Referral Agent: Jim Bean Agency, Inc.

BDM: John Schiano

Proposal Prepared for: ABC Tile Inc

Proposal Date: 9/25/2014
Proposal expires in 30 days or policy expiration date whichever comes first.

Policy Expiration Date: 10/1/2014
Who We Are

SouthEast Personnel Leasing, Inc. founded in 1986, is headquartered in the Tampa, Florida area. The company specializes in providing workers compensation coverage as well as alleviating their client’s employee administrative burden.

Employers today are faced with many obstacles as it relates to competitively priced workers compensation and their employee administrative burden. If your company is experiencing difficulty securing affordable workers compensation, SouthEast Personnel can be your SOLUTION.

With over 27 years of high hazard workers compensation experience, SouthEast is your partner in not only saving you money but more importantly assisting clients in creating and keeping a safe work environment.

Rely on SouthEast Personnel Leasing, Inc. to be an asset to your business. We are driven by your needs and our goal is to provide you a customized solution that fits your business. We will assemble the most comprehensive and cost effective service package designed specifically for you, your company and your employees. Along with the services provided on the following pages, and as part of the SouthEast family, you are provided a highly motivated team of trained professionals committed to providing you with the highest quality of service.
Workers’ Compensation Coverage

Providing Workers’ Compensation coverage across the United States through Lion Insurance Company, an A.M. Best A- (Excellent) rated insurer and State National Insurance Company, Inc., an A.M. Best A (Excellent) rated insurer.

Services

Rely on SouthEast Personnel Leasing, Inc. to be an asset to your business rather than just a provider of payroll, workers’ compensation, and benefits. We are driven by your needs, and creating a customized solution that fits your business is our goal. We will assemble the most comprehensive and cost effective service package designed specifically for you, your company, and your employees. Along with the services provided below, and as part of the SouthEast family, you are provided a highly motivated team of trained professionals committed to providing you with the highest quality of service.

**Workers’ Compensation**
Guaranteed low rates thru Lion Insurance Company, an A.M. Best A- (Excellent) rated insurer.

**Payroll Administration**
- Payroll Taxes
- Government Reporting
- Management Reporting
- Cost Analysis
- Record Keeping
- Salary History
- Payroll Processing
- Vacation, Holiday & Sick Pay
- Paperwork Reduction

**Risk Management**
- W/C Claims Mgmt.
- Safety Surveys
- Drug Testing
- Record Keeping
- Unemployment Insurance Controls
- Employer Protection Policies & Services
- Post Accident & Reasonable Suspicion

**Human Resources**
SouthEast Personnel Leasing, Inc. has partnered with the national labor & employment law firm of Ford & Harrison LLP to provide our clients with the best possible human resource advice and legal services.

*For more information consult your payroll technician.*
Client Services

RISK MANAGEMENT
- W/C Claims Management
- Safety Surveys
- Drug Testing
- Record Keeping
- Unemployment Insurance Controls
- Employer Protection Policies & Services
- Post Accident & Reasonable Suspicion

PAYROLL ADMINISTRATION
- Payroll Taxes
- Government Reporting
- Management Reporting
- Cost Analysis
- Record Keeping
- Salary History
- Payroll Processing
- Vacation, Holiday & Sick Pay
- Paperwork Reduction

REPORTS AND RECORD KEEPING
- Personnel Records
- Payroll Summary Reports
- Tax Records

EMPLOYEE RELATIONS
- EEOC Compliance Services
- Americans with Disabilities Act (ADA) Compliance Services
- Fair Labor Standards Act (Wage/Hour) Compliance Services
- Employee Discharge Services
- Handling Problem Employee(s)
- Compliant and Grievance Programs

CUSTOMER SERVICE
- An assigned, personal customer service representative
- Assistance with any questions or concerns about payroll, benefits, or workers’ compensation.
- As part of the “SouthEast family” you have a highly motivated team of trained professionals committed to providing you with the highest quality of service.
An Introduction

THE EMPLOYEE LEASING PEO CONCEPT IS SIMPLE.

Would you rather spend your time managing every detail of your business or building the bottom line? Chances are you didn’t dream of going into business to push paper. You went into business to offer quality products and services while building financial success. Yet, if you are a typical business owner you get bogged down with managing the administrative details. Between complying with costly government regulations, workers’ compensation and employee-related matters, you have little time to focus on the things that matter to you most.

SouthEast removes the burden of time consuming and complex administrative tasks, helping business owners re-focus their energy on what they do best, building their company. SouthEast also provides effective incentives to attract and retain employees, while dramatically reducing the expensive and cumbersome aspects associated with payroll administration and workers’ compensation.
Frequent Concerns

What is a PEO?
A Professional Employer Organization (PEO), also known as an employee leasing company, is an organization that provides an integrated and cost-effective approach to the coordination of the human resources, and employer risk of its clients, by contractually assuming certain employer rights, responsibilities, and risks and by establishing and maintaining an employer relationship with the workers assigned to its clients. Businesses today need help managing increasingly complex employee-related matters such as personnel management, health benefits, workers’ compensation claims, payroll, payroll tax compliance, and unemployment insurance claims. Businesses contract with a PEO to manage these responsibilities, which then allows the client to concentrate on the revenue producing side of its operations.

Who uses a PEO?
Businesses that use the services of a PEO are interested in the aspects of their company that generate revenue. Some business examples are: restaurants, roofers, mechanics, retailers, plumbers, and many more.

What are some of the advantages of using SouthEast?

