

South Carolina Unemployment Insurance Trust Fund Annual Assessment FY2014

Executive Summary

For each fiscal year, the South Carolina Department of Employment and Workforce is required to submit, by October 1st, a report to the Governor, General Assembly and the Review Committee indicating the amount in the Unemployment Insurance (UI) Trust Fund and making an assessment of its funding level in accordance with Section 41-33-45 of the South Carolina Code of Laws.

Current Status

Unemployment benefit outlays for FY2014 totaled \$231,775,669¹. Revenues generated to fund the unemployment insurance programs (including for the benefit outlays, loan repayments and interest repayment) totaled \$468,539,699².

As of June 30, 2014, the Unemployment Compensation Trust Fund had a positive adjusted balance of \$365,801,883³ but with a federal loan balance still owed of \$396,490,526. The trust fund balance excluding federal advances would be -\$30,688,643. The health of the trust fund has improved by approximately \$172 million over the past fiscal year (the trust fund balance excluding federal advances was \$328,787,740 as of June 30, 2013 with an outstanding loan of \$531,557,413).

Since April 2011, the state has not had to borrow any funds from the federal government to make benefit payments. Tax revenues have been sufficient to allow the state to continue repaying the outstanding federal loan and benefit payments to unemployed individuals as the economy continues to recover. This fiscal responsibility has enabled South Carolina to obtain the Federal Unemployment Tax Act credit reduction for its businesses in 2011, 2012, and 2013 (with anticipated avoidance again in 2014). Moreover, South Carolina has continued to make either early or voluntary repayments of the federal loan that have resulted in another \$4 million in interest savings for South Carolina businesses.

Future Outlook

Based on current economic conditions, it is projected that approximately \$248.6 million in state UI benefits will be paid in FY2015. Per SC Code Ann. § 41-27-380, the taxable wage base will increase in January 2015 to \$14,000. It should be noted that this increase in the taxable wage base will not increase the amount of taxes collected, but rather spread the taxation across a greater amount of wages. The projection for benefit contributions to be raised in FY2015 is \$430.0 million -- again to cover FY2015 benefit outlays, loan repayment and interest payments.

¹ Preliminary Data for Benefit Outlays

² Preliminary Data for Revenue Generated

³ Trust fund balance includes cash deposited in the state's unemployment trust fund, clearing and benefits payment account, advances from the federal government, amounts due and payable as a payment in lieu of contributions by a non-profit organization, and any contributions and interest received by July 31st, per SC State Code 41-31-80.

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Current Unemployment Compensation Fund Status

The adjusted Unemployment Compensation Fund balance as of June 30, 2014 was \$365,801,884⁴. No federal advances (i.e., the loan balance) were needed to pay state UI benefits during FY2013. Cumulative advances from the federal government as of June 30, 2014 totaled \$396,500,843.

Recent Unemployment Compensation Fund History

Historical data of the principal components of the state Unemployment Trust Fund are outlined in Table 1. Graphs of the historical contributions, benefits, and fund balance are shown in Figure 1.

Table 1: Unemployment Compensation Fund Components, FY2009-2014⁵

Component	FY2009	FY2010	FY2011	FY2012	FY2013	FY2014
Advances	344,881,505	541,780,847	115,174,767	0	0	0
Contributions	244,700,285	289,312,460	508,568,694	388,907,57 ⁶	411,039,535	486,539,699
Earned Interest	2,326,473	Interest not earned while Trust Fund is in Debt Status				
Benefits	767,107,651	776,761,390	502,607,650	410,431,401	258,801,120	231,775,670
Adjustments	31,695,096	(8,979,549)	-	16,970,735	(150,334,600)	(199,749,886)
Fund Balance	59,538,291	104,890,659	323,207,676	326,883,925	328,787,740	365,801,884
Total Wages	50.7 billion	49.3 billion	51.9 billion	54.0 billion	55.1 billion	58.5 billion

Note: Certain adjustments have been made to correctly carry-forward prior year balance.

The components of the Trust Fund are defined as follows:

- Contributions – Contributions received from employers as of June 30th.
- Interest – Federal Treasury interest posted to each state's Trust Fund account quarterly.⁷
- Benefits – State funded benefit payments less benefit overpayment recoveries.
- Adjustments – These are between year adjustments after one year's calculation and before the next year (i.e., Interstate Benefits, Reed Act Funds, etc.).
- Fund Balance – Adjusted Trust Fund balance
- Total Wages – Total covered payroll wages reported by all covered employers for the period beginning July 1 and ending June 30.

