

# UI Overview and Forecasts

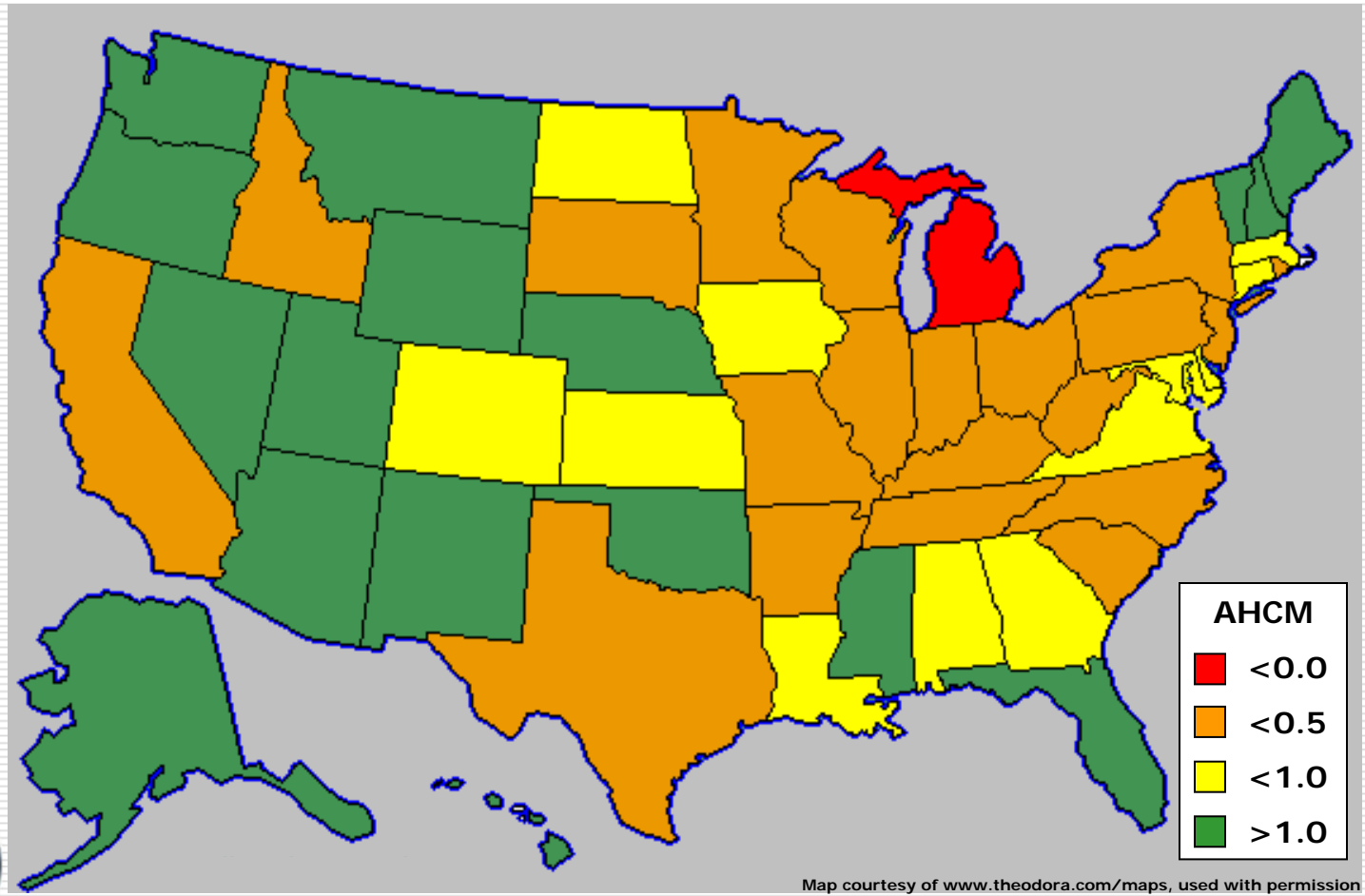
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## Small Business Workshop November 2, 2012

