

NAF Accounting Working Group Unemployment Insurance Position Paper #34

Issue

Unemployment insurance expenses and liabilities are not being treated consistently by the Services. In evaluating Service NAFSGL crosswalks, several issues emerge:

1. Is Unemployment insurance considered employee insurance premium expense or part of wage expense?
2. When is the liability incurred for unemployment insurance?
 - a. Reserve for future payments vs recorded liability (either standard or contingent liability)
 - b. What is the triggering event? Termination of employees (contingent liability) vs receipt of unemployment insurance bill (standard short-term liability)
3. How do the Federal Unemployment Tax Act (FUTA), State Unemployment Tax Act (SUTA), and the Department of Labor fit into the equation?

Research

Below outlines the current treatment on how each service complies and what the regulations, accounting guidance and industry standards are for this issue.

Classification and Handling of Unemployment Insurance	Air Force	Army	Navy	Marines
Current Treatment	<p>Liability: Service to update AF GLAC to OSD GLAC; this will be an Insurance Payable.</p> <p>Expense: Other Employee Benefit</p> <p>Air Force has Unemployment Compensation expense account GLAC 710 utilized within the AF</p>	<p>Liability: Insurance Payable</p> <p>Expense: Wage Expense</p>	<p>Liability: Insurance Payable</p> <p>Expense: Assessment Expense (Non-Operating)</p>	<p>Liability: Insurance Payable</p> <p>Expense: Other Employee Benefit</p>

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	<p>Insurance Fund cross-walked to Other Employee Benefit Expense OSD GLAC 509.</p> <p>Air Force does not have contingency liabilities for Unemployment Compensation as a reserved equity account.</p> <p>Air Force does not have a Unemployment Compensation payable account</p>			
<p>DoDI 1015.15: Discussed in relation to BRAC, no firm guidance. Enclosure 6 identifies cash held for unemployment insurance as part of the Employee Benefit Sinking Fund in the NAFs available table.</p> <p>6.16.6. Non-Applicable Taxes. “NAFIs are exempt from the payment of State and local taxes including, but not limited to, <u>unemployment insurance</u> taxes and contributions; income taxes; real estate and personal property taxes; sales, use, and license taxes on property purchased for consumption or resale; and excise taxes on alcoholic beverages imposed directly on NAFIs.”</p>	Unclear, need more information.	Unclear, need more information.	Unclear, need more information.	Unclear, need more information.
<p>FMR Chapter 13 Chapter 5: 050601. Operating Expenses “These expenses are the primary recurring costs that are associated with NAFI operations, other than cost of goods sold, and are incurred in order to generate sales or services.</p>	N/A	N/A	N/A	N/A

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<p>A. Salaries and Wages Expense. This general ledger account is for recording gross salaries and wages paid to employees.</p> <p>F. Other Employee Benefit Expense. This general ledger account is for recording employee benefit expenses not identified by other expense accounts.”</p> <p>No other guidance.</p>				
<p>GAAP: FASB 712:10.25-2: “An employer that provides contractual termination benefits shall recognize a liability and a loss when it is probable that employees will be entitled to benefits and the amount can be reasonably estimated. The cost of termination benefits recognized as a liability and a loss shall include the amount of any lump-sum payments and the present value of any expected future payments.”</p> <p>25-5 “Other postemployment benefits that are within the scope of this Subtopic...shall be accounted for in accordance with paragraph 450-20-25-2”(Contingent Liabilities) “For example, an employer may provide any former employee on permanent disability with continued medical insurance coverage until that employee meets the requirements for participation in the employer's postretirement medical plan. If the level of benefits provided is the same for any disabled employee regardless of years of service, the cost of those benefits should be recognized when the event causing a permanent disability occurs and a reasonable estimate can be made as specified by that paragraph.”</p> <p>“Termination Benefits: Benefits provided by an employer to employees in connection with their termination of employment. They may be either special termination benefits offered only for a short period of time or contractual benefits required by the terms of a plan only if a specified event, such as a plant closing, occurs.”</p> <p>“Other postemployment benefits: Benefits, other than special or contractual termination benefits, that are provided by an employer to former or inactive employees: after employment but before retirement including benefits provided</p>	<p>Unclear on nature of Unemployment Compensation accounts</p>	<p>Unclear on nature of Unemployment Compensation accounts</p>	<p>Unclear on nature of Unemployment Compensation accounts</p>	<p>Unclear on nature of Unemployment Compensation accounts</p>

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to beneficiaries and covered dependents. [FAS 112, paragraph 1, sequence 18.1]]"				
<p>GAAP FASB 450.20.05</p> <p>FASB defines a loss Contingency in [FAS 005, paragraph 1, sequence 30-31] as:</p> <p>“An existing condition, situation, or set of circumstances involving uncertainty as to possible loss to an entity that will ultimately be resolved when one or more future events occur or fail to occur. The term loss is used for convenience to include many charges against income that are commonly referred to as expenses and others that are commonly referred to as losses.”</p>	Unclear on nature of Unemployment Compensation accounts	Unclear on nature of Unemployment Compensation accounts	Unclear on nature of Unemployment Compensation accounts	Unclear on nature of Unemployment Compensation accounts
<p><u>Unemployment Compensation for Federal Employees Department of Treasury, March 1995.</u></p> <p><u>III-2 through III- 3</u></p> <p>Secretary's Interpretations: Federal Service/ Federal Wages. The Secretary of Labor has determined the following types of employment to constitute “Federal service” (civilian) and “Federal wages” (civilian) within the meaning of the Federal UCFE law....</p> <p>1. Armed Forces non-appropriated fund activities-</p> <p>a. services performed in the United States in the employ of authorized nonappropriated fund activities by civilian (citizen or non-citizen) employees and U.S. military personnel employed voluntarily during off-duty hours.</p> <p><u>IX-1</u></p> <p>..The SESA should furnish the Federal agencies, upon their request, with detailed benefit payment data, which supports the charges which will be billed to the Federal agency... Each SESA notifies the National Office (NO) on the ETA 191 report (quarterly statement) of the following: (a) the quarterly summary of UCFE expenditures and adjustments; and (b) the total amount of benefits paid by the SESA to claimants of specific agencies.</p>	Unclear	Unclear	Unclear	Unclear

