

Considering PEOs.

(professional employer organization)(Brief Article)

BOB KRONEMYER 

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Using professional employer organizations for human-resources administration

Small-business owners: Want to spend more time on core competencies and less time on human-resources administration? If so, you may want to consider a contractual relationship with a professional employer organization (PEO), which can provide cost-effective administration of HR functions through a "co-employment" relationship.

"Both the owner and the employees come out ahead because of the PEO relationship," says Ryan Stoneburner president of HR America Inc. in Fort Wayne, which currently contracts with 191 companies, most in Indiana. "For the employer, spending valuable time administering human resources is nonproductive." Employers signing on with a PEO cut that non-productive time and also lower the risks posed by employment-law compliance issues. Administering claims through workers' compensation is a second risk that can be reduced.



Employers are also better able to recruit and retain talented employees because of the comprehensive benefit packages offered by PEOs. "Smaller companies can be competitive with larger businesses," Stoneburner notes. "There is an economy of scale not only with medical coverage, but in providing the employee with cafeteria style benefits."

and pre-tax plans. He says. Typically, the PEO administrative fee is offset by a savings in such HR components as benefits, payroll and workers' compensation.

In typical PEO co-employment arrangements, both the PEO and the client company establish common-law employment relationships with worksite employees. The small business usually retains the right to independently hire, fire and manage its employees, while the PEO also maintains such rights in order to better manage its employer liabilities. "As soon as a client company has identified who they want, the PEO hires that person for the company, as well as handling all payroll, benefits and human resources," says Brent Tilson, president at Adminiserve in Greenwood, which has 200 client companies.

A co-employer relationship rarely poses a problem for an employee. "Usually, our clients are smaller business, 100 employees or less. These companies typically don't have the infrastructure internally for employee administration or for good HR services. A PEO allows employees to have better access to information" Tilson says.

Adminiserve contracts with businesses that have from one to 200 employees. "I'd say the average is 20 employees," Tilson says. Companies range from venture capital to law firms to technology.

"A PEO is a relationship business," says Dale Jensen, CEO at PrimeCor in Indianapolis, "therefore, a potential client needs to do as much research as possible." He recommends visiting the Web site of the National Association of Professional Employer Organizations (www.napeo.org) to verify membership.

PrimeCor is one of the new PEO players with about eight clients. It differs from many PEOs in that it is associated with a payroll service, PrimePay Inc. of Indiana. "The payroll and employment tax aspect of human resources is important," Jensen notes. "Some PEOs are not payroll inclined and mistakes are made. We have a core competency in payroll."

Besides offering payroll, employment-tax services and a 401(k) retirement program, "most PEOs will take on the unemployment responsibilities and workers' compensation, plus provide some type of group health benefit," Jensen says. "In our case, we provide a dental program. But we are somewhat unusual in that we do not actually sponsor a health program." But PrimeCor will help a client identify the best health plan to purchase.

"Originally, PEOs appealed mostly to smaller companies as a rule, but this is changing because larger companies are now realizing that HR is not a core competency for them," says Harlan Schafir, president and CEO at Professional Staff Management, with offices in Richmond and Carmel. The company has PEO contracts with 160 companies in 20 states, but roughly 85 percent of the 2,500 employees in its system work in Indiana. Its largest client has 220 employees.

When entrepreneurs consider a PEO, they commonly ask: Will I lose control? "The answer is clearly no," Schafir says. "What they are giving up is not the significant part of the employer/employee relationship. The significant part of the relationship is that day-to-day interpersonal contact. Who patted me on the back? Who asked me if my kids were sick?"

The PEO market appears to be on a roll, "With increased requirements for business owners to comply with government regulations and related matters, the need for experts to take care of all that will continue to grow," predicts David Day, president of Management 2000 in Indianapolis, which has PEO contracts with more than 250 companies. "Sometimes it's difficult to convince a client to comply. After all, a lot of small businesses began by shooting from the hip. Then all of a sudden they are a real company. Outsourcing HR completes the management team."