

A photograph showing the silhouettes of several people standing in a room with large windows. The sun is shining through the windows, creating a bright glow and casting long shadows. The people appear to be in a meeting or discussion.

# Unemployment Insurance ADVISORY COMMITTEE

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**Employment Security Department**  
WASHINGTON STATE

September 2, 2020

# Unemployment Insurance Trust Fund



**Employment  
Security  
Department**  
WASHINGTON STATE

**Unemployment Insurance Advisory Committee Presentation**

**September 2, 2020**

Dan Zeitlin, Employment System Policy Director

Employment Security Department

# Objectives



- Provide overview of current balance and future trust fund projections.
- Demonstrate 2021 tax implications and policy options.
- Provide overview of federal loan (Title XII advance) request process, terms and repayment.
- Demonstrate options to enhance trust fund solvency.

# Unemployment Benefits During Crisis



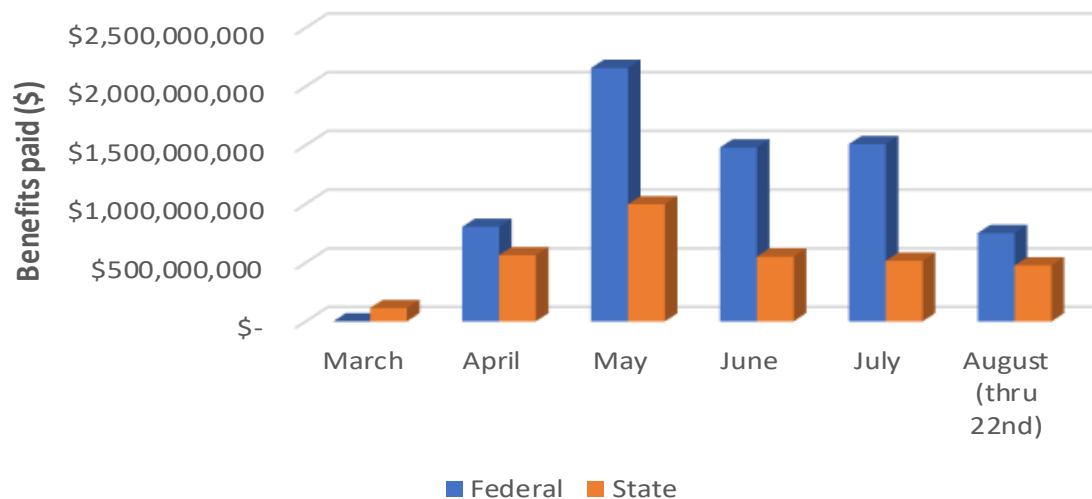
- State Funded
  - Unemployment Insurance
- Federally Funded
  - Pandemic Unemployment Assistance (PUA)
  - Federal Pandemic Unemployment Compensation (FPUC)
  - Pandemic Emergency Unemployment Compensation (PEUC)
  - Extended Benefits
  - 100% SharedWork Reimbursement
  - 100% Waiting Week Reimbursement
  - 50% Reimbursable Employers Reimbursement

