

# Employee Benefits



4BE3

Week 7

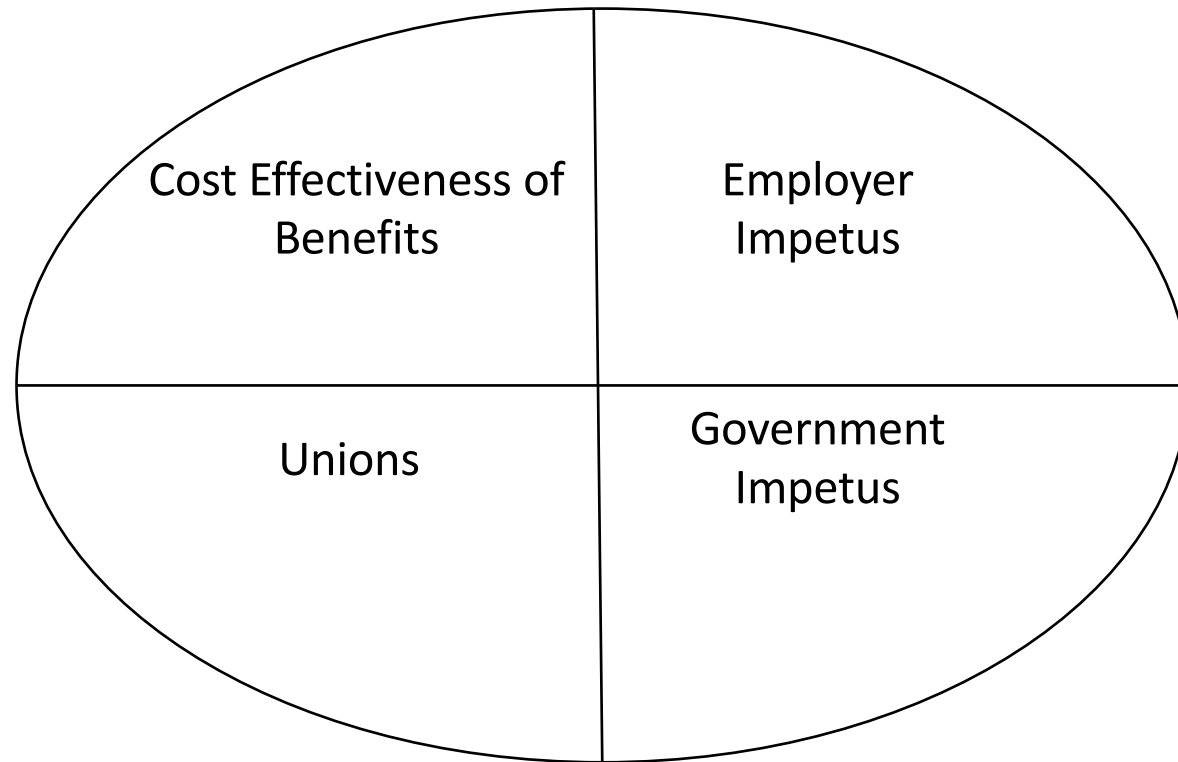
# Learning Outcomes

- ❑ Explain why employee benefits are a significant component of total compensation.
- ❑ Summarize key issues in benefits planning, design, and administration.
- ❑ Identify three important functions in benefits administration.
- ❑ Summarize the legally required benefits in Canada and the other common employee benefits offered by organizations.
- ❑ Explain the difference between defined benefit and defined contribution pension plans.
- ❑ Describe the two general strategies for controlling medical benefit costs.

