



IN THE BUSINESS OF YOUR SUCCESSSM

Unemployment Taxes Catapulting to New Heights: Help Mitigate Increases to Your Company's SUI Tax Rates

In Partnership with HR.com

**An ADP ® Webcast
Tuesday, November 8, 2011
3 PM EASTERN**



Housekeeping

- This is one of a number of complimentary webinars that ADP offers to finance and HR professionals each year.
- Today's webinar will last for 60 minutes, ending at 4 pm.
- The last 10 minutes of today's program have been reserved for Q&A.
- A copy (PDF format) of today's slides is available for download.
- CPE and/or RCH certificates will be emailed to those who qualify within 30 days of today's broadcast.
- Please participate in our brief survey at the conclusion of today's webinar.



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■ Are you planning to apply for CPE and/or RCH credits for attending today's webinar?

- A. CPE Credit Only
- B. RCH Credit Only
- C. Both CPE & RCH Credits
- D. No
- E. Not Applicable

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Polling Question #1

■ What area of business is your primary focus?

- A. Finance
- B. HR
- C. Payroll
- D. Risk
- E. Other
- F. Don't know/Not Applicable

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Agenda

- National Economic Update
- Federal Unemployment Tax Act (FUTA) Review
- American Recovery and Reinvestment Act 2009
- Unemployment Tax Management Discussion
- Summary
- Questions and Answers



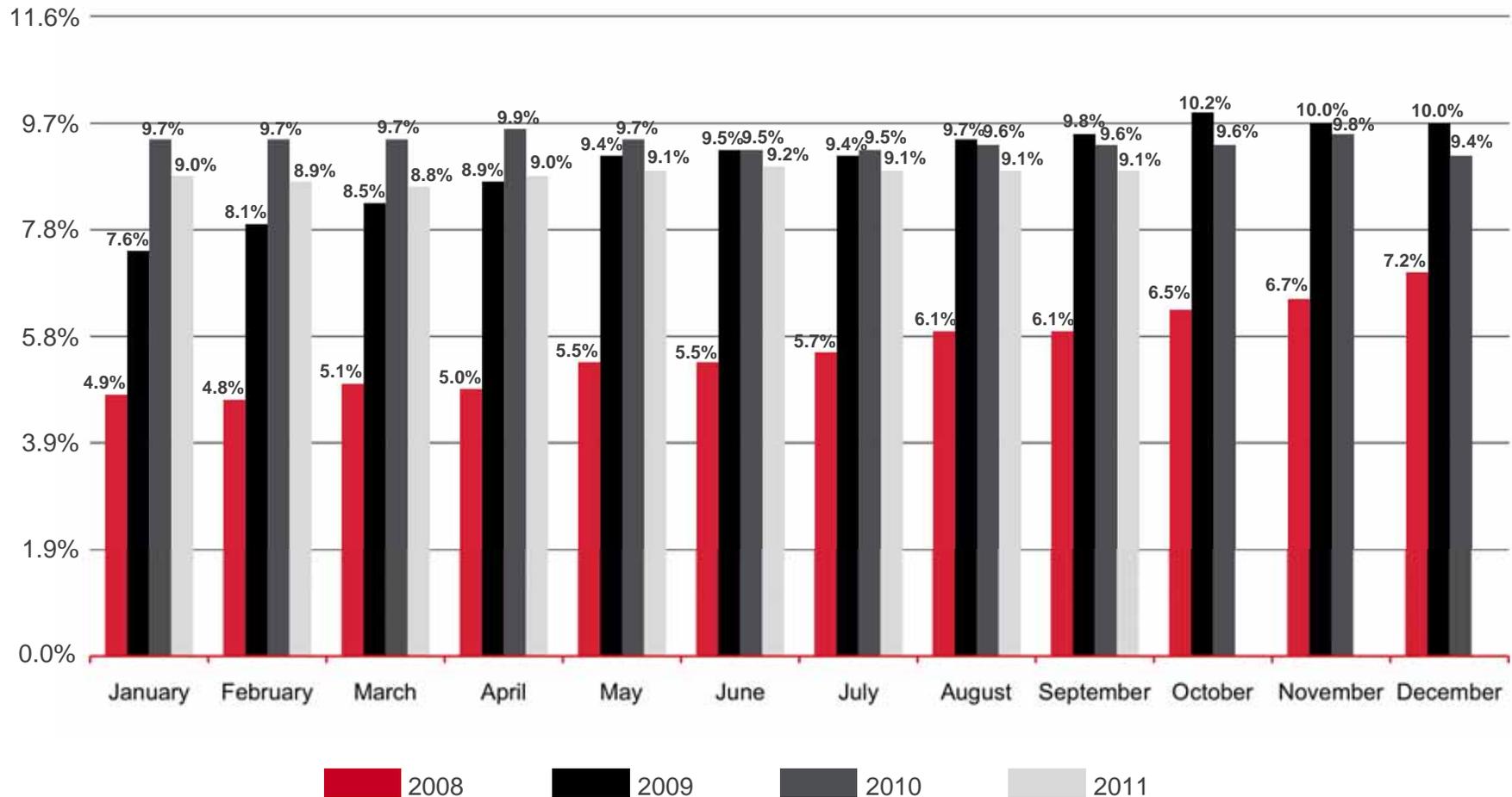
National Economic Update



Key Unemployment Economic Terms

- **Total Unemployment Rate (TUR)** – the rate computed by dividing Total Unemployed by the Civilian Labor Force (Bureau of Labor Statistics)
- **Average High Cost Multiple (AHCM)** – a standard measure of trust fund solvency used by the U.S. Department of Labor. A multiple of 1.0 indicates the state trust fund is sufficiently solvent.
- **Federal Unemployment Account (FUA)** – account from which repayable advances are made available to states whose unemployment trust fund reserves are unable to meet current unemployment benefits payments.
- **Federal Title XII Loans** – a loan made available to states under Title XII of the Social Security Act when a state determines the unemployment trust fund will not have adequate reserves to pay unemployment benefits. Title XII loans are funded from FUA.
- **Extended Unemployment Compensation Account (EUCA)** – account from which the federal share of federal-state extended benefits are paid during periods of high unemployment.

