



HR | BENEFITS | TECHNOLOGY

PEOs: A Good Business Partner

PEOs: A Good Business Partner

INTRODUCTION:

Small to midsized businesses are finding that PEOs make a really good business partner. This white paper is produced from a variety of business journal articles, NAPEO research, and twenty years of personal observation that confirm this.

A PEO (Professional Employer Organization) provides a great scope of HR solutions to a business. Payroll, benefits, tax administration, regulatory compliance assistance and technology are just a few to name. By taking care of paperwork, PEOs help businesses improve productivity, increase profitability and focus on their core mission.

PEOs partner with businesses through what is called “co-employment.” Co-employment is the separation of HR responsibilities and liabilities of a PEO from the control of the core function of the business owner. Both parties are the legal employer.

The following are seven highly significant reasons that PEOs make good business partners:

1

BUSINESSES GROW FASTER AND HAVE IMPROVED PROFITABILITY.

(From Inc. September, 2017)

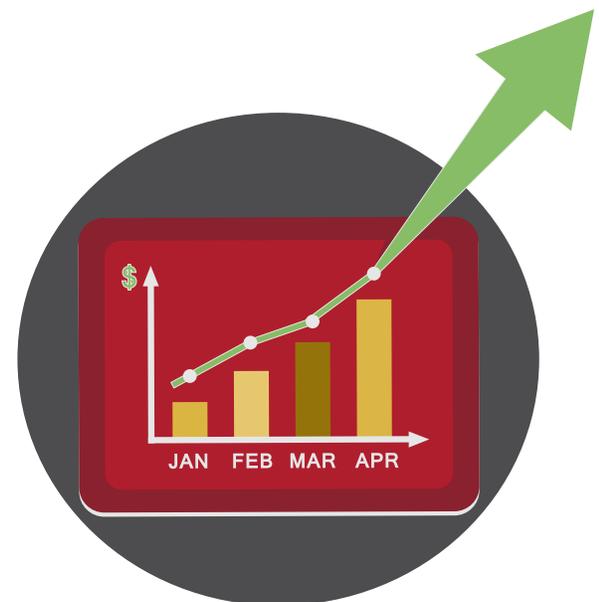
Research commissioned by the National Association of Professional Employer Organizations (NAPEO) documents that PEO clients grow faster, have lower rates of employee turnover, and have higher rates of business survival than their peers.

(From NAPEO white paper September, 2017)

Small businesses that use the services of a PEO not only see better annual revenue growth, but are also more likely to see an improvement in profitability.

That’s according to a study released by the National Association of Professional Employer Organizations and conducted by economists Laurie Bassi and Dan McMurrer of McBassi and Associates, which finds that annual revenue growth doubles for firms that use PEOs, as opposed to comparable firms that do not use them. In addition, companies that use a PEO are 16 percent more likely to report an increase in profitability.

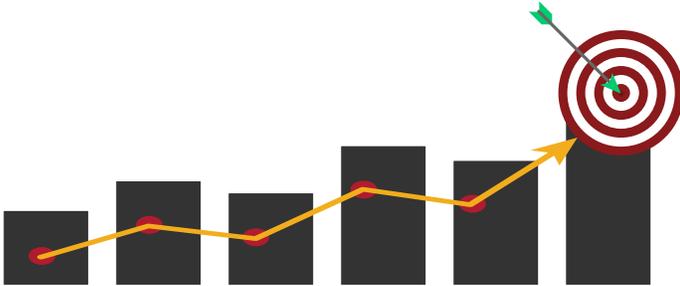
Earlier studies by Bassi and McMurrer have found that businesses in PEO arrangements grow faster, have lower employee turnover and have a significantly higher rate of business survival than businesses that don’t use PEOs.



PEOs: A Good Business Partner

2

BUSINESSES ARE ABLE TO FOCUS ON THEIR CORE MISSION.



