COLORADO
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2015 Colorado Unemployment Insurance Trust Fund Summary Report

The financing structure of the Colorado Unemployment Insurance Trust Fund (UITF) was modified in HB11-1288. The legislation requires that the Colorado Department of Labor and Employment (CDLE) issue a report on the fund's financial condition to several committees of the Colorado General Assembly by August 31 of each year beginning 2012.

This report provides a brief overview of recent UITF developments including the present financial condition of the UITF; the status of the outstanding unemployment compensation bonds; the fund outlook under conditions of moderate economic growth; and efforts the CDLE has taken to reduce improper payments of unemployment benefit made from the UITF.

Calendar Year 2014 Fund Status. Fund reserves, which stood at $700 million as of June 2008, were quickly depleted by the sharp, unprecedented rise in job losses experienced between mid-2008 and early 2010.[1] The fund regained solvency in 2012 due to the issuance of $630 million in Colorado unemployment bonds in June 2012. By December 31, 2014, reserves held in the UITF totaled $626.1 million, an improvement of $99.6 million from twelve months earlier when the fund balance stood at $526.5 million.

Employer premiums paid into the UITF, including those from reimbursable employers, totaled $694.9 million during 2014, up slightly from $684 million the prior year. Interest earnings on fund reserves totaled $14.5 million in 2014 compared with $14 million in 2013.

Regular unemployment insurance benefit payments fell $54.3 million to $497.2 million during 2014. Although still elevated by historical standards, annual benefit payments last year declined to their lowest level since 2008. Payments from the UITF, which had averaged about $330 million each year between 2006 and 2008, had climbed to an annual average of $883 million between 2009 and 2011.[2]

Colorado Unemployment Compensation Bonds. Several states have issued unemployment compensation bonds in recent years as a way of eliminating the federal debt resulting from having had to borrow from the Federal Unemployment Account in order to meet benefit

[1] The number of seasonally adjusted nonfarm jobs fell 155,000 or 6.5 percent between the May 2008 peak and the January 2010 bottom. By 2013, however, annual nonfarm employment growth had rebounded to 3.1 percent.
[2] In addition to regular state unemployment benefits, since 2008 $3.8 billion was paid to Colorado claimants under the extended unemployment compensation (EUC) and state extended benefits (SEB) programs. Both EUC and SEB were paid with federal dollars and therefore had no direct financial impact upon Colorado's UITF.

payments. The Colorado unemployment bonds differ from those issued by other states in that the bond proceeds and principal repayments flow through the UITF. Structuring the bonds in this way allowed the bond principal repayments, which are made by Colorado employers, to be credited to their employer experience rate accounts and thus lower their premium rates below what they otherwise would have been.

The bonds, which totaled $630 million, have a five-year term and require fixed annual principal repayments of $125 million to be made each May through 2017—the Department made the third annual principal payment May 15, 2015. The revenue for the principal repayments comes from Colorado employers who are billed a bond principal repayment surcharge as part of their annual unemployment insurance premiums. This bond principal surcharge will vary slightly each year.[3]

Interest payments on the bonds were originally scheduled to be due November 15 of each year. There is no penalty for the accelerated repayment of either principal or interest and the Department elected to prepay the entire $12.9 million in interest due on the bonds in 2013 thereby relieving Colorado employers of future interest payments. In June 2014 Fitch's Rating Service reaffirmed their original AA rating on the bonds citing Colorado's strong economic performance and anticipated ample revenue coverage for future principal payments.

Current Trust Fund Outlook. During the first quarter of each calendar year the Department produces a set of UITF forecasts that correspond to low, medium, and high growth economic scenarios. These forecasts are continually evaluated and updated throughout the year. The medium growth forecast, which has been closely tracking actual fund movements this year, is summarized below.

The current CDLE fund forecast is predicated upon moderate growth continuing through the 2020 forecast horizon. Annual job growth is assumed to average just under 3 percent between 2015 and 2020 and unemployment to range between 4 and 5.5 percent. Average weekly earnings are projected to rise roughly 3 percent on average during the forecast period.

