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Nikki R. Haley
Governor

Cheryl M. Stanton
Executive Director

October 1, 2013

The Honorable Nikki R. Haley
Governor of South Carolina
1205 Pendleton St.
Columbia, SC 29201

Dear Governor Haley,

In accordance with Proviso 83.5 of the South Carolina FY2013-14 Appropriation Act and South Carolina Code §41-33-45, please accept a copy of the South Carolina Department of Employment and Workforce's (DEW) Annual Trust Fund and Transparency of Funding Report. A copy of this report will also be placed on our website at dew.sc.gov.

This report provides detailed information regarding state unemployment taxes, unemployment benefit payments, program integrity statistics, federal loan payments, and the state's trust fund balance.

Please let me know if there is any additional information that we can provide to you or if you have any questions regarding the information contained in the report.

Sincerely,

Cheryl M. Stanton
Executive Director

Attachments

cc: The South Carolina General Assembly

South Carolina Unemployment Insurance Trust Fund Annual Assessment FY2013

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 General Assembly, the Review Committee, and to the Governor indicating the amount in the unemployment 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

The Trust Fund became insolvent in December 2008 (FY2009). Unemployment benefit outlays for FY2013 totaled \$258,801,120. Revenues generated to fund the unemployment insurance programs totaled \$411,039,535.

As of June 30, 2013 the Unemployment Compensation Trust Fund had a positive adjusted balance of \$328,787,740¹ but only with a federal loan of \$531,557,413. The trust fund balance excluding federal advances would be -\$202,769,674. The health of the trust fund has improved dramatically over the past fiscal year. 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 outstanding federal loan and benefit payments to unemployed individuals as the economy continues to recover.

Future Outlook

Based on current economic conditions, it is projected that approximately \$304.6 million in state UI benefits will be paid in FY2014. Legislative changes made in May 2010 raised the taxable wage base for CY2011 to the first \$10,000 of wages, up from the first \$7,000 in CY2010. The taxable wage base increased to \$12,000 for CY2012. The taxable wage base will next increase in January 2015. The changes to the unemployment insurance tax system also restructured the method used to determine contributions due. The projection for contributions to be raised in FY2014 is \$494.9 million, which more closely matches the anticipated revenue needs of the system.

¹ 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.

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South Carolina Unemployment Insurance Trust Fund Annual Assessment FY2013

Full Report

Current Unemployment Compensation Fund Status

The adjusted Unemployment Compensation Fund balance as of June 30, 2013 was \$328,787,740². No federal advances were needed to pay state UI benefits during FY2013. Cumulative advances from the federal government as of June 30, 2013 totaled \$531,557,413.

Recent Unemployment Compensation Fund History

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

Table 1: Unemployment Compensation Fund Components, FY2008-2013

Component	FY2008	FY2009	FY2010	FY2011	FY2012	FY2013
Advances³	0	344,881,505	541,780,847	115,174,767	0	0
Contributions	272,372,131	244,700,285	289,312,460	508,568,694	388,907,575 ⁴	411,039,535
Interest	10,040,353	2,326,473	-	-	-	-
Benefits	393,882,441	767,107,651	776,761,390	502,607,650	410,431,401	258,801,120
Adjustments	5,282,067	31,695,096	(8,979,549)	-	16,970,735	(150,334,600)
Fund Balance	203,042,583	59,538,291	104,890,659	323,207,676	326,883,925	328,787,740
Total Wages	53.0 billion	50.7 billion	49.3 billion	51.9 billion	54.0 billion	55.1 billion

