The Health of Oregon's UI Trust Fund and Comparison to Other States

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Road map

- Take-home messages
- Background: Unemployment Insurance (UI) Trust Fund, benefits and tax
- Oregon's self-balancing UI tax system
- How states have borrowed to replenish their UI Trust Funds

Take-home messages

- Forward financing—the accumulation of pre-recession reserves to maintain solvency of the UI Trust Fund (source: National Employment Law Project).
- This prevents the need to borrow to pay benefits.
- The additional costs of borrowing are paid by subject employers.

Take-home messages (cont.)

- Only Oregon accomplished all of the following since the Pandemic Recession:
  - The passage of legislation to provide permanent UI tax relief for employers. Permanent tax relief in Connecticut and Louisiana was off-set by other expansions of tax burden.
  - The passage of legislation to permanently expand UI benefits. Also, Oregon was 1 of 24 states that did not end the federal expansion of pandemic benefits early.
  - It did not replenish its UI Trust Fund with alternative sources (federal UI loans, CARES recovery funds, ARPA recovery funds, non-federal UI loans and state general funds).

Take-home messages (cont.)

- Since Oregon did not replenish its UI Trust Fund with federal funds, the state was able to:
  - Avoid reductions of the federal payroll tax credit.
  - Avoid interest payments for a federal UI loan.
  - Avoid federal stipulations about how to administer its UI program.
  - Direct those funds to provide other needed support to Oregonians.
- In calendar year 2023, Oregon's statewide UI tax schedule—and the average tax rate for individual employers—is expected to drop for the second year in a row.

The UI Trust Fund is a federal-state partnership

- Oregon employers pay state (SUTA) and federal (FUTA) 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.
- U.S. Treasury holds these in the trust fund for Oregon to pay UI benefits.
- Since Oregon conforms to federal requirements:
  - Oregon employers receive a 5.4% credit towards their federal payroll tax. This saves Oregon employers $1.1 billion per biennium.
  - U.S. Department of Labor provides an administrative grant to operate the UI program. Before the Pandemic Recession, this covered on average about 70% of the cost of administering UI.

Oregon supports robust UI benefits

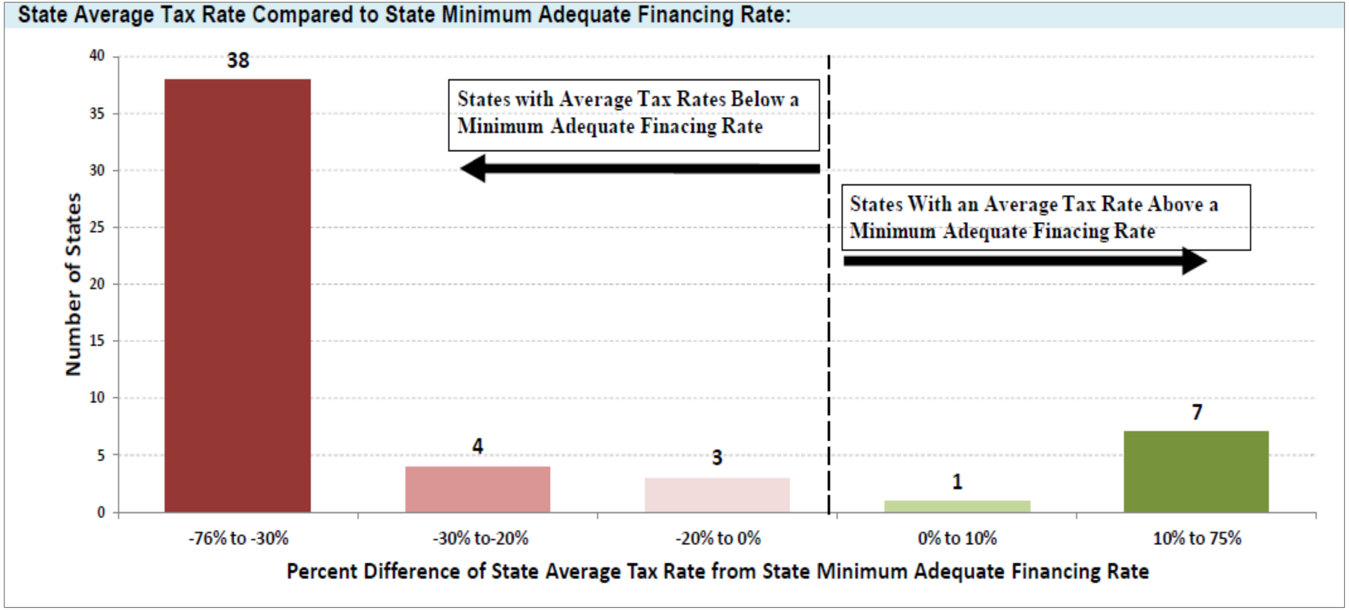
- 5 states passed legislation in 2021 or 2022 to permanently reduce the number of weeks of UI benefits—Iowa, Kansas, Kentucky, Oklahoma and Wisconsin (Center on Budget and Policy Priorities).
- Oregon passed Senate Bills 495 and 496 in the 2021 Legislative Session.
- Oregon has one of the most robust Work Share programs in the nation.
  - This program is an alternative to layoffs that improves employee retention.
  - Work Share benefit payments relative to taxable payroll are higher in Oregon than all states except Rhode Island and Connecticut.
- Oregon was 1 of 24 states that did not end the expanded federal benefits early in 2021.

