



Employee Benefits Design and Planning

*A Guide to Understanding Accounting,
Finance, and Tax Implications*

BASHKER D. BISWAS

Employee Benefits Design and Planning

This page intentionally left blank

Employee Benefits Design and Planning

A Guide to Understanding
Accounting, Finance, and Tax
Implications

Bashker D. Biswas

Associate Publisher: Amy Neidlinger
Executive Editor: Jeanne Glasser Levine
Operations Specialist: Jodi Kemper
Cover Designer: Alan Clements
Managing Editor: Kristy Hart
Project Editor: Elaine Wiley
Copy Editor: Keith Cline
Proofreader: Katie Matejka
Senior Indexer: Cheryl Lenser
Senior Compositor: Gloria Schurick
Manufacturing Buyer: Dan Uhrig

© 2014 by Bashker D. Biswas
Upper Saddle River, New Jersey 07458

For information about buying this title in bulk quantities, or for special sales opportunities (which may include electronic versions; custom cover designs; and content particular to your business, training goals, marketing focus, or branding interests), please contact our corporate sales department at corpsales@pearsoned.com or (800) 382-3419.

For government sales inquiries, please contact governmentsales@pearsoned.com.

For questions about sales outside the U.S., please contact international@pearsoned.com.

Company and product names mentioned herein are the trademarks or registered trademarks of their respective owners.

All rights reserved. No part of this book may be reproduced, in any form or by any means, without permission in writing from the publisher.

Printed in the United States of America

First Printing May 2014

ISBN-10: 0-13-348133-6

ISBN-13: 978-0-13-348133-4

Pearson Education LTD.

Pearson Education Australia PTY, Limited.

Pearson Education Singapore, Pte. Ltd.

Pearson Education Asia, Ltd.

Pearson Education Canada, Ltd.

Pearson Educación de Mexico, S.A. de C.V.

Pearson Education—Japan

Pearson Education Malaysia, Pte. Ltd.

Library of Congress Control Number: 2014931810

To my daughter, Meena

This page intentionally left blank

Contents

Preface.....	xvii
Chapter 1: Setting the Stage	1
Functional Categories of Employee Benefits.....	3
The Employee Benefits Environment.....	4
Employee Benefits under Adverse Economic Conditions	15
Strategic Considerations in Designing Employee Benefit Programs	16
The Integrated Systems Approach to Employee Benefits Planning.....	18
The Cost Dimension.....	22
Key Concepts in This Chapter	25
Chapter 2: Healthcare Benefits	27
A Brief History of Healthcare Benefits.....	28
The Prevalence of Healthcare Benefit Plans.....	29
The Structure of Healthcare Benefit Plans	31
Healthcare Benefit Plan Design Considerations.....	32
Consumer-Driven Healthcare.....	35
Accounting Implications and Issues Affecting Healthcare Benefit Plans.....	38
Self-Funding of Healthcare Benefits.....	50
Tax Dimensions of Healthcare Plans	50
International Financial Reporting Standards and Employee Health and Welfare Plans.....	58
Summary	59
Key Concepts in This Chapter	60
Appendix: Definitions Of Health Insurance Terms.....	61
Chapter 3: Healthcare Benefit Financing.....	73
Financing Approaches to Healthcare Programs.....	75
Healthcare Cost Containment.....	84
Utilization Reviews	86
Value-Based Benefit Design.....	89
Concluding Thoughts on Healthcare Benefits	95

	Summary	102
	Key Concepts in This Chapter	102
	Appendix: Tax Implications of the Affordable Care Act.....	103
Chapter 4:	Other Risk Benefits	109
	Group Life Insurance Programs	110
	Group Dependent Life Insurance	118
	Supplemental Life Insurance	118
	Accidental Death and Dismemberment Plans	119
	Group Disability Benefits.....	122
	Sick-Leave Plans	123
	Insured Disability Programs.....	123
	Long-Term Care Benefits	128
	Group Business Travel Insurance Benefit.....	133
	Tax Implications of Other Risk Benefits Plans	137
	Summary	148
	Key Concepts in This Chapter	149
Chapter 5:	Retirement Plans	151
	Types of Pension Plans	156
	The Employee Retirement Income Security Act.....	158
	The Retirement Equity Act of 1984.....	159
	Pension Benefit Guarantee Corporation	162
	The Nature of Pension Plans.....	164
	Plan Accounting.....	165
	Accounting for Defined Benefits Plans	174
	Pension Plan Assets.....	189
	The Pension Expense	192
	Accounting Recordkeeping	201
	Statement of Accumulated Plan Benefits for Defined Benefit Pension Plans (ERISA).....	203
	ERISA Reporting Requirements for Defined Contribution Plans	204
	Accounting Standards Affecting Pension Plans	205
	Summary	207
	Key Concepts in This Chapter	208

Chapter 6:	Other Types of Retirement Benefits.....	209
	Cash Balance Pension Plans	210
	Money Purchase Pension Plans.....	216
	Simplified Employee Pension Plans	219
	403(b) Plans.....	221
	409A Plans.....	224
	457 Plans	228
	Summary	233
	Key Concepts in This Chapter	234
Chapter 7:	Equity-Based Employee Benefit Plans.....	235
	Employee Stock Ownership Plans	236
	Employee Stock Purchase Plans	256
	Equity in Pension Plans.....	270
	Summary	275
	Key Concepts in This Chapter	276
Chapter 8:	International Employee Benefits.....	277
	Multinational Pooling	280
	Multinational Pension Plans.....	285
	Taxation of International Employee Benefits.....	292
	Accounting Implications for International Benefits:	
	IAS 19.....	293
	Summary	301
	Key Concepts in This Chapter	302
	Appendix: A Summary of IAS 19 Employee Benefits.....	303
Chapter 9:	Ancillary Benefits.....	309
	Severance Benefits.....	310
	Voluntary Insurance Benefits.....	317
	Workers' Compensation	320
	Unemployment Benefits.....	326
	Cafeteria Benefits	330
	Summary	335
	Key Concepts in This Chapter	335

Chapter 10: Employee Benefits Cost Management	337
Benchmarking and Cost Containment.....	341
Human Resources Department Efforts at Managing Employee Benefit Costs	343
Sample Benefits Objective	346
Key Concepts in this Chapter	347
Conclusion.....	349
Bibliography	353
Books	353
Articles.....	355
Websites	359
Index.....	363

Foreword

This book is timely and much needed. It is about a complex and often poorly understood topic—a topic that has a major impact on employee retention and the bottom line.

Bashker Biswas is fully qualified to tackle this subject. He has more than 40 years of hands-on domestic and international experience as a compensation and benefits specialist and senior manager, and he has in-depth academic preparation in the field of human resources. He is also well known as an accomplished total-rewards management teacher and mentor.

It has been estimated that employee benefits are 35% to 40% of the total people costs. Yet, most HR professionals, and compensation and benefits specialists in particular, lack the knowledge and skills to competently perform this function, preferring to focus their attention on base pay, bonuses and incentives, and stock options—and then farming out benefit issues to external consultants.

Most, if not all, colleges offering degree programs in human resources management relegate employee benefits to an overview. This hardly provides future HR professionals with the preparation required to provide comprehensive staff work to their employers. Realizing this shortcoming, senior management has been forced to shift the benefits function more and more to the Finance department.

Bashker Biswas does a great job of walking the reader through the intricate and complex subject of benefits. In particular, he suggests ways to effectively apply the key principles and techniques he espouses.

The book is comprehensive in its treatment of the subject. It addresses healthcare, risk management, retirement, international benefits, and a variety of other ancillary benefits. Biswas drills down on a menu of retirement options to fully explain the available choices, their cost, and unique features.

One of the contributions of this book is to explain the cost impact of each benefit, making the book a must-have for future specialists and generalists in human resources management.

This book and its companion, *Compensation and Benefit Design*, published earlier, join together to provide the reader the most complete treatment of a complex management function. Both make an excellent case for custom designing compensation and benefit strategies and programs to address the strategic and cultural objectives of the modern organization.

Tony Tasca, Ph.D.

Retired International Consultant and HR Executive

Palo Alto, California

December 2013

Acknowledgments

This book would not have been possible without the efforts of my colleagues at DeVry University–Keller Graduate School of Management, Sacramento Campus, where I currently teach as an Associate Professor. A special thanks goes to Oscar Gutierrez, Senior National Dean, College of Business and Management and Dean of the Keller Graduate School of Management, for supporting this publishing effort. To Ms. Donna Gosselin, Academic Affairs Specialist, goes much appreciation for facilitating the project. And to Mary Cole, MS, MAFM, President of the Sacramento Campus, DeVry University, for her continuing support, demonstrated in part by assigning a student worker for the project, and for facilitating my ongoing teaching career.

I would also like to thank my many students who have helped me in various ways throughout the years to improve the clarity of my thought processes and thinking.

This project greatly benefited from the efforts of my hard-working graduate accounting student and assistant at Keller Graduate School of Management, Jingjing Xu. Additional assistance was provided by another graduate student, Nusrat Timni. Both of them helped me with the research for this book.

This book would not have been possible without the extraordinary help of my very able assistant, Randolph S. Castro. His hard work and assistance with this book proved invaluable.

My appreciation goes to Jeanne Glasser Levine, Executive Editor at Pearson/FT Press, for so ably guiding this project to completion. To Project Editor Elaine Wiley and Copy Editor Keith Cline, I owe a great debt. They have been my able guides through the editing process on two of my book projects.

Finally, and as always, I acknowledge my wife, Usha, whose unceasing efforts to support me in every way for more than 40 years

has been nothing but exceptional. Also, my family: my daughter, Meena, and my granddaughter,ayah, have been very encouraging for this project and for many of my other endeavors.

About the Author

Bashker “Bob” Biswas, Ph.D., is an Associate Professor at DeVry University and the Keller Graduate School of Management in Sacramento, California.

Dr. Biswas has more than 40 years of experience in total rewards management; finance; accounting; executive compensation; base, incentive, sales, and equity compensation; human resources strategy; human resources information systems; and international human resources and international compensation.

The companies he has worked for include Control Data, Bechtel, Memorex, Maxtor, Hitachi Data Systems, and BioGenex and Zain. Dr. Biswas has held positions at the director level and above since 1982. At Maxtor and BioGenex, he was a Vice President. While at Memorex and Zain, he worked out of London and the Middle East/Africa, respectively. He has traveled to 40 countries on various projects related to compensation and benefits.

During his tenure in the Middle East, Dr. Biswas conducted total rewards and global human resources management seminars throughout the Middle East and Africa. He was a leading instructor in the Zain Human Resource Management Academy.

In addition, he has held consulting positions at Skopos Corporation (Skopos was a venture investment backed HRIS start-up co-founded by Dr. Biswas in 1983) and Coopers & Lybrand and PricewaterhouseCoopers. At C&L, he was a Director of Human Resource Consulting in the San Francisco office. He was also C&L's National High-Tech Leader for Human Resource Consulting. At C&L, Dr. Biswas was responsible for the firm's National Software Industry Compensation Survey. In total, he has provided compensation consulting to more than 50 companies.

