

Module 4: Total Rewards

16% PHR (36 questions)
12% SPHR (27 questions)

Davis-Bacon Act

- **Requires prevailing wages/benefits on federal construction projects**

Copeland “Anti-Kickback” Act

- **Prohibits kickbacks to federal contractors**

Walsh-Healey Act

- **Extends prevailing wages to federal suppliers**
- **Stipulates overtime pay**

Service Contract Act

- **Requires prevailing wages/benefits on all federal contracts**

- **Covers most private-sector employers and governmental agencies.**
- **If state laws are more generous, they take precedence.**
- **Any employee covered by the FLSA may initiate a complaint.**
- **Under FLSA, an employer has no obligation to independent contractors.**

Which of the following factors would indicate independent contractor status?

- A. Opportunity for profit and loss**
- B. Regular oral and written reports presented to a manager**
- C. Right to end relationship with principals at any time without incurring liability**
- D. Services provided to a single firm**

Answer: A

**Behavioral
control**

**Financial
control**

**Type of
relationship**

Type of Employee	Importance:
Exempt	Excluded from overtime pay requirements of the law.
Nonexempt	<p>Are not excluded and are entitled to overtime.</p> <p>Overtime is guaranteed to employees with a quoted salary of less than \$23,660 per year or \$455 per week.</p>

An exempt employee must meet three requirements, referred to as white-collar exemptions.

Minimum salary

Paid on a salary basis without improper deductions

Perform exempt duties

- **A primary duty is the main or most important duty and is an important part of exemption.**
- **No particular percentage of exempt duties is required under federal law.**
- **However, the lower the percentage, the greater the legal risk if challenged.**

An employee must:

Have a primary duty of managing an enterprise, department, or subdivision.

Direct the work of at least two full-time employees or their equivalent.

Have the authority of the employer to hire and fire.

Affect promotion decisions.

- **Requires performance of office or nonmanual work directly related to the management or general business operations of the employer or the employer’s customers.**
- **Includes the exercise of discretion and independent judgment related to “matters of significance.”**

- **Learned professionals**
 - **Requires advanced knowledge in a field of science or learning that is acquired by prolonged instruction.**
 - **Work is intellectual in nature and requires exercise of discretion and judgment.**
- **Creative professionals**
 - **Must meet minimum salary requirements.**
 - **Perform work that requires invention, imagination, originality, or talent.**
 - **Perform in a recognized field of creative or artistic endeavor.**

A highly compensated employee must:

- **Make an annual salary of **\$100,000** or more that includes at least **\$455** per week paid on a salary or fee basis.**
- **Perform one of the duties of an exempt executive, administrative, or professional employee.**

- **Must meet the salary minimum with a salary of \$455 per week or \$27.63 per hour.**
- **Employee's pay cannot be subject to deductions inconsistent with the salary basis requirement.**
- **Primary duties must fall into one of four categories.**

An employee must:

- **Have a primary duty involving making sales or obtaining orders and contracts.**
- **Be customarily and regularly engaged away from the employer's place of business.**

Outside sales employees are not subject to the minimum salary requirements of other exemptions.

- **Employers who make improper deductions will lose the exemption if they did not intend to pay on a salary basis.**
- **Example: An exempt employee is normally not subject to deductions for illness in less than full-day increments. (An FMLA exception may occur.)**

A “safe harbor” exists if:

- **The employer has a clearly communicated policy prohibiting improper pay deductions.**
- **Employees are reimbursed for any improper deductions.**
- **The company makes a good-faith effort to comply in the future.**

- **Sets rate of overtime pay (1.5 times regular pay after 40 hours worked).**
- **Requires overtime on time worked, not time compensated.**
- **Sets workweek as any fixed, recurring period of 168 hours (7 days \diamond 24 hours).**

An employer pays an employee a \$40 attendance bonus for working a full 40-hour workweek. If the worker works 45 hours during that week, what will the employee’s gross paycheck be if her hourly rate is \$10?

- A. \$495.00**
- B. \$509.50**
- C. \$515.00**
- D. \$517.25**

Answer: D

To calculate the total pay for the week, you must add the bonus to the hours worked at base pay (45 ✧ \$10/hour = 450 + \$40 bonus = \$490). To get the average straight time hourly earnings (ASTHE), the \$490 is divided by the total hours worked, 45, to yield \$10.89.

Pay calculation:

45 hours base pay (\$450) + bonus (\$40) = \$490.00

ASTHE = \$490/45 hours = \$10.89

Overtime premium = \$10.89 ✧ 0.5 = \$5.45 ✧ 5\$ 27.25

Total gross pay \$517.25

- **Overtime usually must be paid in cash.**
- **Public-sector employers may grant compensatory time off.**
- **Public employees can accumulate “comp” time.**



Restrict hours and conditions of employment for minors.

Age	FLSA Regulations
Under age 14	<ul style="list-style-type: none"> ● Prohibited from most nonfarm work ● May be employed by parents ● Certain jobs permitted (e.g., actors, newspaper carriers)
Ages 14-15	<ul style="list-style-type: none"> ● During school hours: 3 hours/day, 18 hours/week ● During school vacations: 8 hours/day, 40 hours/week ● Hours restricted
Ages 16-17	<ul style="list-style-type: none"> ● Prohibited from hazardous jobs ● No other restrictions

Fair Minimum Wage Act of 2007

**Raises
minimum
wage to
\$7.25 per
hour in
three phases**

**Provides
\$2.13 an hour
cash wage if
claiming a tip
credit**

**Requires
payment of
higher wage
if state and
federal laws
differ**

- **Amends FLSA and defines general rules for hours worked.**
- **Provides guidelines on:**
 - **On-call/standby time.**
 - **Preparatory/concluding activities.**
 - **Waiting time.**
 - **Meals and breaks.**
 - **Travel time.**
 - **Training time.**

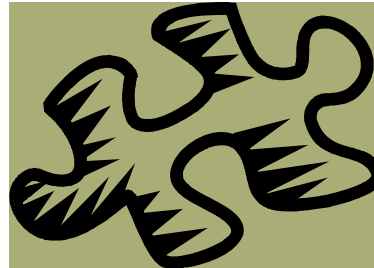
- **Mandates equal pay for equal work.**
- **Defines equal work based on:**



