

# What is a PEO?

*An introduction to the PEO model and its benefits  
for small and medium-sized businesses*

*“It’s great to be able to rely on an HR department without necessarily owning an HR department. When you need TriNet, they’re there to answer your questions.”*

**Roy L. Burger**  
Chairman & CEO  
FirstNet Learning

The term “PEO” stands for Professional Employer Organization. PEOs provide small-medium size companies with outsourced human resource services, specifically employment and HR management services. PEOs are not staffing companies.

Traditionally, PEOs manage functions such as payroll, employer tax compliance, employee benefits, workers’ compensation, and government compliance, but those services have steadily expanded to include optional services such as talent acquisition, employee training, and performance management.

The website of the National Association of Professional Employer Organizations, NAPEO ([www.napeo.org](http://www.napeo.org)), explains that PEOs bring value via:

- Relief from the burden of employment administration.
- A wide range of human capital strategy and guidance services offered via a team of experienced professionals.
- Improved employment practices, compliance, and risk management to reduce employer-related liability.
- Access to a comprehensive employee benefits package, allowing smaller companies to be competitive in a tight labor market.
- Assistance to improve productivity and profitability.

### **PEOs’ Unique Selling Point: HR Isn’t Your Main Business**

The reason for the existence of PEOs and the primary selling point for their business model is this: as an entrepreneur, you did not enter into business to become a human resources manager. You have no interest in contending with payroll twice a month, negotiating benefits for your employees, or worrying about how to comply with a litany of government regulations. You entered into business in order to sell a product or provide a service, and generate revenue doing what you do best.

But HR is a necessity when you have employees. And what could be better than taking a piece of your business—which although a necessity, is also a distraction—off your plate, and making it somebody else’s problem?

## Is Your HR Systematized?

Businesses succeed by building good systems. Your organization has likely systematized the financial part of the business because you recognize how important it is to have a strong financial system in place. Likewise, you probably have refined systems for your company's operations and customer service.

But do you have a systematic approach to HR? For example: if you hired a good person today, what's your guarantee you can hire a good person tomorrow? Is it a repeatable process? Do you know the right way to source benefits year after year? Do you know how to build the proper infrastructure for attracting and retaining talent? Were you lucky your last hire took a job at that salary, or did you have some understanding of current compensation levels?

At the same time, do your employees have access to the systems they need to succeed? Can they manage their payroll and benefits information? Can your managers hire, terminate, and administer their employees' data? Can your executives access your company's data via dashboard reporting? These are also components of a systematic approach to HR.

## Who Can Do Your HR?

You have 4 basic choices in regards to who can handle your HR function:

- You can do it yourself, or offload the job to current internal staff.
- You can hire additional administrative and HR staff.
- You can outsource to multiple vendors: one vendor for payroll, another for benefits, and so on. However, doing so can end up becoming a time-consuming referee match as you try to steer your patchwork of vendors toward a common goal.
- You can use a PEO as a single vendor solution under a co-employer relationship.