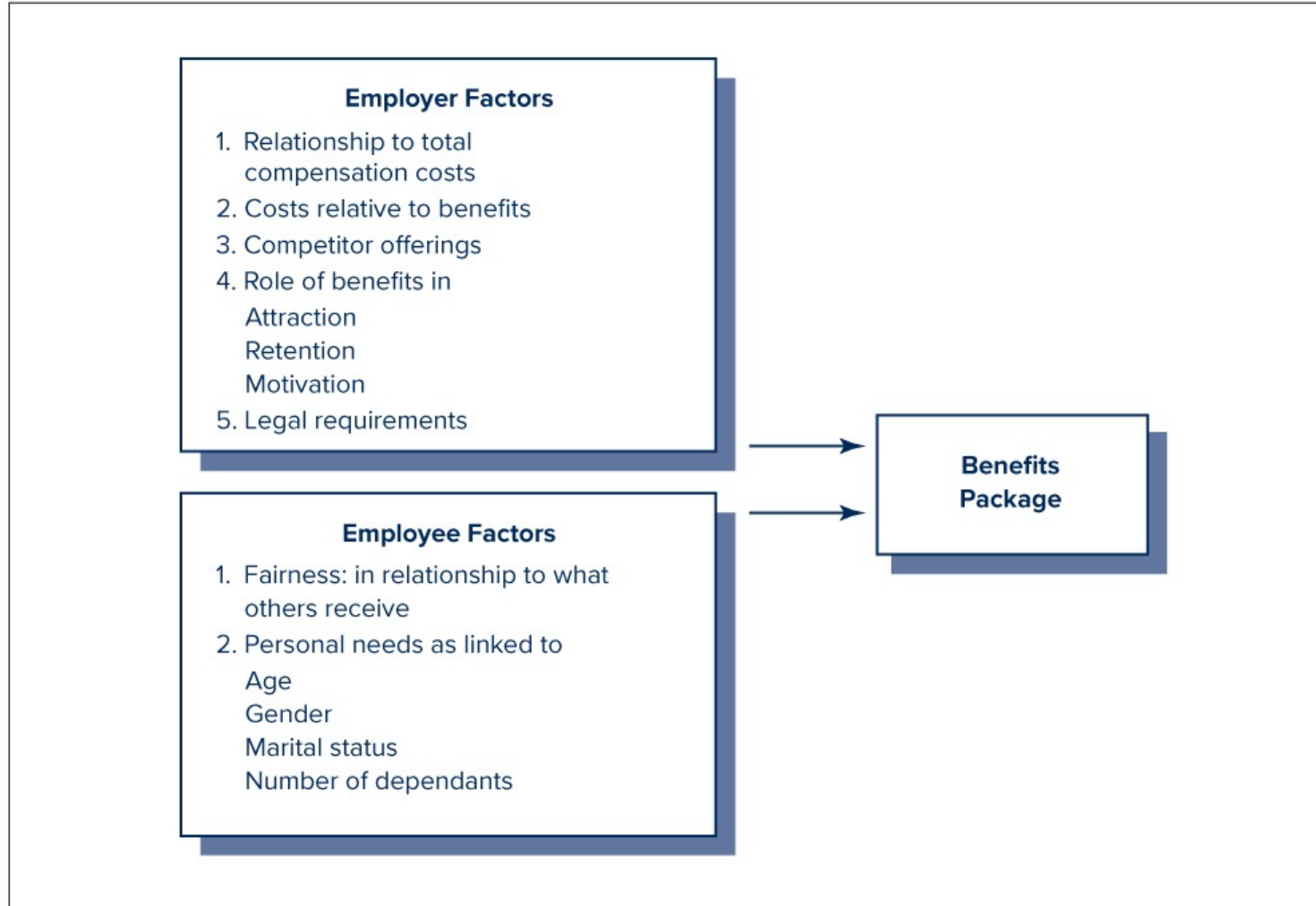
# Employee Benefits

- ❑ That part of the total compensation package, other than pay for time worked, provided to employees in whole or in part by employer payments
- ❑ Examples include: life insurance, pension plan, workers' compensation, vacation

# Why the Growth in Employee Benefits?



## EXHIBIT 9.2 Factors Influencing Choice of Benefits Package



# Benefits Planning and Design Issues

- ❑ Decide the role of benefits and integrate them into the overall compensation package.
- ❑ Include strategies for:
  - ❑ ensuring external competitiveness: Know what your competitors offer
  - ❑ adequacy of benefits: there is no magic formula for defining adequacy.
    - ❑ The answer may be a relationship between benefit adequacy and cost effectiveness.
    - ❑ Are employee benefits cost justified?

