How to Successfully Transition Your Company From a PEO

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Introduction

There comes a time in just about any growing business' journey when they outgrow their PEO solution. PEOs offer a streamlined and often effective solution for employee benefits, payroll, and various HR functions for early-stage growing businesses. But they are not flexible or efficient enough for mid-to-large size organizations who want to win the war for talent while making the most of their benefits dollars.

So it's important to know when it's time to move on from a PEO and how to make the transition smoothly with minimal disruption for your employees. You are assuming several HR functions when you leave a PEO, so you need to know how you are going to manage each of those responsibilities.

The great news is that with proper management, you can get off of your PEO within just a few months and start leveraging your benefits and HR strategy to attract, engage, and retain the talent you need to keep your business growing and succeeding. Moving away from PEO solutions provides many opportunities to fuel your business and reduce your costs – as long as you do it right.

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Why Businesses Use PEOs in the First Place

If you're going to replace your PEO effectively, you need to understand why you opted for a PEO in the first place.

Some of those reasons might still be true, others may no longer apply to your company. As you move away from the PEO, you should try to meet those needs that are still relevant while also identifying and addressing new or emerging business needs.

PEOs, or Professional Employer Organizations, take on the role as the employer of record for a company's employees. That means that they absorb all of the compliance risks associated with being an employer and manage the majority of the people-side of the business. They handle payroll, benefits administration, and many of the official onboarding and offboarding tasks. You still manage your employees in their roles as members of your team, but the PEO handles the bureaucratic aspects of being an employer.

Taken at face value, the reasons why many growing businesses opt for a PEO are clear. PEOs handle many responsibilities that would otherwise take up a lot of your time and energy. That means that you get to focus more on guiding your business during its crucial early stages of growth. PEOs also offer some hefty improvements in HR performance compared to handling HR in-house as an early-stage growth company. PEOs can reduce smaller organizations' benefits costs because of their negotiated bulk rates with providers.

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Why Companies Move Away From PEOs

There seem to be many benefits to partnering with a PEO but there are also many drawbacks, especially as an organization grows – as you have probably already experienced if you're reading this eBook.

The convenience of PEOs comes at an obvious cost. They offer a one-stop-shop solution that requires minimal effort on your end. The flip side of that is that they offer one-size-fits-all benefits that aren't tailored to the specific needs of your business and its employees.

That means that you end up paying for benefits and services you don't need and you can't offer benefits that would have a more significant impact on your employees' experience at your company. You've signed over control of your benefits strategy to the PEO and they aren't concerned with the nuances that help you distinguish yourself as an employer. When it comes to PEO benefits, in a nutshell: you're left paying more for less. Which is hardly a good formula for sustainable growth.

But the one-size-fits-all approach isn't the only reason why PEOs end up costing you money in the long-run compared to alternative solutions. Many PEOs also structure their fees as a straight percentage of payroll. Essentially, you pay them for your payroll expenses and they take a cut and pass the rest onto your employees and benefits providers. That pricing model can save you money compared to fixed rates when your organization is small. But as your organization grows, the percentage model can easily outstrip the rates charged by non-PEO providers. Not to mention, it means that when you give your employees a raise, the PEO gets a raise too.

The drawbacks of a PEO

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Other Drawbacks of a PEO Approach

There are other disadvantages to partnering with a PEO in the long-term in addition to the higher costs and lack of flexible benefits. PEO's limit your ability to leverage your talent in several ways.

Inadequate Support

One issue is that while PEOs assume the role of your team members' official employer, many do little to ensure that employee relationships go smoothly and productively. PEOs provide wildly varying levels of support in resolving inevitable employee issues and disputes, such as attendance and performance issues or workplace safety violations. You're frequently left on the hook to resolve these challenges largely on your own, while other HR services would help resolve these issues quickly and positively.

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Depersonalized Onboarding

But the impact that PEOs have on your relationship with your team members starts on day one. New-hire onboarding is a crucial stage in the employee's time with your company. It's vital that you put your best foot forward to engage them in their new workplace and that you provide them with the resources they need to thrive in their roles. Unfortunately, PEOs handle the onboarding process for so many companies that they do little to personalize or improve the experience. You've surrendered control over a significant portion of the onboarding process and run the risk of stagnating your new employees in bureaucracy from the get-go. Furthermore, you're left on your own to optimize your end of the onboarding process without a strategic HR partner to help you make the experience memorable and positive for the new employees.

Lack of Strategic Support

Which touches on perhaps the most significant drawback of partnering with a PEO as your organization grows. Once your headcount reaches a certain point, it's important to develop a strategic approach to HR to properly leverage your growing workforce. You need to think carefully about what you want your employees' experience to be and how you will make the most of each team member through their time with your company. PEOs are good at solving some major tactical issues by putting in place new HR processes and platforms, but they cannot and do not provide the strategic support that other HR partners provide.

