

UWC National UI Issues Conference

FUTA & SUTA Status & Projections June 28, 2018

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Overview

- **Key Factors and Tools**
- **Solvency Status**
- **Cycles, Benefits, and Taxes**
- **Looking Ahead**
- **Relevant Information Sources**

Solvency Target

AVERAGE HIGH COST MULTIPLE

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

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

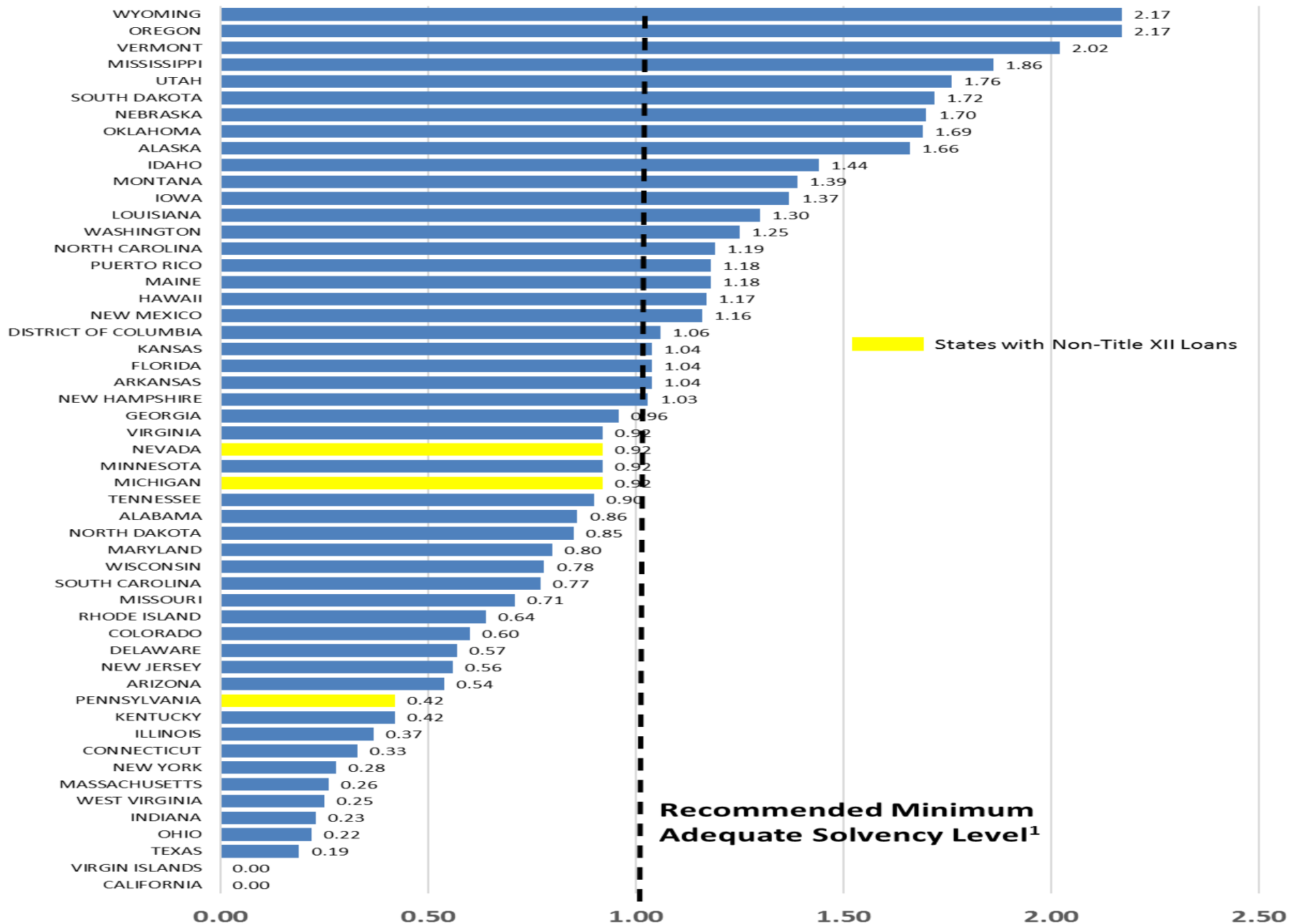
The AHCM represents the number of years a State can pay out benefits if it paid at the rate it paid for the average of the three highest years over the previous 20 (or over the last 3 recessions, whichever is longer) without receiving any additional revenue.

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% |

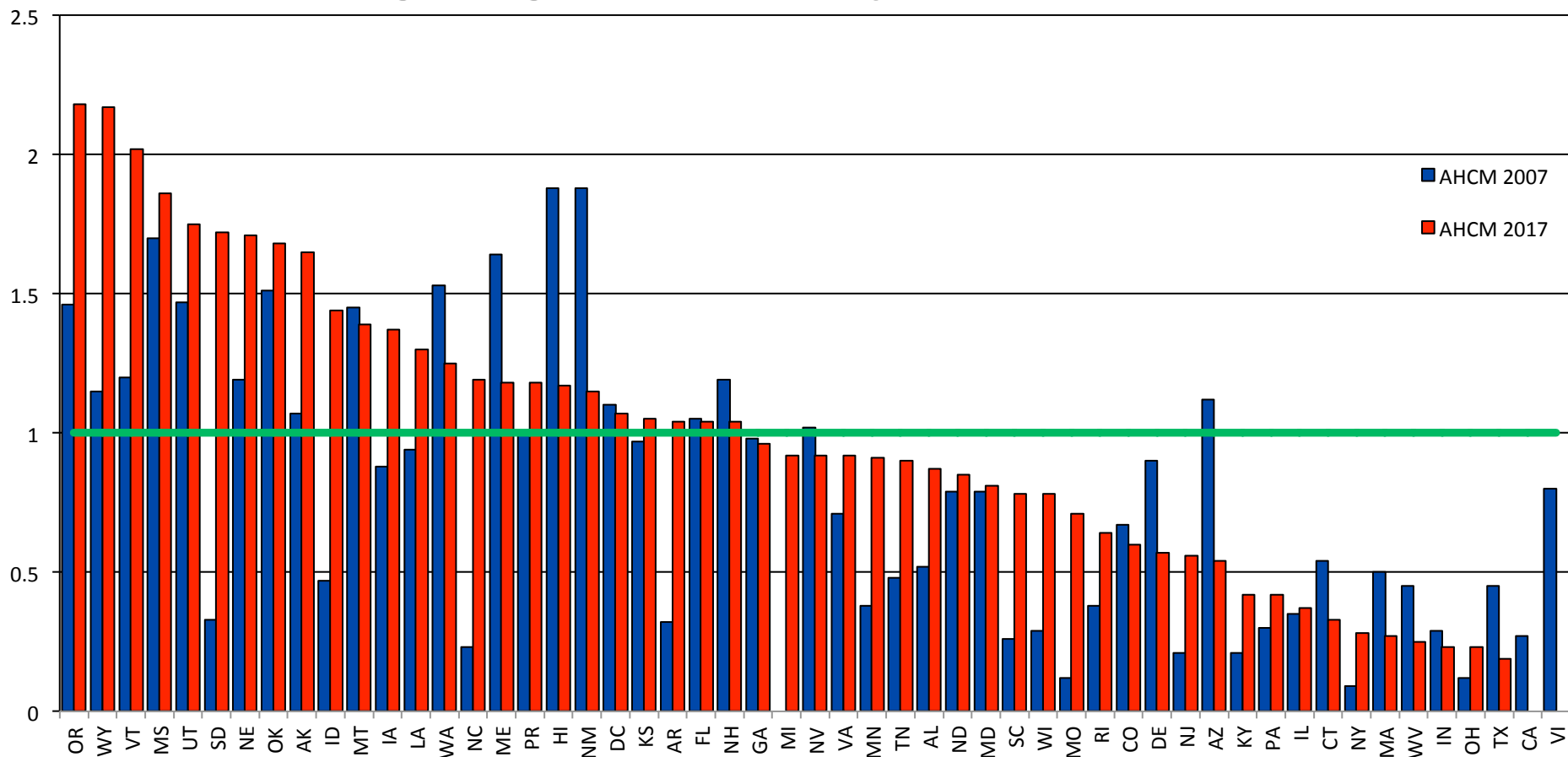
Note: Pre-recession average high cost multiples are calculated for December 1973,
December 1979, December 1989, December 2000, and December 2007

State Trust Fund Solvency Average High Cost Multiple as of 1/1/2018



1. Advisory Council on Unemployment Insurance (1996) recommendation 95-2.

Average High Cost Multiple, 2007 & 2017*



Source: DOL/OUI

* 2017 AHCM is

Does Anyone Know What's Coming?

Signals To Look For

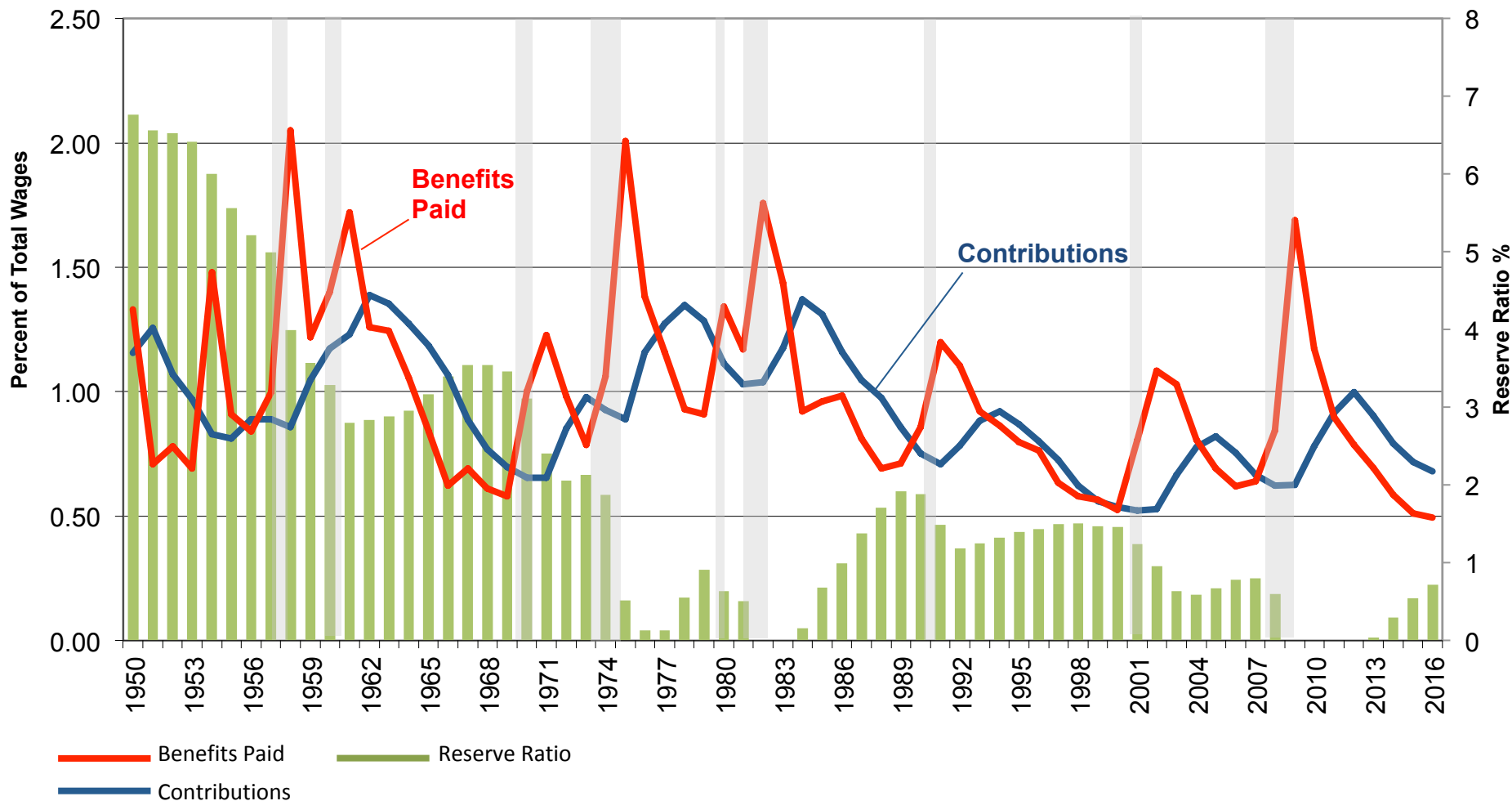
Tax Rate Responses to Economic Contractions

Trust Fund Reserve Ratio

$$\text{Reserve Ratio} = \frac{\text{Net State Deposits}}{\text{CY Total Wages}}$$

