Unemployment Compensation Financing

Presented by

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Topical Agenda

- Overview of UC Financing
- Federal UC taxation
- State UC Taxation
- Additional Assessments and Charges
- Reimbursable Employers
- Resources

Overview

- Federal Unemployment Tax Act (FUTA)
  - Created framework for federal-state partnership
  - Provides funding mechanism for program administrative funding
  - Payroll tax paid by employers to IRS
  - Establishes requirements for state laws

Overview (con't)

- State unemployment insurance laws
  - Establish benefit levels and eligibility criteria consistent with federal requirements
  - Impose and collect experience-rated payroll tax on employers to pay benefits
  - Federal law limits the use of these funds to the payment of UC benefits and refund or excess taxes collected

Federal Unemployment Tax-Purpose

- Provides funding mechanism for state program administration of UI and Job Service programs
- Some of the federal unemployment tax dollars set aside for
  - Federal share of extended benefits
  - Loans to states

Federal Unemployment Tax – Rate & Wage Base

- Federal unemployment tax is set at 6%
- This tax is not experience-rated
- Tax rate assessed on the first $7,000 of wages paid to each employee each year
- There is also an additional 0.2% surcharge that has been in effect since the 1980’s

FUTA Tax Credit & Conformity

- If a state's UI law meets all of the requirements imposed by the Federal Unemployment Tax Act, that law is said to be "in conformity"
- Employers who pay state UI taxes into a program that conforms to federal law receive a 90% credit on the 6% FUTA rate

FUTA Tax Credit & Conformity (con't)

- Virginia's current UI law is in conformity with federal law
- Thus, Virginia employers pay a federal unemployment tax of 0.8% (90% credit on 6% = 0.6 plus 0.2 surcharge)
- When rate applied to federal taxable wage base of $7,000 the tax is a maximum of $56 per employee per year.

Federal Requirements on State UC Taxes

- Taxing scheme must be experience-rated
- State's maximum tax must equal at least 5.4% to receive full FUTA tax credit
- State's taxable wage base must at least equal federal wage base of $7,000
- Provision for reimbursable employers
- Immediate deposit requirement
- "SUTA Dumping" requirement

Federal Trust Funds

- Federal unemployment tax nationwide generates $6 to $7 billion annually
- Taxes deposited in one of three trust funds
  - Administrative account to pay state costs for program administration
  - Extended Benefits account
  - Loan account

Federal Trust Funds (con't)

- Prior to recession there was $45 billion being held in the three trust funds
- Since the early 1990's the balances in these accounts were used to offset the federal deficit on paper
- All three funds are currently insolvent due to state borrowing

Loss of FUTA Tax Credit

- Employers can lose all or part of the 90% credit on their federal tax if:
  - State's UI law fails to conform to federal requirements
  - Employer fails to pay state UI tax
  - State has outstanding loan balance to the federal government for two or more consecutive years

Loss of FUTA Tax Credit Due to Loan Balances

- If a state has an outstanding loan balance to the federal government in two consecutive years, that state's employers will lose 0.3% of the 5.4% FUTA tax credit
- Results in the FUTA tax rate being 1.1%, or a maximum of $77 per employee for that year
- For each year beyond two that the state has a loan balance an additional 0.3% reduction takes place
- The additional tax revenues are applied against the state's loan balance

How your VEC tax rate is determined

Employer tax rates are calculated or assigned based on your experience record and other factors

New Employer tax rates

- Unemployment insurance works similarly to car insurance. You must have at least one full year of experience ending on June 30 once you become liable to pay unemployment insurance(UI) before your rate can be computed. Until then your tax rate will be non-rated.

  - 2.5% New Employer rate
  - 6.2% Foreign contractor rate

Other non-rated tax rates

- Employers can be assigned a non-rated maximum tax rate because they are eligible for computation but have not reported sufficient wages to be calculated or have not paid tax due on or before September 30.
  - Lifestyle businesses – one employee
  - Sufficient experience but no tax paid by 9/30
- Delinquent tax rate due to unpaid taxes
  - Delinquent letters mailed August 1, arrangements to pay must be made on or before September 1

How tax rates are computed

CURRENT FISCAL YEAR

BENEFIT-PD	PD-TAX-PAYROLL
28292.00	0.00

CAL YEAR	BAL FACTR	BEN RATIO	BASE RATE	POOL COST	FUND BLDG	TAX RATE	ELIG RTCD	RECMT DATE
2010	00.50	008.5	06.20	00.28	00.20	06.68	0	112009
2009	00.60	005.4	06.20	00.08	00.00	06.28	0	112108
2008	00.70	003.8	04.94	00.02	00.00	04.96	0	112807
2007	00.70	003.2	04.16	00.07	00.00	04.23	0	111706
2006	00.50	003.8	05.70	00.19	00.00	05.89	0	111905

FISCAL-YR	CURRENT BENEFIT-PD	CURRENT PD TAXABLE PAYROLL		BENEFIT-RATIO
2005-2006	11535.52	157785.51		
2006-2007	5487.03	113450.02		
2007-2008	9438.00	136222.57		
2008-2009	9814.00	19567.12		
TOTAL	36274.55	427025.22	=	8.5

Determine the ratio of benefits paid to paid taxable payroll

- Determine the sum of the four fiscal years of benefits paid and paid taxable payroll for the period ending on June 30 of the year prior to the computation year.
- Divide the benefits paid into the paid taxable payroll to determine the benefit ratio. Convert it to a percent.

