

Employee Benefits Report



16255 Ventura Blvd # 320 • Encino CA 91436
818 377 7260 Phone • 818 377 7263 Fax
CA. Lic. 0C24367 • www.CorporateStrategiesInc.com

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Benefits

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Employee Benefit Plans

Moving from Entitlement to Empowerment

by Martin Levy,
CLU/RHU



Business owners are faced with an array of dizzying challenges when running a business—slimming margins, decreasing productivity, technological demands, commoditization, rising overhead, personnel issues, and an overwhelming sense that everything is becoming increasingly complex.

Regardless of your business platform, it's likely that your industry has not escaped these challenges. In many ways, each of these issues has helped to create revenue opportunities. As commerce changes, domestic and internationally, there are more opportunities for creation of new products and services,

and mergers and acquisitions.

Although many sectors have found that eliminating “human capital” has been a key to improving profitability, professional service firms recognize that people represent their most valuable assets. Building a thriving business requires a proper balance of creating a positive employee culture and work environment, providing fair and adequate compensation and the right mix of employee benefits to keep key people around.

One of the many challenges facing nearly every business owner is the bewildering choices of employee benefit plans, and positioning them as perks to *attract*, *reward* and *retain* employees.

Most professional firms provide employee benefits, largely seen as “entitlements” by both staff and highly compensated alike, and typically are not seen as a part of overall compensation. They are overlooked when employees consider pay raises and other employment opportunities, largely because companies spend little effort on them other than evaluating their purchase.

In the face of radical increases in health care costs and benefits in general, along with a very competitive environment for talent, here are some strategies you can use to help make your benefits a cornerstone of employment, and transition them from “entitlement” to “empowerment”:

This Just In

Employee health costs will increase an average of 6.3 percent in 2009, less than in recent years. According to a Mercer consulting survey released in November, group health costs will reach an average of \$8,482 per employee. The survey also found that 59 percent of companies intend to pass increases on to workers by raising deductibles, copayments and/or out-of-pocket spending limits. Average deductibles will exceed \$1,000 for the first time this year.

Bicyclists will be eligible for tax-free commuter benefits for the first time in 2009. The \$700 billion Wall Street bailout bill, HR 1424, included a provision to redefine qualified commuter benefits to include expenses related to bicycle commuting. Although bikers won't get anywhere near \$700 billion, they will be eligible for up to \$20 tax-free reimbursement of bicycle commuting-related expenses for every month in which they “regularly” use their bike to commute to work. For more information on bicycling and other commuter benefits, please see the article on Page 2.



Transit Benefits

The Bureau of Labor Statistics found a typical household spent nearly 18 percent of income on transportation in 2006—more than it spent on food. A transit benefit plan gives employers a low-cost way to help employees reduce their monthly expenses, particularly in light of healthcare cost increases and stagnating salaries. Even better, transit benefits can qualify for tax breaks and enhance your reputation as a “green” employer.

IRS Code Section 132(f) allows employers to provide employees certain transportation benefits on a tax-qualified basis, either directly or through a reimbursement program.

1 Direct benefits. Employers provide benefits directly to their employees in the form of parking benefits, rides in company-provided van pools or as vouchers or passes given directly to employees. Employees receive qualified benefits tax-free.

2 Reimbursement. To be eligible for tax benefits, the employer must structure a “bona fide” reimbursement program, where employees receive cash reimbursement when they present documentation of qualified work-related commuting expenses. Under this type of plan, employees can set aside pre-tax dollars to pay toward their commuting expenses. The tax benefits can save employees 30 to 40 percent on eligible transportation costs, while employers pay no FICA tax on money workers set aside.

Typical costs to administer a transit re-

imbursement plan run \$4 or \$5 per employee per month, with companies saving roughly 7.5 percent on every dollar put into the plan due to FICA savings.

For 2009, employees can receive reimbursements up to \$120 for mass transit and \$230 for parking per calendar month from their pre-tax contributions. If an employee’s monthly expense exceeds that amount, he or she can make additional contributions on an after-tax basis.

What transportation expenses count as “qualified”?

The IRS defines qualified transportation benefits as:

- ✦ Van pooling, or transportation to and from the workplace in a commuter highway vehicle that seats at least six adults (not including the driver). Vans may be company-owned and operated, or operated by a public or private entity. For a company-operated vehicle, at least 80 percent of vehi-

cle mileage will be for transporting employees between their homes and workplace, with employees occupying at least one-half the vehicle’s seats (not including the driver’s).

