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*The Resource for Small and
 Emerging Businesses*

PEOPLE POWER

OUTSOURCING THAT ACTUALLY BENEFITS EMPLOYEES

PEOs can relieve HR headaches for small companies. — BY MARK BARNES

Business owners looking for more efficiencies and broader resources are increasingly turning to outsourcing as an option. One of the fastest growing sectors of the industry is a form of outsourcing that benefits both owners and employees of small and medium-sized businesses: human resources outsourcing.

Tired of day-to-day human resources headaches, many smaller companies are turning to Professional Employer Organizations (PEOs) to manage their human resources functions. Businesses that outsource their HR functions actually “in-source” services they didn’t have before, including enhanced employee benefits, payroll processing, government reporting, claims resolution and training and development.

HR outsourcing is now a \$25 billion market in the United States, according to the Gartner Group. Gartner predicts that more than 85 percent of U.S. employers will eventually outsource at least one HR function in the future.

BIG-COMPANY BENEFITS

By outsourcing, small and medium-sized businesses can be in a better position to compete with much larger companies, especially when it comes to employee benefits. Benefits provided by full-service PEOs rival those of big corporations, making them an essential tool in recruiting talented employees. Those benefits often include:

- Medical, dental and vision coverage
- Retirement programs
- Life and disability insurance
- Onsite and online training programs
- Tuition reimbursement

- Credit union services

- Adoption assistance

Besides providing and managing a wide range of employee benefits, a typical PEO handles all personnel-related functions, such as payroll processing, payroll tax filing, assistance with developing an employee handbook, employment tax filings and workers’ compensation coverage and claims resolution.

Most small companies don’t have the budget or staff to perform all of these functions. By “in-sourcing” services from a PEO, business owners, in effect, multiply their staff without increasing labor costs. This allows company employees to concentrate on the core business.

RELIEVING THE REGULATORY BURDEN

According to the U.S. Small Business Administration, America’s smallest companies bear the largest per-employee burden of complying with federal regulations. Businesses with fewer than 20 employees spend more than \$7,000 per employee each year, with about \$5,200 spent per employee by large corporations (those with 500 or more workers).

Today’s “alphabet soup” of federal regulations (e.g., ADA, ADEA, FMLA, FCRA), along with a labyrinth of state laws and regulations, can intimidate and overwhelm even the most conscientious small business owner.

An owner’s underlying fear is that the company will inadvertently violate a rule, resulting in a costly lawsuit or fines. A profitable enterprise built through years of hard work could take a big financial hit because of a single misstep.

Working with a PEO allows a small

business to off-load a portion of its liabilities, reducing its vulnerability to potentially damaging fines and lawsuits. A full-service PEO will oversee workplace safety concerns, assistance with government compliance and employer liability-management issues, helping to ensure conformance with state and federal regulations.

THE PEO 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. Besides taking on personnel administration and compliance with certain employment-related government regulations, the PEO typically assumes liability for payment of salaries and wages, as well as payroll taxes, for the company’s employees. Most PEOs charge a service fee, usually 2-4 percent of the client company’s employee payroll, according to the National Association of Professional Employer Organizations.

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). In addition, you should check to see whether the PEO is accredited by the Employer Services Assurance Corporation (www.esacorp.org), an independent agency that evaluates PEOs’ adherence to important ethical, financial and operational requirements.

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