



# Unemployment Insurance Trust Fund Report

*January 31, 2023*

**To:** The Honorable Phil Scott, Governor  
Senator Kesha Ram Hinsdale, Chair, Senate Economic Development,  
Housing and General Affairs  
Senator Ann Cummings, Chair, Senate Finance  
Representative Michael Marcotte, Chair, House Commerce and Economic  
Development  
Representative Emilie Kornheiser, Chair, House Ways and Means

**From:** Michael Harrington, Commissioner, Vermont Department of Labor

# Introduction

In partnership with the U.S. Department of Labor’s Employment and Training Administration (ETA), the Vermont Department of Labor (VDOL or Department) maintains a statistical model used for forecasting Vermont’s Unemployment Insurance (UI) Trust Fund (TF) net<sup>1</sup> balance. This analytical tool is effective in long-run assessments of the overall flow of monies into and out of the UITF. It is also useful in determining the incremental impact of proposed policy changes.

This report and accompanying analysis of the UITF is completed in fulfillment of State law. “On or before January 31 of each year, the Commissioner [of Labor] shall submit to the Governor and the Chairs of the Senate Committee on Economic Development, Housing and General Affairs and on Finance and the House Committees on Commerce and Economic Development and on Ways and Means a report covering the administration and operation of this chapter during the preceding calendar year. The report shall include a balance sheet of the moneys in the Fund and data as to probable reserve requirements based upon accepted actuarial principles, with respect to business activity, and other relevant factors for the longest available period.” 21 V.S.A. § 1309.

## Technical Notes

As of the date of this report, the Vermont and United States’ economies are in a period of slow, steady recovery from the recent recession precipitated by a global health pandemic. Even after nearly three years, the continued level of disruption in all facets of daily living due to COVID-19 is readily apparent. There is still much uncertainty surrounding the overall health of the national economy (see “Forecast Risk & Conclusion” section at the end of this report).

As it relates to the UITF, one lingering impact from the COVID-19 recession is the inability to fully employ the federally provided statistical model to create a reasonable forecast. The magnitude of the economic shock from the 2020 downturn has temporarily created near-term historical data that is beyond the tolerances of the federal statistical model. As a result, much of the analysis displayed here is done in a local environment and based on model driven order of magnitudes. While the Department feels confident in the information provided, the manner in which it is produced could constrain the ability to estimate the impact of multi-tier policy proposals.

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<sup>1</sup> The ETA UITF model currently functions as a ‘net’ concept in that the individual UI accounts (loan account, cash account, etc.) are rolled up into a net concept. Out of model analysis is necessary to decipher model results.

This report does return to pre-pandemic practices in that there are two forecasts provided. The first forecast is the “baseline” forecast and is meant to capture a steady state economic outlook for the duration of the period of analysis. The second forecast includes a hypothetical recession. This recessionary forecast illustrates how the UITF may respond to an economic downturn should one occur similar to the one being forecasted. *Disclaimer – it is not the opinion of the Department that a recession is eminent. This is a “theoretical recession” based on historical data whose purpose is to promote discussion and understanding. The Department does not know when the next recession will be; nor how long nor how deep it could potentially be.*

It should also be noted that benefits are modeled as total cost at the state level to the UITF. This may not equal total benefits paid out by VDOL as some benefits that are paid by VDOL are ultimately covered by a reimbursement to VDOL from the federal government. Federally funded benefit programs are out of scope for this report as they are covered by federal dollars and do not impact the State Trust Fund.

This report is based on the best available data at the time of issuance. Final calendar year 2022 data is still being processed so all 2022 data in this report are estimated.

## Summary of the 2010 UI Changes & Impacts

The laws surrounding UI were overhauled in the 2010 legislative session due to Vermont’s diminishing, and ultimately negative, UITF balance. The foundation of the reform’s effort was to balance the impacts to employers and UI claimants. The largest impact to employers was the increase in the employers’ taxable wage base. The taxable wage base was increased from \$8,000 to \$10,000 in 2010; to \$13,000 in 2011; and to \$16,000 in 2012. For this measure, the General Assembly created three triggers that tied future adjustments of the taxable wage base to economic factors. The first provided for the taxable wage base to index upward annually by the same percentage as the annual average wage once the UITF had a balance greater than zero and all Title XII loans were repaid.<sup>2</sup> Indexing of the taxable wage base commenced January 1, 2015 with an increase in the taxable wage base from \$16,000 to \$16,400. The taxable wage base increased to \$16,800 in 2016, \$17,300 in 2017, and to \$17,600 in 2018. The second trigger took effect the upon return to Tax

Taxable Wage Base	
2009	\$8,000
2010	\$10,000
2011	\$13,000
2012	\$16,000
2013	\$16,000
2014	\$16,000
2015	\$16,400
2016	\$16,800
2017	\$17,300
2018	\$17,600
2019	\$15,600
2020	\$16,100
2021	\$14,100
2022	\$15,500
2023	\$13,500

<sup>2</sup> Vermont had borrowed \$77.7 million from the U.S. Department of Labor through a Title XII loan between February 2010 and April 2011. The VDOL repaid the federal loan in full by July 1, 2013; 18 months ahead of the earliest projected pay-off date.

