Insperity®
HR that Makes a Difference®

INSPERITY® E-BOOK SERIES

A buyer's checklist:

How to compare professional employer organizations



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Introduction



Choosing a professional employer organization (PEO) to do business with isn't a decision you can make in a day. In exchange for regaining time to focus on your core business goals, the PEO will manage many crucial HR functions for you. Understandably, the prospect of actually joining a PEO can be nerve-wracking. Do you worry about giving up control over your business? How can you be sure a PEO is reputable? How do you know you're getting a fair price for the services you need?

That's where this guide comes in. It's here to help you evaluate any PEO you're considering from top to bottom. You'll learn how to make shrewd comparisons between PEOs and discover which questions to ask to ensure your organization receives maximum value.

Compare PEO services

Not all PEOs are created equal. You'll find a great deal of variety in the way they structure, deliver and price their services. For example, some PEOs are better at risk management, and some at human resource skills. Some PEOs operate in every state; others are restricted to serving businesses in certain regions. One PEO may provide safety and risk management services as part of the bundled fee, where another may charge extra for it. Furthermore, you may choose to bypass a PEO and work with a certified professional employer organization (CPEO). To pick the PEO that's going to give your business the most bang for its buck, you must identify your biggest HR challenges.

- **Are you processing payroll properly?**
- **Are you losing key employees to competitors because they don't have access to competitive benefits?**
- **Or is your workforce disengaged and performing poorly?**

DID YOU KNOW?

According to NAPEO, there are **907 PEOs** in the United States.

Source: National Association of Professional Employer Organizations: Industry Statistics



This guide will help you choose a PEO that provides the features and support your business needs to overcome these struggles.

What is a CPEO?

A certified professional employer organization (CPEO) is a PEO that has been designated as certified by the IRS*. This certification does not come lightly and is only attained after a PEO has gone through rigorous background checks, financial audits and more.

Like a PEO, a CPEO can provide customers with much-needed assistance in multiple areas, including payroll, benefits, tax remittance and related government filings. However, a CPEO relationship can provide safeguards and advantages that surpass standard PEO offerings.

CPEOs are solely responsible for payment of federal employment taxes on wages it pays to worksite employees. This way, customers no longer have to worry about potential liability for unpaid payroll taxes if the CPEO fails to make such payments.

Also, the law governing the CPEO relationship allows customers to keep specified tax credits for which they would otherwise be ineligible. In addition, there are no more wage-base restarts for new customers – even during the year.

5 PEO SERVICES YOU MAY NOT KNOW EXIST

If you're shopping for a professional employer organization (PEO), you may be focused on finding one that offers comprehensive payroll services and employee benefits. But did you know there are many other services that PEOs provide? Continue reading



** Insperity PEO Services has been designated a certified professional employer organization by the IRS. The IRS does not endorse any particular CPEO. For more information, go to irs.gov.*

ALIGN YOUR CHALLENGES WITH PEO SERVICES

Once you've identified your challenges, think about the services a PEO offers and determine which ones are most likely to provide the solutions you need.

For example, let's say your business is having a hard time accessing affordable health coverage for its employees because you have offices in several different states. In this case, you'd want to ensure the PEO that you choose could provide your employees access to a national healthcare benefits provider at a competitive rate.

Make a checklist of the must-have features and services you want the PEO to provide. The list on the following pages has some of the most common ones you'll want to consider.



Must-have features and services my PEO/CPEO should provide

BENEFITS PLAN SPONSORSHIP

- Access to health coverage where your employees live
- Dental and vision coverage
- Healthcare flexible spending account (FSA)
- Life insurance
- Personal accident insurance
- Disability insurance
- Adoption assistance
- Educational assistance
- Commuter benefits
- Employee assistance program (EAP)
- Retirement plan (401k)
- Assistance with health care reform compliance
- Online discounts and employee perks
- Employee total compensation statements

TECHNOLOGY OPTIONS

- Electronic employee records
- Online employee self-service center
- Online benefits enrollment
- Paperless onboarding for new hires
- Online expense report tracking
- Online discounts and employee perks
- Employee total compensation statements

ASSISTANCE WITH GOVERNMENT COMPLIANCE

- Unemployment claims administration
- FICA, FUTA, SUTA compliance
- Drug-free policies and administration
- Regulatory claim administration
- Job classification review

