



The Small Business Owner's Dilemma

How Necessary is an Employee Benefits Package?

With the high cost of insurance today, many small business owners wonder if they should offer a group benefit program for their employees. Although these benefits are costly, the question of whether or not to offer them could have profound implications on the success of a business.



Growth of a Small Business: Ingredients for Success

There are many ingredients in the recipe for growing a successful business, among them (and in simplified terms), having an idea of a product or service that people want; pricing the product or service competitively; being able to deliver the product or service to the marketplace; being able to sell to prospective buyers and being able to service the customers.

Let's assume, for the purpose of this article, that you, as the entrepreneur, have come up with a solid idea. Bravo! You have the first ingredient! Now, to move on to the rest of the necessary ingredients, you may need help. Although many businesses start out as sole proprietorships, at some point or another as the business grows employees will be needed.

It would be nice if people wanted to come work for you just because you're a nice person and they believe in your idea. That would be great! Unfortunately, of course, that's not reality. There are many, many companies looking for employees and there are relatively few applicants in the market for labor. Finding necessary talent is a challenge.

When job applicants review potential employment positions, these are just a few of the factors they consider:

- Nature of the business
- Responsibilities of the position
- Salary being offered
- Benefits provided
- Commute time

While all are important factors in the applicant's decision-making process, many studies have pegged employee benefits as one of the more critical components of the overall package. In fact, many studies have shown that the benefits program is valued as much if not more than the salary being offered.

What this means is that the benefit package presented to employees can be either a sizeable boost or major hinderance in an employer's efforts to attract and retain critical talent. With that said, however, a well-rounded, comprehensive benefit portfolio isn't inexpensive or easy to put together, presenting a significant challenge to any small business owner.

With minimal knowledge of the insurance industry, limited resources and a tight budget, focusing on finding strategies that work can take valuable time away from running the business. Fortunately however, a qualified benefits consultant can provide tremendous assistance and resources to the small business owner, directed at both helping to make the decision of whether to offer benefits and implementing the right benefit program, if desired.



Employee Benefit Basics: A Brief Overview for the Small Business Owner

Deciding on whether to offer a benefit program as a new business or growing small business is a critical decision.

It would be a mistake for the small business owner to simply dismiss the idea without exhaustive research and analysis. Many small business owners erroneously believe they cannot afford to offer a benefit package. Although initially they may be able to save some money by not offering benefits, the long-term implications may actually greatly harm their opportunity for successful growth.

When contemplating the composition and cost of an employee benefit package, it is important to understand what most job seekers are looking for.

For many people, these are the most highly prized benefits:

- Health Insurance
- Paid time off (PTO)
- Dental and vision insurance
- Retirement benefits
- Life Insurance and other supplemental benefits

Of all the benefits valued by the typical employee, health benefits specifically is of utmost importance. This, along with time-off benefits, needs to be considered carefully by the business owner if they expect to be competitive with their peers and be able to both attract the most talented employees available as well as keeping their key employees from jumping ship.

Yes, these benefits aren't cheap and typically strain a new business operating budget. Benefits often add 30 to 40 percent to the base pay of an employee. But on the flip side, a solid benefit portfolio will improve company morale, increase office efficiency, reduce absenteeism and turnover and provide motivation for employees to commit working to achieve company goals and objectives.

Even if a new business owner decides to start out with only a basic benefits package, expansion of the business will almost certainly require that they phase in additional benefits over time.

The benefit package described up to this point is one that is *optional* for most small group employers. But for every size employer, there are certain benefits that are mandatory and *need* to be provided. They are:

- Time off to vote, serve on a jury and perform military service
- Compliance with all workers compensation regulations
- The withholding of FICA taxes from employee paychecks, along with payment of the company portion of FICA tax, in order to provide the employee with disability and retirement benefits
- The payment of federal and state unemployment taxes
- Contributions to any mandatory state short-term disability programs



Key Components of an Employee Benefit Package

Let's take a look at just a few of the more common employee benefits programs in more detail

