



Professional Employer Organizations

NAPEO

- Located in Alexandria, Virginia, the National Association of Professional Employer Organizations (NAPEO) is The Voice of the PEO Industry
- NAPEO's vision is to represent an industry that is recognized as providing the best workforce solution for businesses looking to grow and thrive
- NAPEO advocates for the interests of PEOs at all levels of government, and provides robust member resources, vital networking and referrals, relevant and timely education, and effective public relations and marketing support
- 274 PEO members; 85% of PEO market

PEOs: What is a PEO?

- 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
- Employees of small businesses gain access to big-business employee benefits such as: 401(k) plans; health, dental, life, and other insurance; dependent care; and other benefits they might not typically receive as employees of a small company

PEOs: Co-Employment

PEO assumes specific employer rights, responsibilities, and risks through the establishment and maintenance of a relationship with the workers of the client

- 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

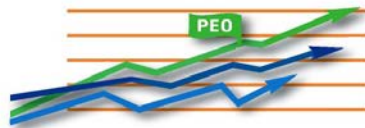
PEOs: Common Misconceptions

- NOT temporary staffing!
- Control and Ownership

PEOs: The Numbers

- The current size of the PEO industry is between \$136 and \$156 billion, as measured in gross revenues
- PEOs provide services to between 156,000 and 180,000 small and mid-sized businesses, employing between 2.7 and 3.4 million people
- There are between 780 and 980 PEOs currently operating in the United States. They employ between 21,000 and 27,000 people internally
- The estimated 2.7 to 3.4 million employees who benefit from PEO services is a number larger than the size of the entire agriculture/forestry industry in the United States (and close to the size of the federal government, the education sector, or the information sector), based on data from the Bureau of Labor Statistics (BLS)

3 WAYS YOUR SMALL BUSINESS BENEFITS FROM USING A PEO



GROW 7 TO 9% FASTER

Since December 2004, employment at small businesses using PEOs has **grown more than 7 percent faster than at small businesses overall**, according to the Intuit Small Business Employment Index.

HAVE 10 TO 14% LOWER EMPLOYEE TURNOVER

The average overall employee turnover rate in the United States is approximately 42 percent per year, based on 2012 data. It is **28 to 32 percent for companies that used PEOs** for at least four quarters.



BE 50% LESS LIKELY TO GO OUT OF BUSINESS

Businesses that use PEOs are approximately 50 percent less likely to fail (permanently go "out of business") from one year to the next when compared to similar companies in the population as a whole. The overall business failure rate among private businesses in the United States as a whole is approximately 8 percent per year, based on 2012 data. It is approximately 4 percent per year for those companies that used PEOs for at least four quarters.

Sources:
Professional Employer Organizations: Keeping Turnover Low and Survival High | McBassi & Company | 2014

Professional Employer Organizations: Fueling Small Business Growth | McBassi & Company | 2013



Professional Employer Organizations (PEOs) provide human resource services to their small business clients—paying wages and taxes and assuming responsibility and liability for compliance with myriad state and federal laws and regulations. In addition, PEOs often provide workers with access to 401(k) plans, health, dental, and life insurance, dependent care, and other benefits not typically provided by small businesses. Between 2 and 3 million people are covered by PEO arrangements.

PEOs: NAPEO Model Act

- Rights, Duties, and Obligations Unaffected by this Act
- Registration, Fees, and Financial Capacity
- General Requirements and Provisions
- Benefit Plans
- Workers' Compensation
- Unemployment Compensation Insurance
- Enforcement



PEOs: Workers' Compensation

- NAPEO members are committed to upholding the integrity of the workers' compensation system and partnering effectively with the carriers, ratings bureaus, and regulators who administer the system
- PEOs help create safer work environments
- PEOs effectively resolve injured worker claims
- Model Act – states that the responsibility to obtain workers' compensation coverage will be specifically allocated to either the client or the PEO, and both will have the protection of exclusive remedy

PEOs: Unemployment Insurance

- NAPEO and its members are committed to maintaining the solvency and equity of the unemployment insurance system
- PEOs create efficiencies in the unemployment compensation system
- PEOs assist with handling claims
- Model Act – states all covered employees are considered employees of the PEO for purposes of unemployment compensation insurance
 - Upon termination of the professional employer agreement, the client is treated as a new employer without previous experience, unless that client is otherwise eligible for an experience rating

Small Business Efficiency Act

- Confirms CPEO can pay federal employment taxes under its EIN
- Protects customers through CPEO's sole liability
- Provides certainty that wage base restart is not necessary for new customers
- Confirms CPEO's FUTA credit for all SUTA paid by CPEO or customer
- Offers clear guidance for CPEO and customer on pass-through of tax credits and employment tax exclusions
- Increased comfort for potential client with use of an IRS certified PEO

Small Business Efficiency Act

- Passed December 2014
- Statute says CPEO program to open by July 1, 2015, effective January 1, 2016
- One year delay
- CPEO program to open July 1, 2016, effective January 1, 2017

Small Business Efficiency Act

- Background Checks
- Quarterly Attestation
- Audited Financials
- Accrual Accounting
- Bond

SBEA: Annual Audited Financial Statements

CPEO and CPEO Applicants must provide:

- Annual audited financial statements

- CPA opinion that the statements:

 - Are presented fairly in accordance with GAAP; and

 - Reflect positive working capital and provide detailed calculation

SBEA: Quarterly Assertions & Attestations

CPEO must assert that employment taxes have been paid

CPEO must provide a CPA's examination level attestation that assertion is "fairly stated in all material respects"

Responsible individual must sign statement that CPEO has positive working capital at end of quarter (exception applies)

SBEA: Bond Requirement

- 5% of CPEO's employment taxes for prior period (\$50,000 minimum/\$1,000,000 maximum)
- No collateral
- Bond may be continuous



Contact Information

Daniel Harris

*Senior Director, State Government Affairs
National Association of Professional Employer
Organizations*

(703) 739-8173

dharris@napeo.org