

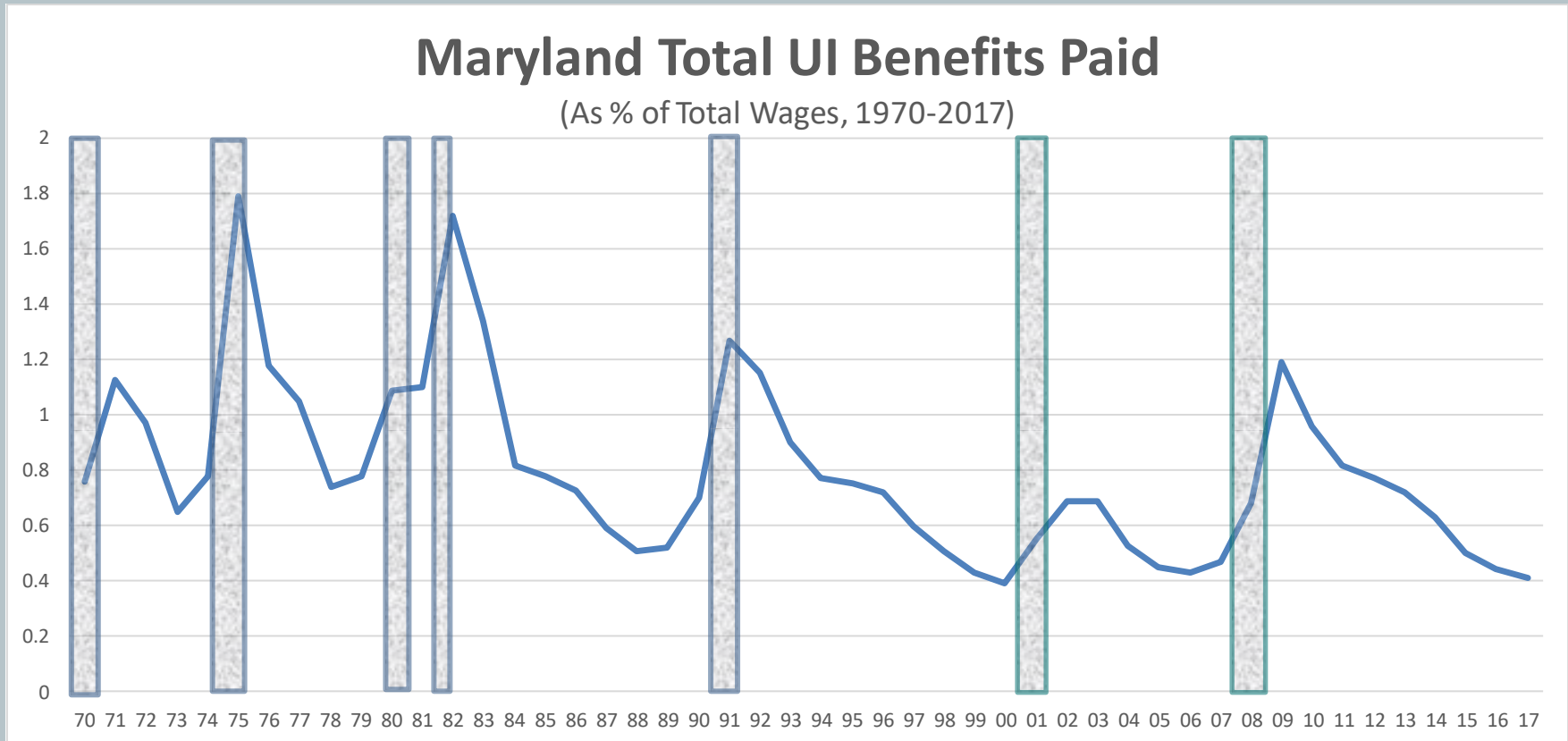
Measuring Tax Rate Adequacy

UI Benefit Financing Seminar
Division of Fiscal and Actuarial Services
U.S. DOL/ETA/OUI
October 23-26, 2018

Tax Rate Adequacy

- Understanding significant measures of State UI tax systems
- How to calculate an Adequate Financing Rate

