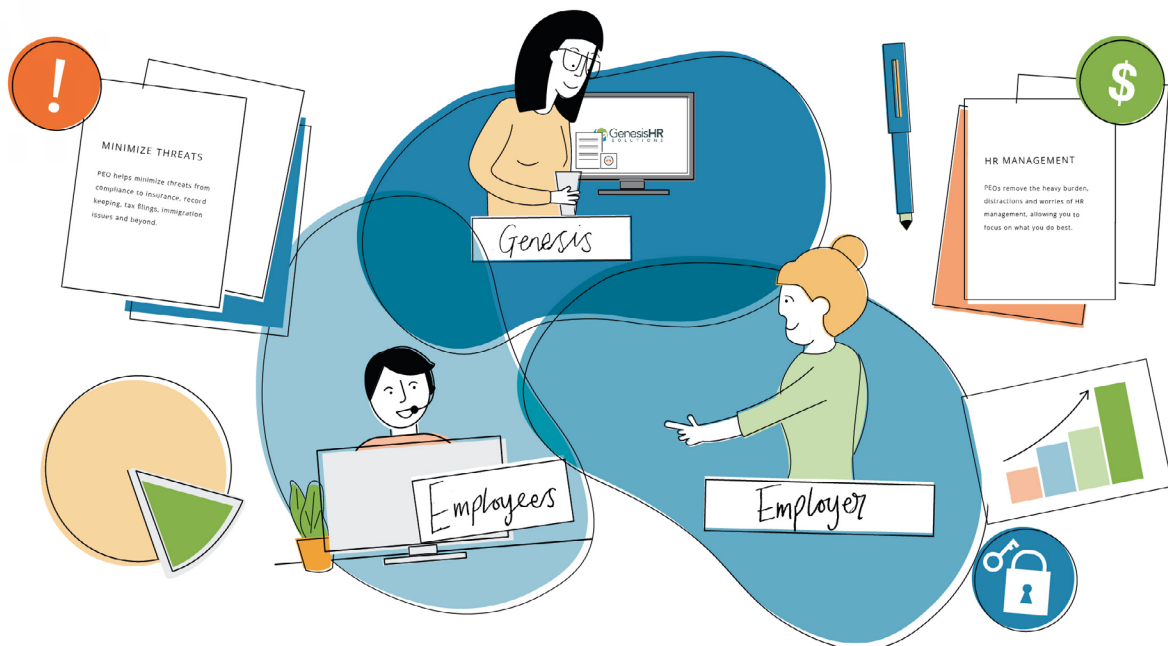


Everything you need to  
know about

# PEOs

Professional Employer Organizations



*A step-by-step guide to understanding the value of a PEO.*

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## *Did you know?*

*Small businesses that use a PEO have an employment growth rate almost **10% higher** than small businesses that don't partner with a PEO. (NAPEO)*



# What is a PEO?

*“The PEO and client company share and allocate responsibilities and liabilities.”*



A Professional Employer Organization (PEO) allows its clients to outsource many of their human resource functions, share employment liability, and, oftentimes, gain economies of scale to bring an improved benefits package to their employees. A PEO partners with your business to perform these tasks, assume associated responsibilities, and provide expertise in all human resource matters.

