An Employer's Guide:

The Benefits of HR Partnerships in Hawaii

How local businesses can get ahead with an HR partner





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INTRODUCTION:
Why It Matters

Running a business in Hawaii means you get to provide job opportunities, wages and benefits that impact local workers (and their families), and uplift our local economy also—that's pretty great, right? We think so too. And if we use the Small Business Administration's definition for small business—which is 500 or fewer employees—then 99% of all companies in Hawaii are small businesses.

It's for this reason that celebrating, nurturing, and protecting the contributions of Hawaii's entrepreneurs and small businesses is so crucial for the growth of our local economy and the flourishing of Hawaii's people.

But as you know, running a business here is tough work. On top of that, we have some pretty unique factors that shape our local workforce and introduce new and challenging HR responsibilities that can be tricky to navigate.

For example:

- **Unemployment is at a record low.** At about 2%, Hawaii has the lowest unemployment rate in the nation. If you're struggling to find good workers, this is why: 98% of the talent pool is already employed.
- **Turnover is high.** With the internet making it easier to find new opportunities, people are constantly looking for their next job. Paired with low unemployment, it's a candidate driven market out here and high turnover is the new norm—almost 17% in Hawaii[1]. This means you have to work harder to retain (or replace) your employees.

[1] HEC Releases Turnover and Sick Time Statistics Report, Hawaii Employers Council, 2017

- **Labor costs are rising.** Hawaii's cost of living is the highest in the country, which means workers are looking for higher wages and better benefits, just to get by. In fact, minimum wage here has increased four times since 2014. And though it stands at $10.10 now, new 2019 legislation and a #FightFor15 movement means you may see more increases in the near future.

- **Regulations are constantly in flux.** Hawaii in particular is a highly regulated environment for businesses. For example, the Cato Institute ranks our state 46th out of 50 states for regulatory freedom—and many of Hawaii's labor laws go beyond federal employee protections. Keeping your business compliant with all these local and federal labor laws could easily be a fulltime job.

- **And lastly, workplaces today are more multigenerational than ever.** In Hawaii specifically, Millennials and GenZers now make up around 30% of the workforce, while the percentage of older workers (over the age of 55 years old) is actually growing faster than other groups, according to the Department of Labor. This means you might have young professionals and seasoned talent working side-by-side, and new pressures to take care of a workforce that has increasingly diverse needs (and motivators).

These unique factors make attracting, hiring, retaining and managing your people (and your business) all the more nuanced.

It can certainly feel overwhelming at times, and be costly and inefficient to tackle it all on your own too. Suddenly your valuable time is being spent elsewhere instead of focused on what's most important: keeping your business healthy and engaging your business's top assets, your people. **It's time to re-imagine HR.**

As employers, there's a very real opportunity to lead, inspire and affect people's lives every day. The good news is that there's a better way to deal with your HR challenges, support your business, and take care of your people—all at once.

The answer is HR partnerships.

[2] Freedom in the 50 States, Cato Institute, 2018

[3] Hawaii Labor Market Dynamics, Department of Labor & Industrial Relations State of Hawaii, 2017



CHAPTER 1:
What is HR?

Before we dig in, let's quickly define what goes into HR, or Human Resources.

Essentially, HR is anything and everything that relates to the management of your people. It involves recruiting and hiring new employees, assessing, managing and motivating existing ones, paying people on time, thinking through workplace safety, and adhering to labor laws too—to simply name a few things.

Did we mention admin and paperwork too? There's plenty of that to go around also.

In case you're not convinced that there's a ton of moving parts, we put together a list on the following pages. It outlines just some of the things that have to get done when it comes to HR—whether you outsource your HR responsibilities or handle them in-house.

Whether you have a large organization or only a few employees, there are a lot of tasks to keep track of! Fortunately, there are ways you can get some of that work off your plate.

