

Financial Opportunities of Human Resources Outsourcing

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Introduction

There are many challenges to running a business. However, the up side, the one you value most, is that you get to be in charge. The product is your brainchild. How and when it hits the market is also up to you. Whom you hire is also your decision. You have just enough resources to hire the best and the brightest, provided you contain your operating expenses.

What you did not expect is the rate hike from your healthcare provider and the news that your workforce is too small to qualify for a high-end benefits package. You will have to spend more of your time finding a new provider because your HR administrator can barely keep up with the paperwork as it is. Administrative overload is growing in direct relation to the accumulating Excel spreadsheets containing your HR data.

If your company is running HR software, you may find the program just can't scale to handle your expanding workforce. You've needed a more powerful program for a while, but you've been putting off the purchase because it would also entail a hardware upgrade and bringing back the IT consultants to implement and manage it.

Your resources and your time are your most value assets. Yet, every year, they are being consumed by the growing complexities of HR administration. Neither the evolution of technology nor the laws demanding mountains of paperwork are under your control. And you are in no position to stop, or even slow, the escalating costs of healthcare.

What you can do is take action to contain the overall costs of HR. Outsourcing human resources to a Professional Employer Organization (PEO) has been the most effective way for thousands of companies across the U.S. to continually provide high-quality HR services while saving time and protecting their bottom line over the lifespan of their business.

This white paper will explore the financial benefits from contracting with a PEO based on industry best practices and TriNet's experience as a leading PEO for small businesses since 1988.

Time Sink of Transactional HR: Adding Up Administrative Tasks

Administrative HR involves the day-to-day transactional tasks included in a variety of activities — from processing payroll and benefits claims to updating employee records and paying into 401(k) plans. According to a recent Small Business Association study, the average small business owner spends up to 25 percent of his or her time handling employee-related paperwork. This range can easily shoot up to the 35 to 45 percent range when time spent on other HR tasks, such as recruiting, hiring, and training is added to the mix.

The transactional tasks of administrative HR are inextricable components of running a business. Inextricable, however, is not synonymous with in-house. Because administrative HR tasks have nothing to do with your core business objectives, a reputable PEO can seamlessly take responsibility for them. By outsourcing mundane and labor intensive HR, you will not only keep control of your business, you will have more time to devote to improving your bottom line.

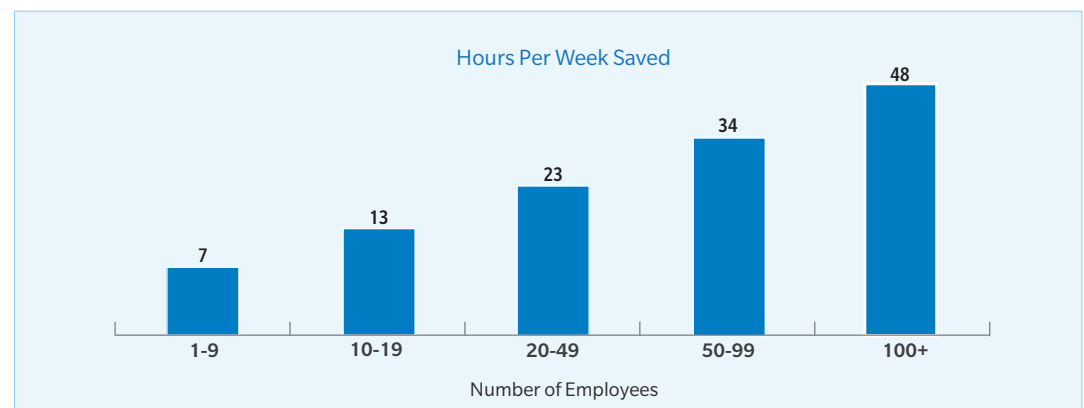
Saving Hours by Outsourcing

The time you save by outsourcing HR can vary greatly, depending on how many providers you use and how much of the administration you choose to keep in-house. If you choose the multi-provider approach — using a different vendor for each of your administrative tasks — you'll need to factor in the time required for soliciting, reviewing, and comparing different vendor proposals. Then add to the list, the ongoing management of a multi-provider network with the associated IT integrations and you'll find that time saved by outsourcing may fall far short of its potential target.

In an effort to realize greater efficiencies, a growing number of companies are consolidating HR outsourcing functions into an integrated solution offered by a single provider. These companies have found that their PEOs are professionally and technologically equipped to handle the full range of HR services, provide a single point of contact, and ensure full customer service — all the efficiencies that result in true time savings for your company.

In a national survey supported by the National Association of Professional Employment Organizations (NAPEO) and the Society of Human Resource Management (SHRM), 89 percent of PEO customers reported that PEOs significantly reduced the time it took to perform HR transactions.

