

SBTV #14 PEOs - Professional Employer Organizations

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Dennis Zink:

Are your benefit costs dissolving your profits? Are you allocating too many resources to your HR function? Would you like to simplify your payroll process? In this episode of SCORE Business TV, we'll show you how to accomplish these goals and more. Please stay tuned.

Dennis Zink:

Welcome to SCORE Business TV sponsored by Wells Fargo. In this series, experts share their opinions with business owners and entrepreneurs on a wide variety of topics. Today, we'll explain how a PEO can benefit your business in reference to costs, HR, and payroll. PEO stands for Professional Employer Organization.

Dennis Zink:

Our expert guest is John Coleman. John came to Paychex after being a customer there. As an entrepreneur, John has 25 years of experience as a business leader and sales executive. Oasis is a Paychex company. They provide PEO services, offering compliance with federal and state employment laws, payroll processing, and employee benefits.

Dennis Zink:

Brian Smith is also joining us today. Brian has 28 years of experience in the PEO business in the areas of finance, accounting, insurance, sales and marketing. He is also a licensed Florida insurance agent. John and Brian, welcome to the show.

Brian Smith:

Thank you.

John Coleman:

Thank you for being here.

Dennis Zink:

John, let's start with you. What exactly is a PEO?

John Coleman:

Well, as you said earlier on the statement, PEO stands for Professional Employer Organization and we call it co-employment. In the old days, it was called employee leasing, but now it's co-employment. As the employer, in supporting the employer, I should say, we will take care of your payroll, your tax filings, handle health and benefits for your organization as well as HR compliance.

Dennis Zink:

Okay, great. And Brian, who do the employees work for?

Brian Smith:

You as a business owner still maintain those employees. You still oversee those employees on the day to day activity. You run your business the same way you would run it without us. However, now you can rely on us to help you attract and retain those employees.

Dennis Zink:

Okay. If I want to fire somebody, can I do that?

Brian Smith:

Absolutely.

Dennis Zink:

Okay.

Brian Smith:

We'd like to help you with some guidance and keep you in compliance when you do that.

Dennis Zink:

So we didn't get into any trouble.

Brian Smith:

Correct.

Dennis Zink:

Okay. And just as an FYI, I have been a customer of Paychex and also the PEO, so I've first-hand knowledge as a client as how this works, but that might be helpful today. What are some of the other benefits that a PEO offers?

John Coleman:

When you get a PEO overall, what we try and do is help the business owner focus on their core business and take away a lot of the headaches that come with running a small business. I put these in a few different buckets.

John Coleman:

The first would be insurance and benefits. The Small Business Administration (SBA) says that small businesses 18% have more benefits than do large corporations. Through our larger groups we're able to bring in benefits at a fortune 500 level to an organization that they couldn't obtain on their own. So insurance is very helpful. Better benefits usually reduce costs. The second area would be compliance and legal support. Again, the Small Business Administration refers to the 18% costs are higher for a small business when it comes to compliance as a lot of legal changes that happen daily and monthly on a federal state level through the support of our organization.

John Coleman:

We have to update the owners and HR on a regular basis to any compliance issues that are out there, help reduce those costs with the organization. Those are two major areas. Brian paperwork administration, you agree?

Brian Smith:

Oh totally. Yeah. The paper side of the coin is, you know the idea for the small to medium size businesses also Dennis is to reduce that overhead in associated with doing that. You know, we're not telling you to get rid of your staff or your accountants or your legal, your centers of influence. But however we're that support mechanism so it will reduce a lot of the time spent from filing, et cetera on all your state and local taxes as well.

Dennis Zink:

Okay.

John Coleman:

In the main area of payroll, payroll processing for a lot of companies is very burdensome. We take that burden away from the employer. Not only do we process payroll and then put them on a daily, on a weekly basis is your quarterly tax filings. It's going to be your vacation and sick time accrual processes. It's going to be your W2 and other tax filing as well in those lines. So these things help reduce, again the employer time span of some of these functions and with the PEO you also get some other services that come with it. Like recruiting and onboarding are part of our process cause he's approaching HR. We support you with finding good people, get them onboard smoothly. You can get it when it's their time to leave. Also through OSHA, probably be through OSHA. Correct?

