

An Introduction to Employee Benefits

Employee benefits play an important role in the lives of employees and their families and have a significant financial and administrative impact on a business organization. Most companies operate in an environment in which an educated work force has come to expect a comprehensive benefits program. Indeed, the absence of a program or an inadequate program can seriously hinder a company's ability to attract and retain good personnel.

Consequently, organizations increasingly offer a wide range of traditional and nontraditional employee benefits.

A major challenge for businesses is combining the right mix of benefits to attract and retain top performers while also balancing the increasing costs of those benefits. Businesses spent a portion of an employee's annual salary on mandatory benefits (such as unemployment, workers' compensation, and Social Security), voluntary benefits (such as medical plans, dental plans, prescription coverage, flexible spending accounts, vision plans, and survivor benefits) and pay for time not worked benefits (regular rate of pay for a nonworking period of time, such as vacations, holidays, personal, bereavement, and sick leave).

Categories of Benefits

Employee benefits generally fall under one of the following categories:

- [Mandated benefits.](#)
- [Health care and welfare benefits.](#)
- [Retirement and pension benefits.](#)
- [Fringe benefits \(perquisites\).](#)

Mandated Benefits

The employer must pay in whole or in part for certain legally mandated benefits and insurance coverage, as follows:

- Social Security.
- Unemployment insurance.
- Workers' compensation.

kote: Some states mandate short-term disability benefits as well.

Social Security

The Social Security Act and related laws established a number of government programs that have the basic objectives of providing for the material needs of individuals and families, protecting aged and disabled persons against the expense of illness that would otherwise exhaust their savings, keeping families together, and giving children the opportunity to grow up in a healthy and secure environment.

Funding for the Social Security program comes from payments by employers, employees, and self-employed persons into an insurance fund that provides income during retirement years. Full retirement benefits generally, but not in all cases, become available at age 65. Other aspects of Social Security deal with the following:

- Survivor, dependent, and disability benefits.
- Medicare and Medicaid.
- Supplemental Security Income (SSI).

Unemployment Insurance

The unemployment compensation (UC) system — also referred to as unemployment insurance (UI) — is designed to temporarily compensate workers who lose their jobs through no fault of their own (as determined by applicable state law). UC is triggered when unemployment was brought about by periods of involuntary termination or periods of economic decline. However, in order to be eligible for benefits, unemployed workers must demonstrate workforce attachment that is usually measured by the individual's previous amount of wages and weeks of work. Additionally, a jobless worker must be capable and available for work opportunities. Eligibility for unemployment insurance, benefit amounts, and the length of time benefits are available are determined by the state law under which unemployment insurance claims are established.

Established by the Social Security Act of 1935 (SSA), the UC system is a combined federal-state partnership. Although each state designs its own UC program, the program must be designed within the framework of the federal requirements. As a result, the varying state programs are often quite different and have different impacts on employer profits.

Workers' Compensation

Workers' compensation is an employer-financed, no-fault insurance program that compensates employees who have been disabled because of a work-related injury or accident. Every state has enacted some form of workers' compensation law to protect employees against loss of income and burdensome medical payments resulting from a work-related injury, illness, or disease.

Most states have made workers' compensation coverage mandatory, although in Texas and New Jersey it is voluntary. Moreover, most states require employers with at least one employee to carry workers' compensation coverage, however, some states exempt small employers — although there is not total agreement about what constitutes a small employer. Some states exempt employers with fewer than five employees, some with fewer than four, some with fewer than three. Exempt employers may participate in the state workers' compensation program if they wish. Employers are cautioned to check with their attorneys before setting up a workers' compensation program.

[\(back to categories\)](#)

Health and Welfare Benefits

Group Health Plans

Health care benefits are among the most important and popular employee benefits. The employer advantages to offering employee health care benefits include the following:

- Attract and retain employees who can make the business a success. Whether health insurance is absolutely necessary to attract and retain the most qualified employees will depend upon factors such as whether competitors or other similarly sized employers in an area are offering health insurance.
- Gain tax advantages. Employers may offer employees a benefit that increases the employees' compensation package and yet allows the employer an income tax deduction for the contribution;

thus, out-of-pocket cost is less than the value of the benefit to the employee. Employers can also deduct 100 percent of the premiums paid for the employees.

- Offer employees group purchasing power. Even if an employer decides not to contribute anything toward the employees' health insurance, the employer may offer employees the opportunity to obtain group rates through the business.
- Ensure the wellness of employees. Many insurance plans offer preventative care that can keep employees healthy and working. If employees do not get preventative care and yearly physicals (which they might not do if they do not have insurance), employers run the risk of having more employees out for long periods of time with serious illnesses.

