

**Performance And Reward Management**  
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**Lecture - 34**

**Understanding linkage between performance management and reward, an overview of various types of reward; financial reward, non-financial reward; contingent pay scheme; bonus scheme; team pay; rewarding for business performance; recognition scheme (Contd.)**

Welcome back, today we will introduce you to the concept of employee benefits.

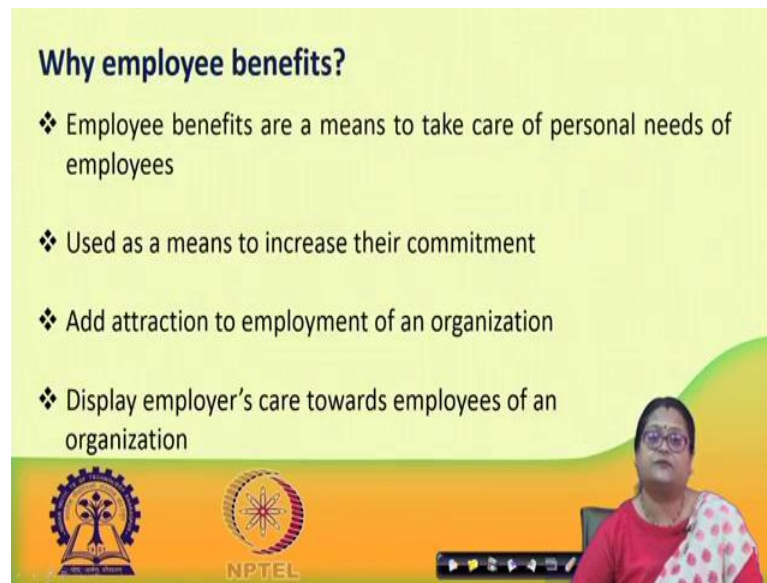
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Now, what are employee benefits? Employee benefits are also known as perks or fringe benefits and are provided to employees which are over and above the salaries and wages. So, these employee benefit packages may include overtime medical insurance, vacation, profit sharing and retirement benefits to name just a few. These benefits are generally known as fringe benefits.

So, in today's discussion we will go through all the various types of fringe benefits that are given by the organization to the employees.

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**Why employee benefits?**

- ❖ Employee benefits are a means to take care of personal needs of employees
- ❖ Used as a means to increase their commitment
- ❖ Add attraction to employment of an organization
- ❖ Display employer's care towards employees of an organization

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Before we go into that discussion, let us just ponder into the facts like why employee benefits are important for the organization, from like retaining where the employees or in motivating the performance of the individuals.

Employee benefits are a means to take care of personal needs of employees. So, this is what we see like when we understand like the employees as a holistic person, who come to the organization and we consider them like they are not machines or giving us certain output, but they are human beings who have certain needs, who have certain crisis in their life, who have certain aspirations also. And these are the factors which like to a great extent influence the performance of the individuals beyond the skill sets that they possess.

So, the organization needs to like address to these needs also, and when the organization takes care of these needs, so, it shows like the organization respects and loves of employees as like as a human being and is caring about their needs and aspirations. So, that gives a very personal touch in the relationship between the employer and the employee.

So, employee benefits are one of the means to take care of personal needs of the employees. Also because that personal needs are taken care of by the organization, then these also acts as a means for increasing the commitment of the employees to the

organization. It these are the factors which like add to the attraction of employment in an organization.

So, we understand like from the discussions of the market itself like influence on the salary fixation and pay structures like market influences very much on the salary, that has been paid to the employees. We cannot deviate too much from the market rate so, but we can always be innovative in terms of the benefits given to the employees and the kinds, different kinds varieties of benefits given to the employees. And that sometimes acts as a differentiator where and act as an attraction of employment in the organization. So, it also displays employers care towards the employees of an organization.

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**Why employee benefits?**

- ❖ Help in making compensation packages competitive
- ❖ Many times are added to meet legal requirements like maternity leave in India and other countries

**Employee benefit strategies and policies**

- ❖ Employee benefits strategies should be in line with the broader compensation policies of an organization.
- ❖ Costs of such benefits should also be considered in line with the overall budget of an organization

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As we were discussing like; it helps in making a compensation packages competitive, many times are added to meet these are added to meet legal requirements like maternity leave in India and other countries.

So, we understand how we design a benefit package for the employees are very very important in like making them committed to the organization, attracting talented employees to the organization. So, we need to have a think of a proper benefit strategies and the policies. So, what we have to understand like the benefit strategies should be in line with the broader compensation policies of the organization. So, because like if we have the package of or if we have the understanding of like we will be like coming to the market as a cost leader, then the type of compensation policy that we have and the type

of benefit policy should also be aligned with each other. It is not like we can think of like cost leadership in terms of salary, but when it comes to the benefits; there is no limit to it kind of. So, these will be mismatch between the two concepts. So, because for getting for providing the benefits ,a cost is incurred.

So, cost of such benefits should also be considered in line with the overall budget of the organization. So, how much of these benefits we can provide given the type of like the budget that we have so, and within that budget maybe which is the best kind that we provide that meets the needs of the employees needs to be thought off.

