



**Subject: “PEO” Considerations**

**If you lease your employees from a Professional Employer Organization (PEO), or are considering a PEO, you should review the following factors generally involved with a PEO relationship:**

**LABOR LAW EXEMPTIONS**

Various federal and state labor laws EXEMPT smaller employers based on the number of employees. As examples, the Americans with Disabilities Act applies to employers with at least 15 employees, and COBRA health insurance rules apply to employers with 20 or more employees. The Family Medical Leave Act exempts employers with less than 50 employees from FMLA coverage.

**When an employer joins a PEO, their employees are included in the PEO’s employee group size, and thus most small labor law exemptions are forfeited while a member of the PEO.**

**PEO SERVICE COSTS**

It is often difficult to assess the actual cost of leasing employees from a PEO. Most industry experts indicate that the cost of PEO services is \$800 - \$1,200 per year per employee (although the PEO’s pricing is generally presented as a percentage of gross payroll).

**So if you are a 20 employee firm, make sure you know precisely what you are getting for \$20,000 per year in PEO costs.**

**BENEFITS FLEXIBILITY**

Once you join a PEO, your employee benefit options are generally limited to those offered by the PEO to their employee group. As an employer outside of a PEO, you have freedom to design employee benefits tailored to your specific objectives.

**INSURANCE COSTS**

**A very common misconception is that you always save group health and workers compensation premium costs by joining a PEO.** You often can obtain the same or lesser rates for insurance by shopping benefits and coverages with insurance agents who specialize in group

health design and workers compensation risk control techniques (in particular if you have a “healthy” group).

**Before you join a PEO to save money on health insurance, ask insurance experts to help you design programs tailored to your employee group. You are then in a better position to compare “apples-to-apples”.**

### **OTHER CONSIDERATIONS**

**Once you join a “PEO”, the business owners and all employees become employed by the PEO. Consider these factors before you join a PEO:**

- Compare your current Indiana unemployment tax rate with the PEO’s rate. If you have earned a low “SUTA” tax rate, you may pay more SUTA taxes based on the PEO’s SUTA tax rate;
- Members (owners) of a “limited liability company” (LLC) are not required to pay workers compensation insurance premiums on LLC members’ compensation. If an LLC member is hired by a PEO, you will then pay workers compensation costs for yourself (since you are employed by the PEO); and
- Determine if the PEO’s qualified retirement plan is the best plan type for your business. Retirement plan design and selection is most effective when you consultatively select the plan which is the best match for your company’s retirement plan objective -- which is not always the plan offered by the PEO.

### **IN CONCLUSION**

**Before joining a PEO, make sure you fully understand the benefits and the costs.** Discuss your payroll, benefit and HR objectives with a resourceful broker, a reputable payroll processing company, and an experienced human resource consultant or firm. With the right team in place, you generally can better manage your own employees, minimize your liabilities, and have time and money left over for running your business.

**Call any of AccuPay’s CPPs or CPAs at 885-7600 for more information about PEOs, payroll, benefits, or general HR matters. We “team up” with several experts in the insurance, 401k plan and HR industry. You can find many of our “team of local experts” listed at [www.hoosierhr.com](http://www.hoosierhr.com).**

PayDay is an email communication of payroll news, legal updates and tax considerations intended to inform clients and colleagues of AccuPay about current payroll issues and planning techniques. You should consult with your CPA or tax advisor before implementing any ideas, comments or planning techniques.