David Schmidt  
Research & Analysis Bureau



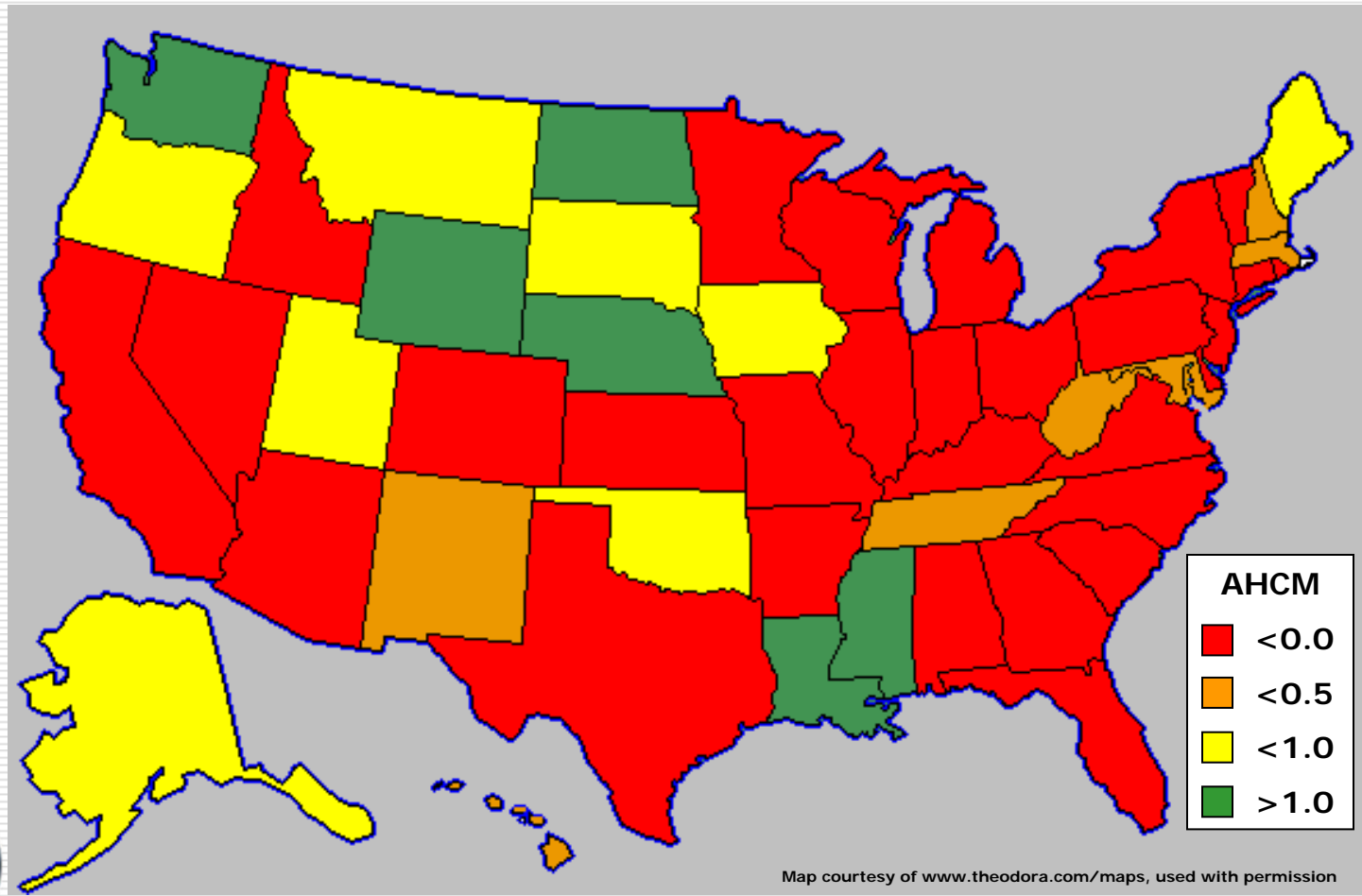
# National Perspective: National Solvency – 12/31/2007



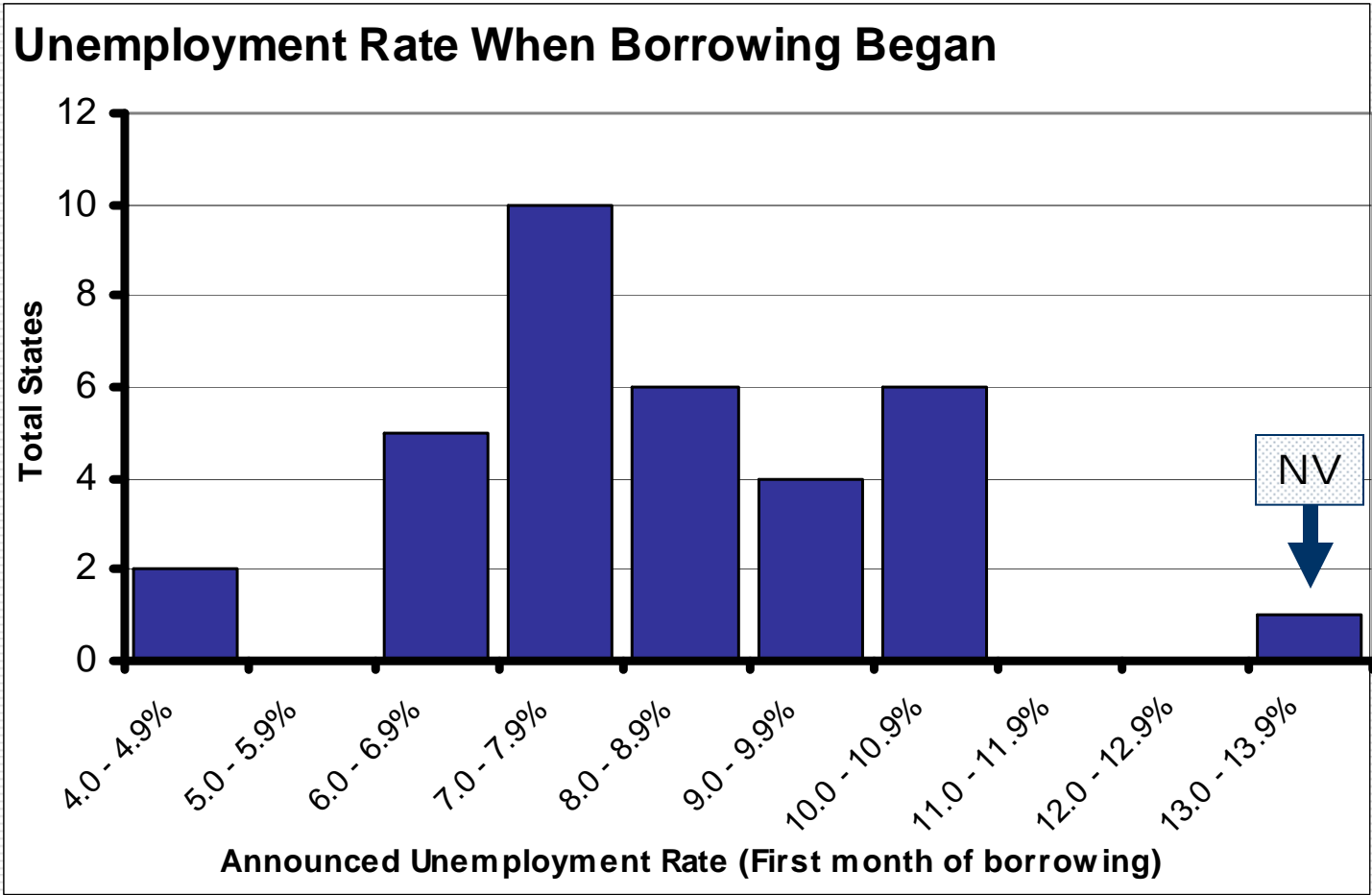
Map courtesy of [www.theodora.com/maps](http://www.theodora.com/maps), used with permission



