# State Unemployment Funds:

## Implications for Michigan's Budget

Presentation for

**National Conference of State Legislatures**
**Summer Forum**
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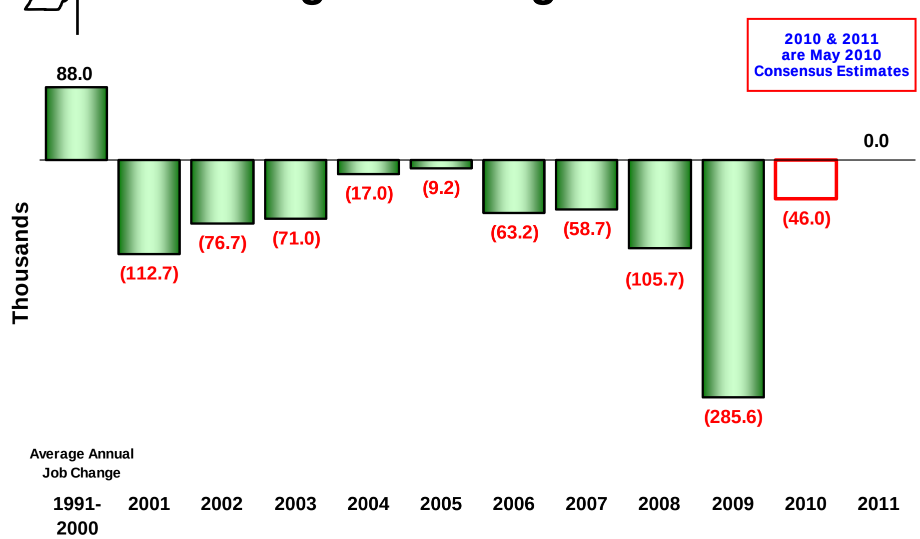
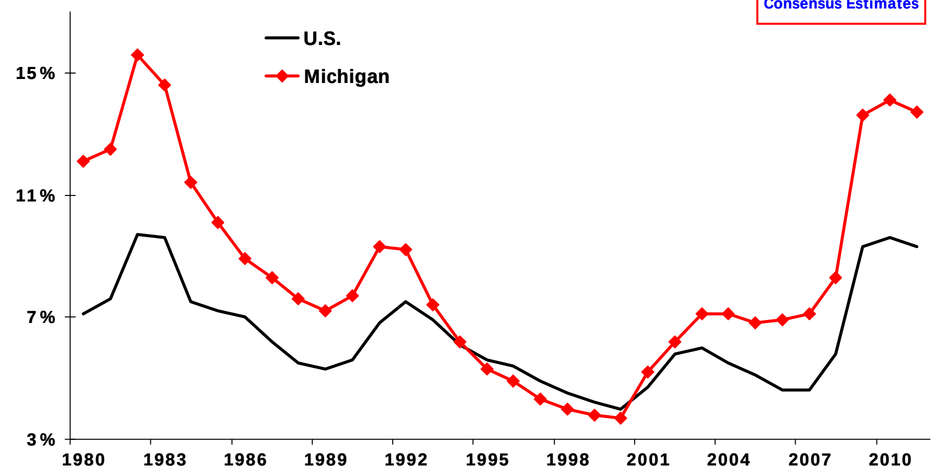
# Job Change in Michigan




*Source: U.S. Bureau of Labor Statistics and May 2010 Consensus Estimates*

# U.S. and Michigan Unemployment Rates

2010 & 2011 are May 2010 Consensus Estimates

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*Sources: U.S. Bureau of Labor Statistics and May 2010 Consensus Estimates*

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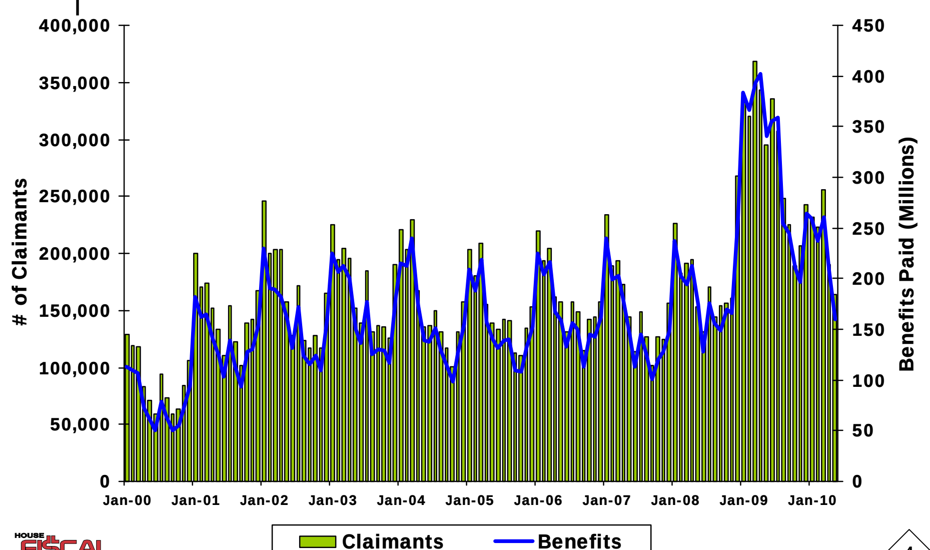
# Regular UI Benefits and Claimants

