

# UWC NATIONAL UI ISSUES CONFERENCE - 2023

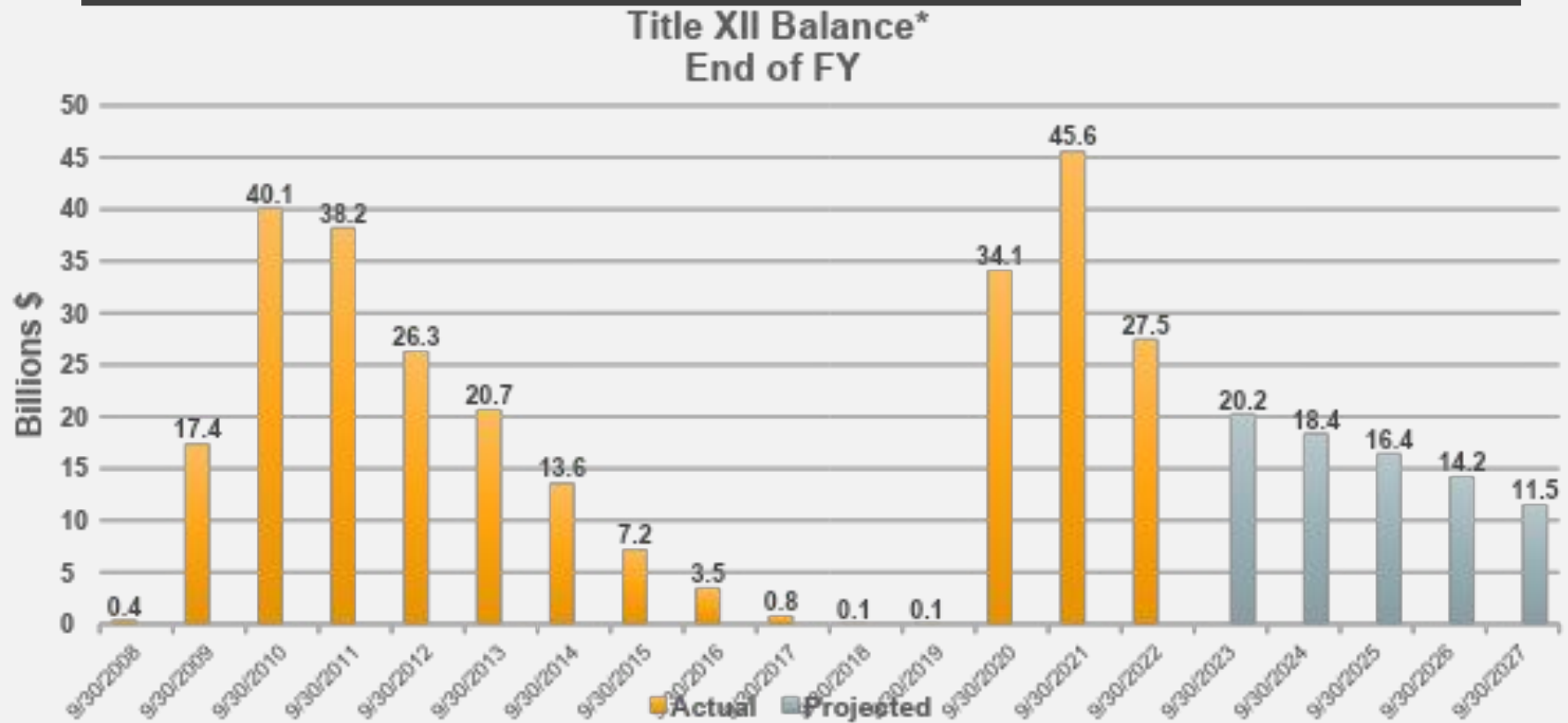
## UI Trust Fund Solvency

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## UI TRUST FUND BASICS

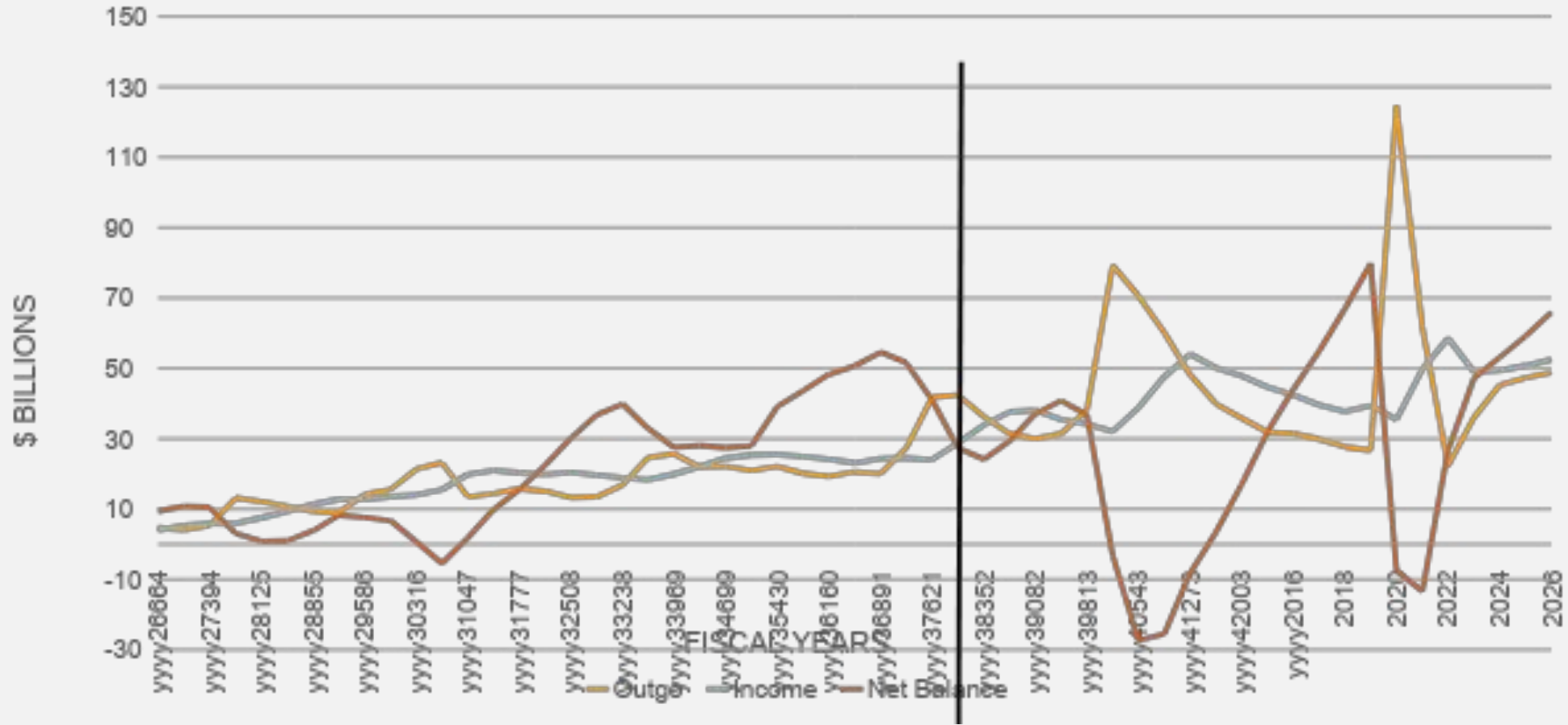
- States utilize State Unemployment Trust Fund accounts to pay UI benefits
  - Managed by US Department of Treasury
  - Funded by state UI taxes (SUTA).
- Funds may only be used to pay benefits
- Solvency of the fund is up to individual states.
  - US DOL provides recommended Solvency target.
- When necessary, states may borrow Federal Funds using Title XII Advances or states may use alternative borrowing sources.