(From Inc. September, 2017)

Clery is convinced that growth-oriented businesses will partner with PEOs in increasing numbers as awareness of the advantages PEOs offer continues to spread. "Time is finite, and every hour you spend on a non-core activity like HR administration is time away from growing your company," he says. ".....offloading responsibility for HR, payroll, benefits, workers' compensation, and other administrative tasks to a PEO frees up leaders to focus more of their time and energy on their core competencies and strategic issues."

(From IBISWorld, April 2017)

Small businesses have turned to PEOs so they can focus resources on core operations.

(From Entrepreneur, May 2014)

Here's all you need to know: A Professional Employer Organization (PEO) is one of the best-kept secrets of many successful small businesses. Essentially, these bodies handle all your HR needs, including payroll and administration, employee health and retirement benefits, workers' compensation insurance, state and federal compliance issues and even worker training. All you're left to do is hire, supervise and promote (or fire) your employees as needed.

3

BUSINESSES HAVE NEW TECHNOLOGY AT THEIR FINGERTIPS.

Businesses are finding it difficult to thrive today without the most innovative technology to support the needs of a fast growing business. Technology can quickly become out of date, causing the business owner to waste time, rather than serving the customer, growing the business, and other key initiatives.

For example: a PEO will have access to an "Applicant Tracking System" (ATS) so hiring employees will be a much smoother process for the business owner. No wasted time. Less frustration.

PEOs partner with technology companies that a small business could never afford to do. Technology companies that provide the full suite of technology and network services such as:

- internet, voice, & video
- cloud & data center
- managed IT services
- hardware & software
- network & data security
- data & network services

(From IBISWorld, April 2017)

The most important successful key factors for the Professional Employer Organizations in partnering with businesses:

- Proximity to key markets
- Ability to quickly adopt new technology
- Ability to effectively manage debtors



PEOs: A Good Business Partner

4

BUSINESSES OFFER EXCEPTIONAL BENEFITS AND ATTRACT QUALITY EMPLOYEES WITH LOWER TURNOVER.

Good benefits not only attracts the best employees, but keeps them.

(From Inc. September, 2017)

“Businesses that use a PEO gain a competitive advantage in attracting the best employees. Often, PEOs allow them to offer a higher level of benefits than they would be able to afford on their own.

(From BenefitsPro, September, 2017)

PEOs provide payroll, benefits, and other HR services to small and midsized companies. They provide small business employees with access to benefits typically provided by large companies, such as 401(k) plans; health, dental, life, and other insurance; dependent care; and other benefits

The study also finds that PEOs provide significant advantages for employees. In fact, compared to employees at businesses that are not PEO clients, employees working at businesses using PEOs “are significantly more likely to report that their employer demonstrates a commitment to them, has good HR policies and practices and provides good training and development opportunities.”

Businesses partnering with a PEO have a 10-14 percent lower turnover. Earlier studies by Bassi and McMurrer have found that businesses in PEO arrangements grow faster, have lower employee turnover and have a significantly higher rate of business survival than businesses that don't use PEOs.



5

BUSINESSES HAVE SHARED LIABILITY, THUS DECREASED LIABILITY.

When a business partners with a PEO it will, with a stroke of a pen, have shared liability, thus immediately decreasing liability. A PEO will answer for the business. The PEO will take the heat from the government and agencies who enforce regulations, tax compliance, employment laws, legal issues and a host of other things.

(From Insurance Journal April, 2015)



When evaluating the employer role of either the PEO or the client, the facts and circumstances of each employer obligation should be examined separately, because 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.

PEOs: A Good Business Partner



6

PEOS ARE HERE TO STAY.

From statistics of PEO industry leaders, 14-16 percent of small businesses with 10-99 employees partner with a PEO for their HR and benefits needs. Unbiased business journals and articles are projecting this number to continue to rise as it has each year in the past.

