

Best Practices for Controlling State Unemployment Costs

Carolinas Payroll Conference

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Six Important Questions



Who is impacted/responsible stakeholder?

How is state unemployment calculated?

Where is unemployment being felt mostly?

Why have unemployment costs increased?

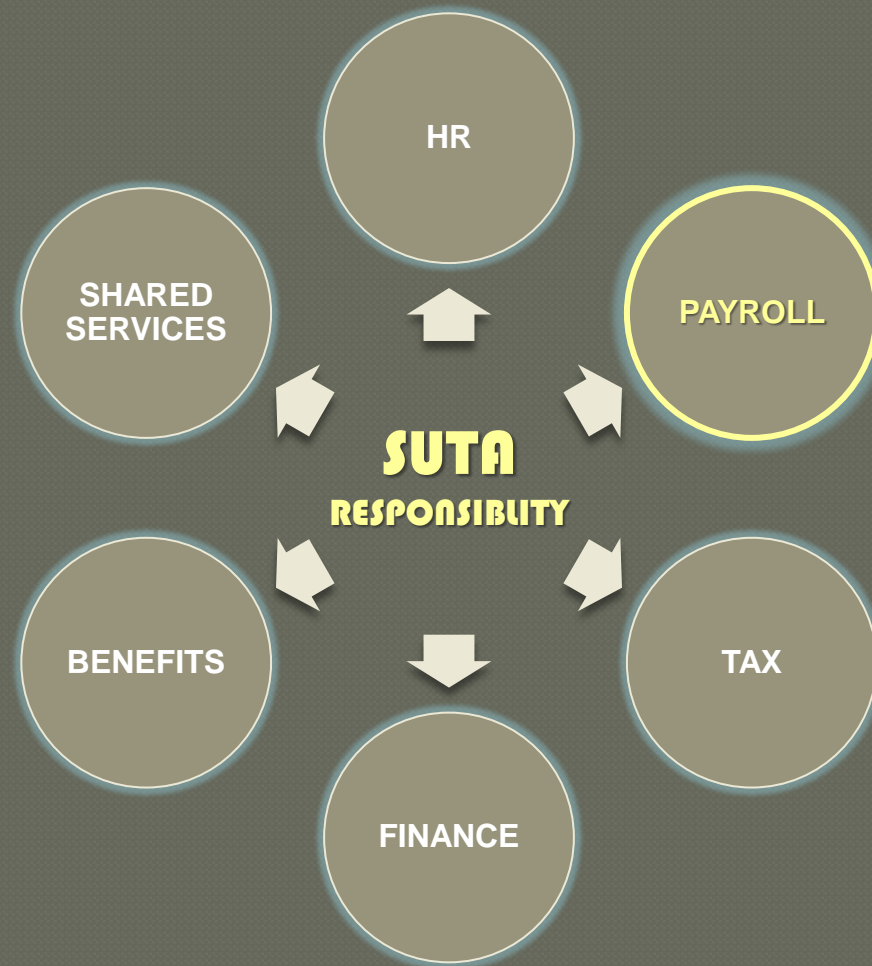
When can unemployment be most impacted?

What can I do to control my unemployment?

Emerging Issues in Unemployment

Who is Impacted/Responsible Stakeholder?

Shared Responsibility



SUI Tax Cost Comparison

National Averages

Domestic Employment	Taxable Wages	Taxable Payroll	Median Tax Rate	Estimated Tax Cost
50,000	\$17,400	\$870,000,000	2.98%	\$25,926,000
10,000	\$17,400	\$174,000,000	2.98%	\$5,185,200
1,000	\$17,400	\$17,400,000	2.98%	\$518,520
500	\$17,400	\$8,700,000	2.98%	\$259,260
100	\$17,400	\$1,740,000	2.98%	\$51,852

Emerging Issues in Unemployment

How are Unemployment Tax Rates Calculated?

