



# How PEO Clients Fared in the First Months of the COVID-19 Pandemic: A Comparative Analysis

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September 2020

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The 2020 COVID-19 pandemic has created unprecedented economic challenges for almost all employers, with small businesses hit especially hard. This white paper examines the available evidence on the early impact that PEOs had on business outcomes for their clients. (Because the pandemic and its effects are ongoing, it is of course not yet possible to assess any final effects on small businesses or the economy as a whole.)

Specifically, we explored PEOs' impacts on the following key outcomes for their clients:

- Paycheck Protection Program (PPP) loans
  - Percent receiving PPP loans
  - Percent receiving PPP loans earlier in the process
- Current business status (open/closed)
- Business survival

In each of these areas, we found PEO clients fared better than other small businesses, often significantly better.

## SUMMARIZING THE FINDINGS: COMPARED TO OTHER SMALL BUSINESSES, PEO CLIENTS ARE:

**119%** more likely to have received PPP loans

**72%** more likely to have received PPP loans in Round 1

**91%** less likely to still be temporarily closed

**60%** less likely to have permanently closed

# PPP Loans

In the early months of the pandemic, a primary form of assistance that PEOs provided to their clients was in facilitating applications for Paycheck Protection Program loans from the federal Small Business Administration (SBA).

The PPP program, created by the Coronavirus Aid, Relief, and Economic Security (CARES) Act of March 2020, was designed to provide forgivable loans to help

**'I sat down at my computer one morning to request what I would need to get a PPP loan and it was already in my inbox (from my PEO), even before banks were allowed to accept applications.... As a result of their service, I could focus on serving my clients.'**

**—PEO client**

businesses continue paying their employees, as well as other costs such as rent and utilities. A huge program (ultimately more than \$600 billion) intended to meet urgent needs, its quick rollout was notably bumpy and confusing. A June 2020 report by the Government

Accountability Office (GAO)<sup>1</sup> found multiple examples of confusion on fundamental aspects of the program that persisted well after it was launched: eligibility criteria, unclear interim rules issued on a rolling basis,<sup>2</sup> and lack of clarity about how PPP loan proceeds must be used in order to qualify for loan forgiveness.

All of the PPP program's original \$349 billion was allocated between April 3 and April 16, 2020. An expansion of the program added more than \$300 billion in additional funding. Applications for this second round of PPP loans reopened on April 27, finally closing on August 8, 2020. Most of the initial loans went to larger businesses, while most of the smallest loans (71.1 percent of all PPP loans under \$350,000) were funded in the second round.<sup>3</sup>

We collected multiple specific examples of PEOs working to guide clients through the PPP loan application process, including producing and providing the necessary documentation and employee-related data. PEOs have continued to work with clients throughout the process, including ensuring that clients use the loan proceeds according to changing federal guidelines on what is necessary to receive loan forgiveness.

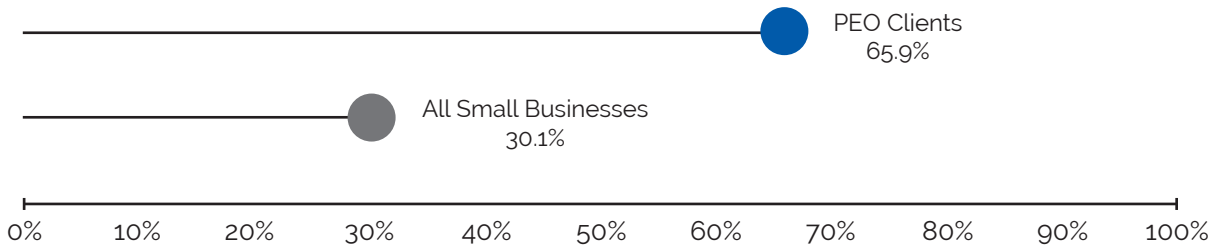
1 Government Accountability Office, "COVID-19: Opportunities to Improve Federal Response and Recovery Efforts," June 25, 2020. <https://www.gao.gov/reports/GAO-20-625>.

2 For example, the GAO cites 17 different changes and updates to frequently asked questions between April 3, 2020, and June 15, 2020, many on key elements of the PPP program such as how to calculate payroll costs (GAO, footnote 420).

3 Calculations based on raw Small Business Administration (SBA) data (<https://www.sba.gov/funding-programs/loans/coronavirus-relief-options/paycheck-protection-program>), combined with summative statistics from <https://www.sba.gov/document/report-paycheck-protection-program-report-through-august-8-2020>.

