How Do Employee Benefits Work?

Remote, hybrid and flexible work settings have reshaped the workplace dynamic, intensifying competition as candidates now have more choices than ever about where to invest their careers. When workers aren't experiencing an acceptable level of employee satisfaction, chances are they won't stay long at a company.

Aflac's 2023 report reveals that 82% of employers report positive employee retention after offering supplemental insurance benefits. When companies structure a comprehensive employee benefits program covering health and financial planning, employers can rest assured that each carefully chosen employee benefit contributes to a worker's decision to commit or stay open to a move as soon as is feasible.

This article provides a solid guide for understanding how employee benefits work and why they lead to higher employee recruitment, job satisfaction and retention.

What Are Employee Benefits?

Employee benefits are the employee perks or different kinds of compensation that employers provide to eligible employees in addition to their salary. These benefits often include paid time off (PTO), health insurance, dental coverage and vision insurance. While some benefits are mandatory, others fall under supplemental insurance coverage, including retirement benefits, employee discounts, bonuses and even stock options.

Some employee benefits are legally mandated (mandatory) and others are optional for employers (voluntary). Companies have to carefully consider, design and implement fair benefits packages that cater to both employer and employee needs.

Employee benefits safeguard business reputation, can be a major appeal for top talent and go a long way in communicating a company's commitment to employee wellness. Forbes found that a whopping 40% of employers admit to their retention rates being affected by employees leaving their roles after successfully securing jobs offering better benefits somewhere else. This finding says a lot about what employees value in their search for comfortable, secure places of work — salary alone is not enough.

Top, loyal talent favors employers that are invested in holistic well-being. To stand out among stiff competition in each industry, employers need to diversify their benefit offerings. From family life contributions and fair PTO to a suitable wellness program initiative and incentives that promote work-life balance, employment packages need to be robust and beneficial in the long term.

There are four main employee benefits categories:

1. **Health insurance** — for physical and general wellness.
2. **Retirement benefits** — to cover employee livelihoods after the formal working years.
3. **Paid and unpaid time off** — for vacation, sick leave and emergency coverage.
4. **Additional compensation** — to cover employees' fringe expenses for certain lifestyle benefits.

That brings us to the two main types below, which detail a further differentiation and breakdown.

Mandatory vs. Optional Employee Benefits

So, now comes the all-important question: How do employee benefits work? Two main employee benefit types define each employer's benefit package design: **mandatory benefits and optional benefits.**

Mandatory benefits are compulsory and are guided by federal and state-specific legal requirements. Optional perks and incentives, on the other hand, are those considered as fringe benefits, which supplement and support an employee's overall internal or employment package.

Before we get to what the common mandatory and optional employee benefits are across industries, first, employers need to understand the four major factors to consider for their benefit package design and implementation processes. The most essential guiding factors are: ?

- Company cost and ROI: Employers need to crunch the numbers carefully to confirm what their budgets and company goals will dictate is possible to offer in regards to employee benefits.
- Tax implications: There are several tax considerations to make and incorporate into employee benefits structuring. Employers need to be aware of these and comply accordingly.
- Workplace eligibility: From company and staff size to industry standards and niche particularities, employers need to abide by whatever applicable legal parameters affect their business.
- Employee satisfaction: Employers need to gather feedback and get a good 'temperature gauge' of what employees need for positive influences on recruitment and retention.

These guiding factors play a crucial role in the negotiation and decision-making stages that all employers need to take when implementing or reevaluating their employee benefits. After consolidating what a company can afford to offer and how they may want to implement a suitable benefits structure, it's time to decide which benefits make it into the final package.

Mandatory Benefits
The top five mandatory benefits tend to include: ?

- Health insurance
- Medicare contributions
- Paid leave, special leave or family obligation coverage
- Unemployment insurance
- Workers' compensation

Why Do Mandatory Benefits Matter?
Mandatory benefits play an important role in standardizing business codes and ethics while protecting employees from exploitation and unfair treatment. By putting in place a set of obligatory employment coverage, states and federal agencies can ensure that there is fair play across industries and different workplaces.

