
How Compensation Affects More Than Just the Employee

Narrative

From big companies such as Alphabet Inc. to smaller businesses, employee benefits are what attract and retain the most admirable employees. Employees are becoming more diverse in the workforce. A diverse workforce means a diverse set of individual's needs. Diverse sets of individuals' needs are what make employers recruitment jobs difficult. The inevitability of increasing diversity will force employers to start making changes from their old ways of compensation, to a newer more customizable way of offering benefits. Diversity is not limited to just what people want, it also covers their capabilities. With new technology and competent users, the workforce will become increasingly more mobile. Offering a more customizable benefits package will likely increase an employee's loyalty, productivity, and general well-being. There is a constant struggle to find and retain the most talented employees, so the employers that implement a better total rewards approach per employee will have an edge. In a survey conducted by MetLife (2016) about employer recruitment struggles, more than half of the employers in India, China, Poland, and the United Arab Emirates have identified the recruitment process as being a hardship (MetLife, 2016) . Illuminating this as the global struggle that it is. In the United states, 91% of employers believe that benefits are important to attracting employees and 96% of employers believe benefits are important in retaining employees (MetLife, 2016). Nearly one-third of employees globally said that a more beneficial benefits plan could convince them to stay at their current company (MetLife, 2016). There is an obvious agreement that employers understand the importance of benefits when it comes to enticing and preserving talented employees; along with understanding that employees weigh benefits a lot more heavily than they ever have. The real contest for employers is to know exactly what to include in these packages. Amongst the hardships of the recruiting process, other problems exist with the overcompensation of the public sector. The private sector has gotten rid of nearly all defined benefit pension plans and has since replaced them with defined contribution plans (Baker, 2018) . Meanwhile, the public sector is still using these defined benefit plans, which contributes to the compensation gap between the private and public sectors. According to a study conducted by Joshua Rauh of Hoover Institutions (2017), almost every state or local government has an unbalanced budget due to uncontrollable pension fund costs. As the report claims, total unfunded pension liabilities are \$3.85 trillion and the state and local government only recognized \$1.38 trillion in 2017 (Rauh, 2017) . Since the percentage of assets states have for funding future retirees is continually shrinking, changes need to be made.

The Basics of Employee Benefits

There are employee benefits required by law and others that employers have the choice to include or not. It must be noted that each state has their own version of these required benefits, thus, this is a generic overview of the basic benefits most employers cover.

FICA

As for required benefits, the first is The Federal Insurance Contributions Act (FICA). FICA requires employees and employers to contribute to a federal payroll tax used to fund Social Security and Medicare. The Social Security tax is 6.2% of gross compensation and another 1.45% of gross compensation is for the Medicare tax. Employers pay the other 7.65% totaling 15.3% (Social Security Administration, 2017) . Upon employment, employees must fill out certain tax forms which mold the basis for the W-2 form employers must file to report wages. Social Security is a federal program that provides the individual with a sense of protection by paying out monthly retirement benefits when you are eligible to retire. Medicare offers the same sense of financial security upon retirement by paying out benefits for certain health care costs.

Workers' Compensation

Workers' Compensation is another basic benefit. Workers' compensation law requires employers to give benefits to their employees if a loss that occurs is a work-related incident. This law makes the employer absolutely liable. If an employer decides to not provide workers' compensation, the employer loses the right to use the three common law defenses. These three defenses consist of the Contributory Negligence Doctrine, the Fellowservant Doctrine and the Assumption-of-Risk Doctrine (Beam & McFadden, 2012) . Essentially, these three doctrines made it nearly impossible to receive compensation from an employer before the workers' compensation law was enacted. Since they exist, employees have a greater chance to win a workers' compensation case against his or her employer if the employer elected to not provide workers' compensation. In most cases, the employer pays the full cost of having workers compensation benefits. Workers compensation laws include medical care, death benefits, disability income and rehabilitative services. Medical care under workers' compensation typically does not have a limit on how much it costs or for how long one can benefit while injured; there is also no waiting period for the benefits to start covering those medical expenses (Beam & McFadden, 2012).

