



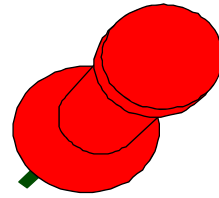
COMPENSATION MANAGEMENT

CHAPTER 12 (Study unit 10) **Employee Benefits**

Chapter Topics

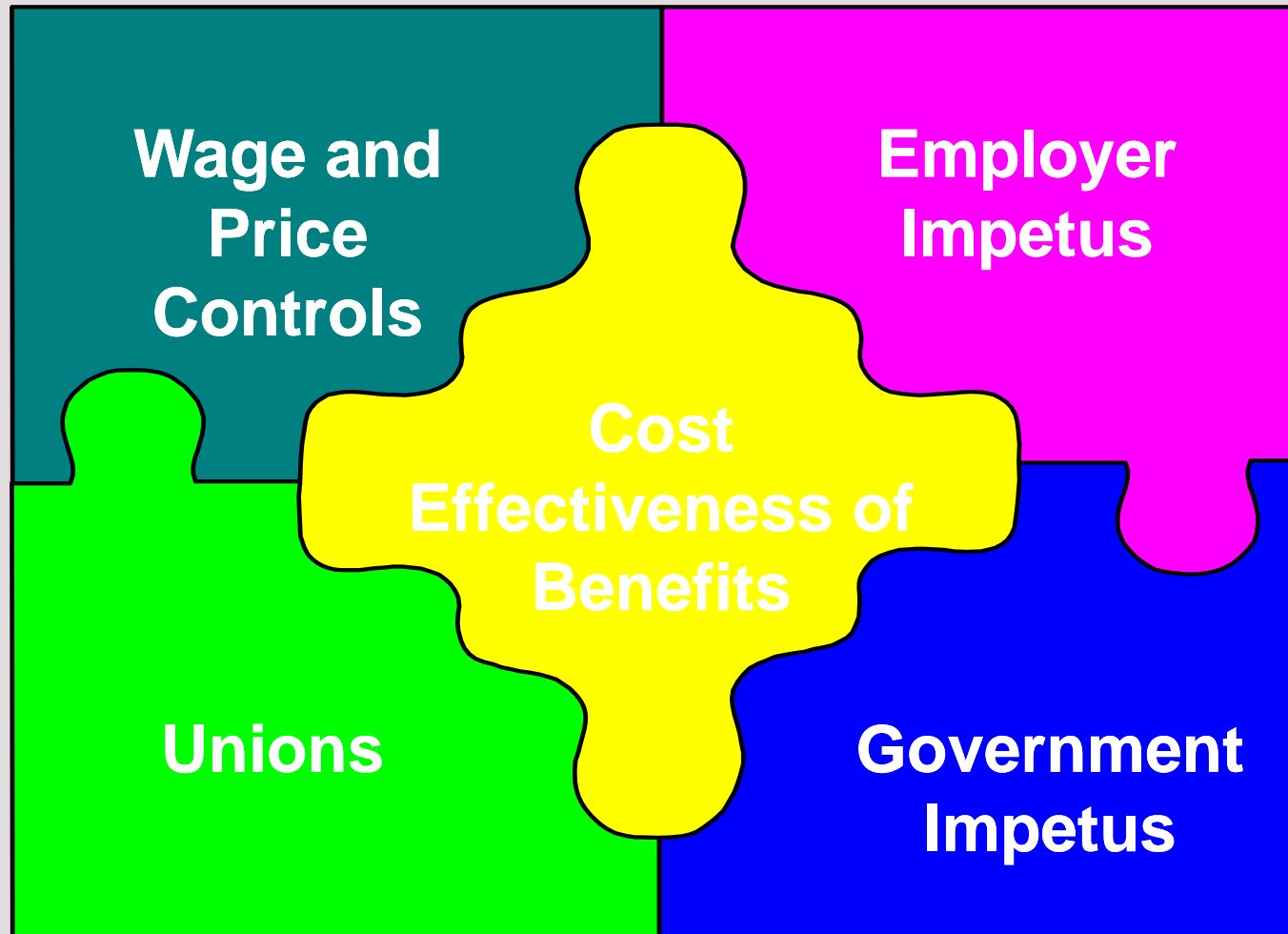
- Why the Growth in Employee Benefits?
- Value of Employee Benefits
- Key Issues in Benefit Planning, Design and Administration
- Components of a Benefits Plan
- Administering the Benefits Program

What Are Employee Benefits?



That part of the total compensation package, other than pay for time worked, provided to employees in whole or in part by employer payments, e.g. life insurance, pension, workers' compensation, vacation

Why the Growth in Employee Benefits?



