Don't Be Blinded By Fundraising: Have You Looked At Your State Unemployment Taxes Lately?

This cost-saving method can be as lucrative as your best fundraising effort.

BY MARLA CHUPACK

Have you ever watched blindfolded children trying to break open a Pinata? It takes a long time, and luck is what finally breaks the candy free. There's a similarity between this game and the way many nonprofits approach cost savings. Fundraising is the blindfold they wear. They can't see any way except fundraising to increase their fiscal budget.

Cost Containment Can Be Better than Fundraising

It's time to take the blindfolds off and learn what savings vehicles are available. Some methods of cost containment can reap savings equal to the money produced by a nonprofit's best fundraising effort.

The first thing you should look at is what you are paying in state unemployment taxes. Without fundraising to blind your vision, you can see how year after year the annual increase in this tax eats away at your budget. Just think how much money you'd save if you didn't have to pay these taxes. There is a way.

Nonprofits Can Opt Out of the State Unemployment System

Nonprofits do have an option. It is described in a clause that was added to Public Law 91-373 in 1972. The clause allows nonprofits to withdraw from the state unemployment program and reimburse the state directly for employee-filed unemployment claims. Congress added this option because nonprofits usually pay more than their employees claim in benefits. Thus, nonprofits end up subsidizing high-turnover industries such as restaurants and construction. Even at the lowest unemployment insurance tax rate, nonprofits frequently end up overpaying the state by thousands of dollars.

It's amazing how many nonprofit organizations are unaware of the savings they could realize by withdrawing from the state program. Of the nonprofits who do understand the financial advantage of reimbursement, many are hesitant to leave the state program due to the serious risks involved. For instance, in a year when a nonprofit loses funding and runs into unanticipated layoffs, the dollar amounts of filed claims could potentially devastate an organization. But there is a safe alternative to paying state unemployment insurance taxes: you can join an unemployment insurance trust.

Trusts Are Less Risky Than Self Insurance

Unemployment insurance trusts are less risky than self-insurance and more affordable than state plans. Trust administrative costs usually come out lower than tax charges. The reason is that nonprofit trusts are based solely on nonprofit unemployment claims, which tend to be lower and less frequent than for-profit claims.

The beauty of a trust lies not only in savings, but in the claims and personnel benefits it makes available to nonprofits. Some of the valuable benefits trusts provide are:

- administrative handling of all claims
- a reserve account that earns interest and is used to pay for future claims
- stop-loss insurance protection
- consulting service to help nonprofit groups keep their personnel policies and procedures in sync with state and federal laws. About 95% of employment-related lawsuits come from charges that an employee was dismissed incorrectly.

When Can You Withdraw from the State Program?

Nonprofits can usually withdraw from their state unemployment insur-

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ance program at the end of November. If your organization already reimburses, you have the option to join an unemployment trust at any time.

Are Nonprofits Using This Option?

First Nonprofit Companies, an Illinois insurance company solely dedicated to nonprofits, decided to see if and how nonprofits use their option to withdraw from the state program. With the support of United Way, First Nonprofit Companies surveyed nearly 2,000 nonprofit organizations. A strong survey response revealed that 57% nonprofits continue to fund their unemployment insurance risk through tax contributions to the state, and 22% directly reimburse the state in lieu of making quarterly tax contributions. Only 7% were in an organized pool or trust.

Based on the survey, First Nonprofit Companies now offers an unemployment insurance trust program to nonprofits. Collectively, participants in the trust have already saved $553,676.

With the money saved by being in a trust, nonprofits can offer more benefits to their employees—retirement plans, holiday bonuses, incentive programs, and so on. Considering the savings, the only surprise is why more organizations don't take advantage of this alternative. Once the fundraising blindfolds are off, maybe they will. ■

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