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Don't Get Bugged Down by Employee Issues

Let a professional employer organization handle employee-related services such as HR and payroll.

By: [Doresa Banning](#) | 02/08/2010

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When Beaverton, Ore., [business owners](#) Christine and David Vernier's full-time human resources employee went on maternity leave 14 years ago, they contracted with a professional employer organization, [Xenium](#), to fill in. Although the employee returned, the Verniers kept the PEO on board and have used it ever since.

PEOs are business-to-business companies that provide services including human resources, payroll and related taxes, [risk management](#), compliance and employee benefits.

"I recommend PEOs to a lot of [businesses](#). I'm surprised that more don't use them," says Christine Vernier, chief financial officer of [Vernier Software & Technology](#), an 82-employee company that produces [hardware](#) and software for data collection in science classes.

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Services, Co-Employment

"We can be a completely outsourced employer service for our clients who want one vendor who manages all those different programs," says Anne Donovan, president of Portland-based Xenium.

In the contractual relationship between a company and a PEO, both are employers to the company's workers, sharing rights, responsibilities and liabilities, says Milan P. Yager, president and chief executive officer of the [National Association of Professional Employer Organizations](#), a 350-member trade association. PEOs use their names when, for their clients, they file employment taxes, issue paychecks and sponsor benefits.

PEOs offer and administer varied benefits that can include insurance, retirement plans and more.

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Clients may pick and choose from the PEO's offerings.

PEOs secure and provide their own workers' compensation policies and handle all related tasks. They ensure that their clients comply fully with all laws and regulations. Their human resources services are comprehensive, ranging from developing employee manuals to disciplining workers.

Some PEOs provide extras that may or may not be included in the overall cost, such as training, discounts, salary analysis and legal support.

"Whatever needs a client has, PEOs are willing to find the solutions," Yager says.

PEOs are legal in all 50 states. They are subject to regulatory controls in 34 of them.

Cost, Ideal Size

PEOs charge a monthly fee per employee or a percentage of each month's gross payroll. The cost typically encompasses amounts to be paid on behalf of the client's employees for taxes, workers' compensation and any other payroll-related expenses. The average client spends \$1,000 to \$1,500 a year per employee, depending on the risk and exposure for unemployment and workers' compensation, says Bill Rosado. With his wife, Maureen, Rosado owns [ManagedPAY](#), a Las Vegas-based PEO.

Paying a changing percentage makes sense for seasonal businesses, whose employee counts fluctuate. This is the case for April and Mike Tracy, whose two resort properties, [Cabana Club](#) and [Cabana Breezes](#), peak during tourist season. They pay their PEO between 14 and 15 percent of each month's gross payroll.

The price is fair, says Kathy Wilson, co-owner of Las Vegas-based Nevada Sales Agency, a 16-employee representative for manufacturers of lighting and control products and a ManagedPAY client.

"I could not employ a human resources person to do what they do, for the cost," she adds.

For that reason, PEOs make sense generally for companies with 10 to 100 employees. They're large enough to need the services but not so large that they can justify the cost of hiring employees to do the work. Conversely, companies with fewer than 10 employees sometimes can handle everything more cost effectively in-house.

Advantages

Using a PEO can free entrepreneurs to focus on the core of their businesses.

"If I hired somebody for human resources," Wilson says, "I'd be managing that individual. I don't manage the PEO. They manage me."

With a PEO, companies have access to several professionals with expertise in various areas. This leads to peace of mind, Vernier says. With one employee situation alone, she spent hundreds of hours with attorneys, all of which were included in her monthly PEO fee.

Because PEOs can aggregate their clients' employees, they typically can offer a benefits package that their clients alone can't access or afford. With attractive benefits, companies are better able to recruit superior talent. The Tracys couldn't obtain health insurance coverage on their own, primarily because of their companies' Florida Keys location, but they did get it through their PEO.

"Being independent and a small business, we could never offer a program like that," April says. "It's enabled us to have better-quality managers."

Downsides, Alternatives

Not all entrepreneurs like the PEO concept and relationship. Some are uncomfortable releasing confidential information to outsiders. Some object to the cost. Some don't like others watching and bossing them.

Some owners don't like feeling lost or powerless. If the PEO errs with payroll, for example, the entrepreneur can't resolve it. If a problem arises on a weekend and the PEO is only available on

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weekdays, the issue has to wait.

"It's out of your hands," Wilson says. "You don't have control of it."

A PEO might not be a good fit for a company if it doesn't need some of the [organization's](#) offerings, Donovan says.

Because of these concerns, some PEOs now offer PEO-type services piecemeal and without the co-employer relationship. These services may fall under other names, such as administrative services outsourcing/organization or human resources outsourcing.

"We started down this path of viewing everything from the client's viewpoint and providing whatever that client wanted from the buffet table," says Dianna Sheppard, president and CEO of Tampa, Fla.-based [Advantec](#), which offers PEO, ASO and HRO services. In addition, some companies are strictly ASOs or HROs, without a PEO option.

To find a PEO, visit NAPEO's website. It contains a listing by state of all of its members, along with contact information and selection guidelines.

"Know the PEO is knowledgeable in all the areas of service it's going to take over for you," Wilson recommends. "Sit back and let the PEO do its job. It's worth its weight in gold."

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If you are using a PEO, or considering using one, make sure the company is licensed in your state. Most states now have licensing requirements for PEOs. Check into it before you choose so you don't have problems down the road.

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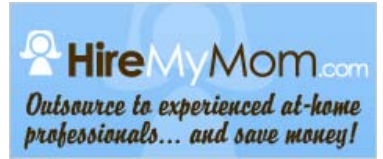
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