VERMONT

DEPARTMENT OF LABOR

Legislative Report

Unemployment Insurance Trust Fund Report

Submitted On:

February 10, 2025

Submitted To:

The Honorable Phil Scott, Governor
House Committee on Commerce and Economic Development
House Committee on Ways and Means
Senate Committee on Economic Development, Housing, and General Affairs
Senate Committee on Finance

Submitted By:

The Vermont Department of Labor

IN ACCORDANCE WITH 21 V.S.A. § 1309

This report and accompanying analysis of the Unemployment Insurance (UI) Trust Fund (TF) 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 Committees on Economic Development, Housing and General Affairs and Finance and the House Committees on Commerce and Economic Development and 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

JANUARY 2025 UPDATE – SUMMARY

The conditions of the state economy have been stable for the past three years. From an employment/unemployment perspective, the economic downturn from the 2020 global pandemic is in the rearview mirror. For UI, this means claims levels for the past three years (2022-2024) have been stable and historically low. Low levels of claims, combined with rising levels of employer contributions, have made the UI TF cash-positive for the past three years. In addition, the UI TF received a cash infusion of $15M from the federal government during the summer of 2024. These funds were owed to the State of Vermont as part of federal support created to assist states during the pandemic. Specifically, as part of federal legislation, the federal government agreed to pay the first week of benefits paid for all claimants during the early part of the pandemic. The $15M equates to those 'first-week' benefit payments. These dollars were previously expended by the state as part of the benefits paid during the pandemic, and now the state has been made whole as of June 2024.

At the beginning of CY2024, the balance available to pay UI benefits in the UI TF was $277.5M. During CY2024, an estimated $67.8M in contributions from tax-paying employers were collected. Over the same period, an estimated $58.2M in regular UI benefits were paid out. The UI TF is an interest-bearing account growing at approximately 3.0%. Quarterly interest payments are added to the UI TF, and in CY2024, $8.7M in interest payments were added to the fund. Adding contributions, subtracting benefits, adding interest, and adding the one-time reimbursement of $15M resulted in an estimated CY2024 yearend balance of $308.0M.

The projected UI TF yearend balance from the 2023 report for 2024 was $294.2M. Adjusting for the $15M reimbursement, the UI TF performed within 0.4% (or $1.2M) of projections created two years ago.

Note: The UI Trust Fund report is based on the best available data at the time of issuance. The final calendar year 2024 data is still being processed, so all 2024 data in this report is estimated.

HISTORICAL UI DATA

The way Vermont's UI TF is designed to operate is much like a "rainy day fund." Ideally, it grows during good economic periods so there are ample reserves available during economic downturns. This was not the case during the 2001 - 2008 period when the economy grew, but the UI TF shrank. This reduced the ability of the fund to withstand the economic downturn that started in December 2007. Due to the size and duration of the 2007 recession, Vermont needed to borrow funds from the federal government to meet the obligations of the UI TF. The State took out a federal Title XII loan to pay UI benefits. Due to state legislative reforms in 2010, the health of the UI TF returned. Before the COVID-19 recession in 2020, there was $510.9M in the fund. Though the COVID-19 recession was historically deep, it was also short. This, combined with the fund's health and federally-funded UI support programs such as Pandemic Extended Unemployment

Compensation, allowed the fund to remain positive, though it was cut in half. Since 2022, contributions to the UI TF have exceeded the benefits paid out.

