



Finding Hidden Employment Costs

The Complete Guide for Small Business Owners

A free resource from



DynamicHR
Total Human Resource Administration

As your company grows, it becomes increasingly difficult to handle all of the employment costs involved. Here are just a few facts about small business owners that might turn your hair grey:

- Almost 50% work more than 40 hours a week
- Around 40% take less than 1 week of vacation per year
- Nearly 20% say that regulations on small business are their greatest source of stress

These concerns grow with your business. Managing all of these challenges well is incredibly difficult and leaves next to no time for thinking about cost management. Although many factors place cost burden on a small business, we'll address cost management in these areas:

1. **HR Administrative Costs**
2. **Insurance Costs**
3. **Unemployment Costs**
4. **Vendor Consolidation**

In each, we'll take a look at some of the most critical cost issues affecting small businesses and offer solutions for eliminating headaches and reducing risk related to each issue. Overall, we want to help you shine a light on hidden or unknown costs, and help you find ways to manage them as a small business owner.



HR Administrative Costs

It's hard to fix what you don't know is broken. Managing costs efficiently and proactively means that business owners have to have the following:

1. Visibility into costs
2. Time to monitor costs
3. Ways to measure opportunity cost against current investments
4. Strategic planning and forecasting



Just meeting the criteria above doesn't mean you'll never have any hidden costs. While it is relatively easy to track payroll and benefits costs, it can be hard to determine the total cost of employment, including vendors, taxes, fees, premiums, and the time internal resources spend doing HR-related tasks. Some of these hidden costs might be intentionally kept from view by vendors, or they might be incurred unintentionally through inefficient processes or regulatory burdens. What you need is a transparent view of all costs, and advice on where spend can be redirected to improve productivity and your bottom line.

How Are Costs Hidden?



Add-on Fees

Most payroll services charge for W-2s, garnishments, custom reports, and ACA reporting, making it difficult to know the total costs. These services are often “in addition” to the standard fees charged by providers, quickly racking up bills.



Lack of Real HR Expertise

Having internal resources do HR is often inefficient, despite good intentions. Do any of these sound familiar?

- Reconciling and keying time data into the payroll system or payroll data into the General Ledger
- Tracking attendance and paid-time-off balances
- Updating benefit carriers and other vendors
- Submitting state unemployment filings
- Allocating employee costs across departments



Agent Commissions

Commissions for insurance agents are embedded in insurance premiums, making it hard to ascertain the actual cost of benefits administration. It is especially important to keep track of these costs as insurance benefit expenses continue to rise. This will be discussed further in a later section.



Workers' Compensation

Workers' compensation, if not tightly managed, usually results in a catch-up payment in the annual audit. Injuries and compensation can practically drown owners and managers in paperwork.



Unemployment Taxes

Unemployment tax rates are communicated in December, often through a payroll service, and then paid quarterly. These taxes are very easy to forget.

Now that we know the most common problem areas of HR-related cost management for small businesses, it's time for some solutions:

Transparent Pricing On Administration Fees

Some vendors can try to sneak costs past with you with ambiguous wording or by failing to disclose which services are not included. You need vendors with transparent pricing strategies. No hidden fees or customer-service runarounds. Budgeting and forecasting is simple and cash flow is easier to manage when employment expenses are clear and well-known.

Streamlined Cost Allocation

Connecting full employment costs to payroll simplifies the accounting burden, and helps reports show the true cost of employees. For example, if there are shared or split resources, those full costs can be shared or split as a consistent rule, or can vary each payroll. These types of options allow you to control reporting for complete transparency.

HR and Accounting Integration

Set up your custom reporting to feed payroll cost reporting directly into your general ledger. Consider an integrated timeclock or timesheet import feature to automate time reporting for hourly employees into payroll. This reduces errors and the time spent reviewing and reconciling. Many benefits carriers have file feeds that keep you in sync and updated so that billing remains accurate.

Managing Insurance Costs

Although insurance commissions were specifically mentioned earlier as an unknown cost, there are several other aspects to handling insurance expenses that should be explored in more detail. Like the problems, the solutions to mitigating rising insurance costs are multi-faceted.

Rising insurance costs have presented businesses with a difficult problem. To visualize this problem, consider this question - what is the best way to handle a 15% increase from a health insurance carrier? At first glance, there may be 3 apparent options: increase employee's cost, decrease benefits, or absorb the increased cost as the plan sponsor.