The survey reported the following savings based on company size:



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Zeroing In on Time Saved

A closer look at a typical TriNet customer reveals how a small business accrues time savings:

Company Profile	
Employees:	30
Average Salary:	\$90,000
Annual Payroll:	\$2,700,000 (\$90,000 x 30)
Total Payroll Hours:	62,400 (30 x 2080 hrs/yr)
Average Hourly Pay Rate:	\$43/hr (\$2.7 million/62,400)
Annual Revenue:	\$5 million
Average Revenue Per Payroll Hour:	\$80 per payroll hour (\$5 million/62,400)

Time Saved	
In-house HR Administration Before Outsourcing:	1,872 hrs/yr (62,450 x 3%)*
After Outsourcing:	468 hrs/yr (or 75% reduction)
Hours Saved:	1,404 hrs/yr

Financial Opportunity in Dollars and Days:	
Bottom Line:	-\$60,372 (1,404 hrs x \$43/hr)**
Top Line:	+\$112,320 (1,404 hrs x \$80/hr)
Days Free for Bottom Line Business Activities:	+175

* The U.S. Chamber of Commerce estimates that 3-7% of a company's payroll hours are spent on administrative, non-core activities.

** The figure reached for bottom line savings assumes that the employer leverages the outsourcing arrangement to reduce staff. It's important to note that this step is not a requisite of the outsourcing arrangement; the employer could choose to retain current staff and focus on top-line savings.

About this Chart:

This chart represents a conceptual financial opportunity that a TriNet customer, fitting specific salary and workforce requirements, may encounter as a result its outsourcing arrangement. It demonstrates that HR outsourcing presents the customer with the opportunity to realize bottom-line savings, resulting in a reduction of administrative headcount, or top-line savings, in which current staff are redeployed to revenue-generating activities. The customer could also choose to simply incorporate the time savings as part of a standard "lifestyle" business in which recreational or leisure hours are prioritized over revenue. The chart is only intended as a conceptual illustration; factors unique to a particular business may affect the outcome of its outsourcing arrangement. You should consult with legal, financial, and HR professionals regarding the potential benefits of HR outsourcing for your own firm.

The highest quality benefits packages are those that are easily customized to meet the individual's needs because they offer the widest range of carriers and options for medical, dental, and flexible spending accounts.

Long-Term Cost Containment: Leveraging Economies of Scale

Holding down long-term HR costs can only be achieved through economies of scale — the more people requiring the same service, the less the service costs per person. The most significant HR areas of cost containment are benefits and technology support, which is why the goal of all companies is to offer the best possible benefits options for the right cost.

Pooling Employees for Competitive Advantage

Health benefits are key to attracting top talent — the people with the skills and drive to help place your company on the competitive edge and keep it there. Yet, small and medium businesses simply don't have the critical mass to negotiate affordable, top-drawer benefits packages. PEOs can offer their customers the best benefits options by simply leveraging their larger employee pool.

TriNet's total customer base is large enough to qualify for access to premium insurance packages. This is good news, especially for the smaller businesses intent on securing a competitive advantage. A company of three staff people, for example, can enjoy the same health benefits as a larger company. This means that those same three people will get the choice and flexibility in their benefits plans that employees of Hewlett-Packard or Citigroup have come to expect.

The highest quality benefits packages are those that are easily customized to meet the individual's needs because they offer the widest range of carriers and options for medical, dental, and flexible spending accounts. TriNet, for example, offers its customers access to medical carriers nationwide who provide dental, vision, and medical insurance, and a powerful mix of plans and services that carry no waiting period. Such benefits plans not only attract a higher caliber of employee; they also result in higher employee satisfaction and retention, according to the Small Business Association.

Personalizing Customer Service

Most employees will rest easier knowing they have access to customer service representatives who can troubleshoot benefits issues and get answers to their questions immediately. With a PEO, you won't need in-house, on-call HR specialists to field emergency calls, enrollment issues with new hires, or routine administration snags. PEO staff have all the answers because their entire focus is on HR.

TriNet's own call center offers toll-free access to subject matter experts, plus an HR Consultant Hot Line for your managers who need instant assistance with HR-related matters. About 80 percent of employee issues are resolved by TriNet within the first call; the remaining are escalated and resolved within an average response time of two hours. For non-urgent issues, employees can contact TriNet's Solution Center via email or online "instant chats" for comprehensive answers to all their questions.

Your Account Management team provides the same level of day-to-day support to your managers as TriNet’s customer service representatives offer to your employees. They’re available to help walk you through our online Customer Set Up process, assist with special requests such as payroll needs, and generally ensure that you and your managers are comfortable and satisfied with every aspect of TriNet’s HR services.