Skills



**Working
conditions**



Effort

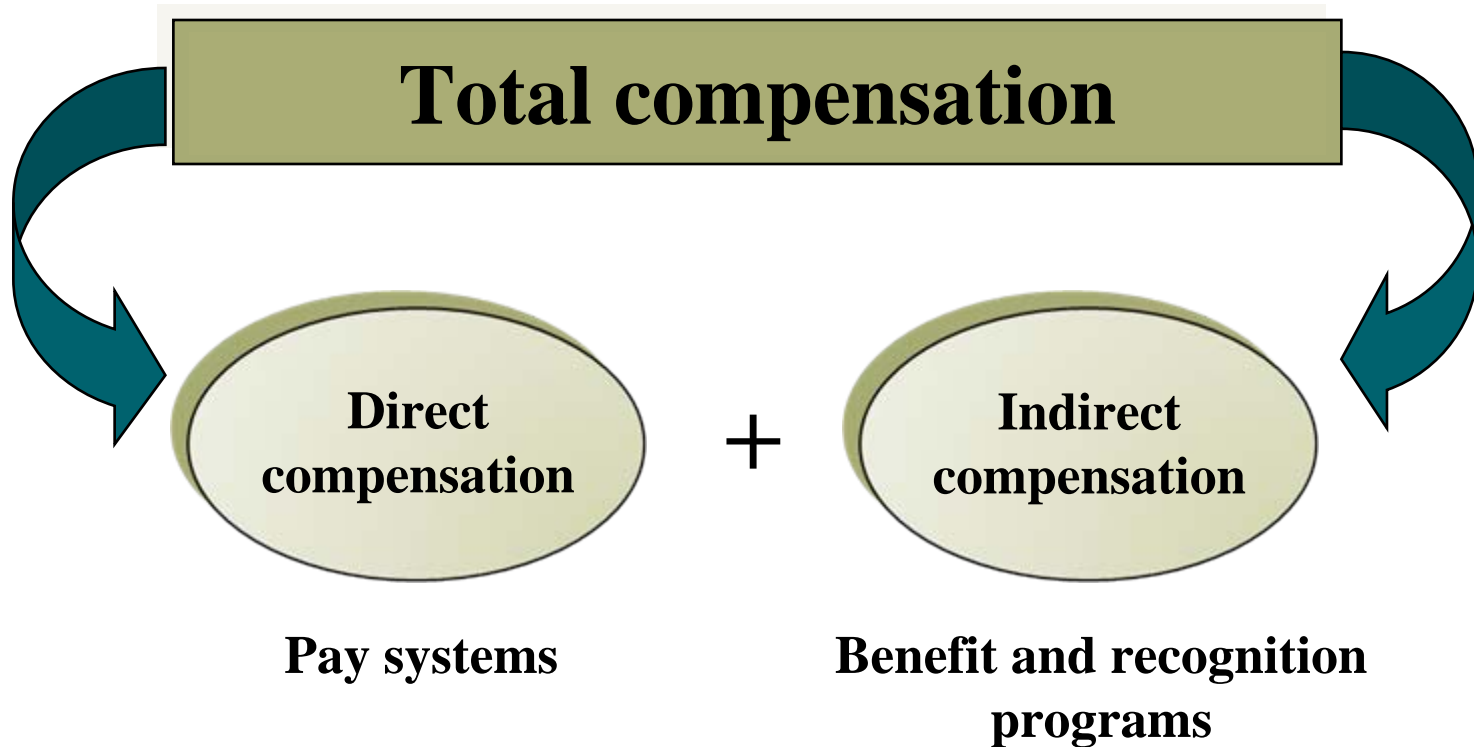


Responsibility

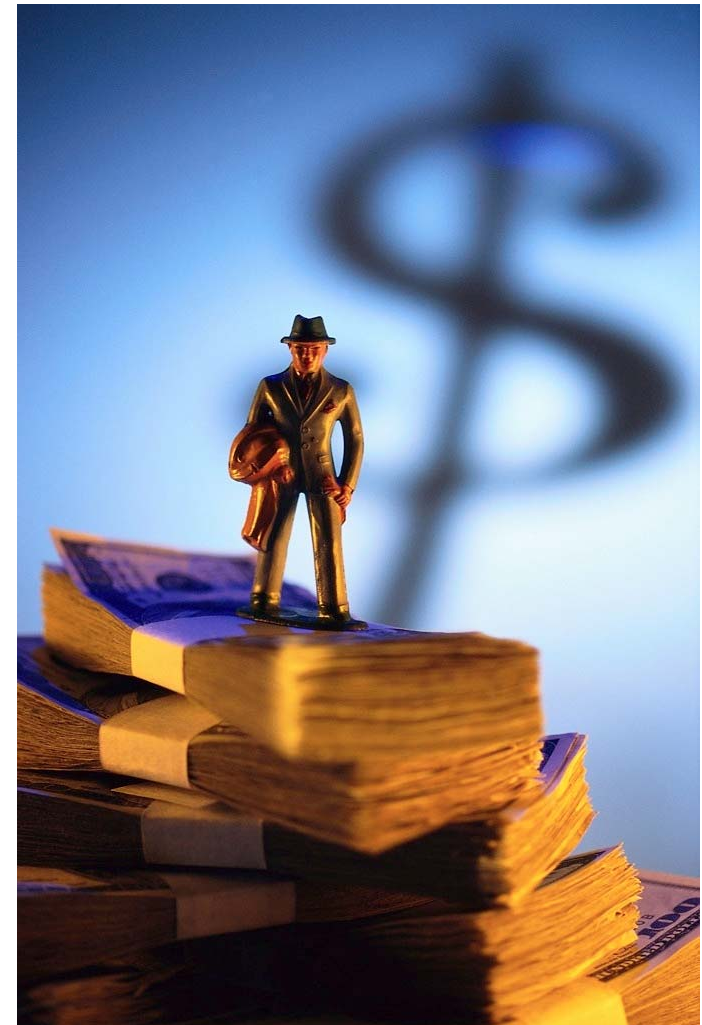
Which of the following is true under the Equal Pay Act?

- A. Seniority systems cannot result in pay disparity.**
- B. Companies should provide all employees with the same working conditions.**
- C. Employees doing equal work should receive the same pay.**
- D. Jobs filled primarily by women should have the same salary as similar jobs filled by men.**

Answer: C



- **Aligned with mission and strategy**
- **Compatible with corporate culture**
- **Appropriate for the workforce**
- **Externally equitable**
- **Internally equitable**



- **Compares an organization to other organizations that share its industry, occupation, and location.**
- **Organizations may decide to:**

Lag

Match

Lead



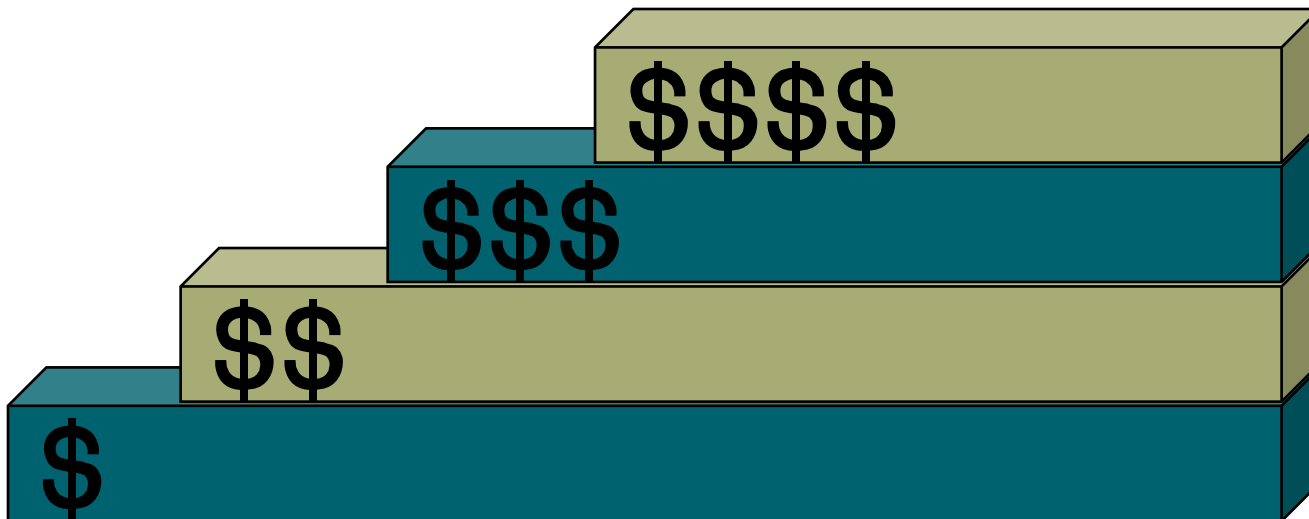
Meets employees' needs for a fair wage and adequate benefits.

Recognizes employees' contributions to the organization.

Rewards equal work with equal pay.

Does not discriminate against protected classes.

- **Determines the relative worth of each job by establishing a hierarchy.**
- **Follows job analysis, which focuses on job descriptions and specifications.**



**Job-to-job
 comparison**

**Job-to-
 predetermined-
 standard
 comparison**

Nonquantitative Methods	Quantitative Methods
Job ranking	Factor comparison
Job classification	Point-factor method

- **Establishes a relative order of jobs.**
- **Does not assign numeric values.**



