



Unemployment Insurance Update

Ohio Manufacturers' Association

November 3, 2011



Federal – State Partnership

■ Federal Role

- Establish national standards
- Provide adequate administrative funding

■ State Role

- Enact state law congruent with federal standards
- Collect taxes and remit to federal trust funds
- Timely determinations of eligibility and benefit payment
- Collect overpayments



How is UI Funded

1) FUTA – Federal Unemployment Tax Act

- Primarily fund states' administrative costs for their UI program;
- Employers are taxed 6.2% of the first \$7,000 of wages paid to each covered employee on their payroll;
- State conforms to federal standards → 5.4% offsetting tax credit; Net Cost to Employers = 0.8 %
- The annual value of the offset credit to Ohio's employers is around **\$1.7 billion**.




How is UI Funded

2) SUTA – State Unemployment Tax Act

- Paid by employers to ODJFS' Office of Unemployment Compensation (OUC); deposited in UC Trust Fund.
- Funds in this state trust fund may only be used to finance Ohio unemployment benefits.
- The taxable wage base for the SUTA is the first \$9,000 of an employee's annual wages. ODJFS calculates each employer's contribution (tax) rate annually.



Ohio Tax Rates



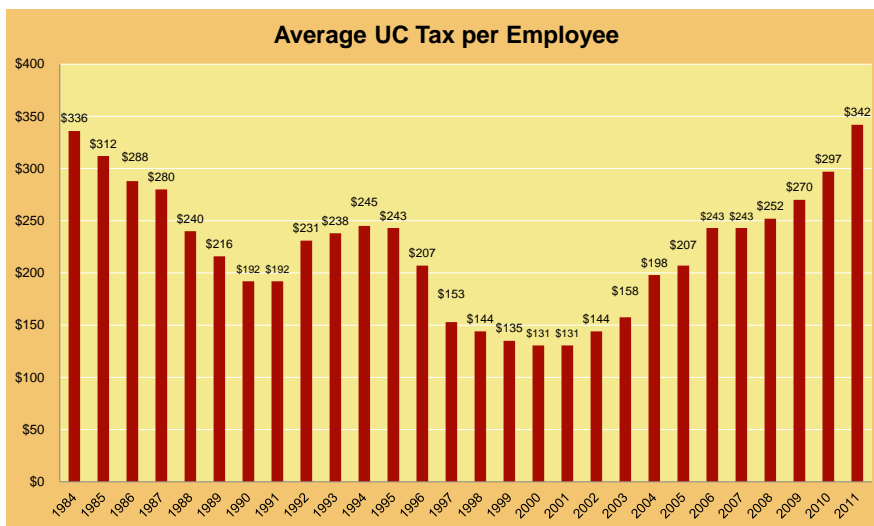
Components of State Unemployment Tax

- Base Rate – based upon size of payroll, total employer contributions and benefits charged to account - 2011 range .1% to 6.5%
- Minimum Safe Level (MSL) Tax – positive or negative adjustment based upon trust fund balance – 2011 range .2% to 2.7%
- Mutualized Tax – 2011 rate .4%

Tax Rates Changes from 2010

- Total employer rates range from 0.7% to 9.6% compared to 2010 when they ranged from 0.5% to 9.4%.
- Mutualized tax of 0.4% increased from .2% in 2010
- Average tax rate is 3.8% compared to 3.3% in 2010
- Average tax per employee will increase to \$342 from \$297

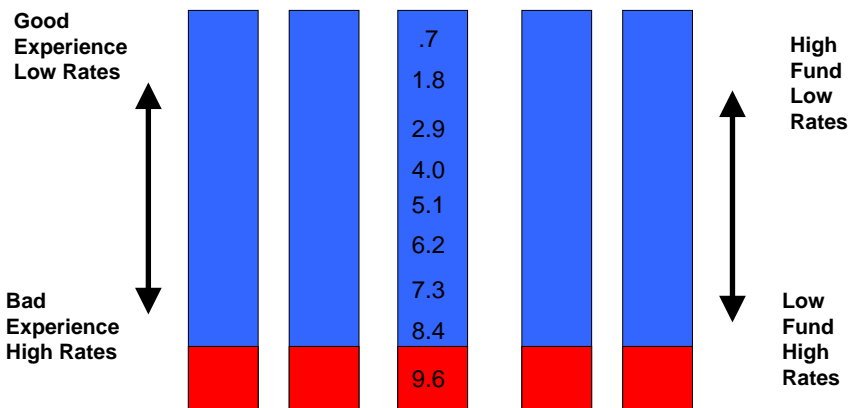
Ohio U.C. Tax Per Employee 1984-2011



Experience Rated Tax System

Two Primary Factors
Employer Claim History

Trust Fund Balance



Comparison with Other States

- Ohio's Average UI Tax rate on total wages (.77%) is slightly lower than the US average (.80%) Rank 30th
- Average Weekly benefit of \$292 is slightly lower than the average Rank 27th
- Average Weekly wage is close to National average Rank 24th
- Reciprocity rate is low Rank 40th



