

THE EXECUTIVE'S GUIDE TO PEOS

**How they work and why
they're good for business.**



A PEO manages your HR responsibilities... *so you can get back to business.*

Perhaps you have a vague idea of what a **Professional Employer Organization** (PEO) does or possibly have an inkling about ways in which a partnership with a PEO could help your business.

This eBook will guide you through truly understanding the value of a partnership with a PEO, answer frequently asked questions, and walk you through the typical steps involved in starting a business relationship with a PEO.

While this document is comprehensive and detailed, please know that every PEO operates slightly differently. It is essential to have direct conversations with your potential PEO partners and seek legal advice where appropriate.

Let's dig in!

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Ready, set, quote...

WHAT IS A PEO?

Professional Employer Organization

PEOs enable businesses to cost-effectively outsource the management of human resource, employee benefits, payroll, and workers' compensation, giving the organization the time to focus on its core competencies to maintain and grow its bottom line.

Businesses today need help to manage increasingly complex employee-related matters such as employment law compliance, health benefits, workers' compensation claims, payroll, payroll tax compliance, and unemployment insurance claims. The PEO coordinates these responsibilities and provides expertise in human resource management.



THE PEO INDUSTRY

- Provides services to 175,000 small and mid-sized businesses, employing 37 million people
- Clients represent 15% of all employers with 10-99 employees
- Employment grew at a rate 14 times higher than the overall economy's between 2008 and 2017
- To date, 40 states have adopted some form of PEO legislation and PEOs operate in all 50 states.



WHAT VALUE DOES A PEO PROVIDE?

Think of the possibilities for your organization if your administrative HR tasks were outsourced to a trusted partner. What could your organization accomplish? Would you spend more time growing your business, developing your people, enriching your company culture, or focusing on strategic ways to make your organization a best place to work? Maybe all of the above.

Dedicated and happy employees are essential to the growth and success of your organization. Some may argue that employees are your biggest asset. Yet, there are so many administrative tasks and compliance concerns that add up as your employee count grows.

The specific administrative services provided by a PEO may depend on the one you choose. However, you can generally expect that a PEO can provide:

Payroll Services

- Payroll processing
- Process deductions such as benefits or garnishments
- Withhold and file appropriate payroll taxes
- Issue direct deposits or checks
- Offer, assist, and train employees on Time & Attendance solutions
- File and distribute W-2s and W-3s

Benefits Administration

- A menu of benefits including health, dental, vision, short and long-term disability, flexible spending accounts, retirement plans, employee assistance programs and more
- Benefits strategy and pricing
- Benefits and claims administration
- New hire benefit orientations
- Open enrollment management
- Benefit bill payment and reconciliation
- Processing of enrollments, terminations, and changes with carriers and in HRIS
- Claims management and support
- COBRA administration

HR Management

- HR and compliance guidance
- Employee relations guidance and support
- Handbook creation and roll-out
- Unemployment claims management
- Day-to-day support with new hires, changes, performance management, and terminations

- Leave of absence management
- Training and development
- Additional HR projects as needed

Risk Management

- Workers' compensation pooled policy
- Safety programs for managers and employees
- Compliance guidance with OSHA standards including reporting, inspections, and citations
- Claims management from negotiation to closure and return to work
- Employment Practice and Liability Insurance (EPLI)

WHY DO BUSINESSES OUTSOURCE TO A PEO?

There are many, and often multiple reasons that an organization would partner with a PEO. Here are some of the most common motives behind this powerful partnership.

Gain access to a full HR team of professionals for a fraction of the price.

Your business may have an administrative person in charge of payroll, benefits, or other HR functions. What you won't get out of this employee is the particular expertise that can be offered by a PEO. So why not allocate that employee to more mission-critical work while the experts handle your HR administration?

When someone without expertise in human resources is handling the administration, there is much room for error. Regardless of intent, you can be held liable for things like payroll mistakes and compliance issues. Likewise, you may be impacted by unnecessary unemployment rate hikes if your team isn't fighting the right claims. PEOs hire teams of professionals with expertise in HR compliance, payroll, benefits, risk management and safety, and much more. When you partner with a PEO, you gain access to all of these resources. Because you share the cost of these professionals with other companies, you are paying a fraction of the price for access to them.