Disability (Workers' Compensation)

The four categories of disability fall under permanent total or partial, and temporary total or partial. Commonly, total disability benefits are 66% of the employees' average weekly pay and continue either for life or until the employee can work again (Beam & McFadden, 2012). Partial disabilities are paid out as the difference between the employees pay before and after the injury. Depending on the classification of the injury, Medical Improvement Possible (MIP), Medical Improvement Expected (MIE), or Medical Improvement Not Expected (MINE), is what will distinguish the length of time one can receive benefits (Disability Benefits Help, 2018) . Death benefits under workers compensation cover funeral expenses, as well as, cash payments to survivors as a portion of the employees' average weekly pay. Workers' that have contributed enough to FICA are eligible to receive disability benefits.

Unemployment

Unemployment insurance requires all companies to pay an unemployment tax for every employee. Unemployment insurance provides employees with benefits for a brief period if terminated without just cause. There are eligibility requirements such as actively searching for work, being able to work, and completing a waiting period. The Social Security Act in 1935 demanded that a payroll tax was to be imposed on covered employers for purposes of financing unemployment insurance programs. These

programs are financed by federal and state unemployment taxes. The federal tax is 6.2% of the first \$7000 gross earnings of each worker per year but this percentage can get reduced by up to roughly 90% for taxes paid to the state (Department Of Labor, 2017) It is not to say that unemployment insurance solves all problems for the unemployed. It serves its purpose as partially insuring against massive income deficits after being released from employment.

The Family Medical Leave Act

The Family Medical Leave Act (FMLA) permits employees twelve weeks of unpaid but job-protected leave for qualifying medical and family reasons. FMLA applies to employees in private firms with fifty or more employees (Investopedia, 2017) Companies with fifty or more employees also have to make affordable health care coverage available, under the Affordable Care Act. Sometimes employees face situations pertaining to their at-home life, such as, expecting a newborn, children getting into trouble or suffering an injury, relatives passing away, and even personal health issues. These are issues that would pose a threat to an employee before the FMLA in terms of losing your job. The FMLA assists employees with balancing their duties at work and family needs. The fundamentals upon starting a business and offering compensation require employers to allow time for employees to vote, serve in the military and complete jury duty. Abide by the workers compensation laws. Withhold FICA taxes from employees' paychecks along with their own contributions. Pay state and federal unemployment taxes. Contribute to disability programs in states where disability programs exist. And lastly, adhere to the Family and Medical Leave Act.

Cost Comparison Between the Public and Private Sector

The Employer Costs for Employee Compensation is a statistical survey and review of how much it costs employers to provide wages and benefits to their employees. The Bureau of Labor Statistics (BLS) conducts these surveys on the private industry, state and local government and civilian workers. For the September 2017 term the BLS compiled statistics from nearly 30,000 employees between 6,700 businesses in the private industry; and 8,100 employees from 1,400 different state and local government organizations (United States Department of Labor [DOL], 2018) .

Private Industry Cost Breakdown

It costs employers in the private industry an average of \$33.55 per every hour an employee works (DOL, 2018). 69.6% of the \$33.55 (\$23.3508) is paid as a salary, and the remaining 30.4% (\$10.1992) are paid as benefits (DOL, 2018). These benefits include: paid leave (\$2.32/hour), insurance (\$2.68/hour), retirement (\$1.39/hour), supplemental pay (\$1.19/hour) and legally required benefits (\$2.62/hour) (DOL, 2018).

State and Local Government Cost Breakdown

As for the state and local government, employers spent an average of \$48.78 per hour of work for their employees (DOL, 2018). The split between wage and benefit percentages of the \$48.78 are 62.6% wages and 37.4% benefits (DOL, 2018). After the \$30.54 is paid in wages, the remaining \$18.24 is paid in benefits (DOL, 2018). Retirement costs \$5.56/hour, insurance costs \$5.80/hour, paid leave costs \$3.68/hour and the legally required benefits cost \$2.71/hour (DOL, 2018).

