



# How to Design an Employee Benefits Program

Managing employee benefits is an important and costly endeavor for employers. Though most employers are required to provide mandatory benefits such as Social Security contributions, worker's compensation insurance and unemployment insurance, most other benefits are voluntary in nature and determined by the employer. Benefits programs vary greatly, but typically they include medical insurance, life and disability insurance, retirement income plan benefits, paid-time-off benefits, and educational assistance programs. Benefits selection and design are critical components in the total compensation costs. In some cases, benefits account for 40 percent or more of total compensation costs. Due to the employer cost investment and the importance of employee benefits in recruiting and retaining, employers should have a well-thought-out benefits plan design that meets both employee needs and employer objectives.

## Step 1: Identify the Organization's Benefits Objectives and Budget

An important first step in designing an employee benefits program is to identify its objectives. This will provide overall guidance in establishing the selection and design of the benefits program. Generally, this process does not result in a list of specific benefits offered but rather provides an overview of the organization's objectives of offering benefits that reflect both the employer and employee needs. The organization's business and/or HR strategy will help guide the development of the benefits objectives, as these objectives should help achieve the overall strategic goals. Factors such as employer size, location, industry and collective bargaining agreements should be considered in the development of the benefits objectives. Some employers choose to have general benefits objectives, whereas others incorporate the objectives in their total compensation philosophy. The benefits objectives are not static and should be evaluated and revised to reflect the current employer strategy and employee needs.

*Sample objective: To establish and maintain a competitive employee benefits program based on employees' needs for paid time off and protection against the risks of old age, loss of health and loss of life.*

Equally important is determining the budget available for spending on benefits, as most employers have cost constraints in offering benefits to employees. If a current benefits plan exists, organizations should analyze current benefits costs and projected costs and create a budget spreadsheet outlining annual benefits costs. The rising cost of offering benefits such as health insurance will greatly affect the benefits an employer may offer.

If there is no current benefits program, the employer may need to obtain quotes for a few key benefits to estimate a benefits budget. A benefits broker ([www.shrm.org/resourcesandtools/tools-and-samples/hr-qa/pages/selectingabenefitsbroker.aspx](https://www.shrm.org/resourcesandtools/tools-and-samples/hr-qa/pages/selectingabenefitsbroker.aspx)) may be helpful in this process.

**Step 2: Conduct a Needs Assessment**

A needs assessment should be conducted to determine the best benefits selection and design based on the needs and wants of the employees. The needs assessment may include an employer's perception of employee benefits needs, competitor's benefits practices, and tax laws and regulations. But a more recent trend is to take a market research approach to employee benefits planning. Common market research techniques include employee inquiries in the form of personal interviews, simplified questionnaires or sophisticated research methods. Although employee feedback will most likely result in higher employee motivation and satisfaction with the benefits package, this is true only to the extent that the employer is committed to using the feedback in benefits selection and design.

If a current benefits plan exists, the employer may also conduct a utilization review of each plan to determine actual employee use. Knowing the frequency a particular benefit is used and to what extent may help the employer determine cost-saving design practices. For insurance plans such as a medical plan, the carrier will often provide a utilization review for the employer.

Organizations should analyze the existing workforce demographics to assist in determining the needs of various categories of employees. Younger employees may value paid time off more, whereas older employees may place a higher value on retirement income plans.

Employers can analyze the needs assessment results and compare them with any existing benefits and against available benefits to prioritize which benefits will be most helpful in achieving the objectives of the benefits program.

Employers will also need to consider any legal requirements regarding benefits offerings. Some employers may have obligations to offer benefits by law, such as the Affordable Care Act, which requires employers with 50 or more employees to choose to provide affordable health insurance to employees or pay a penalty. Employers will need to determine if they are covered by this act and the impact this will have on the decisions and design of employee health insurance plans.

Another consideration is that of benefits for domestic partners. Since same-sex marriage became legal in all 50 U.S. states as of the Supreme Court ruling on June 26, 2015, some employers may choose to no longer offer benefits to domestic partners, unless required to do so by state or local law.

Paid sick leave is another benefit that is quickly becoming a mandatory offering for many employers. State and local laws are regularly being passed that require employers to offer paid sick leave to employees, and employers should be aware of state and local requirements.

**Step 3: Formulate a Benefits Plan Program**

Once the needs assessment and gap analysis are complete, the employer will need to formulate the new benefits plan design. Using the data collected from all resources in Step 2, the employer can begin to formulate benefits offerings in order of priority. Then the employer will determine the cost of providing the prioritized benefits and evaluate it against the benefits budget.

This step is complex and may take many factors into consideration: Can changes be made to the current plan design to induce cost savings? Can benefits that are underused or not valued by employees be eliminated? What are the

administrative costs for the benefits? What cost-containment features can be put in place? Will employees have to contribute, and how much? Are there resources to administer in-house, or will a third-party administrator and broker be necessary for certain plans? These are among the evaluations an employer will make in determining whether to add, change or eliminate benefits offerings.

#### **Step 4: Communicate the Benefits Plan to Employees**

The communication strategy is a critical component to the benefits planning and management. Some resources and samples are available to assist employers. See [Communicating and Leveraging Benefits](https://www.shrm.org/resourcesandtools/hr-topics/benefits/pages/communicating-leveraging-benefits.aspx) ([www.shrm.org/resourcesandtools/hr-topics/benefits/pages/communicating-leveraging-benefits.aspx](https://www.shrm.org/resourcesandtools/hr-topics/benefits/pages/communicating-leveraging-benefits.aspx)).

Employee understanding of the benefits is critical to employee buy-in. Without buy-in, the employer's efforts, no matter how perfectly designed to meet employees' needs, may be futile. If employee input was obtained and used in the benefits design process, employers should be sure to share this with employees and let them know how their feedback influenced the benefits program's design. The positive impact on recruiting, retention and employee morale may be lost without effective communication plans. Although the employer is obligated to provide communications to comply with laws regarding disclosure of various benefits plans, such as a summary plan description, communications should go beyond the legal requirements. Good benefits communication objectives should include:

- Creating awareness and appreciation of the new or existing benefits and improving employee financial security.
- Providing a high level of understanding of the benefits offered.
- Encouraging wise use of benefits.

#### **Step 5: Develop a Periodic Evaluation Process to Determine Effectiveness of Benefits**

Periodically reviewing the benefits plan program is another important step in the benefits management process. The benefits program must be assessed on a regular basis to determine if it is meeting the organization's objectives and employees' needs. Changes in the business climate, the economy, the regulatory environment and workforce demographics all create dynamics that affect benefits offerings. Employers should consider developing goals and measurements to assess the benefits programs and make adjustments as necessary. Employers may also consider using external trends and benchmarking data to evaluate the effectiveness of the benefits plan or conduct employee surveys or a full-fledge needs assessment on a recurring basis.

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