



Department of Workforce Services

Economic Development & Workforce Services Interim Committee

Unemployment Insurance Trust Fund Update

August 15, 2012

(Prepared by Bill Starks, Unemployment Insurance Director)

Background

- The Unemployment Insurance (UI) Program is funded solely by employers who contribute a percentage of the wages they pay their employees—commonly known as a UI payroll tax.
- These funds are deposited into the Utah Unemployment Trust Fund to pay benefits to Utah workers who become unemployed through no fault of their own.
- The Department of Workforce Services continually monitors the Unemployment Trust Fund to ensure this important safety net remains solvent and the State is not forced to borrow funds to pay benefits. (Note: 34 other states have been forced to borrow \$46 billion since the 2008 recession.)
- The statutory formula (attached) that determines unemployment tax rates has worked well for Utah for many years; however, the Department continually monitors employer tax rates and the Trust Fund balance and will make recommendations to the Governor’s Office and the Legislature when warranted.

Trust Fund Solvency Update

- The attached handout charts the Trust Fund projections from FY 2000 through 2015.
- The current Unemployment Insurance (UI) Trust Fund Balance is \$485 million, which is 83% of the minimum adequate reserve level, an improvement of over \$120 million over the past 12 months.
- UI revenue projections are approximately \$1.2 billion for FY 2012 through 2015, while state UI benefit payment projections are approximately \$900 million for the same time frame.
- The current Total Unemployment Rate has remained 6% for three months, and benefit payments are averaging about \$3.7 million per week currently, which is down about 20% over last year at this time. Both figures are incorporated into the Trust Fund projection model.
- The calendar year (CY) 2012 UI tax revenues are expected to be approximately 8% more than revenues received in CY 2011.
- The U.S. Department of Labor measures the overall health of a UI trust fund by an “Average High Cost Multiple” (AHCM), which they recommend be above 1.0. While Utah’s AHCM was at .81 on 3-31-2012, the measure was the 10th healthiest in the nation. The AHCM represents the Trust Fund balance as a percent of total wages divided by the average of the 3 highest benefit cost rates in the last 20 years.
- The Department proactively adopted multiple initiatives to help ensure the long-term solvency of the Trust Fund, including enhanced integrity and re-employment initiatives. This has contributed to the 49th lowest average UI duration rate in the nation at 14.4 weeks for the year ending March 31, 2012.



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UI Tax Rates Update:

- An employer's overall tax rate is based on a statutory formula that factors in several components to ensure the solvency of the Trust Fund and to equitably adjust tax rates on employers responsible for generating these costs.
- UI tax rates, including minimum rates, were increased for CY 2011 so as to increase the reserves necessary to ensure the long-term solvency of the Fund.
- The CY 2012 reserve factor decreased from 1.45 to 1.30 and is expected to lower to 1.20 in CY 2013. The reserve factor is a multiplier that adjusts up or down depending on the overall adequacy of the Fund.
- The Social Cost Rate was frozen at .4 percent (.004) for CY 2012 because SB 129 passed in the 2012 Legislative General Session. The Social Cost Rate is the minimum tax rate and represents shared costs that are not attributable to any particular employer.
- While contribution rates have increased significantly in 2011 and 2012, Utah was the 31st lowest average contribution rate at .88% (as a percentage of total wages) per the most recent DOL Reports for Tax Year 2011 (see attachment for 2000 thru 2011 Average UI Tax Rates)

Possible Statutory change:

- The department sees a potential opportunity to provide some tax relief to Utah employers again in 2013. The Employment Advisory Council endorsed a proposal to freeze the Social Cost Rate at .4 percent (.004) for calendar year 2013 again at their July 31, 2012 meeting. The proposal will not have a negative impact on the long-term solvency of the Fund but will provide needed tax relief to all employers which will help stimulate job growth.
- The Department will continue to closely monitor the Fund, and would like to report back to the Interim with a possible minor statutory change to the tax rate formula by the November Interim meeting, provided the current UI Trust Fund forecast does not change significantly.

Impact of Legislation:

- The 2013 Social Cost Rate is expected to increase to .5% (.005) without this legislation.
- All 68,000 Utah employers will see a reduction of up to \$30 per employee per year in tax year 2013 as a result of "freezing" the Social Cost Rate at .4% (.004).
- The Department estimates it would save Utah employers \$21.6 million in UI taxes for CY 2013.

