

A photograph showing the silhouettes of several people standing in a meeting room, illuminated by a bright light source from the left, creating a strong backlight effect. The room has large windows and a reflective floor.

# Unemployment Insurance ADVISORY COMMITTEE



**Employment Security Department**  
WASHINGTON STATE

October 1, 2020

# September UI Trust Fund Report



**Employment  
Security  
Department**  
WASHINGTON STATE

**Unemployment Insurance Advisory Committee Presentation**

**October 1, 2020**

Dan Zeitlin, Employment System Policy Director

Employment Security Department

# Agenda



- September Unemployment Insurance Trust Fund Report Overview
- Federal loan (Title XII advance) Projections
- State UI Tax status

# Key Takeaways

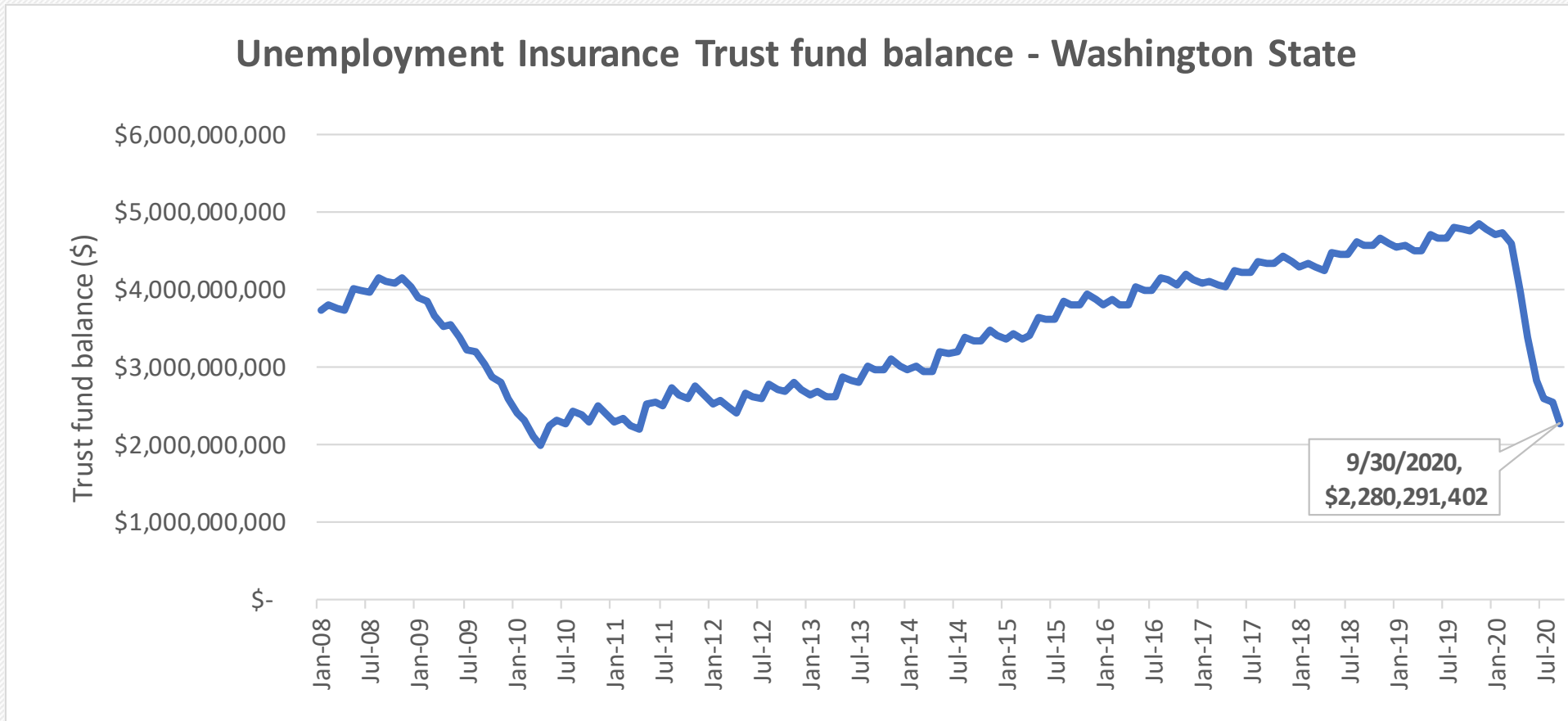


- Under the September UI Trust Fund projections, Washington will not need to take out loans from the federal government, though we will need to request an advance (line of credit) in Q1 2021 as required by federal law.
- The Employment Security Department will not need to implement a solvency tax as it determined on September 30 as required by state law that the trust fund had enough reserves to pay 7 months of benefits.
- Under the September UI Trust Fund projections, the flat social tax cap of 1.22% will be in place in 2021 per state law and is projected to be in place in 2022.
- Under September UI Trust Fund projections, there will be a solvency tax in 2022 and 2023.

