

2637

Five Pine Ridge Plaza
8345 Lenexa Drive, Suite 100
Lenexa, KS 66214

AXCET HRSOLUTIONS

Outsource | One Source | Resource

1.800.801.7557 | 913.383.2999

Fax 913.383.2949

www.axcethr.com

Mr. Chairman and Committee Members:

My Name is Jerry Diddle and I am the president and owner of Axcet HR Solutions. I'd like to thank you all for giving me this opportunity to discuss the issues at hand today and to provide you with some information regarding Axcet HR Solutions.

Axcet HR Solutions is a Professional Employer Organization commonly referred to as a PEO. I'd like to take a few minutes to explain our business and how we help other businesses grow and prosper.

Axcet has been in business since 1988. We are headquartered in Lenexa, KS. We have served over 500 small to medium sized employers during our existence. The majority of our clients are domiciled in the Kansas City metro area. Approximately 50% of those clients are domiciled in the state of Kansas. Due to our clients having employees in other states, we are actually a registered employer in over 35 states. Axcet currently co-employs several thousand people. We are the largest privately held PEO in Kansas.

Prior to 1988 I was selling restaurant franchises. During this time I met with people who were truly passionate about starting their own business. They knew they were taking a tremendous risk, but they knew that risk would pay off because they were willing to work hard and could provide a service or product to the marketplace. What most of these people soon realized is that they were spending a great deal of time and energy in areas that didn't really help their business grow and prosper. They found they were dealing with issues that come from just having "employees". These issues ranged from employee recruitment and performance issues to benefit procurement, work place injuries, government compliance with FMLA, OSHA, EEOC etc. They quickly realized they did not have the knowledge and experience to deal with these types of issues in an effective manner. They also knew they couldn't afford to hire additional staff members to manage all these issues. But they knew they had to do something, otherwise their business could be at risk. Based on this insight, I started Axcet HR Solutions. I knew that our program could provide expertise to business owners in the 4 key areas of:

- Human Resources
- Employee Benefits
- Risk Management and Employee Safety
- Payroll Administration

Supporting these areas would allow the owner to refocus their passion and better use their time and energy to grow the business. Business owners would be able to tap into

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Development Committee

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highly specialized and experienced people at a cost factor that they could not duplicate on their own.

I would like to take a little bit of time to further explain Axcet's key service offerings.

Human Resources

For most businesses your employees can be your greatest asset. They can also be the greatest liability. Axcet helps our clients create a culture that maintains positive and productive relationships with their employees. Axcet helps clients develop recruitment strategies to attract and retain employees. We assist clients in being compliant with the multitude of federal, state and local regulation such as: FMLA, Title VII, FLSA and ADA. We assist clients in development of employee handbooks and policies. Axcet assists in investigation of workplace harassment and other grievance issues. We provide support for supervisors to resolve employee performance and disciplinary issues.

Benefits

One major factor in small business is the ability to recruit and retain talented people. Partnering with Axcet allows our clients to offer their employees a benefits package that is similar to packages offered by Fortune 500 companies. The ability to offer such a robust benefits package allows Axcet's clients to compete for the best employees in the market place. This is something small employers simply could not do on their own. Axcet's benefit package includes:

- Health Insurance
- Dental Plan
- Vision Plan
- Retirement Plans
- Flexible Spending Accounts
- Life Insurance
- Disability Insurance
- Employee Assistance Program

Payroll Administration

Axcet provides payroll processing services including payroll tax reporting and filing. We handle everything from calculation, filing, and payment of all federal, state, and local taxes, as well as the preparation and distribution of annual W-2 forms.

All of these key areas can be complex and they require highly experienced and knowledgeable people to manage them. Axcet provides these services and many more to our clients.

Regarding our Risk Management and workers compensation insurance program which is germane to the legislation before you today:

Risk Management

Axcet believes employee safety goes beyond a worker's compensation insurance policy. Axcet's risk management philosophy and program is designed to help clients prevent work place injuries from occurring by creating a safer work environment that is free from hazards. We work with our clients to identify their exposures and build a program to manage those exposures. There are many components to creating a safe work environment including but not limited to: a written safety program, OSHA compliance and safety training for employees. This type of service goes beyond any loss prevention services a small to medium employer could expect from a typical insurance carrier.

When all these components are working together, both the employer and employees benefit from the safer work environment.

Despite our best efforts and our client's best efforts, injuries do occur in the workplace. When that happens, Axcet's workers' compensation policy pays for the medical and indemnity benefits.

That brings us to the proposed legislation before you. Since opening the business in 1988, Axcet has always operated under a master workers' compensation policy. Axcet has operated under a master workers' compensation policy with our current carrier (Lumbermen's Underwriting Alliance) since 2001. Needless to say, Axcet was pretty surprised to learn that legislation had been passed which would require a Multiple Coordinated Policy (MCP) structure. The new MCP requirements have created undue administrative issues and expenses. Instead of managing one policy, Axcet is forced to manage over 50 separate policies. When meeting with the Kansas Insurance Department to discuss the new requirements, they indicated the MCP structure was necessary to prevent "Mod Washing" from occurring. "Mod Washing" is a term used to describe a situation where a client company with a high experience rating partners' with a PEO for several years and once enough time has passed they are able to leave the PEO relationship and establish a new 1.0 experience mod. This is a practice that occurred in the early days of the PEO industry. Basically, PEO's were able to sell their services by showing tremendous savings in workers' compensation costs because the PEO mod was often lower than the prospect's mod. However, this approach was not sustainable because bad risks on the policy would cause losses to increase which would increase the PEO's mod. Once the PEO's mod increased, the client company could exit the PEO relationship and establish a new mod of 1.0 and could find cheaper work comp insurance in the market. Needless to say the biggest loser in this situation was the workers' compensation carrier. The carrier was taking on risk at premium level that would not support the losses.

"Mod Washing" no longer takes place in today's PEO industry. Worker's compensation carriers are more sophisticated and knowledgeable about the PEO industry. In fact there are only a handful of carriers who will write work comp policies for a PEO.

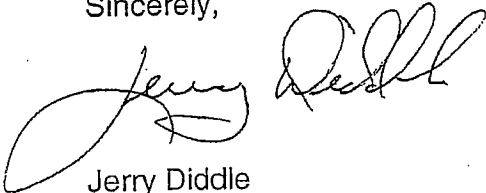
Additionally, the NCCI developed a mechanism to promulgate the client's experience mod when they leave a PEO relationship. A PEO or carrier simply fills out a form (NCCI Form NC2745) which contains specific payroll and loss data for the client company. The NCCI uses this information to promulgate a new mod specific to the client company. This insures that the next carrier can price the workers' compensation policy according to the individual client company's payroll and loss history.

Since "Mod Washing" no longer exists and there are mechanisms in place to promulgate new mods when a client leaves a PEO relationship, the new MCP requirements seem to fix a problem which hasn't existed for quite some time.

With that in mind, I ask you to consider this new legislation which will allow PEO's to continue to operate under a master policy system, which in turn will allow small to medium sized businesses to cost effectively access the services of a PEO.

Thank you for your time. I'd be happy to answer any questions you have regarding my comments today.

Sincerely,

A handwritten signature in black ink, appearing to read "Jerry Diddle". The signature is fluid and cursive, with a large loop at the end of the last name.

Jerry Diddle
President
Axcet HR Solutions