

Bolstering the Financial Position of State Unemployment Insurance Funds: Recent Trends from Virginia

SOUTHERN LEGISLATIVE CONFERENCE

**FISCAL AFFAIRS & GOVERNMENT OPERATIONS
COMMITTEE PROGRAM**

July 30, 2012

Clyde E. Cristman, Virginia Senate Finance Committee Staff

Oversight of Virginia's Trust Fund

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- ❑ Administered by Virginia Employment Commission.
 - Commissioner appointed by Governor for 4-year term.
 - Commission has 865 full time employees and is responsible for Job Placement Services, Workforce Development Services, in addition to Unemployment Insurance Services.
- ❑ Commission on Unemployment Compensation
 - Standing legislative body to monitor and evaluate Virginia's unemployment compensation system.
 - Consists of three Senators and five members of the House of Delegates.

Status of Virginia's Unemployment Trust Fund

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- Beginning in October 2009, Virginia's UI Trust Fund became insolvent. Virginia, like many states, had to borrow from the Federal Trust Fund to pay unemployment claims.
- To date, Virginia has borrowed \$818 million; projected additional needs will take this figure to over \$1.0 billion by April 2013.
- While the Virginia Trust Fund finished FY 2012 with a positive balance, available funds will still be insufficient to pay projected claims in the near term.
- Corrective actions (i.e. Fund Builder Tax, Pool Tax) and improving economy have Virginia on the right track.

Factors Contributing to Insolvency

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- ❑ While the “great recession” began in 2008, Virginia’s unemployment rate peaked in early 2010:
 - Highest unemployment rates since 1983/long duration of high rates.
- ❑ Prior policy decisions made the situation worse:
 - In 1997, Virginia implemented a zero tax rate on employers with no history of layoffs if Trust Fund was 100% solvent (cumulative cost to Fund estimated at \$150 million).
 - In response to 9/11, UI benefits increased by 37.3% for 18 months beginning in Sept. 2001; increase reduced to 18.65% for 18 more months through Aug. 2004 (cumulative cost to Fund of \$326 million).
 - Combined these two policy decisions created a liability to the Trust Fund of \$476 million.

Virginia Employment Commission Workload

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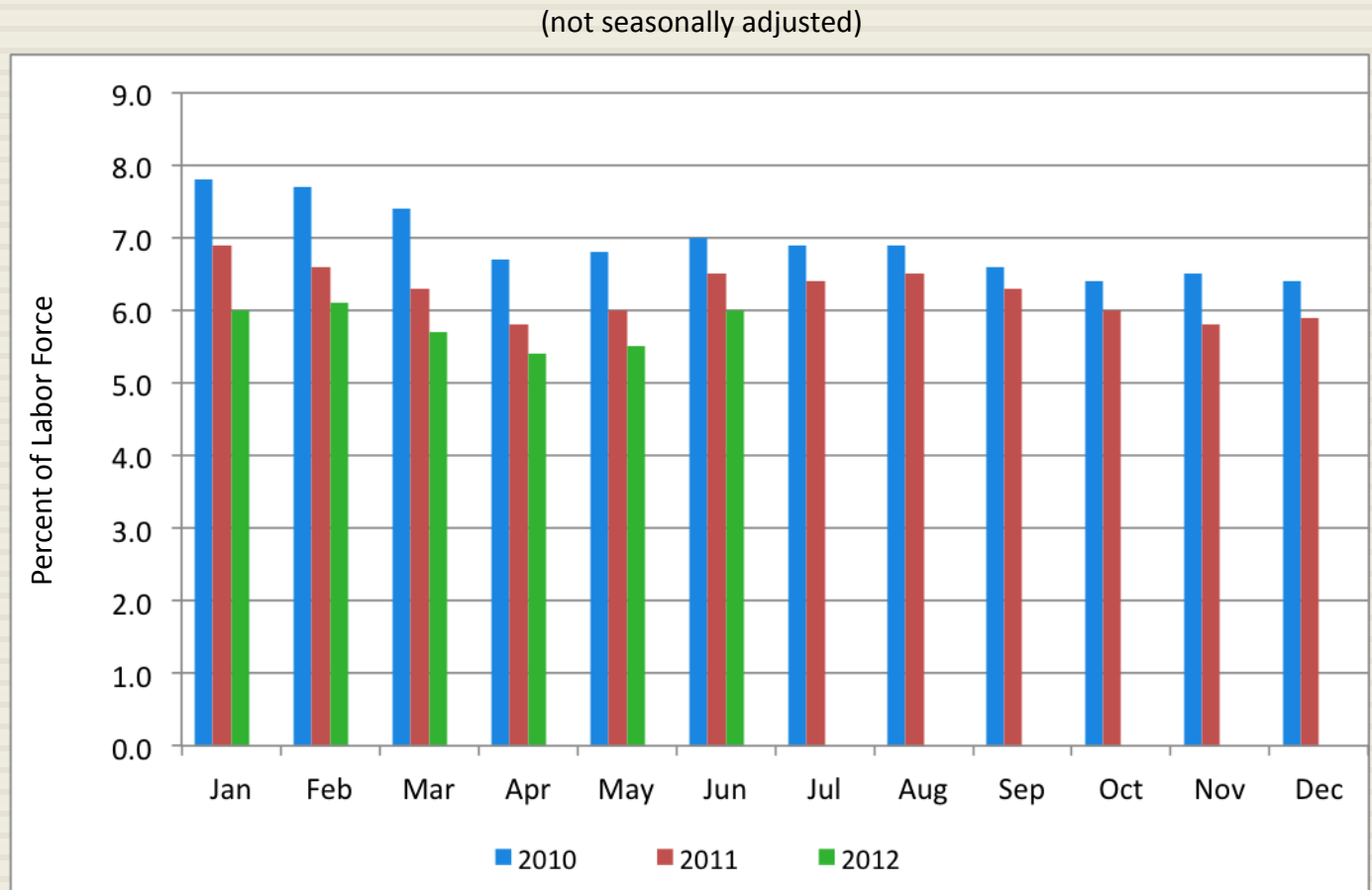
Calendar Year	Initial Claims
2007	260,561
2008	356,220
2009	501,950
2010	395,888
2011	344,284
2012 (Jan-Jun)	164,079

Virginia's Unemployment Rates

2010 - 2012 (year to date)