Rate Schedule III in 2018 when the taxable wage base was reduced by \$2,000 to \$15,600 the following calendar year (2019). In 2020, the taxable wage base resumed indexing and was increased to \$16,100. The third trigger took effect upon return to Tax Rate Schedule I in 2020 when the taxable wage base was reduced by \$2,000 to \$14,100 the following calendar year (2021). No indexing occurs in the year in which the second and third triggers are met. In January 2022, the taxable wage base resumed indexing and was increased 9.8% to \$15,500. The taxable wage base in 2023 was reduced \$2,000 to \$13,500 because the third trigger was enacted again due to the Tax Rate Schedule returning to Tax Rate Schedule I in 2022 after a brief rise to Tax Rate Schedule III in 2021.

#### **Additional 2010 Reforms Relating to Employers:**

- Increased late filing penalties from \$35 to \$100, and provided that employer accounts could not be relieved when untimely or inaccurate reporting led to an overpayment of benefits.
- Establishment of a misclassification penalty of up to \$5,000 for each improperly classified worker. In addition, provided that an employer found to have misclassified workers would also be prohibited from contracting with the State for up to three years.
- Shortened time period for timely reporting of new hire information from 20 to 10 days.

#### **Additional 2010 Reforms Relating to UI Claimants:**

- Modification to the maximum benefit amount payable in a benefit year. The new formula established that a claimant would be eligible for an amount equal to 26 weeks times their weekly benefit amount or 46% of the base period wages, whichever is less.
- Capped maximum benefit amount (to 23 weeks) for a worker found to have separated from his or her last employer due to misconduct.
- Exclusion of usable wages for claimants found to have caused their own separation from employment due to gross misconduct (as determined by the Department).
- Capped the weekly benefit amount (WBA) at \$425 and tied the annual adjustment of the maximum weekly benefit amount (MWBA) to economic factors.
  - When the UITF balance is greater than zero and all Title XII loans repaid, the MWBA will be adjusted by a percentage equal to the percentage change during the preceding calendar year in the statewide average weekly wage. As projected, indexing commenced in July 2014.
  - Effective the first Sunday in July, upon return to Tax Rate Schedule III, the MWBA for all new initial claims will be equal to 57% of the statewide annual average weekly wage, returning the MWBA to its position prior to the reform relative to the average wage. This occurred in 2018 when the

MWBA was set to \$498 per week. The indexing of the MWBA, as described above, resumed in 2019 with an increase to \$513 per week.

- Increase in the maximum number of weeks that can be disqualified when it has been determined a claimant was discharged.
- Established that severance pay shall always be considered disqualifying.
- Implemented a one-week waiting period with an effective date of July 1, 2012. This waiting period did not change the WBA a claimant will receive but did delay the payment of their first week of benefits. The required one-week waiting period ended on July 1, 2017.

In addition to these measures, the Vermont Department of Labor also established a work search requirement for individuals with a return-to-work date greater than 10 weeks. As a result of these changes, both employers and UI claimants have shared in Vermont's unemployment insurance reform. While these represent the most substantial changes to UI laws, there have been more recent adjustments, including an increase in the statutory Disregarded Earnings.

## Recent Changes to Unemployment Insurance

During the 2014 legislative session, the Disregarded Earnings was increased from 30% to 50% of an individual's weekly wage. This provision is designed to encourage UI claimants to accept less than-full-time jobs while remaining eligible for at least a portion of their unemployment benefits.

In calendar year 2020, substantial amendments were made to the UI Program. Beginning in July 2020, the Short-Time Compensation Program, otherwise known as STC, was placed in a period of dormancy. With the increase in the Disregarded Earnings mentioned above, the STC Program became redundant as most eligible UI claimants could earn more money filing traditional partial UI utilizing the 50% disregard than being on an approved STC plan.

