



**White Paper:
Someone Else's Employee**

An Analysis Of
The Forces Driving
The Contract Employment Industry

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An Analysis Of The Forces Driving The Contract Employment Industry

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Summary

Perhaps the fastest growing segment of the American workforce is a distinct class of temporary workers called *contract employees*. Contract employees are highly skilled and highly compensated temporary workers employed by various types of staffing agencies and other third-party employers of record.

For a variety of valid reasons companies want their independent contractors to go through an employer of record, but going through a traditional staffing agency disenfranchises contract professionals from the benefits of self-employment, limits them to mediocre health and retirement benefits, and seriously eats into their potential earnings.

Beginning with the premise that the IRS and other government agencies have an overriding bias that *every worker in the United States would be someone else's employee*, I trace the cascade of causality that has led to the situation we have today in which independent contractors are systematically stripped of their independence.

This process converts independent contractors into contract employees who are then forced to work for greedy and avaricious staffing agencies in order to qualify for contract assignments at client companies.

In the concluding paragraphs of this white paper I show how contract professionals can avoid the oppressive influence of predatory recruiting firms, and regain control over their consulting careers, even in those situations where the client company wants them to be *someone else's employee*.

Introduction

"If the IRS and other government agencies had their way, every worker in the United States would be someone else's employee."

The Contract Employee's Handbook

This fundamentally true statement, and the steps that government agencies take to promote this point of view, have profoundly shaped the contingent workforce in America to the detriment of both contract professionals and the client companies that engage them.

In this article I will first look at the reasons why government agencies want you to be "someone else's employee".

Second, I will discuss the effects of this point of view on client companies, and the steps they have taken to protect themselves from the potentially devastating consequences of reclassification of independent contractors by the IRS and other government agencies.

Third, I will explain how the staffing industry has responded to this situation, and the reasons why their response has been harmful to both contract professionals and to the client companies that engage them.

Finally, I will propose a humane and empowering alternative to the status quo that is easily implemented by both contract professionals and client companies.

Government Agencies Prefer Employees

Entitlements and workplace issues – Government agencies, including the Internal Revenue Service (IRS), U.S. Department of Labor (DOL), Immigration and Naturalization Service (INS), State Departments of Employment, Workers Compensation Departments, State Labor Departments, the U. S. Equal Employment Opportunity Commission (EEOC), and the Occupational Safety and Health Administration (OSHA) make it their business to make sure that all workers are properly registered for public entitlements and that they are protected by rules and regulations governing the workplace. These regulations apply to regular employees. They do not, for the most part, apply to independent contractors.

Payroll and income tax withholdings – Additionally, many federal, state, and local agencies assess payroll taxes and income taxes. It is easier and far more reliable to collect payroll taxes and income tax withholdings from fewer, larger, experienced employers than from a much greater number of independent contractors. Most independent contractors are one-person operations that spend their productive time selling their services. They are not particularly adept at bookkeeping and calculating taxes.

Thus, there is a strong bias in favor of having taxes collected by employers. Another name for employer might as well be “tax collector” because collecting and paying taxes on your behalf is what makes someone who pays you an employer and not a client. In fact, one can argue that employers are tax collectors first, and businesses second in the eyes of most government agencies.

Common law factors define employees – Several government agencies, most notably the IRS, have established guidelines, or “common law factors”, that establish criteria for determining whether individual workers are fully compliant independent contractors and not simply de

facto employees of the client company. The common law factors relating to employment status universally address the issue of control.

