

Human Resources 103

Module 3: Benefits & Financial Planning



Human Resources Series

1. HR's Strategic Role
2. Effective Recruitment & Selection Techniques
3. BENEFITS
4. Labor & Employee Relations
5. Compensation Fundamentals
6. Health, Wellness, & Disability Management
7. HR Development

Agenda – Benefits & Financial Planning

- A. Benefit Administration
 - Elements of Benefits (Mandatory & Voluntary)
 - Coordination & Continuation of Benefits
 - Pay for Time Not Worked
 - Flexible Benefits
- B. Government Influence on Benefits
 - Social Security
 - Medicare
 - Unemployment
 - ERISA
- C. Design and Regulation of Pension Plans
 - Retirement Planning
 - Types of Pension Plans
 - Government Regulation
 - Funding Standards

Benefits: Part of the Total Rewards Package

Definition of Total Rewards:

All of the tools available to the employer that may be used to attract, retain, and motivate employees.

Three Components:

- Compensation
- Benefits
- Work Experience

Benefits of a Total Rewards Package

- Increased morale
- Increased profits
- Increased production
- Recruitment/retention are enhanced.
- Mixture allows flexibility in employee packages.

Mandatory Elements of Benefits

- Income Protection Programs
 - Unemployment
 - Workers' Compensation
 - Social Security
 - State temporary disability (CA, NY, NJ, HI, RI)

Non-Mandatory Elements of Benefits

- Health (Medical, Dental, Vision, Prescription)
- Flexible spending accounts
- Survivor Benefits
- Disability
- Retirement Plans
- Life Insurance
- Accidental Death & Dismemberment
- Pay for Time Not Worked

Benefit Costs

US Chamber of Commerce Survey:

- Employer Payments
 - Typical cost: 37.2% of payroll
- Employee Payroll Deductions
 - Typical cost: 12% of payroll

Factors Influencing Evolution of Benefits in US

- Employer initiative
- Collective Bargaining
- Legislation
- Budget
- Imitation of Europe
- Competition
- Government Involvement
- Demographic changes

Response to Competition

- **Benefits Needs Assessments**

Review & Analyze:

- Total Compensation Package
- Current/Potential Benefits
- Retention Factors/Employee Needs
- Strategic Plans of Organization
- Customer Satisfaction Studies
- Philosophy of Employer

Welfare Plans

Three primary types:

- **Health care**

- Medical
- Prescription Drug
- Dental
- Vision

- **Survivor benefits**

- **Disability income**

Medical Plans

- **Indemnity Plans (Fee for Service)**

- PPO – Preferred Provider Organization

- **Managed Care Plans**

- HMO – Health Maintenance Organization
- POS – Point of Service

- **Consumer Driven Plans**

Dental Benefits

Types:

- Fee for Service or (D)PO
- (D) MO

COB – Coordination of Benefits

- COB rules determine which plan pays first and how much the second plan pays when an individual is covered by more than one plan.
- Basic rules:
 - Employer plan always pays first.
 - "Birthday rule": Plan of parent whose birthday falls earlier in the year is the primary.

Continuation of Coverage

- COBRA – Consolidated Omnibus Budget Reconciliation Act (1985)
 - Includes medical, dental, vision, prescription drug and FSAs
 - Coverage = 18, 29, or 36 months
 - Qualifying events trigger COBRA.
 - Notification rules apply.

Survivor Benefits

- Term life
- Dependent life
- Accidental death & dismemberment
- Business travel accident
- Surviving spouse's/DP's pension
- Survivor income benefits
- Group universal life plans

Disability Income

- Types:
 - Sick leave
 - Short-term disability
 - Long-term disability
- Issues:
 - Taxability
 - Regulatory

Long Term Care Insurance

Definition - Insurance of the Future:

Medical, social, and /or personal care required by a person with an extended chronic illness or disability.

- LTC reimburses expenses associated with long term care that medical insurance does not cover.
- It is a voluntary benefit increasing in popularity with employers.
- Why? Aging population
- Care is provided in home, community, or alternative living facilities, or nursing homes.

