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# PEO INSIDER®

THIS MONTH'S FOCUS

## PEO OPERATIONS

AI TOOLS

BUILDING YOUR FOUNDATION

MAXIMIZING EFFICIENCY

COVER STORY

# INTANDEM HR: SUCCESS THROUGH TEAMWORK

InTANDEM HR HR Director Stacy Jensen, CFO Pete Sartoris, President & CEO Monica Denler, & Director of Payroll Operations Lisa Petrovich

THE SOURCE FOR PEO EDUCATION® 707 NORTH SAINT ASAPH STREET, ALEXANDRIA, VA 22314 WWW.NAPEO.ORG

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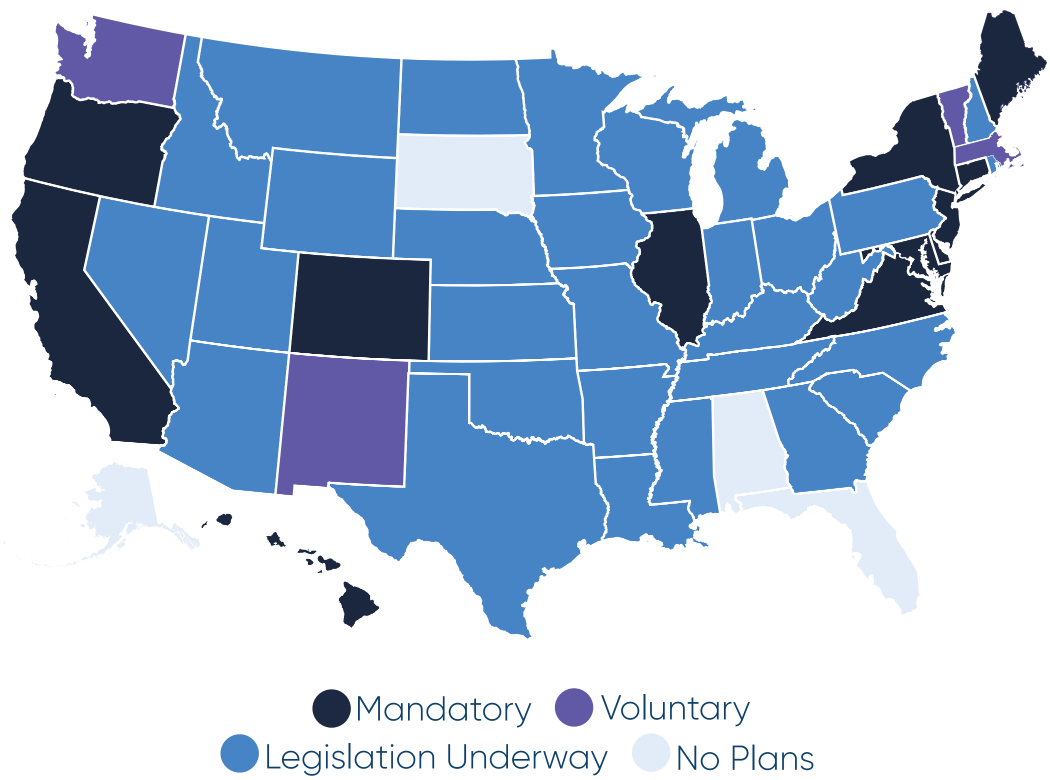
# State Mandated Retirement Plans for Small Businesses




Source: Georgetown University for Retirement Initiatives

# Is your PEO ready?

Stacy Jensen, Pete Sartoris, Monica Denler, Lisa Petrovich

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## TRACKS



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## NAPEO THANKS ITS 2023 MEDALLION PARTNERS

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# PEO INSIDER®



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# THE SECRET INGREDIENT

## BY KRISTEN J. APPLEMAN

The one word. That's it, just one. A secret ingredient. Not a phrase, not a quote, not even a sentence. Just. A. Word. –An "it". Curious yet? You might know my mantra is simple: #GSD. There is a word though I will leave you with as your exiting Chair. This word is central to who I am, what I strive to be, and I hope a word that you will use to describe me. I want this word to inspire you when you need it most. Are you ready for that word? The secret ingredient!? It's…*Moxie*!

Moxie. Take a deep breath in, hold, and let it out. Are you ready to defy the odds? To get gritty? To show courage in the face of adversity? To be told something cannot be done, and you refuse to accept that thinking! As an industry, we are a force to be reckoned with. We have character, determination, even the nerve to challenge the status quo. Tell us no and that it cannot be done, and we show up with all the reasons why it MUST be done.

At a CEO Forum back in 2022, my moxie was spotted by NAPEO staff in clear sight! Staring at me, reminding me of my strength! We all need a reminder of the moxie in all of us!

In the dynamic world of business, success often hinges on more than just a brilliant idea or a well-thought-out plan. It demands a certain quality – moxie. Moxie, often defined as a combination of courage, determination, and a touch of audacity, is a characteristic that can set apart thriving entrepreneurs and businesses from the rest.

**Embracing Risk:** Business is inherently risky, and those who possess moxie are more willing to take calculated risks. They have the courage to step out of their comfort zones and make bold decisions.

**Resilience:** Moxie is closely linked to resilience. In the face of setbacks and adversity, individuals with moxie are more likely to bounce back. They see challenges as opportunities to learn and grow rather than insurmountable obstacles.

**Confidence:** Confidence is a key ingredient in the recipe for success. Moxie bolsters one's self-assurance, enabling them to pitch ideas convincingly, negotiate effectively, and lead with authority. Confidence is contagious!

**Problem Solving:** Moxie equips individuals with the determination to tackle complex problems head-on. Instead of shying away from difficult situations, those with moxie confront them, seeking creative solutions and viewing obstacles as puzzles to solve.

**Adaptability:** The business world is in a constant state of flux. Companies that thrive are the ones that can adapt swiftly. Moxie-driven individuals are more adaptable because they have the tenacity to embrace change and pivot when necessary.

**Leadership:** Leaders with moxie inspire their teams to push boundaries and aim for greatness. They lead by example, showing that taking risks and embracing challenges is a part of the journey.

**Entrepreneurial Spirit:** Moxie is the lifeblood of the entrepreneurial spirit. It's what drives individuals to start their own businesses, disrupt industries, and create change.

**Marketing and Branding:** In a crowded marketplace, businesses need to stand out. Moxie can manifest in daring marketing campaigns and branding strategies that capture the attention of customers. It's the audacious ideas that often leave a lasting impression.

**Respect for Failure:** Lastly, moxie teaches individuals to embrace failure as a steppingstone to success. Those with moxie understand that setbacks are part of the journey and use them as opportunities to learn and grow stronger.

In conclusion, moxie is the secret ingredient that can propel individuals and businesses to greater heights. It's the intangible quality that fuels innovation, resilience, and the courage to take calculated risks. While a sound business plan and strategy are essential, it's often moxie that makes the crucial difference between thriving and merely surviving in the competitive business landscape. So, **dare to be audacious,** embrace challenges, and **let your moxie lead** the way to our future success. ■

**KRISTEN J. APPLEMAN**

*2022-2023 NAPEO Chair*
*SVP/GM*
*ADP TotalSource*
*Alpharetta, GA*

LEADERSHIP

# HECTOR ENRIQUEZ OF T&T STAFF MANGEMENT LEADS PANEL ON ENTREPRENURSHIP

Hector Enriquez of NAPEO member T&T Staff Management recently participated on a panel focused on small business and entrepreneurship. The panel was hosted as part of Horizon City: 2023 Governor's Small Business Summit. Sponsored by the office of Texas Governor Abbott, the Texas Workforce Commission, and Horizon City Economic Development Council, the event focused on connecting aspiring business leaders with the resources, skills, and information needed to jumpstart their businesses.

KUDOS

# REGIS HR GROUP RECEIVES SOUTH FLORIDA TOP WORKPLACES AWARDS

Congratulations to NAPEO member Regis HR who recently announced that the Sun Sentinel had named the company one of the top workplaces in South Florida, ranking Regis HR in the top 3 of all South Florida employers with less than 125 employees. This award is based solely on employee feedback measuring 15 culture drivers that are critical to the success of an organization, including alignment, execution, and connection. “We’re honored to earn a Top Workplaces award! Especially because our employees were the judges. I am incredibly proud and grateful for the team we’ve built. These amazing people are the cornerstone of our success,” said Regis HR CEO/President Carlos Saladrigas.

C-SUITE

# G&A PARTNERS APPOINTS JARED ZUCKMAN AS VP OF SALES

NAPEO member G&A Partners recently announced the appointment of Jared Zuckman to serve as the vice president of sales for the Northeast and will lead the PEO’s expansion efforts in the region. “What G&A Partners can bring to the Northeast is the idea of putting clients and people first. I’m excited for small and mid-sized businesses in the Northeast to experience this level of service while working with G&A to provide the best care for their own employees,” says Zuckman.

CONGRATULATIONS

## OPTIMUM EMPLOYER SOLUTIONS EARNS BEST PLACES TO WORK AWARD

NAPEO member Optimum Employer Solutions recently announced that for the eighth year in a row the company has earned its place as one of the Best Places to Work in Orange County, California. “This award demonstrates the consistent and steady commitment of all our employees to create and maintain a workplace culture that is positive and supportive. Most of how Optimum is assessed is based on the experience of the employees who work here. I’m so proud of them and of the policies and programs we have created to make this a great place to work,” said Kevin Gramian, president and founder of Optimum Employer Solutions.

M&A

## EMPLOYER FLEXIBLE ACCQUIRES EMPLOYER’S RISK ADMINSTRATORS

NAPEO member Employer Flexible recently announced that it has acquired the assets of Texas-based PEO Employer’s Risk Administrators. This marks the sixth acquisition for Employer Flexible, and the third within the last two years. “This acquisition will help further expand our North Texas presence and aligns us with a smart team who value client service as much as we do. Employer Flexible has dedicated the past several years to building a robust technology platform that provides tools for employee self-service as well as information at your fingertips through our mobile application. We believe this will be an enhancement to the Employer’s Risk Administrator clients,” said Employer Flexible CEO Michael Hopkins. ■


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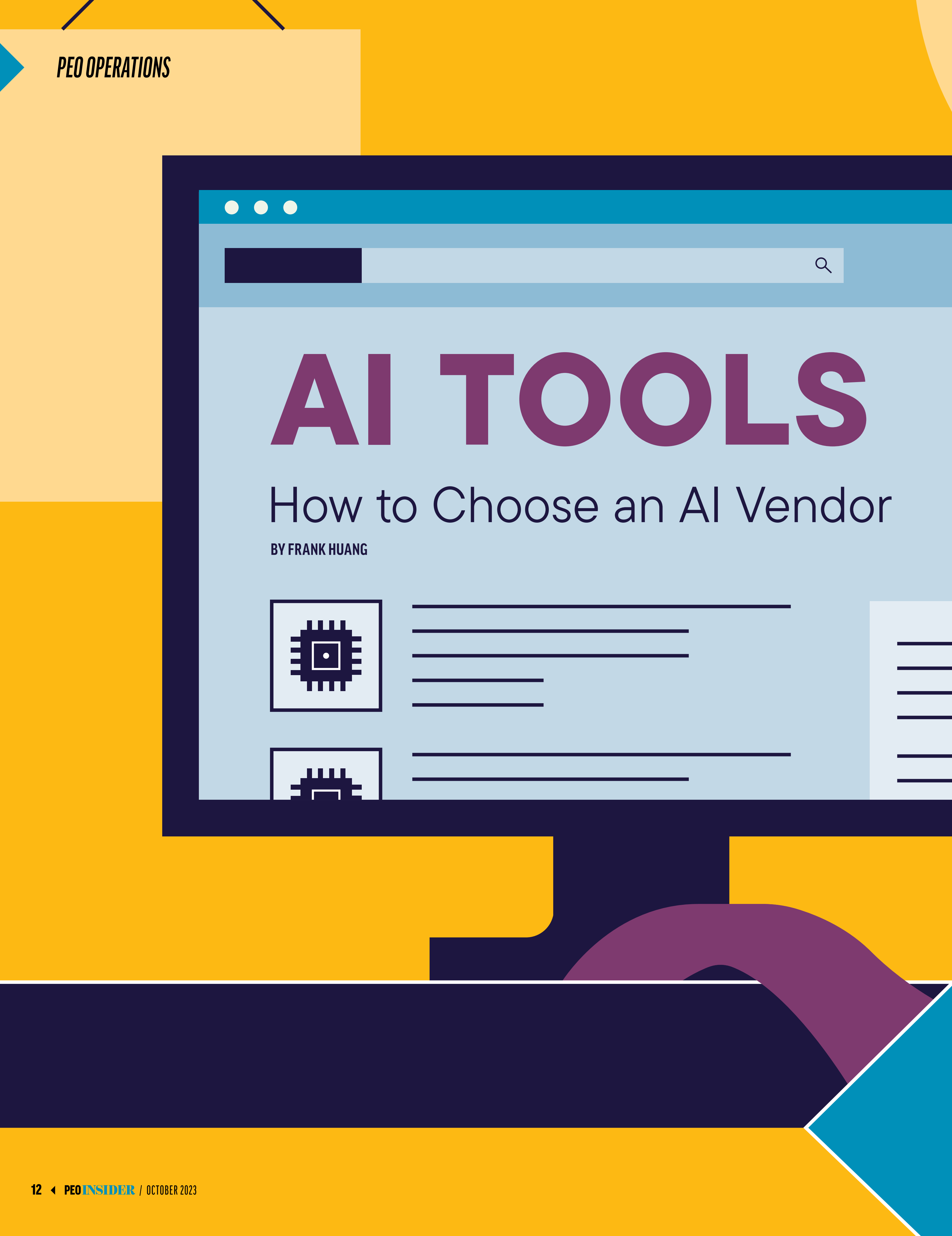
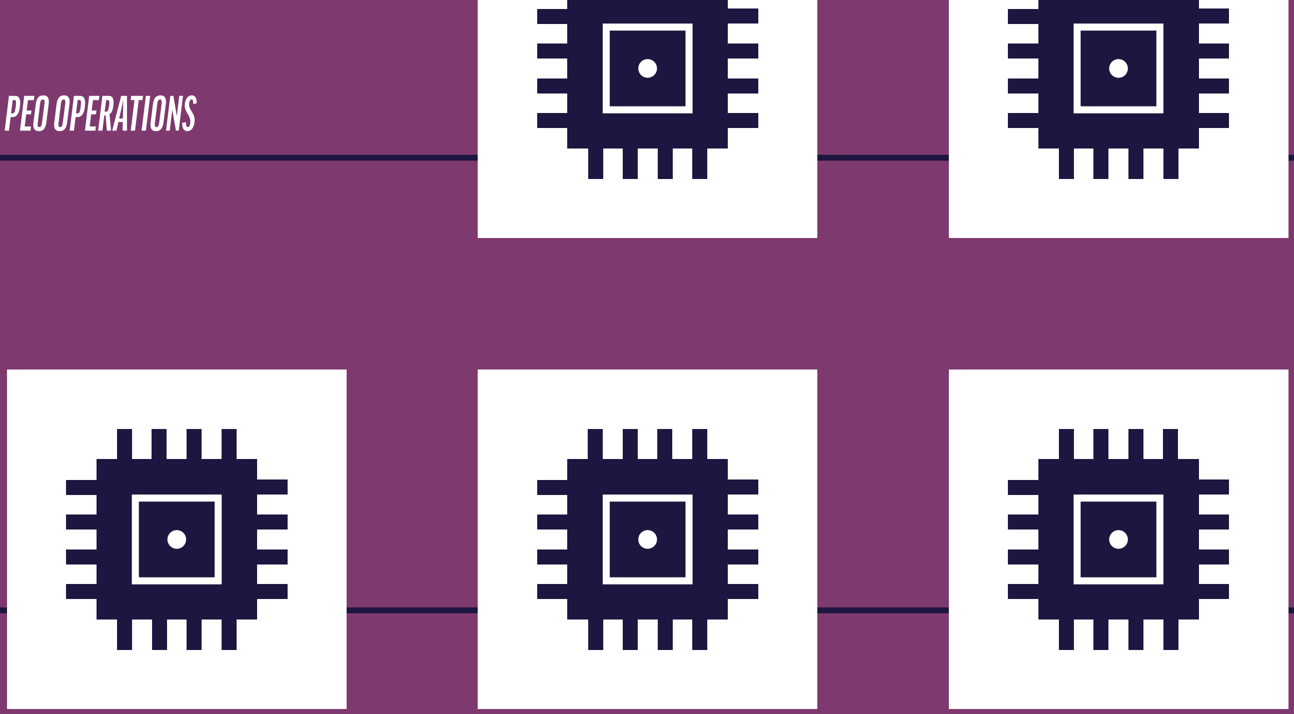
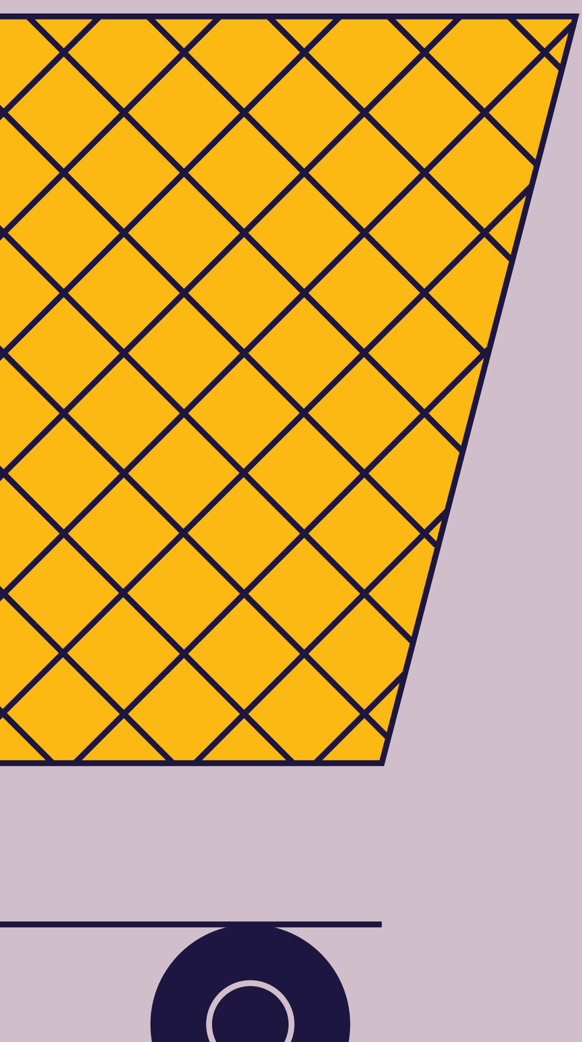
# AI TOOLS

