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Legislative
Council
Staff

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MEMORANDUM

May 16, 2011

TO: Interested Persons

FROM: Kate Watkins, Economist, 303-866-6289

SUBJECT: Unemployment Insurance Program Funding Structure

This memorandum provides an overview of the funding structure of the Colorado unemployment insurance (UI) benefit program and explains recent movements in costs to employers to fund the program. This memorandum incorporates changes to the UI program funding structure as a result of the passage of House Bill 11-1288.

The Unemployment Insurance Program

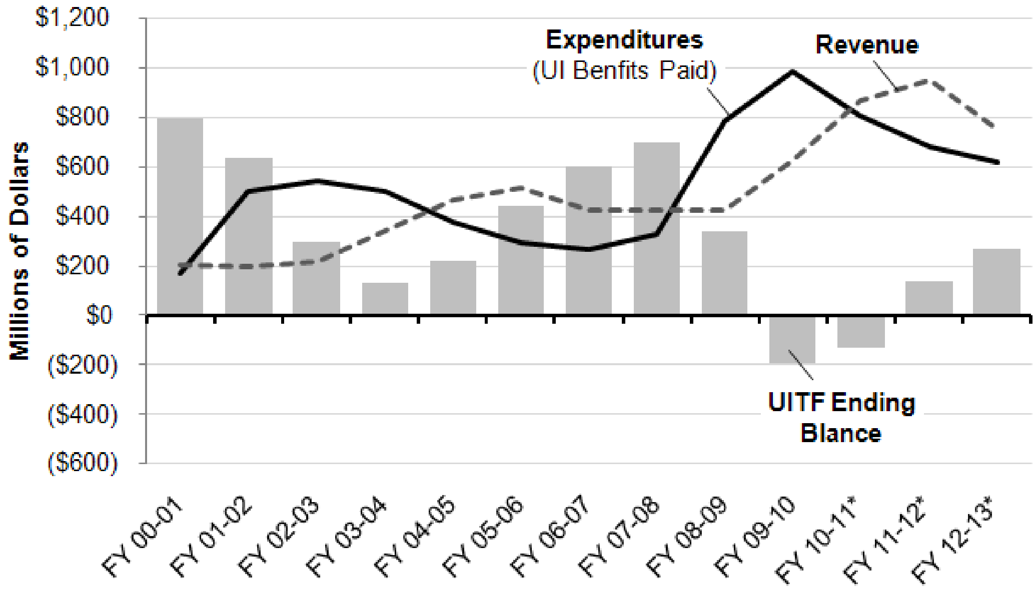
Until the 2011 legislative session, the funding structure for the unemployment insurance (UI) program had remained largely unchanged since 1999. UI premium and surcharge rates charged to businesses to fund the program are based on the Unemployment Insurance Trust Fund (UITF) balance. As a result of high levels of unemployment and layoffs during the 2007-2009 recession, the UITF became insolvent at the start of 2010. This caused the rates charged to businesses to increase to the highest levels in 2011. The following provides more information about the funding structure for the UI program and recent changes to the structure under House Bill 11-1288.

The Colorado UI program provides temporary and partial wage replacement to workers who have become unemployed through no fault of their own. The program is administered by the Division of Employment and Training within the Colorado Department of Labor and Employment. State laws that administer the program must conform to the federal provisions of the Federal Unemployment Tax Act and the Social Security Act.

UI benefits are paid from the UITF, which is funded through state UI premiums and surcharges and federal taxes paid by Colorado employers. Figure 1 shows a 10-year history and three-year forecast of revenue to and expenditures from the UITF as well as the UITF fiscal year-end balance. This figure illustrates that growth in revenue to the fund lags behind increases in benefits paid and shows that employers pay higher UI costs when the fund balance drops.

UITF insolvency and federal borrowing. The UITF became insolvent in January 2010 and is expected to remain insolvent until at least 2012 due to high levels of unemployment as a result of the 2007-2009 recession. To continue to meet UI benefit payment obligations, the state began borrowing from the federal Unemployment Trust Fund in mid-January 2010, and is expected to continue to borrow until state revenue sources can support UITF solvency. As of May 9, 2011, the state has over $368 million in outstanding federal loans. Under federal law, these loans must be fully repaid by November 10, 2012.

