

Ultimate Guide to Understanding and Evaluating PEOs

(Professional Employer Organizations)



Executive summary

Navigating the landscape of Professional Employer Organizations (PEOs) requires a clear understanding of their benefits and limitations. PEOs streamline HR functions, allowing businesses to focus on growth while managing risks. This guide explores the critical factors to consider when evaluating PEOs, ensuring your organization makes informed decisions aligned with its goals.

PEOs provide integrated HR services most commonly for small businesses. By outsourcing HR tasks such as payroll, benefits administration, and compliance, PEOs enable companies to enhance operational efficiency and compliance accuracy. Understanding how PEOs operate is essential for leveraging their services effectively.



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Who are PEOs right for?

A PEO is perfect for organizations that are looking to deliver benefits, HR, payroll, and more to their employees in a ready-to-go package. They can be great for smaller companies, but as your headcount grows, you may find that more customization is needed to better serve your employees.

PEOs can be great for rapidly growing companies, since they can help you scale across the country. They're also great for organizations with leaner, or greener HR teams. PEOs can help offload some admin tasks and take on compliance items, handbooks, leave management, and more.

Overall, PEOs can provide support for smaller teams that may not have the bandwidth.



Who are PEOs not right for?

PEOs may not be the right fit for employers with solid HR teams in place. If you have a great team, you're likely paying too much for a PEO relationship. Some companies look to PEOs to streamline their technology solutions. However, the human capital management (HCM) space has continued to bring in more robust, integrated systems for small and midsize businesses. In the past, PEOs were typically the only solution for an all-in-one system.

Now, there are lots of companies that can provide comprehensive, tailored technology stacks that fits your business needs more closely than a PEO. They can also be tricky for employers with a higher workers' comp or employment practices liability. PEOs can deny companies with a higher risk, or if they've had bankruptcies or lawsuits in the employment practices category.

Align with leadership on strategy, goals, and constraints

Evaluate company goals

PEOs provide integrated HR solutions for businesses of all sizes, but many believe the sweet spot is between 20 and 200 employees. Companies tend to consider moving away from their PEO as they approach 100 employees.

PEOs typically specialize in gray and white collar industry businesses, because the

workers' comp risk isn't as high in those vertical markets. By outsourcing HR tasks like payroll, benefits administration, and compliance, PEOs enable companies to enhance operational efficiency and compliance accuracy. Understanding how PEOs operate is essential for leveraging their services effectively.

The advantages, broken out

PEOs offer significant advantages that contribute to operational excellence and employee satisfaction:

- ✓ **Risk Mitigation:** PEOs navigate complex employment laws and regulations, reducing compliance risks for businesses.
- ✓ **Operational Efficiency:** By handling administrative tasks, PEOs allow internal teams to focus on strategic initiatives and core business activities.
- ✓ **Access to Comprehensive Benefits:** Small to mid-sized companies can access competitive benefits packages typically reserved for larger organizations.
- ✓ **Scalability:** PEOs provide scalable solutions that adapt to business growth, ensuring continuity and support during expansion phases.
- ✓ **Multi-State Compliance Concerns:** If you have employees in multiple states, PEOs can help you stay compliant in states across the board.



Limitations of PEOs

Despite their advantages, PEOs can present challenges that businesses need to consider:

✗ Limited Customization

Standardized HR solutions may not fully align with unique organizational needs, especially as businesses evolve.