Here's just some of things that go into HR:

Recruiting Top Talent

- ✓ Internal & external recruiting strategy
- ✓ Hiring plans
- ✓ Job descriptions
- ✓ Interviewing

Securing & Offering Employee Benefits

- ✓ Medical, dental, vision
- ✓ 401(k) retirement savings plans
- ✓ Life insurance
- ✓ Long-term disability insurance
- ✓ Accident insurances
- ✓ Perks like free or discounted gym memberships

Compliance & Legalities

- ✓ Classifying employees
- ✓ Payroll processing
- ✓ Tax filings (FICA, FU TA, SUTA etc.)
- ✓ Workers' Compensation
- ✓ Temporary Disability Insurance
- ✓ Unemployment insurance
- ✓ Hawaii Prepaid Health Care Act
- ✓ Wage and hour law
- ✓ Record keeping
- ✓ W-2, W-4, I-9
- ✓ Local, state, federal laws
- ✓ Fair Labor Standards Act (FLSA)
- ✓ Americans with Disabilities Act (ADA)
- ✓ Family and Medical Leave Act (FMLA)
- ✓ Health Insurance Portability and Accountability Act (HIPAA)
- ✓ Consolidated Omnibus Budget Reconciliation Act (COBRA)
- ✓ Occupational Safety and Health Administration (OSHA)

Hiring & Growing Teams

- ✓ Background checks and drug testing
- ✓ Offer letters
- ✓ New hire onboarding
- ✓ Benefits enrollment

Managing HR Operations

- ✓ Time and attendance
- ✓ Payroll processing & admin
- ✓ Open enrollment & benefits admin
- ✓ Personnel admin
- ✓ Claims and risk management
- ✓ HR policies and procedures
- ✓ Employee documentation
- ✓ Employee handbook management
- ✓ Human Resource Information Systems (HRIS) and technology

Motivating & Engaging Employees

- ✓ Company vision, mission, culture
- ✓ Compensation strategy
- ✓ Employee rewards & recognition programs
- ✓ Health & wellness programs
- ✓ Perks like free movie tickets, in-office coffee and healthy snacks

Training & Developing Employees

- ✓ Performance management policies
- ✓ Managing underperformance and discipline
- ✓ Career pathing and development plans
- ✓ Professional and leadership development
- ✓ Cross training and mentorship
- ✓ Trainings: from diversity & inclusion and sexual harassment, to security and phishing, silica training, CPR, HIPPA compliance, etc.



CHAPTER 2:

How should I manage HR?

When it comes to HR management and the responsibilities of having employees, you generally have two options: you can grow your HR team internally, or you can share the workload with an HR partner through a strategy we call outsourcing.

Option 1: DIY in-house

Handling *all* of your HR in-house is an option—whether you take it on yourself, add HR duties to an existing employee's role, or hire a HR specialist to tackle it full-time.

Choosing the do-it-yourself path gives you total responsibility over how you stay compliant, compensate your employees, offer benefits, and take care of your team.

DIY in-house also means a few other things worth noting:

- **A single source of talent.** If you decide to handle things in-house, your business's HR capacity and expertise is then limited to the specific professional or professionals you hire. That is, once you're able to find excellent talent to join your team (remember Hawaii's low unemployment?).
- **You own all the risk.** HR compliance? Payroll liability? Employment-related claims liability? When you take things in-house, you become 100% responsible for all these liabilities. According to the Small Business Association, the average cost of an employee-related lawsuit in the United States is $150,000. When the stakes are this high, you want to be sure you (or someone on your team) knows the ins-and-outs of employer laws and HR rules.
- **It's a good idea, until it's not:** Handling everything in-house may seem like a good idea…until you run into a problem. Think of it like this: We've all seen a home remodel show or two. A DIY kitchen remodel can seem like a fantastic idea, and it might even kickoff smoothly—until you run into a problem with your drywall seams, and the impact is costly. The same thing applies to HR.
- **It's an added cost:** If you choose to hire a dedicated HR pro, there's the added cost of their wages. According to PayScale, HR managers in Honolulu earn ~$64,000 per year.[4] But don't get us wrong here: We 100%believe in the value of having a dedicated HR pro on your team if you have the means. The key is to make sure they have time to add value to your business and your people—rather than juggling all your back-office HR admin work instead.

