



# PEO 101:

What is a Professional  
Employer Organization & How  
Can They Help Your Business?



# What is a Professional Employer Organization (PEO)?

Human resources has undergone a significant change over the last three decades. From landmark legal and compliance decisions to shifting expectations of the modern workforce, companies have had to adapt to the changing times.

For small and medium-sized businesses (SMBs), these changes have completely transformed how they approach running their business and managing HR. This has led to the increase in outsourcing and the rise of **professional employer organizations (PEOs)**.

A PEO is a firm that allows small and medium-sized companies to outsource most of their HR administration responsibilities. According to a report by the National Association of Professional Employer Organizations (NAPEO), there are around 907 PEOs operating in the United States today.

While each offer their own unique products and solutions, most PEOs offer three main services:

1. HR Services
2. Employee Benefits
3. Risk Management and Compliance Services

Before we go further into how PEOs manage and offer these services, let's explore why small and medium-sized businesses would want to partner with a PEO in the first place.

# Why do Small and Medium-Sized Employers Partner with PEOs?

The changes in administration and compliance have made HR far more complex and time-consuming than in the past, causing issues for smaller employers (especially those without a dedicated in-house HR professional).

This has caused employers to explore outsourcing solutions to meet the needs of the business. But partnering with a PEO doesn't just help solve HR issues. These organizations can help employers achieve success and growth. For example, according to a study conducted by NAPEO:



## **A PEO Can Help Small Businesses Grow 7% to 9% Faster.**

By partnering with a PEO, business leaders can outsource their HR needs so that the focus can be on high-value activities that build a company. When leaders don't have to worry about day-to-day HR work, and instead put full attention into the mission of the company, it increases the likelihood of business growth.



## **Companies Who Use a PEO Save 35% on HR Administration Costs.**

One of the bigger expenses companies have are their HR administration costs. Working with a PEO not only provides an organization with competitive benefits, but they can do it at a lower cost.



## **Partnering with a PEO Lowers Employee Turnover by 10% to 14%.**

Working with a PEO allows smaller businesses to offer their employees the same benefits as much larger companies. This helps lower turnover, boost recruiting, and improve employee happiness and engagement.



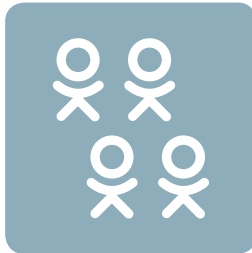
## **Small and Midsize Companies Using a PEO Are 50% Less Likely to Go Out of Business.**

Working with a PEO can help solve some of the challenges SMBs face. Faster growth, lower employee turnover, and spending less on HR administration costs set small businesses up for greater success.

Another common issue smaller employers face is maintaining compliance with various employment laws. Some PEOs offer risk management and compliance services to their clients, giving them access to experts in these areas. This helps clients navigate the extremely complex landscape of employment legislation to ensure compliance with laws at the federal, state, and local levels of government.

# What do PEO Clients Look Like?

Small and medium-sized businesses tend to be the most common PEO clients. But even amongst this group, there are certain traits that make an SMB a good fit for a PEO solution. These include:



## NUMBER OF EMPLOYEES

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Small and medium-sized employers with between **5 and 300 full-time employees** tend to get the most value from partnering with a PEO. These numbers can vary for different PEOs.



## GROWTH-ORIENTED MINDSET

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By working with a PEO, small business leaders can focus their attention on high-value activities that help grow their company. A PEO partner will help their clients as they grow over time.



## Eager to Enhance Employee Benefit Offerings

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Working with a PEO grants clients with access to the same quantity and quality of benefits as Fortune-500 employers. These go beyond traditional benefits (healthcare, vision, retirement savings, etc.) and include perks like voluntary benefits, complimentary benefits, and more.

For business leaders, knowing if your business has the traits best suited for PEOs is one of the first steps in the decision-making process.

The other is identifying HR-related challenges your company is experiencing and determining if a PEO can help overcome them.

# What Services and Solutions do PEOs Offer?

While the exact services offered vary depending on the PEO, generally they include three key solutions: **HR services**, **benefit services**, and **risk and compliance services**. Within each of these services, there are various solutions available to clients. Let's breakdown each service and some of the solutions that may be included:

## 1 HR Services

HR is more than just benefits; it covers a range of tasks from running payroll to developing the culture your firm needs to thrive. HR services can include:

- HR Management
- Payroll and Tax Solutions
- Performance Management
- Recruiting Services
- Training and Development
- Scheduling
- Time and Attendance

## 2 Employee Benefit Services

Small and medium-sized businesses need benefit plans that are cost-effective and flexible enough to help with recruiting and retaining top talent. Partnering with a PEO allows clients to offer the same quality benefits as large companies. These benefits include:

- Healthcare benefits
- Life, Disability, Dental, and Vision Plans
- 401(k) and Other Savings Plans
- Voluntary Benefits (commuter benefit plans, supplemental insurance, legal benefits, etc.)
- Complimentary Benefits (Employee Assistance Programs, entertainment and shopping discounts, etc.)

