Ohio | Department of Job and Family Services

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Unemployment Compensation: Overview and Current Issues

August, 2016

Unemployment Insurance Overview

- New Deal program established in 1935 as part of the Social Security Act
- Purpose
  - Alleviate hardship of unemployment
  - Countercyclical economic aid for local economies
  - Reduce number of layoffs

Unemployment Insurance Overview

Federal Role:

- Establish minimum national standards
- Provide adequate administrative funding to states

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

Unemployment Insurance Overview

Who is eligible for benefits?

- Unemployed Ohioans who:
  - Lost their job through no fault of their own
  - Are able to, available for, and actively seeking work
  - Worked at least 20 weeks over a specific 12 month period for a qualified employer
  - Earned an average of at least $243 (2016 level) per week during that time

Do most unemployed get benefits?

The recipiency rate measures the percentage of unemployed who receive regular unemployment benefits.

- In 2015, Ohio's recipiency rate averaged 24%, which ranked us 33rd among states.
- This means that 76% of unemployed Ohioans did not receive state UC benefits in 2015.

Unemployment Insurance Overview

What do claimants receive?

- No more than 50% of their previous weekly wage, up to a maximum of:
  - $435 for an individual with no dependents
  - $527 for an individual with one or two dependents
  - $587 for an individual with three or more dependents
- Benefits are authorized weekly. A claimant must meet the eligibility requirements in the week for which a payment is issued.

Unemployment Insurance Overview

Who pays for benefits?

- Financed solely by employers
  - Federal tax covers program administration
  - State tax covers benefit payments
- No General Revenue Funds are used to pay benefits

How Unemployment Is Funded

SUTA – State Unemployment Tax Act:

- Paid quarterly by employers to the ODJFS Office of Unemployment Compensation (UC); deposited in UC Trust Fund. 2016 Taxes paid in 2016.
- Funds in this state trust fund may be used only to finance Ohio unemployment benefits. No staff costs are charged to the state trust fund.
- The taxable wage base for SUTA is the first $9,000 of an employee's annual wages. ODJFS calculates each employer's contribution (tax) rate annually.

Basic Requirements for SUTA Rates

- Experience rating
- Should accumulate reserves during low unemployment periods
- Must utilize a taxable wage base no less than that used for FUTA
- Beyond the basic requirements, states have a great deal of flexibility to determine weekly benefit amounts, number of weeks compensated

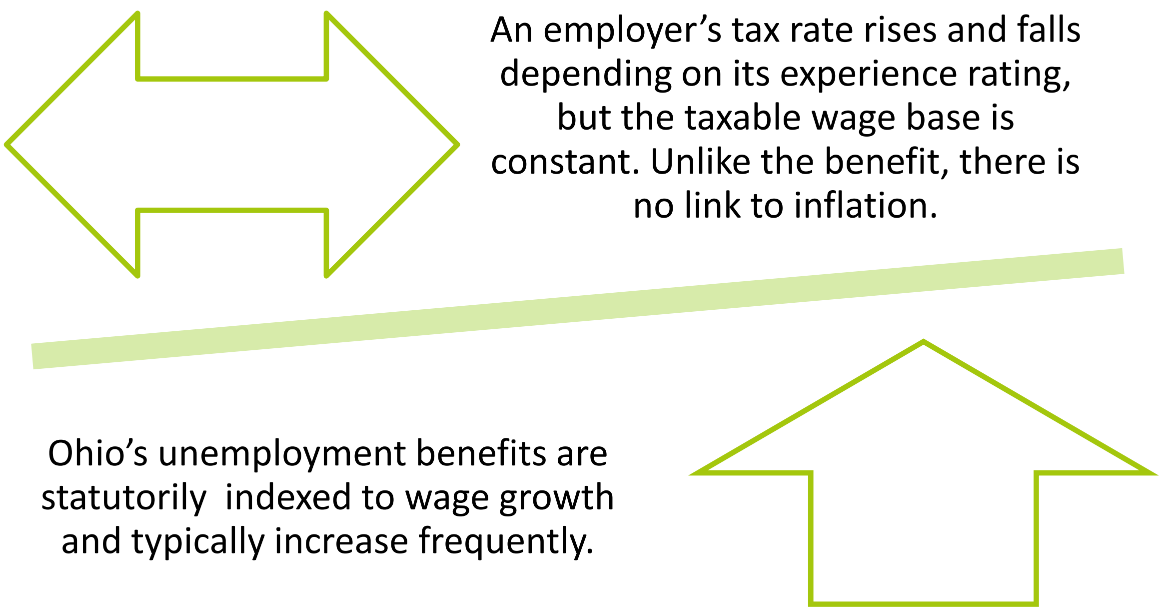
How Unemployment is Funded (2)

