Overview: Financial Outlook of the Wisconsin Unemployment Insurance Program

February 6, 2013

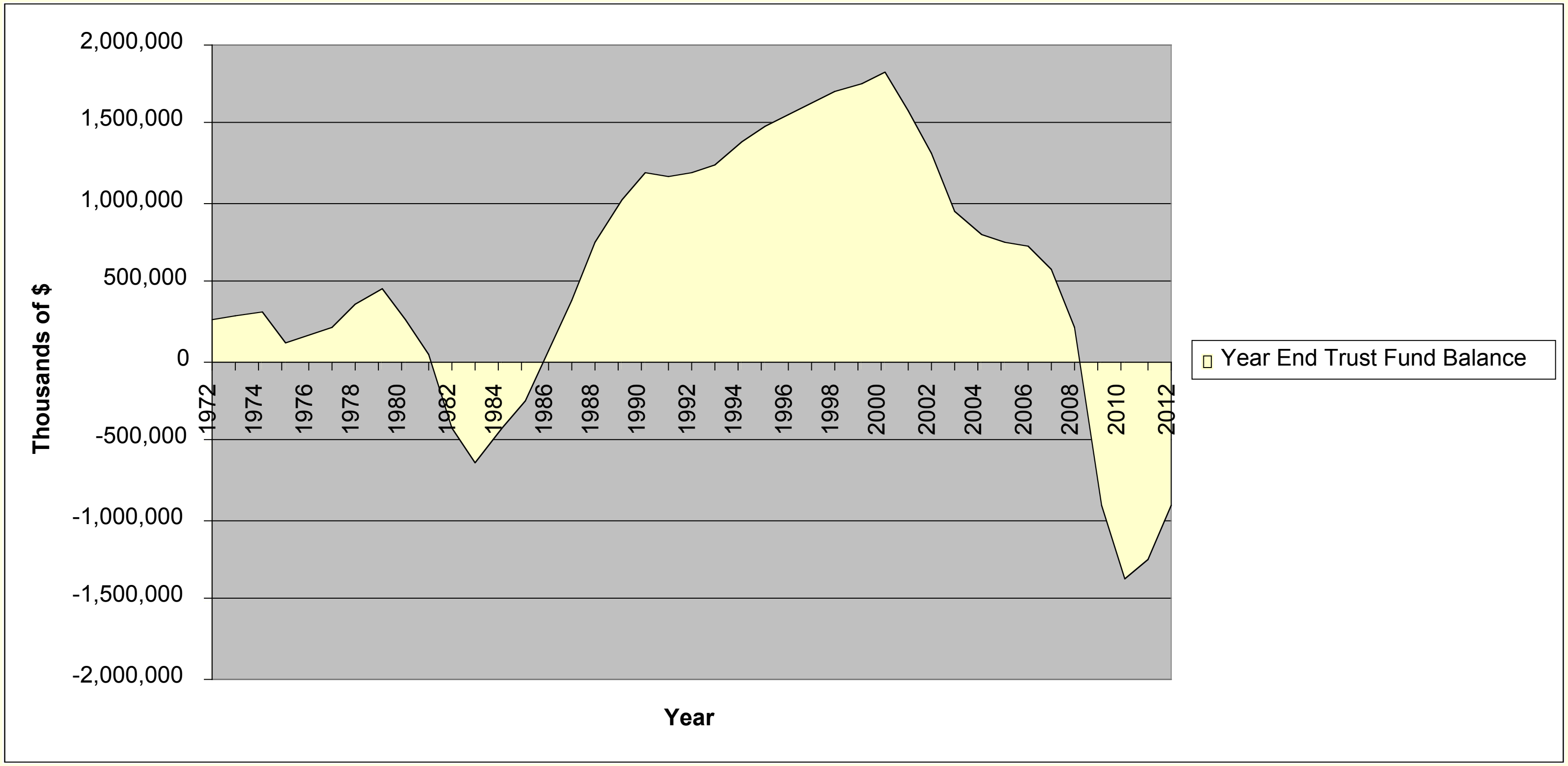
Overview

I. Brief Look at Current Status of the Wisconsin UI Trust Fund
II. Wisconsin UI Benefits
III. UI Taxes and Financing the Wisconsin UI System
IV. History of the Wisconsin UI Trust Fund
V. Response to the Decline of the UI Trust Fund
VI. Wisconsin UI Trust Fund Projections 2012-2015
VII. Measuring UI Trust Fund Solvency

Brief Look at the Current Status of the Wisconsin UI Trust Fund

Part I

UI Trust Fund Balance 1972-2012



Current Status of the UI Trust Fund

- Ended 2012 with a $-876 million Trust Fund Balance
  - 4th consecutive year the Trust Fund ended the year with a negative balance

- Trust Fund is showing improvement
  - Improved by approximately $350 million over 2011

Current Status of the UI Trust Fund

- Four Main Reasons for Improvement in the Trust Fund
  1. Improving Economic Growth
     - Increases tax collection and reduces benefit payments
  2. Higher Tax Schedule combined with higher Wage Base
     - Employers facing Schedule A, the highest UI tax schedule
  3. FUTA Credit Reduction
     - Increase in federal taxes is used to reduce outstanding loans
  4. Waiting Week
     - Implementation of waiting weeks saved $45 million in benefit payments in 2012

Wisconsin UI Benefits

Part II

UI Benefits

- UI benefits are paid to employees who lose employment through no fault of their own
  - To receive benefits claimants must have a proven work history with an UI employer
- Under the WI UI program, workers can receive up to 26 weeks of unemployment payments at their maximum benefit rate
  - 26 weeks is the maximum in the vast majority of states (46 out of the 53 UI programs)

UI Benefits: Special Programs

- Special Programs can extend benefits past 26 weeks
  - Extended Benefits (EB)
    - Additional 13 weeks of benefits—Wisconsin no longer qualified as of April 2012
    - Typically funding is split between state and federal government, under current law cost has been 100% federally funded not impacting UI Trust Fund—Federal Funding ends December 28, 2013

UI Benefits: Special Programs

- Emergency Unemployment Compensation (EUC)
  - Federal program that currently adds up to an additional 43 weeks of unemployment benefits
    - Wisconsin currently qualifies for 28 additional weeks
  - Program is entirely federally funded and so it does not impact the UI Trust Fund
  - Program set to end December 28, 2013

UI Taxes and the Financing the Wisconsin UI System

Part III

UI Taxes: State Taxes

- UI Taxes are levied on employers by both the state (SUTA) and federal government (FUTA)

- Wisconsin state UI tax is a payroll tax
- Assessed on employers for each employee’s wage up to the wage base
  - For 2013 the wage base is $14,000

- State UI tax revenues are paid to the Wisconsin UI Trust Fund and are used to pay Wisconsin UI benefits

UI Taxes: State Taxes

- Two parts of the state UI tax
  - Basic Tax
    - Tax used in determining an employer’s experience with UI—credited Employer Account
  - Solvency Tax
    - Tax used to pay benefits not charged to an employer—credited Balancing Account
      - Represents risk sharing among UI employers

UI Taxes: Federal Taxes

- Federal tax often called FUTA tax
- Payroll tax on wage base of $7,000
- Used for three purposes
  1. UI Administration
  2. Special Programs
  3. Providing loans to state UI systems
- Wisconsin has taken advantage off all three over the past two years

UI Taxes: Federal Taxes

- FUTA Tax Credit Reduction
  - The FUTA rate is 6.0% for the first $7,000 of wages. Up to 5.4% is credited back to employers for an effective rate of 0.6%
  - If a state is forced to borrow, this credit can be reduced. The credit is reduced by 0.3% each year that the state's Trust Fund is negative
  - Wisconsin employers are expected to have FUTA credit reductions through tax year 2013
  - Taxes collected due to the FUTA credit reduction are used to pay Trust Fund loan balances

