

PEO VS. ASO The Comparison

Human resources outsourcing and administration is not a new concept in the small- to medium-sized market. The Professional Employer Organization (PEO) concept was started back in the early 1980's. Under a PEO, the employees of the client company become employees of the PEO—this concept is also known as "co-employment" or "employee leasing"—and allows the PEO to treat the worksite employees as their own and to approach the market as a single employer for employee taxes, employment administration and workers' compensation purposes.



Under the PEO concept, unemployment technically becomes the responsibility of the PEO, managing unemployment claims, reviewing terminations, attending hearings. In some states, the PEO cannot attach its UE rate to the client company; the client company must retain their own rate and PEO must report under the client's account number for the "co-employed" employees that work for the client.



The **ASO** concept was brought about by the need for employers to obtain HR and Unemployment assistance, and access changing regulations at a reasonable cost – small to medium sized companies normally do not have an HR department or HR personnel and most don't have access to the ever changing employment regulations that an ASO or PEO does. Usually those tasks fall to Payroll or Supervisors. ASO is a similar concept that doesn't require the "co-employment" relationship of a PEO—this concept is called Administrative Services Outsourcing (ASO). ASOs and PEOs have an increasing presence on the internet with the advances being made every nano second. Each offers the buyer a unique product package.

- ✓ **First** and foremost, the "co-employment" relationship is not a part of the ASO model, meaning that the client retains 100% of the employment relationship with their employees. It is an essential ingredient of the PEO model.
- ✓ **Second**, an ASO can offer either a "bundled" or "unbundled" list of products and services; a PEO cannot since they are the "employer of record" and must fulfill the duties and fiduciary responsibilities as an employer. (This does not hold true with medical benefits, since most PEO's no longer can provide the master policy plans of the 80's. However, most can negotiate and obtain plans for their clients under their clients' names and FEINs.
- ✓ **Third**, While PEO's in the past have existed in a "gray" area of legislative limbo, recent laws and changes within the IRS have come to recognize and "validate" the PEO Industry.
- ✓ **Fourth**, workers' compensation coverage as a PEO is usually under the master policy of the PEO. A few only offer state and quotes workers' compensation thru their brokerage firms—and some PEO's may self-insure their book of business. There is an enormous investment required to fund the deposits and cash collateral/security associated with high deductible programs and PEOs must reserve adequate DOLLARS for those programs. Some states now require individual policies in the Client's name. An ASO can refer you to their network of brokers who fits the policy to your needs alone.
- ✓ **Fifth**, A select number of the PEOs currently doing business have obtained certification from Employer Services Assurance Corporation (much like FDIC for banks) or Workers' Compensation Risk Management Certification (best practices certification for PEO's)— we represent some of these PEOs.
- ✓ **Sixth**, the options available for both have narrowed. If you have a business that has a high deductible, high risk profile, a PEO may be the best option since they may be able to provide just the right package you need. There still exist many PEO options with extraordinary services and benefits. Sometimes it is the need to reduce your cost in other areas such as HR and Unemployment management that make the decision for a PEO or ASO a wise decision. There are many reputable firms in both the PEO and ASO models. And we represent the best of the best.



Let us help you make the right decision for your employment management needs.