# TITLE XII BORROWING

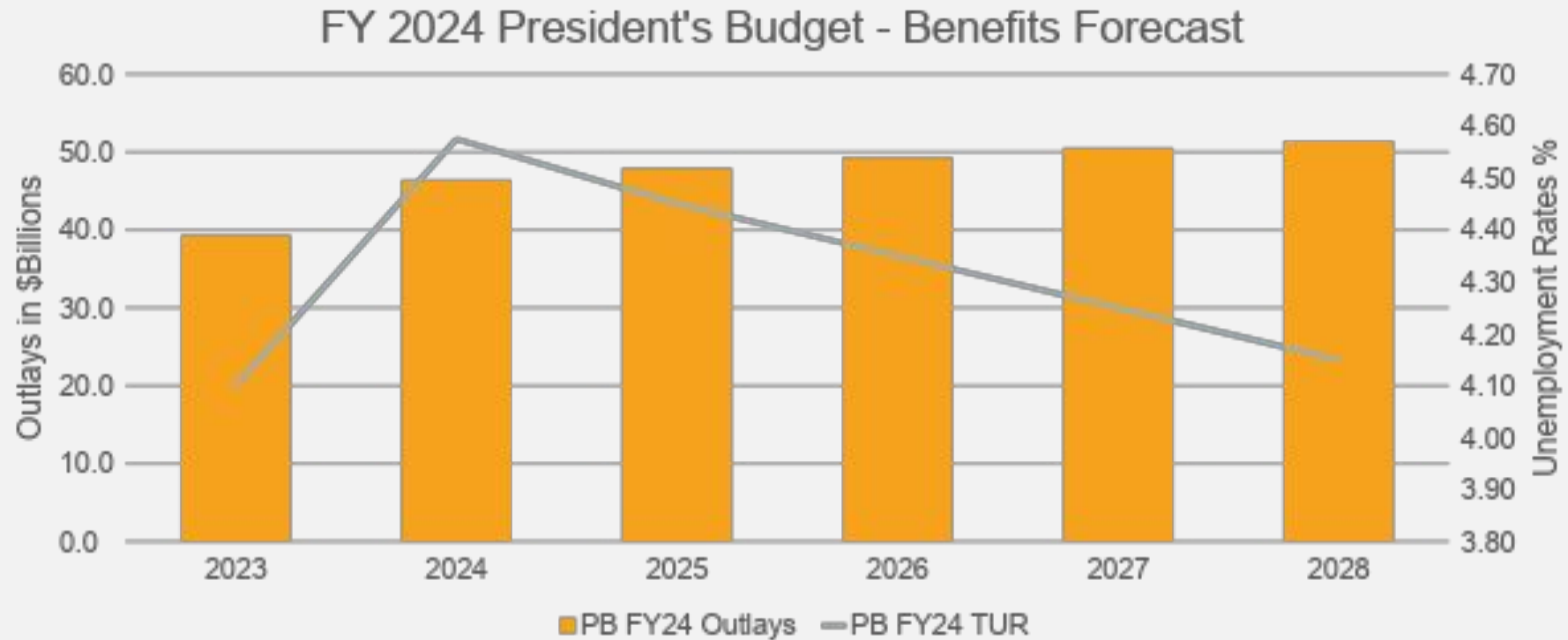


\* Actual and projected balances reflect state Title XII borrowing only. No state issued bonds are included in the actual balances or assumed during the projection period.

# AGGREGATE STATE TRUST FUND STATUS



# PROGRAM OUTLAY PROJECTIONS



## BORROWING FROM FUA / TITLE XII

- Title XII Loans available to all states when state trust fund runs out of funds.
  - Repayable loan – Title XII Advance from the Federal Unemployment Account (FUA).
  - Governor or a designee may request loan from DOL when needed.
- Interest is accrued based on the average daily balance
  - Interest may not be paid from the state's UI Trust Fund.
- During extended periods of borrowing, employers in a borrowing state may lose some of their FUTA tax credit (5.4% credit on the 6.0% FUTA tax) until the loans are repaid.

