Canizio Associates, LLC
Health Insurance Strategies

Canizio Associates, LLC
2083 Jericho Turnpike, Rm. 201
East Northport, NY 11731
631-864-1212

Busted: 12 Common PEO Myths Debunked

As HR has grown more time-consuming and expensive for employers (especially small and medium-sized businesses), owners have increasingly turned to outsourcing. But over the last 15 years, one solution in particular has grown in popularity—professional employer organizations (PEO).

In case you are unfamiliar with PEOs, they are firms that allow small and medium-sized companies to outsource most of their HR management responsibilities such as:

- Payroll
- Employee benefits
- HR administration
- Risk management
- Compliance
- Recruiting services
- And more

But as PEOs have grown in demand by business owners, so too have the number of myths that exist about them. But are they true?

In this eBook, we've highlighted 12 of the most common myths about PEOs. Read on to learn why these myths have been busted, and what makes them untrue.

Myth 1: Business Owners Lose Control of their Business

Perhaps the number one concern that business owners have about working with a PEO is the fear of losing control of their business, so it's no surprise that this is one of the most common PEO myths, too.

However, this myth isn't true. In fact, owners don't lose any control when they partner with a professional employer organization.

Instead, businesses gain a strategic partner who shares various HR responsibilities to ensure improved practices, strategies, and efficiency.

But this isn't the only myth that exists about responsibilities and business control…

Myth 2: A PEO can Hire and Fire a Client's Employees

Along with losing control of the day-to-day aspects of their company, some business owners assume that a PEO takes over hiring, promoting, and firing employees.

But this myth has also been busted.

In a PEO partnership, all talent management responsibilities stay with the owner. This means they get to make all hiring and firing decisions, along with any promotions or raises that are given to employees.

All a business owner would need to do is notify their PEO so that all HR and employment documentation is updated accordingly.

It should be noted that some PEOs do offer recruiting services to their clients and can help small business owners find potential new hires. However, the decision to interview or hire a candidate rests solely with the owner, and not the PEO.

Myth 3: Businesses Lose their Insurance or Benefits Broker

For many small and medium-sized business owners, their insurance or benefits broker is more than just a broker—they are a trusted advisor who has the best interest of their client in mind.

This myth is a bit different than the first two, because with some PEOs you might lose the broker relationship. So why is this a myth and not a fact?

It's because Broker-Only PEOs exist today that differ from other PEOs on the market. A Broker-Only PEO partners with brokers to offer their services to small and medium-sized employers. The benefit to this type of PEO is that not only does a business owner gain an HR partner, but they also get to keep their broker.

This is ultimately a win-win for many employers.

Myth 4: My Business is Too Big or Too Small for a PEO

According to the National Association of Professional Employer Organizations (NAPEO), the average PEO client has around 22 employees. But another common misconception is that PEO is only an option for companies around this size—and more specifically, that much larger or much smaller employers can't benefit from this HR solution.

However, most PEOs will work with clients who have a wide-range of employees. And while the exact employee number will vary depending on the PEO, some will work with start-ups who have **10 full-time employees** to medium-sized companies with **upwards of 1,000 workers**.

Some professional employer organizations will even go beyond 1,000 employees!

Companies of just about any size stand to gain from a PEO partnership, debunking this popular myth.

Myth 5: A PEO Replaces HR Personnel

This myth applies mostly to medium-sized employers who work with PEOs, as many smaller employers don't have a dedicated HR employee.

Mid-sized employers, though, might even have an HR team. So, if the business partners with a PEO, do these team members lose their jobs?

Not at all! Just because a business brings on a PEO to handle certain HR responsibilities doesn't mean they have to replace current HR personnel.

As a matter of fact, a PEO can assist HR employees with numerous tasks, especially around compliance issues.

In many cases, HR personnel end up benefiting from a PEO partnership as they gain additional resources that can make their jobs easier!

Myth 6: PEO is the Same as Employee Leasing

Besides the idea of losing control, perhaps the next most popular misconception about PEOs involves the relationship between a client company's employees and the PEO—called *co-employment*.

Some believe a PEO relationship to be *employee leasing*. However, this is not the case. Instead, when a client decides to partner with a PEO, their workers enter into a co-employment arrangement.

There are a few major differences between co-employment and employee leasing, but the biggest is that PEOs do not lease out employees or provide staff to their clients. Instead, the client keeps control over all hiring and other employee-related decisions.

