

Unemployment Insurance Trust Fund Forecast

September 2020

Executive summary

This report provides the status and updated projections of the state's unemployment insurance (UI) trust fund for 2020 through 2025. The report is based on the September 2020 economic forecast released by the state's Economic and Revenue Forecast Council (ERFC) using forecast information and UI trust fund actuals through second quarter of June 2020. The November 2020 report will use forecast information and UI trust fund actuals through third quarter, September 2020.

As of September 30, 2020, the UI trust fund balance was \$2.28 billion. Unemployment benefit payments from the trust fund were approximately \$1.01 billion in 2019 and are projected to be approximately \$5.3 billion in 2020 and \$3.2 billion in 2021. Employer contributions to the UI trust fund were approximately \$1.09 billion in 2019 and are projected to be approximately \$1.10 billion in 2020 and \$1.9 billion in 2021.

The UI trust fund balance is projected to maintain solvency through 2020 and 2021. The months of benefits remaining in the fund, however, are projected to drop to one month in 2021. Per federal law, the state must request an advance from the federal government if it projects the UI trust fund cannot pay three months of benefits, which is projected to occur in the first quarter of 2021. Washington is not, however, projected to need to take loans from that advance as it is projected that the fund will be able to pay benefits in 2021 without dropping below enough reserves to pay one month of benefits.

As with the June report, the September forecast projects a flat social tax rate at the 1.22 percent ceiling in 2021 and 2022. The September forecast also projects a solvency surcharge in 2022 and 2023, which per state law is enacted if the UI trust fund balance on September 30 is such that it cannot pay seven months of benefits. The Employment Security Department determined on September 30, 2020 that the trust fund had enough reserves to pay seven months of benefits negating the implementation of a solvency surcharge though this forecast, based on UI trust fund actuals through June 2020, projected a solvency tax.

Contents

This report contains the following items:

- Employer contributions, benefit payments and projected trust fund balance through 2025;
- September 2020 forecast compared to the June 2020 forecast; and
- *Appendix 1*: Economic assumptions for the September 2020 forecast compared to the June 2020 forecast.

If you have any questions or concerns please contact Steven Ross, Labor Market Information Director, at 360-890-3736 or email: lmea@esd.wa.gov.

Introduction

This report provides information on Washington state's employer contributions, benefits and unemployment trust fund current and projected balances. The Employment Security Department's unemployment trust fund projections are reviewed and adjusted three times a year (June, September and November). The adjustments are made by changing several variables in the trust fund model. The variables are sourced from the state's Economic and Revenue Forecast Council's (ERFC) September 2020 economic forecast.

This forecast uses the September 2020 ERFC assumptions and actual unemployment insurance tax and benefit data through June 30, 2020. The economic assumptions used for the September 2020 forecast and the June 2020 forecast are provided in *Appendix 1*.

