

UWC NATIONAL UI ISSUES CONFERENCE

Improving State UI Trust Fund Solvency Before the Next Recession

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Overview

- **Solvency Status**
- **Why Solvency Is Important**
- **How Can Solvency be Improved**

Solvency Target

AVERAGE HIGH COST MULTIPLE

$$\text{AHCM} = \frac{\frac{\text{TF Balance (as of 12/31)}}{\text{Covered Wages (calendar year)}}}{\frac{\text{Benefits Paid for a calendar year}}{\text{Covered Wages for the same calendar year}}}$$

Average of 3 highest yrs over the last 20 yrs, or last 3 recessions, whichever is longer

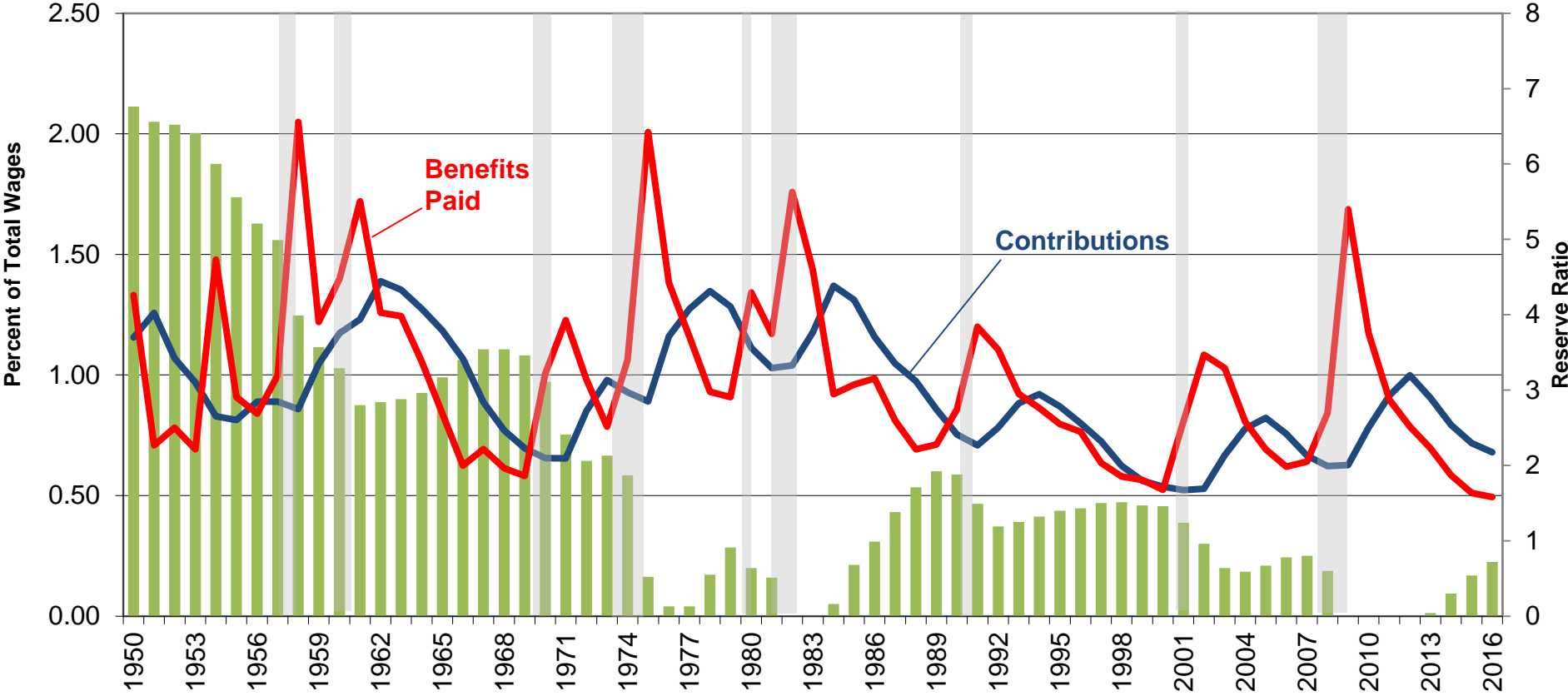
The AHCM represents the number of years a State can pay out benefits if it paid at the rate it paid for the average of the three highest years over the previous 20 (or over the last 3 recessions, whichever is longer) without receiving any additional revenue.

AVERAGE HIGH COST MULTIPLE VS. BORROWING

Average High Cost Multiple	1974-76			1980-84			1990-92			2001-06			2008-10		
	# of States	# of Loans	Pct. Loans	# of States	# of Loans	Pct. Loans	# of States	# of Loans	Pct. Loans	# of States	# of Loans	Pct. Loans	# of States	# of Loans	Pct. Loans
>=2.00	12	0	0%	3	0	0%	3	0	0%	5	0	0%	0	0	0%
1.75-1.99	7	2	29%	0	0	0%	4	0	0%	2	0	0%	2	1	50%
1.50-1.74	5	2	40%	5	1	20%	7	0	0%	5	0	0%	4	0	0%
1.25-1.49	6	2	33%	8	2	25%	9	0	0%	8	0	0%	3	0	0%
1.00-1.24	5	3	60%	10	6	60%	10	0	0%	10	1	10%	10	5	50%
0.75-0.99	6	6	100%	5	3	60%	8	1	13%	12	2	17%	8	5	63%
0.50-0.74	6	6	100%	6	6	100%	7	2	29%	7	2	29%	5	5	100%
<0.50	4	4	100%	16	15	94%	5	3	60%	4	3	75%	21	20	95%
1.1+	36	9	26%	24	9	36%	32	0	0%	30	1	3%	19	6	32%
<1.0	16	16	100%	27	24	89%	20	6	30%	23	7	30%	34	30	88%
TOTAL	51	25	49%	53	33	62%	53	6	11%	53	8	15%	53	36	70%

