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Employee Healthcare Benefits:
A Significant Component of Motivation and Organizational Loyalty

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ABSTRACT

Maintaining employee motivation and reducing attrition are ongoing issues in the law enforcement community. Recent hikes in the price of and reduction in the quality of employer-provided employee and dependent healthcare benefits may have a significant negative effect on employee motivation and employee retention rates.

Accepted needs hierarchy theories were used to determine whether or not a relationship exists between the perceived quality of employee healthcare benefits and employee motivation/loyalty. Based on accepted needs hierarchy theories, it was found that employees who see their employer substantially contributing to their quality of life will be more motivated, will perform at a higher level, and will remain more loyal to their employer than would be the case if unsatisfactory benefits were provided. The converse was also found to be true. An examination of previous employee attrition studies specific to the law enforcement community validated these needs hierarchy theories.

Once this relationship was established, an overview of current trends in employer provided healthcare benefits was conducted. The overview found that there is a significant erosion in employer-provided healthcare benefits for employees and their dependents. Based upon theoretical considerations and proven through past studies of police attrition, it was concluded that law enforcement managers should expend all available resources to maintain a good healthcare benefits package for their employees and their dependents.

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Introduction

Current management theory purports a happy worker to be a productive worker (Smith, online). This holds true for persons in law enforcement, as well. In order for managers to assure their workers are happy with their jobs, employers have found in recent years that employee motivation is affected not only by acceptable salaries and working conditions, but that there is also a need to consider the "whole package" - that employees must also be provided with an acceptable benefits package that enhances their overall quality of life (Families and Work Institute, 1998). This paper examines the relationship between the perceived quality of employee benefits and employee motivation and loyalty. It is designed to address the recent and ongoing erosion of employer-provided fringe benefits for police officers, to include that of healthcare benefits provided to police officers and their families.

In this paper, it is hypothesized that employees who are provided with a benefits package that substantially improves their quality of life will be more motivated, will perform at a higher level, and will remain more loyal to their employer than would be the case if substandard benefits were provided. This hypothesis will be validated by proving its corollary: Employees will have lower motivation, will perform at a lower level, and will have less loyalty to the organization if they are presented with a substandard benefits package.

The research was conducted in the following steps, each building on its predecessors: First, it was established through application of needs hierarchy theories that there is a positive cause-and-effect relationship between employee motivation and employee performance, and that good motivation makes for a high incidence of employee loyalty. It was also shown that the converse is true - that a reduction in employee motivation means lower productivity and reduced

loyalty to an organization. These first points were made through a review of the literature, focusing on commonly accepted management theories. Second, it was examined whether a perceived reduction in an employee's usual fringe benefits package resulted in a lowering of the employee's motivation, and thereby his/her performance and loyalty. This was also done through an examination of current management literature, and also through a review of needs hierarchy theories.

The anticipated result of these first two points of research was a strong theory-based argument that an erosion in employee benefits will cause employees to experience lower motivation within a given organization. Reduced motivation could lead to a loss of loyalty to an organization, causing employees' performance levels to wane, and forcing them to eventually seek employment elsewhere. If the ensuing research actualized the expected findings, it could then be shown that there remains a significant need to maintain a good employer-provided employee benefits package in order to help attract new recruits, help foster employee motivation, and help keep the attrition rate low. Such a conclusion has potentially far-reaching implications: Management should see that wages are not the only thing employees need from their employers in compensation for their quality efforts; management should respond accordingly.

Field research was conducted and consisted of examining newspaper and periodical reports and gleaning information from multiple case studies to determine the applicability of the above conclusion to current events. Research verified that there does indeed seem to have been a significant erosion in employee benefits in the police profession in recent years. The theoretical lessons learned through the review of the literature were then be applied to the realities found in the above-stated case studies and in the examination of current events. This application showed that the present' erosion of employee fringe benefits provided to police officers by their agencies

may be the catalyst that will force officers to seek to provide for their families by going to work for agencies with better benefits packages, or into other lines of work altogether.

