

California System of Experience Rating

New employers are assigned a 3.4 percent Unemployment Insurance (UI) rate for a period of two to three years. This will depend on when the employer meets the criteria under section 982(b) of the [California Unemployment Insurance Code \(CUIC\)](#) (leginfo.ca.gov/faces/codes.xhtml). This is referred to as the *employer's UI contribution rate*. After that, an employer's UI contribution rate is determined by the employer's experience rating and the condition of the UI Fund. Public school districts and some other eligible organizations can elect to pay for UI benefits through a *reimbursable method*. For additional information, refer to the UI Taxes section of the [California Employer's Guide \(DE 44\) \(PDF\)](#) (edd.ca.gov/pdf_pub_ctr/de44.pdf).

UI Reserve Account

An employer is assigned an employer payroll tax account number when registering with the Employment Development Department (EDD) for the first time. Once the employer becomes subject to the provisions of the CUIC, a reserve account with no balance is created. The reserve account is a cumulative record of credits (+) and charges (-) and is the basis for the experience rating method. It is used to determine the employer's annual UI contribution rate. The difference between the credits and charges is the reserve account balance. It may be positive or negative and is non-refundable.

Each year, the reserve account balance is determined based on the EDD records as of July 31. The following method is used to calculate the reserve account balance:

Previous reserve account balance
+ Credits to reserve account
– Charges to reserve account
New reserve account balance

How Your UI Contribution Rate is Established

The method of determining contribution rates is called *experience rating*. This method uses a formula to measure the stability of the employer's employment and the potential for future unemployment.

Employers' contribution rates are based on one of seven contribution rate schedules established by the CUIC. See the UI Tax Rate Schedule at the end of this information sheet showing the reserve ratios and the seven contribution rate schedules.

The first step in the annual process of establishing UI contribution rates is to determine which of the seven contribution rate schedules is in effect for the calendar year, using the following formula:

Balance of the UI Fund on September 30 / Gross wages reported by all employers during the fiscal year ending on the computation date (June 30) = Percentage = to determine the rate schedule

This calculation establishes the rate schedule as follows:

Percentage		Contribution Rate Schedules
Greater than:	Equal to or less than:	
1.8		AA
1.6	1.8	A
1.4	1.6	B
1.2	1.4	C
1.0	1.2	D
0.8 (or equal to)	1.0	E
0.6 (or equal to)	0.799	F

Note:

If the calculation produces a ratio less than 0.6 percent, an emergency solvency surcharge rate of 1.15 times the rates on Schedule F is in effect.

The second step in establishing UI contribution rates is to compute your reserve ratio. Your ratio is determined by the ratio of your reserve account balance on July 31 to your average base payroll, using the following formula:

Your reserve account balance / Your average base payroll = Your Ratio

Your reserve ratio is then compared to the applicable rate schedule in effect for the coming year.

Note:

Your average base payroll is the average of your taxable payrolls for three calendar years immediately preceding the computation date, June 30.

Exceptions:

If you have taxable payroll in only two calendar years immediately preceding the computation date, the average base payroll is based only on the wages for those two years. If you have taxable payroll in only one calendar year immediately preceding the computation date, the average base payroll is based on the wages for that one year.

Contribution Rate Notification

You will be notified of your UI and Employment Training Tax (ETT) rates on a *Notice of Contribution Rates and Statement of UI Reserve Account* (DE 2088). For State Disability Insurance (SDI) rate information, visit [Tax Rated Employers](http://edd.ca.gov/en/payroll_taxes/tax-rated-employers/) (edd.ca.gov/en/payroll_taxes/tax-rated-employers/). The DE 2088 is issued during the month of December. Any item on the DE 2088 may be protested except the ETT and SDI rates. Complete instructions for filing a protest are included on the [Explanation of the Notice of Contribution Rates and Statement of UI Reserve Account \(DE 2088C\) \(PDF\)](#) (edd.ca.gov/pdf_pub_ctr/de2088c.pdf).

The DE 2088 contains the following information:

- The assigned contribution rates for UI and ETT.
- The annual taxable wage limit for UI and ETT.
- The UI tax rate schedule in effect for the calendar year.
- The factors used in computing the UI reserve account ratio.

