

PEO buyer's guide

Choosing the right PEO for your business

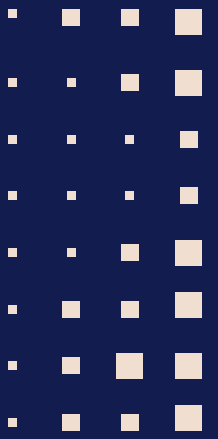


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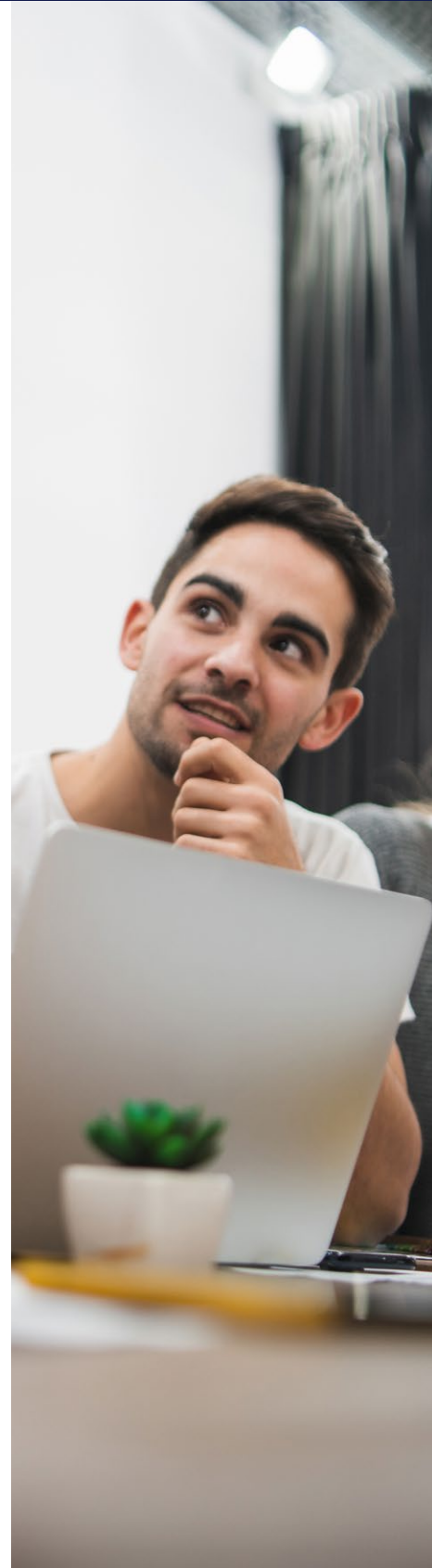
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What is a PEO?

A PEO, or professional employer organization, is an all-in-one, full-service HR outsourcing solution for small and mid-sized businesses. The PEO takes on complicated, time-consuming tasks across benefits, HR, compliance, payroll, tax and more — giving you the freedom and confidence to spend more time where your business needs you most. A PEO makes it simpler and more cost-effective to grow your business.

There are more than 900 PEOs in the United States, representing more than 175,000 businesses and more than 4 million employees.¹ With so many PEOs, it's essential to research and partner with one that will best meet your needs.



What PEO services are typically included?

- ✓ Benefits plans, including 401(k)
- ✓ Benefits administration
- ✓ Payroll administration and tax services
- ✓ Compliance expertise and guidance
- ✓ Workers' compensation insurance and claims management
- ✓ Risk and safety management
- ✓ HR support
- ✓ Talent management



Why businesses choose PEOs

Many employers partner with PEOs to help insulate themselves from employment-related risk and gain access to HR expertise, high-quality benefits at competitive rates and all-in-one technology. A PEO also relieves employers of being compliance experts, helps provide business protection and establishes one function for all HR needs.

Businesses can benefit from partnering with a PEO in several ways, including higher revenue and less turnover. According to an analysis by the National Association of Professional Employer Organizations (NAPEO):²

The cost savings ROI on a PEO investment is **27% per year**.

