Unemployment Compensation Fund

Department of Workforce Services

Unemployment Insurance Overview

- Unemployment Insurance (UI) is a joint state and federal program that provides economic stability to Utah's workforce.
- Contributions (taxes) are collected from Utah employers through the state unemployment program to exclusively pay benefits to individuals who are unemployed through no fault of their own.

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Background

- No federal requirements for the amount of funds that should be kept in a state's trust fund
- Each state operates on a forward funding basis by building up reserves in anticipation of paying a higher amount of benefits during recessionary periods

Source: DOL Report on Trust Fund Solvency 2020

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Consistencies

- In all states:
  - Employers pay a contribution rate based on “experience”
  - New employers pay a “new employer rate” until they meet requirements for experience
  - Employers who overpay are entitled to a refund
  - Employers are subject to penalties for delay or default of payment
- In some states:
  - Additional contributions are required when fund levels drop to specified points
  - Collect additional taxes that are not deposited in the fund and are sometimes used for employment and training

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Variation

- The following vary by state:
  - Taxable Wage base
    - Almost all states have a higher wage base than the minimum (from $7,000 - $52,700)
      - Utah's base: $36,600
    - Some states adjust annually
  - Tax rates for experience
    - Federal law allows additional credits if rates are based on 3+ years
    - Formulas vary widely by state with four distinct systems
      - Reserve-ratio – [(contributions minus benefits charged) divided by payroll] – most popular (31 states)
      - Benefit-ratio – (benefits charged divided by employer's payroll); removes contributions from formula to directly relate benefits to payrolls. Theory says if employer pays a rate that approximates benefit ratio, the program will be adequately financed. Utah and 19 other states use this.
      - Benefit-wage-ratio – assesses variable rates to raise equivalent of total amount of benefits paid. Two states.
      - Payroll variation ratio – Does not look at benefits paid; compares payroll quarter to quarter and compares experience across employers; those with no decrease are eligible for largest proportional reductions.

