

VERMONT DEPARTMENT OF LABOR

REPORT

Unemployment Insurance Trust Fund Report

Submitted: January 31, 2019

Submitted To:

The Senate Committee on Economic Development, Housing & General Affairs

The Senate Committee on Finance

The House Committee on Commerce & Economic Development

The House Committee on Ways & Means

Submitted By:

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&

Mathew Barewicz

Economic & Labor Market Information Chief, Vermont Department of Labor





Memorandum

To: The Honorable Phil Scott, Governor
Senator Michael Sirotkin, Chair, Senate Econ. Development, Housing & General Affairs
Senator Ann Cummings, Chair, Senate Finance
Representative Michael Marcotte, Chair, House Commerce & Economic Development
Representative Janet Ancel, Chair, House Ways & Means

CC:

From: Lindsay H. Kurrle, Commissioner, Vermont Department of Labor

Date: January 31, 2019

Re: UNEMPLOYMENT INSURANCE TRUST FUND REPORT

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) net¹ 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.

¹ 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.

IMPORTANT TECHNICAL NOTE

Late in calendar year 2018, VDOL was informed by the ETA that the existing federally-provided statistical model used to forecast the UITF would no longer be maintained. Instead, a new statistical model was being developed with an initial release date of December 2018. VDOL was informed privately that this target release date was ambitious. Therefore, the accompanying tables are predominately based on last year's forecast though updated for additional known information. This was determined to be the prudent course of action for two reasons. The first reason was the UITF was behaving as forecasted. Economic conditions were consistent with the past year's base forecast and dollars were accruing in the UITF as could be expected. The second reason was timing. In the interest of meeting the statutory deadline of January 31, VDOL could not risk learning a new model and completing the necessary economic modeling within this short of a timeframe. As of the date of this report, VDOL does have access to the new model but is working with federal partners to troubleshoot technical issues with installation.

SUMMARY OF RECENT UI REFORM

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 efforts 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.² 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 upon return to Tax Rate Schedule III in 2018 when the taxable wage base was reduced by \$2,000 to \$15,600. 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 in the following year. Migration to Tax Rate Schedule 1 is projected to occur in 2020. No indexing occurs in the year in which the second and third triggers are met.

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.

² Vermont had borrowed \$77.7 million from the U.S. Department of Labor between February 2010 and April 2011. The VDOL stopped all borrowing by April 2011, and paid back the federal loan by July 1, 2013, 18 months ahead of the earliest projected pay-off date.

- 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.