What is “control”? – Employers control the work of employees. They do not control the work of independent contractors. When the IRS conducts an audit of employee status, the auditors look for evidence of control. The IRS training manual published in 1996 puts it this way:

“Following the common law standard, the employment tax regulations provide that an employer-employee relationship exists when the business for which the services are performed has the **right** to direct and control the worker who performs the services. This control refers not only to the result to be accomplished by the work, but also the means and details by which that result is accomplished. In other words, a worker is subject to the will and control of the business not only as to **what** work shall be done but also **how** it shall be done. It is not necessary that the business actually direct or control the manner in which the services are performed; it is sufficient if the business has the **right** to do so.” *Independent Contractor or Employee? IRS Training Course 3320-102(10-96), pg. 2-3.*

You can download the entire 160 page-training manual at the IRS web site: http://www.irs.ustreas.gov/prod/bus_info/training.html.

In a 1987 Revenue Ruling [87-41, 1987-1 CB 296], the IRS devised a list of twenty “common law” factors to help companies and IRS agents determine the tax status of individual workers. The 1996 IRS training manual trimmed that list to eleven factors organized in three areas of control.

- **Behavioral control:** The right to direct or control how the work is done.

- **Financial control:** The right to direct or control how the business aspects of the worker's activities are conducted.
- **Relationship of the parties:** How the parties perceive their relationship.

In addition to government agencies, also the courts invoke common law to distinguish between independent contractors and employees. *The IRS, Independent Contractors and You!*, 1993, <http://www.workerstatus.com/>, a book by tax attorney James R. Urquhart III, lists 51 common law factors that have figured in court cases and appeals. Nevertheless, the courts are not limited to any given list of factors, but rely on the totality of the evidence before them. The result is a system that is arbitrary at best, if not utterly capricious.

Companies Must Protect Themselves

The burden of proof is on the employer – The burden of proof is on each company, the employer, to show unequivocally that an independent contractor is not their regular employee. It is not enough that both the contractor and the client agree on independent contractor status.

If it looks like a duck – If the worker looks like an employee, walks like an employee, and quacks like an employee, the IRS will attempt to reclassify the worker as an employee. Independent contractors, and employees of independent contractors, must look, walk, and quack like independent contractors, and avoid any appearance that they are really employees of their client.

Enormous risk to employers – In other words, a company that hires an independent contractor is considered guilty until proven innocent. The overwhelming bias of the IRS is to classify all workers as employees until the company can prove otherwise. Even if the company ultimately wins in tax court, the negative financial consequences of the IRS

attempting to reclassify an independent contractor can be devastating. If the company loses an audit because the worker is found to be a regular employee of that company, the IRS can go after thousands of dollars in back taxes and penalties - up to and exceeding an amount equal to 41% of the money already paid to each reclassified "independent contractor."

The IRS is much more aggressive toward employers than toward reclassified independent contractors because, quite frankly, employers represent a higher potential return to the IRS. At best, the most that the IRS will collect from a reclassified contractor is the tax on disallowed business expenses.

It's not always the company's fault - It's easy to put all the blame for reclassification in the lap of the IRS and other government agencies, but self-employed independent contractors can themselves pose a significant risk to their client companies.

When the contractor wants to be an employee - Contractors can precipitate an IRS audit when they decide it is in their best interest to be an employee rather than an independent contractor. What makes this so dicey is the inherently hostile alliance of a self-righteous worker with an aggressive government agency. This might happen, for example, when an out-of-work contractor decides to file an unemployment claim against a former client. Independent contractors can pay unemployment insurance on themselves, but virtually none do. If the State Department of Employment decides that an out-of-work contractor really was an employee of the client all along, it will alert the IRS to collect back taxes from the client for Federal unemployment insurance, and this will trigger a wider audit involving Federal and State withholding taxes as well.

Another risk arises when a contractor is injured on the job and files a worker's comp claim or state disability claim against a client company. Carpal tunnel syndrome and back problems are common ailments in technical and professional work environments. Worker's comp covers

employees. It rarely covers independent contractors. In some states, as in California for example, individuals who are also independent contractors can take out state disability insurance on themselves, but, again, virtually none do.