Tax Rate Distribution

- Minimum rate for 2011 increased from .5% to .7%
- 25% of experience rated employers are at minimum rate and pay less than 1.6% of the total taxes
- Over 40% of employers have rates lower than 2%
- 7% are at the maximum rate and pay around 17% of the total taxes




Individual Rate Variations from 2010 to 2011

- 7.5% of employers will experience 2011 rate increases > 100%
- 4.3% of employers will experience 2011 rate increases > 200%
- .8% of employers will experience 2011 rate increases > 900%



Scenario

- Employer A has 46 employees and had a low experience rate of 1% for 2010
- They were forced to lay off 10 employees in October 2009
- Each claimant collected the average weekly benefit for 26 wks
- The 2011 rate increases to 8.3%
- With no further layoffs, the rate would gradually return to 1.1% over the next 5 years



Negative Balance Adjustment Relief

- Employers who experience large tax increases may qualify for some relief when certain criteria are met
- Must have had a positive account balance for two consecutive years
- Account must have a negative balance >10% of the average annual payroll
- Excess over 10% is charged to Mutual Account
- Can increase to 15% in year 2 and 20% year 3
- For 2010, 4,850 employers received adjustments totaling \$116 million
- For 2011, 3,725 employers received adjustments
- Only four states provide this relief



Ohio Benefits

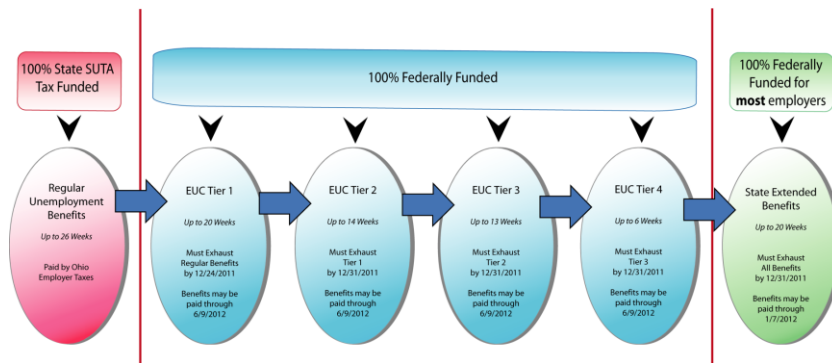


Regular Benefits

- Indexed to Average Weekly Wage
- 2011 maximums
 - \$387/wk no dependents
 - \$470/wk one or two dependents
 - \$524/wk three or more dependents
- Average benefit \$296/wk

Extended Benefits

Weeks of Unemployment Benefits Available in Ohio

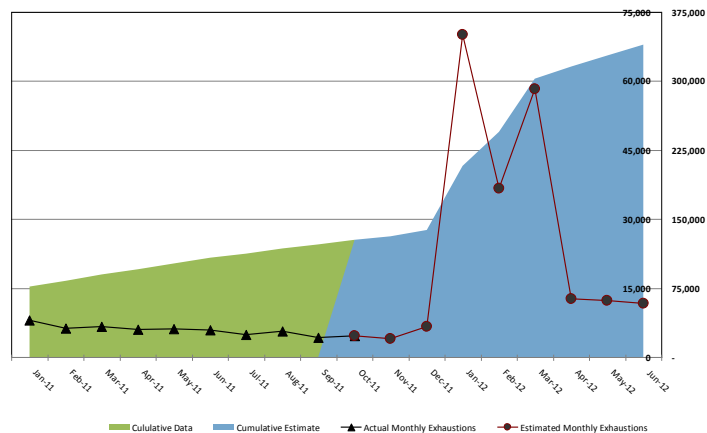


Maximum of 99 weeks of benefits, including Regular UI, Tiers 1, 2, 3, 4, and EB

Rev. 1/21/2011

The Exodus from Extended Benefits

UC Program Exhaustions, Ohio
July 2011 - June 2012 Est.





