

White Paper: The Unemployment Insurance Code-Breaker

- 1. De-coding The Unemployment Insurance System**
- 2. An Overview of the UI System**
- 3. Reasons Claims are Denied**
- 4. State Experience Rating Formulas**
- 5. Mistaken Assumptions about UI Benefits**
- 6. MCM's UI Trust**
- 7. Contacts**

1. De-coding The Unemployment Insurance System

Understanding the Unemployment Insurance system is difficult; even for those who work within it every day at the offices of federal and state governments, taxpayer businesses and Third-Party Administrators like MCM.

For that reason we've created this White Paper, "The Unemployment Insurance Code-Breaker". Who, other than MCM's UI Trust, would provide such a clear and open guide the complex and often opaque unemployment insurance system. Claimants, taxpayers and administrators alike have benefited and even enjoyed this publication.

Charges from unemployment claims to an employer's state unemployment account are difficult to manage for everyone involved, the state and federal government included. For employers, mistakes can be made that could adversely affect your tax rate, resources and patience.

Employers often represent themselves in unemployment insurance matters. They may not be familiar with how the unemployment insurance system works, but are reluctant to outsource more work than necessary in an attempt to control costs, yet hoping for the best outcome.



As an employer, state and federal laws require that you pay unemployment insurance taxes. The rate paid can vary considerably from one employer to another. The rate could be anywhere from 0.0 % to 13.6 % of payroll, according to the National Association of State Workforce Agencies. By all reckoning the percentage is only going to rise, based on the current state of the UI system nationwide. The current economic climate has left many state funds stressed, which leaves the government with no choice but to raise unemployment insurance tax rates to replenish the UI benefit funding accounts.

Given this scenario, employers are well advised to proactively monitor their unemployment insurance matters, not leaving anything to chance, or they may suffer unfortunate consequences.

Many employers find themselves in an unfamiliar maze of laws surrounding unemployment insurance. To navigate the UI system can be daunting. This bureaucratic governmental and legal system consists of cases, claims, hearings, representatives, boards, legal terminology, and a host of finer points of law that could keep one guessing as to what best practices may be in the process of defending oneself against claims that may seem unreasonable or unjust. Often employers feel that they are victims of the system, unable to defend themselves from the government, which may seem to side with workers by default.

At Mckenzie Chase Management we are on your side. In this paper we will help you understand the unemployment insurance system and how it works. We will show you how you can start saving money with a program to lower your payroll tax rate. Let's begin with a brief history of the unemployment insurance program.

2. An Overview of the UI System

Unemployment Insurance was introduced through the Social Security Act of 1935 under Franklin D. Roosevelt. As part of a package of programs designed to stabilize the economy during the Great Depression, it was meant to be administered at the state level, but guided by Federal guidelines. In a very real sense there is a partnership between the state and federal levels. Trust funds were created as a pool of resources from which workers, having lost their jobs through no fault of their own, could draw. These funds would allow qualified unemployed workers to meet basic necessities of life on a temporary basis, until they were able to find employment once again.

By design, taxes on employers are the sole source of benefit funding for the program, although a very few states take minor contributions from employees. The plan was that each state would add a tax to employer's payroll according to a formula that varies with employer's "experience" in the UI system.

This means that the more claims attributed to a particular employer, the higher the tax rate charged. Conversely, the tax rate is reduced if claims and benefits paid to former employees are reduced.



2. Reasons Claims are Denied: Not All Qualify for Unemployment

There are numerous reasons why a claim may not be awarded to a claimant. Here is a summary of reasons for disqualification:

1. Voluntary quit without good cause
2. Discharge due to misconduct
3. Refused job offer or work order
4. Involved in labor dispute
5. Not available for or not looking for work
6. On leave of absence
7. Was not an employee
8. Employment not recent enough
9. Employment too brief
10. Mistakes on submission of claim

Most states currently pay a maximum of 26 weeks of benefits. In periods of high or increasing unemployment, triggers allow the payments of additional weeks of benefits. These benefits usually last for a maximum of 13 weeks, but some states allow more than this. These "extended benefits" have been jointly funded by state and federal sources, with each paying approximately half. The Federal Government can extend benefits longer if it passes legislation allowing it, and at times will pay 100% of these extended benefits or emergency funds, particularly in times of national recession.

The following chart from the S & P 500 website shows the percentage of the national workforce that was unemployed during the last five years. It indicates that the peak period of unemployment was around the beginning of 2010 and that now it is more than one point lower. However, the chart does not include those who have stopped looking for work or are still unemployed, those who have, for one reason or another, dropped out of the workforce.

Date Year & Month	Unemployment Rate
2013-01	7.9 %
2012-01	8.3 %
2011-01	9.0 %
2010-01	9.7 %
2009-01	7.6 %
2008-01	4.9 %
2007-01	4.6 %

National Unemployment Rates from the BLS.gov Website

4. State Rating Formulas: Experience Determines the Rate



Broadly speaking, there are four formulas states use to determine the tax rates they charge to employers. Rates are based on the total amount of unemployment benefits paid to former employees over a selected time period.

