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Scope of Work

Career Education Review has contracted with Galvin and Associates to write a story on Professional Employer Organizations, as typified by Oasis PEO. 2051 WORDS

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The Career Education Review Interview

PROFESSIONAL EMPLOYER ORGANIZATIONS:

An option for reducing HR costs, improving benefit packages

Colleges and universities intent upon reining in costs may look at outsourcing Human Resources functions, especially “back office” financial benefits tasks. Among their options are staffing agencies, commonly used to supply temporary skilled labor during peak reporting seasons, and payroll service companies that organize and fulfill payroll payments. Both services can save on costs by reducing paperwork and insuring compliance with the state and federal reporting requirements.

While these options may reduce costs, they do not address two HR areas vital to colleges and universities: reducing health care costs, and providing enhanced benefits packages to attract top talent.

An option perhaps less well known is the professional employer organization, or PEO. The PEO provides payroll processing, as well as short-term and longer-term employee staffing. Where PEOs differ from traditional payroll and staffing companies is in the level of expertise they bring to the entire range of HR functions, and the enhanced benefits packages they can provide for employees.

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When PEOs came into existence in the mid-1980s, small to medium-sized companies saw their merits almost immediately. PEOs cut overhead costs and offered employees far better benefits - such as pensions, insurance policies, and worker compensation insurance - because they possess substantial economies of scale. There are currently approximately 3 million employees in the U.S. working under the PEO model.

As administrative costs burgeon, now may be the time colleges and universities recognize the value of the PEO for payroll, compliance, the intricacies of the ACA, and other human resources functions.

As Mike Viola, Executive President and a co-founder of Professional Employer Organization Oasis explained, the great innovation of the PEO model is that they are co-employers. “We file payroll taxes for our clients under our tax ID number. This allows us to pool together employees from all of our clients. We have over 5,000 clients with about 150,000 employees. When we pool all those employees under one tax ID number, that provides us tremendous buying power in the areas of human resources, payroll, benefits and worker’s compensation.”

Viola noted that a PEO is different from a traditional staffing company, or temp agency, or even a payroll processor. These kinds of companies “don’t assume the employer-related responsibilities and liabilities. With a PEO, we become a co-employer with our client company. We are the employer of record for payroll and benefit purposes only, however. Our clients are the employer of record for hiring, firing, supervising, and running the business.”

The Advantages of Scale

A PEO “levels the playing field,” Viola said, since an employer with only ten employees can provide his people with the same benefits as a company with 5,000 workers. When smaller operations with a PEO compete for talent, the small school can “offer the exact same benefit package” as a much larger university.

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Moreover, he continued, it's not just the upfront costs involved in providing a good benefits package. "With 10 employees, it would be cost prohibitive, number one, but also there is also a huge administrative burden" to consider. "Our clients leverage us to be their back office and handle all of those functions."

For example, Oasis works with Keiser University, a not-for-profit private university, established as a tech school in 1977 and accredited as a university in 2006. Keiser is a sprawling operation with the second largest student body in Florida and has multiple campuses here and abroad. The school offers undergraduate and graduate level studies, both traditional and online. Administration is a large and complex operation at such a fast-growing institution. Keiser teamed with professional employer organization Oasis for its administrative and back office services.

"We handle all the non-revenue producing responsibilities of our clients, all the things related to Human Resources, benefits, payroll and workers compensation," Viola said. "At Keiser, we have onsite staff, but the school maintains its own Human Resource department. It functions with a minimum number of people because the university utilizes all our back office functions. It's a much more efficient way for Keiser to operate since they have eliminated the need for a large HR department."

A Good PEO Customizes its Services

A good PEO customizes its services to the client, Viola said. A school with no HR department and 10 to 20 employees might want to relegate all its human resource issues to a PEO. On the other hand, a larger school with one- to three-hundred employees "might have an HR generalist" on permanent staff for hiring and supervisory functions, but their needs would not require "a whole department for benefits and HR. They can utilize our staff." With a PEO, he said, "it's really up to the client what they want to do on the HR side."

Impact of the Affordable Care Act

There are “tremendous administrative responsibilities and liabilities associated with being an employer,” Viola explained. A PEO has the experience and the professional expertise to handle those issues, especially now that the federal American Care Act (ACA) has come into effect. “We can provide employees with Fortune 500 company benefits, and we administer those benefits,” he said. “We can keep our clients in compliance with everything related to those benefits, including the ACA.”

Increased Productivity, Not Just Cost Containment

The broad experience of a PEO Human Resources division is particularly useful for a university, Viola noted, because a company like Oasis can “also increase productivity through the training programs that we provide to the client.” The signal benefit for an academic institution is clear: “You and your employees can focus on what you do best, which is running your school, while we focus on what we do best, which is handling all the associated Human Resource activities.”

Viola outlined the complexities of compliance for today’s colleges. “Especially with schools like Keiser that operate in multiple states with multiple campuses, it becomes tricky,” he said. They face a panoply of sometimes-conflicting state or international requirements. The advantage of a PEO’s expertise is its “the ability to stay in compliance, offer competitive benefits, and reduce overall cost profile in all of those areas.”

