

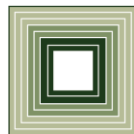
Unemployment Insurance Benefits and Debt

Claire Hester

Fiscal Research Division

**House Select Committee on Legacy Costs
from the State Health Plan, Pensions, and
Employment Security Commission**

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FISCAL RESEARCH DIVISION

A Staff Agency of the North Carolina General Assembly

Outline

- **Overview of Unemployment Benefits**
 - Unemployment Insurance Basics
 - State Unemployment Tax Act
 - Federal Unemployment Tax Act
 - Regular Unemployment Benefits
 - Extended Benefits (EB)
 - Emergency Unemployment Compensation (EUC)
- **Overview of Debt**
 - Timeline
 - Comparison with Other States

Unemployment Insurance Basics

- **Who is eligible for unemployment benefits?**
 - Lost their jobs through no fault of their own
 - Worked during a specified time period and received a minimum amount of wages during that time period
 - Are able and available for work
 - Are actively seeking new employment
- **How are benefits and administrative costs funded?**
 - Benefits and costs are paid by employers through two taxes:
 - State Unemployment Tax Act (SUTA)
 - Federal Unemployment Tax Act (FUTA)

SUTA

State Unemployment Tax Act

- Tax Rate: Most new employers use the standard beginning tax rate:

Year	Rate	Taxable Wage Base
2006	1.200% (.01200)	\$17,300
2007	1.200% (.01200)	\$17,800
2008	1.200% (.01200)	\$18,600
2009	1.200% (.01200)	\$19,300
2010	1.200% (.01200)	\$19,700
2011	1.200% (.01200)	\$19,700

- Based on economic conditions, employer's tax rate could range from 0.00% to 6.84%
- Taxable Wage Base: \$19,700
- Used to pay **Unemployment Benefits** only

SUTA

State Unemployment Tax Act

- State Reserve Tax
 - 20% tax on the SUTA
 - Imposed upon contributions in any calendar year when the Unemployment Insurance Reserve Fund does not equal or exceed \$163,349,000
 - Implemented January 1, 2005
- Monies in the UI Reserve Fund were used to pay interest on the debt in September 2011
 - Current Balance (Oct. 2011): \$42.7m

FUTA

Federal Unemployment Tax Act

- Tax Rate: 6.0%
- Taxable Wage Base: \$7,000
 - Employers in States that are in compliance receive a 5.4% FUTA credit
- Includes a tax credit reduction of 0.3% annually for states with a federal loan for 2 consecutive Januarys
 - In NC, this tax credit reduction will be effective in January 2012 since the debt was not paid by November 10, 2011.*

Effective FUTA for
“compliance” States:
0.6%
~\$42/ employee

Effective FUTA for
“non-compliance” States:
0.9%
~\$63/ employee

* Assumes no changes to federal law, debt repayment before January 1, 2012

Unemployment Benefit Types

- **Regular Unemployment Benefits**
 - Permanent benefit programs
 - Paid by State unemployment taxes (SUTA)
- **Extended Benefits**
 - Permanent benefit programs
 - Split funded by State & Federal taxes (SUTA & FUTA)
- **Emergency Unemployment Compensation (EUC)**
 - Four Tiers of benefits
 - Temporary benefit programs
 - 100% Federally funded

Regular Unemployment Benefits

- Duration: Up to 26 weeks (*determined by formula*)
 - Annual average duration (Oct. 2011): 17.1 weeks
- Benefit Amount: Up to \$522/ week
 - Max. Weekly Benefit = 66.67% of the 2010 average weekly insured wage (\$784.37)
- Funding Sources:
 - Interest on the State UI Trust Fund
 - SUTA
- Permanent Program

