Understanding Employer Benefits

EUSTACE ADVISORS

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Course Pre-Requisites

I encourage completion of the Eustace Advisors Financial Education offerings listed below before completing this Course.

1. Create a Balance Sheet and Income Statement
2. Create a Budget
3. Retirement Savings Options
4. Life Insurance Overview
5. Understanding Personal Income Taxes

I also recommend students review the Terms and Definitions contained herein <u>before</u> the class session.

Discussion Topics

1. Class Objectives
2. Employee Benefit Categories
3. Benefit Details and Factors to Consider
4. Comparing Benefit Packages
5. Ongoing Employer Benefit Management
6. Questions / Discussion

Course Objectives

<u>To prepare course participants to make educated decisions related to Employer Benefits, either when comparing Offers of Employment or when establishing their Benefits Options as an Employee.</u>

At the completion of this course, participants should be familiar with basic Benefits terminology and understand the process to make informed decisions when comparing and selecting Benefits.

Benefits offered by different Employers vary, and consultation with a financial planner or benefits expert may help when assessing your Benefits options.

What is an Employee Benefits Package?

A benefits package consists of the additional perks and benefits a company provides to its employees in addition to the employee's base salary, commissions and bonuses.

The combination of salary, commissions/bonuses and applicable benefits is often referred to as an employee’s TOTAL COMPENSATION.

- Certain benefits are mandated by federal or state law.
- Some benefits are considered “core” and offered by most employers.
- Other benefits vary from industry to industry and company to company, depending on the needs of the target employees and the capabilities of the organization.

Problem Statement

- Most employers offer a wide range of benefits.
- Most new (and established) employees have never had any education related to key benefits such as insurance, retirement plans, options/grants, etc.
- Benefit documentation is often hard to find, lengthy, and lacks crisp summaries.
- The selections made can have significant short-term and long-term impacts.
- Understanding your benefits takes work
  - Understand your financial, health and life situation.
  - Update your base financial documents (Balance Sheet, Income Statement, Budget).
  - Forecast any changes in your situation over the next year.
  - Gather your Employer’s Benefit documentation and review it.
- Options to adjust benefit elections during the plan period are limited.

Types of Employee Benefits

Required by Law *	Core	Targeted
Workers' Compensation	Retirement Savings Plans	Employee Stock Purchase Plans
Unemployment Insurance	Health Insurance	Stock Options/Grants
Overtime Compensation	Medical Expense Savings Plans	Sign-On Bonuses
COBRA	Dependent Care Savings Plans	Childcare Support
FMLA (Family and Medical Leave Act)	Paid Time Off / Sick Days	Professional Development / Tuition Reimbursement
	Life Insurance	Student Loan Repayment
	Disability Insurance	Commuting and WFH Assistance
	Relocation Assistance	Housing Cost Assistance
		Wellness Support
		Adoption Assistance
		Vendor Discounts
		Concierge Services

* Requirements may vary state to state

Required Benefits

Workers’ Compensation Insurance

- Also known as workman's comp, this coverage provides financial benefits to employees who become ill or are injured **while working**. The insurance typically pays for incurred medical expenses, lost wages, rehabilitation costs, and death benefits.
- The process: employer purchases a workers' compensation policy from a private insurer or their state government; employees who are injured or become ill **at work** file a claim to receive benefits; if the claim is approved, the employee is paid directly by the insurer; employers are protected from civil suits from injured employees.
- Most states require workers' compensation insurance, with specific benefits varying by state.

Unemployment Insurance

- UI insurance payments (benefits) are intended to provide temporary financial assistance to unemployed workers who are unemployed through no fault of their own.
- UI is a joint program between the federal and state governments, with each state setting its own requirements for eligibility, benefit amounts, and length of time benefits can be paid (within federal guidelines).
- Funding: employers pay UI taxes based on their payroll amount and their state’s UI tax rate; these taxes fund the Unemployment Insurance Fund.
- Upon successful application for UI benefits, qualified unemployed workers are paid via the UI Fund.
- Weekly payments vary between ~$235-$1,079, and the payment duration varies from 12-30 weeks, by state.

