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PEO Clients: An Analysis

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HIGHLIGHTS

PEO Client Distribution

- Almost two-thirds of all PEO clients have between 10 and 49 employees
- Almost half of all PEO clients are in Professional Services, Manufacturing, or Construction
- Approximately half of all PEO clients are in Florida, Texas, or California
- Small- and medium-sized PEOs tend to have a smaller average client size than larger PEOs

Penetration Rates

- Across all businesses with 10-99 employees, the estimated PEO industry penetration rate is 11 percent
- Estimated PEO industry penetration rates are highest among businesses with 20-49 employees
- Looking only at businesses in the general PEO “sweet spot” (10-99 employees), estimated penetration rates are the highest among businesses in the following industries:
 - Real Estate and Rental/Leasing
 - Professional Services
- Estimated penetration rates among businesses with 10-99 employees are highest in the following states:
 - Florida
 - Georgia
- In industries where PEOs already have a significant presence, estimated penetration rates (looking only at businesses with 10-99 employees) are notably low in the following:
 - Health Care
 - Retail Trade
- Estimated penetration rates among businesses with 10-99 employees are notably low in the following states:
 - Pennsylvania
 - Ohio

INTRODUCTION

Professional employer organizations (PEOs) provide comprehensive HR solutions for small and mid-size businesses by supplying them with a broad array of HR services and expertise. This enables PEO clients to concentrate on growing their businesses, while simultaneously offering high-quality HR benefits and practices for their employees.

Research in our recent industry white papers has focused on analysis of PEOs and their relationships with clients. Topics have included PEOs' impact on client organizations (higher business survival rates, higher growth rates, lower employee turnover, and greater resilience throughout the difficult first year of the pandemic economy), as well as industry-related data (including the number of PEOs and the aggregated size of the industry).

This white paper analyzes, for the first time, the **basic characteristics of PEO clients** themselves.

Our work includes two primary metrics:

- The total distributions of PEO clients by size, industry, and state location (including breakdowns by PEO size)
- The PEO industry's estimated "penetration rate" (the percentage of firms in a specific category that are PEO clients) for various categories of clients

These two metrics together provide complementary information: they reflect both the extent of PEO presence within a given category and the extent to which PEO clients are represented, relative to the size of each relevant group within the US economy overall.

This analysis became possible due to the timely availability of two unique sources of publicly-available data. First, we gathered a list of PEO clients in 2020¹ from US Department of Labor Form 5500s, in which providers of multiple-employer retirement benefit plans are required to list all participating employers.² While clearly controversial in the PEO industry, this source of data is unique in identifying PEO clients on a wide scale and we opted to use it while available. Second, we used data from the US Small Business Administration on companies that received Paycheck Protection Program (PPP) loans during the pandemic to ensure information in our database was as accurate as possible. The high-quality PPP data was used to confirm the accuracy of information from external data providers on relevant characteristics (size, industry, location) of companies identified as PEO clients on the Form 5500 filings.

¹2020 is the most recent year for which a full set of Form 5500 data was available from the US Department of Labor at the time this paper was written.

² Because the database includes only clients that offer retirement plans, we adjusted the data to reflect the extent to which retirement plan availability varies across industries within the US economy as a whole. All industry percentages in this report reflect this statistical adjustment. Additional details are included in the Technical Details ("Calculations: PEO client distribution" section) at the end of this paper.

More details are provided in the following sections, with specific information on data sources and analysis methodology provided in the final section of this white paper. Due to rounding, some tables in the paper may not add exactly to 100 percent.

DISTRIBUTION OF PEO CLIENTS

This first section explores the raw distribution of three key characteristics across the PEO client database: size (number of employees), major industry sector, and state location.³

This section does not control for the representation of those characteristics within the economy as a whole – that information is part of the next section, which looks at estimated PEO industry penetration rates *within* size, industry, and state groups.

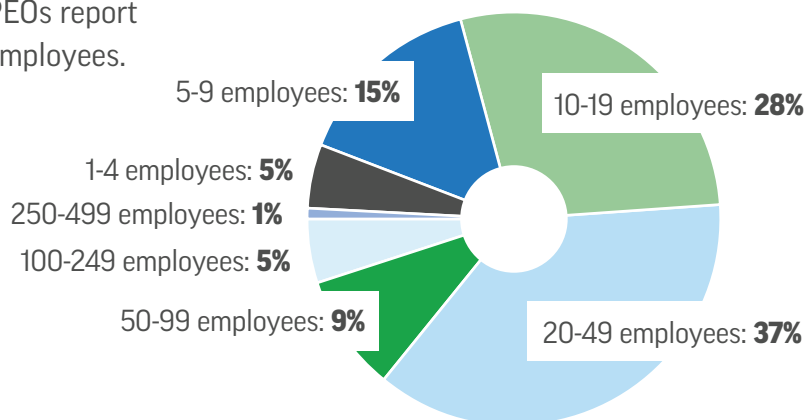
By client size. Combined, almost two-thirds of all PEO clients fall into either the size category 20-49 employees (37 percent of all clients) or 10-19 employees (28 percent). See Table 1 and Figure 1 for details.

Although calculated using different sources and methods, these numbers are quite consistent with data from NAPEO's *2021 Financial Ratio & Operating Statistics (FROS) Report*, which found that approximately two-thirds of PEOs report their average client size is between 15 and 49 employees.

