

Assessment Resource Guide: Worker Benefits

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I. What are Employee Benefits?

Employee benefits are non-monetary compensation provided to employees in addition to their nominal wage or salary.

II. Types of Benefits

Insurance: Insurance refers to protection against an unexpected loss or financial risk. Insurance coverage is offered in exchange for premium payments. Common types of insurance include:

1. **Private Health Insurance:** This type of insurance offers coverage to the policy holder by protecting the insured from financial risk associated with health care treatments. This has several benefits:
 - Improving access to quality health care
 - Reducing costs to the policy holder – In developing countries health care costs are largely covered out-of-pocket, representing a huge financial burden on households¹.
2. **Accident Insurance/Disability Coverage:** The International Labor Organization (ILO) estimates that about 337 million accidents occur at the workplace annually². This leads to increased health care costs for employees and a decline in productivity. Provision of a good accident or disability coverage plan ensures:
 - Access to good health care for employees who are injured or disabled
 - Income to employees if they have to take short or long term disability leave
 - Coverage to the company from productivity losses as it covers replacement expenses for the employee, often at additional premium cost
3. **Life Insurance:** In this case, the insurer commits to payout a defined amount to a specified beneficiary upon the death of the insured. Life insurance provides financial protection to the beneficiaries' dependents and some insurance policies can be liquidated after a certain

¹ The World Health Organization (WHO) estimates that for emerging markets, \$30-\$40 per capita/annum is needed to finance minimum health service packages annually yet governments allocate far less than this for public healthcare.

² <http://www.ilo.org/global/topics/safety-and-health-at-work/lang--en/index.htm>

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period of time, providing extra income for the household. There are two types of life insurance coverage:

- Whole life insurance remains in force for the entire life of the insured and requires premium payments annually.
- Term life insurance is only valid for a specified period of time with premium payments paid for the identified period. Term life insurance is generally a more cost effective option for employers.

A company can provide access to insurance by:

- Covering premium costs, in whole or in part
- Identifying a partner that can offer services to employees at a discounted group rate

Private pension/Retirement plans: Retirement and pension plans are arrangements that provide a steady source of income once a person stops working upon reaching retirement age. In most countries, governments have set up pension funds for their citizens to provide income upon retirement, but this tends to be insufficient for ensuring that employees maintain the same standard of living as when working. Including private retirement plans as a benefit can mitigate this risk for employees.

Typical retirement offerings include:

- Companies partially or wholly funding the plan, depending on cost structure and sustainability.
- Companies entering into a partnership with a retirement plan provider who can offer its services to employees at a cheaper group rate

An added advantage of having a pension or retirement plan is that in certain countries pension contributions are tax exempt for employers and employees. Companies often encourage employee contributions to retirement plans by offering to match employee payments, typically up to 10% of gross salary.

Financial Services (Savings/Credit programs): Provision of financial services provides employees with access to affordable credit, encourages a savings culture, and for low income employees access to loans and savings products from mainstream financial institutions.

For Small Business

Worker benefits may be difficult for small businesses to afford, particularly when they are just starting out. These alternative strategies and products are designed to meet the concerns of small companies.

Insurance – Micro-insurance functions the same way as other forms of insurance but is designed to meet the needs of low-income and small businesses

Retirement – Many SMEs offer a retirement provident fund where the employees and employer can make contributions. As it grows, the company can turn it over to a retirement plan provider to administer fund.

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There are common ways to establish this benefit:

- Establishing a partnership with financial service providers – banks, cooperatives or MFIs – to provide employees with access to savings or personal accounts, cheaper loans and other financial services offered by the institutions
- Setting up an internal credit scheme by providing short-term employee loans with future earnings as collateral. Companies should safeguard themselves contractually before entering into any such agreements.

Transportation/Transit Subsidy: This is most important for companies located far from major cities or towns or where there is limited access to transportation. Providing transportation subsidies reduces costs to workers and removes barriers to gainful employment, especially if the company is located in areas with unreliable transportation infrastructure. This in turn improves productivity, as workers are able to report to work on time, ultimately reducing the financial burden on employees.

Some of the tools used by companies to provide transportation or transit subsidies include:

- Reimbursement for public transportation cost
- Free pick up services at a common point
- Free parking or parking subsidies in cities
- Reimbursement for fuel used or providing fuel vouchers or cards

Additionally, some Microfinance Institutions (MFIs) provide loan officers with motorbikes or bicycles to enable access to clients in remote places.

Free/Subsidized housing: Housing can be a great benefit for companies located in areas where access to housing is limited due to costs or lack of infrastructure. Provision of housing to accommodate the employee and family will keep the family unit intact, improving worker morale and productivity. In the absence of adequate housing, workers may be forced to live in shanties or tents to be close to work, which can lead to health problems if they do not have access to clean drinking water and proper sewage. It may also result in low morale, increases in crime and growth in slum dwellings.

Companies can provide free or subsidized housing by:

- Entering into a partnership with building owners close to the workplace to charge a subsidized rate to employees
- Providing a housing allowance to help workers pay their rent or mortgage, particularly in countries where the cost of living is high

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Providing medical access on-site/family care: Providing access to health care reduces health care costs to a family's primary financial provider. It also improves the general health of the employees' family.

