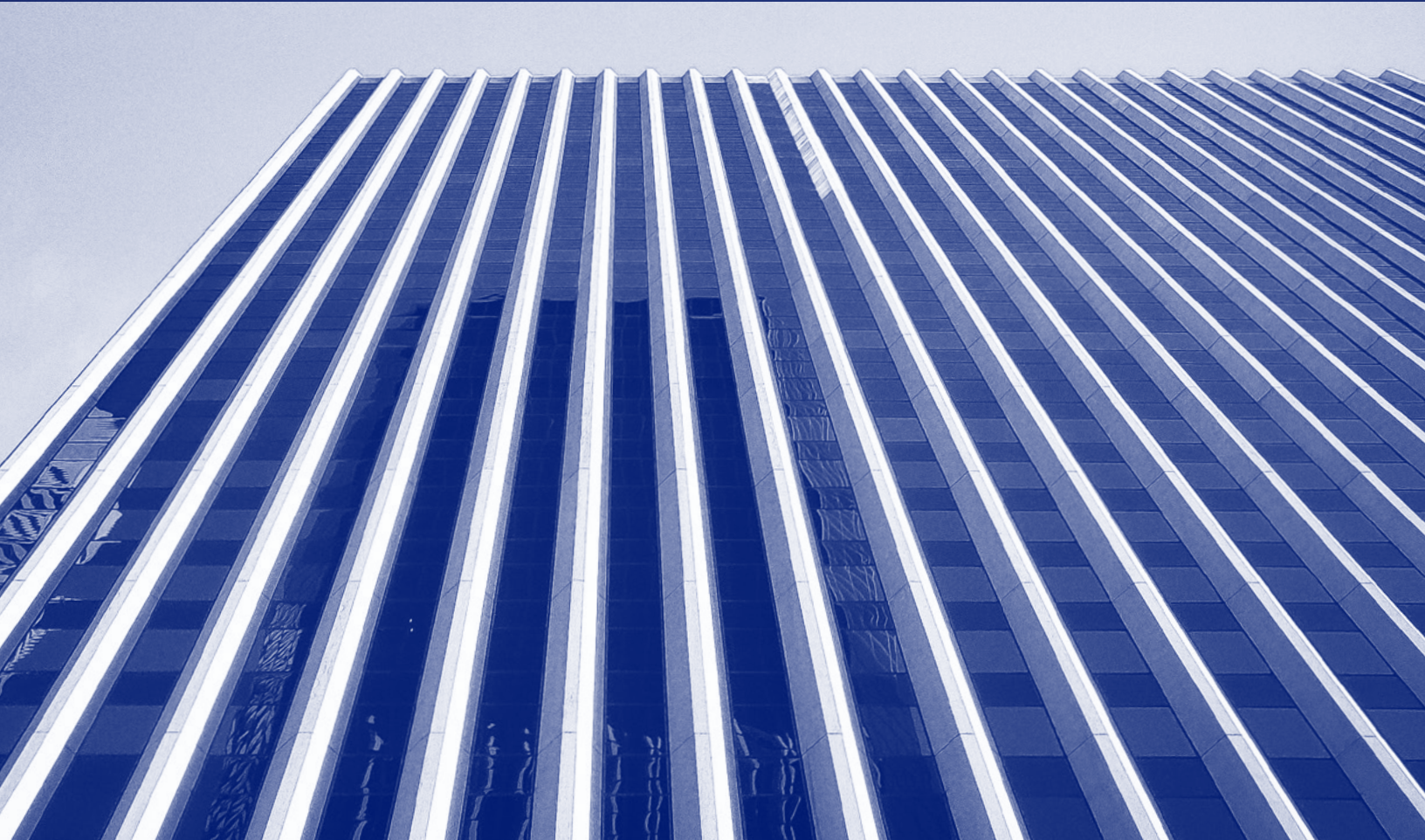




COLORADO
Department of
Labor and Employment

2024

Colorado Unemployment Insurance Trust Fund Status 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.

