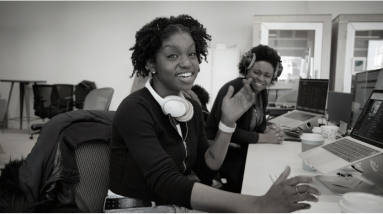


eGuide



# Get More From a Professional Employer Organization

## YOUR GUIDE TO PEOS



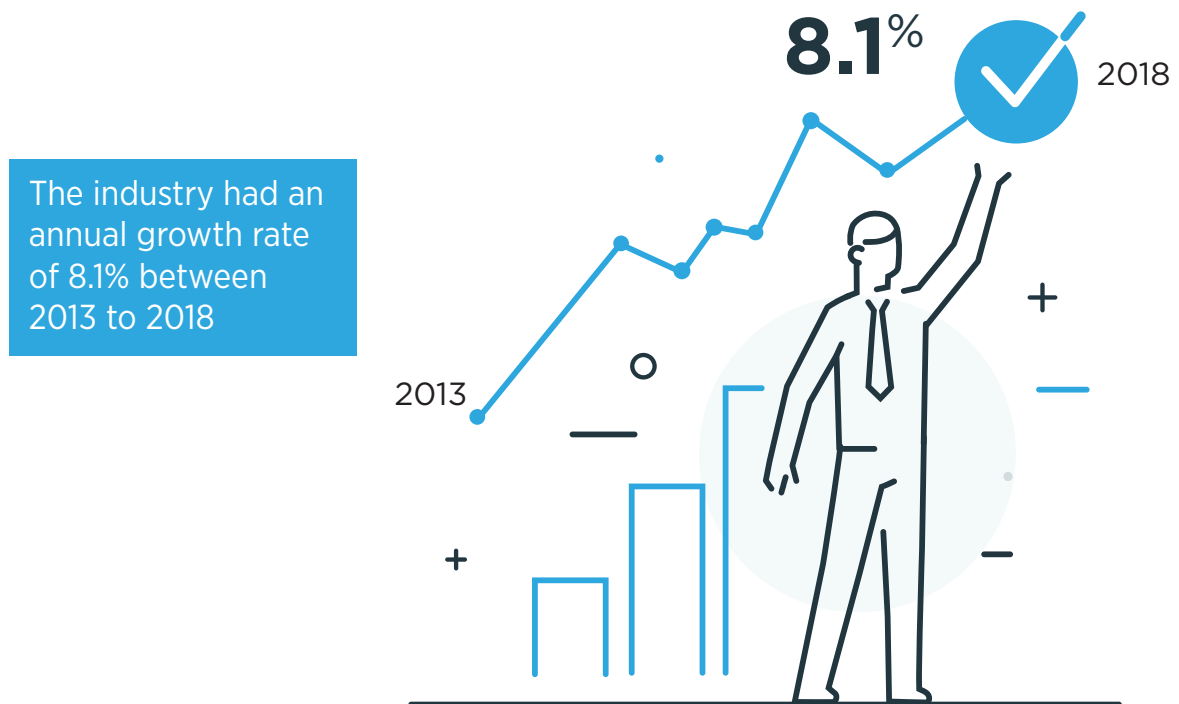
**TriNet**  
Incredible starts here.

## What is a PEO?

Professional employer organizations (PEOs) help small and medium size businesses (SMBs) manage payroll and employment taxes, benefits, workers' compensation insurance and compliance. There's a range in the breadth of services that PEOs provide.

PEOs operate under a co-employment model in which the PEO, as the co-employer, is the employer of record for tax purposes and is responsible for collecting and remitting payroll taxes for employees on its platform. The client maintains control over workforce decisions like hiring and firing, compensation, culture and more. As an employer of record, the model allows employees access to a range of benefits and other service options that are negotiated and sponsored solely by the PEO.

Starting in the 1980s, PEOs have grown significantly throughout the last 30 years. According to the National Association of Professional Employer Organizations (NAPEO), there are between 780 and 980 PEOs operating in the U.S. with combined gross revenues between \$136 billion and \$156 billion, servicing an estimated 2.7 to 3.4 million employees.<sup>1</sup> The industry had an annual growth rate of 8.1% between 2013 to 2018<sup>2</sup> as compared to an overall U.S. economic growth rate of 2.3% over the same period.



1. NAPEO White Papers website at <http://www.napeo.org/what-is-a-peo/about-the-peo-industry/napeo-white-papers> (Accessed September 1, 2018).

2. IBIS World, Professional Employer Organizations in the U.S. Industry Market Research Report at <https://www.ibisworld.com/industry-trends/market-research-reports/administration-business-support-waste-management-services/administrative/professional-employer-organizations.html> (Accessed September 1, 2018).

## How can a PEO work for me?

Take a closer look at the advantages of the co-employment model and the substantial benefits it can provide.