Share business liability.

When you partner with a PEO, you each take a portion of the employment liability. You know the PEO will be looking out for your company when your liability is their liability. This gives business owners a great deal of peace of mind.

Keep your business compliant.

PEOs live and breathe HR. It is their business to keep up to speed on ever-changing employment law. Remember, a PEO shares liability with its clients. It is in their best interest to keep all of them compliant. When you partner with a PEO, you can rest assured that your business will have an updated employee handbook and the most compliant policies, procedures, and processes.

Offer better benefits to attract and retain the best employees.

As a small or mid-sized business, you may not have the means that your big competitors use to purchase loads of benefits for your employees. When you partner with a PEO, you gain access to the group's buying power and can use economies of scale to offer more and sometimes better benefits. Aside from health insurance, PEOs often offer an assortment of other benefits. For example, you may opt to take advantage of short and long-term disability, life, vision, or dental insurance. Perhaps you want to offer a 401(k) or employee assistance program (EAP). PEOs have access to many benefits and a variety of plans.

Avoid benefits shopping and administration.

Who has the time to shop around for the best benefits deals and to develop relationships with carriers for ongoing discounts and better rates? A PEO – that's who!

Also, consider the time it takes to orient and administer those benefits. A PEO will handle all of the orientations, questions, and administration for all of your benefits plans. They act as a liaison between your employees and the carriers to enact changes or settle claims issues. Bills go through the PEO so that you don't have to worry about reconciling any insurance bills.

Experience better workers' compensation rates.

A small or mid-sized company may be hit harder by a workers' compensation claim than that of a company with hundreds of thousands of employees. When you partner with a PEO and utilize their workers' compensation insurance, you are part of a larger pool of employees. Not only will claims have less of an impact, but the PEO has a dedicated team of risk and safety professionals who ensure everyone in the pool is operating safely. This lowers the number of claims in the first place.

Experience better unemployment rates.

This same concept applies to your unemployment insurance rates. If you have a small number of employees, the impact of a single claim can raise prices significantly. PEOs have the resources to fight unnecessary unemployment claims to keep insurance rates low for everyone.



Utilize technology to automate for efficiency.

Many times it doesn't make sense for a smaller company to invest in HR technology that will automate processes or make others simpler. Take advantage of the technology offered by a PEO to keep organized and efficient.

Access to all things HR in one place.

There may be times when you or your employees need a unique HR product or service. Your PEO has relationships with all types of HR vendors, allowing you to go to one place for all of your needs.

Need on-demand drug test screening?

Looking for online development opportunities? Onsite biometric screenings?

A good PEO develops relationships with all types of HR vendors, allowing their clients to take advantage of discount pricing.

People are never simple.

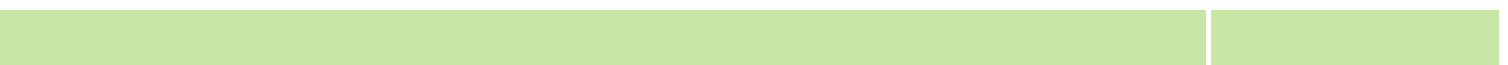
Your employees may be your biggest asset, but each comes with unique personalities, experiences, and beliefs. This is what makes your workforce so great. However, it can also present challenges.

A professional HR department will nip employee issues in the bud. Managers will be guided to handle situations professionally, and within compliance, so your employees will be more productive.



Experience **23-32%** lower
employee turnover

McBassi & Company 2014



WHAT TYPES OF BUSINESSES PARTNER WITH A PEO?

Does size matter?

Small and mid-sized businesses interested in growing are most often the ones partnering with PEOs. By outsourcing, they gain access to an entire group of HR experts (HR, benefits, payroll, risk, and compliance professionals) without hiring on each of these professionals full-time. However, organizations of all sizes will find value in these types of services.

Organizations approaching 50 or more employees have the added challenge of navigating another exhaustive list of employment laws (local, state, and national), and often consult with a PEO on complex compliance issues. Even larger organizations find value in outsourcing HR as they can supplement the talents of their current internal team or share the work when the HR complexities become burdensome. Even though these organization may have an internal HR team, they may find their team members are interested in growing and focusing on more strategic aspects of HR. This is a great time to outsource the administrative HR functions or hire professionals to work alongside the team to help them grow.