Oct 2011 Averages

Duration:	17.1 weeks
Weekly Benefit:	\$281.47

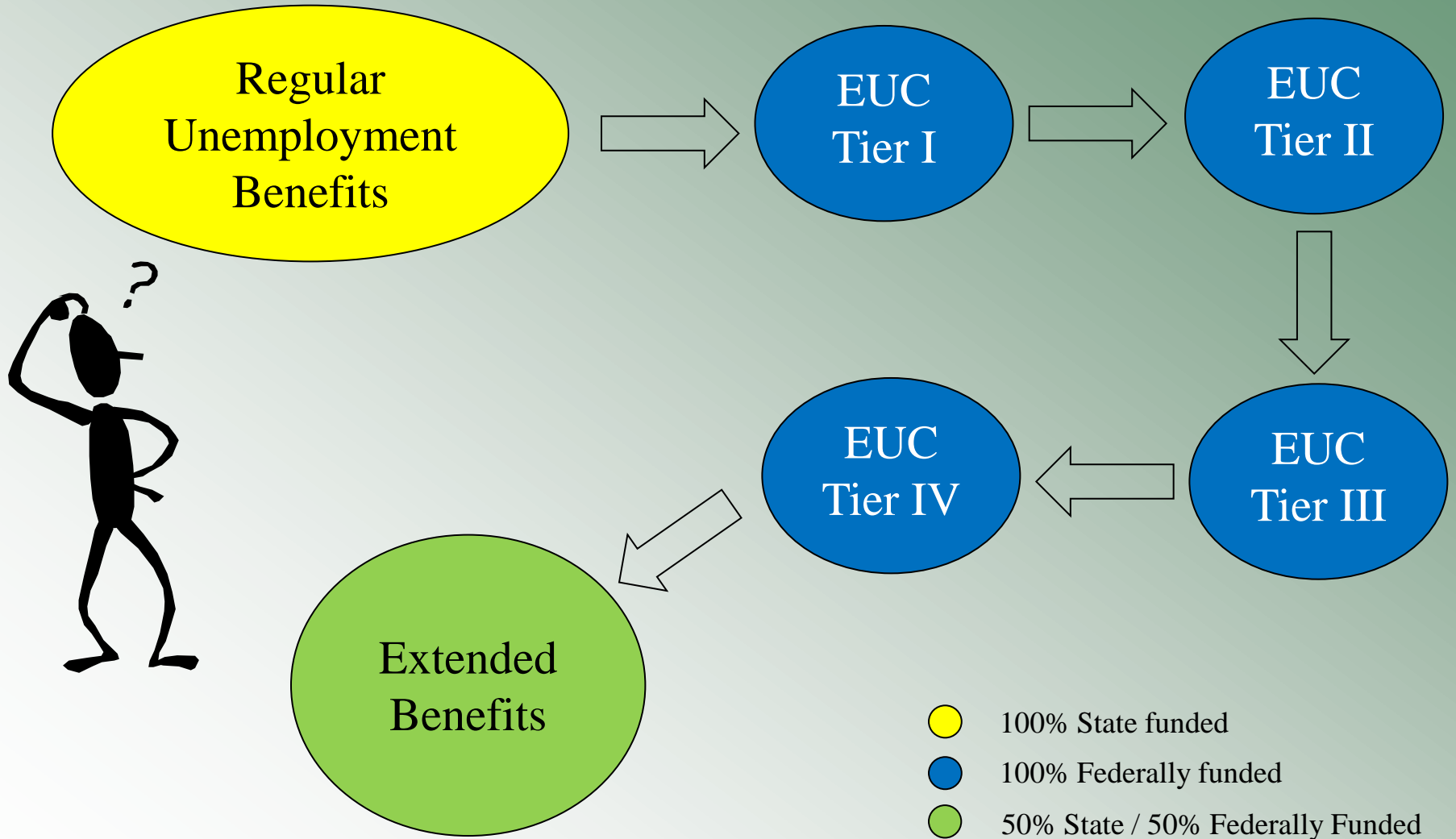
Extended Benefits (EB)

- Duration: 20 weeks
- Trigger: Unemployment rate of 6.5% or higher for three months
- Benefit Amount: Same as Regular Benefits
- Funding:
 - 50% by State, 50% by Federal Government
 - For claims made between February 22, 2009 and November 28, 2010, this program was 100% Federally funded

Emergency Unemployment Compensation (EUC)

- Duration:
 - EUC Tier I – 20 weeks
 - EUC Tier II – 14 weeks
 - EUC Tier III – 13 weeks
 - Trigger: 3-month average unemployment rate $> 6\%$
 - EUC Tier IV – 6 weeks
 - Trigger: 3-month average unemployment rate $> 8.5\%$ or higher
- Benefit Amount: Same as Regular Benefits
- Funding: 100% Federally funded

Receiving Benefits



DEBT ISSUES



Borrowing Basics

- Amount Borrowed (Oct. 2011): \$2.6 Billion
- Interest Rate: 4.0869% for 2011
 - Interest rate equals the rate paid by the Federal government on state UI reserves
 - Interest rate is expected to change in 2012
- Interest began accruing on January 1, 2011
 - Made a \$78.8 million interest payment in September, 2011

Debt Timeline

- **February 2009** First Advance of Federal Loan
- **January 2011** Interest began to accrue
- **September 30, 2011** First interest payment made
- **November 10, 2011** Principal balance due to avoid 0.3% FUTA credit reduction
- **January 2012** FUTA credit reduction effective
- **September 30, 2012** Next interest payment due
- **November 10, 2012** Principal balance due to avoid *additional* 0.3% FUTA credit reduction