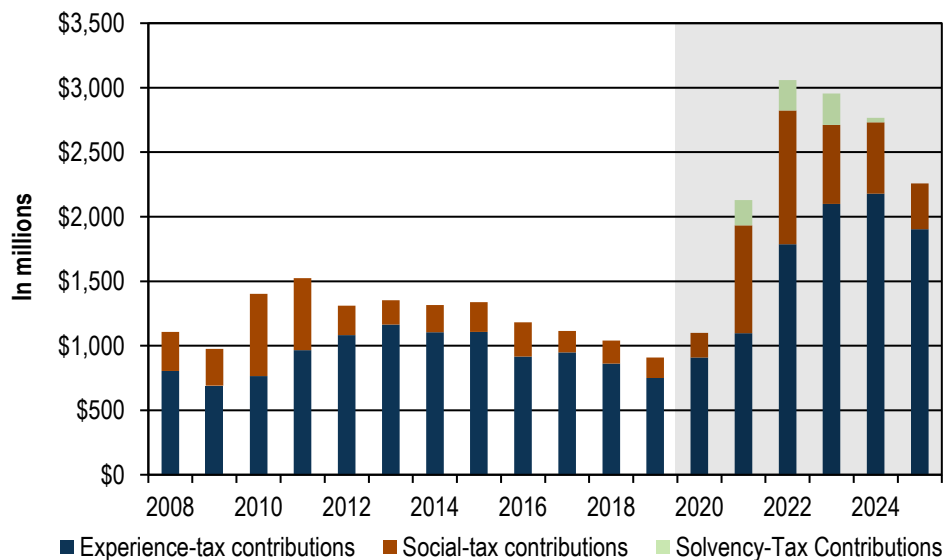
Employer contributions

Employer contributions were approximately \$1.09 billion in 2019 and are projected to be approximately \$1.10 billion in 2020. This model projects increases in employer contributions to approximately \$1.9 billion in 2021. Employer contributions would have been approximately \$2.1 billion in 2021 with a solvency tax. Employer contributions are projected to remain at significantly elevated levels through 2025.

The increase in employer contributions is anticipated due to the high volume of weeks compensated as employers laid off workers due to shutdowns or furloughing employees in response to the COVID-19 pandemic. Employer experience tax rates for 2021 will be based upon benefits paid between July 1, 2016 and June 30, 2020, which includes four months of benefits paid since the onset of COVID-19-related layoffs. Per state law, the taxable wage base will also increase from \$52,700 in 2020 to \$56,500 in 2021.

The social tax rate is projected to be at the maximum tax cap of 1.22 percent, which is then graduated by rate class for 2021 and 2022. The September forecast projects a solvency surcharge in 2022 and 2023, which per state law is enacted if the UI trust fund balance on September 30 is such that it cannot pay seven months of benefits. The Employment Security Department determined on September 30, 2020 that the trust fund had enough reserves to pay seven months of benefits negating the implementation of a solvency tax though this forecast, based on UI trust fund actuals through June 2020.

Figure 1. Washington state employer unemployment insurance experience, social and solvency tax contributions, 2008 through 2025
Source: Employment Security Department/LMEA/ETA 2112/UI Wage File



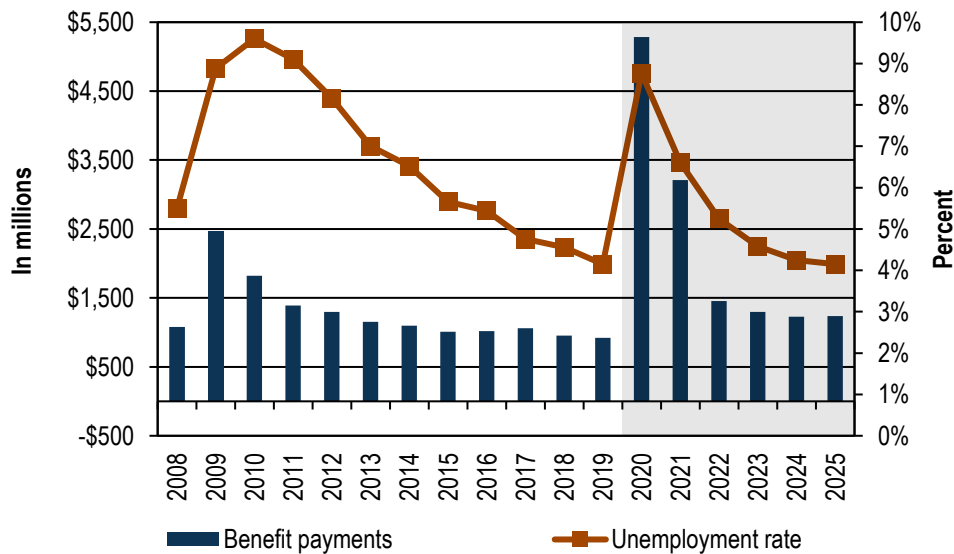
Note: Highlighted years reflect projected data.

