



**COLORADO**  
Department of  
**Labor and Employment**  
Office of Labor Market Information

# National UI Issues Conference

## UI Trust Fund Solvency – Are You Prepared?

**June 28, 2023**

# Improving UI Trust Fund Solvency: A Colorado Perspective

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# **This presentation will be split into three sections:**

- 1. Background on Colorado's workforce and a general overview of concepts crucial to understanding UI trust fund (UITF) solvency**
- 2. Timeline of notable moments for Colorado's UITF and the quest for improved solvency**
- 3. Charts! (these will graphically reinforce some of what we covered in the first two sections)**

# Background on Colorado's workforce:

- Typically has lower unemployment rate, higher labor force participation, and faster job growth than the nation
- Educated workforce (2<sup>nd</sup> highest share of bachelor's degree+ in nation) and skews younger demographically (10<sup>th</sup> lowest median age)
- Fairly diverse industry mix, with notable concentrations in mining, construction, tech, and leisure & hospitality
- High wage state, but also relatively high cost of living
- Nearly 75% of employment located in Denver, Boulder, or Colorado Springs metro areas

# **General overview of concepts:**

## **-Wage base:**

- Wages paid to an individual employee during a calendar year on which the employer of that employee is required to pay UI premiums**
- Plays a critical role in determining the robustness of a state's UI financing structure**

# **General overview of concepts:**

## **-Average high cost multiple (AHCM):**

- One metric used to assess the health and solvency adequacy of a state's UI trust fund**
- An AHCM of 1.0 means the state's fund has enough reserves to pay 12 months of benefits under recession conditions without considering any employer contributions to the fund over that time**

# **General overview of concepts:**

## **-Insolvent fund:**

- The state needs to borrow from the federal government or private sector in order to continue paying UI benefits**

## **-Fully solvent fund:**

- Generally, if a UI trust fund has an AHCM of at least 1.0 it is considered fully solvent under USDOL standards**

# A Timeline of Notable Moments for Colorado's UI Trust Fund (1980s-2010s)

- Colorado's Unemployment Insurance Trust Fund (UITF) went insolvent in the early 1980s, and in response the wage base was increased from \$6,000 in 1982 to \$10,000 in 1988
- Due to a booming state economy and low unemployment, Colorado's UITF exceeded an average high cost multiple (AHCM) of 1.0 for most of the 1990s and the year 2000
- While the state's UITF narrowly avoided insolvency during the early 2000s recession, the fund was greatly depleted (AHCM = 0.13 in 2004) and employers began paying a solvency surcharge to generate additional revenue
- Colorado's UITF did not achieve full solvency before the Great Recession, with the primary financing deficiency linked to a wage base that had been fixed at \$10,000 since 1988
- The severity and length of the Great Recession led to the state's UITF going insolvent in early 2010, which resulted in borrowing about \$1.1 billion from the Federal Unemployment Account (FUA) in the form of Title VII loans through early 2012

# A Timeline of Notable Moments for Colorado's UI Trust Fund (2011-2019)

- During the 2011 legislative session, a bill was passed (HB11-1288) that increased Colorado's wage base to \$11,000 in 2012, with indexing to the annual change in UI covered wages to follow for subsequent years
- In June 2012, the state issued \$630 million in private unemployment compensation bonds, which generated funds necessary to repay the outstanding Title XII loan and enabled a high enough UITF balance to turn off the solvency surcharge for the following year
- In 2016, the Colorado Department of Labor and Employment (CDLE) established a UITF Solvency Committee and met with a diverse group of stakeholders to promote the idea of sizeable increases in the wage base in order to bolster long term fund solvency – while unsuccessful, the discussions set the stage for meaningful action in 2020
- Colorado paid off the private bonds in 2017 (repayment was done through a bond surcharge over a five-year period)
- By the end of 2019, Colorado's UITF had reached a record high level of \$1.1 billion; however, that still translated to a less than desirable AHCM