# National Perspective: National Solvency – 12/31/2010

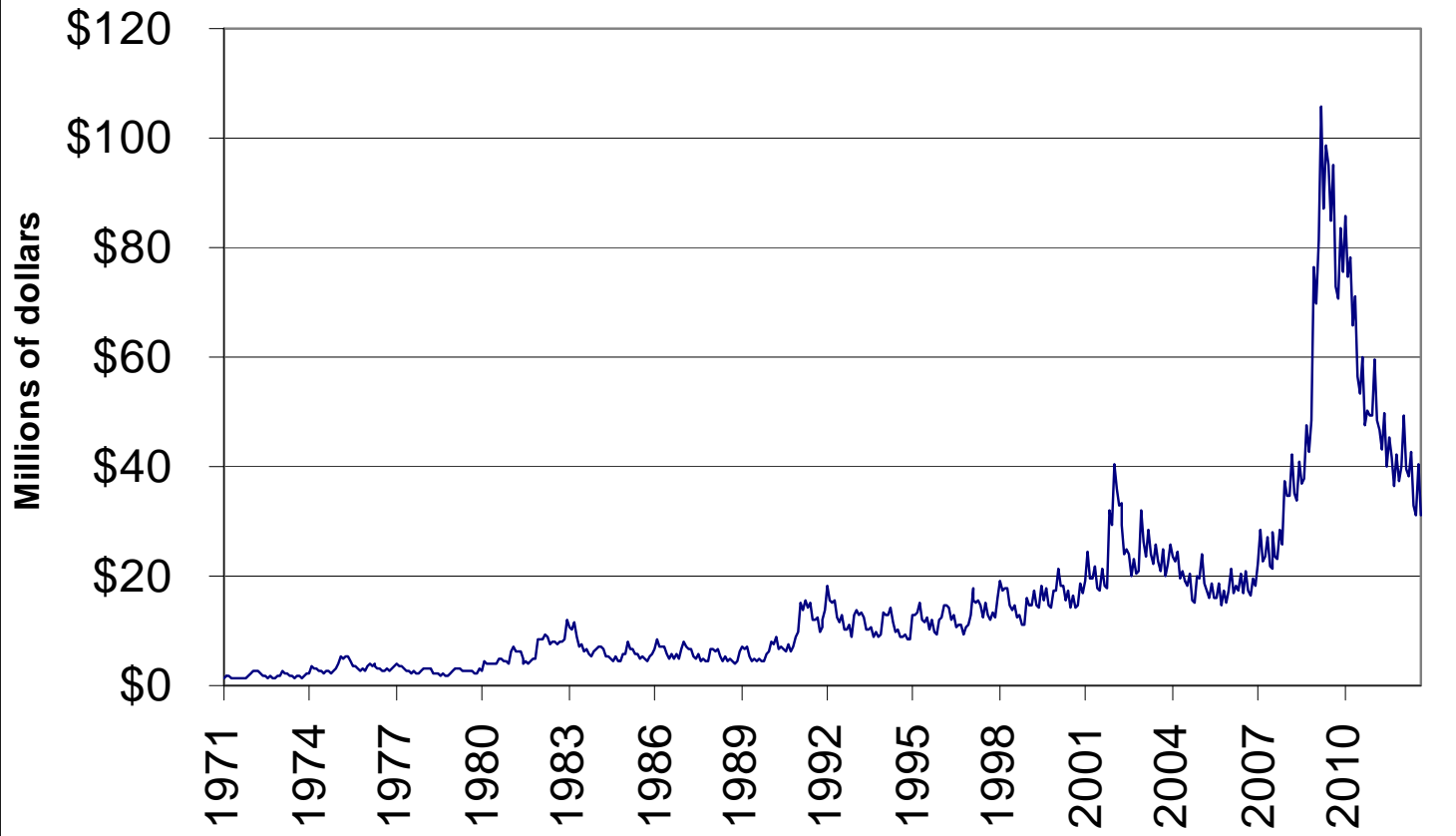


# Nevada's Trust Fund: What it Took to Borrow

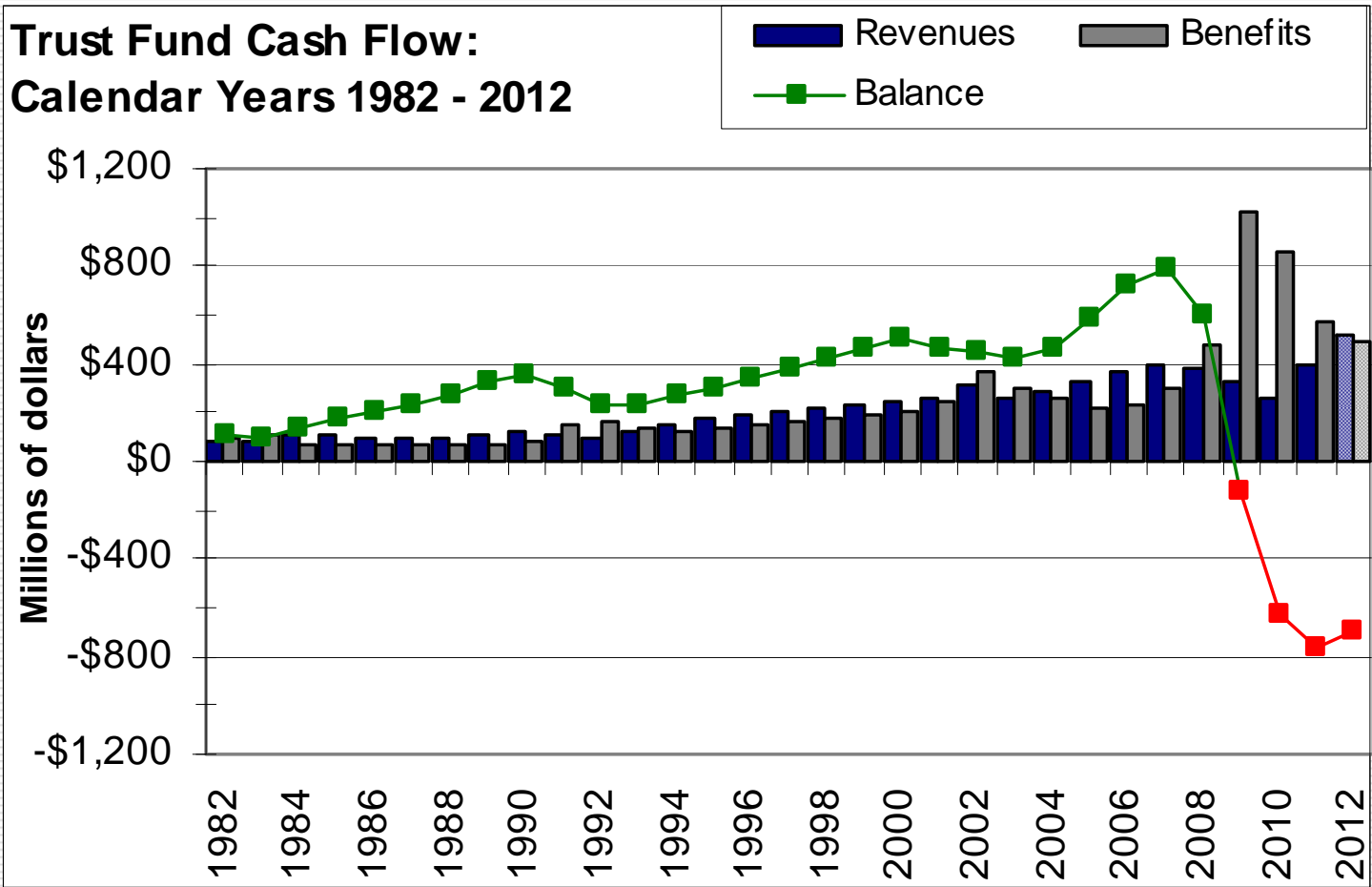


# Nevada's Trust Fund: Declining Benefit Payments

Monthly Compensation: 1971 to Present



# Nevada's Trust Fund: Shifting to Repayment

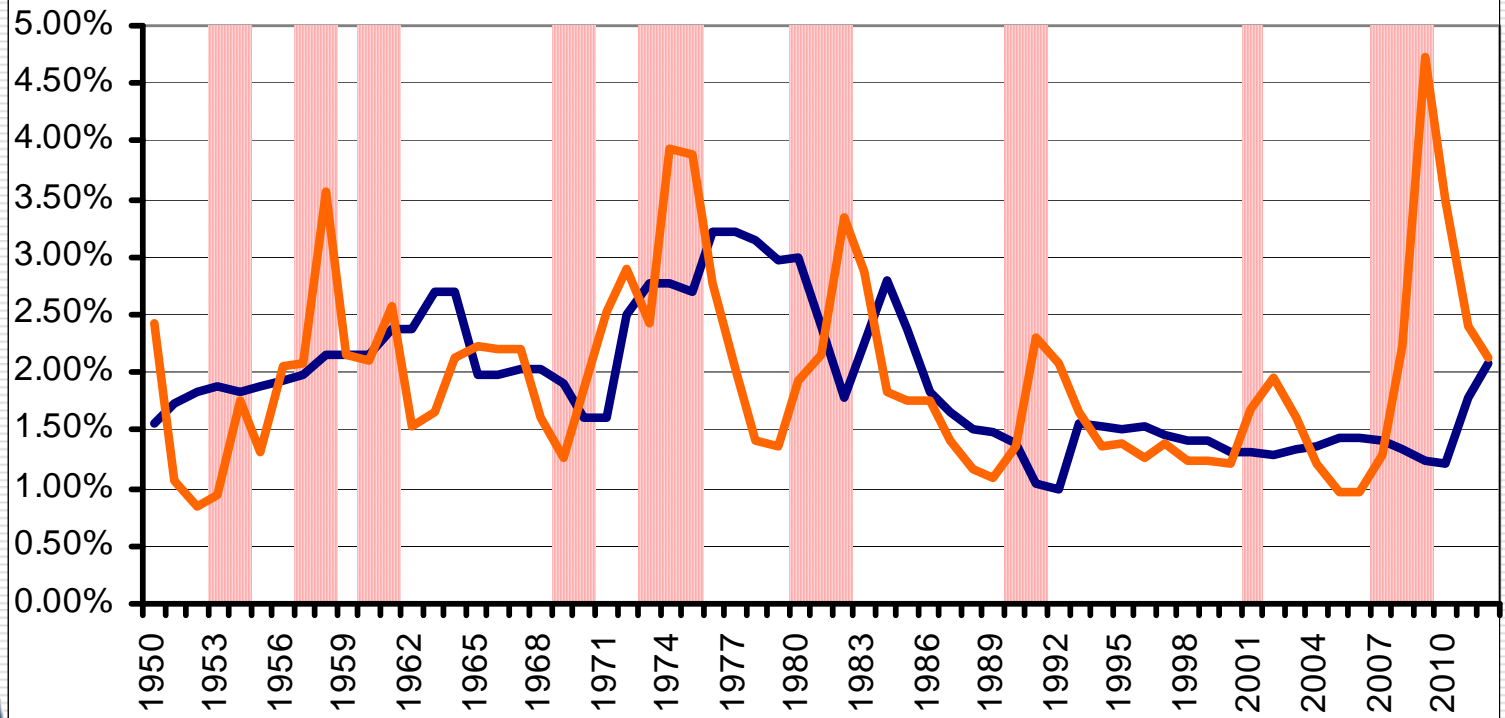


# Nevada's Trust Fund: Tax Rates and Benefit Costs

## Nevada Tax Rates v. Benefit Cost Rate

Shaded areas indicate recessions

- Avg. Tax Rate
- Benefit Cost Rate



# Costs of Borrowing: 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%





# Costs of Borrowing: 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.



# Costs of Borrowing: Targeting Capped FUTA Rates

- ❑ **Lowest Rate Possible (0.6%):**
  - ❑ Rate cannot be capped until 2013 (the first year the FUTA reduction would exceed 0.6%)
  - ❑ Average Tax Rate would need to be at least 3.0% in 2013
  - ❑ Loan balance on September 30, 2013 would need to be less than \$525.7 million.
- ❑ **Second-Lowest Rate Possible (0.9%):**
  - ❑ Average Tax Rate would need to be at least 2.9% in 2014
