

What is a Professional Employer Organization?

## THE PEO ADVANTAGE



**A** Professional Employer Organization (PEO) is a business also known as “employee leasing” or “staff leasing.” PEO’s provide small and mid-sized businesses of all types, with an integrated suite of services including; HR administration, compliance management, safety and risk management, payroll and tax administration, legal adherence and employee benefit solutions. The company operates with its clients as a “co-employer” of the individual workers for the purpose of the HR administration and operations of running a business.

PEO’s help clients focus on their core competencies and displace non-revenue HR administration and operations to maintain and grow a clients bottom line. The PEO concept is a combination of the simple outsourced payroll service business and a staffing model. The PEO has the legal, compliance and administrative responsibility for the workers, while the client company has the management and supervisory responsibility.

Because the PEO becomes an employer of record for its client’s workers, it can leverage administrative management across a greater number of workers. More importantly it can aggregate **Workers Compensation** and **Unemployment Insurance** across a wide range of job classifications and a significantly greater population compared to that of each individual client. This aggregation of risk gives the PEO superior purchasing power with the insurance companies and diversifies individual loss risks in a way that reduces overall insurance rates, so that, they can pass along some of these cost savings to their clients. PEO’s take an active role with their clients

to provide safety consulting and close management of workers compensation and unemployment claims in order to minimize the cost to their clients.

A PEO delivers these services mentioned above by establishing and maintaining a co-employer relationship with the employees at the client’s worksite and by contractually assuming certain employer rights, responsibilities and risks, thus strengthening the client company.

The major trend driving more companies to use PEO services is the compliance burden of increasing government regulations. Successful PEO’s become adept at managing these requirements and removing the administrative burden from the client while providing the client assurance that, they will not be in violation of an unknown regulation. Keeping in compliance with the burden of **governmental regulations** and **laws** has increased the need for the PEO industry and its structure. PEO’s take the compliance burden off the business and keep the business in adherence guidelines with all governmental laws and regulations.

Businesses today need assistance in managing the increasingly complex matters such as EEOC, Department of Labor, OSHA, Health Benefits, Workers’ Compensation claims, payroll tax compliance and Unemployment Insurance claims, just to name a few. Harnessing the synergy of a PEO enables companies to share these responsibilities and provide expertise in those HR management functions.

Get answers to common questions about PEOs

# FREQUENTLY ASKED QUESTIONS

## 01 / WHY USE A PEO?

To make a company more productive, efficient, effective and profitable. It is difficult to maximize the “business of running the business” if valuable time is spent on non-productive, time-consuming tasks that do not add to the productivity, operational efficiency and profitability of a company.

Most business owners do not have the knowledge, skill, or time to devote to human resource and risk management training, develop accounting skills, obtain and maintain current knowledge of regulatory compliance, or to learn and understand the complexity of commercial insurance and employee benefit programs.

A PEO brings a one-stop, total turn-key, comprehensive solutions to these and other compliance issues facing a business owner.

### Benefits of a PEO Arrangement for your Business

*For the business owner:*

- Controls costs and helps free up more cash flow through an HR expense model reduction and pay-as-you-go workers' compensation plans
- Saves time and paperwork hassles (displaces non-revenue HR operations and administrative tasks, so that, your client can focus on running the businesses top and bottom line)
- Liability shifts for some of the HR functions from the client onto the PEO structure
- Reduces turnover and attracts better employees
- Provides quality, affordable, employee benefit packages
- Provides professional human resource services (employee handbooks, forms, policies, procedures, etc.)
- Provides professional safety and risk management services
- Reduces accounting costs

- Provides payroll administration
- Provides professional compliance with State, Federal and governmental regulations and laws
- Tracks work-related injuries and provides claims management for workers compensation and unemployment insurance
- Enhances the business profile for potential asset liquidation

*For the Employee(s):*

- Comprehensive benefit packages previously unavailable, now accessible
- Better employer/employee communications
- Payroll on-time and accurate
- Professional assistance with employment-related problems
- Professional employee handbooks
- Extends statutory protection to more employees
- Up-to-date information on labor regulations and workers' rights with worksite safety
- Efficient, responsive and professional claims processing
- Portable benefits (employees can move from one PEO client to another without the loss of eligibility for benefits)