Glossary of Tax Rate Definitions

EXPERIENCE RATING: unemployment tax rates are based on the stability of the employment history of an organization

RESERVE BALANCE: sum of the total contributions paid, less unemployment claims collected against an account. Positive or Negative

RESERVE RATIO: reserve balance divided by taxable payroll

BENEFIT CHARGES: unemployment benefit payments made to previous employees

BENEFIT RATIO: benefit charges divided by taxable payroll

Benefit vs. Reserve States

BENEFIT RATIO STATES

- 20 States use this calculation
- Calculates tax rate based on Taxable Payroll & Benefit Charges
- Benefit Charges collected have a more direct effect on the unemployment tax rate

RESERVE RATIO STATES

- 34 States use this calculation
- Calculates tax rate based on Taxable Payroll, Benefit Charges & Reserve Balance
- Reserve Balance is like your “Bank Account” for unemployment taxes

Reserve Ratio States

States Where Tax Contributions Most Affect Rate

Arkansas	Louisiana	New Jersey
Arizona	Massachusetts	New Mexico
California	Maine	New York
Colorado	Michigan	Ohio
District of Columbia	Missouri	Pennsylvania
Georgia	Montana	Rhode Island
Hawaii	Nebraska	South Carolina
Idaho	North Carolina	South Dakota
Indiana	North Dakota	Tennessee
Kansas	Nevada	West Virginia
Kentucky	New Hampshire	Wisconsin

Benefit Ratio States

States Where **Unemployment Claim Activity** Most Affect Rate

Alabama	Mississippi
Alaska*	Oklahoma
Connecticut	Oregon
Delaware	Pennsylvania**
Florida	Texas
Illinois	Utah
Iowa	Virginia
Maryland	Vermont
Michigan**	Washington
Minnesota	Wyoming

* Payroll Stabilization (AK)

**Combination of Reserve & Benefit Ratio state (PA & MI)

State of North Carolina Reference Chart

Rate Calculation	Reserve State	Maximum Tax Rate	6.84%
Wage Base	\$20,900	Penalty Rate	N/A
Rate Issue Date	11/20	Weekly Benefit Amount - Max	\$535 Now 350
Joint Accounting	Unity	Max Potential Benefit Amount (26 reduced to 20 weeks)	\$13,910 Now \$9,100
Voluntary Contributions	Yes (12/20)	Respond to Claim (Deadline)	10 Days
New Business Rate	1.20%	1st Level Appeal (Deadline)	20 Days
NBR (Duration)	2 Years	Worksite State	No
Minimum Tax Rate	0.00%		

North Carolina Unemployment Rate Notice

2015 Tax Rate

	Payroll	Credit
Account balance as of 07/31/2011		257.26
Trust Fund Interest earned		0.00
Adjustment to balance since July 31 st		0.00
Account balance received by transfer		0.00
Payroll current Year from Predecessor	0.00	
Payroll 1 st pre Year from Predecessor	0.00	
Payroll 2 nd pre Year from Predecessor	0.00	
Payroll for the year July – June – 2009 -2010	0.00	
Payroll for the year July – June – 2010-2011	25,727.66	
Payroll for the year July – Sept– 2011	31,361.27	313.60
Payroll for the year Oct – Dec– 2011	24,076.38	240.75
Payroll for the year Jan - Mar– 2012	36,273.66	362.71
Payroll for the year Apr – June – 2012	32,422.04	324.20
Less amount no credible this year		-0.00
Unemployment Insurance benefit charges		0.00
YOUR ACCOUNT BALANCE AS OF JULY 31 st 2012		1,498.52

3 Fiscal Years Payroll of 149,861.01 divided by reserve balance of 1,498.52 = 0.90 reserve ratio which equates to a **3.00 % rate**

State of North Carolina

M & A / Reorganization Chart

Common Ownership

Total Reorganization

- **Commingled** immediately if on 1st day of year, successor for remainder of year otherwise.

Common Ownership

Partial Reorganization

- **Commingled** immediately if on 1st day of year, successor for remainder of year otherwise.

(Non) Common Ownership

Total Reorganization

- **Mandatory** transfer with an immediately commingled rate.

