Employee Benefits Report

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Is an Online Benefits System in Your Future?

Online benefit systems can cut administrative costs and enhance employee satisfaction with your benefits program. But the most recent Forrester Research Benefits Strategy and Technology study reveals that only one-third of U.S. employers offer their employees access to such systems.

What's the hold-up? The biggest deterrents are worries, some say unjustified, about the cost of ownership and a lack of technical infrastructure.

Three building alternatives

An online benefit system offers self-service access to benefits descriptions, enrollment information, personnel information, training and learning, retirement planning, health content and a litany of other information employees need.

There are three ways to build or expand an online system: build it in-house; outsource with a consultant that specializes in HR applications development; or look to your benefits administrator to host for you.

In-house development requires expertise in programming, content development, financial planning and regulatory compliance.

Outsourcing the development lets you focus on your core business while ensuring that technical issues are in the hands of specialists. But outsourcing can be costly and your company is highly dependent on the capabilities of a provider that may or may not be around later to help you run the system.

Also, in-house or outsourced development can be slow; it takes, on average, one year to implement each self-service application, from budget approval to widespread use of the application. In 83 percent of the organizations surveyed, most of the funding came from the HR budget – usually not the most well-funded department.

More than 90 percent of large organizations surveyed reported "successful" or "somewhat successful" results with their self-service initiatives. The data also showed that the longer companies had self-service applications in place, the more highly they rated them—which is typical when companies implement new technology.

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This Just In

Nearly half of surveyed mothers are willing to take a pay cut in exchange for time with kids. Almost one-fourth of nearly 1,000 U.S. working mothers surveyed said work has had a negative impact on their relationships with their children. As a result, 43 percent of working mothers surveyed said they would be willing to take a pay cut if it meant they could spend more time with their children. One in three said they would be willing to give up 10 percent or more of their salaries.

"Mothers are looking for work/life benefits such as flex schedules, telecommuting and other company-wide initiatives that encourage workers to improve the balance between their professional and family lives," said Careerbuilder.com spokesperson Mary Delaney.

A separate survey by Adecco found that working mothers are just as likely as non-parents to work late and to respond to work-related e-mails after hours.

Disabilities: The Hidden Financial Risk

Many workers underestimate the impact a disability can have on their finances. Although the average long-term disability lasts more than two years, 68 percent of workers age 21-35 have funds available to cover only three months or less of normal living expenses.

Even older workers downplay their risk of suffering a disability that would cause them to miss work for an extended period of time. According to surveys by the Council for Disability Awareness and American's Health Insurance Plans (AHIP), 47 percent of baby boomers admit they are not too concerned about their chances of suffering a disabling illness or injury.

One of the reasons employees misjudge the risk is because they mistakenly believe that injuries cause more disabilities than illnesses do, AHIP says. Not so. Research shows that the most common causes of disability are illnesses, such as cancer, heart disease and diabetes.

Most workers say that if they were out of work for a year, they could rely on a patchwork of income sources to make ends meet, including help from friends and family, retirement savings accounts, home equity loans and credit cards.

Disabilities: myths and realities

Here are the top misperceptions employees have about disability income insurance, according to The Council for Disability Awareness:

- **It's not going to happen to me.** A disabling accident occurs every two seconds in the United States, yet nine out of 10 workers dramatically underestimate their chances of becoming disabled. The odds are three in 10 that a worker entering the workforce today will become disabled some time before retiring.
- **If I do become disabled, it won't last long.** Eighty-five percent of workers surveyed express little or no concern that they may suffer a disability over three months long. While it's true many disabilities last only a few months, the average disability actually lasts 2.5 years.
- **They cover disabilities at work.** Most employers, particularly larger companies, provide some form of sick pay and long-term disability benefits to employees. That's not necessarily the case among small employers. More employers offer voluntary disability insurance at the workplace, but most employees don't opt to buy the coverage. Also, many employees mistakenly think their medical insurance covers lost wages, but it doesn't.
- **I don't need disability insurance because I have workers' compensation.** More than 90 percent of disabling accidents and illnesses are not work-related and not covered by workers' compensation.

