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BENEFITS ADMINISTRATION:

## **The Difference Between PEOs & HCM Software**

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# INTRODUCTION

Today's workforce has high expectations when it comes to employee benefits. Top talent expects more than just basic medical, dental, and vision coverage. Fertility benefits, flexible scheduling, student loan reimbursement, child care assistance, and more—many employers are turning to eye-catching voluntary benefits to attract job candidates and keep employees engaged.

But between researching and selecting benefits, managing open enrollment, maintaining carrier feeds, and reconciling carrier billing, overseeing your company benefits is often time-consuming, messy, and manual work.

## So what is the best way to handle benefits at your company?

## There are actually a number of options:

- Handle everything in house
- Use a PEO
- Partner with a Human Capital Management platform and services

Handling everything in house just isn't feasible for most companies, even larger corporations.

In this eBook, we examine the second two options: PEOs and HCM technology. We'll look at the pros and cons of each option and discuss the types and sizes of companies that would best utilize each.

# WHY SHOULD YOU LEAVE?

## Using A PEO For Employee Benefits

While human resources play an influential role at every company, very few companies start out with dedicated HR teams. At small businesses, these responsibilities are usually put on someone else's plate, like an office manager or administrative assistant. On top of their usual duties, that individual is tasked with managing all things compliance, payroll, benefits and HR.

To ease the burden, smaller companies often turn to professional employer organizations (PEOs). These entities take on all HR, payroll, and compliance responsibilities for their customers

### So what *is* a PEO? And is it the right fit for *your* company?

A PEO, or Professional Employer Organization, manages human resources for small businesses, typically with fewer than 50 employees. The PEO handles all aspects of HR for the company, so employers can focus on other aspects of the business.

Businesses that utilize this model enter into a “co-employment” relationship with the PEO company, where the latter becomes their workforce's employer-of-record for tax and compliance purposes. This also means that your business runs payroll under the PEO's tax ID numbers, and the PEO also takes on some of the compliance risks associated with being an employer.

PEOs are a good option for companies under 50 employees, without a designated HR professional, and looking to outsource *all* of their HR duties.

**Okay, great, but how do benefits, specifically, work on a PEO?**



# PROS OF BENEFITS WITH A PEO

When you sign on with a PEO, you and your employees receive PEO-sponsored benefit plans, such as medical, dental and vision coverage, a healthcare flexible spending account, and life and disability benefits.

The plan choices are selected by the PEO, and the cost is negotiated based on the group rate of all of the small businesses that use that same PEO—meaning they may be lower due to the PEO's purchasing power.

**What are the limits of benefits on a PEO?**

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# CONS OF BENEFITS WITH A PEO

PEOs can work for early stage startups that want to focus on building the business, but they are not a perfect solution. PEOs have drawbacks that deserve serious considerations.

And when discussing the limitations of a PEO, we often speak about the 3 Cs: Customization, Cost, and Control.

**Let's dive into each of those a bit more:**

## 1. CUSTOMIZATION

PEOs are often all or nothing. Some PEOs offer a standard bundled solution and won't allow you to customize a benefits package. For example, you may not have a say in which carriers the PEO selects, meaning you can't select the benefits that fit your employee population's unique needs. PEOs can also switch providers at any time without

your consent, which can lead to fluctuating prices and unhappy employees. Furthermore, it may be harder, or even impossible, to select and offer those “employer differentiator” voluntary benefits, like fertility, childcare, and student loan reimbursement to name a few.

### 2. COST

Unfortunately for PEO clients, the convenience and “peace of mind” offered usually comes with a high price tag, and while PEOs will tell you that they’ll get your company better benefits rates, you usually still end up paying more at the end of the day because of the administration fees.

Most PEOs charge clients per employee, per month (PEPM). The bigger your company gets, the more expensive the relationship becomes. Typically, this “admin fee,” as the industry calls it, hovers around \$100. Depending on your provider, this number can be even higher—admin fees as high as \$160 PEPM have been reported.

While this structure might make sense for budding companies without the time or

resources to hire a full-time HR professional, it may become more cost-effective to bring HR in-house once your headcount reaches 50 employees. To illustrate, let’s run the numbers.

