MANAGING EMPLOYEE BENEFITS

Personnel Management Series

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INTRODUCTION

Employee benefits play an increasingly important role in the lives of employees and their families and have a significant financial and administrative impact on a business. Most companies operate in an environment in which an educated work force has come to expect a comprehensive benefits program. Indeed, the absence of a program or an inadequate program can seriously hinder a company's ability to attract and keep good personnel. Employers must be aware of these issues and be ready to make informed decisions when they select employee benefits. Designing the right benefit plan for your employees is a complex task. There are many issues to consider, including tax and legal aspects, funding, and finding the right vendors or administrators.

This publication describes the basics of an employee benefits program. You may want to contact an insurance carrier or broker, a benefits consultant or an actuary for assistance in designing and implementing your benefit plan.

WHAT IS AN EMPLOYEE BENEFIT PLAN?

There are several ways to describe an employee benefit plan. It

- Protects employees and their families from economic hardship brought about by sickness, disability, death or unemployment.

- Provides retirement income to employees and their families.

- Provides a system of leave or time off from work.

Mandated Benefits

The employer must pay in whole or in part for certain legally mandated benefits and insurance coverage:

- Social Security.
- Unemployment insurance.
- Workers' compensation.

As stated in the Social Security Handbook,

> The Social Security Act and related laws established a number of programs which have the basic objectives of providing for the material needs of individuals and families, protecting aged and disabled persons against the expense of illness that would otherwise exhaust their savings, keeping families together, and giving children the opportunity to grow up in health and security.

Funding for the Social Security program comes from payments by employers, employees and self-employed persons into an insurance fund that provides income during retirement years. Full retirement benefits normally become available at age 65. (These benefits are discussed in more detail in the Retirement Benefit Plans section of this publication.) Other aspects of Social Security deal with survivor, dependent and disability benefits, Medicare, Supplemental Security Income and Medicaid.

Unemployment insurance benefits are payable under the laws of individual states from the Federal-State Unemployment Compensation Program. Employer payments, based on total payroll, contribute to the program.

Workers' compensation provides benefits to workers disabled by occupational illness or injury. Each state mandates coverage and provides benefits. In most states, private insurance or an employer self-insurance arrangement provides the coverage.

Some states mandate short-term disability benefits as well.

Optional Benefits

A comprehensive benefit plan can include the following elements:

- Health insurance.
- Disability insurance.
- Life insurance.

- A retirement plan.
- Flexible compensation (cafeteria plans).
- Leave.

Broadly defined, a benefit plan can include other items such as bonuses, service awards, reimbursement of employee educational expenses and perquisites appropriate to employee responsibility.

WHY OFFER YOUR EMPLOYEES BENEFITS?

Here are some of the reasons employers offer their benefits:

- To attract and hold capable people.
- To keep up with competition.
- To foster good morale.
- To keep employment channels open by providing opportunities for advancement and promotion as older workers retire.

A combination of benefits programs is the most effective and efficient means of meeting economic security needs.

For many employers, a benefit plan is an integral part of total compensation, because employers either pay the entire cost of a benefit plan or have employees contribute a small portion of premium costs for their coverage.

COMMUNICATIONS

Once you've implemented a benefits program, you'll want to tell your employees about it. Good communications are important in enabling employees to use the plan effectively and to appreciate the role of benefits in their total compensation.

Benefits orientation should be part of the orientation of a new employee. You can use newsletters, staff memos or employee meetings with audiovisuals to announce plan changes or answer employees' questions.

HEALTH BENEFIT PLANS

Medical and Dental Plans

A serious illness or injury can be devastating to an employee and his or her family. It can threaten their emotional and economic well-being. Thus, adequate health insurance is important to employees and is part of a solid group plan.

Group health plans

- Help attract and keep employees who can make your business a success.

- Relieve your employees of the anxiety of health care costs by providing the care they need before illness becomes disabling, thus helping you avoid costly employee sick days.

- Usually cost less than purchasing several individual policies with comparable coverage. Moreover, there are tax advantages to offering health care benefits: your contribution as an employer may be deductible and the insurance is not taxable income to your employees.

As an employer, you can choose either an insured (also known as an indemnity or fee-for-service plan) or a pre-paid plan (also known as a health maintenance organization).

Traditional Indemnity Plans

An indemnity plan allows the employee to choose his or her own physician. The employee typically pays for the medical care and then files a claim form with the insurance company for reimbursement.