For the Employee:
- Having access to “Fortune 500” Benefits Professional Claims Services for Injured Employees
- Professional Orientation
- Professional Assistance

For the Employer:
- Lower Employee Costs
- Payroll Administration
- Employee Benefits
- Workers’ Compensation Administration
- Workers’ Compensation Claims Handling
- Payroll Tax Administration
- Compliance Risk and Safety Solutions
- No Unemployment Claims to Process
How important is the relationship between a Leasing company (P.E.O.) and it’s workers compensation carrier?
As a potential client investigating a leasing company (P.E.O.) you want the comfort of knowing that the relationship between the P.E.O. and the carrier is strong. In addition, the financial strength of the workers compensation carrier is an indicator as to the ability of the carrier to handle the claim. SouthEast Personnel and its’ clients are not held hostage by a third party carrier. The owners of SouthEast Personnel own Lion Insurance Company. Lion Insurance Company, an A.M. Best A- (Excellent) rated insurer writes SouthEast Personnel’s workers compensation policy. In short, the relationship between a P.E.O., its workers compensation carrier, and its rating can be critical.

What is the difference between temporary staffing services and a PEO?
A temporary staffing service recruits and hires employees and assigns them to clients to support or supplement the client’s workforce in special work situations, such as employee absences, temporary skill shortages or seasonal workloads. These workers are traditionally only a small portion of the client’s workforce. A P.E.O. hires the clients existing employees and assigns them back. These employees can be full time, part time or seasonal workers. These workers make up the bulk of the clients workforce.
Growing National Coverage

STATES CURRENTLY LICENSED TO WRITE A PEO SOLUTION.

Lion Insurance Company
Rated A- (Excellent)
By A.M. Best Company

State National Insurance Company, Inc.
Rated A (Excellent)
By A.M. Best Company
**EMPLOYER SERVICES AND WORKERS' COMPENSATION**

**QUOTE PROPOSAL**

<table>
<thead>
<tr>
<th>DATE</th>
<th>9/25/2014</th>
<th>X-MODIFIER</th>
<th>1.45</th>
</tr>
</thead>
<tbody>
<tr>
<td>INSURED</td>
<td>ABC Tile Inc</td>
<td>GROUP PREMIUM DISCOUNT</td>
<td>37.00%</td>
</tr>
<tr>
<td>PRODUCER</td>
<td>Alternative Risk Marketing</td>
<td>QUOTE EXPIRES</td>
<td>30 Days</td>
</tr>
<tr>
<td>TOTAL NUMBER OF EMPLOYEES</td>
<td>84</td>
<td>QUOTE STATUS</td>
<td></td>
</tr>
<tr>
<td>PAY PERIODS</td>
<td>52</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

---

**Estimated WC Premium and Cost Savings**

**PREMIUM CALCULATIONS**

<table>
<thead>
<tr>
<th>Description</th>
<th>Proposed</th>
<th>Market</th>
</tr>
</thead>
<tbody>
<tr>
<td>MANUAL PREMIUM</td>
<td>$434,540.00</td>
<td>$339,800.00</td>
</tr>
<tr>
<td>X- MOD ADJUSTMENT</td>
<td>$195,543.00</td>
<td>$152,910.00</td>
</tr>
<tr>
<td>STANDARD / MODIFIED PREMIUM</td>
<td>$630,083.00</td>
<td>$492,710.00</td>
</tr>
<tr>
<td>RISK ADJUSTMENT</td>
<td>$233,131.00</td>
<td>$0.00</td>
</tr>
<tr>
<td>EST. ANNUAL PREMIUM</td>
<td>$396,952.00</td>
<td>$492,710.00</td>
</tr>
<tr>
<td>STATE ASSESSMENTS &amp; SURCHARGES (If Applicable)</td>
<td>$17,783.00</td>
<td>$22,073.00</td>
</tr>
<tr>
<td>TOTAL WORKER'S COMPENSATION EXPENSE</td>
<td>$414,735.00</td>
<td>$514,783.00</td>
</tr>
<tr>
<td>ADMINISTRATION FEE</td>
<td>2.00 %</td>
<td>2.00 %</td>
</tr>
<tr>
<td>EPLI</td>
<td>$62,000.00</td>
<td>$62,000.00</td>
</tr>
<tr>
<td>DELIVERY</td>
<td>$5,460.00</td>
<td>$5,460.00</td>
</tr>
<tr>
<td>ADMIN, EPLI &amp; DELIVERY</td>
<td>$68,812.00</td>
<td>$68,812.00</td>
</tr>
<tr>
<td>TOTAL</td>
<td>$483,547.00</td>
<td>$483,547.00</td>
</tr>
</tbody>
</table>

**ESTIMATED SAVINGS vs. MARKET WC**

| Workers Compensation Minimum | $7,634.00 |

There is a Per Week Minimum WC Charge $7,634.00

A State Assessment equaling 4.48% of Worker's Compensation Billed will appear on all invoices

**PROGRAM BROKER FEE**

<table>
<thead>
<tr>
<th>Payable to:</th>
<th>$00.00</th>
</tr>
</thead>
<tbody>
<tr>
<td>Payable to:</td>
<td>Alternative Risk Marketing</td>
</tr>
<tr>
<td>Audit &amp; Set Up Fee</td>
<td>$1,000.00</td>
</tr>
<tr>
<td>Payable to:</td>
<td>SouthEast Personnel Leasing, Inc.</td>
</tr>
</tbody>
</table>

Initial
Calculation of Estimated WC Premium

<table>
<thead>
<tr>
<th>CLASS CODE</th>
<th>#EE</th>
<th>DESCRIPTION</th>
<th>PAYROLL</th>
<th>BASE RATES</th>
<th>NET RATE</th>
<th>EST. ANNUAL PREMIUM</th>
<th>WEEKLY PER EE MIN</th>
</tr>
</thead>
<tbody>
<tr>
<td>CA5348</td>
<td>60</td>
<td>Tile, Stone, Mosaic or Terrazz</td>
<td>$2,500,000.00</td>
<td>16.06</td>
<td>14.67</td>
<td>$366,770.00</td>
<td>$73.00</td>
</tr>
<tr>
<td>CA8059</td>
<td>6</td>
<td>Stores ceramic tile</td>
<td>$200,000.00</td>
<td>14.20</td>
<td>12.97</td>
<td>$2,943.00</td>
<td>$65.00</td>
</tr>
<tr>
<td>CA8810</td>
<td>10</td>
<td>Clerical Office Employees; Dra</td>
<td>$300,000.00</td>
<td>1.09</td>
<td>1.00</td>
<td>$2,987.00</td>
<td>$0.00</td>
</tr>
<tr>
<td>CA8742</td>
<td>8</td>
<td>Salespersons Outside; Bookkeeper</td>
<td>$100,000.00</td>
<td>1.37</td>
<td>1.25</td>
<td>$1,251.00</td>
<td>$0.00</td>
</tr>
</tbody>
</table>

* With per employee weekly WC minimums,total premium paid may be higher than shown on this proposal.

