



ADVANCING THE PEO INDUSTRY

ANNUAL REPORT





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The industry entered a new era in 2017 when the IRS notified the first PEOs they had earned certified status. After years of hard work and grassroots mobilization, the certification program came to life. The program granted legitimacy to the industry, and when paired with a change in Washington's political climate, allowed the industry to engage on offense. A real opportunity to advance key legislative and regulatory goals was born. As the industry continues to boom, 2017 was dedicated to advancing initiatives to promote PEOs and ignite future growth.

It's time to get out in front and seize the moment.

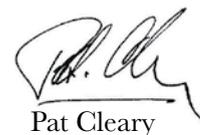


To say 2017 has been busy would be an understatement. NAPEO has been firing on all cylinders to make real gains and support you, our members. With the new administration in Washington, NAPEO has been dedicated to engaging on offense, especially as debates continue over taxes and healthcare.

Of course, the IRS PEO certification program was a huge step forward for the industry and we continue to work with the IRS to address any lingering concerns as the program is implemented. We've also scored some important wins in the state houses with several more hovering on the horizon.

On the marketing front, thanks to NAPEO's efforts, PEO brand awareness continues to climb as more and more business owners recognize the value of partnering with a PEO, which our latest white paper quantified.

We're heading into 2018 on a strong footing poised for more victories next year thanks in large part to your continued involvement and support.



Pat Cleary



2017 has been a landmark year in the PEO industry. This summer, many NAPEO members became the first PEOs to achieve IRS certification, marking a turning point for our industry. While growth is strong and the industry is healthy, we still have a lot of room to grow.

That's why key planks of NAPEO's advocacy agenda focus on being proactive and tackling issues head on to advance our goals and protect our industry.

Of course, none of our efforts would be possible without the support of members like you. The time, energy, and resources you dedicate to NAPEO fuel our mission and drive our success.

It's an honor to serve as NAPEO's 2017-18 Chair and I look forward to your continued support in 2018.



Norman Paul, Jr.

GOVERNMENT AFFAIRS

2017: A New President, a New Congress, and New Opportunities for the PEO Industry



The election of Donald Trump as our 45th President and the arrival of the 115th Congress have provided a unique opportunity for the PEO industry to promote its priorities before the federal government. As the Trump Administration settled into Washington, NAPEO's Federal Government Affairs Committee got to work on a legislative agenda. For the first time in quite a while, the PEO industry was granted an opportunity to proactively engage with policymakers to advance key industry goals, such as employee benefits, E-Verify legislation, and joint employer liability.

NAPEO has looked for opportunities to advance the PEO industry agenda through Congress. When the House Education and Workforce Committee released an initial draft of legislation to overturn the National Labor Relations Board *Browning Ferris* joint employment decision, the new definition of joint employer would have likely made PEOs joint employers under the National

Labor Relations Act and Fair Labor Standards Act. NAPEO wasted no time jumping into the debate, and thanks to the advocacy efforts of NAPEO members, the final version of legislation introduced to overturn the *Browning Ferris* decision would not classify PEOs as joint employers.

When the Senate considered its Affordable Care Act (ACA) repeal and replace proposal, a provision in that bill created the Small Business Health Plan, which allowed Association Health Plans and franchisers to offer large employer fully insured health insurance plans under ERISA. Once again, NAPEO and NAPEO members quickly engaged with the bill sponsor, and the definition of Small Business Health Plans was expanded to include PEOs. NAPEO also engaged with the House Judiciary Committee when they considered legislation to replace the I-9 employee verification system with an E-Verify system, to ensure that PEOs would not be disadvantaged by this change.



NAPEO WILL EXPAND ITS ENGAGEMENT WITH FEDERAL GOVERNMENT OFFICIALS TO CLARIFY PEO RESPONSIBILITIES UNDER FEDERAL LAW.

As the Trump Administration continues to fill key government positions, NAPEO will expand its engagement with federal government officials to clarify PEO responsibilities under federal law, and where possible, to achieve further recognition of the PEO business model.

On November 18, 1999, then Representatives Rob Portman (R-OH) and Ben Cardin (D-MD) introduced the first standalone version of the Small Business Efficiency Act (SBEA). After 18 long years of advocacy efforts, the long sought goal of formal federal recognition of PEOs came to fruition this summer when the IRS notified the first PEOs they had met the statutory requirements to achieve certified status. By the end of November, 34 NAPEO members learned that the IRS had certified a PEO within their controlled group.

NAPEO frequently engaged—and will continue engaging—with stakeholders to iron out challenges during the implementation process so the program serves PEOs well. Several IRS employees working with the IRS PEO Certification Program joined NAPEO at its annual PEO Capitol Summit in May to hear directly from PEO industry members. To ensure our members are equipped with all they need to know about the program, NAPEO dedicated several conference sessions,

webinars and online resources to this topic, spanning all phases of the program.

Certainly, this represents the birth of a new era in the PEO industry. The certification program grants legitimacy and certainty to the industry, adding further fuel to the robust growth the industry continues to experience.

NAPEO's general counsel traveled across the country this year representing the PEO industry at legal and regulatory conferences including: the National Association of Insurance Commissioners (NAIC), the International Association of Industrial Accident Boards and Commissions (IAIABC), and the National Conference of Insurance Guaranty Funds (NCIGF).

