



Senate Committee on Labor and Business

Unemployment Insurance Taxes

David K. Gerstenfeld, Acting Director

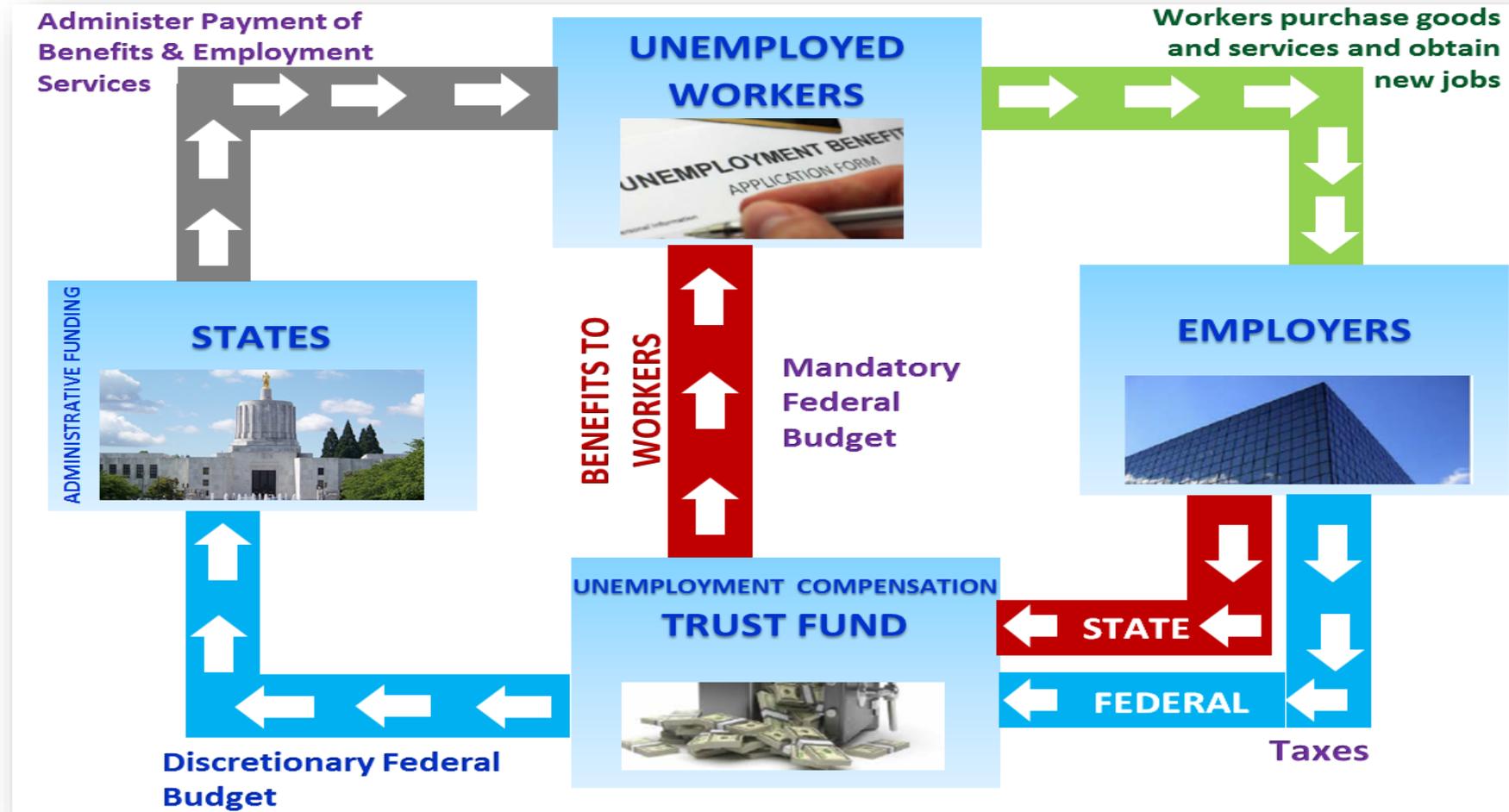
January 21, 2021



Federal-State Partnership

- Oregon employers pay state UI payroll taxes
 - Many governmental and non-profit employers do not pay a payroll tax, but instead directly reimburse the UI Trust Fund for benefits paid
- The federal government holds that money in the UI Trust Fund for Oregon to pay UI benefits
- If Oregon conforms to federal requirements
 - Oregon employers receive a 5.4% credit towards their federal payroll (FUTA) taxes. This saves Oregon employers over \$500 million a year in FUTA taxes
 - U.S. Department of Labor provides an administrative grant to operate the UI program (covers about 70% of the cost of administering UI)