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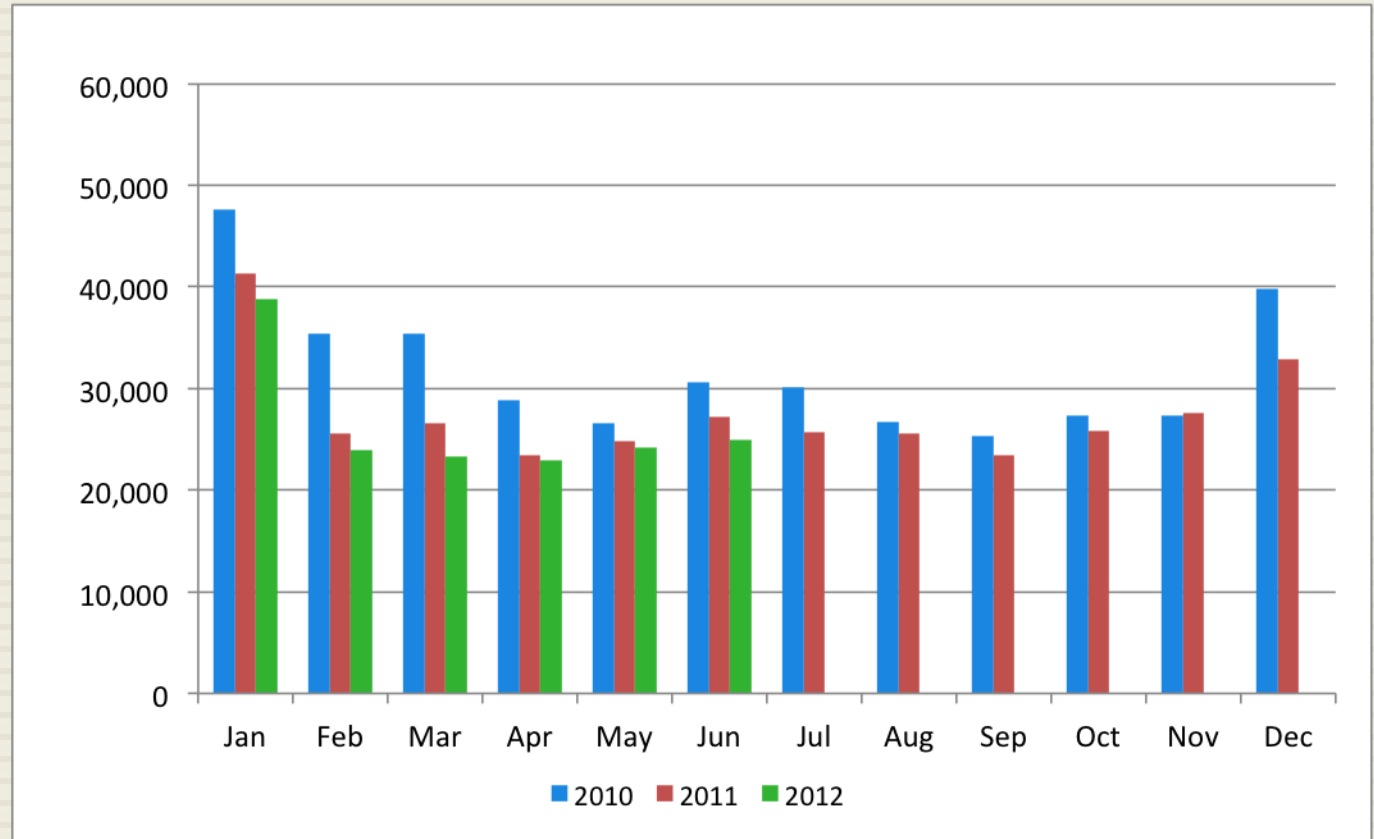
- This year unemployment rates have averaged about 8% lower than the year-ago rates.
- January 2010's rate of 7.8% was the highest rate since February 1983's 8.1 percent.



Virginia UI Initial Claims 2010 - 2012 (year to date)

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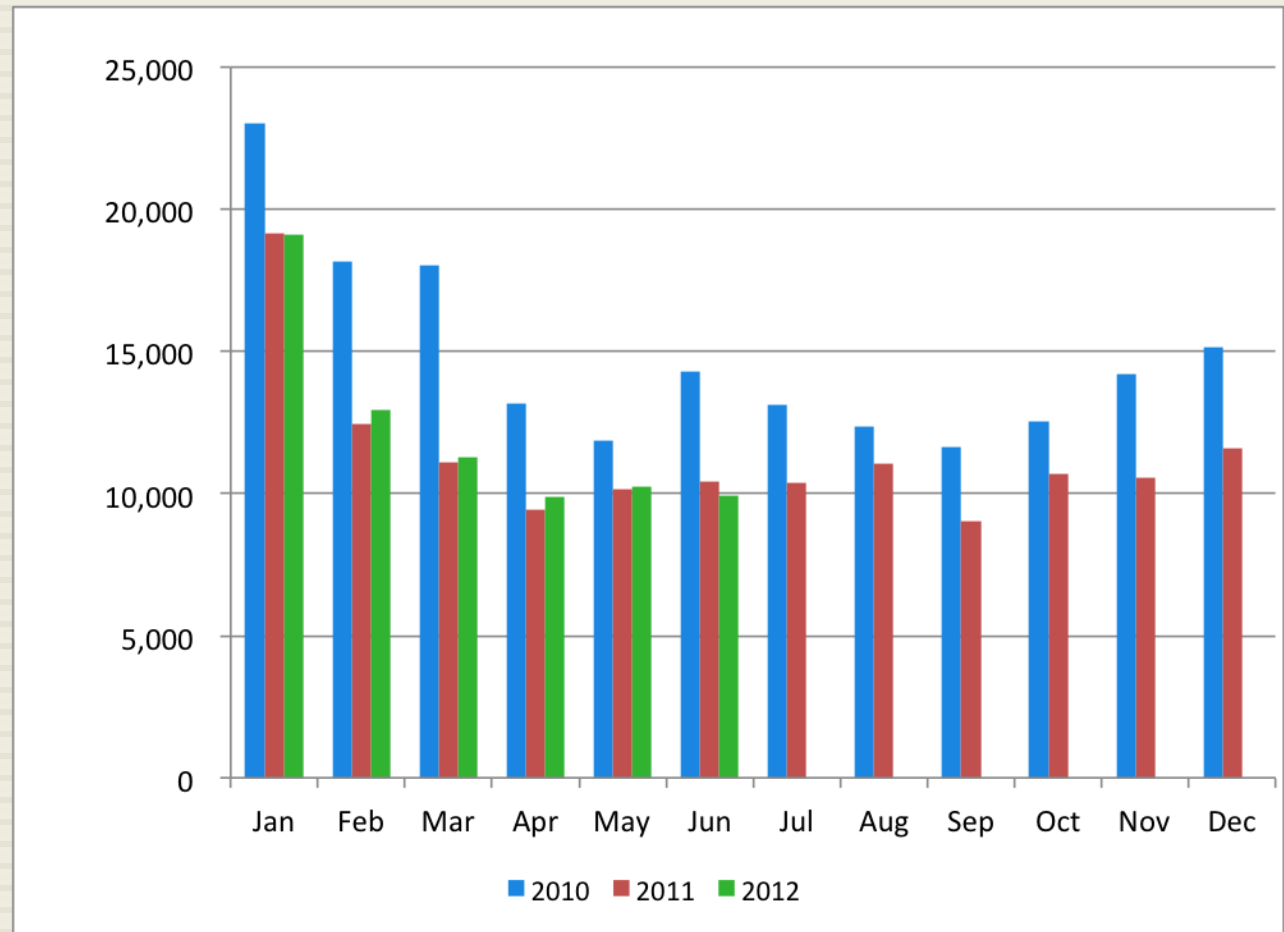
- Total initial claims through June this year are down 6.6% from 2011 because of fewer layoffs in the construction, retail trade, and finance and insurance sectors. For the same period, initial claims are down 22.7% from 2010.