Estimated Wages and Service Fees

<table>
<thead>
<tr>
<th>Pay Periods</th>
<th>52</th>
<th>Annual Payroll</th>
<th>$3,100,000.00</th>
</tr>
</thead>
</table>

<table>
<thead>
<tr>
<th>Description of Liability</th>
<th>Before Cut Offs</th>
<th>After Cut Offs</th>
</tr>
</thead>
<tbody>
<tr>
<td>Gross Payroll Liability</td>
<td>$59,615.38</td>
<td>$59,615.38</td>
</tr>
<tr>
<td>Workers' Comp</td>
<td>$7,633.69</td>
<td>$7,633.69</td>
</tr>
<tr>
<td>Assessments &amp; Surcharges</td>
<td>$341.98</td>
<td>$341.98</td>
</tr>
<tr>
<td>FICA Taxes</td>
<td>$4,560.58</td>
<td>$4,560.58</td>
</tr>
<tr>
<td>SUTA Taxes</td>
<td>$0.00</td>
<td>-</td>
</tr>
<tr>
<td>FUTA Taxes</td>
<td>$1,073.08</td>
<td>-</td>
</tr>
<tr>
<td>Admin Fee</td>
<td>$1,192.31</td>
<td>$1,192.31</td>
</tr>
<tr>
<td>EPLI</td>
<td>$105.00</td>
<td>$105.00</td>
</tr>
<tr>
<td>Delivery</td>
<td>$26.00</td>
<td>$26.00</td>
</tr>
<tr>
<td>Estimated Liability</td>
<td>$74,548.02</td>
<td>$74,548.02</td>
</tr>
</tbody>
</table>

* Estimate based on payroll estimates on the Acord 130.

Initial
Workers Compensation

Workers Compensation Minimum
There is a Per Week Minimum WC Charge $7,634.00 or the per EE WC minimums shown on previous page

WC Deductible per Claim
Workers Comp per claim deductible $1,000.00

Premium Rates
 CLIENT IS AWARE THAT SHOULD THE VOLUME OF PAYROLL FALL BELOW THE ORIGINAL AMOUNT, OR THERE IS A NOTABLE SHIFT IN LABOR FROM ONE CODE TO ANOTHER, AN INCREASE IN THE RATES MAY BE ASSESSED OR WORKERS COMPENSATION MINIMUMS APPLIED. CLIENTS WILL BE NOTIFIED IF THIS WILL OCCUR.

Approval
Proposal is based on approval by the workers' compensation carrier

Taxes
FICA Rate $7.65 (Social Security & Medicare) - Using the PEO's Tax ID up to Applicable Thresholds
FUTA Rate Applicable State Rate on first $7000 per employee - Using the PEO's Tax ID (See Exhibit A for Rates)
State Unemployment Rate(s) Dependent on State (See Exhibit A for Rates)

Service Fees
In consideration for services rendered, Client agrees to pay SPLI service fees (Service Fee) in the amount set forth in the Exhibit(s), which is attached and made a part of this Agreement. The Service Fee includes but is not limited to funds sufficient to pay and administer all wages, payroll taxes, workers' compensation expenses and benefit costs incurred by or payable to all Leased Employees. Client's Service Fee obligation shall continue during normal periods of Leased Employee absence for vacation, sick leave, legal holidays and emergency situations.

It is the intent of the Parties that the Service Fee invoiced to Client is one charge where Client accepts, and is satisfied with, the total bill that is invoiced to Client, irrespective of what SPLI's actual liability for any component part (including, but not limited to administrative fees, payroll taxes, wages, workers' compensation expenses, benefits, and other associated costs) may be irrespective of any refund, rebate, or credit which may be applicable. In addition, Client understands that the cost of the illustrative component parts enumerated above may change from time to time by the applicable state or federal government, or benefit provider, the Service Fee may be increased at any time by SPLI using reasonable business judgment following, or in anticipation of, such increases.

Other Notes
Payment Terms
Bank Transfer, Wire, 3 Days Prior to Paydate with no direct deposit or 4 Days Prior with Direct Deposit

COMMENTS:
WC PER WEEK MINIMUM OF $7,634 OR PER EMPLOYEE WEEKLY MINIMUMS LISTED. WHICHEVER IS GREATER WILL BE CHARGED. THERE IS COLLATERAL OF $1,000 DUE.

Required to Bind Coverage
Broker Fee Payable to: Alternative Risk Marketing
Fee : $0.00

Setup Fee Payable to: Jim Bean Insurance Agency, Inc.
Fee : $6,500.00 ATT: Steve Chase, CISR

Other Notes
Please Provide Signed Client Services Agreement
the Following
Signed System Generated Rate Quote | "EXHIBIT A"
Signed Accord 130 Form
Completed Employee Applications
Please note that your Workers Compensation Coverage is not Bound until all of the above paperwork has been received, and accepted, by SPLI. All Paperwork needs to be submitted and payroll needs to be processed in order to provide Certificates of Insurance.

PEO Provider: SouthEast Personnel Leasing ($2.3B Revenue, 5,000 Client Members) - www.southeastpersonnel.com
Underwritten by: A Rated Carrier
Policy Fee Payable to: SouthEast Personnel Leasing, Inc.2739,US Highway 19 N Holiday, FL 34691 (Attention Stacy Bouris) $1,000.00

By signing I accept the terms and conditions listed above, and on Exhibit A.