Required Benefits (continued)

Overtime Compensation

- The Fair Labor Standards Act (FLSA), requires companies to pay their employees overtime once they exceed the 40-hour workweek; however, overtime laws can vary by state, job class and industry.
- It is important to understand if your job class offers overtime compensation, and the related details.

COBRA

- The Consolidated Omnibus Budget Reconciliation Act is a federal law that allows employees and their families to keep their employer-provided health insurance, for a limited time, after certain qualifying events.
- Prescription drugs, dental, and vision care may also be covered by a COBRA plan.
- COBRA coverage typically lasts for a limited period of 18 or 36 months.
- Typically, you will have to pay the full cost of the coverage, as no employer contribution is required. I view COBRA as a stopgap measure and recommend the evaluation of alternate health insurance options.

FMLA (Family and Medical Leave Act)

- This is a Federal law that gives eligible employees unpaid leave for certain condition and and family reasons and requires that employees' group health insurance be maintained during their leave.
- The FMLA applies to public agencies, public and private schools, and companies with at least 50 employees. Some states have different eligibility rules for their family leave programs.
- Reasons for leave include the birth or adoption of a child, caring for a family member with a serious health condition and taking medical leave for a serious health condition.
- Benefits typically include up to 12 weeks of unpaid leave per year and continued group health insurance coverage during leave. It’s important to ensure the employee premiums continue to be paid during the leave.

Retirement Savings – Defined Benefits Plan

- Commonly referred to as a pension plan, this type of plan commits the employer to pay a specified benefit at retirement.
- This type of plan is more costly to the employer than a Defined Contribution Plan, which will be discussed next.
- 15% of U.S. private-sector employees have access to a pension plan, while 86% of public-sector employees do.
  - Many pension plans are funded by both employee and employer contributions. The employee contributions are tax-deferred, as are earnings on the contributions.
  - The employee typically must work for the employer for a certain # years ("vesting period") before they have access to the employer contributions, and the pension benefits will be reduced if the employee leaves the employer prior to meeting age and/or years-of-service conditions.
- The committed benefit may be defined as an exact dollar amount, such as $3,000 per month at retirement; or it may be based on factors including salary and years-of-service.
  - Ex: the employee receives an annual pension payment of 2.5% of the employee's average salary for the last 5 years of employment for every year of service with the employer.
- Often, employers who offer a pension limit other retirement plan offerings and offer lower salaries.

Retirement Savings - Defined Contribution Plan

- This type of plan does <u>not</u> offer a guaranteed benefit at retirement.
- With these plans, the employee or the employer (or both) contribute to the employee's <u>individual retirement account</u> under the plan. These contributions are then invested on the employee's behalf, typically at the discretion of the employee.
- The employee will ultimately receive the balance in their account, which is based on contributions plus or minus investment gains or losses.
- Examples of defined contribution plans include 401(k) plans, 403(b) plans, 457 plans, employee stock ownership plans, profit-sharing and stock bonus plans.
- ~70% of private-sector employees have access to a defined contribution plan, while 39% of public-sector employees do.
  - ➢ The participation rate in DC plans has increased as employee enrollment (opt-in) is the default.
- Many employers will match a portion of the employee’s contributions. The employee typically must work for the employer for a certain # years (“vesting period”) before they have access to the employer contributions.
- Historically, most DC plans were based on tax-deferred contributions, but many now also offer after-tax (i.e. Roth) contribution structures.
- When assessing an employer’s DC plan, the range of investment options and fees are important factors.

