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Ohio Cuts Unemployment Compensation Tax Rates while Its Fund Is Broke **Rate cut costs trust fund tens of millions of dollars this year**

Ohio's unemployment compensation trust fund is broke and owes more than \$2 billion to the federal government. Unemployment compensation is funded by payroll taxes paid by employers and these taxes are expected to rise when needed to pay for higher benefit levels. Yet most rates in the Ohio unemployment rate tax schedule went down this year. That's because one key part of what makes up each employer's tax was reduced in 2010 by \$18 per employee, or tens of millions of dollars in total.

"Ohio's system for financing unemployment compensation is broken," said Zach Schiller, research director of Policy Matters Ohio. "It doesn't make sense to cut tax rates when we are billions of dollars in debt, in part because we had already set these rates too low."

The rate reduction came in what is called the "mutualized rate," one of three factors included in setting unemployment tax rates, which are levied on the first \$9,000 in each employee's earnings. The mutualized rate covers charges that individual employers are not responsible for, such as charges to employers that close their doors. This rate, which is charged to all employers, fell from 0.4 percent in 2009 to 0.2 percent in 2010. Ironically, this came about because of how Ohio accounted for \$88.2 million in federal funds that the state received under the American Recovery and Reinvestment Act. Under state law, this money was put into the mutualized account, increasing the amount there and causing rates to fall.

Since more than 4 million workers are covered by Ohio employers that are taxable under the UC system, the \$18-per-employee cut could mean a reduction in taxes of up to \$70 million. Some employees don't make the full \$9,000, however, so the exact amount is not immediately calculable.

Overall, this year's tax rate schedule calls for rate reductions in most tax brackets, with nearly all of the rest staying the same as the year before (one of the 40 brackets went up by 0.1 percent). In total, rates range from 0.5 percent to 9.4 percent on the \$9,000 wage base. The lowest rate fell from 0.7 percent in 2009 to 0.5 percent in 2010 because of the mutualized rate reduction.

Another component of the tax is based on the "experience rating" of each employer – those that have historically paid more in taxes and laid off fewer workers who received benefits pay lower rates, while those that have seen a great deal of layoffs pay more. This component of tax rates is refigured each year, and rose this year by between 0 and 0.2 percentage points. Thus, only some employers are seeing overall rate reductions (See Column G of the attached rate tables for total tax rates; the rates for the mutualized account are shown in Column F. Tables are from the Ohio Department of Job & Family Services).



Total employer unemployment taxes will probably go up in Ohio this year despite the mutualized rate reduction, because individual employers move to higher rates after they lay off eligible employees. However, the trust fund is losing tens of millions of dollars in revenue it would have had were it not for the reduction in the mutualized rate. This will mean a higher debt to the federal government that has to be paid back – and possibly higher federal interest charges on Ohio’s employers.

Ohio received the \$88 million in federal funds under a provision of the ARRA that set aside funds for states that take steps to modernize their UC systems (we count the most recent earnings of jobless workers in determining eligibility for benefits, a positive reform that Ohio adopted years ago). Ohio is eligible for another \$176.3 million in such funds if it takes additional steps. These include such options as allowing jobless part-time workers to seek the same kind of part-time jobs they lost, providing an additional 26 weeks of benefits to jobless workers in approved training programs, and permitting workers to qualify for benefits if they quit their jobs for compelling family reasons, such as taking care of a sick immediate relative. These steps would not be costly and would bring Ohio’s UC system more in line with the workplace of the 21st century (for more information on UC modernization, see “Stimulus for Ohio: U.S. Unemployment Compensation Aid,” pp. 5 to 8, at <http://www.policymattersohio.org/StimulusForOhio2009.htm>).

Ohio’s chronic underfinancing of its UC system has played a major role in its insolvency. States across the country have not sufficiently funded unemployment benefits – 33 others besides Ohio are borrowing – but Ohio went further than most. Our average tax rate was below the national average for more than a decade. Wayne Vroman, the Urban Institute expert hired by the state to examine the UC system’s solvency, found in 2008 that unresponsive taxes were the key reason for the Ohio system’s financial weakness (see Wayne Vroman, “Solvency Recommendations for Ohio,” July 10, 2008).

Ohio needs to eliminate automatic tax cuts from its severely underfunded UC financing system. We also need to substantially increase the share of wages that is taxed from the current \$9,000, which has not been increased since 1995. For more information on the funding of Ohio’s unemployment compensation system and what should be done about it, see the Legislative Briefing Policy Matters Ohio gave in Columbus on April 21, 2010, at http://www.policymattersohio.org/LegislativeUCBriefing2010_04.htm.

Policy Matters Ohio is a nonprofit, nonpartisan research institute with offices in Cleveland and Columbus.



