Employee Benefits 6th edition Martocchio Test Bank

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Chapter 02
The Psychology and Economics of Employee Benefits

True / False Questions

1. Employee benefits act as a tool for recruiting and retaining desired employees for companies. (How Employee Benefits Constitute Social Exchange)
   TRUE

2. Social exchange is one where the nature of exchange has been specified at the time of employment. (How Employee Benefits Constitute Social Exchange)
   FALSE

3. Once the social exchange is set between employer and employee, it does not change over time. (How Employee Benefits Constitute Social Exchange)
   FALSE

4. Employee benefits need to be considered as economic exchange between employer and employee rather than social exchange relationship. (How Employee Benefits Constitute Social Exchange)
   FALSE

5. Despite increasingly diverse workforce in the US workplace, traditional benefits practices assuming similarity among workers can still work well for today's organizations. (Workforce Changes and the Employment Relationship)
   FALSE

6. Relational psychological contracts can often be understood with an example of an independent contractor or consultant hired by a firm. (Psychological Contracts)
   FALSE

7. Long term relationship between employer and employee pertains to transactional psychological contracts. (Psychological Contracts)
   FALSE

8. Job security, recognition, and support in exchange for commitment and loyalty to the employer more pertain to relational psychological contracts. (Psychological Contracts)
   TRUE

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9. Employee benefits practices can fulfill either transactional or relational psychological contracts. (Psychological Contracts)
TRUE

10. Legally required benefits would form a part of employees' transactional expectation. (Psychological Contracts)
TRUE

11. Retirement plans is a good example of benefits that fulfill both transactional and relational expectations. (Psychological Contracts)
TRUE

12. Psychological contracts do not develop and change over time. (Psychological Contracts)
FALSE

13. Violations of psychological contracts are basically the same as unmet expectations. (Psychological Contract Violation)
FALSE

14. Violations of psychological contracts are likely to be more intense than unmet expectations because of feelings of betrayal and the onset of mistrust. (Psychological Contract Violation)
TRUE

15. Employer's expectation of the employee is not as important as employee's expectation about the employer. (Employee Benefits as Constituting Psychological Contracts)
FALSE

16. Tax incentives are the only reason employers offer benefits to employees. (The Economics of Employee Benefits: Why Do Employers Offer Benefits?)
FALSE

17. One reason for employer-provided health insurance is to avoid adverse selection. (Cost Advantage)
TRUE

18. As the size of the insured group increases, so does the difficulty for the insurance companies to predict the total medical expenses of the group. (Cost Advantage)
FALSE

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19. Economies of scale refers to the lower amount of co-pay required of employees in a large company as opposed to those in a small company. (Cost Advantage)
FALSE

20.

21. The degree to which employers will decrease their hiring, if the market compensation level increases, can affect how much of a benefit's increase cost will be passed on to the employees. (Who Pays For Benefits?)
TRUE

22. Offering some benefits in a compensation package can attract qualified, but undesirable job applicants. (Recruiting Certain Types of Workers)
TRUE

23. When health benefit costs rise for a single employer in a market, the employer will likely be able to pass along the benefit costs to workers, even if the workers valuation of the benefit has NOT changed. (Who Pays for Benefits?)
FALSE

24. The IRS offers tax benefits to companies that offer retirement plans. (Tax Incentives)
TRUE

25. The concept of justice in the work setting concerns the distribution of rewards, information, and other resources. (Justice and Perceived Organizational Support)
TRUE

26. If health insurance premiums rise because of advances in medical care technology, employees would probably perceive that the increase added value to their insurance. (Who Pays For Benefits?)
TRUE

27. Employees in a large company are less likely to be subject to medical underwriting than those in a small company. (Cost Advantage)
TRUE

28. Most small group health insurance policies are based on experience ratings. (Cost Advantage)
TRUE

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29. Even if increased health insurance costs are NOT accompanied by an increase in employees' valuation of the insurance, cash wages will probably be adjusted downward anyway. (Who Pays for Benefits?)
FALSE

30. One of the drawbacks of Medicare and Social Security insurance, is that neither program can avoid adverse selection. (Cost Advantage)
FALSE

31. Offering benefits to employees can be cost effective for employees, but NOT for employers. (Cost Advantage)
FALSE

32. Perceived organizational support is an employee’s perception of the fairness of the accounts given for certain procedures. (Justice and Perceived Organizational Support)
FALSE