TABLE 1. PERCENTAGE OF PEO CLIENTS, BY BUSINESS SIZE

# of Employees	% of All PEO Clients
1-4	5
5-9	15
10-19	28
20-49	37
50-99	9
100-499	6
500-999	Less than 0.5
1000-4999	Less than 0.5

FIGURE 1. PERCENTAGE OF PEO CLIENTS, BY BUSINESS SIZE



³For companies with multiple locations, their state is defined as their headquarters.

⁴Because of limitations in the data source we used to check accuracy in our PEO client database, we do not have size data for companies with 5000+ employees, but we are confident they, like companies with 500-999 and 1000-4999 employees, represent an extremely small percentage of all PEO clients.

By client industry. While PEO clients are represented across all major industry groups,⁵ there are three industries in which almost half of all PEO clients can be found:

- Professional, Scientific, and Technical Services⁶
- Manufacturing
- Construction

Other industries that each make up at least 5 percent of PEO clients are Health Care/Social Assistance, “Other” Services (a mix of companies that don’t fall neatly into any of the other sector definitions), Real Estate/Rental/Leasing, and Retail Trade. Full details are available in Table 2.

TABLE 2. PERCENTAGE OF PEO CLIENTS, BY MAJOR INDUSTRY GROUP*

Industry	% of All PEO Clients
Professional, Scientific, and Technical Services	22
Manufacturing	13
Construction	12
Health Care and Social Assistance	11
Other Services	8
Real Estate and Rental/Leasing	6
Retail Trade	6
Administrative/Support and Waste Management	4
Wholesale Trade	4
Accommodation and Food Services	3
Arts, Entertainment, and Recreation	3
Finance and Insurance	3
Educational Services	2
Information	2
Transportation and Warehousing	2
Agriculture, Forestry, Fishing, Hunting	Less than 0.5
Mining, Quarrying, Oil/Gas	Less than 0.5
Management of Companies	Less than 0.5
Utilities	Less than 0.5

* Industry-based breakdowns from the analysis database of PEO clients from Form 5500 records were adjusted to account for variance across industries in the provision of retirement plans, as described in the technical notes section. For industries with percentage values listed as “Less than 0.5,” the sample sizes were too small to be able to accurately calculate the industry’s relative representation.

⁵Clients’ industries are classified using the standard North American Industry Classification System (NAICS), using 2-digit NAICS codes. (More detailed NAICS codes are also available, but 2-digit sector codes provide the best high-level classification of companies’ industries.)

⁶This industry includes law firms, accounting firms, architectural and engineering services, consulting firms, and other services that require a high degree of expertise and training. See <https://www.bls.gov/iag/tgs/iag54.htm> for additional detail.

By client state. While PEO clients are scattered across all 50 states, there are three states that contain approximately half of all PEO clients: Florida, Texas, and California.

Indeed, Florida, with one-quarter of all PEO clients in the United States, has almost twice as many clients as any other single state.

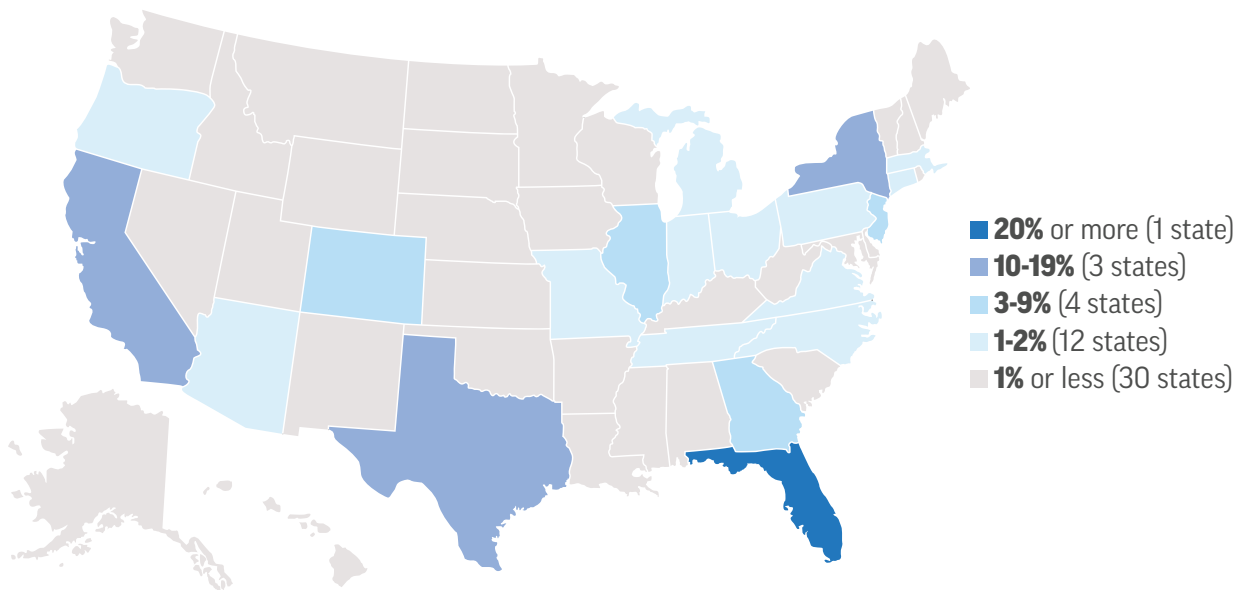
Table 3 provides a breakdown of percentage and number⁷ of PEO clients by state for the 20 states with the most PEO clients. The total representation for the remaining 30 states that are not specifically identified in Table 3 was 9 percent of all PEO clients. (The sample sizes for the remaining 30 states were too small to be able to accurately calculate each state's share as a percentage of all PEO clients.)

