



Let us help you manage your benefits cost and risk.

Supplemental Unemployment Benefit Plan

The Supplemental Unemployment Benefit Plan (SUBP) is a tax savings idea that could potentially save companies and employees substantial tax dollars in the event of a downsizing/layoff.

The Approach

- ❖ A SUBP is created to qualify separation payments made to former involuntarily unemployed employees.
- ❖ Payments intended to supplement state unemployment benefits for a (1) Reduction of Workforce, (2) Plant Closing, or (3) Cyclical or Seasonal Work.
- ❖ Payments are not considered "wages" for purposes of Federal Insurance Contributions Act ("FICA"), Federal Unemployment Tax Act ("FUTA") and State Unemployment Tax Act ("SUTA"); however, employees must file unemployment claims.
- ❖ Separation payments must be made on a periodic basis.
- ❖ Separation payments may be made directly by the employer or through a tax-exempt IRC Section 501(c)(17) Trust (optional).
- ❖ A tandem plan (a SUBP and a Severance plan) can be created which would allow the Severance plan to provide a lump sum payment for remaining amounts due former employees who are no longer unemployed (optional).

IRC SECTION 501 (C) (17) TRUST (OPTIONAL)

- ❖ Earnings from the trust are tax exempt - interest and dividends earned on contributions accumulate tax free
- ❖ Currently, deductible reserves for future benefits can be funded

Savings Example

# OF EMPLOYEES	PAY SEPARATION	FICA (7.65%)	SFUTA & SUTA	POTENTIAL TAX SAVINGS
1	\$6,000	\$459	\$228	\$687
100	\$6,000,000	\$459,000	\$228,000	\$687,000

1 Assumes employees have not reached the taxable wage base of \$87,000, for OASDI.

2 FUTA = 0.8% x \$6,000 = \$48.

3 SUTA (Average National State Unemployment Tax Rate) = 3.0% x \$6,000 = \$180.

The Process

- ❖ Provide analysis, communications, coordination with state agency(ies) and technical tax memorandum(s)
- ❖ Draft or modify Plan Document and Summary Plan Description
- ❖ Create Trust and obtain a Federal Tax ID number for Trust (optional)
- ❖ Qualify Trust as tax-exempt (optional)
- ❖ Draft explanatory memorandum to employees and letter for each employee to present to the state unemployment agency
- ❖ Obtain unemployment eligibility status determination from state agency(ies)



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- ❖ Determine procedures for processing checks, withholdings, and unemployment claims
- ❖ Calculate each individual's SUBP benefit
- ❖ Ensure each individual remains linked to state unemployment benefits
- ❖ Process Forms 941, W-2, Medical Premiums, and Garnishments (if any)