




EMERGING ISSUES IN STATE UNEMPLOYMENT

WHAT WAS “THEN” IS NOT THE “NOW”

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SIX IMPORTANT QUESTIONS



Who is impacted/responsible stakeholder?

How is state unemployment calculated?

Where is unemployment being felt the most?

Why have unemployment costs changed?

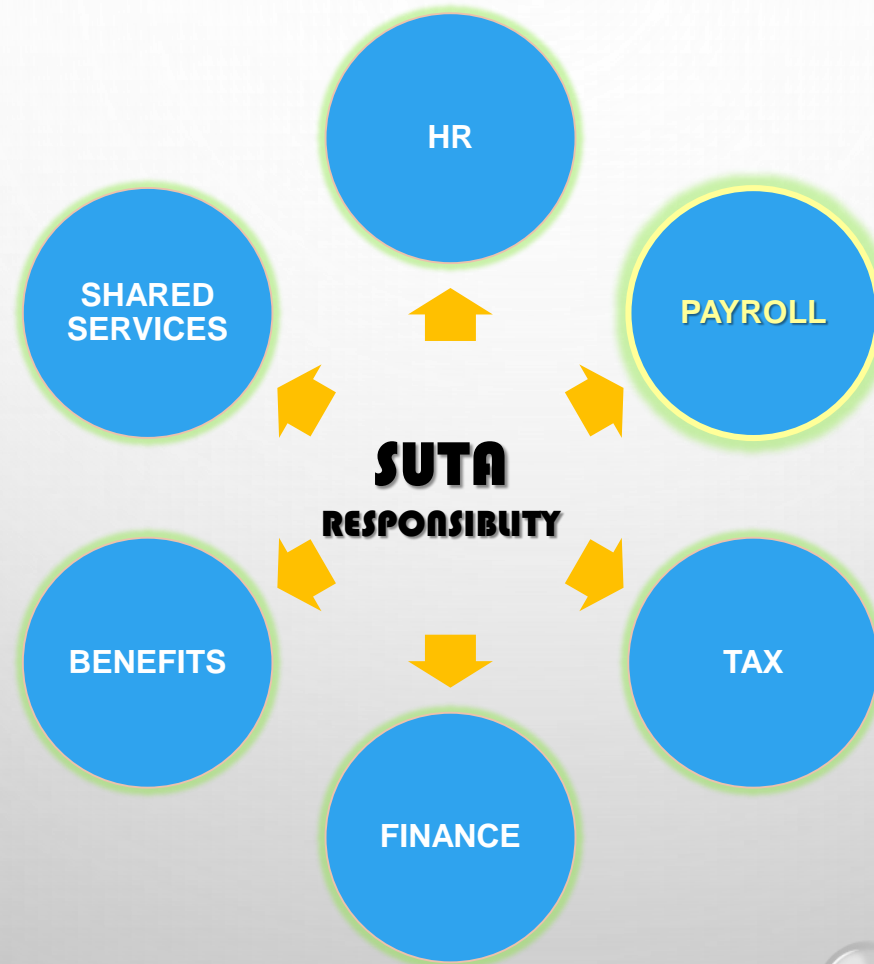
When can unemployment be most impacted?

What can I do to control my 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	\$13,600	\$870,000,000	2.71%	\$18,428,000
10,000	\$13,600	\$174,000,000	2.71%	\$3,685,600
1,000	\$13,600	\$17,400,000	2.71%	\$368,560
500	\$13,600	\$8,700,000	2.71%	\$184,280
100	\$13,600	\$1,740,000	2.71%	\$36,856

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How is state unemployment calculated?

