

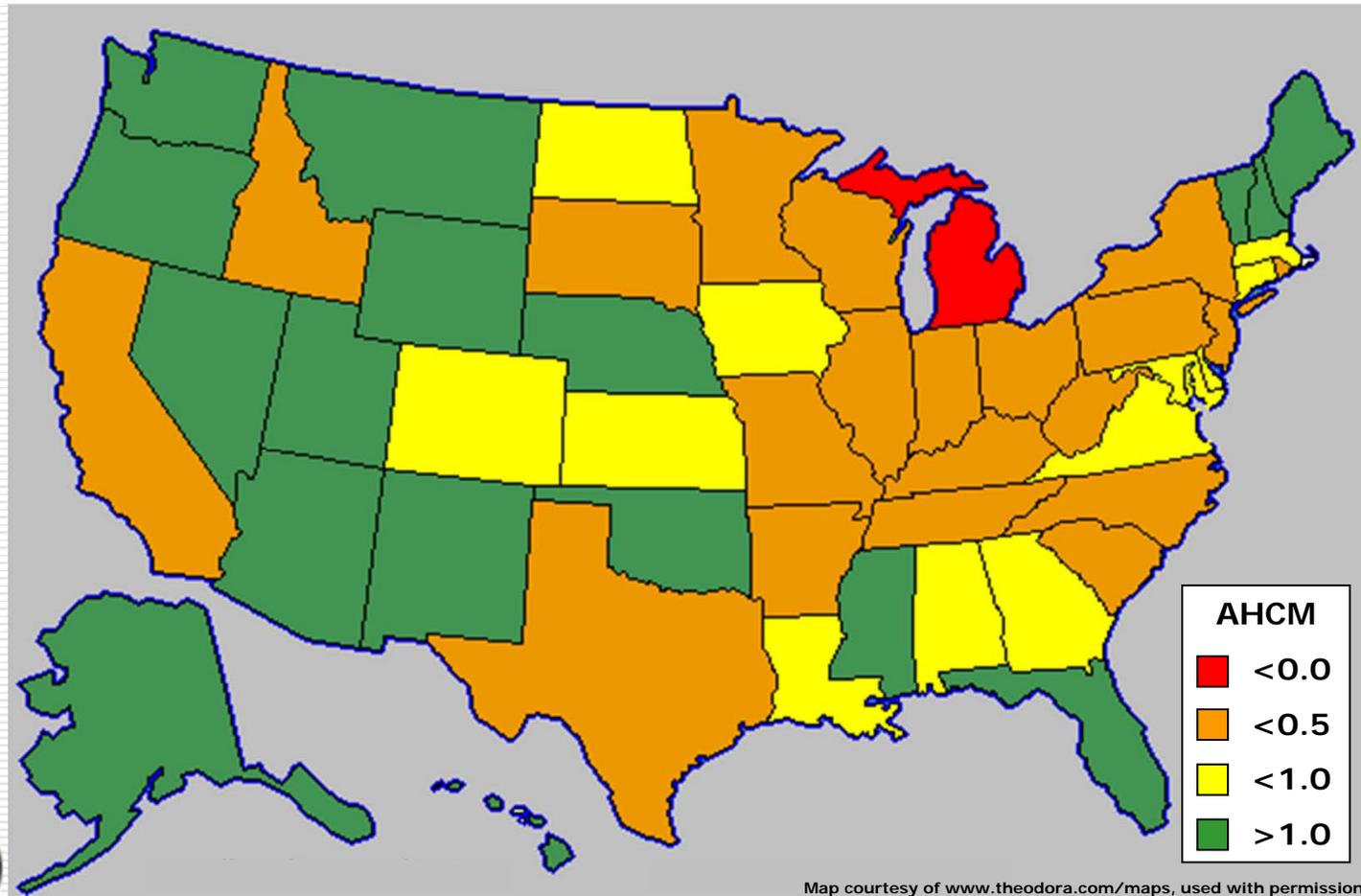
UI Overview and Forecasts

Employment Security Council
October 2, 2013

David Schmidt
Research & Analysis Bureau



National Perspective: National Solvency – 12/31/2007

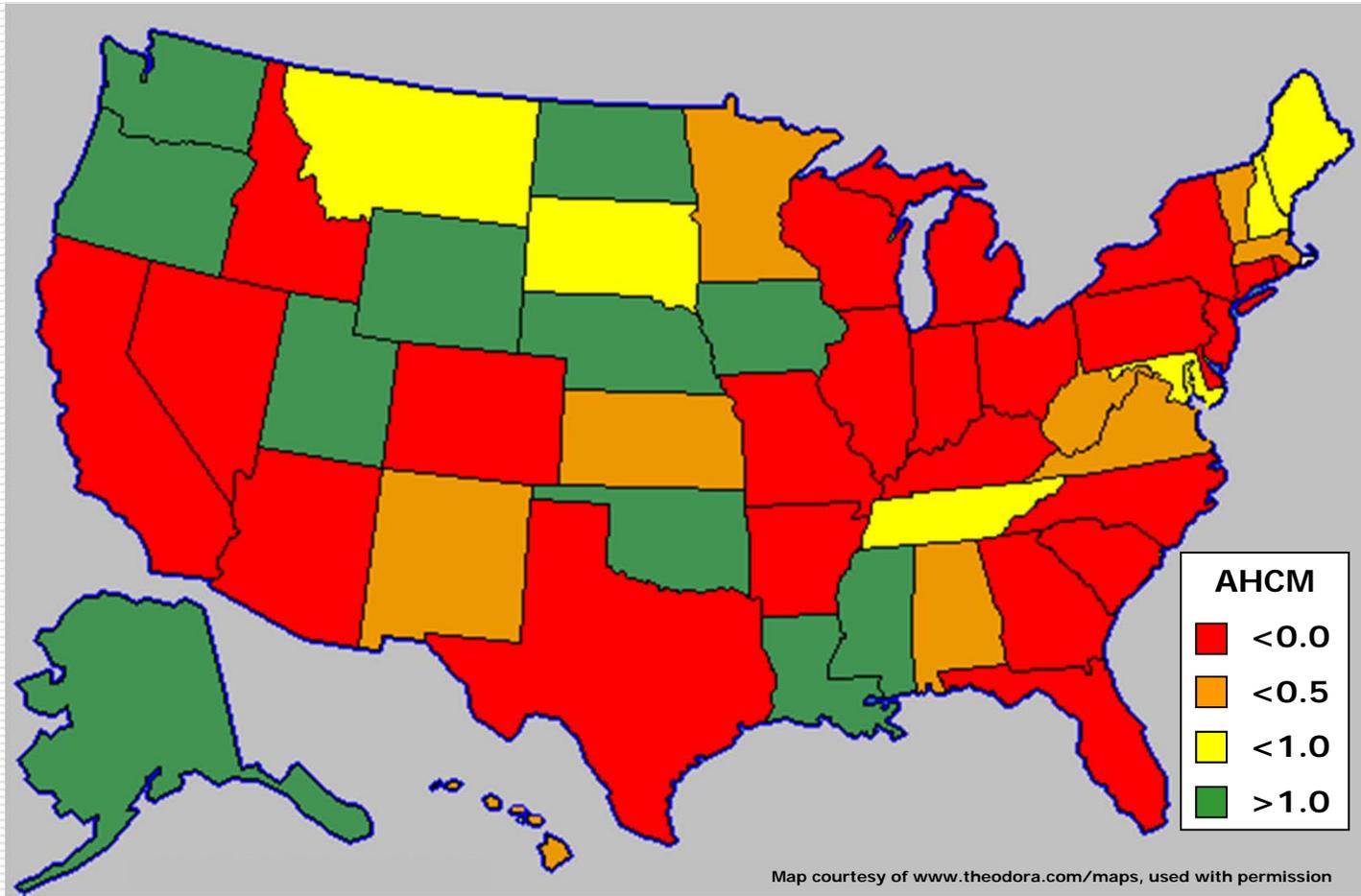


Map courtesy of www.theodora.com/maps, used with permission



The Nevada Department of Employment, Training and Rehabilitation is a proactive workforce & rehabilitation agency

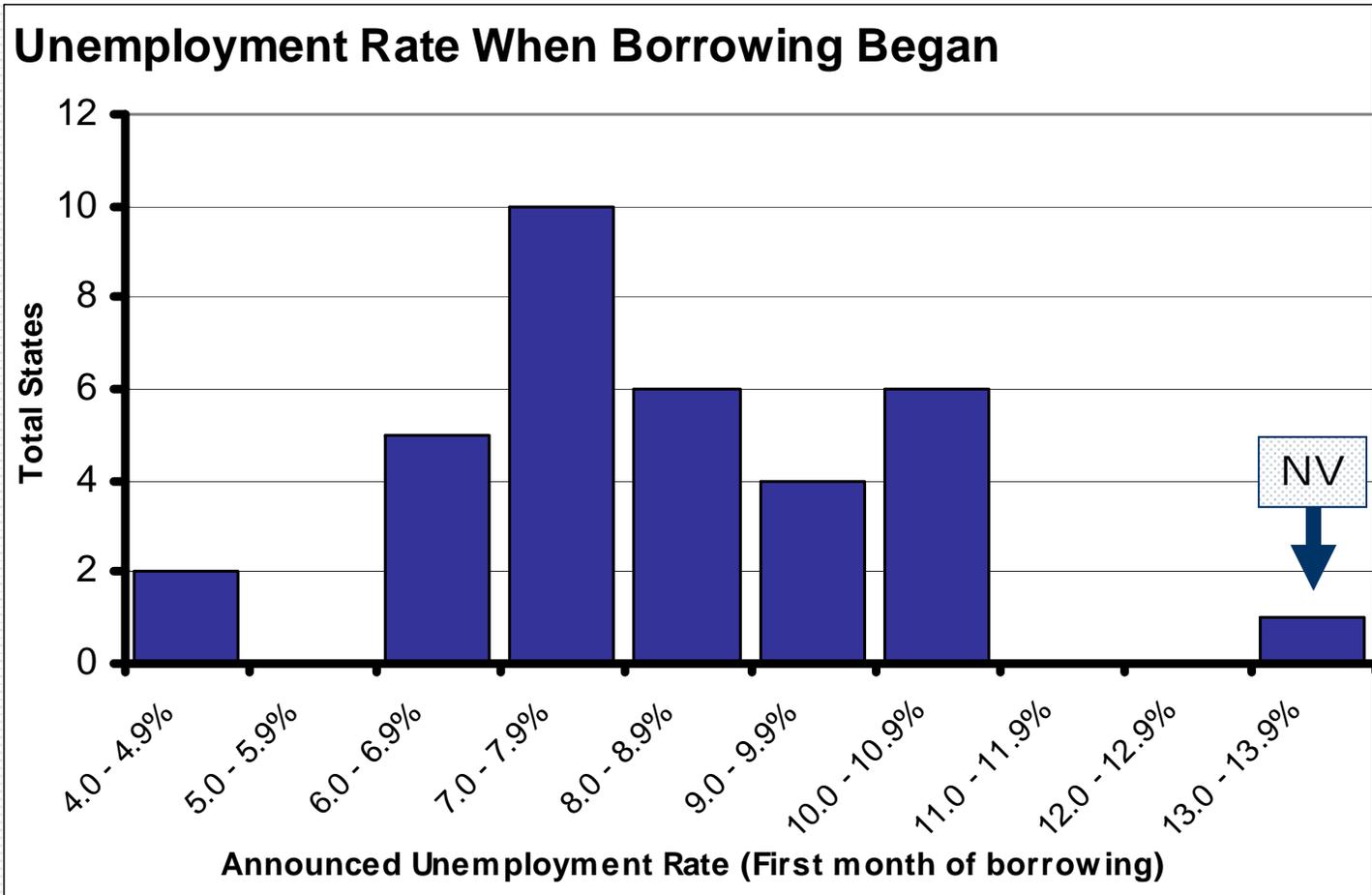
National Perspective: National Solvency – 12/31/2012



