

# South Carolina Unemployment Insurance Trust Fund Annual Assessment FY2017

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## Executive Summary

Each fiscal year, the South Carolina Department of Employment and Workforce is required to submit, by October 1<sup>st</sup>, 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 FY2017 totaled \$171,037,281<sup>1</sup>. Revenues generated to fund the UI programs (including benefit outlays and trust fund rebuilding) totaled \$354,500,373<sup>2</sup>.

As of June 30, 2017, the UI Trust Fund had an unadjusted balance of \$678,148,439<sup>3</sup>. The health of the trust fund has improved substantially over the past fiscal year.

Since April 2011, the state has not borrowed any funds from the federal government to make benefit payments. The final payment on the federal loans occurred on June 11, 2015. During this period South Carolina obtained the maximum Federal Unemployment Tax Act (FUTA) credit for its businesses (i.e., 2011, 2012, 2013, 2014, and 2015). Moreover, South Carolina was able to make either early or voluntary repayments of the federal loan that resulted in another \$12-13 million in interest savings for South Carolina businesses helping to reduce taxes for businesses.

## Future Outlook

Based on current economic conditions, it is projected that approximately \$190.0 million in state UI benefits will be paid in CY2018<sup>4</sup>. Per SC Code Ann. § 41-27-380, the taxable wage base increased in January 2015 to \$14,000. It should be noted that this increase in the taxable wage base will not necessarily increase the amount of taxes collected, but rather spread the taxation across a greater amount of wages and period of time. The projection for benefit contributions to be raised in CY2018 is \$295.0 million -- to cover CY2018 benefit outlays and a continuation of trust fund rebuilding, per SC Code of Law Ann. §41-31-45(C) and SC Code of Regulations 47-501.

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<sup>1</sup> Audited Annual Trust Fund Report-Finance Department

<sup>2</sup> *Ibid*

<sup>3</sup> Treasury Direct Account Statements: Jun 2017

<sup>4</sup> CY2018 tax rates will be finalized the first week of November 2017. These values are subject to change.

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# South Carolina Unemployment Insurance Trust Fund Annual Assessment FY2017

## Current Unemployment Insurance Trust Fund Status

The unadjusted UI Trust Fund balance as of June 30, 2017 was \$678,148,439<sup>5</sup>. No federal advances (i.e., the loans) were needed to pay state UI benefits during FY2017. All advances from the federal government were repaid as of June 11, 2015.

## Recent Unemployment Insurance Trust Fund History

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>6</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, FY2012-2016**

Component	FY2013	FY2014	FY2015	FY2016	FY2017
<b>Contributions</b>	411,039,535	486,539,699	428,886,783	401,286,923	354,500,373
<b>Earned Interest</b>	Interest not earned while Trust Fund is in Debt Status			7,192,500	12,208,042
<b>Benefits</b>	258,801,120	231,775,670	193,065,875	170,111,356	171,037,281
<b>Fund Balance<sup>7</sup></b>	210,641,954	311,662,005	175,177,167	461,637,676	678,148,439
<b>Total Wages<sup>8</sup></b>	55.1 billion	58.5 billion	61.6 billion	65.4 billion	69.9 billion

