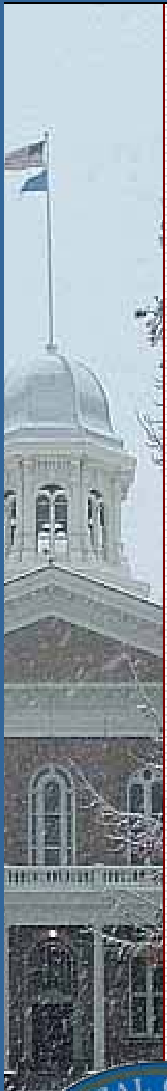
Impact of Federal Borrowing

Employment Security Council

October 2, 2012

David Schmidt

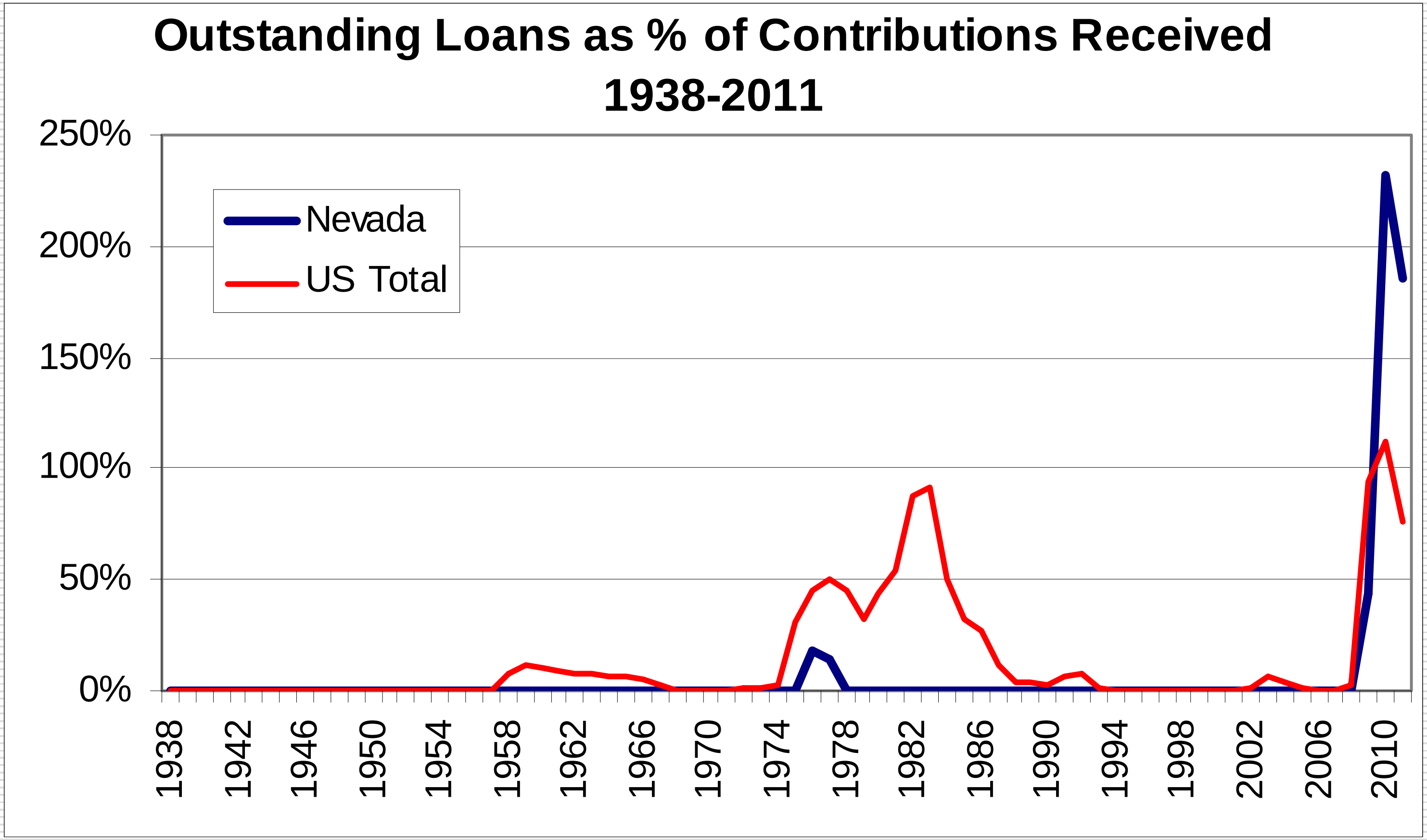
Research & Analysis Bureau



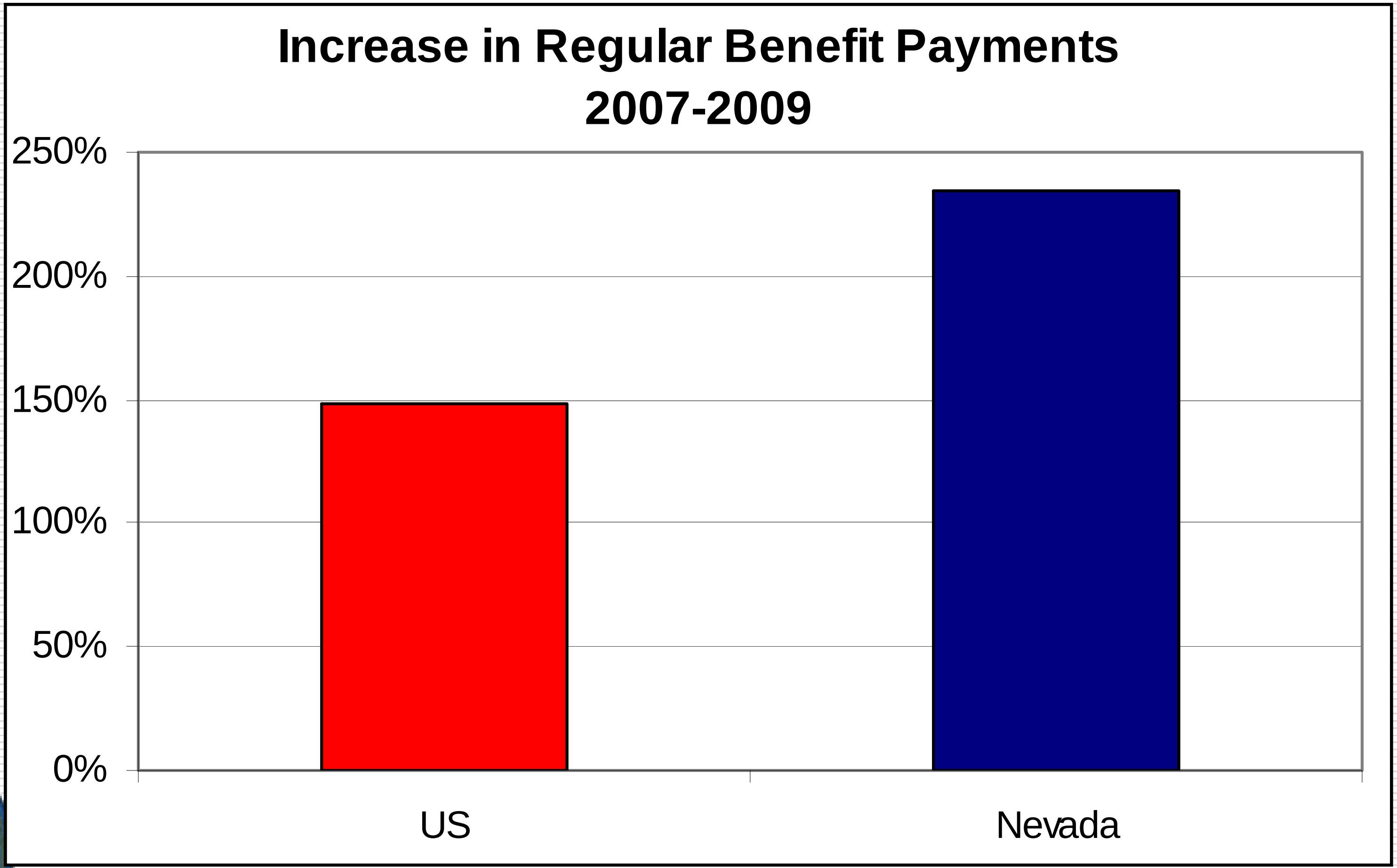
Overview

- Nevada began borrowing in 2009.
- Money has been borrowed from the federal government to pay regular unemployment benefits.
- This borrowing affects federal UI taxes, as well as accruing interest.
- Many states were forced to borrow money, and are now facing similar decisions.

