

PEO 101

What is a PEO?

A professional employer organization (PEO) handles all the people needs for companies so they can focus on the needs of their customers and business.

Employers today need help managing increasingly complex employee-related matters such as HR compliance, payroll, tax compliance, health benefits - including the changing Affordable Care Act (ACA) requirements - workers' compensation issues, unemployment insurance claims and much more. Companies partner with a PEO to assume these responsibilities and provide high-level expertise in human resources management, without the overhead.

Why a PEO is good for your business

- Relief from the burden of employment administration.
- Access to Fortune 500 employee benefits.
- A wide range of HR management solutions provided by a team of trained professionals.

Higher Growth Rates

Nearly **10%** higher employment growth rate than small businesses that don't use PEOs



Improved HR Administration

21%+ savings on HR and administration with higher service levels



Improved Benefits

40% of businesses that use PEOs upgrade their benefit packages

Participation rates in retirement plans - More than **DOUBLE** with PEOs



Why ENGAGE PEO?

- Engage is a leading, national PEO with full service HR and benefits offerings and a boutique level of service and flexibility.
- Engage is an IRS-Certified PEO (CPEO) and ESAC Certified. Less than 3% of all PEOs have *both* accreditations.
- Engage is the **ONLY** PEO where every dedicated HR Consultant is also an employment lawyer.
- Engage provides access to a comprehensive suite of ACA-compliant healthcare and voluntary benefits via a private Corporate Exchange and a Simple Business Solutions offering for businesses of all sizes.
- Engage delivers integrated, cloud-based technology solutions.
- Engage's client satisfaction ratings are among the highest in the industry.

Learn More About ENGAGE and the Power of PEO

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FAQs on PEO

What is a PEO?

Professional employer organizations (PEOs) provide human resource services for their small business clients—paying wages and taxes and often assisting with compliance with myriad state and federal rules and regulations. In addition, many PEOs also provide workers with access to 401(k) plans, health, dental and life insurance, dependent care, and other benefits not typically provided by small businesses. In doing so, they enable clients to cost-effectively outsource the management of human resources, employee benefits, payroll and workers' compensation. PEO clients can thus focus on their core competencies to maintain and grow their bottom line.

Who uses a PEO?

Any business can find value in a PEO relationship. The average client of a NAPEO member company is a business with 19 worksite employees. Increasingly, larger businesses also are finding value in a PEO arrangement, because PEOs offer robust web-based HR technologies and expertise in HR management. PEOs can partner with companies that have 500 or more employees and work in conjunction with their existing human resources department.

PEO clients include different types of businesses ranging from accounting firms to high-tech companies and small manufacturers. A broad range of professionals, including doctors, retailers, mechanics, engineers and plumbers, also benefit from PEO services.

How does a PEO arrangement work?

Once a client company contracts with a PEO, the PEO will then co-employ the client's worksite employees. In the arrangement among a PEO, a worksite employee and a client company, there exists a co-employment relationship, which involves a contractual allocation and sharing of employer responsibilities between the PEO and the client pursuant to a client service agreement (CSA). 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. The PEO and the client will share certain responsibilities, as determined in the CSA. As a co-employer, the PEO will often provide a complete human resource and benefit package for worksite employees.

Are PEOS recognized as employers at the state and federal levels?

Yes. PEOs operate in all 50 states. Many states provide some form of specific licensing, registration, or regulation for PEOs. These states statutorily recognize PEOs as the employer or co-employer of worksite employees for many purposes, including workers' compensation and state unemployment insurance taxes. The IRS has recognized the right of a PEO to withhold and remit federal income and unemployment taxes for worksite employees per section 3511 of the IRS Code. The IRS has promulgated specific guidance confirming the authority of PEOs to provide retirement benefits to workers.



Do the owners lose control of their businesses when they work with a PEO?

No. The PEO client/business owner retains ownership of the company and control over its operations. As co-employers, the PEO and client will contractually share or allocate employer responsibilities and liabilities per a client service agreement (CSA). The PEO will generally only assume responsibilities associated with a "general" employer for purposes of administration of benefits and remittance of payroll and payroll taxes. The client will continue to have responsibility for worksite safety and compliance. The PEO will be responsible for remittance of payroll and employment taxes, may maintain employee records and may retain a limited or general right to hire and fire, as delineated in the CSA. Because the PEO also may be responsible for providing access to workers' compensation coverage, many PEOs also focus on and provide assistance with safety and compliance. In general terms, the PEO will focus on employment-related issues, and the client will be responsible for the actual business operations.