## 3 Risk and Compliance Services

PEOs can work with small and medium-sized businesses to identify potential risks and recommend processes and procedures to help mitigate exposures to the business. Some of these risk and compliance services include:

- Employee Lawsuits
- Workers' Compensation Management
- Workplace Safety Improvements
- Affordable Care Act (ACA) Compliance
- Leave of Absence Management
- I-9 Verification
- Occupational Safety and Health Administration (OSHA) Support
- Employee Policies and Notifications

These are just some of the services offered by PEOs. Each organization may offer its own, unique solutions that set it apart from others (this is especially true when it comes to *technology*, which we will get to shortly). For SMBs, these services can be extremely valuable for growing the business, improving employee happiness and engagement, and boosting recruiting efforts.

# What to Look for in a PEO

Business leaders who are considering PEO as a solution to their HR needs have plenty of options to choose from. However, there are certain characteristics to look for when exploring PEOs that separate one from another:



## CPEO Status

On June 1, 2017, the Internal Revenue Service (IRS) designated a select few PEOs as Certified Professional Employer Organizations (CPEO), the first group to ever be certified. This established an important benchmark for PEOs to reach, and another assurance to companies who partner with PEOs that they are working with a best-in-class organization. Currently, only 6% of PEOs in the U.S. have been named a CPEO.



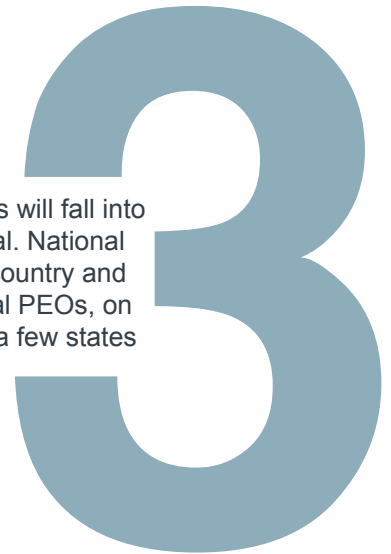
## ESAC Accreditation

In 1995, the Employer Services Assurance Corporation (ESAC) was formed to become the official accrediting agency of the professional employer organization industry. PEOs that are accredited by ESAC meet the gold standards for industry best practices and financial reliability. Currently, only 5% of all PEOs have earned this accreditation.



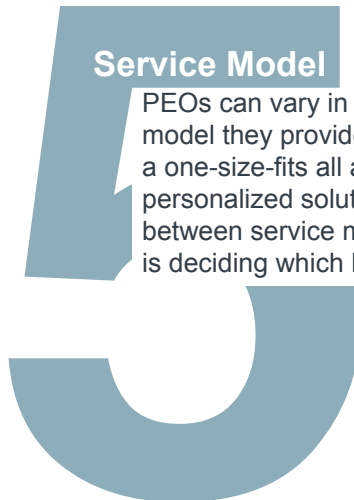
## National or Regional PEO

Most professional employer organizations will fall into one of two categories: national or regional. National PEOs generally operate throughout the country and have clients in numerous states. Regional PEOs, on the other hand, may only have clients in a few states or a region of the United States.



## HR Technology

Some PEOs will provide their clients with technology that helps manage their HR administration. Services like payroll, benefits, PTO, and others can all be accessed via a PEO's HR technology. These tools can also be utilized by managers and employees alike in some situations.



## Service Model

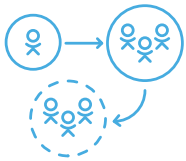
PEOs can vary in the type of service model they provide. These can range from a one-size-fits all approach, to a highly personalized solution. The differences between service models can be a big factor in deciding which PEO to partner with.

# How Can Business Leaders Buy PEO Services?

When a small business leader decides it's time to explore and potentially buy a PEO solution, starting the process will depend on which type of selling model the PEO offers.

There are two common ways a PEO will sell its services to potential clients: **direct to consumer** or **through a broker**.

Let's take a closer look at each model and what they mean for small employers:



## Through a broker

This model requires a business owner to work with their insurance or benefits broker to partner with a PEO. The broker can make recommendations to the client about which PEO may be the best fit for their business needs. A benefit to this model is that a client may feel much more comfortable working with their benefits broker throughout the exploratory, buying, and onboarding processes.



## Direct to Consumer

In this model, a business owner can reach out directly to a PEO to inquire about its services and start a potential partnership.

## Small and Medium-Sized Businesses Can Overcome their HR Challenges with a PEO Solution

Working with a professional employer organization can help small and medium-sized employers improve their HR processes, enhance employee benefits, and ensure compliance with all employment legislation.

Ultimately, the right PEO partnership can enable small employers to take the next step needed to achieve growth objectives and reach company milestones.

With HR growing more challenging and complex each year, business leaders struggling in this area stand to gain from exploring and understanding how PEOs can help.

## For More Information:



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