

# Arizona Unemployment Insurance Trust Fund

## *Update on solvency and the assessment (7/20/11)*

- I. Current Arizona Unemployment Insurance (UI) Trust Fund Status
  - a. The State began borrowing funds from the U.S. Department of Labor (U.S. DOL) on March 22, 2010
    - i. As of July 20, 2011 the State has borrowed \$796 Million and repaid \$526 Million. The State had a current loan balance of \$270 Million.
    - ii. Interest of \$5.9 Million has accrued on the loans since January 2011.
  - b. Arizona is one of 29 states and 1 U.S. Territory who are currently borrowing from the U.S. DOL to fund benefits.
- II. UI Projections for Calendar Year 2012
  - a. HB 2619 (2011 Arizona Legislative Session) provided for an unemployment insurance assessment of 0.4% in 2011 and up to 0.8% on employers in 2012 to help repay the U.S. DOL loan plus interest and help stabilize the UI Trust Fund.
  - b. Under the current expected economic trends and level of initial and continued claims projections, a 0.6% (\$42 per employee) special assessment will not be sufficient to repay the outstanding loan balance by November 10, 2012 in order to avoid potential FUTA credit reductions.
  - c. To avoid the FUTA credit reductions, under current forecasting, would require at least a 0.8% (\$56 per employee) special assessment for calendar year 2012.
  - d. The special assessment rate for calendar year 2012 will be determined during the fourth quarter of 2011 and will be included in employer notices mailed out in January 2012. Advance notice will be posted on the DES UI website once the special assessment rate is determined.
- III. Implementation of UI Special Assessment in 2011
  - a. Implementation of the UI assessment will begin in September 2011 with collection of the assessment commencing in October 2011. Payment for the first three quarters of calendar year 2011's special assessment is due by October 31, 2011. The assessment applies to all taxable wages for calendar year 2011 (i.e. the assessment is retro-active).
- IV. Federal Unemployment Tax Act Rate Reduction
  - a. The Federal Unemployment Tax Act (FUTA) rate decreased from 6.2% to 6.0% (before credit reductions) effective July 1, 2011. The after credit reduction rate is 0.6% effective July 1, 2011.
    - i. Employers will see a \$14 reduction per employee in FUTA costs with the rate decrease.
  - b. The FUTA rate decrease causes two triggers in Arizona Revised Statutes (A.R.S.) to occur:
    - i. A.R.S. 23-769 – Job Training Employer Tax – A tax of 0.1% on the first \$7,000 of wages is imposed, amounting to \$7 per employee. Section C of the statute ties four exemptions from the payment of the Job Training Tax to the FUTA rate. If the FUTA rate is decreased to 6.0% the four exemptions are removed, and those employers would become liable for payment of the Job Training Tax.
    - ii. A.R.S. 23-730.02 – Temporary reduction of required income rates – This portion of the ARS deals with the required income rate for the State's Unemployment Insurance Trust Fund, which is a component in determining employer tax rates for the state unemployment taxes. The statute provides for a 0.1% reduction in the income rate until the FUTA rate drops to 6.0%. This will have a direct impact on State unemployment tax rates for calendar year 2012. The Department estimates that the elimination of the 0.1% reduction in the required income rate would result in the average tax rate increasing by 0.1% (or \$7 per employee) for calendar year 2012.