HR Management in Light of Health Care Reform

What the Affordable Care Act means for your business and how a PEO might help you stay compliant and solvent

SERVANT**HR**

Is this guide for me?

Health care reform is making human resources even tougher to manage, especially for businesses that don't have trained HR professionals on staff. PEO (professional employer organization) professionals can recognize and carry many of the risks businesses may face associated with health care reform. This guide will provide business owners and employees responsible for handling HR tasks an overview of how reform will affect their businesses and how PEOs can be valuable partners to help them reduce risks and stay focused on growing their businesses.

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Part 1

How Health Care Reform is Affecting Your HR

Healthcare Reform: 2013 Changes — Are You Compliant?

Through 2018, business owners will have new requirements to fulfill as part of the Obama administration's **healthcare reform** or **Affordable Care Act (ACA).** The law spans 2,409 pages. In my experience with business owners, they typically aren't interested in reading thousands of pages of legal details and spending an inordinate amount of time to learn the ins and outs of a reform. But it can be difficult for growing businesses to stay compliant because of the overwhelming bureaucracy, and triggers spurred by increasing employee numbers.

To keep things relatively simple, for 2013, here are three major HR-related requirements business owners need to fulfill to avoid getting into hot water.

1. Beginning Oct. 1, 2013, employers must have provided employees with written notice about their state's health insurance exchanges.

If you follow the news at all, you have heard about health insurance exchanges. The exchanges are finally in place, at least in a basic form.

The exchange is a virtual marketplace that allows individuals or small businesses to purchase health insurance. It's mandated that each state have its own exchange. If a state sets it up on its own, it is responsible for vetting out prospective private carriers to become part of the exchange. This calls for a review of each carrier to make sure they meet and maintain the required standards. Individuals can then go on the online site and get quotes for insurance.

The debate around exchanges is especially because the ACA says states have to carry out the health insurance exchange projects out of their own pockets. Many states have said they weren't going to do it. Indiana, for one, is struggling with the choice.

2. On 2012 W2s filed in 2013, employers had to report the value of employer-sponsored healthcare coverage for each employee.

For example, say I'm a dependent. My company pays $X and I pay $Y into my employer-sponsored benefits plan. The total value ($X+$Y) must now be included on a W2 starting next year.

No clear reason as to why we have to report this has been given. But a few things are sure. With this new requirement, insurance premiums will be more traceable, which relates to the tax value. The government currently knows our pre-tax contributions, but it doesn't know the amount an employer is paying.

This requirement comes into play more clearly in 2014 when the so-called "play or pay" penalty takes effect. Essentially, if an employer of 50 or more employees doesn't provide minimum health coverage and also a minimum employer contribution, the employer will pay a penalty. The W2 number in theory enables government regulators to make sure people are staying legal.

Employers of small businesses don't need to be concerned with this rule — for now. Employers filing fewer than 250 W2s the prior year are exempt from further notice.

3. Flexible Savings Account limits to no more than $2,500 was effective on Jan. 1, 2013.

An FSA is an IRS-created program that allows employees enrolled in a qualifying high-deductible health plan (HDHP) to save for and pay for health-related things such as unreimbursed medical expenses. With an FSA, employees set money aside for impending medical expenses that may incur through regular contributions from their paychecks. When they spend money from their FSA, it is tax free. For example, an employee can choose to save $1,500 at the beginning of the year for their FSA. When that employee goes to the doctor's office or pharmacy and uses the FSA card, they don't' pay taxes on the expense.

Currently, there is no limit on the amount an employer may contribute to an FSA, and generally the employee either uses the money or loses it.

The big advantage of FSAs for employers is they provide a tax shelter. With the cap on the amount that can be contributed, this tax shelter is diminished. In general, a disadvantage of FSAs for employers is that if an employee used the maximum amount of his FSA amount within the first few months of the calendar year and then quit his job, the employer is the big loser. On the flip side, if the employee elects $1,500 and just uses $500 for an entire year, the employer wins by enjoying the tax shelter FSAs provide.

Broader repercussions for employers

Because of healthcare reform and its Medical Loss Ratio provision, there's a push by insurance carriers to lessen or eliminate commissions for their brokers. With the MLR, health plans have to provide rebates to employees if employers' percentage of premiums spent on reimbursement does not meet the minimum standards for a given plan year. If an employer gets caught spending less than the standard, they have to reimburse by actually writing checks to the employees.