## PEO Clients: More than **twice as likely** to receive PPP Loans

### Percentage receiving PPP Loans



Despite its complicated rollout, loans through the PPP program represent the primary public policy response to help employers stay in business and keep their employment stable. To date, there is only limited data available on the business impact of PPP loans, but the information that is available suggests businesses believe PPP loans are a central factor helping them to stay in business.<sup>4</sup> Therefore, any boost in the likelihood that a business received a PPP loan in a timely manner would be expected to increase its likelihood of being able to stay in business in the long-term.

## Likelihood of Receiving PPP Loans

We found that this PEO-client partnership yielded important results in terms of clients' success in receiving PPP loans. PEO clients were significantly more likely to receive PPP loans than comparable small businesses, and more likely to receive their loans earlier.

PEOs reported that an average of 65.9 percent of their clients received PPP loans.<sup>5</sup> The nationwide average of comparable small businesses that received PPP loans is 30.1 percent—less than half that of PEO clients receiving loans.<sup>6</sup>

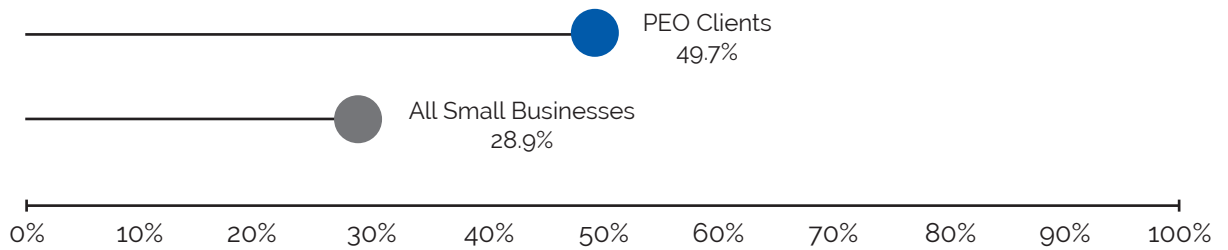
4 For example, a recent National Bureau of Economic Research (NBER) paper found that the receipt of a Round 1 PPP loan increased business owners' expectations of still being open in December 2020 by between 12 and 22 percentage points. Alexander W. Bartik, et al., "The Targeting and Impact of Paycheck Protection Program Loans to Small Businesses," NBER Working Paper 27623, July 2020. <https://www.nber.org/papers/w27623>.

5 Calculations based on 59 PEO responses to NAPEO COVID-19 Survey #4 ([https://napeo.blob.core.windows.net/cdn/docs/default-source/covid-19/covid-19-survey-data-tables-4.pdf?sfvrsn=1de52bd4\\_2](https://napeo.blob.core.windows.net/cdn/docs/default-source/covid-19/covid-19-survey-data-tables-4.pdf?sfvrsn=1de52bd4_2)).

6 Based on McBassi analysis of raw PPP loan data available from the SBA (<https://www.sba.gov/funding-programs/loans/coronavirus-relief-options/paycheck-protection-program>), combined with data on the number of businesses registered in the U.S. in multiple business type categories. We found that 30.1 percent of small businesses received PPP loans after dividing total PPP loans by the number of registered businesses in those categories (and after making adjustments to ensure our calculations were as conservative as possible and as comparable to the PEO client base as possible). Specifically, we excluded three categories of "non-employer" businesses—sole proprietorships, self-employed individuals, and independent contractors—as well as other small categories that represented only 0.3 percent of all loans. In total, the excluded categories represent approximately 20 percent of all PPP loans. (If the excluded categories had been included in the calculations, the overall rate of PPP receipt, including sole proprietorships, self-employed individuals, and others, would have been approximately 9 percent of all businesses.)

## More PEO clients received PPP loans in Round 1

% of loans received in Round 1 of PPP funding



**PEO CLIENTS THAT  
RECEIVED PPP LOANS:**

**115,000**

We should note that some published data suggested the rate of receipt among small businesses was much higher.<sup>7</sup> These estimates, however, are based on surveys of what is known among statisticians as a "convenience sample" of businesses. Because the response to these types of surveys is not necessarily representative of all small businesses, they are prone to (over or under) mis-estimation. Our

calculation of 30.1 percent PPP receipt rate, on the other hand, is based on an analysis of the entire population of small businesses.

