
PEO 101:

AN EMPLOYER'S GUIDE TO PEOs



Table of Contents

What's a PEO?	1
PEO Success By The Numbers	2
Benefits of Working with a PEO	3
How Does a PEO Work?	4
Busting PEO Myths	8
Partnering with FrankCrum	10





What's a PEO?

A PROFESSIONAL EMPLOYER ORGANIZATION (PEO) PROVIDES COMPREHENSIVE HR SOLUTIONS FOR SMALL AND MID-SIZED BUSINESSES. PAYROLL, HR, TAX ADMINISTRATION, RISK MANAGEMENT, AND REGULATORY COMPLIANCE ASSISTANCE ARE JUST SOME OF THE SERVICES PEOS PROVIDE TO COMPANIES ACROSS THE COUNTRY.

In addition, many PEOs provide workers with access to 401(k) plans, health, dental and life insurance, dependent care, and other benefits not typically provided by small businesses. This enables organizations that use a PEO to focus on their core mission, to improve productivity and profitability, and to grow.

History

Business owners have long struggled to keep up with the back-end functions and increasingly complex regulations that are critical to their companies' success.

In the 1970s and 80s, businesses emerged to meet this market demand through outsourcing, but it wasn't until the 1990s that the Professional Employer Organization (PEO) industry came together with the help of NAPEO, its national association.

The unique PEO model, known as co-employment, allows client companies to access comprehensive HR services and to share liability, insulating themselves from the complicated and ever-changing regulatory landscape.

Today, PEOs provide services to 173,000 small and mid-sized businesses, employing 4 million people.



PEO Success By The Numbers

**OUTSOURCING EMPLOYER RESPONSIBILITIES AND
LIABILITIES EMPOWER PEO CLIENTS TO SUCCEED.**



PEO clients were 16% more likely to report an increase in profitability compared to other small businesses not using a PEO.



PEO clients grow 7-9% faster than other comparable businesses that do not use a PEO.



The annual return on investment, or overall cost savings, from using a PEO is estimated at 27.2%.



98% of PEO clients would recommend a PEO to a small business colleague.



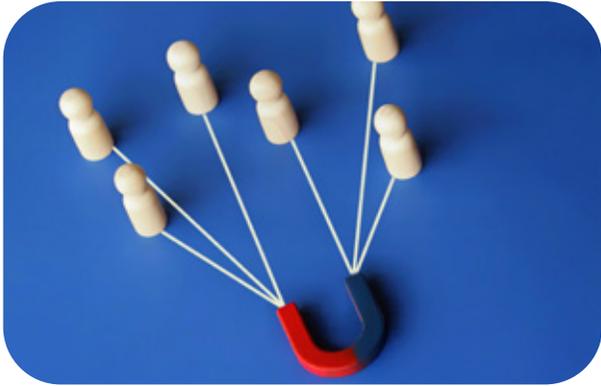
Expected annual median revenue growth for PEO clients is 40% greater than that of comparable firms that do not use a PEO.



Employee turnover is 10-14% lower for PEO clients compared to other businesses that do not use a PEO.

Source: PEO Fact Sheet 2022, NAPEO

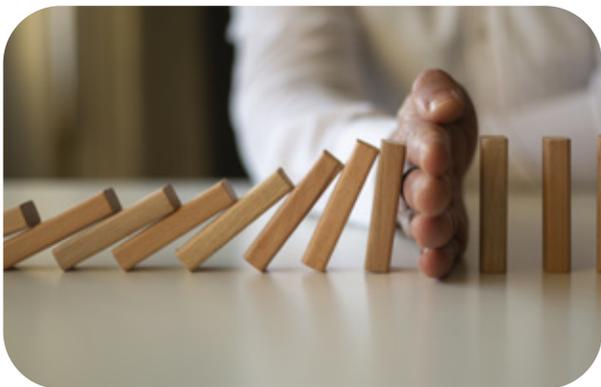
Benefits of Working with a PEO



Attract & Retain Talent

PEOs offer a sense of employment security by providing an attractive benefits plan typically offered to Fortune 500s, retirement options, and a safe working environment.

Employees of businesses that use a PEO have higher levels of job satisfaction and engagement than employees of businesses that don't use a PEO.



Reduce Risk & Liability

Reduce workers' compensation claims with a professional safety and risk management program to promote a safe workplace.

Minimize costly mistakes in payroll and related taxes, benefits (COBRA, HIPAA, ERISA, ACA), and HR (EEO, harassment, discrimination, FMLA) that can put your business at risk of legal action.



Save Time & Money

PEOs take specialized, time-consuming administrative tasks off your plate. You'll be freed up to concentrate on more important things like business performance and growth.

You'll reduce costs compared to doing things yourself, and you'll gain purchasing power for benefits, insurance, and other products.

