



SENATE FISCAL OFFICE
ISSUE BRIEF

Unemployment Trust Fund Solvency

MARCH 23, 2011

Title XII of the Federal Social Security Act allows states to borrow from the Federal Unemployment Account (FUA) in the event of insufficient State Unemployment Trust Fund reserves. The RI Unemployment Trust Fund has essentially been insolvent since March 2009 because UI benefit payments have outpaced employer UI contributions, and therefore the State has borrowed \$250.3 million from the FUA, and projects the borrowing could reach \$280.5 million by April 2011, with the potential to reach \$291.0 million by May 2011.

The Federal loans to support the State Unemployment Trust Fund remained interest free through December 31, 2010, but interest began to accrue on January 1, 2011. The first interest payment totaling \$9.0 million will be due on September 30, 2011 (FY2012).

Article 22 of the FY2011 Budget as Enacted allowed the use of 0.3 percent out of the 0.51 percent Job Development Assessment to be used to pay the principal and/or interest due on the advances that the State received from the Federal government. This is expected to increase FY2011 receipts by \$9.0 million and beginning in FY2012, increase receipts by \$18.0 million annually to be used to pay the interest due on the advances. Any excess raised can be used to pay back the principal.

| Year | Current Unemployment Requirements | | | | | | | |
|------------------|-----------------------------------|--------------------------------|----------------------|------------------|------------------|------------------|--------------|--------------------|
| | State UI Taxes | Balance of Interest Assessment | Federal Solvency Tax | Federal Interest | Net Tax Impact | State Benefits | Loan Balance | Trust Fund Balance |
| 2009 | \$184.7 | \$0.0 | \$0.0 | \$0.0 | \$184.7 | \$387.3 | \$127.5 | (\$127.5) |
| 2010 | 210.0 | 0.0 | 0.0 | 0.0 | 210.0 | 289.3 | 225.5 | (194.3) |
| 2011 | 216.0 | 6.5 | 0.0 | 9.0 | 231.5 | 249.5 | 291.0 | (251.0) |
| 2012 | 219.6 | 5.6 | 9.0 | 12.4 | 246.6 | 215.7 | 265.9 | (265.9) |
| 2013 | 220.7 | 7.1 | 18.0 | 10.9 | 256.7 | 206.5 | 226.6 | (226.6) |
| 2014 | 221.9 | 8.7 | 27.0 | 9.3 | 266.9 | 197.1 | 166.0 | (166.0) |
| 2015 | 223.3 | 11.2 | 36.0 | 6.8 | 277.3 | 202.5 | 98.0 | (98.0) |
| 2016 | 224.7 | 14.0 | 45.0 | 4.0 | 287.7 | 208.1 | 22.4 | (22.4) |
| 2017 | 226.5 | 0.0 | 54.0 | 0.0 | 280.5 | 213.8 | 0.0 | 44.3 |
| 2018 | 228.0 | 0.0 | 0.0 | 0.0 | 228.0 | 219.7 | 0.0 | 52.6 |
| 2019 | 229.7 | 0.0 | 0.0 | 0.0 | 229.7 | 224.3 | 0.0 | 58.0 |
| 2020 | 231.4 | 0.0 | 0.0 | 0.0 | 231.4 | 229.5 | 0.0 | 59.9 |
| 2011-2020 | \$2,241.8 | \$53.1 | \$189.0 | \$52.4 | \$2,536.3 | \$2,166.7 | | |

\$ in Millions As of March 22, 2011

If the loans are not repaid by November 10, 2011, Rhode Island employers will be liable for an additional 0.3 percent Federal UI tax based on their 2011 wages and payable in 2012 (solvency tax). The 0.3 percent surcharge will increase each subsequent year until the Federal loans are re-paid. If no State action is taken, the additional surcharge would cost employers \$189.0 million over the next six years. By 2020, Federal interest charges to the State would cost \$52.4 million and the total UI benefits paid by the State would be \$2,166.7 million.

Analyst's Note: President Obama is proposing a 2-year deferral of States' interest payments on FUA borrowings and a 2-year postponement of the automatic Federal 0.3 percent UI surcharge on employers. The State could delay paying \$23.4 million in interest payments and employers' could delay paying \$27.0 million in UI surcharges if the President's proposals are approved.

FEDERAL FUA UI LOAN ACTIVITY

As of March 23, 2011, the US Bureau of Labor Statistics reports that \$45.9 billion has been loaned to 32 states and 1 territory by the FUA. As illustrated in the following table, the top 10 states have borrowed \$35.8 billion, or 78.0 percent, of the funds from the FUA. In comparison, the total borrowing for the bottom nine states and 1 territory, including Rhode Island, is \$1.0 billion or 2.3 percent of the funds from FUA.