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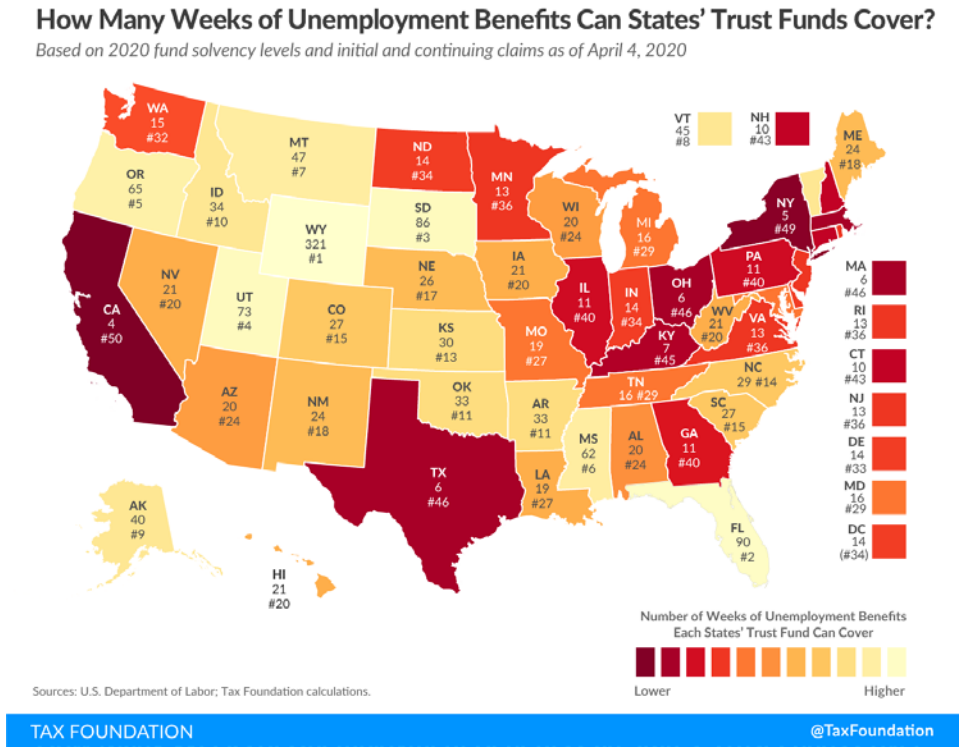
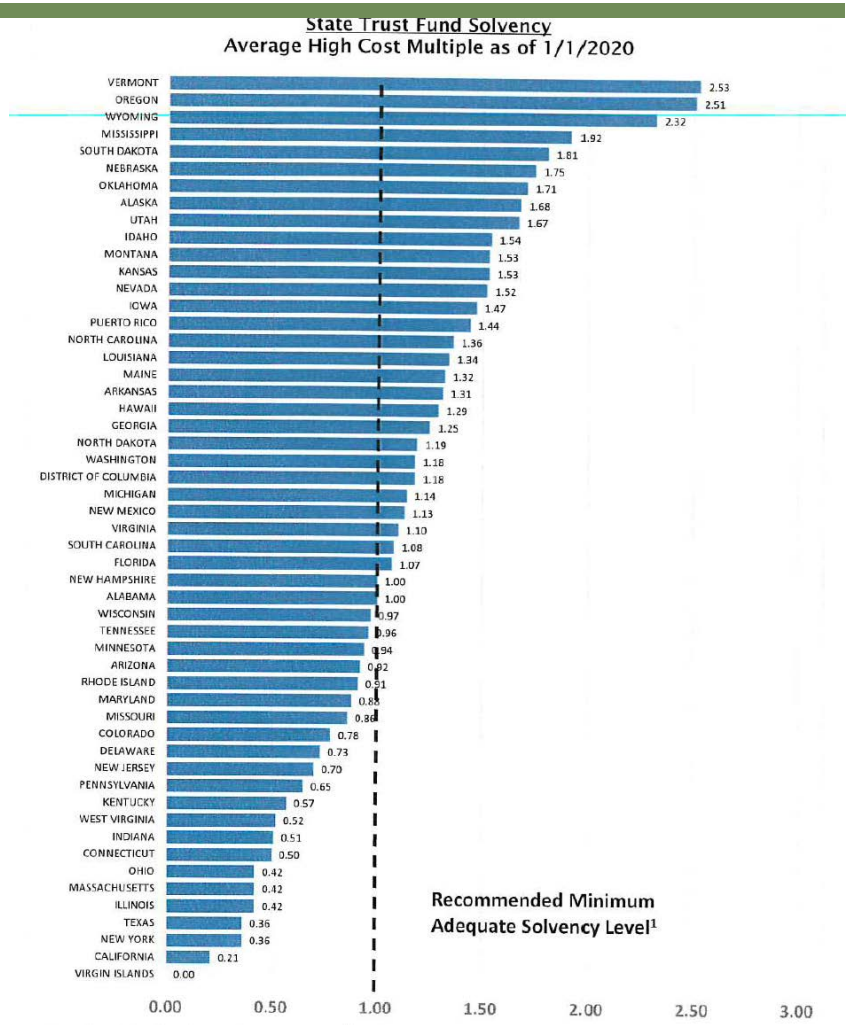
Weeks of Benefits States can Cover

- Six states (accounting for 1/3 of the US population) can cover fewer than 10 weeks of benefits
  - MA, TX, OH 6; NY: 5; CA 4
- Six states could pay out benefits for a year or more
  - WY 321; FL 90; SD 86; UT 73; OR 65; MS 62



Average High Cost Multiple

- A high cost multiple of 1.0 means that a state has a one-year reserve at its historically highest level of benefit payments without relying upon UI payroll tax revenues
- Utah: 1.67 (9th)
- 31 states are at or greater than the recommended minimum solvency
- 22 states and jurisdictions are below the recommended standard



Evaluating States' UI Trust Fund Solvency

Status of State Trust Fund (11 vars.)

- Dollar amount of the fund at the beginning of the year
  - Not a very useful measure; no comparison to liability or size
- Amount of interest earned in previous fiscal year
- Amount of federal advances (7 items)
- Private sector borrowing to repay the federal government (2 items)
  - Eight states used the private market to finance UI debt after the last recession

State's Solvency Measure (2 vars.)

- Reserve Ratio
  - The trust fund balance as a percentage of state's total wages
  - This measure can be compared against the level of benefits paid in the year divided by the same yearly wages (referred to as the Benefit Cost Rate)
- Minimum level for adequate state solvency going into a recession