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

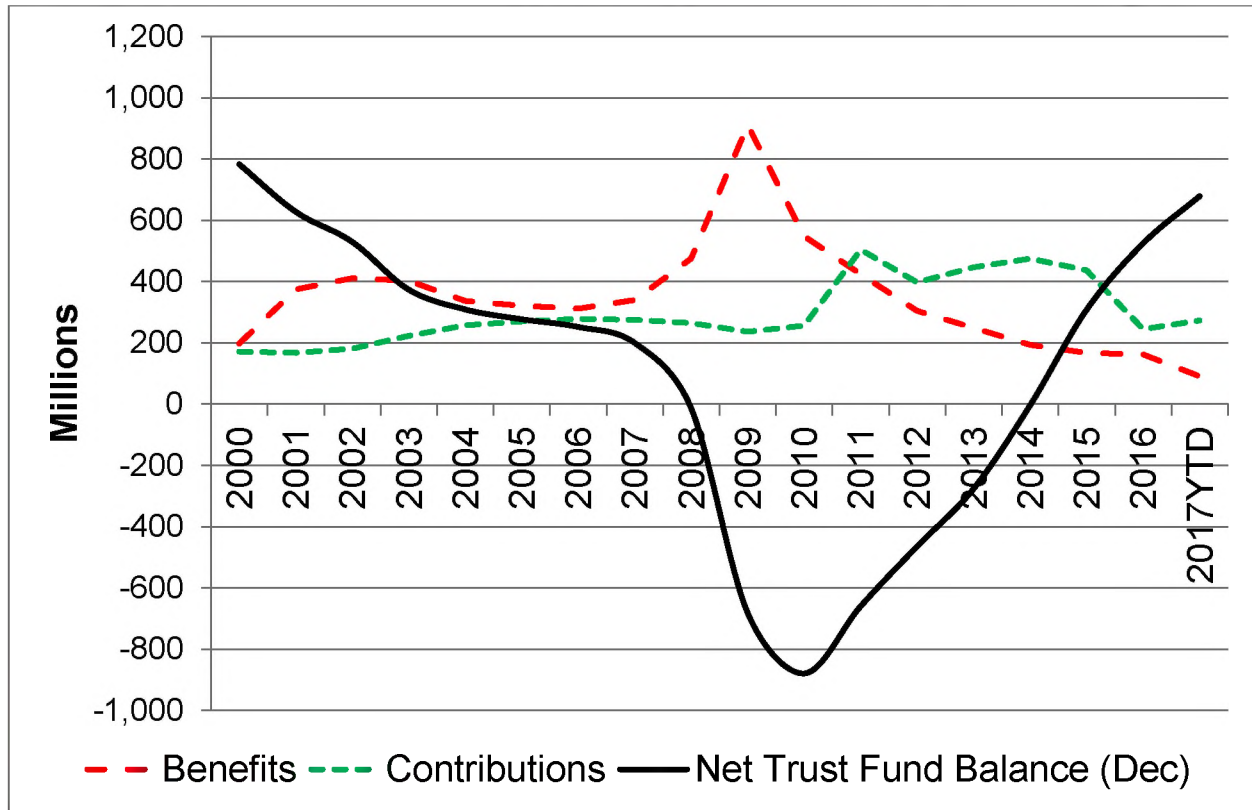
<sup>5</sup> Treasury Direct Account Statement: Jun 2017

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

<sup>7</sup> Treasury Direct Account Statements Jun 2013-Jun 2017, Unadjusted

<sup>8</sup> Internal estimates

Figure 1: Historical Contributions, Benefits, and Fund Balance, CY1997-2017<sup>9</sup>