33. Distributive justice is employees’ perceptions of fairness of the process by which decisions are made and the extent to which employees can participate in the process. (Justice and Perceived Organization Support)
FALSE

34. Medical expenses are higher for people with new medical histories. (Cost Advantage)
FALSE

35. Experience rating is the process of gathering information about employees' risk profiles. (Cost Advantage)
TRUE

36. Organizational citizenship behavior is enforceable by management.. (Organizational Citizenship Behavior)
FALSE

37. Offering certain types of benefits in combination with reduced compensation is one way of recruiting desirable workers. (Recruiting Certain Types of Workers)
TRUE

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38. An insurance pool refers to all employees who fall into an insured category. (Cost Advantage)
TRUE

39.

40.

41. In most cases employees do not give up anything to get benefits because they are "free-add-ons" in a compensation package. (Who Pays for Benefits?)
FALSE

42. The greater value employees place on a benefit, the larger reduction in cash wages they will accept if the benefit is introduced into a compensation package. (Who Pays for Benefits?)
TRUE

43. If workers are willing to leave the labor market when compensation falls and employers have relatively inflexible staffing needs, employees will tend to pay for benefit cost increases. (Who Pays for Benefits?)
FALSE

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Multiple Choice Questions

44. What are the two basic causes for psychological contract violations? (Psychological Contract Violation)
    A. Distributive and procedural justice
    B. Reneging and incongruence
    C. Changing composition of the workforce and the economic challenges
    D. Legal and industrial environments

45. Which of the following is not closely associated with the nature of transactional psychological contracts? (Psychological Contracts)
    A. Economic and extrinsic focus
    B. Close-ended, specific
    C. Narrow scope
    D. Long term relationship

46. Which of the following employee benefits is more relevant for relational psychological contracts? (Psychological Contracts)
    A. Legally required benefits
    B. Promotions
    C. Life insurance
    D. Accommodation and enhancement benefits

47. Being able to spread the administrative costs to larger groups of employees, to reduce the health insurance cost per employee, is referred to as what? (Cost Advantage)
    A. Insurance pooling
    B. Economies of scale
    C. Economies of scope
    D. Administrative underwriting

48. Which of the following employee benefit might fulfill both transactional and relational expectations of employees? (Psychological Contracts)
    A. Life insurance
    B. Retirement
    C. Legally required benefits
    D. Accommodation and enhancement benefits

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49. Prime-age workers are in what age group? (Who Pays for Benefits?)
A. 25 - 60
B. 40 - 65
C. 30 - 54
D. 35 - 65

50. Which of the following can be avoided by using experience ratings? (Cost Advantage)
A. Adverse selection
B. Medical underwriting
C. Economies of sales
D. Insurance pooling

51. What is medical underwriting? (Cost Advantage)
A. A process where employers have to verify the medical history of their employees
B. A process where the employer has to pay the difference for insuring high-risk employees
C. A process where employees provide their past medical history to insurers
D. A process where one insurance company combines with another to insure a company

52. In insurance terms, what does adverse selection refer to? (Cost Advantage)
A. When employees choose an insurance plan they don't like, but are stuck with it for a year
B. When insurance companies use medical underwriting to choose who to insure
C. When employees are forced to choose between what they think are two inferior insurance programs
D. The tendency of an insurance pool to disproportionately attract "bad risk" employees and discourage "good risk" employees

53. The degree to which an increase in benefit costs is passed along to employees in the form of lower cash wages generally does NOT depend on which of the following factors? (Who Pays for Benefits?)
A. The cash value employees place on the benefits
B. The degree to which employers will increase or decrease their hiring when the market compensation level decreases or increases
C. Whether the benefit cost increases for all employers in a market or for a particular employer
D. Whether or not the employee is a manager

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54. What are the three main reasons that employers offer discretionary benefits? (The Economics of Employee Benefits: Why Do Employees Offer Benefits?)
A. Employers have a cost advantage, the benefits help in recruiting and retaining workers and the company gets tax incentives to offer them
B. It's required to by law, the company gets tax incentives to offer them, employers have a cost advantage
C. The company gets tax incentives to offer them, the benefits help in recruiting and retaining workers, it's required to by law
D. The benefits help in recruiting and retaining workers, employers have a cost advantage, it's required to by law