2009 Rates
Trust Fund 60%+ Below Minimum Safe Level

| Column | A | B | C | D | E | F | G | H |
|-------------------------------|----------------|-------------------|-------------------|------------------|-----------------------|-------------|------------|-----------------------|
| Percent of Balance | 4141.25 (A)(3) | 4141.25 (B)(6)(f) | 4141.25 (B)(6)(g) | Rounded MSL Rate | Total Experience Rate | Mutual Rate | Total Rate | Effective Mutual Rate |
| Positive 14.00 or more | 0.1% | 0.200% | 0.0% | 0.2% | 0.3% | 0.4% | 0.7% | 0.50% |
| 13.0-13.99 | 0.2% | 0.200% | 0.1% | 0.3% | 0.5% | 0.4% | 0.9% | 0.55% |
| 12.5-12.99 | 0.3% | 0.200% | 0.1% | 0.3% | 0.6% | 0.4% | 1.0% | 0.55% |
| 12.0-12.49 | 0.4% | 0.200% | 0.1% | 0.3% | 0.7% | 0.4% | 1.1% | 0.55% |
| 11.5-11.99 | 0.5% | 0.200% | 0.2% | 0.4% | 0.9% | 0.4% | 1.3% | 0.60% |
| 11.0-11.49 | 0.6% | 0.200% | 0.2% | 0.4% | 1.0% | 0.4% | 1.4% | 0.60% |
| 10.5-10.99 | 0.7% | 0.200% | 0.2% | 0.4% | 1.1% | 0.4% | 1.5% | 0.60% |
| 10.0-10.49 | 0.9% | 0.200% | 0.3% | 0.5% | 1.4% | 0.4% | 1.8% | 0.65% |
| 9.5-9.99 | 1.0% | 0.200% | 0.4% | 0.6% | 1.6% | 0.4% | 2.0% | 0.70% |
| 9.0-9.49 | 1.1% | 0.200% | 0.4% | 0.6% | 1.7% | 0.4% | 2.1% | 0.70% |
| 8.5-8.99 | 1.3% | 0.200% | 0.5% | 0.7% | 2.0% | 0.4% | 2.4% | 0.75% |
| 8.0-8.49 | 1.4% | 0.200% | 0.5% | 0.7% | 2.1% | 0.4% | 2.5% | 0.75% |
| 7.5-7.99 | 1.6% | 0.200% | 0.6% | 0.8% | 2.4% | 0.4% | 2.8% | 0.80% |
| 7.0-7.49 | 1.8% | 0.200% | 0.6% | 0.8% | 2.6% | 0.4% | 3.0% | 0.80% |
| 6.5-6.99 | 2.0% | 0.200% | 0.7% | 0.9% | 2.9% | 0.4% | 3.3% | 0.85% |
| 6.0-6.49 | 2.2% | 0.200% | 0.8% | 1.0% | 3.2% | 0.4% | 3.6% | 0.90% |
| 5.5-5.99 | 2.5% | 0.200% | 0.9% | 1.1% | 3.6% | 0.4% | 4.0% | 0.95% |
| 5.0-5.49 | 2.8% | 0.200% | 1.0% | 1.2% | 4.0% | 0.4% | 4.4% | 1.00% |
| 4.5-4.99 | 3.0% | 0.200% | 1.1% | 1.3% | 4.3% | 0.4% | 4.7% | 1.05% |
| 4.0-4.49 | 3.3% | 0.200% | 1.2% | 1.4% | 4.7% | 0.4% | 5.1% | 1.10% |
| 3.5-3.99 | 3.5% | 0.200% | 1.2% | 1.4% | 4.9% | 0.4% | 5.3% | 1.10% |
| 3.0-3.49 | 3.8% | 0.200% | 1.3% | 1.5% | 5.3% | 0.4% | 5.7% | 1.15% |
| 2.5-2.99 | 4.0% | 0.200% | 1.4% | 1.6% | 5.6% | 0.4% | 6.0% | 1.20% |
| 2.0-2.49 | 4.3% | 0.200% | 1.5% | 1.7% | 6.0% | 0.4% | 6.4% | 1.25% |
| 1.5-1.99 | 4.5% | 0.200% | 1.6% | 1.8% | 6.3% | 0.4% | 6.7% | 1.30% |
| 1.0-1.49 | 4.6% | 0.200% | 1.6% | 1.8% | 6.4% | 0.4% | 6.8% | 1.30% |
| 0.0-0.99 | 4.7% | 0.200% | 1.6% | 1.8% | 6.5% | 0.4% | 6.9% | 1.30% |
| Negative -0.01-0.99 | 4.8% | 0.200% | 1.7% | 1.9% | 6.7% | 0.4% | 7.1% | 1.35% |
| -1.0-1.99 | 4.9% | 0.200% | 1.7% | 1.9% | 6.8% | 0.4% | 7.2% | 1.35% |
| -2.0-2.99 | 5.1% | 0.200% | 1.8% | 2.0% | 7.1% | 0.4% | 7.5% | 1.40% |
| -3.0-3.99 | 5.3% | 0.200% | 1.9% | 2.1% | 7.4% | 0.4% | 7.8% | 1.45% |
| -4.0-4.99 | 5.5% | 0.200% | 1.9% | 2.1% | 7.6% | 0.4% | 8.0% | 1.45% |
| -5.0-8.99 | 5.7% | 0.200% | 2.0% | 2.2% | 7.9% | 0.4% | 8.3% | 1.50% |
| -9.0-10.99 | 5.9% | 0.200% | 2.1% | 2.3% | 8.2% | 0.4% | 8.6% | 1.55% |
| -11.0-12.99 | 6.0% | 0.200% | 2.1% | 2.3% | 8.3% | 0.4% | 8.7% | 1.55% |
| -13.0-14.99 | 6.1% | 0.200% | 2.1% | 2.3% | 8.4% | 0.4% | 8.8% | 1.55% |
| -15.0-16.99 | 6.2% | 0.200% | 2.2% | 2.4% | 8.6% | 0.4% | 9.0% | 1.60% |
| -17.0-18.99 | 6.3% | 0.200% | 2.2% | 2.4% | 8.7% | 0.4% | 9.1% | 1.60% |
| -19.0-19.99 | 6.4% | 0.200% | 2.2% | 2.4% | 8.8% | 0.4% | 9.2% | 1.60% |
| -20.0 or more | 6.5% | 0.200% | 2.3% | 2.5% | 9.0% | 0.4% | 9.4% | 1.65% |