The results of such a conclusion should prompt police administrators to take a greater interest in promoting the general welfare of employees and their families in order to maintain high worker motivation. Every effort should be made by police agencies to continue to provide their employees with acceptable employee benefits packages. In doing so, they will be able to keep employee performance at a higher level, keep their attrition rates lower, and be more attractive to potential new employees than if reduced employee benefits were offered. In contrast, a reduction in employee benefits could result in a loss of quality of service, or even in an elevated attrition rate with little chance for attracting replacement recruits.

Managerial response in light of this study should be clear. As an empirical validation, however, a short examination of the cost-effectiveness of providing employees with a satisfactory benefits package and a recommendation for administrative posture on this issue concluded this study.

Review of Literature

In an organization, it is in the best interests of management to keep employee performance at its most productive. How does a manager accomplish this? Studies suggest that employees perform with more commitment to the job and to the customer when they are motivated (Smith, online). On the other hand, lower motivation results in reduced performance. When an employer motivates a worker through external reward, this motivation is called "extrinsic"; when an employee's motivation to work comes from within the employee, it is called "intrinsic". A recent series of case studies of eight corporations found that employers cannot positively motivate employees for the long-term. Employees must be intrinsically motivated (Haasen & Shea, 1997).

What organizational climate promotes intrinsic motivation? The Family and Work Institute's 1997 National Study of the Changing Workforce (NSCW) found that employees with more supportive work places and better quality jobs were more likely than other workers to have higher intrinsic motivation, e.g., levels of job satisfaction, more commitment to their organizations, greater loyalty to their employers, and a stronger intention to remain at their jobs. Not surprisingly, this study also found that when employees' personal and family well-being were negatively impacted by their work, these employees experienced more negative spillover from home to work; this diminished their job performance (Family and Work Institute, 1997). It seems that the more supporting the organization is to its employees, the better chance the employer has of promoting performance and maintaining employee loyalty. These findings are not surprising when viewed in the light of needs motivation theories.

In the 1950's, psychologist Abraham Maslow argued that humans have a "hierarchy of needs". This hierarchy was illustrated by a 5-tiered pyramid, with physiological needs like food

and shelter at its base, and self-actualization at its apex. Maslow stated that as each need is fulfilled, an individual is able to focus on the next higher level of needs. Needs which remain unmet become a focus for the attention of an individual, usually preventing (but at least hindering) his/her progression to the next higher level toward self-actualization (Maslow, 1962). Application of Maslow's theory reinforces the position that an employee's focus on and efforts to satisfy the unmet needs to provide necessities for his/her family ("security", a relatively basic need) hamper that individual's intrinsic motivation and performance in the workplace ("socialization", a more advanced need).

Another needs motivation theory was put forth by Frederick Herzberg, whose "two factor" theory found that different results were obtained when the research was conducted in two parts. He had employees to relate incidents that made them happy about their jobs, and had them then separately relate something that had made them unhappy about their jobs. Positive motivators were stated primarily as aspects of job content; dissatisfiers were found to be primarily "hygiene" factors (i.e., salary, benefits, supervision, company policies, interpersonal relationships, salary, etc.). Significantly, it was also learned that "hygiene" factors cannot increase job satisfaction, but can only affect the amount of job dissatisfaction (Herzberg, 1959). By application, one finds that a reduction in the quality of employee benefits (a "hygiene" factor) can lead to dissatisfaction, which results in lower motivation and productivity.

Intrinsic motivation can therefore be reduced or eliminated if an employer fails to meet the employees' hierarchical needs (Maslow), or negatively affects "hygiene" factors (Herzberg). This action (or even a failure to take appropriate action) by an employer is considered by employees to be "controlling". "Controlling" action is defined as action that reduces self-determination and self-esteem.

University of Zurich professor Bruno Frey contends that employees' intrinsic motivation to work can be "crowded out" by employer action that is "controlling". Frey posits that whether or not an employer's action is "controlling," "depends on the employees' perception. This perception is not haphazard but may be linked to economically relevant determinants" (Frey, 1997, p. 93). In plain speak: An employee's performance and internal motivation to work can be lowered when his/her employer does something that reduces the employee's sense of economic well-being, and which the employee feels is beyond his/her control. In this context, he asserts, "(t)he process of building up work morale is as a rule much slower than destroying it, and is less reliable. In many cases, persons insufficiently justified to perform a task simply stop doing it" (Frey, 1997, p. 91).