- **Health Insurance** — Under the Affordable Care Act (ACA), groups with less than 50 employees are not required to offer benefits. However, health insurance is one of the most valued benefits to offer in a group setting and a well-chosen plan can be a tremendous asset to your business growth plan.
- **Paid Time Off (PTO)** — Paid vacation time and holidays are the most common PTO benefits, while most companies offer additional PTO for illness and other personal reasons, such as a death in the family.
- **Disability Insurance** — With disability insurance, workers can replace lost income if they are out of work due to an illness or accident. There are two types of disability insurance, short-term and long-term disability coverage. Just over 25% of small businesses offer short-term disability, while a little less offer long-term disability.
- **Dental Insurance and Vision Insurance** — Dental coverage, depending on the level of benefits chosen by the employer, can offer enrollees coverage for exams, cleanings, scalings, polishing of teeth, along with periodontia and orthodontia services. There may be deductibles, coinsurance and dollar limitations for selected services. Vision programs typically cover eye exams, eye glass frames, lenses and contacts, with most plans placing restrictions and/or maximum allowances on the frequency services and products may be obtained. Although they are both benefits valued by many employees, dental coverage is more commonly offered among small businesses.
- **Life Insurance** — Just over one third of small businesses offer life insurance, which can either be fully company paid or one where employees contribute part of the premium. Additionally, through a voluntary benefits program, an employer can provide optional life or dependent life coverage with interested employees paying 100% of the premium.
- **401(k) or Other Retirement Benefits** — Roughly half of groups with less than 50 employees offer some type of retirement benefits. Defined benefit plans and defined contribution plans encompass the two primary ways companies can offer retirement benefits. In a defined benefit plan, most commonly a pension plan, the employer puts up all the money. A defined contribution plan, such as a 401(k) allows the employee to contribute up to a stipulated amount and the employer can choose to match the contribution up to a certain amount.
- **Health Care Flexible Spending Accounts (FSAs) and/or Health Savings Accounts (HSAs)** — FSAs are programs that allow an employee to set aside a portion of pre-tax earnings to pay for qualified medical expenses. There are maximum contribution levels that may change each year. HSAs allow employees to put money away for qualified expenses as long as the employee is enrolled in a High Deductible Health Plan (HDHP). Both offer a valued benefit to employees with minimal cost to the employer.

The Need for Diligence When Offering Employee Benefits



While there are significant benefits and many good reasons for a small business to provide benefits to its employees, it's imperative that employers are diligent and aware of the many responsibilities they have when implementing such programs. That's because some of the more critical benefits, like health insurance and retirement plans are scrutinized heavily by the government and any errors may be discoverable in audits. Any errors in administration may result in costly penalties and fines.

Some of the more common errors made by small businesses include failing to offer eligible employees benefits and offering coverage to non-employees.

Here are a few additional points to keep in mind when implementing and/or managing an employee benefit program:

- Premiums for most programs can be shared between the employer and employee. Although the employer has a good deal of latitude regarding structure of the contribution levels, there are guidelines that need to be followed.
- Keep all benefit related records organized and safely filed. Much of the data included may be personal in nature and subject to privacy rules. If you are ever questioned or audited, it may be required that you produce records that are complete, legible and in compliance with any regulatory requirements.
- Design the benefit plan around the demographics and needs of your particular workforce. Since one size doesn't fit all when it comes to benefits, survey your employee population to find out what their needs are. Younger workers may have no interest in life insurance, instead valuing a good health plan or even retirement benefits. Providing benefits that aren't needed or valued by your employees is a waste of your money.
- Communicate thoroughly and regularly all aspects of the benefits offered by your company. This will help assure that your employees understand and take advantage of all the benefits available to them. It's also a good idea to allow employees to see the total cost of the benefits you are providing, as many will have no idea just expensive they are.

For these reasons, it is rarely beneficial for the small business owner to attempt to implement and manage these programs on their own. Preliminary research by the owner can help save dollars, but ultimately the best guidance comes from professional resources, like attorneys, accountants, and benefit consultants.

