

SERVICE BULLETIN



Trends in UI Tax Rates Looking for Clues About Next Year's UI Tax Rates

TO: T&T Clients
FROM: Kris Thorngren
RE: Trends in UI Tax Rates
DATE: September 15, 2008

This morning I got curious about what we might expect in terms of changes in unemployment tax rate tables and adjustment factors for 2009. In light of the headline news about economic problems and higher unemployment, one would anticipate that unemployment tax rates will be higher in 2009 in a general sense. I found that the early data supports this assumption.

In general, every taxpaying employer which is experience-rated (not assigned a new-employer tax rate, a penalty rate, or a standard rate) is assigned a new tax rate once per year. Tax rates are reassigned on a calendar year basis in every state except Tennessee, Vermont, New Hampshire, and New Jersey, where rates are recalculated for a fiscal year beginning July 1. For an experience-rated employer, the company's own experience is an important determinant in every tax rate calculation, but changes in tax rate tables and/or adjustment factors also impact on tax rates. For the past two years such changes have generally been favorable, causing UI tax rates to trend lower in most states, but I would not expect this trend to continue for 2009.

Every state has an unemployment compensation trust fund from which unemployment benefits are paid. Changes in tax rate tables and/or adjustment factors are generally linked to the solvency of the trust fund. As the fund gets depleted, tax rates must increase to restore the fund to a target level or more desirable level of solvency, and to avoid having to borrow funds from the federal government or elsewhere. The solvency of the trust funds is a good indication as to whether tax rates will trend upward or downward for the coming year.

The most recent data available from the U.S. Department of Labor relating to state trust funds is for the first quarter of 2008. Collectively, the state trust fund balances totaled over \$32 billion. A good measure of solvency is the trust fund balance as a percent of total wages. This figure has changed as follows:

First quarter of 2004:	0.50%
First quarter of 2005:	0.49%
First quarter of 2006:	0.58%
First quarter of 2007:	0.69%
First quarter of 2008:	0.67%

This paints a clear picture as to why tax rates have trended lower for the last two years. There was a significant improvement in the fund balances leading up to 2007 rate calculations (from 0.49% of payroll to 0.58% of payroll) and an even more significant improvement leading up to the 2008 rate calculations (from 0.58% of payroll to 0.69% of payroll).

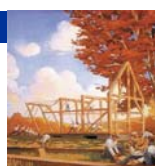
These figures also show that the party is over. Although the fund balances have not deteriorated significantly as of the end of the first quarter, the upward trend has been broken. Given the recent news about August unemployment hitting a five-year high of 6.10%, one could expect continued decreases in fund solvency between now and the end of 2008.

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Trends in UI Tax Rates...continued

At the very least, I would expect the national trend toward lower rate tables and adjustment factors to end. I am frequently accused of being pessimistic, but my view is that there are three months left in 2008, during which state trust funds are likely to deteriorate further. When comparing fund solvency for the first quarter of 2008 with the first quarter of 2007, the following jurisdictions experienced the greatest declines:

Trust Fund As % of Wages	
<u>Decrease from 3-31-07 to 3-31-08</u>	
Hawaii	.16%
Indiana	.31%
New Hampshire	.23%
New Mexico	.24%
Rhode Island	.33%
South Carolina	.15%
Vermont	.36%
Virgin Islands	.99%
Wisconsin	.22%

This is an early indicator of potential tax rate increases in these jurisdictions. Of course, your company-specific experience may outweigh or counterbalance the macro trends. As always, please contact us if there are any questions.

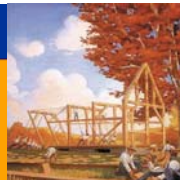
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