

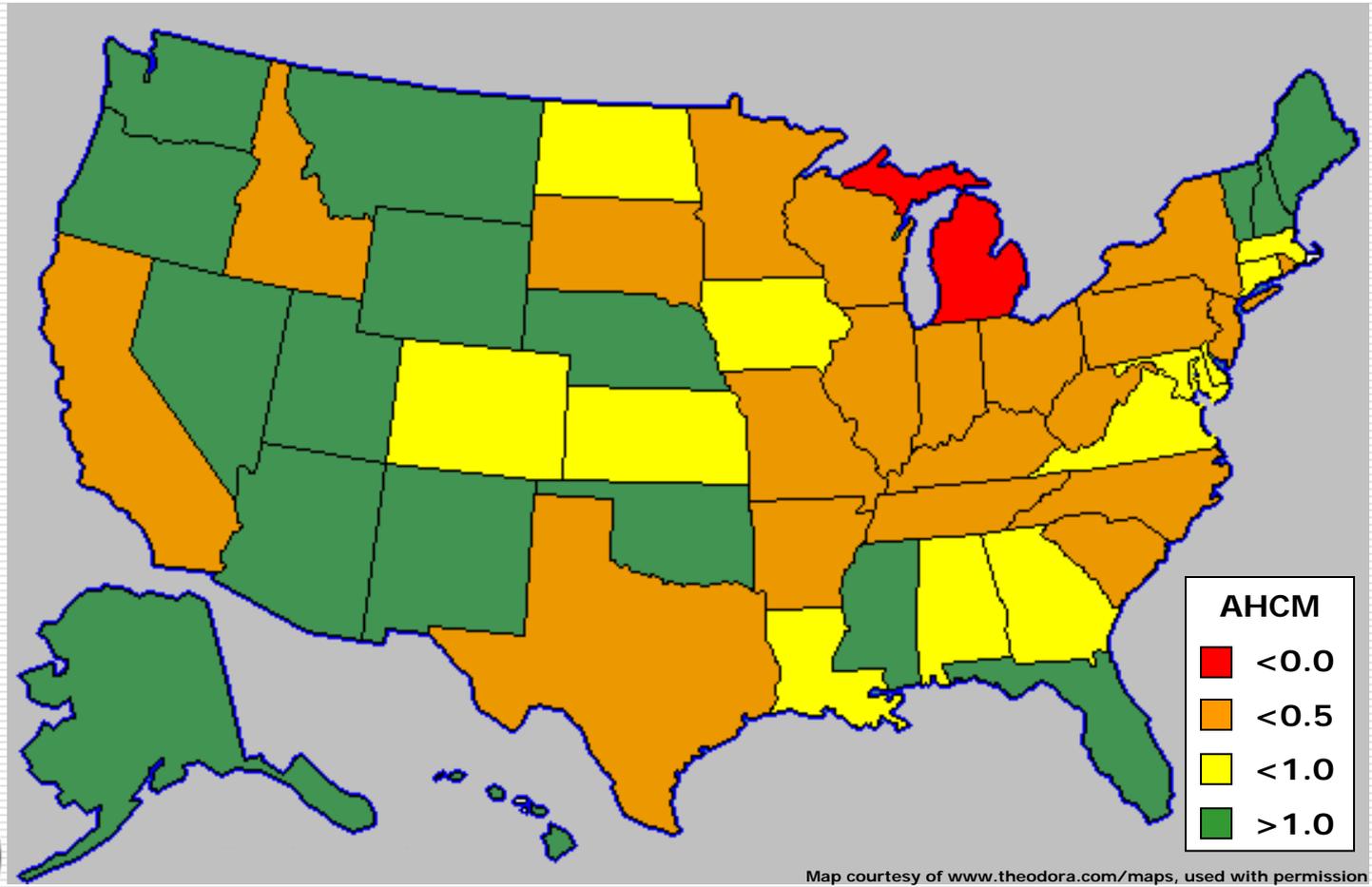
UI Overview and Forecasts

Employment Security Council
October 2, 2012

David Schmidt
Research & Analysis Bureau



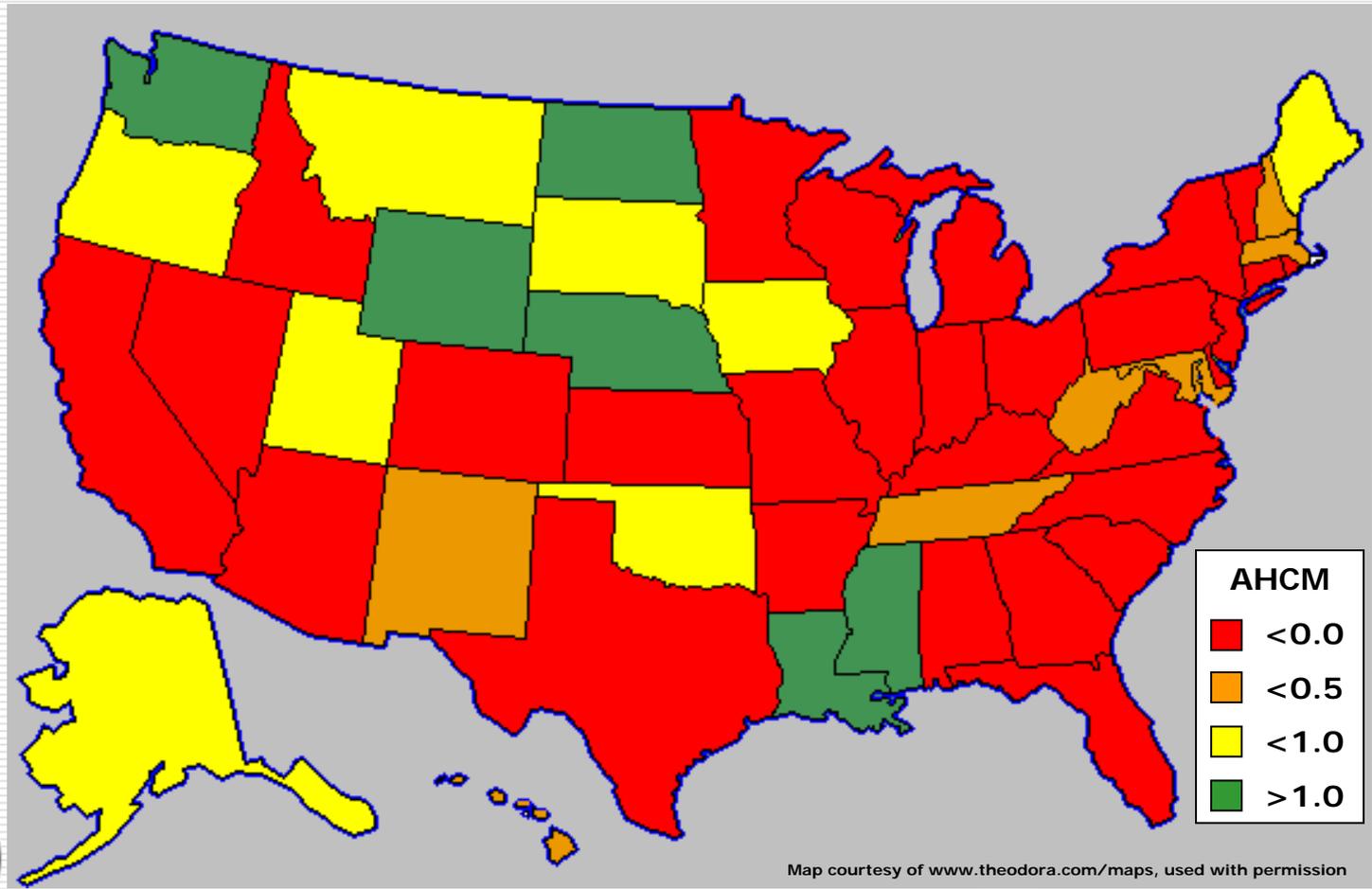
National Perspective: National Solvency – 12/31/2007



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



National Perspective: National Solvency – 12/31/2010



National Perspective: Borrowing Across the Nation

- ❑ At the beginning of the year, 29 states had loans outstanding in the form of either bonds or Title XII loans.
- ❑ As of September 18, 2011, 20 states and territories have \$25.8 billion in outstanding Title XII loans.

