

# Is PEO the Way to Go for Better Personnel Management?

By Peter Rassel

Employees! It is hard to have a thriving business without them. They are a critical-to-success factor in your efforts to expand your business, freeing up your time to spend on activities that move the business further along the growth curve. But as you bring on more employees, you begin to wonder what happened to all that free time as you work on payroll, develop a personnel manual, and fill out all of the obligatory governmental forms. It seems like you are spending more time and money on personnel issues than ever before.

According to a study commissioned by the Small Business Administration, federal regulations cost businesses with fewer than 20 employees almost \$7,000 per employee, more than 55 percent higher than the per-employee cost to businesses with 500 or more employees. Of that, about \$2,000 per employee was spent on workplace and tax compliance regulations. Another study reported that the average business spends from 8 to 15 percent of gross payroll on administrative costs. That study also stated that between 7 and 23 percent of the owner's time is spent dealing with employee-related problems and paperwork, including payroll.

What do you do? You could fire them all and hire them an independent contractors. That wouldn't sit well with the IRS. It may also violate several

federal regulations governing employer-employee relations, even though Georgia is an "Employment at Will" state.

You could do what a growing number of companies are doing, outsourcing the human resource management to a company known as a Professional Employer Organization (PEO). PEOs handle more than just payroll. They can help set up employee manuals, provide training in areas related to workplace regulation, offer medical and retirement benefits, minimize employee litigation liability, and perform other human resources tasks.

A PEO is not the same as an employee leasing company. In an employee lease situation, the business owner contracts with the leasing agency to provide workers for a specific period of time. The workers remain the employees of the leasing agency. When working with a PEO, the business owner's employees are basically "co-hired" by the PEO. Under this arrangement, the PEO handles the personnel activities and the business owner continues to set the hours, oversee the work, and determine salary levels.

This concept of "co-employment" means that the PEO is responsible for the prompt payment of all withholding taxes and for handling worker compensation and unemployment claims. The business owner is still responsible for the day-to-day

operations, including working with OSHA on safety issues. Both the business owner and the PEO can independently decide to hire or fire an employee.

As in any industry, not all PEOs provide the same types of services nor are all trustworthy. It pays to verify. The National Association of Professional Employer Organizations (NAPEO) is one of the trade associations deeply involved in the self-regulation and monitoring of PEOs. In 2002, NAPEO provided funding to start a certification program that set forth standards of operation and conduct of PEOs that allows them access to insurance markets and provides them a basic level of credibility in the marketplace.

NAPEO ([www.napeo.org](http://www.napeo.org)) offers a 10-step guideline to companies considering a relationship with a PEO:

1. Determine your human resource and risk management needs.
2. Can the PEO meet your goals?
3. How are payroll taxes and insurance premiums paid?
4. Ask for client and professional references.
5. Check to see if the company is a member of NAPEO.
6. Investigate the company's administrative and risk management service competence.
7. Know what employee benefits are available.

8. Understand how the employee benefits are funded.
9. Are the respective parties' responsibilities and liabilities clearly laid out in the service agreement? What are the guarantees and cancellation procedures?

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## *Business Sense*

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10. What certifications does the PEO have?

Overall, using a PEO can save business owners money (\$12,000 per year, according to one study). It can also free up valuable time to do what you do best--manage and grow your business.

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