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Employee benefits: Literature review and emerging issues

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ABSTRACT

Many have noted the lack of human resource management research on employee benefits, which is surprising because employer-sponsored benefits are a primary concern of executives and employees alike. Moreover, of special interest to scholars, benefits provide a unique opportunity to examine fundamental theoretical and empirical questions about employee behavior and contemporary employment relationships. This paper provides a foundation for such research by providing an overview of the context from which U.S. employer-provided benefit programs evolved and the contemporary state of benefits research in human resource management. Propositions related to primary employee benefit research are provided.

The implications of employee benefit decisions are among the most relevant for remaining competitive in the labor market. From a total compensation perspective, indirect compensation or benefits plays a significant factor in the attraction and retention of employees. This is particularly true for costly benefits such as health insurance and pension plans, the provision of which is an increasingly important issue to both employers and employees. Executives have long been concerned about the costs of providing competitive employee benefits (Conference Board, 2007). Typically, benefit costs comprise about one-third of an organization's total labor costs and such costs have steadily increased (Hewitt, 2002). As such, benefit decisions often have a significant effect on a company's bottom line. For example, the decision to promise current employees health benefits or certain types of pension plans following their retirement has long-term financial implications. The general managerial focus and concern regarding benefits such as health care is reflected in statements by CEOs such as Bill Ford who said: “Clearly, it's our biggest issue we have, bar none. The health care issue is one that I find intractable” (Wilson, 2003).

In spite of the prominence of benefit issues to organizations, when reviewing the human resource management (HRM) literature, there is a surprising general absence of attention given to employee benefits. Indeed, in their analysis of gaps between HRM academic research and practitioner interests, Deadrick and Gibson (2007) found that the largest gap was in the areas of compensation and benefits. While employee benefits are recognized as a major area of HRM practice, HRM researchers generally have not taken adequate steps to provide research in this area to inform practice. In an era when HRM scholars wish for greater influence with executives, greater attention by HRM researchers to these areas of concern among organizational leaders can contribute to elevating the role and perceived value of HRM.

The purpose of this article is to begin to address this academic research-practice gap by identifying core topics in the benefits literature, and for each topic, identifying emerging issues for future benefits research. To this end, five benefit topics are identified: (1) the context of employer-sponsored benefits, (2) benefits satisfaction, (3) pensions, (4) health care, and (5) work family benefits. For each topic, extant research is examined, and future research propositions are provided. The paper continues by defining benefits, the scope of the paper, and how welfare capitalism has influenced benefits.

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1. Context: definitions, scope, and welfare capitalism

During the 20th century, employers increased the economic security of employees by providing, in exchange for labor, benefits in addition to direct compensation. Apart from direct compensation, benefits encompass all other inducements and services provided by an employer to employees (BLS, 2005). Like other HRM policies, employer-sponsored benefits have been shaped by social, cultural, and legislative forces (Kaufman, 2004). To maintain focus, this manuscript addresses voluntary employer-provided benefits for individuals in the U.S. Employer-provided benefits in countries other than the U.S. are not addressed given the significant variation in legislation, norms, and implementation. Similarly, statutory benefits that federal and state governments require employers to provide to U.S.-based employees (e.g., workers' compensation insurance), are not addressed given the significant variation in legislation, cost-containment strategies, and implementation approaches across states.

Most industrialized nations assure the welfare of citizens through government-sponsored systems that provide for the health and safety of citizens, protecting them from consequences of economic fluctuations. In contrast, in the U.S. a system of welfare capitalism emerged whereby employers, rather than the government, played a primary role in assuring the health and welfare of employees and their families. Welfare capitalism encompassed a wide range of private, firm-level social and benefit policies, including employee representation, recreation, stock ownership, and benefits relating to retirement, sickness, paid time off, and unemployment (see Jacoby, 1997).

Prior to the Great Depression of the 1930s, welfare capitalism was centered in high wage industries. Accordingly, relatively few workers were provided employer-sponsored benefits in addition to direct compensation. The Depression brought the inadequacies of the welfare capitalism that existed at the time into sharp relief. In response, New Deal policymakers joined labor leaders and reform activists to establish the basis of the modern U.S. welfare state. Private employer benefits, subsidized by tax incentives, became an essential supplement to the basic government safety net and a key bargaining chip in negotiations with organized labor. Welfare capitalism expanded beginning with the economic recovery after the Depression and this expansion was supported by government legislation and workforce unionization.

Today the U.S. continues to retain aspects of welfare capitalism, but what has changed is that organizations face more intense competitive pressures than when welfare capitalism first emerged. The benefits responsibilities employers shoulder today are increasingly portrayed as a burden given the competitive pressures brought about by the globalization of product and service markets, demographic shifts in the workforce (e.g., the baby boomer generation nearing retirement being followed by a much smaller base of employees to potentially fund retirement benefits), health care inflation rates that outpace inflation and growth, and uncertain immigration policies. Such strain has led to discussion of shifting responsibility for major benefits such as retirement savings and health care from employers to employees as well as to the government.

2. Satisfaction with employee benefit offerings

A number of factors have contributed to employer provision of non-mandatory benefits such as health insurance and pension plans. These include self interest of the decision makers, union bargaining, tax advantages provided to companies by the federal government for offering certain benefits, the need to be competitive and retain employees, and union avoidance. The logic underlying employer strategies to voluntarily provide benefits suggests that benefit offerings are associated with employee benefit satisfaction, which in turn is associated with attitudes and behaviors that serve the employer's interests (Harris & Fink, 1994). The implied process, based on social exchange, is that when employees are satisfied with benefits provided to them, they are committed to the employer, remain with the employer, and perform their jobs well, which in turn leads to strong organizational performance. Benefit satisfaction has been one area that has received some research attention by HRM scholars.

One might expect employee satisfaction to be related to the actuarial value of benefits and the level (i.e., amount and type of benefits) of a benefits package to be positively associated with employee satisfaction (Micelli & Lane, 1991). Scholars have studied the relationship between benefit level and employee satisfaction with the benefits package (e.g., Dreher, Ash, & Bretz, 1988) and, despite its intuitive appeal, such research does not support that the level of benefits offered and satisfaction with those benefits are positively associated. This paradoxical finding prompted Gerhart and Milkovich (1992) to state:

> “The state of knowledge about the influence of benefits on employee attitudes and behaviors is dismal. … Studies examining the links between the forms and levels of benefit coverage with valued outcomes (e.g., turnover, attraction) offer potential important contributions to our understanding of employment relationships.” (p. 541)

To begin to disentangle factors underlying the paradoxical finding that the actuarial-value of benefits and employees' benefit satisfaction are not correlated, scholars have examined three distinct elements of benefits: the benefit offering construct, antecedents and moderators of benefit satisfaction, and organizational outcomes associated with benefit satisfaction.

2.1. Benefit satisfaction construct

Employee satisfaction has historically been conceptualized as a uni-dimensional construct that captures the value, or level, of benefits (Dreher et al., 1988). In this line of research, the level of benefit offerings has been assessed with a four-item benefit scale embedded in the Pay Satisfaction Questionnaire (PSQ) (Heneman & Schwab, 1985). Items on this benefit scale include satisfaction with ‘my benefit package,’ ‘the value of my benefits,’ amount the company pays toward my benefits,’ and ‘the number of benefits I