## How to Choose an AI Vendor

BY FRANK HUANG







I have often found myself standing for minutes in my nearby Publix trying to figure out which item to buy. Did I want the $2 name brand product, or the $1.50 Publix generic version? Did I want the less tasty Gala apples at $1/lb or the tastier Honeycrisp apples at $2/lb? I would stand there paralyzed by the decision.

Thankfully, at some point, stomach pain kicks in and forces you to make a decision. But in real life, there are many in PEO leadership who are staring blankly, maybe even petrified and anxious, in the aisle of predictive models trying to figure out how to decide between different companies. So, let me do my best to present you with points you should consider to move from trepidation to triumph.

First, two caveats. The first one is that this is not comprehensive. Writing a thorough treatise on this would take too long and I've already used enough of my word limit. The second caveat is that this article is focused on analytics firms providing underwriting, pricing, loss control, or claims-level solutions that are commonly marketed as AI.

So, how does one select an AI vendor in claims, loss control, underwriting, or pricing?

## CONSIDER THE BUILD VS BUY DECISION

There are a lot of considerations going into this decision, but it's worth checking this point off before you start heading to the analytics store. Building something in-house or even with outside support could be a better option if you're looking for a more customized solution, have in-house technical expertise and resources, and/or need a quicker turnaround. The customization aspect is important because PEOs are not insurance companies, and so you'll want to find a vendor that can not only spell P-E-O, but

Building something in-house or even with outside support could be a better option if you're looking for a more customized solution, have in-house technical expertise and resources, and/or need a quicker turnaround.

also know how a model implemented with you would differ from an insurance carrier.

It is worth noting that I have definitely seen companies start off with great intentions and then end up with more money spent and less of a product than if they had just outsourced the work from the get-go. Going with an external vendor can mean avoiding diverting too much attention and resource from other parts of the business, having immediate access to specialized expertise, proven technology, and on-going support.

### HAVE THE RIGHT PEOPLE LEADING THE RFP

A request for proposal (RFP) process or something akin to it is absolutely crucial to ensuring a methodical approach to evaluating the potential vendors. Internal stakeholders with previous experience are the most ideal, and it's important to also incorporate other stakeholders if not into the actual process then at least to get feedback at the outset.

Experience is key but a characteristic not to be overlooked is independence. Whomever you have leading the process, make sure that that person or group of people have the best interests of the company at heart, with no selfish motivations apparent that might impair their judgment.

### LOOK UNDER THE HOOD

It's important that you, or the people you trust, understand the model design and how it compares against competition. I've seen models promoted as being robust and cutting edge, but once you get through an NDA and delve into the model details the model is shockingly dated and not well suited for anyone's needs.

It's also good to give it a test drive. How does the model perform on your own data? Having real-life examples can help you get comfortable with important details like the potential range of ROI and what a model "error" or incorrect prediction might mean financially and operationally.

### DIFFERENTIATE BETWEEN SALESPEOPLE AND POST-SALE SUPPORT

As you go through the RFP process, some firms will connect you with smooth-talking salespeople and flashy decks persuading you that your hard-earned budget will generate an immense return. However, after you sign the contract, you quickly realize and regret that the immediate attention you received from that salesperson is now replaced with inattentive and rigid interactions with the people actually doing the work. As you go through the RFP process, make sure you differentiate those two groups, and talk to the actual people behind the scenes.

A subpoint to this is understanding how important of a client you are for the company. Are you a smaller or larger client for them? Will they be willing to work with you on changes in the model because you're a valued client, or will they brush you off because you're booked as a win on last month's sales quota?

### PUSH FOR PERFORMANCE-BASED CONTRACT TERMS

It's great when companies say they want to share in your success and ensure there will be little downside to spending your budget with them, but what if they were able to codify those assertions in a contract? Having a contract designed such that you pay little when there's little to no results, and you pay more when you're swimming in ROI is a true partnership. Of course, the devil is in the details. You have to not only define "success" but be able to objectively quantify and monitor it over time.

While there are many other considerations at play and each situation is different depending on the PEO's history, sophistication, needs, goals, etc., the above points hopefully will help reduce some anxiety when looking at the different options in the predictive modeling aisle. ■

**FRANK HUANG**

*Managing Director and P&C Practice Leader*
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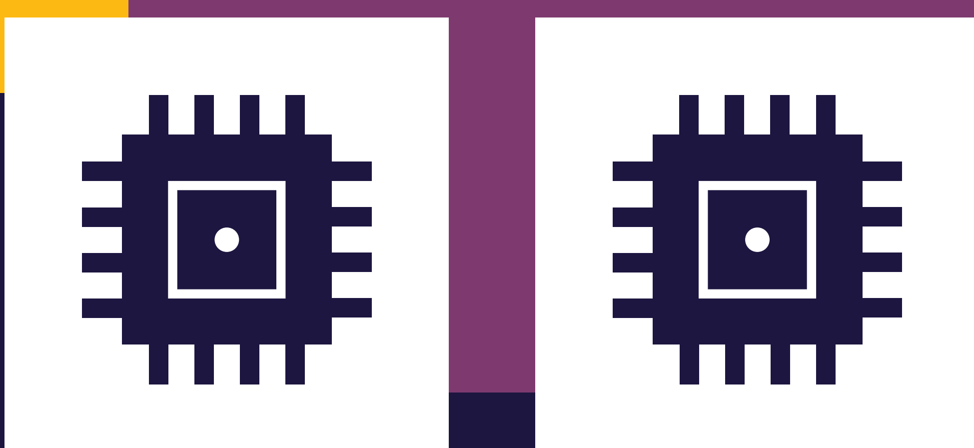
# AI: THE IMPACT ON MERGERS & ACQUISITIONS

BY WANDA SILVA



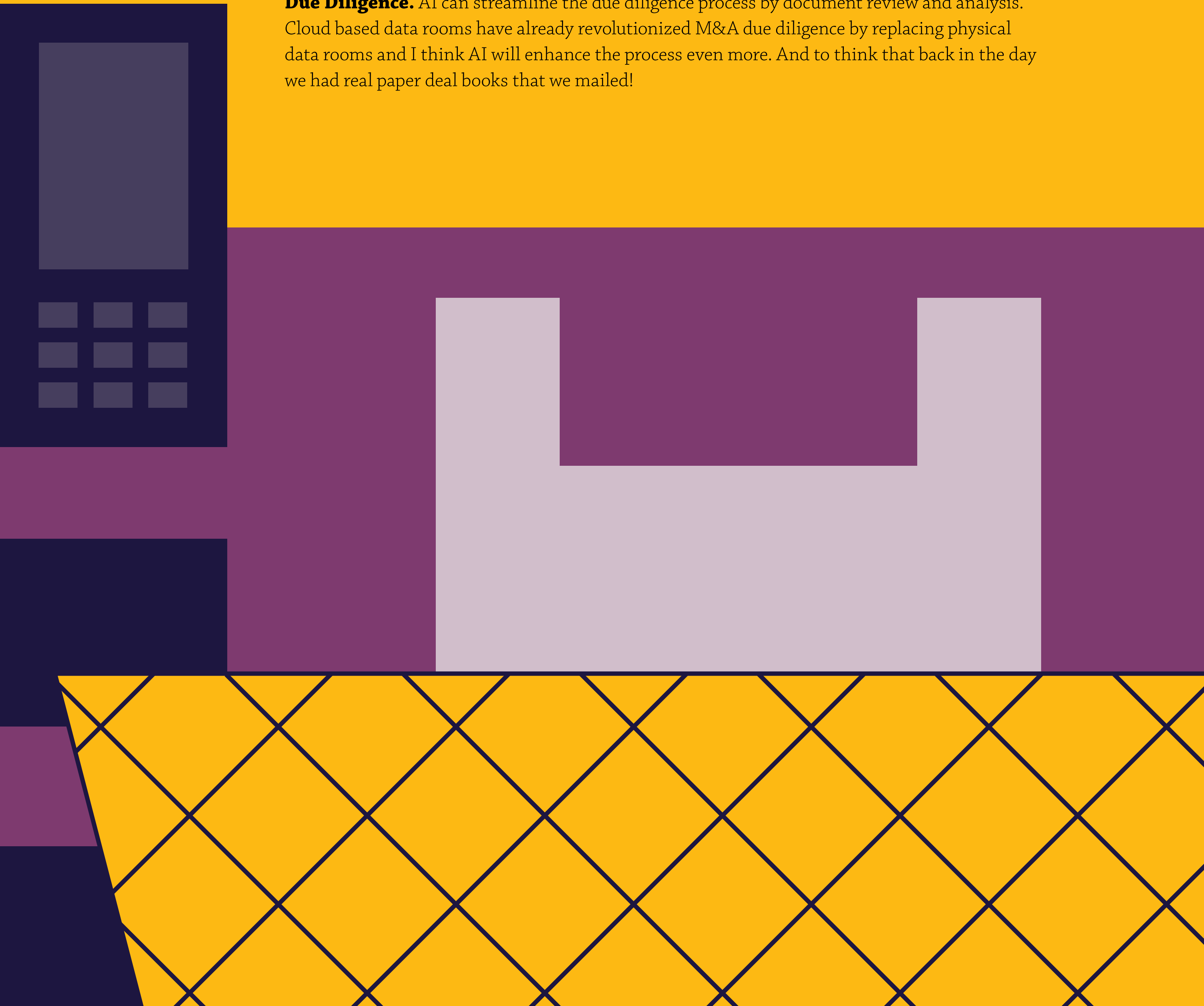
When I was young, I watched movies with robots and drones; we called this science fiction because such things would, of course, never come true. This was only imagined to be future scientific or technology advances as is artificial intelligence or AI. So here we are – and yes, robots and drones have come to offer technological advances that can enhance the way we interact with each other and with the world. And they are here to stay!

