

HR Outsourcing in Hawaii

A guide for business owners and CEOs



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There are two fundamental facets to running a business:

Managing your core business and managing your people (your human resources).
And as any business owner will tell you, once you start hiring and managing, the business of running a business gets a whole lot more complicated—and expensive.

In Hawaii, as soon as you hire your first employee, you are required to fulfill several important legal requirements:



Pay at least minimum wage to the people you've hired.



Obtain workers' compensation insurance coverage.



Withhold and pay employment-related taxes (and file the necessary paperwork).



File forms and maintain paperwork required by law.



Comply with hundreds of employment laws, rules, and regulations—both state and federal.



Provide health insurance to employees who regularly work more than 20 hours per week.

Unfortunately, there are no weekend workshops where you can quickly learn how to handle the demands of employment administration, or how to become a great employer. So when it comes to all that employment "stuff"—payroll, employee benefits, workers' compensation, legal compliance, training, etc.—businesses have three basic options:

- 1 Do it yourself (DIY) with existing staff or hire the staff to do it.
- 2 Outsource specific employment administration tasks, often to multiple vendors.
- 3 Outsource everything to a single service provider.

Understanding the differences in outsourcing options and knowing how to evaluate potential providers can help you identify a vendor that best supports your business goals.

It's tough being an employer

Let's face it. Being an employer is no picnic, and most business owners or managers didn't go to school to learn how to manage human resources (HR) issues, navigate workers' compensation claims, or comply with employment laws. FMLA, COBRA, ADA, OSHA, EEO, HIPAA, ERISA, FLSA... talk about alphabet soup!

Plus, the business of being an employer grows more complex each year, with new federal and state laws, revised forms, and new reporting requirements.

Over the last 60 years, the U.S. population increased by 98% while the federal regulatory code increased by 850%...

Source: [U.S. Chamber Foundation](#)

Here in Hawaii, every session of the state legislature generates dozens of employment-related bills about workers' compensation, employee benefits, employee rights, minimum wage, and other workplace mandates. The majority of businesses don't have the time and resources to keep up with all the changes. Even employers with HR professionals on staff have trouble keeping track of all the details.

You can do it all yourself – but why?

By necessity most companies and new business ventures do everything themselves. Whether it's running payroll or fixing the office computer, it's often easier to work long hours than it is to find the money to pay for help.

Employment administration is no exception. DIY is the way most businesses deal with the requirements of being an employer. However, the single biggest argument against DIY HR administration is time and focus. Why should any business devote staff time and resources to activities that will never generate revenue?



What is HR outsourcing (HRO)?

HR outsourcing encompasses everything related to having employees (i.e., human resources). Most companies typically outsource one or more functions to third parties, such as:

- Payroll service provider
- Benefits administrator
- Health insurance carrier
- Retirement plan administrator
- HR consultant
- Labor attorney
- Insurance broker/agent
- Accountant/bookkeeper
- Risk management consultant
- Safety trainer
- Workers' compensation fraud investigator
- Management development trainer
- Employee relations specialist

Outsourcing makes good business sense

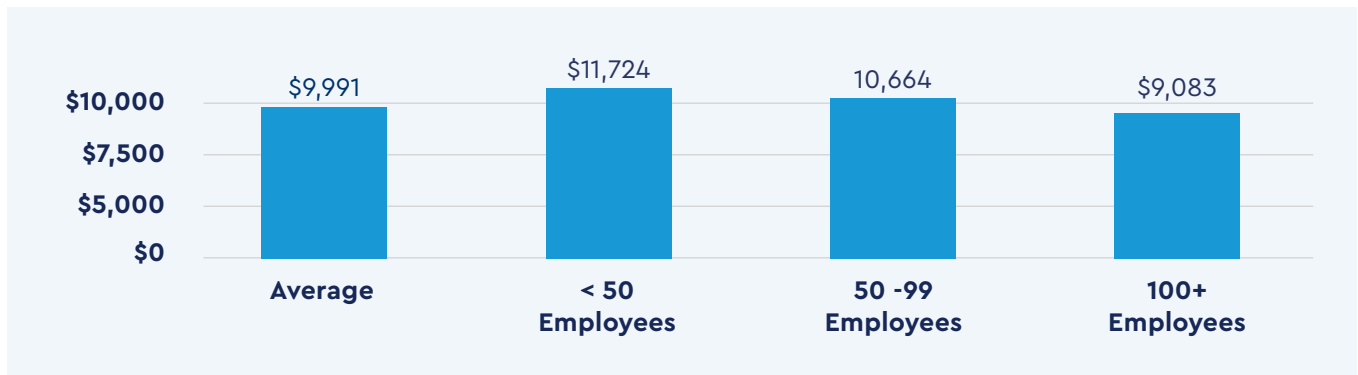
Whether your business is growing or you simply need to contain costs, outsourcing can have a direct, positive impact on productivity and profitability. Regardless of the economic climate, outsourcing allows you and your employees to focus on core business activities—such as finding new customers and keeping the ones you have—rather than wasting time on “back office” administration tasks.