It's also important to know that in a co-employment relationship, employees have 2 employers—the client company and the PEO (the employer of record).

Yet another PEO myth busted!

Myth 7: A PEO Won't Save My Business Money

Another barrier for some business owners to explore PEOs is the thought that they are too expensive and won't save a business money or reduce HR-related costs.

However, this is another myth about PEOs that isn't true. For example, a report from NAPEO found that PEOs help their clients **save up to 35% on HR administration costs.**

Additionally, PEOs can help employers save considerable amounts on health insurance and other benefits, all while improving the quantity and quality of current offerings.

Often, small and medium-sized employers stand to save money and become more efficient through a PEO partnership.

Myth 8: Co-Employment will Negatively Impact the Employee Experience

Along with being confused with employee leasing, another myth surrounding co-employment revolves around how it would impact a client's employees. And while the myth says that co-employment would hurt the employee experience, the opposite is usually true.

By being co-employed by their company and a PEO, employees will be able to choose from enhanced employee benefits that include:

- Tailored health insurance
- Voluntary benefits (legal assistance programs, identity theft protection, pet insurance, employee assistance programs, etc.)
- A wide-range of complimentary benefits

And since a PEO can help improve HR practices and strategies, employees stand to gain even further.

Not only is this myth debunked, but a PEO can actually help boost the employee experience for small and medium-sized employers!

Myth 9: Switching to a PEO is Too Complex and Cumbersome

Sometimes, a business owner may not choose a PEO because they believe switching to one will be too difficult, even though the business stands to gain from this potential partnership.

But this isn't the case at all. Most PEOs have teams in place to help their new clients transition into the PEO relationship. These professionals help business leaders prepare for their implementation date and ensure that the process goes smoothly. These PEO professionals include individuals who specialize in:

- ✓ **HR management**
- ✓ **Risk management and HR compliance**
- ✓ **Payroll**
- ✓ **Employee benefits**
- ✓ **Client activation**
- ✓ **New client onboarding**

And these PEO team members aren't just there during the onboarding process. They stay connected once a business officially becomes a client and are always available to answer questions and concerns around a wide-variety of HR topics.

Myth 10: All PEOs are the Same

The PEO industry has seen incredible growth over the last 30 years. From 2008 to 2017 alone, the number of worksite employees (WSEs) employed by PEOs *grew at a compounded annual rate of 8.3%*. This percentage growth in the PEO industry is **14 times higher than that of employment in the United States economy as a whole**.

The success of the industry has led to an increase in the number of PEOs that operate today. But is it true that all PEOs are the same?

If you guessed that this myth is false, you are right! While there are numerous differences that can exist between PEOs, here are a few of the major differentiators:

Is the PEO National or Regional

HR technology offered

The service model

ESAC accreditation

Certified PEO (CPEO) designation

While this myth has been busted, the list above actually leads us to our next PEO misconception…

Myth 11: ESAC Accreditation and CPEO Designation are Not that Important

In 1995, the Employer Services Assurance Corporation (ESAC) was formed to become the official accrediting agency of the professional employer organization industry. PEOs that are accredited by ESAC meet the gold standards for industry best practices and financial reliability.

Then in 2017, the Internal Revenue Service (IRS) began designating select PEOs as Certified Professional Employer Organizations (CPEO). This established another benchmark for PEOs to reach, and another assurance to companies who partner with PEOs that they are working with a best-in-class organization.

Both distinctions are important to PEOs and their clients and should be looked for when choosing a potential HR partner. They provide business leaders with additional financial assurance and peace of mind, resulting in another debunked PEO myth.

Myth 12: PEOs Lack Transparency

A complaint that some business owners have is a lack of transparency that comes from working with a PEO. But is this myth fact or fiction?

The answer is that it depends on the PEO. Some may be less transparent whether it's with their pricing, fees, or services, but others are the complete opposite with their prospects and clients.

This is why researching PEOs is important as it helps ensure that business owners find the perfect partner that is up-front with their solutions and fees. Working with your broker is also a great way to ensure you only work with a best-in-class PEO that can help your business and employees!

Don't Believe These Common PEO Myths. Explore Them for Yourself!

Often, myths prevent business owners from choosing to partner with a PEO, even if this solution might be what's best for the company.

That's why it's important for business leaders to research PEOs and work with their brokers to find the one that is best-suited for the needs of their business. When considering if a PEO is right for you, consider these myths busted!

For More Information:

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He lth Insur nce Str tegies

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