Pennsylvania's Unemployment Compensation Programs…

UC Issues Update

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UC Reforms Result in Changes and Savings for Employers

The 2011-2012 legislative session brought many reforms to the unemployment compensation, or UC, law: Act 6 of 2011 and Act 60 of 2012. The Department of Labor & Industry, or L&I, would like to make you aware of the reforms and how, as an employer, they will affect you.

The Federal Unemployment Tax Act, or FUTA, imposes on employers a tax rate of 6 percent on the first $7,000 of wages paid to each employee per calendar year. Normally, employers may claim a credit against their FUTA tax, up to 5.4 percent of federal taxable wages. However, the recent recession depleted the UC fund and the commonwealth borrowed from the federal government from 2009 through July 2012 to pay UC benefits. The size of the debt fluctuated during this period, but peaked at about $4 billion in May of 2012. Jan. 1, 2011, marked the second consecutive year that began with the commonwealth having an outstanding debt to the federal government, which resulted in two additional UC taxes on employers; FUTA credit reduction and the Interest Factor.

Employers saw their FUTA credit reduced and their tax liability go up 0.3 percent on Jan. 1, 2012, for wages paid in 2011. An additional 0.3 percent in FUTA credit reduction would be lost every year until the outstanding federal debt was eliminated. This tax liability was expected to continue to increase until at least 2018 at which time the FUTA credit reduction would have been 2.4 percent. Also, the federal government assessed interest on the outstanding UC loan. In order to pay the federal interest charges, an existing provision in the UC law kicked in effective Jan. 1, 2011, and employers began to pay Interest Factor contributions.

After Governor Corbett took office in 2011, one of his top priorities was to address the insolvency of the UC fund. The governor viewed this federal debt as a barrier to job growth because the FUTA credit reduction created an **escalating per-employee tax** on employers. In working with the general assembly, the governor developed a two-part solution: (1) refinance the outstanding debt; and (2) address the structural insolvency of the UC fund.

The federal UC loan carried a variable interest rate that could be as high as 10 percent. Act 60 of 2012 authorized the commonwealth to refinance this outstanding debt through the issuance of bonds in the private market. On July 25, 2012, the commonwealth paid off the outstanding federal debt in full through an interim financing deal which saved employers **$22.6 million** in interest over just two months and restored the full FUTA tax credit for wages paid in 2012. The commonwealth then closed on the permanent financing deal in October and received a historically low fixed rate of 1.29 percent. Our federal debt has been refinanced and the cost of that debt has been lowered.

Instead of repaying the federal government through the escalating FUTA credit reduction and a variable interest rate, Pennsylvania employers will pay off the bonds through the Interest Factor, which is capped at 1.1 percent of the state taxable wage base. It is anticipated employers will save **$150 million** in interest

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alone over the life of the bonds compared to the federal repayment structure. The Interest Factor was calculated by L&I and reflected on your contribution rate notice for 2013. It is anticipated that the bonds will be fully repaid in 2019 at which time the 1.1 percent Interest Factor will be eliminated.

The second part of the governor's solution was to fix the structural insolvency of the UC fund. One component of this effort was a revenue-neutral realignment of how state UC taxes are calculated. Over the next six years, Act 60 provides for an incremental decrease of the State Adjustment Factor from 1.5 percent to 0.75 percent, and an incremental increase of the taxable wage base from $8,000 to $10,000. These phased-in changes will begin in 2013.

Another component of the governor's effort to address the insolvency of the UC fund was a better alignment of the fund's benefit payments with its resources, thereby improving the UC fund's ability to perform in future economic downturns. The reforms within Act 6 and Act 60 update certain aspects of the state's UC law, including some relating to benefit levels and eligibility that had been neglected for nearly 40 years. The reforms are projected to produce average annual savings of **$385 million** to the UC fund.

