The Pros and Cons of Employee Leasing

Employee leasing firms earned $68 billion in gross revenues in 2008, according to the National Association of Professional Employer Organizations. Their clients, primarily small businesses with fewer than 20 employees, outsource to leasing firms the responsibilities for payroll administration, employee benefits, workers' compensation claim management, human resource management, and related operations. Businesses trying to reduce costs and focus on growth may find employee leasing to be an attractive option. It is an option, however, that comes with advantages and disadvantages for both employer and employee.

The NAPEO cites a number of benefits from employee leasing. The benefits for employers include:

- Access to professionals with expertise in human resources, payroll, risk management, and employee benefits.
- Assistance with labor law compliance.
- Professional claim management.
- Reduced and controlled administrative costs.
- Professionally written employee handbooks, policies, and procedures.
- Relief from some employment-related liabilities.
- Reduced workers' compensation costs resulting from improved workplace safety.

Employees may also benefit from leasing in several ways.

- Access to benefits that might not have otherwise been available, such as 401(k) plans, cafeteria plans, insurance, and credit union membership.
- Timely and accurate paychecks.
- Protection under federal labor laws.
- Improved communication among and between employees.
- Employees who move from one leasing client to another do not lose eligibility for benefits.
- Efficient and timely claim processing.
- Assistance with employment-related issues.

Employee leasing carries some risks. A poorly managed leasing firm may mishandle payroll and benefits or may go out of business, leaving the client with its obligations. The employer may also be legally liable for the actions or inactions of the leasing firm. For example, if the leasing firm fails to comply with regulations, it may be the employer who bears ultimate responsibility. Also, the employer is ceding control of its workforce to a third party who may or may not do things the way the employer would. Employee relations may suffer during the transition to leasing.

From the employee's standpoint, the employer will have to fire and the leasing firm will have to re-hire him. Also, there is no guarantee that the leasing firm's benefits will be as good as those the employer offered. Some employers have also used leasing as a means to avoid dealing with unions, though federal rules may limit their ability to do this.

Employers who decide to lease their employees should carefully evaluate the leasing firms it considers. The financial stability of the firm and of the insurance companies providing its benefits are a major consideration, as the failure of either may leave the employer with unfunded obligations. The firm's experience in the employer's industry, track record of success, and safety record are also important. Another consideration is the range of benefits the firm offers; a plan that does not meet the employer's needs will not be worth the expense of hiring the leasing firm.

Employee leasing is a big step and not one to be taken lightly. Employers must weigh the upsides and downsides of leasing and make decisions that is best for their employees and their businesses.