VSA 21 § 1309

UNEMPLOYMENT INSURANCE TRUST FUND REPORT

Submitted: January 31, 2014

INTRODUCTION

In partnership with the U.S. Department of Labor's Employment and Training Administration (ETA), the Vermont Department of Labor (VDOL) maintains a statistical model used for forecasting Vermont's Unemployment Insurance (UI) Trust Fund (TF) net[1] balance. This analytical tool is effective in long-run assessments of the overall flow of monies into the TF and determining the incremental impact of policy changes to the UI laws.

VDOL typically completes two 'official' model estimates per year. VSA 21, Section 1309, requires "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." This first model forecast is completed around December of each year as part of the annual reporting process and represents the best information as available.

The second (optional) model forecast is completed around April of each year post the receipt of all previous year calendar data and completion of the first quarter of the current calendar year. The first quarter of the calendar year is the most important quarter to monitor because it is the largest net negative quarter to the TF balance. The performance of the first quarter sets the course for the year and as such can merit a re-visitation to the previously completed December forecast when appropriate.

SUMMARY OF RECENT UI REFORM

The laws surrounding UI were overhauled in the 2009/2010 legislative session due to Vermont's diminishing (and ultimately negative) TF balance. The foundation of the reform's efforts was to balance the impacts to employers and UI Claimants. The largest impact to employers was the increase in the taxable wage base. The taxable wage base was increased to $10,000 in 2010; to $13,000 in 2011 and to

[1] The ETA UI TF 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.

$16,000 in 2012. In this measure the legislature created three triggers that tied adjustment of the taxable wage base to economic factors. The first provides for the taxable wage base to index[2] upward annually by the same percentage as the annual average wage. The second trigger is effective upon return to Tax Rate Schedule III at which time the taxable wage base will drop by $2,000. The third trigger is effective upon return to Tax Rate Schedule I at which time the taxable wage base will drop by an additional $2,000. No indexing occurs in the year in which the second and third triggers are met.

Other 2010 Reforms Related to Employers:

- Increased late filing penalties from $35 to $100, and provided that employer accounts 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.
- Shortened time period for timely reporting of new hire information to 10 days.

The following is a list of changes that impact UI Claimants:

- Modification to the maximum benefit amount (MBA) payable in a benefit year. The new formula established that a claimant will be eligible for an amount equal to 26 weeks times their weekly benefit amount or 46% of the base period wages, <u>whichever is less</u>.
- 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 maximum WBA at $425 and tied the annual adjustment of the WBA to economic factors.
    - When the TF balance is greater than zero and all Title XII loans repaid the maximum WBA will be adjusted by a percentage equal to the percentage change during the preceding calendar year in the state average weekly wage (scheduled to commence in July 2014).
    - Effective the first Sunday in July, upon return to Tax Rate Schedule III, the maximum WBA for all new initial claims will be equal to 57% of the state annual average weekly wage, returning the MBA to its position prior to the reform relative to the average wage.
- 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 does not change the MBA or WBA a claimant will receive, but does delay the payment of their first week of benefits. The one-week waiting period will sunset July 1, 2017 or the first full week in July following the December 31st when the