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

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Executive Summary

- The trust fund balance as of June 30, 2024 was \$726,130,684¹
- Benefits paid to claimants increased from \$376.6 million paid in 2022 to \$632.9 million in 2023
- Employers moved from the deficit premium rate schedule in 2023 to the 0-0.004 rate schedule beginning 2024 and will remain on the 0-0.004 schedule in 2025
- The solvency surcharge was triggered in 2024. It will stay on in 2025 and it is expected to remain on in 2026
- The taxable wage base increased from \$20,400 in 2023 to \$23,800 in 2024 and will rise to \$27,200 in 2025
- The maximum weekly benefit entitlement for regular state UI claimants increased from \$781 to \$809 effective July 1, 2024
- Trust fund reserves are forecast to increase from about \$830 million at year-end 2024 to nearly \$2.4 billion by year-end 2029 under continued growth conditions

¹ This is the trust fund balance as captured on June 30, 2024, in column C of the ETA 2112 UI Financial Trust Fund Activity report. It is a gross amount, as it includes certain amounts already obligated to be paid out, including a fraction of the Clearing Account that holds recently incoming receipts (\$12.1m) and the total in the Benefit Payment Account that holds pending payments to be made (\$164.6m).

Current Status

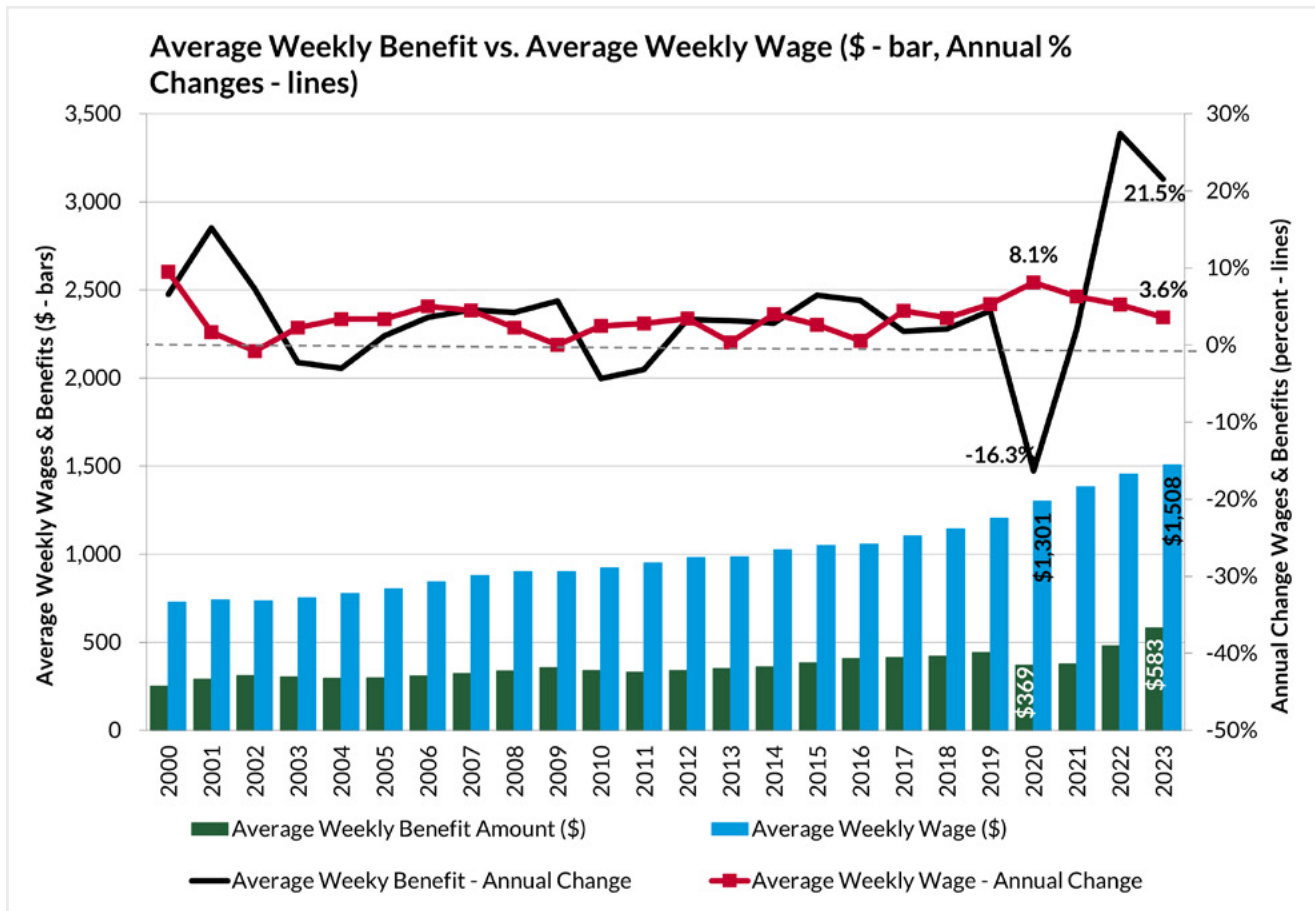
Colorado's annual average unemployment rate rose from 3.0 percent in 2022 to 3.5 percent in 2023 while private-sector nonfarm job gains slipped from 4.8 percent to 2.0 percent. Trust fund reserves, which totaled \$27.3 million at year-end 2022, grew to \$255.1 million twelve months later.