(Non) Common Ownership

Partial Reorganization

Optional transfer with an immediately commingled rate.

New Company (Reorg)

- **Commingled** rate as of the date the transfer occurred.

Emerging Issues in Unemployment

Where is Unemployment Being Felt & Why Costs Have Increased?

Legislative Updates

Federal & State Levels

STATE

- ◉ **5 states increased** rate schedule or rate calculation factors (2013 to 2014)
- ◉ **13 states decreased** rate schedule or rate calculation factors (2013 to 2014)
- ◉ **23 state increased** taxable wage bases (2013 to 2014) **2 states decreased**
- ◉ **4 states increased** rate schedule or rate calculation factors (2014 to 2015)
- ◉ **12 states decreased** rate schedule or rate calculation factors (2014 to 2015)
- ◉ **25 state increased** taxable wage bases (2014 to 2015)

FEDERAL

- ◉ Since December 2008, 32 states have borrowed over **\$40 billion** from the federal government
- ◉ If any of these states can't pay back their balance within two years of borrowing, employers will **lose 0.30%** of the FUTA tax credit annually
- ◉ 19 states defaulted in 2013. 8 states defaulted in 2014. 5 states are projected to default in 2015.

FUTA Tax Review

Potential Employer Cost Impact

FUTA Tax Rate	FUTA Wage Base	FUTA Tax Impact
6.00%	\$7,000	\$420 Per Employee

FUTA Tax Rate	FUTA Tax Credit	FUTA Tax Rate (Net: less credit)	FUTA Tax Impact
6.00%	5.40%	0.60%	\$42 Per Employee

Please Note:

- If Federal Title XII loan remains outstanding for two years, employers in the affected state lose 0.30% of the 5.4% credit (or \$21 per employee)
- **0.30%** FUTA credit loss continues for every year the Federal Title XII loan remains unpaid (Example: Year 1 = 0.3%; Year 2 = 0.6%, etc.)

Title XII Loan Update

State	Account Balance (10/8/2015)	Borrowing Commenced
CALIFORNIA	\$6,058,176,177	2009
CONNECTICUT	\$101,805,660	2009
INDIANA	\$250,374,023	2008
OHIO	\$874,835,016	2009
VIRGIN ISLANDS	\$72,196,508	2009

Title XII Loan Update

State	Borrowing Commenced	2015 Projected Rate
California	2009	2.10%
Connecticut	2009	2.60%
Indiana	2008	2.40%
Ohio	2009	2.10%
Virgin Islands	2009	2.10%

Federal Unemployment Tax SUI Impact

Taxable Wage Base Less Than \$15,000

State	Wage Base	State	Wage Base	State	Wage Base
AL	\$8,000	KY	\$9,900	OH	\$9,000
AR	\$12,000	LA	\$7,700	PA	\$9,000
AZ	\$7,000	MA	\$15,000	PR	\$7,000
CA	\$7,000	MD	\$8,500	SC	\$14,000
CO	\$11,800	ME	\$12,000	TN	\$9,000
DC	\$9,000	MI	\$9,500	TX	\$9,000
FL	\$7,000	MO	\$13,000	VA	\$8,000
GA	\$9,500	MS	\$14,000	WI	\$14,000
IL	\$12,960	NE	\$9,000	WV	\$12,000
IN	\$9,500	NH	\$14,000		
KS	\$12,000	NY	\$10,500		

