

Is an HRO right for you?

How an HRO can save your company money **Interviewed by Dale W. Hlaves**

As we enter the current recession, more and more firms are being faced with the unfortunate prospect of having to downsize. Not generally viewed as contributing directly to a company's bottom line, the HR department is often one of the first areas to experience the hatchet. If this happens, who will perform the company's vital HR functions? One option is to outsource these tasks.

"Human Resources Outsourcing (HRO) enables small to midsize businesses to continue offering the same services to their employees," says Rob Wilson, President of Employco Group. "Additionally, outsourcing has the added benefit of further reducing a company's operating expenses."

Smart Business talked to Wilson about what an HRO can provide to businesses trying to stay afloat in tough economic times.

Why does an HRO make sense?

Whether a company has its own HR department or these functions are being performed by an office manager, outsourcing some of these important activities can be extremely efficient from a cost standpoint. By utilizing an HRO, a company will get the benefit of expertise from a variety of on-staff professionals who are knowledgeable and completely up to speed on the latest regulatory laws, federal requirements and ever-changing issues that directly affect the bottom line.

Is this country in a recession?

Yes, and as a result companies are being pressured by their shareholders to cut costs wherever possible.

So how can a company efficiently reduce its bottom line during a recession?

By outsourcing to an HRO to reduce human resources and employee benefit expenses.

In the wake of downsizing, businesses often overlook the importance of retaining their key employees. One of the added benefits of an HRO is that it allows the small to midsize firm to provide benefits and services typically only found at Fortune 500 compa-



Rob Wilson
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nies, thereby making it a competitive employer and maximizing its employee retention.

Can a small company without an HR department succeed strictly by using an HRO?

Yes. Many firms are using an HRO organization like Employco Group and do not have an internal HR department at all. Company size ranges from a handful of employees to as large as \$8 to \$9 million in payroll expense. These companies have office personnel performing a variety of customer service tasks, but the HRO handles all of their HR needs. One of Employco's clients reported that it replaced between one-and-a-half to two full-time HR employees, which translated to a savings of \$100,000 to \$130,000 a year in expenses.

Are there specific benefits an HRO can provide?

A typical small to midsize company offers medical, possibly dental and \$10,000 to \$15,000 in life insurance (which barely covers funeral costs). Larger firms provide their employees with a greater variety of options, usually offering a mixture of company-paid versus voluntary benefits including long-

term and/or short-term disability, increased life insurance, as well as 401(k) and 529 plans (college savings plans). Not surprisingly, many small- to medium-size businesses cannot offer these types of saving vehicles.

A recent Kaiser Family Foundation Health Study indicated that an overwhelming number of small businesses don't offer flexible spending accounts or even the pre-tax premium option. This last option is very frequently offered by large companies and functions like this: if the monthly health insurance premium for an employee is \$1,000 a month and the employer pays 50 percent, the employee can make his or her \$500 a month payment using pre-tax dollars instead of after-tax dollars, thereby avoiding being taxed on this amount annually.

Flexible spending accounts are another benefit commonly offered by large companies but typically not by anyone else. Both the employer and employee save payroll tax dollars by utilizing flexible spending accounts, which apply pre-tax dollars toward employee-chosen benefits (including deductible payments, adult and child day care, eye/vision care and more). By using this vehicle, the company and the employee both save a considerable amount of money. Plus, through the HRO, the company is buying its insurance in volume at a reduced rate.

By choosing an HRO, a small to midsize company can offer the same breadth and depth of benefits to its employees that are provided by the large firms. Additionally, an HRO can provide employees with discounts on home and auto insurance, free checking accounts and a credit union.

This can directly affect employee retention. With an HRO, an employee no longer has to join a large company in order to obtain great benefits.

Can a company set up an HRO even after downsizing?

Yes, a company can contract an HRO at any time. After HR downsizing, an HRO is particularly beneficial. Regulatory issues will not go away and an HRO provides the expertise to handle these critical issues. <<

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