Employer premiums paid into the fund, including those from reimbursable employers, totaled \$837.2 million during 2023, up modestly from \$758.1 million the prior year. Interest earnings on trust fund reserves, which were negligible in 2022, totaled \$4.9 million in 2023. The deficit premium rate schedule was in effect for both 2022 and 2023 while the taxable wage base rose from \$17,000 to \$20,400.

Regular unemployment insurance benefit payments jumped substantially from the \$376.6 million paid in 2022 to \$632.9 million in 2023.² The increase in payments reflected both a 28 percent rise in the total number of benefit weeks compensated and a 22 percent increase in the average weekly benefit amount. Despite the rise, the 1.1 million benefit weeks paid in 2023 is less than the 1.27 million weeks paid on average during the post-Great Recession years 2012-2019. The number of individuals who received at least one regular state UI benefit payment rose from 92,333 in 2022 to 102,335 in 2023.

2 Some of this difference may be attributable to delayed release of payments.

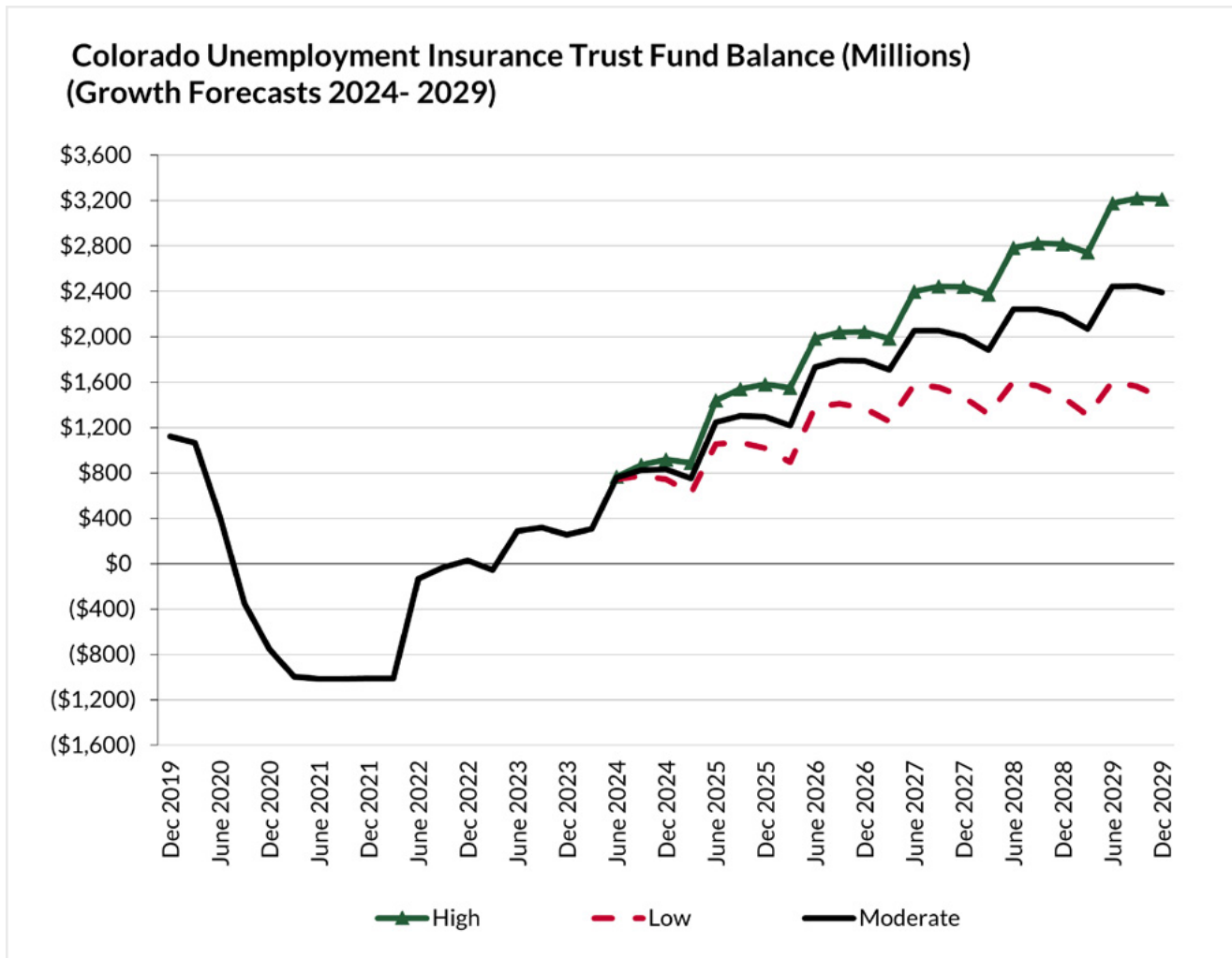
Between 2020 and 2023, the average weekly benefit amount paid on the regular state UI program climbed from \$369 to \$583, an increase of nearly 60 percent. Over the same period, average weekly earnings for workers covered by unemployment insurance rose from \$1,301 to \$1,508 or 16 percent. Because the maximum allowable weekly benefit is indexed to the change in average earnings, the average weekly benefit amount and average wage typically move in roughly the same manner. Although recessions tend to disrupt this relationship, the impact of the pandemic was unprecedented in this regard. Disproportionate layoffs of low-income workers both depressed the average benefit amount and increased average weekly earnings. Consequently, the replacement wage, which has ranged between 35 and 42 percent since 1988, slid to about 27 percent in 2021 and 2022 before rebounding to 39 percent in 2023.³



3 The replacement wage is the share of an unemployed worker’s average earnings that are replaced by an unemployment benefit.

Current Trust Fund Outlook

During the first quarter of each calendar year the Department produces a set of UITF five-year forecasts that correspond to low, medium, and high growth economic scenarios. To assess the fund’s response to conditions of economic stress the Department also generates two recession forecasts. All forecasts are continually evaluated and updated throughout the year. The moderately optimistic growth forecast, which has been closely tracking actual fund movements this year, is summarized below.

