

## 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. The purpose of the Fund, found in Iowa Code section 96.2, 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]." In 2003, the General Assembly created the Unemployment Compensation Reserve Fund within the State treasury (SF 458 Standing Appropriations Act). 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%

### Fund Operation — Revenue

There are two main sources of revenue for the Unemployment Compensation Fund, federal unemployment tax (FUTA) and state unemployment compensation tax. The federal government charges most employers a tax of 6.2%. 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 0.8%. 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 by the General Assembly in the 1987 Legislative Session (SF 507 Benefit Ratio Unemployment Compensation Contribution Array System Act). 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. 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 59,000) 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% (1/21<sup>st</sup>) 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

### More Information

Iowa Unemployment Insurance Statistical Data and Annual Status Report: <http://www.iowaworkforce.org/lmi/uistats/>

General Assembly website: <https://www.legis.iowa.gov/index.aspx>

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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.

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 calendar year 2012 the rate will be 1.5%). New construction employers are charged rank 21 (9.0% in 2012). Once they build up three years of experience and establish a history of benefit payments, they become eligible for the Benefit Ratio system. An estimated 13,000 employers will be enrolled at the new employer rate for calendar year 2012.

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 calendar year 2012, the taxable wage base is \$25,300, an increase of \$600 from calendar year 2011. 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 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 the 5.4% 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 calendar year 2012 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 4 will be used in calendar year 2012. This tax table is a lower rate table than Tax Table 3 that was used in calendar year 2011, and the same one that was used in calendar year 2010. Using Tax Table 4, an estimated 52.0% of employers will pay a zero rate on employee wages, representing 9.7% of all taxable wages. Iowa is one of six states that will provide a zero rate within the unemployment compensation tax tables for calendar year 2012 (the other states are Colorado, Missouri, Nebraska, North Carolina and South Dakota). Additionally, approximately 42.8% of taxable wages will be taxed at less than 1.0%. **Table 2** contains the December 31 balance for the Unemployment Compensation Trust Fund, the Reserve Fund, and their combined balance for the past 10 years.

**Table 3** 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.

Calendar Year	Unemployment Compensation Trust Fund	Reserve Fund	Combined Balance
2001	\$ 760.3	\$ 0.0	\$ 760.3
2002	665.0	0.0	665.0
2003	657.2	0.0	657.2
2004	635.2	47.5	682.8
2005	643.2	105.6	748.8
2006	665.8	145.4	811.2
2007	714.9	149.8	864.6
2008	714.9	149.6	864.6
2009	368.4	149.6	518.0
2010	296.9	149.6	446.5

Note: Numbers may not add due to rounding.  
Source: IWD 2010 Status Report of the Iowa Unemployment Compensation Trust Fund

Calendar Year	Current Benefit Level	Highest 12-Month Level	Average 3-Year High Level
2001	29.2	10.4	13.2
2002	22.0	9.0	11.4
2003	21.2	8.7	11.0
2004	26.5	8.5	10.7
2005	30.6	8.8	11.2
2006	31.4	9.1	11.5
2007	31.5	9.2	11.7
2008	24.8	8.9	11.3
2009	7.9	5.6	7.1
2010	9.1	4.7	6.0

Source: IWD 2010 Status Report of the Iowa Unemployment Compensation Trust Fund

As of November 17, 2011, 26 states have borrowed federal funds to pay benefits and still have an outstanding loan balance totaling \$37.6 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.

### Related Documents

**Issue Review:** Unemployment Compensation Trust Fund <http://www.legis.iowa.gov/DOCS/LSA/IssReview/1999/IR118C.PDF>  
U.S. Department of Labor Unemployment Compensation Overview <http://workforcesecurity.doleta.gov/unemploy/pdf/partnership.pdf>  
Iowa Code Chapter [96](#)