PERFORMANCE MANAGEMENT SUPPORT

- Organizational chart development
- Performance appraisals
- Online performance management system
- Compensation resources and tools
- Supervisor coaching
- Job description development
- Reward and recognition program design
- Base pay structure planning
- Self-help tools and worksheets for variable and sales compensation structures
- Employee surveys

EMPLOYER LIABILITY MANAGEMENT

- Workers' compensation coverage and administration
- Employment practices liability insurance (EPLI)
- Safety program design
- Employee handbooks
- Termination assistance
- Employee relations
- Substance abuse prevention
- Liability management training

TRAINING AND DEVELOPMENT

- Employee certification tracking
- Online employee development resources
- Live training
- Leadership development
- Sexual harassment training
- Ethics program

Must-have features and services my PEO/CPEO should provide (continued)

PAYROLL AND EMPLOYMENT ADMINISTRATION

- Payroll processing
- Time and attendance tracking
- Web-based payroll
- Payroll record maintenance and management
- Accounting software integration
- Online paystubs and W-2s
- Payroll and employee reports
- Certified payroll compliance
- Garnishment and deduction administration
- Employment verification
- Paid time off accrual tracking
- Sole liability for payment of federal payroll taxes on wages paid by the CPEO to worksite employees
- Wage-base restarts eliminated

RECRUITING SUPPORT

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

CORE AND STRATEGIC HR SERVICES

- Online, self-service HR resources
- Call center support
- Direct phone/email access to HR specialist
- Local HR specialist who makes in-person visits
- Succession planning
- Strategic HR planning

NARROW THE CHOICES

Armed with this list, you can contact the PEOs you're considering and quickly gauge whether their service and pricing structure is built to meet your HR needs, business goals and risk management requirements. The PEO representative should be able to articulate whether your preferred features are included in the PEO's regular service bundle, and which are provided at an additional fee (or perhaps not offered at all).

Once you have narrowed your options to two or more PEOs that are capable of meeting your needs, it's time to dig deeper to understand the strengths and weaknesses of each company.

UNDERSTAND PRICING

Many variables affect the cost of joining a PEO. Your company's size, overall workers' compensation risk and the type of employee benefits to be offered to employees are all examples of components that contribute to costs. When those factors are accounted for, there's not likely to be much difference in cost between PEOs that offer the same slate of services.

However, like we mentioned above, there can be differences in the way PEOs bill for their services. Some PEOs calculate their fee as a percentage of your payroll. Others charge a flat fee per employee.

With the payroll percentage fee structure, bonuses and commissions you award your employees may cause fluctuations in cost. You may pay more to the PEO in those weeks.

With the flat, per-head fee structure, it doesn't matter if an employee makes $10 or $10,000,000. Your PEO costs stay the same.

The worst thing you can do, however, is buy based on price alone.

Instead, your final selection should be based on service and the overall value a PEO can provide.

> Many PEOs can help you cut costs in the short term, since you will no longer be responsible for providing benefits, processing payroll, or similar, high-cost HR services.

However, the right PEO will create lasting value by helping you increase workforce productivity and profitability.

To help you visualize this kind of lasting impact, imagine you're the owner of a luxury golf club, where the standards of customer service are extraordinarily high.

Your staff includes many seasonal and part-time workers in your food service and recreational departments, as well as a group of full-time office workers.

A PEO can help you make HR decisions more strategically. As a result, you might improve customer service and increase revenue.

Here are a few examples of how this works:

- The PEO helps you create new employee onboarding and staff-wide training programs that help reduce turnover. This leads to greater customer service continuity for your members, boosting engagement and renewals.

- The PEO's online employee self-service portal reduces the amount of time your management needs to spend fielding HR questions. This opens up new opportunities to "be on the floor" building relationships with customers.

- With the help of one of the PEO's HR advisors and payroll team, you are able to navigate the intricacies of hiring full-time versus part-time employees. You also receive advice on any implications this may have on your healthcare reform compliance.

So when choosing a PEO, focus on finding a service provider with proven capability to help you increase your productivity and profitability, not just provide temporary cost savings.



Avoid a questionable PEO

If a PEO goes out of business while you're working together, it can be a terrible inconvenience for both your company and your employees (i.e., a payroll, insurance and benefits nightmare). The PEO you choose will ultimately take responsibility for processing payrolls, providing workers' compensation insurance coverage, providing employee benefits and other sensitive tasks. Take the following steps to perform a thorough PEO background check.