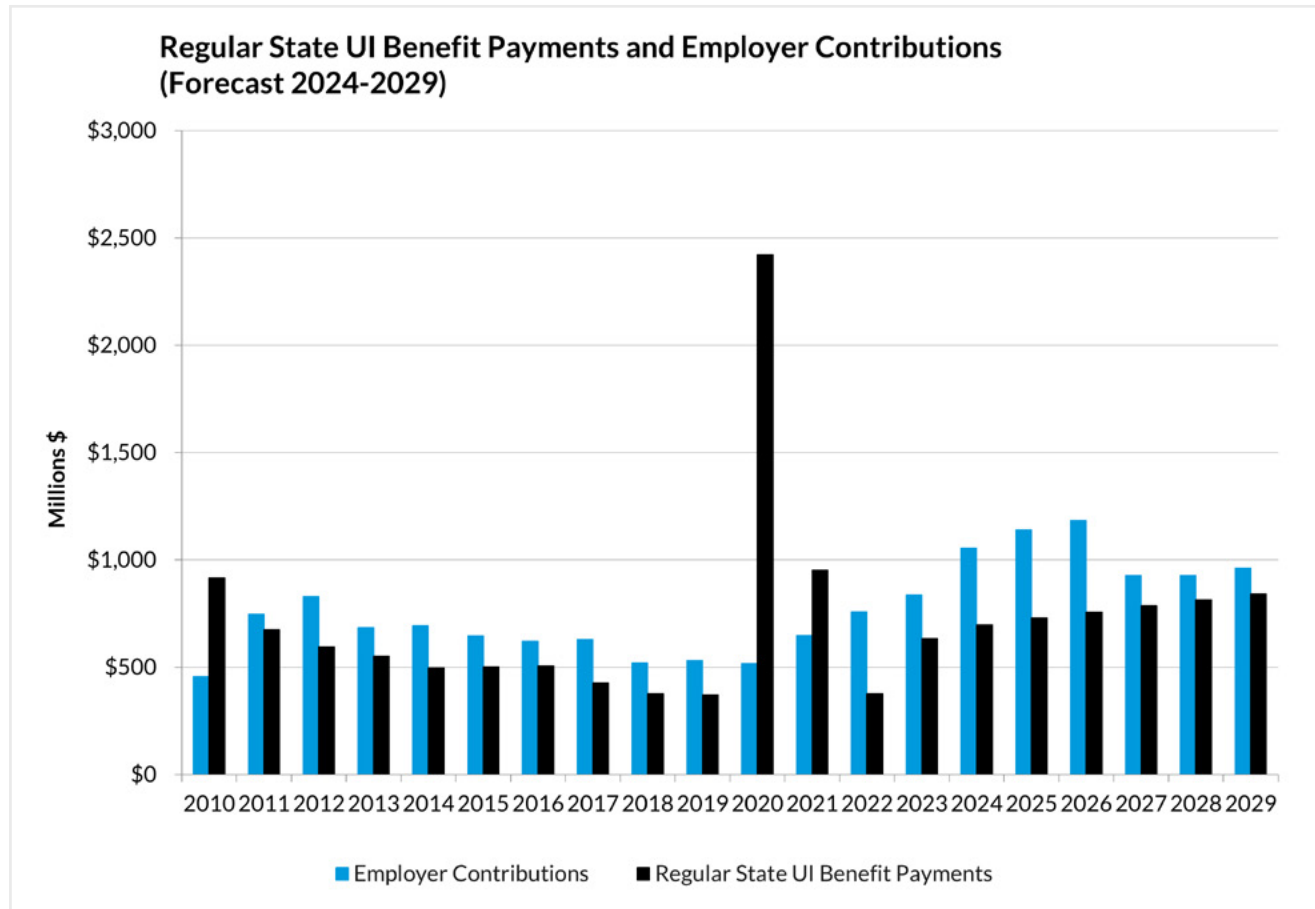


The current CDLE fund forecast is predicated upon modest economic gains continuing through the 2029 forecast horizon. Annual nonfarm job growth is assumed to average around 1.75 percent from 2024 to 2029 with unemployment rates ranging between 3.5 and 5 percent. Average weekly earnings are projected to rise approximately 2.5 to 3.0 percent each year during the forecast period.

