

Engrossed Substitute Senate Bill 5373: Professional Employers Organizations

*A report to the Governor and Legislature
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**Employment
Security
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Summary of findings

The implementation of Engrossed Substitute Senate Bill (ESSB) 5373 made it possible to separately identify professional employer organizations (PEOs) and their client firms. Because ESSB 5373 requires PEOs and their client firms to be reported separately for unemployment insurance tax purposes beginning in 2008, the Employment Security Department can now accurately assign unemployment tax rates to both sets of employers.

PEOs and client firms are now treated like other employers for unemployment tax purposes—the employer's tax rate reflects its *own* employment and layoff experience, rather than its experience being mingled with those of other firms. When employment and layoff data are combined across firms, companies with large layoffs may benefit by paying less tax than they should, while companies with fewer or no layoffs may pay more taxes than if their experience was reported separately.

It is not clear whether switching between PEO and client-firm accounts to obtain a more favorable tax rate occurred in the past. On a single-firm basis, account switching may have occurred, but it is not evident at the aggregated firm level. The new PEO legislation began taking effect in late 2007 to early 2008, the same time that the latest national recession began. The effects of the recession did not cause unemployment tax rates to rise until 2010, and Washington's overall tax rates in the 2007-09 period were low because of the economic prosperity prior to 2007. Recessionary effects have undoubtedly affected layoff behavior by PEOs and their clients during the evaluation period.

Legislative requirement for this report

This report is required under Section 13 of ESSB 5373, which was passed during the 2007 legislative session. ESSB 5373 changed the way PEOs are required to report quarterly tax and wage data to the Employment Security Department. This report discusses the implementation and subsequent effects of the 2007 PEO legislation.

Background

Professional employer organizations (PEOs) are businesses that manage human resource issues for other companies (client firms). Functions such as payroll, unemployment insurance, health benefits, and workers' compensation often are managed by the PEO. Usually located offsite from the client firm, the PEO may serve beyond the accounting role when it uses its buying power to offer small businesses competitive rates on health and retirement benefit packages.

PEOs do not include independent contractors, temporary-staffing firms, service-referral agencies, third-party payers, labor organizations or common-pay agents.

In the past, PEOs were not defined in state laws regulating unemployment insurance, and it was not clear how PEOs should report a client-firm's workers for unemployment-insurance purposes. Client-firm workers could be reported under the PEO account, under the client account, or some combination thereof. Most PEOs elected to report client-firm workers under the PEO account, which made it difficult to follow employees, especially when some employees worked for more than one client firm under a single PEO.

Employment Security could not always track client firms and had no way to know how accurately their employees were being reported. In some cases, client firms reported part of their work force themselves and hired a PEO to report another portion of their work force. The potential existed for clients' workers to be shifted back and forth between the PEO and client accounts to get the best unemployment tax rate by using one client's high taxable wages to offset another client's unemployment benefit charges. Under these kinds of practices, companies might not pay their true tax liability, and lost taxes would have to be recouped from higher unemployment socialized costs to other businesses.

Under ESSB5373, all PEOs were required to register existing client firms with Employment Security by September 1, 2007, and then begin filing separate wage and tax reports for each client company in first quarter 2008. Starting January 1, 2008, each client company was to have its own tax rate, and the rate would not change if a company joined or left a PEO.

Data used in this analysis

Because ESSB5373 was passed to require separate reporting of PEO and client firms for unemployment tax purposes, this analysis uses data for PEOs and client firms who had a relationship during the year of analysis as a baseline to measure the change. PEOs may be active but have no client relationships for a given year—for example, in 2009 there were 258 active PEOs but only 160 of these showed a client firm. Restricting the data to those with relationships better focuses on how PEOs and client firms were impacted by the 2007 legislation. Administrative data came primarily from the Employment Security Data Mall PEO Account, PEO Client Relationship, Employer, Employer Quarter, and Tax Rate databases.

Findings

Nature of the PEO industry—past and present

PEO firms have an industry (NAICS) code of 561330 Professional Employer Associations. Data from the Quarterly Census of Employment and Wages (QCEW) shows a dramatic change in the structure of the PEO industry, starting in 2008. The QCEW, which is provided to the federal Bureau of Labor Statistics (BLS) quarterly by Employment Security, shows that employment at PEO firms located in Washington plummeted in 2008 (see Figure 1 and Table 1). The higher levels of employment in 2005-07 capture employment at both PEOs and client firms. Beginning in 2008, though, workers at client firms were required to be reported separately under the client account and not that of the PEO. With this separation of reporting, experience-based tax rates began to reflect the layoff experience of in-state PEOs and client firms independently. While most PEOs met the new reporting requirement, the 2008 data are likely to contain employment at some client firms due to changeover difficulties experienced by some PEOs in early 2008. Therefore, the 2009 data best capture PEO-only employment.