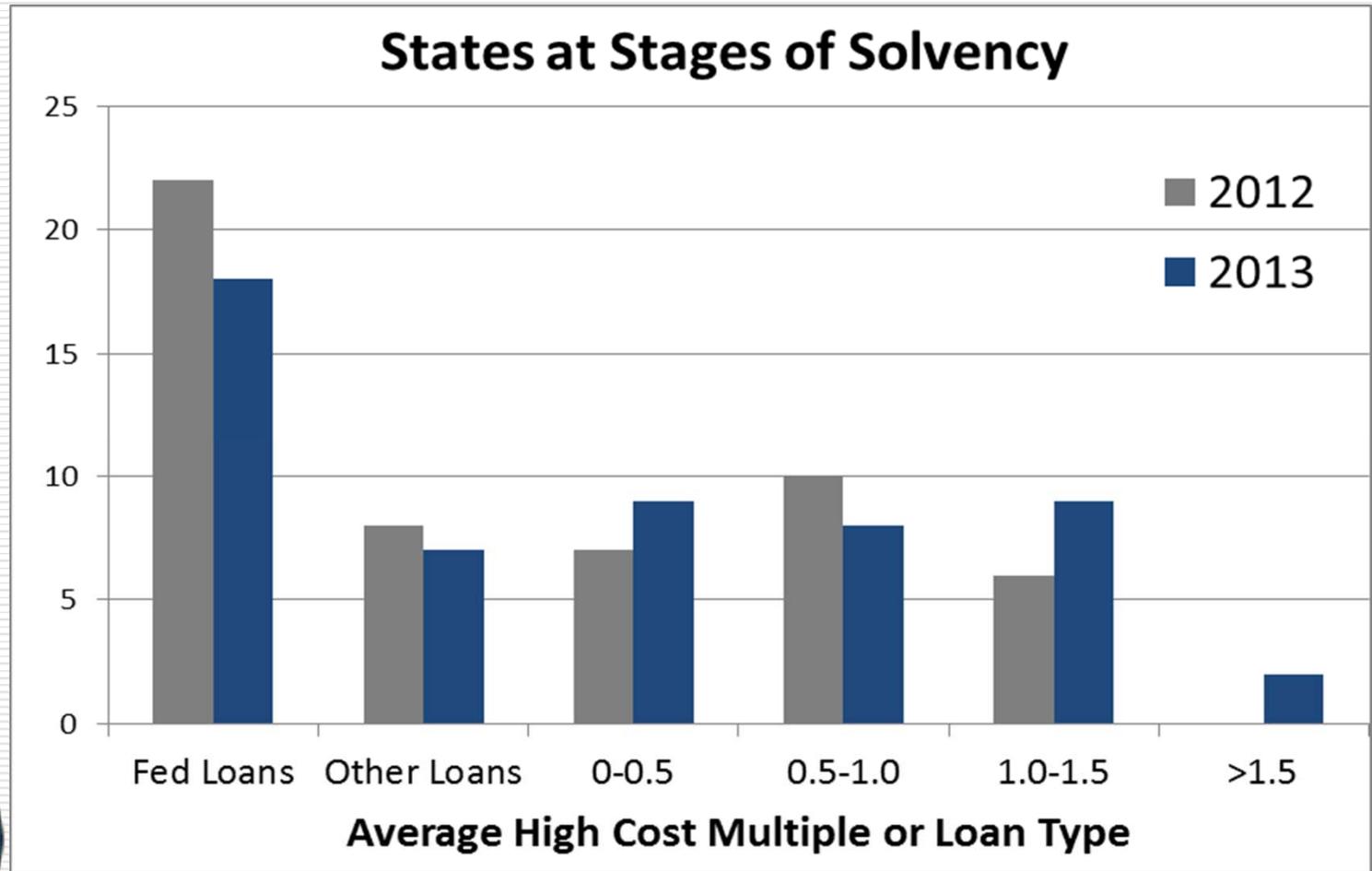
Map courtesy of www.theodora.com/maps, used with permission



Nevada's Trust Fund: What it Took to Borrow

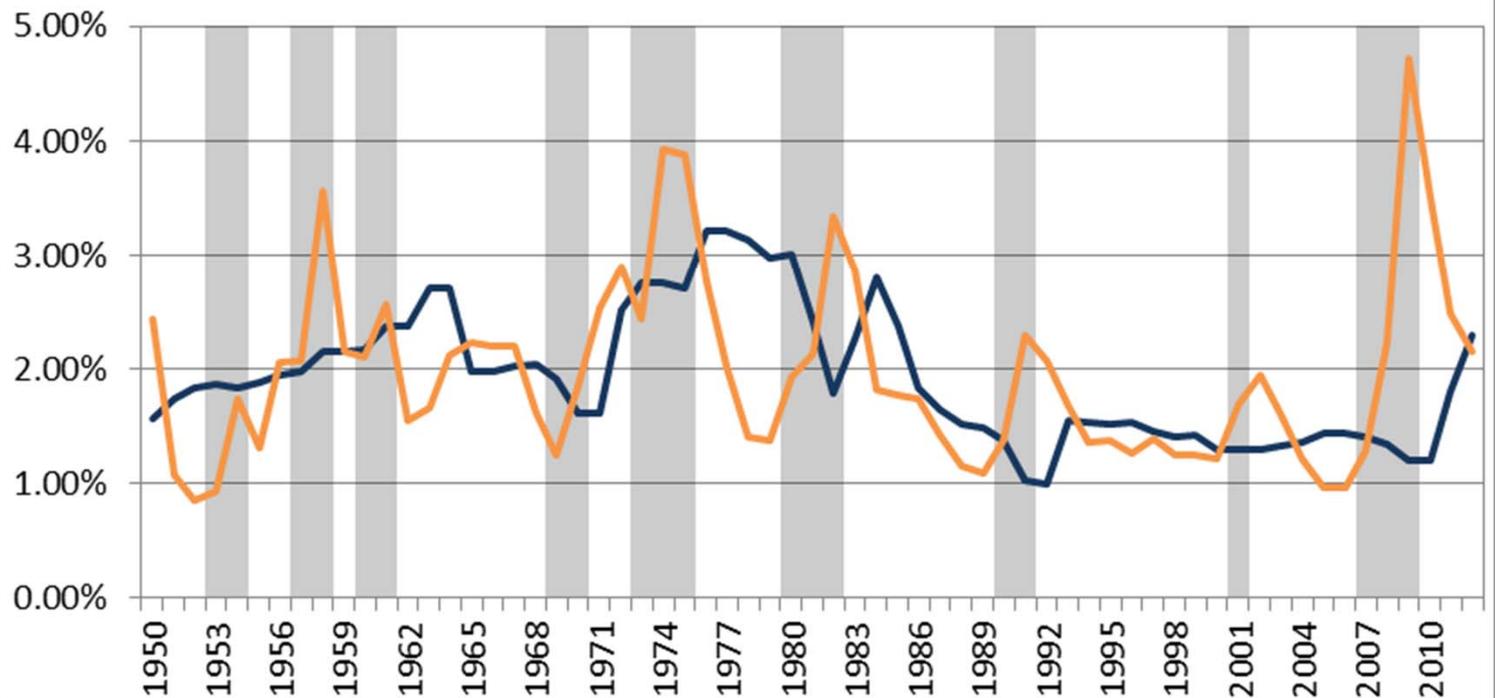


National Perspective: Trending Toward Solvency



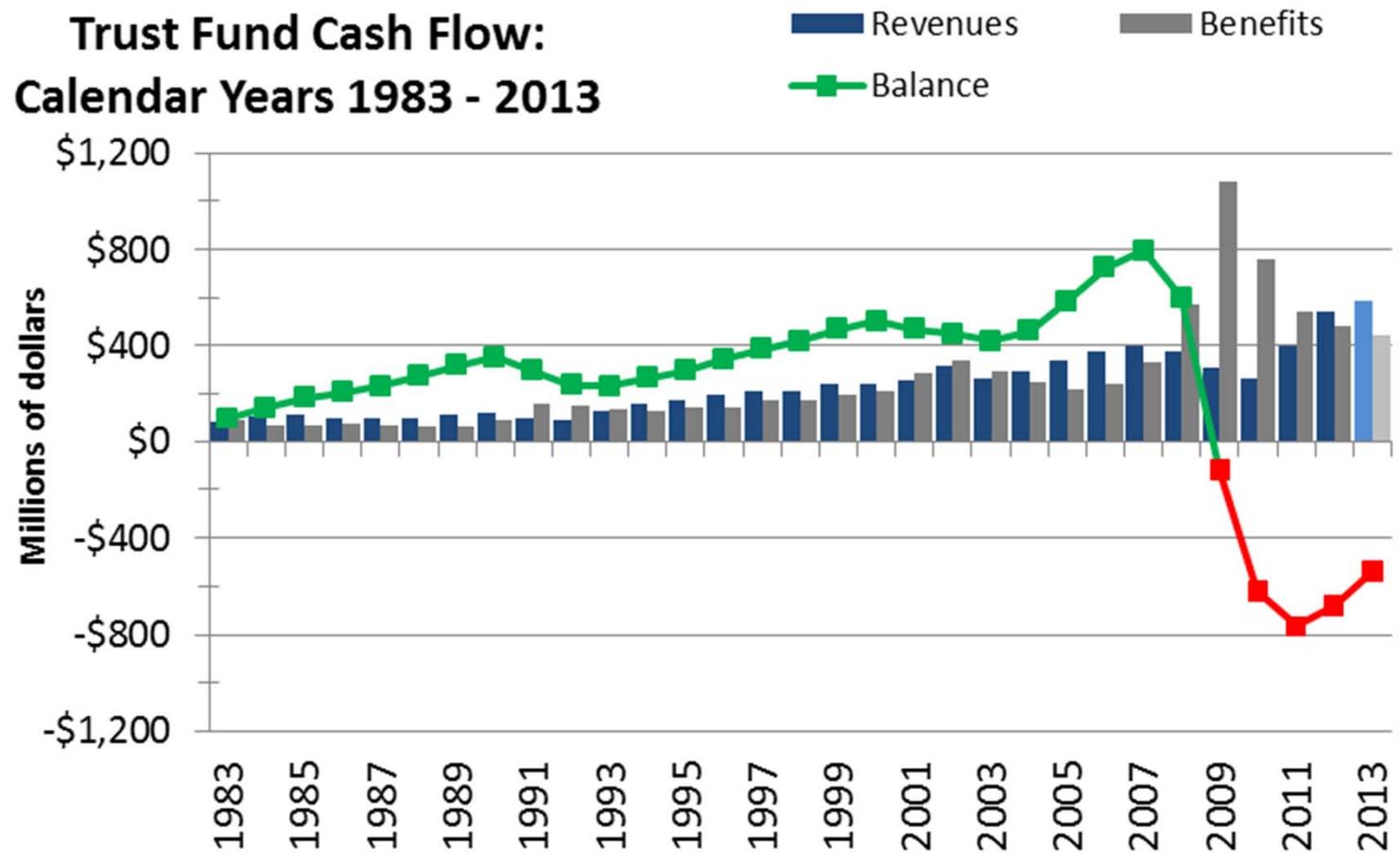
Nevada's Trust Fund: Tax Rates and Benefit Costs

