STATE OF MICHIGAN
DEPARTMENT OF LICENSING AND REGULATORY AFFAIRS
UNEMPLOYMENT INSURANCE AGENCY
STEVE ARWOOD
DIRECTOR

RICK SNYDER
GOVERNOR

STEVE ARWOOD
ACTING DIRECTOR

Dear Employer,

Last year at this time, we informed you of new legislation which allowed the UIA to refinance over $3.2 billion in federal debt incurred by the UIA to pay unemployment benefits. We informed you that a short-term bond refinancing was completed on December 28, 2011 and that a longer-term bond financing would be completed by July 1, 2012. Within that letter we explained how the employer obligation assessment (OA) to finance the bonds would be calculated and that the base OA for 2012 would be $42 dollars per employee and rising to $63 dollars per employee in 2013. (For reference, last year's letter can be found at www.michigan.gov/uia. Click the employer tab on the left hand side and then look under new legislative update.)

On June 27, 2012, the Unemployment Insurance Agency, in partnership with the Michigan Department of Treasury, concluded a long-term refinancing of the debt owed to the United States Treasury. This letter will explain what was achieved by refinancing this debt as well as the changes that can be expected for your 2013 tax year.

- By completing the June 27, 2012 transaction, the State refinanced at an average interest rate of 1.8% versus the current Federal rate of 2.9%. This is a significant savings for Michigan employers, estimated to be $130 million over the life of the transaction.

- With no interest bearing federal loan balance to begin 2013, the solvency tax will not be administered on Michigan employers. This will save employers approximately $64 million, plus an additional $200 million in unfunded interest liability.

- Michigan employers will not be subject to a FUTA credit reduction penalty of 1.2% or $84 per employee for 2012, payable in 2013. With outstanding federal debt, the FUTA penalty would have continued to rise. With the debt eliminated, the full FUTA credit is fully restored.

- Refinancing has also put Michigan's Unemployment Trust Fund back on solid financial footing; a protection against future costly borrowing. As of November 30, 2012 the Trust Fund had a balance that exceeded $900 million and has earned interest in excess of $9.5 million since the beginning of the year.

The following is an explanation of changes to your 2013 tax rate:

Taxable Wage Base (TWB)

For the 2013 tax year, the TWB will remain at $9,500. If the Unemployment Trust Fund (UTF) does reach a balance of $2.5 billion, the TWB will revert back to $9,000. The current UTF balance is approximately $900 million.

Tax Rate Components

For the 2013 tax year there will be no changes to the Non-Chargeable Benefit Component (NBC) and the Account Building Component (ABC). The Chargeable Benefit Component (CBC) will be calculated using 36 months (3 years) of an employer's experience rather than the 48 month (4 years) look back period used in 2012.

Obligation Assessment (OA)

For 2013 the obligation assessment will be administered in the same manner as it was during the 2012 tax year. As in 2012, the OA will be applied to all contributing employers until the bonds have been repaid. The bonds are currently scheduled for an approximate 7-year repayment. The OA will continue to be a combination of a base assessment along with your experience rate. For 2013, the base assessment will be $63 per employee as predicted. The calculation will remain the same and will take into consideration your current tax rate, the OA ratio, a base assessment and the taxable wage base.

For complete details and answers to your tax questions please visit http://www.michigan.gov/uia and click the Employers link on the left. For further assistance please utilize the services of the Office of Employer Ombudsman at 1-855-484-2636 (4-UIAOEO) or by email at OEO@michigan.gov.

As always, thank you for doing business in our great State.

Sincerely,

Steve Arwood,
Acting Director,
Department of Licensing and Regulatory Affairs