# Benefits Paid During Crisis

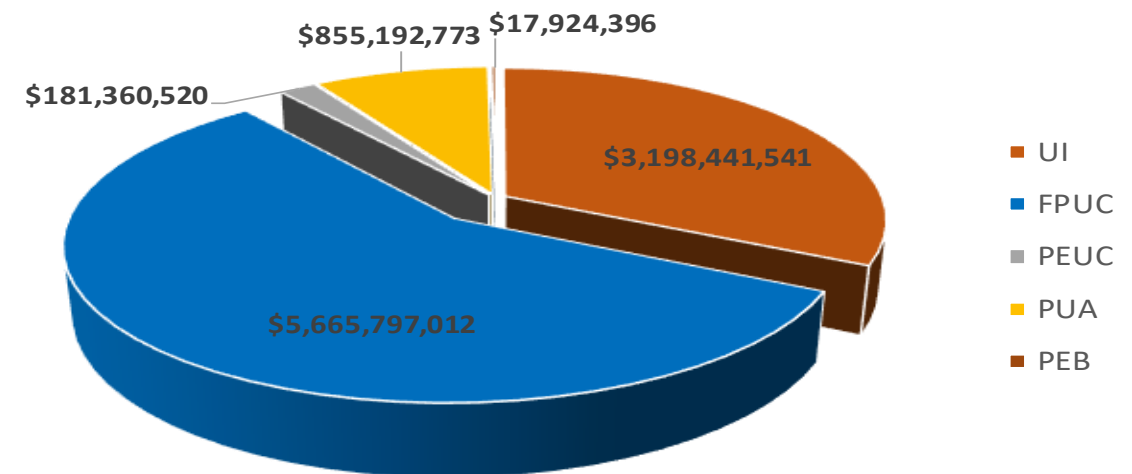


- \$9.9 billion has been paid out in benefit payments between March 7 and August 22, 2020.
  - \$3.2 billion paid out in state benefits – from the UI trust fund
  - \$6.7 billion paid out in federal benefits (PUA, PEUC, FPUC, EB)

State versus Federal Benefits Payments



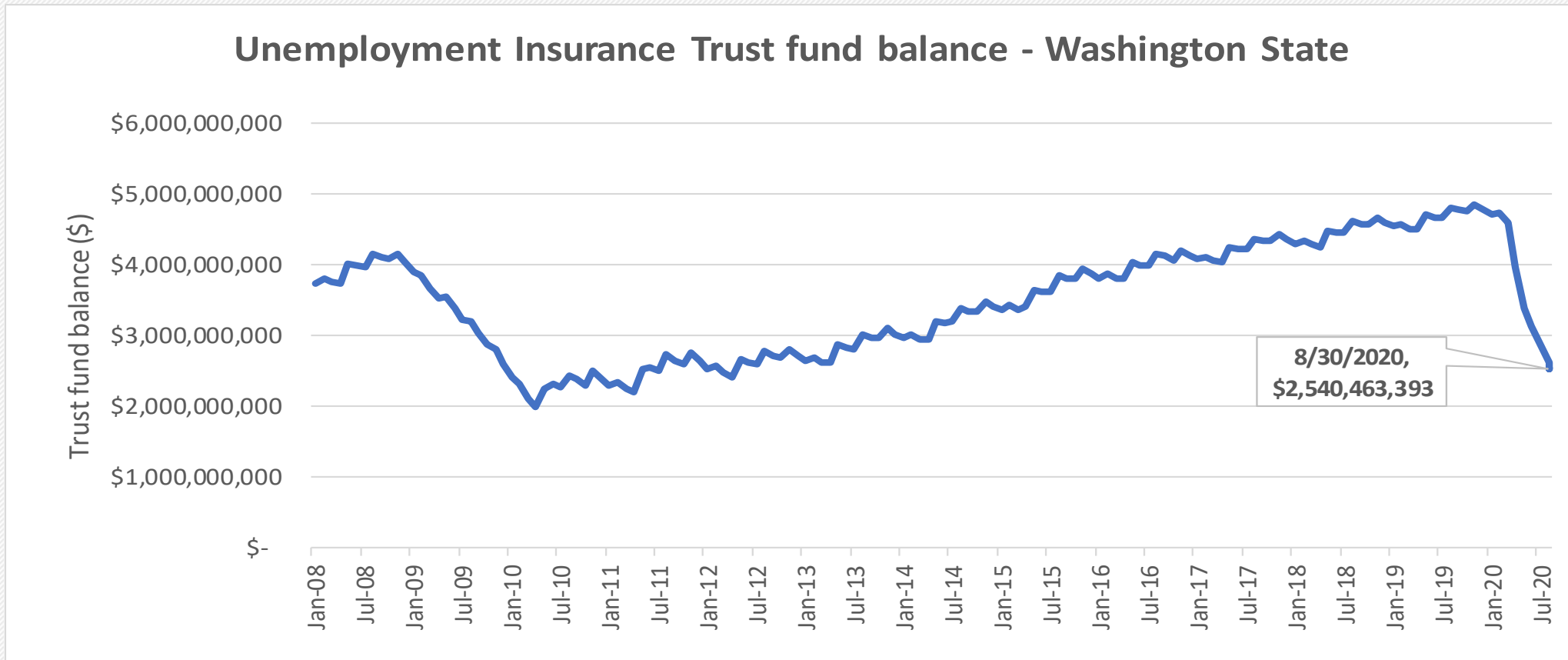
Benefit payments by entitlement since March 7th



# Unemployment Insurance Trust fund



- As of August 30th, the UI trust fund balance was at \$2.54 billion



# UI Trust Fund Forecast (June 2020)



- [Report](#) provides the status and updated projections of the state's unemployment insurance trust fund for 2020 through 2025.
- Forecast is based upon the June 2020 economic forecast released by the state's Economic and Revenue Forecast Council (ERFC).
- The next report will be released at the end of September based upon the September 2020 ERFC forecast.
- Final 2020 report will be released in November based upon the November 2020 ERFC forecast.