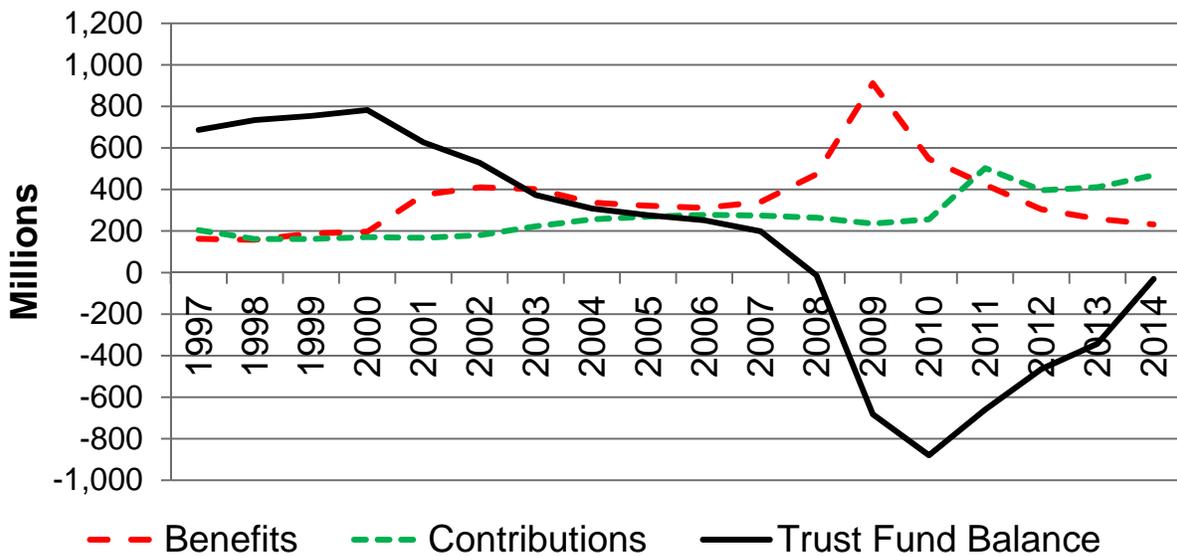
⁴ Trust fund balance includes cash deposited in the state's unemployment trust fund, clearing and benefit payment accounts, advances from the federal government, amounts due and payable as a payment in lieu of contributions by a non-profit organization, and any contributions and interest received by July 31st, per SC State Code 41-31-80. Trust fund balance excluding federal advances would be -\$30,698,959.

⁵ By state fiscal year; **not** cumulative

⁶ FY2012 contributions are lower due to the rate recalculation associated with General Fund appropriations that led to a significant level of credits and refunds issued

⁷ No interest is due to the state Trust Fund account from the Federal Treasury when federal advances remain outstanding.