GLOSSARY OF TAX RATE DEFINITIONS

EXPERIENCE RATING	<ul style="list-style-type: none">• Unemployment tax rates are based on the stability of the employment history of an organization
RESERVE BALANCE	<ul style="list-style-type: none">• Sum of the total contributions paid, less unemployment claims collected against an account. Positive or Negative
RESERVE RATIO	<ul style="list-style-type: none">• Reserve balance divided by taxable payroll
BENEFIT CHARGES	<ul style="list-style-type: none">• Unemployment benefit payments made to previous employees
BENEFIT RATIO	<ul style="list-style-type: none">• Benefit charges divided by taxable payroll

BENEFIT VS RESERVE STATES

• BENEFIT RATIO STATES

- ❖ 22 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
- ❖ SC & NM recently converted

• RESERVE RATIO STATES

- ❖ 31 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

Note: PA & MI use both Benefit and Reserve ratios in rate calculations

RESERVE RATIO STATES

States Where ***Tax Contributions*** Most Affect Rate

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

BENEFIT RATIO STATES

States Where *Unemployment Claim Activity* Most Affect Rate

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

* Payroll Stabilization (AK)

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

STATE OF MISSOURI

STATE REFERENCE CHART

Rate Calculation	Reserve State	Maximum Tax Rate	9.75%
Wage Base	\$13,000	Penalty Tax Rate	Not Applicable
Rate Issue Date	11/16	[Maximum] Weekly Benefit Amount	\$320
Joint Accounting	Yes (3/31)	[Maximum] Potential Total Benefit Amount	\$6,400 (20 Weeks)
Voluntary Contributions	Yes (1/15)	Claim Response (Deadline)	10 Days
New Business Rate	3.51%	1 st Level Appeal (Deadline)	30 Days
NBR (Duration)	2 Years	Worksite State	No
Minimum Tax Rate	0.00%		

MISSOURI UNEMPLOYMENT RATE

½ Yr Periods	Taxable Wages	Contributions	Benefits Charged	Account Balance
	Summary of Activity -> ->	\$513,523.01	233,201.87	
2012 2	219,147	2,848.93	6,080.00	
2013 1	2,404,188	28,979.01	9,605.27	
2013 2	154,135	1,803.39	600.26	
2014 1	2,419,281	28,305.61		
2014 2	158,268	1,851.74		
2015 1	2,359,330	24,537.04	1,127.54	
Average Annual Payroll \$2,571,449		601,848.73 -	250,614.94 =	351,233.79
Percentage Excess = $351,233.79 / 2,571,449 = 13.65\%$				
				0.400%
			$0.400 * 30\% =$	+ 0.120%
		Total Contribution Rate =		0.520%

M & A REORGANIZATION CHART

STATE OF MISSOURI

Common Ownership

Total Reorganization

- **Commingled immediately** if on 1st day of quarter, successor for one quarter otherwise

Common Ownership

Partial Reorganization

- **Commingled immediately** if on 1st day of quarter, successor for one quarter otherwise

(Non) Common Ownership

Total Reorganization

- Mandatory - **Commingled immediately** if on 1st day of quarter, successor for one quarter otherwise

(Non) Common Ownership

Partial Reorganization

- Optional - **Commingled immediately** if on 1st day of quarter, successor for one quarter otherwise

New Company (Reorganization)

- **Commingled immediately**

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Where is unemployment being felt & **why** costs have changed?

LEGISLATIVE UPDATES

FEDERAL & STATE LEVELS

• STATE

2014 – 2015

- 4 states increased rate schedules or calculation factors
- 12 states decreased rate schedules or contribution factors
- 25 states increased taxable wage bases

2015 – 2016 (2017)

- 6 states increased rate schedules or calculation factors
- 14 states decreased rate schedules or contribution factors
- 25 states increased taxable wage bases
- (2017) 5 states have announced increases while 1 state announced a decrease

• FEDERAL

- Only 2 jurisdictions have outstanding loans:
 - California \$3.35 billion
 - Virgin islands \$69.2 million
- **CA and VI** will have a 2016 FUTA rate of **2.40%**
- **OH** will be at **0.60%** for 2016, but there will be an fee in the 1st quarter of 2017 of ~\$50/EE

