

Revenue Laws Study Committee

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Room 544 LOB

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- Federal-State partnership
 - Broad federal guidelines
 - Each state designs its own program within those guidelines
- Federal Unemployment Tax Act (FUTA)
 - Funds administration
- State Unemployment Tax Act (SUTA)
 - Funds UI benefits

Federal Benefit Requirements

Claimants

- Lost their jobs through no fault of their own
- Worked during a specified time period and received a minimum amount of wages
- Are able and available for work
- Are actively seeking new employment

Benefits

- Regular Benefits
 - Permanent program
 - 100% State funded
- Extended Benefits
 - Permanent program
 - Triggered by high levels of unemployment
 - Funded 50/50
- *Emergency Benefits*
 - *Temporary program*
 - *100% Federally funded*

Federal Funding Requirements

Tax Paying Employers

- FUTA
- SUTA
 - State payroll taxes or “contributions” that must be deposited into a State’s unemployment trust fund
 - Based on an experienced rating system

Gov’t, Nonprofits, Indian Tribes

- Do NOT pay FUTA
- Must be given the choice to make payments in lieu of SUTA contribution
 - I.e., direct reimbursement for benefits charged
- States may enact safeguards to ensure entities make the payments required

Federal Unemployment Tax

- FUTA
 - Tax imposed on employer
 - On the taxable wages of each employee
 - Taxable wage base = \$7,000
- Tax Rate
 - 6%, with a possible 5.4% tax credit
 - Effective tax rate of .06% or \$42/employee
 - Funds administration

NC Tax Paying Employers

SUTA

- Tax rate based on economic conditions and employer credit ratio: 0% to 5.7%
- Tax rate for new employers is 1.2%
- Taxable wage base is \$20,900 for 2013
- May only be used to pay unemployment benefits

20% Surcharge

- 20% tax on SUTA
- Payable to the State Reserve Fund
- Imposed in any calendar year when UI Reserve Fund does not equal or exceed \$163,349,000
- Not as restricted to use
Used to pay interest on loan

NC Funding Structure for Reimbursable Entities

- Governmental Entities, Nonprofits, and Indian Tribes
 - Reimburse the Trust Fund for benefits charged
 - Are not subject to the 20% surcharge
- Safeguard for Nonprofits and Indian Tribes
 - Must maintain a reserve equal to 1% taxable wages



UI Related Funds

UI Fund
(SUTA -Benefits)

Administration
Fund
(Fed'l \$)

