

Revenue Laws Study Committee

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Room 544 LOB

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NC Unemployment Insurance Trust Fund

- \$2.5b federal loan balance (9/30/12)
- Timeline
 - Feb 2009 – First advance
 - Jan 2011 – Interest began to accrue
 - Sept 2011 & 2012 – Interest payments made
- Other states
 - 20 states have outstanding loans
 - \$26,465,866,297
 - 5 states have refinanced



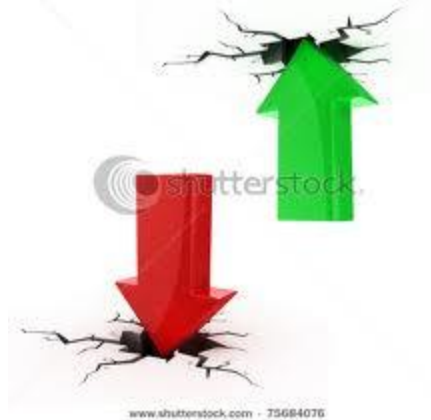
How did we get here?

Good times

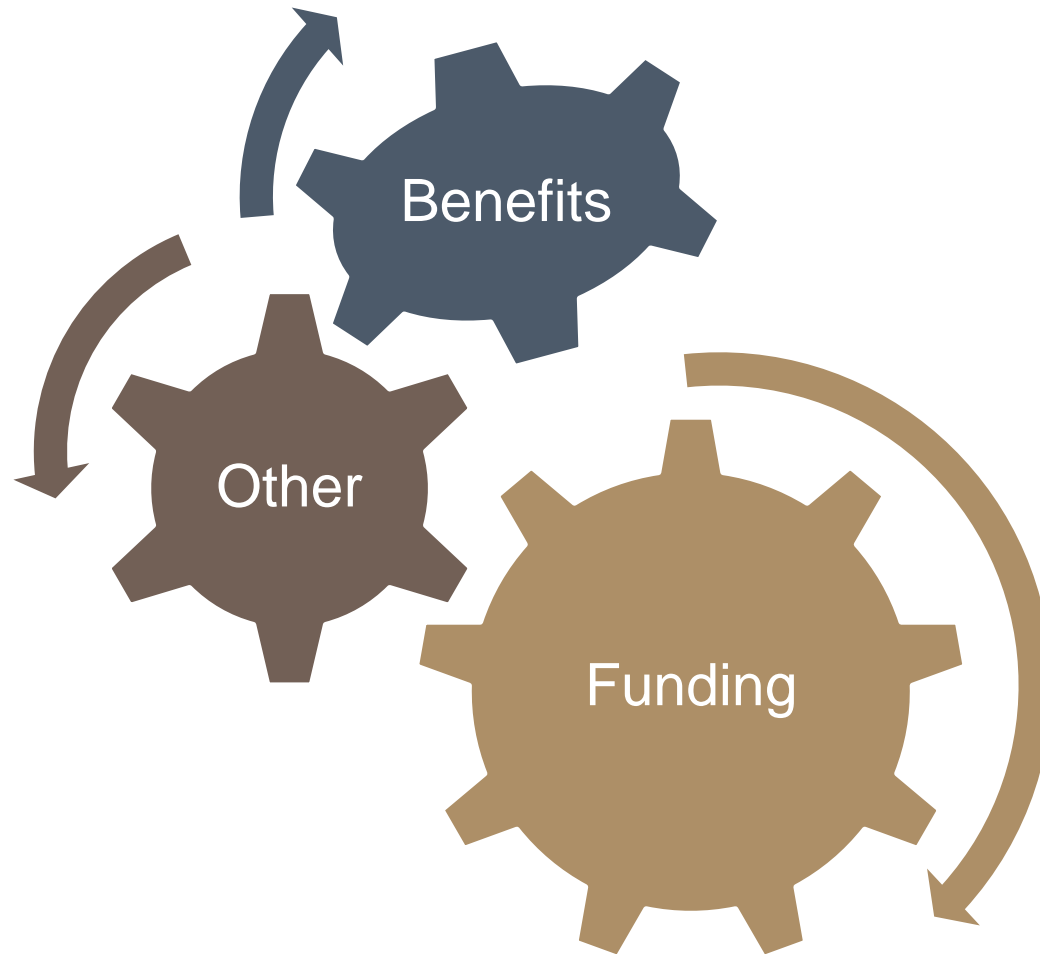
- UI tax rate reductions from 1994-1999
 - Created a 0% rate for employers with a credit ratio of 4% or higher
 - Lowered new employer rate from 2.25% to 1.2%
 - Tax moratorium in 1996
 - Reduction in overall tax rates

Bad times

- Two recessions (2002, 2008)
- Short recovery time
- Increase in average duration of weeks



Where do we go from here?