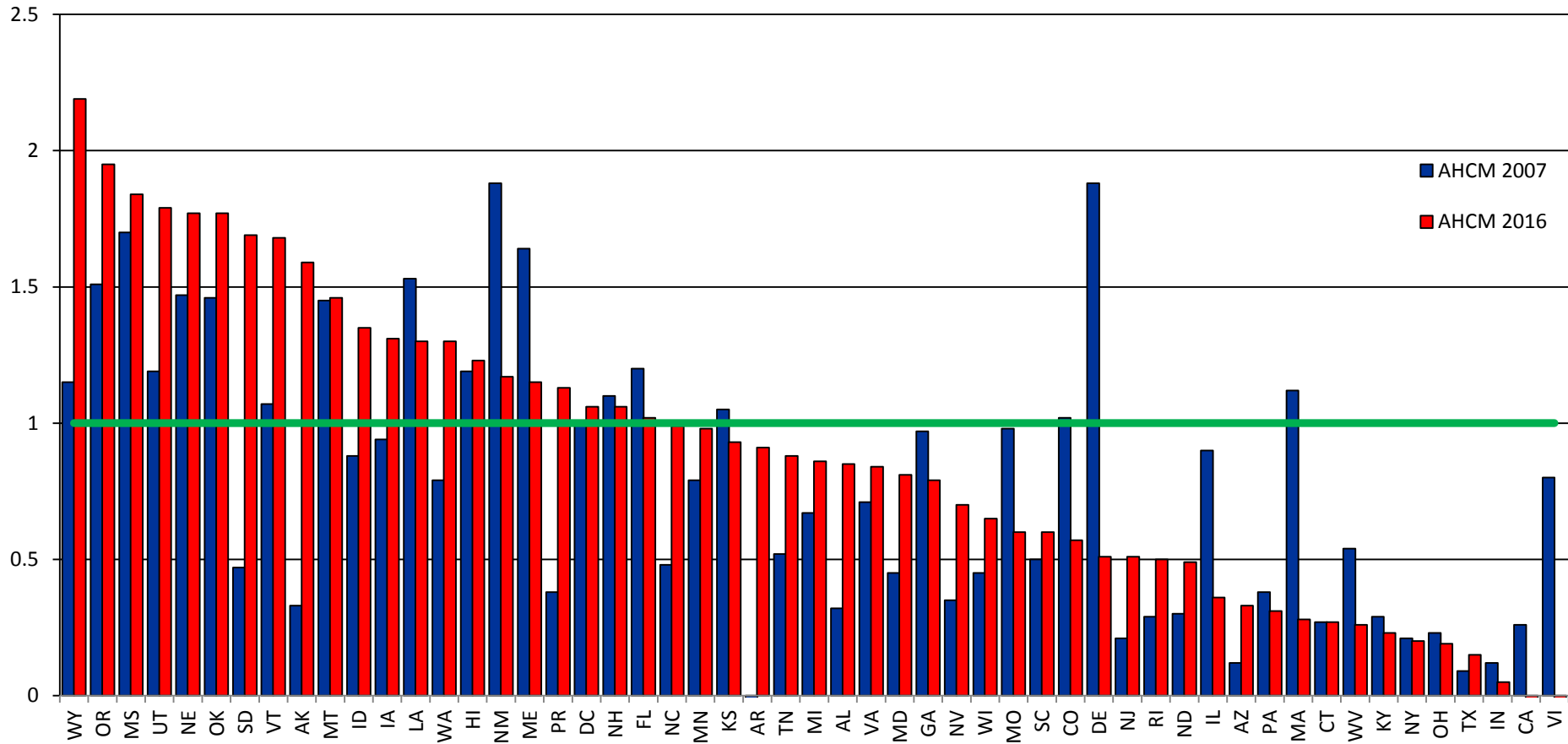
Note: Pre-recession average high cost multiples are calculated for December 1973, December 1979, December 1989, December 2000, and December 2007