TABLE 3. PERCENTAGE AND ESTIMATED NUMBER OF PEO INDUSTRY CLIENTS, BY STATE (20 STATE WITH MOST PEO CLIENTS)

State	% of All PEO Clients	Estimated # of PEO Clients
Florida	25	43,600
Texas	13	22,800
California	11	19,400
New York	10	17,000
Georgia	5	8,700
Illinois	3	5,800
Colorado	3	5,300
New Jersey	3	4,500
Indiana	2	3,700
Massachusetts	2	3,600
Michigan	2	3,100
North Carolina	2	3,100
Missouri	2	3,100
Virginia	1	2,200
Ohio	1	2,200
Arizona	1	2,100
Tennessee	1	1,900
Oregon	1	1,700
Connecticut	1	1,700
Pennsylvania	1	1,700
All other states*	9	15,800

⁷Number of PEO clients estimated by applying each exact state percentage (unrounded) to the total 173,000 PEO clients found in the 2021 NAPEO white paper *The PEO Industry Footprint 2021*.

FIGURE 2. PERCENTAGE OF ALL CLIENTS IN PEO INDUSTRY, BY STATE



Crosstabulations by two different client characteristics. Although sample sizes were typically quite small when we cut the database by two different variables (for example, looking at the distribution of client industries within an individual state), we were able to cross-tabulate data for a few of the largest available groups (within the state with the most PEO clients and the two industries with the most PEO clients).

The tables below show the distribution of employer sizes and industries within the state of Florida (Tables 4 and 5), as well as the distribution of employer sizes within the Professional Services and Manufacturing industries (Table 6).

These samples help to show how distributions can vary within states and within industries – so, for example, the size or industry distributions of PEO clients likely look a bit different from one state to another and the size distribution of clients can vary notably from one industry to another.

Compared to the distribution for the PEO industry overall, more Florida PEO clients are smaller in size (especially in the 5-9 employees category).

TABLE 4. PERCENTAGE OF PEO CLIENTS, OVERALL AND IN FLORIDA, BY BUSINESS SIZE

# of Employees	% of All PEO Clients	
	PEO Industry Overall	Clients in Florida
1-4	5	6
5-9	15	25
10-19	28	30
20-49	37	31
50-99	9	5
100-499	6	4
500-999	Less than 0.5	Less than 0.5
1000-4999	Less than 0.5	Less than 0.5

TABLE 5. PERCENTAGE OF PEO CLIENTS, OVERALL AND IN FLORIDA, BY MAJOR INDUSTRY GROUP*

% of All PEO Clients		
Industry	PEO Industry Overall	Clients in Florida
Professional, Scientific, and Technical Services	22	18
Health Care and Social Assistance	11	16
Construction	12	15
Manufacturing	13	7
Other Services	8	7
Real Estate and Rental/Leasing	6	6
Retail Trade	6	5
Administrative/Support and Waste Management	4	5
Accommodation and Food Services	3	5
Wholesale Trade	4	4
Arts, Entertainment, and Recreation	3	4
Finance and Insurance	3	3
Educational Services	2	3
Information	2	2
Transportation and Warehousing	2	2
Agriculture, Forestry, Fishing, Hunting	Less than 0.5	Less than 0.5
Mining, Quarrying, Oil/Gas	Less than 0.5	Less than 0.5
Management of Companies	Less than 0.5	Less than 0.5
Utilities	Less than 0.5	Less than 0.5

* Industry-based breakdowns from the analysis database of PEO clients from Form 5500 records were adjusted to account for variance across industries in the provision of retirement plans, as described in the technical notes section. For industries with percentage values listed as "Less than 0.5," the sample sizes were too small to be able to accurately calculate the industry's relative representation.

As in the national distribution of PEO clients, Professional Services is the most common industry among PEO clients in Florida as well, although a bit smaller than in the US overall. Health Care/Social Assistance and Construction, on the other hand, have notably higher industry representation in Florida, while Manufacturing is a smaller percentage of clients in Florida than overall.

TABLE 6. PERCENTAGE OF PEO CLIENTS OVERALL AND IN TWO LARGEST INDUSTRY SECTORS, BY BUSINESS SIZE

# of Employees	% of All Clients		
	All Industries	Professional, Scientific, Technical Services	Manufacturing
1-4	5	7	Less than 0.5
5-9	15	18	5
10-19	28	33	22
20-49	37	33	54
50-99	9	7	14
100-499	6	2	5
500-999	Less than 0.5	Less than 0.5	Less than 0.5
1000-4999	Less than 0.5	Less than 0.5	Less than 0.5

Table 6 shows significant differences in the distribution of clients by size within Professional Services versus Manufacturing. The first distribution looks fairly similar to the overall size distribution among PEO clients, with Professional Services clients somewhat more likely to be in the smaller groups. The second distribution shows that Manufacturing clients clearly tend to be larger.

By size of PEO. We were also able to analyze how PEO client size and industry vary by the size of their PEO⁸.