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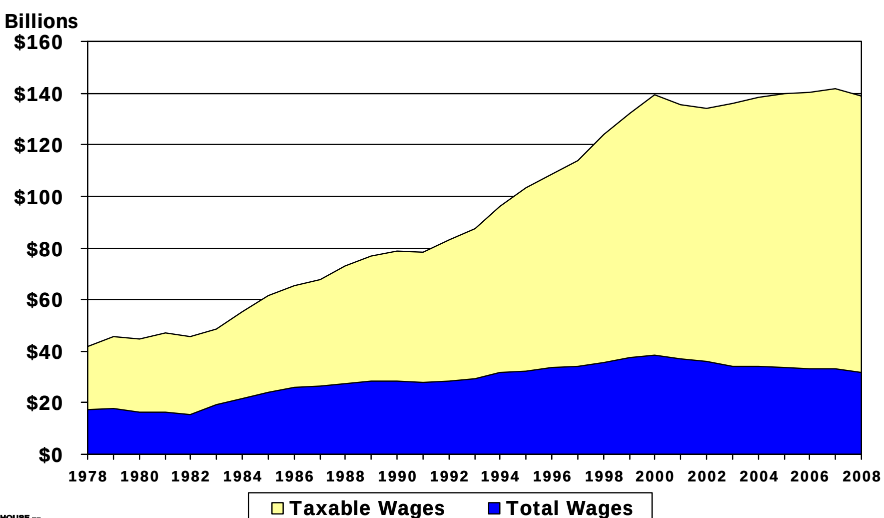
# Tax Structure of Trust Fund

- Taxable Wage Base: $9,000
  - Reduced in 2002 from $9,500
  - Not indexed for inflation or growth in wages
- Tax Rate:
  - Experience rated
  - New employer rate: 2.7% (first two years)
  - Three components:
    - Chargeable Benefits Component (CBC)
    - Account Building Component (ABC)
    - Nonchargeable Benefits Component (NBC)
- No "solvency trigger" based on UTF balance
- CY 2009 Contributions: $1,302,742,167

*Source: Department of Energy, Labor, & Economic Growth*



# Taxable Wages vs. Total Wages



## How We Got There

- Layoffs in Michigan have dramatically reduced the Trust Fund Balance from an all-time high of $3.1 billion in 2000
- Current Loan Balance: $3.8 billion
- Total Regular Benefits Paid:
  - CY 2008: $2.2 billion (513,255 1st payments)
  - CY 2009: $3.8 billion (652,819 1st payments)
- State UI Tax Contributions:
  - CY 2008: $1.5 billion
  - CY 2009: $1.3 billion
- Continued layoffs pose the biggest threat to the fund

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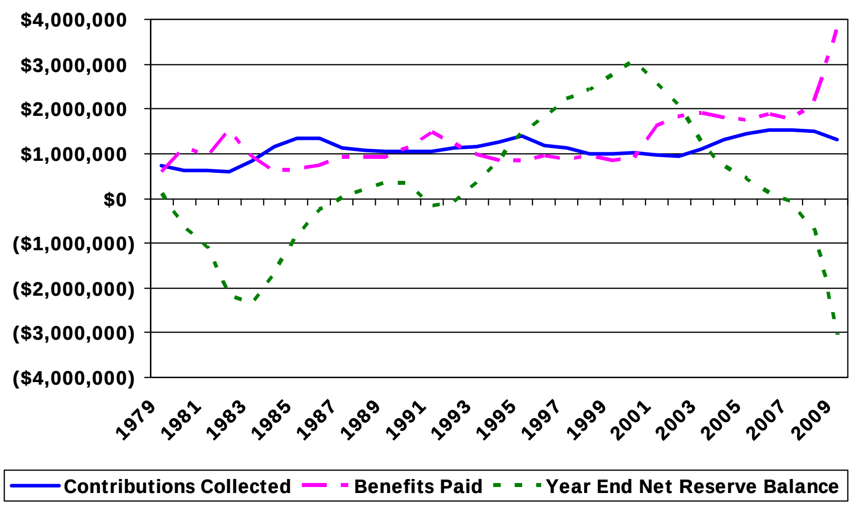
## Contributions/Benefits/Fund Balances