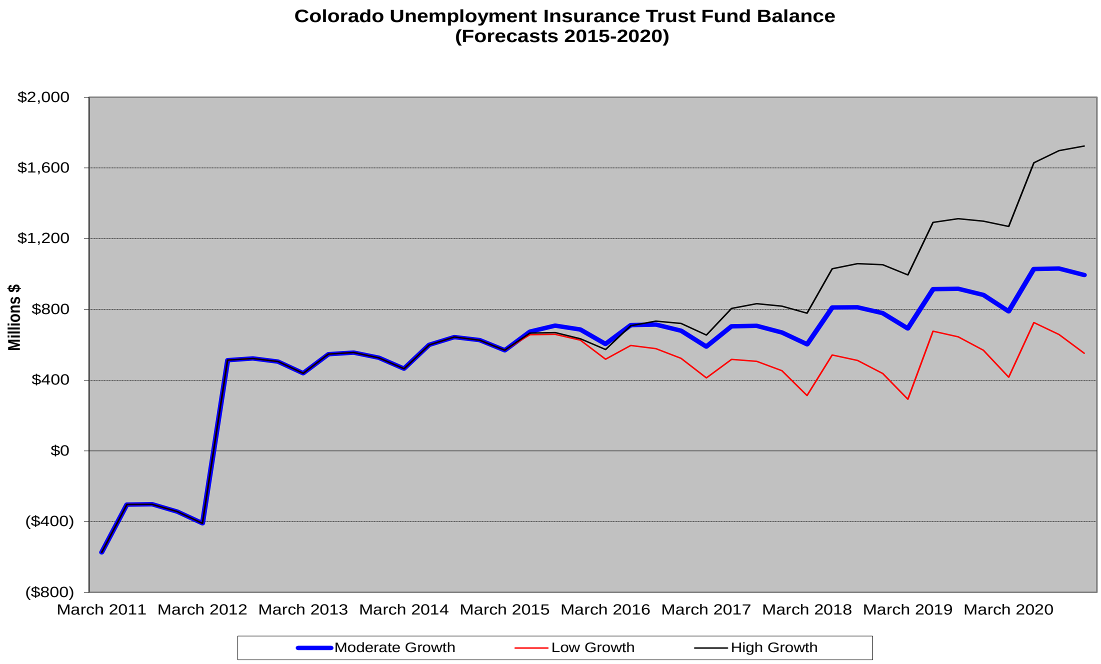
Under these conditions fund reserves are anticipated to remain relatively stable through mid-2017 before expanding to about $1 billion by year-end 2020. The solvency or reserve ratio, a simple measure of the fund's financial soundness, will grow from 0.60 percent this year to 0.76 percent by 2020.[4] The last time the solvency ratio was at least 1.0 percent was in 2001, just prior to the 2002-03 recession. The UITF is considered fully solvent for purposes of Colorado's premium rate structure when the adequacy ratio reaches 1.4 percent so that while the fund's

[3] The CDLE currently forecasts the bond principal surcharge to be approximately 20 to 25 percent each year over the life of the bonds. The surcharge is the estimated amount each employer's base premium must increase in order to equal the required annual principal payment of $125 million. The bond principal surcharge, which is 25.2 percent in 2015, is expected remain about the same in 2016.

[4] The reserve ratio is the trust fund balance divided by annual total private wages. During past several recessions, a solvency ratio of about 1.4 percent measured from the start date of the recession would have been large enough to have allowed the fund to pay benefits without borrowing over the course of the recession. The premium rate schedules adopted in HB11-1288 set employer premium rates at their minimum when fund reserves reach the desired 1.4 percent threshold.

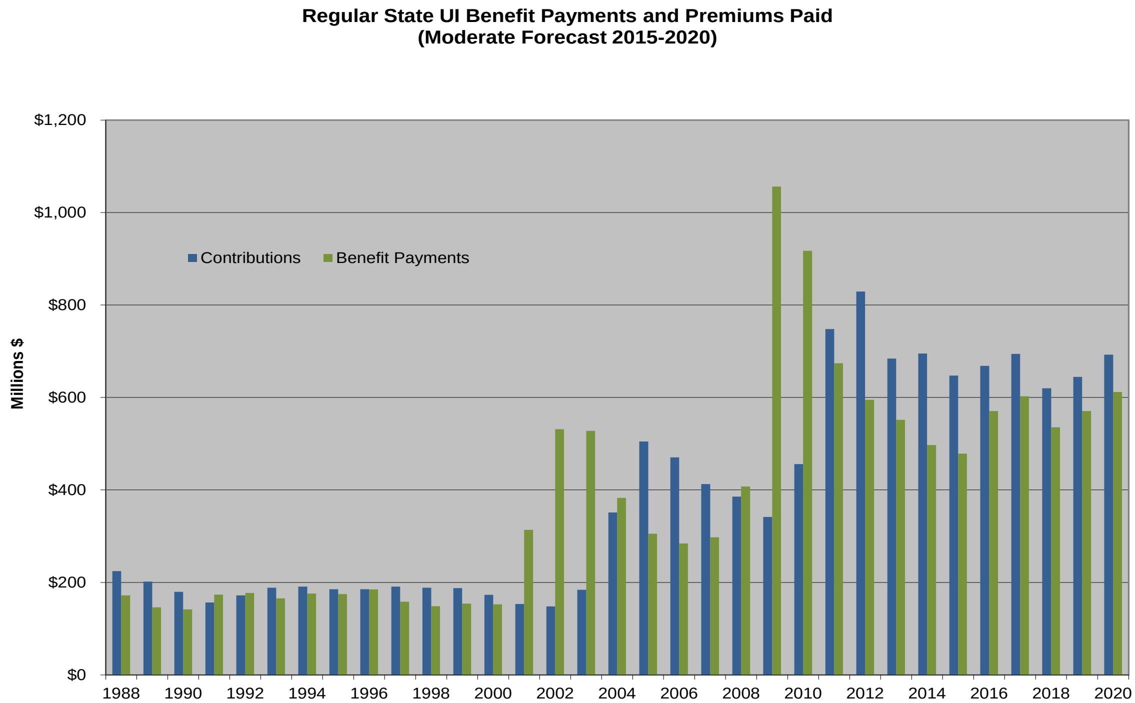
solvency position is expected to improve through 2020 under medium growth conditions it will not attain fully funded status.

