



Welcome to PEO 101

Professional Employer Organization Guidebook



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PEO Basics & Key Things You Need to Know

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Question 1

What is a Professional Employer Organization – or PEO?

A PEO provides integrated human resources services including payroll, tax filing, benefits, workers' compensation, workplace safety and human resources guidance and administration to help small businesses manage certain employer responsibilities and risks. A PEO delivers these services by establishing and maintaining a co-employment relationship with the employees at the client's worksite.



Key Point:

Many PEOs operate in all 50 states. There are about 700 PEOs in the United States.



Question 2

What is “co-employment?”

In a “co-employment” arrangement, when an organization partners with a PEO, the PEO assumes certain employment responsibilities. The PEO client maintains control of the day-to-day management of its employees and its business, just as it did prior to entering the co-employment relationship. However, by sharing certain employment responsibilities with the PEO, a PEO client is able to stabilize certain employment-related expenses and mitigate some of the liabilities associated with being an employer, such as compliance with the Affordable Care Act. Minimizing these types of responsibilities provides more time for PEO clients to focus on the strategic, revenue-building aspects of their business.



Key Point:

Approximately three million American workers are employed under a co-employment arrangement.

Question 3

How does a PEO work?

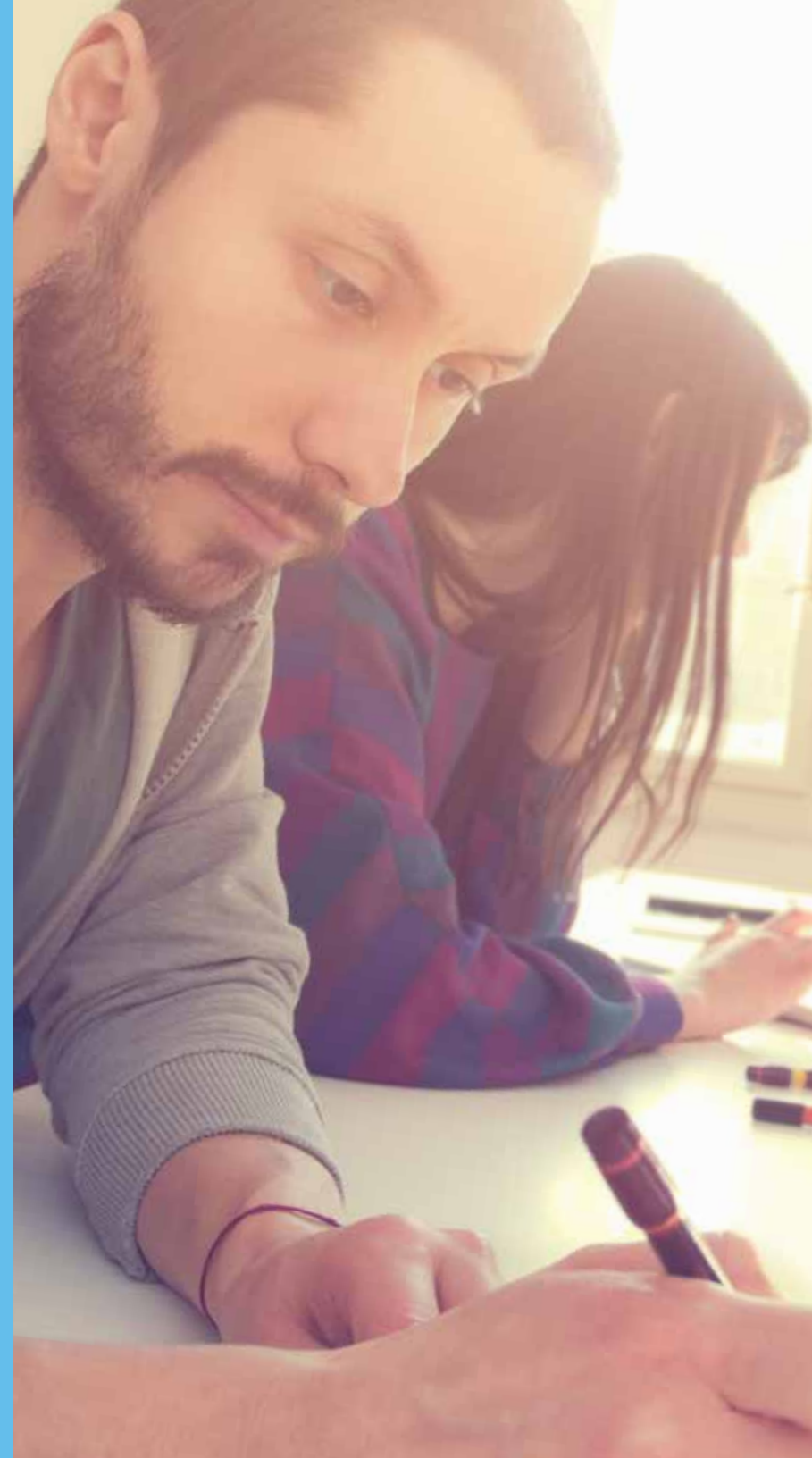
Once an organization and a PEO enter into a co-employment relationship, both companies share certain employment responsibilities and the PEO becomes a co-employer along with the client of the client organization's employees.