Nevada Tax Rates v. Benefit Cost Rate
Shaded areas indicate recessions



Nevada's Trust Fund: Shifting to Repayment

**Trust Fund Cash Flow:
Calendar Years 1983 - 2013**



Addressing Federal Borrowing

Repay through SUTA

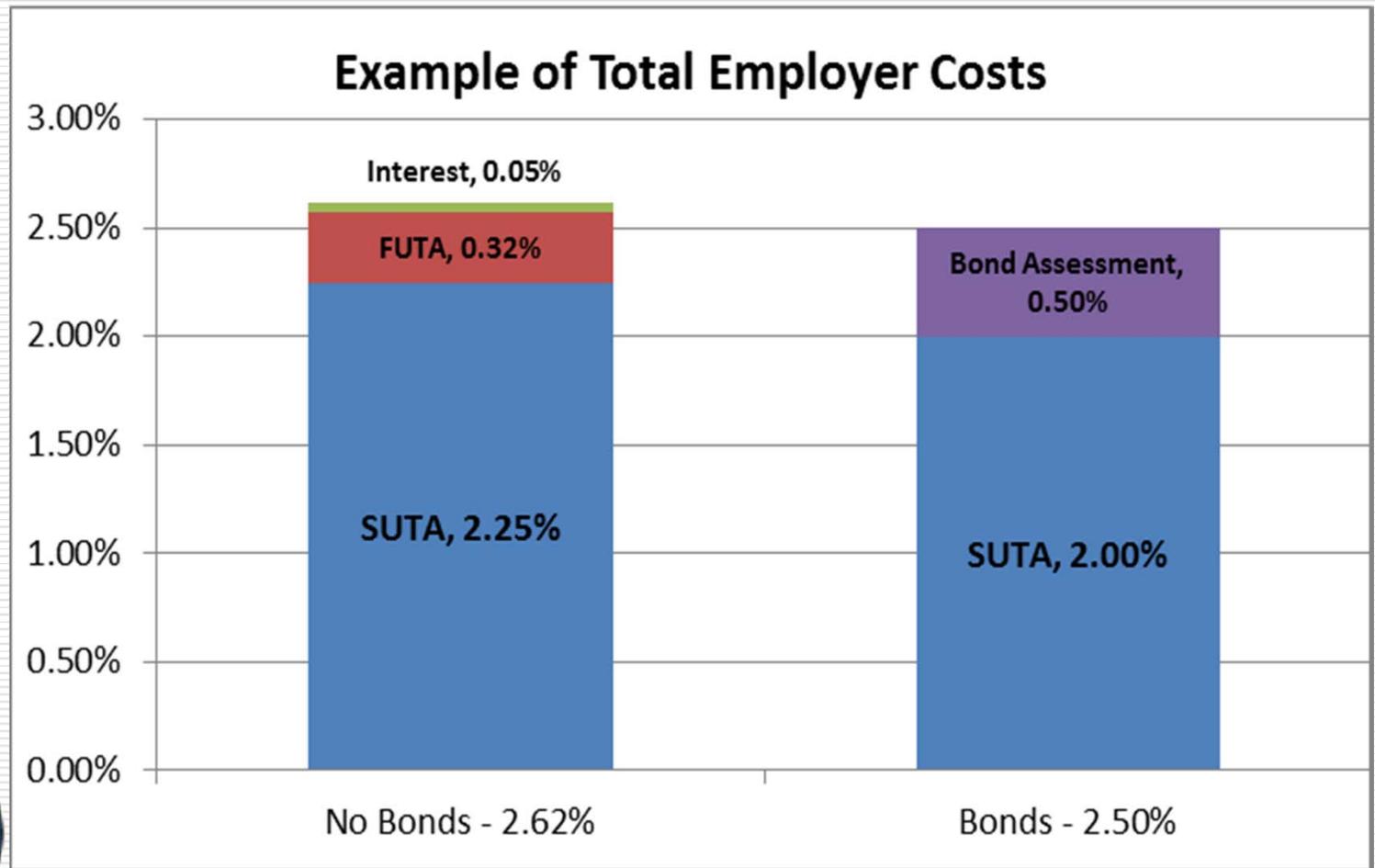
- ❑ Continue to use UI contributions to repay federal loan.
- ❑ FUTA Credit Reductions will continue until loans are repaid.
- ❑ Interest Assessments will be charged each July to pay federal interest.

Repay through Bonds

- ❑ Bonds will be issued to repay the federal debt.
- ❑ FUTA Credit Reductions are eliminated; employers only pay the base FUTA tax.
- ❑ Bond contributions will be added to employers' normal quarterly charges.
- ❑ Interest charges are addressed as a part of the bond contributions.



Addressing Federal Borrowing: Visualizing Bonding vs. Not Bonding



Addressing Federal Borrowing: FUTA vs. SUTA Taxes

FUTA

- Fixed Wage Base: \$7,000
- Paid to Federal government
- Funds federal & state UI administration, Title XII loans
- Fixed tax rate: 6.0% minus 5.4% credit (0.6% overall)
- 5.4% credit is gradually reduced in states that have outstanding federal loans.

SUTA

- Indexed Wage Base: \$27,400 in 2014
- Paid to Nevada
- Used only to pay benefits, or the principal of loans which were used to pay benefits.
- Average rate set each year by regulation, currently 2.25%



Addressing Federal Borrowing: FUTA Offset Credit Caps

- ❑ In order to cap the credit reduction, the state must meet four benchmarks:
 - ❑ No state action was taken from October 1 to September 30 which would result in a reduction of the state's unemployment tax effort.
 - ❑ No state action was taken from October 1 to September 30 which would result in a net decrease in solvency of the state UI system.
 - ❑ The state unemployment tax rate is greater than or equal to the 5-year average benefit cost rate for the 5 prior calendar years.
 - ❑ The state's outstanding loans from the Federal government are less than in the third prior year.



Addressing Federal Borrowing: Targeting Capped FUTA Rates

- ❑ Lowest Rate Possible (0.9% in 2014):
 - ❑ FUTA Credit Reductions cannot be capped at a rate lower than what was in effect in the prior year (0.9% in 2013).
 - ❑ Average Tax Rate would need to be higher than approximately 2.7% in 2014
 - ❑ Loan balance on 9/30/2014 would need to be less than \$742.2 million.
- ❑ Second-Lowest Rate Possible (1.2% in 2015):
 - ❑ Average Tax Rate would need to be higher than approximately 2.1% in 2015
 - ❑ Loan Balance on 9/30/2015 would need to be less than \$675.9 million



Addressing Federal Borrowing: Potential Additional Credit Reduction

- ❑ If a state takes any action which would be expected to reduce the net solvency of the system, an additional credit reduction is possible in the 5th consecutive year of borrowing (2014).
- ❑ This means beginning with this year's recommendation, the average rate can't be lower than the current level until loans are repaid.
- ❑ Doing so would cause additional Federal Credit Reductions of \$40 million, in addition to the \$104 million expected for 2014 if loans are not repaid.



Addressing Federal Borrowing: Interest Expenses

- ❑ Interest on Title XII loans is due on September 30.
- ❑ Failure to pay this interest results in program decertification.
 - ❑ FUTA Rate immediately becomes 6.0%, increasing FUTA taxes by over \$400 million.
 - ❑ State loses access to Title XII Loans.
 - ❑ State loses all administrative UI Funding, worth about \$25 million per year.
- ❑ AB 482 in the 2013 Nevada Legislature created a special assessment to pay for this interest obligation.



Addressing Federal Borrowing: Interest Charges for 2013

- ❑ Nevada's 2013 interest cost is \$16.7 million, and the assessment rate was 0.088%
- ❑ Across all states, estimated 2012 interest charges are \$650 million.
- ❑ The interest rate charged is based on the interest earned on positive trust fund balances.
- ❑ The interest rate during 2012 was 2.94%
- ❑ The interest rate during 2013 is 2.58%
- ❑ This reduced interest rate lowered interest expenses for 2013 by roughly \$1.7 million



Addressing Federal Borrowing: Bond Structuring Considerations

- ❑ Federal Credit reductions and additional AB482 Interest Assessments may be avoided by issuing bonds to repay the federal debt.
- ❑ If the federal debt is repaid prior to November 10, the Federal Credit Reduction otherwise scheduled to be in effect for this year would be eliminated.
- ❑ If the federal loan balance is zero on January 1, 2014, the “clock” for future Federal Credit Reductions is reset, with any future credit reductions beginning at 0.3%, and taking effect no earlier than 2016 (payable in 2017).