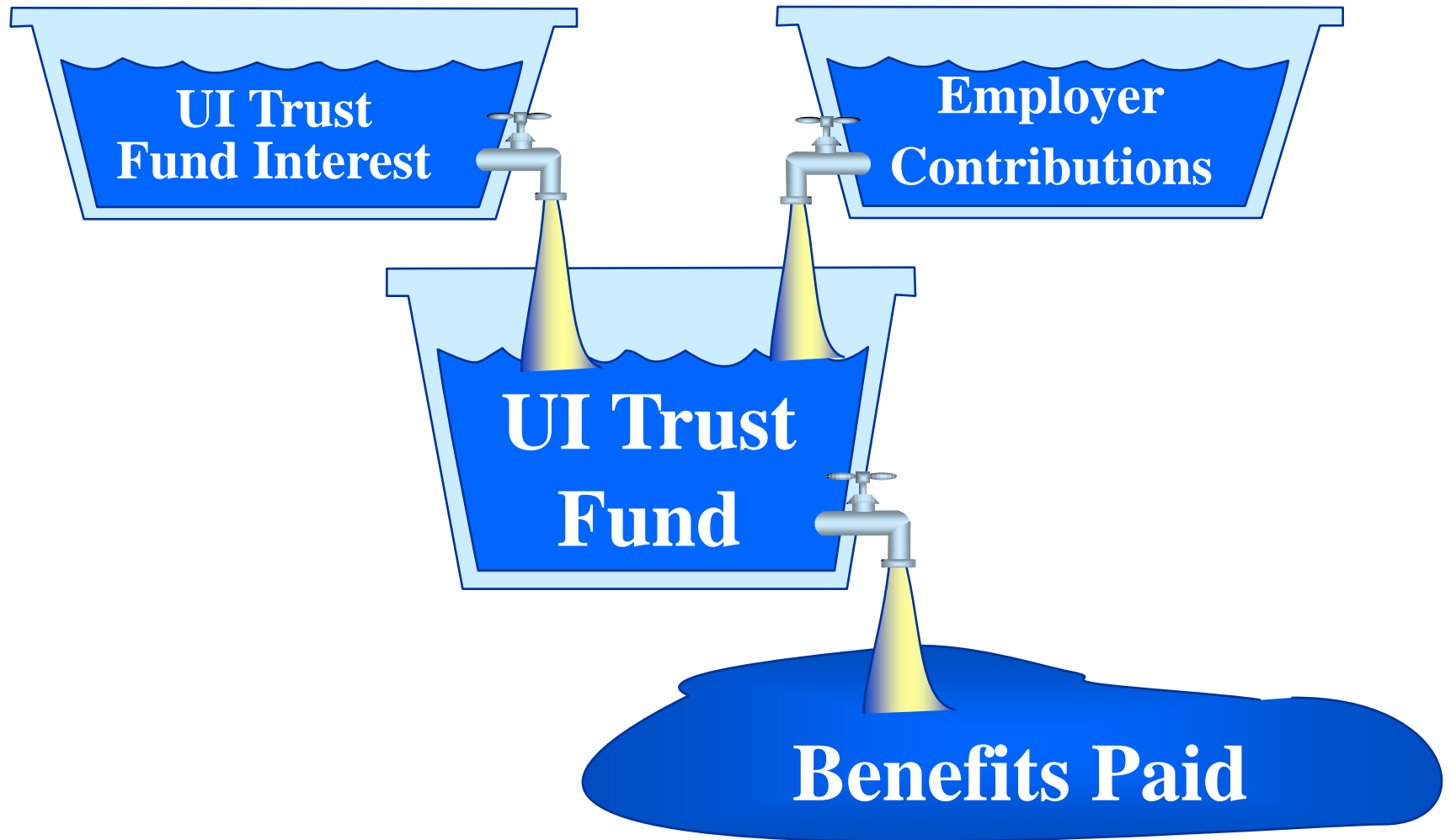
Special
Administration
Fund

Reserve Fund
(20% Surcharge)