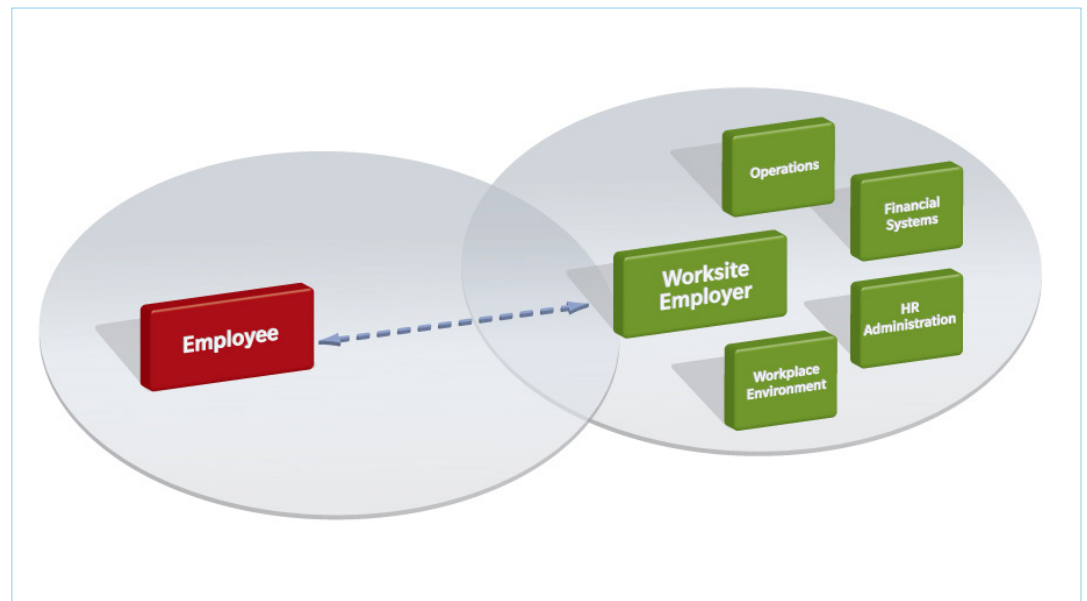
Especially for professional industries where having top talent is the main asset of the business, the reality is this: PEOs can manage your organization's HR functions better and more efficiently than if you did it yourself, allowing you and your organization to stay focused on your core business.

## PEOs and the Co-Employment Relationship

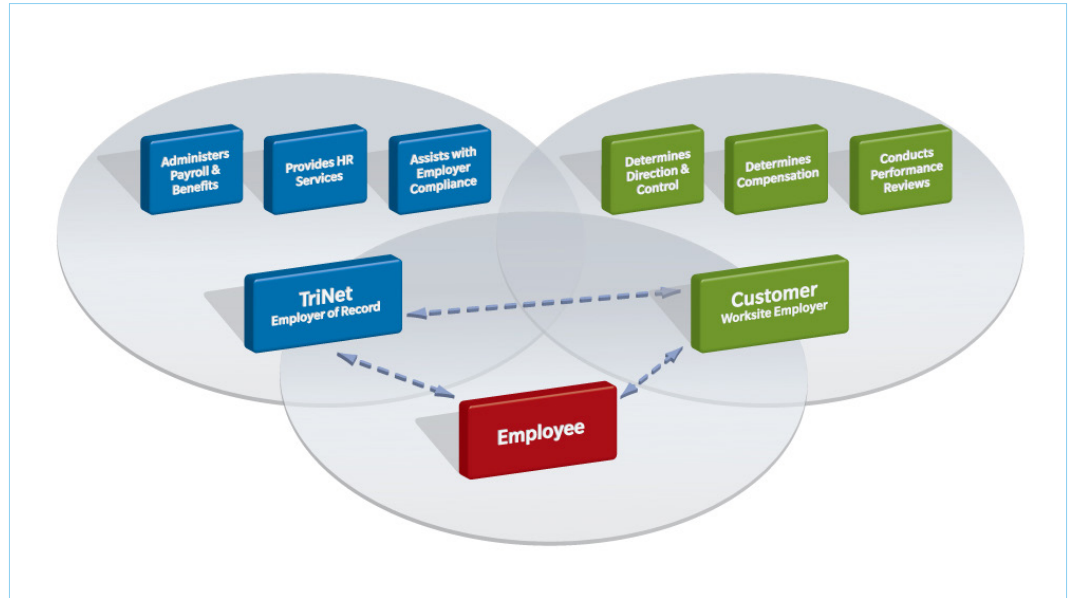
The PEO accomplishes its work by sharing a tax ID with its customers, which is called a “co-employer” relationship. This arrangement enables a company to transfer many of its key employer responsibilities to the PEO, including aspects of employer-related risk and compliance. A formal Customer Service Agreement specifies the division of responsibilities between the PEO and its customers.

