



UNDERSTANDING UNEMPLOYMENT INSURANCE

Midwest Regional Payroll Conference

October 6, 2016



Unemployment Cost Management requires significant attention from employers

States have shifted responsibility for UI Integrity to employers

Unemployment Costs are Significant

- Average cost is \$434 per employee
- Benefits drawn for average of over 16 weeks
- Average benefit paid is \$5,387

UC Management is a complex process

- Guidelines and regulations differ by state
- Requires time, effort and expertise
- Diverts focus from core activities

States are focusing on UI Integrity

- \$3B (10.26%) in improper payments
- Implementation of SIDES
- New compliance legislation and penalties

Agenda

- › Overview of UI System
 - FUTA versus SUI Taxes
 - UI Claims Process

- › UI Tax Rating Process
 - Merit Rating
 - Reserve Ratio versus Benefit Ratio
 - Voluntary Contributions & Joint Rating

- › Mergers, Acquisitions, etc.
 - Reporting Requirements
 - Transfers of Experience & Revised Rates
 - Successor Treatment of Taxable Wage Limits

OVERVIEW OF UI SYSTEM



Background

- › Created in 1935, Title XII of Social Security Act
- › Federal-State Partnership
- › Provides a **partial, short-term** replacement of income to individuals with an **attachment to the labor force** who become **unemployed through no fault of their own**.
- › Insurance system financed by employer taxes – **merit (or experience) rated system**.

Federal Unemployment Tax (“FUTA”)

- › Used to finance:
 - Administration of UI system
 - Extended Benefits
 - Loans to insolvent states for payment of benefits

- › Generally considered a “flat tax”
 - Tax rate of 0.6% against taxable wage base of \$7,000
 - Gross rate of 6.0% against which 5.4% is applied, if:
 - Employer is compliant with filings, and,
 - State is current with Title XII loan repayment.

State repayment of Title XII loans can significantly impact an employer's FUTA tax rates

FUTA Tax Review: Effective 7/1/2011

FUTA tax rate	FUTA taxable wage base	FUTA tax
6.0%	\$7,000	\$420 Per Employee

- › If employer pays state SUI taxes timely and in full, a 5.4% credit is granted

FUTA tax rate	FUTA tax credit	FUTA tax rate (less credit)	FUTA tax
6.0%	5.4%	0.6%	\$42 Per Employee

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

Many states are still accruing interest on outstanding Title XII loans due to trust fund insolvency

Interest rate	10/1/2014-12/31/2014	2.38739930%
	1/1/2015-9/30/2015	2.33850025%%

State	Loan Amount As Of 9/24/2015	Advance Authorization Current Month	Accrued Interest As Of 9/24/2015
Arizona	\$0	\$0	\$830,392
Arkansas	\$0	\$0	\$195
California	\$5,887,219,739	\$550,000,000	\$171,045,350
Connecticut	\$101,805,660	\$0	\$7,386,376
Delaware	\$0	\$0	\$24,989
Indiana	\$239,184,246	\$35,000,000	\$14,254,179
Kentucky	\$0	\$30,000,000	\$5,072,032
New York	\$0	\$0	\$20,559,887
North Carolina	\$0	\$0	\$5,351,598
Ohio	\$874,835,017	\$0	\$27,580,525
Rhode Island	\$0	\$0	\$34,169
South Carolina	\$0	\$0	\$3,159,274
Virgin Islands	\$72,196,509	\$0	\$1,765,938
Totals	\$7,175,241,171	\$615,000,000	\$257,064,905

Source: U.S. Treasury

Many states are still accruing interest on outstanding Title XII loans due to trust fund insolvency

Interest rate	10/1/2015-12/31/2015	2.33850025%
	1/1/2016-9/30/2016	

State	Loan Amount As Of 10/8/2015	Advance Authorization Current Month	Accrued Interest As Of 10/8/2015
California	\$6,058,176,178	\$550,000,000	\$3,070,510
Connecticut	\$101,805,660	\$0	\$52,180
Indiana	\$250,394,023	\$35,000,000	\$125,908
Kentucky	\$0	\$5,000,000	\$0
Ohio	\$874,835,017	\$0	\$448,395
Virgin Islands	\$72,196,509	\$0	\$37,004
Totals	\$7,357,407,387	\$590,000,000	\$3,733,997

Source: U.S. Treasury

Many states are still accruing interest on outstanding Title XII loans due to trust fund insolvency

Interest rate	1/1/2016-9/30/2016	2.22559842%
	10/1/2016-12/31/2016	

State	Loan Amount As Of 8/4/2016	Advance Authorization Current Month	Accrued Interest As Of 8/4/2016
California	\$2,991,831,780	\$600,000,000	\$100,464,236
Connecticut	\$0	\$0	\$1,072,201
Indiana	\$0	\$0	\$503,357
Kentucky	\$0	\$20,000,000	\$108,317
Ohio	\$274,068,877	\$0	\$11,218,446
Virgin Islands	\$69,250,477	\$0	\$1,352,495
Totals	\$3,335,151,133	\$620,000,000	\$114,719,054

Source: U.S. Treasury

Potential 2015 FUTA Tax Rates

State	FUTA Credit Reduction	+ BCR Add-On	= Total FUTA Credit Reduction	+ Effective Base FUTA Rate	= 2015 Effective FUTA Tax Rate
<u>Loan Currently Paid Off</u>					
Kentucky ³	1.5%	0.6%	2.1%	0.6%	2.7%
New York ³	1.5%	0.0%	1.5%	0.6%	2.1%
North Carolina ³	1.5%	0.8%	2.3%	0.6%	2.9%
South Carolina ³	1.8%	0.3%	2.1%	0.6%	2.7%
<u>Loan Outstanding</u>					
California ¹	1.5%	1.4%	2.9%	0.6%	3.5%
Connecticut ²	1.5%	0.6%	2.1%	0.6%	2.7%
Indiana ¹	1.8%	0.9%	2.7%	0.6%	3.3%
Ohio ¹	1.5%	1.1%	2.6%	0.6%	3.2%
Virgin Islands ¹	1.5%	1.6%	3.1%	0.6%	3.7%

Source: U.S. Department of Labor (U.S. DOL)

1. Applied for a waiver of the 2015 BCR add-on; a determination as to if the waiver will be granted by the U.S. DOL is expected in November of 2015.
2. Did not apply for a 2015 BCR add-on waiver.
3. Loan paid off and not expected to borrow again prior to November 10, 2015; if these states borrow again prior to November 10, 2015, the 2015 effective FUTA tax rate indicated is expected to apply.

FUTA Credit Reduction: Applicable in states following their second consecutive January 1 with an outstanding Title XII loan. Employers in an impacted state lose 0.3% of the 5.4% standard credit for each year the Federal Title XII loan remains outstanding (i.e., 0.3%, 0.6%, 0.9%, 1.2%, 1.5%, etc.).

Benefit Cost Rate/Ratio ("BCR") Add-On: Applicable in states following their fifth consecutive January 1 with an outstanding Title XII loan. States can request a waiver by submitting a request to the U.S. DOL by July 1 of each respective year. The U.S. DOL granted waivers to all states that applied in 2014.

