

Unemployment Insurance Trust Fund Forecast

November 2020

Executive summary

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

As of November 30, 2020, the UI trust fund balance was \$1.96 billion. Unemployment benefit payments from the trust fund were approximately \$1.01 billion in 2019 and are projected to be approximately \$5.1 billion in 2020 and \$3.1 billion in 2021. Employer contributions to the UI trust fund were approximately \$1.09 billion in 2019 and are projected to be approximately \$1.17 billion in 2020 and \$1.9 billion in 2021.

The UI trust fund balance is projected to maintain solvency through 2021. The number of months of benefits remaining in the fund, however, is projected to drop to approximately 1.5 months 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. 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 throughout 2021.

As with the September report, the November forecast projects a flat social tax rate at the 1.22 percent ceiling in 2022 and at 0.60 percent in 2023. The November 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.

Contents

This report contains the following items:

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

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

Introduction

This report provides information on Washington state's employer contributions, benefits and UI 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) November 2020 economic forecast.

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

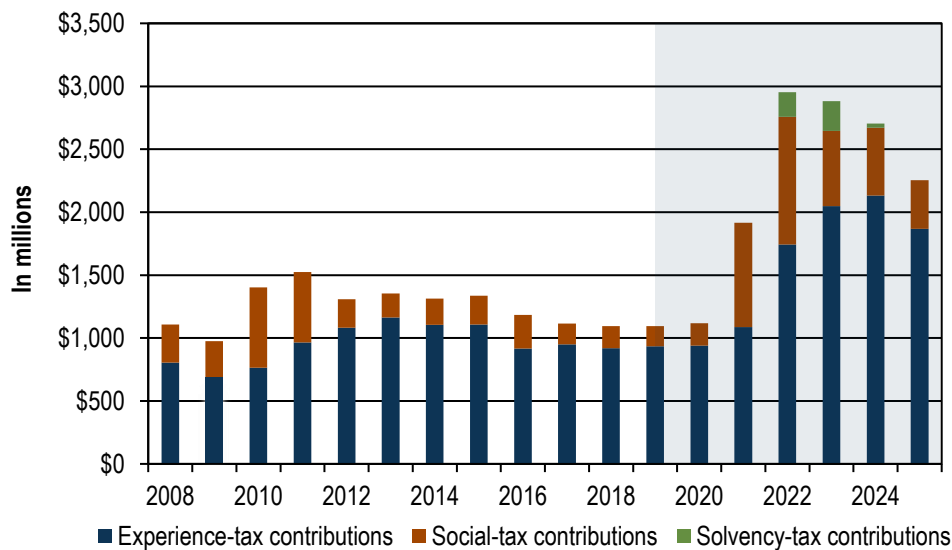
Employer contributions

Employer contributions were approximately \$1.09 billion in 2019 and are projected to be approximately \$1.12 billion in 2020. This model projects an increase in employer contributions to approximately \$1.9 billion in 2021. 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 and furloughed workers as a result of the COVID-19 pandemic. Per state law, 2021 experience tax rates will be based on 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. In addition, per state law, the taxable wage base will also increase from \$52,700 in 2020 to \$56,500 in 2021.

The social tax rate will be at the maximum tax cap of 1.22 percent in 2021, which is then graduated by rate class, and is projected to remain at 1.22 percent in 2022 before dropping to 0.60 percent in 2023. The November 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.

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



Note: Highlighted years reflect projected data.