Under these conditions fund reserves are anticipated to progressively reach nearly \$2.4 billion by year-end 2029. The solvency or reserve ratio, a simple measure of the fund's financial soundness, will improve significantly through 2029, increasing from around 0.42 percent this year to about 1.09 percent by 2029.⁴ The last time the solvency ratio exceeded 1.0 percent was in 2001. The UITF is considered fully funded under Colorado's premium rate structure when the reserve ratio reaches 1.4 percent. Although the fund balance is expected to remain positive through 2029, under moderate growth conditions it may, nonetheless, fail to attain fully funded status.

The solvency surcharge, which goes into effect when the reserve ratio falls below 0.5 percent, triggered on effective 2024 and is anticipated to stay on through 2026 (when the reserve ratio is expected to meet or exceed 0.7 percent). The surcharge will generate roughly \$700 million in additional revenues over the three-year period.

4 The reserve ratio is the trust fund balance divided by annual total private wages. Prior to the 2020 COVID-induced downturn, CDLE had estimated that a solvency ratio of about 1.4 percent measured from the start date of the recession would have been large enough to allow the fund to pay benefits without borrowing over the course of a typical recession. The premium rate schedules adopted in HB11-1288 set employer premium rates at their minimum when fund reserves reach this desired 1.4 percent threshold. To reach the 1.4 percent solvency ratio by 2029 would require a fund balance of nearly \$2.9 billion.



As a result of legislative changes, the taxable wage base, which is \$23,800 this year, will increase to \$27,200 next year and \$32,700 by 2029. Under moderate growth assumptions employer contributions are forecast to gradually decline from \$1.05 billion in 2024 to \$961 million by 2029.⁵ The average employer tax rate is anticipated to drop from 0.55 percent this year to 0.42 percent by the end of the forecast period. Annual interest earnings on fund reserves are expected to increase from \$9.4 million this year to \$45.2 million by 2029. Employers are expected to move from the 0-0.004 premium rate schedule this year to the more favorable 0.008-0.011 rate schedule in 2029.

5 Employer contributions will subside for two reasons. As the fund balance grows, employers move to lower premium rate schedules, reducing their UI tax liability. Additionally, the solvency surcharge will likely trigger off after 2026. The increase in the taxable wage base over the forecast horizon will offset much, but not all, of the decrease in fund revenues stemming from those two effects.

Benefits, meanwhile, are projected to remain relatively stable through 2029 as labor markets remain tight and unemployment low. Benefit payments are expected to increase from about \$698 million this year to \$843 million by 2029. The annual benefit cost rate, which is expected to be 0.37 this year, will change little over the forecast period.⁶ Through May of this year, 63,250 Coloradans have received at least one regular state UI payment compared to 58,249 for the same period last year.

The U.S. Department of Labor uses a measure called the Average High Cost Multiple (AHCM) to assess fund solvency. The AHCM shows 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 expressed in years so that an AHCM of 1.0 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.

The USDOL recommends that all state trust funds reach an average high cost multiple of at least 1.0—states meeting this standard will be eligible for interest-free short-term loans from the Federal Unemployment Account should it become necessary to borrow to continue to pay UI benefits. Twenty states currently have an AHCM that is at or above 1.0. The 2024 AHCM for Colorado is estimated to be 0.32 and is expected to rise to about 0.75 by 2029, short of the recommended federal level.⁷

6 The average employer tax rate equals total premiums divided by total private wages while the average benefit cost rate equals benefit payments divided by total private wages. For comparison purposes, the average tax rate for the twenty-year period 2005-2024 was 0.56 percent and the average benefit cost rate was 0.53 percent. Since 1974, Colorado's highest annual benefit cost rate was 1.7 percent in 2020 when benefit payments surged due to the COVID public health crisis. The annual average tax rate is expected to exceed the annual benefit cost rate through 2029 which means fund inflows (employer premiums received) are projected to exceed fund outflows (benefit payments).

