

MULTIPLE CHOICE. Choose the one alternative that best completes the statement or answers the question.

- 1) Which of the following statements about employee benefits is true? 1) \_\_\_\_\_
- A) Employee benefits of all types are discretionary and are not mandated by law.
  - B) Employee benefits of all types are mandated by law and are not discretionary.
  - C) Employee benefits are not part of a company's total compensation package.
  - D) Employee benefits are funded either by the government or the employer; not the employee.
  - E) Employee benefits are mostly not taxable.
- 2) Which method of financing benefit plans allows costs to be shared between employer and employee? 2) \_\_\_\_\_
- A) ESOPs
  - B) employee financed
  - C) non-contributory
  - D) contributory
  - E) income-security
- 3) Which of the following factors relate to employee preferences in determining desirable components of a benefits package? 3) \_\_\_\_\_
- A) relationship to total compensation costs
  - B) costs relative to benefits
  - C) perceived fairness
  - D) legal requirements
  - E) competitor offerings
- 4) What is vesting? 4) \_\_\_\_\_
- A) It is the reduction of benefits by any amount paid under a spouse's plan.
  - B) It is a general strategy used to control medical benefit costs by promoting preventive health programs.
  - C) It is the negotiation some employers have with employees about wage concessions to reduce employer contributions to selected benefits.
  - D) It is the exclusion of new employees from benefits coverage until some term of employment is completed.
  - E) It is the employee's right to the employer-paid portion of pension benefits within a certain period of time even if he or she no longer works for the employer.

- 5) Which of the following is the most frequently used method of communicating benefits to employees? 5) \_\_\_\_\_
- A) video presentation
  - B) intranet
  - C) employee handbook
  - D) group seminar
  - E) employee discussion
- 6) Under which of the following cost containment strategies are the benefits of an employee reduced by any benefits payable under his or her spouse's plan? 6) \_\_\_\_\_
- A) benefit maximums
  - B) administrative cost containment
  - C) coinsurance
  - D) deductibles
  - E) coordination of benefits
- 7) \_\_\_\_\_ refers to a specified dollar amount of claims paid by the employee each year before insurance benefits begin. 7) \_\_\_\_\_
- A) Wage concession
  - B) Benefit cutback
  - C) Deductible
  - D) Vesting
  - E) Coinsurance
- 8) Which of the following employee benefits is NOT legally required? 8) \_\_\_\_\_
- A) Quebec Pension Plan
  - B) Workers' Compensation
  - C) Employment Insurance
  - D) government-sponsored medical plan
  - E) employee assistance plan
- 9) Which of the following is an employee benefit required by law? 9) \_\_\_\_\_
- A) payments for vacation
  - B) Employment Insurance
  - C) employee assistance plan
  - D) employee stock ownership plan
  - E) severance pay plan
- 10) Disability benefits are payable to contributors who sustain a severe, prolonged mental or physical disability and are payable until age \_\_\_\_\_ when the retirement pension begins. 10) \_\_\_\_\_
- A) 45                      B) 50                      C) 55                      D) 60                      E) 65

- 11) Which of the following is true of Workers' Compensation? 11) \_\_\_\_\_
- A) They provide benefits for loss of earnings due to permanent disability; not temporary.
  - B) They cover injuries and diseases that are not work-related.
  - C) The contributions made to the plan are subject to tax.
  - D) The complete cost of administering and paying out for the plan is borne by the employer.
  - E) Employees are not eligible for cover if their actions caused the injury.
- 12) Which of the following is true of Employment Insurance program? 12) \_\_\_\_\_
- A) It applies to workers who are self-employed.
  - B) It provides temporary income to employees during adoption leave period.
  - C) It is not included in taxable income.
  - D) It is payable even if an employee quits without good reason.
  - E) It is funded entirely by contributions from the employer.
- 13) Which of the following provides temporary income replacement for employed Canadians who face employment interruptions due to shortage of work or sickness? 13) \_\_\_\_\_
- A) Employment Insurance
  - B) Workers' Compensation
  - C) Supplementary Unemployment Benefit Plans
  - D) Old age Security Program
  - E) Quebec Pension Plan
- 14) \_\_\_\_\_ are an arrangement by which employees work a reduced workweek and receive Employment Insurance benefits for the remainder of the week. 14) \_\_\_\_\_
- A) Employee assistance programs
  - B) Vesting programs
  - C) Supplementary unemployment benefit plans
  - D) Work-sharing programs
  - E) Workers' compensation plans
- 15) Which of the following plans is funded by the employer alone? 15) \_\_\_\_\_
- A) Quebec pension plan
  - B) Employment Insurance
  - C) defined contribution pension plans
  - D) defined benefit pension plans
  - E) coinsurance

