



Prepare for increased unemployment benefit costs as part of your workforce strategy

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Today's speakers



Gage Stille

Buck
Principal
Workforce Reshaping

Gage.Stille@buck.com



Joe Kane

Total Management Solutions Inc.
Executive Vice President

jkane@tmsseverance.com



Mary Roth, JD, MLT

Buck
Principal
Compliance Consulting

Mary.Roth@buck.com



Eileen Cohen

Buck
Principal
Engagement

Eileen.Cohen@buck.com

Agenda

- 01 Introduction**
- 02 What is happening with unemployment?**
- 03 Impact of rising unemployment taxes**
- 04 How employers can respond to higher costs**
- 05 Decision making and managing workforce change**
- 06 Questions**

U.S. economy and the “inflection point”

- Wide consensus about strengthening U.S. economy, as seen in recent investor behavior
- Federal Reserve Chair Jerome Powell - growth and hiring will pick up speed in the months ahead
- U.S. consumer confidence rose in March to a one-year high as Americans grew more optimistic about the economy and job market
- Experts expect enough hiring in the coming months to recover nearly all the jobs lost in 2020
- Massive government spending drives this short to mid term growth

The past year will have a lingering impact

- Permanent shifts to consumer behaviors, demand for products
- Labor and talent management has evolved (who can do what, and from where)
- Workplace satisfaction, pay and benefits will be a focus as companies look to “catch up”
 - PwC offers employees “bonuses to go on vacation” (plus company-wide pay raises and a bonus pool higher than pre-pandemic levels)

What does it mean for businesses?

- In line with growth and hiring, there will be increased spending/costs to be managed
- Even a return to “business as usual” means change – and change must be managed

For companies that took workforce actions over the past year (as well as those considering future actions), there will be much higher unemployment benefit tax costs on the horizon – which should be planned for and can be mitigated

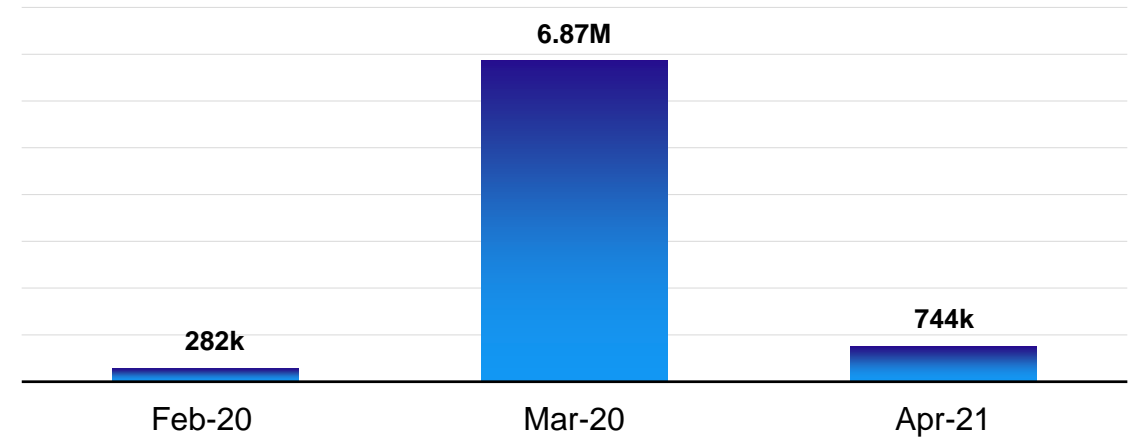
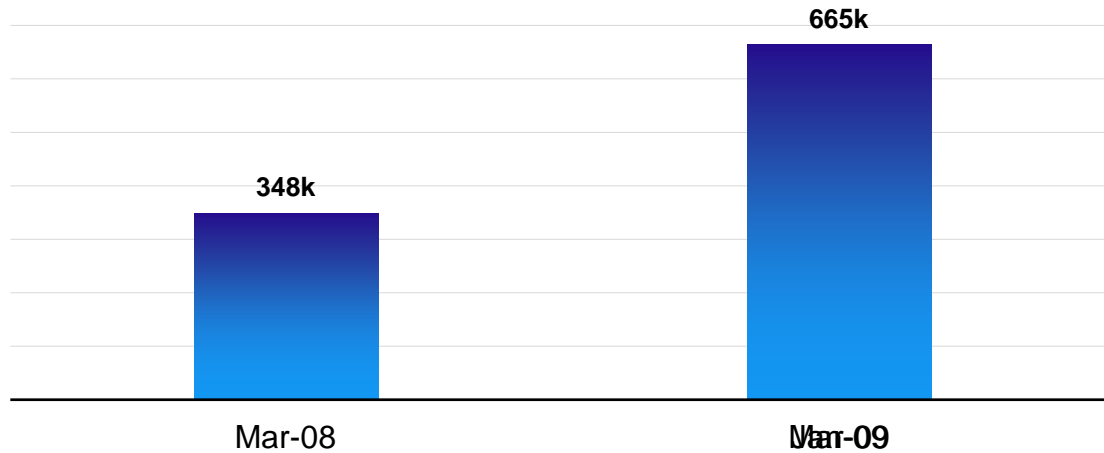
Unemployment Benefits Pre-Pandemic

- Following the onset of the Great Depression, state legislatures began creating public unemployment insurance programs, culminating in the passage of the Social Security Act of 1935
- While there have been changes to program taxation, eligibility, benefit amounts, and duration over the years, the basic structure has remained the same
- Today you find average maximum weekly benefit at approximately \$450 (as low as \$235 in Mississippi and as high as \$855 in Massachusetts)
- Most states provide weekly benefit up to a maximum of 26 weeks
- When the unemployment rate hits a certain threshold, many states provide up to 13 to 20 weeks of extended benefits
- Pandemic era legislation not only has extended the length of benefit duration, but has also increased the total weekly value of the benefit

What is
happening with
unemployment?