Disability and Death Benefits

Disability Benefits

A disability plan provides income replacement for the employee who cannot work due to illness or accident. These plans are either short-term or long-term and are distinct from workers' compensation because they pay benefits for nonwork-related illnesses or injuries.

A **short-term disability** is usually defined as an employee's inability to perform the duties of the normal occupation. Benefits may begin on the first or the eighth day of disability and are usually paid for a maximum of 26 weeks. The employee's salary determines the benefit level, ranging from 60 to 80 percent of pay. An employer, however, may specify a number of days of sick leave paid at 100 percent of salary. The employee can use these before short-term disability begins.

Long-term disability benefits usually begin after short-term benefits conclude. Long-term disability benefits continue for the length of the disability or until normal retirement. Again, benefit levels are a percentage of the employee's pay, usually between 60 and 80 percent. Social Security disability frequently offsets employer-provided long-term disability benefits. Thus, if an employee qualifies for Social Security disability benefits, these are deducted from benefits paid by the employer.

Death Benefits

Most employers offer group-term life insurance as an employee benefit, although other types can be offered. Term insurance is life insurance that is in effect for a certain period of time only. Generally, in the case of employer-provided term life insurance, the term is for as long as the employee is employed.

There are other types of death benefit insurance that employers can offer besides group-term life, including:

- Group accidental death and dismemberment. Commonly known in the industry as "AD&D," this coverage pays benefits to the employee's beneficiary if death occurs due to an accident or if the employee loses use of portions of the body (loss of one arm and leg, for example, may result in payment of a percentage of the total benefits).
- Business travel accident insurance. This insurance covers only a narrow occurrence — the death of the employee while traveling on business.

Health Promotion Programs (HPPs)

Health promotion programs (HPPs), sometimes called **employee wellness programs**, are organized efforts by employers that offer employees information and training to improve their personal health. HPPs emphasize prevention of physical and mental illness by using self-care and

targeted strategies to encourage healthy lifestyles. Employment-based programs may be offered directly by the employer, through either an in-house or an outside vendor or through an employment-based group health plan. Employers and health plans that offer health promotion activities and programs hope to motivate and educate employees to live healthy lives as well as provide opportunities for them to participate in healthy activities.

HPPs vary greatly in scope. A small employer might offer a twice-weekly exercise class and an annual health fair at which employees have blood-pressure checks and receive nutrition advice. A larger company might have one or more gymnasiums that are staffed by fitness experts and offer on-going wellness programs.

By offering health improvement programs, employers are not only providing an additional service for employees, but they are also gaining financially.

A health improvement program can affect all of the following areas:

- Productivity:
 - Absenteeism.
 - Desire to work.
 - Morale.
 - Physical and emotional disabilities.
 - Recruitment success.
 - Turnover.
- Health care:
 - Life insurance costs.
 - Medical care costs.
 - Other insurance costs.
 - Type of medical claims.
 - Workers' compensation claims.
- External image:
 - Community perception.
 - Current and potential clients.
 - Current and potential employees.
 - Product sales.

Design of an HPP

How an HPP is structured will significantly influence its success. When being developed, a program should be tailored to the specific employee population, and feasible processes and available staff should be taken into consideration as well.

Structure of Program

A list of important options to consider include the following:

- Types of programs/activities:
 - Nutrition and weight management.
 - Specific disease management (e.g., type 2 diabetes, heart disease).
 - Tobacco use cessation.
 - Control of alcohol use.
 - Substance abuse cessation.
 - Mental health.

- Immunizations.
- Occupational safety.
- Employee assistance programs (EAPs).
- Health education programs and materials.
- Health risk appraisals and screenings.
- Dependent care.
- Level of intensity of interventions:
 - Health education materials to employees (paycheck stuffers, intranet information, pamphlets, etc.).
 - One-time health risk assessments.
 - Annual health screenings with follow-up for high-risk employees.
 - Decision support tools (online information, physician support, etc.).
 - Dedicated case managers.
- Location of programs:
 - On-site.
 - Discounts to facilities off-site.
- Management of program:
 - Vendor for different components (i.e., smoking cessation, online decision support).
 - One vendor to manage all aspects.
 - On-site management by health improvement or medical department staff.
- Incentives and disincentives:
 - Financial rewards for participation.
 - Discount on health care premiums.
 - Bonus into health savings account.
 - Reduced premiums.
 - Co-pay reductions.
 - Cash awards.
 - Financial rewards for health outcomes.
 - Reaching healthy weight.
 - Lowering cholesterol.
 - Walking 10,000 steps per day.
 - Other types of rewards.
 - Employee awards and recognition.
 - Gifts (t-shirts, mugs, etc.).
 - Lottery chances.
 - Gift certificates.
- Communications:
 - Pamphlets.
 - Posters.
 - E-mails.
 - Newsletters.
 - Intranet.
 - Meetings, fairs, community activities.