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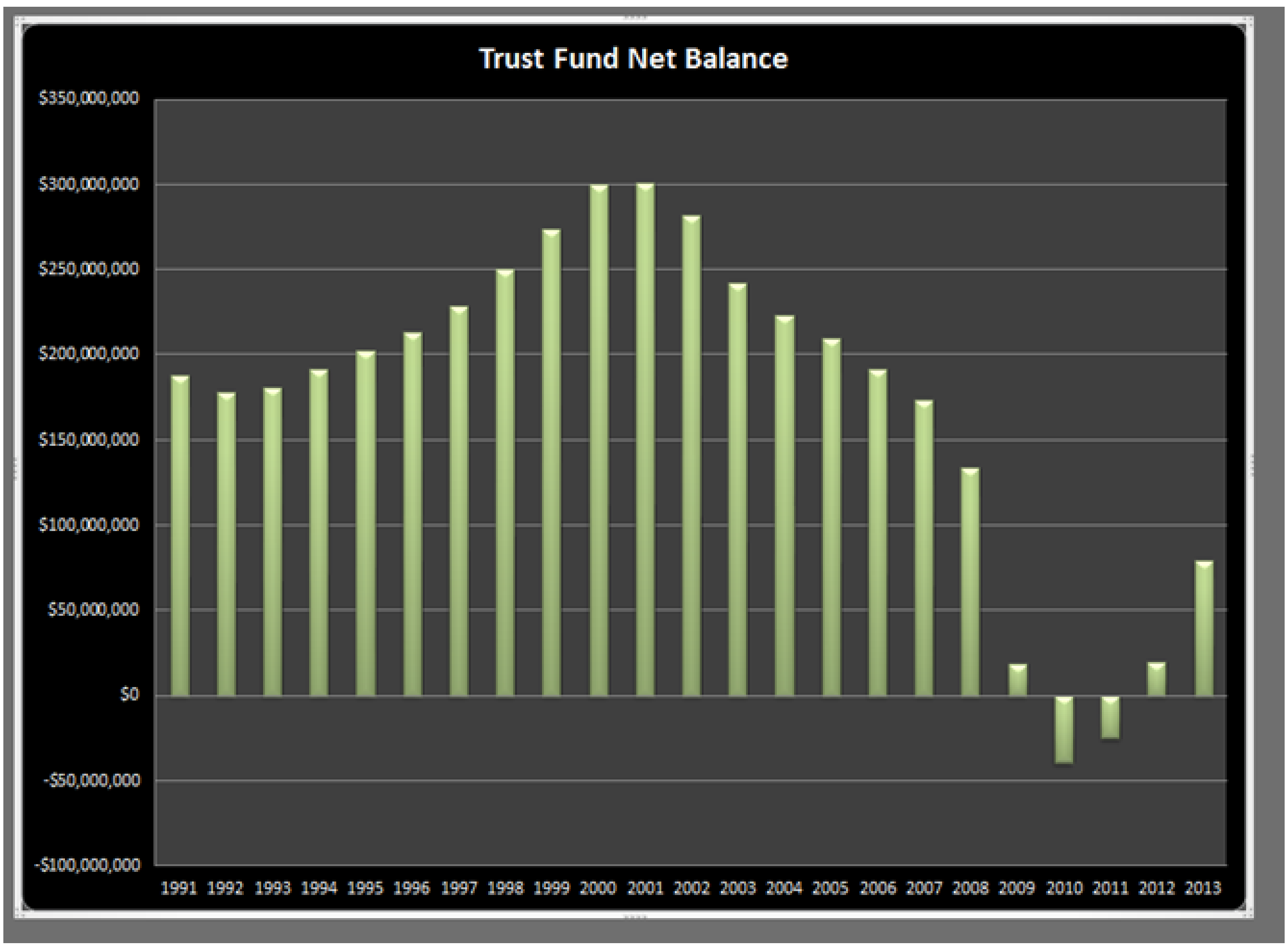
[2] When the Trust Fund has a balance greater than zero and all Title XII loans repaid – scheduled to commence in January 2015

unemployment TF has a positive balance and all loans have been repaid in full, whichever date is later.

In addition to these measures, the Commissioner of Labor has 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 are sharing in Vermont's unemployment reform.

BACKGROUND

From the period of 2001 to 2010, Vermont's UI TF's annual debits exceeded their credits. As depicted in graph below, the state went from having a positive TF balance in 2001 of $300.4 million to a negative balance of -$39.2 million by 2010. This required the state of Vermont to borrow money from the U.S. Federal Government and cover their debts through a Title XII loan. The loan amount increased to $77.7 million in 2011 due to shortages of cash in the first quarter of that year. Due to the changes in the state' 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 TF has experienced a net positive contribution to benefit ratio. This positive accrual trend continued in 2012 and again in 2013. The ending TF net balance on December 31, 2013 was $74.7 million (see below).