There is also the risk that a contractor might damage a client company's property or the property of others, or injure an employee or visitor to the client company while on the job, or harm the company's business through willful negligence. Many independent contractors do not carry general liability insurance or errors & omissions insurance. If an insurance issue should arise the contractor may try to escape liability by claiming to have been an employee of the client all along.

Pressure to avoid using individual contractors – All of these factors place enormous pressure on companies to avoid using independent contractors if there is any question about their compliance with government guidelines.

Certainly there are circumstances that clearly indicate that a worker is an independent contractor, and there are circumstances that clearly indicate that a worker is a regular employee. But there is no bright line that distinguishes one from the other. Instead there is a vast gray area of ambiguity where no company should dare venture because the risks are just too great.

The solutions:

- Companies must make very sure that their contract workers comply fully with the various common law factors for independent contractors;

Or

- Make sure that each potentially noncompliant contract worker is in fact someone else's employee.

What's a company to do? – Companies can take some very simple steps to protect themselves from government reclassification of their independent contractors. Here are a few:

- Require that independent contractors have the following:
 - Limited liability company (LLC) or corporation business form.
 - Business license.
 - General liability insurance, and possibly professional liability (errors & omissions) insurance.
 - Proof of multiple clients during the year.
 - Marketing materials for the contractor's business, including business cards, brochures/flyers, professional web site.
- Require that company supervisors do the following:
 - Treat independent contractors as outside vendors, which of course they are.
 - Sign an independent contractor agreement (contract) with every independent contractor.
 - State project scope, requirements, and specific deliverables in a written contract, purchase order, or statement of work.
 - Specify conditions of completion in writing.
 - Suggest ways of accomplishing goals, but never specify how the work is to be accomplished.
 - Except as necessary to coordinate with on-site employees, allow contractors to work offsite and on their own schedule.
 - Establish a consistent policy of limiting the maximum duration of temporary contracts.

Independent contractors who want to qualify as IRS-compliant outside vendors should also follow these same guidelines.

Someone else's employee – But what's a company to do if the contractor is out of compliance, or if it is simply not practical to treat the contractor as an outside vendor? In such cases it is imperative that the contractor be the employee of a fully compliant independent contractor, that is, a third-party "employer of record." Instead of signing a contract with the individual contractor the company signs a contract with the contractor's employer of record.

Third-party employers of record meet the criteria of an outside vendor, and in doing so they mitigate the risks associated with hiring noncompliant independent contractors. Also, employers of record please the many government agencies that are concerned with entitlements, workplace issues, and the collection of payroll taxes and income taxes. That is to say, employers of record satisfy the overriding bias of government agencies that *"every worker in the United States would be someone else's employee."*

The Staffing Industry Response

Sharks to the rescue – Government pressure, particularly from the IRS, favoring reclassification of independent contractors became intense during the mid 1980s. It became increasingly dangerous for companies to engage the services of independent contractors, especially when those contractors were working side-by-side with a company's permanent employees.

The entire argument for third-party employers of record is based on the needs of the client company and not on the needs of the individual worker. This focus on the client has led to the disastrous situation we have today in which

contractors are viewed universally as second class citizens, more akin to migrant workers than to highly skilled professionals.

I believe that contract employees are treated so poorly because of two historical influences that are utterly contrary to the well being of contract employees:

- The influence of permanent placement recruiting firms.
- The influence of low-paying clerical and seasonal temp agencies.

How permanent placement recruiting firms work –

Permanent placement recruiting firms are undeniably client centered. Companies give them job orders to actively search for mid- to high-level professionals, managers and executives. Permanent placement recruiters are not cheap. They usually charge 25% to 30% of the new hire's first year's salary. It is a one-time charge, and there is no ongoing responsibility to the client beyond, possibly, a 90-day replacement guarantee.

Temp-to-perm – In the mid 1980's permanent placement recruiting firms introduced temp-to-perm (aka contract-to-hire) programs to their marketing arsenal. Companies could try out a new employee on a risk-free, pay-as-you-go basis without actually having to hire the individual. Over the years, temp-to-perm hiring has become increasingly popular, and in some companies it is the norm.