Employers should consider that even one claim can cost an employer thousands of dollars in future payroll taxes charged. Unemployment insurance is much like automobile insurance; the higher the number of claims, the higher the future cost of insurance becomes. The task is to avoid claims when possible, particularly claims that are not qualified due to current regulations. This does

not happen automatically; employers must be educated, vigilant, and respond timely to incoming claim notices.

Within broad Federal requirements, the experience rating systems of the different states vary significantly. Most variations have to do with the formulas which are used to calculate the factor that will be charged to employer accounts. At present there are four distinct calculation systems, usually identified as reserve-ratio, benefit-ratio, benefit-wage ratio, and payroll variation formulas. A few states have combinations of the systems. Each state may operate its system somewhat uniquely. All states try to measure use in terms of a factor, which decides the rate charged in payroll tax per employee in a particular company.

Each state must use a formula to establish the relative experience of individual employers with unemployment benefit costs and compare this experience with a measure of exposure considered fair or equitable as determined by legislative government in each state. This exposure in all four systems is related to payroll.

However, the four systems differ greatly in the construction of the formulas, in the factors used to measure experience and the methods of measurement, in the number of years over which the experience is recorded, in the presence or absence of other factors (see formula below), and in the relative weight given the various factors in the final formula. Despite the formulas variations, every system is based on an experience factor, meaning those employers who experience more charges to the system will consequently pay more tax. Of course, the reasoning is that employers will then carefully consider before terminating employees because it will be in their own self interest to keep employees working.

There is a generalized formula for UI Tax Rates based on employer “experience”. Adjustments are often made to the Experience Rate by adding charges such as a “Social Cost Rate”, an “Education Administrative (EAS) Rate”, or a “Solvency Rate” to cover additional costs of the UI program.

Employer Ratio → Schedule Rate% + Social Cost% + Solvency% + Admin Cost%

Schedules are generally used to convert the employer’s ratio into a UI tax rate, although not in all states. Some states rank employers in an “array” system, which means that the rate charged will be influenced by the amount of benefits charged to other employer’s accounts.

Table of States and their various types of Experience Rating

Reserve Ratio of 32 States: AR, AZ, CA, CO, DC, GA, HI, ID, IN, KS, KY, LA, MA, ME, MO, MT, NC, ND, NE, NH, NJ, NM, NV, NY, OH, PR, RI, SD, TN, VI, WI, WV	<u>Contributions Paid - Benefits Charged</u> Average Taxable Payroll
Benefit Ratio of 18 States: AL, FL, CT, IA, IL, MI, MD, MN, MS, OR, PA, SC, TX, UT, VA, VT, WA, WY (Note: MI and PA include Reserve Ratio in their calculations)	<u>Total Charges to Account</u> Total Taxable Payroll
Benefit Wage Ratio of 2 States: Delaware and Oklahoma	Employer Experience Factor X State Experience Factor 1. Employer Experience Factor = All wages paid to employees who collected benefits / All wages paid to all employees 2. State Experience Factor = Total Benefit Payments/ Total Benefit Wages
Payroll Decline or Payroll Variation Plan of Alaska	Measured by decline in employer’s payroll from quarter to quarter; decline is expressed as a % of payrolls in preceding period, then arrayed against all employers in state.

It can be very helpful to know the formulas used by the states as they calculate their respective employer experience rating. It can also be helpful to know the factors that make a claim for benefits awardable by the state. There are some finer points of law that can be misunderstood.

5. Mistaken Assumptions about UI Benefits

Employers may have mistaken views about how the legal system decides the validity of claims. A few common assumptions which are not always true are:

- If an employee quits, they cannot collect benefits
- A resignation letter signed and dated by an employee proves they quit
- Former employees have a right to collect benefits because they paid taxes supporting the system
- In case of a disputed claim, the government should believe an employer's story more than the former employee's story because the employer paid the taxes supporting the system
- Unemployment claims take a lot of time and money to deal with, so it is cheaper to allow claims to be paid without contesting them.

Each of the above statements is an assumption and not necessarily true. It pays to be careful. In general, there is a rule of thumb that the party that initiates the termination is usually the one who must prove their case in a dispute. Employers are most often called upon to carry the burden of proof, but not always. Employees are generally eligible for benefits if their separation was due to no fault of their own and they otherwise meet the eligibility requirements of the state.



6. Remember: Your State UI Trust funds are YOUR funds

These funds are meant to benefit your former employees who are qualified to collect unemployment benefits. However, not all employees are entitled to benefits. Charges due to unemployment claims are difficult to manage for everyone, state and federal government included. Typically; costly mistakes are made that tax your resources; time, energy and your bank account.

That's how MCM's UI Trust steps in; as a well-informed and experienced advocate for your rights as an employer. Call-in MCM to manage your UI Trust fund and have the experience of working with a trusted partner toward in-common results.

7. Contact MCM's UI Trust, today.

MCM's UI Trust looks forward to winning your trust by saving you time, frustration, and funds.

Contact MCM's UI Trust today for your complimentary UI Management Report.

Email: Trust@MckenzieChase.com

Phone: (206) 547-8277, your call is always welcome