IMPACTS OF COLORADO UNEMPLOYMENT INSURANCE TRUST FUND INSOLVENCY

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"Dependent upon the timing, severity, and duration of the next recession, the [Unemployment Insurance] trust fund may again become insolvent and borrowing will be required to make legally obligated benefit payments. This will inflict substantial costs to employers in the form of various surcharges, administrative costs, and interest expenses. These will take effect at the same time the premium rate schedules shift to their highest levels thereby compounding the financial stress upon employers." – CDLE Annual Report, 2019

Key Findings:

- The Unemployment Insurance trust fund, from which unemployment benefits are paid, stands to go insolvent soon—likely before the end of June.
- When it does, should the current law remain effective, businesses statewide will be required to pay higher premium rates and be assessed additional insolvency surcharges to help compensate for the fund's shortfalls. These together will total about $839,200,000 in 2021, an increase of over $300,000,000 from the current year.
- SB20-207, a proposed temporary change in rate-setting policy, would ease the private sector's burden by over $100,000,000 in 2021, yet would lead to an increase of $800,000,000 or more by 2025.
- Under current law and economic forecasts,the UI trust fund could remain underwater for a decade while employer contribution rates continue to be set at highest level.
- An effective annual tax of just $100,000,000 upon Colorado's businesses sustained over five years will cost the state up to 2,200 jobs.

Due to the sustained economic shutdown mandated for the sake of public health and disease prevention, hundreds of thousands of Coloradoans suddenly lost their jobs and have applied for unemployment benefits. Steep new demand for benefit payments and a decrease of similar magnitude in the amount of money in premiums that firms can pay into the unemployment insurance trust fund, the already-unstable fund has in **very short order been drained almost completely, and will likely be left insolvent by the end of June.**

The mechanism in law for recovering UI fund reserves below the point of insolvency is to increase premium rates for all firms and levy upon them a surcharge for every year until the fund is no longer indebted. Should the state opt to rely only upon these increased fees and surcharges, businesses will continue to have to pay the large amounts of additional money required for **perhaps a whole decade or more**, depending upon how quickly the economy recovers from the shocks of lockdown.

Accepting federal loans to supplement the fund's repletion could ease the magnitude and duration of the heavy burden that economic recovery will place upon Colorado's private sector. The state government has a strong incentive to accept these loans, since they will not accrue interest through the remainder of 2020. Though businesses will eventually have to contribute to repaying any loans the state takes, the additional costs they face as a result will be less severe and re-hiring less financially onerous than without the relative easing that federal loans will supply.

Under current law, several contribution increases described in statute are set to effectuate due to the anticipated insolvency or near-insolvency of the fund by the end of the month. Based upon the May forecast from the Colorado Legislative Council Staff[i], the increases in emergency surcharges and base UI premiums will be as follows.

Total Increase in UI Payments Under Current Law in 2021	
	Amount
Increase in Total UI Base Premiums:	$160,500,000
Total Surcharges:	$147,200,000
Total Additional Payments:	**$307,700,000**
Total UI Contributions (Additional Payments + Base Premiums):	**$839,200,000**

The premium level is determined by both the solvency of the UI trust fund and the degree to which a specific company has been a net contributor to or beneficiary of the trust fund based on its employment history, referred to as the experience rating. Based upon that rating, which will not change this year because of a recent law which effectively froze those ratings because of the crisis, the following tables shows the impacts on contributions on a per-employee basis.

Payment Increases per Employee Due to Insolvency, 2021		
	Firm with Lowest Experience Rating	Firm with Highest Experience Rating
Additional premium per employee:	$713.27	$35.29
Surcharge per employee:	$151.73	$7.51
Total:	**$865.00**	**$42.80**

<u>A firm with the lowest premium rate based upon its experience rating would pay $42.80 more per employee than before, and a firm with the highest premium rate would pay $865.00 more.</u> For those firms subject to the lowest premium rates:

Payment Increases for Firms with the Highest Experience Rating			
Size of Firm	Additional UI Premium Paid due to Fund Insolvency	Current UI Premium	Total Premium Paid, 2021
1	$42.80	$78.80	$120.60
5	$214.00	$394.00	$603.00
20	$856.00	$1,576.00	$2,412.00
100	$4,280.00	$7,880.00	$12,060.00
1000	$42,800.00	$78,800.00	$120,600.00