Trust Fund Status

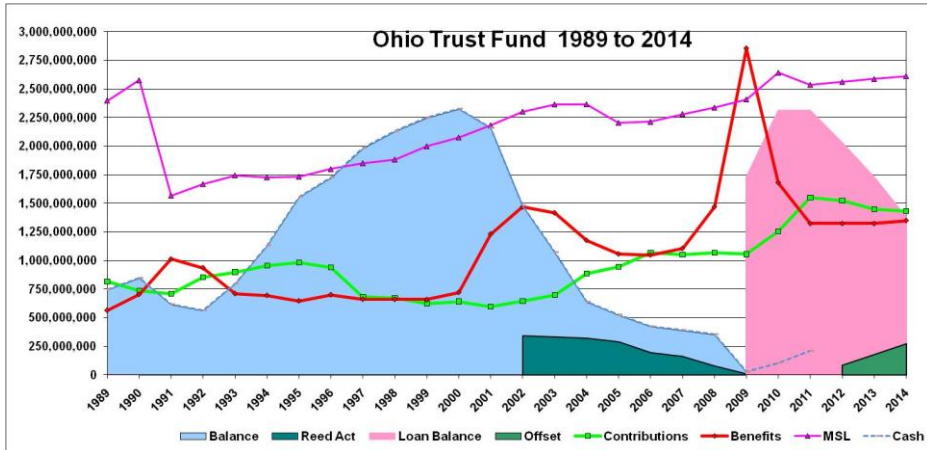


Current Federal Borrowing

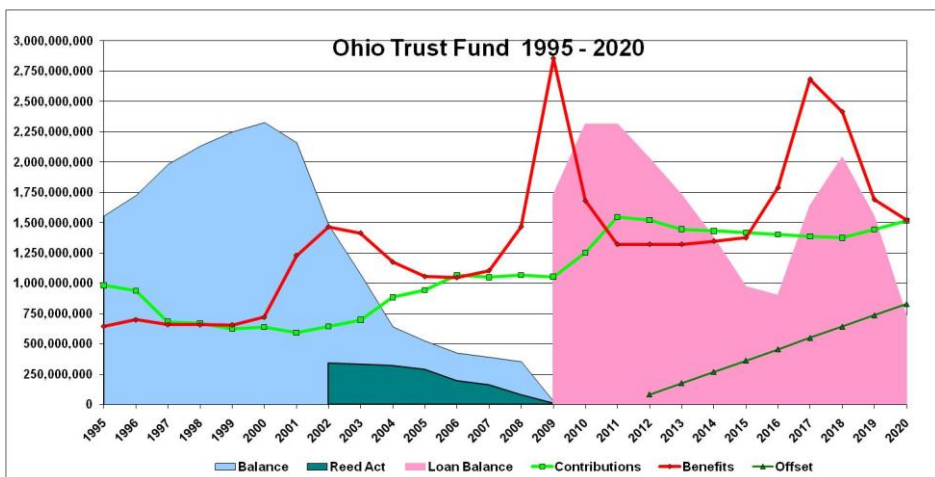
- Trust fund became insolvent Jan 12, 2009
- Since that time we have borrowed a total of \$2.61 billion
- Ohio has a current loan balance of \$2.31 billion
- We do not expect to borrow for the remainder of 2011
- We made an interest payment of \$70.7 million and a principal payment of \$298 million in Sept., 2011
- Since October 1, we have accumulated \$ 8 million in additional interest charges
- As of October 31, 27 States have federal borrowing balance of \$38.8 billion



Trust Fund Dynamics



Trust Fund Dynamics –with Typical Recession





Impact of Federal Borrowing

- Without state action, between 2011 and 2016, Ohio would be required to pay between \$400-500 million in interest charges from a state revenue source.
- During that same period, Ohio's employers would lose their FUTA offset credit at a total cost of \$1.4 billion.



FUTA Offset Credit Reduction

	Years After First Advance	Aggregate Cost to Ohio Employers	Total per Employee	Additional Cost per Employee
Effective FUTA Tax 0.8%			\$56	
<u>Minimum Reduction</u>				
0.3%	2	\$94,898,260	\$77	\$21
0.6%	3	\$189,796,519	\$98	\$42
0.9%	4	\$284,694,779	\$119	\$63
1.2%	5	\$379,593,038	\$140	\$84
1.5%	6	\$474,491,298	\$161	\$105

The 2011 FUTA rate is 6.2%*. The full FUTA credit is 5.4% in 2011.

*Not adjusted for July 1, 2011 repeal of .2% FUTA surtax



FUTA Offset Credit Reduction Example

	Current UI Liability	FUTA Offset (0.3%)	Total UI Liability	Pct. Growth
<u>Large Employer: 1,500 employees</u>				
High State Rate (6.6%), Federal Rate (0.8%)	\$975,000	\$31,500	\$1,006,500	3.23%
Low State Rate (0.7%), Federal Rate (0.8%)	\$178,500	\$31,500	\$210,000	17.65%
<u>Small Employer: 5 employees</u>				
High State Rate (6.6%), Federal Rate (0.8%)	\$3,250	\$105	\$3,355	3.23%
Low State Rate (0.7%), Federal Rate (0.8%)	\$595	\$105	\$ 700	17.65%



Critical Financial Sustainability Issues for the Unemployment System

- Maintain balance between benefits paid and taxes received
- Trust fund must have adequate reserves to sustain typical recession
- System must provide for rebuilding trust fund during times of relative prosperity