serious problem for organizations. Examples of presenteeism include working through an illness, dealing with personal problems on the job, and managing various medical conditions while on the clock. Unfortunately, presenteeism is becoming more common in organizations because of the recent economic turndown and increased stress related to work-life balance. Companies can offer different benefits to reduce the likelihood that workers will be adversely affected by presenteeism.

One of the best ways to combat presenteeism is the development and institutionalization of a companywide employee health and wellness program. Encouraging

employees to take ownership of their physical and mental well-being can, under many circumstances, reduce stress and increase quality of work life. The major obstacle in creating such a program involves getting individuals to actually participate in the benefit plan, and technology is proving to be a valuable tool for increasing awareness of company health benefits. For instance, Web portals can be used to educate employees about health and wellness programs and various medical issues. In addition, mobile technology can be utilized by different providers to give employees quick and easy access to insurance records, medical appointments, and other administrative information. Using online technology can be beneficial for both employers and employees because presenteeism can be decreased.<sup>24</sup>

and these communications should be supported by HR professionals and other key managers who are well-informed to answer any questions. HR professionals should also collect feedback about benefits programs. Some companies are using Twitter, an online communication network of brief messages, to gather important opinions about their benefits.<sup>25</sup> The HR Online describes a similar use of Internet communications to increase participation in health and wellness programs that can reduce employee “presenteeism.”

**Benefits Statements** Some employers give individual employees a “personal statement of benefits” that translates benefits into dollar amounts. Increasingly, firms are using the Internet to provide statements, with estimates that 60% of employers are doing so.<sup>26</sup> These statements often are used as part of a total rewards education and communication effort. The Employee Retirement Income Security Act (ERISA) also requires that employees receive an annual pension-reporting statement, which also can be included in the personal benefits statement.



### LOGGING ON

#### **BenefitNews.Com**

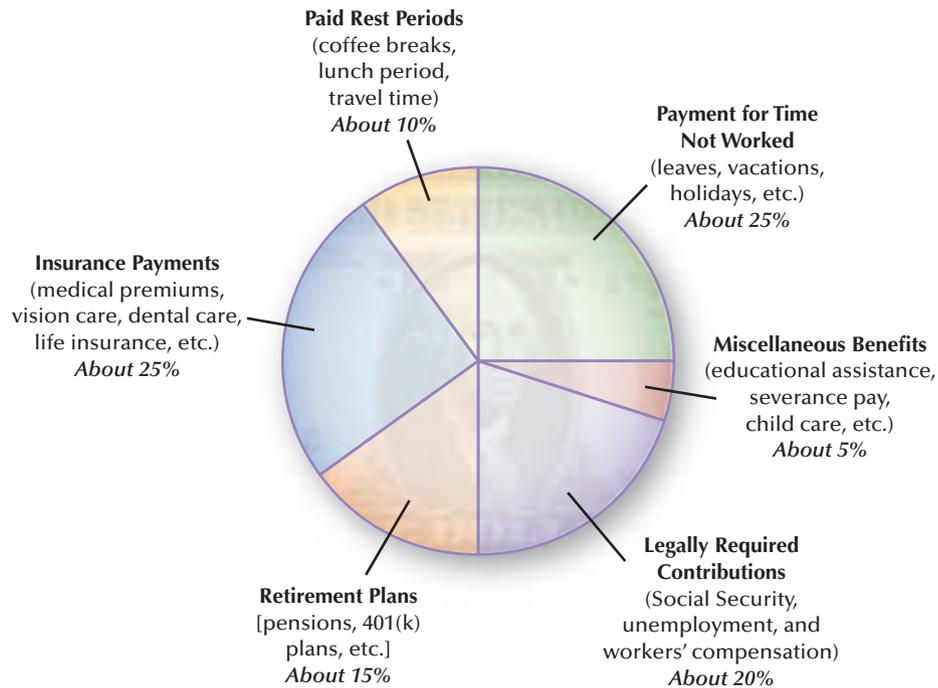
This website is a resource for surveys, archived articles, and the latest trends and information regarding employee benefits. Visit the site at [www.benefitnews.com](http://www.benefitnews.com).

## TYPES OF BENEFITS

A wide range of benefits are offered by employers. Some are mandated by laws and government regulations, while others are offered voluntarily by employers as part of their HR strategies. Figure 13-6 shows how the typical employer dollar is spent on different types of benefits.

FIGURE 13-6

## How the Typical Benefits Dollar Is Spent



Source: Based on data summarized from the U.S. Department of Labor, Bureau of Labor statistics, *National Compensation Survey: Employee Benefits in Private Industry in the United States, 2006*; *Employee Benefits Study, 2006 ed.* (Washington, DC: U.S. Chamber of Commerce, 2007).

## Government-Mandated Benefits

There are many mandated benefits that employers in the United States must provide to employees by law. Social Security (federal) and unemployment insurance (state) are funded through a tax paid by the employer based on the employee's compensation. Workers' compensation laws exist in all states. In addition, under the Family and Medical Leave Act (FMLA), employers must offer unpaid leave to employees with certain medical or family difficulties. Other mandated benefits are funded in part by taxes, through Social Security. The Consolidated Omnibus Budget Reconciliation Act (COBRA) mandates that an employer continue to provide health care coverage—albeit paid for by the employees—for a time after employees leave the organization. The Health Insurance Portability and Accountability Act (HIPAA) requires that most employees be able to obtain coverage if they were previously covered in a health plan and provides privacy rights for medical records.

A major reason for additional mandated benefits proposals is that federal and state governments would like to shift many of the social costs for health care and other expenditures to employers. This shift would relieve some of the budgetary pressures facing government entities that otherwise might have to raise taxes and/or cut spending.

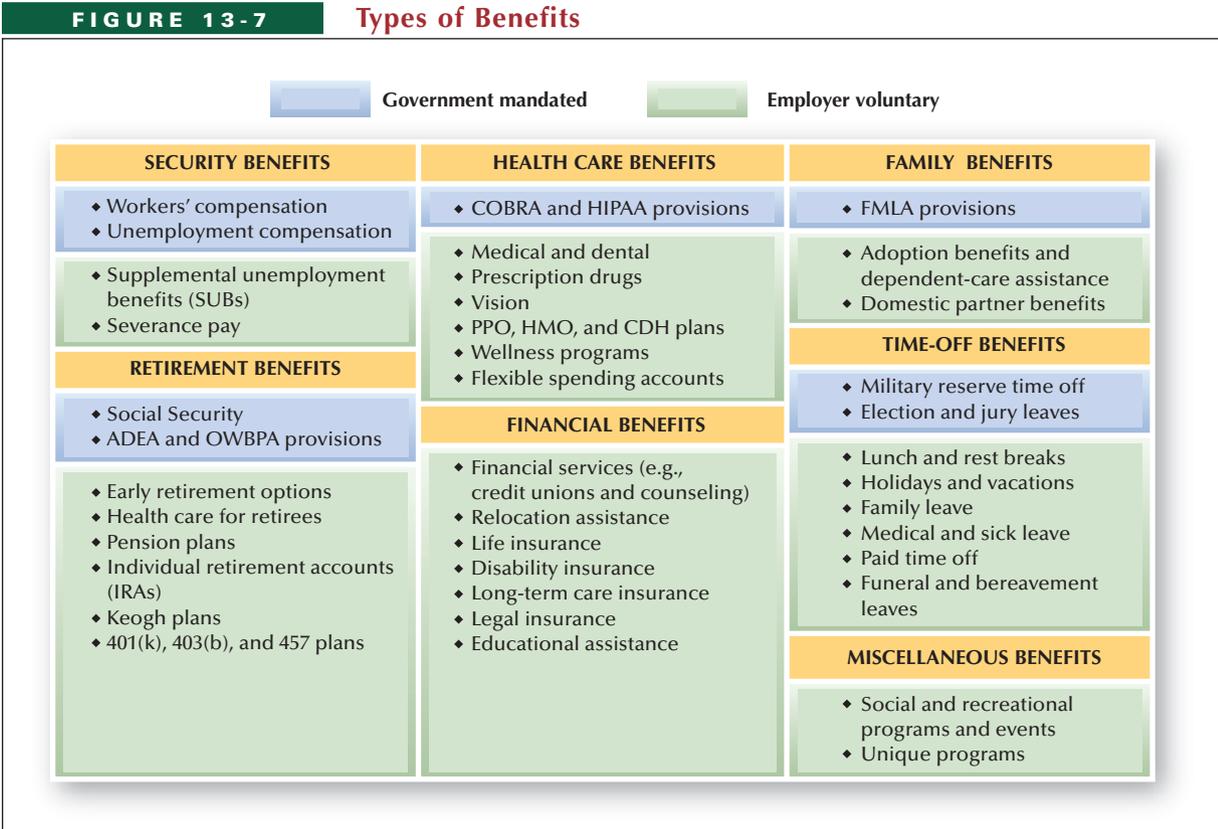
The federal plan for universal health care benefits for individuals has been passed, but given the complexity of the bill and uncertainty over exactly how it will work, it is unclear exactly how such coverage will

impact organizations, sponsors of health benefits, and health care providers. Additional mandated benefits have been proposed for many other areas but not adopted are as follows:

- Child-care assistance
- Pension plan coverage that can be transferred by workers who change jobs
- Core benefits for part-time employees working at least 500 hours a year
- Paid time off for family leave
- Paid time off for pregnancy and child bearing

### Voluntary Benefits

Employers voluntarily offer other types of benefits to help them compete for and retain employees. By offering additional benefits, organizations are assuming a need to provide greater security and benefits support to workers with widely varied personal circumstances. In addition, as jobs become more flexible and varied, both workers and employers recognize that choices among benefits are necessary, as evidenced by the growth in flexible benefits and cafeteria benefit plans. Figure 13-7 lists seven types of mandated and voluntary benefits. The following sections describe them by type.



