

MEMORANDUM

TO: Interested Members of the General Assembly

FROM: Megan Davisson, Joint Budget Committee Staff (303-866-2062)

SUBJECT: Department of Labor and Employment - Unemployment Insurance Rates

DATE: January 12, 2011

A question was asked about how the Department of Labor and Employment sets the employer paid unemployment insurance premium rates. The following provides a general outline of how the premium setting process works. Note that staff is using a fictitious example to illustrate the process and this is not intended to represent an actual employer.

Calendar Year 2010 Unemployment Insurance Premium Rate Calculation

There are four steps used to set the calendar year 2010 (CY 2010) unemployment insurance premium rate (UI premium rate) for this employer. Attachment 1 is intended to illustrate the steps described below.

- Step 1: Take the balance of the Unemployment Insurance Trust Fund on June 30, 2009. The June 30, 2009 balance was \$340 million.
- Step 2: Use the balance of the Unemployment Insurance Trust Fund to locate the appropriate column in the attached premium table. Note that the columns represent a range and the \$365 balance will fall into one of the ranges.
- Step 3: Take your employer rating (for this example we will say it is +5). The employer rating is equal to a ratio of the amount of unemployment insurance premiums paid into the Unemployment Insurance Trust Fund verses the amount of benefits claimed by that employer's former employees. As the employer's former employees claim more benefits, the employer's experience rating will go down.
- Step 4: Follow the employer rating row for +5 to where it intersects with the appropriate column as identified in step 2.

This results in the employer having a UI premium rate of 0.6% for CY 2010.

Calendar Year 2011 Unemployment Insurance Premium Rate Calculation

To set the CY 2011 UI premium rate for this employer do the following steps. Attachment 2 is intended to illustrate the steps described below.

- Step 1: Take the balance of the Unemployment Insurance Trust Fund on June 30, 2010. The June 30, 2010 balance was negative (less than zero).
- Step 2: Locate the deficit column in the premium table.
- Step 3: Take your employer rating (for this example, assume the employer's experience rating remains unchanged at +5).
- Step 4: Follow the employer rating row for +5 to where it intersects with the deficit column.

This results in the employer having a UI premium rate of 2.2% for CY 2011.

Comparison of CY 2010 UI premium rate to CY 2011 UI premium rate

For this example, the employers CY 2010 UI premium rate = 0.6%, and the CY 2011 UI premium rate was 2.2%. The following table illustrates how this will impact the amount of UI premiums paid, assuming the employer has 50 employees.

Comparison of CY 2010 and CY 2011 Employer Paid UI premiums			
	CY 2010	CY 2011	CY 2011 Higher/(Lower) than CY 2010
UI Premium Rate	0.6%	2.2%	1.6%
Number Employees	50	50	0
Amount UI Premiums Paid	\$3,000	\$11,000	\$8,000

*Amount of UI premiums paid are based on the first \$10,000 in employee wages, and the calculation assumes that each employee makes at least \$10,000 in wages.

Attachment 1 - Calculation of CY 2010 Employer UI Premium Rate

Step 2: This column used to determine the CY 2010 rates based on the fund balance of \$340 million

		Unemployment Insurance Trust Fund Balance as of June 30 (in millions of dollars)											
Low Balance	High Balance	450+	396	342	306	270	234	198	162	126	90	0	deficit
		450	396	342	306	270	234	198	162	126	90	90	
Employer Experience Rating	20	0.0%	0.0%	0.0%	0.0%	0.1%	0.2%	0.3%	0.3%	0.3%	0.3%	0.3%	1.0%
	15	0.0%	0.1%	0.1%	0.1%	0.3%	0.3%	3.3%	0.3%	0.3%	0.3%	0.5%	1.2%
	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%
	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%
	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%
	-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%
	-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%
	-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%
	-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%
	-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%

Step 3: For the example, the employer's experience rating is +5.

Step 4: Based on:
 1) the fund balance;
 2) employer's rating;
 The employer's UI premium rate for CY 2010 is 0.6%

Attachment 2 - Calculation of CY 2011 Employer UI Premium Rate

Step 2: This is the column used to determine the CY 2011 rates based on the fund balance being in deficit.

Low Balance High Balance		Unemployment Insurance Trust Fund Balance as of June 30 (in millions of dollars)											
		450+	396	342	306	270	234	198	162	126	90	0	deficit
Employer Experience Rating	20	0.0%	0.0%	0.0%	0.0%	0.1%	0.2%	0.3%	0.3%	0.3%	0.3%	0.3%	1.0%
	15	0.0%	0.1%	0.1%	0.1%	0.3%	0.3%	3.3%	0.3%	0.3%	0.3%	0.5%	1.2%
	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%
	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%
	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%
	-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%
	-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%
	-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%
	-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%
-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%	

Step 3: For the example, the employer's experience rating is +5.

Step 4: Based on:
 1) the fund balance;
 2) employer's rating;
 The employer's UI premium rate for CY 2011 is 2.2%

Attachment 3 - Employer UI Premium Rate Tables

		Unemployment Insurance Trust Fund Balance as of June 30 (in millions of dollars)												
		Low Balance High Balance	450+	396	342	306	270	234	198	162	126	90	0	deficit
Employer Experience Rating	20	0.0%	0.0%	0.0%	0.0%	0.1%	0.2%	0.3%	0.3%	0.3%	0.3%	0.3%	0.3%	1.0%
	15	0.0%	0.1%	0.1%	0.1%	0.3%	0.3%	3.3%	0.3%	0.3%	0.3%	0.3%	0.5%	1.2%
	10	0.1%	0.1%	0.1%	0.2%	0.3%	0.4%	0.5%	0.6%	0.7%	0.8%	0.8%	1.0%	1.7%
	5	0.3%	0.5%	0.6%	0.7%	0.8%	0.9%	1.0%	1.1%	1.2%	1.3%	1.3%	1.5%	2.2%
	0	2.0%	2.1%	2.2%	2.3%	2.3%	2.4%	2.4%	2.5%	2.5%	2.6%	2.6%	2.7%	2.7%
	-5	3.3%	3.3%	3.3%	3.3%	3.3%	3.3%	3.3%	3.3%	3.3%	3.3%	3.3%	3.3%	3.5%
	-10	3.8%	3.8%	3.8%	3.8%	3.8%	3.8%	3.8%	3.8%	3.8%	3.8%	3.8%	3.8%	4.0%
	-15	4.3%	4.3%	4.3%	4.3%	4.3%	4.3%	4.3%	4.3%	4.3%	4.3%	4.3%	4.3%	4.5%
	-20	4.8%	4.8%	4.8%	4.8%	4.8%	4.8%	4.8%	4.8%	4.8%	4.8%	4.8%	4.8%	5.0%
	-25	5.3%	5.3%	5.3%	5.3%	5.3%	5.3%	5.3%	5.3%	5.3%	5.3%	5.3%	5.3%	5.4%

Source: Section 8-76-103 (3) (b) (II) (B) and (C), C.R.S.