Figure 1

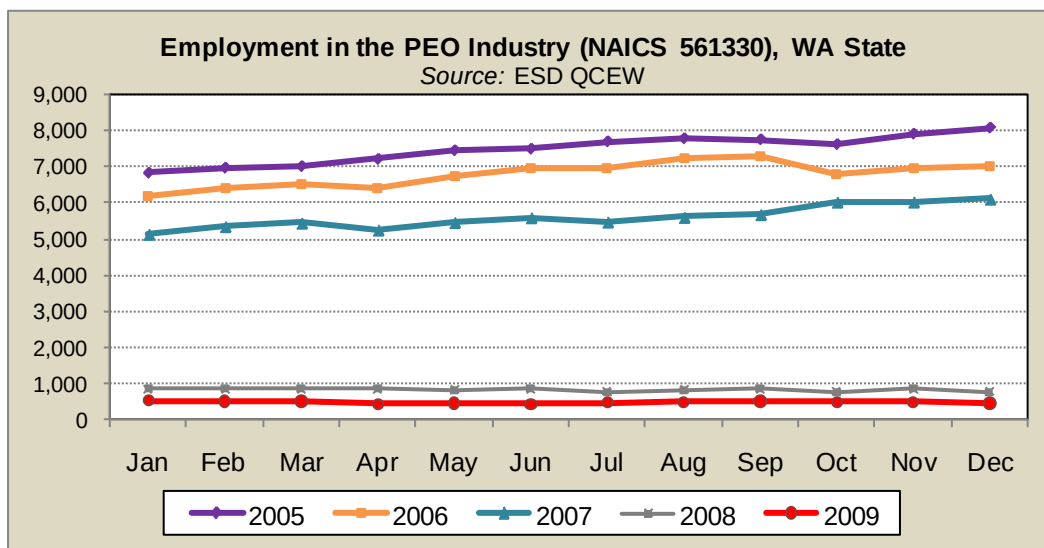


Table 1

Employment in the PEO industry, Washington state NAICS 561330					
Month	2005	2006	2007	2008	2009
January	6,834	6,189	5,141	848	514
February	6,973	6,390	5,354	842	493
March	7,016	6,525	5,452	844	507
April	7,216	6,429	5,259	835	425
May	7,456	6,767	5,470	818	450
June	7,499	6,958	5,602	840	432
July	7,704	6,942	5,481	772	466
August	7,787	7,251	5,612	821	485
September	7,760	7,300	5,688	850	493
October	7,627	6,816	6,037	776	487
November	7,915	6,962	6,038	838	489
December	8,085	7,023	6,120	758	443
Avg monthly employment	7,489	6,796	5,605	820	474
Number of PEO firms	214	211	189	147	142
Average employment per PEO firm /1	35	32	30	6	3
Total wages	\$296,759,492	\$307,523,427	\$359,570,145	\$55,641,317	\$36,225,775
Avg wage /2	\$39,624	\$45,251	\$64,157	\$67,841	\$76,479
/1 Average monthly employment divided by number of firms.					
/2 Total wages divided by average monthly employment.					

Source: *Employment Security LMEA, Quarterly Census of Employment and Wages*

The QCEW data in Figure 1 and Table 1 are for PEO firms that have employment in Washington state. They do not provide information about PEO firms that have no employment (an out-of-state PEO, for example) nor do they say anything directly about employment at client firms and the number of client firms prior to 2008.

Table 2 (below) shows the number of PEO and client firms in the 2006-09 period. The number of client firms rose significantly in 2007 and 2008. This reflects the requirement that PEOs identify their client firms by September 1, 2007, and then start submitting wage and tax information separately for each client firm beginning in 2008. For 2009, there were a total of 160 PEOs, with a total of 1,812 client firms. This reflects nearly a doubling of the number of client firms reported in 2006, before the change in the law.

Table 2

Number of PEO and client firms, number of client firms per PEO, 2006-2009

Source: Employment Security Data Mall--PEO Client Relationship Table

NOTES: Total PEO firms=PEOs summed. Total client firms=Clients times PEOs, summed--
client firms may have had more than one PEO during the year.

2006		2007		2008		2009	
Total PEO firms 108		Total PEO firms 127		Total PEO firms 152		Total PEO firms 160	
Total client firms 946 (944 distinct clients)		Total client firms 1308 (1304 distinct clients)		Total client firms 1705 (1667 distinct clients)		Total client firms 1812 (1784 distinct clients)	
Number of client firms per PEO	Number of PEOs with this many client firms	Number of client firms per PEO	Number of PEOs with this many client firms	Number of client firms per PEO	Number of PEOs with this many client firms	Number of client firms per PEO	Number of PEOs with this many client firms
1	42	1	50	1	59	1	58
2	11	2	18	2	19	2	22
3	7	3	9	3	12	3	15
4	7	4	4	4	7	4	10
5	5	5	4	5	5	5	2
6	4	6	5	6	4	6	9
7	2	7	3	7	5	7	1
8	4	8	1	8	6	8	4
9	2	9	4	9	3	9	5
10	5	10	3	10	5	10	1
11	4	11	2	11	3	11	2
12	2	12	3	12		12	3
13	1	13	3	13	3	13	2
14	2	14	2	14	1	14	4
15		15	1	15		15	2
16	1	16		16		16	1
17	1	17	1	17		17	
18		18	1	18	3	18	
19	1	19	1	19		19	1
20		20	1	20		20	
21-30	1	21-30	3	21-30	8	21-30	7
31-40	1	31-40	2	31-40	2	31-40	3
41-50	2	41-50	1	41-50	1	41-50	1
51-100	1	51-100	2	51-100	3	51-100	4
over 100:		over 100:		over 100:		over 100:	
108	1	114	1	169	1	187	1
181	1	138	1	187	1	192	1
		272	1	344	1	340	1

Table 3 presents information on industries of the 2009 client firms. One-fourth of the client firms were in NAICS 54--Professional, Scientific and Technical Services, while one-fifth were classified in NAICS 42--Wholesale Trade. Thirteen percent of the client firms were in NAICS 52 Finance and Insurance. Client-firm data are unduplicated in Table 3, while Table 2 may count a client firm more than once if it changed PEOs during the year.