Research has shown the value of expanded UI benefits during a recession

- A review of 30 empirical studies by the U.S. Government Accountability Office found that the expansions of UI during the Great Recession and the Pandemic Recession:
  - "specifically helped to stabilize the economy, prevented detrimental outcomes from worsening, and had a limited effect on workers' incentives to return to work."
- This "limited effect" was found even with the additional $25 FAC payment per week in the Great Recession and the additional $600 or $300 FPUC payment per week in the Pandemic Recession.

Oregon was 1 of 8 states with an adequate average UI tax rate in 2021

Oregon was 1 of 8 states in 2021 that had an average UI tax rate sufficient to adequately finance its UI program.



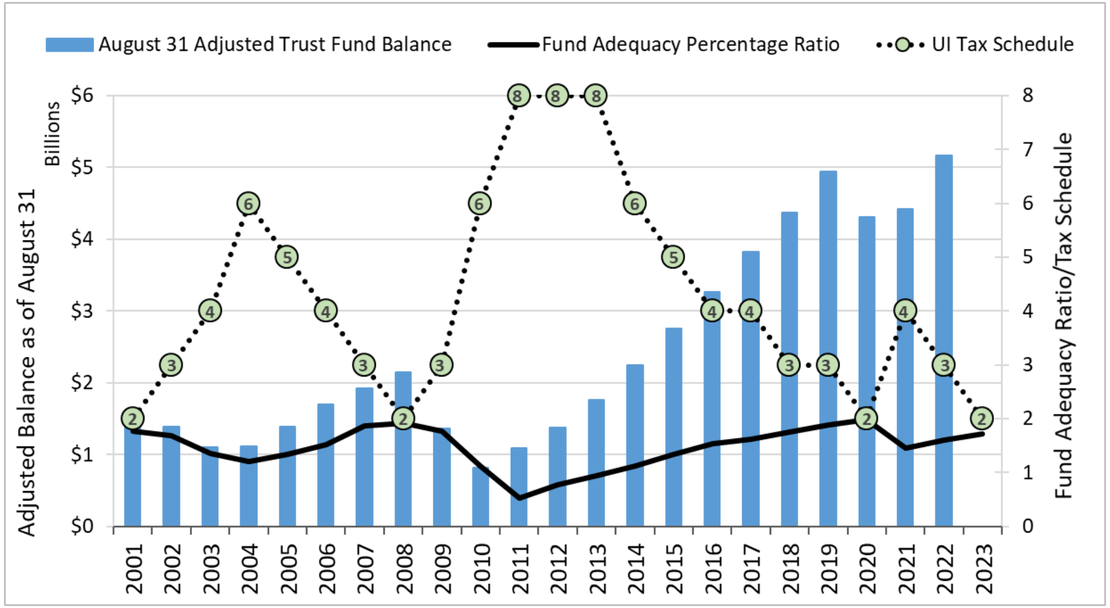
Source: U.S. Department of Labor