Outline of Agenda Topic

- Current UI Trust Fund Debt Repayment Plan
- Ways to Accelerate Debt Repayment
- Comparison of Financing Options
- Adequate Trust Fund Balance



UI TRUST FUND INDEBTEDNESS & REPAYMENT PLAN



- Federal-State partnership
 - Established in 1935
 - Broad federal guidelines
 - Each state designs its own program within those guidelines
- FUTA – Funds administration
 - Taxable wage base = \$7,000
 - FUTA tax rate = 6%
 - Possible 5.4% tax credit
 - Effective tax rate of 0.6%, or \$42/employee
- SUTA – Funds UI benefits
 - Experience-rated tax

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

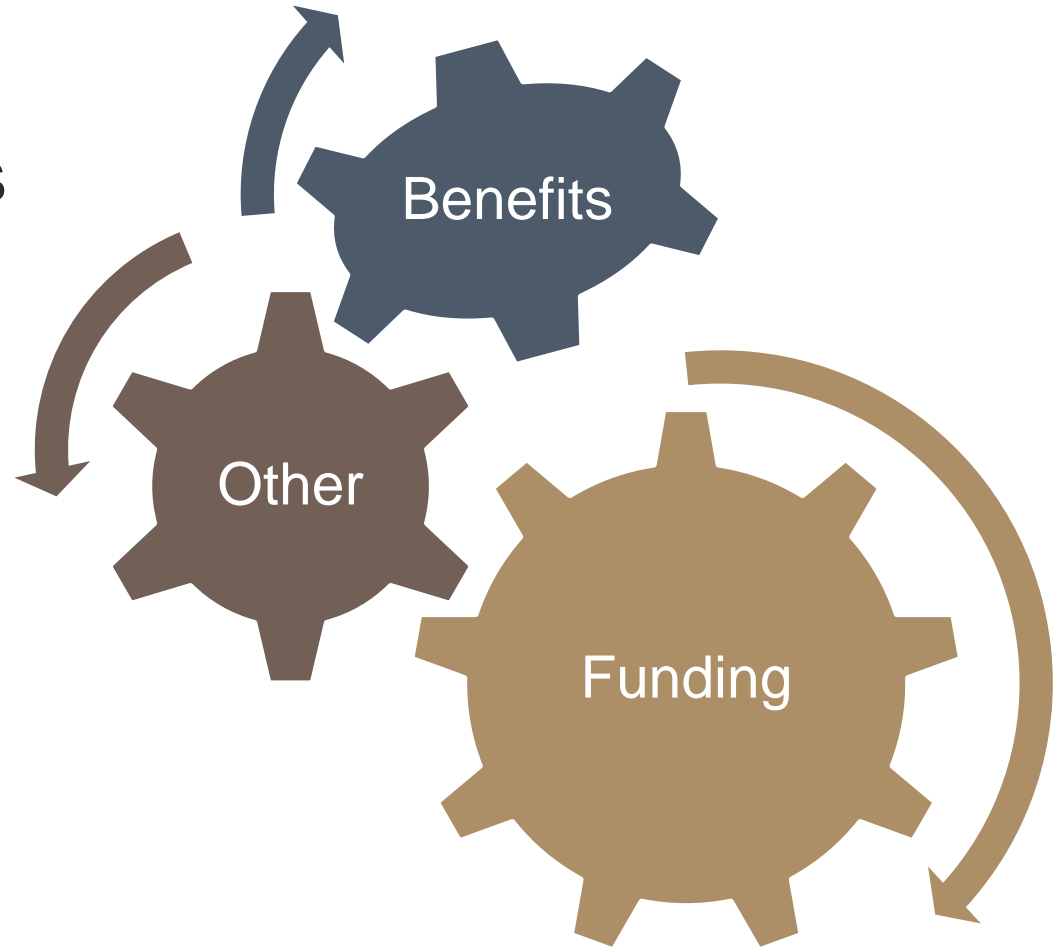
FUTA CREDIT REDUCTIONS

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

Options for Change

- Adjust Contributions
- Adjust Benefits
- Enhance Program Integrity
- Strengthen Re-employment Efforts



“Other”

Workforce Development

- Merger of Commerce & ESC
 - SL 2011-145 and SL 2011-401
 - Goal to achieve employment security organizational reform and savings
- Current workforce development efforts to expedite re-employment

Program Integrity

- “Prevent, Detect, and Recover Overpayments”
 - SL 2012-134
 - Enhance cross-matching efforts
 - Participate in TOPs
 - Remove S/L for recovery OP
 - Strengthen criminal penalties
 - Noncharging of employer accounts
 - Penalty on fraudulent OP