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How to Know When You've Outgrown Your PEO

While there are several drawbacks to sticking with a PEO as you grow, it's important to know when it's time to transition to a different benefits solution. It's a serious decision that has the potential to transform your business – if it's done the right way at the right time.

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So how do you know when it's time to make the switch?

Many factors will guide your decision, but you can get a good sense of whether it's time to consider transitioning away from your PEO solution by answering just a few simple questions:

- Has your cost of doing business increased for two or more consecutive years?
- Do you have a challenging time calculating the true cost of the products included in your PEO?
- Are your peers or competitors leveraging better technology and/or benefits packages?
- Do you find yourself resorting to Google search for answers to HR issues as they come up?

If you answered "yes" to any of these questions, it's time to give some serious thought to switching.

But luckily, you don't have to make the final decision right up front. For the rest of this eBook, we will guide you through the steps to a successful transition away from a PEO solution. And the first step is to put together the business case for making the switch.

During this process, you will get a clear picture of the costs and benefits of your current solution and the potential benefits of replacing your PEO. Once you've made the business case you will know whether changing your HR and benefits solution is the right call and can proceed through the rest of the steps for a productive transition.

Transitioning from a PEO
Step One: Build the Business Case

So, you think it might be time to transition away from a PEO. That's exciting news for you and your company: you will soon be able to unlock new strategic HR capabilities that will help fuel your company's growth and empower the people side of your business. But before making such a serious decision, you should put together the business case so you can know exactly why you are making the switch and what you hope to gain from the transition. The business case will serve as your guiding light as you develop your replacement solution, making sure that each change is for the better.

Of course, the first question you should address in your business case is whether or not the change makes financial sense.

That means breaking down what your PEO is costing you now and what you will likely pay to replace it. Part of the challenge in this step is determining what you're paying the PEO and what the money covers. As we mentioned before, PEOs tend to charge just one fee on top of the benefits and business insurance costs. That makes it hard to determine what each service is costing you. So it's better to break down what it will cost to replace each service and compare the total costs. You should end up with a table like this one (this table is an example of a company choosing between a PEO and an unbundled option):

Category	Unbundled	PEO
PEO Service Fee	n/a	$41,044
Payroll and Compliance Support	$15,000	Included
Employee Benefits Administration	$3,600	Included
HR Foundation Support	$5,000	Included
HRIS technology	$10,879	Included
Health Insurance	$214,262	$268,764
Ancillary Insurance[1]	$19,000	$20,000
401K Plan	$5,000	Included
Workers Compensation and Employment Practices Insurance	$4,239	$13,008
Estimated investment total	$276,980	$342,816
Estimated annual savings	$65,836	

Once you've crunched the numbers and determined that transitioning off of a PEO model makes financial sense, you can start putting together your alternative solution. Think about why you signed up for a PEO in the first place as well as what you hope to accomplish by switching away from the PEO and find the solutions that meet both needs.

Transitioning from PEO
Step Two: Risk Transfer

One of the major reasons why PEOs appeal to growing businesses is that the PEO assumes the compliance risk as the team members' official employer.

So when you are putting together your alternative solution, it's important to make sure that your compliance and other employer risks are taken care of.

As you talk to potential providers, see what they can do to help you navigate three major risk areas:

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1. Compliance

First, how do they keep you in compliance and give you peace-of-mind so you can focus on running your business without fear of non-compliance? The right providers will automate the compliance process to collect the proper information and stay on top of regulatory changes and adapt accordingly so you never have to worry about falling out of compliance.

2. Employee Relations

Second, does your potential provider help manage your employee relations? Most PEOs leave companies more or less on their own when it comes to deescalating employee-related issues such as workplace safety violations, violation of attendance policies, and hostile workplace behavior or harassment. But you should expect more from your new HR partner. See what they do to help you handle these situations appropriately and efficiently.

3. Legal Risk

Finally, you should seek legal and indemnification support either from your HR partner or a third-party organization that specializes in legal matters. Your PEO assumed this legal risk and you don't want to expose your company to additional liabilities as a result of making the transition.

Transitioning from PEO
Step Three: Optimize for Future Growth

Once you've minimized your exposure to risk from the transition, you can start to take advantage of the opportunities that moving away from a PEO model provides your company. You are getting newfound control over your company's HR and benefits strategy. Instead of seeing this control as a burden, it's time to leverage it to fuel your company's continued growth. And at the same time, set up processes and policies that will scale as your business expands.

This means customizing key HR functions to suit your company's unique needs and priorities.

