

## *How To Cut Down Unemployment Costs*

One of the "costs" of doing business is dealing with unemployment claims. Under the **Federal Unemployment Tax Act (FUTA)**, employers are charged 6.2% of the first \$7,000 of every worker's wages. However, if you pay state unemployment tax, you can take a credit of up to 5.4% to effectively reduce the federal rate to 0.8%.

**Key point:** The most important factor is that you have to pay to the state to maintain the 5.4% credit. Most states have a merit rating system under which employers with a stable workforce get a break on unemployment to keep claims to a minimum.

How can they do that? Generally, there are two defenses that an employer can make when an employee seeks unemployment benefits: (1) the employee quit voluntarily (2) the employee was fired for willful misconduct. However, these defenses are often overcome by compassion for jobless people or other factors.

Clearly, the key to keeping your unemployment costs down is to head off claims before they are filed. Here are some suggestions:

- **(1) Hire carefully.** If an employee will be required to work odd shifts, weekends, and holidays, let him or her know at the outset. Even better: put the notice in a prominent place on the employment application and make sure the employee signs it. Then, if the employee leaves due to work hours, the departure will be considered voluntary and no unemployment benefits will be payable.
- **(2) Fire carefully.** When an employee is let go for misconduct, such as an insubordination or work rule violations, explain your reasons for the dismissal in writing. Copies of performance evaluation forms showing that there have been prior warnings should be given to the departing employee along with a final written statement showing that there has been no improvement in the deficient area.
- **(3) Conduct an exit interview.** When an employee leaves voluntarily, find out the reason. You might have two employees interview the departing employee and take notes. Request that the employee provide a reason for leaving in the form of a letter of resignation. This may help to block a later claim for unemployment benefits. It may also alert you to a condition you want to correct in order to stop more departures.
- **(4) Stick to your guns.** If a former employee files a questionable claim, you may challenge it. This could be the opening salvo of a wrongful discharge lawsuit. You need to have your attorney ready to fight, armed with documentation showing the claim is groundless.

*Conclusion: By taking precautions with departing workers, employers can keep their merit rating high and their taxes to a minimum. As usually is the case, an ounce of prevention is worth a pound of cure.*