- 16) \_\_\_\_\_ is an employer-sponsored pension plan where employee benefits are calculated based on a formula using factors such as salary history and employment duration. 16) \_\_\_\_\_
- A) Employment Insurance plan
  - B) defined contribution pension plan
  - C) employment assistance plan
  - D) defined benefit pension plan
  - E) Quebec pension plan
- 17) Which of the following is true of defined contribution plan? 17) \_\_\_\_\_
- A) It does not require managing of surplus or deficit in pension fund.
  - B) It is more favourable to long-service employees.
  - C) It does not make employer costs known.
  - D) It provides an explicit benefit which is easily communicated.
  - E) It makes the employer accountable for the risks associated with changes in inflation and interest rates.
- 18) Which of the following is true of defined benefit plan? 18) \_\_\_\_\_
- A) It provides an explicit benefit which is easily communicated.
  - B) It allows employer costs to be known up front.
  - C) It is more favourable to short-term employees.
  - D) It makes the employee bear the risks associated with changes in inflation and interest rates.
  - E) It does not require managing of surplus or deficit in pension fund.
- 19) Which one of the following is offered at the discretion of the employer? 19) \_\_\_\_\_
- A) Employment Insurance
  - B) Canada Pension Plan
  - C) Workers' Compensation
  - D) life Insurance
  - E) Quebec Pension Plan
- 20) Which of the following is a strategy used by managers to control the costs of health care? 20) \_\_\_\_\_
- A) offering a short vesting period on pension plans
  - B) offering wellness programs
  - C) offering workers' compensation insurance
  - D) offering long-term disability plans
  - E) offering defined benefit pension plans

- 21) Which of the following is true of long-term disability plans? 21) \_\_\_\_\_
- A) They provide a fixed annual income to all retired employees.
  - B) They usually provide 50 percent to 75 percent of the employee's base pay.
  - C) The payments typically begin after 48 weeks of disability.
  - D) They provide protection only if the disability was caused due to the nature of work.
  - E) They are taxable if the employee pays the full cost of the plan.
- 22) Employer-sponsored plans that provide pay to an employee when he/she is unable to work because of a non-work-related illness or injury are termed as \_\_\_\_\_ plans. 22) \_\_\_\_\_
- A) defined contribution
  - B) employee assistance
  - C) sick leave
  - D) defined benefit
  - E) salary continuation
- 23) Which of the following is a feature of a salary continuation plan? 23) \_\_\_\_\_
- A) It covers only work-related illness or injury.
  - B) It grants a specified number of paid sick days per month or per year.
  - C) It typically begins paying after 26 weeks of disability and continues to age 65 or for life.
  - D) It provides income protection due to long-term illness or injury.
  - E) It typically provides full pay for some period of time, often two or three weeks.
- 24) An employee assistance plan (EAP) is a formal employer program that provides employees with: 24) \_\_\_\_\_
- A) pay for the extra number of hours worked.
  - B) vision care and dental insurance.
  - C) child care services and elder care.
  - D) counselling for mental health issues.
  - E) income protection for disability.
- 25) Which of the following is a disadvantage of flexible benefit plans? 25) \_\_\_\_\_
- A) Flexible plans make introduction of new benefits more costly.
  - B) Flexible plans increase administrative burdens and expenses.
  - C) Flexible plans fail to equip firms to meet the changing needs of employees.
  - D) Flexible plans decrease the value of benefits as perceived by employees.
  - E) Flexible plans are not suited for companies with diverse workforce.

TRUE/FALSE. Write 'T' if the statement is true and 'F' if the statement is false.