### What Is Co-Employment? The Three-Point Relationship

***Your relationship with your employees right now looks like this: just your organization and its employees.***



Once your organization enters into a co-employment relationship with the PEO, your employees still work for you. You still retain complete control over your operations, hiring and terminating your workforce, building your company culture, and defining your employment brand. But with the co-employment relationship, many of the other tasks related to administering HR become the responsibility of the PEO.



Both U.S. and Canadian governments now recognize there are two employers in this situation, but for the most part government agencies look at the PEO as being as the responsible party for the administration and HR. They consider the PEO the **Employer of Record**. This arrangement means your employees' checks will carry the name of the PEO, though to the rest of the world, they are employed by your organization. And if there are any legal issues arising from the HR function, then the PEO assumes some of that risk.

**An analogy:** It's like going from having one parent (the employer), as most businesses have it today, to having two parents. As the initial employer, you are still responsible for operations. But the functions that aren't core to running your business are assigned to the other "parent," your PEO.

Is there a downside to co-employment? There can be, if you partner with the wrong one. When you use a PEO to handle HR and employee administration, you are putting a great deal of trust in another company. You want to make sure you select a PEO that has a proven track record, extremely efficient systems, and solid financial strength to ensure it will be around for the long term. Using a PEO for your business should be considered a long-term strategy, not a short-term fix.

## Benefits of the PEO model

The advantages of the co-employment model are substantial.

### **One:** You don't have the time to waste.

With a product to develop and a business to grow, the last thing you probably want to do is spend time mastering the universe of complex employment related regulations.

Furthermore, a large part of the HR function is assessing, negotiating for, and providing benefits options for your employees. This will also be a drain on your time, even if you engage with a benefits broker. There are options to wade through and many negotiations with carrier representatives to tackle.

If you choose to outsource to multiple vendors, you run up against the same problem. It takes time to manage these relationships individually and make sure they work together without problems or errors. Imagine having to inform each of your vendors about any changes in manpower, or coordinating both internal and external systems that affect payroll and/or benefits. The opportunity cost of all this effort can be substantial.

The highest and best use of your (or your HR person's) time is in building your core business. You cannot be as efficient as a PEO's service team of professionals. You should be focused on perfecting your product and building a market. Anything else is a step backwards.

### **Two:** PEOs can position you competitively in the talent market.

PEOs that deal with a large number of customer organizations aggregate the employees of each company. This allows PEOs to negotiate for benefits plans on the customer's behalf by leveraging the combined size of thousands, or even tens of thousands, of employees. PEOs can then offer even small to medium-sized customer companies the same benefits plans that large corporations enjoy. This enables PEO customers to attract and retain key talent that might otherwise choose to work at larger, more established organizations.

*“We chose TriNet’s outsourcing solution because they offered the widest range of HR, payroll, and benefit services.”*

**Jerry Panagrossi**

Director, Technical Consulting  
Symbian, Inc.

Alternatively, if you negotiate for benefits plans on your own, you’re spending time evaluating vendors. And to those benefits vendors, you’re just one small company. If PEOs pick a benefit plan, it’s a benefit plan for thousands of people. It contains options and plan features that smaller companies simply can’t obtain, much less afford.

The best PEOs offer a wide range of benefits, not forcing any one medical, dental or plan on an employee but rather emphasizing flexibility and choice in regards to multiple plan options. This same strategy is in play in large companies.

**Three: PEOs employ HR professionals that understand your business.**

It’s likely that you either don’t employ HR professionals at all, or have staff with more strategic issues at top of mind than HR concerns and employee administration. A PEO can help. A top-quality PEO will employ human capital consultants who are familiar with your specific industry, enabling them to anticipate and resolve your problems and act as a true strategic partner. They can assist you with interviewing strategies, training, performance management—even succession planning. They can be a genuine asset to your company’s growth and success.

**Four: PEOs help minimize your company’s risk.**

Your organization needs people to operate the business, but at the same time, those very resources—those human resources -- are in and of themselves a liability. In fact, your company may be at risk of running afoul of a minefield of employment laws. There are only three things you can do with such risk:

- Offload every bit of employer-related risk that you can.
- Share as much as you can.
- Manage what’s left to the best of your ability.