### TIME SAVINGS

### ACCESS TO BENEFITS

### ATTRACT AND RETAIN TALENT

### MONETARY SAVINGS

### HR EXPERTISE

### RISK MITIGATION

- **Time savings**

Managing payroll processing, benefits and a myriad of other HR administrative tasks can be tough and time-consuming for small business owners. A PEO can provide technology, processes, and HR professionals to relieve the amount of time spent on these tasks, freeing up PEO clients to focus on their core business.

- **Access to benefits**

A PEO can offer access to a variety of large group health care insurance benefits that otherwise may not be available to small businesses. Beyond health care plans, certain PEOs also provide access to an extensive range of benefits from retirement plans to pet insurance.

- **Attract and retain talent**

Access to benefits is just one way PEOs help SMBs become an employer of choice. The HR technology and support from PEOs can create convenience and a better experience for employees. PEOs are shown to create a more engaged workforce through better HR policies and hiring practices, training and development opportunities, and overall job design—all which factor into higher employee satisfaction and retention.<sup>3</sup> Research shows that employee turnover is 10 to 14% lower for PEO clients compared to other small businesses that do not use a PEO.<sup>4</sup> Certain PEOs also extend support to key HR events including hiring/firing employees, open enrollment and more.

Research shows employee turnover is **10 to 14% lower** for businesses that use a PEO compared to other businesses that do not use a PEO.



3. Bassi, Laurie. McMurrer, Dan, September 2017, "PEOs: Good for Businesses and Their Employees," NAPEO White Paper Series at <https://www.napeo.org/docs/default-source/white-papers/2017-napeo-white-paper-final.pdf?sfvrsn=2> (Accessed September 1, 2018).

4. Bassi, Laurie. McMurrer, Dan, September 2014, "Professional Employer Organizations: Keeping Turnover Low and Survival High,"; quoted in Bassi, Laurie and McMurrer, Dan, September 2017, "PEOs: Good for Businesses and Their Employees" NAPEO White Paper Series at <https://www.napeo.org/docs/default-source/white-papers/2017-napeo-white-paper-final.pdf?sfvrsn=2> (Accessed September 1, 2018)



A study conducted by the PEO trade association indicated that annual admin costs are around \$450 lower per employee for businesses that use a PEO

- **Monetary savings**

PEOs can provide an array of services at a lower cost than their clients would pay for more basic HR administrative services. A study conducted by the PEO trade association indicated that annual administrative costs are around \$450 lower per employee for businesses that use a PEO.<sup>5</sup> The savings are created in part by economies of scale. Additionally, clients get a quality and range of HR capabilities with certain PEOs that might otherwise be cost and resource prohibitive to obtain on their own.

- **HR expertise**

Full-service PEOs often have HR experts who guide clients on important and technical topics including employee relations, company benefits strategy or developing an employment handbook. Gaining this strategic and consultative resource can be extremely valuable to SMBs.

- **Risk mitigation**

As a co-employer, the PEO has a vested interest in the risk and responsibility associated with employing a client's employees. Certain PEOs also deliver guidance, administration and reference resources to support compliance with ever-changing employment rules and regulations. PEOs may also provide employment practices liability insurance (EPLI) coverage for employee-related claims.

All together, these benefits aid in creating overall value for clients through higher employee retention, increased competitive advantage and improved management.

5. NAPEO White Papers website at <http://www.napeo.org/what-is-a-peo/about-the-peo-industry/napeo-white-papers> (Accessed September 1, 2018).

## How to choose the right PEO

When considering PEO services, how should you choose? Arm yourself with knowledge and select the partner that makes both business and financial sense to your company.

- **Find an established PEO.**

Select a PEO that has a demonstrated operational history and financial strength. Check out the resources and criteria for PEO diligence:

### FIND AN ESTABLISHED PEO

### GET CLIENT REFERENCES

### LOOK FOR QUALITY BENEFITS AND PACKAGES

### ENSURE RELEVANT EXPERTISE

### KNOW THE CHARGED RATES

### FIGURE OUT TRANSITION TIME

### DETERMINE HOW MUCH SUPPORT IS NEEDED

- Select PEOs have accreditation from the industry's "watchdog" organization, the Employer Services Assurance Corporation (ESAC). ESAC accreditation requires a rigorous verification process to ensure a PEO is compliant with more than 40 industry best practices across all states of operation. These measures help assure business owners that a PEO has achieved the highest level of financial, ethical and operational reliability. Less than 5% of all PEOs achieve ESAC verification.<sup>6</sup>

- The Internal Revenue Service (IRS) has a voluntary federal certification program that qualifies certain PEOs as a Certified Professional Employer Organization (CPEO). CPEOs must have met certain IRS compliance standards, including financial reporting and bonding requirements, which allows it to provide added benefits to clients beyond what is offered by a PEO.<sup>7</sup>

- NAPEO, which is the national trade association of the PEO industry, is a helpful resource for independent information on providers including ESAC accreditation, IRS certification and independent CPA audits.