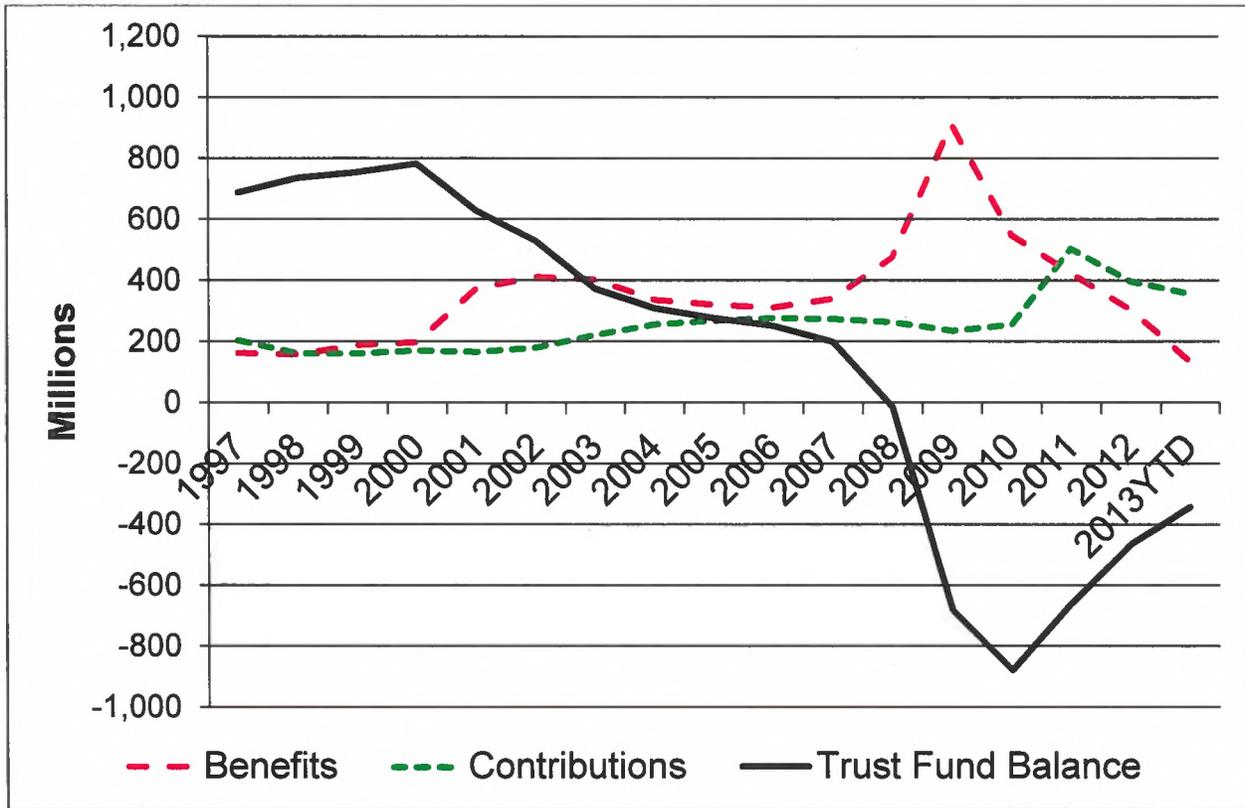
Note: Certain adjustments have been made to correctly carry-forward prior year balance.

² 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. The trust fund balance excluding federal advances would be -\$202,769,674.

³ By fiscal year; **not** cumulative

⁴ 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

Figure 1: Historical Contributions, Benefits, and Fund Balance, CY1997-2013⁵



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.⁶
- 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.