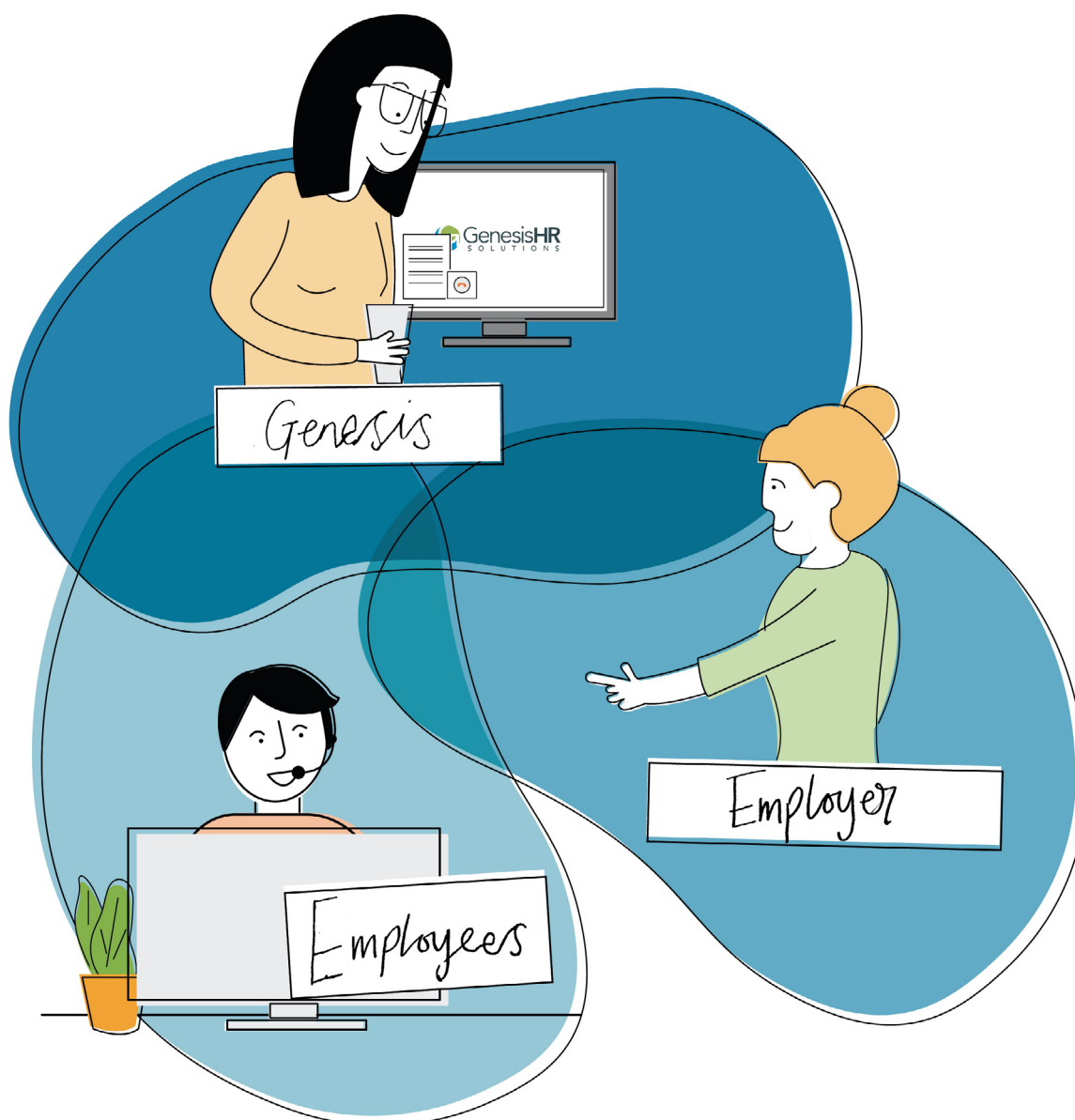
A PEO provides a suite of integrated services, often a tailored HR solution, to effectively manage your critical human resource responsibilities and employer risks. A PEO delivers these services by establishing and maintaining an employer relationship with the employees at the client's worksite and by contractually assuming certain employer rights, responsibilities, and risk.

Some of the services offered by a PEO include payroll processing and tax administration, benefit plan administration, performance management, employer insurance and benefit offering, employer compliance assistance, risk management, 401(k) plan, training and development, and more.

## How does a PEO relationship work?

PEOs and their clients sign a co-employment agreement in which both the PEO and client company have an employment relationship with the worker. The PEO and client company share and allocate responsibilities and liabilities. The PEO assumes much of the responsibility and liability for the business of employment, such as risk management, human resource management, payroll administration, and payroll tax compliance.

The client company retains responsibility for and manages product development and production, business operations, marketing, sales, and service. The PEO and the client share certain responsibilities for employer compliance. As a co-employer, the PEO provides a complete human resource and benefit package for worksite employees.



# 8 Reasons Why You Should Partner With A PEO

A growing number of small and mid-sized businesses are exploring PEOs. Every year it becomes harder to run a business due to increasing regulation and more complicated benefit products. It's becoming more difficult to manage payroll and taxes, employee benefits and compliance, and record keeping. Add to this attracting and retaining top talent and you can see why business owners are looking for help.

There are a number of alternatives for a business owner to consider, many of which include outsourcing some or all of these tasks and headaches. The PEO model allows a business to have one partner to manage all of these pieces while the business owner and their employees can focus on the product or service they provide.

