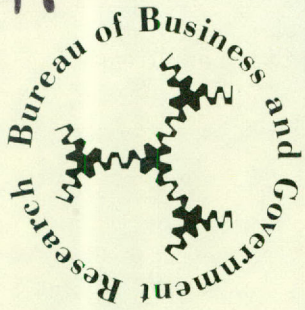


2
M575.6
B898
16



Government Publications
Texas State Documents

BUREAU REPORT

MAY 1988 PL

Dallas Public Library

Bureau of Business and Government Research
Midwestern State University
Wichita Falls, Texas

Report 16

January 1988

1987 was a year of adjustment for the North Texas economy. The area still suffered from the effects of the drastic drop in world oil prices that had occurred in the winter of 1985-86. As oil prices plummeted, incomes and employment fell and the effects of this downturn rippled through other segments of the economy--retail sales sagged and construction was brought to a virtual standstill.

While during most of the year the economy remained sluggish, there are signs of economic recovery. It appears that a turn-around took place during the second quarter of 1987, and during the last six months a fragile and gradual recovery began to unfold. Evidence that a recovery is underway include: the civilian labor force increased by two percent during the one year period ending in November 1987; the unemployment rate has fallen from 8 percent to 6.9 percent and initial unemployment claims have dropped during the year; and retail sales improved during the second half of the year.

Looking ahead in 1988 a mild recovery is expected to continue in the North Texas area. The continued expansion of the national economy, albeit at a slower pace, and the decline of the last two and a half years in the value of the U. S. dollars should benefit manufacturing industries and keep employment high in that important sector. Falling interest rates, expected to continue through most of the year, should help in maintaining the demand for consumer durable purchases, housing, and business capital expenditures.

If we set aside national considerations, then the keys to the future of the North Texas economy are the price of oil and the further diversification of its economic base. In the long run the price of oil must rise, but we do not anticipate any significant increase in prices in the near future. Any economic gains in the near future will depend upon our ability to promote the growth of existing businesses, attract other manufacturing or service-exporting firms, and to continue to strengthen our role as a regional health, retailing, and tourism center.

YF

The **Bureau Report** is published in January, April, July, and October by the Bureau of Business and Government Research, Midwestern State University. The articles represent points of view of the individual authors and do not necessarily reflect those of the Bureau and Midwestern State University. The authors assume responsibility for the accuracy of facts published in the articles. Additional copies of this publication may be obtained, upon request, from the Bureau of Business and Government Research, Midwestern State University, Wichita Falls, Texas 76308.

Midwestern State University
Louis J. Rodriguez, President
Jesse W. Rogers, Vice President for Academic Affairs
Garland Hadley, Director, Division of Business Administration
Bureau of Business and Government Research
Yoshi Fukasawa, Director
Warren E. Moeller, Editor
Janet E. Machetta, Secretary
Deana Rodgers, Research Assistant
James Glenn, Graduate Research Assistant
John Autry, Christine Morgan, Curtis Ward, Matthew Zimmerer,
Student Interns

COMMUNITY ADVISORY COUNCIL

James Berzina, Wichita Falls City Manager
Edwin B. Daniel, Nortex Regional Planning Commission
Sallie Ford, Olney Savings Association
David Kimbell, Burk Royalty Company
Mike Lawson, Wichita Falls Board of Commerce & Industry
M. C. McGee, Southwestern Bell Telephone Company
Joe Parker, Jr., First National Bank, Byers
Herb Smith, Herbert R. Smith Inc.
Ikard Smith, McClurkans Inc.
Cecil Streich, Gibson's Product Inc.
David Wolverton, MBANK, Wichita Falls

FLEXIBLE BENEFITS PLANS: AN IDEA WHOSE TIME HAS COME

Neal R. VanZante and Warren E. Moeller*

INTRODUCTION

A flexible benefits plan is one which allows employees to choose among two or more benefits. Flexible plans enhance employee morale and help employers reduce employment benefit costs.

Unlike conventional benefits plans which provide the same benefits to all employees, flexible benefits plans allow employees to select, from a menu of options, a package of benefits tailored to their individual needs. Most employees like the idea of being able to choose what's best for them, and flexible benefits plans provide many advantages to employees. These advantages as well as the significant advantages to the employer are discussed later in this article. In addition to discussing the numerous advantages offered by flexible benefits plans, this article points out necessary prerequisites for successful implementation of this type of plan.

A major advantage of flexible benefits plans as far as both employees and employers are concerned is that benefits are not wasted. For example, an employee already covered by their spouse's medical plan would receive very little benefit from being covered under his/her own employer's medical plan. Under a conventional benefits plan, the very expensive medical coverage is virtually wasted.

ADVANTAGES TO EMPLOYEES

In addition to the advantages already mentioned, a major advantage offered by a flexible benefits plan is that a "flexible spending account" can be incorporated whereby money contributed by employees is deductible for social security tax purposes and federal income taxes. The "account" can then be used to pay for various expenses which would normally be paid by after-tax dollars. For example, an individual earning \$40,000 per year would normally receive no tax deduction for the first \$2,000 (\$40,000 times 5%) of medical expenses paid during a calendar year. But, if these same expenses are paid through a flexible spending account, they reduce both taxable income and the income subject to social security taxes. Certain expenditures, such as premiums paid for supplemental term life insurance, are deductible for tax

purposes if paid through a flexible spending account. These same expenditures, without the flexible spending account, would not be tax deductible.

