

Is your PEO ripping you off? A primer on the fine print

Say you've decided to hire a professional employer organization (PEO) to handle some of your HR services—or you're considering new PEO vendors to replace your current one.

You have a choice of more than 700 PEOs to choose from. Compounding the problem: It's almost impossible to make apples-to-apples price comparisons because the price quotes for the capabilities, service packages and methods of the individual PEOs widely vary.

However, you can cut through the clutter by understanding PEO pricing.

The basics: PEOs offer most services in packages or “bundles.” Many PEOs have three or more basic bundles and will tailor them to fit an organization's needs. Bundles include basic services such as payroll and workers' comp.

PEOs also offer “unbundled” services and charge a per-use fee each time you use them. PEO costs include administrative fees that generally range from 4% to 6% of your gross payroll. Costs can also include various fees for services and can be affected by additional factors.

5 steps to the best price quote

1. Don't settle for lump-sum quotes. Determine which services you require and look for bundles that include them.

Some PEOs try to bury charges in cost-per-worker fees. Insist on a breakdown of services and a cost for each one. For example, under payroll services, request the prices for specifics.

Examples: payroll payment through check or direct deposit, and W-2 printing and distribution to employees and the government.

2. Insist on a discount for including unbundled services in the package. Some PEOs try to generate fees with pricey unbundled services. Ask for a complete price list of the unbundled offerings.

Depending on the PEO, unbundled services can include background checks, résumé screening, interviewing, pre-employment testing, employee handbooks, performance appraisals, reward and recognition programs, job descriptions, training and recruiting. For payroll, unbundled services can include W-2 reprints, unemployment claims processing, online access to payment reports and information, and 1099 forms processing.

3. Don't request a quote for health insurance as part of a basic package. Ask for quotes for health insurance, including supplemental insurance, separately.

4. Pay the low end of the admin fee. While administrative fees range from 4% to 6%, you should be able to

negotiate the low end.

5. Ask about other costs and reimbursements. Are there fees for early contract termination? What about start-up fees? Will the PEO indemnify or reimburse your organization for legal damages and fees connected to workers' legal claims?

Ask for references from satisfied PEO clients and from those that no longer use its services. Find out whether the PEO is a member of the National Association of Professional Employer Organizations at www.napeo.org.

Ask if onsite-Visit costs are included in the price

Will the PEO provide a representative to periodically visit your organization, especially during the early stages of the contract? Find out how long those visits will last. Also, ask whether the service is included in the contract or if you have to pay an additional fee.