Health/Dental/Vision Insurance

- Employer-sponsored health plans can provide employees with an affordable way to maintain health coverage.
- Typically, the employer offers a range of plans, with varying coverage and costs.
- The employer often pays a portion (up to 100%) of the insurance premiums; the employee is responsible for co-pays, deductibles and other out-of-pocket expenses.
- Enrollment in the employer-sponsored plan begins at or shortly after the employee's start of employment, and the opportunity to change coverage is offered on an annual basis (or upon certain qualifying life events).
- Tips
  1. Review your benefits summary closely, to understand coverage and costs. Your situation and needs, as well as insurance policy features and costs, may change year-to-year.
  2. If you expect significant medical expenses in the next year, it may make sense to select a policy with better coverages and lower deductibles and co-pays, even if this requires higher monthly premiums.
  3. If married and both spouses work, compare each employer's plan to define which is best for your situation. Sometimes, it will be less costly if each spouse establishes individual coverage.

Medical Expense Savings Plans

HRA – Health Reimbursement Account

- **Employer-funded** group health plans from which employees are reimbursed tax-free for qualified medical expenses up to a fixed dollar amount per year.
- Employers define the eligible expenses and funding, but the employee controls how the funds are spent.
- Some plans allow unused funds to roll over to the next year, while others have a "use-it-or-lose-it" policy. .
- The employer funds and owns the account.

FSA – Flexible Spending Account

- An arrangement offered by an employer that lets **employees** contribute to an FSA with pre-tax dollars.
- The employer will set the contribution limit amount (maximum allowed is $3,300); contributions can be used to pay for qualifying expenses including insurance copayments and deductibles, qualified prescriptions and medical devices.
- Enrollment into an FSA is allowed during your employer's annual open enrollment period, or upon the occurrence of a qualifying life event.
- If money is left at the end of the year, the employer can offer one of two options (not both):
  - Extend the deadline to use the account assets by up to 2.5 months.
  - Carry over up to $660 of unused account assets from one year to the next.
- If you leave your job before the end of the benefit period, you will lose access to your FSA funds.

Medical Expense Savings Plans (continued)

<u>HSA – Health Savings Account</u>

- A tax-exempt trust or custodial account set up with a qualified HSA trustee to pay or reimburse certain medical expenses you incur.
- A key eligibility requirement to contribute to an HSA is participation in a High Deductible Health Plan (HDHP). Your benefits summary and provider can confirm if your health insurance plan meets the definition of an HDHP.
- HSAs have three key financial advantages: contributions are tax-deductible, the earnings on the assets in the account grow tax-free, and distributions are tax-free if used to pay qualified medical expenses.
- Unlike the structure of HRAs and FSAs, the <u>employee</u> owns the Health Savings Account.
  - Contributions and accrued earnings remain in the HSA account until you use them.
  - An HSA is "portable." This means that it remains your asset if you change employers or leave the work force.
- There is an annual limit on the combined employer/employee contribution amount. In 2025, these limits are $4,300 for individuals and $8,550 for families.
- Qualified expenses align with those defined for Schedule A deductions, and may be for the HSA owner, their spouse, or qualified dependents.

Dependent Care Savings Plans

- A Dependent Care FSA (DCFSA) is a pre-tax benefit account used to pay for eligible dependent care services, such as preschool, summer day camp, before or after school programs, and child or adult daycare.
- The money you contribute to a Dependent Care FSA is not subject to payroll taxes, so you end up paying less in taxes and taking home more of your paycheck. For 2025, the maximum amount that can be contributed into a DCFSA is $5,000 for those filing single, joint or Head of Household income tax returns.
- Enrollment into a DCFSA is allowed during your employer's annual open enrollment period, or upon the occurrence of a qualifying life event.
- Eligible expenses include:
  - Care for your dependent who is under age 13
    - Before and after school care
    - Babysitting and nanny expenses
    - Daycare, nursery school, and preschool
    - Summer day camp
  - Care for your spouse or a relative who is physically or mentally incapable of self-care and lives in your home.
- In most cases, you will pay for the qualified expense out of pocket, then request reimbursement from your DCFSA account.
- Similar to a Flexible Spending Account, the contributions must be used within the plan year plus any grace period offered. Unused contributions are not rolled over year to year and are not portable. Thus, it is important to have an accurate estimate of your qualified expenses for the coming year when making your DCFSA contribution amount election.

