



Unemployment Insurance ADVISORY COMMITTEE



Employment Security Department
WASHINGTON STATE

October 14, 2020

UI Tax Policy Options



**Employment
Security
Department**
WASHINGTON STATE

Unemployment Insurance Advisory Committee Presentation

October 14, 2020

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Goals



- Review COVID-19 Unemployment Account, experience rate tax reductions and use of CARES Act funding.
- Review social tax policy options and implications for federal borrowing.
- Solicit additional options to model.

Unemployment-insurance trust fund: September 2020 Baseline Forecast							
(based on reported in the 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	\$ 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	\$ -
Total average tax rate (experience tax + social tax)	1.08%	0.94%	1.70%	2.57%	2.43%	2.22%	1.77%
Total tax contributions	\$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	\$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	\$0.0	\$30.0	\$150.0	\$0.0	\$0.0	\$0.0	\$0.0
Reimbursable benefit payments	\$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
Trust fund							
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
Ending trust fund balance (as of 12/31)	\$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

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.
- Experience tax rates for 2021 will be based upon the experience rating between July 2016 through June of 2020.
- Per state statute, the taxable wage base was \$52,700 in 2020 and is \$56,500 in 2021.
- The average experience tax was .78% in 2020 and will be .97% in 2021.

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

COVID-19 Unemployment Account

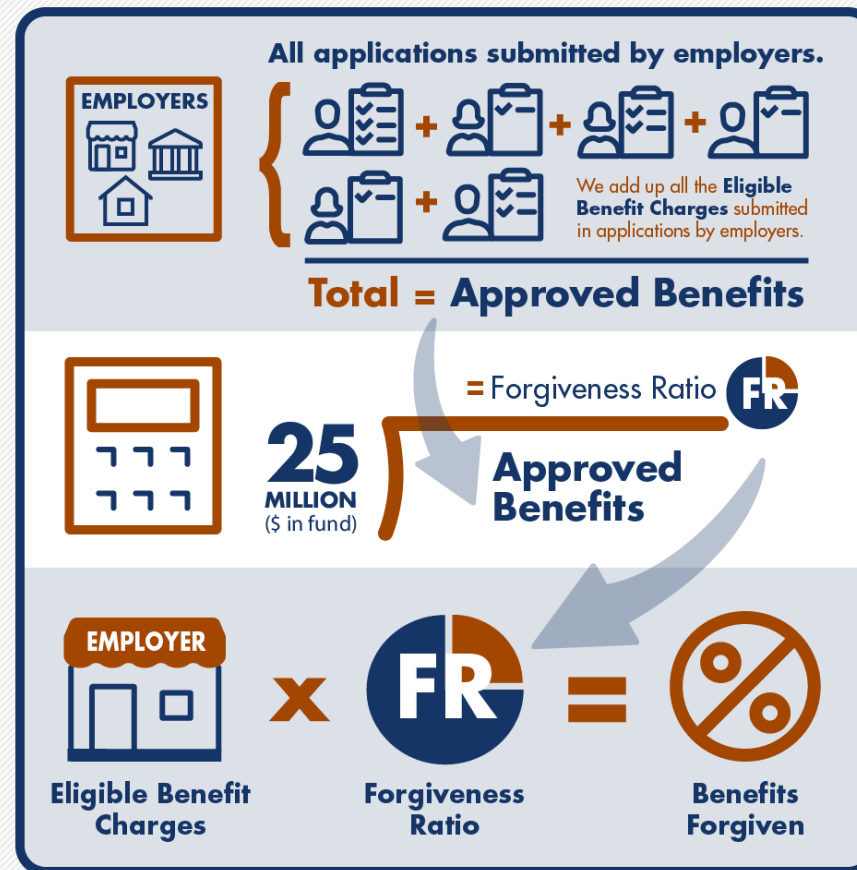


- HB 2965 appropriates \$25 million from the Budget Stabilization Account to the COVID-19 Unemployment Account.
- Employers who have employees receiving UI benefits as a direct or indirect result of the COVID-19 outbreak needed to apply by September 30, 2020 for the COVID-19 Unemployment Account to cover the unemployment benefit charges.
- Approved applications will not be charged to the employer's experience rating account.
- If relief requested exceeds \$25 million, benefit relief charges are applied proportionally.

