Drafted at the request of the UIAC-Labor members by: Andy Rubsam
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Adjustments to Wage Base, Contribution Schedule Triggers and Contribution Rates

Background

- The Department's Secretary, in the April 2015 Financial Outlook for the Unemployment Insurance Program, stated, "The UI Advisory Council is expected to review Wisconsin unemployment law and provide specific recommendations concerning the strength of the UI Trust Fund and the ability to pay claims over the long term. The Secretary recommends that the Advisory Council review all relevant factors, and provide to the Governor and the Legislature legislative solutions to further strengthen the UI Trust Fund."
- The Wisconsin Legislative Audit Bureau, in its July 2015 audit of the Unemployment Reserve Fund, recommended that "the Department of Workforce Development continue to work with the Unemployment Insurance Advisory Council and take steps to further improve the net position of the Unemployment Reserve Fund."

Taxable Wage Base

- The Unemployment Insurance Advisory Council's 2007 agreed bill, 2007 Act 59, increased the taxable wage base from $10,500 of wages paid to each employee to $12,000 in 2009 and 2010, $13,000 in 2011 and 2012 and $14,000 for 2013 and later.[1]
- The wage base could be gradually adjusted over five years to 50% of the average annual wage and, when the wage base reaches 50% of the average annual wage, indexing the wage base to 50% of the previous year's average annual wage.

[1] Wis. Stat. § 108.02(21)(b).

Schedule "Triggers"

- The average high cost multiple ("AHCM") is used to estimate the length of time that a state could pay unemployment insurance benefits if the benefit payment rate is at a historical high, without considering future contributions to the fund. For example, an AHCM of 1.0 means a state is estimated to be able to pay benefits for one year at a historically high rate of benefit payments.
- There are currently four unemployment insurance contribution rate schedules in Wisconsin, which are in effect when the balance of the trust fund, on the preceding June 30th, is as follows: Schedule A, when the trust fund is less than $300 million; Schedule B, when the trust fund is between $300 million and $900 million; Schedule C, when the trust fund is between $900 million and $1.2 billion; and Schedule D, when the trust fund exceeds $1.2 billion. 1997 Act 39 established these values.[2]
- The rate schedule triggers could be modified as follows: Schedule A, when Wisconsin's AHCM is less than 0.50; Schedule B, when Wisconsin's AHCM is between 0.51 and 0.75; Schedule C, when Wisconsin's AHCM is between 0.76 and 1.00; and Schedule D, Wisconsin's AHCM exceeds 1.00.

Tax Rate Schedules

- The contribution rates of Schedules A, B, C, and D provide an employer's contribution rate for a calendar year based on the employer's reserve percentage.[3] There are 26 tax brackets in each schedule.

[2] Wis. Stat. § 108.18(3m).

[3] Wis. Stat. § 108.18(4).

- The brackets, as currently designed, result in clustering of employers at certain tax rates because the reserve percentage needed to move from bracket to bracket is not uniform.
- For the current tax rates in each UI tax bracket, the changes in tax rates between brackets are uneven. An employer moving between brackets may see very little change in the tax rate it faces or a very large change in the tax rate it faces depending upon the starting bracket.
- When the balance of the trust fund changes enough to result in "triggering" a change from one tax schedule to another (e.g. schedule A to schedule B), some employers see no change in their tax rate. Other employers may have a substantial tax rate increase when a different schedule is triggered. With more tax schedules, the increases to employers' tax rates could be less substantial when different schedules are triggered.
- In schedules B, C, and D, employers whose reserve percentage is more than 10.0% have a 0.0% contribution rate (but some of those employers may owe tax based on the solvency rate).