Table 3

Industry (NAICS) Codes of Client Firms

Based on the 1,784 Distinct Client Firms of 2009

Source: ESD Data Mall--PEO Relationship Table, Employer Table

NAICS	Description	Number of Client Firms	Percent of Total
11	Agriculture, Forestry, Fishing and Hunting	5	0.3%
22	Utilities	2	0.1%
23	Construction	71	4.0%
31	Mftg Food, Beverage, Apparel	5	0.3%
32	Mftg Wood, Paper, Chemical	13	0.7%
33	Mftg All Else	18	1.0%
42	Wholesale Trade	353	19.8%
44	Retail	48	2.7%
45	Retail	25	1.4%
48	Transportation	32	1.8%
49	Postal, Warehousing	3	0.2%
51	Information	95	5.3%
52	Finance and Insurance	233	13.1%
53	Real Estate and Rental and Leasing	95	5.3%
54	Professional, Scientific, and Technical Services	445	24.9%
55	Management of Companies and Enterprises	4	0.2%
56	Administrative and Support, Waste Management	151	8.5%
61	Educational Services	30	1.7%
62	Health Care and Social Assistance	63	3.5%
71	Arts, Entertainment, and Recreation	13	0.7%
72	Accommodation and Food Services	22	1.2%
81	Other Services (except Public Administration)	56	3.1%
92	Public Administration	1	0.1%
	Not Available	1	0.1%
	Total	1784	100.0%

Table 4 classifies client firms by small-business status over the 2006-10 period. A small business is defined for purposes of this report as having average quarterly employment of fewer than five workers. Client firms are mainly small businesses and, thus, highly affected by the ESSB 5373 legislation. The proportion of clients classified as small businesses remained fairly constant at 73 to 78 percent over the 2006-10 period, despite a large increase in the number of client firms beginning in 2008. Client firms that had zero employment each month of the year are excluded from the year's analysis. Therefore, the totals below will not match totals in previous tables. These firms reflect the normal entry and exit of businesses, as well as clients that have been registered as having a PEO but have yet to start business operations.

Table 4

Small-business status of client firms

Small business = quarterly average employment of fewer than 5 employees

By year, uses unduplicated client firms showing a relationship in the respective year

Source: *Employment Security Data Mall--PEO Client Relationship Table, Employer Quarter Table*

Client firms	2006		2007		2008		2009		2010 (1st half)	
At least 1 employee in one month of the year										
Small business	56	77.8%	82	78.8%	1079	77.1%	1130	75.9%	916	72.9%
Not a small business	16	22.2%	22	21.2%	320	22.9%	358	24.1%	341	27.1%
	72	100.0%	104	100.0%	1399	100.0%	1488	100.0%	1257	100.0%

Tax rates of PEO and client firms—past and present

The data used in this section continue to be for PEOs and client firms that had a relationship in the year of the analysis. Unemployment tax rate information was obtained for each of these firms for the given year during the 2006-10 period. In some cases, a PEO or client firm may have had a relationship, but no tax rate was on record for either the PEO or client firm that given year. The absence of an assigned tax rate reflects a firm that is inactive or a registered, out-of-state PEO with no employment in Washington.

There are two types of unemployment tax rates—*experience* and *social-cost*. The experience-based rate is based on an employer's history of taxable wages and unemployment benefits paid to its former employees. The social-cost tax rate, historically much smaller than the experience-based rate for the higher rate classes, generates funds to pay for costs not recouped immediately through experience-rated taxes. Social costs are incurred, for example, when an employer is no longer in business but unemployment benefits were paid to former employees, when firms in a highly seasonal industry receive a lower tax rate than their layoff experience warrants, or when benefits exceed taxes in the prior year (because taxes increase only on a phased-in basis over a rolling four-year average).

Employers are *qualified* or *nonqualified* for unemployment tax purposes. A qualified employer is eligible for a tax rate based on a sufficient history of its own layoff experience. Six quarters of experience in a two-year period are required before a firm can be qualified. A nonqualified employer may be a new employer, a formerly qualified firm that now has four consecutive quarters of no

employment, or an employer that is delinquent in paying unemployment taxes. A nonqualified new firm and a formerly qualified firm with four consecutive quarters of no employment receive an industry-average experience-based tax rate and an industry-average social-cost tax rate; a nonqualified delinquent firm is assigned a set experience-based rate of 5.6 percent and the social-cost tax rate of rate-class 40.

During the fourth quarter of the calendar year, Employment Security notifies each employer what its annual tax rate will be for the following calendar year. Tax rates are a combination of the employer's experience or the industry average, if applicable, plus the social-cost tax rate, plus a small administrative tax rate.

The first step in determining the experience-based tax rate for a qualified firm is to calculate the firm's *benefit ratio*, which is the firm's unemployment benefits paid divided by taxable wages. The benefit ratio also is known as the firm's *experience*. Benefit ratios normally are calculated over a rolling four-year period; a minimum of six quarters in a two-year period is required for the calculation. The value of the benefit ratio determines which of the 40 experience-based rate classes the qualified firm is in. Each rate class then has an experience and a social-cost tax rate associated with it.

How experience tax rates were set for PEOs and client firms in the 2008-10 period

With the separation of PEO and client-firm reporting in 2008, experience was often not available to set rates. In cases where the client firm had been reported separately under its own unemployment-insurance account, standard experience rates were applied to the client in 2008. However, Employment Security developed special tax assignment rules for cases where the PEO and client data were reported together

Rules in setting the 2008 tax rates

1. If the client firm joined the PEO before July 2007, the client was assigned the PEO's 2008 experience-based rate.
2. If the client firm joined the PEO between July 2007 and the end of 2007 and the client had established its own experience rate prior to joining the PEO, the client firm assumed its own previously established rate for 2008. If the client joined the PEO between July 2007 and the end of 2007 and had no previously established experience rate, the 2008 average industry rate was assigned to the client company. In both cases, the client accumulated two quarters of experience (third and fourth quarters of 2007).
3. Client firms joining a PEO on or after January 1, 2008, received either the industry average experience rate if the client was a new firm and had less than six quarters of experience, or the predecessor rate and experience if the firm had a predecessor. Neither the PEO rate nor the PEO experience had any effect on client firms joining a PEO on or after January 1, 2008.
4. The standard experience-rating rules applied to the PEOs in 2008. In this case, the four-year experience history would be a mixture of PEO and client company experience.

