



PEO Frequently Asked Questions

General

What is a PEO?

Professional Employer Organizations (PEO), also referred to as *worker leasing companies* or *co-employment companies*, are human resources (HR) and benefits solutions for small to midsize businesses. A PEO acts as a co-employer of the staff of the business/nonprofit that they are engaged with. They often provide all human resources and administrative services for those businesses/nonprofits and their employees. Co-employment is a contractual relationship, in which a business/nonprofit and a PEO share certain employment responsibilities. These responsibilities are clearly agreed upon between the two entities in a legal document, called a Client Service Agreement.

Why utilize a PEO?

The PEO takes on human resources and administrative services, while the client still maintains the management of the employees. According to the [National Association of Professional Employer Organizations](#) (NAPEO), entities that work with a PEO grow *seven to nine percent faster*, have employee turnover that is *10 to 14 percent lower*, and are *50 percent less likely to go out of business*.

Who is the employer?

In the arrangement among a PEO, a worksite employee, and a client company, there exists a co-employment relationship, which involves a contractual allocation and sharing of employer responsibilities between the PEO and the client pursuant to a client service agreement (CSA). The PEO typically remits wages and withholdings of the worksite employees and reports, collects, and deposits employment taxes with local, state, and federal authorities. The PEO also issues the Form W-2 for the compensation paid by it under its EIN. The client company retains responsibility for and manages product development and production, business operations, marketing, sales, and service. The PEO and the client will share certain responsibilities, as determined in the CSA. As a co-employer, the PEO will often provide a complete human resource and benefit package for worksite employees.



Nonprofit Management

Why should nonprofits consider working with a PEO?

Executive directors want to focus their time and energy on serving the nonprofit's mission and less time on administrative tasks. As an organization grows, most executive directors do not have the necessary human resource training, payroll, and accounting skills, the knowledge of regulatory compliance, or backgrounds in risk management, insurance, and employee benefit programs to meet the demands of being an employer. PEOs give small-group markets access to many benefits and employment amenities they would not have otherwise.

Does working with a PEO change the Board of Directors' level of control?

The nonprofit's Board of Directors maintains the same level of control under a PEO. The PEO can serve as a valuable resource for the Board of Directors in addition to the management team on HR matters.

Who is responsible for filing and paying payroll taxes?

The PEO is responsible for filing and paying payroll taxes. The nonprofit is responsible for ensuring the funds are available to pay them.

How will funders view working with a PEO?

Working with a PEO does not change the relationship with funders. Funders still directly fund the EIN of the nonprofit entity. Funders and donors can feel confident that their donations, grants, and contracts will be effectively and efficiently used for the intended public benefit uses. Grant funds allotted for payroll or employee benefits can be used to fund those expenses billed by the PEO. The nonprofit may consider adding the cost of the PEO services into grants.

How does the PEO work with labor unions?

The PEO can work with union setups. The PEO assists the nonprofit in collective bargaining. The PEO adheres to the collective bargaining agreement terms applicable to the employees.

Who is responsible for the hiring and termination of employees?

The nonprofit is responsible for the hiring and termination of employees. The PEO aids with the hiring process, handling of termination, or corrective actions. The Client Services Agreement outlines the nonprofit's responsibility to promptly notify the PEO of the hiring and termination of employees.



Who is responsible for managing performance issues?

The nonprofit manages employee performance. The PEO can assist managers with processes and policies for employee performance evaluation and corrective actions.

How do I know when I no longer need the services of a PEO?

Typically, when organizations have over 200 employees, it becomes more cost-effective to bring the services offered by the PEO in-house.

Is there a vetting I must go through to get in?

Yes, there is a qualification process to become a client of the PEO. The PEO looks at such factors as the number of employees, location of employees, financials, worker's compensation loss ratio, and employee census.

Who is responsible for a discrimination case?

The nonprofit client is still subject to federal and state employment laws and must maintain compliance even if they are in a co-employment agreement with a PEO. The Client Service Agreement outlines the legal responsibilities of the nonprofit versus the PEO.

Will I be able to track hours for federal grants? Will I be able to track overtime hours?

Yes, the payroll tracking system to track employee hours to report out on.

Who decides if an employee is exempt or non-exempt?

The nonprofit decides if an employee is exempt or non-exempt based on the duties of the employee. The PEO can assist the nonprofit in making that decision.



Employees

How does co-employment affect Public Service Loan Forgiveness?

Utilizing a PEO does not affect an employee's Public Service Loan Forgiveness. The employee needs to use the nonprofit EIN when filling out the Public Service Loan Forgiveness form and not the EIN listed on their W-2.

Who do I contact about payroll or HR issues?

Established when this is being developed.

What is the coverage network for health insurance?

Established when this is being developed and insurance products are decided on.