



STUDYDADDY

**Get Homework Help
From Expert Tutor**

Get Help

different quality. A second advantage is that employers can more easily raise these contributions when benefits costs increase, making it more evident to the workers that health costs have increased.

Business managers and human resource practitioners sometimes question whether economists' view of the relationship between cash wages and benefits is correct, because, they contend, employers are rarely observed cutting wages when a new benefit is introduced or the cost of providing an existing benefit increases. In fact, such wage cuts happen much more frequently than some might think. An employer may scale back a scheduled bonus or reduce the year-to-year rate of growth of cash wages. An employer may also hire new workers at a lower wage rate than that which existing workers are paid. If there is relatively fast turnover, the wage decrease will quickly filter through the employer. Finally, an employer may increase employees' "contribution" to their health insurance premiums. An increase in the contribution is in effect taking compensation out of the hands of employees, which has the same effect as a reduction in cash wages. A difference is that increasing the benefits contribution helps employees realize that their wage cut results from an increase in their benefits costs, not from, for example, a decrease in the employer's profitability. For an employer with both employees who receive health insurance and employees who don't, increasing the contribution may be a particularly effective way to target a wage decrease on those employees whose benefits costs were actually affected.

Summary This chapter discusses the psychological basis of employee-benefits practices from the point of view of employees, as well as the economics of employee benefits from the perspective of employers. Taken together, these topics illuminate the importance of offering employee benefits. Psychologically, employee-benefits practices can fulfill employees' transactional and relational expectations of the employer and the employment exchange relationship. If employees view their employer's benefits program as fair and meeting their expectations, then those employees will be satisfied and productive. When employees are satisfied and happy with the way the employer is treating them, they will be committed to the employer and even engage in good citizenship behaviors. Hence, it is important for employers to understand employee perceptions and attitudes about employee benefits. This will allow employers to design and communicate benefits programs that can attract and retain productive and committed employees. The economics of employee benefits explore why employers offer a mixture of cash and benefits and whether workers tend to pay for benefits cost increases in the form of lower cash wages. The primary reasons why employers offer benefits are that they can purchase the benefits at a lower cost than could employees on their own, employers use benefits to attract particular types of employees, and the government gives employers a tax incentive to provide some benefits. Whether workers or employers pay for benefits cost increases depends crucially on why costs increase, whether costs increase for all employers in the market, and how willing employees and employers are able to adjust their labor supply and demand when compensation costs change.



STUDYDADDY

**Get Homework Help
From Expert Tutor**

Get Help