



human

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tenth edition

resource management

Chapter 13

Part 4 Compensation

Benefits and Services

*After studying this chapter,
you should be able to:*



- 1. Name and define each of the main pay for time not worked benefits.*
- 2. Describe each of the main insurance benefits.*
- 3. Discuss the main retirement benefits.*
- 4. Outline the main employees' services benefits.*
- 5. Explain the main flexible benefit programs.*

Benefits

➤ *Benefits*

- Indirect financial and nonfinancial payments employees receive for continuing their employment with the company.

➤ *Types of employee benefit plans*

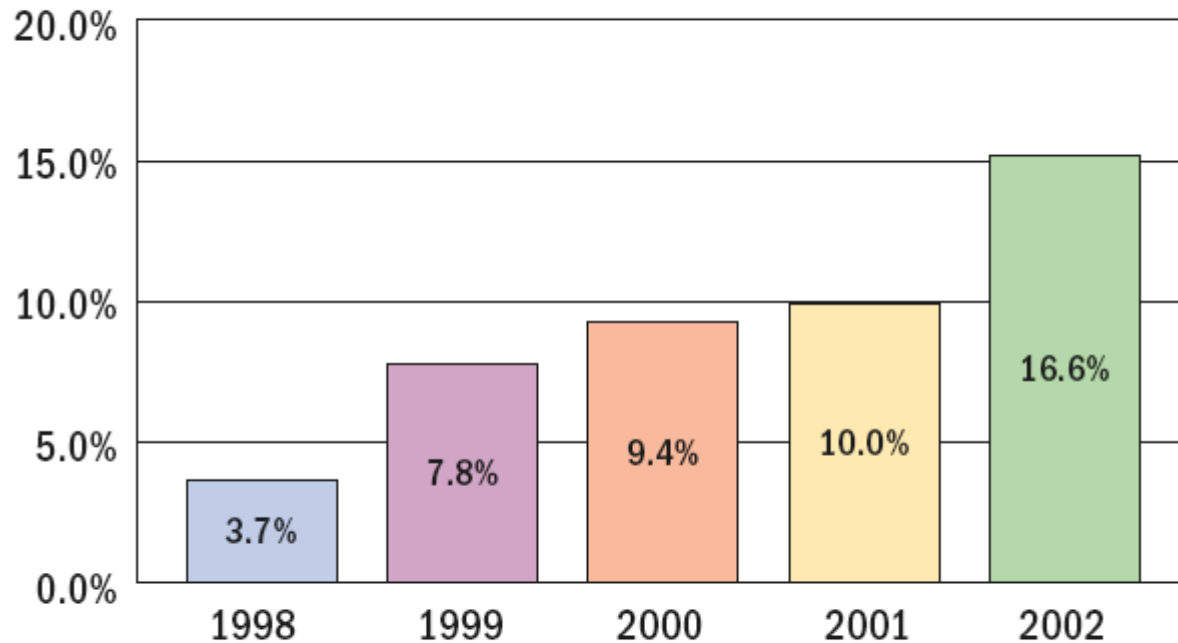
- Supplemental pay: sick leave and vacation pay
- Insurance: workers' compensation
- Retirement: Pensions
- Employee services: child-care facilities

The Benefits Picture Today

- Most full-time employees in the United States receive benefits.
- Virtually all employers—99%—offer some health insurance coverage.
- Benefits are a major expense (about one-third of wages and salaries) for employers.
- Employees do seem to understand the value of health benefits.