**Job
ranking**



**Paired
comparison**



**Job
classification**



**Job-to-job
comparison**

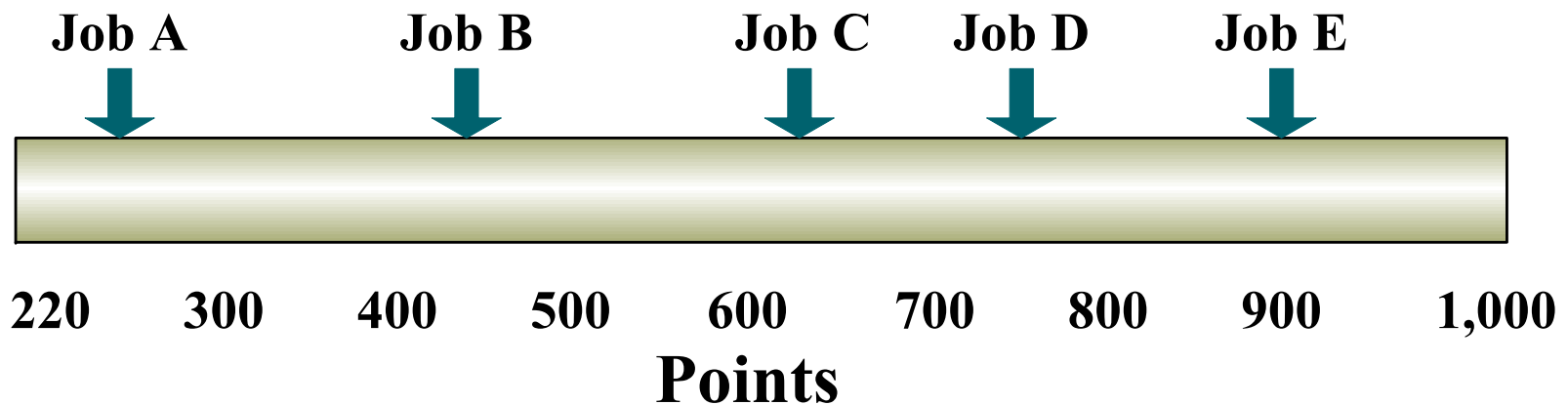


**Job-to-predetermined-
standard comparison**

- **Uses a scaling system to evaluate the value of one job as compared to another.**
- **Provides a score.**

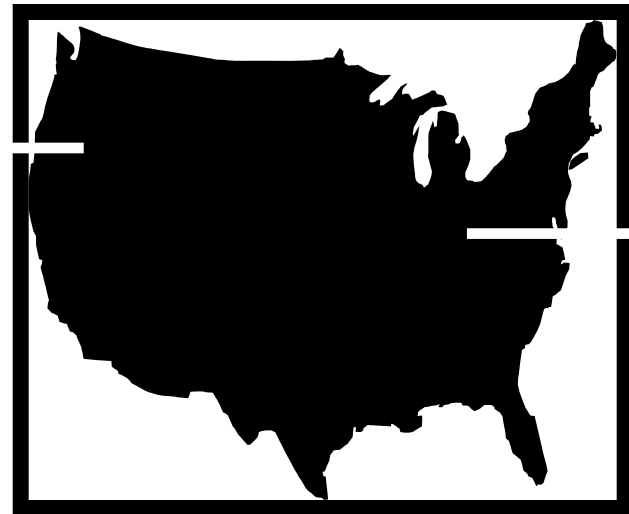


- Each job receives a total point value, and relative worth can be compared.
- Examples: Guide Chart-Profile (Hay Plan) and the U.S. government Factor Evaluation System (FES).
- Points often determine pay grade assignment.

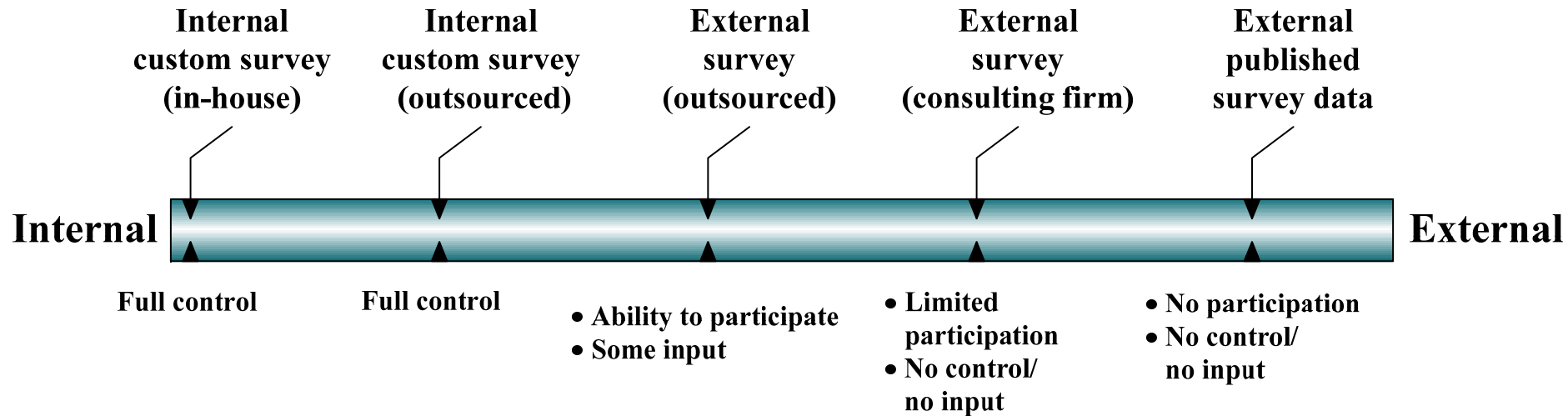


- **Not a true job evaluation system; can be used to develop a job-worth hierarchy.**
- **Prices jobs in the labor market in which a company competes.**
- **Uses prevailing rates as the relative “worth” of the jobs.**

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\$



- **Salary data may need to be aged and/or leveled.**
 - **Aging uses movement in market rates to adjust outdated salary data.**
 - **Leveling adjusts salaries when surveyed jobs are similar but not identical to jobs in the organization.**

Frequency distributions and tables sort salary data.

- **Frequency distribution**
 - Lists the grouped data, from lowest to highest.
- **Frequency table**
 - Shows the number of incumbents who receive a particular salary.

Salaries	Number of Incumbents
\$55,000	2
\$60,000	1
\$65,000	2
\$70,000	5
\$75,000	1

Average gives equal weight to every salary.

Weighted average considers the number of people who receive each salary.

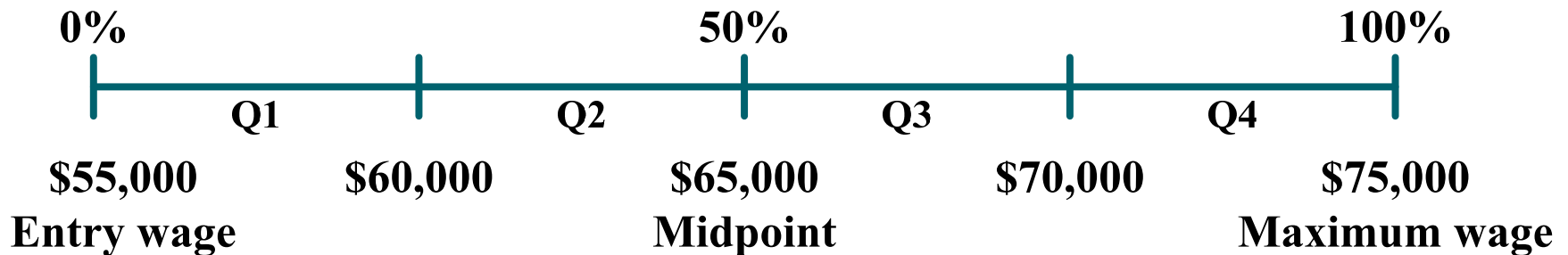
Median is the middle number in the range.

Mode is the most frequently occurring wage.

Salaries	# of Incumbents	Total Salary
\$55,000	2	\$110,000
\$60,000	1	60,000
\$65,000	2	130,000
\$70,000	5	350,000
\$75,000	1	75,000
Totals	11	\$725,000

Weighted Average = \$65,909

- **Show how groups relate to each other.**
- **Show if an organization leads, lags, or matches the job market.**



Establish pay grades.

- **Group jobs that have the same relative internal worth.**
- **Pay the same rate or within the same pay range.**

Set pay ranges.

