

Michigan Unemployment Trust Fund

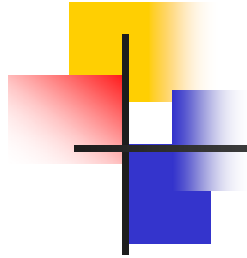


October 2009



Michigan Unemployment Trust Fund

- ❑ Started in 1938
- ❑ Issues weekly benefits to qualified unemployed workers up to a maximum of \$362 per week and 26 weeks
- ❑ Weekly benefits funded by quarterly Employer tax payments
- ❑ Employer pays tax on first \$9,000 in wages each employee earns in a calendar year
- ❑ Employer tax rates range from 0.06% to 10.3% based on employer experience in retaining employees
- ❑ Average employer tax rate for calendar year 2008 was 4.93% of taxable wages and 1.17% of total wages.

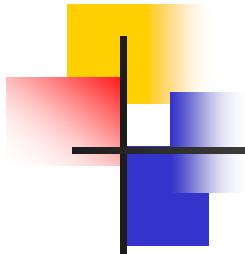


WEEKLY BENEFIT STATISTICS



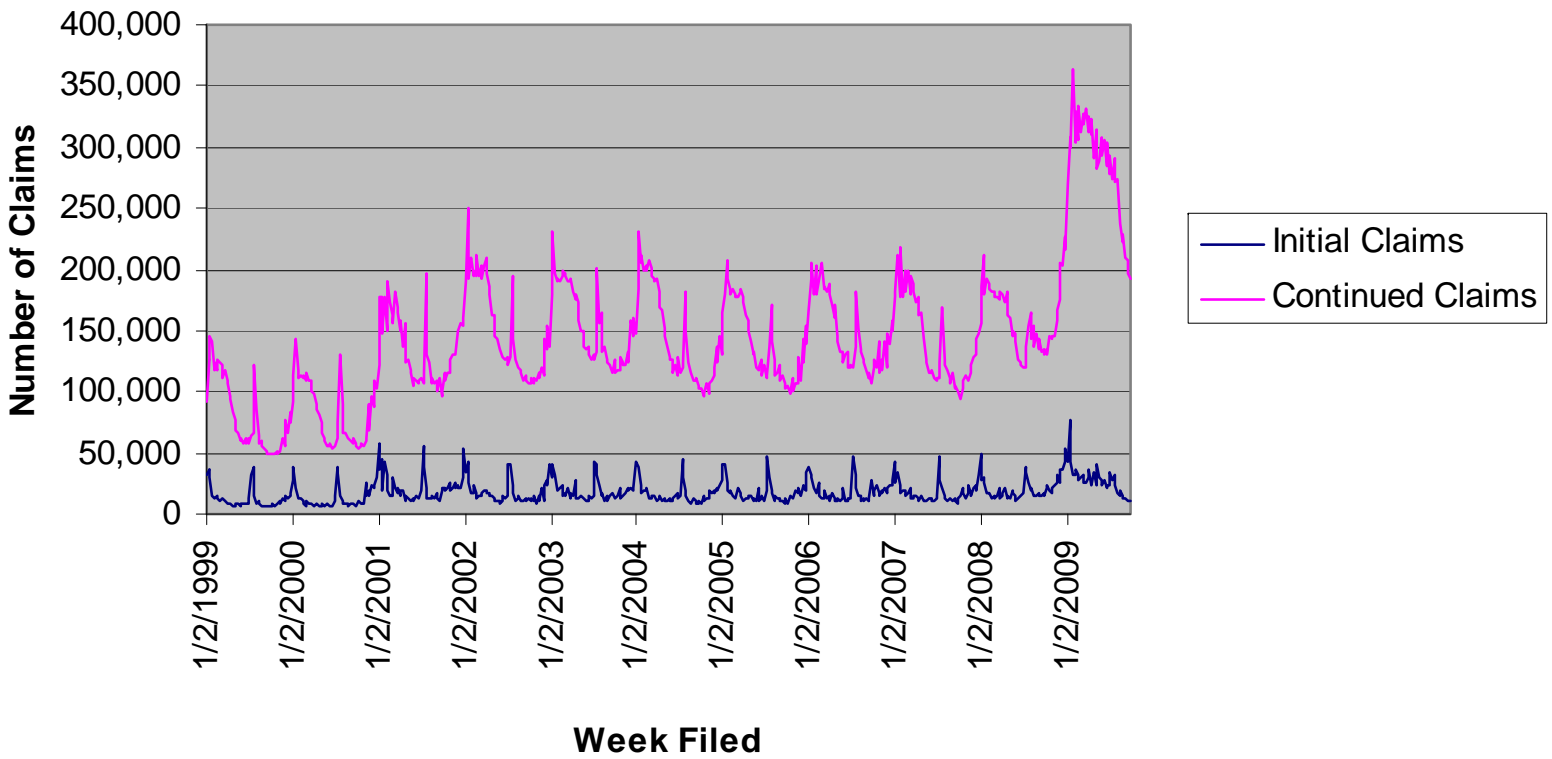
Michigan Unemployment Trust Fund

- ❑ Average weekly unemployment check (2009 2Q):
\$312.02 vs. maximum allowable of \$362
- ❑ Average duration of unemployment claims (2009 2Q):
16.5 weeks vs. maximum allowable of 26 weeks
- ❑ Total weekly checks issued (2007): 3.4 million
- ❑ Total benefits paid (2008): 2.06 billion