Fund Balance Factor

- Section 60.2-533 requires the trust fund solvency as of June 30 of each year be calculated to determine the line of the tax table to be used for the following yearly tax rate computation. The fund was determined to be 25 percent solvent as of June 30, 2009.
    - The Experience rating tax table is found under Section 60.2-531. Calculated tax rates for 2010 were determined using the Fund Balance factor of 50, the lowest fund balance factor in the table.

Convert the benefit ratio to a base tax rate

- Section 60.2-531 contains the Experience rating tax table. In order to use the table you will need to know:
  - The fund balance factor
  - Benefit ratio

BENEFIT RATIOS IN PERCENTUM	5.60	5.70	5.80	5.90	6.00	6.10	6.20	
FUND BALANCE FACTOR IN %	TAX RATE IN %	TAX RATE IN %	TAX RATE IN %	TAX RATE IN %	TAX RATE IN %	TAX RATE IN %	TAX RATE IN %	TAX RATE IN %
120	4.20	4.27	4.35	4.42	4.50	4.57	5.40	
115	4.48	4.56	4.64	4.72	4.80	4.88	5.40	
110	4.76	4.84	4.93	5.01	5.10	5.18	5.40	
105	5.04	5.13	5.22	5.31	5.40	5.49	5.58	
100	5.60	5.70	5.80	5.90	6.00	6.10	6.20	
95	5.88	5.98	6.09	6.19	6.20	6.20	6.20	
90	6.16	6.20	6.20	6.20	6.20	6.20	6.20	
85	6.20	6.20	6.20	6.20	6.20	6.20	6.20	
80	6.20	6.20	6.20	6.20	6.20	6.20	6.20	
75	6.20	6.20	6.20	6.20	6.20	6.20	6.20	
70	6.20	6.20	6.20	6.20	6.20	6.20	6.20	
65	6.20	6.20	6.20	6.20	6.20	6.20	6.20	
60	6.20	6.20	6.20	6.20	6.20	6.20	6.20	
55	6.20	6.20	6.20	6.20	6.20	6.20	6.20	
50	6.20	6.20	6.20	6.20	6.20	6.20	6.20	

The Calculation of the Fund Balance Factor

Three Highest Years' Benefits/Total Wages for 20-Year Period:

FOUR-QUARTER PERIOD	BENEFITS (000's)	TOTAL WAGES (000's)	Cost Rate: BENEFITS/ TOTAL WAGES
CY 1991	305,620	49,528,719	.0062 (0.62%)
CY 2002	721,803	99,638,133	.0072 (0.72%)
FY 2009	823,590	132,322,507	.0062 (0.62%)

Average Cost Rate for Three Highest Years: .0065 (0.65%)

Average Cost Rate x 1.38 = Fund Adequacy Multiplier:
0.0065x 1.38 = 0.0090 (0.90%)

Fund Adequacy Multiplier x Total Wages (7/1/08 - 6/30/09) =
Adequate Fund Balance: 0.0090 x $132,322,507,192 =
$1,190,902,565

Fund-Balance Factor, June 30, 2009 = $\frac{\text{Fund Balance, 6/30/09*}}{\text{Adequate Fund Balance}}$

When the Fund Balance Factor is 50% or less

- A two-tenths of one percent fund building rate is added to each employer tax rate (Section 60.2-533C)
- Effective January 3, 2010, the weekly benefit amount payable shall be reduced by 50 percent of Social Security Act benefits. (Section 60.2-604)

The cost to employers

- Employers pay tax on the first $8000 in wages per employee per year in Virginia.
- The additional cost per employee for this year comparing this year to last year:
  - Fund building charge of .2% - $16
  - Pool cost - $16
    - Pool cost for 2008 was .08%
    - Pool cost for 2009 is .28%
- The employer base rate may have gone up or down depending on their experience record.

