

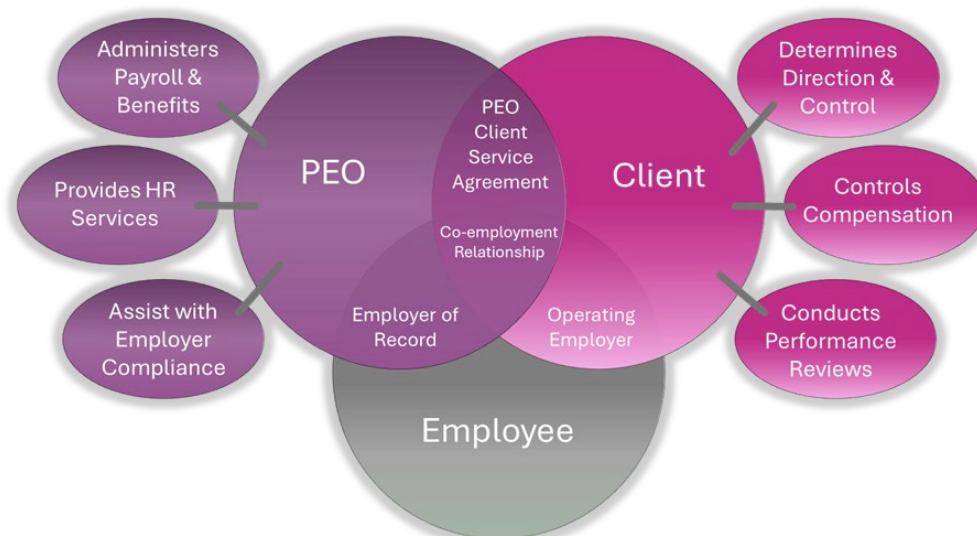


Is outsourcing human resource functions to a PEO right for your business?

Do you spend time and effort on human resources tasks that you would rather spend growing your business? Do you fear that you are not compliant with all governmental regulations? If you answered “yes” to either of these questions, then a PEO might be right for your business. By working with a PEO, you can free up valuable time and resources and ensure governmental compliance.

What is a PEO?

A PEO, or professional employer organization, is a company that provides human resource services to businesses through a co-employment relationship. Under this relationship, the PEO performs employee administration tasks, such as payroll and benefits administration, as well as employer compliance. PEOs are the employer of record, but your business retains full authority over its workforce.



What are the Advantages of a PEO?

While there are many benefits to working with a PEO, statistics presented by the National Association of Professional Employer Organizations (NAPEO) indicate other intrinsic values that PEOs may provide. NAPEO resources show that businesses in a PEO arrangement grow 7-9% faster, have 10-14% lower turnover, and are 50% less likely to go out of business.

PEOs assist in all aspects of employee management from onboarding through retirement as outlined below.

