PEO INDUSTRY FOOTPRINT 2023

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▷ PEO INDUSTRY FOOTPRINT: 2023

Professional employer organizations (PEOs) provide HR solutions for small and mid-sized businesses by supplying them with a broad array of HR offerings and expertise. These solutions allow PEO clients to concentrate on growing their businesses while their employees receive a variety of benefits. Research in our previous white papers has consistently shown multiple positive effects from PEO services: PEO clients enjoy a better chance of survival, higher growth rates, lower employee turnover, higher employee satisfaction, and they fared better than other businesses in the challenging economy during the first year of the pandemic.

The industry as a whole has grown consistently from 2008 to 2022. This paper provides new and updated measures of the size, scope, and footprint of the PEO industry as of the end of 2022, the most recent year for which all necessary data are available.

Our methodology in this year's paper is comparable to the methodology we employed in our last look at the PEO industry two years ago. This allows us, for the first time, to assess "apples-to-apples" changes in a variety of measures from 2020 to 2022.

 Overall, at the end of 2022, there were 523 PEOs in the United States. They employed a total of 4.5 million worksite employees (WSEs), who were paid a total of $308 billion. These employees worked for over 208,000 different PEO clients, a count that represents 17 percent of all businesses with 10-99 employees. Each of these numbers represents an increase from the 2020 findings reported in our 2021 NAPEO white paper. Taken together, the findings indicate a dynamic industry that continues to experience a very solid rate of growth. The discussion that follows elaborates on these findings.

CURRENT SIZE OF THE PEO INDUSTRY

Number of PEOs	▶	**523**
PEO Worksite Employees (WSEs)	▶	**4.5 million**
Annual WSE Wages	▶	**$305 billion**
Number of PEO Clients	▶	**208,000**
Clients as a % of All Businesses with 10-99 employees	▶	**17%**
Average Annual Growth Rate, 2008-2022	▶	**7.5%**

KEY STATISTICS. There are currently 523 PEOs in the United States. Their 4.5 million WSEs work for over 208,000 primarily small and mid-size businesses and were paid a total of $308 billion is 2022. The number of WSEs in the PEO industry has grown steadily, at an average annual compounded growth rate of 7.5 percent since 2008.

The total employment represented by the PEO industry is roughly triple the size of each of the largest employers in the United States (Walmart and Amazon; see Figure 1) and is approximately the same as the combined number of employees for the four largest companies in the United States: Walmart, Amazon, Accenture, and FedEx.[1]

▶ FIGURE 1 | **PEO WSEs, Compared to Largest U.S. Employers**
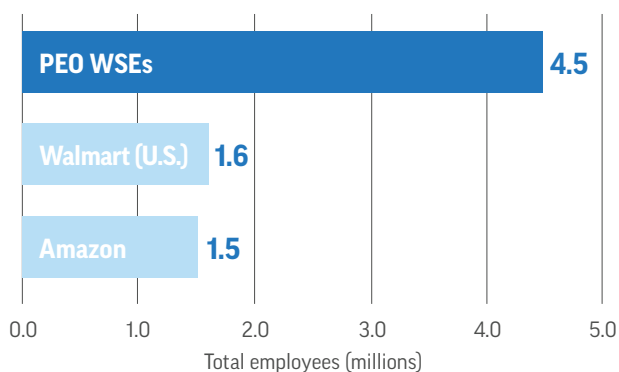
The total employment represented by the PEO industry is larger than the employed labor force in Michigan, the state with the 10th-largest labor force in the country. Alternatively, it is roughly the same as combined employment in the following states: Alaska, Delaware, Hawaii, Maine, Montana, North Dakota, Rhode Island, South Dakota, Vermont, and Wyoming.[2]

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[1] Data (except Walmart) is from Google Finance, (accessed September 5, 2023, with numbers based on companies' annual public reporting). Company-specific employment is as follows: Walmart (US) 1,600,000; Amazon 1,541,000; Accenture (721,000), and FedEx (547,000). Walmart data is from https://s201.q4cdn.com/262069030/files/doc_financials/2023/ar/Walmart-10K-Reports-Optimized.pdf. Only Walmart reports employment by country; therefore, all counts except Walmart represent worldwide employees.