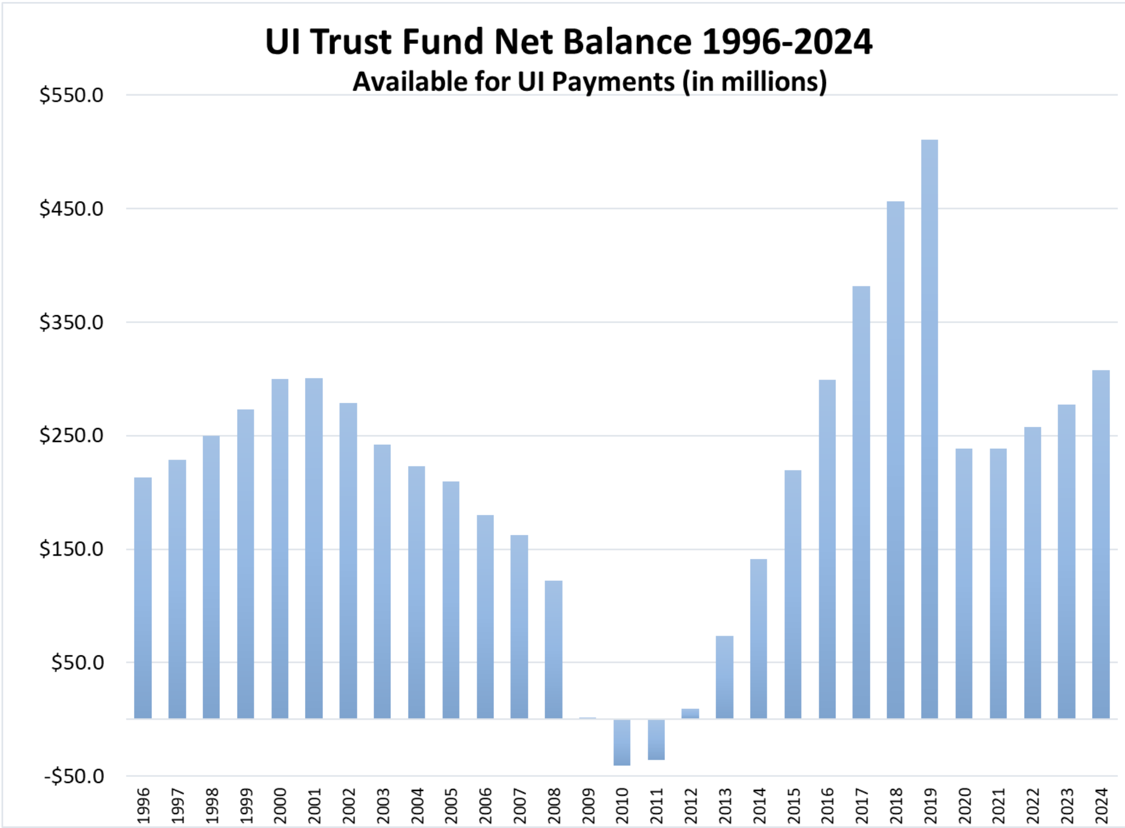

Figure 1 – UI Trust Fund Net Balance 1996-2024

As detailed in the table below, during the first year of the COVID-19 recession, the amount of regular UI benefits paid out was six times higher than 2019 levels. By 2022, the impact of the COVID-19 recession on UI claims activity had subsided.

UI Program Year	Initial Claims Filed	Continued Claims Filed	Number of Payments Made	Total Dollars Paid Out
2014	43,580	316,000	265,189	$80,010,653
2015	39,885	278,793	234,638	$72,179,069
2016	40,959	265,101	222,298	$70,207,519
2017	35,401	239,948	204,817	$67,530,307
2018	32,436	212,300	192,894	$65,089,064
2019	31,905	203,765	183,745	$64,826,450
2020	129,389	1,159,832	1,205,472	$382,465,544
2021	62,185	391,536	315,921	$102,259,205
2022	24,922	141,232	120,388	$49,911,003
2023	24,378	154,850	130,654	$61,517,026
2024	23,286	148,964	127,174	$65,260,246

Figure 2 – UI Program Activity Summary 2014-2024

The graph below excludes the years 2020 and 2021 from the picture to show the week-to-week seasonal pattern of UI claims activity as well as overall levels. At the time, 2018 and 2019 were considered to have low levels of claims. The three-year period between 2022 and 2024 was even lower. The only deviation from the usual seasonal patterns of UI claims activity over this period was in the summer of 2023, when claims rose due to a natural disaster (flooding) in many areas of the state. Otherwise, the past three years of UI claims data capture some of the most consistent seasonal patterns and the lowest levels recorded. Additional UI summary data can be found online at: http://www.vtlmi.info/lmipub.htm#uc.