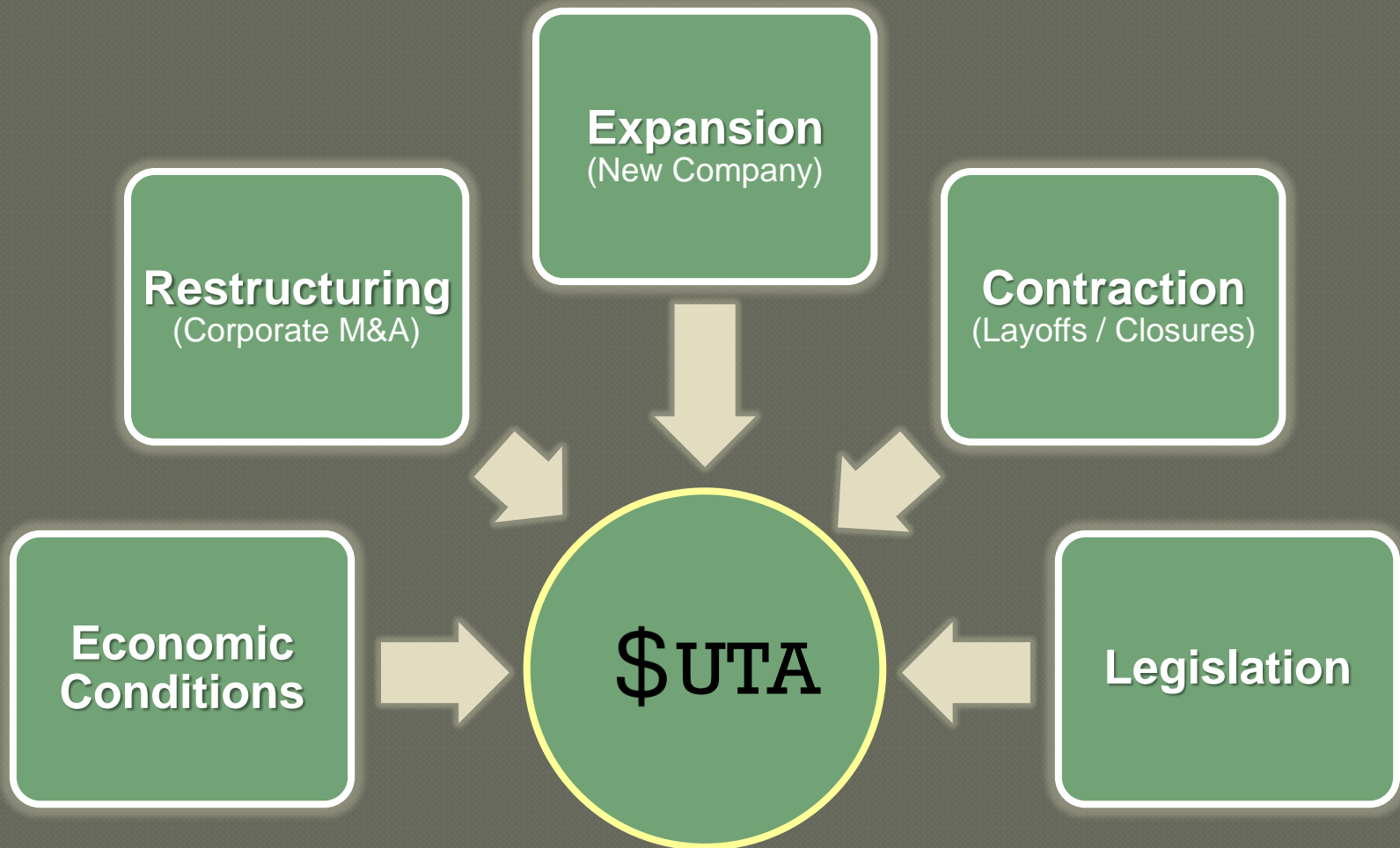
NOTE: Proposed 2016 FUTA wage base increase to \$15,000

Emerging Issues in Unemployment

When Can Unemployment be Impacted & What Can I do to Help?