These plans use deductibles and coinsurance as well. A deductible is a fixed amount of medical expenses an employee pays before the insurance plan reimburses any more expenses. The deductible can range from $100 to $1,000 a year. Coinsurance is a percentage of medical expenses the employee pays, with the plan paying the remaining portion. A typical coinsurance amount is 20 percent, with the plan paying 80 percent of approved medical expenses.

Listed below are the most common types of insurance arrangements (indemnity plans) providing health care to groups of employees.

- A basic health insurance plan, covering hospitalization, surgery and physicians' care in the hospital.

- A major medical insurance plan, usually supplementing a basic plan by reimbursing charges not paid by that plan.

- A comprehensive plan, covering both hospital and medical care with one common deductible and coinsurance feature.

Preferred Provider Organizations

Preferred provider organizations (PPOs) fall between the conventional insurance and health maintenance organizations, and are offered by conventional insurance underwriters. A PPO is a network of physicians and/or hospitals that contracts with a health insurer or employer to provide health care to employees at predetermined discounted rates.

- They offer a broad choice of health care providers.
- Although there is no requirement for employees to use the PPO providers, there are strong financial reasons to do so.
- Because of the broader choice of providers, PPOs are more expensive than HMOs.
- PPOs may have less comprehensive benefits than HMOs, but the benefits usually can meet almost any need.
- PPO providers usually collect payments directly from insurers.

Health Maintenance Organizations

Health maintenance organizations (HMOs) provide health care for their members through a network of hospitals and physicians. Comprehensive benefits typically include preventive care, such as physical examinations, well baby care and immunizations, and stop-smoking and weight control programs.

The main characteristics of HMOs are as follows.

- The choice of primary care providers is limited to one physician within a network; however, there is frequently a wide choice for the primary care physician.
- There is no coverage outside the HMO network of hospitals and physicians.
- Costs are lower, due to limited choice. Physicians are encouraged to keep patients healthy; accordingly, they often are paid on a per capita basis, regardless of how much care the patient needs.

The employer prepays HMO premiums on a fixed, per employee basis. Employees do not have to apply for reimbursement of charges, but they may have small copayments for medical services.

Dental Benefits

Medical insurance frequently includes dental plans. Most plans cover all or portions of the cost for the following services:

- Cleaning, x rays and oral examinations.
- Fillings.
- Crowns and dentures.
- Root canals.
- Oral surgery.
- Orthodontia.

Disability Benefits

A disability plan provides income replacement for the employee who cannot work due to illness or accident. These plans are either short term or long term and are distinct from workers' compensation because they pay benefits for non-work-related illness or injury.

Short-Term Disability

A short-term disability is usually defined as an employee's inability to perform the duties of his or her normal occupation. Benefits may begin on the first or the eighth day of disability and are usually paid for a maximum of 26 weeks. The employee's salary determines the benefit level, ranging from 60 to 80 percent of pay.

You, as an employer, may specify a number of days of sick leave paid at 100 percent of salary. The employee can use these before short-term disability begins.

Long-Term Disability

Long-term disability (LTD) benefits usually begin after short-term benefits conclude. LTD benefits continue for the length of the disability or until normal retirement. Again, benefit levels are a percentage of the employee's pay, usually between 60 and 80 percent. Social Security disability frequently offsets employer-provided LTD benefits. Thus, if an employee qualifies for Social Security disability benefits, these are deducted from benefits paid by the employer.

Life Insurance

Traditionally, life insurance pays death benefits to beneficiaries of employees who die during their working years. There are two main types of life insurance:

- Survivor income plans, which make regular payments to survivors.

- Group life insurance plans, which normally make lump-sum payments to specified beneficiaries.

Protection provided by one-year, renewable, group term life insurance, with no cash surrender value or paid-up insurance benefit, is very popular. Frequently, health insurance programs offer this coverage.

You should use the same principles for selecting a life insurance program as you do for selecting health insurance.

How To Find Good Plans

Finding a benefit plan that meets your budget constraints and fills the needs of your employees is crucial. Among the sources to check are

- Your local chamber of commerce.
- Independent insurance agents.
- Trade associations of your business.
- State departments (or commissions) of insurance.
- Community business leaders.
- Benefit consultants or actuaries.
- Service Corps of Retired Executives (SCORE) (affiliated with the U.S. Small Business Administration).

To reduce risk, select insurance underwriters with top BEST ratings.[1] HMOs and Blue Cross/Blue Shield are not rated by Best, but are regulated by state governments. Check with other users and state regulators on the history of the particular plan you are considering.

[1]. *Best Insurance Reports: Property-Casualty Ed.*, and *Life-Health Ed.*, Published annually by A.M. Best Company, Oldwick, N.J.