Today, businesses of all sizes are outsourcing everything from bookkeeping and computer services to HR administration and call center support. Even though HR administration will never generate revenue for an organization, HR outsourcing (**HRO**) can deliver tangible business benefits:

- Greater productivity
- Increased profitability
- Less time spent on “back office” administration
- More time spent on core business activities
- Greater employee retention (lower turnover)
- Reduced risk and liability
- Lower labor costs

Realizing the benefits of HRO, however, depends entirely on selecting the right vendor and the appropriate service plan. The following sections explain the service approaches available in Hawaii and provide helpful criteria you can use to evaluate vendors and find the best match for your business.

Regulatory Costs in Small, Medium, and Large Firms



Source: [W. Mark Crain and Nicole V. Crain, "The Cost of Federal Regulation to the U.S. Economy, Manufacturing and Small Business," National Association of Manufacturers, September 10, 2014](#)

Options for outsourcing HR administration

As an organization grows, it either outsources more of the HR administration pie to various vendors, hires HR staff in-house, or does a little of both. The multiple-vendor approach to HR outsourcing is a step in the right direction, but organizational time and focus still suffer. Juggling unrelated service providers is not efficient, and the time-consuming responsibility of keeping up with employment laws and HR compliance usually remains with the business, even though a third party may be handling payroll and employee benefits.

In the world of HRO, outsourcing to a single, primary provider often makes the most sense, and Hawaii employers can choose one of two fundamental paths:

1. Engage in administrative services outsourcing (ASO)
2. Engage in shared employment (a PEO relationship) with a single provider



Administrative Services Outsourcing (ASO)

In the wide space between do-it-yourself HR and offloading the entire burden to a single provider, you'll find ASO. Under an ASO arrangement a client outsources one or more activities, such as payroll or benefits administration, to a third party.



Pros

ASO allows you to outsource activities à la carte. You may decide to let a third party process your payroll and manage workers' compensation claims but choose to retain your existing workers' comp policy because of your long-standing relationship with an insurance broker.

If your business has achieved its own below-market rates for health insurance, workers' compensation insurance, and state unemployment insurance, ASO allows you to retain your own rates and plans while outsourcing administrative tasks.



Cons

The ASO path usually means you must manage multiple vendors and providers.

Even if you outsource much of your HR administration to a third party, you must still deal directly with your health insurance carriers, benefit plan providers, and labor attorney, for example.

Unlike a PEO arrangement (where the PEO is containing rate increases for its own policies) your insurance rates for workers' comp, health care, and other labor-related coverages can skyrocket in a single year due to claims and utilization. The ASO provider is simply providing services. You are on your own when it comes to rates.

Professional Employer Organization (PEO)

The PEO model allows small and mid-size businesses to cost-effectively outsource the entire administration of human resources—from employee benefits and payroll to workers' compensation and compliance—to a single provider. Under a contractual relationship known as "co-employment" or "shared employment," the PEO and its client share employment-related responsibilities, risks, and liabilities under the PEO's federal tax ID.



Pros

A single provider becomes, in essence, your virtual HR department for all employment-related activities, issues and compliance. This results in greater efficiency, consistency, and simplicity.

All employee inquiries about payroll, benefits, or HR policies are handled by the PEO.

The PEO relationship can help stabilize rates for workers' compensation coverage, health care insurance, and unemployment insurance tax.

Some PEOs provide robust employee benefits packages that can help you attract and retain valuable employees.

Certain PEOs provide and administer 401(k) retirement plans of better quality and lower expense (for both employers and employee-participants) than plans generally available in the community.



Cons

You can't choose just any benefit plan provider. Each PEO has its own selection of health care, retirement, and other benefit plans based on its relationships with carriers.

Small businesses may be subject to certain employment laws directed at larger companies.

Because the PEO manages large sums of money—for payroll, payroll taxes, and insurance premiums—the industry can attract questionable players, who would not otherwise be involved in the business of human resources (HR). That's one reason why it's so important to choose a PEO provider carefully (see "How to evaluate HRO providers in Hawaii" on page 11-17).