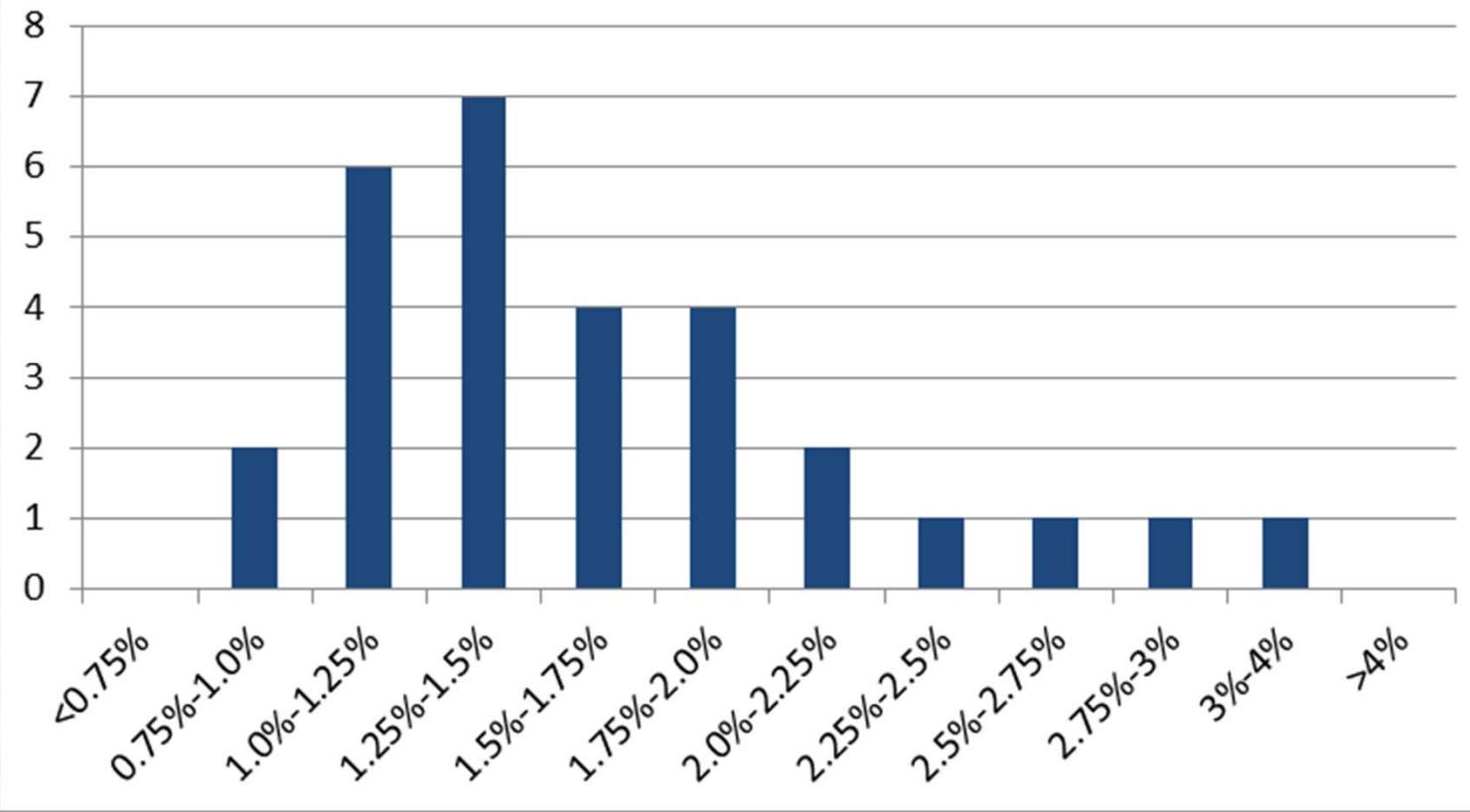
Addressing Federal Borrowing: Advantages to Bonding

- ❑ Bonding allows Nevada to start earning interest on any amounts deposited into the Trust Fund, instead of paying interest on the outstanding debt.
- ❑ Bonding allows the state to begin building solvency while also paying down the bonds, instead of repaying loans and then building solvency.
- ❑ Bond interest rates are currently 0.5% to 1% lower than the federal interest rate, allowing the state to reduce interest expenses.



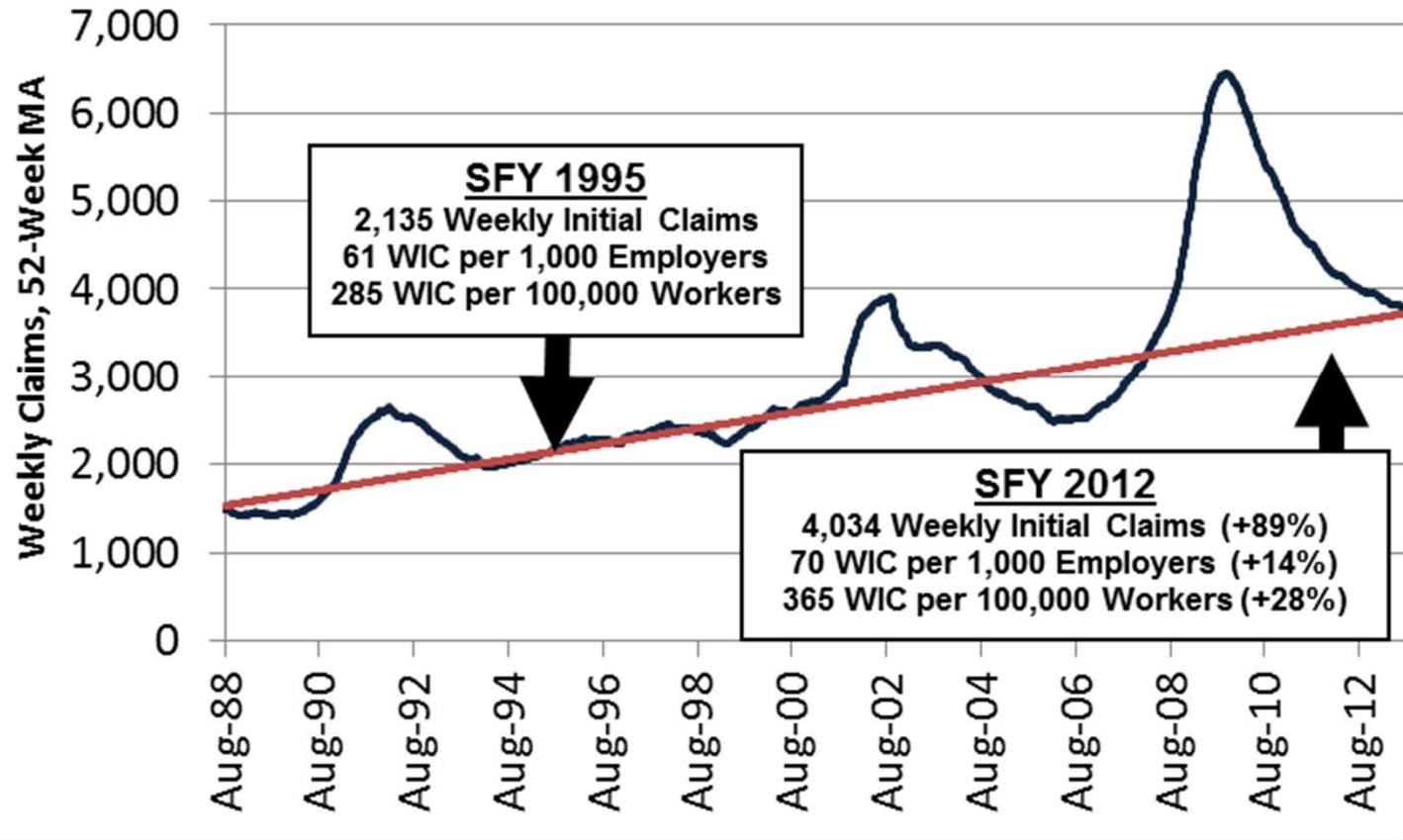
Addressing Federal Borrowing: Benefit Cost Rate Trends

Frequency of Benefit Cost Rates: 1980-2007



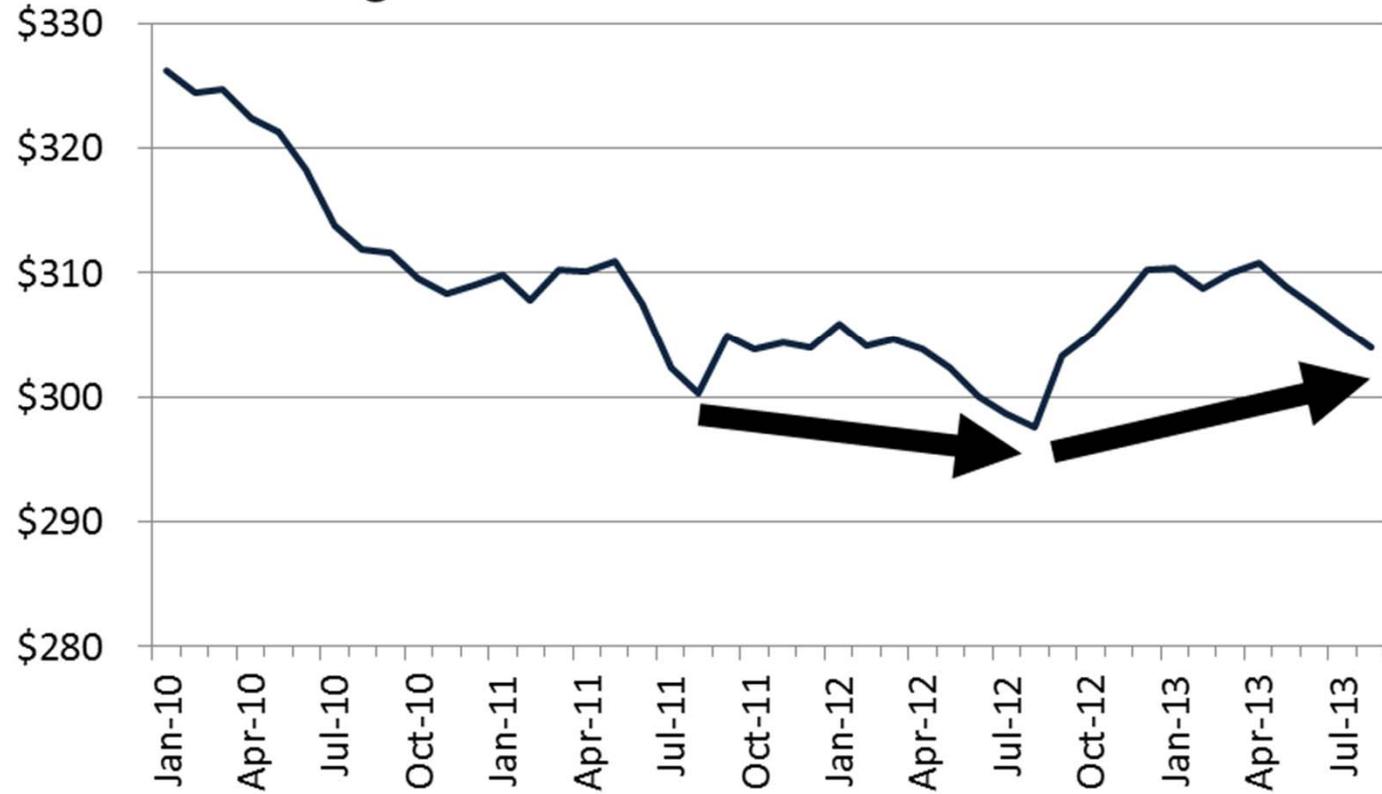
2013 Trends: Slowing Decline in Initial Claims