Double trouble

These misconceptions can harm both your employees and your company. Because so many workers don't appreciate the risk of disability, many voluntary insurance programs suffer from a phenomenon known as "adverse selection." Healthy employees are less likely to purchase coverage if it is voluntary, resulting in higher disability costs for you.

For the health of both your employees and your company's bottom line, here are a few things you can do to encourage enrollment in disability income insurance programs:

1. Promote disability coverage at your place of work. Mention available coverage in newsletters, benefits Web sites and e-mails whenever you talk about benefits.
2. Help dispel the rumors by providing accurate information about the risk of disability.
3. Review all aspects of your disability plans to minimize the impact of adverse selection arising from either the structure of premium rates or a combination of plan language and underwriting issues.
4. Review relationships to other employee benefits. Disability plans are just one piece of your employee benefit package, often overlapping with sick pay, retirement, workers' compensation and other programs. Consider revising portions of the disability plan for better integration with your benefits package.
5. Create a system for obtaining ongoing reports that will help you identify disability coverage trends in your workplace.
6. Compare plans with those of similar employers. Review your disability plans to see if coverage can be altered to encourage more workers to sign up. Address areas where your plan is either unusually restrictive or unusually generous by comparison.

For more information on voluntary or employer-paid group disability income insurance, please call us.

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Ready-made solutions

Although building a system from the ground up may work for larger companies, few small and mid-sized businesses have the expertise or budgets to do so themselves. Thankfully, more and more agents, brokers, and benefits administrators are providing their clients with easy-to-customize online systems for free or at low cost, according to Butch Goette, president of Virtual Management Systems in Bend, Ore., www.virtualmgtsystems.com.

These ready-made online benefit systems can help you:

- Create a password-protected Internet site to store and communicate employee benefit information — which employees can access around the clock via a secure Web environment.
- Centralize company-specific human resource policies and forms in a single, online environment accessible from any Internet-capable computer.
- Access state-specific HR template policies and forms to create company-specific documentation and ensure compliance with federal regulations.
- Access state-specific forms and procedural guidelines to assist in managing workers' compensation programs.
- Eliminate time-consuming calls regarding basic employee benefit and HR information.
- Effectively educate employees on the value of their benefits.

"Employees can use these tested systems to enroll in plans, change contributions and switch funds. The administrator usually provides the transactional core, allowing your company to create a front-end to match the look and feel of your corporate site and to add components that may not be provided by the benefits administrator," said Goette.

Getting started

You don't have to automate everything at once. Many companies start slowly with simple benefits inquiries and management applications, such as open enrollment and 401(k) and pension plan services. HR managers also like applications that allow employees to take control of their personal data, changing their own family status information online, registering for training and accessing paycheck services.

Is there any benefits information that you can't put online? As of now, the only answer seems to be certain forms, such as beneficiary designations, that still require ink-on-paper signatures. And that is changing now that employers and technology vendors are becoming more familiar with the new digital signatures law.

The best systems marry high tech with high touch. Employees will be more apt to use the system if your company can demonstrate time savings up front. They can benefit from the Web's one-click efficiency, but also need to be able to speak with a human being when they have additional questions.

Companies implementing self-service benefits management reported that employee satisfaction increased by up to 50 percent, and the cost of transactions was reduced by an average of 60 percent, according to a second study by the consulting firm Hunter Group. ■

Selling Online Benefits Management to Your Management

Online benefits systems simplify things for employees and benefits managers, but your company can reap benefits as well:

- **Drive down costs by automating core HR, benefits and payroll processes for increased efficiency and productivity.**
- **Help contain and reduce the spiraling costs of employee benefits.**
- **Increase retention by providing a high level of service to employees while controlling the cost of providing it.**
- **Make the best possible decisions regarding your workforce with accurate, timely reporting and analysis.**
- **Reduce the cost of compliance and risks associated with increasingly complex and burdensome regulations, including the avoidance of fines, penalties and costly litigation.**
- **Improve processes for recruiting, developing and retaining people with the required skills and aptitudes to meet current and future organizational needs.**
- **Reduce routine administration and paperwork, enabling the HR department to focus more on workforce and business strategy.** ■

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spend with you figuring out what the document should include.