CHECK LICENSING AND ACCREDITATION

Most states now have specific PEO licensing or registration requirements. So, you should verify that the PEOs you're considering are registered or licensed in good standing, if the state where you have employees has PEO licensing or registration requirements. You can check with the state's department that handles licensing and regulation to see if they have an active license. Many states have an online verification tool, like the Texas Department of Licensing and Regulation license data search tool.

Also make sure the PEO you're considering is Employer Service Assurance Corporation (ESAC) accredited. ESAC is an independent agency that oversees the ethical, financial and operational practices of PEOs as well as other important PEO credentials. It also provides some financial assurance through bonds covering each PEO it accredits.

To be accredited, a PEO must provide ESAC with comprehensive compliance data, including audited financial statements, quarterly independent CPA verification of tax payments, benefits plan information, and evidence of required employer insurance coverage.

Want to rest easier? Check out a certified professional employer organization (CPEO) – vetted and certified by the IRS. You'll not only receive top-level assistance, expertise and guidance, but confidence your partner has already undergone one of the most meticulous background checks in the industry.

ASK FOR REFERENCES

Ask the PEO for at least three references from the PEO's current client base (and including a former client) and three other professional references. You may wish to ask the PEO to allow you to speak with other companies that do business with them, such as their service providers (e.g., their printing or logistics company) or financial institution. Ask the references to describe the nature of their working relationship with the PEO. Have there been any challenges?

Ideally, the client references should be in an industry similar to yours or from a nearby geographic area. Be sure the reference has been a client of the PEO for a year or longer.

ASK QUESTIONS SUCH AS:

- Why did you join a PEO?
- How has the PEO helped your business grow?
- What do you wish you had known before you joined the PEO?
- What are this PEO's weaknesses?
- How long do you plan to stay with this PEO? Why?



ASSESS FINANCIAL STRENGTH AND SECURITY

If the PEO is a publicly traded company, it should be easy to find their audited financial statements online. Look for the PEO's annual report published on their website, and check company information on your favorite investment research website.

However, most PEOs are private entities that don't have public financial statements. These PEOs should be able to provide you with audited financial statements.

These audited financial statements should show that the PEO has adequate net worth and working capital, including sufficient financial reserves for any loss-sensitive or self-insured insurance plans. You can use ESAC's financial standards to assist you in verifying the adequacy of PEO financial statements. Also, check to see if the PEO's financials have been reviewed by an independent third party.

It's important for PEOs to provide audited financial statements for a couple of reasons. First, several state PEO licensing and registration laws actually require it. Because these audits evaluate a PEO's internal controls and accuracy of financial information, groups like the National Association of PEOs (NAPEO) consider it an industry best practice. While independent audits don't prevent fraud or financial failure, they should include an independent auditor's opinion that the PEO's statements are materially accurate, complete and fairly presented according to generally accepted accounting principles.

On the other hand, when you partner with a CPEO, it's easier to assess financial strength and security. That's because the CPEO will have submitted audited financial statements to the IRS and provided evidence of the organization's positive working capital. Plus, the IRS will have conducted necessary background checks and more.

Such rigid standards make it difficult for every PEO to qualify, resulting in an extra layer of security for your business.

RESEARCH THE COMPANY HISTORY

Talk to a representative from the PEO to find out more about the history of the PEO.

Ask these questions to get the answers you need:

- When was the company founded?
- How many years has the company offered its PEO service?
- Where is the company headquartered?
- How many other offices does the company have?
- How many corporate employees does it have?
- How many clients and worksite employees (i.e., employees of client companies) does it have?
- What is the company's mission?
- What are the company's values?

This information will give you a better understanding of the personality of the PEO and help you determine if your company cultures would be aligned in a co-employment relationship. It also can help you determine the stability and sustainability of the PEO.



Choose the best PEO

Before you make a final decision on a PEO, it's important to be a savvy consumer. Problems arise when business owners don't understand the details and think they're getting something other than what's actually being delivered. Use these questions to dig deeper and clarify how doing business with that particular PEO would be.

WHAT CREDENTIALS DO YOUR STAFF MEMBERS HAVE?

Are the PEO's HR specialists experts in their fields? Do they have the experience and qualifications needed to serve your business? Are they familiar with the laws governing the cities and states in which you do business? Ask direct questions to make sure the PEO can adequately handle a company of your size, in your industry and with your HR needs.