Virginia UI First Payments 2010 - 2012 (year to date)

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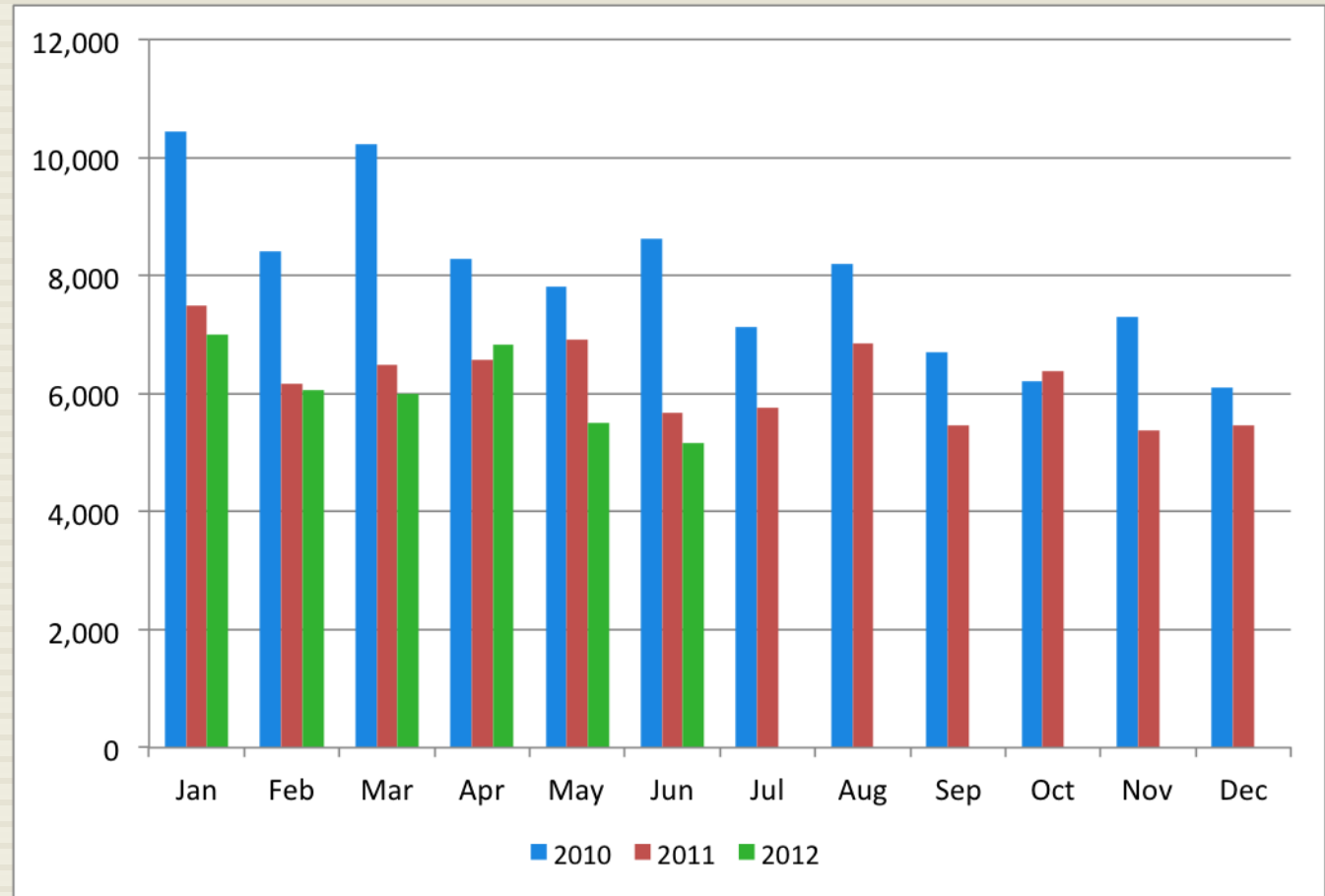
- A claimant can receive only one first payment in his benefit year; so first payments are a good indication of the number of claimants receiving unemployment benefits.
- Through June, first payments are up 1.0% from last year, but down 25.5% from 2010.
- The average duration in June was 16.0 weeks, unchanged from last June.



Virginia UI Final Payments 2010 - 2012 (year to date)

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- For the first six months of 2012, final payments are down 7.0% from 2011, and 32.0% from 2010.
- The exhaustion rate in June was 52.8%, up from last June's 45.6%.



Virginia UI Trust Fund Data—

Actual for 2011 / Standard Forecast for 2012

(\$ in Millions)

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	2011	2012
January 1 Balance	-\$347.5	-\$276.2
Tax Revenue	\$702.2	\$785.2
Interest Revenue	\$0.0	\$0.8
Benefits Paid	\$630.9	\$608.5
December 31 Balance	-\$276.2	-\$35.7

Virginia Standard Forecast Summary

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- ❑ Must borrow an additional \$190 million July 2012- April 2013.
- ❑ Federal waiver of interest was not extended beyond 2010, so interest payments total \$14.6 million in 2011 and 2012. This can't be paid out of Trust Fund or UI grants from federal govt.
 - In September 2011, \$4.4 million was paid from the General Fund and \$4.4 million from VEC's Penalty and Interest Fund.
 - Proposal by Governor to pay interest from employer surcharge was rejected by 2012 General Assembly. In September 2012, \$5.8 million is due and will be paid from the VEC's Penalty and Interest Fund.
- ❑ FUTA credit reduction in 2011 increased taxes \$21 per employee, which reduced loan balances by \$63 million in March-July 2012.
- ❑ Forecast assumes no further legislated changes in benefits and taxes.