“Benefits and Funding”



- State program must meet minimum federal requirements
 - Allocation of grant monies for program administration
(from FUTA tax revenues)
 - Receive FUTA credit reduction
- S.L. 2011-10
 - Authorized Commerce to contract for recommendations re: UI Trust Fund Solvency
 - Final Report prepared by W.E. Upjohn Institute for Employment Research

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*

State Programs Define Benefit Terms



- Who is covered
- Qualifying requirements
- Eligibility and participation requirements
- Benefit amounts
- Benefit duration
- Waiting periods

NC Benefit Coverage

- Waiting week
- Weekly Benefit Amount (WBA)
 - 50% Average Weekly Wage (AWW), up to maximum WBA
 - AWW = based on highest quarter of the base period
- Maximum WBA = \$535
 - *66.7% of AWW of all UI covered workers*
- Maximum duration of regular benefits is 26 weeks
- Good cause for voluntarily leaving work
 - Worker's illness, whether or not work related
 - Family illness
 - Undue family hardship
 - Domestic violence
 - Sexual or other harassment
 - To move with spouse
 - Unilateral and permanent reduction in hours of more than 20% or in pay of more than 15%

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

Federal Funding Requirements

Private 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

State Programs Define Financing



- Taxable wage base
- Tax rate schedule
- Minimum tax rate
- Maximum tax rate
- New employer tax rate
- Safeguards for reimbursable entities
- Additional payroll taxes that are not deposited in the State's unemployment fund

NC Funding Structure for Private 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 payroll



Funding 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	10	20
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

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

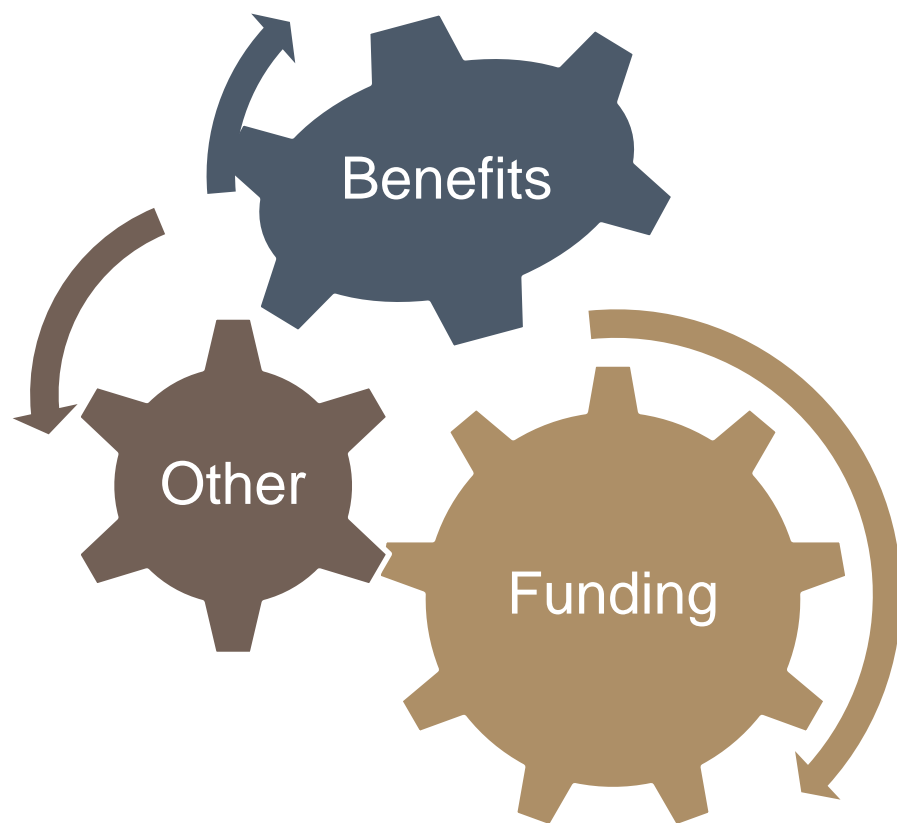
UI TRUST FUND SOLVENCY

What is an Adequate Trust Fund Balance?



- One year of reserves
- Trust fund reserve in 1995 = \$1.5 b
- New federal requirement for interest-free borrowing phased-in
 - 2014 ~ \$1.21 b
 - 2019 ~ \$2.42 b

Where do we go from here?



- Funding changes?
 - New rate schedule/formula
 - Expand tax base for surcharge
 - Reserve for governmental entities
- Benefit changes?
 - Calculation of benefit amounts
 - Benefit duration
 - Qualifying, eligibility, & participation requirements
- Other changes?
 - Workforce development
 - Program efficiencies