

Unemployment Insurance Financing Guide



UI Benefit Financing Seminar

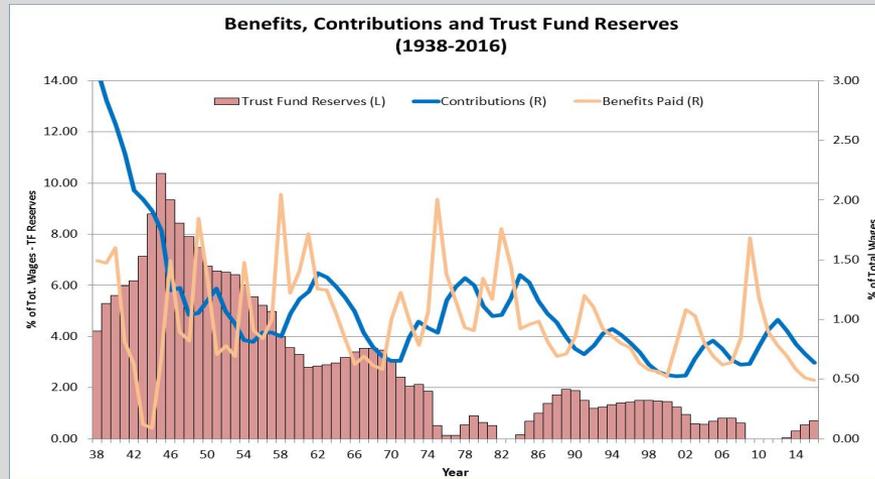
Division of Fiscal and Actuarial Services

U.S. DOL/ETA/OUI

October 23- 26, 2018

Unemployment Insurance Financing Technical Guide

Guidelines for the Construction and Analysis of State Unemployment Insurance Financing Structures



With Accompanying Spreadsheet Assistance Tool

**U.S. Department of Labor
Office of Unemployment Insurance
Division of Fiscal and Actuarial Services**

Unemployment Insurance Financing Technical Guide

- **How to Build an Unemployment Insurance Tax Structure**
- **Tax Structure Troubleshooting Guide**

How to Build an Unemployment Insurance Tax Structure

Step 1. Calculate a Base Level of Financing

Step 2: Make the Base Financing Rate Effective When an Adequate Fund Balance Has Been Reached

Step 3. Adjust the Level of Tax Rates Based on Trust Fund Solvency

Step 4. Assign Tax Rates to Individual Employers

Accompanying Spreadsheet Model to Construct a Tax Table

DFAS Tax Structure Model Step 1

Base Financing Rate Calculator

This calculator derives the long- run average benefit cost in a state which is then used as the starting Base Financing Rate for building a UI tax structure.

INPUTS:	STATE:	CALIFORNIA
	Year Of Base Financing Rate Calculation:	2016
	Number of Years of Benefits to Use for Calculation:	20
	Taxable/Total Wage Ratio Option (1=Current Ratio, 2=User-estimated Ratio):	2
	User-estimated Ratio:	0.391
Base Financing Rate:		0.88% of Total Wages for 2016
		2.25% of Taxable Wages for 2016

