



Unemployment Reimbursing Options

Strategies

Becoming an unemployment insurance reimbursing employer is a cost saving strategy that does carry some risk for the employer. Unemployment insurance reimbursing employers are responsible – or liable – for compensating their state tax agency for any unemployment insurance claims the agency paid out to the employer’s separated employees. Therefore, unemployment insurance reimbursing employers leverage several different strategies to manage their unemployment insurance claims. Some employers:

- Create an in-house solution to manage their claims
- Contract with a third-party administrator to manage a reserve and administer claims payouts
- Buy a custom insurance policy that pays the claims

Each strategy carries with it a different balance of unemployment insurance tax savings and risk.

State Tax Reimbursing Option

The most expensive, least risky way to manage unemployment insurance is to pay unemployment insurance taxes. By being part of the state unemployment insurance program, employers are completely protected from unexpected layoffs or catastrophic funding losses but will often pay more to the state in taxes than they will ever cost the state in unemployment insurance claims.

Therefore, many 501(c)(3) nonprofits leverage their ability to reimburse unemployment insurance benefits by utilizing one of several different strategies to manage their unemployment insurance claims. Each option carries with it a different balance of unemployment insurance savings and risk.

Self Insurance Reimbursing Option

After petitioning the state to become an unemployment insurance reimbursing employer - a cost saving strategy that does increase the unemployment insurance claims exposure for the employer - some employers create an in-house solution to manage their claims. This “self-insurance” option can carry considerable risk. Employers become responsible for creating an in-house unemployment claims administration function and managing a proper reserve from which to pay their unemployment claims.



Aside from carrying a lot of risk, this unemployment insurance reimbursing option often provides the most unemployment insurance tax savings.

Third Party Administrator Reimbursing Option

When becoming an unemployment insurance reimbursing employer, many employers contract with a third-party unemployment insurance solutions provider (TPA) to manage their unemployment claims function. These TPAs have programs that allow them to manage a reserve (often interest bearing), as well as audit and administer claims payouts.

The TPA option is often provided either through contracting with a for-profit solutions provider or joining a member organization – like a Grantor Trust – that provides the services under the supervision of the membership.

For many employers, this option carries a good balance of risk, administration, and savings.

Custom Insurance Reimbursing Option

After becoming an unemployment insurance reimbursing employer, some employers purchase a custom insurance policy that pays their unemployment insurance claims. These policies are written – in consultation with the employer’s business insurance broker - in a way that allows them to know exactly what their annual unemployment insurance expenses will be. This solution allows for the most control over future unemployment liabilities.

Buying custom insurance to replace the state unemployment insurance program is the least risky of the options used by reimbursing employers and results in least amount of tax savings. When buying custom unemployment insurance protection, it is recommended to only purchase a policy that is admitted by the state board of insurance. Doing so is an easy way to further reduce an employer’s unemployment insurance risk.