Take 147 Things Off Your 'To Do' List

How PEOs Can Save Nonprofits Time, Maximize Human Capital and Reduce Liability

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INTRODUCTION

For executive directors, senior staff and executive board members, one of the greatest, ongoing challenges is managing the organization's most important asset with limited resources. Employees—from the entry level recent grad with tremendous energy and passion, to the seasoned development officer with crucial skills and relationships—are key to the organization's success.

HR—the management of human capital—is arguably one of the most vital skill areas for non-profit executives. Yet few have a human resources background—let alone the time to meet today's challenges.

Having even one employee adds 147 tasks to management's 'to do' list, ranging from FLSA and ACA compliance to benefit plan cost containment to unemployment claims to employee lawsuits to workers' compensation coverage, to payroll administration. At best, these can be time consuming and distressing. At worst, they can put the organization at serious risk.

How time consuming? In the for-profit sector, small and medium-sized businesses spend up to 25 percent of their time on employment-related paperwork alone.[1] Nonprofits have the same paperwork and back-office administrative issues and time pressures.

Where does the non-profit organization find the time to keep up with HR administration-handbooks, time tracking, job descriptions and performance reviews? How does it find and keep the right talent, deal with increasing healthcare costs and and comply with ever-changing federal, state and local employment laws?

To be most effective, non-profit executives have two choices. They must reallocate time from fundraising, image building, advocacy and operations to become true experts in the intricacies of managing human capital. Or they can add an HR expert to their list of trusted advisors.

What PEOs do

- *HR support*
- *Workers compensation and risk reduction*
- *Health and wellness benefits*
- *Payroll and tax administration*

PEOs[2] are a little known, but highly valuable HR advisor and partner. Professional Employer Organizations bring HR expertise to nonprofit organizations, assume employment liability, offer Fortune 500 benefits, and provide administrative support. They can also reduce overall HR costs while providing a high level of service. The National Association of PEOs (NAPEO) estimates a 21 percent cost savings on HR administration.[3]

This is especially important given financial pressures from a projected decrease in the growth of giving from 4.6 percent in 2015 to 2.6 percent in 2016.[4]

This white paper will explore the evolving HR challenges faced by today's nonprofits, and how a PEO can help meet those challenges. For those who have an HR director, or a board member with a human resources background, know that a PEO doesn't have to replace the HR function. It can be very beneficial in providing an additional level of expertise and added capacity.

The Talent Crunch

Nonprofits depend on hardworking, committed employees to deliver on their missions, and to make meaningful and sustained change. But given resource constraints, it's no surprise that finding top talent and reducing turnover are two of the most common challenges faced by non-profit organizations today.

Competitive pressures

Growth in the non-profit sector is one of the key reasons for the talent squeeze. According to the National Center for Charitable Statistics there are more than 1.5 million registered nonprofits in the United States today.[5] That's a 30 percent increase over the past decade. Not only are nonprofits more numerous, they are also growing their staffs. In 2016, six out of 10 nonprofits anticipate hiring, a 7 percent increase over 2015.[6]

Staff churn

Nonprofit turnover rates are steadily growing. It's not surprising. The median tenure for employees 25 – 34 years old is three years and four out of ten workers polled believe that changing jobs every few years can help their careers.[7] In 2016, 21 percent of employees plan to leave their jobs.[8] In the case of development directors, 50 percent would like to quit their jobs reports the Chronicle of Philanthropy.[9]

Staff churn is one of an organization's greatest pitfalls. The cost of replacing a departing staff member is estimated to be from 100 – 300 percent of her base salary according to the Society for Human Resource Management.[10] This doesn't account for other issues, such as loss of institutional knowledge, disruption in service, the pressure on remaining employees, and the impact on morale and reputation.

Technology skills

Organizations are struggling to find qualified talent for critical jobs. In a world with changing technology, capabilities such as social media, digital marketing and non-conventional fundraising are requiring organizations to find new skill sets among staff—from the entry level program coordinator to top executives. Ironically, finding these candidates also requires the use of evolving technology platforms.