Option 2: Share the workload with an HR partner

Another option is outsourcing a portion of your work to a local HR partner. While you still need someone internally to do the face-to-face, people-work of HR, an outside partner can help you with certain back-office HR functions like payroll, benefits, workers' compensation claims, compliance, and a variety of other HR tasks. We'll spend the remainder of this ebook taking a closer look at this option: HR partnerships through outsourcing.

[4] Average HR Manager Salary in Hawaii, PayScale, 2019



CHAPTER 3:
What is outsourcing?

If you're new to the concept, **outsourcing is simply when you contract certain functions and tasks that you previously performed internally, to an outside, independent organization**. It's a strategy that can give you access to a greater pool of specialized talent at lower costs. But who is it for? And what kinds of things should you outsource? Here are two things you should consider:

1. **It's for your non-core work.** You may already be familiar with outsourcing when you think about certain non-core areas of your business that you already send out-of-house, e.g. IT, legal, or accounting. HR belongs in that category of outsourcing potential too. If your product or service isn't HR services itself, why spend large amounts of your time managing HR tasks when you could focus on growing your business instead?

2. **Your size doesn't matter.** Outsourcing is not just for big businesses—it's also for the little guys too (whether you're a small or mid-sized business, or even a start-up with one employee). In fact, outsourcing can be an especially powerful strategy for smaller operations. After all, the only way to grow or manage certain day-to-day challenges is through delegation.



CHAPTER 4:

What are the key benefits of HR outsourcing?

So far we've defined HR and outsourcing separately (thanks for hanging in as we cover the basics). But what about HR outsourcing? We think there's **three big benefits** when it comes to outsourcing through HR partnerships. We'll unpack these next, but first we think it's worth noting what HR outsourcing is, and what it is not.

- **What it is:** When we talk about HR outsourcing, we're referring to all your back-office HR administrative work. Things like payroll, benefits, workers' compensation, HR compliance, and more. We think you can set yourself up to be more efficient when you hand these type of tasks over to an outside HR partner, while keeping the strategic HR tasks and important people-work in-house.
- **What it is NOT:** HR outsourcing does NOT replace your existing HR team (if you have one). You still need someone onsite to handle face-to-face tasks and think through and execute on things like strategy, company culture, and performance management. When you outsource your HR, you're not replacing your existing team, you're supporting them with specialized expertise and administrative capacity that's available when they need it, freeing both you (or your on-site HR staff) to focus on the hands-on management of your business and employees.



3 BIG BENEFITS

There are three big advantages of outsourcing to an HR partner: **cost savings, compliance, and relief** from paperwork and admin tasks.

Let's take a closer look at what these three things really mean.



HR OUTSOURCING: BENEFIT #1

Find savings on your true HR costs — everything from healthcare and benefits to workers' compensation and employee perks.

A lot of employers worry that outsourcing will involve extra costs. That's an especially big issue when **49% of Hawaii business owners said keeping costs in line was their top concern**[5]. But in fact, outsourcing can be a great way to get costs under control and to save money. Let's take a look.

There's a lot of costly HR "extras"

The true cost of HR is actually more than just your employees' wages. It also includes things like healthcare and benefits, insurances like workers' compensation and Temporary Disability Insurance (TDI), employer taxes, and administrative costs like payroll too. These expenses can make up about 70% of your labor costs (including wages).

Buying in bulk has its perks

When it comes to determining pricing for all these extra HR costs, many local businesses are at a huge disadvantage simply because of their employee size! The reason is something we call buying power, and Hawaii businesses don't have a lot of it.

> ***Buying power:*** *It's the idea that you can get a better deal when you purchase things in large quantities. It's the reason toilet paper is cheaper when you buy it from Costco. Or, you may have seen buying power in action if you've ever given a discount to a client who was sending you a large amount of work.*

[5] BOSS Survey of Hawaii Business Leaders Asks About Obstacles & Opportunities, Hawaii Business magazine, 2017

The same goes for all your "HR extras" too. When it comes to your business, the cost of things like healthcare or workers' compensation insurance is going to be very different if you're purchasing it for a company of 10 employees, versus a company with 100 employees.