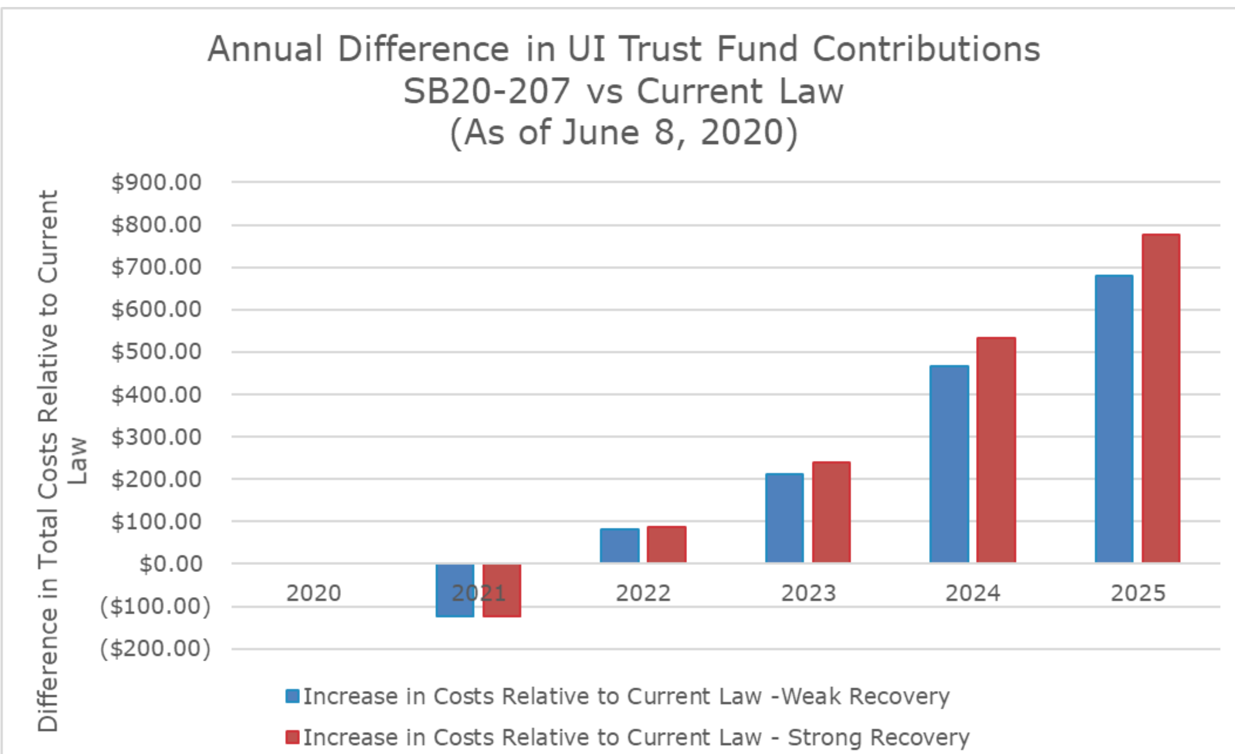
For those subject to the highest premium rates:

Payment Increases for Firms with the Lowest Experience Rating			
Size of Firm	Additional UI Premium Paid due to Fund Insolvency	Current UI Premium	Total Premium Paid, 2021
1	$865.00	$1,007.00	$1,872.00
5	$4,325.00	$5,035.00	$9,360.00
20	$17,300.00	$20,140.00	$37,440.00
100	$86,500.00	$100,700.00	$187,200.00
1000	$865,000.00	$1,007,000.00	$1,872,000.00