(From Inc. Branded Content)

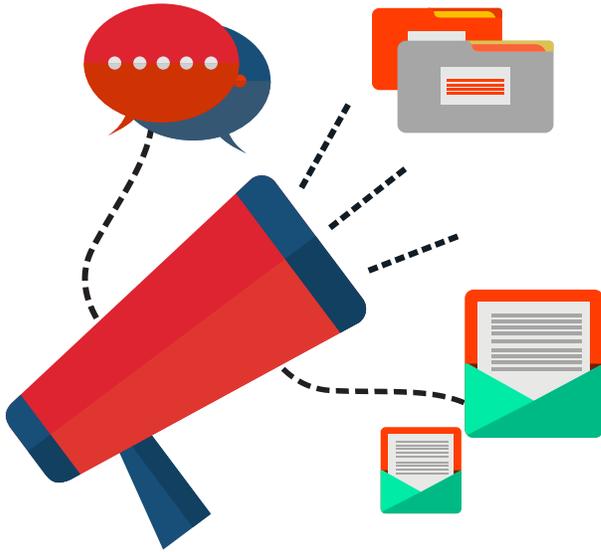
The PEO market is booming, with a broad mix of both regional and national companies offering differing lists of services. The market has matured to the point where many PEOs can point to at least one form of accreditation, which provides would-be clients with a high level of confidence. The Small Business Efficiency Act of 2014 included a requirement that the IRS establish a voluntary certification program for PEOs, and the agency began accepting applications to become a certified professional employer organization (CPEO) in July of this year. While the IRS program focuses on ensuring a PEO's payment of its clients' federal employment taxes, there is a more comprehensive PEO accreditation program, ESAC, that provides assurance, through bonding and regular financial audits, of a PEO's payment of the full range of PEO employer responsibilities, including both federal and state employment taxes as well as contributions to employee retirement plans and payment of health and workers' compensation premiums. Meanwhile, the Employer Services Assurance Corporation (ESAC) is something of a "gold standard" in terms of accreditation. It was developed by NAPEO

and launched in 1995 as an independent, non-profit organization providing PEO accreditation and financial assurance. A number of states also license and regulate PEOs, so with ESAC and CPEO there are now three paths to accreditation.

At one time, PEOs may have qualified as a well-kept secret. But that's changing. The benefits are too numerous to ignore. Odds are good that if you aren't using a PEO today, other companies in your industry are. That can put you at a competitive disadvantage, which is one more reason why you should carve out a little time to see what a PEO can do for you.



BUSINESS OWNERS SPEAK:



(From NAPEO white paper, September 2017)

Clients' direct assessments of PEOs as part of the business owner survey, we asked those respondents who are PEO clients questions about three aspects of their experience while being a PEO client.

The results were:

- 98 percent would recommend a PEO to a small business colleague;*
- 70 percent report that their revenues have increased since becoming a PEO client; and*
- 66 percent report that their profitability has increased since becoming a PEO client.*

(From white paper of NAPEO, September, 2013)

"I am very happy with what our PEO has done for our company," says Phillip Grove, president and CEO of Seattle-based Confluex, a software professional services company. "By using a PEO, we have been able to grow, in a little over a year, from just the two founders to eight people across six states working from their homes. We expect to double this size within the next year. Our PEO allows us to mine a large talent pool for high quality software developers in a very competitive market, and it allows us to offer competitive benefits. Last but not least, thanks to the PEO, we don't have to learn all the day-to-day HR, workers' comp, tax, payroll, and compliance issues for a bunch of different states. This has relieved us from a big burden and allowed us to focus on our business.

THE CONCLUSION

is that PEOs make good business partners for small to mid-sized businesses. Co-employment with a PEO offers an instant suite of HR staff, solutions, and action at the disposal of the business. Studies have verified that businesses partnering with PEOs have increased profitability and decreased liability. Businesses are set free to focus on their core mission.



HR | BENEFITS | TECHNOLOGY