444 N. Capitol Street NW, Suite 142, Washington, DC 20001
202-434-8020 fax 202-434-8033 www.WorkforceATM.org

State Unemployment Insurance Tax Survey

NATIONAL ASSOCIATION OF STATE WORKFORCE AGENCIES

April 27, 2011

Summary of State Responses Submitted the Last Week of March 2011

EXECUTIVE SUMMARY

In the wake of the Great Recession, the number of unemployment insurance (UI) claimants in many states has remained very high, straining the funding of state UI programs. The National Association of State Workforce Agencies (NASWA) has recently completed its second annual survey of states on their unemployment insurance taxes.

For the second consecutive year, NASWA has found the majority of states project their UI tax revenue will increase this year. The increases projected by states for 2011 range from 0.1% to 135.0%, with a weighted average state UI tax revenue increase of approximately 16.5%. The most common ways this occurs is through some combination of an increase in experience rated taxes on employers, an increase in tax rates by moving employers to a higher tax schedule, and an increase in the taxable wage base. The first two increases are automatic, while increasing the taxable wage base can be either automatic through indexing or through legislation. Increases in tax revenue can also occur as the economy recovers and wages increase, even without a change in tax rates or taxable wage bases.

In addition to higher UI tax revenue, another consequence of increasing UI benefit outlays is that over 30 state unemployment trust funds are insolvent, requiring states to borrow either from the federal government or private capital markets. To deal with this, many states have or will enact legislation addressing UI financing. In 2010, nine states enacted legislation that addressed UI financing; another 15 states expect to do so in 2011. In addition, seven states reported considering borrowing from the private sector to pay back their loans from the federal government.

Despite the increases in UI tax rates and tax revenue that many states anticipate for 2011, the average tax rate on total wages paid by employers still is relatively low by historical standards (see Figure 1 in the Appendix). Since the program began, while the average national UI tax rate as a percent of TAXABLE wages has remained relatively constant, the average national UI tax rate on TOTAL wages has gradually declined. In 1938, across the nation there was an average tax rate of 2.69 percent of total wages; in 2010, the latest year for which data are available, the average tax rate was 0.98 percent of total wages, 64 percent less than at the beginning of the program. (Information on the UI tax rates for individual states is in Figure 2 in the Appendix.)

BACKGROUND INFORMATION

The UI system is a unique federal-state partnership. States administer state unemployment insurance programs, but administrative funding comes from the federal government. UI provides temporary, targeted, timely and partial wage replacement to laid-off workers. Created by the Social Security Act of 1935, the UI system has been a successful social insurance program for over 75 years. The system is decentralized to the state level to address the varying economic conditions among the states. State unemployment benefits are financed through state payroll taxes, which are held in individual state trust fund accounts in the federal unemployment trust fund in the U.S. Treasury.

Administering unemployment benefits involves: (1) processing initial and continued claims for both state and federal benefit payments; (2) collecting unemployment taxes; (3) preventing improper payments and fraud; (4) answering questions from UI claimants and employers; and (5) adjudicating disputes about job separations between UI claimants and employers. These tasks have been made harder by a record number of claimants during and after the recession. One consequence is, as of March 28, 2011, 33 states had borrowed more than $46 billion from the Federal Unemployment Account (FUA) in the federal unemployment trust fund to finance unemployment benefits[1].

The federal government imposes a federal UI payroll tax under the Federal Unemployment Tax Act (FUTA). This gross tax is levied on covered employers at a rate of 6.2 percent on wages up to $7,000 a year paid to a covered employee[2]. However, FUTA provides a credit against the federal tax of 5.4 percent to employers in states with an approved state unemployment insurance (UI) program and no overdue federal UI loans. If a state has a UI law that meets all federal requirements, as all states do, then its employers pay a base federal tax rate of 0.8 percent, or a maximum of $56 per covered employee per year. Employers in states with overdue outstanding federal loans might pay a higher tax rate. FUTA tax revenue generally pays for administration of federal and state UI benefits, labor market information, and employment service administration, the federal half (100 percent per current law which expires December 31, 2011) of the permanent federal-state extended benefits program, and federal loans to insolvent state UI programs.

