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Help Is at Hand

By Roseanne White Geisel

Some employers have set up tax-advantaged crisis funds to help employees cope with financial problems.

After Jeff and Laura Sims' son, Bruce, was born in 2003, the couple ran into unexpected financial difficulties. Because Bruce was two months premature, he required more of Laura's care at home than she had expected, so her unpaid absence from work lasted longer than she had planned.

Fortunately, Jeff was able to tap a source of financial aid offered as a benefit by his employer, Sioux Valley Hospitals & Health Systems in Sioux Falls, S.D. The health care complex has a crisis fund for employees who need help to get through unforeseeable financial straits.

"The employee fund helped us pay some bills," says Sims, a computer support specialist at Sioux Valley. "We survived that time until my wife could go back to work."

The arrangement at Sioux Valley is an example of the kinds of employee aid funds offered by a number of companies across many industries—from health providers and universities to airlines, manufacturers, retailers and casinos—and under consideration at many others. Such funds are designed to provide small sums, generally no more than a few thousand dollars, to employees who apply for help and demonstrate need.

Typically, the employer sets up a nonprofit entity that receives contributions and disburses grants (not loans) to employees. When a fund operates through a qualified nonprofit set-up, contributions—from employees as well as from the company—are tax-deductible, and employees are not subject to tax on the grants they receive.

Formally established funds also have rules and structures for involving both management and nonmanagement employees in overseeing funds' operations and applying established criteria for awarding grants. A typical rule is that applicants' financial need has to stem from a setback such as a medical problem that causes family members to stop working, funeral expenses, an emergency that necessitates travel, or a fire or flood that damages an employee's home.

Crisis funds are not designed for large-scale disasters such as Hurricane Katrina, which often affect many or most employees in a given company rather than just one or two from time to time. Neither are the funds designed to help with cash squeezes resulting from losses caused by gambling, overspending or financial mismanagement.

Employee crisis funds and their grants vary in size. While larger companies may have larger funds because of the numbers of employees contributing, the sizes of average or maximum grants do not appear to be tied to company size. Although funds can start small and grow slowly, the pace often picks up as the percentage of workers who contribute starts to rise, often as a result of HR's internal communication efforts, according to companies that have initiated such programs.

Morale and Staffing

By their very nature—serving employees in need—crisis funds can lift workforce morale, boost the company's reputation and underscore its caring culture. "It fits into our philosophy of dedication to the work of healing," says Karla Haugan, PHR, the human resource director for Sioux Valley. And having co-workers contribute to a fund that helps their colleagues shows that the employer believes in a supportive workplace, she says.

When co-workers contribute to an employee crisis fund, says Sims, it adds a familial atmosphere to the workplace. A fund, he says, can help employees see their employer "in more of a personal light, knowing that in time of need the employer will be there for you."

Lisa Higginbotham, a social worker at the University of Alabama at Birmingham and coordinator of the Employee Emergency Assistance Program there, says employees frequently call with concerns about a co-worker in need, and Higginbotham assures them that help is available. The program can give the person in crisis some "breathing room to focus," she says. She notes that "even if you have insurance" to cover a calamity, "it's difficult to recoup everything you've lost."

A crisis fund is probably not a key recruitment tool, however, says Sylke Neal-Finnegan, public relations manager for the Golden Nugget Hotel and Casino in Las Vegas. "People don't know it's there until they need it." But it may help retain an employee who might otherwise have to leave because of a financial emergency. To that extent, some experts say, creating a fund can be a smart business decision.

New York-based JetBlue Airways, for example, figures it costs an average of about $7,000 to bring a new "crew member" (all employees are called crew members) on board, including training and uniforms, says Terry Inglis, president of the board of the JetBlue Crewmember Crisis Fund. "If they have a fire in their apartment and would have to move away if they didn't get help, the company would lose that. There are people who we've saved."

JetBlue created its crisis fund, Inglis says, because it benefits the airline's "most important asset"—its people. "People drive performance."

Getting Up and Running

In deciding whether your company needs such a fund, experts say, try to determine if many employees run into unforeseeable financial difficulties. David M. Kuchinos, a partner with the Blank Rome law firm in Philadelphia, suggests, for example, finding out if employees ever collect money on their own for co-workers in need.

If you do go forward, set up the fund so contributions are tax-deductible and assistance is given as a tax-free gift or grant, says Kuchinos, who has helped establish three crisis relief funds in the past three years. He advises that such a fund be placed in a nonprofit corporation under state law. Note, however, that the Internal Revenue Service (IRS) allows such a step only if the class of potential beneficiaries is sufficiently large to constitute a charitable class. Kuchinos says an employer with 100 or more employees likely would pass the test.