*For the governmental view:*

- More professional preparation and reporting
- Accelerated collection of taxes
- Extends medical benefits to more workers
- Expands the communication of government requirements and changes to small businesses and ensures compliance
- Resolves many problems before they reach court
- Allows governmental agencies to reach businesses through a single-employer entity



## 02 / WHAT IS THE ROLE OF PEO'S IN TODAY'S WORKPLACE?

### PEO's – A Great Response to a Market Demand For Change

American businesses are undergoing fundamental changes in human resource management and the PEO industry is a great response to those market demands. There are several factors driving the growth of this industry. First, over the last two decades, this nation has seen a significant increase in employment-related federal, state, and local laws and regulations. Second, the expertise required to manage a small to mid-sized business has outgrown the experience and training of many entrepreneurs who started these businesses. Third, working Americans demand quality, low cost health care, retirement savings



plans and other employee benefits for themselves and their families. In response to these demands, the PEO industry evolved from the need to divide the business of business into manageable parts and the need for small business to achieve economies of scale.

### Helping Entrepreneurs With The "Business of Employment"

PEO's offer to their clients and worksite employees the services and expertise of a personnel department within a large corporation at their company. Few, if any, small businesses can afford a full-time staff consisting of an accountant, human resource professional, lawyer, risk manager, benefits manager and a manager of information services. Professional employer organizations offer this expertise and more to their clients.

By providing these services, professional employer organizations enable their clients to concentrate on their business without the challenges and distractions associated with the "business of employment." As a result, PEO's enhance the profitability of their client companies by reducing the costs related to monitoring of and compliance with, employment laws, with all of this being said, significant costs for failure to comply with such laws and regulations are not incurred, therefore reducing a client's HR Model Expenses more than what savings appears on paper.

## 03 / WHAT DOES "CO-EMPLOYMENT" MEAN?

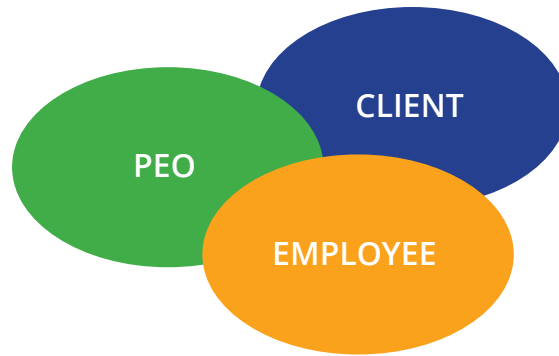
The PEO relationship involves a contractual allocation and sharing of employer responsibilities between the PEO and the client, this shared employment relationship is called "co-employment". When evaluating the employer role of either the PEO or the client, the facts and circumstances of each employer obligation should be examined separately. Since neither party alone is responsible for performing all of the obligations of employment, each party will be solely responsible for certain obligations of employment, while both parties will share responsibility for other obligations. When the facts and circumstances of a PEO arrangement are examined appropriately, both the PEO and the client will be found to be an employer for some purposes, but neither party will be found to be the employer for all purposes.

Both the PEO and the client company establish

common law employment relationships with worksite employees. Each entity has a right to direct and control worksite employees- the PEO directs and controls worksite employees in matters involving human resource management and compliance with employment laws. The client company directs and controls worksite employees in the manufacturing, production and delivery of its products and services.

The client company provides worksite employees with the tools, instrumentalities and place of work. The PEO ensures that worksite employees are provided with a workplace that is safe, conducive to productivity and operated in compliance with employment laws and regulations. In addition, the PEO provides worksite employees with workers' compensation insurance, unemployment insurance and a broad range of employee benefits programs.