Self-Insurance

Rising costs are prompting small business owners to take a look at a form of health care coverage previously considered an option only for big business: self-insurance.

With self-insurance, the business predetermines and then pays a portion or all of the medical expenses of employees in a manner similar to that of traditional health care providers. Funding comes through establishment of a trust or a simple reserve account. As with other health care plans, the employee may pay a portion of the cost in premiums. Catastrophic coverage is usually provided through a stop loss policy, a type of coinsurance purchased by the company.

The plan may be administered directly by the company or through an administrative services contract.

The advantages of self-insurance are listed below.

- Programs can be flexible. They are designed to reflect employee needs, including medical and dental care, prescriptions and so on.
- Mandated benefit laws and state insurance premium taxes do not affect these plans.
- The employer retains control over the timing and amount of funds paid into the plan and can manage costs more directly.
- Administration of these plans can be more efficient.
- Over time, these plans can save money.

The drawbacks to self-insurance include the following.

- Health care is costly and heavy claims years may prove extraordinarily expensive.
- Commitment for the long haul is necessary to achieve significant savings.

Self-insurance can be a viable option for small businesses but it should be undertaken only after careful study.

Balancing Cost, Quality and Accessibility

- Consider what you and your workers want in a health plan.
- Determine all costs associated with the plan.
- Investigate the quality of potential insurance carriers.
- Examine the quality of each plan, including the benefits and restrictions:

  -- Hospital coverage (inpatient care).

  -- Outpatient services.

  -- Physical coverage.

  -- Substance abuse treatment.

  -- Prescriptions.

- Check on underwriting and other restrictions that may exclude you from the health plan:

  - Employee medical histories.

  - Minimum employer contribution.

  - Minimum participation by eligible employees and dependents.

  - Waiting periods.

  - Proof of employee status.

  - Purchase of other benefits.

  - Other limitations -- what isn't covered.

- Check on the extent to which your company can control costs:

  - Prior review of hospital admissions to determine necessity of hospitalization.

  - Concurrent review of hospital stays to confirm continuing need of hospitalization.

  - Management programs for catastrophic cases that arrange for the most cost-effective care.

Questions To Ask Before Signing a Benefits Contract

- Who is the insurance company?

- Is it committed to small business?

- How solvent is it? What is its rating?

- What is the carrier's reputation for customer service?

- What is the choice of doctors and hospitals?

- How does the company manage health care costs?

- Who administers the plan?

- What information must the employer provide?

- How are the employees enrolled?

When Problems Arise

From time to time problems arise with benefit delivery. Patience on the part of the provider, the employer and the employee usually brings a resolution.

Occasionally, unusually prolonged and difficult problems develop that do not yield to resolution. Such instances should be brought to the attention of your state's insurance department or commission, which is responsible for regulating insurance companies.

RETIREMENT BENEFIT PLANS

A financially secure retirement is a goal of all Americans. Since many of us will spend one-fourth to one-fifth of our lives in retirement, it is more essential than ever to begin preparations at an early age. Most financial planners report that an individual requires about 75 percent of his or her preretirement income to maintain the same standard of living enjoyed during one's working years.

Social Security, employer-sponsored retirement programs and personal savings are the three sources of postretirement income.

Social Security Benefits

Social Security provides retirement benefits for most persons employed or self-employed for a set period of time (currently 40 quarters; about 10 years). Benefits paid at retirement, traditionally age 65, are based on a person's earnings history. Payments may begin at age 62 at a reduced rate or, if delayed until age 70, at an increased rate.

For a person with earnings equal to the U.S. average, the benefit will be about 40 percent of pay. For someone with maximum earnings, the benefit would be about 25 percent of the portion of pay subject to Social Security tax.

Every worker should understand Social Security retirement benefits. By completing Form SSA-7004, Request for Social Security Earnings and Benefit Estimate Statement, you can receive a projection of benefits. Forms can be obtained through local Social Security offices or by calling 1-800-772-1213.

Employer-Sponsored Retirement Plans

A retirement plan makes good sense and can attract and reward key employees. The benefits and tax advantages of supplementing Social Security with a qualified retirement plan are significant. A qualified plan is one meeting Internal Revenue Service (IRS) specifications. Currently, such contributions are tax deductible and earnings accumulate on a tax-deferred basis. In addition, benefits earned are not part of the participant's taxable income
until received, and certain distributions are eligible for special tax treatment. Whether you are a sole proprietorship, a partnership or a corporation (employing many people or only yourself as the

owner/employee), there are a wide range of options available. These can range from simple plans, which you establish and maintain, to complex versions, which require an actuary, attorney or employee benefits consultant. Accountants, banks, insurance and investment professionals, as well as other financial institutions, can provide information on pension plan products. A plan need not be complex or costly to establish. In fact, there are several versions that you can establish without any outside consultants.

