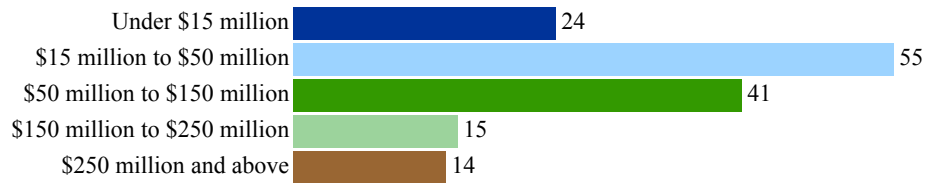


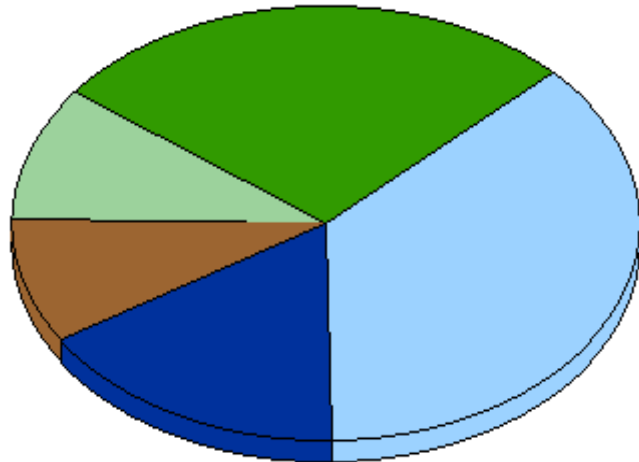
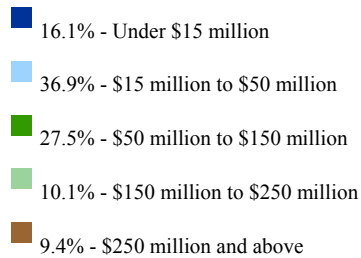
2005 Critical Issues Survey

2005 CRITICAL ISSUES SURVEY - DEMOGRAPHICS

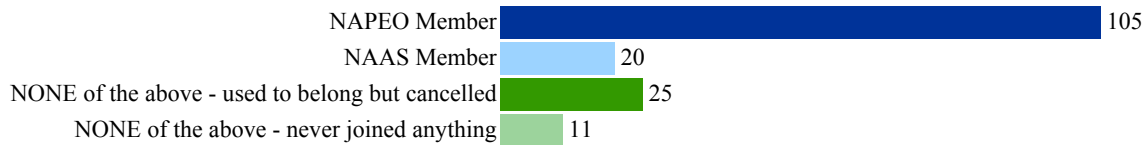
Which of the following best describes your PEO? Annual GROSS PAYROLL for 2004



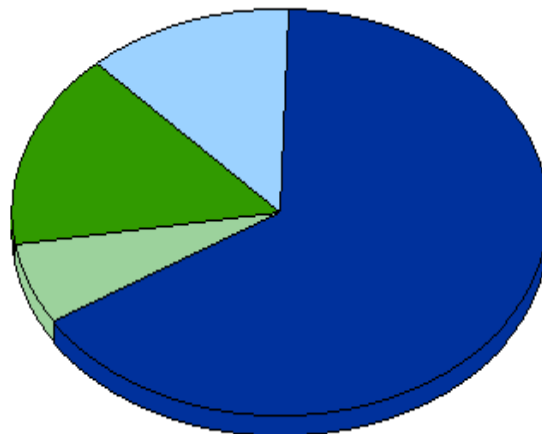
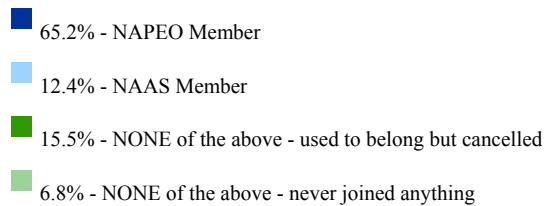
Percent Distribution



Check ALL that apply to your 2005 situation.