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

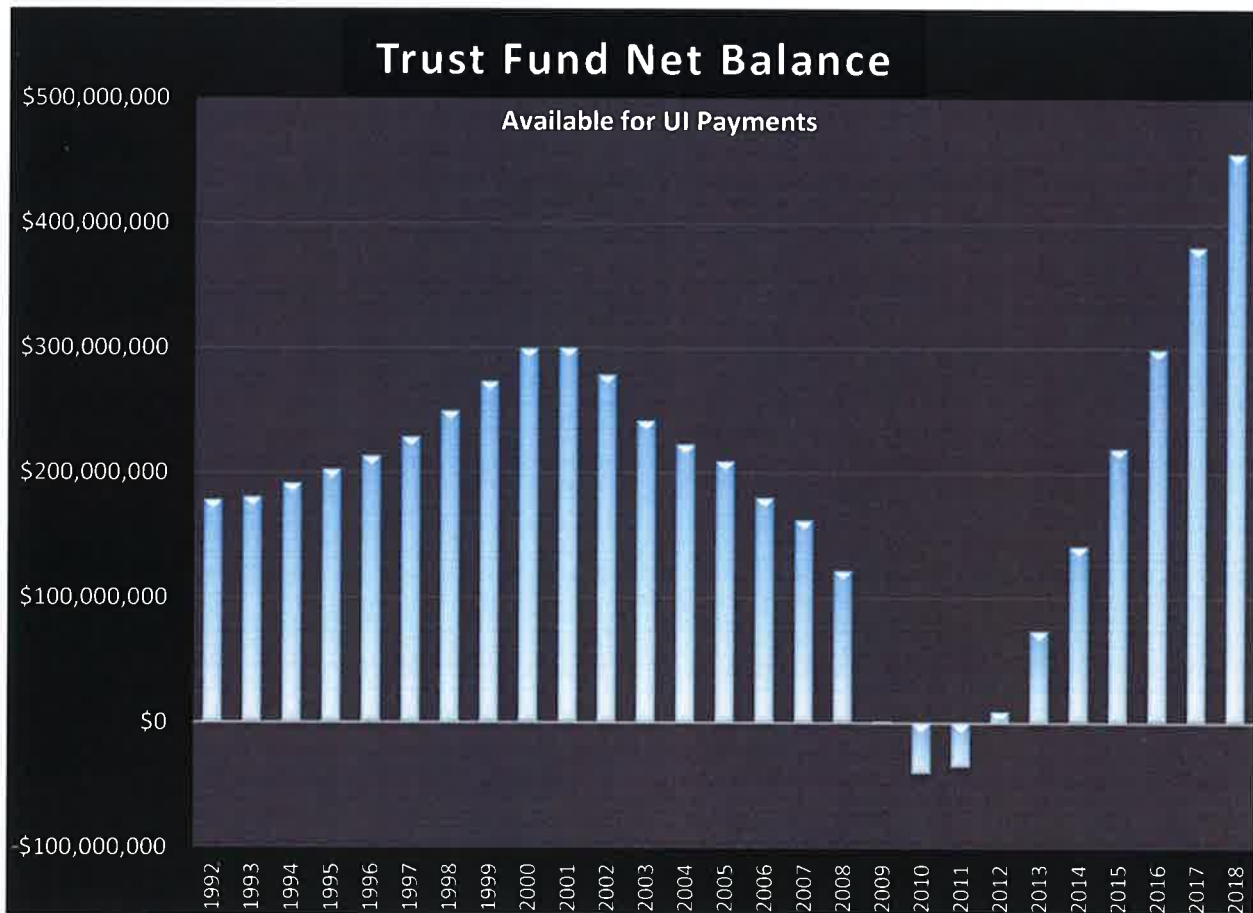
- Modification to the maximum benefit amount payable in a benefit year. The new formula established that a claimant would be eligible for an amount equal to 26 weeks times their weekly benefit amount or 46% of the base period wages, whichever is less.
- Capped maximum benefit amount (to 23 weeks) for 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, will resume in 2019.
- 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 previous Vermont Commissioner 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 are sharing in Vermont's unemployment insurance reform. While these represent the most substantial changes to UI laws, there have been more recent adjustments, including Disregarded Earnings.

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.

BACKGROUND

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 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'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 has continued annually to the current year. The ending UITF net balance on December 31, 2018 is estimated to be \$456.6 million (see below).



DECEMBER 2018 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 2017, the tax rate schedule migrated from the highest rate to tax rate schedule IV. In July 2018, the tax rate schedule migrated from the tax rate schedule IV to tax rate schedule III. This resulted in lowering the tax rate schedule employers pay and triggered a decrease of \$2,000 to the taxable wage base in January 2019.