Figure 1: Historical Contributions, Benefits, and Fund Balance, CY1997-2014⁸

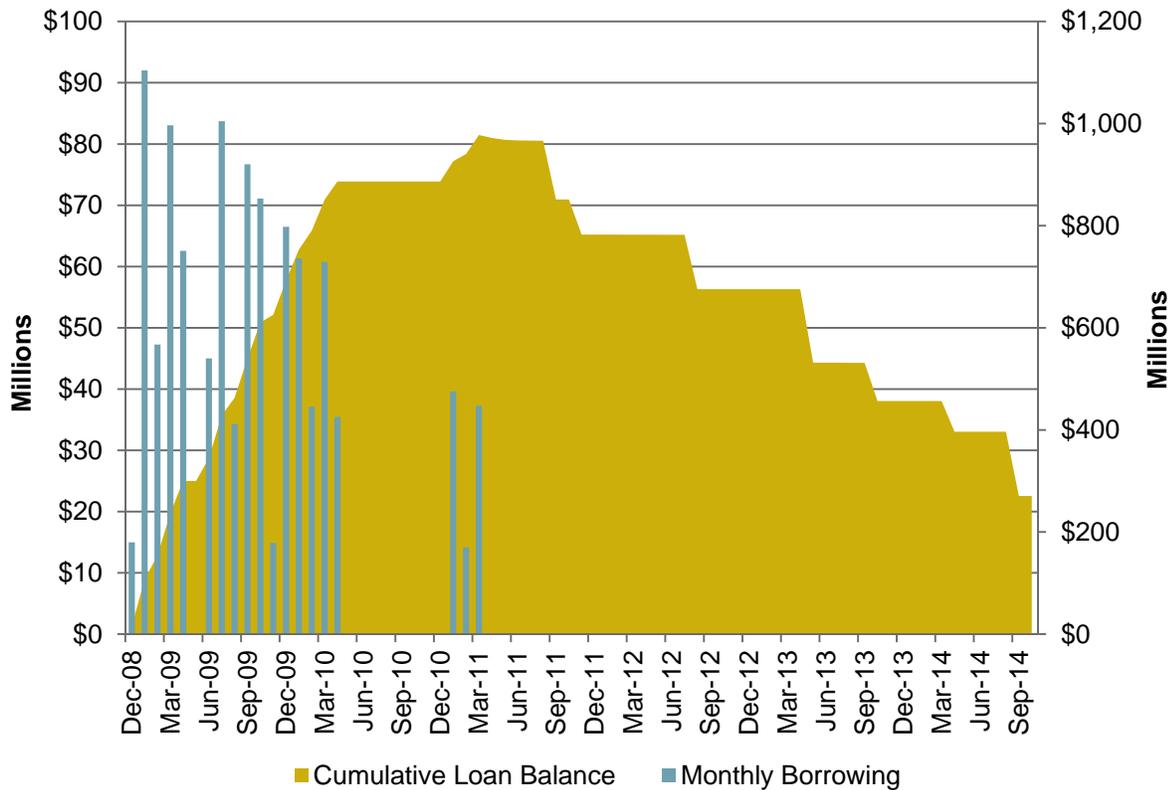


Overview of Advances

The UI Trust Fund became insolvent in December 2008 and was required to draw significant federal unemployment advances between December 2008 and April 2010. Additional federal advances were required between January and April 2011. Figure 2 shows the borrowing by month since December 2008. An improvement in the economy, higher than anticipated contributions in the last half of FY2010, a one-time infusion of incentive funding from the federal Department of Labor, and the new tax structure have all combined to allow the trust fund to reduce borrowing between April 2010 and April 2011. Since April 2011, no additional funds have been necessary beyond normal tax contributions to fund the declining benefit payments.

⁸ US Department of Labor: Financial Handbook 394 (information from USDOL excludes all federal advances and other fiscal year-ending adjustments)

Figure 2: Monthly Borrowing and Cumulative Loan Balance , Dec 2008-Sep 2014



Solvency Standards

South Carolina has adopted the most widely accepted measure of trust fund solvency, known as the Average High Cost Multiple (AHCM). See S.C. Code Ann. § 41-31-45(A). This measure of whether a state has enough money to cover unemployment claims during an economic downturn was devised in 1995 by the federal Advisory Council on Unemployment Compensation. The AHCM is calculated by taking the trust fund balance as a percent of estimated wages for the most recent 12 months (also known as the reserve ratio) and dividing it by the Average High Cost Rate, which is the average of the three highest calendar year benefit cost rates, in the last 20 years or a period including three recessions, whichever is longer. Benefit cost rates are benefits paid as a percent of total wages in taxable employment. The Department of Labor recommends that a state have an AHCM of 1.0, which means that the state has enough funds to pay one year of benefits at the Average High Cost. This should be sufficient to fund benefits during a moderate recession.

Table 2 shows South Carolina’s three highest benefit cost rate years, the state’s actual (or projected) reserves as of December 31, and the trust fund balance that would be required to achieve the recommended solvency level of 1.0.

