

Managing Employee Social Costs in the U.S.

Many European managers have been known to throw up their hands in dismay when faced with the complicated entanglement of rules and options presented by U.S. employee benefit plans. Mandatory government programs are few. Old age pension and medical care (Social Security and Medicare), and federal and state unemployment taxes will total less than 9% for a \$40,000 employee and this percentage declines as salary levels increase. Most other employee benefits are optional although many are subject to extensive regulations with regard to administration and design.

Your first instinct may be to provide your U.S. employees with a more or less parallel level of benefits that are standard in Europe. Suppress this! Remember, by comparison, Americans are well compensated and lightly taxed. You need to become educated on what is competitively appropriate. In your start-up phase you may want to establish a generous level of benefits because you do not want to distract your largely expatriate staff from the principal task of developing the market. Suppress this ambition, as well. In the U.S., certain benefits, once given prove very difficult to change.

Health Care Costs

Fidelity Investments projects that annual health care costs in 2004 will rise to \$8,498 per employee. They say that, on average, employers will ask their employees to assume 29% of this cost.¹ Health care costs can easily be higher for a small company.

There is no government-required obligation for a company to provide health care benefits but competitive pressures will force you to do so. You will find that the range of options is limitless and the administrative rules are stringent and complex. Company health care costs in the U.S. have been rising at 10 to 20% rates since the turn of the century. Watson Wyatt calculated that well managed plans would experience 10% increases in 2003, while poorly managed plans suffer 21% increases.² This argues strongly for a hands-on approach.

Your expatriates will, naturally, resist health care cost sharing and insurance premium contributions but do not tailor your U.S. health care plan to accommodate these desires. You can pay an additional expatriate allowance (salary), if necessary.

Paid Time Off

This is one of the largest employee related costs. Often it is not seen as such because internal accounting does not track this well. Ten to 12 paid holidays is the norm in the U.S., as is 2 weeks vacation for new employees. Don't feel that you have to be more generous with vacations simply because your expatriates will enjoy much more. Vacation entitlements, like wages, are negotiable but you should adhere to a consistent standard among similar classes of employees. You have many options in deciding upon other forms of paid and unpaid time off. A few federal and state laws will apply but within the bounds of these you will still have considerable discretion. That is, discretion to be more generous than what the law requires. In some cases this will be appropriate, but if you are too generous or do not monitor compliance, you can be assured that the system will be abused. Establish your policies in the beginning - do not wait until a *situation* arises.

¹ http://www.fidelity.com/workplace/PublicSites/DCL/UploadedFiles/368315_hw_report_0304_7096.pdf

² <http://www.watsonwyatt.com/research/resrender.asp?id=W-640&page=1>

Pensions

Your expatriates will want to continue to participate in their European pension schemes. It is beyond the scope of this paper to go into this other than to say that the design of your U.S. pension plan may help you to resolve some of the issues with expatriates. We strongly recommend that you establish a defined contribution pension plan rather than a defined benefit pension plan.

Get Expert Advice

Find a good employee benefits consultant. You can find them in large and small consulting firms. There are pluses and minuses with each but in the end it is the competence of the individual you work with that matters. Request that you be provided with educational materials, surveys of company practices and insist that you be spoken to in a language that you can understand. The field of benefits administration is loaded with jargon and acronyms. Don't be intimidated. Get a seasoned American businessman to listen in – or act as a speaking partner. If you have done your homework and are still struggling, find another consultant.

Be Careful of Insurance Brokers

Too many small companies design their benefit plans on the basis of what they can initially afford rather than what they need. Insurance brokers offer free advice and are compensated through premiums. The premium cost will be valid for one or two years and then you may find that you are locked into a benefit level that is too high. However, you do need a good insurance broker. If you are a small company your health care plan will likely be an insurance product. But use your broker to confirm the advice you obtain from others, not as a primary source of benefit plan design.

Human Resource Management

Managing employee social costs is a subset of human resource (personnel) management. The “people” perspective is, of course, of fundamental importance. Our experience is that human resource managers that excel in compensation, recruiting, employee motivation and personnel development are sometimes weak in pension and benefit administration. You need competence in both areas.



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