

LECTURE 9.6

FRINGE BENEFITS

THE SALARY- FRINGE BENEFIT MIX

While health insurance is not a big part of the compensation package offered for Australian employees, other consideration such as superannuation / pensions and leave entitlements are.

In general employees do not value fringe benefits equally to cash in hand – why?

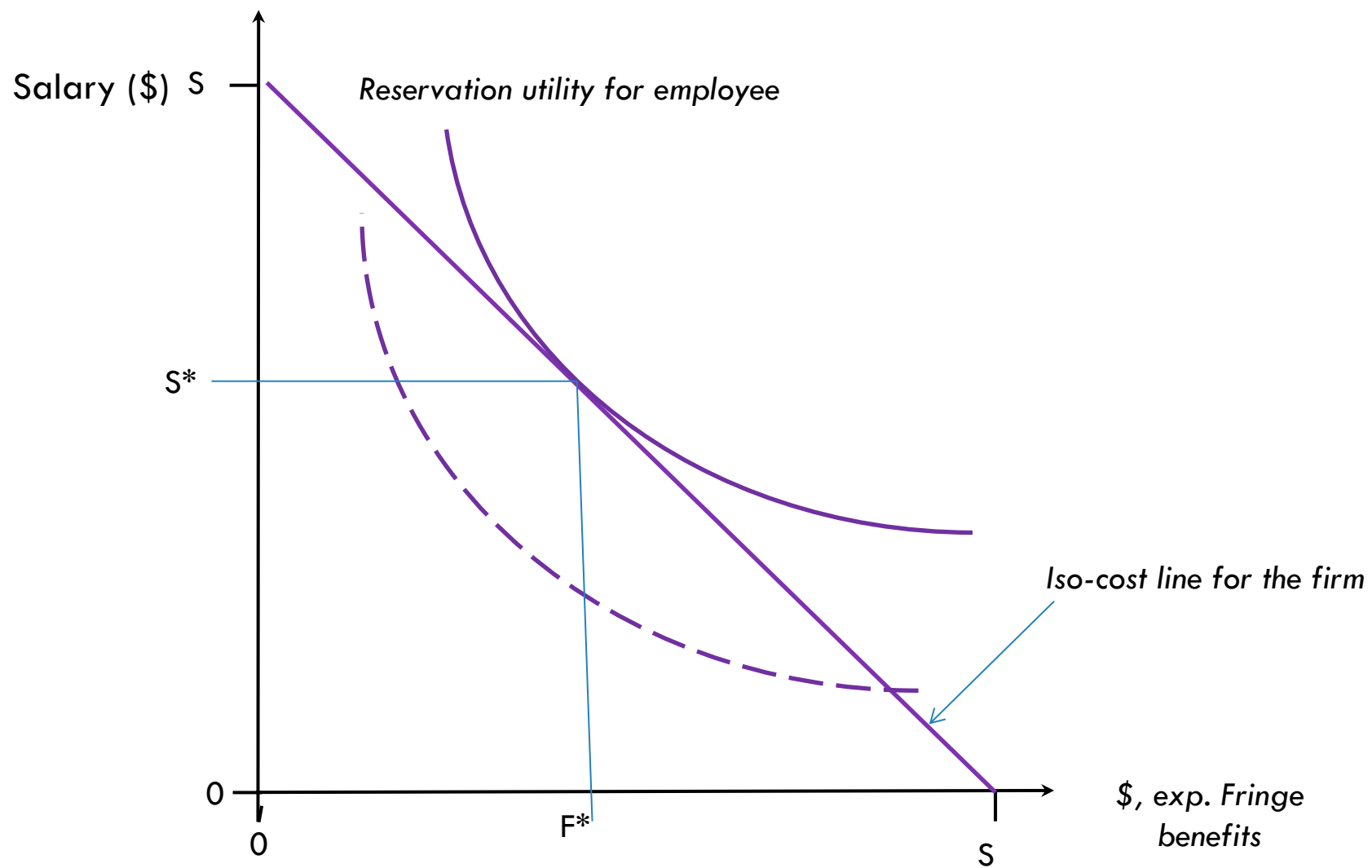
- ✚ *Tax considerations*

- ✚ *How an equivalent amount of cash would actually be spent*

Employers may or may not be indifferent about the mix of salary and fringe benefits

- ✚ *Tax considerations*

- ✚ *Who applies and how they behave*



THE SALARY- FRINGE BENEFIT MIX

Of course, the tradeoff doesn't have to be a one-to-one exchange.

It may be cheaper for firms to offer some types of fringe benefit either for tax reasons or because of discounts associated with the purchase of the item.

While the diagram changes a little, the basic idea remains the same – the firms will offer a mix of salary and fringe benefits that minimizes its costs, while ensuring that the reservation utility of the employee is satisfied.