Dr. Biswas has taught at various universities as an adjunct faculty since 1984. Dr. Biswas has authored and co-authored articles on

human resources management. Dr. Biswas has presented at WorldatWork's national conference and briefly taught in their certification program.

Dr. Biswas holds B.A., M.A., M.B.A., and Ph.D.

He has been a member of WorldatWork (American Compensation Association) since 1972.

Preface

Managing employee benefits is growing ever more complex. These programs can be costly and take up more of management's time than they have in the past. But the employee benefits program is a key part of a human resources strategy. And human resources (or as referred to these days, human capital) is now considered a critical element of the overall business strategy.

Many elements are involved in the management of an employee benefits program, including the following:

- Proper financing and funding of the benefit program
- Accurate actuarial calculations to determine the plan assets and liabilities
- Complying with required laws and regulations
- Proper accounting and recordkeeping, according to the governing accounting standards
- Tax compliance
- Effective administration and communication, including enrollment and eligibility determination, carrier data management, premium billing, employee benefits communication, call-center support, and so on

In addition, various pressures must be dealt with, including rising costs, managing risks, shrinking budgets, improving employee productivity, continual shifts in legislative requirements (the uncertainties surrounding the Patient Protection and Affordable Care Act of 2010 is a prime example), and higher expectations of the workforce. Within this complex structure, the key element in managing employee benefits remains the financial and accounting aspects of these programs.

The employee benefits environment is replete with accounting and finance issues. In addition, there are a plethora of tax, insurance,

and legal considerations. Cost and expense considerations dominate the design, planning, and administration of these plans. Accounting and finance, the languages of business, are widely spoken. Therefore, the guardians of these benefit programs, with many working identities, more so than ever, all need to understand and communicate among themselves using those same languages—finance and accounting—proficiently.

In the past 20 years or so, the benefits landscape has shifted. The guardians of these programs are trying to balance the competing demands of rising benefits expenditures—mainly fueled by health-care costs—against the need to attract, retain, and then maximize the productivity of their human talent base, their employees (or, as mentioned previously, their human capital). This is creating the need for a new mindset: the need to gain more human capital value and, at the same time, manage the financial exposures.

As stated, to traverse the employee benefits landscape effectively, a new common mindset is needed. The purpose of this book is to lay a foundation for this new common mindset by providing an understanding of employee benefits primarily from finance, accounting, and other technical perspectives. To effectively manage and administer employee benefit programs, one needs to use the required finance and accounting languages and terminology. The practitioner needs to understand the principles of finance and accounting as they apply to employee benefits planning.

Also, within the finance and accounting genre, the subgenres of tax, risk mitigation, and actuarial principles heavily affect employee benefit programs. Thus, the employee benefits landscape can get complicated. Clarity of understanding is essential for the practitioner.

With the ever-increasing pressures to improve organizational productivity and efficiency, we have witnessed a relentless drive to manage costs and expenses. However, outside environmental factors have produced counter trends in the costs of these programs. Leading these counter trends has been healthcare benefit costs. Recently,

with wages advancing only 1.7%, and with employers shifting more healthcare costs to their workers, a 4% increase in medical premiums has been observed. This increase seems to eclipse the general inflation rate of 2.3%. Insurers had planned push premiums up another 7% in 2013 and beyond.¹ To some this might seem onerous, given the current business and economic environment. You can understand, therefore, that the employee benefits practitioner will continue to be challenged to speak and be guided by the finance and accounting languages when designing, planning, and administering employee benefit programs. This book is designed to help in this effort.

There is also indication that senior management is increasing its focus on employee benefits planning and decision making. It can easily be surmised that the reason for this focus is the control of the escalating expenses. A Prudential Insurance Company study, “Sixth Annual Study of Employee Benefits: Today and Beyond,”² indicates the following:

- Senior management’s influence has increased in the past 5 years (45%). Human resources is the second most common area to gain in influence (39%). Employee benefits, finance/treasury, employees, and board of directors all increased their influence relatively equally (22%, 22%, 21%, and 21%, respectively).

One reason for the increased influence is the fact that employee benefits program costs are now considered one of the highest line item operational expenses—not only that, it is a line item expense that is *on the rise*. Hence the need for focus, influence, and control.

¹ Morgan, David. “Employer healthcare premiums outpace inflation, wages.” *Reuters*, September 11, 2012, <http://www.reuters.com/article/2012/09/11/us-usa-healthcare-insurance-idUSBRE88A0SQ20120911>.

² The research was conducted for Prudential by the Center for Strategy Research, Inc., an independent Boston-based market research firm, in 2011; see www.prudential.com/benefitsbeyond.

- Two-thirds of plan sponsors say four or more areas of their organization are influential in the employee benefits decision-making process, 45% say four to seven areas are involved, 21% say eight or more areas are involved, and only 34% report zero to three areas are involved to some extent.

Therefore, it is important that there be a common understanding of the finance and accounting principles and issues affecting employee benefits program design and planning—the purpose of this book.

Many employers find that the cost of providing their employees adequate and competitive benefits has been one of their largest expenses, typically representing the second or third line item budgeted expense. These soaring costs are reducing capital that employers could better use for other operational expenses and working capital requirements. Significant escalation of the costs of these programs directly reduces free cash flows. A decrease in free cash flows reduces the intrinsic values of the affected entities. Stockholders do not like to see decreases in intrinsic values and hence the stock price.

Managing these escalating costs is possible. However, it requires first that the guardians of the employee benefit programs thoroughly understand the finance, accounting, and other technical principles affecting employee benefit programs. Then there is a need to make more informed, immediate, and aggressive investments in measuring, analyzing, and reporting and using appropriate finance and accounting metrics. In addition, the traditional financial analysis tools (such as analysis using key ratios, rate of returns on investments, and economic value added analysis) should be brought into the employee benefits design, development, and administration framework. The finance and accounting disciplines of analysis, measurement, and control should be rigorously used. The primary purpose of this book is to focus on these concepts.

Legal requirements for plan audits represent another important reason why the finance and accounting principles affecting employee

benefits must be understood. Audits are an important part of the financial reporting structure of the Employee Retirement Income Security Act (ERISA). Audits ensure that a plan's financial statements have been subject to an annual independent examination and that the plan's processes and financial controls have been examined. The plan audit and reporting requirements help assure participants that there is a high likelihood that the plan's financial statements accurately set forth the financial condition of the plan and that participant records are appropriately maintained.

Internal benefits professionals need to recognize the importance of the auditor's evaluation of a plan's internal controls over financial reporting. Effective internal financial controls can form the foundation of a safe and sound financial administration. A properly designed and consistently enforced system of operational and internal financial control would help a plan's fiduciaries safeguard the plan's resources, produce reliable financial reports, and comply with laws and regulations. Therefore, here again, an understanding of financial and accounting principles is vital.

Most senior business executives recognize the current precarious economic climate, and rather than reducing focus on employee benefits, they are finding that putting an accounting- and finance-based business focus on these programs actually creates the opportunity for employee benefits to drive the maximization of human capital.

The main objective of this book is to satisfy the need for a published text that aggregates and synthesizes the finance and accounting (and the related tax, legal and actuarial) principles into an integrated employee benefit framework.

This framework can be further integrated into a total compensation structure that, in turn, flows from a human capital strategy, which was an outcome of the organization's business strategy and operational plans. Figure P.1 explains this conceptual framework.

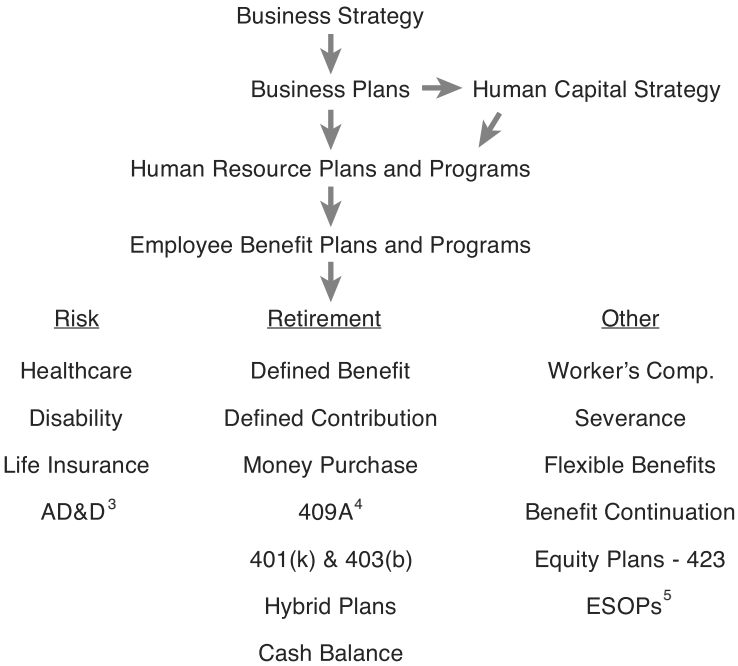


Figure P.1 An integrated employee benefit framework

Note, as well, that the practitioners in the employee benefits profession are many. They come from the various disciplines that impact employee benefit plans and programs. You can see the influence of employee benefits lawyers, accountants, benefits consultants, insurance industry personnel (agents and brokers), group insurance specialists, actuaries, regulators, investment specialists, plan administrators, trust officers, and, last but not least, the human resources department personnel (the benefits and compensation staff).

Professionals in this last category are mainly accountable to senior management for the design, development, and administration of these programs. The HR department's benefits professionals are supported by the other groups mentioned in the preceding paragraph.

³ Accidental Death and Dismemberment

⁴ The numbers in this diagram refers to IRS Code numbers

⁵ Employee Stock Ownership Plans

The HR department staff is not as knowledgeable, usually, in all the technicalities of the disciplines affecting employee benefit plans. That is why they rely on external advisors, consultants, and employee benefits specialists.

If you peruse the job descriptions of internal employee benefits administrators, you will find knowledge requirements such as the following:

- Knowledge of employee benefits principles, concepts, and practices
- Knowledge of governmental regulations and laws related to benefit plans
- Knowledge of Social Security, Medicare, and other retirement plan structures
- Knowledge of statistics and their practical application
- Knowledge of research and data analysis methods and techniques
- Knowledge of customer service standards, principles, and techniques

Furthermore, if you research the skill requirements for internal benefits specialists, you'll usually find the following:

- Good oral and written communication skills
- Computer skills, especially with word processing and spreadsheets
- Strong analytical skills

Missing from the knowledge and skill requirements is the knowledge of applicable finance and accounting principles. This book is written to fill this knowledge gap.

This book can also serve as a reference source for the HR department's benefits and compensation professionals on the finance and

accounting principles that affect employee benefit programs. This book is intended as a single-source reference book for in-house benefits and compensation professionals.

