

Recession Rx

Using HR Outsourcing to weather an uncertain economic future.



Economic Environment

- "We have a long way to go, but we are starting to see signs of stability, and these signs mark the first steps to recovery."

Treasury Secretary Timothy Geithner, August 19, 2009

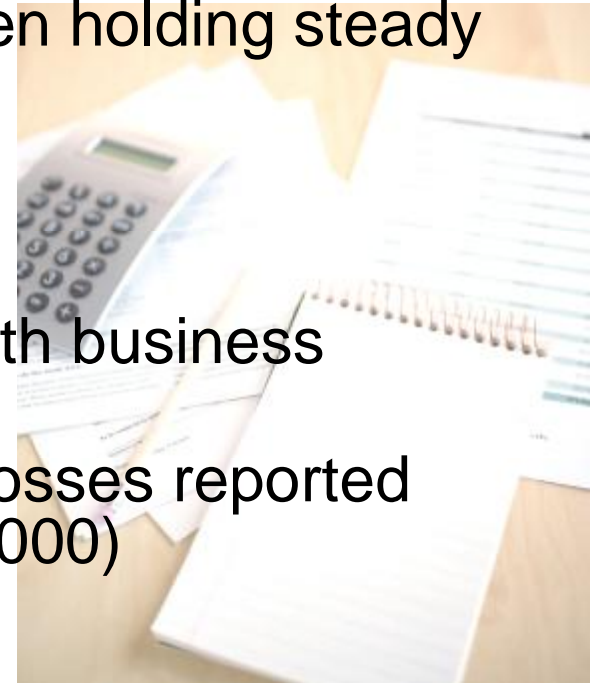
So how bad (or good) is it?

- **Gross Domestic Product:**
 - Sank 6.4% in 1st quarter 2009 (GDP measures the value of all goods and services produced within the U.S. and is considered the best barometer of the country's economic fitness)
 - Good news – only dropped 1% in 2nd Quarter.
- **Housing Market**
 - 560,000 new housing permits in July. 39.4% below July 2008.
 - The good news – only 1.8% below June 2009.



How Bad is the Economy Anyway?

- National Unemployment Rate
 - Hovering at 9.5%, up from 5.8% this time last year
 - Good news – after 15 months of increasing rates, unemployment has been holding steady since May.
- Job losses
 - continued from May - July, with business shedding 331,000 positions
 - Good news – about half the losses reported from November to April (645,000)



What Does This Mean To Employers?

We've got uncertain times ahead!

- Unpredictable cash flow as low revenues may or may not increase in coming months
- Operating expenses still in flux
- Layoffs, turnover and fluctuating employee base
- Increasing benefit and employer insurance premiums
- Reduced morale and productivity as employees still question the future

Employment Priorities in a Volatile Economy

- Stabilize operating expenses
- Lower insurance premiums
- Minimize risk and unnecessary expenses
- Streamline operations to cut waste
- Maintain a stable workforce
- Train, motivate and incentivize staff
- Increase revenues

The Outsourcing Solution

- It is common for businesses to outsource a host of functions:
 - Accounting
 - I.T.
 - Payroll
 - Legal
 - Printing
 - Janitorial

The Outsourcing Market

- “Despite a sluggish economy that has slashed jobs and dampened credit card usage, the third party processing (TPP) market grew by more than 11% in 2008, to reach \$61.9 billion, and is poised to jump 57% through 2013”.

The Market Research Group, August 13, 2009

- TPP processors are defined as “back office” or non-revenue generating activities: payroll, human resources, customer service, accounting, payables and receivables, record keeping and transaction processing.

The HR Outsourcing Solution

Why Outsource HR?

Key Outsourcing Drivers:

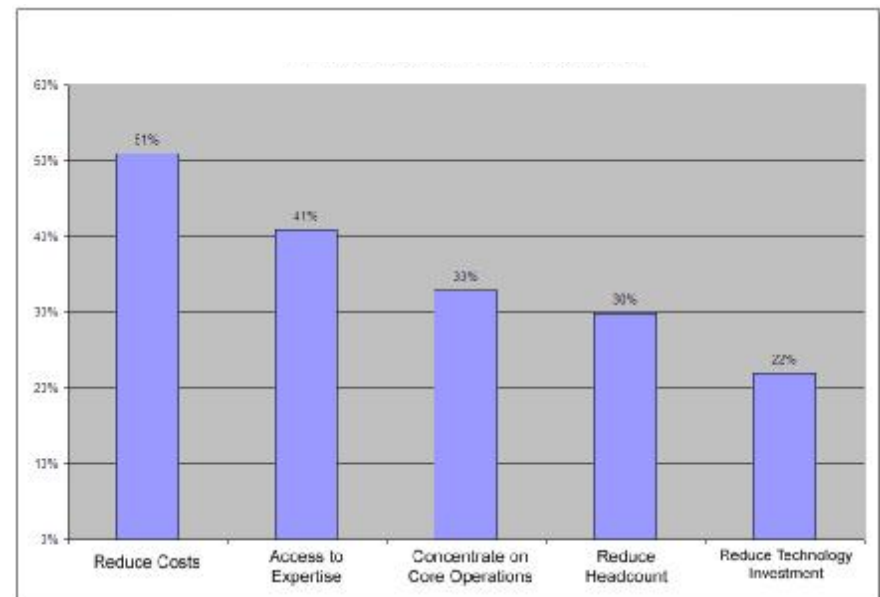
1. Reduce costs (51%)
2. Access to outside expertise (41%)
3. Ability to focus on core expertise (33%)
4. Reduce headcount (30%)
5. Access to better technology (22%)

