



Outsourcing Your Human Resource Services

Comparing the ASO and PEO Models

This white paper is an overview of primary HR-outsourcing models that provide adaptable human resource services.

Executive Summary

As competition for revenue, profits, and the best employees escalates, entrepreneurs are re-evaluating business processes to ensure maximum efficiency and competitiveness. Part of the process involves examination of overhead cost centers, such as human resources administration, with an eye toward outsourcing. This paper introduces business owners to the two major types of HR-outsourcing organizations that are available today.

Typically, outsourcing organizations focus on either administrative cost savings or overall cost reductions that they can leverage because of their large-scale purchasing power. They can also help to strengthen the bond between smaller companies and employees and help to recruit sought-after workers by making competitive benefits available.

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Overview

An administrative services organization (ASO) cost effectively offers human resources, payroll, and benefits administration. The professional employer organization (PEO) model delivers similar services while providing the negotiating power of a larger company. Both approaches help to provide HR services that small businesses may not have the resources, expertise, or staff to address internally. These models allow companies to offer a much more comprehensive benefits package to attract and retain sought-after employees. Smaller firms can benefit from the use of these specialized and innovative services without having to invest the capital cost.

The ASO Model

With the ASO, a business owner outsources specific HR-related tasks. The ASO performs the services and the company retains liability. An ASO typically starts by conducting an audit of existing HR practices and then makes recommendations, followed by implementation and ongoing reviews to ensure that best practices are followed. Specialists at ASOs may provide the company with administrative efficiency and economical HR expertise, and offer employee benefits.

An ASO may offer business owners everything from employee handbooks to a wide selection of benefit carriers (medical, dental, vision, etc.), and lets companies choose from a broad array of services that are not normally available directly. Further, ASOs provide a point of contact for HR questions, so expertise is available without adding headcount. For state unemployment insurance, ASOs provide coverage based on the customer's rating and experience, an advantage for companies generating few claims.

The PEO Model

PEOs focus on providing lower-cost benefits through combined buying power and spreading the risk across many customers. They use negotiation specialists and market knowledge on costs that may not be available to other businesses, and thus ensure optimal pricing. Specific cost savings comes from reduced workers' compensation costs and medical insurance premiums. Additional savings may come from reduced employee turnover and better recruitment.

Like an ASO, a PEO also handles most of the administration of HR operations, such as health insurance administration, state unemployment insurance, and workers' compensation, and may assume certain responsibilities as outlined in the PEO's client service contract.

Workers become co-employees of the client company and the PEO, creating a large "pool" of employees. Experience ratings and rates are then obtained based on all members of the PEO pool. State law determines whether claims experience is viewed at the client or PEO level. As of 2007, PEOs employed nearly 3 million workers around the country.¹ Business owners welcome the lower rates and availability of benefits packages they could not secure as an individual company.

Across most industries, PEOs are most beneficial for companies with ten to one hundred employees. According to *Entrepreneur Magazine*, "They are large enough to need services but not so large they can justify the cost of hiring employees to do the work. Conversely, companies with fewer than ten employees sometimes can handle everything in house."²

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ASO and PEO Services

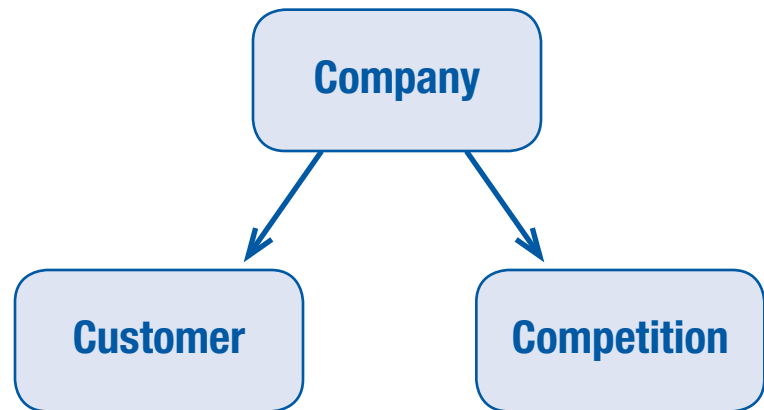
Specific HR services that are available in ASOs and PEOs may include, but are not limited to, the following:

- medical coverage
- dental coverage
- vision care
- short-term disability
- long-term disability
- life insurance
- workers' compensation
- 401(k) retirement plans
- section 125 plans
- direct deposit
- human resources planning
- drug testing
- background checks
- employee assistance programs and
- employee handbooks

Questions to Ask When Considering Both Models

It may be helpful to consider the 3C's business strategy and to form your decision accordingly.