As of December 31st

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

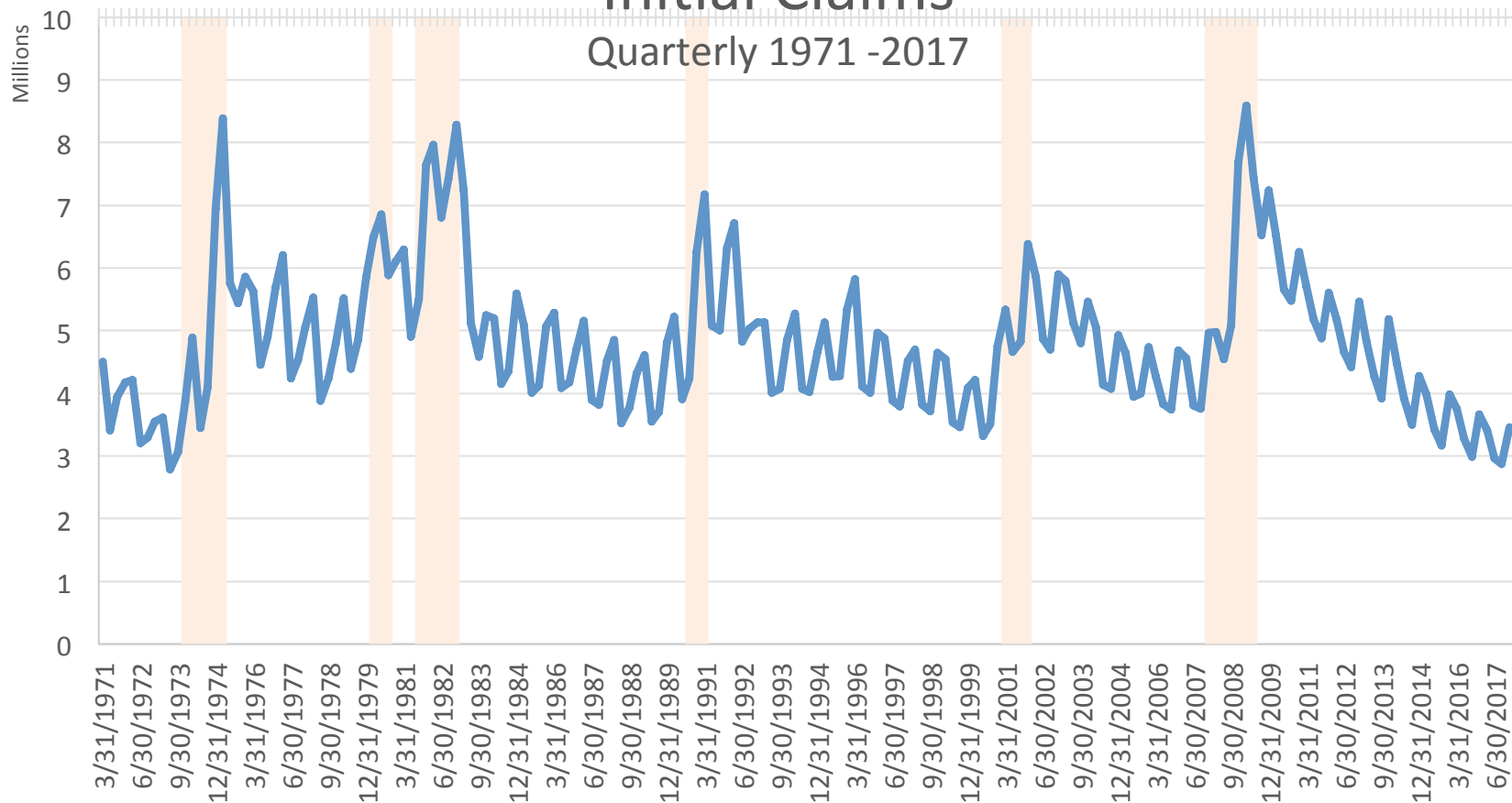


Factors Impacting Tax Rates

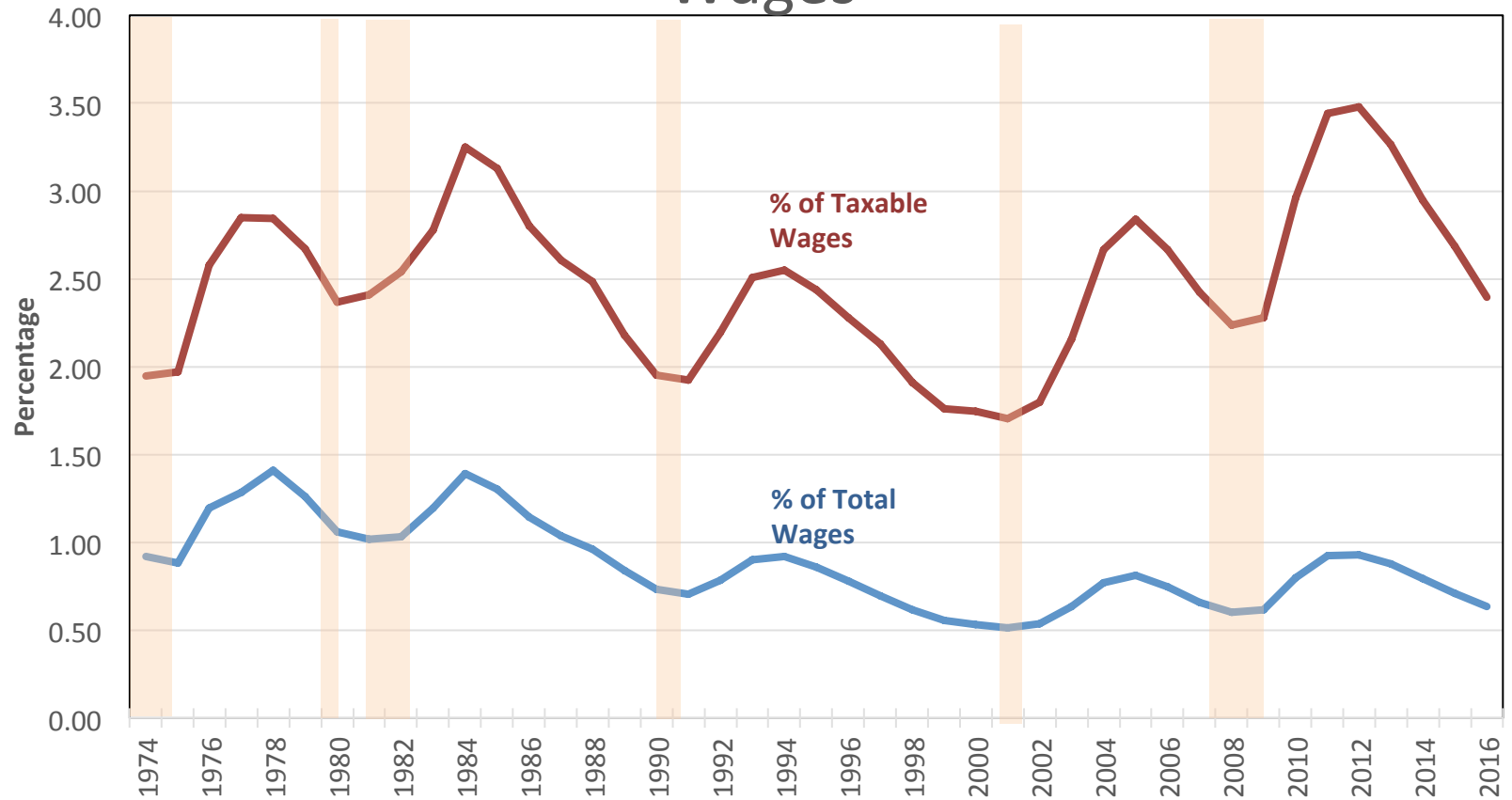
- Solvency status at the beginning of recession.
- Point at which downturn strikes – how long before or after computation date is cash drain significant enough for a rate increase?
- Depth of recession.
- Sensitivity of tax schedule triggers.
- Extended Benefits.
- Sensitivity of industrial mix to factors driving economy

