



INSIGHTS

FOR BUSINESSES AND PROFESSIONALS

FALL 2011

Managing Labor Costs to Help Avoid Layoffs

The people you employ are your company's most valuable asset—and your greatest business expense. Yet, even when an economic downturn puts pressure on your bottom line, it is important to realize that staff reduction may have negative consequences. When skilled employees are let go, essential knowledge and experience may be lost, which could leave the company unprepared to compete in the event of an economic upturn. Before downsizing a number of workers, consider taking steps to reduce your labor expenses as much as possible, while still retaining your best employees.

In some cases, introducing or encouraging flexible or reduced work schedules can actually lift employee morale while lowering your payroll costs. You may want to offer employees the option of cutting one day or several hours a week from their schedules, or changing to a part-time schedule. You may also find that some employees are willing to share a single job, at least temporarily.

An open discussion with your staff could also reveal that certain employees have wanted to take some time off to pursue a personal goal, such as traveling, going back to school, or spending more time with their children. Depending on the needs of your business, it may be possible to offer these employees an unpaid sabbatical, with an agreement that they can return to their jobs at a predetermined time.

In addition, instruct employees to minimize discretionary expenses wherever possible, reducing, for example, the amounts spent on travel, equipment, and office supplies. Many organizations are responding to the

current economic climate by curbing the number of company parties and events, or by asking employees to help cover the cost of these events.

There are more radical—and potentially painful—ways to reduce employment expenses that may enable your business to avoid the even more distressing step of eliminating jobs. It may, for example, be necessary to ask employees to accept a salary freeze, reduced annual bonuses, or even a small cut in pay. If requests of this kind are accompanied by sacrifices by the owners, workers may be willing to make some concessions, especially if the reductions are expected to be temporary.

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Paid Time Off-Bank Systems on the Rise

A growing body of evidence for nearly 10 years suggests that employers have been steadily transitioning from traditional time off (TTO) systems of benefits, in which employees are allocated a number of paid days specifically as vacation, personal, sick, etc., to a paid time off (PTO) model, in which paid vacation, sick, personal leave, etc. is combined into one category of available time off that employees manage by adhering to employer guidelines, according to a report by the Alexander Hamilton Institute (AHI), an employment law consultancy firm.

The 2010 survey of TTO and PTO program practices included responses from 1,036 U.S. organizations. Although the findings indicated that TTOs are still the most common system for employee benefits used by employers, the adoption of PTO-bank systems has been gradually increasing. While 54% of employers continue to track sick, personal, and vacation time in separate banks, 40% of employers combine paid leave time into a single

PTO bank, and 31% offer both traditional and PTO bank systems. Of those companies with 20,000 or more employees, 68% use TTOs compared to 32% for PTOs, showing a preference by large organizations for TTOs over PTOs; however, the gap narrows in companies that have less than 100 employees, with 52% using TTOs compared to 48% PTOs. The study also revealed that Health Care and Social Assistance is the only industry at present that predominantly favors a PTO bank system (80%).

When asked why they implemented a PTO bank system, the reasons cited by respondents included easier administration (38%); staying competitive with other companies (26%); and reducing absenteeism (21%). Other reasons include flexibility for the employee (6%) and cost-effectiveness (9%). Of those employers with PTO systems concerned with unscheduled employee absenteeism, 55% report improved absenteeism; 43% observe no impact on absenteeism, while 3% report worsened absenteeism.

Survey participants with PTO banks in place were also asked if the recent economic downturn had caused changes to PTO allocations for employees. Most (90%) report no changes in the amount of paid time off allocated annually to employees as a result of the economic climate.

In addition, organizations that have not switched to a PTO bank were asked why they had not made the transfer, and cited the following reasons: the need to negotiate paid time off with unions; state laws that require payment of accrued vacation time upon termination; and the requirement among government employers that sick time be credited toward retirement benefits.

Although a side-by-side comparison of the amount of paid time off offered in both time off systems is difficult and therefore inconclusive, the findings indicate that overall, traditional time off systems probably offer employees slightly more paid time off on an annual basis.

Making the Most Out of Meetings

Although some people would prefer not to attend meetings, they are a necessary part of the business landscape. Bringing staff members together from all organizational levels is essential to ensure everyone works toward identifying and achieving strategic business goals.

Business schools and Human Resource managers follow the trends for running the most effective business meetings. However, most business



professionals would agree that the brief and collaborative format is still the most desirable meeting style. Here are some tips to make your meetings more productive:

- Communicate the meeting's purpose or goal in advance to staff members so they are prepared to tackle the issues at hand. For instance, if sales are down, announce that the meeting will be focused on how to boost sales.

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Planning for Continuity: Your Business Estate

As a business owner, you have most likely devoted countless amounts of time, energy, and money into building and managing your company. As a result, your business may comprise a significant portion of your estate. Unfortunately, the business that provides for you and your family *now* may not do so at the time of your death. What will be the legacy of *your* business when you die?