Annual Health Care Cost Increases

Annual Health Care Cost Increases— National Averages



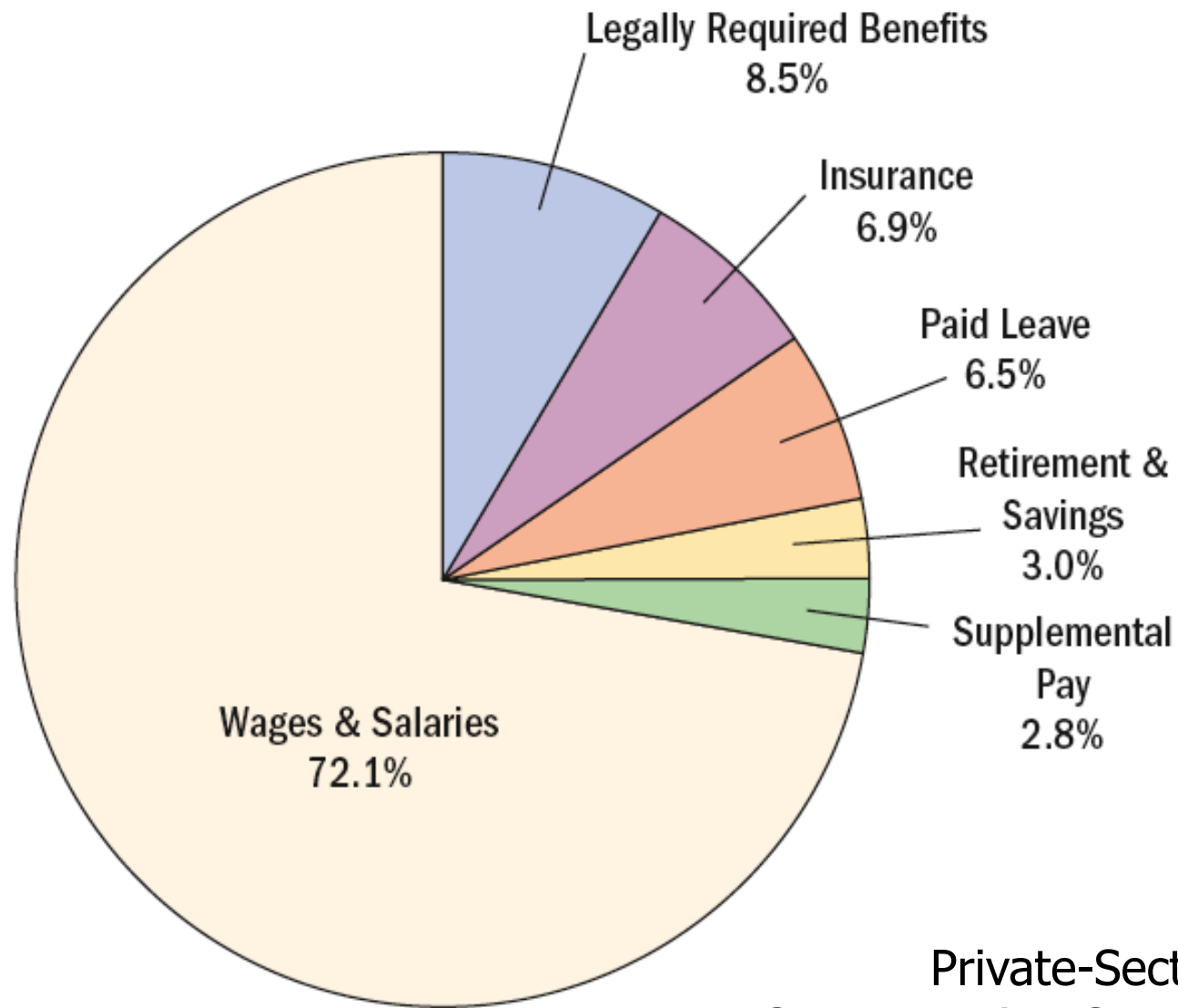
Source: Hewitt Health Value Initiative.

Note: 2002 projected.

Source: Eric Parmenter, "Controlling Health-Care Costs,"
Compensation and Benefits Review, September/October 2002, p. 44

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Figure 13–1



Private-Sector Employer
Compensation Costs, June 2003

Source: "Total Employer Costs Rose to 22.61 in Second Quarter,"
BNA Bulletin to Management, September 11, 2003, p. 293

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Figure 13-2

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Laws Affecting Employee Benefits

➤ *Retirement plans*

- Employee Retirement Income Security Act of 1975 (ERISA)
- Economic Growth and Tax Relief Conciliation Act of 2000
- Job Creation and Worker Assistance Act