Calculations of Federal Borrowing Statutes

FUTA Credit Reductions

Source: DOL Report on Trust Fund Solvency 2020

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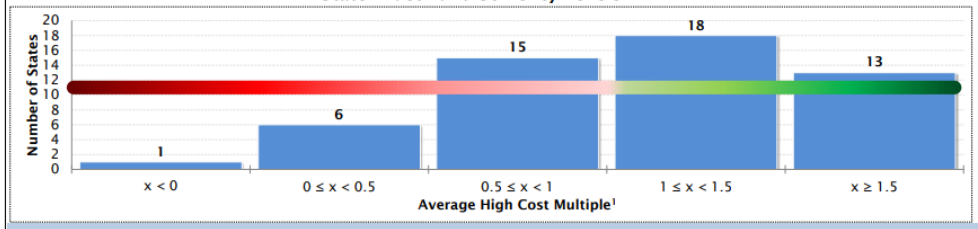
UNITED STATES

Trust Fund Status

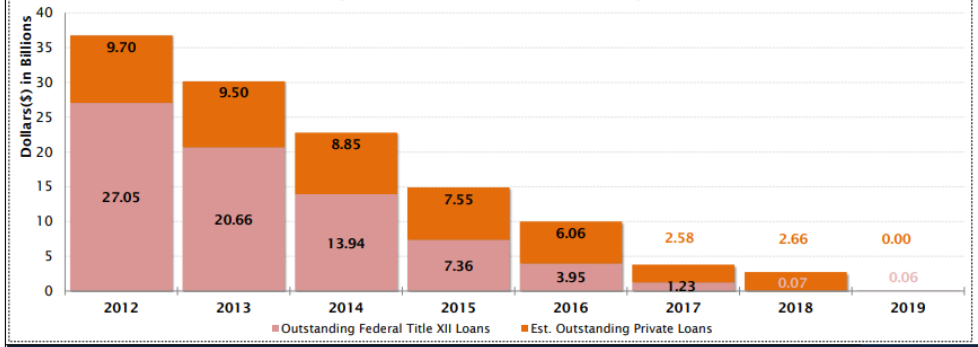
1) 2019 Year End Aggregate State Trust Fund Balances:	$75,677,289,747	2) Aggregate Interest Earned for 2019:	$1,752,317,247
3) 2019 Year End Outstanding Title XII Advances:	$63,278,073	4) Title XII Interest Owed for FY2019:	$1,448,711
		4b) Total Interest Paid since Jan 2008:	$3,898,263,588
5) Total Title XII Advances since 12/31/2007:	$153,912,109,371	6) Total Max. Amt. of Outstanding Advances:	$47,200,150,556
7) Title XII Advances Per Cov. Employee:	$0.53	8) Date of Maximum Outstanding Amount:	3/31/2011
9) Title XII Advances as % of Cov. Wages:	0.001%	10) Total Non Title XII Debt Issued Since 2010:	$11,445,420,000
		11) Est. Amt. of Non-Title XII Debt Outstanding[1]:	$0

State Trust Fund Solvency

State Trust Fund Solvency Levels



Total Outstanding UI Debt
(Title XII and Estimated Non-Title XII Debt[2])



Calculations of Federal Borrowing Statutes and FUTA Credit Reductions

Eligibility for Interest Free Borrowing in 2020

12) Number of States Eligible for Interest Free Borrowing in 2020[3]:	31

FUTA Credit Reductions

13)	Number of States with Credit Reduction Due to Outstanding Loans	Number of States with 2.7% Add-on	Number of States with BCR Add-on
2018	1	0	0
2019	1	0	0
Potential 2020[4]	1	0	1

1. Average High Cost Multiple (AHCM) value- uses actual trust fund balances as of 12/31/2019 and estimated wages for CY2019. This measure compares the state trust fund level to the average of the three highest years of benefit payments.
2. Non-Title XII Advances includes all private market Revenue Bonds and loans.
3. States that have met the interest free borrowing conditions of an AHCM of 1.0 in last five years and tax maintainence criteria.
4. Credit reductions apply only to states with outstanding loans as of January 1, 2020, and those not repaying their loan as of November 10, 2020.

DOL Trust Fund Solvency Report 2020

The federal unemployment tax (FUTA) rate is 6 percent for experienced and new employers

With a maximum 5.4 percent credit, the lowest effective federal unemployment tax rate for experienced and new employers is 0.6 percent

UTAH

State Trust Fund Status

1) UI Trust Fund Balance as of 1/1/2020:	$1,172,615,481	2) Interest Earned for 2019:	$27,643,897
3) Outstanding Title XII Advance as of 1/1/2020:	$0	4) Title XII Interest Owed for FY2019:	$0
5) Total Title XII Advances Since 12/31/2007:	$0	6) Max. Amount of Outstanding Advances:	
7) Title XII Advances Per Cov. Employee:	$0.00	8) Date of Maximum Outstanding Amount:	
9) Title XII Advances as % of Cov. Wages:	0.00%	10) Non Title XII Debt Issued Since 2010:	$0
		11) Est. Amt. of Non-Title XII Debt Outstanding[1]:	$0

