Could Employee Leasing Work for You?

If you are an open shop contractor, an employee leasing plan may be your key to reduced paperwork and a wealthier retirement.

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Employee leasing is a concept that originated in the early 1970’s but remained relatively unknown outside California until recently.

Several factors came into play to lift this innovative idea out of the unknown and into a rapidly expanding industry. In their most recent book, Reinventing the Corporation, Megatrends authors John Naisbitt and Patricia Aburdene state, “We think that within a decade, as many as ten million of us will be ‘leased’ employees.”

Why has the number of leased employees grown in the last couple of years from a few thousand to 50-60 thousand? And why do Naisbitt, Aburdene and other experts familiar with the concept predict that ten million employees will be leased during the next decade?

There are a number of reasons, but the ones that stand out most vividly include:

— the overwhelming burden involved in payroll, government reports, and other personnel-related paperwork;
— the prohibitive cost of insurance benefits, making it difficult for small companies to compete with large ones in a shrinking labor market;
— the ability of business owners through the employee leasing con-
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cept to maximize their earnings in their own qualified pension and profit-sharing plans.

What is employee leasing, and can it really solve all these problems? Simply stated, current employees are transferred from the client’s payroll to the leasing company’s payroll. That alone does not solve all of a client’s personnel problems, but it does save time-time that can be devoted to running the company (or playing golf, if you prefer). The leasing company becomes a professional personnel department for companies normally too small to have that level of expertise on their staff.

The small employer often is unable to compete for excellent employees because he cannot afford fringe benefit packages similar to those of larger companies. The leasing company, with many employees and greater purchasing power, can buy benefits more cost effectively. These savings are passed along to the client.

Many companies think these are reasons enough to lease their employees. But there is an additional benefit: for both employer and employee. The "safe harbor" provision in TEFRA, enacted in 1983, allows owners to separate themselves from leased employees for pension purposes if the leased employee receives a seven and one half percent pension contribution in which he immediately participates and is fully vested. This allows the business owner to contribute 25 percent of his income (not to exceed $30,000) in a defined contribution qualified pension or profit-sharing plan and not include the employees at the same level. Of course, if desired, owners can include key employees in their own plan.

A Personnel Department . . .

What does the employee leasing company actually do? When the employees are transferred from the client’s payroll to the leasing company’s payroll, the leasing company is then responsible for processing payroll, paying all statutory taxes, filing quarterly reports, and distributing W-4 and W-2 forms.

When additional staff is needed due to turnover or expansion, the leasing company takes the hassle out of the hiring process by advertising, recruiting, and screening applicants according to criteria established by the client. After conferring with the client and checking references, the leasing company makes the job offer.

Communication is established between the employee and a representative of the leasing company during an in-depth orientation. Employees meet their designated representative and learn about the employee leasing system including payroll and benefits—which are usually better than the employee had before.

When an employee is not performing adequately, the leasing company again confers with the client. A decision is made about whether the employee needs counseling, additional training, or needs to be terminated. In many cases, the leasing company can transfer the employee to another client where the employee’s skills are better suited.

Employers sometimes express concern about losing control of their employees. These fears are usually proven to be groundless. The client continues to give direction on a day-today
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basis. Normal routine within business is virtually unaffected. The leasing company has representatives who visit clients on a regular basis and can be called upon for a multitude of personnel-related situations. The relationship between the client, employee, and leasing company functions much like a department head, employee, and personnel department would function in a larger company.

Employees' reaction to the new relationship may be a concern. Much depends on how the idea is presented to the employees. The leasing company assists the client in making a smooth transition. Although there may be skepticism at first, this changes to wholehearted support when employees understand the new system. Even the most cynical employee becomes enthusiastic when he learns that his job will continue as before—only now he has better benefits. Denise Bushman, a client’s office manager and employee of StaffMark Corporation in St. Louis, says, “I am happy with StaffMark. My salary, insurance, and time-off benefits are excellent. And when I need advice, they are always available.”

A St. Louis cardiologist is also enthusiastic about the service. “StaffMark has recruited excellent employees for our practice. It makes me feel good to know the employees are getting good salaries and benefits and that my colleagues and I can structure our insurance and pension plans to meet our financial goals. I feel that it is a situation in which everyone wins.”

Leasing companies who once targeted professional offices now find that the demand is great in many fields and industries. From fast-food restaurants to meat packers to manufacturing firms and a multitude of construction-related companies, the numbers of leased employees are growing by leaps and bounds.

Cost Effective . . .

For those wondering about cost, it may be surprising to find that leasing companies usually charge from 30 percent to 35 percent over payroll. This compares favorably with the United States Chamber of Commerce’s statistics of average cost of fringe benefits of 38 percent. Economics of scale in purchasing benefits enable the leasing company to sometimes offer all these services at no additional cost. More often, however, the cost is about three to five percent over what the client was paying. This depends primarily on the scope and cost of the benefits the client previously offered. Most leasing companies are more than willing to provide a detailed cost comparison of a client’s present costs versus the cost of leasing.

Meeting the “safe harbor” pension provision is only part of satisfying the guidelines for leasing employees. In selecting a leasing company, you should also consider the following:

—Where is the leasing company located? The leasing company must be able to provide all of the services necessary to satisfy the common law employer/employee test. That is, they must hire, fire, process payroll and provide personnel assistance.

—Does the leasing company have a professional personnel staff who can be an asset to you and your employees? Are they familiar with such aspects of personnel administration as hiring practices, EEO requirements, fringe benefit packages, compensation structuring, and employee counseling?

—Will they provide you with a detailed cost analysis? Be sure their insurance plans are comparable to yours.

—Is employee leasing their main business, or is this an insurance agency or accounting firm using leasing as a vehicle to sell you other services?

—What is the history and financial condition of the company?

If you want to be relieved of administrative, regulatory, and personnel burdens; tailor-make your own retirement and benefit plan; and provide your employees with benefits normally associated with working for a big company, employee leasing could be the answer for you. Employee leasing is one of those rare cases in which everybody wins.