Accessing an Integrated Technology Solution

The world is now web-enabled and most professionals, especially those in the technology and finance field, have come to expect anytime, anywhere access to their HR information and the ability to update their data with a simple click of the mouse. But the cost of implementing and maintaining a state-of-the-art HR information system (HRIS) is simply out of reach for the average small and medium business. With a PEO, this is no longer a problem.

PEOs license and maintain their own enterprise-level platforms that can handle all their customers’ HR administrative processes.



TriNet's customer portal, HR Passport, is integrated on the back end with powerful Oracle and PeopleSoft™ platform to deliver the industry's fastest and most accurate service. On the front end, users enjoy access to a portal that is easy to use and highly customizable, allowing managers and employees to access and administer HR transactions from any desktop computer.

Your staff can access their HR information online from their own computers, change options during open enrollment, set up direct deposit, update personal information, change withholding on their W2s, and perform manager-level transactions such as hiring and submitting payroll — all without losing productivity in the work day.

A wide range of additional information can be posted online to help your employees make the right choices, including handbooks and FAQs on benefits offerings, and online chat and customer service. Managers will also find that PEO online services streamline access to company data and reports.

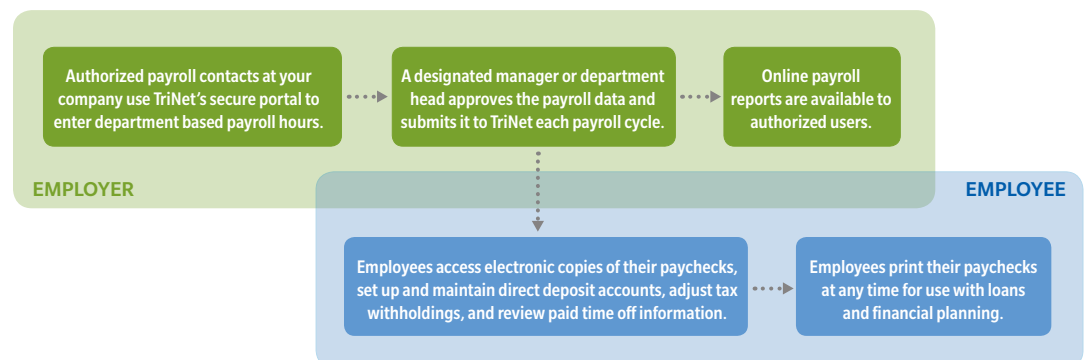
The prospect of transferring your company's personnel data off site may give you pause. Yet, using a PEO will provide you with more control over processes and improve the quality of information. With a dedicated, highly trained IT staff, a PEO's HRIS system suffers fewer data errors and offers greater timeliness of reports, more consistency in delivery, and tighter security.

Leveraging the power of online HR doesn't mean compromising security. TriNet, for example, protects its Internet-based services with SSL encryption, individual passwords, leading edge firewalls, and intrusion detection systems.

Going for Integration

Our state-of-the-art HRIS offers the maximum efficiency for processing transactional HR, mainly because it is comprised of a single platform. The system integrates the latest personal data into all HR services applying to a particular individual. Seamless data integration is what makes payroll and benefits process faster, cheaper, more accurately, and securely. Integration is what drives your ROI.

How TriNet's Payroll Services Running PeopleSoft HRIS Work:



When the PEO administers any employee benefits programs related to retirement plans, health plans, life and disability insurance, or credit unions, it leads the way to benefit plan compliance with applicable state and federal laws. This also includes the plan's testing, filing, and other obligations.

Risk Avoidance: Share the Liability, Focus on Your Business

In this litigious climate there is little room for administrative error. If a company incorrectly handles any of its numerous HR functions, it is at risk for a lawsuit. If filing deadlines are missed, the resulting fines and penalties can erode the bottom line of any small or medium business. As the complexities of compliance multiply each year, companies are forced to spend more time on avoiding risk and less time on revenue- and profit-generating activities.

Sharing Legal Responsibility

When you contract with a PEO, you can focus on a marketing campaign or signing on a new client knowing that all the mounting transactional HR tasks and the risks associated with them are shared by a partner. You can even go ahead and build a distributed workforce — tap into talent anywhere in the country — without keeping track of payroll withholding and workers compensation requirements of other states. The PEO takes responsibility for the HR tasks and shares the risks — you take back the focus on your business.

How does this work? Some states regard PEOs as co-employers and the IRS recognizes PEOs as employers because they assume certain legal rights and duties for their customers' employees, such as paying wages and related withholdings taxes. This means the PEO is liable for paying these taxes whether or not the PEO is paid by the client. The PEO must also provide the employees with workers compensation, state and federal unemployment, and statutory disability coverage.

Moreover, when the PEO administers any employee benefits programs related to retirement plans, health plans, life and disability insurance, or credit unions, it leads the way to benefit plan compliance with applicable state and federal laws. This also includes the plan's testing, filing, and other obligations.