Contributions & Benefits Paid as % of Total Wages & Reserve Ratio



Total Wage and Reserve Ratio are Estimated for 2016

Average High Cost Multiple, 2007 & 2016*

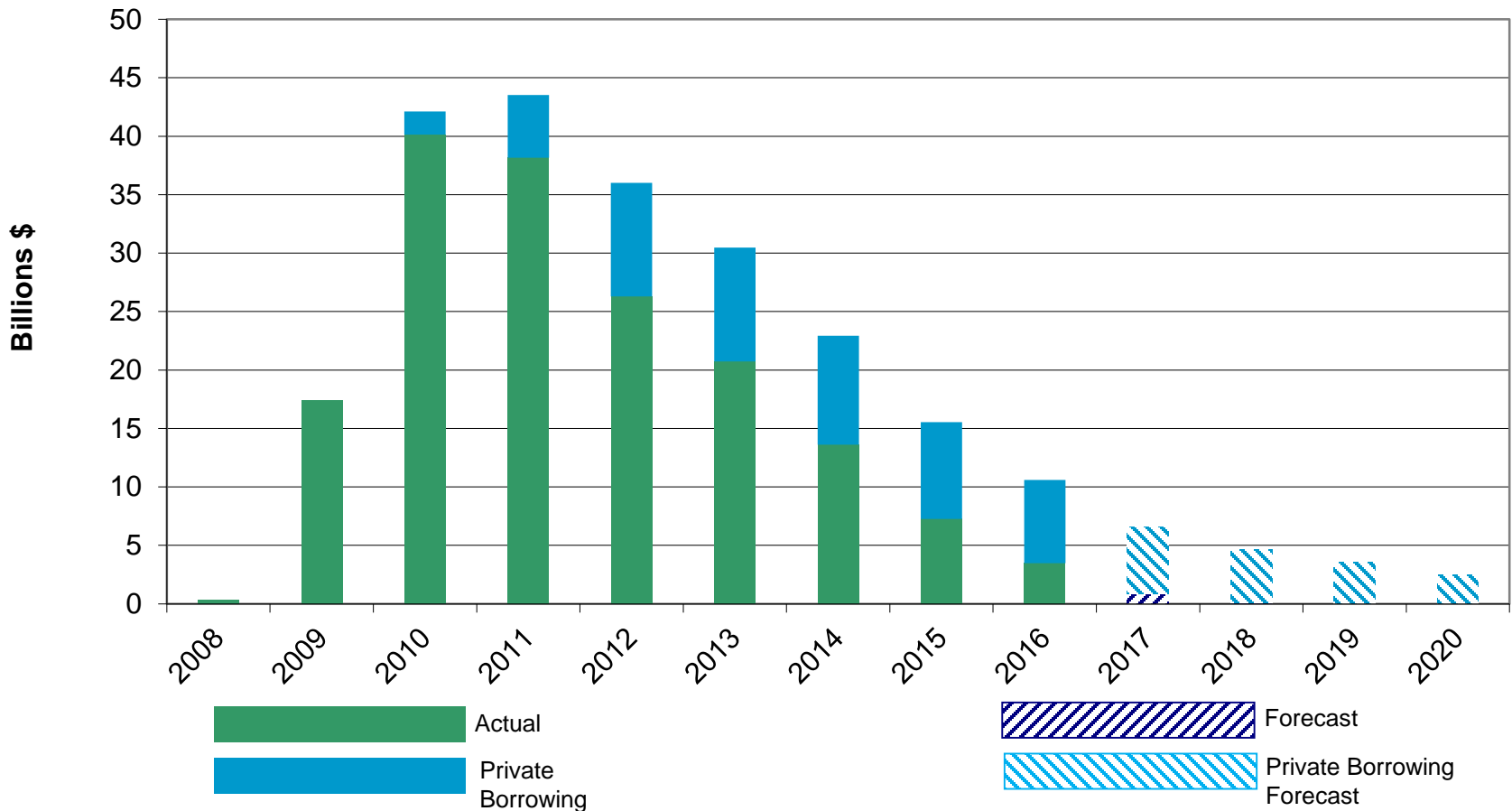


Source: DOL/OUI

*2016 AHCM is Preliminary

Total borrowing over time and projected borrowing through end of FY 2020

End of FY Borrowing



Interest

- Interest accrues on a daily basis over a Federal fiscal year and is due and payable on September 30 each year.
- Interest rate applicable to a calendar year is the rate of interest paid on balances in the Unemployment Trust Fund (UTF) for the fourth quarter of the prior calendar year.

Interest

- Interest rate on outstanding balances for 2017 is 2.21 percent and for 2016 was 2.23 percent
- Interest cannot be paid directly or indirectly from funds in a State's account in the UTF.
- A State cannot use grant funds or Reed Act funds to pay interest.

Interest

- Interest charged only on amounts actually borrowed Federal Unemployment Account (FUA).
- By taking a loan from the FUA, a State accepts the obligation to pay interest timely.
- Daily loan balances and accrued interest can be found at:

http://www.treasurydirect.gov/govt/reports/tfmp/tfmp_advactivitiesched.htm

Failure to Pay Interest Timely

- Section 303(c)(3) of the Social Security Act requires that interest on loans from FUA be paid timely in order for a State to receive administrative funding.
- Section 3304(a)(17) of FUTA requires timely payment of interest on loans from FUA in order for a State's law to be certified: without certification, the FUTA credit is lost.
 - All FUTA receipts then go to Federal accounts in the UTF
 - none to the state's account.
- Both laws require “reasonable notice and opportunity for hearing” before penalty is imposed.

Regulations Related to Interest Relief

- Interest Free Loans (see [20 CFR 606.32](#))
- May/September Delay (see [20 CFR 606.40](#))
- High Unemployment Deferral (see [20 CFR 606.41](#))
- High Unemployment Delay (see [20 CFR 606.42](#))

FUTA Credit Reductions

<u>Year</u>	<u>Basic Reduction</u>	<u>Additional Reduction Rate</u>	FUTA
1	0.0%	0.0%	0.6%
2	0.3	0.0	0.9
3	0.6	2.7 Add-on	1.2 or more
4	0.9	2.7 Add-on	1.5 or more
5	1.2	BCR Add-on	1.8 or more
.	.	.	.
.	.	.	.
19	5.4	BCR Add-on	6.0

$$2.7 \text{ Add-on} = [(2.7\% \times 7000 / \text{US AAW}) - \text{ST ATR}_{\text{tot}}] \times (\text{ST AAW} / 7000)$$

$$\text{BCR Add-on} = (\text{higher of: BCR}_{\text{tax}} \text{ and } 2.7\%) - \text{ATR}_{\text{tax}}$$

where

AAW = estimated average annual wage (current year)

ATR_tot = average tax rate on total wages (prior year)

ATR_tax = average tax rate on taxable wages (prior year)

BCR_tax = 5-year average benefit cost (ending second prior year) as a percent of taxable wages (prior year)

Actual and Potential FUTA Credit Reductions

Sections 3302(c)(2) and 3302(d)(3) provide that employers in states that have an outstanding balance of advances under Title XII of the Social Security Act at the beginning of January 1 of two or more consecutive years are subject to a reduction in credits otherwise available against the FUTA tax, if all advances are not repaid before November 10 of the taxable year. These credit reductions are made from the regular credit reduction of 5.4%. So, while, employers in states without a further credit reduction will have a FUTA tax rate of .6% (on the first \$7,000 of wages paid) for the year, employers in states with a further credit reduction due to an outstanding balance of advances will incur a FUTA tax rate of .6% + FUTA credit reduction.

In addition, following the third and fifth January 1st with an outstanding Federal advance, employers in those states are potentially subject to additional credit reductions, (FUTA Sections 3302(c)(2)).