Initial Claims

Quarterly 1971 -2017

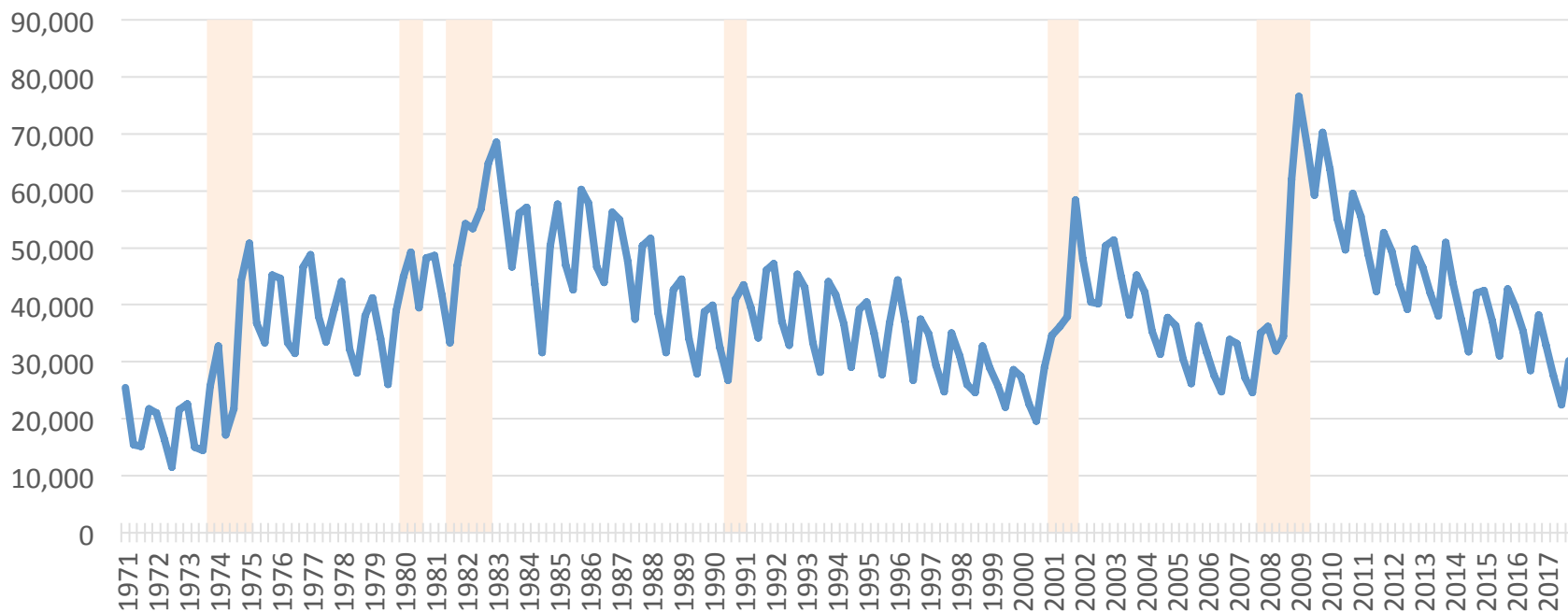


Average Tax Rates Total Wages & Taxable Wages

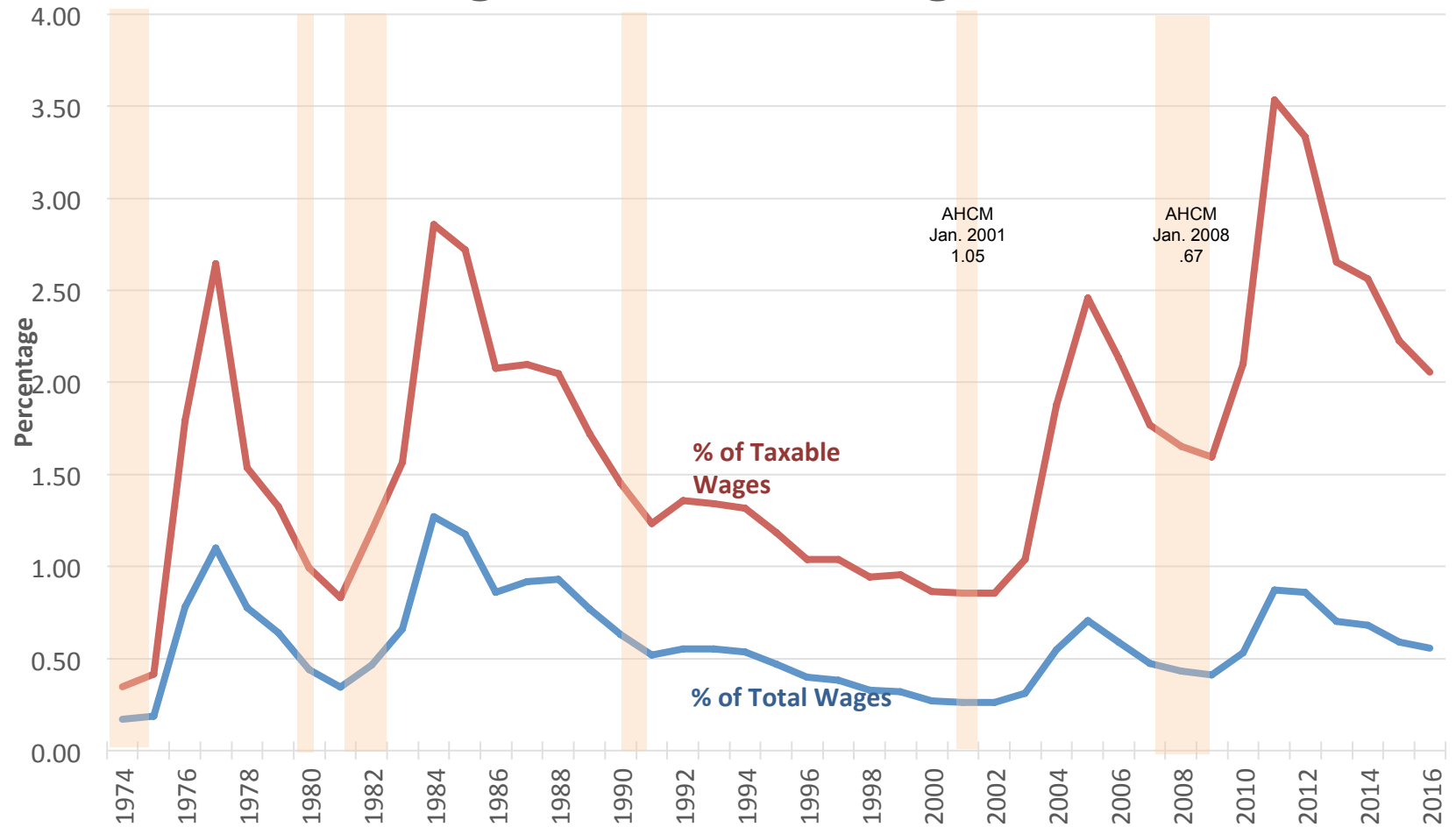


Colorado Initial Claims

Quarterly 1971 - 2017

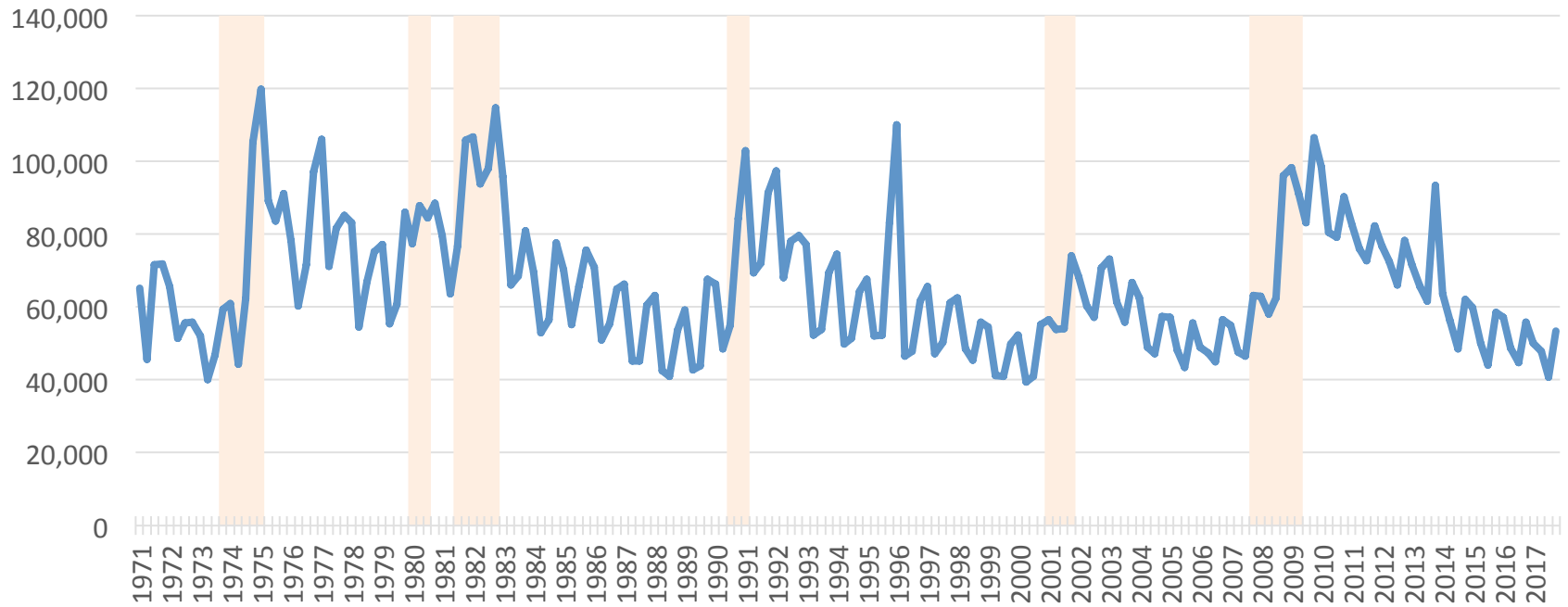


Colorado Average Tax Rates on Total Wages & Taxable Wages

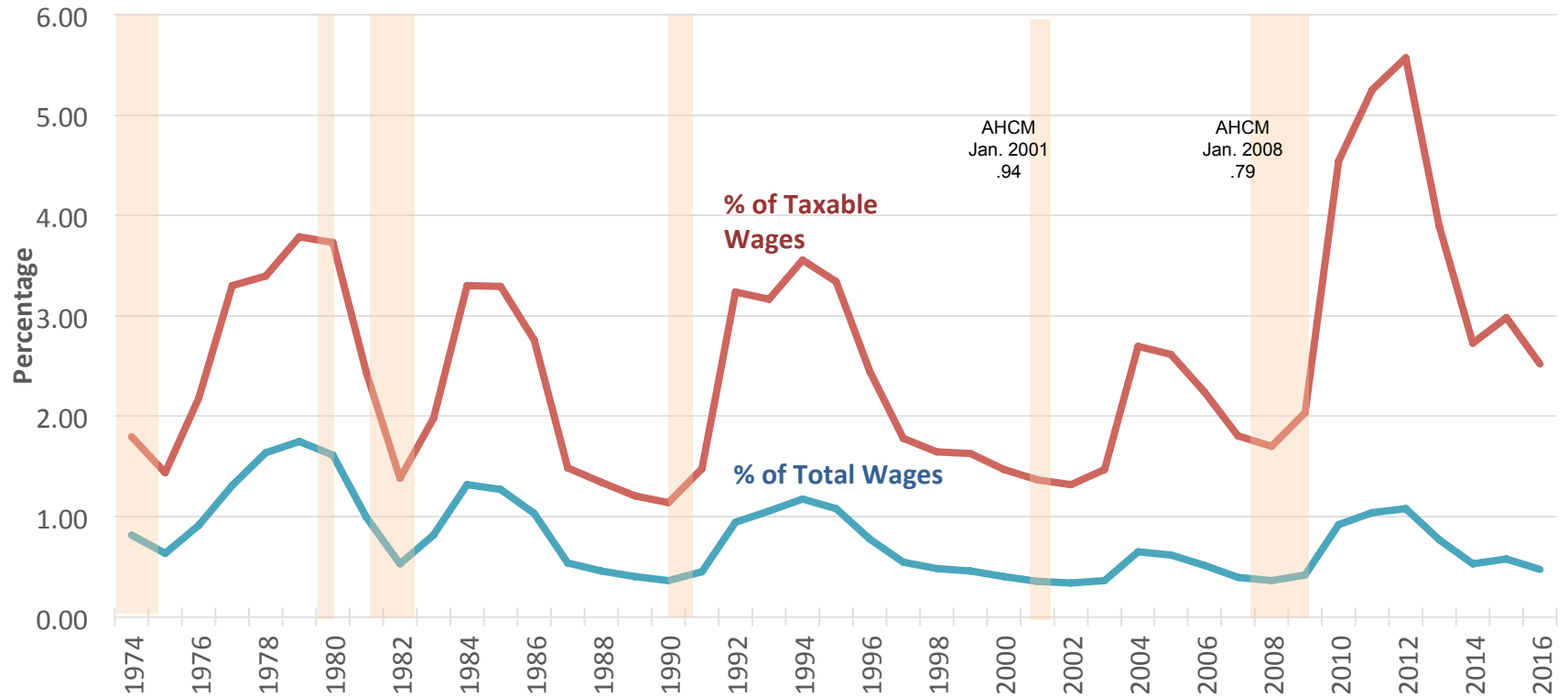


Maryland Initial Claims

Quarterly 1971 - 2017

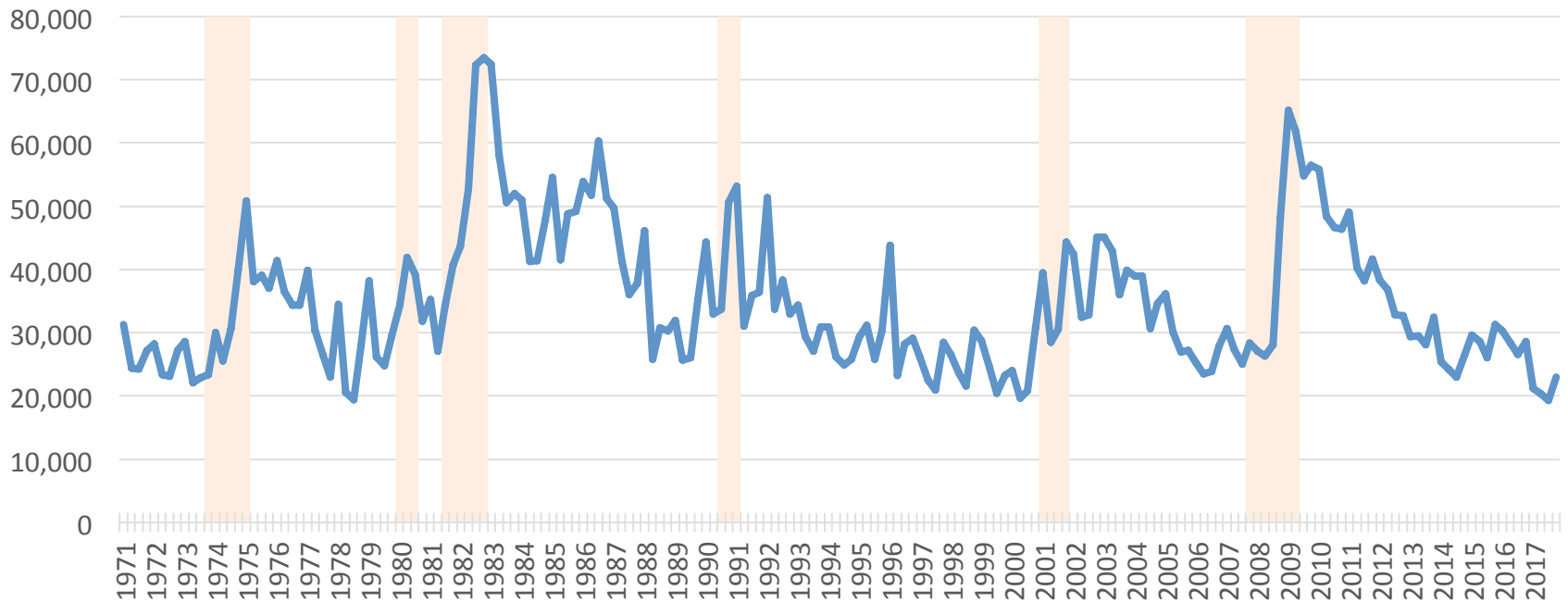


Maryland Average Tax Rates on Total Wages & Taxable Wages

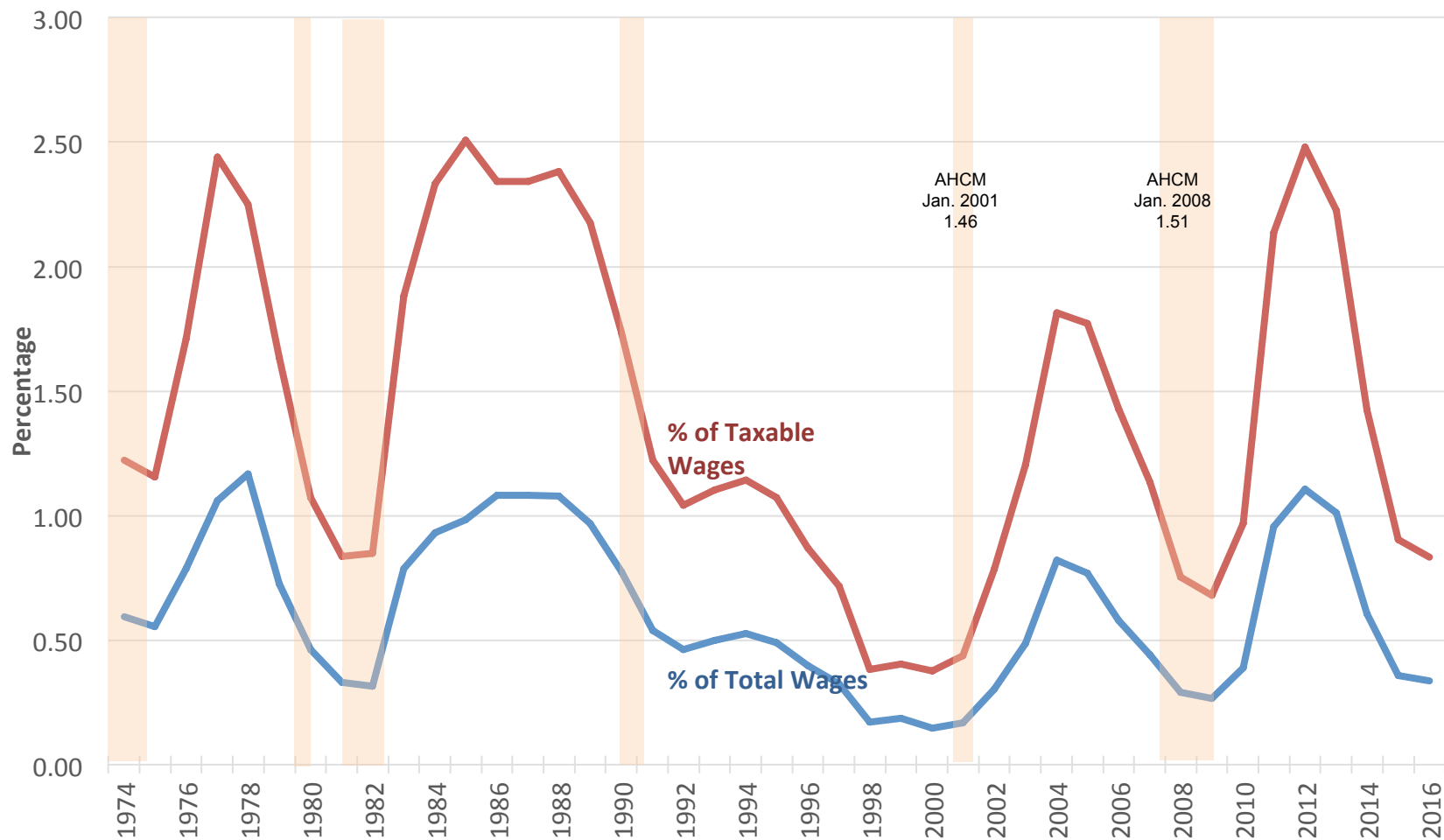


Oklahoma Initial Claims

