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ESTATEPLANNING

Employee benefit plans

5 Strategies

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Many of the business owners and entrepreneurs we work with tell us that their companies' greatest asset is the employees who come through the door every day. Whether they're providing customer service, marketing and selling products, managing bookkeeping or doing strategic planning, employees are essential to any company's success.

Taking care of them is a big priority – and an effective way to achieve this is through a well-designed employee benefit plan.

The pandemic was (is) a powerful reminder of why companies need employee benefits – not just to pay health and dental claims, but to provide access to virtual healthcare, mental health resources, life insurance and disability benefits. Today's organizations need modernized plans designed for this century.

After paying salaries, one of the largest expense items for a company is the benefits program. But most companies don't give this item proper attention or look at it in a tax-efficient way for the owner as well as the employees.

They typically 'shop' their plan when they feel it's too expensive and go through the motions of sending out their employee data, getting new quotes, and starting all over again.

There is a better way. This article describes the top five strategies for clients who are thinking about enhancing their current plan or implementing a plan for the first time:

1. Decide strategically: WHO pays for WHAT?

Many plans are set up to share premiums, with employers paying a portion and employees paying the rest. However, employer-paid premiums are a tax-deductible expense for the business – while employee-paid premiums are paid with after-tax dollars and are not tax-deductible.

In many cases, it's better for the employer to pay the full premium and have the employee contribute through a co-insurance amount on the reimbursement. There are several advantages to this approach. First, employees participate by paying part of their claims. Second, younger employees especially don't have a monthly premium bill for benefits they aren't using. And third, the employer gets to use the tax deduction employees couldn't use anyway.

Also, the incentive shifts: employees don't feel they need to make a lot of claims to justify their premium payments. Instead, they get a reward (not paying anything) if they don't make a claim.

Taxation is an especially important consideration when deciding who pays for long-term disability (LTD) coverage. Traditionally, employees paid for it using after-tax dollars with no tax deduction because when employees pay the LTD premiums, the money they receive after a claim is tax-free.

However, there's a good argument to be made for the employer to pay for LTD. It generally doesn't make much difference to the money the employees receive through a claim

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because at that point their income is generally lower. The premium payment does generate a tax deduction for the business. And, again, this structure gets around objections from younger employees who don't see much value in LTD. We know from experience that they need it even more than older employees because a disability could sideline them for many more years.

To balance the budget, employees could contribute to another aspect of the plan they value more than LTD, such as the health component.

2. Reduce costs with refund accounting

From a funding perspective, health and dental coverage is responsible for 70-80 per cent of the premium an employer pays for an employee benefit plan. But plans aren't always set up as efficiently as they can be, and there are opportunities for employers to get excess premium dollars returned to them.

With dental coverage in particular, it's almost always more financially effective to self-insure and just have the insurance carrier administer the claims. In our experience, 98 per cent of employers get a return of premium dollars every year when they set things up this way. Depending on the insurer, you can do this with a group as small as 10.

Group benefits clients can receive cheques back for $5,000, $10,000, $15,000, $20,000 a year, while before it would just go into the insurance carrier's pocket. Business owners take calculated risks, and dental is a good, calculated risk.

Larger employers, with groups over 100, can consider this "refund accounting" approach with health coverage, too. The reason you want a bigger group for this is that health benefits cover big drug claims and more lives spread out the risk across a larger population – meaning that one expensive drug won't derail your cost-saving goal.

3. Build flexibility into the plan

Five distinct generations are in the workforce today (some companies we work have employees over age 85!), so there's a lot of talk about designing employee benefits with components that appeal to each demographic group. It doesn't have to be that complicated.

The reality is, they all basically claim the same. They all need their teeth cleaned, drilled, filled. When you look at the drug claims, the top drugs among the generations are all the same. They all go see the massage therapist, the physiotherapist, the chiropractor, and they all get their eyeglasses.

That said, individuals within the generations can have very different needs and preferences, and a healthcare spending account (HSA) is an easy way to solve for that. Any money the employer deposits into an HSA is a tax-deductible expense for the employer and a non-taxable benefit for the employee.

But the real advantage is that employees can use the HSA to enhance coverage in any area they want. For example, if they have $250 coverage for glasses and their glasses cost $500, the HSA can cover the difference. Or they can save up the money and carry it forward for one year to, say, plan ahead to pay for a child's braces.

Employers are able to regulate their costs and still keep a very competitive plan. Healthcare spending accounts aren't exposed to inflationary factors [if, for example, a massage therapist's rates go up]because employers control the amount.

4. Clearly communicate the plan value

This is key. Employee benefits can be a very effective tool to attract and retain good people – but only if recruits and employees see the value of what an employer is offering.

Many employers are working to define the "employee value proposition," which includes cash compensation such as salary, bonuses and commissions, as well as non-cash compensation including employee benefits. Some employers aren't very good at communicating their total rewards package to employees.

We recommend creating "compensation statements" that summarize everything the employer provides to employees – including vacation time, other time off, retirement programs such as matching contributions to a group RRSP and, of course, employee benefits.

Tell your employees how much you pay overall for the plan. Most employees think their benefits cost about $500 a year, while employers pay $3,000 or $4,000 annually on average per employee for a benefit plan.

5. Leverage experienced consultants and advisors

The ultimate goal for most employers should be healthy, engaged, loyal, productive people. There's even an acronym for that: HELP.

A well-constructed, well-communicated employee benefit plan can help get you there at almost any budget level.

There's usually a solution or a way of designing benefit plans that will work for you as an employer. The most important decision for an employer around the benefit plan is the question of who group benefit consultant will be. Be sure you get someone who's going to listen to you and has the necessary skills to design a plan to fit the employee value proposition within your budget.

As with all areas of planning, a strong team of advisors can help you identify and implement the best strategies for your specific situation.

Our group plan experts currently help more than 1,500 companies across Can¶ada, managing combined annual premiums in excess of $250 million. We may be able to help your company too - please contact us today for your no-obligation consultation and to discuss how employee benefits can contribute to your long-term business success.

Stay safe and have a great summer. ❏

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He guides successful business owners, professionals, and affluent families through the complex process of ensuring the people and organizations they care about are taken care of. If you are like his other clients, you are looking to reduce your tax obligations, preserve your wealth and leave a legacy.

Mark collaborates with your professional advisory team to achieve your desired outcomes. His simple approach makes sure what is important to you gets done. He will suggest appropriate strategies to get your financial affairs meticulously organized, help you take action, and simplify the complicated so you and your family can rest easy. Mark can be reached at 416-364-2929, toll-free at 1-866-566-2001 or Mark@WEALTHinsurance.com

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