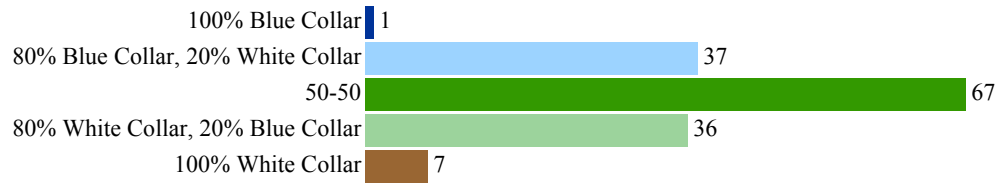


Percent Distribution

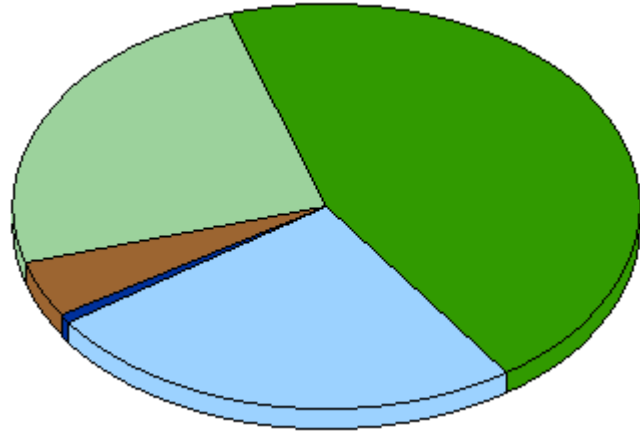
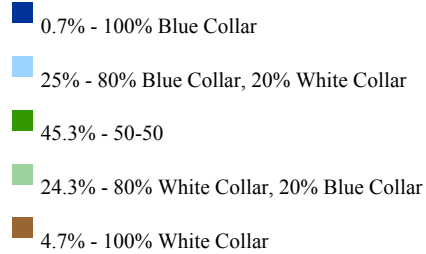


2005 Critical Issues Survey

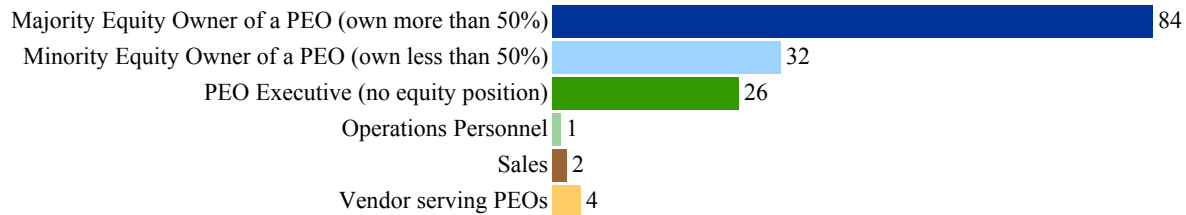
Of the answers below, which BEST DESCRIBES your Client Mix?