______________________________ Signature
## Workers Compensation

**W/C Minimum**

THERE IS A PER WEEK W/C MINIMUM THAT WILL BE CHARGED: $7,634.00

**W/C Deductible per Claim**

CLIENT IS AWARE THAT Should the VOLUME OF PAYROLL FALL BELOW THE ORIGINAL AMOUNT, OR THERE IS A NOTABLE SHIFT IN LABOR FROM ONE CODE TO ANOTHER, AN INCREASE IN THE RATES MAY BE ASSESSED OR WORKERS COMPENSATION MINIMUMS APPLIED. CLIENTS WILL BE NOTIFIED IF THIS WILL OCCUR.

**Premium and Rates**

Proposal is based on approval by the workers’ compensation carrier

**Approval**

Applicable State Rate on first $ 7,000 per employee - Using the PEO’s Tax ID

**FUTA Rate**

State Unemployment Rate(s) Dependent on State (See Exhibit A for Rates)

**FICA Rate**

$7.65 (Federal Social Security, Medicare and Income Tax) - Using the PEO’s Tax ID

**Payment Terms**

Bank Transfer, Wire, 3 Days Prior to Paydate with no direct deposit or 4 Days Prior with Direct Deposit

**TICF Assessment**

Applies to clients with a work comp EX MOD over 1.25. Assessments based on TICF calculations

---

### ABC Tile Inc

**Exhibit "A"**

9/25/2014

**QUOTATION VALID FOR 30 DAYS OR POLICY EXPIRATION WHICHEVER COMES FIRST**

**Total Estimated Payroll:** $3,100,000.00  
**Total Number of Employees:** 84

<table>
<thead>
<tr>
<th>CODE</th>
<th>#EE</th>
<th>DESCRIPTION</th>
<th>MODIFIER</th>
<th>PAYROLL</th>
<th>FICA</th>
<th>FUTA **</th>
<th>SUTA **</th>
<th>W/C RATE</th>
<th>ADMIN FEE</th>
<th>RATE *</th>
<th>Cutoff Rate **</th>
</tr>
</thead>
<tbody>
<tr>
<td>CA5348</td>
<td>60</td>
<td>Tile, Stone, Mosaic or Terrazz</td>
<td>1.45</td>
<td>$2,500,000.00</td>
<td>7.65</td>
<td>1.80</td>
<td>0.00</td>
<td>14.67</td>
<td>2.00</td>
<td>26.12</td>
<td>24.32</td>
</tr>
<tr>
<td>CA8059</td>
<td>6</td>
<td>Stores ceramic tile</td>
<td>1.45</td>
<td>$200,000.00</td>
<td>7.65</td>
<td>1.80</td>
<td>0.00</td>
<td>12.97</td>
<td>2.00</td>
<td>24.42</td>
<td>22.62</td>
</tr>
<tr>
<td>CA8810</td>
<td>10</td>
<td>Clerical Office Employees; Dra</td>
<td>1.45</td>
<td>$300,000.00</td>
<td>7.65</td>
<td>1.80</td>
<td>0.00</td>
<td>1.00</td>
<td>2.00</td>
<td>12.45</td>
<td>10.65</td>
</tr>
<tr>
<td>CA8742</td>
<td>8</td>
<td>Salespersons Outside; Bookbli</td>
<td>1.45</td>
<td>$100,000.00</td>
<td>7.65</td>
<td>1.80</td>
<td>0.00</td>
<td>1.25</td>
<td>2.00</td>
<td>12.70</td>
<td>10.90</td>
</tr>
</tbody>
</table>

**Workers Compensation**

W/C Minimum

$7,634.00

W/C Deductible per Claim

$1,000

Premium and Rates

and a Collateral of $1,000.00

**Approval**

Proposal is based on approval by the workers’ compensation carrier

**FUTA Rate**

Applicable State Rate on first $ 7,000 per employee - Using the PEO’s Tax ID

**FICA Rate**

$7.65 (Federal Social Security, Medicare and Income Tax) - Using the PEO’s Tax ID

**Payment Terms**

Bank Transfer, Wire, 3 Days Prior to Paydate with no direct deposit or 4 Days Prior with Direct Deposit

**TICF Assessment**

Applies to clients with a work comp EX MOD over 1.25. Assessments based on TICF calculations

---

Approval Initial
PEOs In The News
NCCI PEO Data Shows Compliance Overall

Professional employer organizations (PEOs) have a bad rap stemming from abuses from fly-by-night operators that would close up shop as soon as their safety record began to catch up with them. But new research indicates that on the whole the PEO industry’s workers’ comp claims experience isn’t so different from the rest of the market.

Harry Shuford with the National Council on Compensation Insurance (NCCI) says that many of the concerns that people express about PEOs are not proving out in the data it collects. He notes that there are concerns that PEOs are misreporting payroll under the wrong classifications to lower rates for their clients, or underreporting claims. Both charges carry serious implications for rate-making and calculating employers’ experience modifications (X-Mods), but in the end he maintains that the bulk of the industry appears to be on the up and up.

“In this context it does seem to us that [most] PEOs are playing by the rules,” say Shuford. “[Claims] frequency is typically higher, so there’s no compelling evidence that PEOs are underreporting claims and the similarity of the loss ratios suggest that payroll and premium is probably also being reported appropriately.”

Shuford says the findings stem from a presentation that NCCI developed for public health officials, but says additional research is underway to look at other aspects of the industry. These findings are expected to be released early next year.

There are 700 PEOs operating across the nation, according to the National Association of Professional Employer Organizations estimates, including more than 40 of its members that operate in California. Several large players such as Inspiration and ADP operate in multiple states and control a large share of the market, but most are smaller outfits. In NCCI’s review, the nation’s 15 largest PEOs accounted for more than 60% of the PEO employment in its data set.