[2] State employment data from Bureau of Labor Statistics, https://www.bls.gov/charts/state-employment-and-unemployment/employment-by-state-bar.htm, accessed September 5, 2023. Employment in Michigan is 4.4 million; employment in the ten smallest states listed is 4.5 million.

At the client level, the PEO industry's 208,000 clients would be approximately 17 percent of all private sector employers with 10-99 employees (the size range of a large percentage of PEO clients).[3] Please note that this is not an actual "penetration rate" – it is intended instead to be an illustrative relative size comparison only, as it includes total PEO clients even though approximately one-quarter of PEO clients are smaller or larger than 10-99 employees. Based on our latest calculations, the actual penetration rate among businesses with 10-99 employees is likely closer to 12 or 13 percent.[4] (We include the 17 percent number here for comparison purposes with our previous "industry footprint" white paper from 2021.)

Similarly, the industry's total number of worksite employees would be approximately 15 percent of all employment among all private sector employers with 10 to 99 employees.[5]

The 5 largest PEOs account for an estimated 39 percent of the PEO industry's 4.5 million WSEs. The next 25 largest firms account for an additional 19 percent of the industry's WSEs. The remaining 493 PEOs thus represent approximately 42 percent of total WSEs.[6]

▶ FIGURE 2 | **Percentage of All WSEs, by PEO Size**

▶ 5 Largest PEOs | **39%**

▶ Next 25 PEOs | **19%**

▶ Remaining 493 PEOs | **42%**

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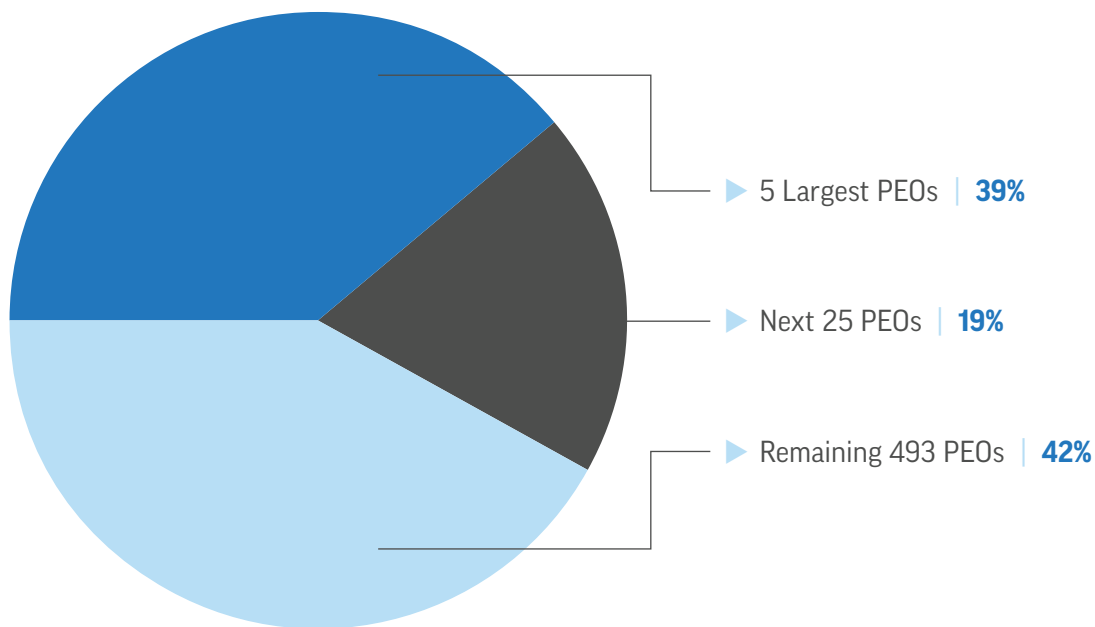
[3] Total number of firms with 10-99 employees is from US Bureau of Labor Statistics, https://www.bls.gov/web/cewbd/table_g.txt.