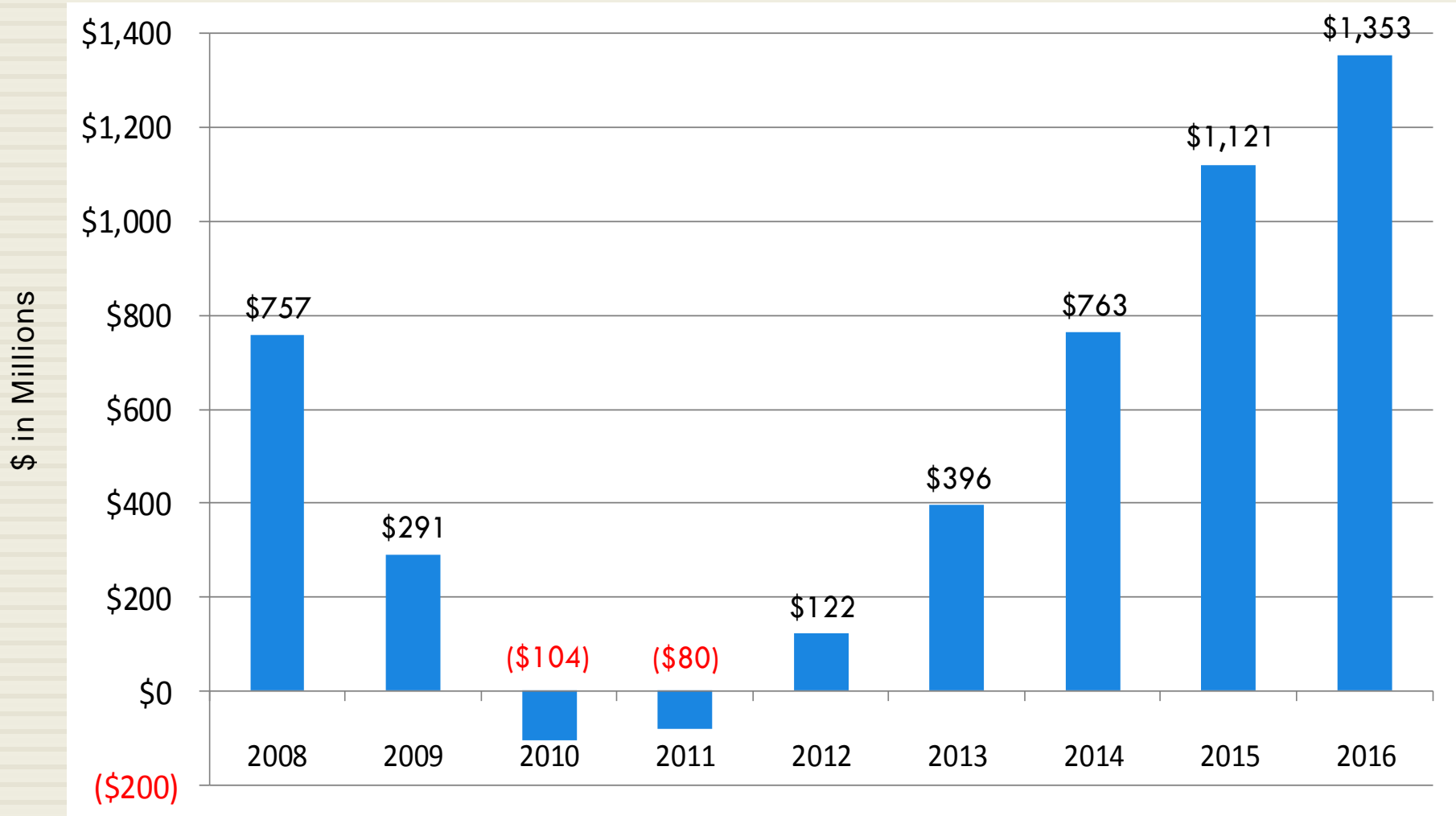
VA Loan Principle Repayment Schedule

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- ❑ \$358 million payment made in May 2011.
- ❑ \$45 million payment made in August 2011.
- ❑ FUTA Credit Reduction payments to IRS reduced loan balance by \$63 million in March-July 2012.
- ❑ \$352 million payment in May 2012 paid off remaining loan balance.
- ❑ Borrowing resumes for July through mid-April 2013.
- ❑ Final \$175 million loan payment to be paid in May 2013.

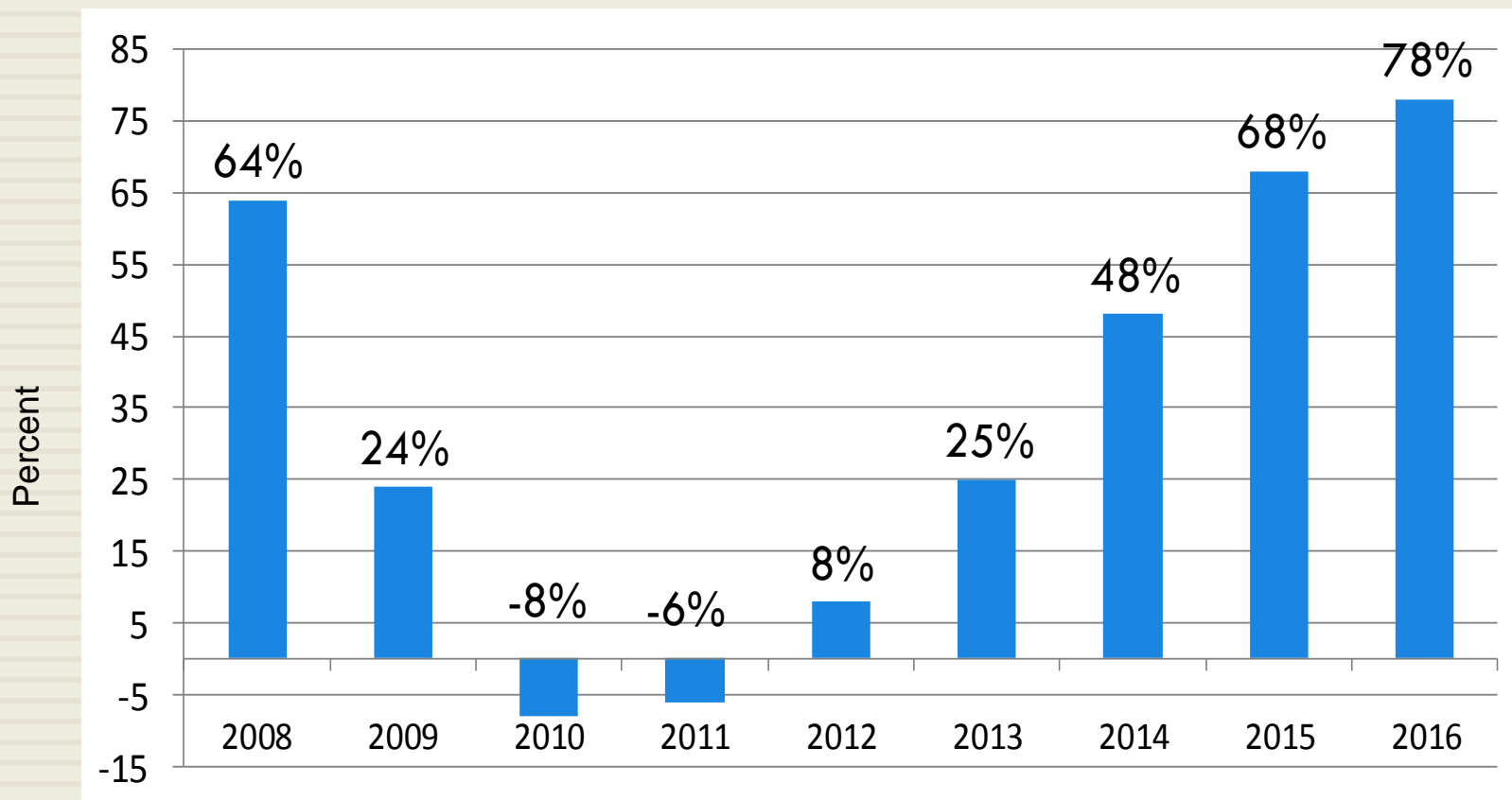
Virginia Trust Fund June 30 Balances

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Virginia Trust Fund Solvency*

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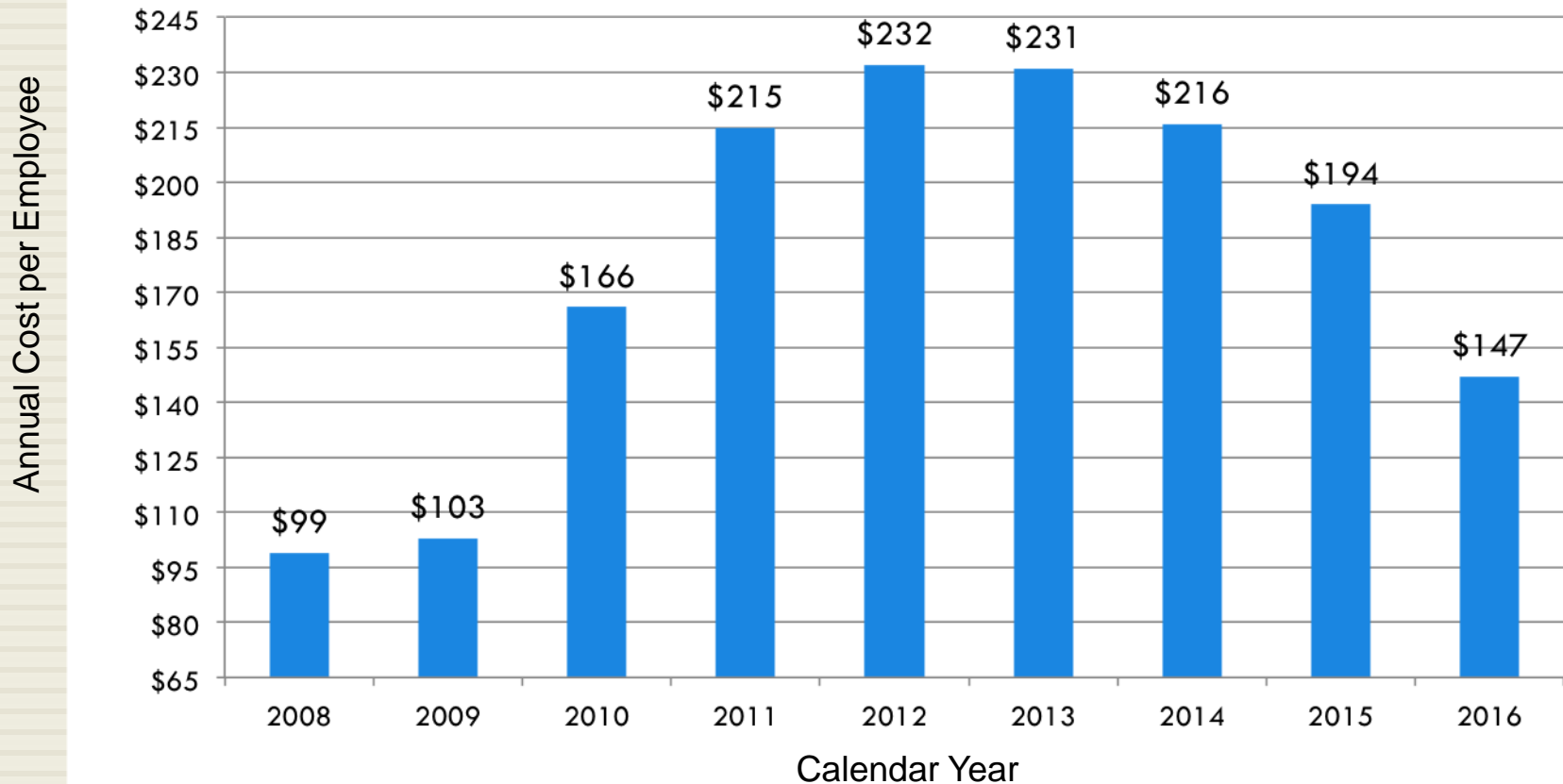