| \$ in Millions | FUA UI Trust Fund Loans | % of Total Borrowed | Unemployment Rate |
|-----------------------|------------------------------------|--------------------------------|------------------------------|
| California | \$10,421.1 | 22.7% | 12.4% |
| Michigan | 3,930.6 | 8.6% | 10.7% |
| New York | 3,645.3 | 7.9% | 8.3% |
| Pennsylvania | 3,526.9 | 7.7% | 8.2% |
| Illinois | 2,846.3 | 6.2% | 9.0% |
| North Carolina | 2,689.8 | 5.9% | 9.9% |
| Ohio | 2,513.5 | 5.5% | 9.4% |
| Florida | 2,183.4 | 4.8% | 11.9% |
| Indiana | 2,146.4 | 4.7% | 9.1% |
| New Jersey | 1,916.8 | 4.2% | 9.1% |
| Wisconsin | 1,631.1 | 3.6% | 7.4% |
| South Carolina | 964.1 | 2.1% | 10.5% |
| Kentucky | 916.7 | 2.0% | 10.4% |
| Missouri | 838.9 | 1.8% | 9.6% |
| Nevada | 719.1 | 1.6% | 14.2% |
| Minnesota | 691.1 | 1.5% | 6.7% |
| Connecticut | 674.7 | 1.5% | 9.0% |
| Georgia | 667.0 | 1.5% | 10.4% |
| Colorado | 549.5 | 1.2% | 9.1% |
| Virginia | 444.7 | 1.0% | 6.5% |
| Arkansas | 347.0 | 0.8% | 7.8% |
| Arizona | 318.2 | 0.7% | 9.6% |
| Massachusetts | 278.1 | 0.6% | 8.3% |
| Rhode Island* | 250.3 | 0.5% | 11.2% |
| Alabama | 248.2 | 0.5% | 9.3% |
| Idaho | 202.4 | 0.4% | 9.7% |
| Kansas | 141.5 | 0.3% | 6.8% |
| Vermont | 64.8 | 0.1% | 5.7% |
| Delaware | 54.9 | 0.1% | 8.5% |
| Hawaii | 39.9 | 0.1% | 6.3% |
| Virgin Islands | 19.8 | 0.0% | <i>not listed</i> |
| Texas | 17.6 | 0.0% | 8.3% |
| New Hampshire | 14.7 | 0.0% | 5.6% |
| Total | 45,914.4 | 100.0% | |

Source: US Bureau of Labor Statistics, Loans as of March 2011

Unemployment rates as of December 2010

*RI Rate as of March 18, 2011

CURRENT RHODE ISLAND STATISTICS

Rhode Island possesses some of the highest UI benefits in the nation. The State consistently ranks nationally among the top 10 highest UI benefits paid and has the second highest paid UI benefits in New England.

ISSUE BRIEF

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| Average UI Benefits Paid | | | | Average Weekly UI Benefits Paid | | | |
|--------------------------|---------------|----------|----------|---------------------------------|-----------------|----------|----------|
| State | Amount | New | | State | Amount | New | |
| | | England | National | | | England | National |
| <i>Rhode Island</i> | \$7222 | 2 | 8 | <i>Rhode Island</i> | \$390.53 | 2 | 5 |
| Connecticut | 6,098 | 3 | 18 | Connecticut | 335.65 | 3 | 12 |
| Maine | 4,826 | 6 | 34 | Maine | 275.03 | 5 | 35 |
| Massachusetts | 8,600 | 1 | 1 | Massachusetts | 400.57 | 1 | 3 |
| New Hampshire | 4,871 | 5 | 33 | New Hampshire | 274.95 | 6 | 36 |
| Vermont | 5,563 | 4 | 26 | Vermont | 307.97 | 4 | 22 |

Source: RI Dept. of Labor & Training

| Maximum Weekly UI Benefit | | | | Maximum Weekly UI Benefit with Dependent's | | | |
|---------------------------|--------------|----------|----------|--|--------------|----------|----------|
| State | Amount | New | | State | Rate | New | |
| | | England | National | | | England | National |
| <i>Rhode Island</i> | \$551 | 2 | 6 | <i>Rhode Island</i> | \$688 | 2 | 2 |
| Connecticut | 537 | 3 | 7 | Connecticut | 612 | 3 | 3 |
| Maine | 359 | 6 | 37 | Maine | 533 | 4 | 9 |
| Massachusetts | 629 | 1 | 1 | Massachusetts | 943 | 1 | 1 |
| New Hampshire* | 427 | 4 | 19 | New Hampshire | 427 | 5 | 26 |
| Vermont* | 425 | 5 | 20 | Vermont | 425 | 6 | 27 |

Source: RI Dept. of Labor & Training

* No dependent's benefit provision

DEPARTMENT RECOMMENDATIONS

In March 2010, members of Employment Security Advisory Council (ESAC) reviewed nine options to return the UI Trust Fund to solvency. The proposals were not acted upon in 2010 and the Department issued revised options in 2011. If all options were implemented, the State would repay the Federal Unemployment Insurance loans by 2015 and establish a UI Trust Fund balance in excess of \$443.3 million by 2020.