National Unemployment Trend



Source: U.S. Department of Labor



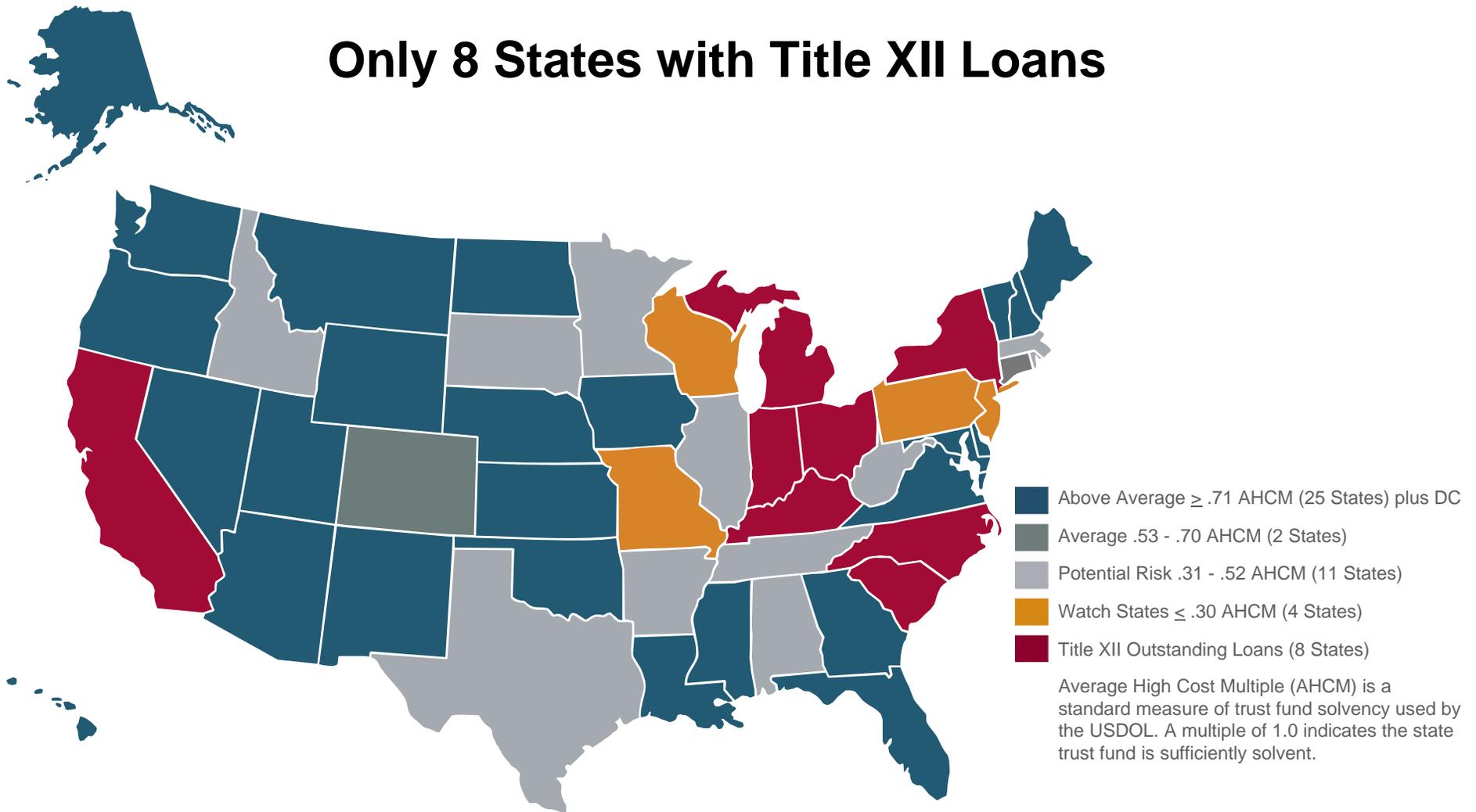
National Unemployment Trend

Month	National Unemployment Rate 2008	Prior Year Variance	National Unemployment	Prior Year Variance	National Unemployment	Prior Year Variance
		2007 vs. 2008	Rate 2009	2008 vs. 2009	Rate 2010	2009 vs. 2010
January	4.90%	7%	7.60%	55%	9.70%	27%
February	4.80%	7%	8.10%	69%	9.70%	19%
March	5.10%	16%	8.50%	67%	9.70%	14%
April	5.00%	11%	8.90%	78%	9.90%	11%
May	5.50%	22%	9.40%	71%	9.70%	3%
June	5.50%	20%	9.50%	70%	9.50%	0%
July	5.70%	21%	9.40%	62%	9.50%	1%
August	6.10%	30%	9.70%	56%	9.60%	-1%
September	6.10%	30%	9.80%	61%	9.60%	-2%
October	6.50%	35%	10.20%	57%	9.60%	-6%
November	6.70%	43%	10.00%	49%	9.80%	-2%
December	7.20%	44%	10.00%	39%	9.40%	-6%

