Personalized Benefits

A New Way to Hire and Keep People

Our story

Offering traditional group benefits sucks. Why? They're too expensive, too complex, and too one-size-fits-all. PeopleKeep is a new way to offer benefits called personalized benefits. Most people believe benefits are the services a company offers, such as a health insurance plan or 401k. With personalized benefits, it's the opposite. Companies give people tax-free money to spend on the consumer services they find most valuable. It's as simple as wages. For small businesses that think offering traditional group benefits sucks, PeopleKeep is personalized benefits automation software that makes offering benefits simple, painless, and personal for everyone.

Today more than 3,000 companies use PeopleKeep to hire and keep their people across the United States. PeopleKeep is based in Salt Lake City, Utah.

To learn more about PeopleKeep, visit www.peoplekeep.com.

Ready to see how PeopleKeep can work for your company?
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Introduction: It's time for a big change.

Offering traditional group benefits sucks. Why? They're too expensive, too complex, and too one-size-fits-all. Over the last 15 years, group health insurance costs have tripled.[1] Today, less than 50 percent of small businesses offer group health insurance, and less than 15 percent offer a 401(k).[2] Recent reforms have only made it harder, and costs are expected to continue to rise. After wages, benefits are the top influencer for where we work. Yet every year, fewer and fewer small businesses are able to use benefits to hire and keep their people. Until now.

We've come up with a new way called personalized benefits. Most people believe benefits are the consumer services a company offers, such as a health insurance plan or 401(k). With personalized benefits, it's the opposite. Companies give employees tax-free money to spend on the consumer services they find most valuable. It's as simple as wages. The company sets a monthly benefit allowance, and employees buy what fits their personal needs. This saves companies and employees an average of 35 percent in taxes compared with wages while avoiding the pains of offering traditional group benefits.

Our team at PeopleKeep has been developing the personalized benefits concept for more than a decade, and we're happy to share our learnings with you.

It's time for a big change.

Rick Lindquist
CEO, PeopleKeep

1 *2016 Employer Health Benefits Survey*, Kaiser Family Foundation, September 14, 2016, 35.
2 *2016 Employer Health Benefits Survey*, Kaiser Family Foundation, September 14, 2016, 5.

Table of contents

The old way of offering employee benefits sucks.

Small businesses have a big problem.

For the first time since 2001, the economy is nearing “full employment,”[3] and competition for the best employees is fierce. To have a chance at hiring and keeping talented people, small businesses need to offer more than competitive wages. They need to offer competitive benefits as well.

But benefits decisions aren’t simple anymore. Nearly every option available to small businesses is deeply, perhaps fatally, flawed.

Consider traditional group benefits—things like group health insurance, 401(k)s, and company cars and cell phones. Twenty years ago, deciding to offer these benefits was easy. The policies and programs were valuable, and sponsoring them—while challenging—was doable.

Today, traditional group benefits are still valuable, but offering them sucks. The benefits themselves are wildly expensive and increasingly narrow, and the administrative requirements attached to them are hopelessly complex.

As a result, many small businesses can’t offer these benefits, and many more don’t want to.

> **Traditional group benefits** involve products and services that a company selects and sponsors on employees’ behalf. Group health insurance policies, 401(k)s, on-site training programs, and company-owned devices are all examples of the traditional approach.

3 Ben Casselman, “The Jobs Market Is Having a ‘Goldilocks’ Moment,” *FiveThirtyEight*, August 4, 2017.

There are three core problems with traditional group benefits.

Thanks to a complicated cocktail of changing lifestyles, government regulation, and aggressive profit-seeking by providers, the challenges businesses face when offering employee benefits are daunting. There are three key problems with traditional group benefits:

- They're too expensive.
- They're too complex.
- They're too one-size-fits-all.

1. Traditional group benefits are too expensive.

For most small businesses, the number-one issue with traditional group benefits is cost. The expense of these benefits is so great, it's either impossible or extremely difficult to offer them.

This is true across all types of benefits (e.g., health, retirement, etc.), but it is most pronounced with group health insurance.

Group health insurance, which is the second-largest expense after payroll for most businesses, has roughly doubled in cost since 2000. In 2016, the most recent year for which data is available, average annual premiums under group policies reached an all-time high of $6,435 per individual and $18,142 per family.[4]

There's no indication that these cost increases will slow down, either. By 2025, group health insurance premiums are expected to rise to $8,417 per individual and $24,783 per family.[5]

Retirement benefits have also grown prohibitively expensive.

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4 *2016 Employer Health Benefits Survey*, Kaiser Family Foundation, September 14, 2016, 35.
5 *The Comprehensive Guide to the Small Business HRA*, Zane Benefits, January 18, 2017, 2.

Increasing administrative fees have dogged 401(k)s—the most common group retirement benefit—in recent years.[6] Today, a traditional 401(k) benefit costs a small business between $5,000 to $10,000 per year, with annual administrative fees of $800 to $1,000. Quarterly charges add another $15 to $40 per participant.[7]

Cell phones and other devices have increased in price as well, driving up the cost of technology benefits.

Since 2007, annual expenditures for cell phone services alone have shot up nearly 60 percent.[8] Today, businesses can expect to pay more than $960 per employee on a company cell phone plan.[9] For web-connected tablets and other devices, the prices are even steeper: $1,000 or more for each employee.[10]

These costs are too high for most small businesses. Buckling under the pricing pressure, more and more businesses cancel traditional group benefits every year.

2. Traditional group benefits are too complex.

For most small businesses, time is a precious commodity—and there are far better ways to use it than administering benefits.

There are several reasons this complexity continues to sap time from small businesses, but the three biggest offenders are ongoing regulatory changes, playing the middleman, and painful renewal processes.

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6 *2015 Fee Study: Investors Are Driving Expense Ratios Down*, Morningstar, 2015.
7 “How Much does a Small Business 401K Plan Cost?,” CostOwl.com, http://www.costowl.com/b2b/benefits-small-business-401k-cost.html.
8 Brett Creech, “Expenditures on cellular phone services have increased significantly since 2007,” *Beyond the Numbers* 5, No. 1 (February 2016).
9 Brett Creech, “Expenditures on cellular phone services have increased significantly since 2007,” *Beyond the Numbers* 5, No. 1 (February 2016).
10 Brett Nuckles, “Should You Buy Your Employees iPhones? BYOD Pros and Cons,” Business News Daily, December 9, 2013.

Continuous efforts to reform the U.S. health care system have caused particular problems, and these problems have only gotten worse with the Affordable Care Act. To comply with the legislation's added requirements, small businesses spend an estimated 13 hours every month administering group health insurance. Those time costs total more than $13,000 every year,[11] and one in four business owners say they've made deliberate decisions not to grow their workforce because of the legislation.

Reforms to retirement benefits have also been problematic. The number of retirement savings vehicles and the regulations surrounding them have fluctuated in recent years, and small businesses often don't have the bandwidth to keep up. In fact, complexity is second only to expense on the list of reasons businesses don't offer 401(k)s.[12]

Shifting benefits limits and tax reporting requirements have similarly affected small businesses' willingness to offer education, transportation, and technology benefits. Rather than expend the time to understand and adapt to these changes in benefits, most businesses just don't offer them.

In addition to reform complexity, the middleman role of the company wastes precious time. With traditional group benefits, the company is the go-between for the benefits provider and the company's employees. This creates a painful game of telephone from the insurance company to the employee and back. Instead of focusing on the core business, employees and managers can become distracted for days dealing with an insurance issue.

Equally problematic is the complexity of annual benefit renewals. Every year, small businesses must enter negotiations with their benefits providers over new programs and pricing.

If the company has been expensive to the provider that year—if they've filed a higher than usual number of health insurance claims, for example—they'll likely face cost increases. The company may also face changes in terms.

11 *NSBA 2015 Small Business Health Care Survey*, National Small Business Association, 2015, 11.
12 *Small Business Views on Retirement Savings Plan*, The Pew Charitable Trusts, January 11, 2017.

Based on actuarial data, the benefits provider may decide to increase 401(k) fees or exclude a certain hospital network from the group health policy.

These decisions also have real effects on company budgets and employees' lives. Small businesses must consider whether they'll accept the changes, negotiate with the benefits providers, or work to identify new policies and programs that better match their budget and benefits goals.

They may also want to meet with new benefits brokers. Every year at renewal, enterprising brokers attempt to win new clients by meeting with small businesses and reinventing their benefits program. These meetings may yield positive results, but they also take up time.

3. Traditional group benefits are too one-size-fits-all.

Traditional group benefits weren't crafted with individual employees, or even individual small businesses, in mind. Instead, the programs were designed to serve as many small businesses as possible by appealing to the most common business characteristics.

The result is that many businesses can't find benefits that address their situation.

Minimum participation requirements attached to group health insurance are a prime example. In the late 1980s, insurance regulators began allowing insurers to cancel a small business's policy if the company couldn't persuade a required number of employees—typically 75 percent of those eligible—to enroll.[13] With unpredictable growth and turnover rates among employees, small businesses struggled to meet these thresholds to qualify for a group health insurance policy.

13 *The Inevitable End of Small Business Health Insurance*, Zane Benefits, 2014.

They still struggle today. Minimum participation requirements often limit small businesses to offering just one health policy option.[14] In particularly dire circumstances, they can't offer any.

Today's benefits market also disadvantages small businesses that employ workers in multiple states. Even though the number of remote and out-of-state workers grows each year,[15] there still aren't satisfactory benefits options for the small businesses that employ them.

Small businesses in this situation don't qualify for group health insurance policies, for example, due to state-specific insurance requirements. Instead, they're left to decide whether to offer separate state policies (complicated) or one national policy (expensive).[16]

Similarly, offering 401(k)s to employees in multiple states requires small businesses to navigate multiple tax withholding obligations and other complex regulations.[17]

For small business employees, these one-size-fits-all benefits are particularly unsatisfactory. Nearly two-thirds of employees say having benefits customized to meet their needs is important,[18] yet the traditional group benefits available to them are anything but customized.

Taxable wages and stipends suck too.

Most small businesses know that offering employee benefits is critical to their success, but are discouraged when they see the many problems with traditional options. Some try to solve the problem by implementing

14 "Participation requirements," Small Business Majority, http://healthcoverageguide.org/reference-guide/laws-and-rights/participation-requirements/.

15 Niraj Chokshi, "Out of the Office: More People Are Working Remotely, Survey Finds," *The New York Times*, February 15, 2017.

16 Amy Pennza, "3 Health Insurance Options for Companies with Employees in Multiple States," Zane Benefits, March 16, 2017.