Small and medium-sized companies typically incur more cost per employee than larger companies for HR administration and compliance, primarily due to economies of scale. Large companies can spread the cost of HR administration and compliance across a larger pool of employees. Plus, they have specialized resources to implement policies and procedures. By using a PEO, you get the same advantages as a larger company at a fraction of the cost.



Expert Guidance & Support for Compliance

Your company will receive reliable assistance and guidance from trusted advisors on specialized topics.

Gain peace of mind knowing how to remain in compliance with state and federal laws and government regulations.

How Does a PEO Work?

What's unique about working with a PEO?

Unlike a la carte HR services and technologies that support employers functionally, partnering with a PEO creates a formal division of responsibilities between the business and the PEO. Although the company retains certain responsibilities, it transfers a comprehensive set of administrative burdens and liabilities to the PEO. Co-employment or “shared” employment is at the heart of this unique arrangement.

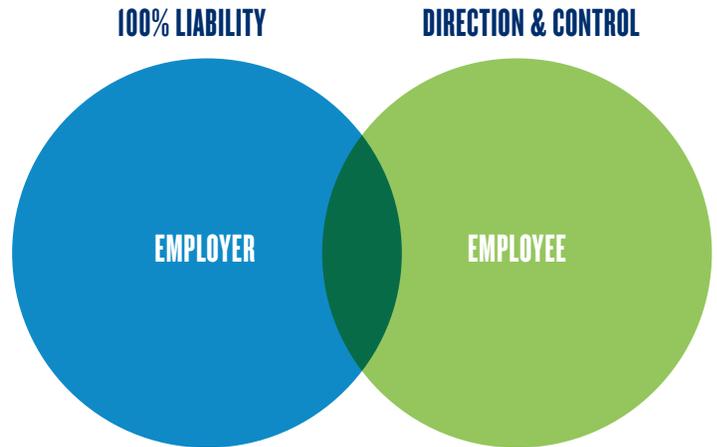
What is co-employment?

Co-employment is a legal agreement allocating employer responsibilities between the client company and the PEO. While the client company maintains direction and control over employees (to hire, fire, discipline, determine duties, set wages, etc.), the PEO becomes the “employer of record,” responsible for a set of clearly defined administrative functions.

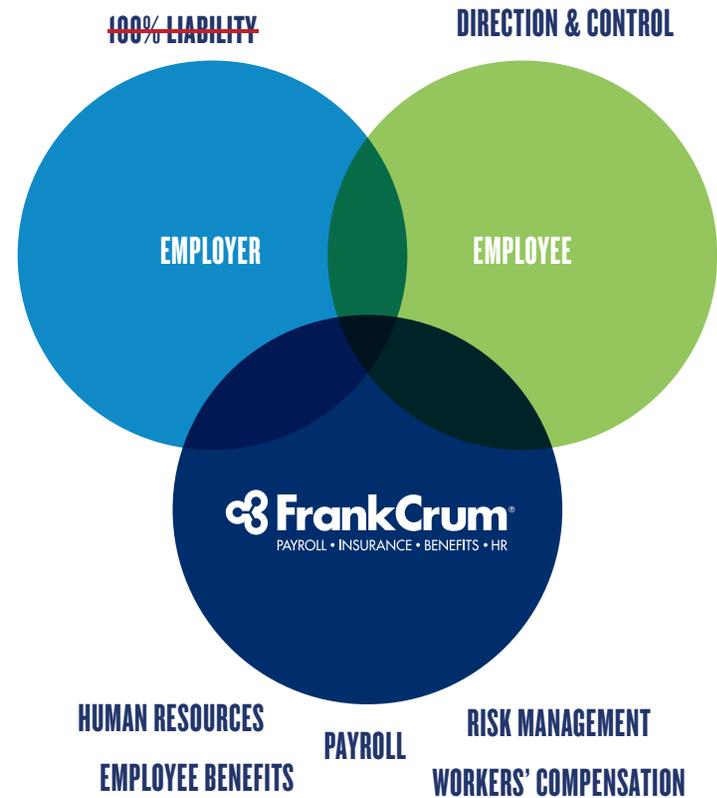
How does co-employment work?

For the duration of the co-employment agreement, the client company places its existing employees and subsequent hires on the PEO’s payroll for tax purposes. This practice is referred to as “employee leasing.” It enables the PEO to perform administrative duties on behalf of the client. At the same time, the employees continue to perform their work for the client company, as usual.

Without a PEO



With a PEO



As a business owner, what are my responsibilities within a co-employment agreement?

You continue to be responsible for business decisions, operations, and the management of your employee's daily tasks and job functions. Although you remain responsible for compliance with labor and employment laws, your PEO will offer expert guidance to help you navigate this area.

What is a PEO responsible for within a co-employment agreement?