UI Taxes: Federal Taxes

- Issues with using FUTA credit reduction to pay off loans
  1. FUTA Taxes are not experience rated so obligation spread across all employers regardless of responsibility
  2. FUTA Taxes are not credited to employer’s account. If Trust Fund loans were paid through regular UI taxes, employers are credited leading to lower future rates. This does not happen with FUTA taxes

Special Assessment for Interest (SAFI)

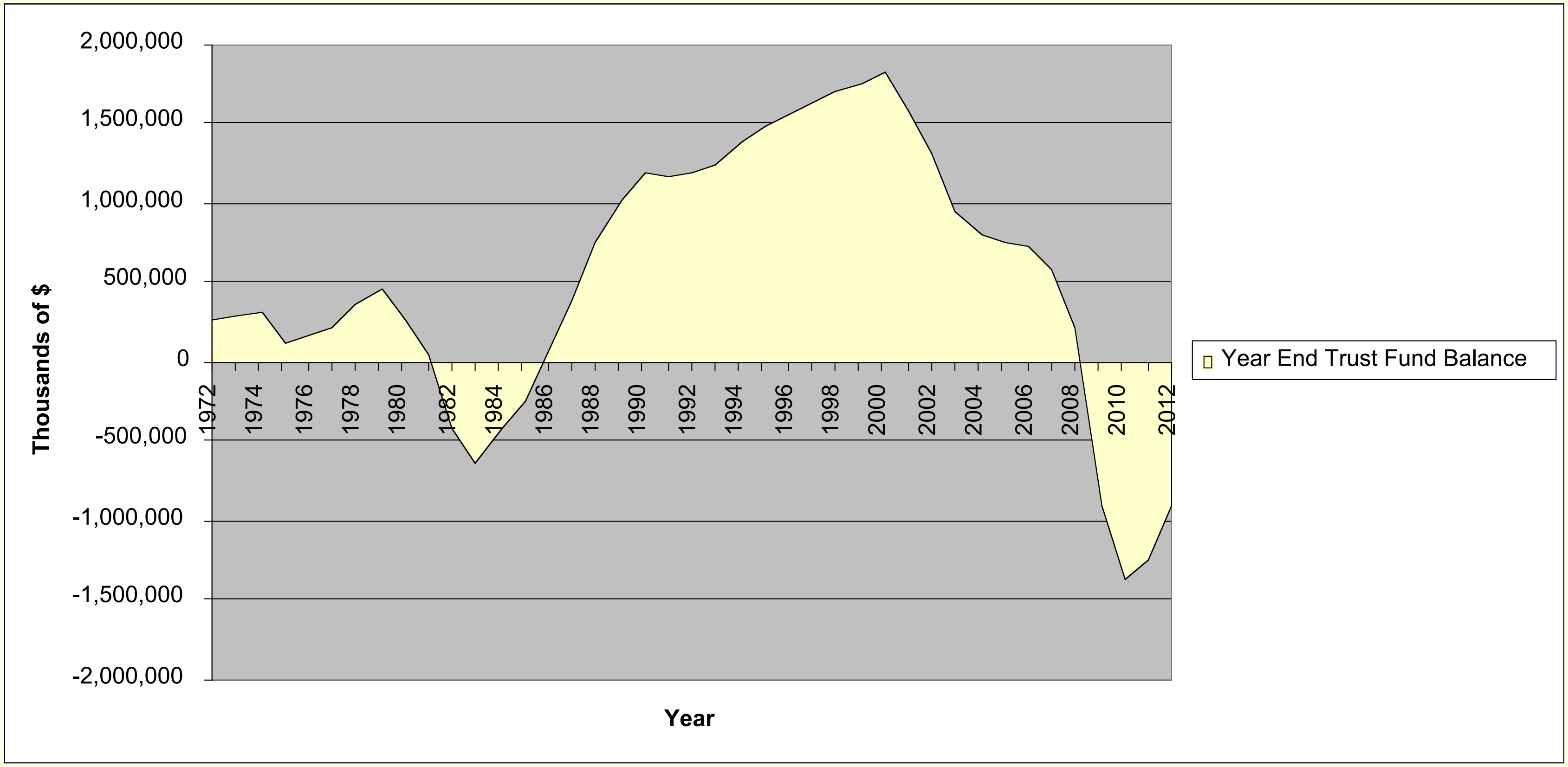
- Interest must be paid on the loans taken by the Wisconsin UI system from the Federal government
- Federal law forbids using regular state UI taxes to pay this interest
- Wisconsin law assesses employers for this interest owed on loans

History of the Wisconsin UI Trust Fund

Part IV

UI Trust Fund Balance 1972-2012

- Recessions
- Current Deficit
- Large, sustained drop in 2000s



UI Trust Fund Balance

- Illustrates current UI Trust Fund Situation

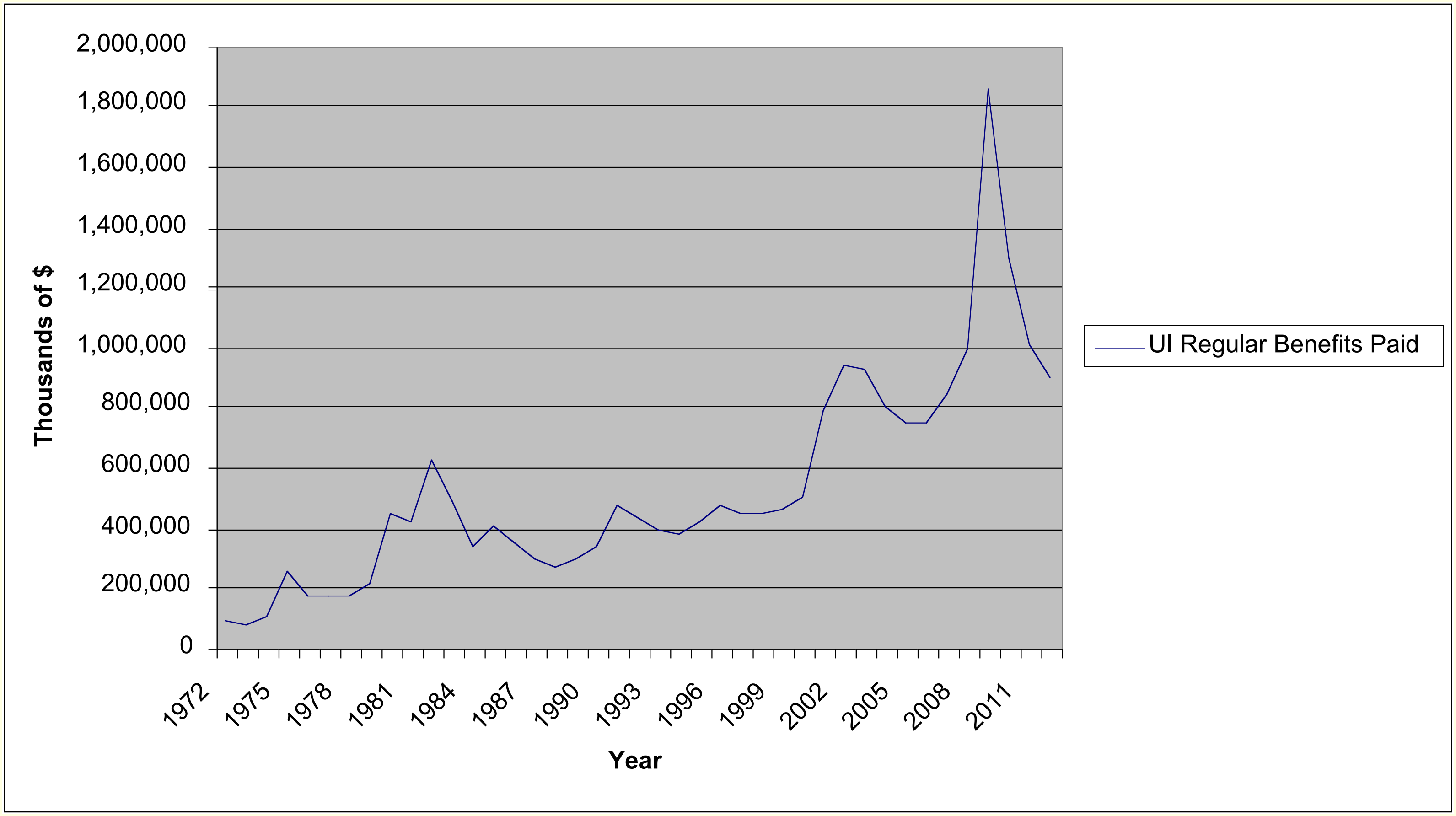
- Outstanding obligation of approximately $876 million