7 Although the fund will remain solvent under continuing conditions of economic growth, even robust economic growth may not allow it to reach the desired AHCM. The current high-growth forecast implies an AHCM of 0.92 by 2029.

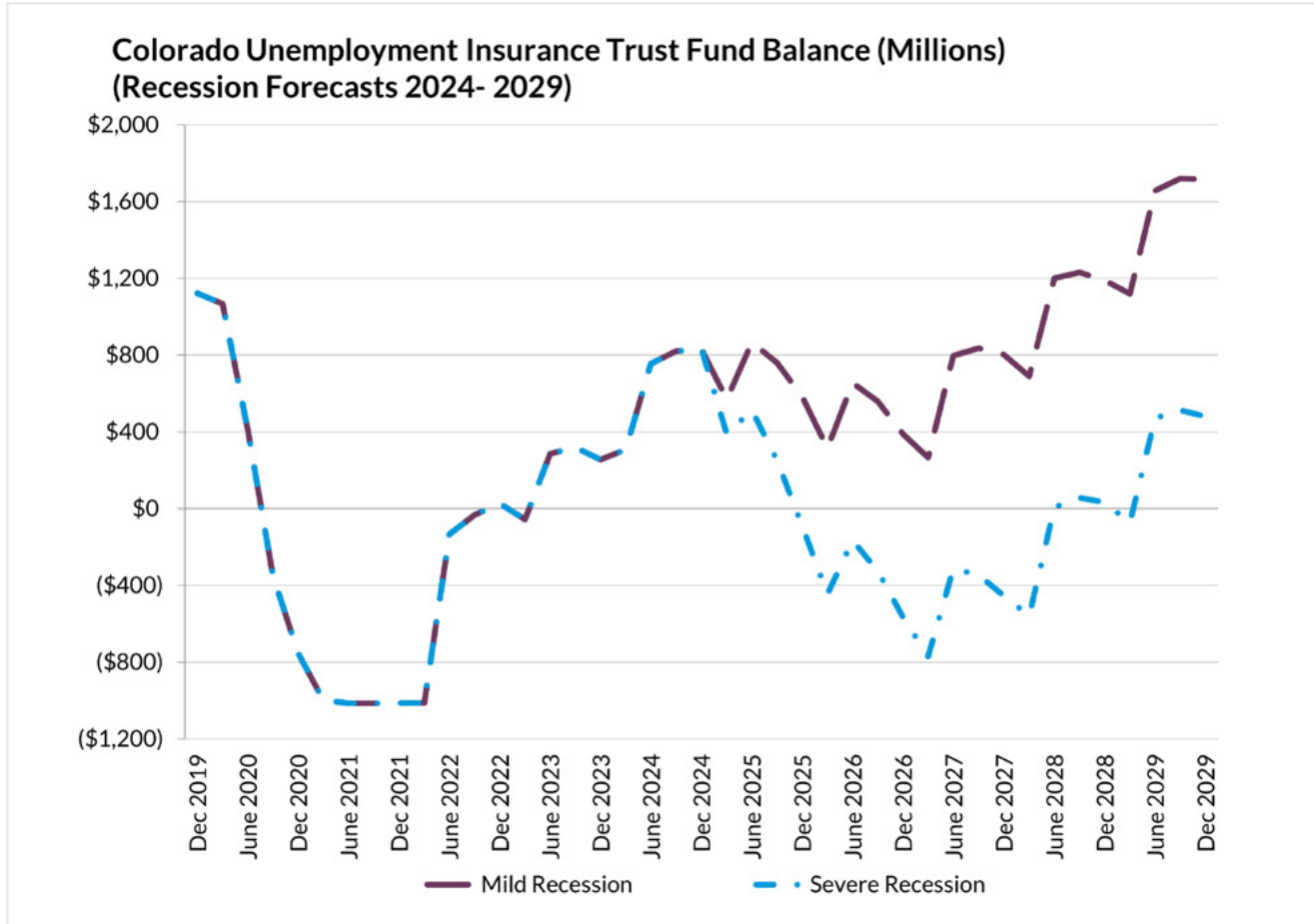
Fund Stress Tests

Colorado's UITF became insolvent in 1982 following the back-to-back recessions of the early 1980s; narrowly averted insolvency in the wake of the 2001 recession; became insolvent in 2010 following the Great Recession; and entered insolvency again in 2020 during the COVID public health emergency.

A fundamental tenet of unemployment insurance financing is forward financing, meaning that the trust fund should hold enough reserves to be able to pay benefits through an economic downturn without having to borrow. Insolvency imposes substantial financial burdens upon Colorado businesses in the form of high premium rates, premium surcharges, interest payments, and administrative expenses associated with the issuance of revenue bonds or federal borrowing. Because the fund is vulnerable to insolvency during recessions or lengthy periods of economic stagnation, these costs are felt at the very time when it is most difficult for employers to bear them.⁸

Accordingly, the Department models various recession scenarios that essentially serve as stress tests of the fund and show the extent of its vulnerability to economic downturns. This year CDLE looked at two scenarios in which the economy contracts beginning in 2025. These forecasts provide a broad outline of how the fund might react to a mild slump as well as a much deeper and more protracted event like the Great Recession.

⁸ HB11-1288 and SB20-207 strongly improved the fund's forward financing posture by updating the premium rate schedules, indexing the taxable wage base, and significantly raising the taxable wage base.



In the mild 2025 recession forecast the fund stays solvent through 2029 although the solvency surcharge remains on for the entire forecast period. The average employer tax rate reaches a high of 0.64 percent in 2027 before retreating to 0.58 percent in 2029. This scenario has the fund balance reaching \$1.7 billion by the end of 2029.

