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Not-for-Profit & Overpaying on Unemployment Costs

By Kate Bousquet, Tax & Audit Manager at UTCA

All too frequently, not-for-profit employers overpay unemployment costs because they are unaware of the funding methods available to them and/or have poorly managed programs (in-house or vendor) for this purpose. This bulletin will address the importance of understanding the unique aspects associated with not-for-profit and/or self-funding employers, including the following:

- Valid 501c3 organizations (federally tax exempt) have the unique advantage of electing to contribute to either the rated pool and Trust Fund administered by each state agency for financing their unemployment liability or they may opt-out and self-fund this risk.
- Rated not-for-profit employers who pay into the state pool fund their risk the same way for-profit employers do – both will pay a certain amount each quarter to the state (minus certain state factors) that is “credited” to their individual unemployment account in that state.
- Rated employers pay a percentage assigned to them by the state based on the state’s calculation, of a given portion of each employee’s payroll (annually). In Massachusetts, the “taxable wages” are \$15,000. All payroll above this amount is exempt. Thus, in Massachusetts an employer assigned the 2.5% experience rate will pay $2.5\% \times \$15,000 = \375 per year/per employee, that earned \$15,000 or more.
- Not-for-profit employers will pay this amount, regardless of whether anyone files a claim against their account or whether benefits are paid. In addition, a portion of the total annual amount is automatically re-directed from the account as a Solvency Assessment for the payment of no-fault benefits, negative balance accounts, subsequent employment purposes etc. This means the not-for-profit’s individual account retains LESS than the annual amounts actually paid.
- All too frequently, not-for-profit employers miss a significant area of cost management and savings because they do not fully understand or have the ability to manage their risk, thus choose to stay rated (overpaying), or are simply unaware they can to opt out and self-fund, paying ONLY the charges actually experienced through paid claims.
- If you have not conducted a “conversion analysis” to determine the dollar exposure related to overpaying through the rated system vs. self-funding, you are likely overpaying. This is particularly true if your organization does not experience a high volume of claims given your payroll and headcount. Savings are typically in the tens of thousands or triple digits, depending on payroll and risks.

Once a not-for-profit understands their savings’ potential and risk, they can then develop and implement effective solutions to manage risks and substantially drive down exposure – maximizing the funding status. Escrow accounts are established and funding levels set for the payment of benefits as a self-funding employer, ensuring the not-for-profit can meet their unemployment obligations easily.

Although there are a few non-charging scenarios available to “rated employers” that are not available to self-funding organizations, typically the claim incidence for these types of separations are typically too remote to justify overpayment.

Finally, it is important for not-for-profits to choose a program or develop in-house abilities to manage program risks in the most aggressive and effective manner possible. Whether you choose a Third Party Administrator, “agent,” or private Trust Group to manage this area, be very wary of discount vendors that provide a la carte services. Not addressing serious gaps in program administration can often result in overpayment. Savings believed captured in their low up-front fees are typically lost due to poorly managed claims and inferior overall service. In the context of Benefit Integrity laws, be sure to inquire whether the agent carries an Errors & Omissions policy covering “claim response issues” based on the agent’s error. Finally, be certain their contract addresses these losses and requires them to report all Benefit Integrity violations and missed protest rights including charges paid as a direct result of these issues.