Ask your prospective PEO what their average client size is and what type of experience they have providing HR services to organizations similar to yours.

What industries work with PEOs?

Companies in a wide range of industries work with PEOs. Some PEOs may have more experience working in specific industries than others. Your PEO must be able to tailor an HR solution to meet the needs of your industry. Don't hesitate to ask a prospective PEO for references in your industry or with a company experiencing the same challenges you do.

What companies benefit most from PEO partnership?

Companies that strive to be the best places to work are the ones that will significantly benefit from working with a PEO. A PEO will guide HR strategies, as well as take on the administrative HR tasks, to help your business get to the next level. A fantastic company culture, the ability to attract and retain the best talent, and the desire to elevate and grow your people are critical characteristics of best places to work. The right PEO will help you get there.



Are **50%** less likely
to go out of business

McBassi & Company 2013

HOW DO I IDENTIFY THE RIGHT PEO FOR ME?

Finding the perfect PEO may seem like a daunting task. It is a significant relationship, and the right PEO will feel like an extension of your staff.

Following are questions every executive should ask when interviewing a prospective PEO partner.

Who will be my daily contact? What are their background and qualifications?

Your PEO should provide a primary point of contact to discuss service issues or HR questions. Sometimes, you may be assigned a full team of professionals who specialize in various areas of HR. Meet the contact or the team during the vetting process. Just like any on-site employee of yours, you will be working closely with these people. You will trust them with one of your most significant company assets – your people! Get a feel for their professionalism, knowledge, and ability to handle your common employee issues and questions.

How often will someone from your PEO visit my office or check-in?

The answer to this question may depend heavily on your company's needs. However, a great PEO will ask, "how often would you like someone on our staff to visit your office?" The ability to customize a program to fit your human resource needs will benefit your company as it grows and changes. If you are fortunate enough to require little HR assistance, bar the occasional employee hire or conflict, you may agree that phone and email are acceptable means of communication. If, however, you anticipate needing assistance regularly, you should be able to request on-site visits. Ask about the flexibility to change the frequency as your needs evolve.

Can I see a sample invoice?

Some PEOs bundle their billing into one lump fee, typically calculated per head or as a percentage of your payroll expense. When billed this way, it is challenging to understand the services included in the fee. Ask the PEO if they offer unbundled billing. With line items for things like insurance premiums, training, FICA, FUTA, administrative fees, and all other services, it is easy to understand what you get. Make sure you aren't paying for products or services you will not use.

Do you assist with benefit and unemployment claims administration?

Make sure your selected PEO will assist employees with benefits claims questions or disputes. The PEO should act as a liaison between your staff and the insurance carrier, so employees receive the maximum benefits.

Additionally, the PEO should assist your organization with unemployment claims. Because a PEO shares an unemployment rate with you, they should work diligently to ensure all claims paid out are legitimate. Ask your prospective PEO what steps they take to protect unemployment rates.

Will you demonstrate your technology platform?

In a technology-driven world, your PEO should be able to offer you an easy and user-friendly way to store employee information. The technology exists to take your employees from the hiring process through onboarding, training, payroll submission, all the way through retirement. Ask to see a demonstration of the software you and your employees will use. Ensure it is accessible and intuitive to contribute to a positive employee experience.

Will you work with me to improve my workers' compensation rate?

Your PEO should be interested in lowering your workers' compensation rate through hands-on risk management, safety programs, and claims management. Ask what types of safety programs would be implemented or enhanced to lower injuries for your workforce. Be wary of the PEO willing to sign you on without a thorough analysis.

I have a good (medical, dental, retirement) plan. Can you carve out the cost of yours, so that I may keep my plan?

You may have an insurance plan or other benefit that your employees already love and appreciate. Ask if the PEO will allow you to keep a plan already in place. If they are not willing to carve this out of your fee, you will pay for a benefit you don't use or end up getting rid of a plan your employees love.

What type of training and organizational development do you offer?