UI Trust Fund, Reserve Factor, and Social Cost Calculation

Rates (projected after Rate Year 2012)

Trust Fund Balance:		Min Adequate	Max Adequate	Rate Year	Reserve Factor	Social Cost
30-Jun-00	\$621,831,305	\$ 511,885,663	\$ 572,404,165	2001	0.90	0.001
30-Jun-01	\$597,903,149	\$ 503,876,130	\$ 563,447,692	2002	0.90	0.001
30-Jun-02	\$536,808,278	\$ 511,885,663	\$ 572,404,165	2003	1.10	0.001
30-Jun-03	\$410,479,072	\$ 503,876,130	\$ 563,447,692	2004	1.20	0.003
30-Jun-04	\$357,430,362	\$ 516,819,985	\$ 577,921,855	2005	1.40	0.004
30-Jun-05	\$443,349,626	\$ 556,497,422	\$ 622,290,221	2006	1.25	0.004
30-Jun-06	\$608,932,574	\$ 636,792,920	\$ 713,592,066	2007	1.05	0.003
30-Jun-07	\$776,678,787	\$ 678,248,835	\$ 758,247,416	2008	0.95	0.001
30-Jun-08	\$846,618,918	\$ 650,511,143	\$ 867,348,191	2009	1.00	0.002
30-Jun-09	\$640,429,491	\$ 550,838,639	\$ 736,836,102	2010	1.00	0.002
30-Jun-10	\$372,531,169	\$ 585,161,053	\$ 780,214,737	2011	1.45	0.004
30-Jun-11	\$304,046,956	\$ 610,037,612	\$ 814,579,635	2012	1.30	0.004
30-Jun-12	\$420,847,126	\$ 594,487,528	\$ 792,650,037	2013	1.20	0.005
30-Jun-13	\$524,097,587	\$ 580,655,778	\$ 776,823,271	2014	1.10	0.004
30-Jun-14	\$601,883,300	\$ 612,502,448	\$ 819,428,950	2015	1.05	0.003
30-Jun-15	\$638,488,600	\$ 647,080,786	\$ 861,316,992	2016	1.05	0.003

Trust Fund Balance: \$485 Million as of August 8, 2012

Overall Tax Rate Calculation: (Benefit Costs/Taxable Wages) X (Reserve Factor) + Social Cost Rate