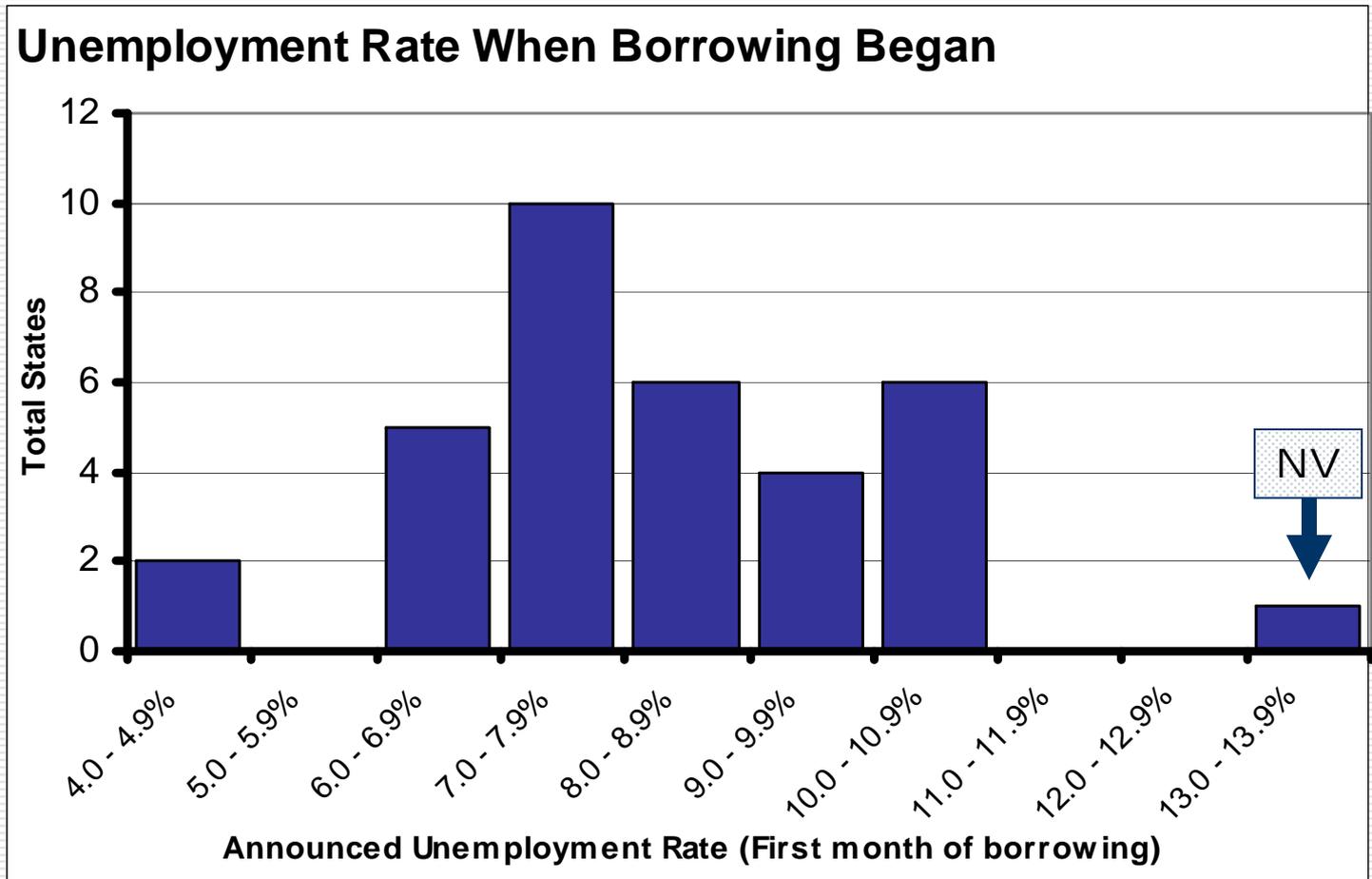


Nevada's Trust Fund: Response to the Recession

- ❑ Nevada entered the recession with reserves that met both state and federal solvency standards.
- ❑ Through 2010, Nevada held the UI tax rate stable to assist employers through the worst of the recession.
- ❑ In 2011 the UI tax was increased to reduce the amount that was being borrowed.
- ❑ In 2012 the UI tax was kept constant at the 2011 rate.

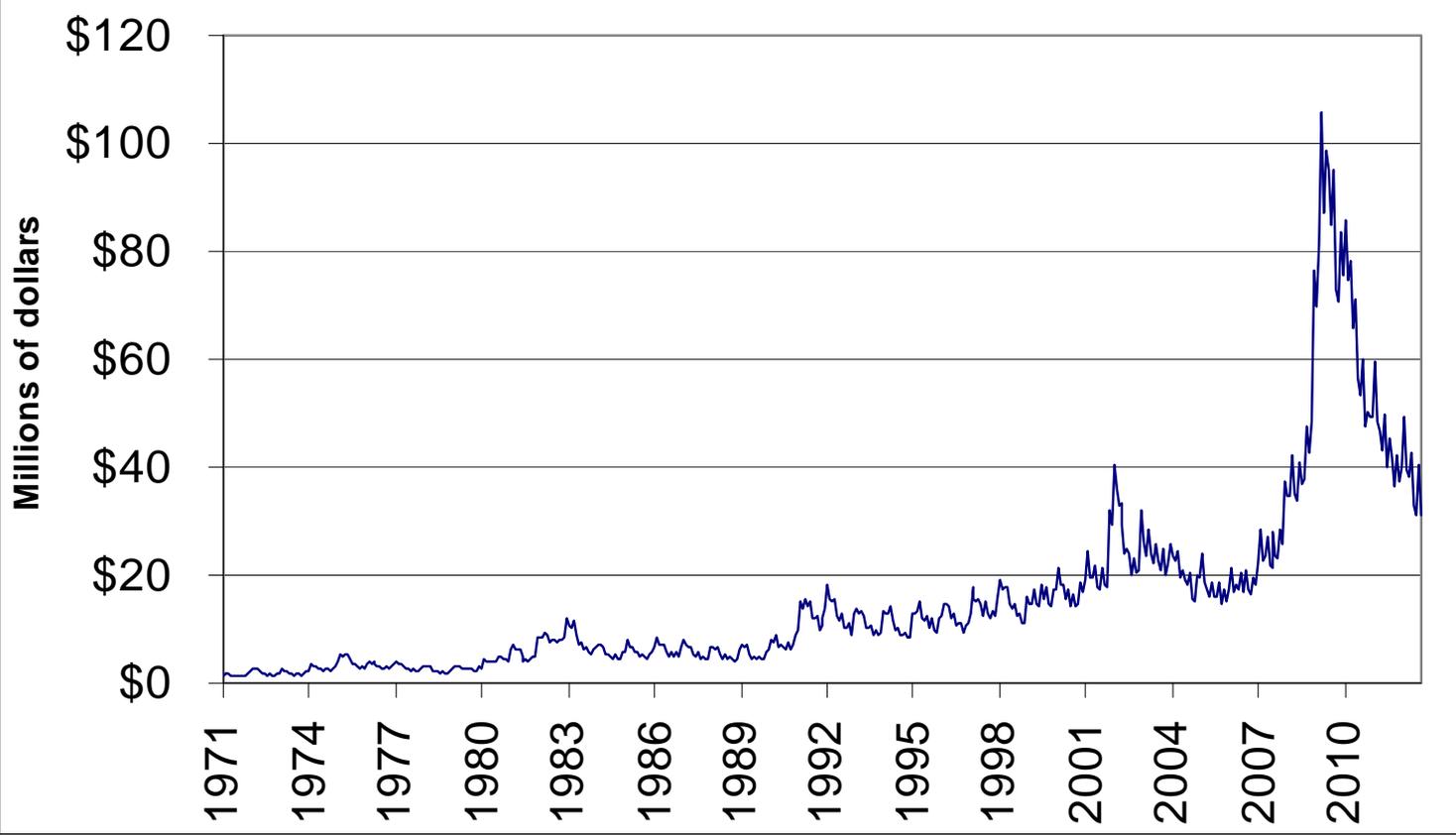


Nevada's Trust Fund: What it Took to Borrow

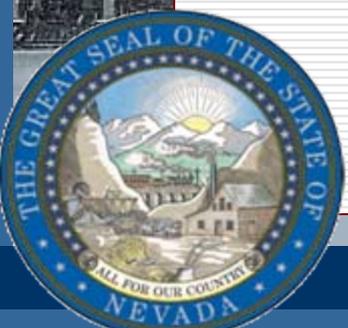
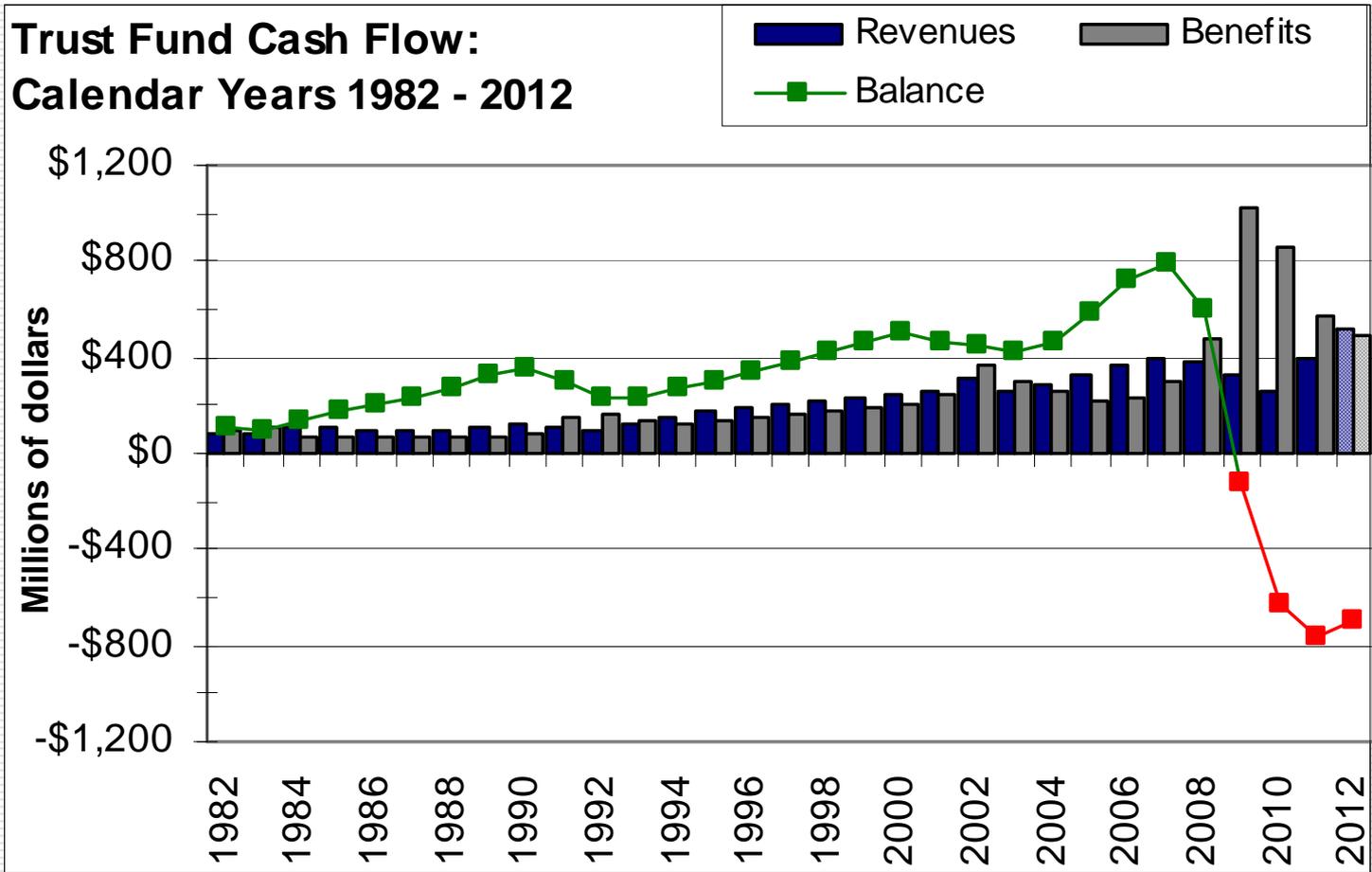


