



## **Finding Value in Outsourced HR:** Make the Right Decision for Your Business

As small and medium-size businesses (SMBs) grow, many find that managing an HR department is a frustrating distraction from their core business. When, eventually, they look to outsource their HR, they have options ranging from professional employer organizations (PEOs) and administrative services organizations (ASOs) to technology-based vendors or multiple vendors with each providing a targeted service.

For some, the decision process begins with a look at costs, but face value pricing can be confusing and deceptive—rarely an apples-to-apples comparison. In addition, there is the important consideration that some HR vendors can add significant value by using their expertise in consultative and diagnostic roles that save money. They can also drive revenue by helping to attract the best and the brightest. This value-add tends to be greatest when SMBs need help with more than one discrete function and, perhaps, are expanding their operations into multiple states with different regulatory demands and competitive environments.

This eGuide aims to help SMBs thoughtfully comparison shop when they are ready to outsource their HR functions.

## Important Considerations

Narrowing down the choices for outsourcing HR involves comparing options and doing a thorough cost-benefit analysis. SMBs can begin by eliminating those organizations that fail to bring all or most of the following attributes to the table.

**Experience:** Working with an organization that has a documented operational history matters. At TriNet, for example, we have been providing HR services for more than 30 years. We work with over 18,000 SMBs (as of 12/31/2019) across the U.S. and across several different industries including technology, life sciences, financial services, professional services, nonprofit, manufacturing and more.

**Relevant expertise:** The provider's core offerings should align with your size, industry and geography—and the best HR service providers have experts on staff with the tools and experience needed to provide truly informed support. Client references and candid conversations with your personal and professional network can offer first-hand testimony as to whether a provider has the relevant expertise.

**Quality benefits and packages:** Unless you are solely focused on outsourcing payroll and doing everything else in-house, the right HR service provider for your business should offer access to and options for quality health insurance coverage in the regions where you operate. This includes robust traditional and nontraditional benefits. Such **benefits** are a key element in attracting and retaining the employees you need to succeed.

**Transition time:** Ask about the set-up process and understand the degree to which it might be disruptive to your business. How much paperwork will it entail? Is the process mostly completed online? How much hassle will you have to go through during the transition?

**Support:** Your HR service provider should be able to demonstrate that it has a system and expert resources available, both to answer questions quickly and thoroughly and to provide strategic guidance. There should be multiple points of access to these resources, such as phone, email and chat. Finally, it's helpful if the HR service provider offers a self-service HR platform, including a mobile app, for your employees to manage their routine HR tasks and requests—and for you to engage as needed.

These five essential considerations apply to any decision you make about outsourcing HR, but they are merely a starting point. The next step is systematically weighing a number of other considerations that enable you to compare one provider to another.

## Comparing PEOs to ASOs

The biggest difference between PEOs and ASOs is that ASOs do not establish a co-employer relationship while PEOs do. This means that ASOs do not process payroll and remit and report payroll taxes under their own federal employer identification number (FEIN). They also do not sponsor any health and welfare benefits, though they may assist in arranging coverage.

An ASO's primary function is to oversee the day-to-day administrative aspects of managing your HR functions. You remain the sole sponsor of all benefits and insurance coverage when working with an ASO and you maintain all fiduciary responsibilities.

In contrast, as a co-employer, PEOs provide SMBs with a bundled offering of HR services including payroll, access to health and welfare benefits, workers' compensation insurance and risk mitigation services. Typically, the PEO and client responsibilities are expressly described in a service agreement. As the client, you maintain your own separate employment relationship with your employees, just as you would without a PEO. You keep complete control over your workforce and make your own decisions about recruiting, hiring, discipline, termination of employment, day-to-day scheduling, pay, promotions, demotions, supervision, performance management, reviews, workplace safety, company culture and a number of other considerations.



