

# PEO Exit – Considerations for a Managed Transition

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# Agenda

- Intro to the experts
- Client decision points
- Moving to an internal HR model
- Benefits program design & best practices
- P&C insurance, Workers' Comp and employment practices liability
- 401(k) transition and fiduciary considerations
- Making the transition happen
- Q&A

# Speakers



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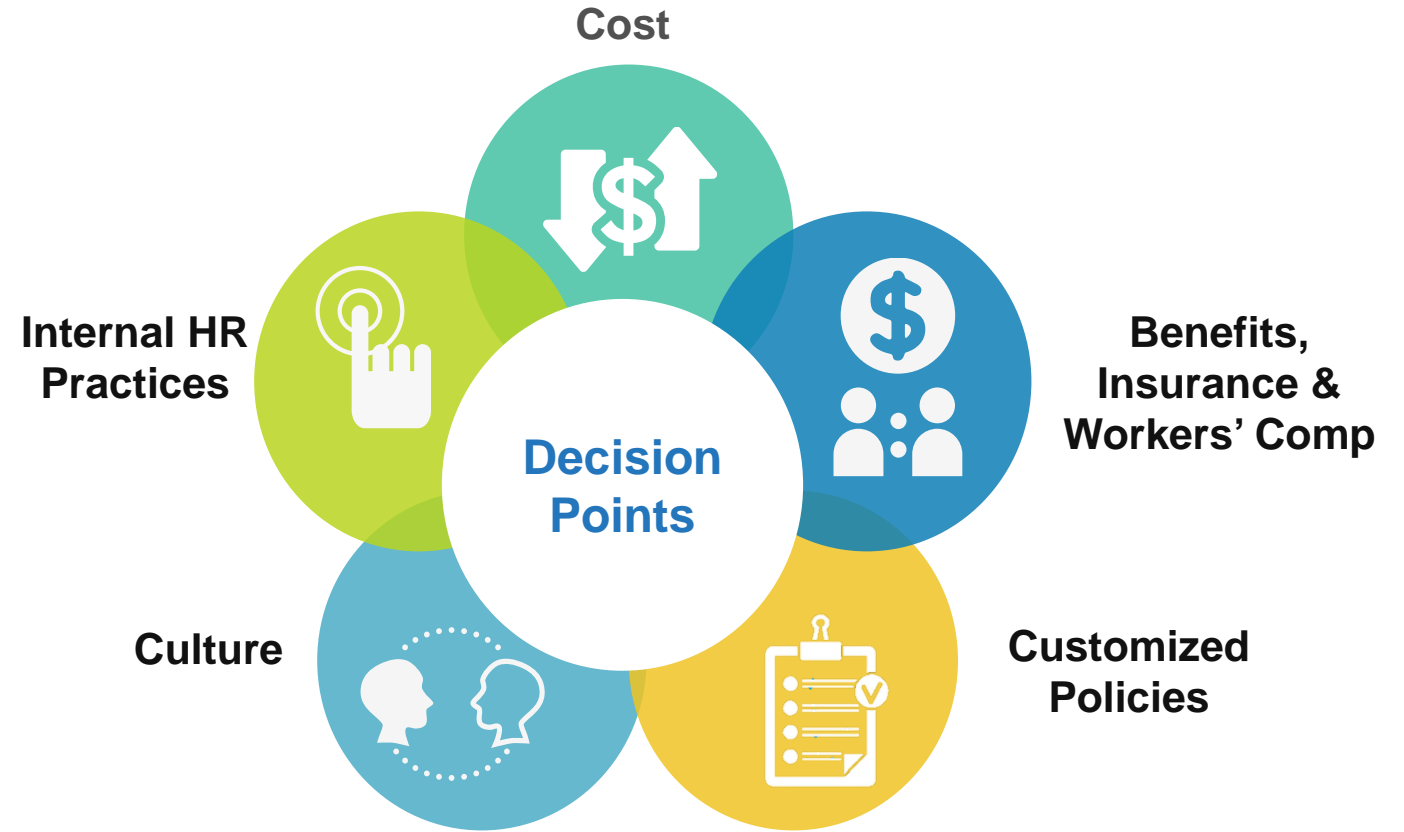
# Internal HR Transition

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# Internal HR Model Considerations

PEO's can be a great option for companies when they first launch; however, as companies grow, the costs may outweigh the benefits.



