

Financing Unemployment Insurance – Options for Non-Profit or Governmental Employers



As a non-profit organization, or group of organizations, described in section 501(c)(3) of the United States Internal Revenue Code, which is exempt from income tax under section 501(a) of such Code; or as a governmental employer, you have the option to elect how you will finance the payment of unemployment insurance benefits. The Department of Unemployment Assistance (DUA) wants to help you make an informed decision by providing the information you need to choose a payment method that best suits your financial situation. This fact sheet describes two payment options for your organization—the reimbursable method and the contributory method.

The Reimbursable Method

For some non-profit or governmental employers, the reimbursable method is the better choice because it does not require regular quarterly payments into the Unemployment Trust Fund. By electing the reimbursable method, employers do not incur costs until a former employee files for benefits and is determined eligible. DUA then, in effect, “borrows” money from the Trust Fund, created by contributory employers, in order to immediately pay benefits. Reimbursable employers are billed monthly for all costs incurred as a result of the payment of unemployment benefits. Bills must be paid within 30 days. Charges may be disputed and request for review must be made within 30 days. The reimbursable employer will receive a final decision on the review. If a Reimbursable employer has six or more employees, then a quarterly Employer Medical Assistance Contribution (EMAC) formerly Unemployment Health Insurance (UHI) is required. Please note: Cities/Towns, Regional School Districts, and Collaboratives are exempt.

Important Points to Consider

The cost of financing one claim for benefits can exceed \$25,000. If the claimant has dependents or needs to be retrained, costs will be higher. Failure to anticipate personnel separations can lead to difficulties in small non-profit organizations. Employers choosing the reimbursable method should also be aware that the Massachusetts Unemployment Insurance Law requires them to reimburse DUA for benefits paid to former employees in circumstances under which contributory employers normally are not directly charged. Such charges to reimbursable employers could result from any of the following:

- Dependency allowances awarded to claimants for each dependent child, up to a maximum amount equal to 50 percent of a claimant’s weekly benefit rate. Dependency allowance is \$25 per child. For example, a claimant with four children and a weekly benefit rate of \$250 will actually collect \$350 a week. [$\$250 + (\$25 \times 4)$] = \$350.
- State-financed extended benefits awarded during periods of high unemployment.
- Approved voluntary separations. Voluntary separations without good cause will normally disqualify a worker from receiving benefits. However, if it can be established that the reasons a worker left a job were of such a compelling nature that the separation was actually involuntary, benefits will be paid and you will be charged.
- State-approved training programs. Claimants in vocational training may receive benefits for up to 30 additional weeks. Reimbursable employers are liable for the full amount of approved retraining benefits paid.

- A payment to a claimant who is later determined ineligible, resulting in an overpayment. Reimbursable employers must still reimburse DUA for these benefits paid, until the money can be recovered from the claimant. If and when the claimant repays the overpayment, your account will be credited. If the claimant repayment requirement is waived in accordance with statutory provisions, the reimbursable employer will not receive credit for the claimant's overpayment.
- Part-time workers laid off from a full-time job. When the liability of the full-time employer is exhausted, reimbursable employers must pay for the remaining benefits paid, even though the claimant may be still working part-time for them. The law provides for the payment of partial benefits. However, an employer's charge liability is limited to 36 percent of the total claimant wages paid during the base period. DUA first charges the most recent employer in the base period. When that employer's 36 percent limit is reached, the next most recent employer is charged. DUA continues charging the claimant's base period until the claimant exhausts his or her maximum benefit entitlement. For subsidiary employers (secondary or part-time employment), the order for charging may be reversed.
- An employee leaving to take another job which does not "come through," or which results in a subsequent layoff; or a former employee who is initially disqualified for benefits, then obtains new employment, and is subsequently laid off for lack of work. In these cases, you are charged, even if the claimant left your organization under disqualifying circumstances.
- The claimant is initially granted benefits, but is subsequently disqualified on your appeal. Reimbursable employers must still reimburse DUA for the benefits paid up to that point until DUA recovers the money from the claimant. DUA is prohibited by statute from charging any of these types of benefits paid to former employees of reimbursable employers to the contributing employers' solvency accounts.

The Contributory Method

The contributory method requires employers to pay a quarterly contribution to the Unemployment Insurance Trust Fund, based on a set percentage assessed on the first \$15,000 annually paid to each employee. There are many advantages to selecting the contributory method. For example, in all of the above instances, contributory employers are in effect "insured" against these additional charges. This is because employer contributions include annual assessments that cover

Contributory vs. Reimbursable: Which is less costly for a small non-profit?

You are a non-profit organization with five employees, all making over \$15,000 per year:

(a) If you convert to the contributory method, your rate will be assigned by statute; if you convert to the contributory method you will be assigned a contribution rate not to exceed 5.40% for the first three years. With the contributory method, you would pay \$3,930.

$$\begin{aligned}
 & \$15,000 \times 0.0524 = \$786 \text{ per employee annually*} \\
 & \$786 \times 5 = \$3,930 \text{ for your organization}
 \end{aligned}$$

OR

(b) With the reimbursable method, if one employee, who made \$15,000 per year and paid equally in four quarters, left your organization and all the wages were attributable to you as the base period employer, your maximum potential cost—assuming one dependent child—would be \$5,070.

