

# Professional Employer Organizations FAQs

## What is a PEO and what does it do?

- Professional Employer Organizations (PEOs) manage human resources, employee benefits, payroll, and workers' compensation for their clients. Relief from these complex and time-consuming administrative burdens allows clients to focus on their core business functions.
- PEOs operate in all 50 states and provide services and benefits for approximately 250,000 businesses with 2 to 3 million worksite employees. All states regulate PEO activity and 35 states have statutes that specifically address the industry.
- PEO clients include many different types of businesses ranging from high-tech companies to small manufacturers. The average client has 19 employees with an average annual salary of \$33,000.

## How do PEOs operate?

- PEOs enter into contracts with their clients and agree to share and allocate employer responsibilities and liabilities. The PEO pays the wages and employment taxes of the employees out of its own accounts, and reports, collects, and deposits taxes with state and federal authorities. The client retains ownership of the company and maintains responsibilities for its operations.
- In exchange for the services they provide, PEOs are paid an administrative fee, typically either a flat fee or a percentage of payroll.

## How does this arrangement help small businesses and workers?

- By taking care of the complex details of employment, smaller business clients can focus on the "business of their business," generating increased profits while remaining competitive by attracting the best employees with a rich benefit package.
- PEOs give worksite employees access to employee benefits, such as retirement savings and health insurance plans, and for many of these workers, it is the first time they have been covered by benefit plans. Only 19 percent of small business workers have access to a retirement savings plan. In contrast, an estimated 95 percent of workers in a PEO arrangement have access to a retirement savings plan. The PEO relationship also extends COBRA and ADA protections to workers who would not otherwise be covered as small business employees. About half of NAPEO's member PEOs report that 50% of their clients received a more extensive healthcare package for their employees as a result of entering into a PEO relationship.

## Isn't this temporary staffing or employee leasing?

- PEOs are different than temporary staffing, leasing, and payrolling services. A PEO arrangement involves all or a significant number of the client's existing worksite employees in a long-term, non-project-related employment relationship. When a PEO contract with a client terminates, the workers continue as employees of the client and have no further relationship with the PEO.
- Temporary staffing services recruit their own employees and then assign them to work at a client's premises to support or supplement the client's existing workforce for a limited amount of time.
- Payrolling services primarily pay wages and taxes for an employer's employees. The payrolling service acts as an agent for the employer and does not have liability for the payment of wages or related taxes if the client does not provide payment in advance. As an agent, no employment relationship exists between the payrolling service and the client's employees, and the payrolling service accepts no responsibilities for the workers.

## Does the presence of a PEO arrangement have an effect on unionization?

- PEO arrangements do not impact collective bargaining agreements and work equally well for union and non-union worksites. The NLRA requires PEOs to satisfy its requirements. There is nothing in a PEO arrangement that would keep workers from organizing and seeking a collective bargaining agreement. Where a collectively bargained agreement exists, PEOs endorse the rights of employees to organize, or not to organize, under state and federal laws.