We used data from our 2021 NAPEO white paper, The PEO Industry Footprint 2021, to break PEOs into three PEO size categories, ranked by number of PEO worksite employees (WSEs)⁹:

- the 5 largest (which represent 43 percent of all WSEs)
- the next 25 largest (20 percent of WSEs)
- the remaining 457 PEOs (37 percent of WSEs)

TABLE 7. PEO CLIENT SIZE, BY SIZE OF PEO

# of Employees	% of All Clients			
	5 Largest PEOs	6th to 30th Largest PEOs	All remaining PEOs (31 to 487)	All PEOs
1-4	3	8	9	5
5-9	13	13	20	15
10-19	30	28	19	28
20-49	38	35	34	37
50-99	9	10	9	9
100-499	5	5	8	6
500-999	Less than 0.5	Less than 0.5	Less than 0.5	Less than 0.5
1000-4999	Less than 0.5	Less than 0.5	Less than 0.5	Less than 0.5

⁸ We only conducted this analysis for size and industry, as variations in state location across PEO sizes are more likely to have been affected by the locations of those specific PEOs that were or were not included in the 5500 database. (We would not expect such issues for size and industry.)

⁹ We used the same nomenclature for these groups as we used in the 2021 industry white paper, although, since not all PEOs filed Form 5500s, none of the three groups for this paper include all of the specific PEOs that were included in the groups in the 2021 paper. For example, for this analysis, the middle group includes only those PEOs that filed Form 5500 among the 25 companies ranked between 6 and 30 in size.

Results by PEO size indicate that the medium- and small-size PEOs (that is, those not in the two largest categories) are more likely to have a higher percentage of smaller clients. For example, 29 percent of their clients have fewer than 10 employees, relative to 16 percent of the clients of the five largest PEOs. See Table 7 for complete details.

Breakdowns by PEO client industry group show that the largest industry group among all PEO clients – Professional Services – represents approximately one-quarter of all clients of the 30 largest PEOs, but a substantially smaller percentage (16 percent) among the smaller PEOs. Full details are included in Table 8.

TABLE 8. PEO CLIENT INDUSTRY, BY SIZE OF PEO

Industry	% of Clients			
	5 Largest PEOs	6th to 30th Largest PEOs	All remaining PEOs (31 to 487)	All PEOs
Professional, Scientific, and Technical Services	24	27	16	22
Manufacturing	13	12	13	13
Construction	11	14	14	12
Health Care and Social Assistance	10	11	13	11
Other Services	8	9	11	8
Retail Trade	6	4	6	6
Real Estate and Rental and Leasing	6	5	6	6
Administrative/Support and Waste Management	3	3	5	4
Wholesale Trade	5	3	2	4
Accommodation and Food Services	3	2	3	3
Arts, Entertainment, and Recreation	3	4	5	3
Finance and Insurance	3	3	3	3
Educational Services	2	1	2	2
Information	3	2	1	2
Transportation and Warehousing	1	2	2	2
Agriculture, Forestry, Fishing and Hunting	Less than 0.5	Less than 0.5	Less than 0.5	Less than 0.5
Management of Companies and Enterprises	Less than 0.5	Less than 0.5	Less than 0.5	Less than 0.5
Mining, Quarrying, and Oil and Gas Extraction	Less than 0.5	Less than 0.5	Less than 0.5	Less than 0.5
Utilities	Less than 0.5	Less than 0.5	Less than 0.5	Less than 0.5

ESTIMATED PENETRATION RATES

By client size. The percentage of PEO clients among all companies in a certain category is often referred to as a penetration rate. The estimated overall penetration rate for the PEO industry among all US businesses is approximately 3 percent. This, however, varies significantly by business size, with notably higher penetration rates among businesses in the categories that are traditionally seen as the PEO industry’s sweet spot.

Examined by client size, the estimated PEO industry penetration rate is highest (16 percent) among businesses with 20-49 employees. This indicates that approximately one of every six businesses with 20-49 employees is a PEO client.

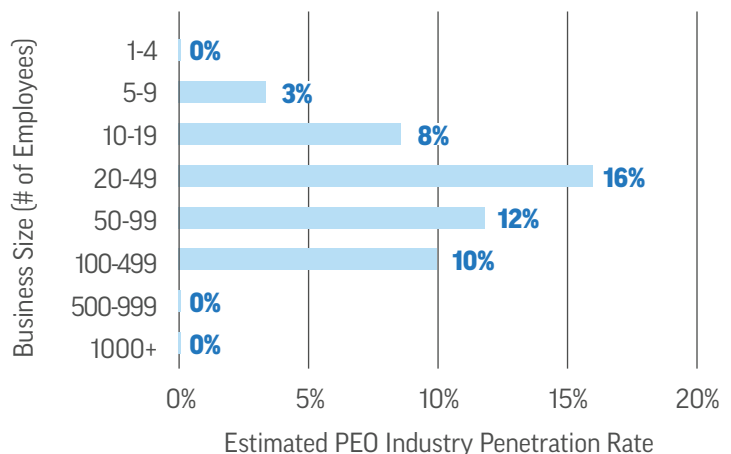
The next-highest penetration rates are 12 percent, for businesses with 50-99 employees, and 10 percent, for businesses with 100-499 employees. The penetration rate for businesses with 10-19 employees (8 percent) is half of the rate for 20-49 employees.

Looking at penetration rates relative to total representation among PEO clients can be helpful in better understanding data on representation. For example, businesses with 10 to 49 employees represent 20 percent of all US private firms,¹⁰ but represent 65 percent of all PEO clients. Hence, penetration rates are much higher for businesses of those sizes.

On the other hand, on opposite side of the distribution, while businesses with 5-9 employees represent 15 percent of all PEO clients, the penetration rate among businesses of that size is only 3 percent, reflecting the huge size of that cohort of US businesses.