Temp-to-perm employees are typically billed out at an hourly rate equal to 1/1000th of the proposed annual salary. Roughly half of that, or 1/2000th of the proposed annual salary, is paid to the temp-to-perm employee as an hourly wage. During the trial period temp-to-perm employees receive no benefits.

By employing the contract worker, recruiting firms satisfy the client's need for a third-party employer of record. They also satisfy an important marketing need of their own by

maintaining an ongoing relationship with the client. This gives the recruiting firm continuous access to the client for both their permanent placement and contractor recruiting businesses.

Justifying the fee – It is difficult for permanent placement recruiting firms to pay their temp-to-perm employees more than 50% of the billing rate. Here is why. To begin with, permanent placement recruiting firms apply the same 30% commission structure to their temp-to-perm placements that they also apply to their permanent employee placements.

But, as third-party employers of record they also have additional costs associated with processing payroll. They must pay the employer's share of payroll taxes, including Workers Compensation, Unemployment, Social Security, and Medicare, plus General Liability and Errors & Omissions insurance. These total about 15% of gross wage. Additionally, there is administrative overhead and the cost of money to make regular payrolls in advance of client payments. This adds at least another 5%. Consequently, if you are a temp-to-perm employee who was placed by a recruiting firm, chances are that you are receiving no more than 50% of the billing rate as your W-2 wage.

Temp-to-perm employment is a terrific deal for recruiting firms and their clients, but from the contractor's perspective temp-to-perm employment through a permanent placement recruiting firm *sucks*.

Noncompliant independent contractors – Beginning in the mid-1980's, as the IRS became increasingly aggressive, employers began to discriminate against all independent contractors, even true consultants and one-person corporations. Employers desperately needed a fallback strategy to mitigate the risks associated with hiring noncompliant independent contractors. They found their salvation in traditional temp agencies.

The full-service contract employment agency, or contractor recruiting firm, is an outgrowth of the familiar temporary employment agency.

Scaled-up Temp Agencies – Companies hire clerical and seasonal temps to perform routine office chores, take inventory, do seasonal work, and fill in when various office staff are ill or on vacation. Before the rise of contract employment, temps were exclusively low-paid, hourly workers filling part-time jobs that seldom lasted more than a few days or weeks. Temp work was what you did to tide you over while you looked for that next real job. *Temping was not your career.*

Because client companies were already familiar with the traditional temp agency model, it was only reasonable to adapt that model to technical and professional contractors. The move was good for clients, and a boon to temp agencies, but it was a disaster for independent contractors.

Disenfranchised – Applying a scaled-up version of the temp agency model to independent contractors disenfranchised them from their own independence. Contractors lost their tax write-offs, they lost their participation in the contract negotiation process, they lost control over the rates they charged for their services, and as a final indignity they were reduced to the status of captive employee.

Consider also the matter of unconscionably high fees that are the norm among contract employment agencies. Ordinary temp agencies bill out their regular temps at only \$15 to \$25 per hour on assignments that last at most only a few days or weeks. Because marketing expenses and administrative overhead have to be recouped over a relatively short period, regular temp agencies have to take a large cut of the billing rate just to cover expenses and make a reasonable profit.

Massive windfalls – But contractors are not regular temps. They are highly paid career professionals who frequently accept assignments lasting months, even years.

Scaling up typical temp agency margins creates massive windfalls for contract employment agencies. Agencies make more money per placement owing to much higher billing rates, and they collect those high margins over a period of months, if not years, long after recouping their initial marketing costs.

Scaled up temp agencies earn an additional windfall when highly paid contractors on long assignments exceed the annual wage caps for Federal Unemployment taxes (\$7000), State Unemployment taxes (wage cap varies by state), and Social Security taxes (\$80,400 in the year 2001). Once the wage caps for these taxes are exceeded, the employer's share of payroll taxes drops by approximately 10% of gross wages, and the agency gets a big raise. Temp agencies love highly compensated contractors on long assignments.