Federal law contains an automatic loan repayment provision -- known as the FUTA credit reduction --for states with loans that have been outstanding for roughly two to three years. Specifically, if a state has an outstanding loan on January 1st of two consecutive years and does not fully repay the advances by the November 10th following the second January 1st, the credit employers in the state receive on the federal unemployment tax is reduced and the revenue generated from the credit reduction is applied to the outstanding loan until it is repaid. Each year the loans are overdue, employers can lose at least 0.3 percentage point from the federal credit, which increases the net tax rate by 0.3 percentage point in the first year it is overdue for a tax rate of 1.1 percent, 0.6 percent in the second year it is overdue for a tax rate of 1.4 percent, and so on until the 5.4 percent credit is reduced to zero or the loan is repaid. Additional credit reductions after the first credit reduction might apply also.

To avoid these FUTA credit reductions, states are faced with borrowing from the private sector to repay the federal loans and/or increasing taxes or cutting benefit outlays to restore balances in their UI programs.

On the tax side, the choices include increasing tax rates on taxable wages, increasing the taxable wage base, and indexing the taxable wage base to wages. Currently, state taxable wage bases range from the required minimum, $7,000, to $37,300. Tax rates at the state level range from 0.0% to 13.6%. (Taxable wage bases and the range of tax

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[1] For information on states with outstanding loans, see the US Department of Labor here.

[2] Under current law, the 6.2 percent is scheduled to decline to 6.0 percent on June 30, 2011, as a 0.2 percent surtax expires.

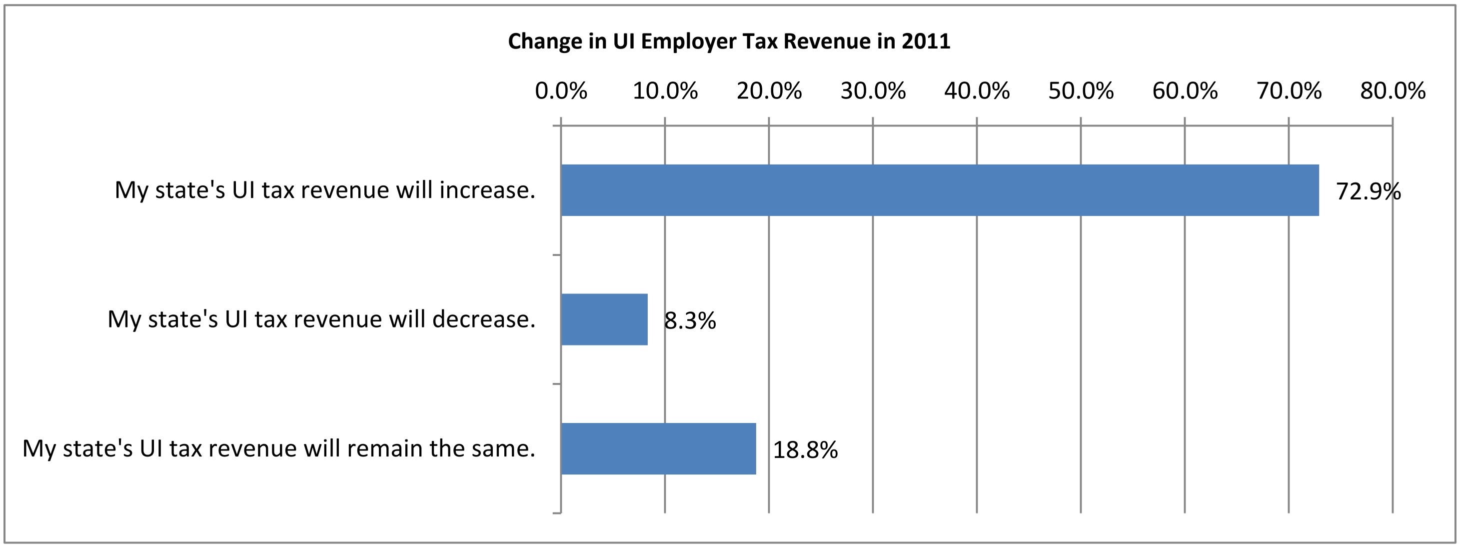
rates for individual states can be found in Figure 3 in the Appendix.) Since effective tax rates, i.e., the average tax rates on total wages, have declined and reached historical lows recently in many states, many analysts have said increasing taxable wage bases and indexing them to wages might rebalance state UI programs and help the tax side keep up with the growth on the benefit side of the program.