  - ❑ Loan Balance on September 30, 2014 would need to be less than \$742.2 million



# Costs of Borrowing: Interest Charges for 2012

- ❑ Interest accrued from October 1, 2011 through September 30, 2012.
- ❑ The interest rate charged is based on the interest earned on positive trust fund balances.
- ❑ The interest rate during 2011 was 4.08690135%
- ❑ The interest rate during 2012 is 2.94299868%
  - ❑ This reduced interest rate lowered estimated interest expenses for 2012 by roughly \$9 million
- ❑ Nevada's 2012 interest cost is \$23.9 million.
- ❑ Across all states, estimated 2012 interest charges are \$1.1 billion.



# 2013 Forecast: Potential 2013 Tax Rates

<b>Nevada Solvency Calculation</b>	<b>2013</b>	<b>2013</b>	<b>2013</b>	<b>2013</b>	<b>2013</b>
Covered Employment	967,819	967,819	967,819	967,819	967,819
Highest Risk Ratio	18.98%	18.98%	18.98%	18.98%	18.98%
Highest Weeks Duration	19.12	19.12	19.12	19.12	19.12
Average Weekly Payment	\$300.00	\$300.00	\$300.00	\$300.00	\$300.00
<b>Solvency Target (Millions)</b>	<b>\$1,053.7</b>	<b>\$1,053.7</b>	<b>\$1,053.7</b>	<b>\$1,053.7</b>	<b>\$1,053.7</b>