Unfortunately, the first two choices impact an employee's perception of what they receive in total compensation, encouraging them to look elsewhere for more competitive options. However, the last option chips away at the bottom line. In fact, for a \$5MM small business with 10% earnings, choosing to absorb medical increases over a period of seven years actually results in a loss. This example even accounts for 4% revenue growth!



Strategies To Manage Insurance Costs

The following strategies have grown in use and effectiveness:

- Shift to (or secondary offer), a QHDP and pre-fund Health Savings Accounts
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- Move to self-funding, shared funding, or similar alternative to fully-insured
- Medical cost “layering” using indemnity plans
- Extra-contractual benefits to incentivize employee’s consumerism, including direct negotiations with providers

Each of these strategies are effective when properly implemented, but can have catastrophic implications if managed improperly.

There are four questions to ask when considering each strategy:

- Will my employee’s perceive this change to be a benefit enhancement, or reduction?
- What impact will this change have on my organizational budget?
- What additional risk is my company taking?
- What additional out-of-pocket risks are my employees absorbing with this change?

Now, let’s examine one of the recommended strategies using these four questions:

Qualified High Deductible Plans (QHDP) with HSA funding:

Employee Perception

This is likely not a new concept to your employees. However, enrolling in an HSA plan for someone accustomed to a traditional health plan (especially low-deductible plans) can be intimidating. Employees might fear the loss of office visits and prescription copays. What should be presented, is the total annual household exposure and cash flow. The HSA will always, always, win this argument. Whether the employee is a non-user or chronic user, the HSA wins. However, the employer must contribute something to each enrollee's health savings account for at least the first year. A good broker will present these options, educate the employer's group, and calculate all associated costs.

Organizational Budget

The insurance premium for a QHDP will be less than a comparable deductible traditional plan. Therefore, as employees are encouraged to enroll in the QHDP, the company saves premium that can be used to fund HSA accounts, or a portion of the savings can be passed to the employee in the form of reduced payroll deductions for the chosen HSA plan. This approach works well for the short term. Long-term, when HSA account balances grow over time, higher deductible options can be added (even as secondary options) at a lower premium. Ultimately, when properly implemented, a QHDP with deductible equal to maximum out-of-pocket (\$7,350/\$14,700) with 100% coverage thereafter should be a plan on the benefits menu. If "company A" currently offers an "average" traditional plan with a \$1500 single deductible, transitioning to a \$7350 HSA would cut their insurance premiums in half.

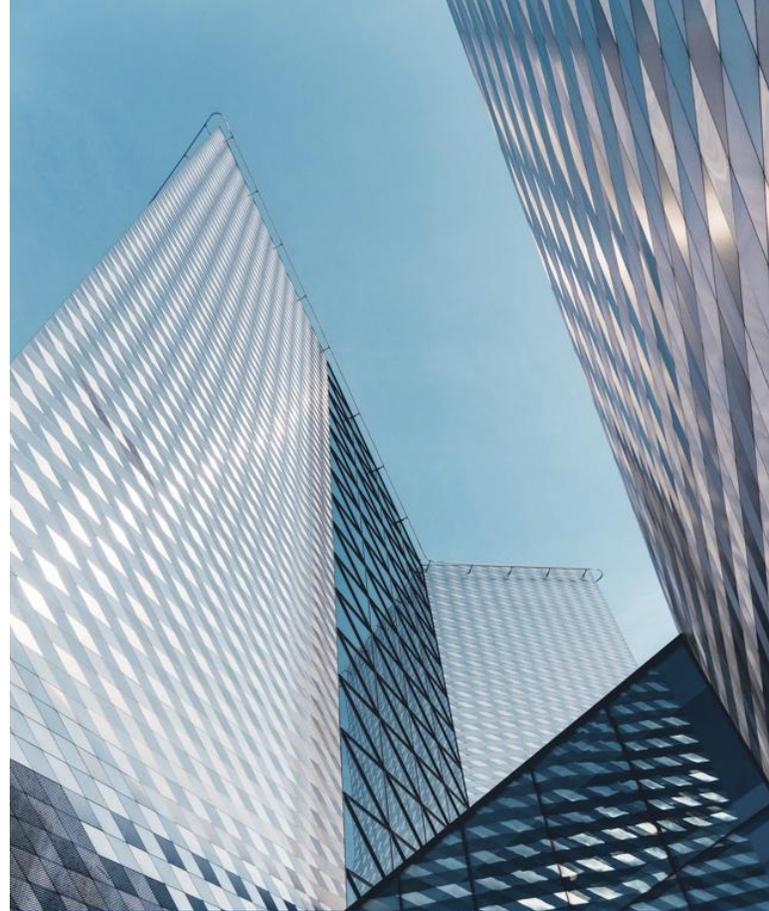


Additional Company Risk

None.