➤ *Health plans*

- The Newborn Mother's Protection Act of 1996
- The Mental Health Parity Act of 1996
- Age Discrimination in Employment Act
- Health Insurance Portability and Accountability Act of 1996 (HIPAA)
- Family and Medical Leave Act (FMLA)
- Americans with Disabilities Act (ADA)

Types of Employee Benefits

- Pay for time not worked
- Insurance benefits
- Retirement benefits
- Services



Issues in Developing Benefits Plans

- *Benefits to be offered.*
- *Coverage of retirees in the plan*
- *Denial of benefits to employees during initial “probationary” periods*
- *Financing of benefits.*
- *Benefit choices to give employees.*
- *Cost containment procedures to use.*
- *Communicating benefits options to employees.*

Legally Required or Regulated Benefits

Benefits Required by Federal or Most State Law

Social Security

Unemployment Insurance

Workers' Compensation

Leaves under Family Medical Leave Act

Benefits Discretionary on Part of Employer*

Disability, Health, and Life Insurance

Pensions

Paid Time Off for Vacations, Holidays,
Sick Leave, Personal Leave, Jury Duty, etc.

Employee Assistance and Counseling
Programs

"Family Friendly" benefits for Child Care,
Elder Care, Flexible Work Schedules, etc

Executive Perquisites

**** While not required under federal law, all these benefits are regulated in some way by federal law, as explained in this chapter.***

Table 13–1

Pay for Time Not Worked

➤ *Unemployment insurance*

- Provides for benefits if a person is unable to work through no fault of his or her own.
- Payroll tax on employers that is determined by an employer's rate of personnel terminations.
- Tax is collected and administered by the state.

➤ *Vacations and holidays*

- Number of paid vacation days varies by employer.
- Number of holidays varies by employer.
- Premium pay for work on holidays.

Pay for Time Not Worked (cont'd)

➤ *Sick leave*

- Provides pay to an employee when he or she is out of work because of illness.
 - Costs for misuse of sick leave
 - Pooled paid leave plans

➤ *Parental leave*

- The Family Medical Leave Act of 1993 (FMLA)
 - Up to 12 weeks of unpaid leave within a one-year period
 - Employees must take unused paid leave first.
 - Employees on leave retain their health benefits.
 - Employees have the right to return to their job or equivalent position.

North Carolina State University Family Illness Leave Request

**This request and the U.S. Department of Labor Certification of Health Care Provider form should be sent to Human Resources Salary Administration, Box 7210, NCSU, Raleigh, NC 27695
CALS-Cooperative Extension Personnel should forward their forms to CALS Personnel Office, Box 7602, NCSU, Raleigh, NC 27695**

Employee Name _____ PeopleSoft ID# _____

Telephone _____ (work) _____ (home)

Department _____

Supervisor Name _____ Telephone _____

Leave Coordinator Name _____ Telephone _____

Leave to Begin ____ / ____ / ____ Return to Work ____ / ____ / ____

While on Family Illness Leave I plan to use: (check all that apply)

☐ Leave Without Pay (LWOP) ☐ Sick Leave ☐ Comp Time
☐ Annual Leave ☐ Bonus Leave

I have applied for participation in the Shared Leave Program ☐ Yes ☐ No

I understand that if I am taking this leave as LWOP, I will need to pay for my health benefits should I want them to continue while I am on Family Illness Leave. I also understand that I must provide written notice of my intention to return to work prior to the end of my leave and return to duty within or at the end of the time granted, or notify the department immediately when there is a decision not to return. Failure to report at the expiration of a leave, unless an extension has been requested and approved, may be considered as a resignation.

Employee Signature _____ Date _____

Supervisor Signature _____ Date _____

Human Resources Signature _____ Date _____

Source: Used with permission.

Pay for Time Not Worked (cont'd)

➤ *Severance pay*

- A one-time payment when terminating an employee.
- Reasons for granting severance pay:
 - Acts as a humanitarian gesture and good public relations.
 - Mirrors employee's two week quit notice.
 - Avoids litigation from disgruntled former employees.
 - Meets Worker Adjustment and Retraining Notification ("plant closing") Act requirements.
 - Reassures employees who stay on after the employer downsizes its workforce of employer's good intentions.