Nevada's Trust Fund: Declining Benefit Payments

Monthly Compensation: 1971 to Present



Nevada's Trust Fund: Shifting to Repayment

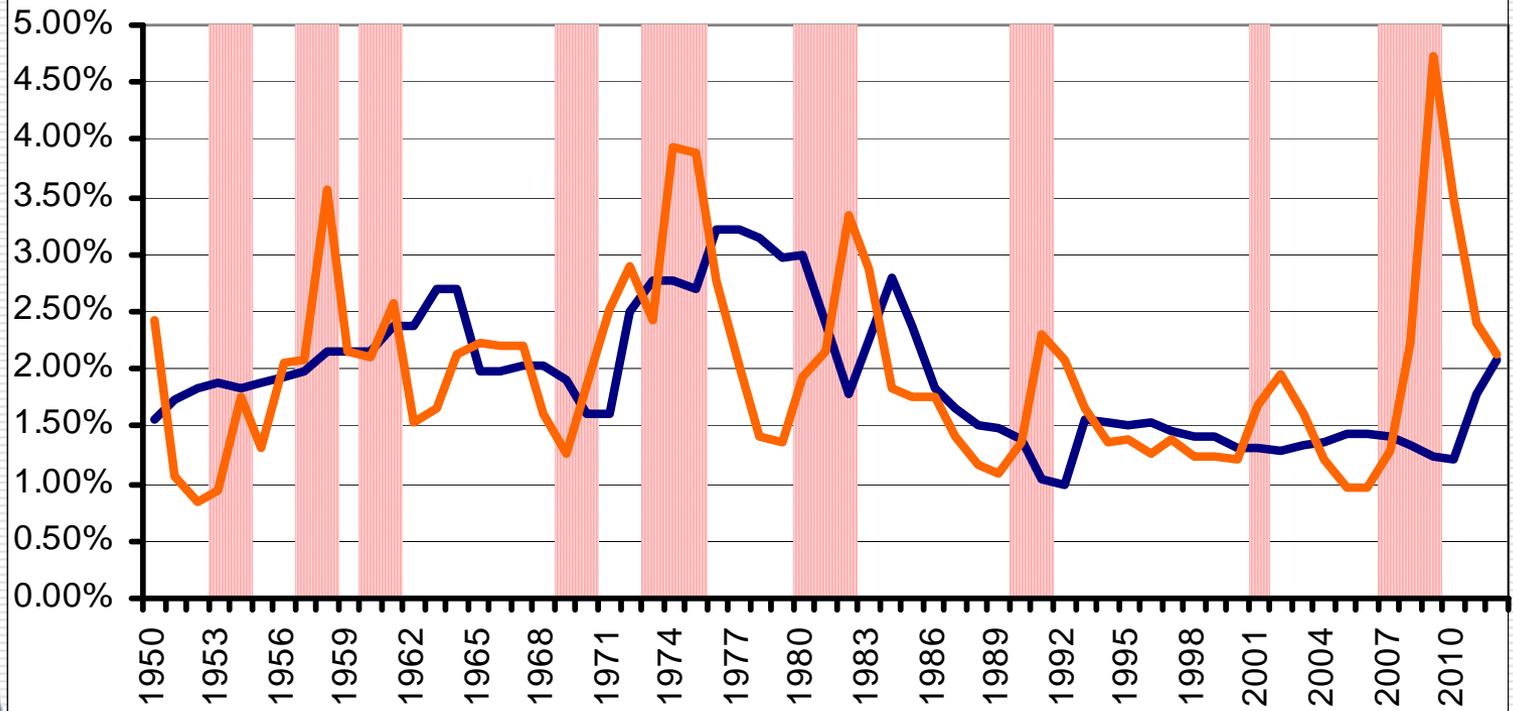


Nevada's Trust Fund: Tax Rates and Benefit Costs

Nevada Tax Rates v. Benefit Cost Rate

Shaded areas indicate recessions

- Avg. Tax Rate
- Benefit Cost Rate



Costs of 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: \$26,900 in 2013
- 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 2.00%



Costs of 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.



Costs of Borrowing: Targeting Capped FUTA Rates

- ❑ **Lowest Rate Possible (0.6%):**
 - ❑ Rate cannot be capped until 2013 (the first year the FUTA reduction would exceed 0.6%)
 - ❑ Average Tax Rate would need to be at least 3.0% in 2013
 - ❑ Loan balance on September 30, 2013 would need to be less than \$525.7 million.
- ❑ **Second-Lowest Rate Possible (0.9%):**
 - ❑ Average Tax Rate would need to be at least 2.9% in 2014
 - ❑ Loan Balance on September 30, 2014 would need to be less than \$742.2 million



Costs of Borrowing: Why Cap FUTA Rates?

- ❑ Relying on FUTA to repay borrowing takes many years to make a dent in borrowing, and does not restore solvency once borrowing is repaid.
- ❑ FUTA Taxes rely on the Federal \$7,000 wage base, putting an additional burden on employers of lower wage workers.
- ❑ Relying on state tax rates allows a more flexible, local review of steps to restore solvency.



Costs of 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.

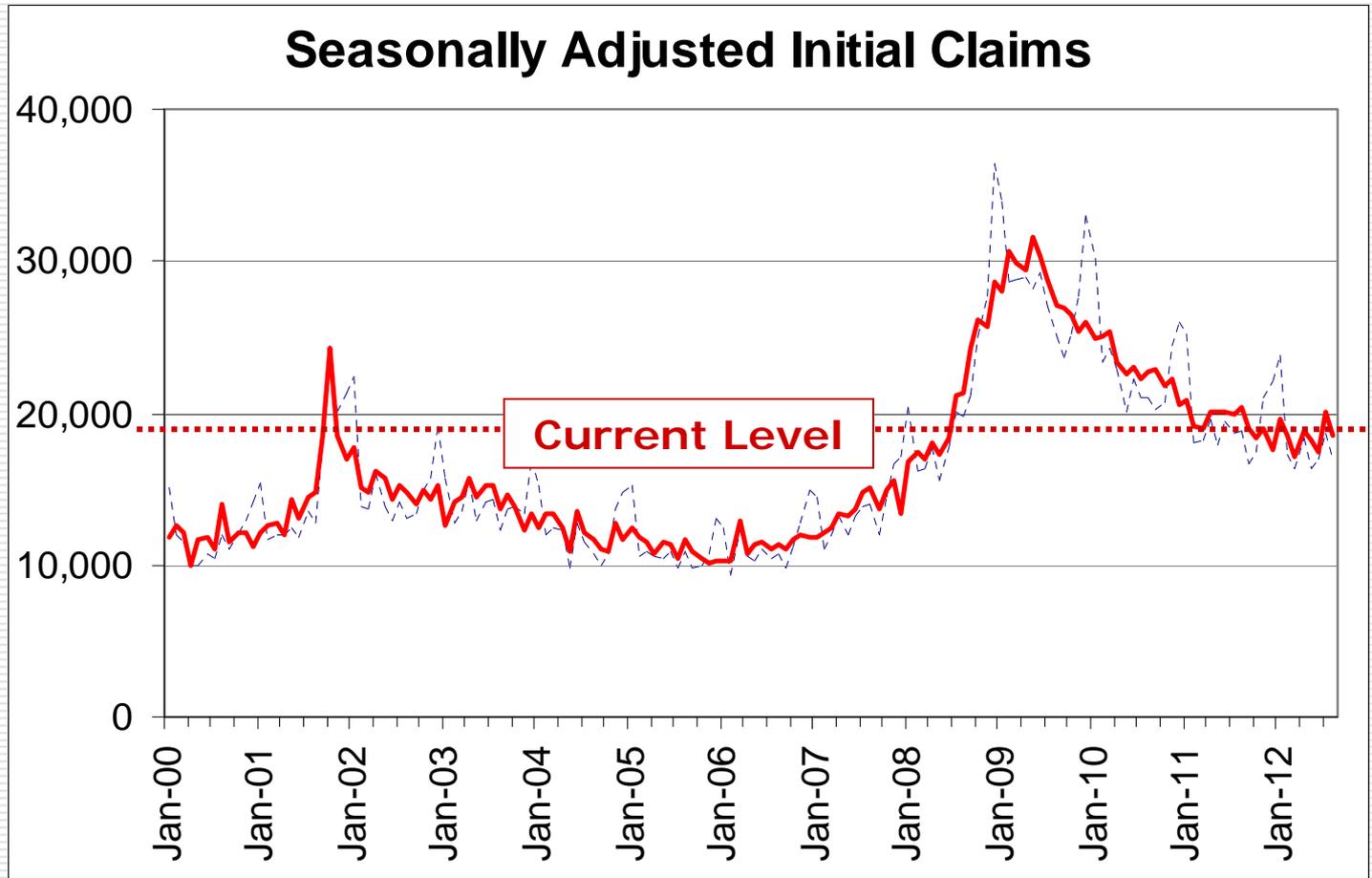


Costs of Borrowing: Interest Charges for 2012

- ❑ Interest accrued from October 1, 2011 through September 30, 2012.
- ❑ The interest rate charged is based on the interest earned on positive trust fund balances.
- ❑ The interest rate during 2011 was 4.08690135%
- ❑ The interest rate during 2012 is 2.94299868%
 - ❑ This reduced interest rate lowered estimated interest expenses for 2012 by roughly \$9 million
- ❑ Nevada's 2012 interest cost is \$23.9 million.
- ❑ Across all states, estimated 2012 interest charges are \$1.1 billion.

