ADP
Always Designing for People™

HR Outsourcing Buyer's Guide

Choosing the Right PEO for Your Business

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What Is a PEO?

A **Professional Employer Organization**, also known as a **PEO**, allows companies to outsource certain employee management tasks through a co-employment agreement. A PEO partners with the employer to provide human resources, employee benefits and workers' compensation, regulatory compliance guidance, and payroll administration.

The co-employment agreement typically stipulates that the PEO contractually shares certain employer responsibilities, though the employer retains ultimate control over the business and its employees. Decisions about whether to continue employing an individual, for example, or whether to adjust the employee's salary remain with the employer.

Many employers use a PEO to gain access to high-quality employee benefits plans at a competitive rate. A PEO also relieves employers of some responsibility for compliance oversight and provides the simplicity of having a single vendor across all human resource (HR) needs.

According to a recent NAPEO (National Association of Professional Employer Organizations) study:[1]

98%

of business owners using a PEO would recommend a PEO to a small business colleague

70%

report that their revenues have increased since becoming a PEO client

66%

report that their profitability has increased since becoming a PEO client

The Truth About Co-Employment

You may have some initial reservations about the idea of co-employment. You can rest assured, however, that you will not lose control of your business when you partner with a PEO. A PEO does not have the sole ability to make decisions regarding your business. For example, the PEO will not dictate the amount of pay, hours, or schedules of your employees.

Some other things you might not know about co-employment:

1. **A PEO can help protect and grow your business.**
2. **A PEO is always thinking about how it can protect you, the business owner.**
3. **A PEO will help you take care of your employees' needs.**
4. **A PEO partners with you so you don't have to navigate HR, risk, and compliance on your own.**
5. **A PEO will ultimately do what is right for your business.**

Should I Look for a Certified or Accredited PEO?

There are two types of voluntary certification that PEOs can obtain: accreditation by the Employer Services Assurance Corporation (ESAC) and Internal Revenue Service (IRS) certification.

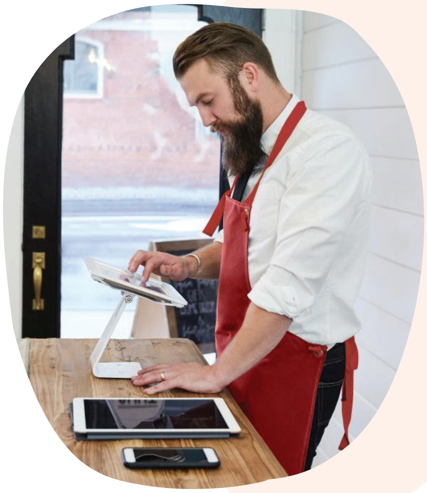
ESAC, an independent nonprofit corporation, is the official accreditation and financial assurance organization for the PEO industry. Earning accreditation demonstrates a PEO's financial stability, ethical business conduct, and adherence to operational standards and regulatory requirements.

Partnering with an accredited PEO helps ensure reliability of the service provider. Accreditation requires compliance with more than 40 industry best practices and quarterly verification of all key employer payments, including federal and state employment taxes, health and workers' compensation premiums, and retirement plan contributions.

The IRS also offers a certification to PEOs that meet a set of rigorous background, financial, and reporting requirements. Certification ensures certain financial protections and tax benefits to clients of a certified PEO (CPEO). Certification eliminates the wage-base restart for PEO customers that join or leave a CPEO before the end of their contract year. Consequently, the client can make a change at any time and does not need to wait until January, potentially saving significant tax dollars.

Fewer than 7% of the PEOs in the United States are currently certified by the IRS.[2,3] ADP TotalSource® is an example of a certified PEO.

Note: The IRS does not endorse any particular certified professional employer organization.



How Can a PEO Support My Business?

Of all the options for HR administration, from doing it yourself to outsourcing, a PEO is a great option for receiving expert, strategic guidance in human resources, risk and safety, and compliance. A PEO provides you with strategy to grow your business and give you peace of mind that you are protected while doing so.

