PEOs and Small Businesses: **Real Life Solutions for HR and Employee Benefit Challenges**

Small business employers know all too well how HR has changed over the last few decades, growing much more complex and time consuming—especially around compliance and risk management. Modern human resources challenges have caused many business owners to seek alternative solutions to their HR troubles, with one becoming far more popular—Professional Employer Organizations, otherwise known as PEOs.

What is a PEO?

Simply put, PEOs are professionals at employing people. PEOs are the most comprehensive form of HR outsourcing that are currently available to small businesses. The core services a PEO provides are:

- Payroll
- Compliance
- Robust employee benefits and benefit administration
- Workers compensation insurance and its administration
- Risk compliance
- Plus an entire HR support system tied into an HRIS technology platform.

There are other companies out there that offer these services, however it's really the concept of Co-Employment that defines the PEO model.

So what is Co-Employment then?

According to NAPEO:
"Co-employment is the contractual allocation and sharing of employer responsibilities between a PEO and its client."

How does Co-Employment work?

The client signs a service agreement (CSA). This CSA agreement outlines the responsibility that each party has in managing this workforce.

The client would be considered the worksite employer, and they would continue to manage their employees just as they always have. They determine who they hire, who they fire, how much they pay them, how they train them. The PEO becomes the employer of record so they essentially inherit a large amount of work, responsibility and risk.

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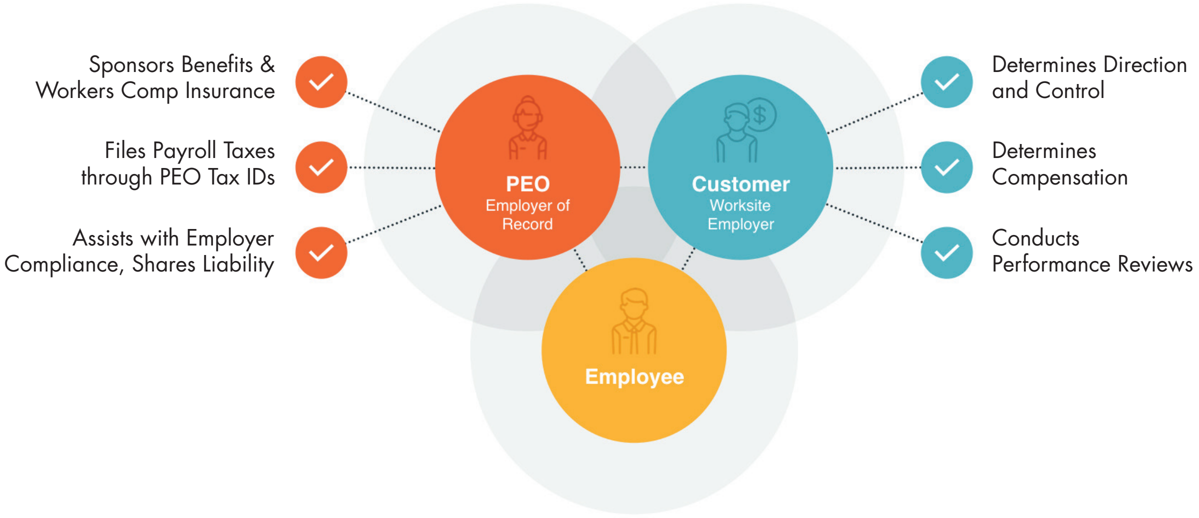
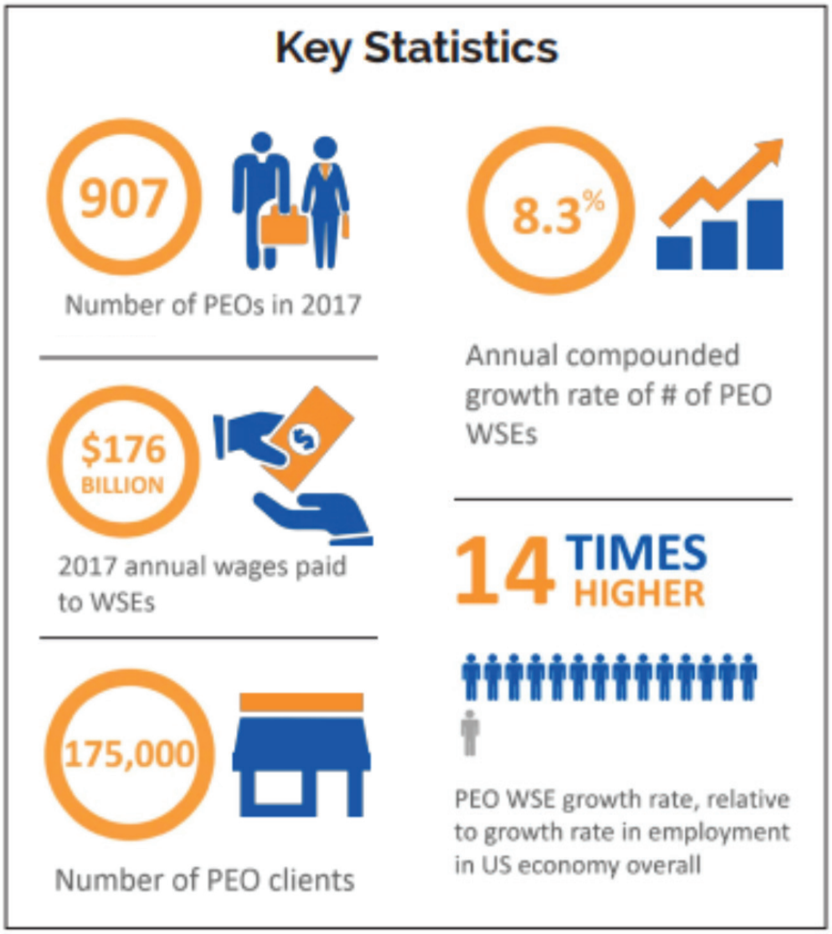