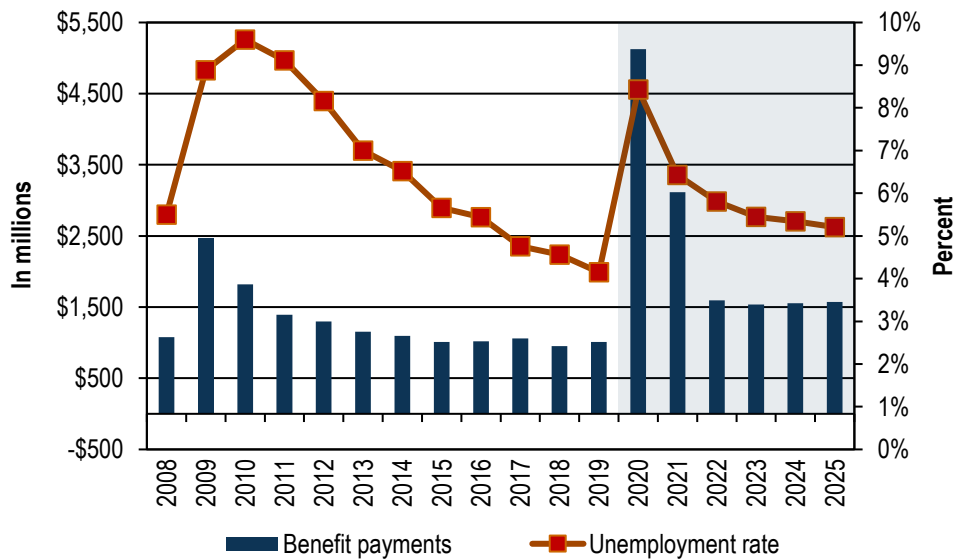
Total tax contributions were \$1.09 billion in 2019 and are projected to be approximately \$1.12 billion in 2020 and approximately \$1.9 billion in 2021.

A Governor Emergency Proclamation freezes the solvency tax in 2021. On September 30, 2020, ESD announced the UI trust fund had enough reserves to pay seven months of benefits negating the need for a solvency surcharge. ESD, upon review of total wages reported by taxable employers in fiscal year 2020, determined a miscalculation was made and on September 30, the trust fund had enough reserves to pay 6.6 months of benefits. Under the Governor’s Emergency Proclamation, there is no solvency tax in 2021. As of November 30, 2020, the UI trust fund had enough reserves to pay 5.8 months of benefits.

Unemployment benefit payments

Benefit payments from the UI trust fund were approximately \$1.01 billion in 2019 and are projected to be around \$5.1 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.

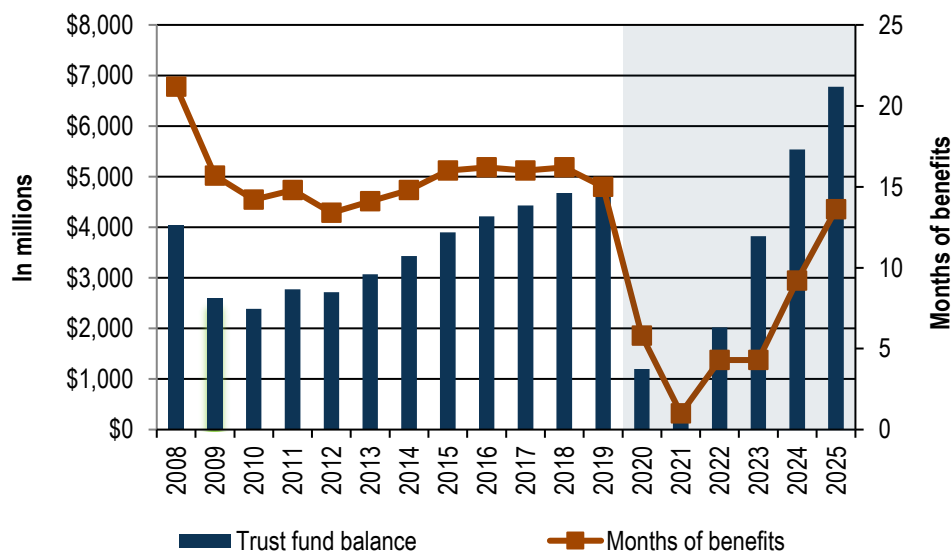
Benefit payments from the trust fund were approximately \$1.01 billion in 2019 and are projected to increase to approximately \$5.1 billion in 2020 and then decrease to approximately \$3.1 billion in 2021.

