

# When Should You Outsource HR and Consider a PEO?

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**Business owners and** entrepreneurs create their businesses for a number of reasons: to grow an idea, build and inspire a team, make a difference.

And all too quickly, those business owners can face the other side of running a business: paying employees, negotiating the best benefits for your teams, keeping up with myriad government regulations.

Workplaces are getting even more complicated - for good reasons. Teams have more flexibility to work remotely. And the gig economy is exploding; in fact, about a [third of the U.S. workforce works on something other than a full-time basis](#).

Offering benefits is also becoming increasingly expensive; [small group insurance premiums are growing at a faster rate than inflation is](#). And the number of benefits options grows and more regulations, like the Affordable Care Act, are introduced.

Basically, growing a business is tough. And while these tasks - payroll, human resource management, benefits - are essential, they're also difficult to navigate and time consuming.

So, what are your options? When is your small business ready to outsource HR?

In this eBook, we'll walk you through two options for handling HR: in-house or through a provider like a Professional Employer Organization, or PEO.

# What Does HR Do?

Compliance, payroll, and benefits are the three most common issues that prompt a company to look at hiring an internal or outsourced HR representative. Keep in mind that companies have different HR requirements; make sure you find the solution that best addresses your company's specific needs.

We've outlined some services that tend to fall under human resources, whether in-house or outsourced. Look through these and consider which are important for you to manage and which you'd be comfortable outsourcing.

## **Securing and Offering Employee Benefits**

- Healthcare
- 401(k)
- Perks like gym memberships or bike shares
- Life insurance
- Disability Insurance

## **Hiring and Growing Teams**

- Hiring plans
- Job descriptions
- Recruiting job candidates
- Offers and onboarding for new employees
- Career pathing
- Leadership training

## **Maintaining HR Operations**

- Payroll
- Compensation analysis and reporting
- Policies like paid time off, sick leave, and parental leave
- Employee documentation
- Employee handbooks
- HRIS (HR information systems) data-crunching and reporting

## **Compliance and Legalities**

- Managing payroll
- Classifying employees
- Tax filings
- Compliance with local, state, and federal regulations
- Worker's compensation
- Unemployment insurance

An internal HR department can oversee all of the above, plus everything from hiring and firing to maintaining workplace diversity. An in-house HR staff may also mediate employee disputes, resolve pay problems, recruit talent, evaluate and train employees, as well as provide strategic thinking and support to leadership.

This list also includes plenty of backend work. Outsourcing some of that work, like running payroll, lets your leaders handle the “human” side of human resources.

## What Are Your HR Options?

Deciding how to handle your HR needs is a big decision, especially if your company is experiencing fast growth and will need to keep pace to retain and attract talent. As Suzanne Lucas, author of a blog called the Evil HR Lady, [said in this New York Times article](#): “HR is supposed to be responsible for finding, developing, retaining, and training the best people.”

As you add employees, time spent on benefits, government regulations, and compensation becomes harder to maintain. It’s these functions businesses can look to outsource, in order to spend more time on their strengths and their teams.



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The good news is you have options. For the purpose of this eBook, we’re focusing on the decision between staffing an HR department in-house or turning to a PEO. Here’s an overview of those two options:

### 1. Professional Employer Organization (PEO)

The first option is to turn to a Professional Employer Organization. PEOs can help you:

- Automate payroll and payments for employees, contractors, and vendors
- Workers’ compensation
- Access better benefits at affordable rates
- Stay compliant with federal, state, and local governments

By outsourcing these HR functionalities, you’ll be able to focus on the right stuff: growing your team.

PEOs bring companies into one collective to manage healthcare insurance, benefits, and tax filings under one EIN. As one collective, PEOs can give customers access to better healthcare that would normally just be available to larger companies. PEOs can also streamline compliance by filing taxes on your behalf.

Outsourcing these HR functions to a PEO can allow an organization to concentrate on the operational and revenue-generating side of business, while saving costs. They don't handle the on-the-ground work, so you'll still need a person in house to be in charge of hiring, supervising and promoting (or firing) your team as needed.

## 2. DIY Human Resources

The second option is to hire a human resources team or grow an HR team at your company. Bringing the HR function in-house gives you total responsibility for staying compliant, compensating all employees, offering benefits, and taking care of your team. It also requires dedicating time and resources to building and maintaining that team.

Finding someone with the right expertise is a challenge, if you decide to take it on. Hire a lower-level HR professional and he or she may lack managerial experience. Opt for a high-level one and he or she may not be interested in handling the day-to-day minutiae. When investing in HR, make sure you cover both ends of the work spectrum.

## In-House vs PEO: Factors to Consider

Now that you've outlined the HR functionalities that are important to your company, consider how each option - in-house or PEO - can best help your business.

**Cost Savings** — As your team grows, take a look at how many hours your employees - or you - are dedicating to HR and payroll management activities. All that time is spent on backend work not geared towards driving revenue, and it may be time to invest in in-house HR or a PEO.

Hiring an in-house professional requires a salary and benefits, as well as recruiting and onboarding costs. But they can also free up more time for the rest of your team by taking on payroll, most tax filings, benefits management, and employee relations.

Most PEOs charge either by a per-employee or percentage-of-payroll model to use their platform for payroll, benefits, and compliance coverage. PEOs will help save you money by giving you access to more affordable healthcare, and handling compliance — freeing you from fines. By using a PEO, you also may need fewer in-house employees to handle the “human” of human resources, saving money that would be spent on more salaries and benefits.

