



Oregon

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March 8, 2013

The Honorable Representative Barnhart, Chair
House Committee on Revenue
900 Court Street NE, Room 143
Salem, Oregon 97301

RE: Unemployment Insurance Trust Fund Questions - March 1, 2013 Hearing

Dear Chair Barnhart:

During the March 1, 2013 Informational Meeting on the Revenue Forecast for Other Funds, committee members asked a number of questions about the Unemployment Insurance Trust Fund. This letter provides additional information in response to the following questions or requests:

- The amount of federal funds Oregon received for Unemployment Insurance (UI) benefit extensions.
- Oregon's UI tax rates and schedules and how the self-correcting mechanism for the UI Trust Fund works.
- Information about the repayment of federal loans taken by states during the recession to pay UI benefits.

Federal Funds for Unemployment Insurance

The state UI Trust Fund, paid for by employer payroll taxes, funds regular UI benefits. During the recent recession, the federal government fully funded Emergency Unemployment Compensation benefits (EUC) and Extended Benefits, which is normally funded equally by Oregon and the federal government. In calendar year 2012, a total of \$692 million in federally funded benefits were paid in Oregon. This compares to the \$798 million in state funded UI benefits that were paid.

Oregon's Unemployment Insurance Program

Oregon has eight tax schedules, each schedule having multiple tax rates. Within each schedule, employers who have more claims pay higher tax rates, while those with fewer claims pay lower rates. The higher numbered tax schedules have higher UI tax rates for all employers.

A statutory formula looks at the health of the UI Trust Fund. When the fund balance decreases, Oregon moves into the higher tax schedules so the UI Trust Fund can be replenished. The Trust Fund balance decreases when the Department is paying out more in benefits than it receives in payroll taxes, something that takes place during periods of high unemployment. As the UI Trust Fund balance increases, lower tax schedules apply.

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The Department makes an annual determination, using the statutory formula, on what tax schedule applies for the following calendar year. These shifts between tax schedules are intentionally delayed compared to economic conditions. This avoids having UI payroll taxes increase quickly during the peak of a recession.

Oregon's UI system also automatically adjusts to economic trends by annually adjusting the minimum and maximum benefit amounts people may receive, and the taxable wage base – the amount of each worker's payroll that is subject to UI tax, based on Oregon's average wages.

The combination of these automatic adjustments creates a self-balancing UI system. The Trust Fund remained healthy during the Great Recession, as it has during prior economic downturns, without the Department or Legislature having to modify the structure during the midst of difficult economic conditions.

Repayment of Federal Loans for UI Benefits

As stated in the informational meeting, Oregon did not have to borrow from the federal government to pay state UI benefits during the recession. Between 2008 and 2012, 36 states borrowed over \$102 billion in federal funds to pay their UI benefits when their trust funds became insolvent. The federal government waived interest on those loans for a time, but the interest waiver expired at the end of 2010 and states are now being charged interest on those loans. For example, in 2013, states are being charged 2.57% interest on amounts borrowed from the federal government. Some states are also facing reductions in the amount of credit its employers receive against their Federal Unemployment Tax Act (FUTA) obligations.

As of February 28, 2013, 23 states still owe nearly \$29 billion in federal advances, with federal interest since October 1 (FY2013) already at \$313 million. This does not include money states borrowed on the bond market to fund regular UI benefits.

Please let me know if you have any further questions.