Oregon has a self-balancing statewide UI tax schedule

- Oregon had a federal UI loan to pay benefits in the mid-1970s, when legislative changes built the core of Oregon's self-balancing UI tax system.
- The fund adequacy percentage ratio determines which of Oregon's 8 schedules is in effect for a calendar year (ORS 657.459, 657.462).
- Within each schedule, individual employer rates are determined by the employer benefit ratio (ORS 657.462).
- HB 3389 (2021 Legislative Session) reduces UI tax contributions in 2021 – 2029 by $2.2 billion, mainly due to lower statewide tax schedules.

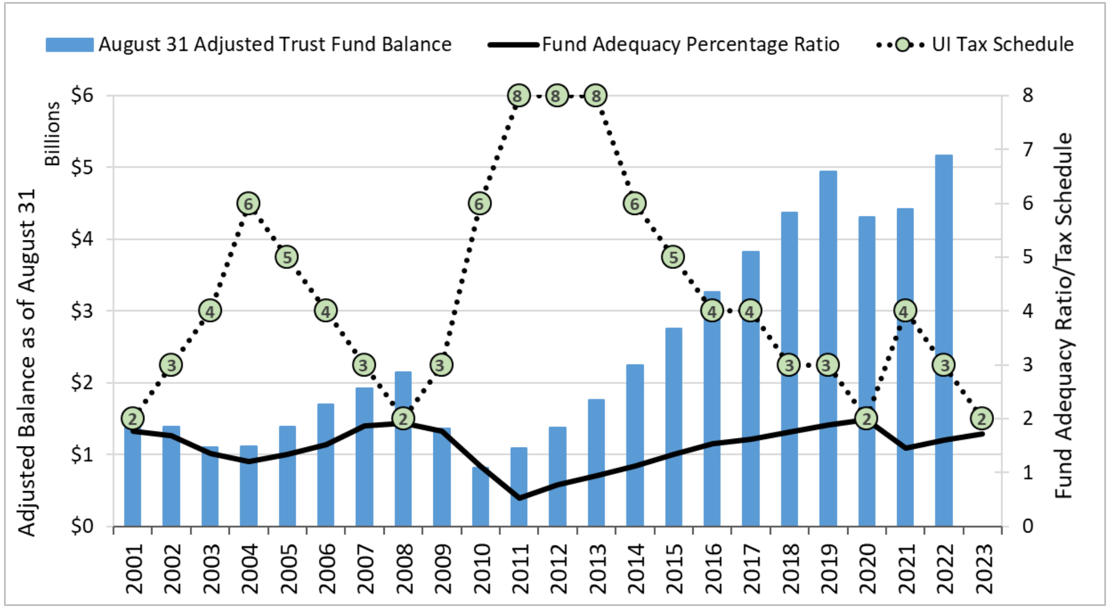
Oregon's statewide UI tax schedule will drop for the second year in a row

- Schedule 3 is in effect for calendar year 2022.
- Schedule 2 will be in effect in calendar year 2023.
- Some other states are increasing their tax schedules to maintain solvency.