**Benefits** — Being able to offer better benefits helps small businesses not only hold on to their more valuable employees, but also bring in top talent.

An internal HR professional can design a customized benefits program, reaching out to the partners that the company wants. Depending on the size of the company, the cost may be higher both for the employer and the employee.

Small businesses can often offer employees better benefits at better rates through a PEO — benefits they could not otherwise afford. With a PEO, small businesses are grouped together in order to obtain enterprise-level benefits.

**Compliance** — Both an HR department and PEO can be tasked with sifting through the increasingly complex federal, state and local tax regulations. A small employer with just 50 employees is likely subject to the same guidelines as a large corporation.

If you set up your own HR department, you’re liable for mistakes when it comes to staying compliant with federal and state regulations. [Over a third of small-business owners get fined each year](#) for making payroll mistakes; having total ownership over these complexities can lead to mistakes.

Since a PEO becomes the administrative employer (or employer-of-record) while your company is the on-site employer, the PEO shares the liability of legal compliance and any associated liability related to their services. Most PEOs can also provide civil defense and employment liability insurance in case a former employee sues the company for discrimination or wrongful termination.



**Over a third of small-business owners get fined each year for making payroll mistakes; having total ownership over these complexities can lead to mistakes.**

**HR Management** — Ensuring your HR technology systems are up to date and safe is critical. The right tools make managing time off and keeping track of employee information easier and safer.

If you keep it in-house, you'll need to setup the HR information systems yourself. This may add additional costs and security issues but all employee information remains company property.

The benefit of using a PEO is that they already have a system in place that works and that you can start using right away.

**Control** — Your decision on how you handle HR depends on how much day-to-day involvement you want in HR management.

For small business owners who are used to having their hands in every aspect of the business, relinquishing control of HR can be a tough adjustment. Hiring an HR professional to join the team keeps control in-house and offers you and the team quick access to HR resources.

Going with a PEO means that you're letting go of some HR operations and allowing the PEO to become the employer-on-record. However, even with a PEO, you can maintain control of the more human and strategic functions of HR. It's really up to you as to which aspects of the business are your top priorities.

## HR and the Size of Your Company

In this case, size definitely matters. The HR needs of a company with 10 employees is very different from those with 50 or more employees. Here is an overview of the various issues that impact companies at different growth levels:

**0-10 Employees** — You're all in it together at this stage. Most employees are juggling lots of responsibilities and wearing multiple hats. You - with the help of other staff members - are probably addressing issues as they arise and handling it all in-house to save money and keep it personal. Turning to a PEO often makes sense at this stage. You'll free your employees from wearing the HR hat, among their other responsibilities. You'll get access to benefits better than you could secure on your own.

**10-50 Employees** — HR duties become more time consuming at this stage. And managing HR isn't just about payroll anymore. Compliance is a bigger issue now that a lot more people need to be hired and paid.

At this size, it's also common to bring on a wider variety of resources: vendors, part-time employees, freelancers...Following the legally mandated hiring practices becomes more of a focus. Taking care of that team is especially important here too: finding benefits to offer becomes a big focus. Also worth noting: the American Disabilities Act applies to companies with 15 or more employees, and the Family and Medical Leave Act to those with 50 or more employees.

By this point, compliance and hiring has become more of a deciding factor in how you approach HR. It's time to consider a dedicated resource to keep your company compliant, whether that's through an in-house hire or turning to a PEO.

**50-100 Employees** — Offering benefits and staying compliant is more important than ever as you grow. By offering a comprehensive benefits package, you'll recruit and retain top-notch employees and keep your teams motivated.

It's also time to start laying the groundwork for a big company at this stage. Many times, companies don't do this early enough and what they find is that it's very difficult to change the patterns and ways of managing later on.

For many companies of this size, setting policies and procedures becomes important at this point. Setting up formalized leveling frameworks, offer packages, paid time off policies, parental leave policies — these all help leverage you as a more competitor employer.

Having in-house HR, at this stage, can help you dedicate resources to employee growth and policy setting. Also turning to a PEO helps you offer the benefits you need to attract top talent.

**100 Employees or More** — It's all about strategy, strategy, strategy for management and culture, culture, culture for employees. As you move on up, focus on retaining and attracting talent that will help build the foundation for the company you envision. With more people on board, expect to experience a few growing pains and more employee relations issues along the way that only HR should solve.

At this stage, HR can be a very important tactical, in-house department that can help you make the company better and maintain the company culture.

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### How Can Justworks Help?

Outsourcing can offer savings in both time and money. A PEO like Justworks can add valuable expertise to your company, help reduce and control operating costs, offer free resources, and allow you to invest your time in what matters most.

Using Justworks will give you the best of both worlds: the power of a PEO with the experience of modern SaaS. As a PEO, we give you access to great healthcare at affordable rates and shield you from compliance and paperwork. How so? We group our customers together under the Justworks umbrella. This gives you access to better healthcare at lower rates, normally only available to larger companies. It also means we assume compliance and paperwork for you. Workers' comp, tax filings, new hire reporting...all of it.

And like non-PEO solutions, Justworks offers a modern user experience coupled with intuitive self-serve technology. The power of a PEO with the simplicity of Justworks. Harness the best of both worlds so you can work fearlessly.

Interested in learning more? Give us a ring at [\(888\) 534-1711](tel:8885341711) or email us at [experts@justworks.com](mailto:experts@justworks.com).