

Comparing 501(c)(3) Unemployment Cost Options

Evaluating the Best Option for Your Organization

There is no one right unemployment cost option for every 501(c)(3). Weighing the pros of cons of your unemployment tax alternatives can help you make an educated decision on the choice that best fits your organization’s budgeting model, hiring history, internal resources and overall operations.



	State – Tax System (SUTA)	Self – Direct Reimbursing the State	UST – Direct Reimbursing the State + Claims Management
Ideal For	Small nonprofits with fewer than 10 employees, or employers with very high unemployment claims from year to year (including those with seasonal employees).	Nonprofits with 10 or more employees that have a sizeable human resources department and the capacity to handle claims management on their own as well as cash flow volatility.	Nonprofits with 10 or more employees that would benefit from the assistance of a professional claims monitor and administrative team to help off-load paperwork and save the organization from unwarranted claims, while also providing investment management, cash flow budgeting, and stop-loss protection.
Benefits	<ul style="list-style-type: none"> • State pays all claims • Rate caps – if you have extremely high claims you are subsidized by other employers in the tax system 	<ul style="list-style-type: none"> • Pay only for your own claims • Most states do not impose surcharges on reimbursing employers 	<ul style="list-style-type: none"> • Pay only for your own claims • Most states do not impose surcharges on reimbursing employers • Immediate discount compared to your state rate for two years, pay only for your own claims thereafter • Easy to budget in advance with quarterly deposits • Your account is an asset • Reserve account and stop-loss protection help mitigate cash flow risk • Experts will help manage and protest claims, helping save you money • Experienced trustees and investment management professionals • Refunds for favorable claims history
Challenges	<ul style="list-style-type: none"> • Tax rates rising due to high unemployment benefits paid out • You subsidize other employers • You pay for state borrowing • State surcharges are possible • Tax is a liability • No refunds on overpayments into tax system 	<ul style="list-style-type: none"> • No protection from unexpected claims or catastrophic loss • Difficult to budget in advance • Direct reimbursement for claims is a liability • Managing and protesting claims is time-consuming • Costly professional assistance • If an organization’s claims change dramatically, their costs could exceed the state rate cap • Most states do not allow employers to challenge base period claims¹ 	<ul style="list-style-type: none"> • Not for all organizations – best for those with 10 or more employees and a reasonable claims history • If an organization’s claims rise dramatically, their UST rate could exceed the state tax rate cap. If this is expected to continue, UST may encourage the organization to return to the state tax system • Most states do not allow employers to challenge base period claims¹

	State – Tax System (SUTA)	Self – Direct Reimbursing the State	UST – Direct Reimbursing the State + Claims Management
How Unemployment Benefits Paid	Benefits paid by state, and funded through taxes that are socialized across employers. Employers pay an average 2.00 for every dollar in benefits paid.	Benefits paid by state, and you reimburse the state directly for claims only from your former employees, dollar for dollar.	Benefits paid by state, and UST reimburses the state out of your UST account for claims only from your former employees, dollar for dollar.
Type of Payment	Tax – it is a liability for your organization.	Direct payment to state – a liability for your organization.	Deposits to your UST account are used to reimburse the state – and are an asset to your organization. ²
Cost of Participation	For every \$1.00 paid out in benefits, you pay an average of more than \$2.00 in taxes (to help cover other employers' claims, employers that have ceased operations, and state unemployment fund deficits).	You reimburse the state dollar-for-dollar for unemployment claim benefits paid out to your former employees, immediately as claims occur.	Deposits to your UST account are used to pay dollar-for-dollar for unemployment claim benefits paid out to your former employees. Deposits also include an average 10% administrative cost for claims monitoring, stop-loss protection, bonding and more, and this cost is largely offset by investment returns.
How Rate/ Payment Determined	Your quarterly tax rate includes: cost of your claims, costs from subsidizing other employers' claims, fraudulent claims, state borrowing to cover fund deficits, and other state costs.	No payments until a claim is filed; then you are liable to pay the state immediately as claims occur. The payment amount is equal to benefits paid out to the former employee.	Your quarterly account deposits are calculated by UST's actuary and based on your own claims history.
Discounts	No rate discounts.	Not applicable – no rate since all claims are paid directly out of your budget.	If you are currently tax-rated, you receive an immediate discount on your state tax rate for the first two years. Thereafter the amount is based on your history and not that of all employers.
Surcharges	Tax-rated employers always pay surcharges from the state.	Most states exempt reimbursing employers from state tax surcharges.	Most states exempt reimbursing employers from state tax surcharges.
Claims Monitoring and Administration	No claims monitor savings.	No claims monitor savings.	Claims monitor audit and protest services included with membership. On average, employers who use a claims monitor save 15% on unemployment costs annually.
Protection from Excessive Claims Volatility	Yes. The state will always pay claims – using the taxes collected from all employers. However, your rate will likely increase in the future if your claims are higher than in the past.	No. There is no protection from unforeseen claims since the state requires that all claims are paid as they occur, whether or not your organization has the cash flow.	Yes. In the event your claims costs are higher than your account balance, UST will continue to pay claims and will allow you to replenish your account over the course of a year through contributions. In the event of catastrophic claims, UST provides stop-loss protection as well.
Refunds	Not applicable.	Not applicable.	Yes. Account refunds are triggered when claims are lower than anticipated after your third year of participation.
Investment	No investment.	No investment.	Your account shares in investment results of the Trust.

1. Base period claims are those in which a claim form is sent to EACH employer for which the claimant worked during his base period (usually the first four of the last five completed calendar quarters immediately preceding the beginning of a claimant's benefit year). So if your former employee is hired for only a short duration by another employer, you both may be liable for a portion of their benefits.

2. Generally accepted accounting principles suggest that a correlating recognition of potential claims liability also be stated on the organization's financial statements to offset the reserve balance asset. Consult with your accounting professional for advice.