

Paychex, Inc., Q3 2025 Earnings Call, Mar 26, 2025

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Operator

Good morning, and welcome to the Third Quarter Fiscal 2025 Paychex Earnings Conference Call. Participating on the call today are John Gibson and Bob Schrader.

[Operator Instructions]

As a reminder, this conference is being recorded, and your participation implies consent to our recording of this call. If you do not agree to these terms, please disconnect at this time.

I would now like to turn the call over to Bob Schrader, Chief Financial Officer. Please go ahead.

Robert Schrader

Thank you for joining us for our review of Paychex's third quarter 2025 financial results. Joining me today is John Gibson, our Chief Executive Officer. This morning, before the market opened, we released our financial results for the quarter ended February 28, 2025. You can access our earnings release and investor presentation on our Investor Relations website. Our Form 10-Q will be filed with the SEC within the next couple of days. This teleconference is being broadcast over the Internet and will be archived and available on our website for approximately 90 days.

Today's call will contain forward-looking statements that refer to future events and involve some risk. We encourage you to review our filings with the SEC for additional information on factors that could cause actual results to differ from our current expectations. We will also reference non-GAAP financial measures. A description of these items along with a reconciliation of non-GAAP measures can be found in our earnings release. I will now turn the call over to our CEO, John Gibson.

John Gibson

Thanks, Bob. I'll start the call today with an update on our business highlights for the third quarter. Then I'll turn it back over to Bob for the financial update. And then, of

course, we'll open it up for your questions. This is an exciting quarter for Paychex. As we enter the digitally an AI-driven era of human capital management, we believe the combination of our positive underlying momentum and the pending acquisition of Paycor position us well for continued success.

Total revenue growth was 5% in the third quarter, excluding the impact of the discontinued ERTC program, revenue growth was 6%, driven by the strength of our industry-leading HCM solutions. Diluted earnings per share increased 4% and adjusted diluted earnings per share grew 8% during the quarter. Our investments in automation and technology are boosting efficiency across the company, resulting in a strong 180 basis point increase in adjusted operating margins compared to the prior year.

During the third quarter, we announced that we entered into a definitive agreement to acquire Paycor, a leading provider of HCM, payroll and talent software. The waiting period under HSR expired on February 21. After other customary closing conditions are met, we look forward to welcoming Paycor to the Paychex family in the coming weeks.

Our companies are highly complementary, and our dedicated employees share a common set of values, most importantly, a strong customer orientation and a relentless focus on providing innovative solutions to real-world challenges. Our expected nearly 800,000 customers combined will benefit from having access to the most comprehensive HCM portfolio from the most trusted provider of technology and expertise in the industry.

We believe the acquisition of Paycor will strengthen our competitive position upmarket while giving us the ability to offer Paychex's robust set of HR and employee solutions to Paycor's approximately 50,000 customers and their 2.7 million employees. We are optimistic about what we can achieve together by leveraging the best of both of our current and future offerings.

We are working diligently towards a closing of the Paycor acquisition in the coming weeks, and we have already made several important decisions related to the integration. We are planning to operate Paycor as a stand-alone business unit. Adam Ante, Paycor's current CFO, will be joining Paychex as Senior Vice President of Paycor and Ryan Bergstrom, Paycor's current Chief Product Officer, is also joining Paychex to become the new Chief Product Officer of Paychex. We are excited to welcome both Adam and Ryan to the Paychex executive team.

Paycor and Paychex customers will remain on the platforms they're currently using and

continue to receive support through their existing service team relationships. They will shortly gain access to the most comprehensive, flexible and innovative set of HCM technology and advisory solutions in the industry.

With our SurePayroll, Paychex Flex, Paychex HR advisory solutions and now Paycor's capabilities, we have solutions to meet the diverse needs of businesses of all sizes. We are making great progress on the acquisition and on integration planning. The work we have done since announcing the transaction has increased our confidence in achieving the cost synergies and we now expect synergies over the \$80 million that we shared with you in January.

Given this, we now expect the acquisition to be accretive to our adjusted earnings per share next fiscal year. The third quarter was successful as we continue to improve our customer experience and value proposition. Client retention has improved over last year's solid performance and retention in our HR outsourcing solutions remain near record levels. Client losses are down across all employee size segments.

Our revenue retention improved over last year and remain above pre-pandemic levels as we continue to focus on acquiring and retaining high-value clients. Our strong retention rates attest to our compelling value proposition which was validated by a recent Wall Street Journal ranking of the best managed companies, in which Paychex achieved the second highest increase in customer satisfaction out of all 250 companies on the list.

Similar to what we shared with you last quarter, while the PEO business remains strong and participant levels in our health plans across the country continue to increase, enrollment in our specialty Florida at-risk medical plan decreased year-over-year. We also continue to see more employees opting for lower cost health plans to offset rising health care costs. These factors continue to present a pass-through revenue headwind but have no impact to our earnings or the value proposition of the PEO model.

We also continue to drive innovation in the quarter, and I'm proud to announce that we were just named one of Fortune's Most Innovative Companies for the third consecutive year. This is truly a validation of our strategy to become the digitally driven HR leader. As an example of how we are driving innovation in AI, we recently built a Gen AI-powered HR Copilot tool that covers the HR questions most frequently asked by our clients. The tool was developed from our proprietary data sourced from the hundreds of thousands of conversations our HR professionals have with our clients every year.

The HR Copilot tool will enable our HR professionals to leverage the collective

knowledge base we have built over the years to drive both efficient and effective answers to our clients' concerns. The testing phase for this new tool is nearly complete, and we are on track to launch it at the start of our next fiscal year.

We are committed to helping our clients leverage the power of new technologies and specifically AI. Another example of our innovation and employee solutions is Paychex Perks, an award-winning digital marketplace that offers our clients employees access to affordable benefit and discounted products and services from third-party providers.

Perks is available at no cost to the employer, and payments are processed automatically through payroll deduction. Since we launched this product in September over 180,000 client employees have purchased at least one product offered in the marketplace. While I'm extremely proud of all the innovation and all the hard and great work of our employees and what they do each and every day to make Paychex successful, I'm even more proud of how they do it by living our company's values and finding ways at the same time to impact the communities in which we serve and live.

I am pleased to report that Paychex was recently named one of the world's most ethical companies for the 17th time by Ethisphere, 1 of only 3 companies in the world to achieve this distinction. Congratulations to the team.

Turning to the macro environment. The pace of U.S. job growth has moderated from the robust levels observed coming out of the pandemic but has been relatively stable during the past year and in line with historical averages. Our customer employment levels were a little softer than expected in the third quarter and likely impacted by weather-related challenges and devastating fires in California, as well as lower bonus checks than last year and our expectations.

Year-to-date, our checks per client have been flat compared to the prior year, suggesting relatively stable U.S. labor market conditions. And as I look back on it, we have accomplished a lot in the third quarter, both in terms of day-to-day execution and driving our strategy forward, including our preparations to add Paycor to the Paychex's family of companies in the coming weeks.