FUTA – Federal Unemployment Tax Act:

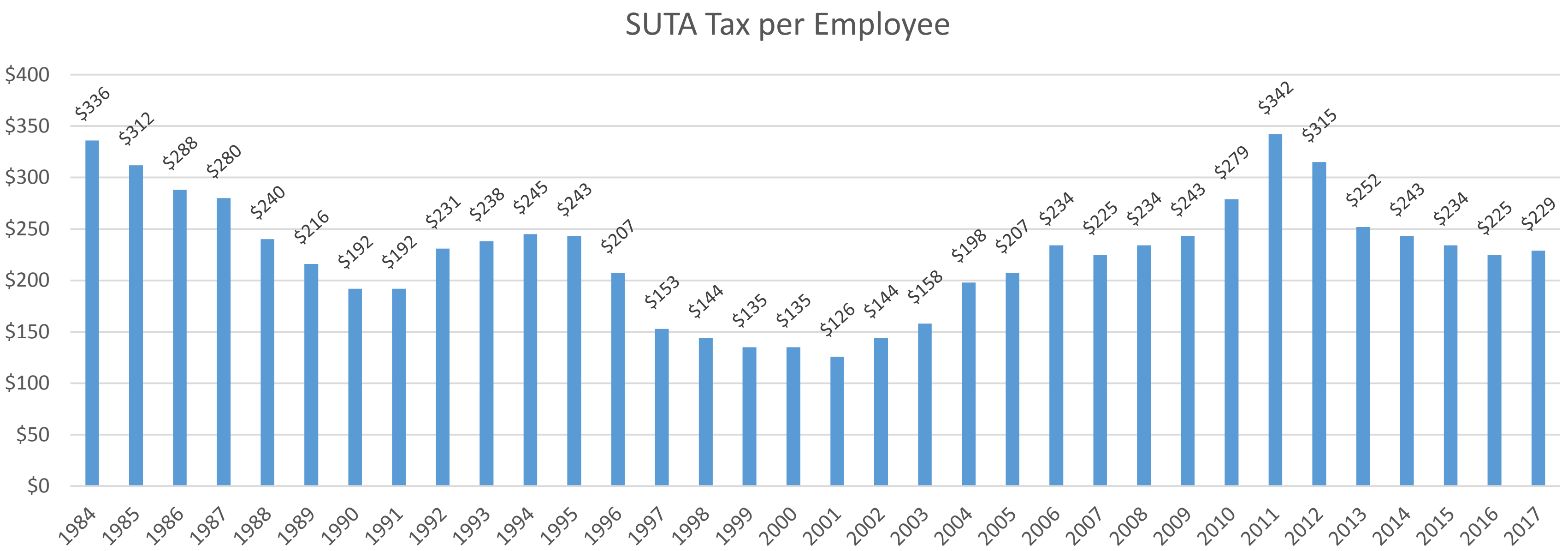
- Primarily funds states' administrative costs to operate their unemployment programs;
- Employers are taxed 6.0% of the first $7,000 of wages paid to each covered employee on their payroll;
- If state has good credit → 5.4% offsetting tax credit; Net Cost to Employers = 0.6 %
- Taxes are paid annually with federal tax filing. 2016 taxes are paid in 2017
- The annual value of the offset credit to Ohio's employers is around **$1.8 billion**.