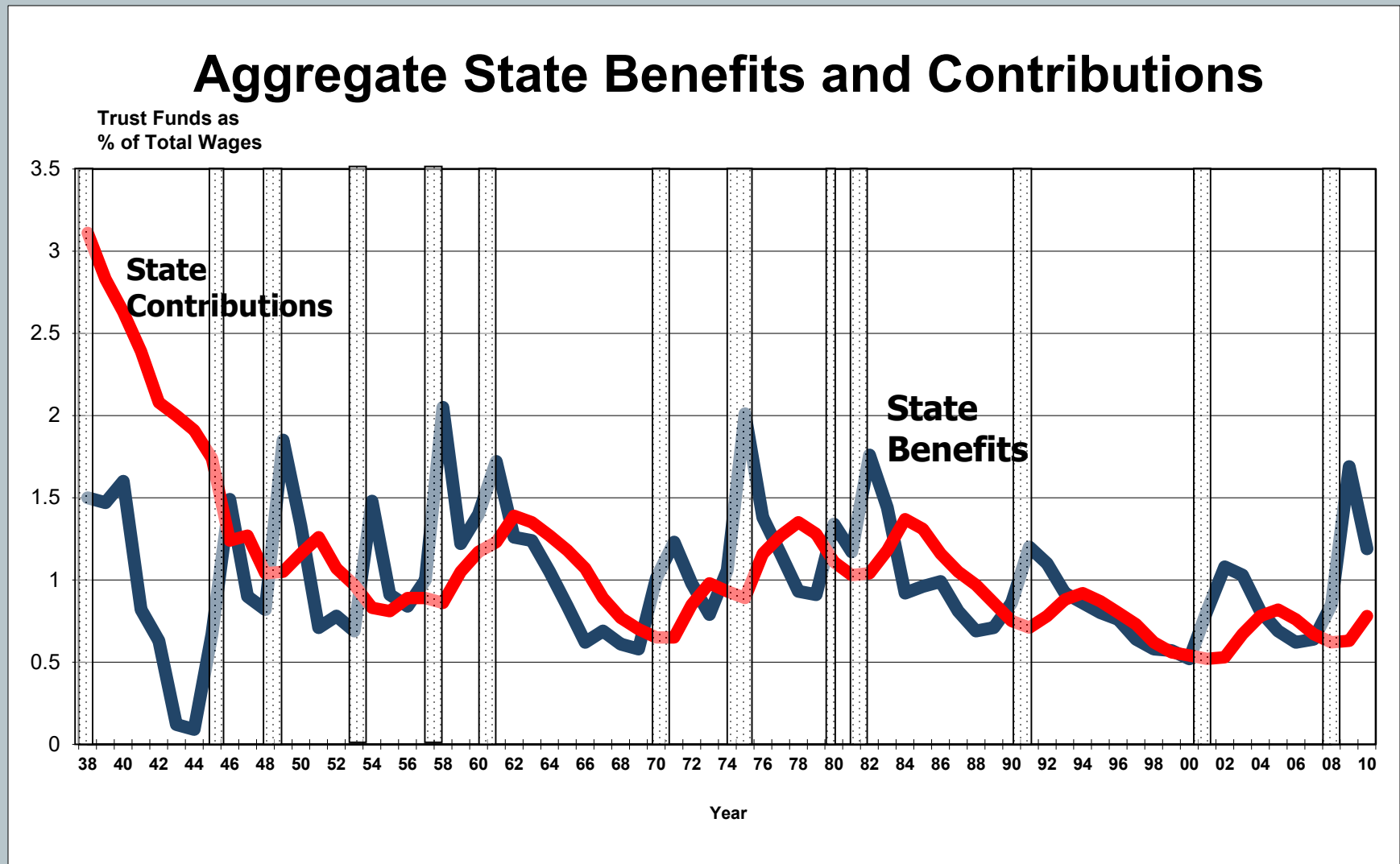
Why is Tax “Adequacy” Important



- Forward Funding for Recessionary Periods



Unemployment Insurance Program Forward Funding





2017

- [Highlights](#)
- [Report User Guide](#)
- [State Summary Tables](#)
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View this report online at:
<http://ows.doleta.gov/unemploy/finance.asp>