Companies can provide access to healthcare by:

- Establishing a free health clinic in plant/office premises
- Making a nurse or health care officer available on site
- Entering into an agreement with a health clinic or office off site to provide health services to employees and families

Subsidized child-care: This covers the cost of employees hiring a childcare provider, reducing household expenditures for the employee. It also enables parents to work without having to worry about children left with inadequate care. For two parent-families, this often increases their potential income sources, as both parents are better able to seek full-time employment.

Companies can provide child care benefits by:

- Covering all or part of the costs for child care, in home or in a child care facility
- Setting up a child care center at the work place

Free/subsidized meals: Meals offered at the work place reduce the financial burden of working to employees and can ensure good nutrition, leading to better health. Additional benefits of these plans include increasing worker moral and loyalty to the company and helping create unity in the workplace as workers dine together and increasing productivity.

Some of the ways companies can offer free or subsidized meals include:

- Establishing a cafeteria/canteen offering free or subsidized meals to employees
- Contracting a catering company to deliver food to employees at a reduced cost
- Providing a vending machine in the office for workers with snacks offered at a reduced price

III. Importance of Benefits

For employers:

- **Improve employee acquisition and retention** – Offering a competitive salary and benefit package will help attract qualified personnel from different sectors. Also, companies will be able to retain good workers over the long run by offering an appropriate benefits package.

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- **Increase work productivity** – Enabling access to affordable and quality health care reduces absenteeism from work which increases overall productivity of the employees. Also, employees have peace of mind due to reduced expenditure and are able to focus on their work.
- **Reduce costs** – Often providing benefits can lower a company's taxes. Provision of disability and accident insurance ensures that workers have coverage in case of on-site accidents, providing protection to the company from potential lawsuits.
- **Increase loyalty** – Showing employees that the company cares for their wellbeing and that of their family makes them more likely to stay with the company long-term.

For employees

- **Improve living standards** – In the instance of health care, most people in developing nations pay out of pocket for health care due to limited government spending on health services. Some of the countries with the highest out-of-pocket payments include India and Cambodia, where individual payments account for 80% of health care spending³. Having access to private insurance and affordable credit and savings services reduces this burden.
- **Increase household income** – Provision of childcare services enables both parents to work, and provision of healthcare or subsidized services increases the spending capacity of the household. Some types of life insurance can be liquidated, giving the employees an extra source of income in case of an emergency.
- **Increase productivity** – Better access to healthcare and meals leads to better health, which often reduces absenteeism and sick leave.
- **Maintain family unit** – Subsidized or free housing makes it easier for employees to live with their families.

IV. Implementation

Benefits packages tend to differ from company to company depending on location, sector, growth stage of company, country regulations, cultural practices, position of the employee. Developing a benefits package should be integrated into the budgeting process, taking into account both direct costs of the program and projected costs savings or improvements. Employees should be made aware of the offerings, as should potential hires.

Once a company has developed its benefits package, it is important to monitor how effective the program is. This will enable the company to assess the costs and effectiveness of the benefits offered. Companies can also monitor and report on productivity of the employees, worker satisfaction, and retention and acquisition of qualified employees. Keeping tabs on this will enable ensuring the benefits package remains relevant and adapts to changes in company policies.

When developing a benefit packages, a company should ensure that it is **cost effective** and will be

³ http://www.wpro.who.int/mediacentre/factsheets/fs_20050621/en/index.html

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sustainable in the long run, taking into account projected growth of the company⁴. Some ways companies can do this include:

- Offering a mix of benefits, including benefits that have an immediate cost to the company (e.g. health insurance premiums) with benefits that do not have a direct cost (e.g. flexible work arrangements - such as telecommuting, part-time hours and unpaid vacation days)
- Offering partial cost cover instead of full cover (for e.g. health premium, retirement plans) if the workforce will be able to afford to pay the differential
- Linking benefits to the time the employee has been with the company. This is especially useful if the company experiences high staff turnover. Companies can choose to offer a new employee benefits after a few months of continuous employment or offer incremental stock options for each year the employee is with the company.

For more information on worker turnover and recruitment, please refer to the “GIIRS Emerging Market Assessment Resource Guide: Job Creation”.

Another important factor to consider when developing a benefits package is **employee need**. This can ensure the plan will be applicable for both current and prospective hires. Companies can:

- Conduct a short survey with employees to learn more about benefits that are important to them
- Work with business associations in its area to learn what other companies in the sector are offering employees

The **company’s sector** also determines what kind of benefits that may best suit its employees. In fields where information changes regularly, such as IT and Medical Sector, education assistance may be more beneficial to employees as information tends to change rapidly.

For more information on educational assistance to employees, please refer to the “GIIRS Emerging Market Assessment Resource Guide: Worker Training and Education”.

Taxes can also affect the type of benefit package a company develops. In some countries certain benefits are tax exempt, such as health, dental or disability insurance.

V. Additional Resources

The IFC SME toolkit is a great resource on HR Management providing best practice guides, different forms related to employee management:

<http://www.smetoolkit.org/smetoolkit/en>

⁴ SME toolkit has developed a compensable work chart for companies to use in determining what kind of work companies should compensate their employees for.

GIIRS EM Resource Guide:

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The US Bureau of Labor Statistics provides a glossary of common terms used in Human Resources Management:

<http://www.bls.gov/bls/glossary.htm/>

The International Labor Organization provides resources to promote a safe workplace and help prevent on the job Accidents:

<http://www.ilo.org/global/topics/safety-and-health-at-work/lang--en/index.htm>