

# Employee Benefits as an Alternative to Salary Increases

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## Rewarding Employees Effectively

An attractive overall compensation package plays an important role in preserving an employer's most valuable assets – the employees. With government cutbacks and increasing drug, hospital and paramedical costs, giving employees an increase in pay is not always the most cost-effective method of compensation.

As the following "Comparison of Costs for the Employer" chart illustrates, a raise in pay costs more than you think! Consider a 6% pay increase on a salary of \$35,000 vs. an equivalent premium allocation.

	<u>Raise</u>	<u>Group Benefits</u>
Enhancement	\$2,100.00	\$2,100.00
EI	\$ 50.88	\$ N/A
CPP	\$ 103.92	\$ N/A
WSIB*	\$ 47.46	\$ N/A
Sales Tax**	\$ N/A	\$ 168.00
<b>TOTAL:</b>	<b>\$2,302.26</b>	<b>\$2,268.00</b>

\*using industry average for 2009: 2.26%

\*\*8% Ontario Retail Sales Tax

The net impact: it costs the employer almost \$35 more to implement a raise in pay as opposed to group benefits. Now consider the net enhancement to the employee as illustrated below:

	<u>Raise</u>
Enhancement	\$ 2,100.00
EI	\$ - 36.36
CPP	\$ - 103.92
Income Tax	\$ - 540.60
<b>NET ENHANCEMENT:</b>	<b>\$ 1,419.12</b>

It costs the employer \$2,302.26 to net the employee \$1,419.12. The difference of \$ 883.14 offers no tangible benefit to either the employer or the employee.

This example illustrates that when taking into account the real cost (EI, CPP, personal income taxes) of a raise to both the employer and employee, it is more attractive for an employee to receive group benefits than it is to receive an increase in pay. In addition, depending on plan usage, a group benefits plan has the potential to pay out far more to the employee than the \$2,100 premium investment.

All source deductions are based on July 2008 CRA figures.

Questions or comments—contact us at:  
[info@doucettinsurance.ca](mailto:info@doucettinsurance.ca) or call 613-253-2410 / 1-800-507-7463

As individual circumstances may vary, we advise that you seek professional advice.

### Points of Interest

- Approximately 32% of pay increases are lost to source deductions.
- Without a group benefit plan, health care, paramedical and dental costs are paid with the employee's after-tax dollars.
- With a group benefit plan, health care, paramedical and dental costs have minimal-to-no impact on the employee's income.