The Classic HR Dilemma: **You Have The Humans, But Not the Resources**

Business owners often find that HR is complex, costly, and time-consuming. Tapping a professional employer organization can solve those problems and create a better work experience for your employees.

As a small business owner you inevitably wear many hats—so many, in fact, that your neck may be throbbing.

There is a way to ease the pain: consider becoming a client of a professional employer organization. In this unique form of outsourcing you partner with a company that can provide a range of human resource and benefits services, from the transactional to the strategic. Not only will this alleviate a massive administrative and compliance burden, allowing you to focus on your company’s growth, but it can also allow you to offer your employees much better benefits than you could otherwise afford.

That’s because when you sign on with a PEO your employees become co-employed by the PEO. That allows the PEO to negotiate for health care, 401(K), and many other benefits on behalf of the aggregated population of all its clients’ employees, winning rates superior to what any single client could obtain. That collective clout not only allows a PEO client company to save money, but could spell the difference between offering good benefits or none at all.

NAPEO
National Association of Professional Employer Organizations
See the Difference a PEO Can Make

9%  
**HIGHER GROWTH RATE**

24-33%  
**LOWER TURNOVER RATE**

21%  
**SAVINGS ON HR ADMINISTRATION**

2X more participation in retirement plans

50% LOWER FAILURE RATE

Source: NAPEO publications: Professional Employer Organizations: Fueling Small Business Growth, September 2013, and Professional Employer Organizations: Keeping Turnover Low and Survival High, September 2014, by Laurie Bassi and Dan McMurrer

The numbers don’t lie. Tapping into Insperity’s depth, breadth and level of care can help your company run better, grow faster and make more money.

Now, how can we help you improve your bottom line?

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But the advantages of using a PEO extend far beyond insurance rates and retirement plans. Most PEOs strive to be one-stop shops that can provide every HR service imaginable, from vacation tracking to authoring your company’s employee handbook to consulting on employee performance issues. “Often, when a company receives funding from a VC firm,” says Pat Cleary, president and CEO of NAPEO (the National Association of Professional Employer Organizations), “the VC will say ‘Don’t spend five seconds on HR and benefits issues; let a PEO handle that for you.’ They want companies focused on the things that drive their growth.”

That’s very much the case at New York-based Poppin, a vertically integrated, design-focused office products and furniture company. “Everything we’ve ever asked our PEO for help with, they’ve provided,” says Jimmy Abbott, the company’s CFO. “Our arrangement with our vendor, Insperity, is great for us, given where we are in our growth cycle. Through Insperity we can offer our employees far more than other 80-person companies can, which not only gives us a recruitment edge but also reflects our philosophy to put employees first.”

Poppin signed on with Insperity in 2012, just as it received an infusion of Series A capital. “We knew we were about to ramp up quickly,” Abbott says, “and we determined that using a PEO for all our HR needs would help us do that. Insperity takes care of many things that we don’t have the resources to address, which lets us focus on the things that will drive our success, like designing amazing products and providing exceptional customer service.”

No worries: They are still your employees

The idea that your employees become “co-employed” by your PEO can be a hard one to get your brain around. Many business owners wonder whether they lose control in the process, and PEOs are continually educating in this regard. “When we hire people,” Abbott says, “we explain that they work for Poppin, but their paycheck says ‘Insperity’ and so does their benefits information since Insperity now also co-employs them. We have an annual meeting with all our employees and invite members of our dedicated Insperity service team to come and answer questions and explain the advantages that result from this arrangement. Everybody sees why it’s a great way to go.”

Put simply, a PEO enables a company to punch above its weight and offer everything a fully built-out HR department would offer, without actually having to build one out. “Our goal is to help small and midsized clients provide their employees with the same services and benefits
as a global company," says Maria Black, president of ADP TotalSource, the country’s largest PEO. "We help companies reduce their compliance risk, streamline their HR operations, keep costs stable, and accelerate their growth."

Compliance, never a simple matter, is becoming a much bigger issue for companies as various provisions of the Affordable Care Act begin to take effect. Black, of ADP TotalSource, says that regulatory concerns rank right up there with the overall cost of benefits as the major HR hurdles for most companies today. “Only 17 percent of small companies are confident that they understand the ACA,” she says. “We can provide both the expertise and the technology infrastructure to help them stay compliant with literally thousands of annual changes to various HR regulations.”

Most PEOs (there are an estimated 1,000 in the U.S.) have a regional rather than national footprint, although many plan to scale up as the PEO model gains in popularity. The regional focus owes much to the realities of the health insurance market: until a PEO has 5,000 or more employees under co-management it’s typically not in the best position to negotiate health coverage with the national giants. All PEOs, however, do strike good terms with high-quality regional providers, and for companies whose employees aren’t scattered across the U.S. that usually works out well. Regional PEOs also stress their geographic proximity—and thus quick, in-person availability—to clients.

Launched in 2012, Justworks, for example, has clients located predominantly in New York City and the surrounding area. It offers coverage through Empire Blue Cross Blue Shield and a number of other insurance companies with a strong presence in that region. Indicative of where the PEO industry is going, however, Justworks has achieved licensing in all 50 states—no mean feat—and anticipates rapid expansion. “While our clients often have 10 to 30 employees, says CEO Isaac Oates, “we also serve companies with as few as one employee, because the amount of work required for a sole proprietor to get everything he or she may want
on their own is so huge that by signing on with us they achieve that faster and less expensively.”

**Things to Know**

Most PEOs charge either by a per-employee or percentage-of-payroll model. In addition to differing by regional focus, they may also differ in terms of service delivery. (JustWorks, for example, touts its technology infrastructure, while others emphasize in-house HR consulting or other strengths.) Clients should ask about which services a prospective PEO can or can’t offer and exactly how it delivers them.

“It’s a very consultative partnership,” says David Fernandez, CEO of OEMAmerica in Hartford, Connecticut. “It’s all about trust and feeling like you’re in the same foxhole together.” Companies are often initially motivated to explore a PEO as a means to offer health care and other insurance, Fernandez says, but once they become clients “the typical response is ‘I can’t believe everything I’m getting!’ from this partnership.”

That said, the PEO industry knows it has some marketing work to do: despite the fact that 250,000 SMBs participate in a PEO arrangement, many company founders don’t know much about PEOs. “Our members’ aggregate payroll increased by 25 percent, or $15 billion, between 2013 and 2014,” says Cleary of NAPEO, “and our 300 members have about a 90 percent retention rate. It’s a model that clients like, because they know their PEO will be with them every step of the way.”
The PEO model got a huge boost in December when President Obama signed into law the Small Business Efficiency Act, which contained provisions that created a certification process for PEOs and formally codified payroll tax issues that come into play in PEO arrangements. According to economist Laurie Bassi, companies that use PEOs grow 7-9 percent faster than those that don’t, and have significantly lower turnover, not to mention being 50 percent less likely to go out of business. While the concept of “co-employment” may require some work to understand, it’s a small investment of time that can result in a substantial and multi-faceted pay-off. As Fernandez says, “If you really think of your employees as assets, as true ‘human capital,’ ask yourself what’s the last great thing you did for them? Going with a PEO may be your answer.”

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Outsourcing comes in many varieties, and learning how to tap such services well is fast becoming an essential entrepreneurial skill. Find valuable advice by reading “How to Outsource Without Going Broke or Insane” on inc.com

While PEOs can help you better serve your actual employees, turning to various forms of outsourced talent can provide a complementary way to grow. To learn more, see “4 Outsourced Hires You’re Missing Out On” on inc.com