



SOUTH CAROLINA  
Department of Employment and Workforce

SOUTH CAROLINA  
UNEMPLOYMENT INSURANCE

FY2019

**TRUST  
FUND  
ANNUAL  
ASSESSMENT**

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### EXECUTIVE SUMMARY

**In accordance with South Carolina (SC) Code of Laws § 41-33-45,** the Department of Employment and Workforce (DEW) is required to submit an annual report to the General Assembly, the Review Committee, and the Governor’s Office detailing the applicable funds available in the Unemployment Insurance (UI) Trust Fund, as well as make an assessment of its funding level. This report will outline DEW’s benefit expenditures and SC employer contributions collected for FY19, as well as assess the overall health of the State’s UI Trust Fund to withstand one (1) year of economic downturn as defined by US Department of Labor (USDOL) program recommendations. In addition, it will provide for requirements as outlined in the FY2019-20 Appropriations Act Proviso 83.3.

### CY2020 PROJECTIONS

Based on historical analysis and current economic conditions, DEW projects that approximately \$195.0 million in CY2020 employer contributions will be needed to cover its anticipated \$195.0 million in UI benefit costs<sup>1</sup>.

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<sup>1</sup> CY2020 tax rates will be finalized the first week of November 2019. These values are subject to change.

## Current Unemployment Insurance Trust Fund Status

During the FY19 reporting period, DEW paid out a total of \$159,788,245<sup>2</sup> in unemployment benefits to recipients determined eligible in accordance with SC Code of Laws. Employer contributions collected to fund the state’s UI program (including benefit outlays and trust fund rebuilding) totaled \$322,977,548<sup>3</sup>.

As of June 30, 2019, the UI Trust Fund reached an unadjusted balance of \$1,050,622,227<sup>4</sup>. The agency has reached its recommended solvency standard, as defined by USDOL, with the Trust Fund rebuild in accordance with SC Code of Laws and Regulations; all federal loans were repaid as of June 11, 2015. As a result, the agency’s CY2020 tax rate calculations will not include a solvency surcharge.

## Unemployment Insurance Trust Fund Review

The components of the Trust Fund are defined as follows:

- **Contributions** – Contributions received from employers as of June 30<sup>th</sup>.
- **Interest** – Federal Treasury interest posted to each state’s Trust Fund account quarterly.<sup>5</sup>
- **Benefits** – State funded benefit payments less benefit overpayment recoveries.
- **Fund Balance** – Unadjusted Trust Fund balance
- **Total Wages** – Total covered payroll wages reported by all covered employers for the period beginning July 1 and ending June 30.

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

TABLE 1: UI TRUST FUND COMPONENTS, FY2015-2019

COMPONENT	FY2015	FY2016	FY2017	FY2018	FY2019
<b>Contributions</b>	428,886,783	408,702,921	355,337,119	322,013,056	322,977,548
<b>Earned Interest</b>	N/A	7,192,500	12,208,042	16,935,578	22,086,514
<b>Benefits</b>	193,065,875	176,496,176	171,037,281	171,724,192	159,788,245
<b>Fund Balance<sup>6</sup></b>	175,177,167	461,637,676	678,148,439	\$870,154,660	\$1,050,622,227
<b>Total Wages<sup>7</sup></b>	61.7 billion	65.6 billion	70.0 billion	72.6 billion	77.0 billion

