Benefits Overview

Why are benefits important, and what should you consider when developing a benefits plan for your organization? Benefits constitute a significant portion of employee compensation costs, but having a competitive benefits package is vital to recruiting and retaining the best employees. The best benefit programs are those that align with an organization’s business strategy and compensation philosophy. For example, flexible benefit/cafeteria plans provide a means for employers to offer employees a customized benefit package while saving taxes for both the employer and employees. Employers also have to account for other certain major benefits, such as Social Security, Medicare, workers’ compensation, and unemployment compensation, which are mandated by law.

Strategic Benefit Planning

Getting the most out of a benefit program, especially in the long run, requires aligning benefit programs with an organization’s overall business strategy and compensation philosophy. Benefit planning inevitably involves trade-offs between an ideal package and one that will maximize the desired impact at an affordable price. The three most important factors that must be weighed are:

• What benefits can the employer afford?

• What benefits will best attract and retain the employees needed to execute the organization’s business strategy?

• What benefit vendors provide a quality and consistent product now and will continue to do so in the future?

Strategic planning allows employers to take the initiative in balancing employees' needs with a budget. It can involve taking advantage of new tools, such as electronic plan administration, and offering new benefits beyond the traditional health, disability, and life insurance and retirement plans with the addition of benefits such as financial planning assistance, gym memberships, and long-term care insurance.

Objectives

Strategic planning can provide for controlled budgets over a period of years and provide meaningful benefits that aid in recruiting and retaining key employees. Steps to take to define and implement a plan for achieving these objectives include:

• Evaluating current benefit plans and programs;
• Identifying corporate objectives;
• Spelling out strategies that relate to corporate culture;
• Coordinating benefit strategies with other compensation and human resource programs;
• Designing a communication plan; and
• Establishing budgets to accomplish these steps.

Attracting and Retaining Employees

Benefits play a crucial role in both attracting and retaining employees. Innovative benefit packages are often what distinguishes an employer from the pack. While benefit costs can account for as much as one-third of payroll costs, there are still many opportunities to provide current benefits more efficiently and to provide attractive benefit packages that appeal to employees without greatly increasing payroll costs. For instance, benefits such as group and payroll deduction purchasing plans cost virtually nothing.

Communication Is Key

Benefit programs are most effective in attracting, motivating, and retaining employees if they are part of a complete compensation strategy targeted for the employer’s workforce. Employers should determine what they can afford to spend on benefits and what components they need to accomplish the specific goals of their compensation strategy. These strategic goals, however, cannot be achieved unless employees understand the components of their benefit program. A good communications program consistently informs employees of the utility and value of the benefits they receive. Poor communication will result in employees who take the benefits that they receive for granted.

Cost of Benefits

If for no other reason, employers must view benefits as an element of the overall business strategy because benefits are such a big part of payroll costs. According to the U.S. Bureau of Labor Statistics (BLS), private industry employers spent an average of $34.15 per hour worked for total employee compensation in September 2016, the most recent month for which statistics are available. Wages and salaries averaged $23.42 per hour worked, and benefits averaged $10.73 and accounted for 31.4 percent of total compensation costs. This statistic includes such items as health and other insurance, retirement plans, paid leave, and legally required benefits such as Social Security. For more details on employer costs, visit http://www.bls.gov/news.release/ecec.toc.htm.
Health Costs Rising: Employers Adjusting

Employers have approached the task of keeping their healthcare costs under control in a number of ways, such as increasing the share of premiums paid by employees, increasing deductibles, increasing copayments and coinsurance, or using wellness programs, managed care tactics, and consumer-directed health plans.

**Drug costs.** Prescription drugs are often a big part of healthcare expenses. This has resulted in new strategies to control costs, including multitiered copayment strategies designed to encourage use of generic drugs and restrictions on coverage of so-called lifestyle drugs.

**Wellness.** Programs to improve employee health and safety, both on the job and off, are increasing in popularity. As the cost of medical care increases, preventive measures begin to look better and better. Safety measures that seemed prohibitively expensive only a few years ago are now being reconsidered. Please see the national Wellness section.

**Self-insurance.** Even relatively small organizations find that self-insurance is a way to control benefit costs. The risks of using self-insurance can be minimized through reinsurance, and administrative burdens can be controlled through the use of third-party administrators. State insurance mandates do not apply to self-insurers.

**Consumer-directed health plans—health savings accounts (HSAs) and health reimbursement arrangements (HRAs).** Another trend in health plan designs is consumer-driven health care, including defined-contribution health plans intended to make employees more conscious and responsible for the cost of their health care. In its simplest form, the employer provides a fixed sum for the employee to buy insurance on his or her own. Under another scheme, the employer provides a voucher for a fixed sum per year for health coverage and allows the employee to choose from an array of less- to more-expensive plans. Hybrid defined-contribution plans combine a high-deductible plan with a tax exempt medical expense savings account that could cover the deductible, copayments, or the cost of out-of-network care. Another type of plan provides a fixed sum for routine care and a high-deductible insurance plan to cover major illnesses. Please see the national Defined Contribution Health Plans section.