Unemployment at never-before-seen levels

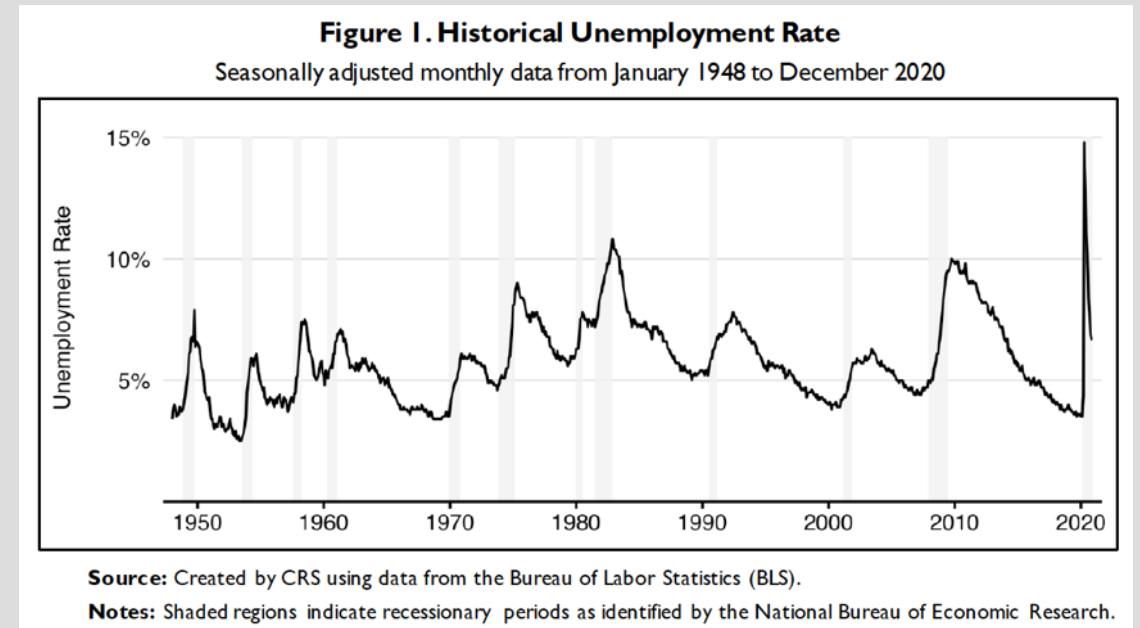
12 month period



- **Total 2008 Recession claims:** 75M (Jan 2008 – Dec 2010)
- **Total Pandemic claims:** 82M (Mar 2020 – Mar 2021)
- Unemployed >26 weeks as a % of total unemployed
 - Mar 2020: 4.4%
 - Mar 2021: 43.3%

Unemployment at never-before-seen levels

- During the 2008 Recession, the unemployment rate increased from 5% in December 2007 (the start of the recession) to 9.5% in June 2009 (the end of the recession). The unemployment rate peaked at 10% in October 2009, four months after the recession officially concluded
- In the current recession, the unemployment rate increased from 3.5% in February 2020 to 4.4% in March 2020, peaked at 14.8% in April, and then fell to 6.7% in December. The peak represents the quickest month-over-month increase in unemployment rates and the highest overall unemployment rate since the CPS data collection started in 1948