## NOTABLE FEATURES OF TITLE XII LOANS

- Simplicity of borrowing and repayments
- Voluntary repayments may be requested at any time
- Interest only accrues on the amounts actually drawn
- “Sweep” feature
  - Minimizes the average daily balance to reduce interest accrual
- Availability of interest relief provisions
- Typical repayment sources:
  - Automatic FUTA credit reductions
  - SUTA tax collections & special assessments on employers in addition to SUTA
  - Other (Municipal Bonds, general revenues, other external sources)
  - \*Interest CANNOT be repaid from UTF funds

# FUTA CREDIT REDUCTION

- Forces repayment of Title XII loans by reducing the 5.4% credit against the 6% FUTA rate.
- Goes into effect once a state passes two consecutive January firsts with an outstanding Title XII balance and does not repay the balance by November 10<sup>th</sup> of the second year.
  - Additional tax is due by the following January 31<sup>st</sup>.
- For each additional consecutive January 1<sup>st</sup> on which the state has an outstanding balance which remains unpaid by the following November 10, the FUTA tax credit is reduced according to a schedule.
- Funds collected via the FUTA credit reduction are credited against the state's outstanding loan balance.
- Credit reduction relief options available



## FUTA CREDIT REDUCTION SCHEDULE

<u>Year</u>	<u>Basic Reduction</u>	<u>Additional Reduction</u>	<u>FUTA Rate</u>	<u>\$ Amount/Employee of <i>Basic Reduction*</i></u>
1	0.0%	0.0%	0.6%	\$0
2	0.3%	0.0%	0.9%	\$21
3	0.6%	2.7 Add-On	1.2% +	\$42
4	0.9%	2.7 Add-On	1.5% +	\$63
5	1.2%	BCR Add-On	1.8% +	\$84
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19	5.4%	BCR Add-On	6.0%	\$378

\* Based on the \$7,000 FUTA taxable wage base. Additional reductions beginning in year 3 and/or relief provisions would impact actual amount per employee.

## FURTHER CONSIDERATIONS

- FUTA Credit Reductions apply equally to all employers:
  - No experience rating of credit reductions.
  - Significant year-over-year increases in tax rates based on credit reduction schedule w/ little to no state policymaker discretion.
- FUTA Credit Reductions may lead to a more rapid repayment than a state would otherwise realize.

# MUNICIPAL BONDS

- States may issue bonds to:
  - Retire Title XII loans
  - Restore UTF reserves
  - Pay future benefits
  - A combination of all three
- Must have statutory authority for issuing bonds
- Political concerns regarding issuance of public debt.