As a result, carriers are looking for ways to cut costs. In the near future, commissions for brokers are going to look a lot different and, in some cases, are going away. The danger for employers is if you don't have someone consulting or advising you and your employees, you are the one who is at risk. And with tougher, different rules, you need someone to hold your hand and guide you through the implementation of the healthcare reform.

Unique thing about Servant HR is we automatically have all the data we need to take the steps required to satisfy the ACA requirements. A traditional broker, for example, doesn't have access to payroll. He can't do the pay-or-play analysis. We have much more access and abilities.

In the future, we will also see a shift to moving full-timers to part-time work. There will be a huge part-time market develop as employers begin to feel the pains of ACA rules and discover ways to avoid them. Employers have to figure out how to migrate through this landmine.

Health Care Reform in 2014: Are you preparing today?

The wheels of health care reform are constantly turning, leading to new and revised requirements being rolled out on a rather irregular basis. What was market driven up to this point will be directed by federal government health care reform in the future. In the past, employers of at least 50 full-time or the equivalent of 50 full-time employees had a choice whether to offer insurance. In the future, the choice will be laden with costly consequences. Health care reform is another large government regulation that will have an impact similar to that of Cobra and the FMLA on businesses. It's a game of play or pay.

While there are still many unknowns, we do know several big changes business owners can prepare to see come to pass in 2014. Here are three ways you can prepare for health care reform in 2014 and one overarching "Bottom Line" choice to consider.

1. In light of the individual mandate, take a hard look at insurance benefits for employees.

The biggest thing to happen in 2014 will be the individual mandate. In 2014, virtually every American will have the "choice" to obtain health insurance coverage through one means or another. If they choose not to obtain health insurance, they will be subject to a related tax. **Under this individual mandate**, individuals will be able to purchase coverage on their own or through their employers.

If they don't carry insurance, they will have to pay a tax. For example, if a 20-year-old male in excellent health chooses not to purchase insurance, he will have to pay a punitive tax. Other likely candidates who will choose to or have to pay this penalty include the superrich and the poor.

At this time, if you want to find private insurance, you have to go through a broker, which, some argue, is typically a rather clumsy process. As a result, the federal government is creating exchanges. These exchanges are essentially online sellers of insurance.

Unfortunately, creating a more transparent, fluid marketplace for insurance will not have the same effect this same approach has had on online sellers such as Travelocity and Amazon. The math needed to lower the cost of insurance simply doesn't add up. The risk carriers take on is simply too high and unpredictable. In fact, projections are that insurance rates will go up as a result of the individual mandate. As insurance becomes more regulated, competition will likely go down.

2. Better understand upcoming market reforms so you can make smart decisions.

Another major change related to health insurance is **market reform**, which includes a number of changes. The Patient's Bill of Rights falls under market reform and is designed to, among other things, protect children (and eventually everyone) from obtaining coverage if they have a pre-existing medical condition. The market reforms going into effect in 2014 also prevents annual dollar limits from being set on annual medical coverage of essential benefits such as hospital, physicians and pharmacy benefits.

Under the law, if a plan includes children, a parent can cover children on their health insurance plan until the child turns 26 years old. Prevention regulations in 2014 will require new private health plans to cover certain evidence-based preventive services. Rate reviews will be put in place to improve insurer accountability and transparency.

These are just few of the reforms coming down the pipeline for employers. It is important to familiarize yourself with these upcoming changes, as your employees will have questions about how these changes will affect them. Be prepared to help them understand why costs are going up and where the blame lies so you don't feel the brunt of it.

3. Budget now to pay new taxes in 2014.

There are a number of new federally imposed taxes that will begin in 2014. These are being put into place to offset insurance premiums, which are projected to go up across the board.