Value of Employee Benefits

- Employees:
 - Expect benefits as part of their total compensation
 - Do not understand true value of benefits
 - Often undervalue their benefits
 - Often take benefits for granted
 - Often cannot list all benefits received
 - Have preferences regarding types of benefits they want

Key Issues in Benefit Planning, Design, and Administration

- Benefits Planning and Design Issues
 - How to attract good employees
 - How to deal with undesirable turnover
 - Integrating benefits with other compensation components
 - Strategies for ensuring external competitiveness
 - Ensuring that benefits are adequate
 - Whether employee benefits are cost justified

Benefit Administration Issues

- Who should be protected or benefited?
 - Series of questions need to be addressed
- How much choice should employees have among an array of benefits?
 - Concerns choice (flexibility) in plan coverage
 - Standard benefit package
 - Cafeteria-style,” or flexible, benefit plans

Benefit Administration Issues (cont.)

- How issues associated with flexibility should benefits be financed?
 - Noncontributory
 - Contributory
 - Employee financed
- Are your benefits legally defensible?

Exhibit 12.5: Advantages of Flexible Benefits

- Employees choose packages that best satisfy their unique needs.
- Flexible benefits help firms meet the changing needs of a changing workforce.
- Increased involvement of employees and families improves understanding of benefits.
- Flexible plans make introduction of new benefits less costly.
- Cost containment: Organization sets dollar maximum; employee chooses within the constraint.

Exhibit 12.5: Disadvantages of Flexible Benefits

- Employees make bad choices and find themselves not covered for predictable emergencies.
- Administrative burdens and expenses increase.
- Adverse selection: Employees pick only benefits they will use; the subsequent high benefit utilization increases its cost.
- Subject to non-discrimination requirements in Section 125 of the Internal Revenue Code.

Financing Benefits Plans: Alternatives

- Non-contributory
 - Employer pays total costs
- Contributory
 - Costs shared between employer and employee
- Employee financed
 - Employee pays total costs for some benefits
 - By law the organization must bear the cost for some benefits

Exhibit 12.6: Factors Influencing Choice of Benefit Package

EXHIBIT 12.6 Factors Influencing Choice of Benefit Package

Employer Factors

1. Relationship to total compensation costs
2. Costs relative to benefits
3. Competitor offerings
4. Role of benefits in:
 - Attraction
 - Retention
 - Motivation
5. Legal requirements

Employee Factors

1. Equity: fairness historically and in relationship to what others receive
2. Personal needs as linked to:
 - Age
 - Sex
 - Marital status
 - Number of dependents



**Benefits
Package**

Approaches to Assess Employee Preferences

- Demographic differences
 - Age
 - Sex
 - Marital status
 - Number of dependents
 - Blue collar vs. white collar
- Employee survey via questionnaire
- Flexible benefit plan

Administering the Benefits Program

Three Administrative Issues

1

Communicating about the benefits program

2

Claims processing

3

Cost containment

Communicating the Benefits Program

- Three elements of effective communications
 - Company must spell out its benefit objectives and ensure communications achieve the objectives
 - Match the message with the appropriate medium
 - Use of intranet – an internal organizational online Web through which all forms of communication within the organization can be streamlined
 - Streamlined call center operation
 - Content of communications package must be complete, clear, and free of complex jargon

Communicating Employee Benefits

- Methods of communication
 - Employee handbook
 - Personalized benefit statements
 - Meetings with employees
 - Multi-media presentations
 - Intranet
 - Streamlined call center operation



Claims Processing

- Claims processor must:
 - Determine whether the act has, in fact, occurred
 - Determine if the employee is eligible for the benefit
 - Calculate the payment level

Cost Containment

Prevalent Practices

1

Probationary periods

2

Benefits limitations

3

Co-pay

4

Administrative cost containment

Exhibit 12.12: Basic Primer of Cost Containment Terminology

EXHIBIT 12.12 Basic Primer of Cost Containment Terminology

Deductibles: An employee claim for insurance coverage is preceded by the requirement that the first \$x be paid by the claimant.

Coinsurance: A proportion of insurance premiums are paid by the employee.

Benefit cutbacks: Corresponding to wage concessions, some employers are negotiating with employees to eliminate employer contributions or reduce them to selected options.

Defined contribution plans: Employers establish the limits of their responsibility for employee benefits in terms of a dollar contribution maximum.

Defined benefit plans: Employers establish the limits of their responsibility for employee benefits in terms of a specific benefit and the options included. As the cost of these options rises in future years, the employer is obligated to provide the benefit as negotiated, despite its increased cost.

Dual coverage: In families where both spouses work there is frequently coverage of specific claims from each employer's benefit package. Employers cut costs by specifying payment limitations under such conditions.

Benefit ceiling: Employers establish a maximum payout for specific claims (e.g., limiting liability for extended hospital stays to \$150,000).

Trends Related to Cost Containment

- **Probationary periods** – excluding new employees from benefit coverage until some term of employment is completed (e.g. three months)
- **Benefit limitations** – i.e. limiting disability income payments to some maximum percentage of income
- **Co-pay** – requiring that employees pay a fixed or percentage amount for coverage
- **Administrative cost containment** – controlling costs through policies such as seeking competitive bids for programme delivery
- Retaining strategic function internally
- Significant movement to outsourcing

Your turn

Answer the end of chapter 12 review questions