# A Timeline of Notable Moments for Colorado's UI Trust Fund (2020-2021)

- Colorado's wage base reached \$13,600 in 2020, an improvement from \$10,000, but still ranked in the bottom half nationally
- Like in all states, UI benefit payments reached incredible levels due to the pandemic and Colorado's UITF balance went from \$1.1 billion in March 2020 to insolvent by August 18, 2020
- During an extended legislative session, a bill was passed (SB20-207) in mid-2020 that incrementally increased Colorado's wage base from \$13,600 in 2020 to \$30,600 in 2026 (with indexing to follow in subsequent years) – this marked the kind of significant improvement in the wage base the Department was seeking four years prior
- However, in exchange for the hike in the wage base, CDLE agreed to freeze the 2021 wage base at \$13,600 and suspend the solvency surcharge in 2021 and 2022 (it would have triggered on in 2021)
- Between mid-August 2020 and April 2021, Colorado borrowed a little over \$1 billion in Title XII loans
- Title XII interest due in 2021 (\$1.5m) was paid with COVID relief funds

# A Timeline of Notable Moments for Colorado's UI Trust Fund (2022-2023)

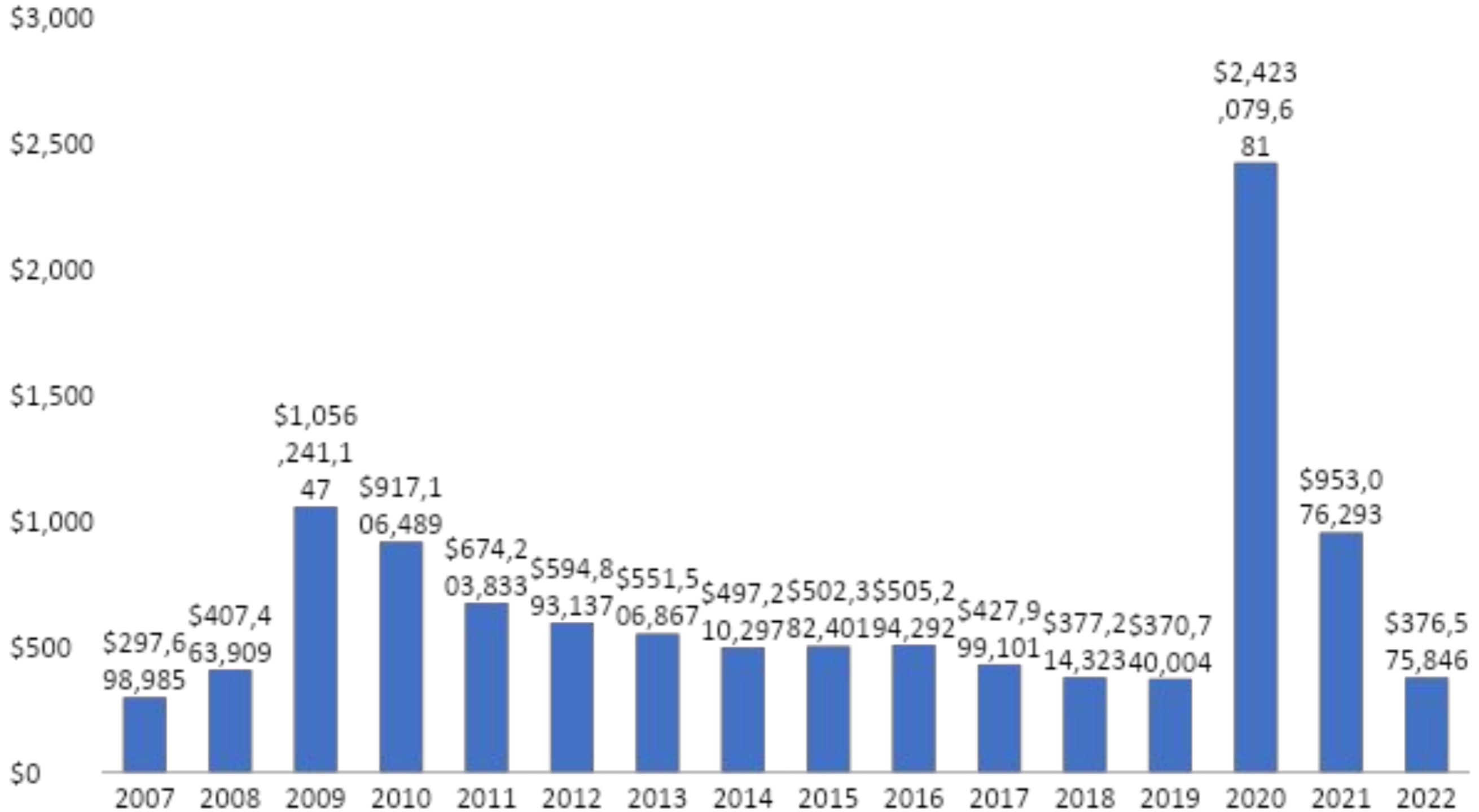
- During the 2022 legislative session, a bill was passed (SB22-234) that utilized \$600 million in ARPA funds which went towards paying down some of the outstanding federal loan (\$580m) as well as covering amounts owed on future Title XII interest (\$20m); the bill also suspended the solvency surcharge for 2023
- Colorado's UITF remained insolvent until early November 2022, when the remaining loan balance had been paid off with a combination of existing employer contributions (\$400m) and a small private loan of \$33.1m
- CDLE decided it was advantageous to take out a private loan for two reasons: 1) guarantee the outstanding Title XII loan balance was paid off prior to November 10, thus avoiding a FUTA credit reduction and 2) ensure there was a positive UITF balance on January 1, which would eliminate potential FUTA credit reductions in 2023 and 2024
- Between January and April 2023 Colorado accumulated an additional \$84 million in Title XII loans; however, as of late May all outstanding federal and private loans (along with interest) had been paid off!