- **Determine minimum, midpoint, and maximum compensation for a grade.**
- **Set overlap between pay ranges.**

- **Divide the pay level of an employee by the midpoint of the range.**
- **Given a range of \$6 to \$10 an hour, a midpoint of \$8, and a salary of \$6 an hour, the compa-ratio is:**

$$\text{\$6} \div \text{\$8} = .75 \text{ or } 75\%.$$

- **A compa-ratio below 1.0 means wages are below the midpoint; a compa-ratio greater than 1.0 means wages exceed the midpoint.**

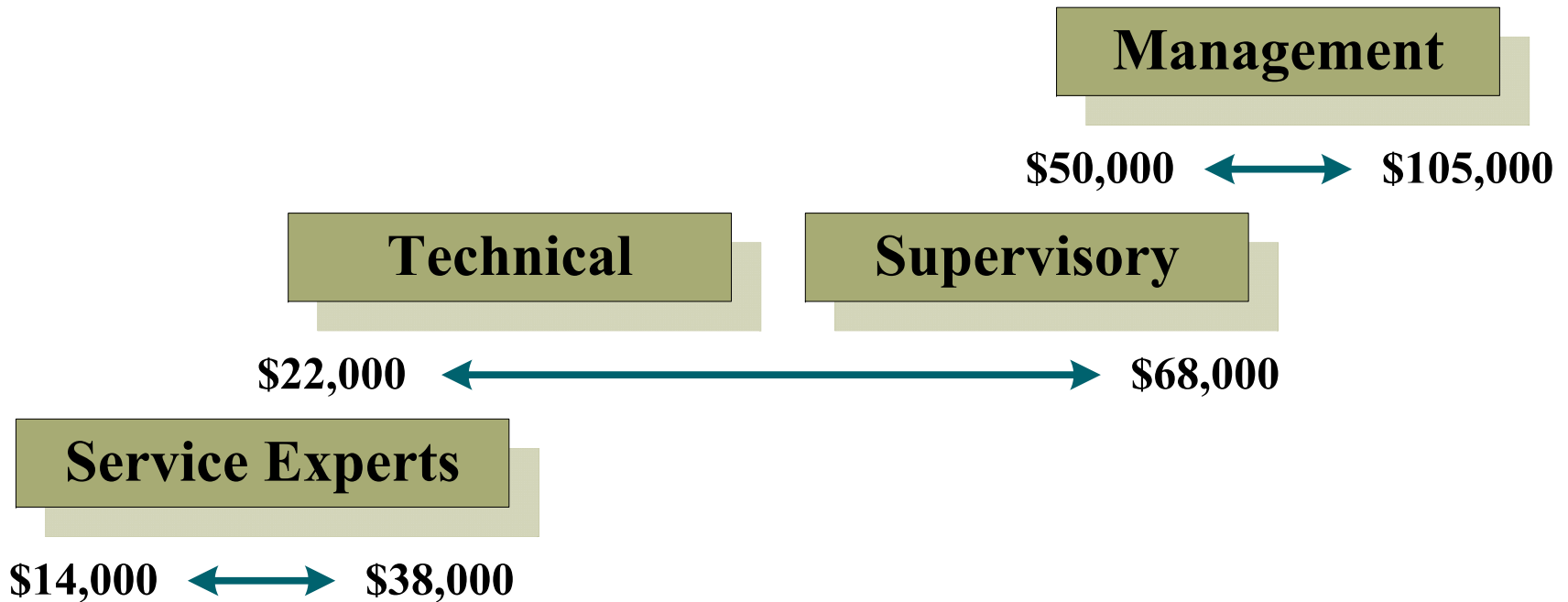
An employee earns \$9 an hour, and the pay range is \$8 to \$12. What is the compa-ratio?

- A. 66%**
- B. 80%**
- C. 90%**
- D. 111%**

Answer: C

The midpoint is \$10. Divide the pay level by the midpoint ($\$9 \div \$10 = .9$ or 90%).

- **Combines several salary grades or job classifications.**



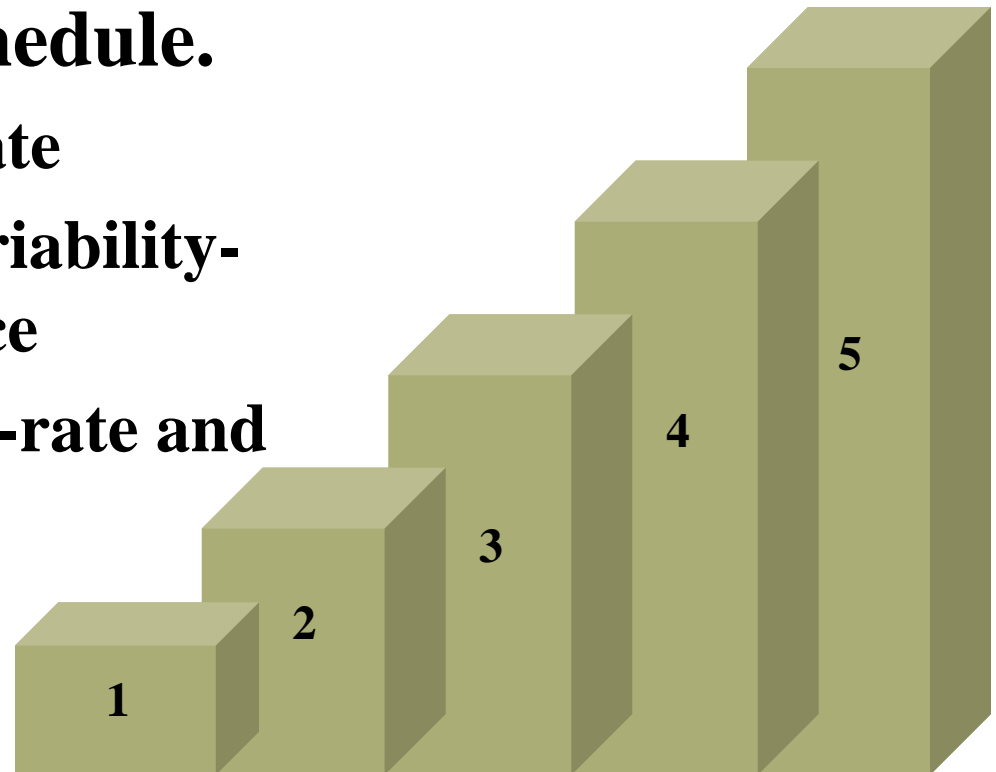
Advantages	Disadvantages
<ul style="list-style-type: none"> • Provides wider ranges. • Reduces the number of job grades. • Provides more autonomy to line managers. • Enhances employee mobility. 	<ul style="list-style-type: none"> • Lacks a salary control feature. • Difficult to maintain perception of equity. • Reduces the opportunity for promotion. • Can lead to divergence from the market.

- **Develop a pay determination system that helps attract, retain, and motivate employees.**
- **Employees receive base pay in the form of a salary or an hourly wage.**



- **Employees receive the same rate of pay, regardless of performance or seniority.**
- **Typically used for elected jobs in the public sector or union hourly positions.**
- **Generally corresponds to survey data for the job.**
- **There may be a training wage in a flat-rate job.**

- **Rate is based on longevity.**
- **Pay increases occur on a predetermined schedule.**
 - Automatic step-rate
 - Step-rate with variability-based performance
 - Combination step-rate and performance



- **Individual performance is the basis for pay.**
- **Increases are tied to performance and job mastery.**
- **Employers must be able to defend performance appraisal methods and differences in salary increases.**

Pay is determined by employee's output.

- **Straight piece-rate**
 - Base wage rate plus additional compensation for output
- **Differential piece-rate**
 - One piece rate up to the standard and a higher rate after the standard is exceeded
- **Works best in assembly and manufacturing situations.**

- **Employee's characteristics determine pay.**
- **Superior knowledge or skill mastery is rewarded.**
 - **Knowledge-based (scientists whose pay is based on knowledge in a field or domain)**
 - **Skill-based (machine operators cross-trained on a variety of production equipment)**
 - **Competency-based (professionals who excel at defined competencies)**

A window manufacturer guarantees its installers a base wage plus an extra \$25 for each job completed to specifications. The employer is using a

- A. merit pay system.**
- B. productivity-based system.**
- C. competency-based system.**
- D. flat-rate system.**

