



Small business that reduce benefits to save money should aim to make cutbacks temporary

By Joyce Rosenberg
December 4, 2008

NEW YORK (AP) - Many small businesses trying to weather the recession are cutting employee benefits along with other expenses, reducing or even eliminating their contributions to health care insurance and retirement plans.

These are painful moves that many companies undertake to save their cash flow and, in some cases, employees' jobs. Human resources consultants say owners should aim at making these cutbacks temporary -- and to let employees know that their benefits will be restored as soon as possible.

"No one likes this -- it's a bitter pill for everyone to swallow including my partner and me," said Margie Fox, co-founder of Maloney & Fox, a marketing communications firm based in New York. "We went from contributing 80 percent of health care to 50 percent."

Fox said the cuts, expected to be temporary, were necessary to avoid laying off a staffer. "No one wants to make this decision to lay somebody off, and nobody deserves for that to happen," she said.

Rob Wilson, president of Employco, a Chicago-based resources outsourcing company, said he's hearing from many clients who need advice about cutting benefits. Some are asking about reducing the amount of money they contribute to workers' 401(k) accounts, and wondering if they can make their plans non-matching, which allows employees to keep saving while a company suspends its contribution. Others are looking for ways to provide health coverage, but at a lower cost; many are switching to plans with higher deductibles.

Wilson said there are steps employers can take, at little or no expense, that will make it easier for employees to take on a greater share of health care costs. If a business decides to buy insurance with a higher deductible, it can also set up flexible spending accounts or health reimbursement accounts that will help workers save some money even as they're paying out more.

HR professionals say employers need to keep in mind that while benefit cuts may be necessary, they are likely to add to the pressure on many already cash-strapped employees.

Jay Keegan, CEO of Adams Keegan, a Memphis, Tenn.-based human resources management firm, said small business owners who may be considering eliminating health coverage altogether should think twice before taking such a step. It might save the company money, but Keegan warned that, because it has the potential of hurting morale, could backfire.

Keegan recalled a client who recently stopped providing health insurance, forcing employees to find their own coverage. One worker with health problems wasn't able to get private insurance and had to start the difficult process of getting state-funded coverage.

"Not only is that employee disgruntled, but the other employees are too," Keegan said. "That employer had a knee-jerk reaction and there are unintended consequences with his organization that are unfolding now."

Rather than making a draconian move like ending coverage, Keegan suggested owners "sit down with an insurance broker and carefully consider all their available options that will accomplish not only all their objectives, but their employees' as well."

Wilson said owners should plan on making any cuts temporary, because benefits, whether they include health coverage or retirement plans or both, go beyond being perks. They are valuable tools for recruiting and retaining employees.

"When the job market starts coming back, you're going to need good benefits because you want to attract the best workers," he said.

News of the benefit cuts should be broken tactfully and truthfully. "Give employees a state of the company, and tell them, 'we're all making sacrifices,'" Wilson said.

And, owners shouldn't be pampering themselves while the rank and file are losing benefits. If you're cutting benefits, this isn't the time to be taking your family on an expensive ski vacation.

Consultants recommend finding ways to compensate for the financial burden. Wilson suggested offering employees flex time; employees will love the opportunity to have an easier work-life balance, and it shouldn't cost the company anything.

At Maloney-Fox, employees are getting a few extra days off during the holidays to help make up for paying more for their health coverage, Fox said.

Some HR consultants advise against any benefit cuts at all.

"Take something away from someone who's making \$30,000 to \$40,000 a year, that's going to hurt," said Diane Arthur, who owns Arthur Associates Management Consultants Ltd. in Northport, N.Y. She warned that benefit cuts can hurt morale and in turn, productivity.

"When the economy turns around, that's something they won't forget," she said.