# Business: Employee Benefits

**Do I need to know anything specific about employee benefits as a small employer?** The employer must pay for certain legal benefits and insurance coverage such as Social Security, unemployment insurance and worker's compensation. The money for the Social Security program comes from payments made by employers, employees and self-employed persons to an insurance fund that will provide income after retirement. At the age of 65, full retirement benefits usually become available. There are other aspects of Social Security that deal with survivor, dependent, and disability benefits, Medicaid, Supplemental Security Income and Medicare.

Benefits for unemployment insurance are to be paid under the laws of individual states from the Federal-State Unemployment Compensation Program. Contributions to the program include payments made by the employer, based on the total payroll. The purpose of worker's compensation is to provide benefits to workers who are disabled due to an illness or injury while at work. The coverage and benefits vary by state. In the majority of states, private insurance or employer self-insurance will provide the coverage necessary. Short-term disability benefits are governed by the state also. Health insurance, disability insurance, life insurance, a retirement plan, flexible compensation, and leave are often included in a comprehensive benefit plan. An employer may choose to offer such benefits as bonuses, reimbursement of employee educational expenses, service awards, and perquisites appropriate to employee responsibility.

You need to determine what you are willing to pay for this coverage before implementing a benefit plan. Possibly consult employees as to what benefits they are seeking. For example, is a retirement plan more important than a medical plan? Another decision is whether you will protect your employees from current economic hardships or in the future. The last step is deciding who will manage the plan, you or an insurance broker.

**Are there different types of medical plans for employees?** There are two options: a fee-for-service plan, or a pre-paid plan (commonly referred to as a Health Maintenance Organization, or HMO).

An indemnity plan or insurance permits each employee to decide their own doctor. The employee will pay for the medical care and then file a claim with the insurance company for reimbursement. There are deductibles and coinsurance as well. Deductibles vary from $100 to $1000 a year.

With coinsurance, a percentage of the medical expenses are paid by the employee and the remaining are covered by the plan. Twenty percent is the normal coinsurance amount to be paid by the employee; the remaining 80 % is paid by the plan.

There are three common indemnity plans that give health care to groups of employees: 1) a basic health insurance plan that will cover hospitalization and surgery as well as physician's care in the hospital; 2) an insurance plan that will supplement the basic plan by reimbursing the charges not paid by that plan; and 3) a comprehensive plan that (with one common deductible and coinsurance features) will cover both hospital and medical care.

**What is a preferred provider organization (PPO)?** A network of doctors and/or hospitals that has contracts with a particular health insurer or employer that will give health care to employees at lower than the market rate. This offers a broad range of health care providers. PPOs can be more expensive than HMOs due to the broader range of providers. There are no obligations to use the PPO providers, but there are strong financial incentives. PPOs often have fewer comprehensive benefits when compared to HMOs. The PPO providers normally receive payment from the insurers directly.

**What is a health maintenance organization (HMO)?** Health care that is provided through a network of hospitals and doctors is a health maintenance organization (HMO). The benefits usually include preventative care, such as physical examinations, weight control and stop-smoking programs, baby care and immunizations. The most common characteristic of HMOs is that the primary care provider is limited to only one doctor within a network, although there is usually a variety to choose from. Outside of the network of hospitals and doctors of the HMO, there is no coverage. Due to the limited choices, the costs are lower. The payment for the HMO premiums are fixed and per employee. A small co-pay is due for the medical services, and no reimbursement is necessary.

**What are the typical disability benefits provided to employees?**

If an employee cannot work due to illness or accident, the disability plan gives him/her income replacement. These defer from worker's compensation as they pay benefits for non-work-related illness and injury and can be either short-term or long-term.

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# Business: Employee Benefits (cont.)

**What are the typical disability benefits provided to employees (continued)?**

Short-term disability (STD) is used if the employee is unable to perform the normal duties of his/her occupation. The benefits are typically paid for a maximum of 26 weeks and begin on either the first or the eighth day of disability. The benefit level is dependent upon the employee's salary and will range from 60 to 80 percent.

Long-term disability (LTD) commences after the conclusion of the short-term benefits. LTD benefits then continue for the entire length of the disability or until the date of normal retirement. This is also a percentage of the employee's salary, typically between 60 and 80 percent. Social Security disability normally offsets these benefits - if an employee qualifies for the Social Security disability benefits, they will be subtracted from what the employer has paid.

**Employees have what kinds of life insurance plans available to them?**

The beneficiaries of an employee may collect death benefits from life insurance if the employee dies during their working years. The two main kind of life insurance are:

1. Survivor income plans that provide regular payments to survivors
2. Group life insurance plans that will provide lump-sum payments to beneficiaries

The most popular plan has group term life insurance, protection provided by one-year, renewable, with no cash surrender value or paid-up insurance benefits.

**What do I need to know about self-insurance?**

Self-insurance means the business will pre-determine and pay a portion or all of the expenses of employees in ways similar to traditional health care providers. The funding comes from a trust or reserve account.

A portion of the cost may be paid through premiums, as is common in health care plans. A kind of coinsurance purchased by the company is called catastrophic coverage given through a "stop loss" policy. The company can manage this directly or it can be done through a contractor.

**Do I need a "cafeteria plan"?**

With a "cafeteria plan", money which would normally be used as taxable salary is used, normally tax-free, for services that are necessary like health or childcare. This saves the employee income and Social Security taxes. In addition, the salary used in the cafeteria plan isn't subject to Social Security tax on the employer. The employee has the choice from several levels of supplemental coverage or different benefits packages. Each employee may select what he/she wants based on their own personal goals or to satisfy differing needs, such as health coverage, legal services (legal services amounts are taxable), retirement income (401(k) plans) or specialized services (dependent care, adoption assistance).

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