A PEO offers the following services, most often to small and midsized companies that don't have, or don't want to hire, internal resources:

- Payroll and Tax Filing
- Benefits Administration
- Compliance
- Risk and Safety
- Human Resource Support
- Talent Management Strategy

Payroll and Tax Filing

A PEO can administer your payroll and pay applicable local, state, and federal employment taxes. A PEO can also help ensure compliance with tax form filing and new hire reporting.

Many PEOs offer integration with payroll, time and attendance, 401(k), and insurance plans, which saves you from entering the same information multiple times and may help to significantly reduce errors.

Benefits Administration

A PEO can offer medical and dental insurance, and help with enrollment, claims, and more. One of the advantages of participation in a PEO is access to high-quality, cost-effective health coverage at competitive rates often not available to small to midsized businesses. Many PEOs also offer retirement savings plans and other employee perks and benefits, such as education reimbursement and commuter benefits.

Learn more about how a PEO can help you offer premium employee benefits.

Compliance

PEOs have risk and compliance experts on staff who keep up with ongoing changes to HR regulations and help you respond and comply with the changes that affect your business. Compliance experts can work with you to develop proactive compliance management strategies to help protect your business from fines and penalties.

Areas of compliance include monitoring changing tax law and reporting requirements, filing of tax forms (W-2), unemployment insurance, workers' compensation, hiring compliance, new hire reporting, and employment practices liability insurance (EPLI).

Learn more about employment compliance, from hiring to retirement.

Risk and Safety

Many PEOs provide risk and safety solutions, which can help protect your business. A safety audit is the first step and begins with a review of your business environment and may include the development of a personalized safety program to identify potential factors that could lead to workers' compensation claims and lost work time and help limit your liabilities. Safety training programs can be implemented for new hires and made available periodically or annually. Finally, the PEO can help with Occupational Safety and Health Administration (OSHA) inspections and claims assistance.

A Word About Workers' Compensation Insurance

In most states, if you have more than one employee, you need to carry workers' compensation insurance. Workers' compensation insurance covers medical expenses and a portion of lost wages for employees who become injured or ill on the job, as well as deals with employee rehabilitation and death benefits. Workers' compensation insurance is an essential protection for your business.

A PEO will provide workers' compensation coverage and claims administration for your employees. In addition, they can help you maintain safety in your workplace through assessments and training, and risk management.

Workers' compensation is state-regulated. Make sure that a PEO has coverage in all states where you conduct business and understands the particulars of the state in which you operate.

Human Resource Support

With a PEO, in many cases you have access to an HR expert or team, depending on your needs, that becomes an integral part of your company. These HR experts are available to assist you and your employees, providing virtually the same level of service and support that an in-house HR person would. If you already have your own HR professionals on staff, the PEO team becomes an extension of your team, and can collaborate on strategic HR planning and cover areas where you require extra support.

"Our business partner has been a great part of our team. I consider her a part of my staff. She came in the early stages of our restructuring, sat down with me as CEO, and I showed her my plans. We had complete confidence that she could look at the same issues that I'm looking at and offer a perspective that, frankly, I don't have. She's a part of who we are, and our employees feel the same way."

— Jeff Wright, CEO, Urban Ministries, Inc.

Talent Management Strategy

Talent management covers so many areas, from recruiting and strategic hiring, to employee training and performance management. Working with a PEO that offers end-to-end total talent services can really boost your business. According to a 2018 McKinsey & Company study, "organizations with effective talent-management programs have a better chance than other companies of outperforming competitors and, among publicly owned companies, are likelier to outpace their peers' returns to shareholders."[4]

Workplace demographics are changing; and the structure of work, and of how you pay employees, is changing, too, due to technology, not to mention the prevalence of contract and shorter-term workers. The right PEO can help you get in front of these issues and make a long-term plan to adapt to workforce changes and recommend customized benefits and services to attract and retain top talent.