Initial Claims, 1988-Present



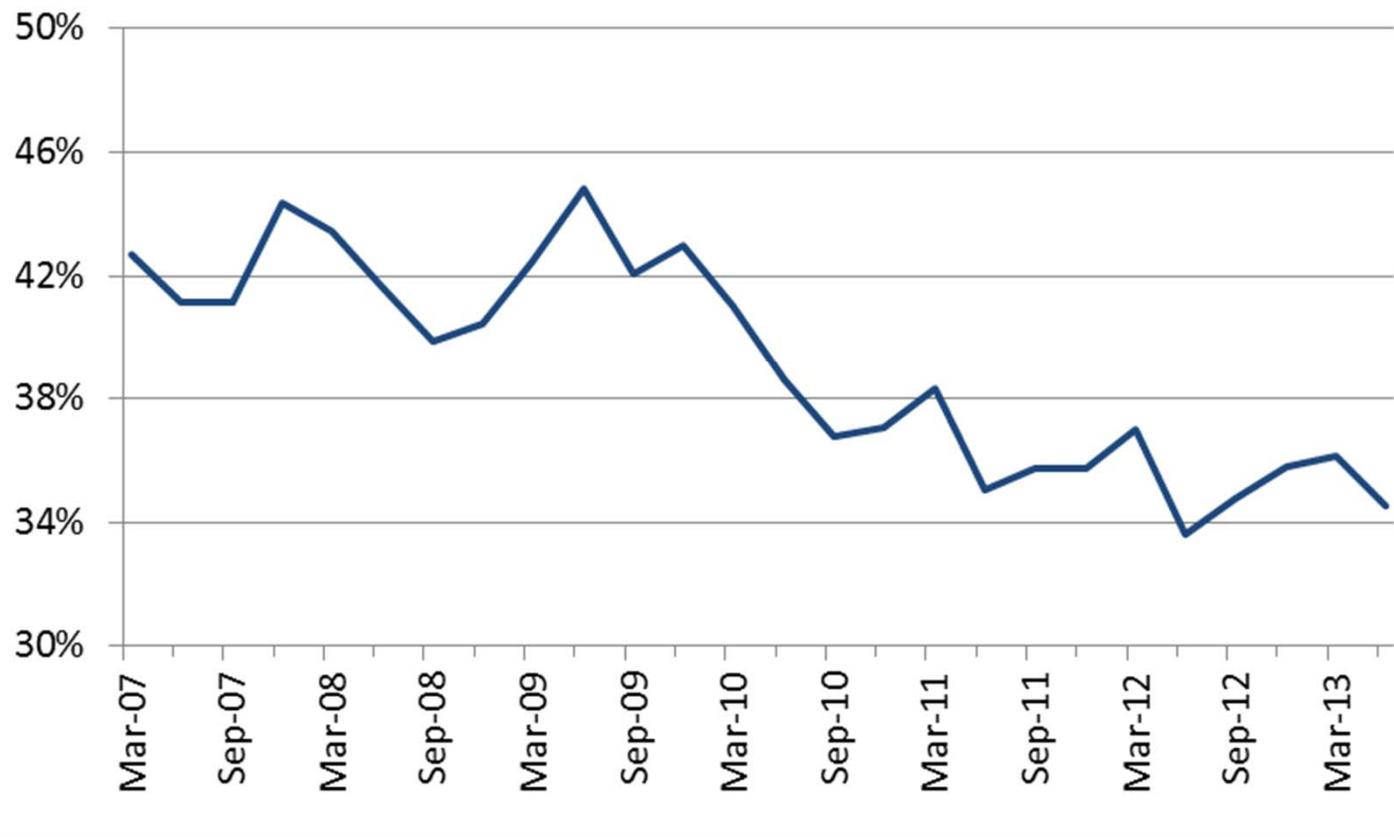
2013 Trends: Rebounding Weekly Benefits

**Average Weekly Benefit Payment
2010-2013 -- Regular UI Benefits**



2013 Trends: Ongoing Lower Benefit Eligibility

Eligibility for Maximum Weekly Benefit

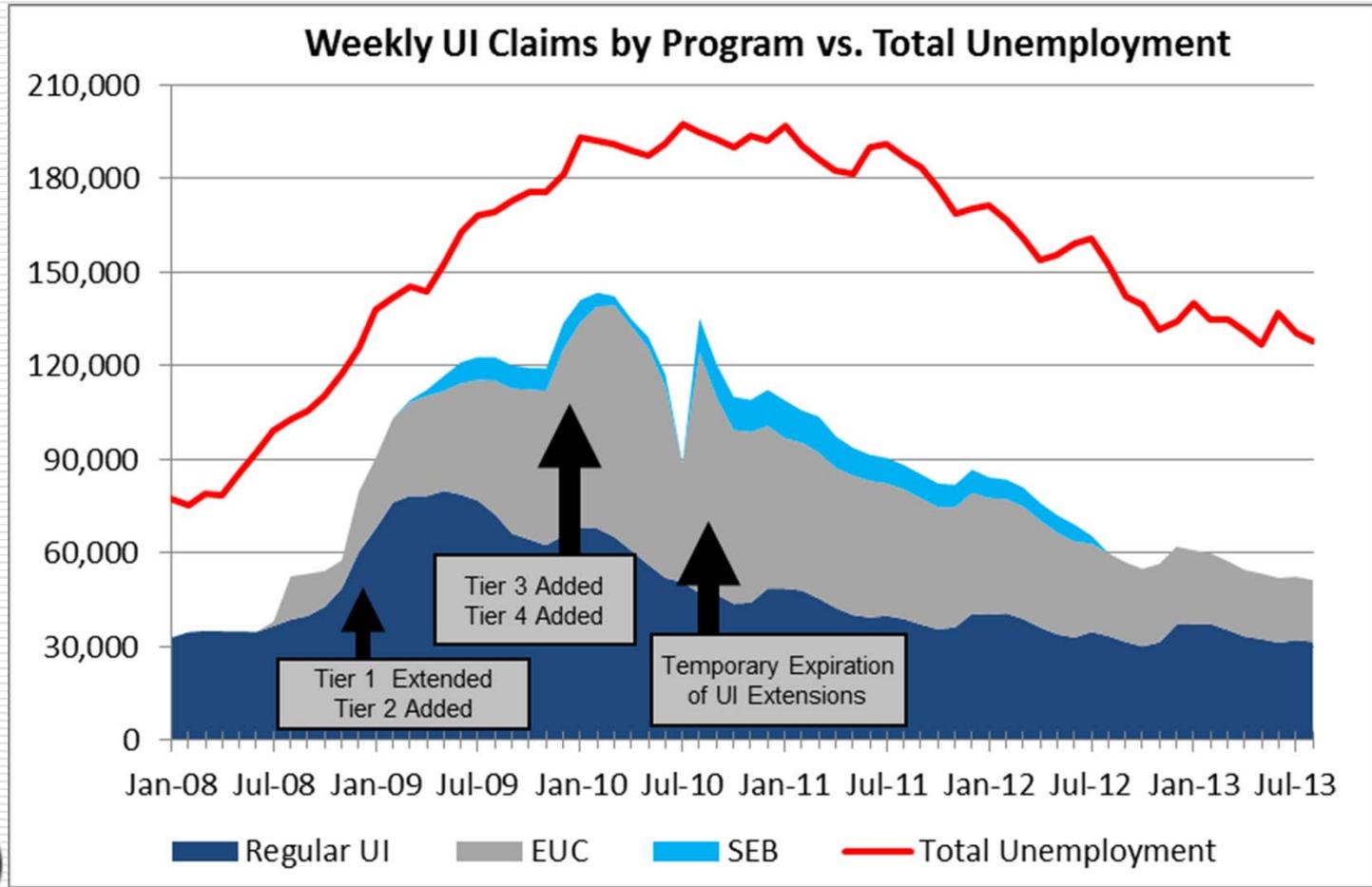


2013 Trends: Declining Benefit Use

