



Briefing: Unemployment Insurance Trust Fund

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House Appropriations Committee

January 27, 2021

Unemployment Trust Fund Background

- Funded through state unemployment contributions/UI taxes (calculated as a % of taxable wage base) and reimbursements paid by employers
 - Employees do not pay into the trust fund

- Provides temporary partial income replacement benefits to qualifying employees
 - Qualifying employees are those who become unemployed through no fault of their own
 - Workers who quit a position or are fired for misconduct are examples of employees who would not qualify for benefits

Unemployment Trust Fund Revenues

- Taxable Wage Base - \$9,000; increasing to \$9,500 in 2021 due to UI Trust Fund dropping below \$2.5B
- First four years of business liability are treated differently
 - Years 1 and 2 – 2.7% of taxable wages for most; higher for construction
 - Years 3 and 4 – based on history of benefit charges and taxable wages and a base rate
- After year 5, employer tax rate determined by adding three components:
 - *Chargeable Benefits Component* (experience)
 - Function of Benefits paid/taxable wages over 3 yr period
 - *Account Building Component* (experience)
 - Function of required reserve and actual reserve in employer account
 - *Nonchargeable Benefits Component*
 - Generally flat at 1.0% of taxable wages; employers with few or no benefits charges can have rate as low as 0.06%
- Total UI tax rates can range from 0.06% to 10.3%

Unemployment Trust Fund Expenditures

- Used to pay UI benefits for covered employees who become unemployed
- States have flexibility to set parameters on unemployment insurance benefits, including benefit amounts, duration, and eligibility
- Michigan maximum weekly benefit is \$362
- State statute caps benefits at 20 weeks; increased to 26 weeks for those individuals qualifying during the pandemic and prior to December 31, 2020

