9-23-1977

Technical Bulletins: Unemployment Compensation Insurance:
Update Number Two

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Recommended Citation
https://trace.tennessee.edu/utk_mtastech/255

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The State Department of Employment Security has mailed out forms to every municipality on which to designate whether a particular municipality is to be treated as a "taxpaying" employer or a "reimbursement" employer. The cover letter with these forms indicated that return was desired in seven days. Since that appeared to be an unreasonably short time, the Tennessee Municipal League discussed the matter with Mr. Emmett Conner, Assistant Commissioner of that department, and obtained his agreement to an extension of the filing deadline to October 31 (this is well ahead of the absolute legal deadline of November 30).

Cities should therefore not feel rushed to make this decision, which would be the case if the seven day return period should be observed. If a city has returned the form, it may file an amended return if it wishes to change the decision previously made (this can be done before the legal deadline of November 30). To assist cities in making this judgment decision, MTAS is providing the following analysis prepared by Dr. Ed Young, Director of Policy Development of the Tennessee Municipal League.

How to Select the Better Option

1. TAXPAYING

A. Determine how many eligible employees your municipality has. Elected officials, appointed policy-making officials, and CETA employees should not be counted since they are ineligible for UI benefits. If your city operates the school system, do count all education employees whether professional, administrative, or non-professional. These persons cannot draw UI benefits during vacation periods, but they are eligible for benefits if they are separated from employment during the regular school year.

B. Compute your total municipal payroll by adding together the salaries and wages of all eligible employees up to a maximum of $6,000 each (only the first $6,000 in salary or wages is subject to the UI employer tax).

C. Multiply this total payroll amount by 1.5%. For each employee who earns $6,000 per year or more you will pay $90 in UI taxes annually ($6,000 x 1.5%). For an employee earning $5,000, you would pay $75 annually; $4,000 - $60.00; $3,000 - $45.00; and so on.

D. Add up these totals and you arrive at the maximum UI outlay that you would have for the first year beginning January 1, 1978.
Taxpaying Advantages

1. You can figure in advance precisely what you will have to pay in a given year and budget accordingly.

2. Your liability is limited - regardless of how many claims you may have, you will not have to pay more than the 1.5% of your eligible payroll, and if you have a low incidence of claims you will qualify later for a lower rate.

II. REIMBURSEMENT

A. Review your personnel records for the past several years and try to project your turnover experience for the coming year. Remember that under the law an ex-employee must meet the following criteria (among others) for eligibility:

   a. Be able to work and available for work;
   b. Be unemployed through no fault of his own.

   This means that employees who have been fired for cause (stealing, chronic unexcused absences, etc.), or who have quit voluntarily without good job-related cause, will not be eligible for UI benefits. Similarly, the law provides that employees who are on strike are not eligible for benefits.

B. If your city is small enough that you know your employees reasonably well and can be sure that you will not have to lay anyone off in the next year because of budget constraints, it may be feasible to choose reimbursement.

C. Figure your potential liability under this option. If you lay off an employee, through no fault of his own, who is earning $6,000 per year, he is eligible to draw approximately $58 per week in benefits for 26 weeks (and possibly up to 39 weeks under the automatic federal extended benefits "trigger" during times of high unemployment). Your potential liability for 26 weeks would be $1,508 assuming that the person cannot find another job.

   The benefit amount of $58 per week is probably not enough to cause a person to forego other employment if it is available, however, and this must be considered. Of course, the weekly benefit may be as high as $95 if the employee was earning at the $10,000 level. Also, persons who leave city employment voluntarily, or who are fired, may still draw benefits from the city if they are laid off from a subsequent job through no fault of their own, and this is a potential liability that must be considered.

Reimbursement Advantages

1. If you have no lay-offs, it is possible to incur no liability whatsoever. If there are no claims you will not have to pay anything.

2. The law provides that reimbursement employers will not have to enter the UI program until July 1, 1978. This means that those choosing this option will have an extra 6 months "free" - no payments or liability for benefits.

3. NOTE--A "stop loss" insurance policy for "reimbursing employers" may be available in the near future. This policy will provide coverage for claims exceeding the amount the city would have paid if it had been a taxpaying employer.

(more)
One Insurance Company has requested authorization to provide such coverage from the Department of Banking. Very little additional information is available at this time, but interested cities should contact Robert B. Sprouse, Tennessee Local Government Insurance Plan, P. O. Box 1020, Nashville, TN 37202. Phone (615) 242-2601.

III. CONCLUSIONS

A. If you have 10 employees earning $6,000 or more, you would pay a UI tax of $900 the first year as a taxpaying employer whether or not any are laid off. If you are a reimbursement employer and lay off one employee who is earning $6,000, your liability for half a year (26 weeks) could reach $1,508.

B. The conservative choice if you are uncertain of what to do is undoubtedly the taxpaying option, but the possibility of not incurring any liability is so appealing that the reimbursement option should be thoroughly investigated.

C. Any municipality that does not designate an option by the deadline will automatically become a taxpaying employer.

D. In order to compute data on both options, you will need the benefit schedule and eligibility rules listed in the booklet, "Tennessee Employment Security Law and Regulations 1976". These were mailed out in the packet of materials to all cities, or you can get one from your nearest Employment Security field office.