

PART 16

# STAFFING / EMPLOYER OF RECORD (EOR)

## Gross Margin on Spread and the Human Capital Intermediary

Staffing vs. EOR financial distinction, spread decomposition into all employer costs, workers' compensation experience rating and e-mod management, FICA modeling by wage level, FUTA and SUTA state-by-state comparison, payroll funding float and AR facility mechanics, ACA employer mandate compliance and cost analysis, temp-to-perm conversion fee recognition, co-employment and joint employer risk, EPLI coverage, ASC 606 gross vs. net for staffing, and the complete staffing metrics framework.

**SECTION 1**  
**THE STAFFING AND EOR MODEL**

# Staffing and Employer of Record: The Human Capital Intermediary

The staffing and Employer of Record business is the human capital intermediary of the modern economy. Staffing firms place temporary, contract, and direct-hire workers with client companies. Employer of Record (EOR) providers go further: they become the legal employer of workers who functionally work for client companies, handling payroll, benefits, taxes, and compliance on behalf of the client. Both models sit between the worker and the ultimate employer, and both derive their revenue from the spread — the difference between what the client pays for the worker's services and what the staffing firm pays the worker.

The financial architecture of the staffing business is deceptively simple at its surface — bill rate minus pay rate equals gross margin — and extraordinarily complex in practice. The gross margin must absorb payroll taxes (FICA, FUTA, SUTA), workers' compensation insurance (which varies dramatically by state and job classification), health benefits (if offered), and the overhead of running the staffing operation itself. The CFO who understands all the costs embedded in the spread — not just the obvious ones — is the CFO who can price profitably, manage risk, and grow the business without destroying margin.

## 1.1 Staffing vs. EOR: The Financial Distinction

Dimension	Traditional Staffing	Employer of Record (EOR)	CFO Implication
Legal employer	Staffing firm (for temp/contract)	EOR provider (for all placed workers)	EOR has broader compliance obligation
Revenue model	Bill rate x hours; perm placement fee	Employer fee % + payroll pass-through	EOR revenue presentation: gross vs. net
Gross margin range	12%–25% of bill rate (staffing)	3%–8% of gross payroll (EOR)	Very different margin profiles; different scale needed
Workers' comp risk	Borne by staffing firm	Borne by EOR	Critical cost variable; varies by classification

Dimension	Traditional Staffing	Employer of Record (EOR)	CFO Implication
Benefits liability	Variable; depends on ACA threshold	EOR is ACA employer; must offer benefits	Significant cost; affects pricing
Co-employment risk	Shared with client company	Reduced (EOR is legal employer)	EOR model reduces client's legal exposure

## SECTION 2

## THE STAFFING GROSS MARGIN

## Gross Margin on Spread: Deconstructing the Bill-Pay Difference

The staffing gross margin is the difference between what the client pays (the bill rate) and what the worker receives (the pay rate), minus all employer-side costs that the staffing firm incurs on behalf of the placed worker. This spread is not profit — it is the gross margin from which overhead and profit must be generated. Understanding every component of the spread and how it varies by worker classification, state, and benefits structure is the foundation of staffing financial management.

### 2.1 The Spread Decomposition

**STAFFING GROSS MARGIN DECOMPOSITION**

Bill Rate (charged to client):	\$52.00/hr	100%
Less: Pay Rate (paid to worker):	(\$38.00/hr)	73%
= Raw Spread:	\$14.00/hr	27%
Less: Payroll Taxes (employer side):		
FICA (Social Security 6.2% + Medicare 1.45%):	(\$2.94/hr)	5.65%
FUTA (Federal Unemployment; 0.6% on first \$7K):	(\$0.08/hr)	~0.15%
SUTA (State Unemployment; varies by state/exp.):	(\$0.76/hr)	~1.5%
Less: Workers' Compensation Insurance:	(\$1.52/hr)	~2.9%
Less: General Liability Insurance:	(\$0.26/hr)	~0.5%
Less: Benefits (if applicable):	(\$1.14/hr)	~2.2%
= True Gross Margin:	\$7.30/hr	14.0%
At 2,080 hrs/yr per worker: \$7.30 x 2,080 = \$15,184 annual GP per worker		