Unemployment Insurance Overview

Ohio's unemployment system is structurally out of balance:



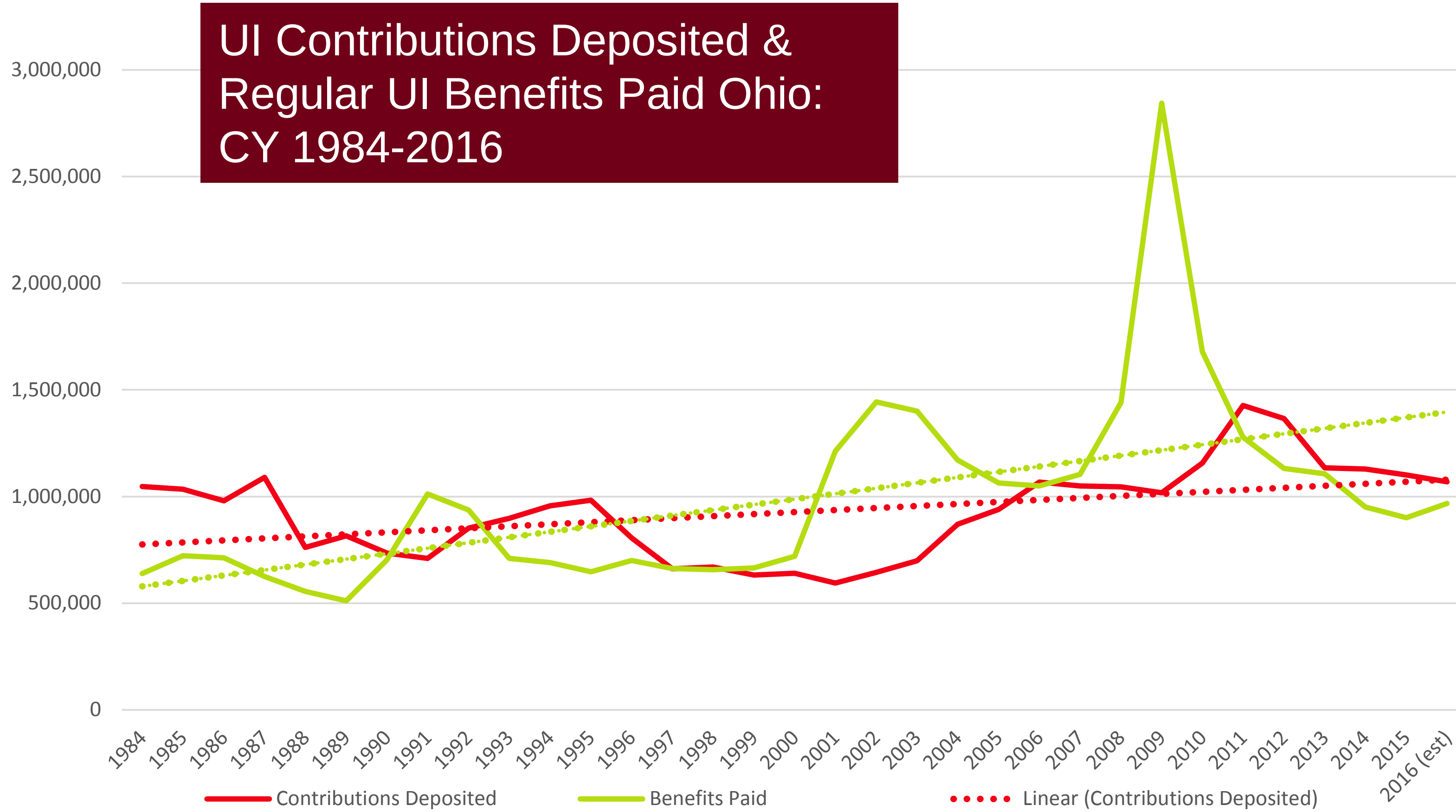
Ohio SUTA Tax 1984-2017



SUTA taxes rise and fall in response to economic cycles

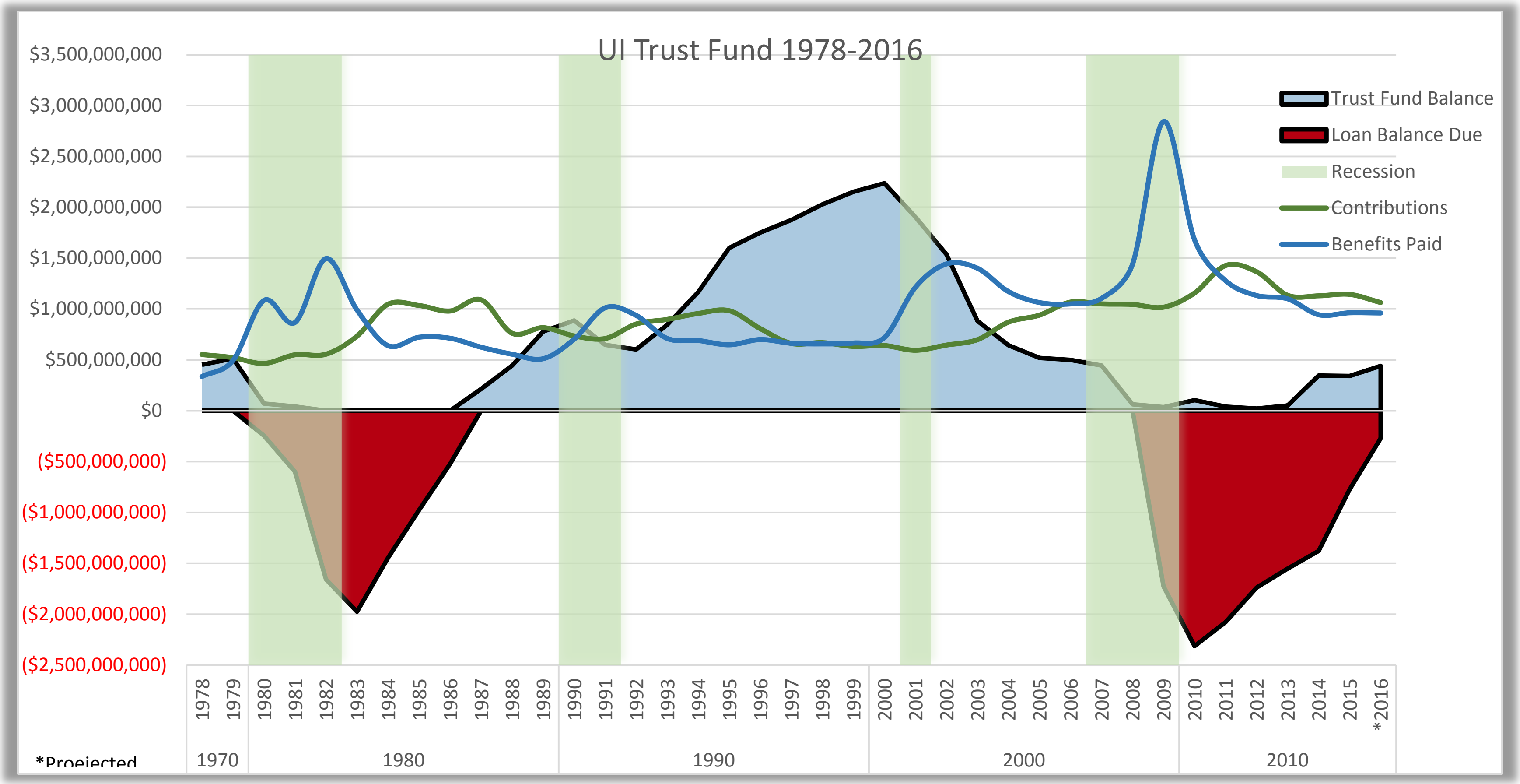
*The tax collected per employee returned to roughly the same level in 2011 that it reached in 1984 following the last major recession when using nominal dollars. However, when recalculating using 1984 dollars, a tax of more than $750 per employee would be required for equivalence in 2011.

Tracking the Imbalance Over Time



Trust Fund Status

Unemployment Trust Fund Balance



Trust Fund Adequacy – How Much is Enough?

- Each state determines its own definition of an adequate reserve
- Ohio law calls the adequate reserve the Minimum Safe Level, which is essentially the amount of funds needed to sustain the trust fund through a historically typical recession without borrowing
- DOL uses a measure called the AHCM which would require a balance of $2.574 billion
- The current (2016) MSL is $2,849,165,927.45
- The highest trust fund balance that we have ever achieved is $2.53 billion.

Requirement to Pay Benefits

- States are required to make benefit payments regardless of solvency of unemployment trust fund.
- When state funds become insolvent federal funds are loaned to states in order to make required payments.
- There are no specific repayment schedules for the federal funds however interest is charged.
- However, after two years, Federal unemployment taxes begin to increase with proceeds applied towards the loan.