- ✦ Mass transit benefits, which can include any pass, token, fare card, voucher or similar item allowing a person to ride free of charge or at a reduced rate on bus, rail, ferry or commuter van, whether publicly or privately operated.

- ✦ Parking benefits, including free or reduced-cost parking near the work site or near a commuter station.

- ✦ Bicycle commuting benefits, new for 2009! Employers can reimburse employees on a tax-free basis for up to \$20 times the number of months during the year in which he or she “regularly uses” a bicycle for a “substantial portion” of travel between the employee’s home and place of work. Employees can use these benefits toward the purchase, improvements, repair and storage of a bicycle regularly used for travel between his/her residence and workplace. The IRS has not yet clarified the terms “regularly uses” or “substantial portion.”

Commuter benefits help employees

- ✦ They save money.
- ✦ They encourage safety. Those who ride public transit are much less likely to die or become injured while commuting than those who drive themselves to work.

- ✦ They promote health. Public transit riders tend to walk more, improving their physical health.

- ✦ They cut taxes. When employers provide benefits directly (such as vouchers or passes), employees receive them income tax-free. If your firm administers a transit benefit account, employees can contribute pre-tax





Communicate all of your offerings and their dollar value as they relate to compensation.

For most professional firms, the dollars spent towards employee benefits represent their third-largest line-item expense, (behind rent and salaries), yet few firms ‘position’ their benefits as a vibrant part of compensation. Successful firms ‘package’ their benefits with ‘branded’ collateral, both for existing and prospective hires. They integrate their packages and offerings within their Intranet, providing their employees with tools access plan information and maximize the value of their plans.

They use tools like “Hidden Paycheck” or “Fringe Facts” to quantify the dollar value of their offerings, on a per employee basis. These reports can be distributed via payroll, sent to employees’ homes, or used in reviews. Reports like this can help the costs of benefits become “real” to employees when reviewing performance, or discussing/negotiating employee compensation.

Typically, benefit costs inflate employee compensation 35 to 40 percent. Don’t forget to include all employer-paid benefits such as: medical, dental, vision, life insurance, long-term disability insurance, administration costs of flex/pretax plans, parking, vacation pay, sick pay, approved paid leave, automobile expense, education reimbursement, frequent flyer awards, and other any other de minimus expenses. When properly depicted, the value and perception of plans are greatly increased.

Utilize low-cost benefits to build a benefits package that rivals firms of any size.

Many firms offer great health and dental coverage. Yet, when they fail to round out their package by purchasing low-cost benefits that can add significant value. Employers can add employer paid benefits such as vision care, group term-life insurance, long-term disability and long term care insurance, acupuncture and alternative care, accidental death and disability insurance, an employee assistance plan (EAP) and travel insurance

with little administration or expense.

Many times these additional costs can be offset by a nominal contribution towards an entire “benefits package” rather than simply delivering them gratis. (Employee contributions towards a benefit package validate employees’ interest and commitment to the plan. They also offset overall costs.) Even the smallest contribution requirement can give an employee (or covered dependents who might be covered/eligible elsewhere), a reason to waive coverage. When adding these benefits, even the smallest employer can build a package that can attract talent and adequately compete, thus leveling the playing field.

Explore how pre-tax or cafeteria style plans can expand your offerings and reduce your costs.

Pre-tax plans, sometimes known as “cafeteria plans,” are one of the most under-utilized employee benefits. Typically, they allow employees to elect to pay for certain preference items BEFORE taxes, thus increasing the purchasing power for employees, and reducing taxes for employees and employers alike.

Sometimes referred to as “Section 125” plans (named after the IRS Code), they come in two variations: simple plans, referred to as “premium only plans” (POPs) allow for the pre-tax payment of premiums towards required employee contributions or for costs of dependent coverage. Typically, no testing or filings are required. They can also be used to pay for certain voluntary benefits.

Expanded plans, sometimes called “full flex plans” allow the employee to pay for such items as dependent child care, unreimbursed health care expenses and parking expense. These more complex plans require “top-heavy” testing, as well as increased IRS reporting and may preclude participation by principals and partners. The resulting collective payroll reductions reduce employer liabilities for workers’ compensation insurance, and FICA tax.

Cafeteria plans have administration expenses (nominal), and must be carefully

planned to minimize sponsoring firms’ exposures for unreimbursed medical expenses. They also come with some “use it or lose it” requirements, making the communication of expanded plans vitally important. When weighing the costs of administration versus benefits and tax savings, cafeteria plans create a win-win for employees and employers alike.