Brian Smith:

Let me digress a little bit, for you Dennis. One of the things that I knew and you being an end user at one time, what I like to go back to is the idea of having us as that co employer to fall back on. Is this going to, besides reduce some of your overhead, it gives you that recovery of time. So we like to say, where's your time best needed? Okay, well you want to focus on the core of your business making that widget or getting to the next customer. This allows you to get back some of that time from a standpoint of, I'm not sure where you're going with OSHA.

John Coleman:

I love thinking of an employee. Let me know when the employee leaves in terms a benefit administration, we help you on the back end, making sure you're in compliance with that.

Dennis Zink:

Well, it's interesting, you know. I mean to me it was a no brainer going with Paychex and having the PEO. I know it saved us money for sure. It did cost something but we got more benefit out of it. How would you describe that for our viewers as to some idea of what it will cost or how it'll save them or just address that in some fashion?

John Coleman:

It's a great question. That's because cost is relevant and we look at it, it's one or two factors. Either employee per charge cost or overall percent of payroll. We're able to look at the client helping decide what's best for them, but the real thing comes down to there a cost savings to organization and through economies of scale. As I mentioned earlier, as you look at the insurance benefits, health and benefits, if we can drive some of those costs down for the over employer, then over in general we can reduce costs or even be cost neutral, hopefully worst case scenario and provide better benefits for the organization.

Dennis Zink:

I know it's saved me money. I don't know what the percentage was, but it was, like I said, it was a no brainer and I'm unbiased. It was a great thing to do. So how many employees does that employer need to have to get involved with the PEO?

Brian Smith:

Good question, Dennis. We have clients as small as five, but anywhere five to a hundred is what we would consider small to medium size. But we have clients as large as a thousand and over, especially in the franchise or hospitality industry.

Dennis Zink:

Okay. And John, as an employer, could I get a PEO in every state in the country?

John Coleman:

The answer is yes. As you know here in Florida PEO's began originally, but now towards the legal compliance and they are now legal in all 50 States.

Dennis Zink:

They are legal.

Brian Smith:

Yes.

Dennis Zink:

Yes. Okay. You know, let's say I'm, I'm trying to decide whether to go and have a PEO or not. What should make up part of that decision? How do I decide?

Brian Smith:

Well, there's several reasons to decide. One, how are you handling your filing of your taxes now, how are you handling your workers' comp? What are you doing for your benefits? What are you doing for the life cycle of the employee? So a lot of those questions that we try and discover with you will determine the best solution that we can provide. We had a client just recently that was unable to obtain because of their growth in infrastructure and adding different locations. They still weren't able to get a good features and benefits out of their health current health plan. The other thing they wanted to do is offer a 401k. So those are some of the things as you grow with us and the relationship builds. There's other advantages of these fortune 500 style benefits that we bring to the table.

Dennis Zink:

Brian, you mentioned lifecycle of an employee. Can you define what you mean by that? I'm not really sure.

Brian Smith:

Sure. We like to see that it doesn't seem to be very apparent in the industry as much as what we like to do with the employer is the idea is so you can attract and retain employees. So everything from the onboarding experience with our PEO to the fact that we're going to take them through the stages as they grow with your company. From training, we have a plethora of training material that they have access to. So when you're on our platform, all these things will be available to you to provide to your employees.

Dennis Zink:

Okay. And John, how much time might I recover that I'm saving?

John Coleman:

That's really dependent on each organization. We starting assisting with a small company and the person who I was working with was not only answering the phones, but doing payroll, doing HR support work and through tools I can bring the organization, we can give that person time back in their day to work on a company's core business. Very important to them. Relieve this person's time. when doing manual tasks, they are doing tasks to focus on the business's growth and development.

Dennis Zink:

So it's not just the owner, it's you going to save across the board of people that are doing those tasks that don't have to do them anymore or it'll streamline them. Is that correct?