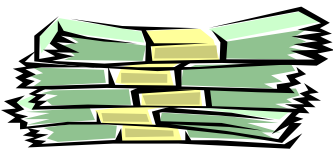
Answer: B



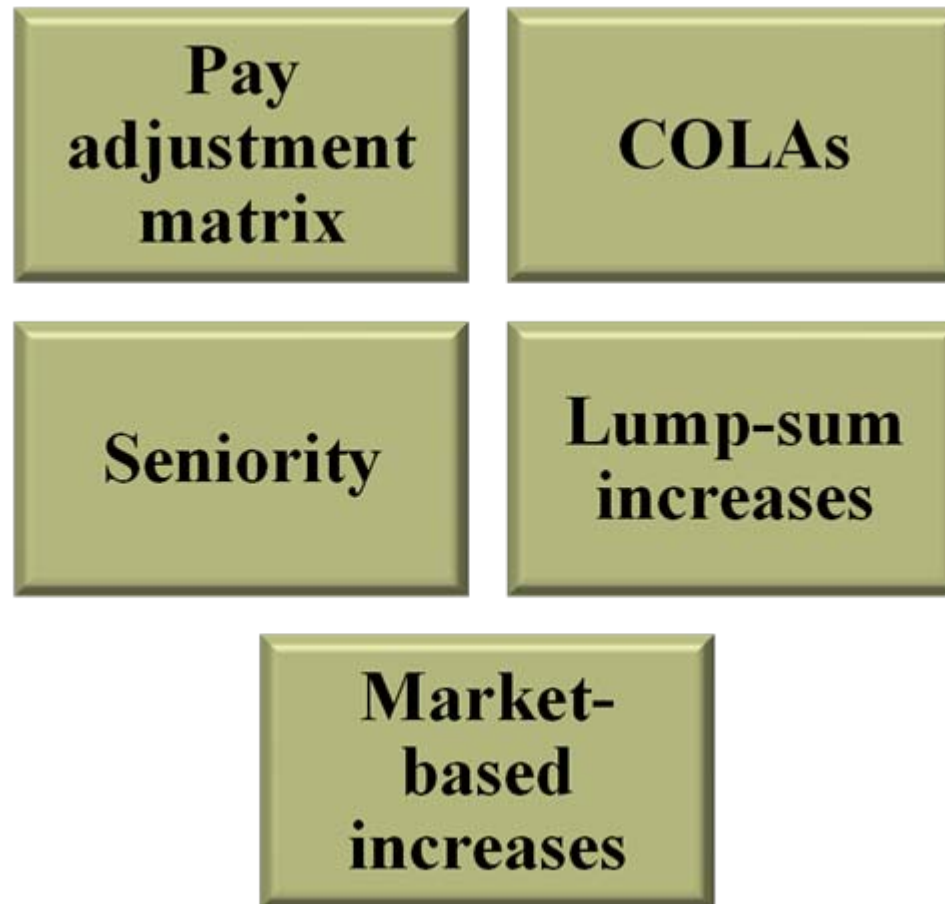
- **Red-circle rates**
 - Rates above the range maximum



- **Green-circle rates**
 - Rates below the range minimum



- **Pay compression**
 - Small differences in pay regardless of experience, skills, or seniority



- **Based on when an employee works.**
- **Except for overtime, FLSA does not require differential pay.**

Shift pay

Emergency-shift pay

Premium pay

Hazard pay

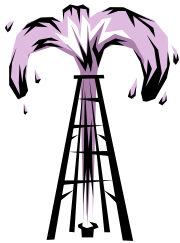
On-call or call-back pay

Reporting pay

Travel pay



Differentials for labor costs



Differentials to attract workers to certain locations

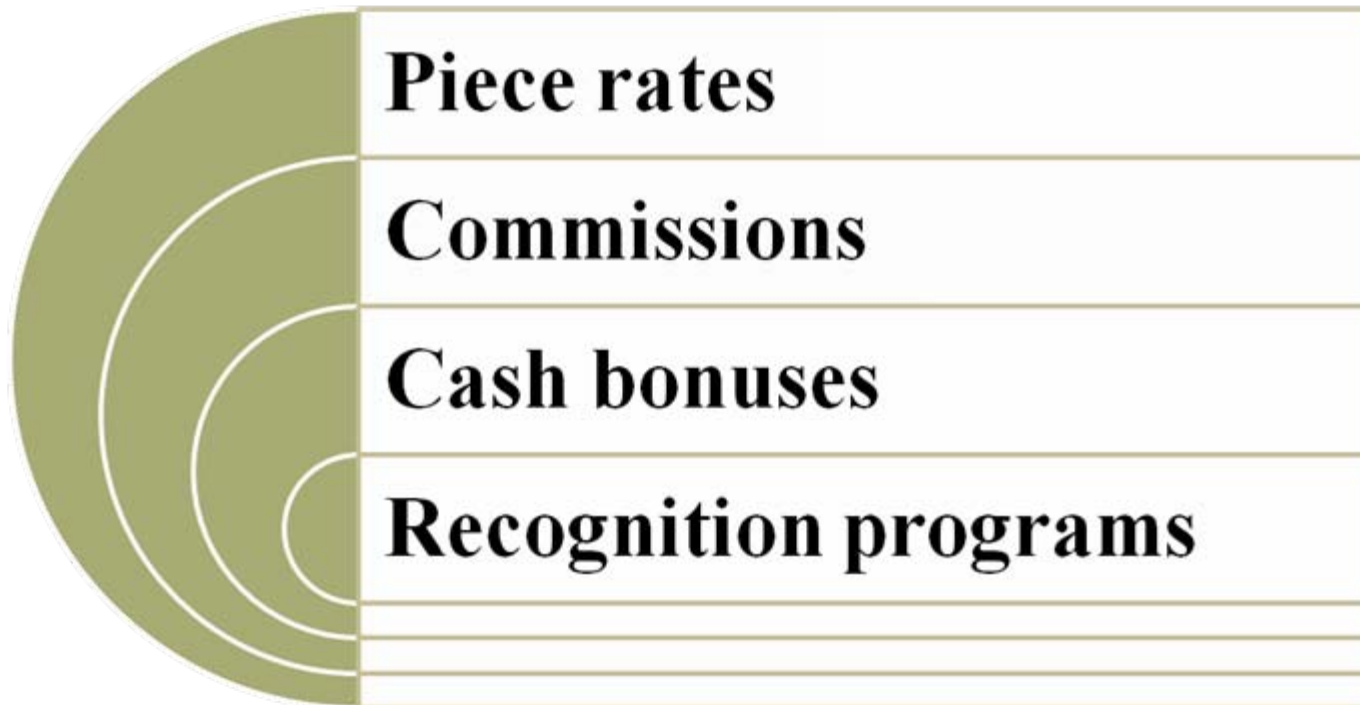


Differentials for foreign pay

- **Paying for performance beyond expectations.**
- **Usually involves a significant amount of employee's pay.**
- **May be a factor when determining overtime pay.**
- **Motivates employees to perform at higher levels.**

Research tax ramifications before implementing any incentive pay plan.

- **Improve individual performance.**
- **Kept separate from base pay.**



- **Gainsharing**
 - **Organization shares a portion of the gains realized from group effort.**
 - **Scanlon, Rucker, and Improshare**
- **Group performance**
 - **Group is rewarded for meeting or exceeding performance standards.**
 - **Each person receives the same amount as a percentage of pay.**

Profit-sharing plans

- **Allow employees to share in profits.**
- **Include cash and deferred profit-sharing.**

Performance-sharing plans

- **Use predetermined criteria and standards to measure results.**
- **Create a fund for incentive awards.**
- **Can be based on factors such as customer satisfaction and quality.**

- **Encourage employees to share in the success of the firm.**
- **Stock may be purchased or earned.**
- **Company may facilitate stock purchase through payroll contributions.**
- **Company may structure stock purchase as a form of ERISA-governed qualified retirement plan (ESOP).**
 - **Nonleveraged ESOPs**
 - **Leveraged ESOPs**

Stock option plans (ISOs and NQSOs)

Stock purchase plans

Phantom stock

Restricted stock grants

Restricted stock units

Performance grants

**Straight
salary**

**Straight
commission**

**Salary plus
commission**



Use when:

**There is a long
sales cycle.**

**More time is
spent on service
than sales.**

**Goal is to
increase volume
and control
costs.**

**Company needs
to reward
behaviors that
support strategy.**

**Plan needs to be
adaptable.**

Dual-ladder progression

Allows senior technical personnel to earn as much as management personnel.

