Volume XV • Number IV

Financial
Planning for Business

A Tax, Financial, & Investment Report

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Services that exceed your expectations

Basics of Employee Benefits

In order to remain competitive, as well as attract and retain top employees, employers are faced with the task of creating a winning compensation strategy that will not only accomplish these objectives, but will also maintain corporate budgeting constraints. It's a fact that employee compensation is much more than just a salary. It can encompass all the "perks," such as vacation and sick time, company vehicles, corporate memberships, and a variety of benefit options designed to provide employees and their families with, at a minimum, health insurance and retirement income. While employers are legally obligated to provide certain state and Federally sponsored benefits, the majority of employers also offer, and often contribute to, additional employee benefits.

State and Federally Mandated Benefits. Employers are required by law to participate in certain programs, either by paying taxes or making contributions. These include workers compensation coverage, unemployment insurance, Social Security, Medicare, and state disability programs, where applicable.

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Outsourcing: A Solution for Smaller Businesses?

When you first launched your business, you probably handled most of the tasks associated with daily operations yourself, or with the help of a small group of employees. But as your company grows and your needs become more complex, you may find the management of certain processes increasingly challenging. To alleviate the situation, you generally have three choices: saddle your current employees with the work, hire new employees with the expertise you need, or outsource the responsibilities to firms that specialize in the work that needs to be completed.

Deciding what to outsource and choosing the appropriate professionals are not always easy. Many smaller firms routinely outsource several vital business functions that are not within their core capabilities. Business processes that are often outsourced may include IT maintenance, web hosting, recruitment, marketing, public relations, call center services, and logistics.

To determine which areas of your business are suited to outsourcing, analyze how efficiently certain tasks are currently being performed within your

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Basics of Employee Benefits

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Group Benefits. Most employers voluntarily offer health-related benefits to employees. In most instances, the employer and the employee share the cost for employee health-related insurance. There is a range of group benefits available to employers, which include the following:

Group Term Life Insurance: Group term life insurance is generally offered either as a fixed amount or based on a multiple of salary. For example, an employer might offer employees a fixed benefit of $50,000 or perhaps two times their annual salaries.

Medical Insurance: Medical insurance is an important part of an employee's overall compensation package. Premiums for medical insurance have historically been very costly, and it is almost prohibitively expensive for someone to purchase outside of an employer-sponsored plan. Thus, an employer-sponsored health plan is an excellent way to attract and retain employees.

There are various types of health insurance plans, including **Fee-for-Service Plans**, **Preferred Provider Organizations (PPOs)**, **Point of Service (POS) Plans**, and **Health Maintenance Organizations (HMOs)**. One main difference in each of these plans is the number of participating doctors. In a Fee-for-Service plan, an employee may go to any doctor for treatment, and he or she will pay a deductible and coinsurance. In a PPO plan, an employee may go to any doctor of his or her choosing (and pay a deductible and coinsurance) or visit one of the participating doctors in the plan (and pay a lower copayment). POS plans offer some of the flexibility of a PPO plan, but the employee must choose a primary care physician within the plan. HMOs allow the employee to see doctors only within the plans, sometimes only at HMO facilities.

Whichever plan you choose to offer your employees, there may be those who insist on seeing their own doctor and are willing to pay extra premiums, deductibles, and coinsurance; for them, a Fee-for-Service or PPO plan may be a good fit. Other employees may appreciate a less expensive, more restrictive plan, such as a POS or HMO. In order to satisfy the majority of their employees, many employers offer a choice of a Fee-for-Service or PPO plan, as well as an HMO plan.

Dental Insurance: Dental insurance plans pay for a majority of services offered by dentists, orthodontists, and endodontists. Services are classified as preventive (routine exams and x-rays), restorative (fillings, endodontics, periodontics, crowns, and prosthetics), and orthodontia (braces). Benefits are payable as a percentage, based on the classification of the service. There is usually an annual maximum benefit per insured and a lifetime limit on orthodontia. Riders are available for services such as adult orthodontia.

Disability Insurance: Disability insurance replaces a percentage of an employee's earnings, in the event that he or she becomes unable to perform the regular duties of his or her job due to an illness or injury. Typical benefits range from 50%–70%, up to a monthly maximum benefit. Some disability plans pay benefits for a number of years or until age 65. Most plans offer additional provisions via policy riders designed to improve coverage, including residual or partial disability payments and cost-of-living adjustments.

Vision Insurance: Vision plans generally provide a benefit for the purchase of eyewear or contact lenses, and they may also pay for eye exams.

Offering a solid benefit plan now may help you attract and retain employees that will assist you in maintaining your competitive edge. Keeping employees satisfied is a challenge for all employers. An annual review of your benefit package may simplify benefit planning. $

Outsourcing: A Solution for Smaller Businesses?