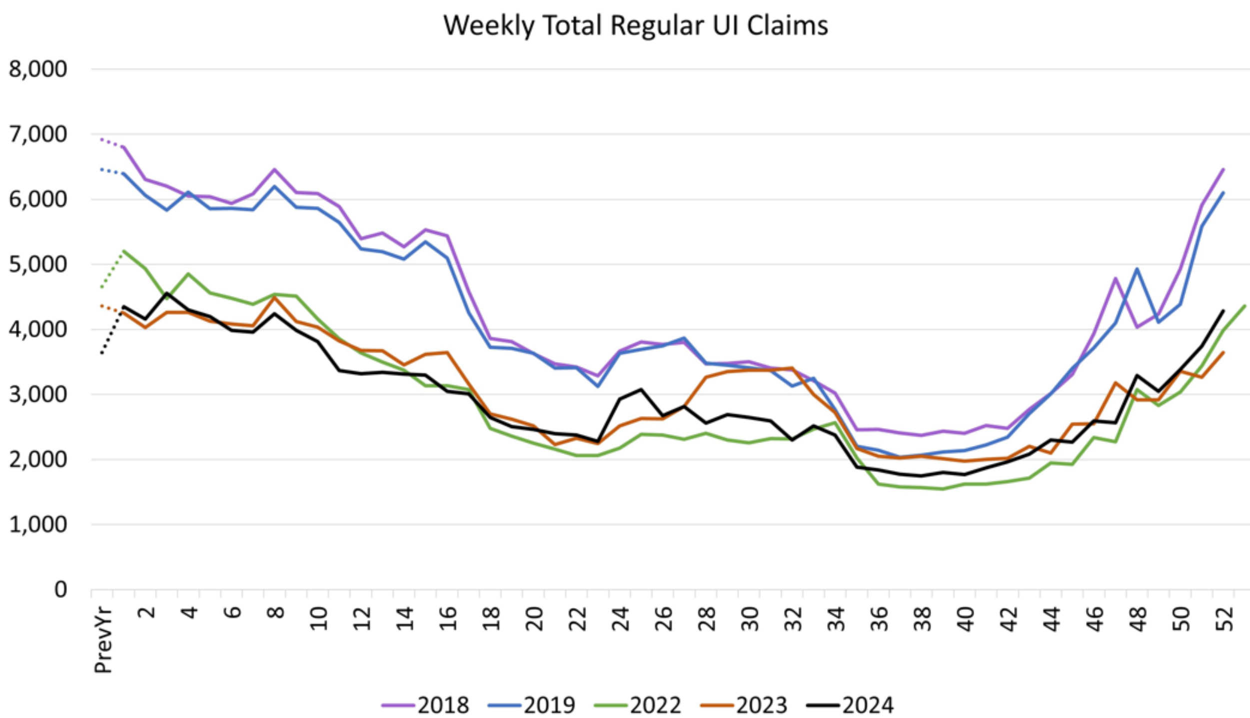

Figure 3 – Weekly Total Regular UI Claims 2018-2024 (2020-2021 removed)

2024 UI Statistical Information

With a yearend balance of $308M in 2024, the trust fund recorded its third consecutive year of noticeable growth. The fund grew by $30.5M or 11.0% during the past year. As previously mentioned, half of this growth was due to the $15M reimbursement from the federal government. Excluding this one-time payment, the UI TF increased by $15.5M or 5.6%, which is lower than the prior year's growth of $19.6M or 7.6%.

The three main components impacting the balance available for paying benefits are contributions received by tax-paying employers (increases the fund balance), benefits paid out to claimants (decreases the fund balance), and interest accrued on the UI TF balance (increases the fund balance).

Contribution Related Notes:

- The State received $67.8M in employer contributions (a decrease of $0.5M or -0.8% over the prior year).