✗ Cost Considerations

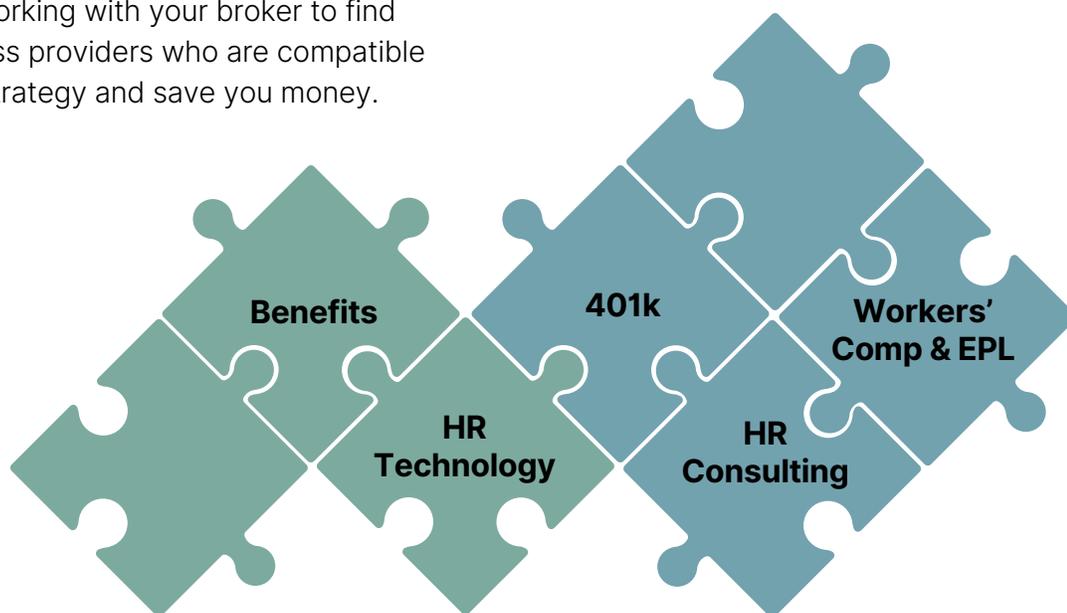
As companies grow, the cost-effectiveness of PEO services compared to in-house solutions can diminish.

✗ Control Over HR Functions

Businesses may experience reduced control over HR processes and benefits administration, impacting customization and employee engagement strategies.

Putting the PEO puzzle pieces together

Off a PEO, you're the master of your benefits strategy, working with your broker to find best-in-class providers who are compatible with your strategy and save you money.



Has your organization outgrown its PEO?

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Deciding whether your organization has outgrown its current PEO involves looking at several key aspects that impact both your business and employees. First, you'll want to see if your PEO is providing HR solutions that fit your company's unique needs — sometimes, you may need more personalized support than what your current setup offers. Next, there's the financial side of things: you'll need to weigh whether keeping your PEO makes sense financially, compared to building your own HR capabilities.

Once you surpass 100 employees, you have access to the same large employer benefit markets as your PEO that's tipping the scales in your favor for package quotes. A PEO's

admin costs tend to outweigh the initial benefit you may have once received in plan savings. The admin fees then compound with rising headcount and the benefit costs start to normalize, which is why most employers will start to explore transitioning off their PEO as they approach that 100 employee mark.

It's also crucial to ensure that your PEO aligns with your business goals for the long run — your HR strategy should support your growth goals. Lastly, gathering feedback from your team about their experience with benefits and HR support helps ensure that everyone's needs are being met. Taking a comprehensive look at these factors will help you make the right decisions for your company's future.

Key things to consider

- ✓ **Customization Needs:** Determine if your business requires more tailored HR solutions beyond what a PEO offers.
- ✓ **Financial Impact:** Evaluate the cost-effectiveness of continuing with PEO services versus developing internal HR capabilities.
- ✓ **Strategic Alignment:** Consider whether PEO services align with long-term business goals and growth strategies.
- ✓ **Employee Feedback:** Solicit employee input to gauge satisfaction with current benefits and HR support provided by a PEO.



