

Cost of a Layoff in Unemployment Insurance Taxes

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Unemployment Insurance Cost of Layoffs

Unveil an Unemployment Insurance Marginal Tax Cost Calculator:

- 1) The added UI tax cost in the next year of making a layoff this year
- 2) The number of layoffs needed this year to be assigned the Maximum Tax Rate next year

Cost of Layoffs- Quiz

The total dollar impact on an employer's UI tax bill next year after making a single layoff this year?

For a low layoff employer:

- A) \$0.0
- B) \$1,000 - \$2,000
- C) \$5,000 - \$7,000

For a high layoff employer:

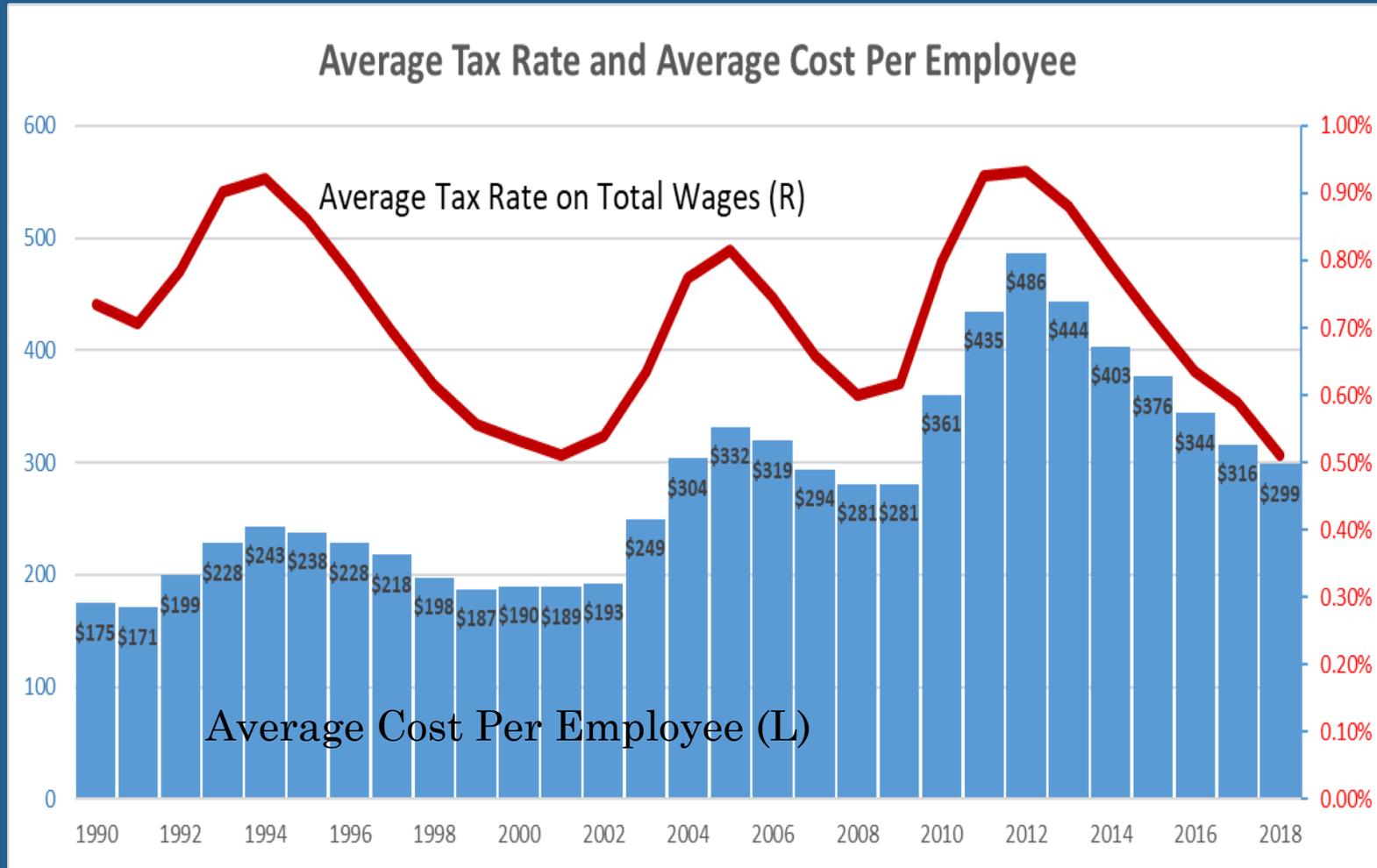
- A) \$0.0
- B) \$1,000 - \$2,000
- C) \$5,000 - \$7,000

Does the Cost Depend on the Size of the Employer?