A PEO takes responsibility for a variety of interlocking duties and their accompanying liabilities. Put simply, the PEO handles:

- Payroll processing and payroll tax administration
- Workers' compensation and employment practices liability insurance
- Human resources support
- Employee health care, and other benefits, and/or program administration (optional)

How does a co-employment agreement impact my company's payroll and taxes?

Your employees will become W-2 employees of the PEO and will be added to the PEO's payroll. Federal and most state employer taxes will be reported and paid under the PEO's tax ID number, and the PEO will be responsible for the administrative tasks underlying this function.

The PEO will:

- Pay and report wage-related taxes
- Issue W-2s annually
- Respond to unemployment claims
- File 941s (employer's quarterly federal tax return form) typically using the PEO FEIN
- File all tax forms required by states
- Receive and handle wage garnishments and tax deductions



How does workers' compensation coverage through a PEO compare to an individual policy?

The classifications for workers' compensation (WC) insurance continue to be determined by the National Council on Compensation Insurance's (NCCI) coding system and are based on the risks of work performed. However, a PEO is typically the holder of a single workers' compensation policy that covers all employees on the PEO payroll, including leased employees.

The client pays for coverage through the PEO instead of paying for a policy outright, which has several benefits:

For those who would pay a high individual WC premium, coverage through the PEO creates a "pay-as-you-go" arrangement that eliminates upfront costs as it is billed with payroll each period.

The client only pays for WC coverage for employees who report wages (perform work) during a pay period.

PEOs typically have a large, master policy that allows them to offer competitive rates.

More than an insurance policy, WC within the PEO framework includes comprehensive support services for risk, safety, and claims management, as well as return to work programs.



How does a PEO mitigate HR risk for employers?

In a co-employment relationship, you as the employer are still responsible for managing your employees and complying with state and federal employment laws. PEOs have human resource (HR) experts to advise and help you stay in compliance.

First, the PEO will provide you access to HR experts, knowledgeable in all aspects of labor and employment compliance. They will advise you on how laws are applied and interpreted, and best practices for hiring, employee training, and more. Before making a decision about an employee, you can schedule a consultation to discuss the circumstances and receive guidance.

You will also have access to a vast library of HR forms, documents, policies, and handbooks. Additionally, PEO's aim to keep clients current on changing federal and state legal regulations through ongoing communications.

Second, you will access Employment Practices Liability Insurance (EPLI) through your PEO. Like WC, the PEO holds one EPLI policy through which all employees on the PEO payroll are covered. It helps to cover expenses incurred by defending against employment claims of harassment, wrongful termination, discrimination, retaliation, etc.

How does a PEO help employers offer employee benefits?

A benefits program will motivate great candidates to come aboard with your company and incentivize great employees to stay. A PEO can help you customize and administer a benefits program that works for your company and employees.

PEOs typically offer a variety of employee benefits such as health care, life, disability, dental, vision, 401(k) plans, and special discounts. Depending on the size of the company, a client may benefit greatly from using the PEO's group plan to access big company benefits at a fraction of the price. If not, the PEO has the flexibility to shop for individual plans that suit a client's unique situation. Or, clients may opt to manage their own benefits program.

Once benefits are in place, the PEO handles their administration through premium payroll deductions and carrier payments, so these burdens are shifted from the employer, freeing up internal resources. Plus, the PEO's benefits experts help clients navigate rules and regulations associated with healthcare, like the Affordable Care Act (ACA).



Busting PEO Myths

BECAUSE OF THE UNIQUE NATURE OF THE PEO MODEL, IT'S OFTEN MISUNDERSTOOD. WE'RE HERE TO DEBUNK SOME OF THE COMMON PEO MISCONCEPTIONS.



PEOs are expensive

PEO costs vary based on business priorities, number of employees, size of payroll, and workers' compensation claim history. There's also significant price variation across providers. With that said, there is a lot of value associated with PEOs. According to research by the National Association of Professional Employer Organizations (NAPEO), PEO clients save 21% on administration costs. Their HR and risk management support helps their clients maintain compliance and avoid penalties, while also reducing their risk of costly lawsuits. In addition, PEOs negotiate lower rates on benefits and insurance through economies of scale. Although there are costs associated with PEOs, they typically save their clients money in the long run.

PEOs take over your company

Many mistakenly believe that PEOs completely take over the management and decision-making of their client's businesses. However, this is not the case. The co-employment agreement clearly stipulates where the PEO's responsibilities begin and end. The client company retains control of its own operations and makes all decisions related to its business.

In fact, with a PEO by your side handling things on the backend, you can focus on the most important activities that only you can do, like generating sales and growing your business.

PEOs are only for small businesses

Some assume that PEOs are only for small businesses that lack the resources to handle their own HR functions. However, PEOs can be beneficial for companies of all sizes, including medium and large organizations. As companies grow, so do the complexities of their administrative and compliance needs. In many cases, companies find that the expertise required and the associated expense are better outsourced than kept in-house.