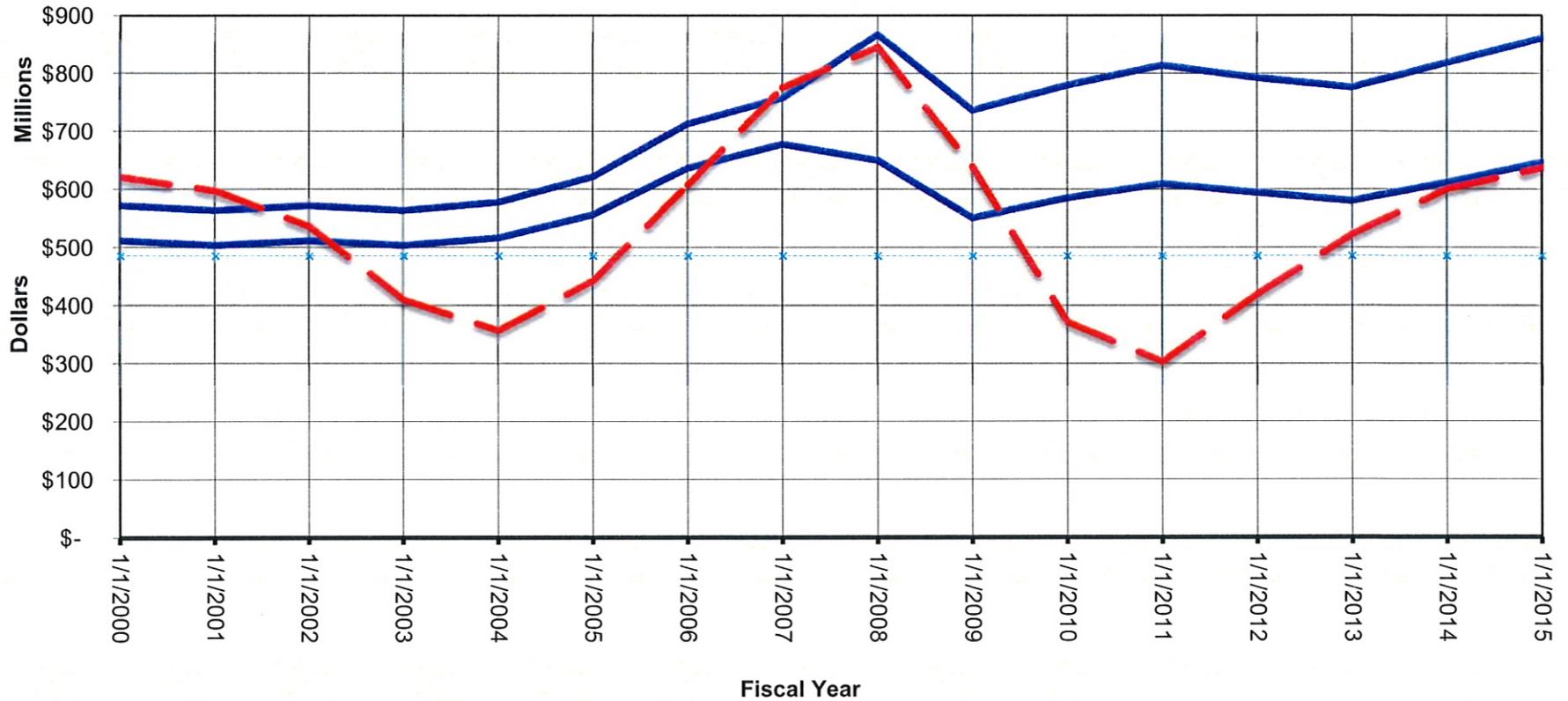
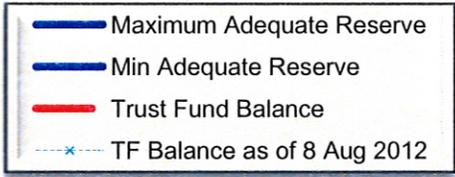
Reserve Factor: A multiplier (factor), which is adjusted up or down on an annual basis depending on the overall health of the UI Trust Fund balance. That formula is based on maintaining a balance in the Trust Fund that can fund 18 to 24 months of benefits during a severe economic downturn. The Reserve Factor is set at 1.0 when the Trust Fund balance falls between the Maximum and Minimum Adequate Reserve levels. The

Social Cost Rate: This rate is determined by benefit costs that cannot be charged to specific employers and is added to the UI tax rate for all employers; this is the minimum tax rate available. The social rate is calculated using "social costs" for the previous four fiscal years.

Minimum Adequate: The minimum amount required to pay 18 months of benefits during the 5 worst economic years in the last 25 years.

Maximum Adequate: The maximum amount required to pay 24 months of benefits during the 5 worst economic years in the last 25 years.