John Coleman:

That's actually correct. Yes.

Dennis Zink:

Okay, good. So how long does it take to set up a PEO? Let's say? I say, okay Brian, I'm interested in doing it right now. How long is this going to take to do this?

Brian Smith :

What we'll do is we come in with, depending on the size of the company or the entities, and what we'll do is we'll have a team from our HR specialists to an onboarding specialist and then what it's usually about three to four weeks on an average. I've seen it as a turnaround in two to three weeks, depending on the size of the company. And then if you have a larger company of a scale or magnitude or multi-state, then it could possibly be about a month.

Dennis Zink:

Okay. So you're saying that within..

John Coleman:

Well I was going to say there's a lot that depends on the businesses themselves as well. If they dedicate a person to work with us one on one, they give us paperwork, we need to process it quickly. We can turn it around in seven days. I've seen clients come on board very, very quickly. So it really depends on the organization you're working with. How fast they support us with documents we need to get them on the process fully.

Dennis Zink:

Right. So I'm assuming you need basic information, employees names and their socials, their addresses.

John Coleman:

Correct.

Dennis Zink:

And all that background information.

John Coleman:

Correct.

Dennis Zink:

That the company should have anyway. It's a matter of the current person that's maintaining that providing it to you. Is that right?

John Coleman:

That's correct and we all have the ability with our organization, I can't say for all PEOs, but we do have ability to have a lot more of our staff members work with the owner to get the reports that we need, help them pull the reports that we need and things go smoothly.

Brian Smith:

The nice thing is now Dennis, maybe from the time that you used to use a PEO, but now we have what's called electronic onboarding. So a lot of the, the issues of sitting down the cafeteria style, having that presentation in front of every employee. Obviously we want their employees and the employer, whatever they would like us to do. It can be one on one, it can be a group setting, but usually we're getting that information on the backside. So a lot of that stuff is pre uploaded to our system and then it's a communication. So we've built all the bridges, the APIs as I like to call it, all coordinate with their time clocks in our system as well.

Dennis Zink:

Okay. John, as an employer, do PEOs get involved in helping to recruit employees?

John Coleman:

PEO's in general do, yes. In our particular case we have tools for organizations to help automate that process. For example, it comes up and tracking and recruiting. We go out and made it the process to where you build your own individual job description but then we post it automatically for you to do job boards for example, Indeed will go automatically or to your own website and from there the applicant

can apply electronically and it goes to the hiring manager to review and evaluate.

Dennis Zink:

Okay, and let's say Brian, that I want to get insurance, health insurance and I want benefits for me and my family. Is that something I can do with through the PEO?

Brian Smith:

Absolutely. And the neat thing is, you know we can also do tiering, so it's called classing. In reality it's when you have management style staff and then maybe you have another entity that's involved. So what we do is we look at how you want to build that so an employer can still have a strategy to match, contribute to those plans and then the certain requirements that come into play. Once we look and vet those.

Dennis Zink:

Okay. Is it required for me to pay myself through the PEO and do you recommend that I do that?

Brian Smith:

Good question. Yes, we do want you to run your remuneration through the PEO. However, you know, depending on your setup in LLC, you know how you're set up. Then you may take a K1 but most all remuneration of all our employers is supposed to be run through the PEO.

Dennis Zink:

John explain why a PEO is good for a company.

John Coleman:

It really speaks to the overall process. Your organization helping the employer reduce their costs, time back in their day and focusing on their core business. Many small and mid sized companies I deal with, they are caught in minutiae of dealing with day to day paperwork and processes of business. Our backend system will help them relieve some of those pains. We like to say we're the 500 pound aspirin for the employer.

Dennis Zink:

John, what happens when an employee leaves?

John Coleman:

Dennis when an employer offers employees health benefits, now when the employee leaves, we need to continue that coverage as a rule passed by federal government years ago called COBRA (Consolidated Omnibus Budget Reconciliation Act) and we help administer that for the employer. It takes a headache off their table. We make sure the employees are offered continual coverage once they leave the organization.

Dennis Zink:

Is there a minimum amount of employees where that kicks in?