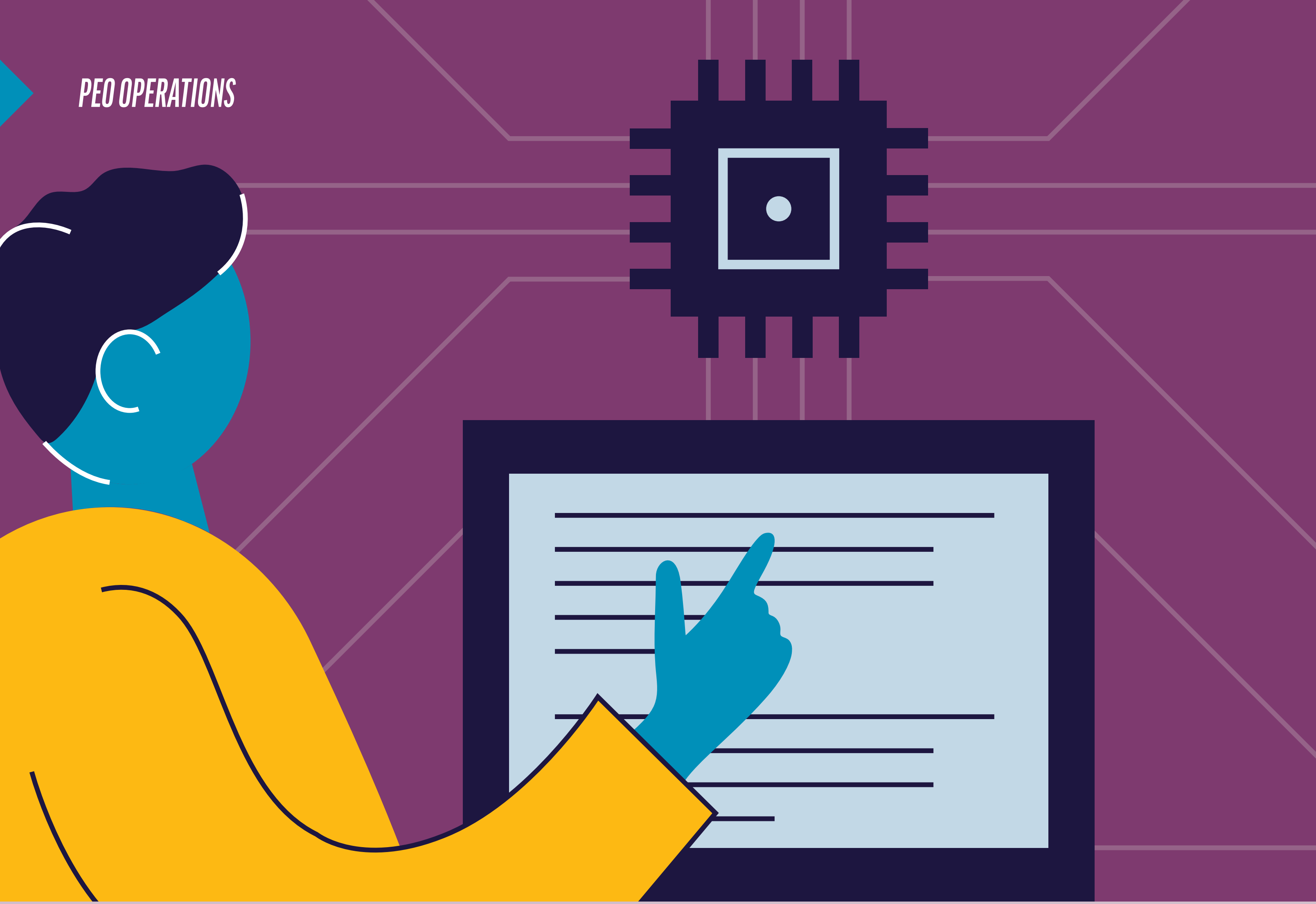
So how can AI impact mergers and acquisitions (M&A)? What M&A tasks can a robot control or computer complete in the M&A world that are usually done by humans? Let's look at just a few examples.

## LEVERAGING AI IN M&A TASKS

**Target Screening.** To determine the best ROI, shareholders of the buying company must identify acquisition targets and understand how the deal will impact their strategy and financial performance. By harnessing the power of AI, buyers may be able to more efficiently and accurately identify potential targets, thereby increasing the likelihood of successful acquisitions.

**Due Diligence.** AI can streamline the due diligence process by document review and analysis. Cloud based data rooms have already revolutionized M&A due diligence by replacing physical data rooms and I think AI will enhance the process even more. And to think that back in the day we had real paper deal books that we mailed!





**Analysis of Information.** AI may be able to analyze information such as a company's brand, management, trajectory, resources, productivity, and financial information to detemine the profitability of the combined entities.

**Reduction of Risk.** AI may be able to reduce risk in due diligence by analysis of huge volumes of data, therefore forecasting trends. This could help decision making for more successful MA strategies. Companies can leverage AI as algorithms accurately aid better predictions which makes a shift in how deals are originated and evaluated.

**Valuation.** Determining the value of a PEO is made of many distinct pieces of the valuation puzzle. I just do not see a tremendous impact on the human ability to understand valuations across the PEO industry unless they have done multiple deals and understand the comparisons in detail.

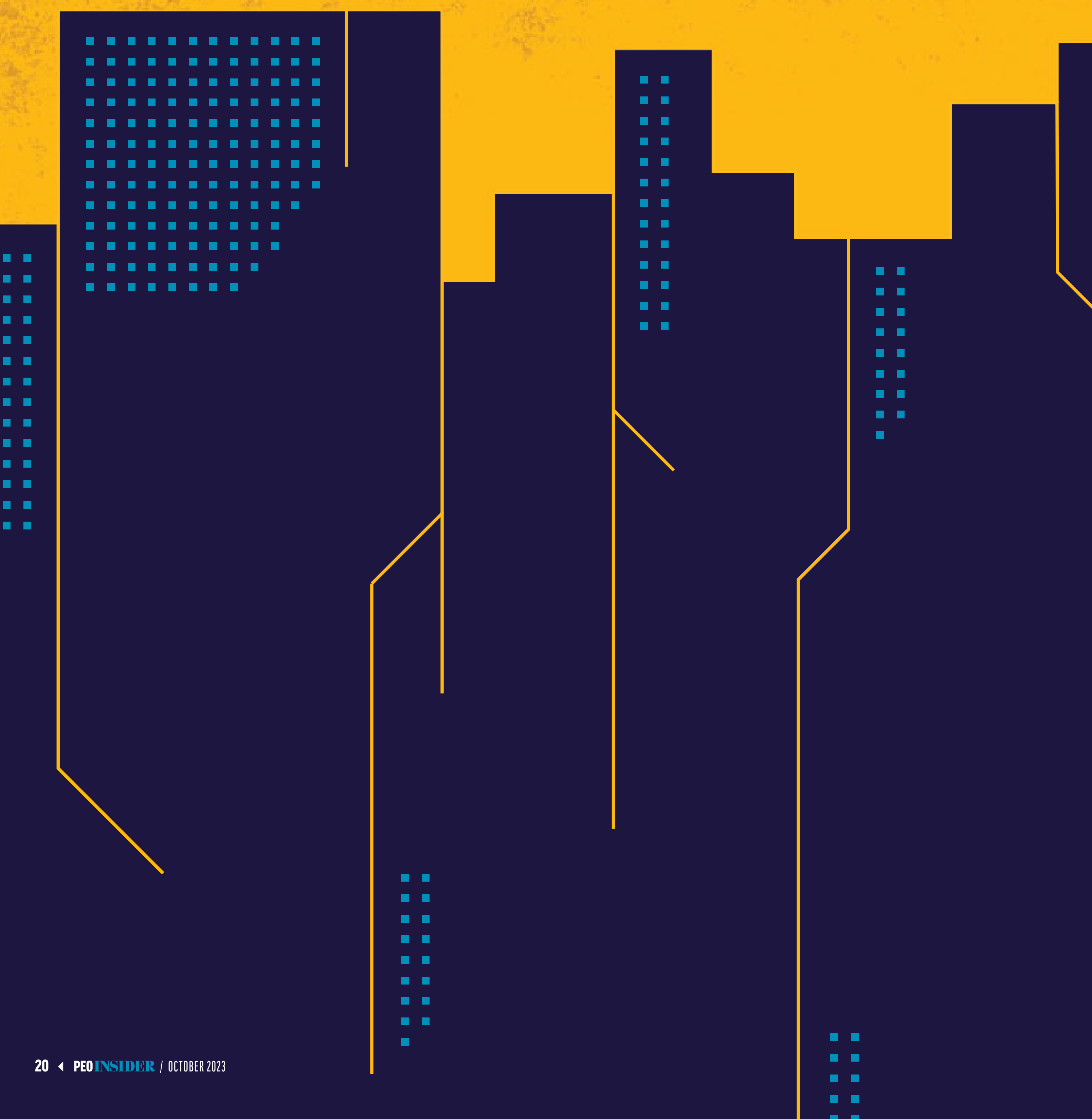
**Post-acquisition.** AI can follow an acquisition, facilitating the integration by automating various tasks including data migration, employee onboarding, and process standardization.

In summary, AI is reshaping the way buyers undertake due diligence, make decisions, and integrate post-merger. Organizations can obtain profound understandings of target companies, minimize the duration and expense of M&A and make better informed decisions driven by data.

But at the end of the day there is one thing you cannot take out of successful M&A transactions and that is the people. It takes a combination of business and emotional intelligence to be a great M&A advisor, and it takes an incredible "read" on the people involved on both the buy and sell side to know if a deal will ultimately be successful. It is kindness, integrity and respect that truly guide the M&A process and those for me are simply real-time and human. So for now, while some of the deal tasks can be completed by AI, great deal making is about the ability to understand, guide and value the people and will not gain immediately from AI in my opinion. But then again, I was not a believer in science fiction! ■

**WANDA SILVA**

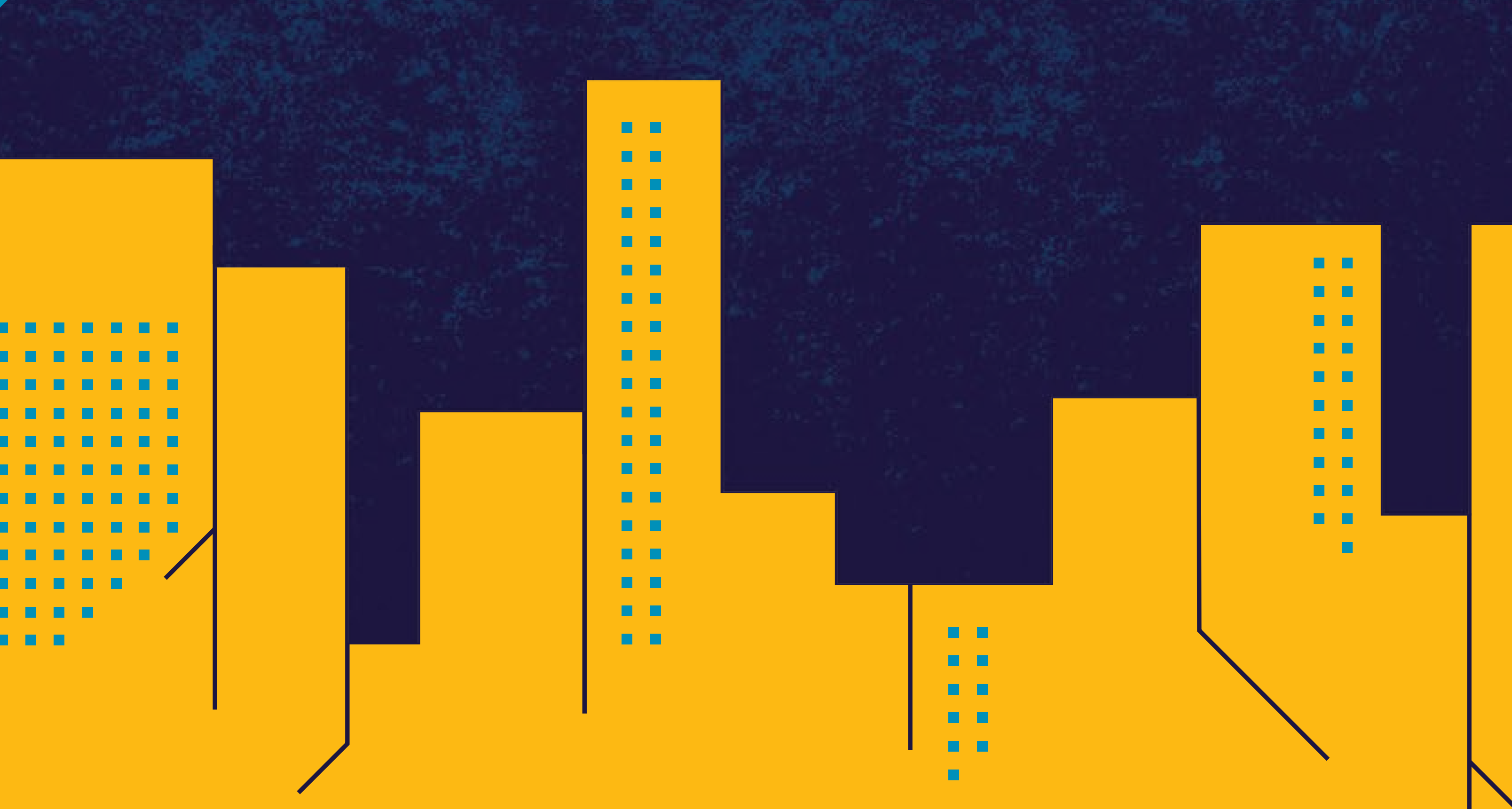
*President & CEO*
*Silva Capital Solutions, Inc.*
*Marietta, GA*



# BUILDING YOUR FOUNDATION

## The Goldilocks of PEO Growth

**BY JOE BEERS**



Two different sales approaches follow. One leads to fast growth and chaos while the other leads to slow growth and stability. One is probably too hot, the other perhaps too cold. May you find what is "just right" for your company.

I have been fortunate to be involved in two successful PEOs with dramatically different sales approaches. In the mid-1990s when I joined the industry, our start-up PEO's mission was to quickly amass a large village of worksite employees (WSE), and then to jettison them to another PEO that could service them. All energies went into building a successful sales machine. From a start-up with no clients and no industry knowledge, we grew to 12,500 worksite employees and number one in our market in two and a half years. Seven years later, we had 45,000 WSE with offices throughout the west. Our close ratio was above 50%, the median time from first meeting to closed contract was seven days, 25% signed within 24 hours of the first meeting, and 75% closed within 30 days. The internal salesforce ranged from 3 to 6 reps, with two selling vice presidents. Constant, fear driven, heavy pressure, permeated the sales team. So did heavy incentives. A deal a week was expected. Many achieved that and even the average performers were doing over 30 a year. The result was rapid growth and constant internal stress.