Pay for Time Not Worked (cont'd)

- *Supplemental unemployment benefits (SUB)*
 - Payments that supplement the laid-off or furloughed employee's unemployment compensation.
 - The employer makes contributions to a reserve fund from which SUB payments are made to employees for the time the employee is out of work due to layoffs, reduced workweeks, or relocations.
 - SUB payments are considered previously earned compensation for unemployment calculation purposes.

Insurance Benefits

➤ *Workers' compensation*

- Provides income and medical benefits to work-related accident victims or their dependents, regardless of fault.
 - Death or disability: a cash benefit based on earnings per week of employment.
 - Specific loss injuries: statutory list of losses
- Controlling worker compensation costs
 - Screen out accident-prone workers.
 - Make the workplace safer.
 - Thoroughly investigate accident claims.
 - Use case management to return injured employees to work as soon as possible.

Insurance Benefits (cont'd)

➤ *Hospitalization, health, and disability insurance*

- Provide for loss of income protection and group-rate coverage of basic and major medical expenses for off-the-job accidents and illnesses.
 - Accidental death and dismemberment
 - Disability insurance

Percent of Employers Offering Health Benefits

	Number Responding	Yes
Prescription drug program coverage	580	98%
Life insurance	582	97%
Dental insurance	581	96%
PPO (preferred provider organization)	578	87%
Mental health insurance	578	76%
Vision insurance	580	71%
Employee assistance program	579	67%
Vaccinations on-site (example: flu shots)	581	60%
Chiropractic insurance	576	59%
Wellness program, resources, and information	578	57%
	581	55%
HMO (health maintenance organization)	576	54%

Source: Adapted from SHRM/SHRM Foundation 2003 Benefits Survey.

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Table 13–3

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Insurance Benefits (cont'd)

➤ *Health maintenance organization (HMO)*

- A medical organization consisting of specialists operating out of a community-based health care center.
 - Provides routine medical services to employees who pay a nominal fee.
 - Receives a fixed annual contract fee per employee from the employer (or employer and employee), regardless of whether it provides that person with service.

Insurance Benefits (cont'd)

➤ *Preferred provider organizations (PPOs)*

- Groups of health care providers that contract to provide medical care services at reduced fees.
 - Employees can select from a list of preferred individual health providers.
 - Preferred providers agree to discount services and to submit to certain utilization controls, such as on the number of diagnostic tests they can order.
 - Employees using non-PPO-listed providers may pay all of the service costs or the portion of the costs above the reduced fee structure for services.

Other Cost-Saving Strategies

1. *Wellness programs*
2. *Disease management*
3. *Absence management*
4. *On-site primary care*
5. *Eliminating cost-inefficient plans*
6. *Moving toward PPO*

Insurance Benefits (cont'd)

- *New trends in health care cost control:*
 - Use of cost-containment specialists
 - Getting employees more involved and empowered
 - Automating health care plan administration
 - Online selection software
 - Using defined contribution health care plans
 - Outsourcing health care benefits administration
 - Reducing or eliminating retiree health care coverage
 - Joining benefits purchasing alliances

Insurance Benefits (cont'd)

➤ *Other insurance issues*

- Mental health benefits and the Mental Health Parity Act of 1996
- The Pregnancy Discrimination Act
- COBRA requirements
- Long-term care
- Group life insurance
- Provision of benefits for part-time and contingent workers

Retirement Benefits

- *Social Security (Federal Old Age and Survivor's Insurance)*
 - A federal payroll tax (7.65%) paid by both the employee and the employer on the employee's wages
 - Retirement benefits at the age of 62
 - Survivor's or death benefits paid to the employee's dependents
 - Disability payments to disabled employees and their dependents.
 - The Medicare program

Retirement Benefits (cont'd)

➤ *Types of pension plans*

- Contributory: employees contribute to the plan.
- Noncontributory plans: employer makes all contributions to the plan.
- Qualified plans: plans that meet requirements for tax benefits for employer contributions.
- Nonqualified plans: plans not meeting requirements for favorable tax treatment.