As co-employer, the PEO provides HR services, products and access to benefits that may *not typically be available* to SMB employees, along with HR expertise, offerings, systems and processes. The exact responsibilities that a PEO takes on will depend on the PEO. Refer to page 8 for a comparison of different PEOs and the allocation of responsibilities in their service agreements. Typically, a PEO will take responsibility for:

- Processing payroll based on input from clients
- Paying and reporting wages to client employees in the name of the PEO and under its FEIN
- Remitting and reporting payroll taxes
- Sponsoring large group employer health and welfare benefits
- Maintaining insurance policies for risk mitigation purposes
- Assisting with the handling of various claims and requests from employees
- Providing guidance on HR best practices and compliance

### UNDERSTANDING VALUE

While typically the face value cost per employee for an ASO is less than a PEO, it is important to figure in two other cost considerations.

First, because the ASO doesn't sponsor benefit programs, there will be additional benefit administration costs that the SMB will incur in an ASO arrangement. Conversely, benefit administration costs are included in the PEO's pricing when it is the benefit plan sponsor.

In working with an ASO, there is also the potential exposure and administrative costs associated with employer compliance obligations. The costs of compliance—which include considerable time and human resources spent monitoring regulatory concerns, and in some cases, the dollar figures for fines and/or lawsuits—can be considerable.

**“TriNet, unlike non-PEOs, processes your payroll-and reports and remits payroll taxes-under the TriNet name and EIN.”**

On the other hand, certain PEOs help their clients with risk mitigation including HR best practices. As a PEO, TriNet obtains a \$1 million employment practices liability insurance (EPLI) policy to cover itself and its clients from certain employer liabilities. TriNet pays the premium for the policy and is therefore focused on ensuring its products, processes and services do not give rise to legal claims. This also incentivizes clients to ensure they do not create

claims. As a PEO, TriNet, unlike non-PEOs, processes your payroll—and reports and remits payroll taxes—under the TriNet name and EIN. TriNet is therefore focused on the compliance of its payroll and tax systems and processes. In addition, TriNet is the single-employer sponsor of health benefits that are made available to its clients and their employees. As such, TriNet acts to ensure the compliance of those plans. None of this is true of non-PEO HR service providers who are happy to help you but will not make their insurance policies available to you.

When weighing costs, it is essential to rigorously calculate all of the direct and indirect costs of compliance.



## Comparing a PEO to a Multi-Vendor Solution

In a multi-vendor arrangement, SMBs choose solutions from a number of different providers to suit their needs. A typical multi-vendor relationship might involve at least a payroll provider for processing payroll and an insurance broker for benefits or business insurance purposes. However, the multi-vendor relationship often doesn't consider HR best practices.

**“Quality PEOs offer access to regional and national carriers, which allows for providing benefits across states.”**

There can be advantages to engaging specialty providers as needed, including occasional cost-savings, the ability to retain a focus on areas specific to tactical HR functions, and simpler transitions and terminations of vendors. These multi-vendor solutions may be best for very small businesses with less complex HR needs such as those with less than five employees.

However, in most cases, multi-vendor approaches limit SMBs and hamper their ability to attract top talent. On the other

hand, most quality PEOs offer access to regional and national carriers, which allows for providing benefits across states.

In addition, managing multiple vendors can be complicated, chaotic and time-consuming, especially as your company grows.

Finally, multiple vendors typically do not offer strategic HR guidance regarding compliance and complex HR regulations. Without a co-employment relationship, they cannot offer the same services that a PEO can.

## UNDERSTANDING VALUE

Often, once you add up the costs of all the third-party vendors, comprehensive PEO solutions are quite competitive with multi-vendor solutions. Moreover, if you need more than one or two simple needs met, multi-vendor solutions cannot offer what a PEO like TriNet can: a bundled HR solution with a comprehensive platform used to facilitate payroll, access to benefits risk mitigation and help with compliance. In addition, the best PEOs offer:

- **Responsive service:** Call centers for most single-service vendors can give you quick answers to transactional inquiries. However, they do not typically have sophisticated expertise readily available for guidance in the areas of high-risk HR issues, such as creating employment policies, employee terminations, and help complying with applicable federal, state, and local HR laws.
- **Sophisticated reporting:** Most multi-vendor solutions can only offer limited reporting because, by definition, you'll be working with multiple, disparate data sets. Yet because HR data is interrelated, to do the proper tax withholding calculations and filing, you need a unified dataset that encompasses, among other things, payroll, time off, expenses and benefits. A PEO like TriNet offers integration with certain data, along with both standard and custom reporting. Dynamic HR dashboards display real-time HR data, including your employee headcount, leave requests, payroll, tax withholdings and benefits. TriNet's enterprise-level platform also delivers role-based, self-service capabilities to manage HR administration through one single interface.
- **Proactive risk mitigation:** With multi-vendor solutions there is little to no concern for the employer's risk. They tend to provide clients with a checklist and little substantive guidance. In contrast, TriNet helps with risk mitigation including HR best practices. As discussed previously, TriNet covers the cost of an EPLI policy for itself and its clients. As a result, both TriNet and the employer work to ensure their roles do not give rise to legal claims. Unlike non-PEOs, TriNet processes your payroll—and reports and remits payroll taxes—so TriNet remains focused on compliance. In addition, as the single-employer sponsor of health benefits, TriNet acts to ensure the compliance of those plans. Non-PEO HR service providers will not do this.



## Comparing PEOs to HR Technology Vendors

Technology vendors provide access to HR information systems (HRIS) that help clients with benefits, payroll and HR management. Many of these vendors are also online brokers who offer small group benefit pricing and plan designs available on the open market. Typical benefits of working with these vendors include access to self-service tools and capabilities on a technology platform with a simple user interface that enables easy sign-up and onboarding.

However, these offerings may not include the same robust benefits that PEOs can offer. The online vendors also tend to have less HR expertise available, less robust support and the challenge of integrating disparate systems. And, here again, the lack of a co-employment

relationship means that, when compared with PEOs, single solution vendors can't provide the same level of sophistication with respect to complex HR regulations.

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### UNDERSTANDING VALUE

When comparing tech vendors to PEOs, it's important to explore any fees the tech vendor might charge above and beyond what it costs for access to the platform. There are often additional fees for processing payroll, HSA/FSA, and access to HR professionals. And here again, face value pricing does not really address the value-add of a PEO, including:

- **Responsive, expert, in-depth support:** In contrast with tech vendor arrangements, where clients typically pay extra to speak with HR professionals, TriNet's pricing includes working with you as your strategic HR consultant. You have access to HR professionals to help you with day-to-day support for benefit and payroll issues, as well as when you need to address high-risk HR issues, such as firing your employee, labor law compliance and creating employment policies. TriNet also has the service level, expertise, and technology to complement your HR department. Two examples: TriNet tracks ACA regulations and provides an integrated ACA solution. TriNet also provides access to third-party immigration attorneys and increased transparency into visa management.
- **Sophisticated reporting:** TriNet offers both standard and custom reports, with dynamic HR dashboards displaying real-time HR data including your employee headcount, leave requests, payroll, tax withholdings and benefits. And its enterprise-level platform delivers role-based, self-service capabilities to manage HR administration through one single interface.
- **Help with risk mitigation:** HR technology vendors often help businesses with compliance filings and the notification of federal deadlines, whereas TriNet goes beyond the compliance paperwork and proactively helps customers mitigate employment risk with expert guidance and EPLI. In addition, TriNet remains focused on the compliance of its payroll and tax systems as well as that of its benefit plan offerings. None of this is true of non-PEO HR service providers.

## Comparing PEOs

The five overarching considerations discussed earlier absolutely apply when comparing PEOs to each other. Experience, relevant expertise, quality benefits, transition time and support are all extremely important considerations. But there are also other things to consider, even before assessing the pricing and value differences.