ETT Fund

The ETT is a separate and additional tax of 0.1 percent of your UI taxable payroll. The purpose of the ETT is to provide a controlled funding source for training. The ETT is due and payable quarterly.

The following employers do not contribute to the ETT Fund:

- Employers who have a negative reserve account balance on June 30, except if subject to section 976.8 subdivision (b) of the CUIIC.
- Employers who have elected a reimbursable method of financing UI benefits.

Credits to Your UI Reserve Account

Your UI reserve account is credited with the following:

- The UI contributions paid from August 1 through July 31. This may include adjustments and Voluntary UI (VUI) payments. However, payments made in July for the quarter ending September 30 will not be included.
- The amount of interest credited is computed as follows:

$$\begin{array}{l} \text{Your preliminary reserve} \\ \text{account balance} \end{array} \times \begin{array}{l} \text{Balance} \\ \text{of interest} \\ \text{earned} \end{array} = \begin{array}{l} \text{Your} \\ \text{individual} \\ \text{credits} \end{array}$$

Total of all positive reserve account balances

- The amount canceled from your UI reserve account per section 1027.5 of the CUIIC. This occurs when your UI reserve account balance is negative and is more than 21 percent of your average taxable payroll during the last three calendar years.
- A prorated share of the following:
 - The total money collected from people who were overpaid UI benefits in error or because of fraud.
 - The total of all the positive reserve accounts canceled after three years as inactive.
 - The miscellaneous income items to the UI Fund that are not included above.

Charges to Your UI Reserve Account

Your UI reserve account is charged for the following:

- Benefits paid to your former employees from July 1 through June 30, which may include additional benefits for training or retraining of skills.
- A prorated share of the following:
 - The total annual increase of all negative reserve account balances.
 - The total UI benefits paid in error or because of fraud that were identified during the fiscal year ending June 30.
 - The total UI benefits paid that were not charged to individual reserve accounts.
 - The miscellaneous expense items applied to the UI fund that are not included above.

Shared Credits and Charges

The amount of all shared credits and all shared charges are computed by dividing:

$$\frac{\text{Your UI taxable wages for the fiscal year ending June 30}}{\text{Total of all employers' UI taxable wages for fiscal year ending June 30}} = \text{Percentage applied to the shared items}$$

Minimize Your UI Contribution Rate

An employer who maintains a stable workforce, while filing and paying taxes on time, generally has a lower UI rate. An employer who experiences high turnovers, large fluctuations in payroll, and/or files and pays taxes late will have a higher rate. The following suggestions may help you to minimize your UI contribution rate:

- Work with your employees to avoid layoffs and voluntary quits. Every separation has a potential to increase your UI contribution rate.
- Grant leaves of absence to employees to help you keep fully trained personnel.
- Give written warning notices prior to discharging an employee. Keep a copy of these written notices and any supporting information for use in justifying the actions taken.
- Conduct exit interviews with employees to understand why an employee is leaving. This may result in changes to your company policies or procedures and may assist you in retaining your trained employees.
- Respond on time to any claim notices received from the EDD.
- Provide clear answers to phone interview questions from the EDD personnel.
- Bring witnesses with firsthand knowledge of pertinent facts when attending an appeal hearing.
- File and pay tax returns on time.
- Rehire former satisfactory employees who are currently receiving UI benefits.

Voluntary UI Contribution

During the years when contribution rate schedules AA through D are in effect, eligible employers may voluntarily pay an additional UI contribution to obtain a lower rate. A *Voluntary UI Contribution Notice* (DE 2088A) is sent to eligible employers, reflecting the amounts payable to receive a lower rate. If you are eligible, you have until the last working day in March to submit your payment. There is no provision allowing late payments for *good cause* or granting an extension period. Specific instructions are provided on the DE 2088A.

You are not eligible to participate in the voluntary UI contribution program if you:

- Have a required rate of 3.4 percent.
- Have a negative reserve account balance.
- Already have been assigned the lowest possible rate.

- Have been notified prior to September 1 of any unpaid amount owed to the EDD which is not the subject of a timely petition for reassessment pending before the California Unemployment Insurance Appeals Board (CUIAB) on September 30 preceding the year to which a contribution rate is applicable.
- Are subject to section 977(c) of the CUIIC.

