The TaxLetter®

Vol. 33, No. 6 | Your Guide to Tax-Saving Strategies | Single Copy: $10.00 June 2015

*FINANCIAL*PLANNING

For business owners, it's well worth taking a second look at employee …

Benefits

Mark Halpern, CFP, TEP

"What makes employees happy?" That's a perennial question for many companies, large and small: they grapple with it all the time. The answer is not necessarily a larger paycheque.

Research shows that employees appreciate better communication within the company and being asked for their input. While many employees highly value their benefit plans, employers often view these as costly and unavoidable. Some staff members resent the fact they have to help pay for the premiums; many of these will make sure to use the maximum benefits allowed each year in order to at least cover the annual premium.

Mark Halpern, Certified Financial Planner (CFP), Trust and Estate Practitioner (TEP) is the Founder and President of illnessPROTECTION.com. Mark is one of Canada's top life insurance advisors with special expertise for business owners, entrepreneurs, medical professionals and high-net worth individuals and families. He can be reached at 905-475-1313.

mark@illnessPROTECTION.com

After a plan is implemented, few employers spend much time examining costs and evaluating efficiencies. Most companies pay their group benefits bills the same way they pay the hydro bill: without considering options and alternatives.

There are, in fact, several overlooked ways for companies to make their group plans more cost efficient and more tax efficient for employers and employees.

The benefits of offering benefits

Benefit plans always rank high on the wish-list for employees seeking a new job. The plans provide obvious advantages such as lower costs for prescription drugs and glasses, and guaranteed protection with life insurance, long-term disability insurance and critical illness insurance. A good benefits plan helps attract and retain top talent. Higher job satisfaction generally ensures more productive, engaged and loyal employees.

Plans need to be tailored to each specific company

A group benefit plan should never be a "one size fits all" solution. Recognizing that each plan sponsor has unique objectives, creative and flexible solutions are required to ensure that plan sponsors get the best value for every benefit dollar. Independent brokers can make truly objective recommendations that put client needs first.

Most employers want to reduce costs, maximize benefits, and modernize their plans for the benefit of all constituents. Due to space limitations, this article contains a partial (rather than complete) list of strategies and solutions.

The COLA T.E.S.T.

Some firms share the cost of the premiums with their employees. Employers get to deduct their share of the premiums charged as a business expense and, generally, claims are paid on a tax-free basis. An employee I'll call Sam pays a monthly premium of $50 in after-tax dollars, but in reality it's much closer to $75 a month pre-tax depending on his tax bracket. That's not very tax efficient.

A tax efficiency salary test (or "T.E.S.T") program evaluates benefit plans and determines the ways to improve your plan, making it more financially efficient and tax-efficient for both the employer and staff.

A T.E.S.T. identifies the areas for improvement in benefit plans. Here's an example: Company X shares the cost of benefit premiums with its employees. The firm also gives its employees a three per cent cost of living increase every year. The opportunity now exists for the company to restructure its benefit plan. As a result, the employer will be able to pay all the premiums and still enjoy a savings on those premiums of 20 per cent to 35 per cent.

Sam makes $60,000 a year. The three per cent increase in his cost of living allowance (or "COLA") is an additional $1,800 a year. The cost to the company is higher: paying Sam that $1,800 adds to its cost of payroll taxes, Canada Pension Plan and, possibly, an employer health tax.

So, instead of going with that three per cent increase, Company X and its employees agree to a two per cent cost of living increase, or $1,200. In exchange, Company X will now pick up the entire bill on the premiums, so Sam and his colleagues get to keep what was their share of the premiums. Employees end up in the same financial position as the three per cent net pay increase because they no longer have to pay the premiums.

A win-win solution

In the meantime, Company X has saved itself between 20 per cent and 35 per cent by having a lower cost of living increase. As well, when people pay for their own premiums many ensure that they completely use up their annual payout in benefits—an allotment that includes dental, glasses or other services (such as massage therapy) that don't require a doctor's prescription. When employees don't pay as much, it keeps usage down.