Shuford says it looked at data on PEOs in the 37 states that it covers and examined their experience in the voluntary and residual markets. Overall, it found that PEOs performed on par with traditional employers in the various market segments.

In the voluntary market, Shuford says PEOs had higher claims frequencies than traditional employers, but similar severities. And in the higher-risk residual markets, PEO frequency was higher still, but severity was less in comparison. “So in the aggregate it looks like the PEO experience is not all that different from the non-PEOs,” he says noting that this holds true across most of the industries in which they operate.

NCCI looked at five broad industry categories – manufacturing, construction, clerical/office, goods and services, and miscellaneous. Shuford notes that the loss ratios on manual premium after applying experience modifications were lower for the PEOs in all categories except the “miscellaneous” category. He noted that this category would cover a number of difficult risk types, such as employers engaged in long-haul trucking.

In states without an insurer of last resort, high risk employers that are unable to obtain coverage through the voluntary market must go to the residual market. In California what would be residual market accounts elsewhere typically fall to State Compensation Insurance Fund, a quasi-governmental competitive insurer of last resort.

Spokeswoman Jennifer Vargen notes that State Fund writes PEOs and has a special unit that handles these accounts. In each case, however, she says it issues an individual policy for each employer whether they’re working with a PEO or individually to ensure that it captures the employer’s loss data for experience rating purposes.

Still, Shuford notes that concern remains that some smaller start-up PEOs may be abusing the system. One tactics has been to engage in so-called “mod washing.”

“They start-up, operate for three years where they basically have no mod. Then once that experience, which is allegedly bad and they end up with a high mod, catches up, they shut down and then reopen under another name,” says Shuford. He notes that regulators have adapted to address this issue, but NCCI will be looking at the states it covers to see if there is a difference in the experience of PEOs of various sizes and longevity in the industry.

In California, rules were changed several years ago to ensure that an employer’s claims experience is captured individually even if it is in a PEO.

In California carriers can issue the policy to the labor contractor or issue the policy to the client as State Fund does.

Jack Hannan, spokesman for California’s statistical gathering organization, says “if the policy is written in the name of the labor contractor, the employer is endorsed onto the policy and we are able to capture loss information about the employer. If the employer decides to no longer use a labor contractor, we would have the data in our system to issue a mod, assuming the employer qualifies.”

© 2012 Workers’ Comp Executive  All Right Reserved  Reprinted with Permission
www.wcexec.com
Professional Employer Organizations: Fueling Small Business Growth

By Laurie Bassi and Dan McMurrer
McBassi & Company

September 2013
Exploring the Impact of PEOs

In recent years, a series of broad economic changes, especially those related to technology and globalization, has dramatically shifted the competitive landscape for all companies in the economy. Most of these changes are, at their foundation, directly related to an organization’s people. This means professional employer organizations (PEOs) – with their extensive array of HR services and employee benefits – are now uniquely positioned and have significant potential to help businesses better meet their challenges in the face of today’s demanding economic conditions. This study explores the evidence to determine how PEO clients are faring relative to other companies in the economy.

Most notably, a company’s ability to survive and profit increasingly hinges on the degree to which it can manage its employees more effectively than its competitors can manage theirs. As traditional sources of competitive advantage have eroded in the face of globalization and technology change, the importance of a company’s people has steadily increased. People – including their skills, knowledge, and creativity – represent a critical asset on which a company must depend for success in today’s competitive marketplace.

Most employers know this in their gut, and a growing body of research confirms that so-called “human capital management” has been elevated to an essential organizational core competence that generates significant and sustainable competitive advantage. The best evidence that exists on the effects of better people management is based on the experiences of larger companies, but the lesson applies to companies of all sizes, who are all subject to the same economic forces and compete in the same marketplace. For example, the strongest predictor of a company’s probability of surviving for at least 5 years after its initial public offering is its level of investment in human resources. And the stock prices of “people companies” – those organizations that made Fortune’s “100 Best Companies to Work For” list in at least 3 of the past 10 years – outperformed the S&P 500 by 99 percentage points over that period (109 percent versus 10 percent gain).

Achieving sustainable competitive advantage through better management of employees is a huge challenge for even the largest and most sophisticated companies. But that challenge is even greater for small and mid-size organizations. And PEOs point precisely that value proposition: they help their clients manage the “people side” of their businesses more effectively, avoiding compliance pitfalls and creating key benefits for the business and its employees, while simultaneously freeing up time for owners and executives to concentrate on growing their business by focusing on operations, strategy, and innovation. The existing evidence, summarized in this study, confirms this dynamic.

PEO Services and Benefits

Evidence (described in additional detail in the sections below) indicates that PEO clients offer better benefits to their employees, offer a wider array of employee-related services, and are able to do this while saving money (money that can be redirected to grow the business).

Most PEO clients are small to mid-size companies. The average number of employees among PEO clients is less than 10. Organizations of this size usually have only a “bare bones” HR functionality, which typically focuses on the most basic HR needs: hiring employees, getting them paid on time, and navigating the complex world of taxation (including FICA and FUTA) and other compliance requirements in an accurate and timely manner.

Even these basics can be time-consuming, distracting, and fraught with potential for error. (The potential for errors — and associated penalties — is a significant area of risk for any employer.) PEOs typically take over these key HR responsibilities for their clients, administering employee payroll and benefits, personnel management, workers’ compensation services, and monitoring and managing risk in these areas.