- Reinsurance Assessment fee — A flat fee to be paid 2014-2016 that applies to both insurance and self-insured plans that provide major medical coverage
- The Health Insurance Industry fee — Created to help offset cost-generating provisions of health care reform
- Patient Centered Outcomes Research Institute (PCORI) fee — Designed to fund

research that will compare different medical treatments and interventions to determine what is most effective

- Federally Facilitated Exchange User fee — Put in place to pay for access to exchanges facilitated by the federal government

Employers can't avoid having to pay these taxes. It doesn't matter how healthy your team is or how robust your wellness programs are, these new taxes need to be in your budget in 2014.

BOTTOM LINE: Decide who you are in your marketplace.

The most far-reaching, strategic action that business owners can take regarding health care reform is to think about what role they want to play and what impact they want to make in this new group benefits world and then act accordingly. Look at who you are in your marketplace and what you're trying to be for your people. Ask yourself what all of this means from an employee retention and morale standpoint. What should you do in order to recruit and keep valuable employees?

If your business is small (49 employees or fewer), you have a real choice whether to offer insurance. If you choose to offer it, something else in your business will have to give to pay for the future pay increases that are inevitable. Perks such as gym memberships and paid parking spaces might become things of the past. If you're a large group (50 or more employees) and you don't want to offer insurance, you will be liable for a significant tax.

Aside from advocating change, business owners need to know how to handle the changes. Having a partner such as a PEO professional who can help them navigate these choppy waters is critical.

Health Care Reform and Small Business

There has been some confusion regarding news that came out July 2 about the Obama administration's decision to postpone implementation of his health care program's employer mandate. This change only affects large group employers — not those with fewer than 50 full-time employees. Small group employers have other issues to consider.

For small groups, the biggest changes health care reform will bring about are related to the benefits landscape:

1. It will change how the rates of those plans will be determined.
2. It will change the types of plans employers will offer employees.

Rates: Let's Do the Numbers

Small groups aren't currently required to offer health care benefits to employees. If they do offer it, they are offering it at will. The common worry among employers and analysts is that health care plans will be very expensive in the future, and projections are showing that this is a legitimate concern. Even if an employer is offering health insurance benefits now, the price tag could be prohibitive in the future as plan prices increase across the board. The result could be that employees are forced to find coverage at the individual level in the exchange market.

Why are rates expected to go up? For one, health care reform requires carriers to determine rates by a community rating. A community rating system (opposed to a system based on risk) is currently being used in New York, Maine, Colorado and several other states. It's not a foreign concept, but it is not at a national level — yet. In a community rating system, a person's individual health history and occupation do not help determine their rate. Today, when someone is in a higher-risk industry such as construction or commercial fishing in Alaska, their occupational risk is used to figure their rate. Likewise, if someone works in a slow-moving office setting that's considered a preferred industry, that person may be able to earn credits to get lower rates.

Under health care reform, that kind of risk isn't weighed. Under health care reform, employers or insurance companies may no longer ask if you or anyone in your family has a history of cancer, heart disease or other health issue. This may seem good for the employee and bad for the employer, but it's not so cut and dry. Think about your driving history. Insurance carriers regularly reward safe drivers with less expensive rates, credits and better coverage because they can make an educated guess regarding what their risk is if they insure that driver. If someone has had multiple traffic violations and accidents over the past couple of years, that information is also used to determine rates. If all of us drivers are lumped together as just "drivers" without the benefit of a little driving history, there is much less incentive for us to drive safely. Similarly, it could be argued that under the community rating system, there is less incentive for your employees to be healthy.

The community rating does consider gender, whether the person is a smoker and where they live. If you live here in Indiana, where we are known as one of the unhealthiest states in the country, even running the Indianapolis Mini-Marathon every year, abstaining from alcohol and eating right at every meal won't help you when the community rating system goes into effect.

Consideration by insurance companies of individuals' preexisting conditions is going away as well. This has been the case for children since 2012. Last year, virtually all carriers in the state of Indiana pulled out of writing policies solely for kids. The result is that affected parents can either pay for children's expenses out of pocket or go through the state to get a medical coverage policy. Medical Mutual of Ohio just pulled out of Indiana completely — for children and adults. With one less carrier, we have fewer carriers competing for Hoosiers' business.

Helping everyone get coverage despite their health history seems like a good idea, but eliminating the ability to ask about preexisting conditions has negative repercussions for business. For example, employers would want to be aware if an employee coming onto a new insurance policy has had three back surgeries, because chances are good that person will need another one.