SUI TAXABLE WAGE CHANGES 2014 - 2016

<u>State</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>	<u>State</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>
Alaska	\$ 40,000	\$ 38,700	\$ 37,400	North Carolina	\$ 22,000	\$ 21,700	\$ 21,400
Colorado	\$ 11,900	\$ 11,800	\$ 11,700	North Dakota	\$ 37,600	\$ 35,600	\$ 33,600
Florida	\$ 7,000	\$ 7,000	\$ 8,000	Oklahoma	\$ 15,300	\$ 17,000	\$ 18,700
Hawaii	\$ 41,400	\$ 40,900	\$ 40,400	Oregon	\$ 36,400	\$ 35,700	\$ 35,000
Idaho	\$ 36,800	\$ 36,000	\$ 35,200	Pennsylvania	\$ 9,500	\$ 9,000	\$ 8,750
Iowa	\$ 28,300	\$ 27,300	\$ 26,800	Rhode Island	\$ 21,800	\$ 21,200	\$ 20,600
Kansas	\$ 14,000	\$ 12,000	\$ 8,000	South Carolina	\$ 16,000	\$ 14,000	\$ 12,000
Kentucky	\$ 10,200	\$ 9,900	\$ 9,600	South Dakota	\$ 16,000	\$ 15,000	\$ 14,000
Massachusetts	\$ 16,000	\$ 15,000	\$ 14,000	Utah	\$ 31,800	\$ 31,300	\$ 30,800
Minnesota	\$ 31,000	\$ 30,000	\$ 29,000	Vermont	\$ 16,800	\$ 16,400	\$ 16,000
Montana	\$ 30,000	\$ 29,500	\$ 29,000	Virgin Islands	\$ 23,300	\$ 22,900	\$ 22,500
Nevada	\$ 28,200	\$ 27,800	\$ 27,400	Washington	\$ 44,000	\$ 42,100	\$ 41,300
New Jersey	\$ 32,600	\$ 32,000	\$ 31,500	Wyoming	\$ 24,900	\$ 24,700	\$ 24,500
New York	\$ 10,700	\$ 10,500	\$ 10,300				

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:

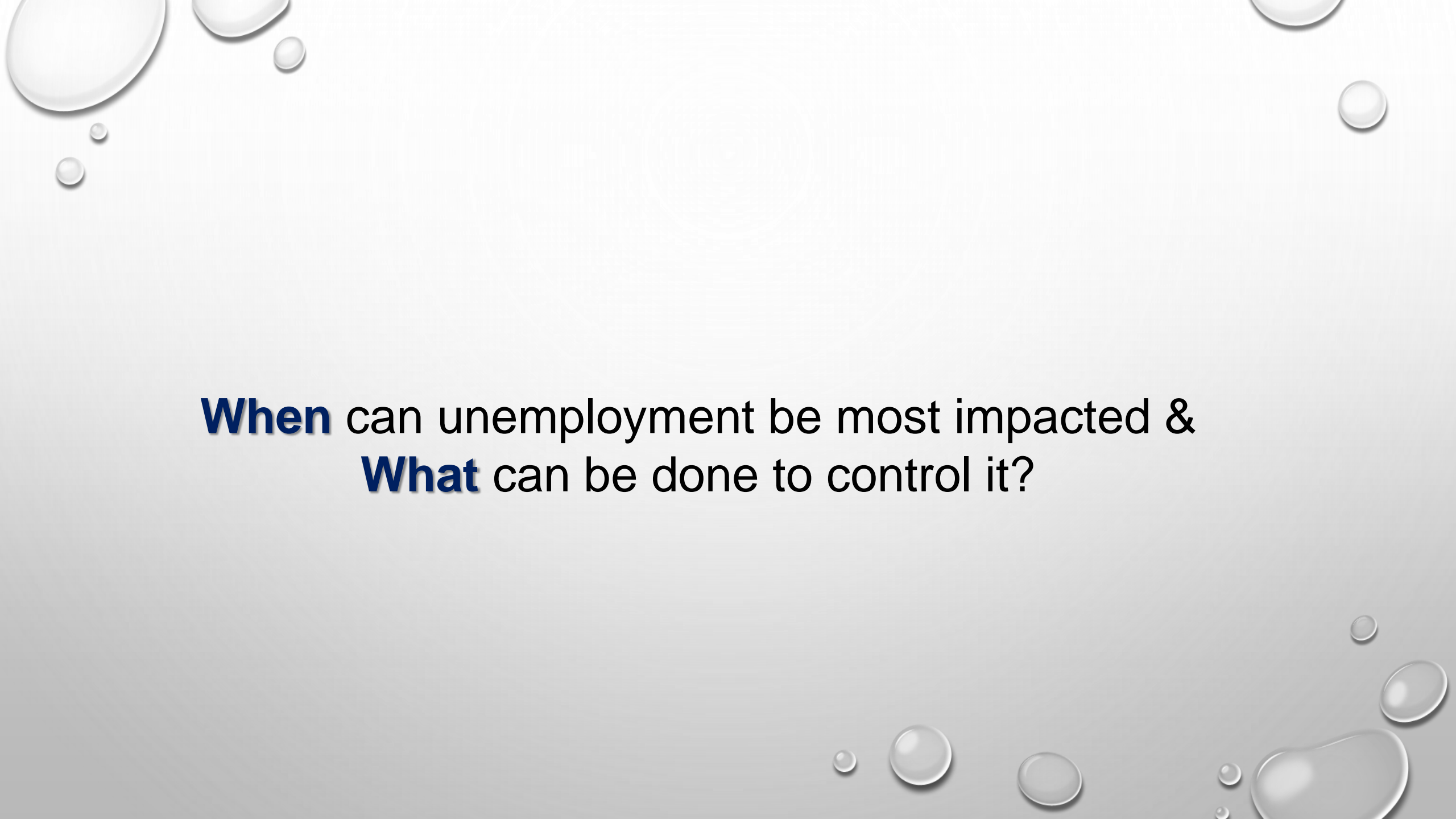
- ❖ If Federal Title XII loan remains outstanding for two years, employers in the affected state lose 0.30% of the 5.4% credit (or \$21 per employee)
- ❖ **0.30%** FUTA credit loss continues for every year the Federal Title XII loan remains unpaid (Example: Year 1=0.3%; Year 2=0.6%)

FEDERAL UNEMPLOYMENT TAX SUI IMPACT

POTENTIALLY IMPACTED STATES (\$15,000 WAGE BASE)