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**Why employee benefits contd.**

Employee benefits policies are normally concerned with:

- ❖ Types of benefits to be provided
- ❖ Size and scale of benefits
- ❖ Variation in benefits along with designations and levels

For e.g. The telephone reimbursement may vary for  
A zonal manager vs. a branch manager at a sales firm  
Total costs of benefits in relation to basic pay

The slide features a green and yellow background. At the bottom, there are logos for IIT Bombay and NPTEL, along with a small video inset of a woman in a red shirt and glasses.

Employee benefits policies are normally concerned with the types of benefits to be provided, the size and scale of benefits variation in benefits along with designations and levels. For example, the telephone reimbursement may vary for a zonal manager versus a branch manager at a sales firm and we also have to take into consideration, total costs of benefits in relation to the basic pay.

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**Classification of Fringe Benefits:**

Premium Payments: - This is the period of time a worker has worked, and payment is based on daily or weekly.

Payment for special duties: - Such as working on grievance redressal procedures and labour contract negotiations.

Payments for health & Security benefits: - These include retirement plans, social security payments, Saving plans, Profit sharing plans, Group Life Insurance etc.

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With that idea now we will move into discussion of the different kinds of fringe benefits that are given in the organization. So, these benefits can be classified under different headings like first one is premium payments.

In premium payments this is the period of time a worker has worked and payment is based on daily or weekly basis. Payment for special duties, such as working on grievance redressal procedures and labour contract negotiations so, if you have done a special duty you get a benefit for that. Payment for health and security benefits; these include retirement plans, social security payments, savings plan, profit sharing plan, group insurance et cetera.

So, we find like these are premium payments for like first is the premium payment for which time the worker has worked, if you do a special duty for the organization then you get a payment special payment for it, for special duties. And these also when we take talk of welfare measures for the employee in terms of retirement plans, social security plans, group life insurance et cetera these are wellness benefits given.

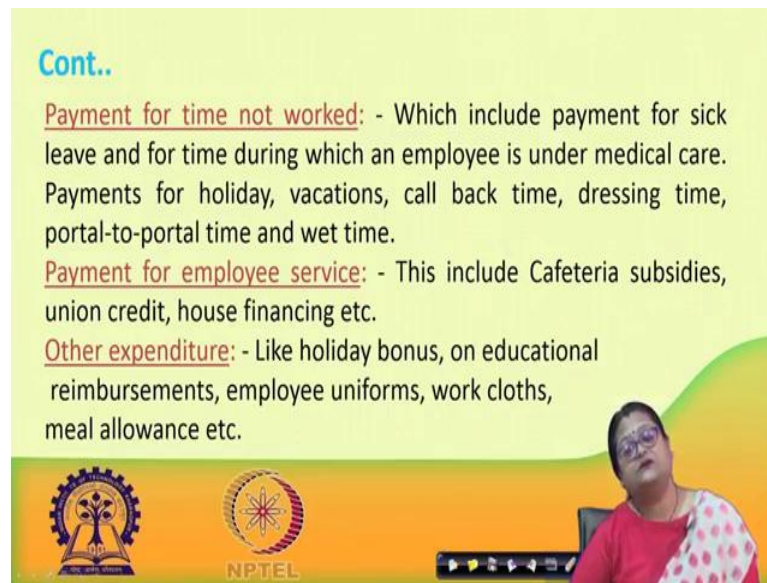
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Payment for time not worked: - Which include payment for sick leave and for time during which an employee is under medical care. Payments for holiday, vacations, call back time, dressing time, portal-to-portal time and wet time.

Payment for employee service: - This include Cafeteria subsidies, union credit, house financing etc.

Other expenditure: - Like holiday bonus, on educational reimbursements, employee uniforms, work cloths, meal allowance etc.



There is also payment for time not worked. So, what is that payment for time not worked? So, when you talk of payment for a sick leave and for time during which is under medical care so, that payment for a sick leave and medical leave. So, these are payments for time not worked, and also payments for holidays, vacations, callback time, dressing time so, portal to portal time and wet time. So, these are different kinds of like payments for time which are not worked.

So, again there are payments for employee service like cafeteria subsidies, union credit, house financing et cetera. So, that gives like repayments for employee service. There are other expenditures like holiday bonus, on educational reimbursements, employee uniforms, work cloths like meal allowances et cetera.

So, what you see over there the when you talk of fringe benefits it tries to take care of the variety of needs of the employees at a different like aspects of life and that benefit given is a handholding support given by the organization. So, that the employee can at least meet up some of these needs and also like without much stress enjoy that part of the may be holiday vacation. So, is not under like stress like if I take a vacation, then may be my salary is gone. So, all these kind of like it he or she can maintain a stress free life also.