# Colorado's UITF Solvency Going Forward

- Barring a near-term recession, Colorado should be able to start building up trust fund levels thanks to the utilization of ARPA funds in 2022, an employer solvency surcharge that triggers back on in 2024, and an increasing wage base that addresses a long-standing UI financing issue for the state
- The state's wage base could exceed \$32,000 by 2028 – absent the passage of SB20-207, Colorado's wage base would likely have been under \$20,000 in 2028
- Current CDLE forecasts based on moderate growth assumptions have Colorado's UITF balance exceeding \$2 billion by June 2027, which would translate to an AHCM of about 0.70 (short of desired solvency levels, but would be a welcome improvement)
- Continued communication with stakeholders will be crucial, so that there is both awareness of the UITF's financial standing and any potential steps needed to improve the fund's solvency

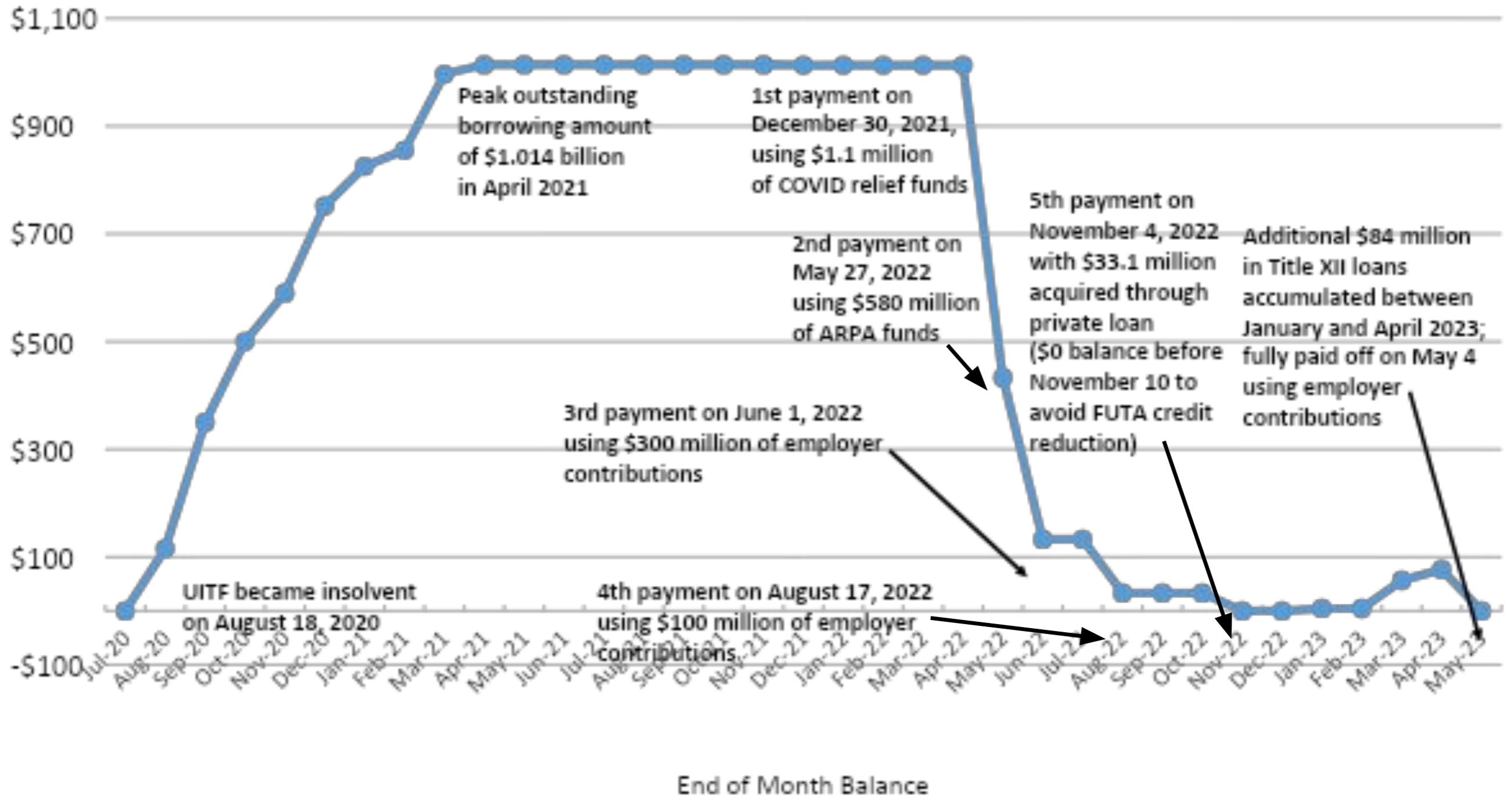


# Colorado Regular State Unemployment Insurance Benefit Payments (in millions)



Source: Colorado Department of Labor and Employment

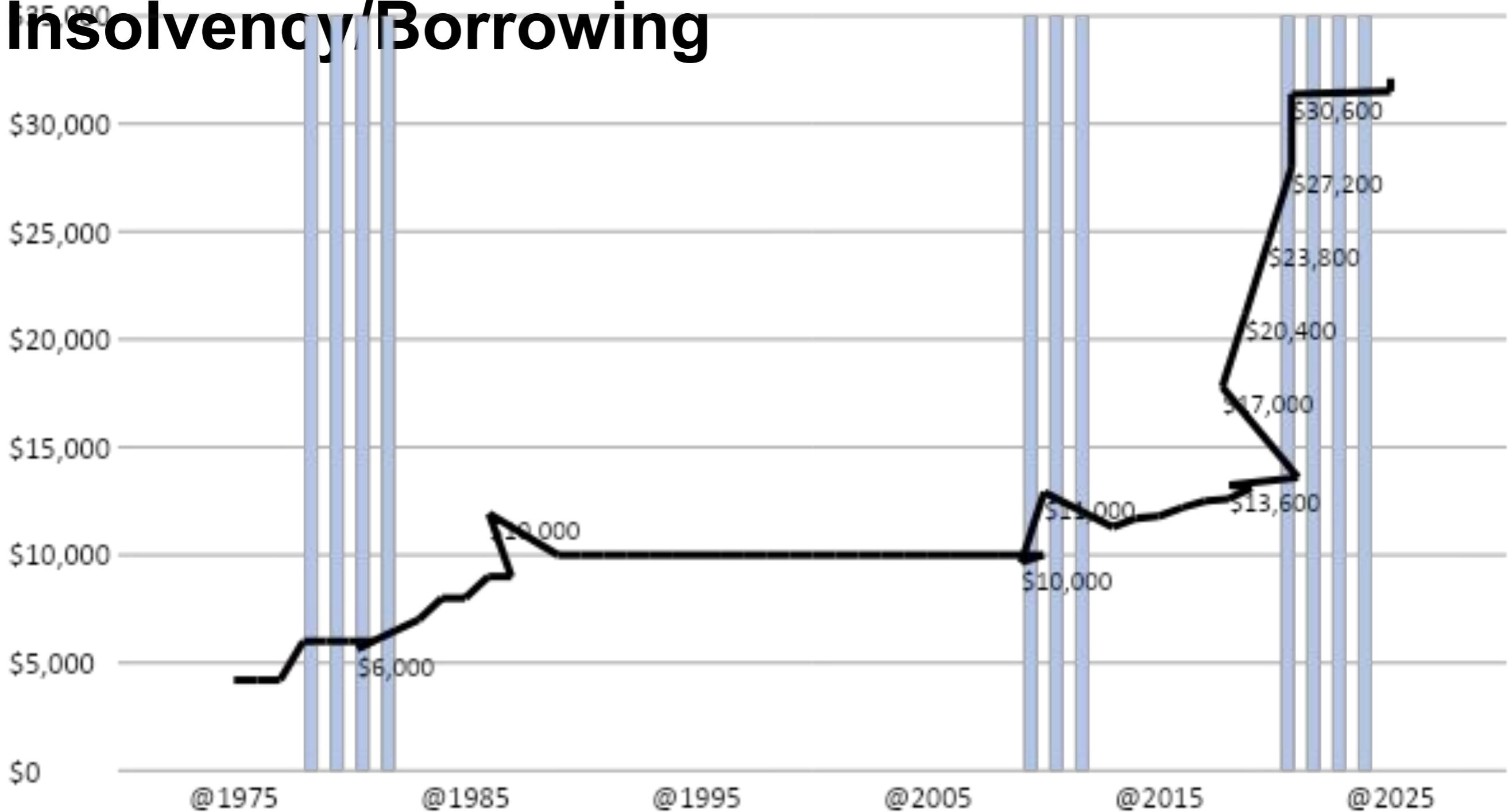
# Colorado's Outstanding Title XII Loan Balance (2020-2023)