| Year | Projected Unemployment Requirements under Department Proposed Changes | | | | | | | |
|------------------|---|--------------------------------|----------------------|------------------|------------------|------------------|--------------|--------------------|
| | State UI Taxes | Balance of Interest Assessment | Federal Solvency Tax | Federal Interest | Net Tax Impact | State Benefits | Loan Balance | Trust Fund Balance |
| 2009 | \$184.7 | \$0.0 | \$0.0 | \$0.0 | \$184.7 | \$387.3 | \$127.5 | (\$127.5) |
| 2010 | 210.0 | 0.0 | 0.0 | 0.0 | 210.0 | 289.3 | 225.5 | (194.3) |
| 2011 | 216.0 | 6.5 | 0.0 | 9.0 | 231.5 | 249.5 | 291.0 | (251.0) |
| 2012 | 226.7 | 5.6 | 9.0 | 12.4 | 253.7 | 207.5 | 250.7 | (250.7) |
| 2013 | 227.8 | 7.8 | 18.0 | 10.2 | 263.8 | 182.5 | 179.6 | (179.6) |
| 2014 | 230.9 | 10.7 | 27.0 | 7.3 | 275.9 | 162.4 | 73.4 | (73.4) |
| 2015 | 234.2 | 15.0 | 36.0 | 3.0 | 288.2 | 158.0 | 0.0 | 53.8 |
| 2016 | 239.3 | 0.0 | 0.0 | 0.0 | 239.3 | 159.8 | 0.0 | 133.3 |
| 2017 | 243.8 | 0.0 | 0.0 | 0.0 | 243.8 | 162.9 | 0.0 | 214.2 |
| 2018 | 245.5 | 0.0 | 0.0 | 0.0 | 245.5 | 167.4 | 0.0 | 292.2 |
| 2019 | 247.4 | 0.0 | 0.0 | 0.0 | 247.4 | 170.9 | 0.0 | 368.8 |
| 2020 | 249.4 | 0.0 | 0.0 | 0.0 | 249.4 | 174.9 | 0.0 | 443.3 |
| 2011-2020 | \$2,361.0 | \$45.6 | \$90.0 | \$41.9 | \$2,538.5 | \$1,795.8 | | |

\$ in Millions

As of February 11, 2011

Enacting the Department's tax and benefit proposals to resolve the UI Trust Fund solvency issue would reduce the surcharge cost on employers by \$99.0 million over the next four years. In addition, the changes would reduce interest payments by \$10.5 million and would reduce the State's total UI benefits paid by \$370.9 million. Enacting these changes would result in repaying the Federal loans by 2015, and create a \$53.8 million reserve in the UI Trust Fund which would increase to \$443.3 million by 2020.

The taxable wage base changes would begin January 1, 2012, and include:

- Eliminate the current taxable wage base table and replace it with an adjustment based on the average annual wage. Increase the taxable wage base 1.0 percentage point annually from 47.0 percent of the statewide average to 50.0 percent by 2015. This will generate \$4.0 million in 2012.
- Raise the taxable wage base for the highest tax rated group (those that pay the highest UI rate of 10.0 percent) to \$3,000 above the taxable wage base for all other employers, estimated to increase annual revenue by \$3.1 million.

The UI benefit changes would begin July 1, 2012, and include:

- Freeze the maximum weekly benefit (MWB) and reduce the percentage used in calculating the amount each year from 67.0 percent to 57.5 percent of the statewide average weekly wage. This would generate savings of \$12.3 million annually once fully implemented.
- Reduce the weekly benefit amount formula over a three-year period, from 4.62 percent to 3.85 percent of the highest quarter, essentially changing the calculation for the weekly benefit amount from 60.0 percent to 50.0 percent of lost wages. This would save \$24.9 million once fully implemented.
- Modify the calculation of the weekly benefit from the highest quarter to the average of the two highest quarters in the base period, thereby mitigating the impact of overtime and bonuses, resulting in annual savings of \$4.1 million, commencing in FY2013.
- Increase the number of weeks an individual has to work in the base period to qualify for the 26 week maximum duration of unemployment benefits from 43.4 weeks to 47.3 weeks. This is estimated to save \$2.4 million annually, commencing in FY2013.
- Delay a claimant's ability to collect UI benefits for up to 26 weeks, by allocating the use of severance pay in lieu of a person's ability to begin collecting UI benefits. Currently, severance pay does not impede an individual's ability to collect UI benefits. Beginning in FY2013, this would save \$2.0 million annually.
- Reduce an individual's maximum weekly dependent's allowance from 5.0 percent to 3.0 percent per dependent, over a two-year period. This would reduce the maximum weekly dependent adjustment from \$27.00 to \$16.00 per dependent. This would save an estimated \$2.7 million annually.
- Require individuals discharged voluntarily or for misconduct to complete eight weeks of work with earnings at least equal to the benefit amount. (This recommendation is intended to make it more difficult for high wage earners to re-qualify for benefits). There is no savings estimate available for this proposal.

The Department indicates that if its proposed initiatives are implemented, the State will repay Federal UI loans by 2015 and establish a UI Trust Fund balance in excess of \$443.3 million by 2020.