Potential FUTA Credit Reductions for 2016

State ⁽¹⁾	FUTA Credit Reduction ⁽²⁾	+ 2.7% Add-On ⁽³⁾	+ BCR Add-On ⁽⁴⁾	= Total FUTA Credit Reduction	+ Effective Base FUTA Tax Rate	= Potential 2016 Effective FUTA Tax Rate	Potential Maximum Cost Per Employee
California	1.8%	0.0%	0.4%	2.2%	0.6%	2.8%	\$196
Ohio	1.8%	0.0%	0.3%	2.1%	0.6%	2.7%	\$189
Virgin Islands	1.8%	0.0%	1.1%	2.9%	0.6%	3.5%	\$245

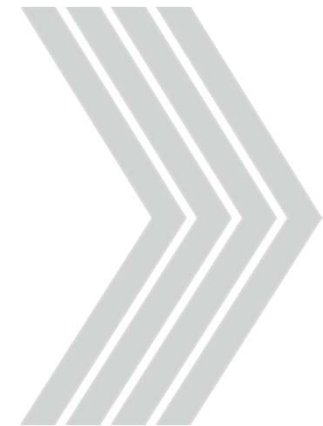
Source: U.S. Department of Labor; Trust Fund Solvency Report 2016

- (1) These states had Title XII advance balances on January 1, 2016 and are potentially subject to a reduction in FUTA credit if the outstanding advance is not repaid by November 10, 2016.
- (2) FUTA Credit Reduction: Applicable in states following their second consecutive January 1 with an outstanding Title XII loan. Employers in an impacted state lose 0.3% of the 5.4% standard credit for each year the Federal Title XII loan remains outstanding (i.e., 0.3%, 0.6%, 0.9%, 1.2%, 1.5%, etc.).
- (3) 2.7% Add-On: The “2.7% add-on” can be assessed beginning with the third year a state has an outstanding Title XII loan. This add-on applies when a state’s average UI tax rate is below a certain statutory threshold. The 2.7% add-on cannot be waived and can vary by state. No states qualified for this add-on in 2015. IRC Section 3302(c)(2)(B).
- (4) Benefit Cost Rate/Ratio (“BCR”) Add-On: Applicable in states following their fifth consecutive January 1 with an outstanding Title XII loan. States can request a waiver by submitting a request to the U.S. DOL by July 1 of each respective year. The U.S. DOL granted waivers to all states that applied in 2015; Connecticut did not apply for a waiver for 2015. IRC Section 3302(c)(2).

State	California	Ohio ⁽¹⁾	Virgin Islands	Total
Title XII Loan Balances <small>(08/4/16)</small>	\$2,991,831,780	\$274,068,877	\$69,250,477	\$3,335,151,133

- (1) Ohio has paid off its Title XII loan, which will reduce employer’s 2016 FUTA rates to 0.6%.

UI CLAIMS ADMINISTRATION



Determinations of UI Claim Eligibility

› Financial Eligibility

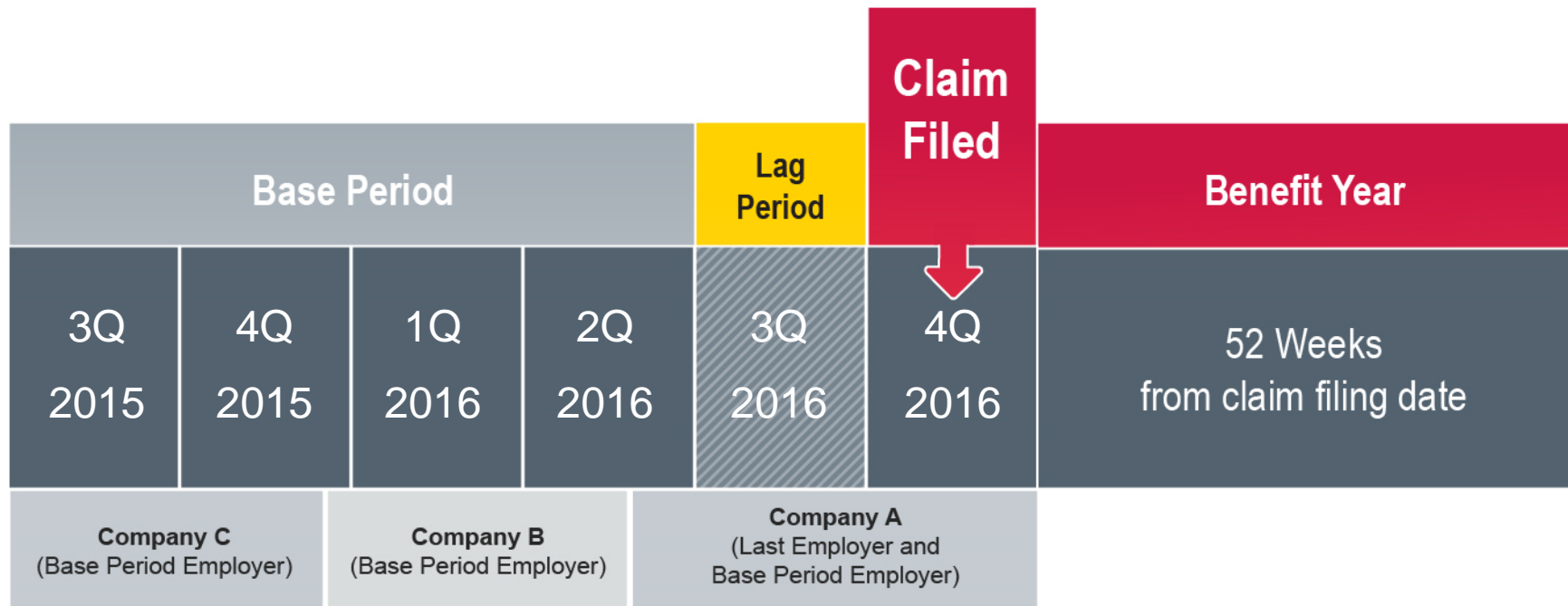
› Disqualifying Separation from Work?

- **Misconduct**
- **Voluntary Leaving without Good Cause**
- **Lack of Work**

› Ongoing Weekly Eligibility

- **Able** to, **Available** for, & **Actively Seeking** Work
- Receipt of Other Remuneration (**Partial Benefits?**)

Unemployment claim liability remains with an employer for up to 18 months after initial employee separation

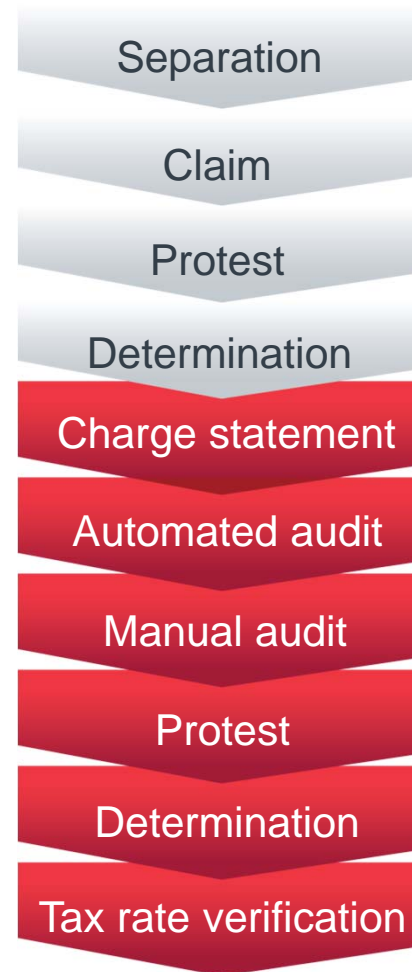


Last Employer Claim – The claim notice sent to the most recent employer from which the employee has separated.