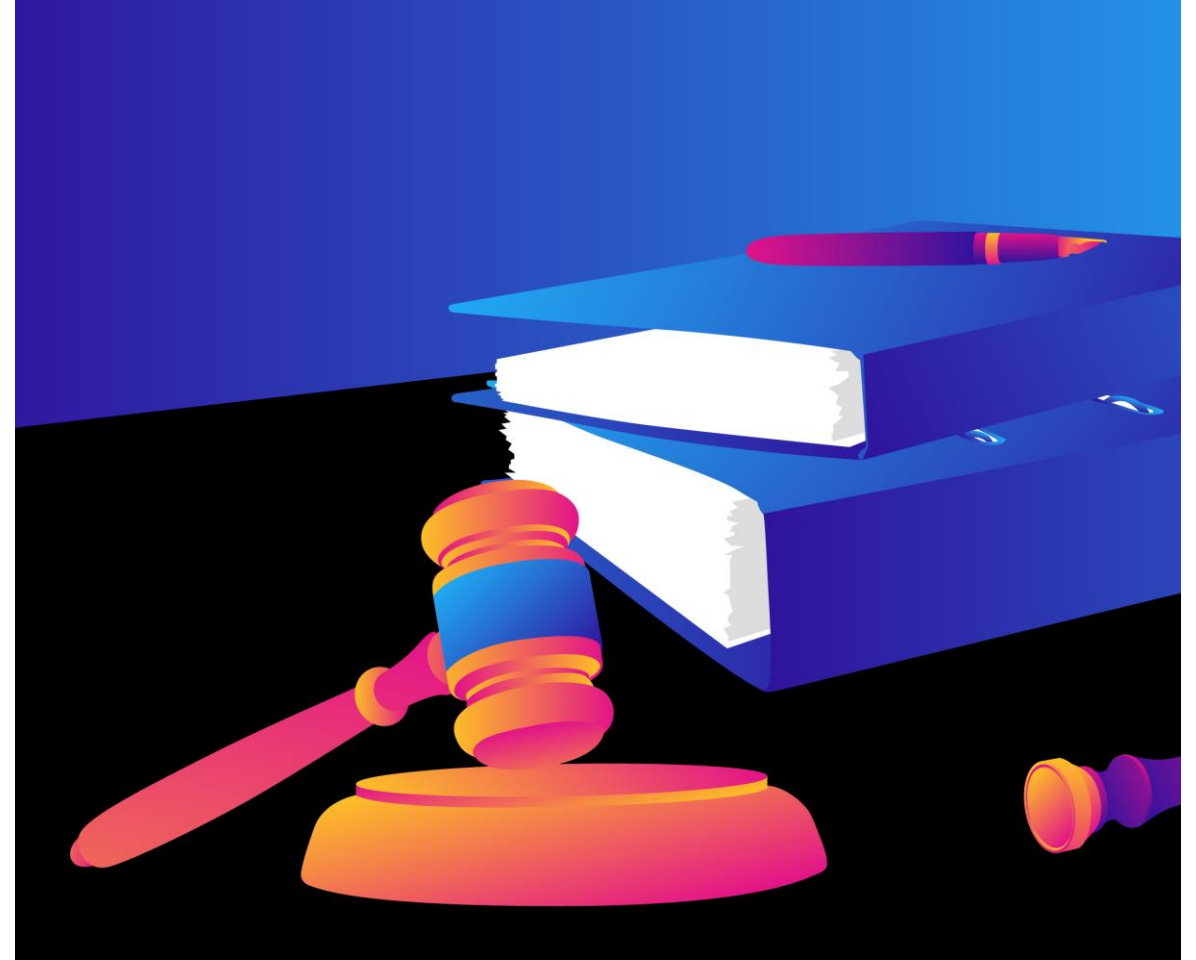
Source: <https://fas.org/sgp/crs/misc/R46554.pdf>

CARES Act and Consolidated Appropriations Act

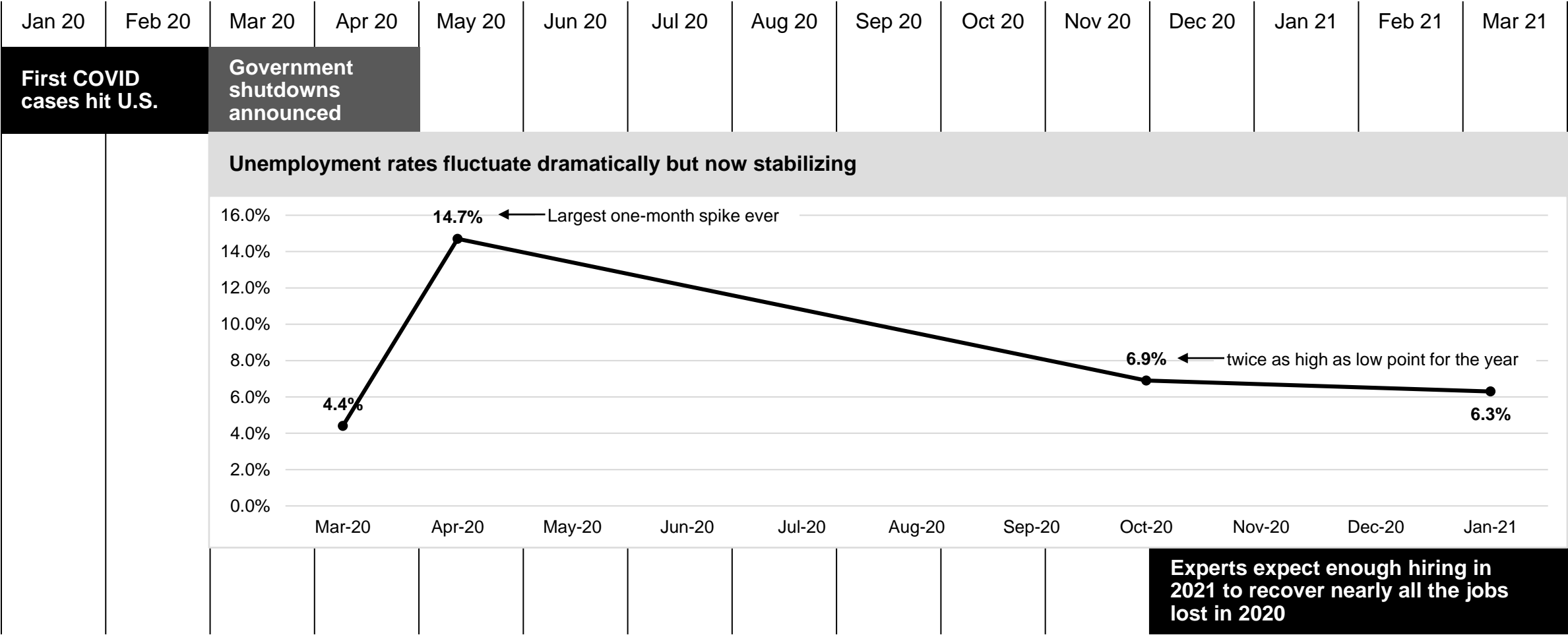
- The Coronavirus Aid, Relief, and Economic Security (CARES) Act created new federal unemployment programs to assist workers who lost their jobs due to the pandemic
- New programs provided
 - Up to an additional 13 weeks of unemployment benefits to individuals who exhausted their regular state benefits
 - \$600 per week supplemental unemployment benefit between April 5, 2020 and July 31, 2020
- The Consolidated Appropriations Act, 2021 added
 - 11 more weeks of benefits through March 14, 2021 but allowed individuals already receiving benefits to collect through April 5, 2021
 - \$300 per week supplemental unemployment benefit between Dec. 27, 2020 and March 14, 2021
- Many states also extended benefits based on high unemployment rates due to the pandemic