HR department professionals must now, more than ever, be business savvy. HR departments are being asked to be strategic and knowledgeable about the business side of their organizations. In the past, these folks were content with designing benefit programs that were competitive or regarded as industry best practices. Increasingly, though, HR department staffs are being asked by senior management to justify the programs they recommend from an economic and financial value-added perspective. Employee benefits professionals are increasingly tasked with designing programs that are not only best practices but that also best fit their respective organizations. To justify the economic and financial value-added advantages of the employee benefit programs, HR department professionals need to have a fairly in-depth understanding of the finance and accounting principles that affect these programs and plans. This book is intended to provide that understanding.

Various sources of influence guide the accounting and finance principles affecting employee benefit plans.

The legal influences mainly derive from the following:

- Various labor laws (both federal and state)
- The Employee Retirement Income Security Act (ERISA)
- The Internal Revenue Code (IRS Code)

The accounting influences derive from the following:

- Federal Accounting Standards Board (FASB)
- Securities and Exchange Commission (SEC)
- International Financial Reporting Standards (IFRS)
- Auditing principles and requirements
- Guidance from the American Institute of Certified Public Accountants

The administrative rules, guidelines, and regulations derive from the following:

- From the Department of Labor (DOL)
- Employee Benefits Security Administration (EBSA)
- Employee benefit audit guidance from the American Institute of Certified Public Accountants
- The rules and regulations for employee benefit fiduciaries

The structure of employee benefits that is used in this book centers on risk benefits (health, disability, and life-related risk mitigations), retirement benefits (designed to provide income security in old age), and ancillary benefits (that provide a wide variety of benefits and services that maintain or enhance the employee's life situations).

You can understand from the earlier discussion that the influences on employee benefits planning are many, and most of them emanate from accounting and finance principles.

Having made the case for a single comprehensive text that covers the whole spectrum of accounting and finance principles affecting employee benefits planning, here is the plan for this book:

- Chapter 1, “Setting the Stage,” discusses in detail the employee benefits landscape for most medium to large organizations, including all the dimensions affecting employee benefits planning: accounting and recordkeeping, finance and investment analysis, tax compliance, actuarial analysis, legal compliance, and auditing.

The rest of the book takes a functional approach to the discussion of employee benefits (which you'll also be introduced to in Chapter 1). The functional employee benefits covered include healthcare benefits, additional risk benefit programs, equity programs affecting employee benefit plans, retirement programs, tax-deferred employee benefit programs, global employee benefits, worker's compensation, and other ancillary employee benefits.

The discussion then turns to the impact of various accounting, finance, and tax implications for each of the functional benefits. This is the roadmap for the book:

- Chapter 2, “Healthcare Benefits,” covers healthcare benefits.
- Chapter 3, “Healthcare Benefit Financing,” continues the discussion of healthcare benefits by focusing on the healthcare economics, financing, and cost control.
- Chapter 4, “Other Risk Benefits,” covers other risk benefit programs, such as disability benefits, life insurance benefits, and long-term care plans.
- Chapter 5, “Retirement Plans,” covers the traditional retirement programs (defined contribution and defined benefit retirement plans).
- Chapter 6, “Other Types of Retirement Benefits,” covers many of the other retirement benefit programs.
- Chapter 7, “Equity-Based Employee Benefit Plans,” covers equity-based employee benefit plans, such as discounted stock purchase plans and 409A plans (among others).
- Chapter 8, “International Employee Benefits,” covers global employee plans, especially the cross-border plans such as multinational pooling and umbrella pension plans.
- Chapter 9, “Ancillary Benefits,” covers ancillary employee benefit programs.
- Chapter 10, “Employee Benefits Cost Management,” covers cost containment. As mentioned previously, the primary concern for employee benefit planners and decision makers is the constantly rising expenditures for these programs. Companies around the world are in a constant search to find ways to optimize these costs. So, Chapter 10 focuses primarily on this topic. (Cost-containment strategies and techniques are discussed within each functional benefit, but Chapter 10 aggregates these concepts in one place.)

- The Conclusion wraps up the discussion by summarizing the topics covered in this book.

As mentioned previously, the functional benefit programs discussed in each chapter within the context of the dimensions mentioned earlier are as follows:

- Healthcare benefits
- Other risk benefits
- Retirement plans
- Ancillary employee benefit programs
- Equity compensation within an employee benefits structure
- Tax-deferred employee benefit programs

To reiterate, this book focuses on the following dimensions:

- Accounting and recordkeeping
- Tax compliance
- Auditing and internal control
- Legal compliance
- Actuarial analysis
- Finance and investment analysis

The relevant accounting, finance, tax, and legal concepts are described, discussed, and analyzed for each category of the functional employee benefits covered in the book. The optimum combination of these functional benefits normally forms the strategic portfolio of employee benefits in an organization.

This book covers relevant issues within the context of authoritative guidance provided the rule-making bodies, such as US GAAP (Generally Accepted Accounting Principles) and IFRS (International Financial Reporting Standards), and the guidance provided the American Institute of Certified Public Accountants (AICPA). This

book also covers regulatory standards on relevant subjects from the Employee Retirement Income Security Act (ERISA) and the Internal Revenue Service (IRS).

It is known that the two primary accounting standards-framework, US GAAP and IFRS (developed by FASB and IASB—the two accounting standard setting bodies) are on the verge of converging. The convergence process is well on its way. The year 2014 was planned to be the watershed year in the convergence process. Therefore, wherever appropriate, this book compares how the two standard-setting bodies approach specific issues covering employee benefit plans.

Because this book focuses on the accounting, tax, and finance implications of employee benefit plans, the main sources for the material for this book are the relevant authoritative accounting standards from the US GAAP and IFRS. Much material was also sourced from the IRS Codes. Therefore, many of the tables and charts included in this book derive directly from IRS source material available on the Internet. So, most of the research for this book is Internet-based.

The discussions in the book are mostly U.S.-based. However, one chapter is devoted to the technical issues involved in cross-border employee benefit plans.

Let's begin our journey.

1

Setting the Stage

Aims and objectives of this chapter:

- Set the stage for the discussions in the book
- Address the concept of employee benefits
- Present various categories of employee benefits
- Discuss the employee benefit environment
- Discuss the strategic considerations in designing employee benefit programs
- Explain the integrated system approach to plan employee benefits
- Discuss the cost dimension of employee benefits

At their inception, employee benefits were considered “fringe benefits,” a mere afterthought to cash wages. Employers who were concerned about their employees’ welfare, of their own accord, handed out “fringes” to them. As time has gone by, however, these benefits have evolved into a significant portion of a worker’s total official compensation package, sometimes making up as much as 35% or more.

In their book *Compensation*, authors Milkovich, Newman, and Gerhart provide their definition of employee benefits within a total employee compensation package as “all forms of financial returns and

tangible services and benefits employees receive as part of an employment relationship.”¹

Others have offered separate definitions for employee benefits, including programs financed by employers that cover situations such as death, accidents, sickness, retirement, or employment.

A broader definition states that employee benefits include all services outside of cash wages, received by a worker from their employer directly or through outside agencies.

The broadest categorization of benefits, therefore, would resemble the following list:²

- 1.** Legally required governmental programs
 - a. Social Security
 - b. Medicare
 - c. Unemployment compensation
 - d. Workers’ compensation
 - e. Temporary disability insurance
- 2.** Company-sponsored loss-exposure insurance and retirement benefits
 - a. Death
 - b. Disability
 - c. Long-term care protection
 - d. Medical care
 - e. Dental benefits
 - f. Group Legal benefits
 - g. Property and liability insurance
- 3.** Payment for time not worked
 - a. Vacation
 - b. Holidays

¹ Milkovich, George T., Jerry M. Newman, and Barry A. Gerhart. *Compensation, 10th Edition*. New York, NY: McGraw-Hill Irwin, 2011, p. 10.

² Beam, Burton T., Jr., and John J. McFadden. *Employee Benefits, 9th Edition*, Ed. Karen Stefano. Dearborn, A Kaplan Real Estate Education Company, 2012.

- c. Jury duty
 - d. Maternity/paternity leave
 - e. Reserve/National Guard duty
 - f. Military leave
4. Additional cash payments
- a. Educational assistance
 - b. Moving expenses
 - c. Suggestion awards
 - d. Christmas bonuses
5. Additional services
- a. Subsidized cafeterias
 - b. Employee discounts
 - c. Wellness programs
 - d. Employee assistance programs
 - e. Daycare services
 - f. Adoption assistance
 - g. Financial planning assistance
 - h. Retirement counseling
 - i. Free parking

Functional Categories of Employee Benefits

The categorization laid out in the preceding list is too broad and covers many items and services that are not within the purview of this book. However, you can see that employee benefits cover many individual plans, as outlined.

The broader categories of these plans can be grouped as follows:

1. Legally mandated plans such as Social Security and other government programs
2. Private plans sponsored by employers, either exclusively paid for by employers or fully/partially paid by employees
3. Employee services—programs provided to assist with employees' life conveniences (for example, employee cafeterias, purchase discounts, childcare, education assistance, and the like)
4. Payments for time not worked, such as paid rest, sick leave, maternal/paternal leave, and vacation time, among others

This book focuses primarily on the second category of benefits (private plans sponsored by employers) because the bulk of expenses rests in this category. This book covers the accounting, finances, and related subject matter, as delineated in the preface.

The Employee Benefits Environment

Over the past hundred years, significant, pervasive, and comprehensive changes in the field of employee benefits have occurred. Shifts in society, technology, politics, economy, business, and management have all contributed to these changes.

Changes in Society

With the advent of the industrial revolution, while businesses remained primarily self-sufficient and family owned, there was a movement from small, rural, agricultural enterprises to craft-based enterprises. In this environment, workers who were not relatives of the owners were rarely employed.

Further changes occurred with the introduction of manufacturing. Work-seekers moved from rural environments to urban. Gone

were familial protections available in rural settings. Most workers'—and their families'—living needs had to be purchased.

Moreover, the safety nets commonly found in rural settings did not exist in this environment; workers required a voice, and they demanded better working conditions as well as job security benefits. Owners were now dependent on these workers—many of whom were skilled craftsman—whose efforts directly tied to the success of their employers. The voice of employees, with regard to their working conditions, increased alongside their skills and knowledge. In other words, because employers needed these skilled workers, the demands increased.

New employers found that they were required to provide benefits to improve their workers' living conditions; therefore, employee benefits became an official and equal part of employee compensation systems, instead of a fringe that was dependent purely on goodwill and generosity of the employer. In this way, the industrial revolution ushered in an era of improved living conditions, increased life expectancies, and an enhanced quality of life for the workforce.

Along with these changes in the workplace, there was a growing clamor from religious and philanthropic entities, which challenged employers to further improve the lives of the working class. This resulted in demands for healthcare protections and other social insurance schema. Directly alongside this, employers also noticed pressure for similar protections from politicians whose constituents were either older people or the unemployed. As a reaction to these continued pressures, and also to avoid governmental interventions, employers opted to introduce these protection benefits themselves.