<b>UI Trust Fund Level</b>					
<b>10/1/12 Fund Balance (Millions)</b>	<b>(\$676.0)</b>	<b>(\$676.0)</b>	<b>(\$676.0)</b>	<b>(\$676.0)</b>	<b>(\$676.0)</b>
Intake to Fund	492.3	549.0	602.8	659.4	715.4
Taxes	442.9	499.6	553.4	610.0	666.0
FUTA Offset Loan Repayment	49.4	49.4	49.4	49.4	49.4
Payout From Fund	430.4	430.4	430.4	430.4	430.4
Regular Benefits	430.4	430.4	430.4	430.4	430.4
Designated Reed Act Funds	0.0	0.0	0.0	0.0	0.0
Net Change in Fund	61.9	118.6	172.4	229.0	285.0
<b>9/30/13 Fund Balance (Millions)</b>	<b>(\$614.1)</b>	<b>(\$557.4)</b>	<b>(\$503.6)</b>	<b>(\$447.0)</b>	<b>(\$391.0)</b>
State Solvency Gap (Millions)	(1,667.8)	(1,611.1)	(1,557.3)	(1,500.7)	(1,444.7)
Solvency Multiple	-0.58	-0.53	-0.48	-0.42	-0.37
AHCM Solvency Gap (Millions)	(1,422.4)	(1,365.7)	(1,311.9)	(1,255.3)	(1,199.3)
Average High Cost Multiple	-0.76	-0.69	-0.62	-0.55	-0.48
<b>Average Tax Rate</b>	<b>2.00%</b>	<b>2.25%</b>	<b>2.50%</b>	<b>2.75%</b>	<b>3.00%</b>
<b>Average Cost Per Employee at Taxable Wage Base</b>	<b>\$538.00</b>	<b>\$605.25</b>	<b>\$672.50</b>	<b>\$739.75</b>	<b>\$807.00</b>



