Should you leave your PEO?

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Six Telltale Signs It May Be Time to Move On

It's a fact of (business) life: Business meets PEO. Business partners with PEO. Business leaves PEO.

Starting out, businesses often partner with Professional Employer Organizations (PEOs) to manage their employee benefits, payroll, and other HR functions so they can focus on more strategic activities to grow.

Currently, PEOs provide HR services to 173,000 small and mid-sized U.S. businesses, which employ 4 million people. (Source: NAPEO)

But as businesses expand, needs can change and force leaders to reevaluate whether they still need the support and services that PEOs offer. After all, the price isn't cheap.

Industry experts estimate average PEO costs at between 2-12% of wages. (Source: ADP)

When is the right time to move away from a PEO and establish your own HR resources?

Your organization has grown.

Industry experts say that a PEO is typically designed for companies with 5-50 employees. So, if your business starts to grow beyond that, say to 85-125 employees, you may be able to get comparable benefits, including workers' comp and 401(k) plans, on the open market, without the added PEO fees.

You need more control over HR functions.

If you find that your organization is feeling more friction, dealing with more red tape when it comes to hiring and firing decisions, or has unique HR requirements that your PEO can't handle, it may be time to consider setting up your own HR infrastructure. This way you can tailor HR strategies and processes that more closely align with your company culture, values, and needs.

The costs of a PEO outweigh the benefits for your organization.

While partnering with a PEO can initially provide cost savings, over time expenses can increase and no longer make sound financial sense. Look at your PEO relationship from a financial standpoint. Review admin fees, service charges, and other costs. Then, compare these expenses to the investment needed to build your own HR operation, considering long-term cost efficiencies and increased control over benefits and payroll, for example. Sometimes it can be difficult to know what you're paying the PEO because the fee structure is not transparent. Find an industry professional to help you demystify how much you're spending.

Your organization needs more control over compliance.

PEOs can help classify employees, handle taxes, and ensure your firm adheres to equal employment opportunity (EEO) and other employment laws. But as your business grows, rules and regulations can become more numerous and complex. If your PEO can't keep up with all the legal requirements, you may need a more specialized team. Additionally, the co-employment arrangement PEO's offer does not always mitigate compliance risk the way employers expect.

The ability to customize tech solutions is limited.

As business expands, you may need the ability to customize HR solutions along and integrate specific software and technologies. But if your PEO only offers a "canned" system that doesn't allow you to adapt and scale, you may need a solution that provides more flexibility.

Your employees seek more personal engagement.

If you find that employees are not satisfied or continually frustrated by the services provided by your PEO, you may want to consider how you can provide more personal support. By directly managing employee benefits, engagement initiatives, and career development, for instance, you can enhance employee satisfaction and strengthen ties with your workforce. Additionally, employees often feel disenfranchised by the fact that the PEO is technically their employer of record.

Leaving your PEO and establishing your own HR operation requires careful planning and professional guidance. In part two of this series, we will examine how your benefits advisor can help you navigate the entire process.

Assess the probability of your company's success after exiting a PEO by taking our PEO assessment today.

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