Significant Measures of State UI Tax Systems Report

- http://workforcesecurity.doleta.gov/unemploy/sig_measure.asp

- **Significant Measures of State UI Tax Systems**

Report Years with Actual Data Available:

- CY 2018
- CY 2017
- CY 2016
- CY 2015
- CY 2014
- CY 2013
- CY 2012
- CY 2011
- CY 2010
- CY 2009
- CY 2008



Significant Measures of State Tax Systems Report

State Tax Structure Description

Maryland 2017

1) Type of Experience Rating Method:	Benefit Ratio	2) Type of Employer Ranking:	Fixed
3) Type of Charging Method:	Proportionally	4) Taxable Wage Base (\$):	\$8,500
5) Avg. Tax Rate (Total / Taxable Wages) %:	0.40 / 2.41	6) New Employer Tax Rate (%):	2.6
7) Statutory Tax Rate (Min. / Max.)%:	.30 / 7.50	8) Average High Cost Multiple (1/1/2017):	.80



Significant Measures of State Tax Systems Report

Maryland 2017

State Tax Levels

	Avg. Per Covered Employee	Avg. For Every \$100 of Wages Pd.
9) Est. Employer Contributions:	\$230	\$.40

	Min. Rate	Max Rate
10) Contributions Per Employee at the Tax Base:	\$26	\$638

Definitions

9. Total UI Contributions / Covered Employment

10. a) Tax Base * Min. Tax Rate b) Tax Base * Max. Tax Rate

Significant Measures of State Tax Systems Report

Contribution Levels

	To pay benefits in Previous Computation Year	Into the Trust fund
11) For Every One Dollar of Contributions the Amount Going:	\$1.03	-\$0.03

12) Average Tax Rate Compared to Adequate Financing Rate:

Current Avg. Tax Rate	Adequate Financing Tax Rate	% Diff.
 3.67%	 3.84%	-37%

Definitions

- 11a) Total Benefits Paid Previous Year / Current Year Est. Total Contributions
b) $(1 - a)$

Adequate Tax Rate

- How much money should a state bring in each year in revenues in order to reach an adequate Trust Fund.

Depends on two Items:

- 1) Amount of benefits state is paying
- 2) Amount of benefits the state wants to forward fund



Significant Measures of State Tax Systems Report

Definitions

- 12) The Adequate Financing Rate is the flat tax rate necessary to fund the State's average historical level of UI benefits and adequately forward fund the UI Trust Fund.**

$$\text{Adequate Financing Rate} = \text{Long Term Avg. Benefit Cost Rate} + \text{Solvency Amount}$$