Unemployment Insurance and Employment Services System



Stronger UI safety nets require more taxes to fund the benefits

What happens if a Trust Fund goes insolvent

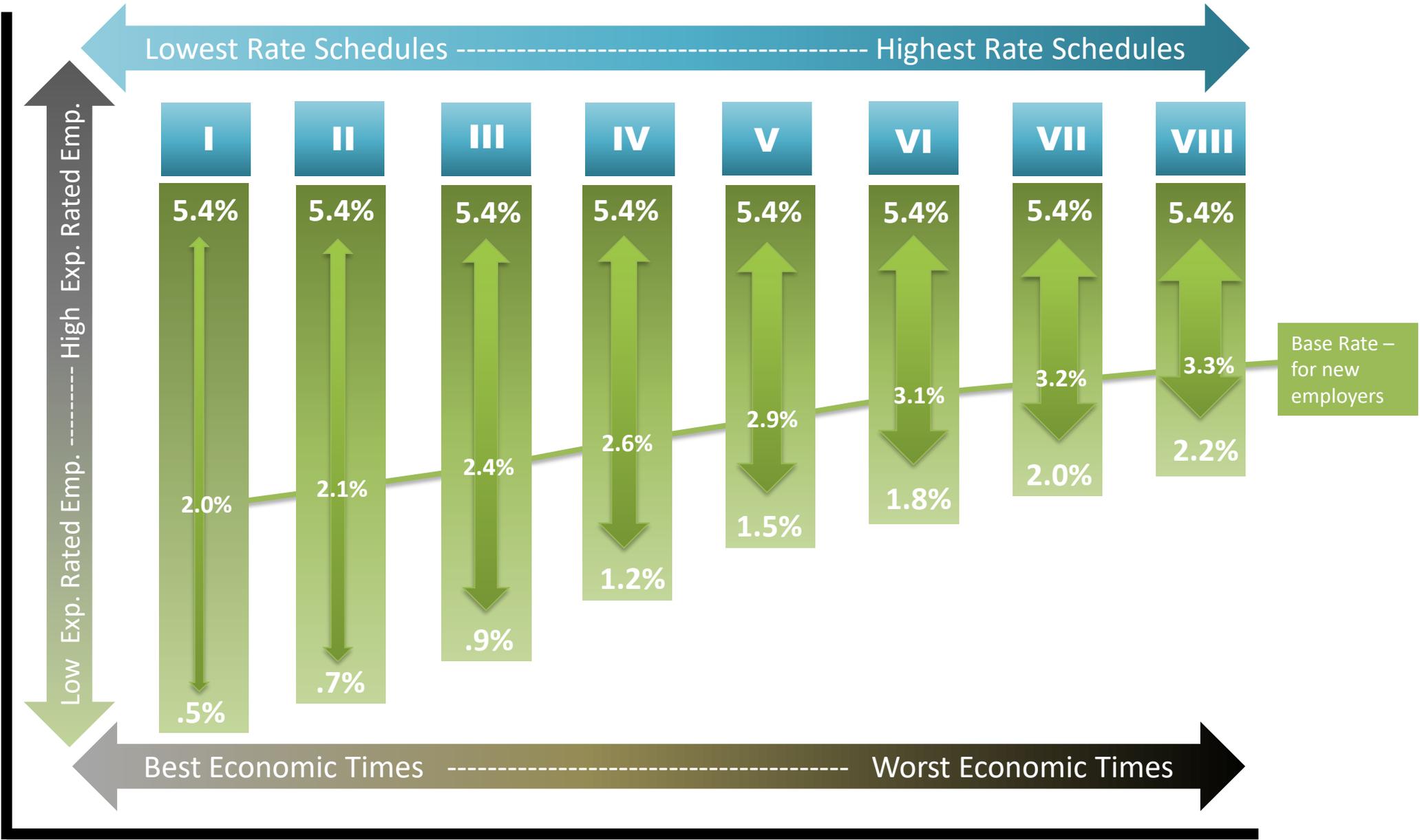
- States can borrow from the Federal government through the Title XII program
 - Interest on advances is charged on a daily basis.
 - Pandemic related federal legislation deferred interest through March 14, 2021.
 - FUTA tax credits are reduced for borrowing states' employers; the reduction increases over time
- States can use private sector borrowing, like revenue bonds, to repay the federal government for their outstanding loans. Eight states used the private market to finance UI debt following the Great Recession
- Some states only repaid the money borrowed during the Great Recession to pay regular UI benefits shortly before the pandemic began
- When states borrow money, its employers have increased costs



