BLOG

Consider Reimbursing After a High Claims Period

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Nonprofit organizations across the country are facing tighter budgets, unpredictable funding, and rising unemployment insurance costs. After a year of high claims or layoffs, many nonprofits see their state unemployment tax rate spike, often for years, even after operations stabilize. This article explains how and why transitioning to unemployment reimbursement (becoming a reimbursing employer) can help your organization regain control of costs, avoid inflated unemployment tax rates, and reserve more funds for your mission. For nonprofits that have recently experienced layoffs or are planning for 2026 and beyond, understanding this option could be one of the most effective cost-saving strategies available.

The American economy has gone through an extended period of instability, starting with the unprecedented turmoil of the COVID-19 pandemic and continuing through supply chain and inflation challenges. 2025 has followed this pattern, with several forecasts projecting that layoffs could exceed one million by the end of the year.

This turbulence has proven especially difficult for nonprofits, many of which are looking for ways to reduce costs after a large reduction in federal spending and grants. Although lower interest rates might eventually relieve some of the strain, the short- to medium-term outlook for employers remains uncertain.

Mission-driven organizations are used to doing more with less and continually searching for cost-saving measures regardless of the political or economic climate. During periods of economic contraction and high layoffs, these efforts move even higher on the priority list as nonprofits adjust to new financial realities. Yet many organizations do not know about or fully consider their options for unemployment reimbursement, which can be both more efficient and less expensive when handled internally. Even if your organization has not experienced recent layoffs, you may still be paying for benefits you have never used.

How unemployment works

Unemployment insurance (UI) is governed by two primary laws: the Federal Unemployment Tax Act (FUTA) and the State Unemployment Tax Act (SUTA). Both outline the responsibilities of the federal and state governments in administering UI. Employers pay unemployment taxes at both levels, but each state sets its own rules, rates, and administrative details.

When a former employee files for unemployment benefits, the state agency contacts the previous employer to confirm employment details and separation reasons. Many employers pay into the state unemployment insurance fund, and the amount they owe is based on several factors, including payroll size, tenure, and most importantly, claims history.

In most states, the more benefits paid out to former employees, the higher an employer's tax rate becomes. However, the exact formula and timing vary by state. A single year of elevated layoffs can lead to higher unemployment tax rates that linger for years.

What happens when unemployment claims increase

When an organization experiences layoffs, those unemployment claims are charged against its account in the state system. Over time, this experience record affects the employer's unemployment tax rate. Even if your organization does not experience additional layoffs, that higher rate can remain in effect for several years as the state seeks to recover the cost of prior claims.

In other words, one difficult year can have lingering financial effects, as your unemployment tax rate continues to rise long after operations have stabilized.

How organizations can avoid this penalty

One of the most effective times for a nonprofit to consider becoming a reimbursing employer is immediately after a period of high claims or a large layoff. When a nonprofit elects to reimburse rather than pay state unemployment taxes, it often receives a new unemployment account number (or tax ID) from the state.

In many states, this change separates the organization from its old contributory account and the claims associated with it. The prior claims remain part of the state's system, while the nonprofit moves forward responsible only for the actual unemployment costs of any future separations. Because each state's rules differ, nonprofits should review their state's conversion process to confirm any waiting periods or residual obligations.

For organizations that want to avoid years of inflated unemployment tax rates caused by a temporary spike in claims, this transition can provide a valuable financial reset. It allows nonprofits to manage their own unemployment costs directly and ensure that their resources are used to support their mission rather than subsidize past claims or higher pooled tax rates.

Some other advantages to this approach include:

- Avoid waste: State audits have shown that overpayments and administrative errors are common in unemployment systems. In some states, more than 10 percent of payments are issued incorrectly, creating unnecessary costs for employers that may never use the system.
- Predictable finances: Knowing exactly what you will need to pay and for how long makes financial planning easier. Internal analyses by 501(c) Services show that a large majority of nonprofits pay more into state UI pools than their former employees ever receive in benefits.
- Benefit from smart management without being penalized for others' activity: This approach allows you to base costs solely on your own workforce, rather than being affected by the experience ratings of unrelated employers in the same state system.

Why organizations are considering a shift now

Recent economic trends have shifted layoffs toward certain professional sectors such as technology, information services, and business administration. While job losses are not limited to these areas, many organizations in higher-wage industries are contracting after years of growth. This concentration of layoffs may create added pressure on state unemployment systems, since higher-paid workers are eligible for larger benefit amounts within each state's maximum limits.

For nonprofit employers, this could translate into higher unemployment tax rates at a time when resources and funding are already stretched thin. Moving to a reimbursing model can help avoid these rate increases and free up valuable funds for programs, staff, and mission-critical activities.

About Us

For more than 40 years, 501(c) Services has been a leader in offering solutions for unemployment costs, claims management, and HR support to nonprofit organizations. Two of our most popular programs are the 501(c) Agencies Trust and 501(c) HR Services. We understand the importance of compliance and accuracy and are committed to providing our clients with customized plans that fit their needs.

Contact us today to see if your organization could benefit from our services.

Are you already working with us and need assistance with an HR or unemployment issue? Contact us here.

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