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CERTIFIED PUBLIC ACCOUNTANTS

Benefit Plans for Small Businesses

If you own a small business, you may be finding it increasingly necessary to implement a benefit program to attract and maintain employees. For small businesses, benefit plans generally consist of some of the major insurance benefits, discussed here, as well as employer-sponsored retirement plans.

Group health insurance

By far the most common benefit offered by employers, and the one most requested by employees, health insurance comes in many forms and with widely varying levels of benefits. The most frequently offered forms of health insurance are traditional, Blue Cross/Blue Shield types of plans and health maintenance organizations (HMOs).

Traditional health insurance

Under a traditional employer-provided health insurance plan, you, as the employer, contract with an insurer to provide health insurance benefits for you and your employees (and often for your employees' dependents as well). A typical plan will pay claims as a percentage of the normal and customary charge for a given procedure in a particular region (typically, the insurance company pays 75 to 80 percent of a covered claim).

A covered employee generally must pay a standard deductible before benefits become payable by the insurer. Deductibles typically range between \$200 and \$1,000. The higher the initial deductible, the lower the insurance premium. This is because the covered employees are taking on a larger portion of the insurance risk by paying the higher amount, and saving the insurance company the costs of processing smaller claims.

Health maintenance organizations

HMOs have grown tremendously in popularity over the last 20 years or so. There is still some debate as to whether these plans have actually helped in lowering costs while providing a high level of care to the patient, but there is little doubt that HMOs are here to stay.

HMOs will often offer a lower-cost option for you, the employer, as well as for your employees. Costs are reduced because the HMO typically restricts the doctors a patient can see to those within its provider network. However, in limited circumstances--as set out by the HMO--participants can generally go out of the provider network, and the HMO still picks up the cost.

HMO doctors are typically paid a set fee per patient. This fee is paid whether a patient actually seeks treatment or not. Doctors in the HMO network handle all procedures and tests. Thus, the HMO is able to control the entire spectrum of tasks necessary to keep a patient well. In theory, the HMO is also able to control costs by giving doctors incentives to keep costs low. A doctor has no financial incentive to conduct unnecessary tests (the doctor will receive the preset fee and no more), so it is up to the doctor to help control patient costs. Typically, HMOs charge very small co-payments (as low as \$5 or \$10 per visit).

Preferred provider organizations

The preferred provider organization (PPO), a less common type of plan, is also available in many areas. PPOs operate much like a hybrid of the two more frequently seen employer-provided health insurance plans.

A PPO is actually a group of doctors and/or hospitals that provides medical service only to a specific group or association. The PPO may be sponsored by a particular insurance company, by one or more employers, or by some other type of organization. PPO physicians provide medical services to the policyholders, employees, or members of the sponsor(s) at discounted rates and may set up utilization control programs to help reduce the overall cost of medical care. In return, the sponsor(s) attempts to increase patient volume by creating an incentive for employees or policyholders to use the physicians and facilities within the PPO network.

Dental insurance

This benefit has grown in popularity among small businesses. Dental insurance is really more of a co-payment plan than an actual insurance plan. This is because, typically, there are annual limits of a few thousand dollars on the amount of benefits an individual may receive under the plan (unlike health insurance, which may have a lifetime limit of several hundred thousand to millions of dollars for benefits paid).

Nonetheless, dental insurance is highly valued by employees, because dental procedures are often among the most expensive medical charges an individual will incur in a given year.

Paying insurance premiums

Whatever type of health plan(s) you select, it's fairly typical for an employer to pay a portion (or all) of the employee cost of the plan. If an employee also wants to cover his or her family, the additional cost is often paid for entirely by the employee.

Group term life insurance

Group term life (GTL) insurance is another popular benefit offered by more and more small businesses.

Typical GTL plans offer employees insurance in either a set amount (e.g., all employees receive \$10,000 of insurance, regardless of income level) or an amount based on their salary level (e.g., each employee receives insurance equal to two times current salary).

GTL benefits are tax free up to \$50,000 of coverage (assuming that the benefits are provided under a policy that qualifies as GTL insurance for tax purposes). If you provide employees with more than that amount of coverage under a qualifying GTL policy, your employees must pay taxes on the amount of the premium attributable to insurance coverage in excess of \$50,000. However, the amount of additional income recognized by employees as a result of employer-provided GTL coverage in excess of \$50,000 is typically very small (especially for younger employees). Therefore, the additional taxable income should not, by itself, be a disincentive for providing higher amounts of GTL coverage for your employees if you're so inclined.

Short-term and long-term group disability insurance

A disability plan is designed to provide an employee with an income stream should he or she become disabled.

Short-term disability plans provide benefits (usually a fixed percentage of the employee's salary) for a set number of days (typically 180). After that period of time, assuming the employee is still disabled, long-term disability insurance (if available) kicks in, and the employee receives benefits under that program until he or she is no longer disabled.

Typically, under a group plan, these benefits are fixed and not adjusted for inflation (in contrast, individual policies often offer an inflation rider). And if an employer pays all or a portion of the premium for disability coverage, then the portion of the benefits paid to employees that is attributable to the employer's contribution is considered taxable income.

Cafeteria plans

Though not an insurance plan per se, a cafeteria plan can offer employees a way to pay their portion of insurance premiums with pretax dollars. If you implement a cafeteria plan as part of your business's benefits program and the plan satisfies certain requirements, employees can elect to forgo a portion of their salary and have that money instead go to pay for their premium payments, without the amount being included in their taxable income.

Employees save money because their taxable income is reduced, yet benefits remain the same. The employer's payroll taxes are reduced as well, because the employees are receiving lower salaries than they were before the cafeteria plan was implemented.

In order for a plan to qualify as a cafeteria plan under the Internal Revenue Code, it must satisfy certain requirements. In addition, an employer that has established a cafeteria plan is required to annually file a Form 5500 tax return for the plan.