**(\$100 PEPM x 50 employees)**

**x 12 months**

**= \$60,000 per year**

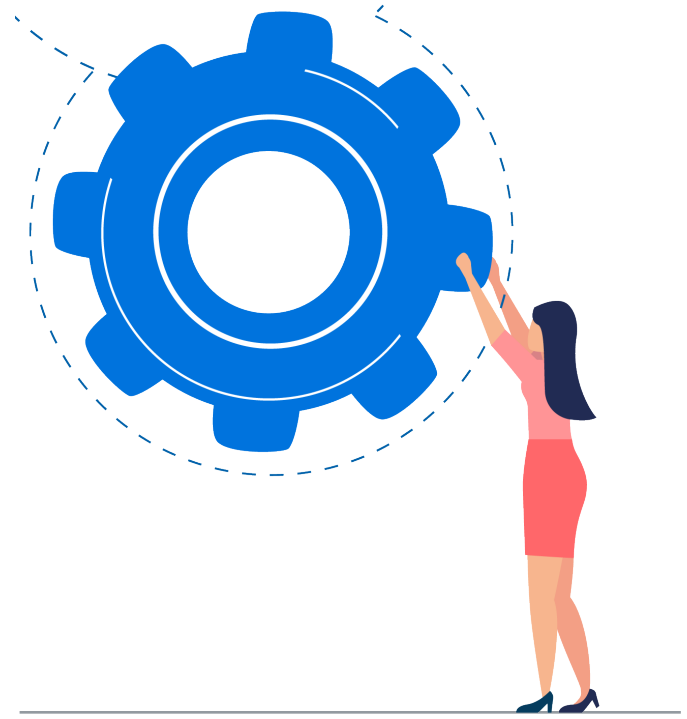
Depending on the market you’re operating in, that’s enough to hire a full-time HR Generalist. And because the above doesn’t take additional fees (like processing garnishments or off-cycle payrolls) into account, you might also be able to invest in a more affordable HR consulting service on the side.

### 3. CONTROL

When using a PEO, a company's employees are co-employed by that PEO—meaning you do not own your benefits process. Because of this, you'll have minimal employee access and visibility and little insight into company data. Since you are a co-employer with the PEO, you will need to work through your PEO to access employee information, and the tech (or lack thereof) offered by PEOs is often old, outdated, or not user friendly—making even simple tasks like updating an employee's address a major hassle.

This also inherently means you are relinquishing some control of other aspects of your business, too.

For instance, some PEOs require that their clients utilize specific employee handbooks, meaning you can't build your own based on company culture. In this co-employment model you must adhere to these outside policies and procedures, and your company may be influenced by the PEO's culture, diminishing your internal culture.



Lastly, PEOs support many companies at once, so they don't always have a personal relationship with your employees. It also means that if issues arise, you or your employee will have to contact your PEO, often resulting in confusion and long wait times for overworked, outsourced call centers.