Figure 1
Unemployment Insurance Trust Fund Revenue, Expenditures and Balance



Source: Colorado Department of Labor and Employment and the State Controller's Office.
**Legislative Council Staff projections based on the March 2011 forecast.*

UI Program Funding Structure

The following provides a brief summary of the state and federal sources of revenue that have supported the UITF over the last several years. With the support of some federal funds, states may determine the funding structures of their UI programs so long as they maintain good standing in funding UI benefits.

Federal UI tax. The federal government charges a UI tax on employers on the first $7,000 of each employee's wage each year. These funds are distributed to states to cover administrative costs for implementing state UI programs. In Colorado, the current tax rate for employers is 0.8 percent. This percentage is net of a 5.4 percent tax credit for the state's good standing in administering UI benefits. If the state should lose its good standing, the rate charged to employers would rise to 6.2 percent. For example, if the state fails to repay its loans or fails to make good progress on repayment, the tax credit on the federal UI tax will be reduced and employers will be required to pay higher federal UI tax rates.

State funding (1999 to 2011). The state funding structure for Colorado's UI program remained largely unchanged from 1999 until 2011. Over this period, Colorado employers were charged three assessments against a **"wage base"** for each employee. From 1988 until 2011, the wage base was equal to the first $10,000 in employee wages. If an employee earns less than $10,000, then the premium rate is due on the total amount of wages paid to that employee.

The three state assessments supporting the state UI program are as follows:

- **UI premium:** The schedule of rates for the premium has not changed since 1991 (see Attachment A). These rates are based on an employers "experience rating" and the fiscal year-end (June 30) UI Trust Fund balance. An employer's experience rating is calculated as:

  $$\text{Employer Experience Rating} = \frac{\text{UI Premiums Paid - UI Benefits Claimed}}{\text{Average Payroll}}$$

  Employers who have laid off very few or no employees in recent years have high positive ratings (up to or exceeding +20), while employers who have laid off a large portion of their employees have high negative ratings (up to or exceeding -25).

- **"Socialized" surcharge**: Legislation in 1999 set the surcharge at a flat rate of 0.22 percent for all employers.

- **Solvency surcharge**: The solvency surcharge was set in statute in 1991 and, similar to the UI premium, rates are based on an employer's experience rating (see Attachment B). The solvency surcharge is triggered "on" when the fiscal year-end UITF balance falls below a statutory threshold level equal to 0.9 percent of total statewide private wages (currently about $715 million). Once triggered on, surcharge rates increase incrementally each year up to a maximum rate. The surcharge was first triggered on in 2003 and is projected to remain on until at least 2013. As of 2011, employers are being charged the maximum surcharge rates.

House Bill 11-1288. House Bill 11-1288 was passed during the 2011 legislative session. The bill is intended to bring the UITF into solvency sooner, to maintain a healthier fund balance, and to avoid higher assessment rates during future economic downturns. Under the bill, starting in 2012, the wage base is increased from the first $10,000 paid to an employee to the first $11,000. Additionally, when the fund balance becomes solvent and all federal loans are repaid, the bill:

- annually indexes the wage base to average weekly wage growth;
- consolidates the three UI assessments into two assessments; and
- creates new rate schedules for employers (see Attachment C).

Table 1 summarizes how state UI assessments will change over time under the bill.

Table 1
State UI Assessments

	1999 to 2011	2012 Until UITF Solvency & Loan Repayment	After Solvency & Loans Repayment
Wage Base	$10,000	$11,000	Indexed annually for wage growth
Regular UI Premium	Ranges from 0% to 4.5% (See Attachment A)		Ranges from 0.51% to 10.39% (See Attachment C)
"Socialized" Surcharge	Flat rate of 0.22 percent for all employers		Consolidated with the UI Premium
Solvency Surcharge	Ranges from 0% to 5.4% (See Attachment B)		Ranges from 0.1% to 2.7% (See Attachment C)

Why Did UI Costs to Employers Rise in 2011?

