Legislative Council Staff
Nonpartisan Services for Colorado's Legislature

Room 029 State Capitol, Denver, CO 80203-1784
Phone: (303) 866-3521 • Fax: (303) 866-3855
lcs.ga@state.co.us • leg.colorado.gov/lcs

Memorandum

September 17, 2021

TO: Interested Persons

FROM: Elizabeth Ramey, Principal Economist, 303-866-3522

SUBJECT: Unemployment Insurance and Economic Downturns

Summary

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

Contents

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 may be 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 usually assessed (see the discussion of Senate Bill 20-207 below for more information).

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.

Table 1
State and Federal UI Benefits During Recent Downturns

Funding Source	State	State & Federal*	Federal
Benefits	**Regular**	**Extended**	**Temporary**
Great Recession (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 *Expired December 2013*
COVID-19 Pandemic (2020-21)	Partial wage replacement for up to 26 weeks	Up to 13 additional weeks of regular benefits (fully federally funded)*	Expanded eligibility to additional workers; up to 13 additional weeks of benefits; an additional $600 per week for up to four months**; an additional $300 per week*** *Expired September 2021*

** States are normally required to cover half the costs of extended benefit programs. However, this requirement was suspended during the Great Recession and the COVID-19 pandemic, allowing full federal funding of state extended benefits.*
*** Federal Pandemic Unemployment Compensation (FPUC), expired July 31, 2020.*
****Lost Wages Assistance, July 2020 to September 2020; FPUC reauthorized for lower amount beginning December 27, 2020*

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 state extended benefits (SEB), which were fully federally funded.[1] Congress also authorized additional, temporary, federally funded benefits for up to 99 weeks 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.

[1]The trigger adopted during the Great Recession was a three-month average state unemployment rate of 6.5 percent or above as long as SEB were fully federally funded.

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. Businesses were charged a special interest assessment during the summer of 2011 to fund the payment of $11.4 million that was made in September 2011. In 2012, the state issued $640 million in 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 House Bill 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 were unprecedented. Initial claims peaked for the week ending April 11, 2020 at 104,217 claims, exceeding the total number of claims filed during 2019 (98,727 claims). In 2020, new UI claims averaged 14,264 weekly.

Expanded federally funded benefits. The Federal Coronavirus Aid, Relief, and Economic Security Act, or the CARES Act, signed into law on March 27, 2020, provided several provisions to expand UI benefits. The Consolidated Appropriations Act of 2021, or CAA, signed into law on December 27, 2020, , and the American Rescue Plan Act, or ARPA, signed into law on March 11, 2021, continued, expanded, and/or reinstated these provisions:

- Pandemic Unemployment Assistance (PUA) allows additional workers, including self-employed and independent contractors, to receive benefits for up to 79 weeks (extended from 39 weeks provided in the CARES Act and 50 weeks provided in the CAA);
- Pandemic Emergency Unemployment Compensation (PEUC) allows for an additional 53 weeks (extended from 13 weeks provided in the CARES Act and 24 weeks provided in the CAA), of benefits after regular state benefits have been exhausted; and
- Federal Pandemic Unemployment Compensation (FPUC) provides an additional weekly payment for those claiming benefits. The CARES Act authorized an additional $600 per week for up to four months until July 31, 2020. The CAA included a $300 weekly payment until March 15, 2021, which was extended until September 6, 2021, by the ARPA.

The Lost Wages Assistance Program, authorized by a Presidential Memorandum on August 8, 2020, provided an additional $300 per week from the Federal Emergency Management Agency's Disaster Relief Fund for up to six weeks from the end of July 2020 through the beginning of September 2020.

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 full federal

funding for any state extended benefits that have been triggered by deteriorating economic conditions. These provisions were extended by the CAA until March 15, 2021, and again by the ARPA until September 6, 2021.

In Colorado, SEB were triggered and paid from August 2020 through November 2020, when the state's insured unemployment rate fell below 5 percent. Senate Bill 20B-002, signed into law on December 7, 2020, authorizes the state to adopt an alternative trigger for state extended benefits, and may result in the extension of these benefits.

Expanded state-funded benefits. On October 28, 2020, Governor Polis issued an executive order providing a one-time stimulus payment of $375 to Coloradans who received unemployment compensation during the pandemic and whose weekly benefits did not exceed $500 per week.

Changes under Senate Bill 20-207. Senate Bill 20-207, signed into law on July 14, 2020, provided some relief to employers while also further addressing long-term UITF financing. Among other changes, the bill suspended the solvency surcharge for 2021 and 2022, and held the chargeable wage base constant at $13,600 for 2021. Beginning in 2022, the bill increases the chargeable wage base incrementally, to $30,600 by 2026 and adjusts it thereafter by changes in average weekly earnings.

Premium rate changes. The UITF was nearly depleted by June 30, 2020, triggering a move to the second highest premium rate schedule for all employers beginning January 1, 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 corresponding to COVID-19-related economic damage.

UITF solvency. The state's UITF became insolvent on August 18, 2020, and Colorado began borrowing from the federal government to fund benefit payments. As of September 14, 2021, the state had $1.0 billion in federal loans outstanding. Ten other states have outstanding loans, down from 20 states at the end of 2020, with balances ranging from New Jersey's $258.3 million to California's $19.5 billion.

Costs of federal loans outstanding. Interest is charged on loans that are not repaid by the end of the federal fiscal year (September 30) in which the loan was taken. By law, employer contributions to the trust fund cannot be used for these payments. Historically, a separate assessment on employers was used to make this payment. If a state does not repay a loan by November 10 after having outstanding loans on January 1 for two consecutive years, there is a reduction in the tax credit applied to the federal UI tax (FUTA) paid by every UI-covered employer.