American Rescue Plan Act (ARPA)

- Extends and enhances pandemic unemployment benefits through Sept. 6, 2021
- ARPA provides
 - an additional 29 weeks of unemployment benefits to individuals who exhausted their regular state benefits
 - \$300 per week supplemental unemployment benefit
- Distribution of federal funds for extended benefits did not require states to allocate funds to state UI trust fund



Return to pre-COVID employment levels?



What does this mean for employers?

- It is easy to focus on the current rebound happening, but the cost of these programs has not yet been fully realized
- The impact to unemployment spending, as compared with the 2008 Recession, may be double
- Signs point toward major increases in employer taxes in the coming years



Impact of rising unemployment taxes

Depletion of State Unemployment Insurance Funds

- Primarily funded by employer contributions (SUTA taxes on wages paid)
- State insurance funds completely depleted due to COVID impact (more than \$80 billion)
- Insurance funds need to be replenished
- Federal lines of credit drawn to shore up trust fund reserves – many states have already done this – and have borrowed more than \$50 billion.
- How to replenish the insurance funds (higher SUI rates)

Unemployment costs and rates

- The COVID impact
 - differs from the 2008 Recession in terms of the sudden and extreme volume of initial UC claims
 - but impact to SUI rates and unemployment costs will be felt similarly (initial weekly claims continue to be higher today than they were at the highest levels from the 2008 Recession)
- Average state SUI rates
 - peaked around 2012 at approximately 3.5%
 - gradually halved to 1.75% in early 2020 (right before the pandemic)

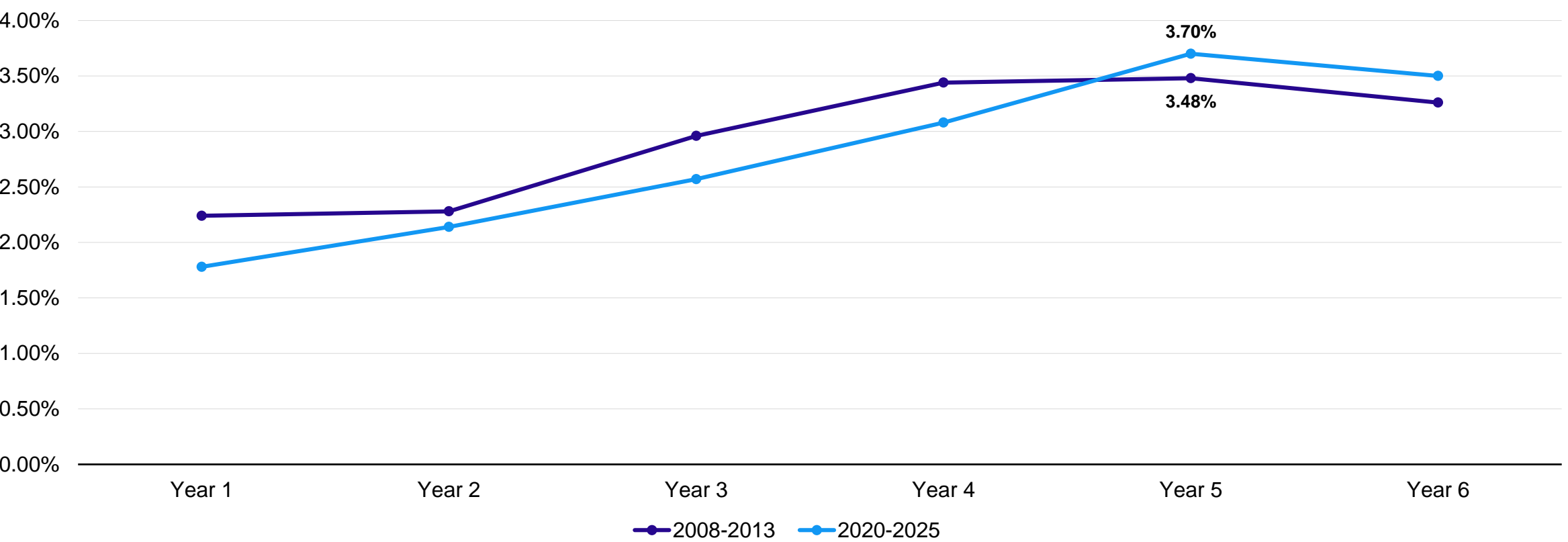


Replenishing State Unemployment Insurance Funds

- SUI funds are normally replenished in 2Q each year – that didn't happen in 2020 due to COVID and large employment losses
 - More than 80 million initial unemployment claims filed since March of 2020
 - The surge in initial claims caused a reduction in taxable wages – making the situation for SUI even worse
- Most states use June 30 as the computation date to determine SUI rates for the upcoming calendar year
 - Anticipate some impact in 2021
 - Expect the real impact to be felt in 2022 and later
- Average SUI rate of 1.78% is expected to at least double in the next few years, unless states decide to deal with benefits with legislative changes, and potentially cutting benefits