More importantly, in 2020 the State made changes to expand UI eligibility to combat the COVID-19 pandemic. In Act 91 of the 2020 legislative session, the UI Chapter was amended to allow individuals to voluntarily separate from a job because of a COVID-19 qualifying scenario, including because the individual was diagnosed with COVID-19 or was asked to quarantine at the recommendation of a healthcare provider, the individual needed to care for a family member that was diagnosed or was asked to quarantine at the recommendation of a healthcare provider, the individual was placed in an unreasonable risk of exposure at the place of employment, or the individual needed to care for a child under the age of 18 because the child's school or child care had closed due to a public health emergency related to COVID-19. The

provisions in Act 91 also provided for charge relief to employers due to layoffs related to COVID-19.

In Act 51 of the 2021 legislative session, the provisions outlined above in Act 91 were extended to allow for continued expansion of program eligibility for COVID-19 related separations. The expanded UI eligibility provisions expired on September 30, 2021, the quarter after the expiration of Governor Scott's State of Emergency declaration. In addition, in order to protect against significant increases to employer UI tax contributions, the Department relieved employers of all 2020 benefit charges and allowed for continued charge relief for 2021 benefit charges for employers that applied for relief and attested that the claimant separation was related to COVID-19 and the employer offer the individual reemployment within a reasonable time of the end of the COVID-19 related separation reason. Finally, in computing the annual Tax Rate Schedule, the Department recommended, and the Legislature agreed, to remove calendar year 2020 from the calculation due to the significant disruption of COVID-19 related claims. This resulting impact was that the 2021 Tax Rate Schedule was set at Schedule III instead of Schedule V. Although this did slightly mitigate the impact of the UI tax increase on employers, many businesses across Vermont still saw a significant increase in UI tax rates due to the Schedule increase with many employers' tax rates doubling.

In Act 183 of the 2022 legislative session, the General Assembly increased the maximum weekly benefit amount (MWBA) by \$60.00. This change increased the MWBA to \$668 in July 2022. In addition, Act 183 also increased the weekly benefit amount (WBA) for all claimants by \$25 dollars at a future date. The artificial \$60 dollar increase to the MWBA is set to expire upon the payment of a total of \$8,000,000 from the UITF or at the point in which the Department can implement the \$25 dollar increase, whichever comes first. The \$25 dollar increase will go into effect once the Department can implement a new, modern UI system or July 2025, whichever happens sooner.

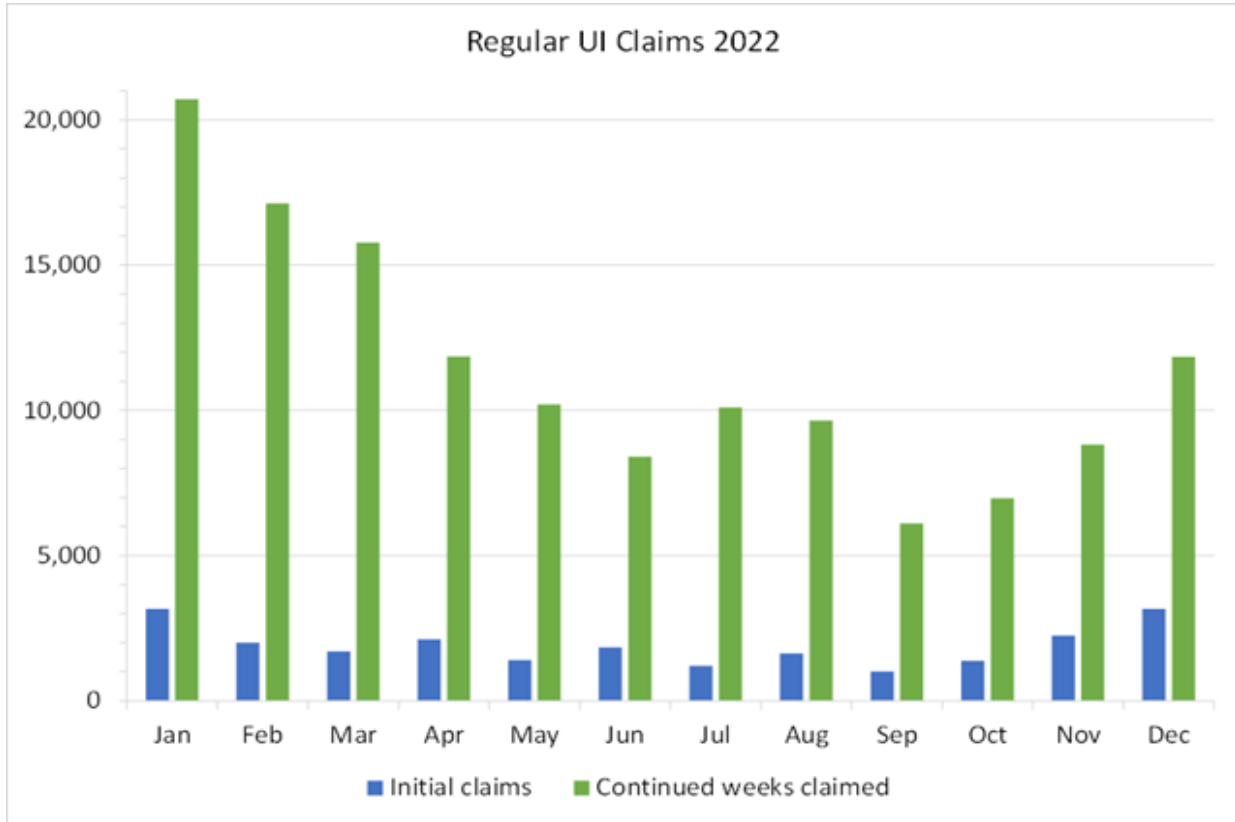
As a reminder, the additional federal CARES Act related programs in response to the COVID-19 pandemic expired on September 4, 2021, including the federal PEUC (Pandemic Emergency Unemployment Compensation), PUA (Pandemic Unemployment Assistance), and FPUC (Federal Pandemic Unemployment Compensation) programs.