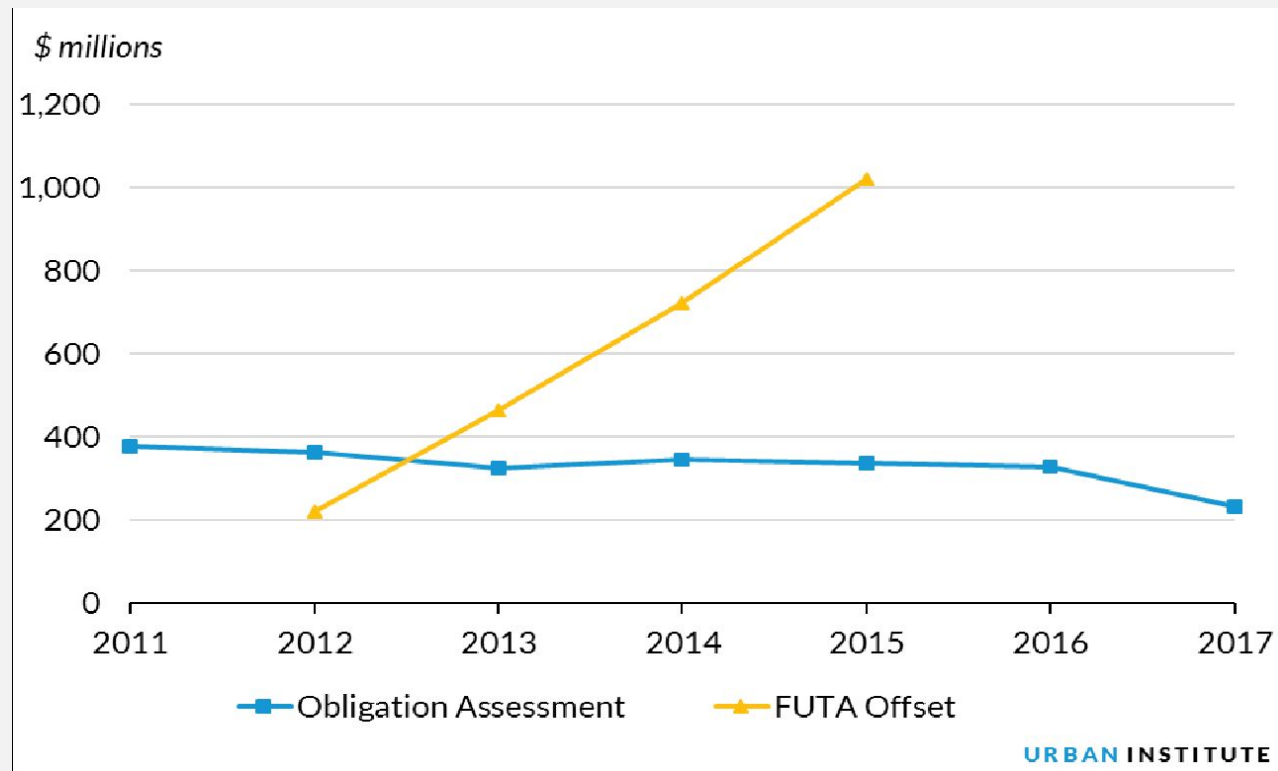
## BOND ADVANTAGES

- May reduce employers' costs – historical interest rate spreads favorable
- Can provide additional interest rate and debt stability
  - States can issue fixed rate bonds
  - State knows the total amount of debt incurred
- States can utilize call options to allow earlier repayment
- State has more control:
  - Repayment timeframe
  - Employer tax rates utilized to repay the debt (experience rating)
- States may benefit significantly from premiums that may be higher than face/par value

## BOND DISADVANTAGES

- Additional state set-up costs relative to Title XII loans
- More complicated debt instruments than Title XII loans
- Credit Risk
- Risk of Arbitrage (tax exempt bonds only)
- Requires coordination with numerous internal and external parties:

## COMPARISON OF TEXAS' REVENUE STREAMS – BOND REPAYMENTS VS. *ESTIMATED* TITLE XII FUTA CREDIT REDUCTIONS

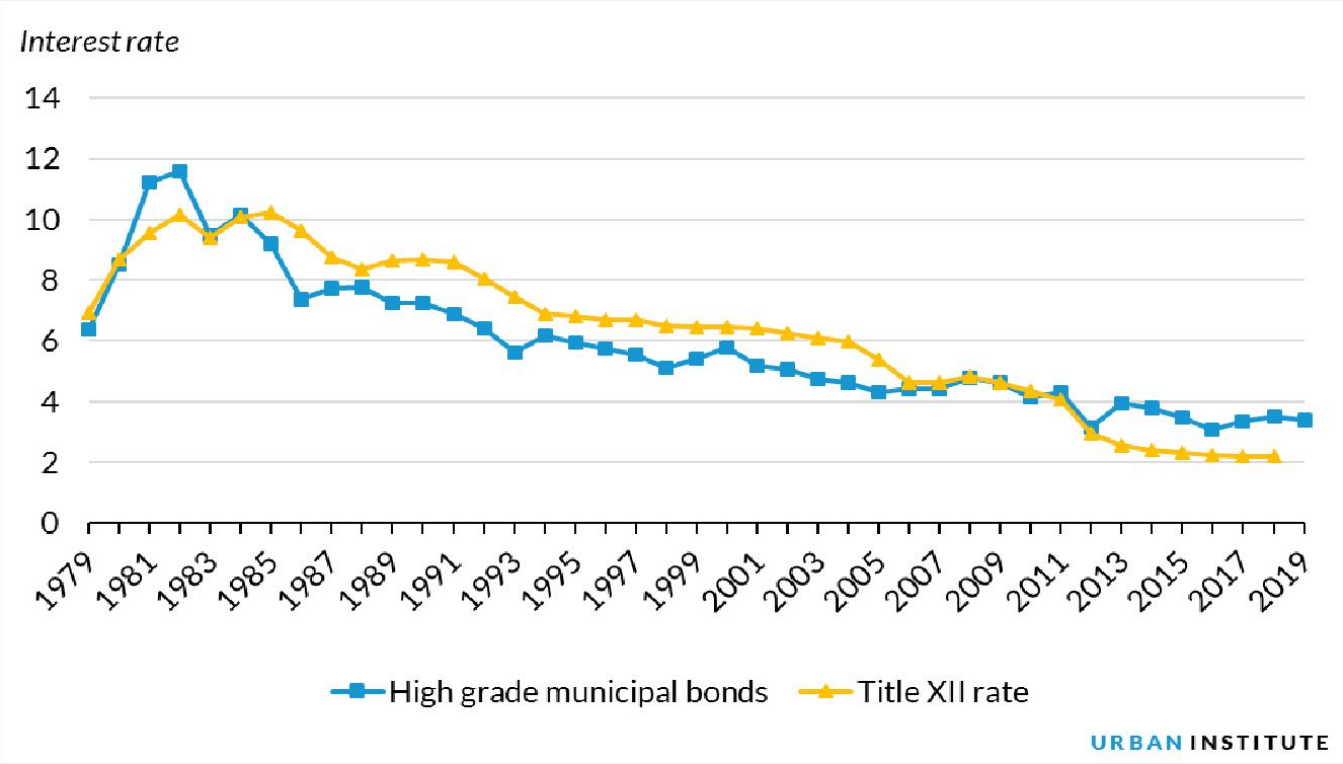


Source: Vroman, Wayne, Tracy Gordon, Lauren Eyster, Erin Huffer, and Carolyn O'Brien. (2020). Alternative Strategies for Financing State Unemployment Trust Fund Deficits: State Experiences in the Aftermath of the 2007 Recession. (Research Report). Prepared for the US Department of Labor, Chief Evaluation Office. Washington, DC: Urban Institute.

## SUMMARY OF KEY COMPARISONS

- Different requirements for:
  - Administrative costs
  - Levels, types, and source of expertise
- Interest rates primarily higher for Title XII loans prior to 2011 though lower in more recent years.
- Title XII loans are more straightforward but provide less control for state.
- States know the total amount of debt incurred up front with bonds *but* must borrow more than will be needed.
- States can use sweeping feature of Title XII loans to minimize total amount borrowed.
- Title XII loans only accrue interest on the average daily balance which with sweeping can be limited to only what is needed to pay benefits.
- States may benefit from higher premium relative to face or “par” value of bond issuance.