55. What is an insurance pool? (Cost Advantage)
A. Insurance companies that join together to underwrite a self-funded insurance policy
B. Employers who join together to insurance all their employees under one policy
C. People who join together to by a group insurance policy
D. Insurance companies that join together to issue one large-group insurance policy

56. In 2013, which age group had the highest average total medical expenditures? (Cost Advantage)
A. Adults aged 65 an older
B. Adults aged 45-64
C. Adults aged 18-44
D. Children aged 5-17

57. Why does health insurance become less expensive when the size of the insurance group increases? (Cost Advantage)
A. Administrative costs are lower, more employees are contributing co-payments, the threat of high-risk individuals driving out low-risk ones is less
B. Insurance is less risky to provide, the threat of high-risk individuals driving out low-risk ones is less, administrative costs are lower
C. More employees are contributing co-payments, insurance is less risky to provide, administrative costs are lower
D. Insurance is less risky to provide, more employees are contributing co-payments, the threat of high-risk individuals driving out low-risk ones is less

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58. Which of the following is not a reason why insurance rates decrease as group size increases? (Cost Advantage)
    A. The administrative cost is reduced
    B. There is lesser risk in providing insurance
    C. It is easier to predict cost of insurance
    D. High-risk policy holders are driven away

Which of the following statements about employee attitudes and employee benefits is correct? (Employee Attitudes and Employee Benefits)
A. Employment can be implicit, such as a documented job offer.
B. Employment can be explicit, such as psychological contracts.
C. Employee benefits can be both implicit and explicit.
D. All benefits must be explicit.

Which of the following are the four types of justice perceptions outlined in the text? (Justice and Perceived Organizational Support)
A. Distributive, procedural, informational, and interpersonal.
B. Procedural, interpersonal, organizational, and distributive.
C. Informational, unequal, distributive, and interpersonal.
D. Interpersonal, distributive, procedural, and organizational.

Which of the following statements is the definition for perceived organizational support? (Justice and Perceived Organizational Support)
A. The perceived fairness of the accounts given for certain procedures.
B. The perceived fairness about how rewards are distributed.
C. The perceived fairness of processes.
D. The perceived degree to which the employer values the employee's contributions and well-being.

When discussing organizational citizenship behavior, which of the following statements is NOT true? (Organizational Citizenship Behavior)
A. Satisfied employees engage in good citizenship behavior.
B. **A company's employee benefits practices do not influence employees' satisfaction.**
C. Organizational citizenship behavior is discretionary.
D. Citizenship behaviors tend to go beyond the formal job requirements.

If a company eliminates a benefit then intentionally or unintentionally fails to educate their employees about the elimination, employees may judge the employer's decision as unfair. This example is a type of:
A. Interpersonal justice
B. Informational justice
C. Procedural justice
D. Distributive justice

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Essay Questions

59. Briefly discuss how workforce demographic changes can influence the employment relationship. (Workforce Changes and the Employment Relationship)

● Jobs are no longer characterized by traditional job security, strong loyalty to the organization, or the patriarchal role of the organization in the life of the employee. Instead, work arrangements and careers have become more flexible.
● Apart from economic and market challenges, the workforce in America and other developed economies is becoming increasingly diverse (see Exhibit 2.1).
● Two strong contingencies are shaping the employment relationship in terms of employee benefits today. The first is the economic challenges faced by the company. The second is the changing composition of the workforce. Both of these will determine the emerging role of employee benefits practices in the social exchange relationship between employers and employees.

60. Discuss what psychological contracts mean in employee benefit practices and how psychological contract develop. (Psychological Contracts)

● A psychological contract has been defined as an employee's subjective perceptions of the relationship of mutual obligations with the employer/company.
● Employee benefits can be a part of the psychological contract employees hold about the employer's obligations to them in exchange for their work efforts.
● Psychological contracts result in employees holding a range or continuum of expectations from the employer, ranging from pay and promotions to career development and family welfare.
● The continuum of expectations that employees hold from an employer can be seen as having two poles: transactional psychological contracts and relational psychological contracts
- Toward the transactional end of the continuum, employees' expectations from the employer are more economic and extrinsic in nature. Thus, employees' expectations of high pay and promotions or career advancement in exchange for hard work would represent transactional types of expectations in the psychological contract.
- On the other hand, toward the relational end of employees' expectations from the employer that might be either economic or non-economic, but are also emotional, subjective, and intrinsic in nature. Thus, employees' expectations of job security in exchange for loyalty to the employer would represent relational types of expectations in the psychological contract.