Head count for PEO clients grew **5.6% in one year** compared to 1.4% for non-PEO clients.

Revenues for **PEO clients grew 13.5%** in one year compared to 8.5% for non-PEO clients.

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

Turnover was **19.6% lower** for PEO clients than non-PEO clients.

How a PEO helped a business save thousands of dollars

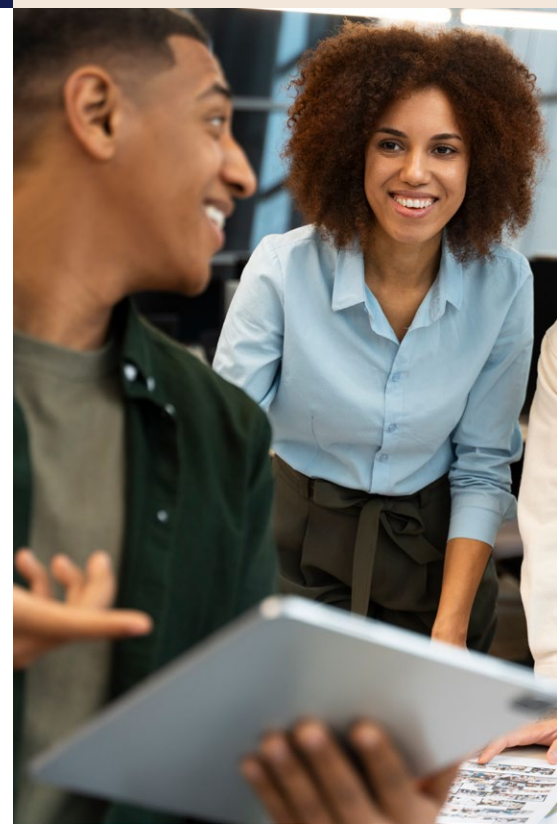
"Our decision to partner with a PEO has impacted ROI ... It has saved thousands by providing everything we need in one easy-to-use package for payroll, benefits administration and retirement-related services, plus the savings of not having to bring on extra overhead to handle these responsibilities."

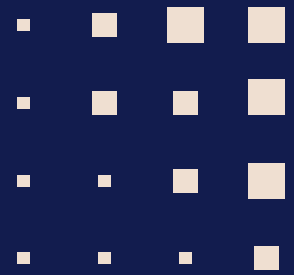
John Fulvio,
partner, Fulvio
& Associates LLP



What is the PEO co-employment model?

Co-employment is a contractual relationship in which both the PEO and client business share employment responsibilities. The PEO assumes many of the duties and liabilities of the client business, including risk management, HR management, benefits administration, payroll and employee tax compliance. The client business maintains the day-to-day supervision of its staff and all management responsibilities.





5 things you might not know about PEOs

1

A PEO can help grow and protect your business.

2

A PEO can offer health plans similar to those of large organizations, helping you attract and retain talent.

3

A PEO partners with you so you don't have to navigate HR, payroll, benefits, workers' compensation, risk and compliance alone.

4

A PEO is an investment, not an expense, into what's possible for your business.

5

You will maintain control of your business when you partner with a PEO. A PEO does not make decisions about your business.



How can a PEO support my business?

Choose a PEO if you want a full-service HR solution that will take on time-consuming tasks across benefits, payroll, tax, HR and compliance. A PEO can help take care of the people side of the business by delivering more attractive benefits plans, and some even provide employee engagement strategies to keep your people productive and motivated. By partnering with a PEO, your business gains a layer of protection from employment-related lawsuits and claims, which can have a costly impact on a business.

A PEO can provide expert guidance and support for your business and employees, plus an all-in-one technology platform for pulling reports and viewing data insights about your workforce.