Retirement Benefits (cont'd)

➤ *Types of pension plans (cont'd)*

- Defined contribution: contributions of employees and employers are specified; plan payouts are not.
- Defined benefit plans: plan payouts are specified; however, contributions must be sufficient to insure payouts.

Retirement Benefits (cont'd)

➤ *401(k) Plans*

- Defined contribution plans based on section 401(k) of the Internal Revenue Code.
 - Plans are funded by pretax payroll deductions.
 - Contributions are invested in mutual stock funds and bond funds.
 - The Economic Growth and Tax Relief Reconciliation Act of 2001 (EGTRRA) raised limits on employee contributions.

Retirement Benefits (cont'd)

➤ *Other types of defined contribution plans*

— Savings and thrift plans

- Employees contribute a portion of their earnings to a fund; the employer usually matches this contribution in whole or in part.

— Deferred profit-sharing plans

- Employers contribute a portion of profits to the pension fund, regardless of the level of employee contribution.

— Employee stock ownership plans (ESOPs)

- Qualified, tax-deductible stock bonus plans in which employers contribute company stock to a trust for eventual use by employees.

Retirement Benefits (cont'd)

➤ *Employee Retirement Income Security Act (ERISA) of 1974*

- Restricts what companies must do in regard to pension plans. In unionized companies, the union can participate in pension plan administration.
- Pension Benefits Guarantee Corporation (PBGC)
 - Insures pensions of a qualified plan that terminates without sufficient funds to its meet obligations.
 - Guarantees only defined benefit plans, not defined contribution plans.
 - Will only pay an individual a pension of up to about \$27,000 per year.

Retirement Benefits (cont'd)

➤ *Employees' vesting rights under ERISA*

- Participants have a right to 100% of accrued benefits after five years of service.
 - Employers may phase in vesting over a period of three to seven years.
- An employer can require that an employee complete a period of two years' service before becoming eligible to participate in the plan.
 - If an employer requires more than one year of service before eligibility, the plan must grant employees full and immediate vesting rights at the end of that period.

Retirement Benefits (cont'd)

➤ *Key policy issues in pension planning*

– Membership requirements

- Setting the minimum age or minimum service at which employees become eligible for a pension.

– Benefit formula

- Determining pension payouts for individual employees.

– Plan funding

- Funding the plan (contributory or noncontributory).

– Vesting

- Meeting ERISA requirements for employer and employee contributions that cannot be forfeited for any reason by the vested employee.

Retirement Benefits (cont'd)

➤ *Pension alternatives*

— Early retirement windows

- Specific employees (often age 50-plus) are offered the opportunity to voluntarily retire earlier than usual.
- The financial incentive is generally a combination of improved or liberalized pension benefits plus a cash payment.

— Older Workers' Benefit Protection Act (OWBPA)

- Imposes limitations on waivers that purport to release a terminating employee's potential claims against the employer based on age discrimination.

Retirement Benefits (cont'd)

➤ *Pension alternatives (cont'd)*

– Increasing portability

- Defined benefit plans to defined contribution plans
- Allows workers who leave the firm before retirement to receive initial benefits at a younger age.

– Cash balance pension plans

- Defined benefit plan in which the employer contributes a percentage of employees' pay to the plan every year, and employees earn interest on this amount.
- Provide the portability of defined contribution plans with the employer funding of defined benefit plans.
- Conversion to cash balance plans can have a disparate impact on older workers nearing retirement.

Personal Services

➤ *Credit unions*

- Separate businesses established with the employer's assistance to help employees with their borrowing and saving needs.

➤ *Employee assistance programs (EAPs)*

- Provide counseling and advisory services:
 - Personal legal and financial services
 - Child and elder care referrals
 - Adoption assistance
 - Mental health counseling
 - Life event planning

Employee Assistance Programs

- *Key steps for launching a successful EAP program include:*
 - Develop a policy statement.
 - Ensure professional staffing.
 - Maintain confidential record-keeping systems.
 - Be aware of legal issues.