The ADP Work Life Study discovered four core employee needs that, when met, dramatically increase employee satisfaction and retention:

1. **To feel productive**
2. **To have a sense of belonging**
3. **To be inspired**
4. **To feel uniquely valued**

ADP has mapped out strategies for recruitment, engagement, and development to help maximize employee realization of these core needs. As the study recognized, a strategic approach to talent management is necessary in the current workplace environment, and it can be a growth driver for business.

Checklist for Identifying Your Company's Needs

When you are ready to shop for a PEO, the following list of services and solutions can help you determine which companies are a good fit. Which of the following do you need or want from your PEO?

Benefits

- ☐ Plan sponsorship
- ☐ Carrier negotiations and benefits administration
- ☐ National and regional plans
- ☐ Medical, dental, and vision coverage
- ☐ Healthcare flexible spending account (FSA)
- ☐ 401(k) retirement savings plan
- ☐ Life insurance
- ☐ Personal accident insurance
- ☐ Disability insurance
- ☐ Employee assistance program (EAP)
- ☐ Commuter benefits
- ☐ Online discounts and employee perks, and other voluntary benefits
- ☐ COBRA administration

Training and Development

- ☐ Online employee development resources
- ☐ Live training
- ☐ Leadership development
- ☐ Manager training
- ☐ Employee certification tracking
- ☐ Harassment and diversity training

Compliance

- ☐ Plan sponsorship
- ☐ Unemployment claims administration
- ☐ Tax compliance (FICA, FUTA, SUTA)
- ☐ Drug-free policies and administration
- ☐ Employee classification review
- ☐ Health care reform and OSHA safety compliance
- ☐ Required labor law posters
- ☐ Legal defense benefits
- ☐ Monitoring and communicating regulatory changes

Employer Liability Management

- ☐ Workers' compensation coverage and administration
- ☐ Claims management
- ☐ Accident investigations
- ☐ Loss control
- ☐ Employment practices liability insurance (EPLI)
- ☐ Safety program design
- ☐ Safety training
- ☐ Employee handbooks
- ☐ Employee relations
- ☐ Termination assistance
- ☐ Liability management training
- ☐ Policy acknowledgments

Payroll and Administration

- ☐ Web-based payroll
- ☐ Online paystubs and W-2 forms
- ☐ Alternative payment options such as pay cards or direct deposit
- ☐ Payroll record maintenance and management
- ☐ Time and attendance tracking
- ☐ Accrual tracking of paid time off
- ☐ Employee total compensation statements
- ☐ Payroll and employee reporting
- ☐ Certified payroll compliance
- ☐ Garnishment and deduction administration
- ☐ Employment verification
- ☐ Records management
- ☐ Accounting software integration
- ☐ Sole liability for payment of federal payroll taxes on the PEO*
- ☐ Elimination of wage-base tax restarts*

**Applies to IRS-certified PEOs only*

Recruiting

- ☐ Job description development
- ☐ Wage and salary surveys
- ☐ Hiring process review
- ☐ Interviewing and selection training
- ☐ Candidate sourcing
- ☐ Candidate assessments
- ☐ Position advertising
- ☐ Background checks
- ☐ Full-service recruiting option

Performance Management

- ☐ Organizational chart development
- ☐ Compensation structure planning
- ☐ Performance appraisals
- ☐ Online performance management system
- ☐ Leadership development and coaching
- ☐ Reward and recognition program design and administration
- ☐ Employee engagement surveys

Core and Strategic HR Services

- ☐ Online, self-service HR resources
- ☐ Employee handbook
- ☐ Employee service center support
- ☐ Direct phone/email access to
- ☐ HR specialist
- ☐ Local HR specialist who makes in-person visits
- ☐ Succession planning
- ☐ Strategic HR analytics and dashboards

Technology

- ☐ 24/7 self-service
- ☐ Integrated systems
- ☐ Online benefits enrollment
- ☐ Onboarding for new hires
- ☐ Online employee records management
- ☐ Employee total compensation statements
- ☐ Post jobs and track applicants
- ☐ Run reports
- ☐ Mobile app

Questions to Ask

When you have identified your HR, strategic, and business support needs, and have identified several PEOs that you want to consider, the following information can guide your conversation and help you evaluate different PEOs.

