## Chapter 01

## Introducing Employee Benefits

**True / False Questions**

1. Flexible benefits plans enable employees to choose from among a set of benefits and different levels of these benefits. (Basic Design Considerations for Discretionary Benefits)  
**TRUE**

2. Cost-of-living adjustments (COLAs) are based on changes in prices as indexed by the consumer price index. (Adjustments to Core Compensation)  
**TRUE**

3. The Fair Labor Standards Act first legitimized bargaining for employee benefits. (Origins of Employee Benefits)  
**FALSE**

4. Flexible work schedules are considered part of accommodation and enhancement benefits packages. (The Fundamental Roles and Sources of Employee Benefits)  
**TRUE**

5. The U.S. federal government requires that most employers, employees, or both make contributions so that certain government-sponsored benefits can be provided – referred to as “welfare practices." (The Fundamental Roles and Sources of Employee Benefits)  
**FALSE**

6. The Federal Insurance Contributions Act (FICA) helps support the Old-Age, Survivor, and Disability Insurance (OASDI). (Government Regulation of Employee Benefits)  
**TRUE**

7. Employer-sponsored disability insurance is less encompassing than workers’ compensation. (Discretionary Benefits)

**FALSE**

8. Defined benefits plans, defined contribution plans and hybrid plans are types of health care funding plans. (Discretionary Benefits)  
**FALSE**

9.  Competitive strategy refers to the series of judgments, made under uncertainty, that companies direct toward making strategic decisions. (Basic Strategic Planning Concepts)  
**FALSE**

10. The top-down approach to strategic benefits planning is a reactive process that evaluates the benefits program only after problems arise. (Approaches to Strategic Benefits Planning)  
**FALSE**

11. Incentive-pay only rewards employees for completely attaining predetermined work objectives. (Adjustments to Core Compensation)  
**FALSE**

12. Workers' compensation insurance programs, run by the federal government, are designed to cover employee expenses incurred in work-related accidents and injuries. (State Compulsory Disability Laws (Workers’ Compensation))  
**FALSE**

13. Most unionized private-sector and public-sector organizations continue to base salary on seniority. (Adjustments to Core Compensation)  
**TRUE**

14. Total compensation represents both core compensation and employee benefits. (Employee Benefits in the Total Compensation Scheme)  
**TRUE**

15. Strategic benefit plans describe the use of compensation and benefits practices that support both HR strategies and competitive strategies. (Basic Strategic Planning Concepts)  
**FALSE**

16. Unemployment insurance is funded solely by the Federal Unemployment Tax Act (FUTA). (Government Regulation of Employee Benefits)  
**FALSE**

17. Core compensation programs reward employees according to their job performance levels or for acquiring job-related knowledge or skills. (Employee Benefits in the Total Compensation Scheme)  
**TRUE**

18. Employee benefits represent compensation other than wages or salaries. (Employee Benefits in the Total Compensation Scheme)  
**TRUE**

19. Employees' knowledge and skills are said to generate human capital for firms and are the basis for incentive-pay. (Adjustments to Core Compensation)  
**FALSE**

20. The Social Security Act was enacted due to the effects of WWII. (The Social Security Act of 1935)  
**FALSE**

21. Union workers cannot negotiate paid time off benefits. (Paid Time Off)  
**FALSE**

22. Employers are free to offer discretionary benefits but specific laws influence the application of these practices. (Legal and Regulatory Influences on Discretionary Benefits Practices)  
**TRUE**

23. Benefits are defined as compensation that includes wages and salary as well as other services. (Defining Employee Benefits)  
**FALSE**

24. Benefits professionals craft benefits strategies based on information contained in strategic benefit plans. (Basic Strategic Planning Concepts)  
**TRUE**

25. Vacations are a type of accommodation benefit. (Paid Time Off)  
**FALSE**

26. Protection programs most closely parallels legally required benefits. (Discretionary Benefits)  
**TRUE**

27. Person-focused pay rewards employees with periodic additions to base pay, according to length of service. (Adjustments to Core Compensation)  
**FALSE**

28. Workers' compensation laws are state laws. (State Compulsory Disability Laws (Workers’ Compensation))  
**TRUE**

29. Life insurance is considered an accommodation and enhancement benefit. (Protection Programs)  
**FALSE**

30. Employees are most likely to endorse benefits that fulfill their needs. (Changing Demographics of the Labor Force)  
**TRUE**

31. Incentive-pay is a permanent increase of compensation based on individual goal achievement. (Adjustments to Core Compensation)

**FALSE**

32. In financing discretionary benefits, employers always pay the total cost incurred. (Basic Design Considerations for Discretionary Benefits)

**FALSE**

33. During the 1940s and 1950s, companies expanded their discretionary benefits as an alternative to wage increases or as a motivational tool. (Origins of Employee Benefits)