John Coleman:

The number is 20 for minimum employees we offer COBRA too.

Dennis Zink:

Okay.

John Coleman:

Yeah.

Dennis Zink:

And what about other compliance related issues? Brian, are there any other compliance issues that I need to be concerned with that that a PEO will handle?

Brian Smith:

Oh yeah, there's plenty. I mean from, we'll help you with the OSHA (Occupational Safety and Health Administration) that John mentioned earlier, I believe and with risk compliance. So let's say you're dealing with a worker's comp situation where it's on our employer of record, so it's our policies, so we have a vested interest as well with you. The idea is to keep that sustainable growth, but from a compliance standpoint, HR, we could go deep into that, but the simplest way is we're going to help guide you on the HR compliance. As John mentioned earlier, that there's so many rules and regulations that change yearly. I mean the last time I looked at, you know they've gone from years ago, it's like it seemed like one page. Now we're up to like five to 10 pages, so it's crazy out there with the compliance side. It does affect every small employer. It's not just besides when you get into the 50 and greater, that's a benefit. ACA (Affordable Care Act) compliance, so we do a lot of things with the ACA, so we help you stay in compliance with that as well.

Dennis Zink:

One of the things that I recall is as an employer, which I really liked and I'm not sure if it was a PEO side or if it was just the payroll side or whatever was having that employee handbook. They, they gave me a bunch of things and you could go through and check the things that apply to your business and write some things in and then they gave us this really neat handbook and it didn't cost us anything other than the fact that we were working with them. Is that, is that part of the PEO side?

Brian Smith:

Yes. Absolutely.

Dennis Zink:

Yeah.

John Coleman:

To expand on the answer in terms of compliance issues. For example, I have dealt with a midsize company recently, HR department and they had a fairly large lawsuit, pertaining to the family and medical leave act, FMLA (Family Medical Leave Act), where an employee was let go, not let go, actually the employee left the organization because he had to take care of a sick parent. They were

never notified by rules of FMLA that they can retain their job. Three months had passed and the employee realized, wait a minute, I didn't need to resign. I should've been able to keep my job. They're now suing that employer. If they were a client of ours or a PEO, I should say the PEO organization, that would not have been missed.

Dennis Zink:

Okay. Now, FMLA is family medical leave act, is that correct?

John Coleman:

That is correct. Yeah.

Dennis Zink:

Okay. And what about workers' comp rates, which is always a big concern for employers. Brian why don't you handle that one.

Brian Smith:

Sure. The worker's comp, we basically will vet the best solution for them, but we take that over as well. There's several ways we can go with that. The neat thing is we are solution driven again, so it's not an all one fit. Certain companies it's depending on their modification, their experience rating that will apply to the cost or the cost savings if you will. The other thing is with the comp, obviously we keep you in compliance, the audits go away. So I think earlier John alluded to another small company that you know was having issues with audits. We had issues with even getting secured in the worker's comp. So that's when we come into play and we can obviously with our size and strength be able to provide that for the employer.

Dennis Zink:

But do the rates tend to come down?

Brian Smith:

In a lot of cases they do. It depends on the current situation of that client, but ultimately, yes. The idea is that we can reduce that cause we have more buying power.

John Coleman:

The other thing too is I think as a PEO recognizes as a fact that we believe that workers' comp is a managed cost and through the tools HR is able to gain from the PEO that these costs become controllable.

Dennis Zink:

Okay. As far as worker's compensation, can you explain that for the benefit of our audience?

Brian Smith:

Yeah, sure. Workers' compensation is a requirement. Each state is driven a little differently depending, but for instance, Florida, if you're in a blue collar, gray collar industry, once you have four (employees) or greater, you have to have it.

Dennis Zink:
Four employees?

Brian Smith:
Yes sir. And what happens in that, it's basically a glorified coverage of insurance to protect the employee on the job. So what we do is we come in there and help mitigate that and reduce those risks with our risk management services that we offer as well. But also, it also allows you some buying power and you're not wasting your time every year. One more thing that relieves the owner and recovers some time for them is shopping workers' comp or dealing with an audit. So once you're with the PEO you don't usually have those audits per se to have to worry about and the renewals are through the PEO. So it's basically the one stop shop.