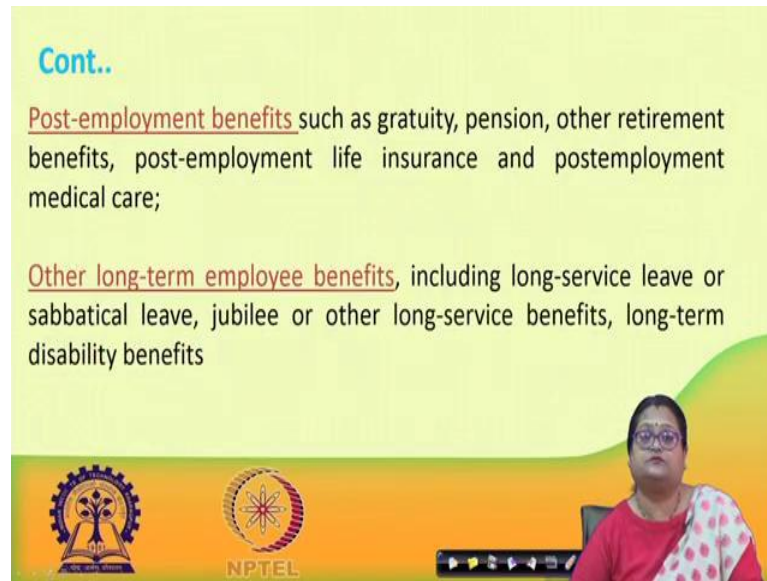


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Post-employment benefits such as gratuity, pension, other retirement benefits, post-employment life insurance and postemployment medical care;

Other long-term employee benefits, including long-service leave or sabbatical leave, jubilee or other long-service benefits, long-term disability benefits

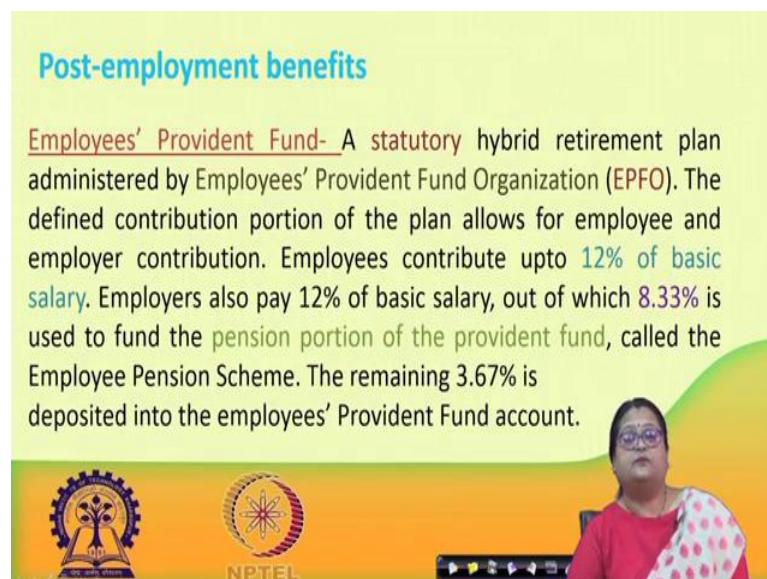


Important also are post employment benefits which are very crucial in the sense like when you talk of benefits, which relationship of the organization with the employee just not end, at the end of the like employment. But it continues for the lifetime of the employee when we talk of post employment benefits such as gratuity, pension and other retirement benefits, post employment life insurance and post employment medical care. Other long term employee benefits are including long service leave or sabbatical leave, jubilee or other long service benefits, long term disability benefits.

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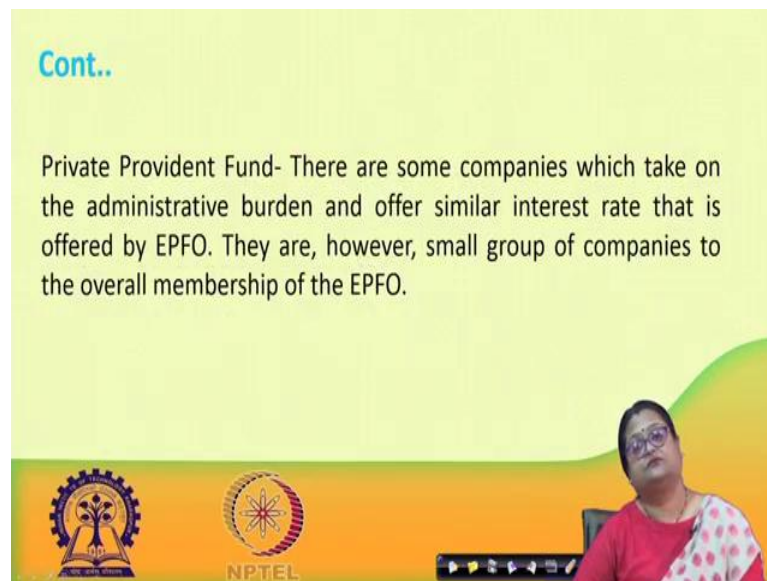
**Post-employment benefits**

Employees' Provident Fund- A statutory hybrid retirement plan administered by Employees' Provident Fund Organization (EPFO). The defined contribution portion of the plan allows for employee and employer contribution. Employees contribute upto 12% of basic salary. Employers also pay 12% of basic salary, out of which 8.33% is used to fund the pension portion of the provident fund, called the Employee Pension Scheme. The remaining 3.67% is deposited into the employees' Provident Fund account.



Some of the post employment benefits are, first one is employees' provident fund, a statutory hybrid retirement plan administered by employees provident fund organization. The defined contribution portion of the plan allows for employee and employer contribution. Employee contributes to 12 percent of basic salary; employers also pay 12 percent of the basic salary out of which 8.33 percent is used to fund the pension portion of the provident fund called the Employee Pension Scheme. The remaining 3.67 percent is deposited to the Employees Provident Fund account.