Solvency=Trust Fund balance on June 30 divided by the “adequate fund balance”, which is defined in the Code of Virginia as the highest ratios of benefits divided by total wages for three consecutive years, multiplied by 1.38 to determine the fund adequacy multiplier, which is then multiplied by the total wages for the year in question to determine the adequate fund balance.

Virginia Average Total State Tax

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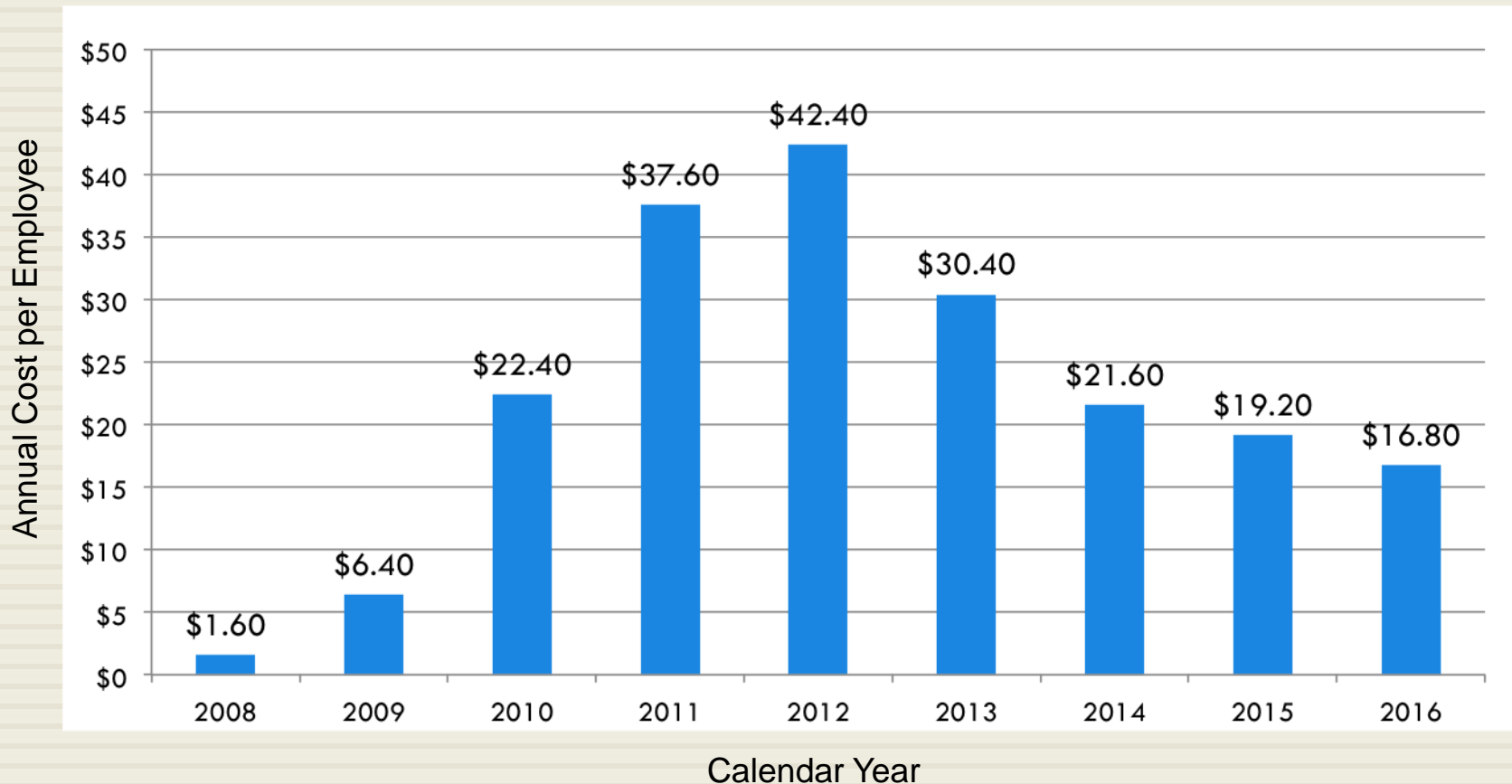
Includes “pool tax”, “fund builder tax”, and employer computed rate:
Fund builder tax of \$16 per employee kicks in whenever solvency of Trust Fund falls below 50%. Taxes are paid by employers quarterly.



Virginia Pool Taxes

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Unfunded liabilities of Trust Fund are dispersed across all employers for the “good of the family”.



Legislative Efforts to Improve Solvency

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- 2011 General Assembly passed SB 790 (Senator Watkins); requires that all legislation enhancing unemployment compensation benefits must contain a statement reflecting the projected impact on the solvency of the trust fund and the average increase in state unemployment tax liability of employers resulting from any increased benefits.
- Code of Virginia disqualifies individuals for UI benefits who lose their job due to misconduct (drug use, lying, violation of law or regulation, chronic absenteeism), or who fails to apply for work, fails to pass a drug test in connection with an offer of suitable work, or makes a false statement to obtain or increase any benefit.

Weeks of Unemployment Benefits Currently Authorized

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State	Federal Emergency Unemployment Compensation (scheduled to expire December 29, 2012)		
26	20 (Tier I)	13+1 (Tier II)	13 (Tier III)
Maximum weeks in most states	Up to 20 weeks available nationwide; up to 14 weeks available September 9, 2012	Up to an extra 13 weeks paid in "high unemployment state", 14th week added by Congress effective 11/2009	Up to 13 additional weeks of benefits paid on "high unemployment" states (6%+) to Exhaustees (Tier II and EBs)
	<ul style="list-style-type: none"> • New Program • Benefits began July 2008 		

Unemployed could qualify for up to 60 weeks of benefits, reduced to 46 weeks in Virginia as of July 1, 2012.
 Reduces to up to 40 weeks effective September 9, 2012 and 26 weeks at the end of 2012.
 Last week to file a new Tier III claim in Virginia was April 22, 2012.
 Last week to file a new Tier II claim in Virginia was June 24, 2012.
 Last week to file a new Tier I claim in Virginia is December 23, 2012.