As a means of limiting future interest owed to the federal government, the Commissioner of Labor authorized the partial repayment of the Title XII loan. Effective July 20th, 2012, a payment of $20M was applied against the outstanding Title XII loan balance reducing the amount owed to $57.7M. The remaining balance on the federal Title XII loan was repaid in full on July 1, 2013. The complete repayment of the loan ceased the accrual of additional loan interest and reinstated the full Federal Unemployment Tax Act (FUTA) tax credit for Vermont employers. Previously for calendar year 2012, due to the duration of the outstanding federal loan, Vermont employers experienced a reduction in the FUTA tax credit by 0.3%. This equated to an additional charge to employers in the form of higher FUTA taxes collected. Had the loan not been repaid in 2013, employers would have experienced an additional 0.3% FUTA tax credit reduction for a total tax credit reduction of 0.6% due in January 2014.

<u>JANUARY 2014 MODEL FORECAST</u>

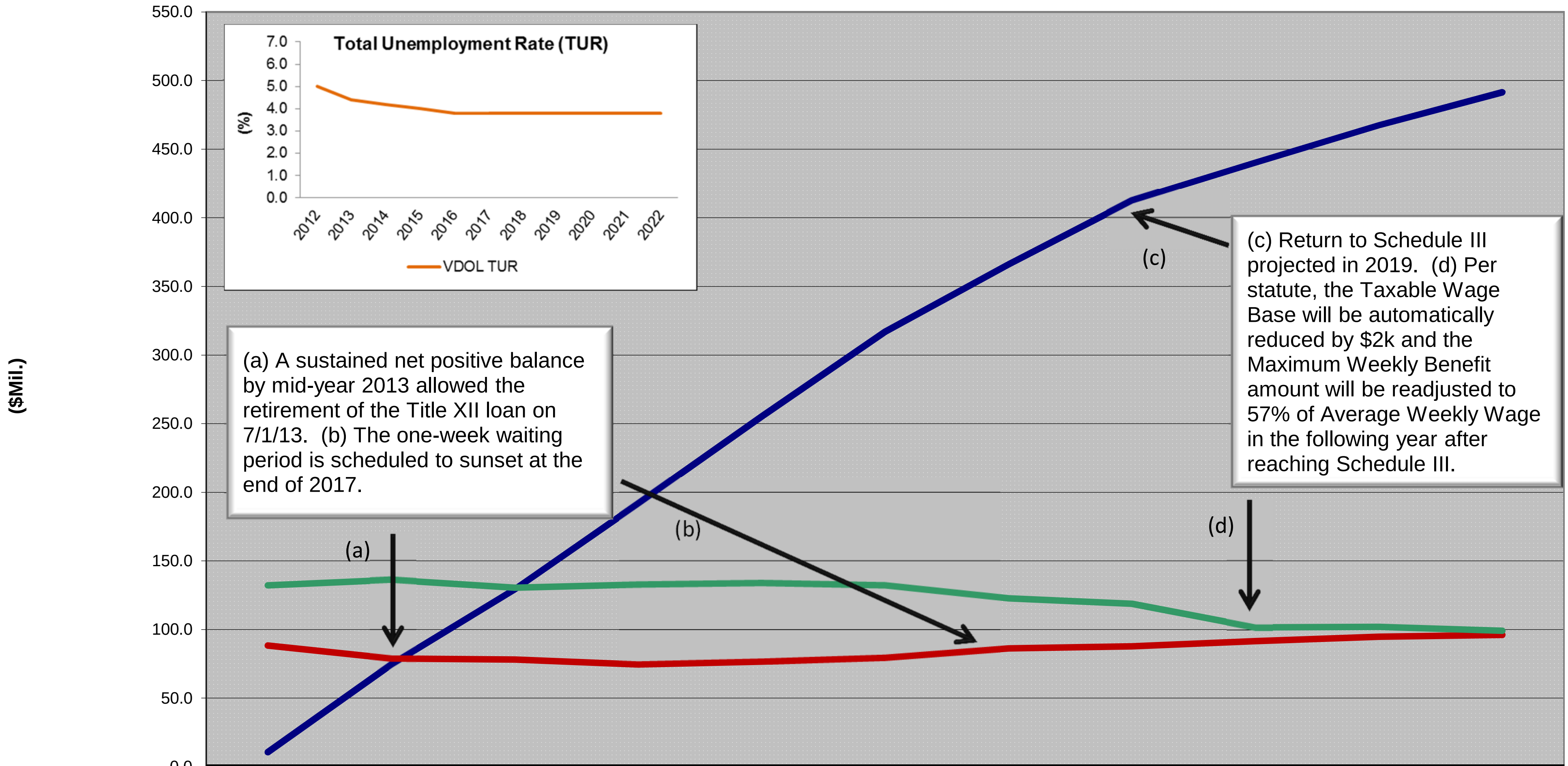
The level of contributions is governed by the tax rate schedule in effect for Vermont employers. The tax rate schedule is determined annually via a calculation considering both the historical utilization of the fund and the current fund balance. For the past several years, the employers have been paying at the highest of the five tax rate schedules – level five or "V". 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 increase assuming increases to the wage base. The current "baseline" forecast (*Note: does not include a future recession) calculates the migration to Schedule III in 2019 once approximately $330M is reached.