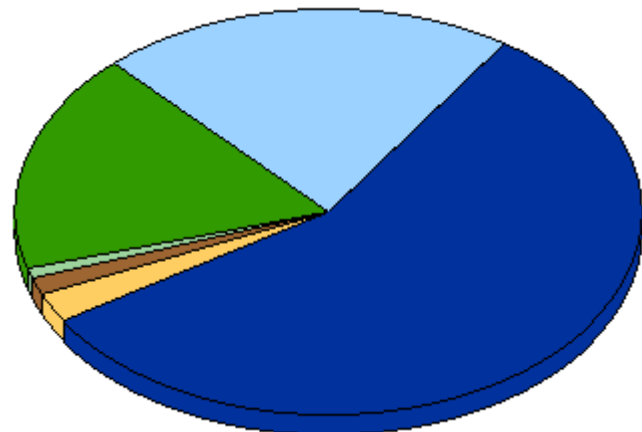
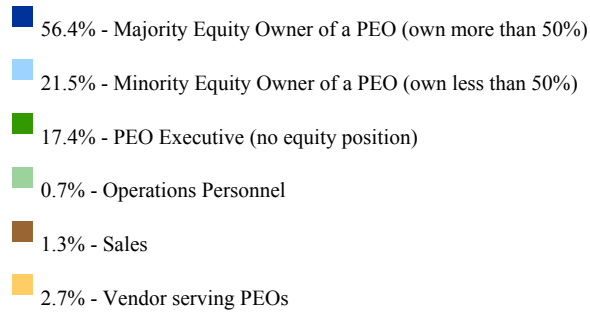
Percent Distribution



Check the option below that BEST DESCRIBES your role in PEO.



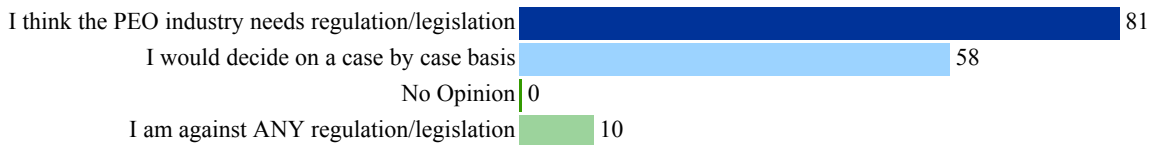
Percent Distribution



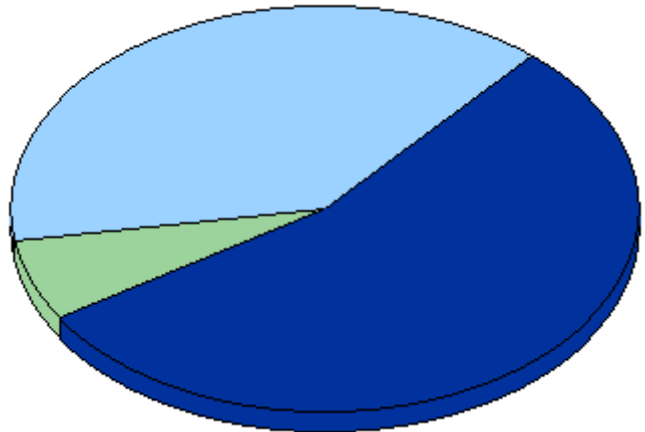
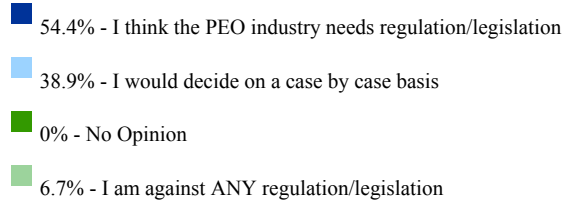
2005 Critical Issues Survey

2005 CRITICAL ISSUES SURVEY – REQUIRED QUESTIONS

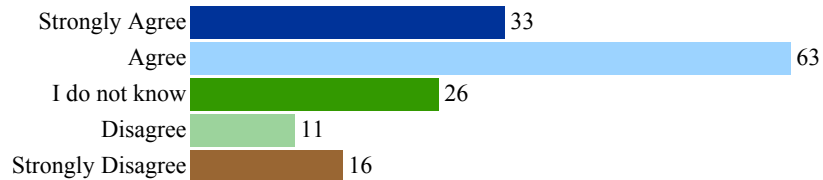
Which of the follow **BEST DESCRIBES** your stance on regulation/legislation in general?



