



## Employee Benefits: Small Business Approaches

As many companies have sought to keep expenses in line with decreasing revenues in the first half of 2009, the cost of talent quickly has gotten attention. The benefits package comes under scrutiny prior to pay cuts. While cutting benefits may not be a preferable choice for balancing the budget, current circumstances should give owners pause to evaluate their current offerings. This evaluation will include a look at both the value of the benefits from an employee perspective as well as the actual costs of the total compensation package per employee. (For more discussion on compensation, see our paper on "[Compensation Planning](#)."

This month's paper addresses the three main approaches that small businesses take towards offering benefits to their employees.

1. No benefit plans
2. Offer a benefit plan choice
3. Subsidize a benefit plan

### Benefits

The complete compensation package at most businesses includes a variety of the following benefits:

- Paid days off – Vacation, Sick, Personal
- Insurance – Health, Life, Disability
- Flex Spending Accounts
- Pre-Tax Commuter options
- Retirement/401(k) Plan

For small businesses, the most commonly offered benefits are paid days off, including vacation, sick days, and/or personal days followed by health insurance coverage.

### Option 1: No Benefit Plans

One approach to benefits is simply to not offer any. Many small business owners feel forced into this position given the high costs that benefits add to an employee's overall compensation. In order to remain competitive and keep reasonable profit margins, the business may not be financially able to offer a compensation package to an employee including benefits.

According to an article on Inc.com in February 2009, a survey of 1,000 small businesses—five employees or less-- indicated that 85 percent were not offering health insurance to employees.<sup>1</sup> This was a sharp increase from 74 percent in January 2007. It appears that cutting benefits is the first step many small business owners take to slashing expenses to keep an entity viable.

<sup>1</sup> Faircloth, Kelly. "Not Offering Healthcare Benefits?" <http://www.inc.com/news/articles/2009/02/healthcare.html>

The 2007 findings indicate that even before the economic downturn, the cost of health insurance was often prohibitive to small businesses with tight profit margins.

### **Option 2: Offer a Benefit Plan Choice**

While many small businesses cannot, and likely should not, fully subsidize their employees' benefits, one option that allows some level of competition with large firms for top talent is to provide benefit plan options. The desirability of offering benefit plans seems to be on the rise as a positive alternative to completely cutting benefits. Various benefits providers have plans which cost little to the firm, while allowing employees to opt in and purchase the benefits most desired. This often includes a variety of insurance and retirement plan options. These options are often cheaper for the employee than if they would purchase similar coverage as individuals. The Tri-State area, and particularly New York state, has health insurance regulation that makes competitive pricing, particularly for individual plans, truly prohibitive and difficult to find.

Companies are also increasing their voluntary benefit offerings, such as life insurance. John Roberts, president and CEO of Assurant Employee Benefits, indicated that voluntary benefits premiums are now 30 percent of new plans sold, up 5 percent from April 2008.<sup>2</sup> Currently popular items include disability insurance against lost income and life insurance for a feeling of greater financial security.<sup>3</sup>

If you want to begin creating a benefits package for your company, first locate a good benefits broker who will work to find the best deals for you. Most brokers will do it at no cost and already have the knowledge to mitigate the complicated landscape.

### **Option 3: Subsidize a Benefit Plan**

Many large firms subsidize a number of benefits, such as health insurance coverage and a 401(k) match. However, each firm must still wrestle with what percentage of health insurance premiums will be covered. The typical method is for the company to charge a percentage of the premium for each category (i.e. single, family, etc.), or a flat monthly fee, to the employee which is automatically deducted from their paycheck. One bank in Chicago developed a progressive charge policy which charged workers according to pay, or about 1 to 1.5% of their annual salaries. This allowed lower income earners to enjoy the same health coverage but caused the higher earners to subsidize the gap in premium costs.<sup>4</sup>

According to a report by the SBA, of firms with 25 employees or less, only 29 percent of full-time employees have access to a company-sponsored retirement plan. While this could be a result of cost or fear of administrative burden, in an Inc.com article Edmund Murphy argues that the costs can be partially offset by tax deductions and credits and the administrative burden is reduced through web-based tools and a quality provider.<sup>5</sup> It also allows the owner to begin saving for retirement in a vehicle other than the value of their company.

## **Evaluating Benefits**

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<sup>2</sup> Port, David. "The Value of Voluntary Benefits." 22 April 2009.

<http://www.entrepreneur.com/humanresources/compensationandbenefits/article201372.html>

<sup>3</sup> Port, David. "The Value of Voluntary Benefits." 22 April 2009.

<http://www.entrepreneur.com/humanresources/compensationandbenefits/article201372.html>

<sup>4</sup> Spragins, Ellyn E. "Charging Employees for Benefits." Inc. Magazine, February 1993.

<sup>5</sup> Murphy, Edmund F. "Should You Offer a 401(k) Plan?" 03 Oct 2006.

<http://www.entrepreneur.com/humanresources/compensationandbenefits/article168318.html>

Before adding any benefits to your portfolio of offerings, be sure to consider the true value to the employee as well as the costs to the company. Consider conducting a cost-benefit analysis as part of determining whether to offer that benefit. For example, suppose that your business wanted to offer commuter benefits to its employees through TransitChek. In order not to incur additional costs to the company, a quick cost benefit analysis might reveal that if 2 employees deduct \$100 per month pre-tax, the company would break-even with the additional charges and fees due to the savings in payroll taxes. At this point offering the benefit would add value to the employees without any additional costs to the company.

### **Benefits Providers and Related Services for Small Businesses:**

**Paychex:** This well known provider of benefits for small businesses offers a range of services, from health insurance coverage to full HR services.

**ADP:** This established name in payroll processing and benefits providers offers competitive plans.

**Atlantis Health Plans:** This fairly new health insurance provider offers an in-network only plan that likely has the most competitive rates available for individuals and small businesses in the New York City area. However, they also require pre-approval for many services.

**Martin Benefits:** This consulting firm offers a free consultation on your company's current benefits offerings and suggests cheaper alternatives.

### **Articles for Further Reading**

- Wellner, Alison. "Do It Yourself Insurance." This article describes the increasing availability, and cost-efficiency, of individual health insurance plans in some regions. <http://www.inc.com/magazine/20051201/handson-health-care.html> Dec. 2005
- Hyatt, Josh. "Prognosis: Negative." This article addresses the shifting of more premium costs to employees as well as pushing wellness to reduce the company's cost of healthcare. <http://www.cfo.com/article.cfm/13008580?f=search>
- Murphy, Edmund F. "Should You Offer a 401(k) Plan?" 03 Oct 2006. <http://www.entrepreneur.com/humanresources/compensationandbenefits/article168318.html>

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