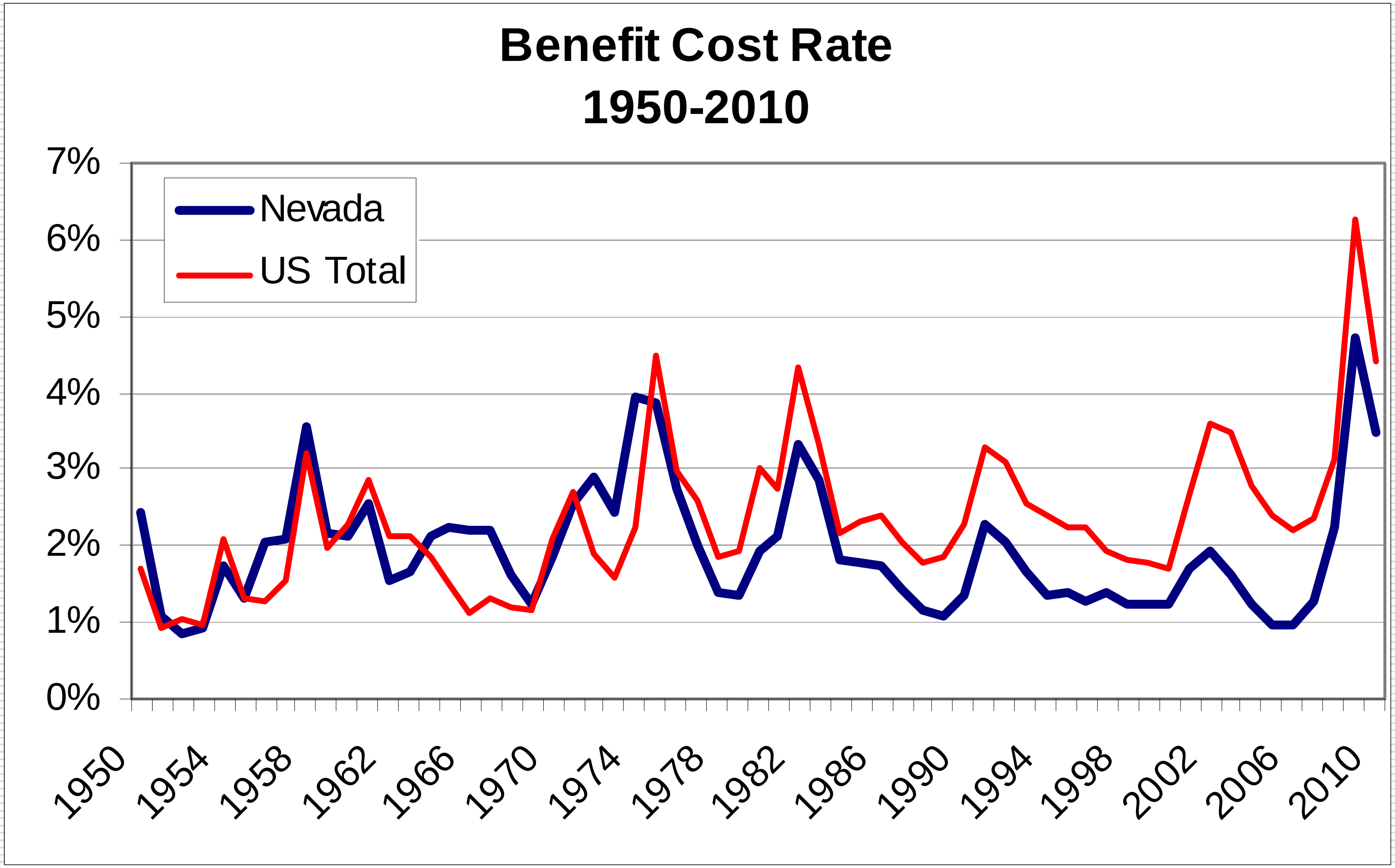
Historical Context



Historical Context



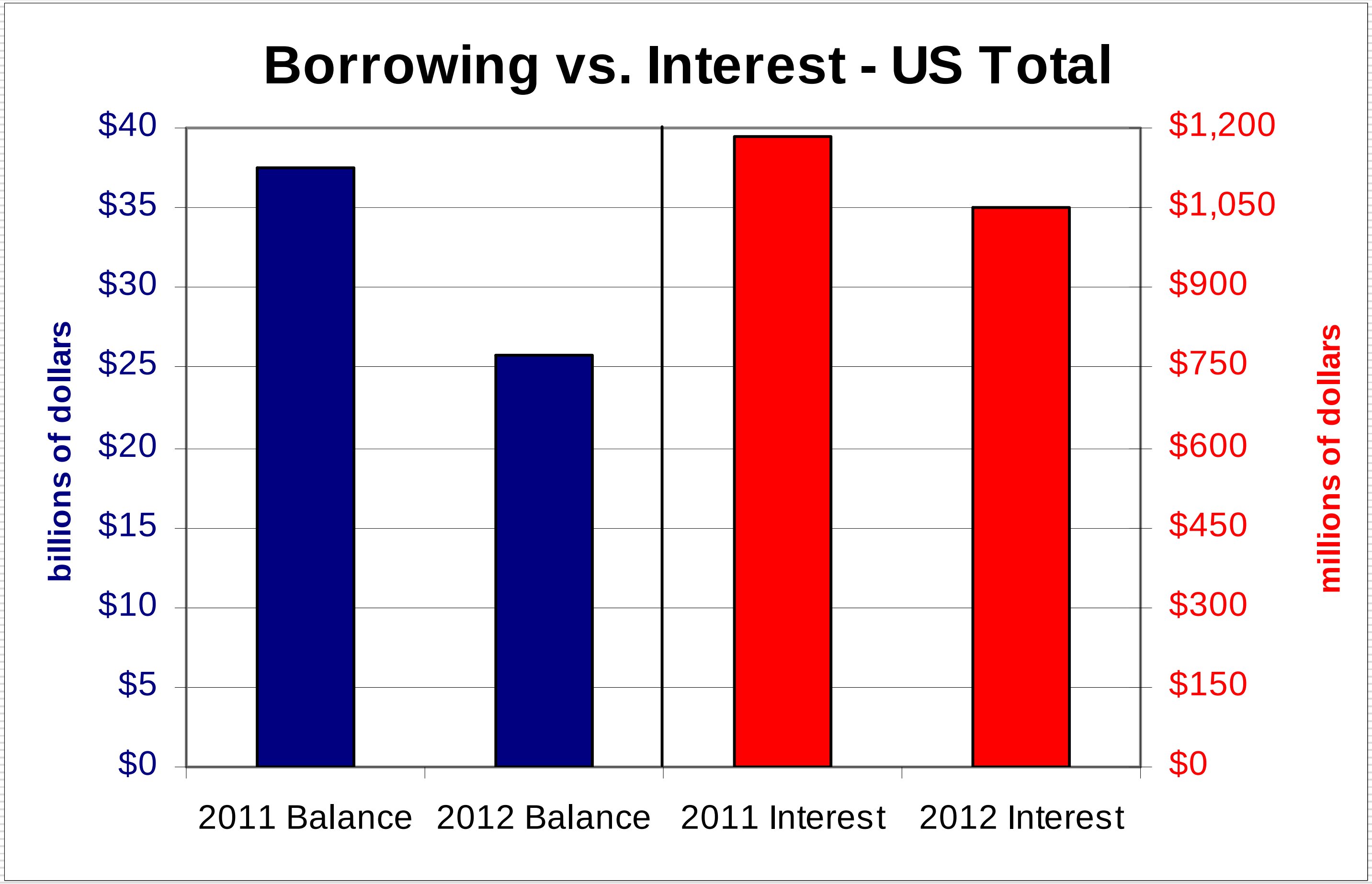
Historical Context



Impact of Borrowing

- The federal government charges interest at the same rate that it gives states who have a positive trust fund balance.
  - 2011 rate: 4.0869%
  - 2012 rate: 2.9430%

Impact of Borrowing



DETR
Nevada Department of Employment, Training and Rehabilitation
Nevada JobConnect

FUTA vs. SUTA Taxes

FUTA

- Fixed Wage Base: $7,000
- Paid to Federal government
- Funds federal & state UI administration, Title XII loans
- Fixed tax rate: 6.0% minus 5.4% credit (0.6% overall)
- 5.4% credit is gradually reduced in states that have outstanding federal loans.

