Revisions to the New Mexico Unemployment Insurance Program Effective in 2015
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In the 2013 New Mexico legislative session, the New Mexico Unemployment Insurance (UI) program was revised. These revisions will take effect January 1, 2015, and were implemented to maintain the solvency of the UI Trust Fund. The UI Trust Fund is a bank account maintained for the purpose of paying unemployment benefits to New Mexicans who qualify. The UI Trust Fund is funded 100% by New Mexican employers. Each employer pays UI tax on the taxable wage base of all its employees. The taxable wage base for 2015 is $23,400 per employee.

Before January 1, 2015, the department used a reserve ratio system to determine an employer’s tax rate. The system used an employer’s lifetime history of contributions and unemployment benefits charged divided by average annual taxable payroll for the past three years to determine the amount of UI tax it paid. The Legislature decided to change to a benefit ratio methodology so that rates would be more closely tied to economic factors and employees liability could be determined by their recent rather than historic claims expense.

Under the old reserve ratio, an employer with a history of low benefit charges who had a short run of high benefit charges might see little change to its tax rate. The old reserve ratio gave significant weight to an employer’s history at the cost of the short-term needs of the Trust Fund. At the same time, an employers current employment practices could be overshadowed by its accumulated history, thus some employers could become trapped at high tax rates with no account being taken of improved payroll practices. Conversely, under the new benefit ratio, employers will see more short-term sensitivity. The new benefit ratio can be advantageous in times of consecutive years of high unemployment because it is responsive enough to raise rates rapidly before an economic downturn depletes Trust Fund reserves.

The new benefit ratio rewards employers for controlling their benefit costs by impacting their tax rate as soon as the year after a change is made.

Experience Rating Employers

Experience rated employers are those that have at least two years of UI history. Their rate is calculated by taking the last three years of benefit charges divided by average annual taxable payroll for the past three years. An employer with less than three years of experience would use two years of history.

Benefit Ratio = Three Years Benefits Charged
Three-Year Average Annual Taxable Payroll

An employer’s benefit ratio is then multiplied by the reserve factor, which is currently set to 4.0 for 2015, to determine its contribution rate. If an employer’s contribution rate is less than 0.33 percent, that employer will receive the minimum rate of 0.33 percent. If an employer’s contribution rate is greater than 5.4 percent, that employer will receive the maximum rate of 5.4 percent.

Both the old reserve ratio and the new benefit ratio systems are scaled to meet the needs of the Trust Fund, and both reward low benefit costs and assess charges for high benefit costs. The old reserve ratio offered employers lower rates than those achievable in the new benefit ratio in years of Trust Fund adequacy, while offering much higher minimum rates in years of Trust Fund inadequacy. Conversely, the new benefit ratio offers its lowest rate of 0.33 percent, regardless of the reserve factor.

Another factor of significant difference is that the old reserve ratio combined employers into percentage ranges by experience rating. Under the old reserve ratio a small difference in experience rating could significantly impact an employer’s tax rate. By using the new benefit ratio, the arbitrary unfairness that ranges create is removed, thus giving each rated employer an individualized contribution rate.

Excess Claims Premium

The new benefit ratio system also introduces a new element to the New Mexico UI system called the excess claims rate. This is an additional charge assessed to employers whose contribution rates would exceed 5.4 percent if they were not capped at 5.4 percent. The excess claims rate can add up to an additional 1.0 percent charge against an employer’s taxable wage base. The excess claims rate is calculated by taking the uncapped contribution rate minus 5.4 percent and then multiplying by 10.0 percent.

Excess Claims Rate = (Contribution Rate - 5.4%) x 10.0%

The addition of the excess claims premium allows for the collection of additional funds against benefit charges beyond 5.4 percent for a given employer, which was not possible under the old reserve ratio system.
New Employers

New employers are treated differently because they have no history from which to create an experience rating. A new employer under the new benefit ratio system will receive an average rate based on the first two digits of its North American Industry Classification System (NAICS) sector. There are 20 industries in which an employer can be classified based on what it reports during registration. An employer will receive its own experience rating after two years. The minimum industry average rate is 1.0 percent, and the maximum 5.4 percent.

Under the old reserve ratio, all new employers received a 2.0 percent rate for three years. The new benefit ratio has several advantages over this technique. By using industry averages, the new benefit ratio removes a barrier to entry that an arbitrarily high tax rate could create for new employers in industries with low average rates. Similarly, in industries with high average rates, the new benefit ratio does not provide an advantage to new employers by giving them arbitrarily low tax rates. The industry rate also mitigated sharp changes in rates after an employer becomes experienced rated because the industry rate will often be closer to what the employer actually experiences. Finally, by providing an employer its own rate in two years rather than three, the new benefit ratio accelerates the process of getting an employer the experience rate that it has earned.

As a New Mexico Employer You Should Know:

- Effective January 1, 2015, the way tax rates are calculated will be changing. State legislation passed in 2013 changed the way in which employers’ contribution rates are calculated in New Mexico, and rates are more closely tied to employers’ benefit charges.
  - Notices will be mailed to you with your total rate and your rate calculation.
  - Log into your account at www.dws.state.nm.us to view your total rate and your rate calculation.
- New Employers: Your tax rate will be based on your NAICS sector until you have at least two years of history.
  - You provided this information when you registered your business.
- An excess claims rate of up to 1.0 percent may apply for employer’s receiving the maximum contribution rate.
- The maximum total rate an employer may receive is 6.4 percent, with the maximum contribution rate and the maximum excess claims rate.

GLOSSARY

**Benefit Charges**: Benefits charged to an employer’s account for up to the last three fiscal years.

**Benefit Ratio**: Method of experience rating calculated by taking benefit charges divided by taxable payroll. The new experience rating method for New Mexico effective January 1, 2015.

**Contribution Rate**: Benefit ratio multiplied by the reserve factor multiplied by 100.

**Excess Claims Rate**: If an employer’s contribution rate exceeds 5.4 percent prior to adjusting the 5.4 percent maximum rate, an excess claims rate will be added. The excess claims rate is the pre-adjusted contribution rate minus 5.4 percentage points and then multiplied by 10.0 percent. The excess claims rate cannot exceed 1.0 percent.

**Experienced Employer**: An employer with at least two years of UI history that receives its own calculated experience rate using the benefit ratio.

**NAICS**: “NAICS” is the abbreviation for the North American Industry Classification System. NAICS codes are determined based on keywords that describe an employer’s business and its primary business activity.

**Reserve Factor**: An annual factor determined to maintain an adequate UI Trust Fund level.

**Reserve Ratio**: Method of experience rating calculated by taking an employer’s lifetime contributions minus lifetime benefits charged, divided by average annual taxable payroll for the past three years. The old experience rating method for New Mexico ending December 31, 2014.

**Taxable Payroll**: Wages subject to contributions reported on the quarterly employment and wage detail reports for the last three fiscal years.

**Taxable Wage Base**: The taxable wage base is the annual amount of wages paid by an employer to an employee that are subject to UI Tax.

**Total Rate**: The contribution rate plus the excess claims rate (if applicable).

**Trust Fund**: Account maintained for the purpose of paying unemployment benefits to New Mexicans.