Additional Out-of-Pocket for Employees

None. It might seem like increasing an employee's deductible would increase out-of-pocket expenses. In reality, most ACA-compliant plans offered today have a maximum out-of-pocket limit equal to IRS guidelines (\$7,350/single for 2018). Also, if the average deductible is \$1,500/single, the only reduction in benefit when moving to a similar deductible QHDP is flat-dollar copays. Consider that paying an office visit copay at \$30 with after-tax money actually costs about \$40 in wages. Now consider paying for that office visit at \$100 (retail) with pre-tax HSA dollars. This costs \$60 more but only when used. If an employer matches HSA deposits \$1 for \$1 (up to a limit), now an office visit costs \$30 and reduces future deductible! Another win!



Although we have only looked at one example, remember that this four-question framework should be applied to all of the strategies mentioned to help mitigate potential issues.



Managing Unemployment Costs

Flexible Staffing

If your business has seasonal cycles, a great way of managing unemployment exposure is to use a temporary service instead of laying off each year during down times. Identify patterns and build a flexible staffing plan to reduce exposure AND still meet staffing needs.

Involuntary Termination

Unemployment claims are won before the claim even starts with effective support throughout the involuntary termination process. Preparing key documentation and avoiding common missteps is critical for putting yourself in a good position to contest any future claim.

Claims Management

Good risk specialists know the best (and worst) ways to contest a claim. It's important to have expertise on your side in this area especially. A solid claims process includes: manager documentation review, timely claims documentation and form submission, and unemployment hearing representation.

Placement

You might consider helping a former employee find another suitable position. A quick placement somewhere else where their skills, talent, and cultural fit may be better is the best way to reduce unemployment liability.



Vendor Consolidation

We've discussed how specific vendors can cloak costs through a variety of methods (e.g. charging for additional necessary services or disguising commission fees). What we have not discussed is how using numerous vendors can quickly multiply these hidden costs. Consolidating vendors is a crucial strategy for ALL business owners to help eliminate redundancies, improve processes, and lower administrative expenses (and headaches). Vendor consolidation can help you sleep better at night and get more enjoyment out of those rare vacations. Why not let the professionals handle problems?

Popular vendor functions

Vendors can handle nearly any operation within a business, but here is a list of the most popular vendor functions, some of which were mentioned earlier:

Payroll

Tax compliance

Workers compensation insurance and related claims management

Accounting services

Unemployment claims filing and management

Health insurance for yourself and your employees

Retirement planning and services

HR tasks such as running open position ads, interviewing, hiring and all related paperwork and personnel files

All other insurances and claims activities

Lawsuits



Pay More Attention to Vendor Selection

Most small business owners spend each day making hundreds of decisions on how to run their business. Each decision determines whether that day, week or year is profitable. Making critical decisions typically involves numerous vendors that interact with the business owner – daily, weekly, monthly, quarterly, and annually.

Vendors are found through recommendations, hopeful Google searches, prior experience, or even relatives or contacts in a particular industry. While the decision to choose one vendor over another is often made in an effort to become more efficient or economical, the final decision is often reached with too little information. Sometimes there is no rhyme or reason to a decision that is made out of necessity or convenience because other issues are more pressing.

Additionally, once a vendor selection is made, business owners often try to not disrupt the relationship no matter how dysfunctional it may become. For many business owners, their ability to choose the right vendor diminishes proportionately according to their own knowledge about that industry. For example, a technology company can select the best software solution, but they might not understand how to provide a competitive insurance package for their employees.

Get Perspective On The Cost

The best way to get started with vendor consolidation is to step back from the business to review vendor relationships. Once you have perspective, there are two ways that you should think about cost that can help you become more efficient, competitive and profitable.

Direct Cost

Direct cost savings (often easily measured) are derived from lowering the actual daily cost of doing business. An example of direct cost savings would be finding a less expensive provider or implementing a new method to save time on operational tasks.

It might be helpful to consider the following direct cost savings strategies with your vendors:

- Can money be saved by simply changing to the direct competitor of a current vendor?
- Can one vendor handle tasks or operations that two or more currently manage?
- Does a new vendor offer clear competitive advantages in their marketplace?
- Is it worth completely outsourcing an operation that is currently managed in-house using a vendor solution?



Opportunity Costs

The second method of cost savings is through lowering the opportunity costs of running a company. Countless small business owners admit to not having enough time or energy to manage non-core tasks of the company.

