

Small law firms use PEOs to get help with HR hassles

By Sylvia Hsieh
Staff writer

Like most small law firm founders, for years Chris Dexter juggled the practice of law with the administrative end of his business, spending several hours a week handling the firm's payroll and benefits.

But as his firm grew, the time he spent on those tasks multiplied, along with the headaches.

"I wanted to focus on practicing law, not on the rest of this junk," said Dexter, who runs the six-attorney firm Dexter & Dexter in Orem, Utah.

So about six years ago, he farmed out payroll, benefits and insurance to a professional employment organization (PEO).

Dexter says his only mistake was not hiring a PEO sooner.

He estimates his firm's revenues have increased by 50 percent, in large part because the time he used to spend on administrative tasks he now dedicates to client services and practice development.

PEOs are currently a \$68 billion a year industry, according to the National Association of PEOs, and many are marketed specifically to small law firms as a way of preserving lawyers' time with their clients, said Craig Ahlswedel, president of Staff Resources, a PEO in Sacramento, Calif.

By pooling thousands of employees, PEOs leverage economies of scale to lower the cost of benefits, helping small law firms compete with larger firms to attract and retain employees.

"Quite frankly, if you offer good benefits it's a whole lot more difficult to leave," said Dexter, noting that the average tenure of attorneys with his firm is five years.

Other small firms say that being an employer is too complicated to handle alone.

"As I grow my law firm, the business of being an employer is really its own business," said Michael Beals of Beals Hubbard, a ten-lawyer business and commercial firm in Farmington Hills, Mich.

Because PEOs stay on top of the ever-changing employment regulations, Beals doesn't have to.

For example, some PEOs market themselves as being able to handle a number of hot employment issues, including changes in the health care reform law, the Hiring Incentives to Restore Employment (HIRE) Act and wage-and-hour classification problems.

Co-employers

Most PEOs offer a full-range of services, including payroll administration, workers' compensation insurance, and health and retirement benefits, as well as employment manuals, recruiting, and hiring and firing of employees.

The cost of a PEO is either a percentage or a flat fee based on the number of employees and is deducted from each payroll.

For example, Dexter, whose firm has 14 employees, pays \$50 per employee per payroll.

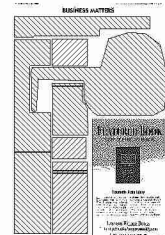
A major difference between a PEO and an administrative services organization is that a PEO becomes a co-employer with

your law firm.

"We produce payroll under our own federal Employer Identification Number. We pay taxes and report on all those things. We write the tax return. You're not even involved in that," said Donald Shewmake, co-founder of Pantheos, a PEO headquartered in Burr Ridge, Ill.

The co-employment arrangement, which is spelled out in the contract, includes shared liability.

"If an employee gets in trouble -



suppose he harasses someone – I'm on the hook too," Shewmake added.

He noted that all of his clients are covered under his employment practices liability insurance, an advantage that is particularly attractive to law firms.

"Attorneys realize that having insurance against [a potential employment lawsuit] helps them not have to worry about litigating or being exposed to a judgment," said Shewmake.

Some small law firms may not use all services a PEO offers.

Dexter, for example, says that although his PEO will hire and terminate employees, he considers that job too personal to delegate.

"It's nice to know they're there to advise us, but it's tough to farm that out. It would seem wrong in our smaller context," he said.

On the other hand, one advantage of the pooling of employees is that if your PEO can find your terminated employee a job with one of its other clients, you will save on unemployment benefits, said Beals.

What to look for

To find a reputable and stable PEO, look for membership in the National Association of PEOs, which sets industry standards.

The association has proposed model legislation in all 50 states that would require PEOs to file an application and register with the state.

If your state is one of the 36 states that has already adopted the model law, you can check to see that your PEO is registered and licensed.

"When you're licensed or registered, it's much easier for someone to follow you and see your reputation," said Beals.

Another way to make sure a PEO has sound financials is to look for membership in ESAC, the Employer Service Assurance Corporation, which requires members to jump through a number of financial hoops, including audits.

Even more importantly, ESAC carries a \$10 million bond.

"So if there are any financial questions, there's coverage," said Beals.

Questions or comments can be directed to the writer at: sylvia.hsieh@lawyersusaonline.com

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