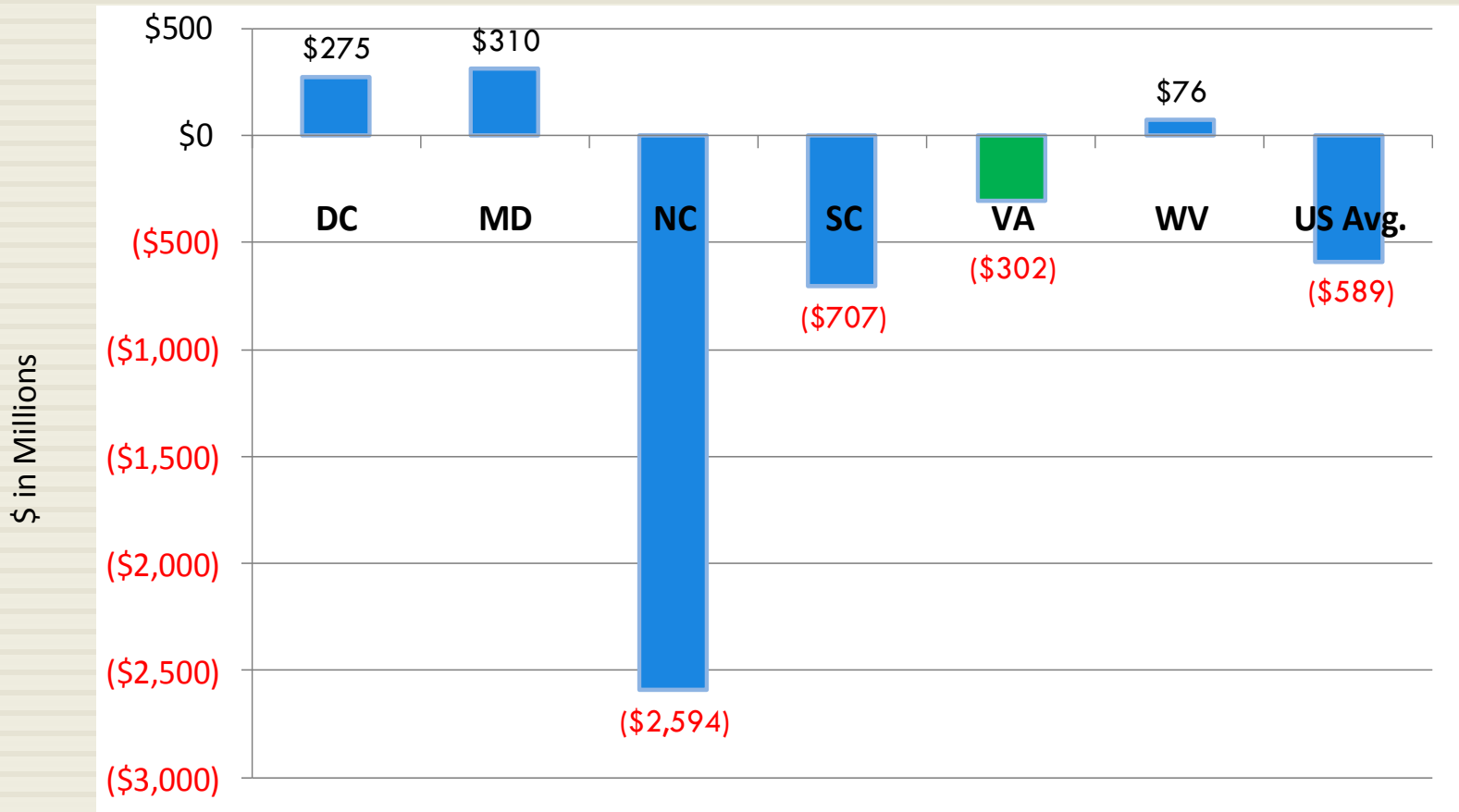
A Regional View

How Does Virginia Compare to Neighboring
States and U.S. Averages?

Trust Fund Balance (Less Loans)

Fourth Circuit – as of March 31, 2012

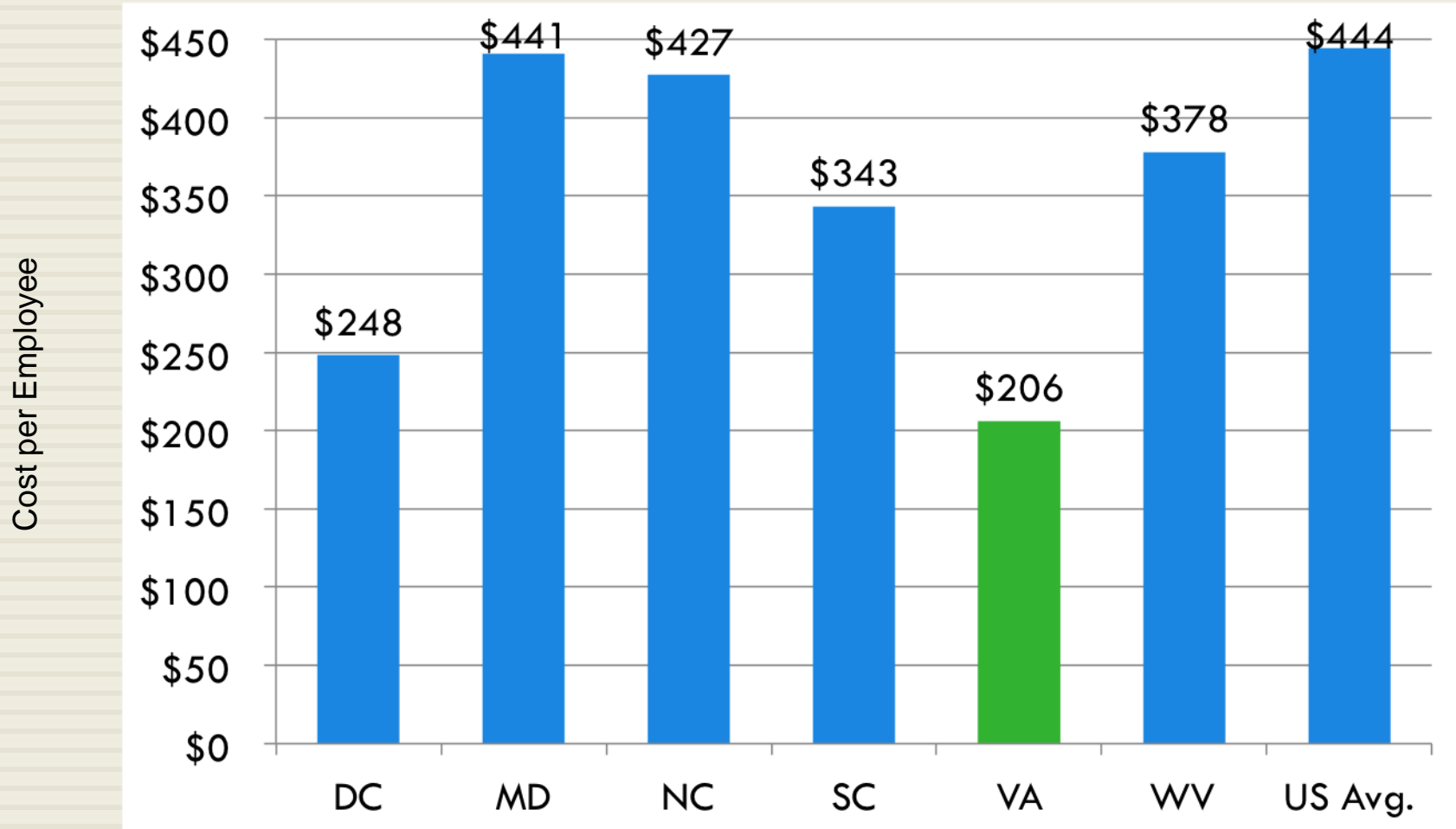
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Average Tax per Employee