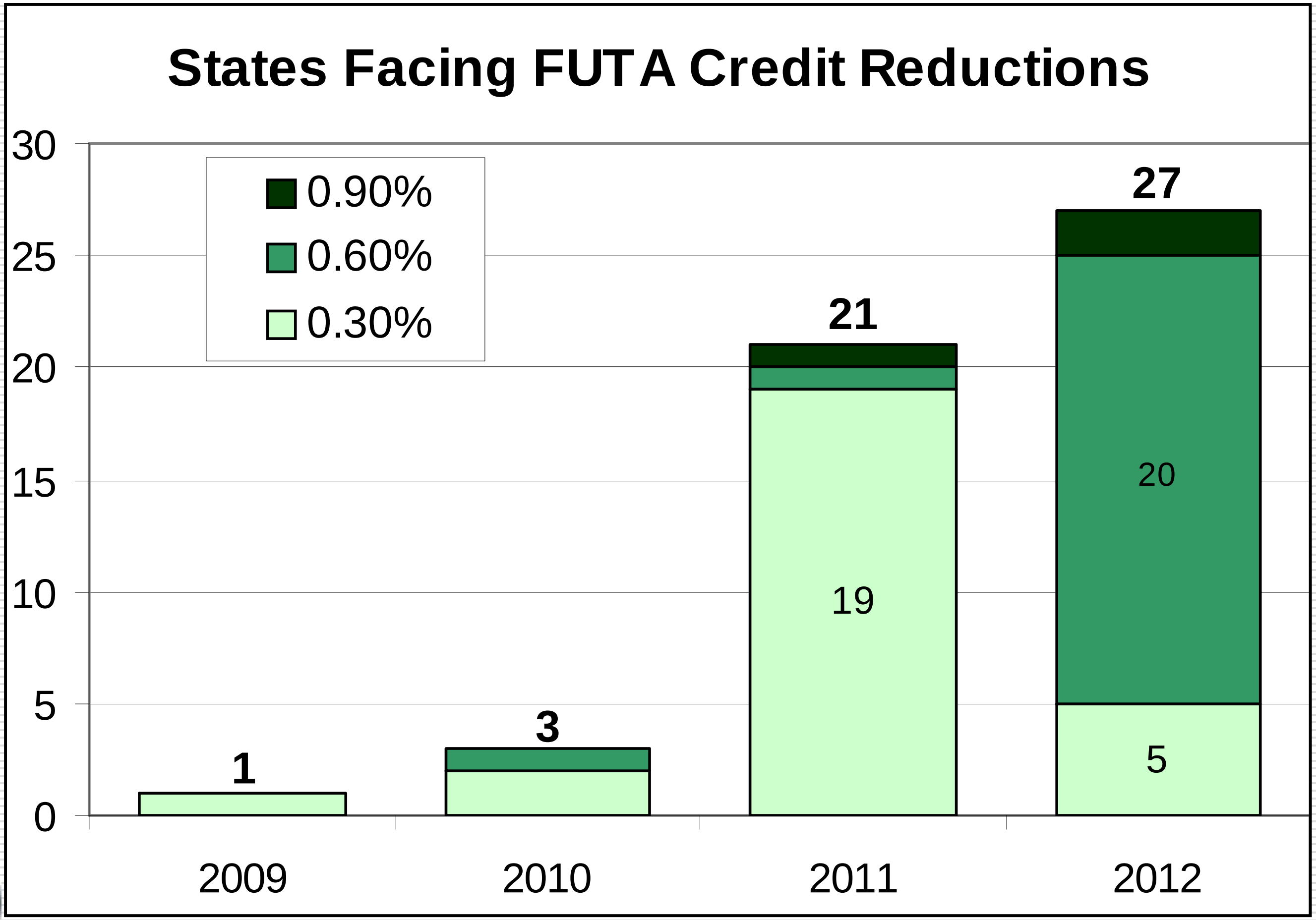
SUTA

- Indexed Wage Base: $26,900 in 2013
- Paid to Nevada
- Used only to pay benefits, or the principal of loans which were used to pay benefits.
- Average rate set each year by regulation, currently 2.00%

Impact of Borrowing

- The federal government gradually reduces the FUTA credit, raising FUTA taxes on employers in borrowing states at 0.3% per year.
  - Nevada 2011: 0.3%
  - Nevada 2012: 0.6%
- In 2012, a total of $1.7 billion nationwide was collected through FUTA credit reductions.

Impact of Borrowing



FUTA Offset Credit Reduction

- If a state uses Title XII to pay benefits, and has outstanding loans after 2 years, the Federal government begins reducing the FUTA credit.
- This increases the FUTA tax paid by employers.
- The longer a state is borrowing, the steeper the credit reduction becomes.
- All revenue generated by the increased portion of the FUTA tax is applied to the outstanding loan balance.

Basic Credit Reduction

- On the second January 1 with outstanding loans, the credit to employers is reduced by 0.3% ($21 per employee).
- The credit is reduced by an additional 0.3% each subsequent year.
- In addition to the base reduction there is a potential additional reduction that begins in the fifth year of borrowing.

FUTA Offset Credit Caps

- FUTA Offset Reductions can be capped if the state is making adequate progress toward restoring fund solvency
- The cap is the higher of:
  - A 0.6% credit reduction, or
  - The prior year's credit reduction

FUTA Offset Credit Caps

- In order to cap the credit reduction, the state must meet four benchmarks:
  - No state action was taken from October 1 to September 30 which would result in a reduction of the state's unemployment tax effort.
  - No state action was taken from October 1 to September 30 which would result in a net decrease in solvency of the state UI system.
  - The state unemployment tax rate is greater than or equal to the 5-year average benefit cost rate for the 5 prior calendar years.
  - The state's outstanding loans from the Federal government are less than in the third prior year.

Eliminating FUTA Credit Reductions

- In order for a state to end the FUTA credit reductions, it must repay all federal loans.
- States may repay their loans through a variety of mechanisms:
  - Raising state UI taxes
  - Lowering state UI benefits
  - Imposing additional solvency taxes
  - Issuing bonds to shift debt from federal to private sources, since only federal loans trigger FUTA Credit Reductions.