As I said earlier, this is an exciting quarter for Paychex. We exit the third quarter of this fiscal year better positioned than ever in the company's history to deliver on our purpose, and that is to help businesses of all sizes succeed. I'll now turn it over to Bob to give us a brief update on our financial results for the quarter.

Robert Schrader

Thank you, John, and good morning, everyone. I will start with a summary of our third quarter financial results and then provide an update on our fiscal 2025 outlook. Total revenue for the quarter increased 5% to \$1.5 billion. This includes the headwind from the expiration of ERTC program that we have called out for the past several quarters. Excluding this headwind, total revenue grew 6% and as you guys can all imagine, I'm very happy to say that we have now anniversaried the end of ERTC, and this will be the last call that I will have to talk about the quarterly impact of ERTC.

Management Solutions revenue increased 5% to \$1.1 billion, this was driven primarily by growth in the number of clients served across our suite of HCM solutions and client worksite employees for HR solutions as well as higher revenue per client resulting from price realization, and product penetration partially offset by the lower ERTC revenues. PEO and Insurance Solutions revenue increased 6% to \$365 million, driven primarily by growth in the number of average worksite employees and an increase in PEO insurance revenues.

Interest on funds held for clients decreased 2% to \$43 million, primarily due to lower average interest rates. Total expenses, excluding onetime costs related to the pending Paycor acquisition, increased 1% to \$801 million, continued investments in product, technology and data and AI were offset by productivity and efficiency gains realized from these investments.

Operating income grew 6% to \$692 million with an operating margin of 45.8%. As a reminder, operating income was also impacted by the expiration of the ERTC program. Adjusted operating margins for the quarter were 46.9%. As John mentioned, this represents an increase of approximately 180 basis points due to increased productivity and cost discipline.

Diluted earnings per share increased 4% to \$1.43 per share and adjusted diluted earnings per share increased 8% to \$1.49 in the third quarter. I will now quickly touch on the results for the year-to-date period. Total revenue grew 4% to \$4.1 billion. Management Solutions revenue increased 3% to \$3 billion. PEO and Insurance Solutions increased 7% to \$1 billion, and interest on funds held for clients increased 8% to \$117 million. Total expenses year-to-date grew 3% to \$2.4 billion. Operating margins expanded approximately 40 basis points to 42.9%, and our adjusted operating margins year-to-date increased approximately 80 basis points to 43.3%.

Diluted earnings per share increased 4% to \$3.76 a share and adjusted diluted earnings per share increased 5% to \$3.79 a share. Our financial position remains strong with cash, restricted cash and total corporate investments of \$1.7 billion and total borrowings of approximately \$817 million as of February 28, 2025. Cash flow from operations was \$1.6 billion in the first 3 quarters of the year, driven by net income and reflects changes in working capital influenced by timing.

We returned a total of \$1.2 billion to shareholders during the first 3 quarters in the form of cash dividends and share repurchases, and our 12-month rolling return on equity remained robust at 45%. I will now turn to our guidance for the fiscal year ended May 31, 2025. This outlook assumes a continuation of the current macro environment and exclude the anticipated impact from our pending acquisition of Paycor, which is expected to close in the coming weeks.

Our current outlook is as follows: Total revenue is still expected to grow in the range of 4% to 5.5%. We do now expect that it will be at the low end of the range, primarily due to the continued headwinds from our pass-through insurance revenues and as a reminder, this range includes approximately 200 basis points of headwind from the expiration of the ERTC program last year.

Management Solutions is still expected to grow in the range of 3% to 4%. PEO and Insurance Solutions is now expected to grow in the range of 6% to 6.5% due to the factors that we referenced earlier, we previously had guided to the lower end of the range of 7% to 9%. Interest on funds held for clients is expected to be in the range of \$145 million to \$155 million. Adjusted other income net is expected to be income in the range of \$30 million to \$35 million, and adjusted operating income margin is now expected to be approximately 43%. We had previously guided to the high end of the range of 42% to 43%.

Our effective income tax rate is expected to be in the range of 24% to 25%, and adjusted diluted earnings per share is still expected to grow in the range of 5% to 7%. As John mentioned earlier, we are making great progress on the acquisition, which has increased our conviction on the near-term expense synergies. And given this, we would now expect the acquisition to be accretive to our adjusted diluted earnings per share next fiscal year.

With the anticipated closing in the coming weeks, we would also like to provide an update on the expected financial impact to this fiscal year. Including Paycor, we expect

revenue growth of 10% to 12% in the fourth quarter and the impact from the acquisition to adjusted EPS would be neutral. Of course, all of this is based on our current assumptions, which are subject to change, and we will update you again on the fourth quarter call. I will refer you to our investor slides on our website for additional information. And with that, I will now turn the call back over to John.

John Gibson

Thank you, Bob. Madison, we will now open the call to questions.

Operator

[Operator Instructions]

We will take our first question from Andrew Nicholas with William Blair.

Daniel Maxwell

This is Daniel Maxwell on for Andrew today. Just to kick things off, I was wondering if you had any updates on the preference between ASO and PEO models. I know you called out switching to lower cost health plans, but is anyone trading down at the product level? And then is the lower implied 4Q for PEO, just the at-risk Florida plan that came in worse than expected in Q3? Or maybe how long you expect that to last?

Robert Schrader

Yes. So Daniel, maybe I'll start with the lower Q4 that you mentioned, and certainly bringing the total revenue guide to the low end of the range is primarily driven by the continued challenges that we've seen with the MPP attachment in Florida. I think when we talked to you guys last quarter that we weren't seeing the growth there that we expected. I would say it was flat.

And then as we've come through the annual enrollment, overall our health care attachment across the PEO is up. It's down in the state of Florida, and that has an impact from a revenue standpoint, a pass-through revenue standpoint, really has no impact in net revenue or earnings, and that's really the primary driver as it relates to kind of the --

what you see in Q4 in the low end of the guidance range on total revenue.

And as it relates to ASO and PEO, both have been strong. We see strong upper digit worksite employee growth in both models, and we haven't seen a switch from a preference standpoint. And I think your other question related to the buy down, we have seen that. Certainly, this year, we've seen, particularly in Florida, more of our client employees selecting lower-cost options, and that certainly has an impact as well on the MPP in Florida.

John Gibson

I think, Daniel, the thing I would take away from the PEO performance getting to Bob's point, we're not seeing a trade-off or a downgrade from PEO to ASO, that's not what we're seeing at all. PEO performance really across the country is strong. Our bookings were double digits. We got a solid pipeline going into Q4 and it continued to be strong. I would say the challenge you have in the specialty program that we have just in Florida that all of you are familiar with, small changes in a participation level can really make a big difference. I mean you're talking about plans that can range between \$11,000 and \$14,000 per employee.