It is your choice to participate. You should estimate the effect that a voluntary UI contribution may have on your account to determine if it will reduce your contribution costs for the year. An [Explanation Sheet and Worksheet for the Voluntary UI Contribution Notice \(DE 2088A\) \(DE 2088VU\) \(PDF\)](http://edd.ca.gov/pdf_pub_ctr/de2088vu.pdf) (edd.ca.gov/pdf_pub_ctr/de2088vu.pdf) is provided with the voluntary UI notice. Obtaining a lower rate may not reduce your annual UI costs. The voluntary UI contribution is not a prepayment but an additional payment, and cannot be deducted on a future tax return. Once a voluntary payment is made, the reduced rate is in effect for the full calendar year and the payment is not refundable.

Section 976.5 of the CUIIC prohibits voluntary UI contributions when rate schedule E or F is in effect, or in calendar years in which the emergency solvency surcharge is in effect.

How UI Benefit Charges Occur on Your UI Reserve Account

The amount of UI (including extended duration and training extension benefits) payable to a person filing a claim is based on the wages paid during a previous one-year period known as the *base period*. The base period is determined by the claim date and may include wages reported up to 18 months prior to the claim date. Any employer(s) included in the base period are referred to as *base period employer(s)*.

Note:

The base period of an extended claim is always the same as the base period of the original claim.

Benefits paid to a person filing a claim are charged against the UI reserve account of the base period employer unless the employer has a favorable ruling, Administrative Law Judge decision, or CUIAB decision. Refer to **Rulings** in the DE 44.

If there are two or more base period employers, the charges are prorated based on the total base period wages paid by each employer.

When a person filing a claim draws more than 26 times their weekly benefit amount or half of the base period wages plus \$1, the additional benefits are charged to the reserve account of the base period employer(s) unless the legislation authorizing the additional benefits allows for reimbursing the UI Fund from a special source.

Statement of Charges

Each September, a *Statement of Charges to Reserve Account* (DE 428T) is mailed to notify you of all benefit charges made against your UI reserve account during the fiscal year July 1 through June 30.

The DE 428T may show charges for benefits paid to a person filing a claim who worked for you from four months to four years prior to the time you receive the DE 428T. An amount with a minus (-) sign in front means that a previous charge was removed and the amount has been credited to your UI reserve account.

Note:

You may protest any item on the DE 428T. Complete instructions for filing protests are included in the [Information Sheet: Statement of Charges to Reserve Account \(DE 428T\) \(DE 428I\) \(PDF\)](#) (edd.ca.gov/pdf_pub_ctr/de428i.pdf).

UI Reserve Account Transfers

When an employer acquires all or part of another employer's business, the employer who acquired the business may file an application for transfer of all or part of the former owner's UI reserve account. This may result in an immediate reduction or increase in the UI contribution rate of the employer who acquired the business.

Acquisitions are not limited to purchases, but may be the result of mergers or any other type of business agreement or reorganization. You must continue the operation of the business acquired.

You may request a transfer of a UI reserve account by:

- Filing electronically through the EDD [e-Services for Business](#) (edd.ca.gov/e-Services_for_Business). Employers and their agents will need to enroll for e-Services for Business in order to submit a request for transfer of a UI reserve account.
- Submitting a completed [Application for Transfer of Reserve Account \(DE 4453\) \(PDF\)](#) (edd.ca.gov/pdf_pub_ctr/de4453.pdf). A DE 4453 can also be obtained at your local [Employment Tax Office \(ETO\)](#) (edd.ca.gov/office_locator/).
- Sending a formal written request to the EDD.

Note:

An employer who acquires a reserve account may realize an immediate reduction in the UI rate after the transfer. However, the rate may increase in future years if the former employer laid off any employees prior to going out of business. The benefits will be charged to the account of the employer who acquired the reserve account.