Source: U.S. Department of Labor

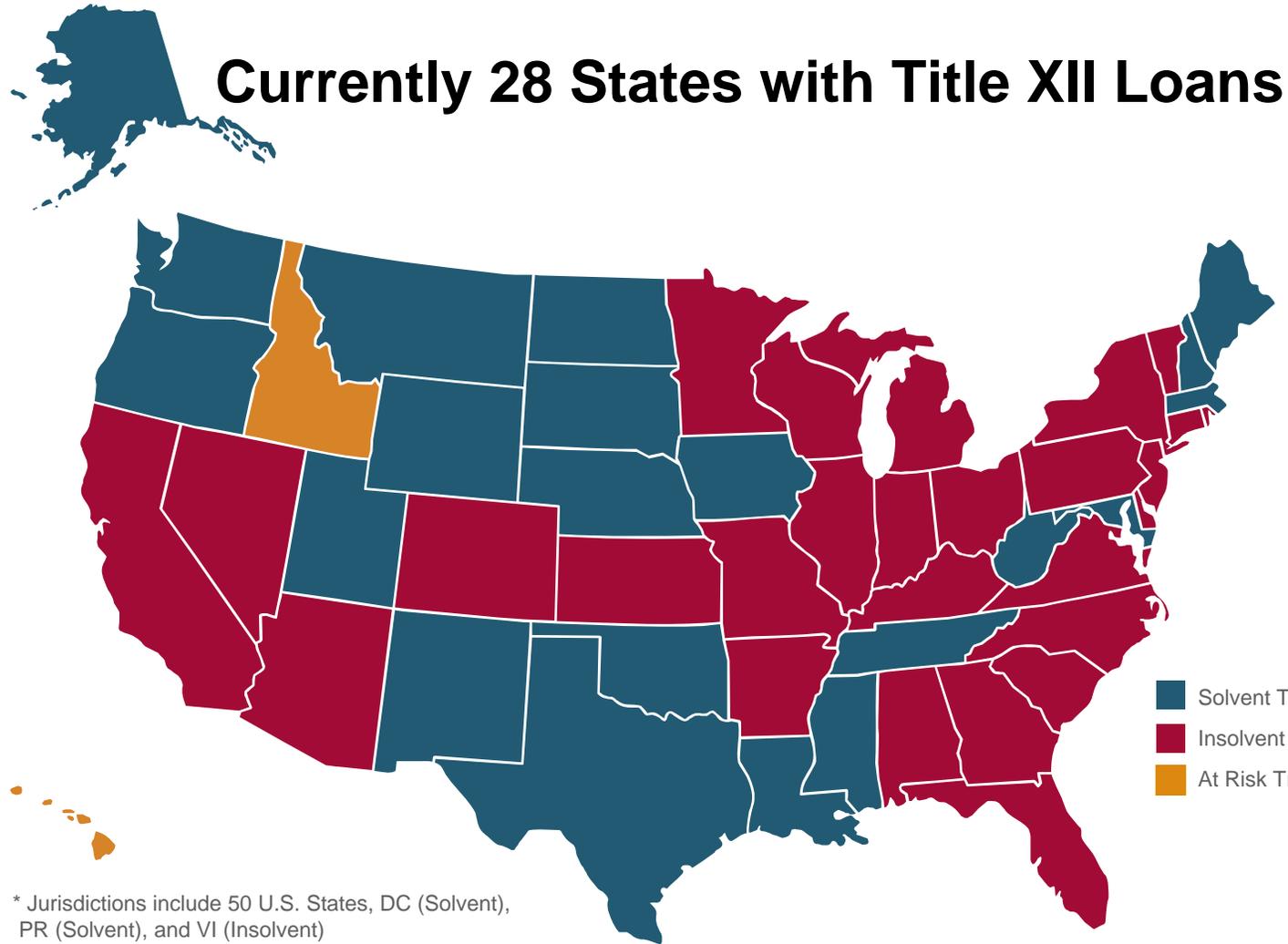
Unemployment Trust Fund Solvency Third Quarter 2008

Only 8 States with Title XII Loans



Source: U.S. Department of Labor, Third Quarter 2008 AHCM, Title XII Loans as of February 16, 2009

Unemployment Trust Fund Solvency Assessment as of October 6, 2011



Source: U.S. Department of Labor

Federal Unemployment Tax Act (FUTA) Review



Federal Unemployment Tax Act (FUTA) Review

- **Federal tax used for administration of state unemployment programs.**
- **Since 1976, employers paid 0.8% of the first \$7,000 each employee earns in a calendar year up to \$56 per employee. As of July 1, 2011 employers will now pay 0.6% of the first \$7,000 or \$42 per employee.**
- **States with insolvent trust funds borrow monies through Federal Title XII loans to pay for benefits.**
- **If the loan remains outstanding for 2 years, employers in that state must pay an additional 0.3% or \$21 in FUTA per employee for a total of \$63.**
- **An additional 0.3% is added each year a loan remains outstanding.**

Source: U.S. Department of Labor

Federal Unemployment Tax Act (FUTA) Review

Effective 10/1/76 - 6/30/2011:

FUTA Tax Rate	FUTA Taxable Wage Base	FUTA Tax
6.2%	\$7,000	\$434 Per Employee

If employer pays state SUI taxes timely and in full, a 5.4% credit is granted:

FUTA Tax Rate	FUTA Tax Credit	FUTA Tax Rate (less credit)	FUTA Tax
6.2%	5.4%	0.8%	\$56 Per Employee

If Federal Title XII loan remains outstanding for two years (as of January 1st), employers in the affected state lose 0.3% of the 5.4% credit (or \$21 per employee)

0.3% FUTA credit loss continues for every year the Federal Title XII loan remains unpaid (Example: Year 1 = 0.3%; Year 2 = 0.6%, etc.)

Federal Unemployment Tax Act (FUTA) Review

Effective 7/1/2011:

FUTA Tax Rate	FUTA Taxable Wage Base	FUTA Tax
6.0%	\$7,000	\$420 Per Employee

If employer pays state SUI taxes timely and in full, a 5.4% credit is granted:

FUTA Tax Rate	FUTA Tax Credit	FUTA Tax Rate (less credit)	FUTA Tax
6.0%	5.4%	0.6%	\$42 Per Employee

If Federal Title XII loan remains outstanding for two years (as of January 1st), employers in the affected state lose 0.3% of the 5.4% credit (or \$21 per employee)

0.3% FUTA credit loss continues for every year the Federal Title XII loan remains unpaid (Example: Year 1 = 0.3%; Year 2 = 0.6%, etc.)

Polling Question #2

- **How many billions of TITLE XII loans are outstanding as of 2011?**
- A. \$157B
- B. \$15B
- C. \$38B
- D. \$86B
- E. Don't know/Not Applicable