Find savings with HR outsourcing

When you work with an HR partner, they extend their buying power to YOU—which means you save on all your "HR extras" while getting more value for your dollar. After all, an HR partner can have the buying power of hundreds of businesses and *thousands* of employees.

This is really good news for Hawaii businesses. Whether your business has 1, 10, 50 or 200+ employees, you can offer benefits on par with Fortune 500 companies at a reduced price—as long as you have the power of an HR partner behind you. Things like:

- Top medical, dental, and vision coverage
- Flexible Spending Account (FSA) plans
- 401(k) and student loan repayment assistance plans
- Life insurance and personal accident insurance
- Disability insurance
- Gym memberships, commuter benefits, and other perks

And while you may not think of things like workers' compensation and TDI rates as negotiable, they are. Leveraging the buying power of a big group can get you better rates on these mandatory insurances and save you money—especially if your HR partner handles claims management in-house.

Get better benefits that help you win

Not only does offering excellent benefits help you take better care of your hardworking employees, it also positions your business to attract and win top talent too (remember, Hawaii's workers are looking for better benefits to deal with our high cost of living). In our low-unemployment market, having great benefits can be a huge differentiator for your business as well!

[5] BOSS Survey of Hawaii Business Leaders Asks About Obstacles & Opportunities, Hawaii Business magazine, 2017



HR OUTSOURCING: BENEFIT #2

Stay 100% compliant with federal, state, and local labor laws and reduce your employer liability with ease.

We know the pressure to be compliant (and the risk of non-compliance) is more of a concern for businesses during times of an uncertain regulatory climate. In Hawaii, **19% of business leaders said labor laws were their biggest regulatory issue**[6].

These laws touch every aspect of your business, from the way you hire and fire, to how you manage payroll and benefits administration, to the types of insurance you purchase and how you file taxes. HR outsourcing is one strategy that can help you keep up with the demands of compliance—without losing sleep. Here's why:

There's a lot of rules to follow

When it comes to running a business, there's an alphabet soup of regulations, from FICA, FUTA, and SUTA, to FLSA, FMLA, ADA, OSHA, HIPAA, and more. The list of laws and regulations on employers is so long, it's actually quite hard to keep track of everything.

Hawaii is highly regulated (and laws are always changing

Compliance is especially critical in Hawaii. We're one of the most regulated states in the U.S., ranked third from the bottom according to the Pacific Research Institute's Small Business Regulation Index[7]. And those regulations are continuing to change.

For example: *In Hawaii, the new Equal Pay Act, which prohibits employers from asking about salary history as part of the hiring process, took effect on January 1, 2019. And the legislature is currently investigating the possible impacts of a law requiring paid family leave, which could significantly impact your labor costs.*

[6] What is Your Biggest Problems? Hawaii Business magazine, 2018

[7] The 50 State Small Business Regulation Index, Pacific Research Institute, 2015

You can't afford to be "pretty sure" about the rules

Fines and lawsuits are a real concern. In 2016, Hawaii increased fines for non-compliance with workers' compensation requirements from $10 to $100 per employee per day[8]. TDI penalties saw an even bigger hike—from $1 to $100 per employee per day.

Additionally, the average cost of an employee-related lawsuit in the United States is $150,000, according to the Small Business Association. That's enough to sink many small businesses.

If you make one mistake, it could have catastrophic consequences for your business. And yet, many employers still rely on their own untrained skill and judgment when making key HR decisions, putting their business and people at risk.

Stay 100% compliant with HR outsourcing

When you outsource your HR to an HR partner, you surround your business with an additional layer of protection. That's because an HR partner isn't simply another vendor on your payroll—it's a business partner that shares some of the legal responsibilities for your employees with you. And takes some of the liability off your shoulders.

Worried about changing rules and laws? An HR provider specializes in staying up-to-date with these regulations so you don't have to. From keeping up with all the filing and reporting you need to do to stay compliant, to protecting your business from fines and lawsuits, HR outsourcing can protect you from the high risks of simply being an employer in today's landscape.