Reasons Behind Compensation Gap

On average, state and local government employees are better compensated than the private industry. Why is that? The government's defined benefit annuity retirement plans made up 10.6% of total

compensation compared to the private industry's 1.9% defined benefit retirement annuity (DOL, 2018). Government employees also receive higher percentages in paid leave and insurance benefits (DOL, 2018). A defined benefit pension is almost nonexistent in private industry, which widens the compensation gap between the two workforces. Working in the public sector provides employees with stability since the government never goes out of business; which is a hard-to-measure benefit that adds even more value to the public sector's compensation. A working paper by Glaeser and Ponzetto (2013) that demonstrates how the public sector compensation is influenced by politicians who are set against each other, trying to win the public sector vote (Glaeser & Ponzetto, 2013). Public sector workers are better informed about their personal compensation packages; this gives them an information advantage compared to other voters (Glaeser & Ponzetto, 2013). Salaries in the public sector are accessible to the public, but the benefits packages are not easy to find and are much more difficult to interpret. This political system and process results in politicians offering generous benefits for public sector workers, as opposed to increases in wage (Glaeser & Ponzetto, 2013). If a politician decided to cut back on public sector benefits, he or she would lose votes from the public sector voters and would not gain many votes from the other non-public sector voters due to their information disadvantage (not knowing that lower benefits means less taxes) (Glaeser & Ponzetto, 2013). Even if the politician tried to raise wages for the public sector to win back votes, he or she would lose more votes on the non-public sector population because they are better informed about wages than they are benefits (Glaeser & Ponzetto, 2013). Generally speaking, understanding that politics has a major influence on the economy is essential. State budgets face great pressure with increasing pension and health benefits. If all voters were better informed about the politics behind public sector compensation, it is likely that more people would push for logical change.

Federal Worker Compensation and its Issues

Congressional Budget Office Statistics

In April, the Congressional Budget Office (CBO) found that federal employees were getting paid 17% more than the comparable private sector employees. The Federal workforce consists of 2.1 million civilian workers, and has a tax burden of \$276 billion to America's taxpayers (Edwards, 2017). Federal employees were earning 80% more than private sector employees, and 42% more than state and local government employees in 2016 (Edwards, 2017). It is sound to say that federal employees are amongst themselves when it comes to having stable high-paid employment. In an effort to save money, there was a partial freeze on federal wages from 2011 to 2013, which successfully saved billions, however, there still exists a greater need for more savings (Edwards, 2017). Our government needs to shift its focus towards minimizing the excessive benefits packages (especially its defined benefit plans) of federal employees, along with terminating low-value programs.

Bureau of Economic Analysis Statistics

The Bureau of Economic Analysis (BEA) 2016 data shows that federal civilian workers averaged \$88,809 strictly on wages, whereas, private sector employees averaged \$59,458. When you incorporate benefits and health care into the mix, the gap gets bigger. The average total compensation for federal workers jumped to \$127,259 and average total compensation for private workers only rose to \$70,764 (Congressional Budget Office [CBO], 2017). The math speaks for itself. An extra \$38,450 in benefits for federal workers compared to the extra \$11,306 in benefits for private workers is a significant gap. Compensation growth is inflamed by moving federal workers into higher wage brackets despite actual performance (CBO, 2017). Because of the way the General Schedule

(GS) pay scale works, federal employees earn a couple of problematic pay increases (CBO, 2017). The first is the annual pay adjustment based on average salary growth, essentially a cost-of-living adjustment (CBO, 2017). The second pay increase is due to federal employees advancing up the ten steps of their GS tier through seniority (CBO, 2017). Meriting longevity over performance is troublesome in itself. Federal unions actively fight against legislators who try to implement reduced worker pay (Edwards, 2017). Also, the members of congress who have a plethora of federal workers in their district frequently shepherd the efforts of growth in compensation (Edwards, 2017). Federal employees receive health insurance, retirement health benefits, and pension plans that have inflation protection, along with a retirement savings plan that also has a government match (Edwards, 2017). The most important benefit of them all is their job security. They are supported by civil service protections, and nearly one-third of federal employees are represented by unions (Edwards, 2017). This means federal employees rarely ever get terminated from employment. It has been found that only 0.5% of federal workers get terminated annually for any reason (Edwards, 2017).

Possible Reforms

Federal workers deserve to get paid appropriately, and the federal workforce needs talented employees, however, government should not be one of the highest paid industries. Reducing federal pay would promote the termination of motionless employees, creating room for younger, more creative minds, as well as, cutting costs (Edwards, 2017). Cutting the excessively generous benefits packages, such as defined benefit retirement plans would reduce cost. Privatization is considered a dirty word in local politics, but often, privatization can be a success. Privatizing federal jobs is another possible way to reform federal pay. Moreover, to deal with budget deficits, policymakers need to consider reforming federal compensation to decrease the gap between federal and private worker's compensation.