Changes in Management

With these significant changes occurring in the social environment, the field of management was also directly affected. Management as a specific science/art evolved, and there was a priority shift

from simple process efficiency to worker effectiveness. Employers' benevolent concerns for their workers increased, irrespective of whether their motives were altruistic or simply an attempt to ward off governmental intervention. What began as a concern over employee welfare evolved into workforce demands. Unions played a large part in this transformation. Some employers began providing pension benefits in an attempt to streamline, or else reduce, their workforces. This also happened as a result of mechanical advances and the ensuing specialization of labor.

Within this environment, companies started to engage welfare workers, who were chartered to examine and monitor the quality of life in the workplace and to make improvements wherever needed. These welfare workers delved into alleviating concerns for worker health and sickness, among others. However, some of these welfare activities were considered intrusions and were, in many cases, inappropriate.

Welfare workers were then transformed into personnel officers, who were given the tasks of testing, hiring, training, and adequately compensating employees. This revamped concern for the human being in the workplace, however, was not enough to satisfy the social movement. Employee benefits as a discipline had yet to appear ubiquitously during this period.

Eventually, the government decided to intervene, and so we saw the introduction of massive social legislation. With these laws, alongside growing demands from unions for medical coverage and pension plans, the landscape of employer-employee relations was changed forever. Within the context of these changes, employee benefits, as a structured offering, came into being.

In the human relations era, the field of human resources management became prominent, further evolving management philosophy. Human resources professionals became advocates for both employer

and employee interests. The “human side of the enterprise”³ was considered a pivotal factor in a business’s success. These advocates recommended newer, more effective benefit programs for workers. They argued that the introduction of such programs would enhance employee job satisfaction, thus increasing productivity.

Changes in the Legal Environment

One major reason why employee benefits have become such a significant part of the compensation structure is the evolution of the legal environment. Political, social, and economic pressures morphed into legal protection through the passage of many landmark laws that dictated the incidence and the terms and conditions of mandated benefits. Business, labor concerns, and technological innovations all added to the impetus to provide job security and protection.

Between 1900 and 1950, most of the major legally imposed workplace employee benefits were enacted. These major legislative efforts culminated into the Social Security Act of 1935. In the realm of wage and hour laws, both the Walsh-Healy Act of 1936 and the Fair Labor Standards Act of 1938 saw the light of day. By 1950, minimum wage laws had been put in place; further, unemployment and workers’ compensation laws were enacted in most states. Social Security benefits were being paid; private pension plans and insurance coverage were also being demanded in union negotiation.

Under the umbrella of religious and philanthropic interests, certain groups sought to influence employers to elevate workers’ living conditions. There was talk of universal healthcare, disability protection, and old-age benefits. The question arose, however: Who should be responsible for providing this protection, the government (state or federal) or the employers? This debate continues to this day.

³ McGregor, Douglass. *The Human Side of the Enterprise*. 25th Anniversary Edition. New York: McGraw-Hill, 2006.,.

Consider, for example, all the debate that accompanied the passage of “Obamacare” and still went on after the law was passed.

These discussions and associated demands introduced the concept of an employer’s social responsibility. Businesses, concerned about rising costs and equally declining profits, opposed these impositions. However, politicians—spurred on by the elderly, the disabled, and the unemployed in their constituency—continued to pressure their legislators. Thus, fearing intervention and mandates, employers were forced into providing these adequate benefits to their employees.

Thanks to these initiatives, a legal frame was constructed for employee benefits, which covered the following:

- **Workers’ compensation:** designed to provide protection in the case of job-related injuries and accidents
- **Social Security:** old-age protection financed jointly by employers and employees, with the government insuring its continuation
- **Unemployment insurance:** maintaining the living standards of the unemployed workforce

Note that these legislations were contentious, and they remain so even in the most recent political environments. Public policy debates on these laws remain as loud as they were when they were first discussed and put into practice. This legislative framework is now directly bumping into escalating costs.

Because of the forces previously described, as well as the fact that the U.S. political consensus differed from Europe, workers’ benefits were financed by a number of sources: both the state and federal governments, private employers, and the individual employee, in what is known as the three-legged stool approach. The U.S. government provides Social Security, Medicare, Medicaid, and unemployment benefits. These first two programs are financed by both the employer and the employee, while private employers provide healthcare, disability, and retirement benefits.

Employers typically finance these programs, or else co-finance them with their employees. Employers also receive tax incentives when certain benefits are offered. Individual employees maintain their own insurance coverage for certain losses, and they pay for these from their own resources.

Tax Legislation

Within a legal context, tax legislation has also played an important role in the increase of employee benefit plans in organizations. This legislation has favored these plans, and has provided some impetus to their development by making the following:

- Company contributions to employee benefit plans deductible
- Contributions made by the employer, on behalf of the employee, nontaxable income for the employee
- Retirement contributions made by the employer, on behalf of the employee, untaxed until the employee receives benefit distributions

These tax-favorable consequences have contributed to the development of employee benefits, inasmuch as the design of these plans attempt to maximize tax advantages.

Recent Changes and Trends

Particular changes in the development of employee benefits have taken place over the past 15 years or so, which have been triggered by the ever-increasing costs of providing said benefits. Along with increasing costs, many additional changes have occurred in the legislative environment in the form of more laws, regulations, accounting rules, and both internal and external control requirements. Furthermore, during this period, Human Resources departments—the ultimate custodians of employee benefit plans—have seen major budget cuts; the theme is “doing more for less.”

Due to these pressures, employers have been required to shift some of their costs to providing competitive benefits to their workers, seeking to make them more informed consumers with regard to these benefits plans. In a sense, this has transferred some of the responsibility of managing benefits to the employees themselves (as discussed later in this chapter).

As such, it can be seen that the administration of employee benefits has grown, and continues to grow, steadily more complex, which has created a growing importance in the need for management focus.

This focus becomes critical when one realizes that effective management of these programs can facilitate cost control and, at the same time, assist with efforts in the areas of improving productivity, the management of risks, and the improvement of employee satisfaction.

Further, this complexity has created the need to bring more skills and talents, from various professional disciplines, to the table, including the following:

- Accountants
- Actuaries
- Attorneys
- Benefits consultants
- Benefits personnel
- Compensation and reward specialists
- Group insurance specialists
- HR specialists
- Insurance agents and regulators
- Investment specialists
- Plan administrators
- Trust officers

The fact that these extremely varied professions bring different perspectives to bear on the subject of employee benefits has led to a

need for a common language for communication, analysis, and synthesis. This common language, and thus a common understanding, can be facilitated only through the languages of business: accounting and finance.

Also relevant are recent changes in the operating environment. First, there has been an increase in the incidence of new benefit options. In the past, a typical program would involve medical benefits, group life insurance, accidental death and dismemberment benefits, retirement benefits (either a defined benefit plan or a defined contribution plan), and various time-off benefits.

We will now explore some recent changes in the working environment that currently have had a major impact on the design of employee benefits programs.

The following is a compilation of these newer benefits being offered by various organizations:

- Healthcare benefits
- Health savings accounts
- Healthcare premium flexible spending accounts
- Health-reimbursement arrangements
- Point-of-service (POS) plans
- Acupressure/acupuncture medical coverage
- Experimental/elective drug coverage
- Gender reassignment surgery coverage

More and more, we find that healthcare benefits are being provided to additional classes of employees, such as the following:

- Same-sex domestic partners
- Opposite-sex domestic partners
- Nondependent children
- Foster children

- Part-time employees
- Dependent grandchildren

Carrying on with our review of the newer forms of employee benefits, we find the following:

- Preventive health and welfare
- Health and lifestyle coaching
- Wellness programs
- 24-hour nurse hotlines
- Smoking cessation programs
- Health fairs
- Fitness center benefits
- On-site fitness centers
- Nutrition counseling
- On-site fitness classes
- On-site medical clinics
- Healthcare premium discounting for annual healthcare risk assessments
- Healthcare premium discounting for avoiding tobacco products
- Rewards or bonuses for completing certain health and wellness programs

This plethora of preventative health and wellness benefits attest to employers taking aggressive, direct, and indirect actions to reverse the tide of escalating costs for providing healthcare benefits. Employers today are searching for more ways to develop and maintain a productive and engaged workforce by providing services that assist their employees in maintaining both their physical and mental health.

Continuing with our review of new benefits, we find the following:

- Leave benefits
 - Paid time-off plans, combining traditional vacation time, sick leave, and personal days into one comprehensive plan
 - Paid personal days
 - Paid family leave
 - Paid time-off for volunteering
 - Paid adoption leave
 - Unpaid sabbatical programs
- Family friendly benefits
 - Adoption assistance
 - Dependent care flexible spending accounts
 - Childcare referral services
 - 529 plans
 - Elder care referral services
- Flexible working benefits
 - Telecommuting
 - Flextime
 - Compressed workweek
 - Job sharing
 - Break arrangements
 - Mealtime flex
 - Shift flexibility
- Retirement benefits
 - Supplemental executive retirement plans
 - Cash balance pension plans
 - Roth 401(k) plans

- Financial benefits
 - Employee referral bonuses
 - Full flexible benefits
 - Credit counseling services
 - Payroll advances
 - Spot bonuses
 - Financial advising services

Note that the environment of employee benefits is constantly in flux. Continuing changes in the business environment can affect the design and planning of benefits. An individual company can control some changes, but not all.

Companies facing financial challenges are often forced to cut employee benefits provisions or ask employees to share in more of the costs of providing these benefits. Legal changes can also affect the composition of these plans. Mergers and acquisitions often dictate changes to benefits plans, as well.

Legal changes are often constant. Recent changes have affected qualified versus nonqualified plan definitions. Further, legal changes can affect the tax provisions that affect benefit plans. They also can affect plan language and disclosure requirements. Above all, there is a great deal of uncertainty as to how the Patient Protection and Affordable Care Act (PPACA) might affect benefits planning going forward from 2014.

A company's financial environment also has a major impact on designing employee benefits. If times are favorable, companies might introduce new, attractive features to their benefits program to attract and retain high-caliber employees; however, if times are unfavorable, benefit provisions are often cut, or employees are asked to bear more of the costs.

In a merger and acquisition situation, a line item-by-line item comparison of is made of each of the benefits programs for the companies involved in the transaction. Based on these findings, the new

company's management will adopt the best of both plans' provisions, or they may decide to come up with new provisions entirely. The key is to decide on provisions that would be welcomed by employees during the often trying times following the merger or the acquisition.

When companies realize that workforce characteristics are undergoing changes due to societal shifts, benefit plan provisions are often changed. The needs of younger employees often differ significantly as compared to the needs of their elders. Lifestyle benefits, in particular, have become a much-discussed topic in recent years.

In addition to monetary compensation and a healthy, positive work environment, employee benefits have become a key component of human capital strategies in most companies. Recent surveys of employee attitudes on a wide range of workplace issues have shown that a significant percentage of employees want better benefits. It is interesting to note that younger employees who are entering, or are already in, the workforce are more focused on this particular issue than their predecessors. Whether this is because fewer companies are offering comprehensive benefits packages or because of higher expectations in the recent generations of employees is unclear; nonetheless, these challenges remain issues of concern for employers going forward.

