



## Unemployment Insurance and Economic Downturns

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This *issue brief* provides an overview of the Colorado unemployment insurance (UI) program, including UI benefits, funding, and solvency in the context of recent economic downturns.

### Colorado's UI Program

The Colorado UI program operates under a federal-state partnership and provides temporary income support to workers who have become unemployed through no fault of their own. Unemployment insurance acts as a countercyclical measure during periods of economic weakness, helping to stabilize aggregate spending and mitigate economic decline.

**Funding.** Regular state UI benefits provide up to 60 percent wage replacement for up to 26 weeks. These benefits are paid from the Unemployment Insurance Trust Fund (UITF), which is funded through state UI premiums and surcharges paid by Colorado employers. Employer premium and surcharge rates are based on the employer's history of layoffs and amount of wages paid. Funds that flow through the state's UI program do

not impact the state's General Fund budget and are not subject to TABOR.

Economic downturns result in increased claims on regular state UI benefits. Depending on the duration and severity of a downturn, state-funded benefits may be extended for additional weeks and federally funded benefits made available. Table 1 provides a comparison of state- and federally funded UI benefits during the Great Recession and the COVID-19 Pandemic.

**Maintaining UITF solvency.** The premiums employers pay to fund the UI program change in order to maintain or improve UITF solvency. The UITF ending balance on June 30 of each year determines the premium rate schedule for all employers for the following calendar year. When the fund balance falls due to a rise in benefits claimed, all employers may shift to a higher premium rate schedule. In addition to premium rate changes, whenever the UITF fund balance falls below a certain level, an additional solvency surcharge is assessed.

**Table 1**  
**State and Federal UI Benefits during Recent Downturns**

<b>Funding Source</b>	<b>State</b>	<b>State &amp; Federal*</b>	<b>Federal</b>
<b>Benefits</b>	<b>Regular</b>	<b>Extended</b>	<b>Temporary</b>
<b>Great Recession</b> (2007-09)	Partial wage replacement for up to 26 weeks	Up to 13 additional weeks of regular benefits (fully federally funded)*	Partial wage replacement for up to 99 weeks total <i>Expired December 2013</i>
<b>COVID-19 Pandemic</b> (2020)	Partial wage replacement for up to 26 weeks	Not yet available. Extended benefits are triggered by persistently elevated state unemployment rates*	Extends eligibility to self-employed workers and independent contractors; Additional \$600 per week for up to four months;** up to 13 additional weeks of benefits after others are expended <i>Expires December 2020</i>

\* States are normally required to cover half the costs of extended benefit programs. However, this requirement was suspended during the Great Recession and has currently been suspended through 2020, allowing full federal funding should extended benefits be triggered.

\*\* Expires July 2020.

**Federal borrowing.** If the balance of the UITF falls below zero, the state must borrow money from the Federal Unemployment Account to cover required benefit payments. Under certain conditions, federal loans may be extended to states interest-free.

### **Benefits During the Great Recession**

As a result of the 2007-09 recession, or Great Recession, UI claims grew to new highs. In 2009 and 2010, new UI claims averaged 4,800 weekly. Claims peaked at 7,479 during the week ending January 9, 2010. Elevated rates of unemployment triggered 13 weeks of extended benefits. Additionally, Congress authorized additional, temporary, federally funded benefits of up to 99 weeks total for individuals who exhausted all state benefits through the Emergency Unemployment Compensation Program from July 2008 to December 2013.

**Premium rate changes.** The rise in benefits claimed depleted the UITF and shifted employer premium rates to a higher rate schedule in 2010 and to the highest schedule in 2011. The solvency surcharge, which had been triggered since 2004 remained in effect throughout the recession.

**Borrowing to address UITF solvency.** The UITF became insolvent in January 2010, prompting the state to borrow from the Federal Unemployment Account between January 2010 and June 2012 to continue funding benefits. The state issued unemployment compensation bonds to repay federal loans and restore the trust fund to solvency. To repay these bonds, employers were assessed a principal bond repayment surcharge. Bonds were repaid in May 2017, and the surcharge was lifted starting in 2018.

### **Funding Changes Under HB 11-1288**

House Bill 11-1288 addressed many of Colorado's long-term UITF financing deficiencies. Among other changes, the bill created a new premium and solvency rate schedule, which helped to increase the UITF balance. Under HB 11-1288 and an improving economy, the solvency surcharge was

triggered "off," and a lower premium rate schedule began in 2013.

### **Benefits During the COVID-19 Pandemic**

The speed and intensity of changes in UI claims during the COVID-19 Pandemic have been unprecedented. Initial claims for the week ending April 11 (104,217 claims), exceeded the total number of claims filed during 2019 (98,727 claims).

**Expanded federally funded benefits.** The Federal Coronavirus Aid, Relief, and Economic Security Act, or the CARES Act was signed into law on March 27, 2020. It contains several provisions to expand UI benefits: 1) allowing additional workers, including self-employed workers and independent contractors, to receive benefits; 2) providing an additional \$600 per week in benefits for up to four months; and 3) allowing for an additional 13 weeks of benefits after regular state benefits have been exhausted. These benefits, as well as the costs incurred by states to administer them, are paid by the federal government.

For states facing UI program insolvency, the Families First Coronavirus Response Act, signed into law March 18, 2020, includes a provision to provide interest-free federal loans, as well as funding for any extended state benefits that may be triggered by deteriorating economic conditions.

**Premium rate changes.** The UITF balance on June 30, 2020, will determine the premium rate schedule and solvency surcharge for 2021. A Colorado Department of Labor and Employment emergency rule prevents individual employers' UI premiums from shifting to a higher rate for employee layoffs that occur within periods this year corresponding to COVID-19-related economic damage. However, the UITF balance on June 30, 2020, will likely result in higher premium rates across all employers.

**UITF solvency.** According to the U.S. Department of Labor's 2020 Trust Fund Solvency Report, as of January 1, 2020, trust funds in 22 states, including Colorado, fell below the recommended solvency standard of having funds sufficient to pay benefits at recession levels for at least one year.