- Causes of Borrowing
  1. The Great Recession
  2. UI Financing System

The Great Recession

- Significant increase in benefits paid.
  - During 2004 through 2007, Wisconsin paid $3.1 billion in UI benefits
  - During 2008 through 2011, Wisconsin paid $5.2 billion in UI benefits, an increase of 68%
- Tax collections fell as wages decreased
  - $684 million in taxes in 2006
  - $621 million in taxes in 2009

The Great Recession



The Great Recession

- As a percentage of Covered Payroll, Great Recession benefits are slightly below the recession of the early 1980s

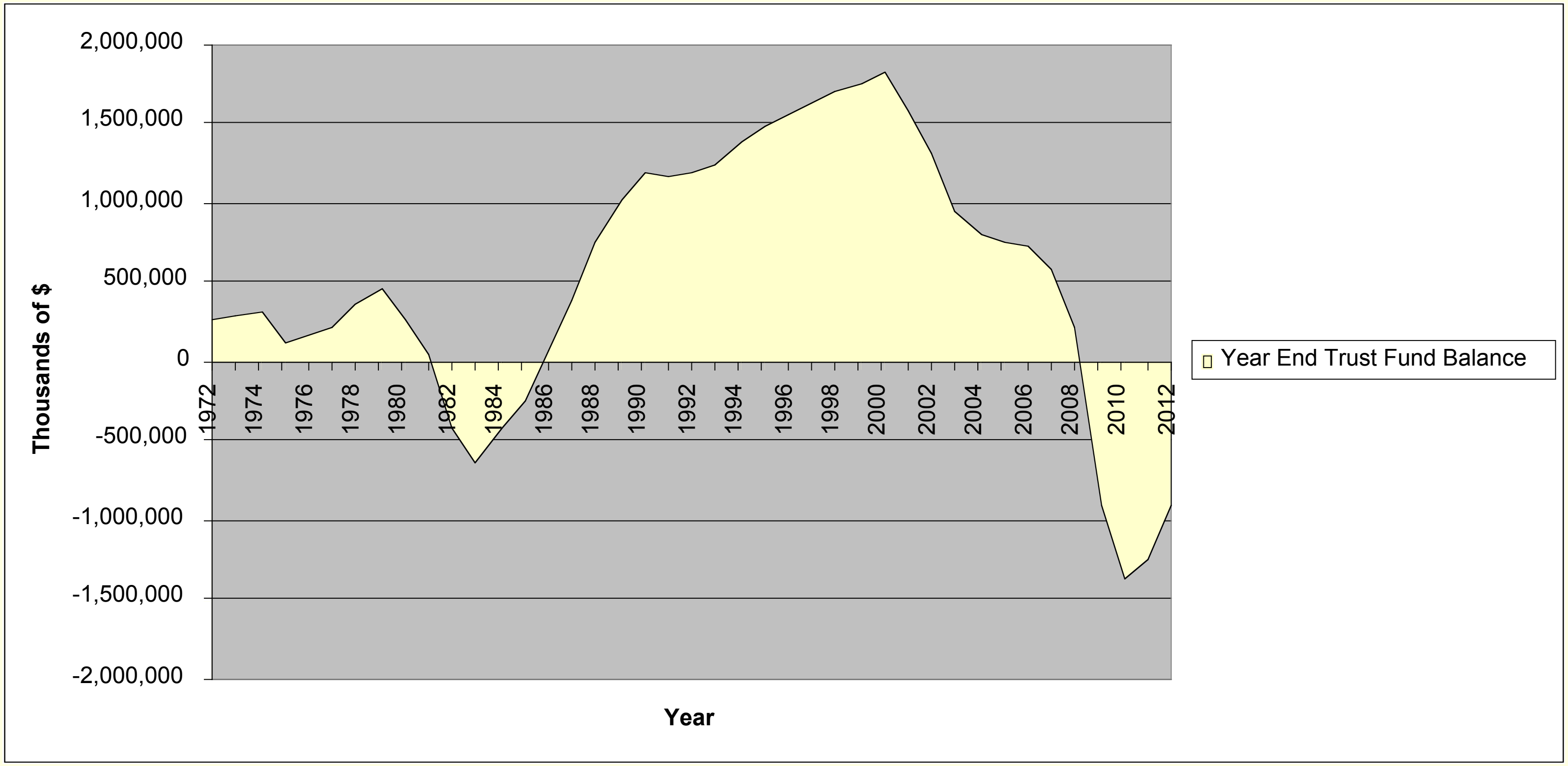
Top 5 Benefit Years as a Percent of Total Payroll

Year	**Percent of Total Payroll**
1982	2.84
2009	2.41
1980	2.17
1975	2.13
1983	2.11

