

Why Are PEOs Advantageous for Small Business?

JUSTWORKS.

Staying compliant with payroll regulations and tax codes is a constant challenge for employers. A third of small businesses are finned for incorrect payroll procedures, turning minor errors into a major problem for the company's bottom line.

Don't let routine payroll and human resources (HR) tasks trip up your small company. When you can't afford the staffing it would take to keep up with over 15,000 tax codes, the easiest answer is to work with a professional employer organization (PEO). PEOs manage HR, payroll, and employee benefits, ensuring that you're compliant and current on all regulations.

Defining Professional Employer Organizations

PEOs are most commonly defined as firms that allow employers to outsource employee management tasks. The PEO and original employer enter into a co-employment relationship, more on this below. This allows the PEO to pool workers from several client companies under one employee identification number (EIN). This allows the PEO to act as one large entity in regards to health insurance, compliance, and other legal issues.

When working with a PEO, the business owner retains many responsibilities and continues to manage the day-to-day performance of employees. The PEO takes over more administrative tasks, such as:



Covering worker's compensation insurance



insurance, retirement savings plans, and other benefits



Providing coverage under federal, state, and local laws including the Age Discrimination in Employment Act, ADA, HIPPA, Equal Pay Act, Title VII, and COBRA

Reporting wages



Reporting employment taxes



Paying state unemployment taxes



Providing access to health

The History of PEOs in America

PEOs first became popular around the 1980s. In the 20 years between 1980 and 2000, the number of regulations covering employee and labor issues more than doubled.

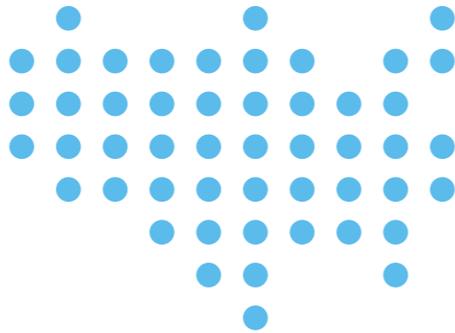
The new abundance of laws made many HR and administrative tasks complex and time-consuming for small and mid-size companies. The PEO emerged with a welcome solution. The PEO specializes in handling payroll, taxes, and other clerical jobs, freeing the client companies up to deal with other issues.

Most PEOs have grown over 20 percent a year for each of the last six years. In the United States, there are approximately 700 [PEOs in 50 states](#). In 2012, the PEO industry [generated \\$92 billion in revenue](#), representing a 13.6 percent increase over 2010.



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Though many states have long held statutes recognizing PEOs, it wasn't until the end of 2014 that the IRS formally recognized them. On December 16, Congress passed the Small Business Efficiency Act, which includes a voluntary certification process for PEOs and recognizes them under federal tax laws. The Act went into effect on January 1, 2016.



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2014

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2016

The Small Business Efficiency
Act will be effective

PEOs and Co-Employment

1

PEOs operate using a co-employment agreement. According to the National Association of Professional Employer Organizations (NAPEO), co-employment is the contractual allocation and sharing of employer responsibilities. The PEO and its client each provide essential aspects of employment for the employees covered under this agreement.

PEOs and Co-Employment

2

When businesses align with a PEO for a co-employment arrangement, they share responsibilities as well as risks. Despite common misconceptions, employees do not become non-permanent or temporary when the business forms a partnership with a PEO. There is no disruption for the employee when this partnership occurs.

PEOs and Co-Employment

3

A PEO typically lightens the workload for HR employees so they can focus more on handling internal relationships, recruiting, and managing efficiency on site, while the PEO can take over certain administrative duties. PEOs often partner with the existing HR department so each can benefit from the other's knowledge and expertise.

PEOs and Healthcare

One of the greatest benefits of a PEO is what it can offer employees in terms of healthcare. Larger companies have more bargaining power when it comes to negotiating comprehensive healthcare plans. Since a PEO pools the workers from several companies under a single EIN, it has far more power than any single client would command on its own.

A PEO can easily get savings of around 30 percent.