State Trust Fund Solvency

12) Trust Fund Balance Compared to Yearly Benefit Costs

13) Solvency Level - Using Average High Cost Multiple[2]

Calculations of Federal Borrowing Statutes and FUTA Credit Reductions

Eligibility for Interest Free Borrowing in 2020

14) Last year in which State achieved a 1.0 Avg. High Cost Multiple[3]:	2019
15) Lowest Percentage Avg. Tax rate is of the Previous 5 yr. Ben Cost Rate (>75% elig. Req.)	N/A*
16) Lowest Percentage Avg. Tax Rate is of the Previous Avg. Year's Tax Rate (>80% elig. Req.)	N/A*
	Eligible

FUTA Tax Rate

17)	Credit Reduction Due to Outstanding Loans	2.7% Add-on	BCR Add-on	Total Credit Reduction	FUTA Tax Rate[4]
2018	0.0%	0.0%	0.0%	0.00%	0.6%
2019	0.0%	0.0%	0.0%	0.00%	0.6%
Potential 2020[5]	0.0%	0.0%	0.0%	0.00%	0.6%

1. Estimated from original Bond issue information from: http://emma.msrb.org/
2. Average High Cost Multiple (AHCM) value- uses actual trust fund balances as of 12/31/2019 and estimated wages for CY2019. This measure compares the state trust fund balance to the average of the three highest years of benefit payments.
3. Must occur in the last 5 years to be eligible for an interest free loan.
4. Represents the difference between total FUTA credit (with any reductions) and the FUTA tax rate of 6.0%.
5. Credit reductions apply only to states with outstanding loans as of January 1, 2020, and not repaid by November 10, 2020.

* Not Applicable

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Employer Contribution Rates

Utah is 44th (ranked high to low)

ESTIMATED EMPLOYER CONTRIBUTION RATES

CALENDAR YEAR 2019

Rank	State	Tax Rate as a Percent of total wages
1	Virgin Islands	1.37
2	Vermont	1.30
3	Oregon	1.25
4	Pennsylvania	1.10
5	Rhode Island	1.06
6	Nevada	1.05
7	West Virginia	0.88
8	Massachusetts	0.86
9	Connecticut	0.82
10	Puerto Rico	0.80
10	Hawaii	0.78
12	North Dakota	0.76
13	Wyoming	0.72
14	Montana	0.71
15	Iowa	0.68
16	New Jersey	0.67
17	Alaska	0.63
17	Idaho	0.62
19	Michigan	0.62
20	Maine	0.59
20	Washington	0.57
22	California	0.55
22	Minnesota	0.55
24	Illinois	0.54
25	New Mexico	0.54
25	Ohio	0.52
25	Kansas	0.49
28	Wisconsin	0.49
29	Delaware	0.47
30	South Carolina	0.46
31	Arkansas	0.42
32	Oklahoma	0.42
32	Kentucky	0.41
34	Colorado	0.40
35	Indiana	0.39
36	New York	0.38
36	Texas	0.37
36	District of Columbia	0.33
39	Maryland	0.32
39	Louisiana	0.31
41	Missouri	0.30
42	Arizona	0.29
42	Alabama	0.26
44	Utah	0.24
45	New Hampshire	0.23
46	North Carolina	0.23
47	Georgia	0.22
47	South Dakota	0.20
47	Virginia	0.20
50	Nebraska	0.19
51	Mississippi	0.18
52	Tennessee	0.16
53	Florida	0.10

