

# focus

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## **How PEOs can help you handle employee-related tasks**

**Family business owners: Did you pick the right successor?**

LTC insurance

**Taking a close look before buying is essential**

**Start organizing your tax records now!**



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# How PEOs can help you handle employee-related tasks

If you own a business with fewer than 20 employees, you likely spend about \$10,000 annually, per employee, to comply with federal regulations, according to a 2010 study by the Small Business Administration (SBA) Office of Advocacy. While this number includes everything from tax to environmental regulations, many of the rules concern employee-related issues: ensuring that payroll taxes are paid and that you're complying with equal-opportunity regulations, for instance.

One way to reduce the workload is to engage a professional employer organization (PEO). A PEO can handle many employee-related tasks, such as administering payroll and employee benefits; collecting, reporting and depositing employment taxes; and developing employee handbooks.

## Lending a hand

The National Association of Professional Employer Organizations (NAPEO) reports that the average PEO client has 19 employees, although much larger firms can certainly engage PEOs. Currently, the NAPEO estimates that between two and three million employees across the United States are part of PEO arrangements.

***As co-employers, both you and the PEO will have a relationship with your employees.***

In explaining just how PEOs work, it helps to point out what they're not. First, they don't provide workers, so they're not temporary



employment or staffing firms. Second, they're not payroll firms. So, what are they?

## A co-employer

When you sign an agreement with a PEO, the PEO is then a co-employer of your workers. Although you might balk at sharing employer status with an outside company, the IRS does allow it. According to the agency, PEOs can withhold and remit federal income and unemployment taxes for your employees and provide or administer employee benefits on behalf of your business.

You then pay the PEO for the services it provides. While the fee to hire a PEO will vary, it usually amounts to no more than 3% of a company's payroll expense. Special services, such as drug testing, may be charged separately.

As co-employers, both you and the PEO will have a relationship with your employees. The PEO's focus will be on employees' compliance with employment laws and company policies, allowing you to concentrate on supervising your employees' efforts in delivering the company's products and services.

This means that the PEO will have the right to hire and fire employees. Because the PEO is taking on some risk as a co-employer, it also needs the ability to discipline any employee who violates the law, such as federal law on discrimination or equal pay.

### Understanding the pros and cons

Working with a PEO offers several compelling benefits. Perhaps the most obvious is that the PEO can take over many of the time-consuming activities inherent in having employees. Some PEOs can offer employee benefits less expensively than a small business can, because they're able to spread administrative costs across all their client companies.

They can also take on tasks such as establishing employee policies and communicating them to workers. Moreover, they can help your business comply with laws that differ from one state to another or from one government agency to another.

But hiring a PEO won't relieve you of your legal responsibilities in relation to employees, such as complying with the Americans with Disabilities Act or tax and benefits requirements. While laws vary from state to state, in many cases, if a PEO fails to, for instance, deposit payroll taxes it withheld, it's up to you to make up the gap.

Also, hiring a PEO might in fact make you subject to *more* regulations. Some laws don't apply if your firm is below a certain size: The Family and Medical Leave Act, for example, applies only to employers with more than 50 workers. Once your firm engages a PEO, it may be subject to regulations that apply to larger employers.

### Tackling the nuts and bolts

If you choose to engage a PEO, the organization will handle and issue your payroll. Make sure your staff understands this, because they'll need to provide the PEO's name as their employer on tax returns and if they apply for a loan.

In addition, while PEOs often are able to provide employee benefits at a lower price than a small firm might garner on its own, lower prices aren't a given. So when shopping for a PEO, check pricing.

### Take a load off your plate

Engaging a PEO can relieve you of a lot of time-consuming administrative work. But before signing on with one, make sure you thoroughly investigate it. (See "Performing due diligence is key" below.) And recognize that, even if you turn over much of your employer responsibilities to the organization, you still maintain ultimate responsibility for ensuring your firm complies with applicable regulations. ♦

### Performing due diligence is key

Before engaging a professional employer organization (PEO), review the background and experience of everyone who will be on your team. Make sure the PEO has up-to-date employment practices liability insurance, and request that your firm be named as an additional insured on the policy.

