BENEFITS PACKAGES FOR EMERGING BUSINESSES:

Creating Long-Term Value for Your Employees
Constructing an attractive benefits package necessitates a fine balance. Overspending or making the wrong decisions in regards to brokers or professional employer organizations (PEOs) can thin profits; under-spending can cost you valuable employees and even get you a heavy government fine.

All businesses have to begin by determining approximately how much they can take out of the kitty for benefits. They also need to keep an eye on national and local trends as well as ones that pertain to your industry, and an open mind with regards to tailoring benefits packages to your company, as emerging businesses will have needs that change rapidly with growth.

**HEALTH CARE**

Health care often is considered the most important benefit -- and the most costly for business owners, even with more and more employers requiring employees to pick up a percentage of the bill. According to the Employee Benefits Research Institute, employee benefits account for almost 20 percent of the $7 trillion dollars employers are spending on employment-related overhead. About 44 percent of overall benefits spending went to health care benefits in 2005, and the trend is upward. Navigating the health-care industry for a package that suits your company’s needs as well as your pocket can be tricky business.

**Choosing a Plan**

The first step is to know a little about the different kinds of plans you can offer your employees. Most insured employees, according to a 2006 Kaiser Family Foundation survey, were covered by Preferred Provider Organizations (PPOs), which provide a wider menu of physicians for clients, but have higher premiums than Health Maintenance Organizations (HMOs), which covered only 20 percent of the insured workforce. Point of Service plans (POSs), essentially a hybrid of the two, were least popular according to the survey.

High-deductible plans carry the lowest premiums, relying on more out-of-pocket expenses from employees. When supplemented with a Health Savings Account (HSA), these plans can be perfect for younger workers who can generally expect to put off serious health-care costs for a few years. Employees can deposit pretax dollars into an account that accrues interest for future medical expenses. And, unlike previous forms of the HSA, the accounts are portable, a potentially attractive quality for the young workforce.

Also, know your workforce. Many companies will have wide ranging age demographics, and this tends to be the most important factor in calculating premiums. Offering an array of plans could save you money.

**Power in Numbers**

"It's much easier in a large company," says Michael Faranello of Solaris Group, an Asset and Wealth Management company based in New York City. "When you have over 50 employees, suppliers want to deal with you. You have the negotiation power to pay less and give more to your employees."
For smaller companies creating a benefits package that is competitive in the marketplace can require an enormous amount of time and creativity. Greg Price, president and chief executive officer of The Price Colby Consulting Group in Basking Ridge, N.J., recalled starting up a business in Manhattan a number of years ago. "I felt that good health-care coverage for my employees was a moral imperative," says Price, "but health care is also a major psychological factor for employees." With that in mind, Price personally approached the traditional insurance providers in his area and worked with them to tailor a plan for the needs of his business. In a marketplace where more and more employers are paying less of a percentage of their employees' health-insurance costs, Price gave his team 100% traditional coverage.

"We made up for the cost by adjusting wages to a little below what appeared to be average," Price says. He used that money to provide employees with performance-based salary bonus incentives. "Our growth after the first year was astounding. But we knew exactly who we wanted and how to attract them," he adds.

This is a key point for small-business owners evaluating their benefits packages. Most entrepreneurs don't have the time to personally and successfully compass the vast complexities of health care, especially since businesses are increasingly crossing state boundaries at early stages in development and health care laws differ by state.

For most small businesses the choice is essentially between finding a broker and hiring a PEO since traditional insurance plans carry high premiums. Professional Employer Organizations can take on the function of an entire Human Resources department, and advertise the ability to pool small businesses together in order to negotiate enhanced health benefits packages at a lower price. But cast a wide net to see what kind of deal you are getting.

"The advantage with some of these companies is they do their own underwriting. The disadvantage is, they do their own underwriting," says Larry Newell of Employee's Resource, a privately owned PEO based in Boise, Idaho. According to Newell, some PEOs are better than others at responding to fluctuations in the health of a specific client's employees. Accordingly, be aware of possible conflicts of interest, such as the simple fact that PEOs exist to make a profit, and could charge accordingly. Also understand the consequences of eliminating a Human Resources department in exchange for a third-party PEO, such as no on-site person to address important benefits questions.

Alternatively, benefits brokers can provide small businesses with more personal, dynamic relationships. But in an industry like health care where profits often lie just behind those complexities, finding the right broker can be difficult.

Bob Lehto of StarMine, a fast growing financial services company based in San Francisco, recalls that when he started working for the company a few years ago, he "inherited" the company's broker. "I felt like I was always reminding them about form deadlines, and legal reforms that might affect this or that benefit," he remembers. It may take some experimentation, but "it's important to find [a broker] that fits in with the culture of the company and the business style... No one size fits all," Lehto warns.
RETIREF PLANS

Aside from health-care expenditures, some sort of retirement plan should be offered. It's just as important to understand industry, local, and national trends in this area. According to the Bureau of Labor Statistics (BLS), 43 percent of all workers in private industry participated in a defined contribution plan, and only 20 percent in a defined benefit pension. Contribution plans, such as 401(k)s and IRAs, are generally preferred by employers, as employees are responsible for the risk of their pretax dollar investment. Pensions tend to be much more costly, since employers have to pay a steady rate to their employees.

Employer contributions to the likes of 401(k) plans fluctuate between industries, but the trend has been steadily decreasing. Many small companies will contribute, if anything, as little as 3 percent of an employee's annual salary.

FRINGE BENEFITS

Fringe benefits should be figured in as well. It is important to stay on top of trends in the marketplace when determining your benefits. Paid vacation is a must. The Bureau of Labor Statistic reports that 77 percent of private industry workers have access to paid vacation. Amount of vacation time allotted should be adjusted to employee tenure. On average, says the BLS, nine days of paid vacation were allotted to workers after one year of service. But "two weeks is really the minimum," Faranello says.

Other benefits might include taking pre-tax dollars out of salaries to provide for transportation costs. "Any sort of tax-free benefit is great," Lehto says, "It's money that they are really going to use anyway for these purposes."

Be wary of spending too much money on benefits such as short-term disability and vision care: the returns on investment can be questionable. Consider what is important to the lifestyles of your employees: the risks they’ll face in the work environment, the formalities that might be slackened in favor of morale.

PERKS

Because many start-ups simply don't have the resources to provide competitive conventional benefits, they'll have to give their workers other incentives. Look at other larger companies in your industry for inspiration. You might provide a more flexible schedule for your employees, or a more relaxed dress code than your competitors. Many small businesses offer leisure activities on site, including gaming tables for the office, or they offer meals in-house such as breakfast or the occasional lunch. Events benefits, such as "bring-your-dog-to-work day," or lifestyle benefits such as allowing employees to work from home when needed also are becoming more prevalent.

Survey your employees to see what kinds of perks they'd like to see, and help your employees balance home and work lives. You might be able to share the benefits accrued from a company credit card, such as frequent flier miles, or pay a percentage of group membership to a gym.
CULTURE AND STYLE

However you decide to go about constructing your benefits package, knowing your company culture and style is important in helping to direct you toward the kinds of benefits that best suit your employees. Know your workforce demographic, and survey your employees as to what benefits they want most. Perhaps most importantly, according to Lehto, "Be able to quantify and communicate to your employees both the value and the cost [of your offered plans]." Lehto suggests providing yearly "total compensation statements" to help keep employees satisfied and maintain their confidence in management. Communicating your benefits package value can be difficult, but it's important to creating long-term value for your company.