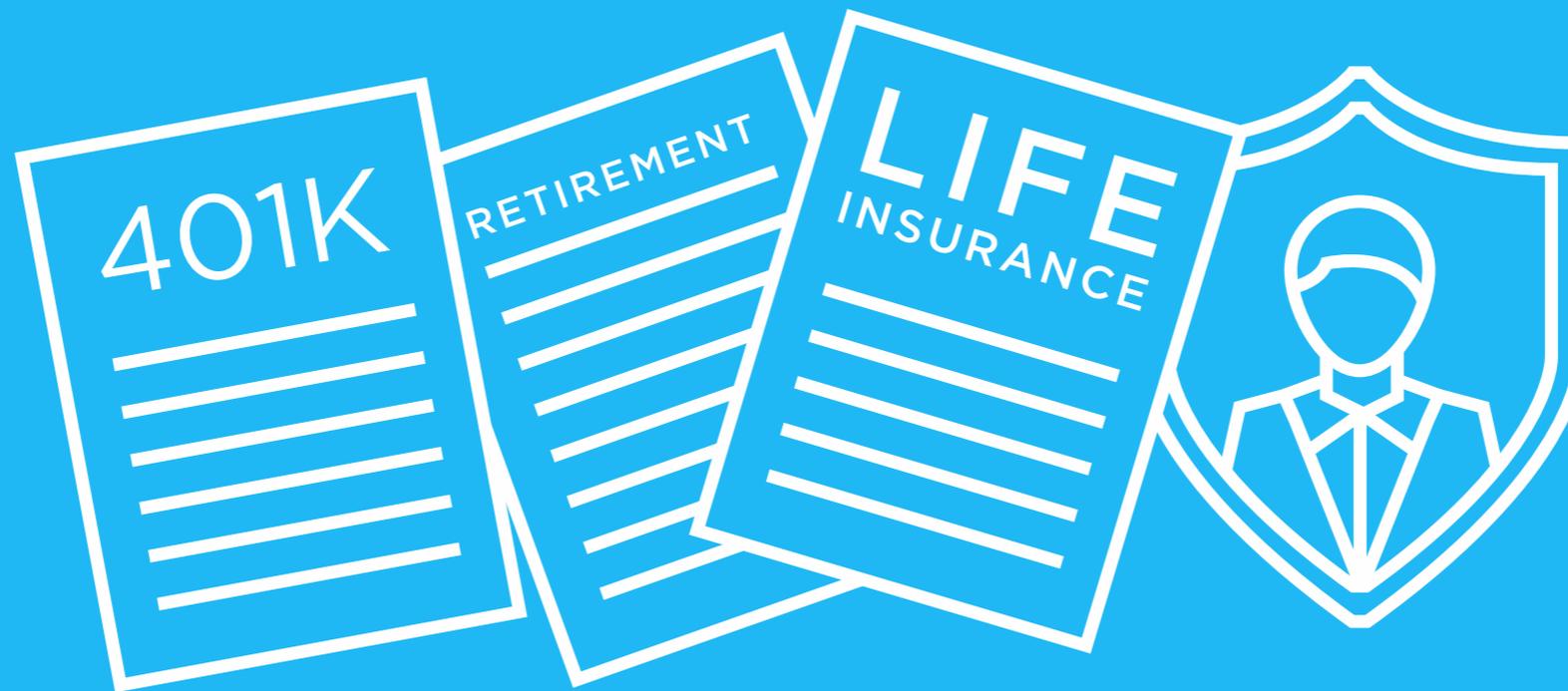
It partners with healthcare carriers directly to command the best rates. It's important to take this into account when you're considering a co-employment relationship with a PEO. Though you pay a fee for the PEO's services, savings like this often offset the cost.



Offering better benefits through a PEO can also increase a company's bargaining power in the hiring arena. There's a lot of competition for the best talent and companies who can offer a strong benefits package have a distinct advantage.

Other Benefits of PEOs

PEOs offer much-needed administrative assistance for small businesses. With a PEO, you no longer need to worry about the hassle of hiring an extensive HR department. Payroll and taxes are removed from the equation so you can keep your focus on internal business tasks and your company's growth.



In addition to the insurance benefits mentioned above, a PEO can also help you provide better life insurance, retirement packages, and 401(K)s. A PEO streamlines administrative tasks like onboarding, offboarding, and payroll. Not only does this decrease your workload, it takes some liability off your shoulders. Handing these tasks over to a PEO will help you increase your profitability and productivity.