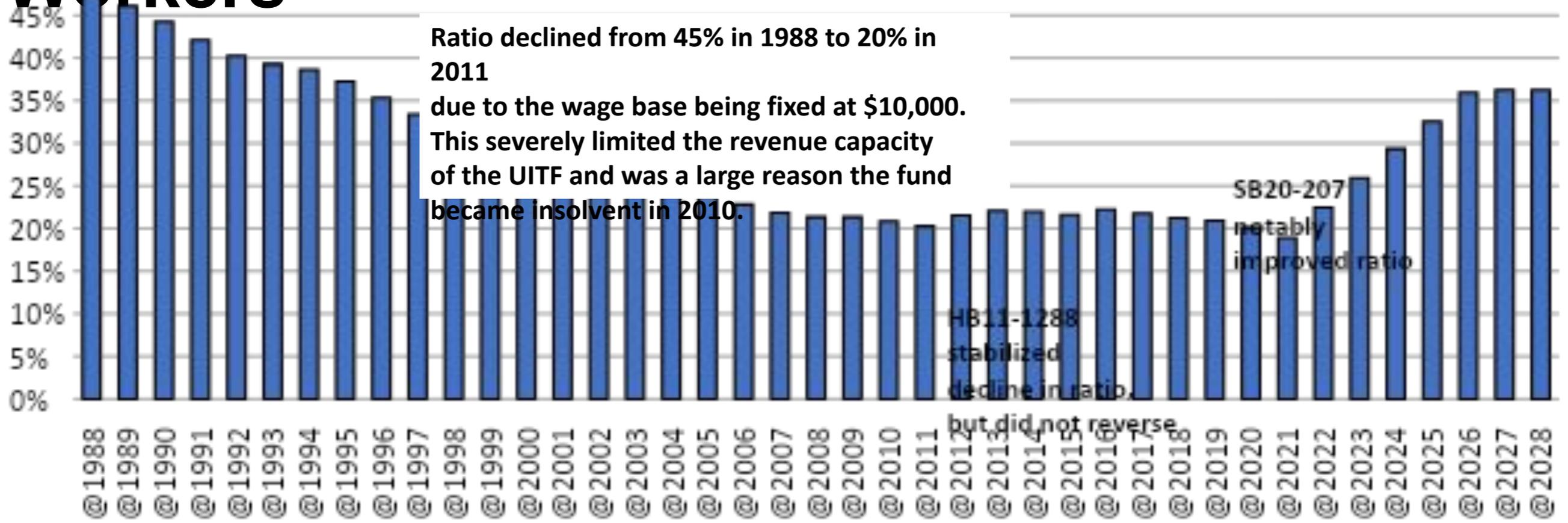
Source: Colorado Department of Labor and Employment