9 PEO services offered to businesses

- 1 Employee benefits and benefits administration
- 2 Payroll and tax filing
- 3 Compliance and business protection
- 4 Risk and safety
- 5 Workers' compensation insurance
- 6 HR support
- 7 Talent management
- 8 Data and reporting
- 9 Tax credits



1 Employee benefits and benefits administration

A PEO can offer medical, dental and vision insurance and help with benefits enrollment, workers' compensation claims and more. A PEO partnership can provide access to high-quality, cost-effective health coverage at competitive rates not typically available to small and mid-sized businesses. Many PEOs also offer retirement savings plans, including a 401(k) and other perks and benefits, such as employee discounts, higher-education reimbursement and commuter benefits.



[Watch this video to learn how a PEO can provide market-leading employee benefits.](#)

2 Payroll and tax filing

A PEO can administer your payroll and pay applicable local, state and federal employment taxes. A PEO can also help you comply with tax-form filing and new-hire reporting. Many PEOs offer integration with payroll, time and attendance, 401(k) plans and insurance plans.

3 Compliance and business protection

As your company grows, there are additional compliance requirements your organization is responsible for. Examples include Occupational Safety and Health Administration (OSHA), Fair Labor Standards Act (FLSA), I-9, Americans with Disabilities Act (ADA), Family and Medical Leave Act (FMLA) and Affordable Care Act (ACA). Some PEOs provide compliance experts who monitor changes to HR regulations and help you comply with the changes affecting your business. A PEO can partner with you to develop proactive compliance management strategies that help protect your business from fines and penalties.

A PEO can also help protect your business's bottom line by providing employment practices liability insurance (EPLI). It provides coverage for certain wrongful employment practices, including discrimination, wrongful termination and harassment. Defending a single discrimination claim can be a serious financial setback and even bankrupt a small business.



[Watch this video to learn more about employment compliance assistance.](#)

7 PEO compliance areas

1. Tax law and reporting requirements
2. Form W-2 filing
3. Unemployment insurance
4. Workers' compensation
5. Hiring
6. Minimum wage and overtime
7. Employee lawsuits

4 Risk and safety

Many PEOs provide workplace solutions that help protect businesses from employee injuries and accidents. A safety audit is usually the first step. It begins with a review of your workplace environment. It may include developing a personalized safety program to identify potential factors that could lead to workers' compensation claims and lost productivity. This process helps limit your liabilities and can save your business money. Safety training programs can be implemented for new hires and made available annually or otherwise. A PEO can also help with OSHA inspections, reporting and claims.

5 Workers' compensation insurance

In most states, your business must carry workers' compensation insurance if you have more than one employee. A PEO can provide workers' compensation coverage and claims administration for your employees and help you maintain safety in your workplace through assessments, training and risk management.

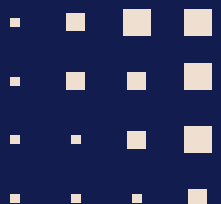
6 HR support

A PEO can offer access to an HR expert or team that becomes an integral part of your business. If you have HR professionals on staff, the PEO team can become an extension of that team, collaborating on strategic HR planning and covering areas where you require extra support. From assisting with compliance questions to addressing turnover and challenging employee situations, a PEO can offer top-notch HR support. PEO experts often hold HR credentials and have experience across industries, states and business-ownership types.

How a PEO provided expert support

"Having a designated HR, payroll and benefits representative makes such a difference because, if we don't have time to research the issue at that moment, we can email or call one of our representatives, and they will provide us with the information we need."

Tina Minton, owner, Minton CPAs & Associates PLLC



How a PEO helped an LGBTQ+ youth shelter with onboarding

"Having an onboarding process that was easy to use is incredibly important ... The ease and trust that we have in the system make us confident in the hires we're putting in front of our clients, which are our most important assets."

Alexander Roque,
president and executive
director, Ali Forney Center

7 Talent management

Talent management covers many areas, including hiring, onboarding, employee training and engagement, compensation management, performance management and succession planning. Some PEOs offer end-to-end talent services, and the right PEO stays ahead of talent issues, creating a long-term plan to help you adapt to workforce changes and recommending personalized benefits plans that match what your employees are looking for.

