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**PART FOUR**  
**OTHER BENEFITS**

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## CHAPTER 30

# OVERVIEW OF OTHER BENEFITS

### Introduction

Many employers offer employees a large array of benefits, in addition to retirement and health benefits, to meet the changing needs of the nation's work force. Some of these benefits, such as group life insurance, employee assistance programs, and paid leave, have been staples of the voluntary U.S. benefit system for decades. Employers have added others, including education assistance, group legal plans, and dependent care, as the nature of the U.S. work force has changed.

In addition to these voluntary benefits, the federal government requires employers to provide coverage for various services. Income in retirement is provided for retirees and their spouses through Social Security's Old-Age and Survivors' Insurance (OASI) program. Income protection for loss of income due to a disabling condition is provided through Social Security's Disability Insurance (DI) program. Provision of health insurance coverage for the elderly and disabled is provided through Social Security's Medicare program. Insurance against involuntary unemployment is required by the federal government through the unemployment insurance program.

### Disability Benefits

In the event that an employee suffers an injury and is unable to perform his or her job for a period of time, there are a number of mandatory and voluntary disability insurance programs to help the employee through a financially difficult time.

**Voluntary Programs**—Employers offer two types of voluntary disability programs: short-term and long-term disability insurance. If an employee sustains an injury of short duration—typically up to six months—and is unable to perform the duties of his or her current position, a short-term disability program will replace a portion of an employee's predisability earnings. The typical replacement rate is anywhere from one-half to two-thirds of the employee's predisability weekly earnings. If the injury or illness is severe enough to keep the employee out of work for longer than six months, a long-term disability program will replace a portion of his or her predisability earnings. Most plans replace 60 to 70 percent of the predisability earnings. If the disability last more than two years, the definition of disability changes

to the inability to perform any occupation that the person is reasonably suited to do by training, education, and experience.

**Mandatory Programs: Workers' Compensation**—If an employee suffers an injury or illness while at work, and the condition is a direct result of performing his or her job duties, the workers' compensation program will cover the related medical expenses and provide income replacement while the employee is out of work. In exchange for these benefits, employees who receive workers' compensation benefits are generally not allowed to file lawsuits against their employers for damages of any kind.

**Mandatory Programs: Social Security Disability**—If a worker suffers a disability that is severely impairing, mentally or physically, such that he or she cannot perform any substantial gainful work, and the impairment is expected to result in death or to last for a continuous period of not less than 12 months, the worker will qualify for the Social Security disability program. Created in 1956, Social Security disability was originally open only to workers age 50 or older. The program was expanded over the years to cover all workers and dependents of disabled workers (U.S. Social Security Administration, 2006).

## Group Life Benefits

Many employers provide death benefits for survivors of deceased employees. There are two types of plans designed specifically for this purpose: group life insurance plans, which normally make lump-sum payments to a designated beneficiary or beneficiaries, and survivor income plans, which make regular (usually monthly) payments to survivors. Additionally, benefits may be paid to survivors from other employee benefit plans (e.g., profit-sharing, thrift savings, and pension plans). Survivor benefits are also available through the Social Security program.

The contract between the insurance company and the employer is usually for *group term* life insurance. Many associations and multi-employer plans also provide group term life benefits.<sup>1</sup> The word *term* means that the coverage is bought for a specific time period (usually one year), with a renewable provision, and remains in effect only as long as premiums are paid. It also may be referred to as *yearly* or *annual renewable term*. Term insurance has no savings features and no buildup of cash value. It is pure insurance protection, paying a benefit only at death.

Group universal life programs (GULPs), first introduced in 1985, developed from individual universal life policies (UL). UL is issued on an

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<sup>1</sup> Other major types of group life insurance are permanent forms, including paid-up and ordinary life insurance. For more information on these two other types, see Rosenbloom, 2005. Since term insurance is the most popular group coverage, this chapter will focus primarily on group term life insurance.

individual basis, whereas GULP coverage is available on a group basis. GULP plans may supplement a regular group term life insurance plan or may exist as stand-alone plans.

GULPs combine group term life insurance with a savings element or cash accumulation feature. This investment element can be used to create nontaxable permanent insurance or to accumulate savings. GULPs are made available to employees by an employer to which a master policy has been issued, and employees pay the entire premium.

## **Unemployment Insurance**

The Social Security Act of 1935 created the Federal-State Unemployment Compensation Program. The program has two main objectives: 1) to provide temporary and partial wage replacement to involuntarily unemployed workers who were recently employed; and 2) to help stabilize the economy during recessions (U.S. Congress, 2004). The Federal Unemployment Tax Act of 1939 (FUTA) and titles III, IX, and XII of the Social Security Act form the framework of the system.

FUTA currently imposes a 6.2 percent gross tax rate on the first \$7,000 paid annually by covered employers to each employee. States may have a higher taxable wage base than the federal requirement of \$7,000. As of January 2008, 43 states had a taxable wage base higher than the federal level, ranging up to \$32,200 in Idaho (U.S. Department of Labor, 2008). Employers in states with programs approved by the federal government and with no delinquent federal loans may credit 5.4 percentage points against the 6.2 percent tax rate, making the minimum net federal unemployment tax rate 0.8 percent. Since all states have approved programs, 0.8 percent is the effective federal tax rate (U.S. Congress, 2004).