How the tax impact could look over the next 5 years

Historical Average SUI rates

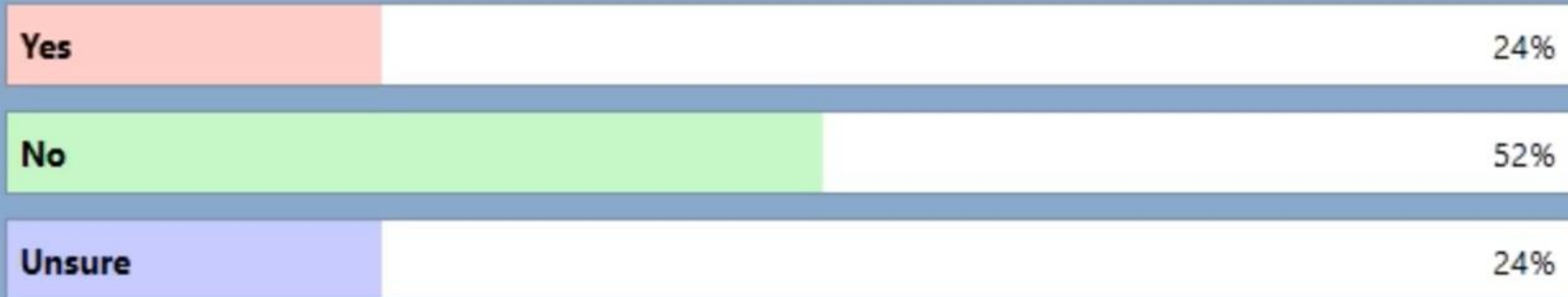


*Assumes a 20% YoY increase from 2020 - 2024

Quick poll

Have you had layoffs/furloughs in the past year that might materially impact your state unemployment insurance experience rate?

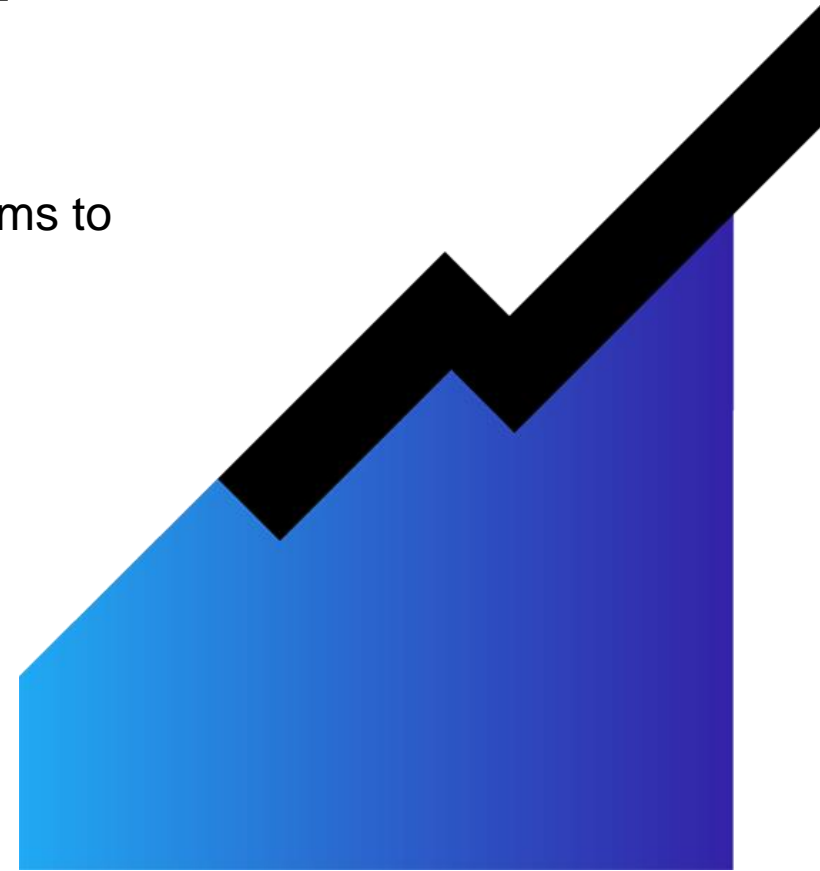
Poll Results (single answer required):



Responding to higher costs

What can employers do about the increased cost of unemployment benefits and SUI rates?