# UI Trust Fund Forecast (June 2020)



## Key Findings

- The state may need to request a federal Title XII advance during the 4<sup>th</sup> quarter of 2020, which occurs if it projects the trust fund does not have funds to pay 3 months of benefits (roughly \$900 million).
- The state may need to borrow from that advance in order to be able to pay benefits in the 1<sup>st</sup> quarter of 2021.
- The social tax ceiling (1.22%) will be in effect in 2021 and 2022.
- The solvency tax (.20%) will be in effect in 2021, 2022, and 2023



# Annual Unemployment taxes



- **Experience Rate Tax:** Annual tax calculation based on a ratio of benefit claims charged to a single employer over the preceding four years (July 2016-June 2020) and “taxable wages” reported by the employer.
- **Social Tax:** Annual tax calculation determined by subtracting total taxes paid by all employers for the four consecutive quarters from total unemployment benefits paid to all claimants over those same quarters (July 2019-June 2020). Social tax varies by rate class with a ceiling of 1.22%.
- **Solvency Tax:** If there are less than 7 months of benefits available as of September 30<sup>th</sup> a .20% solvency surcharge is assessed.
- **Maximum state UI tax: 6%**

# Tax Calendar



- Calendar year 2021 tax rates will be announced in December 2020.
- Under state statute ([RCW 50.24.010](#)), the taxable wage base increases from \$52,700 to \$56,500 in 2021.
- Experience rates impacted by benefits paid March-June 2020.
- Social tax set based on June 30 rate calculation and September 30 solvency.
- Solvency tax set based on solvency on September 30.
- Unemployment Insurance Tax due dates:

Tax Due Date calendar				
Quarter	Wages Paid during months			Taxes due
Q1	Jan	Feb	Mar	April 30th
Q2	Apr	May	Jun	July 31st
Q3	Jul	Aug	Sep	October 31st
Q4	Oct	Nov	Dec	January 31st

# June 2020 Projections



Unemployment-insurance trust fund: June 2020 Baseline Forecast							
(based on actual through March 31,2020; June 2020 Washington State Economic and Revenue Forecast Council assumptions)							
Taxes	CY 2019	CY 2020	CY 2021	CY 2022	CY 2023	CY 2024	CY 2025
Average experience tax rate (percent)	0.93%	0.78%	0.97%	1.65%	1.88%	1.90%	1.64%
Experience tax contributions	\$933.7	\$826.7	\$1,080.7	\$1,912.3	\$2,230.0	\$2,293.0	\$2,024.9
Flat social tax rate (percent)	0.16%	0.25%	1.22%	1.22%	0.60%	0.60%	0.40%
Social tax contributions	\$160.4	\$172.0	\$827.1	\$1,037.3	\$609.6	\$544.5	\$386.5
Solvency tax rate (percent)	0.00%	0.00%	0.20%	0.20%	0.20%	0.00%	0.00%
Solvency tax contributions			\$ 193.8	\$ 232.1	\$ 237.3	\$ 33.4	
<b>Total average tax rate (experience tax + social tax)</b>	<b>1.08%</b>	<b>0.94%</b>	<b>1.88%</b>	<b>2.74%</b>	<b>2.59%</b>	<b>2.38%</b>	<b>1.95%</b>
<b>Total tax contributions</b>	<b>\$1,094.1</b>	<b>\$998.7</b>	<b>\$2,101.6</b>	<b>\$3,181.8</b>	<b>\$3,076.8</b>	<b>\$2,870.9</b>	<b>\$2,411.4</b>
Benefits							
Weeks compensated (in millions) - regular benefits	2.1	10.1	5.7	2.8	2.5	2.5	2.5
Average weekly benefit amount	\$477.84	\$525.22	\$553.51	\$563.66	\$577.06	\$590.77	\$609.41
Regular benefit payments	\$1,010.6	\$5,439.9	\$3,128.4	\$1,552.5	\$1,449.0	\$1,486.4	\$1,505.6
Total benefit liability	\$949.9	\$5,173.5	\$3,090.7	\$1,459.3	\$1,362.1	\$1,397.3	\$1,415.2
Reimbursable benefit payments	\$60.6	\$326.4	\$187.7	\$93.1	\$86.9	\$89.2	\$90.3
<b>Total benefit payments</b>	<b>\$1,010.6</b>	<b>\$5,499.9</b>	<b>\$3,278.4</b>	<b>\$1,552.5</b>	<b>\$1,449.0</b>	<b>\$1,486.4</b>	<b>\$1,505.6</b>
Trust fund							
Beginning trust fund balance	\$4,731.1	\$4,988.3	\$900.7	(\$88.0)	\$1,645.0	\$3,402.6	\$4,950.0
Trust fund interest	\$113.0	\$87.2	\$0.3	\$10.5	\$42.9	\$73.7	\$98.9
Total tax contributions	\$1,094.1	\$998.7	\$2,101.6	\$3,181.8	\$3,076.8	\$2,870.9	\$2,411.4
Reimbursements from reimbursables	\$60.6	\$326.4	\$187.7	\$93.1	\$86.9	\$89.2	\$90.3
Total benefit payments	\$1,010.6	\$5,499.9	\$3,278.4	\$1,552.5	\$1,449.0	\$1,486.4	\$1,505.6
<b>Ending trust fund balance (as of 12/31)</b>	<b>\$4,988.3</b>	<b>\$900.7</b>	<b>(\$88.0)</b>	<b>\$1,645.0</b>	<b>\$3,402.6</b>	<b>\$4,950.0</b>	<b>\$6,045.1</b>
<b>Months of benefits available (as of 9/30)</b>	<b>15.0</b>	<b>5.6</b>	<b>-0.1</b>	<b>3.3</b>	<b>3.3</b>	<b>8.3</b>	<b>12.6</b>