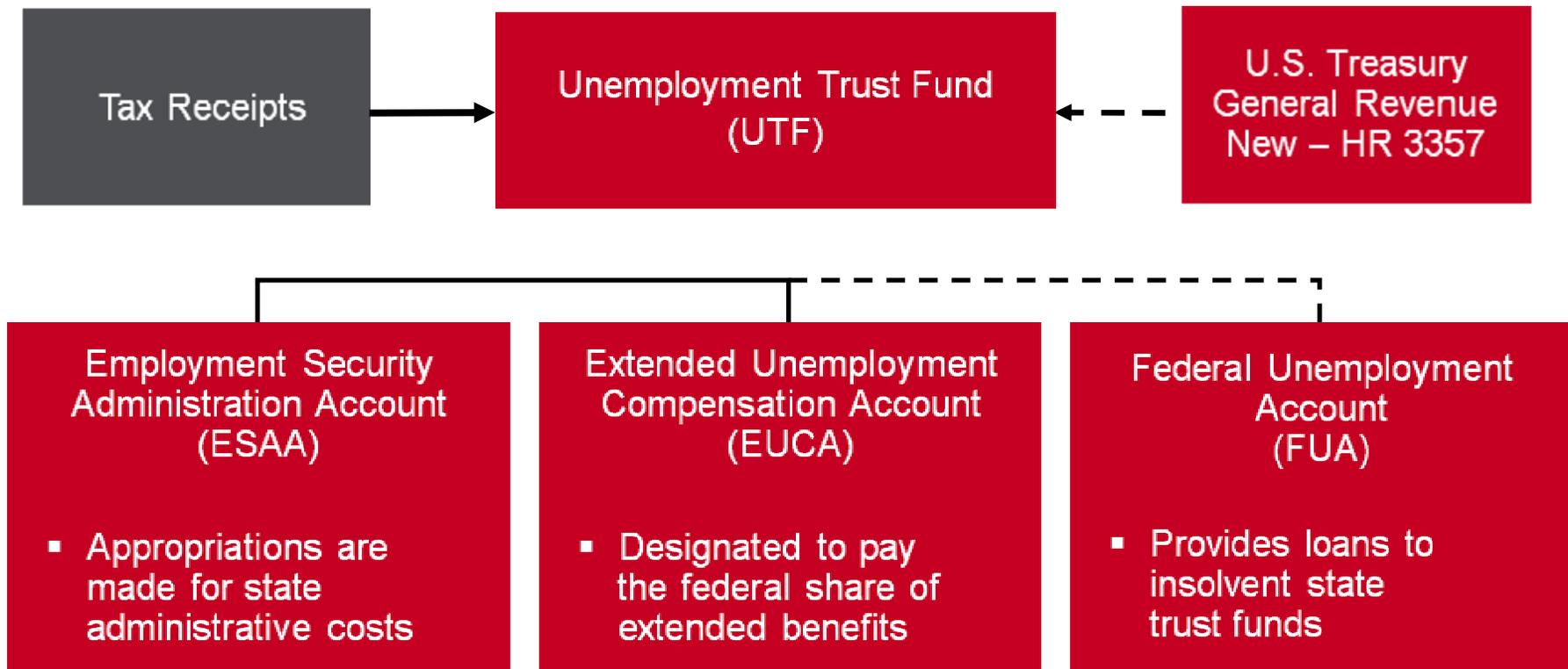
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Federal Unemployment Trust Fund



Outstanding Federal Loan Title XII Loans

As of October, 2011

State	Outstanding Loan Balance
Indiana	\$1,905,122,714
Michigan	\$3,181,759,874
South Carolina ²	\$851,315,716
Alabama	\$50,062,546
Arkansas	\$330,853,383
California	\$9,096,266,574
Connecticut	\$809,875,583
Florida	\$1,664,600,000
Georgia	\$721,080,472
Illinois	\$2,046,400,474
Kentucky	\$948,700,000
Minnesota	\$274,711,508
Missouri	\$725,446,731
Nevada	\$742,160,969

State	Outstanding Loan Balance
New Jersey	\$1,458,039,356
New York	\$3,153,040,099
North Carolina	\$2,551,614,221
Ohio	\$2,313,387,131
Pennsylvania	\$3,008,393,967
Rhode Island	\$219,519,958
Virgin Islands	\$26,621,343
Virginia	\$219,406,000
Wisconsin	\$1,215,691,442
Arizona	\$336,217,086
Colorado	\$310,052,121
Delaware	\$62,523,368
Kansas	\$33,678,259
Vermont	\$77,731,861

Total Title XII Loans

\$38,334,272,755

Federal Unemployment Account (FUA) - represents repayable advances available to states whose unemployment trust fund reserves are unable to meet current unemployment benefit payments. It also supports payments from the American Recovery and Reinvestment Act.

Potential FUTA Credit Reduction

State	Loan Balance	Actual	Potential FUTA Effective Tax Rate				
	October 6, 2011	2010	2011 1/1-6/30	2011 7/1-12/31 ¹	2012 ¹	2013 ¹	2014 ¹
Indiana	\$1,905,122,714	1.10%	1.40%	1.20%	1.50%	1.80%	2.10%
Michigan	\$3,181,759,874	1.40%	1.70%	1.50%	1.80%	2.10%	2.40%
South Carolina ²	\$851,315,716	1.10%	1.40%	1.20%	1.50%	1.80%	2.10%
Alabama	\$50,062,546		1.10%	0.90%	1.20%	1.50%	1.80%
Arkansas	\$330,853,383		1.10%	0.90%	1.20%	1.50%	1.80%
California	\$9,096,266,574		1.10%	0.90%	1.20%	1.50%	1.80%
Connecticut	\$809,875,583		1.10%	0.90%	1.20%	1.50%	1.80%
Florida	\$1,664,600,000		1.10%	0.90%	1.20%	1.50%	1.80%
Georgia	\$721,080,472		1.10%	0.90%	1.20%	1.50%	1.80%
Illinois	\$2,046,400,474		1.10%	0.90%	1.20%	1.50%	1.80%
Kentucky	\$948,700,000		1.10%	0.90%	1.20%	1.50%	1.80%
Minnesota	\$274,711,508		1.10%	0.90%	1.20%	1.50%	1.80%
Missouri	\$725,446,731		1.10%	0.90%	1.20%	1.50%	1.80%
Nevada	\$742,160,969		1.10%	0.90%	1.20%	1.50%	1.80%

1 - Reflects the expiration of the 0.2% "temporary" surtax on June 30, 2011

2 - Expected to make a payment large enough to qualify for a credit reduction exemption in 2011. If made timely and the USDOL approves, the FUTA effective rate would be reduced to 0.8% for the first half and 0.6% for the second half of 2011.

Source: U.S. Department of Labor

Potential FUTA Credit Reduction

State	Loan Balance	Actual	Potential FUTA Effective Tax Rate				
	October 6, 2011	2010	2011 1/1-6/30	2011 7/1-12/31 ¹	2012 ¹	2013 ¹	2014 ¹
New Jersey	\$1,458,039,356		1.10%	0.90%	1.20%	1.50%	1.80%
New York	\$3,153,040,099		1.10%	0.90%	1.20%	1.50%	1.80%
North Carolina	\$2,551,614,221		1.10%	0.90%	1.20%	1.50%	1.80%
Ohio	\$2,313,387,131		1.10%	0.90%	1.20%	1.50%	1.80%
Pennsylvania	\$3,008,393,967		1.10%	0.90%	1.20%	1.50%	1.80%
Rhode Island	\$219,519,958		1.10%	0.90%	1.20%	1.50%	1.80%
Virgin Islands	\$26,621,343		1.10%	0.90%	1.20%	1.50%	1.80%
Virginia	\$219,406,000		1.10%	0.90%	1.20%	1.50%	1.80%
Wisconsin	\$1,215,691,442		1.10%	0.90%	1.20%	1.50%	1.80%
Arizona	\$336,217,086				.90%	1.20%	1.50%
Colorado	\$310,052,121				.90%	1.20%	1.50%
Delaware	\$62,523,368				.90%	1.20%	1.50%
Kansas	\$33,678,259				.90%	1.20%	1.50%
Vermont	\$77,731,861				.90%	1.20%	1.50%

Total Title XII Loans \$38,334,272,755

1 - Reflects the expiration of the 0.2% "temporary" surtax on June 30, 2011.