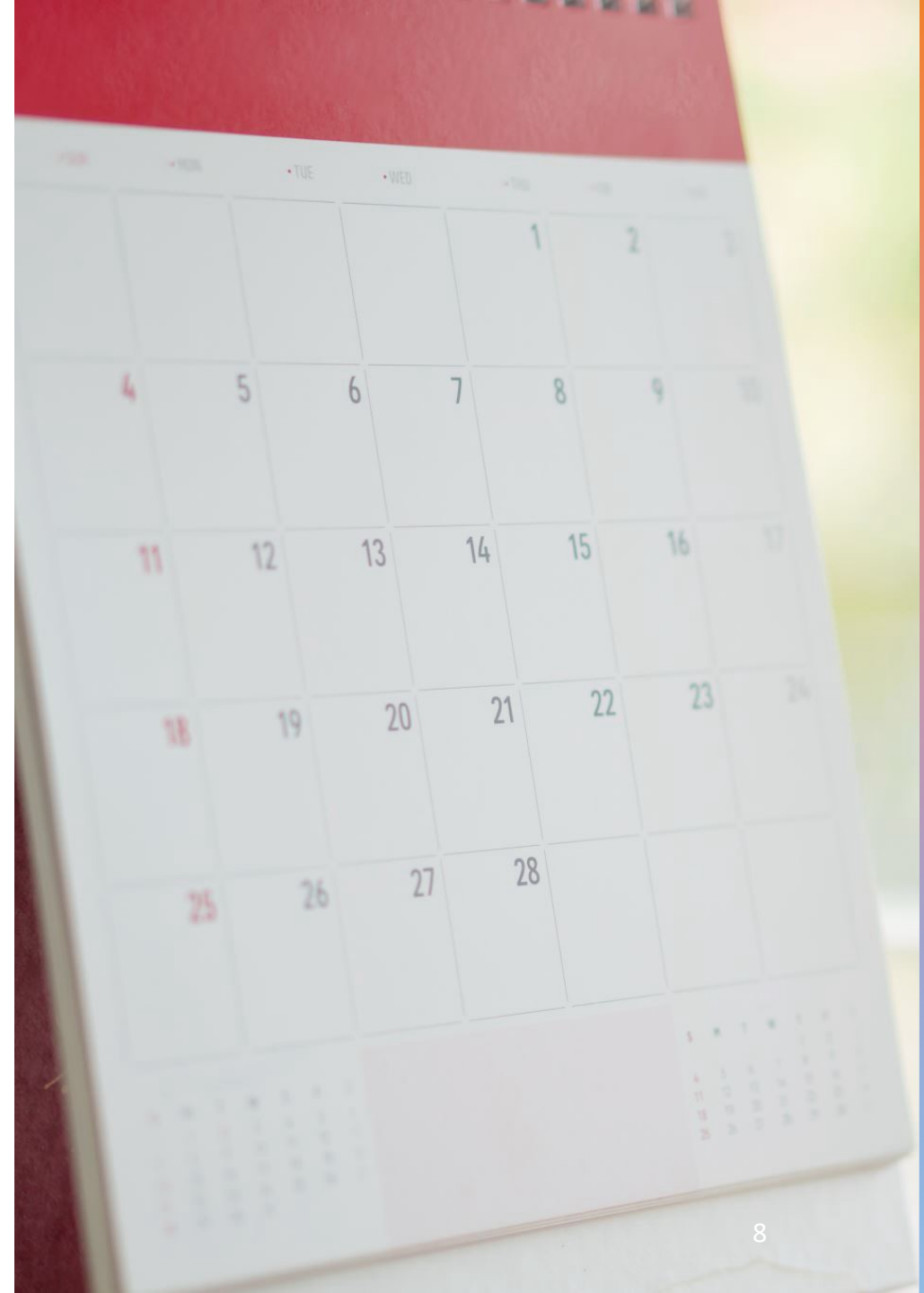
# Benefit Administration Issues

Major issues in setting up a benefits package:

- Who should be protected?
- How much choice should employees have among an array of benefits?
- How should benefits be financed?