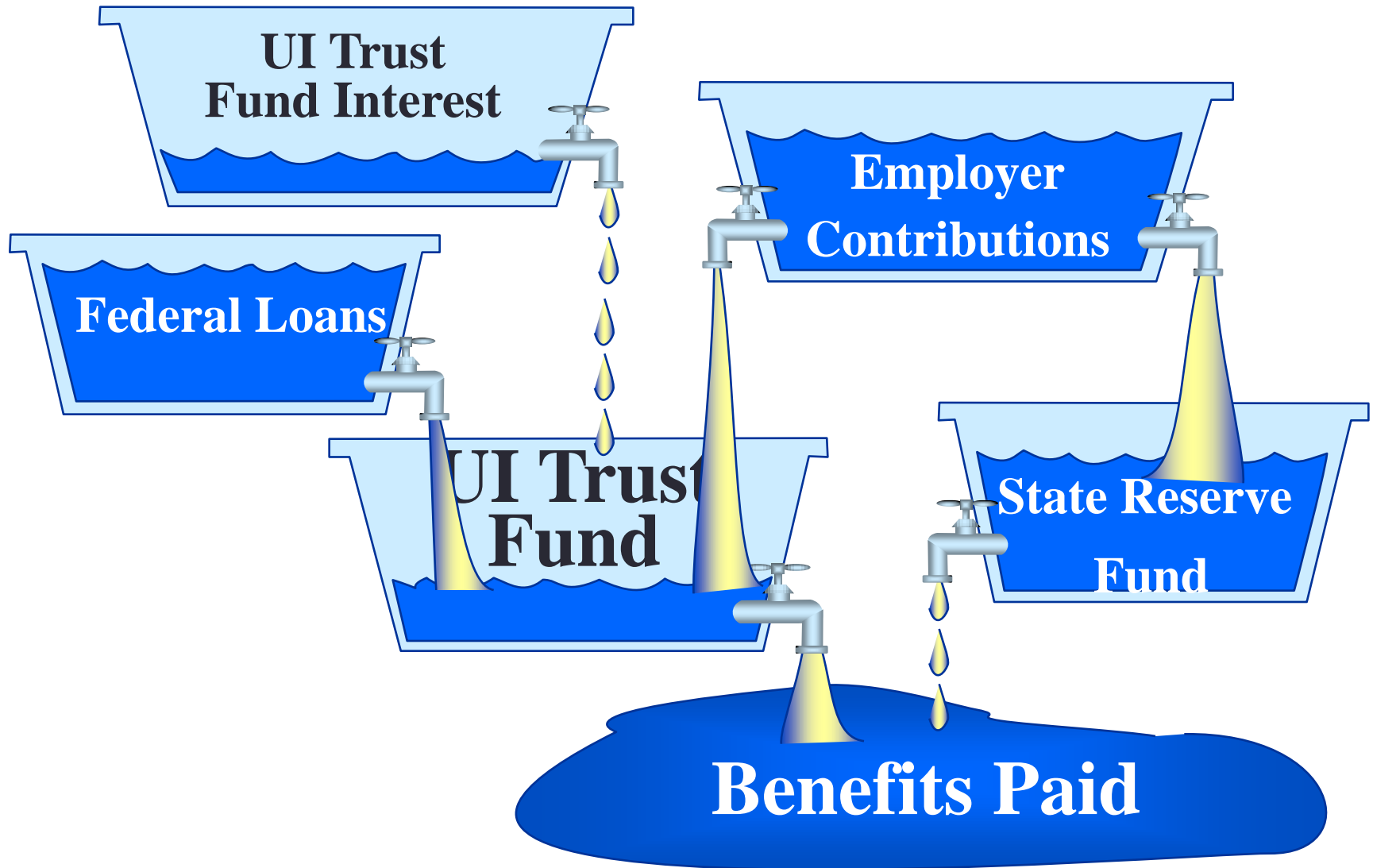
Worker
Training Trust
Fund

Training &
Employment
Account

UI Trust Fund Monetary Flow - Regular



Trust Fund Monetary Flow - Advance



NC Unemployment Insurance Trust Fund

- \$2.5b federal loan balance (10/31/12)
- Timeline
 - Feb 2009 – First advance
 - Sept 2011 -- \$78.5m interest payment
 - Sept 2012 – \$83.9m interest payment
- 2011 Session
 - Merger of ESC & Commerce
 - Study commissioned
- 2012 Session
 - Collection of overpayment
 - NC FACTS



UI TRUST FUND INDEBTEDNESS & REPAYMENT PLAN

Federal Loan & Repayment

Title XII of SSA provides for automatic advances to pay benefits if insufficient state reserves



