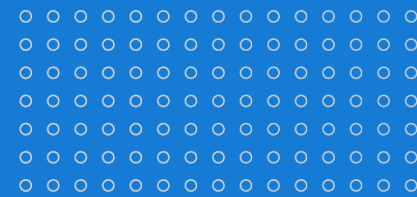


Demystifying the PEO



How PEOs Make Money

PEO REVENUE OPPORTUNITIES

- Workers' compensation fees
- State Unemployment Tax (SUTA) fees
- Section 125 pre-tax employer savings
- HR Product markups
- Federal and state tax incentives (such as targeted jobs tax credit act)
- Employee benefits commissions
- Percentage of payroll administration fees (as opposed to per-employee flat fees)

Employment Practices Liability Insurance

PEO LIMITATIONS AND REQUIREMENTS

- Confer with PEO before taking action (i.e. employee termination)
- Use & Distribution of the PEO Employee Handbook may be required for coverage
- No third-party coverage
- No (or defense cost only) FLSA coverage
- PEO will seek dismissal of suit against it leaving client with the suit
- Coordination of employer EPLI and PEO EPLI will likely result in two deductibles
- No "tail" coverage

Liability and Risk Shifting

CLIENT REMAINS LIABLE FOR:

- Workers' compensation classification
- FLSA classification (exempt/non-exempt)
- Proper wage payments (minimum wage/overtime)
- ACA classification (FT/PT/SEAS/VH)
- All OSHA compliance
- Form I-9 completion and accuracy
- Employment litigation and EEOC Charges
- ACA penalties and enforcement
- All deductibles, penalties, fines and interest
- Risk-pooling (workers' compensation, employee benefits, unemployment)

Taxes and PEO Timing

CONSIDERATIONS FOR ENTERING AND LEAVING A PEO

- Mid-year tax restart
 - Federal Unemployment Taxes (FUTA)
 - State Unemployment Taxes (SUTA)
 - Social Security (FICA)
- Multiple W-2s, 1095-C, and 1094-C for mid-year departure
- Mid-year departure should be at the start of quarter to avoid significant tax-filing complications

PEO Contracts and Service Agreements

TIPS AND POINTERS

- Look for auto-renewal provisions
- Contract exit periods are generally limited to 30-90 days prior to the end of the contract term – this generally does not line up with tax year, tax quarter and/or employee benefits renewal
- Be sure to follow all "notice" requirements for official PEO communications
- Identify any additional fees (termination fees, manual payrolls, additional payrolls, late payroll submissions, implementation/setup, additional entities etc.)
- Insurance requirements such as general liability, property and auto

Not All PEOs are the Same

This document is intended to address some of the common intricacies of a PEO. PEOs may vary significantly. Clients should speak directly with their PEO to identify its specific business practices and service models.