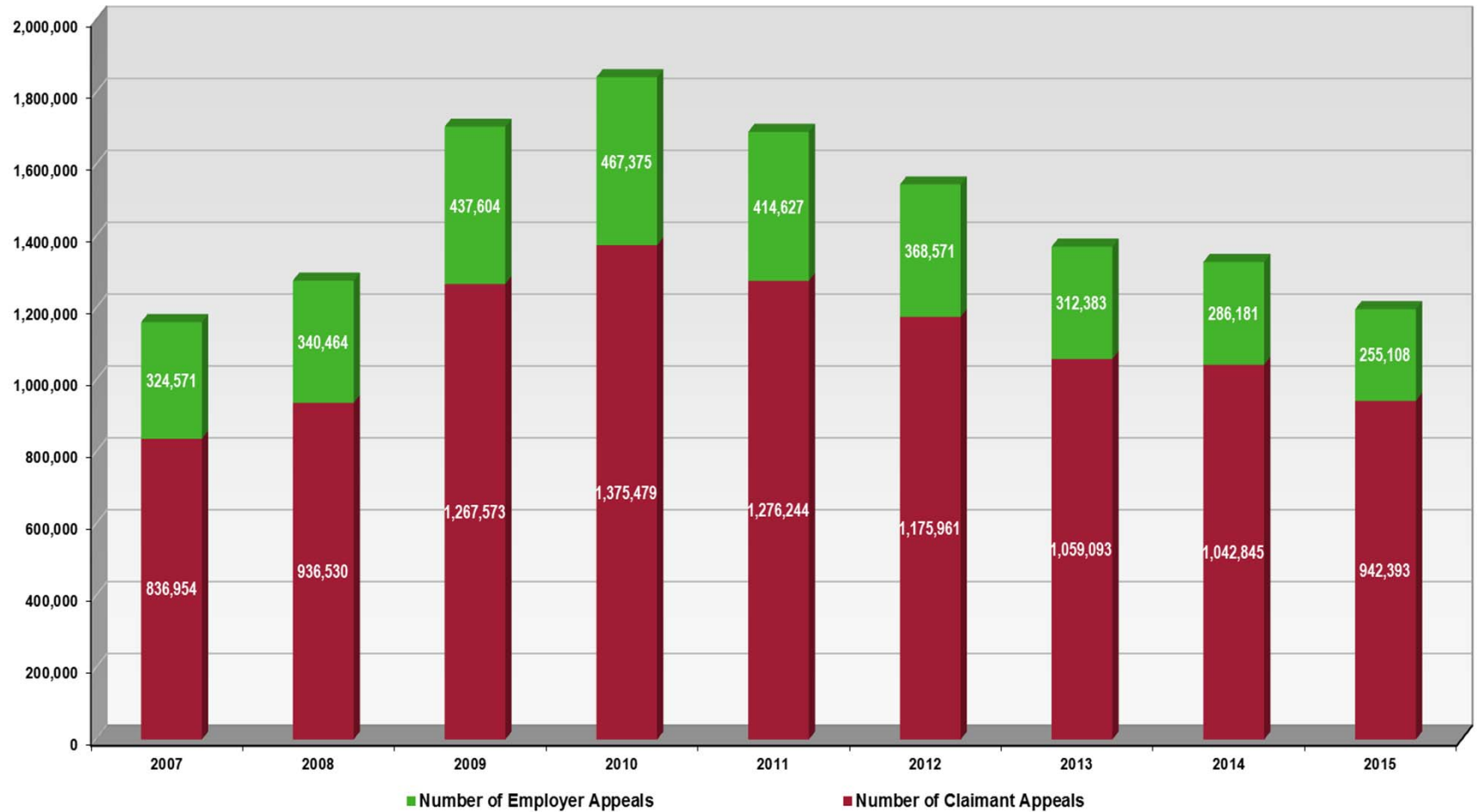
Base Period Claim – The claim notice sent to each employer for which the claimant worked during the base period. Base Period earnings determine weekly benefit amounts and employers chargeable proportionate to wages paid.

Alternative Base Period (if applicable) – Former employees who fail to qualify under the original base period may qualify under an alternative base period on wages paid during the last four calendar quarters prior to the claim filing date.