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		

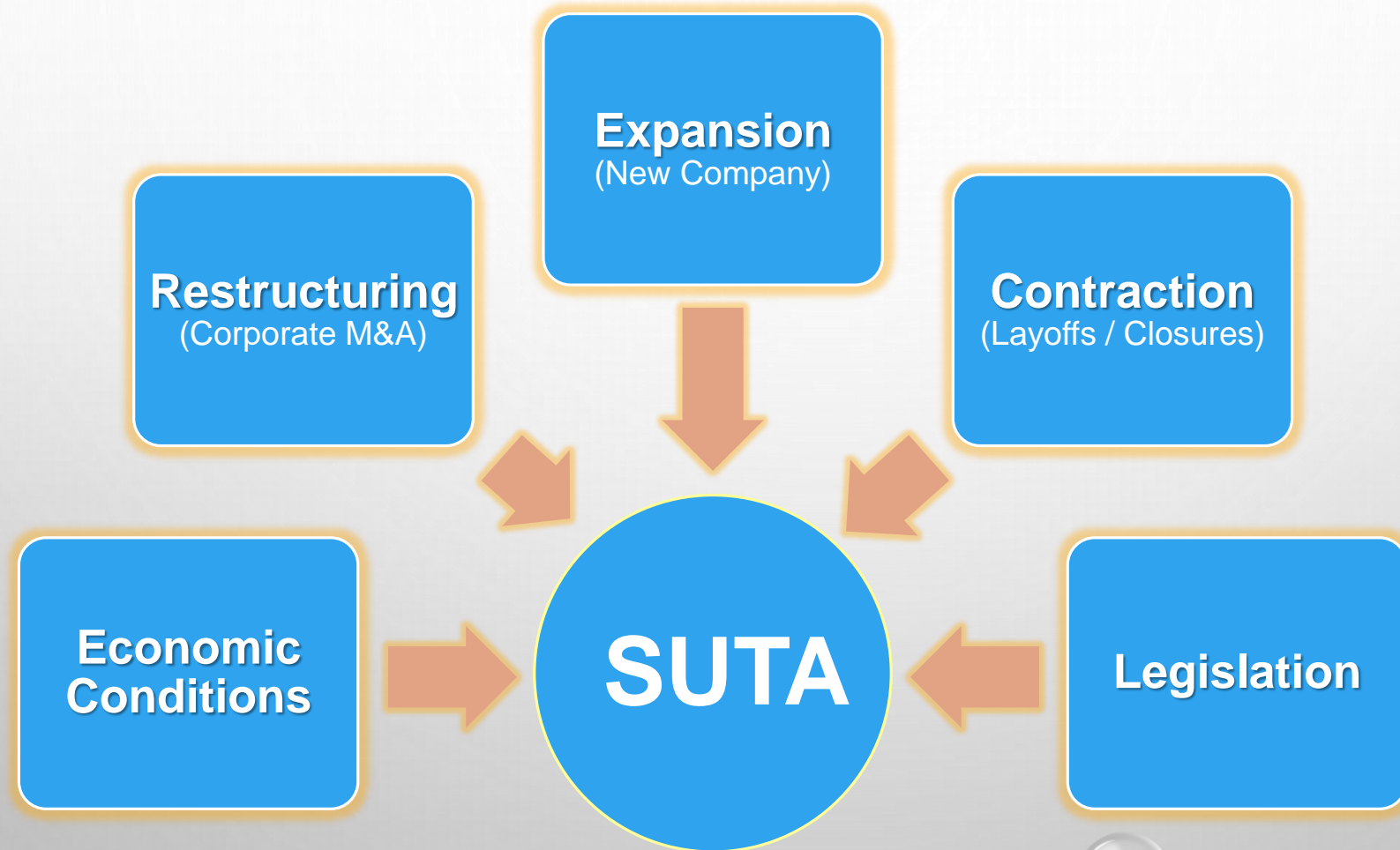
NOTE: Proposed 2017 FUTA wage base increase to \$15,000