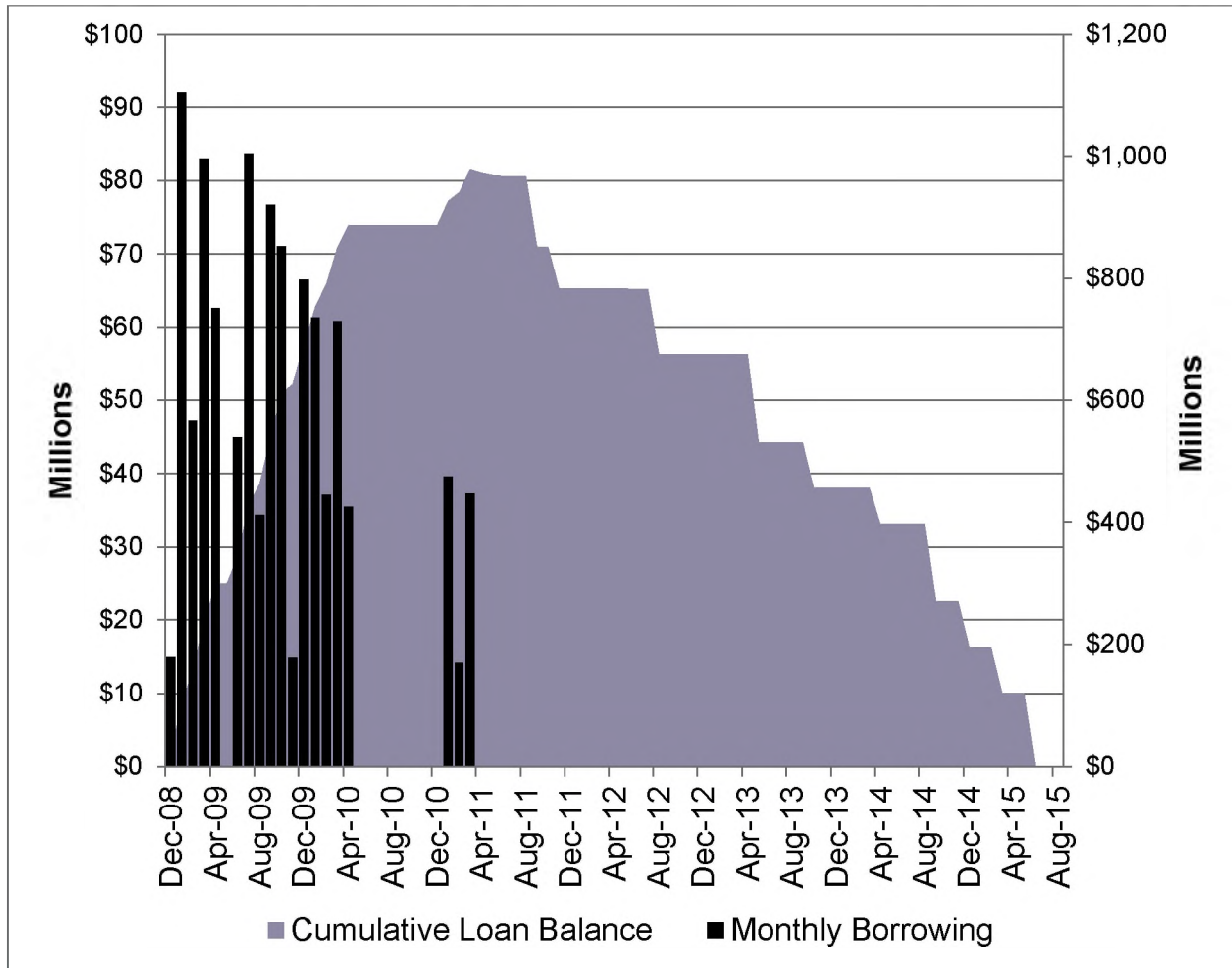


### Overview of Advances

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 revised tax structure have all combined to allow the trust fund to reduce borrowing between April 2010 and April 2011. Since April 2011, no additional federal loans have been necessary to fund the benefit payments.

<sup>9</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

**Figure 2: Monthly Borrowing and Cumulative Loan Balance, Dec 2008 - Sep 2015**



## 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 the Department of Labor'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 new regulations, 47-500 and 47-501, to return the trust fund to

an adequate balance within 5 years. As of June 30, 2017, the state trust fund on deposit with the US Treasury had a positive, unadjusted balance of \$678.1 million.<sup>10</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>11</sup>**

<b>Calendar Year</b>	<b>High Cost Years</b>	<b>Average High Cost Rate</b>	<b>Total Wages<sup>12</sup> 2 years prior (billions\$)</b>	<b>Target Balance (AHCM=1.0) (millions\$)</b>
2013	1991, 2009, 2010	1.30	\$52.8	\$689.3
2014	1991, 2009, 2010	1.30	\$55.1	\$718.6
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	\$67.2	\$876.7
2019	1991, 2009, 2010	1.30	\$69.9	\$911.8
2020	1991, 2009, 2010	1.30	\$72.7	\$948.3
2021	1991, 2009, 2010	1.30	\$75.6	\$986.2

*Projections in italics*

Since all federal loans have been repaid as of the end of FY2015, 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). For 2018, the fund adequacy target is projected to be \$876.7 million based on total wages paid in the last available full year, 2016, of \$67.2 billion and an average high cost rate of 1.3.