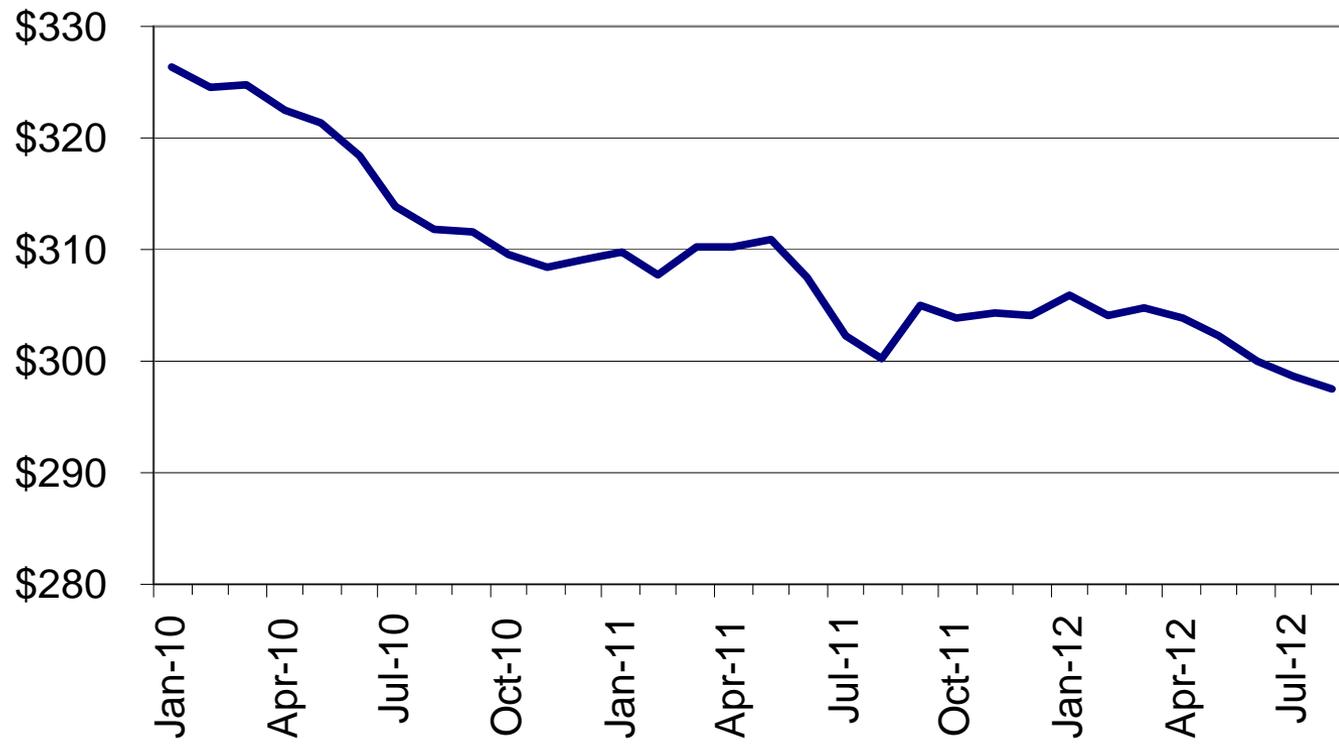


2012 Trends: Slowing Decline in Initial Claims

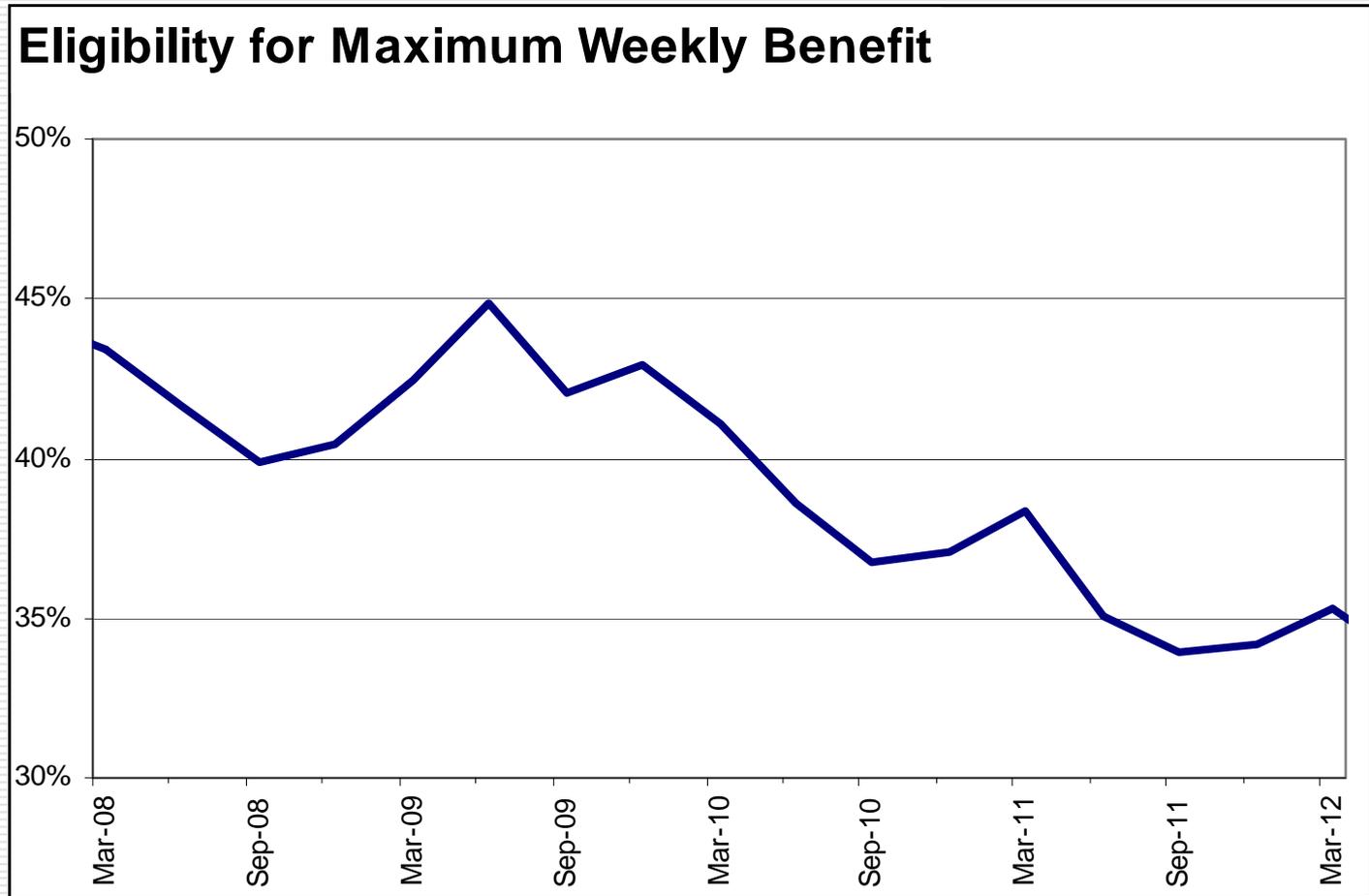


2012 Trends: Declining Weekly Benefits

Average Weekly Benefit Payment: 2010-2012
Regular UI Benefits

