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Trendspotting: Smaller Nonprofits and Foundations Working with PEOs

By: Henry Berman and Tim Delaney

Compliance, competition, capacity: the three main challenges facing smaller nonprofits and foundations when it comes to human resources.

- **Compliance** with ever-changing statutes and regulations at the federal, state, and local levels.
- **Competition** for talent, which requires offering attractive, affordable benefits to recruit and retain employees.
- **Capacity** to stay on top of the changing laws and all aspects of the relationships with vendors of numerous benefits (e.g., selecting, negotiating with, and maintaining relationships).



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Dropping the ball on any aspect of HR could mean (i) diverting even more time and funds from mission to fix errors and pay any fines for noncompliance, (ii) paying more than needed on employee benefits or selecting the wrong options, and (iii) distracting the organization's leaders from other pressing matters. And on top of all that, add the costs of damaging employee morale if benefits are weak or poorly administered.

Given the multi-faceted and time-consuming responsibilities of HR, an increasing number of nonprofits and foundations have been turning to a solution called a Professional Employer Organization. The PEO model allows employers to outsource HR risks, lower HR-related costs, benefit employees, and free staff time.

We both have positive experiences working with a PEO; Exponent Philanthropy offers [TriNet as a benefit](#) to its members, and the National Council of Nonprofits works with [JustWorks](#) for its HR needs. (These are not the only options; other PEOs commonly used by nonprofits and foundations include [ADP TotalSource](#), [Namely](#), and [Zenefits](#), among others.)

While the use of PEOs by 501(c)(3) organizations is gaining in popularity, it isn't new. Back in 2009, the *Charity Lawyer Blog* identified working with a PEO as one of its [Top 10 Smart Moves Great Nonprofit CEOs Make](#). The popularity of PEOs has increased in recent years as more organizations discover the benefits of using this outside assistance.



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PEOs use a “co-employment” model, where the employees of your nonprofit technically become employees of both your nonprofit and the PEO. You still maintain all control over hiring, firing, setting salaries, and other direct contact with employees. The PEO handles the more indirect, administrative tasks, such as processing payroll, managing employee benefits, and taking care of official filings and compliance. Plus, the PEO, with much higher aggregate numbers of employees, has greater buying power to offer a wider variety of options and negotiate significant discounts on everything from healthcare insurance to gym memberships. Your employees may gain access to more and enhanced benefits than your organization alone could provide, allowing your nonprofit or foundation to remain competitive for top talent.

Of course, working with a PEO is not right for every organization. Going this route means that your organization must utilize the benefits that the PEO chooses to provide. If the PEO decides later to switch insurance carriers or retirement plan providers, you have no choice but to follow along as part of its employee pool. It also means discontinuing all benefit plans your organization has had, so if you decide later that a PEO just isn't for your organization, you will need to go out again to find, select, and establish relationships with benefit providers, which takes some effort.

The reasons for working with a PEO can be different for each organization. At the National Council of Nonprofits, we didn't even consider it until complexities of compliance became a bigger challenge. With staff members living in several states, compliance with different state and local laws became more complicated. We reviewed various options and decided to go the PEO route. The switch has worked well for us because, among other things:

- Our staff has been very happy – instead of having to hunt down benefits-related information strewn across several websites of each of the different benefit providers we had, the PEO consolidates everything. Through one portal, each staff member can easily gain access to everything, from external benefits (and contacts there) to internal records (such as vacation time). Also, the PEO we selected offers a full suite of benefits, many with special perks not available to smaller employers.
- We've enjoyed significant time savings – and therefore cost savings – by freeing the staff member who used to respond to all the internal questions about the

multiple different benefits; serve as the intermediary/ombudsperson between our staff and the various providers; stay on top of changes in laws and markets for each benefit; issue RFPs, select and negotiate with new vendors, and provide oversight to make sure everything was proper; and more.

- We've also enjoyed considerable cost savings – by individual employees and the organization as a whole—not only by freeing staff time that had been siphoned off for HR to external mission work, but also the PEO's larger size enables it to negotiate better rates.

We sleep better, knowing that someone else with greater daily exposure, experiences, and expertise with all the HR laws in six different states is responsible for any and all compliance issues and questions that might arise.

Having access to multiple health plans at competitive rates is often difficult for small staffed organizations. So, for Exponent Philanthropy, a membership association of funders who operate with minimal staffing structures, offering our membersthe opportunity to work with TriNet fills a void. As one member shared, "...the choice and extras such as medical plans, were better than before and at the same cost; dental and vision comparable if not better, and employees have access to a whole menu of other products like Short and Long Term Disability, Life Insurance, and Critical Illness that they can easily elect during enrollment and pay for themselves out of their paycheck, including an FSA plan with a debit card feature."

At Exponent Philanthropy, one of our goals is to help our members be able to spend more time working with and learning about nonprofits and how as funders, they can support nonprofits in addressing needs and improving society. Using a PEO can remove the burden of administration, allowing nonprofit employers to remain compliant with the law and attract the best talent possible.

If the Three Cs are creating a big headache for your nonprofit or foundation, perhaps a PEO can be your next smart move as CEO.