Maturity curves

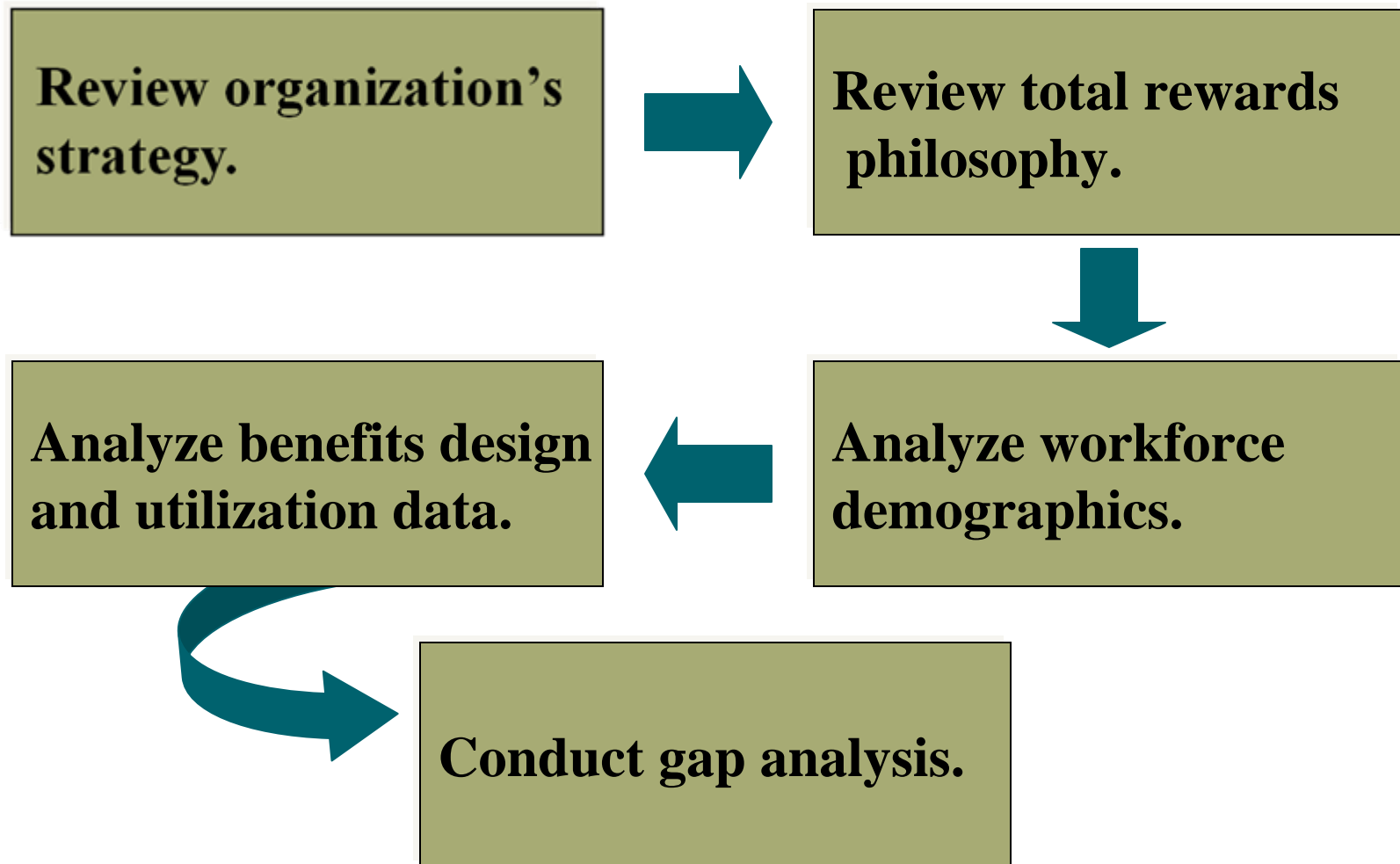
Correlate pay with time spent in the field.

Used for teachers, engineers, and technical personnel

- **Setting ranges**
 - **Setting upper and lower compensation bounds.**
 - **Using compa-ratios to evaluate if policies are being implemented appropriately.**
- **Budgeting**
 - **Top-down approach is best at controlling costs.**
- **Auditing**
 - **Monitoring of expenditures.**

- **Designed to:**
 - **Reward continued employment.**
 - **Retain good employees.**
 - **Improve productivity, work quality, and competitiveness.**
 - **Protect employees' physical and financial well-being.**
- **Must be affordable for employers and attractive to employees.**





The purpose of a gap analysis is to

- A. determine which employees are underinsured.**
- B. revise benefits that are not meeting employee or organizational needs.**
- C. eliminate benefits that are the most costly.**
- D. ensure that all employees receive the same benefits.**

Answer: B

- **Establishes minimum standards for benefit plans.**
- **Plans must conform to the Internal Revenue Code's requirements to receive tax advantages.**
- **Sets up the Pension Benefit Guaranty Corporation (PBGC).**
 - **Plans or their sponsors pay premiums to the PBGC.**
 - **PBGC guarantees payment of vested benefits up to a maximum limit to employees covered by pension plans.**

According to ERISA:

- **Employer must follow the prudent person rule.**
 - **Cannot take more risks than a reasonably knowledgeable, prudent investor would under similar circumstances.**
- **Plan assets must be segregated from other company assets.**
 - **Employer may not misuse funds set aside to provide benefits.**
- **Employer must follow minimum funding standards that apply to retirement benefit plans.**

Defines minimum eligibility requirements for retirement plan benefits.

Age 21

Completion of 12 months of service.

Defines minimum vesting schedules for cliff and graded vesting.

Employees are always 100% vested in their own contributions.

EGTRRA sets vesting schedules for employer matching contributions.

- **Provides legal protections for spousal beneficiaries of retirement plan participants.**
- **Requires written spousal consent for:**
 - **Changes in retirement plan distribution elections.**
 - **Changes in spousal beneficiary designations.**
 - **In-service withdrawals.**

- **Provides continuous group medical coverage after a qualifying event.**
- **Type of event determines the length of coverage, generally 18 to 36 months.**
- **Employer can charge actual cost plus a 2% administrative fee.**

According to COBRA, a company with at least 20 employees must offer

- A. health insurance to its employees.**
- B. continued medical coverage to employees terminated for gross misconduct.**
- C. COBRA benefits to workers if the company terminates its health plan.**
- D. COBRA benefits to spouses of deceased workers.**

Answer: D

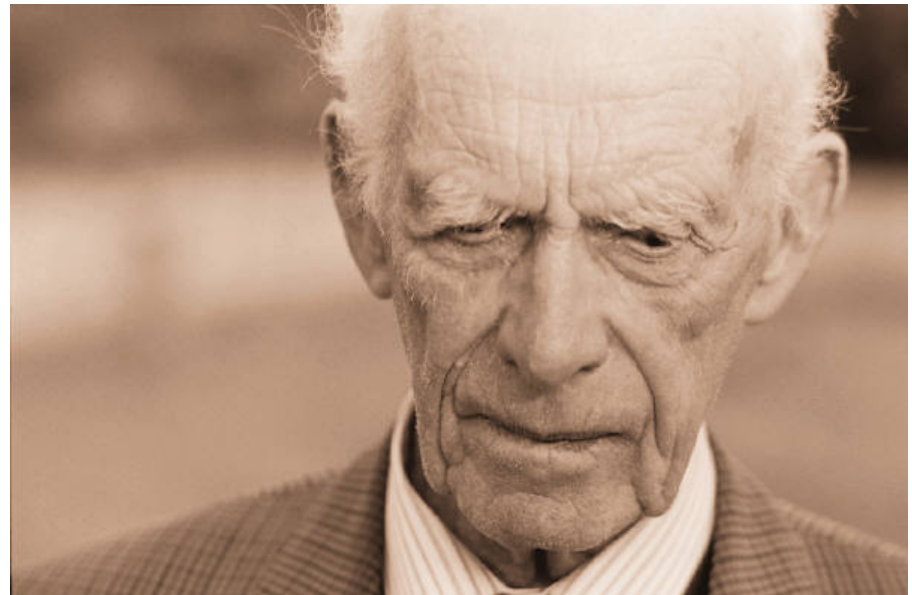
- **Update general and qualifying event notices.**
- **Provide an initial notice within 90 days of the date an employee/spouse is covered under the plan and mail the summary plan description to the residence.**
- **Establish reasonable notification procedures and communicate them to all employees.**
- **Provide a notice of unavailability of continuation of coverage within 14 days of the date you are informed of the qualifying event.**
- **Notify individuals whose coverage ends before the maximum continuous coverage period allowed.**

Key provisions:

- **Limits exclusions for preexisting conditions.**
- **Gives workers leaving a job with employer-sponsored health coverage the right to purchase coverage on their own.**
- **Guarantees renewability as long as premiums are paid.**
- **Makes health coverage portable.**

- **Permits covered entities to use or disclose protected health information for:**
 - **Treatment, payment, and health-care operations.**
- **A written authorization from the patient is required if outside of these purposes.**
- **Organizations must:**
 - **Establish systems for tracking protected health information.**
 - **Designate a privacy officer and complaint process.**
 - **Ensure that individuals cannot waive their rights.**
 - **Establish a system of consistently enforced sanctions.**
 - **Keep records for six years.**
 - **Establish written contracts with third parties.**

- **Prohibits older workers from waiving their ADEA rights unless they are given 21 days to consider the agreement and consult an attorney (45 days for group terminations).**
- **Employees have seven days to revoke the agreement after signing.**
- **Release must reference age discrimination claims under ADEA.**



Covers employers with 50 or more employees within 75 miles of a given workplace.