The bottom line is that when the insurance carriers can't predict the kind of risk they may be covering, they have to think worst case scenario. As a result, rates are poised to increase under health care reform.

Types of Plans: Slim Pickings Ahead

I predict that the time is coming where brokers will start breaking the news to small groups that they have fewer choices in benefits plans. Health care reform is dictating to large groups how benefits plans have to function. In order to meet the definition of what a plan is, carriers are going to have to redesign their plans.

The carriers for a short time will continue to have a wide variety, although they eventually will narrow the choices to meet what is called a "qualified plan." The government is telling us all what is appropriate, and this increased pressure on carriers will lead to limited choices for consumers. Robust plans will be available, but they will be cost prohibitive for most employers.

A fascinating thought leader in this area is Dr. Ben Carson. Carson is a pediatric neurosurgeon who was raised by a single mother in inner city Detroit and eventually carried out work on the first separation of conjoined twins. To summarize his big idea, he argues that if the government is going to mandate anything, carriers should be set up as nonprofit organizations. It is an interesting idea to consider. If insurance companies were set up as nonprofits, it would take out the natural battle between a government mandating a product and a business's focus on making a profit.

What's a Small Business to Do?

So given the current and impending medical insurance landscape, what can a small group employer do? For companies that are around that 50-employee mark, I would recommend that you think twice about getting bigger or expanding right now. Before you begin growing, be sure you count the costs. We haven't had to consider these costs in the past, but this is part of our new reality under health care reform. If you need to hire and doing so is cost prohibitive considering the growing costs of health care, you may need to think about increasing the prices of your own services or products.

At the end of the day, you need to know what is in the bucket of money you have to give your staff (wages, taxes, benefits, etc.) and be sure that benefits are still valuable because you will have to evaluate what makes sense. I encourage you to look at your position in the marketplace and the skill set of your employees; see if a salary increase is a better choice in place of health insurance.

Fifty is the magic number when it comes to employee counts. But for small groups under that 50 mark, health care reform still has repercussions. Be ready to tackle those today.

Part 2

Can a PEO Help You?

PEOs: Connecting HR Services to Grow Healthier Businesses

When you have an annual checkup, your doctor gathers a lot of information. Height and weight are measured. Your blood pressure and pulse are taken. Blood may be drawn. You answer questions about family history, current diet and medications. The doctor checks your ears, mouth, neck, heart, lungs, stomach, joints, spine, muscles and skin.

You and your doctor know that these clues work together to determine your overall health. Your doctor also uses these clues to recommend changes in your lifestyle to keep you on the healthy track. You can't separate your diet from your blood pressure from your weight. You have to have an understanding of how these parts work together to take the best care of yourself.

Human resources works the same way. You know that benefits, payroll and risk management are part of an employer's HR responsibilities, but if they aren't considered together to see how the parts affect one another, your business won't be as healthy as it could be. If your HR service providers aren't working together to diagnose HR problems and detect HR opportunities, your business suffers. A full-service PEO or Professional Employer Organization is like a doctor asking all those questions. Consider the many services and service providers who may be working on your HR from afar, never collaborating or sharing information to make your business healthier.

HR Management

In small or medium-sized businesses, **in-house staff people** who wear multiple administrative hats are often the ones managing human resources. In these cases, the question becomes, "What level of training or expertise does your staff person have in dealing with tough HR matters?" It's an important question to consider because human resources management isn't as obvious or popular as other HR areas. All business owners know they have certain obligations associated with payroll and tax liability. But they might not realize there are actually more compliance issues related to HR management than payroll and tax. The reality is that a trained HR professional can help employers avoid costly missteps related to EEOC, DOL, FMLA, USERRA, PPACA, ERISA, GINA and the rest of the alphabet soup of HR compliance and risk.

HR management becomes more complicated as your business grows. With more employees comes more obligations. If your business has reached a certain level, you may choose to hire a professional with a **PHR or SPHR** certification. While this may be a smart choice for larger businesses, many small and medium-sized companies can't afford to hire a full-time HR professional.

Benefits

Most businesses work with a **broker** to handle the benefits part of their human resources. A broker offers the employer a choice of different insurance benefits. Typically, the broker passes along some numbers to an administrative person on a yearly basis, and that person is tasked with understanding the benefits and passing along that information to any new employees or current employees who have become eligible for benefits over the course of the year.