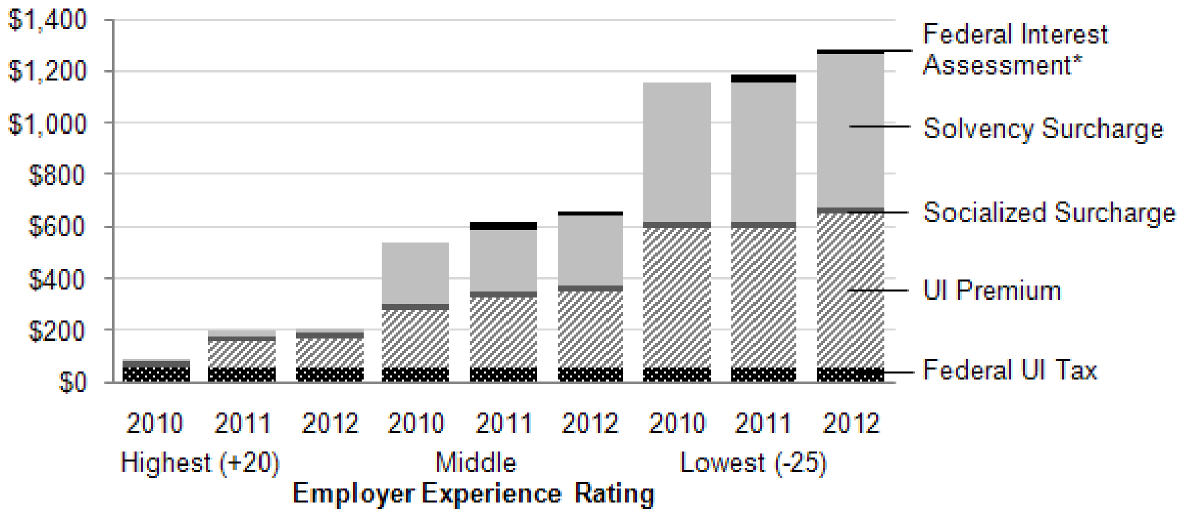
In 2011, UITF fund insolvency caused rate schedules to shift to the highest rates. Additionally, in 2011 many employers will be required to pay an assessment to cover interest costs on the federal loans supporting the UITF. The UITF is expected to remain insolvent for at least one more year, keeping rates at the highest schedules in 2012 and likely requiring future interest assessments.

Rate increases. In 2010, UI premium rates were at the third lowest schedule, based on a relatively healthy fund balance of $339.9 million as of June 30, 2009. However, the UITF became insolvent during 2010 due to unprecedented UI benefit expenditures from the job losses resulting from the 2007-2009 recession. The UI premium shifted to the highest rate schedule in 2011 (see Attachment A). In 2011, the solvency surcharge reached the maximum rates for employers, after seven consecutive years of being on (see Attachment B). These schedule shifts explain why rates increased for many employers between 2010 and 2011.

Federal interest assessment. While the federal government allowed states to borrow interest-free in 2010, states must begin paying interest on outstanding loans as of the start of 2011. Interest payments on these loans are due September 30, 2011. State law requires a separate assessment on employers to pay the interest. This assessment will likely occur this July and additional assessments will be necessary until federal loans are repaid in full. Employers with an experience rating above positive seven are exempt from this assessment.

Costs to employers. Figure 2 illustrates the per-employee UI program cost to employers based on an employer experience rating from 2010 to 2012. The figure reflects federal interest assessments in 2011 and 2012. Total costs rose in 2011 due to rate schedule shifts. Cost increases in 2012 reflect the increase in the wage base under House Bill 11-1288. Employers who laid off employees in recent years may move to lower experience ratings and may experience even greater cost increases.

Figure 2
Annual Unemployment Insurance Costs per Employee in 2010, 2011, and 2012



This figure is for illustrative purposes. Actual costs will vary by employer.

Employers with positive ratings will see greater percentage increases in rates in 2011 relative to those with negative experience ratings. This is because under the current rate schedule employers with negative ratings have higher rates that don't change much regardless of the fund balance, whereas employers with positive ratings experience incremental increases as the fund balance drops. For example, between 2010 and 2011, employers with an experience rating of +20 and above saw their UI premium rates increase from 0.0 percent to 1.0 percent, while those with the lowest rating did not experience any increases in their rates (rates remained at 5.4 percent for these employers).

The shift to the new rate schedule under House Bill 11-1288 will change this dynamic. Under the new schedule, UI premium rates will increase more for employers with negative ratings than those with positive ratings when the fund balance falls.