Unemployment Insurance Trust Fund Balance Projections



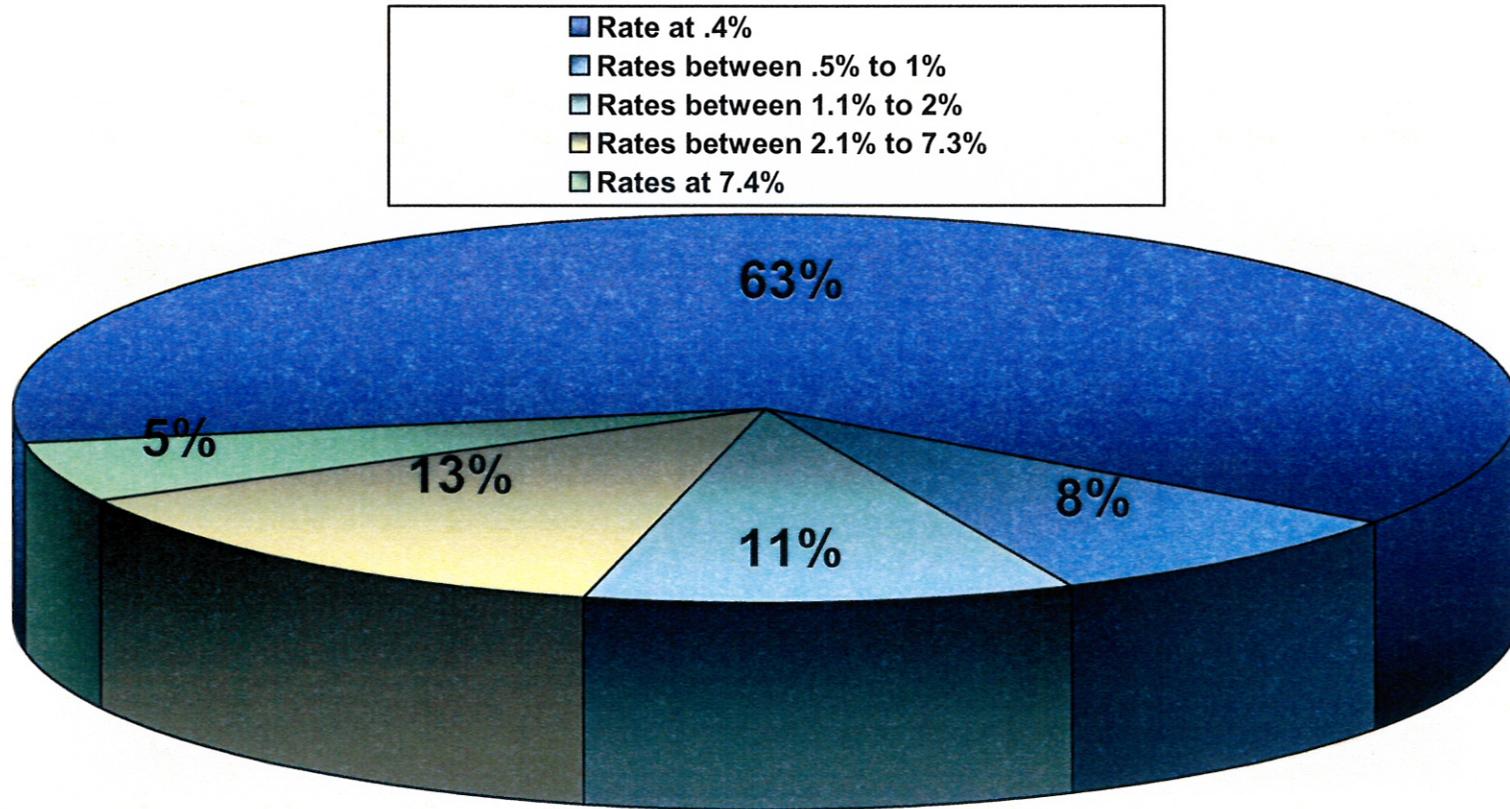
Trust Fund Balance (8-8-2012): \$485 Million

UTAH 2012 UNEMPLOYMENT INSURANCE TAX RATE DISTRIBUTION FOR EXPERIENCE RATED EMPLOYERS

	Employers	Percentage	Cumulative %
Utah Employers with minimum rate (.4%)	34,493	62.7%	62.7%
Utah Employers with rates between .5% to 1%	4,656	8.5%	71.2%
Utah Employers with rates between 1.1% to 2%	5,798	10.5%	81.7%
Utah Employers with rates between 2.1% to 7.3%	7,355	13.4%	95.1%
Utah Employers with maximum rate (7.4%)	2,717	4.9%	100%

(13,843 Utah Employers were assigned a new employer rate; 55,019 are qualified for experience)

2012 Utah Employer Tax Rate Distribution





AVERAGE EMPLOYER UNEMPLOYMENT INSURANCE TAX RATES*

Year:	2011	2010	2009	2008	2007	2006	2005	2004	2003	2002	2001	2000
National Average:	.92%	.80%	.62%	.60%	.66%	.75%	.82%	.77%	.64%	.54%	.51%	.53%
National Average Range:	.43%- 1.94%	.37%- 1.94%	.23%- 1.41%	.23%- 1.29%	.26%- 1.5%	.16%- 1.83%	.18%- 1.89%	.21%- 1.7%	.20%- 1.40%	.15%- 1.58%	.14%- 1.64%	.14%- 1.75%
Utah Average:	.88%	.43%	.33%	.33%	.52%	.75%	.79%	.61%	.37%	.29%	.27%	.24%
Utah Ranking: (1=Highest 50=Lowest)	31st	45th	42nd	40th	33rd	31st	34th	32nd	42nd	44th	43rd	42nd

* Information and national rankings provided by USDOL as the level of taxation relative to total wages for all 50 states. Year 2012 is not available.

