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# Unemployment Update

## The Hidden Costs of Employee Turnover Increased Unemployment Taxes for Merit-Rated Employers

### Quantifying Employee Turnover

There are many widely published studies available that attempt to quantify the costs to employers of turnover. Most use the formula turnover costs = costs of hiring new employees + cost of training new employees. What is commonly missed in the equation is that higher turnover means higher unemployment taxes. It is the "hidden" cost of employee turnover.

### How Unemployment Taxes are Calculated

When the unemployment compensation laws were originally enacted in the 1930s, the intent was to provide a supplement to individuals who were unemployed through no fault of their own. Individual states have been free to enact and administer their own unemployment compensation regulations, provided they comply with established federal rules and guidelines.

Employers bear the cost of unemployment compensation through a payroll tax paid to the states in which they pay wages. The taxes go into a state fund specifically earmarked for the payment of unemployment benefits. Like other business taxes, unemployment compensation taxes are additional overhead to the employer. However, there is a *major* difference between unemployment and other business taxes. Most business tax rates are fixed by law. Unemployment tax rates fluctuate based on the employer's payroll and the amount of unemployment benefits charged against its account.

An employer's unemployment tax rate determines how much UI taxes are paid per employee. Contrary to what many believe, unemployment taxes are paid on EVERY employee, not only the ones who file for benefits. An employer's state unemployment tax rate is determined by a combination of state factors (health of the state trust fund balance) and individual employer factors (payroll and benefit charges attributed to the employer). An employer's assigned tax rate is applied to each employee's earnings until the state taxable "wage base" (amount subject to the tax) is reached. State unemployment tax rates range from 0% to 12.27%. State taxable "wage bases" range from \$7,000 to \$36,800. For example, an employer's assigned unemployment tax rate is 2.10% and the state wage base is \$12,000. The employer's annual unemployment tax cost for employees earning \$12,000 and above is \$252 per employee.

### How Does Turnover Increase Taxes?

Turnover impacts unemployment taxes in two ways. First, the separations may result in claim filings that can result in an increase in benefit charges which in turn impacts experience rating. Second, the taxable wage is "re-started" so that the employer does not realize the benefit of the cap on employee earnings for the collection of unemployment taxes.

### Turnover's Impact on Unemployment Taxes: Re-Starting the Wage Base

Employer A and Employer B hire a customer service representative January 1, 2010, to begin work in their Los Angeles, California, offices. California's taxable wage base is \$7,000. Both employers have a 2010 tax rate of 2.30%. Employer A uses hiring and retention best practices and retains the new hire the entire year. Employer A's annual unemployment costs (taxes) for this position are \$161. Employer B has a high rate of turnover and has to re-hire for the same position three times during 2010. Each employee earned over \$7,000 prior to leaving the business. Employer B's annual unemployment costs (taxes) for the customer service position are \$483. The cost of the turnover to Employer B is \$322 for just the one position.

### Conclusion

Unemployment taxes are one of the few taxes employers can directly control. One way employers can effectively minimize unemployment costs is to utilize best practices in hiring and retention.

TALX's experience, expertise, and proven results help employers navigate the uncertainty of the unemployment insurance system. For additional information regarding this article or other proactive unemployment cost management techniques, please visit our corporate blog at <http://blog.talx.com/> or contact Pete Krieshok at 314-214-7325, or by e-mail at [pkrieshok@talx.com](mailto:pkrieshok@talx.com).