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Musings

#53: The Waste of Many Employee Benefits

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Recently, there has been an arms race on who could offer more free benefits to the younger, digital workforce. Wear a hoodie and flip flops, bring your dog to work, free lunch, beer on tap and even yoga classes. Companies are seeking to attract talent by adding giveaways as part of the total “value” package.

Many companies don’t truly know the cost of their benefits programs. The standard model in finance is to apply a “burden rate” to the salaries expense to cover all of the benefits programs. Leaner, well-run organizations can have a burden rate of under 20%. You really can’t get under 15% as this rate must cover mandatory things like state unemployment taxes (SUTA) and federal payroll taxes (FICA). It also must cover healthcare benefits which you need offer. The discretion comes in things like the design of the healthcare benefits (not zero deductible, zero copay like government programs which we pay for as taxpayers) and retirement benefits (401k match or pension programs for the old school employers). We once sold a business and the buyer had a benefits rate of over 30% compared to our 18%. Apply that to the 55% of expenses which were salaries and you lose 600 basis points of margin!

Personally, I think many of these new generous company benefits are not only expensive, they are unnecessary. Sure, it is nice to get free things but what talented employees really want, is to learn. Studies have shown they want to know who their boss (coach) is going to be and what career path is available. Think back to your best boss – was it the nicest one who gave you things or rather the tougher one who you respected and made you better?

A friend of mine had a company which will helped its clients with recruiting. They did a study of job applicants. What came out of it was that there are six key questions that a company needs to answer that increase the number of top candidates:

- 1) What is your recruiting process/timeframe? (aka is there an actual job behind this posting)
- 2) How much money will I make? (telling people or just telling people that you'll have that conversation in the first phone interview is equally effective)
- 3) Who is my boss going to be?
- 4) Who am I going to work with / who is on the team?
- 5) Where does this opportunity lead? - showing examples was effective
- 6) How should I apply? sending an email to the leader of the department (a couple of steps up) changed the distribution from lots of bottom and middling candidates to 10x as many top candidates.

Note that top candidates do not ask about the benefits program. They are joining a team and want to know who the coach and colleagues are and how they can get promoted if they do well.

Be safe. Work hard. Move to Wisconsin – bars are open.

jml

Second Thoughts

For those in the Mitch Daniels Admiration Society, read his great commencement speech. [Purdue Commencement Speech](#) . Great point on how the explosion of social media and digital interaction is actually leading to loneliness. This is part of why I believe the future of undergraduate education is more blended / hybrid versus fully online.