Sincerely,



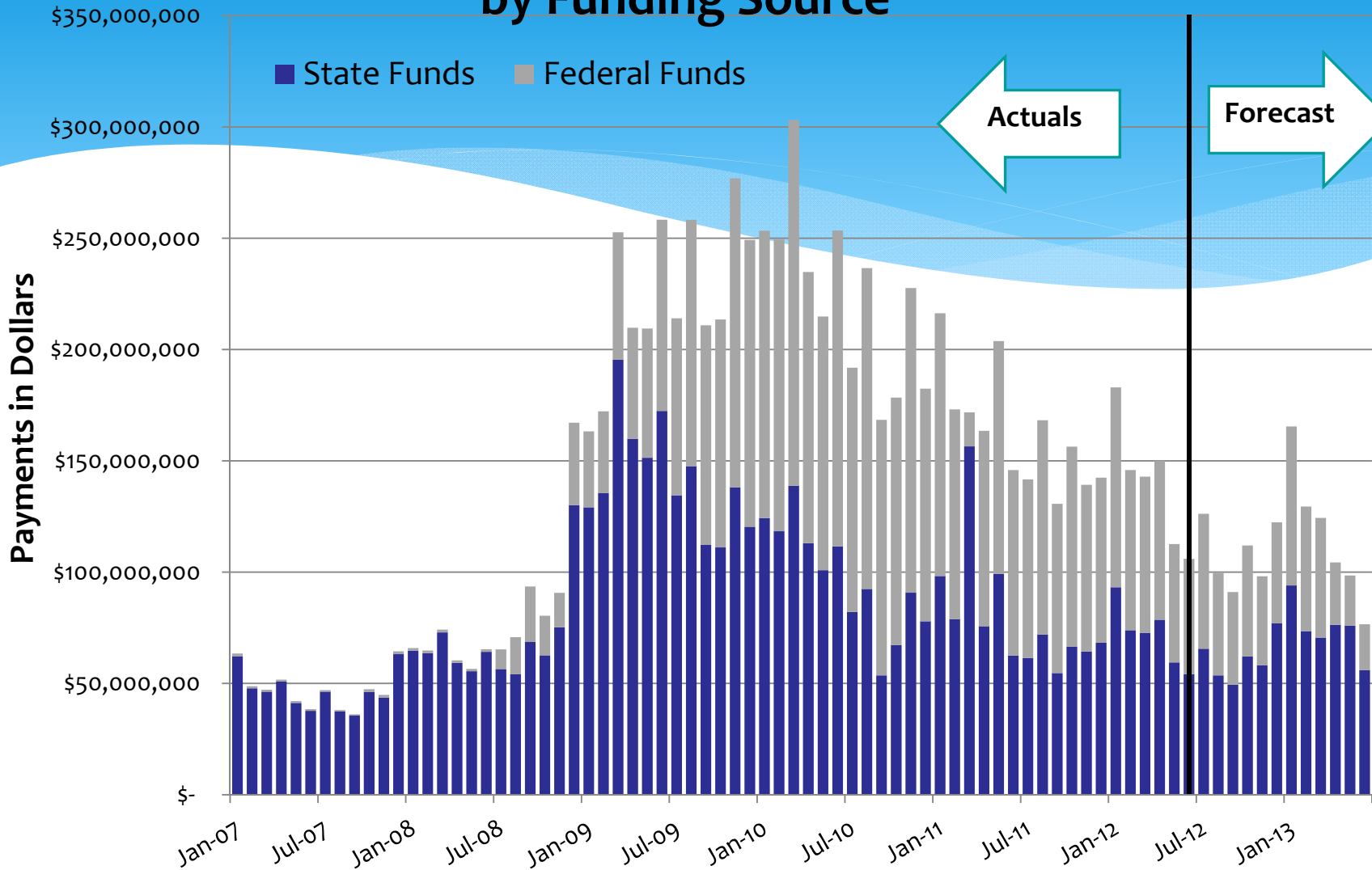
Laurie A. Warner
Director

Attachments (2)

- UI Total Benefits Paid by Funding Source
- Average Tax Rate for the UI Tax Schedules

c: Members, House Committee on Revenue
Paul Warner, Legislative Revenue Officer
Josh Lehner, Office of Economic Analysis