[4] Our 2022 NAPEO white paper "PEO Clients: An Analysis" used a different data set (more granular client-level data) to calculate a penetration rate of 11 percent across all businesses with 10 to 99 employees. Factoring in an additional year of growth in the PEO industry, we would then expect the corresponding percentage is likely around 12 percent. (This is consistent with the 2022 finding that 26 percent of all PEO clients are outside the 10-99 employee range, meaning that the number of current PEO clients with 10-99 employees is approximately 155,400, a number that would yield an alternate estimate of a 13 percent penetration rate among firms of that size.)

[5] Based on comparison of PEO WSEs with Bureau of Labor Statistics (BLS) data on employment level by firm size for 2022 at https://www.bls.gov/web/cewbd/table_f.txt. For the purpose of these calculations, we used firms with 10-99 employees, the size categories that correspond to the size of most PEO clients. These firms employed a total of 31,508,000 employees in 2022.

[6] Largest 30 PEOs include only those PEOs for which we have actual size estimates (i.e., not PEOs for which size data were received as part of a pooled group of PEOs).

A NOTE ON STATE-LEVEL PEO DATA. In our 2021 white paper on the PEO industry footprint, we included rough state-level estimates of states with above-average and below-average PEO presence. Our 2022 white paper, however, used an entirely different database as a key component to calculate much more specific and precise information on state-level penetration rates. That external database[7] is no longer being updated, so it is not possible to update our state-level analysis based on the database. We believe it is unlikely that general state-level PEO trends and breakdowns have changed significantly since the 2022 analysis, so we would point readers to that paper for the best-available information on state penetration rates. In that white paper, we found that penetration rates were highest in Florida, with Georgia the state with the second-highest rate (although still only about half of the penetration rate in Florida.)

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[7] Publicly-available records on businesses that had received a Paycheck Protection Program (PPP) loan during the COVID pandemic.

▷ CHANGES IN PEO INDUSTRY SIZE

LONG-TERM GROWTH. PEOs have grown at an average 7.5 percent compounded annual growth rate since 2008. The number of WSEs has grown every year, with the exception of 2020 (when employment in the economy as a whole dropped significantly[8] due to the pandemic).

The consistency of growth in the PEO industry since 2008 (the first year for which we have estimates available) is impressive, given that it is difficult to continue to sustain earlier growth rates as an industry becomes ever-larger and more mature. Figure 3 shows overall industry growth from year to year, with the dotted line representing the overall (linear) trend since 2008.

The number of PEO WSEs has increased much more quickly than total employment in the United States as a whole. Since 2008, the compounded annual growth rate of the PEO industry is almost 7 percentage points higher than the comparable rate for the US employed labor force.[9]