# Internal HR Model Considerations

- Ensure dedicated resources to HR and payroll
- Define your own unique HR Policies & Practices
- Ensure compliance with state and federal regulations
- Create an employee handbook
- Establish an onboarding program for new hires that WOW
- Develop strategic programs/initiatives that set your organization apart
- Increase engagement by aligning employees to growth initiatives

Your Human Resources Management System (HRMS) should support many of the defined practices above.

# Identify Your Partners

- HR Outsourcing or Consulting company
- Select a Human Resource Management System (HRMS) vendor
- Select a payroll company
- Select an employee benefit and property, and casualty broker
- Select a 401k provider
- Identify and select a COBRA administrator
- Other ancillary program vendors

# HRMS Implementation Project

Select and Implement a Human Resource Management System (HRMS) that meets the organization's growth needs.

- Payroll Conversion
- Benefit Administration
- Policies & Procedures
- Additional Conversions (Workers Comp, COBRA, 401K, FSA/DCAP/Commuter)
- Administration & Employee Self-Service
- Employee Communication, Training and Support
- HRIS Platform & Systems Audit
- New System Go Live



# Your Own Unique Culture

- Clear and inspiring mission, vision, and core values
- Policies and programs unique to your organization
- Hire employees that “fit”
- Increased employee engagement, collaboration and retention
- Aligned performance and accountability



# Benefits Transition



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# Key Benefits Related Areas

Identifying Systems	Payroll, HRIS, Benefits Administration
System Implementation	Admin & EE Training, implementation oversight, elevated
HR Support	HR Support through the transition (BPM)
<b>Benefits Program Design</b>	<b>Health benefits, commercial insurance, 401(k), COBRA, FSA, Commuter, perks and wellness programs, etc.</b>
<b>Financial Analysis</b>	<b>Comprehensive review of current costs versus programs listed above</b>
<b>Communication Strategy</b>	<b>Onsite &amp; Web-based meetings, education sessions, benefit guides, benefits mobile app resources</b>

# PEO Transition- Benefits Focus Areas

## Program Design & Negotiation

Ensuring maximum value and plan mapping from PEO Benefits

## Administration Support

Streamlining the transition from an All-in-One Model



## Employee Communications

Strategy to communicate the “why” and the “wins” for employees

## Program Compliance

Setting up a scalable process to ensure plan compliance with federal, local, and state regs

# Benefits Transition Considerations

- Planning, Analysis and Implementation: 4-6 months
  - Setting your Strategy & Objectives
  - Cost Analysis & Program Selection
  - Communications & Open Enrollment
  - Enrollment Processing
- Timing Considerations
  - PEO Renewal Date Considerations: Calendar Year vs. Plan Year
  - Deductible Resets or Negotiated Credits
  - Payroll Tax Considerations (mid year vs. calendar year)

# Benefits Transition Considerations (continued)

- Program Options
  - Certain incumbent PEO insurance carriers may not quote exiting groups
  - Self-Competing Quotes
  - Non-PEO carriers sometimes will be most aggressive
- Administrative Considerations
  - Benefits Enrollment: Implementation Time: HCM or Ben Admin Point Solution
  - COBRA Administration
  - Billing-Potential Reconciled Billing
  - Compliance

# Designing a Scalable Program



## Plan Design

### ***Creating the appropriate offering***

- Explore Major carrier offerings- Nationwide coverage
- Evaluate current enrollments
- Contribution Strategy
- Employee Programs
  - Discount Programs
  - Telemedicine
  - Point Solutions (Ex. Primary Care, Mental Health, Family Programs)



## Data Analytics

### ***Grounding our decision making***

- Claims data is usually unavailable in the PEO model
- Evaluate employee demographics & enrollment patterns to help construct meaningful choice
  - Plan Design
  - Wellbeing Programs
  - Regional carriers



## Funding Strategy

### ***Matching program goals***

- Fully-Insured
- Partially Self-Funded (Level-Funding)
- Self-Funded



## Negotiations

### ***Creating leverage is critical to success***

- Starting early
- Explore full market of major carriers- create carrier competition for optimal results
- Negotiating both rates & carrier budgets

# Risk Management Transition

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# Risk Management

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## PEO Transition to Open Market

Moving away from a PEO is an exciting growth step for companies. Understanding which insuring and risk mitigation responsibilities shift back to your organization is critical for protection of your people and balance sheet.