NC UI Trust Fund Account History

N.C. Unemployment Insurance Fund History

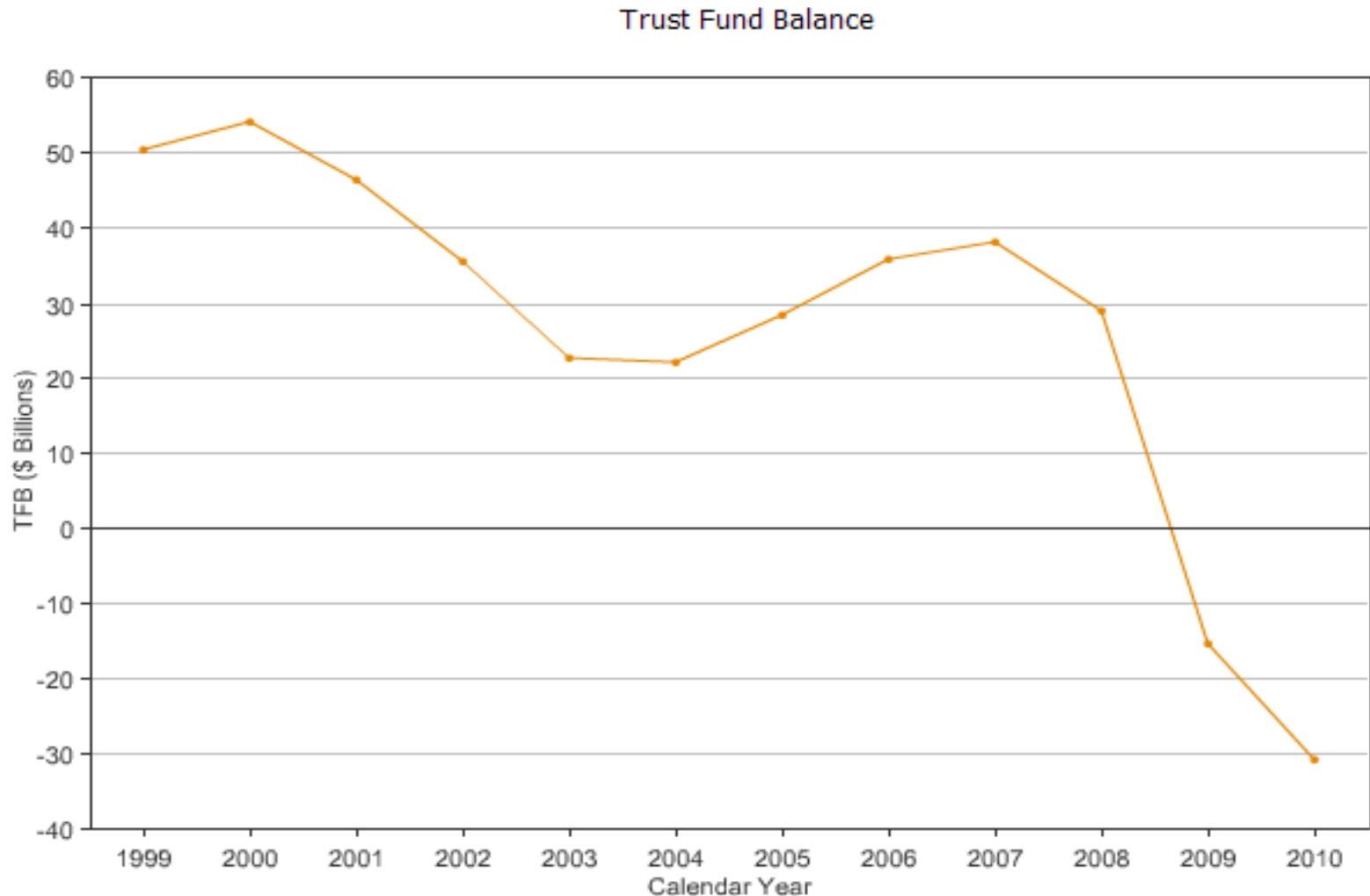
Rating Period 1999-00 through 2008-09

(in Millions)

Period	UI Taxes	Total Benefits	Transferred from Reserve ¹	Balance	Change in Fund Balance
99-00	326.7	(460.0)	0.0	1219.4	(47.9)
00-01	319.3	(706.5)	0.0	906.7	(312.6)
01-02	368.0	(1192.9)	0.0	368.5	(538.2)
02-03	602.2	(1196.8)	190.5	(23.4)	(391.9)
03-04	803.7	(1056.0)	0.0	(273.2)	(249.8)
04-05	883.9	(797.0)	68.7	(117.1)	156.2
05-06	934.6	(834.4)	153.3	139.1	256.1
06-07	929.3	(860.6)	130.1	348.3	209.3
07-08	907.5	(1032.7)	171.1	414.6	66.3
08-09	855.9	(2321.0)	154.0	(886.0)	(1300.6)

¹ The Employment Security Commission Reserve Fund is funded through a 20% surcharge on the unemployment insurance tax. It is sometimes used to supplement the Unemployment Insurance Fund when the UI Fund has been depleted.

Total UI Trust Fund Balance All State Accounts



Debt Impact

- If principal not paid off November 10, 2011:
 - 0.3% increase in FUTA rate *annually* until loan is settled
 - FUTA tax increase is applied to NC's principal loan balance
- Cost to employers:
 - Effective FUTA in compliance states (0.6%): \$42/employee
 - With reduced FUTA credit (0.9%): \$63/employee
 - By 2015, the effective FUTA would be 2.1%, or \$147/employee

Comparison with Other States

- 30 states have borrowed over \$40 billion total
 - NC currently ranks 5th in money borrowed
 - Behind California, Michigan, New York, and Pennsylvania
 - 27 states & USVI are currently borrowing
 - Three paid back (Idaho, Hawaii, & Massachusetts)
- 0.3% FUTA credit reduction has already occurred in three states: South Carolina, Indiana, and Michigan