“We have clients and employees in every state,” Viola said. “When a client joins Oasis, if they have multiple campuses or are located in multiple states, their employees have all the same benefits no matter where they are. Universities can open up another campus or buy another school. Really, everything is turn-key with Oasis as it relates to the areas that we covered: HR, benefits, payroll and compensation.”

PEO’s can Limit Budget “Surprises”

Viola noted that schools typically work from budgets with predictable, fixed costs and income and have limited flexibility to respond to financial surprises. He believes that a

PEO is particularly useful to colleges and universities because they control exposure to unanticipated overruns.

“With our pricing advantages and our size, we tend to really control annual renewals and increases for costs to keep them in manageable levels,” he said. “A university can thus avoid big cost spikes.”

Cost Savings, or Cost Neutral?

Removing the burdens of back office administration and the great purchasing power of pooled employees are obvious benefits, but are these efficiencies enough? Do professional employer organizations provide a university with true cost savings? Does a PEO turn out to be a cost neutral ‘improvement?’

“It depends,” Viola said. “Many times there are cost savings because we are purchasing benefits - whether it’s health insurance, worker’s comp, 401-Ks, dental, vision, or ancillary benefits. We’re negotiating rates for 150,000 employees and our typical client is much smaller than that. They simply don’t have the purchasing power that we have. So, yes, we bring cost efficiencies and savings in that area.”

In addition, he continued, “as clients scale and grow, one of the bigger areas of savings is that they avoid the need to hire additional resources to continue to grow. That is because they can leverage our HR benefit payroll resources without having to hire additional staff for Human Resources, benefits, and payroll.”

An added benefit from a PEO like Oasis, Viola pointed out, is access to large IT systems, saying, “We provide a full HRIS, or Human Resource Information System-technology, to our clients. That does everything from applicant tracking and electronic onboarding to web-based payroll self-service. To acquire that technology would be a huge investment. The technology would also require continuous upgrades. All that is part of the package with a PEO like Oasis.”

Addressing On-going Health Care Costs

Since the Affordable Care Act became law, Viola said, PEOs provide their clients with shelter in numbers, noting, “They adopt onto our master policy.” For example, if in a given year several employees at one university have significant health care claims, the potential increases in health insurance premiums that the university would otherwise have suffered are obviated: the extraordinary claims are subsumed among the hundreds of thousands of employees within the master policy.

Addressing Compliance Issues

An important but less obvious advantage to a PEO is its expertise in making sure its clients are in compliance with new laws and regulations. A PEO keeps the university abreast of changes by providing monthly reports and monitoring. Viola said it begins with the initial assessments that the PEO submits in its proposal.

“We start by creating an employee handbook,” Viola said. “That ensures that our clients have all the appropriate policies and procedures. When we perform an HR interview and proposal, you could think of it as an HR audit. We review all our client’s employment practices: their handbook, their job descriptions, classifications, etc. Throughout that discovery process, we learn whether they’re either in compliance or not. They’re hiring us to help keep them in compliance.”

Further, he noted, “there are things like eligibility tracking, unintended impact monitoring and compliance reporting, when it comes to the ACA, which we do through our HRIS technology and other tools. We transmit payroll data to Equifax for clients. We collect historical payroll data from new clients. That way we can track the measurement periods and stability periods. We then provide the client with monthly reporting. We also notify any eligible employees during the administrative period when they’re eligible for benefits. We perform those reviews and services through our internal systems. Because we’re doing the payroll, we have all that information.”

The PEO Review Process

Among the advantages of using a professional employer organization is the review of HR practices and the ease of the process. Viola outlined the protocol: A initial meeting is arranged to review “the different products and services that we have. Then, in order to prepare our proposal, we garner information from our potential client about payroll and current benefits and data on the time currently spent on employee-related administrative functions.”

That discovery process would clarify “Who is taking care of FMLA? Who is administrating COBRA? Who is handling unemployment claims? Who is handling employee-related lawsuits? Who is doing handbooks?” Viola said. “We get a good feel for how much time is spent to accomplish those tasks.”

“The proposal is really a comparison of how the potential client is doing business now,” he continued, “and what it’s costing them, compared to what it would be if they joined Oasis. The client then reviews that with the additional benefits to see if it makes sense to join us.”

However, he noted, “Not everyone who wants to be a client can be. We have financial requirements and risk requirements related to whom we take on. Once we do approve a client to join our group, then it takes about thirty days to start payroll with us.”

Summary: the Advantages of using a PEO

A Professional Employment Organization can provide colleges and universities with HR department cost reduction and overrun containment, as well as improved employee benefit packages. PEOs also provide expertise and data management for federal and state compliance-related matters. In Viola’s words, a PEO’s ultimate service is “providing our clients with peace of mind.”

For a college or university looking to contain costs and enhance benefits, a professional employment organization is worth consideration. The findings of their discovery and

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review process for a proposal – and the costs of their service – will ultimately be the significant factors in deciding if a PEO is the right option for your college or university.

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