Quarterly 1971 - 2017

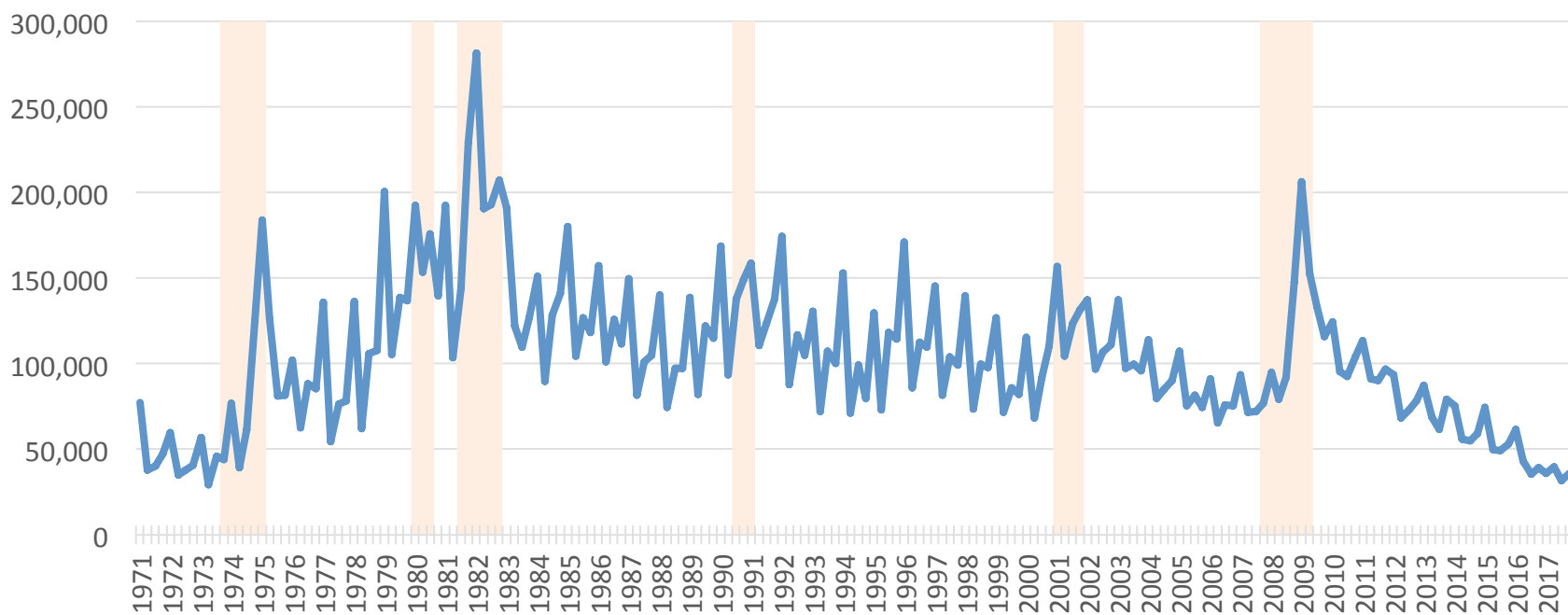


Oklahoma Average Tax Rates on Total Wages & Taxable Wages

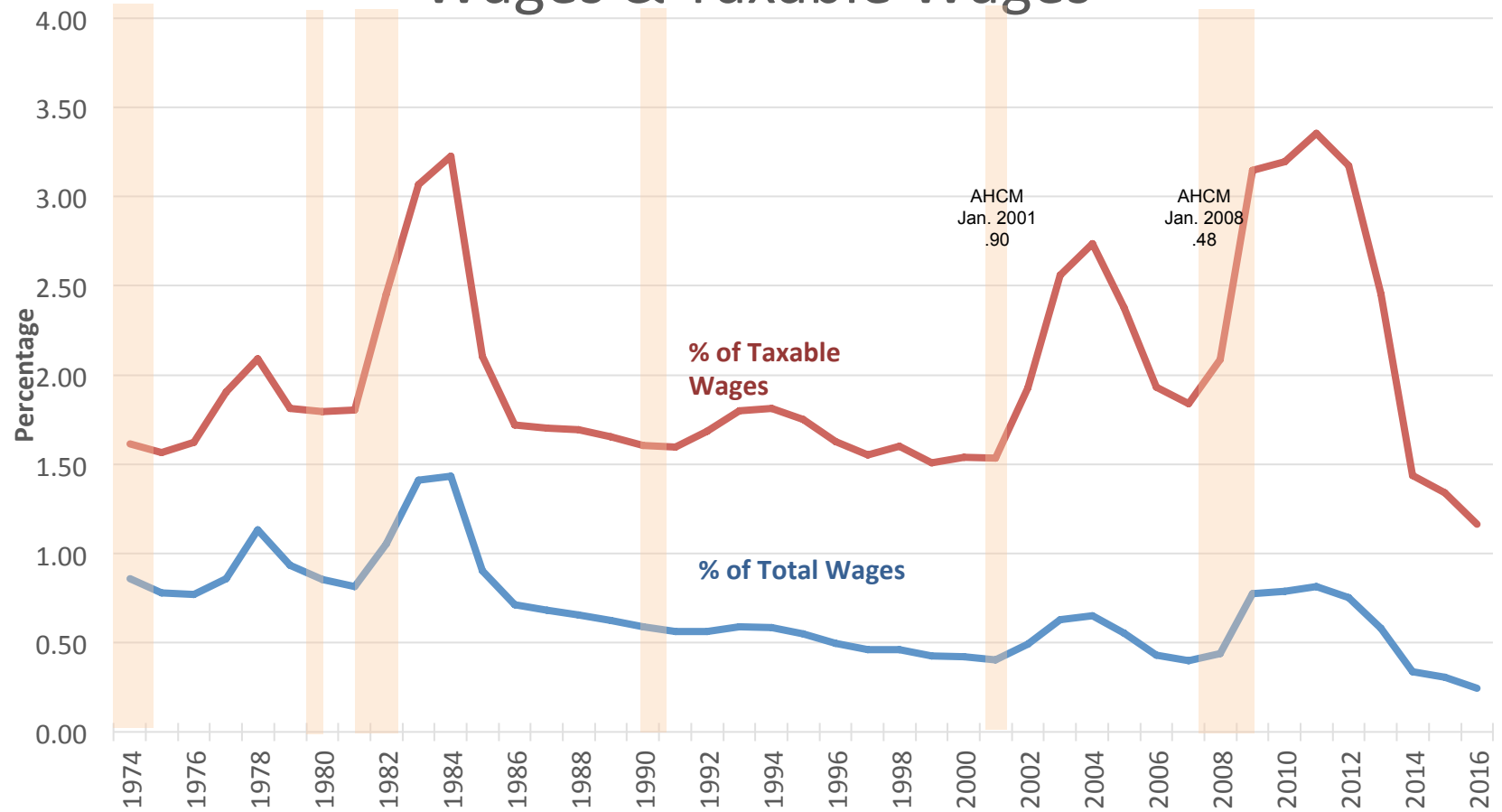


Tennessee Initial Claims

Quarterly 1971 - 2017

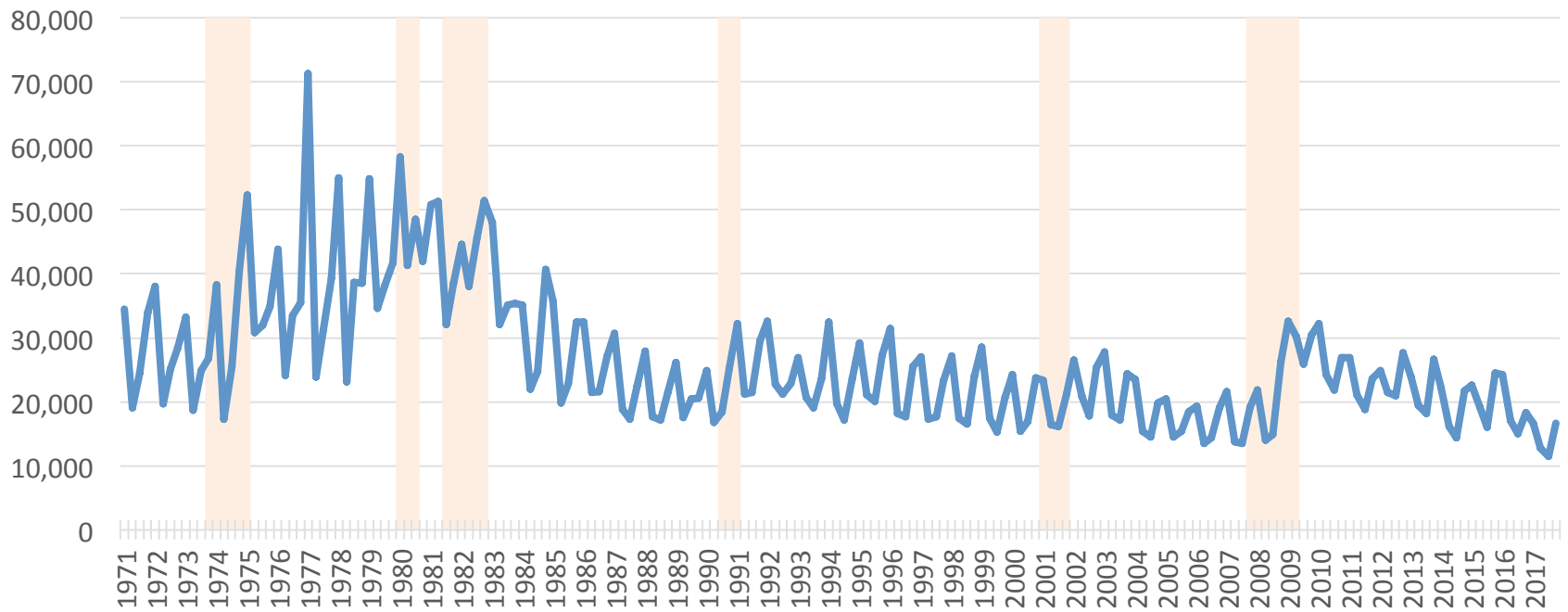


Tennessee Average Tax Rates on Total Wages & Taxable Wages

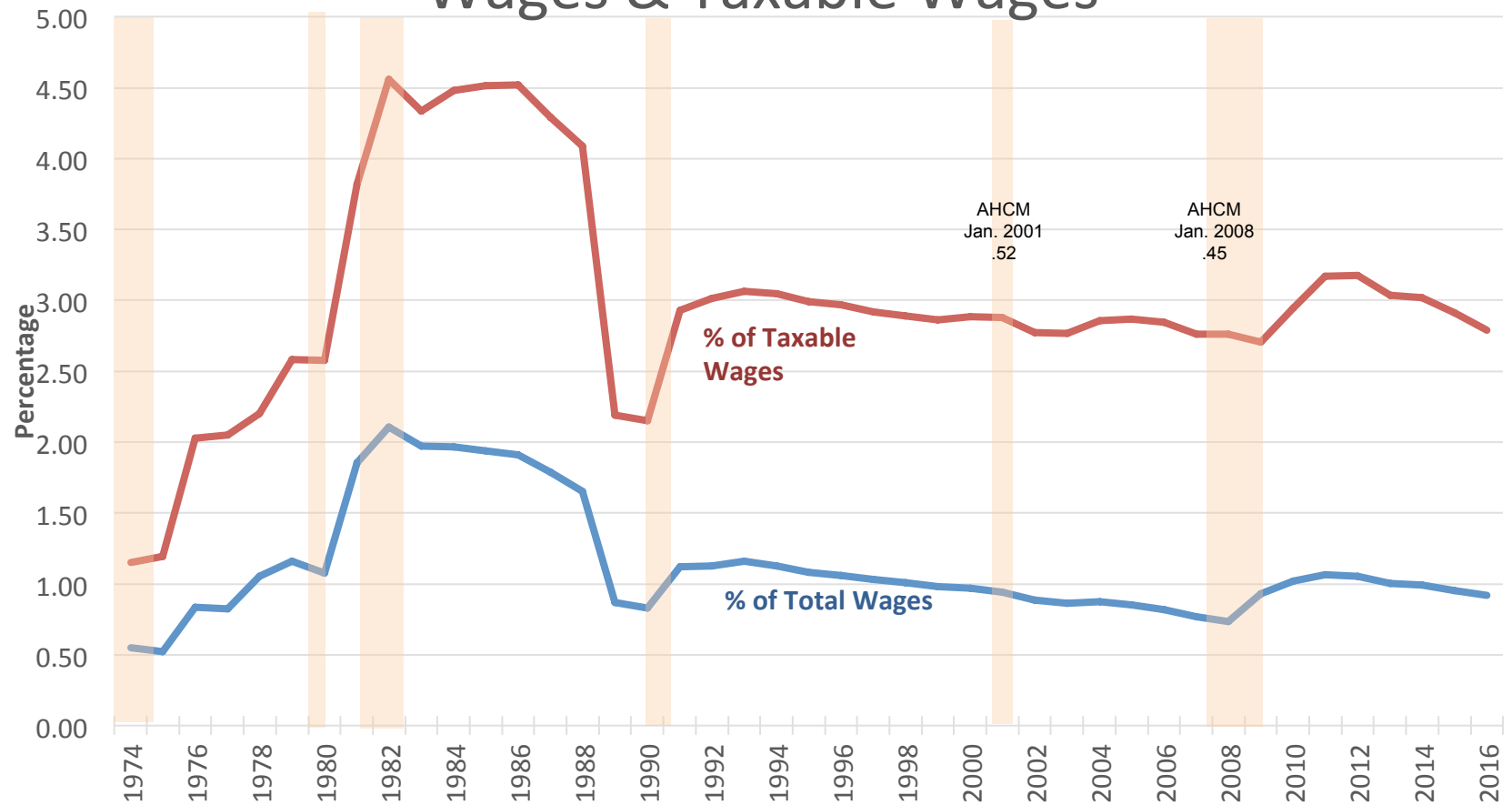


West Virginia Initial Claims

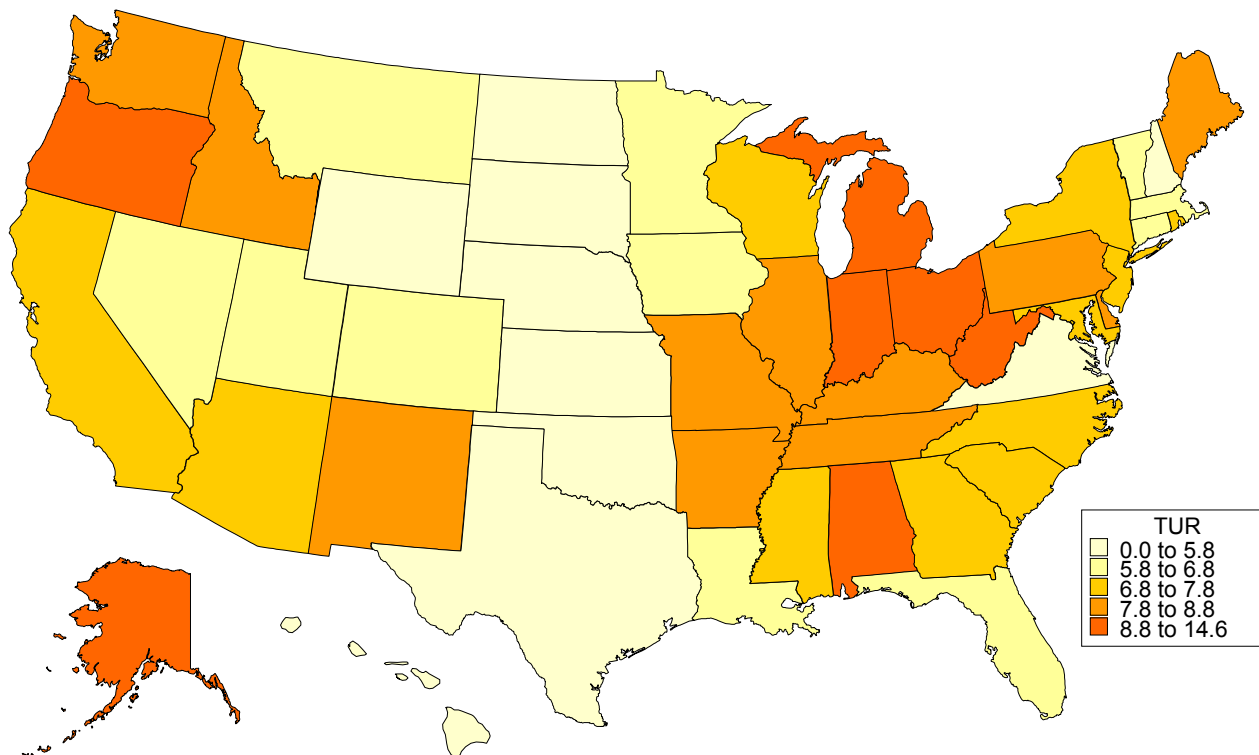
Quarterly 1971 - 2017



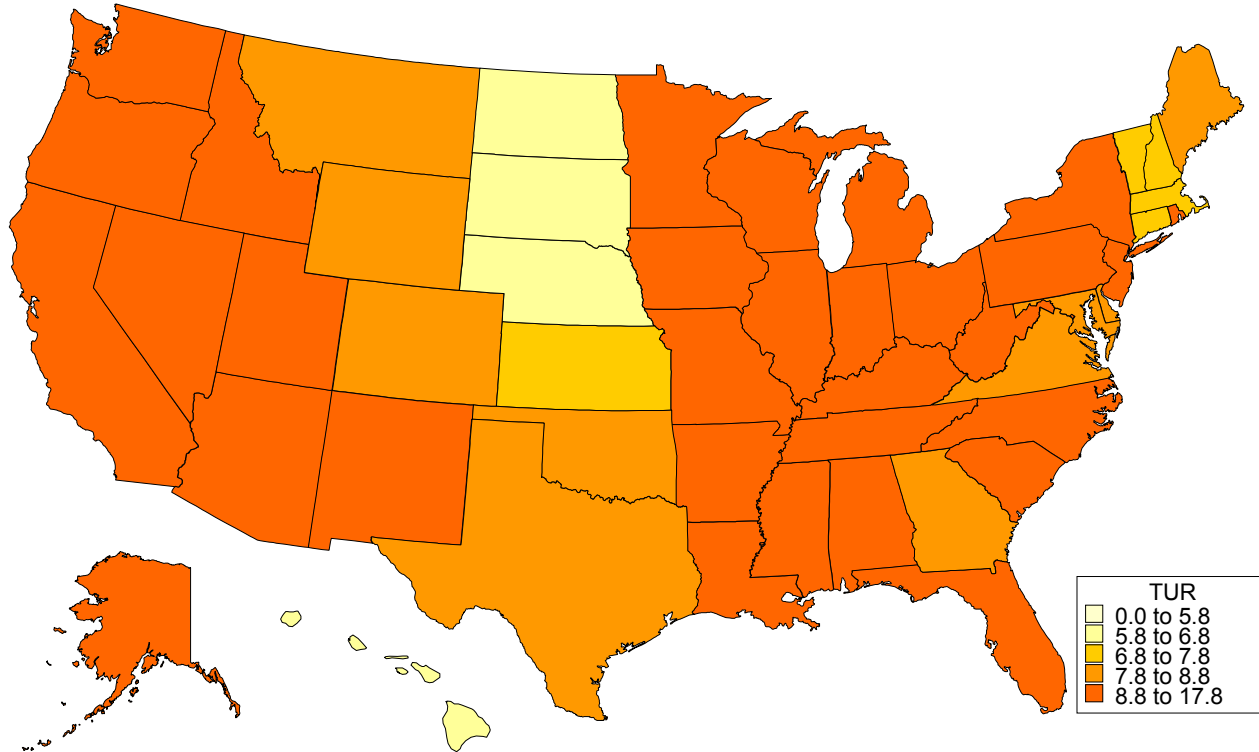
West Virginia Average Tax Rates on Total Wages & Taxable Wages