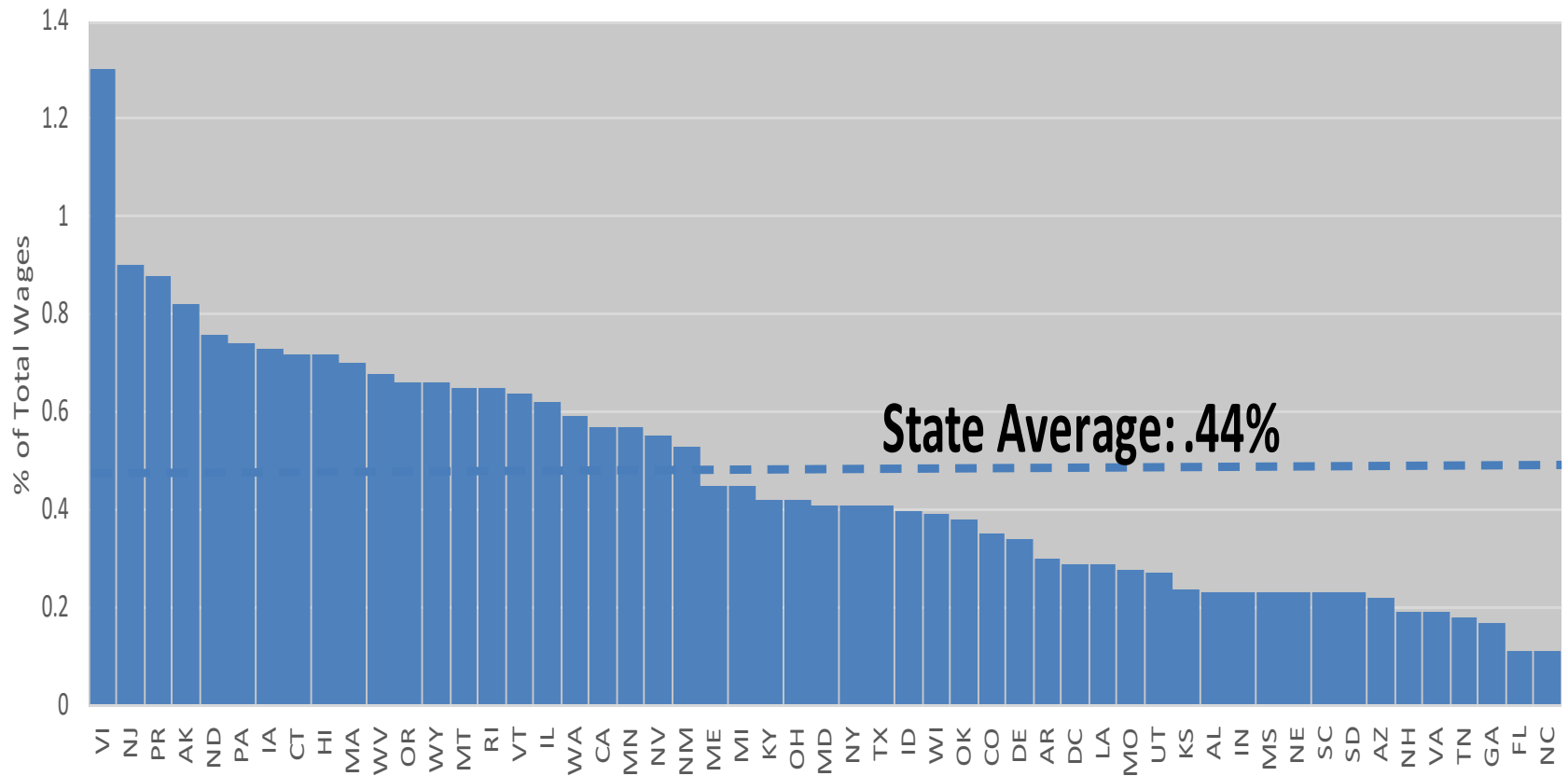
$$\text{Long Term Benefit Cost Rate} = 10 \text{ Year Avg. of (Benefits / Taxable Wages)}$$

$$\text{Solvency Amount} = \text{Difference Between Current Trust Fund and Amount needed to Reach AHCM 1.0 in 5 years.}$$