5. All in-state PEOs and client firms began establishing their own experience history beginning with the first quarter of 2008.

In 2009, firms that had accumulated at least six quarters of experience history began to receive their own experience-based rates. For those without sufficient history, the 2009 rates were typically a combination of the PEO and client experience of 2008.

Rules in setting the 2009 tax rates

1. Clients who joined the PEO before July 2007 received a combination of two experience-based histories: their own experience of 2008 plus a percentage of the PEO's 2007 and earlier experience within the four-year window. The percentage of PEO workers attributable to the client firm during first-quarter 2008 was calculated, then that percentage of the PEO's 2007 and earlier experience (within the four-year window) was assigned to the client firm. If the client had its own experience in the four-year window, then the PEO percentage was not used in those quarters. At the same time, the PEO experience from 2007 and earlier was adjusted by the amount of experience reassigned to the client firm. PEO experience that could not be attributable to a client firm was left with the PEO.
2. Clients who joined a PEO on or after July 2007 used their own experience and no PEO factor.
3. The 2004-07 PEO experience used in setting the PEO's 2009 rate had all client experience percentages taken out. For cases where clients had gone out of business before the 2008 changeover, benefit charges were kept in the PEO's experience. Since there were no corresponding taxable wages for these out-of-business firms at the same time that benefits were charged, this increased the PEO tax rates.

The 2010 rates reflected everyone's own experience accumulated in 2008 and 2009 and the percentage of their PEO's 2005-07 shared experience.

Experience-based tax rates

Table 5 presents summary-level data for experience-based tax rates during the 2006-10 period. This information is presented separately for PEOs and client firms, and then further broken out by qualified and nonqualified employers. Detailed information for the Table 5 summary is available in Appendix A.

Table 5

Experience-based tax rates, PEOs and client firms

Summary statistics from tables 7 and 8

Source: Employment Security Data Mall--PEO Relationship Table, Tax Rate Table

	2006	2007	2008	2009	2010
PEO firms					
Qualified					
Number (unduplicated)	59	83	99	87	31
Average tax rate (%)	1.59	1.50	1.14	2.04	2.81
Median tax rate (%)	1.30	1.15	0.63	1.60	3.38
Nonqualified					
Number (unduplicated)	34	33	51	71	123
Average tax rate (%)	2.44	2.87	2.10	1.61	1.96
Median tax rate (%)	3.24	2.82	1.83	1.56	2.09
No tax rate					
Number (unduplicated)	15	11	2	2	8
Total					
Number (unduplicated)	108	127	152	160	162
Average tax rate (%)	1.90	1.89	1.46	1.85	2.13
Median tax rate (%)	1.60	1.38	1.15	1.56	2.09

	2006	2007	2008	2009	2010
Client firms					
Qualified					
Number (unduplicated)	51	86	965	915	926
Average tax rate (%)	1.27	0.97	1.23	0.87	0.99
Median tax rate (%)	0.25	0.00	1.15	0.75	0.43
Nonqualified					
Number (unduplicated)	174	311	544	785	639
Average tax rate (%)	1.94	1.53	1.28	1.35	1.23
Median tax rate (%)	1.42	1.18	1.00	1.00	1.00
No tax rate					
Number (unduplicated)	719	907	158	84	132
Total					
Number (unduplicated)	944	1304	1667	1784	1697
Average tax rate (%)	1.79	1.41	1.25	1.09	1.09
Median tax rate (%)	1.42	1.08	1.15	1.00	1.00

From the client-firm data (Total Number, bottom section), it appears that many client firms were being included in the PEO reporting in 2006. Separate reporting beginning in 2008 increased the number of client firms substantially. The 2010 average client-firm tax rate of 1.09 percent is well below the 2006 rate of 1.79 percent.

The average client tax rate was lower than the PEO rate in each of the five years analyzed. However, benefit charges for inactive clients continued to be factored into PEO experience during the rate transition period, and contributed to the higher PEO rates. For cases where client firms had gone out of business before the 2008 changeover, benefit charges were kept in the PEO experience. Since there were no corresponding taxable wages for these out-of-business firms at the same time that benefits were charged, this raised the PEO tax rates.

The average PEO experience-based tax rate (total) drifted downward after 2006, consistent with the overall pattern for all Washington employers, and then began to rise in 2009. The 2010 PEO rate of 2.13 percent is higher than in 2006, reflecting both the requirement for separate unemployment-insurance experience reporting and higher tax rates for firms that have experienced recessionary layoffs. In 2010, the number of nonqualified PEO firms rose to 123, the result of more PEO firms with four consecutive quarters of no employment. This is to be expected, as more client firms report their employees separately.

Social-cost tax rates

Table 6 summarizes social-cost tax rate information. Compared to the experience-based rates, there is less difference between total average PEO and client-firm social-cost tax rates over time. Average social-cost tax rates for both PEOs and client firms declined each year and were at similar levels throughout the 2007-09 period. Both PEOs' and client firms' 2010 social-cost tax rates are now much higher, at 1.26 and 1.16 percent, respectively, compared to 2009. The increase in the 2010 rate was due to the rapid increase in benefit payouts associated with the recession. As with the experience-based tax rate, the social-cost tax rate is expected to continue its upward trend for the next two years because of recessionary effects. Detailed information for the Table 6 summary is available in Appendix B.