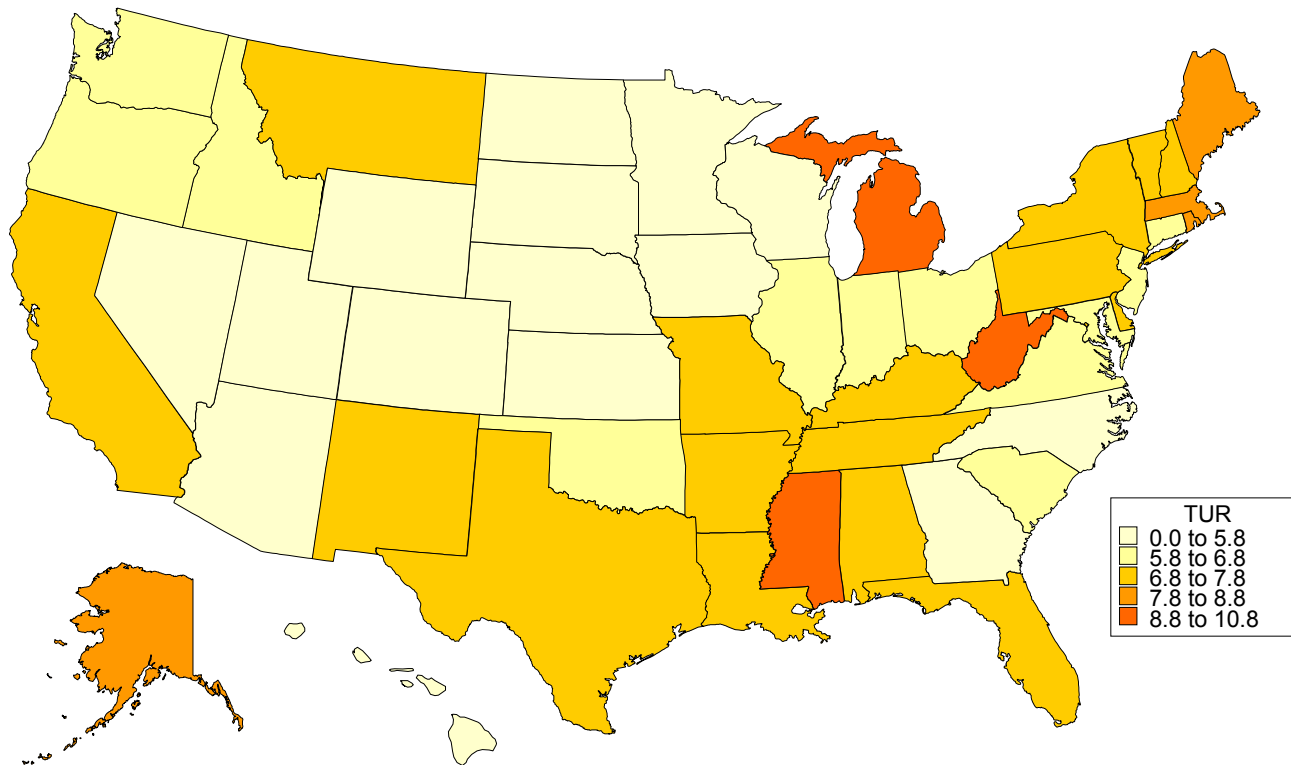
Total Unemployment Rates July 1980



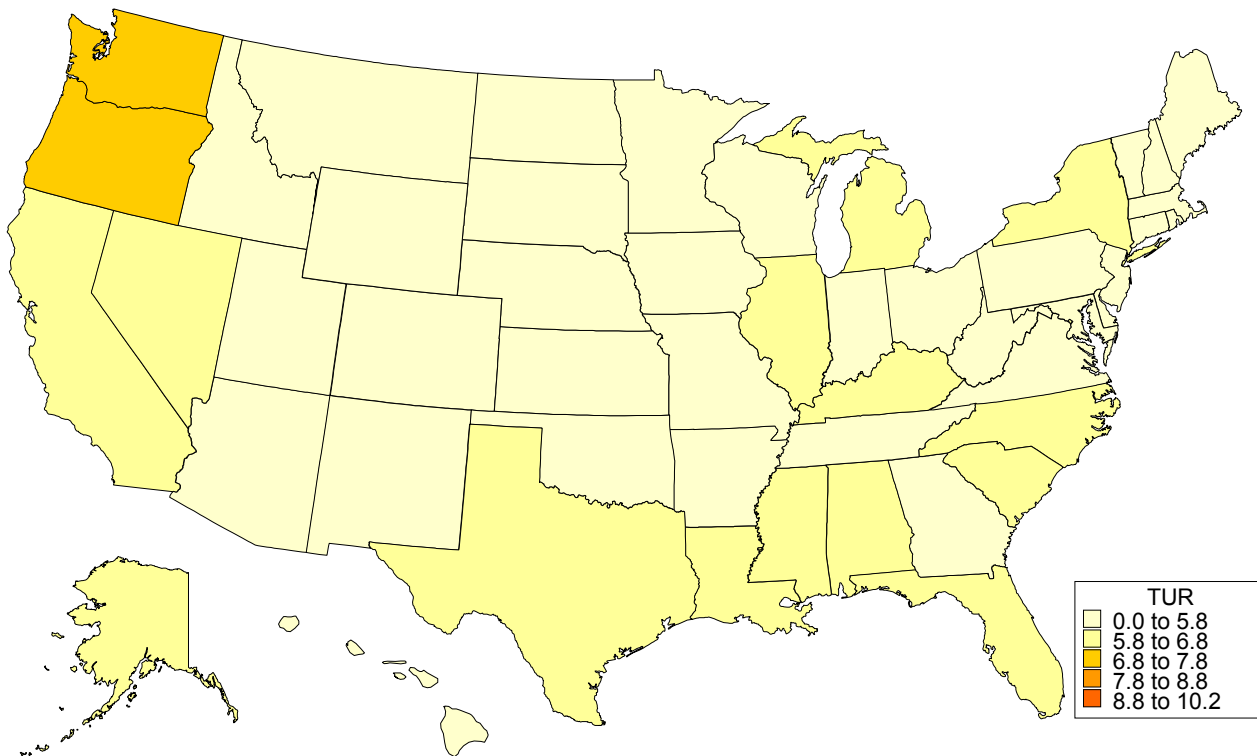
Total Unemployment Rates November 1982



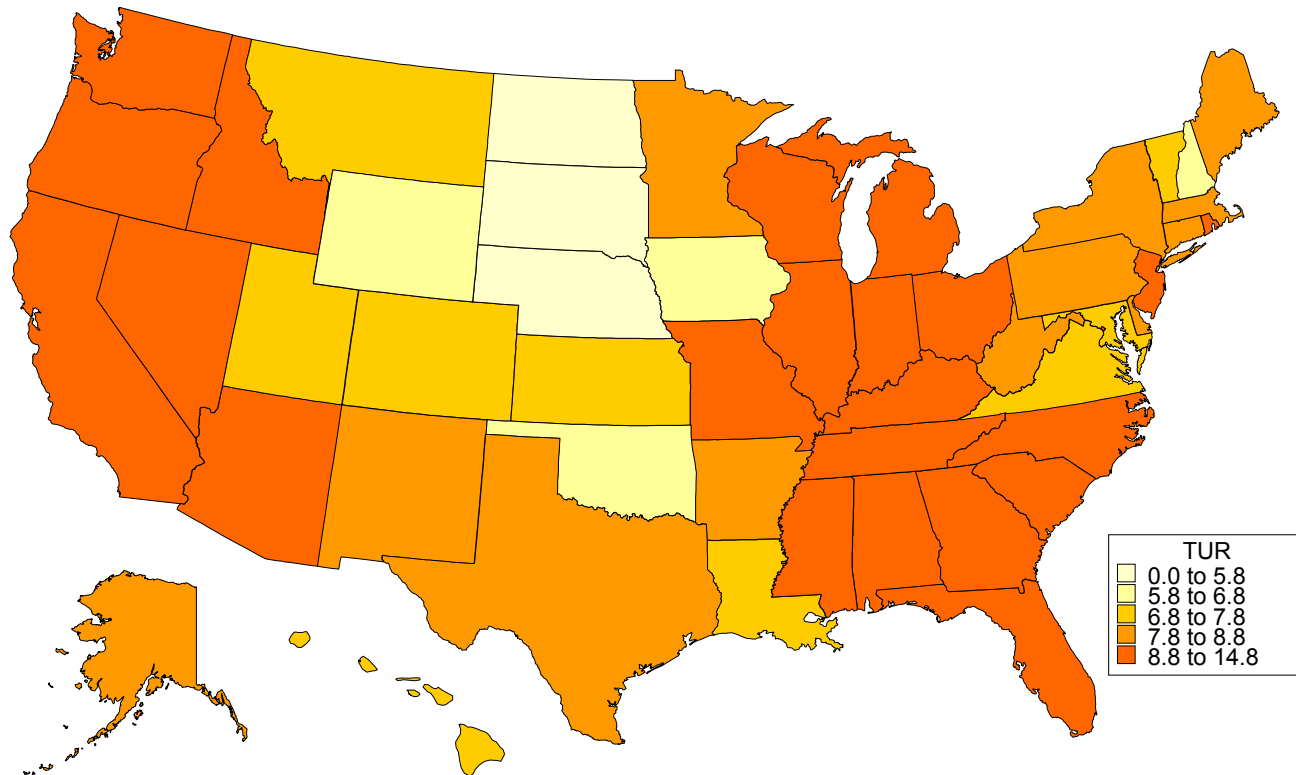
Total Unemployment Rates March 1991



Total Unemployment Rates November 2001



Total Unemployment Rates June 2009



Potential For Additional Taxes

- Interest on Title XII advances
- FUTA credit reductions
- Tax for administration

FUTA Credit Reductions

| Year | Basic Reduction | Additional Reduction | FUTA Rate |
|------|--------------------|-------------------------|--------------|
| 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 |

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

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

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

Potential 2018 Federal Unemployment Tax Act (FUTA) Credit Reductions

Updated: April 2018

These states had Title XII advance balances on January 1, 2018 and taxable employers in these states are potentially subject to a reduction in FUTA credit on their IRS Form 940 for 2018, if the outstanding advance is not repaid by November 10, 2018:

| State ⁽¹⁾ | 2018 Potential Credit Reduction Due to Outstanding Advance ⁽²⁾ | 2018 Potential "2.7 add-on" ⁽³⁾ | 2018 Potential "BCR add-on" ⁽⁴⁾ | 2018 Potential Total Credit Reduction ⁽⁵⁾ | Applied For FUTA Credit Reduction Relief ⁽⁶⁾ |
|----------------------|--|---|---|--|---|
| California | 2.1% | 0.0% | 0.0% | 2.1% | BCR Waiver |
| Virgin Islands | 2.4% | 0.0% | 1.1% | 3.5% | BCR Waiver |

(1) These states have passed at least two consecutive January 1's with an outstanding Federal advance and are therefore subject to a FUTA credit reduction.

(2) For each consecutive January 1 a state passes with an outstanding advance, following the second one, employers in the state are subject to an additional 0.3% reduction in their FUTA credit.

(3) Following their third consecutive January 1 with an outstanding advance states are subject to an additional FUTA credit reduction called the 2.7 add-on. A description of this add-on is in FUTA 3302(c)(2)(B).

(4) These states are also potentially subject to the Benefit Cost Rate (BCR) additional credit reduction formula for having passed five consecutive January 1's with an outstanding Federal advance FUTA section 3302 (c) (2).

(5) The potential FUTA credit reduction for 2017 is calculated by adding the credit reduction due to having an outstanding advance plus the reduction from the 2.7% add-on or the BCR add-on, which can be waived and replaced by the 2.7 add-on, FUTA section 3302(c)(2)(C).

(6) A state may apply for relief from a reduction in its FUTA credit under section FUTA 3302. The deadline for application of relief for all types was July 1, 2018. Final determination of the FUTA credit reduction will not be made until following the Nov. 10, 2018 repayment deadline.

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](#))

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](#))

Links

- Data Page/ Technical Assistance
 - <https://oui.doleta.gov/unemploy/DataDashboard.asp>

UI Outlook

Data Summary

Trust Fund Solvency Report

Significant Measures of State UI Tax Systems

Financing Technical Guide

**UWC ANNUAL
CONFERENCE
FUTA & SUTA Projections**

AUSTIN, TEXAS

JUNE 28, 2018

Summary of Presentation

- Basics of Projections
- Current Situation
- Projections During a Recession

Equifax has the experience and expertise to reduce unemployment costs through a variety of solutions

\$282,000,000

Voluntary contribution and
joint account recommendations

\$380,000,000

Benefit charge errors recovered

\$14,300,000,000

Employer unemployment liability removed

120

Number of hearing
representatives and consultants

5,000

Merger – Acquisition
state transactions handled
Average Per Year

6,000

Clients representing all industries
and employer sizes

10

Average years of experience

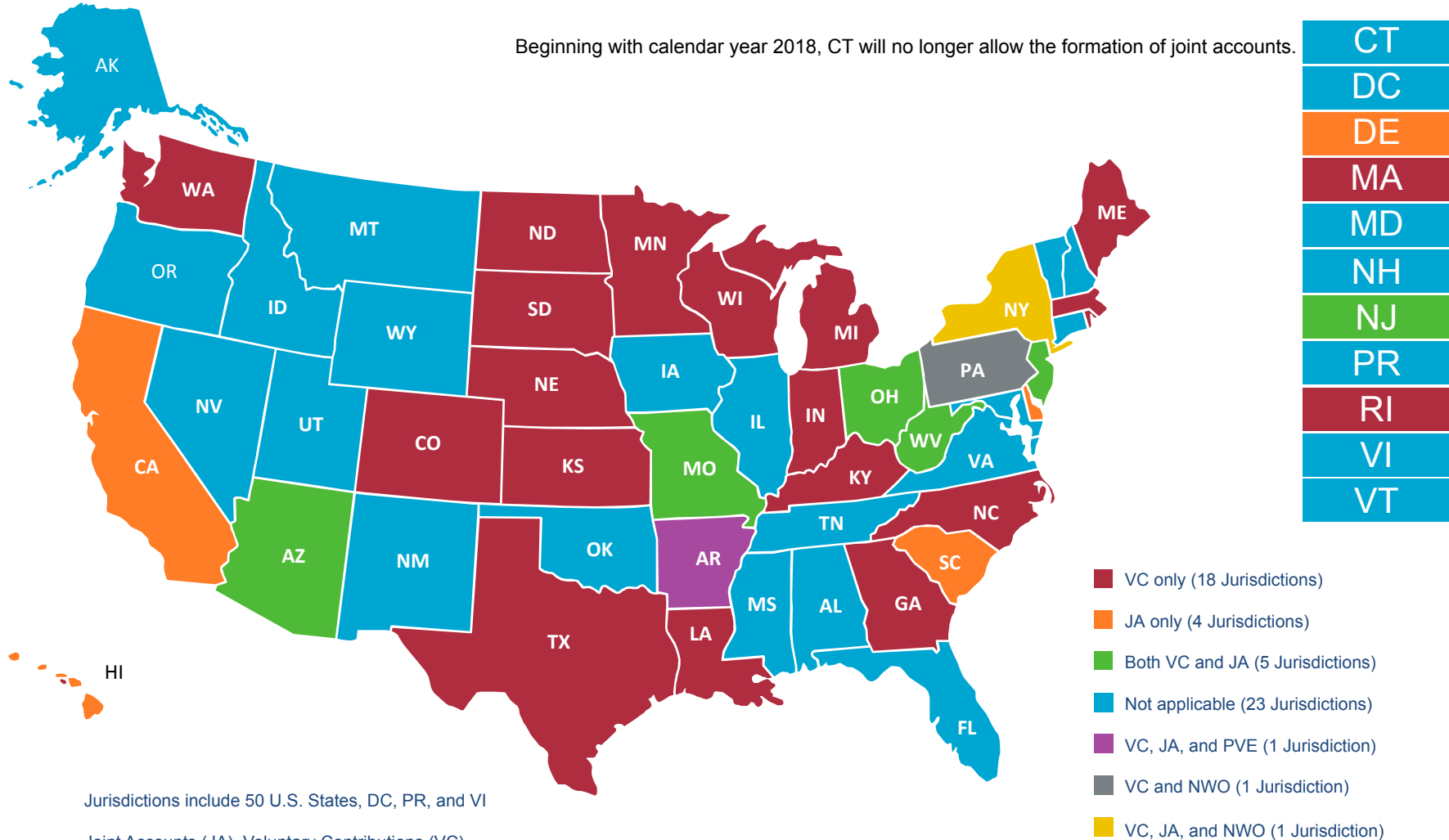
250,312

State unemployment accounts managed

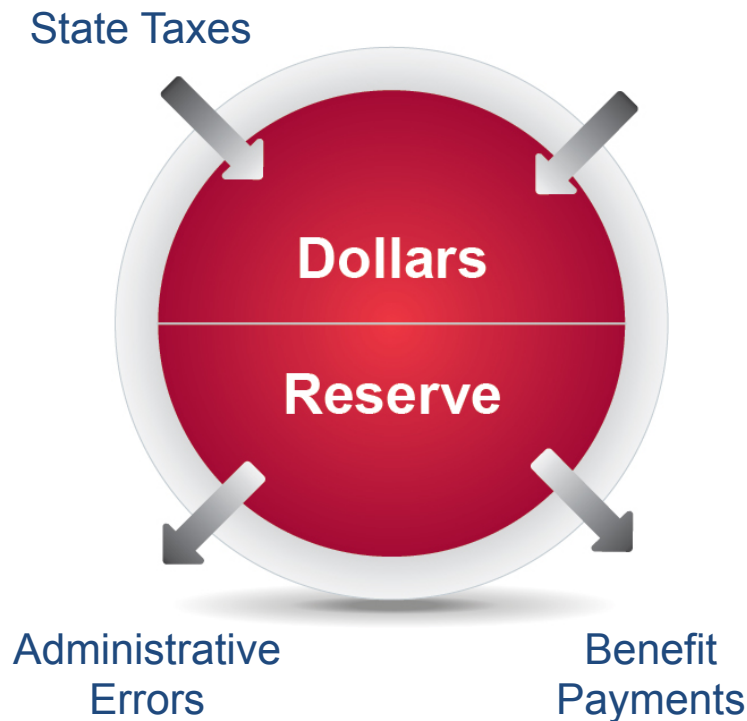
Source: Equifax Workforce Solutions

Equifax utilizes tax savings opportunities within each taxing jurisdiction to reduce your UI tax burden

Beginning with calendar year 2018, CT will no longer allow the formation of joint accounts.