Employer contributions (including those from the bond principal surcharge) are forecast to increase marginally from $647.3 million in 2015 to $668.4 million in 2016 and vary between about $620 million and $700 million through 2020. The taxable wage base, which is $11,800 in 2015, will increase to $12,200 in 2015 and $13,800 by 2020. The average employer premium rate is anticipated to decline from 0.60 percent to 0.47 percent over the forecast period. Annual interest earnings on fund reserves are anticipated to double from $15.6 million this year to $32.1 million by 2020.



Benefits, meanwhile, are projected to remain relatively stable through 2020 as labor markets progressively tighten and unemployment shrinks. Benefit payments are expected to increase slightly from about $478 million this year to $571 million in 2016 and about $611 million by 2020. The annual benefit cost rate will recede from 0.44 percent in 2015 to 0.42 percent by 2020.[5] The solvency surcharge, which had been assessed against Colorado employers since 2004, was turned off in 2013 as a result of UI bonding and is projected to remain off through the forecast period.

[5] The average premium rate is total premiums divided by total private wages while the average benefit cost rate is benefit payments divided by expected total private wages. For comparison purposes, the average premium rate for the twenty-year period 1991-2010 was 0.44 percent and the average benefit cost rate was 0.57 percent. The highest annual benefit cost rate was 1.3 percent and occurred in 2009 when over a billion dollars was paid in benefits from the trust fund. The annual premium rate is expected to exceed the annual benefit cost rate through 2020 which means fund inflows (employer premiums received) are projected to exceed fund outflows (benefit payments).



Improper Payments. Federal benefit-entitlement programs with improper-payment rates greater than 10 percent are considered to be out of compliance with federal performance standards.[6] In response to unacceptably high rates of improper-payments the CDLE established an Integrity Task Force (ITF) in 2011 whose task was to investigate the problem and recommend strategies to detect, prevent, and deter payment errors. As a result of the ITF's work, the CDLE has made considerable progress in reducing the rate of improper benefit payments the past several years. Between 2008 and 2011 Colorado's improper-payment rate was estimated to be 17 percent for an extrapolated total of about $305.4 million. However, between July 2014 and June 2015 the improper-payment rate, excluding an adjustment for recovered overpayments, had shrunk to 10.8 percent or an extrapolated total of approximately $55 million.

The following steps have been taken to detect and reduce the improper-payment rate:

- increase staff resources and training related to prevention and detection of overpayments;
- establish a targeted messaging campaign including enhanced email and letter communications centered on claimants who report hours and earnings when filing for benefits;
- implementation of a computer software program to more quickly detect and take action when claimants do not report their earnings and receive benefits to which they are not entitled;
- adoption of operational changes to gather more complete and accurate information to improve decision-making quality;

[6] An improper-payment is one in which a claimant wrongly receives payment to which they are not entitled (overpayment) or is improperly denied payment to which they are entitled (underpayment). Approximately 93.5 percent of Colorado improper-payments between April 2014 and March 2015 were overpayments.

- augmented messaging activities to improve customer understanding of UI benefits requirements and responsibilities, including reporting new employment, earnings, job separations, other pay received, and work-search efforts;
- establishing a campaign to reach out to promote the use of electronic methods to respond to requests for information;
- improve employer understanding of their responsibilities and how they can help to prevent improper payments through messaging as well as through in-person employer educational outreach sessions;
- employ the Treasury Offset Program to intercept federal tax refunds to recover improper payments caused by fraud or unreported earnings;
- utilization of a system that allows claimants to pay back their overpayments through debit- and credit cards.

In addition to lessening the rate of improper-payments the CDLE has made significant progress toward improving the overpayment collection rate. Currently, over $36 million in overpayments on the regular State UI program has been recovered from claimants since July 2012.