SCHECHTER BENEFITS ADVISORS | UNCOMMON SOLUTIONS to Design, Educate & Manage

HR & BENEFITS UPDATE

Q4 2017

New Vision of HR: HR Outsourcing

HUMAN RESOURCES

How and when companies use HR outsourcing is changing. Until recently, HR outsourcing commonly included services such as outsourcing payroll, benefits administration, onboarding, HR administration, HRIS maintenance, compensation and/or compliance. Now, though, organizations are choosing to outsource functions that were previously exclusive to internal HR experts — such as employee & labor relations, talent acquisition and training & development. As the outsourcing of HR functions continues to evolve, it's important that organizations understand the reasons for, and advantages of, utilizing this model.

Reasons Organizations Outsource HR

Most companies outsource their HR functions for one or more of the following reasons:

- Reduce labor and operating costs
- Gain access to expertise not available internally
- Leverage HR and benefits administration technology
- Improve service delivery to employees
- Maximize efficiency
- Focus on the core business
- Gain a competitive advantage in their industry

These standard and new outsourcing options are leading to visible growth in the HR outsourcing industry. The October 2016 edition of *ReWork* reports that, "In the last few years, the outsourced HR industry has taken off, bringing in an estimated $165 billion annually." The article also states that "nearly 85% of all firms now turn to an outside organization for at least some of their HR functions."

With such strong growth, one might believe the industry is only intended to serve Fortune 500 companies. However, *Business News Daily* reports that smaller businesses that use an outsourced HR model may grow faster than average-sized businesses. That's because outsourcing HR functions can free up some of the organization's internal time and resources, enabling it to focus on business goals and objectives. Additionally, automating the administrative tasks of managing people, benefits and payroll using an outsourced vendor's HR technology reduces staff time and labor — which also may contribute to the growth statistics. Determining whether these growth figures bear out over time will require further study.

Full or Partial Outsourcing Support Options

Not all organizations are jumping head-first into outsourcing their HR capabilities. Many larger firms with a full complement of HR staff members believe they don't need or cannot afford what may be seen as an additional "layer" of HR support. While that's understandable, what these organizations don't realize is that outsourcing HR can provide a return on investment by improving the productivity of both employees and managers. Organizations that choose to outsource HR can shed the time and resource constraints of administrative tasks, employee service needs and the ever-increasing compliance duties of HR. Instead, they can focus on more strategic elements of their business, such as workforce analysis and planning, succession planning and organizational development activities aimed at improving performance and productivity.

Similarly, smaller organizations can benefit from selectively outsourcing HR functions to minimize administrative work, enable manager and employee self-service, and automate previously paper-based workflows. When small

"New Vision of HR: HR Outsourcing" continued from Page 1

organizations outsource employee support functions – such as employee phone calls, email inquiries, employee service requests, etc. – then their internal HR staff is free to carry out the more value-added work of HR strategic planning. In many smaller organizations, the effective outsourcing of HR can actually eliminate the need for an internal HR function altogether, resulting in lower labor and operating costs for the organization.

So how can an organization determine if outsourcing selected functions may be a good strategic shift for them? Start by performing an HR audit and due diligence to compare HR capabilities, costs and service levels of the internal team to those of a reputable, experienced outsourcing firm.

NFP HR Services provides full and partial HR outsourcing services to organizations of all sizes, in industries such as financial services, hospitality, pharmaceuticals, technology, consulting and not-for-profits. Our service offerings include employee and manager support by telephone and email, Monday – Friday, 7:00 a.m. – 7:00 p.m. CT. We're staffed by HR experts, payroll professionals and project managers with a minimum of 18 years of HR and management experience.

Women in Retirement: 60 Percent Not Saving Enough

RETIREMENT

In November 2016, the Texas Conference for Women surveyed attendees about their retirement savings and found that almost 60 percent weren't putting away enough money. In fact, many weren't even sure if they were going in the right direction. As one attendee put it, "I don't know if I'm on track, and that's the worst part."

Many women are doubtful they can retire comfortably, if at all. Consider these results from the 17th Annual Transamerica Retirement Survey:

- Women believe they'll need to save $500,000 in order to feel financially secure in retirement. Among those who estimated their savings needs, 56 percent said they "guessed."
- Most women (64 percent) don't have a backup plan if they're forced into retirement sooner than expected.
- Women's total household retirement savings is $34,000 – no change since 2012 – whereas men now have $115,000 saved for retirement, up from $50,000 in 2012.
- Women's emergency savings is $2,000; men's is $10,000.

Retirement Pitfalls

Your participants may be facing these struggles as well. Retirement planning is a daunting task and women have different struggles than men, including:

- **Gender Pay Gap:** Women tend to make less, which translates to lower earnings and savings, as well as reduced Social Security benefits.
- **Cultural Expectations:** Women are more likely to take time off work to care for children and/or aging parents.
- **Longevity:** Women have longer life expectancies, resulting in greater savings needs.