- The Taxable Wage Base (TWB) for CY2024 was $14,300 (an increase of $800 or 5.9% over the prior year). The TWB for CY2025 is $14,800 (+3.5%)
- The State received $8.7M in accrued interest for CY2024 (based on an estimated average interest rate of 3.0%).

As with benefits being paid out, the employer contributions being paid into the fund follow a consistent seasonal pattern. Contributions are based on a taxable wage base that is reset at the start of each calendar year. Though the amount of contributions owed begins accruing at the start of the quarter, the contributions are not due until after the quarter closes. This means that the largest quarter receiving money into the UI TF is quarter two (Q2) because the largest amount of wages that are taxed occurs in Q1. As the year progresses, more employees hit the taxable wage base threshold, meaning the amount owed in each subsequent quarter declines.

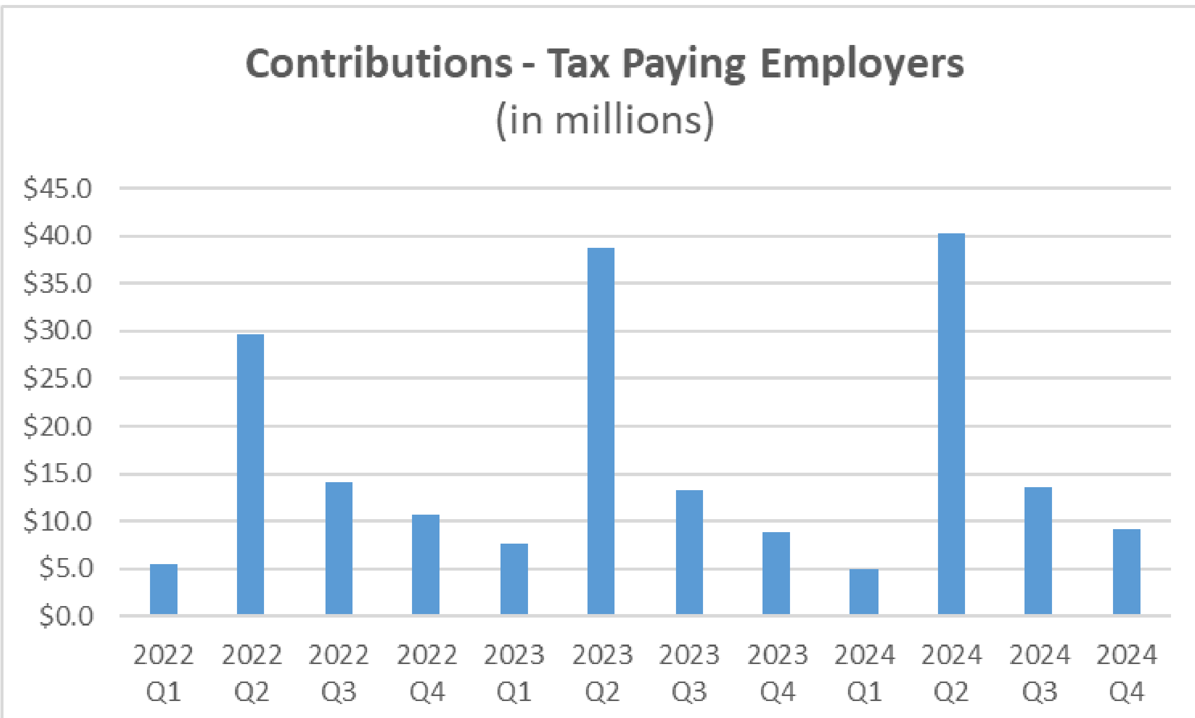

Figure 4 – UI Trust Fund Contributions from Tax Paying Employers, in millions

The pattern of UI claims activity follows the seasonal nature of certain industries in Vermont. The biggest driver of seasonal claims activity is construction, which slows down during the winter months. This means UI activity is at its highest levels from December to April.