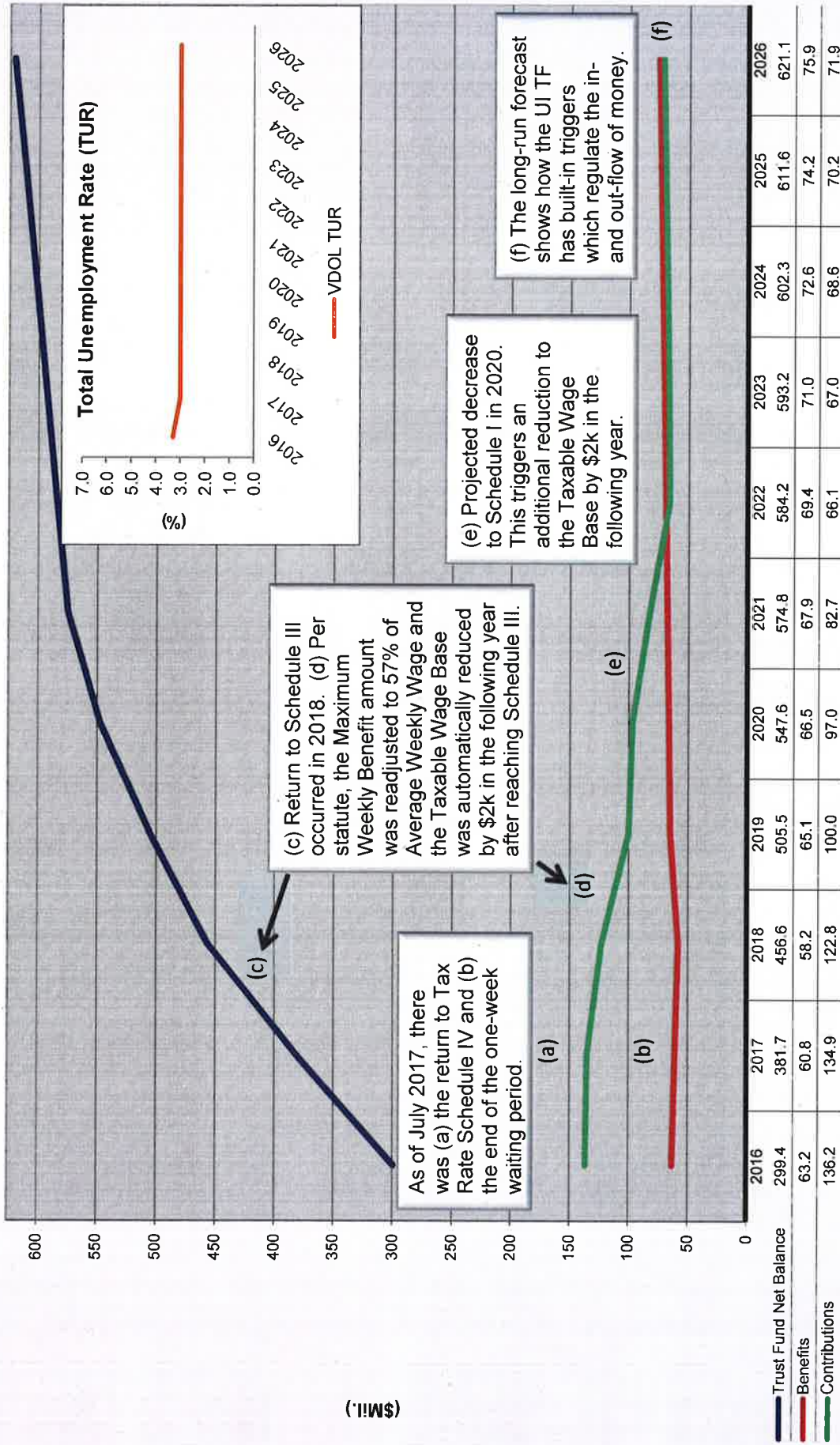
It is anticipated in both the baseline forecast and the ‘theoretical recession’ forecast that the balance in the UITF will be sufficient to move down to tax rate schedule I in July 2020. Should this migration occur, it would result in lowering the tax rate schedule employers pay and a decrease of \$2,000 to the taxable wage base in 2021. As has been the practice, an alternate ‘theoretical recession’ has been modeled to provide insight on how the UITF will respond to a potential economic downturn. The theoretical recession is based on historical data and forecasted to occur two years in the future. The next recession could begin at any time – either before or after this arbitrary two-year parameter. Should an economic downturn begin sooner than 2020 as modeled, it is possible the migration to tax rate schedule III could be delayed.

FORECAST RISKS

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. It is important to note that there are natural dampening agents built into Vermont’s UI laws which will automatically throttle back employer contributions when the UITF has a significant positive balance.

