

Time & Attendance
White Papers

Topic
Outsourcing HR: Can You Afford Not Too?

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An Introduction

With the economy starting to make a recovery from 2009's economic downturn, this year is already showing more and more businesses bringing on new hires. Business growth not only paves the way for increased revenue, but with the addition of a growing staff comes the implication of understanding HR and employment law requirements.

The reality is, most small businesses do not have a dedicated in house HR department despite the need to understand human resources and employment law. Most labor experts agree that attempting to understand the law requires specialized knowledge, full time dedication, and commitment to keep up with the ever-changing landscape. Can you really afford to take time out to learn such an intricate job role such as this?

Businesses Are Loosing Their Shirts

Apparently, those who do feel they can take on this responsibility are paying the price. According to the U.S. Department of Labor, 80% of companies across the nation are failing when it comes to compliance with employment and Wage & Hour laws. As a result they are being taken to court and are loosing millions in lawsuits.

How much exactly? According to statistics for 2009, these types of lawsuits cost companies more than \$363.6 million with the average out-of-court settlement being \$23.5 million. This is a staggering figure especially for a growing company that could have avoided this type of lawsuit with an "air-tight" HR department. Other experts estimate there are "billions" of dollars on the table in pending lawsuits that have yet to see their day in court.

Investing Into HR

An investment in an HR department is obviously one that should be the top priority for any business. Although in an expanding company, if you have one free desk in

your office, would you rather place someone there that is actively making you money or hire an HR Manager?

The way around this is to outsource your HR and employment law requirements and get the best of both worlds. A popular method to do this is to use a PEO or “Professional Employer Organization”.

A Brief History of PEO’s

Professional Employer Organizations or PEO’s enables business owners to outsource services such as management of human resources, employee benefits, payroll and workers’ compensation, recruiting, risk/safety management, and training and development. It does this by hiring a client company’s employees, thus becoming their employer of record for tax and insurance purposes. This practice is sometimes referred to as co-employment or employee leasing.

Even though the PEO is the employer of record, the client company continues to direct the employees’ day-to-day activities. PEOs charge a service fee for taking over the human resources and payroll functions of the client company: typically, this is from 3 to 15% of total payroll. This fee is in addition to the normal employee overhead costs, such as the employer’s share of FICA, Medicare, and unemployment insurance withholding.

Business expert Tammy Moore, Client Relations Manager at XcelHR amsource has noted that,

“A growing number of small to medium-sized businesses have been put off from hiring more workers because of the complexities of DOL regulations and tax law. As a result, more and more businesses are outsourcing these functions to third party contractors such as PEO’s in an effort to reduce their responsibilities.”

Tammy comes from XcelHR amsource, a PEO that provides outsourced HR, payroll services and retirement planning explains:

“... while many companies cannot afford their own in-house HR department the reality is they need one. “

With new laws regarding employment being announced on a regular basis, it's difficult for even the most HR savvy business owner to ensure that all laws, new and existing are known inside out and adhered to. In order not to suffer as a consequence of any of these laws it is important that nothing is neglected and the right measures are taken to protect companies, and this means investing in HR.

In Summary

If you choose to outsource your HR requirements, here are some tips to help narrow down the list of candidates when “shopping” around:

1. **Determine Your Business Needs:** Consult your managers, human resources department, accounting personnel and IT staff to understand the functionalities that all key personnel might need.
2. **Evaluate the Features and Benefits:** Meet with several HR providers/PEO's to determine how they work. Do not pick a solution based on price alone; instead be sure they can provide all the services your business needs. For example, your business might need help with 401(k) or worker's compensation, so be sure the provider can handle those services.
3. **Ask Around:** Ask fellow business owners, chamber of commerce or trade association members if they use a PEO. Find out what services they receive and if their provider meets their needs.
4. **Understand the Fees:** Look closely at each companies fee structures since they can vary a great deal from one company to the next. What might work for a one business might not work under your company's dynamics. Some PEO's charge for items such as additions or deletions of employees, while others offer fixed rates for the length of the contract without incremental fees.

5. **Be Sure Processes Are User-Friendly:** In addition to making sure their processes are easy to use, investigate what type of support is available — such as a help desk and professionals who can assist with questions regarding day-to-day HR related needs.

However you choose to invest in HR, in-house or outsourced, the bottom line is that if you don't take the appropriate steps to protect your business, chances are you'll run afoul with the law and pay a substantial amount for the mistake.