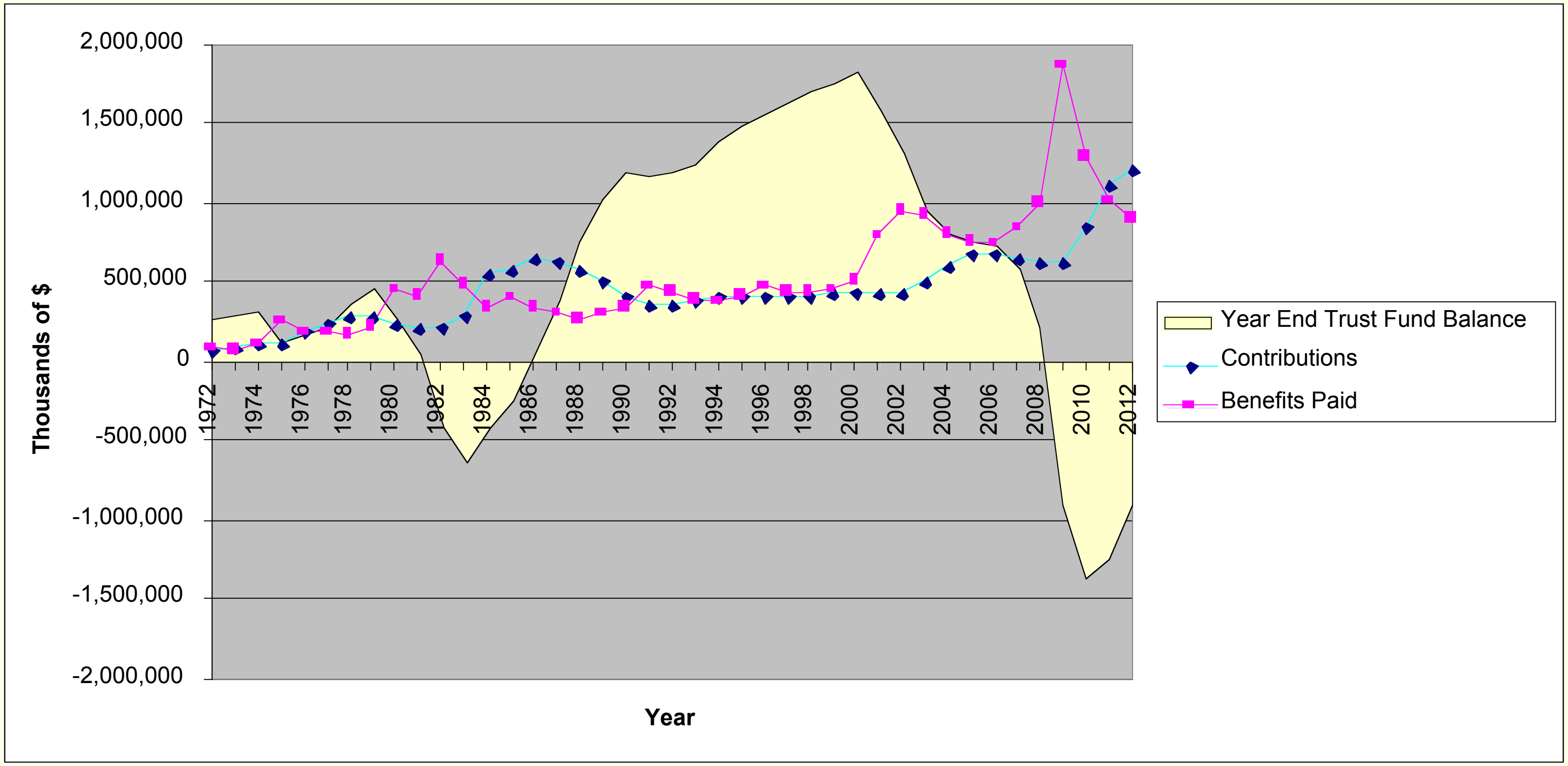
The Great Recession

- The Great Recession contributed a huge amount of stress to the system.
- However, the system was already straining.
- The Great Recession determined the amount of borrowing, but the UI system was likely to borrow even under mild recessionary conditions