Depending on whether you are self-employed, a partnership or a small corporation, the following plans are available:

- Individual retirement accounts (IRAs) -- The simplest plan; for the self-employed or for select employees.

- Keogh -- A plan for partnerships or sole proprietors, offering greater contribution limits than other types of plans.

- Simplified employee pension (SEP) -- A plan for sole proprietors and small businesses, offering flexibility and easy self-administration.

- Defined benefit -- A retirement plan for businesses with older, more highly paid employees.

- Profit sharing -- A flexible plan based on profits and contributions that can be discretionary from year to year.

- Money purchase -- A method for companies employing a high percentage of younger workers and desiring to make steady plan contributions.

- 401(k) -- The most popular plan today, providing employees with the ability to save for their retirement with pre-tax dollars. Offers maximum flexibility for employers at minimal cost.

Individual Retirement Accounts

The simplest of all retirement plans is the individual retirement account (IRA), authorized by Congress in 1974. An IRA is a tax-favored savings plan that allows eligible participants to make contributions with pre-tax dollars and defer taxation on earnings until retirement.

There are several limitations to IRAs:

- Contributions cannot exceed the lesser of $2,000 per year or 100 percent of compensation ($2,250 for a spousal IRA).

- Contributions may be made only up to age 70 and deposits must be made before filing individual taxes (April 15).

- The account holder may not use funds to purchase life insurance or collectibles (except gold or silver coins issued by the U.S. Government).

- If a person (or his or her spouse) is an active participant in an employer-maintained retirement plan with income exceeding certain levels ($25,000 for single persons or $40,000 for married couples), the IRA contribution may be partially or totally nondeductible.

Businesses may sponsor IRA savings programs for employees. Through payroll deduction, employees set aside small amounts for deposit into an IRA contract. An employer can make IRA contributions for all or select employees. In such instances, the recipient's reported annual taxable salary will include the IRA contribution, although this amount would then be deducted (conditions permitting) by the employee on his or her year-end tax filing.

Keogh Plans

A Keogh (occasionally called H.R. 10) plan affords a self-employed person -- either a sole proprietor or a partner -- most of the retirement funding benefits available to the working owners of a corporation. A self-employed person may take a tax deduction for annual contributions to the plan on his or her behalf and on behalf of any eligible employees.

Although the laws governing Keoghs once varied widely from the retirement plan options for corporations, recent changes have left only minor distinctions. Keogh plans follow rules basic to either defined benefit or defined contribution corporate plans. There are limits, but generous ones. For example, you cannot fund a retirement payout that is greater than your self-employment income or that tops a $112,221 annual cap (a figure adjusted yearly for inflation).

You must establish plans by the end of the year (December 31) for which you are making the contribution. Once established, you have until the tax return filing date -- including extensions -- to make the contribution.

Designing the Right Corporate Plan

Selecting the right pension plan for a corporation results from a process of identifying business needs and expectations, including

- Need for flexibility.

- Current age of key employees.

- Current number of employees and plans for growth.

- Need for tax deductions (present/future).

- Maximization of retirement benefits.

Although there are many different types of retirement plan options available to corporations, they fall into two general categories: defined benefit plans and defined contribution plans. The following pages provide a brief overview of these plans and their benefits. Figure 1 offers a quick means of identifying the plan that best suits your current needs.

Defined Benefit Plans

With this plan, the benefits an employee will receive are predetermined by a specific formula -- typically calculated by an actuary annually. The promised benefit is tied to the employee's earnings, length of service or both. The employer is responsible for making sure that the funds are available when needed (the employer bears funding and investment risks of the plan).

Defined benefit plans are typically better for older employees (usually age 45+). For example, these plans can provide the ability to fund for years of employment before the inception of the plan. While some contribution flexibility is available, factors determining the cost of promised benefits (e.g., number and ages of employees, rates of return on investments) will mandate the level of required deposits to the plan.

The price of providing a higher degree of tax savings and being able to rapidly shelter larger sums of retirement capital is having to meet additional reporting requirements. Defined benefit plans typically cost more to administer, requiring certifications by enrolled actuaries, and approval of terminations by both the IRS and the Pension Benefit Guaranty Corporation (PBGC).