● Employee benefits practices can be seen to fulfill both transactional and relational expectations of employees.
- Legally required benefits would form a part of employees' transactional expectations from the employer.
- Employee benefits such as the paid time off and accommodation and enhancement benefits examined in the previous chapter might help fulfill employees' relational expectations.

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- Retirement plans would be a good example of employee benefits that fulfill both transactional and relational expectations; similarly, educational assistance benefits aimed at rewarding continued employment as well as career development would help fulfill both transactional and relational expectations.

Psychological contract development

● Most psychological contracts take shape in the pre-employment phase, when people seek information during recruitment and after receiving a job offer. Employees might seek information about both transactional and relational expectations from their potential employer.
● Ultimately, what the employee learns about employer's benefits practices will form a part of the employee's expectations from this exchange relationship along this transactional-relational continuum.
● Employees can form expectations that comprise their psychological contracts from two sources: their interactions with other members of the company and their perceptions of the company's culture.
● Psychological contracts are flexible in nature, undergoing constant change based on the interactions employees have with the company and with other employees. This flexibility allows employees to adapt to changes in the company's practices.

- If employees hold relatively stable expectations from employers, any changes in the policies and practices of the company will lead to the employee feeling betrayed unless changes entail offering more rather less.
- However, if the employees have flexible expectations, they are more likely to change their psychological contracts to adjust for the changes the employer is compelled to make.

61. Briefly discuss how employee benefits aid in recruiting certain types of workers. (Recruiting Certain Types of Workers)

Main Points
● Tailor the benefits package with certain benefits to attract a certain type of workers
● Recent undergraduates might be attracted to a tuition reimbursement benefit
● Women 20-40 might be interested in company-paid health insurance
● Older workers might be attracted to stronger retirement plans
● Tailoring packages might have unintended consequences, like
● Offering strong mental health or substance abuse benefits might attract substance abusers
● Attracting older workers with strong retirement benefits, might increase health insurance costs
● Attracting younger women might increase the need for replacement workers due to maternity leaves and FMLA time off

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62. Explain the concept of justice in a work setting and briefly describe the four types of justice perceptions. (Justice and Perceived Organizational Support)

- Main Points

- The concept of justice is concerned with the distribution of conditions and goods that affect individual well-being. In a work setting, the distribution of rewards (such as pay and benefits), information, and other resources will all lead to perceptions of justice.
- Perceptions of justice may be based on the rules by which distributions are made, the way rules are implemented, or the way decisions are made. The basis on which employees are eligible for benefits, the value of those benefits, how the benefits are administered, and employer decisions about which benefits to offer to employees would all influence employees' justice perceptions.
- There are four types of justice perceptions. **Distributive justice** is perceived fairness about how rewards are distributed; **procedural justice** is the perceived fairness of processes; **informational justice** is the fairness of the accounts given for certain procedures; and **interpersonal justice** is perceived fairness of the interpersonal treatment people receive from others.
- Distributive justice is employees' perceptions of fairness of the outcomes they receive. Where employee benefits are concerned, employees will form perceptions of fairness based on the benefits they are eligible for.
- Procedural justice deals with employees' perceptions of fairness of the process by which decisions are made and includes the extent to which employees can participate in the process as well as the rules followed.
- Interpersonal justice is the perception of the degree to which the employer demonstrates concern and social sensitivity toward employees.
- Informational justice deals with perceptions about the quality of information used to explain organizational decision making.

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63. Discuss the issue of who pays for employee benefits. (Who Pays for Benefits?)

Main Points
● Most workers with employer-sponsored health insurance pay a token monthly contribution towards their insurance premium
● The typical monthly contribution ranged between $28.00 to $300.00 for people with single coverage and $86.00 to $1279.00 for people with family coverage
● The monthly contributions allow employers to charge employees different rates, depending on insurance needs, like family size and different levels of coverage
● Monthly contributions make it easier for employers to pass along benefit cost increases to employees
● Instead of lowering income employers may also
○ Scale back a scheduled bonus
○ Reduce the yearly income increase
○ Hire new workers at a lower income level

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