Dennis Zink:
So if I have a PEO and whether I'm interested in selling my company at some point or just want to add value to my business, is having a PEO a positive thing to do?

John Coleman:
I believe it is. Personally working on small business owners there's a lot of risk liability comes with owning a company. If your goal down the road is to sell your business, you want to reduce the risk for the new potential owner. One of the best ways to do that is a transitioning point, the liability of your employees to a PEO makes a lot of sense.

Brian Smith:
It does fine. And if I can expand on that.

Dennis Zink:
Sure.

Brian Smith:
We just had a client literally, well two different scenarios. One, it's a medical practice and he's ready to retire. So a completely different entity is coming in to assume that clientele in practice. So by them already in the PEO situation with us, it was easy for him to talk to him and now they're wanting to revert it and understand what's the value proposition of the PEO. Well, once he starts peeling back the onion of all the things he has to do to start that practice or keep it as a separate FEIN number or roll it up. He realized the value of keeping us in the mix.

Dennis Zink:
Okay. An EIN or FEIN in his federal employer identification number.

Brian Smith:
Yes.

Dennis Zink:

Correct?

Brian Smith:

Correct.

Dennis Zink:

Yeah. Okay. So am I likely to get better employees because I have these PEO benefits, extra benefits or is that something that's going to help me out?

John Coleman:

That is a huge factor in today's small business. The competition for good employees is very, very tight in the marketplace. Hey, look at today's TV ads. For example, you see Amazon advertising for new employees and they have employees in the factory talking about, I now have benefits I now have eye, I now have dental. Well, it's hard for the small employer to compete against that. They can get good and good employees who want to stay with you. So through the PEO we now can bring you fortune 500 benefits to a smaller organization. Makes it affordable and accessible to your employers, to employees, which helps you attract the best in your industry.

Dennis Zink:

Yeah, that reminds me of when I got an egg McMuffin last time at McDonald's, the server and I have seen the TV ads where they get college tuition paid now. So that's pretty cool.

John Coleman:

Absolutely. Yeah.

Dennis Zink:

Yeah. And we've learned a lot about PEOs and our audience has certainly benefited from this information. At least I hope they are. And they're going to probably make a decision. Is this something I want to look into and maybe consider for my firm? So tell me in a summary fashion, Brian, if you will, a before and after as to, you know, what their company might look like before they do it and after and, and really the real effect of doing it.

Brian Smith:

Sure. I like to think they're in chaos and they need us. But like I said, I see what's really great is to be able to put your head on your pillow and knowing that you're helping every client. I've been doing this a long time. And so when you bring up the small guy that's struggling, you know, putting in many hours, maybe his spouse is in the business, maybe a significant other is trying to do all the paperwork. It frees them up as well as the compliance side. So once again, if you didn't have to do all of these things and you've got to just focus on your business, you wouldn't do it right. So it allows them to utilize us to do those items for them. So the compliance factor, the HR feature, the better benefits, the payroll administration, workers' compensation, it's an affordable way to focus on your business and allow us to take care of the minutia.

Dennis Zink:

Well, I'm a firsthand believer. Again, I went through that. So you know, it was a great thing to do. And like I tell people, it's a no brainer. I always say that. So Brian, bottom line me. What's the, what's the best reason to have a PEO?

Brian Smith:

Best reason would be to save you time and energy to focus on your business and recover some of that time spent doing the non-revenue generating items, and save you money.

Dennis Zink:

John and Brian, thank you for explaining what a PEO has to offer. Our viewers now have a much better understanding of this topic. If you'd like more information about today's show or you'd like to inquire about having your own SCORE mentor, please reach out to us at 1 (800) 634-0245 or www.score.org
John and Brian, thank you again for being my guests today on SCORE Business TV. I'd also like to thank our sponsor, Wells Fargo. Please tune into our next episode. Until then, this is Dennis Zink. Thank you and have a great day.