Total tax contributions were \$1.09 billion in 2019 and are projected to be approximately \$1.10 billion in 2020 and approximately \$1.9 billion in 2021.

Unemployment benefit payments

Benefit payments from the unemployment trust fund were approximately \$1.01 billion in 2019 and are projected to be around \$5.3 billion in 2020. *Figure 2* shows annual projections of benefit payments from the trust fund and the projected state unemployment rate through 2025. Federally funded benefits such as Pandemic Unemployment Assistance (PUA), federal reimbursement for the waiting week, Pandemic Emergency Unemployment Compensation (PEUC) and Federal Pandemic Unemployment Compensation (FPUC) and extended benefits are excluded from *Figure 2*.

Figure 2. Benefit payments from state unemployment trust fund
Washington state, 2008 through 2025
Source: Employment Security Department/LMEA/ETA 2112/UI Wage File



Note: Highlighted years reflect projected data.

Benefit payments from the trust fund were approximately \$1.01 billion in 2019 and are projected to increase to approximately \$5.3 billion in 2020 and then decrease to approximately \$3.2 billion in 2021.

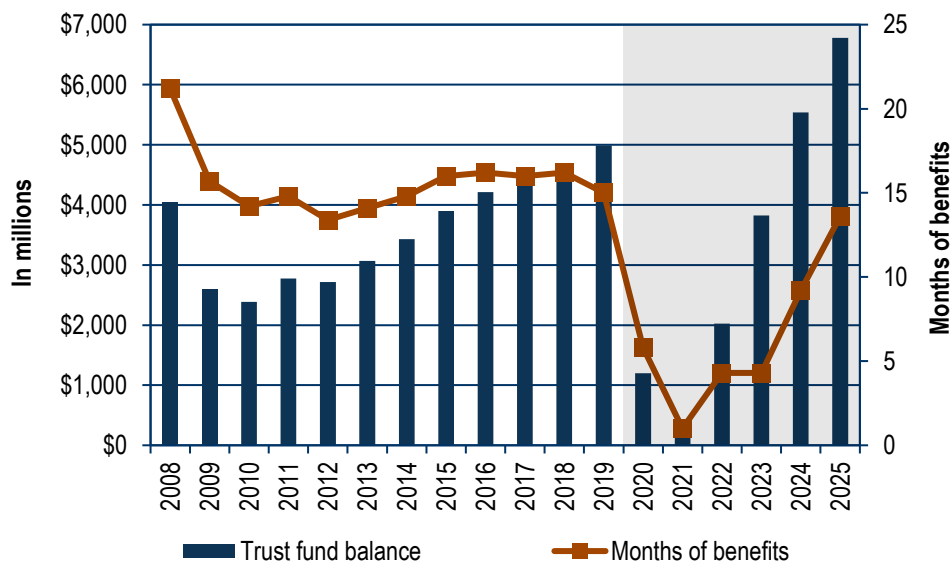
Trust fund balance

Based on June 2020 trust fund actuals, the model projects that the UI trust fund balance on September 30, 2020 will be \$1.87 billion (approximately 5.8 months of benefits). The actual balance on September 30, 2020, however, was \$2.28 billion (slightly above the \$2.27 billion reserve needed to pay seven months of benefits).

The UI trust fund balance is projected to maintain solvency through 2020 and 2021. The months of benefits remaining in the fund, however, is projected to drop below three months of benefits during the first quarter of 2021. Per federal law, the state must request an advance from the federal government if it projects the UI trust fund cannot pay three months of benefits, which is projected to occur in the first quarter of 2021. Washington is not projected to need to take loans from that advance as it is projected that the fund will be able to pay benefits throughout 2021.

Figure 3 shows the annual projected year-end trust fund balance through 2025. The orange line represents the months of benefits available on the date when unemployment insurance tax rates for the following year are calculated (September 30). It is important to note that individual years can have the same trust fund balance, but different months of benefits. There is not one standard cost for the month of benefits. The cost of a month of benefits varies depending on how many people in the state are working and how much they are earning.

