

SOLVENCY SURCHARGE AND ITS IMPACT ON RATES FOR CALENDAR YEAR 2011

UNEMPLOYMENT INSURANCE TRUST FUND AND RATES

The Colorado Unemployment Insurance (UI) Trust Fund consists of all premiums paid into the UI Program by Colorado employers, minus all UI benefits claims that have been paid, plus interest earned on the balance in the UI Trust Fund.

The rate schedule that is used for any given calendar year is dependent on the amount of money in the UI Trust Fund at the end of the previous state fiscal year. The state fiscal year is July 1 to June 30. July 1 is the computation date for calculating rates for the following calendar year. Most employers are assigned a computed rate, which is based on the history of the employer's UI account and, if applicable, the predecessor's account. Newer employers or reinstated employers who do not meet the Colorado Employment Security Act ([CESA](#)) requirements for receiving a computed rate are assigned a standard rate or an industry standard rate. Most employers are also assessed a surcharge. In addition, when the UI Trust Fund is below a certain monetary level, a solvency surcharge is assessed. The balance of the UI Trust Fund as of June 30, 2010, was at a monetary level that requires the assessment of the solvency surcharge for calendar year 2011.

STANDARD AND COMPUTED RATES

With the exception of employers in the construction industry, the standard rate for employers newly subject to pay unemployment premiums on or after July 1, 1997, is 1.7 percent (0.017). This standard rate applies unless the employer has met the qualifications for a computed rate in accordance with CESA 8-76-103 (3)(a)(I) or 8-76-103 (3)(a)(III)(E). CESA 8-76-103 (3)(a)(I) authorizes the assessment of premiums for new employers at the standard or at the computed rate, whichever is higher.

NOTE: A successor employer is most often a newly subject employer. However, the history and experience of a predecessor account and its computed rate is assigned to a qualified successor. A successor must acquire all of the organization, trade, or business or substantially all of the assets of the predecessor to qualify for the predecessor's computed rate according to CESA 8-76-104.

A computed rate is based on a formula using the activity on the employer's account that includes length of time as a wage paying employer, payroll reported, premiums paid into the UI Trust Fund, and benefits that are charged to the employer and paid out of the UI Trust Fund. An employer account is not eligible for a computed rate until there are at least 12 consecutive months in which benefit payments could have been charged to the account prior to the July 1 computation date for UI premium rates. The quarters used consist of the first four of the last five completed calendar quarters. This equates to wages paid during at least 16 consecutive months for a standard employer. The computed rate replaces the previously assigned standard rate as the employer's base rate.

NOTE: For any given year, a computed rate for the next calendar year is not assigned until after July 1 of the current year. The second quarter is not reported until July 31. The second quarter is not included in the calculation for benefit chargeability that moves an employer from a standard rate to a computed rate.

EXAMPLE:

For a computation date of July 1, 2010:

1. First computation quarter = January, February, and March of 2009
2. Second computation quarter = April, May, and June of 2009
3. Third computation quarter = July, August, and September of 2009
4. Fourth computation quarter = October, November, and December of 2009
5. Fifth computation quarter = January, February, and March of 2010

NOTE: The first four of the above quarters are the quarters used for the 12-consecutive-months of chargeability requirement. The quarter that includes the months of April, May, and June of 2010 is not used in the computation calculation because it is not complete until the reporting date of July 31, 2010, and falls after the July 1, 2010, computation date. However, the wages reported and premiums paid for the quarter that includes the months of April, May, and June of 2010 are used to calculate future rates.

Employers in the construction industry must have at least 36 consecutive months in which benefit payments could have been charged to their account prior to the July 1 computation date in order to qualify for a computed rate. The quarters used to compute the rate consist of the first four of the last five completed quarters. This equates to wages paid during at least 40 months for a construction-industry employer. The computed rate replaces the previously assigned standard rate as the employer's base rate, unless the employer has qualified for a rate higher than the standard rate before the end of a 40-month period.

NOTE: The minimum 40-month period of time consists of 24 consecutive months plus 16 consecutive months:

1. Wages reported for the first **24** months.
2. The first four of the last five completed quarters (at least **16** months used to determine the computed rate).