Experience rate: Benefit Charge Offsets



- \$25 million available
- Roughly 4,590 businesses applied (count ongoing)
- Relief requested represents roughly 144,000 workers
- Approximately \$275.85 million in relief requested
- 9.06299% proportional benefit relief



COVID-19 Unemployment Account: CARES Act Funding



- Increased funding would increase the ratio of benefit forgiveness for business that applied, but 4,590 represents only 2.5% of all WA businesses (184,120 qualified employers in 2020).

CARES Act Funding	Forgiveness Ratio
\$25 million	9.1%
\$50 million	18.1%
\$75 million	27.1%

- A 10% reduction in total benefit charges, **\$192 million**, would be needed to bring the average experience rate tax from 1.60% to 1.45% in 2022.

Social Tax



- The “flat social tax” is an annual tax calculation (July 1-June 30) 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
- 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).
- For the flat social rate to be lower in 2021 (1.21%) would have required **\$415 million less** in benefit payments made.

Components of Annual Tax calculation – Social tax

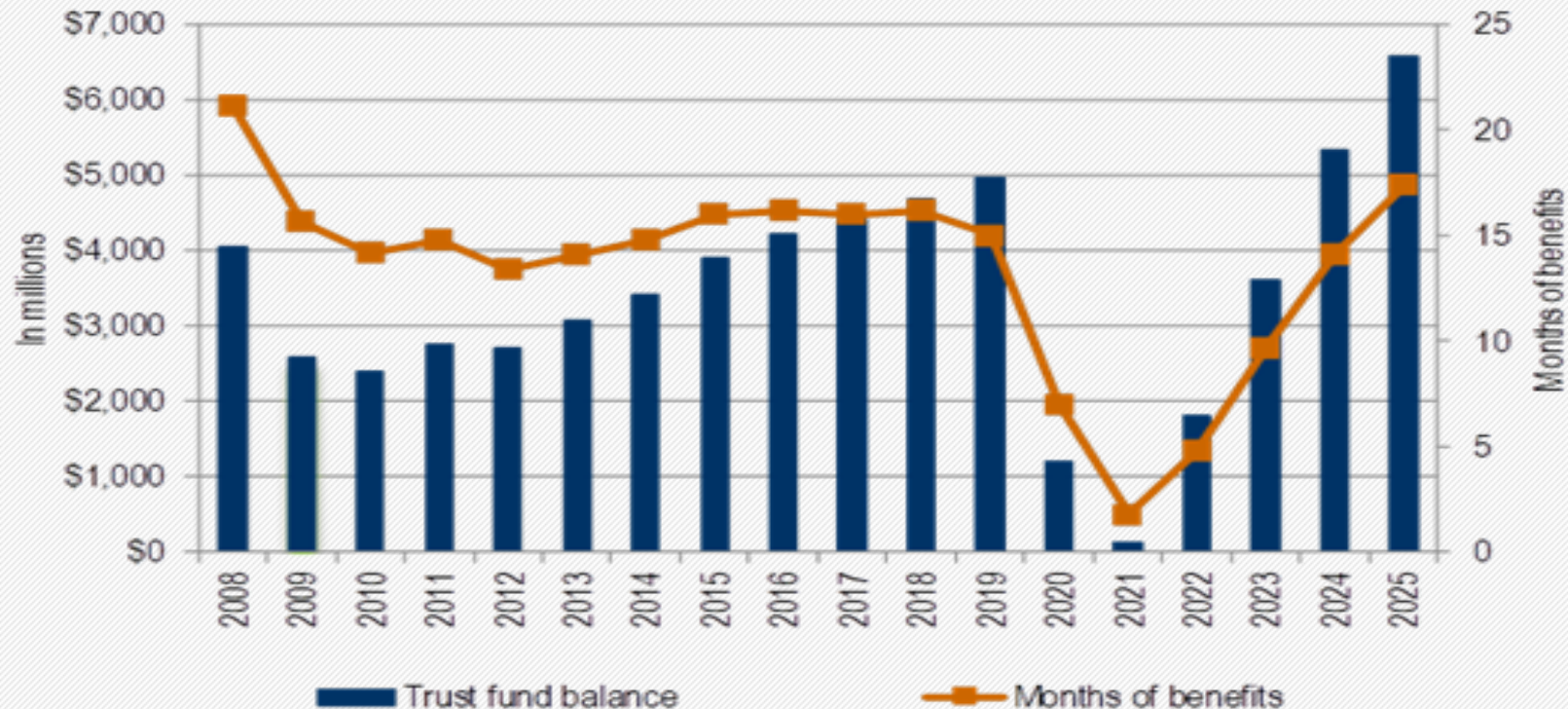


Rate class	Graduation factor	Flat Social Cost Factor (2020)	Graduated Social Cost Factor (2020)	Flat Social Cost Factor (2021 - projected)	Graduated Social Cost Factor (2021 - projected)	Difference
1	40%	0.25%	0.10%	1.22%	0.49%	0.39%
2	44%	0.25%	0.11%	1.22%	0.54%	0.43%
3	48%	0.25%	0.12%	1.22%	0.59%	0.47%
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%

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)



Federal Loan Terms



- If a state has an outstanding loan balance on Jan. 1 for two consecutive years and does not pay the full amount of its loans by Nov. 10 of the second year (i.e. 2023) the Federal Unemployment Tax Act (FUTA) tax credit for employers will be reduced until the loan is repaid.
- Should the state not pay off loans within the provided period, the FUTA tax credit reduction schedule is adjusted up .3% (on the first \$7,000 in wages) for the first year and each subsequent year until the state has repaid its loan in full.