# Unemployment Insurance Trust fund



- On September 30, the UI trust fund balance was \$2.28 billion



# UI Trust Fund Forecast (September 2020)



- The report provides the status and updated projections of the state's unemployment insurance (UI) trust fund for 2020 through 2025.
- The report is based upon the September 2020 economic forecast released by the state's Economic and Revenue Forecast Council (ERFC).
- The report uses quarterly forecast information and trust fund actuals through June 2020 (Q2 2020).
- The final 2020 report will be released in November using ERFC forecast information and trust fund actuals through September 2020 (Q3 2020).

# UI Trust Fund Forecast (September 2020)



	June Forecast	September Forecast
2020 Unemployment Benefit payment projection	\$5.5 Billion	\$5.3 Billion
2021 Unemployment Benefit payment projection	\$3.3 Billion	\$3.2 Billion
2020 Employer Contributions	\$1 Billion	\$1.1 Billion
2021 Employer Contributions	\$2.1 Billion	\$1.9 Billion (w/o solvency tax)

# UI Trust Fund: Federal Advance Request



- Federal law requires the trust fund to be able to pay three months of projected benefit payments.
- 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.

	June Forecast	September Forecast
Timing for a Federal advance	Q4CY2020	Q1CY2021
Amount needed for 3 months of benefits	\$900 Million/3 months	\$819 Million/3 months
Timing for drawing on that advance	Q1CY2021	Never



# 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 make any benefit payments.
- Accordingly, it is currently projected that Washington will **not** need to borrow (take out loans) from the federal government.

	June Forecast	September Forecast
Timing for when borrowing would be needed	Q1CY2021	Never
Amount of borrowing needed	\$97 million	\$0

# Trust Fund Projections



**Employment  
Security  
Department**  
WASHINGTON STATE

**Unemployment-insurance trust fund: September 2020 Baseline Forecast**

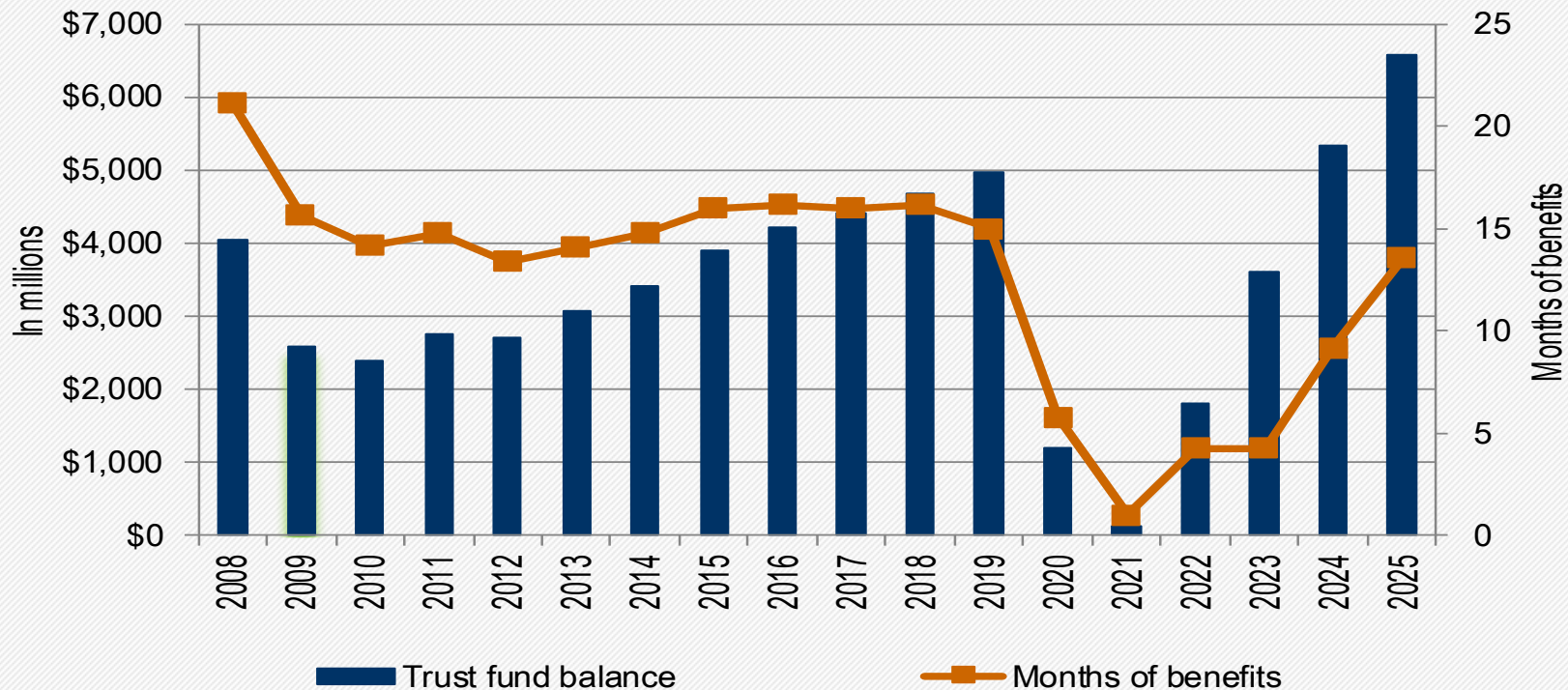
(based on reported in the September 16th, 2020 Washington State Economic and Revenue Forecast Council)