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

<sup>2</sup> Draft Annual Trust Fund Report-Finance Department

<sup>3</sup> *Ibid*

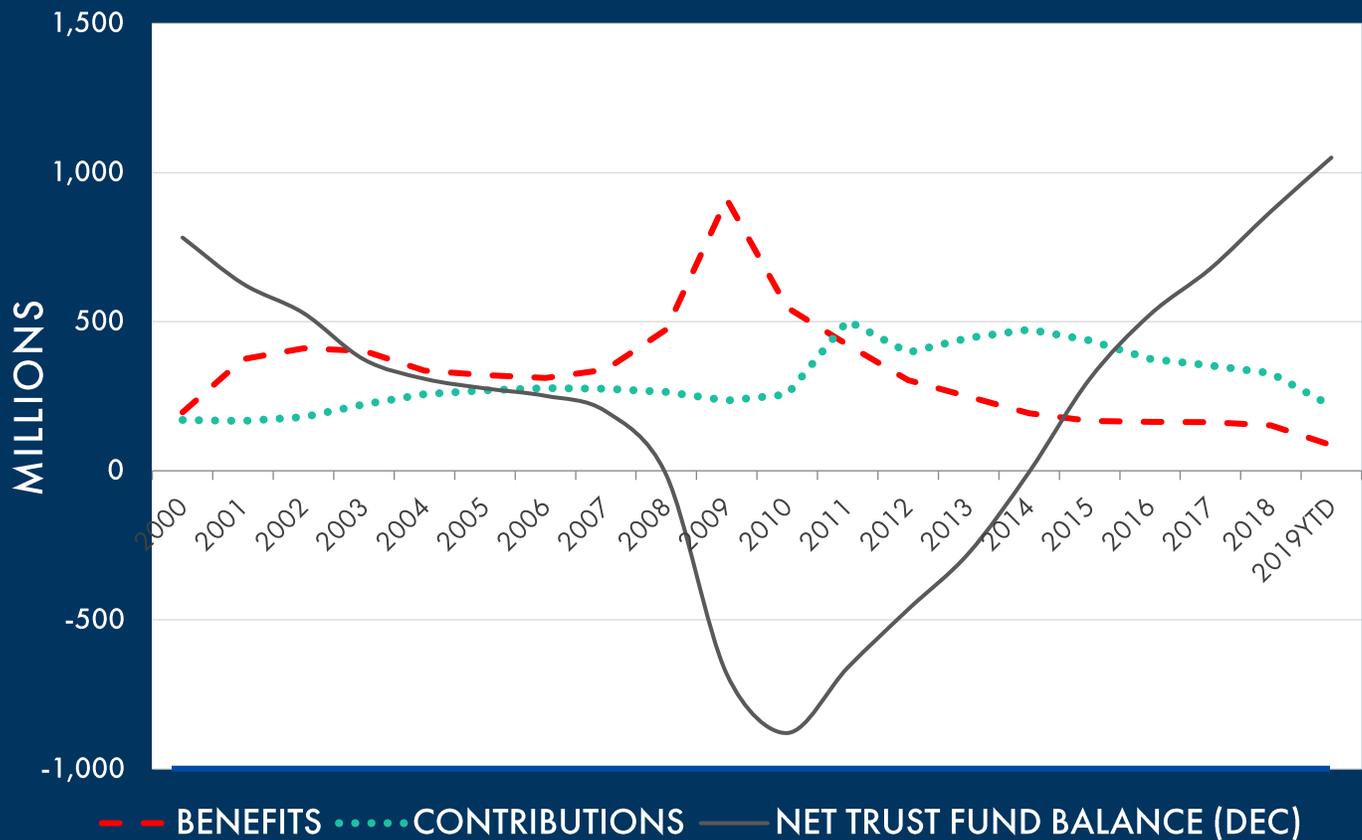
<sup>4</sup> Treasury Direct Account Statements: Jun 2019

<sup>5</sup> No interest is due to the state Trust Fund account from the Federal Treasury when federal advances remain outstanding.

<sup>6</sup> Treasury Direct Account Statements Jun 2015-Jun 2019, Unadjusted

<sup>7</sup> Internal estimates August 12, 2019

FIGURE 1: HISTORICAL CONTRIBUTIONS, BENEFITS, AND FUND BALANCE, CY1997-2019<sup>8</sup>



<sup>8</sup> US Department of Labor: Financial Handbook 394 <http://www.oui.doleta.gov/unemploy/hb394.asp> (information from USDOL excludes all federal advances and other fiscal year-ending adjustments) and ETA2112 Reports

## 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 SC General Assembly has adopted USDOL’s recommendation 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. Pursuant to state law, the agency promulgated regulations, 47-500 and 47-501, to return the trust fund to an adequate balance within 5 years. As of June 30, 2019, the state trust fund on deposit with the US Treasury had a positive, unadjusted balance of \$1,050.7 million.<sup>9</sup>

