

SERVICE BULLETIN

TO: T&T Clients
FROM: Josh Kendall
RE: Budgeting for 2010
DATE: September 30, 2009

When budgeting for 2010, be sure to take into account significantly higher state unemployment tax payments. For most companies, the biggest impact will be felt at the end of April 2010, when the tax payments for the first quarter are due (because the SUI taxable wages are the highest in the first quarter). Simply put, the state unemployment agencies are under pressure to generate more revenue from employers.

The balances in the state unemployment trust funds began to deteriorate rapidly in the fourth quarter of 2008, and the decline has accelerated since the beginning of 2009. At the time of this writing twenty states already have been forced to secure federal loans to pay regular unemployment benefits (Alabama, Arkansas, California, Florida, Idaho, Illinois, Indiana, Kentucky, Michigan, Minnesota, Missouri, New Jersey, New York, North Carolina, Ohio, Pennsylvania, Rhode Island, South Carolina, Texas, and Wisconsin). We expect that more states, including Kansas and South Dakota, will seek federal loans before the end of 2009.

Most state unemployment laws contain mechanisms to automatically increase future UI tax rates when the state trust funds become less solvent. For this reason, and also because of provisions in recent federal legislation which will result in higher benefit payouts, it is clear that state unemployment tax rates will be significantly higher for 2010. This will impact all for-profit companies; even those who have not been forced to lay off workers.

One by-product of the loss of employment opportunities is the fact that claimants are having difficulty finding new jobs, so the average duration of unemployment claims has been increasing. As a result, even companies that have not experienced a reduction in force are being assessed a greater than normal amount of unemployment benefit charges. This will also impact on 2010 SUI tax rates.

Several states have already announced increases to the taxable wage limitation for 2010, including Arkansas (\$12,000), Indiana (\$9,500), Florida (\$8,500), Vermont (\$10,000), Missouri (\$13,000), Iowa (\$24,500), and Montana (\$26,000). Additionally, significant tax rate increases are assured for 2010 in Florida, Hawaii, Iowa, and Kansas. Of course, your SUI tax rates will be impacted by your company's experience with UI claims and other factors, so the changes in your tax rates may not mirror the changes in the states' average tax rates. Nevertheless, headwinds abound for 2010.

Please feel free to contact us for assistance with budgeting.