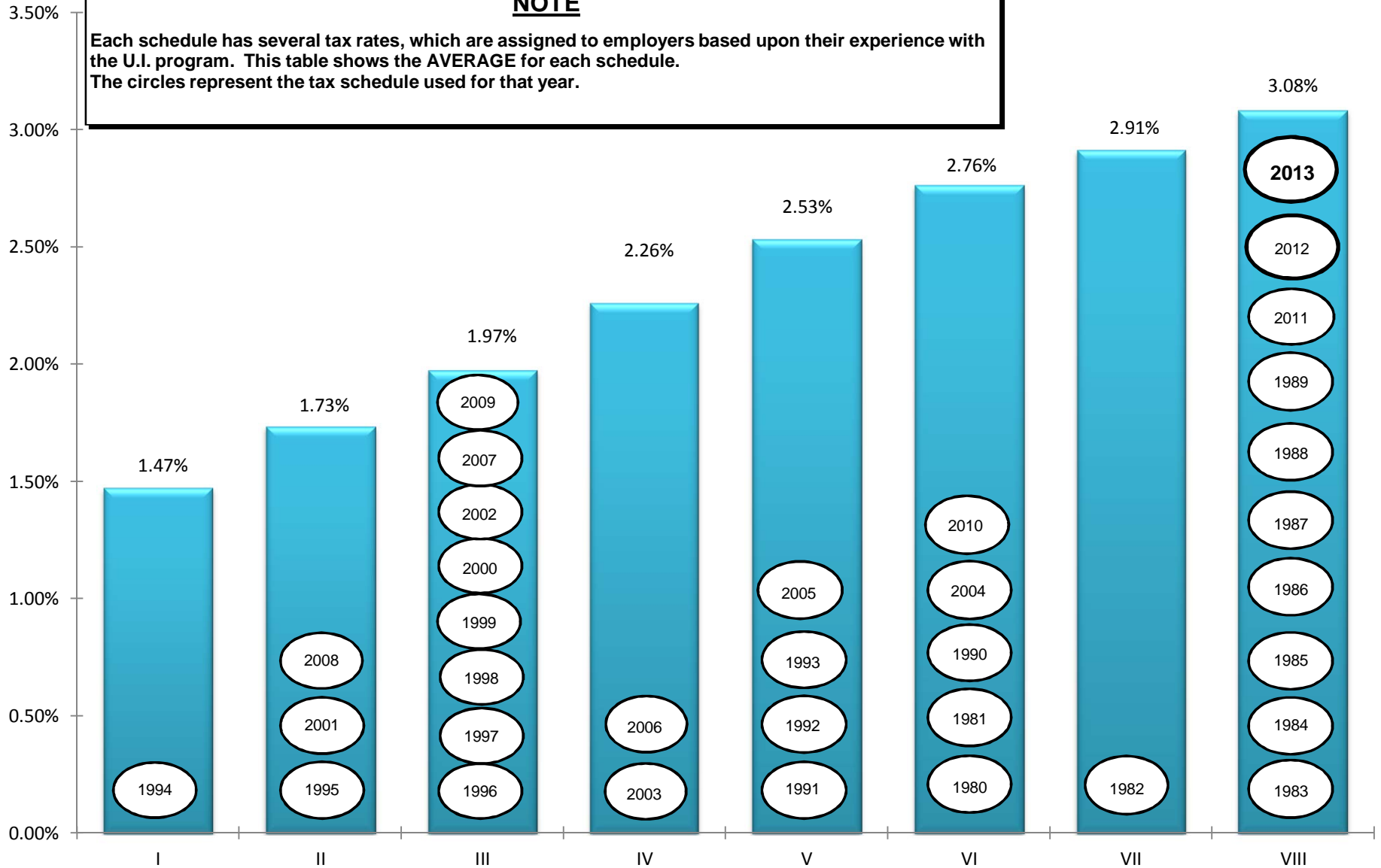
Unemployment Insurance Total Benefits Paid by Funding Source



AVERAGE TAX RATE FOR THE U.I. TAX SCHEDULES

NOTE

Each schedule has several tax rates, which are assigned to employers based upon their experience with the U.I. program. This table shows the AVERAGE for each schedule. The circles represent the tax schedule used for that year.



Annual Tax Schedules 1980-2013