

Bar Bulletin

King County Bar Association

"Justice... Professionalism... Service... Since 1886"

Volume 24, Issue 2

\$2.00

October 2005

Big-Company Benefits for Small Employers

By Sharon E. Best

There are many reasons people choose to work at smaller law firms. They may perceive that the work is more interesting and varied, that the office environment is less formal, that the hours are more flexible. But I've never heard anyone say they wanted to work for a small firm because they thought the benefits package would be more generous.

Since opening my own practice, I've made an effort to offer health benefits that are on a par with what the bigger firms have to offer. It's not just for the sake of competing over a finite pool of job applicants, although that certainly is a factor. More importantly, I believe that an employer who truly cares about the well-being of her employees has an obligation to provide solid health insurance and other benefits.

As a small employer, though, I know that it can be a struggle to find a good health plan at an affordable — or any — price. When the firm was just myself and one employee, there were limited group policies that we could take advantage of, so I purchased individual plans for each of us. It was a relatively easy option and one I took for granted — until a few years later when it became impossible to obtain any individual health insurance in the state of Washington. Fortunately, by

then I'd found a much simpler and more elegant solution, not just for health insurance, but for a host of other benefits and human resources administration issues: a professional employer organization, or PEO.

PEOs give small employers access to benefits and the kind of human resources expertise that is usually the domain of much larger companies. Essentially, they operate as an off-site human resources department, providing administrative services such as payroll, employee handbooks, management training and ad hoc consulting on personnel issues. In addition, PEOs offer "big company" benefits, including health, dental and vision coverage, 401(k) plans, disability insurance and an employee assistance plan. For employers with fewer than 20 workers, PEOs are a way to provide COBRA benefits, giving employees and their families access to continued health insurance coverage after job loss, divorce or another triggering event.

When I first encountered HR Novations, a Bellevue-based PEO and human resources consulting firm, in 1996, I was unfamiliar with the concept of PEOs and how they work. I was initially surprised to learn that the PEO would become a "co-employer" of my employees, but the system works quite

well. I retain management control, setting standards for performance and making the final decisions about hiring and firing and the PEO does all the rest: cutting paychecks, paying the payroll taxes, handling workers' compensation and unemployment claims, helping us with employee relations issues and, of course, negotiating a comprehensive benefits package.

If there's any downside, it's that a PEO makes all this work look so effortless, you may wonder why you're not doing it yourself after all. Surely I could find just as good a deal on health insurance? I tried that — once, briefly — and long before the end of the first quarter I realized that, in fact, I couldn't match the insurance the PEO offered. Nor did it make sense for someone on my staff to spend time agonizing over all the administrative paperwork when the PEO could do it so easily.

Over the past 10 years, any increases in our health-insurance premiums have been significantly less than the industry average. One reason is that a PEO groups together many small employers, so it is able to negotiate a more favorable rate than any of us could get separately. And because health insurance is experience-rated, small employers are always at risk that one catastrophic event — cancer or a premature baby, for example — would cause the insurer to raise rates even higher. For a PEO covering hundreds or even thousands of employees, there is a much larger pool to absorb the impact of a single occurrence.

I've benefited even more from the human resources expertise a PEO can bring to the table. Its advice can help employers get the most value for their

benefit dollars. My inclination had always been that the best possible health plan was one with a low or no deductible and, of course, those plans cost the most. What I would never have realized on my own is that it's possible to pay less and still provide the same coverage to my employees. I now buy a high-deductible plan and reimburse employees for their out-of-pocket healthcare costs. It's counterintuitive, but I actually spend less on employee health care, even if everyone in my office incurs the maximum deductible in the same year.

In addition, I don't have to reinvent the wheel every time I approach a human resources issue. The PEO does everything, from providing materials that explain the benefits package to delivering a comprehensive employee handbook. It worries about HIPAA and other regulatory compliance. If there are any questions about health insurance claims, the PEO researches them and works with the insurer to get them paid. And, all the administrative paperwork is taken care of.

The savings in benefit costs often more than covers the fees PEOs charge for their services: generally 1 to 2 percent of payroll. Even if that weren't the case, the increase in productivity is even greater. We let the human resources experts handle what they do best, so that my staff and I can spend more of our time on billable client work in our areas of expertise. I'll never run my business any other way again. ■

Sharon Best is the principal of Sharon E. Best and Associates, an eight-employee firm focusing on real estate, estate planning and probate law.

I · N · S · I · D · E

Benefits Boost

PEOs help small firms provide big-firm fringes.

Page 4

Settling on Appeal

Commissioner James Verellen says it's never too late to compromise.

Page 7