Accompanying Spreadsheet Model to Construct a Tax Table

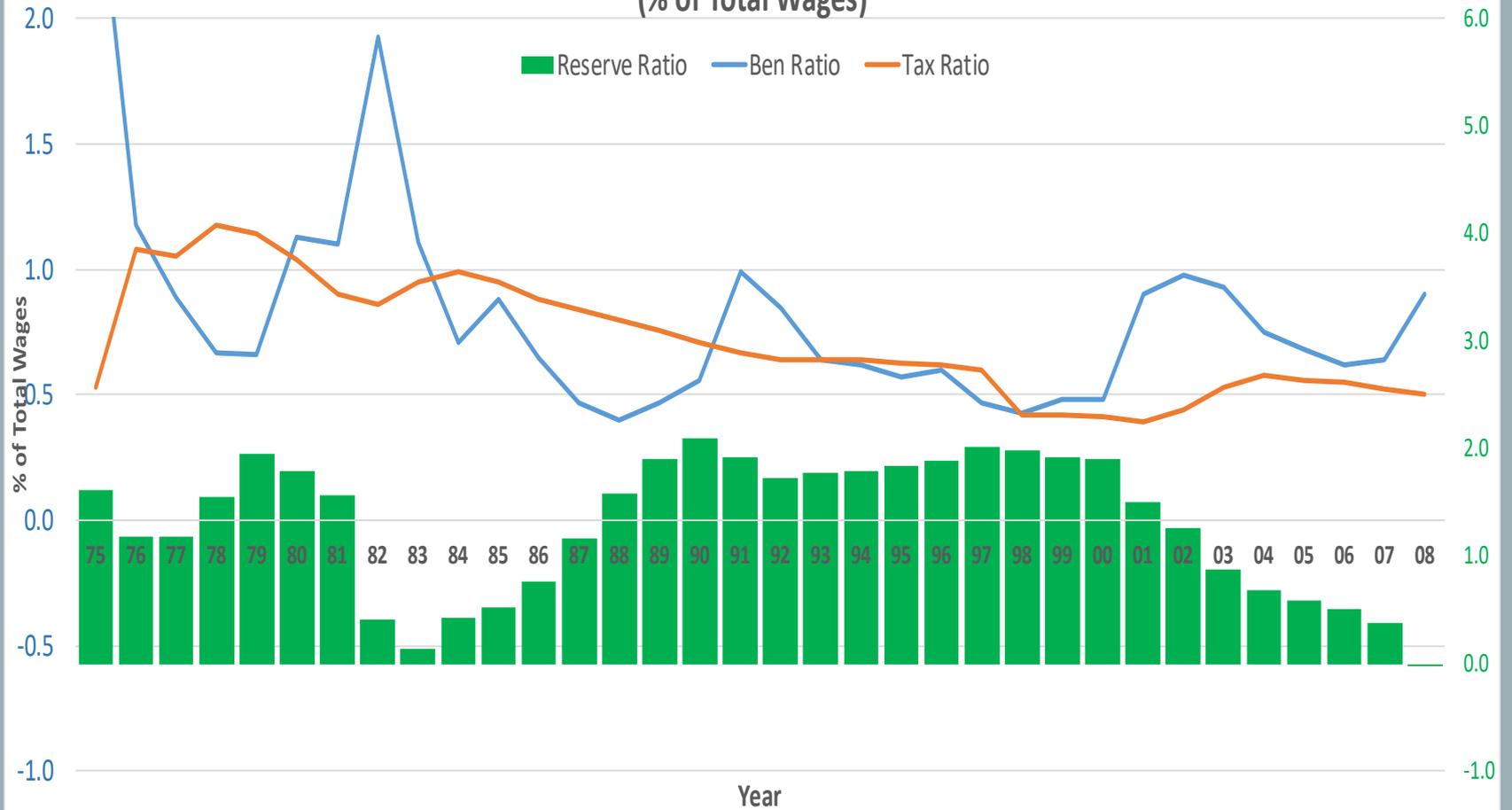
For State:	CA					
INPUTS:	Below		Base		Above	
	Base		Base		Base	
<u>Input Desired Tax Schedule Parameters</u>	<u>Schedule</u>		<u>Schedule</u>		<u>Schedule</u>	
Base Financing Rate (% of Taxable Wages):			2.25%			
Base Schedule Trigger Range (AHCM, High-Low):		1.30	to	0.80		
Desired Number of Tax Schedules:	1				7	
Triggers for Lowest/Highest Financing Rates (AHCM)	1.50				0.25	
<u>Methodology Used to Calculate Tax Schedule Parameters</u>						
Select Calculation for Deriving Financing Rates (1- 3):			1			
(1 = Set Minimum and Maximum Financing Rates)	1.20%				3.60%	
(2 = Set Responsiveness Rate Between Schedules)	60%				51%	
(3 = Set Fixed Gap Closing Rate)	40%				51%	