Attachment A
UI Premium Rate Schedule, 1991 to 2012

	2009 Rates			2010 Rates								2011 & 2012 Rates
				Unemployment Insurance Trust Fund Balance *(Millions of Dollars)*								
Employer Experience Rating	**$450 Plus**	**$396 to $450**	**$342 to $396**	**$306 to $342**	**$270 to $306**	**$234 to $270**	**$198 to $234**	**$162 to $198**	**$126 to $162**	**$90 to $126**	**$0 to $90**	**$0 or Deficit**
+20 or more	0.0%	0.0%	0.0%	0.0%	0.1%	0.2%	0.3%	0.3%	0.3%	0.3%	0.3%	1.0%
+19	0.0%	0.0%	0.0%	0.1%	0.2%	0.3%	0.3%	0.3%	0.3%	0.3%	0.3%	1.0%
+18	0.0%	0.0%	0.0%	0.1%	0.2%	0.3%	0.3%	0.3%	0.3%	0.3%	0.3%	1.0%
+17	0.0%	0.0%	0.1%	0.1%	0.3%	0.3%	0.3%	0.3%	0.3%	0.3%	0.3%	1.0%
+16	0.0%	0.0%	0.1%	0.1%	0.3%	0.3%	0.3%	0.3%	0.3%	0.3%	0.4%	1.1%
+15	0.0%	0.1%	0.1%	0.1%	0.3%	0.3%	0.3%	0.3%	0.3%	0.3%	0.5%	1.2%
+14	0.0%	0.1%	0.1%	0.1%	0.3%	0.3%	0.3%	0.3%	0.3%	0.4%	0.6%	1.3%
+13	0.1%	0.1%	0.1%	0.1%	0.3%	0.3%	0.3%	0.3%	0.4%	0.5%	0.7%	1.4%
+12	0.1%	0.1%	0.1%	0.1%	0.3%	0.3%	0.3%	0.4%	0.5%	0.6%	0.8%	1.5%
+11	0.1%	0.1%	0.1%	0.1%	0.3%	0.3%	0.4%	0.5%	0.6%	0.7%	0.9%	1.6%
+10	0.1%	0.1%	0.1%	0.2%	0.3%	0.4%	0.5%	0.6%	0.7%	0.8%	1.0%	1.7%
+9	0.1%	0.1%	0.2%	0.3%	0.4%	0.5%	0.6%	0.7%	0.8%	0.9%	1.1%	1.8%
+8	0.1%	0.2%	0.3%	0.4%	0.5%	0.6%	0.7%	0.8%	0.9%	1.0%	1.2%	1.9%
+7	0.2%	0.3%	0.4%	0.5%	0.6%	0.7%	0.8%	0.9%	1.0%	1.1%	1.3%	2.0%
+6	0.2%	0.4%	0.5%	0.6%	0.7%	0.8%	0.9%	1.0%	1.1%	1.2%	1.4%	2.1%
+5	0.3%	0.5%	0.6%	0.7%	0.8%	0.9%	1.0%	1.1%	1.2%	1.3%	1.5%	2.2%
+4	0.4%	0.6%	0.7%	0.8%	0.9%	1.0%	1.1%	1.2%	1.3%	1.4%	1.6%	2.3%
+3	0.7%	0.9%	1.0%	1.1%	1.2%	1.3%	1.4%	1.5%	1.6%	1.7%	1.9%	2.4%
+2	1.1%	1.2%	1.3%	1.4%	1.5%	1.6%	1.7%	1.8%	1.9%	2.0%	2.2%	2.5%
+1	1.5%	1.6%	1.7%	1.8%	1.9%	2.0%	2.0%	2.1%	2.2%	2.3%	2.5%	2.6%
+0	2.0%	2.1%	2.2%	2.3%	2.3%	2.4%	2.4%	2.5%	2.5%	2.6%	2.7%	2.7%
Unrated	1.7%	1.7%	1.7%	1.7%	1.7%	1.7%	1.7%	1.7%	1.7%	1.7%	1.7%	1.7%
0	2.8%	2.8%	2.8%	2.8%	2.8%	2.8%	2.8%	2.8%	2.8%	2.8%	2.8%	3.0%
-1	2.9%	2.9%	2.9%	2.9%	2.9%	2.9%	2.9%	2.9%	2.9%	2.9%	2.9%	3.1%
-2	3.0%	3.0%	3.0%	3.0%	3.0%	3.0%	3.0%	3.0%	3.0%	3.0%	3.0%	3.2%
-3	3.1%	3.1%	3.1%	3.1%	3.1%	3.1%	3.1%	3.1%	3.1%	3.1%	3.1%	3.3%
-4	3.2%	3.2%	3.2%	3.2%	3.2%	3.2%	3.2%	3.2%	3.2%	3.2%	3.2%	3.4%
-5	3.3%	3.3%	3.3%	3.3%	3.3%	3.3%	3.3%	3.3%	3.3%	3.3%	3.3%	3.5%
-6	3.4%	3.4%	3.4%	3.4%	3.4%	3.4%	3.4%	3.4%	3.4%	3.4%	3.4%	3.6%
-7	3.5%	3.5%	3.5%	3.5%	3.5%	3.5%	3.5%	3.5%	3.5%	3.5%	3.5%	3.7%
-8	3.6%	3.6%	3.6%	3.6%	3.6%	3.6%	3.6%	3.6%	3.6%	3.6%	3.6%	3.8%
-9	3.7%	3.7%	3.7%	3.7%	3.7%	3.7%	3.7%	3.7%	3.7%	3.7%	3.7%	3.9%
-10	3.8%	3.8%	3.8%	3.8%	3.8%	3.8%	3.8%	3.8%	3.8%	3.8%	3.8%	4.0%
-11	3.9%	3.9%	3.9%	3.9%	3.9%	3.9%	3.9%	3.9%	3.9%	3.9%	3.9%	4.1%
-12	4.0%	4.0%	4.0%	4.0%	4.0%	4.0%	4.0%	4.0%	4.0%	4.0%	4.0%	4.2%
-13	4.1%	4.1%	4.1%	4.1%	4.1%	4.1%	4.1%	4.1%	4.1%	4.1%	4.1%	4.3%
-14	4.2%	4.2%	4.2%	4.2%	4.2%	4.2%	4.2%	4.2%	4.2%	4.2%	4.2%	4.4%
-15	4.3%	4.3%	4.3%	4.3%	4.3%	4.3%	4.3%	4.3%	4.3%	4.3%	4.3%	4.5%
-16	4.4%	4.4%	4.4%	4.4%	4.4%	4.4%	4.4%	4.4%	4.4%	4.4%	4.4%	4.6%
-17	4.5%	4.5%	4.5%	4.5%	4.5%	4.5%	4.5%	4.5%	4.5%	4.5%	4.5%	4.7%
-18	4.6%	4.6%	4.6%	4.6%	4.6%	4.6%	4.6%	4.6%	4.6%	4.6%	4.6%	4.8%
-19	4.7%	4.7%	4.7%	4.7%	4.7%	4.7%	4.7%	4.7%	4.7%	4.7%	4.7%	4.9%
-20	4.8%	4.8%	4.8%	4.8%	4.8%	4.8%	4.8%	4.8%	4.8%	4.8%	4.8%	5.0%
-21	4.9%	4.9%	4.9%	4.9%	4.9%	4.9%	4.9%	4.9%	4.9%	4.9%	4.9%	5.1%
-22	5.0%	5.0%	5.0%	5.0%	5.0%	5.0%	5.0%	5.0%	5.0%	5.0%	5.0%	5.2%
-23	5.1%	5.1%	5.1%	5.1%	5.1%	5.1%	5.1%	5.1%	5.1%	5.1%	5.1%	5.3%
-24	5.2%	5.2%	5.2%	5.2%	5.2%	5.2%	5.2%	5.2%	5.2%	5.2%	5.2%	5.4%
-25	5.3%	5.3%	5.3%	5.3%	5.3%	5.3%	5.3%	5.3%	5.3%	5.3%	5.3%	5.4%
-25 or more	5.4%	5.4%	5.4%	5.4%	5.4%	5.4%	5.4%	5.4%	5.4%	5.4%	5.4%	5.4%