17 "Multi-state income tax: For which state must employers withhold?," *HR Issues and Answers*, CCH Incorporated, December 21, 2015, https://hr.cch.com/hhrlib/issues-answers/Multi-state-income-tax-For-which-state-must-employers-withhold.asp?date=December-21-2015.

18 *U.S. Employee Benefit Trends Study: Work Redefined: A New Age of Benefits*, Metlife, 2017, 8.

informal taxable wage increases or stipends instead of offering a formal benefits program.

With a wage increase, business owners give each employee a flat raise and encourage them to spend it on the programs and services they would otherwise receive as a benefit. In some cases, this wage increase takes the form of a monthly taxable stipend. This solution allows businesses to control their costs and frees them from the administrative time they would have spent on a formal solution.

But taxable wages and stipends don't solve the root problem. Most employees don't consider extra cash a "benefit," and therefore don't value it. What's more, this approach costs the employees and the company 35 percent on average in income and payroll taxes on top of the wage increase.

Small businesses that choose this route end up paying an average 7.65 percent in payroll taxes on the increased wages. Employees, too, would be subject to taxation. In addition to city, state, and federal income taxes (roughly 20 percent), employees would also need to pay 7.65 percent in payroll taxes.[19, 20]

It's still much less than businesses and employees would spend on traditional group benefits, but it's a hefty increase for a solution that doesn't help the company hire and keep its people.

It's time for a new way.

It's easy to feel pessimistic about these realities. Every year, the pains associated with offering benefits get worse and no amount of government or private market intervention seems to help.

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19 "Payroll Taxes: What Are They?," CNBC Explains, CNBC, December 13, 2012, https://www.cnbc.com/id/49503844.

20 Matthew Frankel, "2017 U.S. Payroll Tax: What You Need to Know," The Motley Fool, April 12, 2017.

What most small businesses don't realize, however, is that the reason would-be saviors of employee benefits have failed is because everyone—from benefits providers to government officials to small businesses themselves—is operating under bad assumptions.

These bad assumptions teach that employee benefits are the programs or services businesses choose to sponsor, such as a group health insurance policy or a 401(k). In truth, the real benefit to employees is something else entirely—it's the tax-free money businesses contribute toward those services.

For small businesses to truly solve their benefits woes, they need a new way that lets them give employees direct access to that money, as well as the freedom to choose how to spend it.

With a solution like this, small businesses would no longer have to deal with the problems that plague traditional group benefits. Rather than being forced to accept price increases, they could set their own costs. Rather than do battle with regulatory changes and annual renewals, they could make straightforward business decisions at their own pace. And rather than struggle to find a solution that works for everyone, they could leave customization up to employees.

This new way is already here, and it's called personalized benefits.

Back to top

There is a new way called personalized benefits.

Today, there's a new way to offer employee benefits. This new way is called personalized benefits, and it's already helping thousands of small businesses hire and keep people.

Rather than forcing businesses to select and sponsor certain programs and services, personalized benefits allow a company to give its employees tax-free money to spend on the consumer services they find most valuable.

There are no minimum contribution requirements, no wrangling with benefits providers, and no decisions that benefit some employees but not others. At the same time, personalized benefits is a formal benefits option with a tax-advantaged status. On average, it saves businesses and employees 35 percent in taxes compared with wages, and employees recognize their company's offer as a real benefit.

Personalized benefits programs are highly adaptable and businesses can use them to offer a number of benefits, including:

- Health
- Cell phone
- Education
- Transportation
- Retirement
- Discounts

The time for personalized benefits is now.

While the concept of personalized benefits may seem new, the trends fueling it aren't. The foundations of personalized benefits developed early, when the employee benefits market had nowhere else to go.

When businesses first began offering employee benefits in the 1940s, low costs and large tax advantages allowed them to be generous. Group health insurance typically covered the full cost of employees' medical needs, and company-sponsored pension plans fully funded former employees in retirement.

> **Personalized benefits** are a new way to offer employee benefits. With personalized benefits, small businesses give employees tax-free money to spend on the consumer services they find most valuable, like a health insurance policy.

This approach to employee benefits couldn't last, however. As people began living longer, retirement costs accelerated. Health care costs also rose, fueled by longer life spans, competitive business interests, and government regulation.

These cost increases, which began in the 1960s and continue today, shrank the small business benefits market considerably. Today, less than half of small businesses offer a group health insurance policy[21] and less than 15 percent offer a company-sponsored retirement benefit.[22]

Of course, not all businesses took this all-or-nothing approach. Recognizing that benefits were key to hiring and keeping employees, many compromised by cutting back on the benefits they offered. Instead of covering the full cost of employees' health care, they offered group health insurance with higher deductibles and more exclusions. They switched to 401(k)s, which arose in the late 1970s, to trim retirement benefits costs.

21 *Small Business Problems and Priorities*, NFIB Research Foundation, August 2016, 8.
22 Capital One Press Room, "Small Business Sentiment Drops in First Half of 2016," Capital One, May 2, 2016.

They also took advantage of newly introduced programs and accounts designed—in the absence of more generous benefits—to give employees more control over where their benefits dollars were spent. Frequently called consumer-driven accounts, these programs became some of the market's first personalized benefits.

Among the first widely used personalized benefits was the health reimbursement arrangement (HRA). The Employee Retirement Income Security Act (ERISA) first introduced HRAs in 1974 as a way for businesses to reimburse employees for medical expenses the company's group health insurance policy didn't cover.

HRAs grew in popularity through the 2000s, and eventually evolved to reimburse employees for individual health insurance policies and medical expenses. This meant businesses could offer HRAs in place of group health insurance.

Though the Affordable Care Act inadvertently limited HRAs in 2014, the 21st Century Cures Act expanded them in the small business market as of 2017.

Congress approved health savings accounts (HSAs) in 2003 to encourage people to make more personal choices about their care and to support the shift to high-deductible health plans (HDHPs). HSAs allowed employees to save and spend tax-free money on certain medical expenses. HSA funding could come from employees, their company, or both.

Retirement benefits began evolving toward personalization as well. ERISA created individual retirement accounts (IRAs) in 1974, incentivizing employees to start saving for retirement on their own. These accounts were independent of the employee's company, and investment options were almost endless.

During this time, the federal government extended tax advantages toward other benefits that allowed personalization. In the 1980s, the government amended the Code of Federal Regulations (CFR) to allow businesses to contribute unlimited tax-free money toward employees' work-related education. The government went on to expand this regulation to allow businesses to contribute up to $5,250 tax-free each year toward all education, work-related or not. Tax-free transportation benefits followed in 1993, and in 2010, the Small Business Jobs Act allowed businesses to provide employees with cell phones on a tax-free basis without having to follow complicated substantiation requirements. A year later, the Internal Revenue Service (IRS) clarified that businesses could provide tax-free assistance toward employees' personal devices as well, if they were used for work.

While each of these benefits operates differently and has separate regulatory structures governing them, they share a common thread: They allow employees more freedom in directing their finances and their company's finances toward the benefits they find most valuable.

This history has laid the groundwork for significant growth in personalized benefits in the near future.

Reform timeline

1940s — Businesses pay the full cost of health and retirement benefits to claim tax advantages and avert government-issued wage controls.

1960s — Health insurance companies start introducing exclusions and higher deductibles into group policies, and businesses respond by using the first HRAs to reimburse employees for individual insurance and medical expenses.

1970s — **1974:** ERISA creates IRAs and formally incorporates HRAs.

1978: The Revenue Act of 1978 creates 401(k)s and adds a tax exclusion for education benefits.

1980s — The Tax Reform Act of 1986 allows businesses to contribute up to $5,250 tax-free toward employees' education.

1990s

1993: Internal Revenue Code (IRC) Section 132(f) allows businesses to provide transportation benefits to employees tax-free, up to certain limits.

1996: The Small Business Job Protection Act introduces the Savings Incentive Match Plan for Employees (SIMPLE) IRA.

2000s

2002: The IRS formally defines HRAs in Notice 2002-45 and Revenue Ruling 2002-41.

2003: The Medicare Prescription Drug, Improvement, and Modernization Act creates health savings accounts (HSAs).

2010s

2010: President Obama signs the Affordable Care Act into law.

2010: The Small Business Jobs Act of 2010 allows businesses to provide employees with cell phones on a tax-free basis without complicated substantiation requirements applied to "listed property."

2011: IRS Notice 2011-72 announces that personal cell phone use for noncompensatory business reasons is tax exempt. A follow-up memorandum clarified that businesses can issue tax-free allowances or reimbursements toward personal mobile devices.

2013: The Departments of the Treasury, Health and Human Services (HHS), and Labor issue Notice 2013-54, which states that some HRAs didn't comply with the Affordable Care Act.

2016: The 21st Century Cures Act creates the qualified small employer health reimbursement arrangement (QSEHRA), effectively reintroducing HRAs to the marketplace.

The problems with traditional group benefits—along with the ongoing shift toward personalization—have convinced many small businesses to turn to personalized benefits model.

Today, roughly 5,000 small businesses across the country offer personalized benefits. By 2025, there will be one million small businesses doing the same.

There are two primary reasons personalized benefits will grow this dramatically: The traditional group health insurance market is shrinking, and the personalization of benefits is accelerating.

The traditional group health insurance market is shrinking.

Right now, the most popular form of health benefits—traditional group health insurance—is too expensive.

Group health insurance rates have shot up more than 200 percent since 2000,[23] and by 2025, the annual cost to cover employees under group health insurance is expected to rise to more than $8,400 per individual and $24,700 per family.[24]

This single factor is enough to shrink the small group health insurance market considerably.[25]

Since 2010, the group health insurance offer rate among small businesses has declined 25 percent. Today, less than 50 percent of small businesses offer health insurance.[26] And it's only going to get worse. If current trends continue, less than 35 percent of small businesses will offer group health insurance in 2025.[27]

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23 *2016 Employer Health Benefits Survey*, Kaiser Family Foundation, September 14, 2016, 35.
24 *The Comprehensive Guide to the Small Business HRA*, Zane Benefits, January 18, 2017.
25 *NSBA 2015 Small Business Health Care Survey*, National Small Business Association, 2015, 4.
26 *Small Business Problems and Priorities*, NFIB Research Foundation, August 2016, 8.
27 Projection based on a 26 percent decrease over 5 years.

The personalization of benefits is accelerating.

Existing forms of personalized benefits are growing increasingly popular.

Since 2006, HSA enrollment has increased more than 500 percent, rising from 3.2 million account holders to 20.2 million.[28] During the same period, enrollment in HRAs has more than doubled.[29]

Personalized transportation benefits, while still uncommon, have also increased in popularity. Since 2014, the number of employees with access to transportation stipends has risen by 30 percent.[30]

Employees are increasingly using cell phone subsidies as well. The number of employees with access to funding for their smartphone expenses has grown by 14 percent since 2016.[31]

The success of these personalized benefits has also fueled the desire to create and expand these benefits models in the future.