FUTA tax credit reduction provides for automatic debt repayment plan

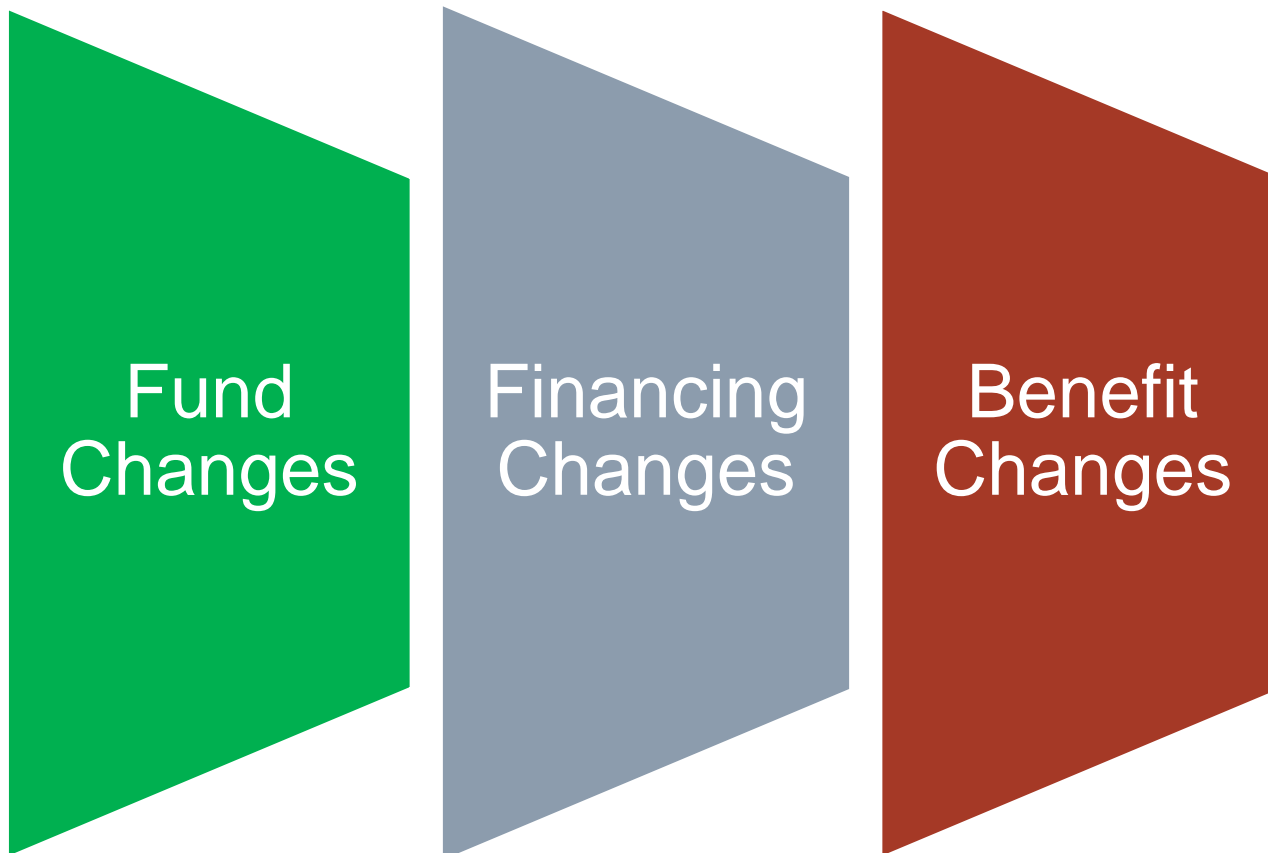
- Credit reduced 0.3% annually until debt repaid
- All revenues derived from increased FUTA goes towards debt retirement
- Estimated debt retirement in 2019



FUTA CREDIT REDUCTIONS

Year	FUTA Credit Reduction	Amount per Employee	Total Cost (\$millions)
2011	0.3%	\$21	\$79.8
2012	0.6	42	159.6
2013	0.9	63	239.4
2014	1.2	84	319.2
2015	1.5	105	399.0
2016	1.8	126	478.8
2017	2.1	147	558.6
2018	2.4	168	638.4
2019	2.7	189	718.2

WAYS TO ACCELERATE DEBT REPAYMENT



Proposed Fund Changes

- **Reserve Fund**
 - Require governmental entities and nonprofits to contribute
 - “Trigger off” the surcharge when the balance in the UI Fund is \$1 billion or more
 - Restrict use of fund to payment of benefit, principal on debt, and interest on debt
 - Require “sweep” of moneys in Fund to UI Fund
- **Eliminate WTTF & T&E Account**
 - Appropriate balances to the UI Fund
- **Special Administration Fund**
 - Remit \$10 million of \$16 million balance to UI Fund