PEUC — The PEUC program authorized an additional 49 weeks of benefits to individuals who exhaust regular UI.

PUA — The PUA program authorized up to 79 weeks of unemployment benefits to individuals who were impacted by the COVID-19 pandemic and who were otherwise ineligible for the traditional UI Program.

FPUC – The FPUC program provided an additional \$300 dollars per week (originally \$600 dollars per week) to individuals who were eligible and received benefits under one of the unemployment insurance programs.

## 2022 UI Statistical Information

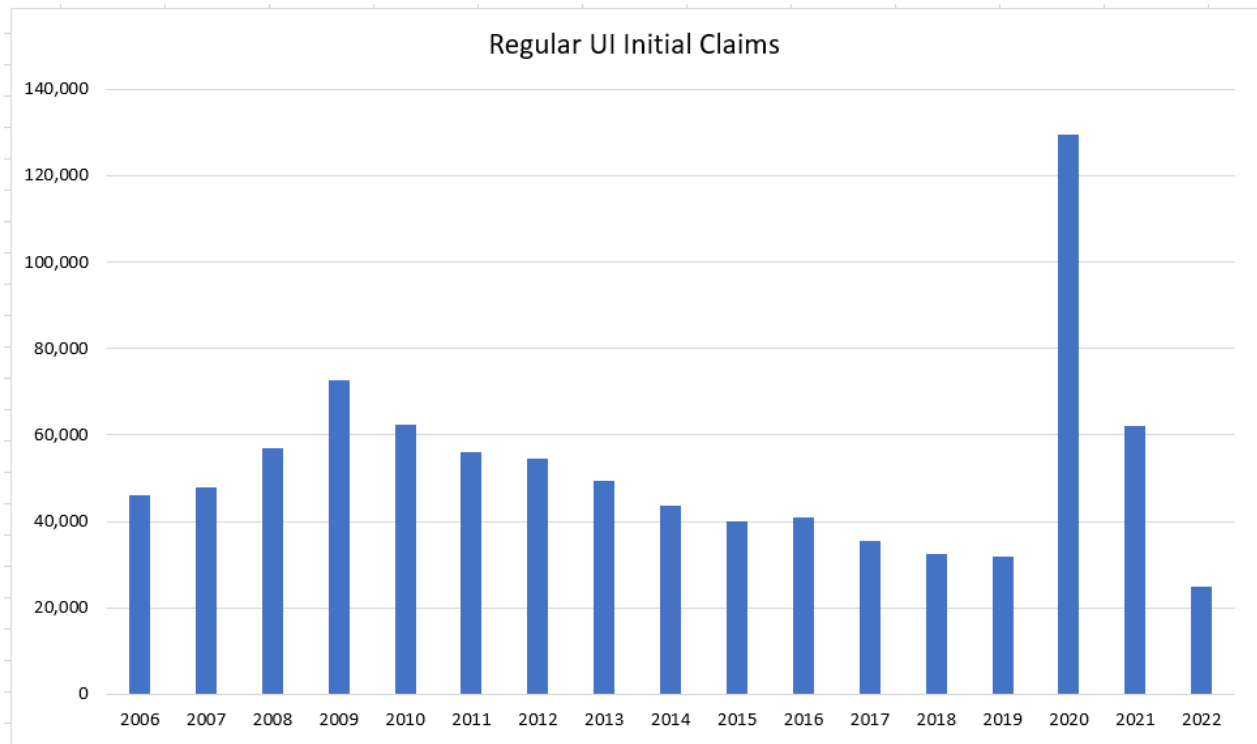


UI Program Year	Initial Claims Filed	Continued Claims Filed	Number of Payments Made	Total Dollars Paid Out
2021	48,178	365,074	269,508	\$108,529,004
2022	24,922	137,584	120,388	\$49,911,003

### Unemployment Insurance Field Audits

<b>Individual Claim Investigations</b>	≈ 550
<b>Individual Misclassification Investigations</b>	721
<b>Employ Audits Completed</b>	166

\*\* The information provided above is preliminary data until annual reports are completed and is subject to change.