<b>Taxes</b>	<b>CY 2019</b>	<b>CY 2020</b>	<b>CY 2021</b>	<b>CY 2022</b>	<b>CY 2023</b>	<b>CY 2024</b>	<b>CY 2025</b>
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	\$ -
<b>Total average tax rate (experience tax + social tax + solvency)</b>	<b>1.08%</b>	<b>0.94%</b>	<b>1.70%</b>	<b>2.57%</b>	<b>2.43%</b>	<b>2.22%</b>	<b>1.77%</b>
<b>Total tax contributions</b>	<b>\$1,094.1</b>	<b>\$1,098.6</b>	<b>\$1,933.3</b>	<b>\$3,027.0</b>	<b>\$2,954.6</b>	<b>\$2,766.2</b>	<b>\$2,257.2</b>
<b>Benefits</b>							
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
<b>Total benefit payments</b>	<b>\$1,010.6</b>	<b>\$5,284.5</b>	<b>\$3,208.3</b>	<b>\$1,455.3</b>	<b>\$1,295.0</b>	<b>\$1,229.1</b>	<b>\$1,236.0</b>
<b>Trust fund</b>							
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
<b>Ending trust fund balance (as of 12/31)</b>	<b>\$4,988.3</b>	<b>\$1,200.7</b>	<b>\$130.6</b>	<b>\$1,810.7</b>	<b>\$3,614.1</b>	<b>\$5,335.2</b>	<b>\$6,580.2</b>
<b>Months of benefits available (as of 9/30)</b>	<b>15.0</b>	<b>7.0</b>	<b>1.8</b>	<b>4.8</b>	<b>4.8</b>	<b>9.7</b>	<b>14.1</b>

# Projected Trust Fund Balances



- Approximately \$1.2 billion (CY 2020); \$131 million (CY 2021); \$1.8 billion (CY 2022); \$3.6 billion (CY 2023); \$5.3 billion (CY 2024); and \$6.5 billion (CY 2025)



# Experience Rate Tax



- The experience rate tax is an annual 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.
- Per state statute, the taxable wage base was \$52,700 in 2020 and is \$56,500 in 2021.
- 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.

	June Forecast	September Forecast
Experience rate contributions 2020	\$826.7	\$909.7
Experience rate contributions 2021	\$1.081	\$1.096

# 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: \$2,711,809,345  
Experience Rated Taxes Paid: \$924,527,190  
Taxable Wages: \$113,045,395,428  
Flat social Tax Rate: 1.58% (\$2.7B-\$924M/\$113B); 1.22% with ceiling
- 2020 social tax was at .25% minimum.
- The social flat tax rate will be 1.22% in 2021 and the September report projects it will be 1.22% in 2022 (adjusted for each rate class).

# 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%



# Solvency Tax



- Per state statute, [RCW 50.29.041](#), if there are less than 7 months of benefits available as of September 30 a solvency surcharge of .20% is assessed.
- State statute, [RCW 50.29.025\(2\)\(b\)\(i\)\(B\)](#), further directs the calculation the Employment Security Department shall use for determining whether the fund has enough reserves to pay 7 months of benefits.
- The months of benefits calculation considers the trust fund balance on September 30 as a percentage of total wage for a year (reserve ratio) divided by the average of the 3 highest yearly benefit payouts during the last 3 recessions (average high cost rate).

# Solvency Tax



- The September 2020 UI Trust fund forecast projected the UI trust fund balance as of September 30<sup>th</sup> would be below 7 months of benefits (estimate of \$1.87 billion balance and 5.8 months of benefits).
- The projection, however, was based on UI trust fund actuals through June 2020.
- On September 30, the trust fund balance of approximately \$2.28 was above the \$2.27 needed to provide for 7 months of benefits.

# Key Takeaways



- Under the September UI Trust Fund projections, Washington **will not** need to take out loans from the federal government, though we may need to request an advance (line of credit) in Q1CY2021 as required by federal law.
- The Employment Security Department will not need to implement a solvency tax as it determined on September 30 as required by state law that the trust fund had enough reserves to pay 7 months of benefits.
- Under the September UI Trust Fund projections, the flat social tax cap of 1.22% will be in place in 2021 per state law and is projected to be in place in 2022.
- Under September UI Trust Fund projections, there will be a solvency tax in 2022 and 2023.