Moreover, verify the PEO's financial status. Doing so can, however, be complicated by the fact that many PEOs are privately held, making it difficult to find information online.

As an alternative, ask to see its financial statements, and check whether it's been audited by an outside CPA firm. Also ask for documentation that the PEO has paid its payroll taxes and insurance premiums. If your state licenses PEOs, confirm that the PEO you're considering complies with licensing regulations.

Finally, make sure both your responsibilities and those of the PEO are clearly documented in the service agreement, and ask an employment law attorney to review the agreement before you sign on the dotted line.



# Family business owners: Did you pick the right successor?

It happens all the time — the owner of a family business picks his or her successor but, after a period of time, concludes that he or she is the wrong person for the job. If you're in such a situation, here are some options to consider.

## **Talk it over with an advisor**

Before you “fire” your successor, discuss the matter with an objective party, such as an advisor or family business consultant. After all, your perception may be off the mark.

You may think, for instance, that your successor lacks the skills to run your company. But, in reality, he or she may simply have a different leadership style than you do. Talking

about the situation will help you determine what went awry — or if the successor actually is the right person after all.

***Be clear about your concerns and outline what must change before your successor can take over.***

## **Stick it out ...**

If you believe that — with a little work — your successor is capable of eventually running the business effectively, talk with him or her. Be clear about your concerns and outline what must change before he or she can take over. And don't forget to solicit input from your successor. He or she may be aware of the problems and even have started fixing them.

Make sure you discover why your successor is having difficulties. Perhaps he or she lacks formal training in a particular aspect of the job. A community college course or even just more mentoring from you might solve the problem.

Or your successor may be facing personal issues that are getting in the way of work. For example, he or she may be going through tough times with a spouse or other loved one, battling an addiction, or facing financial problems.

By listening, you can find out what the issues are, and you may be able to help your successor address them.

## **... or make a change**

After talking with your advisor and, perhaps, your successor, you may still feel the successor needs to go — or discover



that he or she no longer wants to take over your family business. If you decide to choose someone else, let your successor know right away and explain why things won't work. Being honest will help you keep personal ties.

Now that the succession is off, consider compensating your now ex-successor. After all, he or she probably deserves a bonus for the extra effort. Your former successor may want to cut all company ties, so arrange to buy out this person's ownership interest and offer career assistance.

### **Don't repeat mistakes**

As you resolve matters with your former successor, reconstruct the succession process to determine what promises you made and how you communicated them. Review memos and talk with your managers and your ex-successor to discover areas you could have handled differently.

Additionally, if you hadn't done so already, develop objective criteria for your next successor. Once you pick your new successor,

discuss what went wrong with your first choice and why your expectations changed.

To keep operations running smoothly and safeguard your family business, create an exit strategy and explain the situation to employees. The amount of information you share with your staff depends in part on how much you've already communicated to them.

If your second choice doesn't work out, stay open to the possibility that the problem may not have been with your successors. It's possible that you fell short of communicating important expectations or failed to spend enough time training your candidates.

### **Move forward**

Mistakes happen — even in the best companies. If you think that you may have chosen the wrong person to succeed you in running the family business, take heart and take action. Consult a family business advisor as soon as possible and determine whether to develop your current successor or change course and select a new one. ♦

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## LTC INSURANCE

# Taking a close look before buying is essential

**F**ew people want to think about the possibility that they might need long-term care (LTC). But it's important to do so. Why? Because, if not planned for, the costs of LTC can be ruinous.

The projected median cost of a year in a private room in a nursing home topped \$81,000 for 2012, according to Genworth Financial's *2012 Cost of Care Survey*. Even paying a health aide to come into your home for 20 hours each week might set you back around \$20,000 annually. LTC insurance can help pay for those expenses.



However, taking a close look at the cost vs. the benefits *before* buying is essential.