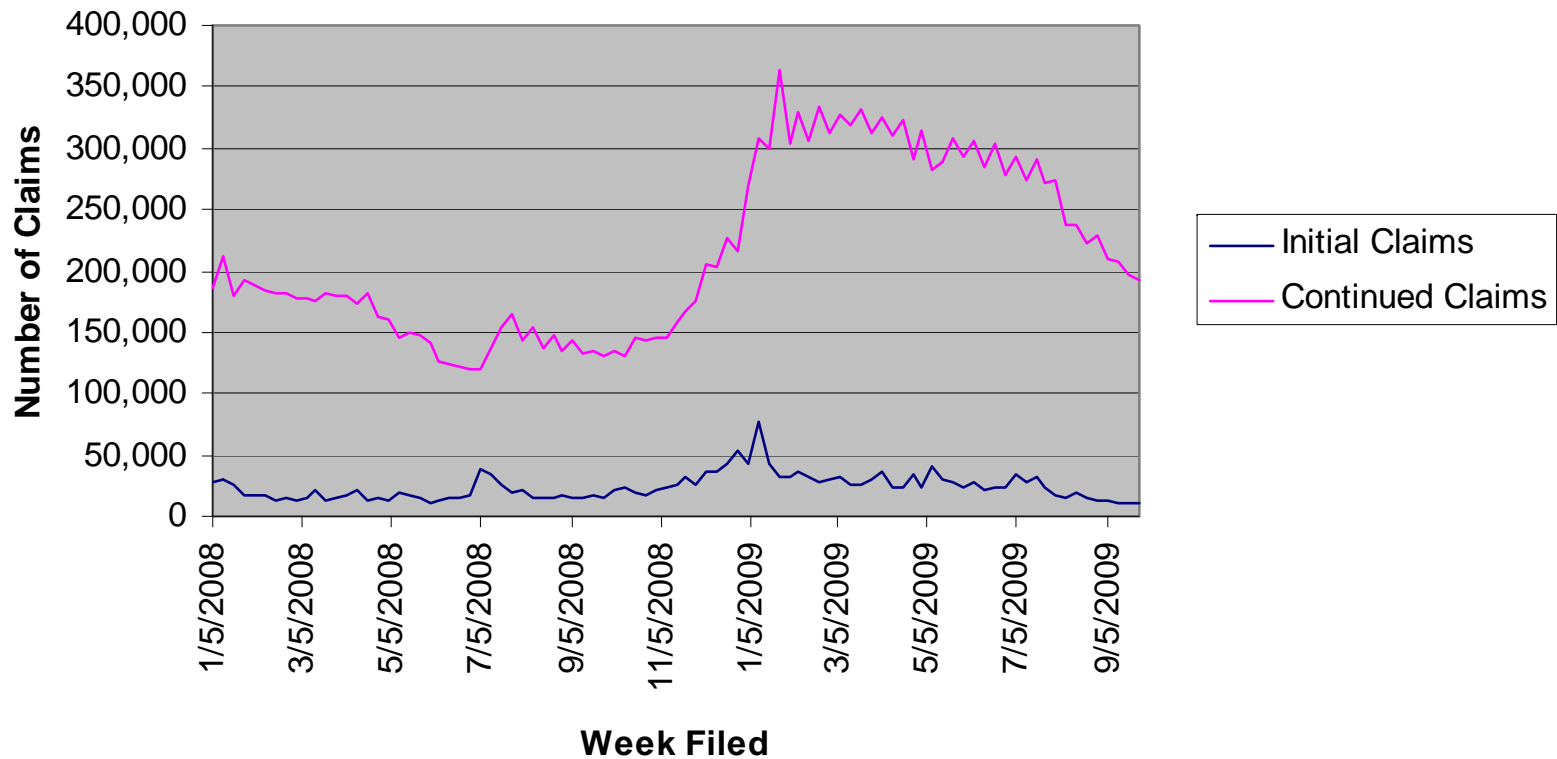
Michigan Unemployment Trust Fund

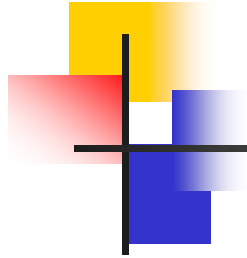
Weekly Unemployment Claims 1999-2009



Michigan Unemployment Trust Fund

Weekly Unemployment Claims 2008-2009





WEEKLY UNEMPLOYMENT CHECK CALCULATION



Michigan Unemployment Trust Fund

Weekly Benefit Amount

- ❑ **Step 1:**
 - ❑ Highest wages paid in any base period quarter are multiplied by 4.1%
 - ❑ Base period quarters are the first four of the last five completed calendar quarters prior to filing the unemployment claim

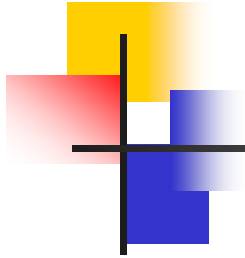
- ❑ **Step 2:**
 - ❑ The amount calculated in Step 1 is increased by \$6 for each dependent claimed, up to five dependents
 - ❑ Total weekly amount cannot exceed \$362



Michigan Unemployment Trust Fund

Duration of Benefits

- **Step 3:**
 - **To determine weeks for which claimant will be paid, total wages received in the four calendar quarters of the base period are multiplied by 43%**
 - **Amount is then divided by the weekly amount in Step 2 to obtain the number of payment weeks**
 - **Claim cannot be less than 14 weeks or more than 26 weeks**



COMPARISON WITH OTHER STATES



Michigan Unemployment Trust Fund

Weekly Benefit Amount July 1, 2009

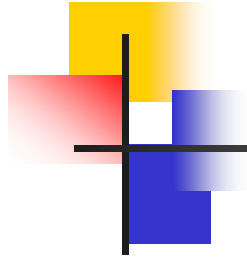
	<u>Maximum</u>	<u>Average</u>
Minnesota	\$566	\$360
Pennsylvania	\$566	\$356
Illinois	\$534	\$346
Ohio	\$409	\$315
New York	\$405	\$318
Indiana	\$390	\$311
Wisconsin	\$363	\$291
<i>Michigan</i>	<i>\$362</i>	<i>\$312</i>
United States		\$314