Your PEO should be interested in the growth of your employees. Your business is most profitable when your employees' abilities and skills are optimized. Ask about training opportunities and organizational development activities. Understand what's included in your fees and which is available for an additional cost. Compare prices to other training opportunities available in your industry.

I've heard of PEOs going out of business. How can I be sure that the PEO is financially stable and will not leave me liable?

There are now two certifications or accreditations you can look for in your future PEO. In the fall of 2017, the IRS created the **Certified Professional Employer Organization** (CPEO) designation. If your PEO is a CPEO, it means they have provided extensive financial and company background information to the IRS. The IRS, in turn, has recognized the PEO as financially sound and reliable. You can rest assured that a CPEO assumes responsibility related to payroll administration and federal employment tax reporting and payments. Visit www.irs.gov for a current list of IRS Certified PEOs.

Additionally, a PEO may opt to go through a rigorous certification process to become **Employer Services Assurance Corporation (ESAC)** certified. This certification is to the PEO industry what FDIC is to the banking industry. The PEOs covered submit quarterly financials to a review board to continue certification. Visit www.esacorp.org for a list of ESAC certified PEOs.

WHAT CAN I EXPECT FROM THE QUOTING PROCESS?

Information sharing

In order for a PEO to supply an accurate quote for services and insurance rates, they will need a significant amount of information from you. It's imperative to request a Nondisclosure Agreement to protect your sensitive business and personnel information shared throughout the quoting process. If a PEO refuses to sign this type of confidentiality agreement, that should be a red flag. To receive an accurate and comprehensive quote for full PEO benefits, you may be asked to share the following:

	WHAT YOU WILL NEED TO SHARE	WHY
COMPANY INFORMATION	<ul style="list-style-type: none">• General company information such as FEIN number and office locations• Current gross payroll by class code• Current Workers' Comp policy including experience modification rate and loss runs from the past years• Plan descriptions and latest invoice from any current insurance carriers• Current year SUTA rates sheet from each state with an open account• Prior quarter's payroll tax returns• Disclosure of any current DOL, EEOC, IDHR or other human rights claims against your company	<p>This information is used in several ways. First, the PEO wants to provide you with a accurate pricing quote so that you experience steady and consistent renewal rates. Second, the PEO will establish that you are a credible business. Because you will be sharing liability, the PEO wants to know you are a sound organization and how they might be able to assist with any existing compliance issues. Do not be worried if you have claims against your organization! Many companies approach a PEO for this very reason – to keep compliant with employment laws.</p> <p>Additionally, this information will give the PEO an idea of the level of service required in the areas of Workers' Compensation claims management or unemployment claims management.</p>
EMPLOYEE INFORMATION	<ul style="list-style-type: none">• Employee census including name, title, last four digits of their SSN, workers' comp class code, annual salary, employment status, home zip code, work zip code, date of hire, date of birth, sex, if they're benefits eligible	<p>This information is needed to receive benefits quotes from carriers and determine the level of complexity of services like payroll and payroll tax processing.</p>
YOUR HR NEEDS	<ul style="list-style-type: none">• How frequently do you need or desire on-site HR assistance?• How frequently would you like payroll processed?• What benefits are you interested in offering?	<p>These items will determine the level of service you will need from the PEO.</p>

Timing

As you can imagine, setting up a full HR infrastructure for your organization takes time. Allow 1-2 weeks for the PEO to review your information, plan shop, and put together a strategic analysis of your HR needs. The timing will vary depending on your benefits needs and employee count.

Price comparison

You may find it tricky to compare price quotes from one PEO service to the next. Or even between a PEO's services and your current in-house practices. Sometimes PEOs bill differently or calculate administrative fees in different ways.

A good PEO will always be transparent about pricing and will help you understand what you are paying for so that you can compare any quotes you receive.

MORE FREQUENTLY ASKED QUESTIONS ABOUT PEOs

We've reviewed a lot of information about PEOs. However, maybe you still have some questions. Below are the questions we get asked most frequently. If you have unanswered questions, we'd love to talk to you.

What is co-employment?

Most simply put, co-employment is a relationship between two or more employers whereby each has the legal responsibilities to the same employee. PEOs enter into co-employment relationships with their clients to reduce liability and take advantage of the benefits and HR infrastructure typically found in larger organizations. Once a client company contracts with a PEO, the PEO will then co-employ the client's worksite employees.