Yes

No

Average Cost of Unemployment Insurance



History of Experience Rating

- Experience Rating adopted into the Federal Unemployment Tax Act (FUTA, 1935) from existing methods
- U.S. is the only country that assigns UI tax rates based on individual employer experience rating
- Primarily used as an accounting method
- Most of the state methodologies are still the same as when the program first started.

Experience Rating Methods

Reserve Ratio: $\frac{\text{Beg. Balance} + (\text{Contributions} - \text{Benefits})}{\text{Taxable Wages}}$
(33)

Benefit Ratio: $\frac{\text{Benefits Charged}}{\text{Taxable Wages}}$
(17)

Benefit Wage: $\frac{\text{Benefit Wages}}{\text{Taxable Wages}}$
(2)

Payroll Decline: $\frac{\text{Average Difference in Qtr. Payroll}}{\text{Taxable Wages}}$
(1)

Experience Rated Tax System

1) Taxable Wage Base = \$10,000

2) Schedule of Rates Based on Measure of Trust Fund Balance

High Fund
Low Rates

Low Fund
High Rates

Good
Experience-
Low Rates

.5	.6	.7	.8	.9
1.0	1.1	1.2	1.3	1.4
1.5	1.6	1.7	1.8	1.9
2.0	2.1	2.2	2.3	2.4
2.5	2.6	2.7	2.8	2.9
3.0	3.1	3.2	3.3	3.4
4.0	4.1	4.2	4.3	4.4
4.5	4.5	4.6	4.7	4.8
5.4	5.5	5.6	5.7	5.8

3) Employer
Experience
Factor

Bad
Experience-
High Rates

UI Tax Schedules

California 2018 UI Tax Schedule				Maryland 2018 UI Tax Schedule			
Reserve Ratio			Benefit Ratio				
Experience Interval		Tax rate	Experience Intervals		Tax rate		
(%)	(%)	(%)	(%)	(%)	(%)		
20% or More		1.5	0	-	0.01	0.3	
19	- 20	1.6	0.01	-	0.27	0.6	
18	- 19	1.7	0.28	-	0.54	0.9	
17	- 18	2.0	0.55	-	0.81	1.2	
16	- 17	2.2	0.82	-	1.08	1.5	
15	- 16	2.4	1.09	-	1.35	1.8	
14	- 15	2.6	1.36	-	1.62	2.1	
13	- 14	2.9	1.63	-	1.89	2.4	
12	- 13	3.1	1.90	-	2.16	2.7	
11	- 12	3.3	2.17	-	2.43	3.0	
10	- 11	3.6	2.44	-	2.70	3.3	
9	- 10	3.8	2.71	-	2.97	3.6	
8	- 9	4.0	2.98	-	3.24	3.9	
7	- 8	4.3	3.25	-	3.51	4.2	
6	- 7	4.5	3.52	-	3.78	4.5	
5	- 6	4.7	3.79	-	4.05	4.8	
4	- 5	4.9	4.06	-	4.32	5.1	
3	- 4	5.2	4.33	-	4.59	5.4	
2	- 3	5.4	4.60	-	4.86	5.7	
1	- 2	5.6	4.87	-	5.13	6.0	
0	- 1	5.9	5.14	-	5.40	6.3	
-1	- 0	6.2	5.41	-	5.67	6.6	
-2	- -1	6.2	5.68	-	5.94	6.9	
-3	- -2	6.2	5.95	-	6.21	7.2	
-4	- -20	6.2	6.22	and over		7.5	
Less than -20%		6.2					

Employer Marginal Tax Cost

Formula:

$$\text{Employer Marginal Tax Cost} = \left[\frac{\text{Change in Benefits "Charged"}}{\text{Taxable Payroll}} \right] \times \left[\text{Tax Rate Change Per Dollar of Benefits Charged} \right]$$

Assumptions:

- 1) Each layoff, the claimant will receive the average total benefits paid to all claimants during the year.
- 2) All benefits will be assigned (charged) to the employer's experience rating formula.
- 3) The employer is not already at the maximum tax rate in the state tax schedule.

