

THE SMALL BUSINESS GUIDE

CHOOSING THE RIGHT PEO

How to get the most out of a Professional Employer Organization



THE SMALL BUSINESS GUIDE TO CHOOSING THE RIGHT PEO

TABLE OF CONTENTS

SHOULD YOUR BUSINESS USE A PEO?	03
WHAT IS A PEO?	05
CAN A PEO REALLY SAVE YOU MONEY?	07
WHAT SHOULD YOU LOOK FOR IN A PEO?	11
HOW CAN A CPEO BENEFIT YOUR COMPANY?	13

SHOULD YOUR BUSINESS USE

A PEO?

Running a small business is complicated. It's more than just doing what you do. There are taxes, regulations, filing deadlines, and more. Making mistakes can result in costly fines and lawsuits.

You may already be outsourcing payroll, and you may even have an HR manager on staff, but as you continue to grow, HR tasks become even more cumbersome.

Larger companies can steal away top-notch employees by offering better benefits than you can afford. You have to spend more time resolving employee concerns and less time growing your business.

You may feel like the business is running you.

Sound familiar?





**PEO CLIENTS GROW
FASTER, HAVE LOWER RATES
OF EMPLOYEE TURNOVER,
AND HIGHER RATES
OF BUSINESS SURVIVAL
THAN OTHER COMPARABLE
SMALL BUSINESSES.**

Source: The State of the PEO Industry: Markets, Value, and Trends. By Laurie Bassi and Dan McMurrer. McBassi & Company. September 2016.

WHAT IS A PEO?

A PEO, or Professional Employer Organization, works with businesses to help them manage payroll-related and certain human resources functions. Under a PEO arrangement, the PEO becomes the co-employer of your company's employees.

As the business owner, you retain control of operations and continue to manage your employees daily, while the PEO takes care of the bulk of payroll and HR tasks.

Most importantly, the PEO and your company share employment liability. All of your employees are paid under the PEO's Federal Employer Identification Number (FEIN).

A good full-service PEO arrangement saves you time and money, and lets you focus on growing your business, while minimizing HR risks.



HR TASKS

PEOs can manage the following:

- Payroll Processing
- Time & Labor Management
- Human Capital Management (HCM) Software
- Workers' Compensation
- 401(k)
- Benefits Administration
- Financial & Retirement Solutions
- Affordable Care Act (ACA) Assistance
- Human Resources Assessments & Consultations

CO-EMPLOYMENT

The contractual allocation and sharing of employer responsibilities between a PEO and its client.

Businesses that use a PEO are
50% less likely to fail and have
15% lower employee turnover
than industry averages.

Source: McBassi & Co whitepaper "Professional Employer Organizations: Keeping Turnover Low and Survival High" September 2014.

CAN A PEO REALLY

SAVE YOU MONEY?

Outsourcing the bulk of your HR tasks to a PEO can save you money in several ways:

HEALTH INSURANCE

PEOs have access to a larger pool of employees—all of their clients' worksite employees—so they can offer your company significantly better benefits packages, typically at a reduced cost to you. Your employees get great health insurance and your company improves its bottom line.

Even as a small business, a PEO client is able to offer large corporation benefit packages to its employees. This translates to better employee retention and recruitment. After salary, health insurance plays the largest role in an employee's consideration of a job offer, with 88 percent of candidates giving at least some consideration to the benefit (and 54 percent giving it serious consideration).

Source: www.frac.tl/employee-benefits-study/

WORKERS' COMP

Once again, the PEO usually has access to lower workers' comp rates than a small business can obtain on their own. A PEO can also conduct an HR assessment and risk analysis, helping you determine how to improve safety standards and eventually lower your worksite injuries and claims.

401(k)

When you combine your employees into the larger pool of a Multiple Employer Plan (MEP), the PEO has greater bargaining power on your behalf and can secure better rates. You also get to avoid the nightmare of plan administration, while reducing fiduciary liabilities and potentially costly fines.