**TRUE**

34. The existence of labor union has limited the use of welfare practices by companies. (Origins of Employee Benefits)

**FALSE**

35. Health care was a discretionary benefit until passage of the Family and Medical Leave Act in 1993. (The Fundamental Roles and Sources of Employee Benefits)

**FALSE**

36. The COVID-19 pandemic prompted companies to consider more comprehensive wellness approaches in their strategic employee benefits planning process. (COVID-19 Pandemic)

**TRUE**

37. When paying for discretionary benefits, contributory financing is when the company and its employees share the costs. (Basic Design Considerations for Discretionary Benefits)

**TRUE**

38. Under the Patient Protection and Affordable Care Act, dental care is included under the required health care offered to employees. (The Patient Protection and Affordable Care Act of 2010)

**FALSE**

39. The planned use of company resources to promote and sustain competitive advantage is referred to as competitive strategy. (Basic Strategic Planning Concepts)

**TRUE**

40. Total compensation strategies detail different scenarios that may affect the company, emphasizing long-term changes in how a company’s benefit plan operates. (Basic Strategic Planning Concepts)

**FALSEMultiple Choice Questions**

41. Which is the following is NOT one of the fundamental roles characterizing benefits programs? (The Fundamental Roles and Sources of Employee Benefits)

A. Accommodation and enhancement  
B. Paid time-off  
C. Protection programs   
**D.** Total compensation

42. Which of the following adjustments to core compensation rewards employees for acquiring new knowledge and skills through designated curricula sponsored by an employer? (Adjustments to Core Compensation)  
A. Merit-pay  
**B.** Person-focused pay  
C. Seniority-pay  
D. Incentive-pay

43. Discretionary benefits can be categorized into programs that (Discretionary Benefits)  
A. Protect health and income, provide job security, provide accommodation and enhancement benefits  
B. Provide job security, protect health and income, allow for paid time-off  
**C.** Protect health and income, allow for paid time-off, provide accommodation and enhancement benefits  
D. Provide job security, allow for paid time-off, provide accommodation and enhancement benefits

44. Which is the following is NOT an example of a discretionary benefit? (Discretionary Benefits)  
A. Retirement plans   
**B.** Workers’ compensation  
C. Life insurance  
D. Paid vacations

45. Which two are the possible approaches that can be used in strategic benefits planning? (Approaches to Strategic Benefits Planning)  
A. Backing-out & top-down  
**B.** Backing-in & top-down   
C. Backing-up & top-in  
D. Backing-down & top-in

46. Which of the following laws does not mandate legally required employee benefits? (Legally Required Benefits)  
A. Social Security Act   
B. Family and Medical Leave Act   
**C.** Civil Rights Act  
D. Patient Protection and Affordable Care Act

47. During the COVID-19 pandemic, many companies chose to adjust their discretionary benefits to include more of which type of benefits? (COVID-19 Pandemic)  
A. Disability insurance  
B. Protection programs  
C. Retirement plans  
**D.** Wellness programs

48. The Family and Medical Leave Act (FMLA) permits employees which of the following? (The Family and Medical Leave Act of 1993)  
A. 12 work weeks of paid leave during any 12-month period  
B. 10 work weeks of paid leave during any 12-month period  
**C.** 12 work weeks of unpaid leave during any 12-month period  
D. 10 work weeks of unpaid leave during any 12-month period

49. When considering information used in strategic planning, which of the following options is not considered an external environmental factor? (External Environment)  
A. COVID-19 pandemic  
**B.** Collective bargaining agreements  
C. Government regulation of employee benefits  
D. Employer costs for compensation and benefits

50. In which social context were workers' compensation laws enacted? (State Compulsory Disability Laws (Workers’ Compensation))  
A. Post Depression  
B. Post WWII  
**C.** Industrial expansion in the early 1900s  
D. The end of the 19th century when no laws ensured worker safety

51. What are the four main classes of health insurance programs that employers have to choose from to offer its' employees? (The Patient Protection and Affordable Care Act of 2010)  
**A.** Fee-for-service plans, alternative managed care plans, point-of-service plans, consumer-driven plans  
B. Consumer-driven plans, point-of-service plans, alternative managed care plans, person-focused plans  
C. Fee-for-service plans, substance abuse plans, point-of-service plans, alternative manage care plans  
D. Point-of-service plans, consumer-driven plans, alternative managed care plans, flexible benefits plans

52. Which common feature of a benefits plan allows companies to limit benefit participation to current employees? (Basic Design Considerations for Discretionary Benefits)  
A. Noncontributory financing  
B. Point-of-service plans   
**C.** Eligibility provisions   
D. Wellness programs

53. Which of the following adjustments to core compensation and not a permanent pay adjustment? (Adjustments to Core Compensation)  
**A.** Incentive pay  
B. COLAs  
C. Merit-pay  
D. Seniority-pay