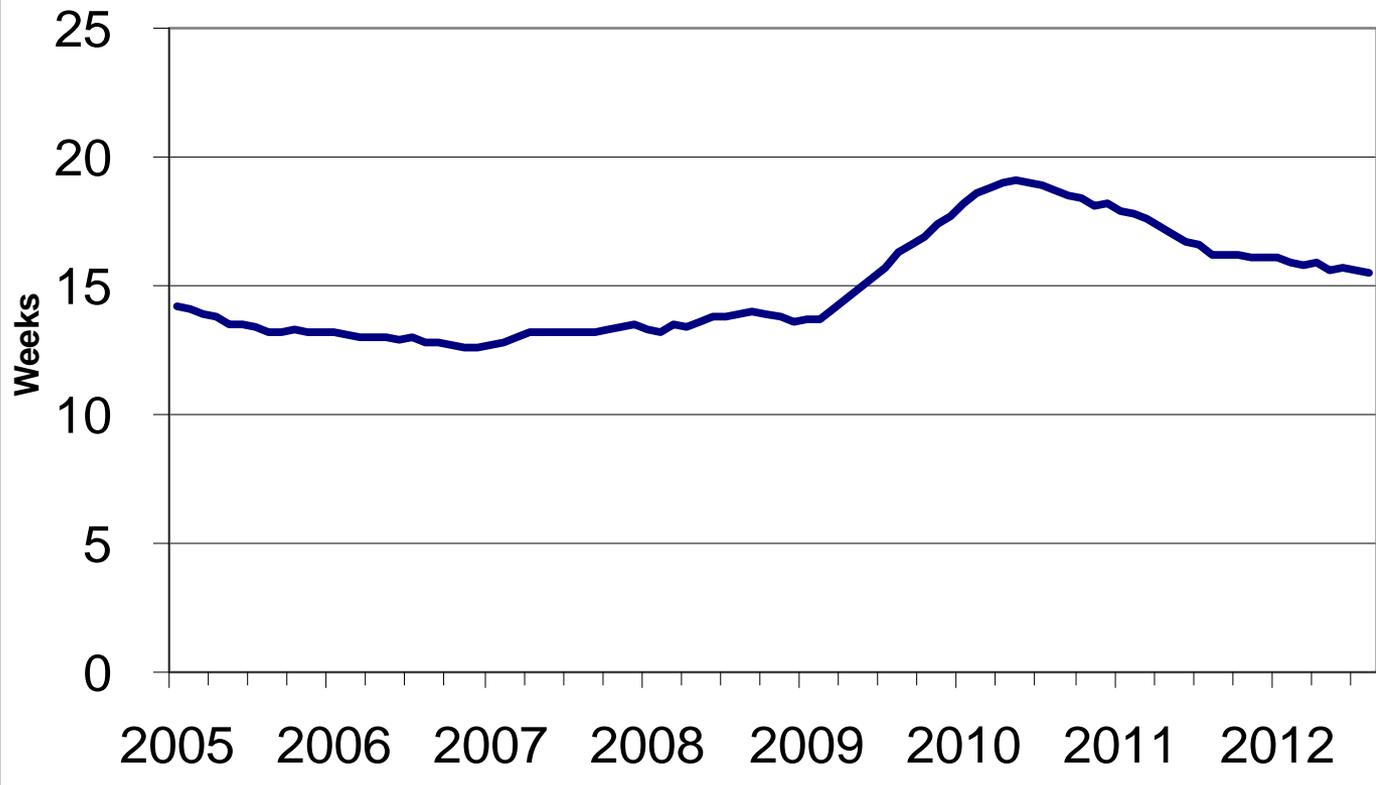


2012 Trends: Declining Benefit Eligibility

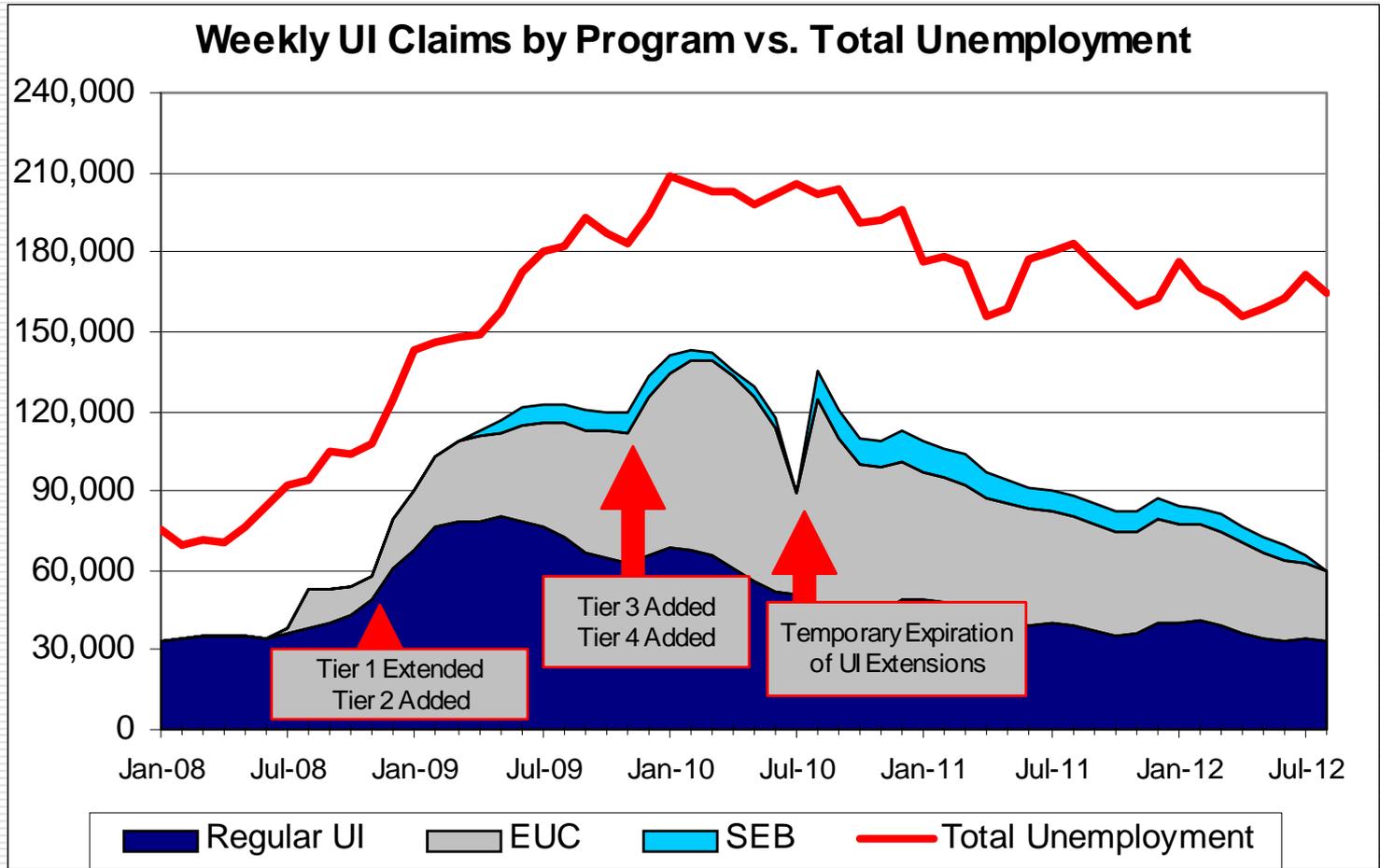


2012 Trends: Declining Benefit Use

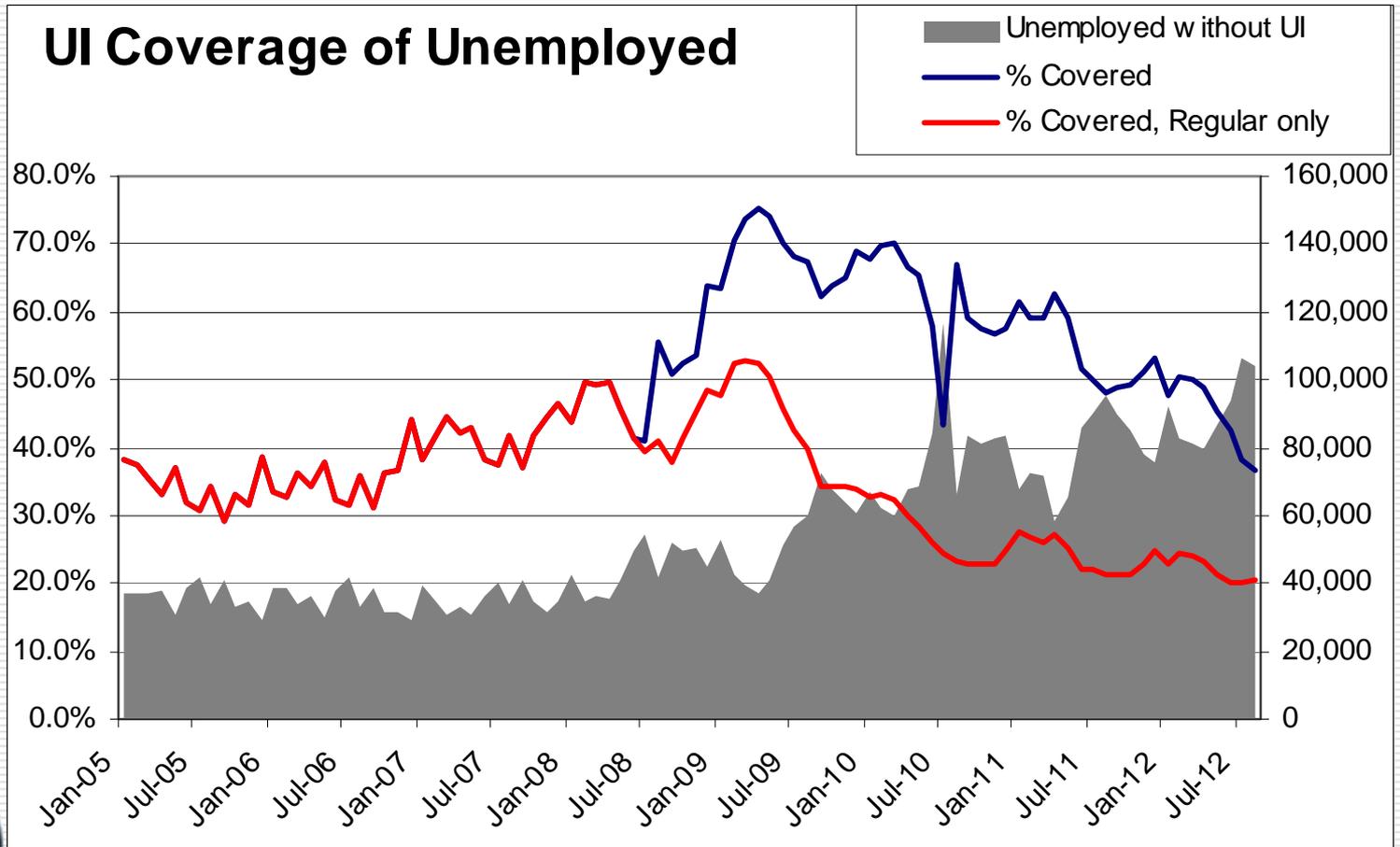
**Average Duration of Regular Unemployment
Benefits: 2005-2011**