FUTA Credit Reductions Due to States Having Outstanding Federal Advances

State	CY 2009	CY 2010	CY 2011	CY 2012	CY 2013	CY 2014	CY 2015	CY2016
Arizona				0.3%				
Arkansas			0.3%	0.6%	0.9%			
California			0.3%	0.6%	0.9%	1.2% ³	1.5% ³	1.8% ³
Connecticut			0.3%	0.6%	0.9%	1.7% ¹	2.1% ¹	
Delaware				0.3%	0.6%			
Florida			0.3%	0.6%				
Georgia			0.3%	0.6%	0.9%			
Illinois			0.3%					
Indiana		0.3%	0.6%	0.9%	1.2% ³	1.5% ³		
Kentucky			0.3%	0.6%	0.9%	1.2% ³		
Michigan	0.3%	0.6%	0.9%					
Minnesota			0.3%					
Missouri			0.3%	0.6%	0.9%			
Nevada			0.3%	0.6%				
New Jersey			0.3%	0.6%				
New York			0.3%	0.6%	0.9%	1.2% ³		
North Carolina			0.3%	0.6%	0.9%	1.2% ³		
Ohio			0.3%	0.6%	0.9%	1.2% ³	1.5% ³	
Pennsylvania			0.3%					
Rhode Island			0.3%	0.6%	0.9%			
South Carolina		0.3%	0.0% ²	0.0% ²	0.0% ²	0.0% ²		
Vermont				0.3%				
Virgin Islands			0.3%	1.5% ¹	1.2% ¹	1.2% ³	1.5% ³	1.8% ³
Virginia			0.3%					
Wisconsin			0.3%	0.6%	0.9%			

¹ For this year the state was subject to an additional reduction under FUTA, Section 3302 (c)(2).

² For this year the state qualified for Avoidance under FUTA, section 3302(g).

³ For this year the state received credit reduction add-on relief.

Regulations Related to FUTA Credit Reduction Relief

- Avoidance of Credit Reduction (see [20 CFR 606.24](#))
- Cap on Credit Reduction (see [20 CFR 606.22](#))
- Fifth Year Waiver (see [20 CFR 606.25](#))

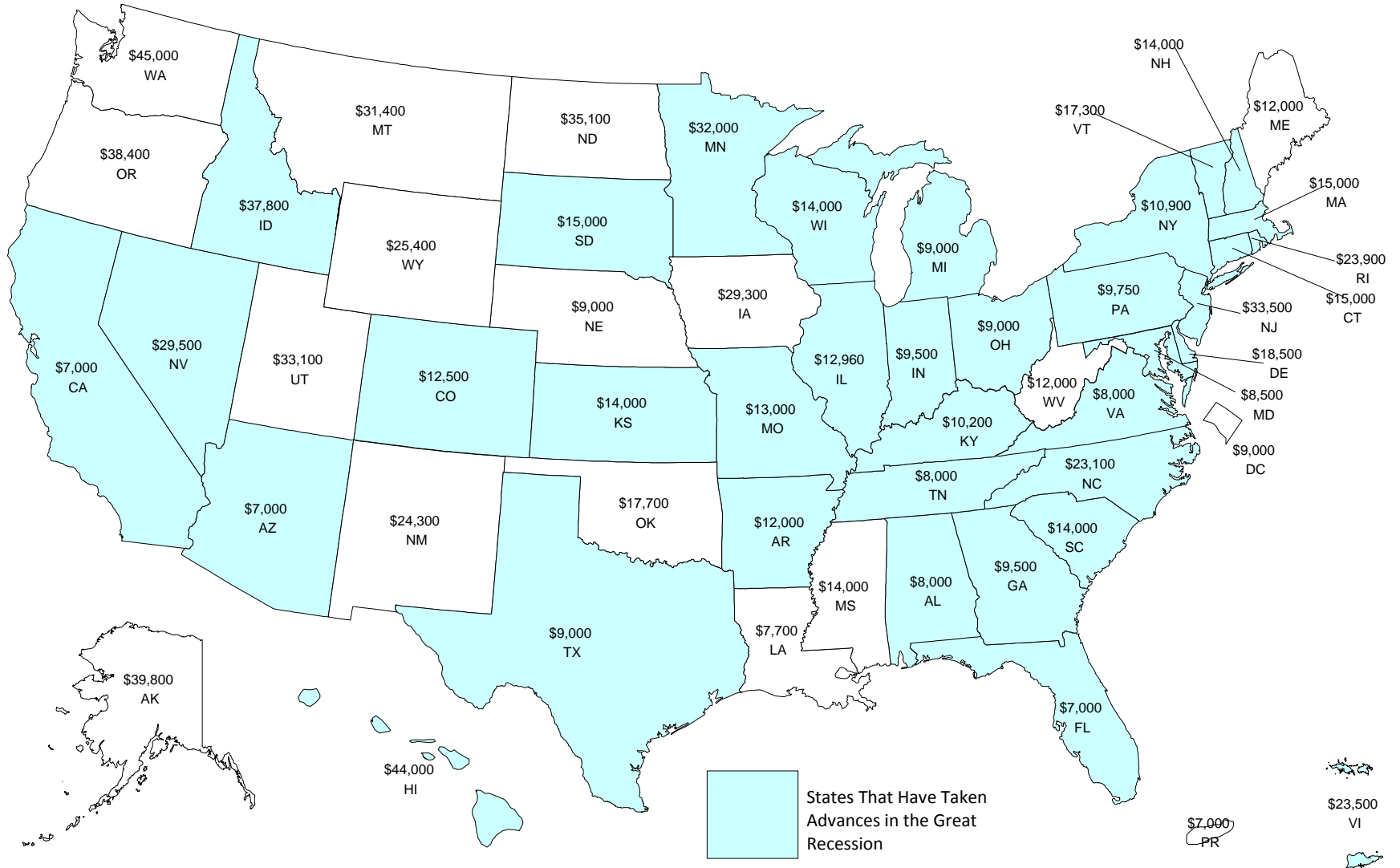
Financial Impact

- Interest Costs 2008 through 2016: **\$3.85B**
- Credit Reductions 2010 through 3/2017: **\$14.0B**