When evaluating an ASO or PEO model for your company, consider the potential impact on your company, customers, and competition.



I. Company

How many employees work in your company? What benefits are offered now? Are you in compliance with state, federal, and local requirements? How can you reduce some of the costs that you now incur?

II. Customer

Do you have the best available employees in place to meet customer expectations? Do you spend time on HR tasks that could be better used working for customers?

III. Competition

What benefits are offered by your competition? What gaps exist between your company benefits and those of your competitors? Could you gain an advantage by outsourcing specific benefits tasks or by having the aid of a partner who could help with recruiting?

At a Glance: Comparing PEOs and ASOs

For health insurance, a PEO can group a larger number of employees in a plan, offering greater long-term stability and broader choices, whereas an ASO may offer more carrier choices, dependent on geographic availability.

	PEO	ASO
Employees	<ul style="list-style-type: none"> • “Co-employment” relationship between business and PEO. • Responsibilities may be shared between the employer and the PEO under certain statutes and regulations. 	<ul style="list-style-type: none"> • Traditional employer-employee relationship. • Employee relations compliance is the sole responsibility of the employer.
Health Insurance	<ul style="list-style-type: none"> • Can group a larger number of employees in a plan, offering greater long-term stability and broader choices. • Pre-established carrier options and network. • Simpler administration when employees are in multiple states. 	<ul style="list-style-type: none"> • More carrier choices, depending on geographic availability. • May require several carriers if employees are in more than one state.
State Unemployment Insurance	<ul style="list-style-type: none"> • Where allowed by law, PEOs may group employees together for rate and experience stability. • Assistance with hiring and retention best practices to limit unemployment exposure. 	<ul style="list-style-type: none"> • Coverage based solely on the company's rating and experience, an advantage for companies generating few claims. • Assistance with hiring and retention best practices to limit unemployment exposure.
Workers' Compensation	<ul style="list-style-type: none"> • May provide coverage under PEO policy where allowed by law. • Assistance with improving safety practices can help stabilize loss ratio. 	<ul style="list-style-type: none"> • Coverage under employer's policy. • Not negatively affected by other companies' claims/losses.
Claims, Safety and Loss	<ul style="list-style-type: none"> • Assumes some responsibility and liability for insurance claims, safety and loss, etc. 	<ul style="list-style-type: none"> • Employer has responsibility and liability for insurance claims, safety and loss, etc.
Payroll	<ul style="list-style-type: none"> • Federal payroll taxes are remitted under the PEO's federal employer identification number. Certain restrictions may apply for state income and unemployment taxes. 	<ul style="list-style-type: none"> • Payroll taxes are remitted under the employer's federal employer identification number, which may provide flexibility for end-of-year tax filing.

Could You Benefit from Rethinking Your HR System?

Companies looking for reduced cost on benefits like health insurance and workers' compensation, as well as HR services, may want to explore a PEO. Companies looking for HR services and efficiencies with more control may want to explore the ASO.

With over 400,000 worksite employees in nearly every industry, Paychex HR Solutions can help you decide which option is best suited for your business. Paychex helps companies position themselves to attract the best employees — those that impress even the toughest customers — and reduce cost and risk.

About Paychex

Founded in 1971, Paychex, Inc. is a leading provider of payroll, human resource, and benefits outsourcing solutions for small- to medium-sized businesses. The company has more than 100 offices and serves over a half million payroll clients nationwide.

The company offers comprehensive payroll services, including payroll processing, payroll tax administration, and employee pay services like direct deposit and check signing. Human resource services include 401(k) plan recordkeeping, employee handbooks, job descriptions, workers' compensation administration, section 125 plans, time and attendance applications, administrative services organization solutions, and other administrative services for business.

Professional employer organization options are available from Paychex Business Solutions, Inc. (PBS).

Paychex Insurance Agency, Inc. makes a full range of business insurance options available, including group health insurance from more than 150 highly rated carriers.

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Endnotes

¹National Association of Professional Employer Organizations:
<http://www.napeo.org/peoindustry/industryfacts.cfm>

²*Entrepreneur Magazine*:
www.entrepreneur.com/humanresources/managingemployees/article205124.html