Q How much does a PEO cost?

A PEO fees can differ, but they typically charge based on the number of employees you have, and which services you are using, so be sure to get quotes for comparable services. Industry experts estimate average PEO costs at between 2-12% of wages.[5] When you think about your total cost for administering HR yourself, however, including revenue lost from the time it takes away from your business, it can be a worthwhile expenditure. A PEO can save your company up to 35% on HR costs, compared to what you would spend if you did not use a PEO to outsource payroll and HR.[6]

When evaluating potential PEOs, make sure the PEO provides a cost analysis so you know what is allocated toward fees versus benefits, cost of payroll, and other services they administer.

To prepare a cost estimate, a PEO will need information about your employees and your existing or desired benefits and insurance information.

Some PEOs offer more in-depth services, like data insights and reporting, and talent management. You will pay more for these services, but can see a significant return on your investment.

You may want to ask prospective PEOs for their average annual client service fee increase, so you can plan adequately for future expenses.

"We not only saved around $50,000 in total compensation for an HR person, we're also getting better benefits at a competitive rate."

— Karée Hunt, Director of Administration, Cimquest, Inc.

Q Tell me more about how you can boost my benefits offerings.

A PEOs offer high-quality benefits at a competitive rate, helping you better satisfy the needs of your employees and their families. To make the most of your PEO relationship, you will want a PEO that can deliver healthcare plan benefits that serve your employees' needs and relieve you of the burden of administering plans. You may want to ask how many national health insurance carriers a PEO offers, whether they have health plans in your geographic area, and how they can help you choose which benefit plan options to offer your employees.

Q Are you accredited by ESAC or certified by the IRS?

A ESAC accreditation and IRS certification both ensure that a PEO has met a high standard of financial, legal, and reporting requirements, and PEOs with one of these credentials are a safer bet. In addition, most states have PEO licensing requirements, so you can check whether a PEO you are considering is licensed in the states in which you operate.

Q What expertise does your client service team have?

A Support from a single provider for HR, talent, benefits, compliance, and payroll saves you time and yields a tremendous value for the money spent. You will want to find out if your client support team will include experts in benefits, payroll, HR, and risk and safety, and whether they are certified and credentialed through industry-standard programs.

> **"I have a higher-level HR team that, as we solve issues, they're a force. It can be a simple issue, like updating a policy, all the way to a complex issue of doing an organizational change. It's a really cool model because we have extra help out there that can help us navigate and guide through issues as we grow our company."**
>
> — Arlyn Small, Senior VP of HR, Contegix

Q How will I communicate with my client support team?

A Different PEOs offer different levels of service, from mainly web-based to customized, on-site support. The level of service you choose depends on your business needs and personal preference. If you want to meet face to face with your account service team, you should look for a PEO that offers this service. If it is important for you to work with the same person or team of people every time you interact with your PEO, make sure that the PEOs you consider can provide you with a dedicated service team.

Q Tell me again how your PEO differs from HR outsourcing.

A A major reason to choose a PEO over HR outsourcing is the advantages the co-employment model affords a business. But it doesn't stop there. Having a single partner that will provide strategic support can help optimize your business processes and increase profitability.

A PEO that offers a data-driven, comprehensive, and personalized HR plan to strengthen employee engagement and retention, enhance customer service, and boost productivity adds much more value to your business.

Q Can you provide me with references?

A When you check a company's references, make sure the client has been using the PEO for at least a year. If possible, contact references from the same industry you are in and of similar sizes, so you can get a feel for what your service experience would be like.