# WHAT IS HCM TECH?

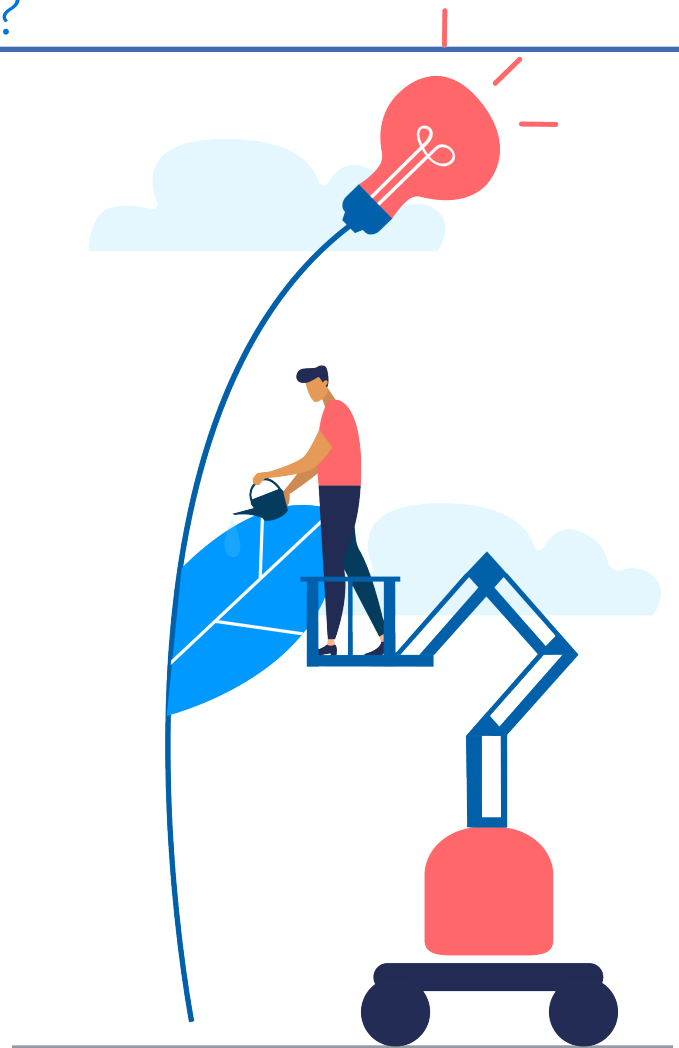
## Using An HCM For Benefits

Now that you understand the world of benefits as it relates to PEOs, let's take a closer look at how benefits are administered on an HCM platform.

If you're not currently using a PEO, or considering leaving your PEO, then there are two main components to consider. First, it's important to know who you are going to use as your broker of record. Second, it's crucial to understand how you will have your employees enroll in benefits, whether it be manually or through HR technology.

When it comes to brokerage, the benefits broker is responsible for investigating the market and acquiring the best rates for you and your employees. Brokers can help plan your benefits budget, provide product expertise, and manage the relationship between your company and the carriers.

Now, let's examine the role technology plays in this picture. Similar to PEOs, some brokers offer a basic technology portal to handle the administration of benefits. Others don't care what system you use—either way, you will need to have some method to administer benefits and open enrollment. And there are many perks to having your benefits in an integrated HR platform.



HR technology helps unify the process of benefits administration, empowering companies to plan and administer their employee benefits packages, while ensuring compliance with government regulations. With a benefits administration solution, you can automate benefits enrollment, benefit plans, and benefits management. Using benefits administration software can help organizations identify the benefits that provide the most effective value to employees and reduce overall costs.



### **So, how are benefits managed on an HCM platform?**

It's all in the processes and details. For example, while PEOs come with pre-built plans from 1-2 carriers, with an HCM benefits solution, you can expect custom plans from many of the nation's top carriers, bundled with technology that's just as customizable.

HCM platforms are a great resource for small to mid-sized companies that have over 50 employees. Smaller companies tend to start out on PEOs, but as they grow past a certain point, it could make sense to switch over to HCM. While PEOs provide your basic HR and compliance outsourcing, HCM technology delivers a more intuitive experience, with self-service tools and a modern interface. With HCM software, you can expect full-service payroll, that's synchronized with HR, time, and benefits data. If your HR department is growing and overwhelmed with manual processes, it may be time to consider switching over to HCM software.

**To help you better understand the pros and cons of using an HCM platform for benefits, let's examine this breakdown below.**





# PROS OF HCM TECH

## → **Reduce Administrative Burden**

From enrollment education to reminders about benefits, many HR professionals are confronted with tedious administrative challenges during the benefits administration process. HCM benefits solutions reduce the amount of time and resources that administrative tasks often require. HR managers can avoid disorganized documents and inaccurate data entry with the use of automated reporting tools. Going paperless provides a seamless benefits administration experience for the HR administrator, so they can manage their workforce with more insight and transparency.

This gives HR peace of mind when dealing with new hire paperwork, removing the need for faxing forms, and ensuring essential forms such as the W-4 and I-9 are submitted accurately and timely. HCM software can also manage processing claims and employee leave information, removing the guesswork and repetition associated with these tasks. This frees up time for HR to focus on engaging their employees and developing company culture.

## → **24/7 Employee Access & Storage**

A cloud-based HCM system allows employees to access their medical, dental, life insurance, and other plan details—anytime, anywhere. Employees don't need to be in a physical office to access their benefits information. Whether they're remote or working flexible hours, they can review their plan elections with their family members and make decisions together at their own convenience.

HCM platforms also empower employees to update Their information in real-time—on top of this, their employee data is combined with their benefits information so they can take charge of tracking enrollment deadlines, check when their 401k match will vest, and view their accrued sick and vacation time all in one place.

## → **Data Accessibility**

HCM technology also features a status dashboard and change-event logs, informing you on who has made selections, when they made them, and an overview of how active employees are within the platform during this period. It should make it easier to conduct follow-up and deliver a snapshot update to senior executives.



### → **Easy-to-Use Tech**

Once employees have all the information needed to make an informed decision on their benefits, they can use the employee portal to make their elections. HCM portals are easy-to-use and intuitive, even for first time users. Employees will simply log in with a username and password, then follow a step-by-step process to select each individual benefit within their plan's options, until they are finally ready to submit their completed enrollment.