▶ FIGURE 3 | **Number of WSEs Covered by PEOs, 2008 (estimated) to 2022**
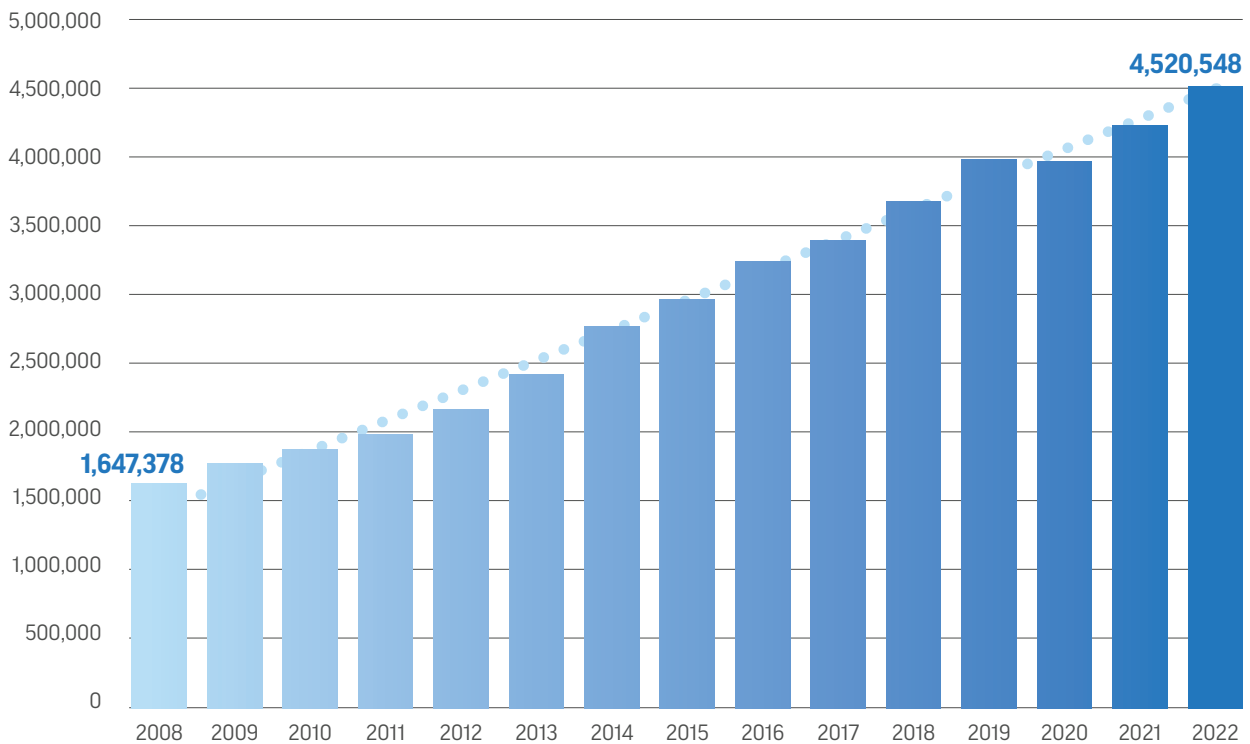
[8] US civilian labor force employment from Bureau of Labor Statistics (Current Population Survey) data, available at https://www.bls.gov/cps/cpsaat01.pdf.

[9] The compounded average annual growth rate in US employment is 0.6 percent from 2008 to 2022, based on calculations of Bureau of Labor Statistics (Current Population Survey) data available at https://www.bls.gov/cps/cpsaat01.xlsx.

Figure 4 shows the growth in the number of PEO clients as a percentage of all businesses in the United States with between 10 and 99 employees.[10]