You may also want to take the opportunity to ask questions about PEOs in general, to help determine if the solution is right for you, such as:

1. What made you decide to partner with a PEO?
2. How has the PEO helped your business?
3. What are this PEO's strengths and weaknesses?

In addition, it's also a good idea to look at online reviews. There you can get candid feedback from current and former clients.

Q I'd like to request a proposal from your company.

A When you request a proposal from a PEO, they will ask you for information on your employees and your existing benefits plan. You can use the checklist in the previous section to provide them with information on additional services and solutions you would like. Some PEOs also offer a personalized needs assessment or business analysis in preparation for preparing a proposal and price quote for their services.

Once you receive a proposal from a PEO, check that the services they will provide are clearly spelled out, and that they have identified which responsibilities fall under the PEO and which remain with your company. Also verify the terms of cancellation and renewal, along with any annual price increases. Follow up with any questions you still have. A PEO's level of responsiveness at this stage can be a good indicator of how they will treat you as a client.

What Does ADP TotalSource Offer That Other PEOs Don't?

There is a great amount of variety in PEO offerings and services. With more than 900 PEOs in the United States, you should be able to find the ideal match for your needs. While all PEOs relieve you of many administrative tasks, process your payroll, pay employment taxes, offer access to health benefits, and help with tax and employment compliance, some PEOs also have more strategic solutions to help you grow your business and boost your bottom line.

As the largest PEO in the United States, ADP TotalSource is uniquely positioned to provide industry expertise in all areas of human resources. ADP TotalSource is an industry leader; we are committed to evolving our products and services to support changing business trends and practices.

"We've been able to get higher productivity and run a more efficient organization without having to increase headcount."

— Jeff Wright, CEO, Urban Ministries, Inc.

Benchmarking

As part of our proposal development process, ADP TotalSource performs benchmarking for a potential client to identify their areas of business strength and weakness. Such benchmarking helps focus our efforts and arms business owners with insights they did not have before.

Data Insights and Reporting

Some PEOs offer insights, but their reporting is based on limited data. They typically provide clients with benchmarking of their own progress over time. ADP TotalSource leverages the award-winning ADP® DataCloud to give you a clear look at how your company compares to others in your industry.

With 30 million employees and 100,000 businesses in ADP DataCloud, you can see how you compare to other businesses in the areas of compensation, overtime, and employee retention.

Success Planning

ADP TotalSource is the only PEO that has a custom success plan. Our experts develop a personalized HR plan for benefits, risk, and talent optimization that aligns with your business strategy and supports your goals for growth. This plan is reviewed during periodic check-ins and revisited annually to provide short- and long-term strategic guidance.

Benefits Planning and Administration

With the ADP TotalSource patented evaluation tool, our HR experts can help you effectively evaluate and compare benefits offering elections, model contributions, and select the best benefits for your employees. This data and expert guidance can help you make the best decisions for your business and feel confident in those decisions.

Protection

Workplace safety – ADP TotalSource can help you prevent and respond to workplace injuries. A risk and safety consultant will recommend ways to help keep employees safe and help limit your liabilities.

Employee claims and lawsuits – ADP TotalSource provides guidance on how to handle interviews, terminations, discipline, and mandatory leave laws—such as those covered by the Family and Medical Leave Act (FMLA). And if a lawsuit comes your way, we'll help you through it.*

ADP TotalSource has a central investigation group to support harassment claims.[7] Employment lawsuits have increased 400% in the last 20 years. In 2015, the private-sector incidence rate of workplace injury or illness was 93.9 cases per 10,000 full-time workers.[8] Retaliation charges made up almost half—48.8%—of all Equal Employment Opportunity Commission (EEOC) charges in 2017.[9] ADP TotalSource's experts in human resources and workplace safety can help you protect your business.