Benefits of working with a PEO

There are 907 PEOs in the United States, operating in all 50 states. They provide services to 175,000 small and mid-sized businesses, employing 3.7 million people.

Why do companies choose to work with a PEO? Perhaps the biggest advantage smaller employers get from a PEO is gaining access to the same health insurance benefits as large organizations, and often at lower rates than what they have now. Since PEOs pool all their clients together when shopping for health insurance, they can offer healthcare options that are usually only available to larger companies.



PEO Industry at a glance, from NAPEO: National Association of Professional Employer Organizations

The result is that small businesses get to offer higher-quality health insurance to their employees – a much needed perk for retaining current staff and recruiting new team members. But more competitive health insurance isn't the only advantage employers gain from working with a PEO. Clients also get to enhance their entire employee benefits package. Additionally, a recent report from the National Association of Professional Employer Organizations (NAPEO) revealed statistics that show just how valuable a PEO can be for employers:

Solutions: **The Statistics of Working with a PEO**

- **Companies who use a PEO save 35% on HR administration costs**
- **Partnering with a PEO lowers employee turnover by 10% to 14%**
- **A PEO can help small businesses grow 7% to 9% faster**
- **70% of PEO clients reported revenue increases after their partnership began**
- **PEO clients are 50% less likely to go out of business**

Solutions: **The Services Offered by PEOs**

PEOs offer many services and products that can help small employers improve their HR practices that tend to fall into one of three main categories: employee benefit services, HR services, and risk and compliance services.