What is the difference between a PEO and an employee leasing company?

PEOs do not supply labor to worksites. PEOs supply services and benefits to a business client and its existing workforce. PEOs enter into a co-employment arrangement typically involving all of the client's existing worksite employees and sponsor benefit plans for the workers and provide human resources services to the client. In most cases, the PEO provides access to health insurance, retirement savings plans, and other critical employee benefits for the worksite employees of the business client. If a PEO relationship is terminated, the worksite employees' co-employment arrangement with the PEO ceases, but they will continue as employees of the client.

By comparison, a leasing or staffing service supplies new workers, usually on a temporary or project-specific basis. These leased employees return to the staffing service for reassignment after completion of their work with the client company. Some define employee leasing as a temporary employment arrangement where one or more workers selected by the leasing or staffing entity is assigned to a customer frequently for a fixed period of time or for a specific project. Upon termination of the staffing or leasing company arrangement, the worker has no continuing employment relationship with the client.

Historically, leasing terminology was used to describe what has evolved into PEO relationships. Some older state statutes governing PEOs still use the leasing terminology, contributing to the confusion about PEOs.

What is the difference between temporary staffing services and a PEO?

Like a leasing situation, a temporary staffing service recruits and hires employees and assigns them to clients to support or supplement the client's workforce in special work situations, such as employee absences, temporary skill shortages or seasonal workloads. These workers are traditionally only a small portion of the client's workforce.

PEOs do not supply labor to worksites. They co-employ existing permanent workforces and provide services and benefits to both the worksite employer and the employees.



How many businesses use a PEO?

PEOs provide services to between 156,000 and 180,000 small and mid-size businesses, employing between 2.7 and 3.4 million people.

How do PEOs help their clients control costs and grow their bottom line?

A PEO's economy of scale enables each client company to lower employment costs and increase the business's bottom line. The client can maintain a simple in-house HR infrastructure or none at all by relying on the PEO. The client also can reduce hiring overhead. The professionals at the PEO can provide critical assistance with employer compliance, which helps protect the client against liability. In many cases, the client can pay a small up-front cost for a significant technology and service infrastructure or platform provided by the PEO. In addition, the PEO provides time savings by handling routine and redundant tasks for its clients. This enables the business owner to focus on the company's core competency and grow its bottom line.

How do employees benefit from a PEO arrangement?

Through a PEO, the employees of small businesses gain access to big-business employee benefits such as: 401(k) plans; health, dental, life, and other insurance; dependent care; and other benefits they might not typically receive as employees of a small company. And, when a company works with a PEO, job security is improved as the PEO implements efficiencies to lower employment costs. Job satisfaction and productivity increase when employees are provided with professional human resource services, enhanced benefits, training, employee manuals, safety services and improved communications.

Do workers receive comprehensive benefits through a PEO?

Frequently, a PEO arrangement is the only opportunity for a worker in a small business to receive Fortune 500-quality employee benefits like health insurance, dental and vision care, life insurance, retirement saving plans, job counseling, adoption assistance, and educational benefits. Absent the PEO, a small business can neither afford nor manage these benefits.

Do PEOs need to be licensed to provide insurance benefits to worksite employees?

Like other employers, a PEO may sponsor employee benefit plans for its worksite employees. Such benefits may be mandated by law, such as workers' compensation and unemployment benefits, or they may be voluntary benefits that will help attract and retain quality employees, such as health, life, dental and disability insurance. PEOs might sponsor or acquire access to programs for worksite employees. As such, PEOs are consumers of insurance and procure access to these benefits from licensed insurance agents and authorized insurers.



Why is it important a PEO have audited financial statements?

A number of states PEO licensing and registration laws require audited financial statements. In addition, the PEO industry best professional performance practices recommend audited financial statements in order to enhance internal controls and accuracy of financial information. While independent audits cannot prevent fraud or financial failure, they provide management with an independent review of and opinion that the financial statements of the entity are accurate, complete and fairly presented according to generally accepted accounting principles (GAAP).

Is a PEO's financial statement publicly available?

Similar to their business clients, most PEOs are private entities that do not have public financial statements. Nonetheless, clients are advised to check a PEO's references, reputation, and financial background. Ask if the PEO has audited financial statements, obtain credit references, and conduct due diligence. In states where required, make certain that the PEO is duly licensed or registered. Many PEOs provide clients an independent CPA's attestation regarding the PEO's audited financial statements and payment of taxes and benefit plans.