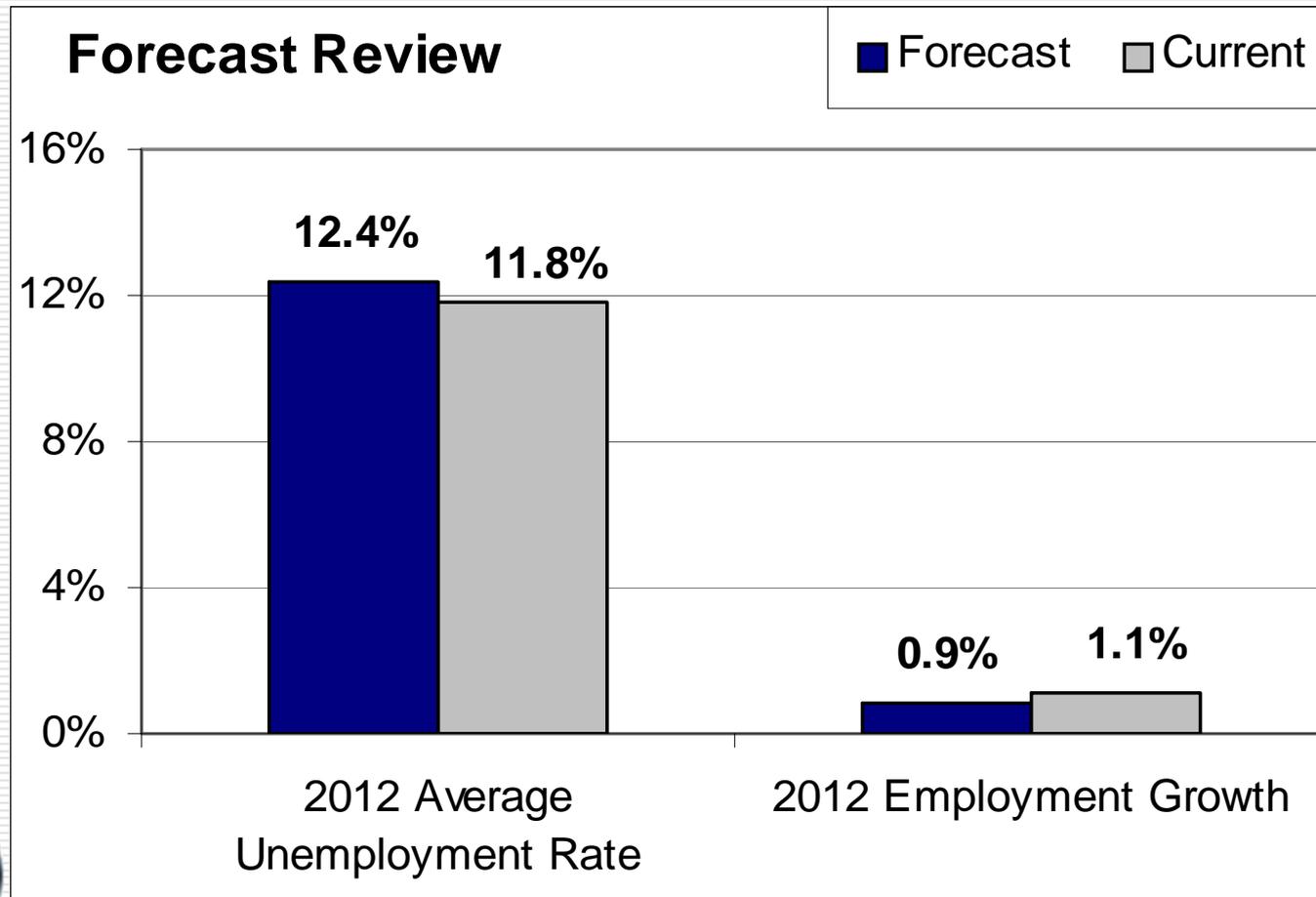
2012 Trends: Declining Federal Benefits



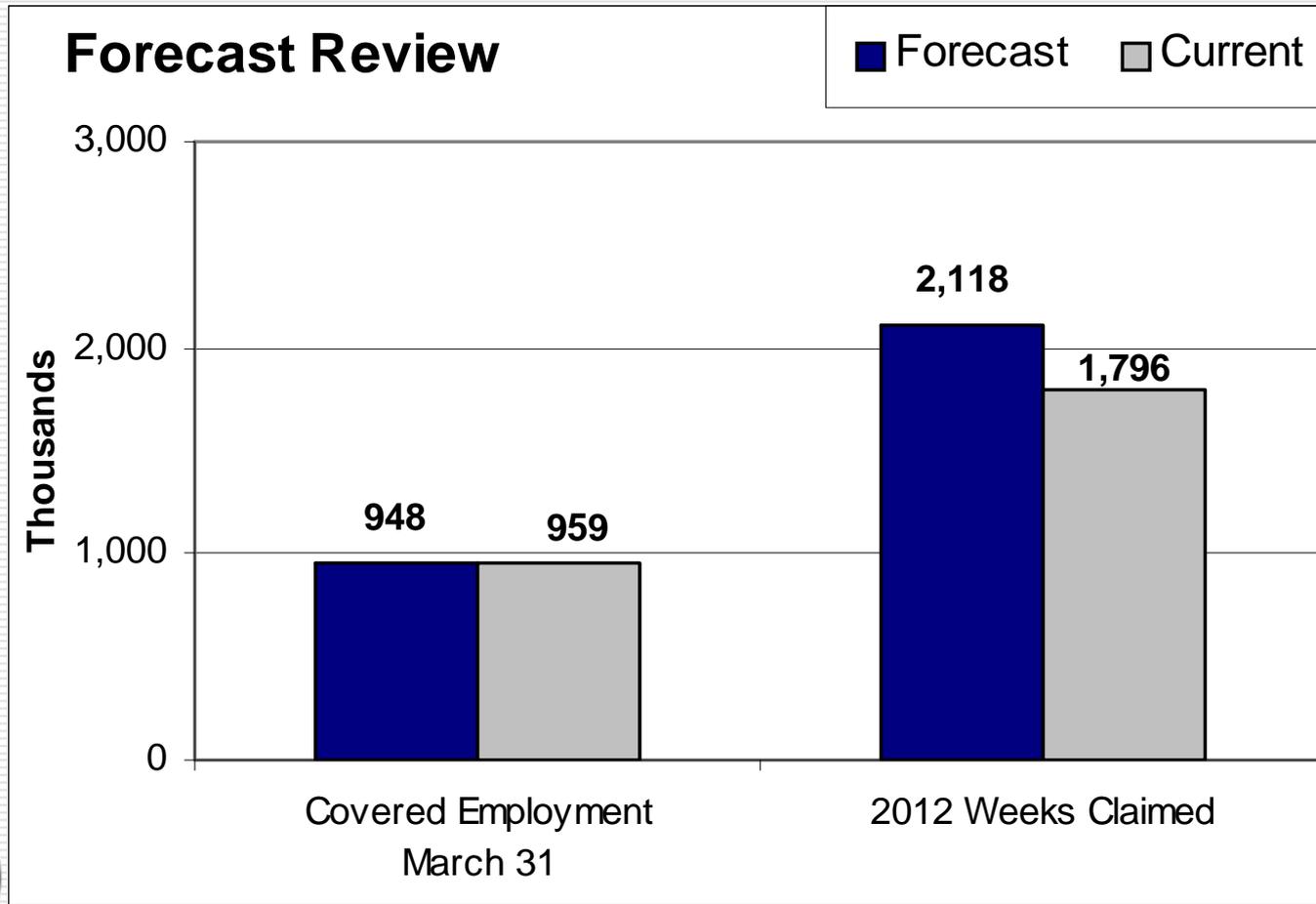
2012 Trends: Declining UI Coverage



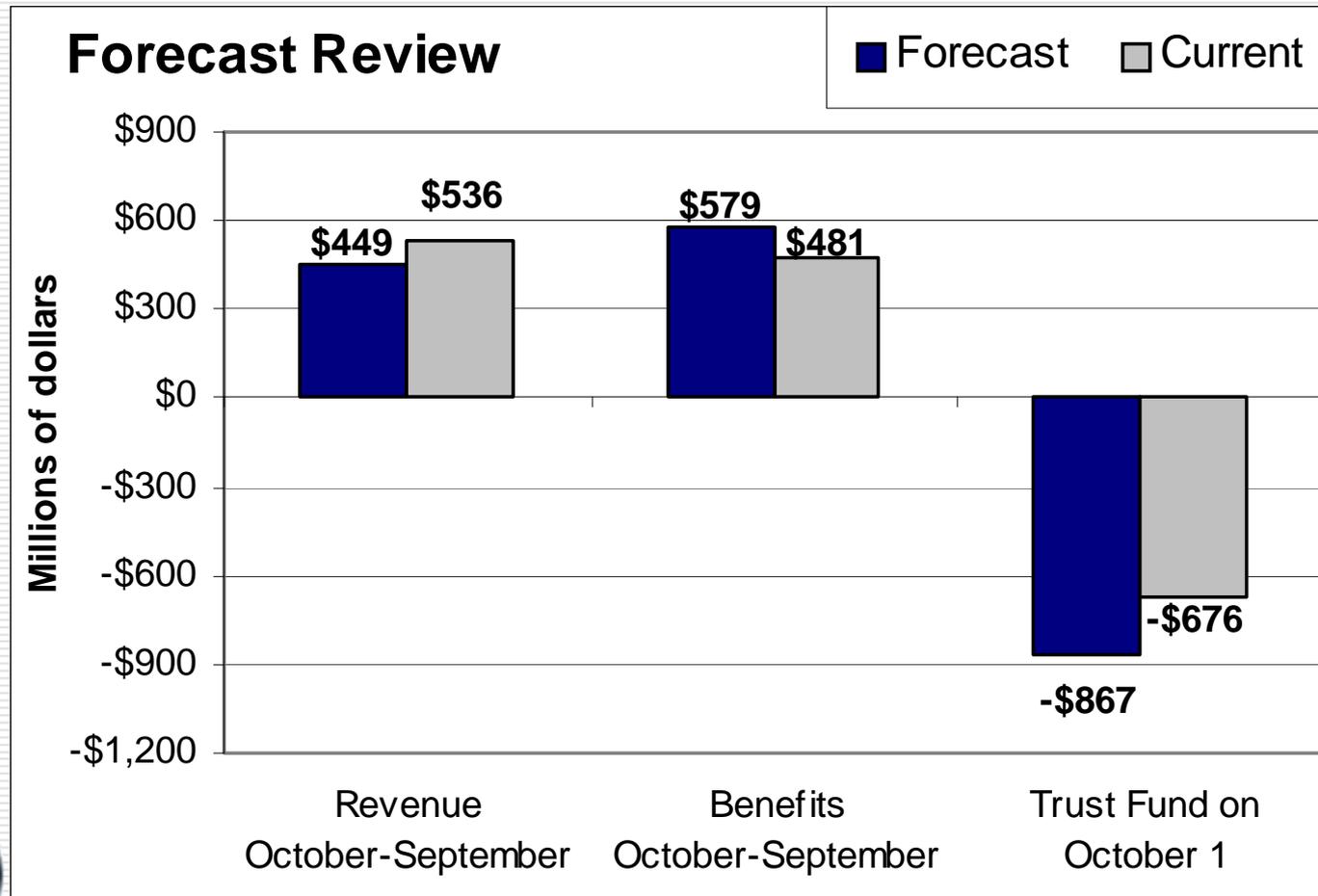
2013 Forecast: Review of Forecast for 2012



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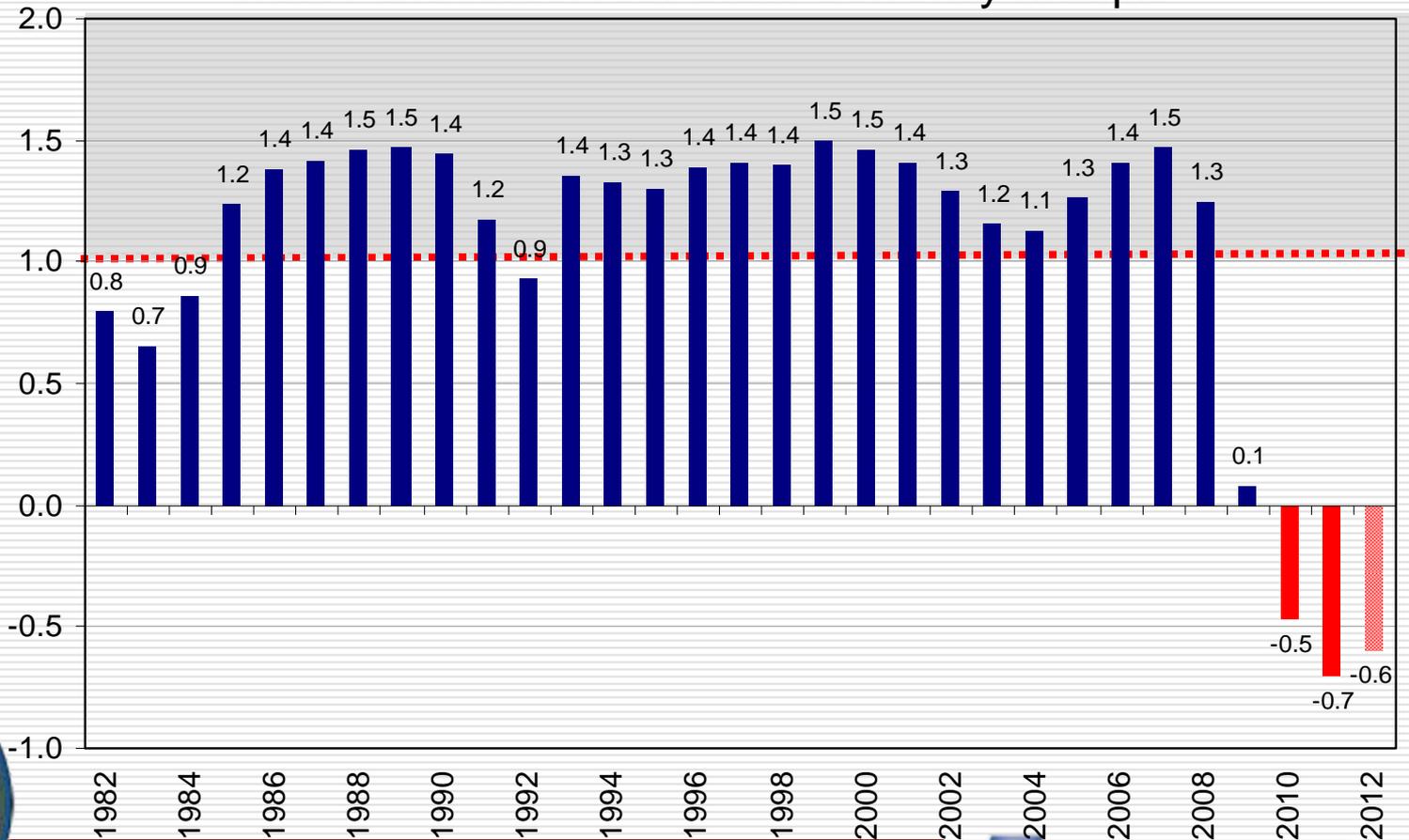
2013 Forecast: Historical Solvency Review

Nevada Solvency Calculation	Actual	Actual	Actual	Actual	Preliminary
NRS 612.550	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>2012</u>
Covered Employment	1,114,746	1,058,165	956,818	946,163	958,866
Highest Risk Ratio	11.03%	14.72%	18.98%	18.98%	18.98%
Highest Weeks Duration	15.76	16.26	19.12	19.12	19.12
Average Weekly Payment	\$289.25	\$310.74	\$320.69	\$307.76	\$303.04
Solvency Target (Millions)	\$560.5	\$787.0	\$1,113.5	\$1,056.7	\$1,054.5
