

GUIDE TO HR Outsourcing

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Business can be like a game of chess

Successful chess players work backward – imagining their winning scenario, then strategically deploying their pieces to achieve their goal.

Business leaders should think in much the same way.



When you consider the many moving parts of running a business, this neat chess metaphor breaks it down.

- You don't have one competitor; there are many.
- It's not just about using your rook wisely; you must keep her engaged and invested in the game.
- Add in the mental and monetary toll of managing various vendors to offer benefits and keep people paid.
- All the while, you're left navigating regulatory and compliance risks.
- And outside of people-related matters, you've got a business to run.

If you could hire an outside firm to create a scalable system for keeping your queen, providing health benefits to everyone in the game and offering strategic HR guidance to keep you competitive, would you take it?

Let's explore why so many businesses answer yes.

Are your players set up for success?

A toxic corporate culture is by far the strongest predictor of industry-adjusted attrition and is **10x more** important than compensation in predicting turnover.*



Signs of a toxic workplace

1. Unapproachable leaders
2. Lack of flexibility
3. Bullying environments
4. Lack of appreciation for employees

Bottom line: companies that prioritize employee engagement see a **23% increase in profitability****

How can you get your pieces in position pronto?



* Source: 2021 report by MIT Sloan Management Review

** Source: Gallup's 2020 Employee Engagement Meta-Analysis

Play to your advantage WITH A PEO

When you or your portcos join forces with a PEO, you gain a powerful ally. A PEO will unleash its full suite of resources and assume responsibility for some of the most time-consuming HR tasks and assume or help you manage many employer obligations and risks. You, in turn, can focus on advancing your game forward.

Gain access to PEO-sponsored benefits

- Employees have access to comprehensive medical, dental, 401(k) benefits and more
- As the plan sponsor, the PEO handles carrier and vendor negotiations, benefits administration and legal compliance

Ward off or manage risk

- Workers' compensation insurance coverage and employment practices liability insurance (EPLI)
- Recommendations on best practices to improve workplace safety
- Assistance with HR-related compliance and paperwork

Level up employees

- Ongoing performance improvement support
- Online learning options, including leadership development

Play it safe

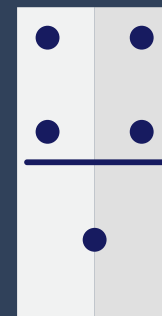
- HR best practices guidance to help you or your portfolio comply with HR laws, regulations, and rules, both local and federal
- Handbook development, onboarding, termination assistance and more – to help reduce employer liabilities

Let the big boss skip a turn

- Relief from the tedious tasks of HR administration, payroll processing and payroll tax filings
- Free up time for yourself or the leaders of your portcos to focus on strategy, employees and the bottom line
- Reduce drain on capital and improve profitability

Unify your forces

- HR service and technology to facilitate efficiency and compliance
- One seamless technology platform to integrate payroll and time and attendance
- Reduced manual data entry burden



Rules of the game

When you decide to work with a PEO, the business relationship called “co-employment” is created.

.....

In a co-employment relationship, your company’s employees are employed by both your company and by the PEO, while the agreement between your company and the PEO allocates and divides up employer responsibilities.

As a business owner, you’re still in full control of:

- All business decisions
- Daily operations
- Employee core job functions and duties

And, just for example, as a co-employer the PEO could be responsible for:

- Providing employee benefits
- Payroll and HR administration
- HR-related government compliance assistance
- Providing HR advice

A winning proposition

A PEO can help optimize your investment by:

