Unemployment Insurance Financing

Trust Fund Financing
Small Business Workshop
October 24, 2011

Prepared by the Research & Analysis Bureau

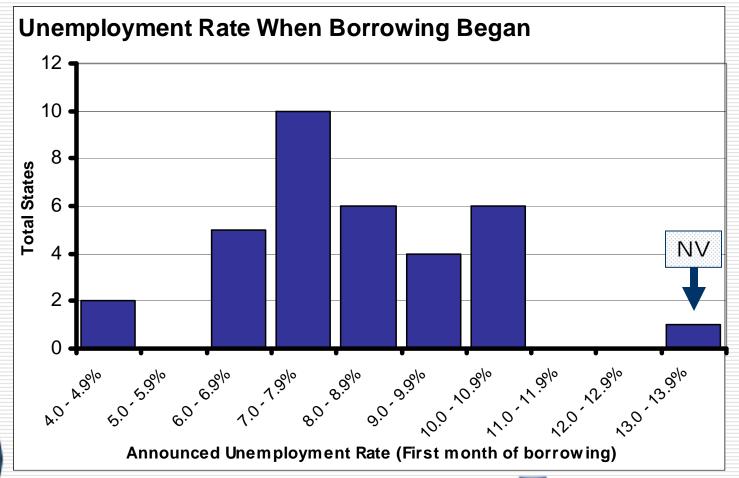
Nevada's Trust Fund: Before the Recession

- Nevada was reasonably prepared for the recession.
- In the quarter the recession began, Nevada had:
 - ☐ The 18th strongest Trust Fund
 - □ An Average High Cost multiple of 1.02 (Department of Labor recommends at least 1.0)
 - □ A state solvency multiple of 1.47 (calculated per NRS 612.550)





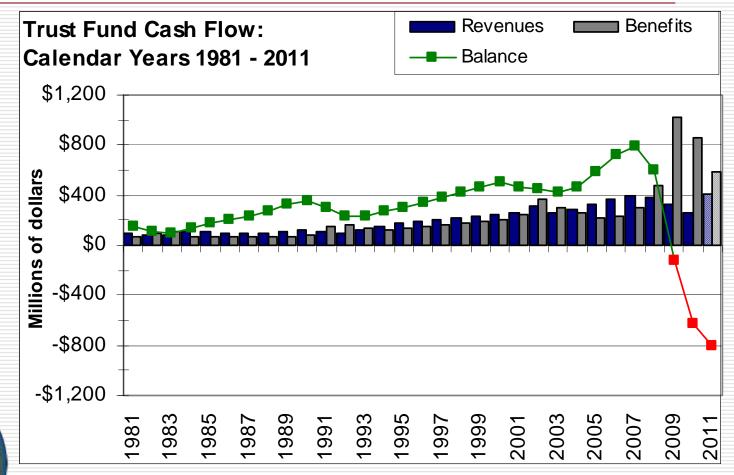
Nevada's Trust Fund: What it Took to Borrow







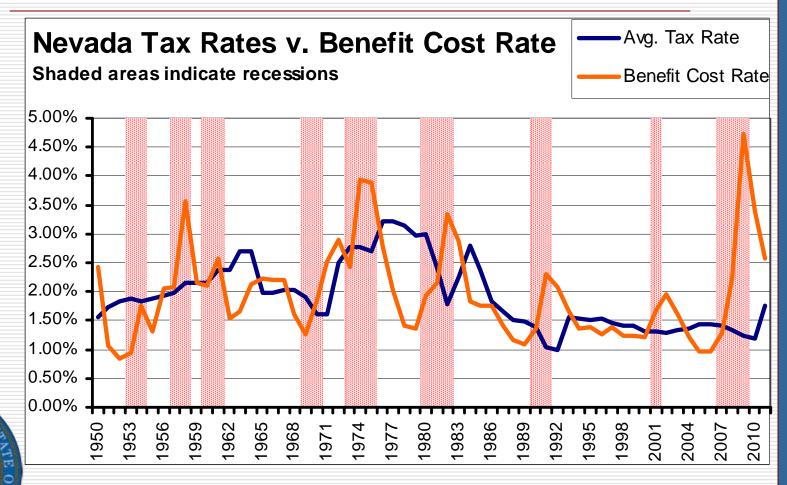
Nevada's Trust Fund: Reduced Need for Borrowing