So you add that, that adds up pretty quickly. So what you really have there was, overall, we increased the number of clients that are attaching health care across the country and actually saw better participation in our health plans across it, but because we saw a reduction in one specific program that we have in Florida, which has an outsized impact on revenue. That's really what drove the issues.

It was a combination of things. It was, when you look at the pipeline, the average deal size was smaller than what we saw last year. Then when you look inside a small deal, the percentage of employees that took benefits was lower than what we typically see and then as we said before, when they did pick a plan, it would tend to be the lower end plan.

So it's just some of the health care inflation things that I think we see people trading down to. But overall, I think we should really see this as a positive outcome. As you know, in Florida, we're also very conservative in our underwriting. So the fact of the matter is, what we're not going to do is we're not going to try to do anything that's going to jeopardize that plan.

So we did not change our underwriting guidelines. We're not going to do that. And we have a lot of options with our agency to be able to get them on stand-alone plans, and we've done that, and we'll continue to do that. So I just don't -- what I don't want to do is I don't want to chase the headline number in the PEO and then create a risk problem on the backend that once you have that problem, it's hard to get out of.

I think many of you cover the PEO industry, and several examples of where that's not turned out well. So we're going to manage the book well. Certainly, we're going to have to wait for open enrollment, which starts in that October time frame. We've already started looking at the plan approach, looking at the plan design approach and doing our research. I think we've done this several times to make sure that we have the right lineup there that's going to be attractive for what people can afford, hope that helps you, Daniel.

Daniel Maxwell

Yes, super helpful detail. And then maybe as my follow-up, the client hiring coming in slightly lower than expected. Was that concentrated in Florida as well or any specific geographical or vertical that, that was kind of concentrated in? Or was that more of a broad-based experience?

John Gibson

No. I would say the hiring was pretty broad-based. We did have some hotspots in terms of -- I say hotspot were not the right word because I'm extremely sensitive to the people that were impacted by the fires in California. So that was a poor choice of words on my part. But we did see some specific areas that would probably indicate some natural disaster disruption.

We saw that in the PEO and in the ASO business, in particular, in California. And then we just saw slower checks than what we expected. And particularly, one of those factors was bonus checks and bonuses was interesting this year to me because the overall bonus dollar volume that was paid out by our clients was about 8% higher than the prior year, but the number of people who got bonuses was less.

And so that also kind of led to some of the check compression. So we're flat right now. When I look at the macro environment, our small business index continues to show

moderate growth in small businesses, and we really see no signs of recession.

Operator

And we will take our next question from Mark Marcon with Baird.

Mark Marcon

Good morning, John and Bob. It sounds like a very exciting time at Paychex. You mentioned very specifically that you now expect the Paycor transaction to be accretive. You mentioned that you would now expect over \$80 million in expense synergies. I'm wondering -- it sounds like you're feeling really excited. Can you give us any more color with regards to what your expectations are with regards to revenue synergies?

And then also, just based on client calls that I've had, I'm wondering if you could also provide some detail in terms of when you're talking about the deal being accretive, like what would be the things that you would end up excluding or adjusting out in order to get to that accretion. So amortization of goodwill, bonuses, stock comp where testings are occurring, things of that nature so that people have a clear idea in terms of the accretion potential as we go into '26.

Robert Schrader

Mark, I'll start with that, and then John can comment on the revenue synergies. And I thought we were fairly clear on this when we announced the deal on January 7, what we were going to exclude going forward. It's really 3 things. It's certainly the amortization of the intangible, given the size of this transaction. We communicated that. There is stock-based comp related to existing shares that will convert over and I kind of view that as consideration -- deal consideration, the accounting rules account for that as period costs. And so we are going to just that out. To me, that was part of the purchase price that we paid for the asset, although there will be quite a few Paycor people, employees joining the Paychex team that will be getting stock-based comp going forward, we will not exclude that.

We will treat that like we normally do. So anything that we give out new prospectively as they join the Paychex family will be included. It's just the stuff that was outstanding that

had invested that converts, again, that I viewed as consideration. And then the third thing is, obviously, there's a lot of onetime transaction-related costs, investment banking fees, lawyers and those types of things that we would normally exclude. So it's really just those 3 items. And then John can comment on the revenue synergy opportunity.

John Gibson

Yes. So Mark, let me just step back and just maybe get -- try to handle a broader question about where we are in this process overall. So obviously, we're excited. We're tired all at the same time. I think things are going better than we planned, both in terms of the timing of getting this still done and the expected benefits that we think we're going to realize as a combined company. And I think in a very short period of time, I think we're going to be able to really bring to the market the most comprehensive and flexible and innovative set of HCM solutions in the industry.

So I'm excited about what we're putting together from a product road map and some of the capabilities that we've been able to find that both Paycor was working on, and we were working on that I think are going to be synergistic.

We have been very focused on making sure we're integrating the 2 companies to make sure that our customers and our strategic partners are cared for from day 1. And so the second part, we've been very focused on making sure that the cost synergies that we've committed to can be achieved and that we're putting the effort that needs to be done to take care of those cost synergies in a respectful way for those that may be impacted from that. That's where our focus has been.

Now we are starting to turn towards the revenue side of this. We have a long list of potential opportunities that we -- are potential. And I would say that we're making good headway. So as you think about it on an overall view a year ago at 50,000 feet, I thought this was a good deal. At 30,000 feet when we got to December, I like what I was seeing.

Now we're at the 10,000-foot level, have a very good clear visibility relative to expenses, beginning to see line of sight of what the potential is from a revenue perspective, feeling really good about where we are on those. We just got to get the plane landed.

As you know, this is a public company competitor that we're acquiring. We don't have access to everything. We can't have access to everything yet. We want to get through the close. And once we have the close, we're going to -- we have the teams identified

that are going to get together and begin to work the revenue synergies in earnest.

And where we want to be is effective very quickly beginning to introduce our full comprehensive set of products and services to our mutual clients as soon as possible. So that being said, the other thing I just want to make sure everyone understand that I think it's going to be a challenge as we go forward is we're going to combine the 2 companies. And part of Paychex is going to become part of the new Paycor in the upmarket. And for competitive reasons, I'm not going to get into details of our go-to-market strategy.

But effective day 1, we're going to become one Paychex. There's not going to be a stand-alone Paychex. There's no upper market and spin-off of Paycor upper market. There's parts of Paycor as we went through that we feel we're doing better. There's parts of Paycor that's doing better than Paychex. And what Bob and I got to work with the team on over the next 3 to 4 weeks, is really how do we take the best of those worlds together and put together a viable '26, '27 and beyond plan.