UI Claims Chronology

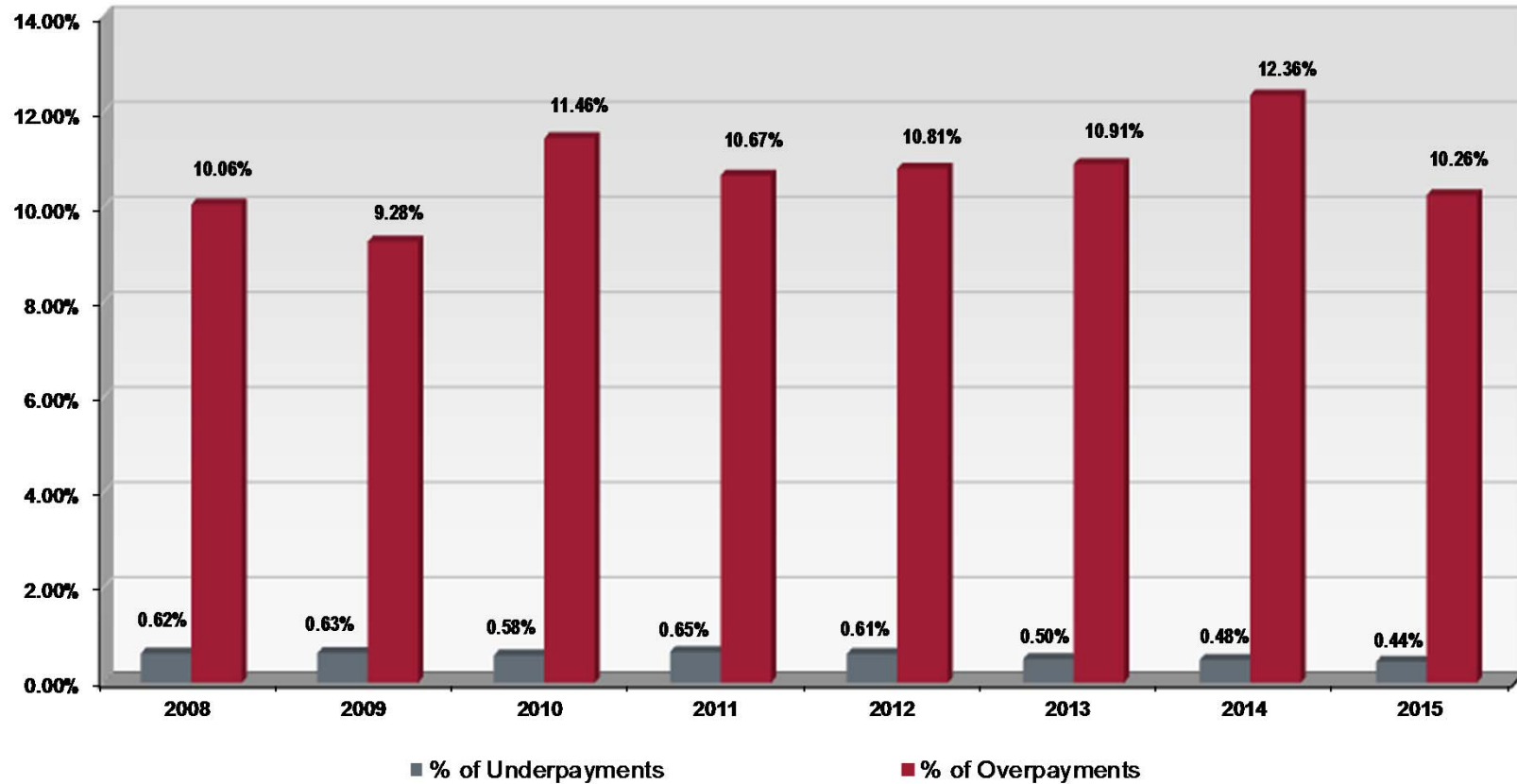


Both claimant and employer appeals remain elevated from pre-recession levels



Source: U.S. Department of Labor

Unemployment benefit overpayments remain a significant challenge



2015 Estimated Underpayments - \$139.8 Million
 2014 Estimated Underpayments - \$172.8 Million
 2013 Estimated Underpayments - \$203.6 Million

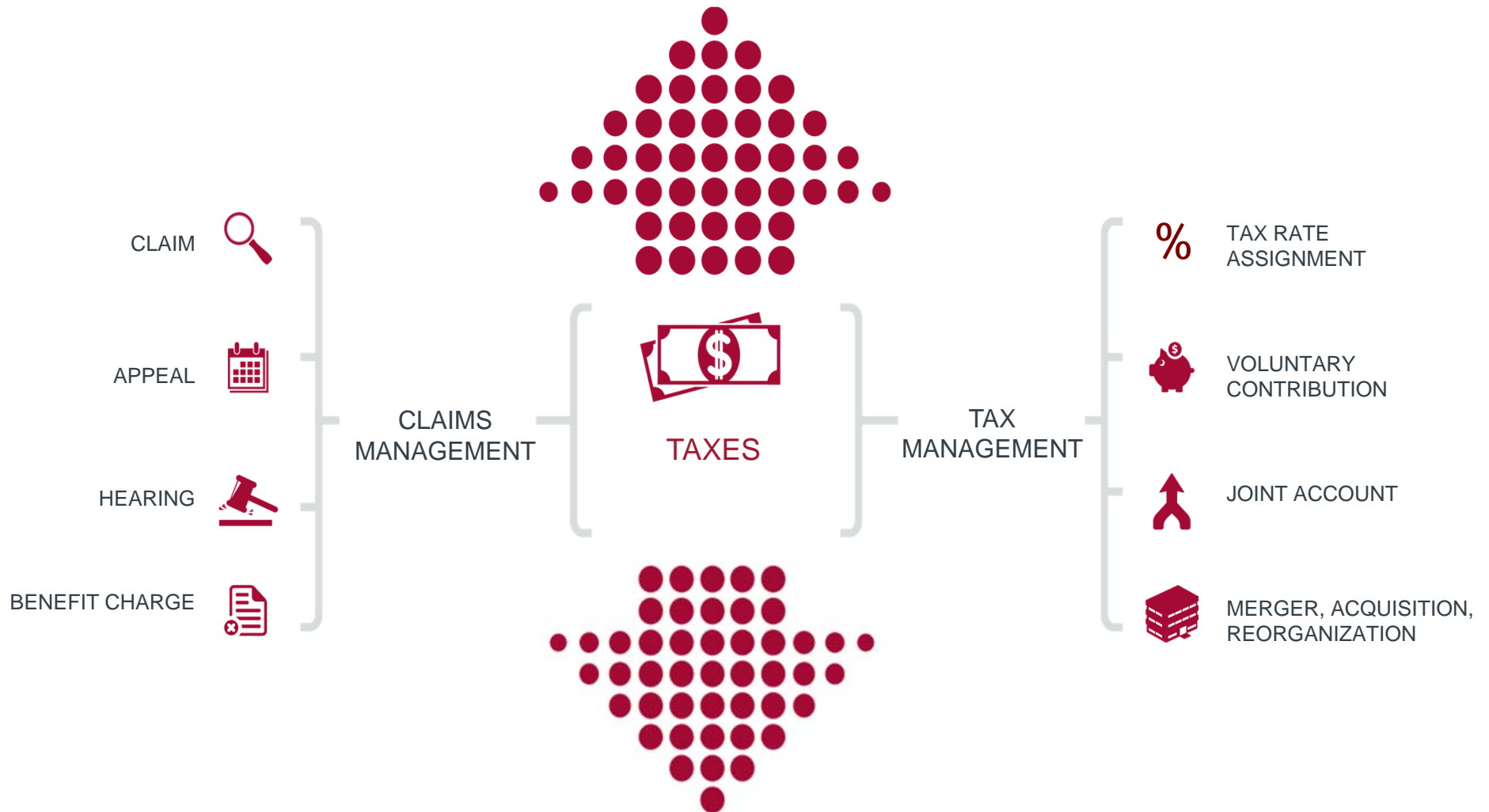
2015 Estimated Overpayments - \$3.22 Billion
 2014 Estimated Overpayments - \$4.45 Billion
 2013 Estimated Overpayments - \$4.44 Billion

Source: U.S. Department of Labor – Benefit Accuracy measurement Report: 2015 (most recent data available)

UI TAX RATING



Unemployment tax rates can be significantly impacted by both claims and tax management



State Unemployment Tax Review

Avg. SUI Tax Rate 2016	Avg. SUI Taxable Wage Base 2016	Avg. SUI Tax Cost
2.44%	\$17,782	\$434 Per Employee

› Tax Rate Assignment Based On:

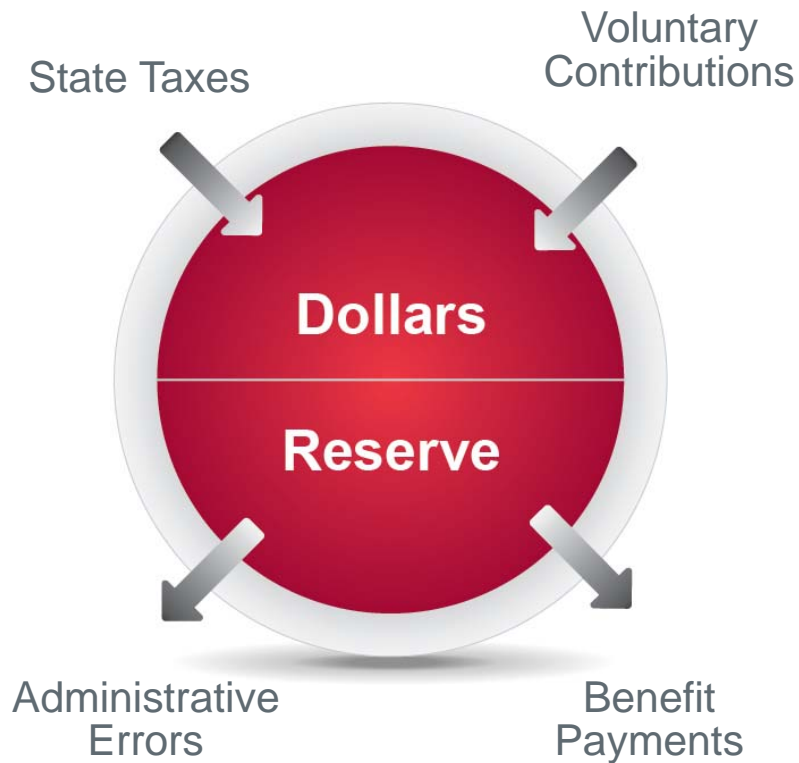
Employer Factors

- Taxable payroll
- Benefit charges
- Contributions paid
- Transfers of experience (TOE)