In most circumstances, the PEO also contractually agrees to assist with compliance with the regulations of Fair Labor Standards Act, COBRA, the Family Medical & Leave Act, the Health Insurance Portability & Accountability Act (HIPPA), and many others.

PEOs are legally obligated to stay on top of all employment laws and regulations so they can provide their co-employees with compliant worksites. This is no small task given the explosion of employment laws in the last 25 years. According to the U.S. Small Business Administration, the number of employment-related laws and regulations grew by 60 percent between 1980 and 2000 alone. But the PEO provides a back office team that boosts your ability to identify and resolve risk-related issues – before they consume your business.

Keeping Track of Records

Since 2000, a new legal emphasis on records' retention has compelled businesses to invest more heavily in records' management technology and practices that prepare them at all times to produce claim forms, W2s, reimbursement invoices, and a wide range of other documents — all at a moment's notice. Whether the information is five weeks old or five years old, PEOs shoulder all the responsibility for storage and retrieval of HR-related data. Records are typically backed up to off-site devices to insure against data loss from on-site technical failure or disaster.

In the event of an audit, inquiry, or claims dispute, your PEO is always equipped to rapidly locate and produce the record in question. In short, they assume many HR responsibilities, which include recordkeeping and documentation as well as explanation. Because shouldering burden of proof is a key component of their services, PEO staff has the regulatory expertise and technological tools to handle the growing volumes of a company's HR records as the business matures.

Regardless of how extensively you use a PEO, its representatives — whether they are customer account managers, customer service representatives, trainers, or recruiters — will work closely with your workforce over the long-term.

Positioned for Tomorrow: Designing a Lean & Efficient HR

The time and costs savings from outsourcing HR are hard to pass up. Yet these benefits are merely part of a much more significant return on investment from your company's relationship with a PEO. Once you're relieved of the HR administrative burden, you can refocus your attention on sustainable, revenue-generating activities. A key component of this strategy is revving up lean and efficient HR processes to develop your most valuable asset — your employees.

Launching Employee Productivity

For small businesses, especially startups, it's crucial to attract the type of highly skilled and motivated professionals who can hit the ground running. In these types of businesses, there's the undeniable charge that results when strong entrepreneurial vision, market forces, and investment dollars come together. In the excitement, it's all too easy to miss the signs of chaos and dissatisfaction growing daily in the work environment and threatening to undermine worker productivity. PEOs take care of the HR administration to leave you and your employees to focus on what you do best.

With a PEO, you have the time to deliver the full range of support and direction your workforce requires to sustain high performance. It's essential to get your business on solid footing with all HR administrative processes up and running painlessly and in record time. Regardless of how fast a business grows, its new hires should always expect to receive their first paycheck and their health coverage to kick in exactly on schedule.

Sustaining Satisfaction

Recruiting, training, fine tuning policies and procedures, and creating a company culture are the building blocks of workforce development. Thanks to outsourced HR administration, your HR managers can devote more quality time to all of the above and turn to their PEO for additional expertise. PEOs like TriNet are staffed with HR professionals who can be called upon to perform a wide range of HR services, from trainings on team building and stress reduction to answering employee questions on benefits and screening recruits.

The value of TriNet's services is not merely that they are available, but that they are truly flexible and tailored to suit your particular budget and business requirements. At TriNet, one size does not fit all. Wireless device leader, Socket Communications, has tapped frequently into TriNet's extended services menu since becoming a customer ten years ago. TriNet "gives us guidance on everything from 401(k) providers to employee ergonomics to workers compensation," says Socket CFO David Dunlap. "As Socket grows we can add additional layers of on-site support as needed. For us, the ability to gain increments of support personnel is invaluable."

Recognizing the Power of Partnership

Regardless of how extensively you use a PEO, its representatives — whether they are customer account managers, customer service representatives, trainers, or recruiters — will work closely with your workforce over the long-term. That's why compatible corporate culture is one of the top criteria companies look for when choosing a PEO. And that's why companies with professional and technical workforces are a natural fit for TriNet.

With its own lean and efficient professional staff of 450, TriNet doesn't have to work at communicating with a customer. It already speaks the same language and shares the same commitment to high-level performance and sustaining competitive advantage. State-of-the-art technology and cost containment may be the key features of TriNet's services, but TriNet's main priority is developing relationships with the people who use those services. Their professional satisfaction and success means their business wins, and so does TriNet.

Disclaimer

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About TriNet

TriNet helps small business entrepreneurs realize their ambitions by being their essential HR partner. As their Trusted Advisor, we help them contain HR costs, minimize employer-related risk, and relieve the administrative burden of HR, thus helping them focus on their number one priority—their business.

For more information, visit www.trinet.com.