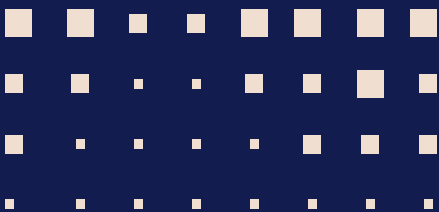
8 Data and reporting

Having easy access to your workforce data helps you make the right business decisions for your employees. A PEO can provide data, analytics and benchmarking to help you identify HR trends and take action in areas such as turnover and compensation. Reporting is another way to understand your workforce data — standard and custom reports can be made available 24/7 for a comprehensive view of employee metrics.

9 Tax credits

The Work Opportunity Tax Credit (WOTC) is a federal tax credit available to employers who hire and retain qualified veterans and other individuals from target groups that historically have faced barriers in securing employment. The credit available ranges from \$2,400 to \$9,600, depending on the targeted group and qualified wages paid to the new employee, generally during the first year of employment.³ Some PEOs' technology platforms enable your business to complete the WOTC eligibility questionnaire online.

R&D tax credits are available to all employers that engage in certain activities to develop new or improved products, processes, software, techniques, formulas or inventions. Some PEOs can assist businesses in claiming the R&D tax credit by filing the necessary IRS form and providing documentation that shows R&D costs.



Accredited and certified PEOs

Partnering with an accredited or certified PEO could mean the difference of thousands of dollars in your pocket. There are two types of certifications PEOs can obtain: accreditation by the Employer Services Assurance Corporation (ESAC) or certification by the Internal Revenue Service (IRS).

ESAC accreditation

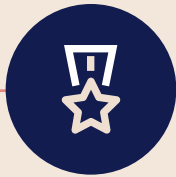
Partnering with an accredited PEO helps ensure the PEO is reliable. Earning accreditation demonstrates a PEO's financial stability, tax compliance, ethical business conduct and adherence to regulatory requirements and operational standards.

ESAC is the PEO industry's official accreditation organization. Accreditation requires the PEO to comply with more than 40 industry best practices and undergo quarterly verification of essential employer payments, including federal and state employment taxes, health and workers' compensation premiums and retirement plan contributions.

IRS certification

The PEO IRS certification includes rigorous background, financial and reporting requirements. An IRS-certified PEO is often called a certified PEO (CPEO).

Certification provides certain financial protections and tax benefits to PEO clients. It also eliminates the wage-base restart for PEO clients who join or leave during the contract year. The client can make a change at any time without waiting until their PEO contract expires, potentially saving critical tax dollars.



Only 4%

of PEOs are both ESAC accredited and IRS certified.⁴





Checklists for identifying your PEO needs

Use the checklists below to identify your PEO needs. Note which items you need help with, leaving the rest blank. Skip any checklists that don't apply.

Benefits and benefits administration

- Benefits plans from top carriers
- Medical, dental and vision coverage
- 401(k) plan
- Carrier relations and negotiations
- Benefits administration
- Benefits setup, enrollment and communications
- Dependent tracking
- HSA and FSA
- Life insurance
- Personal accident insurance
- Disability insurance
- Hospital indemnity insurance
- Critical illness insurance
- Employee assistance program (EAP)
- Commuter benefits
- Online employee discounts and perks
- COBRA administration
- ACA compliance and reporting

HR services and support

- HR best practices, forms and online resources
- Employee support for HR, payroll, benefits and more, via phone or live chat
- Employee self-service, including a mobile app
- Service portal and practitioner support via phone and live chat
- Ability to create and track service tickets using a case management tool

Compliance

- I-9 reporting
- New-hire reporting
- OSHA safety compliance
- Health care reform
- FLSA
- FMLA
- ADA
- Unemployment claims administration
- Leave of absence administration
- Tax compliance (FICA, FUTA, SUTA)
- Pay transparency laws by state
- Required labor law posters
- Employee classification review
- Drug-free policies and administration
- Monitoring and communicating regulatory changes

