Course Learning Outcomes for Unit V

Upon completion of this unit, students should be able to:

5. Explain workers' compensation.
   5.1 Discuss the discretionary and mandated benefits employers can provide for their employees.

6. Summarize recommended considerations prior to selecting from various types of pension plans.
   6.1 Identify various types of pension or retirement plans that employees may choose to participate in.
   6.2 Describe the participation requirements that are applied to pension plans.

Course/Unit Learning Outcomes	Learning Activity
5.1	Unit Lesson Chapter 9 Chapter 10 Unit V Assignment
6.1	Unit Lesson Chapter 9 Chapter 10 Unit V Assignment
6.2	Unit Lesson Chapter 9 Chapter 10 Unit V Assignment

Required Unit Resources

Chapter 9: Discretionary Benefits

Chapter 10: Legally Required Benefits

Unit Lesson

In this unit, we will be reviewing the two types of benefits in organizations today: discretionary benefits and mandated benefits.

Discretionary Benefits

As the term implies, *discretionary benefits* are those benefits that an organization can provide to its employees at the organization's discretion. Important considerations when deciding on what benefits to provide to the employees would include the organization's business strategy, the financial condition of the organization, the economy, and the employees themselves. Discretionary benefits usually consist of protection programs, paid time off, and employee services designed to attract and retain employees. Protection programs include options such as retirement plans, disability insurance, life insurance, and supplemental unemployment benefits.

Retirement Plans

Most organizations offer some type of retirement plan. Your textbook goes into detail about the defined contribution and defined benefit options, so we will address other types of retirement savings accounts at this time. One type of retirement savings account is the 401(k). Often, organizations will match a portion of the employee's contribution—essentially creating free money. The employee contributions are taken from the paycheck before taxes, and taxes are not paid on the money until the money is withdrawn from the account. Many organizations also allow employees to determine where the money is invested. The employee can decide on a group of mutual funds at different risk levels, which can range from aggressive to conservative. A point to consider when investing in a 401(k) is that the money the employer invests is not immediately available. There is a vesting time or waiting period so that employees do not leave the organization early. Also, the Internal Revenue Service (IRS) sets limits on the contributions for 401(k) accounts.

If an employee leaves an organization, the 401(k) can be rolled over into another 401(k) account without a tax penalty. Also, in some cases, you can withdraw money from the 401(k) after age 55—but before age 59—if an employee leaves the organization. This might be a better investment option than moving money into an individual retirement account (IRA) where the employee would have to wait until age 59 to withdraw money without tax penalties.

For those employees with financial issues, a 401(k) is protected from bankruptcy. Creditors cannot force employees or former employees to withdraw money from a 401(k) to pay debt. Lastly, for those employees who have a significant number of company stocks, the net unrealized appreciation tax rule might apply. This rule allows the owner of the stock to sell the stock and pay a capital gain tax versus ordinary income tax. Of course, an accountant would know if the rule would be in the best interest of the employee/retiree or not.

A 403(b) is another retirement savings option. A 403(b) is basically the same as a 401(k), but it is offered to teachers and employees at nonprofit agencies.

Another type of retirement savings account is the solo 401(k). This type of 401(k) is for a sole proprietor, and it allows the proprietor to contribute as both an employee and as the employer. This account also has contribution limits based on age.

The simplified employee pension (SEP) is a retirement savings account that is available to businesses of any size. With this type of plan, the employer can contribute to traditional IRAs, and the employee is always 100% vested (IRS, 2015a).

Another retirement savings account is the Savings Incentive Match Plan for Employees (SIMPLE). For a SIMPLE IRA, both the employee and the employer can contribute money. For example, for the 2020 tax year, employees can contribute up to $13,500 as long as the employees make more than $13,500 in 2020. Under the SIMPLE IRA, employers can either contribute 2% of every employee's compensation or choose to match 3% for the employees (IRS, 2019). (This information is subject to change during subsequent tax years.)

The regular IRA allows an employee to save $6,000 or $7,000 for those employees over the age of 50 (IRS, 2020b). The money in an IRA grows tax-free for as long as the money is invested. An IRA is a tax deduction for most employees, but employees can no longer make regular contributions after age 70-and-a-half (IRS, 2020b).

A Roth IRA, on the other hand, allows an employee to contribute after-tax dollars into the account so there is no tax deduction. Like the IRA, the money grows tax-free, and you do not have to pay taxes on the money if you take withdrawals after age 59-and-a-half. You can, of course, take the money that you contributed yourself (not the earnings) out of a Roth IRA at any time without paying a penalty or taxes. Saving for retirement can be complicated, so it is best to consult with experts before deciding which benefit is best for each individual.

Other Discretionary Benefits

In this section, we will discuss other discretionary benefits employers may offer to their employees.

- Paid time off (PTO) refers to the compensation paid to employees for time not worked such as vacation time or sick time. More recently, many organizations bundle PTO into one program in which all PTO is incorporated into one plan. An employee is given a specific amount of PTO to be used at his or her discretion.
- Disability protection refers to protection offered beyond workers' compensation such as short-term or long-term disability insurances.
- Supplemental unemployment benefits (SUB) include additional income for employees receiving unemployment insurance.

Some organizations offer life insurance to employees as a part of a group life insurance program that benefits the employee's family in the event of his or her death. A portion of this benefit may be paid by the employee. Some higher-ranking employees have life insurance policies that benefit the organization in the event of the employee's death.

When it comes to employee services, organizations can offer a variety of options such as relocation allowances, child and elder care assistance, educational assistance, food services/subsidized cafeterias, fitness services, or other organizationally unique benefits.

Premium pay, such as shift differentials and hazard pay, can also be offered as discretionary benefits. As the world of work changes, the options available to organizations when it comes to discretionary or optional benefits changes as well.

Mandated Benefits

Some benefits, however, are legally required, and they include social security, unemployment compensation, and workers' compensation. Your textbook provides details on the mandated benefits. Specific laws are in place to ensure organizations provide mandated benefits, or the organizations will face fines and/or sanctions. State and local laws may also have an effect on an organization's benefits.

Employee benefits are the non-wage portions of the compensation package provided to employees. Benefits are expensive for an organization but are necessary to attract and retain highly qualified employees in a competitive market. Flexibility and variety are necessary when choosing benefits as we find baby boomers, millennials, generation Xers, and veterans in the workforce today.

In the next unit, we will address some common compensation challenges that human resources professionals face in the workforce.

References

Internal Revenue Service. (2020a). Choosing a retirement plan: SEP. Retrieved from https://www.irs.gov/retirement-plans/choosing-a-retirement-plan-sep

Internal Revenue Service. (2020b). Retirement topics—IRA contributions limits. Retrieved from https://www.irs.gov/retirement-plans/plan-participant-employee/retirement-topics-ira-contribution-limits

Internal Revenue Service. (2019). Operating a SIMPLE IRA plan. Retrieved from https://www.irs.gov/retirement-plans/operating-a-simple-ira-plan

Learning Activities (Nongraded)

Nongraded Learning Activities are provided to aid students in their course of study. You do not have to submit them. If you have questions, contact your instructor for further guidance and information.

Each chapter of your textbook contains a case study related to the main theory or concept within the chapter. Review the case studies to gain a better understanding of the course materials as they relate to compensation considerations. Feel free to discuss the chapter case studies with your classmates in the Student Break Room forum.