**Retirement Benefits**

Many employers contribute to some sort of retirement plan for their employees. Aside from their utility as an element of compensation and as a means of enforced savings, such plans are a good way of sheltering otherwise taxable income and are therefore particularly valued by highly compensated employees. However, government regulations require that pension benefits be offered on a roughly equal basis to all employees, and they limit the contributions employers may make to such plans accordingly. In view of the difficulties...
involved in calculating the costs and benefits of various pension alternatives under this complicated scheme, it's best to sit down with a benefits expert to sort out your objectives and then to determine how best to meet them. Please see the national Retirement Savings and Pension Plans section.

**Flexible Benefits--Cafeteria Plans**

The federal tax laws contain certain incentives for employers to offer a selection of before-tax benefits that allows individual employees to choose the combined benefit/compensation plans that suit them best. These “cafeteria” plans typically lay out alternatives--including higher pay and lower-value benefits--from which employees may choose. For example, an employee with children whose working spouse has a good family health plan might decide against duplicative health insurance coverage and take its equivalent value in child care assistance.

A simple plan providing child care and medical expense reimbursement will involve low administrative costs and no employer contributions while saving employment taxes for both the employer and employee and income taxes for the employer. Although more complex flexible benefits plans can involve some large administrative costs, especially at start-up, the level of employee satisfaction can be high even if economic pressures force benefit reductions. Employees often appreciate the opportunity to make individual adjustments when the aggregate value of their benefits package is reduced. Effective communication is crucial for flexible benefit programs to increase participation rates and reduce per capita administrative costs. Please see the national Flexible Benefits/Cafeteria Plans section.

**Mandated Benefits**

Employers are required by law to provide and pay either totally or partially for Social Security, Medicare, unemployment compensation, and workers’ compensation. These are expensive and important benefits that must be included in any benefit strategy and whose value and cost should be explained in a benefit communications program.

**Miscellaneous Benefits**

A wide array of programs are offered by employers as part of their total benefits package. Certain benefits, such as up to $50,000 in group term life insurance and dependent care assistance, can be provided tax-free to employees. Other voluntary benefits, such as payroll deduction for group auto and/or homeowners' insurance, can provide savings to employees at no cost to the employer. Providing benefits such as adoption assistance or charitable donation matches can generate much more goodwill than they actually cost. Dependent care assistance appeals to employees with children or with aging parents, while long-term care insurance has more appeal to older employees. The following is a list of benefits frequently provided by employers:
• Accident insurance
• Achievement awards
• Adoption assistance
• Athletic facilities
• Automobiles provided by the employer
• Charitable donation matches
• Dependent care assistance
• Disability insurance
• Discount programs
• Educational assistance
• Employee assistance
• Employer-provided services
• Financial planning assistance
• Holiday gifts
• Investment education
• Jury duty pay
• Leaves
• Legal service plans
• Life insurance
• Long-term care insurance
• Meals and meal allowances
• Moving expense reimbursement
• Payroll deduction plans to purchase group life, auto, or homeowners' insurance
• Severance pay
• Sick pay
• Supplemental unemployment insurance
• Transportation benefits
• Vacation pay

Compliance Issues

Employee Retirement Income Security Act (ERISA). ERISA sounds like a pension law, but it is that and much more. It is the legal mechanism by which the federal government makes an employer's promise of benefits legally enforceable. Please see the national ERISA section.

Taxes. Some benefits are taxable to the employee, while others may be excluded if certain conditions are met. For example, life insurance in an amount exceeding $50,000 is taxable to the employee as income, but there is no cap on what a medical policy can pay and still remain untaxed.

Consolidated Omnibus Budget Reconciliation Act (COBRA). Federal COBRA, as well as laws in most of the states, requires employers to allow separated employees to remain covered under the employer's group health plan for several months after separation. Please see the national COBRA (Health Insurance Continuation) section.

Health Insurance Portability and Accountability Act (HIPAA) administrative simplification and privacy. HIPAA mandates the adoption of a series of provisions to simplify and ensure the privacy and security of healthcare information. These provisions have both direct and indirect impact on employer-sponsored group health insurance plans. Whether a plan is insured or self-insured and the type of information that is shared with the plan sponsor will determine how simple or complicated HIPAA compliance will be. Please see the national Health Information Privacy section.

Time off. Questions about accrual of vacation time and sick time come up frequently, as does the subject of docking salaried people for exceeding sick time limitations. Please see the national Salaried Employee, national Sick Leave, national Vacations sections.

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