Ideally, a broker should have an understanding of the different benefits plans available and the level of quality of different carriers. A broker should also understand the culture of your business so he or she can match that with the available benefits. Your benefits should be attractive to employees and a good fit for your organization so that your business can use the options as recruitment and retention tools.

Unfortunately, things like benefits have become so commoditized that the opportunity to maximize what benefits can do for you and your business is being overlooked. Many brokers have tried to add services on the front end with increased communication and hand-holding at the employee level in order to compete in a marketplace that offers a more holistic approach, but they often fall short.

Payroll

Most businesses use some sort of **payroll service** to make sure employees receive the correct amount of pay on time, and to make sure related tax issues are handled appropriately. When a company chooses to handle **payroll in house**, it's often a control issue by the ownership in which someone doesn't want any confidential information leaving the company. Another reason for handling payroll in house is in a situation where the accounting is atypically complex. For example, if a manufacturer does a lot of piecework, or an engineering or construction firm needs to track how an employee is spending his or her time on projects to determine their contribution to the bottom line, an in-house software program customized to a particular pay setup might be the smartest choice.

Risk Management

At Servant HR, we often hear the misunderstanding that risk management pertains to only worker's compensation and liability insurance. Employers are often getting this impression from **commercial insurance brokers** who — you guessed it — provide worker's compensation and liability insurance. Employers can mitigate risk on a much broader level, and a PEO can often help businesses recognize these opportunities.

Some risk management-related niches cater to certain industries such as construction and healthcare, which require property and casualty insurance coverage. There is often a discount available to employers when they bundle this coverage, so cost savings are a big motivator for employers who may view insurance coverage as a necessary evil.

But things can be done to manage risk without buying up more insurance or bundling policies. This is where a PEO can offer guidance. Safety training can help minimize accidents. General job training can help employers ensure their employees are doing their jobs correctly. Making sure individual employees are classified appropriately helps employers apply the correct insurance to that employee. (Employees such as landscapers go under a certain code. But clerical employees in the office of a landscaping company don't require the same coverage. A PEO can help you see these cost-saving opportunities.) Employers can follow up with claims to be sure employees who claim they are hurt are indeed hurt. Having policies in place that protect you as an employer is the best way to manage risk, which requires the expertise of an HR professional.

Retirement Services

When most employers think about retirement services, the first things that to mind are 401(k) plans and the less popular pension plan. Companies typically use **financial advisors** to manage 401(k)s. These relationships often start on an individual level, with the business owner using a financial advisor for personal reasons. As the business grows and the need for retirement services arises, the business owner may turn to this same person to recommend a plan for employees.

The challenge in this way of approaching a 401(k) plan for your employees is the owner's priorities might not line up with the business goals. The owner is looking for a way to get as much of his or her income sheltered from tax, but that shouldn't be the only motivation. You must also consider that employees across many earning levels should enjoy the rewards of the plan. It is imperative to have someone in place who understands not only how a 401(k) plan works but also how your company is organized. Who is the best person to assume responsibility for the performance of the plan, for example? Is a 401(k) the best choice or is a business better suited to use an SRP (simple retirement plan)?

HR Management + Benefits + Payroll + Risk Management + Retirement Services

Part of the beauty of a **full-service PEO** such as Servant HR is that a PEO looks at all of these parts of your human resources together so that your business can be as healthy as possible. We aren't individuals working on services in silos. PEOs connect the dots of businesses' HR issues. PEOs are set up to take care of employees from "birth to death," or from the job application to the retirement party. Through the coemployment model, full-service PEOs also assume some of the risk associated with having employees.

The HR services PEOs provide are getting done in any size business in some way, shape or form with or without a PEO. Payroll has to get done, worker's compensation matters have to be dealt with, and retirement benefits have to at least be considered. In many cases, businesses rely on some combination of different vendors and often in-house staff to carry out these tasks. While this may be an effective process in some situations, it's not always the best direction for managing a company's HR needs.

What Size Is the Right Size for a PEO?