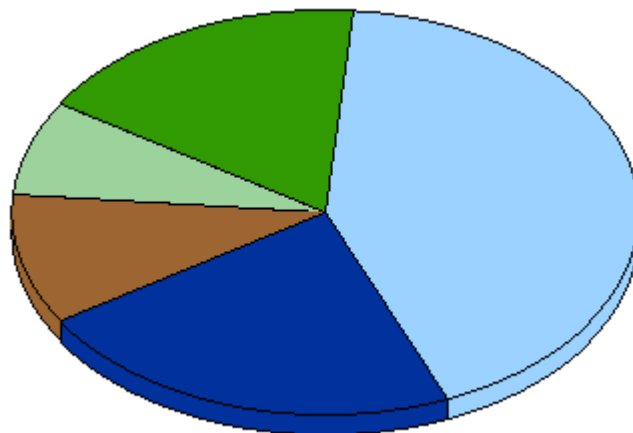
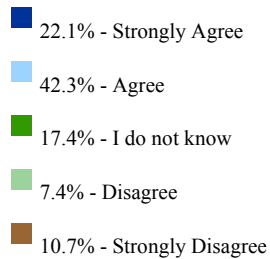
Percent Distribution



NAPEO has created the Model PEO Legislation Bill for each State to adopt. (current version available on www.peonetwork.com or members only page of www.napeo.org)

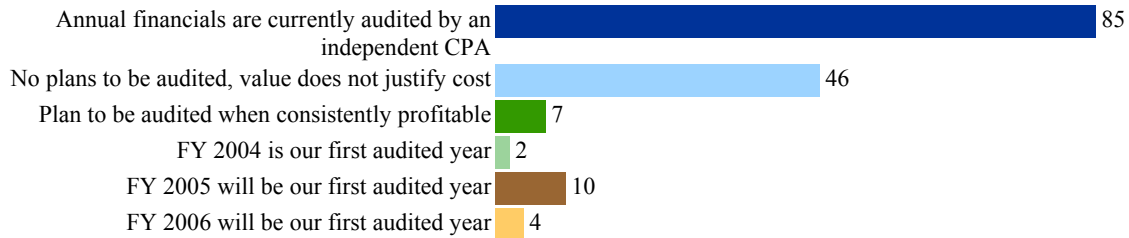


Percent Distribution



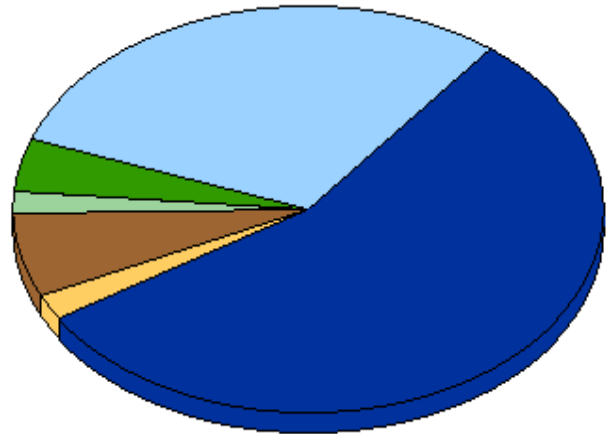
2005 Critical Issues Survey

One of the major objections of regulation is the issue of "audited" financials. Check ALL of the following statements that apply with respect to your PEO's year-end financial statements:

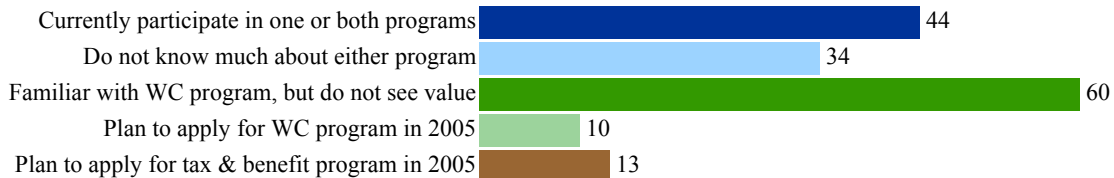


Percent Distribution

- 55.2% - Annual financials are currently audited by an independent CPA
- 29.9% - No plans to be audited, value does not justify cost
- 4.5% - Plan to be audited when consistently profitable
- 1.3% - FY 2004 is our first audited year
- 6.5% - FY 2005 will be our first audited year
- 2.6% - FY 2006 will be our first audited year