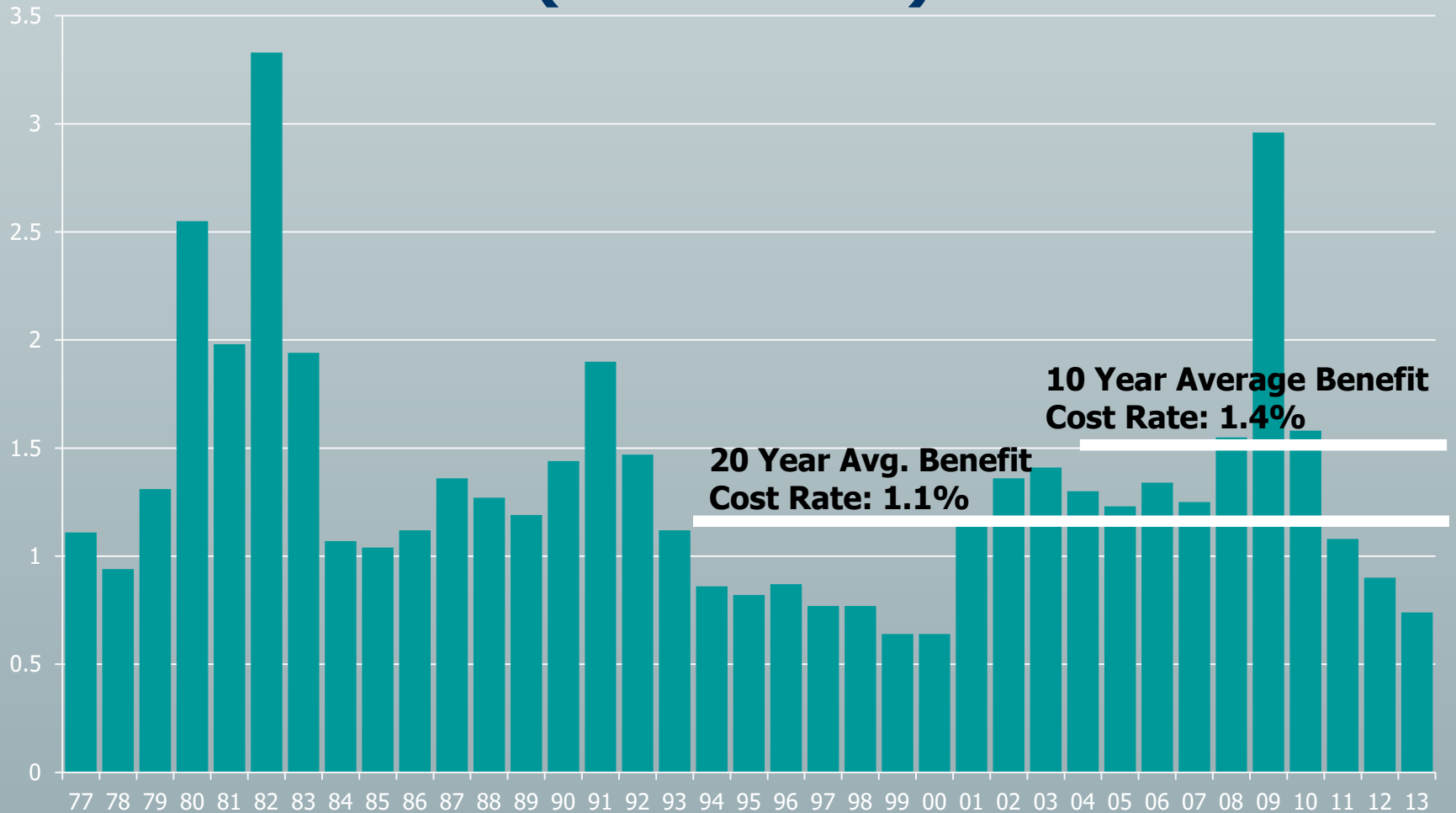
- 13) Percentage Difference Between the AFR and the State Avg. Tax Rate:**
$$(\text{Avg. Tax Rate} - \text{AFR}) / \text{AFR}$$

State Benefit Cost Rates

(Benefits / Total wages, 2017)