UI Trust Fund Balance 1972-2012

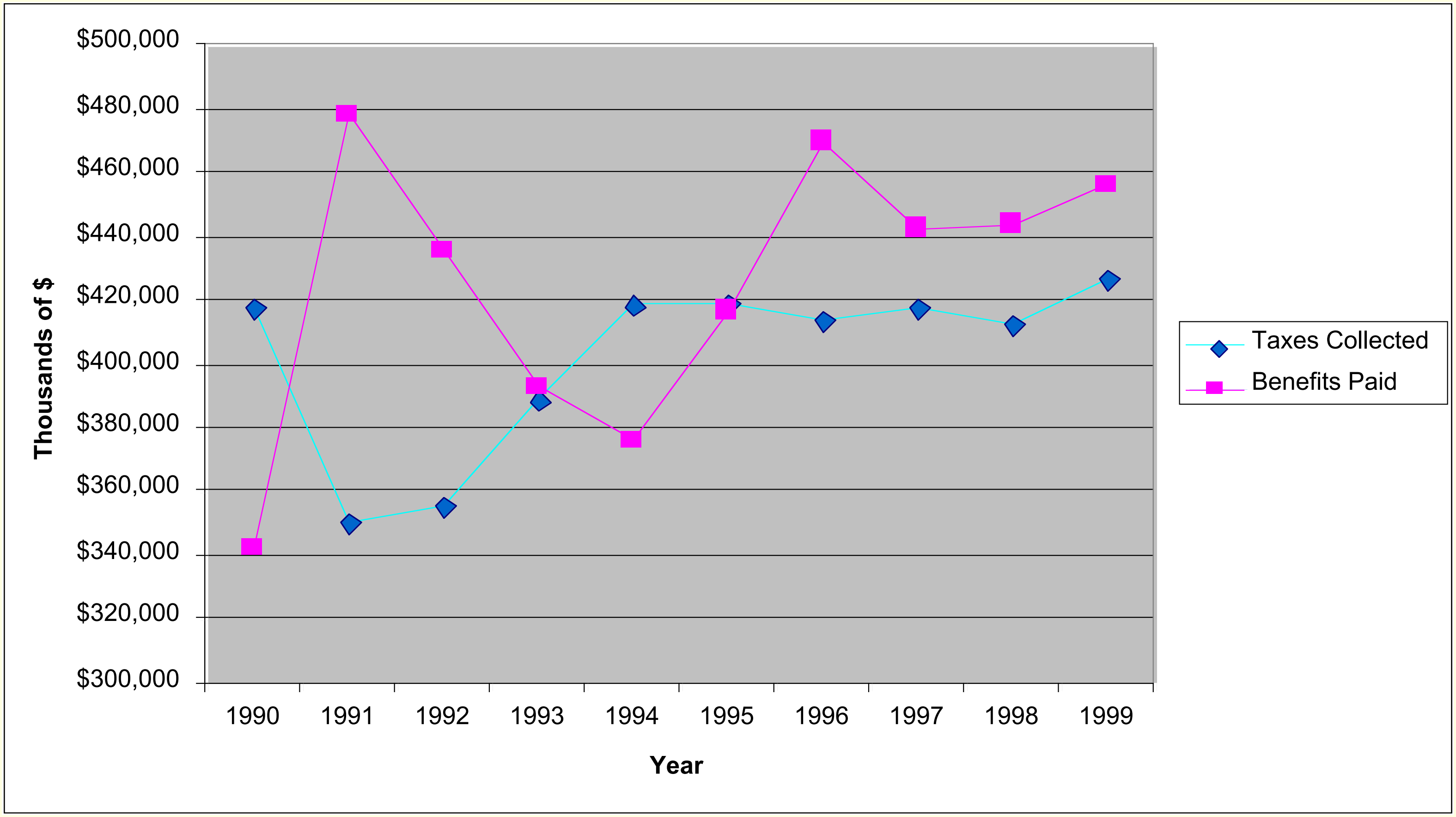


UI Trust Fund Balance 1972-2012



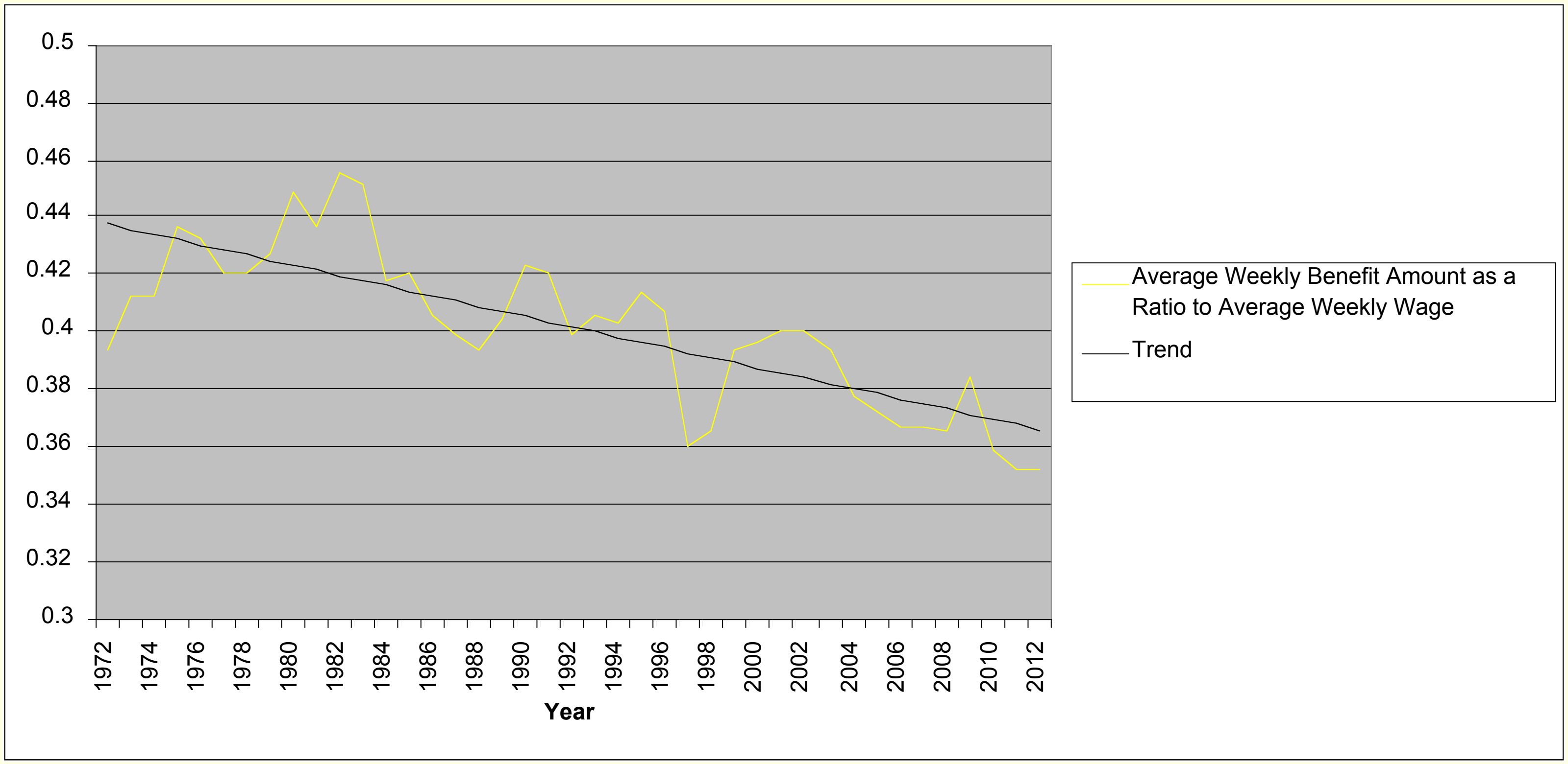
UI Taxes and Benefits Paid 1990-1999

- After 1991 recession, Trust Fund Responded
- Benefits started to exceed taxes in the mid 90s but interest payments allowed Trust Fund to continue to grow



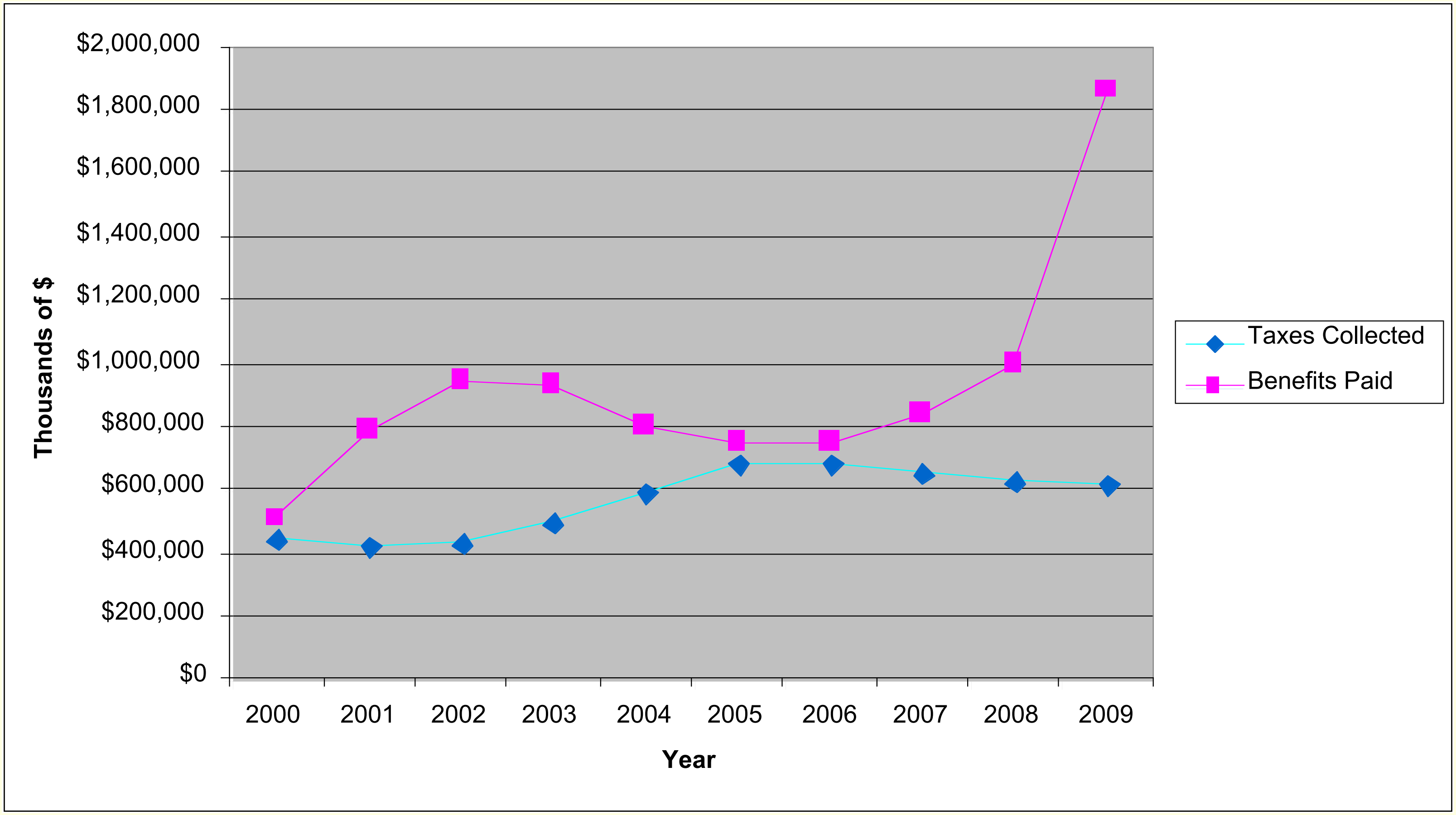
UI Taxes and Benefits 1990-1999

- Benefits were increasing due to higher wages, not due to higher benefit rates. Replacement rate fell throughout 1990s