Workplace safety and employment liability protection

- Workers' compensation coverage and claims management
- EPLI and legal defense benefit
- Accident investigations
- Loss control
- Safety program design
- Safety training and recommendations
- Employee handbooks
- Employee relations
- Termination assistance
- Liability management training
- Policy acknowledgments

Payroll and tax administration

- Payroll administration and processing
- Quarterly and year-end processing and reporting
- Tax filing and reporting
- Federal, state and regulatory changes
- State unemployment insurance (SUI)
- Online paystubs and Forms W-2
- Alternative payment options, such as pay cards and direct deposit
- Payroll record maintenance and management
- Time and attendance tracking
- Accrual tracking of paid time off
- Employee total compensation statements
- Certified payroll compliance
- Wage 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*

Recruiting management

- Job description development
- Hiring process review
- Interview and selection training
- Candidate sourcing
- Candidate assessments
- Position advertising
- Integration with online job boards
- Background checks
- Full-service recruiting

Performance management

- Online performance management system
- Organizational chart development
- Compensation structure planning
- Performance appraisals
- Design and administration of rewards and recognition programs
- Employee engagement surveys
- Succession planning management

Compensation management

- Compensation dashboard that calculates benefits, bonuses, overtime and regular pay
- Merit- and bonus-cycle dashboard
- Full visibility into budget impact

Training and development

- Employee engagement tools, including surveys
- Live and on-demand employee training
- Leadership development and coaching
- Employee certification tracking
- Harassment and diversity education

Technology, data and reporting

- Intuitive, user-friendly technology
- Mobile app for onboarding, checking pay stubs and completing open enrollment
- Data, analytics, interactive dashboards and benchmarking tools
- 24/7 access to standard reports and a custom report builder
- A strategy tool for benefits selection and contributions

*Applies to IRS-certified PEOs only



Frequently asked questions (FAQs)

After you've identified your needs and the PEOs you want to evaluate, use the following questions to prepare for your conversations:

Q. Is my business too small for a PEO?

A. PEOs partner with businesses with as few as five employees, providing administrative efficiencies so the business owner doesn't have to handle day-to-day HR, compliance, payroll, benefits and talent management tasks.

Q. Is my business too large for a PEO?

A. PEOs partner with businesses that have anywhere from hundreds of employees to thousands. A PEO may also provide a team of experts who offer guidance and support, amplifying the potential of a lean, in-house HR department.

Q. Will I lose control of my business and employees?

A. No, you will not lose control of your business when you partner with a PEO. It cannot make decisions about how you run your business. Instead, you share employment responsibilities with the PEO. You will continue to manage employees and day-to-day operations while the PEO focuses on HR-related tasks, including payroll, benefits, compliance and more.

Q. How is a PEO different from HR outsourcing?

A. A PEO is a type of HR outsourcing. It is unique in that it uses a co-employment model, handling specific employee administration tasks and serving as your employer of record while you maintain control of your business.

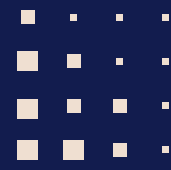
Q. How do I know my business is suitable for a PEO?

A. A PEO could be a good match for you if you:

- Are looking for more cost-effective, high-quality benefits plans to better attract and retain talent
- Feel overburdened with HR, payroll and benefits administrative tasks, which take you away from running your business and from strategic decision making
- Lack an in-house HR team, or your team lacks expertise and needs help with compliance, benefits, payroll, talent management and other HR areas
- Want to consolidate vendors for HR, payroll, benefits, compliance, workers' compensation and talent management
- Are experiencing compliance challenges with federal, state and local regulations and can't handle new or additional compliance requirements
- Need help with hiring, employee development and reducing turnover
- Need help mitigating risk in your workplace. You worry about workers' compensation claims, lost productivity, employee claims and lawsuits

Q. Is a PEO the same as employee leasing?

A. No, a PEO helps you manage certain aspects of your business without supplying you with employees. Employee leasing involves a staffing firm supplying you with employees temporarily or for specific projects. These employees work for you, but the firm pays their salaries or wages and manages their HR needs. The employees leave once their time is up, and you no longer employ them.