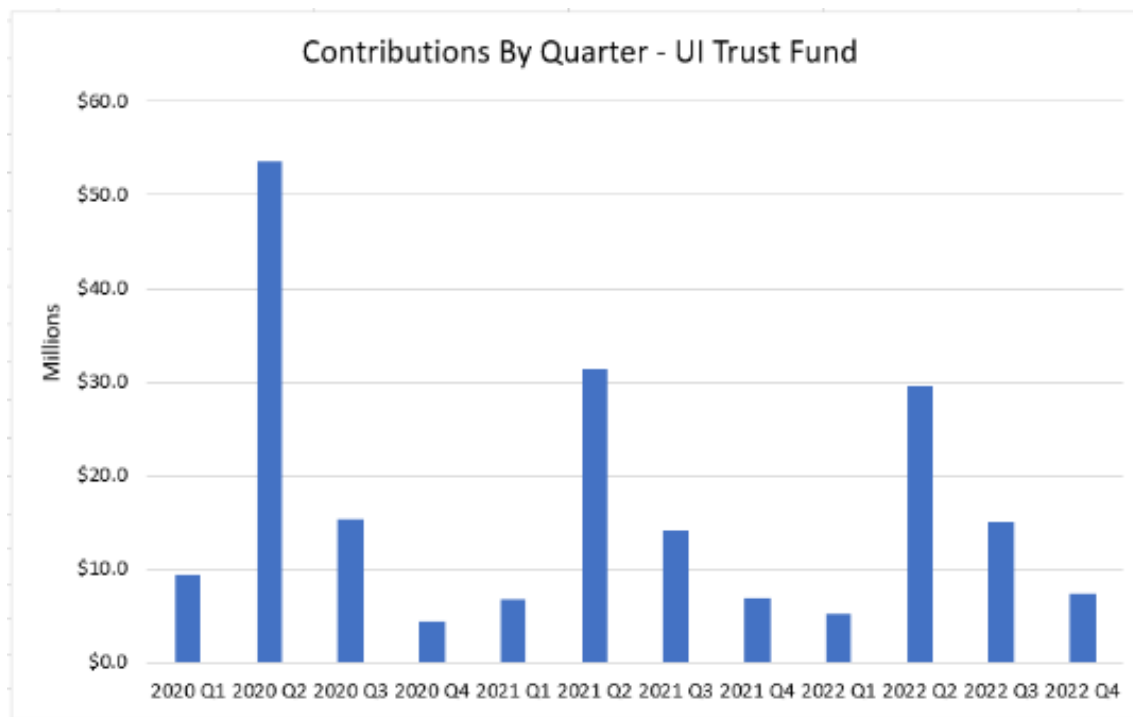
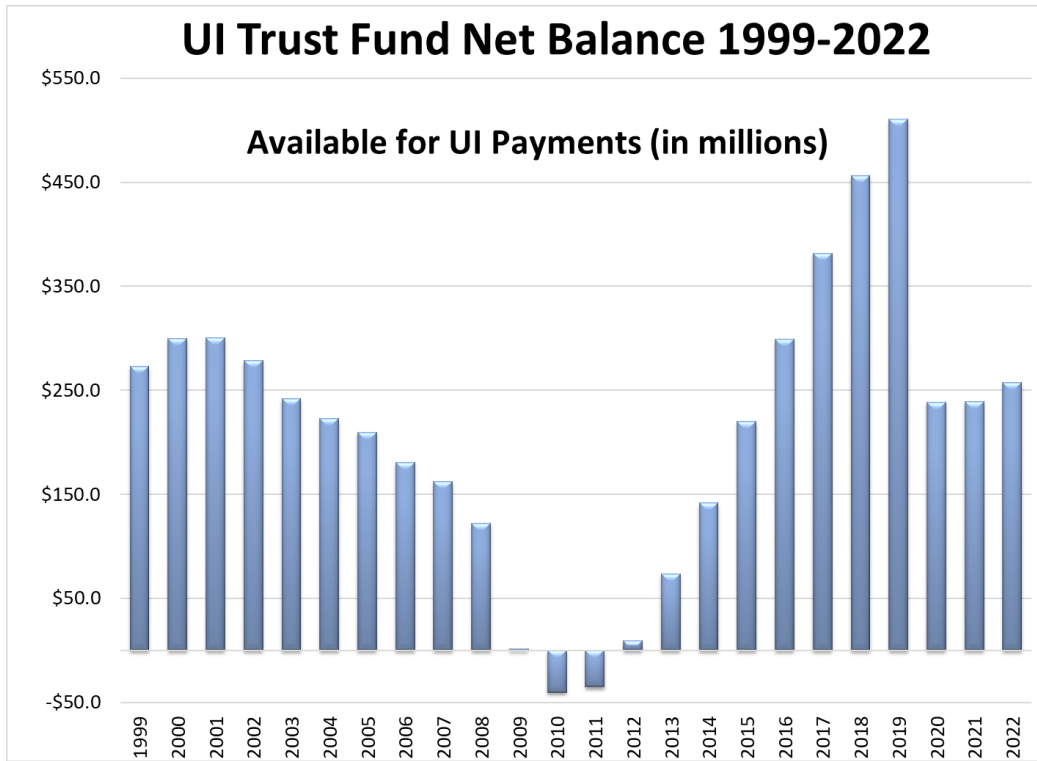