Specifically, the reforms do the following:

- Modernize benefit eligibility by requiring a greater portion of base-year wages outside the highest quarter of earnings. Now, in order to qualify for UC benefits an individual must have at least 49.5 percent of their base year-wages outside of their high quarter, as compared to 37 percent under prior law.
- Deduct severance pay exceeding a specified amount from benefits.
- Eliminate fixed benefit duration of 16 or 26 weeks and introduce variable duration: one week of benefits for each "credit week" in the base year, up to a maximum of 26 weeks of benefits. Claimants must have at least 18 credit weeks to qualify for benefits.
- Adjust the formula to determine the maximum weekly benefit rate in order to slow the growth of the maximum rate; cap the maximum rate at the 2011 level through 2019.
- The solvency measures, some of which formerly applied when the solvency trigger percentage was less than 50 percent, will now all apply until the fund reaches 250 percent solvency.
- Require claimants to register for employment services and search for work while collecting UC benefits.
- Eliminate weekly benefit rates from $35-$69.

The reforms in Act 6 and Act 60 enable the UC fund to be prepared for the next economic downturn while responsibly repaying the debt and modernizing eligibility requirements – making them fair and reasonable. Pennsylvania is the only state to both eliminate such a large debt and establish fund solvency without raising taxes on employers. This will allow employers to use more of their money to reinvest in growth and new job creation, which means a stronger state economy.

Keystone Works:

Making the Connection Between Job Seekers and Businesses

Often, unemployed Pennsylvanians need skills training to be successful in the workplace, and businesses need access to motivated workers able to get the job done. Making the connection between job seekers and businesses is among Governor Corbett's highest priorities.

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Keystone Works, a new program administered by the Pennsylvania Department of Labor & Industry, delivers that training, provides that access and makes those connections.

Keystone Works helps businesses find skilled workers who meet their needs while limiting up-front risk and cost associated with training a new employee. Keystone Works provides business-driven training opportunities for unemployed workers. When participants complete training, businesses are offered incentives to hire that trainee, but are under no obligation to offer employment to any trainee.

As the owner of the first participating business in the program, David Schugt of Schugt Manufacturing said, “Every Pennsylvania business should participate. There is no risk. You submit the training plan, screen candidates, and are incentivized for hiring the trainee you’ve selected. I would encourage every business to take a serious look at the benefits of the Keystone Works Program.”

Participating Keystone Works businesses pay no compensation to the trainee. Trainees are prescreened by PA CareerLink® staff to meet the criteria outlined by the business in their training application and plan. Businesses have the opportunity to interview trainees to ensure they are an appropriate match. Training can be conducted for up to 24 hours per week for up to eight weeks, and trainees who complete the program receive up to 192 hours of training, enabling them to immediately be productive if hired.

Businesses who hire trainees out of the program are eligible to receive monetary incentives of $375 for every four consecutive work weeks the trainee is employed full-time, up to a total of $1,500 per trainee hired.

How Will My Business Benefit?

- You will be matched with prescreened, qualified claimants to fill your open positions.
- You determine the training plan that fits your business’ needs.
- Claimants complete training at your facility and can be productive immediately if you decide to hire them.
- You pay nothing to participate - not even the additional premium cost of providing workers’ compensation insurance coverage for claimants during the training period.
- You may receive up to $1,500 in cash incentives for hiring individuals who complete approved training.

Nearly every Pennsylvania business is eligible to participate.

For more information about Keystone Works, visit www.dli.state.pa.us/keystoneworks.

Speakers Bureau

L&I’s subject matter experts have presented topics of interest to thousands of Pennsylvania workers and businesses over the years. Presentations range from a host of unemployment compensation topics to health and safety training, workers compensation programs and much more.

On Jan. 9, 2013, the department launched a multi-program collaborative project to package information about presentations into an official speakers bureau. The bureau now has a featured webpage on the L&I website that business owners and organizations can visit to see what presentations are available and to request a speaker. In addition, a representative from L&I’s speakers bureau will review each request to customize a program to meet the requester’s needs. Presentations

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on significant L&I initiatives and messages from the governor's office will be incorporated into the speakers bureau as a means to strengthen communications with all audiences.

Secretary Hearthway asked for the speakers bureau to be created as a means to inform even more Pennsylvania businesses and organizations about the free, informative programs staff were already presenting around the state. Program areas in L&I have been entering their speaking engagements on the shared speakers bureau calendar so that all speaking engagements are cataloged in one place and accessible. By reviewing the calendar, speakers bureau representatives hope to generate additional speaking opportunities by identifying groups and topics that might not previously have been cataloged.

If you would like more information on the L&I speakers bureau, please visit www.dli.state.pa.us.