Recruitment strategies

Fierce competition and constant turnover put new pressures on the recruitment process to find the ideal candidate. Yet on average, half of all hourly workers leave new jobs in the first four months and half of senior hires from outside the organization fail within 18 months.[11]

To get it right, nonprofits must develop the right infrastructure, such as job descriptions and employment policies, and think about assessing prospects in new ways, such as considering qualities that are important to the organization—things like emotional intelligence, motivation and kindness.

Says Paul Schmitz, CEO of Leading Inside Out, and a board member of Independent Sector, "Many nonprofits are in the human development business – it is what many of our services do. But we fail to invest in that work internally. This is often both a function of limited time and resources as well as of limited investment by donors in our organizational development."

Schmitz suggests including competitive salaries and benefits in grant proposals as appropriate program costs and dedicating at least 3 percent of grant budgets to staff recruitment and development as necessary to achieve outcomes and impact.

"If nonprofits pursue best practices in this work and are supported by their funders to do so, we can nurture and strengthen the talent we need to make lasting and measurable change in the future."

How a PEO Can Meet the Talent Squeeze

Quite simply, a Professional Employer Organization (PEO) is a firm that can cost-effectively take care of an organization's HR needs—from day-to-day administration to complex and difficult issues, leaving executives the time and energy to focus on their missions. *Organizations that outsource HR to a PEO benefit from seasoned human resources professionals' expertise for recruitment and retention, not to mention the Fortune 500 benefits they can bring due to their buying power.*

Job satisfaction and productivity increase when an organization provides professional HR services, enhanced benefits, training, employee manuals, safety services and improved communications. And says the National Association of Professional Employer Organizations employee job security is improved as the PEO implements efficiencies to lower employment costs.

Support to find the right people

When it comes to hiring, PEOs provide a wealth of guidance and assistance. It starts with writing job descriptions, help wanted ads and employment applications. It includes reviewing and screening resumes, scheduling interviews and training supervisors in the latest interviewing techniques. PEOs conduct pre-employment testing, background checks and drug testing. They also create new employee orientations and onboarding procedures. This adds up to dozens of hours saved every time new talent is needed.

Benefits to attract top talent

Competitive compensation is of course important, but wages are only part of the picture in attracting talent. A survey by Glassdoor shows that 79 percent of employees would prefer new or additional benefits to a pay increase.[12] For the majority of people, benefits and perks are among their top considerations in selecting a job. The top five benefits in order of importance are health-care insurance, followed by vacation/PTO, performance bonuses, sick days and a 401(k) plan, retirement plan and/or pension.[13]

Rising benefits costs have left many nonprofit organizations with a no-win decision: reduce benefits to reduce overhead or pay a larger portion to shield employees. One of the major advantages of a PEO is its ability to provide benefits that are only available to large companies—Fortune 500 benefits on a not-for-profit budget.

In addition to large group medical plans with major medical carriers such as Blue Cross Blue Shield, a PEO can provide vision and dental plans, a 401K, group life, accidental death and long-term disability insurance, and even flexible spending accounts, employee assistance programs, telemedicine and pet insurance.

Retention strategies

The inability to pay competitive wages and excessive workloads are the top two greatest retention challenges according to the Nonprofit Employment Survey.[14] A PEO can help with cost savings and proven practices to maximize staff productivity.

Competitive compensation

For the organization as a whole, a PEO can provide savings that can be invested in staff salaries. According to the National Association of PEOs, a conservative estimate is that PEO clients enjoy a 21 percent savings on HR administration, while receiving more services at a lower cost.[15]

When it comes to setting compensation levels for different positions within the organization, salary and benefits research is a must. A PEO can do this work.

This is especially important in regards to executive compensation as the IRs can fine both the executive and the board members who approved the overpayment, to withdrawing the nonprofit's tax-exempt status.[16]

Reducing excessive workloads

For executives and managers, a PEO takes HR administration off the 'to do' list freeing their time for the work that serves the nonprofit organization's mission.