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

TABLE 2: SOLVENCY STANDARDS AND PROJECTIONS<sup>10</sup>

CALENDAR YEAR	HIGH COST YEARS	AVERAGE HIGH COST RATE	TOTAL WAGES <sup>11</sup> 2 YEARS PRIOR (BILLIONS\$)	TARGET BALANCE (AHCM=1.0) (MILLIONS\$)
2015	1991, 2009, 2010	1.30	\$57.0	\$743.7
2016	1991, 2009, 2010	1.30	\$60.2	\$785.3
2017	1991, 2009, 2010	1.30	\$63.9	\$834.2
2018	1991, 2009, 2010	1.30	\$67.3	\$877.7
2019	1991, 2009, 2010	1.30	\$71.1	\$928.2
2020	1991, 2009, 2010	1.30	\$75.1	\$980.2
2021	<i>1991, 2009, 2010</i>	<i>1.30</i>	<i>\$78.1</i>	<i>\$1,019.4</i>
2022	<i>1991, 2009, 2010</i>	<i>1.30</i>	<i>\$81.3</i>	<i>\$1,060.1</i>

*Projections in italics*

For CY2020, the fund balance has exceeded the adequate target balance as of June 30, 2019. As a result, the agency’s CY2020 tax rate calculations will not include a solvency surcharge.

***It should be noted that this is the first year that the state will not have a solvency surcharge in over a decade.***

<sup>9</sup> Treasury Direct Account Statement: Jun 2019

<sup>10</sup> US Department of Labor: Financial Handbook 394 and Agency calculations

<sup>11</sup> Assumes 4% wage growth 2019 through 2021. The wages are based on calendar year data while the wages in Table 1 are based on fiscal year information.

## Transparency of Funding (Proviso 83.3)

In accordance with FY2019-20 Appropriations Act Proviso 83.3 this report also provides information on 1) state unemployment taxes collected by tax rate 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 UI Trust Fund at fiscal year's end.

### Tax Collections by Tax Rate Class

South Carolina's employer tax rates are set on a calendar year basis in the late fall of each calendar year; i.e. Tax Rates for CY2018 were set in October 2017.

In CY2018, a total of \$321.8 million was paid into the UI Trust Fund from employer contributions to account for the payout of UI benefits and continue to assist with the Trust Fund rebuild to reach an acceptable solvency level<sup>13</sup>. Further, in addition to the base tax rate for benefit and trust fund rebuild surcharge, all businesses in the state are required to pay a 0.06% administrative contingency assessment, totaling approximately \$14.8 million for 2018.

Table 3 shows the estimated contributions paid for CY2018 by each tax rate class.

There are a large number of businesses operating in South Carolina that have an earned experience rating of tax class 1 due to their relative size and lack of layoffs over the preceding three fiscal years. Further, businesses with less than 12 months of liability are assigned a new business tax rate of class 12. This accounts for the large volume of businesses in that category in Table 3.

**Note that any business with a delinquent contribution report or unpaid unemployment taxes is assigned to rate class 20, which accounts for the larger volume of businesses in that category.**

TABLE 3: CONTRIBUTIONS BY TAX RATE CLASS, 2018<sup>12</sup>

TAX RATE CLASS	# OF EMPLOYER ACCOUNTS	BASE + REBUILD CONTRIBUTIONS	CONTINGENCY CONTRIBUTIONS	% OF TOTAL CONTRIBUTIONS
1	62,551	\$35,793	\$3,182,597	1.0%
2	556	\$3,719,703	\$596,749	1.3%
3	434	\$3,955,300	\$584,388	1.3%
4	595	\$4,156,570	\$543,972	1.4%
5	454	\$4,744,614	\$571,343	1.6%
6	307	\$5,366,504	\$577,222	1.8%
7	450	\$6,128,882	\$581,711	2.0%
8	541	\$6,374,142	\$562,169	2.1%
9	585	\$7,489,060	\$587,781	2.4%
10	691	\$7,702,550	\$536,947	2.4%
11	650	\$8,935,675	\$569,520	2.8%
12	28,614	\$26,605,683	\$1,403,458	8.3%
13	907	\$12,087,362	\$569,700	3.8%
14	992	\$19,810,837	\$536,699	6.0%
15	998	\$20,480,958	\$494,306	6.2%
16	1,150	\$24,381,378	\$529,839	7.4%
17	1,190	\$28,394,102	\$565,108	8.6%
18	1,755	\$28,539,017	\$497,633	8.6%
19	1,948	\$31,996,474	\$515,282	9.7%
20	8,519	\$70,943,556	\$752,025	21.3%
<b>TOTAL</b>	<b>113,887</b>	<b>\$321,848,160</b>	<b>\$14,758,446</b>	

<sup>12</sup> CY2018 internal reports as of August 12, 2019

<sup>13</sup> Taxes for CY2018 are collected from Apr 2018 through Mar 2019.