HR professionals can also use the portal to send customized messages to employees, through communication tools embedded in the HCM platform. This eliminates the need for outside vendors and saves on implementation costs. Most of the information needed for open enrollment is centered around the process of selecting and signing up for benefits, instructions on logging in to the system, and how to use the password. Managers should set up automatic reminders and notifications to ensure elections are made on time.

### → **Educate & Engage Employees**

With an HCM solution, employees can become educated on your benefits offerings through a variety of digital formats, such as fact sheets, guidebooks and checklists. This can help them make informed decisions and take full advantage of their coverage, while getting them to easily collaborate on a shared internal process.

Managers can also upload useful resources to an online portal for easy access, and leverage online training for increased efficiency. Taking a proactive approach to educate employees on their benefits will help save time and labor in the long run for the organization.

### → **Automate Communication**

An HCM system can simplify tasks such as communicating open enrollment details, through delivering critical information and streamlining data with live updates. You can set up automated reminders about key dates for open enrollment, as well as follow-up reminders to register on time and next steps that employees can follow in a simple and user-friendly way. This will help remove any ambiguity around benefits deadlines and keep employees updated with accurate benefits information in one place.

### → **Employee & Manager Self-Service**

Streamlining the benefits enrollment process with paperless enrollment and self-service tools creates greater efficiency and clarity for HR professionals, while providing ease of use for employees. During the open enrollment period, eligible employees can easily review and enroll in benefits online using a self-service login.

For one Namely client, the self-service feature has become one of the most valuable tools available to them, particularly as a new user to the system:

“Since ExecOnline was the first company I ever ran benefits enrollment for, it was helpful that Namely’s benefits administration solution was intuitive and straightforward. When it comes to our employees selecting and viewing their benefits, they can easily navigate through the portal on their own. This particular feature on Namely’s platform is my biggest time saver by far.”

Managers are supported with workflows and notifications for onboarding, in addition to real-time eligibility tracking. They can automate COBRA administration, as well as FSA timelines and tools. Rules can be set for missing information needed to complete enrollment. HCM solutions also provide automated data feeds to carriers and 401k providers, which reduces the chances of errors in the exchange of information.

### → **Simplify Qualifying Events**

When employees have a major life event change, like getting married or having children, an HCM solution can help them elect new coverage at any point in time. The self-service platform within an HCM platform allows them to choose insurance options and update personal information with qualifying events in an intuitive way without the need for paperwork or assistance from the HR department.

Some HCM software provides managers with fully customizable carrier solutions, which can accommodate for any changes with major life events. Managers can advance the approval process through reviewing forms and automatically sending data to carriers. This takes any confusion out of the carrier relationships and streamlines manual tasks in an instantaneous manner.

### → Stay Compliant

Keeping up with the evolving benefits market as well changes with health care reforms can be overwhelming and confusing for HR professionals. Luckily, companies can use an integrated workforce management solution to help reduce the risk of fines, penalties, and lawsuits.

HCM solutions can provide a dedicated ACA module, enabling managers to automate deadlines and set up alerts to notify employees of any changes in status. The system's built-in logic helps solve for scheduling enforcement and maintaining your organization's preferred mix of full-time and part-time employees. With Namely in particular, users can easily manage compliance with ACA, FLSA, overtime regulations, ERISA, and more.

### → Track Benefits Usage

Tracking and analyzing benefits data with an HCM system can help HR leaders understand the benefits utilization rates of their employees. Taking budget into account, you can adjust your benefits to focus more on the needs of your employees over time. Identify which plans and providers are most popular and start becoming more strategic about your benefits planning.

If there's a benefit you don't currently offer that employees have been requesting, it might be worth asking whether the company would approve a shift in allocating resources to accommodate this need. For example, if it's the case that no employees are using their public transportation benefit, maybe that money could be better spent toward wellness initiatives such as discounted gym memberships or online fitness classes.

Even though there are many advantages to using an HCM system for benefits administration, it's also important to investigate the **cons** and drawbacks of the technology.



### **CONS OF HCM TECH**

#### → **Security**

A breach in security could harm the business as well as its employees. After all, employees are entering financial, tax and personal information such as emergency contacts. While HCM technology takes measures to ensure the platform is protected, security can be a worry when it comes to preventing unauthorized access to sensitive information and confidential employee data. HCM platforms typically require many “compartments” and levels of authority for access, all of which need to be maintained and closely monitored.