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 to derail the U.S. economic recovery. Threats of international entanglements also remain areas of concern for the forecast.

Vermont Unemployment Insurance Trust Fund Baseline Forecast - December 2018



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, Dec. 2018, unless otherwise noted.

Vermont Unemployment Insurance (UI) Trust Fund Baseline Forecast - December 2018

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

Title: An Act Relating to Restoring Fund Adequacy to the UI Trust Fund

Year ^	Benefits				Contributions	
	Trust Fund Net Balance (\$Mil.)	Regular Benefits (\$Mil.)	Extended Benefits (\$Mil.)	Total Benefits (\$Mil.)	Max Weekly Benefit**	Total Contributions (\$Mil.)
2016	299.4	63.2	0.0	63.2	458	136.2
2017	381.7	60.8	0.0	60.8	466	134.9
2018	456.6	58.2	0.0	58.2	498	122.8
2019	505.5	65.1	0.0	65.1	509	100.0
2020	547.6	66.5	0.0	66.5	520	97.0
2021	574.8	67.9	0.0	67.9	532	82.7
2022	584.2	69.4	0.0	69.4	543	66.1
2023	593.2	71.0	0.0	71.0	555	67.0
2024	602.3	72.6	0.0	72.6	567	68.6
2025	611.6	74.2	0.0	74.2	580	70.2
2026	621.1	75.9	0.0	75.9	593	71.9

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 began indexing on January 1, 2015 and will continue 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 occurred in 2019 and the second reduction is forecasted 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 began indexing in 2014 and will continue 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 occurred in 2018.

Disregarded Part-time Earnings

For claims established on or after July 1, 2014, 50% of weekly earnings will be disregarded.

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. Claimants are still eligible to receive the full 26 weeks of benefits, just delayed by one week. The required one-week waiting period ended on July 1, 2017.