Table 6

Social-cost tax rates, PEOs and client firms

Summary statistics from tables 9 and 10

Source: Employment Security Data Mall--PEO Relationship Table, Tax Rate Table

	2006	2007	2008	2009	2010
PEO firms					
Qualified					
Number (unduplicated)	59	83	99	87	31
Average tax rate (%)	0.63	0.52	0.49	0.53	1.33
Median tax rate (%)	0.71	0.57	0.49	0.60	1.46
Nonqualified					
Number (unduplicated)	34	33	51	71	123
Average tax rate (%)	0.68	0.58	0.51	0.49	1.24
Median tax rate (%)	0.72	0.60	0.51	0.50	1.26
No tax rate					
Number (unduplicated)	15	11	2	2	8
Total					
Number (unduplicated)	108	127	152	160	162
Average tax rate (%)	0.65	0.54	0.50	0.51	1.26
Median tax rate (%)	0.72	0.60	0.51	0.50	1.26

	2006	2007	2008	2009	2010
Client firms					
Qualified					
Number (unduplicated)	51	86	965	915	926
Average tax rate (%)	0.57	0.44	0.53	0.49	1.20
Median tax rate (%)	0.52	0.35	0.57	0.51	1.15
Nonqualified					
Number (unduplicated)	174	311	544	785	639
Average tax rate (%)	0.69	0.57	0.46	0.44	1.12
Median tax rate (%)	0.71	0.57	0.45	0.43	1.12
No tax rate					
Number (unduplicated)	719	907	158	84	132
Total					
Number (unduplicated)	944	1304	1667	1784	1697
Average tax rate (%)	0.66	0.54	0.50	0.47	1.16
Median tax rate (%)	0.70	0.57	0.51	0.45	1.13

Appendix A: Unemployment-insurance experience-based tax rates for PEOs and client firms, 2006-10

Unemployment-insurance experience-based tax rates for professional employer organizations (PEOs), 2006-2010

Data are for all PEO firms (unduplicated) that showed an active relationship with a client during the respective year.

Tax-rate data are presented for qualified and nonqualified firms. A qualified employer is eligible for a calculated tax rate based on a sufficient history of employment and timely payment of taxes.

Nonqualified tax rates do not fall exactly into the 40 qualified rate classes and result when:

1) the industry average tax rate is assigned to new firms or to firms with 4 consecutive quarters of no employment.

2) an experience-based delinquency tax of 5.6% is assigned to a firm.

Source: *Employment Security Data Mall: PEO Client Relationship Table, Tax Rate Table.*

1. For Qualified PEO Firms

Experienced Rated Tax Structure in Effect During							
Calendar Years 2006-2009						January-June 2010	
Rate Class	Experienced Rated Tax Rate	Number of PEO Firms				Rate Class	Experienced Rated Tax Rate
		2006	2007	2008	2009		# PEO Firms 2010
1	0.00%	10	14	24	10	1	0.00%
2	0.13%	6	5	5	5	2	0.11%
3	0.25%	2	4	6		3	0.22%
4	0.38%	2	3	6	6	4	0.33%
5	0.50%	2	1	5	2	5	0.43%
6	0.63%		2	4	8	6	0.54%
7	0.75%	3	5	6		7	0.65%
8	0.88%	2	2	2	3	8	0.76%
9	1.00%	1	5	2	1	9	0.88%
10	1.15%	1	6	5	3	10	1.01%
11	1.30%	3	6	5	4	11	1.14%
12	1.45%	3	2	4	1	12	1.28%
13	1.60%	3		2	2	13	1.41%
14	1.75%	3	5	1	1	14	1.54%
15	1.90%	1	2	4	4	15	1.67%
16	2.05%		2	2	4	16	1.80%
17	2.20%	1			4	17	1.94%
18	2.35%		3	3	1	18	2.07%
19	2.50%	1	1	2	1	19	2.20%
20	2.65%	3				20	2.38%
21	2.80%	1		2	3	21	2.50%
22	2.95%		2			22	2.63%
23	3.10%	1	1	2		23	2.75%
24	3.25%				2	24	2.88%
25	3.40%		1			25	3.00%
26	3.55%	1	2		1	26	3.13%
27	3.70%	1			1	27	3.25%
28	3.85%	1			2	28	3.38%
29	4.00%	1			1	29	3.50%
30	4.15%		1		1	30	3.63%
31	4.30%				1	31	3.75%
32	4.45%	1			1	32	4.00%
33	4.60%		1	1		33	4.25%
34	4.75%			1		34	4.50%

Appendix A: Unemployment-insurance experience-based tax rates for PEOs and client firms, 2006-10

35	4.90%	1			2
36	5.05%		1		2
37	5.20%				
38	5.30%			2	1
39	5.35%	1			1
40	5.40%	3	6	3	8
Total PEO Firms		59	83	99	87
Mean Tax Rate		1.59	1.50	1.14	2.04
Median Tax Rate		1.30	1.15	0.63	1.60

35	4.75%	
36	5.00%	
37	5.15%	1
38	5.25%	1
39	5.30%	1
40	5.40%	9
Total PEO Firms		31
Mean Tax Rate		2.81
Median Tax Rate		3.38

Total of 31 because many PEOs had nonqualified rates in 2010.