## **BUSINESS INSURANCE TRANSITION CONSIDERATIONS**

- ✓ Workers' Compensation
- ✓ Employers' Liability
- ✓ Foreign Voluntary Workers' Compensation
- ✓ Employment Practices Liability – Tail & New
- ✓ Fiduciary Liability
- ✓ Crime/Fidelity Bond
- ✓ ERISA Bond

## **BROKER/ADVISOR CONSIDERATIONS**

- ✓ Access to insurance programs designed for companies in your industry
- ✓ Highly experienced risk consulting resources
- ✓ Global network of insurance carriers
- ✓ Experienced claims managers
- ✓ Risk mitigation and loss control services
- ✓ State-of-the-art technology resources

# Steps for Obtaining Quotes

- Provide current Worker' Compensation Report (see sample report), PEO can provide report to include:
  - Payroll by class code & state
  - Headcount by U.S. location
  - List of all U.S. locations
  - 3 years of workers' compensation loss runs
- Complete Management Liability application
  - Employment Practices Liability
  - Fiduciary Liability
  - Crime/Fidelity Bond
- Add Foreign Voluntary Workers' Compensation onto existing Commercial Package

# Sample Workers' Comp Class Code Report

Company Name	Employee Name	Title	State of Employee	Workers' Compensation Class Code	Description of Operations	Start Date	Pay Status	Annual Salary w/Bonus & Commissions
ABC, Inc	Alex Alex	Sr. Business Analyst (Growth)	CA	8859	COMPUTER PROGRAMMING OF SOFTWA	10/2/2017	A	157,000
ABC, Inc	Bette Bette	Sr. Community Associate	CA	8859	COMPUTER PROGRAMMING OF SOFTWA	4/3/2017	A	92,000
ABC, Inc	Carl Carl	Director, Community	CA	8859	COMPUTER PROGRAMMING OF SOFTWA	8/27/2012	A	197,000
ABC, Inc	Duke Duke	Sr. Analyst	CA	8859	COMPUTER PROGRAMMING OF SOFTWA	11/1/2017	A	89,000
ABC, Inc	Eddie Eddie	Software Engineer, Growth	CA	8859	COMPUTER PROGRAMMING OF SOFTWA	3/5/2018	A	185,000
ABC, Inc	Frank Frank	VP of Corporate Development	CA	8859	COMPUTER PROGRAMMING OF SOFTWA	9/19/2016	A	211,000
ABC, Inc	George George	Sr. Business Analyst (Growth)	OR	8810	COMPUTER PROGRAMMING OF SOFTWA	10/2/2017	A	157,000
ABC, Inc	Liam Liam	VP of Corporate Development	OR	8810	COMPUTER PROGRAMMING OF SOFTWA	9/19/2016	A	211,000
ABC, Inc	Mac Mac	VP Business Development	OR	8749	COMPUTER PROGRAMMING OF SOFTWA	10/2/2017	A	225,000

# Timing for Obtaining Quotes

- Begin the underwriting process at least 90 days prior to PEO extraction date
- Property & Casualty quotes generally expire 45 days from issuance
- Plan to bind policies within 10 business days of PEO extraction to provide time to issue certificates of insurance
- Renewal/expiration date can be aligned at the time of binding to align with other corporate property and casualty renewals

# 401(k) Transition

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# PEO/MEP Transition Considerations

- Transition period is 60 to 90 days depending on new 401(k) Provider
  - Assets may be mapped or defaulted to an asset allocation strategy (typically Target Date Funds)
- Compliance Considerations
  - The 401(k) Plan will be established as a new plan with a current effective date
    - Participants' service is typically recognized since original date of hire
  - 5500 Form must be completed by sponsoring entity and may require an audit from independent 3rd party
    - 5500 Form previously had been completed by the PEO for the entire MEP (Multiple Employer Plan)
    - Be sure to account for the audit costs (if audit eligible)
  - Non-Discrimination Testing
    - No change as the 401(k) Plan is subject to same testing requirements

# PEO/MEP Transition Considerations (continued)

- Administrative Considerations
  - Payroll Integration
    - The 401(k) Plan under the PEO/MEP relationship is fully integrated with Payroll (two-way integration)
      - Clients typically do not want to give that up
      - Providers typically offer one-way integration and two-way integration (less common, but trending upwards)
  - Increased responsibility with administrative tasks
    - Verifying Payroll Data
    - Signing 5500 Form
    - Processing corrections
    - Plan Amendments

# Single Employer Plan Fiduciary Considerations

Plan sponsors must designate person(s) to make decisions affecting the management or administration of the plan. These fiduciaries will be subject to ERISA, and must act prudently and solely in the interests of plan participants.