COMPLIANCE

The large number of laws and regulations that a small business must follow is ever-changing and can be confusing. Even small mistakes can result in costly fines. A good PEO has a team of experts that knows the in-and-outs of employment regulations, and co-employment reduces, and in some cases, eliminates these risks altogether (more on that when we discuss certified PEOs).


TIME

How would you like to have all of that time spent on payroll taxes, HR and workers' comp negotiations back? How much faster could you grow your business if you dedicated that time to your core business? Getting back that time is one of the main reasons that 70 percent of PEO clients report revenue increases since entering in a PEO agreement, and have doubled growth compared to non-PEO companies.

CAN PEOS HELP
**YOUR
BUSINESS
GROW?**

70%
Companies using a PEO report revenue increases of more than 70 percent.

PEO clients' revenue growth is twice that of comparable to non-PEO firms(10% versus 5%)



PEOs provide access to more HR services at a cost that is almost \$450 lower per employee, compared to companies that manage their HR services in-house.

Source: McBassi & Co whitepaper "Professional Employer Organizations: Keeping Turnover Low and Survival High" September 2014

BY THE NUMBERS

14x Growth Rate

The compounded annual growth rate of the PEO industry is roughly 14 times higher than the compounded annual growth rate of employment in the economy during the same period.

\$176 billion

Total earned by 3.7 million WSEs employed by PEOs.

907

PEOs in the U.S.

15 %

The PEO industry's 175,000 clients represent 15 percent of all employers with 10 to 99 employees.

12.1%

PEOs represent 12.1 percent of all employment by private sector employers that have 10 to 99 employees (the size of most PEO clients).

2.4%

PEOs represent 2.4 percent of civilian employment in the U.S.

YOUR PEO

MUST HAVE

HR solutions are as unique as your business. Here are four areas you should look for in a PEO.

1

CPEO DESIGNATION

This newly established PEO certification program (CPEO) protects your company from employment tax liabilities.

2

MASTER HEALTH PLAN

PEOs can offer similar comprehensive health insurance benefits, normally only available to large corporations, at much lower rates.

3

LATEST TECHNOLOGY

Cloud-based technology allows your team to administer every aspect of HR around the clock, across all devices, and from anywhere in the world, securely, and in real time.

4

GREAT CUSTOMER SERVICE

It's ideal when a PEO can save you time and money, but don't overlook the importance of great customer service. Make sure your PEO has a support team you can contact that knows who you are and treats you like a business partner, instead of just a client.

CERTIFIED PROFESSIONAL
EMPLOYER ORGANIZATION

Why CPEO?

One way to narrow down the field of possible PEO partners is to check to see if they are Certified by the IRS.

This newly established PEO certification program (CPEO) is a stamp of approval from the IRS that further protects your company from employment tax liabilities. This designation also saves you money, and gives you the peace of mind of knowing that the PEO has been vetted and certified by the IRS.

The IRS established the voluntary certification program under the Small Business Efficiency Act (SBEA) of 2014, which passed through both houses of Congress with rare bipartisan support and was signed by President Obama.

The Small Business Efficiency Act gives CPEOs the authority to collect and remit federal employment taxes. CPEO customers may also qualify for specified federal tax credits.

PEOs that applied to become CPEOs went through a strict vetting process. The IRS's certification process for CPEOs is involved, demanding and detailed. Both the initial application and the ongoing compliance portions require the submission of detailed financial information, background checks, questions about operations, historical information, experience, certifications and attestations from the CPA and executives of the CPEO. IRS agents spend hours with each application to thoroughly review and analyze the CPEO to determine if it meets qualifications to receive certification. The IRS maintains a list of CPEOs on its website.

Certified PEOs have proven to be industry leaders that have set a high standard of excellence and are now certified as trustworthy by the IRS.