54. Which three are the three fundamental roles that characterize discretionary benefits? (Discretionary Benefits)  
A. Protection programs, paid time-off, retirement programs  
**B.**Protection programs, paid time-off, accommodation and enhancement programs  
C. Paid time-off, accommodation and enhancement programs, retirement programs  
D. Retirement programs, protection programs and accommodation and enhancement programs

55. Flexible benefits allow employees to do which of the following? (Basic Design Considerations for Discretionary Benefits)  
**A.** Choose which benefits they want and at what level  
B. Only choose the level of benefits they want  
C. Only choose which benefits they want  
D. Choose whether they want all base pay or pay and benefits

56. Companies can generally choose from which four programs for financing their discretionary benefits plans. (Basic Design Considerations for Discretionary Benefits)  
**A.** Noncontributory, contributory, employee-financed, a combination of the other three  
B. Alternative managed care, contributory, employee-financed, a combination of the other three  
C. Employee-financed, noncontributory , voluntary benefits, a combination of the other three  
D. Flexible benefits plans, contributory, employee-financed, noncontributory

57. Profit sharing payments are examples of which type of core compensation package? (Adjustments to Core Compensation)  
**A.** Incentive pay  
B. Merit pay  
C. Person-focused pay  
D. Seniority pay

58. Which of the following are the three main types of retirement programs that companies can offer? (Protection Programs)  
A. Employee-financed plans, defined benefits plans, hybrid plans  
B. Hybrid plans, defined contribution plans, employee-financed plans  
C. Defined contribution plans, employee-financed plans, defined benefits plans  
**D.** Defined contribution plans, defined benefits plans, hybrid plans

59. Which two make up the internal environmental factors? (Internal Environment)  
A. Labor force demographics, governmental regulations  
B. Mergers and acquisitions, labor force demographics  
C. Governmental regulations, collective bargaining agreements  
**D.** Workforce demographics, collective bargaining agreements

54. The Social Security Act of 1935 set up which two programs? (The Social Security Act of 1935)  
**A.** Retirement income & unemployment insurance  
B. Medicare & disability insurance  
C. Disability insurance & retirement income  
D. Unemployment insurance & Medicare

60. Which of the following is an internal environment factor used for strategic benefits planning? (Internal Environment)  
A. Government regulation of employee benefits  
B. Employer costs for compensation and benefits   
C. Economic conditions and forecasts   
**D.** Workforce demographics

61. Which of the following is not a fundamental employee goal? (Legal and Regulatory Influences on Discretionary Benefits Practices)  
A. High wages  
**B.** Leadership  
C. Job security  
D. Safe working conditions

62. Which of the following is not an example of an accommodation and enhancement program? (Accommodation and Enhancement Programs)  
**A.** Disability insurance   
B. Tuition reimbursement   
C. Family assistance   
D. Stress management

63. In 2021, benefits accounted for what percentage of total compensation costs in the private sector? (Employer Costs for Compensation and Benefits)  
**A.** 29.6%   
B. 25.5%   
C. 20.3%   
D. 10.7%

64. In 2020, about how many million persons were employed by private-sector companies? (Legal and Regulatory Influences on Discretionary Benefits Practices)  
A. 90 million

**B.** 122 million  
C. 118 million  
D. 125 million

**Essay Questions**

65. Briefly describe the origins of employee benefits in the US. (Origins of Employee Benefits)

Main Points  
● Different forces account for legally required and discretionary employee benefits.   
● The U.S. government established programs to protect individuals from disability and unemployment.  
● Historically, legally required benefits provided a form of social insurance, prompted largely by the rapid growth of industrialization in the U.S. during the late 19th and early 20th centuries as well as the Great Depression of the 1930s.  
●   
● Contemporary discretionary benefits evident in late 1800s, when large companies such as American Express offered retirement plans. Discretionary benefits become prominent in the 1940s and 1950s due in large part to federal government wage freezes.  
● Employer sponsorship of health care became common.  
● National Labor Relations Act legitimized bargaining for benefits.  
● Employees today typically view benefits as entitlements. Until recently, companies also treated benefits as entitlements. Rising benefits costs, increased foreign competition, and the so-called Great Recession (2007-2009) led companies to shift responsibility for the cost of some benefits to employees.