Looking at the end results of an unchecked reduction in motivation, two obvious possibilities emerge: a stoppage of work (as stated by Frey, above), or the employees' ultimate loss of loyalty to the organization. In a discussion of what happens when employees become demotivated, Charles Handy asserts:

Those people can and often do walk out the door. . . . If laborers are worthy of their hire, there is no reason to suppose that they won't go where the hire looks better..... When laborers become assets, the underlying contract with the organization has to change. Trust inevitably requires some sense of mutuality, or reciprocal loyalty (Handy, 1996, p. 40).

This change in the "underlying contract with the organization" is dependent upon attitudes and actions of management. Particularly in organizations where employment is "at will", there has historically been an imbalance in the relationship between employers and employees, "placing heavy obligations of loyalty on employees, but allowing employers to dismiss people without notice or justification" (Heckscher, 1995, p. 165). As noted by Beth McCarty, Vice President, Corporate Accounts for Ceridian Performance Partners:

Companies that actively create a supportive environment with work-life programs and practices are contributing positively to their employees' morale and dedication. Those that take employee's personal needs into account when making business decisions, even if not implementing formal policies, are also making a significant difference in the lives of their people. The two avenues should not be mutually exclusive (Families and Work Institute, 1998).

Returning to the issue at hand, one sees "(h)ealth insurance coverage for oneself and one's family is the single most valued benefit among U.S. workers, who rely almost solely on their employers for coverage (Families and Work Institute, 1998)." This reliance on the employer to meet insurance needs mandates them to provide employees with a quality health insurance package in order to attain the sense of "reciprocal loyalty" posited by Handy (Handy, 1996).

Bearing this in mind, any rise in the attrition rate for police officers who are watching their healthcare benefits erode would not be surprising. The following research should help provide foundational reasoning and empirical verification for reversing this coming trend by prompting police management to maintain high-quality benefits packages for their employees.

Methodology

This research was conducted to determine whether or not a relationship exists between the perceived quality of employee benefits and employee motivation/loyalty. To help determine the existence of this relationship, it was hypothesized that employees who are provided with a healthcare benefits package that substantially improves their quality of life will be more motivated, will perform at a higher level, and will remain more loyal to their employer than would be the case if unsatisfactory benefits were provided.

Research was conducted through an intensive examination of multiple case studies. These case studies were obtained through various electronic and print media, and consisted primarily of information compiled by other authors and researchers. Much of the original data that provided the primary researchers with their findings were obtained via exit and post-exit surveys of employees who were leaving their positions as police officers.

The findings gathered from the primary researchers were compiled and evaluated to determine if the hypothesis could be proven or disproved. Upon proving the hypothesis, it logically followed that a trend could be clearly established linking the perceived quality of employee benefits to employee motivation/loyalty.

A subsequent overview of the trend in decreasing employer-provided healthcare benefits was conducted. When coupled with the above-outlined hypothesis, this overview can be used to assist in predicting police employees' responses to currently eroding employer-provided healthcare benefits.

Findings

One of the primary studies linking a cause-and-effect relationship between employer provided employee benefits and employee motivation and loyalty was conducted in 1988, when the Vermont Criminal Justice Center (VCJC) began examining the causes for turnover within the state's municipal police departments. This study attempted to review previous attrition studies, but found only two, and both of them involved small groups of officers; the VCJC study is the first of its kind to attempt to track all resigning municipal police officers in a state over any period of time.

The VCJC study presented respondents with 32 possible reasons for leaving their positions of employment with police agencies, and analyzed these results by grouping them into four categories: (1) job: salary, benefits, and satisfaction; (2) frustration with the department; (3) frustration with the justice system; and (4) job and family stress. It was found that the leading factor in causing officers to resign from a department was "to attain better benefits", which topped the list at 70% of all respondents listing this factor as "somewhat or very important." (The other reasons that ranked above 60% were: "to attain better salary", 69%; "to attain better retirement", 65%; "no opportunity for advancement", 65%; and "wanted a more challenging position", 62%.) It was also found by the VCJC study that officers who continued to be employed in a law enforcement capacity and moved to another law enforcement agency after resigning tended to be selective, usually choosing positions having better salaries and benefits (Stageberg, online).