## State Unemployment Benefits Paid

In accordance with SC Code of Laws and Regulations, DEW administers the state's Unemployment Insurance program with a maximum weekly benefit amount of \$326, for up to 20 weeks.

Figure 2 shows the benefits paid by month from January 2008 through July 2019. Monthly benefit payments reached a peak in March 2009 at over \$98 million.

FIGURE 2: MONTHLY UNEMPLOYMENT BENEFIT PAYMENTS, JAN 2008 – JUL 2019<sup>14</sup>



<sup>14</sup> United States Department of Labor, <http://workforcesecurity.doleta.gov/unemploy/claimssum.asp>

## Unemployment Insurance Improper Payments

DEW maintains a Benefit Payment Control (BPC) function that is responsible for the prevention, detection, investigation, and initiation of legal proceedings of improper payments to claimants from the UI program. Table 4 provides information on the number of fraud and non-fraud overpayment cases detected by the agency for the period FY2018 through FY2019, as well as the dollar amounts associated with the overpayments.

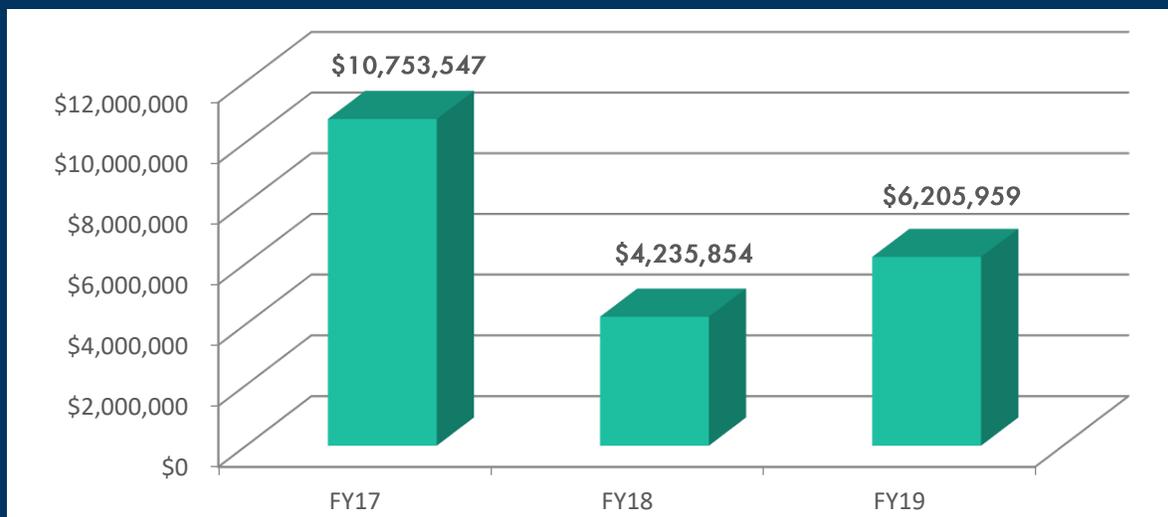
**TABLE 4: IMPROPER PAYMENTS ESTIMATES, FY2017 - FY2018<sup>15</sup>**

	FRAUD		NON-FRAUD		TOTAL	
	FY18	FY19	FY18	FY19	FY18	FY19
<b>Cases</b>	949	1,161	7,179	8,564	8,128	9,725
<b>Dollars</b>	<b>\$1.3m</b>	<b>\$1.7m</b>	<b>\$4.3m</b>	<b>\$4.8m</b>	<b>\$5.6m</b>	<b>\$6.5m</b>

Overall the dollars overpaid increased slightly between FY18 and FY19 by approximately 15.1 percent. The largest source of improper payments is claimants continuing to file for benefits after they return to work and failing to properly report their earnings.