## SECURITY BENEFITS

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A number of benefits provide employee security. These benefits include some mandated by laws and others offered by employers voluntarily. The primary benefits found in most organizations include workers' compensation, unemployment compensation, and severance pay.

### Workers' Compensation

**Workers' compensation** provides benefits to persons who are injured on the job. State laws require most employers to supply workers' compensation coverage by purchasing insurance from a private carrier or state insurance fund or by providing self-insurance. Government employees in the United States are covered under the Federal Employees Compensation Act, administered by the U.S. Department of Labor.

The workers' compensation system requires employers to give cash benefits, medical care, and rehabilitation services to employees for injuries or illnesses occurring within the scope of their employment. In exchange, employees give up the right to pursue legal actions and awards. The costs to employers for workers' compensation average about 1.8% of total payroll, and about \$0.47 per hour in wages per worker.<sup>27</sup> However, it is much higher in some states. Workers' compensation is a part of HR risk management and worker protection.

### Unemployment Compensation

Another benefit required by law is unemployment compensation, established as part of the Social Security Act of 1935. Because each U.S. state operates its own unemployment compensation system, provisions differ significantly from state to state. The tax is paid to state and federal unemployment compensation funds. The percentage paid by individual employers is based on "experience rates," which reflect the number of claims filed by workers who leave.

An employee who is out of work and is actively looking for employment normally receives up to 26 weeks of pay, at the rate of 50% to 80% of normal pay. Most employees are eligible. However, workers fired for misconduct or those not actively seeking employment generally are ineligible. Only about 40% of eligible people use the unemployment compensation system. This underutilization may be due both to the stigma of receiving unemployment and the complexity of the system, which some feel is simply not worth the effort.

*Supplemental unemployment benefits (SUBs)* are closely related to unemployment compensation, but they are not required by law. A provision in some union contracts requires organizations to contribute to a fund that supplements the unemployment compensation available to employees from federal and/or state sources.

#### **Workers' compensation**

Security benefits provided to persons who are injured on the job.

**Criticisms of Unemployment Insurance** Two problems explain changes in unemployment insurance laws proposed at state and federal levels: (1) abuses are estimated to cost billions each year, and (2) many state unemployment funds are exhausted during economic slowdowns. Also, some states allow striking

union workers to collect unemployment benefits despite strike fund payments from the union. This provision is bitterly opposed by many employers.

## Severance Pay

As a security benefit, **severance pay** is voluntarily offered by employers to individuals whose jobs are eliminated or who leave by mutual agreement with their employers. Employer severance pay provisions often provide severance payments corresponding to an employee's level within the organization and the person's years of employment. The Worker Adjustment and Retraining Notification Act (WARN) of 1988 requires that many employers give 60 days' notice if a mass layoff or facility closing is to occur. The act does not require employers to give severance pay.

**Severance pay** Security benefit voluntarily offered by employers to individuals whose jobs are eliminated or who leave by mutual agreement with their employers.

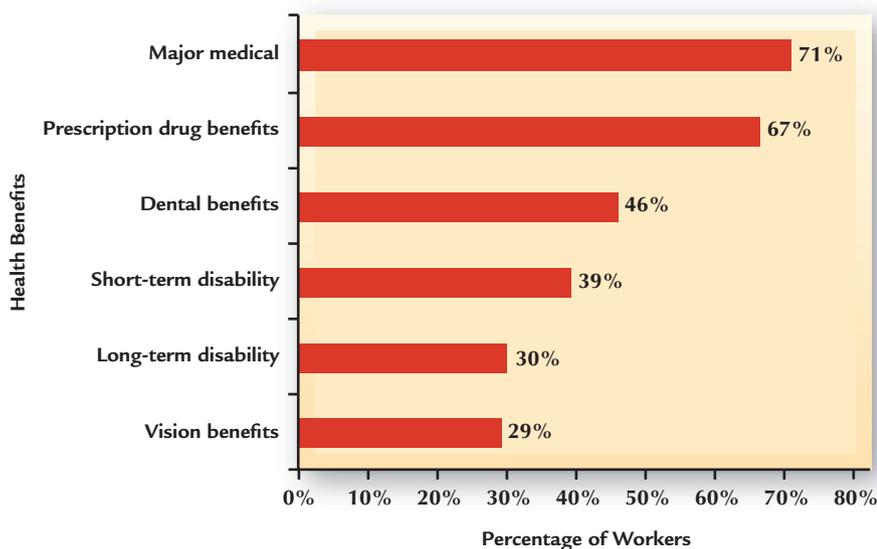
Some employers have offered reduced amounts of cash severance and replaced some of the severance value with continued health insurance and outplacement assistance. Through *outplacement assistance*, ex-employees receive résumé writing instruction, interviewing skills workshops, and career counseling.

## HEALTH CARE BENEFITS

Employers provide a variety of health care and medical benefits, usually through insurance coverage. A recent national survey indicated that health plans are considered by employees to be the most important benefit that companies offer, and another study found that slightly more than half of individuals are satisfied with the current health insurance offered.<sup>28</sup> The most common plans cover medical, dental, prescription drug, and vision care expenses for employees and their dependents. Figure 13-8 notes the percentage of private industry workers receiving different types of health benefits.

FIGURE 13-8

Private Industry Workers with Health Benefits



Source: U.S. Bureau of Labor Statistics, [www.bls.gov/ncs/home.htm](http://www.bls.gov/ncs/home.htm).

## Increases in Health Benefits Costs

For several decades, the costs of health care have escalated at rates well above those of inflation and changes in workers' earnings. For instance, the reduction in the number of obstetricians caused by litigation fears and the price of malpractice insurance has increased costs due to higher premiums and diagnostic testing. In addition, the costs of health care have increased by two percentage points over increases in the GDP across many developed nations for close to 50 years. As a result of large increases such as these, many employers find that dealing with health care benefits is time consuming and expensive. This is especially frustrating for employers who have found that many employees seem to take their health benefits for granted. Consequently, a growing number of firms, particularly smaller ones, have asked, "Why are we offering these benefits anyway?" About 10% of all employers have answered the question by discontinuing or dramatically cutting health benefits.<sup>29</sup> Two major groups of workers that have contributed to the increasing costs are uninsured workers and retirees.

**Uninsured Workers** Some of the health benefits cost pressures are due to health care providers having to cover the costs for the rising number of individuals in the United States without health insurance coverage. A number of uninsured workers are illegal immigrants; others work for employers that do not provide benefits. About 15% to 20% of the U.S. population lacks health coverage, and covering those costs forces hospitals, pharmacies, and other health care providers to raise their rates on all patient services. Thus, the costs are shifted to those with health insurance paid for by employers, making this a high-profile political issue that has driven attention to health care reform.<sup>30</sup>

**Retirees' Health Benefits Costs** Another group whose benefits costs are rising is retirees whose former employers still provide health benefits coverage. For instance, at General Motors, there are 2.4 retired employees for every active employee. Increasing the problem at GM is that health care usage rates for older retirees are significantly higher than those of current employees. GM has to add almost \$1,500 per vehicle to cover employee and retiree health care costs, which amounts to more than the steel used to build the cars.<sup>31</sup>

To control retiree health benefits costs, some firms are cutting their benefits or requiring retirees to pay higher rates for health benefits. Approximately 75% of employers in one survey have increased health insurance premiums in recent years. In addition, one company has frozen health care benefits for thousands of its retirees. Future increased costs will be paid for by the individual retirees,

not the employer. Naturally, such efforts by firms have faced resistance and even lawsuits from disgruntled retirees. At these and other firms, this issue raises troubling ethical concerns. Many of the retirees worked for their employers for 20, 30, or more years, yet the reward for their long service increasingly is a reduction in health care benefits. As a result, many individuals are delaying retirement until age 65 so that Medicare coverage can be secured.<sup>32</sup>



### LOGGING ON

#### America's Health Insurance Plans

For current information on legislative and regulatory health care issues affecting American consumers, visit this website at [www.ahip.org](http://www.ahip.org).

## Controlling Health Care Benefits Costs

Employers offering health care benefits are taking a number of approaches to controlling their costs. The most prominent ones are changing copayments and employee contributions, using managed care, switching to mini-medical

plans or consumer-driven health plans, and increasing health preventive and wellness efforts.

**Changing Copayments and Employee Contributions** The **copayment** strategy requires employees to pay a portion of the cost of insurance premiums, medical care, and prescription drugs. Requiring new or higher copayments and employee contributions is the most prevalent cost-control strategy identified by many employers surveyed. For instance, employers who raise the per-person deductible from \$50 to \$250 realize significant savings in health care expenses due to decreasing employee usage of health care services and prescription drugs.

These changes are facing significant resistance by employees, especially those who have had *first-dollar coverage*. With this type of coverage, all expenses, from the first dollar of health care costs, are paid by the employee's insurance. Experts claim that when first-dollar coverage is included in a basic health plan, many employees see a doctor for even minor illnesses, which results in an escalation of the benefits costs.

**Using Managed Care** Several other types of programs attempt to reduce health care costs paid by employers. **Managed care** consists of approaches that monitor and reduce medical costs through restrictions and market system alternatives. Managed care plans emphasize primary and preventive care, the use of specific providers who will charge lower prices, restrictions on certain kinds of treatment, and prices negotiated with hospitals and physicians.

The most prominent managed care approach is the **preferred provider organization (PPO)**, a health care provider that contracts with an employer or an employer group to supply health care services to employees at a competitive rate. Employees have the freedom to go to other providers if they want to pay the differences in costs. *Point-of-service plans* are somewhat similar, offering financial incentives to encourage employees to use designated medical providers.

