

Webinar: PEO Transition

Time to Take Control of Your Business Destiny

JULY 25, 2017

Audio

Megan Coen

Lead Employee Benefits
Systems Consultant
ABD

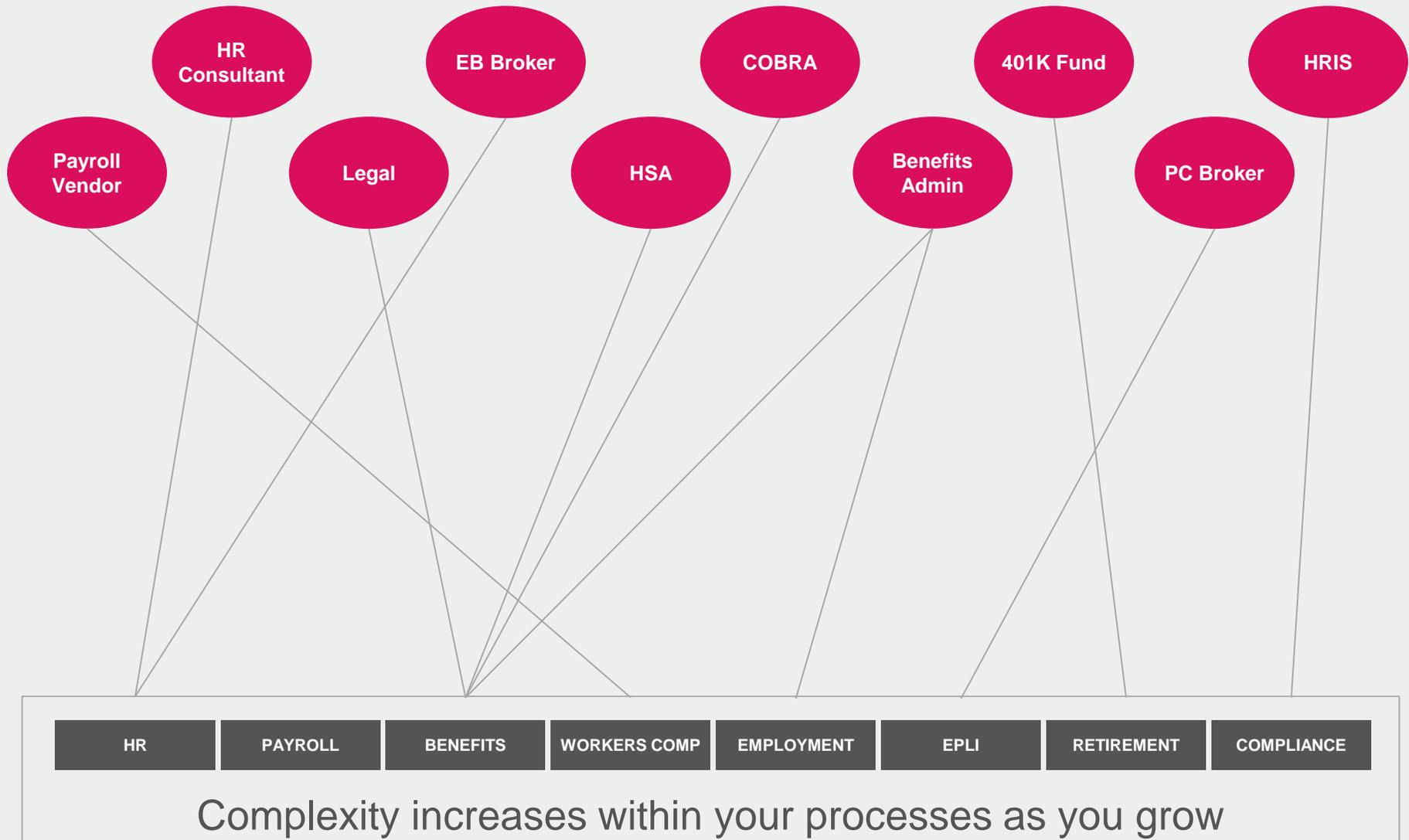
Tatyana Latham

Compensation and Benefits
Manager
Host Analytics

Brian Gilmore

Lead Benefits Counsel, VP
ABD

Positive Growth Brings Possible Challenges



When is it Time to Move?