So that's where we are in the process. And so I just want to do that probably to head off some other questions you're going to have about why don't I know what's going to happen 6 months from now. There is a ton of opportunities that we're trying to work through. In terms of what we're seeing that they're doing, it's better than what we were doing. And if we can apply their learnings to us, that's going to improve our stand-alone results, and there's things that we're doing that are better than what they're doing. And if we can apply those things to them and assume those things are going to happen, they're going to have better results. So we're really putting the best of both worlds together. So sorry for the long-winded answer, but I think this will hopefully cover a lot of questions that are going to be behind you.

Mark Marcon

I really do appreciate the comprehensive answer to that. And then for my follow-up, obviously, from a macro perspective, there's been a lot of fluctuations with regards to sentiment, both from a business and a consumer perspective. I'm wondering if you can talk a little bit about what -- how bookings were during the key selling season? And how things have evolved in terms of just the business sentiment. And typically, during the third quarter, you gave us preliminary guides for preliminary thoughts for the following year. Obviously, with Paycor, you've got a lot of things up and still to be developed.

But I'm wondering if you were thinking about things on a stand-alone basis, would -- you typically end up talking about the fourth quarter exit rate as being something to think about with regards to the following year. If we were just thinking about Paychex's on a stand-alone, which obviously is not the case, would that still be the case?

Robert Schrader

Let me start. And thanks for the question, Mark. I'm not sure that that's one follow-up. It sounds like it might have been a few follow-ups in there, but good questions. Typically, we provide some, what I call breadcrumbs as it relates to next year. And as John mentioned, we've been heads down. I think we kicked off our integration work on the afternoon of January 7 when we announced the deal. And I would say we're maybe not as far along in our planning process that we normally are just given the work that we've been working on over the last several months on the integration itself. And so we obviously want to own the asset. We want to get through our plan review process and come back to you guys at the end of Q4 with a combined guidance and outlook for the next fiscal year.

With that being said, when I look at kind of the base business because obviously, I have visibility into kind of the base business and the KPIs and so forth. When I look at the base business, and I look at what's currently assumed out there from a consensus standpoint for next year from both a revenue growth standpoint and a margin expansion standpoint. Again, we haven't been through our full plan process, but I would expect to be able to put together a base case Paychex's plan that's in line with those assumptions that are out there. So that's a little bit of the breadcrumbs that we would normally give in a little bit additional color. But we still need to kind of work through our planning process and bring these 2 businesses together, as John mentioned.

John Gibson

Yes. Mark, I just want to make a finer point so everybody understands the challenge of the question you just asked, because only a small group of us are able to really be involved in some of the details of exchanging information because of the nature of where we are in the process.

So you asked a good question. Well, I'm sitting in a room and we have members of our

team that are in the clean room, and they recognize, "Oh, my gosh, look at what Paycor is doing to drive demand? Why didn't we think about that?" I can assure you the day that we close that, day 2, I'm going to walk over to our marketing department and say, you better start doing X, Y and Z.

So I don't -- if I can get the benefit of some of the things we're doing, I give you another list of examples of things that we're doing that they're not doing that as soon as we own them, we're going to tell them to start doing. And that's going to improve their stand-alone results as well.

So we've got a list of things that are going to -- I think are going to impact both businesses on a stand-alone basis to improve the businesses, you've got change management involved. There's always a risk around that, that we're working to manage. That's one of the things I'm talking to Adam and Ryan about. And I just think you have all of this working together. And then on top of it, you dropped the question, there's a lot of macro uncertainty out there as well.

So we've got a lot of things that we need to stand back and Bob and the team has not only been focused on all the things they've always been doing and the integration. We're also doing a public debt offering as well, bond offering. So that's in progress as well, need to be done. So I just would ask everyone to be patient with us.

I know that you're used to hearing from us, a good understanding of what's going to happen in the next fiscal year. And I can tell you when we get to next year's third quarter call, we will be back to standard Paychex, but this is just not a stable third quarter. So just bear with us.

Operator

And we will take our next question from Pete Christiansen with Citi.

Peter Christiansen

Really nice execution here, good to hear progress on your views on the Paycor acquisition. I was just wondering if we could do a little bit of a dive on the 401(k) business. It's something I don't think that's been called out in particular recently. And obviously, it sounds like a potential for revenue synergy there with Paycor.

Just curious if you could speak to some of the growth, attachment rates that you're seeing there? I know the SECURE Act was a catalyst for that area in the past. Just if you could give us kind of like where are we now kind of point of view on that business, that would be really helpful.

John Gibson

Yes. Thanks for the question. You're probably right. We don't talk about a double-digit growing business as much as we should. But the 401(k) business is doing well. I think you've got assets that -- that's one of the things. The asset part of that business was a little bit of a headwind in the third quarter and probably will be in the fourth quarter given where the market is right now. But overall, the underpinnings are strong. As you said, there's a lot of regulatory environment.

I continue to explain to people, though, particularly given the -- where the consumer is, you have to still convince clients and the employees to participate in savings for their retirement. I'm not going to go off of my bandwagon on this, I think, is a big systemic issue that the country faces.

And I'm proud that Paychex has been part of the solution of introducing clients to it. But we're going to need more regulatory action. Hopefully, when the federal government gets done with all the tariff talk, we can turn to some closing of some of the loopholes that are in the SECURE Act that need to be closed, particularly for micro businesses, and we're continuing to work in Washington for that. So I feel good about where the 401(k) business is, and I feel good about what the future holds as well there.

Peter Christiansen

So should we think of the attach rate kind of closer -- higher for some of your larger clients versus some of your smaller employee clients? And how do you -- how would you extrapolate that to the degree that you can discuss today? What that means for potential with Paycor clients?

John Gibson

Yes. Look, we think that there's an opportunity in the Paycor base for us to be able to

go in and offer the 401(k) program. And I would say that regardless of the size, Paycor has some smaller client sizes as well, which are right in our sweet spot, and we have experience with larger clients as well.

So we're going to introduce the concept and think that we have the chance to have similar attach rates in our base that they have in their base based on the client size. And as I said earlier on, we're just getting to that level of execution in our integration planning because we've been focused on customers, partners, people and that's where we've been focused at this point in time.

Operator

And we will take our next question from Bryan Bergin with TD Cowen.

Jared Levine

It's actually Jared Levine on for Bryan Bergin today. Can you discuss how you currently partner with benefits brokers across both the Flex and PEO business and how that might evolve over time with Paycor part of your business?

John Gibson

Yes. Well, it's funny you should ask that question. I'm actually going to -- that is something we've been talking a lot about. We're committing to really fostering strong relationships with all the strategic partners, including brokers, we have a very vibrant broker program. Matter of fact, our broker program, referral program was up double digits year-over-year, both in our PEO and our HCM business, so we have a long-standing history.

We've been partnering with brokers for over a decade at Paychex. Paycor certainly has a focus on that. And we have been working on a joint program. Again, as you can imagine, a lot of this is a small group, given where we're at, but we will be launching a major strategic partner program refresh in the coming weeks.