It is tempting to dismiss national research showing that task-oriented inefficiencies cost small business owners thousands of dollars per year as “irrelevant” or only for the “other guys.” However, these statistics are not only accurate, they are understated.

- HR at 70% of small businesses is handled by an owner or someone with other primary responsibilities
- These tasks can absorb more than 13 hours a week total
- 30% of small business owners spend more than six hours a week on payroll tax administration alone

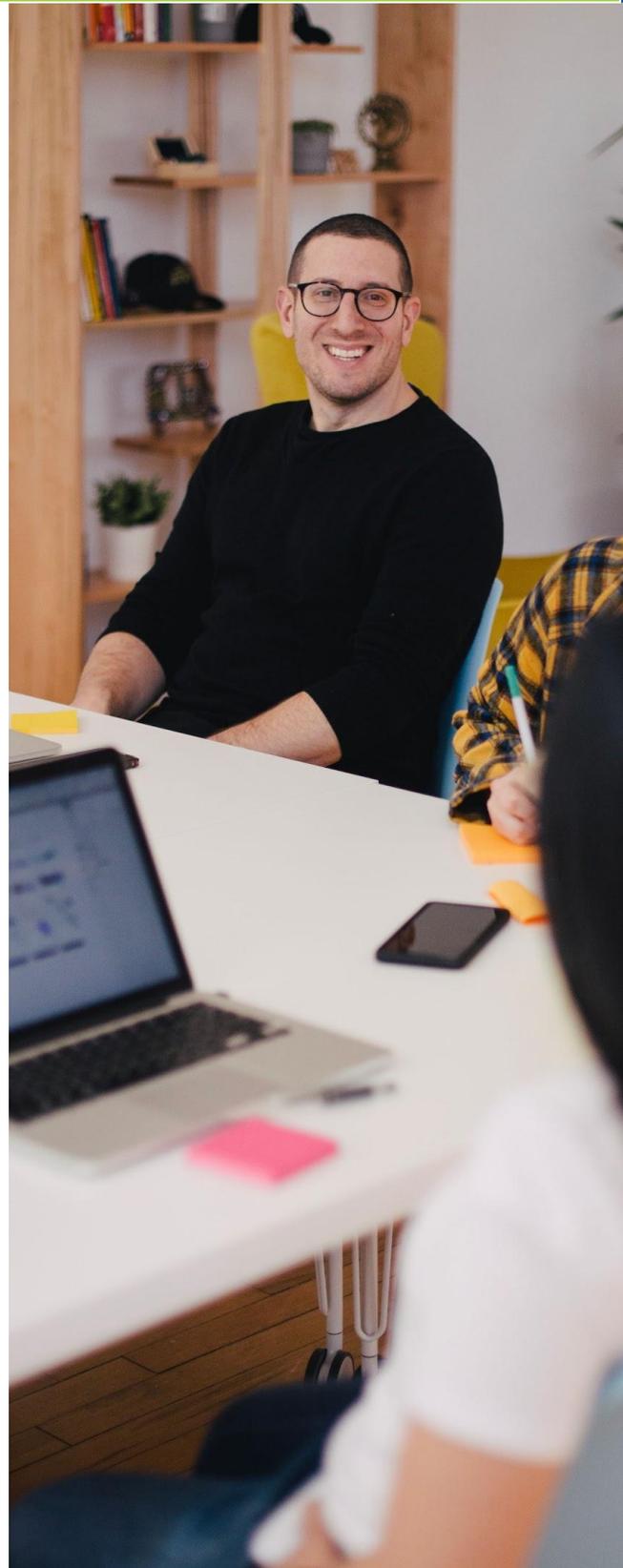
A quick calculation using these figures shows that business owners and other crucial staff members spend up to 30% of their time EVERY week on HR-related tasks. The opportunity cost here is staggering as small business owners could use this time and energy to focus on:

- Sales growth
- Training
- Relationship development
- Conferences
- Employee management
- Strategy development
- Vendor review
- Much-needed vacations

The impact that 30% of a small business owner’s time can make when dedicated to growing and sustaining their company is enormous.

Conclusion

Hidden costs can be found in any company, but knowing where to look is crucial. While there are many ways to reduce hidden costs, the most important thing is to get started. A trusted partner can guide you through this process and offer help as your business grows and adapts.



We hope you find this resource helpful. Our goal is to make your life as an employer easier, and help your company grow.

**If you need HR expertise,
give us a call.**



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