Michigan Unemployment Trust Fund

Recovery Act “Modernization” Provisions

- ❑ Provides states with \$7.0 billion to states as incentive
- ❑ Michigan’s share: \$207.9 million
- ❑ One-third (\$69.4 million) – Alternate Base Period
- ❑ Two Thirds (\$138.5 million):
 - ❑ Seeking Part Time Work (HB 4786)
 - ❑ Voluntarily Quit/Compelling Family Reasons
 - ❑ Dependent Allowance
 - ❑ Extended Training Benefits (HB 4785)



STATE UNEMPLOYMENT TAXES



Michigan Unemployment Trust Fund

- ❑ New employers automatically assigned tax rate of 2.7% on the first \$9,000 each employee earns in a calendar year
- ❑ The bulk of tax collections are from the first and second calendar quarter tax returns
- ❑ Payment due to Department of Labor and Economic Growth Unemployment Insurance Agency by April 25 and July 25



Michigan Unemployment Trust Fund

- ❑ Tax rate adjustments in third and fourth years based, in part, on employer's history of benefit charges compared to taxes paid"

- ❑ Calculation becomes increasingly complex beginning in the fifth year
 - ❑ Chargeable Benefits Component (CBC): 0%-6.3%
 - ❑ Account Building Component (ABC): 0%-3%
 - ❑ Nonchargeable Benefits Component (NBC): 0%-1%

- ❑ Employers with higher amount of benefits paid than taxes paid are charged an increasingly higher tax rate (eliminates deficit and provides reserve for future claims)



Michigan Unemployment Trust Fund

- ❑ Tax rate cannot exceed 10.3%
- ❑ Average rate in selected industries (2007):
 - ❑ Construction - 8.7%
 - ❑ Manufacturing - 6.4%
 - ❑ Service industries – 4.9%
- ❑ Some employers fraudulently seek a lower tax rate



Michigan Unemployment Trust Fund

- ❑ Fraudulently obtaining a lower unemployment tax rate is known as “SUTA Dumping”
- ❑ CY 2009 SUTA Dumping losses to Unemployment Trust Fund: \$28.2 million (est.)
- ❑ SUTA Dumping results in higher tax rates for all employers
- ❑ Methods to attempt SUTA dumping include:
 - ❑ Create a new employer assigned a 2.7% tax rate, and transfer payroll
 - ❑ Transfer payroll from parent company to subsidiary company with a lower rate
 - ❑ Partner with an employer with a lower tax rate, and transfer payroll to that employer