- Manage your unemployment claims
 - Review SUI rates, audit unemployment claims, manage fraudulent claims to determine if the correct rate is being charged
- Save money without disrupting your status quo
 - Severance plan refresh/benchmarking, design tweaks, labor capacity management programs such as furloughs, Work Share, etc.
- Change the way you handle unemployment benefits
 - Rethink severance philosophy and incorporate SUB plans – requires a fresh look at managing unemployment benefits and Severance Benefits in general



Unemployment claims management

- Call your claim manager!
- Review your highest employment states first (top 3-5)
- Unemployment fraud exam to filter out fraudulent claims
- Accurate rate review – correct errors to your rate and proactively review rate for layoffs, M&A, dispositions
- Contact your state legislators for rate relief
 - Noncharging of benefits
 - Allocating Federal dollars to UI Insurance fund

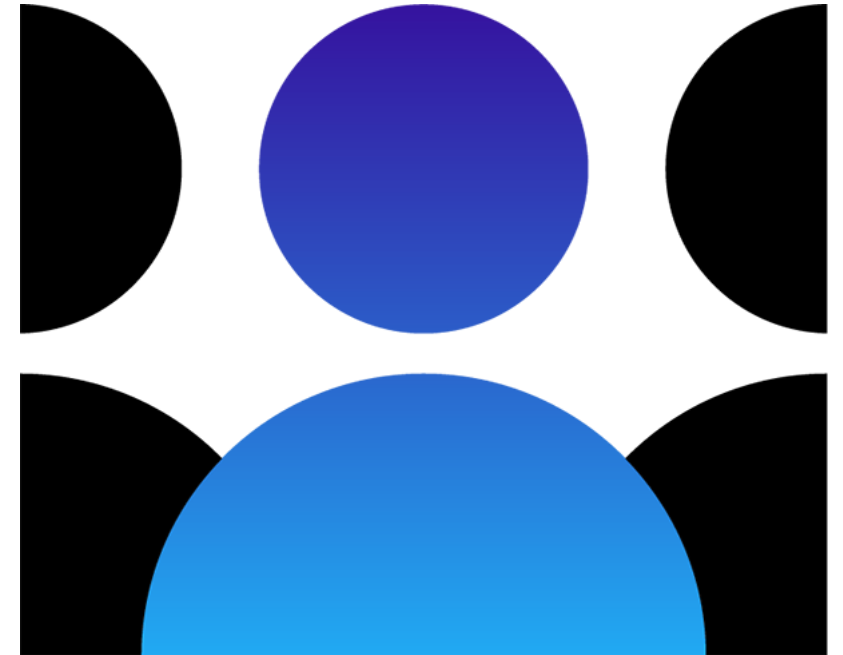


Severance and unemployment benefits review

- Review existing severance/separation benefits
- Benchmarking – Review what other employers have done or are considering doing and overlay onto what you are currently doing
- Consider tweaking severance benefit formula and furloughs without pay
- Review what may have already been promised and existing communications/strategy

Work Share programs and workforce needs

- Work Share programs provide an alternative to layoffs
- Work Sharing allows participating employers to
 - reduce workers' hours in lieu of laying them off
 - maintain trained workforce while cutting costs
 - gear up quickly and mitigate hiring and onboarding costs when conditions improve
- Work Sharing allows employees whose hours are reduced to
 - maintain employment
 - collect partial unemployment benefits to help make up for lost wages
- Available in 26 states and DC approval from the state



Rethinking severance with SUB plans

- Viewing severance through a different lens of Supplemental Unemployment Benefit (SUB) plans can potentially save significant dollars
- Unlike traditional severance, SUB plans can take advantage of state unemployment benefits funded with employer tax dollars
- SUB Plans have a number of notable cost savings features
- They also have the potential to enhance participant benefits and provide employers with the flexibility to benefit those who need it most

What is a Supplemental Unemployment Benefit (SUB) plan?

- Employer sponsored benefit plan
- Pays severance and furlough benefits
- IRS and state approved
- Enhancement to traditional severance plans
- A bridge to next employment for displaced participants
- Exempt from FICA and Medicare taxes, as well as federal, and in many cases, state unemployment taxes (FUTA/SUTA)
- Often coordinated with state unemployment benefits to reduce the company's cost of severance while keeping the participant “whole” during unemployment

How can SUB pay reduce severance spend?

Eliminate FICA tax

7.65%

savings in benefit payments for employer
and employee

Design compliant SUB plan and
run ongoing unemployment
attestation (file plan, administer
with trustee if applicable)

Coordinate with state
unemployment

25% - 30%

of benefit payments

Calculate state unemployment
benefit offset, reduce SUB
payments by offset for 100%
income replacement

Coordinate with
re-employment

up to 20%

of benefit payments

Design compliant SUB plan and
run ongoing unemployment
attestation (file plan, administer
with trustee if applicable)

Quick poll

Have you revised your severance plans in the past two years or do you have plans to revisit them in the near future?

Poll Results (single answer required):



What's the difference?

Flexibility to harmonize SUB pay with severance pay

| Common traditional severance plan | SUB plan |
|--|---|
| Voluntary or involuntary separation | Involuntary separation |
| Lump sum paid out upon severance | No lump sum - paid in periodic payments |
| Benefit is often several weeks of base pay times years of service, subject to a minimum and/or maximum | Benefit is often several weeks of pay times years of service, subject to a minimum and/or maximum |
| Most states require severance pay to exhaust before severed employee can collect state unemployment | States allow participant to collect state unemployment insurance while receiving SUB pay |
| Payment is treated as ordinary wages and subject to all taxes | Payments are not subject to FICA, FUTA, and SUTA, but is subject to ordinary income tax |
| Signed release | Signed release |
| COBRA health insurance coverage | COBRA health insurance coverage is permitted |
| Subject to ERISA | Subject to ERISA |