State Factors

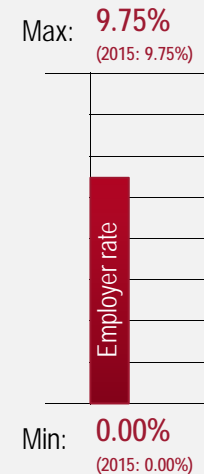
- Rating formulas and tables
- Surcharges and assessments
- Transfer of experience statutes
- Recently enacted legislation

Unemployment costs are impacted by several UI related activities



Missouri 2016 merit rating *A state example:*

<u>\$13,000</u>	Taxable wage base
<u>\$1,268</u>	Maximum Tax / employee
<u>\$0</u>	Minimum tax / employee
<u>\$6,400</u>	Maximum claim liability



Even when tax rates remain unchanged, employers may be subject to additional taxes due to increases in state wage bases

State	2015 Wage Base	2016 Wage Base		% of Increase or decrease
AK	\$38,700	<i>\$39,700</i>	A	3%
AL	\$8,000	\$8,000	A	0%
AR	\$12,000	\$12,000	A	0%
AZ	\$7,000	\$7,000	A	0%
CA	\$7,000	\$7,000	A	0%
CO	\$11,800	<i>\$12,200</i>	A	3%
CT	\$15,000	\$15,000	A	0%
DC	\$9,000	\$9,000	A	0%
DE	\$18,500	\$18,500	A	0%
FL	\$7,000	\$7,000	A	0%
GA	\$9,500	\$9,500	A	0%
HI	\$40,900	<i>\$42,200</i>	A	3%
IA	\$27,300	<i>\$28,300</i>	A	4%
ID	\$36,000	<i>\$37,200</i>	A	3%

State	2015 Wage Base	2016 Wage Base		% of Increase or decrease
IL	\$12,960	\$12,960	A	0%
IN	\$9,500	\$9,500	A	0%
KS	\$12,000	<i>\$14,000</i>	A	17%
KY	\$9,900	<i>\$10,200</i>	A	3%
LA	\$7,700	\$7,700	A	0%
MA	\$15,000	\$15,000	A	0%
MD	\$8,500	\$8,500	A	0%
ME	\$12,000	\$12,000	A	0%
MI(1)	\$9,500 \$9,000	\$9,000 \$9,500	A	0%
MN	\$30,000	<i>\$31,000</i>	A	3%
MO	\$13,000	\$13,000	A	0%
MS	\$14,000	\$14,000	A	0%
MT	\$29,500	<i>\$30,500</i>	A	3%
NC	\$21,700	<i>\$22,300</i>	A	3%

A – Actual wage base, assuming no law change.

E – Estimated wage base, assuming no law change.

Red Italics – Denotes increase in the unemployment taxable wage base over 2015

Green Italics – Denotes decrease in the unemployment taxable wage base over 2015

1 – Due to a law change, the wage base decreased effective 7/1/2015 for non-delinquent employers. The wage base can vary based on the Trust Fund balance. It is likely to increase for first quarter as the trust fund balance decreases.

Even when tax rates remain unchanged, employers may be subject to additional taxes due to increases in state wage bases

State	2015 Wage Base	2016 Wage Base		% of Increase or decrease
ND	\$35,600	<i>\$37,200</i>	A	4%
NE	\$9,000	\$9,000	A	0%
NH	\$14,000	\$14,000	A	0%
NJ	\$32,000	<i>\$32,600</i>	A	2%
NM	\$23,400	<i>\$24,100</i>	A	3%
NV	\$27,800	<i>\$28,200</i>	A	1%
NY	\$10,500	<i>\$10,700</i>	A	2%
OH	\$9,000	\$9,000	A	0%
OK	\$17,000	<i>\$17,500</i>	A	3%
OR	\$35,700	<i>\$36,900</i>	A	3%
PA	\$9,000	<i>\$9,500</i>	A	6%
PR	\$7,000	\$7,000	A	0%
RI (2)	\$21,200	<i>\$22,000</i>	A	4%
	\$22,700	<i>\$23,500</i>		4%

State	2015 Wage Base	2016 Wage Base		% of Increase or decrease
SC	\$14,000	\$14,000	A	0%
SD	\$15,000	\$15,000	A	0%
TN	\$9,000	\$9,000	A	0%
TX	\$9,000	\$9,000	A	0%
UT	\$31,300	<i>\$32,200</i>	A	3%
VA	\$8,000	\$8,000	A	0%
VI	\$22,900	<i>\$23,000</i>	A	0%
VT	\$16,400	<i>\$16,800</i>	A	2%
WA	\$42,100	<i>\$44,000</i>	A	5%
WI	\$14,000	\$14,000	A	0%
WV	\$12,000	\$12,000	A	0%
WY	\$24,700	<i>\$25,500</i>	A	3%
FUTA	\$7,000	\$7,000	A	0%

A – Actual wage base, assuming no law change.

E – Estimated wage base, assuming no law change.

Red Italics – Denotes increase in the unemployment taxable wage base over 2015

Green Italics – Denotes decrease in the unemployment taxable wage base over 2015

2 – The higher wage base only applies to employers assigned the maximum rate.

