## Chapter 01

## Introducing Employee Benefits

**True / False Questions**

1. Cafeteria plans enable employees to choose from among a set of benefits and different levels of these benefits. (Basic Design Considerations for Discretionary Benefits)  
**TRUE**

2. Cost-of-living adjustments (COLAs) are based on changes in prices as indexed by the consumer price index. (Adjustments to Core Compensation)  
**TRUE**

3. The Fair Labor Standards Act first legitimized bargaining for employee benefits. (Origins of Employee Benefits)  
**FALSE**

4. Flexible work schedules are considered part of accommodation and enhancement benefits packages. (Defining Employee Benefits)  
**TRUE**

5. Health insurance is a legally required benefit for all private sector employers? (Health Protection Programs)  
**FALSE**

6. The Federal Insurance Contributions Act (FICA) helps support the Old-Age, Survivor, and Disability Insurance (OASDI). (Government Regulation of Employee Benefits)  
**TRUE**

7. Employer-sponsored disability insurance is less encompassing than workers’ compensation. (Disability Insurance)

**FALSE**

8. Defined benefits plans, defined contribution plans and hybrid plans are types of health insurance funding plans. (Income Protection Programs)  
**FALSE**

9. Strategic benefit plans emphasize short-term changes in how a company's benefit plan operates. (Basic Strategic Planning Concepts)  
**FALSE**

10. The top-down approach to strategic benefits planning is a reactive process that evaluates the benefits program only after problems arise. (Approaches to Strategic Benefit Planning)  
**FALSE**

11. Incentive-pay rewards employees for completely attaining predetermined work objectives. (Adjustments to Core Compensation)  
**FALSE**

12. Workers' compensation insurance programs, run by the federal government, are designed to cover employee expenses incurred in work-related accidents and injuries. (State Compulsory Disability Laws (Workers’ Compensation))  
**FALSE**

13. Merit-pay rewards employees according to their job performance. (Adjustments to Core Compensation)  
**TRUE**

14. Total compensation represents both monetary and nonmonetary rewards. (Employee Benefits in the Total Compensation Scheme)  
**TRUE**

15. Strategic decisions support the fulfillment of tactical decisions. (Basic Strategic Planning Concepts)  
**FALSE**

16. Unemployment insurance is funded solely by the Federal Unemployment Tax Act (FUTA). (Government Regulation of Employee Benefits)  
**FALSE**

17. Core compensation is another name for monetary rewards. (Employee Benefits in the Total Compensation Scheme)  
**TRUE**

18. Nonmonetary compensation includes protection programs, paid time off and services. (Employee Benefits in the Total Compensation Scheme)  
**TRUE**

19. Employees' knowledge and skills are said to generate human capital for firms and are the basis for incentive-pay. (Adjustments to Core Competition)  
**FALSE**

20. The Social Security Act was enacted due to the effects of WWII. (The Social Security Act of 1935)  
**FALSE**

21. Union workers cannot negotiate paid time off benefits. (Paid Time-Off)  
**FALSE**

22. ERISA does not apply to public sector retirement plans. (Legal and Regulatory Influences on Discretionary Benefits Practices)  
**TRUE**

23. Benefits are defined as compensation that includes wages and salary as well as other services. (Defining Employee Benefits)  
**FALSE**

24. Benefits are a central strategy in attracting and retaining desired employees. (Basic Strategic Planning Concepts)  
**TRUE**

25. Vacations are a type of accommodation benefit. (Paid Time-Off)  
**FALSE**

26. Protection programs provide health benefits. (Health Protection Programs)  
**TRUE**

27. Compensation levels are established based on employee age. (Adjustments to Core Compensation)  
**FALSE**

28. Workers' compensation laws are state laws. (State Compulsory Disability Laws (Workers’ Compensation))  
**TRUE**

29. Life insurance programs protect employees' families in the event of untimely illness. (Income Protection Programs)  
**FALSE**

30. Employees are most likely to endorse benefits that fulfill their needs. (Basic Design Considerations for Discretionary Benefits)  
**TRUE**

31. Incentive-pay is a permanent increase of compensation based on individual goal achievement. (Adjustments to Core Compensation)

**FALSE**

32. In financing discretionary benefits, employers always pay the total cost incurred. (Basic Design Considerations for Discretionary Benefits)

**FALSE**

33. Since the 1940s, companies have expanded their discretionary benefits as an alternative to wage increase or as a motivational tool. (Origins of Employee Benefits)