Misconduct

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

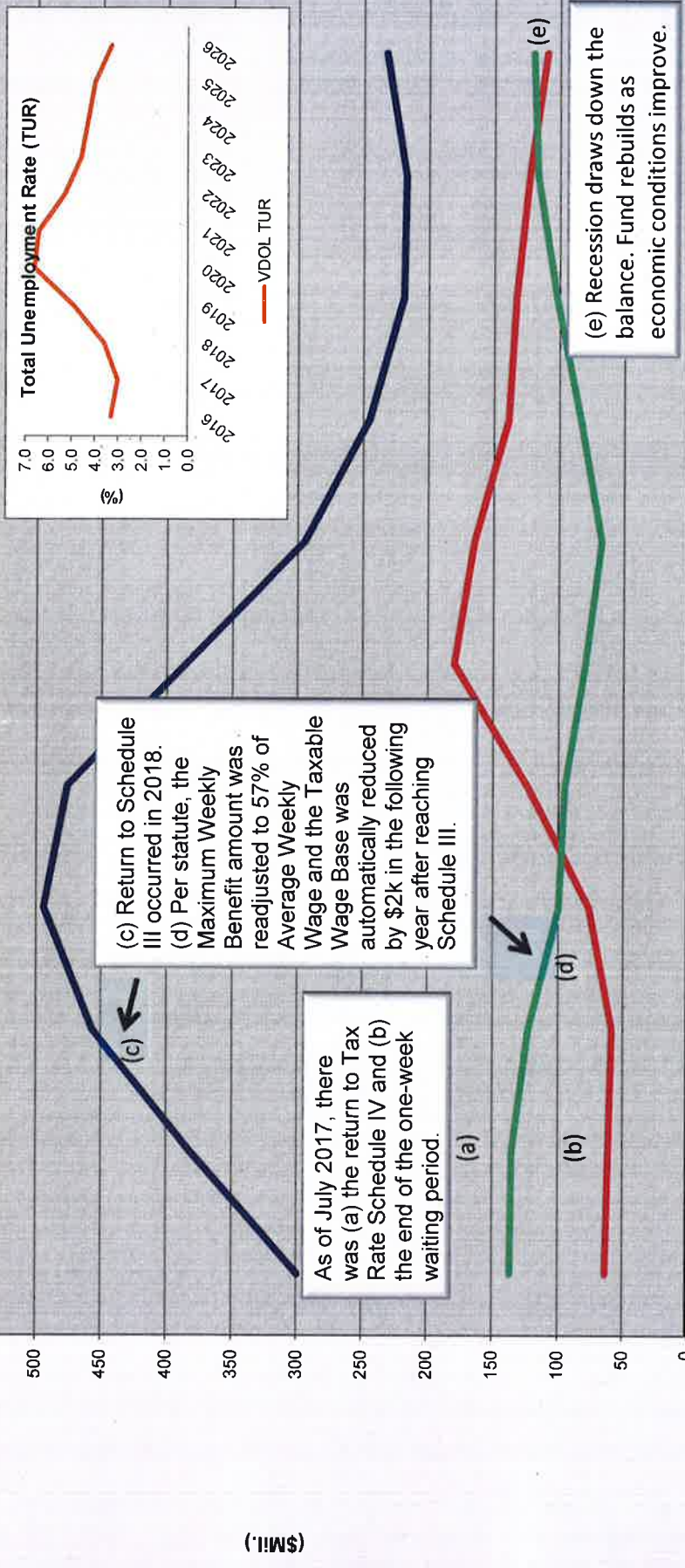
Year ^	Total Unemployment Rate*	Total Wages (\$Bil.)	Taxable Wages (\$Bil.)	Wage Growth*	Labor Force Growth*	Tax Rate Schedule**
2017	3.0	9.5	3.7	2.5%	0.00%	4
2018	2.8	9.8	3.8	2.2%	-0.10%	3
2019	3.0	10.0	3.6	2.2%	-0.10%	3
2020	3.0	10.2	3.7	2.2%	-0.10%	1
2021	3.0	10.4	3.8	2.2%	-0.10%	1
2022	3.0	10.6	3.5	2.2%	-0.10%	1
2023	3.0	10.8	3.6	2.2%	-0.10%	1
2024	3.0	11.1	3.7	2.2%	-0.10%	1
2025	3.0	11.3	3.8	2.2%	-0.10%	1
2026	3.0	11.5	3.9	2.2%	-0.10%	1

Year ^	Interest Rate %‡	Interest Earned (\$Mil.)	End of Year Loan Amount (\$Mil.)	Interest Payable September 30 (\$Mil.)	FUTA Credit Reduction %	FUTA Credit Payment Jan 1 (\$Mil.)
2017	2.23	7.8	0.0	0.0	0.0	0.0
2018	2.28	9.8	0.0	0.0	0.0	0.0
2019	2.30	10.6	0.0	0.0	0.0	0.0
2020	2.50	11.6	0.0	0.0	0.0	0.0
2021	2.70	12.4	0.0	0.0	0.0	0.0
2022	3.00	12.8	0.0	0.0	0.0	0.0
2023	3.20	13.0	0.0	0.0	0.0	0.0
2024	3.30	13.2	0.0	0.0	0.0	0.0
2025	3.40	13.4	0.0	0.0	0.0	0.0
2026	3.50	13.6	0.0	0.0	0.0	0.0
Totals					0.0	0.0

NOTES & SOURCES:
 * VDOL E&LMI Projections
 ^ #s are as of end of year; 2016 & 2017 are actual data; 2018 are estimates.
 † Based on Fiscal Years. The interest rates are provided by USDOL.
 ** Maximum Weekly Benefit and Tax Rate Schedule change on July 1.
 SOURCE: VDOL Benefit Finance Model, Dec. 2018, unless otherwise noted.

Vermont Unemployment Insurance Trust Fund Forecast with Theoretical Recession* - December 2018

*Disclaimer - it is not the opinion of VDOL that a recession will occur in 2020. A "theoretical recession" has been included to reflect the cyclical nature of economies. Based on US averages, recessions occur approximately every 8 to 10 years and last for 18 months. This theoretical recession is modeled after the 1990 Vermont recession.



