2023 Colorado Unemployment Insurance

Trust Fund Status Report

Colorado Department of Labor and Employment
August 31, 2023

As required by HB11-1288, the Colorado Department of Labor and Employment (CDLE) produces an annual report on the financial condition of the unemployment insurance trust fund (UITF) for the Colorado General Assembly by August 31.

Contents

Executive Summary

- As of May 2023, Colorado has fully paid off unemployment insurance loan balances and related interest payments
- The trust fund balance, which was at $286.6 million at the end of June 2023, is anticipated to range between $1.7-$2.9 billion by the end of 2028 under continuing conditions of economic growth
- In 2024:
  - Employers move from the deficit schedule to a lower rate schedule (0.000 to 0.004)
  - Per Senate Bill 22-234, the wage base increases to $23,800, from $20,400 in 2023
  - The solvency surcharge will be in effect
  - Per Senate Bill 23-232, a newly created employer standard premium rate schedule and support surcharge rate schedule will be in effect. These new rate schedules do not add additional costs for employers and are split for administrative reasons discussed in the last section of this report.

Calendar Year 2022 Fund Status

As of December 31, 2022, reserves held in the unemployment insurance trust fund (UITF) totaled $27.3 million, an improvement of $779.3 million from twelve months earlier when the fund balance had a borrowing deficit of $752.0 million.

Employer contributions paid into the UITF, including those from reimbursable employers, totaled $764.9 million during 2022, up significantly from the $662.3 million paid the prior year. The increase in employer contributions was due to the taxable wage base rising to $17,000 from $13,600 in 2021,[1] and a state economy that continued to improve through lower unemployment rates and robust employment growth.[2] The solvency surcharge for employers was legislatively turned off in 2022 through Senate Bill 20-207 and had no impact on employer contributions received.

The average tax rate for employers changed little in 2022, moving to 0.44 percent from 0.42 percent in 2021.[3] Interest earnings on fund reserves totaled $159,348 in 2022, compared with $0 in 2021. The UITF does not accrue interest earnings when the fund is insolvent.[4]

At $376.8 million, 2022 regular unemployment insurance (UI) benefit payments declined steeply from the $953.1 million paid in 2021. That total payment amount last year marks a return to pre-pandemic levels, as average annual benefit payments in 2018 and 2019 were under $400 million. Reflecting Colorado's tight and recovering labor market, the number of weeks paid to UI claimants in 2022 plunged by 69 percent from the prior year. A little over 106,000 Coloradans received at least one UI payment in 2022, compared to approximately 593,000 in 2021.[5]

1 The passage of Senate Bill 20-207 in mid-2020 put into effect incremental increases in the taxable wage base by amounts of $3,400 annually from 2021 to 2026. The wage base rose from $13,600 in 2021 to $17,000 in 2022 and will continue to grow by $3,400 each year until it reaches $30,600 in 2026. In subsequent years the wage base will be adjusted by the annual change in average weekly earnings for UI-covered employees.

2 Colorado's nonfarm payrolls increased by 114,000, or 4.1 percent, in 2022. Additionally, the state's unemployment rate fell below 3 percent in mid-2022, returning to pre-pandemic levels.

3 Employer premium rates are determined by an employer's layoff and contributory history, the rate schedule in effect for that year, and any additional surcharges that may be in effect. The lengthy economic expansion that followed the Great Recession led to very low benefit charging against employer accounts through 2019; consequently, most Colorado businesses had shifted to the low end of the premium rate schedule by 2020. That distribution was mainly unchanged during the pandemic due to Executive Order D 2020 012, which stipulated that no benefit charges related to the COVID-19 pandemic would be chargeable to premium paying employer accounts.

4 The trust fund became insolvent with a zero balance on August 18, 2020. The Department began drawing on a line of credit with the United States Treasury at that time. The fund once again became solvent on November 4, 2022, after the remaining Title XII loans had been repaid in full.

5 In addition to regular state unemployment, the 2021 and 2022 totals also include payments from federal unemployment programs that were created through the CARES Act in response to the pandemic. This includes the Pandemic Unemployment Assistance (PUA) and Pandemic Emergency Unemployment Compensation (PEUC) programs. State Extended Benefits (SEB) triggered on in the fall of 2020 and are also included in the total counts. Benefits from the PUA, PEUC, and SEB programs were paid with federal dollars and had no impact upon state trust funds.

A Timeline of Colorado's Pandemic Borrowing and Repayment

Colorado's unemployment insurance trust fund (UITF), which had a balance of approximately $1.1 billion before the pandemic, became insolvent on August 18, 2020. In order to pay benefits, the state began to borrow from the Federal Unemployment Account (FUA), in the form of Title XII loans. Twenty-one other states and the Virgin Islands also had outstanding loan balances at some point during the past three years.[6] To date, Colorado's federal borrowing totaled to $1.098 billion, with that entire amount fully paid off as of May 2023. The following section details how Colorado's Title XII principal and interest amounts were repaid and also discusses the need to obtain a loan through the private market in late 2022 in order to avoid burdening Colorado employers with additional costs.

Title XII/Private Borrowing and Repayment

Driven by a historically high level of pandemic-induced layoffs, Colorado's outstanding Title XII principal loan balance rose to $1.014 billion between August 18, 2020 and April 30, 2021. The balance held at that level through the remainder of 2021 as incoming employer contributions were sufficient to cover benefit payments, thus negating the need for additional Title XII loans. A payment of just under $1.1 million was made towards the principal owed on Colorado's Title XII loan balance on December 30, 2021, with available Coronavirus Relief Funds. The outstanding loan balance remained at $1.013 billion until May 27, 2022, when a large transfer of $580 million was used to pay down a significant portion of the balance. This transfer utilized funds from the American Rescue Plan Act of 2021 (ARPA) made available through the passage of Senate Bill 22-234.[7] Colorado is one of thirty-nine states, along with the District of Columbia, to have used pandemic federal funds to either pay down outstanding Title XII loans or bolster UITF balances.[8]

The remaining Title XII loan balance of $433.1 million was then fully paid off through three separate transactions between early June and early November 2022. The first two payments used

6 View recent and historical outstanding Title XII loan balances by state.

7 Through Senate Bill 22-234, $600 million in ARPA funds were made available for the "repayment of federal advances, and interest on such advances." CDLE used $580 million of that total to pay down some of the outstanding Title XII loan balance and set aside the remaining $20 million for future payments owed on Title XII interest accruals (any portion of that $20 million that did not go towards interest payments would be deposited into the UITF).