Table 2: Solvency Standards and Projections⁹

Calendar Year	High Cost Years	Average High Cost Rate	Actual Reserves (millions \$)	Required Reserves (AHCM=1.0) (millions\$)
2005	1981, 1982, 1983	1.38	\$276,459	\$656,823
2006	1981, 1982, 1983	1.38	\$251,315	\$698,857
2007	1981, 1982, 1983	1.38	\$199,183	\$732,202
2008	1981, 1982, 1983	1.38	\$-14,246	\$732,799
2009	1991, 1992, 2008	0.91	\$-682,074	\$462,587
2010	1991, 2008, 2009	1.23	\$-816,672	\$607,753
2011	1991, 2009, 2010	1.30	-\$660,412	\$684,165
2012	1991, 2009, 2010	1.30	-\$464,860	\$713,171
2013	1991, 2009, 2010	1.30	-\$276,570	\$738,166
2014	1991, 2009, 2010	1.30	-\$62,570	\$765,271
2015	1991, 2009, 2010	1.30	\$174,430	\$783,739
2016	1991, 2009, 2010	1.30	\$324,430	\$807,251
2017	1991, 2009, 2010	1.30	\$624,430	\$831,468
2018	1991, 2009, 2010	1.30	\$774,430	\$856,412

Projections in italics

Once the trust fund has regained solvency (projected to be CY2015), trust fund rebuilding will continue until reserves are sufficient to support an AHCM of 1.0, as recommended by the DOL and required by S.C. Code Ann. § 41-31-45(A)(1).

Transparency of Funding (Proviso 83.5)

In accordance with FY2014-15 Appropriations Act Proviso 83.5 this report also provides information on 1) state unemployment taxes collected by tax class, 2) unemployment benefit claims paid, 3) number and dollar value of improper unemployment benefits paid, 4) payments made to the federal government for outstanding unemployment benefit loans, and 5) the balance in the state's Unemployment Trust Fund at fiscal year's end.

Tax Collections by Tax Class

Tax rates are set on a calendar year basis in the late fall of each year. Tax rates for CY2014 were set in October 2013.

In CY2013, a total of \$522.8 million was collected in the form of state unemployment taxes. Through the first two quarters of CY2014, total collections are \$262.9 million. These funds were used to pay unemployment benefits to eligible individuals who were laid off through no fault of their own, to make required loan repayments to the federal government for South Carolina's current outstanding unemployment debt, and to make interest payments on that outstanding loan balance. In addition to the base tax rate for benefit and loan payments and the interest surcharge for interest payments, all businesses in the state are also responsible for paying a 0.06% administrative contingency assessment.

Table 3 shows the contributions paid for CY2013 by each tax class.

⁹ US Department of Labor: Financial Handbook 394

Table 3: Contributions by Tax Rate Class, 2013¹⁰

Tax Rate Class	# Liable Businesses	Base Tax Contributions	Interest and Contingency Contributions	% of Total Contributions
1	44,804	\$52,551	\$1,568,946	0.3%
2	2,025	\$5,622,318	\$853,903	1.2%
3	1,668	\$5,971,298	\$841,949	1.3%
4	1,233	\$6,966,625	\$943,203	1.5%
5	1,336	\$6,942,906	\$877,739	1.5%
6	1,486	\$9,748,769	\$1,155,770	2.1%
7	1,127	\$11,181,671	\$1,293,472	2.4%
8	1,270	\$9,210,075	\$1,005,254	2.0%
9	1,838	\$11,462,583	\$1,192,930	2.4%
10	1,585	\$12,699,207	\$1,269,085	2.7%
11	1,892	\$13,372,474	\$1,283,639	2.8%
12	24,816	\$33,026,067	\$3,020,589	6.9%
13	2,142	\$29,137,280	\$2,258,644	6.0%
14	2,634	\$31,000,223	\$2,343,097	6.4%
15	2,491	\$35,742,197	\$2,651,640	7.3%
16	2,945	\$39,195,103	\$2,854,731	8.0%
17	2,437	\$39,724,231	\$2,843,575	8.1%
18	2,825	\$47,741,378	\$3,361,807	9.8%
19	3,303	\$55,441,318	\$3,848,816	11.3%
20	8,092	\$77,877,533	\$5,248,208	15.9%
TOTAL	111,949	482,115,807	40,716,997	

While there are a large number of liable businesses in rate class 1, these are relatively small in size. Approximately 5 percent of the state's total taxable wages (excluding new businesses) are assigned to each category. Businesses with less than 12 months of liability are assigned a new business tax rate of class 12. That accounts for the large volume of businesses in that category in Table 3.