This is going to involve not only the broker channel, but the CPA channel, banks, and strategic advisers. It's going to be a combination of investments we've made in

technology, improved support programs, and also new marketing programs that we think that all of our strategic partners are going to like.

So this is an area of focus for us, and certainly, Paycor, this is a big part of their go-to-market, and we've learned a lot of how they're approaching it and we're taking some of their best practices and some of our best practices and we are looking forward to introducing Paycor to our CPA and our banks and our other financial adviser partners, and we look forward to partnering with their strategic partners as well.

Jared Levine

Great. And then the follow-up here, ignoring the at-risk health insurance, has there been any change in the demand environment relative to last quarter? Or even if you kind of look at the past few weeks there with more of the, call it, tariff-related noise, anything different you're seeing in terms of I guess, the demand environment in recent weeks?

John Gibson

No, Look, on the PEO side, as I said, our bookings are double digits, a good pipeline going into Q4. So the underlying demand there is good. I would say that demand has remained consistent to our historical levels. I think when you look at Q3 in particularly January, February, it was a little softer than the prior year. But if you remember right, the first half of the year, we actually had a higher demand, higher proposal activity.

So when you look on a year-to-date basis. Look, the -- it's an interesting macro environment because there's a lot of optimism and uncertainty, all at the same time. So whenever I hear how people are feeling and you're feeling optimistic and they're feeling uncertain, I look at the data.

And so when I look at the data from a hiring perspective, I look at the data from an out-of-business, I look at data of the increase we've seen our clients add additional sites. So additional locations is up double digits. Those are not indicators of a pending recession or a macro employment problems.

Robert Schrader

I think the other thing I would add to that is just the retention performance has been strong all year, and it was actually better in Q3, as you know, that's an important time of the year for us getting through year-end. In our retention, our client losses are actually down year-over-year. And I think most everyone knows that the largest portion of our losses come from out-of-business and our out-of-business losses were down double digits in the quarter. So as it relates to kind of the stability from a macro standpoint, things seem to be pretty stable, and we're seeing strong improvements in retention year-over-year as well.

John Gibson

Yes. On that point, I would say hats off to the team, too, because not only were uncontrollables down, but also all of our controllable metrics were down as well. So just good solid execution. I think it's a testament of the strength of our value proposition.

Operator

And we will take our next question from Bryan Keane with Deutsche Bank.

Bryan Keane

Congrats on the results here. Just wanted to ask on the Paycor acquisition, the additional cost synergies, exactly where might those be coming from which is giving you some confidence to now talk about some accretion and curious about how much accretion now for fiscal year '26.

John Gibson

Yes. Bryan, I would say this, that you've got 2 public companies coming together. There's obviously redundancies. I don't want to go into a high level of detail, rest assured that both in terms of vendor spend where we have redundancy, where we have best practices, and where we have scale, where that can be leveraged quickly, those are the areas that we were able to very quickly go and validate, and then quite frankly, I think there were some additional things that we found from each other. Some things that

Paycor was doing that I don't know why we weren't doing it, and why we hadn't thought of it, and we're going to take those ideas and apply it really day 2, and we think those are going to drive additional synergies out of the gate.

Robert Schrader

Yes. And Bryan, obviously, as it relates to the size of the accretion, we're not ready to kind of give that guidance yet. I think what we said in early January was that we thought it was going to be neutral to slightly accretive. And so you can see we're a little bit more positive on that. We're fairly confident just based on the work that both teams have been working on over the last several months that this will be accretive to our adjusted EPS next year and will come back in Q4 and size that opportunity for you.

John Gibson

Yes. We -- as I said, I want to keep going back to the process, what we did, but we've been focused on customers. We've been focused on strategic partners and what we got to do to make sure day 1 they're happy and content, and our employees. These are the 3 things we're now returning to what we can do together because, again, it's only a small group of us that can really talk about this.

Until we're closed, we got to get everybody else in the game talking about how we can make the best of this combination. And so one of the things we're thinking about is where do we want to invest?

And I will tell you right now, we made the statement when we told you about the synergies, we still expect it to expand our investment in product and in sales growth and based upon what we found thus far from a cost synergy side, one of the decisions we're going to make as we're going through our budget planning season is how much more we want to invest. So I would also expect to hear us talk about more investments in go-to-market, more investments in product acceleration as well.

Bryan Keane

Got it. And just as a follow-up, thinking about the revenue the -- if you include Paycor, I think you're talking about 10% to 12%. So just trying to think about timing of that. Is

that -- is that basically 2/3 of a quarter contribution? And then as we get our model set for next year, how much revenue should we be putting in for our models for Paycor or for fiscal year '26?

John Gibson

I think just in terms of -- I think what we've said is, we expect this to close in April. And then I think in my script, I said in weeks. So you can probably triangulate.

Robert Schrader

Yes. I mean we don't have an exact date, Bryan. I think as John mentioned, a lot of the closing conditions have been met. We've been focused on and are currently focused on finalizing the permanent financing for the transaction and that process is well underway, and we would expect to finalize that over the next couple of weeks and be in a position to close. So we've obviously given a range because we don't know the exact date, but we will announce it when it closes and then you guys will probably be able to back end the exact impact for Q4 and update your models accordingly.

Operator

And we will take our next question from Ramsey El-Assal with Barclays.

Ramsey El-Assal

In Management Solutions, you flagged higher revenue per client with pricing being a driver. How should we think about pricing as perhaps a lever you might be able to pull if you see any macro deterioration? I guess, what kind of headroom do you see for pricing at this point?

Robert Schrader

Yes. I mean we feel like we have strong pricing power. I mean, we've always been able to within a range achieve that. And I think we feel -- and we've done that in certainly in

downturns as well. If we have a macro downturn, we may not go as high as maybe where we've been in the last couple of years with inflation. So we feel comfortable about that part of our growth formula that we've talked about in that 2% to 4% range.

I would say Q3, we did have strong price realization. I mean revenue per client is a big part of our model. We get that both through the pricing and through product attachment and both of those were strong in Q3. And I would say we did have better price realization in Q3 related to discounting that was favorable and some of those types of things.

We have our year-end processing and there's discounting that takes place there, and that came in a bit better than certainly what it was last year, and so that was a nice tailwind from a growth standpoint in Q3 for us. But we feel good about where we're at from a pricing standpoint.

John Gibson

Yes. I think one of the most important disciplines that you can have is being disciplined about how you grow. And so as I always say, I can have as many clients as I want if I want to pay Google more than the lifetime value to attract that customer I want to discount to a point where over the life of that client I am not going to make anything on it. That's not a good thing to do in an uncertain macro environment. So I certainly think just as we are conservative, we mentioned about our conservatism in underwriting in the PEO and we're not going to do anything there to drive revenue. We're also not going to take business.

So to me, when you face a degree of uncertainty, you got to make sure you're watching the bottom line. You look at our margin expansion of 180 basis points. I don't think anyone could question that. But you also got to watch what you're bringing into the top, and we were watching that as well.