1. Providing HR infrastructure for you or your portfolio

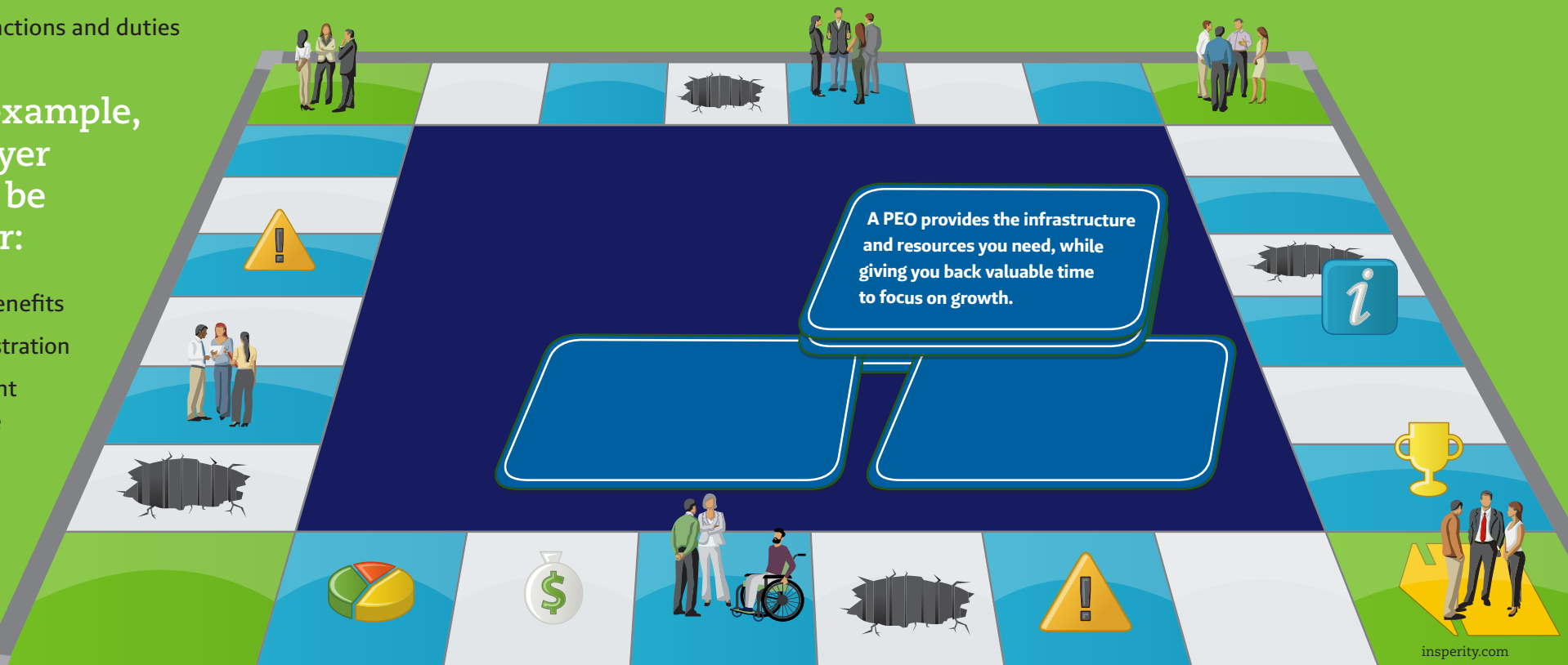
Integrate your human capital management systems into one platform while gaining more accurate workforce insights and forecasting.

2. Helping minimize risk

See greater clarity in your human capital costs, and get help mitigating risks related to HR compliance and employer liability.

3. Maximizing ROI

Improve the success potential of your portcos by focusing on the HR element. A solid HR infrastructure could make companies more attractive in a sale.



Get to your endgame faster



Fuel your success with:

- ▶ **1** Enhanced speed of M&A execution
- ▶ **3** Game-changing workforce insights

- ▶ **2** More accurate employee cost forecasting

The right PEO can flip a potentially troubled hand full of HR compliance and oversight into your ace in the hole.