Together, these two trends have fueled the rise of personalized benefits in the small group market. As traditional group benefits grow more expensive, small businesses have dropped them in favor of increasingly popular benefits that offer more personalization.

With these trends expected to continue and even accelerate, personalized benefits will become a dominant force in the labor market in the near future.

To make the transition, understanding exactly how personalized benefits work—both generally and specifically—is vital.

Back to top

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28 Kristine Grow, "Health Savings Accounts Continue to Grow in Popularity," America's Health Insurance Plans, February 16, 2017.
29 *2016 Employer Health Benefits Survey*, Kaiser Family Foundation, September 14, 2016, section 5.
30 *2017 Employee Benefits: Remaining Competitive in a Challenging Talent Marketplace*, Society for Human Resource Management, April 2017, 28.
31 *2017 Employee Benefits: Remaining Competitive in a Challenging Talent Marketplace*, Society for Human Resource Management, April 2017, 28.

How personalized benefits work

Personalized benefits are a new way to offer benefits. Until now, most small businesses have been unable to offer traditional group benefits because they're too expensive, too complicated, and too one-size-fits-all. Most people believe benefits are the services a company offers, such as a health insurance plan or 401(k). With personalized benefits, it's the opposite. Companies give employees tax-free money to spend on the consumer services they find most valuable. It's as simple as wages. The company sets a monthly benefit allowance, and employees buy what fits their personal needs. This saves companies and employees an average of 35 percent in taxes compared with wages while avoiding the pains of offering traditional group benefits.

Here's how it works.

First, the small business chooses which types of benefits it wants to offer. Common types of personalized benefits include:

- Health
- Cell phone
- Education
- Transportation
- Retirement
- Discounts

Each of these benefits is backed by a specific legal structure, which ensures businesses can offer it on a tax-free basis. Businesses can contribute as much as they like to benefits—there are no minimum or maximum requirements—but they should evaluate their budget carefully before they implement (see "Decide which benefits to offer" on page 39).

Once a company sets up its benefits program, all types of personalized benefits follow a relatively straightforward process.

Step 1: The small business chooses a monthly benefit allowance of tax-free money for each type of benefit. For example, the company may choose to make $300 a month available for health benefits and $100 a month available for cell phone benefits.

Each employee generally receives the same allowance. However, certain benefits allow flexibility. For example, with personalized health benefits, you can often vary allowances by family status.

Businesses do not need to prefund these allowances.

> Some personalized benefits allow businesses to set different allowances for different employees. Keep reading to learn more about how each benefit works.

Step 2: Within each benefit, employees buy what fits their personal needs. They receive no input from the company during this process, though the company usually has some say in which expenses are eligible for the benefit.

Step 3: Once an employee incurs an eligible expense, the employee submits proof of the expense to their company. Each benefit has different standards for what constitutes proof, but invoices, receipts, and summaries of benefits typically qualify.

Step 4: The company reviews the employee's submission and, if it qualifies, reimburses the employee from their monthly allowance for that benefit. For example, if an employee incurs a health care expense, their reimbursement will come from their health benefits allowance. If they had a cell phone expense, however, the reimbursement will come from their cell phone allowance.

> Most personalized benefits work on a reimbursement basis, but some (like retirement and perks) don't. Learn more about how to administer each benefit on page 39.

Personalized benefits programs generally last a full year before resetting. Small businesses are free to adjust monthly allowances midyear, though, if they need to.

Each personalized benefit follows this process, but there are some structural differences in each individual benefit that small businesses should be aware of.

This section will discuss each personalized benefit in detail, including why a company should offer that benefit and how it works.

Personalized health benefits

A solid health benefit is the cornerstone of every comprehensive benefits package. Although new, unique benefits have grabbed headlines in recent years, health is still the number one benefit employees want from their company.[32]

In fact, nearly a third of employees have turned down a job offer because of poor health benefits,[33] and those who are unsatisfied with their health benefit are much more likely to look for a new job than those who are satisfied.[34]

A personalized approach to health benefits can help keep small business employees happy.

32 Kerry Jones, "The Most Desirable Employee Benefits," *Harvard Business Review*, February 15, 2017.
33 BusinessWire, "One in Three Millennials Has Turned Down a Job in Part Because of Poor Insurance Offerings," Anthem, Inc., May 1, 2017.
34 *2017 Aflac WorkForces Report*, Aflac, 2017.

Step 1: Businesses set the allowance.

With a personalized health benefit, the monthly allowance reimburses health care expenses employees and their families incur. There are no minimum contribution requirements, and small businesses may offer different allowance to employees based on whether they're single or have a family.

In 2017, businesses can provide up to $4,950 a year to single employees and $10,000 a year to employees with a family.

Full-time employees and their families are automatically eligible for the benefit, though the company can choose to extend it to part-time employees as well.

Step 2: Employees make purchases.

With a personalized health benefit, employees can purchase and receive reimbursement for a large number of expenses, including:

- Individual health insurance premiums
- Individual dental, vision, or long-term care insurance premiums
- Copays
- Deductibles
- Prescription and nonprescription drugs (with a note from a doctor)
- Mileage (for travel to and from eligible health care)

See IRS Publication 502 for the full list of reimbursable expenses.

Step 3: Employees submit proof of expenses.

Employees must submit documents that show a description of the product or service, the cost of the expense, and the date they incurred the expense.

Invoices or receipts typically satisfy this requirement, but so does an explanation of benefits from the employee's or dependent's insurer.

For recurring expenses, like an individual policy premium, employees and dependents only need to submit one document showing the expense and how often it's charged. That will satisfy all future expenses in the series.

Step 4: Businesses review and reimburse employees' expenses.

The information contained in employees' reimbursement requests constitutes protected health information (PHI), as defined by the Health Insurance Portability and Accountability Act (HIPAA).

This means businesses offering a personalized health benefit need to exercise extra caution while reviewing these requests. Specifically, they must certify that they'll protect employees' PHI as prescribed by HIPAA and refrain from using it for employment decisions. Most businesses satisfy this requirement by designating HIPAA privacy officers, who are the only individuals with access to the reimbursement requests.

With these guidelines in place, the company can review employees' reimbursement requests and either approve or decline them.

The company must approve all reimbursement requests that contain the required information. The company should decline those missing information or those for an ineligible expense.

Employees with declined requests have a right to supply the missing information or to appeal the claim. Businesses must hear at least one appeal and supply different people to hear the appeal than those who made the original decision. These individuals should also be designated HIPAA privacy officers.

Employees with approved requests, either through the original process or through an appeal, should then receive reimbursement from their allowances, generally through their next paycheck.

These reimbursements are free of payroll tax for both the small business and its employees, and free of income tax for employees as long as they have insurance. Employees who don't have insurance must report reimbursements as taxable income at the end of the year.

Other considerations

While participants in personalized health benefits often choose to purchase an individual insurance policy, the benefit can deliver value to those enrolled in a spouse's group policy as well; employees in this situation can receive reimbursement for everything except their group health insurance premiums.

Personalized health benefits can also coordinate with HSAs. In years when employees or their spouses make or receive contributions to their HSAs, they can use their personalized health benefit to reimburse only five types of expenses before they meet their HSA deductible:

- Health insurance premiums
- Wellness or preventive care (e.g., checkups, mammograms, smoking cessation, weight loss)
- Dental expenses
- Vision expenses
- Long-term-care premiums

After they meet their deductible, employees are free to use their personalized benefit for all other qualified expenses.

Finally, while offering personalized health benefits should focus on providing value to employees, some small business owners can participate as well. Specifically, all owners considered to be an employee—like C-corporation owners—can participate.

> While participants in personalized health benefits often choose to purchase an individual insurance policy, the benefit can deliver value to those enrolled in a spouse's group policy as well.

Small businesses offering a personalized health benefit get to choose their own budget, escape the annual renewal nightmare, and stop making hard choices about how to compromise on employees' most-desired benefit. Employees, meanwhile, have access to a formal, comprehensive health benefit—one that allows them to buy what fits their personal needs.

Personalized cell phone benefits

The huge popularity of smartphones has led an increasing number of businesses to allow employees to use their own cell phones at work.

The trend has benefited small businesses immensely, saving them an estimated $300 to $1,300 per employee per year.[35] It's also led to productivity gains for small businesses, as it enables employees to work during their personal time.[36]

Attracted by these benefits, roughly 60 percent of small businesses now allow employees to use their personal cell phones in the office.[37] Unfortunately, many don't support their employees with funding.

Just 57 percent of businesses offer employees payment toward their personal devices,[38] and of those, more than half offer a stipend only.[39] That's

35 "Cisco Study: IT Saying Yes to BYOD," Cisco, May 16, 2012.
36 "Cisco Study: IT Saying Yes to BYOD," Cisco, May 16, 2012.
37 Michael Lazar, "BYOD Statistics Provide Snapshot of Future," Insight, January 18, 2017.
38 "BYOD Statistics - New Cass BYOD Study Reveals BYOD Growth and Maturity," Cass Information Systems, Inc., 2016.
39 Brandon Vigliarolo, "Report: Your business is wasting money on BYOD reimbursements," TechRepublic, September 20, 2016.

a fully taxable, informal benefit in exchange for the work employees do every day on their personal devices.

A personalized cell phone benefit can provide much more value to both small businesses and employees.

Step 1: Businesses set the allowance.

Under a personalized cell phone benefit, an employee's monthly allowance reimburses their cell phone expenses. There are no minimum or maximum contribution requirements, and small businesses can determine eligibility for the allowances based on whether the employee needs a cell phone to do their job.

Typically, businesses include employees who handle sensitive information, need to be "on call" outside normal working hours, or whose jobs require them to speak to clients and customers in the benefit.[40]

Step 2: Employees make purchases.

There are no formal guidelines on which cell phone expenses a company should reimburse, but the best personalized cell phone benefits include the purchase of the phone, monthly service contracts, activation fees, insurance, and maintenance.

Businesses may not want to reimburse items like ringtone downloads or applications not used for business.

Step 3: Employees submit proof of expenses.

Employees must submit documents that show a description of the product or service, the cost of the expense, and the date they incurred the expense.

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40 Joe Moriarty, "How to Create Your Own BYOD Stipend Policy," Content Raven, December 13, 2012.

The documentation must also show that the employee has already paid the expense.[41]

An employee's name doesn't need to be on the documentation. By submitting the expense, the employee attests they used the service in that month and the amount is related only to their personal cell phone and service.