- States have flexibility in determining when and how to repay Title XII advances based on trust fund projections using revenue to pay benefits and repay loan when borrowing is no longer necessary.

Social Tax Policy Options



- Adjustments to 1.22% flat social tax in 2021 assuming no interest on federal loans

UI tax options (2021)				
(in millions)	Flat social tax ceiling reduced to 1.0%	Flat social tax ceiling reduced to 0.75%	Flat social tax ceiling reduced to 0.50%	Flat social tax ceiling reduced to 0.25%
Trust fund balance (12/31/2021)	\$ 156,921,747	\$ (11,078,965)	\$ (177,988,068)	\$ (345,562,306)
Trust fund balance (12/31/2022) with loan	\$ 1,808,696,266	\$ 1,916,264,611	\$ 1,922,608,965	\$ 1,979,423,251
Trust fund balance (12/31/2023) with loan paid back	\$ 3,607,578,483	\$ 3,117,861,353	\$ 2,724,365,808	\$ 2,282,613,824
Trust fund balance (12/31/2024) with loan paid back	\$ 5,324,159,262	\$ 4,822,083,948	\$ 4,418,658,404	\$ 3,965,758,652
Estimated amount of borrowing	\$ -	\$ 300,000,000	\$ 500,000,000	\$ 750,000,000
Flat social tax in 2022, 2023 and 2024	(1.22%, .60%, .60%)	(1.22%, .60%, .60%)	(1.22%, .60%, .60%)	(1.22%, .60%, .60%)
Solvency tax years	2022-2023	2022-2023	2022-2023	2022-2023

Trust Fund Loan: Federal Interest



- Loans are currently interest free through 2020 with an extension by Congress and the Administration needed to provide interest free loans in 2021.
- Advances from federal government accrue interest daily.
- Annual interest rate charged for the year is the same rate as what the Unemployment Trust Fund earned during the fourth quarter of the previous year (3rd quarter 2020 rate was 2.2783%).
- Cannot use trust fund to pay interest; can only use trust fund to pay principal
- Per [RCW 50.16.070](#), ESD can charge a separate tax of up to .15% on employers for any quarter in which there will be an interest-accruing federal advance at the end of the quarter.

Next Steps



- Additional scenarios to run?
- Outstanding questions?