### Weekly Benefit Amount

S.C. Code of Law §41-35-40 defines an unemployed individual's weekly benefit amount as "fifty percent of his weekly average wage... However, no insured worker's weekly benefit amount may be less than forty-two dollars nor greater than sixty-six and two-thirds percent of the statewide average weekly wage most recently computed before the beginning of the individual's benefit year. The maximum weekly benefit amount in South Carolina for FY20016-17 was \$326. This amount has not increased since the state began borrowing money from the federal government to pay unemployment benefits and will not be adjusted until the state has rebuilt the trust fund to an adequate level as described in the previous section.

### Transparency of Funding (Proviso 83.3)

In accordance with FY2017-18 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

<sup>10</sup> Treasury Direct Account Statement: Jun 2017

<sup>11</sup> US Department of Labor: Financial Handbook 394 and Agency calculations

<sup>12</sup> Assumes 4% wage growth 2016 through 2021. The wages are based on calendar year data while the wages in Table 1 are based on fiscal year information.

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

Tax rates are set on a calendar year basis in the late fall of each year. Tax rates for CY2017 were set in October 2016.

In CY2016, a total of \$334.2 million was collected in the form of total state unemployment taxes based on employer-submitted contribution reports<sup>13</sup>. These funds were used to pay unemployment benefits to eligible individuals who were separated through no fault of their own and to continue building the state trust fund to the acceptable solvency level as defined in state law. In addition to the base tax rate for benefit and trust fund rebuilding, all businesses in the state are also responsible for paying a 0.06% administrative contingency assessment which totaled more than \$12.8 million for 2016.

Table 3 shows the contributions paid for CY2015 by each tax rate class.

**Table 3: Contributions by Tax Rate Class, 2016<sup>14</sup>**

<b>Tax Rate Class</b>	<b># of Employer Accounts</b>	<b>Base + Rebuild Contributions</b>	<b>Contingency Contributions</b>	<b>% of Total Contributions</b>
<b>1</b>	65,434	\$465,235.57	\$2,404,063.21	0.8%
<b>2</b>	658	\$3,841,804.59	\$484,833.46	1.2%
<b>3</b>	485	\$4,112,148.90	\$477,250.50	1.3%
<b>4</b>	529	\$5,559,375.06	\$571,973.73	1.8%
<b>5</b>	680	\$5,572,561.85	\$504,643.26	1.8%
<b>6</b>	580	\$8,110,617.84	\$672,073.13	2.5%
<b>7</b>	451	\$6,641,418.85	\$494,425.88	2.1%
<b>8</b>	698	\$7,734,546.44	\$508,577.21	2.4%
<b>9</b>	626	\$8,107,181.80	\$489,617.86	2.5%
<b>10</b>	850	\$9,426,158.61	\$512,982.49	2.9%
<b>11</b>	922	\$11,247,531.59	\$548,654.51	3.4%
<b>12</b>	28,766	\$24,377,896.07	\$1,049,025.45	7.3%
<b>13</b>	1,075	\$13,251,978.93	\$484,777.31	4.0%
<b>14</b>	1,115	\$22,657,963.75	\$515,801.03	6.7%
<b>15</b>	1,278	\$23,924,919.92	\$494,873.53	7.0%
<b>16</b>	1,549	\$25,755,027.62	\$481,272.37	7.6%
<b>17</b>	1,738	\$28,266,180.61	\$472,406.94	8.3%
<b>18</b>	1,843	\$30,335,224.81	\$460,428.45	8.9%
<b>19</b>	2,365	\$34,671,234.40	\$474,256.16	10.1%
<b>20</b>	11,492	\$60,155,680.32	\$653,918.06	17.5%
<b>TOTAL</b>	<b>123,134</b>	<b>\$334,214,687.53</b>	<b>\$12,755,854.54</b>	

<sup>13</sup> Taxes for CY2016 are collected from Apr 2016 through Mar 2017.