- The PEO client continues to manage its business and marketing operations, providing products or services to its buyers.
- The PEO processes payroll, withholds and pays payroll taxes, maintains workers' compensation coverage, provides access to employee benefit programs and provides human resources guidance.



Key Point:

Organizations that enter a PEO relationship do not cede ownership or lose control over their business. The PEO typically focuses on employment-related areas – such as payroll, HR administration, taxes associated with employment, and benefits – while the PEO client handles the regular operations of its business.





Question 4

Who is responsible for paying employees and remitting employment taxes?

PEO's assume the responsibility for processing payroll, and reporting and remitting employment related taxes.

However, some PEOs are certified (CPEO) by the IRS under the Small Business Efficiency Act (SBESA) and recognized as the employer for federal employment tax purposes. CPEOs must meet specific requirements regarding tax status, background, experience, business location, financial reporting, and more. The certification program also requires a CPEO to post a bond each year of up to \$1 million guaranteeing payment of its federal employment tax liabilities. CPEOs are solely responsible for the payment of federal employment taxes. If a company utilizes a non-certified PEO that doesn't pay their taxes, they could be liable.

Question 5

How about workers' compensation coverage?

Typically, a PEO will provide workers' compensation coverage and claims administration for its client's employees, often referred to as "worksites employees."



Question 6

Why should clients consider a PEO relationship?

PEOs help their clients stabilize the cost of their labor burden and focus on improving the bottom line. By assisting PEO clients with routine administrative tasks and related compliance requirements, a PEO allows its clients to focus more time and resources on their core competency.



Key Points:

PEO firms report 2x higher revenue growth compared to non-PEO firms.²

Question 7

What is the difference between temporary staffing or employee leasing and a PEO?

PEOs do not “lease” employees and PEO arrangements should not be confused with staffing or leasing arrangements. Staffing or leasing companies are the sole employer of those employees provided to or leased to the client. In a PEO relationship, the client allocates certain employer functions to PEOs, who in turn specialize in managing those aspects of the employer’s bundle of responsibilities. In this arrangement both the PEO and the client are co-employers of the employees and both have certain rights and obligations with respect to the same group of employees who are the client’s employees.





Question 8

What businesses can benefit from a PEO arrangement?

Many organizations – regardless of size or type – can benefit from a PEO relationship. While small- and mid-sized organizations are the most prevalent in PEO relationships, larger organizations are also discovering the value of being a PEO client. Moreover, businesses of all types are PEO clients – from manufacturers and accounting firms to physicians and people in various trades, such as plumbers, carpenters, and mechanics.



Key Point:

98% of PEO clients would recommend a PEO to a small or mid-sized business colleague.²

Question 9

How does a PEO benefit PEO clients?

PEOs shoulder the burden of many “non-core” administrative activities – from payroll to benefits administration – enabling PEO clients to focus more time on their organization’s core competency. Further, PEOs that are more sophisticated provide expertise to help their clients with strategic HR decisions.

PEO clients benefit from –

- ✓ Access to a variety of employee benefit solutions to attract and retain talent
- ✓ Mitigation of certain employment-related risk through the shared responsibility arrangement
- ✓ Scalable technology and infrastructure provided via the PEO relationship
- ✓ Employee-related cost stability





Question 10

How does a PEO benefit employees?