Step 4: Businesses review and reimburse employees' expenses.

Businesses must approve all reimbursement requests that contain the required information. Employees then receive reimbursement from their allowances, generally through their next paycheck.

All reimbursements are tax-free to both the company and its employees.

Other considerations

Employees on a family cell phone plan can still participate in a personalized cell phone benefit.

To do so, they must submit proof that they have a cell phone and service plan for the month of the reimbursement request. Then, they should submit documentation only for the amount that reflects their phone and its use.

By submitting these documents, employees attest that although their phone is part of a family plan, they're claiming only their personal expenses.

Using a personalized cell phone benefit offers significant advantages over both stipends and nonpayment. Employees receive formal, tax-free support, and businesses cultivate loyalty while reaping the benefits of cost savings and increased productivity.

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41 Simon Zaccardi, "Stipends and Reimbursements for Mobile Services: Are They Taxable?," Cannon Group, June 9, 2014.

Personalized education benefits

In the postrecession era, employees are anxious to advance their skills—and they want their company to help.

This is particularly true among younger workers. Fully half of millennials expect their company to help pay for further education,[42] and nearly 60 percent say they'd prefer a job that provides professional development over one that provides regular pay raises.[43]

Overall, nearly a third of employees say having an education benefit would help them feel more engaged at work and more loyal to their company.[44]

A traditional approach to education benefits can fulfill some of what employees want. More than 85 percent of businesses offer on-site or off-site training,[45] for example, and more than half offer assistance toward an undergraduate or graduate education.[46] However, fewer than half offer leadership training, and fewer than a quarter offer mentoring or career counseling.[47] It's impossible to cover all the bases.

Under this sort of piecemeal approach to education benefits, only a handful of employees can take advantage of a company's offerings. It shouldn't be a surprise, then, that one in five employees say they left a past position due to a lack of professional development opportunities.[48]

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42 Adrianna Gregory, "What benefits increase employee loyalty and engagement?," Workforce 2020, December 8, 2014.

43 *Millennials Desperate for Financial Stability, In Search of Employer Support to Get There*, EdAssist, 2015.

44 Adrianna Gregory, "What benefits increase employee loyalty and engagement?," Workforce 2020, December 8, 2014.

45 *2017 Employee Benefits: Remaining Competitive in a Challenging Talent Marketplace*, Society for Human Resource Management, April 2017, 29.

46 *2017 Employee Benefits: Remaining Competitive in a Challenging Talent Marketplace*, Society for Human Resource Management, April 2017, 28.

47 *2017 Employee Benefits: Remaining Competitive in a Challenging Talent Marketplace*, Society for Human Resource Management, April 2017, 29.

48 *2017 Employee Benefits: Remaining Competitive in a Challenging Talent Marketplace*, Society for Human Resource Management, April 2017, 13.

By contrast, a personalized education benefit offers value to all employees.

Step 1: Businesses set the allowance.

With a personalized education benefit, the monthly allowance reimburses employees for job-related educational expenses. There are no minimum or maximum contribution requirements.

Businesses can set up their own eligibility requirements as long as those requirements don't favor highly compensated employees. In 2017, highly compensated employees are those who received more than $120,000 in pay the preceding year or those who were a 5 percent owner at any time during the current or previous year.

Additionally, businesses can't exclude employees under a collective bargaining agreement if educational assistance was a subject of good-faith bargaining.[49]

Step 2: Employees make purchases.

A personalized education benefit can reimburse employees for work-related education expenses.[50] To qualify as work-related, the education has to meet at least one of the two following tests:

- The education is legally required by the company or the law for the employee to keep their current salary, status, or job.
- The education maintains or improves skills needed in the job.

Additionally, even if the education meets one or both of the above tests, it doesn't qualify for reimbursement under a personalized education benefit if it is necessary for the employee to meet the minimum qualifying educational

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49 *Publication 15-B (2017): Employer's Tax Guide to Fringe Benefits*, U.S. Internal Revenue Service, August 2017.

50 "Furthering Your Employees' Education is Good for Business," BizFilings, https://www.bizfilings.com/toolkit/research-topics/office-hr/furthering-your-employees-education-is-good-for-business.

requirements for their trade or business or will qualify the employee for a new trade or business.

Examples of education that might meet this definition include:

- Online courses
- Tuition
- Lab fees
- Books
- Supplies
- Certain transportation costs
- Certain travel costs

Step 3: Employees submit proof of expenses.

Employees must submit documents that show a description of the product or service, the cost of the expense, and the date they incurred the expense.

Step 4: Businesses review and reimburse employees' expenses.

Businesses must approve all reimbursement requests that contain the required information. Employees then receive reimbursement from their allowances, generally through their next paycheck.

All reimbursements are tax-free to both the company and its employees.

Other considerations

Small businesses can expand their personalized education benefit to cover non-work-related education expenses as well.

Under this sort of benefit, businesses can contribute up to $5,250 tax-free to each employee every year.[51] This allowance can cover all education expenses apart from:

- education involving sports, games, or hobbies (unless there's a direct relationship to the company or the course is required as part of larger program);
- meals, lodging, and transportation; and
- tools and supplies an employee can keep after completing a course.

Whether small businesses decide to limit their benefit to work-related education or expand it to include all education, the benefit sends a positive message: The company considers its employees motivated and capable, and it's interested in supporting them both personally and professionally.

Personalized transportation benefits

Though small businesses may not realize it, commuters in major American cities spend more than an entire workweek delayed in traffic every year. Traffic congestion has increased even in smaller urban areas.[52] Commuting is so painful, in fact, some employees have considered changing jobs to avoid it.[53]

In this environment, transportation benefits are a valuable offering that can have a positive impact on businesses' ability to hire and keep employees. A full 86 percent of employees consider transportation benefits "beneficial and useful," and those who have one say the benefit makes their businesses more attractive places to work.[54]

51 *Publication 15-B (2017): Employer's Tax Guide to Fringe Benefits*, U.S. Internal Revenue Service, August 2017.
52 Caitlin Bronson, "Which Benefits Have the Best Effect on Employee Retention and Recruiting?," Zane Benefits, August 8, 2017.
53 David Lawrence, "How To Avoid Candidates Leaving Due To A Long Commute," Vine Resources, October 11, 2015.
54 "Employees Give Commuter Benefits the Green Light," *Workspan*, April 2002.

Yet less than half of businesses offer any transportation benefit, aside from free on-site parking.[55] Even when they do, the benefits provided don't offer value to all employees. Commuter shuttles, car insurance programs, and company cars are available and appealing to only a few; everyone else has to fend for themselves.

Offering a personalized transportation benefit is a valuable way to correct these problems.

Step 1: Businesses set the allowance.

With a personalized transportation benefit, the monthly allowance reimburses employees for their personal commuting costs. There are no minimum contribution requirements, and in 2017, businesses can offer up to $255 per employee per month.

Although it's best practice to offer the benefit to all employees, businesses can set their own eligibility requirements.

Step 2: Employees make purchases.

A personalized transportation benefit can reimburse a number of transportation expenses, including commuter transportation in a commuter highway vehicle, transit passes, qualified parking, and qualified bicycle commuting expenses.

To qualify as a commuter highway vehicle, the following must apply to the vehicle:

- It's provided by the business, or by a third party for the business.
- It's used for travel between an employee residence and the workplace.
- It has seating for at least six adults, excluding the driver.
- Employees occupy half of the seating.

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55 *2017 Employee Benefits: Remaining Competitive in a Challenging Talent Marketplace*, Society for Human Resource Management, April 2017.

- The company must reasonably expect that at least 80 percent of the mileage is used for transporting employees between residences and the workplace.

Commuter transportation may include vanpools, and the vehicles may be owned and operated by transit authorities or employees.

To qualify as a transit pass, the pass, token, fare card, or voucher must be used on one of the following:

- Mass transit (publicly or privately operated bus, rail, or ferry transportation).
- In a for-hire vehicle that seats at least six adults, not including the driver.

Additionally, while employees can use any one or more of the first three benefits at the same time, they can only request the qualified biking reimbursement in months the employee doesn't claim other transportation benefits.

Step 3: Employees submit proof of expenses.

Employees must submit documents that show a description of the product or service, the cost of the expense, and the date they incurred the expense.

With transit passes, employees can submit proof of the expense either before or after they use the pass. For example, an employee can purchase a $100 transit pass every month and present the used pass to their company at the end of the month. Alternately, they can present the pass at the beginning of the month and certify that they'll use it during the month.

Step 4: Businesses review and reimburse employees' expenses.

Businesses must approve all reimbursement requests that contain the required information. Employees then receive reimbursement from their allowances, generally through their next paycheck.

All reimbursements are tax-free to both the company and its employees, but reimbursements for transit passes are tax-free only if employees don't have the option of obtaining a pass directly from the business.

With a personalized transportation benefit, small businesses can reduce the stress of commuting no matter how their employees get to work. At the same time, businesses send employees the message that they care about work-life balance, and can contribute in meaningful ways toward making their lives easier and more productive.

Personalized retirement benefits

For many employees, saving for retirement is a significant stressor. Longer life spans and rising health care costs mean that every year, fewer people feel they'll have enough money to retire comfortably.[56]

With average retirement costs now reaching beyond $730,000,[57] just 18 percent of Americans say they're very confident in their ability to retire.[58]

Employees whose businesses offer a retirement benefit are more confident,[59] but this is typically limited to large businesses.

Small businesses cite administrative complexity and expense as reasons not to offer a retirement benefit,[60] but a personalized retirement benefit sidesteps both of those issues.

It also frees employees to make their own retirement decisions, rather than rely on a limited set of options from a 401(k) provider.

56 *2017 RCS Fact Sheet #1: Retirement Confidence*, Employee Benefit Research Institute, March 2017.
57 Wendy Connick, "The Average Cost of Retirement Is $738,400: Will You Have Enough?," The Motley Fool, April 21, 2017.
58 *2017 RCS Fact Sheet #1: Retirement Confidence*, Employee Benefit Research Institute, March 2017.
59 *2017 RCS Fact Sheet #1: Retirement Confidence*, Employee Benefit Research Institute, March 2017.
60 Catherine Alford, "Why Small Business Owners Don't Offer a 401(k) (But Why They Should)," Captain401, 2017.

Step 1: Businesses set the allowance.

Unlike other personalized benefits, personalized retirement benefits don't use a reimbursement structure. Instead, businesses give employees a monthly allowance intended for retirement. Employees are free to either accept the money as a taxable wage increase or to direct it into an IRA.

Because the government limits IRA contributions to $5,500 a year, businesses should plan on monthly allowances of around $458 or less. Businesses that also wish to cover some portion of employees' IRA administration fees can offer slightly higher allowances.