Another managed care approach is a **health maintenance organization (HMO)**, which provides services for a fixed period on a prepaid basis. The HMO emphasizes both prevention and correction. An employer contracts with an HMO and its staff of physicians and medical personnel to furnish complete medical care, except for hospitalization. The employer pays a flat rate per enrolled employee or per enrolled family. The covered individuals may then go to the HMO for health care as often as needed. Supplemental policies for hospitalization also are provided. While HMOs remain widely used, a growing number of employers are focusing on other means to control the costs of health care benefits.

Many employers have found that some of the health care provided by doctors and hospitals is unnecessary, incorrectly billed, or deliberately overcharged. Consequently, both employers and insurance firms often require that medical work and charges be audited through a **utilization review**. This process may require a second opinion, a review of the procedures done, and a review of charges for the procedures.

**Mini-Medical Plans** Another type of plan that has grown in usage in the past few years is the *mini-medical plan*. This type of plan provides limited health benefits coverage for employees. In the past, these plans have been used more with part-time and lower wage level employees. But more employers are using these plans for full-time employees of all types. A typical mini-medical plan limits the number of doctor visits paid per year to fewer than 10, covers

**Copayment** Strategy of requiring employees to pay a portion of the cost of insurance premiums, medical care, and prescription drugs.

**Managed care** Approaches that monitor and reduce medical costs through restrictions and market system alternatives.

**Preferred provider organization (PPO)** A health care provider that contracts with an employer or an employer group to supply health care services to employees at a competitive rate.

**Health maintenance organization (HMO)** Plan that provides services for a fixed period on a prepaid basis.

**Utilization review** Audit of services and costs billed by health care providers.

## Mini-Medical Plans on the Rise

Mini-medical plans are becoming more and more popular among organizations looking to provide more economical health care coverage to employees. Minimal coverage plans typically offer individuals scaled-down health care benefits, and because coverage is limited, the plans are offered at a highly discounted rate. Management can negotiate different coverage caps depending on the needs of workers, and premium prices, which may or may not be paid completely by employees, tend to rise as the caps increase. Additionally, plans often do not include deductibles, and when they do, out-of-pocket costs are fixed at a low rate. Given these parameters, mini-medical plans are particularly suited to smaller companies that employ predominantly younger, hourly, part-time workers who do not need regular and/or extensive health care coverage. Mini-medical plans have become popular because managers believe that offering even modest programs that facilitate positive health management is better than offering nothing.

## HR *best practices*

However, are mini-medical plans really adequate for companies seeking to provide modest health care benefits to employees? Some critics believe that the money spent on minimal health care coverage could be better used to cover items such as personal and family necessities. Mini-plans might also sound better than they really are depending on the details of the individual coverage accounts. For instance, a plan might only cover expenses for certain procedures, and there may be daily coverage caps. An organization must therefore carefully and diligently evaluate the terms of mini-plans so that there are no misunderstandings about how medical expenses will be covered by insurance companies. Employers also must be proactive about communicating to employees the terms of different plans so that employees can take full advantage of their health care benefits. By making sure individuals understand their coverage options, companies should be able to take greater advantage of the many benefits of mini-medical plans.<sup>33</sup>

only certain prescription drugs, provides very limited hospital coverage, and caps total annual health benefits costs at \$10,000 or less. These limitations result in significantly fewer benefits for employees, but dramatically lower costs for employers.<sup>34</sup> The HR Best Practices discusses the increasing popularity of mini-medical plans.

## Consumer-Driven Health Plans

Some employers are turning to employee-focused health benefits plans. The most prominent is a **consumer-driven health (CDH) plan**, which provides employer financial contributions to employees to help cover their health-related expenses. Various surveys of companies have identified that a growing number of employers have switched to CDH plans, and that others are actively considering switching to these plans. Recent figures also suggest that an increasing number of CDH plans are being offered by both large and small businesses and that more workers are signing up for them. For instance, Humana, the health benefits company located in Louisville, Kentucky, implemented a successful consumer-directed program based on principles such as individual health management and mutual accountability.<sup>35</sup>

In these plans, which are also called *defined-contribution health plans*, an employer places a set amount into each employee's "account" and identifies a

**Consumer-driven (CDH) plan** Health plan that provides employer financial contributions to employees to help cover their health-related expenses.

number of health care alternatives that are available. Then individual employees select from those health care alternatives and pay for part of the costs from their accounts.

There are two advantages to such plans for employers. One is that more of the increases in health care benefits costs are shifted to employees, because the employer contributions need not increase as fast as health care costs. Second, the focus of controlling health care usage falls on employees, who may have to choose when to use and not use health care benefits. Figure 13-9 highlights the components of CDH plans.

**Health Savings Accounts** Often **Health savings accounts (HSAs)** are combined with high-deductible insurance to cut employer costs. Such insurance is defined as plans that have between \$1,150 and \$5,800 in deductibles for individuals, and between \$2,300 and \$11,600 in deductibles for families.<sup>36</sup> Other components of an HSA include the following:

- Both employees and employers can make contributions to an account.
- Individual employees can set aside pretax amounts for medical care into an HSA.
- Unused amounts in an individual's account can be rolled over annually for future health expenses.
- Incentives are included to encourage employees to spend less on health expenses.
- Contributions must be uniform for all employees enrolled in HSA accounts unless they are based on a cafeteria program.<sup>37</sup>

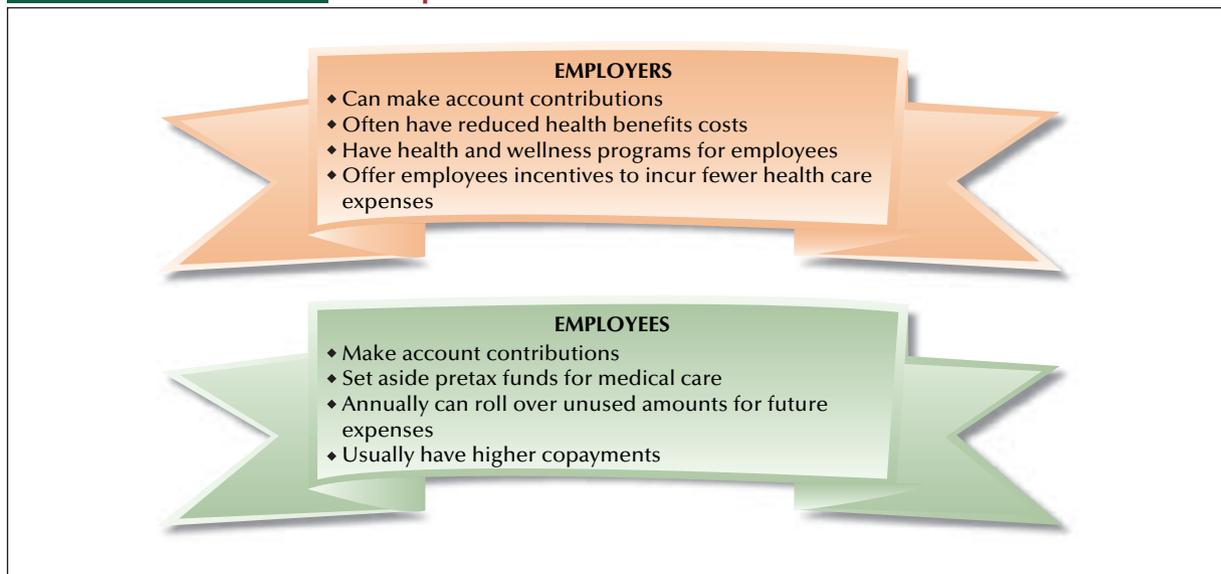
The key component of HSA accounts is that employees may get more health benefits choices, but their insurance usually has higher annual deductibles. These plans often result in employers having lower overall expenditures because higher employee deductibles result in lower costs for the employers. For example, at one firm an employee has a \$3,000 annual deductible to meet, compared with a \$1,000 amount previously under a PPO plan. With the

#### Health accounts (HSAs)

High-deductible health plans with federal tax advantages.

FIGURE 13-9

### Components of Consumer-Driven Health Plans



higher deductible amounts, employers often cut or limit their contributions, reducing their costs by 10% to 30%. Because of these shifts in costs, less than 7% of employees are voluntarily switching to these plans, even though many employers have added HSAs to their benefits plan mix.<sup>38</sup>

**Health Reimbursement Arrangements** Closely related to an HSA is a health reimbursement arrangement. This type of plan also may be called a *health reimbursement account* or a *personal care account*. Under a **health reimbursement arrangement (HRA)**, the employer sets aside money in a health reimbursement account to help employees pay for qualified medical expenses. The definition of “qualified medical expenses” can be determined by the employer within tax law limitations. A key difference from an HSA is that employees cannot contribute money to an HRA. The employer also can decide if employees must pay deductibles first or if they can utilize funds in their HRA to pay for first-dollar expenses. If an employee does not utilize all of the funds available in the HRA during the plan year, the employee may be allowed to roll all or a portion of the balance into the next plan year.<sup>39</sup>

## Health Care Preventive and Wellness Efforts

Preventive and wellness efforts can occur in a variety of ways. Many employers offer programs to educate employees about health care costs and how to reduce them. Newsletters, formal classes, and many other approaches are all designed to help employees understand why health care costs are increasing and what they can do to control them. For instance, Avivia Health provides health coaching to employees so that they can develop more positive wellness strategies, and some companies are using “Walkstations,” treadmills linked to work areas, to encourage greater exercise in the workplace. Many employers have programs that offer financial incentives to improve health habits. These wellness programs, discussed more in Chapter 14, reward employees who stop smoking, lose weight, and participate in exercise programs, among other activities. For example, employees at Ottawa Dental Labs, a small dental technology firm located in Ottawa, Illinois, are given “Vitality Bucks” that can be used to obtain different gifts and bonuses. An online health program called “DASH” (Dietary Approach to Stop Hypertension Program) was successfully implemented at EMC Corp. without any employee incentives, indicating that incentives might not always be needed to increase participation.<sup>40</sup>

**Employee Reactions to Cost-Control Efforts** As would be expected, many employees are skeptical about or even hostile to employer efforts to reduce health benefits costs and raise employees’ contributions. Surveys of employees have found that they are more dissatisfied with changes to their health benefits than with the moderation of base pay increases. In fact, about 75% of the employees in one survey said that they would forgo any pay increase to keep their health benefits unchanged.<sup>41</sup>

For cost-control efforts to work for employers, the gap between employees’ and employers’ views on benefits must be bridged, which requires significant communication with and education of employees to counter their negative reactions. Key in communicating about controlling health benefits costs is sharing information and having a continuing and effective benefits communications plan.