Employees don't like working with PEOs

It's true that employees can fear change. However, employees leaving because their employer partnered with a PEO is virtually unheard of. In fact, hiring the right PEO can actually increase employee morale and reduce turnover.

Working with a PEO strengthens your HR capabilities and provides guidance on enhancing employee relations. If you choose to offer benefits through your PEO, your staff may gain access to health insurance, retirement plans and other ancillary benefits like vision and dental insurance and perks that rival that of a Fortune 500 company. There's a lot for employees to love in a PEO relationship.

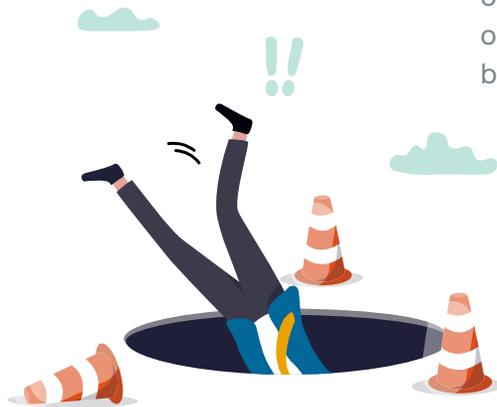
All PEOs are the same

It is important to note that each PEO company works differently and has different packages, so it is important to thoroughly research and understand the services offered by a PEO before partnering with one.

Whether you're on the hunt for a good PEO partner or looking to make a long-awaited change, finding one that meets the needs of your particular business and your goals is important.

I have an in-house payroll or HR person; I don't need a PEO

Many businesses that have HR and payroll staff find it difficult to keep up with HR administration and all the specialization that's needed to stay compliant. Partnering with a PEO means you have access to dozens of specialists with various expertise to supplement your staff in handling the full range of administrative duties including payroll, payroll taxes, deductions, wage garnishments, wage and hour compliance, ACA compliance, unemployment claims, workplace safety programs, and more.



Partnering with FrankCrum

When you work with FrankCrum, you gain a true partner. Your risk becomes our risk, making success a shared interest. Our goal is to help our clients thrive, and we offer unmatched service and expertise in our full-service client experience to help you succeed.

Clients tell us that our services enable them to increase profitability, maximize productivity, lower time spent on transactional HR, reduce liability, and ultimately, lower costs in areas like HR, workers' compensation and risk management, benefits, and payroll.

	PAYROLL	WORKERS' COMP & RISK MANAGEMENT	HUMAN RESOURCES	EMPLOYEE BENEFITS
 INCREASE PROFITS	Reconcile payroll and tax transactions and eliminate current payroll vendor	Lower experience modification factors through risk management and safety programs	Improve hiring and recruitment practices to reduce turnover	Premium payment and reconciliation to reduce premium leakage
 MAXIMIZE PRODUCTIVITY	Process W-2s, deposit state and local taxes, and handle garnishments	Implementing return-to-work programs	Implementing performance management and employee handbooks	Attract and retain happy employees
 DECREASE TIME SPENT	Management reports (e.g. job-costing by employee, department, location)	Managing workers' compensation claims	Performing transactional HR tasks (e.g. unemployment claims, position descriptions)	Benefits administration, open enrollment, and employee claim inquiries
 REDUCE LIABILITY	FLSA compliance and child labor laws	OSHA compliance	FMLA, ICRA compliance	COBRA, HIPAA, ERISA
 LOWER COSTS	Payroll checks and direct deposits	No down payment for premium and no audit premium	Employment Practices Liability Insurance (EPLI)	No cost for Section 125

Why FrankCrum

Although FrankCrum clients appreciate our long and successful track record, financial stability, technology capabilities, and the wide range of services we offer, what we hear most often is that they appreciate being able to speak with a live person who gives them straight answers to what may sometimes be difficult questions.

That's the way we do business - one person at a time, one client at a time. It's literally part of our DNA as the FrankCrum family of businesses: what we call "A Family of Employer Solutions."

Our company history began in 1981, when Frank W. Crum, Jr. and his father started offering temporary staffing services, with a deep commitment to the success of business owners. Because of that commitment, we have expanded our professional offerings over time as clients partnered with us to help them grow.

Today, that family of businesses - still owned and operated by Frank Crum, Jr. and now his son, Matt and daughter, Haley - offer HR services through FrankCrum PEO, workers' compensation and general liability insurance through Frank Winston Crum Insurance and staffing services through FrankCrum Staffing. You'll find the same operational philosophy in all three companies; Frank refers to it as "doing the right things for the right reasons."

It boils down to this: Running a business can be hard. Managing your human resources program shouldn't be. Let us know how we can help.

**To learn how FrankCrum can help your business,
call 800-277-1620 to schedule a consultation**