Source: Hewitt and Associates

Key Outsourcing Drivers

Other Reasons include:

- Improving service quality
- Ability to focus on core expertise
- High cost of remaining up-to-date with rapidly changing environments
- Eliminate high volume of low-value transactional activities
- Reduce Management distractions away from core business
- Leverage existing staff to focus on key competencies
- Reduce transaction costs



Types of HRO Companies

- Traditional HR Vendors
 - Payroll Processing
 - Benefits Administration
 - Unemployment Claims
 - Risk Management/Safety
 - HR Consultants
- Professional Employer Organization (PEO)
 - Industry appeared in early 1980s
 - Formerly called “Employee Leasing”
 - Co-Employment Relationship

Employer's Responsibilities

Before PEO Relationship

Human Resources

Labor Law Compliance
Management Training
Termination Guidance
Wage & Hour Compliance
Employee Handbook
Discrimination/Harassment
Employment Verifications
Policies & Procedures Manual
Background Checks
New Hire Documentation
Employee Records Admin.
Mandatory Postings
Unemployment Claims Mgt.
Pay Negotiations
Employee Evaluations
Supervision
Interviews

Payroll/Taxes

Payroll/Tax Compliance
Reporting Hours
Paycheck Disbursement
Social Security Calculation
Medicare Calculation
Garnishments
S.U.I.
DE6/941/W2's
Payroll Reconciliation
W-4 Verification
I-9 Verification
Management Reports.

Risk Mgt.

OSHA Compliance
Safety Meetings
Safety Trainings
Return-to-Work
Claim Admin.
Loss Control
Report Injuries

Insurance/Benefits

Compliance
Workers' Compensation
Group Health, Dental, Vision
Life
EPLI
COBRA Compliance
Section 125 Administration



Employer's Responsibilities

With PEO Relationship

Human Resources

Onsite Supervision
Pay negotiations
Employee Evaluations

Payroll/Taxes

Reporting Hours
Paycheck Disbursement

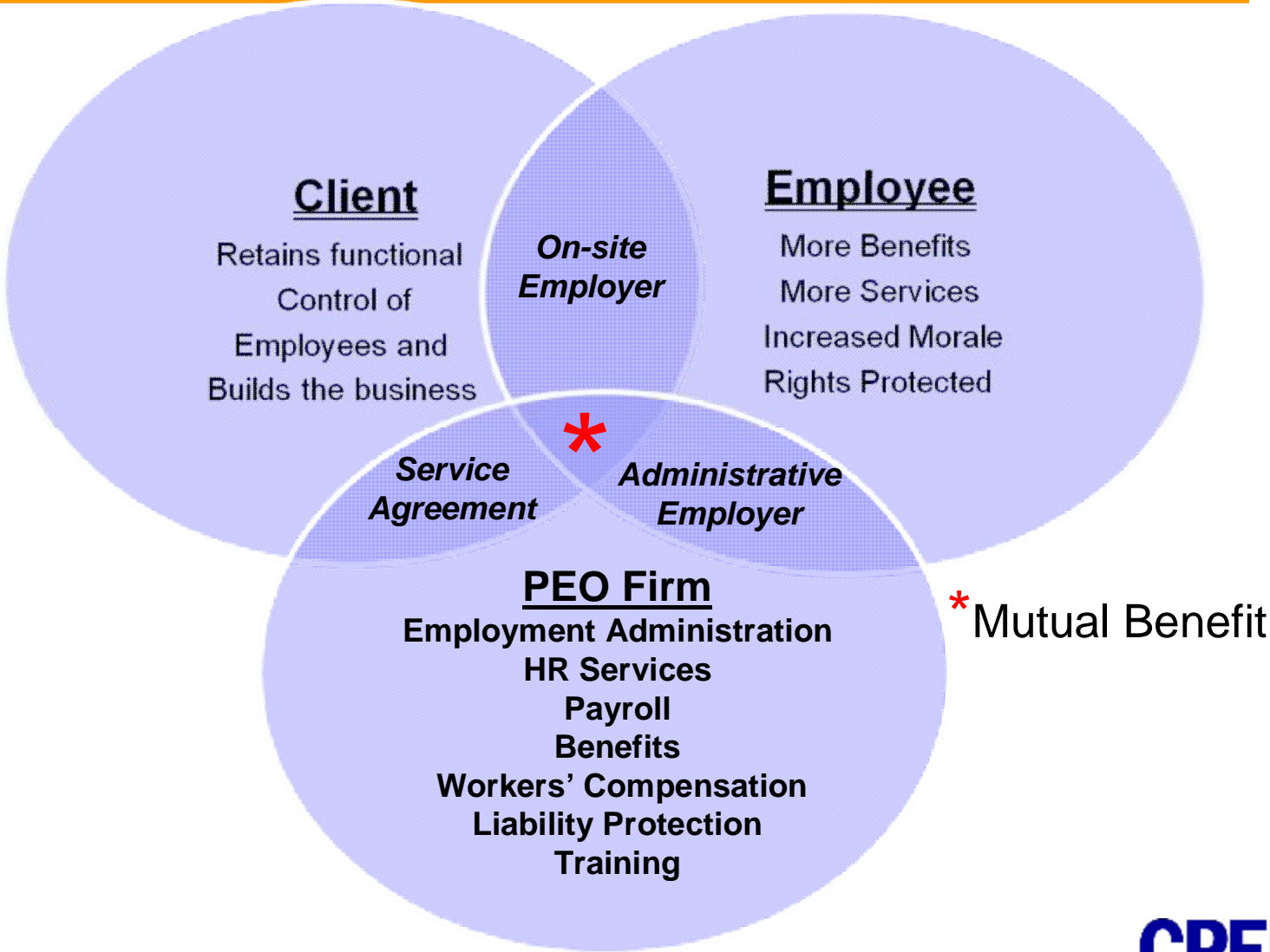
Risk Mgt.

