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Why Outsource To A PEO Firm?

By Rob Zawrotny

It's the \$51 billion industry you've likely never heard of: PEOs. Private Employment Organizations, or PEO's as they're known, were deemed the fastest growing business service during the 1990s by the Harvard Business Review. Currently over 700 PEO's operate in all 50 states and provide service to approximately 100,000 small to mid-sized businesses. So what exactly is a PEO, and how can your business benefit by using one? Following is an introduction to the basics of PEOs.

What is a PEO? A PEO is not a temp or staffing agency and it is not a payroll service. As defined by the National Association of Professional Employer Organizations (NAPEO), a PEO is an "organization that provides an integrated and cost effective approach to the management and administration of the human resources and employer risk of its clients, by contractually assuming substantial employer responsibilities and risk, through the establishment and maintenance of a co-employer relationship with the client's employees."

In other words, a PEO legally hires a company's employees, which makes the PEO the "employer of record" for tax and insurance purposes. The employees are leased back to the original employer under a co-employment contract. The PEO is then responsible for administration of payroll, workers compensation, employee benefits, and workers compensation. Numerous duties such as 401 (k) administration, risk management, employee counseling, and training and development can fall under these categories depending on the terms of your contract.

Why use a PEO?

Being an employer can be a headache: there are over 60 different employment-related governmental regulations with which a business must comply. The U.S. Small Business Administration reports that owners of small or mid-sized businesses now spend up to a quarter of their time on employment-related paperwork. By outsourcing to a PEO, employers can focus on operating and building their business. Employees gain improved, comprehensive benefits. Some other benefits to consider:

Why Outsource To A PEO Firm?

- Improved human resource practices can increase your profitability. PEOs handle basics like employee handbooks or more delicate HR tasks such as sexual harassment training.
- Comprehensive employee benefits makes your business a more attractive place to work.
- State of the art HRIS systems better serve you and your employees with on–line access to payroll and employee information.
- Coverage under a PEOs master workers comp policy means insurance is more affordable. PEOs yearly shop for the best insurance rates, and since they have an interest in keeping claims low, they conduct risk management training.
- Progressive PEOs offer benefits such as college tuition reimbursement programs and travel services

Who can benefit from a PEO's services? Businesses from numerous industries—medicine,

automotive, construction, retail, manufacturing, hi–tech— outsource to PEOs. According to the NAPEO, their member PEOs average client is a small business with 17 employees. PEO clients are small enough that they do not have the need or ability to staff a human resource department. Even large companies with a dedicated HR department can benefit: they get access to supplemental HR expertise, competitive health insurance, and state of the art HR information systems. PEOs work in cooperation with larger companies' HR departments.

When is your business ready to outsource to a PEO? Industry experts advise careful preparation when deciding if your business should contract with a PEO. Do your homework. Here are some questions to consider (courtesy of StaffMarket.com):

Are you spending too much for workers' compensation insurance? Are your employees asking for benefits you can't offer? Are you paying too much for health insurance? Is your company compliant with state and federal regulations? Is your turnover rate adversely affecting your company's performance? Is your HR department as effective or as efficient as you believe it could be?

If the answers to these questions lead you to believe that a PEO is in your future, appoint a team to the task of conducting thorough market research, attend conferences, and read case studies about HR outsourcing. Utilize their findings in your PEO search.

How do you choose a PEO? First, make sure the PEOs you consider are accredited by the Employer Services Assurance Corporation (ESAC), a nonprofit organization which protects the interests of businesses contracted with PEOs. Accreditation means a PEO meets ESAC's ethical, financial, and operational standards.

In addition, Make sure your PEO meets state licensing and registration requirements. The following states have licensing laws: Arkansas, Florida, Illinois, Montana, New Hampshire, New Mexico, Oregon, South Carolina, Tennessee, Texas, Utah, and Vermont. The following states have registration laws: Kentucky, Louisiana, Maine, Minnesota, Nevada, New Jersey, New York, North Carolina, Ohio,

Why Outsource To A PEO Firm?

Oklahoma, Rhode Island, and Virginia.

Here are some more guidelines provided by the NAPEO:

1. Assess your workplace to determine your human resource and risk management needs.
2. Make sure the PEO is capable of meeting your goals. Meet the people who will be serving you.
3. Ask for client and professional references.
4. Check the firm's financial background, and ask for banking and credit references. Ask the PEO to demonstrate that payroll taxes and insurance premiums have been paid.
5. Check to see if the company is a member of NAPEO, the national trade association of the PEO industry.
6. Investigate the company's administrative and risk management service competence. What experience and depth does their internal staff have? Do any of the senior staff have professional training or designations? Check to see if the PEO's risk management services have been certified by the Certification Institute at

www.certificationinstitute.org

7. Understand how the employee benefits are funded. Is the PEO fully insured or partially self-funded? Who is the third-party administrator (TPA) or carrier? Is their TPA or carrier authorized to do business in your state?
8. Understand how the employee benefits are tailored. Determine if they fit the needs of your employees.
9. Review the service agreement carefully. Are the respective parties' responsibilities and liabilities clearly laid out? What guarantees are provided? What provisions permit you or the PEO to cancel the terms of the contract?

Rob Zawrotny is a copywriter for MWI. He has been assisting Workforce Solutions in providing quality content to those who are considering using a PEO service. Visit

<http://www.mwi.com>

and

<http://www.wkforce.com>

for more information.

Solve Your Health Care Headaches With A PEO!

By Bonnie Jo Davis

There are many complications to being a small business owner but none so pressing as the need for health, dental and life insurance. Many small business owners obtain coverage through the employment of their spouse. However, there are just as many small business owners who are not married, whose spouse is also self employed or not offered benefits through their employer.

Another option for a small business owner is to partner with a Professional Employer Organization (PEO). PEO's, also known as employee leasing companies, handle the human resources functions of companies of any size but they focus primarily on small and medium sized businesses. Some of the human resources functions handled by a typical PEO are: Payroll Direct Deposit Worker's Compensation Insurance Health Insurance Dental Insurance Life Insurance Retirement Plans Tax Deposits and Reporting Regulatory Compliance

A PEO groups together businesses of all sizes in order to get the best rates for benefits and to reduce human resources costs to a minimum. In order to work with a PEO you will be asked to fill out an application and provide a set-up fee ranging from \$50.00 to \$300.00 depending upon the size of your business. Monthly fees will be determined by the PEO and are usually based on the number of payroll checks issued during each month and the number of employees. Your company will be billed, at least monthly, for the cost of fees, benefits, taxes, etc. not paid by employees.

After signing a contract with a PEO your employees will need to fill out employment and tax forms that will then be forwarded to the PEO. The PEO then becomes the employer of record for the employees and from then on handles all payroll and benefit tasks. Timesheets, benefit enrollments and changes will all be submitted to your PEO and you will receive regularly scheduled management reports. At the end of a calendar year the PEO will provide all employees with a W-2.

Some PEO's work with companies in every state and others are state specific. You can find individual PEO's by using a search engine such as Google. You can save time by using the free services of a PEO clearinghouse such as www.StaffMarket.com. You can also find a PEO by visiting The National Association of Professional Employers Association (NAPEO) at

<http://www.napeo.org>.

NAPEO offers

a directory of members searchable by company name, state or country and offers guidelines to help you screen and select a PEO.

A PEO may not be the perfect solution for every small business but it is an option for individuals and companies who are willing to outsource human resource functions to obtain much needed benefits,

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improve employee retention and save time that can be better used to growing the business.

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