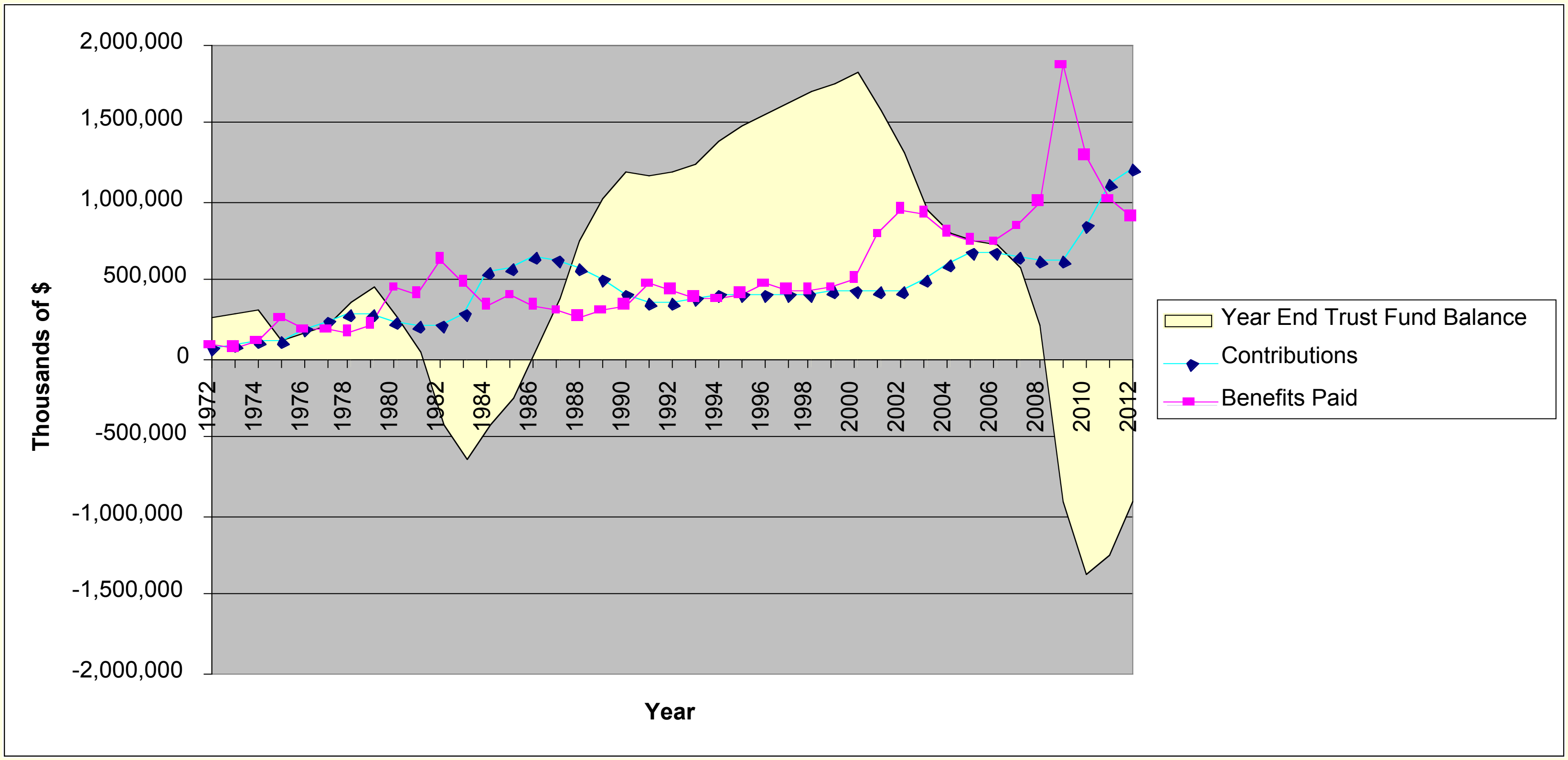
UI Taxes and Benefits Paid 2000-2009

- After 2001-2002 Recession, taxes never exceeded benefits
- Trust Fund severely declines



UI Taxes and Benefits 2000-2009

- After 2001-2002 recession taxes never exceeded benefits
- Financing system unresponsive to large shock
- UI Trust Fund declining throughout 2000s

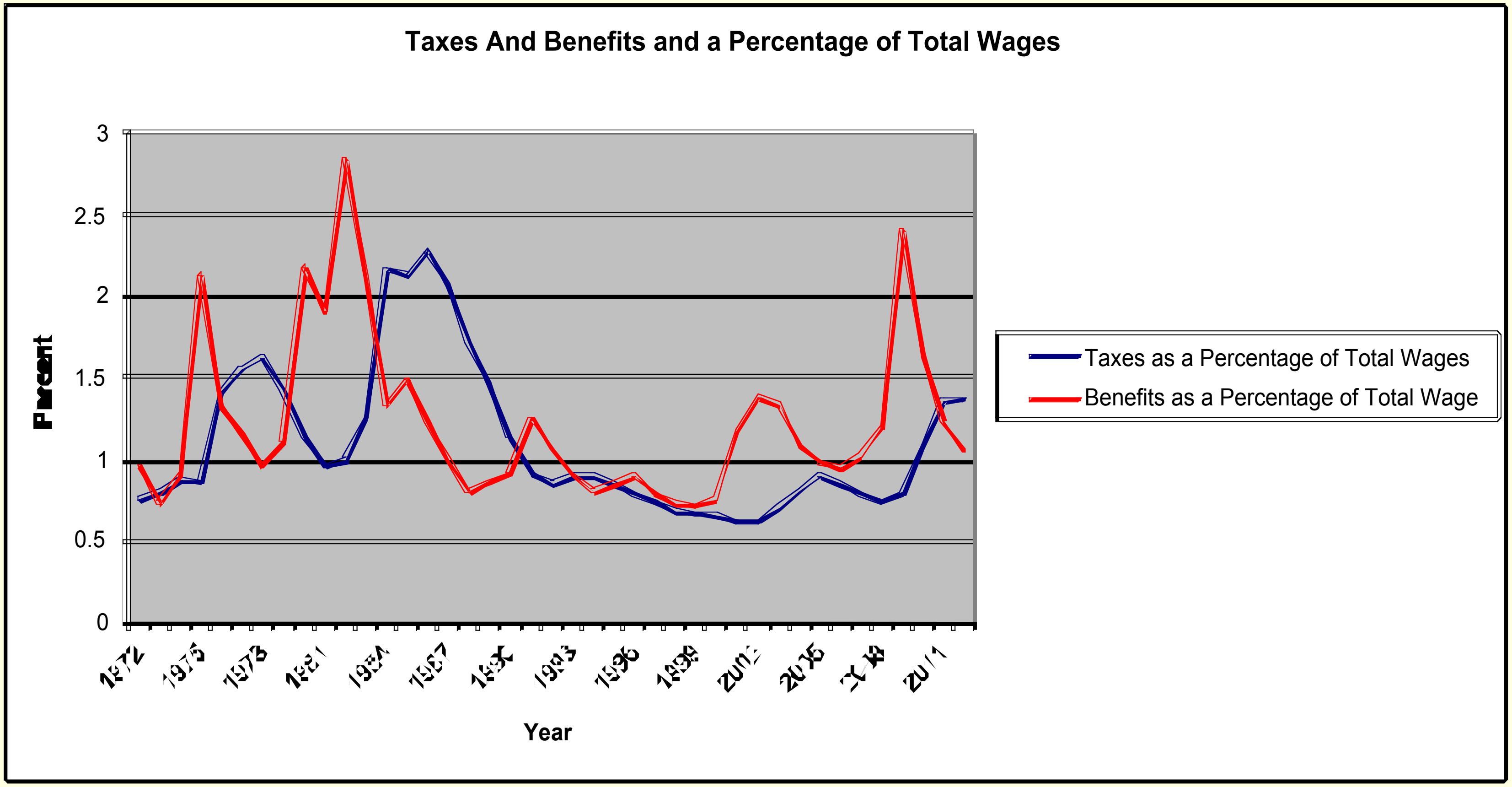


Response to UI Trust Fund Decline

Part V

Unresponsive Financing System

- By using percentage of Total Wage, can standardize across years
- Response to recessions varies

