

Comparing 501(c)(3) Unemployment Cost Options

	State – Tax System (SUTA)	Self – Direct Reimbursing the State	UST – Direct Reimbursing the State + Claims Management & Investment
Ideal For	Small agencies with fewer than 10 employees, or employers with very high unemployment claims from year to year (including those with seasonal employees).	Agencies that have a large human resources department and the capacity to handle claims management on their own as well as cash flow volatility.	Agencies with 10 or more employees that would like the assistance of a professional claims monitor and administrative team to help off-load administrative burden and save the organization from unwarranted claims, while also providing investment management 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 • Immediately save 25% on tax 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, at no extra cost (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 agency's claims change dramatically, their costs could exceed the state rate cap • Most states do not allow employers to challenge base period claims* 	<ul style="list-style-type: none"> • Not for all agencies – best for those with 10 or more employees and a reasonable claims history • If an agency's claims rise dramatically, their UST rate could exceed the state tax rate cap. If this is expected to continue, UST may encourage the agency to return to the state tax system • Most states do not allow employers to challenge base period claims*

* 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.



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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 agency.	Direct payment to state – a liability for your agency.	Deposits to your account are used to reimburse the state – an asset on your balance sheet.*
Cost of Participation	For every \$1.00 paid out in benefits, employers pay an average of more than \$2.00 (to help cover other employers’ claims, those that have ceased operations, and state unemployment fund deficits).	For every \$1.00 paid out in benefits, the employer pays \$1.00.	For every \$1.00 paid out in benefits, the employer pays \$1.00. Note: There is also an administrative cost that includes claims monitoring, stop-loss protection, bonding and more, which 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 only on your own claims history. A small portion goes toward administrative costs. These deposits are put into a reserve account that you own.
Discounts	No rate discounts.	Not applicable – no rate since all claims are paid directly out of your budget.	You receive a 25% 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	No claims monitor savings.	No claims monitor savings.	Claims monitor audit and protest services included with membership at no additional cost. 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 agency has the cash flow.	Yes. In the event your claims costs are higher than your account balance, UST will allow you to go into a deficit and replenish your account over the course of a year at a small interest rate. In the event of catastrophic claims, UST provides stop-loss protection as well.
Refunds	Not applicable.	Not applicable.	Yes. Account refunds are triggered when your account becomes over-funded (in year 3+).
Investment	No investment.	No investment.	Your account shares in the investment results of the Trust.

* 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.