Comparison of ASO and PEO

The following table highlights key differences between ASO and PEO outsourcing models. Most notably, the PEO approach provides streamlined outsourcing and shared employment administration risk. Under an ASO arrangement, the client still bears full liability for all employment-related activities and must maintain relationships with various benefit plan providers.

	ASO MODEL	PEO MODEL
Federal employer identification number (EIN) (used for purposes of payroll taxes & reporting, benefits and HR administration)	Client's	PEO's
Health Insurance	Client's plans & rates	PEO's plans & rates
<ul style="list-style-type: none"> Annual rate negotiations 	Client's responsibility	PEO's responsibility
Workers' compensation coverage	Client's policy & rates	PEO's policy & rates
<ul style="list-style-type: none"> Premium Audits and audit premiums 	Down payment required	Incremental per payroll
State unemployment insurance	Client's rate	PEO's rate
Temporary disability insurance	Client's policy & rate	PEO's policy and rate
HR compliance responsibility	100% Client	Shared
Employment-related claims liability	100% Client	Shared
Payroll tax liability	100% Client	Shared
Fiduciary responsibility	100% Client	Shared

How to evaluate HR outsourcing (HRO) providers in Hawaii

In Hawaii you'll find a wide variety of vendors selling some form of HR outsourcing. Because the providers vary so significantly, evaluating service options is a bit more complicated than comparing, say, mobile phone plans. For example:

- Some Hawaii providers are well-established companies with track records, while others are relative start-ups or new franchisees of mainland businesses.
- Some are locally-owned companies; others are mainland operations or companies owned by mainland investors.
- Some local and national providers offer HR Information Systems that are not integrated or comprehensive.
- Some are insurance aggregators (operating without insurance licenses), using the lure of payroll and HR services to get your health care and workers' compensation insurance premium dollars.

It's easy for sales reps to say "we do it all," but the truth is that HR support and compliance is a complex business, requiring the appropriate resources and expertise—both in person and online. Also keep in mind that your vendor will be providing customer service to all your employees in addition to the business. If employees need assistance with their benefit plans or have questions about their pay histories, does the vendor have the capacity to support your workforce?

Here are some helpful criteria you can use to evaluate and compare HRO vendors for your business:

Stability & Ownership

Evaluation	Notes
How long has the company been in business?	<ul style="list-style-type: none">• Corporate ownership of HRO providers in Hawaii runs the gamut—from long standing, family-owned businesses to companies that must answer to a consortium of mainland and institutional investors.
Who owns the business?	
How many times has the business changed hands?	
How successful is the provider in managing its own HR? <ul style="list-style-type: none">• How high is their employee turnover?• How good is employee morale?• What is their reputation as an employer?	<ul style="list-style-type: none">• Anyone can run payroll for your company. Providing top quality, professional HR services to owners, managers, and employees alike requires resources, stability, expertise and experience.• If an HRO vendor is advertising multiple in-house job openings, the company is most likely dealing with high employee turnover (i.e., unstable) rather than hiring due to growth.

Local Presence

Evaluation	Notes
Is the business based in Hawaii or is it a mainland company?	<ul style="list-style-type: none">• Any business can run your payroll, but if you're looking for an HRO provider to support your business and your employees, it's best to look for companies with local service staff.• Ironically, some local HRO vendors outsource their own support services to the mainland (e.g., HRIS technical support) or offshore to the Philippines (e.g., data entry).
Is all customer support local?	

Professional Performance Practices

Evaluation	Notes
<p>Are the company's financial statements independently audited by a CPA?</p>	<ul style="list-style-type: none"> If a vendor is handling your payroll dollars, making tax deposits, and assuming other fiduciary responsibilities, make sure the company has a track record of responsible business practices.
<p>Is the business accredited by the Employment Services Assurance Corporation? (ESAC is the PEO equivalent of the FDIC for the banking industry.)</p>	<ul style="list-style-type: none"> ESAC assurance and NAPEO membership are important considerations when contemplating a PEO relationship.
<p>Is the company a member of the National Association of Professional Employer Organizations (NAPEO)?</p>	<ul style="list-style-type: none"> Is the vendor audited to ensure internal controls and processes are suitably designed, documented and operating effectively to meet SOC 1 Type 2 reporting standards.
<p>Is the company SOC 1 certified?</p>	

