Shop on the Clock

The Motley Fool
By Dayana Yochim

This isn't another story about how to get last-minute holiday bargains.
(Though if you insist, here are a few Fool-approved ideas.)

No, this is a story about how to milk your employer for every last penny that is rightfully yours.

Remember that thick packet of company benefits materials the smiling human resources assistant handed you on your first day on the job? Neither do we. So go ahead and dig it out from the bottom drawer because there may be dollar bills stuck to nearly every page.

That stack of brochures and booklets contains oft-overlooked benefits that can add up to substantial savings over time. Why pay for things like doctors' bills, disability insurance, and baby-sitting if your boss is willing to pick up the tab?

Here's a list of common company benefits to guide your at-work shopping spree.

Discounted doctors' bills
For 2005, the average family of four covered by an employer-sponsored health-care plan is expected to spend about $12,000 on health-care costs, more than $2,000 of which will be spent on out-of-pocket expenses.

Health care is probably the biggest money-saving benefit to working for The Man. While coverage isn't usually gratis, most companies ask employees to pay just a small percentage of the premiums based on the level of service you choose.

The most common medical plans are HMOs (health maintenance organizations), PPOs (preferred provider organizations), POSes (point of service plans), and indemnity plans (where the employee pays out of pocket and is reimbursed).

If your boss is particularly generous, there are additional perks you shouldn't pass up. An FSA (flexible spending account) lets you put away pre-tax dollars to cover expenses that aren't included in your health-care coverage. Co-payments, extra contact lenses, chiropractor visits — even dependent care costs can be paid for out of this account. (Our tax man, Roy Lewis, describes the rules in more detail.)

There's a certain amount of record-keeping required. You determine the amount of money you want deducted from your paycheck for the FSA. Any dollars that aren't used by the end of the plan year are forfeited. Employees must submit receipts for reimbursement.

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Take a look at your credit card statements to get an idea of how much you might save. You might be surprised at how much you pay piecemeal over the year on expenses that are covered under FSAs. The savings — an average of 28% on expenses, because of the pre-tax contributions — are well worth it. On that $2,000 that the average family will shell out out-of-pocket, that's a savings of nearly $560.

Salary safety net

Life and disability insurance are also offered by many forward-thinking employers. Group life insurance is often provided at no cost to employees, but you can purchase additional coverage (standard plans offer the equivalent of one year's salary) if you tend to worry about accidental death or dismemberment.

Group disability insurance isn't as standard a perk. If your employer does not pay for coverage but offers discounted rates to employees, strongly consider it. If you suffer from a non-work-related injury, this coverage could net you up to 60% of your salary while you are unable to work. Short-term disability insurance kicks in when you must miss work for anywhere from eight days to six months. Long-term coverage applies to periods of six months or longer.

As with warehouse clubs and white socks, huge savings can be had when buying in bulk. If you do not have life or disability coverage, ask your human resources department for information on getting a company discount. Then spend a little time comparison shopping.

Retirement extra credit

Deferred compensation plans are a kind of "pay now, get paid back later" arrangement. They allow you to defer some of your current compensation until either retirement or some other time frame. Employees sacrifice some investing flexibility with such plans because many employers invest the funds in cash-value life insurance policies.

Taxwise, qualified deferred compensation plans work like a traditional IRA, whereby the employee pays taxes only when she accesses the funds. The amount the employee and employer can contribute to the plan is limited.

In a nonqualified deferred compensation plan, there is no limit to the amount of money you can sock away. This option is usually available only to top company brass. There are a variety of plans that fall under this umbrella, each with its own tax consequences.

As with any investment, know what you're buying, and make sure it's the best place for your money. Sometimes it's better for your long-term financial health to invest outside of an employer-sponsored plan. Here's a general pecking order and guidelines of what money to put where.

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My colleague, Robert Brokamp, has a few "wacky" ideas about how to best manage your 401(k), particularly if the investment choices your employer offers aren't quite up to snuff.

Company ownership

Eyeing a seat on the board of directors? If you amass enough company stock, you may get an invitation and a key to the executive washroom. Employee stock options entered the common lexicon in the 1990s. Employees (or sometimes only company executives) can purchase options at a preset price during a prescribed period of time. If the company's share price rises during that time, shareholders can sell (or "exercise") their stock and pocket a profit.

Here's the problem (you saw this coming, right?): Enron . WorldCom (aka MCI (NYSE: LU). The list goes on.

According to the Employee Benefits Research Institute and the Investment Company Institute, nearly one-quarter of employees over the age of 60 had more than half of their 401(k) assets in their employer's stock, and 16% of them entrusted 80% of their retirement savings to the performance of their company.

As too many employees discovered in the past decade, the road to instant riches is not paved with employee stock options. Taxes and timing issues can wreak havoc on your finances. (If you're a real martyr, here are 10 other ways to mismanage your 401(k).)

Still, it pays to know what your boss is offering. There are two types of options offered by employers — ISOs and NSOs. You won't pay taxes on profits of ISOs (incentive stock options) until you sell. However, when you buy (or "exercise") NSOs (nonqualified stock options), the transaction is treated as taxable income by Uncle Sam. When you sell (hopefully at a profit), the profits are treated as regular income — which usually is at a higher tax rate than that of capital gains taxes.
ESPPs (employee stock purchase plans) also offer options for purchase during a predetermined time period. Stock may be offered at a discount, and plans are either "qualified" (exempt from taxes at the time of purchase) or "nonqualified" (fewer tax breaks). If your company offers an ESOP (employee stock ownership plan), your employer purchases company shares for you, and the shares vest during the time of your employment. Those shares can be handed over to you when you leave or, occasionally, distributed earlier.

Finally, there are phantom (or "shadow" or "unit") stock plans. These options are doled out on a limited basis and are usually based on the company's share price performance. Most are qualified plans and are used as incentives for corporate executives.

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Before you get back to work
The Certified Financial Planner Board of Standards encourages employees to review employer-provided benefits regularly and fill in the gaps with outside financial services or products.

If you feel unqualified to even assess what you need, here's a crib sheet for money literacy. And to help you procrastinate even more, here's some weird financial news. Just make sure that you've got real work you can quickly pull up on your computer screen when you hear your boss rounding the cubicle corner.

The Motley Fool's benefits do not include a cute shoe stipend, much to Dayana Yochim's dismay. Still, that doesn't stop her from shopping on the clock. The Fool's disclosure policy is a bargain at any price.