8 The National Association of State Workforce Agencies estimates that a total of $34.45 billion in pandemic funds were utilized for these purposes.

unemployment premium contributions that had been received from employers since April 2022. The initial payment occurred on June 1, 2022, which was for $300 million, while the following payment took place on August 17, 2022, and totaled $100 million. Colorado's outstanding Title XII loan balance fell to $33.1 million after the combined payments of $400 million in June and August. In order to avoid triggering a FUTA credit reduction for employers, the Colorado Department of Labor and Employment (CDLE) was required to pay the remaining $33.1 million loan balance by November 9, 2022.[9] To guarantee that the deadline was met in a timely fashion, CDLE opted to secure a private loan.[10]

CDLE first considered pursuing a private borrowing option in June 2022. UITF forecasts at the time showed an uncomfortably close margin in the amount of estimated employer contributions that would be available to pay down the remaining Title XII principal loan balance by November 9. Additionally, the forecasts also anticipated a high likelihood that there would be an outstanding Title XII loan balance on January 1, 2023, which would have triggered a potential FUTA credit reduction for Colorado employers in 2023.[11] After evaluating these forecasts and scenarios, CDLE decided that the best course of action would be to acquire additional funding through the private market. From that point, CDLE worked closely with the Governor's Office; Colorado's Office of the Attorney General; the Colorado Department of the Treasury; and Hilltop Securities, a local broker-dealer authorized to work with state agencies on exploring and obtaining alternative financing options.

After an open competitive process, Bank of America was selected as the lender. The principal loan amount was for $33,089,860.58, matching the outstanding Title XII loan balance remaining at that time. Interest would also be owed on the private loan, which based on the repayment schedule and a rate of 3.97 percent, totaled to $700,622.65. Additionally, the cost of issuance for the loan summed to $220,000. Per the US Department of Labor, the principal amount for the private loan could be paid with funds from the state's UI trust fund, but interest and cost of issuance payments would have to be

9 Per the U.S. Department of Labor (USDOL), FUTA, or the Federal Unemployment Tax Act, "authorizes the Internal Revenue Service to collect a Federal employer tax used to fund state workforce agencies…FUTA covers the costs of administering the UI and Job Service programs in all states." The FUTA tax rate of 6.0% is subject to the first $7,000 of each UI-covered employee's wages during a calendar year. However, most employers (i.e. those who pay their state unemployment taxes on a timely basis) receive an offset credit of up to 5.4% on the FUTA tax. Therefore, with the credit reduction, the FUTA tax rate is generally 0.6% on $7,000, or $42 per employee, per year. However, employers in states that have extended periods of outstanding loan balances from the Federal Unemployment Account may experience reductions in the FUTA offset credit of 5.4%. Specifically, per USDOL, "…employers in states that have an outstanding balance of advances under Title XII of the Social Security Act at the beginning of January 1 of two or more consecutive years are subject to a deduction in credits otherwise available against the FUTA tax, if all advances are not repaid before November 10 of the taxable year." Colorado did have an outstanding loan balance on January 1, 2021 and January 1, 2022, which triggered a potential FUTA credit reduction if the loan balance was not repaid in full before November 10, 2022. The additional FUTA tax amount for calendar year 2022 resulting from the reduction would have been due by January 31, 2023. The FUTA offset credit is reduced by 0.3% each year until there is no longer an outstanding loan balance. For 2022, that would have meant an effective FUTA tax rate of 0.9% (0.6% + 0.3%) on $7,000, or $63 per employee (an increase of $21 per employee, per year). All the revenue generated from a FUTA credit reduction is credited against the state's outstanding balance. If the revenue generated is greater than the outstanding balance, the remainder is credited back to the state's UITF.

10 This can also be referred to as either a bank note placement, a direct loan, or a commercial loan, but for simplicity is noted as a "private loan" throughout this section.

11 CDLE thought it was advantageous for employers to avoid a potential FUTA credit in 2023 in case the state's UITF went insolvent again during the second half of that year.

covered by alternate funding sources.[12] CDLE agreed to repay both the principal and interest on the private loan on May 15, 2023.[13]

The private loan amount of $33,089,860.58 was wired to CDLE on November 4, 2022, and the Department paid off the remaining Title XII loan on November 7. As previously mentioned, Colorado’s UITF balance on December 31, 2022 was $27.3 million. Without the injection of funds from the private loan, the state would have had an outstanding Title XII loan balance on January 1, 2023, triggering a potential FUTA credit reduction for that year.

Due to a depleted UITF balance, Colorado did have to borrow an additional $83,974,879 in Title XII loans between late January and mid-April 2023, but that had no impact on a 2023 FUTA credit reduction. CDLE paid off that newly accrued total over two separate installments – $6,974,879 on February 7 and the remaining $77,000,000 on May 4. Those payments used unemployment premium contributions that had been received from employers.

Title XII Interest Repayment

Interest on Title XII advances are due and payable each September 30 and cannot be paid from the state’s unemployment trust fund. Per the CARES Act, states whose trust funds became insolvent during the pandemic were able to borrow interest-free from FUA through September 6, 2021, with interest accruing on outstanding balances after that date.[14]

Colorado owed $1,518,884 in Title XII interest on September 30, 2021, which was paid with Coronavirus Relief Funds. Title XII interest that was owed on September 30, 2022 totaled $12,917,887.55 million and was paid with ARPA funds made available through the passage of Senate Bill 22-234. After the outstanding $77 million Title XII principal amount was repaid on May 4, CDLE decided to pay the Title XII interest owed on September 30, 2023 ahead of schedule. That payment of $214,129.94 took place on May 22 and also utilized the aforementioned ARPA funds. The remaining ARPA funds available through Senate Bill 22-234 were deposited into the state’s UI trust fund on May 31 and totaled to $6,867,982.51. Colorado paid a total $14,651,001.49 in Title XII interest payments between 2021 and 2023; however, all of that was covered with pandemic funds rather than employer assessments.[15]

