

PEO Pricing Guide

An Insider's Guide to PEO
Costs



Are you ready to partner with a PEO? [NAPEO reports](#) that small businesses can save as much as 35% on HR administration costs when they work with a PEO as compared with the average money spent on HR by non-PEO companies. In addition, PEOs can save you money on fees and fines associated with non-compliance or missed deadlines.

PEOs are a good deal for many small businesses because they not only help you save on these hard costs, but also on the cost of hiring and paying an internal HR team—or handling those tasks yourself.

Before you sign the dotted line, you'll want to do a detailed cost comparison of the PEOs on your short list. This isn't always as straightforward as it sounds, however, because PEOs structure their quotes differently.

But the good news is that when you educate yourself about what to look for, you can get an accurate picture of how much any given PEO will charge for each service even if the quotes are bundled or structured differently. And that gives you a better basis for comparison.

5 Elements of the PEO Quote

A typical quote includes five standard costs, plus any extra fees for additional services. Let's start with the five elements that are consistently included in the PEO quote.

FICA

FUTA

SUTA

Workers Compensation

Administrative Fees

FICA (Federal Insurance Contributions Act)

Employers must withhold FICA taxes from employee paychecks and pay them to the IRS. You're already paying these taxes now, and the PEO will simply pass on the cost to you when they take over the responsibility for payroll. The FICA cost should remain consistent from PEO to PEO.

FUTA (Federal Unemployment Tax Act)

FUTA is also a payroll tax, and it is designed to provide unemployment payments to employees who lose their jobs. Like FICA, FUTA remains consistent based on federal mandates.

SUTA (State Unemployment Tax Act)

This is where the quotes begin to vary. Because states determine their own SUTA rates, the rate will be different for a business in Florida as compared with one in California. A PEO that operates in multiple states will charge a different SUTA rate in each state. Rates also vary based on the number of unemployment claims a business has and their turnover rate, so a new business may pay more than a business that has been operating for three years with very few claims.

The PEO will usually charge a standard SUTA rate for all clients in that state, so it may be either a cost savings or a cost increase for you depending on what your SUTA rate would be independently.

Example: The starting SUTA rate for a new business in Florida is 2.70%. That rate will go up or down depending on turnover and number of unemployment claims. A PEO may come in and charge 2.0% for SUTA across the board. If your SUTA rate is the starting rate of 2.70%, the PEO's rate would be a cost savings for you. However, if you have been in business for several years and your rate is 1.0%, then a SUTA rate of 2.0% would be a cost increase for you.



Workers' Compensation

As you compare quotes, look at each of the workers' compensation codes that you currently utilize, and compare it with the rates offered by the PEO. The hope is that the PEO will be able to offer you a cost savings on each of those codes, but it is not always the case. A PEO's rate may increase due to their number of claims. They will either pass this on to you as the client or charge you a lower rate than they pay. If they give you a discount on the workers' compensation, you can expect that money to be made up somewhere else.

The workers' compensation fee may also include co-pays, deductibles, and incentives for remaining accident free. Be sure to look at each itemized element of the fee so you can get an accurate picture of what you're paying and whether you're saving money or paying a higher rate than you would independently. If you can get better rates on your own, you can often negotiate your fee with the PEO. Some PEOs will also carve out the workers' compensation fee, allowing the client to keep their own policy but still take advantage of the other services.

Administrative Fees

Administrative fees may be charged either as a flat fee per employee or as a percentage of payroll. Admin fees can get tricky, however, because they often include value-added service fees which vary widely and may not always be stated up front. Fees may be stated in the fine print and may be assessed on a per occurrence basis, so always read every page of the quote carefully to look for how the fees will be assessed.

Example: Training costs may be included in the administrative fee or they may be charged separately per employee. Some PEOs don't offer training at all, some offer it for free, and some offer it for a fee.



How PEOs Calculate Administrative Fees

PEOs calculate administrative charges one of two ways: percentage of payroll or flat rate per employee. These fees do not include federal and state tax rates or workers' compensation costs.

Percentage of Payroll

Some PEOs charge a percentage of each paycheck they process as an administrative fee. This works well if your paychecks don't fluctuate or if you employ a lot of part-time workers, but it can be more expensive if you pay commission or regular bonuses. Rates usually fall between 2 and 12 percent of payroll and may differ based on employee status (salaried vs. hourly).

Flat Rate Per Employee

With this method, you pay a standard fee for every employee, no matter how much they get paid. This is a good fit if your employees' pay fluctuates from month to month, but it's not always a good fit for part-time workers. These fees may range from about \$40 to \$160 per employee.

Note: Rates may be quoted as an annual fee per employee, and some PEOs can use either method to calculate charges depending on your needs.

Rates may also vary based on how many employees you have and whether they have benefits or not.

Example: Your business employs 10 workers. You pay \$15,384 in gross wages each pay cycle.

PEO #1:

- Charges 4% per pay check for services
- You pay \$615.38 bi-weekly

PEO #2:

- Charges \$69 per employee per pay cycle
- You pay \$690 bi-weekly

How to Read a PEO Quote

The key to getting a clear picture on how much you will be charged by a given PEO is to read every sentence of the quote. Don't assume that all fees are laid out in the cost breakdown provided. Let's look at 5 keys to reading a PEO quote:

1. Always ask for an unbundled quote

Some PEOs will bundle fees together into a lump "HR services" fee. They may also bundle FICA, FUTA, and SUTA fees together into a single percentage. Always ask them to unbundle the fees and show you an itemized list of their charges and rates.

2. Look for hidden fees.

In addition to the initial, unbundled quote, there may also be other fees hidden in the body of the proposal. These fees may be charged for HR services, EPLI, or additional support, and they vary among PEOs. They may be assessed as you use the service or they may be charged on a monthly basis. One PEO may charge for a service that another PEO includes for free. The only way to find every potential fee is to read the entire quote word for word, including the footnotes.

3. Do a detailed cost comparison.

The next step is to create a cost comparison. Look at what the PEO will charge for the five basic components and any additional fees, and compare it with what you're currently paying now. As you gather quotes from several PEOs, it may help to set this information up in a spreadsheet so you can do a line-by-line analysis.

4. Ask the PEO for documentation of all fees.

Because PEOs don't always include all the extra fees in the cost breakdown, always ask whether you will be charged any fees other than what you see on that page of the quote. Request documentation of all fees so you know exactly what you are signing and you can refer back to it at a later time.

5. Don't be afraid to negotiate.

You don't have to accept the first quote that a PEO provides. You may be able to negotiate SUTA or workers' compensation rates based on the fact that you can get a lower rate on your own, or you may be able to carve out parts of the quote if you want to keep a particular policy, for example. Always ask the PEO if this is their final quote before you make a decision.

About PEOcompare.com

At PEOCompare.com, we offer the most comprehensive research tools and resources available for businesses looking to outsource their HR to a professional employer organization.

We know that business owners need a simple way to identify PEOs that match their needs.

That's why we designed our in-depth [PEO Matching Tool](#) and our streamlined [PEO Quick Search](#) to provide a free, impartial comparison of top PEOs based on your unique requirements.



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Eliminate guesswork, frustration, and countless hours of research.

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