| COLUMN | Explanation |
|--------|---------------------------------------------------------------------------------------------------------------------------------|
| A | Base rates pursuant to 4141.25 (A)(3) |
| B | two-tenths of one percent |
| C | $((0.2\% \times 3) / R) \times A$ where "A" = base rate shown in column A and R = most recent average experience rate (1.7142%) |
| D | Columns B + C rounded per 4141.25 (B)(6)(g) |
| E | Columns A + D |
| F | Flat mutualized rate per 4141.25 (B)(5) |
| G | Columns E + F |
| H | Column F + 50% of column D per 4141.25 (B)(7) |

2010 Rates
Trust Fund 60%+ Below Minimum Safe Level

| Column | A | B | C | D | E | F | G | H | |
|--------------------|----------------|-------------------|-------------------|------------------|-----------------------|-------------|------------|-----------------------|-------|
| Percent of Balance | 4141.25 (A)(3) | 4141.25 (B)(6)(f) | 4141.25 (B)(6)(g) | Rounded MSL Rate | Total Experience Rate | Mutual Rate | Total Rate | Effective Mutual Rate | |
| Positive | 14.00 or more | 0.1% | 0.200% | 0.0% | 0.2% | 0.3% | 0.2% | 0.5% | 0.30% |
| | 13.0-13.99 | 0.2% | 0.200% | 0.1% | 0.3% | 0.5% | 0.2% | 0.7% | 0.35% |
| | 12.5-12.99 | 0.3% | 0.200% | 0.1% | 0.3% | 0.6% | 0.2% | 0.8% | 0.35% |
| | 12.0-12.49 | 0.4% | 0.200% | 0.2% | 0.4% | 0.8% | 0.2% | 1.0% | 0.40% |
| | 11.5-11.99 | 0.5% | 0.200% | 0.2% | 0.4% | 0.9% | 0.2% | 1.1% | 0.40% |
| | 11.0-11.49 | 0.6% | 0.200% | 0.2% | 0.4% | 1.0% | 0.2% | 1.2% | 0.40% |
| | 10.5-10.99 | 0.7% | 0.200% | 0.3% | 0.5% | 1.2% | 0.2% | 1.4% | 0.45% |
| | 10.0-10.49 | 0.9% | 0.200% | 0.3% | 0.5% | 1.4% | 0.2% | 1.6% | 0.45% |
| | 9.5-9.99 | 1.0% | 0.200% | 0.4% | 0.6% | 1.6% | 0.2% | 1.8% | 0.50% |
| | 9.0-9.49 | 1.1% | 0.200% | 0.4% | 0.6% | 1.7% | 0.2% | 1.9% | 0.50% |
| | 8.5-8.99 | 1.3% | 0.200% | 0.5% | 0.7% | 2.0% | 0.2% | 2.2% | 0.55% |
| | 8.0-8.49 | 1.4% | 0.200% | 0.5% | 0.7% | 2.1% | 0.2% | 2.3% | 0.55% |
| | 7.5-7.99 | 1.6% | 0.200% | 0.6% | 0.8% | 2.4% | 0.2% | 2.6% | 0.60% |
| | 7.0-7.49 | 1.8% | 0.200% | 0.7% | 0.9% | 2.7% | 0.2% | 2.9% | 0.65% |
| | 6.5-6.99 | 2.0% | 0.200% | 0.8% | 1.0% | 3.0% | 0.2% | 3.2% | 0.70% |
| | 6.0-6.49 | 2.2% | 0.200% | 0.8% | 1.0% | 3.2% | 0.2% | 3.4% | 0.70% |
| | 5.5-5.99 | 2.5% | 0.200% | 1.0% | 1.2% | 3.7% | 0.2% | 3.9% | 0.80% |