UI Trust Fund Level: October - September					
Beginning Fund Balance (Millions)	\$803.1	\$703.4	\$60.6	(\$525.7)	(\$730.7)
Intake to Fund	379.1	411.0	267.6	370.4	535.8
Taxes	349.3	305.4	267.6	370.4	511.4
FUTA Offset Loan Repayment	0.0	0.0	0.0	0.0	24.4
UI Mod Incentive	0.0	76.9	0.0	0.0	0.0
Interest	29.8	28.7	0.0	0.0	0.0
Payout From Fund	478.8	1,053.8	853.9	575.4	481.1
Regular Benefits	478.3	1,025.2	853.9	575.4	481.1
Designated Reed Act Funds	0.5	28.6	0.0	0.0	0.0
Net Change in Fund	(99.7)	(642.8)	(586.3)	(205.0)	54.7
Ending Fund Balance (Millions)	\$703.4	\$60.6	(\$525.7)	(\$730.7)	(\$676.0)
Solvency Level (Millions)	142.9	(726.4)	(1,639.2)	(1,787.4)	(1,730.5)
Multiple	1.25	0.08	-0.47	-0.69	-0.64
Average High Cost Multiple	0.95	0.06	-0.79	-0.92	-0.84
Average Tax Rate	1.33%	1.33%	1.33%	2.00%	2.00%