PEOs offer support in all three of those areas. You can offload much of the risk to PEOs, and then they can assist you in managing the risk that’s left. It’s a proactive defense against employer-related liability in your organization.

As a co-employer, PEOs assume part of your employer risk—and it’s in the PEO’s best interest to guide you accordingly. Issues such as workplace safety, sexual harassment—even the production of employee handbooks—are all matters that PEOs handle on a daily basis in the effort to minimize risk for themselves, their customer organizations, and the employees that they service.

Minimizing risk simply means taking a proactive versus reactive stance towards liability. People are typically putting in these components in their business after going through a certain amount of pain—perhaps an expensive lawsuit or a heavy fine. It makes more sense to prevent these hardships. An ounce of prevention is worth a pound of cure.

### Due Diligence in Choosing a PEO: Seven Tips

Selecting the right PEO to partner with is a critical decision for your organization. You need to align yourself with a trusted player in the PEO industry. Here are some tips on finding the right PEO:

**1. Find a legitimate and stable PEO.** Select a PEO partner that has been around for some time, and looks stable in its financials as well as in its systems. Look at their history and their credentials. The best PEOs generally have accreditation from the industry's "watchdog" organization, the Employer Services Assurance Corporation (ESAC). ESAC continually monitors HR outsourcing firms for adherence to important financial, ethical, and operational standards. Another good resource for information on quality providers is the National Association of Professional Organization (NAPEO) website ([www.napeo.org](http://www.napeo.org)).

Be sure the PEO can serve your employees in all geographic areas where you have employees. Some of the larger PEOs provide service in all 50 states, and some offer international services as well.

**2. Find a PEO that solves issues quickly and effectively.** The PEO you choose should have systems in place that give good service—and by service, we mean two things: direct access to someone who can answer your employees' questions, no matter how trivial those questions may seem, and the option of self-service HR tasks via an online platform. Do they have a dedicated toll-free call center? Are there multiple points of access given to you: phone, fax, email, chat? Do they even answer their phones? Is there an online system in place which allows employees to do routine tasks such as ask for vacation leave? Is there a technology in place that allows managers to keep track of the people they manage, and maybe even assess their performance?

One way to find out about a PEO's service technology is to check customer and professional references. What their customers say about the PEO will indicate how well their service will work for your organization.



**3. Understand how you are being charged.** There are two basic ways PEOs charge their customers. There's the break-out model, where you are shown what each category costs: workers' compensation insurance, benefits, service fees, etc. And then there's the bundled model where payments are grouped together in various ways. A transparent set of fees will be easier to understand than a percentage of payroll fee—and the latter can be tremendously expensive if your organization employs highly compensated people that routinely accrue bonuses and salary increases.

**4. Look for better benefits.** Benefits are a key way to attract and retain the talent you need to remain competitive. You simply can't skimp on them. To make the cut, HR outsourcing candidates should offer a package that provides all the benefits that large companies offer their employees. Features should include:

- A wide range of options for each employee to choose from
- Coverage for new hires with little or no waiting period
- No pre-existing condition exclusionary clauses
- No individual underwriting
- Guaranteed issue coverage

In addition, make sure the HR provider offers a stable health care provider network with modern administration systems. If you have any employees working out of state or perhaps out of the country, pick a partner that has mastered the complex issues associated with a dispersed workforce. A PEO with this expertise is especially important if you are expanding operations overseas or recruiting foreign employees to the U.S.

**5. Verify the employee risk pool matches the employer's profile.** An HR provider that mixes your relatively low-risk staff with other employers' higher-risk group of employees almost ensures your health insurance and workers' comp rates will rise faster than market rates.