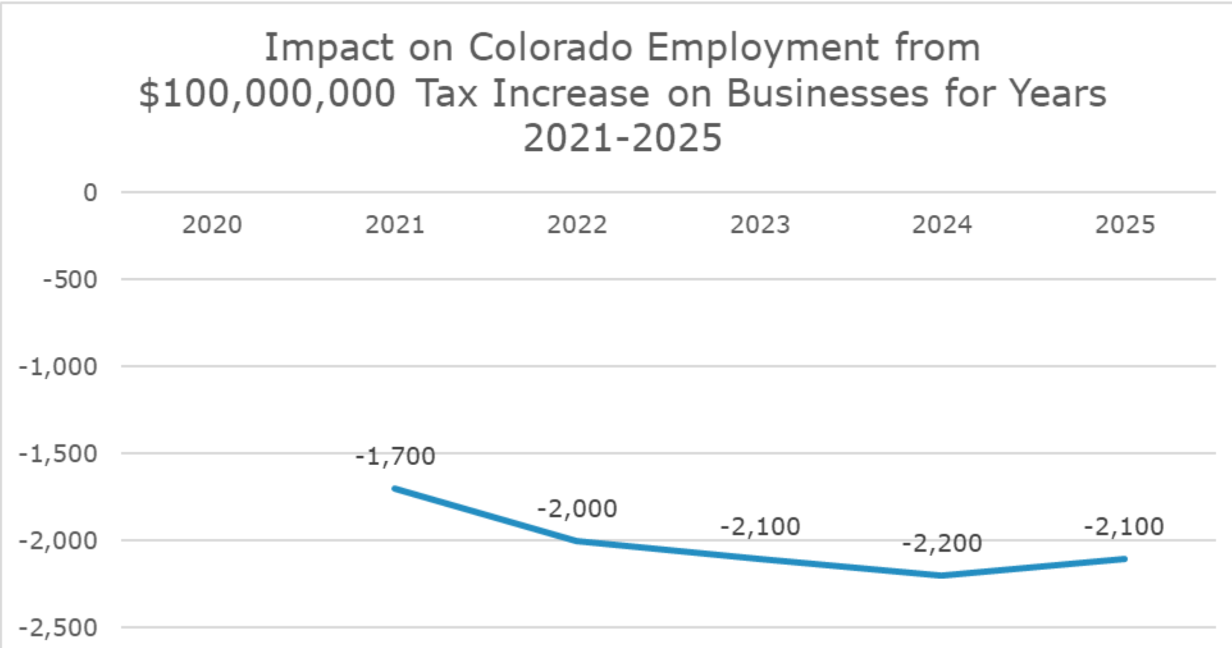
The state estimates that about 198,507 additional people will be hired in 2021; due to the necessary universal rate increases, this volume of hiring would cost the private sector about $11,724,016 more than it would have under pre-pandemic circumstances.

In 2019, Colorado collected $654,749,329 from corporate income taxes. In 2021, the state stands to collect almost half that much ($316,200,000) from the additional UI premiums firms will have to pay due to the insolvency rate changes alone.

Proposals to change current law governing the unemployment insurance trust fund and its impact on the economic recovery and long-term financial solvency are moving quickly. **SB20-207 proposes** a series of changes to lower total contributions in the near-term but increase them substantially in future years. The following table shows the impact of this proposal as of June 8th, 2020, relative to current law. Estimates were provided to bill sponsors by CDLE. The two bars show the difference in premium contributions based upon a stronger or weaker economic recovery which impacts the solvency of the fund and the rate-setting formulas.



While the UI trust fund must be replenished, the tax increase on businesses comes with a growing cost, which offsets the ability of firms to rehire to the level seen prior to the pandemic. Simulations from the REMI dynamic economic model estimate that a sustained $100,000,000 tax increase on businesses from 2021 through 2025 would reduce total employment by up to 2,200 jobs.



While SB20-207 does reduce contributions in the next year, when the impacts of the current pandemic are expected to be most severe, it includes a contribution schedule which current projections suggest would grow into an $800,000,000 tax increase by 2025.

Paying for the sustained benefit claims, repaying the anticipated federal loans, and replenishing the UI trust fund are essential. However, there are several confounds within the current debate which complicate the ability to determine exactly where the solvency of the fund will stand and how aggressive contribution increases will need to be.

- How much money in federal loans will be required?
- What will be the interest rates associated with the loans given the 0% interest incentive through the current calendar year?
- While opportunity to use current federal stimulus money may have passed, will further federal action be taken to reduce the financial burdens upon states to replenish UI trust funds?

Given the economic and policy uncertainty, the dynamic of reduced near-term costs in exchange for increased long-term costs comes with sustained economic risk which currently is not necessary to impose.

[i] http://leg.colorado.gov/sites/default/files/images/lcs/mayforecast.pdf