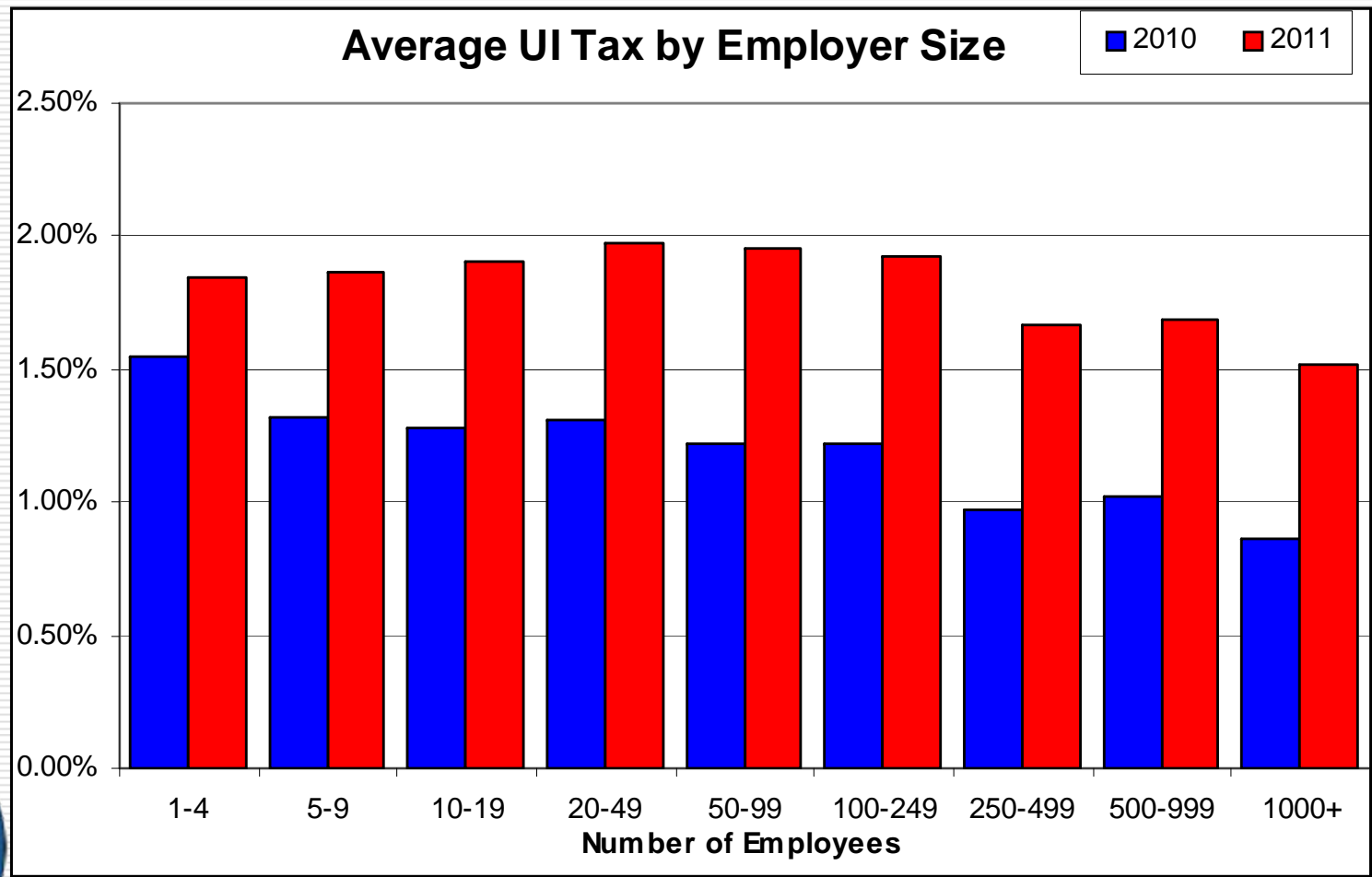
# 2013 Forecast: Long Term Effect of Different Rates