A percent of excess is used to determine an employer's computed rate. Employers are assigned a positive percent of excess if the amount of UI premium they paid to the UI Trust Fund is greater than the amount of UI benefits charged to their account. Employers are assigned a negative percent of excess if the amount of UI premium they

paid to the UI Trust Fund is less than the amount of UI benefits charged to their account.

The percent of excess is computed by subtracting the benefits charged to an employer account from the premium paid to that account and dividing the result by the average annual payroll. The percentage is computed to the nearest one percent. This rate-computation formula applies to accounts that have met the qualifications for a computed rate in accordance with CESA 8-76-103 (3)(a)(I) or 8-76-103 (3)(a)(III)(E).

NOTE: Employers with a positive percent of excess are assigned a lower computed rate, while employers with a negative percent of excess are assigned a higher computed rate.

STANDARD INDUSTRY RATE

New construction-industry employers are assigned a standard industry rate according to their classification in the North American Industry Classification System (NAICS). These standard industry rates are assigned based on the entire industry activity within these NAICS construction codes and utilize the rate-computation formula for assignment of standard rates for the construction classifications in accordance with CESA 8-76-103 (3)(a)(III)(E).

BASE RATE FOR CALENDAR YEAR 2011

The monetary level of the UI Trust Fund decreased in the past year, the chart for the 2011 base rates for employers will change. For calendar year 2011 the base rate will increase. See CESA 8-76-103 (3)(b)(II)(B), column heading "0 or Deficit." For example, an employer with a percent of excess of +8 has a base rate of 0.004 in calendar year 2010. If the same percent of excess is maintained, the same employer has a base rate of 0.019 in calendar year 2011.

SURCHARGE

A surcharge is added to all standard rates and some computed rates. The surcharge supports administrative costs. In addition, the surcharge supports a general pool fund used to pay UI benefits not directly charged to an employer. For example, when a full award is granted to pay UI benefits on a job separation that meets the criteria under CESA for domestic abuse, the employer account is not charged for UI benefits paid on the claim. Instead, paid UI benefits are charged to the general pool fund.

A surcharge is not assessed on employers who have had less than a total of \$100 charged to their accounts from UI benefits paid out in the last three state fiscal years by the July 1 rate computation date.

In accordance with CESA 8-76-102 (4)(d), the surcharge rate is 0.22 percent (0.0022).

SOLVENCY SURCHARGE FOR CALENDAR YEAR 2011

In accordance with CESA 8-76-102 (5)(a)(I), a solvency surcharge was assigned to ratable employer accounts beginning in calendar year 2004. This solvency surcharge is a

result of the UI Trust Fund's level of solvency decreasing below a level that ensures the ability of the UI Program to pay UI benefits. The solvency surcharge is added to the standard or computed rate when the UI Trust Fund balance on any June 30 is equal to or less than nine-tenths of one percent of the total wages reported by ratable Colorado employers for the calendar year or the most recent available four consecutive quarters prior to the last computation date. Calendar year 2011 is the eighth year that the solvency surcharge is in effect.

According to CESA 8-76-102 (5)(a)(I), the solvency surcharge is a temporary, annual increase to the employer's total rate. The solvency surcharge is increased incrementally each year until:

- A maximum solvency surcharge as mandated by law, is reached.
- **or** -
- The UI Trust Fund reaches a monetary level such that the solvency surcharge is no longer necessary.

NOTE: The solvency surcharge is not assessed to state and local government agencies, reimbursable and group-rated political subdivisions, and nonprofit organizations that are reimbursable employers.

As of June 30, 2010, the UI Trust Fund balance as a percentage of the total wages reported by ratable Colorado employers was less than zero. Since the UI Trust Fund balance is less than nine-tenths of one percent of the total wages reported by ratable Colorado employers, the solvency surcharge will be assessed for rate year 2011. For all new employer accounts or reinstated, ratable employer accounts that do not meet CESA requirements for a computed rate, the solvency surcharge is 0.006 for the first reporting year and 0.012 for the second reporting year.

If you have further questions about the solvency surcharge or your account, please contact UI Employer Services at 303-318-9100 (Denver-metro area) or 1-800-480-8299 (outside Denver-metro area). You may also send an e-mail to employer.services@state.co.us.