Code of silence – Recruiting firms admonish both their contract employees and their client companies from discussing billing rates on the grounds that such information is proprietary. But that's just so much baloney. A hallmark characteristic of professional service providers is full disclosure of services and fees. When professional service providers withhold information about service fees they stifle the very competition that keeps quality high and costs low.

This is the real reason why recruiting firms maintain a "code of silence" about agency rates and fees. Agencies don't want client companies to know about the obscenely high margins they earn and the ridiculously low wages they pay to contract employees. And agencies especially don't want client companies to know that they are paying the agencies far too much for their contract workers.

When companies and contractors both know the agency margin they can both shop for the best possible deal. Competition will increase contractor's pay rates while simultaneously lowering what companies must pay for those contractors.

Fully loaded labor cost – The fully loaded labor cost for a full time employee equals the employee's annual salary plus all associated expenses such as payroll taxes, benefits, perks, training, network and computer equipment costs, software licenses, administrative overhead, and a long list of additional costs. On average, the fully loaded labor cost in a large corporation is approximately 1.3 to 1.5 times the annual salary.

By contrast, the fully loaded labor cost for an independent contractor is simply the contractor's hourly billing rate.

Our free market system ensures that the fully loaded labor cost of a full-time employee and the fully loaded labor cost of an independent contractor are approximately the same. If one goes up market forces send the other one up, and vice versa. In other words, over the course of a year a company will pay the same amount of money to support one full-time employee or one independent contractor with equivalent skills.

The general relationship is such that independent contractor billing rates stabilize at approximately 1/1000th of an equivalent employee's annual salary. This is called the divide-by-1000 rule of thumb. This means that if an employee earns an annual salary of \$100,000 then a staffing agency or an independent contractor doing the same job would have to bill \$100 per hour to break even.

Given the high margins charged by staffing agencies it is apparent that *a temp agency employee must necessarily earn significantly less than a full-time employee with similar skills.*

Bottom line – Placement firms, whether of the permanent placement variety or the contractor placement variety, are universally harmful to a contractor's career.

A Humane and Empowering Alternative

For a variety of valid reasons companies want their independent contractors to go through an employer of record, but doing so disenfranchises contractors from the benefits of self-employment, subjects them to mediocre health and retirement benefits, and seriously eats into their potential earnings. What's a contractor to do? Is there a humane and empowering alternative to predatory recruiting firms?

Break the ties that bind – At the root of the problem is the practice of *tying*. Recruiting firms tie the job matching function to the employer of record function. The up side of this arrangement is that recruiting firms help you locate contract assignments. The down side is that in order to take an assignment you must become their employee. Even if you succeed in retaining your status as an independent contractor, the recruiting firm still holds you captive by keeping you from signing a direct contract with the end user and by refusing to disclose what they are billing the client for your consulting services.

In most industries tying is an illegal restraint of trade – an anti-competitive practice. Unfortunately, tying is still tolerated in the technical and professional contracting industry. Staffing firms can get away with tying because, while the contractor is indeed a *customer* of the staffing firm, the contractor is also the firm's *employee*. Laws against tying are written to protect customers and clients, not employees.

Tying stifles career advancement – Staffing agencies use tying to isolate contractors from the very information they need to assess their careers. For example, staffing agencies invariably bar contractors from active participation in contract negotiations with the client. Most contractors never see the contract that defines the very conditions under which they must work.

Staffing agencies also use tying to keep contractors ignorant of their value on the open market. They don't want contractors to know how *much* they could be billing as independent contractors, and they certainly don't want contractors to know how *little* they are being paid in comparison with their actual worth.