Note: Premium rates are applied to the first $10,000 of each employee's wages (the state wage base) until 2011 and the first $11,000 of each employee's wages in 2012.

Attachment B
Solvency Surcharge Rate Schedule, 1991 to 2012

Employer Experience Rating	Annual Rate Increase when On	2011 & 2012 Rates Rate Limit
+20 or more	0.0%	0.2%
+19 through +11	0.1%	0.3%
+10	0.1%	0.4%
+9	0.1%	0.5%
+8	0.1%	0.6%
+7	0.1%	0.7%
+6	0.2%	0.8%
+5	0.2%	0.9%
+4	0.2%	1.0%
+3	0.3%	1.3%
+2	0.3%	1.6%
+1	0.4%	2.0%
+0	0.5%	2.4%
Unrated	0.6%	2.7%
-0	0.6%	2.8%
-1	0.6%	2.9%
-2	0.6%	3.0%
-3	0.6%	3.1%
-4	0.6%	3.2%
-5	0.7%	3.3%
-6	0.7%	3.4%
-7	0.7%	3.5%
-8	0.7%	3.6%
-9	0.7%	3.7%
-10	0.8%	3.8%
-11	0.8%	3.9%
-12	0.8%	4.0%
-13	0.8%	4.1%
-14	0.8%	4.2%
-15	0.9%	4.3%
-16	0.9%	4.4%
-17	0.9%	4.5%
-18	0.9%	4.6%
-19	0.9%	4.7%
-20	1.0%	4.8%
-21	1.0%	4.9%
-22	1.0%	5.0%
-23	1.0%	5.1%
-24	1.0%	5.2%
-25	1.1%	5.3%
-25 or more	1.1%	5.4%