#### → **Cost**

Even though HCM platforms can save on operational costs, there are also acquisition costs and maintenance costs. There’s the cost to license and implement the system, which can range depending on the system capabilities. For companies under 50 employees, this can pose a problem as they may not have room in their budget for the associated costs.

#### → **Implementation**

Implementing a new HCM system can sometimes become a bumpy process. For instance, the internal support staff needed to implement the system may be lacking in some areas, which can cause delays, confusion, and additional stress if the user encounters errors. It’s important to go with an HCM provider that also has a great reputation for implementing and servicing their client’s needs as they arise. The HCM provider should be able to conduct calls, answer questions, and improve the implementation process to help bring the HR professional up to speed on the platform.

# WHAT IS BENEFITS BROKERAGE/ MANAGED SERVICES?

We've covered what benefits administration looks like on HCM software, but what about the actual benefits you provide your employees? How do you know which benefits you should offer and whether they'll fall within your budget?

That's where brokerage services come in.

Benefits brokers help clients find benefits to offer their employees. Typically, when open enrollment or plan renewal dates roll around, these benefits consultants reach out to their clients to revisit their current benefits packages. To help clients decide whether they want to remove or add anything to their offerings, brokers update them on any new carrier rates or benefits options. They also help clients adjust their offerings to reflect what's going on in the world—such as incorporating [telehealth services](#) as a result of the COVID-19 pandemic.

Some HR professionals who administer benefits on an HCM platform use an external, separate broker. However, some HCM vendors offer internal brokerage services to their clients.

Just like organizations who would want to use HCM technology for benefits administration, companies who are growing or are at the mid-sized stage would also consider using their

HCM vendor's brokerage services. Companies who are already using an HCM platform can also benefit from adding on brokerage services.

Instead of having another external vendor for brokerage, HR teams can consolidate the number of vendors they work with by moving brokerage under their HCM. This connects back to the advantage of having a benefits consultant who understands the ins and outs of your company and reduces the number of vendors your team works with.

Similar to switching to HCM software, if your HR team is growing and overwhelmed when it comes to choosing and administering benefits, it may be time to consider using your HCM vendor as a broker.

So what are the **pros** and **cons** of using your HCM vendor as your broker?

In case you're not sure, we've listed them for you below.



### PROS OF BENEFITS BROKERAGE

#### → **Your broker understands the ins and outs of your company.**

From company culture to employee demographics, every business has unique needs. Using your HCM vendor as a broker enables you to work with a dedicated benefits consultant who understands the ins and outs of your business. Since your broker is part of your HCM vendor, they also get to work alongside your customer service reps and see how you use different parts of the platform—which gives them more insight into your company.

“It’s great to have a broker who really partners with you and understands your business,” expressed Erika McGrath, VP of People and Culture at The Channel Company.

Having a broker who knows your business is especially helpful when you don’t have someone on your team who focuses on benefits.

“At ExecOnline, we don’t have someone on our HR team designated to handle benefits administration, so we needed a strong partnership with a broker who understood what our company and employees value when it comes to benefits,” added Danielle Bensignor, Manager of Talent Management & People Operations at ExecOnline. “Now, we leverage our benefits consultant as more than just a partner, but also as an extension of our HR team.”

#### → **Your broker finds competitive rates and customizes your benefits plans.**

Unlike PEO brokerage services, HCM brokers shop around to find clients the best benefits for the most cost-effective rates. Since benefits consultants know the ins and outs of their clients, they help them customize their plans from the ground up to fit their employees’ needs—all within their budget. This saves clients both valuable time and money in the long run.

Additionally, some HCM vendors pride themselves on having relationships with top-notch carriers. Therefore, their benefits consultants can get their clients great deals for world class benefits.

“Using Insperity, a PEO, as our broker was limiting because they would only give us one or two pre-planned benefits packages to choose from,” explained Danielle Bensignor. “Our HCM benefits broker has saved us valuable time and money.”





→ **Your broker runs open enrollment for you—and helps you throughout the year.**

If you use your HCM vendor as a broker, you can say goodbye to running open enrollment yourself. Even with an automated HCM platform, administering benefits during open enrollment can be time consuming. By using your HCM as a broker, you can hand open enrollment over to your benefits consultant and take it off your to-do list.

“Our benefits consultant runs open enrollment for us every year with our employees, so he really is a member of our team,” stated Erika McGrath.

With that said, your access to your benefits consultant doesn’t stop there. Throughout the entire year, you can ask your broker questions or ask for advice on anything employee benefits-related.