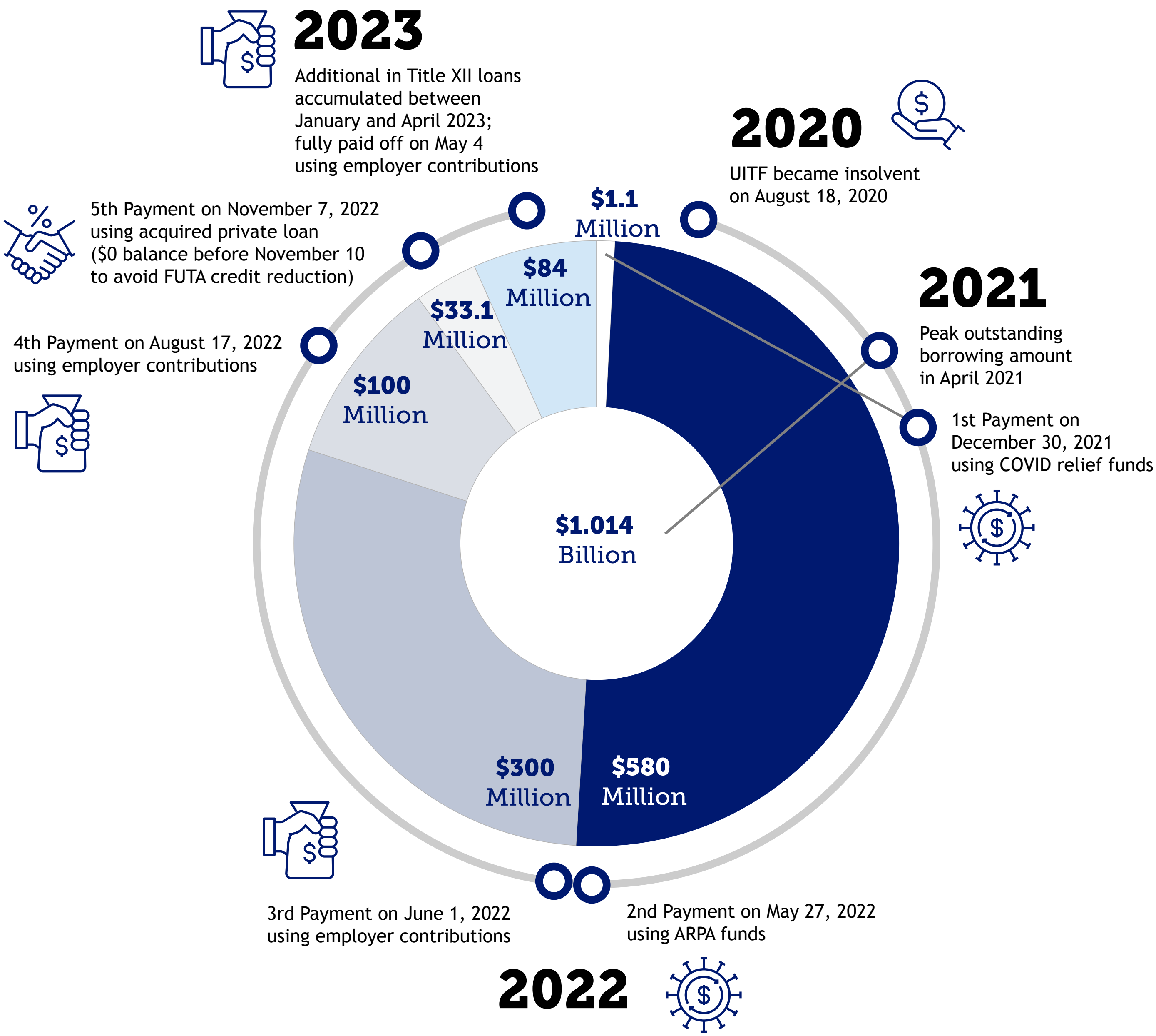
12 Private interest and cost of issuance were paid with annually appropriated Department cash funds.

13 May 15 was chosen as the date for repayment as all first quarter 2023 employer contributions owed by April 30 would have been deposited into the UITF by then. CDLE forecasted those deposited employer contributions would approach $500 million, well exceeding the $33.1 million required to pay back the principal loan amount.

14 This meant that Title XII interest payments that would have been owed on September 30, 2020 on outstanding loan balances accrued prior to that date were waived. Additionally, any outstanding loan balances held by a state between October 1, 2020 and September 6, 2021 were interest-free.

15 The interest rates on Title XII advances vary by year. For interest accrued in 2021, the corresponding rate was 2.2777 percent, while the rates in 2022 and 2023 were 1.5909 percent and 1.6776 percent, respectively.

03 A Timeline of Colorado's Pandemic Borrowing and Repayment



03 A Timeline of Colorado’s Pandemic Borrowing and Repayment

The following table details miscellaneous payments and deposits not specifically tied to the repayment of the Title XII outstanding principal loan amount.

Period of Payment/ Deposit	Description of Payment/ Deposit	Transaction Amount	Source of Funds
September 27, 2021	Title XII Interest Payment	$1,518,984.00	COVID relief funds
September 29, 2022	Title XII Interest Payment	$12,917,887.55	ARPA
November 2022	Cost of Issuance for Private Loan	$220,000.00	Annually appropriated Department cash funds
May 15, 2023	Repayment of Private Loan Principal Amount	$33,089,860.58	Employer contributions (out of UITF)
May 15, 2023	Private Loan Interest Payment	$700,622.65	Annually appropriated Department cash funds
May 22, 2023	Title XII Interest Payment	$214,129.94	ARPA
May 31, 2023	Transfer of Remaining ARPA Funds into UITF	$6,867,982.51	ARPA

Trust Fund Outlook

Labor Market Update

Over three years have passed since the start of the COVID-19 pandemic, and both Colorado and the U.S. have experienced rapid improvements in their labor markets. Since mid-2022, Colorado's jobless rate has ranged between 2.6 and 2.9 percent, marking a return to pre-pandemic levels of unemployment. Similarly, the U.S. unemployment rate has also fully recovered, spanning between 3.4 and 3.7 percent over the past year and a half. Two other key labor market metrics, the labor force participation rate and the employment-population ratio, have both essentially returned to 2019 levels in Colorado and rank in the top five nationally.[16] Employer demand for labor, in the form of job openings, remains historically high nationally, but has cooled from early 2022 peaks.[17] The combination of high levels of job openings and low unemployment rates have created an extremely tight labor market. Nationally, there are approximately 1.7 job openings per unemployed person, while in Colorado that ratio rises to 2.5 job openings per unemployed person.[18] One byproduct of a historically tight labor market has been a rapid growth in wages. Average private sector hourly wages in Colorado rose by 7.8 percent in 2022, far surpassing any annual nominal gains prior to the pandemic. However, after adjusting for inflation, those increases were flat.

Inflation, which experienced historically high increases in 2022, had been identified as a significant headwind for the U.S. economy over the short-term horizon.[19] In response to rising costs, the Federal Reserve, which sets U.S. monetary policy, has aggressively moved interest rates higher in order to make the cost of borrowing more expensive, help reduce demand for goods and services, and cool an overheated economy.[20] The federal funds rate has been increased 11 times from March 2022 to July 2023, with the rate moving from around zero percent to above five percent. Historically, it has been difficult for the Federal Reserve to substantially raise interest rates without causing an eventual recession and downturn in labor market activity. However, recent data shows that significant disinflation has occurred over the past year, with year-over-year headline inflation growth slowing from 9.1 percent in July 2022 to 3.2 percent in July 2023. While current

16 The labor force participation rate measures the share of Colorado's 16+ population that is in the labor force in a given month, while the employment-population ratio estimates the share of the 16+ population that is employed.