Pay for Time Not Worked

- At work
 - Rest periods
 - Wash-up time
 - Clothes change time
 - Training programs
 - Breaks
 - Celebrations
- Not at work
 - Vacations
 - Holidays
 - Personal leave
 - Jury duty
 - Sick leave
 - Bereavement
 - Sabbaticals
 - Severance pay

Work Experiences – An Extension of Employee Benefits

- Five Categories
 - Acknowledgement and Recognition
 - Work/life Balance
 - Culture
 - Development
 - Environment

Flexible Benefits

- Three types of programs
 - Premium conversion
 - Flexible spending accounts
 - Health care & Dependent Care
 - Cafeteria style programs
- New programs
 - Health Savings Account (HSA)
 - Health Reimbursement Arrangement (HRA)

Flexible Benefits

- Advantages
 - Addresses employee needs
 - Better management of employer costs
 - Benefit choices are expanded.
 - Favorable tax treatment
 - Meets competitive pressures
- Disadvantages
 - Employees may make poor choices.
 - Development & communication costs are high.
 - Administrative costs are high.
 - Plans may be complex.
 - “Use it or lose it” rule

Government Mandated Benefits

Social Security, Medicare, Unemployment, and ERISA

Changing role of Government

- Dramatic changes in the last 20 years
 - Social Security benefits
 - Medicare
 - New State Programs
 - Regulation of Private Benefit Plans
 - ERISA (Employee Retirement Income Security Act of 1974)

Social Security (OASDI) Income

What does it provide?

- Income
- Survivor benefits
- Disability benefits
- Medicare (parts A and B)

Medicare

- Most expensive component of Social Security
- Must be over age 65 or on disability for 2 or more years to qualify
- Consists of Part A and Part B
 1. Part A = Hospitalization
 2. Part B = Doctor visits

State Programs

- Unemployment Compensation
- Non-occupational disability laws
- Workers Compensation

ERISA (Employee Retirement Income Security Act of 1974)

- Most significant Federal law regarding employee benefits in private sector
- Requires compliance
- Requires discrimination testing
- Does not apply to public sector benefits
- Influences design, administration, communication and cost of benefits

Pre-ERISA Legislation

- Internal Revenue Code (IRC)
- Age Discrimination in Employment Act (ADEA)
- Civil Rights Act/Equal Employer Opportunity Commission (EEOC)
- Security and Exchange Commission (SEC)
- State insurance and labor laws

Post-ERISA Legislation

- COBRA – Consolidated Omnibus Budget Reconciliation Act (1985)
- FMLA – Family Medical Leave Act (1993)
- HIPAA – Health Insurance Portability and Accountability Act (1996)

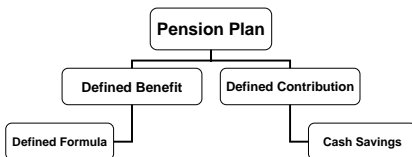
Design and Regulation of Pension Plans

Retirement plans, Tax Implications and Employer/Employee Perspectives

Retirement Planning

- Retirement from all sources should equal 60-80% of pre-retirement gross income.
- Income sources
 - Retirement savings
 - Employer-sponsored plans
 - Social Security
 - Personal savings
 - Post-retirement employment

What is a Pension Plan?



Defined Benefit Plans

- Benefit is defined or known
- Cost is unknown
- Requires an actuary
- Financial risk is on employer
- Generally higher benefits for career employees
- Less value to short-service employees
- Not portable

When Retirement Income May Be Elected

- At retirement
- After employee termination
- To a survivor, upon employee's death
- During a period of employee disability

Types of Retirement Income

- Lump sum
- Lifetime annuity
- Joint and survivor annuity
- Term certain

Defined Contribution Plans

- Contributions defined/known
- Benefit unknown
- Financial risk on employee
- No actuary required
- Individual accounts
- Greater value to short-service employees
- Portable

Distribution Options for Defined Contribution Plans

- During active employment
 - Withdrawals
 - Hardship
 - Standard
 - Age 59 1/2
 - Loans (403b only)
- Termination of employment
 - Lump sum, cash and IRA rollover

Regulations

- ERISA
- Internal Revenue Code (IRC)

Participation Rules (ERISA)

- Definition of eligibility
- Definition of service
- Break in service
- Re-employment

Vesting Rules (ERISA)

- Cliff Grading
- Graded Scale
- Normal Retirement

Nondiscrimination Rules (ERISA)

- Plan may not discriminate in favor of highly compensated employees
- A minimum # of employees must participate
- If a plan benefits highly compensated employees, it must also benefit a specific % of non-highly compensated employees

Funding Standards

- Funds must pay promised benefits.
- Cost must be determined actuarially.
- Expenses must be reviewed from previous years and estimated for future years.
- Minimum and maximum funding limitations must be disclosed.
- Contributions must be made quarterly.

Employer Fiduciary Standards

- Basic Standards
 - Serve needs of participants
 - Act with care, skill, prudence and diligence
 - Follow plan document
 - Minimize risk
- Fiduciaries
 - Control over plan assets/administration
 - Personally responsible for breach of duty

Benefits – A Summary

Several themes emerge:

- Accessibility of benefits

- Accountability of benefit providers

- Portability of benefit packages