These findings, indicating the importance of employee benefits in keeping employee attrition low, are validated by the 1997 National Study of the Changing Workforce (NCSW), a

nationwide survey of a representative sample of employees in the U.S. This study, conducted by the Families and Work Institute, found that:

...employees with more supportive workplaces as well as better quality jobs are more likely than other workers to have:

- higher levels of job satisfaction;
- more commitment to their companies' success;
- greater loyalty to their companies; and
- a stronger intention to remain with their companies.

The 1997 NCSW also found that employees with more demanding jobs and less supportive workplaces experience:

- more stress;
- poorer coping;
- worse moods; and
- less energy off the job - all of which jeopardize their personal and family well-being.

Additionally, we found that when employees' personal and family well-being is compromised by work, they experience more negative spillover from home to work, which diminishes their job performance. (Families and Work Institute, 1998)

A demanding or hectic job coupled with an unsupportive work environment, therefore, has not only a detrimental effect on the employees' well-being, but makes for a counterproductive circumstance for the employer, as well. "(W)ork life is actually an important *source* of employees' personal problems. That is, demanding jobs and unsupportive workplaces lead to spillover from jobs into workers' personal lives that can create or exacerbate problems off the job that, in turn, spill over into work and diminish productivity" (Families and Work Institute, 1997). Though this study considered employer-provided healthcare benefits not to be one of the elements of a "supportive workplace", it can easily be seen that the lack of an adequate benefits package could be one of the *main* factors that would contribute to an employee's perception that she/he works in an "unsupportive" workplace.

The VCJC study and the NCSW provide empirical evidence of the applicability of both Abraham Maslow's needs hierarchy theory and Herzberg's two factor theory to employee benefits as an integral part of employee performance and retention. Retaining employees and keeping them productive in the workplace require employers to meet those employees' hierarchical and hygienic needs. While there is no single, isolated cause for employee attrition different employees may resign for a complex combination of reasons whose proportions vary by individual (Harris, online) - employers can look to needs hierarchy theories to establish priority ranking of reasons for employee attrition.

A good healthcare benefits package is a significant hierarchical need (Maslow) and ranks high as a hygiene factor (Herzberg). Health insurance coverage for oneself and one's family is the single most valued benefit among U.S. workers (Families and Work Institute, 1998), and according to one study - is the single major factor in prompting police attrition when it falls below expectations (Stageberg, online).

The next step in determining ways to manage the attrition rate among police officers and to keep employee morale and productivity high is to examine current trends in the cost/quality of benefits provided to police officers by their employers. In doing so, it was found that there is an overall national increase in the cost of providing healthcare benefits to employees and their dependents, both in the public and private sectors. Healthcare insurance providers cite customer demands for more freedom to select healthcare providers, rising hospital costs, and an increase in the average age of the American population as reasons for these increases in healthcare insurance costs. Small employers are seeing their employees suffer most, with many employees facing a doubling in their monthly insurance premiums; employees and their dependents with preexisting medical conditions may not have the option of shopping for more cost-effective insurance

available to them, effectively being locked-in to paying for rapidly rising insurance they have no control over (Freudenheim, 2001). In 2001, the Kaiser Family Foundation conducted a study in which they created seven hypothetical consumers, each with past or present medical problems, and had them apply for healthcare insurance from 19 companies. Nearly half of these hypothetical consumers were rejected outright. Of those who were accepted, the average premium was about \$4000 a year, often with reduced benefits (Cohn, 2001).

From calendar year 2001 to calendar year 2002, there was a nationwide increase in the cost of health care benefits. In St. Bernard Parish, Louisiana, for example, an additional \$500,000 were required to cover the increase employee healthcare benefits from 2001 to 2002. (Bazile, 2001) Southeastern Wisconsin communities saw increases for the same period vary by community, but all were still significant: 40% in New Berlin, 28% in Menomonee Falls, 24% in Delafield and Hartland, 19% in Bayside, 17% in West Bend, and 12% in Hartford (Maller & Umhoeffer, 2001).