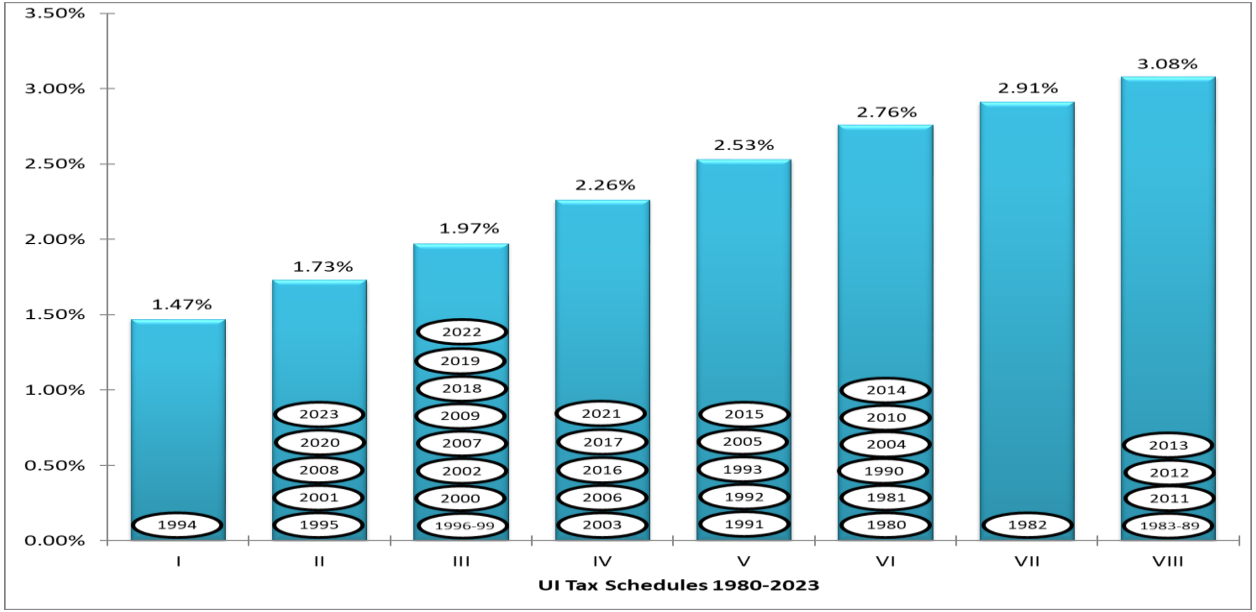
Oregon's statewide UI tax schedule will drop for the second year in a row (cont.)

- This will be only the 5th time since 1980 that schedule 2 will be in effect in Oregon.
- Schedule 1 was in effect once, in 1994.



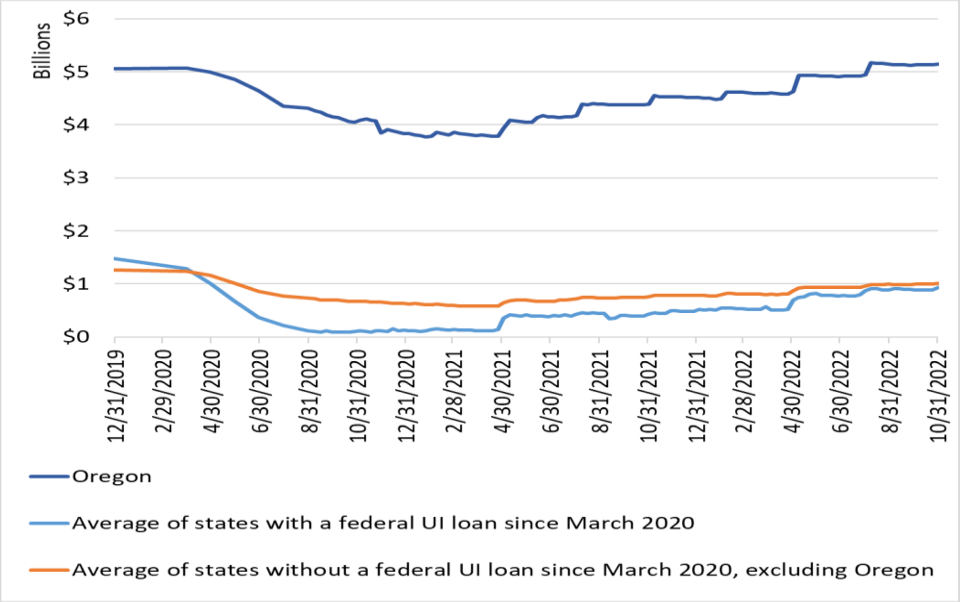
UI tax rates for individual employers depend on the statewide UI tax schedule

The average tax rate will also drop for the second year in a row, from 1.97% of taxable wages in calendar year 2022 to 1.73% of taxable wages in calendar year 2023.