### **A balancing act**

LTC insurance policies typically help pay for the cost of long-term nursing care or assistance with activities of daily living (ADLs), such as eating or bathing. Many policies cover care provided in your home, an assisted living facility or a nursing home, although some policies restrict coverage to only licensed facilities. Without this coverage, you'd generally need to pay these bills yourself.

What about health insurance policies or Medicare? They generally cover such expenses only if they're temporary — that is, during a period over which you're continuing to improve, such as recovering from hip replacement surgery or a stroke. Once you've plateaued and are unlikely to improve further, health insurance or Medicare coverage typically ends.

That's when LTC insurance may take over. But you need to balance the value of LTC insurance benefits with the cost of the premiums, which can run several thousand dollars annually.

### **Buying LTC insurance**

The younger you are when you purchase a policy, the lower the premiums typically will be. Moreover, the chance of being declined for a policy increases with age. Having certain health conditions, such as Parkinson's disease or metastatic cancer, can also make it more difficult, perhaps even impossible, for you to obtain an LTC policy. If you can still get coverage, it likely will be much more expensive.

## ***Balance the value of LTC insurance benefits with the cost of the premiums.***

So buying earlier in life may make sense. However, you also need to keep in mind that you'll potentially be paying premiums over a much longer period.



### **Learn the vocabulary**

It helps to understand a few terms when considering an LTC policy. One is the *benefit trigger*. This is the criteria the insurer uses to determine when your need for LTC begins. Examples include cognitive impairment or the inability to perform several ADLs on your own.

The *elimination period* is the period of time between the start of the benefit trigger and the time that the policy begins paying benefits. This often ranges from about 30 days to several months. Not surprisingly, the longer the elimination period, the less expensive the premiums typically are.

The *benefit period* is the period of time over which the policy pays for care. This can range from a year or two to an unlimited amount of time.

Another term is *inflation protection*. This boosts the dollar value of the benefit for each year of the policy. It becomes more important if it's likely you won't begin to receive benefits for a decade or more.

*Exclusions* are conditions not covered by a policy. For instance, some policies won't cover treatment for addictions or self-inflicted injuries.

Many policies are classified as either *reimbursement* or *indemnity*. With a reimbursement policy (which is the most common type), you're paid for the costs you incur up to a set daily or weekly limit. The policy may require that care be provided in a licensed facility.

Under an indemnity policy, you receive a set amount of money to use against your expenses, even if your bill is less than the amount allowed in the policy. So, if your caregiver sends you a bill for \$150, but your

policy is for \$200, you would receive the full \$200. Not surprisingly, indemnity policies tend to be more expensive.

### **What's right for you**

LTC insurance can help protect your assets, should you need to pay for in-home, assisted living or nursing-home care on a continuing basis. But it doesn't make sense to purchase more coverage than you're likely to need. You can often trim premium costs by choosing a shorter benefit period or a longer elimination period. Your financial advisor can help you determine whether LTC coverage is right for you and, if so, what amount of coverage seems best. ♦

## **Start organizing your tax records now!**

Taxes may be the last thing you want to think about as summer fades into fall, but it's actually the perfect time to start organizing your 2012 tax records. By gathering information about your year-to-date income and deductions now, you can get a handle on where you stand — and what actions you should consider taking in the last months of the year to minimize your tax bill.

Being organized is especially important in 2012, given the uncertainty about what will happen with the tax law. You need to be prepared for the tax rate increases scheduled for 2013, but you also must be ready to quickly adjust your strategies should tax law changes be passed before year end.

To get started, gather your most recent paycheck stub, bank and investment account statements and any other documents showing income you've received so far this year. Also compile documentation to support deductions and credits you may be eligible for on your 2012 return. The IRS suggests you keep the following:

- ♦ Bills,
- ♦ Credit card and other receipts,
- ♦ Invoices,
- ♦ Mileage logs,
- ♦ Canceled, imaged or substitute checks or any other proof of payment, and
- ♦ Any other records to support deductions or credits.

Once you've organized your records, contact your tax advisor to discuss the best strategies for your tax situation.



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