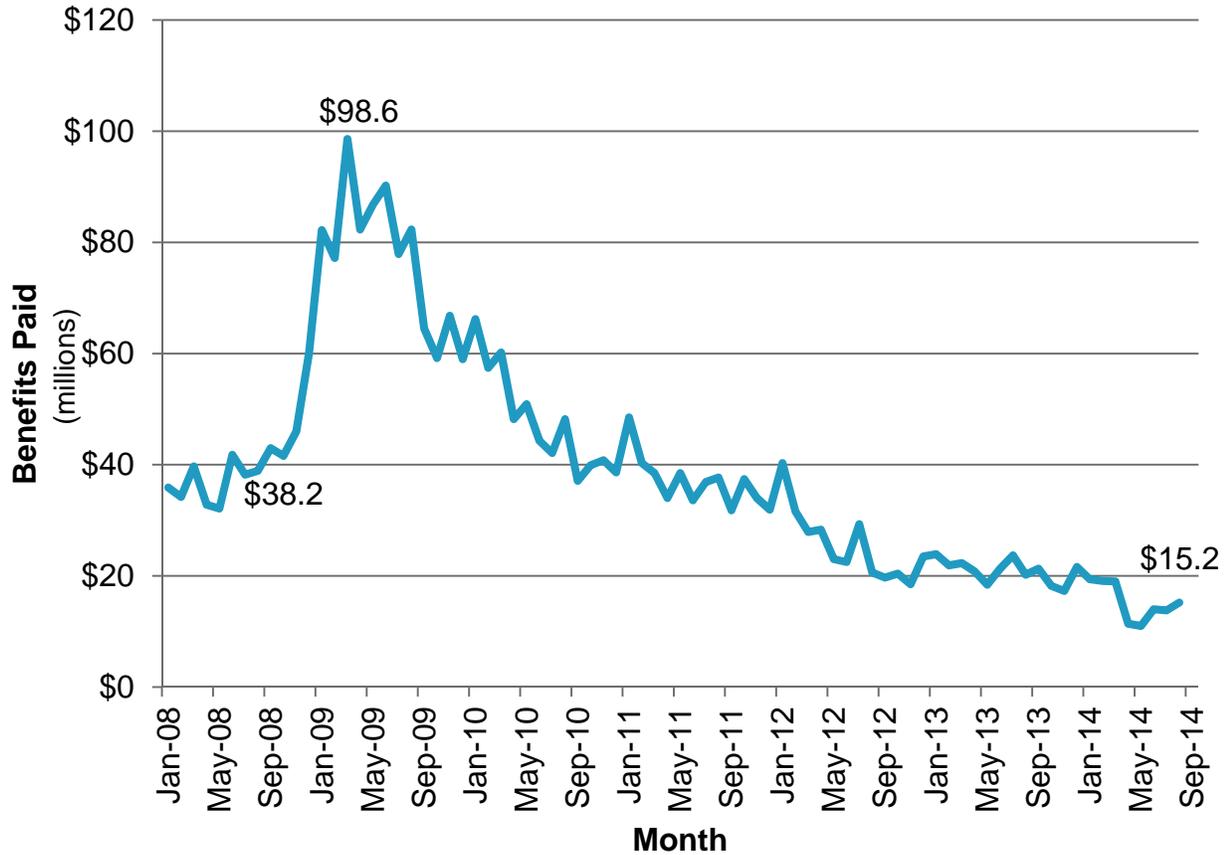
Unemployment Benefits Paid

State unemployment taxes fund up to the first 20 weeks of unemployment benefits to individuals who are out of work. Prior to June 2011, the state taxes funded up to the first 26 weeks. Due to the reduction in the number of available weeks, continued job growth, economic improvement in the state, and stricter disqualification penalties being implemented, benefit payments have come down substantially from their height in 2009.

Figure 3 shows the state-funded benefits paid by month from January 2008 through August 2014. Monthly benefit payments reached a peak in March 2009 at over \$98 million. In the most recent month available from the United States Department of Labor (DOL), benefit payments had dropped to slightly over \$15.2 million, a 74.4 percent drop. Benefit payments have leveled off in recent months as the unemployment rate has remained around the 5.5 percent mark. Benefits can be expected to decline as the unemployment rate falls and job growth increases.