In 1976, Congress passed a surtax of 0.2 percent of taxable wages to be added to the permanent FUTA tax rate. Thus, the current effective 0.8 percent FUTA tax rate has two components: a permanent tax rate of 0.6 percent, and a surtax rate of 0.2 percent. The surtax has been extended five times, most recently by the Taxpayer Relief Act of 1997, which extended it through Dec. 31, 2007 (U.S. Congress, 2004).

In order for a worker to receive unemployment compensation, he or she must have earned a certain amount of qualifying wages. In most states, this is defined as earnings in the first four of the last five completed calendar quarters. The purpose of this requirement is to limit unemployment compensation to individuals with a current attachment to the labor force. Most states require a worker to meet a one-week waiting period before his or her first benefit payment. The worker must be able and available for work, actively seeking work, and free of any disqualifying event. A disqualifying

event is defined as quitting employment voluntarily, discharge for misconduct, refusal of suitable work, or being part of a labor dispute.

## **Paid Leave**

Paid vacations allow workers a specified amount of leisure time to use at their discretion. The length of vacation time generally increases with tenure. Leave policies provide time off for holidays; enable workers to take leave for military-duty, funerals, and the birth or adoption of a child; and provide time off for workers who have short or long periods of illness.

To assist employees in balancing work/life conflicts and reduce their growing use of unscheduled leave, employers are increasingly turning to paid time off (PTO) banks. In short, a PTO bank combines separate vacation, personal, and sick leaves into one comprehensive plan that allows the employee the flexibility to use leave for any reason. This eliminates the stress an employee may experience when, for instance, he or she feels obliged to take sick leave inappropriately to deal with a personal situation such as attending a parent-teacher conference. According to Hewitt Associates, in 2006 between 22 percent and 32 percent of the surveyed programs are PTO banks (Hewitt Associates, 2006).

## **Lifestyle Benefits**

As the evolution of the work force continues, lifestyle benefits, such as employee assistance programs, legal services, dependent care, and education assistance, have grown in popularity among workers and some employers.

***Employee Assistance Programs (EAPs)***—EAPs provide counseling services directed toward acute problems that affect job performance. These programs were originally designed to identify and address the problem of employee alcoholism (and later drug abuse). Today, alcoholism and drug abuse continue to be a major focus of many EAPs. However, counseling is also being offered on stress management, family and marital problems, work place violence, pressures from child and elder care responsibilities, and coping with the effects of company downsizing.

***Group Legal Services***—Employed persons usually do not qualify for legal aid or the services of public defenders. As a result, most employed people tend to postpone seeking legal information and assistance until their needs become acute and, typically, more costly, according to the American Bar Association (ABA).

Legal services plans primarily provide preventive assistance by making legal information and advice readily available to workers. By preventing disputes or simple legal matters from becoming serious problems, they offer

the potential for reducing legal expenses; in addition, plan members often receive discounted rates.

## Dependent Care

**Child Care**—Studies show that when employees experience child care difficulties, the results are absenteeism, tardiness, decreased morale, and unproductive work time. Employers are beginning to respond to these problems as a way to increase productivity. Many employers have become involved in child care, especially those with a high proportion of younger employees, women, high turnover rates, and problems with absenteeism. 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.

**Elder Care**—As with child care, elder care encompasses a large group of benefits that some employers offer. Some of the services provided under elder care are similar to those provided under child care, such as in-house resources and/or referral services, contracted referral services, and dependent care flexible spending accounts. Other services and benefits, such as long-term care insurance, are unique to elder care.

**Flexible Work Arrangements**—Flexible work schedules are another form of child- and elder-care support. Flexible work schedules refer to any adjustment in the hours worked that is different from a traditional fixed daily schedule of five days per week. Certain flexible work schedule policies, such as flextime, job sharing, compressed work week, and part-time work, have become valuable to many working parents.

## Education Assistance

Many individuals who cannot afford to finance their education in full look to federal loan or grant programs for financial assistance. However, some of these programs are only available to students who are enrolled at least half-time. Many part-time students, therefore, are not eligible to receive government assistance. For these individuals, there are three formal education assistance programs that employers may sponsor for their employees: tax-favored educational reimbursement programs (Sec. 162), educational assistance programs (Sec. 127), and qualified scholarship programs. In addition to these formal programs, employers may sponsor informal educational opportunities for their employees, for example, in-house training and courses involving continuing education, personal development, and literacy enhancement.

**Sec. 529 Plans**—States have begun developing their own aid programs to help residents meet the growing cost of a college education for their children, and Congress has provided these plans with special tax status under Sec. 529 of the Internal Revenue Code. These savings programs are established and administered by states for the purpose of setting aside savings for “qualified higher education expenses.”

There are two basic types of Sec. 529 plans: a savings plan and a prepaid plan. A prepaid plan allows individuals to prepay college education expenses at today’s prices, while the savings plan allows an individual to set aside some money and earn a variable rate of return on the assets.

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