I am often asked what size company needs a **PEO**. Is it the right fit for startups as well as big corporations? When does it not make sense? Due to broad issues including health care reform and the nature of the modern workforce, my answer to that question is changing. Here is a by-the-numbers approach to sizing up a PEO for your business. But first, a little about healthcare reform.

What Healthcare Reform Means to the Numbers

In three words, the **Affordable Care Act** makes answering the question of what size company needs a PEO much more difficult. With healthcare legislation, the importance of a PEO grows as there is an additional layer of compliance related to health benefits. Compared to staff size, the more important question business owners need to ask themselves is: ***"Who is going to be my expert on healthcare reform?"*** With **many changes on the horizon**, businesses need to consider if it makes sense to use a PEO to handle all of those things an internal person doesn't need to be learning and focusing on.

3-5 Employees

A PEO model makes a lot of sense for many startup companies with as few as 3-5 people on staff. These businesses are focused on providing a service or product that will help them get off the ground and grow. They aren't resting on laurels or riding any easygoing waves of revenue growth. A PEO is a good fit because it allows entrepreneurs and small business owners to keep their ***eyes on the ball doing what they love*** instead of worrying about benefits, federal regulations and payroll.

Owners of emerging companies and startups typically can see the value of outsourcing their HR. PEOs are good at working with rapidly growing businesses that need to focus on raising money and reinvesting so they can grow. PEOs understand that. As the business grows, a PEO's service to that business tends to grow as well.

20-75 Employees

This is a PEO's sweet spot. When a business has 20-75 employees, a full-service PEO can do everything it is made to do for a client. The PEO can be ***fully engaged in every aspect of the client's HR.***

This is the kind of business that needs every part of a PEO: HR management, benefits, payroll, risk management and retirement services. They are big enough to feel the growing pains of having employees, yet they aren't so big that a full-service PEO that carries many of the risks associated with having a staff isn't the best fit. This category covers most of Servant HR's current clients.

75-200 Employees

When a company has 75-200 employees, discussions usually start within its finance department to determine if it makes sense to go out and hire a full-time HR expert. This analysis is legitimate — but requires a complete analysis of the costs and benefits of such a decision.

A company must avoid the misconception that anyone with HR experience can do the job well. If you are going to keep your HR services in house, ***be sure your hire is a highly qualified expert.*** When you have an HR generalist or a less experienced person, you are losing out on a PEO's experience solving HR challenges on a daily basis in many different industries. In many cases, this kind of hire isn't economically feasible, which brings companies back to the PEO model.

As a company continues to grow, it may be able to pay a professional HR person to handle at least 20 hours of task-oriented HR work as well as more strategic recruitment and training. That makes sense. The question to answer is what happens as the company continues on the upswing and those necessary tasks become too much for one person — at least this highly qualified person you hired to handle all of your HR needs. Does the business owner want this person to focus on payroll and worker's comp, which have to be done, or more strategic areas such as development and coaching? ***What is the priority?*** When this tipping point begins to happen, these are the sorts of things business owners need to consider and a PEO still remains of great value.

200+ Employees

Once a company gets past 200 employees, it almost always has internal HR people. Different tax advantages for companies of this size also come in to play when considering whether a PEO is the right choice. Often, it makes sense to move from a PEO model into an ASO (Administrative Services Organization) model. What that means is the HR service provider meets the administrative and HR needs of the client while the client retains all employment-related risks and liabilities.

Should I Outsource my HR?

Outsourcing human resources isn't the right choice for everyone, but it is an option that all business owners should carefully consider as part of their overall growth strategy. If you've ever asked, "Should I outsource my HR?" following are six of the Twelve Identifiers we at Servant HR use to help prospective clients figure out whether they are a good fit for our PEO services. These indicators would be useful for any business owner considering working with a PEO. (To get the complete "Are You a Good Fit: Servant HR's Twelve Identifiers" digital workbook, **download it now for free.**)

Human resources can be tricky. If you don't make it a priority for your business, serious legal and financial repercussions can result. When an employee termination is bungled, a tax change isn't heeded or payroll is mismanaged, that's an HR issue. When you add a new employee, revise benefits or are faced with worker's compensation issues, that's HR too.