Report Injuries
Coordinate Safety Meetings

Insurance/Benefits



How Does PEO Work?



A Growing Industry

- HR Outsourcing industry grew close to 70 percent over the past 5 years
- Worldwide, companies spent more than \$103.3 billion in 2007, up significantly from the \$61.2 billion spent in 2002.
- In North American, Everest Research Institute calculates HR outsourcing transactions increased 19% between 2006 and 2008, reaching \$25.4 billion by the end of 2008.
- HRO is now considered the fastest growing segment of the broader business process outsourcing (BPO) industry.

Recap

- Small Employers Suffer in Economic Downturn
- HR Outsourcing is growing in popularity as viable employment solution
- Addresses following key concerns:
 - Stabilize Costs
 - Lower Insurance Premiums
 - Streamline Operations
 - Reduce Employment Risks
 - Train and Motivate Staff

Stabilize Operating Costs

- Contractual arrangements typically continue for 1-5 years
- Service fees typically include the following:
 - Payroll processing
 - Workers' compensation insurance
 - Health insurance premiums
 - Employment Taxes
 - All related administration
 - Payments made per-payroll eliminates fluctuating expenses

Lower Insurance Premiums

- PEOs establish relationships with large regional insurance companies
- Pool thousands of employees to access large-corporation plans
- Economies-of-scale offer better plan selection and lower premiums
- Broader employee base in different industries and geographic areas stabilizes premiums
- Greater negotiating power at renewal

Streamline Operations

- Combine multiple vendors under one roof:
 - Payroll processing
 - Workers' Compensation broker
 - Health insurance broker
 - Safety Consultants
 - Employment Attorney
- Reduce duplicated efforts and miscommunication between departments and vendors
- Requires only one “point person” within your organization

Reduce Employment Risks

- An assigned HR expert ensures your compliance with employment laws
- Obtain compliant Policy and Procedures manuals and handbooks
- Stay abreast of changing regulations
- Open access for questions and advice
- Proactive HR administration reduces the need to consult with attorneys “after the fact”

Train and Motivate Staff

- Provide premier benefits:
 - Premier Health Insurance plans
 - Robust voluntary offerings, including dental, vision, life, disability and alternative insurance coverages
 - Comprehensive 401 (k) retirement plans
 - Pre-tax Cafeteria 125 Plans
- Professional HR and benefits support to address any employment issue
- Offer cutting-edge training and motivational programs
- Access pool of employer experiences
- Establish your company as professional

How do I select a PEO?

- Longevity
- Financial Stability
- Proven Service Track Record
- Size and Diversity of Client Base
- Flexible Service Offering
- Local Market Presence
- Experience Management Team

Resources

- CPEhr Corporate Website and blog
www.cpehr.com | www.cpehr.com/blog
- Follow CPEhr on Twitter
www.twitter.com/cpehr
- National Association of PEOs
(www.napeo.org)
- HR Outsourcing Association
(www.hroassociation.org)