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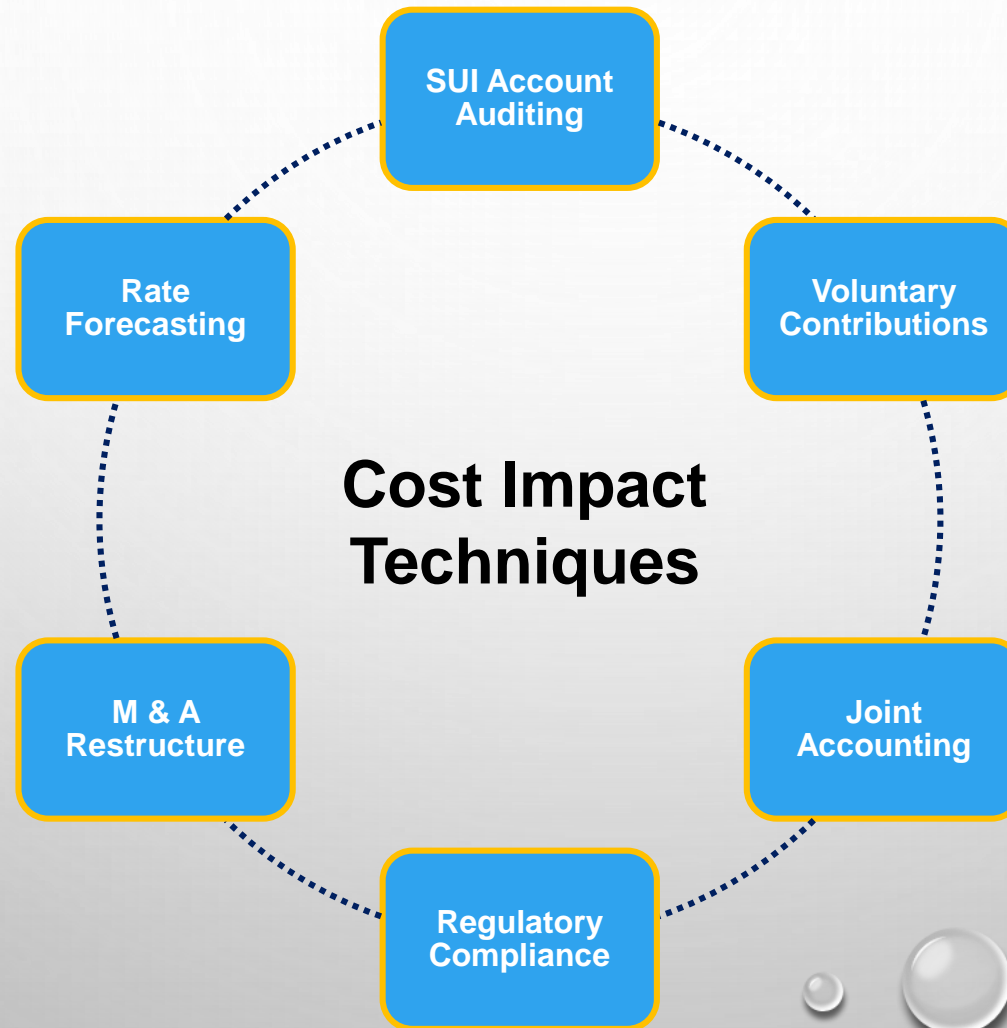
When can unemployment be most impacted &
What can be done to control it?

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 Account Savings	\$299,496,874		1.20%	\$23,954,804	\$4,324,568

VOLUNTARY CONTRIBUTION

ANTICIPATED GROWTH

	30 Employees Voluntary Contribution <u>Next</u> Rate Group	1,030 Employees Voluntary Contribution <u>Next</u> Rate Group	1,030 Employees Voluntary Contribution <u>Min</u> 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)
<i>Revised Rate</i>	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 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%	3.6785%	2 Years	\$49,660	\$99,320
MI	\$4,750,000	1.53%	3.91%	2 Years	\$113,050	\$226,100
Estimated Savings:					\$221,210	\$442,420