Not everyone needs to outsource their human resource services. If you own a small company that isn't going to grow, and you don't mind managing the paperwork and compliance issues that come with having employees, then you're probably okay. If you don't fit into that mold, read on to see if you identify with one or more of the following Twelve Identifiers.

Ask yourself these questions and — here's the important part — answer each one honestly. If your answers show that you do relate to one or more of these scenarios, contact us. We would be happy to discuss your situation and see how we can help.
Congratulations! You are halfway through this self evaluation. Don't lose your momentum. Download the complete **"Are You a Good Fit: Servant HR's Twelve Identifiers"** digital workbook for free now.

Top 6 Ways a PEO Helps You Grow Your Business

Many people look at human resources as one of those things you have to do in business. It's just the way it is. Our clients understand that human resources isn't just an obligation — which it is to a degree — but when it's used strategically, it can be a means to unlock opportunities and grow your business. The bottom line is, when you use a **PEO**, you are being strategic.

Here are six ways a PEO helps you grow your business:

1. PEOs create the freedom for you to focus on your business. PEOs like Servant HR take projects off their clients' plates. Administrative tasks are the obvious ones. For example, the State of Indiana requires you to report all new hires. This is one of the things that can easily slip through the cracks at businesses in growth mode. When you are focused on building your infrastructure, hiring the best people and moving into new markets, tasks like reporting a new hire can get lost — and get you in trouble. When you have someone else focusing on those things, you can keep growing your business. There's no wasted time scrambling to figure what's required and how to fulfill the requirement. A PEO simply does it, often without our clients even knowing it's been done. Setting up workers' compensation is another admin task that often goes overlooked — we just do it.

2. We can help minimize potential attorney fees and wasted time. You probably have an accountant, so when you have an accounting-related question, you call your accountant. In the same way, once business leaders understand their PEO's areas of involvement, they begin to contact them first when they are dealing with a sensitive HR-related issue.

Going directly to your PEO when you have an issue may help prevent you from wasting money on attorney fees or wasting time researching issues on your own. If we can handle the issue, we will. If we need to work with a client's attorney to help, we will, and we will have the background information needed to inform our client's attorney of the issue. In this way, a PEO can help look out for your bottom line.

3. PEOs work strategically with your business goals in mind. Your PEO knows your employee handbook from cover to cover – it probably helped you develop it. And it knows your company philosophy and priorities. When you are dealing with risk issues, such as a discipline challenge, business leaders can turn to their PEO to help them figure out the next steps, and those handbook details and understanding of your business play key roles in how you should strategically respond to risk-laden circumstances. PEOs advise their clients with a full understanding not only of your employee numbers but also an understanding of where you stand financially and other seemingly non-HR matters.

4. PEOs minimize risk. Entrepreneurs recognize the depth and breadth of HR today. Healthcare reform helps greatly accentuate that point. All employers are intimately aware of opportunities and threats related to legislation and regulations. If you don't follow the rules, you could conceivably lose your business in a matter of months. That doesn't happen often, but it can happen. When you work with a PEO and have a process in place related to payroll, benefits, risk management, workers' compensation, employee coaching and counseling services, you can keep your eye on the ball in your particular area without worrying about potential penalties or threats related to HR legislation. It's like using an FDIC-insured bank, as a PEO assumes some of the risk related to HR issues.

Take payroll for example, if you withheld moneys for taxes and didn't submit them to the government, it's a federal offense. I've seen this happen often. Most of the time, I believe it happens by accident, but there isn't a risk of this happening when you work with an effective PEO. As another example, you might not know about some FMLA rules that you inadvertently ignored. An employee who bears the brunt of your ignorance might bring a suit against you for failing to comply. A PEO helps take on some of the risk related to these types of issues.

5. A PEO's process adds value in the eyes of investors. When investors are shopping for opportunities, their due diligence process is thorough. When they see that you work with a PEO, you are demonstrating that you are focused on growing your business (not HR admin tasks) and you don't have any HR skeletons in your closet. Having a PEO's input as a third party also can appear as more reliable than information submitted to a potential investor directly from the business seeking funds.

6. Having a PEO in place is impressive for prospective employees. For businesses that want to grow, seeking out and hiring top employees is key. When a potential hire sees that you have health care plans, direct deposit, an employee handbook and other HR-related items in place, they regard you as credible. They can see that you have your house in order as it relates to one of the most important aspects of your business – your people. A PEO helps put that internal structure in place.