It's not just a gender issue though: many Americans – men and women alike – struggle to prepare for retirement.

Why?

1. While many are experts in their particular career, what does the average participant really know about saving and investing? For many, the answer is "not much" — it probably wasn't part of the curriculum at school. Simply put, people don't know what people don't know.
2. We live in a culture where spending beyond a person's means is the norm. According to NerdWallet, the average household debt is staggering: households in the U.S. have an average of $16,000 in credit card debt, $27,000 in auto loans, $48,000 in student loans and over $190,000 in mortgages. How can anyone get ahead if they're saddled with debt?

Taking the Power Back

While the outlook seems gloomy, it doesn't have to be. Encourage your female participants to sit down and review where they stand financially. They can then gain the knowledge needed to move forward. An important first step would be to make a retirement plan and write it down. You wouldn't plan a cross-country road trip without a map to guide you, so why would you approach retirement any differently?

For more information on financial wellness programs, please contact your NFP plan advisor.

Five Ways to Expand Your Definition of "Benefits" to Include Wellness

HEALTH AND WELLNESS

When we think of employee benefits in today's traditional landscape, we don't typically include wellness within that core definition. Instead, wellness is often considered a standalone strategy. But this can be a disastrous scenario, considering how employee benefits and well-being go hand in hand. Most employees think of the two as the same and expect well-being initiatives to be included in their workday through fitness trackers, standing desks, flex time, healthy food options, etc.

"Five Ways to Expand Your Definition of "Benefits" to Include Wellness" continued from Page 2

As wellness becomes a standard offering, employers should embrace it as part of a benefits package. When it comes to integrating benefits and wellness successfully as one, consistency between the two is key. Annual enrollment is on the horizon; here are five steps benefits managers can take now to streamline their approach to workplace wellness:

1. **Implement a Consistent Strategy.** Wellness is often viewed as reactive. For example: when claims costs go up, biometric screenings are subsequently put in place. Another example: if new data suggest chronic conditions are on the rise in a given year, incentives tied to condition management may be implemented. This reactive strategy isn't effective or engaging, and it often leads to low participation and possibly employee resentment.

   As you communicate your benefits, be sure to include communication on wellness — not only your philosophy and vision, but also tips and advice on how employees can integrate each benefit they enroll in with wellness services, perks and resources.

2. **Make Eligibility Requirements Uniform.** In addition to communicating your aligned and integrated vision, philosophy and strategy between benefits and wellness, consider matching benefit plan eligibility to wellness program eligibility. For example: typically, 50 percent or more of medical plan utilization comes from spouses and dependents. This means that if your wellness objective is tied to your insurance plans, it might also be worth offering programs to your employees and their spouses and dependents.

   The picture becomes more complex if the idea is to create a motivating, engaging and productive work environment. This calls for a more robust offering. Initiatives can be focused on helping support all employees and allowing everyone to participate. These would look similar to your more general benefit offerings and perks, like an employee assistance program or on-site fitness centers and sports leagues.

3. **Ensure Plan Design Aligns.** When considering wellness as part of a comprehensive benefits package, it's important to ensure that any plan design changes (especially to medical) are consistent with your wellness objectives and goals. Decisions about benefits or wellness are often made in silos, which can be counterproductive. For example: when trying to increase medication adherence for a diabetic population and remove barriers to care, be careful when increasing general copay amounts or coinsurance across the board, which could make receiving routine care more expensive. Another example: when building a more collaborative and motivating environment focused on resiliency and stress management, sending out a dependent audit that requires all employees to collect tedious information and complete verification forms can be counterproductive because it causes employee distress.

4. **Know What to Expect of Your Carriers and Vendor Partners.** In the spirit of financial wellness, never leave money on the table — especially when it comes to added services from vendors you already employ. Carriers, even outside of medical insurance, will often have wellness solutions and tools you can offer your employees, such as providing free biometric screenings. More importantly, they can provide marketing materials, statistics, benchmarks and trends to drive the program forward.

5. **Provide a Consistent Line of Communication.** Employee communication is the most critical factor to success for benefits programs. Wellness and benefits should be viewed under one employee engagement brand and umbrella so employees can clearly see everything that's available. Discussing benefits and wellness in tandem will help solidify the connection in employees' minds. Wellness is multifaceted, and tips can be incorporated into various existing communication vehicles. For example: adding financial and medical wellness tips to brochures about 401(k) plans, flexible spending accounts or health savings accounts may help your employees make the connection between wellness and their lives.

Annual enrollment reminds us of all the great work that benefits managers and organizations do to enrich employees' lives. Wellness is a business imperative and a key component in any benefits program. If it's done the right way with the right intentions, it can actually bring significant "benefits" to any benefits offering.

Compliance FAQ

We have K-1 earners at our company. What are the employee benefits considerations? Can these earners participate in our medical plan and other benefits?