## Recent History of the UITF Balance

From the period of 2001 to 2010, Vermont's UITF's annual debits exceeded their credits. As depicted in graph below, the State went from having a positive UITF balance in 2001 of \$300.4 million to a negative balance of -\$40.6 million by 2010. This required the State to borrow money from the U.S. Federal Government and cover its debts through a Title XII loan. The Title XII loan amount increased to \$77.7 million in 2011 due to a shortage of cash in the first quarter of that year. Due to the changes in the State's UI laws and improved economic conditions, 2011 was net positive in that more cash was collected in contributions than was paid out in the form of UI benefits. This was the first time since 2001 that the UITF had experienced a net positive contribution to benefit ratio. This positive accrual trend established in 2011 continued annually through 2019. 2020 started the year with an estimated preliminary UITF balance of \$510.9 million. Ultimately, the balance would reach an all-time high in late 2019 before the start of a significant economic downturn caused by COVID-19. With a year-ending balance of \$238.7 million, CY2020 saw a decline of \$272.1 million or 53.3% from the UITF. While this is a significant reduction, the State of Vermont neither borrowed money nor added federal relief monies to the UITF. It is believed that 19 states have at some point borrowed federal money



and over 30 states had added federal relief money directly into their state trust funds. Vermont's UITF year-ending balance for CY2021 was \$238.9 million which was a net increase of \$0.1 million or 0.1% from 2020 year-end balances. Calendar year 2022 continued the positive year-over-year growth with an estimated final balance of \$257.2M. This UITF balance was up \$18.3M or 7.7% over the prior year.



## January 2023 Model Forecast

The level of contributions is governed by the Tax Rate Schedule in effect for Vermont employers. The Tax Rate Schedule is determined annually in July via a calculation considering both the historical utilization of the fund and the current fund balance. There are five Tax Rate Schedules – level five or “V” is the highest. In July 2020, the Tax Rate Schedule migrated from Tax Rate Schedule III to Tax Rate Schedule I - the lowest of the five. Based on a historic level of benefit payouts in CY2020 (~\$387.4M), the Tax Rate Schedule would have gone from the lowest Tax Rate Schedule (I) to the highest (V) in July 2021 but for legislative intervention. As described above, the annual Tax Rate Schedule calculation can now ignore CY2020, which in 2021 resulted in Tax Rate Schedule III going into effect.

The forecasts below reflect current legislation and detail the overall health of the Trust Fund in two scenarios. The first forecast is a “Baseline” forecast and is meant to capture current economic conditions projected out over the period of analysis. In this scenario, the Tax Rate Schedule stays at level I over the duration and the UITF accrues dollars on a year-over-year basis. The second forecast includes a “Theoretical Recession” in 2025 meant to show how the UITF may respond to a potential economic downturn assuming it is similar to the one forecasted. In this scenario, the Tax Rate Schedule rises to III in 2026 where it stays for three years before ultimately dropping back to Tax Rate Schedule I in 2031. As illustrated in the “Theoretical Recession”, the UITF is self-regulating in many ways in that it ramps up or down the level of contributions relative to the overall UITF balance and historical utilization of the UITF as measured in benefits paid out.