**TRUE**

34. The existence of labor union has limited the use of welfare practices by companies. (Origins of Employee Benefits)

**FALSE**

**Multiple Choice Questions**

35. Which is the following is NOT the reason for companies to adopt various benefits plans? (Defining and Exploring Employee Benefits)

A. Government regulation/mandates  
B. Favorable tax treatments  
C. Attracting and retaining best employees   
**D.** Reducing labor cost

36. What is another name for a pay-for-knowledge plan? (Adjustments to Core Compensation)  
A. Merit-pay  
**B.** Person-focused pay  
C. Seniority-pay  
D. Incentive-pay

37. Discretionary benefits can be categorized into programs that (Discretionary Benefits)  
A. Protect health and income, provide job security, provide accommodation and enhancement benefits  
B. Provide job security, protect health and income, allow for paid time-off  
**C.** Protect health and income, allow for paid time-off, provide accommodation and enhancement benefits  
D. Provide job security, allow for paid time-off, provide accommodation and enhancement benefits

38. Which is the following is NOT the element of discretionary benefits? (Discretionary Benefits)  
A. Retirement plans   
**B.** Workers’ compensation  
C. Health insurance  
D. Paid vacations

 39. Which two are the possible approaches that can be used in strategic benefits planning? (Approaches to Strategic Benefit Planning)  
A. Backing-out & top-down  
**B.** Top-down &backing -in  
C. Backing-up & top-in  
D. Backing-down & top-in

40. These two federal laws form the basis for legally required benefits. (Legally Required Benefits)  
A. Social Security Act & Civil Rights Act  
B. Family and Medical Leave Act & Civil Rights Act  
**C.** Social Security Act & Family and Medical Leave Act  
D. Equal Employment Act & Social Security Act

41. Employer choice of discretionary benefits does not depend on: (Government Regulation of Employee Benefits)  
A. Economic considerations  
B. Adequacy of legally required benefits  
C. Employee expectations  
**D.** Government mandates

42. The Family and Medical Leave Act (FMLA) permits employees which of the following? (The Family and Medical Leave Act of 1993)  
A. 12 work weeks of paid leave during any 12-month period  
B. 10 work weeks of paid leave during any 12-month period  
**C.** 12 work weeks of unpaid leave during any 12-month period  
D. 10 work weeks of unpaid leave during any 12-month period

43. Information for strategic benefits planning comes from these two environments. (Information Used in Strategic Benefit Planning)  
A. External company & internal market  
**B.** External market & internal company  
C. Internal market & external market  
D. Internal company & external company

44. In which social context were workers' compensation laws enacted? (State Compulsory Disability Laws (Workers’ Compensation))  
A. Post Depression  
B. Post WWII  
**C.** Industrial expansion in the early 1900s  
D. Turn of the 20th century

45. What are the four main classes of health insurance programs that employers have to choose from to offer its' employees? (Health Protection Programs)  
**A.** Fee-for-service plans, managed care plans, point-of-service plans, consumer-driven plans  
B. Consumer-driven plans, point-of-service plans, managed care plans, fee-for-service plans, person-focused plans  
C. Fee-for-service plans, person-focused plans, point-of-service plans, point-of-service plans  
D. Point-of-service plans, consumer-driven plans, managed care plans, person-focused plans

46. When the employee bears the entire costs of discretionary benefits it is referred to as which type of financing? (Basic Design Considerations for Discretionary Benefits)  
A. Noncontributory  
B. Contributory  
**C.** Employee-financed  
D. Employee-focused

47. Which of the following are considered the five core compensation elements? (Adjustments to Core Compensation)  
**A.** COLAs, seniority pay, merit pay, incentive pay, person-focused pay  
B. Merit pay, seniority pay, COLAs, incentive pay, base pay  
C. Seniority pay, person-focused pay, incentive pay, base pay, COLAs  
D. Base pay, person-focused pay, merit pay, incentive pay, seniority pay

48. Which three are the three fundamental roles that characterize discretionary benefits? (Discretionary Benefits)  
A. Protection programs, paid time-off, retirement programs  
**B.**Protection programs, paid time-off, accommodation and enhancement programs  
C. Paid time-off, accommodation and enhancement programs, retirement programs  
D. Retirement programs, protection programs and accommodation and enhancement programs

49. Flexible benefits allow employees to do which of the following? (Basic Design Considerations for Discretionary Benefits)  
**A.** Choose which benefits they want and at what level  
B. Only choose the level of benefits they want  
C. Only choose which benefits they want  
D. Choose whether they want all base pay or pay and benefits