## 2.2 Workers' Compensation Experience Rating

Workers' compensation insurance is the largest variable cost in the staffing gross margin after FICA, and the one most subject to management intervention. Workers' comp rates vary by job classification (NCCI class codes) — an office worker may have a rate of \$0.30 per \$100 of payroll, while a construction laborer may have a rate of \$15.00 or more per \$100 of payroll. Beyond the base class code rates, larger staffing firms are subject to experience rating — an adjustment to the base rate based on the firm's historical claims experience relative to the average for its class.

The experience modification factor (e-mod or MOD) is a multiplier applied to the base workers' comp premium. An e-mod of 1.00 means the firm's claims experience is exactly average for its classification. An e-mod of 0.85 means the firm has better-than-average claims experience and pays 15% below the base rate. An e-mod of 1.25 means claims experience is 25% worse than average and the firm pays a 25% premium. For a staffing firm with \$10M in annual workers' comp premium, reducing the e-mod from 1.15 to 0.95 saves \$2M per year — a direct gross margin improvement.

**EXPERIENCE MODIFICATION FACTOR AND PREMIUM IMPACT**

Workers' Comp Premium = Manual Premium x Experience Modification Factor

Manual Premium = Payroll / 100 x Class Code Rate

Example: \$50M annual payroll in light industrial classification

Class code rate: \$3.20 per \$100 payroll

Manual Premium:  $(\$50M / 100) \times \$3.20 = \$1,600,000$

At e-mod 1.15: Premium =  $\$1,600,000 \times 1.15 = \$1,840,000$

At e-mod 0.92: Premium =  $\$1,600,000 \times 0.92 = \$1,472,000$

Annual savings from e-mod improvement: \$368,000

E-mod is calculated annually by the NCCI (or state bureau) using 3 years of claims history (excluding most recent year); proactive claims management and return-to-work programs are the primary levers

**CFO INSIGHT**

The experience modification factor is the most underutilized financial lever in staffing. Most staffing CFOs treat workers' comp as a fixed cost of doing business — they accept the annual premium without questioning the e-mod or challenging individual claims. A dedicated return-to-work program — getting injured workers back to modified-duty positions quickly — reduces the severity and duration of claims, directly improving the e-mod. An investment of \$150,000 in a return-to-work program that reduces the e-mod from 1.10 to 0.95 on a \$50M payroll base at a 3% rate saves \$225,000 annually — a 50% first-year ROI with compounding benefits as the e-mod continues to improve.

**SECTION 3****PAYROLL TAXES: FICA, FUTA, AND SUTA**

## Payroll Tax Architecture: The Employer-Side Burden

Payroll taxes — the employer's share of Social Security, Medicare, federal unemployment (FUTA), and state unemployment (SUTA) taxes — are a fixed cost of employment that must be priced into the bill rate for every staffing engagement. For staffing firms, which employ workers on behalf of client companies, the payroll tax

burden is a significant gross margin component that non-staffing companies simply allocate to HR overhead. The CFO must model payroll taxes precisely by state and by worker classification to price engagements accurately.

### 3.1 FICA: Social Security and Medicare

FICA (Federal Insurance Contributions Act) taxes consist of Social Security (6.2% on wages up to the Social Security wage base — \$168,600 in 2024) and Medicare (1.45% on all wages with no cap, plus an additional 0.9% for wages above \$200,000 for single filers). The employer pays 6.2% + 1.45% = 7.65% on wages up to the Social Security wage base, and 1.45% on wages above the base. For staffing firms employing thousands of workers at various wage levels, modeling the blended FICA rate across the workforce is essential for accurate pricing.