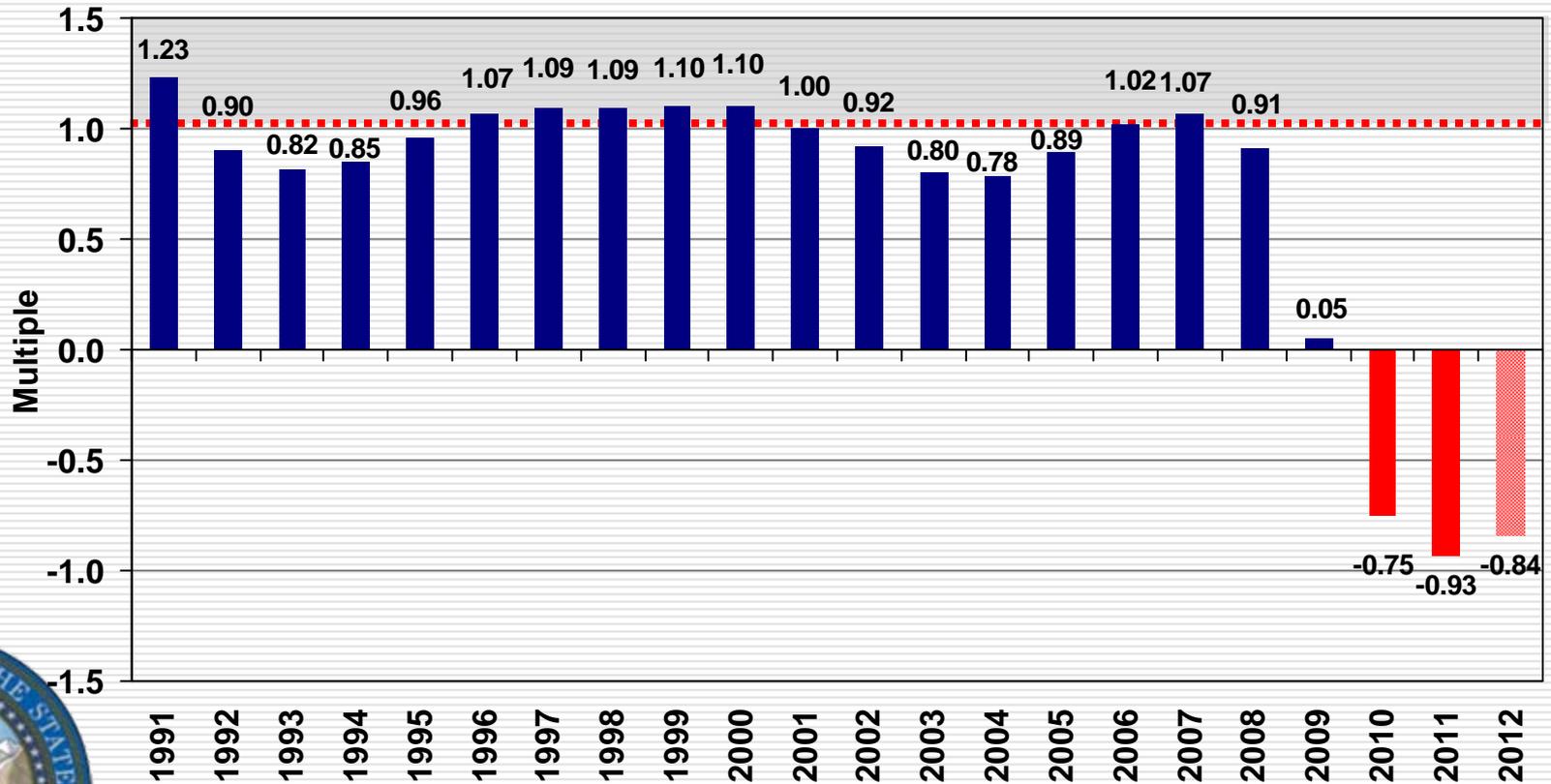
2013 Forecast: State Solvency Measure

Trust Fund Reserves: State Solvency Multiple



2013 Forecast: AHCM Solvency Measure

Trust Fund Reserves: Average High Cost Multiple



2013 Forecast: Potential 2013 Tax Rates

Nevada Solvency Calculation	2013	2013	2013	2013	2013
Covered Employment	967,819	967,819	967,819	967,819	967,819
Highest Risk Ratio	18.98%	18.98%	18.98%	18.98%	18.98%
Highest Weeks Duration	19.12	19.12	19.12	19.12	19.12
Average Weekly Payment	\$300.00	\$300.00	\$300.00	\$300.00	\$300.00
Solvency Target (Millions)	\$1,053.7	\$1,053.7	\$1,053.7	\$1,053.7	\$1,053.7
UI Trust Fund Level					
10/1/12 Fund Balance (Millions)	(\$676.0)	(\$676.0)	(\$676.0)	(\$676.0)	(\$676.0)
Intake to Fund	492.3	549.0	602.8	659.4	715.4
Taxes	442.9	499.6	553.4	610.0	666.0
FUTA Offset Loan Repayment	49.4	49.4	49.4	49.4	49.4
Payout From Fund	430.4	430.4	430.4	430.4	430.4
Regular Benefits	430.4	430.4	430.4	430.4	430.4
Designated Reed Act Funds	0.0	0.0	0.0	0.0	0.0
Net Change in Fund	61.9	118.6	172.4	229.0	285.0
9/30/13 Fund Balance (Millions)	(\$614.1)	(\$557.4)	(\$503.6)	(\$447.0)	(\$391.0)
State Solvency Gap (Millions)	(1,667.8)	(1,611.1)	(1,557.3)	(1,500.7)	(1,444.7)
Solvency Multiple	-0.58	-0.53	-0.48	-0.42	-0.37
AHCM Solvency Gap (Millions)	(1,422.4)	(1,365.7)	(1,311.9)	(1,255.3)	(1,199.3)
Average High Cost Multiple	-0.76	-0.69	-0.62	-0.55	-0.48
Average Tax Rate	2.00%	2.25%	2.50%	2.75%	3.00%
Average Cost Per Employee at Taxable Wage Base	\$538.00	\$605.25	\$672.50	\$739.75	\$807.00



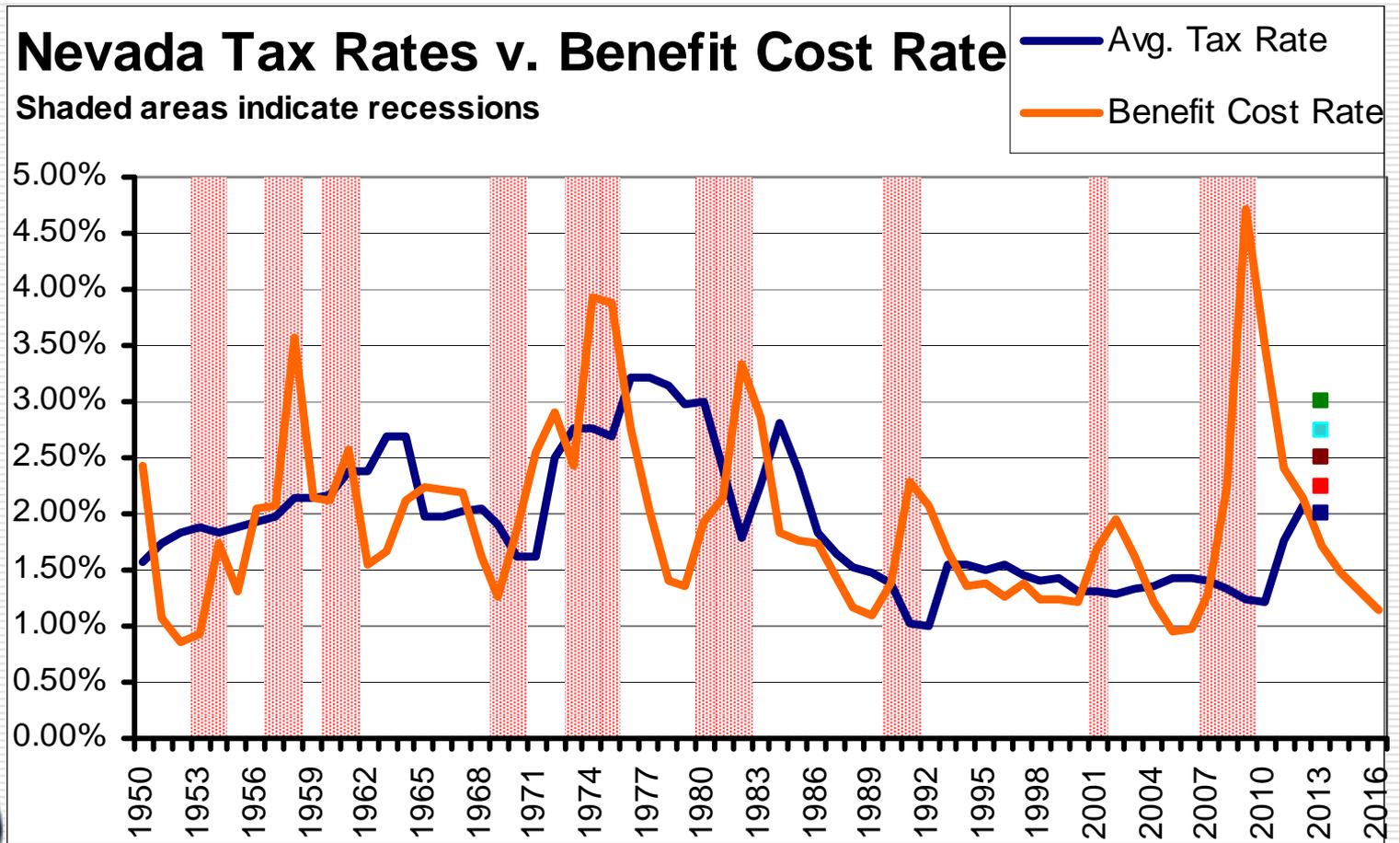
2013 Forecast: Long Term Effect of Different Rates

(\$ in Millions)	2.00%	2.25%	2.50%	2.75%	3.00%
Maximum FUTA Credit Reduction	2015	2014-15	2014	2013-14	2012-14
Year Loans are Repaid	2016	2016	2015	2015	2015
Year AHCM Reaches 1.0	2020	2018	2018	2017	2017
2013 SUTA Cash Flow	\$54.9	\$105.5	\$156.1	\$206.7	\$257.2
Total Interest Expense	\$60.9	\$54.5	\$49.2	\$44.7	\$41.5
Total FUTA Offset	\$329.9	\$304.1	\$215.0	\$193.5	\$150.8
Maximum FUTA Credit Reduction	1.5%	1.2%	1.2%	0.9%	0.6%
Loan Repayment from FUTA	39%	36%	25%	23%	18%
2013 Avg SUTA Tax	\$538.00	\$605.25	\$672.50	\$739.75	\$807.00
2013 Avg FUTA Tax	\$105.00	\$105.00	\$105.00	\$105.00	\$84.00

- ❑ Table assumes Nevada takes no action to reduce solvency, and avoids the BCR Add-On credit reduction
- ❑ Average time from end of one recession to start of the next during the last 50 years: 5.4 years (December 2014)



2013 Forecast: Potential 2013 Rates vs. BCR



2013 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
 - ❑ Increasing economic headwinds?
- ❑ Expiring Extended Benefit Programs
 - ❑ How will the scheduled expiration of extended UI benefits affect the Nevada economy?
 - ❑ How will it affect the number of regular UI claimants?