Alphabet: Unprecedented Compensation and Facilities

In 2015, Google became a technology conglomerate by forming a parent company named Alphabet Inc. Fortune magazine has listed them eleven times on their top 100 best places to work annual list, and in 2017 they were number one (Fortune, 2017) . Google offers the most competitive employee benefits, provides employees with ample opportunity for internal growth, and ultimately satisfies employees by being a part of something that will make a positive impact on the world.

Google's Accessible Benefits

Google has an exhausting list of benefits that costs them nearly nothing. Some of their on-site perks include oil changes, dry cleaning, massage chairs, nap pods, haircuts, bike repair, ATM's, organic grocery delivery and equality in benefits; all of which are negligible costs to Google (D'Onfro, 2015) . The rewards to providing benefits such as these are a boost in morale and efficiency. Their massages, free food, shuttle service, and subsidized childcare do affect the company's bottom line though (D'Onfro, 2015). They have offices in North America, Latin America, Europe, Asia Pacific, the Middle East and Africa. Google has a flair for developing their offices, or 'campuses' as many of them are called. Campus is a more suiting word for their offices located in New York City, NY and Mountain View, CA. Their New York City office takes up an entire block, consisting of 2.9 million square feet of space. So naturally, they give their employees scooters for mobility around the massive building. The Mountain View campus they call 'Googleplex' is a whopping 2 million square feet (Hartmans, 2017) . Filled with colorful bicycles and electric cars employees use to travel from building to building, a GARField (Google Athletic Recreational Field), and even organic gardens in which the produce is

used by their chefs. In many of their other offices they have putting greens, tube slides between floors, Lego rooms, fireman poles and bowling alleys. The sheer aesthetic appeal to working at Google is an incalculable benefit that adds value to their already massive list of perks.

Fighting Poor Health

Poor health and obesity cost companies \$225 billion, annually (Centers for Disease Control and Prevention [CDC], 2016) . Google battles this by offering healthy meals all day long, at no cost to their employees. An interview was conducted with Nate Keller, the former executive chef at Google before he left in 2008. He said that in 2008, with 19,000 employees, 675 kitchen workers, and serving 40,000 meals daily, Google was spending close to \$80 million per year for food (Shontell, 2014) . Google does not release this information to the public so costs are likely higher today. To give some context, Alphabet Inc. made roughly \$109 billion in revenues for fiscal 2017 (ABC.XYZ, 2017) . Spending even \$100 million on food would still only cost them 0.1% of their revenues. In turn, this small investment helps keep Google employees healthy and productive. By offering free food, this cuts employees food costs tenfold. Employees can also drink beer or wine at the office on Friday's, enticement at its finest.

Salary

As far as salaries go, they are not available to the public but there are websites such as Glassdoor in which employees have posted their average salaries while working at Google. Glassdoor is a self-reported data collection website where people can go and post information about their jobs. The information cannot be entirely accredited, even if a majority of the postings on Glassdoor were made by actual Google representatives, there is always the chance that the information is invalid. For the sake of research, it is the only source I was able to get for certain aspects of Google benefits. The Glassdoor data compiled from 4,440 respondents state that average salary for software engineers are \$118,958 with a range from \$78,000 to \$215,000 (Glassdoor, 2018) . According to the BLS, the average salary for workers of all occupations in the U.S. in 2016 was \$49,630 (DOL, 2016) . Being roughly \$28,000 above the average salary is a good look for Google. That is just a comparison between your average U.S. worker and a Software Engineer at Google. So an extra \$30,000 for a software engineer may not seem like the steepest paygrade leap. Keep in mind this is just salary though, when you incorporate benefits for Google employees, the number will likely escalate another \$30,000 in benefits, if not, more.