**Health reimbursement arrangement (HRA)** Health plan in which the employer sets aside money in a health reimbursement account to help employees pay for qualified medical expenses.

## Health Care Legislation

The importance of health care benefits to employers and employees has led to a variety of federal and state laws being created. The passage of a nationalized health care plan that insures all individuals is one such example. Some laws have been enacted to provide protection for employees who leave their employers, either voluntarily or involuntarily. To date, the two most important laws passed that govern issues related to the protection of former workers are COBRA and HIPAA.

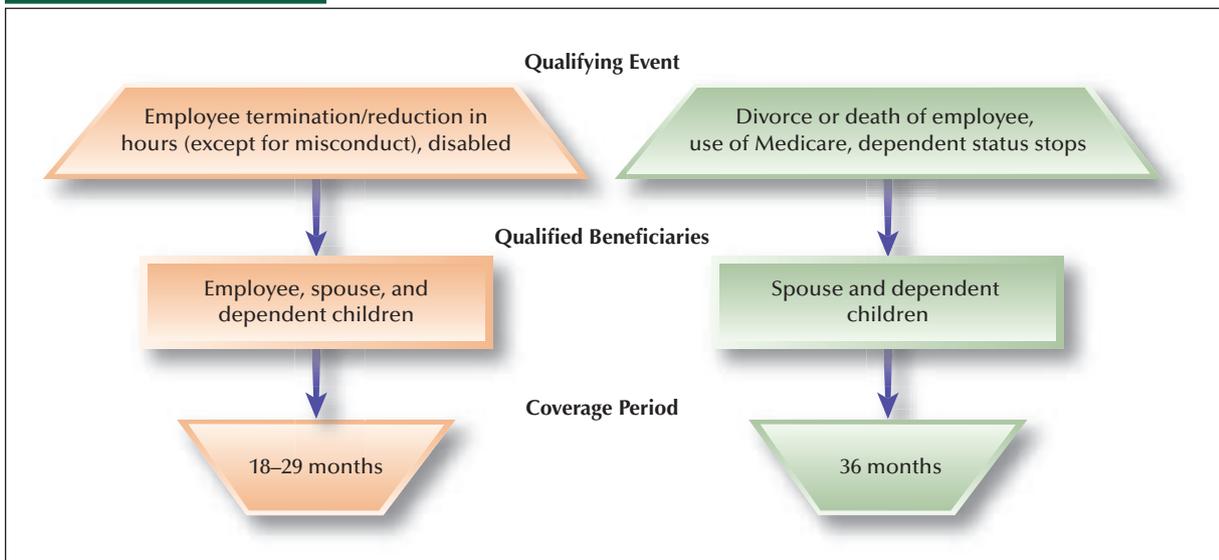
**COBRA Provisions** The Consolidated Omnibus Budget Reconciliation Act (COBRA) requires that most employers (except churches and the federal government) with 20 or more full-time and/or part-time employees (partial count based on hours needed to work for full-time status, or hours worked/full-time hours) offer extended health care coverage to certain groups, as follows:<sup>42</sup>

- Employees who voluntarily quit or are terminated
- Widowed or divorced spouses and dependent children of former or current employees
- Retirees and their spouses and dependent children whose health care coverage ends
- Any child who is born or adopted by a covered employee
- Other individuals involved in the plan such as independent contractors and agents/directors

A company has 30 days to tell plan managers about certain qualifying events (i.e., employment termination, decreased hours, employee death, Medicare coverage, or bankruptcy), eligible individuals have 60 days to inform the plan managers after other qualifying events (i.e., divorce, legal separation, loss of dependent status), the plan must send individuals an election notice or denial of coverage continuation within 14 days after receiving notice, and entitled individuals have 60 days to move forward with COBRA coverage.<sup>43</sup> The chart in Figure 13-10 shows the duration of coverage that is offered depending on the

**FIGURE 13-10**

### Overview of COBRA Provisions



qualifying circumstances.<sup>44</sup> The individual no longer employed by the organization must pay the premiums, but the employer may charge this individual no more than 102% of the premium costs to insure a similarly covered employee. The 2% premium addition generally does not cover all relevant costs, because those costs often run several percentage points more.

Compliance with COBRA regulations can be very complex, and noncompliance with the law can lead to lawsuits and corporate payments of health care bills. Consequently, COBRA requirements often mean additional paperwork and related costs for many employers. For example, firms must not only track the former employees but also notify their qualified dependents. In addition, the American Recovery and Reinvestment Act of 2009 recently waived 65% of qualified persons' COBRA costs for involuntary separation of work that occurred from September 1, 2008, through February 28, 2010, and the decreased costs could run for up to 15 months for health care benefits that started on or after February 17, 2009.<sup>45</sup>

**HIPAA Provisions** The Health Insurance Portability and Accountability Act (HIPAA) of 1996 allows employees to switch their health insurance plans when they change employers, and to get new health coverage with the new company regardless of preexisting health conditions. The legislation also prohibits group insurance plans from dropping coverage for a sick employee and requires them to make individual coverage available to people who leave group plans.

One of the greatest impacts of HIPAA comes from its provisions regarding the privacy of employee medical records. These provisions require employers to provide privacy notices to employees. They also regulate the disclosure of protected health information without authorization.<sup>46</sup>

**Flexible Spending Accounts** Under current tax law (specifically, section 125 of the Internal Revenue Code), employees can divert some pretax income into **flexible spending accounts** to fund certain additional benefits. Under tax law at the time of this writing, the funds in the account can be used to purchase only the following: (1) additional health care (including offsetting deductibles), (2) life insurance, (3) disability insurance, and (4) dependent-care benefits. An example illustrates the advantage of these accounts to employees. Assume an employee earns \$3,000 a month and has \$100 a month deducted to put into a flexible spending account. That \$100 does not count as gross income for tax purposes, so the employee's taxable income is reduced. The employee uses the money in the account to purchase additional benefits.

**Other Important Health Care Legislation** Several other key laws also should be understood by HR professionals. For instance, the Mental Health Parity and Addiction Equity Act, which was passed along with the Wall Street bailout legislation, requires employers to provide "equal and fair" health care coverage to those individuals adversely affected by mental disorders and substance problems. Comparisons should be made with benefits provided to employees who experience physical ailments to determine the parity of coverage.<sup>47</sup> Also, the Children's Health Insurance Program Reauthorization Act of 2009 gives states the opportunity to provide financial assistance for the defraying of costs associated with employer-based health care programs to (1) children of low-income families or (2) individuals below the age of 19 who are entitled to receive Medicare. Employers can request that payments be made directly to individuals instead of the business receiving subsidies from the government.<sup>48</sup>

**Flexible spending accounts** Benefits plans that allow employees to contribute pretax dollars to fund certain additional benefits.

## RETIREMENT BENEFITS

The aging of the workforce in many countries is affecting retirement planning for individuals and retirement plan costs for employers and governments. In the United States, the number of citizens at least 55 years or older has increased significantly in recent years, and older citizens currently constitute a large portion of the population. Simultaneously, the age of retirement has declined, as it has been doing for decades. With more people retiring earlier and living longer, retirement benefits are becoming a greater concern for employers, employees, and retired employees.

Unfortunately, most U.S. citizens have inadequate savings and retirement benefits for funding their retirements. According to a study by the Employee Benefit Research Institute, almost 70% of individuals over age 55 have inadequately saved for retirement.<sup>49</sup> These individuals are heavily dependent on employer-provided retirement benefits. But many employers with fewer than 100 workers do not offer retirement benefits. Also, the economic downturn caused a reduction in the value of worker retirement accounts and contributions, leading many older employees to continue with their employment.<sup>50</sup> Therefore, individuals must rely on Social Security payments, which were not designed to provide full retirement income.

### Social Security

The Social Security Act of 1935, with its later amendments, established a system providing *old-age, survivor's, disability, and retirement* benefits. Administered by the federal government through the Social Security Administration, this program provides benefits to previously employed individuals. Employees and employers share in the cost of Social Security through a tax on employees' wages or salaries.

**Social Security Changes** Since the inception of the system, the Social Security payroll taxes have risen to 15.3% currently, with employees and employers each paying 7.65% up to an established maximum. In addition, Medicare taxes have more than doubled, to 2.9%.

Because the Social Security system affects a large number of individuals and is government operated, it is a politically sensitive program. The U.S. Congress has responded to public pressure by raising payments and introducing cost-of-living adjustments. Now, it is likely that legislative action will have to respond to widespread criticisms that the system is not financially sound and must consider alternatives to ensure the future viability of the Social Security system.

### Pension Plans

A **pension plan** is a retirement program established and funded by the employer and employees. Organizations are not required to offer pension plans to employees, and fewer than half of U.S. workers are covered by them. Small firms offer pension plans less often than do large ones.