Pros and Cons of Offering an Employee Benefit Package

A benefit package is optional for most smaller businesses, but it is paramount in the minds of most employees. As such, it is important that the small business owner understands the advantages and disadvantages of offering an employee benefit package:

The Pros

An employee benefit package that includes a good health insurance option significantly increases the opportunity to attract and retain quality talent

Plan contributions from employee benefits are typically tax deductible for the business

By offering benefits to employees, the small business owner may personally be able to obtain better coverage at a lower cost than what they might be able to find on their own

Employees may be more inclined to accept a lower salary if the benefit package is strong

Good benefits, especially if they include wellness initiatives and telemedicine program, can reduce absenteeism and increase worksite efficiency of employees

A good benefit program can increase office morale

The Cons

Employee benefits are costly

Plan and pricing options may be limited, especially for the smallest of companies

Administration of benefits can be a hassle

The stress of employee reaction to cost sharing

Benefit costs have increased rapidly making it difficult for small employers to forecast and budget

There are compliance issues that must be met when a small group offers benefits and failure to be in compliance can result in penalties and fines

Mistakes made when administering benefit programs can possibly lead to litigation

Some employees may not be satisfied regardless of the benefit package being offered

My Benefit Advisor: Committed to Your Success!

At My Benefit Advisor (MBA), we know that healthcare costs can swallow up a substantial portion of the operations budget for every small business. We understand that healthcare costs, tax ramifications and compliance issues combine in making employee benefits one of the most burdensome tasks facing the small business owner today. When you engage MBA through one of our association-sponsored benefit programs, you'll partner with an established leader in health insurance and administrative services. We have provided solutions to hundreds of associations and thousands of their members...and can help your business too. Here are just a few of the key advantages MBA can offer your business:

Benefits Management — Effectively managing the programs and costs that comprise the portfolio often means the difference between success or failure of the company's business plan. A benefit plan review and financial analysis can provide a clearer picture of just how well a portfolio stacks up. The benefit specialists at MBA have years of experience working with association members, tailoring programs to fit the specific needs of each employer group while providing many of the benefits employees desire at price points small groups can afford.

Assistance Navigating ACA and Compliance Issues — Modifications of the Affordable Care Act continues to unfold at what seems to be a continuous pace and business owners often have a difficult time keeping up with all the changes. Smaller groups are at a disadvantage since many lack the ability to invest in the time, technology and resources necessary to wade through all of the regulations and jargon.

Through our in-house legal counsel, the team at MBA provides assistance with compliance related matters, including employer reporting, insurance regulations and more. Our objective is to make

complex issues more understandable, providing you and your staff with interpretation, education and guidance.

Benefit Administration Technology — Our full-scale, proprietary, cloud-based benefit administration system is designed to make all employer oriented benefits administration and enrollment processes efficient, accurate and timely. Custom designed and tailored for the specific needs of our association members, it brings a wealth of administrative functionality normally only reserved for large groups down to even the smallest of our clients.

By facilitating the repetitive, time-consuming and often complex processes that burden employers, the MBB portal creates efficiencies through a rules-based, easy-to-use system. Our system includes consolidated billing, pre-formatted reporting, carrier audits, activity log tracking, and more.

Dedicated Call Center — Employers have access to the MBA Call Center, staffed by professionals with deep and extensive knowledge in all aspects of benefits, eligibility, claims and related customer service issues. All calls are recorded and issues are resolved promptly and accurately.

Voluntary Benefits for Specific Employee Healthcare Needs — Voluntary benefits are a great way for employees to personalize their benefits to accommodate their unique personal needs. Business owners can help employees target specific needs by providing a carefully planned portfolio of voluntary benefits. Through MBA's exclusive contracts with many of today's best benefit and service vendors, you have access to worksite benefits often reserved for large groups. By using any available experience data and input from the workforce, a worksite benefit program can be formulated to fill the gaps left by employer paid coverage.

As a small business in the MBA program, you will find benefit professionals eager to provide you with the same time, resources and commitment that many consultants only reserve for their larger clients. Let us show you how we can help meet your benefit challenges!



About My Benefit Advisor

My Benefit Advisor (MBA) is an employee benefits platform designed to guide employers through the complexity of planning, communicating and managing a successful employee benefits program.

To learn more about My Benefit Advisor, visit us online at

www.mybenefitadvisor.com

This document contains confidential & proprietary information My Benefit Advisor and may not be copied, reproduced, and/or transmitted without the express written consent of My Benefit Advisor. The information contained herein is for general information purposes only and should not be considered legal, tax, or accounting advice. Any estimates are illustrative given data limitation, may not be cumulative, and are subject to change based on carrier underwriting.

©Copyright 2020 My Benefit Advisor. All rights reserved.