Note: in total, Colorado borrowed nearly \$1.1 billion in Title XII loans between August 2020 and April 2023, while Title XII interest payments summed to \$14.7m

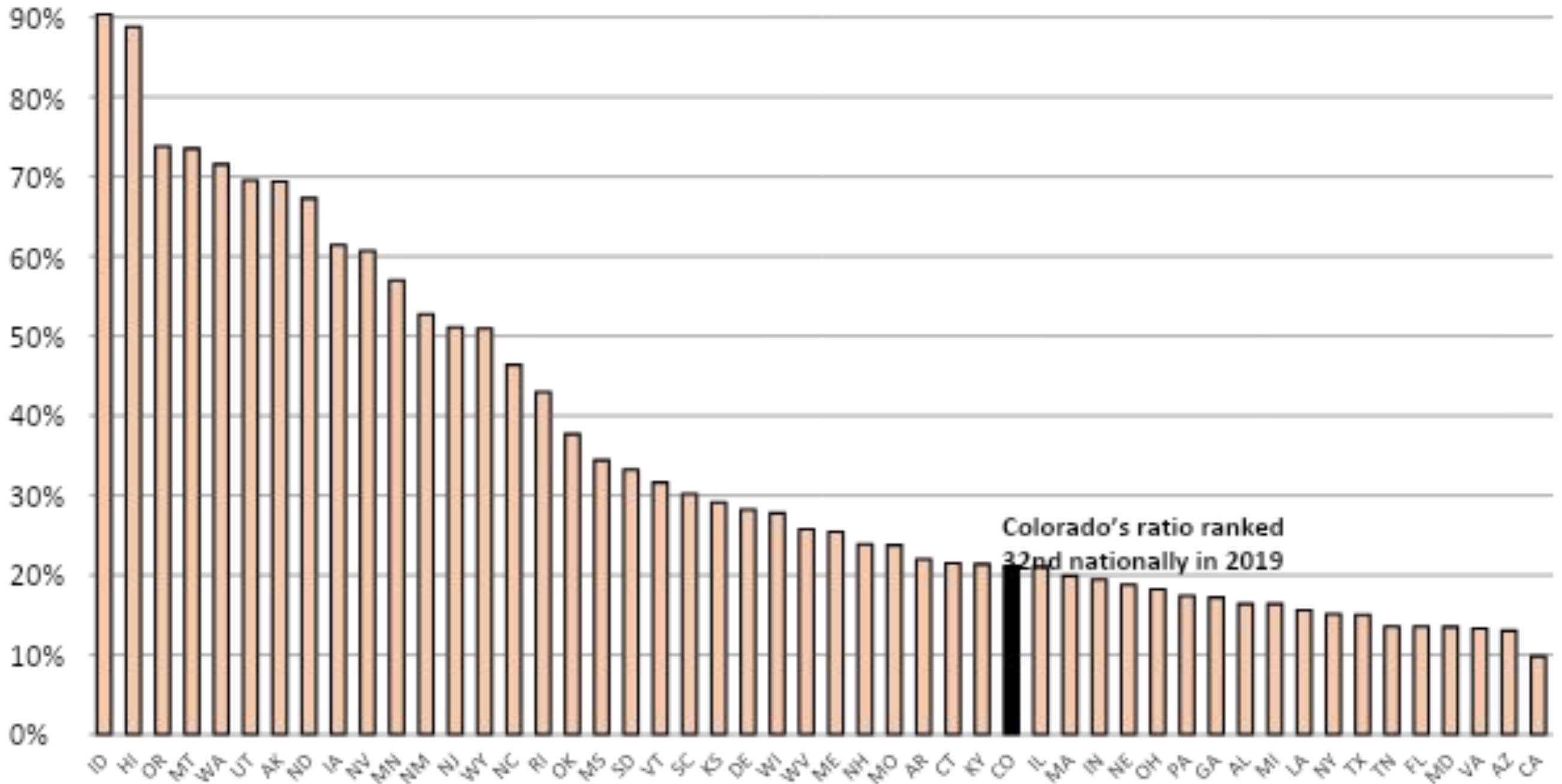
# Colorado's Historical Wage Base; Shaded Areas Represent Periods of UITF Insolvency/Borrowing