Transitioning away from a PEO

Preparing for a seamless transition away from a PEO involves strategic planning and careful consideration of internal capabilities:

- **Needs Assessment:** Conduct a thorough assessment of current and future HR needs to determine the scope of services required.
- **Building Internal HR Capacity:** Develop or expand internal HR capabilities to effectively manage payroll, benefits administration, and compliance.
- **Technology Integration:** Invest in HR technology solutions that align with business requirements and support efficient HR management.
- **Communication and Change Management:** Communicate transition plans transparently to employees and stakeholders, ensuring clarity and support throughout the process.

Understanding benefits funding and financing

There are two common price structures for PEOs.

1. Percentage of Overall Payroll (POP):

- % of total gross payroll, bundled together with state and federal taxes and other costs (workers' compensation, liability insurance, health insurance, benefits, retirement plans, etc.)
- Fees are typically in the 1–3% range of total gross payroll

2. Per Employee Per Month (PEPM):

- This is a flat, more transparent monthly fee
- Fee in the range of \$75–250 PEPM

For employers who enter into PEO contracts when they are small and then grow rapidly, the PEO normally doesn't recalibrate the fee structure as headcount rises.

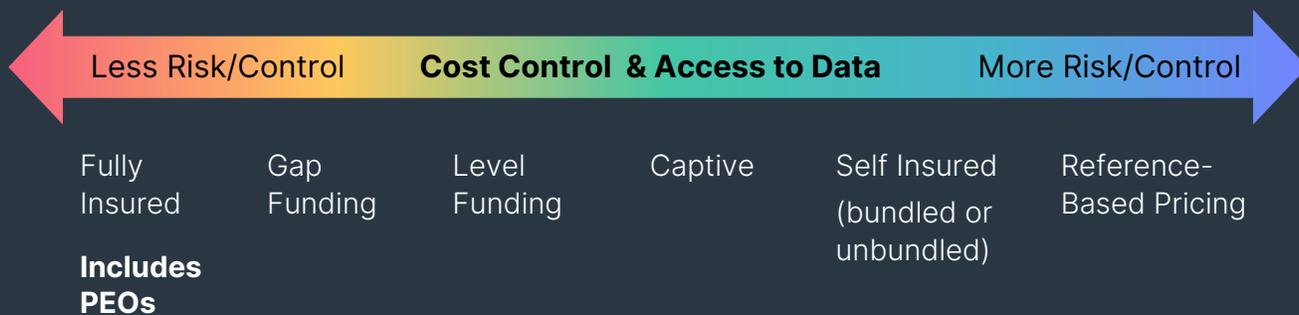
Typically, a PEO will charge higher PEPMs for smaller companies. As an example, if an organization goes from having 25 employees to 100 in a rapid period of time, there is a high likelihood they're overpaying for administrative costs that were agreed upon at the beginning of their contract.

Groups can often replace the technology portion of a PEO model for only \$20-35 PEPM. This includes payroll, benefits administration, or a human resources information system (HRIS). This replacement can result in thousands of dollars in savings as the group's headcount grows.

Groups are then free to reinvest their savings in the platform costs and customize their tech stack as opposed to paying the PEO for a one-size-fits-all solution.

Benefits funding strategies

The spectrum of options



Understanding how your organization funds employee benefits is crucial — it affects your budget and team satisfaction. Fully insured plans involve fixed premiums to insurance carriers, giving you predictability but possibly limiting flexibility and cost savings. On the other hand, self-insured plans mean you directly handle claim costs, which can save money and offer flexibility, but require strong risk management.

Level-funded plans offer a mix — they have fixed monthly payments and include claims funding, allowing for cost control and potential refunds. Stop-loss insurance is another key tool — it protects against unexpected high claim costs, ensuring financial stability for self-insured plans. Choosing the right funding strategy impacts both your bottom line and how well your benefits meet your team's needs.

- **Fully Insured Plans:** Fixed premium payments to insurance carriers provide predictable costs but may limit flexibility and cost savings opportunities.
- **Self-Insured Plans:** Direct assumption of claims costs offers potential cost savings and flexibility but requires robust risk management strategies.
- **Level-Funded Plans:** Hybrid models combine fixed monthly payments with claims funding, providing cost control and potential savings through refund opportunities.
- **Stop-Loss Insurance:** Risk mitigation tool that protects against unexpected high claims costs, enhancing financial stability in self-insured benefit plans.