Employee Benefits under Adverse Economic Conditions

It has been observed that during the recent economic recession, employees valued their benefits more than ever. Behavior shifts and modifies during tough economic times, and as a result, certain decisions are modified. For instance, workers become much more hesitant to leave work for extended periods of time, such as for a vacation or because of illness. If employees do leave, such as for maternity or adoption leave, they will return sooner than expected.

In addition, employees are often more willing to pay more for premiums and accept higher deductibles, in hopes of preserving the most desired of all benefits: medical coverage. It has been found that if this benefit is tinkered with, employee dissatisfaction peaks, to the point where they have gone on record to state that they would seek alternative employment if their medical benefits were curtailed or, worse, eliminated entirely.

Furthermore, in such economic turmoil, employees are more willing to entertain reductions in salary, or even forfeit bonus payments, so as to leave benefits at their current levels. Also, a majority have agreed to forego raises in cash compensation to preserve benefits.

Because of these facts, employers would be wise to keep employee preferences in mind, as well as satisfaction levels, whenever considering any readjustments or, particularly, cuts to their employees' benefit programs during an economic downturn. Employee opinion surveys have consistently indicated that negative action by management, with regard to these programs, in such a climate will also dictate how those same employees feel about their employers once the company's economic situation improves.

Strategic Considerations in Designing Employee Benefit Programs

Specialists engaged in developing and administering employee benefit plans face some strategic design questions at the outset:

- 1.** What is the competitive profile for the right functional benefits to be provided?
- 2.** What specific features should be provided within each provided program?
- 3.** Which class of employee should be covered under each program?

4. The how, why, when, and what involved in financing these programs.
5. What are the tax, accounting, recordkeeping, legal, auditing, risk-mitigation, and actuarial considerations of provided programs?
6. How should the plans be administered?
7. How should the plans be communicated?

Each of these questions is critical, and must be addressed. The purpose of this book is to assist with addressing questions 4, 5, and 6. The need for this strategic approach is accentuated for the following reasons:

- Benefits are a major part of an employee's total compensation package in most organizations; benefits have a distinct advantage in that they can be a tax-effective way of compensating employees.
- Benefits can be a significant cost item for most organizations. In tight economic conditions, it becomes imperative that employee benefit costs are managed and controlled both strategically and effectively.
- Employee benefits are continuously buffeted under changing tax or labor laws, as well as the regulatory climate. Because of this fluidity, it is important to take a strategic, systematic approach to employee benefits planning. A recent example of these phenomena comes to light by uncertainties created by the recently enacted PPACA. This law seems to demand that employers solve societal problems by way of their employee benefit plans.

The Integrated Systems Approach to Employee Benefits Planning

The environment in which employee benefits operate is often erratic. For a number of strategic reasons, it is imperative to use a systematic process when designing, planning, and administering workers' benefits. One useful option is known as the integrated system approach, which has been in use for some time now. It is an organized process of classifying employee life events and extrapolating the employee's needs from that classification. In this system, employees are put into categories of exposure to life event losses and their protection needs.

These needs can be organized into numerous categories, including the following:

- Healthcare (medical, dental, and so on)
- Losses resulting from employees' (and their dependents') deaths due to medical issues or from the risk of accidents
- Losses from disabilities, both short and long term
- Financial security needs from retirement
- Capital accumulation needs, both the short and long term
- Economic security needs from unemployment
- Health and financial protection from workplace injuries and accidents
- Long-term medical care, custodial care, and life care needs
- Dependent care assistance needs
- Plans that meet non-discrimination rules
- Needs for educational assistance for employees and their dependents

The objectives of this approach are the structuring of benefits to ensure that employee needs are met while mitigating loss exposures.

This assists organizations in managing costs and also assists with employee communication.

It has been shown that this process helps to integrate employee benefits into a total compensation strategy, and from there, the integration of the compensation strategy into human resource (or human capital) plans for the organization at large. When designing a total compensation program, an employer will typically seek to integrate the program's various elements—base compensation, incentive or variable compensation, and so on—with equity compensation and the various functional employee benefits into a cohesive strategy.

Some employers choose to set their total compensation and benefits levels equal to the competitive market average. Others set them at varying percentiles above said average. Which benchmark is chosen depends on the organization's general strategy. For example, a company in need of a highly skilled workforce might set its benchmark above average, so as to attract and retain employees with the skills that they require, because they will be taken from a very competitive candidate pool. In contrast, other organizations might choose a position below average for fixed cash compensation and benefit levels, but target incentive compensation payouts above market. This risk-reward strategy would attract an entirely different sort of employee, with differing motivations, compared to the first example. Alternatively, companies may adopt an average or below-average benchmark with the thinking that savings accrued will outweigh the negative results of a higher turnover rates. The type of industry, and the characteristics of the employer, will determine the total compensation structure.

Within a context such as the one outlined here, a large and mature organization may take a more liberal stance on benefit programs and their relatively high fixed costs. However, a growing organization—particularly in the high-tech sector—might focus more on equity compensation and short-term variable pay in order to conserve resources.

Companies that are cyclical in nature may not want to increase their fixed costs with a liberal program, but instead will seek to cut programs and introduce higher levels of cost sharing with their workers. It is a continuous struggle to keep the right balance in allocating resources to meet employee needs on one hand and fiscal realities on the other.

Another approach entirely to benefits planning involves employers' inclinations to reward longer service, rather than focusing on needs. This seniority-based system recognizes employee loyalty and commitment. Alternately, benefit eligibility may be tied to an employee's salary or classification level, which results in a hierarchical system. Both of these differ greatly from the needs-based system, which simply recognizes that all employees (and their dependents) have needs that should be addressed; this is used to derive maximum productivity from the entire workforce.

Most organizations use a combination of these systems, called a dual-objective system. For example, healthcare benefits might be dictated by employee needs, while group life insurance and defined pensions are set based on income.

An example of the steps in the design of an integrated system is as follows:

1. Determine job groups to be covered under the plans:
 - a. Active, full-time employees
 - b. Dependents of active, full-time employees (Note that the legal requirement now, under the Affordable Care Act, has increased the age level of dependents covered by this category to 26.)
 - c. Retirees and their dependents
 - d. Disabled employees and their dependents
 - e. Employees temporarily out of work due to layoffs, leaves of absence, military duty, labor disputes, and so on
 - f. Part-time employees, furloughed employees, and so on

2. Analyze the benefits currently in place. Look at the types of benefits, eligibility requirements and conditions, employee contribution requirements, flexibility provisions, and actual participation rates and experiences.
3. Collect data on coverage that is legally required.
4. Collect data on competitive coverage levels on all functional benefits.
5. Develop the gaps and overlapping elements that exist in the current coverage levels in each category.
6. Prepare an optimum benefits profile, taking into consideration the current gaps and employee needs. Also, in this step, it is important to consider the strategic objectives set for the benefits within the context of the total compensation strategy.
7. Calculate the costs of the program using data sources, benefits consultants, benefits brokers, and insurance company representatives.
8. Develop financing strategies—for example, self-insurance or indemnity plans. Also requiring consideration are cost-saving concepts, ideas, and programs.
9. It is also important to consider the plan's administrative requirements and needs within the context of third-party administrators, administrative services only (ASO) contracts, and the complete outsourcing or the use of internal administrators. A thorough analysis of the feasibility of outsourcing should be considered along with the ensuing cost savings.
10. Develop alternative scenarios for the benefits profile, based on all the data collected in the previous steps. For each, develop relevant cost data. Include cost-savings strategies within each scenario. Consider cost savings and cost containment in each alternative.

11. Present the report to executive management, stating the pros and cons of each chosen alternative. Also present to management the proposed alternative approach and a financing strategy for the recommended alternative.
12. After securing approval from executive management, communicate the plan to employees.
13. Set up open enrollment and implement administrative plans and processes.
14. Set up a closed-loop measurement system with appropriate measurement metrics.

As shown by this example, an integrated systems approach is simply a method of analyzing each component of an employer's total offering of employee benefits. This system analyzes the programs as a whole, in terms of its ability to meet workers' needs, while managing associated risks and loss exposures within the organization's overall goals.

This can prove very useful in overall benefit plan design, in evaluating cost-saving proposals, and in effectively communicating the employer's program to employees. Thus, the integrated systems approach (essentially a planning approach) fits logically into a total compensation philosophy and avoids reactions to current fads, outside pressures, insurance, and sales pitches.

The Cost Dimension

The costs of providing an appropriate employee benefit program is of paramount concern. Benefit costs are on the rise. In a study conducted in 2012 by the Society of Human Resource Management (SHRM),⁴ it was stated:

⁴ Society of Human Resource Management (SHRM). *2012 Employee Benefits: The Employee Benefits Landscape in a Recovering Economy*, 2013. The insurance company Colonial Life sponsored the research and publication of this report.

Organizations spent an average of 19% of an employee's salary on voluntary benefits (such as medical plans, dental plans, prescription coverage, flexible spending accounts, vision plans, survivor benefits), 18% on mandatory benefits (such as unemployment, worker's compensation, Social Security), and 10% on pay-for-time-not-worked benefits (regular rate of pay for a non-working period of time, such as vacations, holidays, personal bereavement and sick leave).⁵

This makes up a total of 47% of a given employee's cash compensation. This is a significant number requiring careful analysis, planning, and control (in essence, the functional approach outlined previously). It further requires the necessary accounting and financial analytical skills. All stakeholders, using the language of business, should undertake conversations on this subject.

The SHRM study also stated, "More organizations indicated that the percentage of payroll reflecting the cost of voluntary benefits (20%) and mandatory benefits (15%) had increased."⁶ The study further provided evidence that the slow pace of current economic recovery has negatively affected employee benefits planning in their organizations. This makes the case that the main custodians of employee benefit plans—the HR function—must approach this key area of business success with financial and analytical rigor.

Now, let us look at data from the Bureau of Labor's statistics shown in Table 1.1.

⁵ Ibid, p. 63.

⁶ Ibid, p. 63.

Table 1.1 Relative Importance (%) of Employer Costs for Employee Compensation, December 2010 and 2012

Compensation Component	Civilian Workers		Private Industry		Government	
	2010	2012	2010	2012	2010	2012
Wages and Salaries	69.7	69.2	70.8	70.3	65.6	65.0
Benefits	30.3	30.8	29.2	29.7	34.4	35.0
Paid Leave	7.0	7.0	6.8	6.9	7.5	7.4
Supplemental Pay	2.3	2.4	2.7	2.8	0.8	0.8
Insurance	8.8	8.9	8.0	8.2	11.9	12.0
Health Benefits	8.4	8.5	7.5	7.7	11.6	11.6
Retirement and Savings	4.5	4.7	3.5	3.6	8.1	8.8
Defined Benefit	2.7	2.9	1.5	1.5	7.3	8.0
Defined Contribution	1.8	1.8	2.0	2.1	0.8	0.8
Legally Required	7.8	7.8	8.2	8.2	6.0	6.1

Source: Bureau of Labor Statistics, "Employer Costs for Employee Compensation—December 2010 and 2012," p. 3.