## So why do more businesses than ever see the value of a PEO partnership?

- 1 PEOs remove the heavy burden, distractions and worries of HR management, allowing you to focus on what you do best.
- 2 PEO clients are often able to offer a broader array of benefits to their employees than companies that don't use PEOs.
- 3 Using a PEO as the single contact for your company's insurance and benefit coverage lowers internal costs.
- 4 A PEO helps minimize threats to your business, from compliance to insurance, record keeping, tax filings, immigration issues and beyond.

- 5 Clients often receive savings on certain employee benefit plans by leveraging the relationship with a PEO.
- 6 PEO clients have higher growth rates than other small and medium-sized businesses. (NAPEO)
- 7 The employee turnover rate for PEO clients is 10-14% lower per year than that of comparable companies, depending on data specification. (NAPEO)
- 8 Businesses that use PEOs are approximately 50% less likely to fail from one year to the next when compared to similar companies in the population as a whole. (NAPEO)



# 6 Things To Consider When Choosing A PEO

We live in an increasingly outsourced world. For business owners, managing employee issues under the umbrella of **Human Resource Outsourcing** through a **Professional Employer Organization (PEO)** is one such example.

The decision to partner with a PEO should be made carefully. Not all PEOs operate from the same platform and there are some important issues for a business owner to contemplate. Here are a few:

## 1 Certifications and Accreditations

Certified PEO status and Employer Services Assurance Corporation (ESAC) certification are two important considerations for small business owners. The IRS established a voluntary certification program for professional employer organizations (CPEOs).

To become and remain certified under the new program, CPEOs must meet certain requirements around tax compliance, background, experience, business location, financial reporting, and bonding. Certified PEOs take on additional responsibilities with regard to payroll administration, federal employment tax reporting and payments of their clients. CPEO IRS designation is a voluntary program. Who raises their hand to say they want to be audited by the IRS? Certified PEOs do! They accept the additional auditing of financials and operational information in order to obtain the designated CPEO status.

Genesis HR Solutions is proud to be among the 84 firms nationwide that were

included in the first wave of approvals for certified PEOs. We strive to do the absolute best for each and every one of our clients, and becoming a CPEO was just one more way to do that.

Choosing a PEO with ESAC certification is critical for your business. ESAC accreditation sets PEOs apart by showing employers that a PEO meets the industry's "gold standard" for financial stability, ethical business conduct, and adherence to operational standards and regulatory requirements.

## **2 Employee Benefit Programs**

The PEO you choose should have a robust selection of employee insurance offerings which includes, of course, health insurance. And while price is an important consideration, do not underestimate the importance of a partner who can offer the proper strategy that fits your company. PEOs work with many clients and no two are exactly alike. Your PEO Human Resources Business Partner must be able to help you develop a strategy that works today, and must have the flexibility and expertise to rework that strategy as business conditions change.

## **3 Additional Offerings**

All PEOs provide human resource services, employee benefits management, payroll and tax administration, and risk management services. Most will offer employee discount plans and other ancillary employee benefits. A few will offer a wide selection of benefits that may include adoption assistance programs, tuition reimbursement, or other plans not normally offered by any business – large or small. The caveat is to make sure your employees plan to use these benefits because in all likelihood you will be paying for these privileges whether you use them or not.



## 4 Billing Methods

PEOs typically use one of two types of invoicing practices:

### Bundled Percentage Invoicing:

A common practice is to apply an overall percentage of the total payroll which covers all payroll taxes and service fees. Normally, fees for employee insurance plans are billed separately, although some PEOs include the cost in the overall percentage mark-up. Actual costs are difficult to measure, especially since some employer taxes (state and federal unemployment taxes and Social Security) cease to be paid once annual wage thresholds are met.

### Full Disclosure Invoicing:

If you want to get an accurate measure of your costs, it might be best to consider a PEO that passes through transparent billing and displays all components as separate line items on the invoice. Using this method, it is easy to measure the cost of outsourcing HR. Also, the fee should be fixed based on the number of employees serviced. The cost for a PEO to provide services to a highly paid worker is the same as it is for an employee who is paid less.

*Only 27% of small businesses offer benefits to their employees, while approximately 98% of NAEPO's members offer retirement benefits to their small business worksite employees. (NAEPO)*



## 5 Human Resource Information Systems (HRIS)

All PEOs have portals on their website that allow appropriate access to owners, managers and employees. You should ask for a demonstration and check for the system's versatility and ease of use. Be sure that the tools you use most frequently are intuitive and meet your expectations. What might also be important to know is how often the PEO can implement changes to their HRIS. Be wary of PEOs who offer a "one-size-fits-all" system.