<u>FORECAST RISKS</u>

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 recalculated. It is important to note that there are natural dampening agents built into Vermont's UI laws which will automatically throttle back money collection when the TF has a significant positive balance. As of the date of this writing, Emergency Unemployment Compensation (EUC) has not been extended for calendar year 2014 due to its full expiration by Congress on December 28th, 2013.

National and international economic uncertainty: The U.S. economy seems to have stabilized and is remaining in a period of economic expansion – albeit a slower rate of growth than historical periods of expansion post recession. Yet in this modern age of globalization, it is difficult to determine the U.S.'s exposure to international economic pressures around the globe. In addition, unforeseen volatility in energy prices and/or supply could create a ripple sufficient enough to derail the U.S. economic recovery. Threats of international entanglements or the potential of U.S. political gridlock on fiscal policy also remain areas of concern for the forecast.

Vermont UI Trust Fund Baseline Forecast - January 2014



	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Trust Fund Net Balance	10.7	74.5	129.4	191.7	255.2	317.0	366.0	412.5	440.2	467.4	491.5
Benefits	88.4	78.9	78.2	74.6	76.7	79.4	86.2	87.7	91.6	94.8	96.1
Contributions	132.2	136.1	130.5	132.8	133.9	132.1	122.8	118.8	101.5	102.0	99.1

NOTES:
- The Trust Fund Net Balance is a theoretical total of cash offset by any loan amount as applicable; Loan repaid in 2013.

SOURCE: VDOL Benefit Finance Model, Jan. 2014, unless otherwise noted.

Vermont UI Trust Fund Baseline Forecast - January 2014

		Benefits				Contributions	
Year ^	Trust Fund Net Balance ($Mil.)	Regular Benefits ($Mil.)	Extended Benefits ($Mil.)	Total Benefits ($Mil.)	Max Weekly Benefit	Total Contributions ($Mil.)	Taxable Wage Base
2012	10.7	88.4	0.0	88.4	425	132.2	16,000
2013	74.5	78.9	0.0	78.9	425	136.1	16,000
2014	129.4	78.2	0.0	78.2	434	130.5	16,000
2015	191.7	74.6	0.0	74.6	442	132.8	16,300
2016	255.2	76.7	0.0	76.7	451	133.9	16,600
2017	317.0	79.4	0.0	79.4	460	132.1	16,900
2018	366.0	86.2	0.0	86.2	469	122.8	17,200
2019	412.5	87.7	0.0	87.7	479	118.8	17,500
2020	440.2	91.6	0.0	91.6	509	101.5	15,500
2021	467.4	94.8	0.0	94.8	520	102.0	15,800
2022	491.5	96.1	0.0	96.1	530	99.1	16,100