When it comes to staff productivity, PEOs can identify and resolve issues that are getting in the way of maximizing potential: issues such as a negative work environment, overly complicated work processes and interdepartmental communication. Also important for productivity: setting the ground rules and articulating expectations. An employee handbook with fully-compliant policies sets the ground rules. Supervisor training arms managers with the skills to appropriately set and monitor expectations. A PEO provides all of this support.

The Health Insurance Conundrum

Health insurance premiums continue to rise and there's no end in sight. In 2015, average premiums rose 4 percent to $6,251 for single coverage and $17,545 for the average family.[17] *For 2017, many states health insurers have filed for double digit premium increases in the individual and small group markets.*[18] *That doesn't mean they'll get them; state officials usually reduce the increases that are requested.*

Still, the underlying growth in health care costs and the rate of health care usage are pushing costs higher.

How a PEO Can Keep Health Insurance Affordable

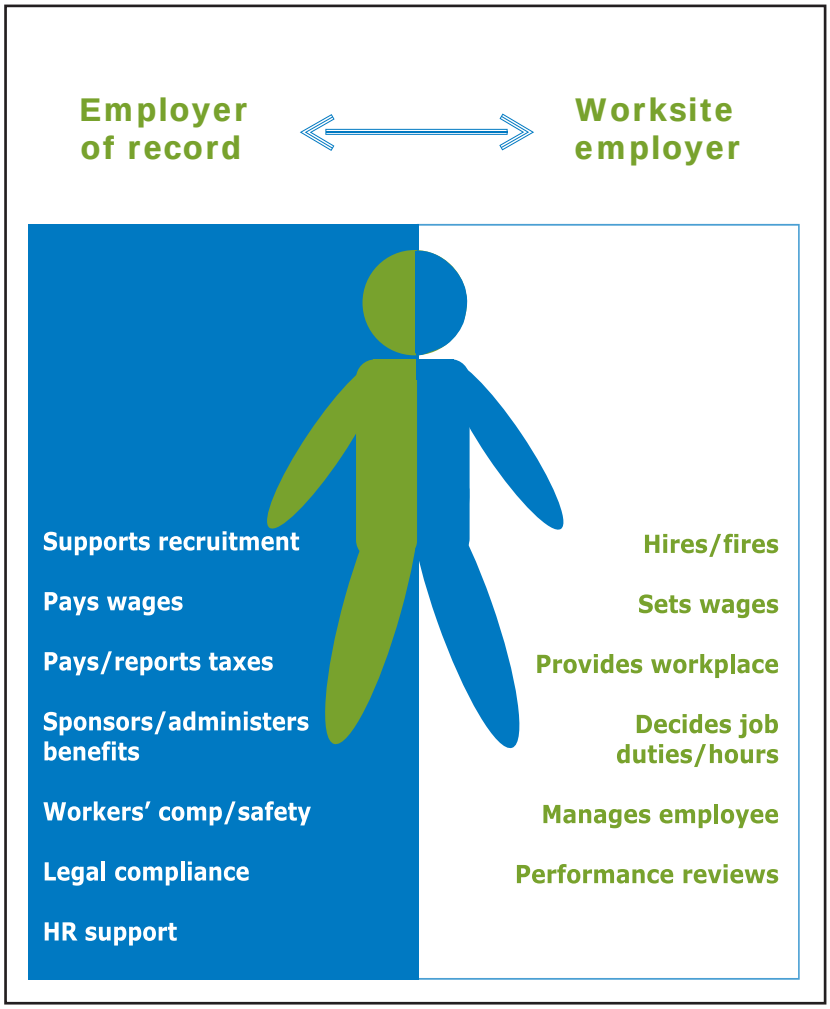
PEOs have buying power. They are able to negotiate medical insurance rates, and provide access to medical insurers that are otherwise not available in the small group market. PEOs typically offer a variety of carriers and plan options and stabilize rate increases because they experience below average medical rate increases year after year.