The severe recession forecast shows the fund becoming insolvent toward the end of 2025 and mostly remaining so until early 2029. Benefit payments in 2025 would roughly triple from 2024 forecast levels and remain elevated for most of the forecast period. In this scenario, trust fund reserves reach a maximum deficit of \$770 million in early 2027 before gradually recovering to just under \$500 million by 2029. The solvency surcharge would stay on throughout the forecast period while the average employer tax rate would rise to 0.68 percent in both 2027 and 2028.

Improper Payments

Improper payments in state UI programs became a national issue as a result of the pandemic. Federal benefit entitlement programs with improper payment rates greater than 10 percent are considered to be out of compliance with federal performance standards.⁹ For the calendar year 2023, the national rate of 13.93 percent remained higher than pre-pandemic rates.

CDLE's improper payment rate for calendar year 2023 was 5.01 percent, well below the national average and well within the federal compliance standard. For 2023, Colorado was among the top three states with the lowest improper payment rate. The rate declined from 8.78 percent in 2022 and is in sharp contrast to the 31.86 percent rate in 2021.

A variety of identity verification measures and fraud tools have helped prevent fraudulent claims from being paid. Strategies implemented pre-pandemic as well as the new UI benefit system have helped combat and reduce improper payments. CDLE also provides regular messaging to claimants on how to report earnings, historically one of the root causes for improper payments. To help limit improper payments related to job-separation determinations, the UI Quality Assurance team provides regular feedback, including tips, trends, and recommendations, to claims processing units.

⁹ 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 99 percent of Colorado improper payments in 2023 were overpayments.