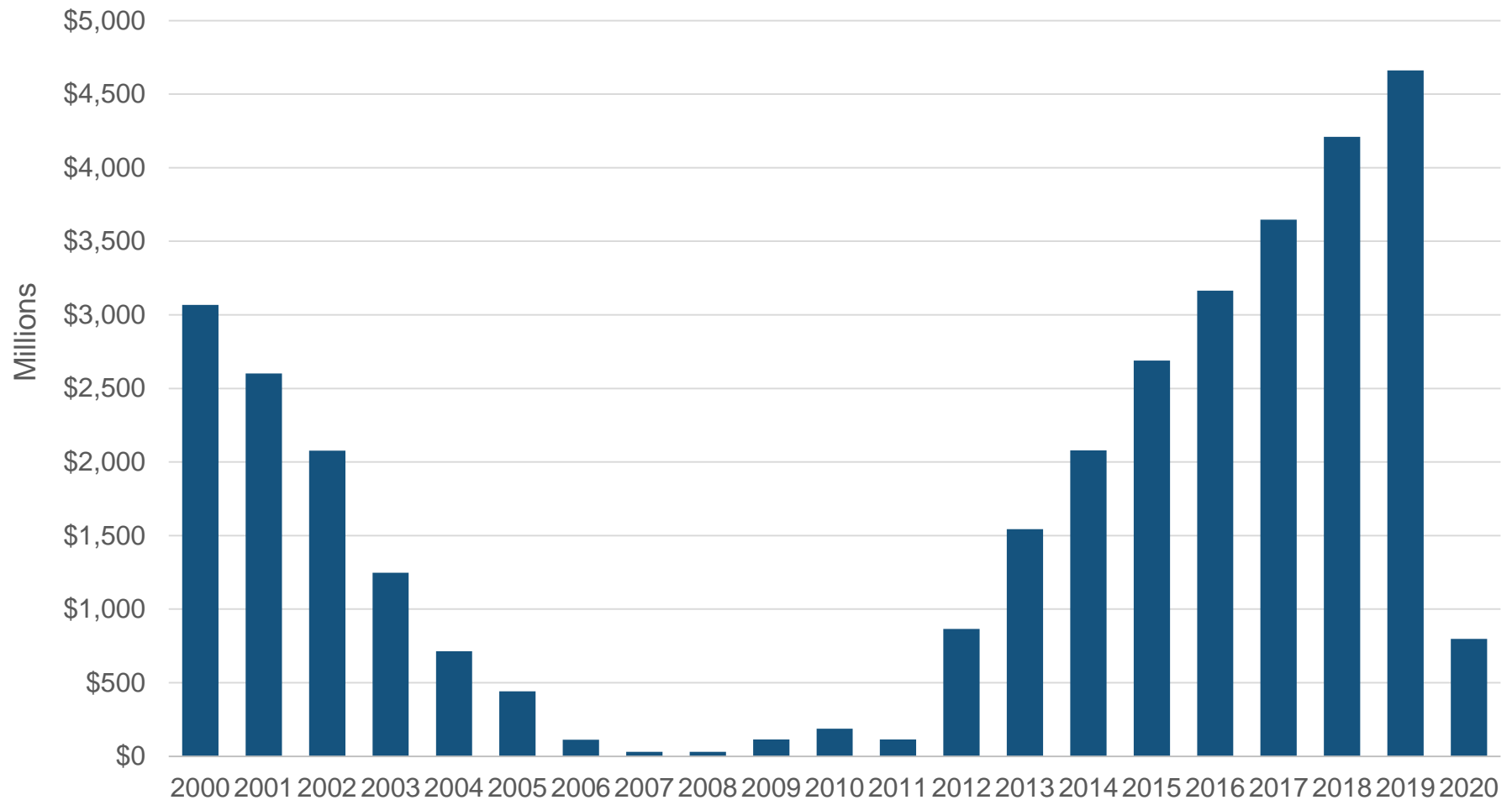
Unemployment Trust Fund Health

- U.S. Department of Labor assesses health of Unemployment Trust Funds using various methods
 - Reserve Ratio
 - Compares trust fund balance to state's total annual covered wages
 - Michigan as of Jan. 1, 2020 – **2.46**
 - Michigan as of Jan. 1, 2008 – **(0.07)**
 - Solvency Level
 - Divides Reserve Ratio by Average Benefit Cost Rate
 - Solvency rate >1 usually indicates healthy enough to weather average recession
 - Michigan as of Jan. 1, 2020 – **1.14**
 - Michigan as of Jan. 1, 2008 – **(0.03) est.**
 - High Cost Multiple (HCM)
 - HCM of 1.0 means state has 1 year of reserves at its historically highest level of benefit payments
 - Michigan as of Jan. 1, 2020 – **0.66**
 - Michigan as of Jan. 1, 2008 – **(0.02)**

Unemployment Trust Fund Health (cont.)