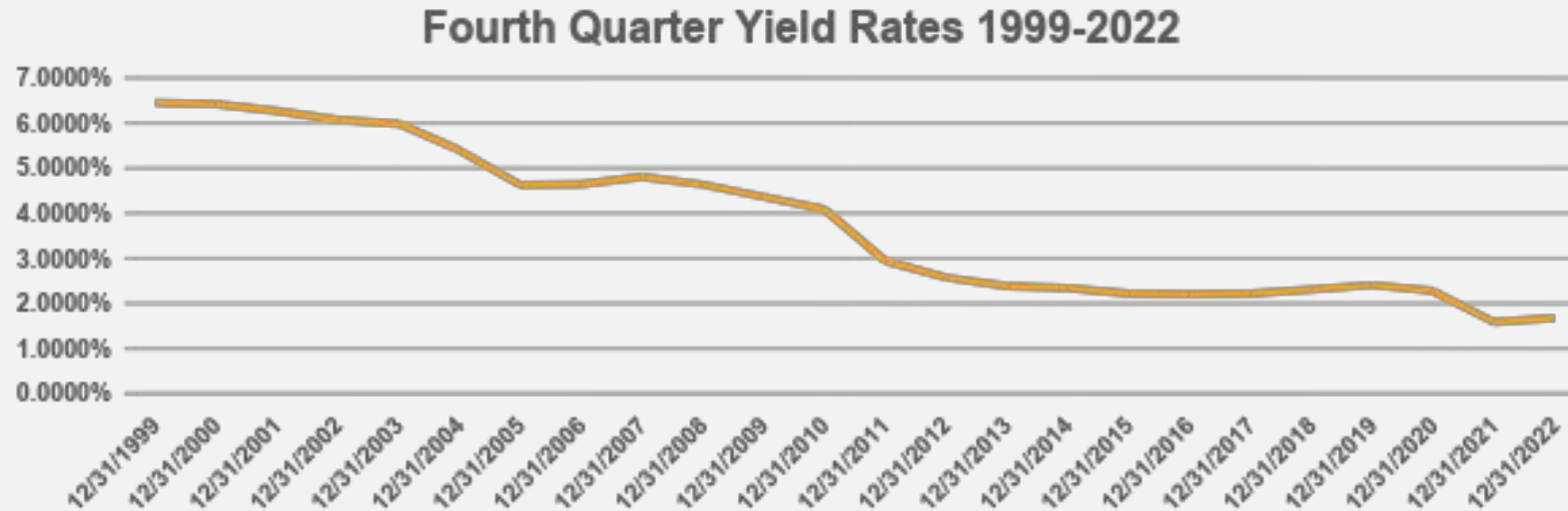
# HISTORICAL COMPARISON OF RATES – TITLE XII & HIGH GRADE MUNICIPAL BONDS



Source: Vroman, Wayne, Tracy Gordon, Lauren Eyster, Erin Huffer, and Carolyn O’Brien. (2020). Alternative Strategies for Financing State Unemployment Trust Fund Deficits: State Experiences in the Aftermath of the 2007 Recession. (Research Report). Prepared for the US Department of Labor, Chief Evaluation Office. Washington, DC: Urban Institute.



# TITLE XII ADVANCE INTEREST RATES



CY 2022 Title XII Advance Interest Rate: 1.5909%

CY 2023 Title XII Advance Interest Rate: 1.6776%

*Q1 2023 UTF Interest Earnings Rate: 1.7965%*

# ADDITIONAL RESOURCES

- DOL Guidance on Repayment of Non-Federal Loans to Pay UI
  - UIPL 07-04: [https://wdr.doleta.gov/directives/corr\\_doc.cfm?DOCN=1537](https://wdr.doleta.gov/directives/corr_doc.cfm?DOCN=1537)
  - UIPL 07-04 Change I: [https://wdr.doleta.gov/directives/corr\\_doc.cfm?DOCN=2901](https://wdr.doleta.gov/directives/corr_doc.cfm?DOCN=2901)
- DOL Sponsored Research on Alternative Financing of Unemployment Trust Fund Deficits
  - <https://www.dol.gov/agencies/oasp/evaluation/completedstudies/Unemployment-Insurance-Deficit-Financing-Study>
- Historical & Potential FUTA Credit Reduction Status:
  - [https://oui.doleta.gov/unemploy/futa\\_credit.asp](https://oui.doleta.gov/unemploy/futa_credit.asp)
- Daily Title XII Advance Balances & Accrued Interest
  - <https://fiscaldata.treasury.gov/datasets/ssa-title-xii-advance-activities/advances-to-state-unemployment-funds-social-security-act-title-xii>
- Historical UTF Yield Rates:
  - [https://www.treasurydirect.gov/govt/rates/rates\\_tfr.htm](https://www.treasurydirect.gov/govt/rates/rates_tfr.htm)

## ADDITIONAL RESOURCES

- State UI Trust Fund Solvency Report
  - <https://oui.doleta.gov/unemploy/solvency.asp>
- State UI Tax Measures Report
  - [https://oui.doleta.gov/unemploy/sig\\_measure.asp](https://oui.doleta.gov/unemploy/sig_measure.asp)
- UI Program Outlook – Program projections from latest Administration’s Budget
  - [https://oui.doleta.gov/unemploy/content/prez\\_budget.asp](https://oui.doleta.gov/unemploy/content/prez_budget.asp)
- Significant Provisions of State UI Laws
  - <https://oui.doleta.gov/unemploy/statelaws.asp#RecentSigProLaws>
- Comparison of State UI Laws
  - <https://oui.doleta.gov/unemploy/comparison/2020-2029/comparison2021.asp>

# CONTACT

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