

# HR NEWS



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# Payroll Partner or Payroll Vendor: *Choose Wisely*

By Pamela Evette

**A**cross all organizations, payroll is generally the single most-expensive line item and has the most complicated compliance requirements. While some organizations have the internal bandwidth to effectively manage this process, most do not. The demand for easy payroll management options has led to an explosion of choices. From do-it-yourself software and online payroll processing to large payroll-only vendors and companies that can manage all your payroll and HR programs and systems, the selecting the most-appropriate service provider can seem overwhelming. Despite some industry claims, there is no one-size-fits-all solution. Making the right choice requires understanding what services each potential vendor or partner offers to address your organization's specific needs.

## Vendor Options

### Payroll Service Providers

PSPs only handle payroll. They range from online vendors to large brick-and-mortar companies. The most basic PSPs operate in the

cloud, meaning the organizations they serve do not purchase or install any software. Payroll can be managed from anywhere, and typical services include payroll processing (including overtime, holiday pay, taxes and benefit deductions), filing and paying payroll taxes, new hire and payroll reporting, paid time off management and employee self-service. Many online PSP access their clients' existing accounting software, enterprise resource planning systems or human resource systems.

Brick-and-mortar PSPs typically offer slightly richer and more automated services and perform tasks without requiring the employer to run reports or queries. They also offer the confidence of working with a larger organization, which is important to many smaller employers.

The greatest benefit of using a PSP is that the payroll processor does all the basic work—payroll deductions, tax payments, end of year tax forms and the like—quickly and easily. However, there are vast differences in the level of service provided by PSPs.

Less-expensive options tend to be mostly transactional, with limited support, which forces clients to stay on top of pushing out payroll. They often do not provide notification if payroll data has not been received or do checks and queries if a client makes a mistake. They are also unable to handle or code certain types of discretionary income and benefits (i.e., fringe calculations) like bonuses or car allowances. At the same time, the services smaller PSPs do provide are generally not scalable to meet the needs of a growing or changing organization.

Moreover, these options may not offer the same high level of security when it comes to the transmission and storage of data and sensitive personal and business information. Last, these providers do not generally provide counsel on better ways to set up the system, contain costs or offer more-attractive benefit packages at a better rate.

For most organizations, even those working with a top-notch PSP, the major downsides are risk management and cost containment. In short, users must trust the provider to get everything right while maintaining ultimate responsibility for any problems that may be made. The risk for error is high from people entering data in multiple locations.

#### **Administrative Services Organizations**

Like PSPs, ASOs provide outsourced payroll services to companies. They go far beyond normal PSPs, however, by giving clients access to back office solutions, including benefit management, employee administration and workers' compensation compliance. ASOs also offer deep human resources expertise, allowing them to consult on HR strategy, processes and best practices and to assist with creating customized programs to meet specific business needs and goals.

### **Partnering Opportunities: Professional Employer Organizations**

Many organizations concerned with more-complicated arrangements, those with workforces dispersed across several localities and those looking to ensure compliance and find solutions tailored to their specific business challenges and requirements opt to seek out a true payroll partner in the form of a professional employer organization.

PEOs take the ASO model a step further by absorbing a far higher degree of risk. Specifically, PEOs deliver their services through a co-employment arrangement in which a client's workers become joint employees of the PEO and paid by the PEO which serves as the employer of record for tax and insurance purposes. In other words, the client is the onsite employer, and the PEO is the administrative employer. While the client retains control over operations and workforce management in this scenario, working with a PEO allows the client to transfer much of its compliance burden and employer-related risks to the PEO. These benefits can make working with a PEO the best option even though the higher level of service generally comes at a higher price tag than PSP and ASO services.

In addition to gaining access to some of the brightest and most-focused HR minds, working with a PEO can deliver benefits in the areas of reduced benefit costs and improved employee attraction and retention. Because PEOs often represent large numbers of employers, they can secure volume pricing discounts, allowing their clients to offer richer benefit plans at lower total costs. Those factors often combine to enhance success rates in hiring and to improve retention. In fact, according to a recent study by the National Association of Professional Employer Organizations, the annual rate of employee for PEO clients is 10-14 percent lower than for organizations that do not work with PEOs.

### **Choosing a PEO Partner**

If your organization needs more high-touch service and consulting, here are some key things to look for in a true payroll partner:

- A deep bench with expertise in the latest compliance requirements and evolving regulatory issues
- Backup systems, cross-checks and auditing services to ensure that people are paid correctly and according to proper coding
- A fully-integrated system with a single-sign-on to ensure ease of use and to reduce chances for making manual errors
- Ancillary products
- Scalable solutions
- Expertise and advice on growth strategies
- A dedicated payroll administrator you can contact directly at any time
- Personalized services to fix problems, anticipate issues such as giving reminders on moving payroll to a different day to allow for bank holidays, take care of stopping payment on checks, and prevent and fight fraud
- Manages and, if desired, absorbs HR and regulatory risks and liabilities
- A single location where everything gets handled

Finding the right payroll service for your organization depends largely on your needs, preferences and budget. A PSP or ASO can often meet the needs of organizations with small staffs. Organizations with more-complex needs or that desire higher-level services and greater peace of mind will usually do better with a PEO. While PEO services can cost more, many organizations find the expenditure quickly pays for itself by reducing compliance costs and enhancing employee satisfaction.

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