

PEO OR HRO: WHICH TYPE OF HR PARTNERSHIP IS RIGHT FOR YOU?

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Outsourcing your HR to a partner is an important decision, and there are a couple of HR outsourcing models to consider. When you're ready to make the leap, you need to decide which outsourcing model works best for your business by taking into account factors like the size of your workforce, the services you need, and the particular knowledge gaps you're trying to fill.

As you look into your options, you've probably run across terms like these:

PEO

(Professional Employer Organization)

HRO

(Human Resources Organization)

ASO

(Administrative Services Organization)

Each of these HR outsourcing models offers different levels of services and support. Let's explore each option to help you determine which is right for you.



PEO

When you're looking for a one-stop shop, a Professional Employer Organization (PEO) offers a full-service model for HR services. But a PEO does it in a unique way through a mechanism called "co-employment."

Co-employment means that the PEO shares responsibilities with your business as an employer. While your business focuses on its core work, a co-employer like a PEO can focus on the personnel- and administrative-related functions.

Co-employment allows a PEO to legally take on certain responsibilities that other HR outsourcing models can't. For example, a PEO goes beyond just simply administering benefits

like healthcare plans, workers' compensation, and temporary disability insurance (TDI) by actually providing the plans and insurances. They can also file your federal and state unemployment taxes. In effect, a PEO assumes much more of your business liability than the other models.

A PEO is also instrumental in helping you care for and develop your workforce. In many cases, they can administer the onboarding process for new hires as well as compensation and perks programs to motivate and engage your employees. A PEO can even help develop your employees with training, networking, and other professional development opportunities.

HRO / ASO

A Human Resources Organization (HRO)—also sometimes referred to as an Administrative Services Organization (ASO)—offers selected HR services that you can pick and choose from. You can outsource certain responsibilities to an HRO and continue to manage other responsibilities in-house with your own staff or through other partners. For example, you can outsource payroll to an HRO and let your HR staff manage everything else.

Unlike with a PEO, there is no co-employment relationship with an HRO model. While you can offload the administration of certain tasks to an HRO, you'll still be responsible for much of the HR legwork and liabilities, such as finding and providing health and workers' compensation insurance and filing your own payroll taxes. In other words, you can free up your time from a lot of the tactical or busy work, but as the employer, your business liability remains yours.

PEO vs. HRO: Side by Side Comparison

HR FUNCTION	PEO	HRO / ASO
Payroll & Taxes	The PEO is liable	The employer is liable
Employee Benefits	Coverage is offered under the PEO's policy, or the employer can choose their own benefits plans and the PEO administers them	The employer chooses their own benefits plans and the HRO/ASO administers them
Regulatory Compliance & Risk Management	The PEO manages regulatory responsibilities and covers risk management	The HRO/ASO manages regulatory responsibilities and supports risk management usually can't provide claims management
Workers' Compensation	Covered is offered under the PEO's policy	The employer covers workers' compensation under their own policy
Human Resources Management	HR responsibilities are supported by the PEO, but the employer is still responsible for following proper HR policies at the workplace	HR responsibilities are supported by the HRO/ASO, but the employer is still responsible for following proper HR policies at the workplace following proper HR policies at the workplace following proper HR policies at the workplace
New Employee Onboarding	New employee onboarding is supported by the PEO	New employee onboarding is supported by the HRO/ASO
Employee Compensation & Perks	Compensation and perks programs are supported by the PEO	Compensation and perks programs are supported by the HRO/ASO
Employee Training & Development	Employee training and development is supported by the PEO	The employer is responsible for employee training and development



Why PEOs Are Increasing In Popularity

At first blush, you may think PEOs are for large or well-established businesses that have a lot of zmoving parts they need to outsource. In reality, small and mid-sized businesses and businesses that are just getting off the ground benefit greatly from PEOs because of the cost savings that are built into the model. A PEO supports business growth by giving you the capacity to be more strategic in your business decisions while also being more cost effective.



7-9% of small businesses using a PEO grow faster and 14% experience lower employee turnover.

Small businesses also increase their chances of staying in business by 50% when they use a PEO.¹

¹ Nxon of Professional Employer Organizations (NAPEO).



Here's why a PEO makes good business sense

1

YOU CAN USE A SINGLE VENDOR VS. MANY

Since a PEO is full service, you can outsource many—if not all—of your HR tasks to a single service provider, instead of spreading them out among multiple vendors. This saves you additional time and effort in having to manage various vendor relationships. And when you have more time, you can spend it on high-value tasks that help drive business growth.

2

YOU GET DISCOUNTED BENEFITS

Through its co-employment relationships, PEOs end up managing thousands of customer employees, which enables them to purchase insurance and benefit plans at significant discounts—i.e., buy in bulk—and pass those savings down to you. Remember: a PEO actually provides you with benefits and doesn't just administer them.

3

YOU GET LOWER SUTA RATES

Your co-employment relationship with a PEO also means you can get their State Unemployment Tax Act (SUTA) rates, which is a big plus if you happen to experience periods of high turnover. The added bonus is that the SUTA rates of PEOs are almost always lower than the rates you get with an HRO.



4

YOU GET A PARTNER WHO'S INVESTED IN YOUR SUCCESS

Since a PEO acts as a co-employer, they're just as invested in your business as you are. They not only want to help your business reduce risk and maintain compliance, they also value your employees just as much as you do. A PEO goes above and beyond a typical service provider by acting as a true partner committed to your success.

5

YOU STAY IN CONTROL

Partnering with a PEO doesn't mean you replace your existing HR staff, nor does it mean you hand over your business to the PEO. Your business decisions stay in your court, but you can seek support and advice from the experts whenever you need to. Even better, your employees still work for and with you. Their only connection to the PEO is seeing the PEO's name on their paychecks.

Obsidian HR Can Help

Small and mid-sized businesses benefit from outsourcing HR to full-service partner like a PEO. As a co-employer, a PEO takes on many of your business's liabilities and administrative burdens, while also caring for and investing in the success of your employees. A PEO delivers expert advice when you need it, frees up your time to focus on more strategic work, and supports your business's overall mission.

Ready to outsource your HR to a trusted, local HR partner?

Schedule time with an expert today: <https://www.obsidianhr.com/contact/>.



3600 S. Yosemite Street, Suite 550 | Denver, CO 80237
720-456-3590 | inquiry@obsidianhr.com | obsidianhr.com

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