Financing in Other States

	2012 Taxable Wage Base	2011 Minimum Tax Rate	2011 Max Tax Rate	2011 New Employer Tax Rate	Percent Employers at Minimum Tax Rate	Percent Employers at Maximum Tax Rate
AL	\$8,000	2.19%	8.34%	2.7%	7%	67%
FL	8,500	1.03	5.40	2.7%	22	63
GA	8,500	0.03	5.40	2.6	11	41
KY	9,000	1.00	10.00	2.7	10	19
MS	14,000	0.85	5.40	2.7	12	62
NC	20,400	0.00	6.84	1.2	20	10
SC	12,000	0.10	11.28	2.9	6	56
TN	9,000	0.50	10.00	2.7	6	15
VA	8,000	0.77	6.87	3.2	10	69

Source: Upjohn Institute

Proposed SUTA Changes

- Use a formula rather than a series of tax schedules and tables
- Increase the minimum SUTA tax rates by .06%
 - Would move from 0% to .06%
 - Would mean these employers would pay the 20% surcharge
 - 20% of employers
- Increase maximum SUTA tax rates by .06%
 - Would move from 5.7% to 5.76%

Proposed Changes for Governmental Entities and Nonprofit Organizations

Governmental

- Require 1% reserve in account
- Quarterly payments and wage reports
- Annual reconciliation in 2015
- Pay 20% surcharge on 1% of taxable wages each quarter

Nonprofit Organizations

- Require 1% reserve in account
 - Some use letters of credit
 - Some use surety bonds
- Pay 20% surcharge on 1% of taxable wages each quarter
- No refunds; only credits to account

Benefits in Other States

	Max Weekly Benefit Amount	Average Weekly Benefit Amount	Avg Weekly Benefit Amt as % of Avg Weekly Wage	Maximum Duration of Benefits
US		\$297		
AL	\$265	204	26.7%	26
FL	275	232	28.7	12-23
GA	330	268	31.7	14-20
KY	415	287	38.5	26
MS	235	191	29.1	26
NC	525	291	36.6	26
SC	326	238	32.6	20
TN	275	238	29.3	26
VA	378	288	30.4	26

Source: Upjohn Institute

Tie Duration of Benefits to TUR

Seasonal Adjusted UI Rate	Minimum # of Weeks	Maximum # of Weeks
5.5% or less	5	12
Greater than 5.5% up to 6%	6	13
Greater than 6% up to 6.5%	7	14
Greater than 6.5% up to 7%	8	15
Greater than 7% up to 7.5%	9	16
Greater than 7.5% up to 8%	10	17
Greater than 8% up to 8.5%	11	18
Greater than 8.5% up to 9%	12	19
9% or above	13	20

Change Calculation of WBA

- Weekly Benefit Amount
 - 50%(average weekly wage), not to exceed the maximum amount
- Current formula for Average Weekly Wage:
AWW = based on highest quarter of the base period
- Proposal:
AWB = average of last two quarters of the base period

Reduce Maximum Weekly Benefit

- Weekly Benefit Amount
 - 50%(average weekly wage), **not to exceed the maximum amount**
- Current formula for maximum amount:
 - 66.7% of AWW of all UI covered workers
 - 80% of workforce would receive 50% wage replacement
 - Calculated annually
- Proposal: Statutorily set amount of \$350
 - Roughly the average of NC, GA, SC, TN, VA, and FL
 - VA = \$378; SC = \$326; GA = \$330; TN = \$275; FL = \$275

SIMULATION OF UI TAX AND BENEFIT REFORMS

Simulation of UI Tax and Benefit Reforms

- Upjohn Simulation
 - Tax Schedule
 - Benefit Changes
- Additional Estimates
 - Reimbursable Entities
 - Fund Sweeps
- Bond Analysis

