Memorandum

To: The Honorable Chairman Botzow and the members of the House Commerce Committee

From: Vermont Department of Labor

Re: 2014 Unemployment Insurance (UI) Trust Fund (TF) Reform Options

Date: February 5, 2014

BACKGROUND: In the evaluation of proposed reform(s), discussions can revolve around the impact to the UI TF and migration between tax rate schedules. The ending UI TF net balance on December 31, 2013 was $74.7 million. The tax rate schedule being paid by employers is at the maximum level – Schedule V ("five"). For perspective, the UI TF would have to have a minimum balance of $202.2M to move to Schedule IV based on a wage base of $8.3B (2013 data). As the wage base grows, so too will the minimum balance necessary to reach Schedule IV. The current "baseline" forecast (*Note: does not include a future recession) calculates the migration to Schedule IV in 2017 once approximately $210M is reached. To get to Schedule III (the middle schedule which provides an "equilibrium" of funding across the business cycle), the balance by today's standards would have to exceed $300M. As in the previous discussion about Schedule IV, this amount will need to adjust as the wage base adjusts. The current "baseline" forecast (*Note: does not include a future recession) calculates the migration to Schedule III in 2019 once approximately $330M is reached.

Outlined below, is a list of proposed reform options being discussed as part of the 2014 legislative session. Each includes a list of perceived positives / negatives, important unknown factors and a projected net cost to the UI TF.

I. EARNINGS DISREGARD

Proposed 20% / $0.60 Wages Earned: additional cost to the UI TF = $1.4M annually

Note: Complex to calculate (for claimants and administration)

Former 30% Weekly Benefit Amount (WBA): additional cost to UI TF = $1.2M annually

Note: Methods are comparable relative to aggregate WBA benefit payment from fund.

II. REMOVAL OF ONE-WEEK WAITING PERIOD

Monetary Impact to Trust Fund: projected impact to the UI TF = ~$4M annually

III. "TRAILING-SPOUSE" BENEFITS FOR ACTIVE MILITARY

Total cost estimates have ranged from $4k to $895k (based on current # of active duty spouses in VT). Separating employers would be relieved of the benefit charges which would shift the cost of qualifying claimants across all tax paying employers.

Note: Work search and reporting requirement.

IV. NON-INSTRUCTIONAL SCHOOL PERSONNEL {between terms and summer breaks}

The majority of school districts are reimbursable employers. For the small minority who are not, their experience rating will increase to cover increase utilization by their employees.

V. ADDITIONAL DISASTER RELIEF FOR PREVIOUSLY IMPACTED EMPLOYERS

Should additional relief be proposed, it is UI federal law that *ALL* Vermont employers be notified of the potential for additional relief. Additional relief cannot be simply awarded to the employers who have previously filed under the previous relief effort. Impact to UI TF is undetermined and dependent on specific proposals.

Note: Administratively any proposal for additional relief is problematic in that two tax years have passed since the 2011 disasters (and a third year is approaching) increasing the complexity of implementation.