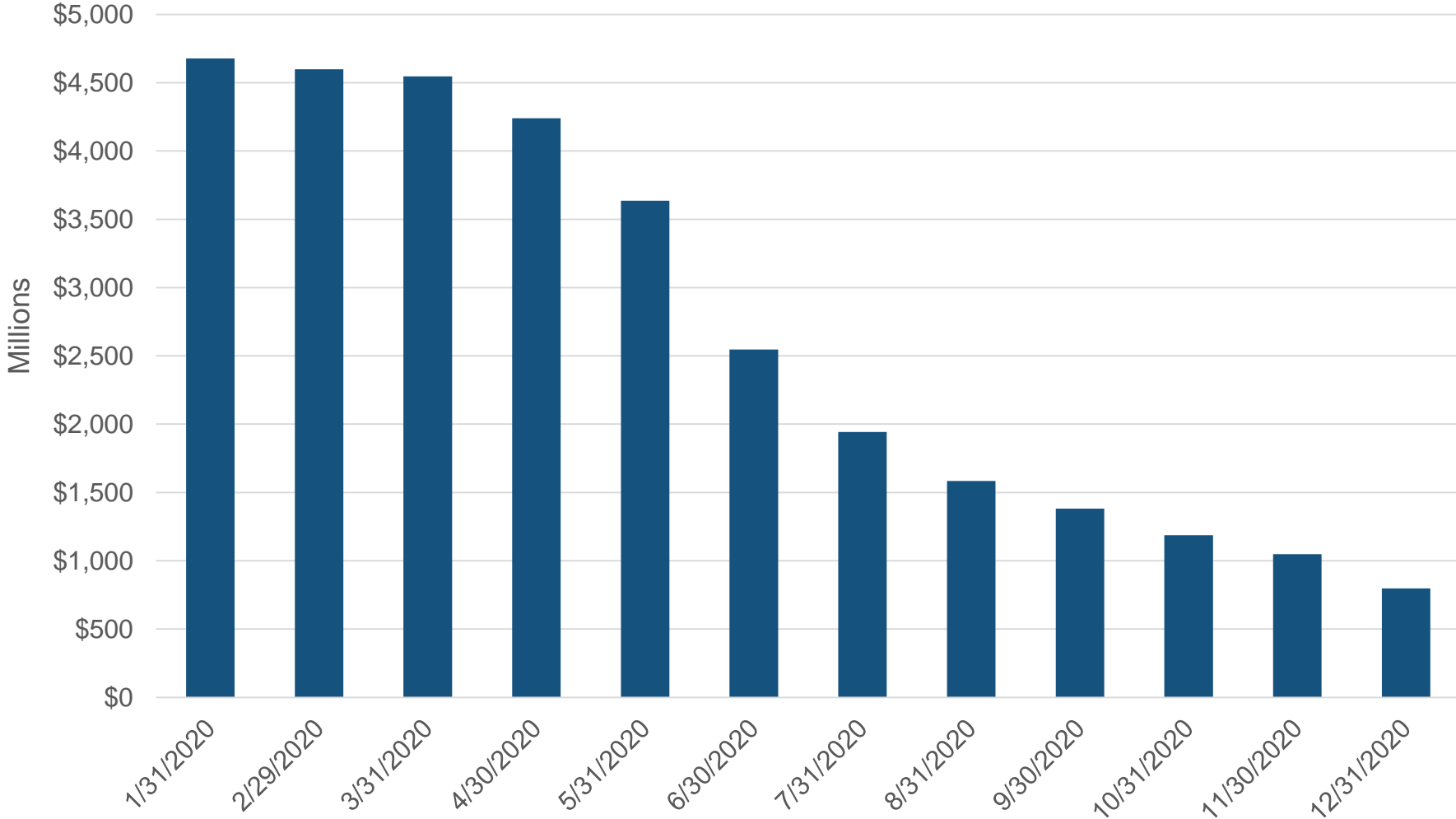
- During Great Recession Michigan borrowed from federal UI trust fund to provide UI benefits because of state UI trust fund insolvency
- In 2012, in part to avoid triggering a higher federal unemployment tax, Michigan effectively refinanced \$3.2 billion in federal UI debt by issuing bonds
- Bonds were paid off early at the end of CY 2019 reducing employer taxes by between \$65-\$217 per employee (Obligation Assessment)