The agency has several means of recouping overpayments made to claimants. Some of the most successful include the federal and state income tax refund intercept programs (TOPs and SOD). Involuntary wage withholding after the claimant returns to work is another avenue for collection for those who do not repay their overpayments or fail to enter into repayment agreements. As overpayments decline, overpayment collections also tend to decline.

**FIGURE 3: OVERPAYMENT COLLECTIONS FY2017-FY2019<sup>16</sup>**



<sup>15</sup> ETA227 overpayment detections for fraud and non-fraud

<sup>16</sup> ETA227 overpayment recoveries for fraud and non-fraud

## Unemployment Insurance Loan Payments

Between December 2008 and April 2011, the state of South Carolina borrowed approximately \$1 billion from the federal government to continue paying unemployment insurance benefits after the depletion of the UI Trust Fund. In coordination with the General Assembly, in 2011, the state restructured the unemployment tax laws in order to establish a loan repayment plan and rebuild the trust fund. In September 2011, South Carolina made its first voluntary repayment to the federal government.

As of June 11, 2015, all loans were repaid to the federal government through a combination of a one-time increase in federal taxes for tax year 2010 and ten voluntary payments made between 2011 and 2015. Table 5 provides detailed repayment information.

**TABLE 5: SOUTH CAROLINA UI LOAN PAYMENTS,  
APR 2011 – SEP 2015<sup>17</sup>**

DATE	PAYMENT (MILLIONS)	REASON
<b>Apr-Aug 2011</b>	\$35.30	Increased federal tax required in 2010 <sup>18</sup>
<b>Sep-11</b>	\$115.2	Voluntary Payment
<b>Nov-11</b>	\$68.8	Voluntary Payment
<b>Mar-Jun 2012</b>	\$0.3	Increased federal tax required in 2010
<b>Aug-12</b>	\$106.5	Voluntary Payment
<b>Dec-12</b>	\$0.004	Increased federal tax required in 2010
<b>Mar-13</b>	\$0.01	Increased federal tax required in 2010
<b>May-13</b>	\$144.02	Voluntary Payment
<b>Jun- July 2013</b>	\$0.0034	Increased federal tax required in 2010
<b>Oct-13</b>	\$75	Voluntary Payment
<b>Nov-Dec 2013</b>	\$0.012	Increased federal tax required in 2010
<b>Apr-14</b>	\$60	Voluntary Payment
<b>May-Aug 2014</b>	\$0.024	Increased federal tax required in 2010
<b>Sep-14</b>	\$126	Voluntary Payment
<b>Nov-14</b>	\$0.001	Increased federal tax required in 2010
<b>Dec-14</b>	\$75.00	Voluntary Payment
<b>Jan-15</b>	\$0.013	Increased federal tax required in 2010
<b>Mar-15</b>	\$75.00	Voluntary Payment
<b>Jun-15</b>	\$120.50	Voluntary Payment
<b>TOTAL</b>	<b>\$1,001.70</b>	

<sup>17</sup> Treasury Direct Monthly Statements

<sup>18</sup> 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.

# Unemployment Insurance Trust Fund Balance

As of June 30, 2019 there was an unadjusted balance of \$1,050,622,227<sup>19</sup> in the state’s UI trust fund held at the US Treasury in Washington DC. As shown in Figure 4, the balance in the UI Trust Fund declined steadily between June 30, 2002 and June 30, 2011 but has begun to recover over the past eight years. Not shown is that these balances include loans between 2009 and 2015. The trust fund balance as of June 30, 2015 does not include any outstanding loans as they were repaid in full on June 11, 2015. The timing of the last loan payment accounts for the lower trust fund total in 2015 compared to 2014.

FIGURE 4: UI TRUST FUND BALANCE AS OF JUNE 30, 2002-2019



## Conclusion

FY2019 was an important year for the South Carolina UI Trust Fund. The agency has restored the Trust Fund to a level that is considered adequate to withstand a moderate recession per state regulations and federal recommendations. Benefit payments continue to remain at historic lows as the state’s economy has continued to expand. Tax year 2020 will be the first year that no solvency surcharge will be imposed on the state’s businesses in over a decade.

<sup>19</sup> Account Statement June 2019: [http://www.treasurydirect.gov/govt/reports/tfmp/tfmp\\_utf.htm](http://www.treasurydirect.gov/govt/reports/tfmp/tfmp_utf.htm)



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