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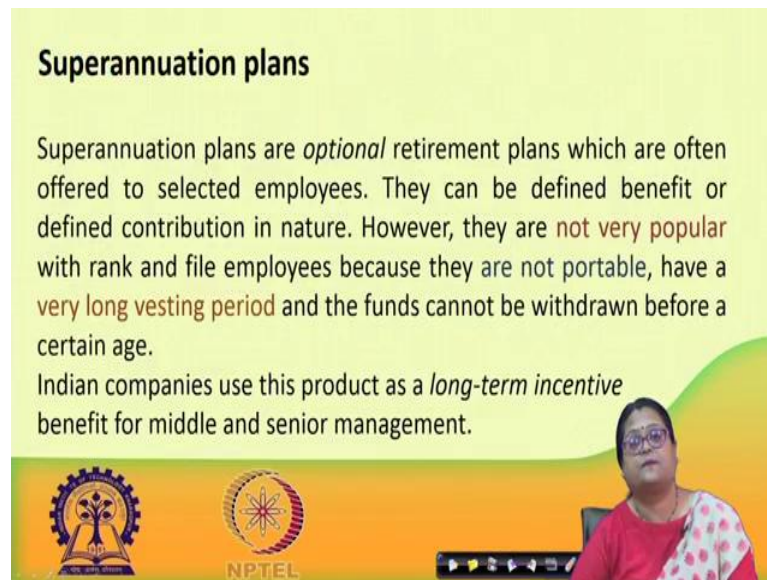
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Private Provident Fund- There are some companies which take on the administrative burden and offer similar interest rate that is offered by EPFO. They are, however, small group of companies to the overall membership of the EPFO.

There is a private provident fund also. There are some companies which take on the administrative burden and offer similar interest rate that is offered by the Employees Provident Fund Organization. They are however, small groups of companies to the overall membership of the EPFO.



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**Superannuation plans**

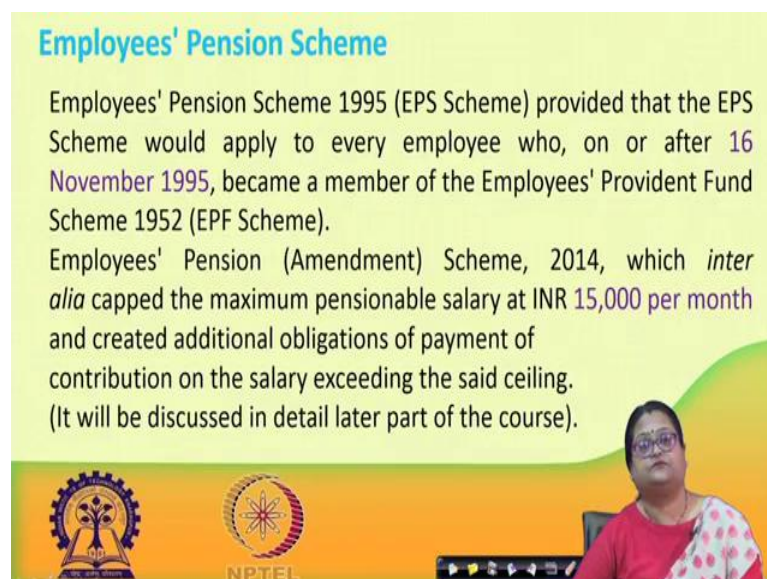
Superannuation plans are *optional* retirement plans which are often offered to selected employees. They can be defined benefit or defined contribution in nature. However, they are **not very popular** with rank and file employees because they are not portable, have a **very long vesting period** and the funds cannot be withdrawn before a certain age.

Indian companies use this product as a *long-term incentive* benefit for middle and senior management.

The slide features a presenter in a red top and white polka-dot shawl on the right side. At the bottom, there are logos for IIT Bombay and NPTEL, along with a video control bar.

When we talk of Superannuation plans, these are optional retirement plans which are often offered to selected employees. They can be defined benefit or defined contribution in nature. However, there is not very popular with rank and file employees because they are not portable have a very long vesting period and the funds cannot be withdrawn before a certain age. Indian companies use these products as a long term incentive benefit for middle and senior management.

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**Employees' Pension Scheme**

Employees' Pension Scheme 1995 (EPS Scheme) provided that the EPS Scheme would apply to every employee who, on or after **16 November 1995**, became a member of the Employees' Provident Fund Scheme 1952 (EPF Scheme).