**Defined-Benefit Pension Plans** A "traditional" pension plan, in which the employer makes the contributions and the employee will get a defined amount each month upon retirement, is no longer the norm in the private sector. Through a **defined-benefit plan**, employees are promised a pension amount

**Pension plan** Retirement program established and funded by the employer and employees.

**Defined-benefit plan** Retirement program in which employees are promised a pension amount based on age and service.

based on age and service. The employees' contributions are based on actuarial calculations on the *benefits* to be received by the employees after retirement and the *methods* used to determine such benefits. A defined-benefit plan gives employees greater assurance of benefits and greater predictability in the amount of benefits that will be available for retirement. Defined-benefit plans are often preferred by workers with longer service, as well as by small business owners.

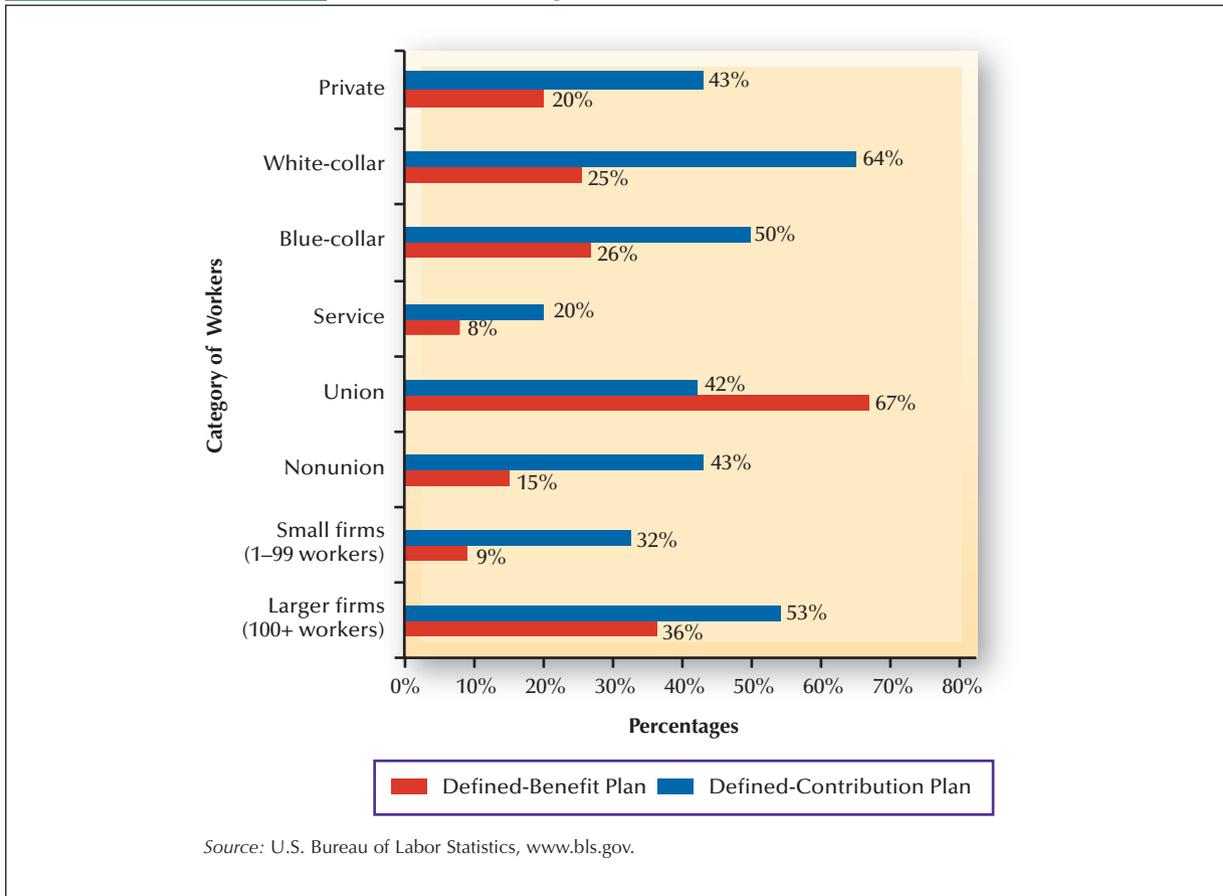
If the funding in a defined-benefit plan is insufficient, the employer may have to make up the shortfall. Therefore, many employers have dropped defined-benefit plans in favor of defined-contribution plans (discussed next) so that their contribution liabilities are known. Notice in Figure 13-11 that unionized employees participate to a greater extent in defined-benefit plans than any other category. A study also found that high affective commitment among employees led them to work beyond an age that was advantageous financially in a defined-benefit pension plan, while high continuance commitment led individuals to retire earlier within a time frame that was more financially beneficial.<sup>51</sup>

**Defined-contribution plan** Retirement program in which the employer makes an annual payment to an employee's pension account.

**Defined-Contribution Pension Plans** In a **defined-contribution plan**, the employer makes an annual payment to an employee's pension account. The key to this plan is the *contribution rate*; employee retirement benefits depend on fixed contributions and employee earnings levels. Profit-sharing

FIGURE 13-11

Worker Participation in Pension Plans



plans, employee stock ownership plans (ESOPs), and 401(k) plans are common defined-contribution plans. Because these plans hinge on the investment returns on the previous contributions, the returns can vary according to profitability or other factors. Therefore, employees' retirement benefits are somewhat less secure and predictable. But because of their structure, these plans are sometimes preferred by younger, shorter-service employees.

**Cash Balance Pension Plans** Some employers have changed traditional pension plans to hybrids based on ideas from both defined-benefit and defined-contribution plans. One such plan is a **cash balance plan**, in which retirement benefits are based on an accumulation of annual company contributions, expressed as a percentage of pay, plus interest credited each year. With these plans, retirement benefits accumulate at the same annual rate until an employee retires. Because cash balance plans spread funding across a worker's entire career, these plans work better for mobile younger workers.

However, conversions to cash balance plans have caused discontent and even lawsuits among older employees at AT&T, EDS, and most notably IBM. At IBM, workers in the age 40 group would have lost a significant amount of retirement under the plan. Court decisions in *Cooper v. IBM Personal Pension Plan* ruled in favor of IBM. Consequently, in 2006, IBM and other firms proceeded with freezing their old plans and making the conversion to cash balance plans.<sup>52</sup>

Many smaller employers do not offer pension plans for a number of reasons. The primary reason, in addition to their cost, is the administrative burdens imposed by government legislation, discussed later in the chapter.

## Pension Plan Concepts

Pension plans can be either contributory or noncontributory. In a **contributory plan**, money for pension benefits is paid in by both employees and the employer. In a **noncontributory plan**, the employer provides all the funds for pension benefits. As expected, the noncontributory plans are generally preferred by employees and labor unions.

Certain rights are attached to employee pension plans. Various laws and provisions have been passed to address the right of employees to receive benefits from their pension plans. Called **vesting**, this right assures employees of a certain pension, provided they work a minimum number of years. If employees resign or are terminated before they have been employed for the required vesting time, no pension rights accrue to them except the funds they have contributed. If employees stay the allotted time, they retain their pension rights and receive the funds contributed by both the employer and themselves.

Another feature of some employee pensions is **portability**. In a portable plan, employees can move their pension benefits from one employer to another. A number of firms offer portable pension plans. Instead of requiring workers to wait until they retire to move their traditional pension plan benefits, the portable plan takes a different approach. Once workers have vested in a plan for a period of time, such as five years, they can transfer their fund balances to other retirement plans if they change jobs.

## Individual Retirement Options

The availability of several retirement benefit options makes the pension area more complex. The most prominent options are individual retirement accounts (IRAs) and 401(k), 403(b), 457, and Keogh plans. These plans may

### Cash balance plan

Retirement program in which benefits are based on an accumulation of annual company contributions plus interest credited each year.

### Contributory plan

Pension plan in which the money for pension benefits is paid by both employees and the employer.

### Noncontributory plan

Pension plan in which all the funds for pension benefits are provided by the employer.

**Vesting** Right of employees to receive certain benefits from their pension plans.

**Portability** A pension plan feature that allows employees to move their pension benefits from one employer to another.

be available in addition to company-provided pension plans and usually are contributory plans.

The **401(k) plan** gets its name from section 401(k) of the federal tax code. This plan is an agreement in which a percentage of an employee's pay is withheld and invested in a tax-deferred account. Many employers match employee 401(k) contributions, up to a percentage of the employee's pay. As a result, a significant number of employees contribute to 401(k) plans. The use of 401(k) plans and of the assets in them has grown significantly in the past few years. Employers frequently have programs to encourage employees to contribute to 401(k) plans. Some employers are making employee participation in 401(k) plans automatic, unless the employees specifically opt out of them.<sup>53</sup> The advantage to most employees is that they can save pretax income toward their retirement.

**401(k) plan** Agreement in which a percentage of an employee's pay is withheld and invested in a tax-deferred account.

A special type of 401(k), the *Roth IRA*, was established effective 2006.

This is a modification of the traditional 401(k) that allows participants to be taxed in the current year for contributions. That means that under the Roth IRA, the taxed gains in the value of the 401(k) over years are not as much as with regular 401(k) but are not taxed when withdrawn. Employers may offer both types of plans.<sup>54</sup>



#### LOGGING ON

##### **401k Retirement Plan Online Guide**

This website provides investors with information on 401(k) plans. Visit the site at [www.401k-site.com](http://www.401k-site.com).

## LEGAL REQUIREMENTS FOR RETIREMENT BENEFITS

A number of laws and regulations affect retirement plans. Some of the key ones are highlighted next.

### Employee Retirement Income Security Act

The widespread criticism of many pension plans led to passage of the Employee Retirement Income Security Act (ERISA) in 1974. The purpose of this law is to regulate private pension plans so that employees who put money into them or depend on a pension for retirement funds actually receive the money when they retire.

ERISA essentially requires many companies to offer retirement plans to all employees if they offer retirement plans to any employees. Accrued benefits must be given to employees when they retire or leave. The act also sets minimum funding requirements, and plans not meeting those requirements are subject to financial penalties imposed by the IRS. Additional regulations require that employers pay plan termination insurance to ensure payment of employee pensions should the employers go out of business. To spread out the costs of administration and overhead, some employers use plans funded by multiple employers.