This 35.8 percentage point difference (65.9 versus 30.1) is substantial and would be expected to have a large impact on PEO clients, with a larger percentage of them in a better position to weather and survive the economic effects of the COVID-19 pandemic.

We conservatively estimate that approximately 115,000 PEO clients nationally received PPP loans, almost all with assistance from their PEOs.<sup>8</sup>

## Likelihood of Receiving PPP Loans in Round 1 of Funding

Further, only 28.9 percent of all small business PPP loans (defined for purposes of this analysis as loans of \$350,000 or less) were received in Round 1. For smaller loans,

<sup>7</sup> For example, a July 20, 2020, survey by the National Federation of Independent Business (NFIB) reported that 79 percent of all members surveyed had applied for PPP loans.

<sup>8</sup> This is based on applying the 65.9 percent of clients receiving PPP loans to the 2018 NAPEO White Paper estimate of 175,000 total PEO clients (which is likely higher now due to continuing growth in the PEO industry in 2019). Bassi and McMurrer, "An Economic Analysis: The PEO Industry Footprint in 2018," NAPEO 2018 White Paper, [https://napeo.blob.core.windows.net/cdn/docs/default-source/white-papers/2018-white-paper-final.pdf?sfvrsn=d5cd23d4\\_6](https://napeo.blob.core.windows.net/cdn/docs/default-source/white-papers/2018-white-paper-final.pdf?sfvrsn=d5cd23d4_6). Almost every PPP application from a PEO client required at least some PEO assistance because payroll data was a key component of the PPP loan application.

## 98% of PEO clients' PPP loan applications were successful



the percentage is even lower—only 26.4 percent of all loans of \$150,000 or less were received in Round 1. In other words, the vast majority of small business loans were received later, in Round 2.

Among PEO clients, however, almost half (49.7 percent) of all loans were received in Round 1, a much higher percentage than for small businesses' PPP loans overall.<sup>9</sup>

This indicates that PEO guidance enabled many PEO clients to receive and benefit from their loans before many other comparable small businesses. (Almost half of all small businesses applying for PPP loans reported in June that the PPP loan was "critical" to their survival and that they would go out of business without it.<sup>10</sup>)

## PPP Loan Application Success Rate

The average success rate among PEOs for their clients who applied for PPP loans was 97.8 percent. This extremely high rate indicates that virtually all of PEOs' clients' PPP loan applications were successful.<sup>11</sup>

Unfortunately, there are currently no official statistics on the success rates of all small business applicants for PPP loans, perhaps due to the decentralized nature of the process (with individual banks handling most of the loan processing before

<sup>9</sup> We calculated that the vast majority of PEO clients would have applied for PPP loans of less than \$350,000. This is based on the average size of PEO clients (23 employees, with only 11 percent of PEOs having an average client size of 50+ employees, per the 2019 NAPEO Financial Ratio & Operating Statistics Survey (FROS) results report), combined with an average loan amount per "job retained" of \$8,656 (using the raw PPP loan data available from the SBA at <https://www.sba.gov/funding-programs/loans/coronavirus-relief-options/paycheck-protection-program>). While it is not clear how PPP loan applicants interpreted "jobs retained" (or whether it was interpreted consistently across applicants), it is the only measure of employee size available and we believe it is sufficient for purposes of roughly estimating the size of loan recipients and thus the relationship between loan size and number of employees. Combining the FROS data and PPP data clearly indicates that few, if any, PEO clients were among the "big businesses" disproportionately receiving Round 1 PPP loans. Rather, the conclusion is that they primarily fell into the smaller loan category and thus, relative to other small businesses, PEO clients were disproportionately likely to receive their PPP loans in Round 1.

<sup>10</sup> See <https://www.paychex.com/newsroom/news-releases/ppp-flexibility-act-survey>.