Employee must have worked at least 12 months for the employer and 1,250 hours in the past year.

Provides 12 weeks of unpaid leave for birth, adoption, or serious illness of a child, spouse, parent, or the employee.

Covers *in loco parentis* relationships.

- **Employer has the option to require the employee to take unpaid FMLA leave concurrent with any relevant paid leave.**
- **Employer must continue the employee's health benefits while the employee is on approved FMLA leave.**
- **Employees are required to pay their portion of the cost of benefits.**

According to the FMLA, which of the following is true?

- A. Employers must pay all health benefit costs for employees on leave.**
- B. Employee must return to the same or a similar job as the employee held before the leave.**
- C. A week containing a holiday does not count as a full week of FMLA leave.**
- D. Employees are eligible for FMLA leave after six months.**

Answer: B

- **Protects the employment, reemployment, or retention rights of persons who serve in the uniformed services.**
 - **Requires employees to provide oral or written notice of the need for leave (30 days if feasible).**
 - **Allows for five years of leave.**
 - **Gives employees on leave the same seniority-based benefits they would have received if they had not taken leave.**

- **Requires that employer health plans permit employees on leave to continue coverage at their expense for up to 24 months. (A 2% charge for administrative costs can be added.)**
- **Requires that leave not create a break in service for pension plan purposes.**
- **If state laws provide protection beyond USERRA, employees are entitled to the maximum protection.**

According to USERRA, employees called up for active duty are entitled to

- A. higher limits for salary deferral contributions.**
- B. credited service for retirement plan purposes.**
- C. lower copayments and deductibles for continued family medical benefits.**
- D. an early vesting schedule for retirement benefits.**

Answer: B

- **Makes Economic Growth and Tax Relief Reconciliation Act provisions due to sunset in 2010 permanent.**
- **Requires pension plans to become fully funded over a seven-year period starting in 2008.**
- **Allows employers to automatically enroll employees into a 401(k) plan with default contribution levels.**
- **Allows non-spouse beneficiaries to transfer assets inherited from a qualified retirement plan into a traditional IRA.**
- **Toughens the law for charitable donations.**

- **Adjusts minimum vesting schedules for employer matching contributions to defined contribution plans.**
 - **Three-year cliff vesting**
 - **Six-year graded vesting (20% after two years and 20% per year thereafter)**



- **Sets permissible compensation limits—
Code Section 401(a)(17).**
- **Sets limits on annual pensions—Code
Section 415(b)(1)(A).**
- **Permits catch-up contributions for
employees age 50 and older.**
- **Modifies distribution and rollover rules.**

- **Enacted in response to Enron and other corporate scandals.**
- **Requires administrators to notify plan participants of blackout periods for 401(k) or defined contribution plans.**
- **Prohibits insider trading during the blackout period.**

- **Must be done in writing 30 days in advance and must contain:**
 - **Reasons for blackout.**
 - **Identification of affected rights and investments.**
 - **Expected beginning date and length of blackout.**
 - **Statement that individuals should evaluate the appropriateness of their current investment decisions.**

- **Protects employees who:**
 - **Report conduct that they “reasonably believe” violates federal securities laws.**
 - **File, testify in, or assist in a proceeding related to securities fraud.**
- **Employer cannot take adverse action or discriminate against employees for taking part in protected activities.**

- **FASB decides how financial firms should report financial information to shareholders.**
 - **Required companies to treat employee stock options as an expense on financial statements beginning in 2005.**
- **IRS implements and interprets tax legislation:**
 - **Revenue rulings.**
 - **Private-letter rulings.**

- **Social Security/Medicare**
- **Unemployment insurance**
- **Workers' compensation**
- **COBRA**
- **FMLA**



- **Provides:**
 - Retirement income.
 - Disability, death, and survivor's benefits.
- **To qualify:**
 - People must work 40 quarters or ten years.
- **Calculated as a set percentage of salary:**
 - Yearly maximum limit
 - Deducted from employees' pay
 - People who work and receive payments must still pay in.

- **Retirement income:**
 - Depends on individual's average earnings.
 - Pays reduced benefits at age 62; full benefits are indexed to year of birth.
- **Disability benefits:**
 - Are paid when workers cannot work for at least five months.
 - Are paid when workers have an impairment that is expected to continue for 12 months or result in death.
 - Start after a five-month waiting period.
- **Death and survivor's benefits**

- **Not dependent on income or ability to pay.**
- **Employee and employer pay a percentage of salary; there is no yearly maximum.**
- **All individuals are eligible at age 65.**
- **Employer benefits are primary for employees 65 and older who are working.**

Part A (hospital insurance) is mandatory.

Part B (medical insurance) is optional.

Part D (outpatient prescription drugs) is optional.

- **Mandatory benefit funded primarily by employers and administered by states.**
- **Eligibility in most states includes:**
 - **Being available and actively seeking work.**
 - **Not refusing suitable employment.**
 - **Not having left job voluntarily.**
 - **Not being unemployed because of labor dispute.**
 - **Not being terminated for misconduct.**
 - **Working a minimum number of weeks.**
- **Duration: 26 weeks.**

- **State insurance paid by the employer.**
- **Protects workers in case of a **work-related injury or disease.****
- **Experience-rated; employers who have a high number of claims pay more.**
- **Employers assume all costs, regardless of who is to blame for an accident.**

Allow organizations to recruit and retain employees.

Allow people to retire, creating opportunities for others.

Provide tax deferrals for plan participants if plans comply with ERISA and IRS Code.

- **Under ERISA, plans must:**
 - **Be in writing and be communicated to employees.**
 - **Be established for exclusive benefit of employees/beneficiaries.**
 - **Satisfy rules concerning eligibility, vesting, and funding.**
 - **Not favor officers, shareholders, or HCEs.**

- **Benefit amount is based on a formula.**
- **Employer funds the plan and bears the risk.**
- **Insured by the PBGC.**

Flat-dollar formula

Career-average formula

Final-pay formula

Cash balance plan

- **Employees and/or employers pay a specific amount per person into the fund.**
- **Benefits are determined by fund performance.**

Profit-sharing plans

Money purchase plans

ESOPs

**401(k) plans
403(b) plans**

- **Referred to as qualified tuition programs (QTPs).**
- **Federal tax-free way to save money for college.**
 - **College savings plan**
 - **Establishes an account for a future student.**
 - **May be used at any college.**
 - **Prepaid tuition plan**
 - **Locks in future tuition at current price.**
 - **Used at participating in-state public colleges and universities.**

- **Provide additional benefits to key executives.**
- **Do not qualify for favorable treatment under ERISA.**
- **Employees defer reporting income; not subject to the limits placed on qualified plans.**
- **Employer contributions are not deductible.**
- **Funds are not protected by ERISA or PBGC.**

Examples: Rabbi trusts, top hat plans, and excess deferral plans

- **Create or recognize the right of an alternate payee to receive all or a portion of pension benefits.**
- **Orders must relate to child support, alimony, or marital property rights and must be made under state domestic relations law.**



- **Indemnity or fee-for-service plans (offered less frequently).**
 - **Full-choice plans.**
 - **Employees can go to any qualified physician.**
 - **Fees are generated when services are used.**
- **Managed care plans (offered most frequently).**
 - **Prepaid, capitated health-care plans.**
 - **Members enroll and pay a set monthly or annual fee.**
 - **Members must use HMO physicians and facilities to get low fees; no need to submit claims.**

- **Dental plans**
- **Vision care plans**
- **Prescription drug plans**
- **Alternative health care**



Fully insured

Employer pays premiums to a third-party insurance carrier that bears the risk.

Fully self-insured

Employer assumes the role of the insurance company and bears the risk.

No “stop-loss.”