Q. How much does a PEO cost?

A. There are typically two types of PEO pricing. The first is based on employee head count as a percentage of payroll. The second is a flat rate per employee per month (PEPM). Some PEOs allocate costs differently. It's important to get access to a sample invoice to understand the PEO's cost structure.

Q. How does a PEO help with benefits plan options and costs?

A. A PEO leverages its scale and co-employment model to provide market-leading benefits that individual small businesses are unable to obtain on their own. This competitive advantage can help the PEO secure benefits and insurance plans from leading national and regional carriers at better rates and offer a broader range of options. Look for a PEO that provides stable, predictable, year-over-year benefits costs, not annual cost spikes.

Q. Will a PEO impact my ability to receive tax credits?

A. Your ability to receive tax credits will not be impacted if you partner with a certified PEO, which can help your business apply for and receive tax credits.

Q. How does a PEO manage and stabilize labor costs?

A. Partnering with a PEO should be considered a business investment, not an expense. The long-term cost savings you can experience from offering better employee benefits, reducing turnover and staying compliant can help your business be successful.

PEOs can manage and stabilize labor costs by offering group benefits and workers' compensation insurance. Often, small and midsized businesses don't have the purchasing power to negotiate with national carriers for high-quality, cost-effective rates.

The reporting capabilities and data and analytics provided by PEOs can help drive better and more cost-effective workforce decision making. For example, a business can better control overtime costs after viewing an online HR report showing month-over-month overtime trends by employee. The same goes for turnover. These reports and turnover insights can help businesses improve employee retention and, in turn, save money long-term.

Additionally, a PEO's compliance experts can help businesses avoid legal costs related to labor law violations. By providing EPLI and a legal defense benefit, a PEO can back their guidance and help mitigate the financial consequences of employee lawsuits and claims.

Q. Can a PEO integrate with other platforms or partners?

A. Yes, some PEOs can integrate with business software applications and with leading HR, payroll and financial systems. Some can also leverage custom APIs or integrations if you need these services. A PEO may also provide an online HR marketplace for businesses, similar to an app store, that offers applications for connecting and integrating data across HR systems.



Q. What qualifications and certifications do PEO staff members have?

A. That depends on the PEO. Look for a PEO with HR experts who have at least one certification in HR management, such as:

- Professional in Human Resources (PHR)
- Senior Professional in Human Resources (SPHR)
- Society for Human Resource Management Certified Professional (SHRM-CP)
- Society for Human Resource Management Senior Certified Professional (SHRM-SCP)
- Master of Human Resource Management (MHRM)
- Certified Human Resource Specialist (CHRS)
- Certified Safety Professional (CSP)
- Associate Safety Professional (ASP)
- Associate in Risk Management (ARM)

Q. What does the PEO implementation process involve?

A. PEO implementation can be seamless when your provider works with you from beginning to end. The PEO may provide an implementation team that works closely with you during this process. Typically, the process takes a few weeks, and is longer for larger employers. The PEO will engage with your leaders throughout the transition. It will collect important documents, teach your team how to run payroll and use any new technologies and educate you on the open enrollment process, which the PEO will handle.

Q. Do I have to change brokers for workers' compensation and benefits?

A. In most cases, yes. Talk to the PEO first to find out what options are available. They can help you create a personalized benefits strategy and consider the best options for your business and employees.