Employee Assistance Programs (EAPs)

Many employers sponsor employee assistance programs (EAPs) that provide workers with counseling and referrals for personal problems, including alcohol and substance abuse, divorce, depression, and child care difficulties. If left unaddressed, these problems can result in decreased productivity, increased accidents, and higher absenteeism. Employers with EAPs also may benefit through savings on health care costs.

EAPs can take several different forms. Some companies use in-house programs that respond quickly to employees' needs, but others prefer the assurances of confidentiality offered by outside programs. Some programs are part of a comprehensive health plan while others merely provide referral assistance to outside providers.

In addition to counseling and referrals, many EAPs offer other related services, such as supervisor training and employee education.

Cafeteria and Flexible Benefit Plans

A **cafeteria plan** is a written benefit plan maintained by an employer for the benefit of employees. The plan must allow employees to choose between two or more benefits consisting of cash (or a taxable benefit, which is treated as cash) and certain qualified benefits.

In general, a cafeteria plan, defined by I.R.C. § 125, allows an employee to pay for anything from health insurance premiums to dependent day care costs on a pretax basis. It can provide a number of selections, including the following:

- Medical.
- Accident.
- Disability.
- Vision.
- Dental.
- Group term life insurance.

The most common type offered by employers today is a **flexible spending account (FSA)**, which provides employees with a pretax method to pay for medical and/or dependent care expenses that are not covered by their insurance.

The best part about the § 125 plan is that most employees are already paying for these expenses out of their own pockets with after-tax dollars. Cafeteria plans offer them a remarkable way to save money they are already spending.

Employee Benefits of Cafeteria Plans

The following points illustrate some of the ways **employees** benefit from cafeteria plans:

- Cafeteria plans allow employees to withhold a portion of their salary on a pretax basis to cover the cost of the following:
 - Qualifying insurance premiums.
 - Medical expenses.
 - Dependent care expenses.
- Reduce gross income for tax purposes.
- Increases take-home pay.
- Participating in a cafeteria plan reduces employees' taxable salary and increases the percentage of their take-home pay, thus increasing their spendable income.
- Employees receive a greater deduction on dependent care expenses than what is offered by a traditional tax credit at the end of year.
- There is less of an impact on employees from insurance increases, such as premiums, co-pays, deductibles, and other increases. One of the most common ways for employers to keep benefit costs down is to simply lower the benefit levels of their plan offering. While this saves employers money on premiums, employees are then faced with greater deductibles, higher co-pays, and higher

prescription amounts, among others. Through the use of an FSA, employees can set aside money to cover these increased amounts, which lessens their out-of-pocket costs because they are setting aside tax-free dollars.

Employer Benefits of a Cafeteria Plan

The following points illustrate some of the ways **employers** benefit from implementing cafeteria plans:

Every dollar that goes through the plan reduces an employer's payroll. Therefore, employers do not have to pay Social Security (FICA) or workers' compensation premiums on those dollars. In many cases, this savings can add up to as much as 20 percent of every dollar being passed through the plan.

Employees can use tax savings to invest in retirement plans. By using an FSA, employees can save money on everyday expenses, thus freeing up more of their income to be allocated to their 401(k) account, which increases participation.

Health Reimbursement Arrangements (HRAs)

Health reimbursement arrangements (HRAs), also known as health reimbursement accounts, consist of funds set aside by employers to reimburse employees for qualified medical expenses, just as an insurance plan will reimburse covered individuals for the cost of services incurred. Benefits of HRAs include:

- Contributions made by an employer can be excluded from the employee's gross income.
- Reimbursements may be tax free if used to pay qualified medical expenses.
- Any unused amounts in the HRA can be carried forward for reimbursements in later years.
- Are open to employees of companies of all sizes.

Health Savings Accounts (HSAs)

In recent years, consumers and employers have expressed a renewed interest in engaging the consumer more directly in health care purchasing decisions. In response, many health insurance plans have developed consumer choice health plans, which encompass a variety of approaches to health care financing designed to improve consumer awareness of costs and quality of their health care. Sometimes called consumer-directed, consumer-driven or consumer-centric health plans, the emergence of this category of health insurance benefit design remains an ongoing, evolving process.

The development of consumer choice health plans received a boost when Congress authorized the creation of health savings accounts (HSAs) as part of the 2003 Medicare Modernization Act.