Defined Contribution Plans

Also known as individual account plans, defined contribution plans specify the amount of funds placed in a participant's account (for example, 10 percent of salary). The amount of funds accumulated and the investment gains or losses solely determine the benefit received at retirement. The employer bears no responsibility for investment returns, although the employer does bear a fiduciary responsibility to select or offer a choice of sound investment options.

There are several basic types of defined contribution plans, including simplified employee pension plans, profit sharing plans, money purchase plans, 401(k) and profit sharing plans.

Simplified Employee Pensions

A simplified employee pension (SEP) plan is ideal for the self-employed or for small corporations as it requires minimum paperwork and offers a maximum of flexibility. It is the only employer plan requiring no IRS approval, no initial filings and no annual reporting to the government.

Although SEPs are designed as pensions, they are actually IRAs. Unlike regular IRAs, however, contributions are not limited to $2,000. The total deferral can be up to $30,000 or 15 percent of annual earnings (about 13 percent for self-employment income), whichever is less.

Contributions must be made on a nondiscriminatory basis to all employees who are at least age 21 and who have worked for any part of three of the past five years earning a minimal amount -- $374 in 1992 and adjusted annually for inflation. Contributions can vary from year to year -- you may even skip entire years -- and must be paid no later than the due date of an employer's income tax return, including extensions. Once made, the entire contribution is owned by the employee.

Complete specifications for the plan can be found in IRS Form 5305. The form itself serves as the plan document, requiring only the insertion of business name, the checking of three boxes and a signature. The form is not filed with the IRS, but rather copied for all employees and then placed in the firm's files.

Under a new type of SEP, called a Salary Reduction SEP (SAR-SEP), employees can defer, or set aside, a portion of pay as a pre-tax contribution. Deferred contributions, like other SEP contributions, are excludable from the employee's gross income for calculating federal income tax. However, SAR-SEPs are allowed only if fewer than 25 employees were employed during the preceding year. In addition, periodic testing is required.

Profit Sharing Plans

Similar to a SEP, a profit sharing plan offers the flexibility of making contributions -- up to 15 percent of compensation paid to all employees, but no more than $30,000 for any one individual. Alternatively, rather than selecting a percentage, a flat amount (for example, $100,000) could be allocated among eligible employees. Contributions are keyed to the existence of profits, although they may be possible even if the company suffers a loss in the taxable year.

Profit sharing plans differ from SEPs in several distinct ways. An employer can apply a vesting schedule to the company's contributions, based on an employee's length of service with the company. If an employee is terminated before becoming fully vested, his or her funds will revert to the plan or be reallocated among the remaining participants. In addition, profit sharing plans permit the exclusion of part-time employees and can be used for loan purposes.

Profit sharing plans, as all other qualified retirement plans, require the preparation of formal trust documents as well as annual tax filings. A standardized trust or prototype plan will often satisfy requirements and will typically be less expensive and simpler to operate than an individually designed plan.

Money Purchase Plans

With a money purchase plan, the employer is usually committed to making annual contributions equal to a designated percentage of each employee's compensation. This percentage may not exceed 25 percent of earned income, with a maximum contribution of $30,000 per individual. The contribution percentage must be the same for all employees participating in the plan and contributions must be made even in years in which there are no net profits.

Unlike profit sharing plans, money purchase plans do not allow for integration with Social Security. Integration is the ability to set aside a larger proportion of the contribution for those earning over the

Social Security maximum wage base. A combination of both profit sharing and money purchase plans provides optimal flexibility and higher contribution limits.

401(k)/Profit Sharing Plans

The Revenue Act of 1978 added Section 401(k) to the Internal Revenue Code and, since then, the growth of these tax-deferred savings plans has been dramatic.

The basic idea of a 401(k) is simple: it is a profit sharing plan adopted by an employer that permits employees to set aside a portion of their compensation through payroll deduction for retirement savings. The amounts set aside are not taxed to the employee and are a tax deductible business expense for the employer.

An employer's discretionary matching contribution can provide incentive for employee participation as well as serve as an employee benefit. The employer can match any percentage of the employees' contributions. Employer contributions can be capped, to limit costs, and a vesting schedule can be applied to employer deposits (employees are always 100 percent vested in their own contributions).

For employees, the opportunity to reduce federal -- and often state and local -- taxes through participation in a 401(k) plan offers significant benefits. While savings are intended for retirement, certain types of loans can provide employees with access to their funds -- employees repay borrowed principal plus interest to their own account. From an employer's standpoint, the 401(k) can be the least expensive and most flexible of all retirement plans.

Special nondiscrimination tests apply to 401(k) plans, which may limit the amount of deferrals that highly compensated employees are allowed to make. As a result, a minimal employer contribution may be required.