Source: U.S. Department of Labor



Federal Unemployment Tax Act (FUTA)

- 2011 Federal Unemployment Taxable Wage Base - \$7,000
- FUTA surtax of .02% extended through 2010 and first 6 months of 2011
- **FUTA TWB projected to increase to \$15,000**
- Individual State TWB cannot be lower than FUTA

State Unemployment Taxable Wage Bases < \$10,000

State	2011 Wage Base
AL	\$8,000
AZ	\$7,000
CA	\$7,000
DC	\$9,000
FL	\$7,000
GA	\$8,500
IN	\$9,500
KS	\$8,000
KY	\$8,000
LA	\$7,770

State	2011 Wage Base
MD	\$8,500
MI	\$9,000
NE	\$9,000
NY	\$8,500
OH	\$9,000
PA	\$8,000
PR	\$7,000
TN	\$9,000
TX	\$9,000
VA	\$8,000

Source: U.S. Department of Labor

American Worker Assistance and UI Integrity



ARRA - American Recovery & Reinvestment Act – Unemployment Insurance (UI) Impact

- **Unemployed Worker and Struggling Family Assistance**
 - Emergency Unemployment Compensation Extension (EUC08)
 - Temporary full federal funding of State Extended Benefits (EB)
 - UI Modernization – special funding to states
 - Special administrative funding transfer to states
 - Federal Additional Compensation (FAC)
 - Temporary suspension of federal income tax on unemployment benefits

Source: U.S. Department of Labor

Emergency Unemployment Compensation Program

- **Supplemental Appropriations Act, 2008 signed into law on June 30, 2008**
- **Act created Emergency Unemployment Compensation Program (EUC08)**
- **EUC08 extends unemployment benefits up to 13 additional weeks**
- **EUC08 Program amended 11/21/08 (the Extension Act)**
 - First Tier – unemployment benefits extended up to 7 additional weeks
 - Second Tier – unemployment benefits extended up to 13 additional weeks
 - Applicable in “high unemployment” states – 6% TUR for 3 consecutive months
- **EUC08 is 100% federally funded from EUCA**
- **ARRA further extends EUC08 program through 12/31/09**
- **ARRA does not add any additional EUC08 weekly benefits payments**

Source: U.S. Department of Labor

State Extended Benefits (EB)

- **Extended Benefits provisions contained in all state laws:**
 - Tied to state unemployment rate triggers
 - Normally provides 13 – 20 additional weeks
 - 50% federally funded and 50% state funded
 - States normally charge their 50% portion to employers
 - ARRA provides temporary 100% federal funding of state EB
 - Federal funding began 2/17/09 and ends 01/01/10
 - Eliminates state EB costs for most employers (excludes government employers and Indian tribes)

Source: U.S. Department of Labor

Unemployment Compensation – Weekly Benefit Review

Traditional Unemployment Benefits

26

Maximum weeks in most states

13 - 20

= 46 weeks

State extended benefits

Emergency Unemployment Compensation Program (EUC 08)

26

13

13 - 20

= 59 weeks

EUC 08 Program (Amended) – The Extension Act

26

13

7

13

Tier I

Tier II

TUR >6% 3 consecutive months

13 - 20

= 79 weeks

The Worker Homeownership and Business Assistance Act

26

13

7

14

13

6

13 - 20

= 99 weeks

Tier II
(Modified)

Tier III
TUR > 6%

Tier IV
TUR > 8.5%

- On Dec. 17, 2010 legislation was signed to extend EUC for an additional 13-month period, retroactive to Nov. 30, 2010
- The deadline to apply for EUC benefits is now Jan. 3, 2012 with no EUC payments after June 9, 2012

Source: U.S. Department of Labor

UI Integrity



Polling Question #3

- **How much of the \$38B in outstanding TITLE XII loans were paid in error in 2010?**
- A. \$7.1B
- B. \$6.6B
- C. \$4.5B
- D. \$8.3B
- E. Don't know/Not Applicable

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UI Integrity – Purpose

Primary Purpose

- **Improve program efficiency**
- **Reduce UI overpayment rates**
 - Accuracy
 - Assist with compliance

Goal

- **Modernize UI tax and benefit systems**
- **Prevent, detect and recover UI overpayments**

UI Integrity

Compliant States

Arizona	Indiana	New York
Arkansas	Kansas	North Carolina
Colorado	Louisiana	Oklahoma
Connecticut	Michigan	Tennessee
Georgia	Minnesota	Utah
Hawaii	Nebraska	Vermont
Iowa	Nevada	Washington
Idaho	New Mexico	Wisconsin