HSAs are essentially special savings accounts for medical expenses that are paired with a high deductible health plan (HDHP). Sometimes referred to as a "catastrophic" health insurance plan, an HDHP is a lower cost health insurance plan that does not pay any expenses until the deductible is met.

Both employers and employees can invest money in the HSA. Employee contributions through payroll deductions are withheld on a pre-tax basis and other employee HSA contributions are tax deductible. Employer HSA contributions are a tax-deductible employee benefit expense.

Employees own and control the money in the HSA. Decisions on how to spend the money are made by

the employee without relying on a third party or a health insurer. Employees also decide what types of investments to make with the money in the account in order to make it grow.

An HDHP generally costs less than what traditional health care coverage costs, so the money saved on insurance premiums can be put into the HSA.

Adoption Benefits

Almost all employers offer benefits to new biological parents. A growing number of employers also offer benefits to adoptive parents. Most companies that offer adoption benefits do so for the following reasons:

- **Equity.** By treating employees who adopt on par with employees who become parents through birth, companies promote a fair and nondiscriminatory workplace.
- **Productivity.** By helping employees to cope with the logistical and financial challenges of adopting, employers help employees stay productive during the adoption process.
- **Recruitment and Retention.** By offering adoption benefits, companies enhance their reputation as good places to work and build loyalty among employees. Strategies that help lower turnover are considered good for a company's bottom line.
- **Good Will.** By offering adoption benefits, companies can generate positive publicity.
- **Social Contribution.** By providing adoption benefits, companies act on a desire to support the well-being of children and families.

Employer-sponsored adoption benefits take many forms. Most are not offered as separate "adoption" benefits packages, but instead are incorporated into general employment benefits or an employer-sponsored health plan.

Eligibility for adoption benefits usually depends on employment status (for example, policies frequently specify that permanent employees are eligible while temporary employees are not). Employers also might tie eligibility to length of employment or participation in a company-sponsored health plan.

The type of adoption also can affect the benefits offered. For example, some employers do not provide benefits when a stepparent adopts his or her stepchild or stepchildren. Some employers specify that the child being adopted cannot be older than 16 or 18. And, some employers offer enhanced benefits for the adoption of a child with special needs.

Types of Benefits

Typically, adoption benefits mirror benefits available to new biological parents. Adoption benefits fall into three general categories:

- Information resources.
- Financial assistance.
- Parental leave policies.

Employers may offer one or more of these types of benefits during a single adoption.

Information Resources

Resources made available to employees may include:

- Referrals to licensed adoption agencies, support groups and organizations.
- Access to an adoption specialist to answer questions about the process.
- The management of special situations, such as a special needs adoption.

Many employers that offer this type of benefit contract with a human resources consulting firm to provide these services to employees.

Financial Assistance

Financial benefits take different forms. Some employers provide a lump sum payment for an adoption, usually between \$2,000 to \$10,000. Other employers pay certain fees related to an adoption. Still others partially reimburse employees for expenses. Typical reimbursement plans cover 80 percent of certain itemized expenses up to an established ceiling (about \$4,000 on average). Some employers reimburse at a higher rate for adoptions of children with special needs.

Most frequently, employer-provided financial assistance covers public or private agency fees, court costs, and legal fees. Employers also might help with foreign adoption fees, medical costs, temporary foster care charges, transportation costs, pregnancy costs for a birth mother, and counseling fees associated with placement and transition.

Some employers pay benefits per adoption, while others pay per child adopted. In most cases, the benefits are paid after the adoption is finalized, although some employers may pay benefits earlier, when the child is placed or as the expenses are incurred.

Parental Leave

Federal law requires employers with 50 or more employees (including the federal government and Congress) to offer both mothers and fathers up to 12 weeks of unpaid leave upon the birth or adoption of a child. The law ensures that employees can return to their current jobs or an equivalent position and requires employers to continue the employee's health benefits during the leave period.

Some employers allow employees to take more than 12 weeks leave; for instance, spans might stretch to six months or one year. Some employers allow employees to combine accumulated paid leave (such as vacation leave) with unpaid leave to extend their total leave; some allow employees to use accumulated sick time as paid parental leave after an adoption. Finally, some employers offer some amount of paid leave for employees who adopt a child.

Some employers classify parental leave for adoptive parents as child care leave and others as personal hardship leave, medical leave, authorized time off, discretionary time, annual or paid personal leave, or annual or all-purpose time. Most employers specify a maximum amount of paid leave that can be taken.

Many states require employers to offer parental leave to adoptive parents.

Domestic Partner Benefits

Domestic partner benefits are benefits that an employer chooses to offer to an employee's unmarried partner, whether of the same or opposite sex.