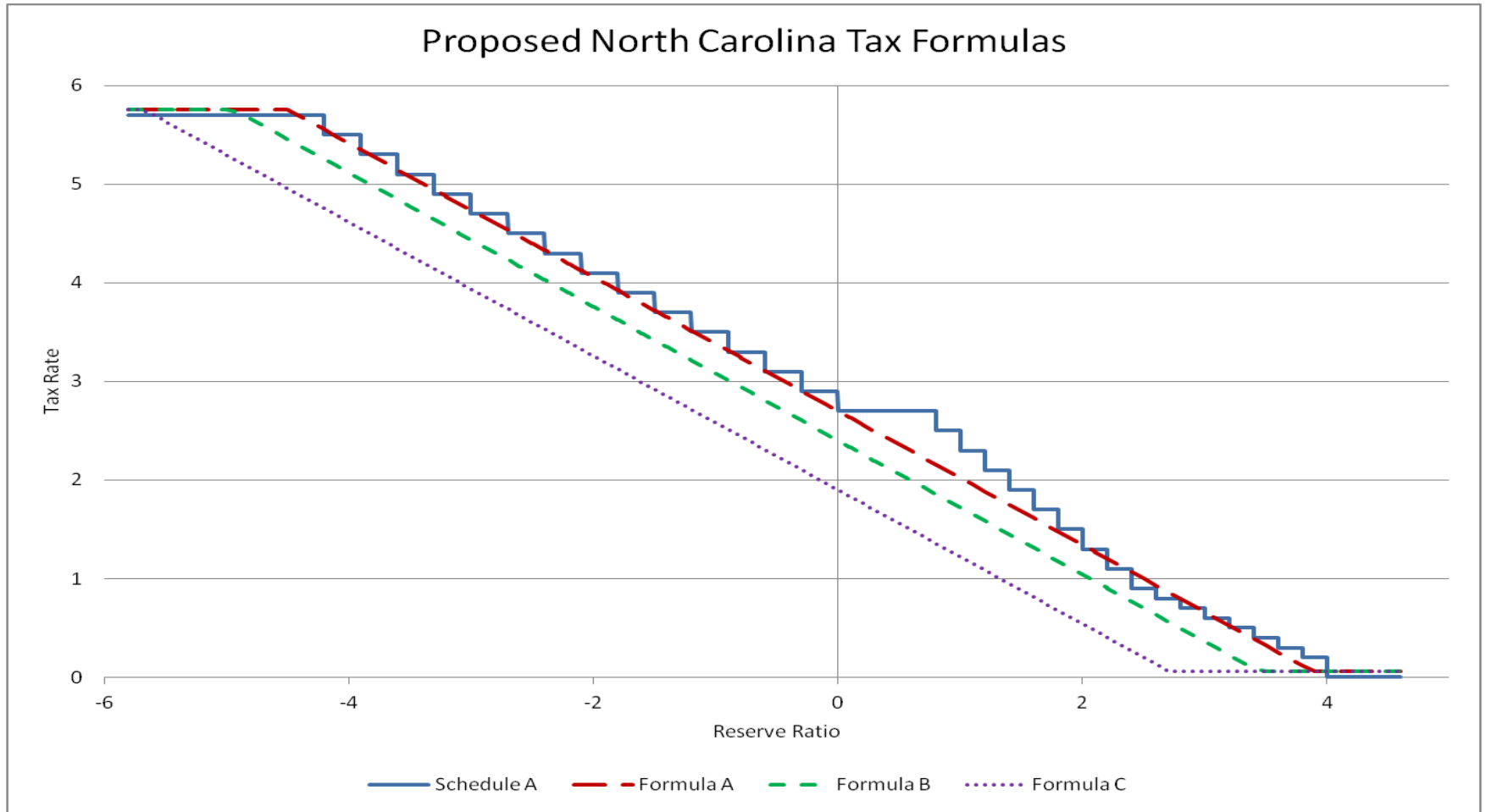
Benefit Financing Model

- Upjohn Institute used the USDOL Benefit Financing Model (BFM)
- Dynamic Model
- Uses Economic Variables Provided by Moody's Economy.com
 - Labor Force
 - Wage Growth
 - Total Unemployment Rate

