

Considerations with PEO's

Professional Employer Organizations (PEOs) can offer several advantages and disadvantages for businesses. A PEO can be a great option for start-up and smaller employers in which they outsource HR or employee management-related tasks like payroll, health benefits, workers compensation, training, compliance, and other areas. And in some instances, small businesses may be able to leverage the scale of the PEO to obtain more competitive pricing on benefits.

However, as a company changes, a PEO may not be the best fit – they can get expensive and will most likely lack flexibility to accommodate the range of employee benefits an organization wants to offer – especially if it is in a competitive field and are regularly trying to attract and retain top-notch talent.

Here are some pros and cons of using a PEO:

Pros of PEO:

HR Expertise: PEOs specialize in providing comprehensive HR services. They have experienced professionals who can handle tasks such as payroll processing, benefits administration, employee onboarding, and compliance with employment laws. This allows businesses to focus on their core operations while relying on the PEO for HR support.

Cost Savings: PEOs can help businesses save money by consolidating various HR functions. By pooling together multiple clients, PEOs can negotiate better rates for employee benefits, insurance, and workers' compensation coverage. Small and medium-sized businesses, in particular, can benefit from accessing these cost-effective services.

Compliance Assistance: Employment laws and regulations can be complex and ever-changing. PEOs stay up to date with the latest legal requirements and help ensure compliance. They can provide guidance on issues such as employment contracts, anti-discrimination laws, wage and hour regulations, and employee terminations.

Access to Benefits: PEOs often offer a broader range of employee benefits, including health insurance, retirement plans, and flexible spending accounts. By joining a PEO, businesses can provide their employees with competitive benefits packages that may not have been feasible otherwise.

Administrative Relief: Managing HR functions can be time-consuming and burdensome, especially for small businesses with limited resources. PEOs can handle administrative tasks like payroll processing, tax filings, and employee recordkeeping, allowing employees to focus on core business operations.

Cons of PEO:

Loss of Control: When partnering with a PEO, businesses share employment responsibilities. This results in a loss of control over certain HR functions. Decision-making authority may be shared with the PEO, limiting the business's flexibility in areas such as hiring, employee policies, and benefits offerings.

Integration Challenges: Integrating a PEO's systems and processes with existing business operations can sometimes be challenging. There may be a learning curve and a need for coordination to ensure a smooth transition and seamless collaboration between the PEO and the business.

Limited Customization: PEOs typically offer standardized HR services to multiple clients. This means that customization options may be limited. If a business requires highly specialized HR support tailored to its unique needs, a PEO may not be the best fit.

Potential Communication Issues: As the PEO handles certain HR functions, there is a need for clear and effective communication between the PEO, the business, and its employees. Miscommunication or delays in communication can lead to confusion and frustration.

Long-Term Costs: While PEOs can provide cost savings in some areas, there are costs associated with their services. PEO fees can vary based on factors such as the number of employees and services required. For some businesses, the long-term costs of using a PEO may outweigh the benefits.

It's important for businesses to carefully evaluate their specific needs, and consider the pros and cons before deciding whether to engage with or separate from a PEO.

Leaving a PEO is a natural part of the business cycle and separating from a PEO requires engagement and a commitment to the process. If you're considering coming out of a PEO model, here are a few crucial factors to consider as part of your transition away from your PEO:

- *Do you need creativity and flexibility within your plan design? A PEO's canned benefit solutions don't allow for creativity within plan design.*

A PEO model can frustrate growing companies who feel constrained to certain insurance carriers or want to provide options and flexibility within their benefits plan. After a PEO exit, you have full access to the marketplace and can develop a benefits program based on cost and culture criteria most important to your organization.

- *Exiting from a PEO is about benefits, payroll, technology, online enrollment, and compliance. Be clear about all that you would be unbundling, and then make sure your advisor has a cohesive plan in place where the functions being replaced by a PEO are working in concert. That requires an advisor who can offer those services.*

Bottom line, it may seem daunting to leave a PEO. However, with proper guidance from a qualified consultant, the transition isn't that difficult – and you can upgrade the quality of the benefits you're offering to employees.

And the result is worth it: more flexibility, more autonomy, more choices for your employees.

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