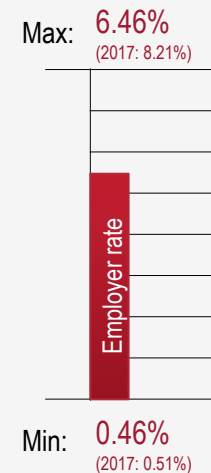
Unemployment costs are impacted by several UI related activities



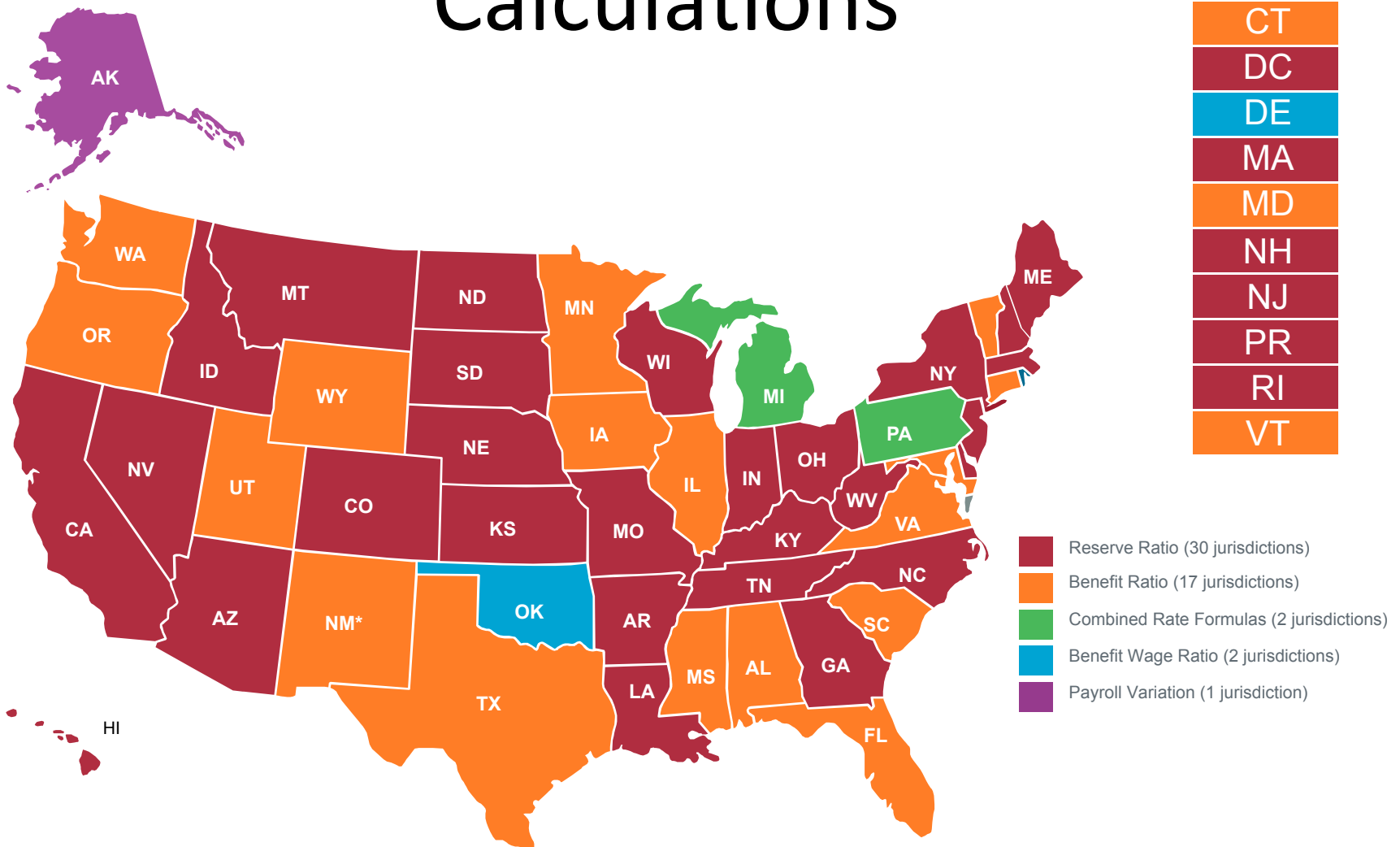
Texas 2018 merit rating

A state example:

| | |
|-----------------|-------------------------|
| <u>\$9,000</u> | Taxable wage base |
| <u>\$581</u> | Maximum tax / employee |
| <u>\$41</u> | Minimum tax / employee |
| <u>\$12,844</u> | Maximum claim liability |













Unemployment Tax Rate Calculations



Jurisdictions include 50 U.S. States, DC and PR
 *2015 – Switch to three year benefit ratio calculation

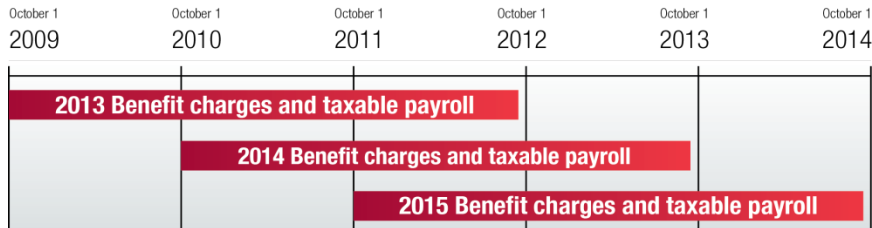
Computation Factors Impact on SUI Rates

| Factor | Reserve Ratio State | Benefit Ratio State |
|--------------------------|--|--|
| Charges Increase | Increase  | Increase  |
| Charges Decrease | Decrease  | Decrease  |
| Taxable Payroll Increase | Increase  | Decrease  |
| Taxable Payroll Decrease | Decrease  | Increase  |
| Reserve Balance Increase | Decrease  | N/A |
| Reserve Balance Decrease | Increase  | N/A |

Unemployment Tax Rate Forecast

$$\text{Sample Benefit Ratio} = \frac{\text{3 Yr. Benefit Charges}}{\text{3 Yr. Taxable Payroll}}$$

Variables Impacting UI Tax Rates



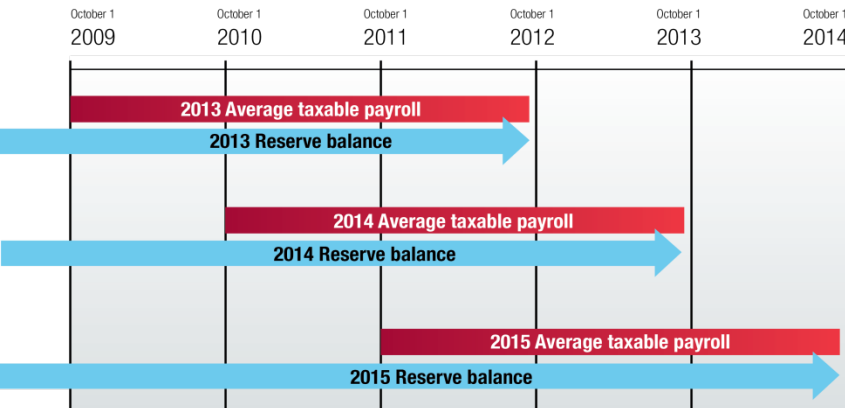
Employer Variables

- Current and projected payrolls (gross and taxable)
- UI claim and benefit charges activity
- Contributions paid during rating period
- Current and contemplated M&A activity
- Reserve account balances

State Variables

- Updates to UI rating formulas and tables
- Imposition of interest assessments
- Anticipated changes to taxable wage bases
- Impacts of recent/pending legislation

$$\text{Sample Reserve Ratio} = \frac{\text{Ending Reserve Balance}^*}{\text{Average Taxable Payroll}}$$



Economic Variables

- Broad economic trends
- National and state unemployment trends
- Title XII loans and FUTA credit reductions
- Legislative responses to UI trust fund solvency

* Cumulative total of all contributions/taxes paid in less all benefits paid out.

Unemployment Tax Management

- **Unemployment Tax Rate Projections**

- Tax rate based on:
 - Benefit charges
 - Taxable Project payroll
 - State factors
- Modify tax projection based on passed unemployment tax legislation
- **Economic Circumstances**

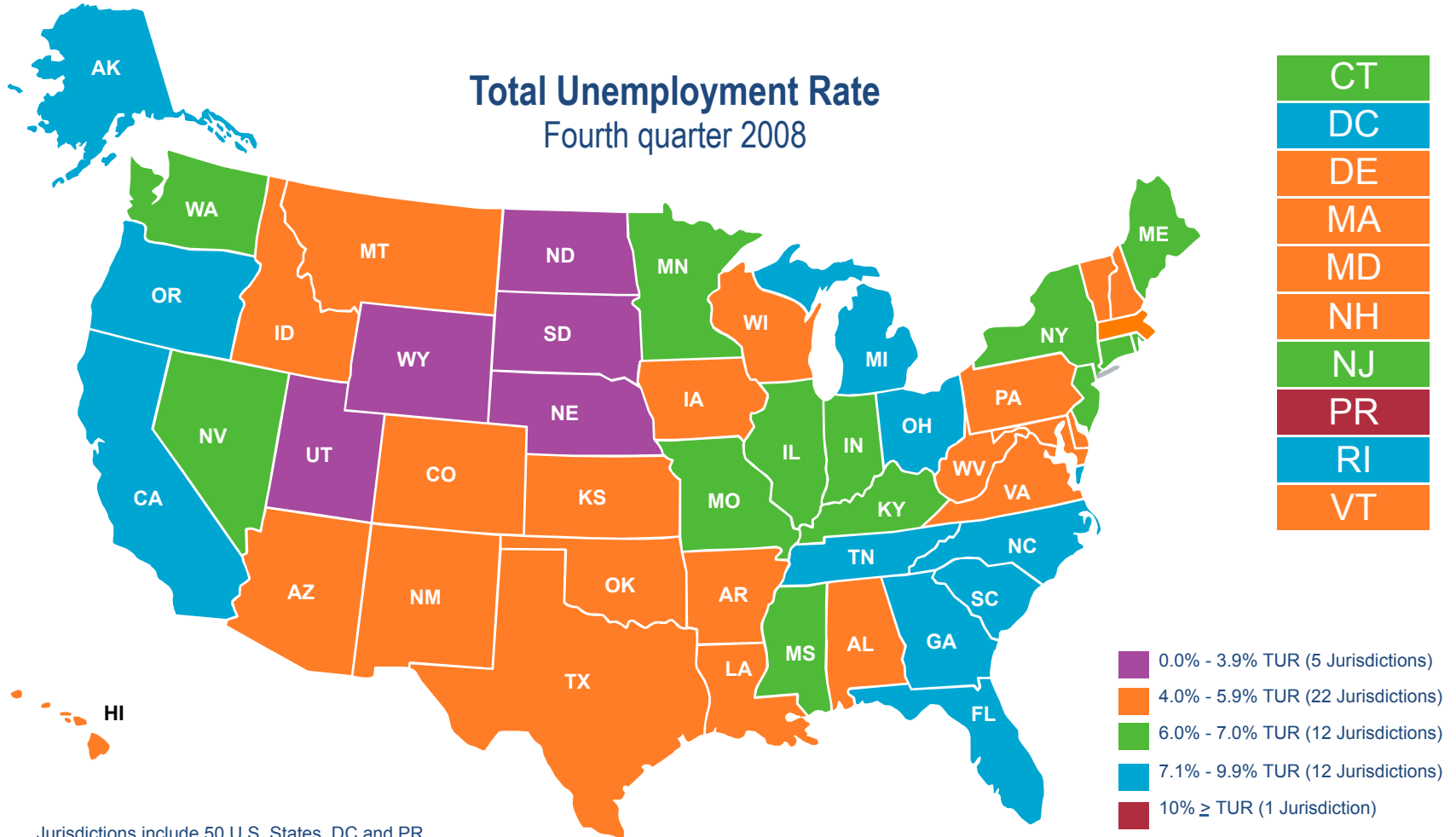
- **Joint and Common Rating Analysis**

- Analyze all possible tax rate combinations based on legal entity structure
- Review tax election, duration, termination process and projected tax savings

- **Special Rating Strategies**

- Negative write-offs
- Payroll variation elections

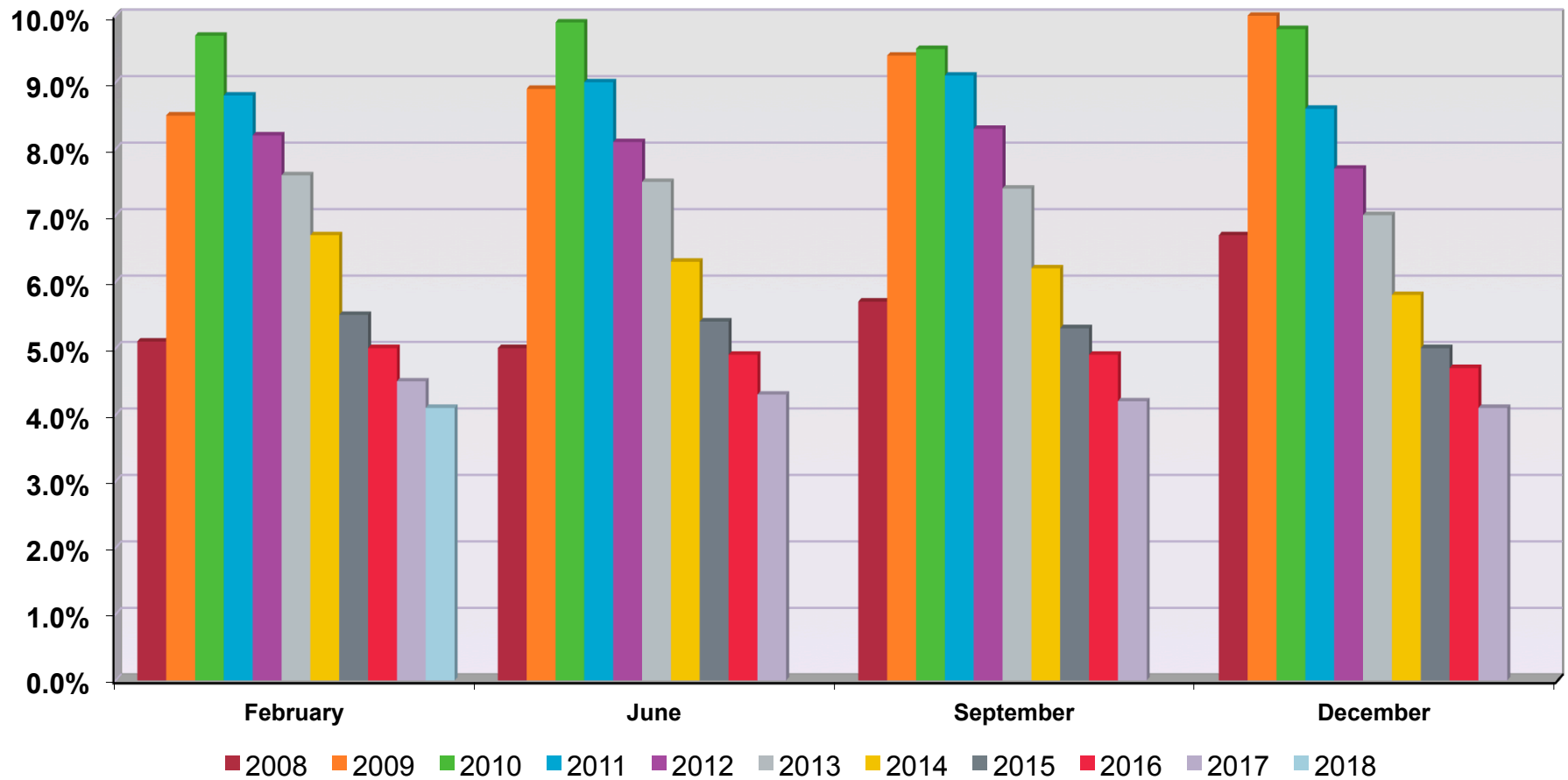
Prior to the recent economic downturn, most states were experiencing unemployment rates between 4.0 and 7.0%