Average Duration of Regular Unemployment Benefits: 2005-2013

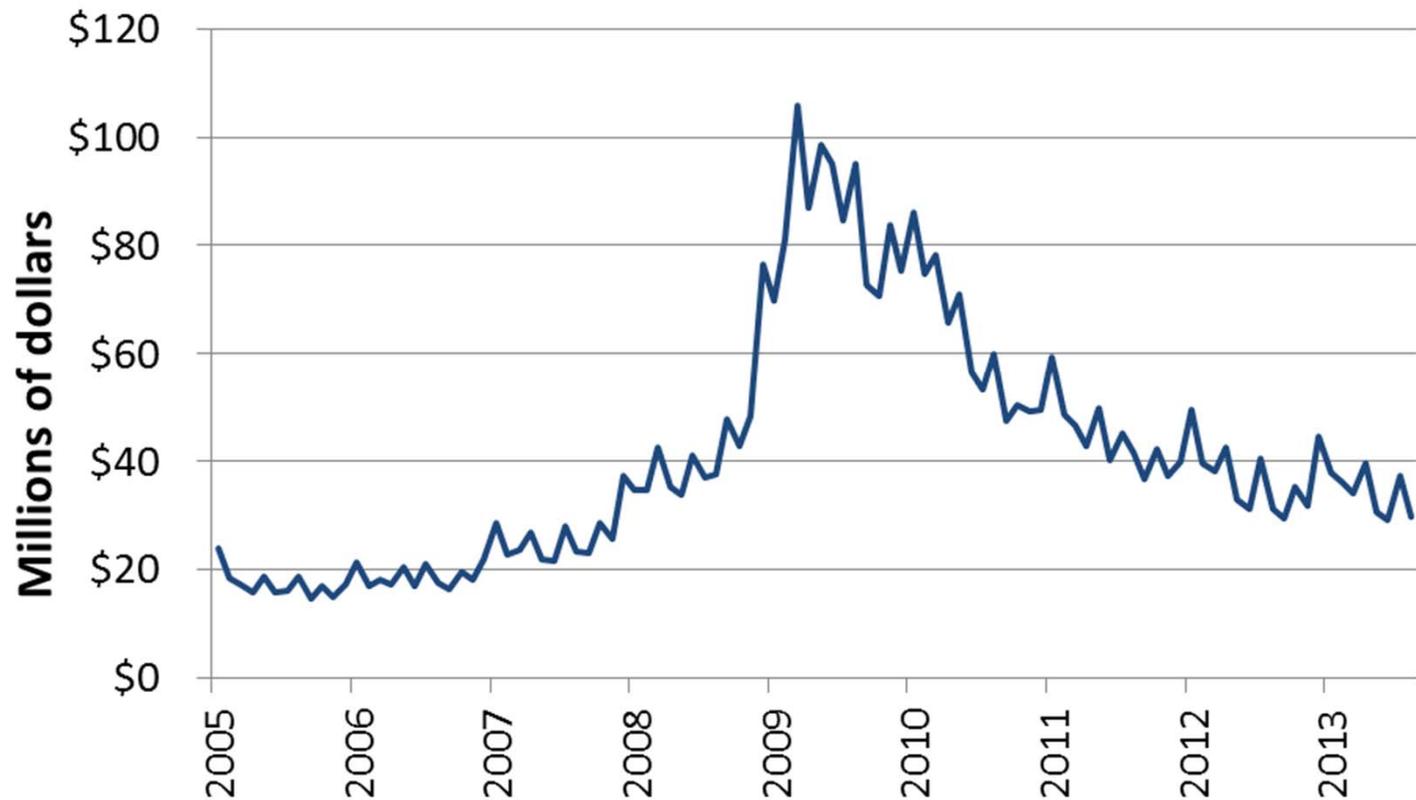


2013 Trends: Declining Federal Benefits

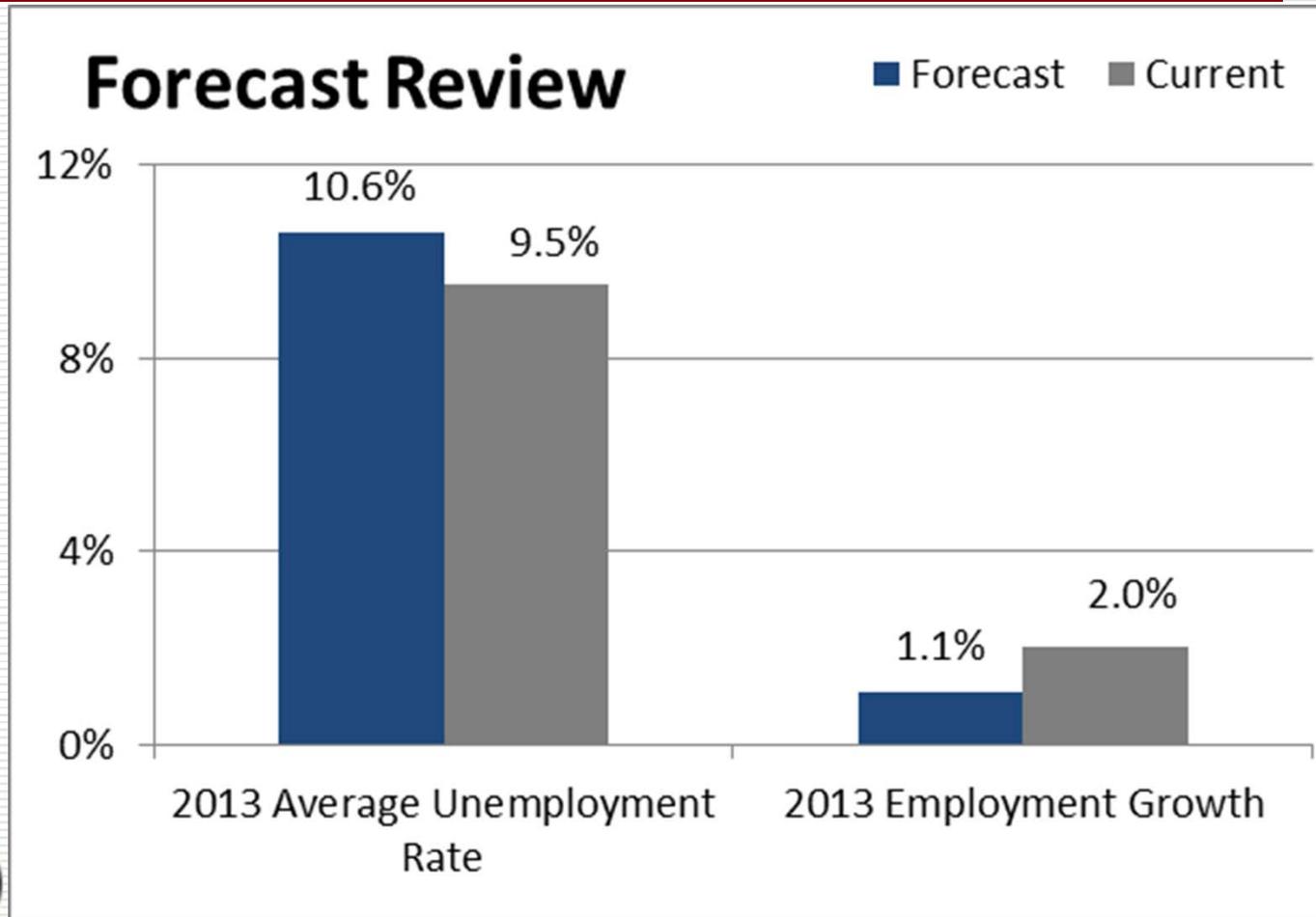


Nevada's Trust Fund: Declining Benefit Payments

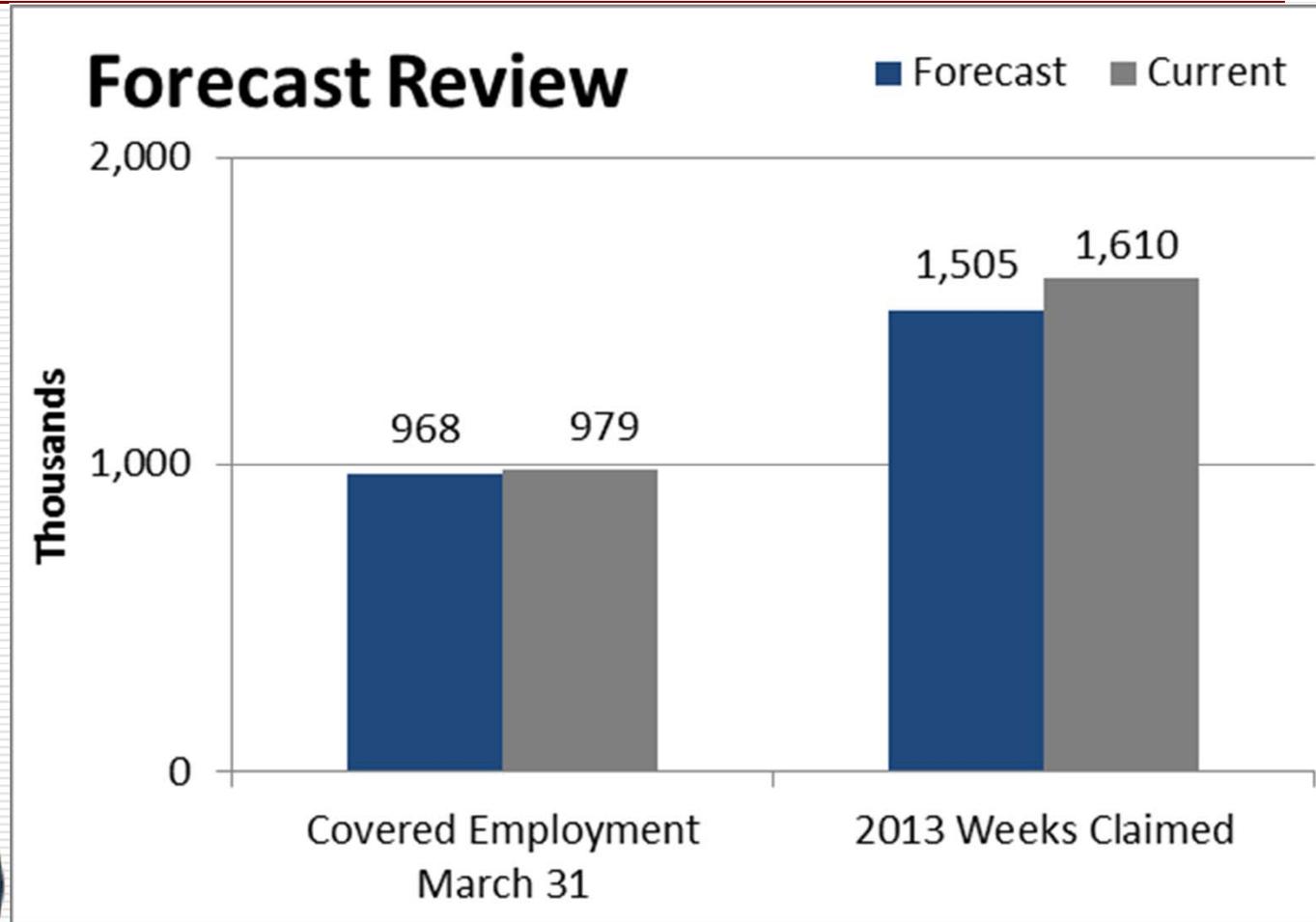
Monthly Compensation: 2005-2013



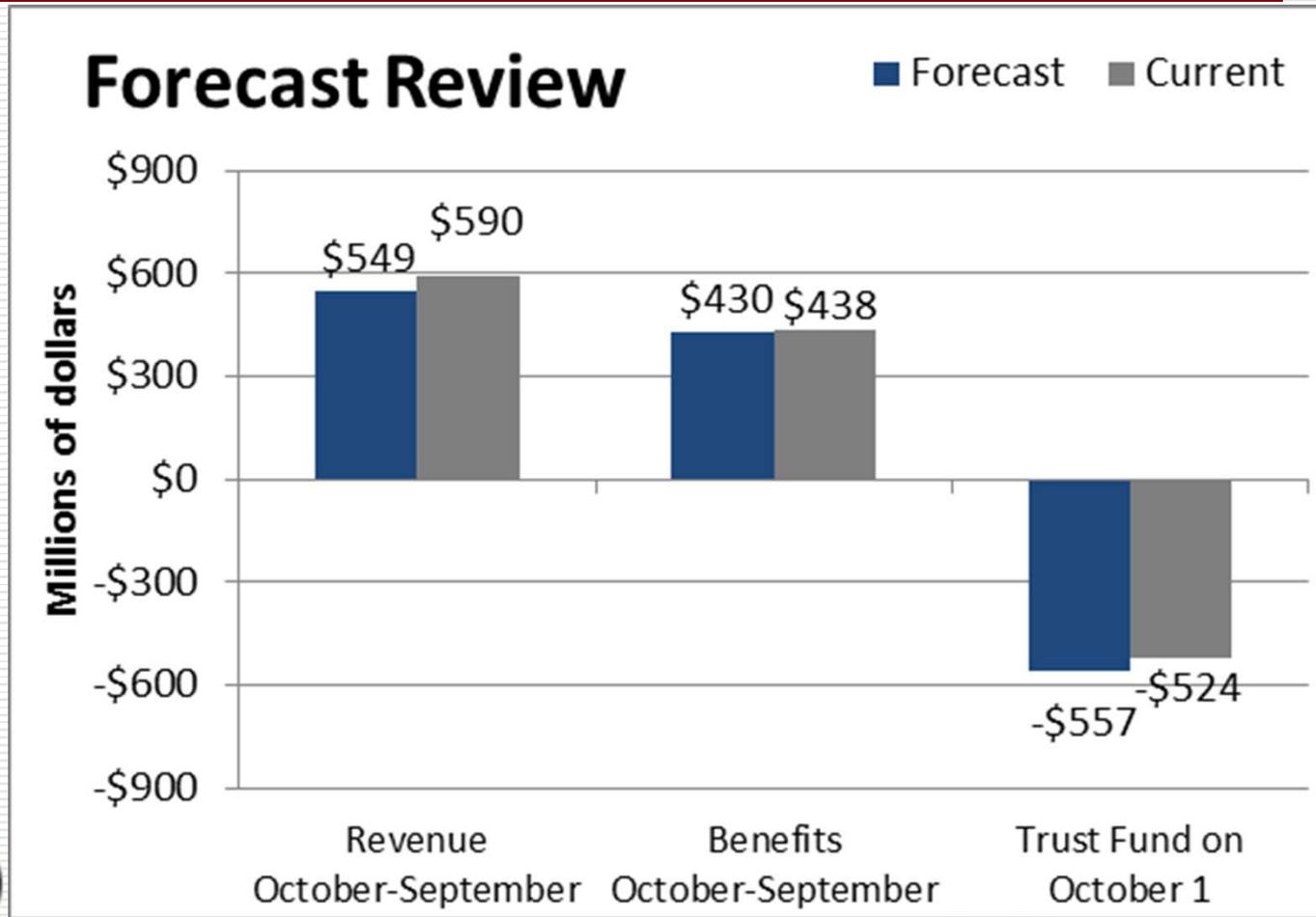
2014 Forecast: Review of Forecast for 2013