**Retirement Equity in Pension Plans** The U.S. Supreme Court decision in *Arizona Governing Committee v. Norris* forced pension plan administrators to use “unisex” mortality tables, which do not reflect the gender differential in mortality.<sup>55</sup> To bring legislation in line with this decision, in 1984, Congress passed the Retirement Equity Act as an amendment to ERISA and the Internal Revenue Code. It liberalized pension regulations that affect women, guaranteed

access to benefits, prohibited pension-related penalties due to absences from work such as maternity leave, and lowered the vesting age.

**Qualified Domestic Relations Order** Created by provisions of ERISA, a *qualified domestic relations order (QDRO)* is an agreement made by a divorcing couple that identifies who gets assets in a retirement plan. Use of a QDRO provides protection for both individuals and their children in a divorce. Also, use of a QDRO provides some beneficial tax provisions.<sup>56</sup>

## Retiree Benefits and Legal Requirements

Some employers choose to offer retiree health benefits that may be paid for by the retirees, the company, or both. The costs of such coverage have risen dramatically. To ensure that firms adequately reflect the liabilities for retiree health benefits, the Financial Accounting Standards Board issued Rule 106, which requires employers to establish accounting reserves for funding retiree health care benefits. For instance, one problem with retiree pension benefits is that a number of firms are facing unfunded pension liabilities.

**Pension Protection Act of 2006** The Pension Protection Act of 2006 has numerous reporting requirements that must be met by employers. These requirements make employers disclose the assets and liabilities of pension plans. The act also requires that employers increase funding to cover unfunded liabilities they face. Many of the provisions focus specifically on the deficit created by defined-benefit plans that employers must cover.<sup>57</sup>

## Retirement Benefits and Age Discrimination

According to a 1986 amendment to the Age Discrimination in Employment Act (ADEA), most employees cannot be forced to retire at a specific age. As a result, employers have had to develop policies to comply with these regulations. In many employer pension plans, “normal retirement” is the age at which employees can retire and collect full pension benefits. Employers must decide whether individuals who continue to work past normal retirement age (perhaps 65) should receive the full benefits package, especially pension credits. Some changes in Social Security regulations have increased the age for full benefits past age 65, so modifications in policies may occur. Another issue involves the amount health care benefits provided to retirees, and recent EEOC guidelines indicate that companies can spend less on benefits for retirees who are 65 and older compared to their younger counterparts without committing age discrimination.<sup>58</sup>

**Early Retirement** Many pension plans include provisions for early retirement to give workers voluntary opportunities to leave their jobs. After spending 25 to 30 years working for the same employer, individuals may wish to use their talents in other areas. Phased-in and part-time retirements are alternatives being used by individuals and firms.

Some employers use early retirement buyout programs to cut back their workforces and reduce costs. Employers must take care to make these early retirement programs truly voluntary. Forcing workers to take advantage of an early retirement buyout program led to the passage of the federal law discussed next.

**Older Workers Benefit Protection Act** Passed in 1990, the 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*.<sup>59</sup> This act requires equal treatment for older workers in early retirement or severance situations. It also sets forth some specific criteria that must be met when older workers sign waivers promising not to sue for age discrimination.

## FINANCIAL BENEFITS

Employers may offer workers a wide range of special benefits that provide financial support to employees. Figure 13-12 illustrates some common financial benefits. Employers find that such benefits can be useful in attracting and retaining employees. Workers like receiving these benefits, which often are not taxed as income.

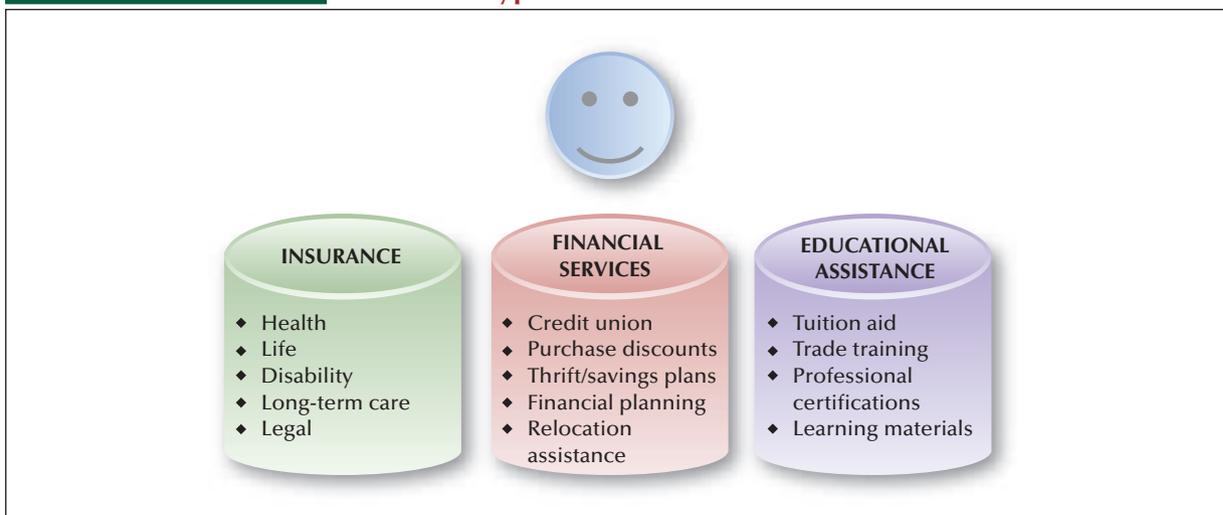
### Insurance Benefits

In addition to health-related insurance, some employers provide other types of insurance. These benefits offer major advantages for employees because many employers pay some or all of the costs. Even when employers do not pay any of the costs, employees still benefit because of the lower rates available through group programs. The most common types of insurance benefits are the following:<sup>60</sup>

- *Life insurance*: Bought as a group policy, the employer pays all or some of the premiums. A typical level of coverage is one and one-half or two times an employee's annual salary.
- *Disability insurance*: Both *short-term* and *long-term disability insurance* provide continuing income protection for employees who become disabled and unable to work. Long-term disability insurance is much more common because many employers cover short-term disability situations through sick leave programs.

FIGURE 13-12

### Common Types of Financial Benefits



- *Long-term care insurance*: Usually voluntary, these plans allow employees to purchase insurance to cover costs for long-term health care in a nursing home, an assisted-living facility, or at home. Though employees pay for the premiums, they may get cheaper rates through employer-sponsored group plans.
- *Legal insurance*: In these plans employees (or employers) pay a flat fee for a set amount of legal assistance time each month. In return, they have the right to use the service of a network of lawyers to handle their legal problems.

## Financial Services

Financial benefits include a wide variety of items. A *credit union* sponsored by the employer provides saving and lending services for employees. *Purchase discounts* allow employees to buy goods or services from their employers at reduced rates. For example, a furniture manufacturer may allow employees to buy furniture at wholesale cost plus 10%, or a bank may offer employees use of a safe deposit box and free checking.

Employee *thrift plans*, *savings plans*, or *stock investment plans* of different types may be available. To illustrate, in a **stock purchase plan**, the employer provides matching funds equal to the amount invested by the employee for the purchase of stock in the company. Often, employees may buy the stock at a discount. This type of plan allows employees to benefit from the future growth of the corporation. The intent of such a plan is to develop greater employee loyalty and interest in the organization and its success.

*Financial planning and counseling* are especially valuable services for executives, many of whom may need information on investments and tax shelters, as well as comprehensive financial counseling, because of their higher levels of compensation. The importance of these financial planning benefits likely will grow as a greater percentage of workers approach retirement age and need to plan financially for retirement.

**Relocation Assistance** Relocation benefits of various types are offered by many firms. Some employers offer temporary relocation benefits, while others provide assistance in finding a job for the spouse of a transferred employee. Numerous other financial-related benefits may be offered as well, including the use of a company car, company expense accounts, and assistance in buying or selling a house.

## Educational Assistance

Another benefit that saves financial resources of employees comes in the form of educational assistance and tuition aid, which pays some or all of the costs associated with formal education courses and degree programs. Some employers pay for schooling on a proportional schedule, depending on the grades received; others simply require a passing grade of C or above. Often the costs of books and laboratory materials are covered. Unless the education paid for by the employer meets certain conditions, the cost of educational aid must be counted as taxable income by employees.

**ROI of Tuition Aid** Providing educational benefits through tuition aid programs is a very popular benefit with employers. More than 90% of employers

### Stock purchase plan

Plan in which the employer provides matching funds equal to the amount invested by the employee for the purchase of stock in the company.

offer some form of educational assistance to their employees, according to one survey. Two concerns in this area are lack of participation by employees and lack of evaluation of these programs by employers. Some employers are offering incentives such as free tuition or bonuses upon completion of degrees to encourage greater participation by employees. Also, although U.S. employers spend more than \$10 billion for tuition aid in one year, only 2% of those firms conduct HR analyses to determine the return on their investment in these programs.<sup>61</sup> To make educational benefits programs more effective, employers need to measure the effect of these programs on employee retention, internal promotions, increased employee satisfaction, and other factors.

## FAMILY-ORIENTED BENEFITS

The composition of families in the United States has changed significantly in the past few decades. The number of traditional families, in which the man goes to work and the woman stays home to raise children, has declined significantly, while the percentage of two-worker families has more than doubled. The growth in dual-career couples, single-parent households, and work demands on many workers has increased the emphasis some employers are placing on family-oriented benefits. As mentioned in earlier chapters, balancing family and work demands presents a major challenge to many workers at all levels of organizations. Therefore, employers have established a variety of family-oriented benefits. Since 1993, employers also have been required to provide certain benefits to comply with the Family and Medical Leave Act (FMLA).