Troubleshooting Guide

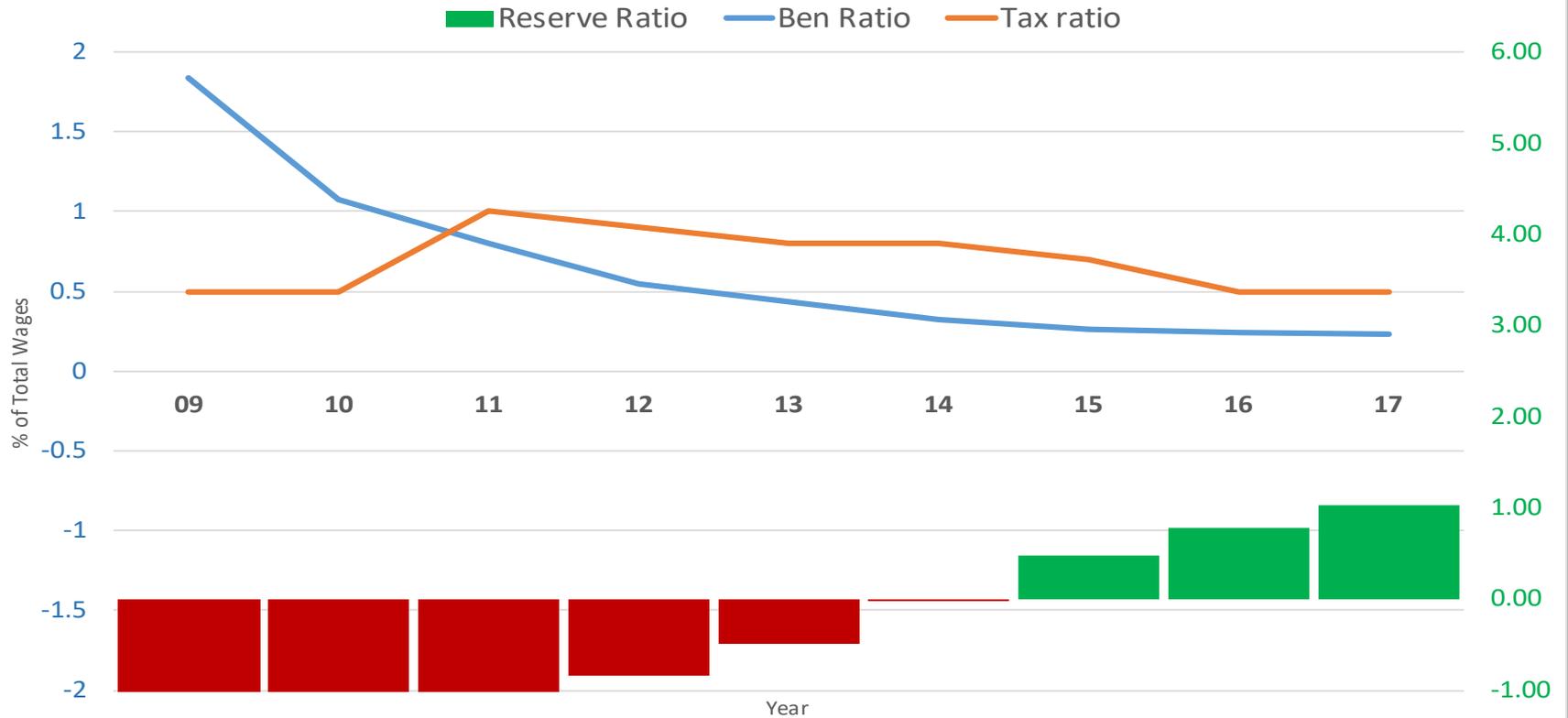
- **Issue 1) Tax Rates are Too Low**
- **Issue 2) Low Fixed Taxable Wage Base**
- **Issue 3) Ineffective Charges Are Too High and Not Recouped**
- **Issue 4) Inadequate Tax Rate Adjustments for Changes in Trust Fund Solvency**
- **Issue 5) Unresponsive Solvency Triggers**
- **Implementing Alternative Measures of Experience Rating**

South Carolina Benefits, Taxes, Trust Fund Reserves (1975-2009)