Jurisdictions include 50 U.S. States, DC and PR
Source: U.S. Department of Labor Fourth Quarter 2008

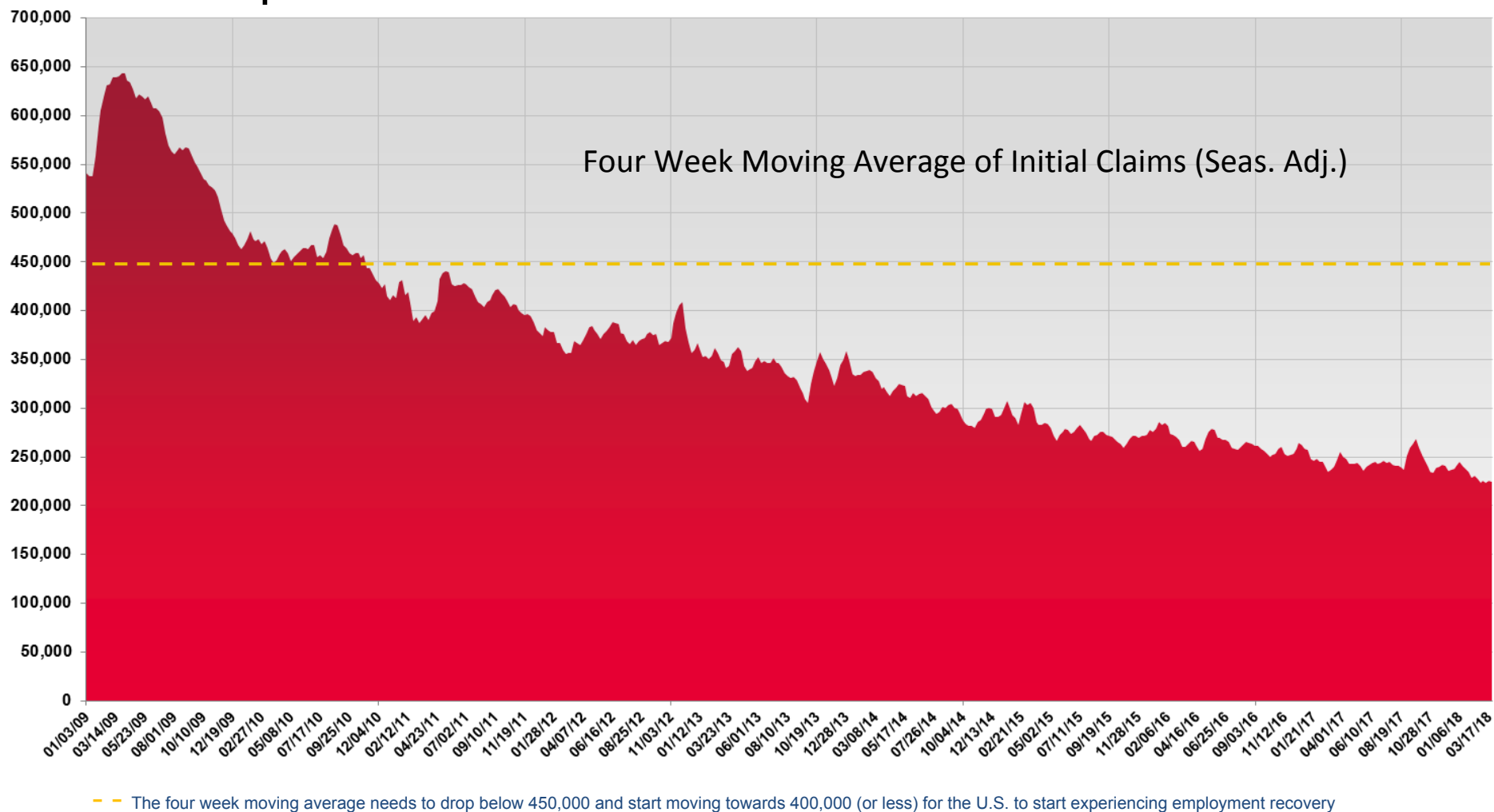
The Total Unemployment Rate (TUR) is the rate computed by dividing Total Unemployed by the Civilian Labor Force.
Source: Bureau of Labor Statistics

The U.S. Unemployment (jobless) Rates is at a 17-year low



Source: U.S. Department of Labor

Initial unemployment claims activity has steadily declined since its peak in 2009

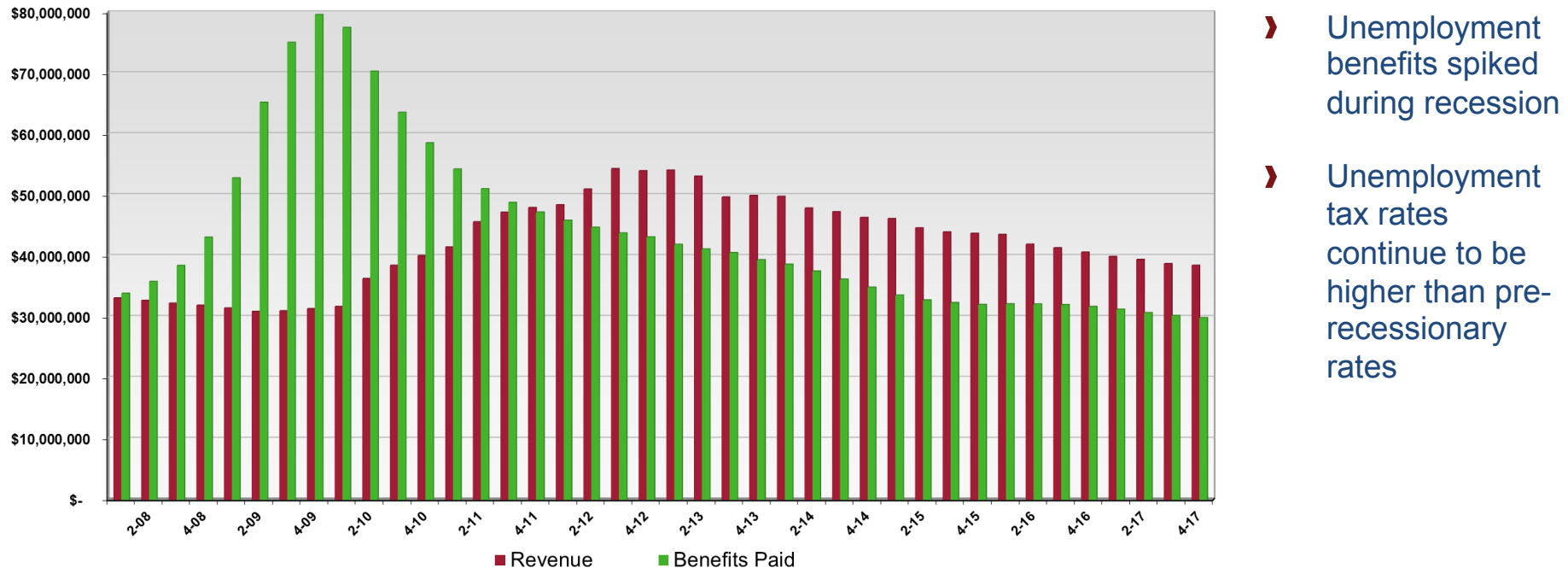


As of 01/30/18

Source: Compiled from U.S. Department of Labor UI Data Summary

States are replenishing unemployment reserves after deficits during the recession

U.S. Tax Revenues vs. Benefit Payments (000s)



Source: Compiled from U.S. Department of Labor UI Data Summary, 12 month rolling period (in thousands)

Employer Unemployment Costs are Stabilizing

\$5,191

Average cost of an unemployment claim 2Q
2013

10.67%

National annual benefit charge
overpayment rate 2011

\$20,129,509,304

Title XII loans outstanding as of 8/29/2013

19

States facing FUTA tax
increases in 2013 (As of 8/29/2013)

7.4%

National total
Unemployment rate
July 2013

16.8

Average weeks a person
draws unemployment
2Q 2013

\$609,667,071

Title XII loan interest – 2013
accrued as of 8/29/2013

18

Insolvent state trust funds
(As of 8/29/2013)

\$534.85

Average tax cost per employee 2013

Source: U.S. Department of Labor and Equifax Workforce Solutions, as of 8/9/13

The costs of unemployment remain escalated despite an improved economic environment

\$5,249

Average benefit paid per unemployment claim
(4Q 2017)¹

\$70,573,150

Title XII Loans Outstanding
(06/21/2018)⁴

\$316

Average Tax Cost Per Employee
(2017)²

11.07%

National Annual Benefit Charge
Overpayment Rate
(2016)⁵

2

States Facing FUTA Tax
Increases in 2018
(as of 01/01/18)⁴

3.8%

National Total
Unemployment Rate
(May 2018)³

15.4

Average Weeks a
Claimant Draws Unemployment
(4Q 2017)¹

\$11,688,453

Title XII Loan Interest
(accrued/billed as of 06/21/2018)⁴

29

Underfunded state trust funds
(01/01/18)¹

129%

Amount of each benefit paid that employers
must contribute to their state trust fund
(3Q 2017)¹

Source: As of 03/23/2018

1. U.S. DOL Data Summary

2. Simple average of SUI wage bases x Est. Average Tax Rate

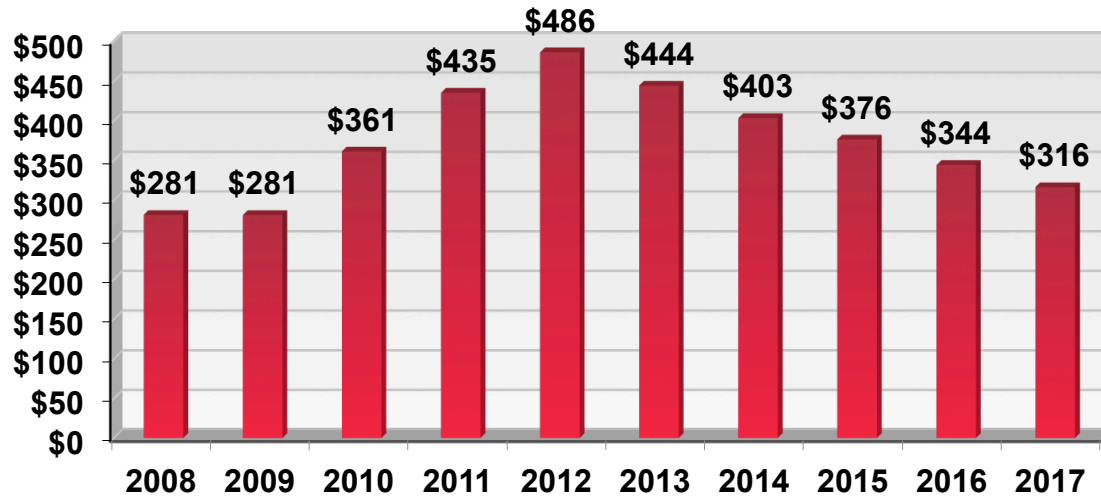
3. Bureau of Labor Statistics Monthly Current Population Survey

4. Treasury Direct Title XII Advance Activities Schedule

5. U.S. DOL Benefit Accuracy Measurement Report

Average annual SUI tax cost per employee has decreased by 35% since the height of the Great Recession

Unemployment Cost Per Employee



Source: U.S. DOL, Employment & Training Administration

- › States compensated for increased claims through higher taxes
- › Annual unemployment cost per employee has decreased to \$316
- › Unemployment tax cost rose 12.46% since 2008
- › Increases in unemployment tax rate magnified by rise in state wage bases

Unemployment costs have decreased approximately \$170,000 per 1,000 employees over the past 5 years.

Even when tax rates remain unchanged, employers may be subject to additional taxes due to increases in state wage bases

| State | 2017 Wage Base | 2018 Wage Base | | % of Increase or Decrease |
|-------------------|-------------------|-------------------|---|---------------------------------|
| ND | \$35,100 | <i>\$35,500</i> | A | 1.1% |
| NE | \$9,000 | \$9,000 | A | 0.0% |
| NH | \$14,000 | \$14,000 | A | 0.0% |
| NJ | \$33,500 | <i>\$33,700</i> | A | 0.6% |
| NM | \$24,300 | <i>\$24,200</i> | A | -0.4% |
| NV | \$29,500 | <i>\$30,500</i> | A | 3.4% |
| NY | \$10,900 | <i>\$11,100</i> | A | 1.8% |
| OH | \$9,000 | <i>\$9,500</i> | A | 5.6% |
| OK | \$17,700 | <i>\$17,600</i> | A | -0.6% |
| OR | \$38,400 | <i>\$39,300</i> | A | 2.3% |
| PA | \$9,750 | <i>\$10,000</i> | A | 2.6% |
| PR | \$7,000 | \$7,000 | A | 0.0% |
| RI ⁽²⁾ | \$22,400 | <i>\$23,000</i> | A | 1.8% |
| | \$23,900 | <i>\$24,500</i> | | |

| State | 2017 Wage Base | 2018 Wage Base | | % of Increase or Decrease |
|-------|-------------------|-------------------|---|---------------------------------|
| SC | \$14,000 | \$14,000 | A | 0.0% |
| SD | \$15,000 | \$15,000 | A | 0.0% |
| TN | \$8,000 | \$7,000 | A | -12.5% |
| TX | \$9,000 | \$9,000 | A | 0.0% |
| UT | \$33,100 | \$34,300 | A | 3.6% |
| VA | \$8,000 | \$8,000 | A | 0.0% |
| VI | \$23,500 | \$24,200 | A | 3.0% |
| VT | \$17,300 | \$17,600 | A | 1.7% |
| WA | \$45,000 | \$47,300 | A | 5.1% |
| WI | \$14,000 | \$14,000 | A | 0.0% |
| WV | \$12,000 | \$12,000 | A | 0.0% |
| WY | \$25,400 | \$24,700 | A | -2.8% |
| FUTA | \$7,000 | \$7,000 | A | 0.0% |

A – Actual wage base, assuming no law change.

E – Estimated wage base, assuming no law change.