### Family and Medical Leave Act

The FMLA covers all federal, state, and private employers with 50 or more employees who live within 75 miles of the workplace. Only employees who have worked at least 12 months and 1,250 hours in the previous year are eligible for leave under the FMLA.

**FMLA Leave Provisions** The law requires that employers allow eligible employees to take a total of 12 weeks' leave during any 12-month period for one or more of three situations:<sup>62</sup>

- Birth, adoption, or foster care placement of a child
- Caring for a spouse, a child, or a parent with a serious health condition
- Serious health condition of the employee

A **serious health condition** is one requiring in-patient, hospital, hospice, or residential medical care or continuing physician care, or problems that exist beyond three days including treatment provided.<sup>63</sup> An employer may require an employee to provide a certificate from a doctor verifying such an illness. The FMLA provides a number of guidelines regarding employee leaves:<sup>64</sup>

- Employees taking family and medical leave must be able to return to the same job or a job of equivalent status or pay.
- Health benefits must be continued during the leave at the same level and conditions. If, for a reason other than serious health problems, the employee does not return to work, the employer may collect the employer-paid portion of the premiums from the nonreturning employee.

#### Serious health condition

Health condition requiring in-patient, hospital, hospice, or residential medical care or continuing physician care.

- The leave may be taken intermittently rather than in one block, subject to employee and employer agreements, when birth, adoption, or foster child care is the cause. For serious health conditions, employer approval is not necessary.
- Employees can be required to use all paid-up vacation and personal leave before taking unpaid leave.
- Employees are required to give 30-day notice, where practical.

Some provisions associated with the FMLA started January 16, 2009, expanding coverage for some employees and revising specific criteria of the regulations. For instance, a company representative other than an employee's immediate supervisor may call a health care provider to verify the cause of medical leave. An employer also can require returning employees to complete fitness-for-duty tests that verify important job duties can be completed or that mitigate safety concerns. In addition, companies can require employees to use FMLA leave in the same manner as other time-off programs, and employees are required to follow corporate leave notification procedures. Despite a multitude of other changes, one of the most noteworthy revisions to the FMLA involves providing 26 weeks of leave to individuals providing care to injured family members who served in the military.<sup>65</sup>

**Results of the FMLA** Since the passage of the act, several factors have become apparent. A significant percentage of employees take family and medical leave. Additionally, many employers have not paid enough attention to the FMLA or do not fully understand it,<sup>66</sup> resulting in numerous lawsuits. Also, although employers are not required to pay employees for leave taken under the FMLA (other than for sick leave or accumulated unused vacation time), some states have complicated this process by passing or considering laws requiring *paid family leave*. Finally, employers have to cover the workload for employees on family leave. This difficulty is compounded because the law requires that workers on these leaves be offered similar jobs at similar levels of pay when they return to work. Balancing work demands for many different employees and their family and medical situations has placed significant demands on HR professionals to ensure compliance with FMLA provisions.

## Family-Care Benefits

Family issues are growing in importance for many organizations and for many workers. One repercussion of this emphasis is that employees without families may feel some resentment against those who seem to get special privileges because they have families. Many employees do not have children under the age of 18 and are offered fewer opportunities to use personal days off, flexible scheduling, telecommuting, and other features. Further, they are more frequently asked to travel or put in overtime because they “don't have a family.” Nevertheless, a variety of family benefits are available in many organizations.

**Adoption Benefits** Many employers provide maternity and paternity benefits to employees who give birth to children. A comparatively small number of employees adopt children, and in the interest of fairness and life enrichment, some organizations such as Wendy's, Subaru of America, General Mills, Avon Products, and Timberland provide reimbursement benefits for them. Estimates are that anywhere from 35% to approximately 47% of firms provide some type of adoption benefits.<sup>67</sup>

**Child-Care Assistance** Balancing work and family responsibilities is a major challenge for many workers. Whether they are single parents or dual-career couples, these employees often experience difficulty obtaining high-quality, affordable child care. Employers are addressing the child-care issue in the following ways:

- Providing referral services to help parents locate child-care providers
- Establishing discounts at day-care centers, which may be subsidized by the employer
- Arranging with hospitals to offer sick-child programs partially paid for by the employer
- Developing after-school programs for older school-age children, often in conjunction with local public and private school systems
- Offering on-site child-care centers

**Elder-Care Assistance** Another family issue of importance is caring for elderly relatives. An increasing number of organizations are offering benefits that help employees more effectively balance their work and elder-care responsibilities. Besides time off provided by the FMLA, some of these benefits include subsidies for elder-care expenses, referrals to elder-care providers, and elder-care assistance for emergencies.<sup>68</sup>

## Measuring the Effectiveness of Family Benefits



### LOGGING ON

#### Work-Life and Human Capital Solutions

This website provides organizations with information and resources for employees on work and family issues such as child care and elder care. Visit the site at [www.workfamily.com](http://www.workfamily.com).

Employers that have provided child-care and other family-friendly assistance have found the programs beneficial for several reasons. The greatest advantage is in aiding employee retention.<sup>69</sup> Employees are more likely to stay with employers who aid them with work-life balancing. Child-care benefits can produce significant savings, primarily due to decreased employee absenteeism and turnover. Analyses of elder-care costs-benefits show similar results. To determine such metrics, costs for recruiting, training, turnover, and lost productivity often are included.

## Benefits for Domestic Partners

As lifestyles change in the United States, employers are being confronted with requests for benefits from employees who are not married but have close personal relationships with others. The terms often used to refer to individuals with such arrangements are *domestic partners* and *spousal equivalents*. The employees who are submitting these requests are: (1) unmarried employees who are living with individuals of the opposite sex and (2) gay and lesbian employees who have partners.

The argument made by these employees is that if an employer provides benefits for the spouses of married employees, then benefits should be provided for employees without spouses but with alternative lifestyles and relationships.<sup>70</sup> This view is reinforced by data showing that a significant percentage of heterosexual couples live together before or instead of formally marrying. Also, gay employees are being increasingly more open about their lifestyles.

The debate about *same-sex marriages* has amplified the issue for HR professionals and their employers. In some states and cities, laws have been enacted to require employers to grant domestic partners the same benefits

rights that they give to traditional married couples. Employers providing domestic partner benefits usually have policies that define what the qualifying relationship is and what documentation is required to verify eligibility. At some firms, both the employee and the “eligible partner” must sign an Affidavit of Spousal Equivalence. With this affidavit, the employee and the partner are asked to affirm the following:

- 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.

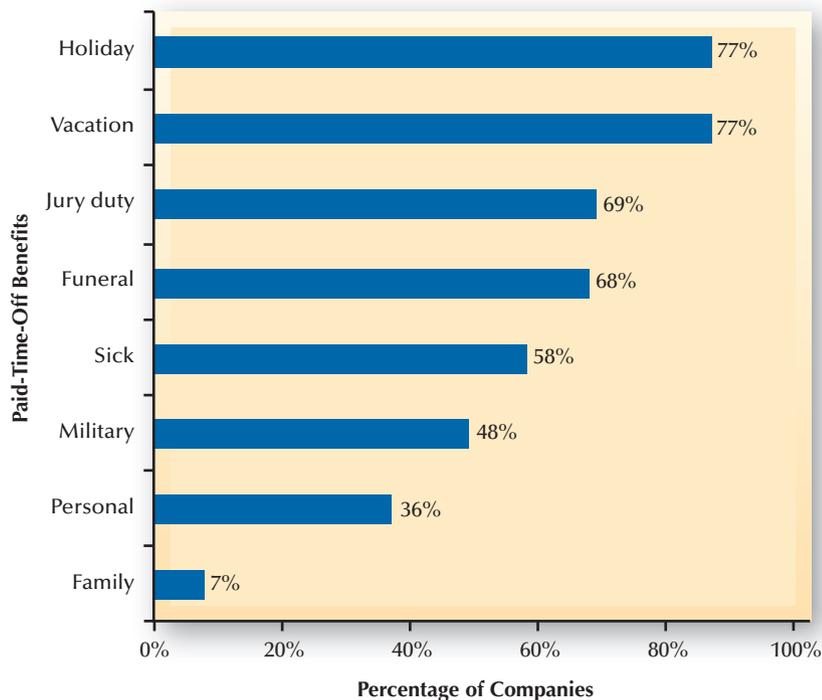
However, in states such as Michigan, Nebraska, Ohio, and Kentucky where gay marriage is not allowed, the benefits provided to the domestic partners of public workers are being taken away.<sup>71</sup>

## TIME-OFF AND OTHER BENEFITS

Time-off benefits represent a significant portion of total benefits costs. Employers give employees paid time off for a variety of circumstances. Paid lunch breaks and rest periods, holidays, and vacations are common. But time off is given for a number of other purposes as well. As Figure 13-13 indicates, these time-off benefits also include various leaves of absence. The United States does not require organizations to offer the same generous amounts of leave required

**FIGURE 13-13**

**Percentage of Companies with Various Paid-Time-Off Plans**



Source: U.S. Bureau of Labor Statistics, [www.bls.gov](http://www.bls.gov).

by many other nations. However, there is a stronger emphasis in many states such as Colorado and Nevada to offer employees more leave so that they can focus on personal obligations.<sup>72</sup>

## Holiday Pay

Most employers provide pay for a variety of holidays. In the United States, employers commonly offer 10 to 12 holidays annually. Employers in many other countries are required to provide a significantly higher number of holidays, approaching 20 to 30 days in some cases. In both the United States and other countries, the number of holidays offered can vary depending on state/provincial laws and union contracts.

As an abuse-control measure, employers commonly require employees to work the last scheduled day before a holiday and the first scheduled workday after a holiday to be eligible for holiday pay. Some employers pay time-and-a-half to hourly employees who must work holidays. Also, some employers provide company holiday parties and holiday bonus programs such as food gifts (e.g., turkeys at Thanksgiving) or holiday gift cards.