# Colorado's Wage Base as a Ratio of Annual Average Private Wages for UI Covered Workers

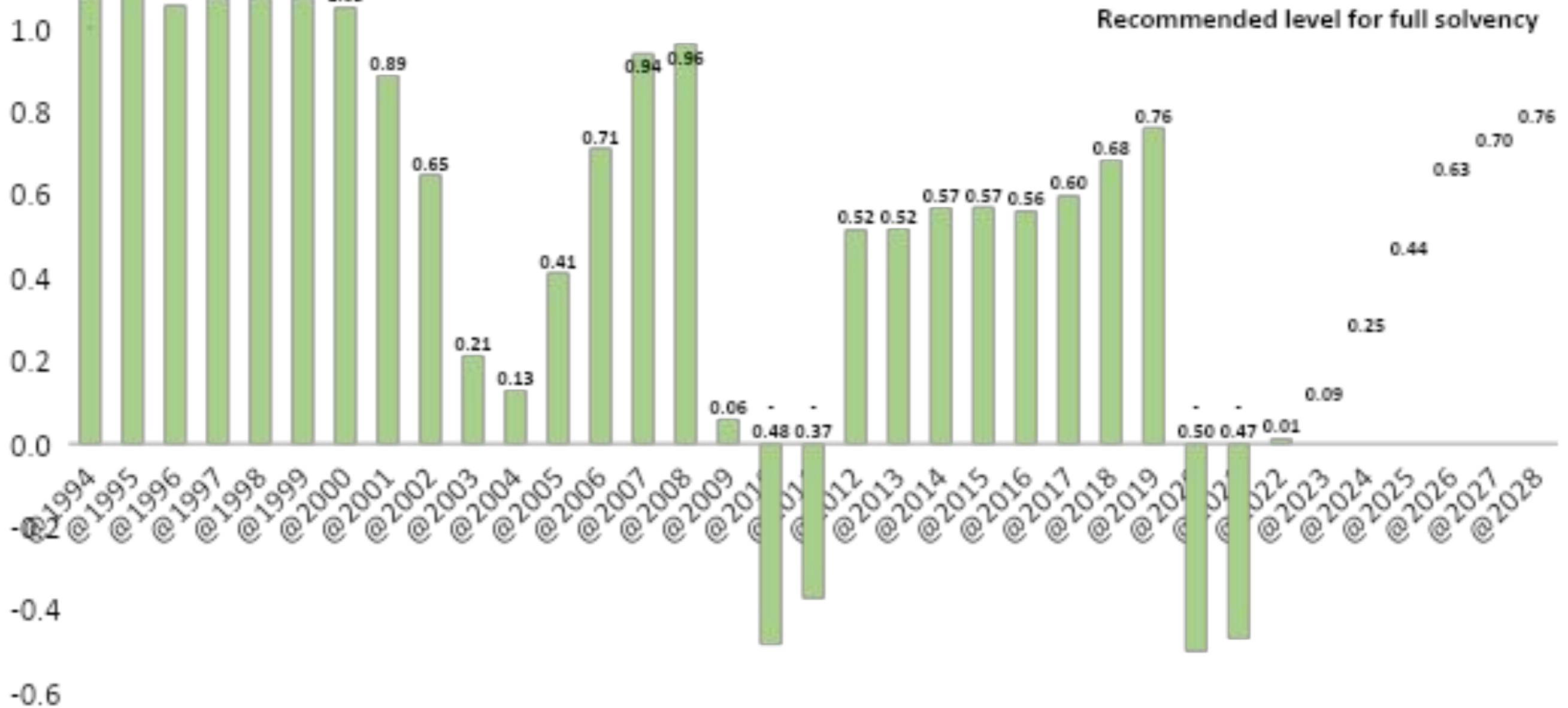


# 2019 Ratio of Wage Base to Annual Average Wages for Total UI Covered Workers – All States



# Colorado's Average High Cost Multiple (AHCM)

Actual: 1994 – 2022, Forecast: 2023 – 2028

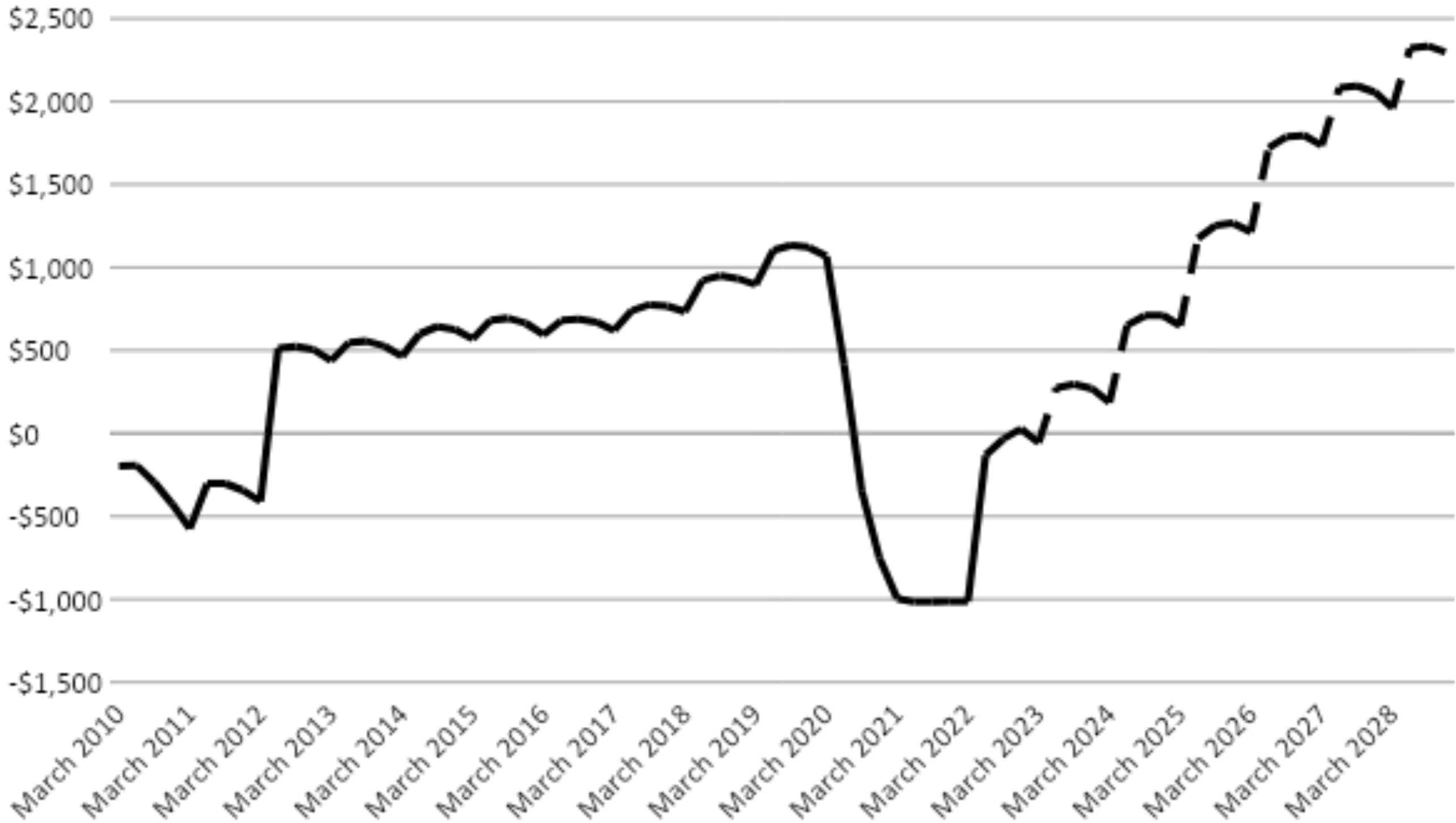


Source: Colorado Department of Labor and Employment

Note: forecast is based on moderate growth assumptions; AHCM is calculated based on the UITF balance at the end of the calendar year

# Colorado's UITF Balance (in millions)

## Actual: Solid Line, Forecast: Dotted Line



# Contact Information

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- **Resources:**
  - <https://oui.doleta.gov/unemploy/DataDashboard.asp>
  - <https://www.colmigateway.com/admin/gsipub/htmlarea/Uploads/UI-Trust-Fund-Report-2022.pdf>

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