Faced with a 45% increase in health insurance costs by Blue Cross/Blue Shield at the end of 2001, Plant City, Florida, was forced to change carriers. Even so, there was still a 15% increase when Plant City changed its carrier to United Healthcare, causing the city to increase its contribution toward covering those costs (Hammett, 2001). The New Caney (Texas) Independent School District saw significant increases to employee healthcare costs for both the employer and the employee, with full-family coverage costing the employee a contribution of \$428.25 per month, an \$800 annual deductible and higher co-pays (West, 2001). These are but a few examples of what is a national trend in increases in the cost of employee healthcare benefits, which was predicted in late 2001 to reach *at least* 13%, and which is a source of major concern for state and local governments (Winslow, 2001).

Many employers have decided to pass the majority of the cost increases on to their employees. With the largest single increase since the late 1980's, nine million federal employees, retirees, and their families with health coverage from the Federal Employees Health Benefits Program (the largest health insurance plan in the United States) faced an average cost hike of 13.3% in January 2002. In the aftermath of the economic upheaval after the terrorist attacks of September 11, 2001, it was generally predicted that increases would prompt employers nationwide to shift an even greater portion of health costs to employees (Gemignani, 2001).

In May 2002, Cox News Service reported, "Health insurance premiums this year are expected to increase an average of 13 percent to 15 percent, the steepest increase in a decade. That's on top of average increases last year of 11 percent. And it's likely to get worse. Next year's increases will be at least as high as this year's and probably higher." The report went on to state that the California Public Employees' Retirement System (CalPERS) - the nation's second largest health insurance plan after the federal government's - recently announced an increase in premiums of 25 percent, and observed, "(i)f the second-largest purchaser of health care in the nation... can't negotiate better than a 25 percent premium increase, what in the world is going to happen to the rest of the businesses" (Lipman, 2002)?

Health care expert Blaine Bos with the M. Mercer consulting firm has predicted double digit increases in healthcare benefit costs into calendar year 2005. He posits that *employers cannot continue to shift cost increases to employees indefinitely*, something that has heretofore seemed to be the norm. For employees who do not resign and seek more attractive employment elsewhere, a perpetual shifting of health care cost increases to employees will cause many who cannot afford it to eventually drop their insurance coverage altogether, setting off a cycle in which costs increase still more for those employees who remain (Freudenheim, 2001).

In pushing these cost increases off on employees, employers have also sparked a subsequent, different effect: Employers are perceived by their employees as having reneged on their obligation to them, that the employers are not fulfilling their obligation to fully compensate the employees for their efforts. As observed by Dr. Peter Capelli in an article about the changing work management paradigm:

The contract between employer and employee implicit in the traditional work paradigm offered security and predictability in return for commitment and acceptable levels of performance. What has happened to that implicit contract and to employee attitudes and related behaviors... is an important question. Attitudes, such as commitment, are important because they relate to behaviors such as turnover and absenteeism.

The norm of reciprocity runs deep in every society. Employees who have kept their side of the bargain with long service feel that the contract has been violated if the employer deviates from its obligations(Capelli, 1997, p.53, 54).

For both economic reasons and reasons involving the perception of an imbalance in reciprocity, employees - including police officers - are readying themselves to leave their employers.

Discussion/Conclusions

Employer-provided employee and dependent healthcare benefits have suffered a significant erosion in recent years. To offer a paradigm within which management can respond to the present situation, this research was conducted to determine whether or not a relationship exists between the perceived quality of employee benefits and employee motivation/loyalty. To help determine the existence of this relationship, it was hypothesized that employees who are provided with a healthcare benefits package that substantially improves their quality of life will be more motivated, will perform at a higher level, and will remain more loyal to their employer than would be the case if unsatisfactory benefits were provided.