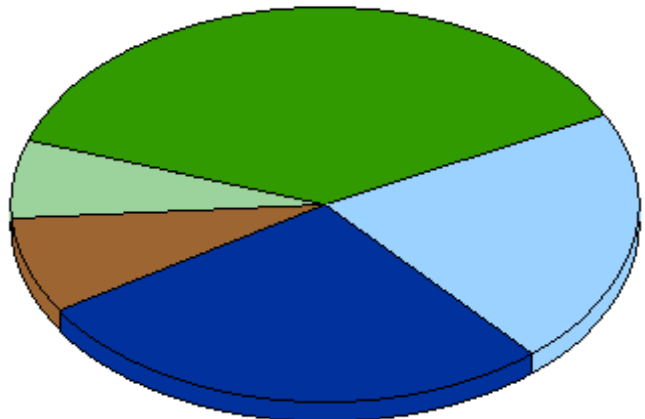


Check ALL of the following statements that apply with respect to your PEO and the Certification Institute's WC risk management certification (<http://www.certificationinstitute.org/PEOCertWC>) and tax & benefit payment certification (<http://www.certificationinstitute.org/PEOCertTax>):



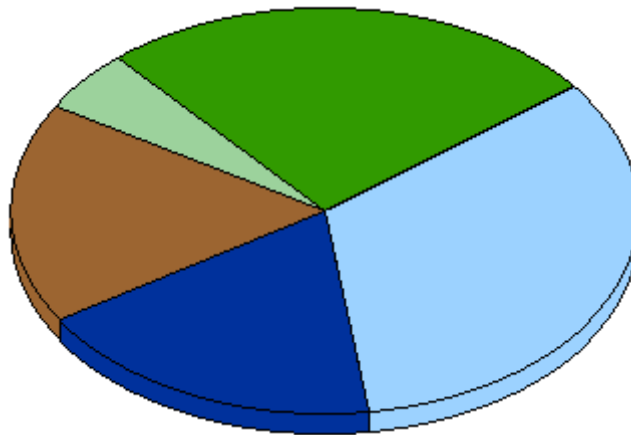
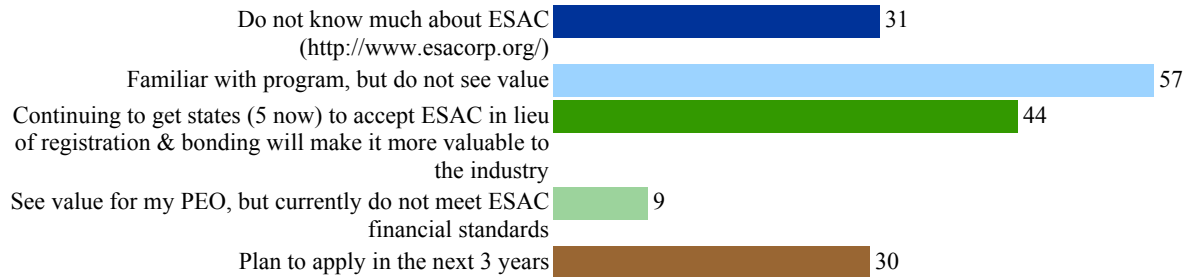
Percent Distribution

- 27.3% - Currently participate in one or both programs
- 21.1% - Do not know much about either program
- 37.3% - Familiar with WC program, but do not see value
- 6.2% - Plan to apply for WC program in 2005
- 8.1% - Plan to apply for tax & benefit program in 2005



2005 Critical Issues Survey

Check ALL of the following statements that apply with respect to your PEO and the Employer Services Assurance Corporation (ESAC):