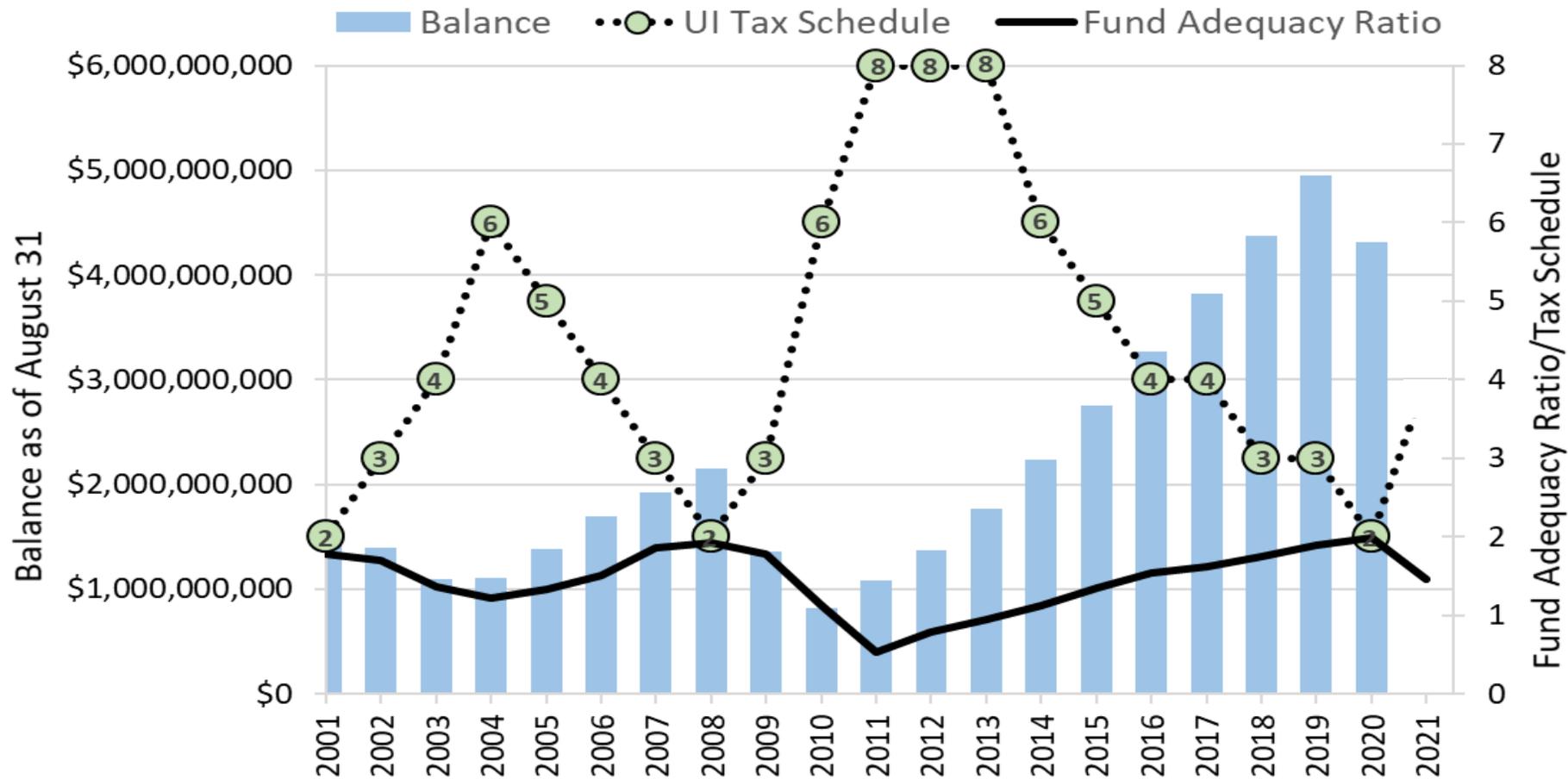
Oregon's tax schedule and tax rate approach

- Many parts of Oregon's UI benefits and taxes are indexed to larger economic conditions – this maintains the health of our UI Trust Fund
- Employers have a UI tax rate that gets applied to the 'taxable wage base' paid to each subject employee
- Employer tax rates are determined by two factors: 1) which of eight tax schedules is in place; and 2) the employer's "experience rating"
- 5.4% is the maximum tax rate in any of the eight schedules—the lowest permissible rate that can satisfy the federal conformity requirement
 - 40 states have maximum tax rates above 5.4%, ranging up to 18.55%





Oregon has a self-balancing tax schedule



The UI tax schedule is determined by the **Fund Adequacy Percentage Ratio** (ORS 657.459).

Oregon's schedules are designed to provide sufficient reserves to cover 18 months of a recession. Schedule 4 is the equilibrium (145%-170% ratio).