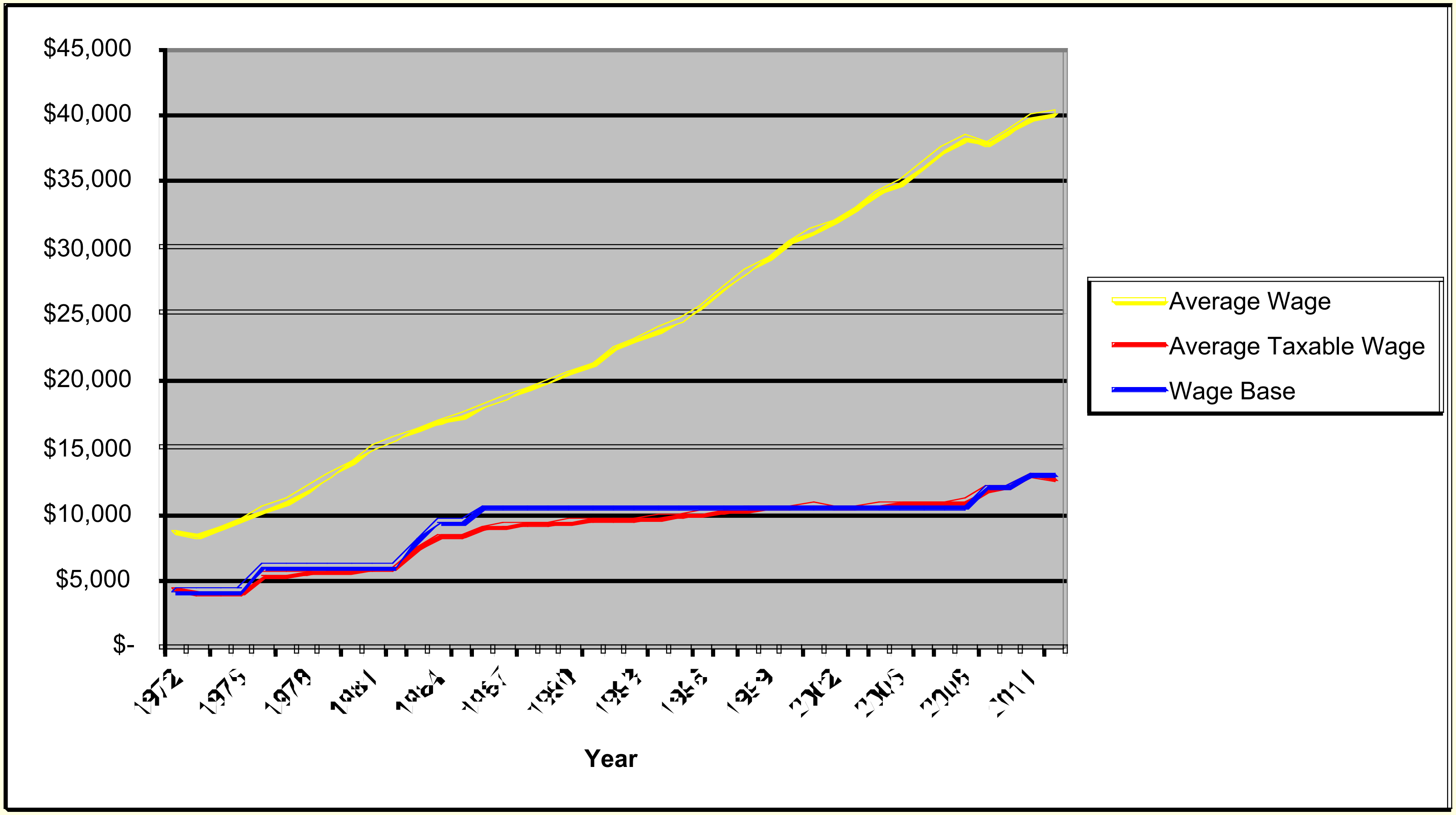


Unresponsive Financing System

- Reasons for lack of response:
  - Taxable Wages are not keeping pace with Total Wages
  - Tax Schedule Triggers are fixed and at a level not reflective of current economic activity

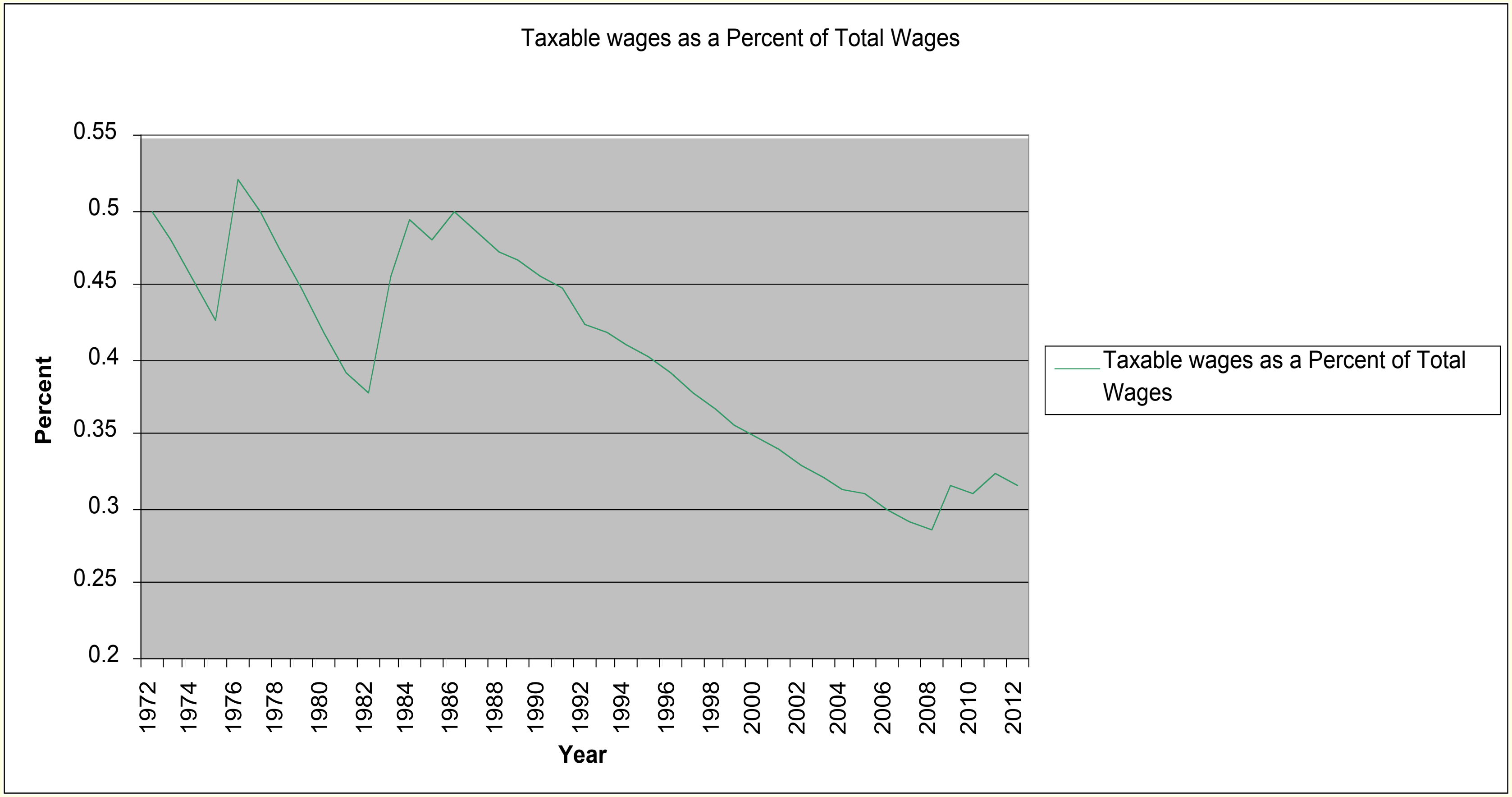
Taxable Wages Not Keeping Pace With Total Wages

- Wages can be thought of as risk to UI system and taxable wages basis for premium. Risk is growing much faster.



Taxable Wages Not Keeping Pace With Total Wages

- Recent increase in taxable wage base only accounts for past 10 years of wage growth.



Tax Schedule Triggers

- The Fixed Dollar Tax Schedule Triggers were set to reflect the economy of the late 1980s and are not reflective of current economic activity.

