Maximizing Your Employee Benefits

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Salary and bonus are likely just a part of the compensation you receive from your employer. Why not give yourself a raise by learning about and taking advantage of all your company benefits? This guide will help you ensure that you're making the most of the benefits your employer offers.

Retirement Plans

Your company's 401(k) plan can play an important role in your future financial security. If your employer matches contributions, you should consider contributing at least enough to get the maximum match. For example, if your employer matches 100 percent of the first 3 percent you contribute and 50 percent of the next 2 percent you put in, you should contribute at least 5 percent to receive the full 4-percent match. Check with your company to see if you'll miss out on matching opportunities if you max out your contributions too early in the year, and then plan accordingly.

If you are highly compensated, your employer may also provide a nonqualified deferred compensation plan with matching to cover wages above the qualified limit. Be sure to find out how the plans interact and how you can maximize your benefit.

Stock Options

Some companies grant employee stock options as a form of compensation. If you have stock options with a positive spread—that is, the market price is greater than the exercise price, or the price you pay—you should consider exercising them before they expire. With nonqualified stock options, the spread is considered compensation to you, taxable as ordinary income. There may be different tax implications for incentive stock options (ISOs), which allow you to defer recognition of income upon exercise and to recognize income as a long-term capital gain if you meet the holding requirement. It's also important to keep in mind that exercising an ISO counts as an adjustment for the alternative minimum tax.

Some employers give employees the opportunity to buy company stock through a stock purchase plan. If the plan offers a discount, you can purchase stock at a lower price than what you'd pay on the open market. Depending on whether the program is structured as a Section 423 qualified plan or a nonqualified plan, you may owe taxes on the discount when you sell the shares or when you purchase them. Remember that, while investing in your company's stock can be rewarding, it may be doubly risky given that you also rely on your company for compensation. Be sure to consider whether company stock is an appropriate investment in your diversified portfolio.

Health Insurance

Many companies subsidize health insurance coverage for their employees, and some offer a choice of different plans. Health maintenance organizations (HMOs) generally have lower premiums and lower costs to access health care than preferred provider organizations (PPOs), but HMOs limit which providers you can see. PPOs allow you to choose any physician, but they charge higher fees if you decide to see an out-of-network provider. Before selecting a plan, it's a good idea to confirm that your doctor is a preferred provider.

Health care plans may offer different prescription drug benefits as well. In general, generic drugs are less expensive than name-brand equivalents. Your plan may also offer a discount if you order maintenance prescriptions via a mail-order service.

If one of your health insurance choices is a high-deductible health plan, you may have the option to set aside money in a health savings account (HSA) to pay for qualified health care expenses on a pretax basis. HSA contributions remain in your account until you use them, distributions for qualified medical expenses are tax-free, and the account is portable. Some companies even contribute to employees' HSA accounts.

Flexible Spending Accounts

Your company may offer flexible spending accounts (FSAs) for a variety of expenses, including health care, dependent care, transportation, and parking. If you have any of these qualified expenses, you may benefit by having pretax money taken out of your paycheck to fund them. For example, if it costs you $100 per month to park at work, you can set aside that amount in an FSA to cover the expense. By contrast, you'd have to earn $157.36 to pay for this expense after taxes, assuming a total tax rate of 36.45 percent.

Qualified expenses for dependent care, transportation, and parking must be work-related, and the accounts must be funded before you can use them. With a health care FSA, you have access to the full amount that you plan to fund the account with on the first day of the plan year. Unlike HSA contributions, funds in an FSA are "use it or lose it," so be sure that you plan accordingly and understand all program rules and limits.

Life Insurance

Some employers provide life insurance coverage equal to a multiple of your salary. (Keep in mind that company-paid life insurance in excess of $50,000 will be considered imputed income for tax purposes.) In addition, you may be able to purchase group supplemental life insurance coverage through payroll deductions. While this can be convenient, coverage amounts and features may be limited, so it's wise to shop around to ensure that you're getting appropriate coverage at the best price.

Your employer may also pay for long-term disability (LTD) insurance. LTD payments from an employer-paid policy are taxable to you; if you pay the premiums, you will receive LTD payments tax-free. If your company gives you the option of paying for your own LTD coverage, you should weigh the cost of covering the premiums yourself versus the benefit of receiving tax-free payments.

Other Benefits

Some companies offer employee discounts on everything from wireless plans and vision care to movie tickets, hotels, and car rentals. Your employer may also offer reimbursement for certain education expenses. Doing a little research to find out about any extra perks your company offers could be well worth your while!

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