

Vermont Unemployment Insurance Trust Fund: Options

Prepared for the Unemployment Insurance Study Committee

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Vermont Legislative
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Overview: Three Options to Pay Out an Additional \$10 Million per Year to Recipients for 10 Years

1. Raise the maximum benefit (short-term)
2. Raise the reimbursement percentage (long-term)
3. Create a Special Fund separate from the UI Trust Fund (long-term)
 - a. Reduce Tax Rate Schedule but levy a new fee on UI employers
 - b. Reduce Taxable Wage Base Amount but levy a new fee on UI employers
 - c. Maintain the same overall revenue for UI from employers



1: Raise the Maximum Unemployment Insurance Benefit Amount (short-term)

Illustrative numbers and cost

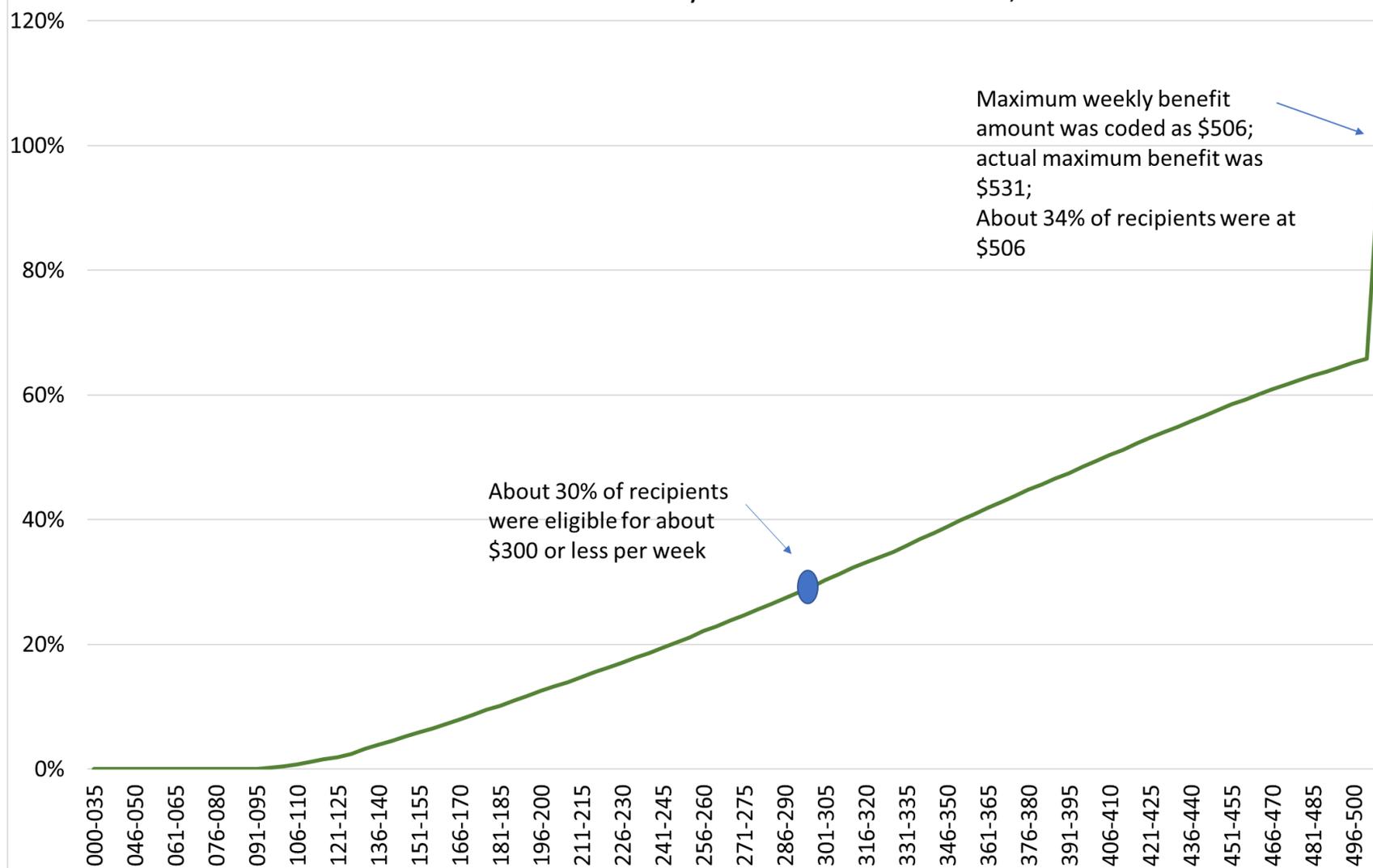
The maximum UI benefit amount in Vermont

Vermont's Maximum Weekly Benefit Amount						
	actual Jan 2019	actual July 2019	actual Jan 2020	actual July 2020	actual Jan 2021	actual July 2021
Maximum Weekly Benefit	\$506	\$513	\$513	\$531	\$531	\$583
% Change in State Average Weekly Wage, overall	3.6%		9.6%		?	
% Change in Maximum Weekly Benefit		1.4%		3.5%		9.8%
Source: Vermont Dept. of Labor, Economic & Labor Market Information						