Employee Stock Ownership Plans

A special breed of qualified plan, an employee stock ownership plan (ESOP), provides retirement benefits for employees. In addition, an ESOP can be used as a market for company stock, for financing the company's growth, to increase the company's cash flow or as an estate planning tool.

ESOP funds must be primarily invested in employer securities with provisions that are fairly similar to those of profit sharing plans. Tax deductible contributions to the plan are used to buy stock for eligible employees. On retirement, the employee may take the shares or redeem them for cash.

Complicated rules must be adhered to in the establishment and maintenance of an ESOP plan. Expert advice should be sought.

Where To Get Pension Information

While some plans offer flexibility from year to year and contributions can cease at any time, others require a longer term commitment. A pension professional can propose options to meet your needs. Check for pension professionals (Yellow Pages under Pension), accountants or attorneys, independent insurance agents, banks, stockbrokers, or financial planners.

Questions To Ask Before Finalizing a Pension Plan

- Does the plan require a given level of contribution each year?

- Do the plan provisions (eligibility, hours of service and vesting of employer contributions) meet current and future needs?

- What are the costs of establishing and administering a plan and trust, including providing annual employee reports? For how long are these costs guaranteed?

- What are the investment options offered? Which offer guarantees and which do not. What is the 10-year historical performance of the various investments?

- Are there any loads (charges) associated with deposits (front-end charges) or surrenders (rear-end charges) from the plan?

- Can employees make individual investment selections and what types of reports do participants receive?

FLEXIBLE COMPENSATION OR CAFETERIA PLANS

To accommodate today's many variations in family relationships, life-styles and values, flexible compensation or cafeteria benefit plans have emerged. In addition to helping meet employee needs, cafeteria plans also help employers control overall benefit costs.

Cafeteria plans offer employees a minimum level or core of basic benefits. Employees are then able to choose from several levels of supplemental coverage or different benefit packages. All packages are of relatively equal value, but can be selected to help employees achieve personal goals or meet differing needs, such as health coverage (family, dental, vision), tax reduction (thrift plans, salary reduction), retirement income (pension plans) or specialized services (day care, financial planning, legal services).

Careful planning and communication are the keys to the success of flexible compensation. Employees must fully understand their options to make choices of greatest benefit to them and their families. Both employers and employees must fully understand the tax consequences of the various options.

KEEPING CURRENT ON BENEFIT PLANS

The government has certain requirements for qualified pension or profit sharing plans, as well as for most health and welfare plans. It is essential for you to stay current on developments that may affect your plan. Even small changes in tax laws can have a significant impact on your plan's ability to help you and your employees achieve your goals. Information on these requirements is available from the IRS and from qualified accountants and financial advisors.

LEAVE

The old concept of two weeks with pay has given way to a wide variety of paid and unpaid leave plans for all businesses. Among the typical options are

- Annual leave.
- Holidays (national and state).
- Sick leave.
- Personal leave (birthday, other reason of choice).
- Emergency leave.
- Compassionate leave (funeral, family illness).
- Religious observance.
- Community service (voting, jury duty, court witness, National Guard, Civil Air Patrol, volunteer fire department).
- Education/training.
- Leave without pay.
- Leave of absence (paid or unpaid).
- Parental (formerly maternity) leave.

In a strict sense, paying people for not working is a costly, unprofitable concept. However, time off from the grind is a tradition of the American workplace, and rightly so. Benefits can far outweigh costs. Among the many benefits for the employee are rest, relaxation, a new perspective, travel, pursuit of hobbies and release from daily tensions. The employer also benefits -- the employee returns refreshed from the break in daily routine, possibly with new ideas and renewed energy for doing a better job. Employers also can observe the performance of employees in new situations, as they fill in for their vacationing coworkers, potentially leading to better allocation of work force talents.

Eligibility for Leave

In determining employee eligibility for leave, an employer must find answers to many questions, including the following.

- How much paid leave time can the company afford per year?
- How many categories of leave should there be?
- Can employees carry over unused leave from one year to the next? If so, how much?
- Are there leave rights during probation?
- Who gets first choice of dates in scheduling annual leave? How are conflicts resolved? By seniority?
- Can employees borrow leave in advance?
- At what point does extended/borrowed paid leave become unpaid leave and extended/borrowed unpaid leave become unemployment?
- Are employees eligible for more leave after a certain number of years with the company?

Employers must determine when eligibility for leave begins: immediately? after the first year? Many employers establish a paid annual leave schedule by declaring employees eligible for so many hours leave after they have worked a specified number of hours; for example, two hours leave for every 80 hours worked or one day for so many weeks worked.

