



Is It Time to Outsource Your HR?

Need HR help for your small business? Consider hiring a PEO.

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When the time comes to start hiring staff, a lot of entrepreneurs fail to give much thought to all the responsibilities that come with being an employer. The average small-business owner isn't equipped with either the knowledge or the time to comply with the mountain of regulations required by the government. Fortunately, HR outsourcing--hiring a PEO to oversee your HR tasks--is a solution that not only provides help with compliance issues but can also provide assistance that's tailored to your company's specific needs.

A PEO, or Professional Employer Organization, can offer HR solutions tailored to small and mid-sized businesses in all industries. For an annual fee, usually 2 to 7 percent of the dollar value of your annual payroll, a PEO will take care of everything from recruiting and hiring to managing your health benefits. Since many smaller businesses can't afford to hire an HR professional, PEOs can be a cost-conscious option. For instance, if a company has a \$1 million payroll, a PEO can provide the equivalent of a full HR department for roughly \$20,000 to \$70,000 a year, considerably less than a fully staffed HR department or even one qualified executive.

Generally, a PEO will legally hire a company's current employees, thereby making the PEO the "employer of record" for taxation and insurance purposes. Having the employees of multiple businesses "on staff" allows PEOs to enjoy lower benefits' costs because more employees mean better rates. The employees are then leased back to the original employer (now a PEO client) under a shared-employment contractual relationship, which sets out the powers, responsibilities and liabilities of the parties. This practice is also known as "employee leasing" or "staff leasing."

The PEO then assumes responsibility for all payroll obligations, workers' compensation coverage and tax filings. Additionally, health, welfare and retirement benefits can be contracted as well as all associated administrative work. Because they take over most of the headaches of being an employer, PEOs are ideal for small businesses. In fact, most PEOs target companies that have 150 employees or less.

Many times, a PEO arrangement is the only way a small business can offer benefits like health insurance, dental and vision care, life insurance, retirement saving plans like 401(k)s, Section 125 cafeteria plans (flexible spending accounts for healthcare and childcare), job counseling, adoption assistance and educational benefits. Most small businesses just couldn't afford or manage these benefits on their own.

Finding the Right PEO for Your Company

Ideally, a PEO will relieve its client companies of the time-consuming and money-draining burdens associated with HR. Because PEOs offer many different types of services, choosing the right PEO is essential. If you're thinking about hiring a PEO for your business, consider the following factors to find the best possible PEO arrangement to meet your needs:

- **Conduct a basic needs analysis.** Lay out exactly what type of HR and risk management concerns your company has.
- **Review the services of all the PEO firms you're considering.** Find out which firms can meet all your needs and will do so in a manner that meets--if not exceeds--your expectations.
- **Perform extensive background research** to find out if the PEOs' sales pitches are really what they deliver.
- **Check out the companies' staff.** Does it have the depth and expertise to deliver on its promises?
- **Find out how the firms deliver their services.** In person? By phone? Via the web? A mix of all three?
- **Determine what kind of consulting the PEOs provide** on strategic HR issues like recruiting, HR procedures and processes.
- **Ask for a few references, and then check them.** If a particular PEO can't relieve your HR burden, one of the other ones certainly can.
- **Find out if the PEOs charge any upfront fees** and how those fees are determined. What about pre-payments? Do you have to put up a deposit?
- **Ask for some demonstration that payroll taxes and insurance premiums are being paid properly,** and that any past clients' legal issues have been correctly and efficiently handled.
- **Once you've selected the PEO you'll be hiring,** lay the foundation for a lasting relationship with your PEO by meeting the people you'll be working with face to face. An open line of friendly communication ensures you won't be lost in the in-box.

The bottom line is, PEOs can help small and mid-sized employers enjoy the same HR benefits as large companies without the considerable overhead. A PEO costs less than hiring an internal HR employee and will maintain critical employment records and payroll reports, as well as provide the forms needed to make sure you're in compliance with all required employee regulations. Being an entrepreneur is difficult enough without all the accompanying HR hassles, so find a PEO for your company today.

Layne Davlin is the founder and CEO of Lawrenceville, Georgia-based [NetPEO](#), an HR brokerage firm that matches companies with the PEO that best suits their needs.

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