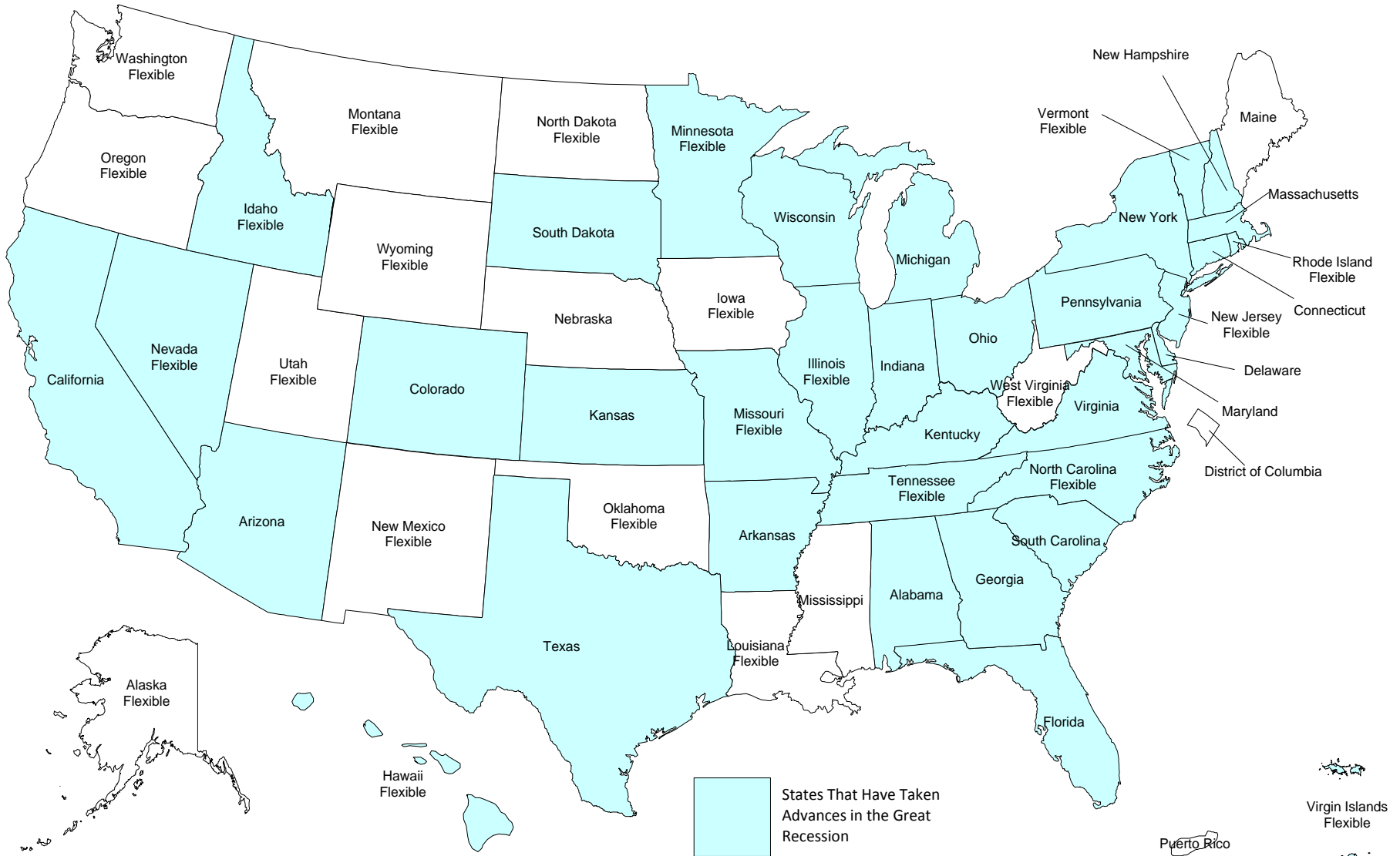
Problem Contributors & Remedies

- Low wage base:
 - average for 2016: \$13,616
 - range: \$7,000 to \$44,000
 - median: \$14,000
- High level of ineffective charges (max rate low)
- High level of non-charges
- Social taxes not paying for socialized costs
- Tax rates too low – include zero rates
- Experience rating systems that fail to adequately respond to layoffs

2017 Maximum Taxable Wage Base



States That Have Taken Advances



Administration's Proposal

- Apply the FUTA credit reduction concept to solvency
- A state having an average high cost multiple less than 0.5 for two consecutive January firsts would be subject to the FUTA credit reduction schedule beginning for the year the second January first falls.
- Solvency of the system improves as states close to an AHCM of 0.5 take action to avoid the credit reduction and for others the credit reduction moves states toward 0.5 before action is taken

Measures

- **Benefit Cost Rate** = (Benefits/Total Wages)
- **Minimum Adequate Financing Rate** = Long Term Avg Benefit Cost Rate + Solvency Rate
- **Solvency Rate** = Tax Rate that would generate funds needed to reduce difference between 1.0 and current AHCM by 1/5
- **Reserve Ratio** = (Trust Fund Balance/ Total Wages)