HOW EXACTLY CAN A

CPEO BENEFIT YOUR COMPANY?

ASSURANCE

CPEOs have been thoroughly vetted by the IRS so you can be assured that they are a reputable, compliant, and stable Professional Employer Organization.

SOLE PAYROLL TAX LIABILITY

The IRS holds only the CPEO liable for federal payroll taxes—not your company. A certification designation means that the IRS cannot look to the client for federal payroll taxes, but only to the CPEO.

FICA & FUTA WAGE BASE RESTART

If you begin a relationship with a CPEO in the middle of the year, you will not have a wage base restart. A CPEO is deemed a successor employer. Therefore, your company will have no wage base restart at the beginning of the relationship.

FEDERAL TAX CREDITS

Your company, and not the PEO, is entitled to any federal tax credits. Also they are required to give you information necessary to claim any applicable credits.

BONDED

CPEOs are required to have a bond, up to \$1 million, to cover federal taxes in the event something goes wrong.

**OUT OF NEARLY
1,000 PEOS IN THE
UNITED STATES,
LESS THAN 50 HAVE
BEEN DESIGNATED
AS CPEOS.**

Source: www.irs.gov/pub/irsutl/list_of_cpeos.pdf



An aerial photograph of a group of people on a beach. In the foreground, a person is lying on their back on a dark towel, wearing a light blue shirt and dark pants, with their legs raised. Another person is sitting next to them, wearing a colorful patterned top. A pair of teal flip-flops is on the sand nearby. The background shows more people and the ocean under a bright sky.

MASTER HEALTH PLAN

WHAT IS A MASTER HEALTH PLAN?

PEOs are able to pool together all of the employees of their clients into one group. Collectively, the large scale of this employee pool allows PEOs better bargaining power for rates and benefits.

This master health plan is attractive to small businesses for the following reasons:

BETTER BENEFITS

Provides more comprehensive benefit packages for your employees, even as a smaller company.

LOWER PREMIUMS

Bulk rating and composite rates, not age-banded, are lower and less volatile than that of larger employee pools.

EASY ADMINISTRATION

Small businesses can save time by outsourcing all of the health insurance admin duties to the PEO.

START ANYTIME OF YEAR

There's no penalty or wait period. Your employees can start any time during the year.



LATEST TECHNOLOGY

Human Capital Management software has become standard in every well-run business. Payroll, timekeeping, human resources and talent management can now be tracked from your laptop and even your phone.

When shopping for the right PEO, make sure they use enterprise-level software that has a user-friendly interface and a mobile app. More than likely the PEO can provide the software at a lower cost than going directly to the software company, and they will help onboard your employees and train your staff.



GREAT

CUSTOMER SERVICE

Saving money and time makes entering into a PEO agreement an easy decision for many small businesses. Sometimes, a company may jump into an agreement with a large provider just to save a few dollars, but when the inevitable problems arise, they have trouble getting anyone on the phone. They turn into a number.

When choosing a PEO, make sure to factor customer service into the equation. Make sure you have a real person who knows your account that you can call if something goes wrong. When an employee has a critical payroll issue or if there is a major HR hurdle, you want to know that your PEO is going to be there for you.



A RELATIONSHIP BASED ON

TRUST

Above all, you have to trust your PEO. They will be handling sensitive data, such as Social Security numbers and financial information. Get references and research the PEO. Find out what people are saying. A good PEO relationship is founded on trust.

IS IT TIME TO CONSIDER A PEO?

No business is small when it's yours.

You have a passion to do what you do, to take care of your clients, and to grow your business. But the administrative burdens of payroll and human resources are time-consuming, expensive, and confusing. They pull you away from your core business and make it harder for you to maximize growth.

If you are looking for a way to save money, reduce liability, offer better benefits to attract and retain great employees, and save time so you can get back to doing what you do best — the reason you started a business in the first place — then it's time to explore a partnership with a trusted PEO.