

Any Type of compensation other than "wages"

What Is Included in "total" compensation

- Wages (+)
- Value of Benefits

Why are benefits so important?

- Benefits cost Employer → 40% of payroll
- Increased premiums employer
- OR
- Self Insuring
- Rate of premium for benefits is growing faster than cash wages
 - o Labor issues ≠ Increased Wages
 - o Same benefits
 - o

Cutting back = Employee + Dependents

- Employee + Employee pays for dependents

Employer pays partial for Employees

Employer wants employees to share more cost

Why Do Employers offer benefits?

- Attract and Retain competent employees
- Tax Advantages/ cash incentives

- Mandatory – Workers Compensation
-

IRS looks at benefit expenses the same as wages

- Increased Employee Morale
- Employee increase productivity
- Healthier Workforce
- Group Insurance

Basic Underwriting Principle of Group Insurance →

****AKA → The method to control Adverse Selection****

1. Insurance should be incidental to the group. The group should not be formed just for the purpose of Insurance.

- a. Group just for Insurance → Gather the high risk members → which leads to higher premium, higher rate of people dropping out, and no one will sell Insurance to the Employer.

- i. **“Death Spiral”**
- ii. Employer is a Group

2. Flow People In & Out of The Group

- a. It Needs younger people to flow in.
- b. It Needs older people to flow out
 - i. Older people using up all of the resources → which makes premium go up.
 - ii. Younger people drop out and seek coverage elsewhere
 1. “Adverse Selection Death Spiral”
 - iii. Don't want to much turnover → Increase in administrative costs.

3. Automatic Determination of Benefits

- a. You don't want individuals to be able to select individual amounts of coverage.
- b. Unhealthy / High Risk → They are going to choose top of the line coverage.
 - i. Employer will offer a basic benefit and let the employee enhance the benefit if they (employee) pays for it.
 - 1. Dependents / Extra Benefits → You pay for it
 - ii. Payroll Deduction
 - 1. Pre-taxed → Tax benefit to employee as well as to the employer.

4. Minimum Participation

- a. If the plan is Non-Contributory → Employer pays all → *RARE*
 - i. 100% of Employees must be covered
- b. If the plan is Contributory → Employee pays something
 - i. Large # of employees must participate for the pool to be diverse.
 - ii. "Hard Waiver" – Not joining Employer's Health Insurance Plan but to prove that you have other coverage.

5. 3rd Party Sharing of Costs

- a. Individual/Employee is not bearing whole cost employer pays part—
 - i. Sharing avoids huge increase in premium- younger / healthier employees would realize they're *subsidizing* older workers.

6. Simple Efficient Administration

- a. Payroll deduction → keeps costs down
- b. "Cafeteria Benefits" – for employees (Difficult to Administer)
 - i. Employees love it
 - ii. Employers Hate it → Because it is difficult to administer

7. Eligibility Requirements