As background, it's helpful to understand what is meant by "K-1 earner." Generally speaking, a "K-1 earner" is a partner in a partnership, a member/owner of an LLC that has elected to be treated as a partnership for taxation purposes, or an S corporation shareholder. The term "K-1 earner" stems from the fact that each of those individuals would receive IRS Form K-1 from the company to reflect their annual income and earnings from the company.

Companies often wonder, though, whether they can offer employee benefits to those K-1 earners and, if so, what are some of the tax consequences. To answer those concerns, there are several issues to consider for K-1 earners, including medical plan eligibility, Section 125, FSAs, HDHP/HSA plan designs, HRAs, the ACA's employer mandate, Section 105 nondiscrimination and other fringe benefits.

On Section 125 and medical plan eligibility, K-1 earners are ineligible to participate in a Section 125 plan. That means they cannot pay their portion of a medical plan premium pre-tax via salary reduction, nor can they contribute to a health or dependent care FSA through pre-tax contributions (although they could on a post-tax basis). K-1 earners could still participate in the medical plan itself — assuming the plan allows eligibility for those individuals. But, again, their premiums for that medical coverage cannot be paid on a pre-tax basis.

"Compliance FAQ" continued from Page 3

Similarly, there are some special rules for K-1 earners and HSA plans. While K-1 earners can participate in the qualifying HDHP and are generally considered eligible to establish and contribute to an HSA (assuming they are otherwise eligible), their contributions to the HSA (and any employer contributions) cannot go through the cafeteria plan. Instead, those HSA contributions must be made post-tax. If funded by the partnership/LLC/S corp, special rules apply (and those special rules depend on whether it's a partnership or S corp). The employer should work with outside counsel on those special rules, but essentially, K-1 earners end up enjoying the same tax benefits (it's just the steps to get there that are different). So employers with K-1 earners that want to implement a HDHP/HSA design should consider those issues and work with outside counsel on related taxation questions.

Also, generally speaking, K-1 earners cannot participate in an HRA (or other employer reimbursement arrangement). As with the cafeteria plan/Section 125 rules, the reason K-1 earners cannot participate in an HRA is that they're not considered "employees" of the company. Instead, they're owners or are considered self-employed. There are some exceptions where a partner in a partnership is a partner in title only (they lack the usual attributes of partners and have a relationship to the partnership that's more like an employee/employer relationship — but that's an exception, and any employer relying on that should work with outside counsel). To summarize, employers should assume that partners, LLC members (where the LLC is taxed as a partnership) and S corp shareholders are all ineligible to participate in an HRA.

For purposes of the ACA and the employer mandate, K-1 earners would not generally be considered "employees," meaning they would not be included in the count to see if the employer has 50 or more employees (and would therefore be subject to the employer mandate). Similarly, if an employer otherwise has more than 50 full-time employees/equivalents, the employer would not have to offer coverage to the K-1 earners (again, since they are not "employees," they would not be considered full-time employees that would have to be offered coverage). That said, when it comes to employer reporting under the ACA, if an employer has a self-insured plan, they would have to report all covered individuals under the plan (regardless of whether the employer mandate applies). So K-1 earners, if covered under the plan, would have to be included in the reporting (meaning the employer would have to send them a Form 1095-B or a Form 1095-C, if the employer mandate otherwise applies and they so choose).

If the company sponsors a self-insured plan, the plan will be subject to Section 105 nondiscrimination. That means the plan cannot favor highly compensated individuals (HCIs), which would generally include K-1 earners. Therefore, the plan design should not in any way favor those K-1 earners. For example, the employer should not contribute more to their coverage, nor should the plan itself make any special exceptions or cover any benefits that are not covered for non-HCIs (other rank-and-file employees). So employers should proceed with that general caution on trying to provide more for K-1 earners than others.

Finally, there are some very specific rules on other fringe benefits, such as adoption assistance, group term life (GTL) insurance and dependent care FSAs (which are subject to their own individual sets of nondiscrimination rules), and others. For example, K-1 earners generally cannot participate in adoption assistance programs. For GTL, coverage cannot favor key employees, which would include an owner/K-1 earner. So, while the rules may be more involved for K-1 earners on fringe benefits, the general concept would be that K-1 earners either cannot participate in certain fringe benefit programs or, if they are allowed to participate, cannot be favored with respect to the plan design and benefits.

Need more information?

For information on any of the articles in this newsletter, please contact your benefits advisor.

This material was created by NFP Corp., its subsidiaries or affiliates for distribution by their representatives and/or agents. This material was created to provide accurate and reliable information on the subjects covered, but should not be regarded as a complete analysis of these subjects. It is not intended to provide specific legal, tax or other professional advice. The services of an appropriate professional should be sought regarding your individual situation. Neither NFP nor its subsidiaries or affiliates offer tax or legal advice. The services of an appropriate professional should be sought regarding your individual situation. Neither NFP nor its affiliates offer legal or tax services.

NFP®

10/17 (17-CB-CB-GEN-0805) Copyright © 2017 NFP. All rights reserved.