Limits on sick and other leave are vital. You should restrict sick leave to illness or medical examinations and treatment. It must not become an extension of annual leave. Accordingly, it is wise to reserve the right to require physician certification of an illness.

Although the vast majority of employees will not abuse time allowed for compassionate, emergency or other leave categories, clear policies should be established on requesting such leave and on its duration.

Budget Considerations

Granting paid or unpaid leave is a costly benefit. Depending on the nature of an employee's work, you may need to require overtime from other employees or hire temporary employees to cover the absence. Extended leave situations pose special problems.

Questions To Ask Before Finalizing a Leave Plan

- Is the business open on all holidays? If not, on which ones?

- If the business is open on holidays, do you work with full or limited staff, paying them double time as may be required by law?

- How many hours/days are allowed as leave for voting, jury duty, religious observance, funerals, etc?

- How are insured benefits handled during unpaid leave?

- Which state laws affect leave?

PERQUISITES

While all employees are usually eligible for benefits such as health and other insurance, retirement plans and leave, key employees have come to expect certain additional benefits related to their increased levels of responsibility. Among the perquisites employers may want to consider for top performers and key, or even all, employees are

- Company automobile.

- Extra vacation.

- Special parking privileges.

- Personal expense accounts.

- Spouse travel on company business.

- Sabbaticals (with pay).

- Professional memberships.

- Professional publications.

- Loans/mortgages.

- Club memberships.

- Parking (depending on circumstances).

- Chauffeur.

- Estate planning.

- Legal services.

- Medical expense reimbursement.
- Travel clubs.
- Credit cards.
- Home entertainment allowance.
- Physical examinations/health screening.
- Physical exercise facilities.
- Executive dining room.
- Matched donations to universities, colleges and/or charities.
- Tuition programs.
- Dependent day care (on- or off-site).
- End-of-year bonus.
- Merchandise discounts.
- Sales commissions.
- Holiday gifts.
- Employee assistance programs (EAPs) (substance abuse, debt, interpersonal relationships, psychological, financial, other types of counseling).
- Service awards.
- Credit unions.

Like basic benefits, perquisites help attract and keep good employees. You can balance the far higher cost of providing some perquisites with expectations of increased production from the employees who benefit.

Key employees responsible for generating contacts for new business should receive consideration for company automobiles, personal expense accounts, professional memberships and publications,

club memberships, spouse travel on company business, credit cards, home entertainment allowances, end-of-year bonuses and sabbaticals.

Sales staff responsible for keeping current customers satisfied should receive consideration for company automobiles (if needed for their duties), credit cards, personal expense accounts, professional memberships and publications, sales commissions, spouse travel on company business and end-of-year bonuses.

All employees should receive consideration for EAPs, physical exercise facilities (if you have them), parking, tuition programs, dependent day care, holiday gifts, service awards, credit unions, matched donations to universities, colleges and/or charities, physical examinations or health screenings when offered and merchandise discounts.

Offer legal services and loans and mortgages on a case-by-case basis.

Some perquisites, such as extra vacation, should be given only as a reward for extraordinary service to your company.

You may want to consider employer-employee cost sharing of such perquisites as physical exercise facilities, dependent day care, parking and, perhaps, some health screening services.

Before beginning any program of perquisites, check current tax law for treatment of each item:

- Can you, as the employer, deduct it as a business expense?
- Will it become taxable income for your employee?

MAKING THE CHOICES

Before you implement any benefit plan, you should ask yourself some questions:

- How much are you willing to pay for this coverage?
- What kinds of benefits interest your employees? Do you want employee input?
- What do you think a benefits plan should accomplish? Do you think it is more important to protect your employees from economic hardship now or in the future?
- Is a good medical plan more important than a retirement plan?
- Do you want to administer the benefits plan, or do you want the administration done by an insurance carrier?
- What is your employee group like today? Can you project what it might look like in the future?

You now have some basic benefits information as well as the basic questions that need answers before you go benefit shopping for your employees.

If you are serious about offering your employees a satisfactory benefit plan, the next step may be to contact an insurance broker or carrier, the local chamber of commerce or trade associations.There may be off the shelf products that will suit your needs. A benefit consultant or actuary can help you design a specialized benefit program.

An adequate benefit program has become essential to today's successful business, large or small. With careful planning you and your employees can enjoy good health and retirement protection at a cost your business can afford.

APPENDIX: INFORMATION RESOURCES

U.S. Small Business Administration (SBA)

The SBA offers an extensive selection of information on most business management topics, from how to start a business to exporting your products.

