

Special Edition

PROFESSIONAL EMPLOYER ORGANIZATIONS – Part 4

In the last several weeks, I've discussed the advantages of a Professional Employer Organization:

- The tangible and intangible costs, and;
- I suggested that every trucking company could potentially achieve an economic benefit, if they entered into a PEO program.

However, I've stated that all PEO's are not created equal. I, personally, have been involved in the PEO industry since 1983 when they were referred to as Employee Leasing companies;

- My firm has extensive experience in PEO programs.
- Ahern has done a substantial amount of consulting work for clients in PEO programs, and;
- There are specific questions and guidelines that each carrier needs to discuss, with a potential PEO employer, before they engage their services.

The first thing that a company needs to address is the financial condition of the PEO. As part of that process;

- You want to receive as much financial information about the PEO as possible; letters of credit, bank letters, financial information, etc.
- How many trucking employee/drivers does the PEO have in their group and how long they have been in business?
- You want the PEO to provide references of at least 5 – 10 companies that are currently in their program, and carriers that have left their program;
- You want a complete description of their insurance program, including what kind of deductibles (if any) is being utilized and if the reserves are being secured.

In most instances, if you're dealing with a reputable PEO, they will provide:

- Their corporate banking relationship.
- Corporate attorney.
- Insurance carrier (workers compensation and health insurance);
- They will also provide their 401 Plan administrator.

Once you feel comfortable with the above, you can begin your due diligence of assessing their benefits to your company. Of importance should be the PEO's focus on transportation. In other words;

- You don't want a PEO generalist to handle your trucking business.
- You want a PEO that specializes in transportation.
- A PEO who understands trucking, and;

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- You want owners of the PEO that have been in the transportation and safety business for many years.

In reference to insurance, you need to be very careful with a PEO:

- Since they are providing WC coverage for your employees;
- **You need to determine if their program is fully insured or is a self insured plan, and/or some form of deductible plan.**
- You want to find out if their insurance carrier is A rated, because that is of significant importance.
- **If the PEO is under any form of self insurance, you want to know how the claim deductibles are accounted for, and;**
- **How claims are escrowed and what happens if the PEO insurance program “blows up”? Who pays the claims run off?**

When larger PEO’s are under some form of self insurance, they normally have an administrator that provides “gap insurance”;

- They “peg” what the incurred but not reported claims are going to be;
- They “peg” what the anticipated claims are going to be, and;
- **The PEO funds the exposures through, either a letter of credit, or cash reserves.**

If the PEO is funding the anticipated claims on a pay as you go basis, and they’re not funding total claim exposure; this could create problems for you some point “down the road”. Therefore, the first thing you want to do is find out as much information as possible about their **insurance program, and you want to find out how the program is funded.** You want to know who is reviewing and handling the claims, and the type of expertise they have. **If the PEO offers medical insurance, the same questions need to be asked.** Also, how are employee contributions to a medical plan protected?

If a PEO;

- Is not escrowing reserves, or;
- **Does not have a letter of credit, that continues to adjust, subject to claims experience, I would suggest you not consider their services.**

On the other hand, if the PEO can provide assurances, that their insurance programs are handled, in a proper manner, then I would recommend going to the next step and reviewing all the services and comparing the benefits. For anyone that’s interested, I’ve prepared a soft cost sheet that can be utilized in the analysis process. **I also have a before and after analysis that can also be utilized in reviewing your overall cost.**

In closing, a properly administered PEO can;

- Increase cash flow.
- Partially insulate a carrier from regulatory issues.
- Assist in human resource resolutions.
- Assist in safety compliance, DOT, OSHA, COBRA, etc, and;
- Allows a trucking company to focus on moving freight.

QUOTE OF THE WEEK: “A man can only obtain knowledge with the help of those who possess it.”