

# Getting healthy on Obamacare

## Fast-growing PEO sector positions itself as the cure for compliance

By **CLAUDE SOLNIK**

While it's too soon to identify all of the winners of the Affordable Care Act, here's one early contender: professional employer organizations.

Better known as PEOs, the service firms got their start in the 1980s, offering payroll and other basic services to companies looking to outsource their business office. Since then, PEOs have expanded to include health insurance and administration, retirement plans, even recruiting.

There are now about 700 PEOs nationwide, according to the Alexandria, Va.-based National Association of Professional Employer Organizations. NAPEO estimates PEOs insure as many as 6 million American workers and their families, with a steady stream of companies and individuals signing on annually.

The average firm using a PEO employs 19, although companies with as many as 1,000 workers also contract for their services.

The industry saw 2012 revenues rise to \$92 billion – that includes client payrolls – a 13.6 percent jump since 2010, according to NAPEO. The biggest reason for the spike: the steady march of health-care reform.

While the PEO industry has been strongest in Texas, Florida and California, Long Island-based PEOs said they're also seeing a surge of interest.

"We've never been busier," said Andy Lubash, a principal of Prestige Employee Administrators in Melville, which represents 500 firms and more than 10,000 employees. "We're getting calls from every-

where, all types, all sizes."

The Farmingdale-based Alcott HR Group now serves about 300 companies and 4,500 employees. Business is rapidly increasing in what the firm hopes is just the beginning of a boom.

"We've been growing 10 percent-plus a year," said Alcott CEO Lou Basso, who predicts more companies will go the PEO route as federal health requirements kick in. "It's not just about cost or coverage. It's about guiding them through the process, which can be time consuming. And time means money for small businesses."

New York State is setting up its own online health insurance exchange designed to simplify the selection and comparison of policies. While that could hurt PEOs in the long run, the industry's trade group said the Affordable Care Act will be a net win as companies transition to the new system.

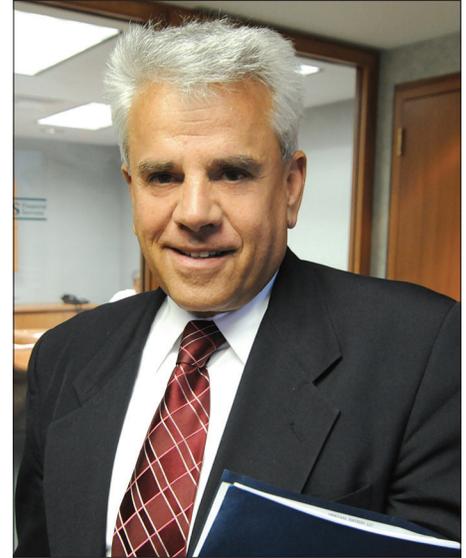
"It is the action-enforcing event, the thing getting small businesses in the door," said NAPEO CEO Pat Cleary.

Henry Montag, a financial planner in Uniondale, said PEOs have become a safe haven for firms struggling to keep up to date on government mandates.

"The fear of not being in compliance with Obamacare is the driving factor," Montag said. "Plus the scale of economies that a PEO offers makes it an attractive combination. You can kill two birds with one stone."

Montag said new insurance requirements, including covering dependents up to the age of 26, and mandates for preventive care and pre-existing conditions, all push health insurance costs higher, making PEO-negotiated rates more attractive.

"From the standpoint of controlling costs, the health-care reform act was supposed to bend the cost down. It bent it up," said Danny Nessim, president of A&C



**HENRY MONTAG: PEOs are seeing interest surge due to health insurance changes.**

Management Group, a brokerage in Great Neck. "The PEOs pool medium and small companies for benefits. I think it's the wave of the future."

PEOs charge fees, typically based on a percentage of payroll and usually ranging from 3 percent and up. Some firms work on a flat-fee basis, while others break out charges for each service by employee.

While Obamacare is fueling interest in PEOs, it is only part of a stream of new regulations that companies must comply with or risk fines. New York's Wage and Theft Protection Act, for example, implemented last February, requires employees to acknowledge their annual pay rate by signing a form. Other regulations require everything from employee handbooks to the clunky IT-214 tax form.

Each new regulation becomes another reason a PEO can come in handy.

"Regulations have been increased dramatically," said Brian Lehmann, another principal at Prestige. "Our value proposition has changed from 'We can get you great medical plans' to 'You have no idea how un-compliant you really are.'"

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