Figure 3. Washington state unemployment trust fund and months of benefits
Washington state, 2008 through 2025
Source: Employment Security Department/LMEA/ETA 2112/UI Wage File



Note: Highlighted years reflect projected data.

The number of months of benefits in the trust fund is projected to drop to one month in 2021.

Trust fund scenario: September 2020 forecast compared to June 2020

Unemployment insurance trust fund: September 2020 baseline forecast							
(Based on reported in the September 16, 2020 Washington State Economic and Revenue Forecast Council)							
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%	1.52%	1.73%	1.75%	1.49%
Experience tax contributions	\$933.7	\$909.7	\$1,095.9	\$1,787.1	\$2,099.3	\$2,179.4	\$1,903.7
Flat social tax rate (percent)	0.16%	0.25%	1.22%	1.22%	0.60%	0.60%	0.35%
Social tax contributions	\$160.4	\$188.8	\$837.4	\$1,036.6	\$612.5	\$552.6	\$353.5
Solvency tax rate (percent)	0.00%	0.00%	0.00%	0.20%	0.20%	0.00%	0.00%
Solvency tax contributions	\$-	\$-	\$-	\$203.4	\$242.8	\$34.2	\$-
Total average tax rate (experience tax + social tax + solvency)	1.08%	0.94%	1.70%	2.57%	2.43%	2.22%	1.77%
Total tax contributions	\$1,094.1	\$1,098.6	\$1,933.3	\$3,027.0	\$2,954.6	\$2,766.2	\$2,257.2
Benefits							
Weeks compensated (in millions) - regular benefits	2.1	10.5	5.5	2.5	2.2	2.0	2.0
Average weekly benefit amount	\$477.84	\$511.68	\$560.75	\$574.93	\$590.83	\$607.09	\$626.15
Regular benefit payments	\$1,010.6	\$5,254.5	\$3,058.3	\$1,455.3	\$1,295.0	\$1,229.1	\$1,236.0
Total benefit liability	\$949.9	\$4,969.2	\$3,024.8	\$1,368.0	\$1,217.3	\$1,155.4	\$1,161.8
Reimbursable benefit payments	\$60.6	\$315.3	\$183.5	\$87.3	\$77.7	\$73.7	\$74.2
Total benefit payments	\$1,010.6	\$5,284.5	\$3,208.3	\$1,455.3	\$1,295.0	\$1,229.1	\$1,236.0
Trust fund							
Beginning trust fund balance	\$4,731.1	\$4,988.3	\$1,200.7	\$130.6	\$1,810.7	\$3,614.1	\$5,335.2
Trust fund interest	\$113.0	\$83.1	\$21.5	\$21.1	\$66.1	\$110.3	\$149.6
Total tax contributions	\$1,094.1	\$1,098.6	\$1,933.3	\$3,027.0	\$2,954.6	\$2,766.2	\$2,257.2
Reimbursements from reimbursables	\$60.6	\$315.3	\$183.5	\$87.3	\$77.7	\$73.7	\$74.2
Total benefit payments	\$1,010.6	\$5,284.5	\$3,208.3	\$1,455.3	\$1,295.0	\$1,229.1	\$1,236.0
Ending trust fund balance (as of 12/31)	\$4,988.3	\$1,200.7	\$130.6	\$1,810.7	\$3,641.1	\$5,335.2	\$6,580.2
Months of benefits available (as of 9/30)	15.0	7.0	1.8	4.8	4.8	9.7	14.1
Unemployment insurance trust fund: June 2020 baseline forecast							
(Based on actual through March 31, 2020 Washington State Economic and Revenue Forecast Council)							
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	\$-
Total average tax rate (experience tax + social tax)	1.08%	0.94%	1.88%	2.74%	2.59%	2.38%	1.95%
Total tax contributions	\$1,094.1	\$998.7	\$2,101.6	\$3,181.8	\$3,076.8	\$2,870.9	\$2,411.4
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	\$4,969.2	\$3,024.8	\$1,368.0	\$1,217.3	\$1,155.4	\$1,161.8
Reimbursable benefit payments	\$60.6	\$315.3	\$183.5	\$87.3	\$77.7	\$73.7	\$74.2
Total benefit payments	\$1,010.6	\$5,499.9	\$3,278.4	\$1,552.5	\$1,449.0	\$1,486.4	\$1,505.6
Trust fund							
Beginning trust fund balance	\$4,731.1	\$4,988.3	\$900.7	(\$83.6)	\$1,649.4	\$3,416.3	\$4,984.3
Trust fund interest	\$113.0	\$87.2	\$4.7	\$10.6	\$52.1	\$94.4	\$130.0
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
Ending trust fund balance (as of 12/31)	\$4,988.3	\$900.7	(\$83.6)	\$1,649.4	\$3,416.3	\$4,984.3	\$6,110.5
Months of benefits available (as of 9/30)	15.0	5.6	-0.1	3.3	3.3	8.3	12.7

