



Independent Workforce Engagement FAQs for LMI Managers

GENERAL PROGRAM INFORMATION

LMI engages independent professionals—commonly known as contractors, consultants, freelancers, small services providers, and non-employee workers—to deliver specialized services. These independents provide LMI with workforce flexibility and subject matter expertise that can augment the abilities of its full-time staff.

In short, independent professionals help LMI compete in the ever-escalating war for talent—and it is critical that LMI engages them safely and efficiently.

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1. General information

Why does LMI use a program for engaging independent workers?

A consistent independent workforce engagement program promotes enterprise-wide process consistency, improves productivity, controls costs, increases visibility into provider relationships and spend, and mitigates the risks associated with using independents—most notably, independent contractor reclassification.

Reclassification can occur when the IRS or state tax authorities determine that independents working for a client do not meet the necessary criteria to engage as qualified vendors (or “independent contractors”) and be paid on a “1099” basis. These authorities may then **reclassify** them as employees, which frequently results in significant penalties and back-tax payments for the client. Reclassified workers may also try to recoup back-benefits through class-action lawsuits, which could prove very damaging to LMI and its reputation, brand, and bottom line.

How will this program remove these risks?

The program ensures that only independent professionals who meet all appropriate qualification requirements may engage as vendors. All others must either work with MBO to establish a qualified business or engage as reclassification-safe payrolled employees of MBO Partners.

This eliminates LMI’s reclassification risk entirely and minimizes other risks, such as class-action lawsuits and business liability risk.

Which independents are appropriate for this program?

All professional internally identified independents (i.e., those not recruited or sourced through a staffing company) must engage through this program. This includes individuals and small businesses of three or fewer employees.

Important: Incorporated entities and former employees are **not exempt** from this program. If you have questions concerning whether a worker you wish to engage is appropriate for this program, please contact Erin Sullivan at esullivan@lmi.org.

2. MBO Partners and its Services

Why MBO Partners?

Since 1996, MBO Partners has delivered solutions that make it safer and easier for enterprise organizations and top independent professionals to work together. MBO strengthens relationships, minimizes risk, and maximizes value for businesses like LMI. Our unmatched experience and industry leadership enable us to operate on the forefront of the independent economy and consistently advance the next way of working.

Can MBO help me find talent for my projects?

Yes, but we take a unique approach. MBO believes that direct sourcing—the ability for businesses to find independents without recruiting intermediaries—is the fastest and most cost-efficient way to engage top independent talent. We therefore provide our compliance, engagement, payment, and support services for workers whom LMI identifies internally and refers to us.

To better enable direct sourcing, we give LMI personnel access to the MBO marketplace: the fastest and easiest way to attract, source, and re-engage independent talent—without expensive staffing intermediaries. The MBO marketplace enables LMI to build a trusted community of independent professionals that managers can use as their first-choice alternative when looking for top independent talent. You can realize **average savings of 15% to 20%** for every engagement you source through MBO's marketplace rather than through a staffing firm.

If you haven't already, you can [get started here](#).

LMI managers may also turn to our team of experienced MBO Advisors to provide a full-service independent workforce sourcing solution. These dedicated experts do the recruiting legwork for you by:

- learning your objectives,
- developing targeted project postings,
- screening applicants,
- coordinating interviews, and
- preparing workers for onboarding.

MBO Advisors simplify the sourcing process, reduce time-to-fill, and help you secure hard-to-find independent talent. Use of our Advisory Services is optional and carries a low 15% fee for each successful fill (in addition to our standard engagement fees).

What services does MBO offer for engaging independent workers?

MBO features three engagement services which together ensure that all independents engage through a compliant program suited to their needs, expectations, and eligibility to operate as independent vendors.