## 6 Personal Touch

Make sure you know about the team that will be assigned to your company. Ask to meet the Human Resources Business Partner who will be your lead contact. Depending on your desire for the personal touch, determine to what extent call centers are used and get a handle on response times. After all, this is the service you are paying for. You should know what to expect.



*Most PEOs provide services such as customized employee handbooks, pre-employment screening, wage and compensation planning, and assistance with job descriptions. A PEO arrangement also improves the work environment and increases safety, and provides worksite employees protections under federal laws they would not otherwise receive. (NAPEO)*

# Misconceptions And Potential Drawbacks Of PEOs

Year after year, PEOs gain popularity and market share, but there are still some misconceptions out there.

- **I will lose control of my employees.** There is a co-employment aspect of the PEO relationship, and this is a good thing for business owners. A PEO partner does not interfere with the day-to-day operation of a business. The business is responsible for controlling the workplace and employees. The business continues to decide who they hire or terminate, who gets promoted, how the employees are paid, etc. The PEO is there to help ensure wage and hour laws are followed and the business keeps the employee file up to date. In very rare circumstances a PEO might opt not to bring an employee into the co-employment relationship.
- **PEOs are expensive.** PEOs provide a great deal for small and mid-sized companies. The problem is that sometimes the fees paid to a PEO are compared with those fees paid to a payroll service, when payroll is one of many things provided. If you added up the cost for individual services like an HRIS system, Flexible Spending Accounts, Employee Handbooks, Training, etc., a PEO is MUCH more cost effective than purchasing these things individually. Also, a PEO will often bring savings in certain areas, like employee benefits, which offset some of the fees.

While a PEO relationship brings a lot of value to a business, there are some potential drawbacks to consider:

- **Unemployment Cost:** In some states the client takes on the PEO's unemployment rate. This could result in some extra savings or a potential cost to the employer. The amount usually isn't too significant either way, but it's important to explore with any PEO you consider partnering with.
- **Benefit Limitations:** The employee benefits that come along with a PEO are typically better for the business and the employees in terms of cost and plan design, but there can be some limitations. PEOs will often have one (or maybe two) health insurance carriers. If you are happy with the carrier this is a non-issue, but make sure the carrier has a strong network where your employees reside. To gain full advantage of the PEO you will need to use their carrier and their plan design. This usually works in the clients' best interests but there are times when the plans don't make sense for one reason or another.



# How To Get Started

If you've come to the conclusion that it's time for your organization to consider a partnership with a PEO after assessing your workplace needs, here are some considerations for finding the right fit.

- **Investigate the PEO's accreditations.** Is the PEO certified by the IRS (CPEO)? Have their business practices been independently accredited by [ESAC](#)? Are they a current member of [NAPEO](#), the national trade association of the PEO industry? Do they have proven financial strength and security and comply with the industry's performance practices?
- **Explore the employee benefits offering of each PEO**, paying special attention to the provider network for the areas where your employees live. Also, make sure to compare the details of the plans vs. your current plans to make sure you know what you are getting into. There are almost always differences with co-pays, deductibles, prescriptions, etc. Hopefully more of the differences are in your favor.
- **Check within your network** and ask for client and professional references. Do you know anyone that has had success and would recommend partnering with a PEO?
- **Research the locally headquartered PEOs.** Often times a locally headquartered PEO will have better options for employee benefits. Ensure that they can handle multi-state employees, if needed. To find a service provider near you, search NAPEO's online member directory.
- **Explore your options** and, most importantly, give yourself time to evaluate. A minimum of 60 days prior to your renewal is recommended.

# About Genesis HR Solutions

If you're looking for a personal touch when it comes to uping your HR game, consider working with Genesis. Staffed by knowledgeable, experienced individuals, our PEO is an asset a single in-house hire can't compete with.

Let's schedule a free discovery call now to talk about how Genesis HR Solutions can help relieve your organization of the burden of HR, payroll, benefits administration, and more.

## **Facing HR challenges? Wondering if a partnership with Genesis HR may be a good fit for you?**

It's time to take the next step—schedule a free discovery call with our experts, and see how we may be able to work together.

[Schedule a call now](#)