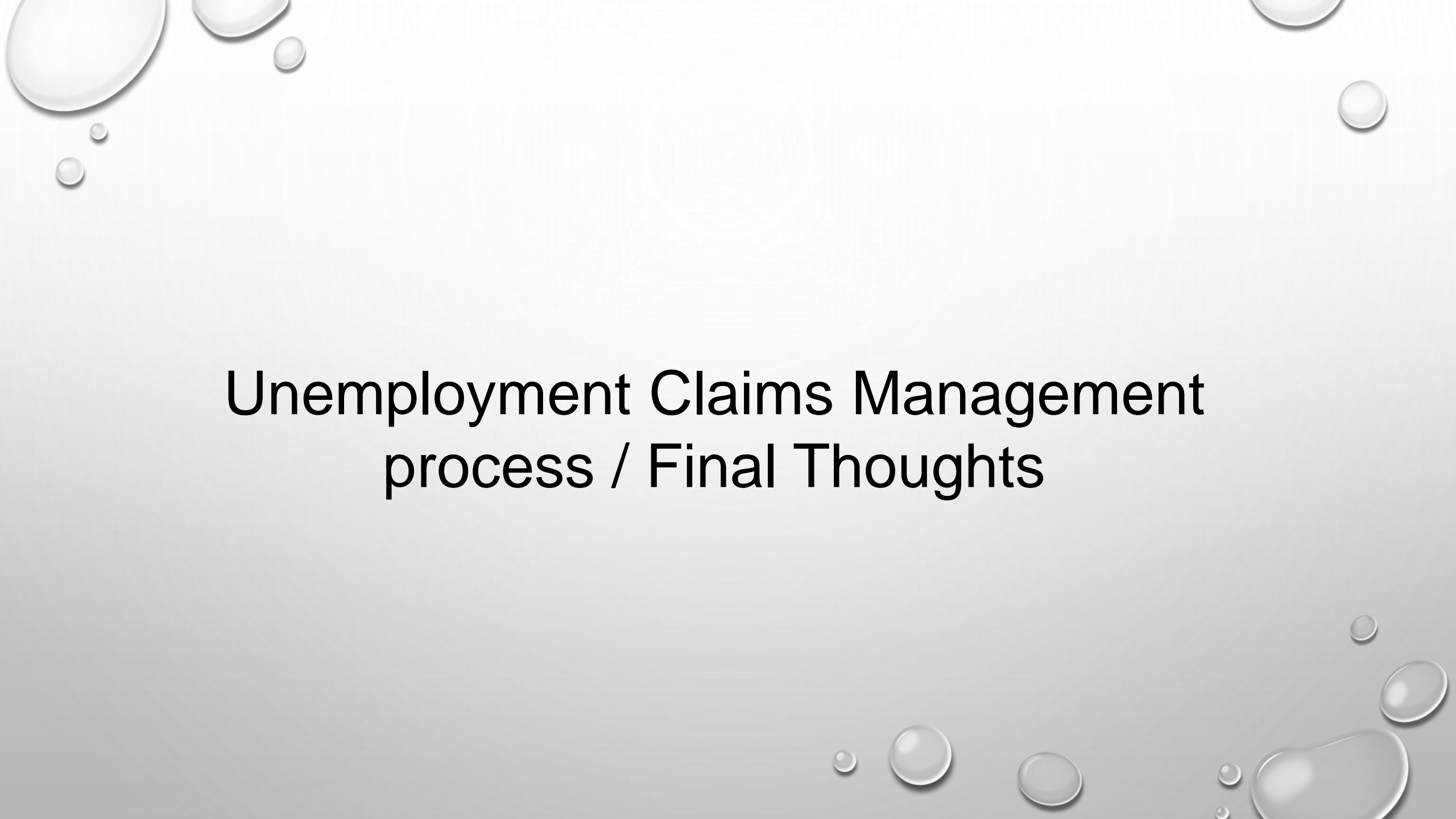
**Example based on estimated 500 employees per state*