Appendix 1: Economic assumptions

The events since the last forecast have made a slight impact on the state’s Economic and Revenue Forecast Council’s outlook for the future. Overall, revisions to the current economic forecast call for continuing economic challenges in Washington.

The Employment Security Department’s unemployment trust fund projections are reviewed and adjusted several times a year. The adjustments are made by changing several variables in the trust fund model, which are derived from the Economic and Revenue Forecast Council’s quarterly economic forecast, IHS Global Insight and updated unemployment insurance reciprocity rates, and by replacing forecasted data with the most current actual data. *Appendix figure A-1* shows the major economic inputs used in the trust fund model with a comparison to the prior forecast.

Appendix figure A-1. Washington state economic and revenue projections
Washington state, September 2020 and June 2020
Source: Washington State Economic and Revenue Forecast Council/IHS Global Insight

		Unemployment rate (percent of workforce)				Personal income (percent growth)	
		Jun-20	Sep-20			Jun-20	Sep-20
2020		9.70%	8.77%	2020		3.40%	2.70%
2021		6.85%	6.61%	2021		2.00%	2.20%
2022		5.69%	5.25%	2022		3.70%	3.40%
2023		5.21%	4.58%	2023		3.70%	3.40%
2024		5.22%	4.25%	2024		3.60%	3.00%
2025		5.13%	4.15%	2025		4.60%	3.00%

		Employment growth (percent growth)				Consumer Price Index (percent growth)	
		Jun-20	Sep-20			Jun-20	Sep-20
2020		-5.50%	-4.70%	2020		0.90%	1.10%
2021		4.90%	4.10%	2021		1.30%	1.90%
2022		2.90%	3.10%	2022		1.40%	1.70%
2023		1.10%	2.00%	2023		1.50%	1.50%
2024		0.80%	1.30%	2024		1.60%	1.70%
2025		0.80%	1.10%	2025		1.80%	2.00%

Definitions of economic variables:

- **Unemployment rate:** The rate computed by dividing total unemployed by the civilian labor force. The unemployment rate is used as an input into the forecasting of benefits. These unemployment rates are seasonally adjusted. The seasonal adjustment smooths out the impact of normal seasonal patterns that occur year after year, such as strong seasonal hiring in retail trade around the holidays.
- **Wage and salary disbursements:** This component of personal income consists of the monetary remuneration of employees. It reflects the amount of wages and salaries disbursed, but not necessarily earned, during the year. This component is measured before deductions, such as Social Security contributions and union dues. The percentage growth for wage and salary disbursements is used in projecting future wages.
- **Employment growth:** The percentage change in overall employment from year to year. Employment growth is used in the trust fund model as a means of forecasting total employment.
- **Consumer Price Index (CPI):** A measure of the average change over time in the prices paid by urban consumers for a market basket of consumer goods and services. CPI is used in the forecast as a means of adjusting the dollar values.