Expertise & Focus

Evaluation	Notes
<p>Is the provider truly experienced in human resources administration? What about safety and risk management?</p>	<ul style="list-style-type: none"> Ask to meet the people who will actually be servicing your business and your employees.
<p>Do the owners and key executives have any HR background?</p>	<ul style="list-style-type: none"> The longevity and continuity of a vendor's staff should be key factor in your selection process. You don't want your HR team to be a revolving door of professionals.
<p>What professional designations do top managers and service personnel hold?</p>	<ul style="list-style-type: none"> It's important to ask probing questions. Sadly, several providers in Hawaii have little or no HR- related business experience. Some vendors have only one or two HR personnel on staff.
<p>What is the ratio of trained HR professionals to clients? To total number of worksite employees?</p>	<ul style="list-style-type: none"> Some service providers try to be all things to all clients, offering such services as accounting, marketing, and web design services alongside HRO.

Technology & Innovation

Evaluation	Notes
Does the company provide a truly integrated human resources information system (HRIS)?	<ul style="list-style-type: none">• An HRIS is meant to be a single, central repository of data related to employees—from payroll history to certifications and performance evaluations. Look for an HRIS that helps owners and managers do their jobs. Some systems offered locally are neither complete nor integrated.• The demand for online time & attendance capabilities—via mobile phone or the web—is growing each year. Look for systems that give your business choices and plenty of functionality.• At a minimum, employee access to pay histories and benefit plan details online 24/7 is essential.
Is an online time & attendance system integrated into the package?	
How extensively can the system be customized to fit your business? What are the costs?	
How easy is it to run customized reports?	
Is the system supported by a local organization or a mainland vendor (available only during mainland hours)?	

Flexibility & Choice

Evaluation	Notes
Does the company offer a choice of service plans?	<ul style="list-style-type: none">• Some providers offer both PEO and ASO paths. Be sure to ask the provider to explain the differences in service plans clearly.• Especially under the PEO model, find out what service options and customization are available for your business.
What about a choice of health care plans?	
As your business evolves and your needs change, what kind of flexibility does the provider offer to meet your changing needs?	

Employee Benefits

Evaluation	Notes
<p>Does the provider offer a competitive package of employee benefits?</p> <p>Is the vendor focused on selling below-market medical plans?</p>	<ul style="list-style-type: none">• Some providers will only administer the health care and other benefit plans you already have in place.• Ask for details about the entire benefits package available to your employees. Studies have found that competitive benefits packages can help employers attract and retain top talent, thereby lowering turnover costs.• Beware of HRO vendors selling popular health care plans at prices too good to be true. It may be a method of locking you into a long-term commitment, regardless of future rate increases.

Reputation & Credibility

Evaluation	Notes
<p>What do current and past clients have to say about the provider?</p> <p>How has the business been recognized professionally (rather than promotionally)?</p> <p>What is the company's reputation in the community? Does a real person answer the phones or do calls go directly to voice mail?</p>	<ul style="list-style-type: none">• It's easy for any company to line up happy current clients as references, but what about past clients? Often times, the experience of former clients and former employees is a better indicator of a vendor's reputation and success.• Ask around about a vendor's reputation. Some providers receive mixed or negative reviews in the business community.• Unfortunately, some HRO vendors hope you'll never call for service, and then do their best to ignore requests when you do call.• If customer service and support are not that important to your organization, be clear about why you are outsourcing in the first place and what you hope to achieve.

Services Agreement

Evaluation	Notes
<p>Does the agreement clearly define the responsibilities of each party?</p>	<ul style="list-style-type: none">• It's important to read your services agreement carefully, especially about additional fees. Some documents may run 30 pages or more of legalese.
<p>Are you actually getting the services, insurance coverage, and support promised in the sales process?</p>	<ul style="list-style-type: none">• Read the small print carefully. Be sure the service rates you are quoted during the sales process are the ones documented in the services agreement.
<p>Can you cancel the contract if you're unsatisfied with the provider's performance?</p>	<ul style="list-style-type: none">• Make sure the services and coverages promised are what you actually get. For example, a provider may include employment practices liability insurance (EPLI) coverage in its service package. Yet, in the services agreement it may state that the vendor, at its sole discretion, can determine whether or not any claim is actually covered.• The length or term of agreements vary. Make sure you understand the length of your commitment, and how you can get out of your agreement if necessary.

The bottom line

HR outsourcing can be very good for your business. For most organizations, the outsourcing of transactional HR administration makes solid business sense—both financially and philosophically, because the complexity and cost of being an employer increases each year.

With the choice of outsourcing options available, your business must decide how much employment risk it really wants to retain and what level of non-revenue generating activity it's willing to tolerate.