17 According to the Job Openings and Labor Turnover Survey, there were 9.6 million U.S. job openings in June 2023. While down 20 percent from the March 2022 peak job openings of 12.0 million, the recent level is significantly greater than pre-pandemic, when the high point of national openings was around 7.6 million.

18 The current job openings per unemployed person ratio for the U.S. and Colorado are slightly higher than their levels in 2019, which peaked at 1.3 and 2.0, respectively. At present, there are approximately 20 states with a job openings per unemployed person ratio at 2.5 or higher.

19 One primary measure of inflation is the Consumer Price Index (CPI). The primary drivers in the rise in CPI were energy, shelter, and food costs. View national and regional CPI data for additional insight on trends.

20 The Federal Reserve has a dual mandate: 1) Low and stable prices (two percent annual growth in inflation is desired target); and 2) maximum employment (generally, anyone who wants a job, can get a job). View a summary of Federal Reserve meetings and policy decisions for more information.

inflation is still slightly higher than preferred benchmarks, it has notably improved without adverse impacts to the labor market through higher rates of unemployment.

Benefit Payment Totals for Federal and State Unemployment Insurance (UI) Programs

In response to the pandemic, Congress established a number of federal programs to address the tremendous loss of employment in the nation in 2020: Pandemic Unemployment Assistance (PUA), Pandemic Emergency Unemployment Compensation (PEUC), and Federal Pandemic Unemployment Compensation (FPUC). These programs were paid with federal dollars and have no impact upon state UI trust funds. Per the American Rescue Plan, these federal programs expired on September 4, 2021, but continued to pay out to claimants after that date due to backdating, removal of fraud holds, and other administrative reasons. Additionally, due to high rates of unemployment, State Extended Benefits (SEB) were triggered on in Colorado in the fall of 2020, but the federal government also covered those benefit payments.[21] Approximately $42.7 million in SEB benefits have been paid to Colorado claimants.

Federal UI Programs Created via CARES Act	General Description of Each Federal Program	Total Colorado Benefits Paid 3/29/20 to 8/5/23
Pandemic Unemployment Assistance (PUA)	Allows payment of unemployment benefits to those traditionally ineligible, like the self-employed and gig workers (maximum of 79 weeks)	$1.60 billion
Pandemic Emergency Unemployment Compensation (PEUC)	Provides extended weeks of unemployment benefits once regular UI benefits are exhausted (maximum of 53 weeks)	$1.51 billion
Federal Pandemic Unemployment Compensation (FPUC)	1st round of FPUC added $600 weekly additional dollars in benefit payments to all eligible UI claimants (expired July 25, 2020); 2nd round the amount was reduced to $300 per week (December 27, 2020 – September 4, 2021)	$4.72 billion

21 Typically, SEB payments are paid 50 percent by the state and 50 percent by the federal government; however, through the CARES Act 100 percent of SEB payments were covered with federal dollars. Due to improving economic conditions, SEB triggered off at the end of November 2020. Although, $13.4 million in benefits have been paid out since that period, due to backdating and other administrative reasons.

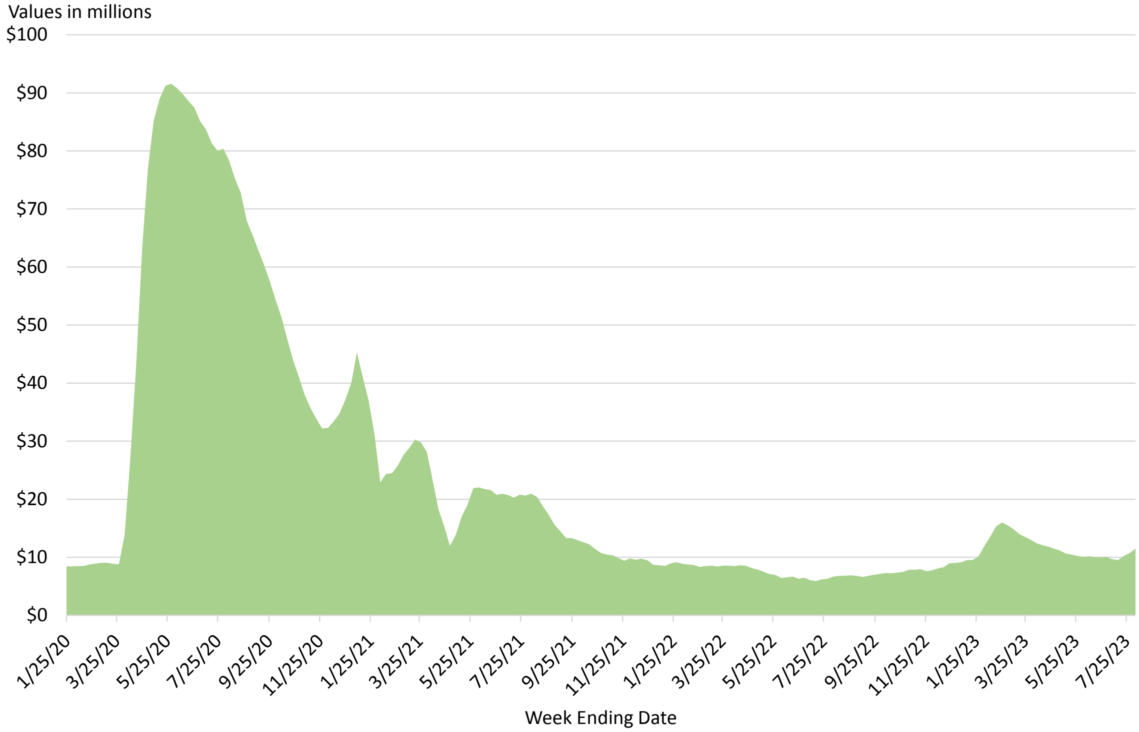
Since the end of March 2020, Colorado has paid over $4.2 billion in regular state unemployment payments, which are drawn from the UI trust fund. Of the $4.2 billion in regular state unemployment benefits paid out over that period, $3.4 billion (80.9 percent) were distributed between the end of March 2020 and early December 2021.

