

news release

State of Michigan
Michigan Department of Labor & Economic Growth
UNEMPLOYMENT INSURANCE AGENCY

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FOR IMMEDIATE RELEASE

SES BANKRUPTCY COSTS MICHIGAN'S UNEMPLOYMENT TRUST FUND \$10 MILLION PEO profited by SUTA dumping

MAY 20, 2005 – Michigan's unemployment insurance trust fund is out nearly \$10 million due to the bankruptcy of Simplified Employment Services (SES).

One of the nation's best-known professional employer organizations (PEO), SES filed for bankruptcy in 2001. In 2004 and 2005, its two chief executives pled guilty to conspiring to defraud the United States by under-reporting and underpaying federal employment taxes to the IRS, committing bank fraud and committing theft or embezzlement from an employee benefit plan.

Michigan's Unemployment Insurance Agency (UIA) has also been investigating SES for avoiding the payment of state unemployment taxes – a practice known as SUTA (state unemployment tax act) dumping. As a PEO, SES had contracted to take into its organization employees from client companies and then "lease" them back to the companies. At one point, SES had more than 1,000 small businesses as clients, employing thousands of workers in Michigan.

UIA has been investigating SES for moving payroll from company to company, which brought down costs and created a profit by allowing the company to pay less in state unemployment taxes.

When 11 of the SES companies filed for bankruptcy in 2001, UIA sought claims totaling \$1.6 million for unpaid unemployment taxes. The agency, however, does not expect a return on the claims. In addition, the state's unemployment insurance (UI) trust fund must absorb an additional \$8 million in jobless benefits paid to former SES employees, who became unemployed when the companies became insolvent and shut down operations.

"The SES case is a prime example of why we need to close the PEO loophole that still exists in Michigan's UI law," David Plawecki, deputy director of the state's Department of Labor & Economic Growth, said. "As long as that loophole remains, all other Michigan employers covered by the state's UI law will have to assume more than their fair share of unemployment taxes."

UIA Director Sharon Bommarito noted integrity issues with the state's unemployment insurance program are a key focus for the agency.

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“We are aggressively pursuing any and all efforts to defraud the UI program, whether those attempts are made by workers or employers,” Bommarito said. “Only by enforcing the program’s integrity can we help maintain solvency within the UI trust fund and ensure that monies are available to assist those who are legitimately entitled to unemployment benefits.”

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*Unemployment Insurance Agency news releases are available at the agency's website
(www.michigan.gov/uia).*