[8] Hawaii increase penalties for labor law violations, KHON2, 2016



HR OUTSOURCING: BENEFIT #3

Free yourself from paperwork (to handle your strategic work) when you lean on a team of HR experts

How much is handling your own HR admin and paperwork costing you? It's not just a financial burden. There's a time burden too. **Small business owners can spend up to 45% of their time on HR-related tasks.** And 25% of that time can be spent on paperwork[9]. HR outsourcing can help take all the admin stuff off your plate so you can focus on the most important aspects of your job. Here's why:

There's strategic HR and then there's transactional HR

When we think of all the work that falls under the umbrella of HR, we think there's two overarching categories.

- **Strategic HR:** This is the intentional, yet fun part of HR—it's the meaningful, creative and hard work of planning for the future, building strong work teams, and investing in your company culture. And what's the result? It's engaged employees and managers, healthy morales, and all the intangible qualities that can attract top talent to your business and help you retain your best employees too.
- **Transactional HR:** On the flip side of HR, there's all the back-office stuff you do day-to-day—like securing and offering employee benefits, paying your people on time, managing HR operations, and navigating compliance and legalities. All this paperwork and admin is important—it keeps the lights on and your people employed, after all—but it's also incredibly time consuming.

[9] Statistics on Small Business Human Resource Trends, Score, 2014

Let HR outsourcing support both sides of HR

With an HR partner, you get access to an entire team of experts that work together to tackle your transactional and administrative HR—from payroll and benefit experts, to risk management and claims management pros, and legal and safety experts too.

It's often for this reason alone that many companies turn to HR outsourcing—it's the gains in efficiency, time management, and expertise that are unparalleled to in-house HR alone.

But it doesn't stop there. Many HR partners provide additional services aimed at giving you guidance and counsel on your strategic HR initiatives too. Things like training and development courses for employees, managers and supervisors, as well as networking opportunities and access to premier leadership development events .

Exercise: When Admin Takes Over

So where are you spending most of your time and energy? Does it feel like the admin side of HR is taking up more and more of your time?

Take a quick self-assessment by asking yourself these questions:

- How many hours each week (or month) do you spend on back-office HR admin work, whether it's managing payroll, answering employee questions about their benefits, or reporting things to the government?
- How could you reinvest in your business or your people if you weren't spending that time on back-office paperwork and HR admin tasks?



CHAPTER 5:

What are different types of HR partnerships?

If you decide that HR outsourcing is the right move for your business, the next step is to figure out which type of HR partnership works best for you.

In general, there are three main options: PEOs, HROs, and ASOs. You can pick a model that works for you depending on your unique business needs—like employee size, service need, or specific knowledge gaps you're trying to fill. The important thing to remember is that you have options!

Let's take a look.

Professional Employer Organization (PEO

A Professional Employer Organization, or PEO, offers a full-service model (or one stop shop) for HR services. This type of HR organization provides bundled and affordable HR services through a unique business relationship with your company called "co-employment."

All that "co-employment" means is that a PEO can legally take on certain responsibilities that other models of outsourcing cannot—e.g. they can provide healthcare plans and insurances like workers' compensation and TDI (vs. simply administering your benefits as do HROs or ASOs. PEOs can even file things for you like your federal and state unemployment taxes. Overall, a PEO shoulders more of your business liability than the rest.

Human Resources Organization (HRO

With Human Resources Outsourcing, or HRO, providers offer selected services. Think of this as the á-la-carte model, which allows you to outsource certain responsibilities, while managing others yourself or through multiple partners. For example, you can keep your healthcare provider if you're happy with your current rates, but outsource payroll and your employee handbooks if that's your biggest HR need, for example.

The key difference is that, unlike a PEO, there is no co-employment relationship. That means that while you can offload your HR admin tasks onto this provider, you'll still be responsible for finding an providing things like health insurance, workers' compensation insurance, and filing your own payroll taxes.

Administrative Services Organization (ASO

Lastly, we've included Administrative Services Outsourcing, or ASOs, as one of the three main types of outsourcing models simply because this term may come up in your research. But the fact is, HROs and ASOs are one in the same, and these terms can be used interchangeably to describe the same model.