**Accreditation:** Some PEOs are accredited by independent agencies such as the Employer Services Assurance Corporation (ESAC). ESAC accredits PEOs through a rigorous verification process to ensure a PEO is compliant with more than 40 industry best practices across all states of operation. Less than 5% of all PEOs achieve ESAC verification. TriNet is one of them. In addition, the Internal Revenue Service has a voluntary federal certification program that qualifies certain PEOs as a Certified Professional Employer Organization,\* meaning they have met certain IRS compliance standards, including financial reporting and bonding requirements, which allow the certified organization to offer added benefits to its clients.

**Maturity of business processes/technology platform:** Designing HR business processes and building or buying the technology to support those processes is a significant business challenge. TriNet's sophisticated technology and established processes for your new hires, open enrollment, submitting claims and processing payroll helps you avoid the arduous process of designing your own. It also offers a more professional experience for your employees. This is a critical value add that helps achieve a more aligned and engaged workforce.

“TriNet provides personalized and proactive guidance on how to best align TriNet service strategies with your company plans and growth goals.”

The TriNet platform processed over \$37 billion in payroll and payroll tax payments for its clients in 2018 alone. More than 18,000 clients (as of 12/31/ 2019) and 321,000 employees (as of 9/30/2020) rely on this platform, which equips managers with self-service features, real-time data and productivity applications, such as expense management, performance management, time and attendance and applicant tracking. TriNet also has an industry-leading mobile app, so you and your employees can address most HR concerns anytime, anywhere.

**Expert consultative approach:** Having an expert sounding board well-versed in your specific HR concerns is invaluable. TriNet solutions include teams of experts that are responsive, professional and knowledgeable about different types of SMBs. TriNet works with you so you can make decisions about organizational hierarchies, performance standards, compensation levels and benefits in ways that align your employees with your business goals, encourage healthy growth and yield a measurable return-on-investment.

**Breadth of personalized support:** Beyond direct access to HR experts for consultative guidance, TriNet also offers live support where real people, qualified to answer your questions are accessible by chat 24/7.\*\* In addition, TriNet provides personalized and proactive guidance on how to best align TriNet service strategies with your company plans and growth goals. In short, we offer the personal attention your company needs.

\*One TriNet entity is CPEO accredited.

\*\*Closed on select U.S. holidays.



## Understanding Value

PEOs generally charge their clients either a flat rate per employee or percentage of payroll.

The flat rate is a standard administrative fee for every employee regardless of how much they are paid. This is the TriNet approach. In addition, TriNet provides an itemized breakout of fees and we stop collecting a charge for payroll taxes once you meet tax thresholds. Any dollar we collect for federal taxes goes to the IRS—and we provide a clear breakdown of our administrative fee and tax charges.

When a PEO charges you as a percentage of payroll, the percentage is based on the amount of each paycheck processed, so fees can fluctuate. When your employees earn bonuses and commissions, you will likely see your PEO fee rise in this model. Furthermore, some PEOs provide a bundled quote that groups all fees (service, insurance, employer taxes, etc.) together into a single cost, which can make it difficult to understand how much you're paying for what. It's not unusual for a PEO using this approach to charge you amounts you wouldn't otherwise approve. Similarly, this approach doesn't allow for a price reduction when you or your employees meet tax thresholds. When an employee's compensation reaches the annual FICA cap, for example, the PEO's charges for "taxes" should go down. However, with bundled-pricing PEOs, this is often not the case.

## Value is Everything

Deciding whether and how to outsource HR is a question that nearly any SMB must eventually confront. As we've noted throughout this eGuide: Experience matters. Expertise matters. Quality benefits, service and support matter. Accreditation matters. Transparent pricing matters.

Understanding how to compare your options—how to dig beneath initial pricing quotes to identify the above qualities and assess value—is the key to making the right decision for your business.



## About TriNet

TriNet (NYSE: TNET) provides small and medium size businesses (SMBs) with full-service HR solutions tailored by industry. To free SMBs from HR complexities, TriNet offers access to human capital expertise, benefits, risk mitigation and compliance, payroll and real-time technology. From Main Street to Wall Street, TriNet empowers SMBs to focus on what matters most—growing their business.

Go to **TriNet.com** to get started or speak with a TriNet representative at **888.874.6388**.