Unemployment Trust Fund - Year End Balance History

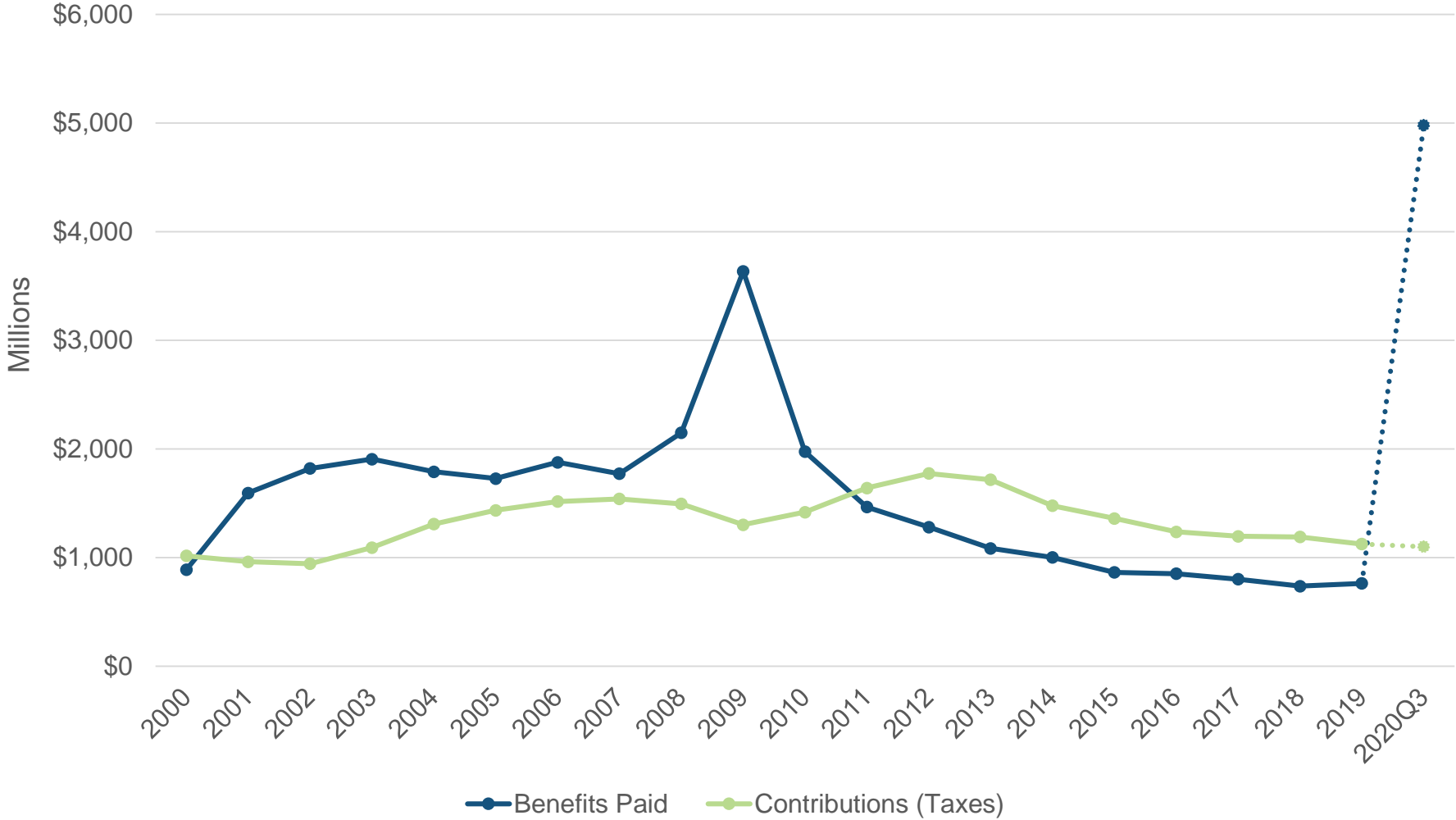


Note: Michigan borrowed from the federal government to finance unemployment benefits from 2007 to 2010. Michigan issued bonds totaling \$3.2 billion in 2012 to refinance outstanding UI trust fund debt

Unemployment Insurance Trust Fund Monthly Balances CY 2020 – Effect of COVID-19 Pandemic



Unemployment Insurance – Benefits Paid vs. Tax Revenue



Note: Between 2012 and 2015 taxable wage base was \$9,500; taxable wage base increases to \$9,500 in 2021

COVID-19 Implications

- Benefits paid to individuals unemployed due to COVID-19 are being charged to the UIA's nonchargeable account
- Taxable Wage Rate increased from \$9,000 to \$9,500 in 2021 due to UI Trust Fund balance remaining below \$2.5 billion
- Necessity of borrowing to finance benefits will depend on the trajectory of the pandemic and economic conditions

For more information about the Unemployment Insurance Trust Fund:

Contact Information

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