Perhaps that's why, in a PEO arrangement, businesses have been shown to:

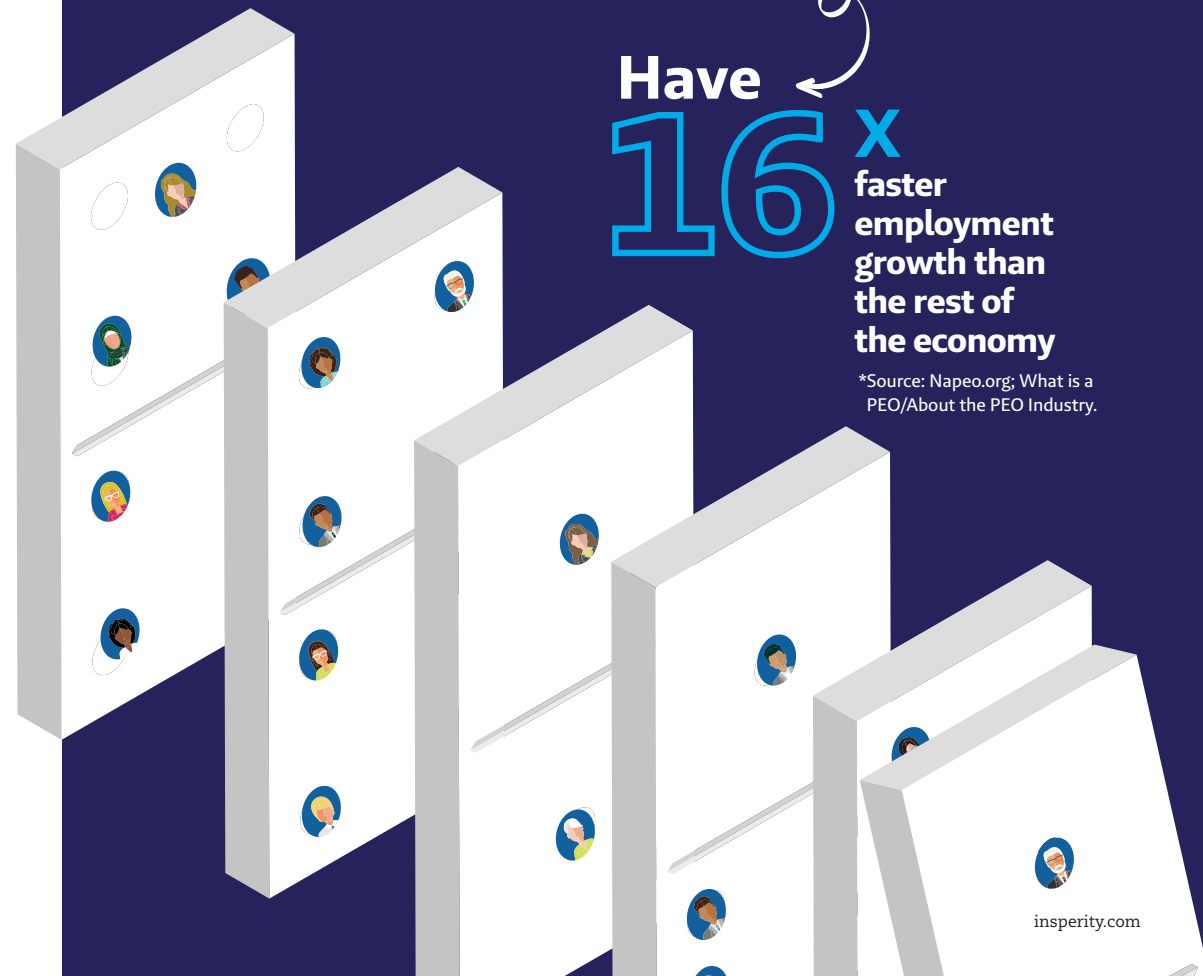


Grow 7-9% faster*

EXPERIENCE
10-14%
LOWER TURNOVER*

Have
16 X
faster employment growth than the rest of the economy

*Source: Napeo.org; What is a PEO/About the PEO Industry.



Take the quiz

Do I need to outsource my HR?

Quiz yourself on the different business scenarios below. Think it through and be completely honest. If you answer yes to more than five questions, you and your team may benefit from working with a reputable PEO.

Teams, not pieces, win

Every PEO is unique in the way they structure, deliver and price their services. (Beware of extra fees!) To pick a PEO that's going to give you a leg up, first identify your HR challenges.

- Are you processing payroll properly?
- Are you losing employees to competitors because they don't have access to competitive benefits?
- Or is your workforce disengaged and performing poorly?