Look at how Health Savings Accounts can be used to change health care habits, reduce premiums, and increase personal wealth and compensation.

HSA’s might not be for everyone, but that’s the real appeal. With health insurance costs rising annually at a rate of 15 percent and more, “consumer directed health plans” continue to evolve, dynamically, and are catching hold in all size firms.

The concept pairs a high-deductible health insurance plan (read: lower premium) with a tax-deductible medical expense account (which looks much like a medical IRA). The HSA can be funded by the employee, employer or combination of both. Limits are set annually by the IRS, with 2009 limits of \$3000 for an individual or \$5,950 for a family.

Because the plans can create significant savings when compared to traditional “co-pay” or “deductible” PPO plans, the resulting premium savings can be used to fund a portion of the account, matched by the employee. In this design, typically few benefits are payable until the covered employee reaches the high deductible and no Rx card is provided. Benefits typically approach 100% AFTER the employee or family reaches the deductible. (Rx benefits are paid in full after the deductible is reached in many plans.) The account is used to pay any deductible and can be used for ANY health care-related expense that is allowed by the IRS.

The key strategy in the development of HSA design was to integrate an element of consumerism into the purchase of health care by allowing free markets to become ef-



fective, and end-users of health care to become “end-payers.” Because the account balances are owned by the employee, the design encourages changes in health care purchasing by putting employees’ own dollars into the mix.

The HSA design works favorably for low-utilization, younger employees; for healthier families and where the gross premium savings yield enough to fund significant portions of the HSA accounts.

Use executive medical expense Reimbursement Plans as the ultimate retention tool.

Discriminatory medical expense reimbursement is the ULTIMATE employee benefit, and the name describes exactly what it does.

Imagine if you could give to *any* executive, attorney, partner or principal the elite benefit of a non-taxable (and completely tax deductible) reimbursement for all of their (and their family’s if desired) health care expenses NOT covered by insurance. Such a plan can pay for any and every health care-related expense. – NOT TAXABLE TO THE INDIVIDUAL. It allows a firm to cover a select class and effectively discriminate in favor of highly compensated employees.

Such a plan insulates the key person from the after-tax costs associated with many expenses not covered by insurance, including orthodontia, designer eyewear, contact lenses, and the broadening list of items uncovered by insurance. This plan exists within this scope of IRS guidelines when it has an

element of risk associated with it. They are like a “flex plan on steroids,” and when instituted, quickly become a valuable employee benefit. This type of plan is different from simply adopting an uninsured plan in your corporate minutes. Ask your broker for information on the mechanics of these plans.

Although there is much discussion about possible reforms of health care, (particularly within California), employers will continue to be seen in the role of providing and delivering benefits and therefore have an opportunity to be seen favorably when packaging those plans. In spite of the many issues facing employers today, benefits can be a vibrant part of a company culture. When properly designed and communicated, they can enhance morale, retain employees, and be seen as a vital part of compensation. ■

dollars, thus reducing their taxable income. However, the IRS specifically prohibits “double-dipping,” or providing employees tax-free reimbursement of parking expenses already paid out of a salary reduction account.

Commuter benefits help employers

- ★ They reduce parking costs. When employees use mass transit, you need fewer parking spaces, reducing real estate costs.
- ★ They can increase your applicant pool, particularly for low-wage or service jobs in urban areas.
- ★ They make employees more pro-

ductive. Employees who use mass transit arrive at the job less stressed than those who have battled rush-hour traffic.

- ★ They reduce health insurance costs by promoting safer modes of transport.
- ★ They save taxes. Employers can exclude transportation fringe benefits from an employee’s wages. Instead of giving pay raises, consider giving employees transportation benefits, which will not raise employment taxes.
- ★ They enhance your reputation. By providing benefits for using mass transportation, you enhance your company’s employee-friendly image, while taking a pro-

active approach to reducing pollution.

- ★ They are easy to administer. Unlike other qualified benefit programs, Section 132(f) transit plans do not require employers to file written documents, perform complicated non-discrimination tests or file annual reports. However, we do recommend putting your plan in writing to ease administration and employee communications.

For more information on setting up a qualified transit reimbursement program or other low-cost benefits, please contact us. ■



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16255 Ventura Blvd # 320
Encino CA 91436
Phone: 818 377 7260 • Fax: 818 377 7263
Email: info@CorporateStrategiesInc.com
CA. Lic. 0C24367

www.CorporateStrategiesInc.com

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