#### FICA COST MODELING FOR STAFFING

For workers earning less than SSA wage base (\$168,600 in 2024):

FICA rate = 7.65% of gross wages (6.2% SS + 1.45% Medicare)

For workers earning above SSA wage base:

FICA rate = 1.45% of gross wages above \$168,600 (Medicare only)

Blended FICA rate varies by workforce pay level:

Light industrial (\$20-\$25/hr; ~\$42K-\$52K/yr): ~7.65% (below base)

Technical/IT (\$55-\$85/hr; ~\$114K-\$177K/yr): ~5.5%-7.65% (partially capped)

Executive/Professional (\$100+/hr; >\$208K/yr): ~3.0%-4.5% (mostly capped)

FICA savings from wage-base cap: meaningful for high-bill-rate placements

-> Gross margin % improves for higher-paid workers, all else equal

### 3.2 FUTA and SUTA: Unemployment Insurance

Federal unemployment tax (FUTA) is 6.0% on the first \$7,000 of wages per employee per year, with a credit of up to 5.4% for state unemployment taxes paid on time — resulting in a net FUTA rate of 0.6% for most employers. The \$7,000 taxable wage base means that for most staffing workers earning more than \$7,000 per year (reached in the first few weeks of employment), FUTA cost is a small fixed amount per worker regardless of their annual wages.

State unemployment insurance (SUTA) is more consequential and more variable. SUTA rates vary by state (from under 1% to over 7% for new employers) and by employer experience (better claims history leads to lower rates through experience rating). The SUTA taxable wage base also varies by state (from \$7,000 in some states to over \$60,000 in others), making SUTA a much larger cost component in high-wage-base states. A staffing firm operating nationally must model SUTA costs state by state, with different rates and wage bases for each.

State	SUTA Rate Range (2024)	Taxable Wage Base	Annual SUTA per \$20/hr Worker
California	1.5%–6.2% (new: 3.4%)	\$7,000	\$238 (capped at \$7K)
Washington	0.27%–6.0% (new: 1.0%)	\$68,500	\$685 (substantial; high base)
Texas	0.31%–6.31% (new: 2.7%)	\$9,000	\$243 (moderate)
New York	0.6%–7.9% (new: 3.2%)	\$12,000	\$384 (moderate-high base)
Florida	0.1%–5.4% (new: 2.7%)	\$7,000	\$189 (capped at \$7K)
Massachusetts	0.94%–14.37% (new: 2.42%)	\$15,000	\$363 (moderate base)

### 3.3 Payroll Funding Float

Staffing firms face a distinctive working capital challenge: they must fund payroll for placed workers every week (or bi-weekly) before they receive payment from client companies. The timing gap between paying workers and collecting from clients — typically 30 to 60 days — creates a payroll funding float requirement that can be enormous at scale. A staffing firm with \$5M in weekly payroll and 45-day average collection terms carries approximately \$32M in receivables at any given time, all of which must be funded before cash is collected.

Most staffing firms fund this float through one of three mechanisms: an accounts receivable credit facility (borrowing against eligible receivables at 80% to 90% advance rates), invoice factoring (selling receivables to a factor at a discount for immediate cash), or internal cash reserves (rare, and only for the smallest or most capitalized firms). The cost of this working capital financing must be factored into the pricing model — it is effectively a cost of doing business that reduces the net margin on every placement.

**PAYROLL FUNDING REQUIREMENT**

Weekly Payroll: \$5,000,000  
 Average Collection Days: 45 days  
 Payroll Float Requirement:  $\$5M \times (45/7) = \$32,142,857$

**Funded via AR Credit Facility:**

Advance Rate: 85% of eligible AR  
 Eligible AR:  $\$32.1M \times (1/0.85) = \$37.8M$  gross AR needed for \$32.1M facility  
 Facility Cost: SOFR + 250bps (~7.8%/yr) on drawn balance  
 Annual Financing Cost:  $\$32.1M \times 7.8\% = \$2,504,000$   
 Per worker per year (1,000 workers): \$2,504 additional cost  
 Per hour (2,080 hrs): \$1.20/hr that must be priced into the bill rate

**SECTION 4****ACA COMPLIANCE AND BENEFITS**

## ACA Compliance: The Benefits Cost in Staffing

The Affordable Care Act (ACA) requires Applicable Large Employers (ALEs) — those with 50 or more full-time equivalent employees — to offer minimum essential coverage health insurance to full-time employees (those working 30 or more hours per week on average) or face the employer shared responsibility payment. For staffing firms, which are the legal employer of all placed workers, the ACA's employer mandate applies to the entire placed workforce, not just internal staff. This creates a benefits cost obligation that is unique to staffing among all the business models in this series.