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https://www.taxpolicycenter.org/statistics/state-unemployment-tax-rates	N/A displays the variation of SUTA based on experience	N/A displays the variation of SUTA based on experience	N/A displays the variation of SUTA based on experience	N/A displays the variation of SUTA based on experience
<p>FASAB Handbook version 16, SFFAS 5. 95</p> <p>The employer entity should recognize an expense and a liability for OPEB (Other Post-Employment Benefits) when a future outflow or other sacrifice of resources is probable and measurable on the basis of <u>events occurring on or before the reporting date</u>. For example, a reduction in force may require an employer entity to make severance payments, unemployment reimbursements, or other payments in future periods. Similarly, an injury on the job may require the employer entity to make short- or long-term reimbursements to the federal workers' compensation program. A long-term OPEB liability should be measured at the present value of future payments. This will require the employer entities to estimate the amount and timing of future payments, and to discount the future outflow using the interest rate on marketable Treasury securities of similar maturity to the period over which the payments are to be made. The discount rate assumption for present value measurements of OPEB liabilities should be developed in accordance with paragraph 66 of this standard.</p> <p>Footnote 62. <u>Both the federal employee unemployment program and the federal workers' compensation program are financed by direct reimbursements from federal employers.</u></p> <p>FASAB Handbook version 16, SFFAS 7. 320</p> <p><u>Employer entity payments for unemployment benefits and workers compensation</u></p> <p>The employer entity recognizes a liability and an expense for Federal employees who are laid-off or injured on the job and are entitled under law to unemployment benefits or workers compensation, respectively.⁷² The payment to the former or current employee is made by the unemployment trust fund (Department of Labor) in the case of unemployment benefits. Unemployment benefits are reimbursed by the former employer entity.</p>	Unclear	Unclear	Unclear	Unclear

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Industry Practice: Company pays SUTA and FUTA, SUTA rate depends on unemployment experience score of the company. Treated as a tax. Severance payments follow GAAP.	N/A	N/A	N/A	N/A
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Discussion

Employers are required by law to pay State Unemployment Taxes, and Federal Unemployment Taxes of 6.0% on the first \$7,000 dollars earned by an employee, with provisions in place to allow companies to deduct the SUTA portion from their federal returns. When an employee becomes eligible for unemployment compensation, the money is provided by the State, often with funds provided by the federal government via loan. To the company, SUTA and FUTA are just additional tax expenses, though SUTA taxes vary with the unemployment history of the particular employer.

However, on the NAFI side, unemployment compensation works differently. As provided by FASAB, Unemployment Compensation for Federal Employees: Department of Treasury, March 1995 (which specifically includes NAFI employees), and by the federal government’s guidance on filing for unemployment insurance (<https://www.benefits.gov/benefits/benefit-details/91>), federal unemployment insurance is paid by the state, with eligibility requirements also set by the states. The DoDI 1015.15 notes that NAFIs do not have to pay SUTA (and by implication, FUTA as NAFIs are a federal entity), so instead of a quarterly tax payment, the NAFIs reimburse the State Employment Security Agencies (SESA) for the actual amount unemployment insurance claimed by their former employees on a quarterly basis.

Recommendation

We recommend the NAFIs record an accrued liability monthly or quarterly based on prior historical performance and adjust the liability when the bill is received from SESAs or Department of Labor. The recorded expense and liability may roll over into the next fiscal year depending on timing of actual payment.

NOTE: The “Standard Prefix” to the GLAC was changed from a 3-digit number to the 4-digit number with the NAFSGL 3.0 update, which was approved/promulgated on October 6, 2020. The GLAC number was changed accordingly below (in bold).

Additionally, we recommend that expenses related to unemployment compensation not be charged to insurance expense or wage expense. We recommend the Services record the expense within a subaccount of GLAC ~~5095~~**5200** Other Employee Benefit Expense. The expense would be operating in all cases. The journal entry would thus be a debit to the subaccount and a credit to Unemployment Contingent Liability or Unemployment Short-term Liability.

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Service Concurrence

Service	Concurrence	Reason for Non-concurrence
Air Force	Concurrence on 4/18/2019. Re-concurred 9/19/19.	
Army	Concurrence on 4/18/2019. Re-concurred 9/19/19.	
Marines	Non-concurrence on 4/18/2019. Re-concurred 9/19/19.	Due to their unique organizational structure, MCCS does not concur with this position paper. However, MCCS will meet the intent of the objective by cross-walking their financials into the OSD financials to comply with the reporting requirements.
Navy	Concurrence on 4/18/2019. Re-concurred 9/19/19.	

USD(P&R)/MC&FP Disposition

No further action.

DFAS Disposition

No further action.

Forward to DoDIG?

No DoDIG equities.
