



Unemployment Insurance

Brief Overview

**OFFICE OF LEGISLATIVE RESEARCH
AND GENERAL COUNSEL**

Economic Development and Workforce Services Interim

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UI Overview

- Employers pay premiums in the form of quarterly payroll contributions (payroll taxes) to the Department of Workforce Services (DWS)
- Contributions go into a trust fund (Unemployment Compensation Fund)
- Unemployed workers file weekly for a benefit through DWS
- Eligible unemployed workers receive a weekly benefit through direct deposit or debit card paid from the trust fund
- Payroll tax rates change, in part, based on sufficient reserves in the trust fund



UI Overview

- **Benefits aren't need based**
- **Recipients qualify based on earning sufficient wages over a look-back period of wages earned and then becoming unemployed through no fault of their own**
- **State benefit maximum ranges from 10 weeks to 26 weeks**



UI Tax Rates

(Benefit Costs/Taxable Wages) X Reserve Factor + Social Rate = Overall Tax Rate

EMPLOYERS WHO HAVE LAID OFF WORKERS PAY (maximum 7%):

- **Benefit Costs:** Unemployment benefits paid to former employees that are charged to the employer's account for the previous four fiscal years ending June 30th.
- **Taxable Wages:** Total taxable wages reported by the employer for the previous four fiscal years ending June 30th.
- **Reserve Factor:** A multiplier (factor), which is adjusted up or down on an annual basis depending on the overall health of the UI Trust Fund balance. That formula is based on maintaining a balance in the Trust Fund that can fund 18 to 24 months of benefits during a severe economic downturn. The Reserve Factor is set at 1.0 when the Trust Fund balance falls between the Maximum and Minimum Adequate Reserve levels.

EVERYONE PAYS:

- **Social Rate:** This rate is determined by benefit costs that cannot be charged to specific employers and is added to the UI tax rate for all employers; this is the minimum tax rate available.



UI Tax Rates

- Tax is paid on first \$36,600 of an employee's wages
- Significant part of the tax rate is state UI benefits paid to employer's former employees over past four years (experience rate)
- Reserve factor is currently 1
- Social rate is at historic low .1% (.001)
- Rates are set on June 30 (end of fiscal year), but don't start till next calendar year



Pandemic Effect on Tax Rate

- **Due primarily to COVID-19 pandemic, record number of unemployment claims**
- **All unemployment during pandemic has been treated by DWS as socialized costs**
- **Rates will be set at the end of this month for 2021**
- **If current statute unchanged, for 2021, social rate is estimated to increase to .3% (.003) and reserve rate will increase to 1.15**



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