### 4.1 ACA Cost in the Staffing Gross Margin

The ACA employer shared responsibility payment for failing to offer minimum essential coverage is \$2,970 per full-time employee per year (2024 figure, indexed for inflation) if at least one full-time employee receives a premium tax credit through the marketplace. This penalty applies per full-time employee without an offer, making the math clear: if the cost of offering the minimum essential coverage plan is less than the penalty per worker, the firm should offer coverage to avoid the penalty.

For staffing firms, the practical strategy is to offer a minimum value, minimum essential coverage health plan at a cost that is affordable to workers under the ACA's affordability safe harbors (the Federal Poverty Line

safe harbor, the Rate of Pay safe harbor, or the W-2 safe harbor). These plans are typically less comprehensive than standard group health plans and are priced to be just affordable enough to comply with ACA without triggering penalties, while keeping the per-worker cost low enough to preserve gross margin.

#### ACA COMPLIANCE COST ANALYSIS

##### Option A: Pay the Penalty

Annual penalty per FTE without offer: \$2,970

For 500 FTE workers:  $500 \times \$2,970 = \$1,485,000/\text{yr}$

##### Option B: Offer Minimum Coverage

Minimum value plan premium (employer share): \$150/mo/worker

For 500 workers:  $500 \times \$150 \times 12 = \$900,000/\text{yr}$

Plan admin overhead: \$50,000

Total cost: \$950,000/yr

Decision: Offer coverage (\$950K) vs. pay penalty (\$1,485K)

Savings from offering coverage: \$535,000/yr

Per-worker per-hour impact:  $\$950\text{K} / (500 \times 2,080) = \$0.91/\text{hr}$  added to cost

Must be priced into bill rate or absorbed in gross margin

#### SECTION 5

### TAX, ACCOUNTING, AND CO-EMPLOYMENT

## Tax, Accounting, and Legal: Co-Employment Risk

Staffing and EOR businesses face a legal doctrine called co-employment that creates shared employer liability between the staffing firm and the client company. Under co-employment principles, both the staffing firm (as the legal employer) and the client company (as the functional employer) may have legal obligations and liability toward the placed worker — including wage and hour compliance, workplace safety, anti-discrimination, and workers' compensation obligations. Managing this co-employment risk is a critical legal and financial function for both the staffing firm CFO and the client's CFO.

### 5.1 Revenue Recognition: Gross vs. Net

One of the most consequential accounting judgments for staffing and EOR firms is whether to recognize revenue on a gross basis (the full bill rate or employer fee) or a net basis (only the markup or service fee). Under ASC 606, the principal-versus-agent determination drives this decision. A staffing firm that is the legal employer of the placed worker, bears the risk of payment to the worker regardless of whether the client pays, and controls the worker's assignment is generally a principal — recognizing gross revenue (the full bill rate). An EOR that merely passes through payroll costs on behalf of the client with a service fee on top may be an agent — recognizing only the net service fee.

This distinction matters enormously for the income statement. A staffing firm with \$100M in gross billings and a 15% gross margin has \$100M in revenue and \$85M in direct costs. An EOR with the same economic footprint but agent treatment reports only its \$3M to \$8M service fee as revenue. The revenue multiple on \$100M is very different from the revenue multiple on \$5M — even if the economic value and EBITDA are identical. Most staffing firms correctly recognize gross revenue given their legal employer status; EOR businesses require careful ASC 606 analysis.

## 5.2 Temp-to-Perm Conversion Fees

When a client company decides to hire a temporary worker permanently — converting a temp-to-perm — the staffing firm typically charges a conversion fee. This fee compensates the staffing firm for the loss of the ongoing billing relationship and the recruitment work that identified the worker. Conversion fees are typically calculated as a percentage of the worker's first-year salary (12% to 25% is common) or as a multiple of the weekly bill rate (4 to 16 weeks of weekly billing).

