

NATIONAL ASSOCIATION OF PROFESSIONAL EMPLOYER ORGANIZATIONS
2018 ANNUAL REPORT



IMPACT. IT'S WHAT PEOs DO.

PEOs help tens of thousands of businesses succeed every single day. Millions of worksite employees and clients are positively impacted by the services, resources and expertise you provide. The industry continued to grow this past year, creating more opportunities for you to help businesses thrive.

While you are doing what you do best, NAPEO is working to make an impact on your behalf. In 2018, our industry awareness efforts spread the good news of PEOs, hard work won regulatory and legislative victories in state capitals and DC, and new educational tools covered the latest industry trends and topics.

2018 saw a booming PEO industry expand its reach with no signs of slowing down.



The momentum from last year carried us right into 2018 with the wind at our backs; the industry did not slow down so neither did we.

The findings of our PEO market research project were released in April and revealed encouraging data about small business' attitudes toward PEOs. We put this

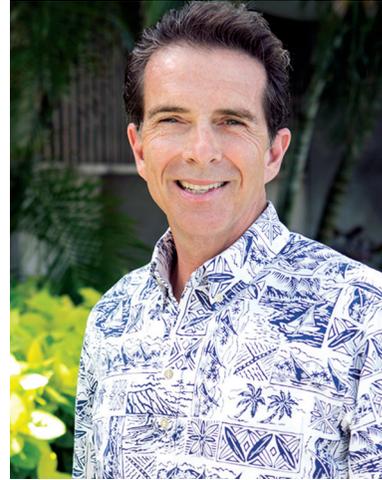
research in the hands of our members and we are using it to fuel a robust marketing plan that we'll implement soon to bolster our ongoing industry awareness efforts to help PEOs expand their market share.

PEO bills were passed in Missouri and Massachusetts after many years of diligence and persistence. At the federal level, grassroots pressure helped secured favorable IRS guidance concerning the Section 199A tax deduction.

Our first-ever PEO Technology Showcase, PEO cybersecurity best practices report, and a record 20 webinars educated members on emerging topics critically impacting the industry.

2018 was a fast-paced year; with your continued support and involvement, 2019 will be even better.

Pat Cleary
President & CEO



Together as friends and fellow NAPEO members, we've accomplished a great deal this year, none of which was possible without members like you. The success and health of our industry is a result of your commitment to NAPEO as we work towards common goals.

As our vibrant industry expands, the impact PEOs bring to businesses and communities grows. Businesses like ours are uniquely positioned to be change makers. It's important we seize this opportunity as we head into next year and begin looking at what lies ahead for PEOs.

NAPEO's efforts that grow, strengthen, and serve our industry are more successful because of your involvement. It's an honor to work alongside you. I look forward to your continued support in 2019.

Barron Guss
Chair



For the first time in NAPEO's history, the U.S. Secretary of Labor addressed NAPEO's PEO Capitol Summit.

NAPEO's dynamic federal government affairs efforts achieved two significant victories this year that have real impact on the PEO industry.

At the end of 2017, President Trump signed sweeping tax reform legislation into law that included Internal Revenue Code Section 199A, which provides for a 20% tax deduction for pass-through entities.

Upon passage of tax reform, some accountants advised their pass-through clients that using a PEO would render them ineligible for the Section 199A deduction. Immediately, NAPEO began leveraging its grassroots power along with the work of member companies: contacting the IRS; engaging our legislative champions; and organizing a letter writing campaign to help the IRS understand how, without proper guidance, PEOs would be inadvertently harmed by Section 199A.

NAPEO's 2018 PEO Capitol Summit focused on this issue, and NAPEO members scheduled a record number of meetings with Members of Congress to express the need for clarity on Section 199A and to urge action.

The hard work of NAPEO members paid off in August when the IRS issued guidance specifically noting that using a PEO does not affect a business' eligibility for the Section 199A deduction. The guidance was a complete victory for the industry.

NAPEO also overturned a potentially harmful policy change issued by the Equal Employment Opportunity Commission (EEOC). In late February, the EEOC changed their EEO-1 filing requirements for PEOs. The change would have required PEOs to file EEO-1 forms for all PEO clients if only one client was required to do so under current law. NAPEO jumped into action, and by the next day the policy was overturned.

NAPEO enjoyed equal success at the state level.