The employer who acquired the business should file the DE 4453 within the following time periods:

If the Employer	Then
Acquires part of another employer's business.	An application for a partial reserve account transfer may be filed within 90 days of the acquisition date. There are no provisions for extending the 90-day period.
Acquires all the business operations of another employer (complete acquisition).	<p>An application for a complete transfer of reserve account may be filed within three years of the acquisition date.</p> <p>If an application is filed:</p> <ul style="list-style-type: none"> Within 90 days of the acquisition date. Any rate for a new employer may be retroactive to the quarter in which the acquisition occurred. Any rate for an employer who was in business prior to the acquisition will be effective with the quarter following the quarter in which the acquisition occurred. Previous owners re-entering business would not be able to receive their old reserve account. After the first 90 days from the acquisition date. There will be no retroactive effect. Rates will be effective with the quarter following the quarter in which the application is filed. If the previous owners re-enter business before the application is filed, they will retain their old reserve account. Any subsequent application for transfer will be denied.

Disposition of Reserve Accounts

The UI contributions paid by you are deposited in the UI Fund and are only used to pay UI benefits. The UI reserve account is a record of credits and charges and is used only to determine UI contribution rates.

Your employer account is inactivated when you:

- Go out of business.
- Notify the EDD that your business will no longer have employees.

However, your UI reserve account remains active for three years because previously reported wages may be used as the basis for future claims. Charges to your UI reserve account may still occur for up to four years after the business is inactivated.

The following tables illustrate the disposition of UI reserve accounts:

If the Employer	Then
Does not report wages for 12 consecutive calendar quarters.	The UI reserve account is canceled.
Comes back into business before the UI reserve account is canceled or transferred, and has payroll.	The employer will continue to use their UI reserve account.
Comes back into business before the UI reserve account is canceled or transferred and did not have payroll for eight consecutive quarters such that the	<p>The employer's UI rate will be 3.4 percent.</p> <p>Note: As provided in section 982(a) of the CUIC, this employer will be required to pay UI contributions at a rate of 3.4 percent for three or four years depending on the quarter payroll resumed.</p>
<ul style="list-style-type: none"> • Last wages reported are too old to be used as the basis for a UI claim. • Reserve account was not continuously subjected to benefit charges. 	
Comes back into business after the UI reserve account has been canceled or transferred.	The employer is treated as a new employer and must qualify again for a rate other than 3.4 percent as provided in section 982(b) of the CUIC.

Appeal Rights

An appeal may be filed with the CUIAB only after written denial has been issued on a protest to one of the following:

- Any item on the DE 428T.
- Any item on the DE 2088 except the ETT and SDI rates.
- Being ineligible to make a Voluntary Unemployment Insurance (VUI) contribution payment to lower their UI rate.

Instructions for filing an appeal will be provided with any of the above items.

Upon receipt of the appeal, the CUIAB will request that the EDD prepare a response to the appeal. A copy of the response will be sent to the employer by the EDD.

Additional Information

Employers and their agents will need to enroll in EDD's e-Services for Business to request rate information online. To begin the enrollment process, visit [e-Services for Business](http://edd.ca.gov/e-Services_for_Business) (edd.ca.gov/e-Services_for_Business) and select the *e-Services for Business Login*.

For assistance with e-Services for Business, please call 1-855-866-2657. For state payroll tax assistance or information, please call the Taxpayer Assistance Center at 1-888-745-3886.

To obtain additional information regarding UI and ETT rates, or the status of the UI reserve account, contact:

Employment Development Department
Rate Management Group, MIC 4
PO Box 826880
Sacramento, CA 94280-0001

Employers and their representatives may obtain an electronic DE 428T through the EDD's e-Services for Business. Visit e-Services for Business for more information or contact the Taxpayer Assistance Center at 1-888-745-3886.

To obtain additional information regarding benefit charges, contact:

Employment Development Department
Contribution Rate Group, MIC 4
PO Box 826880
Sacramento, CA 94280-0001

The EDD is an equal opportunity employer/program. Auxiliary aids and services are available upon request to individuals with disabilities. Requests for services, aids, and/or alternate formats need to be made by calling 1-888-745-3886 (voice), or TTY 1-800-547-9565.

This information sheet is provided as a public service and is intended to provide nontechnical assistance. Every attempt has been made to provide information that is consistent with the appropriate statutes, rules, and administrative and court decisions. Any information that is inconsistent with the law, regulations, and administrative and court decisions is not binding on either the Employment Development Department or the taxpayer. Any information provided is not intended to be legal, accounting, tax, investment, or other professional advice.