Most sales reps in our industry talk about how wonderful the industry is and quite frankly the prospective client does not care. We never mentioned the PEO industry. We simply asked open-ended questions to find one area of pain. When asked, what do you hate about your business? The answer is almost always something we provide. If we could solve that pain point, would they be willing to look at numbers? Research on the company was done before the meeting, not after. If the owner agreed to look, we had a prepared contract with us. There may only be one meeting and one chance with an owner. Get them to commit and delegate. Then get the owner and the sales rep out of the way and get the right people on both sides involved as soon as possible. It was astounding to us that PEOs would let operations people push hard on sales to "do more." The skill set of finding clients and getting them to commit is markedly different than the skill set of gathering quality information to run a PEO client. The salesperson closed the deal and then got out of the way. Three benefits resulted. First it allowed the salesperson to be more productive in their job. They could hunt and close which was in their wheelhouse. Second, it allowed the operations people for both the client and the PEO to gather the right information. Big incentives for the operations staff to get a client running quickly helps too. The faster they run and the less problems that occur, the bigger the bonus for operations. Third, it established the relationship between client and operations, not the sales rep. If the rep decided to leave after amassing a large book of business, the clients stayed, because they were loyal to operations.

A snowball running downhill is the revenue model of a PEO. It grows as it goes. So do your own math and financial modeling. How much more revenue can

A snowball running downhill is the revenue model of a PEO. It grows as it goes. So do your own math and financial modeling. How much more revenue can you generate by getting that first payroll to run one or two cycles earlier?

you generate by getting that first payroll to run one or two cycles earlier? Decrease the time in this metric and it impacts revenue significantly over time given the high retention rate of a PEO. The numbers may surprise you. After a few payrolls, we would circle back with the client once we knew things were running smoothly. Then we would show them all the other benefits and services that they did not know about when they signed. It worked.

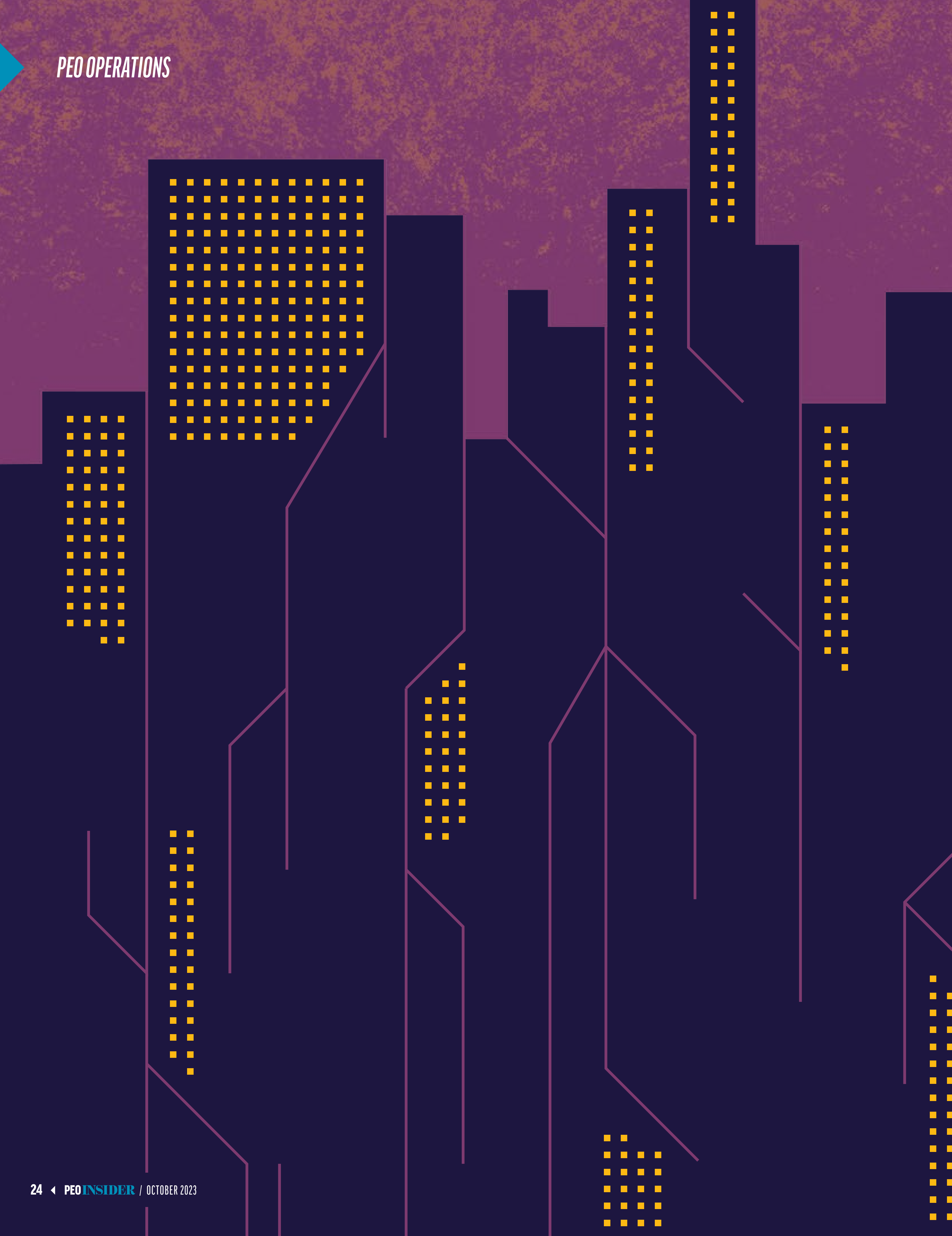
Sounds great, right? But there is a downside. The selling culture works best if established early on. It is difficult to change the operations culture found in most PEOs to a sales culture. It can be done, but heartache and likely turnover will occur. Second, the operations team will almost always be under extreme stress. Clients being engaged without having a full understanding of what they are getting into can be tiresome. It also may be difficult getting information from subordinates in the client company who do not understand what is happening. Internal operations staff may find themselves "reselling" the deal which is not their strength. Combine that with the pressure of getting that first run done quickly and a high-tension atmosphere may result. More mistakes are likely. That first payroll typically results in a phone call with issues and that detracts from the fundamentals of the day-to-day work. This wears down operations people over time. Also, the run rate percentage of new clients will be less than industry norms, but the raw number of clients that run will also likely be higher. Pick your medicine. Goldilocks would likely taste this porridge and think it is too hot.

Another approach is more thorough with front-end discussions and uncovering of needs. Beware that thorough (to some) can also sound like "slow." This approach includes a discovery call followed by a series of next steps. Step one is software demonstration. This demo may expand into demos of multiple channel partners offered by the PEOs software provider, like time clock or benefit offerings. Then onboarding, orientation, and all that goes with it. Multiple stakeholders in the client company and the PEO become involved. By the time implementation is complete, the client has bought in to the PEO program to a high degree. That first payroll run is smooth, the client is happy, and the PEO operations staff is happy. Healthy growth generally follows. Sounds great. Until you do the math. It is simple...how much money over a few years is left on the table due to the speed of getting that first run? Goldilocks might find this approach too cold.

To find what is "just right" likely combines aspects of each approach. The key? Find what works for your company. Culture is key. If the culture is too slow for your liking, be willing to turn up the heat a little. If you are moving too fast and causing unwanted stress, consider turning the heat down a bit. There exists a sweet spot for every company. May you find what Goldilocks would call "just right." ■

**JOE BEERS**

*President*
*Integrity Outsource*
*Phoenix, AZ*



# OPERATIONS CHECKLIST FOR START-UP PEO SUCCESS

**BY MARILYN CONYER, SPHR, SHRM-SCP AND MORGAN WILSON**

When entering the intricate PEO landscape, understanding the multifaceted operational tasks required to ensure compliance, efficiency, and effective management of human resources and payroll functions for client companies is paramount. The cornerstone of prosperity lies in crafting a well-structured operations plan. Below is a checklist to help guide you through this complicated process.

## 1. REGULATORY COMPLIANCE: NAVIGATING THE LEGAL LANDSCAPE

A fundamental pillar of PEO operations is mastering regulatory compliance across federal, state, and local levels. The intricacies of employment and labor laws,

> Given the rise of remote workforces, extended geographical reach requires adherence to specific PEO licensing and registration requirements in various states.

especially when operating in multiple states, demand meticulous attention. Obtaining licenses or registrations in each state of operation is crucial. Your NAPEO membership can serve as an invaluable resource in untangling this web of regulations.

Given the rise of remote workforces, extended geographical reach requires adherence to specific PEO licensing and registration requirements in various states. Even if your PEO doesn't actively market in a particular state, clients with employees working there might necessitate compliance which can be burdensome and costly. State-specific unemployment regulations further accentuate the complexity, with reporting norms varying significantly. For instance, while Florida permits PEOs to elect how to report, other states prescribe either client or PEO reporting.

## 2. INSURANCE: SHIELDING YOUR VENTURE

Appropriate insurance coverage forms the backbone of safeguarding your PEO venture. Beyond standard general liability and workers' compensation insurance, the growing prominence of cybersecurity threats calls for dedicated cybersecurity insurance. Cyber attacks can assail businesses of any size, and fortifying your defenses is imperative.

Employment practices liability insurance (EPLI) warrants careful consideration. This coverage extends not only to your internal employees, but you may also extend coverage to your clients. EPLI offers protection against claims related to employment practices, encompassing discrimination, wrongful termination, and harassment.

Navigating the complexities of workers' compensation insurance, mandated by each state, necessitates an insurance broker well-versed in the PEO industry. Given the intricate nature of PEO operations and the myriad workers' comp codes they manage, a broker experienced in this sector is invaluable.

## 3. OPERATIONS: THE BACKBONE OF YOUR PEO ENDEAVOR

**Client Contracts: Solidifying Agreements**

Crafting a robust client service agreement is a pivotal component of your PEO's offerings. This document delineates service scope and responsibilities while establishing a legally binding co-employment relationship between your PEO and your clients. Legal counsel, well-versed in the nuances of the PEO industry, is indispensable for drafting comprehensive contracts that incorporate specific state PEO provisions.

**Human Resource Information System (HRIS): Powering Your Processes**

Selecting a suitable HRIS is a decisive step in streamlining payroll and HR functions. This choice should reflect long-term viability rather than short-term convenience, as system transitions can be arduous. Formulate a comprehensive list of business requirements, to aid in system comparisons that align with your goals.

An optimal HRIS should:

- Maintain accurate records of employee data, payroll details, and compliance documentation.
- Facilitate client level payroll processing, tax withholding, and reporting in adherence to legal requirements.
- Remain scalable to accommodate exponential growth.
- Contain streamlined, user-friendly workflows to increase efficiency.
- Offer a seamless onboarding platform for worksite employees, encompassing forms, benefits enrollment, and compliance training.
- Include a robust billing system that accommodates multiple billing scenarios.

**Payroll & Tax Administration: Ensuring Accuracy and Compliance**

Staying abreast of payroll tax regulations is imperative to guarantee accurate

and timely tax filings. Core to the co-employment relationship is your PEO's responsibility for federal, state, and local tax withholding, remittance, and reporting under your PEO's tax identification numbers.

PEOs oversee a wide array of payroll cycles and varieties, necessitating a system capable of accommodating numerous data elements tailored to diverse industries. These encompass pay codes, deduction categories, PTO policies, and a multitude of state and local wage and taxation regulations.

**Employee Benefits: Nurturing Competitive Advantage**

Remaining competitive in the PEO domain mandates offering comprehensive employee health and supplemental benefits to clients and their workforce. This array spans health, dental, vision, life insurance, disability insurance, and supplementary options. Benefits can be structured as PEO master plans or client-sponsored plans, requiring collaboration with an insurance broker well-acquainted with PEO nuances.

As you embark on your journey, it's wise to consider whether offering a future master health plan aligns with your goals. It's worth noting that most health insurance providers stipulate a minimum enrollment threshold for considering a group as eligible for a master plan. Hence, for startups, it might be prudent to initiate client-sponsored health plans to gradually build up enrollment numbers. While these client-sponsored plans typically involve more administrative efforts compared to master plans, they can also prove advantageous as part of your marketing strategies.

Supplemental plans, on the other hand, are typically structured as PEO master plans. This arrangement allows these plans to be extended to all qualifying worksite employees and, depending on plan specifics, might not necessitate an employer contribution.

Your PEO's approach to administering client-sponsored plans will determine the course of benefit management. Some opt to fully handle the administration for their clients, while others might credit employee deductions back to the client, who then undertakes administration responsibilities. Conversely, master plans are administered by the PEO.

Another avenue to attract and retain employees is through retirement plans. A common choice for many PEOs is sponsoring a multiple-employer 401(k) plan. This type of retirement plan empowers clients to adopt the plan and offer it to their worksite employees. Notably, the multiple-employer plan streamlines administrative processes for the PEO, simplifying overall management.

**HR Support & Compliance: Guiding Clients Through Complexity**

Your PEO's role extends to providing HR support and ensuring client compliance with employment laws. Navigating both federal and state regulations is essential and requires frequent client communication. Subscribing to a service that maintains federal and state regulatory data can be immensely beneficial in staying informed.