This year, NAPEO recognized the critical business and compliance risks faced by our members concerning cybersecurity and formed the NAPEO Cybersecurity Task Force in response. The Cybersecurity Task Force is comprised of a cross section of professionals with expertise in insurance, law, technology and the business environment of PEOs. Its primary mission is to develop a set of best practices which NAPEO members could use to strengthen their compliance efforts and minimize their legal and business risks.



NEW JERSEY

In September, Gov. Christie signed SB 2512 into law modernizing the Garden State's PEO statute by allowing the PEO and client company the flexibility to allocate responsibility for the direction and control over management of safety, risk and hazard control at the client worksite; and requiring the client to accurately report wages to the PEO. NAPEO successfully worked with coalition partners to enhance the legislation throughout the process and testified in support of the bill. This legislative change opens up business opportunities for PEOs.

OUTCOME: Client or PEO allowed to provide workers' compensation coverage for worksite employees



OHIO

NAPEO successfully secured changes to the state's PEO statute which have been a part of NAPEO's state action plan for many years. NAPEO worked with the Bureau of Workers' Compensation and policymakers throughout the process. The PEO provisions include: broadening who can provide financial attestation; removing the requirement for supplemental combining schedules for PEOs providing consolidated financial statements; changing the time a PEO is afforded to provide the BWC a lease termination form; and changing the time that a self-insured PEO is afforded to provide the BWC with information necessary to create a state fund experience mod. These changes will ease regulatory burdens on PEOs, making it easier to do business in the Buckeye State.

OUTCOME: Law amended to the benefit of PEOs and their clients



OREGON

NAPEO successfully engaged policymakers to ensure rules governing co-employment relationships under OregonSaves favorably impact PEOs.

OregonSaves is a state-run mandatory retirement plan designed to provide access to a retirement savings plan to employees who lack access to an employer sponsored plan. It is the first of its kind in the nation. The NAPEO-supported rule language sets a precedent concerning co-employment relationships in state-run retirement plans similar to OregonSaves.

OUTCOME: Recognition of co-employment relationship; important precedent set

It is widely expected that before the end of 2017, Gov. Kasich will sign a bill containing language ensuring PEO client company owners are eligible for the state's business income tax deduction. NAPEO worked with policymakers to resolve this issue over the last year. Without NAPEO's efforts, PEOs in the Buckeye State will continue to face market disadvantages as PEO client companies were being denied eligibility for the deduction.

EXPECTED OUTCOME: Administrative interpretation reversed, ensuring PEO client company owners eligible for income tax deduction

NAPEO'S STATE GOVERNMENT AFFAIRS TEAM TRAVELED AROUND THE COUNTRY EDUCATING LEGISLATORS, REGULATORY OFFICIALS, AND KEY STAKEHOLDERS ABOUT THE INDUSTRY.

MARKETING AND COMMUNICATIONS

We all know that one of the clear challenges we face as an industry is building awareness of who we are and what we do. That's why NAPEO dedicates significant resources to promoting PEOs through strategic marketing and communication initiatives.



This year, we launched an exciting new branding and marketing effort that will grow the industry and drive new business to our members. The foundation of the project is in-depth brand analysis and research aimed at answering three key questions about the PEO industry:

1. Why do PEOs have the customers they have?
2. Why aren't more businesses using PEOs?
3. What can NAPEO do to increase PEO market share?

The results of this research will help define the PEO brand so we can develop a comprehensive marketing and advertising plan to improve awareness and understanding of the industry, and ultimately, result in new PEO clients for our members.

NAPEO's 2017 white paper, *PEOs: Good for Small Business and Their Employees*, quantified what PEOs have long known to be true. The research found that annual revenue growth for small businesses

using a PEO is double that of comparable non-PEO firms, and companies that use a PEO are also 16 percent more likely to report an increase in profitability.

Our online ads have generated 22 million ad impressions and nearly 315,000 click-throughs to the NAPEO "Find a PEO" website. During that same time, more than 910,000 users have clicked-through to NAPEO members' websites and 150 NAPEO members have received more than 500 requests for a proposal directly from NAPEO's website. Dozens of members have gotten new business and new clients as a direct result of NAPEO's industry promotion efforts.

Once again, *Inc.* magazine ran a special section feature on PEOs in its September issue. That the magazine chose to run a feature on PEOs two years in a row signifies the immense value PEOs offer to business.

From trade shows, to digital ad campaigns, to media pitches, NAPEO continues waving the PEO flag and spreading the good news about the industry.

EDUCATION AND EVENTS

Each year, NAPEO develops engaging, insightful and relevant educational programming to serve our members. Our 2017 education offerings surveyed myriad topics both industry-wide and discipline-specific.



The industry's marquee event, NAPEO's Annual Conference & Marketplace, for the second year in a row broke attendance and exhibitor records. Technology, industry innovation, cybersecurity, and IRS PEO Certification ran heavily through the programming, and attendees of every career level walked away armed with practical information ready to be applied to their day-to-day business operations.

Several new installments were added to NAPEO's library of PEO University videos, where everyone from C-level executives and entry-level new hires can find relevant and useful information on topics ranging from cybersecurity to legal issues to sales and operations and much, much more.

NAPEO's webinar series, another web-based resource, offered members 12 opportunities to learn more about a variety of issues from state-specific regulations, IRS PEO Certification, mergers and acquisitions and many others.

The quarterly PEO Pulse survey and the annual Financial Ratio and Operating Statistics survey offer members in-depth, analytical industry insights and are great tools to supplement internal operational planning.

A highly valuable benefit of NAPEO membership, our educational resources offer members PEO-specific tools unavailable anywhere else.

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