Employers offer domestic partner benefits for reasons including, but not limited to:

- **Market competition and diversity.** The attraction to employees of a comprehensive benefits

package that offers health and retirement coverage is well-documented. Given the typically diverse contemporary work force, some employers try to design their benefits package to appeal to that diversity and maintain a recruitment edge.

- **Fairness.** Many employers believe that by offering benefits to legally married partners of employees and not offering the same benefits to the partners of nonlegally married employees discriminates on the basis of sexual orientation and/or marital status. Many employers have a formal policy against discrimination on the basis of sexual orientation, as the practice is illegal in some jurisdictions. The decision to offer domestic partner benefits communicates to employees that the employer is committed to its stated policy.

An employer wishing to implement a domestic partner program needs to create a definition of what an eligible domestic partner is. The most common definitions contain four or five core elements:

1. The partners must have attained a minimum age, usually 18.
2. Neither person is related by blood closer than permitted by state law for marriage.
3. The partners must share a committed relationship.
4. The relationship must be exclusive.
5. The partners must be financially interdependent.

An employer also must decide whether the domestic partner program is to cover same-sex couples only or include opposite-sex couples.

Documentation of proof of a domestic partner relationship can take many forms. It is up to the employer to determine what is appropriate. Some employers are satisfied with the partners signing a written statement of their relationship. Some employers may require proof of some financial relationship, such as a joint lease or mortgage. Whatever documentation is required must be germane to the issue of validating a domestic partnership, or it could lead to claims of invasion of privacy.

Employers may offer their workers a range of domestic partner benefits, from family/bereavement/sick leave, access to employer facilities, and attendance at employer functions, to health insurance coverage.

Child Care Benefits

With the majority of single-parent families having a parent in the workforce, and a majority of two-parent families with both parents employed, child care benefits are an important recruiting and job satisfaction driver for working parents.

In addition, studies show that when employees experience child care difficulties, the results are absenteeism, tardiness, decreased morale, and unproductive work time. Employers are responding to these problems by becoming involved in child care as a way to increase productivity. These benefits include:

- **Types of Assistance.** Employment-based child care programs may take a variety of forms. Examples range from company-sponsored day care centers, to access to child care information, to direct financial assistance, to flexibility in work scheduling.
- **Child care centers** at or near the work place are the most visible form of assistance. They usually are company-operated or contracted out. Sometimes employers contract with other employers or municipal governments to establish facilities. However, start-up costs for centers are high, and continuing labor costs can be higher.
- **Community child care programs** are supported by some employers. When an employer chooses to finance a community day care center rather than to create an on- or near-site service, the

employees of the participating company may receive preferential admission, reduced rates, or a reserved space in the day care center in exchange for the employer's financial support of the center. In this way, the employer avoids the administrative and legal responsibilities but still offers support services. However, support or maintenance of child care centers is not as common as other forms of employment-based assistance.

- **Resource and referral services** are more common. These services can help parents obtain information on child care and, in many cases, refer them to the most appropriate form in their community. Most companies that offer child care services contract with an existing referral agency in the community; others have an in-house hotline capacity. A growing number of employers sponsor educational seminars on parenting issues. Although this form of assistance may not include access to a child care center, it can help the employer estimate the potential demand for child care services before investigating other forms of child care support.
- **Direct financial assistance** with child care expenses is typically provided through employers' flexible benefit or cafeteria plans. When child care benefits are offered in this type of arrangement, those employees who need and want them can purchase them; those who do not may choose other benefits. Flexible benefit plans allow employers flexibility to meet the needs of different lifestyles and at the same time satisfy equity considerations within a diverse work force.
- **Flexible spending accounts**, also known as reimbursement accounts, provide a way to finance child care and other benefits, either within flexible benefit plans or separately as stand-alone plans. These accounts are funded by employee salary reduction arrangements, employer contributions, or both.

Leave Benefits

As life becomes more stressful and employees feel the pressures of balancing work and family concerns, time off becomes highly valuable to employees. Although conceptually, the practice of paying employees for not working is costly, time off from work is an employment benefit that far outweighs its costs. Among the many benefits for employees are rest, relaxation, a new perspective, travel, pursuit of hobbies, and release from daily employment tensions. Employers also reap the benefits when employees are rested, and relaxed employees return from a period of leave feeling refreshed — possibly with new ideas — and renewed energy for better job performance.

Employers may also observe the performance of employees in new situations, as they fill in for their vacationing co-workers, potentially leading to better allocation of workforce talents.