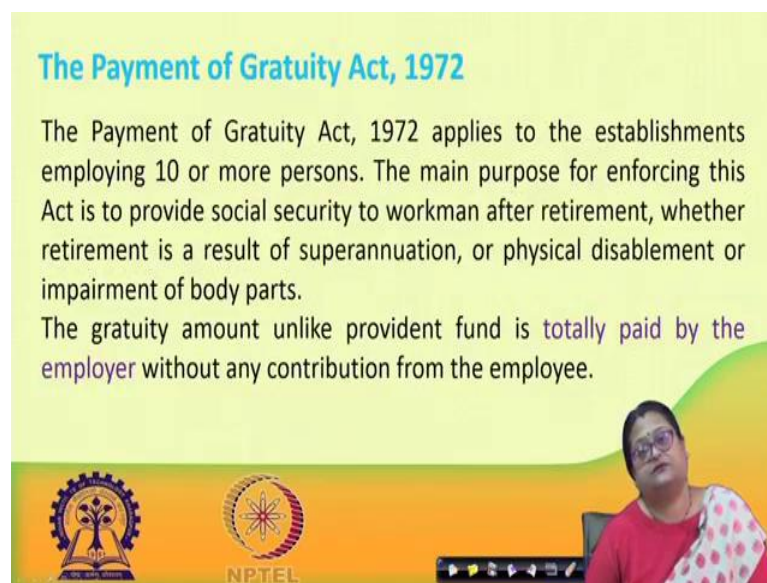
Employees' Pension (Amendment) Scheme, 2014, which *inter alia* capped the maximum pensionable salary at **INR 15,000 per month** and created additional obligations of payment of contribution on the salary exceeding the said ceiling.  
(It will be discussed in detail later part of the course).

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Employees Pension Schemes: Employees Pension Schemes 1995 provided that employee pension schemes would apply to every employee who on or after 16th November 1995 became a member of Employees Provident Fund scheme 1952.

Employee's Pension Amendment Scheme 2014 which inter alia capped the maximum pensionable salary at Rs 15,000 per month and created additional obligations of payment of contribution on the salary exceeding the said ceiling. So, we will discuss much on the pension in a separate module in the later part of the course.

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**The Payment of Gratuity Act, 1972**

The Payment of Gratuity Act, 1972 applies to the establishments employing 10 or more persons. The main purpose for enforcing this Act is to provide social security to workman after retirement, whether retirement is a result of superannuation, or physical disablement or impairment of body parts.

The gratuity amount unlike provident fund is **totally paid by the employer** without any contribution from the employee.

The slide features a yellow background with a green and orange gradient at the bottom. It includes the logos of the Indian Institute of Technology (IIT) and NPTEL (National Programme on Technology Enhanced Learning). A small inset image shows a woman in a red shirt and glasses speaking.


**Payment of Gratuity Act:** The Payment of Gratuity Act 1972 also applies to establishments employing 10 or more persons. The main purpose for enforcing this Act is to provide social security to workman after retirement, whether retirement is a result of superannuation or for physical disablement or impairment of body parts. So, this part is very important when we talk of when retirement is due to not only superannuation means reaching a normal age of retirement, but also may be due to when you are talking of workers in terms of disablement of body or impairment of body parts.

The gratuity amount unlike provident fund is totally paid by the employer without any contribution from the employee. So, this is the very very good benefit plan that is benefit provision which is their which is totally paid by the employer and no without any contribution from the employee.

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**Formula for Calculation of Gratuity Amount:**

If, N = number of years of service in a company  
B = last drawn basic salary plus DA  
then,  
**Gratuity =  $N*B*15/26$**   
(The formula is based on the 15 days of last drawn salary for each completed year of service or part of thereof in excess of six months.)

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We have a formula for calculating the gratuity amount. So, if N is the number of years of service in a company and B is the last drawn salary plus DA then gratuity is N multiplied by B into 15 by 26. And the formula is based on the 15 days of last drawn salary for each completed years or service or part thereof in excess of 6 months.

$$\text{Gratuity} = N*B*15/26$$

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**Health benefits**

These are one of the most common and usually the most expensive employee benefits that an employer can provide to its employees. They range from the usual **group health insurance coverage** to **reimbursement of pharmacy and outpatient bills**, on-site doctor on call or discount arrangements with healthcare providers. There is a gradual shift from the traditional all- expenses-paid inpatient indemnity health cover to alternate methods of risk or cost sharing like **co-pay health** insurance plans or high-deductible plans.

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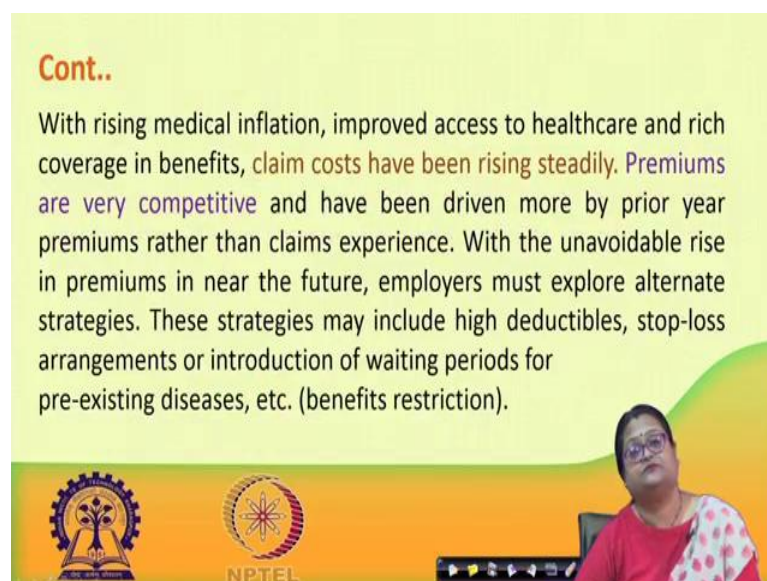
There is another very very important benefit which is given by the organization to the employees and which really takes care of many of the worries of the employees related

to physical ailments, sufferings are the health benefits. These are the one of the most common and usually the most expensive of the employee benefits that the employer can provide to its employees. They take a wide range from the usual group health insurance coverage to reimbursement of pharmacy and outpatient bills on site doctor on call or discount arrangements with healthcare providers.