In the arrangement, they both share employer responsibilities. The PEO typically remits wages and withholdings of the worksite employees and reports, collects and deposits employment taxes with local, state and federal authorities. The PEO also issues the Form W-2 for the compensation paid by it under its EIN. The client company retains responsibility for and manages product development and production, business operations, marketing, sales, and service.

Will I lose control over my business decisions?

A team of HR professionals will coordinate your employment-related matters, but you maintain control of all business and operational decisions.

Will I lose control of my employees?

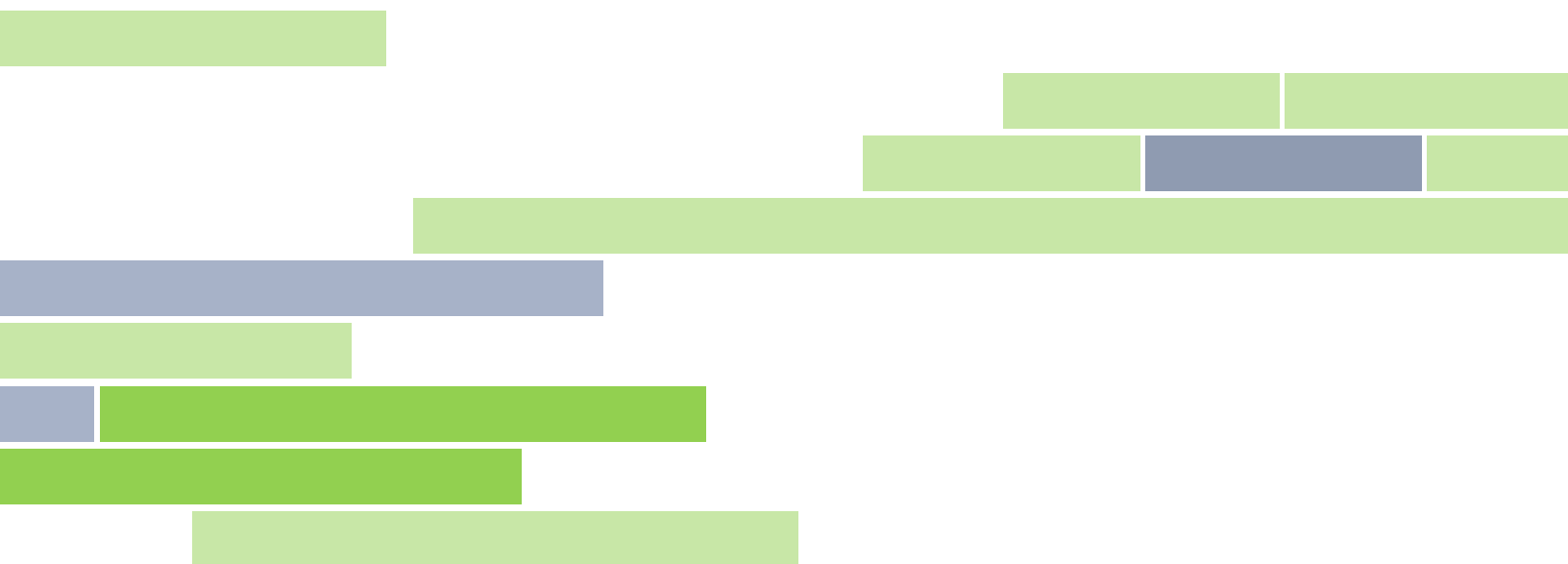
While the PEO is an administrative employer of record, your company continues to make all hiring, firing, and overall performance management decisions.

Will I lose any of my tax benefits by identifying with a larger group in the PEO business model?

No. PEO clients keep any tax benefits they would otherwise have outside of the relationship.

How can I make sure I know what I'm paying for?

A good PEO partner will provide you with an itemized billing statement for each billing period.



Grow **7-9%** faster than
other comparable businesses

Intuit Small Business Employment Index



READY, SET, QUOTE...

If you believe a PEO relationship could benefit your business,
we'd love to talk to you!

Contact us today for a free consultation or a financial
analysis to determine if our PEO is right for your business.

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