Flexible Working Benefits

Workplace flexibility encompasses the full range of options that offer ongoing benefits to organizations, employees, and communities, for example:

- Scheduling of hours (flextime, compressed workweeks, shift flexibility).
- Amount of hours (part-time, job sharing).
- Place of work (telecommuting, seasonal relocation).
- Management of time (meeting-free flexibility, report late).
- Organization of career (off- and on-ramps, leaves of absence).
- Other time off (personal days, floating holidays, vacation buying).

Sustaining a flexible workplace is critical to business success for many reasons. A flexible workplace:

- Supports employees' work-life effectiveness and helps enable employees to be the best they can be both on and off the job.
- Helps their firms stay competitive in attracting the emerging workforce (including new graduates

and older workers) and retaining quality employees.

- Helps organizations and individuals reduce their carbon footprint.
- Provides a tool that can be used in a variety of ways during tough economic times — to offer an alternative to layoffs, to reduce commute time and fuel expense, and to help keep employees engaged and committed as the business focus changes and budgets are tightened.
- Contributes to contingency planning for natural disasters, pandemics, and other crisis situations.

In leading companies, flexibility is no longer merely about accommodating highly valued talent. Business leaders are learning how to position flexibility as a powerful management tool used to accomplish work more efficiently, while caring about the needs of employees and bringing strategic value to the organization. When most successful, flexibility becomes an everyday part of the organization's culture, where employees and managers discover a variety of creative ways to schedule and accomplish work.

As employees everywhere strive to juggle all of their work and life commitments, workplace flexibility has hit primetime with flexible work arrangements (flextime, compressed workweek, part time, job sharing, and telecommuting), informal ad hoc flexible options, shift flexibility, and flexibility that enables career breaks. In the most advanced stage, workplace flexibility becomes a part of the culture and an elemental component in the daily workplace.

[\(back to categories\)](#)

Retirement and Pension Benefits

A retirement plan has many benefits for an employer, for an organization, and for employees. Retirement plans allow investing in the future now for financial security when an employer and employees retire. As a bonus, an employer and employees get significant tax advantages and other incentives.

Employer Benefits

There are several benefits to the employer for setting up a retirement plan, as follows:

- Employer contributions are tax deductible.
- Assets in the plan grow tax-free.
- Assets grow with compounding interest.
- Employers may receive tax credits and other incentives for starting a plan.
- A retirement plan can attract and retain better employees and consequently reduce new employee training costs.

Employee Benefits

Retirement plan benefits to the employee include the following:

- Tax on employee contributions is deferred until distributed.
- Investment gains in the plan are not taxed until distributed.
- Retirement assets can be carried from one employer to another.
- Contributions can be made easily through payroll deductions.
- Saver's Credit is available.
- Flexible plan options are available.
- Better financial security is available upon retirement.

Fringe Benefits

Perquisites

While all employees are usually eligible for benefits such as health and other insurance, retirement plans, and leave, employers may want to consider offering the following additional fringe benefits or perquisites to some or all of their employees:

- Financial and compensation benefits:
 - Accident insurance.
 - Auto insurance program.
 - Automobile allowances for business use of personal vehicles.
 - Business cell phone or handheld device for personal use.
 - Company-owned car for employee use.
 - Credit counseling service.
 - Credit union.
 - Donations for participation in charitable events.
 - Educational assistance for employees.
 - Educational assistance for members of employees' families.
 - Employee computer purchase discounts (not a loan).
 - Employee discounts on company services.
 - Employee referral bonus.
 - Financial/investment advice offered in a group/classroom.
 - Financial/investment advice offered one-on-one.
 - Financial/investment advice offered online.
 - Free computers for employees' personal use.
 - Free or discounted home Internet service.
 - Life insurance.
 - Life insurance for dependents.
 - Loans for employees to purchase personal computers.
 - Loans to employees for emergency/disaster assistance.
 - Low- or no-interest loans to employees for non-emergency situations.
 - Matching employee charitable contributions.
 - On-site parking.
 - Payroll advances.
 - Personal tax services.
 - Service anniversary award.
 - Transit subsidies.
- Employee services benefits:
 - Career counseling.
 - Certification/recertification fees.
 - College/school selection/referral.
 - Concierge services.
 - Cross-training to develop skills not directly related to the job.
 - Dry cleaning services.
 - Employer-sponsored personal shopping discounts.
 - English as a second language (ESL) classes.
 - Executive club memberships.
 - Foreign language classes.

