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Unemployment Insurance Trust Fund
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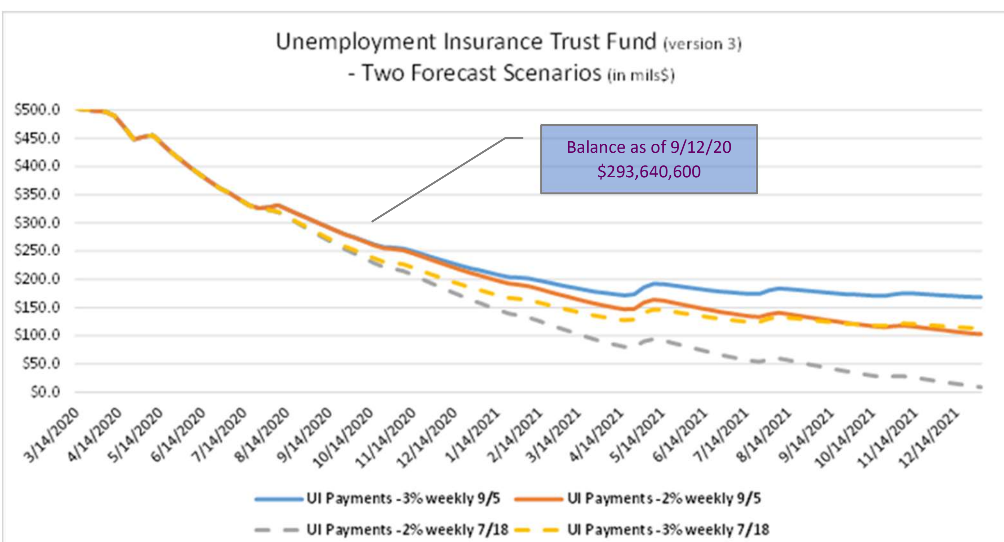
INTRODUCTION

The Economic and Labor Market Information Division has prepared the following information. The data below should not be construed as a projection or a forecast as there are too many economic unknowns associated with the COVID-19 pandemic. Instead, please consider these 'scenarios' which are designed to help establish an order of magnitude for possible legislative changes to the Taxable Wage Base (TWB and the Tax Rate Schedule (TRS).

OVERALL HEALTH OF UI TRUST FUND

Before exploring the impacts of changes, it is important to understand the current state and near-term future of the UI TF. To help do this, two scenarios have been developed to see how the UI TF fairs through CY2021. In Scenario 1, total benefits paid decreases 3% weekly. In Scenario 2, total benefits paid decreases 2% weekly.

Caveat: <u>Both scenarios are dependent upon slow, consistent improvements in the overall economy. Improvements in the economy are dependent upon continued abatement of the impacts of the COVID-19 pandemic.</u>



Based on data from the week ending September 5, 2020, in both scenarios, the UI TF would have ample resources to finish both CY2021 and CY2022 strong.

CY2021 Ending Balance of Unemployment Insurance Trust Fund	
Scenario 1 (total benefits paid decreases by 3% weekly)	$168.7M
Scenario 2 (total benefits paid decreases by 2% weekly)	$103.0M

TAXABLE WAGE BASE

The current TWB is $16,100. Due to the migration to tax rate schedule I in July of 2020, the TWB is slated to decrease by $2,000 on January 1, 2021. To understand the impact of a change to the TWB, some calculations were performed using the federally provided UI TF Benefit Finance Model. The model was calibrated to a post-COVID world based on many assumptions. Assumptions were tested for sensitivity such that the impacts described below are believed to be reasonable en masse but not exact as the future size and health of the Vermont economy post-COVID is still unknown.

The base case scenario is consistent with what is best thought to happen – i.e. a rise to tax rate schedule V and a decrease in the TWB by $2,000. If the TWB is not lowered, the UI TF is estimated to receive and addition $10M-$12M in employer contributions. Though not an exactly linear relationship, it is a safe estimate to assume that if the TWB was decreased by only half of the scheduled $2,000, then the bump to contributions would be about half as large – i.e. $5M-$6M.

TAX RATE SCHEDULE

Vermont is an array state meaning employers are ranked and grouped by experience rating. There are five TRS. To understand the impact of changing the TRS, the TWB was held constant. Different levels of taxable wages were assumed through multiple iterations to understand how the changes impacted the total and the distribution of contributions due.

Total contributions are directly related to the amount of taxable wages; the all-encompassing uncertainty about the overall economy makes estimating taxable wages difficult (pace of re-hiring, returning to previous jobs vs. accepting new employment, etc.). As such a point estimate of $3.5B is used as a proxy. This would be akin to 2014-2015 levels of taxable wages in the Vermont economy.

Assuming taxable wages of $3.5B:

- Under schedule I – total contributions due would be $86.7M
- Under schedule III – total contributions due would be $123.2M (diff. of $36.5M from sch I)
- Under schedule V – total contributions due would be $160.2M (diff. of $37.0M from sch III)

Note: total contributions will move in step with increases/decreases to the taxable wage base. So, if the taxable wage base was $3.9B, which would be akin to 2019 levels, then the difference between schedule migrations would be $40.7M and $41.2M, respectively.

Conclusion – moving from schedule I to schedule V, nearly doubles the contributions due.

Distribution of contributions – regardless of the total amount of contributions due, the shift in tax rate schedules will impact employers with the lower experience ratings more. For employers in experience classes:

- 0-5 - contribution levels will triple. (range 3.3x – 3.0x)
- 6-9 - contribution levels more than double. (range 2.7x – 2.0x)
- 10-20 - contribution levels will increase by at least 60%. (range 1.9x – 1.6x)

CY2021 YEAR-END ESTIMATES

Pulling all the above information together, the table below was developed to illustrate how combinations of TWB and TRS will impact the net UI trust fund balance in the short-run (end of CY2021).

Unemployment Trust Fund
Estimates of CY2021 Year-end Balance (in millions)
Based on $3.5 billion in taxable wages

Scenario 1 – Trust Fund Balance by 12/31/21 (total benefits paid decreases by 3% weekly)

	Tax Rate Schedule		
TWB	**I**	**III**	**V**
$14,100	$95.2	$131.7	$168.7
$15,100	$101.2	$137.7	$174.7
$16,100	$107.2	$143.7	$180.7

Scenario 2 – Trust Fund Balance by 12/31/21 (total benefits paid decreases by 2% weekly)

	Tax Rate Schedule		
TWB	**I**	**III**	**V**
$14,100	$29.5	$66.0	$103.0
$15,100	$34.5	$71.0	$108.0
$16,100	$39.5	$76.0	$113.0