2. For Nonqualified PEO Firms

Experience-Rated Tax Rate	Number of PEO Firms			
	2006	2007	2008	2009
0.00%	3	1	2	
0.01% - 0.49%	2	1		
0.50% - 0.99%				
1.00% - 1.49%	5	3	11	16
1.50% - 1.99%	4	2	30	52
2.00% - 2.49%	1		1	
2.50% - 2.99%	1	21		
3.00% - 3.49%	16			
3.50% - 3.99%				
4.00% - 4.49%				
4.50% - 4.99%			1	
5.00% - 5.49%	1			
5.60%	1	5	6	3
Total PEO Firms		34	33	51
Mean Tax Rate		2.44	2.87	2.10
Median Tax Rate		3.24	2.82	1.83

ExperienceRated Tax Rate	# PEO Firms
	2010
0.00%	
0.01% - 0.49%	
0.50% - 0.99%	
1.00% - 1.49%	15
1.50% - 1.99%	
2.00% - 2.49%	108
2.50% - 2.99%	
3.00% - 3.49%	
3.50% - 3.99%	
4.00% - 4.49%	
4.50% - 4.99%	
5.00% - 5.49%	
5.60%	
Total PEO Firms	123
Mean Tax Rate	1.96
Median Tax Rate	2.09

3. PEO Firms Shown as Active with Clients but Having No Tax Rate

(PEOs with no employment, often an out-of-state PEO)

	2006	2007	2008	2009
Number of PEO Firms	15	11	2	2

	2010
Number of PEO Firms	8

4. Total All PEO Firms (Groups 1-3 combined)

	2006	2007	2008	2009
Total PEO Firms	108	127	152	160
Mean Tax Rate	1.90	1.89	1.46	1.85
Median Tax Rate	1.60	1.38	1.15	1.56

	2010
Total PEO Firms	162
Mean Tax Rate	2.13
Median Tax Rate	2.09

Appendix A: Unemployment-insurance experience-based tax rates for PEOs and client firms, 2006-10

Unemployment-insurance experience-based tax rates for client firms, 2006-2010

Data are for all client firms (unduplicated) that showed an active relationship with a PEO during the respective year. Tax rate data are presented for qualified and nonqualified firms. A qualified employer is eligible for a calculated tax rate based on a sufficient history of employment and timely payment of taxes.

Nonqualified tax rates do not fall exactly into the 40 qualified rate classes and result when:

- 1) the industry average tax rate is assigned to new firms or to firms with 4 consecutive quarters of no employment.
- 2) an experience-based delinquency tax of 5.6% is assigned to a firm.

Source: *Employment Security Data Mall: PEO Client Relationship Table, Tax Rate Table.*

1. For Qualified Client Firms

Experienced-Rated Tax Structure in Effect During						
Calendar Years 2006-2009						January-June 2010
Rate Class	Experience-Rated Tax Rate	Number of Client Firms				# Client Firms
		2006	2007	2008	2009	
1	0.00%	24	45	122	117	179
2	0.13%	1	1	16	30	42
3	0.25%	1	4	40	71	76
4	0.38%	1		33	56	71
5	0.50%		4	40	64	108
6	0.63%	5	2	16	60	75
7	0.75%	2	2	53	158	42
8	0.88%		2	23	105	34
9	1.00%		3	7	71	37
10	1.15%		2	230	35	35
11	1.30%		1	94	34	11
12	1.45%	3	1	30	13	20
13	1.60%		2	7	11	13
14	1.75%	1	2	3	13	19
15	1.90%			63	7	12
16	2.05%	1		95	4	14
17	2.20%	1	1	4	2	5
18	2.35%		1	28	5	6
19	2.50%			15	10	13
20	2.65%	1	1		9	8
21	2.80%	1		9	1	5
22	2.95%		1	2	2	5
23	3.10%		2	2	4	7
24	3.25%	1		1	2	3
25	3.40%		1	4	3	3
26	3.55%				1	4
27	3.70%			2	2	
28	3.85%					3
29	4.00%	2			2	2
30	4.15%		1	1		5
31	4.30%			1	1	
32	4.45%			2	1	7

Appendix A: Unemployment-insurance experience-based tax rates for PEOs and client firms, 2006-10

33	4.60%			6	1
34	4.75%			2	1
35	4.90%		1		3
36	5.05%				1
37	5.20%				1
38	5.30%			2	
39	5.35%			1	2
40	5.40%	6	6	11	12
Total Client Firms		51	86	965	915
Mean Tax Rate		1.27	0.97	1.23	0.87
Median Tax Rate		0.25	0.00	1.15	0.75

33	4.25%	6
34	4.50%	3
35	4.75%	3
36	5.00%	1
37	5.15%	2
38	5.25%	1
39	5.30%	1
40	5.40%	45
Total Client Firms		926
Mean Tax Rate		0.99
Median Tax Rate		0.43

2. For Nonqualified Client Firms

Experience-Rated Tax Rate	Number of Client Firms			
	2006	2007	2008	2009
0.00%	3	3	6	4
0.01% - 0.49%	3		13	8
0.50% - 0.99%	2	1	5	5
1.00% - 1.49%	83	193	433	672
1.50% - 1.99%	28	70	44	39
2.00% - 2.49%	15	13	21	2
2.50% - 2.99%	17	16	2	
3.00% - 3.49%	8	4	4	2
3.50% - 3.99%	3	1	1	
4.00% - 4.49%	1	1	1	
4.50% - 4.99%	1	1	1	
5.00% - 5.49%	1		1	
5.60%	9	8	12	53
<i>Total Client Firms</i>	174	311	544	785
<i>Mean Tax Rate</i>	1.94	1.53	1.28	1.35
<i>Median Tax Rate</i>	1.42	1.18	1.00	1.00