## Key takeaways:

- Employer taxes increase '21 & '22
- Trust fund balance dip and recovery
- Continued high benefit delivery through 2021

# 2021 Tax Implications



Sample Business: Employs 20 workers each making \$56,500 (taxable wages) or more in 2021. Three sample rate classes:

Tax rate class	Year	Taxable Wages	Experience Tax Rate	Graduated Social Tax Rate	Solvency surcharge	Total Tax Rate	Tax Paid	Average tax per employee
1	2020	\$ 1,054,000	0.00%	0.10%		0.10%	\$ 1,054	\$ 53
1	2021	\$ 1,130,000	0.00%	0.49%	0.2%	0.69%	\$ 7,797	\$ 390
10	2020	\$ 1,054,000	1.01%	0.19%		1.20%	\$ 12,648	\$ 632
10	2021	\$ 1,130,000	1.01%	0.93%	0.2%	2.14%	\$ 24,182	\$ 1,209
40	2020	\$ 1,054,000	5.40%	0.30%		5.70%	\$ 60,078	\$ 3,004
40	2021	\$ 1,130,000	5.40%	0.60%	0.2%	6.20%	\$ 70,060	\$ 3,503

# Options: Experience Rate Tax



- The experience rate tax is an annual tax calculation based on the ratio of benefit claims charged to the employer and “taxable wages” reported by the employer over the preceding four fiscal years.
- Experience tax rates for 2021 will be based upon the experience rating between July 2016 through June of 2020.
- The UI trust fund balance has no impact on the experience rate tax.
- Changes to the employer experience tax rate would require the legislature to amend state statute ([RCW 50.29.025](#)). Lowering experience rate taxes would reduce UI taxes for employers and revenue into the trust fund.

# Social Tax



- The July 2019-June 2020 time period is used to calculate the 2021 calendar year flat social tax rate.
- The “flat social tax” is an annual tax calculation subtracting total experience rated taxes paid by all employers over four consecutive quarters from total unemployment benefits paid to all claimants over those same quarters.
- This amount is then divided by total taxable payrolls and expressed as a percent.
- The flat social tax rate has a maximum tax cap of 1.22%.
- The tax is adjusted for each rate class.

# Social Tax



- Flat social tax calculation for 2021:  
Benefit Payments: \$2,739,348,302  
Experience Rated Taxes Paid: \$841,465,403  
Taxable Wages: \$102,262,718,289  
Flat social Tax Rate: 1.86% (\$2.7B-\$841M/\$102B); 1.22% with ceiling
- 2020 social tax was at .25% minimum.
- Per [RCW 50.29.025 \(b\)\(B\)\(I\)](#), the maximum the amount can be reduced if the trust fund has more than 10 months available is .40%, which at 1.46% would remain above the \$1.22% ceiling.