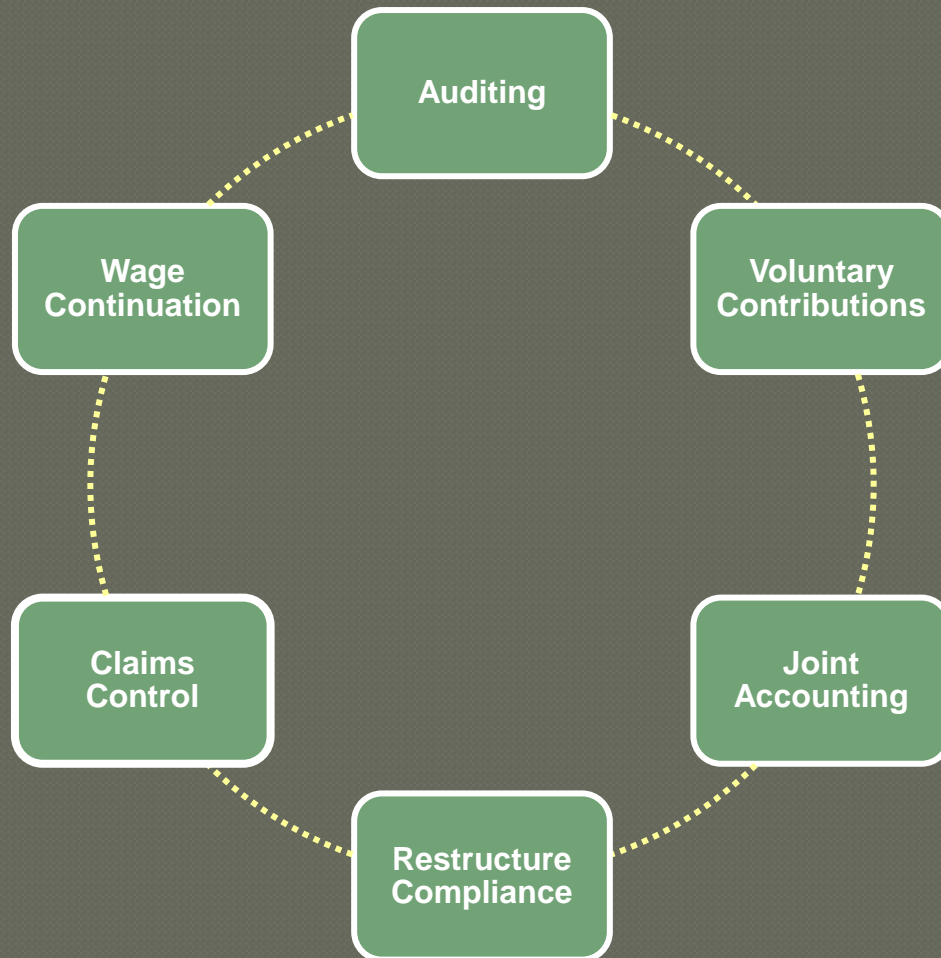
Major Cost Drivers

State Unemployment Costs



How to Control Unemployment

Cost Impact Techniques



Audit Review & Recovery

Pennsylvania Penalty Assessment

We identified an error in their issued rate (10.7886%). After further investigation, the state **issued an additional penalty assessment of 3.153%**. The penalty rate was originally assigned due to incorrect account balancing derived from interest and penalty of \$123.48 as a result of "underpaying" the 1st Quarter.

Taxable Payroll	UI Tax Rate (Issued)	UI Tax Rate (Revised)	UI Tax Rate Differential	Projected Tax Savings
\$9,182,000	10.7886%	7.6356%	3.1530%	\$289,508

Joint Accounting

NJ based Pharmaceutical Company: By sharing unemployment tax reserves between commonly owned subsidiaries the following actual savings was secured:

Company Name	Estimated Taxable Payroll	Individual Tax Rate	Joint Tax Rate	Reserve Balance	Actual Savings
Company A	\$62,764,560	6.10%	1.20%	(\$3,240,356)	\$3,075,463
Company B	49,023,381	2.60%	1.20%	3,563,365	686,327
Company C	27,465,313	2.30%	1.20%	2,164,587	302,118
Company D	52,806,850	1.60%	1.20%	6,858,509	211,227
Company E	12,357,890	1.60%	1.20%	1,295,358	49,4302
Company F	0	1.60%	1.20%	1,531,686	0
Company G	22,990,173	1.20	1.20%	6,092,569	0
Company H	28,598,645	1.20	1.20%	5,325,672	0
Company I	43,490,062	1.20	1.20%	10,996,033	0
Company J	0	3.70	1.20%	8,890	0
Joint Acct Totals	\$299,496,874		1.20%	\$23,954,804	\$4,324,568