Nevada's Trust Fund: Tax Rates and Benefit Costs







2012 Forecast: Historical Solvency Review

Nevada Solvency Calculation	Actual	Actual	Actual	Actual	Preliminary		
NRS 612.550	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>		
Covered Employment	1,116,968	1,114,746	1,058,165	956,818	946,163		
Highest Risk Ratio	11.03%	11.03%	14.72%	18.98%	18.98%		
Highest Weeks Duration	15.76	15.76	16.26	19.12	19.12		
Average Weekly Payment	\$282.01	\$289.25	\$310.74	\$320.69	\$308.26		
Solvency Target (Millions)	\$547.6	\$560.5	\$787.0	\$1,113.5	\$1,058.4		
Ul Trust Fund Level: October - Septem	UI Trust Fund Level: October - September						
Beginning Fund Balance (Millions)	\$706.9	\$803.1	\$703.4	\$60.6	(\$525.7)		
Intake to Fund	400.6	379.1	411.0	267.6	374.3		
Taxes	364.5	349.3	305.4	267.6	374.3		
UI Mod Incentive	0.0	0.0	76.9	0.0	0.0		
Interest	36.1	29.8	28.7	0.0	0.0		
Payout From Fund	304.4	478.8	1,053.8	853.9	584.9		
Regular Benefits	304.4	478.3	1,025.2	853.9	584.9		
Designated Reed Act Funds	0.0	0.5	28.6	0.0	0.0		
Net Change in Fund	96.2	(99.7)	(642.8)	(586.3)	(210.6)		
Ending Fund Balance (Millions)	\$803.1	\$703.4	\$60.6	(\$525.7)	(\$736.3)		
Solvency Level (Millions)	255.5	142.9	(726.4)	(1,639.2)	(1,794.7)		
Multiple	1.47	1.25	0.08	-0.47	-0.70		
Average High Cost Multiple	1.07	0.91	0.05	-0.75	-0.92		
Average Tax Rate	1.38%	1.33%	1.33%	1.33%	2.00%		





2012 Forecast: Potential 2012 Tax Rates

Nevada Solvency Calculation	<u>2012</u>	<u>2012</u>	<u>2012</u>	<u>2012</u>	<u>2012</u>
Covered Employment	947,570	947,570	947,570	947,570	947,570
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)	\$1,031.6	\$1,031.6	\$1,031.6	\$1,031.6	\$1,031.6
UI Trust Fund Level					
Beginning Fund Balance (Millions)	(\$736.3)	(\$736.3)	(\$736.3)	(\$736.3)	(\$736.3)
Intake to Fund	449.0	485.4	520.8	556.1	591.5
Taxes	431.2	467.6	503.0	538.3	573.7
FUTA Offset Loan Repayment	17.8	17.8	17.8	17.8	17.8
Payout From Fund	579.4	579.4	579.4	579.4	579.4
Regular Benefits	579.4	579.4	579.4	579.4	579.4
Designated Reed Act Funds	0.0	0.0	0.0	0.0	0.0
Net Change in Fund	(130.4)	(94.0)	(58.6)	(23.3)	12.1
Ending Fund Balance (Millions)	(\$866.7)	(\$830.3)	(\$794.9)	(\$759.6)	(\$724.2)
Solvency Level (Millions)	(1,898.3)	(1,861.9)	(1,826.5)	(1,791.2)	(1,755.8)
Solvency Multiple	-0.84	-0.80	-0.77	-0.74	-0.70
Average High Cost Multiple	-1.07	-1.03	-0.98	-0.94	-0.90
Average Tax Rate	2.00%	2.25%	2.50%	2.75%	3.00%
Average Cost Per Employee at Taxable Wage Base	\$528.00	\$594.00	\$660.00	\$726.00	\$792.00