Trust fund balance

As of November 30, 2020, the UI trust fund balance was \$1.96 billion. The UI trust fund is projected to maintain solvency through 2021. The number of months of benefits remaining in the fund, however, is projected to drop to approximately 1.5 months of benefits in the fourth 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. 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 reserves in the trust fund are projected to drop to approximately 1.5 months of benefits in 2021.

Trust fund scenario: November 2020 forecast compared to September 2020

This scenario compares the November 2020 forecast (top half of table) to the published September 2020 forecast (bottom half of table).

Figure 4. Washington state trust fund forecast

Washington state, November 2020 and September 2020

Source: Employment Security Department/LMEA/ETA 2112/ETA 5159/UI Wage File

Unemployment-insurance trust fund: November 2020 Baseline Forecast (based on reported in the November 12th, 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%	0.86%	0.97%	1.52%	1.73%	1.75%	1.49%
Experience tax contributions (in millions)	\$933.7	\$939.4	\$1,085.9	\$1,743.9	\$2,047.3	\$2,130.8	\$1,868.1
Flat social tax rate (percent)	0.16%	0.25%	1.22%	1.22%	0.60%	0.60%	0.40%
Social tax contributions (in millions)	\$160.4	\$178.4	\$829.0	\$1,012.2	\$597.3	\$540.2	\$385.6
Solvency tax rate (percent)	0.00%	0.00%	0.00%	0.20%	0.20%	0.00%	0.00%
Solvency tax contributions (in millions)	\$-	\$-	\$-	\$198.2	\$236.7	\$33.4	\$-
Total average tax rate (experience + social tax)	1.08%	1.03%	1.70%	2.60%	2.43%	2.22%	1.80%
Total tax contributions (in millions)	\$1,094.1	\$1,117.8	\$1,914.9	\$2,954.9	\$2,881.3	\$2,704.5	\$2,253.7
Benefits							
Weeks compensated (in millions) - regular benefits	2.1	11.0	5.3	2.8	2.6	2.6	2.5
Average weekly benefit amount	\$477.84	\$476.66	\$559.28	\$566.34	\$584.28	\$603.86	\$626.49
Regular benefit payments (in millions)	\$1,010.6	\$5,110.9	\$2,965.8	\$1,594.3	\$1,538.2	\$1,556.1	\$1,573.1
Total benefit liability (in millions)	\$949.9	\$4,819.2	\$2,937.8	\$1,498.6	\$1,445.9	\$1,462.7	\$1,478.8
Reimbursable benefit payments (in millions)	\$60.6	\$306.7	\$177.9	\$95.7	\$92.3	\$93.4	\$94.4
Total benefit payments (in millions)	\$1,010.6	\$5,125.9	\$3,115.8	\$1,594.3	\$1,538.2	\$1,556.1	\$1,573.1
Trust fund							
Beginning trust fund balance (in millions)	\$4,731.1	\$4,988.3	\$1,367.1	\$566.2	\$2,083.9	\$3,589.0	\$4,936.6
Trust fund interest (in millions)	\$113.0	\$80.3	\$28.0	\$30.4	\$69.7	\$105.8	\$136.0
Total tax contributions (in millions)	\$1,094.1	\$1,117.8	\$2,109.0	\$2,985.9	\$2,881.3	\$2,704.5	\$2,253.7
Reimbursements from reimbursables (in millions)	\$60.6	\$306.7	\$177.9	\$95.7	\$92.3	\$93.4	\$94.4
Total benefit payments (in millions)	\$1,010.6	\$5,125.9	\$3,115.8	\$1,594.3	\$1,538.2	\$1,556.1	\$1,573.1
Ending trust fund balance (as of 12/31, millions)	\$4,988.3	\$1,367.1	\$370.7	\$1,851.1	\$3,350.4	\$4,691.9	\$5,596.7
Months of benefits available (as of 9/30)	15.0	6.6	2.4	4.9	8.8	12.2	14.4
Unemployment-insurance trust fund: September 2020 Baseline Forecast (based on actual through September 16th, 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 (in millions)	\$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 (in millions)	\$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 (in millions)	\$-	\$-	\$-	\$203.4	\$242.8	\$34.2	\$-
Total average tax rate (experience + social tax)	1.08%	0.94%	1.70%	2.57%	2.43%	2.22%	1.77%
Total tax contributions (in millions)	\$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 (in millions)	\$477.84	\$511.68	\$560.75	\$574.93	\$590.83	\$607.09	\$626.15
Regular benefit payments (in millions)	\$1,010.6	\$5,254.5	\$3,058.3	\$1,455.3	\$1,295.0	\$1,229.1	\$1,236.0
Total benefit liability (in millions)	\$949.9	\$4,969.2	\$3,024.8	\$1,368.0	\$1,217.3	\$1,155.4	\$1,161.8
Reimbursable benefit payments (in millions)	\$60.6	\$315.3	\$183.5	\$87.3	\$77.7	\$73.7	\$74.2
Total benefit payments (in millions)	\$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 (in millions)	\$4,731.1	\$4,988.3	\$1,200.7	\$130.6	\$1,810.7	\$3,614.1	\$5,335.2
Trust fund interest (in millions)	\$113.0	\$83.1	\$21.5	\$21.1	\$66.1	\$110.3	\$149.6
Total tax contributions (in millions)	\$1,094.1	\$1,098.6	\$1,933.3	\$3,027.0	\$2,954.6	\$2,766.2	\$2,257.2
Reimbursements from reimbursables (in millions)	\$60.6	\$315.3	\$183.5	\$87.3	\$77.7	\$73.7	\$74.2
Total benefit payments (in millions)	\$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, millions)	\$4,988.3	\$1,200.7	\$130.6	\$1,810.7	\$3,614.1	\$5,335.2	\$6,580.2
Months of benefits available (as of 9/30)	15.0	7.0	1.8	4.8	9.7	14.1	17.4

