



PEO Exit Strategy Considerations

Once a business is in a PEO, there are human resources and insurance operations consequences to leaving it. If you prepare early, engage a competent team of professionals, and create a solid implementation plan, moving away from a PEO can be smooth, successful, and give you greater control over financial and employee decisions for your company.

Before providing written notice of cancellation to the PEO, consider the following as you build your exit strategy:



Taxes

If you terminate a PEO relationship mid-year, the PEO will have to complete final taxes up to the date and provide W2's for employees through the period. Your employees will be considered new hires when you exit the PEO and begin the employment relationship with your company. Be sure to file or reactivate Federal, State, and local Tax ID number(s) as well as SUTA/FUTA accounts as you will be responsible for employee's W2's the rest of that year. As a result,

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your employees may have two W2's from two employers, depending on exit date. Consider making the transition at the end of a calendar quarter so you can set up payroll tax accounts and transition payroll taxes at the most optimal time.



Workers' compensation

There can be no lapse in coverage of workers' compensation programs for employees. It's important to check for claims filed by employees and be aware of any pending hearings. Some workers' compensation carriers may consider your business a new start-up company which might make an impact on your risk rating and the ability to obtain coverage. You will need to work closely with your insurance advisor on the details to obtain timely coverage.



Payroll processing/personnel files/I-9 forms

You will need to select a new payroll provider and/or processor and time the transition so the new processor can provide uninterrupted service. You will also need to request your employee data, hours worked for ACA, and Unemployment and Family Medical Leave compliance prior to exiting the PEO. As you establish your payroll, you will be asked to identify employees who are "overtime eligible" and ensure compliance with various laws and regulations for exempt and non-exempt employees. Re-establishing personnel files, confidentiality agreements, employment letter offers and new hire forms including I-9's may be necessary. It's important to pay close attention to any independent contractor relationships as some may be misclassified.

Establishing a new payroll service will require lead time to set up and should be coordinated with your employee benefits and workers' compensation advisors to avoid coverage lapses or payroll deduction problems. If you need help selecting a new provider, MMA's HR Technology services offers services to help select a provider that meets the needs of your business.



401(k)

Employees may be required to arrange transfer of their PEO retirement plan/401(k) into an individual IRA. Create instructions for your employees so they understand the process and have clear steps to transition to their new account. Keep in the mind, timing deferrals with the transfer to payroll processor will be critical to achieving a smooth transition.



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Employee handbook/policy manual

Plan to issue or reissue an employee handbook and distribute to all employees. Review current PEO programs and determine which ones will need to continue in the short term. You may need to coordinate some of those policies, such as leave of absences, to stay compliant with various laws. To help explain the new policies to employees post exit, you will want to develop a communications plan and host employee meetings to help review the new policies and answer questions.



Employee benefits

You will want to begin the transition process early so you can choose the best employee benefits package for your company. Keep in mind the following:

- If you have a waiting period for new hires to “go live” on your employee benefits program, you may need to negotiate with the carrier to waive it or pick up COBRA (Consolidated Omnibus Budget Reconciliation Act) from the PEO during that period.
- If the PEO plan is fully or partially self-insured, you may have issues with continuing to have claims paid that were incurred prior to termination and be required to continue to pay administration fees until all claims are cleared.
- If the PEO plan was fully insured and had a deductible, your employees may have to verify claims to receive deductible credit.
- You may need to obtain HIPAA (Health Insurance Portability and Accountability) credible coverage certificates from the prior carrier as well.



COBRA

In most cases, the PEO will be responsible for maintaining benefits for employees through COBRA for qualified participants prior to your program’s termination. This should be carefully planned and communicated with COBRA eligible employees.



Leave of absence or disability

Carefully review the PEO’s policies and/or contract regarding “leave of absences” before terminating. You will want to ensure you know how vacation, sick leave, disability, Family and Medical Leave Act (FMLA) of 1993 and other types of leave policies might impact your existing policy. For example, you may be responsible for anyone on disability leave at the time of your PEO termination, you may have agreed (in your



PEO contract) to job restoration, or other leave guarantees or rights. If your company has less than 50 employees and is not subject to full FMLA leave or other requirements, the PEO may be required to retain that responsibility for anyone on FMLA at the time of your termination. Once you have established your own policies, it is crucial to detail them in the employee handbook.



Establish internal HR infrastructure

Build or enhance your internal HR infrastructure to handle the responsibilities previously managed by the PEO. This may involve hiring additional HR staff, implementing new HR software systems, or outsourcing specific HR functions.



Seek professional advice

Consider consulting with legal, tax, insurance, and HR professionals to ensure a smooth and compliant transition. They can provide guidance specific to your situation and help navigate any complex issues that may arise.

Learn more

Amy N. Letke, SPHR, GPHR,
SHRM – SCP

National Practice Leader,
Marsh McLennan Agency
HR Consulting

Amy.Letke@MarshMMA.com

MarshMMAMidwest.com

Reach out to your MMA advisor for more information on your insurance options and/or your MMA HR Consulting team for information on managing payroll, handling benefits, creating your new employee handbook and supplementing your HR department. our advisors, from insurance, risk management, and HR consulting teams, will provide you help and advice to ensure a smooth transition leaving your PEO.

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