Staffing agencies view contract employees as their *competitors*, and they view contract details and billing rates as *competitive information* to be protected at all costs. Staffing agencies use tying as a strategic tool to protect their "competitive information."

If contract professionals are to regain their independence they must split the entirely separate functions of job matching and employer of record. They must break the ties (pun intended) that bind them to traditional recruiting firms.

Only then will contractors be able to make reasoned decisions based on the quality of service and on price. They will be able to work with an agency based on value delivered rather than on who controls the information.

Stand-alone Job Matching

The value of money and the value of time – In an ideal world contractors would know how to market themselves to potential clients. Experienced contractors understand the value of money, and they understand the value of time. Spending a few days mining the Internet and working one's professional network in order to save \$40,000 per year in recruiter's fees is a very good example of how savvy contractors understand both the value of money and the value of time.

Use a marketing broker that works for you – If you absolutely must have someone else market your consulting services I recommend that you employ a marketing broker

who will work for you and not force you into an employment agreement as a condition of taking the assignment.

In other industries talented professionals use talent agents to market their services. Examples of talent agents are actors' agents, sports agents, literary agents, and musicians' managers. Typically, talent agents earn 10% to 15% of the talent's gross revenues. Talent agents work for the talented professionals they represent. Talent agents do not work for the production company, team owner, book publisher, or record label. That would be a conflict of interest.

Marketing brokers for contract professionals are virtually nonexistent, but if you hold firm to your principles you will find marketing firms and individuals who will arrange interviews for you and then back off from any further involvement, leaving you free to sign directly with your client company or select your own employer of record.

Contractor-friendly job boards – There are thousands of job boards on the Internet, but recruiting firms sponsor most of them. You can find a short list of contractor-friendly job boards in The Contract Employee's Handbook, <http://www.cehandbook.com/>, Appendix A: Resources for Contract Workers.

One job board that I particularly like is FlipDog.com, <http://www.flipdog.com/>. FlipDog.com has a sophisticated search engine that combs the career pages of company web sites. Most jobs retrieved by FlipDog are for full-time regular employment, but you can use the divide-by-1000 rule of thumb and go after the jobs on a contract-to-hire basis. You'll earn top dollar and get paid for every hour worked. If the client wants you to be someone else's employee you can use a pass-through agency or an umbrella service such as P.A.C.E. (see below). This strategy is described in a document called Setting Your Rates that you can download from the P.A.C.E. website, <http://www.pacepros.com/>.

The old-fashioned way – Do you remember when people got jobs the old-fashioned way, by applying directly to companies they wanted to work for? Applying directly to companies is still the best way to locate contract assignments. Moreover, clients want to hear from you. They do not like working with expensive recruiting firms any more than you do, and for mostly all the same reasons. Increasingly, companies are posting their jobs (both regular and contract) on their corporate web sites and on job boards like Monster.com and Headhunter.net.

It's up to you – There are lots of ways to land a contract assignment, and some of them are better than others. The worst way is to use a predatory recruiting firm. The best way is to locate contract assignments on your own. Ironically, most contractors use the worst way to land their contract assignments. Very few use the best way even though the difference in annual income can be tens of thousands of dollars.

For example, given a billing rate of \$100 per hour, and accounting for the employer's share of payroll taxes, the difference in gross earnings between the two extremes can be \$20 to \$35 per hour.

Even if you bill only 1600 hours a year, the difference can be \$32,000 to \$56,000 per year, all of which goes into the pockets of your recruiting firm unless you market your contract services directly to client companies. It sounds like a no-brainer to me. What do you think?

Bottom line – When you control the job-matching function you also control what you earn.

Stand-alone Employer of Record

A kinder, gentler employer of record – Your reward for locating a contract assignment on your own is that you have the freedom to work under your own terms. You will *always* know the billing rate and contract terms because you will have personally negotiated them.

If you want or need an employer of record you have the freedom to shop for one that treats you like a real customer and not as some form of high tech migrant worker. The best employers of record are pass-through agencies and umbrella services.