On the benefit side, the choices include restricting eligibility, capping or reducing the maximum weekly benefit amount, reducing the wage replacement fractions, cutting the potential duration of eligibility, reducing and collecting improper payments and delinquent taxes, or reducing the average duration on UI through cost-effective reemployment services and reemployment eligibility assessments.

DETAILED RESULTS OF NASWA'S UI EMPLOYER TAX SURVEY

QUESTION 1 – Compared to 2010, do you project your state's unemployment insurance **tax revenue** will increase, decrease, or remain the same in 2011?

- Of the 48 states who responded to the survey, 35 answered they anticipated their state's unemployment insurance (UI) tax revenue would increase in 2011.
- Four states answered their state's UI tax revenue would decrease.
- Nine states answered their state's UI tax revenue would remain the same.



QUESTION 2 – By what percent does your state project unemployment tax revenue will increase or decrease in 2011 as compared to state unemployment tax revenue collected in 2010?

- The estimates of increased UI tax revenue ranged from 0.1% to 135.0%, with a weighted average[3] state increase of 16.5%.
- Estimates of decreased UI tax revenue ranged from 3.5% to 34%, with a weighted average state decline of 3.6%.

[3] The 2009 unemployment insurance revenue for each state (from the Department of Labor's Financial Data Handbook 394) was used to weight the states to compute the weighted average.

STATE	CHANGE IN UI TAX REVENUE FROM 2010 TO 2011
Alabama	+0.1%
Alaska	+27.5%
Arizona	+8.0%
Arkansas	Unchanged
California	+10.2%
Colorado	+54.0%
Connecticut	+24.5%
Delaware	+12.5%
DC	Unchanged
Florida[4]	
Georgia	+6.6%
Hawaii	+89.0%
Idaho	Unchanged
Illinois	+29.0%
Indiana	+40.0%
Iowa	+17.0%
Kansas	-5.2%
Kentucky	Unchanged
Louisiana	Unchanged
Maine	+10.6%
Maryland	+8.0%
Massachusetts	Unknown increase
Michigan	
Minnesota	
Mississippi	20.0%
Missouri	-1.47%
Montana	+31.2%
Nebraska	-3.5%
Nevada	+50.0%
New Hampshire	+25.0%
New Jersey	
New Mexico	+15.0%
New York	+2.0%
North Carolina	Unchanged
North Dakota	+1.0%
Ohio	+10.0%
Oklahoma	+98.0%
Oregon	+19.0%
Pennsylvania	+20.0%
Puerto Rico	Unchanged
Rhode Island	2.8%
South Carolina	135.0%
South Dakota	-34.0%
Tennessee	+2.6%
Texas	+22.0%
Utah	+76.0%
Vermont	+25.0%
Virginia	+32.0%
Washington	+4.7%
West Virginia	Unchanged
Wisconsin	
Wyoming	Unchanged

Note: blank cells indicate that either the state did not respond to the survey or chose not to have their answers shared.

[4] Current estimates from Florida's Office of Economic and Demographic Research indicate that 2011 UI tax revenue will increase 35%. However, legislation is pending that could result in UI tax revenue being unchanged.

Those 35 states that answered that their state's UI tax revenue was likely to increase in 2011 were asked, in Question 3, to specify by what means their tax revenue would increase.

