2016 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 required 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 2015 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, 2015, reserves held in the UITF totaled $664.4 million, an improvement of $38.3 million from twelve months earlier when the fund balance stood at $626.1 million.

Employer premiums paid into the UITF, including those from reimbursable employers, totaled $647.1 million during 2015, down from $694.9 million the prior year. Interest earnings on fund reserves totaled $15.7 million in 2015 compared with $14.5 million in 2014.

At $502.4 million, 2015 regular unemployment insurance benefit payments were essentially unchanged from the $497.2 million paid in 2014. The number of weeks paid to UI claimants in 2015 slipped about 5 percent from the previous year; however, the decline in benefit weeks paid was offset by an increase in the average weekly benefit amount from $361 to $384. 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 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 payments. The Colorado unemployment bonds differ from those issued by other

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[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. Colorado has been among the top-ranked states in terms of percentage job gains over the past four years.

[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.

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 fourth annual principal payment May 15, 2016. 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.

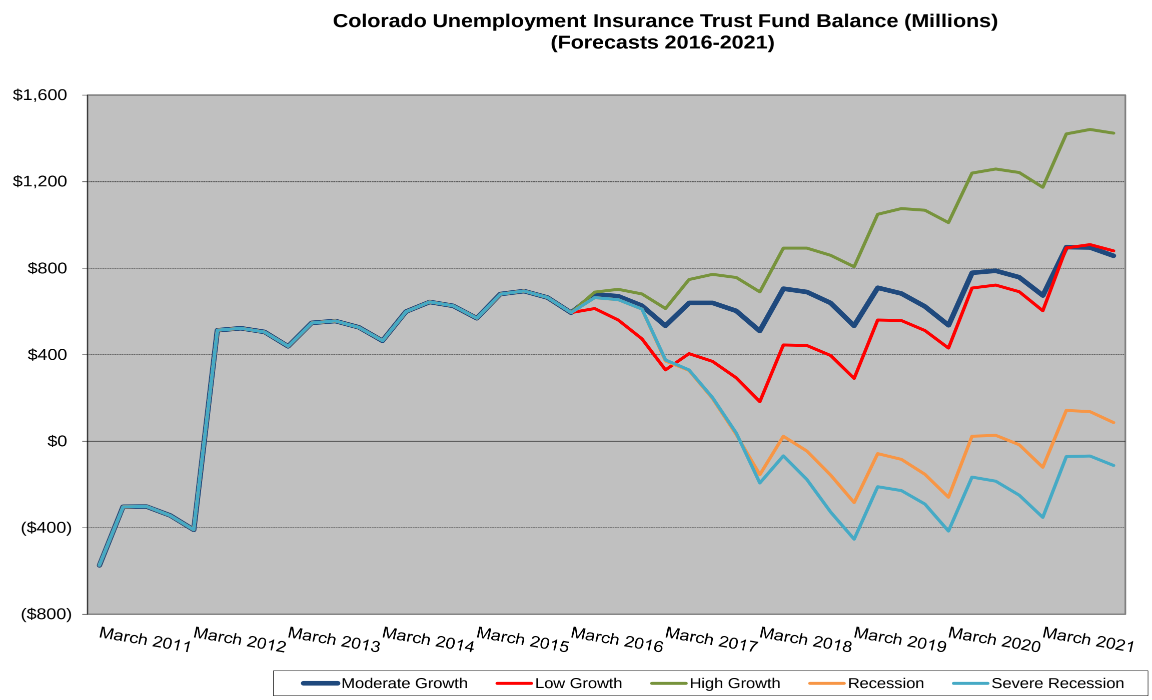
Current Trust Fund Outlook. A fundamental recommendation of the 2010 UITF audit by the State Auditor's Office was to increase the taxable wage base so as to obviate the fund's need to borrow during future recessions. While HB11-1288 made several important improvements to promote long-term solvency of the UITF, the increase to the wage base was likely not adequate to prevent the need to borrow during future recessions. Consequently, CDLE has established a UITF Solvency Committee composed of a diverse group of Department stakeholders to discuss what wage base would be required to substantially bolster long-term fund solvency. The Solvency Committee will begin meeting in August and the Department plans to maintain the Committee as an on-going entity to discuss and evaluate UITF developments.

During the first quarter of each calendar year the Department produces a set of UITF forecasts that correspond to low, medium, high growth and recession 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 2021 forecast horizon. Annual job growth is assumed to average just over 2 percent between 2016 and 2021 and unemployment to range between 4 and 5.5 percent. Average weekly earnings are projected to rise roughly 2.5 percent each year during the forecast period.

[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 24.47 percent in 2016, will be slightly lower in 2017.

Under these conditions fund reserves are anticipated to remain relatively stable through mid-2017 before expanding to about $900 million by year-end 2021. The solvency or reserve ratio, a simple measure of the fund's financial soundness, will remain roughly flat through 2021, growing only from around 0.61 percent this year to about 0.69 percent by 2021.[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 although the fund is expected to remain solvent through 2021 under moderate growth conditions it will remain far below the level of reserves required to attain fully funded status.