ADP TotalSource fully supports clients in unforeseen circumstances. If assistance from an ADP TotalSource expert results in an employee lawsuit, ADP TotalSource will cover it. In addition to EPLI, ADP TotalSource offers legal defense benefits coverage for attorneys' fees and is the only PEO that provides this benefit.

**Subject to the terms of the EPLI policy.*

"Many companies can come in and do payroll services, a lot of companies can do benefits. The key accounts team—they go deeper—we're talking three- and four-year plans for improving human capital and making PAX an employer of choice, not just for benefits but for all the activities at the company. I've not found an organization that has the breadth and scope of service, support, and human capital development that ADP TotalSource has."

— Jim Kornfeld, President, PAX

Strategic Talent Management

Larger PEOs offer recruiting services, whereas some also have applicant tracking technology or employee and management training. Only ADP TotalSource offers talent technology plus the services of talent specialists, to equip you with full strategic talent management support, including performance management, compensation analysis, position supply and demand reports, and engagement and coaching strategy.

ADP TotalSource also offers consulting on talent-related topics, like finding the root causes of turnover, and creation of mission, vision, culture, and values. ADP TotalSource can help you set your business apart by advising you on compensation packages to help attract, retain, and reward top employees. We can also provide professional development strategy, so you can deliver what top employees expect.

Technology Solutions

Your business's needs are unique, and you need a solution that can adapt. With ADP TotalSource, everything is integrated—your new-hire data flows from onboarding to everyday tasks through to retirement. You never have to enter data twice.

A personalized mobile app keeps employees' information at their fingertips—from vacation hours to benefits plans.

Visit us at: [ADP TotalSource]
Call us at: 866-520-5669

SOURCES

[1]"PEOs: Good for Businesses and Their Employees," NAPEO, 2017.
[2]*CEO Public Listings*, IRS.gov, 2018.
[3]*Industry Statistics*, NAPEO, 2018.
[4]"Winning with your talent-management strategy," McKinsey & Company, 2018.
[5]*PEO Pricing Guide*, PEOcompare.com, 2018.
[6]"The State of the PEO Industry 2016: Markets, Value, and Trends," NAPEO, 2016.
[7]"HR Compliance: Ever-Changing Employment Laws Present Challenges for Small and Midsized Companies," ADP Research Institute.
[8]"What Was Management Thinking? The High Cost of Employee Turnover," 2TLNT, 2015.
[9]"Charge Statistics (Charges Filed with EEOC) FY 1997 Through FY 2017," U.S. Equal Employment Opportunity Commission, 2017.

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What Clients Are Saying About Our PEO: ADP TotalSource

"I think the most important thing is they make our employees feel important … It's real-time problem-solving. Our employee issues, our company issues, are a priority."

— Arlyn Small, Senior VP of HR, Contegix

"I met with a rep from ADP TotalSource and he assured me that I'd always know what costs were for the services we received. That's one of the reasons I selected ADP TotalSource."

— Karée Hunt, Director of Administration, Cimquest, Inc.

"Every time we go to seek information, we're getting it from top-tier people, every time."

— Derek Smith, Owner, Rio Grande Fence Co. of Nashville

"The thing that I've been most impressed with about ADP is their commitment to continuous improvement. They want to be better. They want to be innovative … and I'm excited about the idea of a company that not only is committed to innovation, but that has a CEO and a senior leadership team that listens to its customers. Whoa. This is a big deal."

— Jeff Wright, CEO, Urban Ministries Incorporated

"One of the reasons I chose ADP TotalSource was to gain access to a dedicated support team. I needed to have somebody with whom I could build a relationship, who knew who I was, who knew my company, and who could answer my questions, as opposed to calling an 800 number. My HR Business Partner is very good at giving empathy and expressing what I'm thinking to me."

— Tod Aronson, President, E.R. Munro and Company

"I've not found an organization that has the breadth and scope of service, support, and human capital management that ADP TotalSource has."

— Jim Kornfeld, President, PAX Holdings