QUESTION 3 – If your state's UI tax revenue will increase, please indicate how this will occur by checking the category or categories below. Check as many as are applicable in your state.

The most common way states' UI tax revenue will increase is through an automatic increase in experience rates on employers; 20 states (54% of respondents) answered increased experience rates will increase their state's UI tax revenue. Fifteen states (40.5 %) answered their UI tax revenue would increase as employers move to a higher tax schedule, followed by 11 states (29.7%) that answered they expect UI tax revenue to increase through an increase in the taxable wage base, and five states (13.5%) that will increase UI tax revenue through indexation of the state's taxable wage base. While those were the most common responses provided, several states gave other explanations such as temporary surtaxes or special assessments, and many states indicated that a combination of methods would take place in their state. The details on individual state responses are given in the table below.

CATEGORY	NUMBER OF STATES	PERCENT OF RESPONDENTS
An increase in experience rates on employers ONLY	5 states	14.3%
An increase in tax rates by moving employers to a higher tax schedule ONLY	4 states	11.4%
An increase in the state's taxable wage base ONLY	1 state	2.8%
An increase in wage growth in an improving economy ONLY	1 state	2.8%
An increase in the experience rates on employers AND an increase in tax rates by moving employers to a higher tax schedule	4 states	11.4%
An increase in tax rates by moving employers to a higher tax schedule AND an increase in the taxable wage base	2 states	5.7%
An indexation of the taxable wage base AND wage growth	2 states	5.7%
An increase in experience rates on employers AND a new solvency tax	1 state	2.8%
An increase in the experience rates on employers AND an increase in the flat "mutualized," (i.e., socialized) tax rate	1 state	2.8%
An increase in tax rates by moving employers to a higher tax schedule AND indexation of the taxable wage base	1 state	2.8%
An increase in experience rates on employers AND an increase of the taxable wage base	1 state	2.8%
An increase in experience rates on employers AND an increase in the "Pool Cost" (i.e., socialized cost)	1 state	2.8%
An increase in experience rates on employers AND a temporary surtax	1 state	2.8%
An increase in tax rates by moving employers to a higher tax schedule AND indexation of the taxable wage base	1 state	2.8%
An increase in the experience rates on employers, indexation of the taxable wage base, AND an increase in the social cost tax	1 state	2.8%
Increasing the taxable wage base, a new temporary surtax, AND switching from a reserve ratio system to a benefit ratio system	1 state	2.8%
An increase in the experience rates on employers, an increase in tax rates by moving employers to a higher tax schedule, AND increasing the taxable wage base	1 state	2.8%
An increase in experience rates on employers, increasing the taxable wage base, increase the reserve factor, AND increase social cost rate	1 state	2.8%
An increase in experience rates on employers, increasing the taxable wage base, increasing the State Experience Factor, AND an increase in the fund-building surtax	1 state	2.8%
An increase in experience rates on employers, an increase in tax rates by moving employers to a higher tax schedule, indexation of the taxable wage base, AND increasing the taxable wage base	1 state	2.8%
An increase in experience rates on employers, an increase in tax rates by moving employers to a higher tax schedule, increasing the taxable wage base, a new solvency tax, AND a temporary surtax	1 state	2.8%

QUESTION 4 – Have all tax schedules and surtaxes reached their maximums under state law?

- Of the 50 states who responded, 20 (40.0% percent) answered their tax schedules and surtaxes had reached their maximums.
- 30 (60.0% percent) answered that tax schedules and surtaxes could still increase.

QUESTION 5 – In 2010, was legislation enacted in your state to address UI financing?

- Of the 50 states who responded, 10 (20.0%) answered that legislation was enacted in their states to address UI financing.
- The other 40 states, 80.0% of respondents, said that no new legislation was enacted to address UI financing.

QUESTION 6 – In 2011, is legislation likely to be proposed to address UI financing?