Beginning December 2021, Colorado's weekly regular benefit payments fell below $10 million for 57 consecutive weeks. The majority of those weeks featured payouts of less than $8 million, which represented a return to pre-pandemic payment levels. However, weekly regular benefit payments began to tick upwards starting in mid-January 2023 and remained at an elevated level for the next several months. This increase was driven by two factors. First, the CDLE's Division of Unemployment Insurance paid out regular UI claimants that had previously had fraud or other types of administrative holds that prevented payment. Second, starting January 2023, Colorado implemented claims processing changes to resolve a large volume of claims that were beyond the first payment promptness criteria and awaiting issue processing.[22] While regular UI benefit payments totaled less than $400 million in 2022, annual payments in 2023 may exceed $600 million due to these administrative reasons.

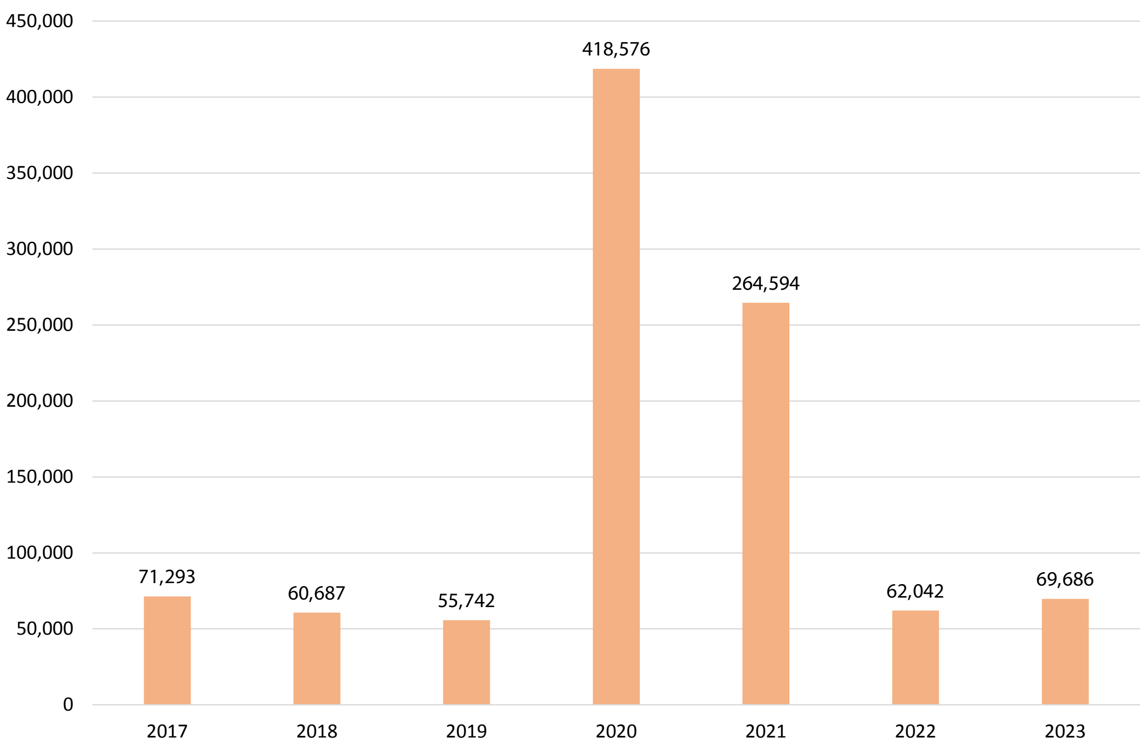
The number of individuals receiving a payment from Colorado's regular unemployment system within the first seven months of 2023 was 69,686, an increase of 12.3 percent from the same period a year prior, when that figure was 62,042. However, despite the rise in paid regular UI claimants through July 2023, current levels mark a rapid improvement compared to the same periods in 2020 and 2021. Nearly 420,000 Coloradans received a regular UI payment within the first seven months of 2020, during the height of the pandemic, while that number approached 265,000 spanning the same period in 2021.

22 The US Department of Labor requires states to issue first payments for 87 percent or more of claimants within 14 days after the week ending date of the first compensable week in the benefit year. States with a waiting week provision are required to issue first payments within 21 days. Colorado is a state currently with a waiting week provision. Per Senate Bill 22-234, once Colorado's UI trust fund has a balance of $1 billion, the waiting week provision will be repealed. A claim must be fully processed to determine eligibility before any payment can legally be issued. The CDLE processing change that was implemented beginning in January 2023 aimed to reduce the time for a first payment from an average of 12 weeks down to 4-6 weeks. Nearly 20,000 claims were resolved, which increased payment of benefits during the first quarter of 2023.

Colorado Regular UI Benefit Payments, 4-Week Moving Average
(January 25, 2020 to August 5, 2023)



Total Number of Colorado Regular UI Claimants Receiving Payment
(From January 1 to July 31 of Each Year)



Colorado Unemployment Insurance Trust Fund Forecast (2023-28)

On June 30, 2023, the state's UI trust fund balance was $286.6 million, which translated to a reserve ratio of 0.17 percent.[23] The reserve ratio, a metric to assess the health and solvency adequacy of a state's UI trust fund, is also utilized as the indicator that determines the standard premium rate schedule Colorado employers will be on for the following year and whether those employers will be assessed an additional solvency surcharge.

Per Colorado statute, the June 30, 2023 reserve ratio of 0.17 percent means employers will shift from the deficit rate schedule in 2023 to the 0.000 to 0.004 rate schedule in 2024.[24] Additionally, as established through House Bill 11-1288, the solvency surcharge goes into effect if the June 30 reserve ratio of any year falls below 0.50 percent and remains in place until the June 30 reserve ratio of any year is equal to or greater than 0.70 percent, and is not turned off by additional legislation.[25] It is scheduled to be in effect next year due to the June 30, 2023 reserve ratio of 0.17 percent falling below 0.70 percent.[26] The solvency surcharge had previously been suspended by legislation from 2021 to 2023 through two separate bills (Senate Bill 20-207 turned off the surcharge in 2021 and 2022, while there was no surcharge in 2023 due to Senate Bill 22-234). Further information on the standard premium rate schedule and the solvency surcharge can be found in the Colorado Employment Security Act within section 8-76-102.5.

At present, the Department is using three trust fund forecasts that reflect varying levels of economic growth over the forecast horizon spanning through 2028 (strong, moderate, and weak).[27] The forecasts incorporate the provisions of Senate Bill 20-207 related to increases in the wage base beginning 2022, and Senate Bill 22-234 related to the suspension of the solvency surcharge in 2023.

In the moderate growth scenario, the insured unemployment rate (IUR),[28] a measure that reflects the degree of strain upon the trust fund, is anticipated to average 1.00 percent over the forecast horizon. The IUR in the strong growth scenario is forecast at 0.75 percent between 2023 and 2028, while higher in the weak growth forecast (1.25 percent). Colorado's IUR was 0.81 percent in 2022, marking a return to pre-pandemic levels, and vastly improved from 2020 when it reached a historically high rate of 5.05 percent.