Life Insurance

- Most employer life insurance is offered as group term life insurance, provides guaranteed basic death benefit coverage while you are employed and does not accumulate cash value.
- Beyond this standard benefit, many employers offer the option to purchase additional ("supplemental") coverage for yourself and your dependents.
- Some employers also offer Accidental Death and Dismemberment (AD&D) insurance coverage for the employee. This type of policy provides a payout only if death or serious injury is the result of an accident.
- Factors to consider:
  1. Most supplemental policies will be less expensive if purchased directly by the employee on the open market, although such an option may require a medical background check and/or exam.
  2. In many cases, the group policies noted above (life and AD&D) will terminate if the employee leaves the company for any reason. Some options exist to maintain the policy if the employee continues paying premiums, but this is rare.

Disability Insurance

- Employer disability benefits provide an income replacement for employees unable to work due to illness or injury and can be either Short-Term Disability (STD) or Long-Term Disability (LTD).
- Disability insurance coverage is often offered voluntarily by employers but are mandated by law in some states.
- Availability of STD, LTD, both or neither will vary by employer. The amount of the premium paid by the employer (vs. by the employee) will also vary by employer.
- Benefits replace a portion of an employee's lost wages and can be influenced by factors like policy type, duration, and coverage limits.
- Factors to consider:
    1. Most payments received from an employer-paid disability policy are taxable.
    2. Disability payments will typically be ~60% of your salary and may have a monthly payment cap. This may not cover all of your expenses, so supplemental disability coverage may be warranted.
    3. Some employer-paid LTD plans have a limit on the payment duration (as little as 2 years). This may also dictate the need for supplemental coverage.

PTO / Relocation Assistance

Paid Time Off / Sick Days

- PTO is a bank of combined paid leave days for any reason, while sick time is specifically for health-related absences.
- In the US, there's no federal mandate for paid time off, but some states have specific paid sick leave laws.
- Employers can structure their benefits through separate vacation and sick days or a combined PTO bank.
- Many employers are establishing new PTO accrual and usage structures to reduce their financial obligations tied to unused vacation time.

Relocation Assistance

- This benefit is designed to help an employee move for a job and is typically offered to new hires or existing employees transferred to a new location.
- Packages vary but can include reimbursements for moving costs, temporary housing at the new location, and existing home sale assistance.
- Employees often receive a direct lump sum payment or will be reimbursed for actual expenses.

Employee Stock Purchase Plan (ESPP)

- This benefit allows employees to buy company stock at a discount, often with added features that can increase potential profit. Discounts are often between 5% and 15%.
- For employees, they gain an immediate, low-risk return on investment and the potential to build wealth over time. For the company, an ESPP can align employee interests with the success of the business.
- Many plans include a "lookback" feature, which uses the lower of the stock price on either the first day or the last day of the purchase period to calculate the discounted price.
- Contributions to an ESPP are made through automatic, <u>after-tax</u> payroll deductions, making the process simple.
- Factors to consider:
    1. Low-risk potential: For plans that allow immediate sale, you can sell your shares shortly after purchasing them to lock in the profit from the discount. This creates a low-risk opportunity to generate short-term yield. See #5 and #6 below.
    2. Long-term wealth building: For those who hold their shares, an ESPP can be a way to build a long-term investment in your company. If the company and its stock perform well, your investment can grow significantly over time.
    3. Concentration risk: Investing too heavily in your company's stock means a large portion of your wealth is tied to a single company. If the company experiences a downturn, <u>both your job and investments</u> could be at risk.
    4. Impact on cash flow: The payroll deductions reduce net take-home pay, which may be needed to cover expenses.
    5. Tax complexity: ESPP tax rules vary based on whether you have a qualified or non-qualified plan and how long you hold your shares. Tax treatment for the discount and any capital gains can be complicated.
    6. Holding periods: Selling shares too quickly can result in less favorable tax treatment.