(\$ in Millions)	2.00%	2.25%	2.50%	2.75%	3.00%
Maximum FUTA Credit Reduction	2015	2014-15	2014	2013-14	2012-14
Year Loans are Repaid	2016	2016	2015	2015	2015
Year AHCM Reaches 1.0	2020	2018	2018	2017	2017
2013 SUTA Cash Flow	\$54.9	\$105.5	\$156.1	\$206.7	\$257.2
Total Interest Expense	\$60.9	\$54.5	\$49.2	\$44.7	\$41.5
Total FUTA Offset	\$329.9	\$304.1	\$215.0	\$193.5	\$150.8
Maximum FUTA Credit Reduction	1.5%	1.2%	1.2%	0.9%	0.6%
Loan Repayment from FUTA	39%	36%	25%	23%	18%
2013 Avg SUTA Tax	\$538.00	\$605.25	\$672.50	\$739.75	\$807.00
2013 Avg FUTA Tax	\$105.00	\$105.00	\$105.00	\$105.00	\$84.00

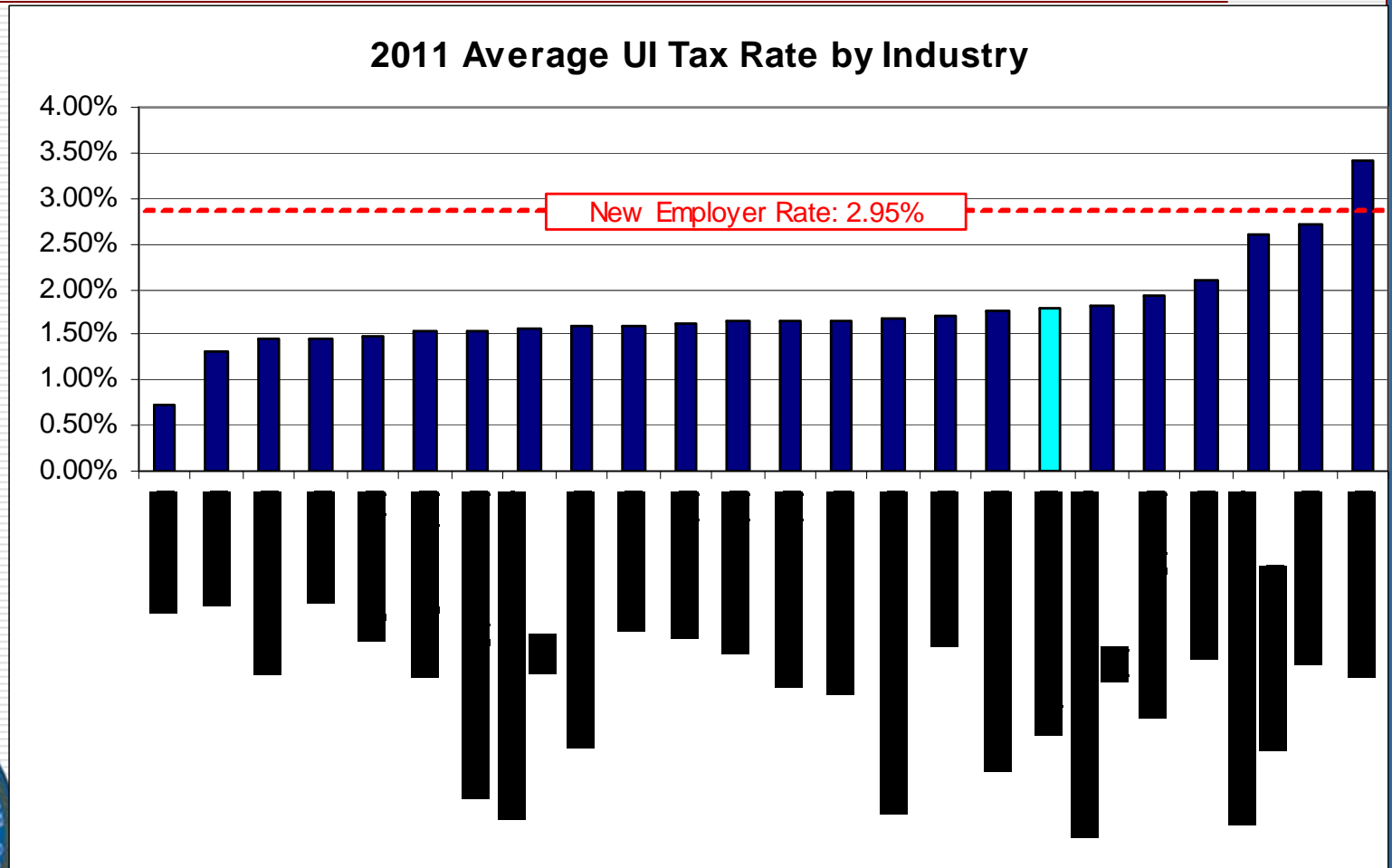
- ❑ Table assumes Nevada takes no action to reduce solvency, and avoids the BCR Add-On credit reduction
- ❑ Average time from end of one recession to start of the next during the last 50 years: 5.4 years (December 2014)