Benefits

Service

**Cost/Ability
to Scale**

**Co-
Employment**

Considerations When Exiting a PEO

It's about more than replacing employee benefits.

You will need to:

- ✓ Select, implement, and manage new technology
- ✓ Design, select, and manage benefits packages
- ✓ Develop employee workflows, design a risk management plan
- ✓ Ensure compliance with local and national employment laws
- ✓ Train executives and managers on the transition

Discussion with:



Tatyana Latham
Compensation and
Benefits Manager

hostanalytics

Checklist to Ensure a Smooth Transition

- ✓ Understand your organization's motivation for leaving a PEO and ensure key stakeholders are involved: HR, Finance, Executive
- ✓ Plan what your staffing model will look like post-transition and be realistic about what work your team can absorb and what should continue to be outsourced
- ✓ Find a PEO transition consultant who understands your organization's needs and can plan the right exit strategy with you
- ✓ Consider employee benefit plan design, 401(k) offerings, worker's comp & EPL insurance
- ✓ Evaluate your HR policies, processes, and handbook for compliance
- ✓ Select and implement a new software platform

A hand holding a pen over a document with a bar chart, overlaid with a red gradient.

Tax Implications:
**IRS Announces
Certified PEOs (CPEOs)**

Mid-Year PEO Transitions: CPEOs

BREAKING NEWS July 14, 2017: IRS Announces Certified PEOs

The List: https://www.irs.gov/pub/irs-utl/list_of_cpeos.pdf

- Eliminates potential FICA/FUTA wage base restart for mid-year entering/exiting of CPEOs
- Culmination of a multi-year effort to clarify the law in this area

Successor Employer Status Avoids Wage Base Restart

- The main benefit of CPEO status is it essentially allows employers joining or leaving a CPEO to be considered a common paymaster with the CPEO
- Employer is considered a “successor employer” when leaving a CPEO mid-year
- IRS Revenue Bulletin 2016-21:

https://www.irs.gov/irb/2016-21_IRB/ar17.html

5. Successor Employer Status

Consistent with section 3511(b), the proposed regulations also provide that, for purposes of computing the annual wage base, a CPEO and its customer are treated as: (1) a successor and predecessor employer, respectively, upon entering into a CPEO contract with respect to a work site employee who is performing services for the customer; and (2) a predecessor and successor employer, respectively, upon termination of the CPEO contract between the CPEO and the customer with respect to the work site employee.

Gray Area for Non-CPEOs

- Whether employees’ wage base must be restarted when entering/exiting a non-CPEO mid-year remains a matter of interpretation/debate
- Consult with tax advisor to determine approach you are comfortable with
- Employees can “true-up” excess payroll taxes on individual tax returns (employers cannot)



Employee Benefits: **Primary Compliance Issues**

EB Compliance Upon Exiting a PEO

Establishing the Company's Employee Benefit Plans

- You now will establish and maintain an employer-sponsored plan for which you are the plan sponsor and plan administrator (not the PEO)
- Requires wrap plan document, wrap SPD, Forms 5500, legal notices, PCORI fees, HIPAA compliance, COBRA administrator, FSA administrator, insurance policies, TPA agreements, BAAs, imputed income for domestic partners, NDT, beneficiary designations, etc.

ACA Adds Additional Layer for ALEs

- Which measurement method did the PEO use for determining employees' full-time status under the ACA pay or play rules?
- Which measurement method will you use—and will it require a transition period?
- Will you rely on a vendor to track employees' hours to determine full-time status (generally required under the look-back measurement method)
- You are responsible for ACA reporting for the period after leaving the PEO—partner with a vendor to complete, distribute, and file the Forms 1094-C and 1095-C

COBRA Transition

- Most PEOs offer the option to continue administering COBRA for existing qualified beneficiaries under the PEO plan for the remainder of the maximum coverage period
- Will company pay the administrative fee for COBRA through PEO, or move these qualified beneficiaries to the company's new health plan?
- Regardless, communicate with existing COBRA participants to ensure smooth transition

Questions?

Thank you.

Megan.Coen@theabdteam.com

Brian.Gilmore@theabdteam.com