NORTH CAROLINA
DEPARTMENT OF STATE TREASURER
STATE AND LOCAL GOVERNMENT FINANCE DIVISION
AND THE LOCAL GOVERNMENT COMMISSION

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Memorandum #2013-18

TO: Local Government Officials and their Independent Auditors

FROM: Sharon Edmundson, Director, Fiscal Management

SUBJECT: New Requirements for Local Governments and Public Authorities Regarding Funding for Unemployment Benefits

DATE: June 4, 2013

The 2013 Session of the General Assembly enacted S.L. 2013-2 making significant changes to unemployment insurance benefits and financing, including changes that will affect all local governments in North Carolina with paid employees. The most significant change made by this act is that it requires local governments and public authorities to maintain an unemployment insurance account with the Division of Employment Security that is the equivalent of 1% of their taxable wage base per paid employee. (The taxable wage base refers to a figure set and indexed annually. For 2013 it is $20,900 per employee.) This balance will be established in the 2013-2014 fiscal year and will be replenished as needed to maintain the 1% of taxable wage base requirement. Going forward, benefits to eligible former employees will be paid from these balances and local governments will no longer be billed for those benefits outright on an annual basis, nor will they have the option of paying 120% of benefits with appeal rights. All benefits will be paid from the insurance accounts.

These unemployment insurance accounts will be reconciled annually. Local government employers will be required to make up any "deficits" in the accounts. Units will be billed in November 2014 for the first deficit calculations, with payment due in December 2014. This will be an annual reconciliation going forward, and is expected to follow this same schedule. Deficits in the accounts can occur as a result of any of the following events:

- Benefits have been paid from the account to the claimant, reducing the amount in the account; or
- The taxable wage base has increased, requiring additional funds to bring the account to the level equal to 1% of the taxable wage base; or
- Employee population and wages have changed, which alters the calculation of the required 1% of the taxable wage base per employee.

Taxable wages are determined each calendar year and are calculated per employee not per position. This is important to remember as staff works through the process of calculating the amounts owed as part of the payments in the initial year to establish the account. Once the account is established and the initial four quarters of payments made, it is expected that the subsequent annual payments needed to balance the accounts will be significantly less.

The first payment is due on October 31, 2013, based on taxable wages for each employee for the third calendar quarter from July 1 through September 30, 2013. The second payment is due by January 31, 2014, and will be based on taxable wages for each employee for the fourth calendar quarter ending December 31, 2013. Please note that the taxable wage base is calculated on a calendar year basis. What this means is that the 1% payment will not be due for 2013 for any employee that reaches his or her taxable wage limit of $20,900 prior to July 1, 2013. Likewise, a payment will not be due in January 2014 for any employee that reaches his or her limit in the third quarter of 2013.

Beginning in January 2014, all employees "start over" on the calculation of the taxable wage base, which is expected to increase to $21,400. It is expected that the largest payment that local governments will have to make as a result of these changes will be the payment due by April 30, 2014, for the calendar quarter ending March 31, 2014. The second largest payment is likely to be that due for the second calendar quarter of 2014, which will be due by July 31, 2014. As your employees reach their taxable wage limits, the required payment for the unit of government will go down. It is important to note again that the limit applies per employee, so any time you have a new employee their wage base starts at "0" regardless of the position they hold – the wage base from any previous employees that held the same position does not carry over. Units of government that hire a number of seasonal employees or have high turnover rates will need to pay close attention to make sure all employees are picked up correctly in the calculations. School payroll staff also will need to carefully monitor their staff as there often are new employees in school systems at the beginning of the school year, which generally occurs in the third calendar quarter of the payroll year.

Local governments are urged to ensure they have adequate expertise in this area on staff or available on contract from their payroll services provider. All units of government will have to implement processes and procedures to make sure the payments are calculated correctly and paid on time.

Below are some examples using various salary and employment scenarios. The worksheet that follows shows the details of the calculations.