<sup>14</sup> CY2016 internal reports as of Sept. 5, 2017

There are a large number of businesses in tax rate class 1 due to the relatively short three-year look back period used to compute a business' experience rating. A majority of businesses in tax rate class 1 are relatively small in size. Approximately 5 percent of the state's taxable wages (excluding new businesses and delinquent accounts) are assigned to each category. 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. Any business with a delinquent wage and contribution report or delinquent unemployment taxes is assigned to rate class 20, which accounts for the larger volume of businesses in that category.

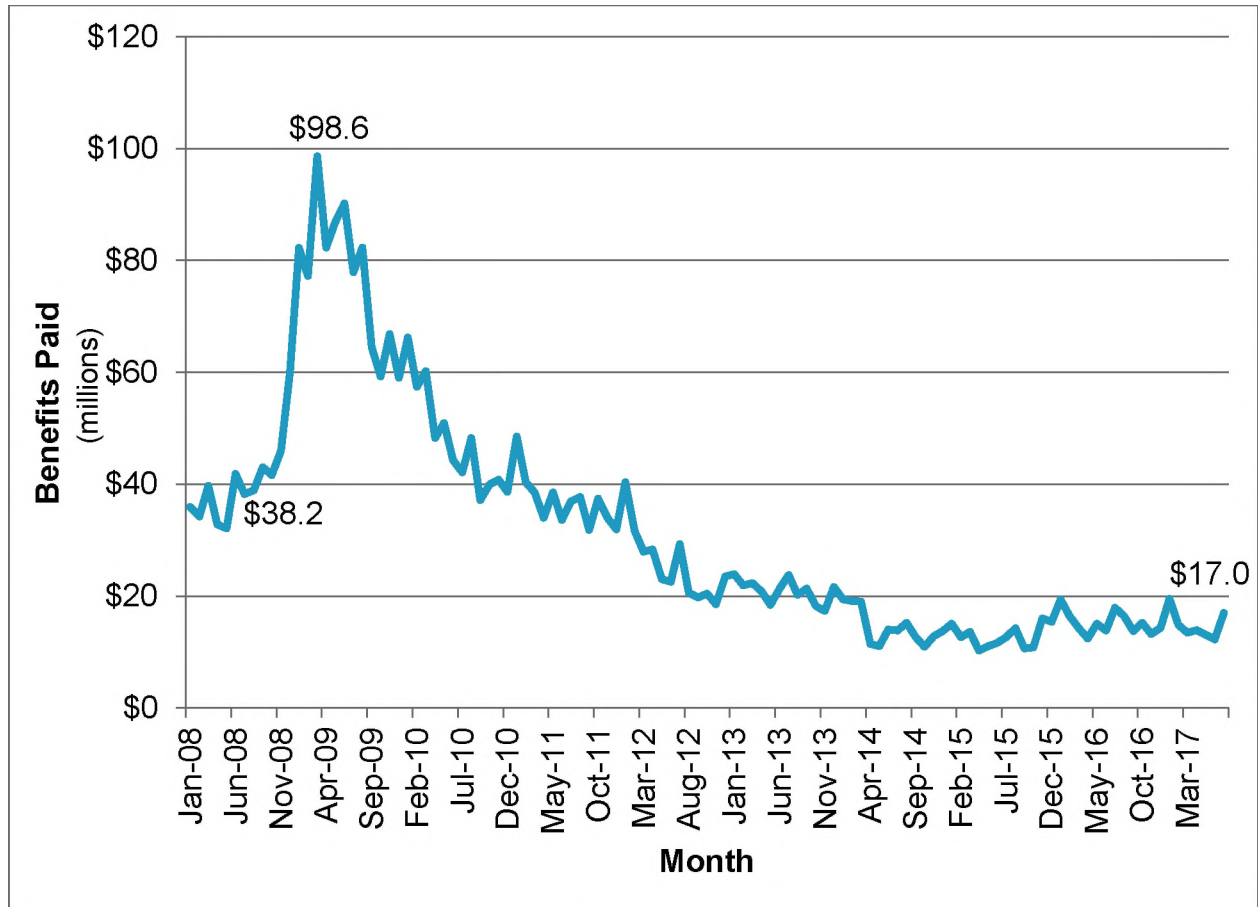
### **State Unemployment Benefits Paid**

State unemployment taxes fund up to 20 weeks of unemployment benefits to individuals who are out of work through no fault of their own. Prior to June 2011, the state unemployment taxes funded up to 26 weeks of unemployment benefits. Due to the reduction in the number of weeks available, 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 benefits paid by month from January 2008 through July 2017. 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 \$17 million, an 82.8 percent drop. Benefit payments have leveled off in recent years.