23 The reserve ratio is a calculation of the UI trust fund balance on June 30 as a proportion of total wages reported by employers subject to standard premium rates for the prior calendar year. Therefore, the June 30, 2023 reserve ratio of 0.17 percent resulted from a UITF balance of $286.6 million divided by 2022 calendar year wages totaling $171.8 billion.

24 A reserve ratio of 0.17 percent converts to 0.0017 when expressed as a four-digit decimal, which falls between 0.000 and 0.004.

25 Occasionally a source of confusion, the solvency surcharge is not directly tied to whether the UITF is insolvent and borrowing is required to continue paying benefits. The surcharge is designed to bring in additional funds when the UITF balance becomes relatively low, hence the reserve ratio on and off trigger levels.

26 The June 30, 2023 UITF balance would have had to exceed $1.2 billion in order for the solvency surcharge to statutorily turn off for 2024.

27 The moderate growth forecast is currently the primary forecast for the Department, but all three are updated and evaluated concurrently.

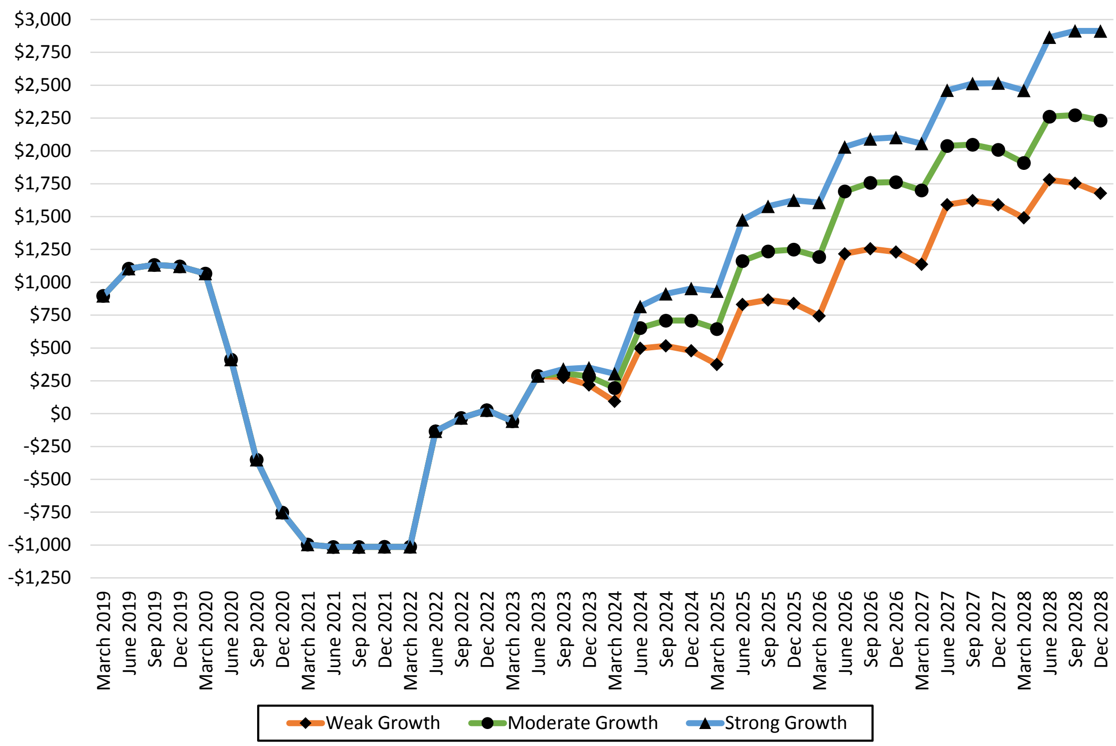
28 The insured unemployment rate can be thought of as the jobless rate for individuals covered under unemployment insurance, while the more familiar total unemployment rate measures the unemployment rate for all workers, regardless of their attachment to the unemployment insurance system.

The number of benefit weeks paid under the regular UI program are forecast to total around 1.2 million in 2023. While an increase from roughly 850,000 weeks paid in 2022 (for reasons detailed previously), this represents a significant decline compared to the 7.2 and 2.8 million weeks paid in 2020 and 2021, respectively. Under the moderate growth forecast, benefits paid from the UITF are expected to total around $600 million in 2023 and range between $625-$725 million annually from 2024 to 2028. The increase compared to 2023 is due to continued growth in wages and UI covered employment. The weak growth forecast increases those annual benefit totals by $100 million, while the strong growth forecast reduces those amounts by $125 million per year.

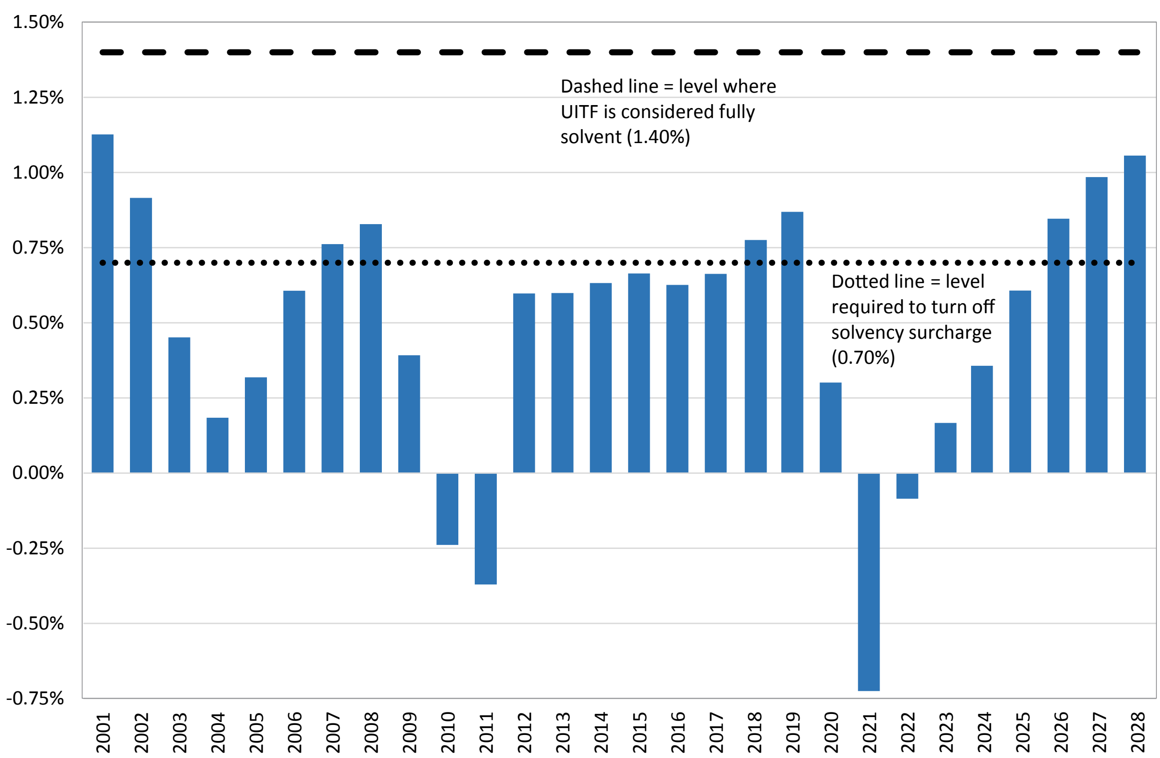
The trust fund remains solvent in 2023 in all three forecast scenarios. Year-end fund balances for 2028 range between $1.7 billion (weak growth forecast) and $2.9 billion (strong growth forecast), with the moderate growth forecast balance at $2.2 billion. That 2028 fund balance for the moderate growth forecast would roughly mirror a reserve ratio of 1.10 percent. The reserve ratio was 0.90 percent in Colorado prior to the pandemic and last exceeded 1.00 percent in 2001. Employers in Colorado shift to the lowest rate schedule when the reserve ratio reaches 1.40 percent on June 30 of any year. Additionally, Colorado's UI trust fund is considered fully solvent when the reserve ratio reaches or exceeds 1.40 percent.[29] While the solvency surcharge was legislatively turned off for 2023, it remains on for three years under the moderate growth scenario (2024 to 2026). The surcharge would turn off in 2026 based on the optimistic strong growth forecast, but remain in effect through 2027 in the weak growth scenario. Looking forward over the next several years, the UITF balance will need to exceed $1.3-$1.4 billion in order for the solvency surcharge to statutorily trigger off.