Find out if the PEO's payroll and HR specialists have strong professional training or certifications.

The American Payroll Association (APA) offers two levels of certification – the Fundamental Payroll Certification (FPC) and the Certified Payroll Professional (CPP).

The HR Certification Institute (HRCI) offers eight certifications that demonstrate relevance, competence, experience, credibility and dedication to human resources. The most common are the Professional in Human Resources (PHR) and Senior Professional in Human Resources (SPHR) certifications. To gain these credentials, HR professionals must meet certain experience and education eligibility requirements, pass a comprehensive exam and get recertified every three years.

DO YOU HAVE HR PROFESSIONALS IN KEY STATES?

If your company does business in states that have many or complex employment laws, such as California, Massachusetts and New York, it may be beneficial if the PEO you select also has professionals in those states. A history of working in these various legal and regulatory environments is ideal.

ASK THE RIGHT QUESTIONS

Remember that as you speak with PEOs, **you are interviewing them to determine if they are a good fit for your organization, just as you do with any employee you hire**. It's important to understand how they approach issues that are very important to you and your business.



HOW DO YOU COMMUNICATE WITH YOUR CLIENTS? CAN I MEET THE PEOPLE WHO WOULD BE SERVICING MY ACCOUNT?

Some companies are strictly web-based, while others have fully staffed offices around the country. If you join a web-based PEO, expect most of your interactions to occur online through self-service applications.

If you join one with a nearby service center, you may have opportunities to meet in person with the PEO's service team.

Also be aware that many PEOs use call centers to answer client questions, while others assign a dedicated team that the clients contact whenever an issue arises.

Your PEO will be handling most of the employee-related aspects of your business, including assisting your employees with their questions and requests. Therefore, it's crucial that your PEO offers the appropriate level of support and customer service your business and employees need.

WHAT IS YOUR STAFF SUPPORT RATIO?

The staff support ratio is the number of the PEO's service team members to the total number of their client companies' employees. This can be a good way to compare the level of service you can expect from one PEO to another.

For instance, a PEO that provides one service team member for every 1,000 client employees may be slower to respond to your requests than a PEO that provides one service team member for every 100 client employees.

MAY I SEE YOUR SERVICE AGREEMENT?

Looking at the fine print at this stage of consideration will help you make sure there's nothing that would prevent you from taking the next step.

Ask yourself the following questions:

1. Are the responsibilities of both parties clearly defined?
2. What services are set forth in the agreement?
3. What provisions permit you or the PEO to cancel the contract?
4. How often can the provider increase your prices?



And be sure to ask your PEO representative about any terms that are vague or problematic.

DO YOU CARRY EMPLOYMENT PRACTICES LIABILITY INSURANCE? WHAT COVERAGE WOULD MY COMPANY GAIN THROUGH THE CO-EMPLOYMENT RELATIONSHIP?

Employment practices liability insurance (EPLI) is liability insurance that covers certain employment-related claims made by employees, such as racial or age discrimination, sexual harassment, wrongful termination or noncompliance with the Americans with Disabilities Act.

Many PEOs provide EPLI that you would otherwise not have considered. Knowing how much coverage you're gaining (if any) can help you compare the level of risk management you would gain with one PEO versus another.

CAN YOU DESCRIBE YOUR RELATIONSHIP WITH YOUR HEALTH INSURANCE CARRIER?

You will want to make sure that the PEO you are using has long-term relationships with respected insurance carrier(s), and that the PEO and its carrier(s) actively work together in managing the plan(s) to help keep costs low.

BY WHAT PERCENTAGE DO YOUR CLIENTS' SERVICE FEES INCREASE ANNUALLY, ON AVERAGE?

To be sure the PEO can offer you long-term cost savings, make projections based on their clients' average service fee increases. The best-value PEOs can keep annual service fee increases down.



HOW ARE EMPLOYEE BENEFITS FUNDED?

The PEO's answer should explain:

- **Is the PEO's group health plan sponsored by the PEO?**
  Or would you retain plan sponsor fiduciary responsibilities?

- **Is the plan fully insured or partially self-funded?**
  Under a fully insured group health plan, the benefits are provided through a group insurance policy issued by an insurer and the insurer guarantees the payment of claims. In contrast, under a self-funded plan, the PEO (not the insurer) is responsible for paying the claims. The PEO assumes the role of the insurer in a self-funded arrangement.

