Colorado's Unemployment Insurance Experience: 1980-2020

Kendall Stephenson

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- Data from the US Department of Labor provide a useful historical look at a number of important components of state unemployment insurance programs, including average benefit levels, tax rates, number of exhaustions, and recipiency rates.
- Compared to other states, Colorado is roughly average in a number of metrics, including recipiency, benefit adequacy, and financing – arguably the three most important areas in which to judge a social insurance program. But the COVID disruptions to labor markets and attention drawn to social support programs will likely catalyze discussion of how Colorado programs can be updated and refined.

The federal-state system of unemployment insurance (UI) in the US, designed to protect laid-off workers, is coming under pressure for an overhaul following the pandemic. Using the US Department of Labor's Quarterly UI Data Summary, this report will outline a number of facets pertaining to Colorado's own UI experience since 1980.

There are three fundamental metrics to evaluate an unemployment insurance system:

- Coverage: How many workers are able to access unemployment insurance when needed?
- Benefit Levels: How much support is provided to unemployed workers?
- Financing: How well does the system generate revenue for paying out benefits?

Coverage

In order to determine how well a state's UI system does its job, it is useful to examine the recipiency rate – the percent of jobless workers who are actually receiving benefits. In the four decades before the COVID-19 Recession, this metric averaged around 27 percent. In other words, in any given quarter, less than 1 in 3 unemployed workers in Colorado is being compensated by the state's UI program.[1] There are two reasons for this situation. Firstly, many unemployed don't qualify for benefits. Low-wage and part time workers, a group that is overrepresented by Black workers, are the least likely to qualify. Secondly, once an unemployed worker reaches the maximum benefit duration, they can no longer receive benefits. In Colorado and most states in the US, benefits last 26 weeks, notwithstanding Federal pandemic-related emergency and extended benefits. In the 8 quarters preceding the pandemic, an average of 6,420 Colorado workers exhausted their benefits each quarter. All in all, Colorado's recipiency rate is low, ranking the state 32nd in the nation as of the last quarter of 2020.

Benefit Levels

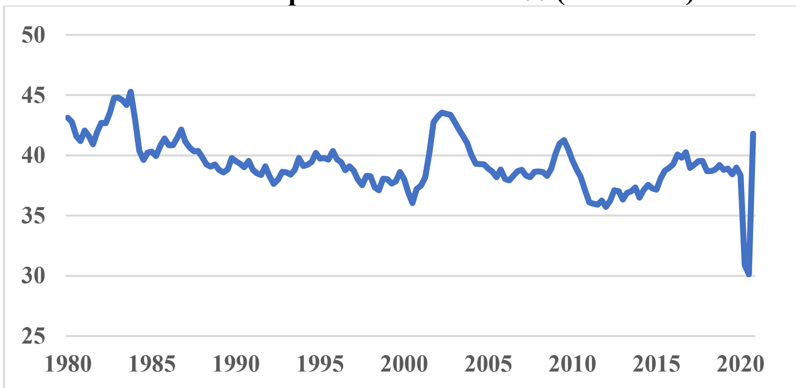
In Colorado, how well does the system protect workers and their families? This can best be answered by examining the percent of average weekly wages that are replaced by UI benefits, better known as the replacement ratio.[2] As shown in Figure 1, the replacement ratio in Colorado has averaged around 40 percent since 1980. In other words, as of the 4th quarter in 2020, an individual's average weekly UI benefit replaces roughly 42 percent of the state's average weekly wage, placing Colorado 24th in the nation.[3]

[1] Recipiency Rate is calculated as the insured unemployed in all programs as a percent of total unemployed. All Programs includes Emergency programs and the Extended Benefit program.

[2] Replacement ratio is calculated by dividing the average weekly benefit by the average weekly wage.

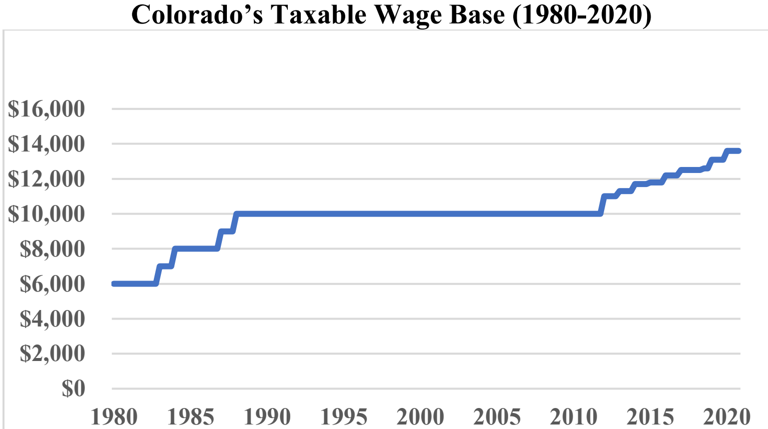
[3] Analysis includes Puerto Rico and the US Virgin Islands.

Figure 1
Colorado's Replacement Ratio in % (1980-2020)



Financing
In Colorado, the first $13,600 of a worker's wages are subject to UI taxes in the form of premiums on employers. For many years, this taxable wage base remained unchanged. Following the Great Recession, lawmakers passed House Bill 11-1288, which indexed the wage base to the state's average weekly wage. Even with this new policy, Colorado's wage base remains roughly average compared to other states – 28 states have a higher wage base. For comparison, the taxable wage base now stands at $36,600 in Utah, while reaching $52,700 in Washington.

Figure 2
Colorado's Taxable Wage Base (1980-2020)



In order to generate revenue for the UI trust fund, employers in Colorado are subject to a minimum tax rate of 1.7 percent – which is also the rate paid by new employers. The maximum rate - paid by an employer with the most "experience" laying off workers - is 5.94 percent. Colorado is one of 19 states that has an outstanding loan balance, having had to borrow from the federal government to fund benefit payments – a direct result of having insufficient trust fund buildup before the crisis hit. As of mid-June 2021, the state has over $1 billion in outstanding federal loans, the ninth largest in the country.

Putting it together
The federal government's considerable intervention via the Pandemic Unemployment Assistance (PUA) and Pandemic Emergency Unemployment Compensation (PEUC) programs indicates that the country went into the pandemic with coverage and benefit levels too low for a major crisis. Given UI's leading role as an automatic stabilizer and non-guarantee of significant Congressional action in a future downturn, Colorado may wish to consider once again its UI program. Improvements to eligibility, benefit levels, and particularly financing could place the program on stronger footing heading into the next crisis – of benefit to both workers and the Colorado economy as a whole.