

HR INSIGHTS

Brought to you by the insurance professionals at
Cambridge Benefit Solutions

Professional Employer Organizations

Sometimes companies have trouble meeting their human resources needs, especially while also trying to increase profits. To assist in this area, many companies hire professional employer organizations (PEOs).

When hiring one of these organizations, the company and its employees become employees of the PEO, and the company delegates many of its HR responsibilities to the PEO. Though the company still officially hires its employees, the PEO handles payroll, benefits administration, workers' compensation, medical insurance and retirement accounts. Then, the company pays the PEO for its services (often a percentage of total salaries), along with an amount to cover the payroll for the employees.

PEO-provided Services

A typical PEO provides the following four main services to its clients:

- Human Resources Associate
 - PEO acts as an off-site HR department by offering consulting in sexual harassment, discrimination, Family Medical Leave Act (FMLA), and hiring and firing practices
 - Conducts background checks and pre-employment testing on potential employees
 - Recruits employees through advertising, resume screening and interviewing
 - Provides customizable employee handbooks and position descriptions
 - Conducts performance reviews
 - Provides employee training for new positions
- Employee Benefits Administration
 - PEO seeks out cost-effective benefits plans. By pooling all of its employees into one group (the vast array of companies hired by the PEO), the organization is able to spread their medical claims over a larger premium base. This equates to a lower annual rate increase, compared to smaller businesses.
 - PEOs typically offer the following benefit plans:
 - Health care
 - Dental

Sometimes companies have trouble meeting their human resources needs, especially while also trying to increase profits. To meet some of these needs, many companies are hiring professional employer organizations (PEOs).



CAMBRIDGE
BENEFIT SOLUTIONS

- Vision
 - Long- and short-term disability
 - Life insurance
 - 401(k)
 - Section 125
 - COBRA compliance
- Payroll Administration
 - The PEO will take responsibility for the following:
 - Payroll
 - Employee taxes
 - Quarterly reports
 - Workers’ compensation insurance
 - Premium audits
 - Claims management
 - Benefits procurement
- Handling Risk Management
 - PEOs manage any workers’ compensation or unemployment claims that arise, typically at a lower claim cost (as compared to what a company could achieve on its own).

Advantages of Hiring a PEO

The following are the benefits of hiring a PEO:

- Employers do not need to spend time and resources on HR tasks. Instead, they can focus on their core business and growing their bottom line.
- PEOs can provide consistent administration for larger companies, and often improved technology resources.
- Employers do not have to handle as many legal intricacies regarding HR tasks.
- PEOs can negotiate better insurance coverage because of the volume of business that they cover.
- Employers do not have to hire as many HR professionals in-house.
- When the PEO assumes its client’s payroll into its own accounts, it also assumes the liability for clients’ employees because it is technically now the legal employer.
- PEO assumes the liability of adhering to the legal tax and workplace standards. The PEO will ensure that its clients are knowledgeable concerning relevant standards in accordance with local, state and federal laws.

Disadvantages of Hiring a PEO

The following are the potential cons of hiring a PEO:

- A company no longer has employees after hiring a PEO. The company essentially fires all of its employees, who are then rehired by the PEO.
- By hiring a PEO, the company loses control and flexibility concerning compensation packages allotted to its employees. Though a company can decide how much to pay each of its employees, it has limited say on the benefits plans offered.
- Companies lose a bit of control over their workers since they are officially employed by the PEO.

- Employees may be confused by who truly is their employer; the PEO or the company that they report to each day. Employees may not know who to turn to when they have concerns regarding their compensation, benefits, etc.