**BASELINE - Unemployment Insurance (UI) Trust Fund (TF) Forecast - excludes Reimbursables**

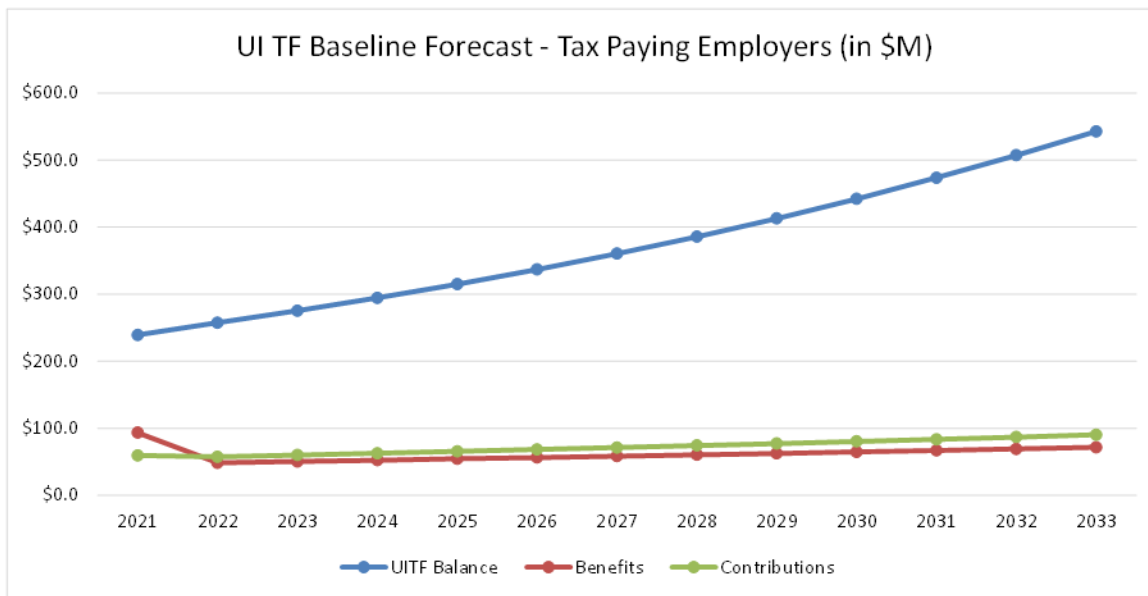
Jan-23

Year	Maximum Weekly Benefit [a]	Regular Benefits (\$M)	Taxable Wage Base [b]	Tax Rate Schedule [c]	Total Contributions (\$M)	End of Year UITF Balance (\$M) [d]
2021	\$583	\$93.3	\$14,100	III	\$59.3	\$238.9
2022	\$668	\$48.3	\$15,500	I	\$57.3	\$257.2
2023	\$701	\$50.2	\$13,500	I	\$59.9	\$275.1
2024	\$723	\$52.2	\$14,000	I	\$62.6	\$294.2
2025	\$746	\$54.3	\$14,500	I	\$65.4	\$314.7
2026	\$768	\$56.2	\$15,000	I	\$68.2	\$336.6
2027	\$791	\$58.2	\$15,500	I	\$71.1	\$360.2
2028	\$815	\$60.2	\$16,000	I	\$74.1	\$385.4
2029	\$838	\$62.3	\$16,500	I	\$77.0	\$412.8
2030	\$801	\$64.5	\$17,000	I	\$80.1	\$441.9
2031	\$825	\$66.8	\$17,500	I	\$83.3	\$473.5
2032	\$850	\$69.1	\$18,000	I	\$86.7	\$507.0
2033	\$876	\$71.5	\$18,500	I	\$90.1	\$542.6

Notes:

- [a] annual determination in July; 2022-29 amounts includes \$60 increase to maximum weekly benefit calculation
- [b] annual determination in January
- [c] annual determination in July
- [d] includes interest

Prepared by E&LMI, VDOL



Estimated UI TF Balance Needed for Tax Rate Schedule

Tax Rate Schedule	UI TF Balance
I	> \$233.3M
II	\$186.6M < \$233.3M
III	\$140.0M < \$186.6M
IV	\$93.3M < \$140.0M
V	< \$93.3M

Notes: in 2022 dollars; placeholder for July 2023 determination.