Tax rates are sent to individual businesses in mid-November (ORS 657.485)



Oregon's tax schedule and tax rate approach

- Employer's UI experience is given by their **benefit ratio**—benefit charges divided by the employer's taxable payrolls (ORS 657.462)
- Experience rating does not change the tax schedule, it determines the rate within a schedule
- Experience rating is based on charges and payroll for the 12 prior calendar quarters (for 2021 that means July 2017 to June 2020)
 - Tax rates for first year employers range from 2.0%-3.3% (ORS 657.435)
- **This recession is about 8% of the time period used to calculate employers' UI tax rates for 2021**



Some types of benefits do not impact employer tax rates even in non-pandemic times

- Unemployment Compensation for Federal Employees (UCFE)
- Unemployment Compensation for Ex-service Members (UCX)
- Trade Act (TRA)
- Extended Benefits (EB)
- Disaster Unemployment Assistance (DUA)



Now, even more benefits are not impacting employer UI tax rates

- Federal Pandemic Unemployment Compensation (FPUC)
- Pandemic Unemployment Assistance (PUA)
- Pandemic Unemployment Compensation (PEUC)
- Work Share benefits for March 29, 2020 – March 13, 2021
- Lost Wages Assistance (LWA)
- Mixed Earner Unemployment Compensation (MEUC)

- CARES Act also pays for 50% of the benefit cost for reimbursing employers for March 29, 2020 – March 13, 2021

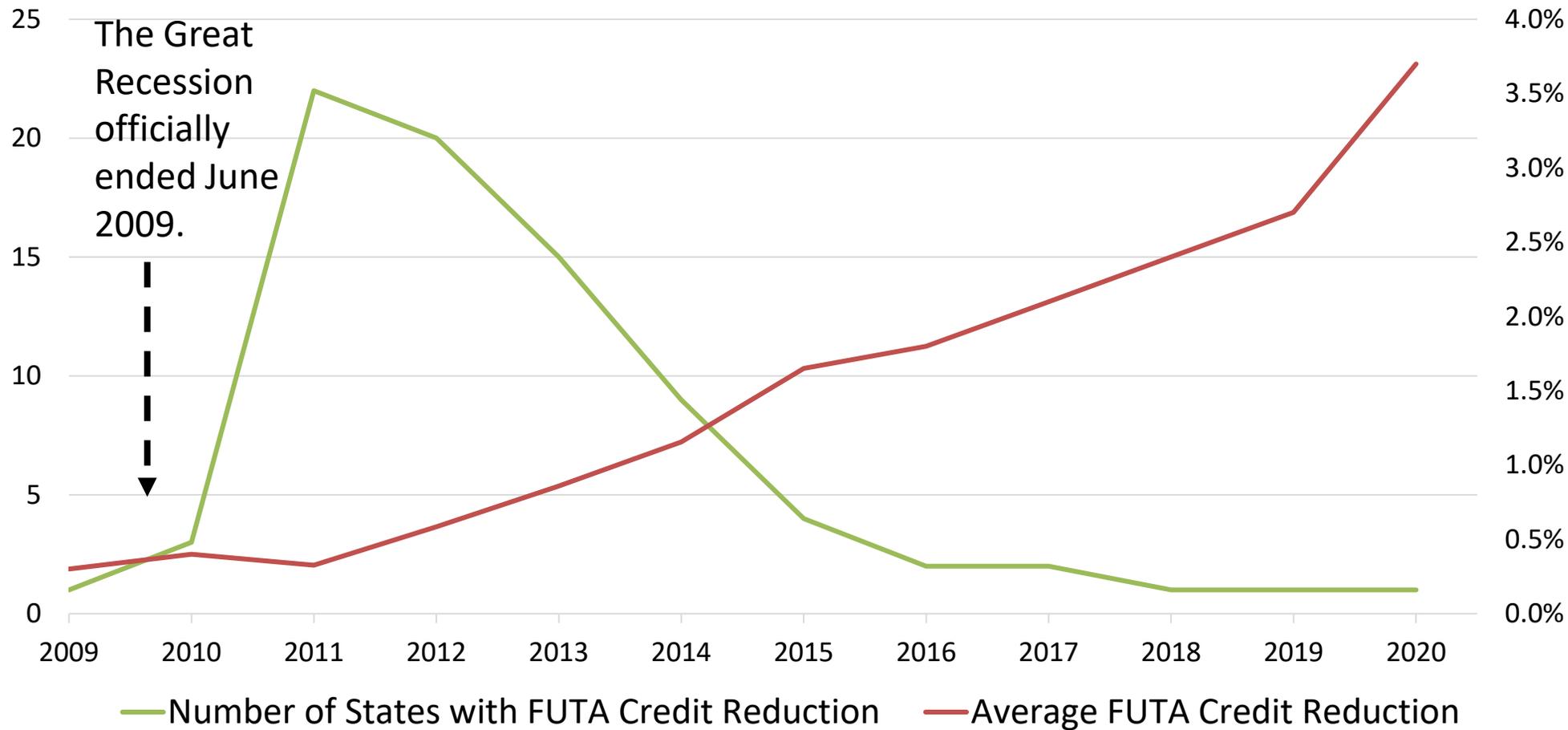


Otherwise chargeable benefits are not charged to taxpaying employers in some circumstances