Experience-Rated Tax Rate	# Client Firms
	2010
0.00%	4
0.01% - 0.49%	1
0.50% - 0.99%	1
1.00% - 1.49%	554
1.50% - 1.99%	23
2.00% - 2.49%	37
2.50% - 2.99%	1
3.00% - 3.49%	3
3.50% - 3.99%	2
4.00% - 4.49%	
4.50% - 4.99%	
5.00% - 5.49%	
5.60%	13
Total Client Firms	639
Mean Tax Rate	1.23
Median Tax Rate	1.00

3. Client Firms with a PEO Relationship but Having No Tax Rate

	2006	2007	2008	2009
Number of Client Firms	719	907	158	84

	2010
Number of Client Firms	132

4. Total All Client Firms (Groups 1-3 Combined)

	2006	2007	2008	2009
Total Client Firms	944	1304	1667	1784
Mean Tax Rate	1.79	1.41	1.25	1.09
Median Tax Rate	1.42	1.08	1.15	1.00

	2010
Total Client Firms	1697
Mean Tax Rate	1.09
Median Tax Rate	1.00

Unemployment-insurance social-cost tax rates for professional employer organizations (PEOs), 2006-10

Nongqualified social-cost tax rates do not fall exactly into the 40 qualified rate classes and result when:

Source: Employment Security Data Mall: PEO Client Relationship Table, Tax Rate Table.

Social-cost Tax Rate Structure in Effect During									
Calendar Years 2006-2009							January-June 2010		
Rate Class	Social-Cost Tax Rate	Number of PEO Firms					Rate Class	Social-Cost Tax Rate	# PEO Firms
		2006	2007	2008	2009				2010
1	0.35%	10	14	24	10		1	0.95%	3
2	0.41%	6	5	5	5		2	1.00%	1
3	0.43%	2	4	6			3	1.05%	2
4	0.45%	2	3	6	6		4	1.10%	
5	0.47%	2	1	5	2		5	1.15%	1
6	0.49%		2	4	8		6	1.20%	2
7	0.51%	3	5	6			7	1.24%	
8	0.53%	2	2	2	3		8	1.29%	2
9	0.55%	1	5	2	1		9	1.34%	1
10	0.57%	1	6	5	3		10	1.39%	
11	0.59%	3	6	5	4		11	1.44%	2
12	0.60%	3	2	4	1		12	1.46%	
13	0.60%	3		2	2		13	1.46%	1
14	0.60%	3	5	1	1		14	1.46%	
15	0.60%	1	2	4	4		15	1.46%	
16	0.60%		2	2	4		16	1.46%	
17	0.60%	1			4		17	1.46%	
18	0.60%		3	3	1		18	1.46%	
19	0.60%	1	1	2	1		19	1.46%	
20	0.60%	3					20	1.46%	
21	0.60%	1		2	3		21	1.46%	
22	0.60%		2				22	1.46%	
23	0.60%	1	1	2			23	1.46%	
24	0.60%				2		24	1.46%	
25	0.60%		1				25	1.46%	
26	0.60%	1	2		1		26	1.46%	
27	0.60%	1			1		27	1.46%	
28	0.60%	1			2		28	1.46%	1
29	0.60%	1			1		29	1.46%	1
30	0.60%		1		1		30	1.46%	1
31	0.60%				1		31	1.46%	
32	0.60%	1			1		32	1.46%	1
33	0.60%		1	1			33	1.46%	

Appendix B: Unemployment social-cost tax rates for PEOs and client firms, 2006-10

34	0.60%			1	
35	0.60%	1			2
36	0.60%		1		2
37	0.60%				
38	0.60%			2	1
39	0.60%	1			1
40	0.60%	3	6	3	8
Total PEO Firms		59	83	99	87
Mean Tax Rate		0.63	0.52	0.49	0.53
Median Tax Rate		0.71	0.57	0.49	0.60

34	1.46%	
35	1.25%	
36	1.00%	
37	0.85%	1
38	0.75%	1
39	0.70%	1
40	0.60%	9
Total PEO Firms		31
Mean Tax Rate		1.33
Median Tax Rate		1.46

← Total of 31 because many PEOs had nonqualified rates in 2010.

2. For Nonqualified PEO Firms

Social-Cost Tax Rate	Number of PEO Firms			
	2006	2007	2008	2009
0.30% - 0.39%		1	2	
0.40% - 0.49%	4	1	10	16
0.50% - 0.59%	1	3	31	52
0.60% - 0.69%	3	28	8	3
0.70% - 0.79%	26			
0.80% - 0.89%				
0.90% - 0.99%				
1.00% - 1.09%				
1.10% - 1.19%				
1.20% - 1.29%				
Total PEO Firms	34	33	51	71
Mean Tax Rate	0.68	0.58	0.51	0.49
Median Tax Rate	0.72	0.60	0.51	0.50

Social-Cost Tax Rate	# PEO Firms
	2010
0.30% - 0.39%	
0.40% - 0.49%	
0.50% - 0.59%	
0.60% - 0.69%	
0.70% - 0.79%	
0.80% - 0.89%	
0.90% - 0.99%	
1.00% - 1.09%	11
1.10% - 1.19%	4
1.20% - 1.29%	108
Total PEO Firms	123
Mean Tax Rate	1.24
Median Tax Rate	1.26

3. PEO Firms Shown as Active with Clients but Having No Tax Rate

(PEOs with no employment, often an out-of-state PEO)

	2006	2007	2008	2009
Number of PEO Firms	15	11	2	2

	2010
Number of PEO Firms	8

4. Total All PEO Firms (Groups 1-3 Combined)

	2006	2007	2008	2009
Total PEO Firms	108	127	152	160
Mean Tax Rate	0.65	0.54	0.50	0.51
Median Tax Rate	0.72	0.60	0.51	0.50

	2010
Total PEO Firms	162
Mean Tax Rate	1.26
Median Tax Rate	1.26

Appendix B: Unemployment social-cost tax rates for PEOs and client firms, 2006-10

UI Social Tax Rates for Client Firms, 2006-2010

Data is for all client firms (unduplicated) who showed an active relationship with a PEO during the respective year. Social tax rate data is presented for qualified and nonqualified firms. A qualified employer is eligible for a calculated social tax rate based on a sufficient history of employment and timely payment of taxes.