** Added 2011*

UI Integrity

Informed and Support Compliance

Employer responsibility

- Track UI Integrity legislation

Procedures

- Align processes and procedures with UI integrity legislation

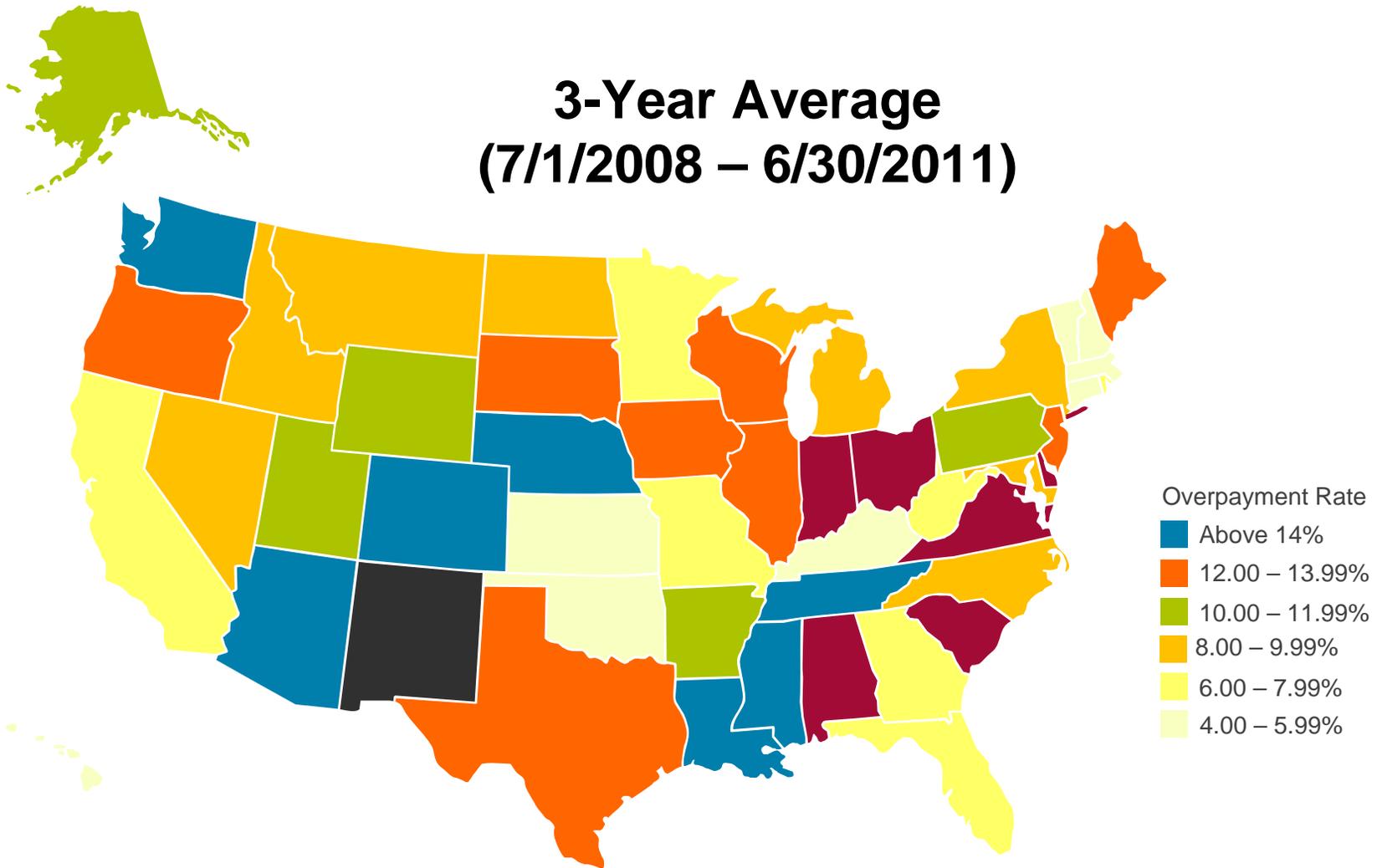
Legislative Requirements

- Communicate requirements to your HR and management

Employer Compliance

- Key to ensuring erroneous benefits are not paid
- Continuous training provided to HR and management staff

Overpayments by State



Source: U.S. Department of Labor

Polling Question #4

- **Given the current economic situation do you think that you can effectively manage your SUI costs?**
- A. Not likely
- B. Likely
- C. Very likely
- D. Don't know/Not Applicable

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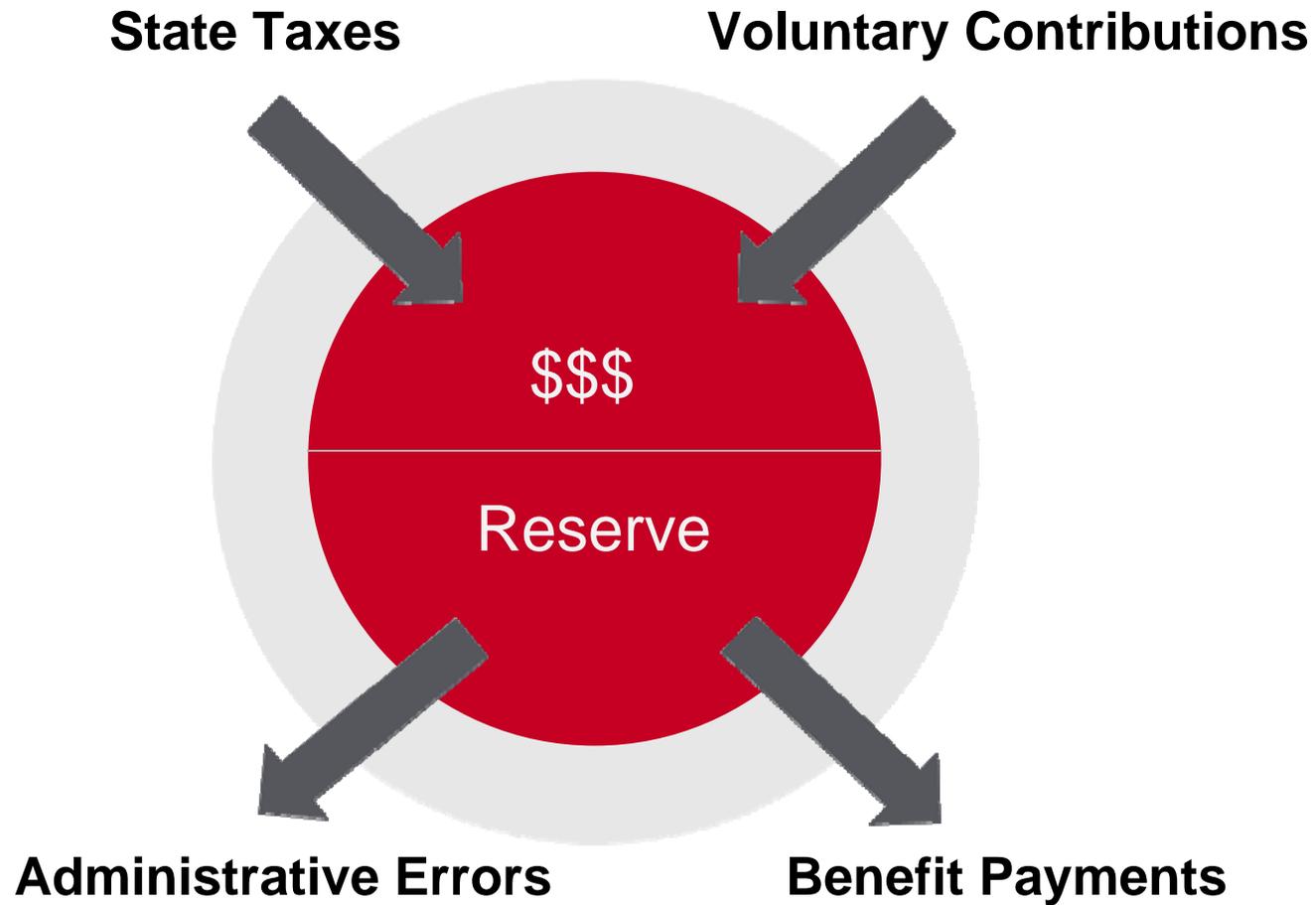
Unemployment Tax Management Discussion



