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Outsourcing HR

Advisory firms are growing and staffs are burgeoning. Now there's a way to buy out of your personnel headaches.

By David J. Drucker

IT'S ALL SO SIMPLE WHEN YOUR FIRM IS just you, but the complexity of managing employees grows geometrically as you add bodies and benefit plans. Fortunately, the opportunities to outsource administrative (if not professional) tasks are expanding to keep pace with advisers' needs. In this case, I'm talking about professional employer organizations (PEOs).

I became aware of PEOs when Norm Boone, president of Mosaic Financial Partners of San Francisco, decided there had to be a better way to manage his and his 11 employees' human resource needs. "Our overriding strategy is to get bigger in the Bay area," Boone says, "in part by taking advantage of economies of scale wherever they exist. That includes HR and compliance."

Most firms add benefits as profits and payrolls grow, eventually creating a patchwork of programs. Boone had used a payroll service for paychecks, secured long-term disability insurance for his staff and dealt with the ups and downs of workers' compensation—just a few of the many HR needs any firm his size must meet.

As personnel management became



increasingly unmanageable, Boone hired HR consultant Karen Cowles, the wife of one of his key employees, to advise him. At the same time, Greg Friedman, a friend of Boone's and developer of the Junxure-1 CRM software used by advisers, told Boone about PEOs. "Greg was raving about a company that provided outsourced benefit solutions," he recalls.

ECONOMIES OF SCALE

The concept of a PEO fit with Boone's philosophy. Smaller firms pay more per

head for most benefit programs, so economies of scale should be sought whenever possible. A PEO would enable him to combine workforces with those of other firms and pay prices for benefits based on much larger numbers.

What was Friedman doing? For his total staff of six, Friedman went with Administaff (www.administaff.com), a very large PEO. "Administaff has a deep bench," Friedman says. "For what I pay, not only is my benefit package superior to anything I've ever had, but we added a

boatload of benefits. We've got a better health plan that's about 40% less expensive than the one we had before. When I ran the numbers, I found our health insurance savings paid for the entire switchover to Administaff."

Friedman was able to add long- and short-term disability, vision coverage and prepaid legal services to his benefits package. "My employees are using these things," he says. "I asked Administaff how they can do this. They said they have 80,000 employees [effectively in one group], so they have tremendous buying power."

That was enough for Boone; he asked Cowles to find him a PEO. Cowles helped Boone select Gevity (www.gevity.com). Fee structure was an important factor: "Some PEOs charge a percentage of wages, whereas others charge a flat fee per employee. Norm preferred the latter," Cowles says. "Why pay extra administrative fees just because you decide to give an employee a bonus?"

What finally sold them on Gevity, in addition to its fee structure, was that it had lots of expertise on its support team in Boone's local area of San Francisco. "Gevity was also attractive because it's a vast entity with many resources we can tap. Instead of three HR vendors, we're now just dealing with one," Boone says.

So how do PEOs work? "It used to be selling and leasing back employees," Boone recalls. "There are still some PEOs that do that, but most operate as a service model and don't actually take over your employees. Gevity has 'co-employer relationships;' the employees are still ours but, for tax and benefit purposes, they're employees of Gevity, which issues their paychecks."

Is there an issue with the hours an employee works for Boone vs. Gevity in qualifying for benefits? "The hours they work for us are the hours they work—period," he says. "Gevity doesn't come into the calculation. We report their hours on Gevity's website, and Gevity just cuts checks and delivers benefits."

MAKING THE SWITCH

This isn't to say that there was a super-smooth transition from Boone's do-it-

Finding a PEO in Your Backyard

Looking to outsource your human resources functions? Does a professional employer organization sound like it would make sense for your firm? If so, here's how to find one.

First, you can do your own search for local PEOs. These firms belong to a national membership group, just like financial advisers, so that's a good place to start. Go online and visit the National Association of Professional Employer Organizations (www.napeo.org) and check out their "Find a PEO in My Area" service. Although not all PEOs are members of NAPEO (an online search turned up Administaff, the firm Friedman uses, but not Boone's firm, Gevity), it does have about 400 members in 700 offices throughout the United States.

If you want to outsource the selection process, you can employ a middleman to study your specific needs, help you identify PEOs in your area and develop a request for proposal (RFP) to narrow down the list of eligible PEOs that fit your circumstances. One such company is StaffMarket.com (www.staffmarket.com), which turns out to be not only a middleman solution, but an excellent source of PEO information for do-it-yourselfers. Its site starts with "What is a PEO" and then helps you identify one for your firm.

Clicking on StaffMarket's "PEO List" tab on its home page and selecting the state of California, for example, you get a list of 64 providers serving that state. The link for each PEO on the list takes you to a page with detailed information on that PEO's profile, types of clients it won't work with, services offered and available employee benefits. (And yes, Gevity is included in StaffMarket's list, although Administaff is not.)

Whether you choose to take on PEO due diligence yourself or hire assistance, NAPEO and StaffMarket will give you the tools you need. —DJJ

yourself methodology to using Gevity. That wasn't a reflection on Gevity, Boone says, but a natural part of a major business-systems transition.

"First we tested payroll, auto deposits and we did two payrolls of manual checks," Boone says. "Then, all employees were brought into a meeting where we introduced Gevity personnel. It was a lot like a 401(k) enrollment. We went over the benefits and paperwork. We restarted their Section 125 flex-pay plans. We had some complications due to Gevity's benefit cycle starting in a different month than ours. But it all got worked out eventually."

Another transition glitch Boone dealt with was Social Security taxes—his own. "From an employee perspective, I'd contributed the maximum, but I had to start paying all over again. Also, the employer portion was an issue because now there were two employers [Mosaic and Gevity]. Mosaic was in place for the first six months and Gevity for the last six months. We had to start again from zero on Social Security employer payments."

Boone compensated by adjusting his withholding to make up for his personal overpayments, although there was no way of getting around the employer por-

tion. In the end, Boone, says, Gevity lowered certain costs to make up the difference. Ultimately, installing any major new system takes time, patience and an eye to the ultimate benefits, and PEOs are no exception.

What does it all cost? Says Boone, "In our case, we're probably at break-even. But going forward, we'll have a full menu of services instead of the partial one we had before. For example, we now have employer liability insurance we didn't even know about previously. If we're sued over some employee issue, we've got coverage, and we have Gevity to stand by us.

"It's not so much that I was trying to solve a problem we had. Rather, I was trying to create a more efficient system for the future," Boone says. "What we have now is a professional HR department." FP

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