Michigan Unemployment Trust Fund

Average Tax Rate (as a % of Total Wages) - CY 2008

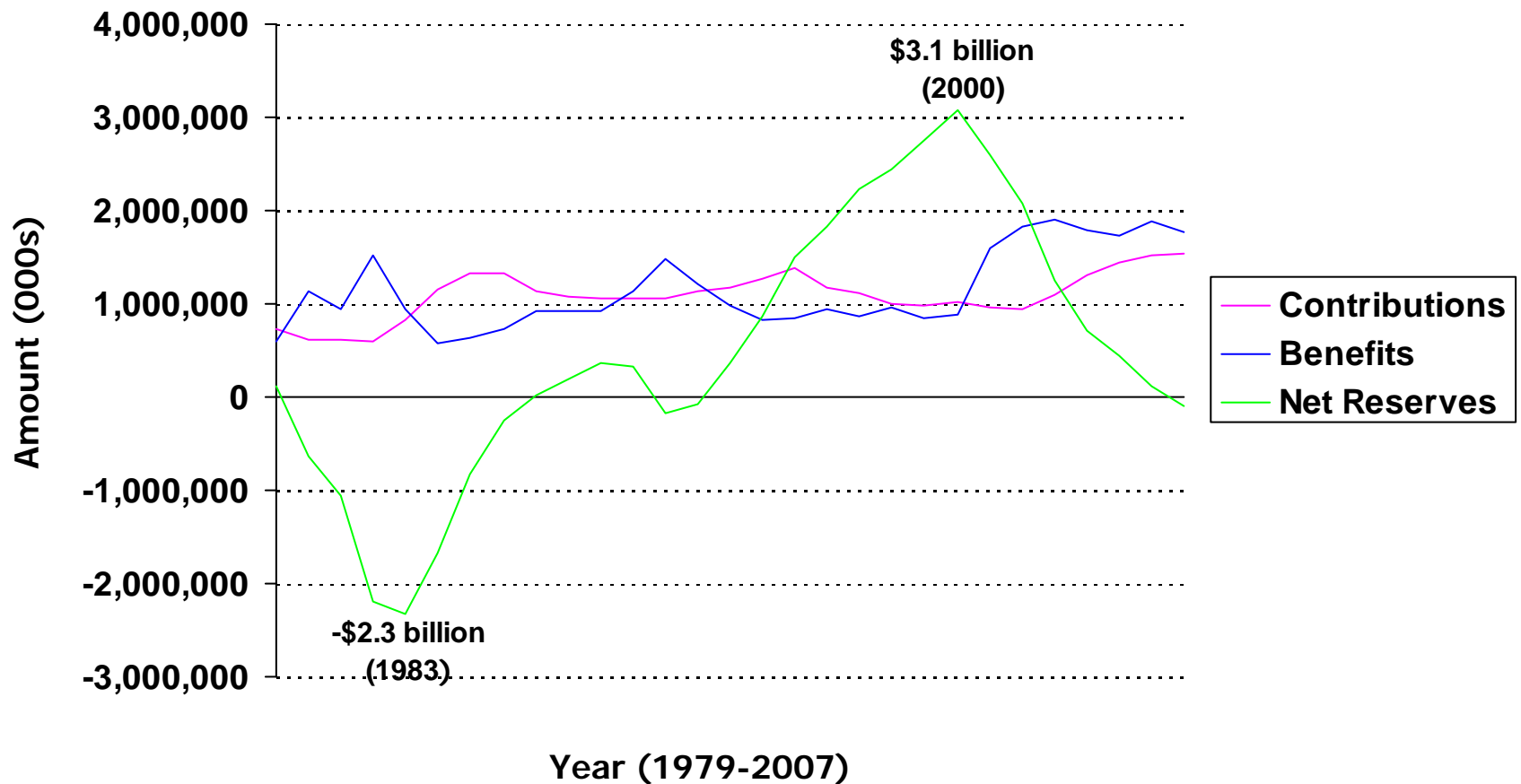
AL	-	0.37%	LA	-	0.30%	OK	-	0.41%
AK	-	1.00%	ME	-	0.60%	OR	-	1.02%
AZ	-	0.31%	MD	-	0.38%	PA	-	1.02%
AR	-	0.84%	MA	-	1.07%	PR	-	2.20%
CA	-	0.79%	MI	-	1.17%	RI	-	1.32%
CO	-	0.44%	MN	-	0.87%	SC	-	0.53%
CT	-	0.71%	MS	-	0.38%	SD	-	0.26%
DE	-	0.45%	MO	-	0.66%	TN	-	0.40%
DC	-	0.34%	MT	-	0.68%	TX	-	0.27%
FL	-	0.31%	NE	-	0.38%	UT	-	0.30%
GA	-	0.36%	NV	-	0.73%	VT	-	0.78%
HI	-	0.50%	NH	-	0.32%	VA	-	0.24%
ID	-	0.50%	NJ	-	0.92%	VI	-	0.10%
IL	-	0.95%	NM	-	0.50%	WA	-	0.98%
IN	-	0.61%	NY	-	0.55%	WV	-	0.79%
IA	-	0.81%	NC	-	0.70%	WI	-	0.80%
KA	-	0.52%	ND	-	0.54%	WY	-	0.55%
KY	-	0.74%	OH	-	0.71%	US	-	0.65%