▶ FIGURE 4 │ **Estimated Number of PEO Clients, Calculated as Percent of All U.S. Firms with 10-99 Employees, 2008-2022**
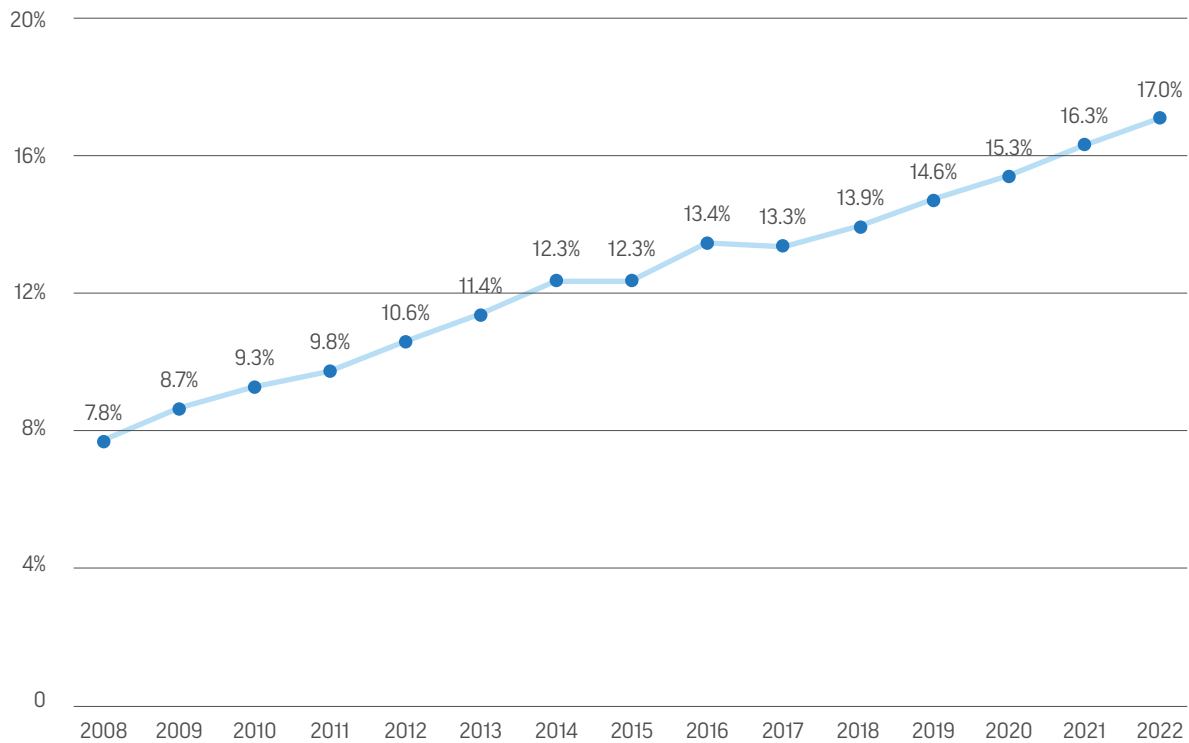
RECENT GROWTH. Because the methodology for this current white paper replicated the methodology used in our 2021 white paper on industry size, we are able for the first time in this paper to provide a more complete look at recent growth trends in the PEO industry by comparing multiple metrics with the values for the same metrics two years earlier. All key industry size metrics are higher for 2022 than they were in 2020, with varying rates of change.

[10] This figure combines our calculations of annual total PEO WSEs with rolling annual averages from *NAPEO's 2020 Financial Ratio and Operating Statistics Survey* (FROS) estimates of WSEs per client to generate an estimated annual number of PEO clients; this number is then divided by total number of US businesses with 10-99 employees (from BLS).

▷ SUMMARY, CHANGES 2020 TO 2022[11]

	2020	2022	% Change Per Year
Number of PEOs	**487**	**523**	**4%**
PEO Worksite Employees (WSEs)	**4.0 million**	**4.5 million**	**7%**
Annual WSE Wages	**$216 billion**	**$308 billion**	**19%**
Number of PEO Clients	**173,000**	**208,000**	**10%**

The number of WSEs increased by an average of 7 percent per year in the two years between 2020 and 2022, reflecting a recent annual growth rate quite consistent with the historical 7.5 percent annual growth rate of the industry.

The number of PEOs climbed a bit more slowly, by 4 percent per year. This represents the net number of new PEOs added to the industry, even as various mergers and acquisitions served to consolidate some other PEOs.

The count of PEO clients, on the other hand, increased more quickly than the rate of increase in WSEs (10 percent per year). Combining the PEO client trend with the WSE trend points to a slight decrease in the average client size. This is consistent with data from NAPEO's Financial Ratios and Operating Statistics (FROS) Survey,[12] which found a 6 percent decrease in WSEs per client (23.0 to 21.7) over the two most recent years available. Hence, recent growth in the PEO industry appears to be driven, at least in part, by more PEOs serving somewhat smaller employers (on average) than they have in the past.