Incorporating these components into your operational blueprint sets a strong foundation for a successful start-up PEO journey. Educating yourself about regulatory nuances, fortifying your insurance coverage, optimizing your operations, and providing robust client support will guide you toward becoming a trusted partner in the PEO landscape. ■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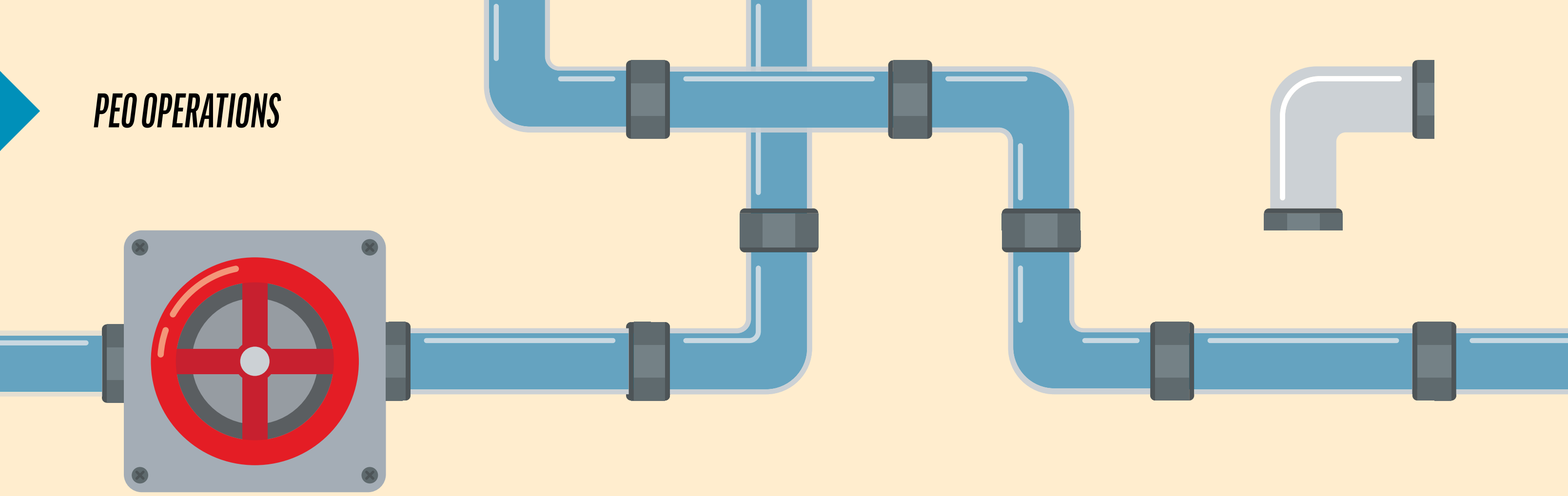


# MAXIMIZING EFFICIENCY

## RUNNING AN EFFICIENT PEO OPERATION BY LEVERAGING THE LEAN FRAMEWORK

BY ENID MARTINEZ

As the economy and our industry continue to shift, PEOs are becoming even more attractive and important for many organizations. Through our leadership in the PEO space, we know our model enables companies to focus on the critical aspects of their business, while Human Capital Management (HCM) experts provide employee-centric services, including payroll and benefits, all while ensuring compliance requirements are met.

An additional part of our responsibility is to deliver timely and accurate services. This is one of the reasons why running an efficient operation is important. While there are many ways this can be achieved, there is a methodology called "Lean" that has been used in manufacturing for over 50 years and can be adapted to accelerate your PEO's operational success.

Lean is a framework that consists of five key principles, focusing on delivering higher quality products and services, while maintaining the right levels of operational efficiencies. Thanks to Toyota Lean was known in the industry. I've had the opportunity to leverage it in different spaces and businesses, and experienced transformational change. Let's dive in.

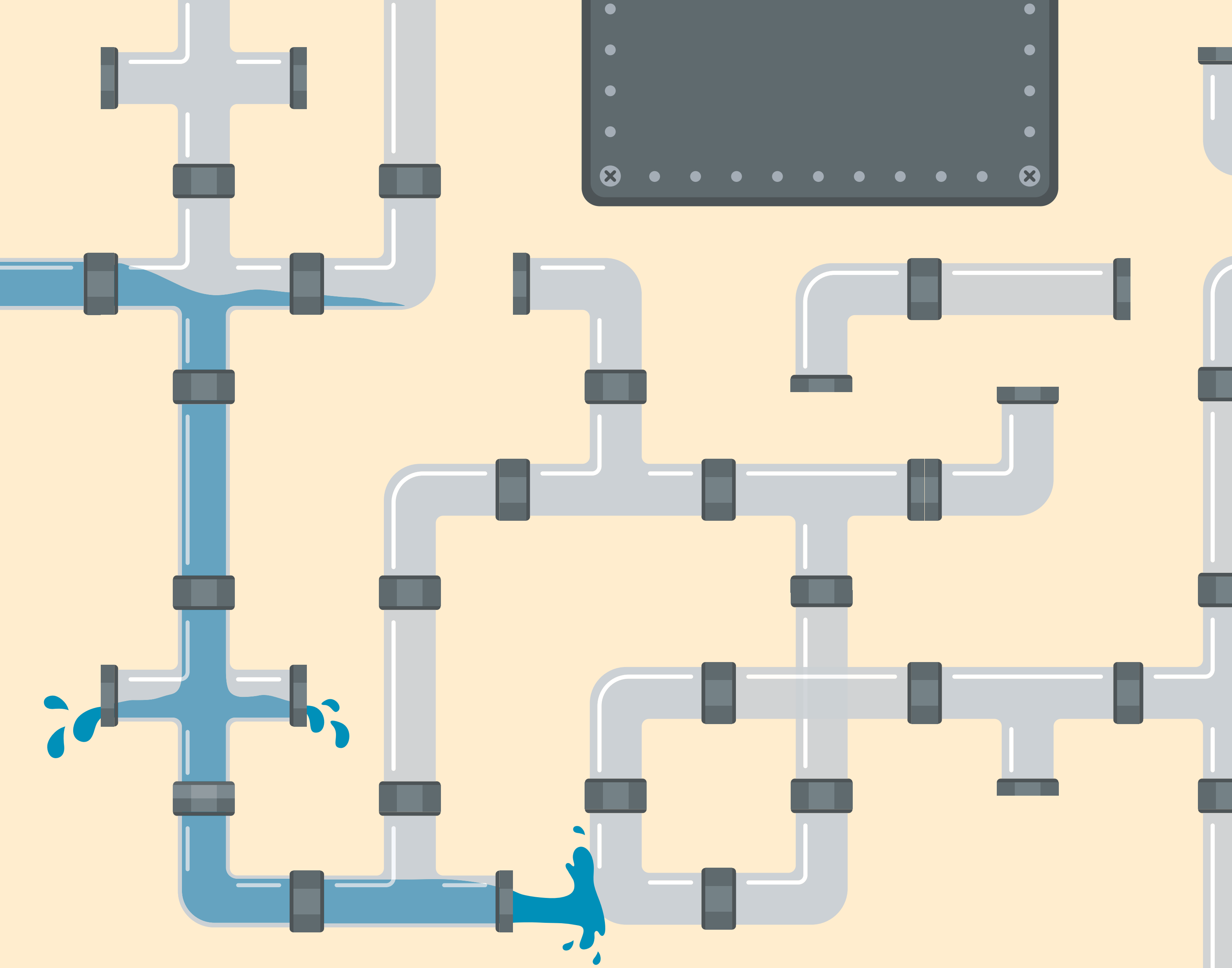
### THE FIVE PRINCIPLES

Lean's five principles are known as:

1) Defining Value
2) Mapping the Value Stream
3) Creating Flow
4) Establishing Pull
5) Pursuing Perfection

Let's start with the first principle, **defining value**. PEOs must clearly understand what our clients need from the services we provide and which of those offerings bring the most value. To do this, it's vital you define value through the eyes of the customer, because at the end of the day, that is what they are willing to invest in. This is an exercise I recommend completing quarterly to quickly re-prioritize what our clients need and deserve. For maximum effectiveness, be sure to define value with your full leadership team and cascade the outcomes across all associates to build transparency and shared common goals.

The second principle, **mapping the value stream**, brings to life the tactical activities that support the value that you defined in your first principle. Mapping a



process from this perspective helps you identify ways to streamline. This is where the fun begins! Based on your shared definition of value, and laying out your tactics, you can now clearly pinpoint and articulate which activities to eliminate or reduce from your process – generating efficiency and focus on delivering value through the eyes of your clients. There are many templates available that can be used to complete this step in its preferred method - with service associates.

The third principle, **creating flow**, is where true transformation can take place. Once you understand your opportunities to streamline, you can begin looking at ways to re-organize your activities and leverage technology to create an optimized process that runs without delays and delivers faster services.

Lean's fourth principle, **establishing pull**, is the one that I think can be a bit more challenging to apply to PEOs. Still, there are opportunities to leverage it. When you review your service operations with a "pull" mentality, you can adapt it by creating a "first in / first out" approach

> **"An additional part of our responsibility is to deliver timely and accurate services. This is one of the reasons why running an efficient operation is important."**

**Ultimately, it is up to each PEO business leader to determine the best approach to deliver their services. Lean is a framework to increase quality and efficiencies in your operation while concentrating on the services that your clients need.**

when assigning and managing the work to your team. By quickly addressing case management and client escalations, you will increase productivity and satisfaction amongst your associates and clients. Once you have established these four principles, it's time to wrap up your Lean journey with the last principle, pursuing perfection.

**Pursuing perfection** is the most critical principle and the one that should become a part of your organization's DNA. The mindset around this principle is that good is never enough, and there are always ways to improve and become better. While there are many tools available that can help your organization create a "continuous improvement" mentality, one of the most used (and one that I highly recommend) are "Kaizen events." In a Kaizen event you link together with key subject matter experts and leaders to map your processes and identify opportunities to address in both short- and long-term timeframes. What really makes the difference with this tool compared to other activities and working sessions, is that you end with each action item having assigned owners and timelines, helping the team maintain focus and commitment.

You may be asking, "Who has time to apply and follow Lean?" I'd challenge you to say, "Who doesn't?" Once you and your leadership team agree Lean is right for your PEO operations, it naturally saves you time and becomes a part of your daily business culture. It can be applied throughout all operational processes, starting with implementing clients, transitioning them to service, and within the different teams that support payroll, benefits, talent, and other HCM services.

Ultimately, it is up to each PEO business leader to determine the best approach to deliver their services. Lean is a framework to increase quality and efficiencies in your operation while concentrating on the services that your clients need. It is not only a simple approach, it is also process and industry agnostic, and will help reduce your operating expenses, giving you the chance to re-invest in new technologies that can enable you to be more proactive, and stay ahead and relevant in the marketplace.

As you begin your Lean journey, remember good is never enough and you should always want to deliver an epic experience, while running an efficient PEO operation. Because, at the end of the day, you are taking care of your clients most important asset, their people. ■

**ENID MARTINEZ**

*VP, Service Operations*
*ADP*
*Miami, Florida*

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"As a large, Mississippi-based PEO, my team and I were concerned about another software conversion just a few years after our last one. It was not our first time having to convert. However, we felt like we had to get on the leading technology to accommodate our growth plans in a competitive environment. The simplified payroll process and benefits administration attracted us to PRO. After several years of due diligence and vetting all platforms, we made our decision.

PRO assured us they would be right there with us the whole way during the conversion, and they lived up to that. We were able to meet each and every deadline, and their team was with us going live. The decision to switch software was significant, but PRO's cutting-edge conversion process did heavy lifting on the workload, which significantly lessened the pain of change.

My advice to any PEO that wants to grow... Go PRO!"

— Ken Lewis, President of People Lease

**"We felt like we had to get on the leading technology to accommodate our growth plans in a competitive environment...**

**...The decision to switch software was significant, but PRO's cutting-edge conversion process did heavy lifting on the workload...**

**My advice to any PEO that wants to grow... Go PRO!"**

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# INTANDEM HR: SUCCESS THROUGH TEAMWORK

## BY CHRIS CHANEY

The Denver, Colorado metro area has enjoyed a surge of newcomers in recent years; young Americans in particular have flocked to the Centennial State. Count InTANDEM HR President and CEO Monica Denler as one who sees an upside to this trend. The population growth means more small business owners and more potential worksite employees (WSEs) her PEO can service.

InTANDEM HR prides itself of being the premier Colorado-based PEO committed to providing exceptional service and expertise to clients. The leadership team behind the operation is a close-knit group of professionals who work well together as a team. You'll never hear someone utter the phrase "not my job" at InTANDEM. This formula for success has worked well, as the company celebrates 14 years in business this year.

The journey began when Denler decided to set on her own.

### EARLY DAYS

Having just graduated college with a sociology degree, Denler set out looking for a job in 1998. She landed an entry level sales job with a PEO. Immediately she enjoyed the role and the opportunity for growth it brought.

"I found that working in a PEO, we were able to change employees lives for the better by helping them gain health insurance and other benefits," she recalls.

Denler excelled in her role and when her company was acquired by a larger PEO, she became the youngest sales rep in the class and one of only two females. This brought its own challenges, but she jokes that being a Colorado Avalanche fan at a Detroit-based company was the toughest obstacle to overcome.

She continued her PEO sales career, eventually rising to VP of sales and operations. Around 2010, a private equity company had purchased the PEO she worked for. She was privy to much of the discussions and process.

"I felt that some of the decisions that were made didn't align with what I thought was most important to our clients: providing local service at a local level," Denler says, "They wanted me to open sales offices all over the country and oversee it all."

"I also had two young children and was concerned about being gone much of the time, so I did the next craziest thing and started my own PEO," Denler adds.

> *InTANDEM has grown quite a bit since Denler first opened the company's doors. Much of this success can be attributed to hard work and a united team working towards a common goal.*

She began by raising capital. Luckily, her older brother offered to help so long as she agreed to recruit two business partners.

"He did not charge me a low interest rate," Denler jokes.

But nonetheless her brother's investment helped get the new PEO off the ground. Denler's husband is a software engineer by trade and agreed to attend HR Pyramid (later to become Prism HR) training with her. She explains that in previous PEO roles she never dealt with the software, so this was not exactly an enjoyable experience.

She also leaned on other friends and fellow entrepreneurs for advice and assistance. A web designer friend agreed to build her website for only a small fee;

a marketing and graphic designer friend helped create a logo and develop marketing materials. She was also able to secure office space from another friend who had extra room.

"Employees take for granted that someone has set up the internet, and phone system, and copiers, and computers. Being able to office share was a big help with basic needs," Denler says.

Plus, a few months later she was even able to convince them to come on board as a client.

Simply getting to market and securing benefits plans was a hard challenge, too, but nothing was more important than assembling a strong team to work alongside her. One of Denler's first hires was a friend and former colleague, Stacy Jensen. Jensen began her career in the staffing industry and soon landed a job

in HR at a PEO where Denler started working shorlty after.

"I was working in HR for the Colorado Judicial Branch which was a great experience but perhaps not the best match for my personality," Jensen says.

"We had lunch on her birthday," Denler recalls, "and I convinced her to come work for me as my HR Director."

Next to join Denler's team was Pete Sartoris as Chief Financial Officer. Sartoris brought many years of accounting and financial experience to the role, but he's the lone member of the leadership team who did not bring prior PEO experience.

He started out on the self-described typical public accounting track which grew boring after awhile. So, he switched gears and jumped into the start-up fray. The wild west of business, he calls it. After some years, the constant high energy needed to keep up with the CEOs became too much.

"I was looking for something with more stability that was focused on the clients," Sartoris says, "I didn't know what at a PEO was at first, but I've loved it ever since."

The most recent member to join Denler's team is Lisa Petrovich who heads up payroll and operations. She too brought years of prior PEO payroll experience to the role. What began as a temporary placement at a PEO grew into a career that she continues to love today.