Although some recruiting firms also offer a stand-alone employer of record service, contractors who locate their own assignments should avoid using recruiting firms as their employer of record. Do not lose sight of the fact that recruiting firms represent the client. Not only do recruiting firms charge more than pass-through agencies, but also their loyalty is in the wrong place.

Pass-through agencies – Pass-through agencies are like regular temp agencies in every respect, except that they omit the job-matching function. They don't have commissioned headhunters, so they are able to take significantly less off the top than a recruiting firm. Pass-through agencies take between 20% and 25% off the top of the billing rate to provide you with a W-2 wage. In contrast, recruiting firms take between 35% and 50%.

Umbrella services – Umbrella services combine the freedom of contract employment, the financial advantages of self-employment, and the benefits infrastructure of corporate employment in one program. The umbrella service business model is rapidly gaining favor as the ideal employer of record. Umbrella services offer better benefits than generic pass-through agencies, and they charge less.

Professional Association of Contract Employees – The Umbrella service offered by P.A.C.E. provides a compelling alternative to traditional staffing agencies with their high

margins and mediocre benefit packages. The unique P.A.C.E. business model is designed from the bottom up to benefit both contract professionals and the client companies that engage them.

Benefits to the Contract Professional

Lower Cost and Higher Earnings – P.A.C.E. contractors earn at least 85% of the billing rate after P.A.C.E. deducts its 5% service fee and the employer's share of payroll taxes. In sharp contrast, agency temps seldom earn more than 65% of the billing rate, and often they earn less than 50%.

P.A.C.E. contract professionals locate assignments without the assistance of a placement agency, and they bill on average \$10,000 per month. This means that the average P.A.C.E. contractor earns between \$2,000 and \$3,500 per month more than an equally skilled agency temp.

Simplicity of W-2 Tax Status – P.A.C.E. provides a “virtual back office” for contract professionals. P.A.C.E. processes time sheets, invoices the client, collects receivables, processes payroll, administers benefits, pays withholding and payroll taxes, and issues an IRS Form W-2 at the end of the year. Self-employed independent contractors must deal with complex tax and reporting issues. P.A.C.E. contractors, on the other hand, file their taxes as easily as any other corporate employee.

Continuity of Employment – P.A.C.E. contractors enjoy continuity of employment with an established corporation, making it relatively easy to qualify for big-ticket credit items such as a home loan or auto lease. Financial institutions are much less inclined to extend the same level of credit to self-employed, independent contractors and agency temps. Continuity of employment also means that P.A.C.E. contractors escape the tyranny of repeated COBRA rollovers for their health insurance, and they avoid

repeated disruptions to their retirement savings that typically plague agency temps. Continuity of employment means continuity of health, dental, and retirement benefits.

Superior Health and Dental Benefits – P.A.C.E.

contractors enjoy health and dental benefits that are far superior to those offered by traditional recruiting firms and placement agencies. Contractors qualify for group health and dental insurance after their first full month on the job. P.A.C.E. also reimburses its contractors with tax-free dollars for out-of-pocket medical expenses, including private insurance premiums, co-pays, and deductibles up to 10% of gross wages.

Incredible Retirement Plan – The P.A.C.E. 401(k)

Retirement Savings Plan is an extremely aggressive, 100% self-directed, retirement savings program designed for highly compensated employees. It is unexcelled by any employer of record service in the country. P.A.C.E. contractors may contribute pre-tax dollars equal to 25% of gross earnings up to \$30,000 per year into a Charles Schwab Personal Choice Retirement Savings account. There is no waiting period to qualify, and contributions are immediately vested.

P.A.C.E. contractors have the freedom to customize their retirement portfolio as they choose by investing in any and all publicly traded stocks, bonds, and mutual funds, of which 1100 are no load and have no transaction fee. P.A.C.E. contractors have virtually the same investment options as a retail brokerage client of Charles Schwab & Co. No other retirement account offers a greater choice of investment options.