## Vacation Pay

Paid vacations are a common benefit. Employers often use graduated vacation-time scales based on employees' lengths of service. Some organizations have a "use it or lose it" policy whereby accrued vacation time cannot be carried over from year to year. One survey found that workers on average forfeit three vacation days per year.<sup>73</sup>

Some employers have policies to "buy back" unused vacation time. Other employers, such as banks, may have policies requiring employees to take a minimum number of vacation days off in a row. Regardless of the vacation policies used, employees are often required to work the day before and the day after vacation time off.

## Leaves of Absence

Employers grant *leaves of absence*, taken as time off with or without pay, for a variety of reasons. All the leaves discussed here add to employer costs even if unpaid. That is because the missing employee's work must be covered, either by other employees working additionally or by temporary employees working under contract.

Leaves are given for a variety of purposes. Some, such as *military leave*, *election leave*, and *jury leave*, are required by various state and federal laws. Employers commonly pay the difference between the employee's regular pay and the military, election, or jury pay. Some firms grant the employees military time off and provide regular pay while the employees also receive military pay. Federal law prohibits taking discriminatory action against military reservists by requiring them to take vacation time when deployed or in training. However, the leave request must be reasonable and truly required by the military.

*Funeral leave* or *bereavement leave* is another common type of leave offered. An absence of up to three days for the death of immediate family members is often granted. Some policies also give unpaid time off for the death of more distant relatives or any permanent resident of an employee's home.<sup>74</sup>

**Family Leave** As mentioned earlier in the chapter, the passage of the Family and Medical Leave Act clarified the rights of employees and the responsibilities of most employers. Even though *paternity leave* for male workers is available under the FMLA, a relatively low percentage of men take it. The primary reason for the low usage is a perception that it is not as socially acceptable for men to stay home for child-related reasons. That view has begun changing as the number of dual-career couples in the workforce has risen.<sup>75</sup>

**Sick Leave** Medical and sick leave are closely related. Many employers allow employees to miss a limited number of days because of illness without losing pay. More than 50% of all U.S. workers receive paid sick leave. But U.S. employers do not provide paid sick leave to as many workers percentagewise as do the employers in other developed countries.

Some employers allow employees to accumulate unused sick leave, which may be used in case of catastrophic illnesses. Others pay their employees for unused sick leave. A problem employers face is that only about 35% of unscheduled employee absences are due to illnesses.<sup>76</sup> Some organizations have shifted the emphasis to reward people who do not use sick leave by giving them **well pay**—extra pay for not taking sick leave. Another approach is to use a paid-time-off plan.

## Paid-Time-Off Plans

A growing number of employers have made use of a **paid-time-off (PTO) plan**, which combines all sick leave, vacation time, and holidays into a total number of hours or days that employees can take off with pay. Studies have found that about 37% of all employers have PTO plans. More importantly, many of those employers have found PTO plans to be more effective than other means of reducing absenteeism and in having time off scheduled more efficiently. Other advantages cited by employers with PTO plans are ease of administration and as an aid for recruiting and retention and for increasing employee understanding and use of leave policies. Alternatively, PTO plans might increase absenteeism rates in companies and can make workers think that managers do not trust them to effectively manage their time off.<sup>77</sup>

## Miscellaneous Benefits

Employers offer a wide variety of miscellaneous benefits. Some of the benefits are voluntary, meaning that employees can participate in them and pay for the costs themselves, often at group discount rates. Various types of voluntary insurance programs are the most common offered.<sup>78</sup> Others are unique to employers and are provided at little or no cost to employees.

Some benefits and services are social and recreational in nature, such as tennis courts, bowling leagues, picnics, parties, employer-sponsored athletic teams, organizationally owned recreational lodges, and other sponsored activities and interest groups. As interest in employee wellness has increased, more firms are providing recreational facilities and activities. The idea behind social and recreational programs is to promote employee happiness and team spirit. Employees may appreciate this type of benefit, but managers should not necessarily expect increased job productivity or job satisfaction as a result. Further, employers should retain control of all events associated with their organizations because of possible legal responsibility.

**Well pay** Extra pay for not taking sick leave.

### **Paid-time-off (PTO) plan**

Plan that combines all sick leave, vacation time, and holidays into a total number of hours or days that employees can take off with pay.

## S U M M A R Y

- Benefits provide additional compensation to some employees as a reward for organizational membership. Because benefits generally are not taxed, they are highly desired by employees.
- Strategic considerations for benefits include their value in creating a competitive advantage and aiding in attracting and retaining employees.
- Benefits design and cost-control actions are crucial to strategic benefits efforts.
- Flexible benefits plans, which can be tailored to individual needs and situations, are increasing in popularity.
- Because of the variety of benefit options available and the costs involved, employers must develop effective systems to communicate benefits information to their employees.
- Benefits can be viewed as mandatory or voluntary. The general types of benefits include security, health care, retirement, financial, family oriented, and time off.
- Three prominent security benefits are workers' compensation, unemployment compensation, and severance pay.
- Because health care benefits costs have increased significantly, employers are managing their health benefits costs more aggressively.
- Efforts to control the costs of health benefits have included changing employee copayments and employee contributions, using managed care, and switching to consumer-driven health (CDH) plans.
- Organizations provide retirement benefits through defined-benefit, defined-contribution, or cash balance plans.
- The pension area is a complex one that is governed by the Employee Retirement Income Security Act (ERISA) and other laws.
- Use of defined-contribution plans and individual retirement accounts is growing.
- Various types of financial services, insurance benefits, relocation assistance, educational assistance, and other benefits enhance the appeal of an organization to employees.
- Family-oriented benefits include complying with the Family and Medical Leave Act (FMLA) of 1993 and offering adoption benefits, child-care assistance, and elder-care assistance.
- Holiday pay, vacation pay, various leaves of absence, and paid-time-off plans are another means of providing benefits to employees.

## C R I T I C A L   T H I N K I N G   A C T I V I T I E S

1. Why are benefits strategically important to employers, and what are some key strategic considerations?
2. Discuss the following statement: "Health care costs are out of control in the United States, and increasing conflicts between employers and employees are likely as employers try to reduce their health benefits costs."
3. Assume that as an HR staff member, you have been asked to research consumer-driven health plans because your employer is considering implementing one. Go to a leading benefits information resource, *Employee Benefit News*, at [www.benefitnews.com](http://www.benefitnews.com), and identify the elements of a successful CDH plan and some examples of firms that use such a plan.
4. Based on the information discussed in the chapter, how would you oversee the design (or redesign) of a benefits program in a large organization? What issues would you consider?

## H R   E X P E R I E N T I A L   P R O B L E M   S O L V I N G

Your company now has more than 60 employees. The controller has been handling all of the HR functions including administration of the company's benefits. The benefits package includes health, dental, 401(k) and other voluntary benefits. You are

considering outsourcing the benefits administration function to enable the controller to focus more on the company's accounting needs. The terms *human resources outsourcing (HRO)*, *administrative services organization (ASO)*, and *professional*

*employer organization (PEO)* have been used in discussions of outsourcing employer HR benefit functions. Information to assist you in determining the type of services to best meet the company's needs can be found at [www.corbanone.com](http://www.corbanone.com).

1. What are the differences between the services offered by an HRO, ASO, and PEO?
2. Based upon the company's size and the types of benefits offered, which service will best meet the needs of the company?

## C A S E

### Strategic Benefits at KPMG Canada

Companies need to offer competitive benefits to employees or risk having employees become dissatisfied with their current job situations. KPMG Canada recently faced such a challenge when the company's portfolio of benefits was viewed by employees as uncompetitive compared to packages offered by other high-performing organizations. Despite its People Matters program that offered leave for adoption, flex-time, workout opportunities, and other perquisites, employee survey results indicated that generalized satisfaction with benefits was low. These results were not alarming to managers, given that KPMG had not revised employee benefits for some time. However, what was needed to fix this problem was a comprehensive overhaul of the company's benefits program using a strategic approach guided by employee feedback, leadership direction, and innovation. Top leadership also wanted the new plan to be congruent with the organizational approach to total rewards and to incorporate a sufficient "wow factor" to satisfy employees.

KPMG started the strategic planning process by comparing current benefits to the packages offered by other competing organizations, and the results verified that the company had to make up some ground in the area of benefits administration. A benefits consultant was hired to facilitate the redesign effort, and a steering committee comprised

of top managers was developed to oversee the proposed changes, garner greater support for the new benefits throughout the company, ensure that many different employee needs were being met, and make sure the plan was competitive overall.

After working on the project for more than two years, KPMG successfully developed a new benefits package that delighted employees. For instance, individuals were given many coverage options for dental, medical, disability, and life insurance. In addition, employees could dedicate pools of flex dollars to certain benefits programs that best suited their needs. Individuals are given a set amount of flex dollars, but more can be earned based on pay, different lifestyle incentives, and tax-free bonus incentives. Recent employee survey results show that people prefer the new benefits package over the old plan, which has enhanced how employees feel about the organization as a whole.<sup>79</sup>

### QUESTIONS

1. Why is having a competitive benefits package important for KPMG Canada?
2. In your opinion, did top leadership at KPMG Canada manage the benefits redesign effort well? What else could the company have offered its employees to keep them satisfied?

## S U P P L E M E N T A L C A S E S

### Delivering Benefits

This case explores how FedEx provides benefits to its employees. (For the case, go to [www.cengage.com/management/mathis](http://www.cengage.com/management/mathis).)

### Benefiting Connie

This case describes the problems that can occur when trying to coordinate time-off leaves for employees. (For the case, go to [www.cengage.com/management/mathis](http://www.cengage.com/management/mathis).)

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