<sup>11</sup> Calculations based on 59 PEO responses to NAPEO COVID-19 Survey #4 ([https://napeo.blob.core.windows.net/cdn/docs/default-source/covid-19/covid-19-survey-data-tables-4.pdf?sfvrsn=1de52bd4\\_2](https://napeo.blob.core.windows.net/cdn/docs/default-source/covid-19/covid-19-survey-data-tables-4.pdf?sfvrsn=1de52bd4_2)).

forwarding approved loans on to the Small Business Administration). What limited information we do have suggests that PEO clients' 97.8 percent success rate is higher than the rate for PPP applicants overall.<sup>12</sup>

### Summing up

Overall, with the initial PPP process now completed, the data are clear: A much higher percentage of PEO clients were able to access PPP loans than comparable small businesses, and they accessed them more quickly with an extraordinarily high success rate. Dan McHenry of McHenry Consulting summarized the effort: "PEOs mobilized on an unprecedented basis to guide their clients through the PPP loan application process, providing them the required documentation to secure PPP loan proceeds and to navigate PPP loan forgiveness."

## Other Areas of Immediate Impact

While assistance and guidance in the PPP loan process was perhaps the most quantifiable service provided by PEOs to their clients during the COVID-19 pandemic, the PPP process was far from the only area where clients needed support. Asked how their PEOs had assisted their clients, one PEO listed a multitude of other services:

**'When businesses are faced with new complexities, PEOs become the go-to in navigating those complexities.'**

"We've helped our clients in a variety of new ways, with everything from return-to-work procedures and securing personal protective equipment to

introducing solutions via mobile applications for contact tracing and office reopening management." Multiple other PEOs reported services such as providing regular updates and alerts on new HR-related issues and working with clients to develop customized options to allow furloughed employees to maintain full benefits.

### Business Open/Closed Status

We also examined the status of businesses as currently open (either partially or fully) or still temporarily closed. While PPP funds provided an important short-term support

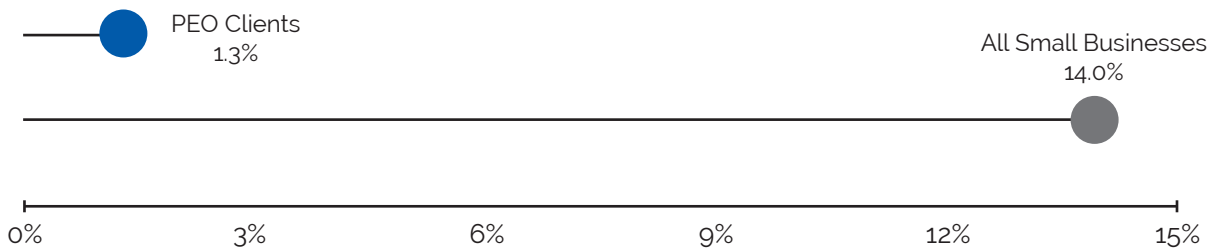
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<sup>12</sup> Based on analysis by the National Bureau of Economic Research, we do know that the loan success rate in Round 1 was 85 percent or less, corresponding to a denial rate of at least 15 percent for Round 1 loans overall (Alexander W. Bartik, et al., "The Targeting and Impact of Paycheck Protection Program Loans to Small Businesses," NBER Working Paper 27623, July 2020. <https://www.nber.org/papers/w27623>, Figure 2). The actual Round 1 success rate may be lower, as a significant percentage of loan applications had status classified as "still pending" at the time of the NBER analysis. It is also likely, however, that the success rate improved somewhat as the PPP process continued into Round 2, as some initial application deficiencies or errors may have been corrected, and some loans may have been subsequently approved after initial denials.



## Far less likely to still be temporarily closed

% of businesses temporarily closed, July 2020



to a business's ability to survive, its long-term survival depends on the capacity to be open and serve its customers to the greatest extent possible.

While business status early in the pandemic was largely a function of state location and industry (due to varying state requirements about what types of businesses were permitted to remain open at all), in recent months most states have generally reopened for business. There are still many variations across states in specific safety requirements and capacity restrictions, but as of late summer 2020, almost all businesses are now permitted to be open in some form.

Whether a business is actually open or not reflects its ability to adjust nimbly and effectively to new circumstances and to meet new (and changing) external requirements related to public health, safety, and other considerations.

Among PEO clients, 1.3 percent were temporarily closed on July 31, 2020.<sup>13</sup> This compares to a national rate of 14.0 percent of small businesses that were temporarily closed during the same time period.<sup>14</sup>

The national rates do vary by industry: For example, only 7 percent of professional services firms were closed, compared to 17 percent of retail businesses.<sup>15</sup>

Thus, regardless of industry, PEO clients are far more likely to currently be open than other small businesses. This finding likely reflects the key role of PEOs as knowledgeable partners positioned to help clients maneuver through the numerous new regulations necessary before being able to reopen safely for business. "When businesses are faced with new complexities, PEOs become the go-to in navigating those complexities," observed John Slavic of Slavic 401k.