At the same time, PEOs make available to their clients a broad array of additional employee-related services. Each of these other services generates advantages for the business and/or its employees. In the next subsection, we explore one such service, focusing specifically on the extent to which retirement plans are disproportionately available to, and used by, employees of PEO clients. This generates a variety of benefits that accrue to both the company and its employees.
Retirement Benefits

Among the most valuable PEO services are employer-sponsored retirement benefits, such as 401(k) (or similar) plans. Retirement benefits play a major role in companies’ abilities to attract and retain employees. A 2011 Towers Watson survey found that 47 percent of employees cited retirement benefits as an “important” reason to stay with their current employer, and 35 percent of employees viewed retirement benefits as an important reason they decided to work for their current employer in the first place.9

Nevertheless, retirement benefits are rare among most small businesses. The availability of retirement plans represents a major difference between PEO clients and other small businesses. Nearly all PEOs (98 percent) offer some type of retirement plan to their clients (although not all clients choose to take advantage of these services).8 In contrast, in 2011, only 16 percent of all employees of the smallest companies (those employing fewer than 10 workers), and 30 percent of those at companies with 10 to 49 employees, work for a company that sponsors some type of retirement plan, according to the Employee Benefit Research Institute (EBRI).8 A survey of small businesses without retirement plans found those businesses encountered a variety of obstacles to offering such a plan: “it costs too much to set up and administer” was the second most frequently-cited obstacle to offering a retirement plan, while others pointed to burdensome administration. (“Revenue uncertainty” was the most frequently-cited obstacle.)7

The differences in retirement plan availability are reflected in similarly large differences in employee retirement plan participation between those working for PEO clients and others. Among the smallest businesses (employing fewer than 10 workers), the percentage of employees participating in employer-provided retirement plans is over 3 times greater among employees of PEO clients than it is among employees of all other similarly-sized businesses (40 percent versus 13 percent; see Figure 1).8 For employees working for somewhat larger businesses (with between 10 and 49 employees), there is also a major difference: 52 percent of employees versus 23 percent.

Figure 1. Percentage of workers participating in retirement plan

<table>
<thead>
<tr>
<th>Size of employer</th>
<th>All Employers</th>
<th>PEO Clients</th>
</tr>
</thead>
<tbody>
<tr>
<td>Fewer than 10 employees</td>
<td>13%</td>
<td>40%</td>
</tr>
<tr>
<td>10 to 49 employees</td>
<td>23%</td>
<td>52%</td>
</tr>
</tbody>
</table>

In addition to providing key benefits to businesses in terms of employee attraction and retention, the greater participation in retirement plans naturally provides major benefits to employees as well. A large body of research shows that having accessible retirement savings options at work has a significant impact on people’s ability to save for their future. For example, a 2013 survey found employees with access to workplace retirement benefits are significantly more confident about their retirement prospects, more likely to also be saving for retirement outside of work, and more likely to have concrete retirement savings strategies and plans.8

By making it much easier for the underserved small and mid-size employer population to provide retirement plans to their employees, PEOs provide a service that creates value for employees and for our broader society. And in so doing, PEO clients reap key benefits in turn – being able to attract and retain higher quality employees enables them to grow faster (as described in additional detail below).

Broad Array of Services

From the array of PEO-provided services, in the section above, we focused in detail on retirement plans for two reasons. First, high-quality data exists measuring the availability of retirement plans both within the PEO environment and for smaller businesses overall, making it possible to accurately compare across the two populations of companies. Second, as described above, retirement plans create key benefits across a range of stakeholders that include both the employer and employee. While the data do not allow for similar quantitative comparisons between PEO clients and others for numerous other available services, it is reasonable to expect that similar patterns prevail for many of those services as well: greater availability for PEO clients, with significant benefits that accrue to employers, employees, or both. The chief administrative officer at a hotel management firm reports, “We appreciate being able to give employees access to our PEO’s broad selection of benefits, which enables them to effectively meet their individual needs.”10

These additional services fall into a wide variety of categories. For example, of the PEOs responding to NAPEO’s 2013 Financial Ratio & Operating Statistics Survey, 100 percent reported that they provide clients with compliance assistance on HR-specific regulations such as EEOC and FMLA. Nearly two-thirds of all PEOs responding to the survey offer online training services for clients’ employees – a valuable, but typically quite challenging, investment for small firms to make. A large majority of PEOs also offer services in performance reviews and developing job descriptions. Both of these fall into the category of HR-related tasks that are time-consuming and involve significant potential risk if not executed correctly.
Another key service offered by PEOs is the administration of workers’ compensation programs. Virtually all states (except Texas and Oklahoma) mandate workers’ compensation coverage for worksite employees. In many cases the PEO secures that coverage for its clients, while in others PEOs assure that coverage is in place. Workers’ compensation can be a highly complex program and, as such, is one that can demand significant time and expertise to administer. A large amount of detailed research has been conducted in recent years on whether there are any differences in workers’ compensation administration and compliance between PEO clients and other small businesses. Overall, the research concludes that PEO clients perform comparably, if not slightly better, relative to other employers on a range of key workers’ compensation measures. This positive finding is particularly notable, given the small size of PEO clients and the disproportionate compliance burden faced by smaller businesses.

Table 1 provides a detailed summary of the extent to which a wide range of services are provided by PEOs to their clients. Like retirement plans, many of these services are likely available to a much higher percentage of PEO clients than to other businesses, especially among the smallest employers.

More Services at a Lower Price

Despite this broad array of offerings, PEOs are able to provide these services at a lower cost than their clients would have to pay for more basic HR administrative services. For example, in 2011, PEOs’ gross profit margin was $1,187 per worksite employee; this figure represents the revenue remaining after all direct employee-related costs (salaries and wages, health or medical, FICA, etc.) have been paid. Out of its gross operating margin, a PEO must pay all of its own operating expenses. So, in essence, the figure of $1,187 represents the amount PEO clients are paying for HR administration and all other services offered by their PEO.