¹⁰ Internal reports of CY2013 contributions, contingency, and interest surcharge payments by tax class as of September 9, 2014.

Figure 3: Monthly State-Funded Unemployment Benefit Payments, Jan 2008 – Aug 2014¹¹



Unemployment Insurance Improper Payments

The Fraud, Investigation, Recovery, and Enforcement (FIRE) Unit is responsible for preventing, detecting and recouping any improper payments to claimants from the UI program. Table 4 provides information on the detection and collection of improper payments for South Carolina on a yearly basis from 2008 through 2014 (YTD). This includes detection and recoupment from both the state UI program as well as the federally funded Emergency Unemployment Compensation (EUC) program that operated from 2008-2013.

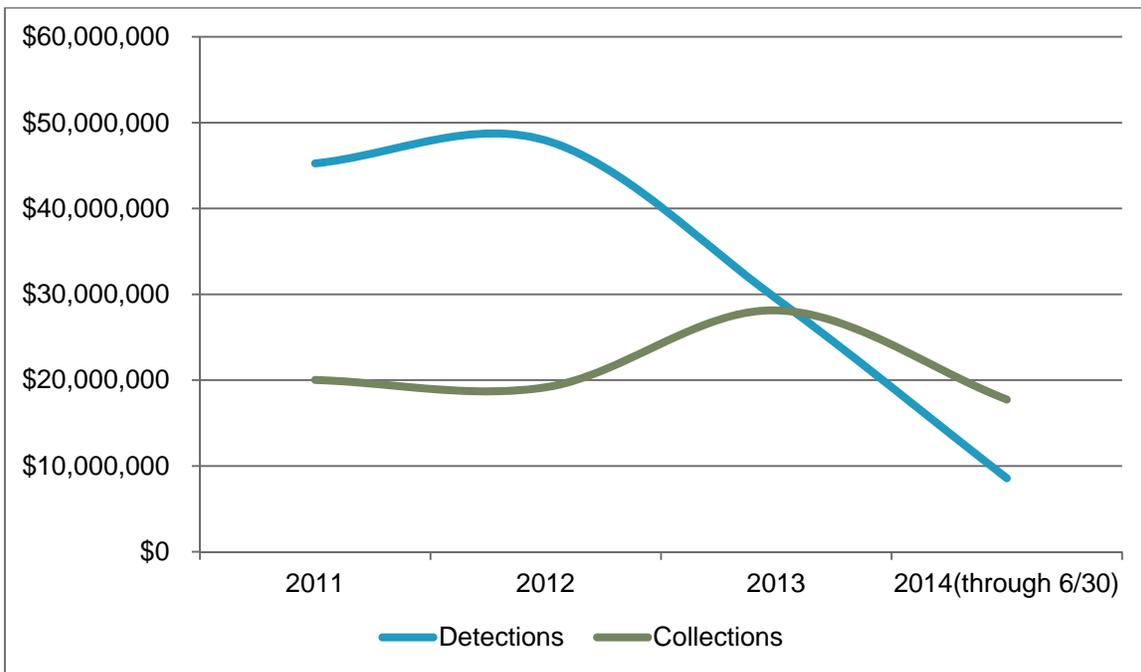
¹¹ United States Department of Labor, <http://workforcesecurity.doleta.gov/unemploy/claimssum.asp>

Table 4: Improper Payment Detection and Collection 2011-2014YTD¹²

Year	Detections	Collections
2011	\$45,256,760	\$20,028,570
2012	\$47,926,067	\$19,169,248
2013	\$29,502,737	\$28,137,103
2014 (through 6/30)	\$8,580,306	\$17,742,082

The same information is plotted in Figure 4.

Figure 4: Improper Payment Detections and Collections, 2008-2014YTD



The majority of improper payments are caused by claimants continuing to file for benefits after they return to work and failing to report their earnings. In the CY2013, this accounted for over 58% of all improper payments.

¹² Based on ETA 227 through 6/30/2014

UI Loan Payments

Between December 2008 and April 2011, the State of South Carolina borrowed nearly \$1 billion from the federal government to continue funding unemployment benefits. The state unemployment tax system underwent a dramatic overhaul in 2011 that allowed South Carolina to cease all borrowing in April 2011. In October 2011, South Carolina made its first voluntary repayment to the federal government. Figure 2 on page 4 shows the monthly loans taken by DEW and the cumulative loan from 2008 to present.