Overview of Advances

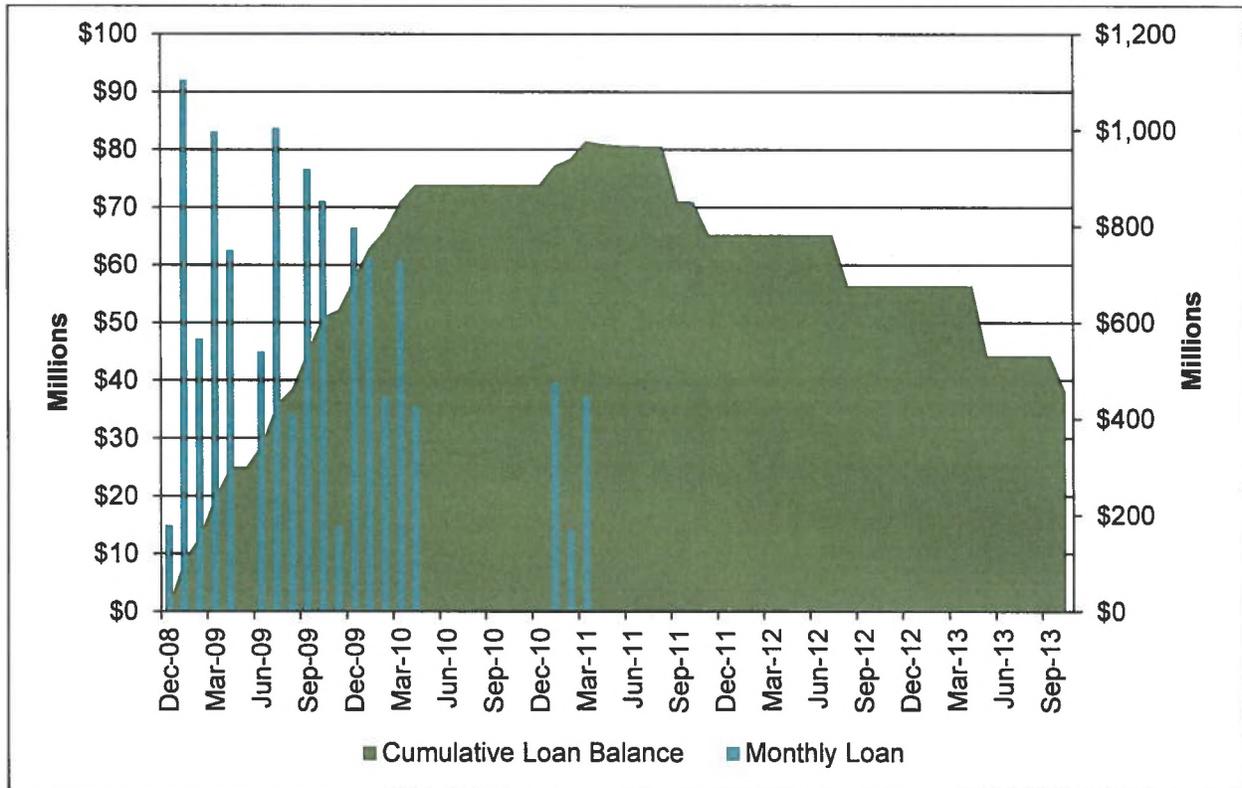
The UI Trust Fund became insolvent in December 2008 and was required to draw significant federal unemployment advances between December 2008 and April 2010. Additional federal advances were required between January – April 2011. Figure 2 shows the borrowing by month since December 2008. An improvement 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

⁵ US Department of Labor: Financial Handbook 394 (information from USDOL excludes all federal advances and other fiscal year-ending adjustments)

⁶ No interest is due to the state Trust Fund account from the Federal Treasury when federal advances remain outstanding.

Labor, and the new tax structure 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.

Figure 2: Monthly and Cumulative Advance Balance , December 2008-December 2013



Solvency Standards

The most widely accepted measure of trust fund solvency is known as the Average High Cost Multiple (AHCM). 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 Projections⁷