US Average 0.47%

UNITED STATES DEPARTMENT OF LABOR

EMPLOYMENT AND TRAINING ADMINISTRATION

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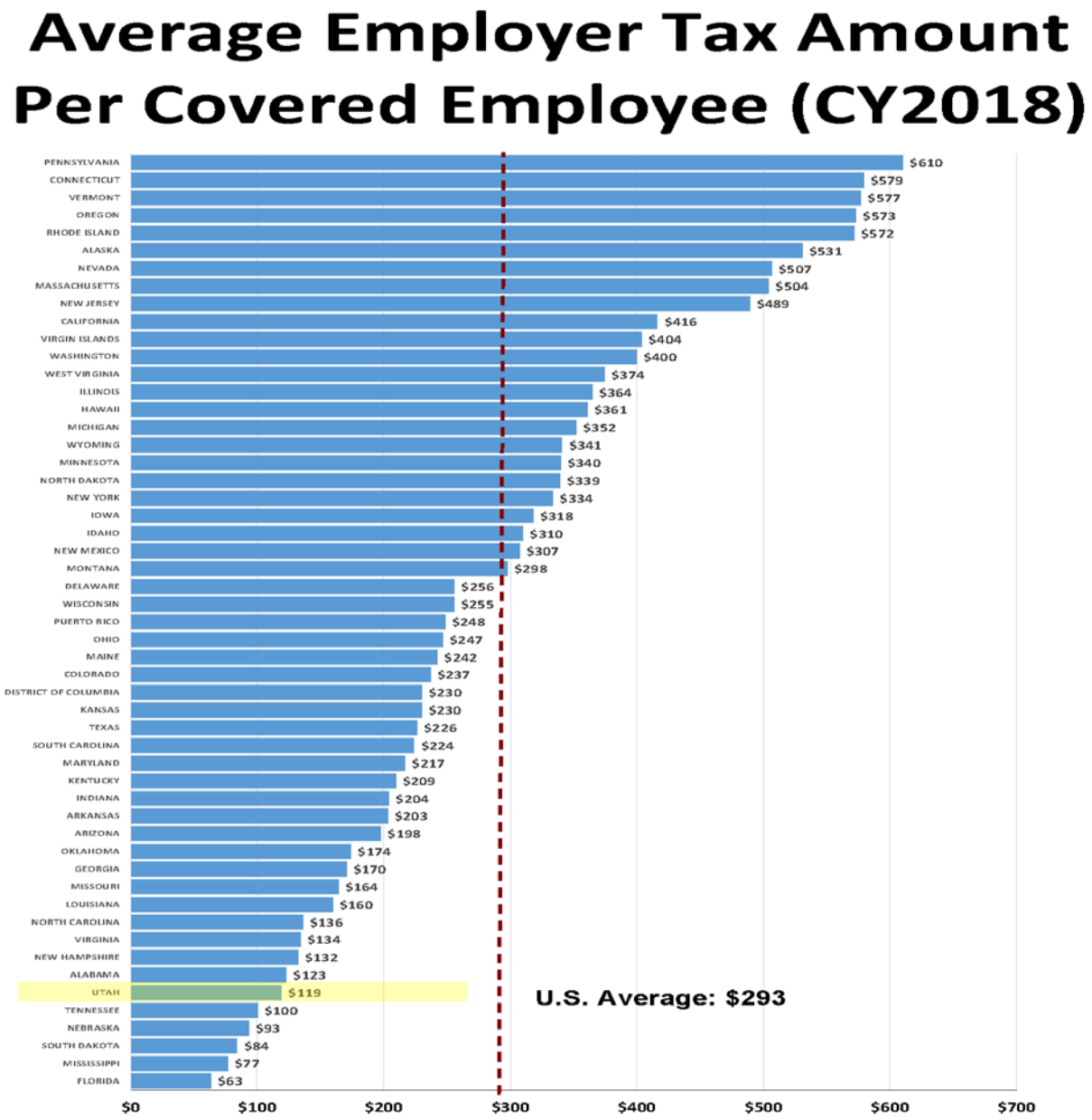
DOL Average Employer Tax Amount Per Covered Employee



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UTAH UNEMPLOYMENT INSURANCE

UTAH RANKS

7TH HIGHEST
in trust fund solvency

yet has the

6TH LOWEST
tax rate for employers

average employer tax amount per covered employee

$119 UTAH

$293 U.S. AVG. **$610** HIGHEST STATE

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Reasons For Low Tax Rate While Maintaining Trust Fund Solvency

- Program design
  - During the last recession over 38 states/territories trust funds went insolvent (72%), Utah's did not
  - The formula responded well to the recent long economic run
- Utah Average Benefit Duration – 12.4 weeks
  - National Average Duration – 15.4 Weeks
- Utah Average Exhaustion Rate – 26.3%
  - National Average Duration Rate – 36.0%
- Utah has the 4th lowest Improper Payment Rate in the nation

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Statutory Governance

- UCA 35A-4-501 – Unemployment Compensation Fund
  - Funds shall be used exclusively for the payment of unemployment benefits and refunds of contributions
- UCA 35A-4 – Employment Security Act
  - Formula for employer contribution rate
  - Formula for reserve factor (adequacy of reserve)
  - Defines payments in lieu of contributions for nonprofits, governmental units, and Indian tribal units
  - Formula for computation of benefits
  - Defines eligibility for benefits

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