“Our benefits consultant not only helps us tremendously during open enrollment, but also throughout the entire year,” added Danielle Bensignor. “Whenever we have questions that involve carriers, he contacts them directly. Since our consultant has relationships with these carriers, their response time is always prompt too.”

→ **Your broker provides you with benchmark data.**

To help clients stay in the know with what other companies are offering their employees, HCM brokers provide them with benchmark data. This gives them insight into how competitive their benefit packages are in comparison to others—which can help them gain a competitive advantage when it comes to recruitment and employee retention.

Since the COVID-19 pandemic began, certain benefits have skyrocketed in popularity, such as virtual wellness benefits. This sudden rise in demand caused many companies [to rethink](#) their benefits offerings. To give clients a pulse check on how many companies are offering new benefits during these uncertain times, consultants can provide them with benchmark data. Looking ahead into 2021 and beyond, certain benefits that became popular during the pandemic will likely continue to rise. Therefore, having a dedicated benefits consultant who pulls real-time benchmark data is crucial in helping your company stay competitive in the job market and retain employees.



# CONS OF BENEFITS BROKERAGE

- **If someone on your HR team manages benefits, using your HCM vendor as a broker could eliminate the need for that role.**

If your HR team has someone who primarily focuses on benefits, having a dedicated benefits consultant who runs open enrollment for you and helps customize your benefits plans would overlap with that role.

With that said, this could be an opportunity for that employee to grow and take on more roles and responsibilities outside of the benefits world. Having a benefits consultant would allow them to dive into other areas of HR, like employee engagement.

- **Annual Fees**

Like most brokerage services, using your HCM vendor as a broker does come with annual fees. However, the amount of money that benefits consultants save their clients in the long run offsets those fees. By shopping around for the best rates, brokers help clients build their packages to be as cost-effective as possible, while still providing their employees with the benefits they deserve. Clients who use HCM vendors that have relationships with top-notch carriers can get even better deals for their benefits packages.

Offering competitive benefits also impacts employee satisfaction and retention—which saves companies the costs of having to rehire and backfill positions. Overall, the savings that clients gain from using their HCM vendor as a broker does outweigh the costs they endure.





## CONCLUSION

Benefits matter. If you want to attract and retain the right kind of talent, offering the right kind of plans is critical. Your people perform best when they're taken care of, and you'll need that quality if you're hoping to drive your business forward.

The importance of offering coverage shouldn't come as news to HR professionals and business leaders. That said, when you have 50 or more full-time employees on payroll, offering competitive benefits is more than just the right thing to do—it becomes a legal requirement. The Affordable Care Act requires you to offer workers robust and affordable medical coverage.

# ABOUT NAMELY BENEFITS ADMINISTRATION

Our team of dedicated benefits experts—with years of industry experience, deep carrier relationships, and knowledge of compliance—can help you cross-compare benefits options and create the most competitive, cost-effective package for your employees. Our team knows how to advocate for small and mid-sized businesses, so you can rest easy knowing we've negotiated on your behalf to get you the best coverage within your budget. That's not all—Nately's dedicated support team will help you stay compliant with ACA, COBRA, ERISA IRS, and any applicable state laws.

Plus, with Nately, you'll gain access to our modern and intuitive benefits administration technology that is seamlessly integrated with HR and payroll. Our benefits advisors go the extra mile to assist you with importing all of your plans into the Nately platform to ensure you can streamline open enrollment and manage ongoing changes all from Nately.

But the Nately platform doesn't just make it easy for you to administer benefits, it also makes managing benefits easier for your employees. Our enrollment wizard and intuitive platform design make enrolling in and updating benefits selections a breeze. Plus, you can upload benefits guides, FAQs, etc. to your company resources folder within Nately, so employees can review plans and policies on their own time.

## ABOUT NAMELY MANAGED BENEFITS

Namely Managed Benefits offers enterprise consulting advantages to mid-market employers without sacrificing on support. Our Benefits Advisors have years of industry experience, deep carrier relationships, and knowledge of compliance—giving our clients the ability to offer affordable benefits that fit their business and budget. We go a step beyond other consulting firms by bridging the gap between industry and technology expertise. All of our Benefits Advisors are tech-enabled and will not only help you curate modern and creative benefits plans but they will bring them to life in your platform and administer them on your behalf.

To learn more about Managed Benefits and to watch a demo, visit [www.namely.com/benefits-consulting](http://www.namely.com/benefits-consulting).