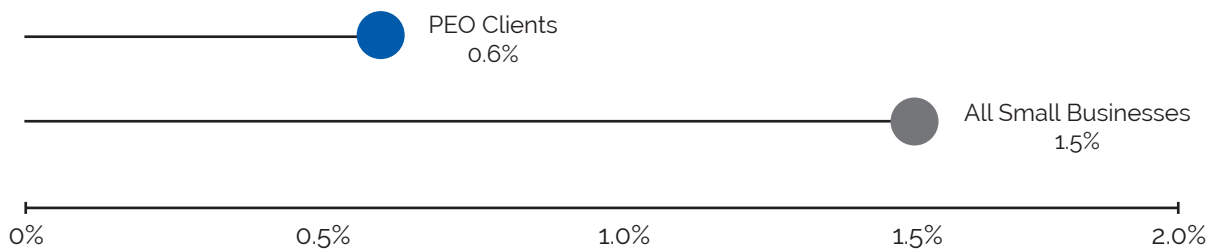
<sup>13</sup> Based on all responses to the authors' survey from PEOs that were "very confident" or "confident" in the percentage of clients that are temporarily closed (total number of PEOs at this confidence level = 53), and weighted by number of PEO worksite employees. PEOs that were "not confident at all," "slightly confident," or "moderately confident" were excluded from the analysis.

<sup>14</sup> 14.0 percent is the average of two data sources: 15.9 percent of small businesses were closed on July 31, 2020, based on daily data tracked by Opportunity Insights Economic Tracker (<https://www.tracktherecovery.org>; methodology described in [https://opportunityinsights.org/wp-content/uploads/2020/05/tracker\\_paper.pdf](https://opportunityinsights.org/wp-content/uploads/2020/05/tracker_paper.pdf)), and 12.0 percent temporarily closed based on the July 9-16 survey of small businesses conducted by MetLife/U.S. Chamber of Commerce ([https://www.uschamber.com/sites/default/files/metlife\\_uscc\\_sbi\\_coronavirus\\_impact\\_poll\\_july.pdf](https://www.uschamber.com/sites/default/files/metlife_uscc_sbi_coronavirus_impact_poll_july.pdf)).

<sup>15</sup> Data by major industry is from MetLife/U.S. Chamber of Commerce survey ([https://www.uschamber.com/sites/default/files/metlife\\_uscc\\_sbi\\_coronavirus\\_impact\\_poll\\_july.pdf](https://www.uschamber.com/sites/default/files/metlife_uscc_sbi_coronavirus_impact_poll_july.pdf)).

## Permanent closures **less than half** the national rate

% of businesses permanently closed, July 2020



As a result, almost all PEO clients are now currently open for business, even as a significant percentage of other small businesses remain temporarily closed.

## Business Survival Rates

As discussed above, many businesses were forced to close temporarily due to state-imposed restrictions on non-essential businesses to help reduce the spread of the coronavirus. Even many businesses that remained open saw demand drop precipitously. These factors threatened the very existence of many businesses, with small businesses disproportionately affected.

Thus, long-term business survival represents the most critical indicator of success for any business in the wake of the massive economic disruption due to the COVID-19 pandemic.

Because the pandemic was continuing at the time this white paper was written, it is not yet possible to assess its final impact on businesses,<sup>16</sup> nor on the impact of PEOs on their clients' ultimate rates of survival.<sup>17</sup>

While we cannot yet answer questions about final business survival rates, we do have some limited interim data we can assess on the percentage of businesses that have already permanently closed.

An August 2020 survey of NAPEO member PEOs found that 0.6 percent of all PEO clients had permanently closed as of July 31, 2020.<sup>18</sup> This compares to a

<sup>16</sup> Indeed, it is difficult to monitor even current closures, as many do not appear in officially tracked statistics. See Madeline Ngo, "Small Businesses Are Dying by the Thousands—And No One Is Tracking the Carnage," Bloomberg News, August 11, 2020 (<https://www.bloomberg.com/news/articles/2020-08-11/small-firms-die-quietly-leaving-thousands-of-failures-uncounted>).

<sup>17</sup> In addition to examining business survival rates, we also looked at preliminary estimates of changes in employment after the start of the pandemic. Although these estimates suggested that there might be modest positive differences in employment changes to date between PEO clients and comparable small businesses, we did not feel sufficiently confident in these estimates to include them here.