Unemployment Tax Review

- **Unemployment claims management**
- **Verify annual unemployment tax rates**
- **Analyze the profitability of voluntary contributions**
- **Unemployment tax cost forecasting – 2011 and beyond**
- **Helps ensure employment tax compliance on mergers, acquisitions and reorganizations**
- **Quantify profitability of joint/common rating**

Unemployment Tax and Benefit Review

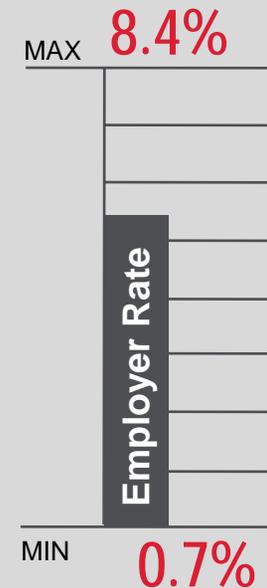


Unemployment Tax Cost – State Example

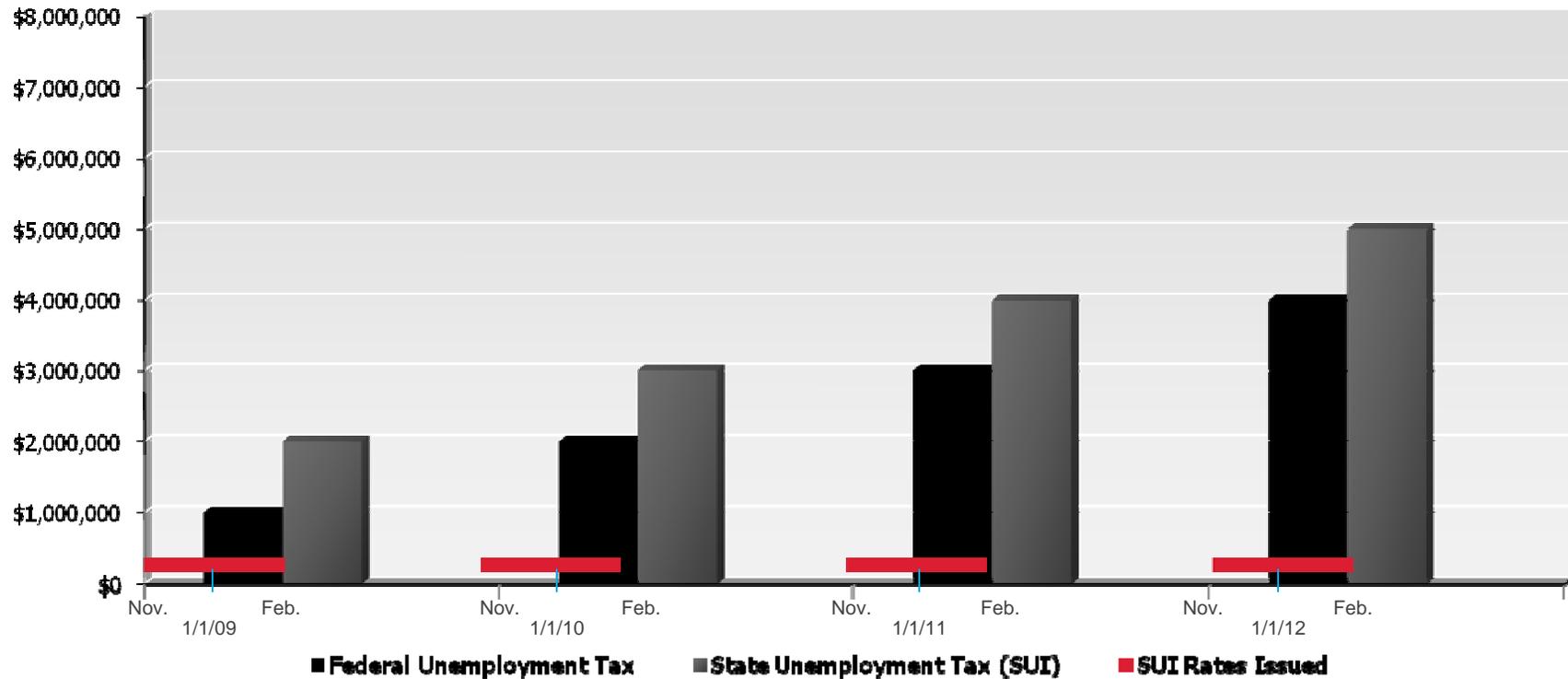
Illinois 2011 Experience Rating

<u>\$12,740.00</u>	Taxable Wage Base
<u>\$ 1,070.16</u>	Maximum \$ Per Employee
<u>\$ 89.18</u>	Minimum \$ Per Employee
<u>\$ 13,806.00*</u>	Maximum Claim Liability