Oregon's UI Trust Fund balance has fully recovered

- Oregon's balance of $5.1 billion is 1.8% higher than on Dec. 31, 2019.
- The balance for all states of $55.9 billion is 26% lower than on Dec. 31, 2019.
- The balance for all states is 63% lower if federal UI loans, currently $27.8 billion for 6 states, are subtracted.



Data sources: U.S. Treasury[1,2]

Federal funding to replenish state UI Trust Funds since March 2020

- Federal funds used since March 2020 include UI loans, CARES, and ARPA Recovery Funds.
- 74% of states/territories (39 of 53) used at least 1 source of federal funds:
  - 22 states/territories used 1 source.
  - 17 states used 2 sources.
- States that replenish their UI Trust Fund with federal recovery funds after Apr. 1, 2022, are prohibited from reducing UI benefit or duration levels before 2025.

State/Territory	Federal UI Loan	Coronavirus Recovery Funds	ARPA Recovery Funds	Other Federal Funds	Total
Alabama			X		1
Arizona			X		1
California	X				1
Colorado	X		X		2
Connecticut	X		X		2
Delaware	X		X		2
Georgia	X				1
Hawaii	X		X		2
Illinois	X	X			2
Indiana	X		X		2
Iowa		X	X		2
Kansas		X	X		2
Kentucky	X		X		2
Louisana	X		X		2
Maine		X	X		2
Maryland	X		X		2
Massachusetts	X				1
Michigan			X		1
Minnesota	X				1
Nebraska		X			1
Nevada	X		X		2
New Jersey	X				1
New Mexico	X		X		2
New York	X				1
North Carolina		X			1
North Dakota		X			1
Ohio	X		X		2
Pennsylvania	X				1
Rhode Island			X		1
South Carolina		X			1
South Dakota		X			1
Tennessee		X			1
Texas	X		X		2
Utah			X		1
Virginia	X		X		2
Virgin Islands	X				1
Washington			X		1
West Virginia	X				1
Wyoming				X	1
Total	23	10	22	1	

Sources: Center on Budget and Policy Priorities; Equifax; U.S. Treasury[2]; Wyoming

Non-federal funds used to replenish state UI Trust Funds since March 2020

- Massachusetts issued $2.7 billion of special obligation bonds.
- California passed Assembly Bill 178 which earmarks $250 million from the General Fund to pay towards the outstanding balance of a federal UI loan.
  - Assembly Bill 178 also notes that the legislature intends to appropriate $500 million in the 2024 budget bill to provide relief to small businesses as a result of anticipated tax rate increases due to a FUTA credit reduction.

Conclusion

- Many states needed to replenish their UI Trust Fund with alternative funding sources in response to the Pandemic Recession.
- In some states there are additional borrowing costs that are paid by subject employers.
- Oregon’s UI Trust Fund remains healthy and is well prepared to pay benefits when the next recession occurs.

Sources

- Center on Budget and Policy Priorities: https://www.cbpp.org/research/state-budget-and-tax/state-cuts-continue-to-unravel-basic-support-for-unemployed-workers
- Equifax: https://workforce.equifax.com/all-blogs/-/post/2022-sui-tax-rates-in-a-post-covid-world
- Government Accountability Office: https://www.gao.gov/assets/gao-22-104251.pdf
- Massachusetts: https://www.mass.gov/news/the-commonwealth-of-massachusetts-to-issue-27-billion-in-social-bonds-pursuant-to-the-ui-improvement-act
- National Employment Law Project: https://s27147.pcdn.co/wp-content/uploads/2015/03/Report_UI_Solvency.pdf
- U.S. Department of Labor: https://oui.doleta.gov/unemploy/pdf/sigmeasures/sigmeasuitaxsys21.pdf
- U.S. Treasury[1]: https://www.treasurydirect.gov/govt/reports/tbp/account-statement/report.html
- U.S. Treasury[2]: https://fiscaldata.treasury.gov/datasets/ssa-title-xii-advance-activities/advances-to-state-unemployment-funds-social-security-act-title-xii
- Wyoming: https://governor.wyo.gov/media/news-releases/2021-news-releases/governor-gordon-provides-tax-relief-to-wyoming-businesses

Thank You

State of Oregon
Employment Department