The largest change was in total annual WSE wages, with a 19 percent annual increase from 2020 to 2022. While this change seems notably larger than the others, it is less dramatic than it appears when disaggregated into subcomponents: some is due to the increased number of WSEs (7 percent) and some is due to wage inflation (5 percent).[13] The remaining increase (7 percent), independent of those two factors, suggests that WSE wages themselves have increased faster than the rate of inflation. This rate is comparable to the same rate as identified in the most recent FROS report (a 13 percent annualized increase over the most recent two years, or 8 percent after subtracting the effect of wage inflation).[14]

The increase in WSE wages beyond what would be expected due to wage inflation and industry growth may reflect a shift toward more PEO clients in higher-paying industries or toward clients with higher-than-average wages relative to previous clients. It is too early to draw a definitive conclusion on why wages have increased more quickly than other factors; we expect that continued tracking data in future years should shed additional light on this.

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[11] Annualized percentage changes are calculated on a compounded basis between 2020 and 2022.

[12] NAPEO, "NAPEO's 2022 Financial Ratio and Operating Statistics Survey," data from FY2019 to FY2021.

[13] Wage inflation in the economy as a whole also increased average employees' wages by an average of approximately 5 percent per year during the same time period, per Bureau of Labor Statistics Occupational Employment and Wage Statistics (OEWS), https://www.bls.gov/news.release/ocwage.nr0.htm and https://www.bls.gov/news.release/archives/ocwage_03312021.htm.

[14] The 2022 NAPEO FROS report provides data on annual average WSE wages over time; the most recent two-year period is from FY 2019 to FY 2021.

▷ METHODOLOGY: CALCULATIONS AND OTHER NOTES

This section provides additional background on how we calculated the summary measures provided in the previous section of this report, as well as additional details, breakdowns, and external comparisons for specific metrics.

METHODOLOGY IS CONSISTENT WITH 2021 PAPER.

The methodology used for this paper was designed to be as close as possible to the methodology employed in calculating the size of the PEO industry in our 2021 NAPEO white paper. As noted in 2021, that methodology was significantly changed from earlier analyses. We believe the current methodology provides an accurate picture of the PEO industry built "from the ground up." The process involves three primary components:

- Developing a comprehensive list of PEOs
- Gathering information on the sizes of those PEOs
- Combining PEO-specific size data with other available information to calculate conservative estimates, using multiple metrics, of the size of the PEO industry as a whole

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CREATING A COMPREHENSIVE LIST OF PEOS.

The process deployed to identify PEOs is as follows:

1. We started by building an initial list of possible PEOs from multiple sources. A key foundation of the list was our database of PEOs from the 2021 white paper, supplemented by records from all publicly-available state registries of PEOs (many of which contain a large number of non-PEOs alongside PEOs). We did not use industry-code data from third-party vendors this year, as our analysis of our 2021 database revealed that almost no PEOs were identified through that method. The list was checked against a list of current NAPEO members as part of Step 3 (see below). The combined initial list included over 1,200 companies (some of which were different names of the same company) to be investigated to determine whether they qualified as a PEO.

2. Each company on the above list was reviewed independently (between February 2023 and June 2023) by two different external researchers to identify the company URL and whether any one of the following four search terms appeared on their

website: PEO, Professional Employer Organization, worksite employee, and/or co-employment. If any one of the search terms was found by at least one of the researchers, that company was flagged for additional review by McBassi.

3. The authors and other McBassi staff checked all websites or other public information regarding the companies that had passed the initial review in Step #2 above. This additional review was designed to confirm whether each company should indeed be classified as a PEO.

We applied a definition that, in order to be assigned PEO status, a company needed to have a public presence (typically an active website) that indicates the company offers PEO (or co-employment) services.

Companies that did not meet this standard were not included in our count of PEOs. Each company identified for additional review in Step #2 was checked by at least two internal McBassi

reviewers at this stage, which proceeded in parallel with Step #1, between March and July 2023. In addition, all NAPEO PEO members and ESAC-accredited PEOs that had not been included on the initial list from Step #1 were added at the end of this step.

4. After having verified company PEO status, we then checked for and investigated any matching web URLs, matching street addresses, and/or matching phone numbers, and removed from the list any entries that appeared to duplicate others on key dimensions. We used news updates (from NAPEO and other news sources) to identify mergers and acquisitions in the PEO industry since 2021, and reflected those changes in our database by removing PEOs previously on the list that had been fully integrated into another PEO.