So, there is a gradual shift's now from traditional all expenses paid in patient indemnity health cover to alternative methods of risk or cost sharing like co pay health insurance plans or high deductible plans. Why this shift is happening, because again has we are discussing it is very costly for the organization, it is a huge cost for the organizations very expensive to provide the health benefits. And sometimes what we see these require lot of responsibility, accountability on the part of the employees like how they are going to use the health benefits.

Sometimes because the health benefits are there its lot of misuse happened by the employees voluntarily or involuntarily, and that adds for the, to the cost of the organization. So, instead of that right now there is a gradual to take care of that cost it is an expenses issues and to curb on the like irresponsible behavior sometimes on the part of the employees. And so, there is a traditional there is a shifts now from the traditional all expenses paid in patient treatment to alternate methods of co pay health insurance plans or high deductible plans.

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With rising medical inflation, improved access to healthcare and rich coverage in benefits, claim costs have been rising steadily. Premiums are very competitive and have been driven more by prior year premiums rather than claims experience. With the unavoidable rise in premiums in near the future, employers must explore alternate strategies. These strategies may include high deductibles, stop-loss arrangements or introduction of waiting periods for pre-existing diseases, etc. (benefits restriction).

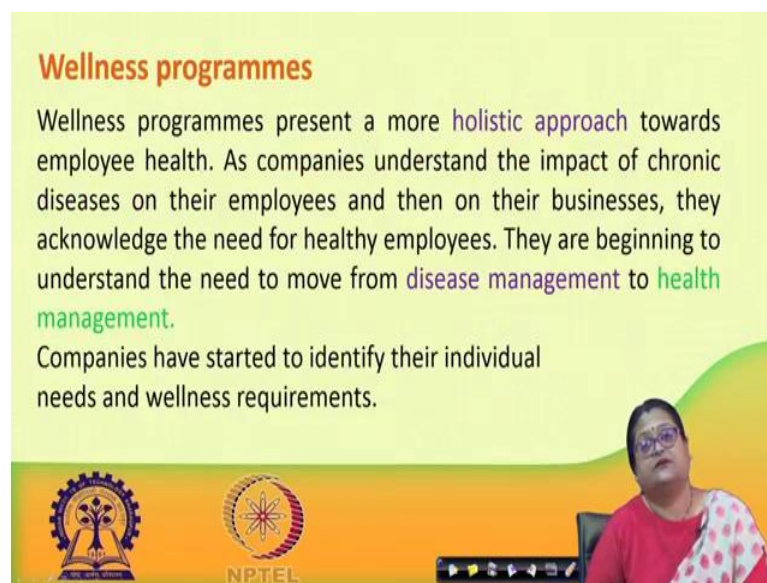
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So, as we were discussing like with rising medical inflation improved access to healthcare and rich coverage in benefits, claim costs have been rising steadily. So, premiums are very competitive and have been driven more by prior year premiums rather than claims experience. With the unavoidable rise in premiums in the near future employers must explore alternate strategies.

These strategies may include like high deductibles stop loss arrangements or introduction of waiting periods for preexisting diseases like et cetera like. So, benefits restriction.

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**Wellness programmes**

Wellness programmes present a more **holistic approach** towards employee health. As companies understand the impact of chronic diseases on their employees and then on their businesses, they acknowledge the need for healthy employees. They are beginning to understand the need to move from **disease management** to **health management**.

Companies have started to identify their individual needs and wellness requirements.

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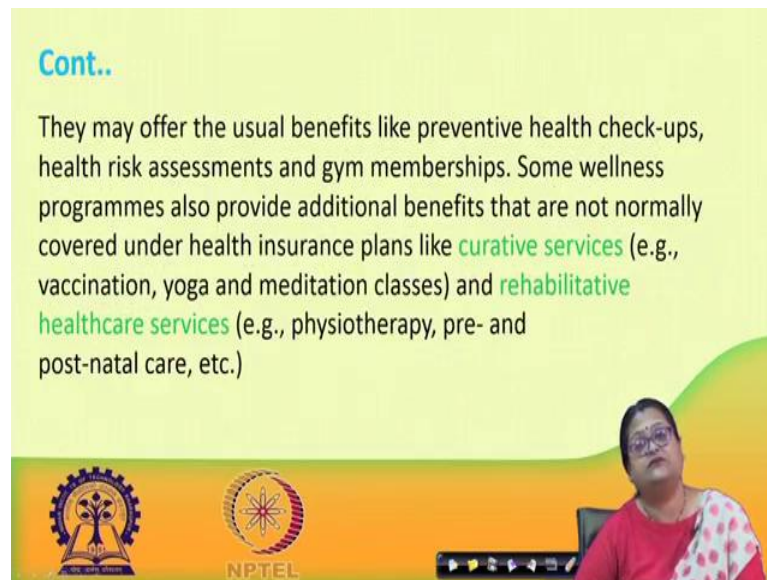
There are other wellness programmes which takes a holistic approach towards the employee health. So, as the employers understand the impact of chronic diseases on their employees and then on their businesses, they acknowledge the need for healthy employees; so, it is now there is a shift in the trained from again disease management to health management. So, companies have started identifying the individual needs and the welfare of the wellness requirements.