Ramsey El-Assal

Okay. It's a good segue to my next question, which is basically, you flagged investments in AI and automation in terms of helping drive some of the margin expansion this quarter. What's the runway at this point for further benefits from AI and automation? Is this sort of a new input to your kind of margin algorithm? Will it have a similar impact

next year? Or have -- has the lowest hanging fruit been already picked? How would you characterize it?

John Gibson

Well, we've been using -- again, we've been using AI models for almost a decade across the company, hundreds of them to make better decisions in risk, some things we just talked about in discounting is an AI driven. We continue to refine and invest in those models and with the newer technologies around that in terms of the quality of decision-making that the models that can be built. I'm not an expert in this, but we got several around not too far from you. But that's what we're running.

What we're learning is we're applying these models and they're really driving better decisions that we're making at the point of sale at the point of service, good thing on retention. We're intercepting issues using AI and getting in front of them before it becomes a client loss or a client dissatisfier. That's been huge. We've just really started that in the last year, really over the last, I think it's probably now we're into the ninth month of really recording all of the interactions that we're having in any mode of communication between both our service and sales teams.

We're just getting the volume to really be and just beginning to train those models to their full potential. And then more models and more ideas are coming out. I think we talked about it on the script, we're just piloting this HR copilot that's really a productivity and it's not only a productivity improvement for our HR generalists that are serving the client it's also allowing them to provide better, more robust answers to the client.

So it's enhancing the value at the same time. And then we're now beginning to look at AI as a way to make money in terms of what we're doing to provide insights to the clients and products. And then talking to the Paycor team as well from a product road map perspective, I'm impressed with several things that they've got going on. And I really think together under Ryan's leadership of the joint product team, I really think we're going to see a lot of acceleration and exciting things coming out of that in the year ahead.

Operator

And we will take our next question from James Faucette with Morgan Stanley.

James Faucette

I wanted to dig in really quickly on a couple of product-related questions. First, just wondering if you can share any details about early adoption metrics around Flex Engage since its launch? And how should we be thinking about where that will fit in the portfolio?

Robert Schrader

Yes. So Flex Engage is the adoption of that as well. As you can imagine, that's more of an upmarket product for us. And what I'm really excited about is I think when you look at the talent and workforce management capabilities that Paycor brings to the table in addition to Engage, I think that's one of the areas that I think we've got some tremendous opportunities. I would say that they actually have a little better attachment than we do. And so I think it gives us an aspiration of what's possible in terms of engaging our upmarket clients to adopt these capabilities.

James Faucette

Got it. Got it. Got it. And second question I wanted to ask was also a product-related question. On the recruiting Copilot, it's kind of an interesting extension of some of the things you've been developing over time. What are the specific metrics you're using to measure its effectiveness in helping clients find qualified candidates? And can you maybe describe where that fits within the sales cycle wheel for you right now and where you'd like it to get to be eventually?

John Gibson

Yes. So the Copilot that we've launched is a tool that has this database of over 20 million workers that you basically say what you're looking for and it tells you, here's the people, whether they're active or not actively in a job search so that you're not just looking for job seekers, you're looking at the entire job market to do that. And so we're using that across all of our sales teams as part of our entire sales play.

We're also having our customer success individuals who manage account relationships upmarket. We also have our HR journalists talking to our clients who are trying to find qualified employees about using the product. What I would say we've seen earlier, we're looking at the adoption. We're looking at reuse of the product, how many times are they using and how many placements are being done there.

What I would tell you there's an interesting learning on that is we still have work to do to adopt whether or not an AI technology tool is what the entire market is looking for. If I have a recruiter in a large company or if I have an HR person who's the one active recruiter, they love this tool.

But if you're an owner, you may not want to do the tool and do the work. So you're almost now saying, I've almost got to put a solution together. What's great about that is we do that all the time. This concept of being able to take service and technology and put together a solution, that is something we're continuing to work on, and we're going to have to continue to look at.

So what I would say is the adoption and the usage of it is going well upmarket. I would have expected given the demand and the challenges that smaller businesses have that we would have seen a bigger adoption of it at this stage. And so I think we just got more to do on the product there.

Operator

And we will take our next question from Ashish Sabadra with RBC Capital Markets.

Unknown Analyst

This is Will Chi on for Ashish Sabadra. Maybe a bit of a follow-up question there on competitive landscape, if you guys could comment on that. And really curious on those comments about product adoption, if that's been kind of a benefit from your standpoint there as well. And then just as a quick follow-up, maybe if you have any updates on your capital allocation strategy.

John Gibson

Well, I'll let Bob take the capital allocation but I would probably say in both the topics, not much has changed. The competitive market is a competitive market. I've not seen any major shifts in the competitive market at all at this point in time. So when I look at the balance of trade, I look at all the indicators, it's a competitive market. That's what I would say. Bob?

Robert Schrader

Yes. I mean, certainly no change to our capital allocation strategy, continuing to look to invest in the business. I think we're very clear when we announced the transaction, we're committed to the dividend and our payout ratio. The other part of it is M&A.

We're currently executing on that part of the capital allocation strategy. I would say I wouldn't expect anything of significance. We're going forward in the near term, we're certainly focused on integrating Paycor and making this a successful transaction and really getting the synergies out of it that we expect to. And so that's really our area of focus. And overall, no change in philosophy around capital allocation.

Operator

And we will take our next question from Kartik Mehta with Northcoast Research.

Kartik Mehta

I just wanted to get your perspective on the PEO business. I know you've talked a lot about it, and I understand maybe the reason for reducing your guidance. But just if you look at the business holistically, do you think there's been any change -- a fundamental change in the business that would affect kind of the medium-term growth for this business, either new competition or businesses looking at it differently? Or do you think this is just an anomaly and related to kind of benefits and cost of benefits?

John Gibson

Kartik, good to talk to you. I think this is a very unique situation to a specific program we have in Florida. That's really what it is. I don't -- actually, when I look at from a

demand perspective in terms of the number of people that are shopping for health, I think it's actually an improvement in the environment.

Look, there is a health inflation problem. And so what you have now is people -- every time they get the renewal notice, are faced with a situation that they either have to dramatically change their plan design, which a. k. a. can many times mean give less benefits for the same dollar or make trade-offs.

So you're seeing increased shopping there because every time you get a renewal that's higher than you feel like you can afford, you as an employer are beginning to shop that. And the PEO and the nature of the PEO creates an opportunity to scale people together and create a powerful value proposition. So I actually think that the demand -- the macro environment is going to drive increased demand in shopping for competitive health offerings.

Now the question is, where are you going to put them? And in the case for us in Florida, it's not true for all of our competitors in Florida, right, we have a series of options. One, I can put you on a specialty pass-through program, but I'm going to underwrite you and I'm going to look at that or I can put you on a stand-alone plan through our agency.