This table indicates the following:

- Employee benefit costs average around 30% of total costs. In other words, for every dollar spent compensating workers, 30 cents goes toward benefits. For medium to large companies, the absolute dollar amount can be substantial, requiring all accounting and financial disciplines to be brought to bear in order to manage them.
- Public-sector percentages are higher than those in the private sector. A case can be made that public sector expenses for employee benefits should be brought in line with those in the private.

- Defined contribution plan percentages for the public sector are almost a full percentage point higher than those in the private. As discussed later in this book, defined benefit retirement plans can be quite onerous from a financial perspective. These are commitments of funds (or liabilities) that must be paid out in future time periods. It has been proven difficult to set aside enough funds to pay obligations at future dates.

As you learned in this chapter, it has become imperative that financial and accounting rigor be brought into the management of employee benefit plans. When one adds the complex landscape of corporate scandals, major bankruptcies, and a volatile stock market, all resulting in billions of dollars in retirement plan losses, one can easily recognize that the employee benefits environment is more complex than ever, requiring more diligence in the management of these programs. It has never been more important for in-house benefits professionals and outside counsel, plan fiduciaries, sponsors, administrators, advisors, and insurers to avoid poor or inconsistent drafting, design, implementation, and administration of benefit plans.

Key Concepts in This Chapter

- Fringe benefits
- Categorization of employee benefits
- Social Security Act of 1935
- Walsh-Healy Act of 1936
- Fair Labor Standards Act of 1938
- Tax legislation
- Healthcare benefits
- Preventive health and welfare
- Leave benefits

- Family friendly benefits
- Flexible working benefits
- Retirement benefits
- Financial benefits
- Patient Protection and Affordable Care Act (PPACA)
- Cost dimension
- Strategic design of employee benefits

This page intentionally left blank

Index

Numbers

401(k) plans

- accounting for, 165-174
- comparison with defined benefit and cash balance plans, 213-214
- contribution limits, 166
- distribution rules, 166-173
- equity in, 273-275
- loans from, 173-174
- types of, 156

403(b) plans, 221-224

409A plans, 224-228, 313-317

457 plans, 228-233

457(b) plans, 231-233

457(f) plans, 230-231

A

ABO (accumulated benefit obligation), 183

ACA (Affordable Care Act). *See* Patient Care and Affordable Care Act of 2010

accelerated benefits (group term life insurance), 117

accidental death and

dismemberment plans (AD&D), 119-122

in business travel accident

(BTA) insurance, 133-136

multinational pooling, 280-285

tax implications, 142

accidental total disability (BTA insurance), 135

accounting recordkeeping for pension plans, 201-203

accounting standards

defined benefit plans, 174-189

aggregate calculation,
188-189

income-replacement ratio,
176-183

pension benefit obligations,
183-188

pension expense, 192-201

pension plan assets,
189-192

present value of accumulated benefits (PVAB), 203-204

SFAS 158 explained,
205-206

- defined contribution plans, 165-174
- employee stock ownership plans (ESOPs), 244-247, 254
- employee stock purchase plans (ESPPs), 270
- for healthcare benefits
 - benefit obligations*, 45
 - claims incurred but not reported (IBNR)*, 43-44
 - defined contribution versus defined benefit plans*, 39-40
 - fair value measurement*, 47-48
 - FASB Section 965 explained*, 40-43
 - financial statements for defined benefit/contribution plans*, 48-50
 - framework for*, 38-39
 - International Financial Reporting Standards (IFRS)*, 58-59
 - postretirement benefit obligations*, 46-47
- international employee benefits, 293-301
 - post-employment benefits*, 296-301
 - short-term employee benefits*, 295-296
- accumulated benefit obligation (ABO), 183
- activities of daily living (ADLs), 130
- AD&D (accidental death and dismemberment plans), 119-122
 - in business travel accident (BTA) insurance, 133-136
 - multinational pooling, 280-285
 - tax implications, 142
- ADLs (activities of daily living), 130
- adverse economic conditions, effect on employee benefits, 15-16
- adverse selection, 76
- Affordable Care Act (ACA). *See* Patient Care and Affordable Care Act of 2010
- after-tax contributions (403(b) plans), 223
- aggregate group reviews, 88
- Alzheimer's facilities, 132
- amortization charges, 191
- amortization of net loss/gain in pension expense, 197-198
- amortization of prior service cost in pension expense, 196-197
- ancillary benefits, 309-310
 - cafeteria plans, 330-335
 - severance pay, 310-317
 - 409A plans*, 313-317
 - Employee Retirement Security Act (ERISA)*, 310-313
 - unemployment benefits, 326-329
 - voluntary benefits, 317-320
 - workers' compensation, 320-326

assignment (group term life insurance), 116
 assisted living care, 131

B

benchmarking cost containment, 341-343
 beneficiaries (group term life insurance), 115
 benefit limitations, 340
 benefit obligations. *See* obligations
 benefits. *See* employee benefits
 benefits communication/
 education, 339
 Blue Cross (history of healthcare benefits), 28
 Blue Shield (history of healthcare benefits), 28
 business travel accident (BTA) insurance, 133-136

C

cafeteria plans, 330-335
 capitation, 35
 carve-out plans, 120
 cash balance pension plans, 210-216
 characteristics of, 212-214
 comparison with 401(k) and defined benefit plans, 213-214
 converting to, 214-216
 categories of employee benefits, 3-4
 CDHPs (consumer-driven health plans), 35-37, 91-94

changes in employee benefits, 4-15
 legal changes, 7-9
 management changes, 5-7
 recent trends, 9-15
 societal changes, 4-5
 tax legislation, 9
 charge-based payment method, 35
 child coverage (BTA insurance), 135
 child education benefit (BTA insurance), 136
 claims incurred but not reported (IBNR), 43-44
 coma benefit (BTA insurance), 136
 company stock. *See* equity-based employee benefit plans
Compensation (Milkovich, Newman, Gerhart), 2
 competition among healthcare providers and insurers, 99-100
 concurrent reviews, 87-88
 consumer-driven health plans (CDHPs), 35-37, 91-94
 continuation of insurance (group term life insurance), 116
 contribution limits (401(k) plans), 166
 contribution types (403(b) plans), 223
 conversion provisions (group term life insurance), 116
 converting to cash balance pension plans, 214-216

coordination of benefits
(disability programs), 122-123,
127

cost comparison

of employee benefits, 22-25
healthcare benefit cost
escalation, 84-85
healthcare spending statistics,
74-75

cost containment, 337-340

benchmarking, 341-343
human resources (HR)
department role, 343-346
sample benefits objective, 346
strategies for, 338-340

cost-based payment method, 34

credited service in retirement

benefits plans, 160-161

criminal acts coverage (BTA
insurance), 135

custodial care (nursing homes),
131

D

daycare benefit (BTA
insurance), 136

debt and interest reporting
(ESOPs), 253

deductible limits (long-term care
benefits), 146

deferred compensation (409A)
plans, 224-228, 313-317

deficits, obligations for, 41

defined benefit plans

accounting for, 174-189
aggregate calculation,
188-189

income-replacement ratio,
176-183

pension benefit obligations,
183-188

cash balance pension plans,
210-216

characteristics of, 212-214
converting to, 214-216

comparison with 401(k) and
cash balance plans, 213-214

defined contribution plans
versus, 39-40

definition of, 157

equity in, 270-275

financial statements for, 48-50,
200-201

IAS 19 explained, 298-300

Pension Benefit Guaranty
Corporation (PBGC),
162-164

pension plan assets, 189-192

phasing out, 157-158

present value of accumulated
benefits (PVAB), 203-204

prevalence of, 154-155

SFAS 158 accounting standard,
205-206

defined contribution plans, 36

accounting for, 165-174

defined benefit plans versus,
39-40

definition of, 156

distribution rules, 166-173

equity in, 273-275

financial statements for, 48-50,
200-201

IAS 19 explained, 297

- loans from, 173-174
- money purchase pension plans, 216-218
- for multinational pensions, 290
- prevalence of, 154-155
- reporting requirements, 204-205
- denial of claims, 99
- dependent care FSAs (flexible spending accounts), 57-58
- dependent life insurance, 118
- dependent verification, 339
- direct compensation, employee stock ownership plans (ESOPs) as, 249-250
- direct loans, 253
- disability benefits
 - group disability benefits, 122-123, 142-145
 - insured disability programs, 123-128
 - multinational pooling, 280-285
- disclosures (ESOPs), 255-256
- distribution rules (defined contribution plans), 166-173
- dividends
 - multinational dividends, 283-285
 - replacement on allocated shares (ESOPs), 250
 - reporting on shares (ESOPs), 252
 - workers' compensation financing, 326
- domestic relations orders, definition of, 161

E

- early 401(k) plan distributions, tax implications, 172-173
- economic conditions, effect on employee benefits, 15-16
- Economic Growth and Tax Relief Reconciliation Act of 2001 (EGTRRA), 229
- education benefits (BTA insurance), 136
- elective deferrals (403(b) plans), 223
- eligibility for group term life insurance, 115
- employee benefits
 - accidental death and dismemberment plans (AD&D), 119-122, 142
 - in adverse economic conditions, 15-16
 - ancillary benefits, 309-310
 - cafeteria plans*, 330-335
 - severance pay*, 310-317
 - unemployment benefits*, 326-329
 - voluntary benefits*, 317-320
 - workers' compensation*, 320-326
- business travel accident (BTA) insurance, 133-136
- changes in, 4-15
 - legal changes*, 7-9
 - management changes*, 5-7
 - recent trends*, 9-15
 - societal changes*, 4-5
 - tax legislation*, 9

- cost comparison, 22-25
- cost containment, 337-340
 - benchmarking*, 341-343
 - human resources (HR)*
 - department role*, 343-346
 - sample benefits objective*, 346
 - strategies for*, 338-340
- definition of, 1-3
- equity-based plans, 235-236
 - employee stock ownership plans (ESOPs)*, 236-256
 - employee stock purchase plans (ESPPs)*, 256-270
 - equity in 401(k) plans*, 273-275
 - equity in pension plans*, 270-275
- functional categories of, 3-4
- group dependent life insurance, 118
- group disability benefits, 122-123, 142-145
- group term life insurance, 110-117
 - features of*, 111-114
 - financing*, 114-115
 - nondiscrimination rules*, 140-142
 - participation rate statistics*, 112-111
 - provisions*, 115-117
 - tax implications*, 137-142
- healthcare benefits. *See* healthcare benefits
- insured disability programs, 123-128
- integrated systems approach to, 18-22
- international employee benefits, 277-280
 - IAS 19 implications*, 293-301
 - multinational pension plans*, 285-292
 - multinational pooling*, 280-285
 - tax implications*, 292-293
- long-term care benefits, 128-133, 145-148
- retirement benefits
 - 403(b) plans*, 221-224
 - 409A plans*, 224-228
 - 457 plans*, 228-233
 - accounting recordkeeping*, 201-203
 - cash balance pension plans*, 210-216
 - defined benefits plans*,
 - accounting for*, 174-189
 - defined contribution plan reporting requirements*, 204-205
 - defined contribution plans*,
 - accounting for*, 165-174
 - Employee Retirement Security Act (ERISA)*, 158-159
 - money purchase pension plans*, 216-218
 - Pension Benefit Guaranty Corporation (PBGC)*, 162-164
 - pension expense*,
 - accounting for*, 192-201

