HR HOW

Best of Both Worlds

How professional employer organizations can help your clients

By Patrice Alvino

In recent years, HR for small and mid-size businesses (SMBs) has experienced a transformation. In some ways, this change has been driven by professional employer organizations (PEOs), which help companies outsource and streamline HR operations, such as payroll and withholdings, workers compensation, benefits, compliance and 401(k) administration.

The industry emerged in the late 1960s as "employee leasing," primarily to assist companies with the rising costs of workers comp insurance coverage. Since then, PEOs have evolved significantly into a shared employment model, which gives SMBs a much more comprehensive solution to HR.

Today's approach delineates the responsibilities between the PEO and the client company more clearly, fostering enhanced trust and transparency. And independent agents now play an important role as strategic partners who bring this solution to their business clients.

Here's how PEOs can help your clients:

1) Expanded services. PEOs have diversified their offerings beyond workers comp, particularly in response to the surge in regulatory complexities surrounding employment in the 2000s. This expansion included employee benefits, health insurance administration and support services, and HR compliance, broadening their appeal and value proposition to SMBs.

2) Technological advancements. The 2020s have witnessed significant integration of automation and technology solutions, further enhancing value propositions. These advancements streamlined HR processes, delivering greater efficiency to SMBs.

3) Higher awareness. Unaided awareness of PEOs among business decision-makers surged to 65% in 2022, with a 44% growth in awareness since 2018, according to the National Association of Professional Employer Organizations' (NAPEO) "Tracking Survey Report." This heightened awareness undoubtedly contributed to the industry's expansion, signaling a more informed market regarding the value of PEOs.

Growing awareness of PEOs has helped reduce suspicion. Initially perceived as competitors, PEOs and insurance brokers have a more collaborative relationship today, primarily due to the understanding of the value PEOs offer to not only their mutual clients but also to agencies themselves.

Agencies and brokerages can partner with PEOs to:

1) Reduce client burden. Agencies can alleviate the complexity of managing HR and employment issues for SMB clients. This builds trust and strengthens client relationships.

2) Build your book. PEOs incentivize agents and brokers with attractive commission structures for client referrals, creating mutually beneficial arrangements. Agents gain access to new revenue streams while PEOs leverage the expertise and networks of established insurance professionals.

3) Collaborate on common goals with balanced roles. Recognizing their distinct strengths, PEOs and agencies now collaborate to offer more holistic solutions. While agents excel in specialized risk management and insurance, PEOs streamline HR administration and compliance, creating synergistic partnerships.

Looking ahead, the collaboration between PEOs and agencies is set to deepen, presenting even more value to SMBs. Through joint marketing initiatives, they can broaden their reach and increase awareness of the combined benefits they offer, attracting a wider audience.

By leveraging their data-driven insights derived from employee demographics, health trends and claims history, PEOs provide more tailored solutions and effective risk management strategies to SMBs.

Patrice Alvino is regional vice president of sales at Engage PEO (engagepeo.com).