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## FISCAL TOPICS

Fiscal Services Division

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# Iowa's Unemployment Compensation Trust Fund

## Purpose and History

The Iowa Unemployment Compensation Trust Fund is established within the Treasury of the United States and contains the deposits from state and federal unemployment taxes.<sup>1</sup> The purpose of the Fund is to "...[encourage] employers to provide more stable employment and by the systematic accumulation of funds during periods of employment to provide benefits for periods of unemployment, thus maintaining purchasing power and limiting the serious social consequences of [unemployment]."<sup>2</sup> In 2003, the General Assembly created the Unemployment Compensation Reserve Fund within the State treasury.<sup>3</sup> The Reserve Fund can only be used to pay benefits in the event that the Unemployment Compensation Trust Fund has insufficient funds.

## Fund Operation — Benefits

A person qualifies for unemployment benefits by meeting eligibility requirements. The State pays each eligible unemployed person a benefit for a maximum of 26 weeks. Under certain circumstances, the benefits can exceed 26 weeks. Iowa Workforce Development (IWD) annually determines the weekly benefit amount based on the statewide average annual weekly wage. The maximum weekly benefit received by an individual is a percentage of the average annual weekly wage that can vary depending on the number of dependents (**Table 1**). As the statewide average annual weekly wage increases, the unemployment benefit increases.

Number of Dependents	% of weekly avg. wage
0	53.0%
1	55.0%
2	57.0%
3	60.0%
4 or more	65.0%

**Table 2** shows annual totals for initial unemployment insurance (UI) claims, UI weeks compensated, number of individual UI recipients, amount of benefits paid, average weekly benefit, and average duration in weeks per claimant from calendar year (CY) 2008 to 2020. There were national economic recessions during 2008-2009 and 2020, increasing claims and benefits paid from the Unemployment Compensation Trust Fund.

Federal Department of Labor (DOL) data shows that during federal fiscal year (FFY) 2019-20 (October 2019 through September 2020), Iowa had an improper payment rate of 15.9%, ranking 36th in the country. This data includes fraud and nonfraud overpayments and underpayments, approximately 11.0%

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<sup>1</sup> Section 904 of [Social Security Act of 1935](#).

<sup>2</sup> Iowa Code [§96.2](#).

<sup>3</sup> 2003 Iowa Acts, [ch. 179](#).

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## More Information

Unemployment Insurance Data: [oui.doleta.gov/unemploy/DataDashboard.asp](http://oui.doleta.gov/unemploy/DataDashboard.asp)  
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of which have been recovered by IWD as of January 31, 2021.

Year	Initial Claims	Weeks Compensated	UI Recipients	Benefits Paid	Avg. Weekly Benefit	Avg. Duration
2008	264,683	1,459,395	145,771	\$421,486,477	\$288.81	11.6
2009	401,554	2,571,688	212,710	\$788,089,658	\$306.45	15.6
2010	250,531	1,920,298	174,279	\$586,857,593	\$305.61	15.3
2011	199,073	1,536,467	141,070	\$463,391,145	\$301.60	14.2
2012	177,138	1,342,482	128,010	\$416,953,304	\$310.58	13.5
2013	175,253	1,294,587	122,577	\$418,800,128	\$323.50	13.7
2014	164,981	1,201,658	116,028	\$402,612,194	\$335.05	12.9
2015	164,567	1,176,537	116,116	\$417,569,752	\$354.91	12.7
2016	153,992	1,147,806	114,769	\$423,511,364	\$368.97	13.0
2017	139,103	1,062,805	101,825	\$402,624,842	\$378.83	13.4
2018	136,958	946,846	92,345	\$364,712,930	\$385.19	12.8
2019	154,324	963,111	95,159	\$381,788,782	\$396.41	12.2
2020	570,453	3,859,061	344,206	\$1,254,245,440	\$325.01	12.2

\*Source: Iowa Workforce Development

### Fund Operation — Revenue

There are two main sources of revenue for the Unemployment Compensation Trust Fund: federal unemployment tax (FUTA) and state unemployment compensation tax. For CY 2021, the federal government charges most employers a tax of 6.0%. If state law meets minimum federal requirements, as Iowa currently does, employers receive up to a 5.4% tax credit against this rate, leaving their FUTA rate at 0.6%. This is charged on the federal taxable wage base of \$7,000.

State unemployment compensation tax is collected by IWD and deposited to a State fund before being transferred to a federal account outside the state accounting system. The current method for assessing an employer's state tax rate was created in 1987.<sup>4</sup> For a description of the ratio in place before 1987, please see the Issue Review linked below. Fund revenue primarily comes from contributions paid by employers and interest earned on the fund balance, although in 2020, \$490.0 million was transferred by the State from the federally funded Coronavirus Relief Fund to the Unemployment Compensation Trust Fund. Most Iowa employers are subject to an unemployment tax rate that varies depending on what Contribution Rate Table is in use. Iowa Code section [96.7](#) establishes eight Contribution Rate Tables that are selected depending on a formula designed to measure the Fund's adequacy to meet the expected demand. Under this system, the past five-year average of benefits paid are compared to the five-year average taxable wage base to produce a benefit ratio (Benefit Ratio: Employer's Five-Year Average Benefit Charges / Employer's Five-Year Average Taxable Payroll).

All eligible employers (approximately 76,000 as of 2020) are ranked in relation to their respective benefit ratios from lowest to highest and then the list is divided into 21 ranks. Each ranking contains approximately 4.8% (1/21st) of the total taxable wages reported by the group of employers for the four calendar quarters immediately preceding the rate computation date (July 1). An employer maintaining a stable or decreasing level of chargeable benefit payments, but increasing the level of employment could improve the relative ratio compared to other firms. Conversely, if an employer had increasing chargeable benefits, they would have an increasing tax rate. This system also puts employers in competition with each other for lower rankings. It is possible for an employer to have their ranking fall even though their ratio improves. This will occur when other employers are more successful in improving their own benefit ratio. Due to the COVID-19 pandemic, the State did not charge employers with benefits paid from March 16, 2020, to June 13, 2021, in an effort to stabilize the tax rate paid by employers.