Optional Benefits
The top five optional benefits tend to include:

- Dental coverage and vision care
- Disability benefits
- Life insurance
- Pet insurance

- Travel insurance and commuter benefits

Why Do Optional Benefits Matter?
Fringe benefits promote work-life balance and cater to the needs of employees beyond their standard salaries. With optional benefits, employers can execute a more hands-on approach to compensation coverage to add more value to their employment packages. This differentiates employers and adds an element of holistic care for employees who prioritize a bit more than bare minimum employment offers.

How Employee Benefits Work: Structuring Your Benefits Packages

Companies need to put employee benefit plans in place that equally support company growth, their business interests and employee needs. When structuring their employee benefits, employers should aim to strike a balance between mandatory and supplementary or what is sometimes referred to as ancillary benefits. Without proper structuring, even the most lucrative employee benefits might prove unsustainable after a period of implementation and evaluation.

While employers seek ROI, employees require a unique blend of wellness benefits and preventative health coverage to meet their specific lifestyle needs. It isn't always easy to find a happy medium, which is why it makes a big difference when companies consider outsourcing their benefits or opting for professional employee benefits administration and solutions.

A workforce that can reap tangible rewards and feels their employers care about their well-being is an absolute game-changer for workplace trust, loyalty and engagement — not to mention employee retention. The greatest advantages for employers include an enhanced ability to attract top talent, improving employee retention and boosting employee morale.

Considerations for ROI and Future Trends
Employee benefits ROI and monitoring will depend on a company's evaluations of cost-sharing and administration, benefits enrollment, emerging market trends and internal employee research. More often than not, employee packages are also guided by a company's unique employee demographics (e.g. age, race, gender). This will affect the kinds of fringe benefits that employees look forward to or appreciate most.

Employers also need to keep their finger on the pulse of shifting workplace demands, like the rise of remote, hybrid or part-time workplace models. In these cases, each employee benefits package structure might need to take a less conventional, creative or flexible approach to cater to the needs of off-site workers.

When employers have their benefits structure decided upon, there also has to be proper planning for roll-out, communication to staff and overall benefits management. These final steps are part of the bigger picture of ensuring efficiency and effectiveness through evaluation and adjustments where necessary.

Tips for Effective Benefits Design and Management

Next up, a short guide to help you design a benefits package that aligns with your company goals and helps you manage roll-out effectively. Remember that implementing competitive benefits packages must be accompanied by best practices that are anchored in company ethics, employer honesty and workplace transparency.

The best employee benefit plans come about when employers follow these tips: ?

- **Tip #1:** Gather employee feedback at set intervals to stay informed about the evolving employee experiences within your company. Surveys encourage employee engagement and are very telling about what employees need in the current work era.
- **Tip #2:** Consider what financial constraints pertain to you as an employer if you head a small business or a growing start-up. While employees can be understanding in their expectations, limited budgets aren't an excuse for completely neglecting employee needs.
- **Tip #3:** Comply with the legal regulations that are key to your industry or field. Fair benefits are what define employee loyalty — employers who skimp on decent coverage lose out in the long run.
- **Tip #4:** Review your employee benefits packages and their effectiveness from both the employer and employee perspectives. By executing accurate long-term projections, employers can unlock fundamental insights and incorporate measurable employee performance outcomes as part of an ongoing growth process.
- **Tip #5:** Explore what is possible with professional employee benefits administration to ease the burden on management teams and HR. External management solutions and administration providers offer much-needed support and advisory, especially for large companies.

Employee Benefits That Work for Employers and Employees

Not only are employee benefits vital for legal compliance, but they are the secret weapon behind workplace culture and job satisfaction, too. When employers bolster their employment offers with packages that add value over and above wages, they can instill confidence in committed employees who will be willing to go the long haul.

From workplace staples like paid time off to designing a unique employee benefits program that centers wellness and work-life balance, carefully-structured and comprehensive benefits administration can elevate both employee retention and company growth.

Contact us today to learn more about what Aptia can deliver for you and your organization.

Image
How Do Employee Benefits Work?



View PDF
Articles