- Fiduciary Oversight Responsibilities
  - **Service Provider** – evaluating needs of plan, initial review of vendors, ongoing monitoring of service and fees
  - **Administration and Reporting** – monitoring accuracy, testing, notification and filing requirements
  - **Investments** – monitor investments for cost and performance, follow Investment Policy Statement



# Single Employer Plan Fiduciary Considerations (continued)

- Mitigating Fiduciary Liability
  - Establish 401(k) Committee
    - Meet periodically
    - Provide Investment Analysis
    - Review Plan Compliance requirements
    - Document Committee Decisions
  - Share or delegate your investment fiduciary responsibility and liability with a 401(k) Fiduciary Advisor
    - 3(21) “Co-Fiduciary” or 3(38) “Full Fiduciary”
      - Leads committee meetings
      - Documents meeting actions with meeting minutes
  - Delegate administrative liability
    - 3(16) Fiduciary

# Single Employer Plan Fiduciary Considerations (continued)

ERISA requires expertise in a variety of areas, including:

- Selection and monitoring of investments
- Administration
- Selection and monitoring of service providers

ERISA allows you to hire (and you should hire) professional assistance when you lack expertise in these areas.

# Single Employer Plan Advantages

- More Flexibility
  - Choose the record keeper that fits best for your plan size and demographics
  - Choose your own investment line up with little restrictions
  - Plan design
  - Choose your own Investment/401(k) Consultant
- Can be a cost advantage at certain plan assets and average account balance
- Typically higher level of personal service
- Employee engagement strategies personalized to your employees

# Transition Timing

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# Time Frame for Transitions

January

M	T	W	T	F	S	S
		1	2	3	4	5
6	7	8	9	10	11	12
13	14	15	16	17	18	19
20	21	22	23	24	25	26
27	28	29	30	31		

February

M	T	W	T	F	S	S
					1	2
3	4	5	6	7	8	9
10	11	12	13	14	15	16
17	18	19	20	21	22	23
24	25	26	27	28	29	

March

M	T	W	T	F	S	S
						1
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9	10	11	12	13	14	15
16	17	18	19	20	21	22
23	24	25	26	27	28	29
30	31					

April

M	T	W	T	F	S	S
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5	6	7	8	9	10	11
12	13	14	15	16	17	18
19	20	21	22	23	24	25
26	27	28	29	30		

May

M	T	W	T	F	S	S
				1	2	3
4	5	6	7	8	9	10
11	12	13	14	15	16	17
18	19	20	21	22	23	24
25	26	27	28	29	30	31

June

M	T	W	T	F	S	S
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8	9	10	11	12	13	14
15	16	17	18	19	20	21
22	23	24	25	26	27	28
29	30					

July

M	T	W	T	F	S	S
			1	2	3	4
5	6	7	8	9	10	11
12	13	14	15	16	17	18
19	20	21	22	23	24	25
26	27	28	29	30	31	

August

M	T	W	T	F	S	S
					1	2
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17	18	19	20	21	22	23
24	25	26	27	28	29	30
31						

September

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13	14	15	16	17	18	19
20	21	22	23	24	25	26
27	28	29	30			

October

M	T	W	T	F	S	S
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12	13	14	15	16	17	18
19	20	21	22	23	24	25
26	27	28	29	30	31	

November

M	T	W	T	F	S	S
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16	17	18	19	20	21	22
23	24	25	26	27	28	29
30						

December

M	T	W	T	F	S	S
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6	7	8	9	10	11	12
13	14	15	16	17	18	19
20	21	22	23	24	25	26
27	28	29	30	31		

4 months minimum

6 months preferred

# Components of the Managed Transition

## Development of Internal HR Capabilities

- Transition payroll, competitive benefits, workers compensation, P&C Insurance and 401K
- Dedicated management and administration of benefits, payroll, and Human Resources
- Transition to a comprehensive Human Resource Management System (HRMS) solution

## System Implementation and Process Refinement

- Data transition
- Policy development & practice evolution
- Workflows and approvals
- Reporting capabilities

## Preparing Employees

- Manager training and support
- Coordinated rollout
- Ongoing support

**Q&A**

# Thank you!



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