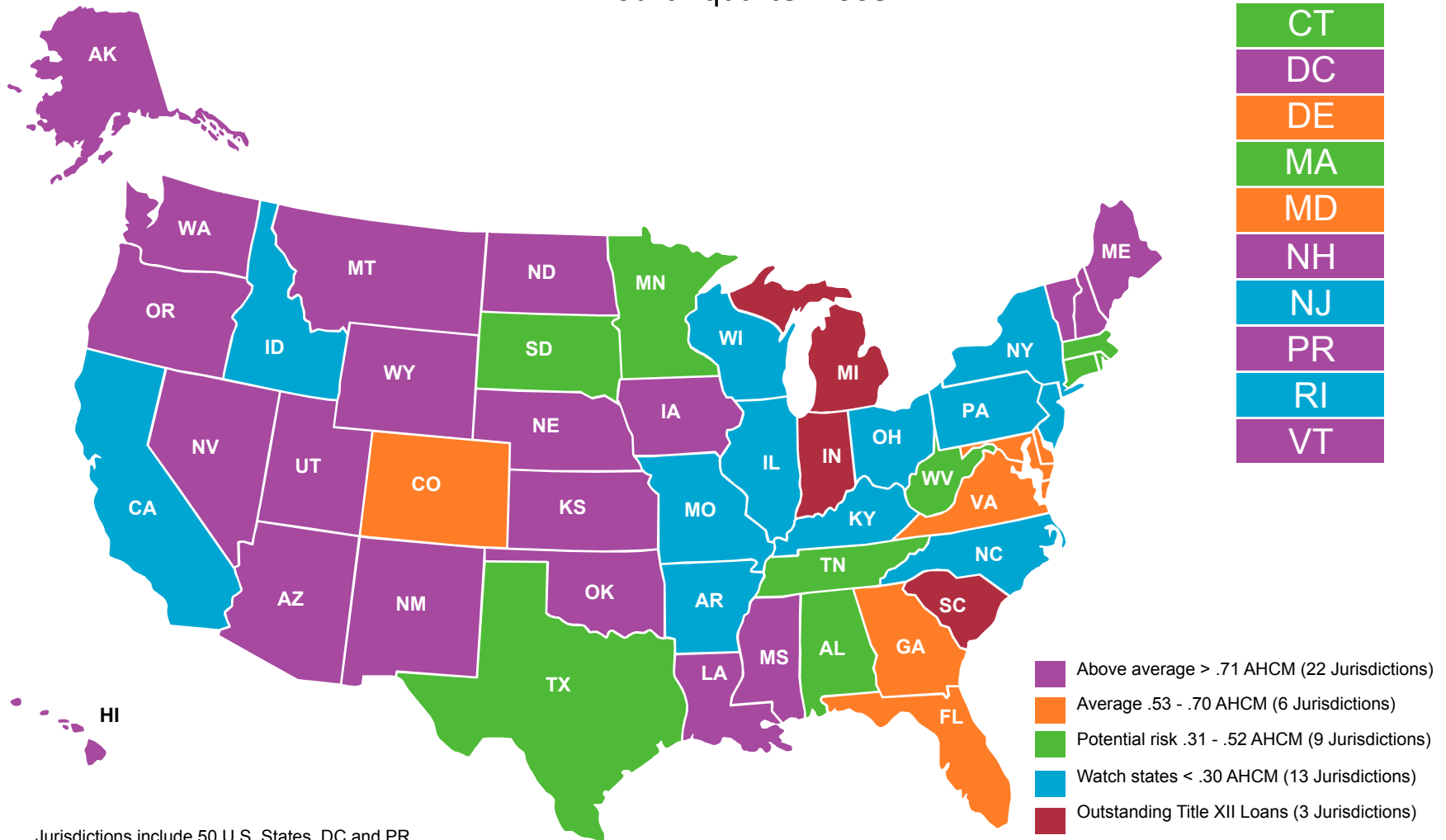
Red Italics – Denotes increase in the unemployment taxable wage base over 2017

Green Italics – Denotes decrease in the unemployment taxable wage base over 2017

2 – The higher wage base only applies to employers assigned the maximum rate.

Unemployment Trust Fund Solvency

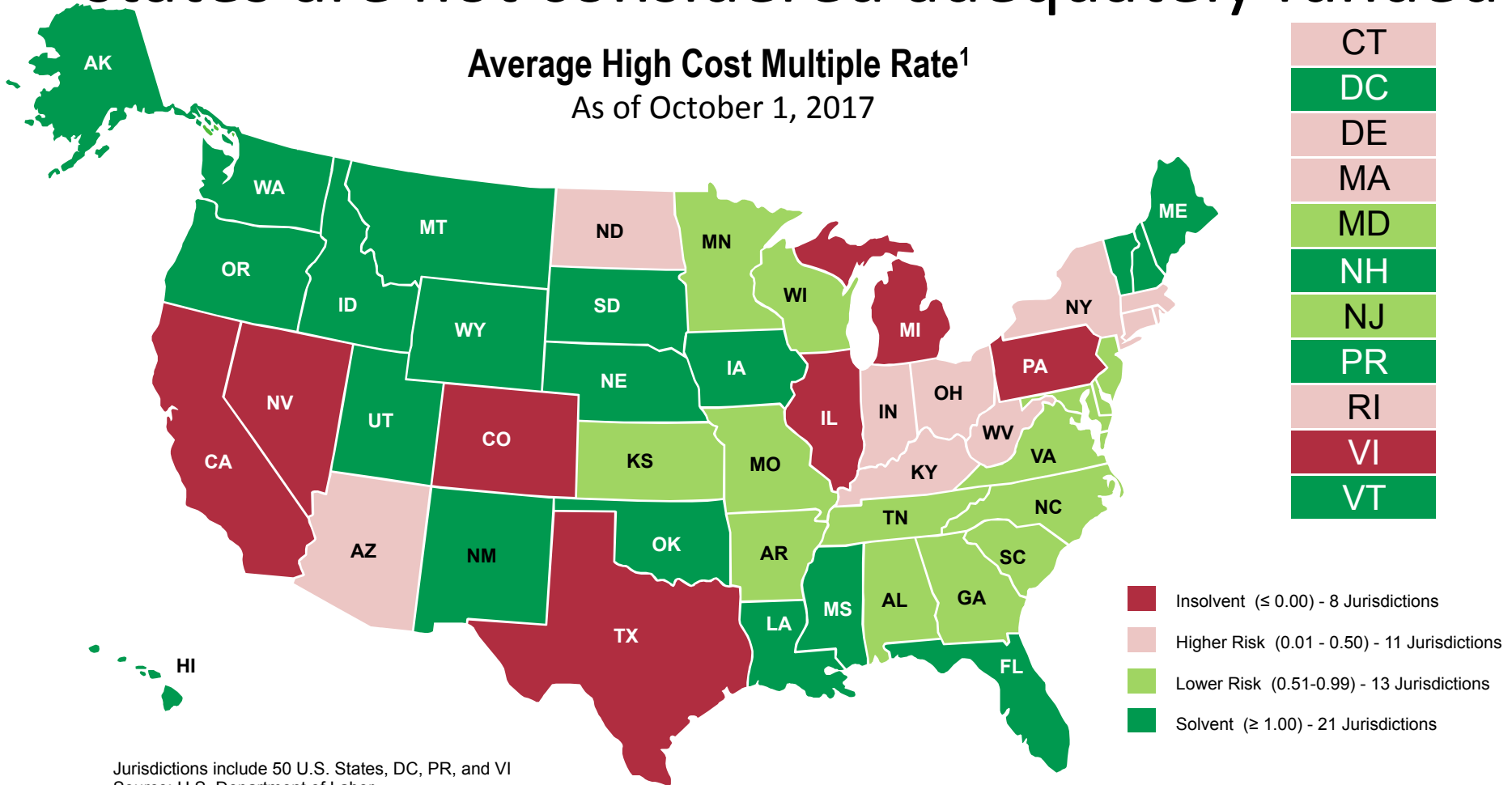
Fourth quarter 2008



Jurisdictions include 50 U.S. States, DC and PR
Source: U.S. Department of Labor Fourth Quarter 2008

The Total Unemployment Rate (TUR) is the rate computed by dividing Total Unemployed by the Civilian Labor Force.
Source: Bureau of Labor Statistics

Despite improving trust fund balances, 32 states are not considered adequately funded



1. Average High Cost Multiple (AHCM) - a standard measure of trust fund solvency used by the U.S. Department of Labor. A multiple of 1.00 indicates the state trust fund is sufficiently solvent.

State repayment of Title XII loans can significantly impact an employer's FUTA tax rates

FUTA Tax Review: Effective 7/1/2011

| FUTA tax rate | FUTA taxable wage base | FUTA tax |
|---------------|------------------------|---------------------------|
| 6.0% | \$7,000 | \$420 Per Employee |

- If employer pays state SUI taxes timely and in full, a 5.4% credit is granted

| FUTA tax rate | FUTA tax credit | FUTA tax rate (less credit) | FUTA tax |
|---------------|-----------------|-----------------------------|--------------------------|
| 6.0% | 5.4% | 0.6% | \$42 Per Employee |

- If Federal Title XII loan remains outstanding for two years (as of January 1st), employers in the affected state lose 0.3% of the 5.4% credit (or \$21 per employee)
- 0.3% FUTA credit loss continues for every year the Federal Title XII loan remains unpaid (Example: Year 1 = 0.3%; Year 2 = 0.6%, etc.)

Final 2015 FUTA Tax Rates

| State | FUTA Credit Reduction | + | BCR Add-On | = | Total FUTA Credit Reduction | + | Effective Base FUTA Rate | = | 2015 Effective FUTA Tax Rate |
|---|-----------------------|---|------------|---|-----------------------------|---|--------------------------|---|------------------------------|
| Loan Paid Off Prior to November 10, 2015 | | | | | | | | | |
| Indiana | 0.0% | | 0.0% | | 0.0% | | 0.6% | | 0.6% |
| Kentucky | 0.0% | | 0.0% | | 0.0% | | 0.6% | | 0.6% |
| New York | 0.0% | | 0.0% | | 0.0% | | 0.6% | | 0.6% |
| North Carolina | 0.0% | | 0.0% | | 0.0% | | 0.6% | | 0.6% |
| South Carolina | 0.0% | | 0.0% | | 0.0% | | 0.6% | | 0.6% |
| Loan Outstanding as of November 10, 2015 | | | | | | | | | |
| California | 1.5% | | 0.0% | | 1.5% | | 0.6% | | 2.1% |
| Connecticut | 1.5% | | 0.6% | | 2.1% | | 0.6% | | 2.7% |
| Ohio | 1.5% | | 0.0% | | 1.5% | | 0.6% | | 2.1% |
| Virgin Islands | 1.5% | | 0.0% | | 1.5% | | 0.6% | | 2.1% |

Source: U.S. Department of Labor (U.S. DOL)

FUTA Credit Reduction: Applicable in states following their second consecutive January 1 with an outstanding Title XII loan. Employers in an impacted state lose 0.3% of the 5.4% standard credit for each year the Federal Title XII loan remains outstanding (i.e., 0.3%, 0.6%, 0.9%, 1.2%, 1.5%, etc.).

Benefit Cost Rate/Ratio ("BCR") Add-On: Applicable in states following their fifth consecutive January 1 with an outstanding Title XII loan. States can request a waiver by submitting a request to the U.S. DOL by July 1 of each respective year. The U.S. DOL granted waivers to all states that applied in 2014.

Final 2016 FUTA Tax Rates

| State | FUTA Credit Reduction | BCR Add-On | Total FUTA Credit Reduction | Effective Base FUTA Rate | 2016 Effective FUTA Tax Rate |
|---|-----------------------|------------|-----------------------------|--------------------------|------------------------------|
| Loan Paid Off Prior to November 10, 2016 | | | | | |
| Ohio | 0.0% | 0.0% | 0.0% | 0.6% | 0.6% |
| Loan Outstanding as of November 10, 2016 | | | | | |
| California | 1.8% | 0.0% | 1.8% | 0.6% | 2.4% |
| Virgin Islands | 1.8% | 0.0% | 1.8% | 0.6% | 2.4% |

Source: U.S. Department of Labor (U.S. DOL)

FUTA Credit Reduction: Applicable in states following their second consecutive January 1 with an outstanding Title XII loan. Employers in an impacted state lose 0.3% of the 5.4% standard credit for each year the Federal Title XII loan remains outstanding (i.e., 0.3%, 0.6%, 0.9%, 1.2%, 1.5%, etc.).

Benefit Cost Rate/Ratio ("BCR") Add-On: Applicable in states following their fifth consecutive January 1 with an outstanding Title XII loan. States can request a waiver by submitting a request to the U.S. DOL by July 1 of each respective year. The U.S. DOL granted waivers to all states that applied in 2014.

Final 2017 FUTA Tax Rates

| State | FUTA Credit Reduction | + | BCR Add-On | = | Total FUTA Credit Reduction | + | Effective Base FUTA Rate | = | 2017 Effective FUTA Tax Rate |
|----------------|-----------------------|---|------------|---|-----------------------------|---|--------------------------|---|------------------------------|
| California* | 2.1% | | 0.0% | | 2.1% | | 0.6% | | 2.7% |
| Virgin Islands | 2.1% | | 0.0% | | 2.1% | | 0.6% | | 2.7% |

Source: U.S. Department of Labor (U.S. DOL)

* In early May of 2017, the state of California paid off its Title XII loan, then immediately took another advance. If California had repay its Title XII loan by November 10, 2017, its 2017 Effective FUTA Tax Rate would return to 0.6%. This would have translated into a per employee maximum FUTA tax cost of \$42 versus the actual \$189.

FUTA Credit Reduction: Applicable in states following their second consecutive January 1 with an outstanding Title XII loan. Employers in an impacted state lose 0.3% of the 5.4% standard credit for each year the Federal Title XII loan remains outstanding (i.e., 0.3%, 0.6%, 0.9%, 1.2%, 1.5%, etc.).

Benefit Cost Rate/Ratio (“BCR”) Add-On: Applicable in states following their fifth consecutive January 1 with an outstanding Title XII loan. States can request a waiver by submitting a request to the U.S. DOL by July 1 of each respective year. The U.S. DOL granted waivers to all states that applied in 2017.

Preliminary 2018 FUTA Tax Rates

| State | FUTA Credit Reduction | + | BCR Add-On | = | Total FUTA Credit Reduction | + | Effective Base FUTA Rate | = | 2017 Effective FUTA Tax Rate |
|----------------|-----------------------|---|------------|---|-----------------------------|---|--------------------------|---|------------------------------|
| California* | 2.4% | | 0.0% | | 2.4% | | 0.6% | | 3.0% |
| Virgin Islands | 2.4% | | 1.1% | | 3.5% | | 0.6% | | 4.1% |

Source: U.S. Department of Labor (U.S. DOL)

* If California repays its Title XII loan by November 10, 2018, its 2018 Effective FUTA Tax Rate will return to 0.6%. This would translate into a per employee maximum FUTA tax cost of \$42 versus a potential \$210 (excluding any “BCR” or “2.70% Add-Ons”).

FUTA Credit Reduction: Applicable in states following their second consecutive January 1 with an outstanding Title XII loan. Employers in an impacted state lose 0.3% of the 5.4% standard credit for each year the Federal Title XII loan remains outstanding (i.e., 0.3%, 0.6%, 0.9%, 1.2%, 1.5%, etc.).

Benefit Cost Rate/Ratio (“BCR”) Add-On: Applicable in states following their fifth consecutive January 1 with an outstanding Title XII loan. States can request a waiver by submitting a request to the U.S. DOL by July 1 of each respective year. The U.S. DOL granted waivers to all states that applied in 2017.

Many states are still accruing interest on outstanding Title XII loans due to trust fund insolvency

| | |
|------------------------------|-------------|
| Current Interest Rate | 2.21530180% |
|------------------------------|-------------|

| State | Loan Amount As Of 06/21/2018 | Advance Authorization Current Month | Interest Billed for FY18 |
|-----------------------|---|--|---------------------------------|
| California | \$0 | \$560,000,000 | \$10,528,208 |
| Virgin Islands | \$70,573,150 | \$1,000,000 | \$1,140,247 |
| Totals | \$70,573,150 | \$560,000,000 | \$11,668,453 |