66. List and briefly describe the seven common features of employee-benefits programs. (Basic Design Considerations for Discretionary Benefits)

Main Points  
● The seven common features of employee-benefits programs are: eligibility provisions, kinds of benefits, levels of benefits, waiting periods, financing benefits, employee choice, and communication  
● Eligibility provisions means companies must decide who is eligible to receive the benefits. Companies may limit participation to current employees and not extend the benefit coverage to family members or retired employees. Many companies exclude part-time employees.  
● Companies may sponsor a variety of benefits for eligible employees, including retirement plans, health care, and paid time off.  
● Companies choose benefits to offer based on maximum benefit limits. For example, life insurance policies specify the dollar benefit amount for the death of an employee.  
● Waiting periods specify the minimum number of months an employee must remain employed before becoming eligible for one or more benefits.  
● When considering how to finance offered benefits, employers choose from four approaches: noncontributory, contributory, employee-financed, or some combination. Noncontributory financing means the employer pays the total costs, while contributory financing means the company and its employees share the costs. Under employee-financed benefits, employees bear the entire costs.  
● Traditionally, a company provided the same benefits to all eligible employees. Companies now mostly offer employees varying degrees of choice through flexible benefits plans and voluntary benefits. Flexible benefits plans enable employees to choose from among a set of benefits and different levels of those benefits. Voluntary benefits are supplemental benefits a company offers on an employee-financed basis.  
● Finally, communicating the features and costs of benefits is essential. Effective communication creates an awareness of, and appreciation for, the way current benefits improve the financial security and physical and mental well-being of employees.

67. Discuss the influence of external market conditions on strategic benefits planning of companies. (External Environment)

Main Points  
● External environment factors include: industry prospects, economic conditions, and forecasts; employer costs for compensation and benefits; government regulation of employee benefits; changing demographics of the labor force; and the COVID-19 pandemic.  
● Industry prospects and current and anticipated economic conditions set the backdrop for establishing strategic benefits plans because these factors are indicators of the future of the company. Forecasts indicating growth possibly call for strengthening discretionary benefits offerings and levels to help recruit and retain the most-qualified employees. Pessimistic forecasts emphasize the need to save costs by shifting more of the responsibility on employees.  
● Benefits professionals use data from the U.S. Bureau of Labor Statistics to benchmark current benefits costs against reported averages or as a starting point for budget planning. Employer compensations costs vary by industry, region, union status, and establishment size. Private-sector employers spent an average of $10.72 per employee per hour to provide discretionary and legally required benefits.  
● Four broad forces contribute to an employer’s choice of discretionary benefits and its ability to fund them. The first two, adequacy of legally required benefits and employee expectations, directly influence an employer’s choice. The third, the cost of legally required benefits, influences a company’s ability to fund discretionary benefits. The fourth entails a variety of economic considerations. Many legally required benefits arose during the early part of the 20th century and the funding formulas are inadequate to meet today’s realities. Employers began withdrawing costly benefit offering after the government ended wage freezes following WWII, creating discontent among employees. This led to health-care benefits becoming a mandatory subject of collective bargaining in union settings. The federal government requires companies to support legally required benefits. Under the Patient Protection and Affordable Care Act of 2010, most employers are required to provide health-care coverage to full-time workers or face stiff monetary penalties.  
● Labor force diversity will continue to increase based on gender, age, race, and ethnicity. Yet, an employer-sponsored benefits program is most effective when the workforce is relatively similar in terms of needs and preferences. Workforce diversity challenges a company’s quest to establish benefits that satisfy the needs and preferences of workers. Differences in employee preferences and needs based on life stage and life circumstances call for flexible benefits offerings.

* The onset of the COVID-19 pandemic negatively impacted most aspects of work and life. Many companies reconsidered the strategic role of benefits and focused on developing current benefits or offering new benefits to help employees and their family cope. Enhanced emphasis has been placed on wellness programs and employee assistance. Companies are likely to continue to emphasize such programs even after life returns to normal.

68. Briefly discuss the adjustments to core compensation a company may choose to provide for its employees. (Adjustments to Core Compensation)

Main Points

● Cost-of-living adjustments or COLAs represent periodic base-pay increases often set to periodic changes in the U.S. Bureau of Labor Statistics’ Consumer Price Index. This enables workers to maintain purchasing power by having their base pay adjusted for inflation.  
  
● Seniority-pay systems reward employees with periodic additions to base pay according to length of service. This rationale comes from human capital theory, which states that employees’ knowledge and skills generate productive capital, known as human capital.

* Merit-pay programs assume that employees’ compensation over time should be determined based on differences in job performance. Employees earn permanent increases to base pay according to their performance, which rewards excellent effort or results, motivates future performance, and helps employers retain valued employees. Merit-pay increases are expressed as a percentage of current base pay, with higher percentage increases for better performers.
* Incentive pay rewards employees for partially or completely attaining a predetermined work objective. Incentive pay is defined as compensation other than base wages or salaries that fluctuates according to the attainment of individual or group goals, or company earnings.
* Person-focused pay rewards employees for acquiring new knowledge and skills through designated curricula sponsored by an employer. This approach recognizes the range, depth, and types of skills or knowledge employees are capable of applying productively to their jobs following training. This approach is traditionally common in manufacturing. More recently, technology companies choose this approach when upskilling current employees and providing pay increases along the way.