Healthcare

Although Google has seemingly endless built-in benefits, let us take a glance at their hard employee benefits. They offer on-site physicians, medical services and provide great health care options. They provide employees with travel insurance for personal and work-related vacations, further allowing employees to feel safe on the road (Glassdoor, 2018) . Preferred Provider Organizations (PPO) and Health Maintenance Organizations (HMO) are options that you can choose from for certain health coverage you can elect to enter. This applies to most employers offering any sort of healthcare package. HMOs lock you in to one care primary care physician and you cannot switch without a referral. PPOs offer flexibility in that you can see any primary care physician you want. If you are within your network, the copay and out-of-pocket costs are consistent, but they will rise if you go out of your network.

Retirement

For retirement purposes they offer a 50% 401k match up to \$8250 with automatic enrollment

(Glassdoor 2018) . In other words, to get the full contribution, you would need to contribute \$16,500 towards your 401k. The 401k replaced the pension. Being able to contribute a portion of your paycheck tax-free (assuming traditional) into a spread of stocks, bonds and money markets is an anchor in itself. 401k retirement plans are a great alternate retirement account. Although vesting periods vary; it creates a sense of loyalty, if your company has a sizeable contribution plan.

Death Benefits

Google's death benefits are bounteous. Surviving spouses of deceased Google employees receive 50% of their salary for the following 10 years. A deceased employee's stock also vests immediately; their children receive \$1000 per month until the age of 19, but if the child is a full-time student, those payments continue until they are 23 (Casserly, 2012) . Unlike most of the benefits Google offers, these more-than-generous death benefits are questionably expensive for the company. Instead of these death benefits building efficiency in the company, it establishes the company's level of care for each of its' employees. When a company is that sympathetic, reasonable and understanding, it is hard not to appreciate their morals.

Paid Leave

New mothers get 18 weeks of paid maternity leave and an extra four weeks if they experience childbirth complications. Again, another sympathetic and reasonable plan. They even allow the fathers or any sort of primary caregiver up to 12 weeks paid leave. On top of paid maternity leave, employees also receive \$500 extra to spend on the newborn (Adamczyk, 2015) . First year engineers get 15 days paid leave, increasing to 20 days after 3 years and 25 days after 5 years. Employees can also take one 3-month long unpaid leave of absence (Adamczyk, 2015). This sort of benefit definitely catches the eye of top-tier engineers.

Purpose for Great Compensation

Why do companies like Google spend so much money on their benefits? Any competitive company measures their costs of benefits in relation to the increase in efficiency and productivity. The objective is to attract, place and retain the right people for the right position. Assuming your satisfied employees will lead to more satisfied customers, there will be an increase in profitability and market share within your industry sector. Google corresponds success with employee satisfaction (Google, 2018) . Simple people management practices that they implement; such as, reduction of status differences and top-notch benefits make for a surge in innovation and cost reduction.

Cannot Afford Google-Sized Benefits? No Problem

Massive holding companies such as Alphabet Inc. offer unprecedented compensation packages, unless you are working for a comparable company such as Facebook or Adobe. As for your average business, you cannot offer free food, billion-dollar offices, and generous 401k plans. To be competitive you need to look into how heavily people actually value benefits.

The Weight of Value for Health, Dental and Vision

An increase in benefits as compared to a pay raise is favored by 80% of workers that took part in Glassdoor's employee confidence survey (Glassdoor, 2015) . What are the options for companies that simply cannot afford to offer such copious benefit packages? A study conducted by Fractl (2016) illuminates the fact that some of the most desirable employee benefits are the cheapest benefits. The premise behind this study was to ask 2,000 people which benefits they would give 'some

consideration' or 'heavy consideration' when having to choose between a high paying job that offers lower benefits or a low paying job offering higher benefits (Fractl, 2016) . Health, dental and vision insurance ranked number one as the most critical benefits. 88% of the participants said they would give either some consideration or heavy consideration in terms of having better health, dental and vision coverage, when choosing the lower paying job (Fractl, 2016).

Health Insurance is the Most Expensive Cost to Employers

Knowing how employers are able to provide health, dental and life insurance comes with the understanding that health coverage providers will charge more to small business than big business. Simply due to the lack of purchasing power. According to the National Conference of State Legislatures (NCSL), small business pays on average 8%-18% more for comparable coverages than big business does (National Conference of State Legislatures [NCSL], 2017) . Health insurance is the most expensive for employers to provide their employees. According to the Kaiser Family Foundation (2016), it costs an employer \$6,435 per individual coverage and \$18,142 for family coverage (Kaiser Family Foundation, 2016) . Also, depending on the employers previous health claims and which specific industry they are in, premiums charged to employers will vary. Since better health, dental and vision coverage is most attractive to employees, small business will have to have to spend the extra money to entice and incentivize employees.