Maximum benefits:

36% of the total wages paid in the base period or 30 times the weekly benefit rate whichever is less.
 Benefit Rate equals $\$144 \times 30 = \$4,320$.
 The maximum duration of a DUA claim is 30 weeks.*

$$\begin{aligned}
 & \$25 \text{ weekly dependency allowance} \times 30 \text{ weeks} = \$750 \text{ in Allowances} \\
 & \$4,320 + 750 = \$5,070 \text{ potential benefits}
 \end{aligned}$$

Calculations based on benefit levels in effect in October of 2023

a. Contributory method: paid annually whether or not there are unemployment claims, based on annual rate schedule.

b. Reimbursable method: paid only upon the establishment of claim.

* If a claimant works part-time, then s/he may be eligible for benefits and dependency allowances for up to 52 weeks.

these costs. The solvency assessment is to pay for certain types of benefits claimants receive that are not chargeable directly to the account of a contributing former employer. Non-profit and governmental employers electing to use the reimbursable system are liable for the above types of charges because they do not contribute to the costs. Contributory method allows employers to budget unemployment insurance costs as a continuing cost of doing business. Quarterly contributions reports and payments are due four times a year. In the event that a claimant becomes eligible for benefits, the costs are charged to the employer's book account, but do not have an impact on the firm's contribution rate until the following year.

One key difference between the two methods is the risk you take using the reimbursable method. Contributory employers are charged based on their past experience with the unemployment insurance system. This is the experience rate. The rate is determined by the relationship of payroll size in dollars, past contributions, and the amount of benefits charged against the account. Reserves both in your account and in the state's trust fund factor into experience rate calculations. When claims are filed against you as a contributory employer, your contribution rate may increase in subsequent years as your reserves decline,

in relation to your payroll. However, reimbursing the trust fund for only one unemployment insurance claim could be a greater expense than the amount you would have paid in a year to insure your entire staff under the contributory method. One advantage in using the contributory method for financing UI benefits is greater predictability of costs during the year. Should you decide to elect the contributory method, you will use the same forms and observe the same procedures as private, for-profit employers, making quarterly payments according to a schedule. You then also qualify for the same rights as these employers, including having certain benefits paid to your former employees charged to the solvency account.

The payments of governmental employers electing the contributory method are deposited in and benefits are paid from the single unemployment compensation trust fund. However, DUA maintains a separate governmental fund balance and computes quarterly payment contribution rates differently. Governmental employers pay contributions on all wages paid to their employees, not just on the first \$15,000.

The beginning governmental rate is 1%.

Reimbursable vs. Contributory: Which is less costly for a large non-profit?

You are a non-profit organization with 200 employees all making over \$15,000. Using the reimbursable method, if one employee making \$105,000 per year left your organization and qualified for benefits, with all wages attributable to you as the base period employer, your potential cost—assuming two dependent children and a 30-week training approval—would be \$61,440.

Based on \$105,000 earnings per year:

The maximum benefit rate of $\$1033 \times 30 \text{ weeks} = \$30,990^*$

Dependency allowance: $(\$25 \times 2) \times 30 = \$1,500$

30 weeks approved training $[\$1033 + (\$25 \times 2)] \times 30 = \$32,490$

Total Potential Charge: $\$30,990 + \$1,500 + \$32,490 = \$64,980$

OR

With the contributory method, to insure all 200 employees, you would pay \$121,200 for the first year:

$\$15,000 \times 0.0404 = \606.00 per employee **

$\$606.00 \times 200 = \$121,200$ **

*From October 2023 Weekly Benefit Rate. The Weekly Benefit rates are established annually each October.

**Mid-range Experience Rate from the 2023 Experience Rate schedule.

Estimating Your Risk

If you are an organization with relatively limited employee turnover, the reimbursable method may be best for you. However, if you elect the reimbursable method, it is important to understand your financial obligations, specifically your responsibility to pay your portion of any claim where you are a base period employer. Even one or two claims against a very small organization or one with a limited budget could cause extreme financial hardship.

If you elect the reimbursable method, you may want to consider a self-imposed insurance system, setting aside the contribution you would have paid to DUA in an interest-bearing account. This way, you will be prepared if a claim is filed against your organization.

Changing Your Financing Method

You may change from one financing method to another by giving written notice to DUA. Once selected, however, that method is in effect for at least two calendar years. If you are a governmental employer, this notice is due by December 31 of the year preceding the changeover year. For non-profit employers, notice is due by December 1 of the year preceding the changeover year.

As a rule,

- Non-profit non-construction industry employers that are being made subject for the first time and have elected the contributory method may receive a rate between 1.45% and 3.12% depending on the rate schedule in effect.

- Non-profit employers that switch from reimbursable to contributory will receive a rate between 3.14% and 5.4% depending on the rate schedule in effect. At this time, the 5.24% rate is in effect and would be paid on the first \$15,000 of payroll for three consecutive years.
- Governmental employers that elect to be contributory for the first time or switch from reimbursable to contributory will receive a 1% rate applied against total payroll for two consecutive years.

After you inform DUA of your choice of method, benefits are charged to your account according to the financing method in effect for you at the time a particular unemployment claim is filed. New employers able to use this option choose a financing method when the organization becomes subject to the Unemployment Insurance Law. If you do not choose, by law you are automatically assigned the contributory method.

When deciding whether to become a reimbursable or contributory employer, you should consider all the factors described that may relate to your organization’s potential unemployment liability. For further information on either of these two financing methods, please call (617) 626-5075 option 3.

An equal opportunity employer/program. Auxiliary aids and services are available upon request to individuals with disabilities. For hearing impaired relay services, call 1-800-439-0183 or 711.