

Key Considerations to Evaluate PEOs



Executive summary

- PEOs can be a good solution for companies who don't have the internal resources to cost-effectively implement and manage a professional HR function
- However, there are key considerations that trusted advisors need to keep in mind when advising clients on PEOs
- The PEO industry continues to grow as the addressable market of businesses continues to prosper and become aware of PEOs
- Therefore, the service models and quality can vary dramatically across such a fragmented industry

Market overview



- Why is there only 6% market penetration?
 - Technology, insurance risk, lack of partner-centric sales, lack of flexibility

The PEO industry is crowded, confusing and diverse requiring the need for demystification

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PEO and Co-employment defined¹

- Professional employer organizations (PEOs) provide comprehensive HR solutions for small businesses. Payroll, benefits, HR, tax administration, and regulatory compliance assistance are some of the many services PEOs provide to small and mid-sized businesses across the country.
- The PEO relationship involves a contractual allocation and sharing of certain employer responsibilities between the PEO and the client, as delineated in a contract typically called a client service agreement (CSA).
- For the obligations a PEO agrees to take on with respect to its clients, the PEO assumes specific employer rights, responsibilities, and risks through the establishment and maintenance of a relationship with the workers of the client.

1. Source: NAPEO

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PEO and Co-employment defined

- A PEO establishes a contractual relationship with its clients whereby the PEO:
 - May assume certain employment responsibilities for specified purposes regarding the workers at the client locations
 - May reserve a right of direction and control of the employees with respect to particular matters
 - Shares or allocates employment responsibilities with the client in a manner consistent with the client maintaining its responsibility for its product or service
 - Remits wages and withholdings of the client's workers
 - Issues Form W-2s for the compensation paid under its Employer Identification Number
 - Reports, collects and deposits employment taxes with local, state and federal authorities

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PEO and Co-employment defined

- The roles of the PEO and the client depend upon the facts and circumstances of each relationship --- that is, each obligation should be examined individually as employment responsibilities are assigned in the parties' CSA. Each party will be responsible for certain obligations of employment, while both parties might share responsibility for other obligations and be "an" employer, but neither party is "the" employer for all purposes.
- Both the PEO and the client company establish a relationship with worksite employees. The PEO might engage with worksite employees with respect to specific matters involving human resource management and compliance with employment requirements, while the client company directs and controls worksite employees in the client's day-to-day operations as well as the manufacturing, production, and delivery of its products and services.
- The client company provides worksite employees with the tools, instruments, and places to work. Some PEOs provide assistance and suggestions to clients when it comes to offering worksite employees a workplace that is safe, conducive to productivity and operated with best practices with employment rules and regulations. Additionally, the PEO assists clients and worksite employees with workers' compensation insurance and a broad range of employee benefits programs.

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