Tax Rating Methodologies

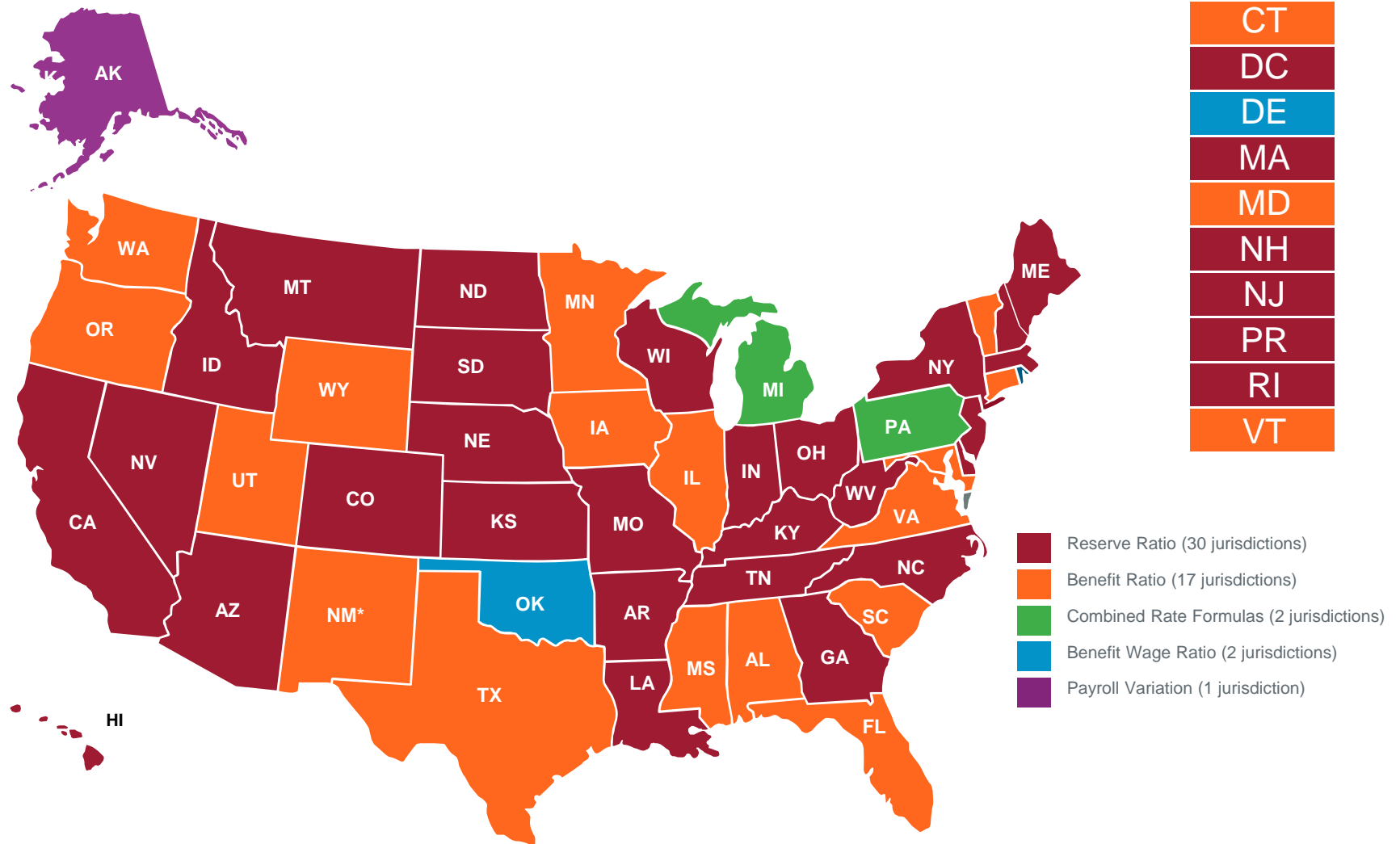
› Reserve Ratio

- Similar to “checking account”
- Aggregates entire history of account

› Benefit Ratio

- Considers just claims paid and taxable payroll, not **contributions** paid.
- Rates determined based on short-term window of experience (typically 3 years).

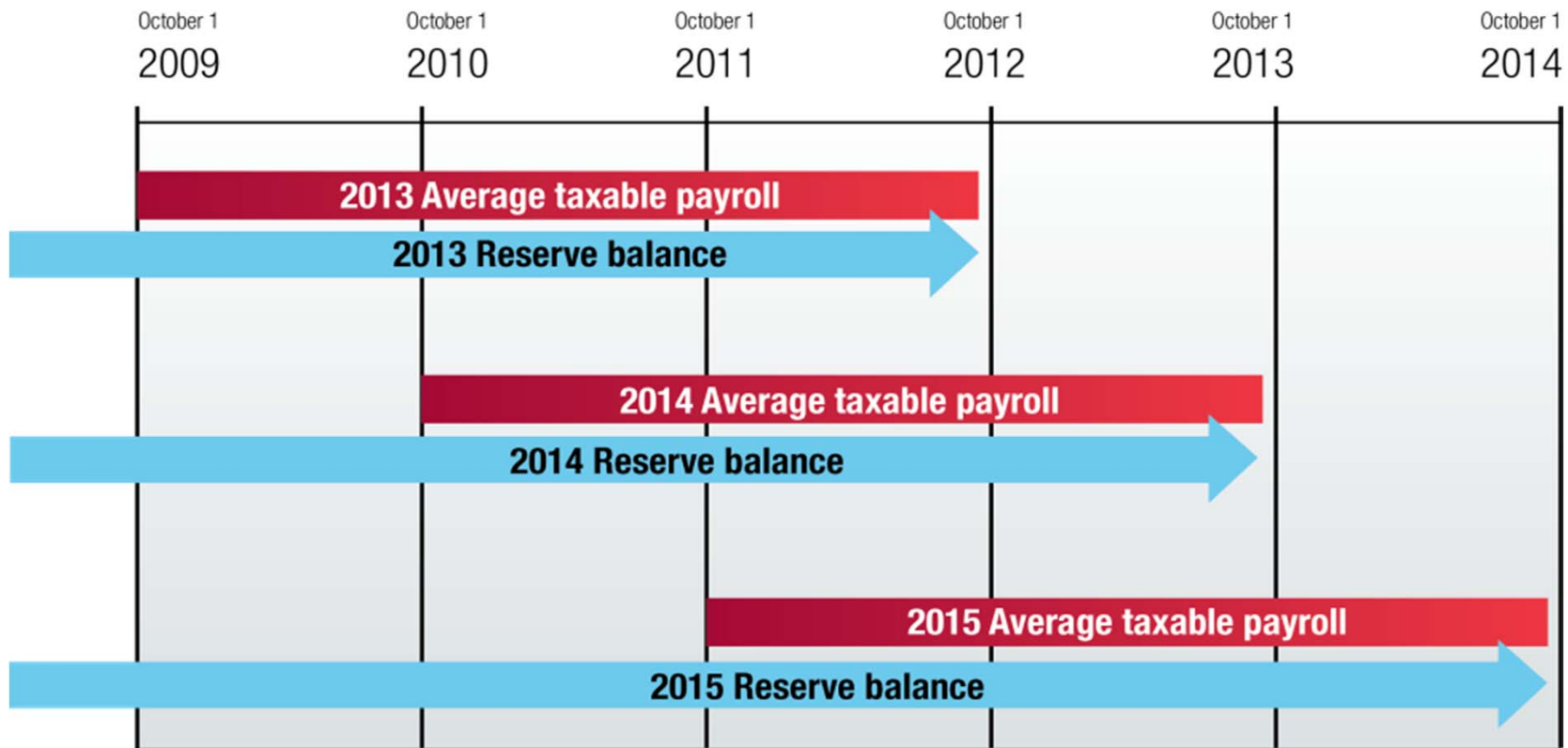
Unemployment Tax Rate Calculations



Jurisdictions include 50 U.S. States, DC and PR
 *2015 – Switch to three year benefit ratio calculation

Example of Reserve Ratio Rating (Missouri)

$$\frac{\text{Beginning Balance} + \text{Contributions} - \text{Charges}}{\text{Average Taxable Payroll}} = \text{Ending Balance}$$













Example of Benefit Ratio Rating (Illinois)