Full details by size group are included in Figure 3.¹¹

FIGURE 3. ESTIMATED PEO PENETRATION RATE, BY BUSINESS SIZE



¹⁰ US Bureau of Labor Statistics (2021), Distribution of private sector firms by size class, https://www.bls.gov/web/cewbd/table_g.txt.

¹¹ That pattern is even more dramatic among businesses with 1-4 employees. (Indeed, businesses with 1-4 employees represent 57 percent of all US businesses, but only 5 percent of all PEO clients.)

By client industry. For industry sectors (and states), we looked at only businesses with 10-99 employees when calculating penetration rates. This is because the size distribution of businesses varies significantly across some industries. So, if we calculated penetration rates while counting all companies in industries¹² with, say, extremely high percentages of tiny companies (1-4 employees), the results would be less useful from the perspective of the PEO industry that typically does not view most such companies as prospective clients.

Across all businesses with 10-99 employees, the overall PEO industry penetration rate is 11 percent.¹³

The results (see Table 9) show that there are three industries with estimated penetration rates higher than 20 percent among firms with 10-99 employees (roughly twice as high as the overall penetration rate):

- Real Estate and Rental/Leasing
- Professional, Scientific, and Technical Services
- Manufacturing

Among the industries with significant representation among PEO clients but lower penetration rates (average or below average), Health Care/Social Assistance and Retail Trade are the two largest. These are industries that may prove fertile for finding new PEO clients, both because there are so many businesses in those sectors overall and because PEOs have already proven to be successful in establishing some foothold in those sectors. Further, there are multiple other industries with both lower penetration and relatively low overall representation among PEO clients; these appear to be the industries where PEOs currently have the lowest traction. See Figure 4 for a graphical depiction for the relationship between percentage of PEO clients and penetration rates broken down by industry.

¹² For example, only 9 percent of all Real Estate and Rental/Leasing companies have 10-99 employees, while 39 percent of all Manufacturing companies have 10-99 employees.

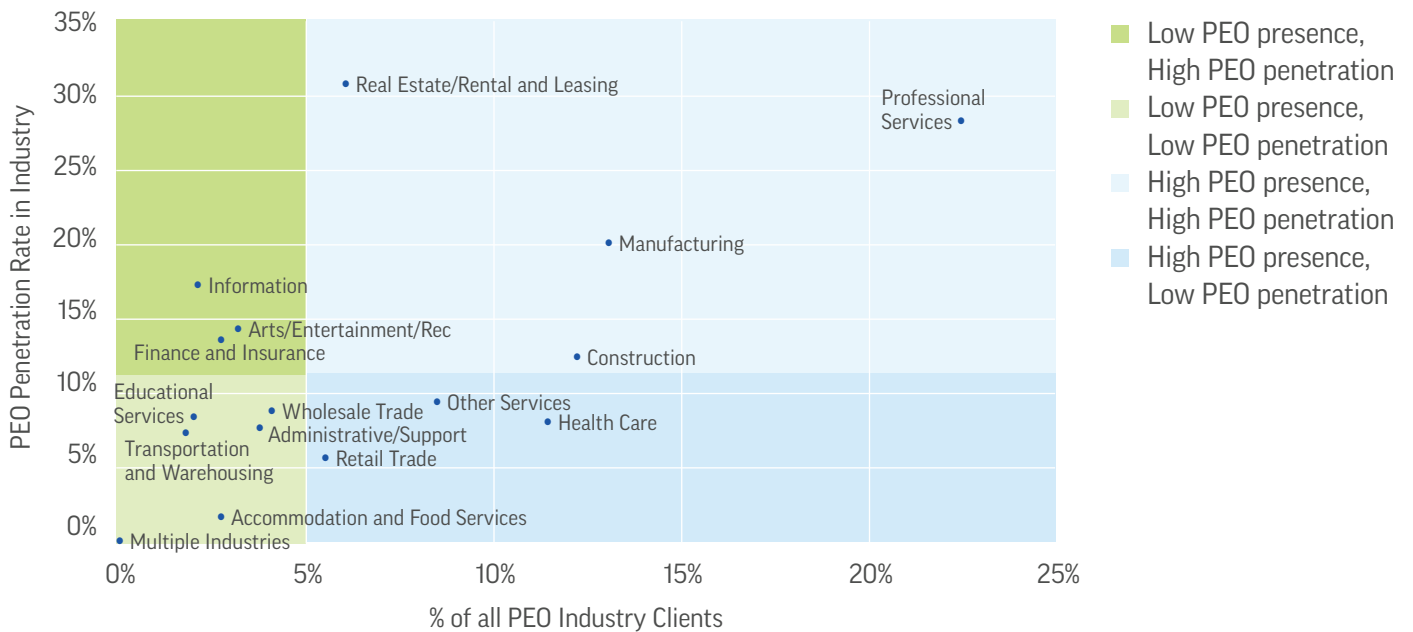
¹³ Our May 2021 NAPEO white paper, *The PEO Industry Footprint 2021*, included a statistic that the number of PEO clients is 15.3 percent of all businesses with 10-99 employees. In making that calculation, we did not have the necessary data to break clients down by size. Hence, the 2021 calculation included all PEO clients, not just the clients with 10-99 employees. As such, it was intended to provide a general indicator of the scope of the industry relative to the size of a relevant sector of the economy. We now know that 72 percent of PEO clients have 10-99 employees. So the 15.3 percent "scope" estimate and the 11 percent "penetration" estimate, derived from entirely different data sources, are consistent with one another (since $15.3 \times 0.72 = 11.0$).