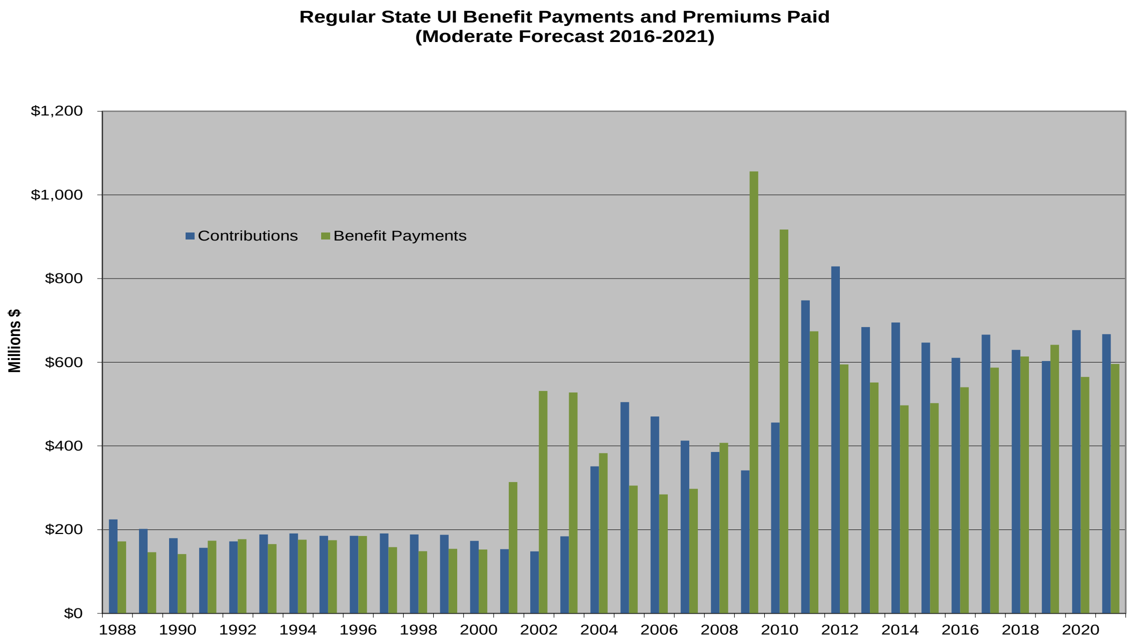
The USDOL uses a measure called the average high cost multiple (AHCM) to assess fund solvency. The AHCM estimates how long trust fund reserves can pay benefits at historically high payout rates if one ignores employer premiums that flow into the UITF. The AHCM is measured in years so that an AHCM of 1 means the trust fund has enough reserves to pay benefits for a year at recession levels while an AHCM of 0.5 would mean the fund could pay benefits for six months.

USDOL recommends that all state trust funds reach an average high cost multiple of at least 1.0 by 2020—states that meet this standard will be eligible for zero-interest short-term loans from the Federal Unemployment Account should it become necessary to

[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.

borrow to continue to pay UI benefits. The 2016 AHCM for Colorado is estimated to be 0.5 and is expected to rise to only 0.6 by 2020—far short of the recommended federal level.

Under moderate growth conditions employer contributions (including those from the bond principal surcharge) are forecast to decline from $647.1 million in 2015 to $604.6 million in 2016 and vary between about $630 million and $690 million through 2021. The taxable wage base, which is $12,200 in 2016, will increase to $12,500 in 2017 and $13,700 by 2021.   The average employer premium rate is anticipated to decline from 0.54 percent to 0.47 percent over the forecast period. Annual interest earnings on fund reserves are anticipated to increase from $18 million this year to $29 million by 2021.



Benefits, meanwhile, are projected to remain relatively stable through 2021 as labor markets progressively tighten and unemployment shrinks. Benefit payments are expected to increase from about $552 million this year to $587 million in 2017 and about $600 million by 2021. The annual benefit cost rate will recede from 0.49 percent in 2016 to 0.42 percent by 2021.[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 generally exceed the annual benefit cost rate through 2021 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 gross improper-payment rate was estimated to be 17 percent for an extrapolated gross total of $305.4 million. However, between May 2015 and April 2016 the gross improper-payment rate, which no longer includes an adjustment for actual recovered overpayments, had shrunk to about 12.5 percent, with recent data suggesting a further downward trend.

Recent and ongoing steps to reduce the improper-payment rate include the following:

- increased staff resources and training related to prevention and detection of overpayments;
- established core team dedicated to developing and implementing actions and strategies designed to reduce improper payments
- established a messaging campaign, including enhanced email and letter communications to educate claimants on eligibility requirements, including reporting new employment, earnings, job separations, other-pay received, and work-search efforts
- established an additional, targeted education-centered messaging campaign to claimants who, based on analysis of data, have a higher likelihood of misreporting earnings and/or not conducting valid searches for work
- established a campaign, including messaging and in-person outreach, to educate employers on the importance of providing timely and accurate information when so requested in order to protect employer accounts and program integrity
- updated a notice sent to claimants and employers to explain the importance of attendance and accuracy of information presented at hearings when one party contests a determination of benefits.
- updated the online application used by claimants to file a clam in order to address language that caused claimant confusion and resulted in improper payments (additional updates are planned).
- partnered with local unions by providing visual materials that explain to union employees how to correctly report earnings.
- developed internal training and visual management for all Division staff to underscore the importance of staff roles in maintaining the integrity of the program.

[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 93.1 percent of Colorado improper-payments between May 2015 and April 2016 were overpayments.

- planned updates to applications used by claimants to request benefits to improve understanding of how to accurately report all necessary information, including earnings, separations, job contacts, and availability for work.
- planned updates to existing automated workload management system used to increase efficiencies and timeliness of unreported and misreported earnings audits

In addition to lessening the rate of improper-payments the CDLE has made significant progress toward improving the overpayment collection rate. Currently, over $48 million in overpayments on the regular State UI program has been recovered from claimants since July 2012.