## SUCCESS THROUGH TEAMWORK

InTANDEM has grown quite a bit since Denler first opened the company's doors. Much of this success can be attributed to hard work and a united team working towards a common goal.

During a leadership meeting, the team put pen to paper to flesh out their core mission.

"We decided that our purpose is to help clients succeed, our cause is to provide HR and compliance solutions, and our passion is watching entrepreneurs succeed," Petrovich explains.

InTANDEM's story represents the good that can happen when a group of professionals commits to a common goal and set of values.

"I was in a meeting with Monica and a prospect once, and Monica mentioned that we are a diva free zone," Jensen says, "You'll never hear someone say, 'that's not my job'."

"From the top down we all walk that walk. We are all willing to chip in where needed," Denler says. "Having started the company alone, I value every role because I know how difficult each one is."

The spirit of collaboration and support underpins a positive workplace culture, too.

"In one word, our culture is wholesome. I feel more confident, more seen, and more valued than any other job I've had," Sartoris says.

While staying true to themselves, the InTANDEM team has grown the company into what they consider to be the top privately held PEO in Colorado. They remain loyal to service partners and have long standing relationships with insurance carriers. They only market to Colorado domiciled businesses, although they are licensed in more than 30 states.

Over the years they have seen the PEO sale and service model evolve from a workers' comp play to a sophisticated HR and technology partnership. Access to a team of experts is more and more important to small business owners, too, Denler explains. She describes Colorado's legal and regulatory compliance landscape as one that's beginning to resemble California's.

"It's more challenging than ever to be a Colorado employer which increases our value proposition but we're also pro-employer and aware of how these changes affect clients," Denler says.

Medical inflation is another issue really affecting small businesses. As the COVID pandemic raged a few years ago, many people decided to forego doctor's visits and appointments. Now, there's a bit of catchup phenomena going on as people seek medical care they had put off. The economy overall is not inspiring much confidence among businesses either, Denler says. She's seen apprehension among businesses to take on new projects or ventures amid economic uncertainty.

That being said, Denver is still a very attractive market. Denler notes Colorado is a top state for young people to want to move to. There's a great sense of community, too. With the PEO industry as whole being so strong, she's confident the company is poised for growth.

## ACTIVE AND ENGAGED

Being active members of their community is big priority for the InTANDEM team, too. The company supports local charitable and non-profit organizations trough the InTANDEM HR Foundation. Their efforts focus mostly on advocating and supporting women, children, and healthcare organizations. Employees are encouraged to volunteer, and even receive paid days off per year to do so. The goal is to reinforce the company's values of giving back and serving others.

Denler and her team are also heavily involved in the industry and association. Denler serves on NAPEO's Board of Directors and other committees. Her team regularly participates on committees and working groups, and attends many conferences and events.

"Being on the Board is a huge honor," Denler says.

"I felt that it was time to give back more to the industry and help grow and promote PEOs." ■

**CHRIS CHANEY**

*Editor, PEO Insider*
*NAPEO*
*Alexandria, VA*

# PEOS IN THE COMMUNITY

# EXTENSISHR

## BY EVAN FALLOR

At ExtensisHR, giving back to the community is a monthly surprise. Well, a meticulously planned surprise.

The Woodbridge, New Jersey-based firm has embraced an employee-run, divide-and-conquer approach to its volunteering efforts. Last year, the company formally launched Extensis Gives Back, a program that created a dedicated committee of employees who schedule company volunteer days by causes they are passionate about. It is a well-orchestrated machine, with its conductor Michelle Conway, ExtensisHR's Manager of People and Culture, at the helm.

The committee of roughly 15 employees from varying departments and levels –from payroll to HR and from associates to vice presidents– meets at the start of the year, where they are assigned subcommittees based on each members' desired month and volunteering activity. Subcommittees meet throughout the year, where they select each month's theme and where and how the collective company will volunteer that month. The result: all levels of staff have a say and benefiting organizations don't operate within a vacuum.

The structure allows employees to plan ahead and manage coordination while also choosing champions to lead each month's efforts. If, say, October is particularly busy for one employee, they might not volunteer that month because of job priorities and instead lead a separate month.

"Everything we're providing through the committee is done through the voice of our people," Conway said. "Giving our employees the ability to choose the events and organizations to benefit is a huge part of our mission."

ExtensisHR's community giveback is targeted for North and Central New Jersey, near its Woodbridge headquarters. The intent is to make sure employees' volunteering desires are satisfied and the firm is giving back to the community appropriately.

"We want to make sure it fits into people's daily schedule," said David Pearson, ExtensisHR's Senior Vice President of People and Culture. "We don't want people to feel burdened or forced to do things. The feedback has been very positive."

> *With back-to-school season in full swing, the team is currently running a school supplies drive to help local youth stock up on crayons, notebooks, and other essentials.*

Some months are geared toward networking. Others are inspired by that month's holiday(s). The coming fall and winter weeks are usually centered around giving back and fundraising, especially leading up to Thanksgiving. And the results run the gamut.

With back-to-school season in full swing, the team is currently running a school supplies drive to help local youth stock up on crayons, notebooks, and other essentials. The committee has also


ExtensisHR employees gather for a team clean-up effort at Sandy Hook Beach

organized pet supply round-ups as well as blood drives in recent memory.

Recently, the company served hot meals to more than 500 people at Elijah's Promise Soup Kitchen, an East Brunswick organization harnessing the power of food to break the cycle of poverty and alleviate hunger.

And before the summer months, employees drove 15 minutes south to Sandy Hook Beach, part of the region's Gateway National Recreation Area, to participate in a clean-up of the beach ahead of the busy visitor season. That was an especially meaningful event for Conway, who has beach roots and is a frequent visitor to the Garden State's shoreline.

"It's an event I've wanted to do since before COVID. It really meant a lot to me personally," she said.

Over its 26 years of existence, ExtensisHR has seen both its regional and national footprint swell, especially over the past half-decade. And as it grew in employee count, so did the collective desire to give back to New Jersey. Both Pearson and Conway agreed that the company gets a lot from the community, so it's also on them to give back to the community.

It was last November when the formal "Extensis Gives Back" brand to the company's volunteering efforts. Pearson says this resonated with employees, leading to better marketing as well as the monthly champions who guide the year's outings.

"This way, it's not all on Michelle's shoulders," Pearson said. "Even though she's driving it, she's getting help from other folks."

When asked of a poignant volunteering experience, Conway pointed to this spring, when the ExtensisHR team put their artistic abilities to the test decorating and filling "sweet cases" for foster children through the nonprofit Foster Love - Together We Rise. These decorative duffle bags and suitcases were packed with essential items and were provided to foster children, who often have only a garbage bag to keep their few personal belongings in when they are placed with families.

It was the second time ExtensisHR helped these children in need, and Conway says it won't be the last.

"It's a heartbreaking experience for children and this program aims to give a bit more pride back and personal identity to them," Conway said. "And our employees love helping. It gives them the opportunity to express their creativity with the stencils provided to them." ■

ExtensisHR employees gather to serve hot meals to more than 500 people at Elijah's Promise Soup Kitchen in New Brunswick, New Jersey.

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# SECURE 2.0 ACT UNPACKED: EXPLANATION OF PROVISIONS FOR 2023 AND BEYOND

BY MATT MUNN, CPA

The SECURE 2.0 Act was passed as part of the larger Consolidated Appropriations Act of 2023. The SECURE Act itself was over 350 pages containing a myriad of retirement-focused provisions. The 2.0 Act impacts all of the most commonly used retirement vehicles (think 401K, 403b, 457 and IRAs) and does so with provisions correcting the previously passed SECURE Act, some taking effect immediately in 2023, others in 2024 and 2025 and still others as late as 2033. Not every provision will apply toward PEOs or even your clients, but many of them can have far-reaching changes that will require PEOs and the plan sponsors to be informed.

## 2023 PROVISIONS

The most publicized change for 2023 was to the required beginning date for required minimum distributions (RMDs) from qualified retirement plans and IRAs. Prior to the passage of both SECURE Acts the date had been April 1st of the year after someone attained the age of 70½. This half-year "rule" caused much confusion and headaches for individuals and plan administrators. The first SECURE Act changed this to age 72 and now the SECURE 2.0 Act moved it further to age 73. This will go even further in 2033, to age 75.

The SECURE 2.0 Act has come to be known as the "Rothification" Act. Many retirement funding options have now been opened to being done on a post-tax basis (similar to Roth IRA contributions). Beginning in 2023, Roth contributions can now be made to SEP and SIMPLE IRA accounts as well as being available for employers to make Roth matching contributions for 401(k), 403(b) and 457(b) plans. The overall goal was to provide a short-term influx of tax dollars to the government due to post-tax treatment and to provide tax-free growth and distributions in the future for individuals. While a welcome change to many, the IRS will need to issue further guidance so employers, employees and individuals will know how to report these contributions.

Tax credits available to small employers to cover start-up expenses for a new plan were enhanced under the SECURE 2.0 Act. The credit percentage increases to 100% for employers with less than 50 employees for the first three years of a new plan. SECURE 2.0 also implemented a new credit available for employer contributions to a new small employer pension (SEP) plan. The credit is the employer contribution amount, up to $1,000 per employee, for a five-year period. The full credit applies to employers with 50 or fewer employees and prorated up to 100 employees. The credit also reduces each year going from 100% the first two years to 75% in year three, 50% in year four and finally 25% for year five. This small employer pension credit was also made applicable to an employer joining a multiemployer plan (MEP). SECURE 2.0 corrects wording from the first SECURE Act allowing an employer to retroactively apply this credit back to 2020 (an amended tax filing will be required).

## 2024 PROVISIONS

Beginning in 2024, catch-up contributions made to eligible employees who had compensation exceeding $145,000 in the prior year, will need to be made on a Roth (post-tax) basis. The IRS pumped the brakes on this provision on August 25, 2023, to provide a two-year transition period for employers to make this switch. The IRS also clarified that high-paid self-employed persons (i.e., partners in a partnership) won't be required to make catch-up contributions on a Roth basis even if they exceed the income threshold. The IRS also indicated that further guidance will be forthcoming once public comment has been received and reviewed.

Employers will have the option to adopt a plan provision to allow for employer matching contributions to be made for employees who are making student loan payments. The employer effectively treats those payments as the employee's "deferral" and makes corresponding match contributions. Similar to some of the other provisions, further guidance will be needed from the IRS to determine what levels are to be used and how the amounts are referenced/supported.

Starter 401(k) plans can be offered by employers who wish to provide the ability for employees to defer a part of their wages without having all the added administrative testing requirements applicable to traditional 401(k) plans. These plans would only allow for employee deferrals at a level between 3-15% of compensation.

> *The most publicized change for 2023 was to the required beginning date for required minimum distributions (RMDs) from qualified retirement plans and IRAs.*

Roth 401(k) accounts will no longer be subject to RMD rules. Prior to SECURE 2.0 Act, Roth 401(k) balances were included in RMD computations for those employees who were taking or were required to take RMDs from their qualified retirement plans. Whereas Roth IRA accounts were not subject to RMD rules, their 401(k) brethren are now treated the same way.

## FUTURE PROVISIONS TO KEEP ON YOUR RADAR

In 2025, all 401(k) and 403(b) plans will be required to adopt automatic enrollment features that start initial deferral elections at 3% for employees becoming eligible to participate in the plan. The employee can elect out and/or request a refund of any deferrals within 90 days of eligibility. Exclusions will be allowed for employers with 10 or fewer employees.

Catch-up contributions will increase to $10,000 (or 50% more than the level computed for 2024) for employees who are at least 60 years old. They will also be indexed for inflation going forward (for those age 50 or older as well).

Part-time workers (those with at least 500 hours per year) will be allowed to participate in a 401(k) plan one year earlier than what was passed under the original SECURE Act. If an employee meets the 500-hour rule for two consecutive years, they can be eligible to participate in the plan (assuming they meet the other eligibility rules – age). Any employer contributions made can be placed on a vesting schedule.

There are numerous other provisions of the SECURE 2.0 Act that may impact PEOs and their clients. This article outlines several of the likely provisions that will impact most PEO plans. But as with most bills passed by Congress, there are still many rules that will require further guidance from the IRS and substantial updates to be made by plan administrators. Additionally, new language will need to be worked on to allow employers to adopt the necessary plan amendments imposed by the SECURE 2.0 Act. ■

This article is designed to give general and timely information about the subjects covered. It is not intended as legal advice or assistance with individual problems. Readers should consult competent counsel of their own choosing about how the matters relate to their own affairs.

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# A CONGRESSIONAL HEARING 18 MONTHS IN THE MAKING

## BY THOM STOHLER AND ALEX MILLIKEN

On July 27, we testified before the House Ways and Means Oversight Subcommittee with three other organizations on the Employee Retention Tax Credit (ERTC). We were the sole voice representing the small business community. Not the Chamber, or NFIB—us.

So how were we able to successfully position the PEO industry as the voice of the small business community on the ERTC? It was the result of two separate but interrelated strategies.

We embarked on the first strategy in February 2022, when we hired Mehlman Consulting and began our targeted education campaign about the PEO industry aimed at the Congressional tax committees.

Over the course of 2022, I met with members and their staffs to educate them about the PEO industry and the work we do to help small businesses grow and thrive.

At the same time, the backlog of ERTC claims was growing, and we heard from you about the impact this was having on PEO clients. We quickly added the impact these delays were having on small businesses and how long they were having to wait to get their tax credit processed by the IRS into our meeting messaging.

These efforts paid early dividends. We were able to meet with both the House and Senate Tax Committee Oversight Democratic (Majority) staff in April of 2022 to discuss ERTC delays and incorrect processing of tax credits taken by PEO clients. This was the first time we were able to raise the delay issue with senior legislative staff. Pat Cleary also sent a letter to the Treasury Department reiterating the same messages we were telling Congress. They reached out to the IRS, and while we didn't get any immediate relief, the issue of the ERTC backlog was now on the tax committee agenda.

*Because of the hard work of NAPEO, the PEO industry, and PEO clients, the IRS cut the backlog from one million to 374,000 ERTC applications in two months. Still, we were not finished.*

We followed up on these efforts during the 2022 PEO Capitol Summit, where 35 NAPEO members met with their Representatives and Senators to discuss the delays in processing the ERTC and the negative impact it was having on PEO clients. Afterwards, we continued to meet with the members of Congress and their staffs who serve on the tax committees. Finally, NAPEO PAC donated almost $70,000 to members of the tax writing committees and made several smaller donations to candidates that were likely to become members of the Ways and Means Committee.

Using these tools, we were able to make the tax committees aware of the PEO industry and the ERTC backlog.