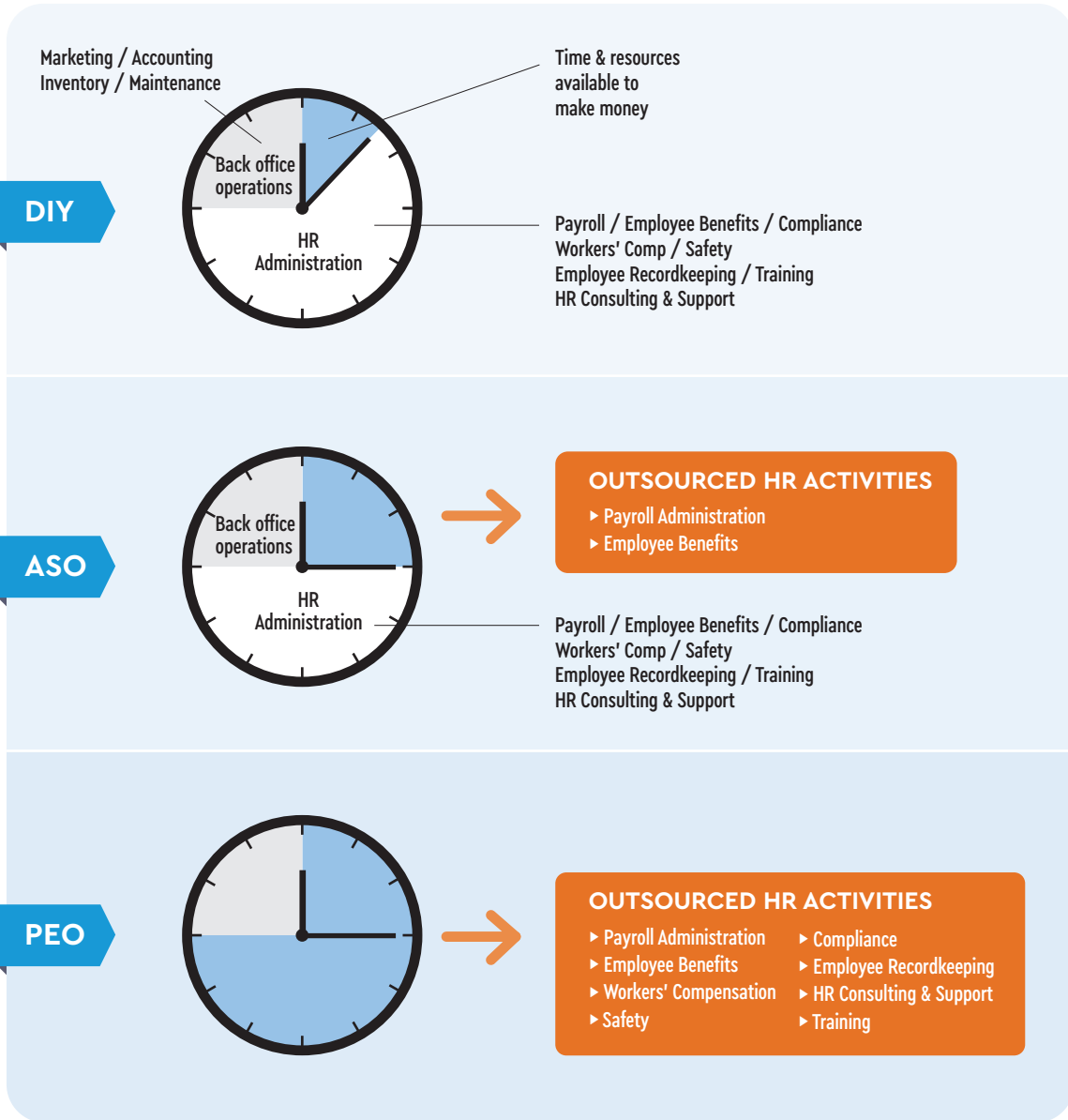
Plus, because HR outsourcing directly impacts both your business and your employees (your most valuable asset), taking ample time to thoughtfully select the right provider for your organization is well worth the investment as HRO could make a significant difference in your company's ability to thrive or survive in the years ahead.



TIME = MONEY \$

Time equals money, and there are only so many hours in the week. This diagram illustrates three ways of handling HR administration in your organization. The more non-revenue generating activities you can outsource, the more time and resources you have to focus on your core business.

Three Options for Handling HR Administration



■ Time & resources available to make money



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