



Employee Benefits Benefit Your Medical Business

Abstract

Balancing the elements of an employee benefits plan with the costs of providing those benefits is difficult for any medical practice decision maker/budget builder. Every practice is unique, but certain guidelines can be established to help make the decision-making process easier and more beneficial to the practice.

One of the many challenges facing physician-employers is finding the right balance between the components of an employee benefits package and the cost of providing the package.

It takes considerable skill and effort to assemble a package that not only provides the right benefits at the right level, but also does so without straining the practice budget past the breaking point.

Yet every medical practice budget maker must strike the proper balance every year. There is no perfect pre-packaged system for accomplishing this balance, as every practice is unique, yet here are five guidelines that you may want to consider the next time you are assembling a budget.

1. Cyclical Improvements

Whether you are the practice administrator, lead physician, or office manager, as de facto chief financial officer and/or chief operations officer, you must determine the scope of your benefits package and hold the associated costs in check.

Improving employee goodwill and loyalty should result in improved performance, which, in turn, should improve practice revenue through:

- **increased** efficiencies;
- **enhanced** patient satisfaction;
- **enriched** referring/referral physician satisfaction; and
- **improved** physician satisfaction within your own practice; satisfaction and a positive work ethic are infectious; if your staff has them, you will likely get them.

The object is to provide the best possible package within budget. If you are successful, your practice should improve its revenue streams. Consequently, you may be able to improve your benefits package in the future, and start the cycle again.

2. The Package

Developing the best possible benefits package for your practice makes *good business sense*. Your package should not break your budget, but it must help you attract and retain above-average employees.

A good benefits package will have a positive effect on your practice in principal ways in four major areas:

- **Taxes:** The cost of the benefits reduces the practice's tax burden.
- **Staff:** A reasonably generous benefits package improves employee good will and generates a certain degree of loyalty to the practice.
- **Physician Owners:** Providing employee benefits satisfies employer altruism.
- **Cost:** Remember to do all you can, but also to stay within budget.

3. Types of Benefits

Standard benefits -- those offered by almost every medical practice in the country as a matter of course -- include group term life insurance, health insurance, and a retirement plan.

Common benefits offered by most practices include paid vacation time, paid holidays, and paid sick leave.

Non-traditional benefits also may be offered, as every practice is unique. In some practice situations, particularly if competition for good staff is high, non-traditional benefits may be more important than the standard and common benefits that every other practice in your area is offering. For example, a practice located in a congested urban area may offer *paid parking* in a nearby facility. This benefit can, in some cases, save an employee literally hundreds of dollars a year.

4. Benefit Components

Group Term Life Insurance

Providing employees group term life insurance is an inexpensive way for a practice to generate substantial employee good will. With this type of policy, a practice can provide survivor benefits up to 100% of an employee's pay, to a maximum salary of \$50,000, at a favorable rate, and free of taxes.

The practice that opts to provide group term life insurance should be aware that, by law, it must refrain from discrimination. Normally, it will meet this rule by providing proportionately equal coverage based on a uniform rate of pay for all eligible employees.

Health Insurance

Health insurance, on the other hand, can be varied in its coverage terms between physicians and lay staff. Shop around for the best possible coverage you can obtain. Compare quotes, and let vendors know you are shopping for the best deals.

Especially if your staff is large, your practice may also consider offering more than one type of health insurance coverage, allowing employees, for example, to choose between:

- a traditional Blue Cross/Blue Shield indemnity type of plan with a deductible and co-pay, which allows the enrollee a wider choice of treatment options, and
- an HMO type of plan, which typically features no deductible and token co-pays, but restricts the enrollee's access to specialists.

Your practice may also consider offering employees a "cafeteria plan," so they can pay for necessities such as dependent care, eye care, dental care, disability insurance and non-covered medical expenses (e.g. well baby visits and deductibles) with money deducted from their salary before it is taxed. A cafeteria plan can save employees significant amounts of money.

Retirement Plan

Most practices also provide retirement funding. If you make this commitment, then you must determine, based on your total payroll, the annual amount of money you will contribute.

In a common type of arrangement, the practice puts 15% of each physician's annual salary into his or her account; for non-physician employees, the rate usually is 10 - 12%. In any event, a professional cost/benefit analysis can help determine the proper course for your practice.

401-k Retirement Plan

The 401-k plan is growing fast in its popularity among medical practices; it can have a positive effect on the practice's bottom line. Employees can make contributions to their own 401-k accounts by direct payroll deduction. This makes it easy and painless to save for retirement. Matching practice contributions to employees' 401-k accounts make this plan even more attractive to employees.

401-k plans must have significant participation from non-highly compensated participants in order to remain qualified and to allow the high paid members of the practice to put away the maximum salary deferral. In addition to the employee contribution, 401-k plans may also receive employer funding. Total employer/employee contributions for all participants cannot exceed 15% of the total payroll.

The 401-k plan also typically allows employees both personal investment choices, and special "hardship distributions." Under these hardship rules, the employee may tap into these retirement funds before age 59-1/2, in a hardship situation (generally meaning for college or medical bills, or to prevent home foreclosure or eviction). There is a 10% penalty for early withdrawal, in addition to taxes, but at least the funds are accessible early, without the employee having to leave the job.

New Comparability Option

The "New Comparability" retirement plan also has IRS approval. Under this plan, the practice can use the age of its employees and job classification methodologies to determine how much it should put into employee retirement funds. More traditional plans prohibit the practice from considering how long the money in employee retirement funds will be allowed to gather interest, as part of its retirement funding calculations.

This favors your practice if your employees are younger. For example, if the retirement age is 65, and all your employees are in the age 20 to 30 range, you can calculate accrued interest over 35 to 45 years, and thus make smaller contributions. If, however, your staff is mature, and you can calculate accrued interest over no more than perhaps 15 years, your practice will be obliged to make larger payments.

Remember that the payments made to physician accounts can be higher than those made to employee accounts, but not much more. Therefore, to maximize contributions to physician accounts, your practice must make sure non-physician accounts also are significantly funded (generally at rates of 5% to 7% of pay).

The new comparability type of plan is a bit more expensive to establish than a more traditional type of plan, but if the practice has an age mix that provides favorable age-weighting of contributions, it can be an excellent option.

5. Decisions

In most cases, the needs of the practice and the practice's physicians(s) determine the particulars of the practice's employee benefits package. For example, physician age and retirement planning done outside the practice both influence the practice's retirement funding.

It may be the case that the physician owners of your practice need the tax deductions associated with funding employee retirement plans. But it may be financially better for them to use those funds to pay themselves additional profits.

Therefore, every medical practice physician owner must weigh the advantages of receiving more money in hand against the advantages of using that money to invest in hiring and retaining superior employees.

If market conditions are such that your area has a surplus of superior employees who are out of work, consider cutting employee benefits back, perhaps significantly. But if many practices are competing for a handful of good people, it will be best for your practice -- and naturally, therefore, for you, the physician owner -- to offer the most generous employee benefits package you can.

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