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They may offer the usual benefits like preventive health check-ups, health risk assessments and gym memberships. Some wellness programmes also provide additional benefits that are not normally covered under health insurance plans like **curative services** (e.g., vaccination, yoga and meditation classes) and **rehabilitative healthcare services** (e.g., physiotherapy, pre- and post-natal care, etc.)



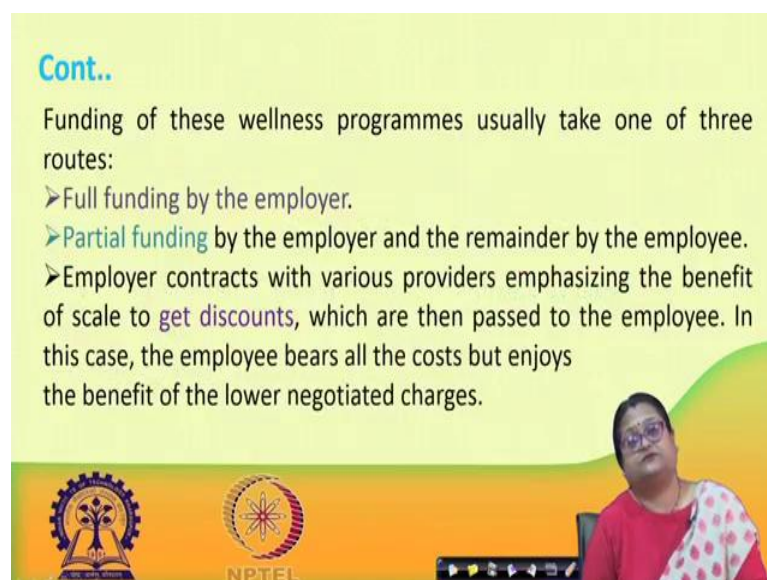
So, the usual benefits like preventive health checkups, health risk assessments, gym membership, wellness programmes like which are not generally covered under health insurance plans like curative services like vaccination, yoga and meditation classes and rehabilitative healthcare services like physiotherapy, pre and post natal care, mental health counseling these are covering under the wellness programmes.

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Funding of these wellness programmes usually take one of three routes:

- Full funding by the employer.
- **Partial funding** by the employer and the remainder by the employee.
- Employer contracts with various providers emphasizing the benefit of scale to **get discounts**, which are then passed to the employee. In this case, the employee bears all the costs but enjoys the benefit of the lower negotiated charges.

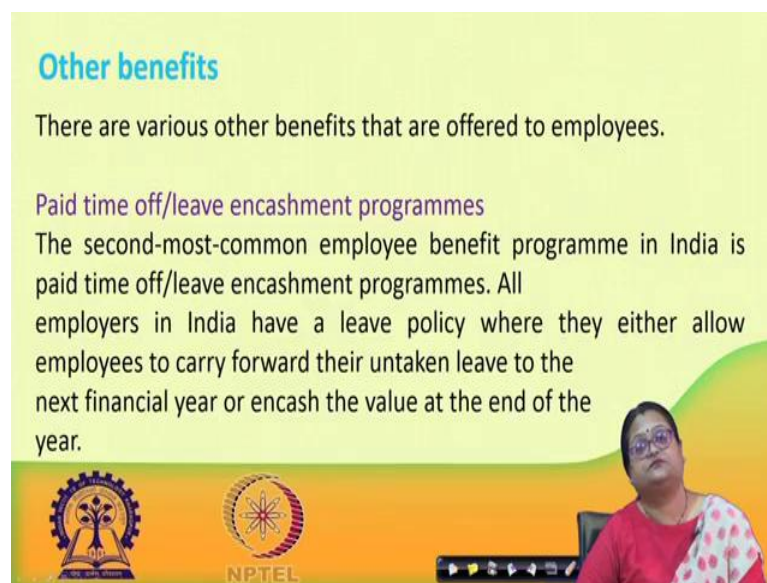


So, specifically here we will try to point out about the stress and mental health counseling and then like yoga and meditation sessions because when we need to

understand the wellness of the employees. So, we are not here only focusing on the you should not be focuses only on the physical health of the employees, but we need to take care of the equally about the social, mental and spiritual health of the employees also.

So, wellness measures in terms of having peer to peer counseling, a counseling center, center for meditation, sharing of ideas may be happiness chaos that is going to add value to the, like the efforts taken for wellness benefits. So, the funding for these wellness programmes usually take one of the three routes; that is full funding by the employer, partial funding by the employer and remainder by the employee. So and third is the employer contracts with various providers emphasizing the benefit of scale to get discounts which are then passed to the employee. In this case the employee bears all the costs, but enjoy the benefit of a lower negotiated charges.

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**Other benefits**

There are various other benefits that are offered to employees.