Note: Solvency surcharge rates are applied to the first $10,000 of each employee's wages (the state wage base) until 2011 and the first $11,000 of each employee's wages in 2012. The solvency surcharge is triggered "on" when the UITF balance falls below an amount equal to 0.9 percent of total statewide private wages (currently about $715 million).

Attachment C
UI Premium and Solvency Surcharge Rate Schedules, After Fund Solvency and Federal Loans are Repaid

Employer Experience Rating	UI Premium Rates Ratio of the UITF Balance to Total Private Wages 0.014 or Greater	0.011 to 0.014	0.008 to 0.011	0.006 to 0.008	0.004 to 0.006	0.000 to 0.004	0.000 to Deficit	Solvency Surcharge Rate*
+20 or more	0.51%	0.56%	0.58%	0.62%	0.66%	0.71%	0.75%	0.100%
+18 to +19	0.57%	0.62%	0.64%	0.69%	0.73%	0.78%	0.82%	0.150%
+16 to +17	0.58%	0.63%	0.65%	0.70%	0.74%	0.79%	0.84%	0.150%
+14 to +15	0.61%	0.67%	0.69%	0.75%	0.80%	0.86%	0.91%	0.150%
+12 to +13	0.66%	0.72%	0.75%	0.82%	0.88%	0.95%	1.01%	0.150%
+10 to +11	0.75%	0.83%	0.87%	0.94%	1.02%	1.10%	1.18%	0.175%
+8 to +9	0.95%	1.05%	1.10%	1.20%	1.30%	1.40%	1.50%	0.275%
+6 to +7	1.16%	1.29%	1.35%	1.48%	1.60%	1.73%	1.86%	0.375%
+4 to +5	1.38%	1.54%	1.61%	1.77%	1.92%	2.07%	2.23%	0.475%
+2 to +3	1.93%	2.14%	2.25%	2.47%	2.69%	2.91%	3.13%	0.725%
+0 to +1	2.71%	3.02%	3.17%	3.48%	3.79%	4.10%	4.41%	1.100%
Unrated	2.96%	3.26%	3.42%	3.73%	4.03%	4.34%	4.65%	1.350%
-0 to -1	3.46%	3.86%	4.06%	4.47%	4.87%	5.27%	5.68%	1.425%
-2 to -3	3.68%	4.12%	4.33%	4.76%	5.19%	5.62%	6.06%	1.525%
-4 to -5	3.91%	4.37%	4.60%	5.06%	5.52%	5.98%	6.44%	1.625%
-6 to -7	4.14%	4.62%	4.87%	5.35%	5.84%	6.33%	6.82%	1.725%
-8 to -9	4.36%	4.88%	5.14%	5.65%	6.17%	6.68%	7.20%	1.825%
-10 to -11	4.59%	5.13%	5.40%	5.95%	6.49%	7.03%	7.58%	1.925%
-12 to -13	4.81%	5.39%	5.67%	6.24%	6.81%	7.38%	7.96%	2.025%
-14 to -15	5.04%	5.64%	5.94%	6.54%	7.14%	7.74%	8.34%	2.125%
-16 to -17	5.27%	5.89%	6.21%	6.83%	7.46%	8.09%	8.72%	2.225%
-18 to -19	5.49%	6.15%	6.48%	7.13%	7.79%	8.44%	9.10%	2.325%
-20 to -21	5.72%	6.40%	6.74%	7.43%	8.11%	8.79%	9.48%	2.425%
-22 to -23	5.94%	6.66%	7.01%	7.72%	8.43%	9.14%	9.86%	2.525%
-24 to -25	6.17%	6.90%	7.27%	8.01%	8.75%	9.49%	10.23%	2.625%
-25 or more	6.28%	7.03%	7.40%	8.15%	8.90%	9.64%	10.39%	2.700%

Note: Rates are applied to the first $11,000 each employee's wages (the state wage base), indexed each year by average weekly wage growth.

*The solvency surcharge is triggered "on" when the UITF balance falls below an amount equal to 0.5 percent of total statewide private wages (currently about $400 million).

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