***\$17,258 with Extended Benefits**



Unemployment Tax Cost Projections



Account Experience

- Unemployment Claims
- Unemployment Tax Paid

State Factors

- Taxable Wage Base
- Rate Tables and Surcharges

Legislative Changes

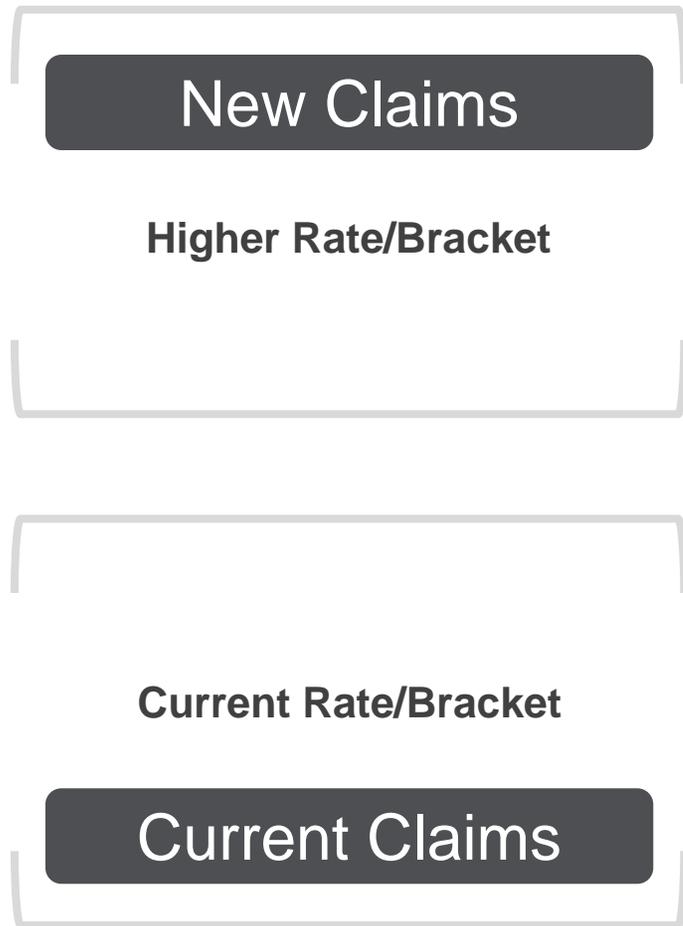
- Federal Level
- State Level

FUTA Credit Reduction

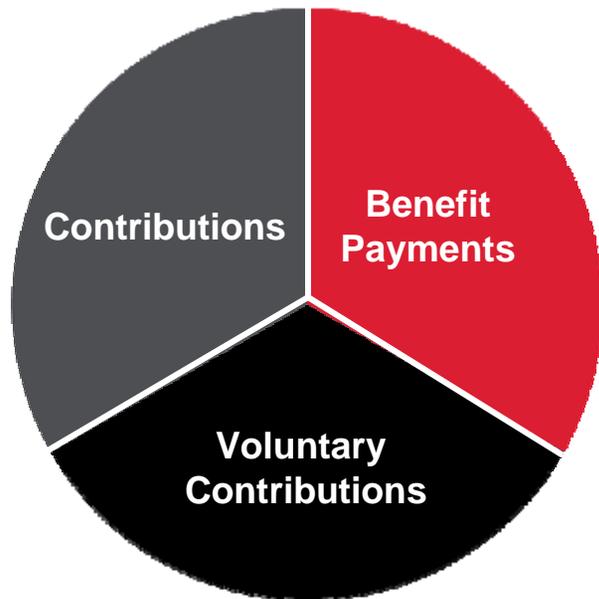
- Based on Title XII Loans
- Increases Effective FUTA Rate

Source: U.S. Department of Labor

Unemployment Taxes – Claims Management



Voluntary Contribution Planning



States Allowing Voluntary Contributions

Arkansas	Massachusetts	New York
Arizona	Michigan	Ohio
Colorado	Minnesota	Pennsylvania
Georgia	Missouri	South Dakota
Indiana	Nebraska	Texas
Kansas	North Carolina	Washington
Kentucky	North Dakota	Wisconsin
Louisiana	New Jersey	West Virginia
Maine	New Mexico	

Additional Considerations:

- Employee Population
- Mergers, Acquisitions or Reorganizations
- Multiple Bracket Reductions

Joint Account (Common Rating) Planning

■ Planning and Design

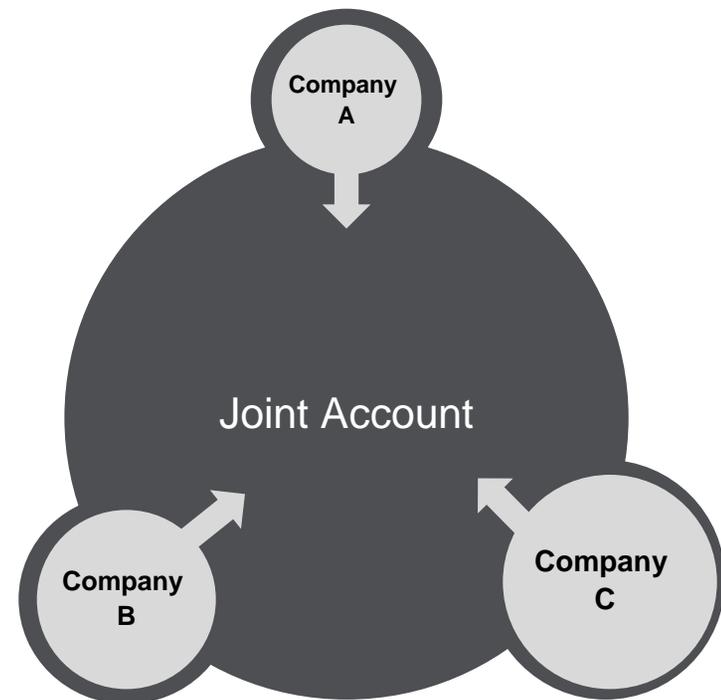
- Define states allowing Joint Account option
- Review legal entity structure
- Evaluate employment tax savings
- Analyze all possible rate combinations
- Compliance requirements
 - Review of state statute
 - Duration and filing deadlines
 - Dissolution provisions
 - Common ownership definitions

■ Implementation

- File compliance documents timely

■ Post Implementation

- Verification of combined tax rate assignments
- Protest of incorrect determinations
- Validation of tax savings achieved
- Annual review for dissolution and modification



Merger and Acquisition Considerations

Type of Transaction – Stock, Asset and/or Merger

■ Employment Tax Compliance Measures

- Risk management assessment
- Planning and design
- Implementation
- Post implementation

■ Filings and Paperwork

- State unemployment (registrations, status change, closures)
- State and local withholding (registrations and closures)
- State unemployment transfers of experience (total vs. partial)

■ Other Employment Tax Considerations

- Reporting forms W-2, 941 and 940
- Payroll system integration issues

Summary

- **National unemployment tax rate – Key metric for employers**
- **Total Unemployment Rate (TUR) – Impacts state trust funds**
- **Trust Fund Solvency – Impacts Title XII loan activity**
- **Title XII Loans – Impact employer FUTA taxes**
- **Economic Conditions – Impact employer unemployment costs**
- **UI Integrity – Impacts employer's SUI Rate**
- **Rate Management – Key planning tool 2012 and beyond**

Q&A



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