TABLE 9. ESTIMATED PEO PENETRATION RATE AMONG BUSINESSES WITH 10-99 EMPLOYEES, BY MAJOR INDUSTRY GROUP (SORTED DESCENDING BY PENETRATION RATE)*

Industry	Estimated Penetration Rate (%)
Real Estate and Rental/Leasing	31
Professional, Scientific, and Technical Services	28
Manufacturing	20
Information	18
Arts, Entertainment, and Recreation	15
Finance and Insurance	14
Construction	13
Other Services	10
Health Care and Social Assistance	9
Educational Services	8
Wholesale Trade	8
Administrative/Support and Waste Management	7
Transportation and Warehousing	7
Retail Trade	6
Accommodation and Food Services	1
Agriculture, Forestry, Fishing, Hunting	Less than 0.5
Mining, Quarrying, Oil/Gas	Less than 0.5
Management of Companies	Less than 0.5
Utilities	Less than 0.5

* Penetration rates were calculated using the same retirement-adjusted PEO client data used for other industry breakdowns (described in additional detail in the Technical Notes).

FIGURE 4. PEO CLIENT PERCENTAGE AND ESTIMATED PENETRATION RATE, BY INDUSTRY



By client state. As with industry sectors, we looked at only businesses with 10-99 employees when estimating penetration rates by state. As can be seen in Table 10, Florida has a penetration rate of 39 percent, almost double that of any other state. Second-highest is Georgia (20 percent), followed by New York and Colorado (16 percent each). Figure 5 displays the available state-level data geographically.

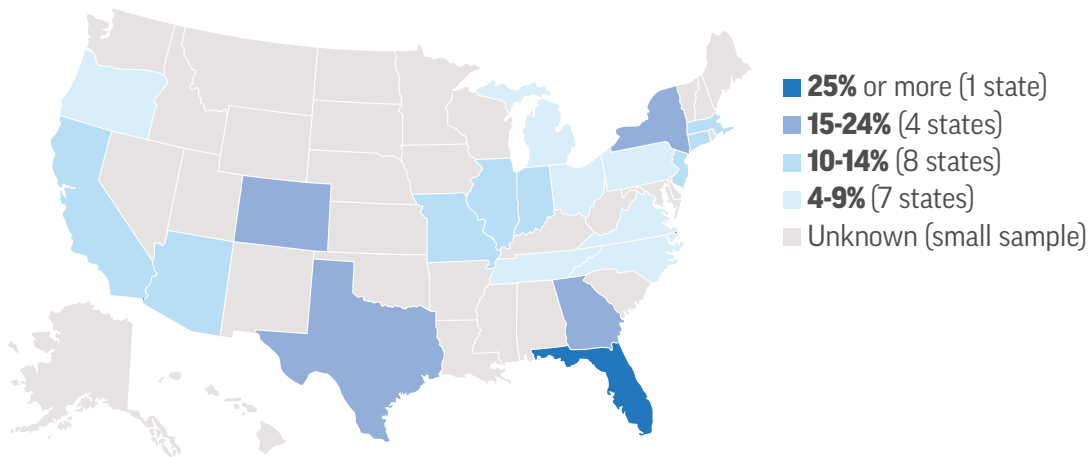
TABLE 10. ESTIMATED PEO PENETRATION RATE AMONG BUSINESSES WITH 10-99 EMPLOYEES, BY STATE (20 STATES WITH MOST PEO CLIENTS, SORTED DESCENDING BY PENETRATION RATE)

State	Estimated Penetration Rate (%)
Florida	39
Georgia	20
New York	16
Colorado	16
Texas	15
Indiana	12
Missouri	12
California	11
Illinois	11
New Jersey	11
Connecticut	11
Massachusetts	10
Arizona	10
North Carolina	9
Tennessee	7
Oregon	6
Michigan	5
Virginia	5
Ohio	4
Pennsylvania	4
<i>All other states</i>	3

As noted in the previous section, across all firms with 10-99 employees, the overall PEO industry penetration rate is 11 percent.

Among the states with significant PEO presence (among the 20 states with the most clients), a number have notably lower-than-average penetration rates (see Figure 5). The two lowest of those are Pennsylvania and Ohio (4 percent each), while Virginia and Michigan (5 percent each) also have estimated penetration rates less than half of the average.