CALIFORNIA 2015

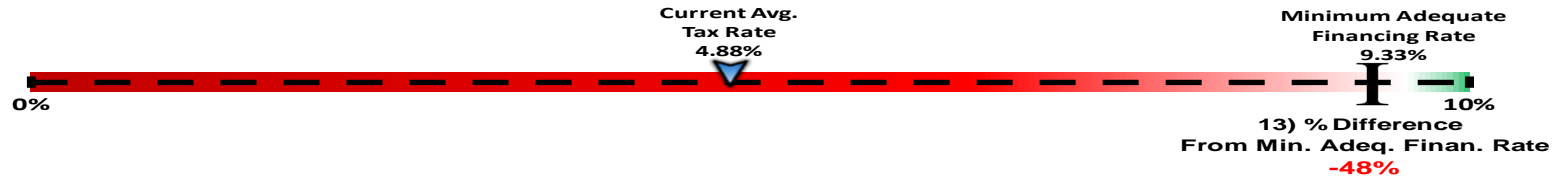
STATE TAX FEATURES

1) Type of Experience Rating Method:	Reserve Ratio	2) Type of Employer Ranking:	Fixed
3) Type of Charging Method:	Proportionally	4) Taxable Wage Base (\$):	7,000
5) Avg. Tax Rate (Total / Taxable Wages) %:	0.73 / 4.88	6) New Employer Tax Rate (%):	3.4
7) Statutory Tax Rate (Minimum / Maximum)%:	1.50 / 6.20	8) Average High Cost Multiple (1/1/2015):	0.00

STATE TAX LEVELS

9) Employer Contributions:	Average Per Covered Employee \$443	Average For Every \$100 of Wages Paid \$0.73
10) Contributions Per Employee at the Tax Base:	Minimum Rate \$105	Maximum Rate \$434
11) For Every One Dollar of Contributions the Amount Going:	To Pay Benefits in Previous Comp. Year \$1.00	Into the Trust Fund \$0.00

12) Average Tax Rate Compared to Minimum Adequate Financing Rate:



BENEFIT CHARGING

	Amount (\$mil.)	% of Total Benefits	Amount Per Employee
14) Benefits Charged to Active Taxable Employers:	5,202	80%	\$400
15) Benefits Non-Charged:	281	4%	\$22
16) Benefits Charged to Inactive Employers:	336	5%	\$26
17) Total Reimbursable Benefits Paid	679	10%	
Total:	\$6,499	100%	\$448

	Amount (\$ mil.)	% of Total Benefits	Est. Contributions from Max. Rated Employers as a % of their Charged Bens.
18) Benefits Charged to Employers at the Maximum Tax Rate in Excess of the Contributions from those Employers:	1,368	24%	69%

DISTRIBUTION OF WAGES, BENEFITS, AND CONTRIBUTIONS BY EFFECTIVE TAX RATES

	< = .5%	.5% - 1.0%	1.0% - 1.5%	1.5% - 2.0%	> 2.0%	Estimated Proportion of Each Category at the Statutory:
19) Proportion of Total Wages:	9%	87%	5%	0%	0%	Minimum Tax Rate: 1% Maximum Tax Rate: 49%
20) Proportion of Employers:	20%	74%	6%	0%	0%	Minimum Tax Rate: 4% Maximum Tax Rate: 27%
21) Proportion of Total Benefits Charged:	1%	77%	22%	0%	0%	Minimum Tax Rate: 8% Maximum Tax Rate: 85%
22) Proportion of Total Estimated Contributions:	5%	89%	6%	0%	0%	Minimum Tax Rate: 26% Maximum Tax Rate: 55%

UNITED STATES 2015

STATE TAX LEVELS

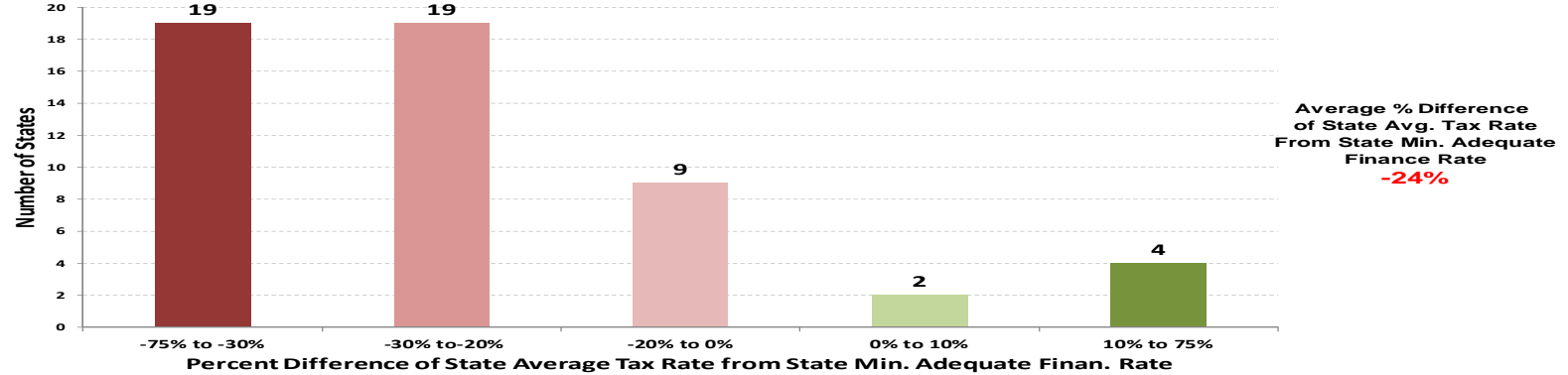
Avg. Tax Rate (Total / Taxable Wages) % 0.72 / 2.91

Employer Contributions: Average Per Covered Employee \$370 Average For Every \$100 of Wages Paid \$0.72

Average Contributions Per Employee at the State Tax Base: Minimum Rate \$103 Maximum Rate \$1,263

For Every One Dollar of Contributions the Amount Going: To Pay Benefits in Previous Comp. Year \$0.86 Into the Trust Fund \$0.14

State Average Tax Rate Compared to State Minimum Adequate Financing Rate:

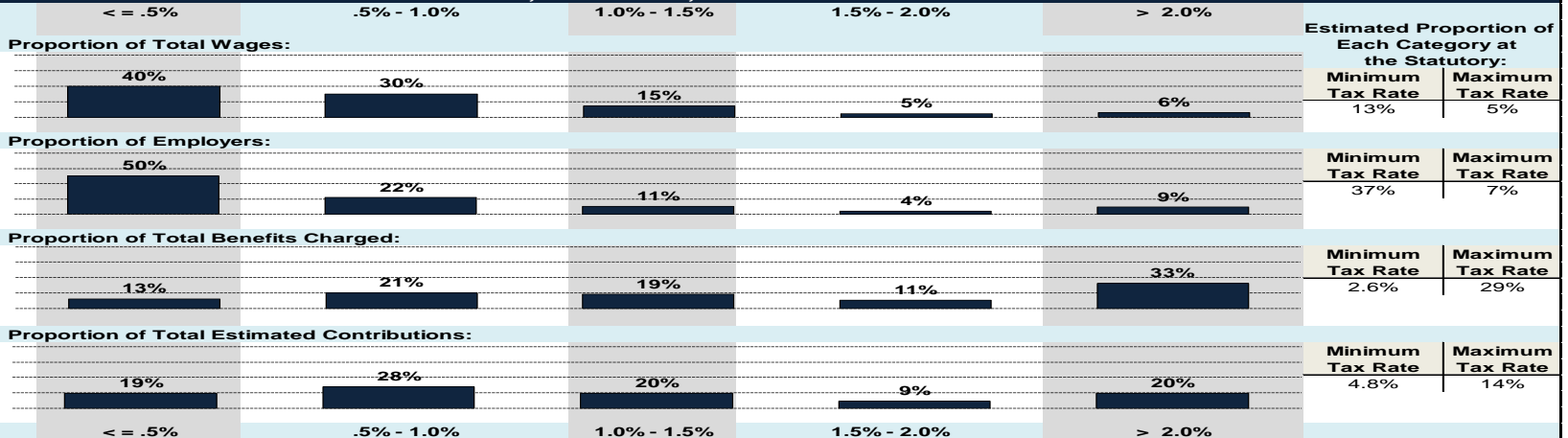


BENEFIT CHARGING

	Amount (\$mil.)	% of Total Benefits	Amount Per Employee
Total Benefits Charged to Active Taxable Employers:	27,649	78%	\$251
Total Benefits Non-Charged:	3,080	9%	\$28
Total Benefits Charged to Inactive Employers:	2,171	6%	\$20
Total Reimbursable Benefits Paid	2,678	8%	
Total:	\$35,578	100%	\$298

Benefits Charged to Employers at the Maximum Tax Rate in Excess of the Contributions from those Employers: 9%

DISTRIBUTION OF WAGES, BENEFITS, AND CONTRIBUTIONS BY EFFECTIVE TAX RATES



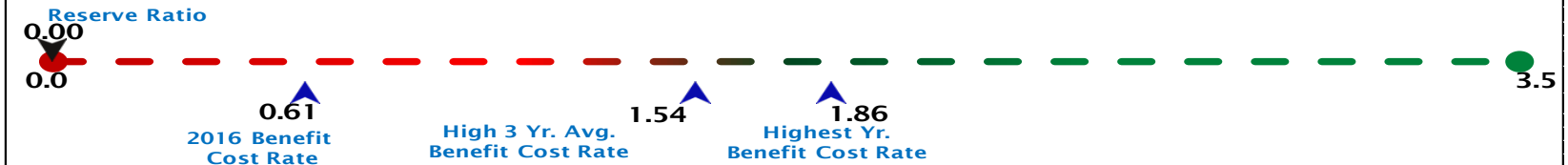
CALIFORNIA

State Trust Fund Status

1) UI Trust Fund Balance as of 1/1/2017:	\$11,710,989	2) Interest Earned for 2016:	\$0
3) Outstanding Title XII Advance as of 1/1/2017:	\$3,882,485,775	4) Title XII Interest Owed for FY2016:	\$111,337,060
5) Total Title XII Advances Since 12/31/2007:	\$56,774,643,468	6) Max. Amount of Outstanding Advances:	\$10,957,982,217
7) Title XII Advances Per Cov. Employee:	\$285.59	8) Date of Maximum Outstanding Amount:	5/31/2011
9) Title XII Advances as % of Cov. Wages:	0.00	10) Non Title XII Debt Issued Since 2010:	\$0
		11) Est. Amt. of Non-Title XII Debt Outstanding ¹ :	\$0

State Trust Fund Solvency

12) Trust Fund Balance Compared to Yearly Benefit Costs



13) Solvency Level - Using Average High Cost Multiple²



Calculations of Federal Borrowing Statutes and FUTA Credit Reductions

Eligibility for Interest Free Borrowing in 2017

14) Last year in which State achieved a 0.8 Avg. High Cost Multiple ³ :	1991
15) Lowest Percentage Avg. Tax rate is of the Previous 5 yr. Ben Cost Rate (>75% elig. Req.)	67%
16) Lowest Percentage Avg. Tax Rate is of the Previous Avg. Year's Tax Rate (>80% elig. Req.)	89%
	Ineligible

FUTA Tax Rate

17)	Credit Reduction Due to Outstanding Loans	2.7% Add-on	BCR Add-on	Total Credit Reduction	FUTA Tax Rate ⁴
2015	1.5%	0.0%	0.0%	1.50%	2.1%
2016	1.8%	0.0%	0.0%	1.80%	2.4%
Potential 2017 ⁵	2.1%	0.0%	0.1%	2.20%	2.8%

1. Estimated from original Bond issue information from: <http://emma.msrb.org/>
 2. Average High Cost Multiple (AHCM) value- uses actual trust fund balances as of 12/31/2016 and estimated wages for CY2016. This measure compares the state trust fund balance to the average of the three highest years of benefit payments.
 3. Must occur in the last 5 years to be eligible for an interest free loan.
 4. Represents the difference between total FUTA credit (with any reductions) and the FUTA tax rate of 6.0%.
 5. Credit reductions apply only to states with outstanding loans as of January 1, 2017, and not repaid by November 10, 2017.
 * Not Applicable

