RESEARCH NOTES

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UI Tax Rate and Benefit Cost Rate
Alessandro Capello, Economist

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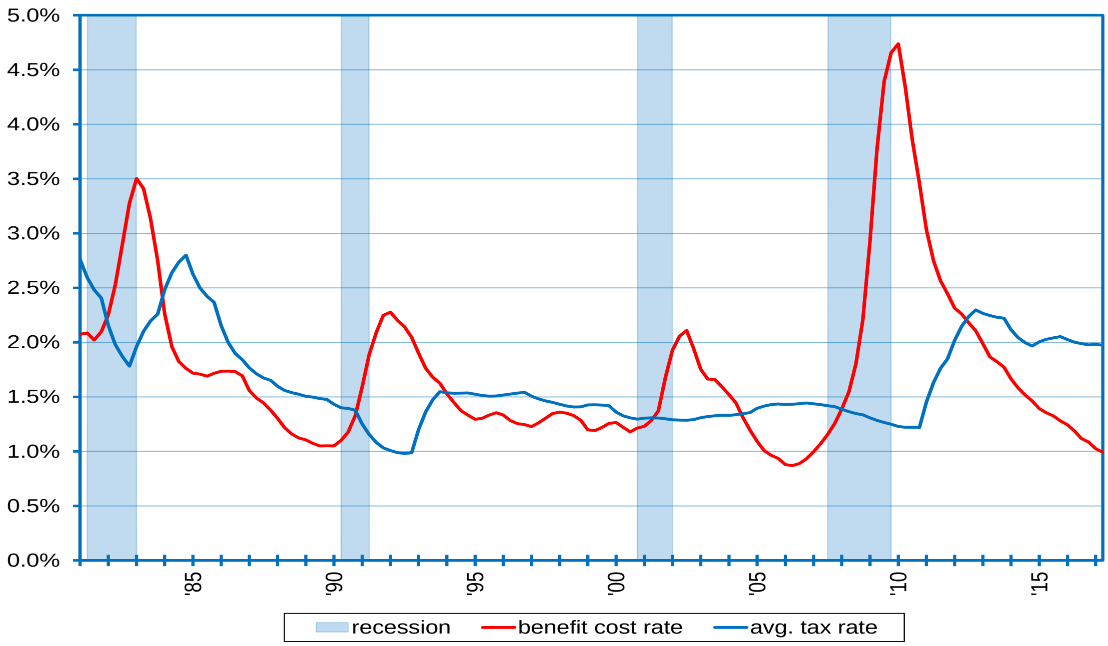
Nevada's UI Tax Rate Steady While Benefit Cost Rate Continues to Decline; Allowing for Trust Fund Growth



- Looking back at Nevada's unemployment insurance (UI) tax rate and benefit cost history shows the importance of forward funding a state's UI Trust Fund.
- Unemployment insurance benefits are funded by taxes paid by employers on behalf of their employees, up to the taxable wage base. For 2017, Nevada's UI tax rate was set at 1.95 percent on wages up to the $29,500 taxable wage base. A state's benefit cost rate (BCR) is the amount of benefits paid as a percentage of the total taxable wages in the state.
- When UI tax rates are greater than a state's BCR, the Trust Fund is growing. With forward funding, a state uses a period of good economic times to charge tax rates greater than its BCR in effort to prepare itself for the next recession. This allows a state to keep tax rates low during a downturn so as to not put any additional burden on employers.
- During a recessionary period, a state's BCR can rapidly rise. Nevada has seen this in the last four recessions, especially in the most recent recession where the State's BCR peaked at 4.7 percent. These BCR increases resulted in significant outflows from Nevada's UI Trust Fund and, during the last recession, lead to the depletion of the Fund.
- Over the last several years, Nevada has practiced forward funding, keeping the average UI tax rate above the BCR during a period of economic growth. The difference between the rates is now near an all-time high, which has allowed the Trust Fund to recover from its record low balance and grow to a record high balance. Nevada's Trust Fund still required an additional $220 million at the end of the second quarter in order to reach the minimum federal adequacy level.