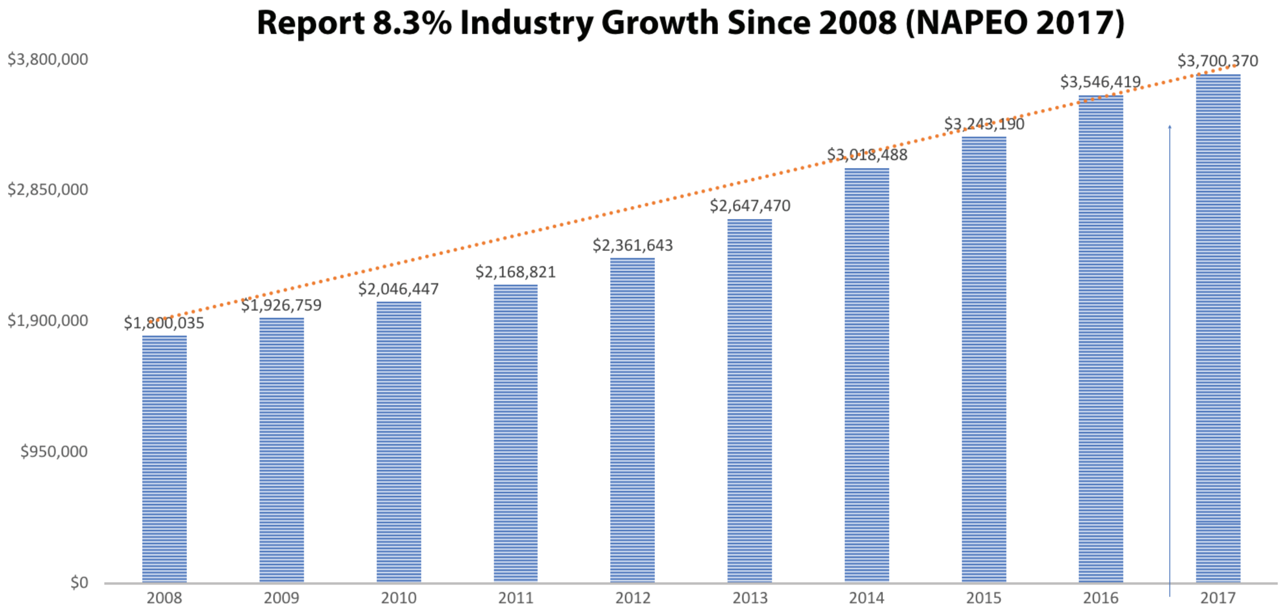
Employee Benefit Services:
- Healthcare Benefits
- Life, Disability, Dental and Vision Plans
- 401(k) and Other Savings Plans
- Voluntary Benefits
- Complimentary Benefits

HR Services:
- HR Management
- Payroll and Tax Solutions
- Performance Management Solutions
- Recruiting Services
- Training and Development
- Scheduling
- Time and Attendance
- Compensation Consulting
- Culture Building Consulting

Risk and Compliance Services:
- Workers' Compensation Management
- Workplace Safety Improvements
- Affordable Care Act (ACA) Compliance
- Leave of Absence Management
- I-9 Verification
- OSHA Support
- Employee Policies and Notifications
- Return-to-Work Programs
- Employee Handbooks and Posters

The PEO Market Today

The PEO industry has seen growth of about 8.3% each year from 2008 to 2017, and it continues to grow. Despite the large number of PEO choices, 43% of the market is dominated by the top 5 largest PEOs in the industry. The next 25 PEOs have 22% of the market share. In other words, 65% of the market share is split between 30 PEOs with 870 or so sharing the remaining 35%.



What is the ideal company to benefit from a PEO?

While small and medium-sized employers tend to be the most common clients, there are other factors that may influence whether a company could gain the most from a PEO:

How Many Employees? PEOs work with start-ups with as few as 1 full-time employee to medium-sized organizations with up to 500 employees. However, each PEO will have its own threshold.

A Desire for Growth. One of the key factors (especially for start-up companies) when thinking about using a PEO is having growth goals for the business. As seen with some of the statistics earlier, PEOs help their clients grow, and business owners with a growth-oriented mindset can get the most out of this solution.