Number of Layoffs Needed to Reach Maximum Tax Rate

$$\text{Layoffs Needed To Reach Maximum Tax Rate} = \frac{\left(\frac{\text{State Maximum Experience Rate}}{\text{Employer Taxable wages}} \right)}{\text{Benefits paid per Layoff}}$$

This amount represents the minimum number of layoffs needed to move an employer to the maximum tax rate in the next year, if in the current year they are assigned the lowest tax rate in the state tax schedule. Employers assigned a tax rate higher than the minimum rate could need fewer layoffs to reach the maximum tax rate.

Marginal Tax Cost Calculator

Address:

https://oui.doleta.gov/unemploy/docs/marginal_tax_cost_calc_2019-04-08.xlsm

Employer Marginal Tax Cost Calculator

Employer Marginal Cost Of Layoffs Calculator - 2018

Inputs:

STATE:

 ▼

Average Number of Employees Employed by the Company in 2017:

The number of those Employees that earn less than the
State Unemployment Insurance Taxable Wage Base:

Total Wages Paid by Employer in Last Calendar Year (000):

Number of Planned Layoffs This Year:

Employer Marginal Tax Cost Calculator

Output:

1) Employer will pay approximately this much more in taxes per employee next year as a result of these layoffs¹:

\$156

2) For a total increase in UI Taxes as a percent of total wages of:

0.35%

3) In this state, The employer's tax rate will vary between

1.50%

and

6.20%

4) The Estimated Number of Layoffs the Employer would need to make in the current year in order to reach the maximum tax rate in the State's tax schedule in the following year²:

6

Employer Marginal Tax Cost

(1 Layoff from a Firm with 10 Employees, \$450,000 total wages)