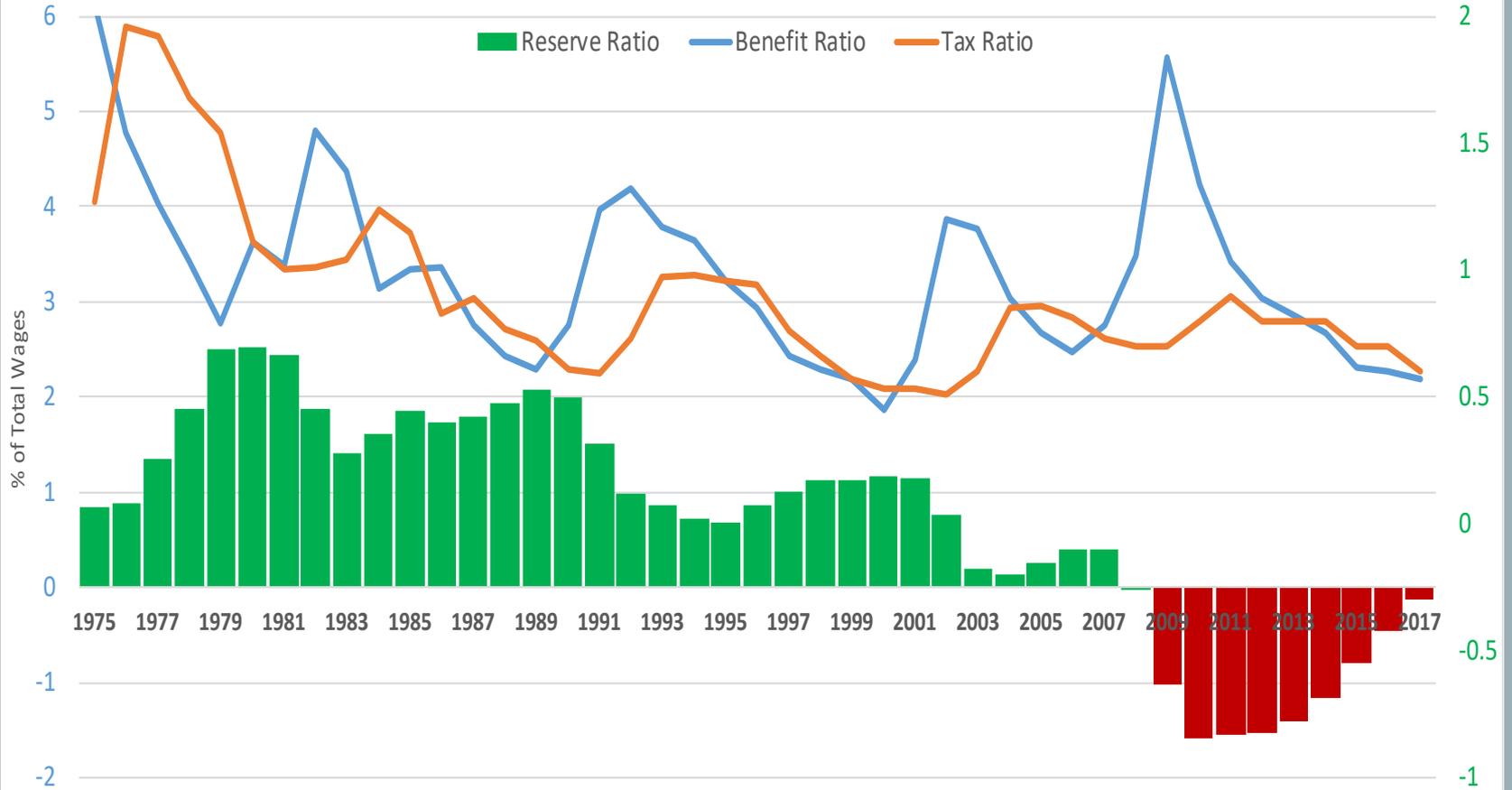
(% of Total Wages)



South Carolina Benefits, Taxes, and Trust Fund Reserves (2009-2017) (% of Total Wages)



California Benefits, Taxes, Trust Fund Reserves (1975-2017) (% of Total Wages)



Exercise

Build Your State Benefit, Contributions, and Trust Fund Reserve Time-Series graph

- Using Data from the 394 Handbook :
<https://workforcesecurity.doleta.gov/unemploy/hb394.asp>
- Select the “Taxable Significant Measures” category
- Select the State and the Year
- Select all of the Data and Copy into Excel Spreadsheet
- Use the “Benefits Paid”, “Avg. Employer Tax Rate” and “Reserve Ratio”
to create a graph (select combo graph)