Benefit Related Notes:

- The State paid out $58.2M in benefits (an increase of $2.5M or 4.4% over the prior year).
- The Maximum Weekly Benefit amount as of July 1, 2024, was $729 per week (an increase of $24 or 3.4% over the prior year). In CY2024, the average benefit for total UI benefits was $545 per week, and the average length of filing was 11.7 weeks.

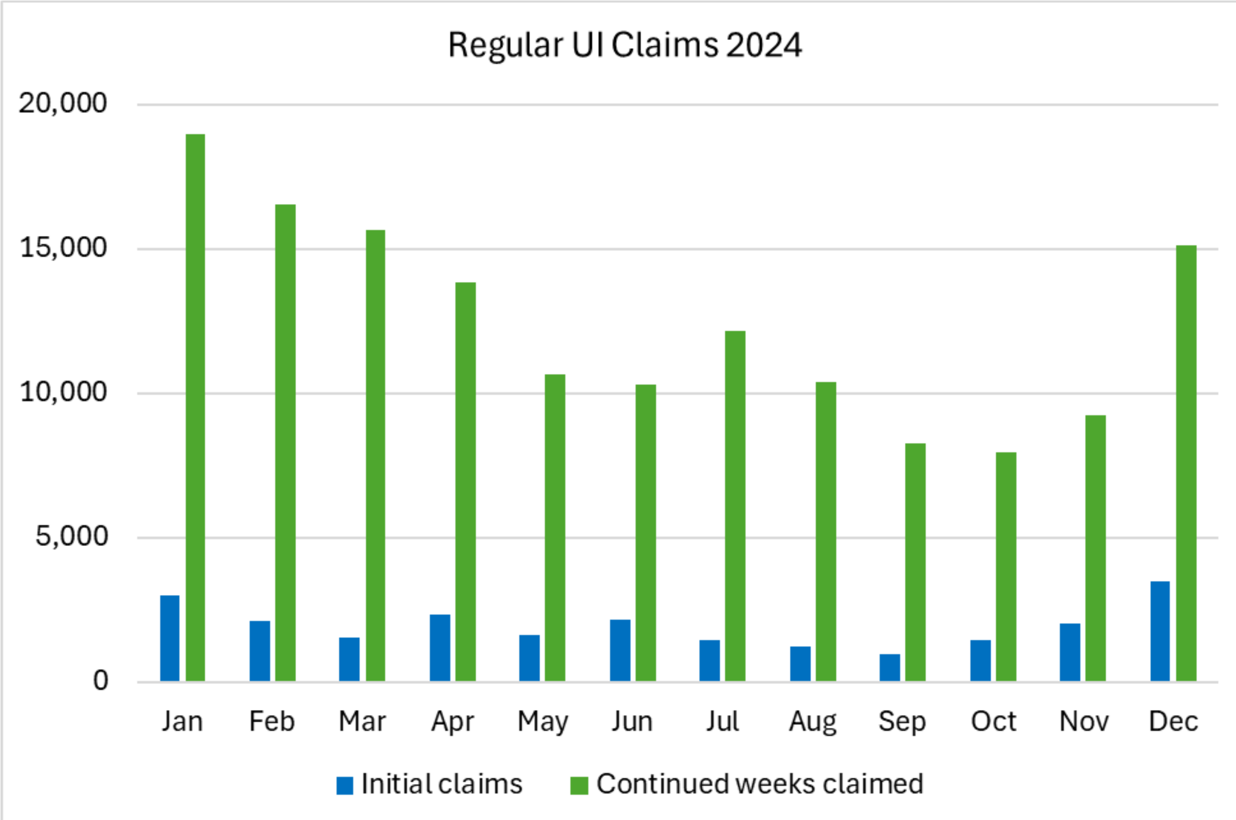

Figure 5 – Regular UI Claims in 2024, monthly

IMPLEMENTATION OF $60 MAXIMUM WEEKLY BENEFIT AMOUNT INCREASE

In 2022, the General Assembly passed Act 183, which amended the maximum weekly benefit amount (MWBA) calculation for those receiving unemployment insurance benefits. Specifically, Act 183 amended 21 V.S.A. § 1338(f) to artificially increase the maximum weekly benefit amount by $60 each time the new MWBA was calculated until a total of $8M has been paid out of the UI Trust Fund[1]. As of the week-ending date of January 4, 2025, 63.0% of the $8M had been paid out to claimants. Based on the first three years of utilization, the allocated amount is projected to be exhausted in early 2026.