Q. How does a PEO support my business's compliance needs?

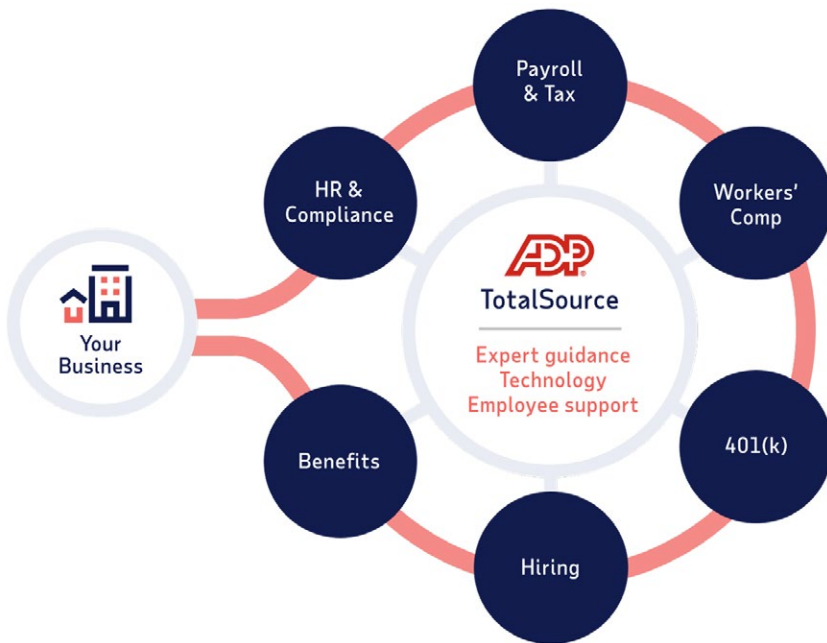
A. PEOs usually employ compliance experts who are up to date on the latest compliance laws and regulations. Areas of expertise vary. PEOs also provide built-in compliance information and reporting for many administrative functions. Ask the PEO whether it can handle payroll tax law and reporting requirements, unemployment insurance, workers' compensation, hiring and HR compliance.

How a PEO assigned an HR professional to a business for daily support

"[Our PEO] not only has the technology to support us but also the people. This allows us to have an HR function that is present. Our HR business partner is Denise. She is there all the times that I need her."

Igor Lorenzon, chief financial officer, Sparkle

The advantages of ADP's PEO solution, ADP TotalSource®



With ADP TotalSource, you receive the nation's largest full-service, all-in-one PEO. ADP takes exhausting, time-consuming payroll, tax, HR, compliance, benefits, hiring and workers' compensation tasks off your plate. Benefits tasks become ADP's responsibility, including plan design, enrollment, administration and employee questions. You can rely on ADP's experts when you need them across every area of HR, providing peace of mind and more time to grow your business.

Did you know?

30%

ADP TotalSource clients save an average of 30% of their time on all HR tasks.⁵

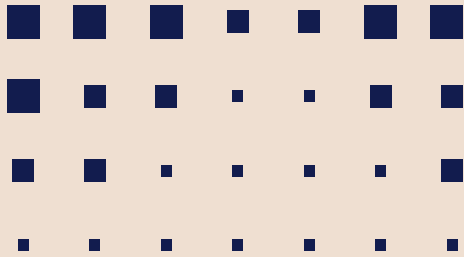
4 out of 5

ADP TotalSource clients agree that ADP allows them to scale as their business needs change.⁵

ADP's HR experts have guided clients through complex compliance challenges. They can handle day-to-day HR and guide you through new or tricky situations. If your employees need help with a question or issue, they can contact an ADP MyLife Advisor, who will quickly answer their HR, payroll and benefits questions.

Not all PEOs are equal. Some are national, and some are regional. ADP TotalSource covers all 50 states, serving over 722,000 worksite employees and growing organically rather than acquiring smaller PEO companies. Through its partnership with G-P, ADP can also support employees in 180 countries if you add staff globally.

ADP TotalSource is one of only 4 percent of IRS-certified and ESAC-approved PEOs.⁴ By partnering with ADP, you can rest assured you're receiving reliable, best-in-class support with local teams nearby.



Want to learn more about the industry's leading PEO, ADP TotalSource?

Visit us at [ADP TotalSource](#)
Call us at 866-360-2454

Sources

¹ NAPEO, What is a PEO, Industry Stats, 2020

² NAPEO, The ROI of Using a PEO, 2019

³ U.S. Department of Labor, Quick Reference Guide for Employers | WOTC

⁴ ESAC, Find an Accredited PEO, 2023

⁵ ADP, client survey, 2022



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