There are no formal guidelines attached to this allowance, but in general, businesses should offer the same amount to all employees.

Step 2: Employees make purchases.

Employees who choose to use the allowance for retirement will set up an IRA. They can choose either a Traditional IRA or a Roth IRA, and they can also choose the financial institution they'll open the account with.

Employees then authorize a payroll deduction for the IRA. They can choose to deduct a partial amount of the company allowance, the full amount, or the full amount plus any additional funds they choose.

Once the company transmits the funds, employees are free to decide where to invest their funds.

Step 3: Businesses transmit the deduction to employees' accounts.

A company's only responsibility with a personalized retirement benefit is to authorize the transmission of employees' funds to their accounts.

If the employee participates in a Traditional IRA, businesses should make the transmission pretax. If the employee participates in a Roth IRA, the company should make the transmission posttax.

With a personalized retirement benefit, businesses don't have to deal with rising administrative fees or complicated administrative requirements. Employees, meanwhile, can choose where to invest their money and who will handle their investments—they can even choose not to invest at all.

Finally, for employees who choose to make pretax contributions to their retirement accounts, both the company and its employees save an average 15 percent in FICA payroll taxes.

Personalized discount benefits

One increasingly popular way businesses have been competing for talent is by offering perks, such as an on-site gym or catered meals.

While they're not among employees' most-desired benefits, employees do enjoy these offerings. Day care services, gyms, snacks, and coffee all play at least some role in job seekers' decisions on where to work.[61]

Small businesses struggle to offer these perks, however. The costs are often high, and it's always difficult to choose offerings that all employees will appreciate. Not every employee feels comfortable working out at the office, for example, and many more have different meal preferences.

Offering personalized perks—in the form of employee discounts—is a more cost-effective way to satisfy the largest number of employees possible.

Step 1: Businesses negotiate group discounts.

Offering discounts as a benefit means small businesses must negotiate with local consumer service providers for better rates. A company may be able to

61 Kerry Jones, "The Most Desirable Employee Benefits," *Harvard Business Review*, February 15, 2017.

work out a discounted membership agreement with a gym, for example, or a flat discount at a restaurant.

Businesses should select the services their employees want and negotiate as many deals as possible.

Step 2: Employees make purchases.

Once a company makes a variety of employee discounts available, employees are free to buy from the vendors they like best. They can also buy what they want without being limited to options based on other employees' preferences.

With employee discounts available, small businesses escape the up-front costs of popular perks. At the same time, employees can choose the products and services they prefer, while paying a rate that wouldn't be available to them as a general customer.

Back to top

When to offer personalized benefits

Offering personalized benefits allows small businesses to hire and keep employees without any of the pains associated with traditional options. Unsurprisingly, it's an attractive option for nearly all groups.

Personalized benefits are particularly helpful for small businesses in any of the following situations.

Offer benefits for the first time.

A personalized benefits approach is a good choice for businesses that have never offered benefits of any kind.

Deciding to offer benefits for the first time can be intimidating, and the wrong decision can cost the company its most important assets—people, time, and money. And once the business makes a choice, it's hard to make changes without negatively impacting employees.

Personalized benefits allow businesses more breathing room. Employees are free to make the benefits decisions that will provide the most value, and the company is free to make necessary changes with limited fallout.

Maximize employees' tax-free compensation.

Many small businesses give employees increased wages or taxable stipends to cover benefits. These wage increases cost businesses 7.65 percent in payroll taxes on every dollar spent, while employees pay additional payroll and income taxes of nearly 30 percent on every dollar they receive.

That adds up to thousands of dollars in unnecessary taxes in the course of just a year.

By offering personalized benefits instead, these businesses can take the money they're spending on wage increases and make it even more effective.

With personalized benefits, the company maximizes each employee's total compensation with tax-free dollars, while saving the company tens of thousands of dollars in wages and taxes.

> Wage increases cost businesses 7.65 percent in payroll taxes on every dollar spent, while employees pay additional payroll and income taxes of nearly 30 percent on every dollar they receive.

Formalize and automate a personalized benefits program.

Though they may not be familiar with personalized benefits, some small businesses are acquainted with reimbursement arrangements and have attempted to administer them informally.

Most job candidates and employees don't value these informal arrangements, though, because they feel cheap and illegal.

Upgrading to a formal personalized benefits program keeps businesses in compliance with tax, labor, and privacy laws, and helps them increase employee satisfaction and impress job candidates too.

Replace traditional group benefits.

Whether it's because they've grown too expensive or caused too many employee complaints, traditional group benefits can often stop being useful to small businesses.

A personalized benefits program is a useful replacement in this case. Although employees will need to adjust to a new system, switching to personalized benefits solves problems for everyone involved. There are no more annual renewals and employees have more control over where their benefits dollars go.

After the transition is complete, very few businesses return to traditional group benefits.

Businesses struggling to make a decision between personalized benefits, traditional group benefits, and wage increases can consult this chart to compare and contrast.

	Personalized benefits	Traditional group benefits	Wage increases
Is a formal benefits solution	X	X	
Is tax-free to businesses and employees	X	X	
Is designed specifically for small businesses	X		
Provides value to all employees	X		X
Allows businesses to control their costs	X		X
Protects businesses from having to deal with consumer service providers	X		X
Allows employees to buy what fits their personal needs	X		X

Offer benefits to employees on spouse, parent, and individual plans.

Traditional group benefits rarely provide value to employees who already have access to health insurance through a parent or spouse.

A personalized benefits approach, on the other hand, offers something to everyone. Because employees have freedom in how they spend their allowances, they can direct funds toward the consumer services their existing health insurance doesn't cover.

For more information, see "How personalized benefits work" on page 16.

Offer benefits to employees in multiple states.

Small businesses with employees in multiple states face significant challenges finding a benefits solution. Traditional group benefits don't work because provider networks for all benefits vary by state, and employees in different locations often have different needs. When it comes to health benefits, purchasing a national policy or multiple group policies to address these problems is often too expensive.

Personalized benefits offer a workable solution. Because employees make their own choices on how to spend their benefits allowances, they don't need to worry about whether the company covers their choices. There are no tricky regulations to consider, and it's more affordable for both employees and the business.

Back to top

How to offer personalized benefits

Once small businesses have decided to offer personalized benefits, they're ready to craft, implement, and manage their program.

To offer personalized benefits, a small business must:

- Decide which benefits to offer.
- Set monthly benefit allowances.
- Create the formal personalized benefits program.
- Launch the new personalized benefits program.
- Assist employees when they need help.
- Administer the benefits program.

This section will discuss each stage of offering personalized benefits in detail.

Decide which benefits to offer.

When crafting a personalized benefits program, small businesses can choose to offer personalized benefits in any or all of the following categories:

- Health
- Cell phone
- Education
- Transportation
- Retirement
- Discounts

There are compelling reasons to offer all types of benefits (see "How personalized benefits work" on page 16). Most small businesses will be selective with their choices, however, based on their budget constraints and employees' preferences.

Here's a step-by-step guide to making program and budget decisions.

Step 1: Set your total benefits budget.

To decide which categories are right for their company, small business decision makers should start by defining their total benefits budget. This budget should reflect the amount of money the company is willing to set aside each year for benefits.

The more generous a company is with their budget, the more value its employees will receive from the benefits program.

Step 2: Maximize personalized health benefits.

After they set their total benefits budget, small businesses' first priority should be to select and maximize a personalized health benefit.

Health is the benefit employees desire most,[62] outranking frequent wage increases and paid leave.[63] Even more telling, more than half of employees say they'd bear more of the overall cost if it meant better health benefits.[64]

Businesses whose goal is to hire and keep employees will get the most value from offering a personalized health benefit. To provide the best benefit possible, businesses should plan to dedicate as much of their total budget toward health as they can.

In 2017, small businesses can provide up to $4,950 toward personalized health benefits for single employees and up to $10,000 toward benefits for employees with a family.

If this level of funding isn't possible, businesses should start by investigating average individual health insurance premiums in their area. Then, they can choose an amount that covers as much of their employees' premiums as possible.

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62 Kerry Jones, "The Most Desirable Employee Benefits," *Harvard Business Review*, February 15, 2017.
63 "Millennials at Work," Bentley University, November 11, 2014.
64 *U.S. Employee Benefit Trends Study: Work Redefined: A New Age of Benefits*, Metlife, 2017, 8.

Businesses can consult this chart to learn the average monthly premium in their state in 2016.

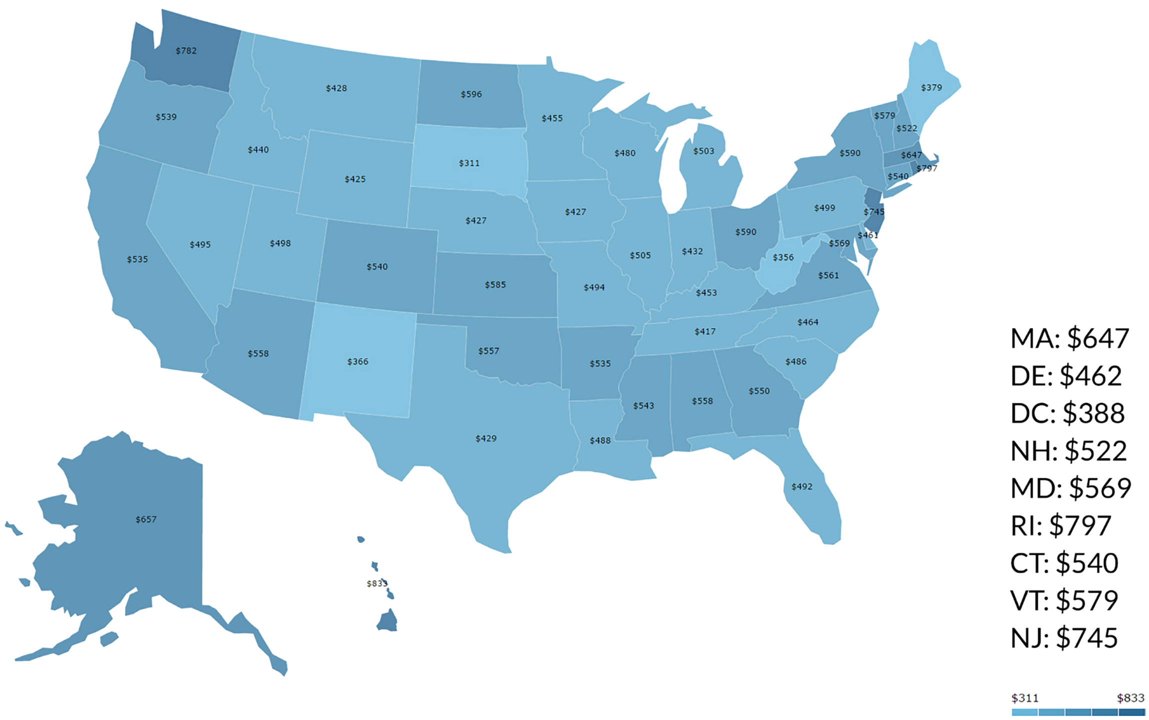
State	Average individual premium
Alabama	$288
Alaska	$684
Arizona	$221
Arkansas	$293
California	$297
Colorado	$281
Connecticut	$351
Delaware	$354
Florida	$283
Georgia	$279
Hawaii	$260
Idaho	$272
Illinois	$247
Indiana	$264
Iowa	$273
Kansas	$241
Kentucky	$233
Louisiana	$327
Maine	$309
Maryland	$245
Massachusetts	$247
Michigan	$237
Minnesota	$250
Mississippi	$264
Missouri	$303
Montana	$320
Nebraska	$320