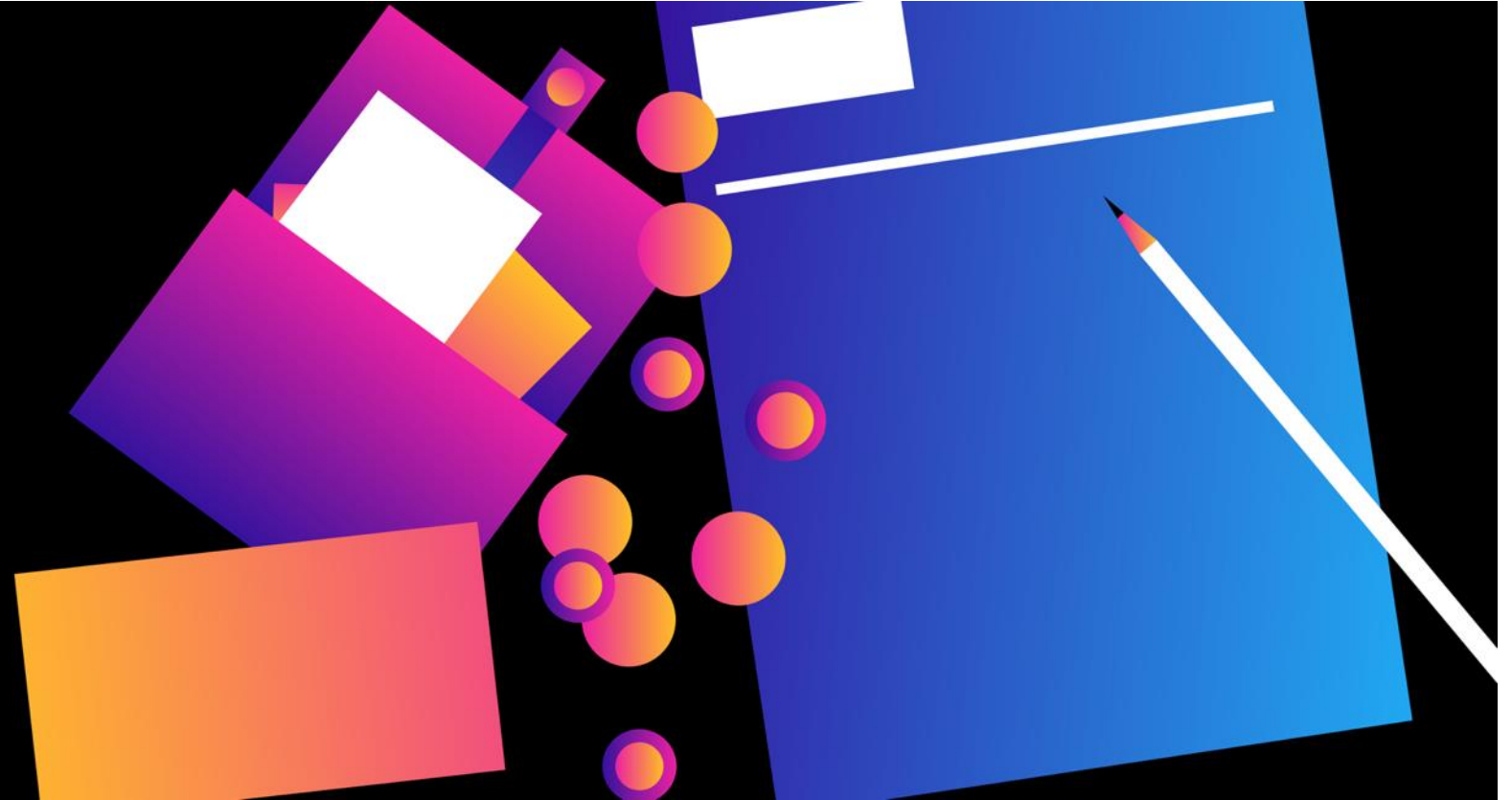
For a more detailed discussion of SUB plans, watch Buck's recorded webinar: [Rethink your approach to workforce reductions using supplemental unemployment benefit plans](#)

SUB Plan financial case - annual client savings

| | Summary of action | | | | Summary of SUB savings | | | |
|----------|-------------------|-------------------------------|----------------|-----------------------|------------------------|-----------------------------|-----------------------------------|------------------------------|
| | Approx # of RIFs | Cost of traditional severance | Average salary | Average weeks benefit | Payroll tax savings | Unemployment offset savings | Reemployment coordination savings | Total savings under SUB Plan |
| Client 1 | 200 | \$3.56M | \$57.2K | 15 | \$253K | \$1.19M | \$366K | \$1.81M |
| Client 2 | 400 | \$4.27M | \$52.0K | 10 | \$296K | \$1.57M | \$196K | \$2.06M |
| Client 3 | 800 | \$11.07M | \$84.5K | 8 | \$617K | \$2.64M | \$256K | \$3.51M |
| Client 4 | 1,000 | \$11.00M | \$89.0K | 6 | \$729K | \$2.36M | \$864K | \$3.96M |
| Client 5 | 1,600 | \$18.26M | \$68.0K | 8 | \$1.35M | \$5.10M | \$837K | \$7.29M |

How does SUB plan benefit displaced employees?

- Employee portion of severance is also FICA-exempt
- Employers can target benefits to those who need them most – use savings to extend weeks of coverage for employees who need longer to find a new position
- Employers often provide targeted resources for severed employee with savings



Decision making and managing workforce change

How do you make workforce decisions?

- Are you reactive or proactive? Does your company make decisions quickly or slowly?
- What are the driving forces behind your decisions?
 - Resource constraints and company costs
 - Preserving as many jobs as possible
 - Optimizing the labor pool
 - Rebalancing rewards and benefits to reward key talent
- The key is how to maximize the distribution of dollars you have in a way that is consistent with your philosophy
- When the decision is made, if it clearly aligns with the company culture and philosophy, the actions typically go smoother

Quick poll

What is the main objective of your severance program?