- ▶▶ **Vendor Services:** A business-to-business engagement service for professionals who qualify to engage with LMI as independent vendors. Businesses interested in engaging through Vendor Services must undergo qualification evaluation during the LMI / MBO onboarding process to ensure they meet [these criteria](#).
- ▶▶ **Business Services:** A unique engagement alternative for Sole Proprietors and other independent professionals who wish to work as compliant independent business owners (LLCs or corporations) but need assistance meeting and maintaining the appropriate credentials to do so. These workers enjoy the freedom and flexibility of operating an independent business at less cost and with less administration than doing it alone.
- ▶▶ **Payroll Services:** A conventional W-2 payrolling solution for workers who are ineligible for Vendor Services or Business Services due to their requirements, expectations, status as independent businesses, or regulatory requirements.

The table that follows compares these three services side-by-side, or you can click here to see more [detailed descriptions](#).

	Vendor Services	Business Services	Payroll Services
Snapshot	Agent-of-record service for qualified vendors; MBO indemnifies LMI for tax-related penalties of reclassified	Business set-up and management for professionals who need help meeting and maintaining vendor credentials	Traditional payrolling; FLSA applies, including overtime and double-time as per state laws
Who is appropriate?	Professionals who operate as independent businesses and meet vendor requirements	Professionals who see themselves as independent businesses but do not currently qualify as vendors	Workers who do not see themselves or operate as true independent businesses
Vendor-qualified?	Yes	No	No (not evaluated)
Tax status	Independent vendor (1099)	1099 or W-2 of own corporation	W-2 of MBO Partners
Business insurances	Must carry insurances at LMI-required levels	Covered under MBO's General Liability and Errors & Omissions*	Covered under MBO's General Liability and Errors & Omissions
Rate negotiation	Negotiate a bill rate that already factors in statutory taxes	Negotiate a bill rate that already factors in statutory taxes	Negotiate pay rate that does not factor in statutory taxes
When is the worker paid?	On the Friday of the pay cycle following LMI's semi-monthly invoice and Net 15 payment terms	On the Friday of the pay cycle following LMI's semi-monthly invoice and Net 15 payment terms	Two weeks after a given work week (or sooner if required by state law)

*Independents may be required to purchase their own GL or E&O insurance to show an investment in their business for compliance purposes.

How does MBO decide which service is best for each worker?

All LMI-referred independents complete a brief online survey that explores their independent experience, business structure and characteristics, expectations, and vendor qualification status. We also conduct a one-on-one consultation with the worker if necessary. We then have the information we need to select the engagement service that best fits the worker's unique situation.

Please note that we factor workers' wishes into our service determination, but we always ensure that they meet applicable eligibility requirements before onboarding them into the appropriate service. For example, independents wishing to engage through Vendor Services must meet [LMI's qualification criteria](#) and pass a thorough compliance evaluation to qualify.

What is the value of Business Services?

Traditional providers offer a 1099 / agent-of-record service for qualified vendors—and then force everyone else into a conventional W-2 payrolling service. But this solution poorly serves to the large percentage of independent workers who resist W-2 payrolling yet do not qualify as vendors:

- If the provider engages them through an agent-of-record service, their client's risk and regulatory scrutiny increase dramatically.
- If the provider forces them into payrolling, it will likely lead to discontent, talent loss, and unnecessarily high costs.

Business Services is the only solution for independent business owners who do not meet eligibility requirements for engaging as independent vendors yet are likely to reject the limitations of traditional payrolling. It lets LMI better serve—and compliantly engage—the most common types of independent businesses, including corporations (C corps and S corps), LLCs, and Partnerships. Through Business Services, MBO even walks independents through the complexities of setting up their own compliant businesses

Business Services does more than reduce risk and create a better experience for your independents—it also helps control costs. With a mark-up that's up to 70% lower than traditional payroll providers, Business Services can help LMI **cut overall engagement costs by up to 20%**.

How do I contact MBO Partners?

LMI managers can contact MBO's Account Director, Steve Berselli directly at (202) 740-4745 or sberselli@mbopartners.com, or reach out to the LMI team at lmi@mbopartners.com.