Using a third-party administrator to build a custom-made benefits package

Most employers use a single carrier for the entire benefit package. Truth is, not all insurance companies have the same rates and it's a very competitive industry. One may offer the best price on the life insurance coverage, while a second insurer has a better price on health and dental and a third insurer offers the best price on long-term disability benefits.

Employers are now turning to third-party administrators that allow them to pick and choose which carrier they want for each benefit, lowering the total cost of the benefits. With one administrator, there is one benefits booklet, one enrollment form and one website. And if a company changes insurance carriers, its employees don't have to re-enroll in the plan.

Keeping benefits pricing under control

In the benefits world, there is an important measurement called a target loss ratio. It's the percentage of every premium dollar that the insurer spends on paying the claims of the benefit plan. So a target loss ratio of 80 per cent means that after paying the claims, the insurance company has the remaining 20 per cent to pay for administration, its website, booklets, etc. and profit.

Under this scenario, whenever premiums go up, the insurer gets a corresponding increase. So in the first year, if Sam's premium is $1,000, the insurance carrier gets 20 per cent or $200 for expenses and profit. But next year, if the premium goes to $2,000 the carrier will get 20 per cent of $2,000 or $400.

It's not fair that a company's expenses are based on a percentage basis. We use a proprietary method called "expense control pricing" that locks in a company's expenses on a flat price model for 40 months. So if the total premium a company and its employees pay is $1,000, $800 goes to pay claims with $200 going to the carrier to cover expenses and profit. If the premium goes up to $2,000 in the second year, under expense control pricing, the expenses are locked in at the flat price of $200 for 40 months regardless of the increase in premium.

Expense control pricing helps employers control costs over the long term, which is particularly important with healthcare inflation running at 10 per cent to 15 per cent a year.

Workperks®

Employers today appreciate innovative and cost-effective ways to provide other perks on the job. Workperks® is a great program that gets high marks with employees. Employees simply download an app on their GPS-equipped smartphone to begin saving 10 per cent to 40 per cent at more than 1,200 different businesses across Canada. The location-based app leads users to the nearest restaurant, big box store, GoodLife Fitness location, etc. and gets them a discount when they get there.

Help staff understand the value of their benefits

The executives and owners at the companies I deal with often tell me in great detail how much they spend on employee benefits, but they rarely communicate the whole story to their staff. We suggest the adoption of our total rewards program; this provides employees with a comprehensive statement of all the plan details and imparts a better understanding and appreciation of their full compensation value.

Sam makes $60,000 a year, but when we communicate the cost of his benefit program, which is about $3,000 a year, plus the employer's share of Employment Insurance, Canada Pension Plan, and a group RSP contribution the company makes on behalf, he sees that his real compensation easily tops $70,000.

Benefits should benefit both the employer and employee

A good benefits package will increase your appeal as a company and create a stronger foundation for your firm. It can also help reduce your turnover rate, boost employee morale and create loyalty and an ethos that encourages people to work harder. With some innovative thinking, an employee benefits package can also be tax- and cost-efficient for both sides, enabling a stronger relationship.

Our group plan experts currently help more than 400 companies across Canada, managing combined group premiums in excess of $175 million. Extensive experience and group business volume allows us to create best practices and save businesses money. In a majority of cases, we enhance a company benefit program without changing insurance carriers.

Please be in touch for a no-obligation review of your benefits program. ❒

Mark Halpern is a Certified Financial Planner (CFP), Trust and Estate Practitioner (TEP) and one of Canada's top life insurance advisors. He is CEO of WEALTHinsurance.com™ and illnessPROTECTION.com®, with special expertise for business owners, entrepreneurs, medical professionals and high-net worth individuals and their families. He can be reached at 416-364-2929, toll-free at 1-866-566-2001 or mark@WEALTHinsurance.com.

Get your FREE Estate Planning Toolkit at: www.illnessPROTECTION.com/estateplanningtoolkit.php
The expanded toolkit now includes: Estate Directory, Estate Planning Checklist, Executor Duties Checklist, Business Owners Planning Guide, Visit www.MarkHalpern-Blog.com and sign up for free updates.