How? The answer is co-employment.

What is this exactly and how does it work? With co-employment, the PEO shares in the risks and responsibilities of being an employer. With co-employment the nonprofit is the "On-Site Employer" and the PEO is the "Employer of Record," for tax and insurance purposes.

The nonprofit is responsible for culture, for hiring and firing decisions and for day-to-day supervision of staff. The PEO is responsible for paying wages, filing taxes, maintaining employee records, providing insurance and benefits, implementing safety and risk-reduction plans and resolving employee disputes. It files the paperwork under its own tax id number, thus becoming 'employer of record.'

Because of the number of employees under the PEO's tax ID, it is able to negotiate and offer large group plan rates for medical and workers' compensation insurance.



Getting Ahead of Legal Issues

Between 1980 and 2000, the number of labor laws grew by almost two thirds, according to the federal Small Business Administration.[19] *Nonprofits need to comply with federal laws, plus state and local regulations. The laws cover a wide range of subjects, from discrimination to minimum and overtime wages, to employee safety and taxes.*

The number of regulations is daunting, and they are constantly evolving. "Great nonprofit CEOS take their legal, tax, and other duties seriously," writes nonprofit attorney Ellis Carter in her blog Charity Lawyer. "Legal and tax problems are not only expensive to correct, but can be particularly devastating to nonprofits that rely on donor goodwill. Unlike for-profits that can usually correct compliance problems by writing a check, compliance issues for tax-exempt organizations can lead to revocation of tax-exempt status which usually spells the end of the organization."

New overtime laws

A hot topic, the new FLSA higher salary threshold which takes effect December 1, means that non-profits have some critical decisions to make. Do you raise an individual's pay to the new minimum of $47,500 per year to avoid overtime, or pay for work beyond 40 hours a week? Other options include reassigning job duties, changing benefits or reducing staffing. Says the Council of Nonprofits, "Compliance will require a review of all or most job descriptions and duties." Here's the silver lining: the new regulations give nonprofit organizations a reason to do an employment audit and think outside the box about the most effective way and the right people to get things done.

Independent contractor or employee?

One of the most common issues for nonprofits is misclassifying employees—treating workers as independent contractors instead of employees. This is an area that the IRS and state departments of labor carefully enforce and the penalties can be steep. Misclassification can also lead to unanticipated consequences. For example, if an independent contractor is injured on the job and not covered under the nonprofit's workers' compensation insurance, the organization may be sued and required to cover the claim.

Interns: Employees or volunteers?

Having interns on staff can certainly add to capacity, but they can also add employment issues. If a nonprofit considers an intern a volunteer, and then provides a stipend, the intern could be classified as an employee by the Department of Labor. The unintended consequence: the intern would be owed at least minimum wages and back taxes.

Tax withholding and board liability

Tax withholding is another key issue as nonprofits are required to withhold Medicare and social security taxes from employees' paychecks and file them on a regular schedule. The IRS may hold the board of directors personally liable for these taxes if the nonprofit fails to pay them.[20]

Avoiding litigation

According to the Nonprofit Risk Management Center, discrimination and retaliation lawsuits are on the rise, and employee lawsuits are costly. The average employment lawsuit award is $200,000, and that doesn't include legal fees.[21] That's a hefty price to pay for issues that most often, can be avoided.

For nonprofits that rely on donor goodwill, an employment lawsuit can be detrimental to the organization's reputation, and raise serious concern about how donations are being spent.

According to the Department of Labor, employment litigation hurts both employers and employees. "For every dollar paid to employees through litigation, at least another dollar is paid to attorneys involved in handling both meritorious and non-meritorious claims. Aside from the direct costs of litigation, employers often dedicate significant sums to designing defensive personnel practices (with the help of lawyers) to minimize their litigation exposure. These costs tend to affect compensation: as legal expenses grow, fewer resources are available to provide wage and benefits to workers."[22]

How a PEO Can Keep You Compliant, Safe and Secure

As HR experts, PEOs stay on top of the myriad of ever-changing employment laws and inform and advise on policies and procedures to stay in compliance. That starts with taking a proactive approach to ensuring that a workplace is safe, and that staff is trained to avoid issues such as sexual harassment and discrimination.