UI TRUST FUND – LOOKING FORWARD

In partnership with the U.S. Department of Labor's Employment and Training Administration (ETA), the Vermont Department of Labor maintains a statistical model used for forecasting Vermont's UI TF net balance[2]. This analytical tool is effective in long-run assessments of the overall flow of monies into and out of the UI TF. It is also useful in determining the incremental impact of proposed policy changes. Unfortunately, since the 2020 recession, this statistical model has not been able to be stabilized to perform economic forecasts. Work is ongoing with federal partners to determine the next steps. In the interim, UI TF projections are manually created based on historical data on an annual basis. This is an iterative process due to the State's UI laws prescribing an annual determination of the tax rate schedule.

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[1] See 2021, No. 183 (Adj. Sess.), Sec. 52b and Sec. 59. https://legislature.vermont.gov/Documents/2022/Docs/ACTS/ACT183/ACT183%20As%20Enacted.pdf

[2] 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.

The UI TF is stable and in a position of relative strength, as evidenced by the annual calculation to determine the tax rate schedule, which is currently tax rate schedule I - the lowest of the five schedules. This is due to the size of the current UI TF balance versus the historical utilization of the fund. This historic lookback is absent from consideration of the calendar year 2020 due to legislative changes that ignore the worst year of the COVID-19 recession. This legislation avoided increasing the tax rate schedule, which would have occurred otherwise.

Estimated UI TF Balance Needed for Tax Rate Schedule

Tax Rate Schedule	UI TF Balance
I	> $268.8M
II	$215.0M < $268.8M
III	$161.3M < $215.0M
IV	$107.5M < $161.3M
V	< $107.5M

Note: in 2024 dollars;

Figure 6 – Estimated UI Trust Fund Balance Needed for Tax Rate Schedule

Against other states, the health of Vermont's UI TF ranks 22nd in the county per USDOL as of March 2024 (https://oui.doleta.gov/unemploy/docs/trustFundSolvReport2024.pdf).

With a balance exceeding $300M, Vermont's UI TF is stable enough to support a modest economic downturn. Though not as deep as the COVID-19 recession, the 2007 recession was larger due to its duration. For a period of five years (2008-2012), annual benefits paid out exceeded $100M. The two-year period of 2009 and 2010 totaled $350M in benefits paid out alone. So, while this amount exceeds the current fund amount, it does not consider that annual contributions will continue to be received into the fund. In addition, the fund mechanics (specifically the annual calculation determining the tax rate schedule) are designed to increase the amount of contributions collected should the fund level decline. Continuing to use the 2007 recession as an example: during the heart of the downturn, when benefits paid were at their highest (2009-2010), $60M and then $77M were collected, respectively. Contributions increased to $111M in 2011. For the next six years, contributions were in the range of $132M-$139M annually. These increased levels of contributions replenished the fund. Both the 2007 and the 2020 recessions were large compared against historic standards. Should the next economic downturn be similar to either, it would most likely drain the UI TF but may not require federal borrowing.

ECONOMIC RISKS

National and international economic uncertainty: higher-than-preferred inflation levels and potential changes to the US's international trade policy are topics to watch. In addition, the escalation of international entanglements, energy prices, natural disasters, and changes to immigration policies could impact labor supply and have the potential to create economic disruptions as well.

UI SYSTEM MODERNIZATION

The Department of Labor is in the middle of a $30+ million modernization effort that will update the core IT systems for the unemployment insurance program. The project kicked off in August of 2024 and is expected to go live in the early summer of 2026. The company providing the system is FAST Enterprises. This company has a proven solution that has been deployed in other states. It is also the vendor that modernized Vermont's Tax and DMV systems.

END OF REPORT