- Fifteen states, 31.3% of respondents, said legislation was likely to be introduced in 2011 to address UI financing.
- Twenty-eight states, 58.3%, said legislation was unlikely to be introduced in 2011 to address UI financing.
- The other five states were unsure if legislation was likely to be introduced to address UI financing.

QUESTION 7 – If your state currently has an outstanding loan, what sources of funds will be used to pay interest in 2011?

- Twenty-eight states responded to this question. Of these, 26 states (93%) responded that they have an outstanding loan, while two said they did not have a loan. Some of the methods states are planning to use to repay these loans include:
    - An employer assessment, surtax, or other special tax (16 states). The most common answer provided was some sort of special tax or assessment. Sometimes provisions for such taxes are already in state law, while other states have or will pass legislation enacting special taxes or assessments to deal with loans and interest payments. Some examples include:
        - Delaware answered that existing DE UI Code provides for a “temporary emergency employer assessment.”
        - Arizona has proposed legislation (HB 2025) that would implement an assessment on employers of 0.4% in 2011 and up to 0.8% in 2012 on the first $7,000 of taxable wages.
        - Hawaii will use a special surtax to pay interest.
    - Use of an existing surcharge on negative balance employers (one state).
    - Taking money from the state General Fund (six states).
    - Borrowing temporarily from the Disability Insurance Fund (one state).

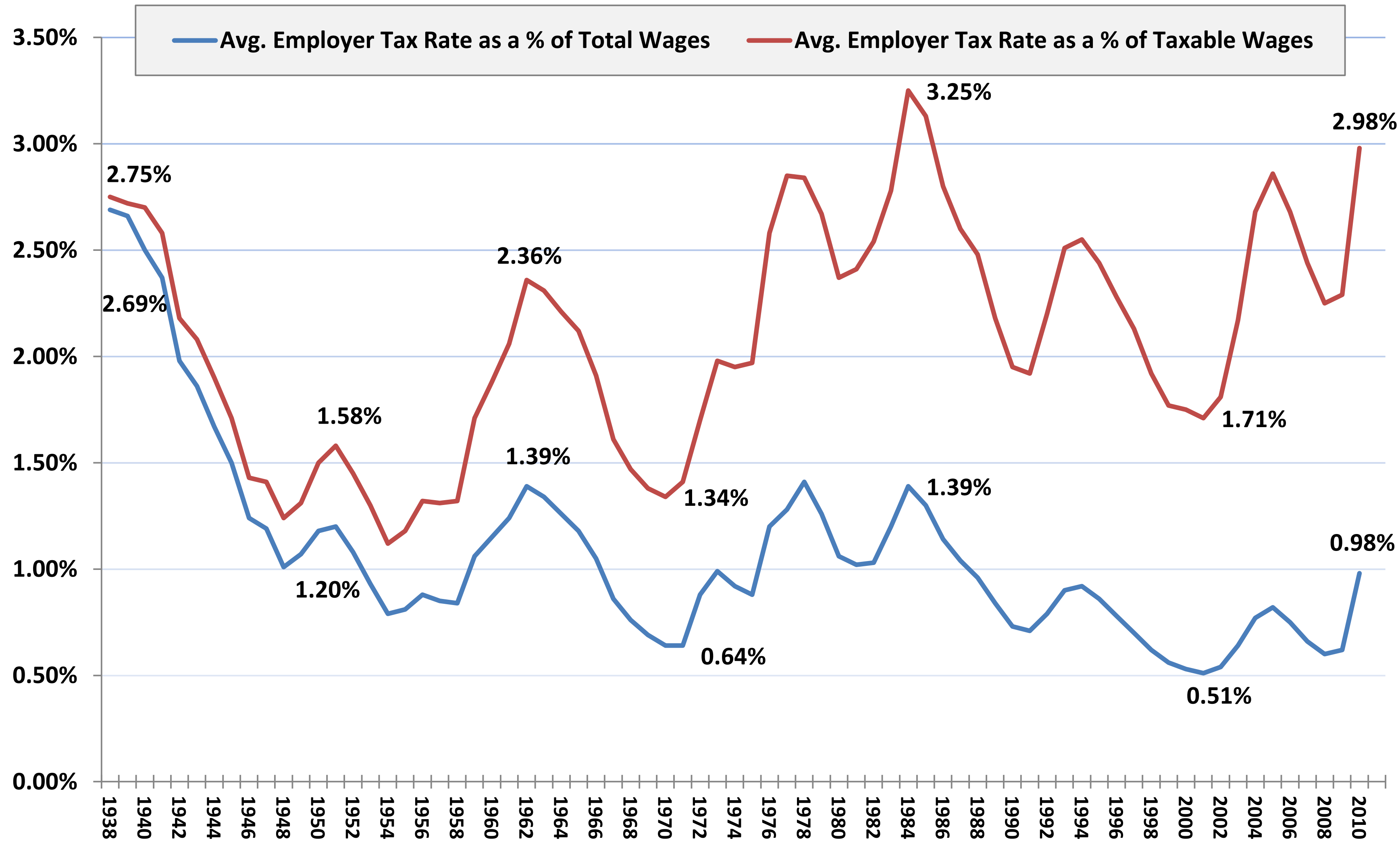
QUESTION 8 - Has or is your state considering borrowing from the private sector?