Our lobbying efforts got a boost from the bad news coming out of the IRS with regards to the backlog in ERTC claims. In September 2022, the backlog stood at 191,000. By January 1, 2023, it had increased to 371,000; and by the end of February, it had grown to 468,000.

In response to the growth in the ERTC backlog, Pat sent a letter to every member of Congress asking them to put pressure on the IRS to clear out the backlog. This kicked off our 2023 lobbing campaign. Next, we asked members of the Senate Finance Committee to put questions "in the record" during the confirmation hearings on Daniel Werfel to be commissioner of the IRS. This allowed us to get answers to questions about the backlog and to elevate it as an issue.

We also started a grassroots campaign, urging both NAPEO members and their clients to write Congress to pressure the IRS to clear out the ERTC backlog. Pat sent a second letter to Capitol Hill that once again asked them to pressure the IRS to clear out the backlog. We also sent a press release detailing our activities, which also served to educate the media about the issue.

It was not only NAPEO that was lobbying this issue. Several NAPEO member companies, most notably ADP TotalSource, were working with their representatives in Congress to get answers on outstanding ERTC claims. They also participated in several lobbying visits with key members of the tax committees and Congressional leadership. It became an "all hands" exercise, and the combination of industry resources multiplied our message on Capitol Hill.

The first success we achieved in this lobbying campaign was when 10 Republican members of the House Ways & Means Committee sent a letter to Commissioner Werfel to update them on what he was going to do to clear out the

ERTC backlog. At the same time, Pat sent another letter to Secretary of the Treasury Janet Yellen and IRS Commissioner Daniel Werfel ahead of his appearance before the Senate Finance Committee warning of the dangers the backlog posed to small businesses – which at that time was approaching one million applications.

These efforts paid off when on April 19, Commissioner Werfel told the Senate Finance Committee that the IRS will soon begin processing 40,000 ERTC applications per week - double its current rate. A week later, before the House Ways & Means Committee, he stated that the IRS will clear out 50,000 ERTC applications per week.

NAPEO members once again carried our message to Capitol Hill when more than 70 NAPEO members met with their Members of Congress to discuss the ERTC delays and to remind everyone of Commissioner Werfel's commitment.

Because of the hard work of NAPEO, the PEO industry, and PEO clients, the IRS cut the backlog from one million to 374,000 ERTC applications in two months. Still, we were not finished. Pat sent another letter to Commissioner Werfel to alert him that 17,000 PEO clients has been waiting for upwards of three years for their ERTC claim to be processed, and that he should leave the extra processors on the job until the backlog is completely cleared.

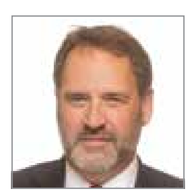
The work we had done: the gum shoe lobbying on Capitol Hill; the use of our outside consultants to educate and reinforce our message on the ERTC delay; the strategic use of PAC donations; the grassroots campaign that generated almost 2,000 letters to Capitol Hill; and two Capitol Hill fly-ins had positioned NAPEO as the champion of the small business community on the ERTC processing delay.

For these reasons, the House Ways and Means Oversight staff contacted NAPEO to testify before its July 27, 2023, hearing on the ERTC—as a small business witness.

It wasn't just the hearing. The members of the subcommittee we had built relationships with showed up and were engaged with Pat's testimony. Rep. Claudia Tenney (R-NY) used NAPEO's ERTC backlog graph as a prop during the hearing. Rep. Beth Van Duyne (R-NY) was well versed on the PEO industry and the impact this issue was having on small business. And Rep. Brad Schneider (D-IL) engaged in lively back and forth with Pat, based on the material NAPEO had provided him.

Much like the athlete or entertainer who works for years and suddenly finds themselves successful, NAPEO toiled away in the halls of Congress, using all the tools at our disposal, and found ourselves before the tax committee making the industry's case for eliminating the ERTC backlog. We moved the political needle in our direction and got Congress to pay attention to the industry's top priority. Not bad for 18 months worth of work. ■





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# MAXIMIZING YOUR BENEFIT OPERATIONS

## BY TOM JACOBS, J.D., MBA

As a PEO founder and former owner, I am aware of all the details and moving parts surrounding the co-employment experience. When you focus on growth, it can become easy to lose sight of some of the best paths to pursue. I recall signing up new groups and going through the milieu of employee enrollment processes. Usually at the end of all the HR intake and benefits explanation and enrollment, there's a discussion on Section 125 and flex plans.

Typically, the enrollees are overloaded at this point, as are the enrollment staff, so less attention is paid to the importance of this benefit to both the participant and to the PEO. To the extent you can encourage participation in the Section 125 pre-tax employee benefits, however, you will provide the participant with an increase in take-home pay, and the PEO (as the W-2 employer) may see FICA tax savings.

IRS code Section 125 allows employers to offer a qualified benefit plan that pays for an employee's portion of insurance premiums, out of pocket medical expenses, and day care expenses on a pre-tax basis. This means that employees, through a payroll deduction election, can fund accounts to pay for these expenses as they come up during the plan year. The more the participant uses these accounts to pay for items they would be paying for anyway, the more their taxable income decreases for the year.

> *IRS code Section 125 allows employers to offer a qualified benefit plan that pays for an employee's portion of insurance premiums, out of pocket medical expenses, and day care expenses on a pre-tax basis.*

For instance, if an employee making $45,000 a year elects to set aside $2,500 for out-of-pocket medical expenses and contributes $1,200 yearly for their portion of insurance premiums, these funds are deducted from his or her paychecks over the year, so his or her taxable income in this example will be $41,300 for the year. The $3,700 they elected comes tax free. In this example the PEO would pay FICA taxes on $41,300 instead of the full $45,000, so their tax saving will be approximately $267 for this individual. If there are 500 participants in the Flex Plan at this level, that's over $133,000 per year in FICA savings! That's the reward.

There is also risk: the 'availability rule' for the health FSA. The health FSA is governed by Section 105 of the IRS code which manages self-insurance. The health FSA is therefore governed by ERISA, and the IRS has instituted regulations that make this account look and act like insurance. The risk component is that the participant, who can elect up to $3,050 in 2023 for the health FSA, is entitled to access and use the entire amount at any time during the plan year.

Since the account is funded through payroll deduction, the account isn't fully funded until the end of the year. If the employee terms in the middle of the plan year, the account is underfunded. Under IRS regulation the employer cannot recoup the shortfall. This can be a concern for some PEOs that don't want to take the risk; some will shift the health FSA risk onto the worksite employers. These PEOs generally have very low participation, and they are missing out on the FICA savings reward.

There is also a perceived risk to the participant. Consistent with insurance principles, the participant is at risk in losing his or her annual account election if they don't use the funds. This risk has been mollified with the introduction of the $500 annual rollover option, which has greatly reduced the perceived risk and has fostered greater plan participation across the board. PEOs that incorporate the annual rollover into their plan designs and that effectively communicate this feature have enjoyed higher participation levels and greater overall FICA savings.

Fortunately, most PEOs have learned and recognize that the reward is far greater than the risk. In my 29 years of experience in the PEO industry, first as an owner then affiliated with three TPAs handling FSAs for PEOs, the reward has always been markedly greater than the risk. Contrary to the fears of some, not everyone gets laser surgery in January then quits. Rather, over the plan year, the PEO can expect to save on average $230 per participant per year In FICA. The more participants you have, the more the risk diminishes and your FICA savings increases.

To build a successful Section 125/flex benefit program, you should consider a few key points.

**Compliance.** Stay on top of plan structure and strategy, plan documents, claims review and non-discrimination testing. While there is no direct recognition of co-employment in Section 125 of the IRS code, thoughtful application of compliance elements will easily put the PEO in good faith compliance with the regulations.

**Simplify.** Make it easy to explain and easy to use. Effective staff training will bolster awareness of the benefit, and will allow for a consistent manner in communicating the benefits of participation.

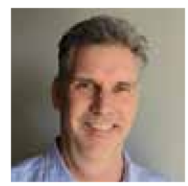
**Updated Technology.** Things like smart phone apps for account access and management and debit card convenience and file integration to off-load internal staff functions can greatly enhance participation levels.

**Risk Management.** Manage any clients that are insisting on keeping the FICA savings by having them assume the above-mentioned risk components in their CSAs. They are hiring the PEO to manage employment risk, and there are effective methods to encourage them to participate in your program.

**Lean on Experts.** Work with trusted advisors who can lead you through the regulatory morass and who have a track record of working effectively with PEOs. There is no substitute for experience, and choosing the right partner will greatly enhance your flex benefit program.

Section 125 Plan Flexible Spending Arrangements are a great supplementary benefit PEOs can offer to their worksite employees. If set up and administered correctly, both the participant and the employer/plan sponsor can enjoy significant tax savings. While the co-employment environment can offer unique challenges, proper handling by experienced advisors can ensure a successful experience. So, get your plan tuned up and ready so you can expand your participant base and create a satisfactory participant experience in these benefits. ■

This article is designed to give general and timely information about the subjects covered. It is not intended as legal advice or assistance with individual problems. Readers should consult competent counsel of their own choosing about how the matters relate to their own affairs.



**TOM JACOBS, J.D., MBA**

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# LAYING THE GROUND WORK: STEPS FOR START-UP PEO SUCCESS

BY ANGELA HOCH

As a PEO operator, you will be a trusted advisor to small and mid-size businesses in areas such as payroll, HR, benefits, workers' compensation, unemployment, technology, and many other areas. As you grow and win more customers, they will quickly become dependent on your processes. Implementing solid processes will aid you in staying efficient and compliant. Here are some critical steps you should consider as you move forward establishing your operations. Relying on and utilizing industry experts will help you succeed.

## A PEO CONSULTANT

**Value proposition and service offering.** This is an important part of establishing your operations. It will be the initial step in determining your staffing needs and what will differentiate you from competitors. Some items you will need to consider are your benefits offering, master health, or individual plans. Do you require clients to enter their own time or use a time and attendance system? Do you require direct deposit/pay cards and charge if live checks are requested? What will be your administrative fee? In the areas you will be competing, can you charge a percentage of gross or per employee fee? These are just a few of the many items you will need to consider.

**Timeline.** It is important to highlight start and end dates for items such as creating business processes, choosing HRIS and service vendors, purchasing insurance policies, staffing needs, and anything else critical to your success. Be sure to review this on a regular basis for visibility and to maintain accountability within your organization.

**Budget preparation.** Create a detailed business plan outlining your projected growth, expenses, and revenue streams. It is particularly important to be aware of your projected costs for the first three to five years. This will provide you with an idea of the capital needed to secure adequate funding for staff and to operate properly. Too many start up PEOs think short-term and find themselves lacking the necessary capital after the first year or two.

**References.** A good consultant has connections in the industry and can refer you to additional resources such as recruiters, attorneys, HRIS systems, etc. In addition to asking for referrals, it is wise to compare multiple options to ensure their product or service fits your specific organization's needs.

**SOPs.** Talk with your consultant about developing standard operating procedures. They are a critical piece of an efficient operation.

**FROS Survey.** A great resource is NAPEO's Financial Ratio & Operating Statistics survey. Each year, the survey collects a wealth of information from revenue earned, average number of WSEs, years in operations, average number of clients, internal staff sizes, and average pay of worksite employees. The FROS Survey is a great tool to familiarize yourself with and use as a guide as you make operational decisions.

## AN ATTORNEY

**Licensing requirements**. Depending on the state(s) where you will initially conduct business, it will be especially important to complete the registration and licensing requirements. A law firm knowledgeable in the PEO industry can assist you with the necessary steps. There are states that require licensing before you start conducting business and will impose fines if you start operating before becoming officially licensed. Some states may require the PEO to post a bond.

**Regulatory Database.** NAPEO's regulatory database contains a wealth of information on the federal, state, and local levels. A good suggestion is to provide all members of your organization with access to this database and incorporate it into your decision-making process.

**Customer Service Agreement (CSA).** Your attorney will review the states you are going to be operating in and if their statutes are based on the NAPEO Model Act or not. Some states have PEO statutes that can predate the NAPEO Model Act, which will then require specific issues to be included in your CSA. Work with your attorney to ensure you have the necessary safeguards in place. As your PEO grows and enters additional states, it will be necessary to regularly revisit your CSA to remain compliant.

## AN INSURANCE BROKER

It is necessary to obtain insurance coverage such as workers' compensation, general Liability, directors and officers (D&O), errors and omissions (E&O), and employment practices liability insurance (EPLI). Workers' compensation policies can be challenging for new PEOs and may require additional capital until you establish a good history with the carrier. As mentioned earlier, depending on the states you are or will be operating in, a bond may be required. Choose a broker who will take the time to understand your business and explain all your options for your organization.

## A RECRUITER

Seek out one who is active in the industry. PEO knowledgeable recruiters have a good understanding of their candidates' skillsets/work history. This will aid you in your search for qualified candidates. Poor hiring choices cost businesses critical time and money which can cause you to miss important deadlines. In most cases, a start-up's first hire will be an experienced operations leader, familiar with the PEO industry, and can take the lead in establishing the groundwork for your operations.

Let's face it, it will take time and money until you have a full staff for each department. What areas of the operations can you outsource in the initial stages? Take the time to review industry vendors and inquire if their services can augment your operations. Can your benefits third party administrator (TPA) offer additional services until you have a full benefits department? Would it be cost effective to outsource the handling of your unemployment administration?

Refer to your timeline and budget to determine when you need to hire additional staff. In some scenarios, a startup will hire PEO professionals who have experience in more than area of the business. For example, they may bring on a tax specialist who can also process initial payrolls, giving you breathing room to onboard your first couple clients. It is not a recommended long-term solution, so you will want to monitor your timelines and hire additional staff as soon as possible. This will allow you to build your foundation and develop the necessary processes.

## AN IT VENDOR

Establishing proper cybersecurity protocols is critical as threats are even more prominent than ever. You need an IT vendor who can maintain your IT infrastructure and be responsive to your needs. Here are a few suggestions to implement to protect your data: Phishing simulations and security monitoring; Email Encryption and SharePoint/ File DLP Policies; Cloud Check Printing; and, HIPPA and SOC2 Compliance Assistance. Regular meetings with your

IT firm will help to ensure you are protecting your data from current threats. A suggestion is to include your IT vendor in your security discussions with your HRIS vendor.

## CHOOSE YOUR HRIS SOFTWARE

Your HRIS software will be the core of your operations, and it is important to carefully vet your choices. Prepare a checklist with questions and have the software vendor respond in writing to your questions.