Important UC Tax Facts for 2013

The Office of UC Tax Services mailed the Pennsylvania Contribution Rate Notice for calendar year 2013, Form UC-657, on Dec. 31, 2012. Employers who received their 2013 UC Contribution Rate Notice with this mailing date will have the following important tax deadlines:

- **April 1, 2013**, is the last day to file a timely rate appeal to the contribution rate reflected on the UC Contribution Rate Notice. (A timely rate appeal must be filed within 90 days of the mailing date of the UC Contribution Rate Notice.) Please note that the Surcharge Adjustment, Additional Contributions and Interest Factor are not appealable items.
- **April 30, 2013**, is the last day to file a timely election for a Debit Reserve Account Balance Adjustment.

Employers who received a 2013 UC Contribution Rate Notice with a mailing date other than Dec. 31, 2012, will need to adjust these deadlines according to the instructions on the reverse side of the form.

Increase in Taxable Wage Base and Decrease in State Adjustment Factor Beginning in 2013

As part of the Act 60 amendments to the Pennsylvania UC Law, the taxable wage base for employer contributions will be increasing each year from 2013 through 2018. At the same time, the maximum state adjustment factor has been decreased from 1.5 percent to 1.0 percent through 2016 and will decrease further thereafter. The following chart lists the taxable wage base and state adjustment factor amounts beginning 2013:

Calendar Year	Taxable Wage Base for Employer Contributions (per employee per year)	Maximum State Adjustment Factor
2013	$8,500	1.0%
2014	$8,750	1.0%
2015	$9,000	1.0%
2016	$9,500	1.0%
2017	$9,750	0.85%
2018 and thereafter	$10,000	0.75%

Important UC Tax Facts for 2013 *from page 4*

The following solvency measures will be in effect for 2013:

Employer Taxes

A 5.1 percent (.051) surcharge on employer contributions, reduced from 5.8 percent in 2012. The surcharge adjustment is computed by multiplying your basic rate by the 5.1 percent surcharge. The surcharge adjustment does not apply to reimbursable employers.

A 0.65 percent (.0065) additional employer contribution, unchanged from 2012. The additional contribution is added to your tax rate as adjusted by the surcharge. The additional contribution is not applicable to non-delinquent newly liable and reimbursable employers.

A 1.1 percent (.011) interest factor, increased from 0.2 percent in 2012. Due to the passage of Act 60 of 2012, the interest factor will be used to fund the payment of bond obligations beginning in 2013. It may also be used to fund payment of interest on federal loans, although Pennsylvania does not currently have a federal loan balance. The interest factor is not applicable to non-delinquent newly liable employers. Also, it is not credited to the employer's reserve account nor considered for federal certifications.

Employer Taxes Example:

Basic Rate	Surcharge	Additional Contributions	Interest Factor	2013 Total Contribution Rate
.0210	+ (.0210 x .051 = .001071) +	.0065	+ .011 =	0.39571

Employee Contributions

A 0.07 percent (.0007) tax on employee wages, or 70 cents on each $1,000 paid, reduced from 0.08 percent in 2012. Employee withholding contributions are submitted with each UC-2/2A quarterly report. Employee withholding applies to the total wages paid in 2013. It is not limited to the $8,500 taxable wage base for employer contributions. Failure to withhold or remit this employee tax could result in interest charges and may affect your contribution rate for subsequent years.

Benefit Reduction

A 1.7 percent (.017) benefit reduction, reduced from 2.3 percent in 2012. With few exceptions, the weekly UC benefit amount for all claimants will be reduced by 1.7 percent.

Information on penalties and interest for unpaid UC taxes will be available online in the near future at www.dli.state.pa.us. To access this information, select "Employers," then "Unemployment Compensation," then "UC Tax Information," and then select "Penalties & Interest."

If you have any questions concerning this information, please contact the Employer Contact Center at 866-403-6163 (within the Harrisburg area, 717-787-7679) Monday through Friday from 8 a.m. until 4:30 p.m.

Email Scam Alert

Several employers have alerted L&I to a suspicious-looking email. If you receive an email that claims to be from the Division of Unemployment Assistance "@detma.org," do not reply to the message and do not click on the link in the message. This is an identity theft scam. There is no Division of Unemployment Assistance in Pennsylvania. L&I oversees the state's unemployment compensation systems and did not send the email. The department would never request confidential information in this manner.

