

Employee Perks: What's Required and What's Not

The statement "people are a company's greatest asset" is taking on new meaning: As the nation's 76 million baby boomers continue to exit the workforce, savvy business owners should have plans in place to prepare for the impending labor shortage. Offering a competitive benefits package can help entice and keep top-shelf workers motivated to help grow your company.

Legal Requirements

First, let's review mandatory benefits. Many states require employers to allow workers time off -- in some cases, paid time off -- to vote, to serve on a jury and to perform military service. Additionally, almost all businesses must contribute to the state workers' compensation program and, where applicable, the state's disability program.

The federal government also may require employers to give workers time off for jury duty, military service and, in some cases, an unpaid leave of absence to care for a newborn or adopted child, or a severely ill immediate family member.

Popular Optional Perks

To attract and retain high-quality employees, you'll most likely need to offer other optional benefits. As a starting point, cast your eye to the competition -- other small and larger businesses in your industry and region. You'll want to meet or beat their packages to get the attention of top talent.

Paid time off and medical insurance are benefits that full-time workers usually expect. The typical small business offers employees an average of seven paid holidays per year and eight paid vacation days after one year with additional time accrued for longer service, according to the Bureau of Labor Statistics.

The skyrocketing cost of medical insurance is daunting, yet incorporated businesses can take advantage of tax deductions to help ease the burden. A consumer-driven health plan, which gives employees more control over medical choices yet limits spending on discretionary care via larger deductibles, is an increasingly popular cost-saving alternative to traditional managed care.

Gaining an Edge

Including "extras" in your package may help woo top-notch workers. Employer-paid life insurance is a relatively inexpensive benefit that is appreciated by employees with dependents as well as older workers. It also sends the implicit message that you care about employees' families.

An aging workforce, as well as uncertainty over the projected Social Security shortfall, should accelerate demand for retirement plans. If interested in sponsoring a retirement plan, first pinpoint your goals.

Do you want to:

- Save for your own retirement?
- Take advantage of tax deductions?
- Maintain a recruiting edge?
- Provide a benefit in lieu of higher pay?

Jumping the Retirement Hurdle

Next, you will need to choose a retirement plan. Your choice will depend, in part, on your goals for the plan. Other considerations: Cost to organize and maintain the plan, the number of employees and whether you wish to contribute to workers' retirement accounts. Keep in mind that small-business owners can take a federal income tax credit to cover 50% of the expense of setting up and administering a new retirement plan.

Here's a quick rundown of common options -- including some low-cost, easy-to-set-up plans.¹

SEP IRA: The Simplified Employee Plan (SEP) IRA is a popular choice among self-employed individuals and small-business owners. Attractive points include simplicity to set up and administer and the ability to take qualified tax deductions. Another plus: It's extremely flexible regarding contribution amounts. For instance, the maximum contribution limit for 2015 is \$53,000 or 25% of salary (20% for sole proprietors), whichever is less, of the first \$265,000 of salary; the minimum contribution is nothing.

Solo 401(k): For self-employed individuals with no full-time employees other than the business owner(s) and their spouse(s). 2015 maximum contribution limit: \$53,000 or 20% of salary for sole proprietors, whichever is less, of the first \$265,000 of salary, plus an additional \$18,000 (\$24,000 if age 50 or older) in elective deferrals. Total annual contributions cannot exceed \$53,000 (\$59,000 if making catch-up contributions).

SIMPLE IRA: The Savings Incentive Match Plan for Employees (SIMPLE) IRA was developed especially for businesses with up to 100 employees. It is an inexpensive plan to set up and maintain, and it has potential tax deductibility and varying annual owner contribution amounts. 2015 maximum contribution limit: \$12,500 (\$15,500 if age 50 or older) or 100% of salary, whichever is less.

401(k): For businesses with 25 or more employees. Flexible owner contribution amounts, including nothing. 2015 maximum contribution limit: \$53,000 or 25% of salary, whichever is less, of the first \$265,000 of salary, plus an additional \$18,000 (\$24,000 if age 50 or older) in elective deferrals. Total annual contributions cannot exceed \$53,000 (\$59,000 if making catch-up contributions).

Profit Sharing Plan: For self-employed individuals or small businesses. Advantages: Large, qualified tax breaks. 2015 maximum contribution limit: \$53,000 or 25% of salary, whichever is less, of the first \$265,000 of salary, plus an additional \$18,000 (\$24,000 if age 50 or older) in elective deferrals. Total annual contributions cannot exceed \$53,000 (\$59,000 if making catch-up contributions).

Of course there are many other benefits to consider, including employer-assisted child care, tuition reimbursement and dental and vision care. When developing an employee benefits package, you will need to weigh your total cost against what competing firms offer, and include options that are well-suited for you and your workforce.

¹The Internal Revenue Service.

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