- pension plan assets,*
 - accounting for, 189-192*
- present value of*
 - accumulated benefits (PVAB), 203-204*
 - qualified plans, 164-165*
- Retirement Equity Act of 1984 (REA), 159-162*
- SFAS 158 accounting standard, 205-206*
- simplified employee pension plans (SEPs), 219-221*
- statistics, 151-155*
- types of pension plans, 156-158*
- sick-leave plans, 123
- strategic considerations in, 16-17
- supplemental life insurance, 118-119, 142
- Employee Retirement Security Act (ERISA), 38, 158-159**
 - defined benefit plan reporting requirements, 203-204
 - defined contribution plan reporting requirements, 204-205
 - self-funding plans and, 79
 - severance pay, 310-313
- employee stock ownership plans (ESOPs), 236-256**
 - accounting for released shares, 251
 - accounting standards, 244-247
 - benefits of, 238-239
 - debt and interest reporting, 253
 - as direct compensation, 249-250
 - disclosures, 255-256
 - dividend replacement on allocated shares, 250
 - dividends reporting, 252
 - fair value measurement, 251-252
 - FIN 46-R accounting standard, 254
 - as liability for other benefits, 250
 - purchase of shares, 247
 - release of shares, 248-249
 - tax benefits, 243-244
 - usage scenarios, 241-243
 - valuation, 240-241
- employee stock purchase plans (ESPPs), 256-270**
 - accounting standards, 270
 - federal income tax implications, 265-269
 - IRS Section 423 requirements, 259-265
- employer contributions,**
 - documentation of, 41-42**
- employer loans, 253**
- equity-based employee benefit plans, 235-236**
 - 409A plans, 228
 - employee stock ownership plans (ESOPs), 236-256
 - accounting for released shares, 251*
 - accounting standards, 244-247*
 - benefits of, 238-239*

- debt and interest reporting*, 253
- as direct compensation*, 249-250
- disclosures*, 255-256
- dividend replacement on allocated shares*, 250
- dividends reporting*, 252
- fair value measurement*, 251-252
- FIN 46-R accounting standard*, 254
- as liability for other benefits*, 250
- purchase of shares*, 247
- release of shares*, 248-249
- tax benefits*, 243-244
- usage scenarios*, 241-243
- valuation*, 240-241
- employee stock purchase plans (ESPPs), 256-270
 - accounting standards*, 270
 - federal income tax implications*, 265-269
 - IRS Section 423 requirements*, 259-265
- equity in 401(k) plans, 273-275
- equity in pension plans, 270-275
- ERISA (Employee Retirement Security Act)**, 38, 158-159
 - defined benefit plan reporting requirements, 203-204
 - defined contribution plan reporting requirements, 204-205
 - self-funding plans and, 79
 - severance pay, 310-313
- ESOPs (employee stock ownership plans)**, 236-256
 - accounting for released shares, 251
 - accounting standards, 244-247
 - benefits of, 238-239
 - debt and interest reporting, 253
 - as direct compensation, 249-250
 - disclosures, 255-256
 - dividend replacement on allocated shares, 250
 - dividends reporting, 252
 - fair value measurement, 251-252
 - FIN 46-R accounting standard, 254
 - as liability for other benefits, 250
 - purchase of shares, 247
 - release of shares, 248-249
 - tax benefits, 243-244
 - usage scenarios, 241-243
 - valuation, 240-241
- ESPPs (employee stock purchase plans)**, 256-270
 - accounting standards, 270
 - federal income tax implications, 265-269
 - IRS Section 423 requirements, 259-265
- exceptions to 409A regulations, 227-228
- exclusions in disability programs, 125-126
- extraordinary commutation (BTA insurance), 135

F

Fair Labor Standards Act of 1938, 7

fair value measurement

in healthcare benefits, 47-48
shares (ESOPs), 251-252

Family and Medical Leave Act (FMLA), 123

family-friendly benefits, recent trends in, 13

FASB (Financial Accounting Standards Board), 38-39

ASC 820 (fair value measurement), 47-48
benefit obligations, 45
claims incurred but not reported (IBNR), 40-43
postretirement healthcare benefit obligations, 46-47
Section 965 explained, 40-43

Federal Health Maintenance Act of 1973, 33

Federal Insurance Contributions Act (FICA), withholding rules, 144-145

Federal Unemployment Tax Act (FUTA), withholding rules, 144-145

fee-for-service plans, 33-35, 77

fiduciaries, definition of, 159

FIN 46-R accounting standard, 254

Financial Accounting Standards Board (FASB), 38-39

ASC 820 (fair value measurement), 47-48
benefit obligations, 45

claims incurred but not reported (IBNR), 40-43
loans from 401(k) plans, 173-174

postretirement healthcare benefit obligations, 46-47
Section 965 explained, 40-43

financial benefits, recent trends in, 14

financial statements for defined benefit/contribution plans, 48-50, 200-201

financing

group term life insurance, 114-115

healthcare benefits

factors in cost escalation, 84-85

healthcare service usage, decreasing, 96-98

insurance-based financing, 76-78

overhead expenses, decreasing, 100-102

reimbursement, decreasing, 98-100

self-funding plans, 78-84

spending statistics, 74-75

utilization reviews, 86-89

value-based benefits design (VBBD), 89-94

long-term care benefits, 133

workers' compensation, 323-326

flexible benefit plans, 330-335

flexible spending accounts (FSAs), 56-58, 332

flexible-working benefits, recent trends in, 13

FMLA (Family and Medical Leave Act), 123

foreign-born locals, 279

FSAs (flexible spending accounts), 56-58, 332

full-flex plans, 332

functional categories of employee benefits, 3-4

funding targets, 191

FUTA (Federal Unemployment Tax Act), withholding rules, 144-145

G

generally accepted accounting principles (GAAP), 38-39

good reason termination, 315-316

group business travel insurance benefits, 133-136

group dependent life insurance, 118

group disability benefits, 122-123, 142-145

group term life insurance, 110-117

features of, 111-114

financing, 114-115

nondiscrimination rules, 140-142

participation rate statistics, 112-111

provisions, 115-117

tax implications, 137-142

H

hardship distributions, from 401(k) plans, 168

HDHPs (high-deductible healthcare plans), 36

health maintenance

organizations (HMOs)

described, 33-34

history of healthcare benefits, 28

health reimbursement accounts (HRAs), tax implications, 54-56

health savings accounts (HSAs), tax implications, 50-54

healthcare benefits

accounting standards

benefit obligations, 45

claims incurred but not reported (IBNR), 43-44

defined contribution versus defined benefit plans,

39-40

fair value measurement, 47-48

FASB Section 965

explained, 40-43

financial statements for defined benefit/

contribution plans, 48-50

framework for, 38-39

International Financial Reporting Standards (IFRS), 58-59

postretirement benefit obligations, 46-47

consumer-driven health plans (CDHPs), 35-37
 definition of, 27-28
 design considerations, 32-35
 financing
 factors in cost escalation, 84-85
 healthcare service usage, decreasing, 96-98
 insurance-based financing, 76-78
 overhead expenses, decreasing, 100-102
 reimbursement, decreasing, 98-100
 self-funding plans, 78-84
 spending statistics, 74-75
 utilization reviews, 86-89
 value-based benefits design (VBBD), 89-94
 group coverage via insurance companies, 33
 history of, 28-29
 long-term care benefits, 128-133, 145-148
 multinational pooling, 280-285
 payment methods, 34-35, 40
 percentage of population covered, 29-30
 recent trends in, 11-12
 self-funding plans, 50
 structure of, 31-32
 tax implications
 flexible spending accounts (FSAs), 56-58
 health reimbursement accounts (HRAs), 54-56
 health savings accounts (HSAs), 50-54

hemiplegia, definition of, 120
 high-deductible healthcare plans (HDHPs), 36
 history of healthcare benefits, 28-29
 HMOs (health maintenance organizations)
 described, 33-34
 history of healthcare benefits, 28
 home healthcare services, 132
 home-country expatriates, 279
 hospice care, 131
 HRAs (health reimbursement accounts), tax implications, 54-56
 HSAs (health savings accounts), tax implications, 50-54
 human resources (HR)
 department, cost containment, 343-346
 hybrid pension plans, 210-216

I

IAS 19 accounting standard
 explained, 58-59
 international employee benefits, 293-301
 post-employment benefits, 296-301
 short-term employee benefits, 295-296
 IBNR (claims incurred but not reported), 43-44
 IFRS (International Financial Reporting Standards), 38-39, 58-59

- immediate and heavy financial need distributions from 401(k) plans, 169-171
 - income-replacement ratio, 176-183
 - indemnification, 76
 - indemnity plans, 33, 77
 - indirect loans, 253
 - Individual Retirement Accounts (IRAs), rollover into health savings accounts (HSAs), 52
 - individual retrospective reviews, 88
 - insurance companies
 - competition among, 99-100
 - documentation of premiums, 42
 - for healthcare benefits
 - coverage, 33
 - history of healthcare benefits, 28
 - multinational pooling, 280-285
 - insurance-based financing, for healthcare benefits, 76-78
 - insured disability programs, 123-128
 - integrated systems approach to employee benefits design, 18-22
 - interest cost in pension expense, 195
 - interest reporting (ESOPs), 253
 - intermediate care (nursing homes), 131
 - Internal Revenue Service (IRS). *See* tax legislation
 - international employee benefits, 277-280
 - IAS 19 implications, 293-301
 - post-employment benefits*, 296-301
 - short-term employee benefits*, 295-296
 - multinational pension plans, 285-292
 - benefit calculations*, 291-292
 - inequities in*, 285-288
 - plan design*, 288-291
 - multinational pooling, 280-285
 - tax implications, 292-293
 - International Financial Reporting Standards (IFRS), 38-39, 58-59
 - investment returns, workers' compensation financing, 326
 - IRAs (Individual Retirement Accounts), rollover into health savings accounts (HSAs), 52
 - IRS (Internal Revenue Service). *See* tax legislation
 - IRS Section 423 requirements (ESPPs), 259-265
- L**
- leave benefits, recent trends in, 13
 - legal changes in employee benefits, 7-9
 - legal compliance in value-based benefits design (VBBD), 94

legal considerations
 cafeteria plans, 334-335
 equity in pension plans,
 272-273

leveraged ESOPs, 247

life insurance
 accidental death and
 dismemberment plans
 (AD&D), 119-122
*in business travel accident
 (BTA) insurance, 133-136*
tax implications, 142
 dependent life insurance, 118
 multinational pooling, 280-285
 supplemental life insurance,
 118-119, 142
 term life insurance, 110-117
features of, 111-114
financing, 114-115
*nondiscrimination rules,
 140-142*
*participation rate statistics,
 112-111*
provisions, 115-117
tax implications, 137-142

limitations on benefits, 340

loans from 401(k) plans, 173-174

local nationals, 279

long-term care benefits,
 128-133, 145-148

long-term disability benefits,
 122-128, 142-145

long-term employee benefits,
 IAS 19 explained, 301

look-back feature (ESPPs), 257

losses, workers' compensation
 financing, 325

M

managed-care organizations,
 described, 33-34

management changes in
 employee benefits, 5-7

Medicaid in history of healthcare
 benefits, 28

medical benefits. *See* healthcare
 benefits

medical expense FSAs (flexible
 spending accounts), 56-57

medical research, 100

Medicare in history of
 healthcare benefits, 28

Medicare Prescription
 Drug Improvement and
 Modernization Act of 2003, 51

minimum distributions from
 401(k) plans, 168

money purchase pension plans,
 216-218

moral hazard, 77

multinational pension plans,
 285-292
 benefit calculations, 291-292
 inequities in, 285-288
 plan design, 288-291

multinational pooling, 280-285

N

net loss/gain - AOCI in pension
 expense, 198-200

nondiscrimination rules (group
 term life insurance), 140-142

nonelective contributions
 (403(b) plans), 223

nonleveraged ESOPs, 245-246

nonqualified deferred
 compensation (NQDC) plans,
 224-228
 nursing home care, 131