- Free coffee.
- Free/discounted uniforms.
- Legal assistance/services.
- Mentoring program.
- Off-site professional development opportunities.
- On-site ATMs.
- On-site cafeteria.
- On-site haircuts.
- On-site professional development opportunities.
- Organization-sponsored sports teams.
- Pay cards.
- Pet health insurance.
- Postal services for employees.
- Prepared take-home meals.
- Professional development opportunities.
- Professional license application or renewal fees.
- Professional memberships.
- Self-defense training.
- Travel planning services.
- Vending machine snacks and beverages.
- Business travel benefits:
 - Additional pay for weekend travel.
 - Business laptop for personal use while on travel.
 - Car or limo service to/from the airport.
 - Employee keeps frequent flyer miles.
 - Employee keeps hotel points.
 - First or business class airfare for domestic travel.
 - First or business class airfare for international travel.
 - Paid airline club membership.
 - Paid child care expenses while employees are on business travel.
 - Paid dry cleaning while on business travel.
 - Paid health club fees while on travel.
 - Paid Internet access while on travel.
 - Paid long-distance calls home while on business travel.
 - Paid minibar snacks at the hotel.
 - Paid pay-per-view movies at the hotel.
 - Paid pet care expenses while employees are on business travel.
 - Paid travel expenses for spouse.
 - Per diem for meals.
 - Rental car upgrades.
 - Travel accident insurance.
- Other benefits:
 - Community volunteer programs.
 - Company picnic.
 - Company-purchased tickets.
 - Discount ticket services.
 - Milestone rewards.
 - Noncash, companywide performance awards.
 - Pets at work.
 - Take your child to work day.

- Take your parent to work day.
- Take your pet to work day.

[\(back to categories\)](#)

Further Considerations

Communications

Once an employer has implemented a benefits program, the employer will want to inform employees about it. Good communications are important in enabling employees to use the plan effectively and to appreciate the role of benefits in their total compensation.

Benefits orientation should be part of the orientation of a new employee. An employer can use newsletters, staff memos, or employee meetings with audiovisuals to announce plan changes or answer employees' questions.

Keeping Current on Benefit Plans

Businesses should continually monitor changes in legislation to make sure their benefits programs are compliant with local, state, and federal laws. Health care reform law in particular will affect how all organizations administer health care benefits. This new law is extremely complex, and some of its parts have already been executed, while others will be implemented over the next several years.

Tax Considerations

Before beginning any program of perquisites, employers should check current federal and state tax laws for treatment of each of the following items:

- Can the employer deduct it as a business expense?
- Will it become taxable income for an employee?

Guide to Fringe Benefits

The following material provides an introduction to these issues. They are addressed authoritatively and in detail in *publication 15-B: Employer's Tax Guide to Fringe Benefits*.

Taxation of Fringe Benefits

The general concept of taxable compensation under the Internal Revenue Code is that any payment of cash or "in-kind" property by an employer to or on behalf of an employee is subject to income and withholding taxes. Certain exceptions apply, including exceptions for "nontaxable fringe benefits." Nontaxable fringe benefits are generally excluded from income if they meet the requirements set out in Section 132 of the Code. The five general types of fringe benefits that are excluded from income under Section 132 of the Code are:

- No-additional-cost services.
- Qualified employee discounts.
- Working condition fringes.
- De minimis fringes.
- Qualified Transportation fringes.

No Additional Cost Services

These are services made available to employees by an employer who generally offers the same services for sale to its customers in the ordinary course of the employer's line of business, provided that the employer incurs no substantial additional cost (including foregone revenue) when it provides such service to the employee. Any amount paid by the employee for the service is disregarded when measuring whether there was any substantial additional cost to the employer.

In other words, the employer must have excess capacity that cannot be filled. Examples include free airline transportation, free hotel rooms, and free long distance telephone use. The service offered must normally be sold to customers. Thus, only the airline could offer a program of free air transportation. If a hotel had extra airline seats it was unable to use, giving those to employees would not be a "no-additional-cost service" because the hotel is not generally in the business of selling air tickets to its customers. Similarly if a seller of real estate has a 1-800 telephone number, use of the number by its employees would not be a "no-additional-cost" service to its employees, while free long distance telephone service by a long distance telephone company at nonpeak times would be such a service.

Qualified Employee Discounts

A qualified employee discount is an employee discount on property or services which are offered for sale to customers in the ordinary course of the employer's line of business in which the employee works. The discount must not be greater than the employer's gross profit percentage when the product is sold to customers. For services, the discount must not be greater than 20 percent of the price at which it is offered to customers.

Thus, an appliance store might offer employees a discount on refrigerators and stoves, up to the gross profit it makes on customer sales.

Working Condition Fringe Benefits

Any property or service which could be provided to an employee and deducted by the employer under Section 162 or 167 of the Code can be excluded from an employee's income as a working condition fringe benefit. Any substantiation requirements required for a deduction would apply. The benefits must be received because of employee status.