**THEORETICAL RECESSION - UI Trust Fund (TF) Forecast - excludes Reimbursables**

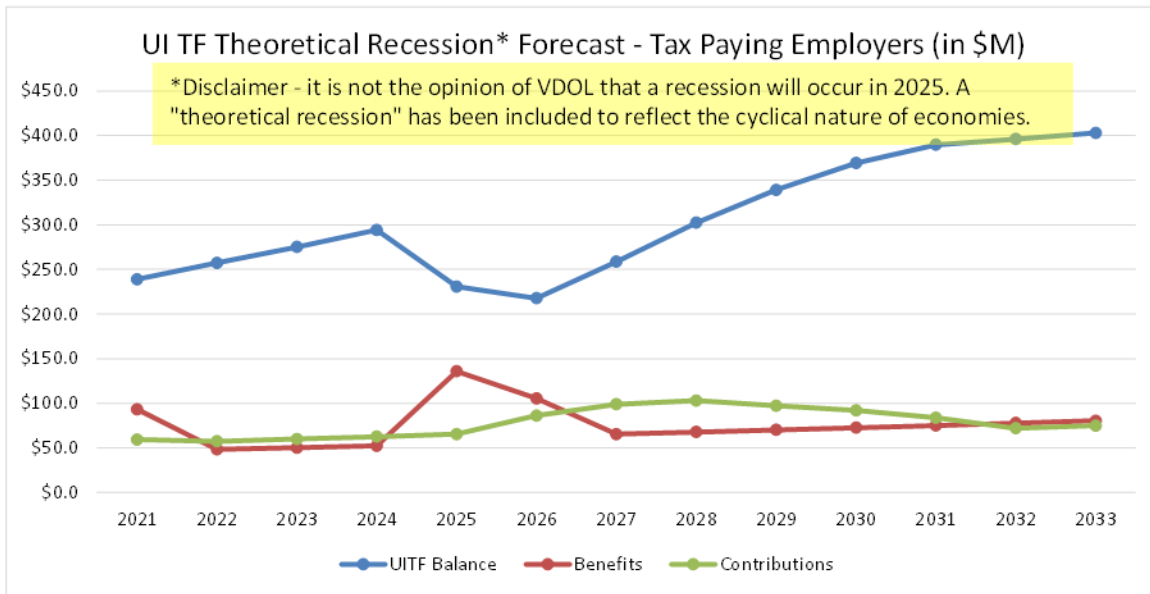
Jan-23

Year	Maximum Weekly Benefit [a]	Regular Benefits (\$M)	Taxable Wage Base [b]	Tax Rate Schedule [c]	Total Contributions (\$M)	End of Year UITF Balance (\$M) [d]
2021	\$583	\$93.3	\$14,100	III	\$59.3	\$238.9
2022	\$668	\$48.3	\$15,500	I	\$57.3	\$257.2
2023	\$701	\$50.2	\$13,500	I	\$59.9	\$275.1
2024	\$723	\$52.2	\$14,000	I	\$62.6	\$294.3
2025	\$746	\$135.8	\$14,500	I	\$65.4	\$230.7
2026	\$768	\$105.4	\$15,000	III	\$86.2	\$217.7
2027	\$791	\$65.5	\$15,500	III	\$98.8	\$258.6
2028	\$815	\$67.8	\$16,000	III	\$103.0	\$302.3
2029	\$778	\$70.1	\$16,500	II	\$97.2	\$339.1
2030	\$801	\$72.6	\$17,000	II	\$92.0	\$369.2
2031	\$825	\$75.1	\$17,500	I	\$83.7	\$389.6
2032	\$850	\$77.8	\$15,500	I	\$72.1	\$396.0
2033	\$876	\$80.5	\$16,000	I	\$75.0	\$402.9

Notes:

- [a] annual determination in July; 2022-28 amounts includes \$60 increase to maximum weekly benefit calculation
- [b] annual determination in January
- [c] annual determination in July
- [d] includes interest

Prepared by E&LMI, VDOL



Estimated UI TF Balance Needed for Tax Rate Schedule

Tax Rate Schedule	UI TF Balance
I	> \$339.6M
II	\$271.7M < \$339.6M
III	\$203.7M < \$271.7M
IV	\$135.8M < \$203.7M
V	< \$135.8M

Notes: in 2025 dollars; based on 2025 theoretical recession

## Forecast Risks & Conclusion

### CHANGES TO FEDERAL OR STATE UI LAWS

The attached forecast is based on current law – both federal and state. Should these laws change, this forecast will have to be reevaluated.

### NATIONAL AND INTERNATIONAL ECONOMIC UNCERTAINTY

The U.S. economy is on a path of slow, steady economic recovery but deeper economic disruptions related to COVID-19 or other underlying economic factors are possible. Current economic conditions are in a state of flux. A prime example: inflation levels in the U.S. are reporting nearly 40-year highs. Threats of international entanglements also present areas of concern for the forecast.

### CONCLUSION

In conclusion, the current tax model is sufficient to increase the balance of the fund following the COVID-19 pandemic and to weather any moderate economic storm that may arise in the near future. However, the UITF now sits at half the capacity it was in late 2019 and continued or future expansion of benefits has the potential to risk the solvency of the fund and place an increased downward pressure on contributing businesses.