The Weight of Other Benefits

Small business employers will be jovial to know that flexible hours, vacation time, mobile work options and unlimited vacation are the next most popular benefits amongst employees (Fractl, 2016). With constant advancements in the tech-world, 'going to work' has a whole new meaning. The tech world is copious with communication devices that allow people to stay virtually connected. From FaceTime to Skype to even screen sharing, employees have found themselves being able to work from home more than ever before (Collins, 2016) . Essentially, depending on your business, this could cut overhead costs by up to 100%. Which would allow any employer to dedicate more money for the highly regarded health, dental and vision plans.

A More Mobile Workforce

The amount of money businesses are throwing away because of the reluctance of people wanting to take time off is in the hundreds of billions (White, 2016) . It was estimated that businesses are throwing away \$272 billion because of people refusing to take time off (White, 2016). An unlimited vacation policy would not only rid of those wasted costs, it would develop a more preferable company culture. Employees that get treated as trustworthy individuals will likely become more productive and loyal. Work-life balance is progressively more important to the workforce. Studies have shown that a majority of people would consider a lower paying job that offers more flexibility even without the 'best' benefits package (Fractl, 2015). Ultimately, employers have strategies to be able to compete with big firms that can afford to offer better benefits. Providing the right combination of benefits that are inexpensive and most desirable can provide small business with the competitive edge they need to lure in top-talent.

Job Search

Looking for a job comes with the understanding that there will be infinite opportunity costs. As an individual, you need to enter the job searching process with absolute knowledge of what you are looking for from a compensation standpoint. Benefits often outweigh wages on the importance scale,

so being educated in the realm of benefits is necessary.

Comparing Two Companies

Just recently I have had to make a decision between two job offers. One being with Tarte Cosmetics (Manhattan, NY), a company that gave me the option of working for them as a temporary/permanent employee for three months in their training program. Those three months I will be treated basically as an intern, paid by the hour and does not provide benefits. At the end of the interview they answered my question about their benefits with 'once you are offered a permanent position, we will talk about your total compensation.' In comparison to another company named NewDay USA (Fulton, MD), I would immediately become a permanent employee with health, dental and vision coverage options, a 401k with a fairly low contribution match, and a base salary of \$60,000 with uncapped commission.

Personal Importance Scale

Amongst other knowledge, my in-depth understanding of employee benefit plans aided my job selection. For starters, I am not entirely concerned about what companies are offering in terms of health, dental and vision coverages, being that I am covered under my parents' plan until I am twenty-six years-of-age. That is not to say that I do not intently look into what benefits a company will offer; but rather that I have the opportunity to take a job that offers no benefits for three months, and has a higher potential for internal growth. That was my exact situation when deciding on Tarte Cosmetics over NewDay USA. I will be training to work for the ecommerce department, learning what business analysis is all about. Being that business analysis is what I want to do professionally, this was a perfect opportunity. And although NewDay USA offered an appealing starting wage with benefits, I weighed what was most important to myself rather than what the numbers read. Further illuminating how complex the recruiting process can be.

Closing

Nobody is the same. We all have our own individual needs, wants and importance scales. With such a diverse workforce, recruiting and retaining the best talent is an increasingly difficult hardship for employers globally. More employees are weighing benefits heavier than they have in the past as compared to their wages. With that being noted, employers face a major struggle with knowing what the optimal benefits package should consist of. A leading, well-formed package of benefits will increase employees' loyalty, productivity and general well-being. Employers that successfully implement such packages will have a competitive edge against rivaling companies. Furthermore, employee benefits in the public sector, specifically defined benefit pensions, are causing havoc to governmental budgets. Uninformed public employees will not be happy when they realize how many of them, including their colleagues, face the possibility of pensions not being payable. The compensation gap between the public and private sector needs to be minimized. Reforming the public sector defined benefit pensions will ensure the stability of retirement for future public employee retirees.

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