Year ^	Total Unemployment Rate*	Total Wages ($Bil.)	Taxable Wages ($Bil.)	Wage Growth*	Labor Force Growth*	Tax Rate Schedule
2012	5.0	8.3	3.3	-	-	5
2013	4.4	8.3	3.3	2.0%	-1%	5
2014	4.2	8.4	3.3	2.0%	0%	5
2015	4.0	8.6	3.3	2.0%	0%	5
2016	4.0	8.7	3.3	2.0%	-1%	5
2017	4.0	8.9	3.4	2.0%	0%	4
2018	4.0	9.1	3.5	2.0%	0%	4
2019	4.0	9.2	3.5	2.0%	-1%	3
2020	4.0	9.3	3.2	2.0%	0%	3
2021	4.0	9.5	3.3	2.0%	0%	3
2022	4.0	9.6	3.3	2.0%	-1%	2

Year ^	Interest Rate %‡	Interest Earned ($Mil.)	End of Year Loan Amount ($Mil.)*	Interest Payable September 30 ($Mil.)*	FUTA Credit Reduction %	FUTA Credit Reduction Payment Jan 1 ($Mil.)**
2012	2.94	0.3	57.7	2.5	0.3	0.0
2013	2.68	2.0	0.0	1.1	0.0	4.9
2014	2.58	2.5	0.0	0.0	0.0	0.0
2015	2.43	4.0	0.0	0.0	0.0	0.0
2016	2.48	6.3	0.0	0.0	0.0	0.0
2017	2.79	9.2	0.0	0.0	0.0	0.0
2018	3.20	12.4	0.0	0.0	0.0	0.0
2019	3.62	15.4	0.0	0.0	0.0	0.0
2020	3.95	17.9	0.0	0.0	0.0	0.0
2021	4.21	19.9	0.0	0.0	0.0	0.0
2022	4.41	21.1	0.0	0.0	0.0	0.0
Totals				**3.6**		**4.9**

NOTES & SOURCES:
* VDOL E&LMI Projections.
^ #s are as of end of year; 2012-13 are actual data.
‡ Based on Fiscal Years; The interest rate for 2014 forward is a forecast provided by USDOL.
** Current to date; additional money is received quarterly.

SOURCE: VDOL Benefit Finance Model, Jan. 2014, unless otherwise noted.

Forecast Parameters Extracted From Bill S. 290 (ACT 0124)

Title: An Act Relating to Restoring Solvency to the Unemployment Trust Fund

Taxable Wage Base (TWB)
Beginning January 1, 2012, the TWB will remain at $16,000 until the Trust Fund has a positive balance on June 1 (with no outstanding loan amount), at which point the TWB will index upward annually by overall wage growth as determined by the QCEW program beginning January 1 of the following year and thereafter. Based on the July 1, 2013 date of repayment for the Title XII loan, the TWB will begin indexing in 2015 and annually thereafter.

When the unemployment contribution rate schedule is reduced to Schedule III, the TWB will be reduced by $2,000 on January 1 of the following year and will index upward annually by overall wage growth thereafter. When reduced to Schedule I, the TWB will be reduced again by $2,000 on January 1 of the following year and will continue to index thereafter. The first downward adjustment is forecast to occur in 2021.