- Voluntarily left work without good cause
- Voluntarily left work with good cause, but for reasons unrelated to the employer
- Discharged for misconduct
- Discharged for inability to satisfy job prerequisite required by statute or rule
- Other, less common situations, also result in 'non-charging' of benefits



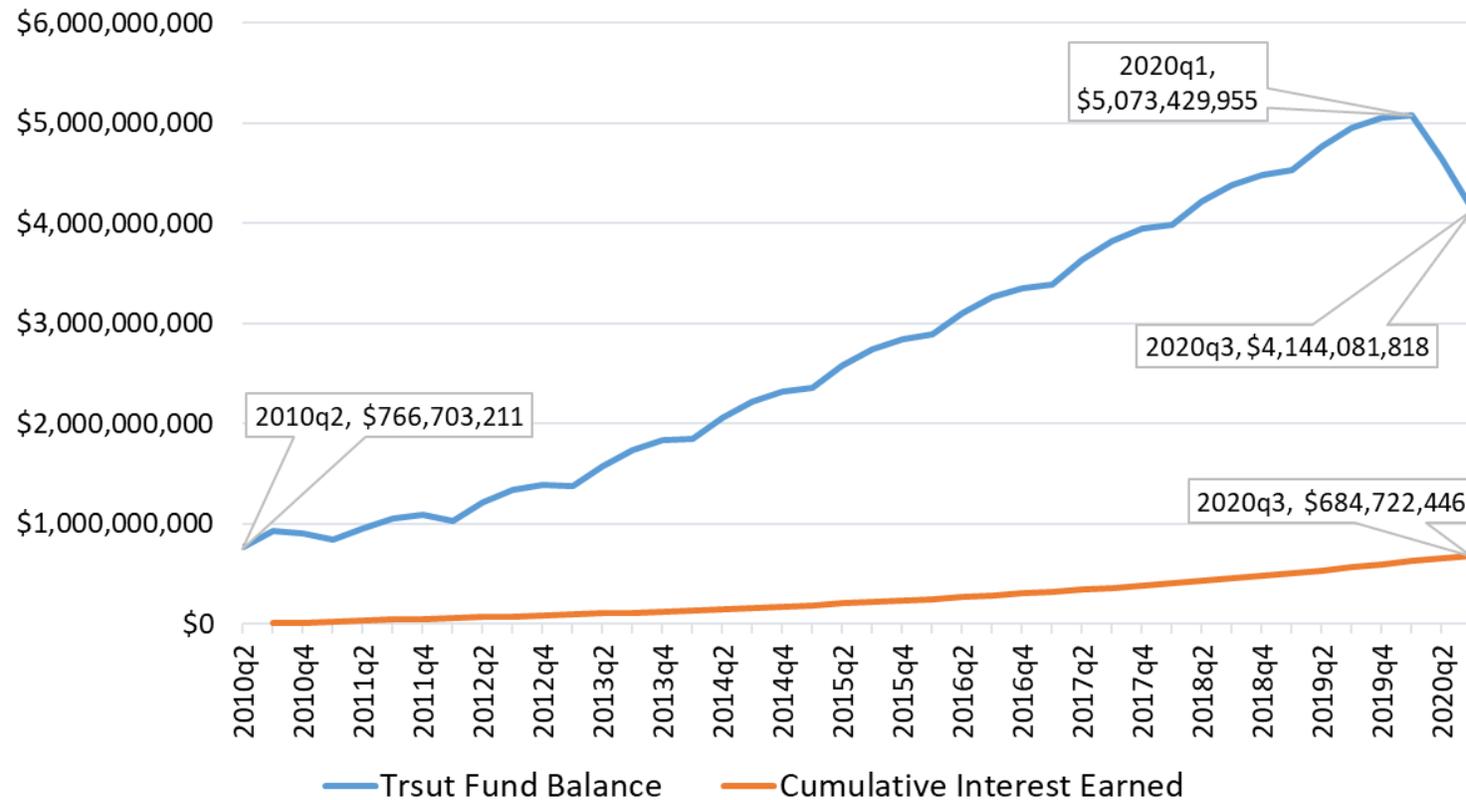
The cost of borrowing



It can take several years for FUTA tax credit reductions to kick in.

The credit reduction rate can increase over the life of the loan.