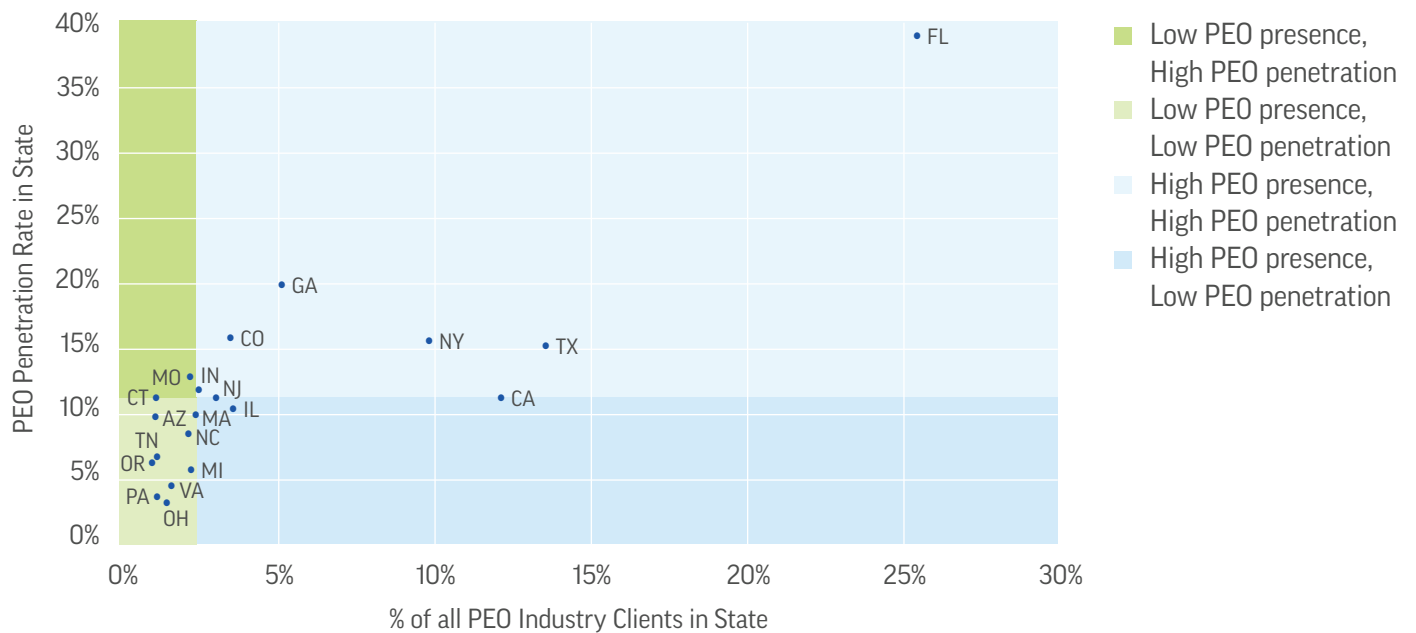
FIGURE 5. ESTIMATED PEO INDUSTRY PENETRATION RATE (COMPANIES WITH 10-99 EMPLOYEES), 20 STATES WITH MOST PEO CLIENTS



The 30 states not identified specifically in Table 10 combine for a penetration rate of 3 percent among businesses with 10-99 employees. This indicates that most states with low absolute levels of PEO clients typically also have low penetration rates, although it is not possible to calculate specific numbers by state.¹⁴

Figure 6 provides a graphical depiction for the relationship between the percentage of PEO clients and the penetration rates by state for the 20 states with the most PEO clients.

FIGURE 6. PEO CLIENT PERCENTAGE AND ESTIMATED PENETRATION RATE, 20 STATES WITH MOST PEO CLIENTS



¹⁴ It is possible that some of these 30 states could have relatively high penetration rates that simply cannot be calculated due to small sample sizes. The low overall average penetration rate, however, indicates that most of the states in this group must have low penetration rates.

CONCLUSION

Overall, this first-ever analysis of PEO clients provides quantitative measures of their characteristics, with almost two-thirds of PEO clients having between 10 and 49 employees. Almost half are in one of three industries (Professional Services, Manufacturing, or Construction). PEO clients in Florida represent one-quarter of all PEO clients nationwide (with another one-quarter combined in the states of Texas and California). Breakdowns by PEO size indicate that, compared to larger PEOs, medium- and small-size PEOs are more likely to have a higher percentage of smaller clients.

The analysis also provides information on estimated industry penetration rates. The penetration rate is highest (16 percent) among employers with 20-49 employees. Across industries, it is particularly high in Real Estate/Rental/Leasing as well as Professional Services. By state, estimated penetration rates are highest in Florida and Georgia.

TECHNICAL NOTES

Identifying PEO clients. We searched 2020 US Department of Labor Form 5500 filings for the 487 PEOs in the PEO database developed for last year's white paper. (2020 was the most recent year for which a full set of filings was available.)

The PEO client lists from all MEP filings we were able to find were incorporated into our database. The lists typically contained client names, employer identification numbers (EINs), and percentage of contributions belonging to each client. (The lists did not contain information on the client characteristics we needed for this analysis – industry, size, and state location.) Based on the limitations of the available data, we found usable information on 33,219 PEO clients.

Determining Client Characteristics. In order to identify industry, size, and state location, we used multiple sources:

- Two third-party vendors of business data: SICCode.com and EINFinder
- Manual online research by McBassi
- Publicly-available records on businesses that had received a Paycheck Protection Program (PPP) loan during the pandemic

This phase of the research encountered two primary challenges: (1) it was difficult to confidently and accurately match company names from the 5500 records to company data available from the sources listed above, and (2) in those cases in which we were able to match company names in multiple sources, we found the industry, size, and/or state location data from the different sources frequently was not the same. We addressed these challenges as described below.

First, for final matching results, we were able to match slightly less than one-half of all PEO clients in our database to PPP data, and approximately one-third of all PEO clients were matched by at least one of the two third-party data vendors. Supplemental McBassi research found data on over 1,000 additional clients (randomly selected from among those clients that had not been successfully matched by one of the third-party vendors).¹⁵ For a small percentage of the client matches, data were available on only a partial set of characteristics (for example, for some clients, we had state and industry information, but not employee size); all available characteristics were included in the client data.

¹⁵The supplemental McBassi research focused on searching for company websites for a sample of PEO clients that had not been matched by either the third-party business data vendors. Those companies were classified by industry and by state location. It was not possible to find accurate employee size information on most company websites, so that characteristic was not included in the supplemental online research output. This research had two purposes: (1) to increase the number of PEO clients for which we had data, and (2) to assess, using this random sample, whether those companies that were not matched by third-party data vendors were different in some systematic way from companies that were matched. We found no evidence to suggest any systematic differences.