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company. Just because your administrative assistant has managed human resources since you started your company doesn't mean he or she should continue to do so. If the job functions have expanded and the effort could be better employed elsewhere, it may be time to delegate the work to a service provider. This is especially true if the job has become complicated and your assistant would require additional training to perform the job well.

Outsourcing vs. Hiring

Once you have identified the areas in which your firm needs help, determine if it makes sense to outsource. If you and your current employees are already busy, it may not be practical to add to your existing workloads. You may also be concerned that taking on peripheral tasks could distract employees from the core activities of your business.

Hiring additional employees is an option, but for small and mid-size firms in particular, dealing with external providers may be preferable to adding workers to the payroll. If the workload tends to fluctuate, an outside provider who is available as needed can be a better solution than hiring a staff member whose services are required only occasionally.

Service providers that specialize in areas such as human resources or IT can often provide greater expertise than an individual employee, who may struggle to keep up with changing legislation and industry developments. Employees may require training and may be reluctant or unable to take on new responsibilities. When you contract with a service provider, especially larger firms, you are gaining access to a wider range of skills, knowledge, and resources than any single employee could bring to the job.

Outsourcing certain functions may also prove to be more cost-effective than maintaining them in-house. You are likely to pay external service providers more per hour than you would an employee, but the work they produce may be worth it over time, especially if it is high quality and cutting edge. Outsourcing also has a positive effect on cash flow. While taking on permanent employees becomes a fixed cost, outsourcing is a variable cost, thus freeing up capital for investment elsewhere in the company.

Selecting outside partners takes time. Be sure the vendor you are considering has a good reputation. Call former customers to ask them about their experiences with the company. Also check that the provider is financially stable. If possible, arrange to meet with the individuals who will be handling your account. When negotiating contracts with providers, look for hidden costs. Discuss in detail what services are to be delivered, how performance will be measured, and under what circumstances the contract can be dissolved.

Building Relationships with Service Providers

As with employees, it is important to cultivate your relationships with vendors to obtain the desired results. Even if the service providers excel at what they do, they will be unable to fulfill their assignments effectively without guidance from and regular communication with you. If, for example, your firm hires a company to handle marketing, be sure to provide detailed information about the nature of your firm, your customer base, and your sales goals. Avoid hiring a provider until you are able to clearly articulate your expectations. It is also essential to maintain regular contact with your providers to ensure they are on track and to avoid losing control of the process.

In some instances, outsourcing is unpopular with existing employees. They may worry about their jobs or resent having to interact with outside firms for work that was previously performed in-house. Therefore, it is important to explain to your employees why you are outsourcing and how it may contribute to the growth of the business. $

Business Interruption Insurance: A Necessity Often Overlooked

Today, few business owners would consider leaving their buildings and contents uninsured. However, many may have inadequate insurance coverage or lack coverage on the *real* purpose of their businesses—the *earnings*. **Business interruption insurance** is designed to do for the business what the business cannot do for itself in the event of a loss. It pays for the lost net profits of the business plus any continuing expenses that occur during "down time" caused by a covered peril.

Types of Business Interruption Insurance

Which type of business interruption insurance is best suited to *your* business needs? Most manufacturing firms require **gross earnings** coverage. When the value of a firm's future gross earnings is properly estimated, any non-continuing expenses may be deducted to arrive at the firm's net profit, plus any continuing expenses, had there been no interruption. This continued profit stream can also compensate key employees who might otherwise be lured away during an enforced shutdown.

Many commercial enterprises are unable to afford a prolonged shutdown and must continue operations even though property has been damaged, especially if a shutdown might result in a permanent loss of business. For example, banks, dairies, bakeries, and newspapers typically require arrangements for continued operation if a permanent location is damaged or destroyed. Under these circumstances, **extra expense** coverage would be more appropriate to help pay expenses that exceed the normal expenses needed to keep the insured in business. Overtime wages for employees, extra travel, and the costs of working with substitute or makeshift facilities may be covered.

Due to the nature of some businesses, both gross earnings and extra expense coverage may be necessary to protect against risk. A complete analysis of the specific needs of your business can help you obtain the business interruption coverage you may need *before* you need it. $

Retaining Business Records

The length of time you should retain your business records depends largely on their relative importance to your business operations and the risk associated with losing them. Construction documents, audit reports, year-end financial statements, licenses, trademark registrations, property appraisals, loan documents, in-force insurance policies, etc., should be retained indefinitely. Bank statements, customer invoices, payroll records, payment vouchers, purchase orders, accident reports and claims, etc., should be retained for at least seven years; Occupational Safety and Health Administration (OSHA) logs for five years; and employment applications and petty cash vouchers for three years, as a brief example. $