Now, identify your PEO must-have features:

- Employee benefits
- Technology options
- Assistance with HR-related government compliance
- Performance management support
- Employer liability management
- Training and development
- Payroll and employment administration
- Recruiting support
- Core and strategic HR services
- Programs for growth-focused businesses
- M&A integration support



No Monopoly money



Pro tip

It's wise to conduct a break-even analysis to understand at what point a percentage-based fee is more expensive than a flat charge.

Part of beating the competition is holding the most coins in the end. So, it's important to understand PEO pricing to get the most bang for your buck.

PEO cost and pricing breakdown

The PEO's fee will include the PEO's direct cost allocations, which may include:

- Wages and related payroll taxes (FICA, Social Security, Medicare, FUTA and SUI)
- Workers' compensation insurance
- Employee benefits
- Employment practices liability insurance (EPLI)

An administrative fee may include charges for:

- Payroll administration
- Workers' compensation administration and safety
- Benefits administration
- HR compliance
- HR technology
- HR services



Key differentiator: Administrative fees can be

- 1. Percentage based** – The PEO's administrative fees are calculated as a percentage of your employees' gross payroll.
- 2. Flat charge** – The PEO's administrative fees are calculated as a fixed cost per employee.



With the flat, per-head fee structure, it doesn't matter if an employee makes \$10 or \$10 million. Your PEO administrative fee stays the same.

Weigh your options before making a move

How to evaluate a PEO's financial strength and security

- Look for the PEO's annual financial statements that may be published on their website.
- For public companies, you should be able to check for company information on an investment research website.

What's a CPEO?

A Certified PEO (or CPEO) is a PEO that has applied to the IRS to be certified and, after providing extensive information, received the CPEO designation from the IRS. It's not a simple process to become a CPEO, and not every PEO will qualify. PEOs applying for CPEO status must provide the IRS with a lot of information, including:

- An audit of their financial statements
- CPA-affirmed documentation that they pay employment taxes in a timely manner
- Documentation that they have positive working capital
- Background reports of their individuals responsible for employment tax payments

The IRS wants to take a good look at the PEOs it certifies because CPEOs (unlike non-certified PEOs) are solely responsible for paying employment taxes on wages they pay to worksite employees – meaning that as a client of a CPEO, you have additional peace of mind by knowing that if you remit your payroll taxes to the CPEO, then you've satisfied your obligation to the IRS for those taxes, even if the CPEO failed to pay the IRS.



Winner takes all

Would you rather have ...

A.

A PEO with a strong local presence in your city or state?



B.

A PEO with resources nationwide?



If you've been in the game long enough, you're not just looking to skate by, you want to win big.

For a private equity firm or any fast-growing business, that could mean constantly encountering laws in new cities and states across the country.

Will a PEO that's strictly local be able to provide you with the national resources you need? **Before you answer, pause! You don't have to sacrifice one for the other.**

Why not work with a national PEO with service team members in locations across the country? Here are some of the benefits:

- Invested in your local community
- Proficiency in federal-level issues
- Convenience and accessibility
- Market-specific awareness

It's your turn!

Decisions, decisions. Finding the PEO that's most suited for your company can be tricky – not all PEOs are created equal. Before you commit, ask each PEO these questions:

- How experienced are your service team members?
- How do you communicate with your clients?
- Can I meet the people who would be servicing my account?
- What is your "staff support ratio" or number of service team members compared to my employees?
- May I see your service agreement?
- Do you carry employment practices liability insurance (EPLI)?
- What coverage would my company gain by joining your PEO?
- How are employee benefits funded?
- Are you a CPEO?



Play your cards right

Be a savvy consumer. Before you sign on the dotted line, make sure you ask questions and read the fine print.





HR services that scale and adapt to your needs

Insperty's comprehensive solutions offer the integrated HR tools, resources and support to help your PE firm overcome today's challenges and position your portcos for growth.

Ready to discover all that's possible with the right HR partner? Email alliance@insperty.com.

FULL-SERVICE HR
EMPLOYEE BENEFITS
HR TECHNOLOGY