Michigan Unemployment Trust Fund

- ❑ Layoffs in Michigan have dramatically reduced the Trust Fund Balance from an all-time high of \$3.1 billion in 2000
- ❑ Current loan balance: \$2.7 billion
- ❑ Trust Fund is insolvent
- ❑ In 2006 and 2007, short-term borrowing from U.S. Department of Labor prevented a deficit
- ❑ Continued layoffs/weak employment pose the biggest threat to the Fund

Michigan Unemployment Trust Fund





Michigan Unemployment Trust Fund

Solvency Issues

- ❑ Title 12, SSA allows for loans made to state UI trust funds
- ❑ “Cash-flow” loans are interest free
- ❑ Long-term loans are interest bearing
- ❑ Outstanding Balance: \$2.7 billion (to date)
- ❑ 21 states have received \$18.3 billion in loans (to date)

Michigan Unemployment Trust Fund

Solvency Issues

	2006	2007	2008	2009
January	\$0	\$95,700,000	\$166,000,000	\$303,400,000
February	\$0	\$119,900,000	\$125,000,000	\$336,500,000
March	\$91,900,000	\$207,900,000	\$196,800,000	\$367,400,000
April	(\$91,900,000)	(\$246,100,000)	(\$510,859,539)	\$404,400,000
May	\$0	(\$177,400,000)	(\$60,840,461)	\$0
June	\$0	\$0	\$126,300,000	\$0
July	\$0	\$0	\$78,300,000	\$234,000,000
August	\$0	\$0	\$0	\$36,960,000
September	\$0	\$0	\$107,100,000	\$189,100,000
October	\$0	\$0	\$110,400,000	\$62,200,000
November	\$0	\$0	\$59,400,000	N/A
December	\$0	\$134,600,000	\$240,300,000	N/A
YTD Totals	\$0	\$134,600,000	\$637,900,000	\$1,933,960,000
Year End Balance	\$0	\$134,600,000	\$772,500,000	\$2,706,460,000

Note: Figures are up-to-date as of October 9, 2009



Michigan Unemployment Trust Fund

Solvency Tax

- MES Act imposes a solvency tax on negative balance employers
- Rate: 0.75% (maximum)
- Equals \$67.50 per employee
- Previously in place during the mid-1980s
- Was to go into effect on January 2009
- ARRA waived interest on Title 12 advances, through CY 2010
- 2009 PA 1 eliminated the tax during this "interest-free" period
- Will be re-instated in January 2011



Michigan Unemployment Trust Fund

Federal Unemployment Tax

- Taxable Wage Base of \$7,000 per employee
- Standard Rate: 6.2% (including 0.2% surtax)
- Credit: 5.4%
- Effective Rate: 0.8%



Michigan Unemployment Trust Fund

FUTA Credit Reductions

- Due when state trust fund is insolvent, on two consecutive January 1
- Went into effect on January 2009
- Collected beginning in January 2010
- Rate increases in yearly increments of 0.3%
- Imposed on all contributing employers
- State law provides positive balance employers, a credit for 50% of additional FUTA taxes



Michigan Unemployment Trust Fund

Emergency Extended Unemployment Compensation Benefits (EUC08)

- Authorized in June 2008 by PL 110-252
- Reauthorized by PL 110-449 and PL 111-5 (ARRA)
- Federal government pays 100% of the cost of benefits and administration
- Certain employers reimburse the trust fund for EUC08 benefits
- Tier 1: Provides up to 20 weeks of extended benefits
- Tier 2: Provides up to 13 weeks of additional extended benefits



Michigan Unemployment Trust Fund

Emergency Extended Unemployment Compensation Benefits (EUC08)