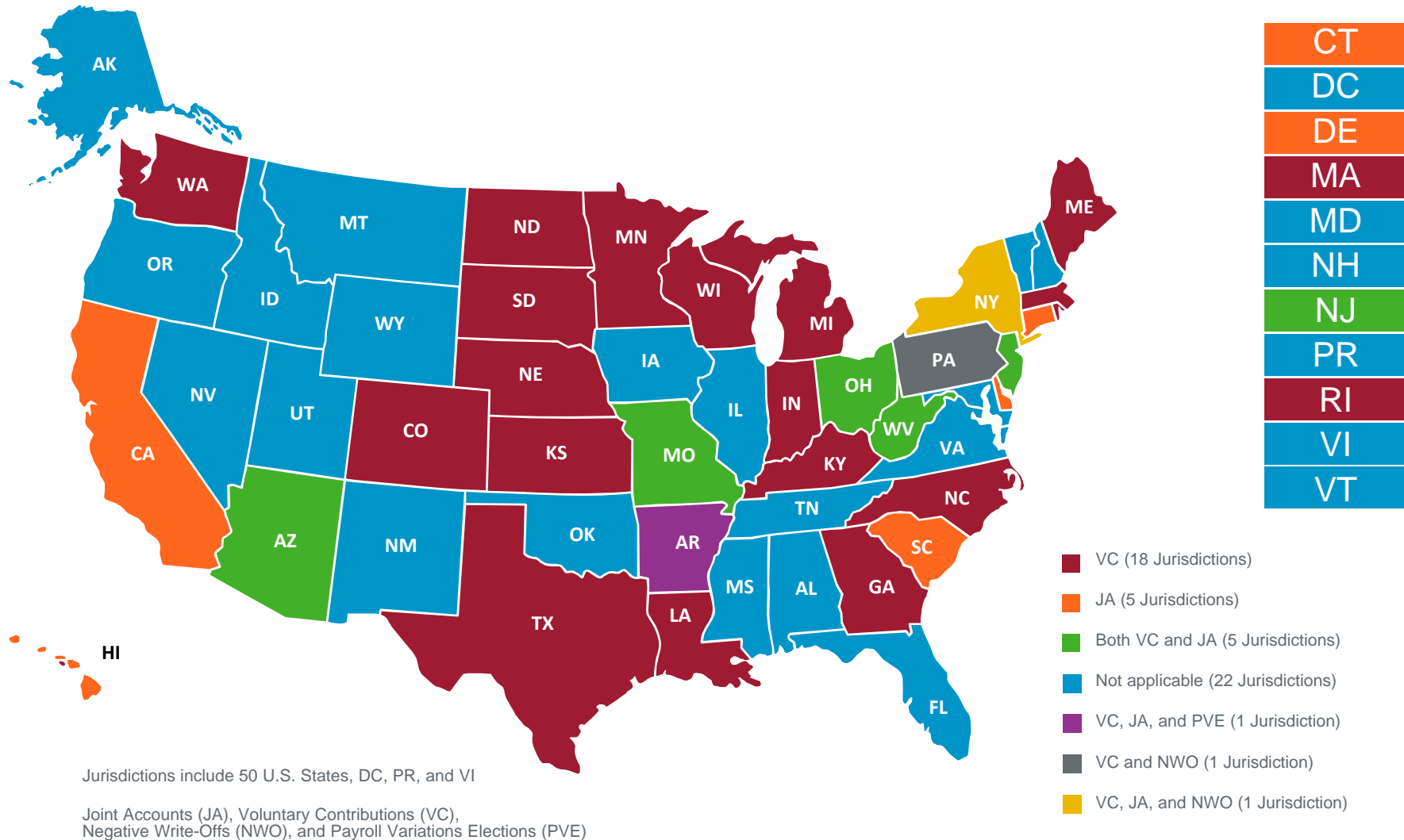
3 Yr. Benefit Charges
3 Yr. Taxable Payroll

October 1 2009	October 1 2010	October 1 2011	October 1 2012	October 1 2013	October 1 2014
2013 Benefit charges and taxable payroll					
	2014 Benefit charges and taxable payroll				
		2015 Benefit charges and taxable payroll			

Computation Factors Impact on SUI Rates

Factor	Reserve Ratio State	Benefit Ratio State
Charges Increase	Increase 	Increase 
Charges Decrease	Decrease 	Decrease 
Taxable Payroll Increase	Increase 	Decrease 
Taxable Payroll Decrease	Decrease 	Increase 
Reserve Balance Increase	Decrease 	N/A
Reserve Balance Decrease	Increase 	N/A

Equifax utilizes tax savings opportunities within each taxing jurisdiction to reduce your UI tax burden



Voluntary Contribution Example

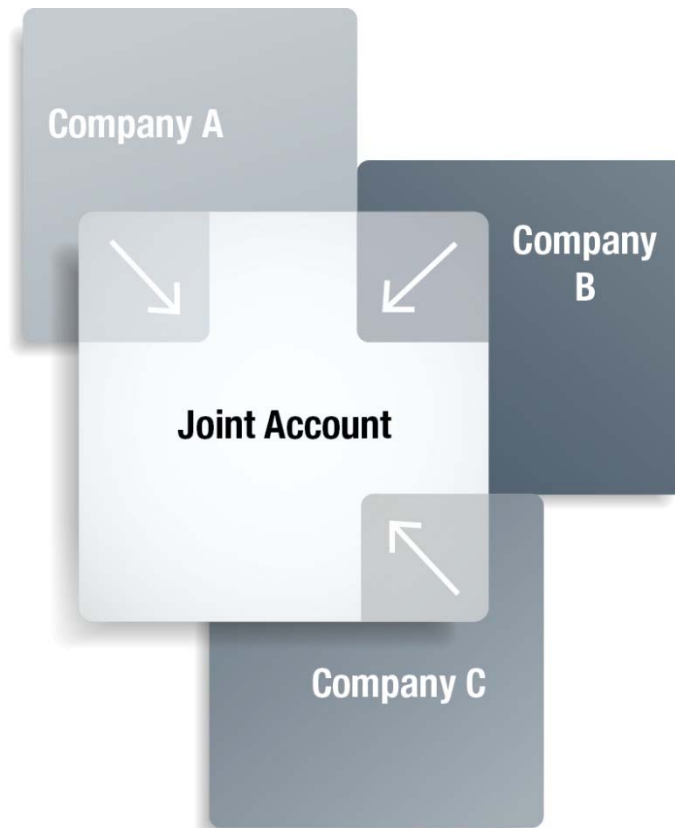
Rate	Ratio	Res. Bal.
5.457%	-1.500%	(\$327,790.30)
5.243%	-1.499%	(\$327,890.29)
5.243%	-1.181%	(\$23,236.53)
5.243%	-0.000%	(\$0.01)
4.066%	+0.000%	\$0.01

Taxable Payroll	
3 Yr. Avg.	\$21,852,686.29
Curr. Yr.	\$22,996,657.34

Net Tax Savings = \$247,434
 (Rate Differential times Curr. Yr. Tax. Pay. Less VC Amount)