Pool Cost Charges

- Pool costs are benefit charges that could not be attributed to a specific employer therefore the costs are paid by all tax paying employers. 60.2-532
  - Inactive employers
  - Claim costs greater than max rate
  - Net combined wage claims
  - Non-charged under Sec. 60.2-528C
  - Trust fund charges

Reimbursable Employers

- Reimbursable employers are self insured
  - State and local government
  - Nonprofit –501.c.3
  - Indian Tribes
- 3304(a)(6)A, FUTA

Reimbursement

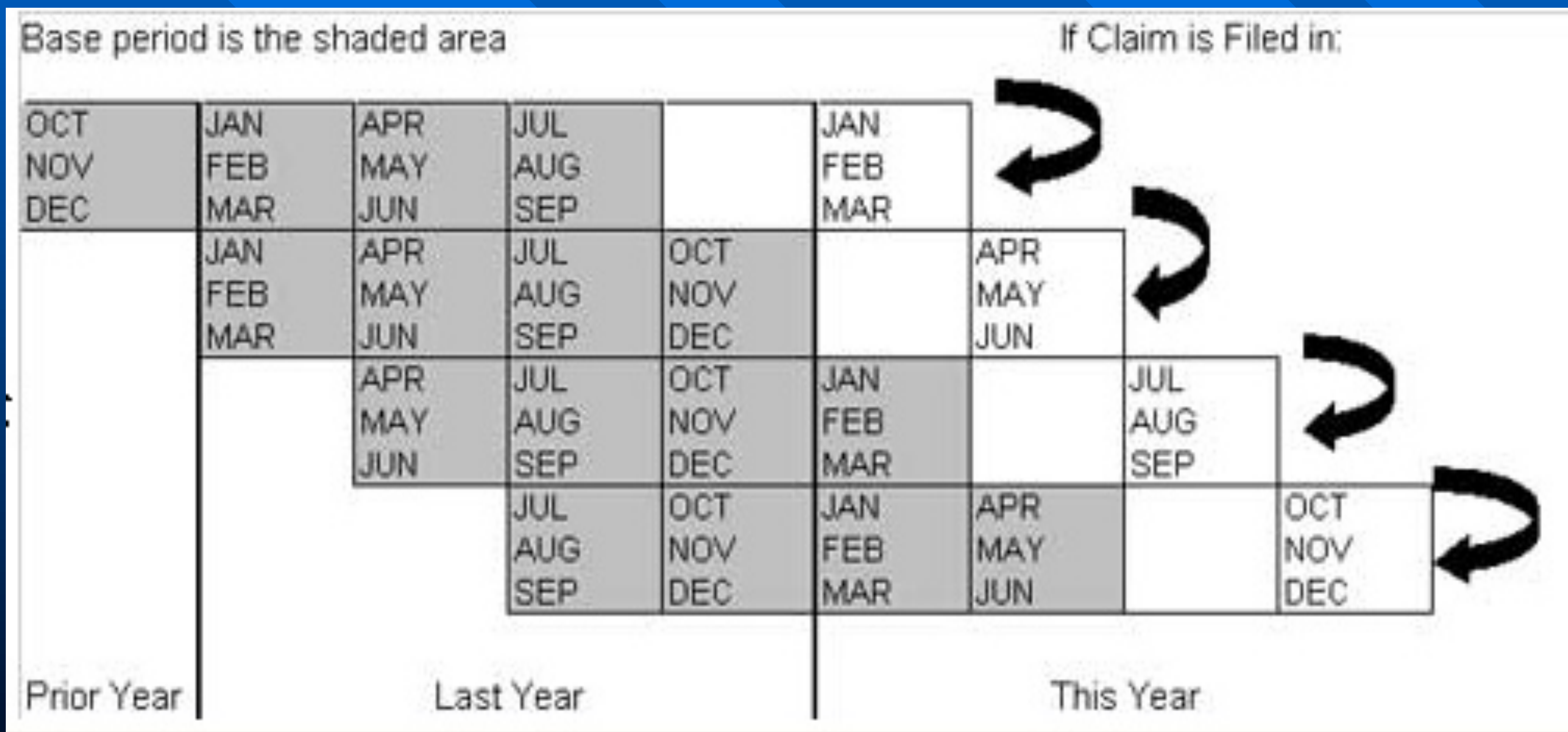
- Reimbursable employers are billed and must repay the total cost of benefit payments attributed to employment with the employer.
- The percentage of the employer's wages in the base period of the unemployment insurance claim determines the amount billed.

Calculation of reimbursable bill

- If claimant received $300 and the employer paid 50% of the wages in the base period of the claim, the employer bill would be $150.
- The reason for leaving last 30 day employer in Virginia determines claimant eligibility
- The reimbursable employer may not be the last 30 day employer but they will still be responsible for any bills that are due.

Illustration of Base Period

- the base period is the first four of the last five quarters prior



Resources

- Federal Unemployment Tax Act, 26 USC 3301, et seq
- Virginia Unemployment Compensation Act, Code of Virginia Title 60.2-100, et seq
- USDOL Annual Comparison of State Unemployment Compensation Laws
- USDOL Quarterly UI Data Summary
- VEC’s Economic Information Services Division

Questions & Answers

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