UI Contribution Rate Schedule

Reserve Ratio		Contribution Rate Schedules							
Exceeds or =	Less than	Stated as a Percent							
		AA	A	B	C	D	E	F	*F+
Less	-0.20	5.4	5.4	5.4	5.4	5.4	5.4	5.4	6.2
-0.20	-0.18	5.2	5.3	5.4	5.4	5.4	5.4	5.4	6.2
-0.18	-0.16	5.1	5.2	5.4	5.4	5.4	5.4	5.4	6.2
-0.16	-0.14	5.0	5.1	5.3	5.4	5.4	5.4	5.4	6.2
-0.14	-0.12	4.9	5.0	5.3	5.4	5.4	5.4	5.4	6.2
-0.12	-0.11	4.8	4.9	5.2	5.4	5.4	5.4	5.4	6.2
-0.11	-0.10	4.7	4.8	5.1	5.3	5.4	5.4	5.4	6.2
-0.10	-0.09	4.6	4.7	5.1	5.3	5.4	5.4	5.4	6.2
-0.09	-0.08	4.5	4.6	4.9	5.2	5.4	5.4	5.4	6.2
-0.08	-0.07	4.4	4.5	4.8	5.1	5.3	5.4	5.4	6.2
-0.07	-0.06	4.3	4.4	4.7	5.0	5.3	5.4	5.4	6.2
-0.06	-0.05	4.2	4.3	4.6	4.9	5.2	5.4	5.4	6.2
-0.05	-0.04	4.1	4.2	4.5	4.8	5.1	5.3	5.4	6.2
-0.04	-0.03	4.0	4.1	4.4	4.7	5.0	5.3	5.4	6.2
-0.03	-0.02	3.9	4.0	4.3	4.6	4.9	5.2	5.4	6.2
-0.02	-0.01	3.8	3.9	4.2	4.5	4.8	5.1	5.4	6.2
-0.01	0.00	3.7	3.8	4.1	4.4	4.7	5.0	5.4	6.2
0.00	0.01	3.4	3.6	3.9	4.2	4.5	4.8	5.1	5.9
0.01	0.02	3.2	3.4	3.7	4.0	4.3	4.6	4.9	5.6
0.02	0.03	3.0	3.2	3.5	3.8	4.1	4.4	4.7	5.4
0.03	0.04	2.8	3.0	3.3	3.6	3.9	4.2	4.5	5.2
0.04	0.05	2.6	2.8	3.1	3.4	3.7	4.0	4.3	4.9
0.05	0.06	2.4	2.6	2.9	3.2	3.5	3.8	4.1	4.7
0.06	0.07	2.2	2.4	2.7	3.0	3.3	3.6	3.9	4.5
0.07	0.08	2.0	2.2	2.5	2.8	3.1	3.4	3.7	4.3
0.08	0.09	1.8	2.0	2.3	2.6	2.9	3.2	3.5	4.0
0.09	0.10	1.6	1.8	2.1	2.4	2.7	3.0	3.3	3.8
0.10	0.11	1.4	1.6	1.9	2.2	2.5	2.8	3.1	3.6
0.11	0.12	1.2	1.4	1.7	2.0	2.3	2.6	2.9	3.3
0.12	0.13	1.0	1.2	1.5	1.8	2.1	2.4	2.7	3.1
0.13	0.14	0.8	1.0	1.3	1.6	1.9	2.2	2.5	2.9
0.14	0.15	0.7	0.9	1.1	1.4	1.7	2.0	2.3	2.6
0.15	0.16	0.6	0.8	1.0	1.2	1.5	1.8	2.1	2.4
0.16	0.17	0.5	0.7	0.9	1.1	1.3	1.6	1.9	2.2
0.17	0.18	0.4	0.6	0.8	1.0	1.2	1.4	1.7	2.0
0.18	0.19	0.3	0.5	0.7	0.9	1.1	1.3	1.5	1.7
0.19	0.20	0.2	0.4	0.6	0.8	1.0	1.2	1.4	1.6
0.20	or more	0.1	0.3	0.5	0.7	0.9	1.1	1.3	1.5

*The emergency solvency surcharge rate (1.15 times the rate the employer would have paid in Schedule F, rounded to the nearest tenth).