5. In July and August 2023, after removing all duplicates from the list, we contacted selected industry experts, including representatives of

companies that provide software services to PEOs. We asked them to either (a) review subsets of the list to identify any PEOs that might have been missed through the process above, or (b) provide us with a confidential list of their own PEO clients that we cross-checked against our own database. This consultation process yielded a small number (approximately 3 percent) of additional PEOs that were added to our database at this stage (after confirming they qualified using the standards applied in previous steps).

6. The final comprehensive list of PEOs includes 523 companies. This final list excludes multiple "entities" for any single PEO; each PEO is included only once. It does include a small number of PEOs that are owned by other PEOs but that appear to be operating either independently or semi-independently based on their websites or other public information.

CALCULATING INDUSTRY SIZE.

After identifying the full list of PEOs, we then sought to determine their collective size. This, too, was a multi-step process:

1. **Actual WSEs and WSE wages.** We gathered data on actual WSE wages and number of WSEs in 2022. Multiple sources provided size data to us, many of which provided business-sensitive information under condition of keeping the data confidential and using it only for purposes of making industry-level calculations for this white paper. Sources include Form 941 data for NAPEO members; PEO industry partners and service providers (ESAC, isolved Network, McHenry Consulting, PrismHR, PRO Software, and Worklio); and SEC filings for publicly-traded PEOs. In most cases, any data we

received from sources other than NAPEO 941s was provided in a pooled format: combined wages and/or WSEs for a subset of PEOs for which we did not already have 941 data and for which the source could provide full-year information for 2022. WSE counts represent the number of WSEs paid during 2022; the WSE wage data represents full-year (or annualized) wages paid to WSEs during 2022.

Overall, we have actual data (separately or in pooled format) on WSEs for 371 PEOs, and on WSE wages for 214 PEOs.

2. **Estimated WSEs and WSE wages.** For the group of PEOs for which we did not have actual WSE wages and/or WSE counts (either individually or in a pooled group, per Step 1 above), we created estimates for both metrics based on the best information we had available. First, for PEOs for which we had one (but not both) of those two data elements, the element without data was estimated using the ratio of average wages per WSE for the 189 PEOs for which we have both WSE wages and WSE count ($55,895 per employee, after excluding the top and bottom 10 percent).

For the group of PEOs for which we had neither WSE wages nor WSE counts, we used two other methods to estimate size for number of WSEs. The first method was used for the pool of PEOs that have an identifiable presence on LinkedIn (73 PEOs); the second method was used for the remaining 54 PEOs.[15]

For purposes of developing size estimates for the first group, we calculated an estimated ratio of WSEs per internal LinkedIn employee by using the pooled group of 217 PEOs for which we do have both separate (not pooled) WSE data and a count of the number of internal employees listed on LinkedIn. We then applied this ratio to the pool of 73 companies for which we had LinkedIn counts but no WSE data (summing LinkedIn counts across the full set of 73 companies, then applying the ratio to that full set).

For the remaining 54 PEOs (those with no LinkedIn data), we applied the ratio of 888 WSEs per PEO for the "smallest firms" (those with <1500 WSEs), drawn from NAPEO's 2022 FROS report. This ratio was applied on the assumption that most of the small number of remaining "unknown" PEOs would fall into the smallest size group.[16]

3. **Estimated total number of PEO clients.** We applied the most recent FROS ratio (FY 2021) of 21.7 WSEs per client to the total number of WSEs (4.5 million) to estimate the total number of PEO clients. Similar calculations were made for previous years in order to estimate the number of PEO clients back to 2008. For earlier years, we used a three-year moving average of FROS WSEs per client in order to reduce the effect of year-to-year fluctuations in that ratio.

4. **All data were checked and validated.** As noted above, when calculating key ratios that were applied to other PEOs in generating the overall industry estimate, we removed outliers (high and low) from the database.

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[15] After estimating number of WSEs for these groups, we applied the same WSE wages per WSE ratio described above ($55,895 per WSE) to estimate WSE wages for these two groups.

