

PEOs can take the sting out of benefits administration

By Frances Johnson

The Enterprise

Tasks such as running payroll, filing taxes, administering health benefits and meeting complicated state and federal regulations and compliances can be a full-time job that CEOs and presidents of small to medium-sized businesses simply don't have the time or expertise to do. A Professional Employer Organization (PEO), however, exists to take care of those services business owners sometimes struggle to take care of themselves.

Most PEOs, such as Salt Lake City-based Resource Management, take the place of in-house human resource managers, handling everything from payroll to taxes to recruiting, background checks and employee screening. Once employees are selected, Resource Management supervisors communicate expectations and job descriptions to all prospective employees of their 280 clients using handbooks and information specific to that client. The information can also be found online, and Resource Management operates branch offices in Seattle, Portland, St. George and Las Vegas.

"We become their HR department," said Kurt Larsen, president, founder and CEO of Resource Management.

As a "co-employer" operating in 34 states, Resource Management also provides performance evaluations for client employees after 30, 60 or 90 days. Resource Management trains supervisors at each client company and can send additional staff on-site to address an underperforming employee or department.

"What we want to do is try to increase communication and have better communication," Larsen said.

A supervisor might discover, for example, that an employee's lackluster performance could be the result of friction with a manager rather than a lack of ability to complete the job. Since Resource

Management acts as a co-employer for all its client companies, employees can often be redistributed to another company in the network rather than being let go. This practice provides more continuity for the employee, Larsen said, while lowering the cost of unemployment payments and the possibility of litigation related to termination.

"That's an area in which we manage the risk of the employee," Larsen said.

A PEO can also help client companies mitigate potential legal risks by providing comprehensive training on topics such as sexual harassment and OSHA requirements. A company owner might be a great widget manufacturer, Larsen said, but probably doesn't know anything about federal laws and regulations, which could open him up to accusations or lawsuits from employees or other enforcement entities.

"That's really where we come in," Larsen said. "We take care of all those things."

If a problem does make it to litigation, small and medium-sized companies would still want a PEO on their side, as many of them offer independent counsel and other legal help usually not available to small firms.

"We're using economies of scale to provide these services to clients who wouldn't have access to them otherwise," said Rick Cambra, CEO of Salt Lake City's Workforce Solutions, another PEO.

The economies of scale provided by PEOs are most helpful when it comes to procuring and administering health insurance benefits. It is especially difficult for companies with employees domiciled in many different states to provide affordable health benefits for all of them, Cambra said. Many plans, such as Blue Cross/Blue Shield or IHC in Utah, are only good in limited geographic areas.

"If you have an employee who lives in Maryland, for example, they will have a



different schedule of benefits than a worker domiciled in Utah," Cambra said.

The Workforce Solutions plan offers four options, with different rates tied to each option, and employees of each client company choose the option that best meets their needs. One thing each option has in common is in-network benefits available in all 50 states. An employee might work in Utah, for example, but have a child attending Stanford University in California. Under Workforce Solutions, the plan is active anywhere, and in-network benefits can be accessed in California as easily as in Utah.

"Because we're aggregating everyone together, we've been able to contract with provider networks all over the country," Cambra said. "It also gives employees the option of going to specialized centers of excellence for serious health problems."

All three Mayo Clinic locations, for example, are in-network for those on a Workforce Solutions health care plan.

Health insurance is a challenging problem all over the country, Cambra said. Most companies see annual premium increases in the double digits, but Workforce Solutions has an average annual increase of just 4 percent. Resource Management sees increases of just 7 percent a year.

"By pulling all of our clients' premiums together, by aggregating that, our insurance premiums over a 10-year period are significantly lower," Cambra said.

A larger, aggregated network also means that risk is distributed more evenly and beneficially and client companies are not as hard-hit by "shock claims," such as a premature birth or a serious illness, which can raise independent companies' health insurance costs anywhere from 20 to 85 percent. Because PEO client companies are part of a larger network, "those huge claims have a tendency to be spread out over everyone else," Larsen said, sparing one company from bearing the entire financial burden of a large claim.

In addition to saving client companies

money on premiums, the availability of more affordable and comprehensive health plans offers employers a competitive edge in attracting and retaining employees.

"The recruitment is huge," Cambra said. "As a recruitment tool, you can offer an employee a little lower wage, with a higher standard of living and a better benefits package for a lower premium."

Many PEOs also help client companies mitigate risk related to natural disasters and employee error by providing disaster recovery training and business continuation planning. PEOs can also perform safety inspections for client companies, both precautionary and reactionary. On a total payroll of more than \$250 million, Resource Management has only had \$20,000 in workers' compensation claims, Larsen said.

"It's those kinds of things that we bring to the table," he said. "It provides the kind of help that you would have to go to many different places for. The service fee is a pittance compared to what you get for it."

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Though the human resources outsourcing industry is between 20 and 25 years old, it has grown the most in the past five to 10 years, and economic upswings and downturns don't seem to affect PEOs much. In times of economic downturn, companies often turn to outsourcing to reduce costs, Cambra said, as well as to provide benefits that will help them recruit and retain key employees. When the economy is strong, he said, companies still turn to outsourcing because they don't want the hassle of managing programs and they have the money to pay someone else to do it. The slowest growth is when, "people don't know what to do and just maintain the status quo," he said.

Workforce Solutions has experienced 20 to 30 percent growth during the past 12 years, Cambra said, aided by growth in Utah's service and technology sectors.