O

Obamacare. *See* Patient Care
 and Affordable Care Act of
 2010

obligations

for healthcare benefits
calculating, 42-43
*miscellaneous benefit
 obligations*, 45
*postretirement benefit
 obligations*, 46-47
 multinational pension plans,
 291-292
 pension benefit obligations,
 183-188
 for premium deficits, 41

operating expenses

decreasing, 100-102
 workers' compensation
 financing, 326

P

paid time off (PTO), 123
 paralysis benefit (BTA
 insurance), 135
 paraplegia, definition of, 120
 Patient Care and Affordable
 Care Act of 2010
 effect on structure of
 healthcare benefits, 32

flexible spending accounts
 (FSAs) and, 56-57
 health savings accounts (HSAs)
 and, 53-54

payment methods for healthcare
 benefits, 34-35, 40

PBGC (Pension Benefit
 Guaranty Corporation),
 162-164

PBO (projected benefit
 obligation), 184

Pension Benefit Guaranty
 Corporation (PBGC), 162-164

pension benefit obligations,
 183-188

pension expense, accounting for,
 192-201

pension plan assets, accounting
 for, 189-192

pension plans. *See* retirement
 benefits

Pension Protection Act of 2006
 (PPA), 270-272

per-diem basis (long-term care
 benefits), 133

permanent disability
 BTA insurance, 135
 definition of, 143

personal deviation (BTA
 insurance), 135

post-employment benefits
 FASB Section 965 explained,
 40-41

IAS 19 explained, 58, 296-301

postretirement healthcare
 benefit obligations, 46-47

PPA (Pension Protection Act of
 2006), 270-272

PPOs (preferred provider organizations), described, 34
 precertification reviews, 86-87
 preferred provider organizations (PPOs), described, 34
 Pregnancy Discrimination Act, 126
 premium conversion plans, 332
 premium deficits, obligations for, 41
 premiums paid
 to insurance companies, documentation of, 42
 to Pension Benefit Guaranty Corporation (PBGC), 163
 workers' compensation financing, 325
 prescription drugs, decreasing cost of, 100
 present value of accumulated benefits (PVAB) for defined benefit plans, 203-204
 pretax benefits, 339
 primary care, increasing use of, 98
 profit-sharing plans, comparison with money purchase plans, 217
 projected benefit obligation (PBO), 184
 prospective payments method, 35, 98-99
 PTO (paid time off), 123
 PVAB (present value of accumulated benefits) for defined benefit plans, 203-204

Q

quadriplegia, definition of, 120
 qualified pension plans, 164-165
 qualified plans, 236

R

ratios in cost containment, 344-346
 REA (Retirement Equity Act of 1984), 159-162
 reattachment of hand/foot, definition of, 120
 recent trends in employee benefits, 9-15
 rehabilitation provisions
 BTA insurance, 136
 in disability programs, 128
 reimbursement
 decreasing, 98-100
 for long-term care, 133
 relocation of spouse/child (BTA insurance), 136
 restricted stock (409A plans), 227
 retirement benefits
 403(b) plans, 221-224
 409A plans, 224-228
 457 plans, 228-233
 accounting recordkeeping, 201-203
 cash balance pension plans, 210-216
 characteristics of, 212-214
 converting to, 214-216
 defined benefit plans
 accounting for, 174-189
 equity in, 270-275

- IAS 19 explained, 298-300
- present value of
 - accumulated benefits (PVAB), 203-204
- SFAS 158 accounting standard, 205-206
- defined contribution plans
 - accounting for, 165-174
 - distribution rules, 166-173
 - equity in, 273-275
 - IAS 19 explained, 297
 - loans from, 173-174
 - reporting requirements, 204-205
- Employee Retirement Security Act (ERISA), 158-159
- employee stock ownership plans (ESOPs), 236-256
 - accounting for released shares, 251
 - accounting standards, 244-247
 - benefits of, 238-239
 - debt and interest reporting, 253
 - as direct compensation, 249-250
 - disclosures, 255-256
 - dividend replacement on allocated shares, 250
 - dividends reporting, 252
 - fair value measurement, 251-252
 - FIN 46-R accounting standard, 254
 - as liability for other benefits, 250
 - purchase of shares, 247
 - release of shares, 248-249
 - tax benefits, 243-244
 - usage scenarios, 241-243
 - valuation, 240-241
- money purchase pension plans, 216-218
- multinational pension plans, 285-292
 - benefit calculations, 291-292
 - inequities in, 285-288
 - plan design, 288-291
- Pension Benefit Guaranty Corporation (PBGC), 162-164
- pension expense, accounting for, 192-201
- pension plan assets, accounting for, 189-192
- qualified plans, 164-165
- recent trends in, 13
- Retirement Equity Act of 1984 (REA), 159-162
- simplified employee pension plans (SEPs), 219-221
- statistics, 151-155
- types of pension plans, 156-158
- Retirement Equity Act of 1984 (REA), 159-162
- retrospective reviews, 88
- return on plan assets in pension expense, 195
- risk benefit plans
 - accidental death and dismemberment plans (AD&D), 119-122, 142
 - business travel accident (BTA) insurance, 133-136

- group dependent life insurance, 118
 - group disability benefits, 122-123, 142-145
 - group term life insurance, 110-117
 - features of*, 111-114
 - financing*, 114-115
 - nondiscrimination rules*, 140-142
 - participation rate statistics*, 112-111
 - provisions*, 115-117
 - tax implications*, 137-142
 - healthcare benefits. *See* healthcare benefits
 - insured disability programs, 123-128
 - long-term care benefits, 128-133, 145-148
 - sick-leave plans, 123
 - supplemental life insurance, 118-119, 142
 - risk grouping, 342
 - rollovers from 401(k) plans, 171-172
- S**
- sample benefits objective, 346
 - seatbelt benefit (BTA insurance), 136
 - Section 457 plans, 228-233
 - self-funding plans, 50, 78-84
 - Employee Retirement Security Act (ERISA) and, 79
 - example of, 82-84
 - prevalence of, 80-81
 - workers' compensation, 323
 - SEPs (simplified employee pension plans), 219-221
 - service cost in pension expense, 194
 - settlement options (group term life insurance), 115
 - severance pay, 310-317
 - 409A plans, 227, 313-317
 - Employee Retirement Security Act (ERISA), 310-313
 - SFAS 158 accounting standard for pension plans, 205-206
 - shares (ESOPs)
 - accounting for released shares, 251
 - dividend replacement on allocated shares, 250
 - dividends reporting, 252
 - fair value measurement, 251-252
 - purchase of, 247
 - release of, 248-249
 - short-term benefits, IAS 19 explained, 58, 295-296
 - short-term deferral exception (409A plans), 227
 - short-term disability benefits, 122-128, 142-145
 - SHRM (Society of Human Resource Management) cost comparison survey, 22
 - sick-leave plans, 123
 - simplified employee pension plans (SEPs), 219-221
 - skilled care (nursing homes), 131
 - Social Security Act of 1935, 7
 - societal changes in employee benefits, 4-5

Society of Human Resource Management (SHRM) cost comparison survey, 22

SOP-76-3 accounting standard, 244-245

SOP-93-6 accounting standard, 245-247

specified aircraft (BTA insurance), 135

spouse coverage (BTA insurance), 135

spouse education benefit (BTA insurance), 136

starting year, distributions after, 168

statistics

- employee benefits, cost comparison, 23-24
- group term life insurance participation rate, 112-111
- health savings accounts (HSAs), 51
- healthcare benefits, percentage of population covered, 29-30
- healthcare spending, 74-75
- prevalence of self-funding plans, 80-81
- retirement benefits, 151-155

stock options. *See* equity-based employee benefit plans

stop-loss coverage, 80

strategic considerations in employee benefits design, 16-17

supplemental life insurance, 118-119, 142

supplemental long-term disability programs, 128

T

tax implications

- accidental death and dismemberment plans (AD&D), 142
- cafeteria plans, 331-333
- early 401(k) plan distributions, 172-173
- employee stock ownership plans (ESOPs), 243-244
- employee stock purchase plans (ESPPs), 265-269
- group disability benefits, 142-145
- group term life insurance, 137-142
- international employee benefits, 292-293
- long-term care benefits, 145-148
- qualified pension plans, 164-165
- supplemental life insurance, 142

tax legislation

- in employee benefits, 9
 - flexible spending accounts (FSAs)*, 56-58
 - health reimbursement accounts (HRAs)*, 54-56
 - health savings accounts (HSAs)*, 50-54
- IRS Section 423 requirements (ESPPs), 259-265

Tax Relief and Health Care Act of 2006, 52

tax-sheltered annuity (TSA),
221-224

TCNs (third-country nationals),
280

term life insurance, 110-117
features of, 111-114
financing, 114-115
nondiscrimination rules,
140-142
participation rate statistics,
112-111
provisions, 115-117
tax implications, 137-142

termination, IAS 19 explained,
59, 301

therapeutic counseling benefit
(BTA insurance), 136

third-country nationals (TCNs),
280

“three-legged stool” approach to
retirement savings, 153

trends in employee benefits,
9-15

TSA (tax-sheltered annuity),
221-224

U

umbrella plans for multinational
pensions, 290

underwriting provision, 76

unemployment benefits, 326-329

utilization reviews, 86-89

V

valuation
of company stock, 271-272
of employee stock ownership
plans (ESOPs), 240-241

value-based benefits design
(VBBD), 89-94
consumer-driven health plans
(CDHPs) versus, 91-94
legal compliance, 94

vested benefit obligation (VBO),
183

vesting in retirement benefits
plans, 160-161

voluntary benefits, 317-320, 339

W

waiting periods in disability
programs, 127

waiver of premium (group term
life insurance), 117

Walsh-Healy Act of 1936, 7

wellness initiatives, 338

workers' compensation, 124,
320-326