[16] Supporting this assumption, the average size of those PEOs who were previously unknown to us from multiple PEO software vendors who assisted this project was indeed close to this average size.

CALCULATING CHANGES IN INDUSTRY SIZE

2020 to 2022

As noted above, for the first time, we were able to use our own full-industry estimates, generated using a consistent methodology, for purposes of calculating the most recent (2020 to 2022) changes in size in the PEO industry. This was a straightforward process, as we compared the size estimates for each metric from the two years, calculated the total percentage change over the two years, and then calculated an annual compounded growth rate for each metric from the resulting number. For WSE change, we allocated the total change across two years proportionally based on calculating "same-store" changes in wages from NAPEO data from 2020 to 2021 and from 2021 to 2022, using the same procedures described in the "2008 to 2020" section below.

2008 to 2020

For previous years, when we did not have full-industry data available in a consistent format, we used a more complex process based on available two-year pairs of wage data for those PEOs for which Form 941 wage data for NAPEO members was available. This allowed us to calculate same-store changes in wages for each year from 2008 to 2020 ("same-store" refers to any PEO that was in business for two consecutive years within that period).

Making these estimates back to 2008 requires some important assumptions. Importantly, it excludes any specific growth effects of PEOs that were involved in mergers or acquisitions, as well as the impact of newly-created PEOs and the departure of PEOs that went out of business. Applying data on wage changes to WSE counts also assumes that wage growth among WSEs is consistent with wage growth within the economy as a whole. Since the data for the "same-store" calculations come from NAPEO members' 941 filings, the estimate also assumes that the extent to which NAPEO members are representative of the PEO industry as a whole remained roughly constant from 2008 to 2020.

Change estimates for the 2008 to 2020 period were calculated in the following manner. Form 941 wage data (from 2008 to 2020, excluding 2010, which was unavailable) on NAPEO members was first adjusted for inflation and then used to calculate "same-store" changes in wages for each year from 2009 to 2020. For example, we calculated inflation-adjusted changes in total wages from 2019 to 2020 for each PEO for which we had valid data in both 2019 and 2020, and then took the average across all available PEOs for those years in order to identify the change rate for the industry overall in 2020. Data for any PEO involved in a merger/acquisition for at least one of the two years in the pair was not included in calculating average changes for any year affected.

The number of PEOs for which we had pairs of data (consecutive years) available to calculate "same-store" changes ranged from 128 to 200. To eliminate the impact of outliers, we excluded the top and bottom 10 percent of the distribution when making calculations. By iteratively applying the annual change data to number of WSEs (starting with our current estimates for 2020 and then working backward),[17] we were able to estimate same-store PEO WSE growth from 2008 to 2020, yielding the results shown in Figure 1. The table below provides the annual average growth rates for PEOs from which Figure 3 was derived.

Annual Average PEO Growth Rates, Measured by WSEs, 2009 to 2022

Year	Year-Over-Year Change
2009	7%
2010	6%
2011	6%
2012	9%
2013	12%
2014	14%
2015	7%
2016	9%
2017	4%
2018	9
2019	9
2020	-0.4%
2021	7%
2022	6

[17] We applied the 2020 inflation-adjusted change rate to the 2020 estimate for total WSEs to estimate total WSEs in 2019. We then applied the 2019 inflation-adjusted change rate to 2019 WSEs to calculate 2018 WSEs, etc.

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" and the "HR Analytics Handbook." For more information, please visit www.mcbassi.com.

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ABOUT NAPEO

The National Association of Professional Employer Organizations (NAPEO) is The Voice of the PEO Industry™. NAPEO's 230 PEO members provide payroll, benefits, workers' comp, regulatory compliance assistance, and other HR services to more than 208,000 small and mid-size businesses employing 4.5 million people. Our members account for more than 90 percent of the industry's $316 billion in revenue. An additional 250 companies that provide services to PEOs are associate members of NAPEO. For more information, please visit www.napeo.org.