Understanding How PEOs Work

1

For financial, tax, and legal purposes, the PEO is considered the employer of your workers when you enter into this type of partnership. The PEO assumes responsibility for state employment and unemployment taxes, employee wages, and all other laws and regulations.

Understanding How PEOs Work

2

Though the PEO is the legal employer in this arrangement, the client company still maintains full control over its employees. This includes providing equipment to employees as needed, hiring and terminating staff, and overseeing daily tasks.

Understanding How PEOs Work

3

As the client company, you will pay the PEO an agreed-upon sum for its services. This is typically assessed per employee or per paycheck. In addition, you will provide the appropriate wages for your employees, though the PEO will actually pay them out, like a payroll company would do.

Who Can Benefit From a PEO?



Small businesses with 2 to 50 employees are ideal for [PEO partnerships](#). Though this is the sweet spot for a PEO, businesses with as many as 100 employees also see significant benefits.

Large companies typically opt for an in-house HR staff, but small companies with a moderately-sized staff are a perfect fit because the PEO takes strain off their administrative team, allowing them to maximize their growth.

If you're wondering whether the expense of a PEO is worth it for your company, there are a few important points to consider.

For a small company, the expense for a PEO is typically less than what it would cost to employ one or more full-time employees to handle HR, payroll, and the other administrative tasks that the PEO takes care of. A PEO will also negotiate a better deal on insurance packages for your employees. Because the PEO works with multiple companies, it has greater buying power.

The new Affordable Care Act (ACA) mandates that companies with 50 or more full-time employees provide health insurance. This is a tall order for many small businesses, and navigating the complexities of the new law is no small task.

A PEO takes the trouble and guesswork out of the process, ensuring that small businesses are meeting their legal obligations to their employees.

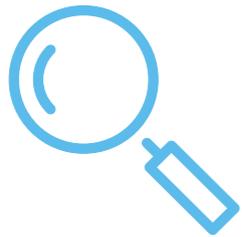
How to Choose a PEO

There are dozens if not hundreds of PEOs available to help you streamline employee payroll, administration, and benefits. If you're interested in working with one, make sure you do adequate research to find the right fit.

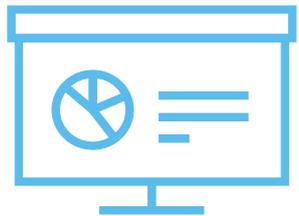
Look for a PEO that offers:



A dedicated customer service team
When you have questions, it's important to know that you can reach someone with answers.



Benefit plan options
There's no one-size-fits-all plan. Look for a PEO that can tailor a plan to meet your needs.



Administrative and management expertise
A good PEO is organized and experienced and has a strong track record of satisfied customers.



Convenient tools
Options like automatic payroll or an intuitive online dashboard make it easy to coordinate with your PEO.

Interview potential PEOs and ask the following questions:



What services do you offer?



What technology do you rely on?



How do you bill for your services?



Which tasks will I retain responsibility for, and which do you take full control and liability for?

Justworks is a PEO

A PEO like Justworks can offer outstanding benefits for small businesses that need a helping hand with administrative jobs and employee benefits.

With Justworks, your employees receive medical, vision, and dental coverage that you can manage online. You set up employee, vendor, and contractor payments online and enjoy the convenience of automatic payments going forward.

Justworks is a PEO

Justworks keeps you in compliance so you don't need to worry about whether you're meeting the new regulations set forth in the ACA or how to handle your state and federal taxes.

For a small business, Justworks has the solutions you need to streamline operations and relieve the pressure of these responsibilities.

JUSTWORKS.

Everything you need to take care of your team.



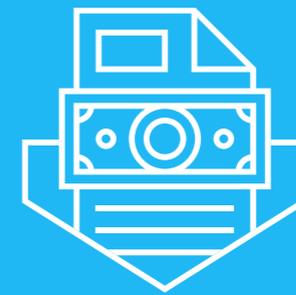
Benefits.



HR Tools.



Compliance.



Payroll &
Payments.

Schedule a free consultation today.

Call (888) 534-1711 or
email experts@justworks.com