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Selecting the Best Option

Dear Reader:

The following document was created from the MTAS website (mtas.tennessee.edu). This website is maintained daily by MTAS staff and seeks to represent the most current information regarding issues relative to Tennessee municipal government.

We hope this information will be useful to you; reference to it will assist you with many of the questions that will arise in your tenure with municipal government. However, the *Tennessee Code Annotated* and other relevant laws or regulations should always be consulted before any action is taken based upon the contents of this document.

Please feel free to contact us if you have questions or comments regarding this information or any other MTAS website material.

Sincerely,

The University of Tennessee
Municipal Technical Advisory Service
1610 University Avenue
Knoxville, TN 37921-6741
865-974-0411 phone
865-974-0423 fax
www.mtas.tennessee.edu

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Following are two methods you can use to determine which option is best for your municipality:

Premium Paying

- Determine how many eligible employees your municipality has. Elected officials and appointed policy-making officials should NOT be counted as they are not eligible for unemployment compensation benefits. If your city operates a school system, do count all education employees whether professional, administrative or non-professional. These employees cannot draw unemployment compensation benefits during vacation periods, but they are eligible for benefits if they are separated from employment during the regular school year.
- Compute your city's maximum taxable payroll by calculating the salaries and wages of all eligible employees up to a maximum of $7,000 each. (Only the first $7,000 in salary or wages is subject to the unemployment compensation employer tax for 2019 - this can change annually.)
- Multiply the maximum taxable payroll amount by 1.5 percent. For each employee who earns $7,000 per year or more, the municipality's annual premium will be $105.
- During a city's first year as a premium paying employer, the amount of its annual premium will be equal to 1.5 percent of its maximum taxable payroll as determined in step three. In subsequent years, after a claims history is established, the premium will range from 0.3 percent to 3.0 percent of maximum taxable payroll, depending on the city's claims experience.

Example: Your city has 50 employees, all of whom earn more than $7,000 per year. The maximum taxable payroll, therefore, is $350,000 (50 x $7,000). Your premium during the first year as a premium-paying employer will be equal to 1.5 percent of the maximum taxable payroll or $5,250 ($350,000 x .015).

Reimbursement

- Review your city's personnel records for the past several years, and estimate the number of employees who will file and be eligible for unemployment compensation during the coming year.
- If you are reasonably certain that the town will not be firing or laying off any employees in the coming year, it may be wise to become a reimbursing employer.
- Estimate your potential liability under the reimbursement option. If the city lays off an employee, through no fault of his or her own, the employee is eligible to draw up to 26 weeks of benefits at a minimum of $30 per week, up to a maximum of $275 per week. A claimant must have a two-calendar-quarter average wage of at least $780.01 to qualify for the minimum benefit of $30 per week, and a two-quarter average of at least $7,150.01 to qualify for the maximum benefit of $275 per week.
- A detailed benefit table is provided in Tennessee Code Annotated § 50-7-301. The table classifies weekly unemployment compensation benefits according to the employee's average earnings based on the employee's average total wages in the two highest paying quarters of his or her base period. The base period is the first four of the last five calendar quarters prior to the calendar quarter in which the unemployment claim is filed.

Example: Your city anticipates having to lay off two employees in the coming year. Both employees would be eligible to receive unemployment compensation benefits. One employee is presently earning $20,000 per year (with a two-quarter average wage of $5,000); the other employee earns $12,000 per year (with a two-quarter average wage of $3,000).

The first employee's unemployment benefits, as determined by the benefits chart cited in T.C.A. § 50-7-301, will be $192 per week for a maximum liability of $4,992 over a 26-week eligibility period.

The second employee will qualify, according to the same chart, for a weekly benefit of $115 per week for a maximum liability of $2,990 over 26 weeks. The maximum 26-week liability for both employees would be $7,982 ($4,992 + $2,990).

A city's decision whether to be a premium-paying or a reimbursement employer should hinge on an analysis of its liabilities under each option. Generally, a city that experiences little in the way of layoffs or terminations would do well to select the reimbursement option. In most years, this method would likely result in a savings, although such cities should expect a periodic "spike" in its costs should a layoff or termination occur.