Stock Options

- Employee Stock Options (ESOs) are a form of equity compensation that grants employees the right to purchase company shares at a predetermined (“exercise”) price. The primary intent of this benefit is to align the interests of employees with those of shareholders - by having a stake in the company's performance, employees are more motivated to work toward its success.
- ESOs tend to be leveraged by start-up and small companies; as a company matures, they will often shift to the use of Restricted Stock Units, which are described later.
- ESOs are used to attract and retain talent and come in two main types: Incentive Stock Options (ISOs), which typically offer favorable tax treatment to key employees, and Non-qualified Stock Options (NSOs), which are taxed as ordinary income and can be extended to a broader range of employees.
- Factors to consider:
    1. The vesting schedule is a crucial component of ESOs, determining when employees can exercise their options; it often incentivizes employees to remain with the company and/or achieve specific performance milestones.
    2. Tax complexities: ISOs and NSOs have different tax treatment, with NSOs typically requiring taxes to be paid at both the exercise date and when the accumulated sales are sold. This makes it important for employees to clearly understand their ESO plan and the taxation factors.
    3. If the company's stock price falls below the exercise price, the options are "underwater" and worthless. 90% of startups fail within 10 years, so this is a real risk.

Stock Grants

- A stock grant, typically offered as a Restricted Stock Unit (RSU), is a form of compensation where a company grants you shares of its stock for free after you satisfy certain vesting requirements.
- You receive the # granted shares of the company's stock once the vesting schedule is complete. Unlike a stock option, you do not have to pay to receive the granted shares.
- Factors to consider:
  1. Inherent value: because you are receiving actual shares, a stock grant always has some value, even if the company's stock price declines. The value of your Stock Grant compensation is the share price at the time the shares vest multiplied by the number of shares.
  2. Taxation:
     - At vesting: When your RSUs vest, the fair market value of the shares on the vesting date is taxed as ordinary income. This is included in your W-2 as wages, subject to federal income, Social Security, Medicare and applicable state and local taxes.
     - At sale: Any appreciation in the stock's value after the vesting date is subject to capital gains tax when you sell the shares.
     - Cost basis: The amount of income you recognize at the time of vesting becomes your cost basis for the shares. It is important to keep track of this for reporting capital gains and losses accurately when you sell the shares later to avoid being double-taxed.
  3. Risk: stock grants are less risky than options because they provide some guaranteed financial benefit, as long as the company's stock has value when the grants vest.

Targeted Benefits - Overview

- Many employers offer optional, targeted benefits.
- These are often established per employee input and are leveraged as a competitive advantage by the employer.
- It’s important to understand these options, as they may be impactful regarding career development, expense reduction, and useful services.

Let’s review a few that I believe are impactful for a broad range of employees.

Targeted Benefits – Sign On Bonus

- A one-time financial incentive, often cash or stock options, offered by an employer to encourage a candidate to accept a job offer, often in competitive markets or to compensate for forfeited benefits from a previous role.
- Factors to Consider:
  1. Repayment Terms: understand the repayment terms, including the amount and the required length of service, to avoid unexpected obligations.
  2. Tax Implications: Bonuses are considered supplemental income and are subject to taxes, which may result in a smaller-than-expected payment due to withholding requirements.
  3. Negotiation: A sign-on bonus is a negotiable part of a job offer and can be a valuable way to improve your overall compensation package.
  4. Compare Options: Weigh a sign on bonus against a higher salary, as the higher salary may be more beneficial in the long term.

Targeted Benefits – Education Assistance

There are two benefits related to this topic: 1) Professional Development and Continued Education support, and 2) Student Loan Repayment.