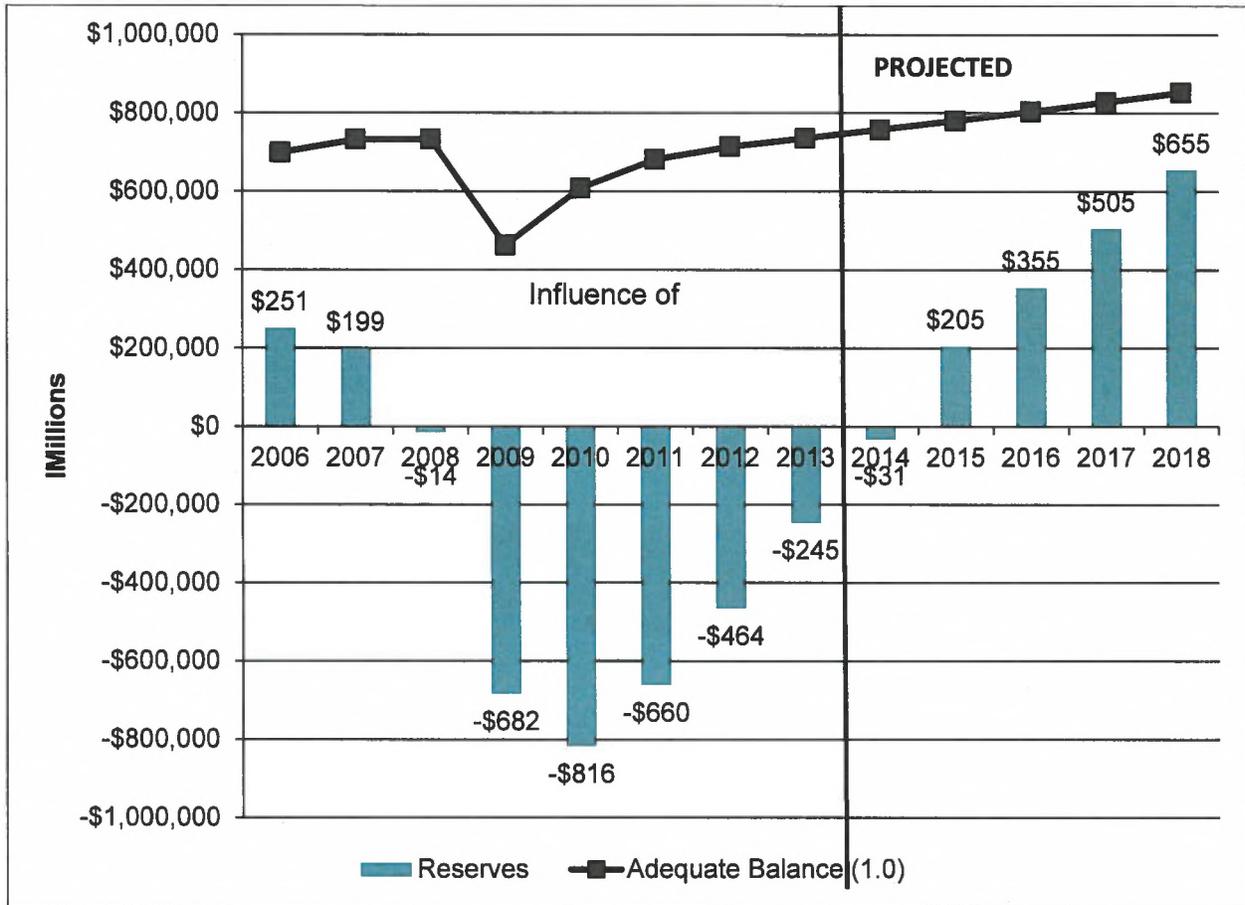
Calendar Year	High Cost Years	Average High Cost Rate	Actual Reserves (in millions \$)	Required Reserves (AHCM=1.0) (in millions\$)
2005	1981, 1982, 1983	1.38	\$276,459	\$656,823
2006	1981, 1982, 1983	1.38	\$251,315	\$698,857
2007	1981, 1982, 1983	1.38	\$199,183	\$732,202
2008	1981, 1982, 1983	1.38	\$-14,246	\$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	\$681,425
2012	1991, 2009, 2010	1.30	-\$464,860	\$714,167
2013	<i>1991, 2009, 2010</i>	<i>1.30</i>	<i>-\$245,860</i>	<i>\$735,592</i>
2014	<i>1991, 2009, 2010</i>	<i>1.30</i>	<i>-\$31,860</i>	<i>\$757,660</i>
2015	<i>1991, 2009, 2010</i>	<i>1.30</i>	<i>\$205,140</i>	<i>\$780,389</i>
2016	<i>1991, 2009, 2010</i>	<i>1.30</i>	<i>\$355,140</i>	<i>\$803,801</i>
2017	<i>1991, 2009, 2010</i>	<i>1.30</i>	<i>\$505,140</i>	<i>\$827,915</i>
2018	<i>1991, 2009, 2010</i>	<i>1.30</i>	<i>\$655,140</i>	<i>\$852,753</i>

Projections in italics

The same information presented in Table 2 is plotted in Figure 3.

⁷ US Department of Labor: Financial Handbook 394

Figure 3: Solvency Standards and Projections⁸



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.

Transparency of Funding (Proviso 83.5)

In accordance with FY2013-14 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 CY2012 were set in October 2011. In July 2012 the General Assembly appropriated additional funds to

⁸ US Department of Labor: Financial Handbook 394

the South Carolina Department of Employment and Workforce (SCDEW) which resulted in the issuance of revised tax rates in September 2012.

In CY2012, a total of \$488.2 million was collected in the form of state unemployment taxes. 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 CY2012 by each tax class.

Table 3: Contributions by Tax Rate Class, 2012⁹

Tax Rate Class	# Liable Businesses	Base Tax Contributions	Interest and Contingency Contributions	% of Total Contributions
1	44,770	\$74,736	\$1,620,379	0.3%
2	2,061	\$5,077,755	\$834,359	1.2%
3	1,631	\$5,662,720	\$870,414	1.3%
4	1,227	\$5,798,321	\$840,802	1.4%
5	850	\$6,974,581	\$972,754	1.6%
6	1,493	\$7,774,468	\$1,012,683	1.8%
7	1,030	\$10,974,937	\$1,378,800	2.5%
8	1,547	\$8,839,379	\$1,051,605	2.0%
9	1,600	\$11,195,025	\$1,287,678	2.6%
10	1,546	\$12,028,861	\$1,326,105	2.7%
11	1,697	\$12,140,638	\$1,293,338	2.8%
12	25,006	\$30,975,272	\$3,161,983	7.0%
13	2,111	\$28,596,157	\$2,470,510	6.4%
14	2,404	\$29,394,116	\$2,487,886	6.5%
15	2,847	\$33,075,882	\$2,747,180	7.3%
16	2,833	\$37,347,864	\$3,057,708	8.3%
17	2,995	\$41,177,744	\$3,309,267	9.1%
18	2,465	\$43,417,551	\$3,439,671	9.6%
19	3,497	\$49,814,134	\$3,896,366	11.0%
20	8,122	\$65,764,607	\$5,037,448	14.5%
Total	111,732	446,104,746	42,096,938	