# Who should be protected?

- ❑ There are a variety of employees and statuses.
- ❑ Are there probationary periods?
- ❑ Which dependents are covered?
- ❑ Should retirees be covered?
- ❑ How about survivors of deceased employees?
- ❑ Should coverage be limited to full-time workers?



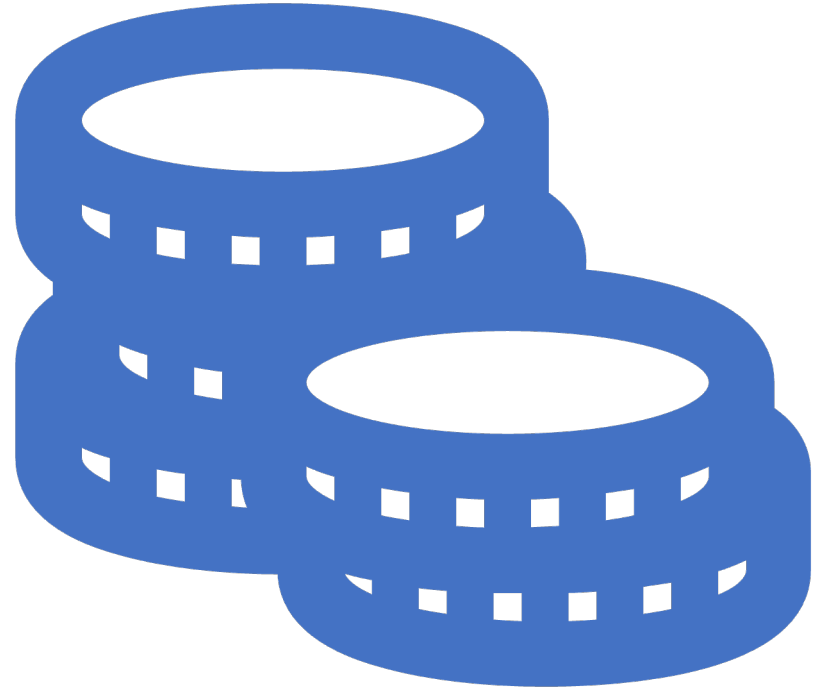


## Will employees have a choice of benefits?

- ❑ One extreme is standard benefit package that offers no choice.
- ❑ The other extreme is “cafeteria-style”, or flexible benefit plans.
- ❑ Most companies are offering some choices.
- ❑ Flexible plans may increase employee recognition of benefit value.

# How Should Benefits be Financed?

- Non-contributory
  - employer pays total costs
- Contributory
  - costs shared between employer and employee
- Employee-financed
  - employee pays total costs for some benefits



## Legally required:

- ❑ Workers' Compensation
- ❑ Canada/Quebec Pension Plan
- ❑ Employment Insurance
- ❑ Pay for time not worked

## Employer-sponsored:

- ❑ Pensions
- ❑ Life Insurance
- ❑ Extended Healthcare
- ❑ Income Security
- ❑ Pay for time not worked
- ❑ EAP and other benefits

# Examples of Employee Benefits



## Workers' Compensation

- ❑ a mandatory, government-sponsored, employer-paid no-fault insurance plan that provides compensation for injuries and diseases that arise out of, and while in the course of, employment
- ❑ provides benefits for
  - ❑ Lost earnings due to temporary/permanent disability
  - ❑ Health care expenses
  - ❑ Survivor benefits after fatalities
- ❑ compensation varies from 75 to 90 percent of net earnings (two jurisdictions provide 75 percent of gross earnings)
- ❑ cost control is an ongoing concern



# Canada/Quebec Pension Plan

- ❑ a mandatory, government-sponsored pension plan for all employed Canadians
- ❑ funded equally by employers and employees
- ❑ provides benefits upon
  - ❑ retirement
  - ❑ disability
  - ❑ death

# Employment Insurance

- ❑ a mandatory government-sponsored plan for all employed Canadians that provides workers with temporary income replacement as a result of employment interruptions due to circumstances beyond their control
- ❑ funded by employer and employee contributions
- ❑ basic benefit is 55 percent of insurable earnings

