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## Why It Can Pay to Use a Professional Employer Organization

Professional employer organizations, also known as PEOs are third party companies that take care of employee benefits, withholding, provide OSHA training and workers compensation insurance.

Not every employer needs to use a PEO. If your company has significantly high workers compensation costs or needs to handle payroll in many states, a PEO may be the way to go.

Here is how a PEO works: An employer enters into a "co-employment agreement" with the employee, the PEO and the company needing labor services. The co-employment agreement specifies that all day to day duties will be handled by the employer.

The employee then goes to work for the employer and does their job just as if the PEO wasn't in the picture. Except the PEO provides benefits, administers payroll and 401K programs, provides safety training as necessary and handles the HR aspect of managing the employee.

Many PEOs are automated so an employee can receive direct deposit of payroll, manage their 401k easily and use online time keeping services.

For the privilege of having the PEO handle all your HR administrative functions you pay a fee (typically 2-3% of gross payroll) to the PEO.

The PEO is able add your employees to a large pool to reduce risk and cost for health insurance, benefits, workers compensation, and state unemployment insurance.

In an ideal situation, the cost savings realized in various insurance costs are far greater than the 2-3% administrative handling cost. This is particularly true for workers that work in an industry that had high costs of workers compensation insurance.

In addition to saving money by putting your employees in a large employer pool to reduce costs, companies that use PEOs don't pay an annual premium for workers compensation. Instead they pay as they go which can substantially improve working capital.

If your company is not large enough to have a full service HR department or are in a high risk industry for workers compensation, you should consider a PEO. You may be surprised at the savings and benefits.

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