Most owners begin planning by deciding whether to pass the business on to a family member, associate, key employee, or someone outside of the company. The heart and soul of a good business **succession plan** is

the **buy/sell agreement**—a contract between owners, or the business itself and owners. It is a legally binding agreement that obligates the estate of the deceased to sell the interest of the business, defined at a predetermined price, to either the business itself (in a **redemption agreement**), to co-partners or shareholders (in a **cross-purchase agreement**), or to both (in a **hybrid agreement**). It creates a market for the business interest of the deceased, sets the price, and governs the transition of the business.

A buy/sell agreement is only as good as the funding available to execute it. For this reason, most agreements

stipulate *how* the purchase is to be funded. Since the agreement is triggered by the event of your death, **life insurance** may be the logical and most cost-effective funding choice.

Selecting a succession plan can be an involved process. Certain tax, estate planning, and control advantages exist with each option. Be sure to consult with experienced tax and estate planning professionals. Keep in mind that long-range planning is subject to change, so your buy/sell agreement should be reviewed periodically to help ensure that it continues to meet your needs.

Making the Most Out of Meetings

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- Distribute the agenda ahead of time and be clear about expectations from various departmental attendees. Use agenda items to delegate responsibilities, such as specifying that the sales manager will submit the latest numbers, accounting will outline gross margin figures, or marketing will reveal the upcoming campaign. Key personnel will then be prepared to share pertinent information with attendees.
- Reinforce the meeting's purpose by offering incentives to employees who come prepared to provide solutions, which could include preferred parking spaces, gift certificates to a local café, or movie tickets, etc.
- Eliminate ambiguity when a decision has to be reached. Early on, ask for a show of hands for each alternative option on the table.
- Stay focused on the designated topics. Try to diplomatically stop side issues from entering the conversation.
- Emphasize the importance of punctuality beforehand, so you can avoid spending extra time recapping for late comers.
- Try to engage participants by encouraging them to express their viewpoints on the subject matter being discussed.
- Vary the time you start meetings. For example, start 10 minutes after the hour instead of right on the hour. This gives people who may be on the road, at lunch, or coming from other meetings some extra time.
- Schedule mid-week meetings if possible, especially Tuesdays and Wednesdays, which tend to be better times for most people to attend.
- Be sure a staff member has been assigned to take minutes.
- Always end the meeting with next action steps defined.

With a little advanced planning, proper execution, and the appropriate follow-up, staff meetings can be both effective and productive. Efficient, successful meetings do not waste anyone's time; they leave employees feeling like they have accomplished something.

Employee Engagement with Wellness Programs

As companies use workplace wellness programs to enhance employee productivity and control health care costs, the commitment to improving employee health appears to be rising among senior management, according to the Willis North America's Human Capital Practice annual survey.

The 2011 report of 1,949 small to medium-sized employers showed that senior leadership commitment to improving employee health rose sharply to 42%, up from 6% in the previous year. More than half (53%) of the employers sponsor some type of wellness program. The findings indicated that health care costs are driving companies to launch wellness programs, with 78% of employers reviewing their health care cost trends prior to implementing a wellness program.

While a supportive management and company culture were the most important factors for a successful wellness program, results also showed



that employers still struggle to engage employees in their health and productivity initiatives, and face barriers in effectively measuring the success of the initiatives. Of those with a formal strategy in place to improve employee engagement (28%), 64% consider

their wellness program to be a major part of their overall engagement strategy. However, more than one-third (38%) report a lack of sufficient data to calculate a return on their investment in these programs.

When asked about plans to increase program enrollment, employers point toward improving their marketing and communication efforts, and setting more specific goals for success.

“While it is encouraging to see organizational support at the senior level significantly increasing, the survey indicates a need to focus programs on increased employee engagement,” said Cheryl Mealey, national practice leader, at Willis Human Capital Practice. “Senior management is really starting to embrace the idea that our health impacts how we work, and how we work impacts our health,” she said.

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If business is slow, consider moving to a mandatory reduced workweek for all or certain groups of workers, or closing operations for long weekends or at mid-day on Fridays. It may also be possible to shut down for a few unpaid days during quiet periods, such as over the winter holidays or during the summer, while still meeting customer demand.

A review of your organization's benefits package could also present opportunities to trim expenses, without cancelling core health care and retirement programs. Begin by cutting

back on or eliminating benefits that are less crucial to employees. If it becomes clear that more benefits cuts are necessary, think about switching to a less expensive health care plan, increasing employee contributions to health insurance, or moving to a high-deductible plan linked to tax-advantaged Health Savings Accounts (HSAs). If your company sponsors a 401(k) or a similar retirement plan, you may wish to temporarily suspend matching contributions.

Keep in mind that implementing such cost-saving measures without

warning can negatively influence employee productivity and morale. If employees are concerned about the changes and fear that their jobs may be in jeopardy, they may seek employment elsewhere. So, before making any significant changes, reassure employees that the cost-saving measures are an effort to keep them on the payroll. Encourage them to express their concerns and ask questions. If you need to implement measures to reduce your labor expenses, remember that communication may be the key to retaining your best employees.