29 A 2028 UITF balance ranging between $3.0-$3.2 billion is likely required to reach a reserve ratio of 1.40 percent by the end of the forecast horizon. Assuming continued growth with no economic downturns and solvency surcharges remaining in effect per statute, 2030-32 is the earliest this benchmark could realistically be achieved for Colorado.

Colorado Unemployment Insurance Trust Fund Balance (Millions)
(Forecasts 2023-2028)



Colorado Unemployment Insurance Trust Fund June 30 Reserve Ratio
(2001-2023 actual data, 2024-2028 based on moderate growth forecast)



Unemployment Insurance Trust Fund Stress Test Forecasts (2024-28)

While the trust fund balance is anticipated to range between $1.7-$2.9 billion by the end of 2028 under continuing conditions of economic growth, it is important to also consider what may happen to the fund if the economy contracts again. To this end, the Department models various recession scenarios that serve as stress tests of the fund and show the extent of its vulnerability to economic downturns.

To gauge the fund's response to economic recessions, CDLE looked at two scenarios in which the economy contracts beginning at the start of 2024. These forecasts provide a general idea of how the fund would react to a slump similar to the 2001 recession as well as a deep and more protracted event like the Great Recession.

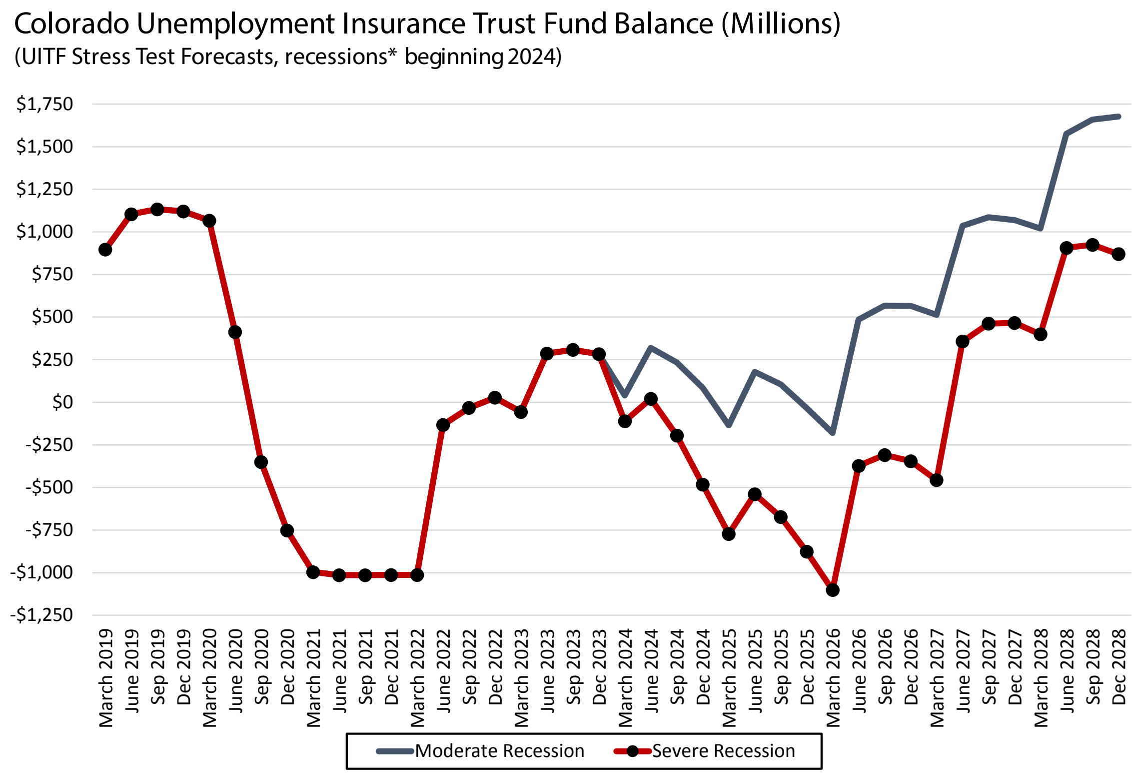
Under the moderate 2024 recession scenario, the fund experiences brief periods of insolvency that would require relatively small levels of borrowing (less than $200 million) in order to continue paying benefits. The fund would be intermittently solvent through mid-2026 and employers would remain on either the deficit or 0.000 to 0.004 rate schedules until 2028. Additionally, the solvency surcharge would be in effect from 2024 to 2028.

The severe 2024 recession forecast leads to extended periods of insolvency for the fund, requiring substantial amounts of borrowing that would peak over $1 billion by early 2026.[30] The fund would be marginally solvent through mid-2028 and employers would remain on either the deficit or 0.000 to 0.004 rate schedules though the forecast horizon. The solvency surcharge would likely be in effect through 2029.

