



A DEEPER LOOK

Professional Employer Organization (“PEO’s”) and Medical Practices

Potential Cost Savings and Reduced Administrative Burden

By Lee Ferber

As medical practices continue to face increasing costs, there are only so many areas where additional cost savings can be realized. Employees will continue to get annual salary increases, landlords will continue to pass through rent increases and pharmaceutical companies will continue to raise drug costs. Medical practices, like most small to mid-size businesses, have also seen annual double-digit increases in the cost of employee health insurance. By joining a professional employer organization (a “PEO”), a medical practice may be able to reduce their employee-related costs and also reduce the administrative burden of the practice.

PEOs partner with businesses, such as medical practices, and serve as the “administrative employer”. When a small to mid-size medical practice joins a PEO, they immediately become part of an organization that typically has thousands of employees. While the day-to-day management of staff is still under the control of the practice, much of the administrative burden of providing human resources, as well as administering payroll and employee benefits, is now transferred to the PEO. This very often allows the group’s management team to focus more on other aspects of the practice, such as clinical areas, billing and collections and finances. Savings in administrative overhead may also be realized.

Because of the large number of employees in a PEO, they can typically offer a benefits package of greater quality than what may currently exist, and often at a lower cost. This can come in the form of lower unemployment and

workers compensation rates, and perhaps most importantly, lower employee health insurance costs.

Small to mid-size medical practices may not be accepted on certain health insurance plans because of age, gender or the health status of their employees. In a PEO, however, this same group, when pooled with the other employees of the PEO, may “fall below the radar” and be accepted into a plan. That being said, while increases in the cost of providing health insurance may be inevitable, employers may be able to significantly reduce the rate of increase by joining a PEO. Also, at a time when employees are being saddled with a greater share of the cost for their health insurance, the potential savings for the practice can also be shared with staff, reducing their cost.

Like any financial decision under consideration, a practice needs to analyze the costs versus benefits of a PEO. PEOs generally charge a fixed amount per employee per payroll. Any potential savings, both in terms of the benefits being offered and administrative costs need to be weighed against the direct costs associated with joining a PEO. Other intangible factors, such as reducing the administrative burden of the practice, also needs to be considered.

If you would like to discuss how a PEO may be advantageous to your practice, please contact one of Gettry Marcus’ health care experts.

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