Looking to Offer Enhanced Employee Benefits. One of the main reasons why business owners consider a PEO is to improve the benefits they can offer to their workforce. In addition to tailored health insurance plans, PEO clients also get to offer a wide variety of voluntary and complimentary benefits that help with recruiting and retaining employees.

Operate in Specific Industries. The services offered by PEOs may be better fits for businesses that operate in certain industries. Some of the most common include professional services, marketing, technology, and financial services. Working with our team at PEO Spectrum can help find a PEO that can tailor their services to your business and industry.

Common Myths of Working with PEOs. There may be some reservation to working with PEOs—the fear of losing control of the business, not seeing any savings and not fully understanding what a PEO even is. Let's dispel some of the common myths:

Myth 1: "A PEO won't save my business any money"

A barrier for some business owners to explore PEOs is the thought that they are too expensive and won't save a business money or reduce HR-related costs.

However, this is a common myth about PEOs that isn't true. As we saw earlier in this eBook, NAPEO found that PEOs help their clients save up to 35% on HR administration costs.

Often, small and medium-sized employers stand to save money and become more efficient through a PEO partnership.

Myth 2: "I am going to lose control of my business"

Perhaps the most well-know PEO myth is the idea that this partnership will result in owners losing day-to-day control of their business.

However, this is completely false. Business owners do not lose any control when working with a PEO. They retain day-to-day responsibilities as well as all talent management responsibilities such as hiring, firing, promotions, and compensation changes.

In fact, client's ultimately gain from this relationship, with the PEO becoming a valuable partner that handles many HR tasks and responsibilities (while helping to streamline all HR strategies).

Myth 3: "PEO is really just employee leasing"

Next to losing business control, the next most popular myth involves the arrangement that takes place between a PEO and their clients, called co-employment. In this relationship, a client's employees are employed by two different entities – the client company and the PEO. Each is responsible for certain employer rights, responsibilities, and HR tasks.

The myth around co-employment is that it is the same thing as employee leasing - the practice of supplying new workers or contractors to a client, usually on a temporary basis.

However, co-employment and employee leasing are very different from each other. PEOs do not provide workers to their clients and do not control hiring/firing decisions. Instead, these responsibilities stay with the business owner – busting this popular PEO myth.

Shopping for a PEO: **Best Practices**

Maybe now you have decided you would like to look into a PEO, but are not sure how to go about finding the right one for your business. Here are some best practices that companies use to find PEOs.

1. Be sure to shop multiple PEOs and let them know you are doing so.
2. Shop financials first. To avoid emotional decisions with a specific service, technology, or person, consider their costs and your budget before going forward.
3. Standardize the RFP data to ensure all PEOs are quoting the same risk, and to aid clarity in the quote comparison process, be sure to provide the exact same data to each PEO.
4. Comply with underwriting requirements. Not providing certain information will lead an underwriter to assume the worst, which leads to weak quotes. Use NDAs and reference-based diligence to control privacy.
5. Request the HR person that will be servicing your account.
6. Utilize references through your professional network.
7. Utilize references from peer level companies.
8. Embrace a final negotiation.
9. If a PEO can lock in their medical renewal, it's usually more valuable than a reduction in administrative fees.
10. Utilize a professional service, such as PEO Spectrum.

PEO Spectrum by the Numbers

YEAR FOUNDED
2009

$9+ million
totals saved in 2018 by our clients

5,000+
CLIENTS

41 states
represented

$1,035
average savings per employee

20,000+
quotes and analysis prepared for clients

We are not be the only company that can help you shop PEOs, but we have been doing this the longest and have successfully provided more than 20,000 quotes to over 5,000 clients, saving a total average of $9+ million each year. Our PEO Comparison Service is completely free and has no obligation. We are also available to answer any questions and offer regular webinars and information on PEOs.

PEO Spectrum
Peospectrum.com
info@peospectrum.com
877.736.4249