Fourth Circuit – as of September 30, 2011

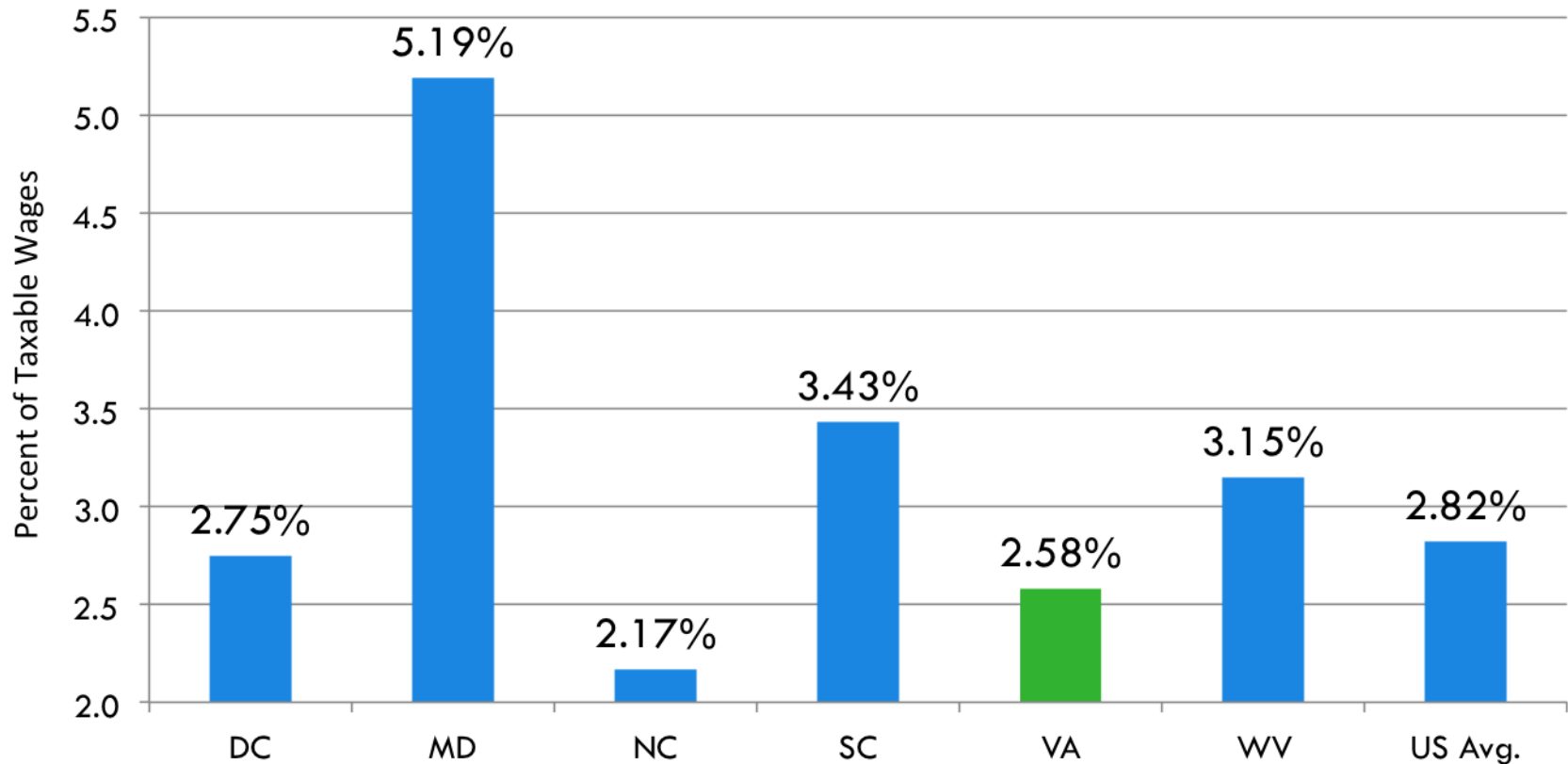
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Average Tax Rate

Fourth Circuit – as of September 30, 2011

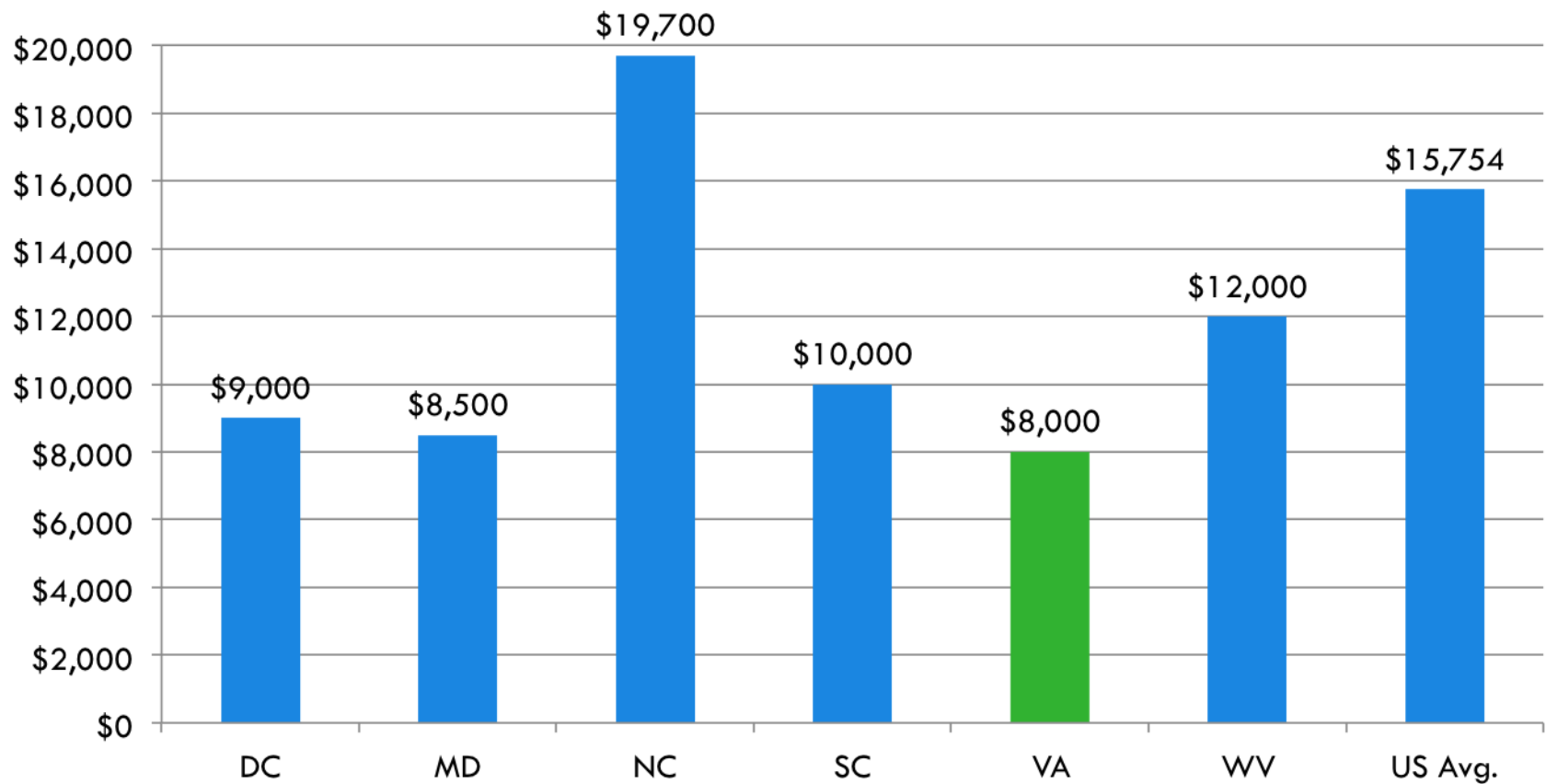
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Taxable Wage Base