| | 5.0-5.49 | 2.8% | 0.200% | 1.1% | 1.3% | 4.1% | 0.2% | 4.3% | 0.85% |
| | 4.5-4.99 | 3.0% | 0.200% | 1.2% | 1.4% | 4.4% | 0.2% | 4.6% | 0.90% |
| | 4.0-4.49 | 3.3% | 0.200% | 1.3% | 1.5% | 4.8% | 0.2% | 5.0% | 0.95% |
| 3.5-3.99 | 3.5% | 0.200% | 1.3% | 1.5% | 5.0% | 0.2% | 5.2% | 0.95% | |
| 3.0-3.49 | 3.8% | 0.200% | 1.5% | 1.7% | 5.5% | 0.2% | 5.7% | 1.05% | |
| 2.5-2.99 | 4.0% | 0.200% | 1.5% | 1.7% | 5.7% | 0.2% | 5.9% | 1.05% | |
| 2.0-2.49 | 4.3% | 0.200% | 1.7% | 1.9% | 6.2% | 0.2% | 6.4% | 1.15% | |
| 1.5-1.99 | 4.5% | 0.200% | 1.7% | 1.9% | 6.4% | 0.2% | 6.6% | 1.15% | |
| 1.0-1.49 | 4.6% | 0.200% | 1.8% | 2.0% | 6.6% | 0.2% | 6.8% | 1.20% | |
| 0.0-0.99 | 4.7% | 0.200% | 1.8% | 2.0% | 6.7% | 0.2% | 6.9% | 1.20% | |
| Negative | -0.01-0.99 | 4.8% | 0.200% | 1.8% | 2.0% | 6.8% | 0.2% | 7.0% | 1.20% |
| | -1.0-1.99 | 4.9% | 0.200% | 1.9% | 2.1% | 7.0% | 0.2% | 7.2% | 1.25% |
| | -2.0-2.99 | 5.1% | 0.200% | 2.0% | 2.2% | 7.3% | 0.2% | 7.5% | 1.30% |
| | -3.0-3.99 | 5.3% | 0.200% | 2.0% | 2.2% | 7.5% | 0.2% | 7.7% | 1.30% |
| | -4.0-4.99 | 5.5% | 0.200% | 2.1% | 2.3% | 7.8% | 0.2% | 8.0% | 1.35% |
| | -5.0-8.99 | 5.7% | 0.200% | 2.2% | 2.4% | 8.1% | 0.2% | 8.3% | 1.40% |
| | -9.0-10.99 | 5.9% | 0.200% | 2.3% | 2.5% | 8.4% | 0.2% | 8.6% | 1.45% |
| | -11.0-12.99 | 6.0% | 0.200% | 2.3% | 2.5% | 8.5% | 0.2% | 8.7% | 1.45% |
| | -13.0-14.99 | 6.1% | 0.200% | 2.3% | 2.5% | 8.6% | 0.2% | 8.8% | 1.45% |
| | -15.0-16.99 | 6.2% | 0.200% | 2.4% | 2.6% | 8.8% | 0.2% | 9.0% | 1.50% |
| -17.0-18.99 | 6.3% | 0.200% | 2.4% | 2.6% | 8.9% | 0.2% | 9.1% | 1.50% | |
| -19.0-19.99 | 6.4% | 0.200% | 2.5% | 2.7% | 9.1% | 0.2% | 9.3% | 1.55% | |
| -20.0 or more | 6.5% | 0.200% | 2.5% | 2.7% | 9.2% | 0.2% | 9.4% | 1.55% | |

11.8%

| COLUMN | Explanation |
|--------|--------------------------------------------------------------------------------------------------------------------------------|
| A | Base rates pursuant to 4141.25 (A)(3) |
| B | two-tenths of one percent |
| C | $((0.2\% \times 3) / R) \times A$ where "A" = base rate shown in column A and R = most recent average experience rate (1.558%) |
| D | Columns B + C rounded per 4141.25 (B)(6)(g) |
| E | Columns A + D |
| F | Flat mutualized rate per 4141.25 (B)(5) |
| G | Columns E + F |
| H | Column F + 50% of column D per 4141.25 (B)(7) |