Table 1. HR service offerings by PEOs, % offering

<table>
<thead>
<tr>
<th>HR service offering</th>
<th>% of PEOs offering service</th>
</tr>
</thead>
<tbody>
<tr>
<td>Compliance assistance on HR-specific regulations such as EEIC, FMLA</td>
<td>100.0</td>
</tr>
<tr>
<td>Retirement plans for employees</td>
<td>98.4</td>
</tr>
<tr>
<td>Assistance with job descriptions</td>
<td>98.4</td>
</tr>
<tr>
<td>Paid time off (PTO) tracking and reporting</td>
<td>98.4</td>
</tr>
<tr>
<td>Customized employee handbooks</td>
<td>95.1</td>
</tr>
<tr>
<td>Background screening</td>
<td>95.1</td>
</tr>
<tr>
<td>Telephone consultation re: HR and personnel matters</td>
<td>95.1</td>
</tr>
<tr>
<td>Employee exit interview assistance</td>
<td>93.4</td>
</tr>
<tr>
<td>Pre-employment drug testing</td>
<td>91.8</td>
</tr>
<tr>
<td>Wage and salary compensation planning assistance</td>
<td>86.9</td>
</tr>
<tr>
<td>Performance review assistance/tracking</td>
<td>86.9</td>
</tr>
<tr>
<td>Recruitment/job placement</td>
<td>72.1</td>
</tr>
<tr>
<td>Employee surveys</td>
<td>70.5</td>
</tr>
<tr>
<td>Online training services for supervisors and employees</td>
<td>65.6</td>
</tr>
<tr>
<td>Personality testing</td>
<td>59.0</td>
</tr>
<tr>
<td>Turnover analysis and reporting</td>
<td>59.0</td>
</tr>
<tr>
<td>Professional licensing and certification tracking</td>
<td>45.9</td>
</tr>
</tbody>
</table>

There are no strictly comparable numbers available for non-PEO clients; the best available comparison for such companies comes from Bersin & Associates and puts HR spending at $1,500 per employee within companies with fewer than 1,000 employees. (No breakdown for smaller-size employers is available.) Given considerable economies of scale for larger companies in this group (since they can take advantage of their larger size to spread fixed costs over their entire employee population), this figure of $1,500 almost certainly underestimates the cost for very small businesses which, as noted above, represent the primary clients of PEOs.

Putting these numbers together (see Figure 2) tells us that a conservative estimate is that PEO clients enjoy a 21 percent savings on HR administration. This is true even as they enjoy a significantly higher level of services. For the typical PEO client—a small to mid-size employer—this savings is likely to be many times greater than this conservative, lower-bound estimate.

Considering both the broader services available and the cost savings realized from small businesses outsourcing their HR responsibilities, Peter Cappelli of the Wharton School at the University of Pennsylvania was quoted recently on this topic: “This is one of those rare instances that is both cheaper and better. It’s a big burden on a local HR manager to know everything.” A similar point is made by Martin VanMeter of VanMeter Realty, a small realty company based in Durant, Oklahoma: “Working with a PEO has provided us an economical way of hiring people without the stress of paperwork and payroll. Our PEO is always available to answer questions or provide support to the employees.”
PEO Clients Grow Faster

Overall, the evidence described in the section above indicates that PEO clients spend less for more services and for greater expertise in HR service administration. These services provide key benefits for the businesses, such as greater capacity to attract and retain key employees. Beyond the lower costs and benefits discussed above, however, it’s likely that the most fundamental reason the majority of small business owners hire PEOs is to relieve themselves of the major administrative burden associated with HR, thereby freeing themselves to do what they do best: focus on their business.

The operations manager at a financial planning firm sums it up succinctly: “Our relationship with a PEO gives us the freedom to focus our attention on our clients.” Investment website SeekingAlpha.com echoed this point recently in a discussion of the services offered by ADP’s PEO (TotalSource): “The value-add for PEO services is huge, especially since it allows busy owners to focus on business-centered operations rather than the often tedious day-to-day back office tasks.”

If PEOs are successful in enabling small businesses to focus more directly on what it takes to succeed in a competitive marketplace, it follows that PEO clients should grow faster than other comparable organizations. And, indeed, this is what the evidence shows.

The number of workers employed by PEO clients has grown more quickly than a variety of key comparisons. A leading firm in the PEO industry, Slavic 401(k), worked with Dr. Dragana Radulovic of Florida Atlantic University to develop a “PEO Employment Index” that has tracked changes in employment levels across thousands of PEO clients since December 2004. The index, which reflects the overall industry mix in the United States and is weighted by geography to also reflect the geographic distribution of U.S. companies, is based on employment at the company’s PEO clients that offer 401(k) plans. As discussed earlier, virtually all PEOs (98 percent) offer some form of retirement plan, so this PEO Employment Index can be seen as representative of the broader population of all PEO clients.

To best determine the impact of PEOs, we’d ideally compare PEO clients’ employment growth with a similar measure for U.S. small businesses as a whole. The best source of information in this area is the Intuit Small Business Employment Index, which was launched in 2007. It measures employment for businesses with fewer than 20 employees, using an aggregated sample of small business clients that use Intuit’s payroll services, supplemented with other information on payroll and self-employment from the U.S. Bureau of Labor Statistics. Since the inception of the Intuit index, employment at PEO clients is more than 7 percent higher than at small businesses overall (see Figure 3). Because the Intuit index launched two years after the PEO Employment Index was created in December 2004, it is not possible to make a small business comparison back to the inception of the PEO index. It is possible, however, to compare the PEO index to a broader measure: (non-farm) employment growth in the United States as a whole (see Figure 4). For this comparison measure as well, the results show faster growth for PEO clients, this time compared to the economy overall.

In addition, it should be noted that in the more than 3 years since employment among PEO clients “bottomed out” in early 2010 following the end of the recession, employment growth among PEO clients has been higher than for both of the two comparison groups: 9 percent higher than small businesses (based on the Intuit Small Business Employment Index), and 4 percent higher than employment growth in the U.S. economy overall.