- 26) Employees perceive benefits as being dependent on how well they perform. 26) \_\_\_\_\_
- 27) Employment Insurance is a government-mandated employment-related benefit. 27) \_\_\_\_\_
- 28) Most employee benefits are not taxable and thus offer a cost advantage. 28) \_\_\_\_\_

- 29) A disadvantage of the traditional benefits package was that a package was designed with the average employee in mind, and any deviations in needs simply went unsatisfied. 29) \_\_\_\_\_
- 30) Because future cost estimates may be difficult to project, it is imperative that benefits administrators reduce uncertainty. 30) \_\_\_\_\_
- 31) Benefits need not be externally equitable. 31) \_\_\_\_\_
- 32) Any evaluation of employee benefits must be placed in the context of total compensation costs. 32) \_\_\_\_\_
- 33) Claims processing determines whether an employer has an obligation to fulfill a promise of payment when an employee asserts that disability or hospitalization has occurred. 33) \_\_\_\_\_
- 34) Disability income payments cannot be limited to some maximum percentage of income. 34) \_\_\_\_\_
- 35) Supplementary unemployment benefit plans and work-sharing programs are mandatory benefits. 35) \_\_\_\_\_
- 36) In defined benefit plan, employees assume the risks associated with changes in inflation and interest rates. 36) \_\_\_\_\_
- 37) Flu shot programs, staff appreciation events and first aid/CPR programs are in the top 10 wellness initiatives offered by employers. 37) \_\_\_\_\_
- 38) Long-term disability plans provide income protection due to long-term illness or injury that is not work-related. 38) \_\_\_\_\_
- 39) Flexible benefits help companies save on cost. 39) \_\_\_\_\_
- 40) Flexible plans make introduction of new benefits more costly. 40) \_\_\_\_\_

ESSAY. Write your answer in the space provided or on a separate sheet of paper.

- 41) What can be attributed to the growth in employee benefits?
- 42) List the key issues in benefits planning, design, and administration.
- 43) Which is the biggest cost-containment strategy used in benefit programs in recent years?
- 44) What is the purpose of Workers' Compensation?
- 45) Who contributes to the Employment Insurance (EI)?

- 46) What is the purpose of Canada Pension Plan?
- 47) What is the reason behind defined-contribution plans gaining popularity over defined-benefit plans?
- 48) How can medical benefit costs be controlled?
- 49) Describe the two general strategies for controlling medical benefit costs.
- 50) Describe the three types of disability plans: short-term disability, sick leave, and long-term disability plans.
- 51) List three disadvantages of a flexible benefit program.

## Answer Key

Testname: UNTITLED9

- 1) E
- 2) D
- 3) C
- 4) E
- 5) C
- 6) E
- 7) C
- 8) E
- 9) B
- 10) E
- 11) D
- 12) B
- 13) A
- 14) D
- 15) D
- 16) D
- 17) A
- 18) A
- 19) D
- 20) B
- 21) B
- 22) E
- 23) E
- 24) D
- 25) B
- 26) FALSE
- 27) TRUE
- 28) TRUE
- 29) TRUE
- 30) TRUE
- 31) FALSE
- 32) TRUE
- 33) TRUE
- 34) FALSE
- 35) FALSE
- 36) FALSE
- 37) TRUE
- 38) TRUE
- 39) TRUE
- 40) FALSE