- Individual must exhaust current benefits before end of 2009
- Tier 1: Paid out more than \$1.4 billion to 362,800 displaced workers (through August 2009)
- Tier 2: Paid out more than \$417.4 million to 91,000 displaced workers (through August 2009)
- HR 3548 would provide an additional 13 weeks of extended benefits
- Passed the House in September 2009
- NELP estimates that 62,753 displaced Michigan workers will exhaust benefits by year's end



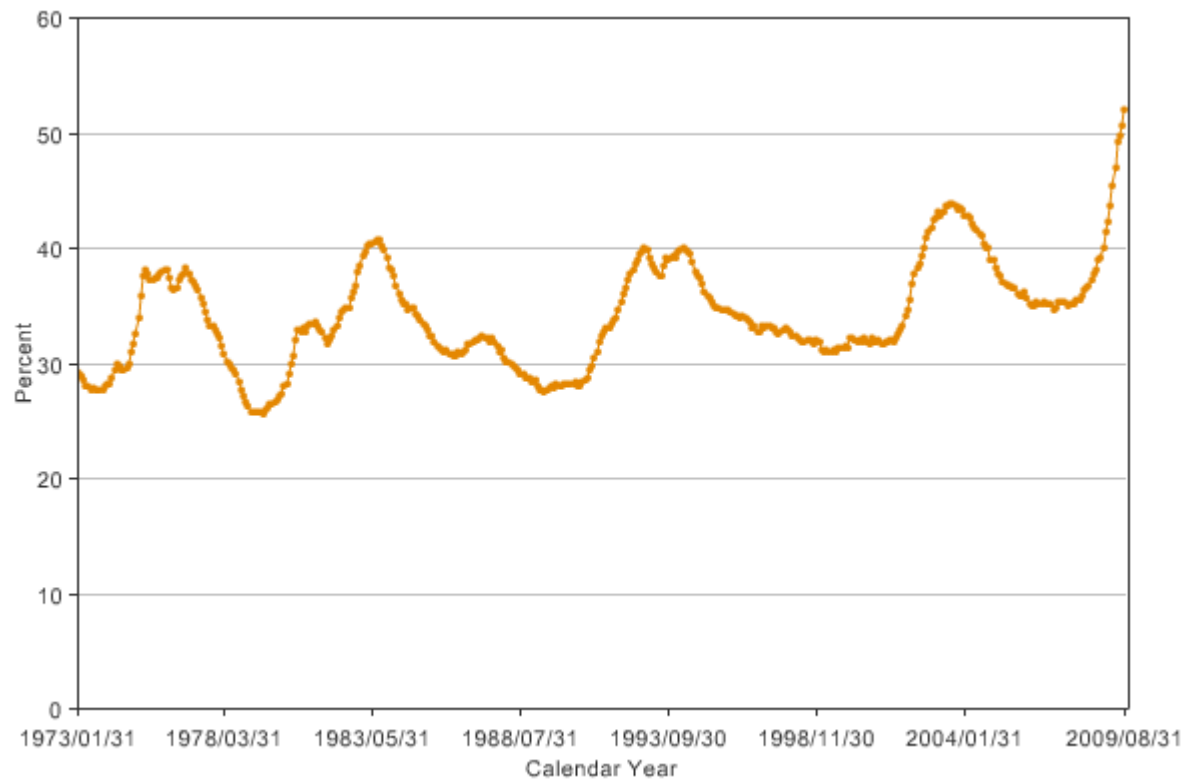
Michigan Unemployment Trust Fund

Extended Benefits (EB)

- Permanent federal law established in 1970
- Pays 13 weeks of extended benefits
- “Triggered” on by high unemployment rates (January 2009)
- Alternate triggers allow for additional 7 weeks of benefits
- Historically costs are shared 50-50 with federal government
- Contributing employers impacted through experience rating
- Certain employers reimburse trust fund for EB benefits
- ARRA temporarily provides 100% federal funds, through CY09
- Public Acts 18-20 of 2009 adopt alternate trigger
- Paid after EUC08 benefits