From an experience of an employer perspective or an employee perspective from a technology like an enrollment, it's exactly the same. It doesn't matter. You just know you got insurance from Blue Cross Blue Shield of Florida. It doesn't matter whether it was in the specialty program or it was on your own stand-alone plan.

So what we saw and what we have seen across the country is we've seen an increase in the attachment of insurance in the PEO. We've seen an increase in participants, what people are selecting, employers are selecting are lower-cost plans, sometimes due to plan design. And then when they're offering a variety of plans to their employees, their employees who may have been on the Premium plan last year are going to the Gold plan, if that makes sense. So that's the dynamic we see going on. It's more of a trade-off inside the client versus a macro change.

Robert Schrader

Yes, Kartik, I would just add, we're very bullish on the PEO opportunity just in general. I think if you look at the value proposition of the PEO, it checks a lot of boxes. As you've heard us talk about our purpose is to help small businesses succeed. And I think that

PEO value proposition really checks a lot of the boxes that small businesses are -- challenges that they're facing.

When you look at the performance of that business, John and I and the team, we're focused on worksite employee growth. At the end of the day, we're trying to sell more and lose less and drive worksite employee growth. And that continues to be strong. We see strong demand. We see strong retention.

If you look at the PEO business alone, if you were to pull that apart, we don't pull it apart for you. But if you were to look at that by itself in the front half of the year, that was a double-digit growing business, and it's still growing strong despite some of the pass-through revenue headwinds that we're going to face as we go forward that have no impact to net service revenue or the bottom line.

So I think in general, we're very bullish on the PEO opportunity. There will be some pass-through revenue headwind until we kind of anniversary that as we get more towards the end of this calendar year, but feel good about the opportunity there.

John Gibson

I mean, Kartik, look, our growth of worksite employees is outpacing the competitive benchmarks that I see. And we're facing the same headwinds that many of them have reported in terms of not the type of hiring inside the base that you would expect. And we commented a little bit earlier about the decrease in average client size.

So in spite of not having clients hire as many people as you expected and in spite of having slightly smaller clients than you historically have seen, you're still growing at better than competitive rates in terms of worksite employees.

Kartik Mehta

That's helpful, John. Bob, just one clarification. I think on the pass-throughs, they were accretive this quarter, right, Bob, from a revenue standpoint, but not going to be as accretive as you anticipated. Is that a fair way to make sure I understand it.

Robert Schrader

Yes, there's growth in pass-through revenues and -- but it's been lower than what we anticipated and will be a headwind as we move forward.

Operator

And we will take our next question from Tien-Tsin Huang with JPMorgan.

Tien-Tsin Huang

As always, it's very complete here. Just thinking about everything you've said, you have Paycor, of course, you've got good retention. We got the update on macro. Has your thinking around sales headcount investment changed at all, whether it's in the aggregate or across the different subunits. Just curious what you're thinking here because you're getting strong productivity, it sounds like in general.

John Gibson

So I think when we announced the acquisition, we made a statement that we would -- that our initial thesis was that we would invest and expand our go-to-market and our sales headcount. And that was part of it. And that you should expect that we would increase the percentage increase in sales headcount out into the future. So when we modeled and thought about this, this was all part of our broader strategy that we believe there was an upmarket opportunity for us to play and looking at investments.

So now what we're doing is we're trying to step back and based upon what we've learned and ask ourselves how much investment do we want to make? And given where we now are on the cost synergies, making the trade-off of whether or not we want to even accelerate more than what we originally planned.

So that will be the topic that once we've closed the acquisition and we've done our budget planning process, which is currently scheduled in the first part of April, I'll leave it at that, that's when we'll make the determination. But I think you should expect to be seeing us increasing our sales coverage model going into fiscal year '26 and beyond.

Tien-Tsin Huang

Got it. No, I recall those statements. I didn't know if relative to PEO, ASO, I know some of those things were asked. I didn't know if there was any major change there from a 90-day perspective. It sounds like we'll wait and hear back when we get back on the call together again. I know you're taking a lot of questions, so just thinking about that, I know Ramsey asked about AI and I asked about productivity.

But it feels like the productivity in general, better than -- better than you expected. Is there anything here beyond AI that you're getting more productivity here out before thinking about Paycor, it does feel like you're running at a different speed from an operating expense standpoint. Tell me if I'm wrong, though, please.

John Gibson

Well, I think Paychex has always operated at a different speed than our competitors when it comes to margins. So I just think it's part of what's kind of in our DNA to do. And I do think that technology is a big play of that in getting AI or whatever. But I look at our clients and our employees' adoption of technology and their preference to leverage our technology tools to do more things self-service and do it their own way, which reduces your overall service cost.

That certainly is a factor. And that's just -- I look at every interaction we have on a particular transaction by the way in which the client or employee completes that transaction. And when I start seeing more and more people using our AI-driven chat versus a call or versus this, that difference in the mode of the way that client was solved.

And when I look at the transactional survey and see that those clients are happier when they do it that way, we do that. And we've just really just began to scratch the surface, I think, of how we can apply AI into our applications to drive the customer service experience.

As I mentioned in the HR business right now, our pilots are really around making our HR generalists more productive. But again, you can certainly see a day where a lot of that is AI-based and AI-driven. So...

Robert Schrader

The other thing I would add to that, Tien-Tsin, is we had a major headwind coming into

this year with the expiration of ERTC, and it was not only a revenue headwind, it was a huge earnings and margin headwind. And so we talked about this, I think, on the call coming into this year when we gave guidance and the margin expansion. And going back to last fiscal year 2024, we were really working on our cost structure because we knew that we were going to face this headwind.

So there's a lot of work around the cost structure last year. And then as you guys know, when we got to the end of Q4, we announced a cost savings plan at the end of Q4 that helped drive margin expansion. And so as John said, it's not just the AI, it's the back-office digital transformation. It's certainly the adoption of digital tools and self-service on the part of our clients and our employees.

There's some globalization opportunities there and so forth. So I know there was a question asked earlier about like what's the opportunity going forward. We still feel that a lot of these technologies and the things that we're working on from a client and employee standpoint will provide us runway to do what we always do which is balancing margin expansion and earnings growth with investment.

And that's what John and I are going to go through. And I think the great news is, we feel like we have a lot of opportunity in front us to be able to continue to invest in the business to drive that sustainable top line growth and at the same time deliver the strong margin expansion and earnings growth that our investors have gotten used to over many years.

Operator

And we will take our next question from Samad Samana with Jefferies.

Samad Samana

Maybe I apologize if I missed this. I know you got asked about the potential Paycor contribution for next year. But Bob, what I wanted to ask was, if I think about the F4Q number, and I know there's a little bit of art involved in it because we don't know the timing of the close yet, but if we think about the implied Management Solutions growth rate for F4Q, excluding Paycor, is that a fair way to think about what the starting point for growth for Management Solutions should be for next year given that F4Q is a quarter that doesn't have ERTC in it against the comp?