"The way the ideal employee crisis relief fund is established is a contribution system where employees are offered the opportunity to make contributions to a separate nonprofit, and the employer matches dollar for dollar or 50 cents on the dollar," Kuchinos says. IRS regulations prohibit an employer from contributing two-thirds or more of the fund, he adds.

"Tax reasons are not the sole interest here, but it helps that this is a tax-efficient structure," Kuchinos says. "Employees who use it don't have to worry about paying it back, because it's a gift, not a loan."

If monetary aid is given on an ad hoc basis outside the structure of a nonprofit tax-exempt organization, the IRS may consider the assistance taxable income to the recipient, Kuchinos explains.

Under state incorporation laws, a board of directors must be chosen for the nonprofit corporation by the company that sets it up, and the board's members should include both management and nonmanagement employees, Kuchinos says. The board can hire a person or an accounting firm to handle paperwork and recordkeeping.

Kuchinos recommends that the board create a committee to review applications for aid. Like the board, the committee must include both management and nonmanagement employees. IRS regulations mandate that the nonprofit organization not be excessively controlled by management of the company that established it, Kuchinos says.

Next, the board of directors should adopt a plan for the fund that lists eligibility criteria and sets guidelines for benefit determination, Kuchinos says. The plan also should explain who can contribute and how the plan accepts and accounts for contributions, he says.

Thorough consideration of all aspects of the plan is imperative, says Haugan of Sioux Valley. "It's hard to tell someone 'no' if you don't have a process," she says.

Fortunately, "no" is seldom the response to employees applying for aid. About four of every five of the approximately 20 applications that the JetBlue fund receives each month are approved; grants average $2,800.

Last year, 83 percent of the 202 cases presented to the Employee Emergency Assistance Program at the University of Alabama at Birmingham were approved by the program's 36-member decision-making council. Grants totaled just over $178,000, according to the fund's annual report, or about $1,000 on average.

The fund at Sioux Valley helped 31 recipients in 2004 with grants totaling $60,000, or just over $1,900 per recipient; 94 percent of those who applied for aid received it.

High rates of approval also help boost employee morale, some fund overseers say. “It helps with good will,” says Terry Jobin, director of the Faculty/Staff Assistance Program at the University of Illinois in Urbana-Champaign. “I think employees are extremely appreciative of this,” especially because many don’t have high-paying jobs, he says.

Attention to Details

Although crisis funds are focused on the big picture of helping people, they also involve many smaller details and procedures, which frequently are HR’s responsibility.

Credit checks on applicants are not required, but documentation of need is a must—a medical bill, perhaps, or a statement showing rent payment owed. Some applications request a simple explanation of need, and in many companies an HR professional or the applicant’s manager helps the employee with documentation.

Typically, whoever helps the applicant also submits the application to the committee—always with a number, not a name, to protect the employee’s privacy—and may also obtain verification that the employee is in good standing and has a good attendance record.

At the Golden Nugget, for example, HR receives grant applications from employees and then decides whether to take the next step—setting up an interview with HR to ensure that the application has merit. Applications that pass the test are then sent along to a committee representing managers from throughout the Golden Nugget operation. Eight to 10 employees a year get help from the fund, Neal-Finnegan says.

Employee relations specialists in Sioux Valley’s HR department help employees complete the application and also confirm with the director of the employee’s department that the person is in good standing. HR then presents the application, without identifying the employee, to the 10-member employee crisis committee. The committee decides whether to provide a grant, which comes from an endowment administered by the Sioux Valley Foundation. The endowment was started by a gift from Roger Peterson, a former CFO who retired last year.

One person from JetBlue’s People Crew—its HR department—sits on the crisis fund’s three-member board. Members are chosen for exemplifying the company’s values and also because their function fills an important need, says Inglis. For example, the HR person has access to personnel files.

HR is also called on to help with fund raising. Many employers present information about their funds during employee orientation, to encourage newcomers to contribute. The appeal seems to work: At JetBlue nearly 100 percent of new employees who have heard the message contribute to the fund. Companywide, 65 percent of employees contribute, up from 17 percent in 2002, the fund’s first year.

Health One-Presbyterian St. Luke's Hospital in Denver set up its crisis-fund benefit as a way to give employees a place to go for help "within the community," says HR coordinator Laura Roybal. "The idea is to take care of your own."

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