<sup>4</sup> 1987 Iowa Acts, [Ch. 222](#).

Two groups of employers are taxed separately. New nonconstruction employers are charged rank 12 on the contribution table, but not less than 1.0%. For CY 2021, the rate is 1.0%. New construction employers are charged rank 21 (7.5% in 2021). Once they build up three years of experience and establish a history of benefit payments, they become eligible for the Benefit Ratio system.

The assigned tax rate is applied to the taxable wage base. The taxable wage base is the share of an employee's wage that an employer must pay job insurance taxes on, set at two-thirds of the statewide average annual wage two years prior to the year in question. For CY 2021, the taxable wage base is \$32,400, an increase of \$800 from CY 2020. Indexing the tax base to the statewide average yearly wage is an important factor in maintaining the solvency of the Fund because benefits are also indexed to wages.

### Unemployment Compensation Reserve Fund

The Unemployment Compensation Reserve Fund was created by the General Assembly to pay unemployment benefits to the extent that the Unemployment Compensation Trust Fund is unable to pay benefits during a calendar quarter. If on July 1, the balance of the Fund is less than \$150.0 million, the Director of IWD will determine a percentage, not to exceed 50.0%, of the state unemployment compensation tax that will be collected and deposited in the Reserve Fund. This percentage does not apply to any employer that is assigned a 5.4% tax rate and contributes only towards the Unemployment Compensation Trust Fund. Additionally, no more than \$50.0 million can be collected for the Reserve Fund in a single year. The Reserve Fund tax rate for CY 2021 is 0.0%. The interest earned on the Fund is used to partially fund IWD Field Offices.

### Current Situation

Iowa Workforce Development has announced that Contribution Rate Table 7 will be used in CY 2021. This tax table is the same rate table that was used in CY 2020 and CY 2019. Using Tax Table 7, an estimated 49.1% of employers will pay a zero rate on employee wages, representing 14.3% of all taxable wages. Iowa is one of eight states that will provide a zero rate within the unemployment compensation tax tables for CY 2021. The other states are Mississippi, Missouri, Montana, Nebraska, South Dakota, Washington, and Wisconsin. Additionally, approximately 79.6% of taxable wages will be taxed at 1.0% or less. **Table 3** lists the year-end balances for the Unemployment Compensation Trust Fund, the Reserve Fund, and their combined balance for the past 10 years.

Calendar Year	Unemployment Compensation Trust Fund	Reserve Fund	Combined Balance
2011	\$ 491.1	\$ 149.6	\$ 640.7
2012	700.5	149.6	850.1
2013	853.9	149.6	1,003.5
2014	936.1	149.6	1,085.7
2015	933.5	150.0	1,083.5
2016	1,005.8	150.0	1,155.8
2017	1,099.8	150.0	1,249.8
2018	1,175.0	150.0	1,325.0
2019	1,246.3	150.0	1,396.3
2020	993.5	150.0	1,143.5

Source: IWD 2020 Status Report of the Iowa Unemployment Compensation Trust Fund

**Table 4** shows the months of benefits for the current level of benefits, highest twelve-month level, and the average three-year high level that the combined funds could sustain with no contributions.

**Table 4**  
**Fund Solvency Measures**  
(Months of Benefits In Combined Funds)

Calendar Year	Current Benefit Level	Highest 12-Month Level	Average 3-Year High Level
2011	12.5	4.9	9.3
2012	19.7	6.7	12.7
2013	24.2	7.9	14.9
2014	27.8	8.2	15.6
2015	26.8	7.8	14.8
2016	28.4	8.2	15.6
2017	32.7	8.8	16.6
2018	38.6	9.0	17.0
2019	39.1	9.3	17.6
2020	9.4	7.5	11.5

As of June 16, 2021, 19 states and territories have borrowed federal funds to pay benefits and still have an outstanding loan balance totaling \$53.3 billion. The Iowa Unemployment Compensation Trust Fund has remained solvent, no funds have been borrowed, and there have not been any benefits paid out of the Reserve Fund.

Source: IWD 2020 Status Report of the Iowa Unemployment Compensation Trust Fund

### Related Documents

Issue Review: Unemployment Compensation Trust Fund  
[www.legis.iowa.gov/DOCS/LSA/IssReview/1999/IR118C.PDF](http://www.legis.iowa.gov/DOCS/LSA/IssReview/1999/IR118C.PDF)

U.S. Department of Labor Unemployment Compensation Overview  
[oui.doleta.gov/unemploy/pdf/partnership.pdf](http://oui.doleta.gov/unemploy/pdf/partnership.pdf)

Iowa Code chapter [96](#)

2020 Status Report: Iowa's Unemployment Compensation Trust Fund  
[www.iowaworkforcedevelopment.gov/sites/search.iowaworkforcedevelopment.gov/files/documents/2018/Iowa\\_UI\\_Trust\\_Fund\\_Status\\_Report2020.pdf](http://www.iowaworkforcedevelopment.gov/sites/search.iowaworkforcedevelopment.gov/files/documents/2018/Iowa_UI_Trust_Fund_Status_Report2020.pdf)

U.S. Department of Labor Unemployment Insurance Payment Accuracy Datasets  
[www.dol.gov/agencies/eta/unemployment-insurance-payment-accuracy/data](http://www.dol.gov/agencies/eta/unemployment-insurance-payment-accuracy/data)

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