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One-Size Plan Doesn't Always Fit All


Stellar Solutions Gives Employees a Benefits Account And the Freedom to Choose How to Spend It

By SIMONA COVEL
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Stellar Solutions Inc.'s compensation program isn't rocket science, but even the firm's aerospace engineers need help figuring it out.

Most job candidates at the Palo Alto, Calif., company have never seen a compensation and benefits package resembling Stellar's -- a flexible arrangement designed to maximize tax-free savings.

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While most companies offer their employees a one-size-fits-all menu of benefits, Stellar puts aside money in an account for employees and lets them pick and choose how they want to spend it.

"It's a pile of money to do with what you will," says Celeste Volz Ford, founder, chairwoman and chief executive of the aerospace engineering firm, which has 80 full-time employees and posted \$20 million in revenue in 2006. Stellar works on projects ranging from earthquake predictors to shuttle launches. It spun off QuakeFinder LLC, an earthquake forecasting research firm, in 2000.

Stellar's experience shows how small employers can create a package that makes the most of employee choices and minimizes administrative headaches -- if they are willing to apply some creativity and time upfront. It also shows the challenge small-business owners face when their ideas about benefits don't fit the cookie-cutter offerings most providers push. The plan was a hard sell to most providers Ms. Ford spoke to -- and it isn't always an easy sell to job candidates.

Spend as You Please

Human-resources experts see advantages in using plans that allow employees to customize benefits. They may "keep your work force engaged and

satisfied" because workers like the freedom to choose how to spend the money, says Allen Steinberg, a principal at Hewitt Associates, a human-resources services and consulting firm in Lincolnshire, Ill.

Stellar's plan stemmed from Ms. Ford's own frustration with the benefits offered at her past employers. For example, the yearly cap on pretax medical-spending accounts were never enough, while she had no use for most of the other programs offered.

The 50-year-old business owner says her firm's unusually flexible arrangement is a potential selling point when trying to attract employees in a market with limited qualified applicants. Once prospective hires understand the ins and outs of the benefits package, "it could mean the difference between someone saying yes," she says.

Here's how the package works:

For every dollar of an employee's pay, an additional 25 cents go into a pretax



Celeste Volz Ford with Tom Bleier, CEO of QuakeFinder, a Stellar spinoff

profit-sharing investment account designated for retirement.

Stellar then puts another 25 cents into a separate benefits account, which is immediately accessible for *any* employee personal expense -- from medical co-pays and over-the-counter purchases like contact-lens solution to vacation and sick time and child-care expenses. Employees submit receipts for the expenses through an automated computer system and they are reimbursed in their next paycheck. Some of the reimbursements are designated as taxable income.

The benefits account is designed, in part, to take advantage of IRS rules that allow certain items -- out-of-pocket medical, dental and vision-care expenses not covered by insurance, as well as day-care and elder-care expenses -- to be paid using pretax dollars. IRS rules generally don't have a cap for pretax

medical expenditures, says IRS spokesman Bruce Friedland, though there are exceptions for companies with shareholders or certain highly-compensated employees. Pretax dependent-care expenses are generally limited to \$5,000 per year.

Stellar pays 100% of the premiums on medical and dental insurance for employees, and pays for both short- and long-term disability. If employees want coverage for family members, they can pay for it, tax-free, out of the benefits account.

And there's an additional -- and unusual -- feature. Employees don't have a set number of vacation or sick days. Instead, they "pay" for any time off using funds from the benefits account. So how much time off employees get depends on how much money they have in the fund -- and how much of that money they want to spend. The rate for a day off is based on a worker's daily pay and is subject to income taxes.

So someone who earns, say, \$100,000 a year would get \$25,000 in the benefits account. The employee could then buy a day off for about \$444. and six weeks vacation would cost \$13,334. Ms. Ford doesn't impose a limit on time off, but she estimates that most employees take about six weeks off a year and says no employee has abused the policy. She says one employee worked without a day off for months, then took a six-week trip to Africa.

Any money left over in the account at the end of the year is paid out as regular salary and taxed as such.

Cherry-Picking a Plan

Stellar's benefits plan does cost the company slightly more upfront than a typical traditional plan because of all the money that is set aside for each employee. But Ms. Ford says it's a more efficient plan because she isn't wasting money on programs that most employees aren't using.

WEB TOOLBOX

- [Employee Benefits Research Institute](#)¹³
- [Profit Sharing/401\(k\) Council of America Plan Starter](#)¹⁴
- [National Federation of Independent Business's Cost-Free Benefits Tips](#)¹⁵
- [Winning Workplaces](#)¹⁶
- [Principal Financial Group's Guide to Best Practices in Employee Benefits](#)¹⁷

Hewitt's Mr. Steinberg says if an employer is looking to set up a similar arrangement, a plan like this can be adjusted to fit a budget. "If you're just giving people a certain amount to play with, you've got a lot of flexibility," he says.

Ms. Ford, who founded the firm in 1995, says she set up her plan after talking to other business owners and cherry-picking ideas. While most employees liked the idea of flexible vacation and more pretax savings, Ms. Ford says, she experienced some resistance from lawyers and insurance and benefits people who had never seen this kind of arrangement and weren't sure how to put it together.

Mr. Steinberg says flexible benefits accounts generally are separated into two buckets: One that's used for pretax eligible expenses and one for vacation and days off, rather than Stellar's discretionary account for both pretax and post-tax expenses.

The key to venturing outside traditional benefits arrangements, he says, is finding "lawyers or other service providers who understand what you're trying to achieve." Business owners who don't know the ins and outs of tax law could end up hearing from the IRS down the road if an unusual plan isn't set up correctly, he adds.

Kris Henley, Stellar's vice president of intelligence programs, says he welcomes the ability to set aside as much money tax-free as possible. Mr. Henley, a U.S. Air Force veteran, had been accustomed to a portion of his income coming from nontaxable military allowances. Facing a civilian job, he says, "all of a sudden the tax percentages became significant." Mr. Henley adds that he also likes the idea of paying for vacations and making more money if he doesn't take one.

Lower Pay

All the flexibility may not be enough for some people, however. Ms. Ford says while most potential employees view the arrangement as a selling point, a few do take issue with one trade-off: a lower base salary.

Mr. Steinberg says it's difficult to compare the cost of Stellar's plan to traditional setups without knowing the specifics on the pretax benefits employees use and other details. Ms. Ford estimates that the total cost for salary and benefits is probably about the same as more common arrangements, but Stellar's base-salary offers are about 10% lower than those of other aerospace-engineering firms. That lower rate makes up for the money that is being put aside for the plans.

"People who have difficulty with this compensation system tend to be the younger folks who are dependent on cash flow," says Mr. Henley. That problem is compounded by Silicon Valley's pricey housing market. "We've had folks who didn't accept our offer because we couldn't match the cash flow of their current employer," he says.

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