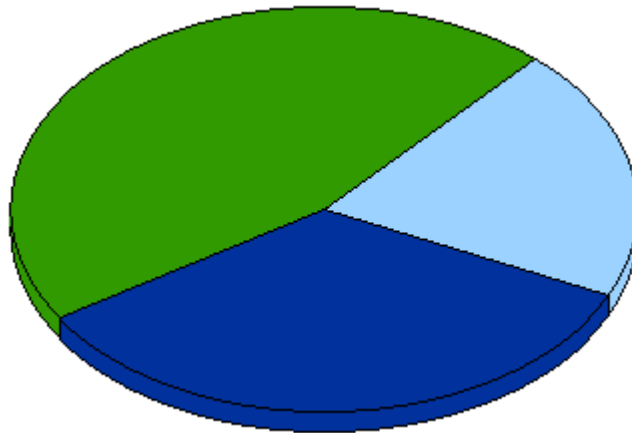
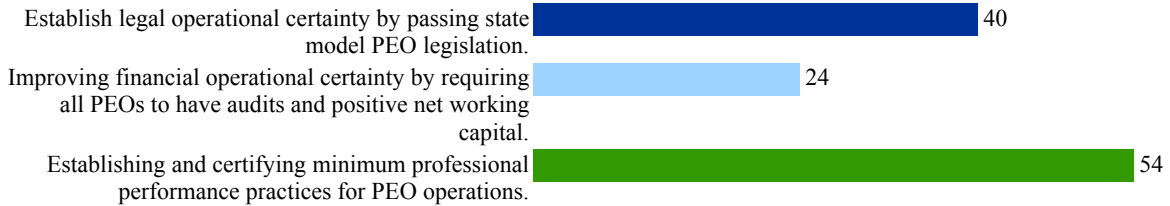
Percent Distribution

- 18.1% - Do not know much about ESAC (<http://www.esacorp.org/>)
- 33.3% - Familiar with program, but do not see value
- 25.7% - Continuing to get states (5 now) to accept ESAC in lieu of registration & bonding will make it more valuable to the industry
- 5.3% - See value for my PEO, but currently do not meet ESAC financial standards
- 17.5% - Plan to apply in the next 3 years

2005 Critical Issues Survey

2005 CRITICAL ISSUES SURVEY – OPTIONAL QUESTIONS

How can the PEO industry best improve relationships with vendors (healthcare, workers' comp, and other providers)?

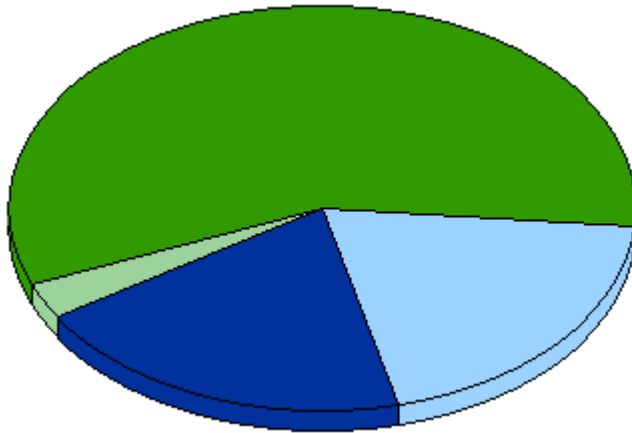
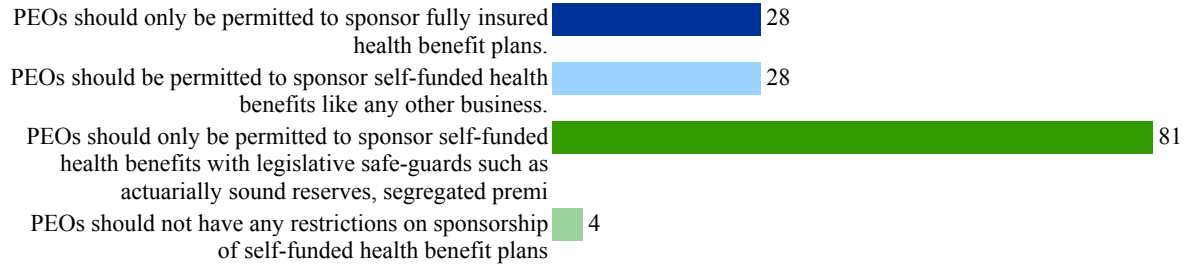