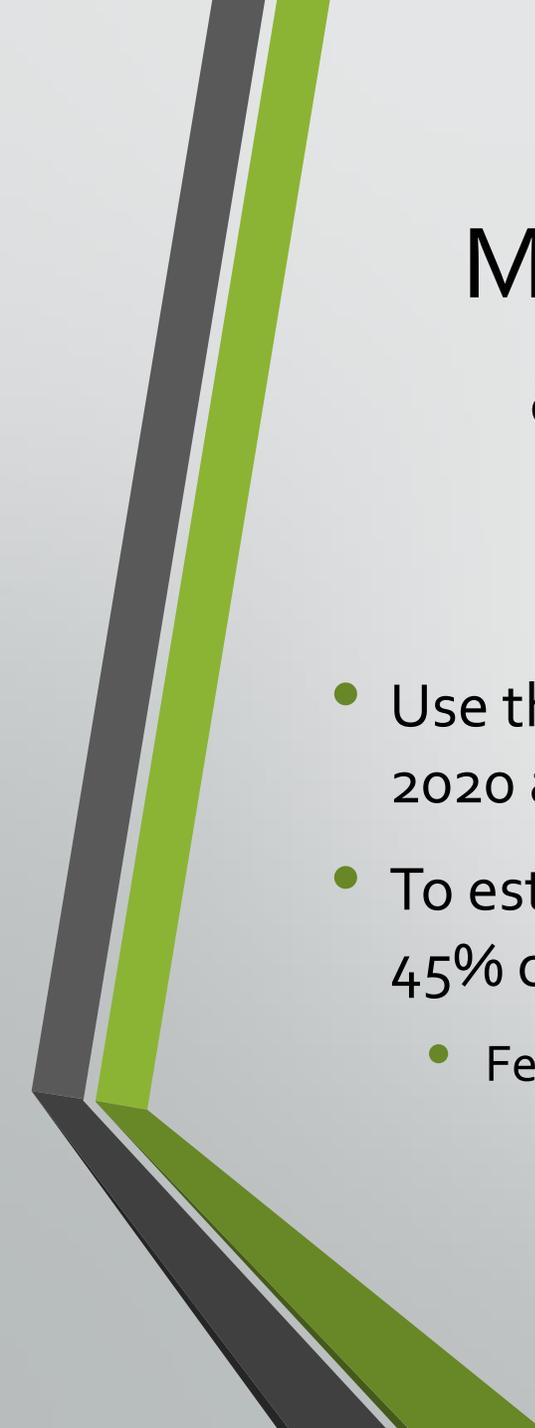
The estimated cost of raising the maximum benefit amount to \$725

- Raising the maximum benefit to \$725 from \$531 *in 2020 using 2020 dollars* yielded an additional cost of roughly \$7.5 million over 12 months
 - Not quite \$10 million, but need to allow for administrative costs and wage inflation
 - In the future, start with the new maximum benefit
- JFO used the distribution of initial weekly benefits amounts for the second half of 2020, capped at \$506
 - Note that initial weekly benefit amounts do not account for the duration of UI benefits, payment offsets,, or overpayments
 - The initial amount calculated seems to be relatively close to the average weekly benefit actually paid out, based on preliminary analysis by JFO

Cumulative Distribution of Initial Weekly UI Benefits in Vermont, 2nd half of 2020



Source: Vermont Department of Labor, Economic & Labor Market Information; JFO data analysis.



Methods: If goal is to increase UI benefits about \$10 million per year for 10 years

- Use the distribution of initial weekly benefit amounts from the 2nd half of 2020 as proxy for average weekly benefit amounts in 2020
- To estimate overall dollars to be paid out in UI benefits in 2022, use about 45% of benefit amounts paid out in the 2nd half of 2020
 - Fewer Vermonters are expected to claim UI benefits in 2022 relative to 2020

Context for a maximum weekly UI benefit of \$725

- A weekly UI benefit of \$725 in 2020 corresponded to a weekly wage of \$1,254
- That weekly wage of \$1,254 corresponded to full-year annual earnings of \$65,225
 - Vermont median household income in 2019 was \$63,001 (ACS, 1-year survey)
 - In other words, half of Vermont households had income greater than \$63,001 and half had income less than \$63,001
 - Data on median household income in 2020 should be available in December



2: Raise the Reimbursement Percentage (long-term)

