



Dow Jones Reprints: This copy is for your personal, non-commercial use only. To order presentation-ready copies for distribution to your colleagues, clients or customers, use the Order Reprints tool at the bottom of any article or visit [www.djreprints.com](http://www.djreprints.com)

• See a sample reprint in PDF format.

• Order a reprint of this article now

---

## THE WALL STREET JOURNAL

WSJ.com

---

MAY 16, 2011

# Streamlining HR: Let Somebody Else Do It

By LOUISE LEE

There's an option for small companies that want to ease their human-resources headaches: have their employees work for someone else.

---

### Journal Report

Read the complete [Small Business report](#).

In this setup, sometimes known as co-employment, your staffers still do their day-to-day jobs for you. But on paper they work for another company called a professional employer organization. These outfits function as the HR

department for hundreds or thousands of small businesses, doling out paychecks, managing employee-related taxes and administering benefits.

They also make big promises about simplifying back-office operations and making small companies more competitive. But you'll need to do some heavy lifting to get the most of out of the deal—from researching your potential partner to easing employees' fears about the setup.

### *Shifting the Burden*

The big selling point of co-employment, obviously, is streamlining. Small companies can skip lots of the hassles involved in human resources, such as managing employee paperwork and staying current with employment laws.

Then there's the matter of benefits. Professional employer organizations can pool together workers and get lower rates on health insurance than a small business could find on its own. These firms also "can offer your workers other perks you never see in a small organization," such as extra training, a crisis or counseling hotline and easy online access to benefits information, says Frank J. Casale, chief executive of the Outsourcing Institute, a research and consulting firm in Syosset, N.Y.

What's more, many professional employer organizations offer companies employment-practices liability insurance—often expensive for small businesses seeking it on their own—to pay damages and legal costs should a worker sue for, say, wrongful termination.

In return for all this, you might pay a fee per employee, a percentage of your total payroll or a flat monthly charge. The cost per employee is likely to range from \$700 to \$2,000 annually, says Amy Grimmer, an independent human-resources consultant in Dallas. Of course, all of that's on top of paying

## Who's the Boss?

A look at professional employer organizations, which take over human-resources jobs for their clients

**700**

Number of PEOs in the U.S.

**\$68 billion**

Annual revenue of PEO industry

**19**

Average number of employees of a PEO client

**\$34,000**

Average annual salary for an employee of a PEO client

Source: National Association of Professional Employer Organizations

your workers' salaries, taxes and insurance premiums.

### *Be on Guard*

Still, using a professional employer organization carries risks. Consider what happens if it makes a mistake.

In general, if a professional employer organization goofs, such as missing a filing deadline, it's responsible for fixing errors and paying late fees or other penalties. But certain kinds of errors can create headaches for you. If the firm, say, underpaid employee taxes, the Internal Revenue Service would likely come after you for the money, says Richard Raysman, an outsourcing attorney at Holland & Knight LLP in New York. Then you would in turn have to fight it out and settle the matter with the firm.

Meanwhile, if a professional employer organization is acquired or goes under, you could lose access to employee records, or some employee benefits might evaporate.

So, do homework about a potential partner. For starters, look to see if it's accredited by the Employer Services Assurance Corp. Among other requirements, an organization must submit audited financial statements and evidence verified by a certified public accountant that it's properly paying taxes and insurance premiums.

Also ask what other businesses a potential partner serves. A firm that works with technology start-ups—and offers high-end medical plans for white-collar professionals—likely isn't a good fit for a restaurant owner seeking a less expansive health plan for hourly workers, says Burton Goldfield, chief executive of TriNet Group Inc., a professional employer organization in San Leandro, Calif.

Knowledge of local laws also matters. If you do business only in Nevada and Utah, look for a firm with experience there; an outfit with experience in California won't be as useful to you.

Finally, remember that hiring a professional employer organization doesn't mean you can wipe HR from your mind. "It's still your company," says Mr. Casale of the Outsourcing Institute, adding that you want to show employees you're not abandoning them. Tell them that "you'll still have your parking spot and that the day-to-day isn't changing."

*Ms. Lee is a writer in Belmont, Calif. She can be reached at [reports@wsj.com](mailto:reports@wsj.com).*

Copyright 2011 Dow Jones & Company, Inc. All Rights Reserved

This copy is for your personal, non-commercial use only. Distribution and use of this material are governed by our [Subscriber Agreement](#) and by copyright law. For non-personal use or to order multiple copies, please contact Dow Jones Reprints at 1-800-843-0008 or visit [www.djreprints.com](http://www.djreprints.com)