If you received an email and believe that your identity has been compromised because of it, please contact local law enforcement, visit the link on www.uc.pa.gov entitled "Report Fraud," and take steps to protect your identity and that of your employees.

How Will Unemployment Claims Affect My Contribution Rate?

If an employer qualifies for an experience-based contribution rate, the employer's rate is a reflection of the employer's UC history from the date the employer became subject to the UC law. An experience rate takes into consideration wages paid by the employer and reported to the department, contributions paid to the UC fund and benefits that are charged to the employer's reserve account.

Under the UC contribution rate formula, benefits charged to an employer's account put upward pressure on the employer's rate for subsequent calendar years.

The extent that UC benefit charges may affect an employer's rate depends on the amount of the charges in relation to other values that have a favorable impact on a contribution rate. If the amount of the benefit charges is high in comparison to the size of the employer's payroll or the amount of contributions the employer has paid to the UC fund, the benefit charges will have a greater impact on the employer's rate.

One component of an experience rate is the "reserve ratio factor." This is the ratio of an employer's reserve account balance to his average payroll for the most recent three fiscal years. The higher the reserve ratio, the lower the employer's rate. An employer's reserve account balance is determined by subtracting the benefits charged to the employer from the amount of contributions paid by the employer, over the lifetime of the employer's UC account. Benefit charges decrease the employer's reserve account balance and lower the reserve ratio, which can result in a higher contribution rate.

Another rate component is the "benefit ratio factor." This is the ratio of the employer's average benefit charges to his average payroll, both for the most recent three fiscal years. The higher the benefit ratio, the higher the employer's rate. Benefit charges directly increase the benefit ratio and thus can raise the employer's contribution rate.

The benefit ratio factor looks only at benefit charges for the most recent three fiscal years. Therefore, benefit charges cease to affect the benefit ratio factor when they are no longer within this three fiscal year period. However, the reserve account balance is a lifetime figure. Benefit charges never leave the calculation of the employer's reserve account balance, but their impact can be diminished over time if the employer's future contributions exceed his future charges.

U.S. Department of Treasury - Treasury Offset Program

On Nov. 19, 2012, L&I sent letters to certain claimants informing them that the department intends to submit notice of their UC fraud overpayment to the U.S. Department of Treasury under the Treasury Offset Program, or TOP. TOP permits states to recover unpaid UC fraud overpayments from a claimant's federal income tax refund, pursuant to the "SSI Extension for Elderly and Disabled Refugees Act," Public Law, 110-328. The letters provide claimants with notice of TOP and provide a 60-day period in which to inform the department that their overpayments should be excluded from the program.

Last year, approximately 10,000 claimants were identified for the initial implementation of the program. As a result, the department has recouped $9,457,922.17 from claimants having fraudulent UC overpayments. This year, approximately 18,000 claimants have been identified for the program.

EMPLOYERS - Do You Have New Hires?

Report your new hires electronically to the Pennsylvania New Hires Reporting Program, saving time and postage. Simply go to www.pacareerlink.state.pa.us and click on the "Report New Hires" link under the "Employers" section. It's fast, free and paperless.

For questions about reporting new hire data, please contact New Hire Customer Service at 888-PAHIRES (888-724-4737) or by email at RA-LI-CWDS-NEWHIRE@pa.gov.

Questions & Answers

Question: Are the services of an elected official excluded under the UC law?
Answer: Yes. The UC law excludes services performed by elected officials from "employment."

Question: Are the services of an appointed official excluded?
Answer: No. The UC law does not contain an exclusion for appointed officials.

However, services performed by the following individuals are not covered under the UC law:

- Individuals serving in positions which are designated as a major non-tenured policy-making or advisory position; and
- Individuals serving in positions which are designated as a policy-making position the performance of the duties of which ordinarily does not require more than eight hours per week.

UC Issues Update is published by the Pennsylvania Department of Labor & Industry on a quarterly basis. Questions, comments and feedback can be sent via email to uc-news@pa.gov. General UC Tax information is available by calling 717-787-7679 or outside of the Harrisburg area, toll free 866-403-6163 from 8 a.m. to 4:30 p.m. If you have questions regarding UC benefit charges to your account, please call 717-787-4677 from 8 a.m. to 4:30 p.m. **If you suspect fraud, contact 800-692-7469**.