This information is listed in The Small Business Directory. For a free copy contact your nearest SBA office.

SBA has offices throughout the country. Consult the U.S. Government section in your telephone directory for the office nearest you. SBA offers a number of programs and services, including training and educational programs, counseling services, financial programs and contract assistance. Ask about

> **Service Corps of Retired Executives (SCORE)**, a national organization sponsored by SBA of over 13,000 volunteer business executives who provide free counseling, workshops and seminars to prospective and existing small business people.
>
> **Small Business Development Centers (SBDCs)**, sponsored by the SBA in partnership with state and local governments, the educational community and the private sector. They provide assistance, counseling and training to prospective and existing business people.
>
> **Small Business Institutes (SBIs)**, organized through SBA on more than 500 college campuses nationwide. The institutes provide counseling by students and faculty to small business clients.

For more information about SBA business development programs and services call the SBA Small Business Answer Desk at 1-800-U-ASK-SBA (827-5722).

Other U.S. Government Resources

Many publications on business management and other related topics are available from the

Government Printing Office (GPO). GPO bookstores are located in 24 major cities and are listed in the Yellow Pages under the bookstore heading. You can request a Subject Bibliography by writing to Government Printing Office, Superintendent of Documents, Washington, DC 20402-9328.

Many federal agencies offer publications of interest to small businesses. There is a nominal fee for some, but most are free. Below is a selected list of government agencies that provide publications and other services targeted to small businesses. To get their publications, contact the regional offices listed in the telephone directory or write to the addresses below:

Consumer Information Center (CIC)
P.O. Box 100
Pueblo, CO 81002
The CIC offers a consumer information catalog of federal publications.

Consumer Product Safety Commission (CPSC)
Publications Request
Washington, DC 20207
The CPSC offers guidelines for product safety requirements.

U.S. Department of Agriculture (USDA)
12th Street and Independence Avenue, SW
Washington, DC 20250
The USDA offers publications on selling to the USDA. Publications and programs on entrepreneurship are also available through county extension offices nationwide.

U.S. Department of Commerce (DOC)
Office of Business Liaison
14th Street and Constitution Avenue, NW
Room 5898C
Washington, DC 20230
DOC's Business Assistance Center provides listings of business opportunities available in the federal government. This service also will refer businesses to different programs and services in the DOC and other federal agencies.

U.S. Department of Health and Human Services (HHS)
Public Health Service
Alcohol, Drug Abuse and Mental Health Administration
5600 Fishers Lane
Rockville, MD 20857
Drug Free Workplace Helpline: 1-800-843-4971. Provides information on Employee Assistance Programs.
National Institute for Drug Abuse Hotline: 1-800-662-4357. Provides information on preventing substance
abuse in the workplace.
The National Clearinghouse for Alcohol and Drug Information: 1-800-729-6686 toll-free. Provides pamphlets and resource materials on substance abuse.

U.S. Department of Labor (DOL)
Employment Standards Administration
200 Constitution Avenue, NW
Washington, DC 20210
The DOL offers publications on compliance with labor laws.

U.S. Department of Treasury
Internal Revenue Service (IRS)
P.O. Box 25866
Richmond, VA 23260
1-800-424-3676
The IRS offers information on tax requirements for small businesses.

U.S. Environmental Protection Agency (EPA)
Small Business Ombudsman
401 M Street, SW (A-149C)
Washington, DC 20460
1-800-368-5888 except DC and VA
703-557-1938 in DC and VA
The EPA offers more than 100 publications designed to help small businesses understand how they can comply with EPA regulations.

U.S. Food and Drug Administration (FDA)
FDA Center for Food Safety and Applied Nutrition
200 Charles Street, SW
Washington, DC 20402
The FDA offers information on packaging and labeling requirements for food and food-related products.

For More Information

A librarian can help you locate the specific information you need in reference books. Most libraries have a variety of directories, indexes and encyclopedias that cover many business topics. They also have other resources, such as

- **Trade association information**
  Ask the librarian to show you a directory of trade associations. Associations provide a valuable network of resources to their members through publications and services such as newsletters, conferences and seminars.

- **Books**
  Many guidebooks, textbooks and manuals on small business are published annually. To find the names of books not in your local library check Books In Print, a directory of books currently available from publishers.

- **Magazine and newspaper articles**
  Business and professional magazines provide information that is more current than that found in books and textbooks. There are a number of indexes to help you find specific articles in periodicals.

In addition to books and magazines, many libraries offer free workshops, lend skill-building tapes and have catalogues and brochures describing continuing education opportunities.