Family-Friendly Benefits

- *On-site or subsidized child care*
- *Elder care*
- *Fitness and medical facilities*
- *Food services*
- *Flexible work scheduling*
- *Telecommuting*
- *Educational subsidies*
- *Sabbaticals*
- *Loan programs for home office equipment*
- *Stock options*
- *Concierge services*
- *Trauma counseling*

Executive Perquisites

- *Management loans*
- *Golden parachutes*
- *Financial counseling*
- *Relocation benefits*
- *Sabbaticals*
- *Severance pay*
- *Outplacement assistance*
- *Company cars*
- *Chauffeured limousines*
- *Security systems*
- *Company planes and yachts*
- *Executive dining rooms*
- *Physical fitness programs*
- *Legal services*
- *Tax assistance*
- *Expense accounts*
- *Club memberships*
- *Season tickets*
- *Credit cards*
- *Children's education*

Flexible Benefits Programs

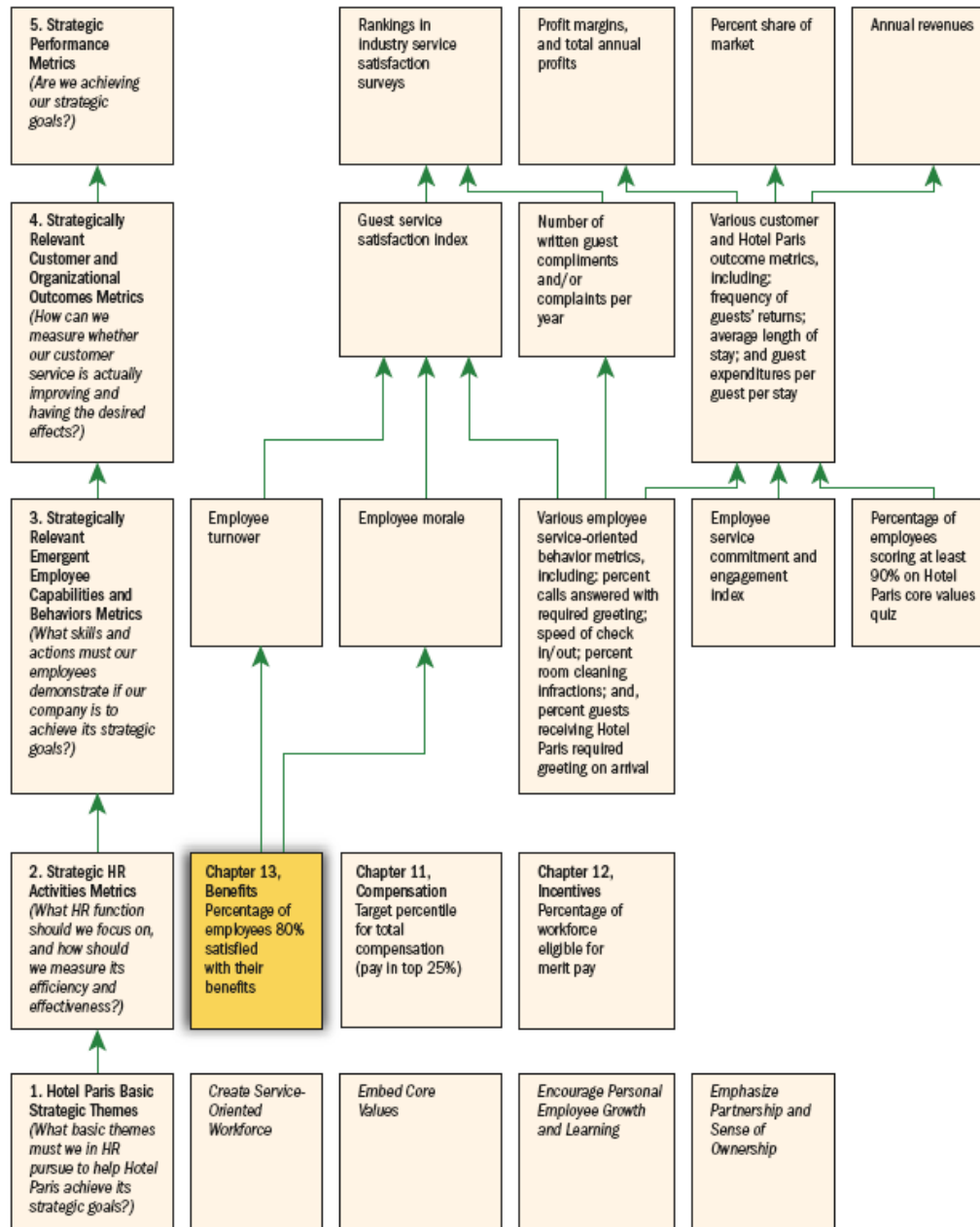
➤ *The cafeteria (flexible benefits) approach*