Percent Distribution

- 33.9% - Establish legal operational certainty by passing state model PEO legislation.
- 20.3% - Improving financial operational certainty by requiring all PEOs to have audits and positive net working capital.
- 45.8% - Establishing and certifying minimum professional performance practices for PEO operations.

2005 Critical Issues Survey

The most vocal industry complaints have been related to failed PEO sponsorship of self-funded health benefit plans. What is your opinion regarding PEOs sponsoring self-funded health benefit plans?

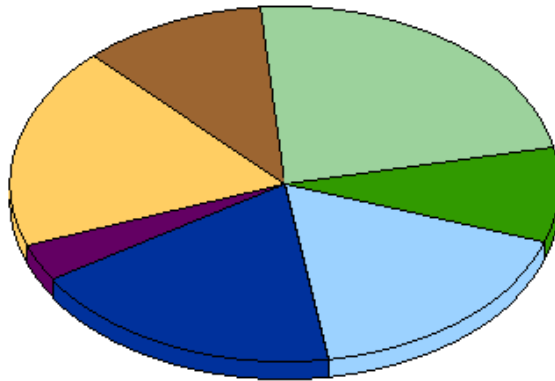
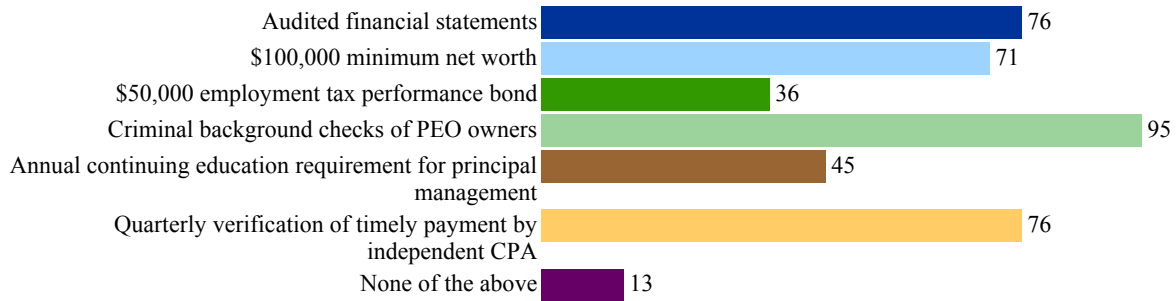


Percent Distribution

- 19.9% - PEOs should only be permitted to sponsor fully insured health benefit plans.
- 19.9% - PEOs should be permitted to sponsor self-funded health benefits like any other business.
- 57.4% - PEOs should only be permitted to sponsor self-funded health benefits with legislative safe-guards such as actuarially sound reserves, segregated premi
- 2.8% - PEOs should not have any restrictions on sponsorship of self-funded health benefit plans

2005 Critical Issues Survey

There is significant conversation about raising the bar for PEOs. Identify the practices you believe should be adopted for PEOs. (check ALL that apply)