2014 Forecast: Review of Forecast for 2013



2014 Forecast: Review of Forecast for 2013

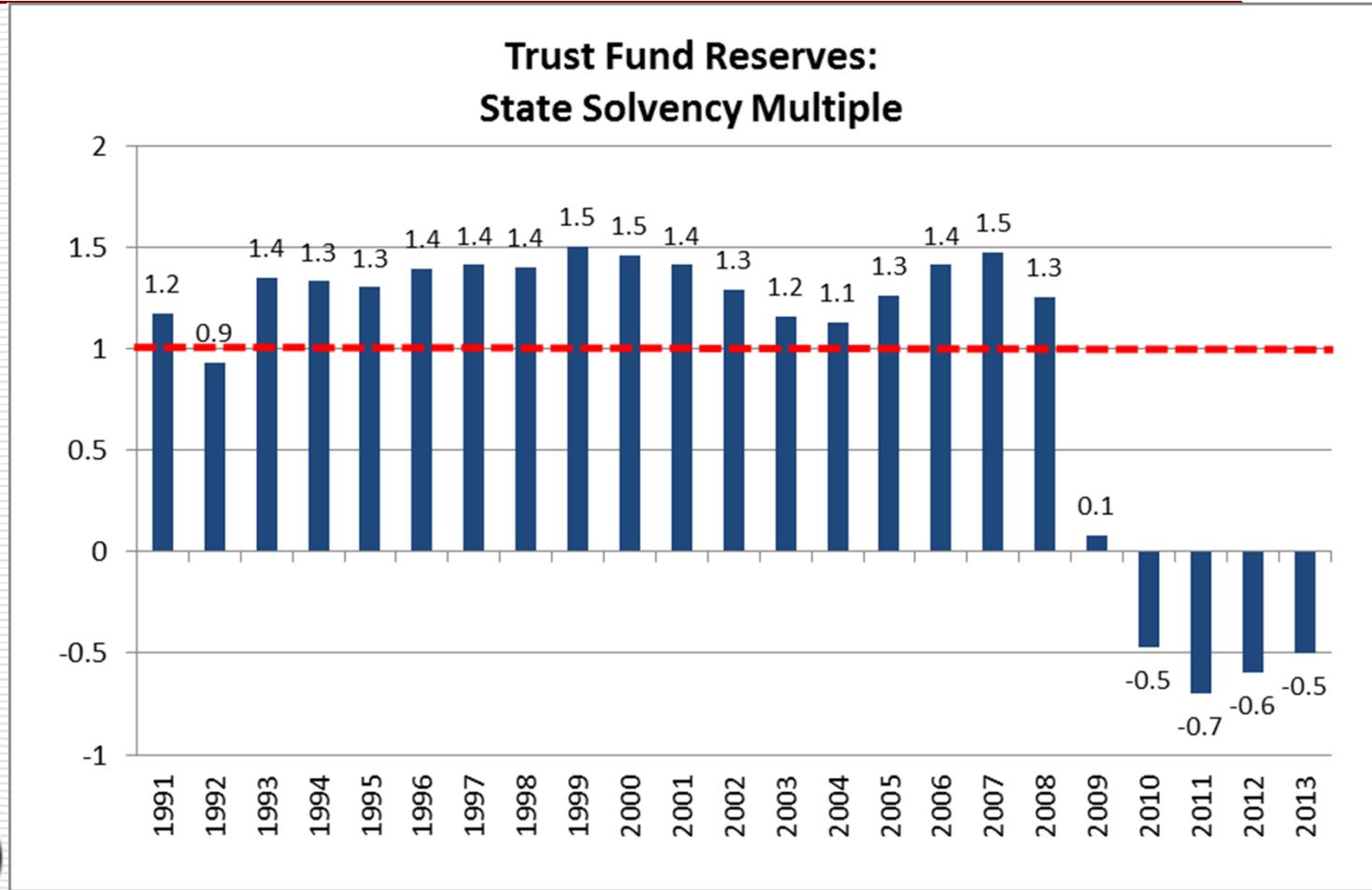


2014 Forecast: Historical Solvency Review

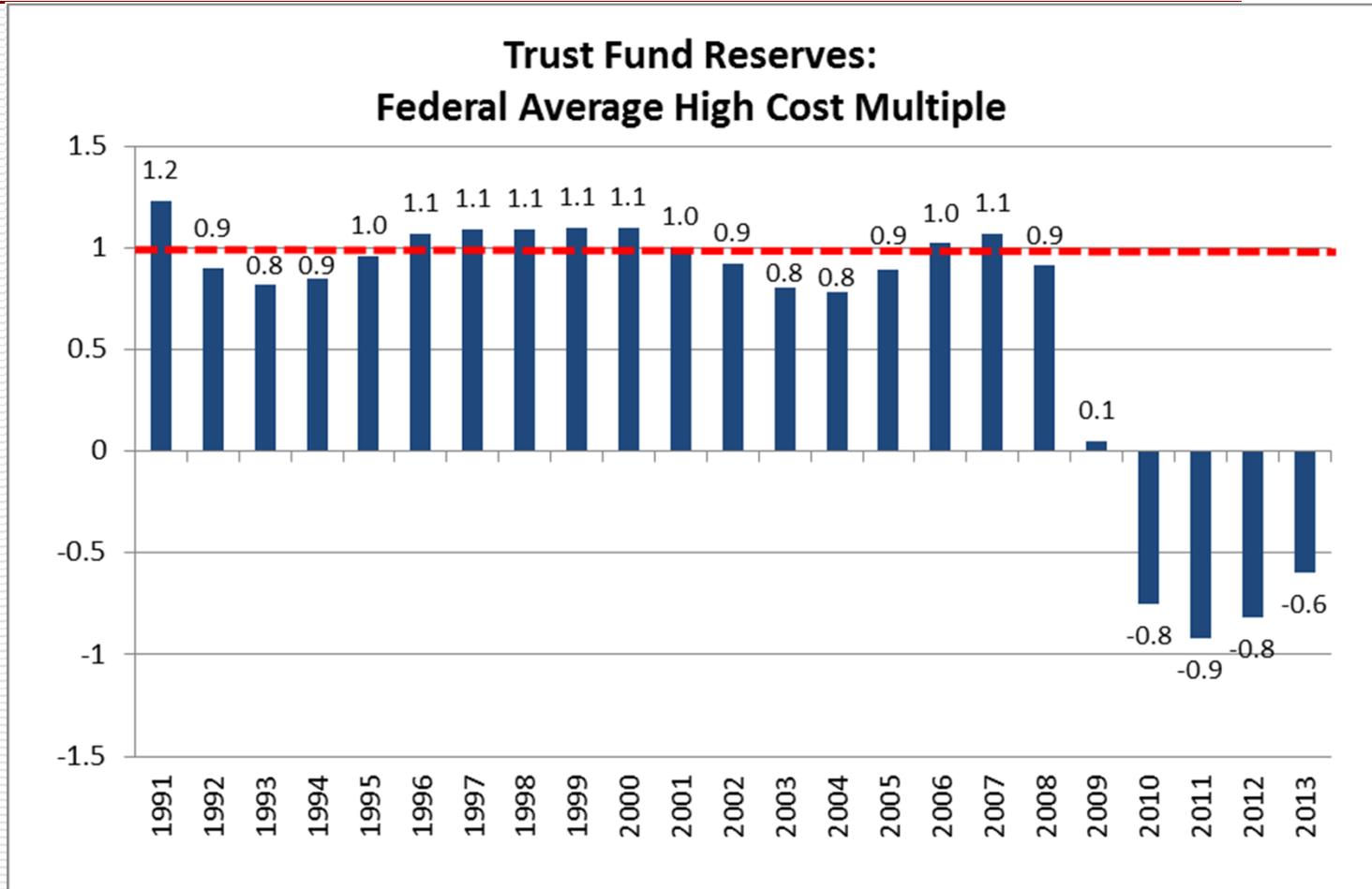
Nevada Solvency Calculation	Actual 2009	Actual 2010	Actual 2011	Actual 2012	Preliminary 2013
NRS 612.550					
Covered Employment	1,058,165	956,818	946,163	958,808	979,091
Highest Risk Ratio	14.72%	18.98%	18.98%	18.98%	18.98%
Highest Weeks Duration	16.26	19.12	19.12	19.12	19.12
Average Weekly Payment	\$310.74	\$320.69	\$307.76	\$303.29	\$303.92
Solvency Target (Millions)	\$787.0	\$1,113.5	\$1,056.7	\$1,055.3	\$1,079.9
UI Trust Fund Level: October -					
Beginning Fund Balance (Millions)	\$703.4	\$60.6	(\$525.7)	(\$730.7)	(\$675.9)
Intake to Fund	411.0	267.6	370.4	535.9	590.3
Taxes	305.4	267.6	370.4	502.0	535.2
FUTA Offset Loan Repayment	0.0	0.0	0.0	24.1	48.4
Other Deposits	76.9	0.0	0.0	9.8	6.7
Interest	28.7	0.0	0.0	0.0	0.0
Payout From Fund	1,053.8	853.9	575.4	481.1	437.9
Regular Benefits	1,025.2	853.9	575.4	481.1	437.9
Designated Reed Act Funds	28.6	0.0	0.0	0.0	0.0
Net Change in Fund	(642.8)	(586.3)	(205.0)	54.8	152.4
Ending Fund Balance (Millions)	\$60.6	(\$525.7)	(\$730.7)	(\$675.9)	(\$523.5)
Solvency Level (Millions)	(726.4)	(1,639.2)	(1,787.4)	(1,731.2)	(1,603.4)
Multiple	0.08	-0.47	-0.69	-0.64	-0.48
Average High Cost Multiple	0.06	-0.79	-0.92	-0.82	-0.60
Average Tax Rate	1.33%	1.33%	2.00%	2.00%	2.25%