State	Average individual premium
Nevada	$284
New Hampshire	$260
New Jersey	$325
New Mexico	$195
New York	$372
North Carolina	$371
North Dakota	$313
Ohio	$249
Oklahoma	$285
Oregon	$254
Pennsylvania	$245
Rhode Island	$259
South Carolina	$300
South Dakota	$318
Tennessee	$275
Texas	$251
Utah	$231
Vermont	$465
Virginia	$280
Washington	$255
West Virginia	$352
Wisconsin	$290
Wyoming	$454
Washington, D.C.	$229

Source: *Increases in 2016 Marketplace Nongroup Premiums*, the Robert Wood Johnson Foundation and the Urban Institute, May 2016.

Businesses can also use this chart to see the average monthly allowance their peers in each state set aside for premiums under a personalized health benefit in 2016.*

Allowance by state



Source: *Small Business Health Insurance Reimbursement: Annual Report 2017*, Zane Benefits, January 2017. *These amounts reflect allowances for both single employees and employees with a family.

If their budgets allow it, businesses should set employees' health allowances comfortably above their expected premium expenses. This gives employees an added source of support for nonpremium expenses, such as deductibles, copays, and prescription drugs.

Step 3: Choose other benefits based on employee interest.

After maximizing personalized health benefits, small businesses should choose which benefits they'll spend their remaining budget on.

National surveys suggest that next to health, employees value retirement[65] and education benefits most[66]. However, it's always best for businesses to determine their employees' specific preferences.

The easiest way to do that is to ask.

Here's an example survey businesses can use to gather feedback from their employees.

Please rank the following benefits from your most desired (1) to your least desired (5).

1	2	3	4	5	Cell phone
1	2	3	4	5	Education
1	2	3	4	5	Transportation
1	2	3	4	5	Retirement
1	2	3	4	5	Discounts

When analyzing results, businesses must calculate the average ranking for each benefit so they can determine which benefits employees prefer most overall. To do so, they need to weight each ranked position (e.g., 1, 2, 3, etc.).

The weights in this survey are assigned as follows:

- An employee's #1 choice has a weight of 5.

65 Lydia Dishman, "These Are The Best Employee Benefits And Perks," Fast Company, February 3, 2016.
66 Kerry Jones, "The Most Desirable Employee Benefits," *Harvard Business Review*, February 15, 2017.

- An employee's #2 choice has a weight of 4.
- An employee's #3 choice has a weight of 3.
- An employee's #4 choice has a weight of 2.
- An employee's #5 choice has a weight of 1.

Businesses can then calculate each benefit's average ranking by filling out the formula in the following table for each benefits option.

Total responses		Weight		Score
Rank 1 count	x	5	=	
Rank 2 count	x	4	=	
Rank 3 count	x	3	=	
Rank 4 count	x	2	=	
Rank 5 count	x	1	=	
			+	**Total score:**

The benefit with the highest score is employees' most-preferred benefit. Employees' subsequent choices are those with the next-highest scores.

These results should be enough to help small businesses prioritize their benefits offerings beyond health.

Set monthly benefit allowances.

Once small businesses know which personalized benefits their employees want, they can think through how to distribute their remaining budget.

Beginning with employees' top choice, the company should set a monthly allowance for each employee. To do so, the company must consider a number of things, including:

- Who will be eligible for this benefit?

- Which expenses will this benefit cover?
- How high does the allowance need to be for the benefit to be useful?

When determining eligibility, businesses must remember to include all employees the benefit's underlying legal structure automatically deems available (see "How personalized benefits work" on page 16 for more information on eligibility under each benefit). For personalized benefits without formal eligibility guidelines, businesses should be as generous as possible. In general, it's good practice to include all full-time employees as eligible for each benefit.

Similarly, when determining which expenses the company will cover, businesses must include all expenses that meet eligibility guidelines outlined in "How personalized benefits work" on page 16.

Finally, all benefits allowances should be high enough to make the benefit useful to employees. A cell phone allowance, for example, should cover a significant portion of the employee's cell phone bill, while a transportation benefit should cover the cost of a monthly bus or rail pass.

Once the company has made these considerations, it should have a good idea of how much it should budget toward the benefit.

After the company has maximized the employees' top benefit choice, it can move on to the next benefit. The company should continue this process until their budget has been exhausted.

> **TIP:** It's always better to maximize one personalized benefit than to offer several personalized benefits with low allowances. Putting $75 toward a cell phone allowance, for example, provides greater value to employees than putting $25 toward cell phone benefits, $25 toward transportation benefits, and $25 toward retirement benefits.

Create the formal personalized benefits program.

Once small businesses have confirmed which benefits they'll offer and how much they'll budget for employees under each benefit, they're ready to formally establish their program.

This involves completing three steps: picking a start date, canceling all conflicting group benefits, and establishing legal plan documents.

Here's what businesses need to know in order to complete each step.

Step 1: Pick a start date.

The start date is the day the business's personalized benefits program begins. While each benefit can start on a different day, it's easiest for both businesses and employees if each benefit has the same start date.

It's best to start the personalized benefits program immediately if the company doesn't already have a benefits program in place. However, if there are any existing group benefits that the company needs to cancel (see "Step 2: Cancel all conflicting group benefits"), the company should delay the start date until all group benefits have ended.

Step 2: Cancel all conflicting group benefits.

The legal structures supporting many personalized benefits prevent businesses from offering both the personalized benefit and a similar group benefit. A company can't offer a group health insurance policy and a personalized health benefit at the same time, for example.

That means businesses with existing group benefits need to cancel all conflicting offerings before their personalized benefits program can begin.

It's best to cancel all group benefits as soon as possible. If possible, businesses should set the cancellation date the day before their personalized benefits program begins and communicate the changes to employees 60 days in advance of the cancellation date. This will give employees plenty of time to avoid any gaps in benefits coverage.

Step 3: Establish legal documents.

The IRS and the Department of Labor require businesses offering certain personalized benefits to establish and maintain written documents. These documents define critical policies and procedures, such as which expenses are eligible for reimbursement, what the monthly allowances are, and other important details about the company's benefits administration.

Failure to establish proper legal documents could cost businesses tens of thousands of dollars per year in fines and lost tax savings.

While these requirements don't apply to every personalized benefit, it's best to have written documents governing each benefit so that both the company and its employees know what to expect.

> **TIP:** Due to its unique structure, personalized perks in the form of discounts don't need a governing legal document.

Each personalized benefit carries different legal document requirements, but it's best practice for all to include:

- **Named fiduciaries and benefit administrators and their responsibilities.** The document should name the fiduciaries and benefit administrators (typically the same group or individual) and outline their powers. Powers may include designing participant forms, signing administration documents, maintaining benefit data, and appointing individuals to assist in administration.
- **Eligibility requirements for the benefit.** The document should outline eligibility requirements for participation in the benefit. See "How

personalized benefits work" on page 16 for required participation guidelines associated with each benefit.

- **Effective dates of participation.** The document should define effective dates of participation for all benefit-eligible employees, including any new employees the company may hire. The company can have an effective date as early as the employee's first day, or it can implement a waiting period of up to 90 days.[67]
- **Description of benefits provided and excluded.** For personalized benefits operating on a reimbursement structure, the document should define which expenses are eligible for reimbursement and which aren't. See "How personalized benefits work" on page 16 for eligible expense guidelines associated with each benefit.
- **How the company funds the benefit and how it makes payments.** The document should specify how the company makes payments to and from the benefit. Typically, the company will fund the benefit using its general assets and make payments to participants through payroll or direct deposit.
- **Reimbursement request procedures.** The document should establish procedures governing reimbursement request filing, notification of request decisions, and appeals. The Employee Retirement Income Security Act (ERISA) dictates some guidelines on how to handle declined claims for certain benefits. See "How personalized benefits work" on page 16 for more information.
- **Privacy procedures.** With personalized benefits, it's best for a company to determine privacy rules for employees' personal data. For example, with a personalized health benefit, the company should designate HIPAA privacy officers to handle reimbursement requests and specify the rules of use, disclosure, and storage of protected health information.

67 26 U.S. Code § 9831.

- **Information on federal mandates.** Depending on the benefit, certain federal mandates may constrain the document's design. The document should include information on these mandates.
- **The procedure for amending the benefit.** The document should specify the steps a company will take when amending the benefit, including identifying the individuals who have authority to amend it.
- **The procedure for benefit termination.** The document should describe the company's and participants' rights if the company decides to terminate the benefit, including how the company will handle remaining benefit allowances.

The company should also provide employees with a summary plan description (SPD)—a relatively short, easy-to-understand summary of employees' benefits, rights, and obligations under the personalized benefits program.

Due to the complexity of these documents and the required policies and procedures affecting them, small businesses should consider outsourcing this step.

Launch the new personalized benefits program.

The success of a personalized benefits program depends largely on how it's launched. To ensure a good outcome, small businesses must explain the new program to employees and help them use it.

Both steps are vital.

Communicate your benefits program to employees.

Traditional group benefits have dominated the small business market for more than 70 years. Because of that longevity, most employees have expectations about what benefits should look like, how they should function, and how they should be funded.

When you introduce personalized benefits to employees, it's a new way that requires employees to adjust those expectations. Employees aren't used to thinking of benefits as tax-free money, and, at first, they may be resistant to the idea of shopping for their own products and services. The reimbursement structure attached to most personalized benefits may also upset employees because it means they have to perform more up-front work to get their company to fund their benefits expenses.

Once employees understand personalized benefits, these worries dispel. Employees even come to prefer personalized benefits because they allow them more control.

