

Update: July 2010

# Unemployment Update for Reimbursing Employers

## Reimbursing versus Taxpaying? Financing Your Unemployment Benefit Costs

In the early 70's, states began to make unemployment compensation benefits available to employees of municipalities and not-for-profit organizations. Although the administration of the claim process for these entities is the same as it would be for tax paying employers, there can be a major difference in the way benefit payments are financed.

Many non-profit organizations elect to finance their unemployment benefits through what is known as the "reimbursing" method of financing. This means that once benefits have been paid to an individual, the state agency will bill the employer, dollar for dollar, for any amounts paid out on their behalf. The employer then "reimburses" the state for any monies due.

This method varies significantly from the rest of the employer community which pays a "merit rated" payroll tax into a state unemployment insurance (SUI) account from which benefits are paid. A portion of this payroll tax also goes into a second account often referred to as a state's general fund. This "general" account, funded by taxpaying employers only, is used to cover benefits paid to previously disqualified claimants who have overturned their disqualifications through subsequent employment.

An example of a situation where benefits would be charged to the "general" fund would be the following. John Smith was terminated from his employment with Company A due to job abandonment and was disqualified from receiving benefits. He then went to work for Employer B and later became unemployed again due to a layoff from his new employer. He reopened his claim with Company A and was able to re-qualify for benefits as a result of the subsequent layoff from employment with Employer B.

Although John Smith is now eligible for benefits, the portion of his benefits attributable to employment with Company A cannot be charged to Company A's tax account, due to the original disqualification imposed. Per state law, his benefits would be charged off to the state "general" fund.

### How Can I Be Charged For a Claimant Who Was Disqualified?

All of this brings us to one of the questions most frequently asked by Reimbursing employers, "How can I be assessed charges on a claim for an individual who was previously disqualified"?

In the example provided above, a tax paying employer would be relieved of all liability and future charges related to the claim in question due to the reason for separation from their employment. However, this concept does not apply to reimbursers. For them, a disqualification remains in effect only if the ex-employee fails to re-qualify through subsequent employment.

Since a reimbursing employer does not pay any taxes into this state "general" fund, no money can be taken out on their behalf and the reimbursing employer is "on the hook" for benefit charges resulting from the individual's requalification.

### Why Don't I Have Any Protest Rights on Base Period Claims?

The second most frequently asked question received from Reimbursing Employers is "why don't I have any protest rights on Base Period claims"? The response to this question is similar in concept to the response to question number one above.

When a new claim is filed, a claimant's *eligibility for benefits* is controlled by their most recent separation from employment. However, in most states, *employer chargeability* is based on the amount of earnings the employer paid in the claimant's base period, as well as whether or not the claimant's reason for separation from their employment was for a disqualifying reason.

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The following is an example similar to the one provided above - John Smith filed a new claim for benefits as a result of a layoff from Employer B (who was his most recent employer) and was ruled eligible for benefits. Company A paid earnings to him during the "base period" used to calculate the monetary value of his claim. John Smith was terminated from his employment with Company A several months ago due to job abandonment and is considered to be a "base period only" employer, as they were not the most recent, separating employer.

In this situation, if Company A was a taxpaying employer, they would be relieved of all liability and future charges related to this claim due to the reason for separation from their employment. The portion of John Smith's benefits attributable to the wages paid by Company A would be charged off to the state general fund. However, in this same situation, the Reimbursing employer would once again be charged for their portion of John Smith's benefits. Since Reimbursing employers do not make tax payments that are allocated into the general fund, a state can make no payments from the fund on their behalf and they become *chargeable regardless* of the reason for separation. In essence, if a Reimbursing employer is a base period only employer, they have no protest rights.

## Is the Reimbursing Method of Financing Best for My Organization?

To a reimbursing employer who is chargeable as a base period employer, regardless of the claimant's reason for separation, this system may seem unfair. However, based on tracking the experience of both tax paying and reimbursing employers, it has been demonstrated time and again that the reimbursement method (even with the "chargeable regardless" provision) most often proves to be the least expensive way for a non-profit employer to finance their unemployment benefits.

Taxpaying employers can potentially pay more money into the state system than the state pays out in benefits on their behalf. In addition, should they cease operations, any balance remaining in their tax accounts cannot be recovered and is left behind. As a reimbursing employer, you are never paying more than the state has paid in benefits to your former employees and no dollars are ever left behind.

Should you have questions or concerns regarding your current method of financing, TALX can provide a complete analysis and comparison of costs related to both methods of financing your unemployment benefits. TALX's experience, expertise, and proven results have been helping employers navigate the uncertainty of unemployment compensation for over 55 years. For more information, contact Pete Krieshok at 314-214-7325, or by e-mail at [pkrieshok@talx.com](mailto:pkrieshok@talx.com).