Voluntary Contribution

Payment Contribution to Minimum Rate

30 Employees
Voluntary Contribution
Next Rate Group

1,030 Employees
Voluntary Contribution
Next Rate Group

1,030 Employees
Voluntary Contribution
Min Rate Group

Taxable Payroll

\$270,000

\$9,540,000

\$9,540,000

Current Tax Rate

6.22%

6.22%

6.22%

Voluntary Contribution

(\$1,000)

(\$1,000)

(\$12,000)

Revised Rate

6.12%

6.12%

0.22%

Gross Savings

\$270

\$9,540

\$572,400

Annual Net Savings

(\$730)

\$8,540

\$560,400

Restructure Compliance

Transfer Rate vs. New Business Rate

State	Taxable Payroll	Existing Tax Rate	New Business Tax Rate	NBR Duration	1 st Year Savings	Total Savings
OH	\$4,500,000	1.40%	2.70%	2 Years	\$58,500	\$117,000
PA	\$4,000,000	2.4370%	3.7030%	2 Years	\$50,640	\$101,280
MI	\$4,750,000	1.53%	3.36%	2 Years	\$86,925	\$173,850
Estimated Savings:					\$196,065	\$392,130

**Example based on estimated 500 employees per state*

Restructure Compliance

Entertainment Client

This company acquired property during its entry into the state of Ohio. There were three existing entities at the point of acquisition. They avoided a maximum tax rate (from one of the properties) and secured a near minimum tax rate to save for (at least) the next 3 years as follows:

Year	Estimated Taxable Payroll	Potential (Transfer) Rate	Secured Tax Rate	Projected Tax Savings
2013	\$1,500,000	9.60%	0.90%	\$129,000
2014	1,500,000	9.60%	0.90%	129,000
2015	9,500,000	8.60%	3.00%	532,000
Corporate Restructure Compliance Tax Savings				\$790,000