50. Companies can generally choose from which four programs for financing their discretionary benefits plans. (Basic Design Considerations for Discretionary Benefits)  
**A.** Noncontributory, contributory, employee-financed, a combination of the other three  
B. Managed care, contributory, employee-financed, a combination of the other three  
C. Employee-financed, contributory , managed care, a combination of the other three  
D. Managed care, contributory, employee-financed, noncontributory

51. Commission payments are examples of which type of core compensation package? (Adjustments to Core Compensation)  
**A.** Incentive pay  
B. Merit pay  
C. Person-focused pay  
D. Seniority pay

52. Which of the following are the three main types of retirement programs that companies can offer? (Income Protection Programs)  
A. Employee-financed plans, defined benefits plans, hybrid plans  
B. Hybrid plans defined contribution plans employee-financed plans  
C. Defined contribution plans, employee-financed plans, defined benefits plans  
**D.** Defined contribution plans, defined benefits plans, hybrid plans

53. Which two make up the internal environmental factors? (Internal Environment)  
A. Labor force demographics, governmental regulations  
B. Mergers and acquisitions, labor force demographics  
C. Governmental regulations, collective bargaining agreements  
**D.** Workforce demographics, collective bargaining agreements

54. The Social Security Act of 1935 set up which two programs? (The Social Security Act of 1935)  
**A.** Retirement income & unemployment insurance  
B. Medicare & disability insurance  
C. Disability insurance & retirement income  
D. Unemployment insurance & Medicare

55. Which of the following factors are used for strategic benefits planning? (External Environment)  
A. Government regulations  
B. Economic conditions  
C. Labor force changes  
**D.** All of the above

56. Which of the following is not a fundamental employee goal? (Legal and Regulatory Influences on Discretionary Benefits Practices)  
A. High wages  
**B.** Leadership  
C. Job security  
D. Safe working conditions

57. Which of the following is not an example of features of a benefit plan? (Basic Design Considerations for Discretionary Benefits)  
**A.** Flexible benefits  
B. Eligibility  
C. Waiting period  
D. Employee choice

58. In 2011, what was the average total employer compensation costs for private industry workers? (Employer Costs for Compensation and Benefits)  
**A.** $30.11  
B. $20.91  
C. $35.50  
D. 28.24

59. In 2011, about how many million persons were employed by private-sector companies? (Legal and Regulatory Influences on Discretionary Benefits Practices)  
A. 90 million

**B.**109 million  
C. 118 million  
D. 125 million

**Essay Questions**

60. Briefly describe the origins of employee benefits in the US. (Origins of Employee Benefits)

Main Points  
● Different forces led to rise of legally required and discretionary benefits in US  
● Government established programs to protect individuals from disability and unemployment  
● Historically, legally required benefits provided a form of social insurance  
● Industrialization during late 19th and early 20th century and Great Depression led to design of initial social insurance programs  
● Contemporary discretionary benefits evident in late 1800s  
● Employer sponsorship of medical insurance became common  
● National Labor Relations Act legitimized bargaining for benefits  
● Employees today typically view benefits as entitlements

61. Briefly describe various legal and regulatory influences on discretionary benefits. (Legal and Regulatory Influences on Discretionary Benefits Practices)

Main Points  
● Necessary to distinguish between "private sector" employers and governmental employers - different regulations influence discretionary benefits practices in these two sectors.  
● In 2011, private sector companies employed 109 million US civilian employees, mostly for-profit  
● Conflicting goals between employers and employees necessitate laws and regulations to protect employees  
● Prior to 1930, employees had no rights  
● Before 1974, employees could lose retirement benefits  
● Regulations such as Social Security Act of 1935 and ERISA of 1974 protect employees from this today  
● Public sector employers include US federal, state and local entities  
● Approximately 22 million employees in this sector in three braches - executive, judicial, legislative  
● Government employers must operate within a budget to provide pay and benefits to employees.  
● ERISA does not apply to public sector retirement plans

62. Discuss the influence of external economic conditions on strategic benefits planning of companies. (External Environment)

Main Points  
● Factors outside the direct control of a company  
● Industry prospects, economic conditions, forecasts  
● Employer costs for compensation and benefits  
● Government regulation of employee benefits  
● Changing demographics of the labor force

63. Discuss the impact of recent demographic changes in labor markets (e.g., influx of female, ethnic minority, or older workers) on the benefit strategy of companies. (Changing Demographics of the Labor Force)

Main Points

● Increasing numbers of female, minority, or older workers in the current workplace   
● Different needs and preferences based on demographic characteristics   
● Challenges of benefit professionals to manage diverse needs and preferences

● Company’s strategic actions to accommodate different needs of employees