Second, because of the frequent differences in data that we observed across sources for the same PEO client, we determined that we would use only industry, size, or state location data that were identical from at least two different data sources. We made this decision in order to ensure the most accurate possible data for the calculations in this white paper (and further, we required identical client zip codes from the matching data sources in order to confirm the company was the same from both data sources). Almost all of the matches involved PPP data matching data from one of the other sources (third-party data vendors or McBassi supplemental research).

The result of this decision to seek maximum data quality was that the sample size was reduced significantly. It was still quite large enough, however, to allow for accurate breakdowns across all relevant employee size groups, across almost all of the 19 industry groups, and across the 20 state locations with the largest numbers of PEO clients.

State data was more likely to match across data sources than industry (2-digit NAICS code) or size group. Hence, the final analysis dataset included 4,148 clients with identical state location data from at least two different sources; 2,068 companies with identical industry data; and 1,278 companies with identical size group data.

We are highly confident in the quality of the analysis database due to the use of the stringent matching requirements listed above. We are also comfortable that the database, although it contains only a small percentage of the overall PEO client database derived from Form 5500 filings, is indeed representative¹⁶ of those PEO clients that participate in MEPS¹⁷, since the data-matching challenges described earlier are not associated with any specific firm characteristics.

Calculations: PEO client distribution. The calculation process for PEO client distribution was fairly straightforward. Using the analysis database described above, we calculated the percentages of PEO clients in each size, industry, and state location category. We weighted the data that matched the PPP data equally between the two primary third-party sources (after adding in a small number of additional PPP-matched records from the McBassi supplemental research).

Because of the size of the database, we were able to perform only a small number of crosstabulations for multiple characteristics simultaneously (for example, breakdowns of PEO clients by industry by state). We included three tables (Tables 4, 5, and 6) in the report that break down the largest groups. These breakdowns yield additional granular information on PEO clients in Florida, in Professional Services, and in Manufacturing.

¹⁶ Few external comparison sources are available that would help verify the accuracy and representativeness of the PEO client data in our database. The best available comparison source we could locate is a publicly-available Florida database containing Workers' Compensation (WC) policy data by employer, including a general variable on whether the employer's WC policy is held by a PEO. The database presented a number of technical challenges that reduced its specific usefulness for our analysis (most importantly, it appears the PEO variable may indicate policies held by PEOs or ASOs or possibly other third parties). Still, we were able to compare the industry distribution for Florida firms with 10 or more employees from our analysis database with the distribution of similarly-sized firms listed with the PEO indicator in the Florida WC data, and found the distributions in the two databases to be consistent, with an even closer match after applying the retirement plan availability adjustment (described in more detail later in the paper) to our database.

¹⁷ And the database was adjusted, as described below, to account for differences across industries in overall retirement plan availability to make it more comparable to PEO clients generally.

For most crosstabulations, however, most of the resulting cell sizes were simply too small to be reliable (for example, crosstabulations by state and client size would yield 350 different cells, based on 50 states and 7 different size groups; most of these cells contained only a small number of PEO clients when using the most reliable available data – the analysis database described above).

Adjustment for retirement plan availability. We made one key adjustment to industry-based breakdowns to account for the fact that our analysis database for this white paper consists of only those PEO clients offering retirement plans through an MEP provided by their PEO, and that such plans are more common within some industries than others in the US economy overall.

For example, data from the Bureau of Labor Statistics¹⁸ indicates that firms in Finance and Insurance are significantly more likely to offer retirement plans, while firms in Accommodation and Food Services are significantly less likely. We thus adjusted the data using the BLS industry percentages to account for the likelihood that Finance and Insurance firms are overrepresented in the 5500-based data relative to their representation among PEO clients generally. And conversely, we adjusted to account for Accommodation and Food Services firms likely being underrepresented in the 5500-based data relative to their representation among PEO clients generally.

For this reason, we adjusted the industry percentages of PEO clients in the analysis database to account for that observed variance across some industries in the provision/availability of retirement plans within the economy as a whole.¹⁹

Similar adjustments were not made to size-based or state location-based distributions because the available BLS data on retirement plan was either far more limited or non-existent for those two data elements.

Calculations: estimated penetration rates. The percentage of PEO clients among all companies in a certain category is often called the penetration rate. Because a significant majority of PEO clients (74 percent) have between 10 and 99 employees, we determined penetration rates by industry and by state would be most relevant if they were calculated as a percentage the number of businesses in that size range only. (If we calculated penetration rates using all businesses, the “denominator” of the ratio would be much larger and would be dominated by the large number of small businesses in the economy overall.²⁰)

Based on our analysis of PEO clients by size, 74.4 percent of all PEO clients have between 10 and 99 employees, so we applied that percentage to the total count of PEO clients in each state or industry for purposes of estimating the penetration rate. We then divided that number by the total number of businesses between 10 and 99 employees in the state or industry.

¹⁸ 2021 BLS data from National Compensation Survey (<https://www.bls.gov/nchs/ebs/benefits/2021/home.htm>).

¹⁹ The observed distribution percentage for each industry in our analysis database was divided by the retirement plan availability for that industry as a percentage of overall retirement plan availability across all industries.

²⁰ According to BLS data for 2021, 76 percent of all businesses have fewer than 10 employees (https://www.bls.gov/web/cewbd/table_g.txt).

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About McBassi & Company

McBassi is an independent firm that provides customized analysis and research reports for membership organizations, as well as “people data” analytics and survey services to employers. 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*. For more information, please visit www.mcbassi.com.

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