- Each employee is given a benefits fund budget to spend on the benefits he or she prefers.
 - The fund limits the total cost for each benefits package.
 - **Core plus option plans** establish a core set of benefits which are mandatory for all employees.

➤ *Flexible spending accounts*

- Enable employees to pay for medical and other expenses with pretax dollars by depositing funds in their accounts from payroll deductions.

HR Scorecard for Hotel Paris International Corporation*



Note: *(An abbreviated example showing selected HR practices and outcomes aimed at implementing the competitive strategy, "To use superior guest services to differentiate the Hotel Paris properties and thus increase the length of stays and the return rate of guests and thus boost revenues and profitability")

Figure 13–6

Sample Survey of Employee Needs

Indicate the level of importance of the following benefits to you and your family:

	Low Importance	High Importance
Single health coverage	_____	_____
Family health coverage	_____	_____
Preventive health care	_____	_____
Flexibility in choice of physician	_____	_____
Prescription coverage	_____	_____
Vision coverage	_____	_____
Dependent care assistance	_____	_____
Educational assistance	_____	_____
Paid maternity leave	_____	_____
Disability insurance	_____	_____

Indicate any two benefits listed below that you feel can be enhanced by the company, and include a comment suggesting how:

Health care coverage	_____
Prescription coverage	_____
Vision coverage	_____
Dependent care assistance	_____
Educational assistance	_____
Maternity leave	_____
Disability insurance	_____

If the company could spend additional money on benefits, rank in order of importance (1 = most important; 7 = least important) which of the following benefits you suggest should be funded:

_____	Health care coverage
_____	Prescription coverage
_____	Vision coverage
_____	Dependent care assistance
_____	Educational assistance
_____	Maternity leave

Source: Michelle Buckley, "Checkup for Health Benefit Offerings," *Compensation and Benefits Review*, September/October 2000, p. 43.

Flexible Work Arrangements

➤ *Flextime*

- A plan whereby employees' workdays are built around a core of mid-day hours when all workers are required to be present.
- Workers can arrange their own starting and stopping hours before and after the core period.
 - Positive effects on employee productivity, job satisfaction, satisfaction with work schedule, and employee absenteeism.
 - Positive effect on absenteeism was much greater than on productivity.

Flexible Work Arrangements (cont'd)

➤ *Compressed workweeks*

– Increase productivity

- Less disruption from shift changes
- Longer time-off-work periods
- Reduced absenteeism

– Longer workdays; fewer workdays:

- Four-day workweeks, with four 10-hour days.
- Two days on, two days off, three days on, then two days off, two days on, and so forth.
- Three 12-hour shifts, and then off for the next four days.

Other Flexible Work Arrangements

➤ *Job sharing*

- Allowing two or more people to share a single full-time job.

➤ *Work sharing*

- A temporary reduction in work hours by a group of employees during economic downturns as a way to prevent layoffs.

➤ *Telecommuting*

- Employees work at home using telephones and the Internet to transmit letters, data, and completed work to the home office.

Key Terms

benefits

supplemental pay benefits

unemployment insurance

sick leave

severance pay

supplemental unemployment benefits

workers' compensation

health maintenance organization (HMO)

preferred provider organizations (PPOs)

group life insurance

Social Security

pension plans

defined benefit pension plan

defined contribution pension plan

401(k) plan

savings and thrift plan

deferred profit-sharing plan

employee stock ownership plan (ESOP)

Employee Retirement Income Security Act (ERISA)

vesting

Pension Benefits Guarantee Corporation (PBGC)

early retirement window

cash balance plans

employee assistance program

flexible benefits plan/cafeteria benefits plan

job sharing

work sharing

telecommuting