3. Program Costs

Is there a cost for this program?

MBO applies a fee to the rate you negotiate with the worker. As indicated below, the fee varies based on the service through which each independent professional engages. You may wish to take this fee into consideration when negotiating rates with the independents you engage.

- **Vendor Services.** MBO applies a 4.0% mark-up to the worker's pay rate.
- **Business Services.** MBO applies an 8.0% mark-up to the worker's pay rate.
- **Payroll Services.** MBO applies an 18.5% mark-up to the worker's pay rate, with an additional 2% added if the worker is in a jurisdiction which requires paid sick leave.

Why are the Vendor Services and Business Services fees so much lower than traditional payroll mark-ups?

Vendor Services and Business Services are intended for professional independents who understand the tax obligations of working independently and factor statutory costs (such as Social Security, Medicare, and other obligations) into the rate they negotiate with you. MBO therefore uses an innovative and cost-saving pricing model for these services.

While most providers apply the same mark-up—which includes statutory taxes—even if these taxes are already factored into their negotiated rate, only MBO ensures that LMI never double-pays these taxes. As introduced above, this results in **cost savings of up to 20%** compared to traditional payroll providers when workers engage through one of these services.

Payroll Services works differently. Most commonly, individuals in Payroll Services are hourly workers who do not factor in these taxes when setting their rate. As such, our Payroll Services mark-up includes appropriate statutory costs.

4. Engagement Process

Once I identify new independent workers, how do I refer them to MBO?

When you identify a new in-scope independent professional for a project, complete this [Referral Form](#).

How long does it take to onboard workers after I refer them to MBO?

Average onboarding time varies by engagement service:

- For workers who engage through **Vendor Services**, typically four to six business days.
- For workers who engage through **Business Services**, typically five to eight business days.
- For workers who engage through **Payroll Services**, typically two to four business days.

These estimates do not factor in the time it takes for the worker to launch and complete the LMI-required background check. While screenings can take up to five days to complete, they can occur in parallel with other onboarding activities.

Of course, onboarding timing strongly depends on the worker's responsiveness to MBO's onboarding instructions. MBO provides clear instructions and works closely with each worker to improve responsiveness and accelerate the process as much as possible.

As the manager, you have a part to play as well. We recommend that you stress the importance of completing onboarding steps quickly when you're communicating with an independent worker you intend to engage.

This [Engagement Lifecycle Process Summary](#) includes a closer look at the LMI / MBO onboarding process.

Are drug and background screenings required?

All new independents must undergo a background check. MBO coordinates these screenings as part of our onboarding process. It is LMI policy not to allow workers to begin work until the required screenings are complete.

How do I approve time and expense entries?

You'll receive an email notification from VIP each time a worker engaged on your projects submits time.

For expense submissions, you will receive an email notification from MBO. Follow [these instructions](#) to execute the expense approval.

Please be sure to approve all submissions by 12pm EST on the second business day following the end of the work period. Failure to meet this deadline may delay payments.

How long does it take for workers to receive their payments?

Payment timing varies by the worker's MBO engagement service.

➤ Payroll Services

MBO pays Payroll Services workers each Friday, two weeks after a given work week (or sooner if required by state law).

➤ Vendor Services and Business Services

MBO invoices LMI for all workers' approved time and expense submissions semi-monthly. MBO then pays workers in the weekly pay cycle following LMI's

Net 15 terms. As such, independents in these services receive their payments 2-3 weeks after a given work period ends. See the [LMI Payment Calendar](#) for details.

Again, it is very important that you approve your independents' time and expense submissions before 12pm EST on the second business day following the end of the work period.

Can I engage independent workers outside the U.S through MBO?

Yes. MBO is headquartered in the U.S. and has offices in the UK and Ireland. Through these offices and an extensive international partnership network, we can compliantly engage talent in most countries.