Oregon's UI Trust Fund has earned \$685 million in interest over the last 10 years – that reduces employer taxes

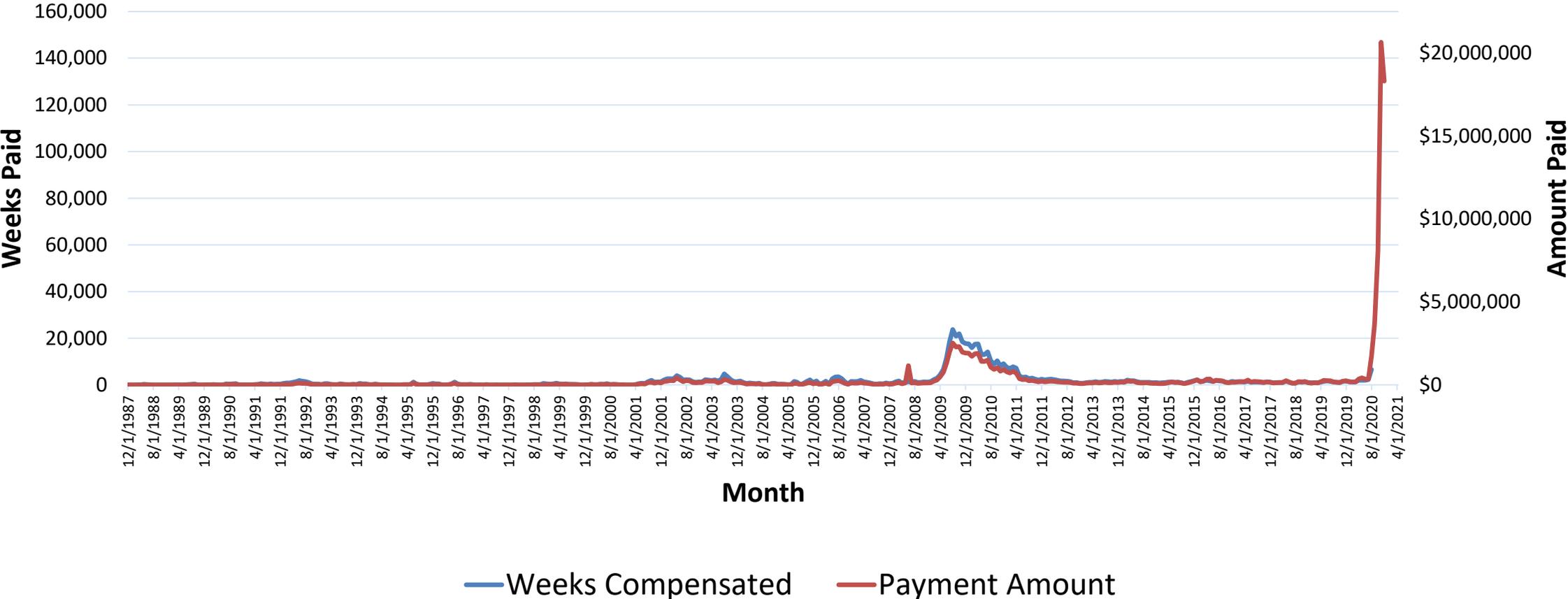


Increase in UITF balance from 2010q2 to 2020q3	\$3.4 billion
Cumulative interest earned from 2010q2 to 2020q3	\$685 million
Increase yo UITF balance due to interest earned	20%
Reduction in UITF Balance in 2020	\$929 million

Interest earned stays in the Trust Fund, helps keep Oregon in lower tax schedules. Money earned in interest is money that does not have to be collected in UI payroll taxes