Figure 3: Monthly Unemployment Benefit Payments, Jan 2008 – Jul 2017<sup>15</sup>



### 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 number of fraud and non-fraud overpayment cases detected by the FIRE unit for the period FY2016 through FY2017 as well as the dollar amounts associated with the overpayments.

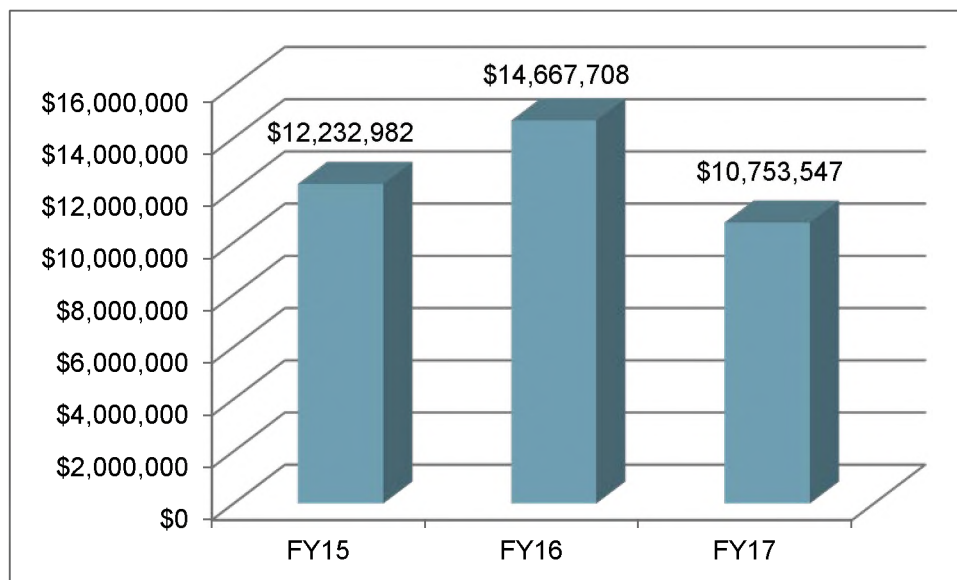
<sup>15</sup> United States Department of Labor, <http://workforcesecurity.doleta.gov/unemploy/claimssum.asp>

**Table 4: Improper Payments Estimates, FY2016-FY2017<sup>16</sup>**

	Fraud		Non-Fraud		Total	
	FY16	FY17	FY16	FY17	FY16	FY17
<b>Cases</b>	8,282	5,432	13,569	10,271	21,851	15,703
<b>Dollars</b>	\$6.9m	\$5.4m	\$4.9m	\$4.2m	\$11.8m	\$9.6m

Overall the dollars overpaid declined between FY16 and FY17 by approximately 18.9 percent. The largest source of improper payments is claimants continuing to file for benefits after they return to work and failing to report their earnings.

The agency has several means of collecting any 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. Overpaid individuals have the option to repay their benefits securely and easily online. As overpayments have steadily declined so too have overpayment collections.

**Figure 4: Overpayment Collections FY2015-FY2017<sup>17</sup>**

## Unemployment Insurance Loan Payments

Between December 2008 and April 2011, the State of South Carolina borrowed over \$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 September 2011, South Carolina made its first voluntary repayment to the federal government. Figure 2 (p. 5) shows the monthly loans taken by DEW and the cumulative loan from 2008 to present.