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*Source: U.S. Department of Labor*

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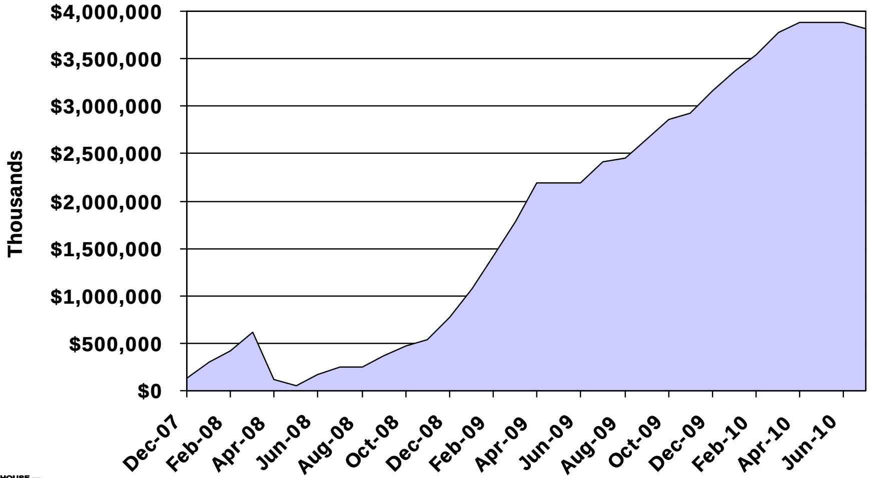
## Monthly Outstanding Title 12 Advances

**December 2007 - July 2010**

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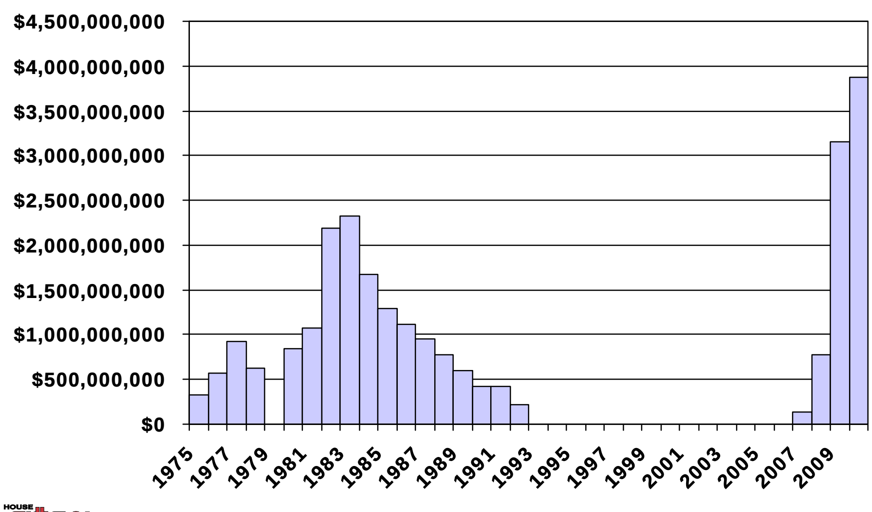
## Outstanding Title 12 Advances

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*Sources: National Association of State Workforce Agencies*

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## Consequences of Borrowing

- State Solvency Tax: Only to pay interest obligations
  - Imposed on "negative balance" employers (approx. 23%)
  - Rate: 0.75% (maximum)
  - Equals $67.50 per employee
  - Previously in place during the mid-1980s
  - Scheduled to take effect on January 2009
  - Suspended as long as ARRA waives interest on Title 12 advances
  - Will be re-instated in January 2011

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## Federal Consequences on Michigan Employers

- FUTA Credit Reduction: Used to re-pay principle
  - Went into effect on January 2009
  - Collected beginning in January 2010 FUTA Returns (1st state during current recession)
  - Rate increases in yearly increments of 0.3% ($21/employee)
  - Imposed on all contributing employers
  - State law provides a 50% credit for "positive balance" employers

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## Immediate Budgetary Issues

- Estimated Interest Liability: $150 million
- Estimated Solvency Tax Revenue: $50 million
- Shortfall: $100 million
  - Previous fund shifts (2003, 2004) depleted fund balance
- Options
  - Budget for it amid other budgetary constraints
  - Increase the solvency tax
  - Delay the payment by 9 months ("High-Unemployment" Delay)
  - Urge congress to extend the waiver period



www.house.mi.gov/hfa

## Sample Tax Calculation

Form UIA 1771 (Tax Rate Determination) gives you all the information you will need to calculate your unemployment tax rate. Suppose, for example, your Form UIA 1771 showed the following numbers:

ACTUAL RESERVE: ......................................50,100.20
TOTAL PAYROLL (12 Months): .................2,428,871.34
REQUIRED RESERVE: .................................91,082.68
TAXABLE PAYROLL (60 Months): .............2,972,332.91
BENEFIT CHARGES (60 Months): .................32,869.00

### Chargeable Benefits Component:

The calculation is done this way:

$$\frac{\text{60 months of benefit charges (ending 6/30)}}{\text{60 months of taxable payroll (ending 6/30)}} = \text{CBC}$$

Taking the sample numbers from above:

$$\frac{32{,}869.00}{2{,}972{,}332.91} = .0110 = \mathbf{1.1\%}$$

The result is rounded to the next higher 0.1%. (In this example, the fourth decimal place was a "zero," and no rounding was done.)

### Account Building Component:

The calculation is done this way:

$$\frac{\text{(Required Reserve) - (Actual Reserve) X 2}}{\text{12 months of total payroll (ending 6/30)}} = \text{ABC}$$

Taking the sample numbers from above:

$$\frac{(91{,}082.68 - 50{,}100.20) \text{ X } 2}{2{,}428{,}871.34} = 0.0084 = \mathbf{0.9\%}$$

If there is **any** remainder (as there is here with the "4" in the fourth place to the right of the decimal), the result is rounded up to the next higher 0.1%.

### Nonchargeable Benefits Component:

This component can range from **.06%** to **1.0%** for employers who have been in business for four or more years. The longer an employer goes without having benefit charges, the lower this rate can drop, until it reaches **.06%.**

### Unemployment Tax Rate:

For an employer with five or more years of business experience, the unemployment tax rate is computed by adding together the three components:

Chargeable Benefits Component: ..... 1.1%
Account Building Component ............ 0.9%
Nonchargeable Benefits Component: 1.0%
**UNEMPLOYMENT TAX RATE: ........ 3.0%**

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The state UI tax is determined by three components.

1. **Chargeable Benefits Component (CBC):** The CBC rate looks at the amount of benefits charges to an employers account over the 60-month (5-year) period ending on the previous June 30th. This amount then divided by the total taxable payroll over that same time period. This amount is then rounded up to the next 0.1%. The CBC rate ranges from zero to 6.3%.

$$\textbf{CBC} = \frac{\textbf{60 months of benefit charges}}{\textbf{60 months of taxable payroll}}$$

2. **Account Building Component (ABC):** The ABC rate aims to ensure the solvency of the UI system, by increasing the tax rate of employers whose UI account do not meet certain solvency standards. The ABC rate divides one-half of the difference between an employer's "actual reserve" and its "required reserve" by the total payroll (not just taxable payroll) for the 12-month period ending the previous June 30th.

$$\textbf{ABC} = \frac{\textbf{[Required Reserve - Actual Reserve] x 0.5}}{\textbf{12 months of total payroll}}$$

   The **"required reserve"** is 3.75% of an employer's total payroll for the 12-month period ending the previous June 30th**.**

   The **"actual reserve"** is the total amount of state UI taxes the employer has paid (based on the ABC and CBC components), less the total amount of benefits charged against the employer.

   The amount of this calculation is rounded up to the next 0.1%, and cannot exceed 3.0%. Employers whose actual reserve is less than the required reserve are known as "negative balance employers".

   *The Solvency Tax is capped at 2% or 1/4 of the ABC rate, whichever is less. The maximum ABC rate is 3.0%, so the Solvency Tax is 1/4 × 3%, or 0.75%.*

3. **Nonchargeable Benefits Component (NBC):** The NBC rate is not experienced rated, and is generally 1.0%, although it can be lower, if the employer has few benefit charges.

   **a.** If the CBC rate is less than 0.2%, the NBC rate is 0.5%.
   **b.** If the employer has no benefit charges for the last 5 years, the NBC rate is 0.1%.
   **c.** If the employer has no benefit charges for the last 6 years, the NBC rate is 0.09%.
   **d.** If the employer has no benefit charges for the last 7 years, the NBC rate is 0.08%.
   **e.** If the employer has no benefit charges for the last 8 years, the NBC rate is 0.07%.
   **f.** If the employer has no benefit charges for the last 9 years, the NBC rate is 0.06%. The minimum rate is 0.06%.

   The NBC rate is generally used to pay the cost of UI benefits that are pooled among employers and not charged directly to a specific employer's experience account. A common example of "non-chargeable benefits" would be benefits that are payable to the former employees of an employer that has gone out of business.