2014 Forecast: State Solvency Measure



2014 Forecast: AHCM Solvency Measure



2014 Forecast: Potential 2014 Tax Rates – No Bonds

Nevada Solvency Calculation	2014	2014	2014	2014	2014
Covered Employment	1,000,435	1,000,435	1,000,435	1,000,435	1,000,435
Highest Risk Ratio - 11/2009	18.98%	18.98%	18.98%	18.98%	18.98%
Highest Weeks Duration - 05/2010	19.12	19.12	19.12	19.12	19.12
Average Weekly Payment	\$310.00	\$310.00	\$310.00	\$310.00	\$310.00
Solvency Target (Millions)	\$1,125.5	\$1,125.5	\$1,125.5	\$1,125.5	\$1,125.5
UI Trust Fund Level					
10/1/13 Fund Balance (Millions)	(\$523.5)	(\$523.5)	(\$523.5)	(\$523.5)	(\$523.5)
Intake to Fund	635.0	688.2	729.6	771.1	800.8
Taxes	557.0	610.2	651.6	693.1	722.8
FUTA Offset Loan Repayment	78.0	78.0	78.0	78.0	78.0
Payout From Fund	426.9	426.9	426.9	426.9	426.9
Regular Benefits	426.9	426.9	426.9	426.9	426.9
Net Change in Fund	208.1	261.3	302.7	344.2	373.9
9/30/13 Fund Balance (Millions)	(\$315.4)	(\$262.2)	(\$220.8)	(\$179.3)	(\$149.6)
State Solvency Gap (Millions)	(1,440.9)	(1,387.7)	(1,346.3)	(1,304.8)	(1,275.1)
Solvency Multiple	-0.28	-0.23	-0.20	-0.16	-0.13
AHCM Solvency Gap (Millions)	(1,217.1)	(1,163.9)	(1,122.5)	(1,081.0)	(1,051.3)
Average High Cost Multiple	-0.35	-0.29	-0.24	-0.20	-0.17
Average Tax Rate	2.25%	2.50%	2.75%	3.00%	3.25%
Cost of FUTA and Interest	0.37%	0.37%	0.37%	0.37%	0.37%
Total Cost to Employers	2.62%	2.87%	3.12%	3.37%	3.62%
Average Cost Per Employee at Taxable Wage Base	\$717.88	\$786.38	\$854.88	\$923.38	\$991.88



2014 Forecast: Potential 2014 Tax Rates – Bonding

Nevada Solvency Calculation	2014	2014	2014
Covered Employment	1,000,435	1,000,435	1,000,435
Highest Risk Ratio - 11/2009	18.98%	18.98%	18.98%
Highest Weeks Duration - 05/2010	19.12	19.12	19.12
Average Weekly Payment	\$310.00	\$310.00	\$310.00
Solvency Target (Millions)	\$1,125.5	\$1,125.5	\$1,125.5
UI Trust Fund Level			
10/1/13 Fund Balance (Millions)	(\$523.5)	(\$523.5)	(\$523.5)
Intake to Fund	1,085.8	1,127.3	1,157.0
Taxes	485.8	527.3	557.0
Bond Proceeds	600.0	600.0	600.0
Payout From Fund	426.9	426.9	426.9
Regular Benefits	426.9	426.9	426.9
Net Change in Fund	658.9	700.4	730.1
9/30/13 Fund Balance (Millions)	\$135.4	\$176.90	\$206.60
State Solvency Gap (Millions)	(990.1)	(948.6)	(918.9)
Solvency Multiple	0.12	0.16	0.18
AHCM Solvency Gap (Millions)	(766.3)	(724.8)	(695.1)
Average High Cost Multiple	0.15	0.20	0.23
Average Tax Rate	1.75%	2.00%	2.25%
Average Bond Assessment	0.50%	0.50%	0.50%
Total Cost to Employers	2.25%	2.50%	2.75%
Average Cost Per Employee at Taxable Wage Base	\$616.50	\$685.00	\$753.50



2014 Forecast: Long Term Effect of Different Rates

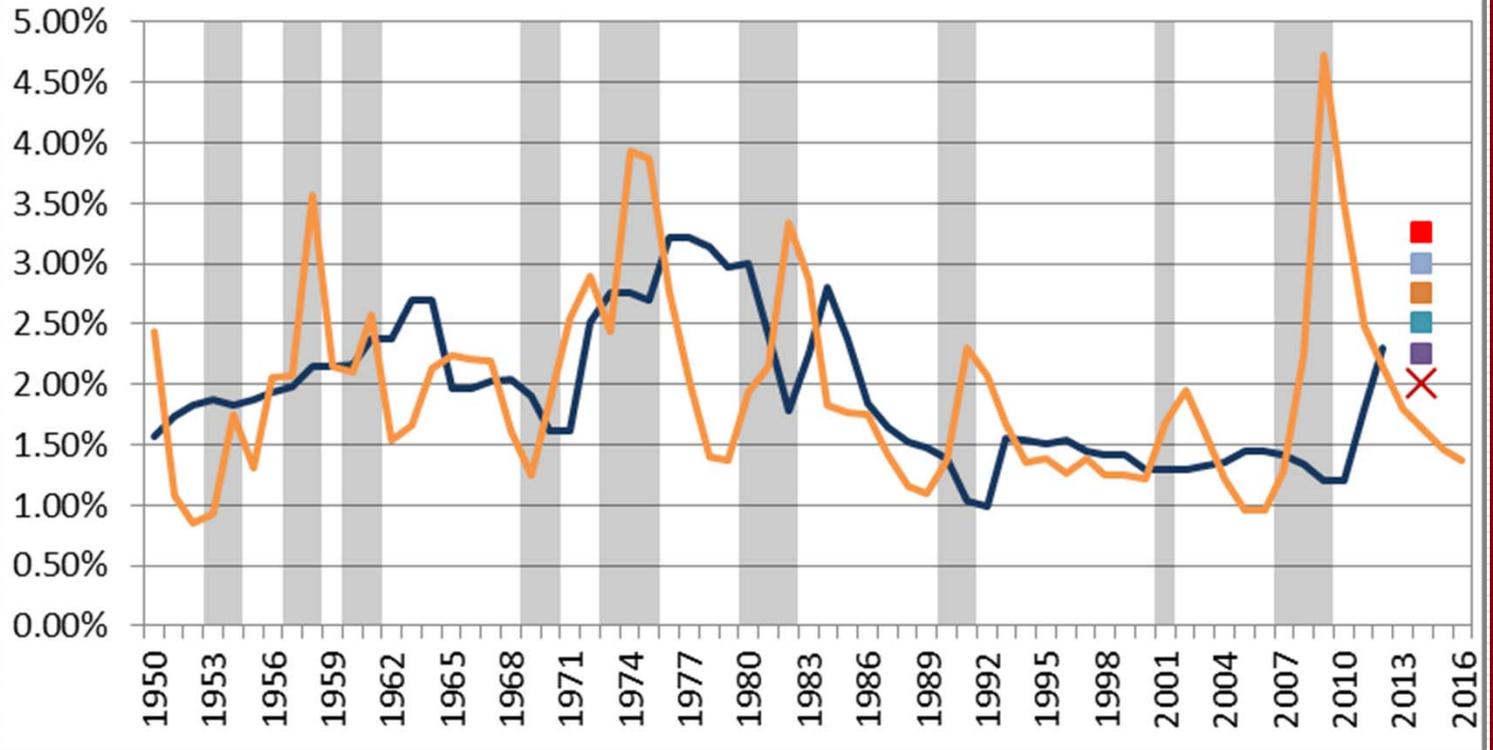
(\$ in Millions)	2.25%	2.50%	2.75%	3.00%	3.25%
Maximum FUTA Credit Reduction	2014-15	2014	2013-14	2013-14	2013-14
Year Loans are Repaid	2016	2015	2015	2015	2015
Year AHCM Reaches 1.0	2020	2019	2018	2017	2017
2014 SUTA Excess Cash Flow	\$141.3	\$195.0	\$248.7	\$302.4	\$356.1
Total Interest Expense	\$29.6	\$28.1	\$26.2	\$24.7	\$26.9
Total FUTA Offset	\$342.1	\$233.8	\$207.1	\$207.1	\$207.1
Maximum FUTA Credit Reduction	1.2%	1.2%	0.9%	0.9%	0.9%
Loan Repayment from FUTA	49%	33%	30%	30%	30%
2014 Avg SUTA Tax	\$616.50	\$685.00	\$753.50	\$822.00	\$890.50
2014 Avg FUTA Tax	\$126.00	\$126.00	\$105.00	\$105.00	\$105.00

- ❑ Reflects an upward revision in expected benefit payments in later years of the projection.
- ❑ Average time from end of one recession to start of the next during the last 50 years: 5.4 years (December 2014)



2014 Forecast: Potential 2014 Rates vs. BCR

Nevada Tax Rates v. Benefit Cost Rate
Shaded areas indicate recessions



2014 Forecast: Other Considerations

- ❑ How long will it take the economy to recover?
 - ❑ Average time from end of one recession to beginning of new recession over the last 50 years: 5.4 years
 - ❑ National projections for a long, slow recovery.
- ❑ Federal Spending Uncertainty
 - ❑ Expiring EUC Benefits
 - ❑ Healthcare Reform
 - ❑ Sequester and other spending cuts
- ❑ International Uncertainty
 - ❑ European and Asian Markets
 - ❑ Middle East tension



2014 Recommendations:

- ❑ We are asking the Council for two recommendations:
 - ❑ First, an average tax rate for 2014 in the event that no bonds are issued.
 - ❑ Second, an average tax rate for 2014 in the event that bonds are issued. This could take the form of a recommended total rate including the bond assessment, or just an average SUTA rate.
- ❑ This will allow the Division to act upon the appropriate recommendation once it is known whether bonds will be issued or not.



2014 Recommendations: Benefit Cost Rate Trends

Frequency of Benefit Cost Rates: 1980-2007