2012 Forecast: Long Term Effect of Different Rates

(\$ in Millions)	2.00%	2.25%	2.50%	2.75%	3.00%
Year of Max Borrowing	2014	2013	2012	2012	2012
Year of Max Offset	2015-17	2015-16	2014-15	2014-15	2013-14
Capped FUTA Years	2016-17	2016	2015	2015	2014
Year Loans are Repaid	2018	2017	2016	2016	2015
Year AHCM reaches 1.0	2021	2020	2019	2018	2017
Maximum Borrowing	\$1,007.0	\$936.5	\$888.9	\$888.9	\$888.9
Total Interest Expense	\$211.9	\$169.1	\$137.6	\$111.8	\$94.5
Total FUTA Offsets	\$463.7	\$369.7	\$270.2	\$270.2	\$164.4
Maximum FUTA Increase	1.5%	1.5%	1.2%	1.2%	0.9%
Loan Repayment from FUTA	46%	39%	30%	30%	18%

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: <u>5.4 years</u> (December 2014)





2012 Forecast: Estimated Interest Expenses

(\$M)	Title XII Interest Expense at Various Tax Rates						
(\$141)	2.00%	2.25%	2.50%	2.75%	3.00%		
2012	\$38.5	\$37.8	\$37.1	\$36.5	\$35.9		
2013	\$43.5	\$40.4	\$37.3	\$34.3	\$31.3		
2014	\$43.5	\$37.8	\$32.2	\$26.6	\$21.0		
2015	\$39.2	\$30.9	\$22.6	\$14.4	\$6.4		
2016	\$30.2	\$19.1	\$8.2	N.A.	N.A.		
2017	\$17.1	\$3.2	N.A.	N.A.	N.A.		
Total	\$211.9	\$169.1	\$137.6	\$111.8	\$94.5		

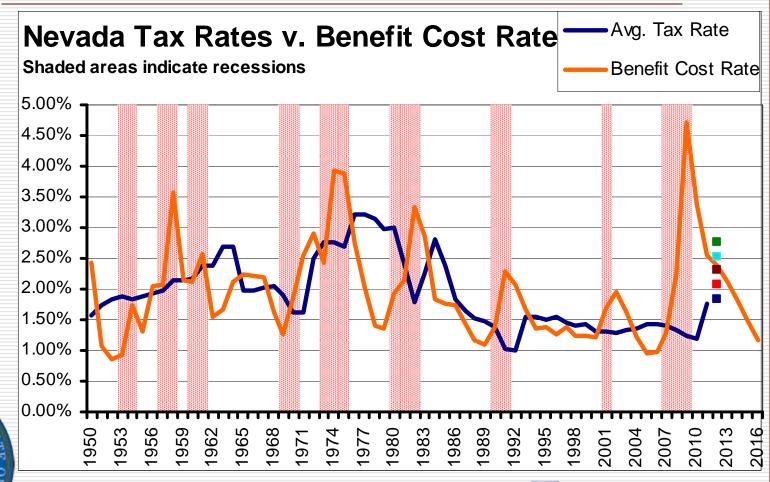
□ 2012 will be the first year interest accrues for a full 12 months.

Table assumes that tax rates and interest rates are fixed.





2012 Forecast: Potential 2012 Rates vs. BCR







2012 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:
 <u>5.4 years</u>
 - Increasing economic headwinds?
- What sort of actions might the Federal Government take?
 - Relief to state Trust Funds or interest obligations?
 - Implementation of solvency requirements for incentive funds?
 - □ Changes to FUTA tax rates or wage base?