Unemployment Claims Control

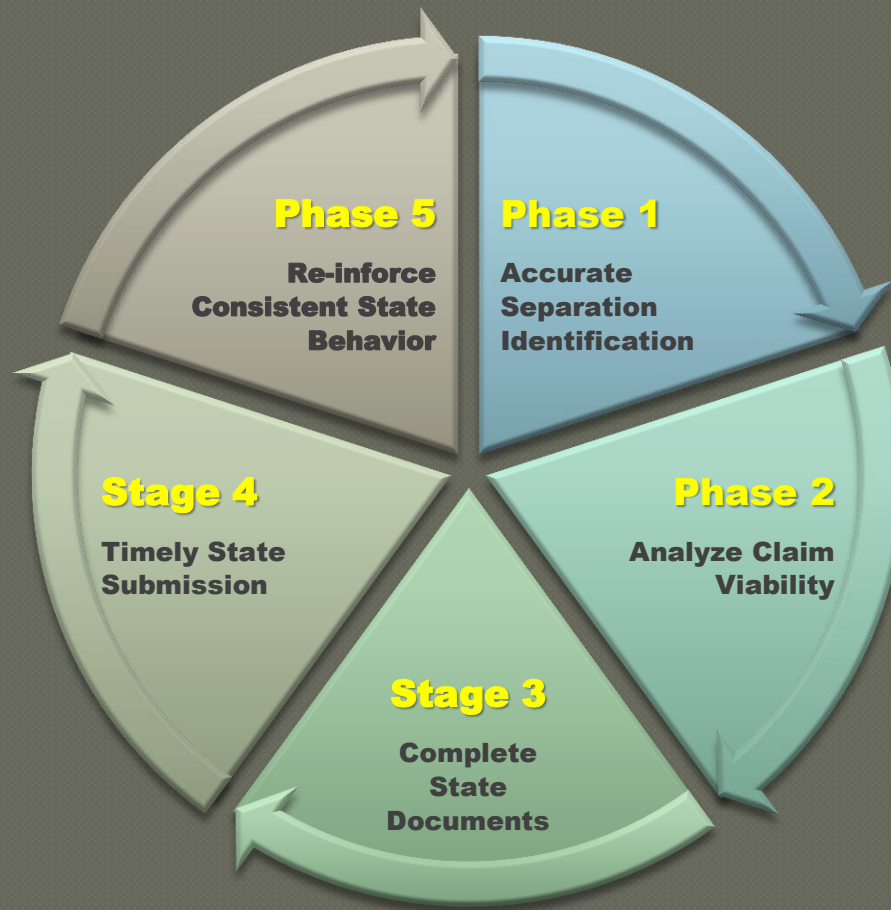
Tax Cost Impact Projection

State	Company Name	Additional Wins	Taxable Payroll	2014 Tax Rate	Projected Tax Rate	Estimated Savings
TX	Company 1	(30)	\$49,537,793	1.57%	1.37%	\$99,076
IL	Company 2	(5)	38,251,646	3.35%	3.25%	38,252
NC	Company 3	(2)	38,015,939	1.440%	1.356%	31,933
TN	Company 4	(95)	36,611,109	0.32%	0.25%	25,628
CA	Company 5	(1)	36,266,360	5.30%	5.00%	108,799
OH	Company 6	(24)	33,616,841	1.00%	0.80%	67,234
FL	Company 7	(2)	29,487,927	2.94%	2.92%	5,898
GA	Company 8	(3)	27,950,461	1.08%	0.96%	33,541
PA	Company 9	(7)	22,819,007	6.4795%	6.3744%	23,983
NY	Company 10	(1)	21,043,779	3.20%	3.10%	21,044
		(170)			Top 10 States	\$455,386
					All States	\$1,436,739

Emerging Issues in Unemployment

Claims Management Process / Final Thoughts

Best Practice: Claim Process



Best Practice - Separations

Documentation Checklist

	Company Policy	Signed Acknowledgment	Warnings	Incident Reports	Additional Documentation
Alcohol or Drugs Company Property	Y	Y			<ul style="list-style-type: none"> ✓ Drug Test Results ✓ Chain of Custody (Drug Administrator) ✓ Rehab Program (Employee Explanation)
Absenteeism Tardiness	Y	Y	Y		<ul style="list-style-type: none"> ✓ Attendance Records ✓ Call-In / Time Sheets ✓ Dr. Note ✓ Corrective Action
Insubordination Personal Misconduct	Y	Y	Y	Y	<ul style="list-style-type: none"> ✓ Witness Statements (Testimony)
Theft Company Property	Y	Y			<ul style="list-style-type: none"> ✓ Signed/Written Admission ✓ Video Surveillance ✓ Police Report(s) ✓ Complete List (missing items)
Fighting Company Property	Y	Y	Y	Y	<ul style="list-style-type: none"> ✓ Witness Statements ✓ Med Records (injuries) ✓ Police Reports ✓ Convictions
Employee Harassment	Y	Y	Y	Y	<ul style="list-style-type: none"> ✓ Witness Statements (Testimony)
Monetary Funds Shortages/Overages	Y	Y	Y		<ul style="list-style-type: none"> ✓ Merchandise Receipts ✓ Cash Register Receipts
Company Property Destruction	Y	Y	Y		<ul style="list-style-type: none"> ✓ Written Admissions ✓ Signed Witness Statements ✓ Police Reports/Repair Estimates ✓ Property Damages (pics)
Employee Record Falsification	Y	Y	Y		<ul style="list-style-type: none"> ✓ Falsified Records ✓ Proof of Falsification

Process Improvement Recommendations

Unemployment Business Process



#1 Know Where your Costs are & Why they Changed

#2 Maximize State Regulated Savings Techniques

#3 Follow up Ensuring Unemployment Claims are Under Proper Review

#4 Review Address of Record (re-file POA forms)

#5 Project both SUTA and FUTA rates (or have TPA project them)

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