Getting employees to that point, however, requires your company to establish open and in-depth communication about personalized benefits.

During the launch, communications should include:

- what personalized benefits are and how they work,
- why your company chose to offer personalized benefits,
- which personalized benefits are available,
- which expenses those benefits cover,
- when the program will begin,
- how much employees will receive in monthly allowances,
- what employees need to do to get reimbursed, and
- where employees can go to purchase eligible products and services.

Businesses may communicate this information in a variety of ways, but it's best to start with a company-wide meeting. Presenters should adopt a positive tone and emphasize the program's value to both employees and the business. They should also be prepared to field any questions and schedule additional meetings as necessary.

Written communication is also helpful. Formal letters, emails, and brochures are all effective ways to help employees understand how the personalized benefits program works and how it will benefit them.

Throughout the initial communication process, small business owners and managers should make themselves as available as possible to employees. This includes answering emails, taking phone calls, and scheduling one-on-one meetings where necessary.

By investing this time up front, businesses will significantly increase the likelihood of success for their personalized benefits program. Employees will feel cared for, and when the program begins, they'll understand how to use it. Businesses, meanwhile, will save time and money by avoiding employee confusion down the road.

Assist employees when they need help.

With personalized benefits, employees purchase the consumer products and services they want most. This gives employees more control, but it can also pose challenges.

This will be the first time many employees shop for an individual health insurance policy or choose where to invest their retirement money. They may also have to compare cell phone plans or explore unfamiliar public transportation options.

If employees are too overwhelmed by these choices, they may not use their benefits at all. This would defeat the purpose of the program, and neither the company nor its employees would receive any value.

To make sure that doesn't happen, businesses need to provide employees with resources to understand and shop for the right products and services.

Depending on the benefit, this may involve handing out educational brochures, directing employees to helpful online services, or bringing on a benefits provider who can help employees personalize their benefit.

Regardless of which approach businesses take, they must be careful not to advise employees which products or services to buy. In some cases, doing so represents a breach of federal law;[68] at the very least, employees could perceive it as a violation of privacy.

When businesses stick to generalized support, however, they help ensure employees' success with personalized benefits. This generates employee loyalty and helps businesses hire more employees.

Manage the personalized benefits program.

After launching the personalized benefits program, a company's only responsibility is to manage it.

On a monthly basis, this involves reviewing and fulfilling employees' reimbursement or deduction requests. Less frequently, the company may add or remove participants, make changes to the program, or reset or terminate the program at the appropriate time.

Reimburse employees.

Each personalized benefit carries different requirements for processing employees' reimbursement requests (see "How personalized benefits work" on page 16). In general, though, businesses should follow the same procedure with each benefit.

Once employees submit documentation showing they've incurred an expense, the benefit administrator should review the documentation for a description of the service or product the employee purchased, the date of the service or sale, and the amount of the expense.

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68 *How to Self-Administer the QSEHRA*, Zane Benefits, July 14, 2017, 12.

If all information is present and the expense is eligible for reimbursement, the admin must approve the request. If not, the admin should decline the request and notify the employee who submitted it.

If the reviewer declined the request because it was missing required information, they should give the employee a chance to supply it. Then, with the new information, the request can move forward.

If the employee can't provide the missing information—or if the reviewer declined the request for another reason—they should allow employees the right to appeal the decision.

The appeals process should allow the employee sufficient time to submit the appeal, institute deadlines for responding to the appeal, and mandate disclosure of all documents relevant to the initial decision.

The company should appoint a representative to hear the employee's case. The representative shouldn't be the same person who declined the reimbursement request initially.

Businesses typically consider just one appeal. They can allow multiple appeals, though, as long as the same rules apply.

Did you know? There's a notice requirement for personalized health benefits.

While it's always a good idea to send employees a written notice and description of their benefits, the federal government actually requires it for certain personalized health benefits.

According to the IRC, small businesses intending to offer a personalized health benefit leverage a QSEHRA must send employees a notice regarding the benefit every year.[1]

Each notice must:

- inform the employee of their benefit allowance for the year,
- instruct the employee to share that allowance with any health insurance exchange if they apply for a premium tax credit, and
- explain to the employee that they may be subject to a tax penalty under IRC Section 5000A if they fail to maintain minimum essential coverage (MEC) during the year.

1 21st Century Cures Act, H.R. 34, 114 U.S.C. § 18001 (2016).

Once the reviewer approves the reimbursement request, either through the original process or through an appeal, the company should reimburse the employee according to the timeline and processes set out in its legal documents.

The company can use payroll, direct deposit, check, or cash to make a payment. The amount the company pays should be the exact amount of the reimbursement request and, if possible, the company should pay the balance as part of the employee's next paycheck.

The company should also keep an ongoing record of the total funds it has disbursed through its personalized benefits program. This should include all reimbursement requests, the supporting documentation, and whether those requests were approved or declined.

The IRS has a statute of limitations of seven years, so it's best practice to store this information for at least that long.

The IRC also regulates timing of these notices (though they are not enforcing it in 2017). Businesses must send notices each year at least 90 days before the benefit start date.

For employees who become eligible for the benefit midyear, including new employees, the company must supply the notice on or before the day the employee becomes eligible.

For first-time health benefits, businesses must send a notice to all eligible employees at any point prior to, and including, the day the benefit goes into effect.

Businesses can receive fines of $50 per employee (capped at $2,500 per year) if they fail to provide this notice.[2]

2 26 U.S. Code § 5000.

Add and remove participants.

When a company gains or loses employees, it needs to extend or end benefits eligibility appropriately.

Businesses should give new employees written notice and explanation of their benefits, as well as full access to the personalized benefits program according to the timeline outlined in the business's legal documents.

When the company loses an employee, either through termination or voluntary departure, it must handle any outstanding reimbursement requests and end eligibility, also according to the process outlined in its legal documents.

An employee is generally entitled to payment for all approved reimbursement requests made up to the date of the employee's departure.

Make changes to the benefits program.

The company may want to make changes to its personalized benefits program at some point. If so, it's best practice—and in the case of some benefits, required—for the company to follow the procedures for plan amendment outlined in ERISA.

Under ERISA, businesses must notify employees if they make a "material amendment" to the benefit. They must notify employees within 210 days of the end of the year the amendment went into effect.

However, if the amendment "materially reduces" the benefit's value or services, the company must notify employees within 60 days.[69]

The company can notify employees of benefit amendments through an updated SPD or another form of written communication.

Terminate the personalized benefits program.

If the company decides to terminate its personalized benefits program before the end of the benefit year, it must notify employees as soon as possible and reimburse all employee claims they incurred prior to the program's termination.

All other benefits funds may remain with the business.

69 29 CFR 2520.104b-3.

Handle new benefit years.

Traditional group benefits renewal season is a nightmare. At the end of each year, businesses must enter negotiations with their many benefits providers and either accept or reject any changes in terms or pricing. This process wastes businesses' time and rarely results in substantially positive changes.

With personalized benefits, however, setting up a new benefit year is simple. Businesses never have to negotiate with outsiders, and they rarely need to start from scratch.

Instead, the decision maker for the company revisits the company's legal documents. If the company is happy with how the personalized benefits program is working, the decision maker signs an identical copy of the documents for the next year.

If changes are necessary, the decision maker drafts new documents with the updated requirements and signs those.

For guidance on how to decide whether changes are necessary, see "Improve the benefits program based on data and feedback" on page 64.

Back to top

> *With personalized benefits, setting up a new benefit year is simple.*

How to hire and keep people with personalized benefits

The primary reason businesses offer benefits is to help them hire and keep their people.

Just putting a personalized benefits program in place will assist in hiring and retention efforts. Offering any formal benefit makes employees more likely to stay with the business, while offering multiple benefits and allowing for benefits customization only improves employee loyalty.[70]

Yet there are several ways small businesses can fine-tune their benefits program to make it even more effective as a hiring and keeping tool.

Use personalized benefits to make your company stand out.

Businesses trying to hire new employees have to be competitive in a lot of ways, including benefits. After wages, benefits are the top influencer for where someone chooses to work. Nearly 70 percent of job seekers say they'd choose one job over another purely because of benefits,[71] and small businesses must be competitive to win the best talent.

Personalized benefits—while unfamiliar to many job seekers—could be the deciding point in a business's favor. Not only do employees like the idea of customizing their benefits,[72] but the vast majority also say nontraditional benefits make businesses more attractive.[73]

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70 *Opportunity Is Knocking: How Benefits Lay the Groundwork for a Thriving Workplace*, Metlife, March 2016.
71 "Survey Suggests Workers Want Better Health Care Benefits, Not Perks," One Medical Group, July 21, 2016.
72 *Opportunity Is Knocking: How Benefits Lay the Groundwork for a Thriving Workplace*, Metlife, March 2016.
73 *A Snapshot of Competition for Talent in the U.S.*, ICIMS, 2016.

It should be simple for businesses to take advantage of those sentiments and use personalized benefits to differentiate themselves.

During conversations with job candidates, businesses shouldn't wait to be asked about benefits. Instead, they should highlight their personalized benefits program as a leading reason for someone to work for their company.

Businesses should stress that unlike traditional group benefits, their personalized benefits program gives employees tax-free money to spend on the consumer services they find most valuable. The company is never involved in employees' benefits decisions, and employees are free to change their minds whenever they want.

Businesses can also take the opportunity to ask job candidates about their current benefits situation. Whether the candidate is without benefits or has coverage through a family member's benefits, the company's program can provide value.

Finally, businesses should emphasize that with personalized benefits, employees and the company have access to an average of 35 percent in tax savings compared with wages.

Explain personalized benefits to job candidates.

A company's best opportunity to differentiate itself and explain personalized benefits to job candidates is during the interview process. During this time, the company can position itself as not only an expert in new benefits, but also as the job candidate's best choice for employment.

Job candidates should walk away from an interview with a full understanding of how personalized benefits work and why they're better than traditional group benefits.

Incorporate personalized benefits into job offers.

When businesses are ready to hire a new employee, they must be ready with updated offer letters.

These offer letters should explain how the personalized benefits program works and how it fits into the new employee's total compensation.

> A company's best opportunity to differentiate itself and explain personalized benefits to job candidates is during the interview process. During this time, the company can position itself as not only an expert in new benefits, but also as the job candidate's best choice for employment.

Onboard new employees with personalized benefits.

Depending on how businesses structure their personalized benefits programs, newly hired employees may be eligible to participate on their first day or they may face a waiting period of up to 90 days.

Regardless, the time period immediately after the employee becomes eligible is critical in determining their success with the program; if they aren't onboarded and given a full understanding of personalized benefits right away, they're much less likely to take advantage of the program in the future.

