



## PEOs Have Much to Offer Growing Businesses

Professional employer organizations make big-company benefits packages available to small and midsize businesses.

**P**rofessional employer organizations (PEOs) offer a stunning array of potential benefits to small and midsize businesses (SMBs), especially those in growth mode. 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.

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. Most importantly, 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.

"With a single stroke of the pen, the owner of a small or midsize business can dramatically improve the odds of his or her success," says Richard G. Rawson, president of Houston-based Insperty. "That's what a PEO does." When a business signs on with a full-service PEO, it gains an "instantaneous HR infrastructure that provides a significant amount of administrative relief."

### LACK OF AWARENESS OF PEOs

The PEO model has been around for some 30 years, but for all PEOs have to offer, there is still a surprising lack of awareness about them among many businesses. NAPEO's research shows that 14-16 percent of businesses with

10-99 employees currently partner with a PEO, but many more could benefit from doing so. "Raising awareness of PEOs and what they can do for growing businesses is our top priority at NAPEO," says Pat Cleary, the association's president and CEO. "Business owners who weren't aware of PEOs are often astounded when they hear about the advantages PEOs can provide. So much so, in fact, that one of the first questions they often ask is, 'Is it legal?'"

Unlike other types of outsourced services providers, PEOs enter into a relationship called "co-employment" with their clients. Under that arrangement, employees work for both the client business and the PEO. As the co-employer, the PEO manages all personnel-related functions, such as wage and benefits administration, workers' compensation, etc., filing under its own tax



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employee identification number (EIN). The client company maintains control of all business decisions and operations. That’s been a difficult concept for some business owners to grasp, but a recent development may help on that front. Beginning June 1 of this year, the IRS began issuing Certified Professional Employer Organization designations to PEOs that complete a certification process laid out in the Small Business Efficiency Act.

**A STAMP OF LEGITIMACY**

The CPEO designation adds a stamp of legitimacy to the industry because it formalizes the IRS’s recognition of the co-employment model. It protects PEO clients by explicitly stating the CPEO’s sole liability on wages paid to worksite employees. It provides CPEOs with successor employer status for federal payroll taxes, eliminating the potential for double taxation of FICA and FUTA when a business signs up partway through a tax year. It also clarifies businesses’ continued eligibility for specified federal tax credits while using CPEO services.

“Certification is another arrow in the quiver to answer the ‘is it legal’ question,” Cleary says. “Now we can tell a CEO to go online and Google section 3511 of the tax code. That’s us; we’re in the code.”

The Employer Services Assurance Program (ESAC), which was developed by NAPEO and launched in 1995 as an independent, nonprofit organization, is another PEO accreditation program, and it is more comprehensive than CPEO. Through a program of bonding and regular financial audits, ESAC provides assurance of a PEO’s performance across all its employer responsibilities, including federal and state employment taxes, contributions to employee retirement plans, and payment of health and workers’ compensation insurance premiums.

**A PEO FOR EVERY NEED**

There are many different types of PEOs. Some have national or regional operations; others work within a single state. Some even focus on specific industries, such as Execustaff HR, a San Jose, California-based PEO that specializes in Silicon Valley’s high-tech industry.

“Our clients are generally startups or early-stage tech and professional companies that want to attract highly-skilled employees from established companies. They need a Fortune 500-level benefits package to do that, but it’s hard to get at that size,” says Jason Mann, Execustaff HR’s president. The PEO provides a “plug-and-play” platinum-tier benefits package that includes medical, dental, vision, disability, 401(k) plan, and more. “Our companies can put those things in their offer letters and attract the top talent. That’s one of the biggest advantages we offer them.”

Bison PEO, based in Peachtree Corners, Georgia, works at the other end of the employment spectrum. “We have niche markets that we focus on,” says founder, president, and CEO Wesley Owens. “We’ve worked in staffing, agriculture, trucking, and construction, so we’ve done some of the industries that are a little more challenging to some of the larger PEOs.” Bison works closely with a third-party administrator to manage workers’ compensation claims and help control costs. “That’s very important to growing businesses in the sectors we serve,” he says.

Insperty, one of the first in the industry to attain CPEO status, has

61 offices across the U.S. and more than 2,600 corporate employees. It serves 100,000-plus businesses with more than 2 million employees. “Our competitive differentiators have to do with the breadth and depth of our products and services and the level of care we provide,” Rawson says.



Insperty started out by creating and delivering a service, and it developed a very customer-centric culture, Rawson says. “Today, we also provide an industry-leading technology platform, but we apply the same customer-centric service approach to that aspect of our business. We understand that every worksite employee is a key asset to that business, and we treat every one of them like our own.”

**AN “MBA ON STEROIDS”**

Partnering with the University of Houston’s C.T. Bauer College of Business, Insperty has created a certification program for its Business Performance Advisors that Rawson describes as “like an MBA on steroids.” The curriculum focuses on providing a thorough command of the success drivers for small and midsize businesses, from top-line sales growth to bottom-line profits. Business Performance Advisors who complete the program enhance their expertise to offer impactful guidance on strategic business decisions to Insperty’s clients.

Cleary 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. “We have all this research that shows PEO clients grow faster, have higher survival rates, and experience less employee turnover. Outsourcing of everything that’s not core to your business is a global trend, and that’s going to drive PEO growth.” ■

## Tips for choosing a PEO

**Determine** your business’s HR and risk management needs, and narrow your candidate list to PEOs that can meet them.

**Ascertain** the financial strength and security of the PEO candidate. Its financial statements should be independently audited by a CPA; risk management practices should be independently certified; and operational, financial, and ethical practices should be independently accredited.

**Meet** the people who will be serving you, and ask for client and professional references.

**Understand** the PEO’s benefits plan options.

**Analyze** the PEO’s service and cost structures.



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