To date, approximately \$731.2 million has been repaid to the federal government through a combination of a one-time increase in federal taxes for tax year 2010 and seven voluntary payments made in 2011, 2012, 2013, and 2014. Table 5 provides detailed repayment information.

Table 5: South Carolina UI Loan Payments, April 2011 – September 2014¹³

Date	Payment(millions)	Reason
Apr-Aug 2011	\$35.30	Increased federal tax required in 2010 ¹⁴
Sep-11	\$115.2	Voluntary Payment
Nov-11	\$68.8	Voluntary Payment
Mar-Jun 2012	\$0.3	Increased federal tax required in 2010
Aug-12	\$106.5	Voluntary Payment
Dec-12	\$0.004	Increased federal tax required in 2010
Mar-13	\$0.01	Increased federal tax required in 2010
May-13	\$144.02	Voluntary Payment
Jun- July 2013	\$0.0034	Increased federal tax required in 2010
Oct-13	\$75	Voluntary Payment
Nov-Dec 2013	\$0.012	Increased federal tax required in 2010
Apr-14	\$60	Voluntary Payment
May-Aug 2014	\$0.024	Increased federal tax required in 2010
Sep-14	\$126	Voluntary Payment
TOTAL	\$731.2	

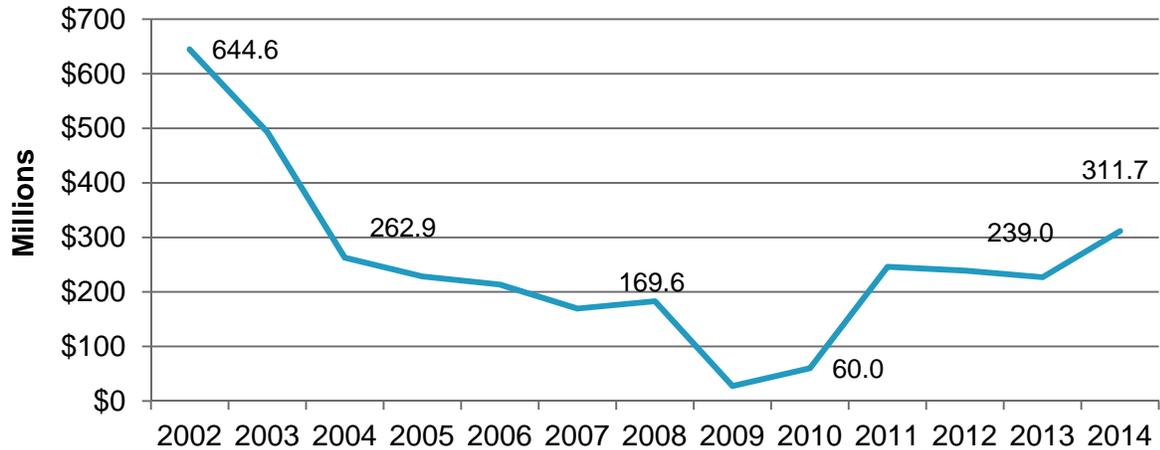
¹³ Treasury Direct Monthly Statements

¹⁴ For tax year 2010, SC employers experienced a 0.3% point increase in their federal unemployment taxes due to the outstanding federal loan. This additional tax collection was sent from the IRS to the federal Treasury to be applied to the state's outstanding loan balance. Due to amended returns, the state occasionally still receives some funding due to this 2010 tax increase.

Trust Fund Balance

As of June 30, 2014 there was an unadjusted balance of \$311,662,005¹⁵ in the state's unemployment trust fund held at the US Treasury in Washington DC. This compares favorably with the trust fund balance at fiscal year-end 2007-2013. As shown in Figure 5, the balance in the UI Trust Fund declined steadily between June 30, 2002 and June 30, 2011. Not shown is that this balance includes loans between 2009 and 2013. The trust fund continues to be in a net negative position given the outstanding loans; however, significant improvement has been experienced since tax reforms in 2011.

Figure 6: UI Trust Fund Balance as of June 30th, 2002-2014



¹⁵ Account Statement June 2014: http://www.treasurydirect.gov/govt/reports/tfmp/tfmp_utf.htm