# Vacations, Holidays & Paid Breaks

## Vacation

- ❑ minimum amount of paid vacation must be provided to employees

## Holidays

- ❑ varies by jurisdiction

## Paid breaks

- ❑ uninterrupted break within a work day
- ❑ e.g. 30 minute break on a shift over 5 hours

# Pay on Termination of Employment

- ❑ does not apply to those on short-term contract or fired for just cause
- ❑ amount of payment varies according to jurisdiction and circumstances:
  - ❑ pay in lieu of reasonable notice
  - ❑ severance pay
  - ❑ pay for mass layoffs



# Employer-Sponsored Pension Plans

- ❑ plans that provide income to an employee at retirement as compensation for work performed now
- ❑ Defined benefit plans: employer agrees to provide a specific level of retirement pension, the exact cost of which is unknown
- ❑ Defined contribution plans: employer agrees to provide specific contributions but the final benefit is unknown

# Life Insurance

- ❑ group life insurance
- ❑ accidental death and dismemberment insurance
- ❑ dependent life insurance
- ❑ optional, employee-paid insurance
- ❑ retiree life insurance

# Employer- Sponsored Medical Plans

- ❑ cover expenses not payable under provincial/territorial plans
- ❑ prescription drug coverage considered most important benefits by employees
- ❑ medical cost control is biggest issue facing benefits managers today
- ❑ cost control through
  - ❑ preventive health care/wellness programs
  - ❑ deductibles, coinsurance...
  - ❑ flex benefits

# Income Security Benefits

- ❑ Sick leave plans
  - ❑ provide specified number of paid sick days per month or per year
- ❑ Short-term disability plans
  - ❑ provide continuation of part or all of earnings during absence due to non-work related illness or injury
- ❑ Long-term disability plans
  - ❑ provide continuation of part of earnings during long-term absence due to non-work related illness or injury
  - ❑ claims and costs rising sharply
  - ❑ psychiatric disabilities fastest-growing

# Pay for Time Not Worked

- ❑ Paid rest periods, coffee breaks, travel time...
- ❑ Vacations
- ❑ Holidays
- ❑ Leaves
  - ❑ Bereavement
  - ❑ Jury duty
  - ❑ Community volunteering
- ❑ sabbaticals
- ❑ ...