Making the decision to work with an HR partner can feel like a big step, but when you look at the different outsourcing models, it's easy to see that you have options. Whether you have 5 employees or 50, are an established company or just getting off the ground, the key is to pick a partner that will work with your business to meet your unique HR needs.

Spotlight: A Closer Look at PEOs

While each model offers a good option, let's take a closer look at PEOs, since so many small and midsize businesses find this type of HR partnership especially attractive. Here's why:

- **A one stop shop:** With a PEO, you can outsource many HR tasks to a single service provider (instead of spending time managing multiple vendors). And with more time from less vendor management, you can focus your energy on strategically managing your employees and growing your business instead.
- **Healthcare & benefits:** Of course, one of the biggest advantages is that, as a co-employer, a PEO can actually provide (not just administer) healthcare benefits, alone with things like workers' compensation. Remember buying power? A PEO manages thousands of customer employees and is the only model that can purchase insurance and benefit plans with significant discounts and pass these down to you.
- **Lower SUTA rates:** Additionally, because of the co-employment relationship, when looking at HROs and PEOs, there are often times slight differences in costs based on SUTA (State Unemployment Tax Act) rates. For example, HROs tend to have slightly higher rates, whereas with a PEO partner, you assume their SUTA rates, which means your rates can be lower—especially if you've experienced high turnover.
- **Invested in your business:** As a co-employer, a PEO has more skin in the game with your business. Your employees are its employees, and your risk is its risk. While other HR partners may act as vendors or service providers, a PEO is a true partner that is invested in your success.
- **You stay in control:** Having a PEO does not replace your existing HR staff or take over your business. You stay in control and continue to make the day-to-day decisions involved in running your company, with support and advice from experts on call when you need them. Your employees will notice little change, other than noticing the name of the PEO on their paychecks.

By the numbers:

SMALL BUSINESSES USING PEOS:

Grow 7-9% faster

Experience 14% lower employee turnover

Increase their chance of staying in business by 50%

The National Association of Professional Employer Organizations (NAPEO) *has done plenty of research on the benefits of PEOs for small businesses. In fact, according to their data, small businesses using PEOs grow 7-9% faster, experience 14%lower employee turnover, and are 50% more likely to stay in business, compared to small businesses overall.*



CHAPTER 6:

When is the right time to look for an HR partner?

It's never too late—or too early—to start looking for an HR partner. Whether you're hiring more employees and don't have the staff to keep up with HR responsibilities, or you find that payroll and compliance issues are just taking up too much of your time and attention, there are many reasons to outsource.

Here are three ways to determine if it's the right time to take the next step:

- **Is your business growing?** Maybe you're a restauranteur with one successful location, and you're looking to open two more locations; or perhaps you're a non-profit organization that's expanding to serve our neighbor island communities. If your business or organization is growing and expanding, it's time to think about whether you want to manage that growth in-house or bring in some outside help.

- **Are you overwhelmed with your current HR?** Do you find yourself spending more time worrying about benefits administration, payroll processing, and compliance? These are the top three issues that prompt businesses to outsource their HR. Perhaps you're a private practice physician-owner that spends nights and weekends on HR tasks. Wouldn't you rather spend your energy focused on patient care instead? Or even work-life balance? If the complexities of HR have begun to distract you from the most important work of your business, it might be time to outsource.

- **Are you just starting out?** Many business owners think outsourcing is only for large companies, but actually, you only need one employee to qualify. And if you're just getting started, working with an HR partner is one way you can set up a new business for long-term success.

CONCLUSION:

How ProService Hawaii Can Help

With ProService Hawaii, you get the power of Hawaii's largest HR partner to support your people and your business. That means access to payroll, benefits, in-house workers' compensation, HR services, training and development, and much more. Say 'hello' to corporate-level benefits and a competitive edge that helps you complete for top talent (while controlling your labor costs and risk, too).

Year established:

1994

Client/employees:

ProService Hawaii works with more than **2,000** businesses and **35,000** employees

5 offices:



Across Oahu, Maui, Kauai and Hawaii Island

Premier partners:

hmsa

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