The need to introduce flexible benefit plans for employees narrative essay

Business, Employee

The employees of today’s workforce are divers. With such a workforce at hand, an employer must have a flexible benefit plan to match the composition of its employees. Flexible benefit plans are a written plan under which employees of a company are allowed to choose two or more benefits consisting of cash and qualified benefits (Everett & Miller, 1994).

Some benefits offered under a flexible benefit plan arehealthcare, dental, reimbursement accounts, life insurance, accidental death and dismemberment coverage, long-term disability, vacation, retirement savings, spouse accidental death and dismemberment coverage, and dependent care (Kleiner & Sparks, 1994). A young couple can be assured that their jobs not only meet the daily needs of their growingfamily, but that their children are covered for very little cost in their own employer-provided hospitalization and health care insurance.

A worker employed by the same organization, approaching retirement, can choose benefits that will maximize his/her retirement income as much as possible. With his/her own children grown-up, he/she needs to attend only to his/her own needs. Also known as “ cafeteria plans,” the organization offering a choice of applicable benefits to their employees ensures that the benefits for which they pay are the most useful for each of their employees. Costs are rising in almost every area of benefit provision and administration.

The organization is able to secure more favorable rates for those benefits used, if the organization is not required to provide the same service to each employee (Webster, 1996). Employee benefit plans have had a long history, and can be traced back to 1794, when the first profit-sharing plan was created by Albert Gallatin in his glassworks in Pennsylvania (Kleiner & Sparks, 1994). Another notable benefit plan includes those made by the American Express Company in 1875 with the first private pension plan, and the first group annuity contract issued in 1921 by the Metropolitan Life Insurance Company (Kleiner & Sparks, 1994).

These early benefit plans were only the beginning of the benefit packages. As it turns out, the Social Security Act of 1935 gave employees across the country a legal framework that supported the development of many forms of employee benefits. Very few employers provide full family health care coverage at no cost to the employee in today's world, but everyone can save when they provide that coverage only to those who need it. Even though the employee almost always shares the cost now, the employer still provides the major portion of the cost of health care insurance.

In today's increasingly competitive business climate, everyone is forced to operate as efficiently as possible. The advantage to the organization and employees of having a flexible benefit plan is clear. Businesses are not required to pay for services its employees will never seek. For instance, pediatric care was provided across the board in one organization, a significant numbers of the company'sleadershipwere well past the point of needing that type of coverage for their family (Webster, 1996). Flexible benefit plans can be a very important tool for recruiting new employees and retaining current employees.

Also, the costs of administering such plans may be offset to a large extent by the payroll tax savings generated when employees convert previously taxable compensation and income into a nontaxable fringe benefit tax (Everett & Miller, 1994). Flexible benefit plans also provide the employee with the advantage of being able to ensure that benefits chosen are those that best meets their needs. The primary advantage of flexible benefit plans is that the employer and employee receive certain tax advantages. This depends on the types of programs the employee chooses. In some

cases, the employee may choose cash rather than any benefits at all, but that option is dependent on company policy. For instance, many companies offer pay in lieu of off the job vacation time, but other companies insist that employees take their accrued vacation time. Another advantage of flexible benefit plans is the ability of the organization to shift some of the cost of benefits to the employees who use them, while simultaneously offering tax advantages in other areas such as 401K plans. Any benefit that is not paid in cash, but is treated as such, is taxable to the employee, but the employee tax liability decreases the employer's.

Any benefit that does not satisfy the nondiscrimination clause of the Internal Revenue code is taxable (Webster, 1996). Other benefits are nontaxable either to the employee or to the employer. To be nontaxable, the benefit must be a qualified benefit under Section 125. Such qualified benefits include accident or health plans, disability benefits, accidental death and dismemberment benefits, the first $50, 000 of group term life insurance, a group dependent care assistance plan, and a group legal services plan (Webster, 1996).

A disadvantage of flexible benefit plans is that employees are often overwhelmed by the numerous choices a plan may have to offer. In many cases, companies are contracting accountants, financial planners, investment counselors and other consultants to help employees wade through the vast array of options (Jurek, 1995). Such consultant use increases the employers' costs of providing the flexible benefits plans, but employers believe the guidance is needed. As for the IRS, it only requires organizations make flexible benefit plans available to all employees, not explain the intricacies of all options.

Employers' that provide flexible benefit plans show the desire to in increase employees'loyaltyto the company. In an increasingly tight labor market and faced with the necessity of operating as efficiently as possible, in order to remain competitive, employers view the flexible benefit plan as a tool to enhance employee morale. Flexible benefit plans are also used to improve employer-employee relationships, reduce overall costs of providing benefits, and reduce the incidence of employee turnover (Leonard, 1994).

Replacing an employee can cost more than the annual salary of that employee, so it is to the employer's advantage to retain as stable a workforce as possible (Leonard, 1994). From both the employer and the employee point of view, flexible benefit plans make sound financial sense (Kleiner & Sparks, 1994). These plans provide a way for employers to control and budget benefit cost. At the same time, it is also a way for employees to enhance their benefits while paying expenses with pre-taxed dollars. References Abbott, R. K. (1995). Redefining flex after health reform.

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