Employees want access to financial security, attractive benefits (especially a good health care plan), and the opportunity to save for the future. Studies show that satisfied employees are usually more productive, become brand ambassadors for the PEO client, and enhance employee retention rates.



Key Point:

PEO clients experience a 10 to 14% lower employee turnover rate as compared to the U.S. average.⁴

PEO Benefits



PEO Relationship

In many cases, a PEO relationship allows employees of small- and mid-sized businesses to have access to Fortune 500®-caliber benefits

- ✓ Health insurance
- ✓ Life insurance
- ✓ Dental care
- ✓ Vision care
- ✓ Long- and short-term disability coverage
- ✓ Retirement savings plans
- ✓ Educational benefits
- ✓ Exclusive group discounts on products and services, and much more.

Question 11

Can a client relationship with a PEO help a business with Health Care Reform compliance?

While the ACA is in place for now, changes may come around the corner at any time, and they could be complex. It is important to choose a full service PEO partner that will ultimately help your organization stay ahead of Health Care Reform compliance requirements.



Key Point:

Over 50% think that they are currently at risk of violating at least one aspect of annual health care reporting. ⁵





Health Care Reform support from a full-service PEO may include:

- ✓ Creation of IRS annual health care information returns (Forms 1094-C and 1095-C), filing the information with the IRS, and providing information to PEO clients' employees,
- ✓ Management of Marketplace/Exchange notices and appeals,
- ✓ Generation of notices of coverage,
- ✓ Compliance with reporting the value of health coverage on Forms W-2, and
- ✓ Personalized, ongoing consultation and management of ACA requirements to define and support each PEO client's ACA compliance strategy.



Conclusion

Not all PEOs provide the same level of service.

So, shop the marketplace for a PEO relationship just as you would for any other strategic business need. Do your due diligence. Ask questions. Compare pricing and value. Align your needs with the capabilities that a potential PEO arrangement could provide.

- 1.** Select a PEO with a strong financial, compliance and credible client retention record. (Special Tip: Check out whether a candidate is ESAC accredited and a Certified PEO.)
- 2.** Assess PEO capabilities based upon how well they can meet the unique needs of your business and the preferences of your organization's employees.
- 3.** Examine the depth of talent a PEO will provide to support your organization.
- 4.** Talk to a PEO's existing clients, particularly those who are in your business or industry.
- 5.** Choose a PEO that provides comprehensive support – including maximum help to maintain Health Care Reform compliance.



PEO Evaluation:

Checklist

Choosing the right Professional Employer Organization will help your business remain in compliance, leverage the efficiencies of great technology, and facilitate access to comprehensive capabilities that will benefit your business and its employees. Use this checklist to help you determine the best PEO fit for your organization!

- Are you an IRS certified PEO?
- How do you charge for your services?
- Do you provide a service guarantee?
- Will you provide my company with dedicated support team members?
- How would you help protect my company from employee lawsuits?
- Is your health insurance and workers' compensation insurance fully insured?
- Are the benefits premiums you show me the final, underwritten rates?
- How many benefits carriers do you work with?
- On average, how long do your clients remain with you?
- What is the breadth of your compliance offering - and are there additional fees?
- How often do you enhance your technology platform?
- Do you offer worksite employees mobile access to their payroll, HR, and benefits data?
- How do you manage data security?
- Would you put me in contact with several of your current clients?

For more information about Professional Employer Organizations

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or visit www.adptotalsource.com



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1 NAPEO White Paper, "Professional Employer Organizations: Keeping Turnover Low and Survival High," Dr. Laurie Bassi and Dan McMurrer, 2014.

2 NAPEO White Paper, "PEOs: Good for Businesses and Their Employees," Dr. Laurie Bassi and Dan McMurrer, 2017.

3 "Professional Employer Organizations: Fueling Small Business," September 2013.

4 NAPEO White Paper, "Professional Employer Organizations: Keeping Turnover Low and Survival High," Dr. Laurie Bassi and Dan McMurrer, 2014.

5 "ACA Confidence Study," ADP Study 2016.

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