Robert Schrader

Yes. I mean, Samad, I mean, it's a good question. I'm going to have to punt on it because I'm just -- we're not giving guidance on next year, and I'm certainly not ready to go through the splits between the categories for next year. So we'll provide more color around that when we get to the end of next quarter.

I mean Management Solutions ex ERTC has been strong. We think there's a lot of opportunity there, both from client base, product attachment, pricing, and I think we'll be able to produce a growth number next year ex Paycor that would be in line with what people would be expecting. And I'll leave it at that until we have the chance to get through our plan review and provide you some more details on it.

John Gibson

I'm going to keep hammering this though, because I think this is important because it's -- quite frankly, I feel like it's almost like not fair to Bob and the team and what I'm asking -- what we're asking them to do from a reporting perspective is because we're looking at integrating the business and integrating parts of Paychex into Paycor and Paycor into Paychex, it's going to be very hard to peel it back because when I take and I say upmarket, whatever I decide to define that as, and I put resources together and I begin to adopt best practices, what is that number going to be?

So I just -- again, just from a perspective of the thing I want to make sure everybody understands is that we are putting a plan together that day 1, this becomes One Paychex. And we're trying to figure out -- certainly to do no harm, we're wanting both stand-alone businesses to grow faster on a stand-alone basis.

But the only way we're going to do that is by putting them together, and that's going to create reporting issues that I'm sure we're going to be talking about well into the future. So I just want to give Bob and his team a little bit of air cover just in terms of where we are in the process and the planning process and try to get you guys to appreciate the complexities of how we're wanting to put this together so we maximize the benefit of the acquisition, right?

Because if I just had it stand-alone and left it alone, that would not be a smart thing to do. There's no way $1 + 1 = 3$ if you do that. So again, I'm just trying to give Bob

and the team a little bit of air cover because I know you have a 1,000 questions about this. So...

Samad Samana

Yes, understood. And we fully appreciate and understand there's a lot of complexities and moving parts. And we're getting asked the question by a lot of investors. So this is why we're trying to push it back to Bob. Maybe if I think about just the expenses in the quarter, and maybe this is of a similar vein, but was there anything from a -- if I exclude the acquisition-related expenses, 1% growth is pretty low.

Obviously, it's a big reflection of the productivity of the organization and your own efforts. But anything in terms of timing of operating expenses or any expenses that you may have otherwise avoided in anticipation of closing the deal? And again, with the full appreciation, this is less of a forward-looking element than understanding the specific quarter, if there was anything that impacted expenses outside of the M&A side in terms of timing?

Robert Schrader

No, I would just say -- I would say business as usual. I mean the quarter from an expense standpoint was in line with our plans and our forecast. Obviously, you highlighted there's some onetime expenses in there related to the acquisition. Outside of that, there was nothing unusual, nothing that shifted from one quarter to the next, pretty much in line with what we were thinking.

Operator

And we will take our next question from Scott Wurtzel with Wolfe Research.

Scott Wurtzel

I'll just ask one question, just going back to the PEO segment. And wondering when we think about the trends in the quarters and now your updated guide for fiscal '25, if we can maybe kind of split out the softer trends between the MPP in Florida and the trade-

off to lower cost health benefits, how we should think about sort of that split impacting the growth in the business right now?

Robert Schrader

I'd say one more time, Scott, I think both of them are affecting the MPP. So it's the lower -- I think there's a few issues. You have the lower attachment. Certainly, from an underwriting standpoint, we're seeing more medical plans in Florida. We've seen a larger increase of those plans going to the agency versus our at-risk plan, and that's just us being conservative in our underwriting.

And then there's the buydown, people buying down to lower cost options, that's almost 2x the number of people buying down than what we've seen historically. So it's a combination of all 3 of those things. I don't have the exact split on each one of them. But all 3 of those combined is what's really leading to lower MPP enrollment and pass-through revenues in the PEO. Did I capture your question?

Scott Wurtzel

Yes. Yes. No, I was just wondering about if there was any way to kind of quantify the split between those factors, but that's helpful.

Operator

And we will take our next question from Jason Kupferberg with Bank of America.

Jason Kupferberg

So I'm just trying to think about Management Solutions growth for Q4. I mean if we look at Q3, I guess we're calculating out about a 1.5% headwind on the segment from ERTC. So that would put you, I think, just a hair above 6%, excluding ERTC. If all that math is right, is that a reasonable number to think about for Q4? And just to confirm, I think you guys said the Q4 guide assumes no change in the macro. I know there's been some data points out there just around declines in small business confidence. So I just wanted to square all that.

Robert Schrader

Yes. I mean I'm not giving specific guidance on the split for Q4 Jason, I would say your Q3 math seems about right. And as I mentioned, I do think there was a little bit of a tailwind in Q3 from a price realization standpoint. Certainly, we saw a lot better discounting on some of our year-end processing that we have that hits Q3. And so that served as a little bit of a tailwind in Q3 that certainly wouldn't repeat in Q4.

I'd say from a Q4 standpoint, there is a lot of uncertainty right now. John mentioned checks per client, I think, overall have been stable. They were up modestly in the first half of the year. They were down modestly in Q3 and flat on a year-to-date basis. And so we're assuming that some of the trends that we saw in Q3 continue in Q4.

And then I think the other potential impact of Management Solutions is asset balances. I mean that's been -- the 401(k) business has been a double-digit grower for us all year. And we've gotten a nice lift from the market performance. And you've all seen what the market has done recently. So we would expect that to be a little bit of a headwind. So those are kind of things that would balance out some of the farmers math that you're doing there.

Jason Kupferberg

Okay. That's good color. Just as a follow-up, on the Paycor side, any rough sizing you can give us on the expected revenue synergies? I mean I know there's a lot of cross-sell opportunity, but just wanted to see if we're in a position to put any numbers around it? Or will we get that next quarter?

John Gibson

That will be next quarter. As I said, that's really the next phase of what we've got to get into. And as you can imagine, trying to -- we've been trying to focus on our clients and the customers, mutual customers, our strategic partners and making sure we got programs to care for them and then take care of the employees and employee impact as we go through the integration, and we're now beginning to pivot and will pivot towards working on the growth side of that in the coming weeks. Okay. I think Madison, are we

done with questions?

Operator

That concludes our question-and-answer period. I would now like to turn the call back over to John Gibson for closing remarks.

John Gibson

Okay. Well, at this point, we'll close the call. As I said at the start of this, these are exciting times at Paychex and appreciate your interest in the company. If you're interested in replaying the webcast of this conference call, it will be archived for approximately 90 days. And again, thank you for your interest in Paychex, and have a great day.

Operator

Thank you. That concludes today's third quarter 2025 Paychex Earnings Conference Call. You may now disconnect your lines at this time, and have a wonderful day.