Partially self-insured

Employer purchases specific or aggregate stop-loss coverage to limit risk.

Objective: To help employers control costs while allowing employees to make decisions about their health care.

**Health
reimbursement
accounts**

**Combine a high-
deductible medical plan
with individual HRAs**

**Health savings
accounts**

**Tax-sheltered savings
accounts used to pay
for medical expenses**

- **Employer purchases a high-deductible medical plan.**
- **Plan reimburses employees for eligible and substantiated health-care expenses.**
- **Employees may NOT contribute on any pretax basis.**
- **Subject to COBRA continuation.**
- **If self-funded, must meet nondiscrimination requirements and not favor HCEs.**

- **Individuals are covered by a high-deductible health plan.**
- **Employer contributions are deductible; employee contributions are excluded from income when done through a Section 125 plan.**
- **Earnings grow tax-free, and distributions for qualified medical expenses are tax-free.**
- **Unused funds can be carried over from year to year, are portable, and can be used into retirement.**

- **Premium-only plans**
 - **Employees receive favorable tax treatment on benefits already offered.**
- **Flexible spending accounts**
 - **Pretax dollars are set aside to pay for dependent care or unreimbursed expenses.**
 - **“Use-it-or-lose-it” option amended to contain a grace period of two and one-half months at the end of the plan year.**
 - **Nonprescription drugs or medicines can be reimbursed.**
- **Full cafeteria plans**
 - **Benefit credits are used to purchase benefits.**
 - **Unused credits can be cashed out.**

An employer pays an FSA medical claim for \$500 in March. In April, the employee leaves the company after setting aside only \$250. What happens in this situation?

- A. The employee must return \$250 to the company.**
- B. The employer may withhold \$250 from the employee's last paycheck.**
- C. The employee is entitled to the reimbursement as paid.**
- D. The employee becomes ineligible for COBRA coverage.**

Answer: C

**Employer-
provided
sick leave**

**Pays 100% of
pay for a set
number of
days.**

**Short-term
disability**

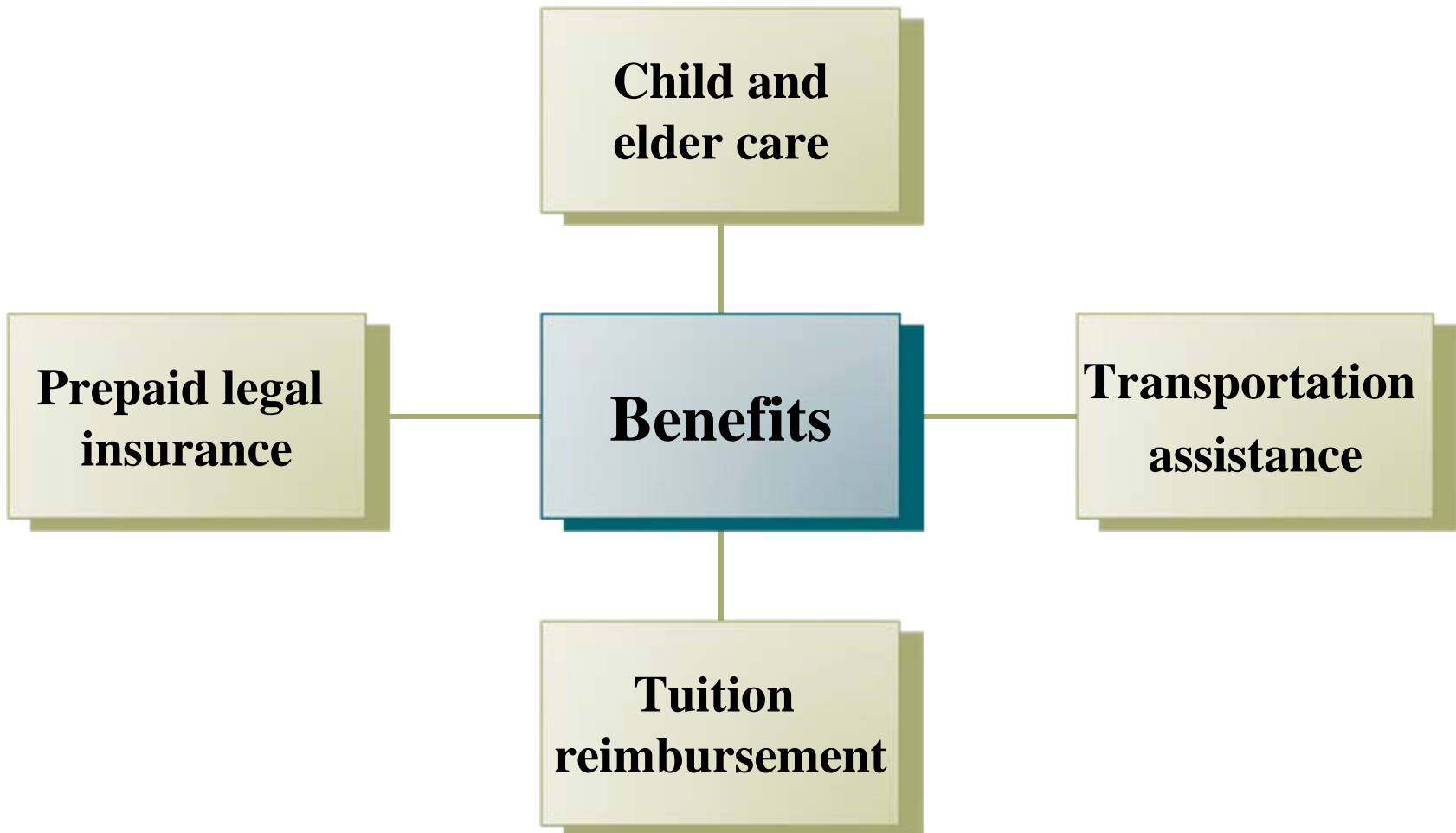
**Replaces a portion
of lost income.
Typically 50% to
70% for up to six
months**

**Long-term
disability**

**Begins when
short-term
coverage expires.
Usually integrated
with Social
Security.**

- **Group-term life insurance**
 - Lump-sum payment to beneficiaries.
- **Excess group-term life insurance**
 - Insurance over \$50,000 is taxed as imputed income.
- **Dependent group life insurance**
 - Employees can insure spouses/dependent children.
- **Long-term care insurance**
 - Policies offered through FSAs or cafeteria plans are not tax-deductible; premiums paid by the employer are taxable to the employee.

- **Paid leave for events:**
 - **Holiday pay**
 - **Vacation pay**
 - **Community service pay**
 - **Leave of absence**
 - **Bereavement leave**
- **Paid-time-off banks**
 - **Paid time off is lumped into one account.**



Which of the following items is generally subject to federal taxation?

- A. \$1,000 reimbursement for a business trip**
- B. \$300 per month for parking**
- C. \$20 gift from a vendor**
- D. \$1,500 for a job-related training seminar**

Answer: B

- **Economy of the country**
- **Cost of living**
- **General pay levels**
- **Traditions and values for jobs**
- **Difficulty of the location**
- **Currency fluctuation**
- **Tax consequences**



- **Negotiation**
- **Balance sheet**
 - Headquarters-based
 - Home-country-based
- **Pure localization**
- **Higher-of-home-or-host-country**
- **Lump-sum**
- **Cafeteria**



What is the advantage of paying an expatriate an allowance for the difference between home-country costs and assignment costs?

- A. It's equitable regardless of country of origin.**
- B. It simplifies administration.**
- C. It is more tax-effective for the employee.**
- D. It gives the expatriate a choice.**

Answer: A

- **Social security**
- **Health care**
- **Disability**
- **Paid time off**
- **Retirement**
- **Severance**
- **Life insurance**



- **International social security agreements.**
- **Eliminate dual social security coverage and taxes for companies and workers.**
- **Fill gaps in benefit protection for workers.**



- **Is it in compliance?**

- **Is it compatible with the organization's mission and strategy?**

- **Does it fit the corporate culture?**

- **Is it internally equitable?**

- **Is it externally competitive?**

- **ERISA requires:**
 - **Summaries of the plan description, annual report, and material modifications.**
 - **Filing Form 5500 with the DOL.**
- **Other required communications include:**
 - **Continuation of benefits' notice.**
 - **Explanation of stock options (SEC regulations).**
 - **Posting of all required state employment laws.**