Maximum Weekly Benefit (MWB)
The MWB will remain frozen at $425 until the Trust Fund has a positive balance as of December 31 of any given year, at which point the MWB will index upward annually by overall wage growth as determined by the QCEW program beginning the first day of the first calendar week of July of the following year and thereafter. Based on the July 1, 2013 retirement of the Title XII loan, the MWB will begin indexing in 2014 and annually thereafter.

When the unemployment contribution rate schedule is reduced to Schedule III, the MWB will be adjusted on the first day of the first calendar week in July to an amount equal to 57% of the state annual average weekly wage. An adjustment as previously described is projected to occur in 2021 based on this current forecast.

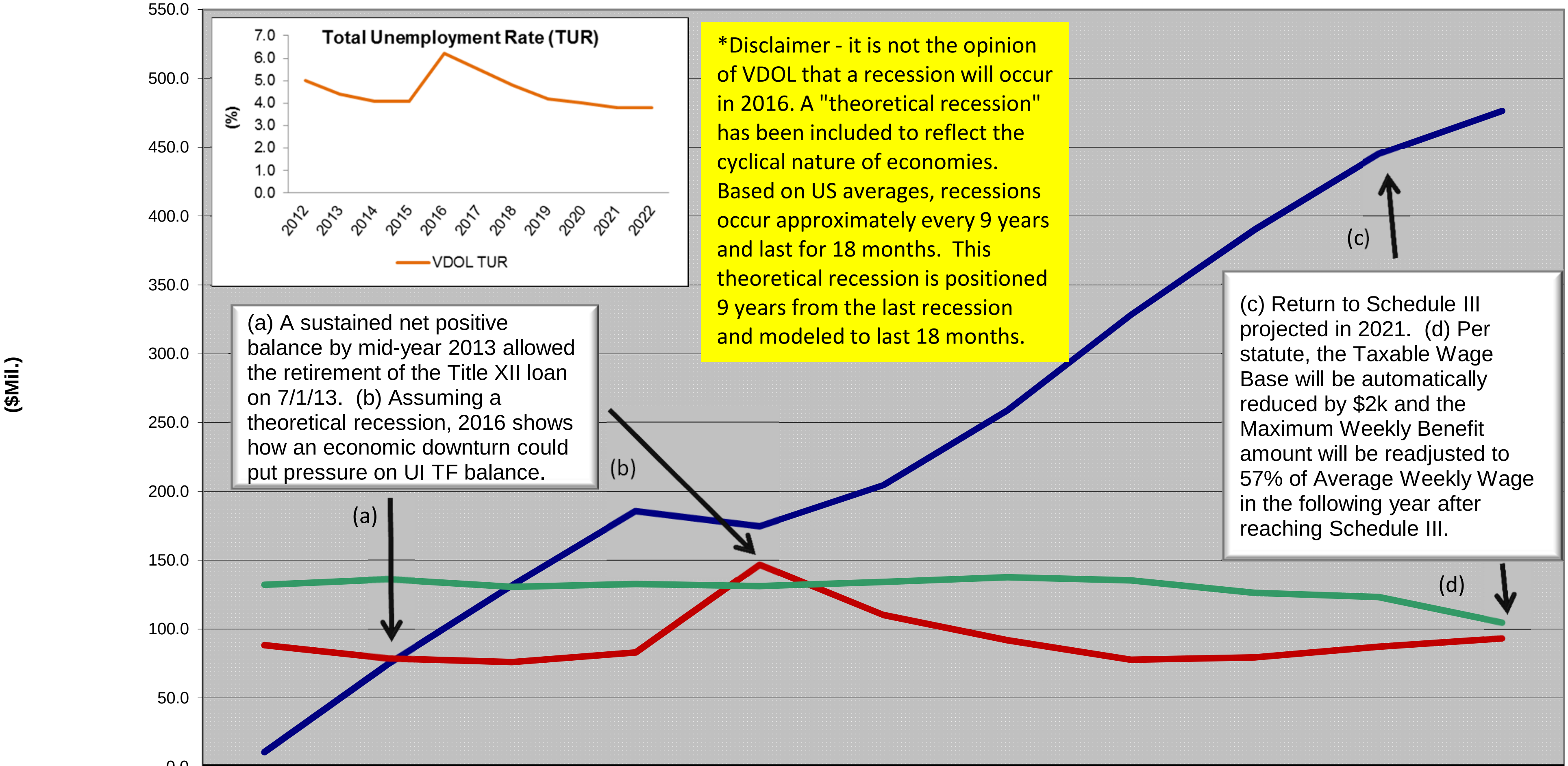
Disregarded Part-time Earnings
For claims established on or after July 1, 2012, $40.00 or 30% of weekly earnings will be disregarded, whichever amount is greater.