# 2013 Forecast: Tax Rates by Employer Size



# 2013 Forecast: Tax Rates by Industry



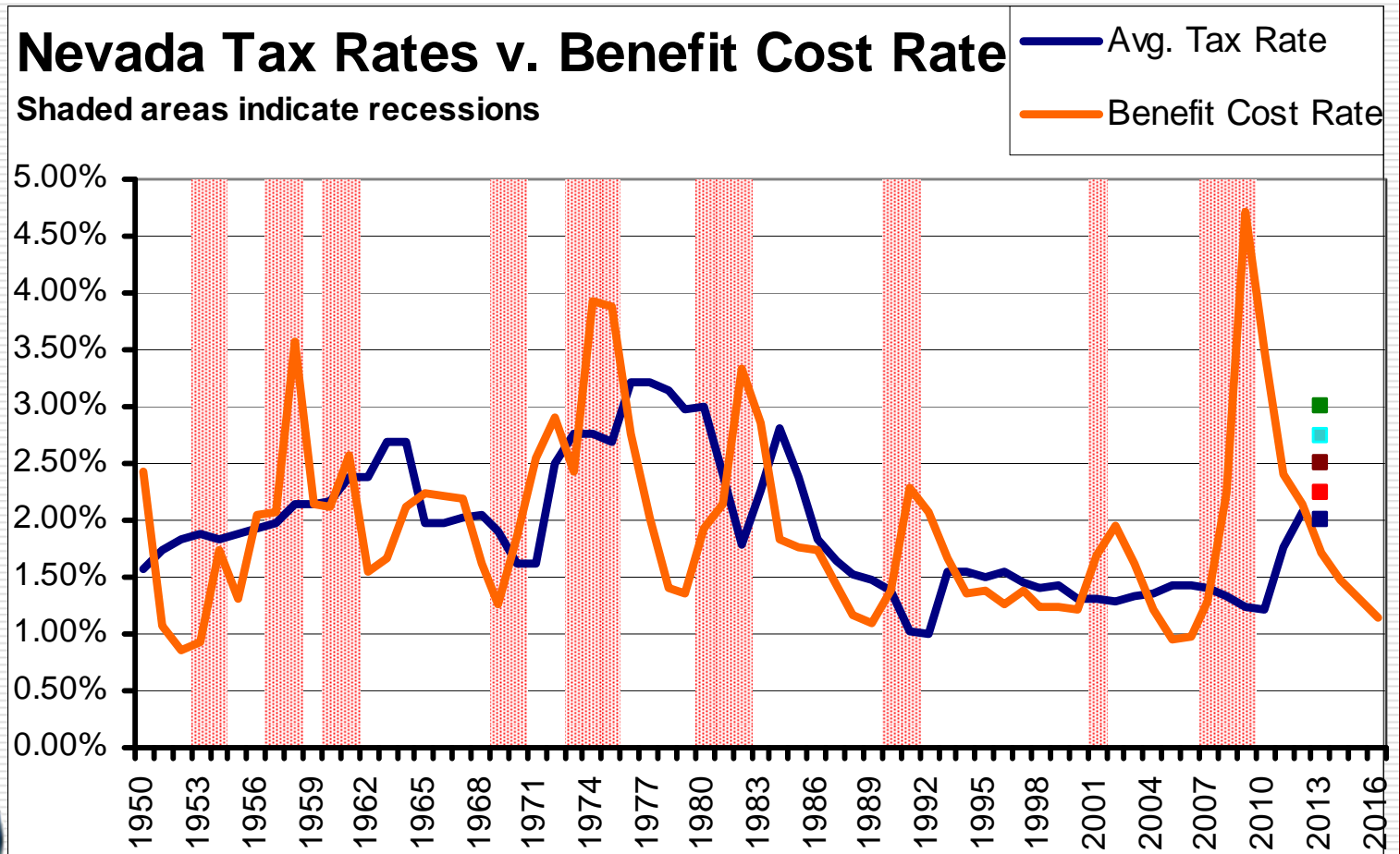
# 2013 Forecast: Small Change in Reserve Ratios

Tax Rate	2012		2013	
	From	To	From	To
5.40%	--	-14.2	--	-14.0
5.05%	-14.2	-12.6	-14.0	-12.4
4.75%	-12.6	-11.0	-12.4	-10.8
4.45%	-11.0	-9.4	-10.8	-9.2
4.15%	-9.4	-7.8	-9.2	-7.6
3.85%	-7.8	-6.2	-7.6	-6.0
3.55%	-6.2	-4.6	-6.0	-4.4
3.25%	-4.6	-3.0	-4.4	-2.8
2.95%	-3.0	-1.4	-2.8	-1.2
2.65%	-1.4	0.2	-1.2	0.4
2.35%	0.2	1.8	0.4	2.0
2.05%	1.8	3.4	2.0	3.6
1.75%	3.4	5.0	3.6	5.2
1.45%	5.0	6.6	5.2	6.8
1.15%	6.6	8.2	6.8	8.4
0.85%	8.2	9.8	8.4	10.0
0.55%	9.8	11.4	10.0	11.6
0.25%	11.4	--	11.6	--





# 2013 Forecast: Potential 2013 Rates vs. BCR



# 2013 Forecast: Other Considerations

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- ❑ How long will it take the economy to recover?
  - ❑ Average time from end of one recession to beginning of new recession over the last 50 years: 5.4 years
  - ❑ Increasing economic headwinds?
- ❑ Expiring Extended Benefit Programs
  - ❑ How will the scheduled expiration of extended UI benefits affect the Nevada economy?
  - ❑ How will it affect the number of regular UI claimants?