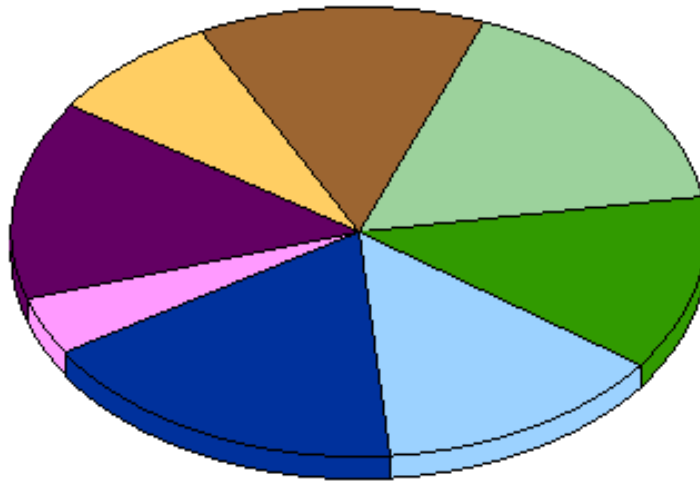
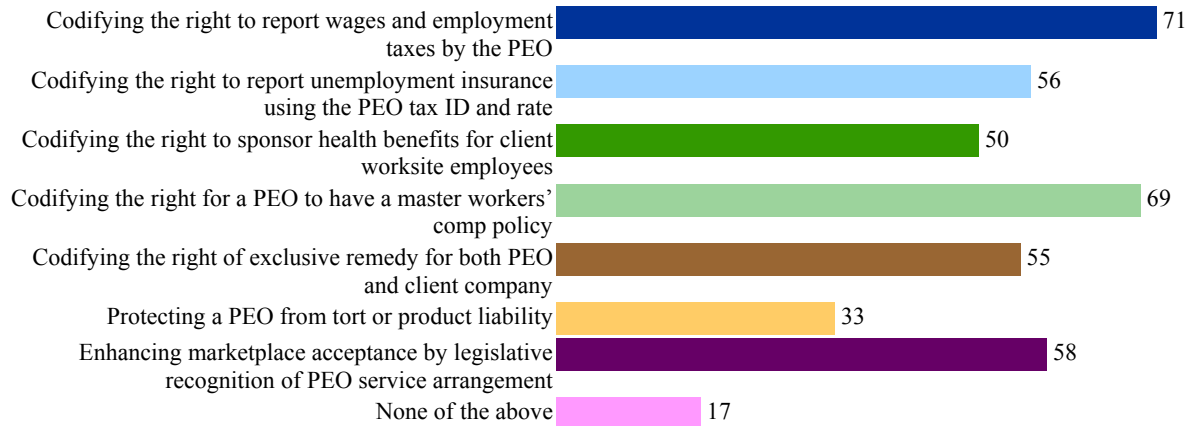


Percent Distribution

- 18.4% - Audited financial statements
- 17.2% - \$100,000 minimum net worth
- 8.7% - \$50,000 employment tax performance bond
- 23.1% - Criminal background checks of PEO owners
- 10.9% - Annual continuing education requirement for principal management
- 18.4% - Quarterly verification of timely payment by independent CPA
- 3.2% - None of the above

2005 Critical Issues Survey

Check the 3 most important benefits from passing NAPEO's PEO model bill in your state



Percent Distribution

- 17.4% - Codifying the right to report wages and employment taxes by the PEO
- 13.7% - Codifying the right to report unemployment insurance using the PEO tax ID and rate
- 12.2% - Codifying the right to sponsor health benefits for client worksite employees
- 16.9% - Codifying the right for a PEO to have a master workers' comp policy
- 13.4% - Codifying the right of exclusive remedy for both PEO and client company
- 8.1% - Protecting a PEO from tort or product liability
- 14.2% - Enhancing marketplace acceptance by legislative recognition of PEO service arrangement
- 4.2% - None of the above

2005 Critical Issues Survey

Based on the 2003 versus 2000 Census conducted by PEO Network, there are approximately 40% fewer PEOs. Does the industry need two associations? Check the box that best represents your opinion.



Percent Distribution

- 50% - NAAS and NAPEO should merge
- 35.5% - We should keep two separate associations
- 14.5% - Neither