Work Share program has saved Oregon's UI Trust Fund significant amounts

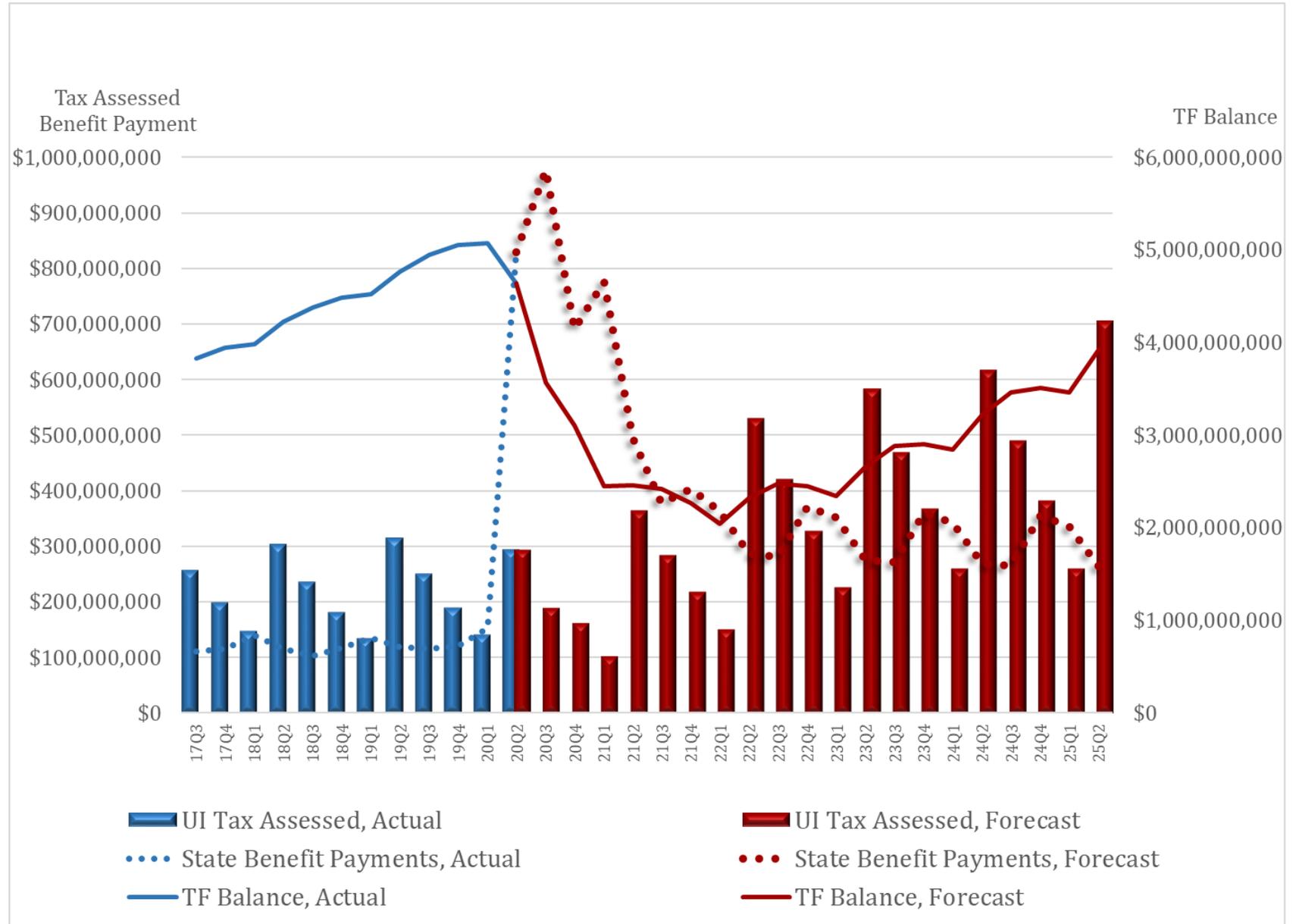


*Data through August 2020

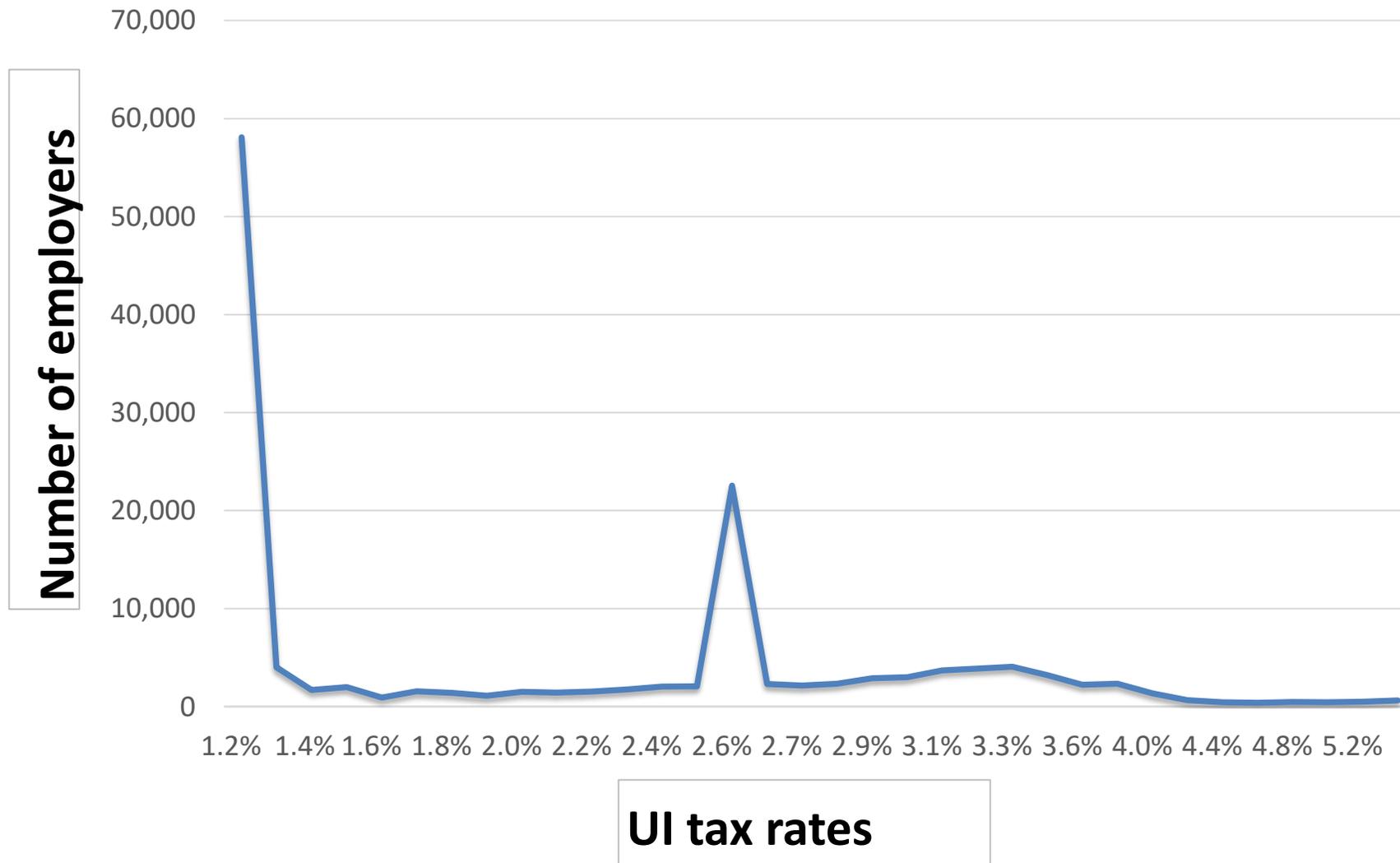


UI Trust Fund

- Oregon’s trust fund balance is \$3.79 billion. Down from \$5.1 billion in early March.
- UI trust funds typically see their low points a year or two after the onset of a recession.
- 19 states currently are borrowing \$47 billion to pay regular UI benefits.
- Oregon is in Schedule IV for 2021 - the baseline UI tax schedule.
- Oregon is projected to be in higher UI tax schedules for several years starting in 2022. Projections are very volatile, though.



Distribution of employer UI tax rates in 2021



- 58,000 employers (49%) are at the lowest tax rate in Schedule 4
- 22,500 (19%) are have a tax rate of 2.6% - the rate for new employers
- 632 (.5%) are at the maximum rate of 5.4%

Pandemic impacts on employer tax rates varied widely

Change in UI Tax rate from 2020 to 2021	Percent of UI taxpaying employers
No change	3.6% (5,300)
Increase of up to 1%	66.3% (96,400)
Increase of 1.1 – 2%	10.1% (14,600)
Increase of 2.1 – 3%	7.4% (10,700)
Increase of more than 3%	1.6% (2,300)
Decrease of up to 1%	9.9% (14,400)
Decrease of more than 1%	1.1% (1,500)

Some industries had higher increases than others. Among the more impacted are:

- Food service and drinking places
- Personal and laundry services
- Amusements, gambling and recreation
- Ambulatory health care services
- Motor vehicle and parts dealers
- Accommodation
- Miscellaneous store retailers

Employment Department provided tax relief early for Oregon businesses