Employee 1 has an annual salary of $20,000 per year, paid equally to him over the course of the year. The reserve payments for Employee 1 are:

- Quarter 3, 2013: $50
- Quarter 4, 2013: $50
- Quarter 1, 2014: $50
- Quarter 2, 2014: $50

Employee 2 has an annual salary of $40,000 per year, paid equally to her over the course of the year. The reserve payments for Employee 2 are:

- Quarter 3, 2013: $9
- Quarter 4, 2013: $0
- Quarter 1, 2014: $100
- Quarter 2, 2014: $100

Employee 3 has an annual salary of $52,000 per year, paid equally to him over the course of the year. The reserve payments for Employee 3 are:

- Quarter 3, 2013: $0
- Quarter 4, 2013: $0
- Quarter 1, 2014: $130
- Quarter 2, 2014: $84

Employee 4 has an annual salary of $40,000 but did not start working until September, 2013. The reserve payments for Employee 4 are:

- Quarter 3, 2013: $33
- Quarter 4, 2013: $100
- Quarter 1, 2014: $100
- Quarter 2, 2014: $100

Employee 5 is a seasonal employee that is paid $1,000 per month starting in May through September each year. The reserve payments for Employee 5 are:

- Quarter 3, 2013: $30
- Quarter 4, 2013: $0
- Quarter 1, 2014: $0
- Quarter 2, 2014: $20

Once the account balance is established with the payments through July 2014, each unit will have an annual reconciliation and will be billed for the amount needed to return the account to a balance equivalent to 1% of its total taxable wages for unemployment purposes. The account balance is affected as follows:

- Balance is increased for the payments made by the governmental entity:
  - Payments into the account as discussed previously
  - Deficits, if any, in the account within 30 days of billing after the annual account reconciliation; and
  - The first account reconciliation is on the August 2014 computation date, at which time the amount necessary to restore the account balance to equal one percent (1%) of taxable wages for the preceding calendar year is determined. The amount required to replenish the account is due in December 2014. Subsequent years will be reconciled in the same manner with any payment due in December.
- Balance is decreased for the benefits paid by the Unemployment Insurance Fund to individuals for weeks of unemployment.

After the transition during the fiscal year beginning July 1, 2013, government entities would pay the amount necessary to restore the account balance to one percent (1%) of taxable wages for the preceding calendar year with the amount due the following January.

Budget and Accounting Considerations

The 2013-2014 fiscal year will be the transitional year between the former method of collecting unemployment funds from local governments and the new account balance method. As a result, units will have to include payments under both methods in their 2013-2014 annual budgets.

During the fiscal year ending June 30, 2014, governmental entities' budgets should include an appropriation for both the following:

- Payments to reimburse the fund for the annual claims payments due in December 2013; and
- Payments of one percent (1%) of the taxable wages each calendar quarter into the reserve account.

For fiscal years beginning after June 30, 2014, governmental entities' budgets should include an appropriation for payment necessary to reimburse the fund for benefits paid in the prior fiscal year and restore the account balance to one percent (1%) of taxable wages for the preceding calendar year.

It is important to note that the annual wage limit is per employee per employer, not per position. If Employee A has been paid $15,000 so far in the calendar year, and is replaced by Employee B, Employee B's taxable wages start at $0. Payroll staff should be able to estimate at what point in the calendar year most staff will reach their taxable wage limit, assuming the employees have been with the unit all year. Governments that employ seasonal workers, experience turnover, or expand staff will need to carefully monitor each employee to see that their taxable wages for unemployment purposes are calculated correctly. School payroll staff also will need to carefully monitor their staff as there often are new employees in school systems at the beginning of the school year, which generally occurs in the third calendar quarter of the payroll year.

According to the Office of the State Controller, these payments equal to one percent (1%) of taxable wages will be recorded as revenue to the State. Therefore, local governments and public authorities will record these payments as expenditures. There will be no prepaid asset or reserve account recorded on the balance sheet.

Should you have questions or need assistance, please contact Jones Norris at (919) 807-2386 or via email at jones.norris@nctreasurer.com. Additionally, the Division of Employment Security has established the following temporary email account for use in submitting questions related to unemployment insurance changes: HB4questions@nccommerce.com.