Poll Results (single answer required):

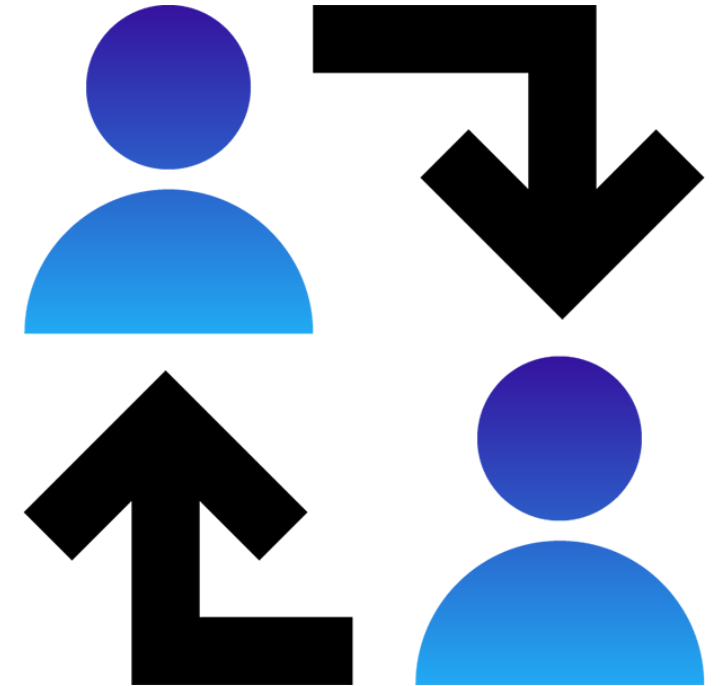
| | |
|---|-----|
| Good will and recognition of an employee's service | 32% |
| Soften the blow of an involuntary termination | 21% |
| Mitigate risk (dissuade future legal action) | 21% |
| Keep competitive within your industry | 11% |
| Bridge the gap to an employee's next employment opportunity | 16% |

Common considerations when making workforce changes

- Business conditions
- Transition from existing/historical benefits to future state
- Alignment of your talent strategy with your business strategy
- Internal resource issues – logistics and workflow
- Cost containment (both short- and long-term)
- Retention concerns
- Risk management

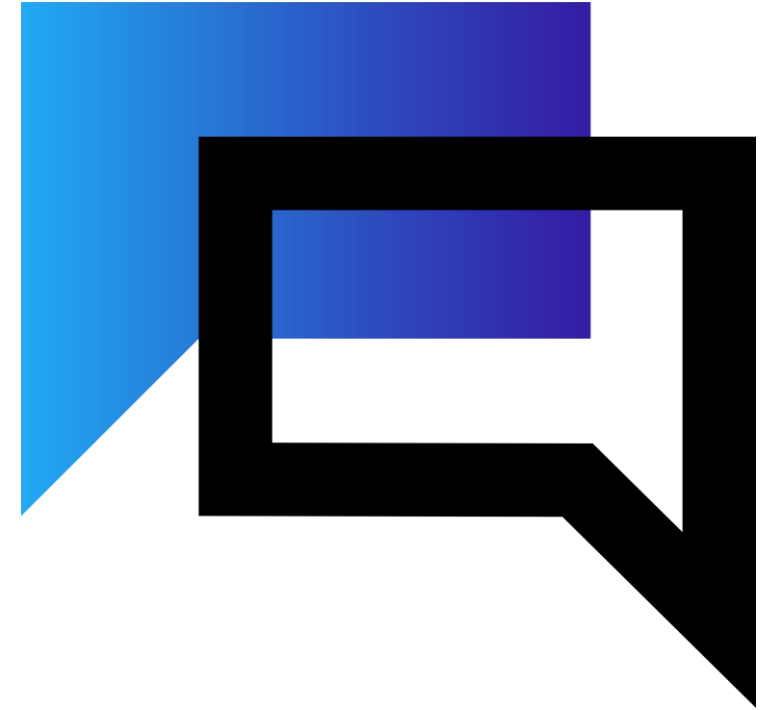
How to successfully implement workforce changes

- Integrated change management / communication strategy is a critical success factor for the implementation of any workforce change
- It's important for people to understand the context in which change is happening
- People expect a solid rationale
- Communications need to reach a diverse and varied audience – often with distinct messages



Create communications to support the change effort

- Supporting employees during difficult times is a critical business practice. Provide materials that are clear and concise and explain what the employee needs to do
- Promote resources available to help employees
- Consider how employees will connect with you during the process



Q&A

Contact us

Eileen Cohen

Buck
Principal
Engagement

Eileen.Cohen@buck.com

Joe Kane

Total Management Solutions Inc.
Executive Vice President

jkane@tmsseverance.com

Mary Roth, JD, MLT

Buck
Principal
Compliance Consulting

Mary.Roth@buck.com

Gage Stille

Buck
Principal
Workforce Reshaping

Gage.Stille@buck.com

Nancy Vary

Buck
Director
Compliance Consulting

Nancy.Vary@buck.com

Bryan Lihzis

Total Management Solutions Inc.
President

BLihzis@subpay.com

Questions

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Talk to us: 866-355-6647



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