# Social Tax



- The months of benefits available is also used in determining the minimum flat social tax rate, and the flat social tax rate reduction amount, when there are more than 10 months of benefits available.
- The flat social tax rate is then adjusted based upon the months of benefits available within the UI trust fund:

Months of benefits available	Maximum amount of reduction	Minimum flat social tax rate
< 10 months	none	0.60%
more than 10, but less than 11 months	0.40%	0.50%
more than 11, but less than 12 months	0.40%	0.45%
more than 12, but less than 13 months	0.40%	0.40%
more than 13, but less than 15 months	0.40%	0.35%
more than 15, but less than 17 months	0.40%	0.25%
> 18 months	0.40%	0.00%



# Components of Annual Tax calculation – Social tax



Rate class	Graduation factor	Flat Social Cost Factor (2020)	Graduated Social Cost Factor (2020)	Flat Social Cost Factor (2021 - projected)	Graduated Social Cost Factor (2021 - projected)	Difference
1	40%	0.25%	0.10%	1.22%	0.49%	0.39%
2	44%	0.25%	0.11%	1.22%	0.54%	0.43%
3	48%	0.25%	0.12%	1.22%	0.59%	0.47%
4	52%	0.25%	0.13%	1.22%	0.63%	0.50%
5	56%	0.25%	0.14%	1.22%	0.68%	0.54%
6	60%	0.25%	0.15%	1.22%	0.73%	0.58%
7	64%	0.25%	0.16%	1.22%	0.78%	0.62%
8	68%	0.25%	0.17%	1.22%	0.83%	0.66%
9	72%	0.25%	0.18%	1.22%	0.88%	0.70%
10	76%	0.25%	0.19%	1.22%	0.93%	0.74%
11	80%	0.25%	0.20%	1.22%	0.98%	0.78%
21-40	120%	0.25%	0.30%	1.22%	1.46%	1.16%

# Options: Social Tax



- Increased monies into the trust fund will not impact social tax rates without the legislature taking action.
- In 2010, under similar circumstances, the legislature enacted the 1.22% flat social tax ceiling.
- Amending state statute ([RCW 50.29.025\(2\)\(b\)](#)) to lower the social tax rate would reduce UI taxes for employers and revenue into the trust fund.

# Solvency Tax



- If there are less than 7 months of benefits available as of September 30<sup>th</sup> a solvency surcharge is assessed up to two-tenths of one percent.
- The June 2020 UI Trust fund forecast projects the UI trust fund balance as of September 30<sup>th</sup> will be below 7 months of benefits (estimate of \$1.75 billion balance and 5.6 months of benefits) triggering the solvency tax for 2021.

<b>Months of benefits available calculation - June2020 Forecast</b>		
Average High Cost Rate		2.17
Total Wages	\$	172,988,122,648
Ending Trust Fund	\$	1,752,012,055
Reserve Ratio		1.01
Months of benefit available		5.6

# Options: Solvency Tax



- A roughly \$500 million injection of monies into the trust fund by September 30 would provide enough reserves to pay 7 months of benefits.
- Such an injection of funds could also come after September 30, but would require a governor's emergency proclamation to freeze state statute ([RCW 50.29.041](#)) and/or legislative action.
- Such an injection of funds would eliminate the .20% solvency tax on employers in 2021 and delay by roughly 1.5 months (potentially into 2021 Q2) the time at which the state is projected to need to borrow from the federal government.

# Options: Solvency Tax Example



- **Solvency tax relief for a business that employs 20 workers each making \$56,500 (taxable wages) or more in 2021:**
- The highest solvency tax per employee is \$113 per year for employees earning \$56,500 or more. If an employee earns less than \$56,500 per year, the tax will be less.
- A business with 20 employees each making \$56,500 or more per year will owe \$2,260 (\$113 each) in solvency taxes next year.
- That business will owe approximately \$565 per quarter to the Employment Security Department to deposit into the Unemployment Insurance Trust Fund.

# UI Trust Fund: Federal Loan Requests



- Under current projections, Washington will need to secure a federal loan (Title XII advance) during the fourth quarter of 2020 to bolster the balance so that UI benefits payments are not interrupted.
- Federal law requires the trust fund have the ability to pay three months of projected benefit payments. Current projections indicate Washington will need \$900 million to pay three months of benefits beginning first quarter 2021.
- When a state projects it does not have enough funds to pay benefits for 3 months, the state's governor (or the governor's designee) submits a letter requesting that the U.S. Secretary of Labor advance funds to the state.