Under ASC 606, the conversion fee is recognized at a point in time — when the conversion occurs and the staffing firm's obligation to the client has been fulfilled (the worker has been released from the staffing firm's employment and hired directly). If the staffing agreement includes a guarantee period (the staffing firm will not charge a conversion fee if the worker leaves within 90 days of conversion), that variable consideration must be estimated and constrained at the time of the conversion fee billing.

## 5.3 Joint Employer Risk and Financial Provisioning

The legal standard for joint employer status — when both the staffing firm and client company are deemed co-employers for purposes of the Fair Labor Standards Act, the National Labor Relations Act, or state wage laws — has shifted significantly in recent years. A broader joint employer standard increases client companies' liability for wage and hour violations by staffing workers, and increases the staffing firm's liability for workplace conditions controlled by the client. The CFO of a staffing firm must ensure that the master services agreement with each client contains robust indemnification provisions and that the firm's professional liability and employment practices liability insurance (EPLI) covers joint employer claims.

**CFO INSIGHT**

Employment practices liability insurance (EPLI) is the most important and most undervalued insurance coverage for a staffing firm. Wage and hour class actions — alleging misclassification, off-the-clock work, meal break violations, or overtime miscalculation — are the most common and most expensive employment litigation facing staffing companies. A single class action covering 1,000 workers at an average settlement of \$3,000 per worker is a \$3M expense plus \$500K to \$1M in legal costs. EPLI with \$5M limits and a \$250K retention costs \$150K to \$400K annually — the math is compelling. Review EPLI coverage limits annually against the scale of the placed workforce.

**SECTION 6****COMPLETE METRICS FRAMEWORK**

## The Staffing and EOR Metrics Framework

The staffing metrics framework spans three domains: operational productivity (headcount deployed and bill rate performance), gross margin quality (spread management and cost control), and financial health (revenue, collections, and working capital). The CFO must track all three monthly.

### 6.1 Operational Metrics

Metric	Formula / Definition	Benchmark
Active Headcount (Placed Workers)	Workers on active assignment in period	Primary volume metric; track by division and geography
Bill Rate (Avg)	Total Gross Revenue / Total Billed Hours	Track trend; declining = pricing pressure or mix shift
Pay Rate (Avg)	Total Payroll / Total Hours Worked	Must grow slower than bill rate for margin preservation
Fill Rate	Positions filled / Positions requested by clients	>80% strong; <60% signals supply constraints
Time-to-Fill (days)	Days from client request to worker start	<5 days light industrial; <15 days professional
Assignment Length (weeks)	Avg weeks workers remain on assignment	Longer = lower start-up cost per worker; more stable GM

Metric	Formula / Definition	Benchmark
Recruiter Productivity	Placements per recruiter per month	>4 light industrial; >1.5 professional/technical

## 6.2 Gross Margin Metrics

Metric	Formula / Definition	Benchmark
Gross Margin % (True)	$(\text{Bill Rate} - \text{Pay Rate} - \text{All Employer Costs}) / \text{Bill Rate}$	12%–18% light industrial; 18%–28% professional
Raw Spread %	$(\text{Bill Rate} - \text{Pay Rate}) / \text{Bill Rate}$	25%–35% typical; varies by sector
Workers' Comp as % of Payroll	WC Premium / Total Payroll	Track vs. manual rate x e-mod; declining e-mod is positive
Experience Modification Factor (e-mod)	Actual / expected loss ratio	<1.0 favorable; <0.85 excellent; >1.2 requires intervention
SUTA Rate (Blended)	Total SUTA / Total Payroll	Track trend; rising rate signals high UI claim activity
Benefits Cost as % of Payroll	Benefits Cost / Total Payroll	Track vs. ACA minimum cost; rising signals utilization increase
Financing Cost per Worker	Annual payroll facility cost / Active worker count	Include in bill rate model; \$1,000–\$3,000/worker typical

