

NAPEO BOARD OF DIRECTORS MEETING
Wednesday, May 23, 2007
Ritz-Carlton Hotel, Pentagon City (Arlington), VA

SUBJECT: Definition of a PEO

TAB #:

ENCLOSURES:

CATEGORY:

REASON FOR BOARD
CONSIDERATION: Approval

BACKGROUND: During 2005 and 2006 there were several efforts to clarify the definition of a PEO and PEO services. This was a topic of discussion at the 2005 "Think Tank" sessions in Chicago and the subject of discussions during 2006. At the November 2006 Board meeting, a task force was created. Monette Galello was designated as task force chair and the volunteers for the task force included: Kathleen Hillegas, Martin Babinec, Midge Seltzer, Brian Fayak, Art Geiger, Kent Ahlswede, and Bill Pendleton.

STATUS: The task force has met by teleconference for times, each time focusing and refining a proposed definition.

RECOMMENDATION: The Task Force has proposed the following definition of PEO services:

"Professional Employer Services"¹ is defined as an arrangement between a Professional Employer Organization (PEO) and a Client whereby the business becomes the client of the PEO and a majority of the employees of a Client worksite become co-employees of the PEO and the Client. The PEO assumes employer responsibility and liability for the payment of wages and for payment of taxes related to wages². The PEO shares or assumes such other employer responsibilities as may be determined in the written contract defining the arrangement. Professional employer services are intended to be of a continuing nature rather than temporary or seasonal.

"Professional employer services" does not include services that provide temporary employees or independent contractors, personnel placement services, consulting services, payroll or administrative services without w-2 employer responsibility, facility outsourcing, the sharing of employees by commonly owned companies within the meaning of section 414(b) and (c) of the Internal Revenue Code of 1986, as amended, or similar groups that do not meet the requirements of "professional employer services".

Notes:

¹ The statement: "A Professional Employer Organization (PEO) provides integrated business services to help their clients more effectively manage critical Human Resource responsibilities and employer risks." may be used in explanatory materials as a form of introduction to the concept of PEO. However, the Task Force decided not to include it in the definition itself.

²Wages is further narrowed and defined in the NAPEO Model PEO Act. However, it was believed that this narrowing should not be included in the definition.

Be It Hereby Resolved, NAPEO's Board approve the definition of PEO services as proposed by the task force.