		Trigger A to B	Trigger B to C	Trigger C to D (Schedule D went into effect 1998)
Trigger Dollar Amount		$300 m	$900 m	$1,200 m
% of 1986 Covered Wages		1.06%	3.19%	4.26%
% of 2012 Covered Wages		0.35%	1.05%	1.4%
Ratio of 2012 to 1986		**33%**	**33%**	**33%**

Tax Schedule Triggers

- Triggers have also not kept pace with benefit expenditures

		Trigger A to B	Trigger B to C	Trigger C to D (Schedule D went into effect 1998)
Trigger Dollar Amount		$300 m	$900 m	$1,200 m
Months of 1986 Benefits		10.3	31.1	41.5
Months of 2012 Benefits		4.0	12.0	16.1
Ratio of 2012 to 1986		**39%**	**39%**	**39%**

Great Recession and Responses

- The Great Recession did bring responses to the large increase in benefits
  - Existing Statutory Responses
    1. Tax Schedule Change—did not occur until after negative balance
    2. FUTA Credit Reduction
  - Active Responses--Legislative Changes
    1. 32 hours classified as full time
    2. Elimination of partial benefits for those earning over $500 per week
    3. Waiting Week

Wisconsin UI Trust Fund Projections 2012-2015

Part VI

UI Trust Fund Projection 2012-2015

- The UI Trust Fund projection comes from a model using inputs from Department of Revenue's *Economic Outlook* combined with UI data.
- The projection covers the period 2012 to 2015. The margin of error for the estimates increases in later years.
- If economic conditions differ from the DOR projections, there will be significant changes in the Trust Fund estimates

UI Trust Fund Projection 2012-2015

Year	2012	2013	2014	2015
Opening Unemployment Reserve Fund Balance	($1,239)	($876)	($446)	($10)
Revenues:				
State Unemployment Revenues (employer taxes)	1,187	1,191	1,089	1,001
Interest Income	0	0	1	8
Special Assessment on Employers Revenue	36	19	7	0
Federal Revenues (FUTA credit reduction)	47	95	143	0
Total Revenue	1,270	1,305	1,240	1,009
Expenses:				
Unemployment Benefit Expense	871*	856	797	696
Federal Loan Interest Expense	36	19	7	0
Total Expense	917	875	804	696
Ending Unemployment Reserve Fund Balance	(876)	(446)	(10)	303

*Includes some federal Reed Act monies that were obligated for UI administration

UI Trust Fund Projection 2012-2015

- The Trust Fund is expected to end 2013 and 2014 with negative balances. It is expected to end 2015 positive.
- November 10th is the date relevant for a FUTA credit reduction. Currently the Trust Fund is projected to be positive on November 10, 2014. Thus there is no expected FUTA credit reduction credited in 2015.

Measuring UI Trust Fund Solvency

Part VII

UI Trust Fund Solvency

- Three Accepted Measures to Reflect Trust Fund Solvency
  - Relate size of Trust Fund to risk UI system faces

1. Reserve Ratio
2. High Cost Multiple (HCM)
3. Average High Cost Multiple (AHCM)

Average High Cost Multiple

- Looks at the average of the highest 3 years of benefits over the last 20 years or past three recessions, whichever is longer.
- A value of 1.0 then means 12 months of benefits in the Trust Fund at this average of the 3 highest years
- For WI this is currently 1.81% of covered wages or approximately $1.6 billion
- 1995 Federal Advisory Council recommend an AHCM of 1.0

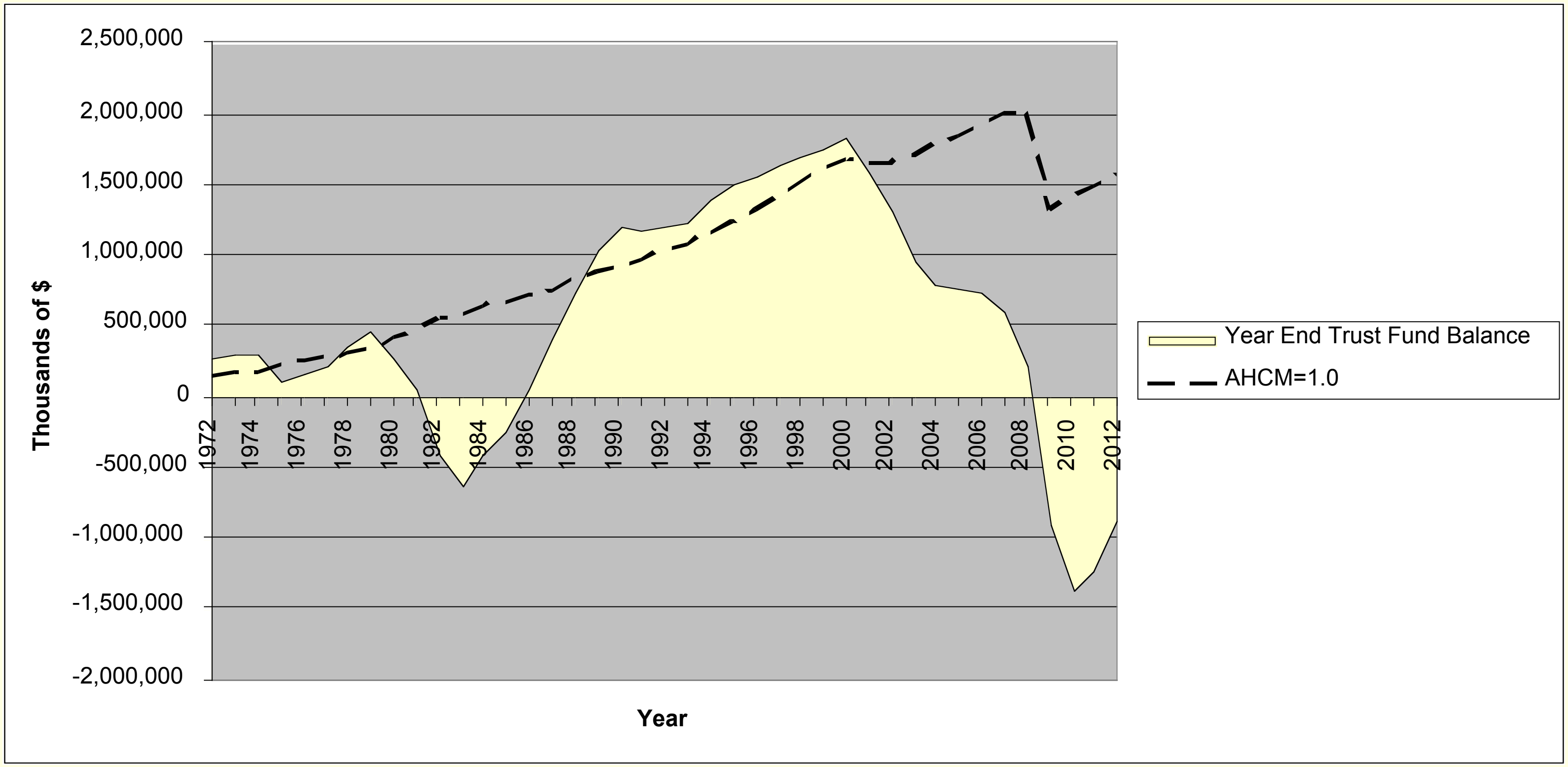
Average High Cost Multiple

- The AHCM was a decent measure of which states need to borrow in the Great Recession
- If Wisconsin had met the AHCM benchmark (AHCM=1.0) before the Great Recession, Wisconsin would not have had to borrow.

2007	AHCM >1	AHCM <1
Number of States	19	34
Number who Borrowed	6	30
Percentage	32%	88%

UI Trust Fund Solvency

- Wisconsin has met the AHCM Benchmark in the Past



UI Trust Fund Solvency

Projected UI Trust Fund vs. AHCM Benchmark
(Millions of $)

	2012	2013	2014	2015
Projected Trust Fund Balance	-876	-446	-10	303
AHCM Recommended Amount	1,555	1,620	1,680	1,758

Overview

I. Brief Look at Current Status of the Wisconsin UI Trust Fund
   - Negative balance for fourth consecutive year
   - Improvement over 2011

II. Wisconsin UI Benefits
   - Federal special programs did not impact the Trust Fund

III. UI Taxes and the Financing of the Wisconsin UI System
   - UI Taxes are both state and federal
     - FUTA Credit reduction

IV. History of the Wisconsin UI Trust Fund
   - The Great Recession
   - UI Financing system

Overview

V. Response to the UI Trust Fund Decline
- Taxable Wage Base
- Tax Schedule Triggers

VI. Wisconsin UI Trust Fund Projections 2012-2015
- Negative Balance end of year balance through 2014
- No predicted FUTA credit reduction in 2014

VII. Measuring UI Trust Fund Solvency
- Average High Cost Multiple (AHCM)
- Wisconsin would have avoided borrowing with an AHCM of 1.0 in 2007

end