Benefits of a full-service broker

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Choosing a full-service benefits broker over a PEO offers several advantages. With a full-service broker, you can expect a personalized benefits program tailored to your company's needs, along with customized communications that resonate with your employees.

This approach enhances engagement and satisfaction among your workforce. Additionally, having local onsite support during major events like open enrollment ensures a smoother process and more responsive service.

A full-service broker can provide a diversified range of benefits, including specialty options like telemedicine, wellness programs, and voluntary benefits, that cater to diverse employee needs. They also bring higher levels of expertise in benefits strategy consulting, helping you optimize your benefits offerings.

Furthermore, their proficiency in alternative funding and cost-saving strategies can potentially reduce expenses while maintaining comprehensive coverage. Lastly, they offer additional support in data analytics and underwriting, providing valuable insights to inform your benefits decisions effectively.



Nava Benefits Broker vs. PEOs

Navigating between Nava Benefit Brokers and PEOs involves understanding how each option can support your business’s HR and benefits needs. Nava Benefit Brokers offer a tailored approach to benefits consulting, focusing on enhancing employee satisfaction and managing risks. On the other hand, PEOs

provide comprehensive HR outsourcing solutions, ranging from payroll management to compliance. This comparison chart highlights the key differences in cost, services offered, customization options, and more, helping you choose the right partner to support your company’s growth and employee well-being.

| | Benefits Broker (such as Nava) | PEOs |
|----------------------------------|-----------------------------------------------------------|-----------------------------------------------------------------|
| Cost | ✓ Competitive pricing with transparent fee structures | ✗ Costs can vary widely based on services and company size |
| Includes Payroll and HRIS | ✗ Benefits brokerage and consulting | ✓ Full-suite HR outsourcing including payroll, HRIS, and more |
| Customization Options | ✓ More tailored solutions for benefits management | ✗ Limited customization options for HR and benefits services |
| Scalability | ✓ Supports scalability with flexible service offerings | ✓ Scalable solutions for businesses of varying sizes |
| Risk Mitigation | ✓ Expertise in managing compliance and legal risks | ✓ Provides risk mitigation through HR compliance management |
| Employee Satisfaction | ✓ Focuses on enhancing employee benefits satisfaction | ✓ Enhances employee satisfaction through comprehensive benefits |
| Integration Capabilities | ✓ Integrates with a wide range of HR and benefits systems | ✗ Integrates with select HR systems and benefit providers |
| Customer Support | ✓ Responsive support with dedicated account managers | ✓ Dedicated support teams for HR and benefits administration |
| Technology Solutions | ✓ Utilizes advanced technology for benefits management | ✗ Provides basic to advanced HR technology solutions |

Conclusion

Optimizing HR functions through PEOs can significantly benefit businesses, particularly during growth phases. However, recognizing when to transition away from a PEO and understanding alternative benefits funding strategies are crucial for long-term success.

By leveraging the insights and strategies outlined in this guide, businesses can navigate the complexities of HR management effectively, ensuring sustainable growth and employee satisfaction.



**Learn how Nava can help you find
the right benefit solution.**

Additional Resources



[The Broker Pre-Renewal email template](#)



[Guide to Renewal Strategy](#)



[Join the Nava Community](#)



[Employee Benefits Survey masterclass](#)



[FREE Benefits Survey template](#)





Benefits are hard. And you're busy.

Let us handle benefits, so you can focus on what you love to do.

Nava is a modern benefits brokerage that fuses innovative technology and deep industry expertise to make managing benefits easy for growing businesses. By delivering tailored renewal strategies, year-round back-office support, and always-on modern member support, Nava manages every step of the employee benefits lifecycle.

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