- Seven states, 23.3% of respondents, answered that they have considered borrowing from the private sector.
- Twenty states, 66.7%, answered that they have not considered borrowing from the private sector.
- The remaining three states were unsure whether borrowing from the private sector had been considered.

APPENDIX

FIGURE 1: U.S. Total Average UI Employer Tax Rates as a Percent of Total Wages and Taxable Wages

Source: USDOL, ETA Handbook 394



SOURCE: USDOL, ETA HANDBOOK 394

**2011 figures are DOL's estimates for calendar year 2011.

FIGURE 2: 2010 UI Financial Estimates

Source: USDOL (January – September 2010 Averages)

	Average Employer Tax Rate as a Percent of Total Wages	Average Employer Tax Rate as a Percent of Taxable Wages
United States	0.98	2.98
Alabama	0.96	3.24
Alaska	1.39	1.94
Arizona	0.50	1.99
Arkansas	1.34	3.04
California	0.98	4.83
Colorado	0.66	2.12
Connecticut	1.11	3.50
Delaware	0.68	2.33
District of Columbia	0.46	2.47
Florida	0.64	2.39
Georgia	0.62	2.20
Hawaii	1.34	1.75
Idaho	2.19	2.83
Illinois	1.10	3.29
Indiana	0.80	2.96
Iowa	1.50	2.28
Kansas	1.03	2.70
Kentucky	1.07	3.51
Louisiana	0.46	1.61
Maine	1.15	2.65
Maryland	1.16	4.58
Massachusetts	1.46	4.18
Michigan	1.49	5.13
Minnesota	1.08	1.87
Mississippi	0.51	1.64
Missouri	0.86	2.11
Montana	1.20	1.57
Nebraska	1.07	3.15
Nevada	0.82	1.20
New Hampshire	1.00	3.34
New Jersey	1.31	2.44
New Mexico	0.82	1.37
New York	0.88	4.52
North Carolina	0.93	1.75
North Dakota	0.88	1.32
Ohio	0.97	3.18
Oklahoma	0.47	0.96
Oregon	1.92	2.73
Pennsylvania	1.42	5.59
Puerto Rico	1.29	3.23
Rhode Island	1.89	3.66
South Carolina	0.64	2.28
South Dakota	0.94	2.36
Tennessee	0.99	3.17
Texas	0.76	2.80
Utah	0.49	0.72
Vermont	1.23	3.43
Virginia	0.48	2.02
Virgin Islands	0.15	0.23
Washington	1.52	2.25
West Virginia	1.25	2.93
Wisconsin	1.41	3.60
Wyoming	1.41	2.33

