PEO

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April 11, 2009

When I was working as a janitor in college, I remember that my fellow supervisors of building maintenance were very concerned as the school district was contemplating hiring independent contractors to come in and clean. This meant either new janitors wouldn't be hired by the district, or worse, existing employees would be downsized.

The move, obviously, was to save money. Like any governmental body, the district had a shrinking budget and was looking for ways to cut costs. The independent contracts would cost the district less per hour than existing employees, plus they brought their own cleaning supplies.

Thankfully, none of the employees were downsized, and as employees of the district, they proved to be more effective than the contracted help, who had no connection to the schools.

Outsourcing is a very popular management move that many businesses use to save money, especially in our current dismal economy. In addition to adding to the bottom line, outsourcing can take administrative headaches off the desks of managers so they can concentrate on operating the business.

Some of the biggest chores that a business has that detract from focusing on the business involve human resources tasks. Enter the Professional Employment Organization.

A PEO takes care of all of a business's HR issues, including employee benefits, payroll and workers' compensation. Interested businesses enter into a contract with a PEO to provide HR services, however, the business keeps complete control over management decisions. All of the business's employees are actually on the payroll of the PEO. Accordingly, the PEO cuts all the paychecks and makes all payroll tax deposits and filings.

In addition to payroll, PEOs take care of other benefits as well, such as health, life, and disability insurance, workers' compensation, unemployment claims, and wage garnishment. In exchange for these services, each month the company writes the PEO a check for the costs of its payroll, taxes, insurance and other benefits and also the PEO's fee. A PEOs fee is typically either a percentage of the company's annual payroll (usually between 3% and 7%) or a per-employee, per-month flat fee basis.

Not only do PEOs save businesses money and tackle HR matters, they can provide additional savings not accessible to all businesses. Because PEOs provide services to many companies, they can take advantage of economies of scale by combining all of their "employees" to obtain cheaper group rates for life, disability, health, unemployment or workers' compensation insurance and other benefits.

Information about PEOs can be found at the National Association of Professional Employment Organization's Web site, www.napeo.org, including PEOs in your area. Members of NAPEO should be trustworthy, as they must agree to a code of ethics to join.

Under a new Wisconsin law, however, starting on July 1, 2009, PEOs operating in the state are now required to be registered with the state Department of Regulation and Licensing. In addition, they are also required to furnish the DRL with audited financial statements evidencing the PEO's financial wherewithal. Finally, if a PEO provides life insurance, health benefits, or disability income benefits, the PEO must fully insure payment of those benefits. Violating PEOs are subject to disciplinary proceedings authorized by DRL.

So if your business is looking to unload its HR workload, your CEO should look into a PEO.