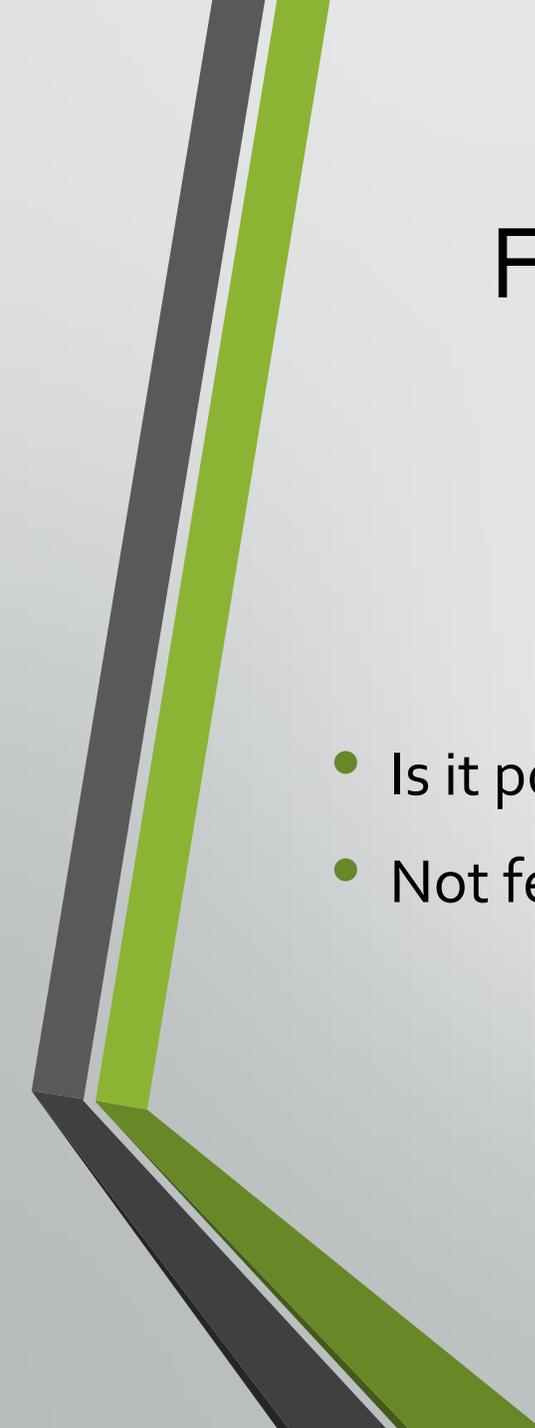
Change the UI program divisor to increase the reimbursement percentage

The current reimbursement percentage

- The current reimbursement percentage is the result of dividing a person's earnings from their two highest earning quarters by 45
- Currently, the reimbursement percentage is 57.8%
- For example, consider a person who earns \$40,000 in a year or \$20,000 in the two highest quarters
 - Divide \$20,000 by 45 to obtain the UI weekly benefit amount \$444.44
 - Divide \$40,000 by 52 to get weekly earnings of \$769.23
 - The weekly benefit amount is 57.8% of the weekly earnings amount

Consider raising the reimbursement percentage to 70%

- JFO finds that dividing earnings in the two highest quarters by 37 would raise the reimbursement percentage to 70.3%
- Raising the reimbursement percentage from 57.8% to 70.3% is an increase of 21.6% in UI benefits
 - To illustrate, the overall cost of UI benefits was about \$814,000 during the week ending Nov. 5
 - If the reimbursement rate had been 70%, the cost would have been about \$990,000
 - On the benefit side, a weekly benefit amount of about \$380 would increase to \$462



Feasibility of raising the reimbursement percentage

- Is it possible/feasible to raise the reimbursement percentage?
- Not feasible until a modernized UI system is in place.

A possible consideration if the maximum benefit or the reimbursement percentage is increased

- The impact of “induced entry”
 - As workers become aware of the higher maximum benefit or larger reimbursement percentage, more unemployed workers might decide to apply for UI benefits, stay on the UI program longer, and/or reduce job search efforts
 - Only weak support for induced entry from the CARES Act \$600 additional benefit for UI (FPUC)
 - But that additional benefit was clearly temporary from the week ending April 4, 2020 through the week ending July 25, 2020 (17 weeks)
 - An increase in weekly benefits that is projected to last 10 years would be more likely to lead to induced entry



3: Establish a separate fee to fund a Special Fund and additional benefits (long-term)

The idea: Pay additional UI benefits out of a new Special Fund in the long term

- Maintain the same level of employer contributions to UI
- Reduce contributions paid into the UI Trust Fund about \$10 million per year
 - Lower the Tax Rate Schedule by statute
 - Lower the Taxable Wage Amount by statute
- Impose a new fee on UI employers equal to the difference and channel those fees into a new Special Fund
- Pay additional benefits equal to about \$10 million per year out of the Special Fund

Two ways to reduce contributions into the UI Trust Fund

- First, legislators could reduce the Tax Rate Schedule one level
 - If the Tax Rate Schedule would have been at level III, now it will be at level II
 - Contributions would be about \$18.4 million less per year (more than \$10 million)
- Second, legislators could reduce the Taxable Wage Amount \$1,500
 - If the Taxable Wage Amount would have been \$14,600, now it will be \$13,100
 - Contributions would be about \$9 million less per year (about right)
- In both cases, the difference in contributions would go into the Special Fund to pay for additional benefits, administrative costs of those additional benefits, or other uses associated with the UI program (modernization?)