- Effective March 2020, no penalties or interest if employers were unable to pay 1st quarter 2020 payroll taxes due to COVID-19, and if paid within 30 days after the end of the declared emergency
- Later extended to quarterly taxes for all of 2020
- Declared emergency period is still in place
- Filing payroll reports – on time and accurately - is still required. It is needed for the timely payment of benefits

Business UI tax relief for 2021

- For UI payroll taxes owed for 2021, if an employer's UI tax rate increased by .5% or more from 2020 to 2021, there are no penalties or interest if they
 - Timely file payroll reports
 - Pay at least 2/3 of each quarter's assessment on time
 - Pay remaining amount by June 30, 2022
- Will have mild adverse impact on Employment Department budget

Potential further statutory relief

- Use 2019 experience ratings for 2022 and 2023 – socializes the impact of the pandemic
- Temporarily suppress UI tax rates for 2022 – short term relief for businesses, but just postpones replenishment of reserves
- Carefully adjust statutory formula –
 - Increase time period looked at from 10 to 20 years
 - Adjust adequacy ratio levels

UI tax resources

- Tax Rate Information website:
<https://www.oregon.gov/employ/Businesses/Tax/Pages/Tax-Rate-Information.aspx>
- Payroll Tax Fact Sheet:
https://www.oregon.gov/employ/Businesses/Tax/Documents/EDPUB204_1120.pdf
- FAQs: <https://unemployment.oregon.gov//frequently-asked-questions#q-108766>
- Press release: <https://unemployment.oregon.gov/uploads/docs/Tax-Rate-Moves-to-Tax-Schedule-Four-for-2021.pdf>
- Employers can contact us by sending an email to [OED TaxInfo User@oregon.gov](mailto:OED_TaxInfo_User@oregon.gov) or calling 503-947-1488

Thank You