Nonqualified social tax rates do not fall exactly into the 40 qualified rate classes and result when:

- 1) the industry average social tax rate is assigned to new firms or to firms with 4 consecutive quarters of no employment.

Source: ESD Data Mall: PEO Client Relationship Table, Tax Rate Table.

1. For Qualified Client Firms:

Social Tax Rate Structure in Effect During								
Calendar Years 2006-2009						January-June 2010		
Rate Class	Social Tax Rate	Number of Client Firms				Rate Class	Social Tax Rate	# Client Firms
		2006	2007	2008	2009			2010
1	0.35%	24	45	122	117	1	0.95%	179
2	0.41%	1	1	16	30	2	1.00%	42
3	0.43%	1	4	40	71	3	1.05%	76
4	0.45%	1		33	56	4	1.10%	71
5	0.47%		4	40	64	5	1.15%	108
6	0.49%	5	2	16	60	6	1.20%	75
7	0.51%	2	2	53	158	7	1.24%	42
8	0.53%		2	23	105	8	1.29%	34
9	0.55%		3	7	71	9	1.34%	37
10	0.57%		2	230	35	10	1.39%	35
11	0.59%		1	94	34	11	1.44%	11
12	0.60%	3	1	30	13	12	1.46%	20
13	0.60%		2	7	11	13	1.46%	13
14	0.60%	1	2	3	13	14	1.46%	19
15	0.60%			63	7	15	1.46%	12
16	0.60%	1		95	4	16	1.46%	14
17	0.60%	1	1	4	2	17	1.46%	5
18	0.60%		1	28	5	18	1.46%	6
19	0.60%			15	10	19	1.46%	13
20	0.60%	1	1		9	20	1.46%	8
21	0.60%	1		9	1	21	1.46%	5
22	0.60%		1	2	2	22	1.46%	5
23	0.60%		2	2	4	23	1.46%	7
24	0.60%	1		1	2	24	1.46%	3
25	0.60%		1	4	3	25	1.46%	3
26	0.60%				1	26	1.46%	4
27	0.60%			2	2	27	1.46%	
28	0.60%					28	1.46%	3
29	0.60%	2			2	29	1.46%	2
30	0.60%		1	1		30	1.46%	5
31	0.60%			1	1	31	1.46%	
32	0.60%			2	1	32	1.46%	7
33	0.60%			6	1	33	1.46%	6
34	0.60%			2	1	34	1.46%	3

Appendix B: Unemployment social-cost tax rates for PEOs and client firms, 2006-10

35	0.60%		1		3
36	0.60%				1
37	0.60%				1
38	0.60%			2	
39	0.60%			1	2
40	0.60%	6	6	11	12
Total Client Firms		51	86	965	915
Mean Tax Rate		0.57	0.44	0.53	0.49
Median Tax Rate		0.52	0.35	0.57	0.51

35	1.25%	3
36	1.00%	1
37	0.85%	2
38	0.75%	1
39	0.70%	1
40	0.60%	45
Total Client Firms		926
Mean Tax Rate		1.20
Median Tax Rate		1.15

2. For Nonqualified Client Firms

Social-Cost Tax Rate	Number of Client Firms			
	2006	2007	2008	2009
0.00%	1	1	1	2
0.30% - 0.39%		2	7	17
0.40% - 0.49%	3		441	678
0.50% - 0.59%	3	193	54	33
0.60% - 0.69%	53	115	41	55
0.70% - 0.79%	114			
0.80% - 0.89%				
0.90% - 0.99%				
1.00% - 1.09%				
1.10% - 1.19%				
1.20% - 1.29%				
1.30%-1.39%				
1.40%-1.49%				
Total Client Firms	174	311	544	785
Mean Tax Rate	0.69	0.57	0.46	0.44
Median Tax Rate	0.71	0.57	0.45	0.43

Social-Cost Tax Rate	# Client Firms
	2010
0.00%	2
0.30% - 0.39%	
0.40% - 0.49%	
0.50% - 0.59%	
0.60% - 0.69%	
0.70% - 0.79%	
0.80% - 0.89%	
0.90% - 0.99%	15
1.00% - 1.09%	278
1.10% - 1.19%	266
1.20% - 1.29%	60
1.30%-1.39%	4
1.40%-1.49%	14
Total Client Firms	639
Mean Tax Rate	1.12
Median Tax Rate	1.12

3. Client Firms with A PEO Relationship but Having No Tax Rate

	2006	2007	2008	2009		2010
Number of Client Firms	719	907	158	84	Number of Client Firms	132

4. Total All Client Firms (Groups 1-3 Combined)

	2006	2007	2008	2009		2010
Total Client Firms	944	1304	1667	1858	Total Client Firms	1697
Mean Tax Rate	0.66	0.54	0.50	0.47	Mean Tax Rate	1.16
Median Tax Rate	0.70	0.57	0.51	0.45	Median Tax Rate	1.13