NC LEAGUE OF MUNICIPALITIES
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MEMORANDUM

TO: Key Municipal Officials

FROM: Karl Knapp, NCLM Director of Research & Policy Analysis

DATE: February 19, 2013

SUBJECT: Changes to Municipalities' Participation in the Unemployment Insurance System As a Result of House Bill 4 Being Signed Into Law

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On February 19, 2013, Governor Pat McCrory signed into law a bill reforming North Carolina's unemployment insurance system. The reform allows the State of North Carolina to accelerate its repayment of an approximately $2.5 billion debt to the federal government. It does so by making a number of changes to the system, including raising unemployment taxes for businesses and limiting the amount and duration of benefits received by unemployment insurance claimants.

The law also changes the way in which reimbursable municipalities and other local governments participate in the unemployment insurance system. Below are the two major areas of change for cities and towns and what we know as of today as to how those changes will be implemented.

- **Beginning in Fiscal Year 13-14, cities and towns that choose to be reimbursable employers will be required to maintain a reserve equaling 1 percent of unemployment insurance taxable wages. Municipalities will make quarterly payments during FY 13-14 in order to build their reserves.**

  For unemployment insurance purposes, taxable wages are wages paid during a <u>calendar year</u>, up to the state taxable wage base. The state taxable wage base is $20,900 for 2013, but that figure is recalculated each year based on prevailing wages in the state. We expect the 2014 wage base to be approximately $21,400. For employees with expected total wages/salary of less than $21,400 during FY 13-14, including temporary/seasonal employees or part-time employees, municipalities should budget 1 percent of FY 13-14 pay as the total prepayment into the reserve during FY 13-14. For those employees making $21,400 or more, municipalities should budget $214 per employee.

  Each municipality will build its 1 percent reserve with four quarterly prepayments made in October 2013 and January, April, and July of 2014. These prepayments will be in addition to the payment of the unemployment claim bill that will be sent in November 2013. The payments for October and January will be smaller than those for April and July. Since many employees will have been paid at least $20,900 through June, those employees will have no taxable wages during July through December for which a reserve prepayment must be made. Thus, payments in October and January will be made only for those employees working from July to December who were not paid at least $20,900 by June 30, 2013. This would include lower wage, part-time, seasonal, and temporary employees. In April and July, the prepayments will equal 1 percent of all 2014 wages earned up to the taxable wage base for 2014, estimated to be $21,400. The table below shows the relationship between pay, taxable wages and the reserve prepayment for an employee who makes $50,000 in 2013 and receives a 2 percent pay raise as of January 1, 2014.

	2013				2014			
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
Wages Paid to Employee	$12,500	$12,500	$12,500	$12,500	$12,750	$12,750	$12,750	$12,750
Taxable Wages	$12,500	$8,400	$0	$0	$12,750	$8,650	$0	$0
Prepayment to 1% Reserve	$0	$0	$0	$0	$128	$86	$0	$0

The taxable wage limit applies to the employee, not the position. As a result, if a position becomes vacant, the reserve payment calculation applies separately to each employee in the position. The table below illustrates how this calculation would work for the same job if the position becomes vacant as of July 1, 2013 and a new person is hired at the same salary as of October 1, 2013.

	2013				2014			
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
Wages Paid to Employee	$0	$0	$0	$12,500	$12,750	$12,750	$12,750	$12,750
Taxable Wages	$0	$0	$0	$12,500	$12,750	$8,650	$0	$0
Prepayment to 1% Reserve	$0	$0	$0	$125	$128	$86	$0	$0

As shown in the table, the prepayment for positions that become vacant during the FY 13-14 fiscal year actually may be more than $214 (in this case, $125+$128+$86 = $339). As a result, municipalities should plan on budgeting an additional amount of prepayment based on expected turnover. This additional amount should be based on the average percentage of your positions that become vacant during a fiscal year and on whether there is any sort of seasonal pattern to the turnover. Vacancies that occur from July to December will require more prepayment than those that occur January to June.

In August of 2014, and every August subsequent, the Division of Employment Security (DES) will calculate the amount that each municipality should have in its reserve. (Note that 2013 unemployment claims will be invoiced as usual and not deducted from the reserve). Unemployment claims for 2014 will be deducted from the reserve in the fall of that year. Municipalities will then receive a bill from the DES indicating the amount they must pay to replenish their reserve to the 1 percent level. This payment will cover both the costs of unemployment claims and increases in the municipality's total number of employees or total taxable wages. The payment will be due in January 2015. The schedule of an August calculation and bill from the DES followed by a January payment to replenish the reserve will continue on in subsequent years. The table below lays out the schedule for implementation of the 1 percent reserve:

October 2013	First reserve prepayment
November 2013	Annual claims bill (August-July) sent by DES
January 2014	Second reserve prepayment
April 2014	Third reserve prepayment
July 2014	Fourth (and final) reserve prepayment
November 2014	DES calculates the 1% reserve requirement as of August 1, 2014 and the difference between this amount and the prepayments into the reserve. DES also deducts the annual unemployment claims (August-July) from the 1% reserve. DES bills municipalities for the amount needed to replenish their reserves.
January 2015	Replenishment payment Due
After January 2015	Annual billing in November to replenish reserve, with payment due in January.

- **Under the new law, cities no longer have the option of paying 120 percent of claims.**

  Currently, municipalities have two options for how to pay unemployment claims. Municipalities may pay 120 percent of their unemployment claims and be eligible for noncharging of benefits. Noncharging of benefits exempts municipalities from paying unemployment claims in such scenarios as when an employee leaves work without good cause attributable to the employer, an employee separates from his or her employer due to disability or a health condition, etc. As an alternative, municipalities may also currently choose to pay 100 percent of claims and not be eligible for the noncharging of benefits.

  Under the new law municipalities must pay 100 percent of claims. They do not have the option to pay 120 percent of claims and request noncharging of benefits. The financial impact of this change on those municipalities currently paying 120 percent is uncertain. Though they may now be responsible for benefits they were not previously paying for, the reduced contribution and new restrictions on eligibility for unemployment insurance may offset these new responsibilities. Those municipalities currently paying 100 percent of claims seem likely to experience cost savings due to the reduction in the amount and duration of benefits for claimants.

We will let you know as additional information becomes available. In the meantime, please contact me or another member of the League's Governmental Affairs staff with any questions you may have.