New employees should already be familiar with personalized benefits based on conversations during the interview process. Businesses can build on that familiarity.

In the days leading up to the employee's eligibility date, the company's benefits administrator should schedule a one-on-one meeting with the employee. During this time, the administrator should review the concept of personalized benefits with the employee and explain how the company's program works specifically.

After answering all of the employee's questions, the administrator should help them fill out any necessary paperwork. Then, the administrator should share company resources for helping the employee make purchases (see "Assist employees when they need help" on page 52).

The company can consider the employee fully onboarded once the employee has made an eligible reimbursement request through each benefit. Until then, the benefits administrator should be fully available to answer questions and help the employee through the onboarding process.

Integrate personalized benefits with annual compensation reviews.

Hiring is important to any business, but businesses should give equal care to keeping their current employees happy at work. An important factor in that is regular review and adjustment of employee compensation.

Both businesses and employees usually think of compensation as wages only. But a personalized benefits program plays an important role in compensation too—it provides employees with tax-free money to fund some of their most important expenses.

As such, businesses should include adjustments to personalized benefits as part of their strategy to increase compensation.

Depending on their budget, a company usually takes one of three approaches.

Increase personalized benefits contributions instead of wages.

If a company must decide between increasing personalized benefits contributions and increasing wages, it's almost always better for the company to choose benefits.

First, it's what employees want. Nearly 80 percent of employees say they prefer better benefits over higher salaries,[74] and 40 percent would even take a pay cut in exchange for better benefits.[75]

More importantly, though, dollars put toward personalized benefits offer more value than dollars put toward wage increases. With wage increases, businesses must pay an average 7.65 percent in payroll taxes and employees must pay an average of nearly 30 percent in both payroll and income taxes. With personalized benefits, employees have much greater buying power. Because these benefits are tax-free for both the company and its employees, employees have access to 100 percent of the money to fund some of their most important expenses.

If a company chooses to improve its personalized benefits program, it has a number of options. It can offer greater allowances for existing benefits, use the money to fund a brand new benefit, or split the money and do both.

See "Improve the benefits program based on data and feedback" on page 64 for more information on how to make decisions about expanding a personalized benefits program.

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74 "Glassdoor Survey Reveals Four in Five Employees Prefer New Benefits or Perks to Pay Raises," Glassdoor, October 2, 2015.
75 *What Benefits Do Employees Care About?*, LendingTree, February 2017.

Increase wages instead of improving personalized benefits.

Increasing personalized benefits contributions rather than wages is a company's best choice as long as it can be sure employees will use the additional money.

But if employees are already getting maximum value from their benefits program—i.e., most of them wouldn't use a new benefit or any additional money put toward existing benefits—a wage increase is the better option.

Businesses should follow the guidelines in "Improve the benefits program based on data and feedback" on page 64 to determine whether this is the case.

If it is, they can start thinking about how much they want to raise wages. In 2016, the average employee wage increase was about 3 percent.[76]

Increase both wages and personalized benefits contributions.

If a company determines it can expand its personalized benefits program and still have money left over, it should increase both benefits and wages.

First, the company should follow the guidelines in "Improve the benefits program based on data and feedback" on page 64 to determine how to expand its benefits program most effectively.

Then, with the remaining money, it should calculate an appropriate wage increase for employees.

76 "US Salary Increase Budgets Remain Flat Despite Upswing in the Economy and Job Market, Mercer Survey Finds," Mercer, November 12, 2015.

Improve the benefits program based on data and feedback.

Businesses can change their personalized benefits program at any time, but the reset of the benefit year provides a good opportunity for them to reflect and make adjustments that will increase the program's value to employees.

To decide which adjustments are necessary, businesses need to collect information on how employees are using their existing personalized benefits and how they view the program overall.

Once the company has that information, it can apply its findings (see "Make changes to the benefits program" on page 56 and "Handle new benefit years" on page 57 for more information on completing this step).

Collect and analyze employee usage data.

The easiest way for a company to tell if a personalized benefits program is working—or if it could be working even better—is to collect data on how employees use it.

Truly successful programs have a high number of employees using a significant portion of their allowance within each benefit with a little money left over each month. Businesses should keep track of these data points and, at the end of the year, calculate averages.

Businesses can use the following two worksheets to collect and analyze the most important data. The first worksheet tracks how employees are using their benefits; businesses should fill it out every month. The second worksheet distills that information to its most helpful points; businesses should fill it out once at the end of the year.

Worksheet 1.

Employee name	Health Allowance	Health Used	Cell phone Allowance	Cell phone Used	Education Allowance	Education Used	Transportation Allowance	Transportation Used	Requirement Allowance	Requirement Used
	$	$	$	$	$	$	$	$	$	$
	$	$	$	$	$	$	$	$	$	$
	$	$	$	$	$	$	$	$	$	$
	$	$	$	$	$	$	$	$	$	$
	$	$	$	$	$	$	$	$	$	$
	$	$	$	$	$	$	$	$	$	$
	$	$	$	$	$	$	$	$	$	$
	$	$	$	$	$	$	$	$	$	$
	$	$	$	$	$	$	$	$	$	$
	$	$	$	$	$	$	$	$	$	$
	$	$	$	$	$	$	$	$	$	$
	$	$	$	$	$	$	$	$	$	$
	$	$	$	$	$	$	$	$	$	$
	$	$	$	$	$	$	$	$	$	$
	$	$	$	$	$	$	$	$	$	$
	$	$	$	$	$	$	$	$	$	$
	$	$	$	$	$	$	$	$	$	$
	$	$	$	$	$	$	$	$	$	$
Average:		**$**		**$**		**$**		**$**		**$**

Worksheet 2.

Health

Percentage of employees who have used the allowance: _____%

Average employee utilization rate (average monthly amount reimbursed ÷ monthly allowance): _____%

Cell phone

Percentage of employees who have used the allowance: _____%

Average employee utilization rate (average monthly amount reimbursed ÷ monthly allowance): _____%

Education

Percentage of employees who have used the allowance: _____%

Average employee utilization rate (average monthly amount reimbursed ÷ monthly allowance): _____%

Transportation

Percentage of employees who have used the allowance: _____%

Average employee utilization rate (average monthly amount reimbursed ÷ monthly allowance): _____%

Retirement

Percentage of employees who have used the allowance: _____%

Average employee utilization rate (average monthly amount reimbursed ÷ monthly allowance): _____%

> Depending on how you approach the program, it may be hard to measure how often employees are using their discounts benefit. To analyze the effectiveness of this benefit, see “Administer employee satisfaction surveys” on page 67.

Once businesses have filled out these worksheets, they can begin to analyze the data.

Businesses will need to determine their own standards of performance for each benefit, but in general, they should aim for at least 60 percent of employees using each benefit on a regular basis. If a certain benefit doesn’t meet these standards, the company may want to cancel it and reallocate the money toward another benefit.

Similarly, businesses should pay close attention to the utilization rate of each benefit. If employees aren’t using a large portion of a monthly benefit allowance, the company is probably offering too much money for that benefit. Conversely, if employees are maxing out their allowances every month, the company probably isn’t offering enough money. In these cases, the company may want to reduce allowances for benefits employees are underusing and reallocate that money toward a benefit that employees regularly max out.

Administer employee satisfaction surveys.

Employee satisfaction is another important indicator of how well a business’s personalized benefits program is working.

To gauge this metric, the company should administer periodic surveys to employees. Although it can do so at any time, the company will benefit most from surveying employees right before the new benefit year. This way, businesses can demonstrate their commitment to employee satisfaction by using the survey results to make immediate changes to the benefits program.

Depending on the results, the company may want to readjust allowances, expand benefit eligibility, change the administrative process, or cancel a benefit altogether.

The results of a survey can also be helpful when businesses are looking to expand their benefits program, whether by offering a new benefit or deciding where to allocate new funds.

After considering survey results alongside the results of employee usage reports, the company can make informed decisions about how they'll alter their personalized benefits program going forward.

See "Make changes to the benefits program" on page 56 and "Handle new benefit years" on page 57 for more information on how to do this.

Back to top

Conclusion: The time for change is now.

The employee benefits market has changed dramatically.

Influenced by rising costs and increasing government regulation, employee benefits have transformed from simple programs for businesses and employees into a living nightmare for everyone involved.

Offering traditional group benefits sucks. Why? They're too expensive, too complex, and too one-size-fits-all. Over the last 15 years, group health insurance costs have tripled.[77] Today, less than 50 percent of small businesses offer group health insurance, and less than 15 percent offer a 401(k).[78] Recent reforms have only made it harder, and costs are expected to continue to rise. After wages, benefits are the top influencer for where we work. Yet every year, fewer and fewer small businesses are able to use benefits to hire and keep their people. Until now.

We've come up with a new way called personalized benefits. Most people believe benefits are the services a company offers, such as a health insurance plan or 401(k). With personalized benefits, it's the opposite. Companies give employees tax-free money to spend on the consumer services they find most valuable. It's as simple as wages. The company sets a monthly benefit allowance, and employees buy what fits their personal needs. This saves companies and employees an average of 35 percent in taxes compared with wages while avoiding the pains of offering traditional group benefits.

Thanks to these tremendous advantages, thousands of small businesses already offer personalized benefits. By 2025, powerful market forces will

77 *2016 Employer Health Benefits Survey*, Kaiser Family Foundation, September 14, 2016, 35.
78 *2016 Employer Health Benefits Survey*, Kaiser Family Foundation, September 14, 2016, 5.

persuade one million to do so, and personalized benefits will be the primary way small businesses offer nonwage compensation to employees.

Businesses that adopt personalized benefits now will be ahead of the curve. More importantly, though, they'll be offering a uniquely valuable benefits program—one that will give them a significant edge in hiring and keeping talented people in the years to come.

Back to top

Our story

Offering traditional group benefits sucks. Why? They're too expensive, too complex, and too one-size-fits-all. PeopleKeep is a new way to offer benefits called personalized benefits. Most people believe benefits are the services a company offers, such as a health insurance plan or 401k. With personalized benefits, it's the opposite. Companies give people tax-free money to spend on the consumer services they find most valuable. It's as simple as wages. For small businesses that think offering traditional group benefits sucks, PeopleKeep is personalized benefits automation software that makes offering benefits simple, painless, and personal for everyone.

Today more than 3,000 companies use PeopleKeep to hire and keep their people across the United States. PeopleKeep is based in Salt Lake City, Utah.

To learn more about PeopleKeep, visit www.peoplekeep.com.

Ready to see how PeopleKeep can work for your company?
Visit www.peoplekeep.com/demo to preview our software or click below to contact a Personalized Benefits Advisor.

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