One key factor that helps reduce the impact of a recession on the trust fund in these stress test forecasts is the legislative increase of the wage base through 2026. Per Senate Bill 20-207, the wage base will grow in increments of $3,400 annually, moving from $13,600 in 2021 to $30,600 in 2026.[31] While the impact of Senate Bill 20-207 was covered extensively in the 2020 UITF status report, generally, its passage resolved long-standing impediments to UITF solvency by progressively increasing the wage base in a manner consistent with CDLE recommendations. Absent Senate Bill 20-207, the fund's long-term financial position would have remained much more precarious, with adverse consequences for employers.

30 For reference, the total deficit in this scenario would approximately mirror the $1.1 billion in Title XII loans that were borrowed by Colorado in response to the Great Recession and COVID-19 pandemic, respectively.

31 Beginning in 2027, the wage base will be adjusted by the change in average weekly earnings for UI-covered employees.



*Note: a moderate recession would be roughly equivalent to the early 2000s recession in severity, while a severe recession would similarly mirror the Great Recession in severity .

Senate Bill 23-232

Senate Bill 23-232, passed into law on May 1, 2023, was the result of a year-long effort by the Colorado Department of Labor and Employment to resolve a conformity issue with the U.S. Department of Labor. The bill enacted changes to the Colorado Employment Security Act that aligned Colorado's unemployment insurance law with federal conformity and compliance stipulations.

The specific concern revolved around CDLE's collection and diversion of employer UI premiums into three state-managed funds (Employment Support Fund, Employment and Training Technology Fund, and Benefit Recovery Fund) and that those contributions were being credited towards an employer's experience rating. Experience rating is a mandatory feature of all state UI financing systems and determines the annual premium rates for individual non-reimbursable employers based and calculated on a combination of three variables: historical benefits charged against, historical premiums paid, and average annual payroll over the past three years.[32] Federal law requires that only contributions that are paid and directly deposited into the state's unemployment trust fund can be credited towards an employer's experience rating.[33]

Senate Bill 23-232 resolved this conformity issue by splitting out unemployment insurance premiums owed by employers into two distinct and separate rate tables. One rate table (the standard premium rate schedule) is solely for payment into the unemployment trust fund and only those contributions will be credited towards the calculation of an employer's experience rating. The other rate table (the support surcharge rate schedule) is dedicated to funds distributed into the three state-managed funds. The support surcharge contributions will not be credited towards an employer's experience rating calculation.[34] These changes will go into effect starting in 2024.

32 Within the employer rate tables in the Colorado Employment Security Act (section 8-76-102.5), experience rating is referred to as "eligible employer percent of excess". An employer's percent of excess is calculated in two steps. First, the historical UI benefits charged against an employer are subtracted from their historical UI premiums paid, which results in an "excess" amount. Second, that excess amount is then divided by that employer's average annual payroll over the past three years to generate a "percent of excess". A positive percent of excess will result in lower rates, while employers with a negative percent of excess have relatively higher rates. Most employers have consistently paid more in premiums than have benefits charged against their accounts, and therefore have relatively low premium rates.

33 The first section of this U.S. Department of Labor document highlights federal conformity requirements for state UI laws and experience rating.

34 Each of the three state-managed funds have statutory caps on how much can be transferred into each fund within a state fiscal year. In instances where a respective cap is exceeded, the remaining funds will be deposited into Colorado's UI trust fund. Those excess funds will also not be credited towards an employer's experience rating calculation.

In designing these separate rate tables, CDLE felt it was paramount to ensure that Colorado employers did not see an increase to their overall base rates. To achieve that, all rates within the standard premium rate schedule (established through House Bill 11-1288) were reduced by 10 percent, with those remainders then shifted over to the support surcharge rate schedule. This approach guaranteed that the required change would not increase employer base rates, while at the same time providing adequate revenue for the three state-managed funds.

The first of the state-managed funds is the Employment Support Fund (ESF). The ESF originated in 1990 to offset federal funding deficits in both the Unemployment Insurance program and workforce development. Today, ESF revenue is split between the CDLE Executive Director's Office, Employment & Training, local workforce centers, and UI administration. Per Senate Bill 23-232, 59.46 percent of revenue generated from the support surcharge will be distributed into the ESF.

The second of the state-managed funds is the Employment and Training Technology Fund (ETTF). The ETTF was created during the Great Recession as a sustainable funding source for Unemployment Insurance technology modernization efforts. Due to the existence of the ETTF, Colorado has been at the forefront of UI modernization efforts across the country. Following modernization of the state's benefit payment and employer services system, the fund will be essential to Colorado's efforts on fraud detection and prevention, as well as future modernization needs. Per Senate Bill 23-232, 21.62 percent of revenue generated from the support surcharge will be distributed into the ETTF.

The third of the state-managed funds is the Benefit Recovery Fund (BRF). The BRF was established in the 2022 legislative session through Senate Bill 22-234 as a separate cash fund to provide benefits to individuals who experience job separation, but are not eligible for unemployment insurance due to their immigration status. This fund is administered by the Office of New Americans within CDLE. Per Senate Bill 23-232, 18.92 percent of revenue generated from the support surcharge will be distributed into the BRF.

The solvency surcharge is unaffected by Senate Bill 23-232, since that additional funding source is federally compliant. All employer contributions generated from the solvency surcharge are deposited into the state's unemployment insurance trust and are credited towards an employer's experience rating calculation.

Improper Payments

Improper payments are defined as the overpayment or underpayment of unemployment benefits. States with improper payment rates greater than 10 percent are considered to be out of compliance with federal performance standards. Improper payment compliance has become a national issue as a result of the pandemic; currently only 5 states are in compliance with a rate of below 10 percent. No states are below 8% and some states have rates at 50% or above.

CDLE's improper payment rate in 2022 was 8.78 percent, with more recent available data demonstrating that the improper payment rate is trending down. The improper payment rate decreased to 5.85 percent for the 12-month period of April 2022 through March 2023. This is in sharp contrast to the 31.86 percent rate in calendar year 2021.

CDLE was able to drastically decrease improper payments attributable to job-separation-related issues and identity theft, which were the two main root causes of improper payments in 2021. This was accomplished through up-front identity verification, which prevents fraudulent claims from being filed. CDLE also resumed normal adjudication procedures to ensure quality separation determinations, while providing due process to all interested parties.

CDLE provides regular messaging to claimants on how to report earnings, as this is historically one of the root causes for improper payments. To help limit improper payments related to job-separation determinations, CDLE UI's QA team has increased the frequency and depth of information, including tips, trends, and recommendations, provided to teams processing claims.