
SERVICE BULLETIN

Preliminary Indications of UI Taxes for 2011

August 31, 2010

We expect UI taxes to trend higher again in 2011, as the payout of unemployment benefits has continued at an elevated pace, putting continued pressure on the state UI trust funds. However, there will be significant differences in this trend from state to state. Employers in Hawaii and Massachusetts can expect much higher tax rates. Following is some preliminary information about what to expect for next year. Your own company's tax rates are impacted greatly by your own experience. However, this is a brief recap of some of the factors that will drive tax payments higher in general.

Several states have already announced changes to their unemployment taxable wage bases for 2011:

	<u>2010</u>	<u>2011</u>
Indiana	\$7,000	\$9,500
Mississippi	\$7,000	\$14,000
Nevada	\$27,000	\$26,600
New Hampshire	\$10,000	\$12,000
New Jersey	\$29,700	\$29,600
New Mexico	\$20,800	\$21,900
South Carolina	\$7,000	\$10,000
South Dakota	\$10,000	\$11,000
Vermont	\$10,000	\$13,000
Washington	\$36,800	\$37,300

With respect to California, we expect tax rates to trend 10% higher even though the same tax rate table is scheduled to be in effect for 2011. The statewide adjustment factors will continue to have a significant and negative impact on tax rates, by reducing each experience-rated company's reserve account balance. In particular, the adjustment factor for "increase in the total of all negative reserve account balances" will remain exceptionally high, often exceeding a company's own benefit charges resulting from claims.

With respect to Florida, legislation signed early this year authorizes an employer assessment to pay the interest due on federal advances to the UI trust fund. Florida has an outstanding federal advance of over \$1.6 billion, so we expect that interest will be payable next year, although there is a chance that federal legislation will suspend interest payments. Barring such federal legislation, a committee will estimate the interest due for 2011 and the assessment will be made no later than February 1, 2011. More information should become available as the year progresses.

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With respect to Georgia, the statutes mandate that the same tax rate table must be used in 2011. However, we expect modest increases in Georgia tax rates because the “Base Rate Adjustment Factor” will likely increase from 30% to 35%. This means that tax rates which are 130% of the “base” tax rates for 2010 will likely be 135% of the base tax rates for 2011. The Base Rate Adjustment Factor is a mechanism for increasing tax rates when the UI trust fund is low, but this factor is capped at 35% for 2011. Expect this to result in 5% to 10% increases in tax payments.

With respect to Hawaii, tax rate schedule D is in effect for 2010 and tax rate schedule F (which contains higher tax rates) will take effect, by statute, for 2011. Tax rates in schedule D range from 0.20% to 5.40% and tax rates in schedule F range from 1.20% to 5.40%. For employers with a positive reserve account balance, schedule F adds an additional 1.00% to the tax rate in each rate bracket. The percentage of increase will be significant (anywhere from 33% increase to 600% increase, depending on the rate bracket).

With respect to Illinois, we expect tax rates to trend 15% higher because of anticipated increases in the State Experience Factor and the Fund Building Rate. The federal loan to the Illinois UI trust fund has almost doubled since January, from approximately \$1.2 billion to approximately \$2.2 billion, so an increase in both adjustment factors is inevitable. The State Experience Factor could increase from 107% to 124% and the Fund Building Rate may increase from 0.45% to 0.55% (the maximum possible increases).

With respect to Indiana, the impact of the increase in the taxable wage base (from \$7,000 to \$9,500) will be mitigated by a more favorable tax rate table for 2011. We expect the net result to be favorable (lower tax payments) for employers in the lowest rate brackets and unfavorable (higher tax payments) for employers in the highest rate brackets.

With respect to Massachusetts, we expect that a much higher tax rate table will take effect in 2011. Legislation signed in February prevented the highest possible tax rate table (schedule G) from triggering into effect for 2010, and specified that schedule E is applicable for this year. Barring additional legislation, we would expect schedule G to take effect in 2011. The impact of the higher rate schedule is graduated. You can increase your current tax rate by 25% to estimate the comparable tax rate on schedule G.

With respect to Nevada, we anticipate that tax rates for 2011 will be higher in general. The Commissioner has the authority to change the array of employers assigned to each tax rate bracket, or “class,” based on certain risk ratios. The risk ratios are determined as of September 30 each year, impacting on the rate classes for the following year. Last year on September 30 the Nevada UI trust fund did not have an outstanding federal loan, but now there is a loan of approximately \$490 million. This is clear evidence that the risk ratios have deteriorated. The result will be that more employers will shift to higher tax rate brackets.

With respect to New Mexico, tax rate schedule O is in effect for 2010 and tax rate schedule 1 will take effect, by statute, for 2011. In schedule 1, an additional 0.30% will be added to the tax rate for most rate brackets. This means that tax payments will be 33% higher in the lowest rate bracket (increasing from 0.90% to 1.20%), and in the range of 10% higher for most employers.

With respect to Texas, the UI trust fund currently has borrowed \$1.3 billion in federal funds, which inevitably will result in future costs. The Texas Workforce Commission intends to work with the Texas Public Finance Authority to issue bonds to fund the deficit and retire the federal loan. One advantage of this course of action is to avoid a FUTA tax rate increase for Texas employers. This strategy worked quite effectively in 2004-2007. During those years the deficit was repaid by bond proceeds, which eliminated the “deficit tax” component of Texas UI tax rates. The addition of an “unemployment obligation assessment rate” partially offset the removal of the “deficit tax” component, but the net result was to reduce and spread out the costs. If something prevents the bond issuance, we would expect Texas tax rates to increase, in general, because the deficit tax rate will clearly increase.

With respect to federal unemployment taxes, employers in Indiana, Michigan, and South Carolina can expect increased FUTA taxes for 2010 unless their outstanding federal UI loans are repaid by November 10, 2010 (which is unlikely). We expect that the net FUTA tax rate for Michigan employers will increase from 1.10% to 1.40%, and the net FUTA tax rate for Indiana and South Carolina employers will increase from 0.80% to 1.10%. If this happens, as expected, the additional tax deposits for 2010 will be payable by January 31, 2011.

For employers in the following jurisdictions, the net FUTA tax rate will increase for 2011 if the state's trust fund loans are not repaid by November 10, 2011:

	<u>Anticipated 2011 FUTA Rate</u>		<u>Anticipated 2011 FUTA Rate</u>
Alabama	1.10%	Nevada	1.10%
Arkansas	1.10%	New Jersey	1.10%
California	1.10%	New York	1.10%
Connecticut	1.10%	North Carolina	1.10%
Florida	1.10%	Ohio	1.10%
Georgia	1.10%	Pennsylvania	1.10%
Idaho	1.10%	Rhode Island	1.10%
Illinois	1.10%	South Carolina	1.40%
Indiana	1.40%	Texas	1.10%
Kentucky	1.10%	Virgin Islands	1.10%
Michigan	1.70%	Virginia	1.10%
Minnesota	1.10%	Wisconsin	1.10%
Missouri	1.10%		

With respect to the anticipated FUTA increases for 2011, the additional tax deposits consisting of the incremental 0.30% of taxable wages will be payable by January 31, 2012.

As an aside, August 14, 2010 marked the 75th anniversary of the UI program, which appears to be every bit as relevant today as it was in 1935. Unfortunately the combined balance of all state UI trust funds is now a negative number, and will remain so for several years. The insolvency of the UI trust funds will put upward pressure on UI tax rates for 2011 and the foreseeable future.