- **Get client references.**

Reach out to PEOs and ask for references for companies that operate similarly in size, industry and geographical location. In addition, you should reach out to your personal and professional network to find others willing to give you candid feedback.

- **Look for quality benefits and packages.**

The right PEO for your business should offer quality health care coverage in your geographical areas, as well as benefits that are most relevant to your industry.

- **Ensure relevant expertise.**

Investigate the PEO's core offerings and whether they align with your industry and geographical area. Some PEOs have HR experts who handle complex rules and regulations, so it is important to understand whether the PEO has the relevant tools and experience to provide support to a company of your size and industry. If you have employees working in multiple states, make sure the PEO is certified and experienced in all states where you have employees.

6. ESAC, "Find a Partner You Can Rely On," at <https://www.esac.org/business/> (Accessed September 18, 2018).

7. IRS, "About the Voluntary Certification Program for Professional Employer Organizations (CPEOs) at <https://www.irs.gov/tax-professionals/about-certified-professional-employer-organization> (Accessed September 18, 2018)

- **Know the charged rates.**

PEOs generally charge their clients either a flat rate per employee or percentage of payroll. The flat rate is a standard fee for every employee regardless of how much they are paid. The percentage of payroll charges is based on the amount of each paycheck processed, so fees can fluctuate with compensation changes including bonuses and commissions. Furthermore, PEOs may provide an itemized break-out of all category fees or a bundled quote that groups all fees together. If the PEO bundles all fees into a single cost (service, insurance, employer taxes, etc.) it may be difficult to understand how much you're paying for what, and the PEO may be using that lack of transparency to charge you amounts you wouldn't otherwise approve.

- **Figure out transition time.**

Ask about the set-up process and understand if it will be disruptive to your business. How much paperwork will it entail? Is the process mostly completed online? How much hassle will you have to go through during the transition?

- **Determine how much support is provided.**

Your PEO partner should have a strong system in place to answer any questions in a quick and effective manner, as well as expert resources to deliver strategic guidance. Does the PEO provide access to representatives and ensure multiple points of access such as phone, email and chat? Beyond routine support, it's important to understand the PEO's consulting capability, including the experience and credentialing of the professionals delivering the service. Finally, does the PEO have a self-service HR platform available for employees to manage routine HR tasks and requests?

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## Debunking common misconceptions about partnering with a PEO

Look past the common misconceptions about a PEO to see how it can help you meet the demands of HR and give precious time back to your business.

### **I will lose control over my employees.**

As the client and employer, you will continue to run your day-to-day business, manage your employees and set goals and performance metrics. The PEO does not make hiring and firing decisions. The PEO's responsibility is to help with the items outlined in your relationship with the PEO. For example, payroll or access to benefits.

### **I already have an HR manager, I don't need a PEO.**

A PEO does not need to replace your HR manager. Instead, it helps to decrease time spent on many of the burdensome administrative tasks so that your HR manager can focus on strategic initiatives like culture, performance management and recruiting.

### **My business is too big to hire a PEO.**

Companies with thousands of employees successfully work with top PEOs. Full-service PEOs with leading-edge technology and deep domain expertise are built to partner with larger businesses. The right PEO complements an in-house HR team by taking on much of the HR administration, freeing up the in-house team to focus on strategic initiatives. In addition, a PEO with strong HR expertise will partner with the client's HR team on topics such as employee relations, compliance, performance management and more. This partnership equips an in-house team to manage the growing risks and responsibilities associated with expanding operations, especially if it has employees in multiple states.

### **My business is too small to hire a PEO.**

A PEO can add great value the moment a business hires its first employees. Partnering with a PEO delivers access to robust health care benefits that would otherwise be out of reach for many small businesses. Additionally, a PEO can help navigate small businesses through complex HR regulations. Keep in mind when looking for the right PEO that many, but not all, work with companies that have fewer than five employees.

### **A PEO is a staffing agency.**

Staffing services either lease employees to customers, or supply companies with workers on a short-term basis, where the workers are not employees of the client company. A PEO, on the other hand, operates under a co-employment model in which the PEO establishes a separate and independent employment relationship solely for the purposes of providing its HR services and allowing access to its insurance coverages. Unlike staffing firms, in a co-employer relationship the client retains its own employment relationship.

## About TriNet

TriNet (NYSE: TNET) provides small and medium size businesses (SMBs) with full-service HR solutions tailored by industry. To free SMBs from HR complexities, TriNet offers access to human capital expertise, benefits, risk mitigation and compliance, payroll and real-time technology. From Main Street to Wall Street, TriNet empowers SMBs to focus on what matters most—growing their business.

Go to **TriNet.com/Incredible** to get started or speak with a TriNet representative at 888.874.6388

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