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

⁹ Internal reports of CY2012 contributions, contingency, and interest surcharge payments by tax class as of August 28, 2013.

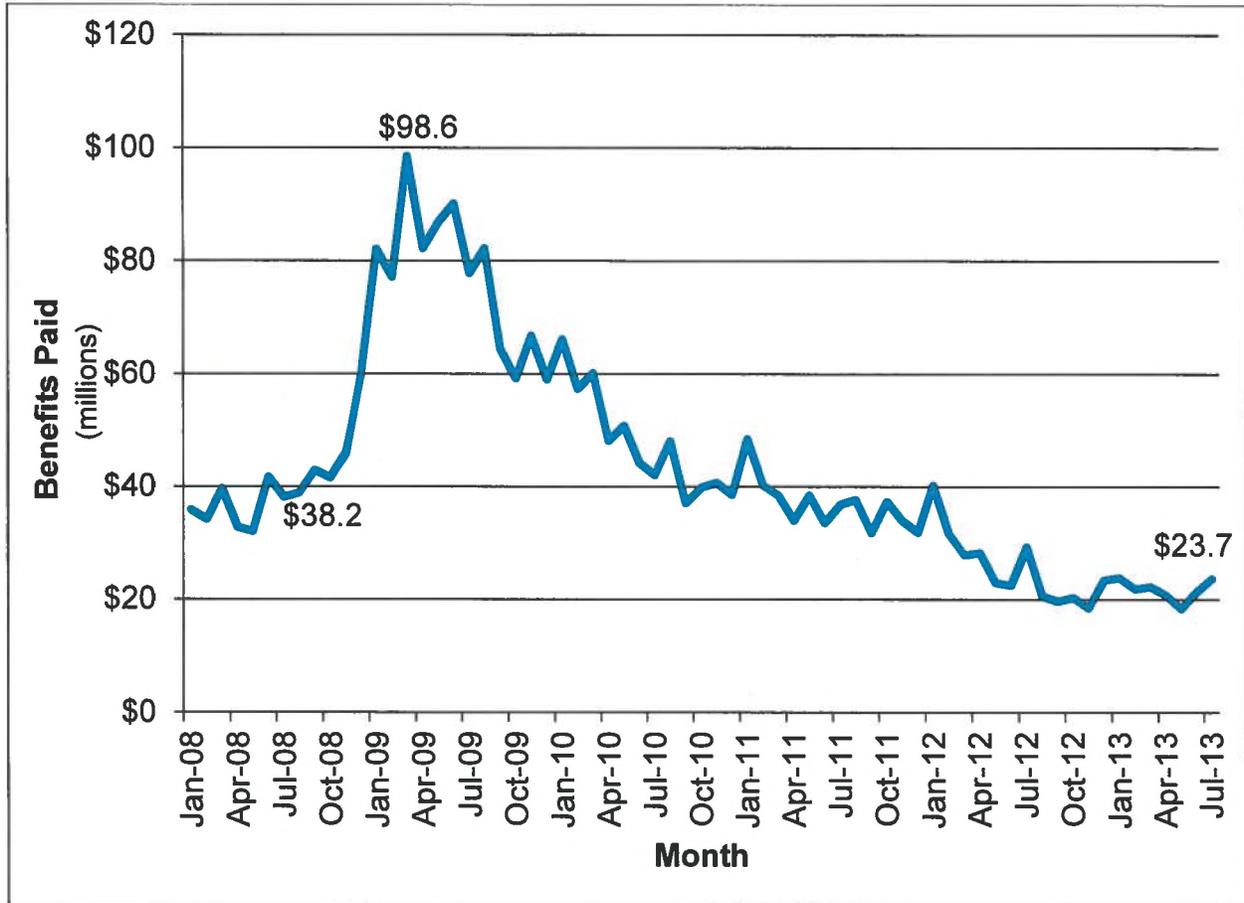
assigned to each category. Businesses with less than 12 months of liability are assigned a new business tax rate of class 12. That accounts for the large volume of businesses in that category in Table 3.