FIGURE 3: Significant Provisions of State Unemployment Insurance Laws in 2010

Source: USDOL, Employment and Training Administration's Office of Workforce Security[5]

	2011 Wages Subject to Tax	2010 Minimum, Maximum and New Employer Rates
Alabama	$8,000	0.59% 6.74% 2.70%
Alaska	$34,600	1.00% 5.40% InAvg%
Arizona	$7,000	0.02% 5.90% 2.00%
Arkansas	$12,000	1.00% 6.90% 3.80%
California	$7,000	1.50% 6.20% 3.40%
Colorado	$10,000	0.00% 5.40% 1.70%
Connecticut	$15,000	1.90% 6.80% 2.90%
Delaware	$10,500	0.10% 8.00% 2.60%
District of Columbia	$9,000	1.60% 7.00% 2.70%
Florida	$7,000	0.36% 5.40% 2.70%
Georgia	$8,500	0.025% 5.40% 2.70%
Hawaii	$34,200	0.20% 5.40% 3.00%
Idaho	$33,300	0.96% 6.80% 3.36%
Illinois	$12,740	0.65% 7.25% 3.35%
Indiana	$9,500	1.10% 5.60% 2.70%
Iowa	$24,700	0.00% 9.00% 1.50%
Kansas	$8,000	0.11% 7.40% 4.00%
Kentucky	$8,000	1.00% 10.00% 2.70%

	2011 Wages Subject to Tax	2010 Minimum, Maximum and New Employer Rates
Louisiana	$7,700	0.11% 6.20% InAvg%
Maine	$12,000	0.78% 7.19% 2.73%
Maryland	$8,500	2.20% 13.50% 2.30%
Massachusetts	$14,000	1.26% 12.27% 2.83%
Michigan	$9,000	0.06% 10.30% 2.70%
Minnesota	$27,000	0.69% 10.836% 2.8674%
Mississippi	$14,000	0.70% 5.40% 2.70%
Missouri	$13,000	0.00% 9.75% 3.51%
Montana	$26,300	0.42% 6.12% InAvg%
Nebraska	$9,000	0.00% 8.66% 2.50%
Nevada	$26,600	0.25% 5.40% 2.95%
New Hampshire	$12,000	0.05% 7.00% 3.70%
New Jersey	$29,600	0.30% 5.40% 2.6825%
New Mexico	$21,900	0.03% 5.40% 2.00%
New York	$8,500	0.90% 8.90% 3.40%
North Carolina	$19,700	0.00% 6.84% 1.20%
North Dakota	$25,500	0.20% 10.00% 1.37%
Ohio	$9,000	0.30% 9.20% 2.70%

	2011 Wages Subject to Tax	2010 Minimum, Maximum and New Employer Rates
Oklahoma	$18,600	0.10% 5.50% 1.00%
Oregon	$32,300	1.80% 5.40% 3.10%
Pennsylvania	$8,000	2.2370% 13.5576% 3.7030%
Puerto Rico	$7,000	1.70% 5.40% 3.00%
Rhode Island	$19,000	1.69% 9.79% 2.30%
South Carolina	$10,000	1.24% 6.10% 3.40%
South Dakota	$11,000	0.00% 8.50% 1.20%
Tennessee	$9,000	0.50% 10.00% 2.70%
Texas	$9,000	0.72% 8.60% 2.70%
Utah	$28,600	0.20% 9.20% InAvg%
Vermont	$13,000	1.10% 7.70% 1.00%
Virginia	$8,000	0.10% 6.20% 2.50%
Virgin Islands	$22,600	1.50% 6.00% 2.40%
Washington	$37,300	0.98% 6.02% InAvg%
West Virginia	$12,000	1.50% 7.50% 2.70%
Wisconsin	$13,000	0.27% 9.80% 3.60%
Wyoming	$22,300	0.56% 10.00% InAvg%

[5] The Significant Provision of State Unemployment Insurance Laws with 2011 tax rates will be available in July.