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Employee Benefits

PEOs offer initial savings on benefits expenses compared to going in alone, especially for early-stage growing businesses. But they offer the same 5-10 plans to employees at all of their client organizations, all with the same nationwide carrier. They offer competitive rates but little to no flexibility or customization. This approach suffers from a lack of transparency regarding the cost of benefits and a failure to align benefits plans with your unique workforce.

So as you look for an alternative vendor, see what they can do to keep your costs down below what you paid under the PEO while better serving your employees' demonstrated needs. Benefits brokers and consultants can identify your employees' needs by conducting Health Risk Assessments (HSAs) and employee surveys to determine what matters most to your team. They can then use the information gained from these surveys to craft customized plans tailored to meet these needs. These plans should reduce expenditure on unnecessary benefits and expand important benefits to achieve an overall cost reduction while improving the value that your benefits provide for your employees.

Given that benefits represent an enormous portion of your payroll expenses and your employees' compensation, getting them right is key to winning the war for talent. An Aflac survey found that most employees would change jobs for a lower salary but better employment benefits and that 80% of respondents said their employee benefits plan impacted their engagement at work. So getting your benefits right matters not just for your bottom line, but also for your overall efforts to attract, engage, and retain the talent you need to fuel your future growth.

HR Technology

While benefits might be the most important aspect of your HR to get right to best leverage your talent, they are just one part of the puzzle. It's also important to think about how your employees interact with their benefits and the company's HR processes. Ineffective processes can limit the impact of stellar benefits programs on your engagement and retention efforts, while streamlined processes will help you win the war for talent.

Unsurprisingly, the right HR technology can significantly improve your employees' benefits and HR experience. While PEOs do offer technology solutions and help keep your organization away from dreaded paper-based processes, they once again take a proprietary and one-size-fits-all approach that can end up alienating your employees. They generally obligate you to use their HRMS system, which often does not play well with your other in-house technology solutions.

Without effective integrations with your finance, ERP, project management, accounting, and performance management software, the PEO HRMS forces stakeholders within your organization to navigate multiple systems of record. The inefficient processes and risks for error that result from this fragmented approach can expose you to compliance risks and frustrate your employees with confusing procedures.

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That means that you can prioritize choosing a platform that integrates with your other systems and provides a user-friendly experience for your team.

Outsourcing HR Processes

One of the benefits of partnering with a PEO is that companies can outsource their payroll, compliance, and benefits administration functions with a single provider. That's an enormous plus because these processes are extremely time-consuming and can take up a surprising amount of a company's HR resources. But the fact of the matter is that you can easily outsource these processes to third-party providers without impacting your employee experience or surrendering control over other HR functions.

When you outsource just the specific low-impact functions, you streamline your HR processes so that you can focus on high-impact areas like company culture, employee engagement, talent acquisition and retention, benefits and compensation strategy, and professional development. And while PEOs provide limited support in these areas, your new HR partner will be able to provide valuable materials, resources, and advice to help guide your strategy.

Best of all, if you outsource your low-impact HR functions to the same HR partner, they can tailor even these more bureaucratic processes to align them with your overall HR strategy.

Transitioning from PEO
Step Four: Making the Transition

Once you've figured out how to replace your PEO effectively, it's time to make the transition. While it's most important to make sure the final result leaves your company and its employees in better positions than they were in under a PEO, it is also important to make the transition as smoothly and efficiently as possible. You want to cause as little disruption to your employees' experience and your processes as possible to achieve the best business outcomes.

In many cases, it's a good idea to partner with a competent third-party who has experience navigating companies through this transition. Whether you decide to work with an outside advisor or not, you can make the transition in a matter of just 60-120 days so long as you understand the steps involved in a successful transition.

Here is a high-level list of the steps you will need to take once you have decided on your new go-live date:

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1. Assign a dedicated person who will act as the primary contact and liaison for the implementation of the new HRMS system
2. Ensure all the necessary data is provided to the new software provider, making sure forms contain complete and accurate information
3. Set up payroll-related items (i.e., tax setups and filings, deductions, pay schedule, time and attendance)
4. Set up applicable federal and state tax accounts
5. Create standardized procedures and workflows for the employee lifecycle
6. Assist with the creation of an employee handbook customized to your companies need
7. Select employee benefit and retirement plans that are appropriate for your workforce and will integrate with your HRMS
8. Create a communication plan for employees regarding changes in systems and responsibilities
9. Transition to new HRMS

In all, the coordination and effort of executing these properly will typically take between 40-100 hours, depending on the complexity of your company's structure.

Launchways is the perfect alternative to a PEO

We are experts in transitioning companies off of PEOs, get in touch today.

To learn more visit www.launchways.com/PEO

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