Even in cases where an item is already tax deductible, the employee may reap a benefit. For example, by paying child care expenses through a flexible benefit account, social security taxes may be reduced because the child care expenses are deducted in determining income subject to social security taxes. If paid outside of the plan, these expenses would be paid using after-tax dollars.

Employees who participate in 401 (k) plans may take the flexible spending account tax savings and reinvest those savings in their company's 401 (k) plan. This is particularly advantageous in that reinvestment of the tax savings creates additional tax savings and more than offsets any reduction in social security benefits that may result from the payment of lower social security taxes. Assuming a 25% bracket, each dollar of tax savings created by the flexible spending account can fund \$1.33 contribution to the 401 (k) plan.

ADVANTAGES TO EMPLOYERS

The advantage offered by flexible benefits plans to employers which is most easily quantifiable is the savings of payroll taxes associated with the plan. Payments made through flexible spending accounts are deductible in determining payroll tax expenses. An average company can expect total social security and workers compensation savings of approximately ten percent of employee contributions.

Flexible benefits plans can reduce health insurance premiums drastically and can be a method of giving a "tax free" raise. Flexible benefits plans enhance employee productivity, morale, and job satisfaction. Flexible benefits plans can meet the needs of employees without having to adopt a myriad of benefit plans.

Flexible benefits plans may also help the employer by discouraging unionization. If employees choose the benefits they want, then a union cannot develop support through promises of additional

benefits. Flexible benefits plans may also provide the employer with a competitive advantage to attract key employees.

NECESSARY PREREQUISITES FOR SUCCESSFUL IMPLEMENTATION

The key component of setting up a flexible benefits plan is communicating the options to the employees. This is also probably the most difficult part of the implementation. Closely related to communicating the options is knowing your employees. Employees must be made aware of the many benefits available to them and must appreciate that they have a major part to play in controlling their own destiny.

Once employees understand fully the details of the flexible benefits plan, they will actively participate in trying to help the company provide the maximum benefits at the least cost. Employees tend to become more aware and appreciative of benefit costs and tend to have a much better perception of the value of their benefits.

CONCLUDING REMARKS

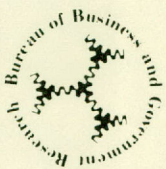
Flexible benefits plans allow companies to deal with the problems of rapidly increasing benefits costs and with the diverse needs of their employees at the same time. Companies which have recently adopted these plans have also reaped substantial cost savings and other advantages besides.

Flexible benefits plans is an idea whose time has definitely arrived. Individuals should at least investigate these plans at this time. More information may be obtained about these types of plans by contacting almost any certified public accountant, attorney, financial planner or financial consultant.

*Dr. VanZante is Associate Professor of Accounting at University of Southern Colorado and Mr. Moeller is Associate Professor of Business Administration at Midwestern State University.

SELECTED BUSINESS STATISTICS
Wichita Falls, Texas

	1982	1983	1984	1985	1986	1987	III	IV	OCT	NOV	DEC	1988 JAN
Building Permits Issued												
Grand Total												
Number	1,567	1,635	1,587	1,577	1,446	1,657	464	311	131	109	71	83
Valuation (000)	45,375	73,236	45,959	68,942	40,951	31,105	6,646	10,820	1,644	8,354	821	1,762
New Residences												
Number	363	539	428	341	141	111	35	11	7	3	1	6
Valuation (000)	10,451	15,223	14,914	18,589	9,995	7,296	1,753	731	537.4	128.9	65	290
Help Wanted Ads (Inches)	37,800	31,331	45,088	35,858	29,179	32,085	8,800.5	7,616	2,748.5	2,807	3,060.5	2,803
City Sales Tax Allocated (Thousand Dollars)	6,078	5,918	6,448	6,950	6,483	6,023	1,471	1,457	748	378	331	993
Employment												
Civilian Labor Force	67,517	67,488	70,150	61,492	56,542	58,650	59,700	58,900	58,300	59,400	59,000	
Unemployment	4,204	4,392	3,283	3,475	4,667	4,542	4,533	3,900	3,900	4,100	3,700	
Unemployment Rate	6.21	6.525	4.675	5.65	8.25	7.73	7.57	6.63	6.7	6.9	6.3	
Natural Gas Consumed (Billions of Cu. Ft.)												
Residential	2,547	2,437	2,515	2,346	2,105	2,199	207	522	76	135	311	
Commercial	1,300	1,282	1,303	1,173	1,108	1,120	133	262	48	74	139	
Industrial	4,496	4,742	5,091	5,372	5,824	8,242	2,517	2,346	845	842	661	
Natural Gas Customers												
Residential	31,781	31,265	30,966	30,661	30,348	29,743	29,475	29,499	29,318	29,600	29,579	
Commercial	2,974	2,977	2,968	3,015	3,116	3,127	3,011	3,095	3,015	3,101	3,169	
Industrial	52	45	43	43	41	40	40	40	40	39	40	
Water Consumed (Millions of Gallons)	6,569	7,302	8,158	7,090	6,999	7,570	2,535	1,788	707	613	468	



Bureau of Business and Government Research
Midwestern State University
Wichita Falls, TX 76308

Non-Profit Organization
U.S. Postage
PAID
Permit #791
Wichita Falls, TX