<sup>18</sup> Based on all responses to the authors' survey from PEOs that were "very confident" or "confident" in the percentage of clients that are permanently closed (total number of PEOs at this confidence level = 61), and weighted by number of PEO worksite employees. PEOs that were "not confident at all," "slightly confident," or "moderately confident" were excluded from the analysis.

national average of approximately 1.5 percent of all small businesses having permanently closed due to the pandemic.<sup>19</sup> Thus, PEO clients' permanent closure rate is presently 60 percent lower than the national rate.

Although these estimates of business survival are still quite early and should thus be viewed with caution, they do indicate that, on average, PEO clients are currently in a stronger financial position than small businesses overall.

These findings are consistent with PEOs' statements about where they saw the greatest impact on their clients. One PEO stated, "Our extensive work with clients on PPP loans was vital to keeping the numbers of closures down.... We saved a large number of jobs and prevented businesses from closing, particularly with our restaurant clientele."

This is likely due to multiple factors, two of which are almost certainly directly related to their status as PEO clients: the much higher percentage of PEO clients that were able to take advantage of PPP loans and the presence of the PEO as an additional source of business guidance for each client. Such a source is particularly valuable in navigating through a time of uncertainty and new complexities. Craig Babigian, an expert in the PEO space and executive vice president of PrismHR, a key service provider to the industry, summed it up this way: "Helping their clients navigate the COVID-19 legislation has been one of the finest hours for PEO companies. It allowed them to showcase their services, expertise, and systems at a time when their clients were desperate for help."

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<sup>19</sup> National data on permanent business closures since the start of the pandemic is currently extremely limited. Our comparison data represent the average of two national surveys of small businesses: A Gallup/Wells Fargo survey conducted May 29-June 5, 2020, that found 2 percent of all small businesses had permanently closed (<https://news.gallup.com/poll/313424/small-business-owners-optimism-ticks-april.aspx>), and a U.S. Chamber of Commerce Survey conducted July 9-16, 2020, that found 1 percent of all small businesses had permanently closed ([https://www.uschamber.com/sites/default/files/metlife\\_uscc\\_sbi\\_coronavirus\\_impact\\_poll\\_july.pdf](https://www.uschamber.com/sites/default/files/metlife_uscc_sbi_coronavirus_impact_poll_july.pdf)).

To help put these numbers in perspective, the business ratings firm Yelp has tracked cumulative permanent closures among the businesses rated on its website. As of July 22, 2020, Yelp found that 72,842 businesses had permanently closed. This number is almost certainly much lower than the total number of permanently closed businesses in the economy, as most of the businesses tracked by Yelp fall into the "B2C" (business-to-consumer) category (and thus exclude most business-to-business companies as well as others that are unlikely to be usefully "rated" publicly by customers or clients). Yet even the closures in this limited slice of businesses represent 0.6 percent of all businesses registered in the main categories of business types in the United States (excluding sole proprietorships, self-employed individuals, and independent contractors). The true percentage, including more than just B2C closures, is likely significantly higher, which is consistent with the 1.5 percent average from the two surveys cited above.

# About McBassi & Company

McBassi is an independent analytics and research firm that helps clients create consistently profitable and enlightened workplaces. McBassi uses the language and tools of business—metrics and analysis—to build successful organizations by optimizing the power of their people. 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."

## About the Authors

Dr. Laurie Bassi is CEO of McBassi and a global leader in the field of applying analytics in the world of HR. Bassi is the author of more than 90 published papers and books and was previously a tenured professor of economics and public policy at Georgetown University. She holds a Ph.D. in economics from Princeton University.

Dan McMurrer is the chief analyst at McBassi. An analytics expert, McMurrer focuses on researching the relationship between organizations' work and learning environments and their business results. He holds an M.P.P. in public policy from Georgetown University.

## About NAPEO

The National Association of Professional Employer Organizations (NAPEO) is The Voice of the PEO Industry™ and represents about 85 percent of the industry's estimated \$136 to \$152 billion in gross revenues. NAPEO has some 250 PEO members that provide payroll, benefits, and other HR services to between 156,000 and 180,000 businesses employing between 2.7 and 3.4 million people. An additional 200 companies that provide services to PEOs are associate members of NAPEO. For more information, please visit [www.napeo.org](http://www.napeo.org).



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