				Ratio of					Ratio of
	Experience	Avg. Total		Total Taxes		Experience	Avg. Total		Total Taxes
	Rating	Benefits		to		Rating	Benefits		to
State	Method	Per First	EMTC	Benefits	State	Method	Per First	EMTC	Benefits
		Payment		paid			Payment		paid
Alaska	Payroll Decline	\$4,989	\$166	33%	North Carolina	Reserve Ratio	\$2,391	\$65	27%
Alabama	Benefit Ratio	\$3,026	\$101	33%	North Dakota	Reserve Ratio	\$6,465	\$174	27%
Arkansas	Reserve Ratio	\$3,228	\$85	26%	Nebraska	Reserve Ratio	\$3,988	\$105	26%
Arizona	Reserve Ratio	\$3,543	\$93	26%	New Hampshire	Reserve Ratio	\$4,129	\$110	27%
California	Reserve Ratio	\$5,771	\$156	27%	New Jersey	Reserve Ratio	\$8,084	\$216	27%
Colorado	Reserve Ratio	\$6,139	\$164	27%	New Mexico	Benefit Ratio	\$5,914	\$197	33%
Connecticut	Benefit Ratio	\$6,755	\$225	33%	Nevada	Reserve Ratio	\$5,021	\$134	27%
Dist. of Columbia	Reserve Ratio	\$6,330	\$167	26%	New York	Reserve Ratio	\$5,714	\$151	27%
Delaware	Benefit Wage	\$4,601	\$153	33%	Ohio	Reserve Ratio	\$5,305	\$141	27%
Florida	Benefit Ratio	\$2,263	\$75	33%	Oklahoma	Benefit Wage	\$6,226	\$208	33%
Georgia	Reserve Ratio	\$2,406	\$64	27%	Oregon	Benefit Ratio	\$5,771	\$192	33%
Hawaii	Reserve Ratio	\$7,724	\$205	26%	Pennsylvania	Benefit Ratio	\$6,031	\$201	33%
Iowa	Benefit Ratio	\$5,271	\$105	20%	Puerto Rico	Reserve Ratio	\$1,810	\$49	27%
Idaho	Reserve Ratio	\$3,505	\$95	27%	Rhode Island	Reserve Ratio	\$5,379	\$143	27%
Illinois	Benefit Ratio	\$6,488	\$216	33%	South Carolina	Benefit Ratio	\$3,021	\$101	33%
Indiana	Reserve Ratio	\$3,720	\$101	27%	South Dakota	Reserve Ratio	\$4,693	\$127	27%
Kansas	Reserve Ratio	\$4,254	\$112	26%	Tennessee	Reserve Ratio	\$3,100	\$82	26%
Kentucky	Reserve Ratio	\$6,093	\$163	27%	Texas	Benefit Ratio	\$6,059	\$202	33%
Louisiana	Reserve Ratio	\$3,607	\$98	27%	Utah	Benefit Ratio	\$4,944	\$124	25%
Massachusetts	Reserve Ratio	\$8,735	\$234	27%	Virginia	Benefit Ratio	\$4,790	\$120	25%
Maryland	Benefit Ratio	\$6,474	\$216	33%	Virgin Islands	Reserve Ratio	\$3,646	\$99	27%
Maine	Reserve Ratio	\$4,292	\$112	26%	Vermont	Benefit Ratio	\$4,765	\$159	33%
Michigan	Benefit Ratio	\$3,679	\$123	33%	Washington	Benefit Ratio	\$7,419	\$185	25%
Minnesota	Benefit Ratio	\$7,357	\$184	25%	Wisconsin	Reserve Ratio	\$4,114	\$109	27%
Missouri	Reserve Ratio	\$3,144	\$83	26%	West Virginia	Reserve Ratio	\$4,303	\$112	26%
Mississippi	Benefit Ratio	\$2,897	\$97	33%	Wyoming	Benefit Ratio	\$5,954	\$198	33%
Montana	Reserve Ratio	\$5,340	\$142	27%					

Number of Layoffs Needed to Reach Maximum Tax Rate

(A Firm with 10 Employees, and \$450,000 Total Wages)

	Layoffs Needed	Maximum Total		Layoffs Needed	Maximum Total
	to Reach	Tax cost		to Reach	Tax cost
State	Max. Tax Rate	Per Employee	State	Max. Tax Rate	Per Employee
Alabama	6	\$576	North Carolina	9	\$559
Arkansas	3	\$303	North Dakota	10	\$1,738
Arizona	6	\$521	Nebraska	6	\$494
California	6	\$835	New Hampshire	10	\$1,099
Colorado	10	\$1,564	New Jersey	10	\$2,158
Connecticut	5	\$810	New Mexico	9	\$1,549
Dist. of Columbia	4	\$485	Nevada	10	\$1,341
Delaware	9	\$1,353	New York	8	\$1,045
Florida	5	\$378	Ohio	8	\$919
Georgia	10	\$643	Oklahoma	10	\$1,760
Hawaii	10	\$2,047	Oregon	10	\$1,924
Iowa	10	\$1,054	Pennsylvania	6	\$1,080
Idaho	10	\$947	Puerto Rico	8	\$438
Illinois	6	\$1,089	Rhode Island	10	\$1,427
Indiana	3	\$277	South Carolina	10	\$1,007
Kansas	10	\$1,117	South Dakota	4	\$371
Kentucky	4	\$493	Tennessee	7	\$464
Louisiana	9	\$793	Texas	4	\$743
Massachusetts	7	\$1,363	Utah	10	\$1,236
Maryland	4	\$559	Virginia	3	\$400
Maine	7	\$683	Virgin Islands	6	\$700
Michigan	4	\$405	Vermont	10	\$1,355
Minnesota	10	\$1,839	Washington	10	\$1,855
Missouri	10	\$829	Wisconsin	9	\$846
Mississippi	9	\$756	West Virginia	6	\$657
Montana	10	\$1,418	Wyoming	10	\$1,985