

HR Insights

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Unemployment Insurance

Employees and those who have been recently laid off often consider unemployment insurance, and employers need to be involved in this conversation as well. Understanding unemployment benefits is essential for employers considering layoffs or furloughs. Discussing unemployment benefits can often ease the tension when discussing a temporary furlough with an employee. In the case of layoffs, terminations and resignations, employers must understand who is eligible for unemployment benefits to ensure that they are paying the correct tax rate for their state.

How is unemployment funded?

Though unemployment benefits are administered at the state level, employers contribute through taxes both to the state and federal government. The federal tax is 6.2 percent on the first \$7,000 in annual wages to each employee. State taxes vary both in rate and the amount of taxable income. Additionally, employers within a given state will pay different tax amounts based on how many former employees have drawn unemployment benefits—the more claims a company has, the higher tax rate it must pay the state. Because of this, it is important for employers to understand who is and isn't eligible for unemployment benefits.

Who is eligible to receive benefits?

Generally, employees who voluntarily leave the company are not eligible for unemployment benefits. Employers should be diligent in these situations to avoid wrongful unemployment claims that could increase the company's tax rate. Attempt to obtain a signed letter of voluntary resignation. If this is impossible, employers should document the resignation as closely as possible.

Most involuntary terminations qualify workers for unemployment benefits. Employees who are laid off or terminated for performance issues that fall short of misconduct are usually eligible for benefits. Disciplinary terminations can be tricky situations, and are handled on a case-by-case basis by the state's unemployment department. Thus, employers should thoroughly document any misconduct and disciplinary issues that have led to the termination.

Furloughs and involuntary hour reductions can create uncertain situations as well. In many states, workers forced to change from full-time to part-time (either temporarily or long-term) would qualify for partial unemployment benefits. When workers are required to take a week or more off at a time, they generally can collect benefits for the weeks not worked following a one-week elimination period. In any of the above cases, employers should check their state laws in order to ensure accurate unemployment claims and to better communicate unemployment options to employees.

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