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 4 shows the state-funded benefits paid by month from January 2008 through July 2013. 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 \$23 million, a 76.0 percent drop. Benefit payments have leveled off in recent months as the unemployment rate has remained around the 8 percent mark. Benefits can be expected to decline as the unemployment rate falls and job growth increases.

Figure 4: Monthly State-Funded Unemployment Benefit Payments, Jan 2008 – Jul 2013¹⁰



Unemployment Insurance Improper Payments

The Benefit Accuracy Measurement (BAM) program is designed to identify the unemployment insurance program’s processing trends that cause erroneous UI benefit payments or denials. BAM investigations are a review of the records of a sample group of claims, selected each week at random, to test the accuracy of UI decisions to issue or deny the payment of UI benefits for a key week. In conducting a Paid Claims Accuracy investigation, a BAM auditor reviews paid claims and provides detailed information regarding the rates, types, and causes of improper payments.

Table 4 provides information on improper payments for South Carolina between the third quarter 2012 and second quarter 2013 based on a sample size of 480 cases. The majority of errors identified in the BAM sample that caused the detected overpayment were the result of Benefit Year Earnings where UI claimants continued to draw benefits after returning to work and not reporting their earnings to DEW. This accounted for approximately \$21.7 million of the estimated overpayments or about 70.6 percent. DEW has plans to provide additional claimant educational awareness training on the requirement to report all earnings while filing for benefits.

¹⁰ United States Department of Labor, <http://workforcesecurity.doleta.gov/unemploy/claimssum.asp>

Table 4: Overpayment Comparison, 2012Q3-2013Q2¹¹

	Sample Size	Annual Report Rate	Est. Dollars Overpaid
South Carolina	480	11.8%	\$31 million
Benefit Year			\$21m (70.6%)
Earnings			\$4m (14.2%)
Separation Issues			\$1m (2.5%)
Work Search			\$5m (12.7%)
Other Issues			

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 which allowed the state to cease all borrowing in April 2011. In October 2011, the state made its first voluntary repayment to the federal government. Figure 2 (page 5) shows the monthly loans taken by DEW as well as the cumulative loan from 2008 to present.

To date, approximately \$546 million has been repaid to the federal government through a combination of a one-time increase in federal taxes for tax year 2010 and five voluntary payments made in 2011, 2012, and 2013. Table 5 provides detailed repayment information made by the state.

¹¹ 2012Q3-2013Q2 BAM report prepared by *DEW Batch Range 201227 - 201326*

Table 5: South Carolina UI Loan Payments, April 2011 – August 2013¹²

Date	Payment (in millions)	Reason
Apr 2011	\$29.8	FUTA Credit Reduction
May 2011	\$3.6	FUTA Credit Reduction
Jun 2011	\$1.3	FUTA Credit Reduction
Jul 2011	\$0.5	FUTA Credit Reduction
Aug 2011	\$0.1	FUTA Credit Reduction
Sep 2011	\$115.2	Voluntary Payment
Nov 2011	\$68.8	Voluntary Payment
Mar 2012	\$0.1	FUTA Credit Reduction
Apr 2012	\$0.1	FUTA Credit Reduction
May 2012	\$0.1	FUTA Credit Reduction
Jun 2012	\$0.1	FUTA Credit Reduction
Aug 2012	\$106.5	Voluntary Payment
Dec 2012	>\$0.1	FUTA Credit Reduction
Mar 2013	>\$0.1	FUTA Credit Reduction
May 2013	\$144.0	Voluntary Payment
Jun 2013	<\$0.1	FUTA Credit Reduction
Aug 2013	<\$0.1	FUTA Credit Reduction
Sep 2013	\$75.0	Voluntary Payment
TOTAL	\$545.6	

Trust Fund Balance

As of June 30, 2013 there was an unadjusted balance of \$210,641,954¹³ 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 2007-2012. 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 2012. The trust fund continues to be in a net negative position given the outstanding loans; however, significant improvement has been experienced since the tax reforms of 2011.

¹² *Ibid*

¹³ Account Statement June 2013: http://www.treasurydirect.gov/govt/reports/tfmp/tfmp_utf.htm

Figure 5: UI Trust Fund Balance as of June 30th, 2002-2013