As the employer of record, a PEO also assumes responsibility for lawsuits and claims.

Most PEOs cover its clients with two types of insurance: EPLI and Workers' Compensation.

Employment Protection Liability Insurance (EPLI) protects the organization from employee-related legal issues such as wrongful termination, sexual harassment, discrimination, unfair hiring practices and other claims. Workers' Comp provides protection if an employee is injured on the job.

Myths and Facts of PEOs

The PEO industry emerged in the 1980s, in response to major changes in employment law. *As the number of labor laws grew from 1980 to 2000, more and more small-to medium-sized organizations turned to these experts to handle the complexities of human resources.*

Still PEOs are relatively unknown and myths abound. Here are common myths and facts which will help nonprofit executives decide if a PEO is right for their organization.

Myth #1: PEOs are expensive

Fact: A PEO is often less expensive than maintaining a human resources department. What's more it can save thousands by eliminating fines most organizations pay for errors in reporting, and the costs involved in lawsuits. Now add the productivity improvements from a workforce that receives great benefits and training. Finally, consider the 147 tasks related to being an employer. Is it better to spend your time on unproductive paperwork or on donor development, operations, outreach and advocacy? What's the value of a non-profit executive's time?

Myth #2: The organization is too small (or large) for a PEO to make sense

Fact: Most PEO clients are between 20 and 50 employees and range to 100 or 200. But PEOs can partner with non-profits that have 500 or more employees and add capacity to their existing HR team, allowing them to focus on strategic issues while the PEO focuses on HR administration.

Myth #3: Employees will be confused, or will resist the change

Fact: Once employees understand that they are receiving better benefits, they easily embrace the change. Hiring the right PEO actually increases employee morale and reduces turnover.

Myth #4: Management gives up control of employees, including hiring and firing decisions

Fact: The nonprofit decides who to employ and who to let go. A PEO can provide crucial recruitment assistance, finding the candidate who fits the culture and has the right skills. When i t comes to firing, the PEO will train supervisors on performance management including discipline and documentation, protecting the organization from future lawsuits. What the nonprofit gives up is the back-office administration of having employees.

Myth #5: My current staff can do everything a PEO can, and it won't cost me extra

Fact: For most employers, HR or senior staff spends most of its human resources time on employee recruitment and discipline. Strategic projects, like consolidating all employee information to streamline operations never makes it to the top of the plate.

Selecting a PEO

A PEO is a business partner, valued advisor and an extension of staff. It's vital that organizations considering a PEO know what to expect, and have the right fit for their organizations. That starts with asking the right questions. Here's a guide to vetting PEOs, starting with key questions to ask.

Services and Capabilities
What makes you different from other PEOs?
What exactly do you offer?
What type of recruitment and staff training do you offer?
How do you keep up with the industry and with government regulations?

Experienced Team
Who are the business owners and what is their background?
Who will be assigned to my account?
What are their qualifications and how long have they been with you?
How often do you change account managers?

Personal Service
How often will someone from your PEO be onsite?
Who will I speak with when I have a question?
How do my employees get their questions answered?
Do you assist them with benefits administration?
Will you call insurance companies on behalf of my employees?

Online Tools
What online sources will my employees have access to in order to check their payroll, their benefits, their vacation?
How do you record employee information and how can I access it?
How do your online tools compare with other PEOs?

Reputation and Reliability
How long have you been in business?
What are your accreditations?
Who in your company is certified and in what areas?
What clients can I speak with?
What is your client retention rate?
How can I be assured that you won't go out of business?

Fees and Billing
What does an invoice look like?
What line items do you show?
How flexible are you to bundle/unbundle the services I need?
Can I keep my benefits plans?
What exactly am I paying for?

Endnotes

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