The findings of the research supported the stated hypothesis: Employees who have their needs met in hierarchical order and who work in conditions of reduced environmental (hygiene) detractors prove to be fulfilled, happy employees. Happy employees have increased productivity and reduced attrition rates. The converse is also true. Employee and dependent healthcare benefits rank in importance in both needs hierarchy theory and in hygiene-motivation theory.

Employee and dependent healthcare benefits are considered to be the most valued of all employer-provided benefits. It is not surprising, then, to find that unsatisfactory employee healthcare benefits are repeatedly cited as the *primary* reason for attrition. Police officers, in particular, value these benefits and historically cite inadequacies in them as being the main reason for police officer attrition. The cost of providing healthcare to employees and their dependents has risen dramatically, much of this cost increase being passed on to the employee by the employer.

Dumping the increased cost of employee healthcare benefits onto the employees reduces employee loyalty as employees powerlessly watch their employer-provided healthcare benefits

erode in conjunction with the rising expense of employee contribution to their healthcare plans. In light of the VCJC study's emphasis on importance of employer-provided healthcare benefits as a catalyst for police officer attrition, the current trend in healthcare benefits erosion should sound an alarm for police management to provide employees with the best in healthcare benefits packages available, even to return to past levels of quality of service at minimal cost to employees.

The best strategy for combating police officer dissatisfaction, demotivation, and attrition is not just to maintain the *status quo*, but to *improve* the employee benefits package, specifically addressing employee and dependent healthcare benefits. In a published examination of private sector employee turnover (partially resultant from "pilfering from the benefit package to improve the bottom line"), one author states,

Companies have to realize that it costs them up to three times the salary of a key employee to recruit, hire, and train a replacement - not to mention the cost of downtime and the lost investment in the person who left.

Christian & Timbers says, .. "companies need to demonstrate that they value employees and care about their well being. It's practical as well as humanitarian, because it costs much less to retain known talent than to constantly recruit replacements. The name of the game is retention, and for now, employees stay with the companies that support their lives in and out of the office" (Schneider, 1999).

This "three times" cost figure is echoed by personnel staffing consultants Proteus Solutions, who advertise, "Industry research indicates that the cost of replacing an employee can cost up to three times the departing employee's yearly salary..." (Proteus Solutions, online) This "three times" figure may be may be an accurate one for police work, which has many additional recruitment expenses not incurred by private sector interests. Hiring departments have the expense of putting new recruits through police academy and field training segments which may last up to one year - a time during which the new recruits are "in training", and not of significant

value as independent employees fully capable of performing the duties for which they were hired. Prior to training, police recruits often have to undergo a lengthy and involved hiring process, including knowledge-based testing and fitness testing, psychological evaluation, and background investigation. There is also the cost providing clothing and equipment for each new police recruit, an expense generally not found in private sector employment.

To apply numbers to verify that it is cheaper to provide better benefits and keep existing employees than to hire new employees in a climate of periodic turnover will illustrate the point made by the above authors. For the purposes of illustration: a small police department of 37 employees (civilian and sworn, all ranks) has an annual gross salary expense of \$1,900,000, averaging \$51,351 per employee. Using the realistic "three times" factor, one finds that the average cost of replacing *just one* employee is \$154,053. If three employees resign in a given year from this department of 37 employees (an attrition rate of 8.11%), the cost of turnover for the department rises to \$462,159. Even using a much more conservative factor 1.5x, the average cost of turnover per employee is \$77,026.50, and the cost of replacing three employees stands at \$231,133.42.

For an employer to spend more money on employee and dependent healthcare benefits the single most important factor in employee retention - is, therefore, *actually cost effective*. The higher the quality of the healthcare benefit and the lower the cost of this benefit to the employee, the better the chances of keeping the employee motivated and of retaining the employee as a valuable part of the organization. Employees are thereby provided with a higher quality of life through their work environment (allowing them to concentrate on fulfillment of higher-level hierarchical needs, like quality of work product), and the employer saves money in the long run by reducing the 'costs that the department that would have otherwise incurred through employee

turnover. Law enforcement managers should, therefore, be willing to expend all available resources to maintain a good healthcare benefits package for employees and their dependents - if for no other reason, in the interest of cost-effectiveness.

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