# 04 / CAN YOU SHOW ME "CO-EMPLOYMENT" AND HOW MY COMPANY LOOKS BEFORE AND AFTER A PEO?



**BEFORE PLATINUM  
PEO RESOURCES**

## Client Management

Supervision	Payroll	Employer Taxes	Insurance	Hiring & Firing
Pay Negotiation Warning Notices  <i>Review:</i> Management Reports Overtime Departmental Costs Product Costs Employee Handbook	Report Hours Write Checks Compute Pay Compute W/H Reconcile Accounts Compute S.S./Medicare  <i>Track:</i> Vacations Sick Pay Eligibility for Benefits Probation Period Anniversary Dates Management Reports Employee Verification Garnishment Child Support	State Unemployment Federal Unemployment Federal Withholding FICA Quarterly Payments 940 941 W-2's Penalties	Workers Comp. Group Health Ins. Life & Dental Ins. Negotiate Rates Inquiries Claims COBRA Pay Premiums Section 125 Admin.	<i>Review &amp; Process:</i> Employment Applications W-4 I-9 Verification Discharge Notices Wage & HR. Comp.

**AFTER PLATINUM  
PEO RESOURCES**

## Client Management

Supervision	Payroll	Employer Taxes	Insurance	Hiring & Firing
Pay Negotiation Warning Notices	Reporting Hours	N/A	N/A	Interviewing Employment Applications Assignment Termination

**"This is a complete, long-term, turn-key HR administration & operations solution!"**



## 05 / DO PEO'S ENHANCE COMPLIANCE WITH EMPLOYMENT LAWS AND REGULATIONS?

Yes, by becoming co-employers, PEO's fundamentally alter the relationship between worksite employees and clients. PEO's assume substantial liabilities in undertaking human resource functions on behalf of their clients. PEO's provide worksite employees with coverage under the entire spectrum of employment laws and regulations. Some of these liabilities include federal, state and local discrimination laws such as; Title VII of the 1964 Civil Rights Act, the Age Discrimination in Employment Act, Americans with Disabilities Act, Family and Medical Leave Act and the Pregnancy Discrimination Act. In addition, PEO's assume liability

under the Fair Labor Standards Act, Immigration Reform and Control Act, COBRA, The Health Insurance Portability and Accountability Act (HIPAA), Employee Retirement Income Security Act (ERISA) Federal Insurance Contributions Act (FICA) Federal Unemployment Tax Act (FUTA), State Unemployment Tax Act (SUTA) and Workers Compensation laws.



## 06 / DO PEO'S ENHANCE COMPLIANCE WITH EMPLOYMENT TAX REQUIREMENTS?

Yes, PEO's assume responsibility and liability for payment of wages and compliance with all rules and regulations governing the reporting and payment of federal and state taxes on wages paid to its' employees. By assuming this liability, PEO's accelerate the reporting and payment of these taxes. Prior to entering into a relationship with a PEO, most small to medium-sized businesses accumulate tax liability in an amount requiring only monthly or quarterly deposits. Because a PEO assumes this obligation, it is not uncommon for its daily tax liability to be over \$10,000.00, thereby requiring daily electronic fund

transfers.

Moreover, there is generally a higher rate of compliance with these laws by a PEO than by its clients prior to entering into a PEO relationship. As stated, PEO's are in the business of monitoring and ensuring compliance with these laws. PEO's employ full-time, specialized staff that are responsible for complying with federal and state employment tax laws. The PEO is charged with monitoring changes in these laws and assuring that employment taxes are calculated correctly and remitted on a timely basis.

## 07 / IS A PEO THE SAME AS A TEMPORARY STAFFING ARRANGEMENT?

No. PEO's normally do not recruit, train or provide staff to their client companies as do temporary staffing firms. A PEO arrangement involves a long-

term employment relationship as the "co-employer" of a pre-existing or continuing work force that is in place at the clients business.

## 08 / DO I LOSE MY EMPLOYEES TO A PEO?

No. PEO client companies and the PEO become partners in the co-employment of the workers. The client company retains responsibility for the day-to-day management of the workers and "hire and fire" authority, promotions and provide workplace

supervision as required. The PEO takes care of all other HR operations and administration. When the client and the PEO are combined, a complete HR, functional spectrum is formed.

## 09 / WILL A PEO ALLOW US TO KEEP OUR CURRENT HEALTH PLAN?

Yes, many PEO's offer the ability to carve out those services for a client that are already handled by another third party. PEO's work with you to provide a complete long term HR solution and the "unbundling

of these services" is just one way that they accomplish this.



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