- **What carriers or third-party administrators (TPA) does the PEO use?**
  If health benefits are provided under a fully insured plan, you will want to make sure the PEO's insurance carrier is reputable and provides coverage in the areas where you have employees. If benefits are provided under a self-funded plan, the PEO will typically have a TPA that handles plan administration functions the insurer would typically handle under a fully insured plan, such as the payment of claims. If a TPA is involved, do some research on the TPA to ensure that it's trustworthy, has no complaints with the Better Business Bureau and has good hiring practices (e.g., performs background checks on all staff).

- **Is the TPA or carrier authorized to do business in your state?**
  Be sure this is true for all states in which you operate. Otherwise, the PEO will not be able to provide insurance to employees in that state.

GET A PROPOSAL

By this time you've probably narrowed your potential PEO down to one or two companies. You're ready to start talking about the numbers.

For cost estimating, the PEO will likely request your basic employee information, including names, ages, wages and titles, plus your existing benefits and insurance information.
Also, be prepared to answer questions about your company's mission, vision and goals, as well as past, present and future challenges and opportunities.

Then, let the PEOs respond with proposals.

NEGOTIATE EFFECTIVELY

If you can articulate your timeline for making the decision to join a PEO and agree on realistic expectations of cost and services needed, it will be much easier to negotiate and arrive at pricing that makes sense for both your business and the PEO.

FINAL THOUGHTS

Once you've gathered all of this information, you should be ready to decide which PEO to join.

Remember, the best and most reliable PEOs base their long-term business success on helping their clients become more successful. **Ask yourself which PEO you feel will deliver you lasting service value by helping you:**

- Create efficiency
- Hire and retain talented employees
- Improve the productivity of your workforce
- More effectively manage your employer responsibilities and risks
- Free up valuable time to focus on tasks that directly affect your bottom-line business results
- Gain a competitive advantage in your industry's marketplace

Give your business a boost with Insperity's PEO service

The Insperity® Workforce Optimization® solution includes the following:

- **Fortune 500-level health insurance and benefits**
  Choose from a range of benefit packages with nationally recognized insurance carriers.

- **Precise payroll and HR administration**
  Produce timely payroll (for your approval) and employment tax reports. We'll also handle much of your employee-related paperwork and other HR tasks.

- **HR-related government compliance**
  Help limit employer-related liability by letting us take care of much of your HR-related issues and unemployment claims management. We'll also assist you in interfacing with certain agencies dealing with employee issues, as well as wage claims and I-9 audits.

- **Billing transparency and reconciliation**
  Know exactly what you're going to pay from start to finish. Our billed amounts are reported in detail, so you don't have to worry about unexpected costs.

- **A professional HR service team – not a call center**
  Get a team of professional HR specialists ready to help with your day-to-day HR duties and provide tried-and-true, personalized guidance whenever you need it.

- **Advanced software that streamlines your HR processes**
  Enjoy the convenience and simplicity of a fully integrated HR technology platform. Our software automates administrative processes through a single system and provides detailed reporting.

About Insperity

At Insperity, it's not just HR outsourcing, it's HR that makes a difference.® Our comprehensive, scalable HR solutions offer an optimal blend of service and technology to facilitate growth by streamlining processes related to payroll, benefits, talent management and HR compliance. We provide the tools to help you lighten your administrative load, maximize productivity and manage risks – so you can focus on growth. Because that's what it means to have a true HR partner.

Year established
1986

Our mission
To help businesses succeed so communities prosper

We serve businesses with employees from 5-5,000

NSP LISTED NYSE **Publicly traded on NYSE under ticker symbol NSP**

Bonded ESAC Accredited

CPEO status*

**Insperity PEO Services LP has been designated a certified professional employer organization by the IRS. The IRS does not endorse any particular CPEO. For more information, go to irs.gov.*

Full-service HR that adapts to your business

Insperity's comprehensive HR packages adapt with your company as you adapt to new ways of doing business.

The culture and values that guide us

Our mission and values are the foundation of a company culture that encourages a commitment to excellence and a heart for service.

Investing in our communities

We champion both our clients and our employees who make a difference in the lives of others through volunteerism and community leadership.

Ready to find out exactly how Insperity can benefit your business?

Call **800.465.3800** or visit **insperity.com**

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