**Paid time off/leave encashment programmes**

The second-most-common employee benefit programme in India is paid time off/leave encashment programmes. All employers in India have a leave policy where they either allow employees to carry forward their untaken leave to the next financial year or encash the value at the end of the year.


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Beyond this there are other benefits which are offered to the employees like the paid time off or the leave encashment programmes. So, the second most common employee benefit programme is the paid time off or leave encashment programmes. All employees in India have a leave policy where they either allow employees to carry forward their untaken leave to the next financial year or encash the value at the end of the year.

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**Food coupons** – Traditionally, large Indian companies provide lunch for their workers through a canteen on site. More recently they have been providing employee food coupons as an alternative. Under current income tax rules, coupons are non-taxable up to Rs 50 per meal. Hence, assuming 22 working days in a month and one meal per day, an employee can claim Rs 1,100 as non-taxable income and the employer can claim the same as business expenses.



Next is food coupons; traditionally large companies provide lunch for their workers through a canteen on site. More recently they have been providing employee food coupons as alternative. Under current income tax rules coupons are non taxable up to Rs 50 per meal. Hence, assuming 22 working days in a month and one meal per day, an employee can claim rupees 1,100 as non taxable income and the employer can claim the same as business expenses.

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**Flextime**

This benefit is one of the most appreciated by employees but under-utilized by employers. It is a more recent development and primarily provided by large employers specializing in information technology or information technology enabled industries (IT-ITES). Flextime is offered only to employees who have spent a certain amount of time with the organization and is offered under strict and mutually acceptable policies.



Flextime; this is one of the most appreciated by employees, but underutilized by employers. In the more recent development and primarily provided by large employers specializing in information technology or information technology enabled industries. It is offered only to employees who have spent a certain number of time within the organization and offered under strict and mutually acceptable policies.

So, this is a very nice offering which like helps to answer the employees to answer some of the basic necessities of life. Or some of the basic roles that the individual needs to pay in the needs to play in the family or in the mostly in the family or towards his or her dependence or to nurture his or her own some hobbies interest et cetera.

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*Transportation Benefits*

- *Company car lease policy*
- *Cab/shuttle SERVICE for employees*

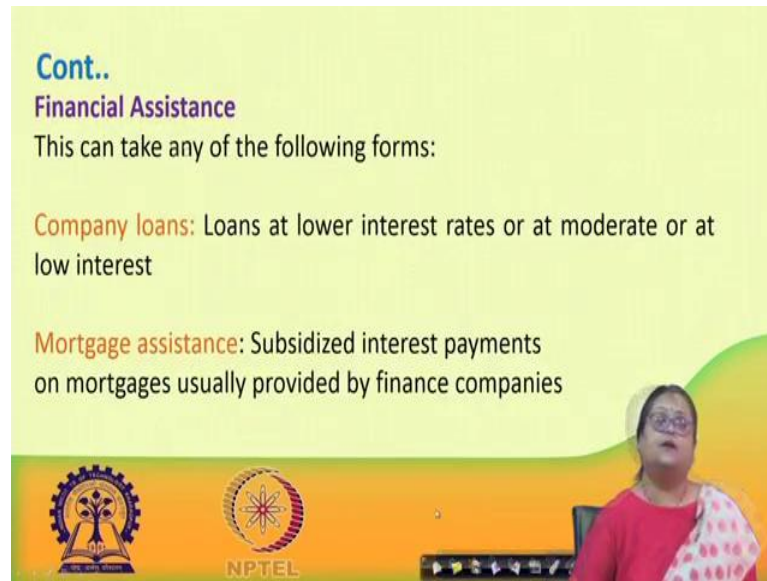
However, as fuel costs rise & the number of employees increases, the budget allocation of this benefit has correspondingly increased. Hence, finance and HR are revisiting the way this benefit is being offered.

IIT Bombay NPTEL

Other kinds of benefits which are there is like transportation benefits. It talks of company or lease policy, cab or shuttle service for the employees. However, as the fuel costs are rising and the number of employees are increasing the budget allocation for this benefit has correspondingly increased. So, HR is trying to finance and HR is trying to revisit the way this benefit can be offered.



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**Financial Assistance**  
This can take any of the following forms:

**Company loans:** Loans at lower interest rates or at moderate or at low interest

**Mortgage assistance:** Subsidized interest payments on mortgages usually provided by finance companies

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Financial assistance; this can take any of the following forms like company loans, which are loans at lower interest rates or at the moderate at low interest. Mortgage assistance; subsidized interest payments on mortgages usually provided by the finance companies.

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**References :**

Armstrong, M., 2010. *Armstrong's handbook of reward management practice: Improving performance through reward*. Kogan Page Publishers.

<http://www.mondaq.com/india/x/797898/Employee+Benefits+Compensation/Employees+Pension+Amendment+Scheme+2014+Struck+Down+Employees+Gain+Or+Employers+Problem>

<https://economictimes.indiatimes.com/wealth/invest/how-to-calculate-gratuity/articleshow/61913387.cms>

<http://in.milliman.com/uploadedFiles/insight/eb-published/pdfs/eb-in-india.pdf>

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These are the reference on again on which the slides based, it this is a beautiful readings you can go through it for further details, stay tuned with us for knowledge on more benefits in the next session.

Thank you.