Fourth Circuit – Calendar Year 2011

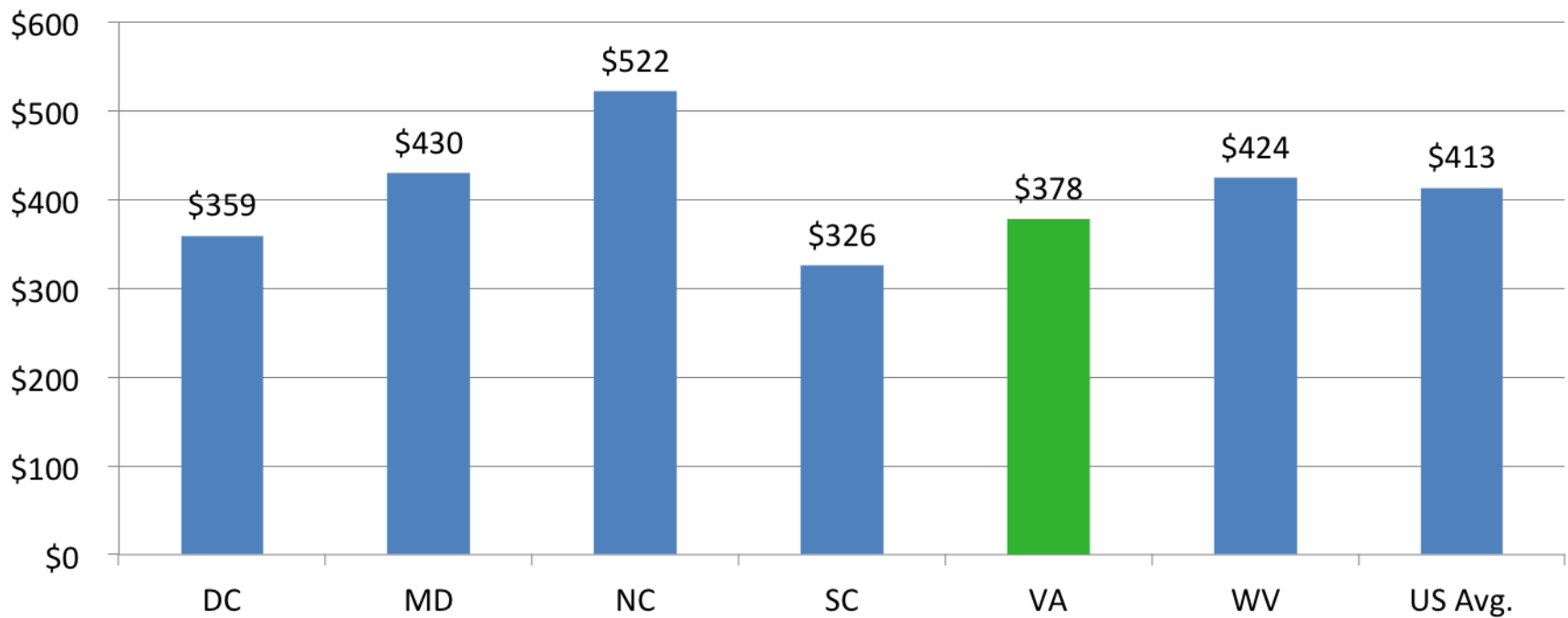
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2012 Maximum Weekly Benefit

Fourth Circuit

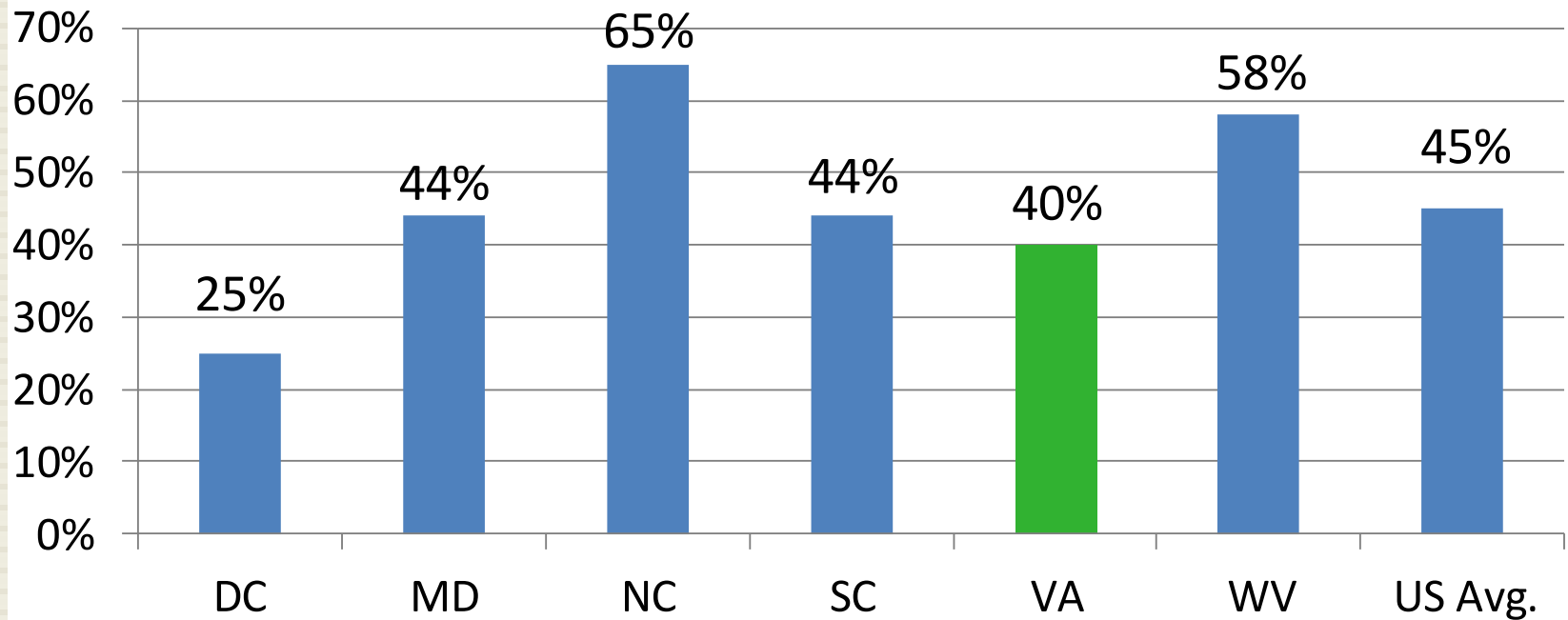
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2012 Maximum Weekly Benefit Replacement Rate*

Fourth Circuit

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*For Virginia, a maximum weekly benefit of \$378 compared to a statewide average weekly wage of \$945.

Questions?

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