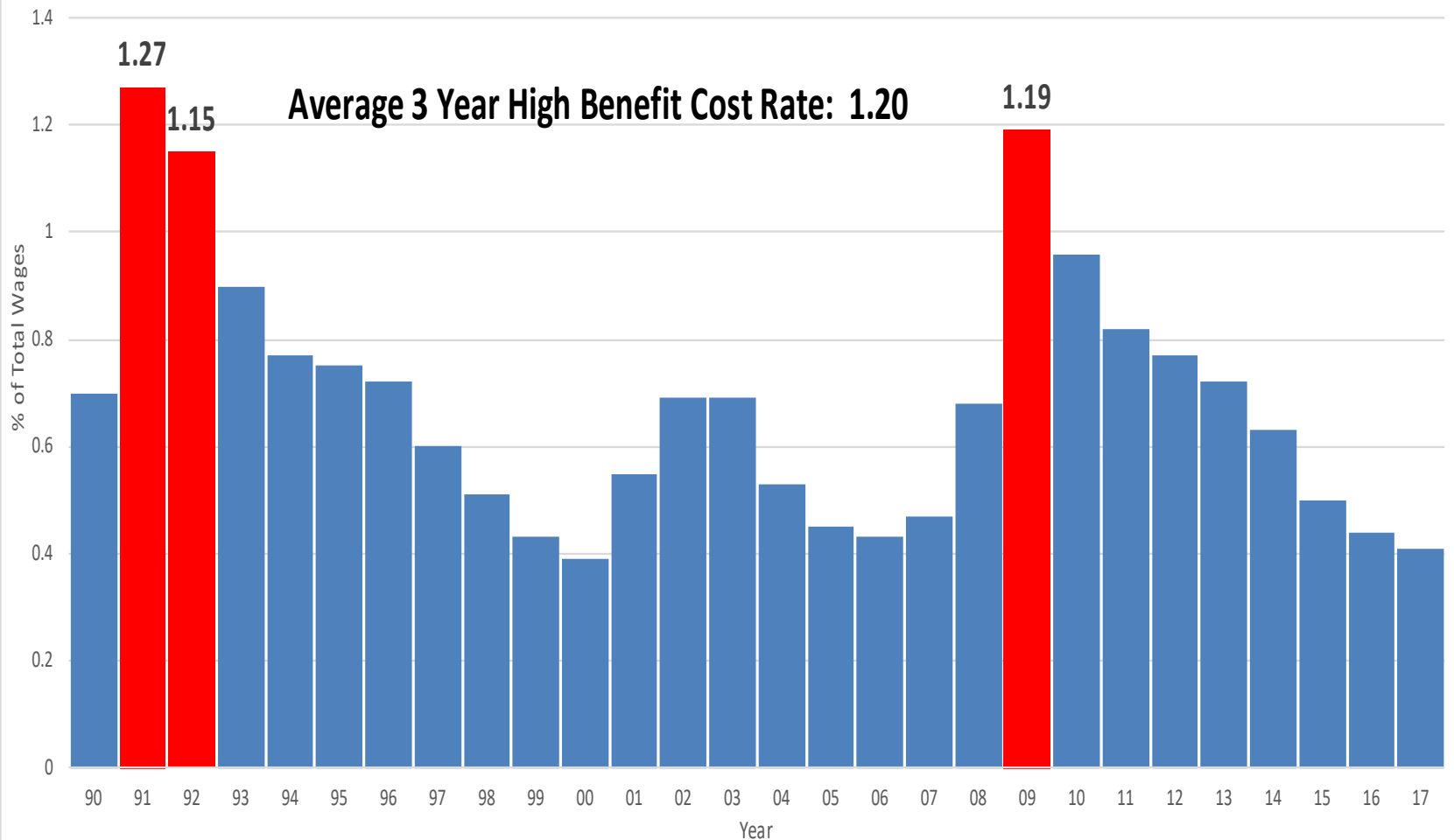


Michigan Yearly Benefit Cost Ratio (1977-2013)



Maryland Benefit Cost Rates 1990 - 2017

(Benefits / Total Wages)



Calculation of Solvency Amount

Difference Between Current Trust Fund and Amount needed to Reach AHCM 1.0 in 5 years:



$$\text{Current Trust Fund Amount} - \text{AHCM 1.0} = \text{Difference Amount}$$
$$\text{Solvency Amt} = \text{Difference} / 5$$

Trust Fund Balance Needed to Have a 1.0 Average High Cost Multiple:

$$\frac{\text{Reserve Ratio}}{\text{Average High Cost Rate}} = \text{Avg. High Cost Multiple}$$

$$\frac{(\text{Trust Fund Balance} / \text{Total Wages})}{\text{Avg. of 3 Highest Ben. Cost Ratios}} = 1$$

$$\text{Avg. Ben. Cost Rate} * \text{Total Wages} = \text{Trust Fund needed for 1.0 AHCM}$$

Calculation of Adequate Financing Rate

- Step 1: Divide Yearly Total Benefits by yearly Taxable Wages for each of the last ten years.
- Step 2: Take the average of those Benefit Cost Rates.
- Step 3: Calculate the Trust Fund Needed for a AHCM of 1.0 (Multiply the total wages in the past year by the Average High Cost Rate).
- Step 4: Subtract the Trust Fund from the 1.0 AHCM Trust Fund and divide by five.
- Step 5: Divide that amount by taxable wages and add to the Avg. Benefit Cost Rate to get the Adequate Financing Rate

STATE ADEQUATE FINANCING RATE CALCULATOR

INPUTS:

STATE:

ALASKA

YEAR OF AFR CALCULATION:

2015

NUMBER OF YEARS OF
BENEFITS TO USE FOR AFR:

10

DESIRED LEVEL OF TRUST FUND SOLVENCY:
(0.5 to 3.0 AHCM)

1.00

MAXIMUM LEVEL OF TRUST FUND SOLVENCY:
(1 to 3.0 AHCM)