(c) Return to Schedule III occurred in 2018.
 (d) Per statute, the Maximum Weekly Benefit amount was readjusted to 57% of Average Weekly Wage and the Taxable Wage Base was automatically reduced by \$2k in the following year after reaching Schedule III.

As of July 2017, there was (a) the return to Tax Rate Schedule IV and (b) the end of the one-week waiting period.

(e) Recession draws down the balance. Fund rebuilds as economic conditions improve.

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, Dec. 2018, unless otherwise noted.

Vermont Unemployment Insurance (UI) Trust Fund Recession Forecast - December 2018

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

Title: An Act Relating to Restoring Fund Adequacy to the UI Trust Fund

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2017	381.7	60.8	0.0	60.8	468	17,300
2018	456.6	58.2	0.0	58.2	498	17,600
2019	494.0	76.2	0.0	76.2	509	15,600
2020	476.1	123.9	0.0	123.9	520	15,900
2021	385.1	172.7	7.1	179.8	532	13,900
2022	294.7	164.8	0.0	164.8	543	14,200
2023	245.2	138.8	0.0	138.8	555	14,500
2024	219.4	133.2	0.0	133.2	567	14,800
2025	217.7	123.3	0.0	123.3	580	15,100
2026	232.9	110.0	0.0	110.0	593	15,400

Year ^	Total Unemployment			Wage		Labor Force		Tax Rate Schedule**
	Rate*	Total Wages (\$Bil.)	Taxable Wages (\$Bil.)	Growth*	Growth*	Growth*		
2016	3.2	9.3	3.6	1.9%	0.00%	5		
2017	3.0	9.5	3.7	2.5%	0.00%	4		
2018	3.6	9.8	3.8	2.2%	-0.10%	3		
2019	4.9	9.9	3.6	2.2%	-0.10%	3		
2020	6.6	10.0	3.6	2.2%	-0.10%	1		
2021	6.4	10.1	3.7	2.2%	-0.10%	1		
2022	5.3	10.4	3.4	2.2%	-0.10%	2		
2023	4.6	10.7	3.5	2.2%	-0.10%	3		
2024	4.3	10.9	3.6	2.2%	-0.10%	4		
2025	4.0	11.2	3.7	2.2%	-0.10%	4		
2026	3.3	11.4	3.8	2.2%	-0.10%	4		

Year ^	Interest Earned			Interest Payable		FUTA Credit	
	Rate %†	Amount (\$Mil.)	End of Year Loan Amount (\$Mil.)*	September 30 (\$Mil.)*	Reduction %	Reduction (\$Mil.)	Payment Jan 1 (\$Mil.)
2016	2.23	6.1	0.0	0.0	0.0	0.0	0.0
2017	2.23	7.8	0.0	0.0	0.0	0.0	0.0
2018	2.28	9.3	0.0	0.0	0.0	0.0	0.0
2019	2.30	10.5	0.0	0.0	0.0	0.0	0.0
2020	2.50	10.7	0.0	0.0	0.0	0.0	0.0
2021	2.70	9.3	0.0	0.0	0.0	0.0	0.0
2022	3.00	7.3	0.0	0.0	0.0	0.0	0.0
2023	3.20	5.8	0.0	0.0	0.0	0.0	0.0
2024	3.30	5.0	0.0	0.0	0.0	0.0	0.0
2025	3.40	4.7	0.0	0.0	0.0	0.0	0.0
2026	3.50	4.8	0.0	0.0	0.0	0.0	0.0
Totals					0.0	0.0	0.0

NOTES & SOURCES:
 * VDOL E&LMI Projections.
 ^ #s are as of end of year, 2016 are actual data, 2017 are estimates.
 † Based on Fiscal Years; The interest rate is a forecast provided by USDOL.
 ** Maximum Weekly Benefit and Tax Rate Schedule change on July 1.
 SOURCE: VDOL Benefit Finance Model, Dec. 2018, unless otherwise noted.