Commonly provided working condition fringe benefits include employer-paid parking, use of company cars, travel cost reimbursement, employee security devices and protections and tuition reimbursement arrangements.

De Minimis Fringe Benefits

If the value of an item of property or of a service is so small, considering its frequency, that accounting for it is unreasonable or administratively impractical, it can be given to an employee as a de minimis fringe benefit. Examples include employee picnics or cocktail parties, traditional holiday gifts (if not cash), occasional tickets to sporting events or to the theater, coffee and doughnuts, lunch, and occasional personal typing or use of the copy machine. Gift certificates may be de minimis fringes, but specific rules apply to them.

The frequency of such employee gifts is measured person by person, not as to all employees as a group. If one employee is given a free meal every day, and other employees receive them only

occasionally, that individual could not have the value of the meals excluded as a de minimis fringe benefit, though other employees who received them only occasionally could. Employer provided eating facilities may be de minimis fringes if certain standards are met.

Qualified Transportation Fringe Benefits

The employer may also assist employees in transportation to and from work and exclude the value of such a benefit from the employees' taxable income. A qualified transportation fringe includes a transit pass for the use of mass transit facilities such as bus, rail, or ferry. It also includes transportation in a commuter highway vehicle (e.g. a commuter van) and parking for employees at or near the employer's workplace or near a location from which the employee commutes to work by mass transit. Cash reimbursements can be used for parking costs, commuter van costs, and for transit passes. Qualified transportation benefit plans can be offered on a salary reduction basis, so that employees pay the cost of the benefit with pre-tax dollars.

Additional Fringe Benefits

Employer Provided Meals

Section 119 of the Code excludes from an employee's income the value of meals or lodging for the convenience of the employer. Excludable meals must generally be furnished on the employer's premises. To be excludable the employer must require as a condition of employment that employees eat on-site. For example, the staff in a group home for physically or mentally disabled individuals might be required to eat at the facility for the protection and assistance of its residents. Meals provided by the employer under this requirement would be excludable from the employee's income.

Employee Awards

Generally, gifts made by an employer to an employee are deemed to be compensation and subject to tax. However, there is an exception for certain achievement awards. Awards are not includible in income if a deduction is available to the employer for such achievement or safety awards. An award must not exceed the limits of certain annual limits per year per employee and must be items of tangible property (no cash permitted) which is awarded in a meaningful presentation. It must not give the appearance of being disguised compensation. The award must be a regular practice and must recognize particular achievement.

Educational Assistance Programs

Section 127 of the Code allows an employer to provide educational assistance to its employees up to \$5,250 per employee per year. It can also cover education of spouses and dependents. Several conditions apply to educational assistance programs under Section 127 of the Code:

- Educational assistance programs may pay directly, or more commonly, reimburse, an employee for the cost of tuition, fees, books, and supplies. However, supplies such as tools or computers which are retained by the employee after completion of study which are used in employment are not covered under this program.
- Meals, lodging or transportation for educational programs cannot be reimbursed.
- The program may not offer a choice of cash or educational assistance or be part of a flexible benefit plan.

Tuition Reimbursement

Even when not part of an educational assistance program, an employer may reimburse employees for the costs of education which can enable an employee to better perform his or her job. This can cover tuition fees, books, and expenses for transportation, lodging, and meals. Tuition reimbursements under Section 162 of the Code must be ordinary and necessary business expenses and may not cover courses which equip or train an employee for a different job.

Adoption Assistance

An adoption assistance program established under Code Section 137 can be offered as a flexible spending account through a cafeteria plan, or it can be offered outside a cafeteria plan arrangement. An adoption assistance flexible spending account may be funded by the employer, by the employee, or by both on a pretax basis. Through an adoption assistance program, employees may exclude from gross income reimbursements made for their expenses relating to adopting a child.

Long Term Care Insurance

A qualified long-term care insurance contract is treated just like an accident and health insurance contract. In other words, eligible long-term care insurance premiums that do not exceed specified limits will be treated as medical expenses for purposes of the medical expense deduction under Section 213 of the Code. In addition, an individual who is covered by a qualified long-term care insurance contract is not taxed on employer premiums for insured long-term care coverage. Amounts received under a long-term care insurance contract, up to certain limits, will be excluded from an individual's income as amounts received for injury or sickness.

Accountable Plans

Reimbursement of expenses incurred in the performance of services for the employer are excludable from income provided that the employee is required to account to the employer for such expenses. For example, in the case of use of a personal automobile for work an employee may exclude from income any monthly allowance for automobile expenses, provided that the employee has accounted for actual expenses. If there is no requirement that the employee account for expenses in order to receive an allowance, the employee must declare it as subject to income tax.