Reimbursed Expenses – P.A.C.E. reimburses its contractors with tax-free dollars for a wide range of out-of-pocket expenses. Qualified expenses include travel, business promotion, cell phone, modem lines, ISP, phone calls, training, personal health and disability insurance payments, dependent child care, home office supplies, computer equipment and expensive software (through our

leaseback program), per diem and auto allowance while on temporary, remote assignments, and virtually any other work-related expense that an independent contractor would otherwise claim on IRS 1040 Schedule C.

Freedom From Outside Control – P.A.C.E. contractors enjoy the same professional freedom experienced by self-employed, independent contractors. P.A.C.E. contractors choose when, where, and for whom they will work. They set their own billing rates, and they negotiate their own contract terms.

Benefits to the Client Company

Risk Mitigation – P.A.C.E. mitigates the risks associated with hiring noncompliant independent contractors by serving as the contractor's employer of record. P.A.C.E. does all invoicing, collections, payroll, & benefits administration. P.A.C.E. carries General Liability and Errors & Omissions Insurance on all contractors, and covers them for Workers Compensation and Unemployment Insurance. At the end of the year P.A.C.E. issues IRS Form W-2 to every P.A.C.E. contractor.

Reduced Cost of Hire – P.A.C.E. charges far less than traditional temp agencies to convert noncompliant independent contractors to W-2 status. To arrive at P.A.C.E.'s corp-to-corp billing rate simply divide the independent contractor's 1099 billing rate by 95%. Companies that partner with P.A.C.E. get more contractor for their contracting buck.

Attract and Retain Experienced Contract Professionals – Companies that partner with P.A.C.E. are better equipped to attract and retain experienced contract professionals. Highly compensated contract professionals appreciate the opportunity to work through P.A.C.E. as their employer of record. A happy contractor is a dependable contractor, and P.A.C.E. contractors are very happy, indeed.

Benefits to the Small Consulting Firm

A **competitive advantage** – Umbrella services are well suited to help small consulting firms and entrepreneurial ventures get their businesses off the ground. Small businesses generally lack the resources and in-house expertise to offer decent benefits and high wages to their workers. This puts the small business at a competitive disadvantage in the battle for talented workers.

By outsourcing the entire HR function to P.A.C.E. a small business can afford to compete for talent against much larger and more established enterprises. The small business competes by offering every member of its team an executive level benefits package designed specifically for highly compensated contract workers, and by insuring that those contract workers earn through P.A.C.E. significantly more than they would earn through a generic staffing firm.

Imagine a successful Cobol programmer who is building a team of experts to web-enable very large legacy databases. He might have done very well as an independent contractor, but now he must lead his team and manage an incredibly complex project. Does he also have the time, energy, and resources to process payroll and administer a comprehensive benefits package? What can he offer to attract and retain talented workers?

Imagine similar challenges facing the sole proprietor of a small custom software house, or the employee of a one-person corporation who is also the founder of an upstart network integration service.

P.A.C.E. helps small consulting firms and entrepreneurial ventures grow their nascent businesses and survive in a highly competitive and risky marketplace.

P.A.C.E. is the *humane and empowering alternative* to the status quo that is easily implemented by both contract professionals and the companies that engage them.

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About the author – James R. Ziegler, Ph.D. writes extensively on issues affecting contract professionals. He directs the **Contract Employee's Project** consisting of The Contract Employee's Handbook, The Contract Employee's Newsletter, The Contract Employee's Workshop, and P.A.C.E. Send e-mail to ziegler@pacepros.com.

About P.A.C.E. – P.A.C.E. offers its employer of record service nationwide. The P.A.C.E. website is at <http://www.pacepros.com/>. The Contract Employee's Handbook is at <http://www.cehandbook.com/>.

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