1. Professional Development: when an organization strategically supports employee skill and experience development, often through personalized development plans, continued education and mentoring to align with both individual career goals and organizational needs. This often leads to improved career growth opportunities.
2. Student Loan Repayment: Through an educational assistance program (EAP), employers can contribute up to $5,250 per employee, tax free, annually toward student loan payments. Employer payment options vary, and the $5,250 tax-free cap also includes any tuition reimbursements.

Targeted Benefits – Child Care Support

- This includes a variety of benefits, such as on-site facilities, backup care, care center references and financial assistance through subsidies, reimbursements, or Dependent Care Flexible Spending Accounts (DCFSAs).
- Due to increasing childcare costs, many employers are adding these benefits. The benefits to the employer include improved employee productivity, reduced absenteeism, and attraction of talented working parents.
- Up to $5,000 may be contributed by an employer towards an employee’s childcare costs without the subsidy being added to the employee’s taxable income. Contributions about $5,000 are taxable employee income.
- Related to childcare considerations, some employers offer benefits that assist employees acting as caregivers for other (non-child) family members.

Targeted Benefits – Commuting/Housing

- Commuting Support: often offered as a pre-tax option, with employees designating a portion of their pre-tax income to pay for qualified commuting expenses such as fuel/parking/tolls/mass transit, or employers may provide a direct stipend or reimbursement for such expenses as a non-taxable fringe benefit.
- WFH Assistance: most employers will cover the costs of technology and office furniture to allow for a robust remote work environment.
- Housing Cost Assistance: the employer helps employees with the cost of securing housing, whether for renting or buying, through various programs like down payment grants, rent and mortgage subsidies, loan forgiveness, or subsidized employee units.

Targeted Benefits – Wellness Support

- Healthy Living: free health risk assessments and allowances that employers pay to employees for fitness programs, gym memberships, equipment purchases, therapy, and mental health apps.
- Financial well-being: some employers offer programs providing financial education, personalized coaching, debt management resources, and emergency financial assistance. These may be paid for directly by the employer, or they may offer an annual stipend for such services.
- Legal services: typically offered in two forms: 1) an Employee Assistance Program (EAP) providing initial consultations and resources, and 2) a voluntary legal benefit plan where employees pay premiums for more comprehensive coverage for personal legal issues like family law, estate planning and real estate matters.

Comparing Benefit Packages

When assessing total compensation, separate benefits from salary/commissions/bonuses.

Establish a side-by-side comparative tool (spreadsheet), to simplify your analysis.

Key benefit categories:

1. Retirement plans: plan type, employer match, portability, range of investment options and costs.
2. For married employees and employees with children, the medical benefits will be impactful.
   A. Monthly employee costs
   B. Coverage details: access to established doctors, co-pays, deductible, out-of-pocket maximum, covered treatments.
3. Disability and Life Insurance coverage, including options to add additional optional coverage.
4. Medical and Dependent Care Savings Plan access.
5. Deferred Compensation, including Stock Options, Grants and Employee Stock Purchase Plans.
6. Tuition reimbursement and Student Loan Payment Assistance.
7. Work-related living expense assistance (childcare, relocation, transportation/parking, travel).
8. On-site amenities (gym, dining, childcare).
9. Relevant discounts on insurance, prof. services, shopping clubs, big purchases (car/appliances).

Ongoing Benefits Management

- Most employers have annual benefit enrollment periods.
- Build a plan
  1. Get a copy of the new Benefits Summary and review it.
  2. Assess your current elections and out-of-pocket costs.
  3. Define pending life changes that warrant adjustments.
     - Marriage, new child, home purchase, expected medical procedures or health issues, changes to family income.
  4. Analyze your options, taking your spouses coverage into account (if applicable).
- Make your selections
- Be mindful of the benefits which require ongoing effort, such as reimbursement claims, record-keeping for tax purposes, use-it-or-lose it conditions, beneficiary selections, and investment management.

Questions?