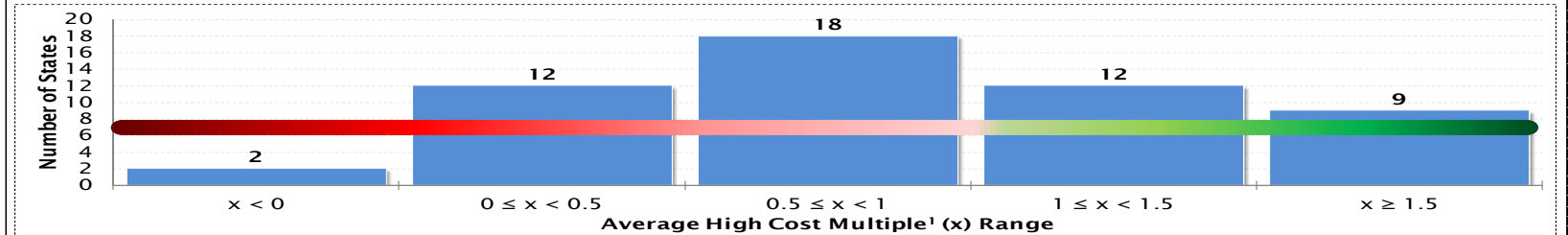
UNITED STATES

Trust Fund Status

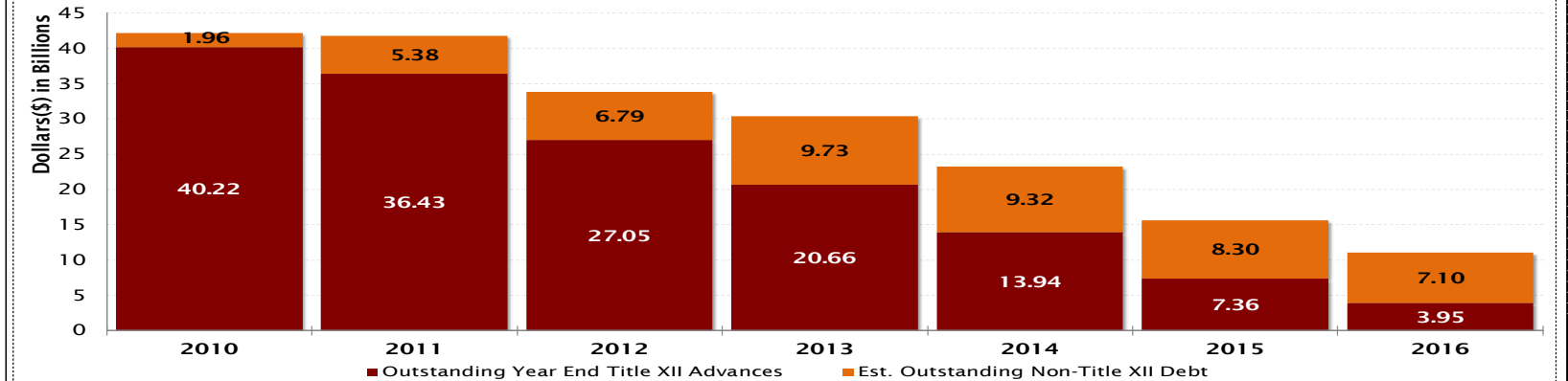
1) 2016 Year End Aggregate State Trust Fund Balances:	\$46,958,629,366	2) Aggregate Interest Earned for 2016:	\$983,359,190
3) 2016 Year End Outstanding Title XII Advances:	\$3,951,622,717	4) Title XII Interest Owed for FY2016:	\$126,285,290
		4b) Total Interest Paid since Jan 2008:	\$3,847,017,699
5) Total Title XII Advances since 12/31/2007:	\$162,363,832,838	6) Total Max. Amt. of Outstanding Advances:	\$51,186,126,803
7) Title XII Advances Per Gov. Employee:	\$34.87	8) Date of Maximum Outstanding Amount:	5/31/2011
9) Title XII Advances as % of Gov. Wages:	0.001	10) Total Non Title XII Debt Issued Since 2010:	\$11,445,420,000
		11) Est. Amt. of Non-Title XII Debt Outstanding ¹ :	\$7,103,085,000

State Trust Fund Solvency

State Trust Fund Solvency Levels



Total Outstanding UI Debt (Title XII and Estimated Non-Title XII Debt²)



Calculations of Federal Borrowing Statutes and FUTA Credit Reductions

Eligibility for Interest Free Borrowing in 2017

12) Number of States Eligible for Interest Free Borrowing in 2017 ³ :	31
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FUTA Credit Reductions

13)	Number of States with Credit Reduction Due to Outstanding Loans	Number of States with 2.7% Add-on	Number of States with BCR Add-on
2015	4	0	0
2016	2	0	0
Potential 2017 ⁴	2	0	2

1. Average High Cost Multiple (AHCM) value- uses actual trust fund balances as of 12/31/2016 and estimated wages for CY2016. This measure compares the state trust fund level to the average of the three highest years of benefit payments.

2. Non-Title XII Advances includes all private market Revenue Bonds and Loans.

3. States that have met the interest free borrowing conditions of an AHCM of 0.8 in last five years and tax maintenance criteria.

4. Credit reductions apply only to states with outstanding loans as of January 1, 2017, and those not repaying their loan as of November 10, 2017.

Links to Key Information

- **Data Page**
 - <https://oui.doleta.gov/unemploy/DataDashboard.asp>
- **UI Data Summary**
 - https://oui.doleta.gov/unemploy/content/data_stats/datasum16/DataSum_2016_4.pdf
- **UI Outlook**
 - https://oui.doleta.gov/unemploy/pdf/prez_budget.pdf
- **Significant Measures of State UI Tax Systems**
 - <https://oui.doleta.gov/unemploy/pdf/sigmeasuitaxsys15.pdf>
- **State UI Trust Fund Solvency Report**
 - <https://oui.doleta.gov/unemploy/docs/trustFundSolvReport2017.pdf>