1.50

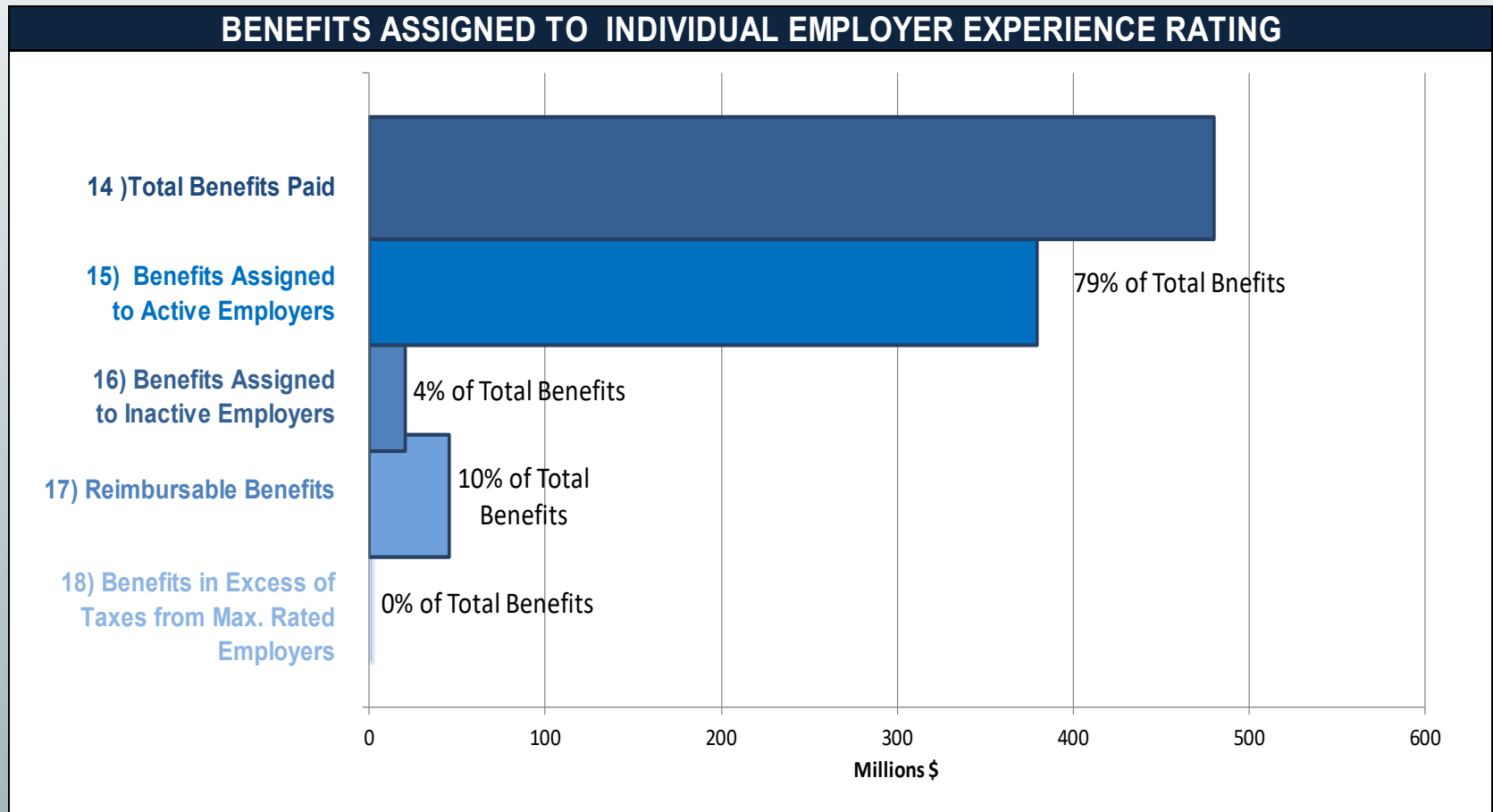
ADEQUATE FINANCING RATE:

1.92%

of Taxable Wages for 2015

Distribution of Total Benefits

Maryland- 2017



Distribution of Wages, Accounts, Benefits and Contributions Maryland - 2017