Joint Rating

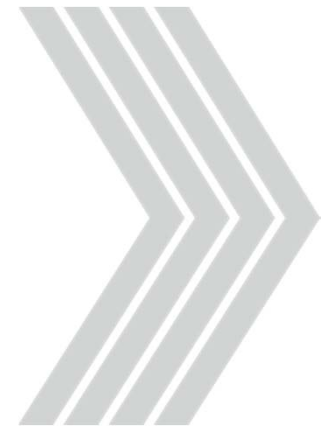
- › A&B
- › A&C
- › B&C
- › A, B & C



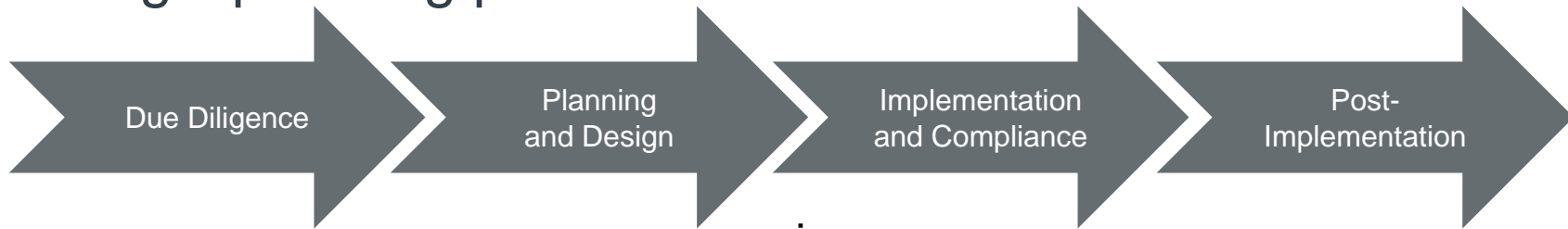
Joint Account Example

Member	Taxable Payroll	Individual Tax Rate	Joint Account Tax Rate	Savings
Company 1	\$110,500	1.50%	4.80%	(\$3,647)
Company 2	\$8,500	1.60%	4.80%	(\$272)
Company 3	\$265,101	4.10%	4.80%	(\$1,856)
Company 4	\$21,643,645	6.60%	4.80%	\$389,586
Company 5	\$11,282,953	4.20%	4.80%	(\$67,698)
Company 5	\$2,847,098	6.40%	4.80%	\$45,554
Company 6	\$17,500	2.90%	4.80%	(\$332)
Company 7	\$204,000	1.50%	4.80%	(\$6,732)
		Less: Required V.C.		\$21,376
				\$333,227

MERGERS & ACQUISITIONS



Effective M&A management begins with a comprehensive strategic planning process



Investigative	Strategy development	Execution of strategy	Follow-up
Information and Data Gathering	Financial modeling and analysis	Payroll integration	Realization of desired outcomes
<ul style="list-style-type: none"> ▪ Forms 940, 941, QCR ▪ Federal and state tax notices ▪ UI tax rates and returns ▪ Payroll policies and procedures ▪ Past mergers and acquisitions 	<ul style="list-style-type: none"> ▪ UI tax analysis ▪ Successor wage base Treatment: FICA, FUTA, and SUTA ▪ Transfers of SUI experience: optional or mandatory 	Compliance paperwork	
Risk assessment	Organizational and legal structuring	<ul style="list-style-type: none"> ▪ Accounts registered and closed ▪ Status changes ▪ Account reconciliations ▪ Benefit charge detail ▪ Payroll detail ▪ Transfers of experience ▪ Wage Base transfers 	<ul style="list-style-type: none"> ▪ Monitor compliance filings ▪ Address state inquiries ▪ Confirm rate transfers ▪ Protest incorrect rates
<ul style="list-style-type: none"> ▪ High SUI tax rates ▪ Unpaid employment taxes ▪ Payrolling 	Agreement language		

Transaction Date

Corporate acquisitions via stock purchase require not only a focus on compliance, but to the integration of new ownership as well



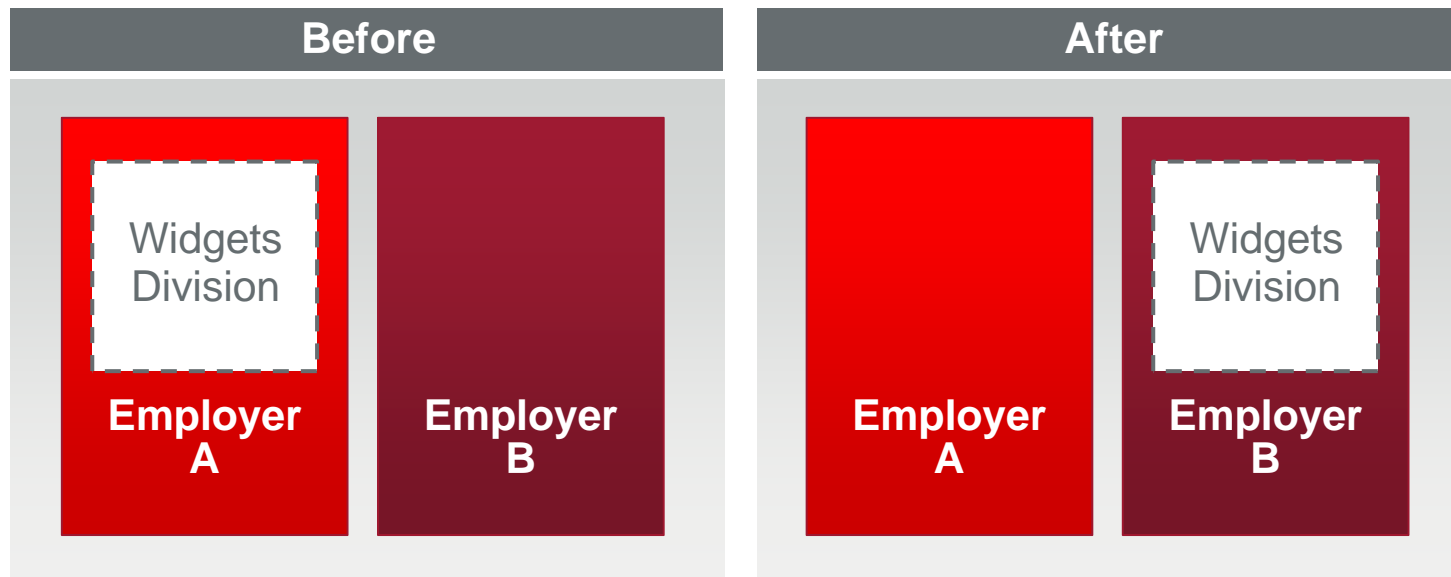
› Considerations

- Stock acquisitions result in a change in the shareholder (owner)
- Underlying business is not impacted by the acquisition

› Compliance

- Jurisdictions will require updates to changes in owners, officers and addresses
- Payroll systems integration of potentially different pay cycles on employment tax liabilities/deposit dates

Corporate asset acquisitions necessitate addressing a variety of jurisdictional compliance, integration, and payroll reporting issues



› Considerations

- Asset acquisitions typically involve the sale/purchase or a contribution of capital between two parties
- After the transaction both parties continue to exist – seller retains identity of the predecessor company
- The acquisition will include the transfer (in whole or in part) of assets (and often employees) to the successor

› Compliance

- Employment tax registrations, status change, experience transfer applications and account closures
- Form W-2 procedure (standard or alternate)
- Forms 940, 941, quarterly unemployment tax returns, annual reconciliations including Schedule D
- Payroll systems integration of potentially different pay cycles on employment tax liability/deposit dates

Statutory mergers and consolidations involve a variety of jurisdictional compliance, integration, and payroll reporting issues



› Considerations

- A merger / consolidation is the combination of two or more employers into a single employer
- The result of the transaction is only one employer survives
- The most common type of merger is a statutory merger or liquidation

› Compliance

- Employment tax registrations, status change, experience transfer applications and account closures
- Required single Form W-2 filed by the survivor
- Forms 940, 941, quarterly unemployment tax returns, annual reconciliations including Schedule D
- Payroll systems integration of potentially different pay cycles on employment tax liability/deposit dates

Questions and Answers

For more information please contact:

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