This year, after two decades of work in Massachusetts and a decade of work in Missouri, PEO registration bills based on NAPEO's Model Act were signed into law in both states. Passage of these laws took great dedication and effort from NAPEO members in both states. With the enactment of these laws, more than 40 states now have some form of PEO laws or regulations recognizing the industry.

In Montana, the state Supreme Court heard a case challenging the constitutionality of the state's PEO statute. NAPEO filed an amicus curiae brief on behalf of the industry in support of the statute. In May, a favorable decision upholding the statute was handed down.

In Washington, D.C., the district's Council began consideration of a healthcare bill that would have negatively impacted the PEO



industry by preventing PEOs from sponsoring large group plans and causing thousands of District residents to lose their health coverage. NAPEO, working with member companies, engaged with Council members to educate them about the PEO business model and how the bill, as proposed, could harm PEOs. After NAPEO's efforts, the Council decided to remove any reference to PEOs in the bill.

8.3%

growth rate of PEO
industry over last
decade

14X HIGHER

PEO WSE growth rate
compared to overall U.S.
employment growth

3.7M

number of PEO
worksites employees

67%

percentage of
business owners
who are interested in
using a PEO

1,606

people tuned in to
NAPEO webinars

1,878

people attended
NAPEO events

24

NAPEO-sponsored
events held

1,700+

hours of CPE credit
awarded to NAPEO
members

20

webinars offered,
the most ever

19.34M

total number of online ad
impressions

122.5K

total number of
click-throughs from
Find a PEO

852.3K

total number of
website visits

NAPEO AT-A-GLANCE

Lack of awareness is often a major barrier to the PEO industry. Too many business owners simply have never heard of PEO. That's why NAPEO's online ad campaigns, white papers, media outreach, and trade show appearances aim to promote the industry and raise awareness. This year we invested in ramping up our efforts.

NAPEO's largest-ever market research project was completed in April and provides a wealth of insight about small and mid-size business owners and their understanding of the PEO industry. We put this groundbreaking research into the hands of our members and it will be used to refine and target NAPEO's visibility-raising efforts to maximize awareness of PEOs and to develop tools and resources to help you tell the PEO story.

In a sign of enormous potential for PEOs, across all phases of the research and all audiences, there were zero negative associations or connotations with the PEO industry. And, our 2018 white paper outlining the PEO footprint highlights growth and strength in the industry.

Businesses like yours have great stories to tell, and NAPEO is committed to providing the tools you need to share the good news about PEOs. The research has led to a robust, comprehensive and aggressive marketing plan which NAPEO will implement throughout 2019.



PEO MARKET RESEARCH

Comprehensive Report

An Economic Analysis: The PEO Industry Footprint in 2018



Laurie Bassi and Dan McMurrer
McBassi & Company

September 2018

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The Inc. Interview
Ellen Pao on
Social Media,
Venture Capital,
Leadership,
and #MeToo

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EDUCATION

Equipping members with knowledge and resources on the industry and issues impacting PEOs is a core mission of NAPEO. 2018 featured four education-focused conferences, eighteen regional leadership council forums, and twenty webinars. Throughout the entire year, NAPEO produces educational programming designed to provide members with the information you need.

NAPEO's Annual Conference and Marketplace, the cornerstone of our educational programming, broke all previous attendance records this year. The content featured many PEO-specific sessions on marketing and technology providing an opportunity to learn the latest information as it applies to your business. Our conferences also afford members opportunities to network with peers and industry experts to share insight and knowledge about the industry.

As new trends emerge, we expand our offerings to cover even more critical topics. Technology evolves constantly and has heavily impacted the HR outsourcing world. For the first time, NAPEO held *The PEO Technology Showcase* so members could hear directly from leading industry technology providers on the latest products and offerings.

An unfortunate reality is that PEOs are targets of fraud because of the sensitive data and money they handle. Cybersecurity is then a

top concern on the minds of PEO operators. In response, NAPEO's Cybersecurity Task Force produced a report, *The Pillars of Cybersecurity for PEOs*, which guides PEOs through a series of best practice steps to ensure your PEO remains prepared to fend off cyberattacks. Payroll fraud schemes can also be dangerous, so NAPEO's Accounting Practices Committee developed a detailed checklist to warn members how to spot payroll fraud and what measures to adopt to ensure fraud schemes are unsuccessful.

Our expansive educational resources keep you and your PEO ahead of the curve and well prepared to handle any of the myriad topics affecting PEOs.

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