Outsourcing HR Services and Risk

Business owners have to take risks to grow, but not all risks are worth the gamble. When it comes to outsourcing HR services, as with all business decisions, smart entrepreneurs and owners take calculated risks — not leaps of faith.

Risks worth considering

The kind of risk business owners like and should be willing to take should feel more like opportunities to gain than to fail. A cost-benefit analysis should be applied to any situation from which you could lose. For example, insurance is a hedge against risk. You make payments to your provider so that you reduce liability for things such as property damage. Other such risks worth considering include things including

- moving into a new market
- purchasing new software
- changing processes or systems
- increasing your marketing budget

Risks to avoid — always

On the other hands, some risks are fraught with danger, with no benefits available. Anything in your business related to taxes or your company's general welfare isn't worth the gamble. If you don't have general liability insurance, for example, serious company-killer risks can emerge. Simple errors and omissions can put your company at considerable risk.

HR Risk Management

If you are considering outsourcing HR services, two big questions to ask yourself are:

1. What are my responsibilities and risks as an employer?
2. What are my risks and responsibilities if I outsource?

From a HR professional's perspective, employers carry three major areas of risk.

1. IRS/TAX COMPLIANCE. When issues of compliance and withholding funds for tax purposes come into play, there is no benefit to being risky. The short-term effects of mishandling tax issues include penalties and additional taxes. This is also where audits with employee classification come into place. If you have misclassified someone as an employee or contractor, you can owe back wages, benefits and taxes, and may be required to pay interest and penalties.

WHEN YOU OUTSOURCE: A full-service PEO collects and passes on payroll taxes, workers' compensation payments and other IRS-related items so the employer doesn't assume all of the risk involved. While you can't outsource every aspect of IRS liability because you still have some control over your workers and workplace, you are receiving consulting advice on statutes, which helps you make smart HR decisions.

2. EMPLOYMENT LAW. Federal, state and local employment laws can be a hairy, complicated combination of rules and requirements. Compliance issues cover employee handbooks, required signage in workplaces — workers' compensation, employee rights, minimum wage amounts, etc. — and processes related to hiring, disciplining and firing employees. If you aren't diligent, you can end up with fines, penalties, lawsuits related to wage/hour issues or discrimination, attorney's fees, lost business and opportunities. These are company-killer issues you don't want to risk.

WHEN YOU OUTSOURCE: When you outsource these kinds of legal compliance items, you are obtaining access to the knowledge and experience to reduce your risks of legal liability.

3. COMPANY CULTURE AND RETENTION. If you choose to cultivate and manage your company's culture and manage employee retention on your own, you should expect to spend a lot of time and money to do it well. You want to train your team to be their best, and you want to keep them on the payroll. A lot of studies show that replacing an employee is often as expensive as a full-year's salary of that employee. Between ending a relationship with one employee, and recruiting, training and getting up to speed a new employee, you are losing precious time and opportunities — plus the financial burden of that process.

There's a real financial cost to creating the right place to have the right talent. An engaged employee is going to be a more valuable employee. In fact, a Gallup poll of more than 17 million employees showed that engaged employees are more profitable, productive, customer focused and safer. If you aren't doing everything right when it comes to support your company culture and retention rate, you are definitely carrying serious risk.

WHEN YOU OUTSOURCE: A PEO is a full-service human resources service provider, which means it doesn't stop at legal compliance and payroll issues. It provides consulting and direction to ensure your company's goals are being supported by a strong culture, and engaged employees are keys to that overall picture. If you outsource the risk related to building and maintaining a valuable culture, you are putting those responsibilities in the hands of professionals who know that the occasional ice cream social isn't going to prevent employees from finding other employers.

FROM LEFT: Scott Ingram, Business Development Executive; Leah Elms, Customer Service Representative; Michael Yoder, Chief Executive Officer; Jayne Blazier, Staff Accountant; Jeff C. Leffew, Founder and President; Sarah Bennett, Benefits Assistant; and Loren Elms, Payroll Administrator.

Find out how our team can be your team. Contact us to find out how Servant HR can alleviate your human resources challenges.

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