CHECKLIST

PEO Exit Strategy: Your Step-by-Step Guide to a Smooth Transition

Like any business partnership, there may come a time when your organization outgrows its relationship with a professional employer organization (PEO). Whether your needs have evolved, or the arrangement no longer aligns with your financial goals, stepping away from a PEO can open the door to greater flexibility and control. That said, a smooth transition requires thoughtful planning. Use this checklist to help make your exit as seamless as possible:

- ☐ **Time It Right — Aim for January**
  Exiting your PEO at the start of the calendar year is the cleanest route. Mid-year terminations can trigger duplicate tax filings (like multiple W-2s and ACA forms) and complicate payroll taxes such as state withholdings.

- ☐ **Be Aware of Contract Obligations**
  PEO agreements sometimes include early termination penalties or tight notice windows (e.g., requiring notice within 30 days of the renewal date). Review your contract carefully and build your timeline accordingly.

- ☐ **Can't Exit in January? Try the Start of a Quarter**
  If a January exit isn't in the cards, consider timing your departure at the beginning of a new tax quarter to reduce "quarter-to-date" payroll complications and keep your tax reporting clean.

- ☐ **Plan for Benefits Timing**
  Even a year-end exit could fall midstream in the PEO's benefits plan year — potentially causing two open enrollments within 12 months. Clear communication and planning can help minimize confusion.

- [ ] **Communicate FSA Deadlines**
  Give your FSA participating employees ample time to use their Flexible Spending Account (FSA) funds. They typically have a 30-day window post-termination to submit eligible expenses.

- [ ] **Watch for Deductible Double Dips**
  A mid-year plan switch can reset deductibles — meaning employees might face out-of-pocket expenses twice in a year. If a December 31 exit isn't possible, the earlier in the year, the better.

- [ ] **Mind the COBRA Details**
  COBRA enrollees will likely need to transition to your new plan, and PEOs often apply a surcharge for continuing COBRA coverage. Confirm whether your new carrier supports this and what your options are.

- [ ] **Preserve Claims History (as Much as You Can)**
  Claims data for health, workers' comp and unemployment live under the PEO's tax ID — so your next carrier might lack historical data to inform your rates. Be prepared to fill in gaps with industry benchmarks.

Minimize Risk and Maximize Confidence with HUB

At HUB, we've helped countless organizations navigate the complexities of PEO relationships — and we're ready to help you, too. With deep expertise and tailored strategies, we can ensure your exit plan supports your business goals without missing a beat.

Let's make your next move your best one. **Contact a HUB advisor today.**