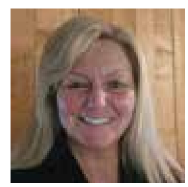
Schedule multiple demonstrations in each area to get a complete understanding of the software's capabilities and processes. Some capabilities you should review are: New Client Implementation; Employee Portal/Mobile App; Employee Onboarding; Electronic Benefits Enrollment; Benefits Administration and Reconciliation; Payroll Processing and Multi-state Tax Handling; Reporting and Data Export; and Importing Capabilities.

Also, be sure to ask for references for current and past customers. Take the information you receive from each software vendor and consolidate it into one document. Hold internal meetings to review the information collected. Software implementations are a large undertaking for a PEO and it is best to choose a system that best suits your specific business model and service offerings.

Once you are up and running, remember that setting up a PEO is extraordinarily complex, and growth brings additional complexities. Continuing to stay up to date with changes in laws, regulations, and compliance will be particularly important, as well as continuously improving your services. Choosing partners who best suit your business, providing top-notch customer service, and developing strong processes will be critical to your overall success.

Lastly, the PEO industry is like one big family so ask for help if you have questions. If you are not sure who to contact, reach out to NAPEO and they will gladly connect you with the best resource. ■

This article is designed to give general and timely information about the subjects covered. It is not intended as legal advice or assistance with individual problems. Readers should consult competent counsel of their own choosing about how the matters relate to their own affairs.



**ANGELA HOCH**
*VP of Operations*
*Hexagon HR*
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# STEADY GROWTH IN PEO REVENUE AND WAGES CLIENT COUNTS REBOUND

The results of NAPEO's PEO Pulse Survey for the second quarter of 2023 show that PEOs experienced steady growth in revenue and wages. NAPEO's Pulse Survey is generously sponsored by SUNZ Insurance.

Here are some of the survey's highlights:

**Revenue and wages grow**

- Q2 brought revenue increases for 72% of PEOs, while those reporting declines grew to 14%, up 10 percentage points from Q1.
- The share of respondents reporting wage growth reached its highest level since Q4 of 2021 (74%). Within this group, a majority indicated that wage increases were relatively modest.
- The size of PEO clients (based on WSEs per client) remained mostly steady. None experienced significant decreases.
- PEO client counts rebounded in Q2 from a negative momentum shift in Q1. Nearly 60% of respondents noted an increase compared to the same period in the previous year.

**Profitability growth slowed in Q2.**

- While gross profitability is on the rise for most, the percentage of respondents reporting growth declined considerably from 75% in Q1 to 66% in Q2. For the fourth consecutive quarter, none reported a significant decline in gross profits.

**Elevated hiring trend from 2022 lost steam**

- During Q2, most PEOs maintained a steady internal employee headcount. The number of respondents reporting

* The Expected Growth Index is based on the average score on a five-point scale:
1 = Significant Decrease / 3 = No Change / 5 = Significant Increase.

NAPEO's Pulse Survey was developed by the Accounting Practices Committee in 2016 and is conducted quarterly among members to take the pulse of the PEO industry through a series of easy-to-answer questions. For more information about NAPEO's Pulse Survey, please contact Rach Komatireddy at **rkomatrieddy@napeo.org**. The survey is sponsored by SUNZ Insurance.

| | | |
|---|---|---|
| Increased Significantly | Stayed About the Same | Decreased Significantly |
| Increased Somewhat | Decreased Somewhat | |

## NAPEO QUARTERLY PULSE SURVEY–Q2 2023 RESULTS:

WSEs per Client **25**

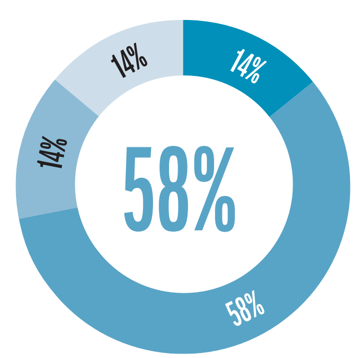
Clients per FTE* **7**

WSEs per FTE* **148**

## HOW DID THE SECOND QUARTER OF 2023 COMPARE WITH THE SECOND QUARTER OF 2022?

**PEO REVENUE**

INCREASED SOMEWHAT



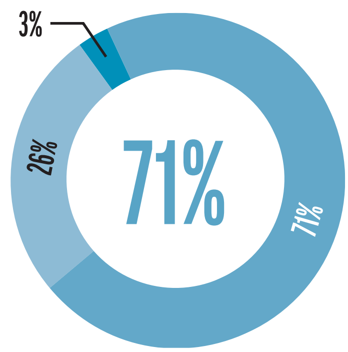

RESPONSE COUNT **36**

increased hiring fell to 36% in Q2, the lowest mark since Q2 of 2021.
- Workers' compensation claims reported to insurance carriers increased for 29% of PEOs, marking the highest level in the past four years of the study.

**Nearly all responding PEOs expressed optimism about the future**
- Almost all responding PEOs anticipate some growth over the next 12 months.
- 97% of PEOs project growth, with 17% expecting that this increase will be significant.
- The PEO Expected Growth Index* for Q2 rebounded to 4.14 after falling to 4.00 during Q1. The 5-year average for the index sits at 4.03. ■

**AVERAGE ANNUAL WAGE PER WORKSITE EMPLOYEE (WSE)**

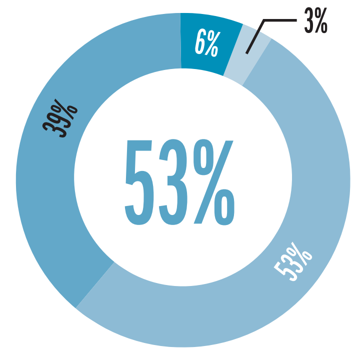
INCREASED SOMEWHAT




RESPONSE COUNT **35**

**AVERAGE NUMBER OF WORKSITE EMPLOYEES (WSES) PER CLIENT COMPANY**

STAYED ABOUT THE SAME




RESPONSE COUNT **36**

# NAPEO'S THIRD QUARTER SMALL BUSINESS SNAPSHOT

NAPEO'S latest small business snapshot reveals that small businesses continue to hire and that optimism has somewhat rebounded. Overall, Q3 data shows low unemployment and strong growth in employment among small businesses, even as hiring rates slow within the economy overall. Almost all PEOs (97%) in the most recent NAPEO Pulse Survey expect increases in WSEs in the next year. The most recent employment growth rate among small businesses was notably higher than that among larger companies. The downward trend in small business optimism reversed slightly in the three most recent months, although optimism remains low relative to historical data. The national unemployment rate remains low at 3.6 percent, just slightly higher than its lowest level in the last 50+ years. Hiring rates continue to slow even as they remain high relative to historical rates. Small business wages are up 4.0 percent in the last 12 months, a bit lower than the average inflation rate in that period. A total of **4.2 million jobs** have been added since January 2020. ■



## SMALL BUSINESS EMPLOYMENT CHANGE

Change in employment (total nonfarm private sector) over last 3 months, by employer size

**1-19** employees
↑ **384,000** (+1.1%)

**20-49** employees
↑ **369,000** (+1.6%)

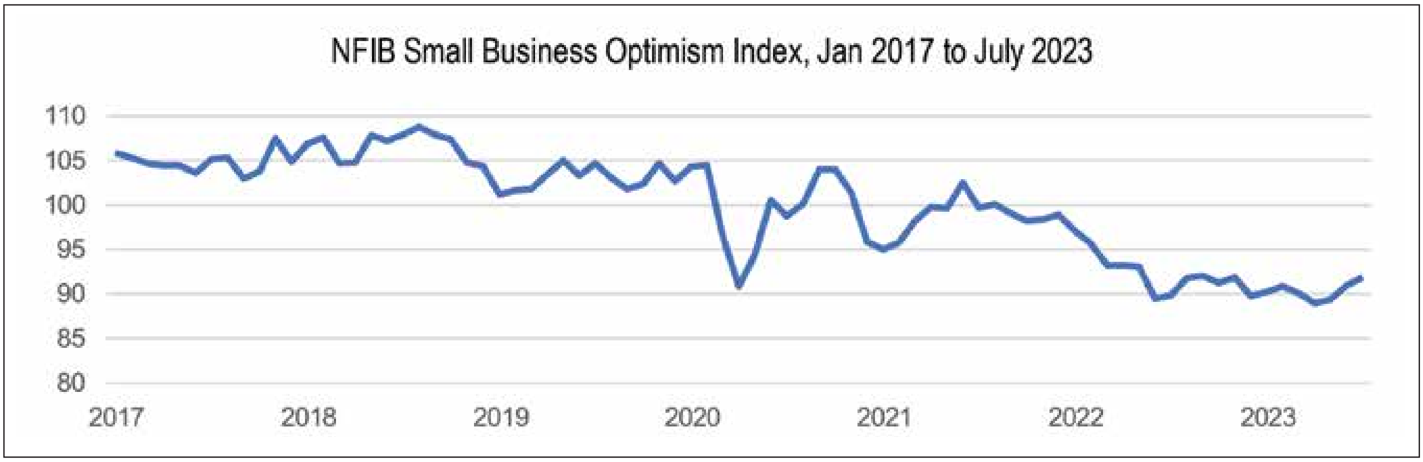
**50-249** employees
↑ **428,000** (+1.1%)

FOR COMPARISON PURPOSES, total 3-month employment change among larger employers (those with 250+ employees) was -190,000 (-0.6%).

Source: ADP National Employment Report (data for July 2023); employer sizes are based on establishment size. Percentage changes are calculated relative to total employment among employers of that size, measured in the month preceding the most recent 3 months.

## SMALL BUSINESS SENTIMENT

Changes since 2017 in small business optimism




Source: NFIB Small Business Optimism Index (July 2023).

# AD INDEX



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| h. Total (Sum of 15f and g) | 5544 | 5597 |
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* If you are claiming electronic copies, go to line 16 on page 3. If you are not claiming electronic copies, skip to line 17 on page 3.

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|---|---|---|
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# WHERE WE BEGAN

## BY PAT CLEARY

Those of you who've been in my office at NAPEO know it's not really a "clean desk" environment. Rather, it evokes maybe your grandmother's attic; lots of tchotchkes, now two bowls of hotel "keys," each one representing a member visit, a copy of the Constitution, one (unopened) bottle of bourbon, and at least one autographed photo of Barron Guss. Priceless.

One of our new employees was in my office the other day and picked up a dark blue post card with the words, "Keep Calm and Call a PEO."

"What's this?" they asked.

I had to chuckle. I held it in my hand for a moment, stared at it and smiled. "It's where we began," I said.

It *is* where we began.

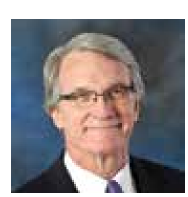
As we head into our Annual Conference and Marketplace—my 12th—it has given me an opportunity to pause, to take stock and to look back. Indeed, that first conference I attended—in Arizona—was as we were launching our nascent "Keep Calm and Call a PEO" efforts. It was the first stirrings of our industry promotion efforts, when our marketing budget was well under $100,000. We were about a $5 million association, with a staff of around 15. We were small, but we had big ambitions.

When we gather in Orlando, it will be as an $11 million association, with a staff of more than 20 and a marketing budget north of $1.3 million. In Arizona, we had a little more than 500 attendees. In Orlando, we will have 1,000. I often invoke Pinocchio here with our team, talking about us becoming "a real boy." Our infrastructure had to match our ambitions: We bulked up—in the areas you, the members, cared about: extra staff in government affairs, marketing, meetings, and membership. We hired an outside marketing firm and dramatically increased our budget. We have an outside lobbying firm who has vastly increased our profile on Capitol Hill and around town. The PAC has grown exponentially. We have two outside firms that help us with tax and benefit issues. Internally, we have a first-rate accounting firm assisting us, as well as an investment advisor and of course, an auditor. We have a design and web firm assisting us with our needs there, and with this magazine. All of these are the trappings of a top tier association, made possible by your dues and by the tremendous work of the NAPEO team here at headquarters. We are a real boy.

> *I had to chuckle. I held it in my hand for a moment, stared at it and smiled. "It's where we began," I said.*

But we're not finished. The world is dynamic, not static, and it will require continued vigilance, effort, and commitment on the part of this industry to build on the success of the last decade, to continue to promote the industry to all corners of the SMB universe, to continue to grow our voice in state capitals and in Washington. The infrastructure here is good, the industry is strong, the team is top notch. We are poised for growth for years to come.

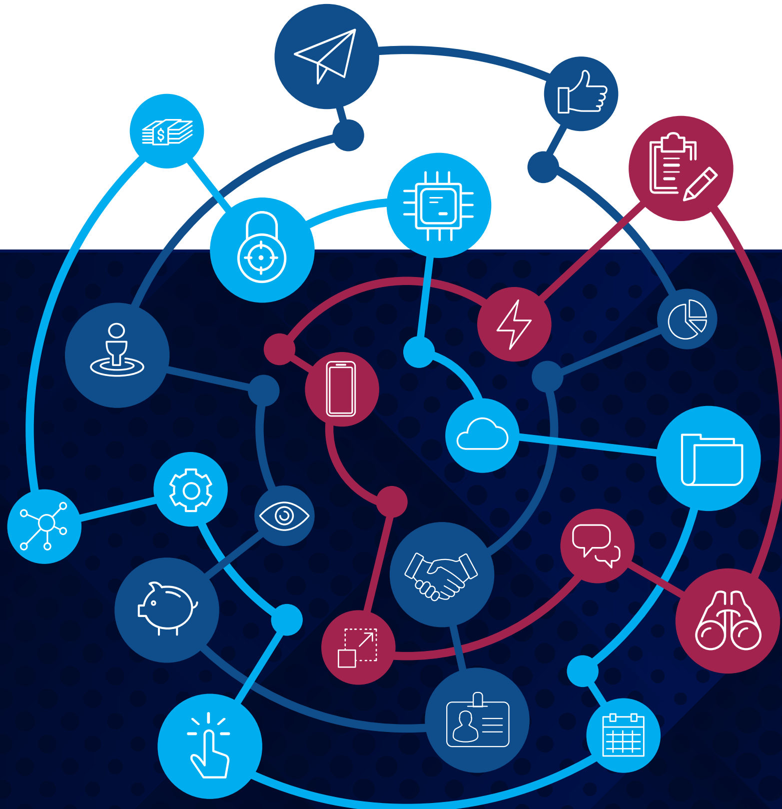
Keep calm. ■



**PAT CLEARY**

*President & CEO*
*NAPEO*
*Alexandria, VA*

THINKWARE



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