Proposed Tax Changes

- Minimum rate increased from 0.0% to 0.06%
- Maximum Rate is increased from 5.7% to 5.76%
- Shift from Tax Tables to Formulas
 - 3 Schedules
 - Targeted Reserve of 1% of Total Wages
 - Beginning rate remains 1%
 - Rate is round to the nearest 100th percent

Proposed Tax Schedule



Source: W.E. Upjohn Institute

Benefit Changes

- Maximum Weekly Benefit = \$350
 - Current amount is \$535 indexed to AWW
- Base Weekly Benefit Amount on last 2 quarters
 - Current WBA based on high quarter
 - Estimated using comparisons of high quarter v. recent 2 quarters in neighboring states
- Maximum duration of benefits is changed to sliding scale based on unemployment rate

Additional Estimates

- Local and State Government
 - 1% Reserve Requirement
 - 20% Surcharge
- Nonprofits
 - 1% Reserve Requirement (existing)
 - 10% Surcharge
- Fund Sweeps
 - Worker Training Trust Fund - \$6 million
 - Training & Employment Account \$688,015
 - Special Administration-Penalties & Interest Fund \$10 million

Acceleration of Repayment

Year	FUTA Credit Reduction	Additional Amount per Employee	Total Cost (\$millions)
2011	0.3%	\$21	\$79.8
2012	0.6	42	159.6
2013	0.9	63	239.4
2014	1.2	84	319.2
2015	1.5	105	399.0
2016	0 (1.8)	0 (126)	-
2017	0 (2.1)	0 (147)	-
2018	0 (2.4)	0 (168)	-

REFINANCE UI TRUST FUND INDEBTEDNESS

Comparison of Financing Options

- Type of Indebtedness
 - Secured (Bonds)
 - Unsecured (Feds)
- Interest Rate
 - Depends on market
 - Current rate is 2.94%
- Type of Payment
 - Set payment schedule
 - Gradual FUTA credit reduction
- Repayment Amount
 - Set P&I payments
 - Flexible
- Other Costs
 - Fees and issuance costs
 - None
- Amount Financed
 - \$2.5 b + sufficient reserve
 - Varies as debt reduced

UI PROGRAM CHANGES

Proposed Programmatic Changes

- Benefits paid for discharge unless misconduct
 - Eliminate substantial fault
 - Eliminate good cause to quit
 - Leaving related to domestic violence will not disqualify
 - Moving with active-duty military spouse will not disqualify
- Each claim stands alone
 - Require a waiting week for each claim (currently, per benefit year)
 - Disqualification for benefits applies only to current claim
- Claimants always required to be able, available, and actively seeking work
 - Eliminate employer initiated claims (attached claims)
 - Positive-balance employers may reimburse for attached claims one time per employee per year for maximum of 6 weeks

Proposed Programmatic Changes

- Define “suitable work” based on duration of unemployment
 - Weeks 1-10: Current law
 - Weeks 11-20: Suitable work is any job paying 120% of weekly benefit amount
 - Weeks during extended benefit period: Federal law defines suitable work if extended benefits triggered
 - Retain only federally required extended benefit periods unless 100% federally funded

SUMMARY OF PROPOSAL

Highlights of Proposal

- Workforce development & program integrity emphasis
 - Legislation enacted 2011-2012 biennium
- Adjustments to contributions
 - Increase minimum and maximum tax rates
 - Require governmental entities to maintain 1% reserve
 - Require NP & governmental entities to pay 20% surcharge
- Adjustments to benefits
 - Reduce maximum duration of benefits
 - Statutorily reduce maximum amount of benefits to \$350
 - Change calculation of WBA
- Programmatic changes
 - Each benefit claim stands on its own
 - Restrict use of employer initiated claims
 - Repeal substantial fault and limit good cause
- Fund Changes
 - Restrict uses