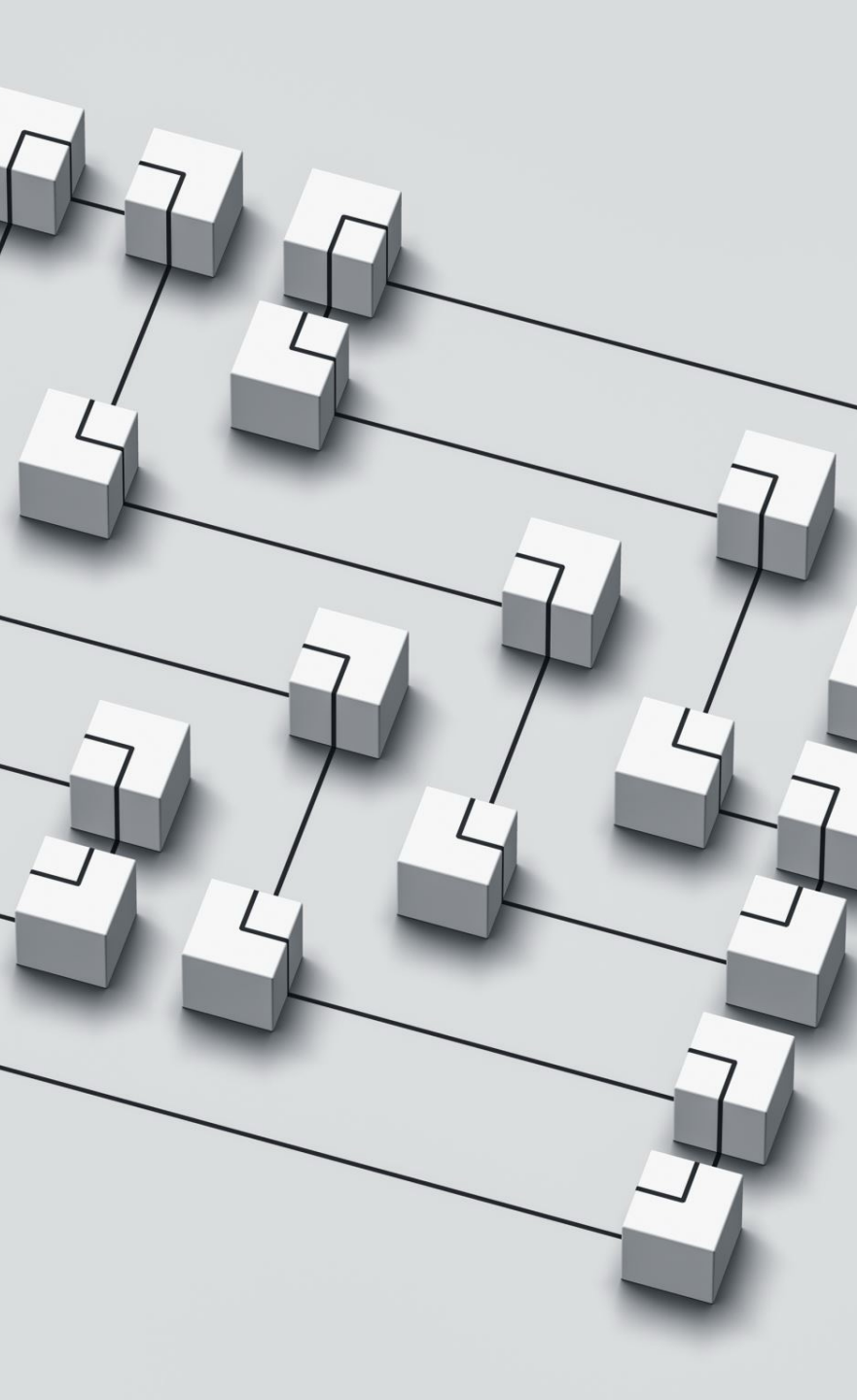
# Employee Services

## Personal services:

- ❑ credit unions
- ❑ counselling services
- ❑ employee assistance programs (EAPs)
- ❑ other personal services (social and recreational)

## Job-related services:

- ❑ subsidized childcare
- ❑ eldercare
- ❑ subsidized employee transportation
- ❑ food services
- ❑ educational subsidies
- ❑ family-friendly benefits



# Administering the Benefit Program

- ❑ communicating the benefits program
  - ❑ revolves around four issues: what is communicated, to whom, how it is communicated, and how frequently.
  - ❑ Effective communication involves repetition and consistency.
- ❑ claims processing: a claims processor determines eligible benefits and ensures coordination of benefits.
- ❑ cost containment



# Cost Containment

Common cost containment opportunities include:

- ❑ Deductibles and coinsurance
- ❑ Probationary periods
- ❑ Benefit limitations
- ❑ Administrative cost containment
- ❑ Outsourcing is a common cost containment strategy – hiring vendors to administer the benefit program
- ❑ Preventive health programs



# Summary

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- ❑ Employee benefits have been increasing in cost for the past few decades and now constitute a significant amount of compensation expense in all Canadian organizations.
- ❑ Key issues in benefits planning and design are the role of benefits in a compensation package, external competitiveness with benefits offered by other organizations, benefits adequacy to meet the needs of employees and their families and cost-effectiveness. Key administrative issues include who should be included in these plans, the level of flexibility in employee choice regarding their benefits, and employee–employer cost sharing.
- ❑ Three important functions in benefits administration are benefit communication, claims processing, and cost containment.
- ❑ Legally required benefits in Canada include: Workers' Compensation, the Canada/Quebec Pension Plan, Employment Insurance, government-sponsored healthcare plans, and breaks/vacation/leaves. In addition to the legally required benefits, employers may choose to provide their employees with additional benefits, some of which are paid for by employers, while others may require contributions from both employers and employees.
- ❑ There are two main types of employer-sponsored pension plans: defined benefit pension plan and defined contribution pension plan.
- ❑ The two general strategies for controlling medical benefit costs are motivating employees to change their demand for healthcare through changes in the design or administration of the plan, and the promotion of preventive health programs.