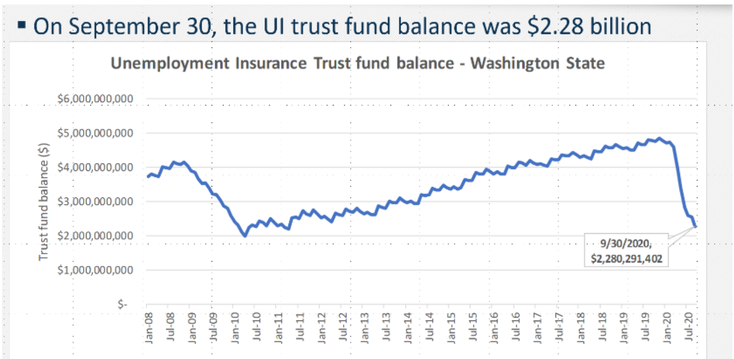
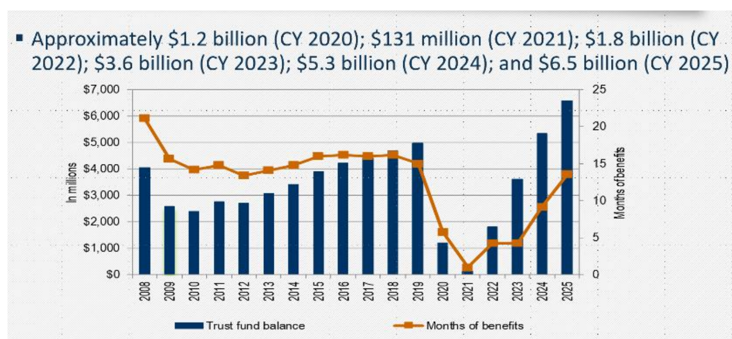
UI Trust Fund Forecast Reveals Risks of Increased Taxes in 2021, and Beyond
Bruce Beckett, The Beckett Group

Last week's Employment Security Department forecast for the Unemployment Insurance Trust Fund projects significant tax increases on business in 2021 and 2022. The UI Trust Fund, which pays state unemployment benefits to unemployed workers, is entirely funded by employers through their unemployment insurance taxes. The UI system performed superbly during the Great Recession; however the system was never designed to handle the onslaught of unemployment benefits that have resulted from COVID-19 related job losses and curtailments.



Through August, more than $3 billion of benefits have been paid from the UI Trust Fund since the onset of the pandemic. ESD's September forecast indicates that the trust fund will have about $1.2 billion by the end of 2020 and decline to $131 million by the end of 2021.

The forecast had one hint of good news. In June, ESD forecasted the UI Trust fund below $1.7 billion by the end of September. At that level, the state would have had less than 7 months of benefits in the Trust Fund, triggering a 0.2% solvency surcharge tax on all employers. Additionally, in June, ESD believed the state would need to seek a federal loan before the end of 2020 to continue benefit payments. The good news is that the unemployment rate has rebounded from a high of 16.4% to about 8% today. Accordingly, the rate of decline in the trust fund has slowed, eliminating the need to impose the solvency surcharge and/or seek federal assistance at this time.



However, heading into 2021, the news is sobering.

The UI tax rate for an individual employer has three components (1) Experience rating (often called "benefit charging" over a four year period), (2) Social tax to cover benefits payed but not charged to an individual employer, and (3) Solvency Tax which is triggered if the fund has less than 7 months of benefits available.

Employers are assigned into one of forty rate classes based on their four-year history of employees needing unemployment insurance benefits. Most employers are in the lower rate classes reflecting lower layoffs or little history of employees needing unemployment insurance benefits.

The social tax is distributed across all employers and covers the costs for benefits not charged to any specific employer. For example, the cost of benefits connected to an employer who has gone out of business and no longer paying UI taxes.

Finally, a 0.2% solvency surcharge is imposed if the trust fund declines to less than seven months of benefit payments. The solvency surcharge has never been imposed.

ESD's forecast shows that, on average, employer UI taxes will increase by 80% in 2021, and nearly triple in 2022. The tax hikes are not distributed equally. Most benefits related to COVID-19 job losses are being socialized across all employers. Accordingly employers with low experience rates will see up to a fivefold increase in their taxes because the majority of the increase is in social taxes.

In 2022, ESD is projecting the need to add the 0.2% solvency surcharge on top of the 2021 increases. At that time, the average tax burden on employers will be 2.74 times todays rates. Again, there will be a larger increase on employers at the lower experience rate classes.

In total, ESD projects the need to collect more than $878 million in increased UI taxes in 2021, and $1.7 billion in increased taxes (compared to 2020) by 2022.

The Washington Retail Association is working closely with business stakeholders, ESD and the Governor's office to identify options to avert these massive tax increases. The options include:

- Use of federal CARES Act funding to maintain solvency in the UI Trust Fund.
- Use of state general fund revenues
- Federal loans or lines of credit can be secured but must be repaid within two years. Again, employers fund the system, hence will be responsible for repayment of any federal loan.
- Finally, we are exploring legislative options to adjust the UI tax system during this unique period.