- Employee Benefits Access and Administration** – Because PEOs typically manage thousands of employees they can offer greater access to high-quality benefits at competitive prices. PEOs provide a wide variety of benefits through PEO-sponsored benefit plans, such as medical, prescription, dental, and vision coverage; healthcare, flexible spending, and dependent care accounts; and life and disability benefits. Additionally, as the plan sponsor, the PEO handles the related administrative tasks, such as employee enrollment and termination, providing legal notices, handling leave administration, and negotiating with carriers at renewal. Many PEOs will provide communication materials, plan documents and summaries, and engage with employees to assist them in understanding and utilizing their benefits.
- Workers' Compensation Administration** – Workers' compensation insurance requirements for small employers vary from state to state and can be complex. Due to the PEO co-employment relationship, many states require that workers' compensation be purchased and maintained by the PEO. Most PEOs consolidate all employees under one master policy. These master policies allow the PEO to leverage the economies of scale for all employers to obtain lower experience modification rates and optimize workers' compensation class codes to obtain lower premiums. Because PEOs charge a premium based on real-time payroll, a large up-front premium deposit and a year-end reconciliation audit are no longer necessary. In addition to lowering costs, mitigating fraud, and streamlining administration, PEOs can also assist in developing worksite safety and return-to-work programs.
- Retirement Plan Administration** – Some PEOs sponsor retirement plans, such as a 401(k) plan that allows your employees to defer compensation for retirement while taking advantage of employer matching or other contributions. As plan sponsor, the PEO will manage the 401(k) administrative responsibilities and regulatory requirements, including compliance testing, distribution processing and required notices. The PEO will also provide educational materials and an online experience that can help your employees achieve better retirement outcomes.
- Payroll Administration** – PEOs are responsible for processing payroll and those certified by the IRS may also report and remit payroll taxes on your behalf. From W2 processing to time and attendance tracking to tax filing, a PEO can ensure compliance with all local, state, federal tax laws, bringing you peace of mind. Additional PEO services include employee development training.
- Human Resources Compliance** – Employment law is complex and ever-changing. Numerous state and federal agencies hold the power to fine you if you do not comply. A PEO assists with maintaining your compliance with the countless laws, regulations, and rules that apply to your business. Additionally, a PEO shares liability associated with certain employment-related claims, including wrongful termination. By utilizing the PEOs experts, you can avoid or mitigate a potentially costly litigation. An experienced PEO can also foster diversity, equity, and inclusion by helping you develop and implement policies and procedures that will create a more positive and productive work environment and remain compliant with Equal Employment Opportunity laws.

What are the Disadvantages of a PEO?

Businesses often want to remain in control of benefit plans, insurers, and risks. Owners must also be careful to ensure the role of building workplace culture does not fall within the responsibility of the PEO. However, that can be difficult because the PEO is responsible for human resource functions. Below are some disadvantages of using a PEO, along with the associated costs of a PEO.

- **Limited Choices** – While PEOs can bring a myriad of choices to you that your business may not have been able to access, PEOs usually have their own relationships with a specific set of companies that offer benefits, and those benefits may not be customizable.
- **Loss of Control** – While you may feel you are best qualified to oversee your hiring, training, discipline and firing, a PEO will provide a strict policy to enforce compliance. While this may feel like a loss of control, business owners must follow procedures as instructed to mitigate risk and protect the business from the legal or financial ramifications of non-compliance. Since the employees are technically leased to the employer through the PEO, all communication and decisions must flow through the PEO. This could have an impact on company culture.
- **PEOs Can Make Mistakes** – Although PEOs are designed to help you comply with labor laws, there is still a chance they might make a mistake or forget to do something that leads to consequences for you and your business. PEOs are responsible for administering payroll and filing payroll tax returns, which can be one of the most significant benefits of partnering with one. However, since employees are considered co-employees of both the PEO and your business, the IRS still considers you liable if there are any errors in those filings.
- **Cost** – PEO fees are based on the number of employees and services used and can be expensive. PEOs may also charge monthly fees per employee, and businesses may incur technology and platform fees for accessing the PEO's specialized human resources and payroll software. PEO may charge a percentage of payroll or a flat fee per employee. Typical costs range between 2-12% of payroll or between \$10 and \$40 per employee per pay period, depending on services. However, you must weigh the cost of having an employee that handles all these tasks against the costs of the PEO as well as consider the savings from lower insurance premiums.

How to choose the best PEO for your business?

With nearly 500 PEOs operating in the United States, you want to partner with a PEO that has a proven track record of success in your industry. Do your research into the PEO's history, customer reviews, and even ask for references from businesses like yours. Additionally, ask the PEO for any certifications or accreditations that demonstrate their commitment to providing quality services, such as Internal Revenue Service (IRS) Certification and Employer Services Assurance Corporation (ESAC) Accreditation. The National Association of Professional Employer Organizations (NAPEO) provides a resource tool for finding PEOs and checking their audit and certification status.

If you think a PEO is right for you, reach out to our Symphony Consulting team at consulting@symphonyrisk.com. We will help you connect with a trusted PEO, assist you with your benefits and services selections, and oversee implementation.