RESTRUCTURE COMPLIANCE

Entertainment Client

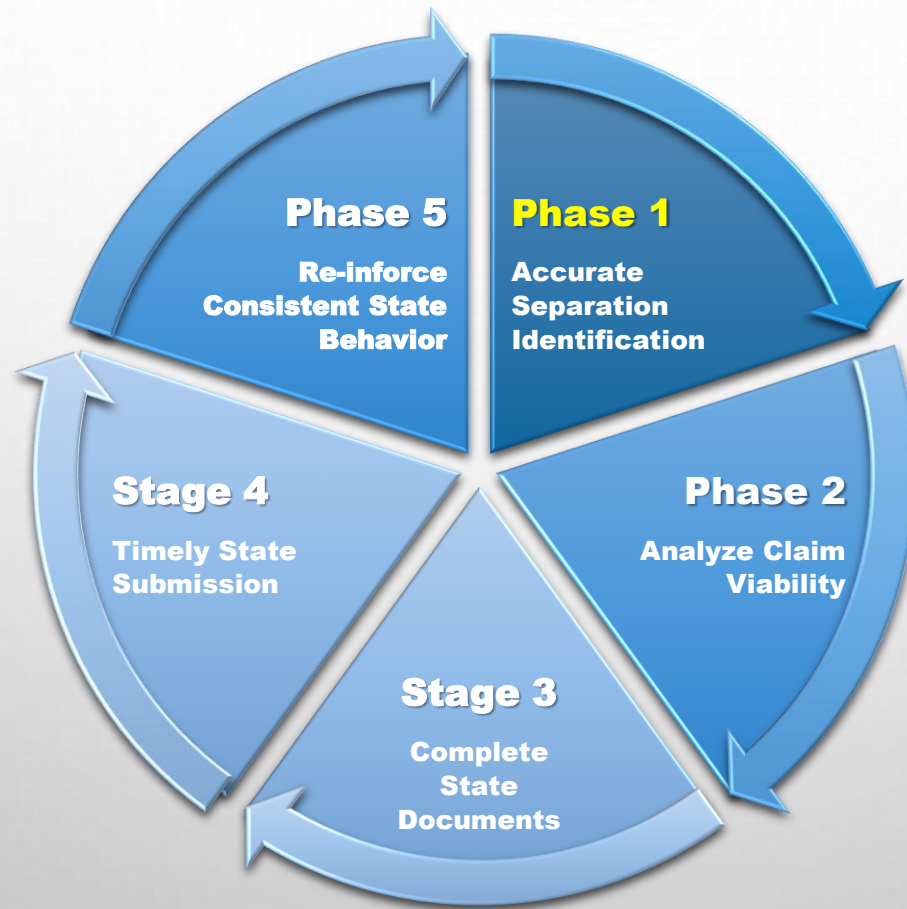
This company acquired property during it's entry into a new state of operation. There were three existing entities at the point of acquisition. By transfer they were able to secure a near minimum rate for the next 3 years:

Year	Estimated Taxable Payroll	Potential (Transfer) Rate	Secured Tax Rate	Projected Tax Savings
Year 1	\$1,500,000	9.60%	0.90%	\$129,000
Year 2	1,500,000	9.60%	0.90%	129,000
Year 3	9,500,000	8.60%	3.00%	532,000
Corporate Restructure Compliance Tax Savings				\$790,000

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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

UNEMPLOYMENT CLAIMS CONTROL

TAX COST IMPACT PROJECTION

State	Protested Wins	Liability Removed	Taxable Payroll	Tax Rate (Projected)	Tax Rate (Actual)	Annual Tax Savings
IL	376	(3,027,725)	81,500,000	6.05%	3.45%	2,119,000
MI	265	(2,012,362)	61,000,000	7.14%	5.63%	921,100
PA	642	(5,607,844)	80,500,000	7.73%	6.67%	851,690
OH	211	(1,598,566)	80,500,000	2.30%	1.50%	644,000
FL	146	(878,281)	59,000,000	4.49%	3.44%	619,500
Top 5 States	1,640	(13,124,777)	362,500,000	5.54%	4.13%	5,155,290
Other States	686	(5,384,040)	251,500,000	4.51%	3.58%	1,761,900
	2,326	(18,508,817)	614,000,000			6,917,190

EXPERIENCE RATE VS. REIMBURSABLE

Experience Rated Company - *(Estimated Annual Benefit Charges - \$10,000)*

Employee Count	Taxable Wage Base	Taxable Wages	Minimum Tax Rate	Maximum Tax Rate	Minimum Tax Cost	Maximum Tax Cost
300	\$8,500	\$2,550,000	1.10%	9.90%	\$28,050	\$252,450

Employee Count	Workforce Reduction (Layoff)	Average Benefits (per Employee)	Total Benefit Charges	Potential Cost Differential
300	299	\$10,000	\$2,990,000	\$2,737,550

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)

CONTACT US



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