Valuation normally will carry fees in the same range for smaller companies, assuming that there is only one class of stock in the company and no unusual complicating elements. Repeat annual valuations should be about half this fee. It may be possible to obtain an even lower charge in some cases, but do not cut costs by hiring people who do not normally do ESOP work.

Plan administration costs — keeping records, filing reports, sending plan account statements, etc. — depend on the number of employees. There are certain fixed costs, however, so there are some economies of scale for larger firms. A firm of 20 employees might reasonably expect to pay around $2,000 per year as a base cost, plus $30 to $60 per employee.

Despite the costs, ESOPs have advantages for employers. For more information on setting up an ESOP, please contact us ■

How Small Is Too Small for an Employee Stock Ownership Plan?

Employees are more productive if they own a piece of the company. That's the theory, anyway, behind Employee Stock Ownership Plans (ESOPs). According to Rutgers University researchers, ESOPs do appear to increase sales, employment and sales per employee by about 2.3 percent to 2.4 percent per year over what would have been expected absent an ESOP.

ESOPs are often confused with stock option plans, which grant employees the right to buy company stock at a specified price during a specified period once the option has vested. And ESOPs are also confused with employee stock purchase plans, which give employees the chance to buy stock outright.

An ESOP, in contrast, is a type of tax-qualified employee benefit plan in which most or all of the assets are invested in stock of the employer. Like profit-sharing and 401(k) plans, which are governed by many of the same laws, an ESOP generally must include at least all full-time employees meeting certain age and service requirements. Employees gradually vest in their accounts and receive their benefits when they leave the company (although there may be distributions prior to that).

Employees do not actually buy shares in an ESOP. Instead, the company contributes its own shares to the plan, contributes cash to buy its own stock (often from an existing owner), or, most commonly, has the plan borrow money to buy stock, with the company repaying the loan. All of these uses have significant tax benefits for the company, the employees and the sellers.

Size matters

Sounds great, but is your company too small to have an ESOP? As a rule of thumb, ESOPs work best for companies with more than 20 employees, but a little back-of-the-envelope calculating can give you a much better idea, regardless of your company's size, according to analysts with The National Center for Employee Ownership.

There are some basic guidelines that can help you determine when an ESOP is worthwhile. First, of course, you need to know how much an ESOP will cost. There are several components of cost that can vary widely: preparing plan documents and government filings, obtaining a valuation, administration, and, in a leveraged ESOP, loan commitment fees, legal fees for the lender's counsel and loan documents, and possibly financial consulting for structuring the transaction.

The cost of drawing up the plan documents and government filings is generally not as much as you might think it will be. In a small company transaction, legal fees of $10,000 to $20,000 are typical. These costs will be somewhat lower if you come well prepared, already understanding the basics of ESOP rules and knowing what you want your plan to do. Most ESOP attorneys have plan documents already drawn up. Their fees are more a function of the time they

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Assessing Costs vs. Benefits

Yes, setting up an ESOP will cost you, but a plan brings a number of advantages for your company. In addition to employee satisfaction and productivity, ESOPs allow companies to:

- **Borrow money at a lower after-tax cost:** ESOPs are unique among benefit plans in their ability to borrow money. The ESOP borrows cash, which it uses to buy company shares or shares of existing owners. The company then makes tax-deductible contributions to the ESOP to repay the loan, meaning both principal and interest are deductible.
- **Create an additional employee benefit:** A company can simply issue new or treasury shares to an ESOP, deducting their value for up to 25 percent of covered pay from taxable income. Rather than matching employee savings with cash, the company will match them with stock from an ESOP, often at a higher matching level.
- **Purchase shares of a departing owner:** Owners of privately held companies can use an ESOP to create a ready market for their shares.

Like all plans of this kind, ESOPs do have limits. ESOPs, for example, can't be applied to partnerships and most professional corporations (although S corporations can use them). Plus, private companies must repurchase shares of departing employees, and this can become a major expense. Finally, ESOPs will improve corporate performance only if combined with opportunities for employees to participate in decisions affecting their work. ■