Scott Stanton, CFO of International Association of Exhibitions and Events—a trade association that represents more than 6,000 individuals involved with the exhibition industry—switched providers for that very reason. He stated, "We were with another HR provider for a while, but their customer base was largely blue collar and low wage. That meant the provider could not control the risk associated with its own customer profile, and as a result, IAEE was seeing rapidly escalating benefits costs year after year. We saw a 30% increase one year, and then 45 percent, and then 90 percent!"

*“Offering generous benefits is in sync with our firm’s strategy for keeping and retaining people, so getting premium benefits packages from TriNet is a logical step.”*

**Bill Daniels**

CFO

Asset Management

The company quickly found an HR provider that specialized in high wage employees, and made the switch. Being grouped together with companies that resembled its own industry and workforce profile made all the difference financially.

**6. Ensure that the service provider meets all state regulatory requirements.**

Regulations vary from state to state, so ensure that the PEO you pick complies with the laws in your area. If you have employees in multiple states, make sure that your PEO can easily handle HR for those states. Ideally your PEO should be able to handle HR and administration anywhere in the 50 states, or at least in all states where you will have employees.

**7. Find out how long it takes to transition.** Ask about the set-up process; how many days will it take? How much paperwork will it entail? Or is the process mostly online? How much hassle will you have to go through in the transition process?

### TriNet customer case study: Asset Management

One company that has entered into a co-employment relationship with a PEO is Asset Management, a small venture capital firm that seeks to deliver fundamental change to economies, industries, and societies in the areas of information sciences and life sciences.

When CFO Bill Daniels joined the firm, he quickly realized that the firm could gain additional efficiencies in the realm of human resources. He had high-level employees who were handling HR issues—and those employees had far better things to do with their time.

Daniels recalls, “Previously we had a controller who, by default, was in charge of payroll and benefits issues. It didn’t get a lot of her focus because she had far more pressing challenges in front of her. When I joined the firm, I asked what her biggest problems were, and she mentioned the time and energy spent on handling mundane HR administrative tasks.”

Fortunately, he already knew where to go. “I had previously worked with an HR outsourcing company, so I told her ‘We can take care of that.’ And I brought in TriNet.”

## A Full Suite of Benefits and HR Services

One of Asset's biggest concerns was the cost of healthcare; it just kept rising and rising. Daniels points out, "With TriNet, we're able to join forces with thousands of other companies to get the purchasing power we need to obtain high-quality benefits. Offering generous benefits is in sync with our firm's strategy for keeping and retaining people, as we also offer generous compensation and a 401(k) match. So getting premium benefits packages from TriNet is a logical step."

He continues, "We gain other advantages as well. Prior to engaging TriNet, we had no employee handbook, no policies or processes written down, and no real documentation for workforce management and administration. That's a dangerous way to go—but TriNet provides the infrastructure we need."

## A Long-Term Strategy

The self-service features are beneficial to Asset's team as well. "We like being able to tell our employees that all they'll need is a computer screen and a phone number to resolve most of their issues. TriNet handles the rest."

Having TriNet as a single point of contact for Asset Management's entire HR function has proven to be a durable long-term strategy for the firm. "It's a partnership that I intend to continue. It allows us to keep our focus on our portfolio companies. It really has worked great for us."

## More information on PEOs

Visit the National Association of Professional Employer Organizations (NAPEO) at [napeo.org](http://napeo.org)

More information on ESAC, the organization that provides accreditation for PEOs at [accessesac.org](http://accessesac.org)

## Check out the Demo

Demo: [TriNet.com/trinetdemo](http://TriNet.com/trinetdemo)

## About TriNet

TriNet serves as a trusted HR partner to small businesses, to help contain costs, minimize employer-related risks, relieve administrative burden, and keep focus on core business functions. From routine employee benefits service and payroll processing to high-level human capital consulting, TriNet's PEO expertise is integrated with every facet of a client's organization. Its solutions specialize in serving fast-moving companies in fields such as technology and professional services, who recognize that top-quality employees are the most critical competitive asset.

For more information, visit [www.trinet.com](http://www.trinet.com)

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