

## UNEMPLOYMENT INSURANCE BACKGROUND

The Unemployment Insurance (UI) trust fund is back in the black after two years of borrowing from the federal government. As of July 2007, the trust fund balance was approximately \$527 million, which is significantly below the U.S. Department of Labor's solvency guideline of \$1.4 billion. However, the current tax structure should help build an appropriate balance over time.

**Unemployment insurance tax structure.** An employer's UI tax liability has five components - the minimum rate, an experience rate, the taxable wage base, a surcharge and a solvency assessment. The formula is:

$$UITax = \left[ \sum_{All\ Workers} Taxable\ Wage\ Base \times (Min.\ Tax\ Rate + Exp.\ Rate) \times (1 + Surcharge\ Rate) \times (1 + Solvency\ Assessment) \right]$$

This formula does not take into consideration the 0.1-percent special assessment that finances the Workforce Development Fund (formerly the Dislocated Worker Fund). (For more information, see the Workforce Development policy.)

**Minimum tax rate, surcharge and falling fund adjustment:** The minimum tax rate is a function of the level of the UI Trust Fund as a percent of total covered wages March 31 of the previous year. For example, on March 31, if the trust fund balance as a percent of total covered wages is more than 0.75 percent, the minimum tax rate for the following year is 0.1 percent. The minimum tax rate varies between 0.1 percent and 0.4 percent. Surcharges also are added if the trust fund is at lower levels. A 5-percent surcharge is implemented when the trust fund balance as a percent of covered wages falls between 0.45 percent and 0.55 percent. The table below shows the minimum tax rate and surcharge structure.

Trust Fund Balance as a Percent of Total Covered Wages on March 31 <sup>st</sup>	Minimum Tax Rate	Surcharge	Subject to Falling Fund Adjustment
More than 0.75%	0.1%	None	No
0.65% - 0.75%	0.2%	None	Yes
0.55% - 0.65%	0.3%	None	Yes
0.45% - 0.55%	0.4%	5%	Yes
0.35% - 0.45%	0.4%	10%	Yes
Less than 0.35%	0.4%	14%	Yes

If the trust fund balance March 31 of any year is 10 percent or more below its level on March 31 of the previous year, 0.1 percent would be added to the minimum tax rate. This adjustment is called a falling fund adjustment. The falling fund adjustment also is triggered when the trust fund balance June 30 of any year is less than it was March 31 of the same year. In 2002, about 75,000 of the 112,000 experience rated employers were at the minimum tax rate.

The falling fund adjustment is designed to make the system more responsive to changing economic conditions. If the trust fund balance March 31 of the current year falls more than 10 percent from March 31 of the previous year, the amount of UI benefits being paid out over that time is at least 10 percent greater than the amount of UI taxes and interest being collected. That could be a signal that a recession is coming. Similarly, if the trust fund balance June 30 of any year is less than the balance on March 31 of the same year, the balance has dropped during a period in which the state receives about 40 percent of its annual UI tax payments. That shows a significant change in employment has occurred.

**Experience rate:** An employer's experience rate is directly related to the amount of benefits that former employees have collected. The experience rate factor is designed to recover the cost employers' place

on the unemployment compensation system. The experience rate factor is calculated using the following formula.

$$\text{Experience rate} = \frac{1.25 \times \text{total benefits charged during last 4 years}}{\text{total taxable payroll during last 4 years}}$$

The state caps the experience rate at 8.4 percent. Therefore, the maximum tax rate (minimum rate plus experience rate) can vary from 8.4 percent to 9.3 percent, depending on the level of the minimum tax rate. (The 9.3-percent maximum rate does not include the workforce development tax or any surcharge or assessment that might be applied.)

**Taxable wage base:** The taxable wage base is the amount of each worker's wages that is subject to taxation for unemployment insurance purposes. It is calculated as 60 percent of the statewide average annual wage rounded to the nearest thousand dollars. In 2006, the taxable wage base was \$242,000.

**Solvency assessment:** A solvency assessment of between 2 percent and 8 percent can be levied if the Department of Economic Security thinks the state will be forced to borrow from the federal government to pay its UI benefit obligations. The assessment can be used only to pay interest expense on borrowing. If the state borrows money but is able to pay it back before September 30, no interest is owed the federal government.

**Regular unemployment insurance benefits:** To qualify for benefits, an individual must have earned \$1,000 in a high quarter and an additional \$250 in the rest of the base period (first four of the last five completed calendar quarters). In addition, individuals must be unemployed through no fault of their own, able to work, available to work, and actively seeking work. An individual's weekly benefit amount is the greater of the following:

- The highest quarter of wages divided by 26 up to a maximum of 45 percent of the statewide average weekly wage (SAWW).
- The total base period wages divided by 104 up to a maximum of 66 2/3 percent of the SAWW.

The maximum total dollar amount an individual may receive is the lesser of the weekly benefit amount times 26 or total base period wages divided by 3.

**Extended unemployment insurance benefits.** Employees who lose their job through no fault of their own can receive a maximum of 26 weeks of benefits; however, on eight occasions over the last 15 years the Legislature has granted benefit extensions ranging from six to 26 weeks to employees of specific employers. In addition, Minnesota's general UI law provides for an additional 13 weeks of benefits for workers of companies which laid off 50 or more workers, represented 50 percent or more of its workforce, and the county in which the business was located had a total unemployment rate of 10 percent or more. The general law was most recently triggered in 1997 for two employers that laid off workers due to a 1997 flood.

In 2001, the Legislature debated whether to provide laid-off LTV workers and workers of LTV vendors an additional 78 weeks of benefits. The proposal also allowed workers to leave the Iron Range for a job and still be eligible for extended benefits if they voluntarily quit and returned to the Range. Governor Jesse Ventura and the business community were concerned about the policy precedent of the LTV legislation. Ventura suggested that extended UI benefits should be awarded only if the following criteria were met:

- The employer is officially bankrupt.
- The community is disproportionately affected by a layoff of the employer.
- The community affected is in a remote location, where re-employment opportunities are limited.

- The employees receiving extended benefits attend job training/education that improves and diversifies their skills.

In the end, the Legislature used the governor's criteria. It extended benefits for laid-off LTV workers by 26 weeks, did not extend benefits for workers of LTV vendors, and eliminated the provision that allowed an individual to quit a subsequent job and return to the Iron Range and still collect benefits. The legislation did not contain a provision that would negate additional state benefits if the federal government also extended benefits to these employees.

In 2002, the federal government provided 13 weeks of extended benefits to workers who were initially laid off after March 19, 2000, and remain unemployed or underemployed after March 10, 2002. The federal program expired Dec. 31, 2002. In addition, the Legislature ignored the Ventura administration's criteria and passed UI benefit extensions for several groups. Former Farmland Foods workers, airline workers laid off after September 11, 2001 and before June 1, 2002, and Fingerhut workers were provided with 13 weeks of extended benefits. The Legislature also provided extended benefits to individuals who failed to qualify for the 13-week federal extension. In 2003, the federal government provided another UI benefit extension. Given the federal action, the Legislature did not consider new benefit extensions.