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Concerns with Workers' Compensation Provided by Preferred Employer Organizations (PEO's)

A Preferred Employer Organization (PEO) is a firm that provides numerous human resource services in which an employer can outsource employee management tasks.

It's important to know that typically the PEO will quote one rate as a percentage of total payroll for employee management tasks such as payroll services, employee benefits, workers' compensation, and general training. The PEO is proposing to "hire" a client company's employees and thus become a "co-employer".

PEO's can provide valuable services to some clients. However, often they do not make it known that, as a "co-employer", you (the client) do have the right to continue to purchase your workers' compensation coverage separate from the bundled services they are proposing.

Be aware that PEO's claim their workers' compensation costs are less. This is rarely true. It is difficult to determine the specific rates of WC costs in their plan because they are rolled into one general rate. In the vast majority of cases, once the WC rates are separated from the PEO's bundled rate, the standard WC policies' rates are substantially lower. In a recent example this last month, once the detailed WC rate comparison was disclosed, the client's current individual WC policy afforded a premium that was 50% less than the PEO's proposed WC rates.

In conclusion, if you are considering the services of a PEO, please ask for a detail of the workers' compensation rates from the PEO as a part of their proposal. Once you receive this detail, share it with your property and casualty agent for a comparison. At that point, you will be equipped to make a proper decision for your company.

Please contact your Hibbs-Hallmark representative for more information on PEO's.

Sincerely,

Mark Blackburn, CIC, AU, ARM, CPCU
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