



Transitioning from a PEO to a Cannabis HCM

Wurk offers an all-in-one Human Capital Management (HCM) solution giving you ultimate control over your people and human resource strategy. When your cannabis organization decides to transition from a Professional Employer Organization (PEO) to our dedicated HCM solution, there are steps to help make this process a smooth transition.

Remember: With a PEO, your employees are “leased” to the assigned organization, where the PEO becomes the employer of record, managing payroll, tax filings, and compensation claims. In contrast, an HCM partner operates as a part of your HR team, so you still maintain full control over workforce policies, employee benefits, workforce data, and so much more. While leaving a PEO may seem daunting, following these easy steps will help ensure a compliant, reliable foundation for a successful future.

1 Understand your agreement. Prior to terminating the contract with your PEO, review the contract so you are aware of any penalties, timeline restrictions, or cost requirements.

2 Select your solution. When evaluating the Wurk platform, consider what features and services will be required for your organization and where additional value can help to increase your bottom line. Beyond cannabis compliant payroll, evaluate applicant tracking, on-boarding, time keeping, scheduling, performance management, and more to streamline process and save money.

Wurk can assist you in contacting cannabis-specific partners in:

- + COBRA administration
- + Pre-tax account administrator (FSA, HRS or HAS), if applicable
- + Employee benefit broker

3 Data collection. Before terminating the agreement with your PEO, begin collecting workforce data, including:

- + Compensation information (salary/hourly and rate of pay)
- + Census - name, address, SSN, marital status, dependents, birth date, and gender
- + Live vs work state, if applicable
- + Copies of court orders, wage garnishments, tax levies
- + Employee time off / accrual balances
- + List of all COBRA participants and those in their election period
- + YTD ACA tracking
- + Copies of performance evaluations
- + Copies of termination records

Remember: If your employees are currently being paid through the Federal EIN of the PEO, you will need to register for a new EIN that matches the name of your company.

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Export employee data. The following information is necessary for a smooth transition to Work:

- + Direct deposit information
- + Federal and state tax withholding forms

You will need to collect the following information individually:

- + I-9
- + New Employee Handbook sign off
- + Authorizations
- + Benefit Program
- + State-issued marijuana badges, if applicable

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Tax and Payroll Requirements

Tax accounts. Begin to collect your federal and state tax ID numbers and ensure that the state tax account number is registered under the company's EIN, not the PEO's. If it is registered under the PEO, you will need to register for a new tax account number.

Note: Expect two W2s and tax filings from both the PEO and for their newly established tax IDs for the current year unless the new entity starts 1/1. Obtain federal and state withholding accounts, which generate automatically when you register for a new EIN

- + Obtain State Unemployment Tax (SUTA) ID and tax deposit accounts
- + Obtain Federal unemployment tax account (FUTA), which generate automatically when you register for a new EIN
- + Obtain Federal Employer Identification Number (FEIN) if you did not previously have one
- + Establish any local tax withholding accounts

Pay Policies. Understand the leave policies defined by the PEO and how these policies are affected when the PEO is terminated. Ensure the following policies are defined and documented:

- + Develop non-exempt policies for overtime, meals, rest periods, failure to punch in and out correctly, etc. Determine time off accrual policies and design processes for scheduling and tracking employees' time worked.
- + Configure, test and implement a new time and attendance tracking system for non-exempt employees.
- + Develop training plan for Managers and Employees to utilize new system.
- + Plan for "go live" transition and load any existing balances for smooth and successful cut-over.

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Benefits and Insurance. When considering a new benefits broker, reference what you currently offer so you can get a comparable plan. Wurk has a network of cannabis-friendly benefits partners if needed.

If the prior plan was a fully or partially self-funded, it may be a good idea to continue to pay administrative fees until all claims have been paid.

- + Define the contribution structure
- + Define eligibility
- + Check state laws regarding disability requirements
- + Obtain a report that shows what amount towards the deductible has been met if the new policy will provide deductible credit

FSA | HSA Plans It is important to know if the PEO will continue to process claims. If not, will the new FSA administrator take over claim administration? It is important to: When you deduct from employee's paycheck for HSA, FSA. Where does that money go (employee bank account or company fund)?

- + Understand how balances will be handled with the FSA
- + Define the needs of the money movement for FSA and HSA
- + Communicate the transition as soon as possible to the employees to outline the spend-down period
- + FSA is a COBRA benefit if there is a positive balance
- + Select a new FSA administrator
- + Obtain an FSA | HSA balance report from the PEO if the change is occurring during the plan year or the new administrator will be paying run out claims.

401(K) Employees will experience a blackout period where they can't make changes to their 401(K). Employers may also face some termination fees. It is important to:

- + Select a 401(k) administrator that is cannabis-friendly
- + Identify a fiduciary
- + Select funds

Insurance Plans

- + Establish a Workers Compensation policy
- + Load worker compensation class codes and rates into payroll and identify any officers that will be exempt from coverage
- + Obtain an employment practices liability insurance policy

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Understanding Compliance

COBRA. Since employment with the PEO is ending, COBRA notices must be sent. A PEO may charge large fees to manage COBRA; refer to the contract for details. To avoid hefty costs, employers should have a benefit plan in place and request to be reimbursed for the PEO COBRA fees after 60-90 days.

Keep in mind a carrier may have issues with COBRA participants if they are considering the employing company as new. Be sure to:

- + Select a COBRA administrator
- + Send Initial Right Notices to employees electing new company benefits
- + Notify current COBRA participants of new COBRA administrator

Affordable Care Act (ACA). If you are an applicable large employer (ALE), Wurk will provide the platform to manage ACA throughout the year. The Wurk team can assist with ensuring 1095c forms are provided and e-filing with the IRS is completed.

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Implementing HR Policies & Administration. Human resources play a huge role in shaping a company. HR functions help keep the business compliant and employees happy. You should:

- + Define roles and responsibilities for HR, payroll, benefit administration
- + Establish a recruiting process that adheres to all requirements, such as record keeping and proper interview format and questions asked
- + Create an employee handbook and have it reviewed by legal counsel. Wurk can assist with developing an employee handbook.
- + Have all plan documents written and reviewed, health notices, exchange notices, etc.
- + Establish a compliant Leave of Absence policy by referring to state laws
- + Establish a compliant HIPAA policy
- + Define the process for FMLA administration, if applicable
- + Determine if the company needs to adhere to an affirmative action plan, if applicable
- + Design company structure with departments, divisions, classes, etc.
- + Establish a workflow for on-boarding new hires and handling paperwork, tax forms, Forms I-9, employee handbook, required notices, etc.
- + Establish a workflow for employee changes and terminations

Wurk provides a variety of HR and Payroll consulting services for cannabis operations of all sizes. Our certified team can manage workforce-related tasks that you may not have the time, resources, or expertise to maintain, including:

- + Payroll Services: processing, employee change management, detailed reporting and SOPs
- + HR Consulting: new hire and termination processing, development training, employee handbook development, and more
- + HR Resources: online tools and documents to help maintain compliance and solve workforce challenges