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

<sup>17</sup> ETA227 overpayment recoveries for fraud and non-fraud

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>18</sup>**

<b>Date</b>	<b>Payment(millions)</b>	<b>Reason</b>
<b>Apr-Aug 2011</b>	\$35.30	Increased federal tax required in 2010 <sup>19</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>	

## Unemployment Insurance Trust Fund Balance

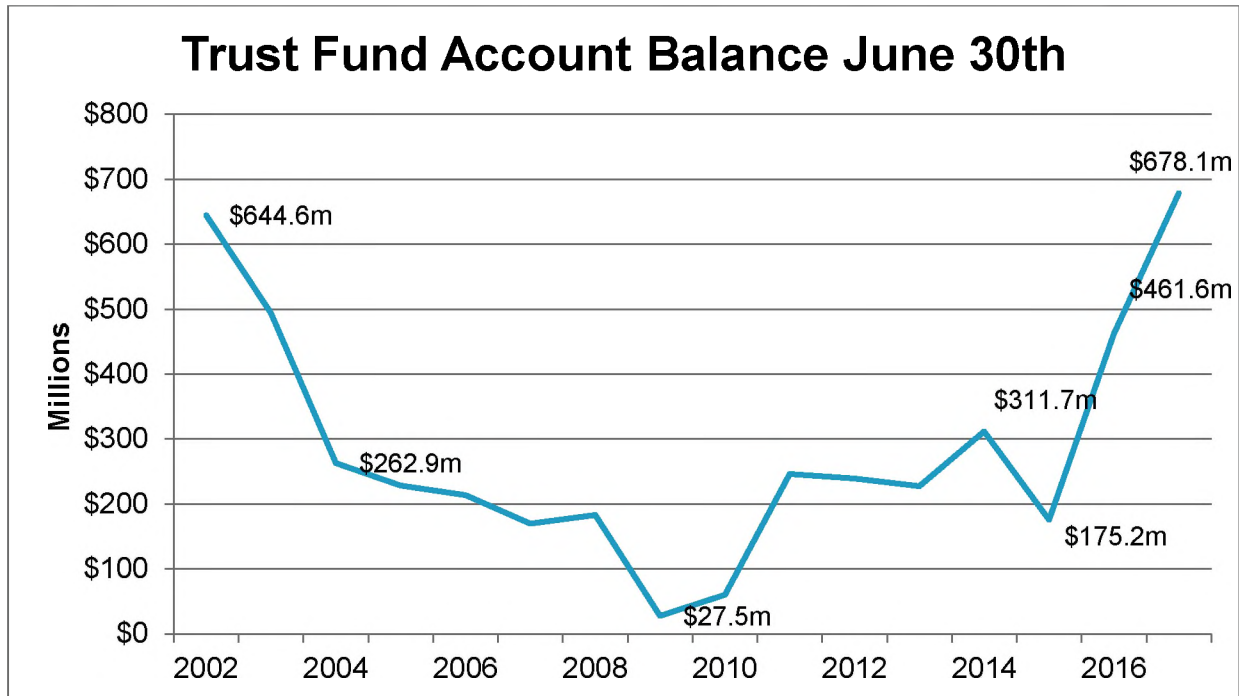
As of June 30, 2017 there was an unadjusted balance of \$678,148,439<sup>20</sup> in the state's UI trust fund held at the US Treasury in Washington DC. As shown in Figure 5, the balance in the UI Trust Fund declined steadily between June 30, 2002 and June 30, 2011 but has begun to recover over the past five 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.

<sup>18</sup> Treasury Direct Monthly Statements

<sup>19</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.

<sup>20</sup> Account Statement June 2017: [http://www.treasurydirect.gov/govt/reports/tfmp/tfmp\\_utf.htm](http://www.treasurydirect.gov/govt/reports/tfmp/tfmp_utf.htm)

Figure 5: UI Trust Fund Balance as of June 30, 2002-2017



## Conclusion

FY2017 was an important year for the South Carolina UI Trust Fund. On June 11, 2015 the final federal loans taken during the Great Recession to pay benefits were repaid. This repayment was in accordance with the five-year plan adopted by the General Assembly in 2010. CY2017 was the second of another five-year plan to build the Trust Fund to a level that is considered adequate to withstand a moderate recession. Benefit payments continue to remain at historic lows as the state's economy has continued to recover and expand.