---

Figure 3. Employment growth, PEO clients versus small businesses overall, January 2007 (date of Intuit index inception) = 1000

![Figure 3 Graph](image3.png)

Figure 4. Employment growth, PEO clients versus U.S. employment overall, December 2004 (date of PEO index inception) = 1000

![Figure 4 Graph](image4.png)
Conclusion

Overall, therefore, the evidence on employment growth suggests that PEOs are making it possible for their clients to grow more quickly than their peers – both other small businesses as well as all companies throughout the economy. This can be attributed to a variety of PEO-related factors discussed in this study. PEO clients have access to a broader array of HR-related benefits and services. Yet they spend less on HR administration than similarly-sized peers, freeing up money that can be reinvested in the business. Some of the benefits PEO clients are disproportionately able to offer – such as employer-sponsored retirement plans – play a major role in helping businesses attract and retain their employees. This too can have a tangible impact on business success: it is easier to keep key high-value employees, while turnover-related costs are reduced. Finally, freed from many HR administrative burdens, executives and managers of PEO clients can focus more of their time on strategy and growth. These factors all combine to yield faster growth for PEO clients relative to other businesses.

Many of these points are illustrated through the experience of a single PEO client. “I am very happy with what our PEO has done for our company,” says Phillip Grove, president and CEO of Seattle-based Confluex, a software professional services company. “By using a PEO, we have been able to grow, in a little over a year, from just the two founders to eight people across six states working from their homes. We expect to double this size within the next year. Our PEO allows us to mine a large talent pool for high quality software developers in a very competitive market, and it allows us to offer competitive benefits. Last but not least, thanks to the PEO, we don’t have to learn all the day-to-day HR, workers’ comp, tax, payroll, and compliance issues for a bunch of different states. This has relieved us from a big burden and allowed us to focus on our business.”

23
Endnotes

1 Theresa Welbourne, “Want to Make Money on IPOs? Learn About Companies’ HR Management Strategies,” Workforce Management (September 2010).

2 Boston Consulting Group/WFPMA, From Capability to Profitability: Realizing the Value of People Management (July 2012). This is not simply a case of “reverse causality.” Rather, being a “people company” actually predicts future financial performance, even after controlling for the firm’s past performance. In other words, this superior performance is not attributable to a firm’s superior past performance.

3 This compares to an average of almost 20 for other companies. These figures are based on NCCI’s analysis of its data on companies with workers’ compensation policies (2007 Workers’ Compensation Statistical plan data and Workers’ Compensation Policy data, as reported to NCCI). Described in Harry Shuford, NCCI, “Don’t Just Speculate, Investigate! The Story Behind the PEO Study,” https://www.ncci.com/Documents/Story_Behind_%20PEO_Study-NCCI_AIS_2013.pdf (May 16, 2013), p. 17.


7 Jack VanDerheij, “Findings from the 2003 Small Employer Retirement Survey (SERS), EBRI Notes, September 2003, p. 1. This is the most recent version of the Small Employer Retirement Survey; EBRI confirmed it has not been conducted since 2003.

8 Craig Copeland, “Employment-Based Retirement Plan Participation: Geographic Differences and Trends, 2011,” EBRI Issue Brief (November 2012, no. 378), p. 36 (http://www.ebri.org/pdf/briefspdf/EBRI_IB_11-2012_No378_RetPartcip.pdf), combined with calculations of data provided by NAPEO from its 2012 Financial Ratio & Operating Statistics Survey. The NAPEO results were gathered from PEOs using ranges (e.g., a PEO would report “26 to 50%” of it total worksite employees are covered by a retirement plan). For calculating overall percentages, we used the midpoint of each range.


15 Quote provided to authors by NAPEO, September 3, 2013.


18 Slavic 401(k) is a third-party administrator of retirement savings plans that specializes in offering plans for the PEO environment. Its index includes approximately 1,500 companies, each of which has between 2 and 99 employees, with an average size of approximately 20 employees. Additional information on the PEO Index is available at http://www.slavic401k.com/peoindex/publication/index.html.

19 The U.S. Bureau of Labor Statistics (BLS) also reports gross employment gains and losses by firm size through its Business Employment Dynamics data. The BLS data, however, are reported only quarterly and are reported with a 7-month delay. The Intuit index was designed in part to provide a more timely source of information on employment changes among small employers.

20 A technical note: given the different sizes of companies in their employer population, the PEO Employment Index (2 to 99 employees) and the Intuit Small Business Employment Index (fewer than 20 employees) are not strictly comparable, as the PEO index includes larger companies. However, there is not a more comparable index available, and the average firm size in the PEO index (20 employees per company) indicates that it tends to be weighted toward smaller companies as well.


23 Quote provided to authors by NAPEO, September 3, 2013.
About NAPEO

The National Association of Professional Employer Organizations (NAPEO) is The Voice of the PEO Industry™ and represents about 85 percent of the industry's estimated $92 billion in gross revenues. NAPEO has some 300 PEO members, ranging from start-ups to large publicly held companies with years of success in the industry, as well as some 200 service provider members. PEOs provide payroll, benefits, and other HR services to small and mid-sized businesses. Approximately 250,000 businesses and more than 2.5 million people are part of PEO arrangements. For more information about NAPEO, please visit www.napeo.org. You can also find us on Facebook at www.facebook.com/napeo and follow us on Twitter @NAPEO.

About McBassi & Company

McBassi is an independent analytics and research firm that helps clients create consistently profitable and enlightened workplaces. McBassi uses the language and tools of business — metrics and analysis — to build successful organizations by optimizing the power of their people. McBassi’s principals (Dr. Laurie Bassi and Dan McMurrer) are co-authors of Good Company: Business Success in the Worthiness Era (winner of the 2012 Nautilus Gold Award for Business/Leadership) and the HR Analytics Handbook.

About the Authors

Dr. Laurie Bassi is CEO of McBassi and a global leader in the field of applying analytics in the world of HR. Laurie is the author of over 90 published papers and books and was previously a tenured professor of economics and public policy at Georgetown University. She holds a Ph.D. in economics from Princeton University.

Dan McMurrer is the chief analyst at McBassi. An analytics expert, Dan focuses on researching the relationship between organizations’ work and learning environments and their business results. He holds an M.P.P. in public policy from Georgetown University.