# UI Trust Fund: Federal Borrowing



- Once the advance is approved by the U.S. Department of Labor, the funds serve as a line of credit and are placed into the state's account to draw from as needed. Title XII advances are available to states only when the fund can no longer support benefit payments.
- Under current projections, Washington will need to draw down from the account during the first quarter of 2021 to make benefit payments. It is at that point that the state would be borrowing.

# UI Trust Fund: Federal Terms



- If a state has an outstanding loan balance on Jan. 1 for two consecutive years and does not pay the full amount of its loans by Nov. 10 of the second year (i.e. 2023) the Federal Unemployment Tax Act (FUTA) tax credit for employers will be reduced until the loan is repaid.
- The FUTA tax rate is 6% on the first \$7,000 of employee wages. Employers get a 5.4% tax credit leaving a .6% tax.
- Should the state not pay off loans within the provided period, the FUTA tax credit reduction schedule is adjusted up .3% for the first year and each subsequent year until the state has repaid its loan in full.



# UI Trust Fund: Federal Loan Repayment



- Employers pay experience rated and social taxes (as well as a solvency tax when the trust fund does not have enough funds to pay seven months of benefits), which must be used to pay unemployment benefits and may pay the principal on federal loans.
- States have flexibility in determining when and how to repay Title XII advances based on trust fund projections.

# UI Trust Fund: Federal Loan Repayment



- For example, if Washington were to borrow in January 2021 and reach a point in January 2022 where economic conditions stabilize and the state projects that it will not need to borrow in January, February, and March of 2022, it may decide to pay principal on the loan.
- If the state, for example, expects to pay out \$200 million in benefits in January through March, but anticipates receiving \$400 million in revenues during that quarter, it might decide to use \$100 million of the revenues to pay down part of what was borrowed up to that point.

# UI Trust Fund: Interest Payments



- The Families First Coronavirus Response Act (FFCRA) provides for interest free loans to states through Dec. 31, 2020.
- Should Congress not extend the period of interest free loan availability and should Washington need to take out a loan with interest in 2021, state law would apply to paying off interest.
- [RCW 50.16.070](#) provides for a federal payment interest fund financed by a quarterly tax on Washington employers as determined by the Employment Security Department commissioner not to exceed .15%.
- Interests payments are due by September 30, with exemptions/deferrals.

# Options: Enhancing Trust Fund Solvency



- Under current projections, the state needs roughly \$300 million a month in the trust fund to pay state unemployment benefits.
- Accordingly, a \$300 million injection of funds would delay by one month the time until the state would need to borrow from the federal government.
- Under projections, \$900 million would be needed to prevent any need to borrow from the federal government.

# CARES Act Funding



- 19 states have requested authority to borrow from the federal government, 11 of which are borrowing. 10 states are using CARES Act funding (Coronavirus Relief Funds) to bolster their trust funds.
- Washington received \$2.95 billion in Coronavirus Relief Funds for costs incurred due to the COVID-19 emergency. Roughly 45 percent of those funds are provided to local governments — leaving about \$1.62 billion for the state.
- Among other things, that funding is being used to cover the state's 25% match for FEMA reimbursable expenses such as PPE and community testing.
- OFM has been considering requests on a rolling basis, in partnership with state legislators. Allocations made to date are posted on OFM's website.

# UI Trust Fund: ESD National Advocacy



UI Trust Fund solvency is a national challenge, which requires a national response.

Commissioner LeVine wrote to the federal delegation in July and the Department is otherwise urging Congress and the Administration to:

- Extend the period in which states may take out interest free Title XII advances to continue to pay benefits through 2021.
- Extend the roughly two year period for states to repay advances before FUTA taxes are increased.
- Ultimately, forgive loans to states and boost trust funds.

# Summary



- A \$500 million injection of funds would delay by 1.5 months the time until the state needs to borrow and reduce employer taxes by .20% (up to \$113 per worker) by eliminating the solvency tax.
- Under current projections, \$900 million would be needed to prevent any need to borrow from the federal government.
- Changes to the social tax rate would require the legislature to act. Amending state statute ([RCW 50.29.025\(2\)\(b\)](#)) to lower the social tax rate would reduce UI taxes for employers and revenue into the trust fund.
- Changes to the employer experience tax rate would require the legislature to amend state statute ([RCW 50.29.025](#)). Lowering experience rate taxes would reduce UI taxes for employers and revenue into the trust fund.