Michigan Unemployment Trust Fund

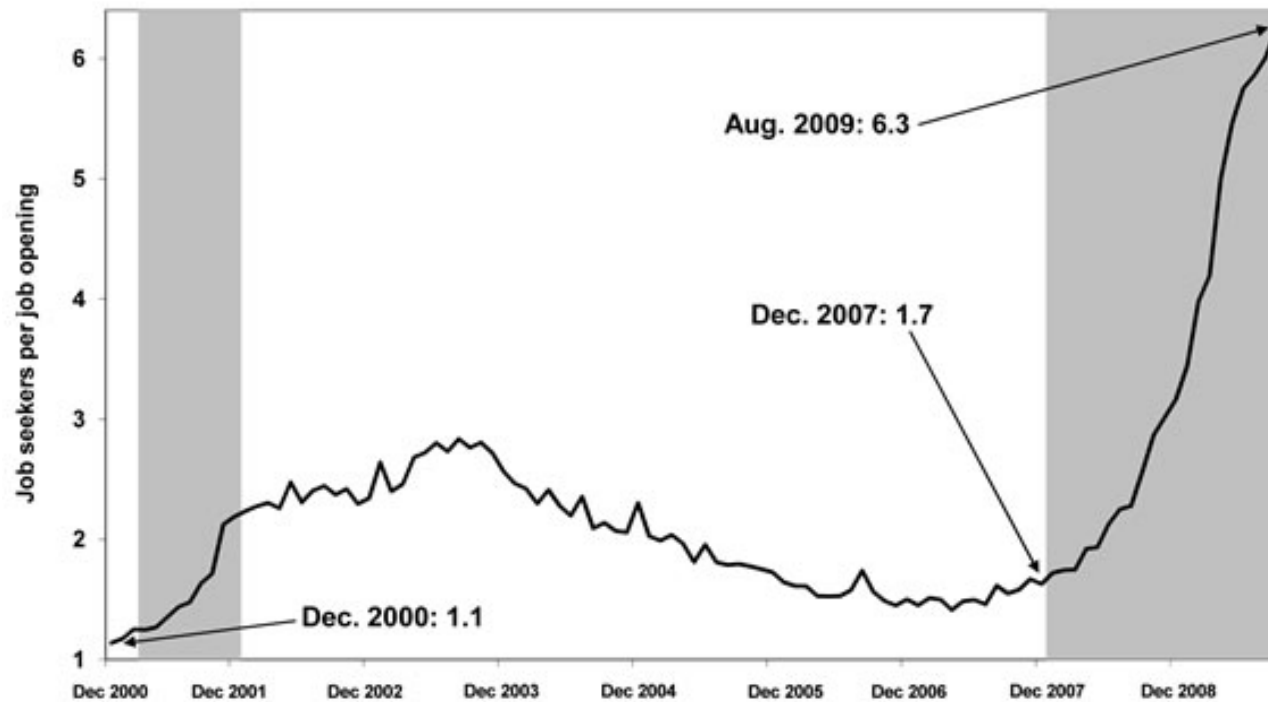
Exhaustion Rate of State UI Benefits (total U.S.)



Michigan Unemployment Trust Fund

Ratio of Job Openings to Displaced Workers

Number of job seekers per job opening, August 2009



Note: Shaded areas denote recessions.

Source: Author's analysis of data from the JOLTS and the Current Population Survey.



Michigan Unemployment Trust Fund

On the Horizon

- ❑ Long-term solvency issues with federal UI trust fund
- ❑ “Sensible federal policy should encourage state legislatures to build up prudent trust fund reserves during economic expansions” ~ Gary Burtless, Brookings Institution
- ❑ “Congress should consider a basic overhaul of the financing system” ~ Gary Burtless, Brookings Institution
- ❑ Long-term solvency issues with state UI trust fund

HOUSE
FISCAL
AGENCY

(517) 373.8080

www.house.mi.gov/hfa