

Employee Benefit Plan Review

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PEOs Offer Big-Company Benefits to Small Businesses

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In today's competitive marketplace, it is often rough going for small businesses that are determined to provide premium benefits packages that will attract and retain top-notch employees, because they are at risk of chaining their profit-and-loss statement to an anchor.

Executives at many of those same companies also face a labyrinth of human resources regulations and spend an inordinate amount of time and money trying to hire the right employees (and fire the wrong ones). They also must deal with payroll processing, payroll tax reports, and other time-consuming responsibilities that divert attention from their core business.

Faced with the challenges of providing premium benefits, and keeping up with the growing number of government regulations and mounting paperwork, more small and medium-sized companies are turning to Professional Employer Organizations (PEOs) to manage their human resources functions.

THE PEO'S PURPOSE

PEOs function as HR departments, offering administrative relief, big-company benefits, reduced liabilities and a systematic way to improve productivity. In addition, PEOs provide HR help to their clients, including hiring strategies that can save them time and effort.

By choosing a PEO, small- and medium-sized businesses are in a better position to compete with much larger companies, particularly in the area of employee benefits—a critical factor that comes into play in recruiting top talent. When a company enters into a relationship with a full-service PEO, its employees can gain access to a wide range of benefits that usually include medical, dental, vision, and prescription plans; health care flexible spending account plans; 401(k) programs; 529 college savings plans; life and personal accident insurance; short- and long-term disability plans; employee assistance programs; commuter benefits; and educational and

adoption assistance. The good news for business owners is that PEOs not only offer their employees a strong benefits program, they also manage the program.

An estimated 40 percent of businesses in a PEO relationship upgrade their total employee benefit packages as a result of their association with a PEO, according to the National Association of Professional Employer Organizations (NAPEO), the industry's trade association. The U.S. Small Business Administration has reported that the opportunity for workers at a small business to have access to a 401(k) retirement savings plan has dropped from 28 percent to just 19 percent. However, 85 percent of NAPEO-member PEOs sponsor a 401(k) retirement savings plan.

OTHER SERVICES

Besides providing and managing a wide range of employee benefits, some full-service PEOs handle other functions such as payroll processing, payroll tax filing, development of personnel policies (including

employee handbooks), employment taxes, workers' compensation coverage and claims resolution, and training and development courses.

Companies that outsource their HR to a PEO also "in-source" additional services. In effect, they can benefit from services they previously never had. Those might include employee recruiting — ad placement, resumé screening, employee interviews, and background checks. Other services include employment administration, employee performance management, employer liability management, and assistance with government compliance.

Like any business decision, the selection of a PEO should be a careful one. It is wise to check references, inquire about the range of services and accompanying fees, and confirm that the company is a member of NAPEO, www.napeo.org. The most

distinguished PEOs are accredited by the Employer Services Assurance Corporation (ESAC), www.esacorp.org.

Through its independent application and monitoring process, ESAC evaluates each PEO's adherence to important ethical, financial, and operational requirements.

THE CO-EMPLOYMENT RELATIONSHIP

When a company enters into a co-employment relationship with a PEO, it transfers many of its liabilities to the PEO, shares others, and maintains responsibility for the remainder.

For example, the PEO is responsible for personnel administration and compliance with certain employment-related government regulations. In addition, the PEO assumes liability for payment of salaries and wages (as well as payroll

taxes) of the company's employees. PEOs charge a service fee, usually two percent to four percent of the client company's employee payroll.

For small-business owners who want their employees to have access to a premium package of employee benefits and are tired of grappling with day-to-day HR-related headaches, a PEO might be just the remedy—a solution that will have them wondering, "Why didn't I do this sooner?" ☺

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