- 41) The government has played a key role in the growth of employee benefits. There are three government-mandated employment-related benefits: Workers' Compensation (provincial), Employment Insurance (federal), and Canada/Quebec Pension Plan (federal and Quebec). Additionally, such laws as the *Income Tax Act*, impacts most other employee benefits such as pension benefits acts. Mandatory retirement at age 65 has been outlawed in most provinces. Many pension and benefit plans have been revised to permit continued pension accrual and continuing benefits coverage for those working past age 65. Unions have fought for the introduction of new benefits and the improvement of existing benefits. Many of the benefits in existence today were provided at employer initiative. Many employer-initiated benefits (such as rest breaks) were designed to create a climate in which employees perceived that management was genuinely concerned for their welfare. Another important and sound reason for the growth of employee benefits is their cost-effectiveness in three situations. The first, is that most employee benefits are not taxable. Provision of a benefit instead of an equivalent increase in wages avoids payment of personal income tax. The second component arises because many group-based benefits (e.g., life and health insurance) can be obtained at a lower rate than could be obtained by employees acting on their own. Third, benefit premiums and pension contributions are tax deductible up to limits specified in the *Income Tax Act*.
- 42) The key issues in benefits planning, design, and administration are:
- (i) the relative role of benefits in a compensation package,
  - (ii) external competitiveness,
  - (iii) benefits adequacy and cost justification,
  - (iv) who should be included in these plans,
  - (v) level of choice for employees, and
  - (vi) employee-employer cost sharing.
- 43) Probably the biggest cost-containment strategy in recent years is the movement to outsourcing. By hiring vendors to administer their benefits programs, many companies have achieved greater centralization, consistency, and control of costs and benefits.
- 44) Workers' Compensation provides non-taxable compensation for injuries and diseases that arise out of, and while in the course of, employment. The complete cost is borne by employers under a collective liability fund.
- 45) The EI program is funded entirely by contributions from employees and employers. The employee contribution is made on earnings up to the maximum insurable earnings and varies over time, and employers contribute 1.4 times their employees' contributions.

- 46) Canada Pension Plan is a mandatory, government-sponsored pension plan for all employed Canadians. Employers and employees each contribute 4.95 percent of pensionable earnings to the plan. The retirement pension benefit beginning at age 65 is 25 percent of average pensionable earnings over the retiree's working life, adjusted for inflation up to the average inflation rate during the last five years prior to retirement. Benefits are reduced upon retirement prior to age 65 and increased upon retirement after age 65. Disability benefits are payable to contributors who sustain a severe, prolonged mental or physical disability and are payable until age 65 when the retirement pension begins. If a plan member dies, a lump sum death benefit is payable to the survivor, and a survivor pension benefit is payable to the surviving spouse/partner. An additional death benefit in the form of a pension is also payable to any dependent children until they reach the age of 18. All benefits are indexed to the Consumer Price Index and are taxable.
- 47) Defined contribution plans have known costs from year one. The employer agrees to a specific level of payment that only changes through negotiation or through some voluntary action. This allows for quite realistic cost projections. In contrast, defined-benefit plans commit the employer to a specific level of benefit. Variations from actuarial projections can add or reduce costs over the years and make the budgeting process much more uncertain. Perhaps for this reason, defined-contribution plans have been more popular for the past 15 years or more.
- 48) There are two general strategies available to benefit managers for controlling the rapidly escalating costs of health care. One strategy to control medical benefit costs involves motivating employees to change their demand for health care through changes in the design or administration of the plan. The second cost strategy involves promotion of preventive health or wellness programs.
- 49) There are two general strategies available to benefit managers for controlling the rapidly escalating costs of health care. First, organizations can motivate employees to change their demand for health care through changes in either the design or the administration of health insurance policies. Included in this category of control strategies are: deductibles, coinsurance rates, maximum benefits, and coordination of benefits. The second cost strategy involves promotion of preventive health, or wellness programs. Various wellness initiatives in Canada include EAP initiative, CPR courses, staff appreciation events, flexible work program, communicate wellness, ergonomic assessment, and health awareness.
- 50) Short-term disability plans or salary continuation plans are employer-sponsored plans that provide a continuation of all or part of an employee's earnings when the employee is absent from work due to an illness or injury that is not work-related. The benefits cease when the employee returns to work or when the employee qualifies for long-term disability. Sick leave plans are employer-sponsored plans that grant a specified number of paid sick days per month or per year. Long-term disability plans provide income protection due to long-term illness or injury that is not work-related. The payments typically begin after 26 weeks of disability and continue to age 65 or for life. Benefits usually range from 50 percent to 75 percent of the employee's base pay, and are not taxable if the employee pays the full cost of the plan.
- 51) Flexible benefit programs have the following disadvantages:
1. Employees make bad choices and find themselves not covered for predictable emergencies.
  2. Administrative burdens and expenses increase.
  3. Adverse selection. Employees pick only benefits they will use. The subsequent high benefit utilization in costs.