Computation of Benefits
For claims established on or after July 1, 2011, the maximum benefits paid during a benefit year will not exceed the lesser of 26 times the claimant's weekly benefit or 46% of the total wages paid to the claimant during the base period.

One Week Waiting Period
For claims established on or after July 1, 2012, a one week waiting period will have to be served before any benefit payment is allowed. The required waiting period will end on July 1, 2017 or when the Trust Fund has a positive balance on December 31 of the prior year, whichever is later. Claimants will still receive the full 26 weeks of benefits, just delayed by one week.

Misconduct
For claims established on or after July 1, 2011, findings of simple misconduct will result in a cap of 23 weeks of benefits.

Vermont UI Trust Fund Forecast with Theoretical Recession* - January 2014



	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Trust Fund Net Balance	10.7	74.8	131.9	185.7	174.7	204.6	258.8	328.2	390.2	444.7	476.4
Benefits	88.4	78.7	76.1	83.0	147.0	110.3	91.9	77.7	79.4	87.3	93.2
Contributions	132.2	136.1	130.6	132.7	131.2	134.2	137.7	135.5	126.3	123.3	104.7

NOTES:
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Vermont UI Trust Fund Forecast with Theoretical Recession - January 2014

		Benefits				Contributions	
Year ^	Trust Fund Net Balance ($Mil.)	Regular Benefits ($Mil.)	Extended Benefits ($Mil.)	Total Benefits ($Mil.)	Max Weekly Benefit	Total Contributions ($Mil.)	Taxable Wage Base
2012	10.7	88.4	0.0	88.4	425	132.2	16,000
2013	74.8	78.7	0.0	78.7	425	136.1	16,000
2014	131.9	76.1	0.0	76.1	434	130.6	16,000
2015	185.7	83.0	0.0	83.0	442	132.7	16,300
2016	174.7	147.0	0.0	147.0	451	131.2	16,600
2017	204.6	110.3	0.0	110.3	460	134.2	16,900
2018	258.8	91.9	0.0	91.9	469	137.7	17,200
2019	328.2	77.7	0.0	77.7	479	135.5	17,500
2020	390.2	79.4	0.0	79.4	488	126.3	17,900
2021	444.7	87.3	0.0	87.3	498	123.3	18,300
2022	476.4	93.2	0.0	93.2	530	104.7	16,300

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2016	6.2	8.5	3.3	2.0%	-1%	5
2017	5.5	8.8	3.4	2.0%	0%	5
2018	4.8	9.1	3.5	2.0%	0%	5
2019	4.2	9.2	3.5	2.0%	-1%	4
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2014	2.58	2.6	0.0	0.0	0.0	0.0
2015	2.43	4.0	0.0	0.0	0.0	0.0
2016	2.48	4.9	0.0	0.0	0.0	0.0
2017	2.79	6.0	0.0	0.0	0.0	0.0
2018	3.20	8.4	0.0	0.0	0.0	0.0
2019	3.62	11.6	0.0	0.0	0.0	0.0
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2021	4.21	18.4	0.0	0.0	0.0	0.0
2022	4.41	20.2	0.0	0.0	0.0	0.0
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