## 6.3 Financial Health Metrics

Metric	Formula / Definition	Benchmark
Revenue (Gross)	Total billings to clients (principal treatment)	Primary volume; track MoM and YoY
DSO (Days Sales Outstanding)	$\text{Avg AR} / (\text{Revenue} / 365)$	<45 days target; >60 days signals collection risk
Borrowing Base Utilization	Drawn AR Facility / Max Borrowing Base	<80% comfortable; >90% indicates working capital stress
EBITDA Margin	EBITDA / Gross Revenue	4%–8% staffing industry typical; EOR can be lower

Metric	Formula / Definition	Benchmark
Revenue per Internal FTE	Gross Revenue / Internal (non-placed) headcount	Track efficiency of internal staff
Client Concentration	Top client revenue / Total revenue	<15% for any single client; >25% is concentration risk
Retention Rate (Placed Workers)	Workers completing assignment / Workers started	>75% signals strong worker-client fit; <50% high turnover cost

SECTION 7

CFO OPERATING CHECKLIST

# The Staffing and EOR CFO Checklist

## Payroll and Tax Compliance

- Payroll processed accurately and on time for all placed workers: multi-state payroll compliance confirmed in all states where workers are employed.
- FUTA and SUTA returns filed timely in all states; SUTA rates reviewed annually for experience rating adjustment; protest process initiated for any incorrect rate assignments.
- Workers' compensation e-mod reviewed at each annual renewal: claims history for the three-year experience period audited; return-to-work program measured against e-mod impact; reserve adequacy confirmed with carrier.
- ACA FTE count performed monthly: workers crossing 30-hour average tracked; ACA offers made timely; 1094-C and 1095-C filings completed by IRS deadlines.
- EPLI coverage reviewed annually: limits assessed against placed workforce size; coverage confirmed for joint employer and wage-and-hour claims; retention level appropriate to loss history.

## Revenue and Collections

- Revenue recognition policy documented: principal-versus-agent determination made for each service line (staffing, EOR, perm placement, RPO); gross vs. net revenue treatment confirmed with auditors.
- DSO tracked weekly: accounts >45 days aged reviewed by account manager; accounts >60 days placed on collection protocol; bad debt reserve updated monthly.

- Payroll funding facility covenant compliance monitored weekly: borrowing base certificate submitted per lender schedule; eligible receivable concentration limits monitored.
- Temp-to-perm conversion fees tracked by client: conversion events logged within 48 hours of hire; guarantee period tracked; revenue recognized at conversion (or at guarantee expiration if variable).

## Pricing and Margin Management

- Bill rate model updated quarterly: FICA, FUTA, SUTA, workers' comp, benefits, and financing costs recalculated for each state and job classification; rate card updated before new client contracts are quoted.
- Gross margin monitored weekly by division, client, and job classification: accounts with gross margin below target flagged for renegotiation or exit.
- Workers' comp classification review performed annually: all active NCCI class codes confirmed accurate for placed workers; misclassification corrected proactively (incorrect classification creates audit penalty risk).

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# Closing Perspective: The Staffing CFO as Margin Engineer

The staffing business rewards precision. The gross margin — typically 12% to 25% of the bill rate — leaves very little room for error. A 1-point increase in the workers' comp experience modifier, a SUTA rate increase from rising unemployment claims, or an ACA penalty for a missed coverage offer can eliminate a significant fraction of that margin. The CFO who treats payroll taxes, workers' comp, and benefits as fixed costs that arrive as uncontrollable surprises is the CFO who manages margin reactively. The CFO who models these costs with precision, manages the e-mod actively, prices every engagement on a fully-loaded basis, and tracks margin weekly by account and by division is the CFO who builds a staffing business that generates predictable, defensible returns.

**Part 17** examines Healthcare Services — payer mix economics, net patient revenue and contractual adjustments, days in AR, denial management costs, 340B drug pricing, cost report settlements, HIPAA compliance, and ASC 606 for variable consideration in healthcare.

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*End of Part 16: Staffing / Employer of Record (EOR) | Financial Architecture of Different Business Models*

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