Note: The total average tax rate cannot be reached by adding the average experience tax rate and the flat social tax rate due to social tax caps and other factors.

Note: A Governor Emergency Proclamation freezes the solvency tax in 2021. Revenue from the solvency tax would otherwise be approximately \$195 million.

Appendix 1: Economic assumptions

The events since the last forecast have made little impact toward the state’s Economic and Revenue Forecast Council’s outlook for the future.

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 sourced from the Economic and Revenue Forecast Council’s quarterly economic forecast and updated unemployment insurance reciprocity rates. *Appendix figure A-1* shows the major economic predictions 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, November 2020 and September 2020

Source: Washington State Economic and Revenue Forecast Council/IHS Global Insight

		Unemployment rate (percent of workforce)				Personal income (percent growth)	
		Sep-20	Nov-20			Sep-20	Nov-20
2020		8.77%	8.43%	2020		6.60%	5.80%
2021		6.61%	6.43%	2021		-2.90%	-1.20%
2022		5.25%	5.81%	2022		4.90%	4.10%
2023		4.58%	5.45%	2023		4.50%	4.40%
2024		4.25%	5.34%	2024		4.20%	4.40%
2025		4.15%	5.21%	2025		4.60%	4.40%

		Employment growth (percent growth)				Consumer Price Index (percent growth)	
		Sep-20	Nov-20			Sep-20	Nov-20
2020		-4.70%	-4.80%	2020		1.10%	1.20%
2021		4.10%	3.50%	2021		1.90%	2.00%
2022		3.10%	2.90%	2022		1.70%	1.90%
2023		2.00%	1.90%	2023		1.50%	1.60%
2024		1.30%	1.10%	2024		1.70%	1.80%
2025		1.10%	1.00%	2025		2.00%	1.90%

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. 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.