Solvency and the Great Recession

- The recession of 2008 was longer and deeper than anyone anticipated
- Ohio's trust fund became insolvent on January 12, 2009 becoming the fourth state to become insolvent.
- Ohio and 36 states ultimately borrowed in excess of $130.3 billion to pay required benefits
- Ohio alone borrowed a total of $3.4 billion
- Because Ohio's rate structure did not provide enough resources to repay the federal loans, a series of FUTA offset reductions were triggered beginning in 2011
- These FUTA tax increases were scheduled to repay the federal loan balance in 2017

Solvency and the Great Recession (2)

A. Congress waived interest requirement for loan to states during Federal Fiscal Years 2009-2011

B. Federal Extensions:

- Congress passed 12 separate bills extending or modifying unemployment insurance from 2008-2013
- At one point Ohioans were eligible for up to 99 weeks of unemployment benefits
- These extensions did not directly impact the Ohio Trust Fund Balance
- EUCA still owes almost $16B to repay loans which will not be repaid until 2025 at current rate.

Recovery and Repayment

FUTA Offset Credit Reductions:

- On the second January 1 that a state trust fund is insolvent, FUTA tax credits are reduced by .3%
- With each successive year of insolvency, the credit is reduced an additional .3%
- These credit reductions will eventually pay off the federal debt

FUTA Offset Credit Reduction (pre- HB390)

Minimum Reduction	Tax Year	Years After First Advance	Aggregate Cost to Ohio Employers	Total per Employee	Additional Cost per Employee
Effective Base FUTA Rate after full credit is 0.6%				$42	
0.3%	2011	2	$89,000,000	$63	$21
0.6%	2012	3	$187,000,000	$84	$42
0.9%	2013	4	$282,000,000	$105	$63
1.2%	2014	5	$405,000,000	$126	$84
1.5%	2015	6	$503,000,000	$147	$105
1.8%	2016	7	$597,000,000	$168	$126
0.0%	2017	8	$0	$42	$0

Total aggregate FUTA cost to Ohio employers = $2,064,000,000

Ohio Response to Federal Loans

- Ohio stopped borrowing in 2014
- We repaid $1.65 billion from State SUTA receipts from 2011 through 2016
- $1.47 billion was paid through the FUTA tax offset credit reduction process
- HB2 was passed in 2013 and HB 390 was passed in 2016

Ohio’s Response to Insolvency in the 80s

Benefit Changes

- Added one-week waiting period
- Froze maximum rates for two years
- Increased the earnings requirement to qualify or requalify for benefits
- Rounded benefits down to lowest even dollar

Tax Changes

- Increased taxable wage base from $6K to $8K over two years
- Increased MSL tax by .5% until the loan was repaid
- Increased the top experience rate

Changes Resulting from House Bill 2

- Clarifies that the ODJFS director may require UC claimants to report to a local OhioMeansJobs Center at any time in the benefit year
- Organizes all work search waivers into law and adds one new waiver
- Establishes the Reemployment and Eligibility Assessment Program in statute and establishes a continuing denial of benefits for failure to participate
- Requires active registration with OhioMeansJobs.com

Changes Resulting from House Bill 390

- Provides authority to repay balance of federal loan with funds borrowed from Unclaimed Funds Account.
- Enacts an Employer surcharge in 2017 in the amount calculated as necessary to repay Unclaimed funds.
- Provides that, in the event of future borrowing, interest charges will be paid through a corresponding employer surcharge in the following year.

Changes Resulting from House Bill 390 (2)

- Provides that, in the event that the trust fund shall become insolvent in the future, an additional an additional experience-rated tax of up to .5% shall be added to employer SUTA tax rates to begin to repay the principal on the outstanding federal loan balance until the loan is either repaid or FUTA offset reductions are imposed.
- Indicates the intent to repeal the last provision upon successful passage of a broader fix to the current unemployment system imbalance.

FUTA Offset Credit Reduction post- HB390

	Tax Year	Years After First Advance	Aggregate Cost to Ohio Employers	Total per Employee	Additional Cost per Employee
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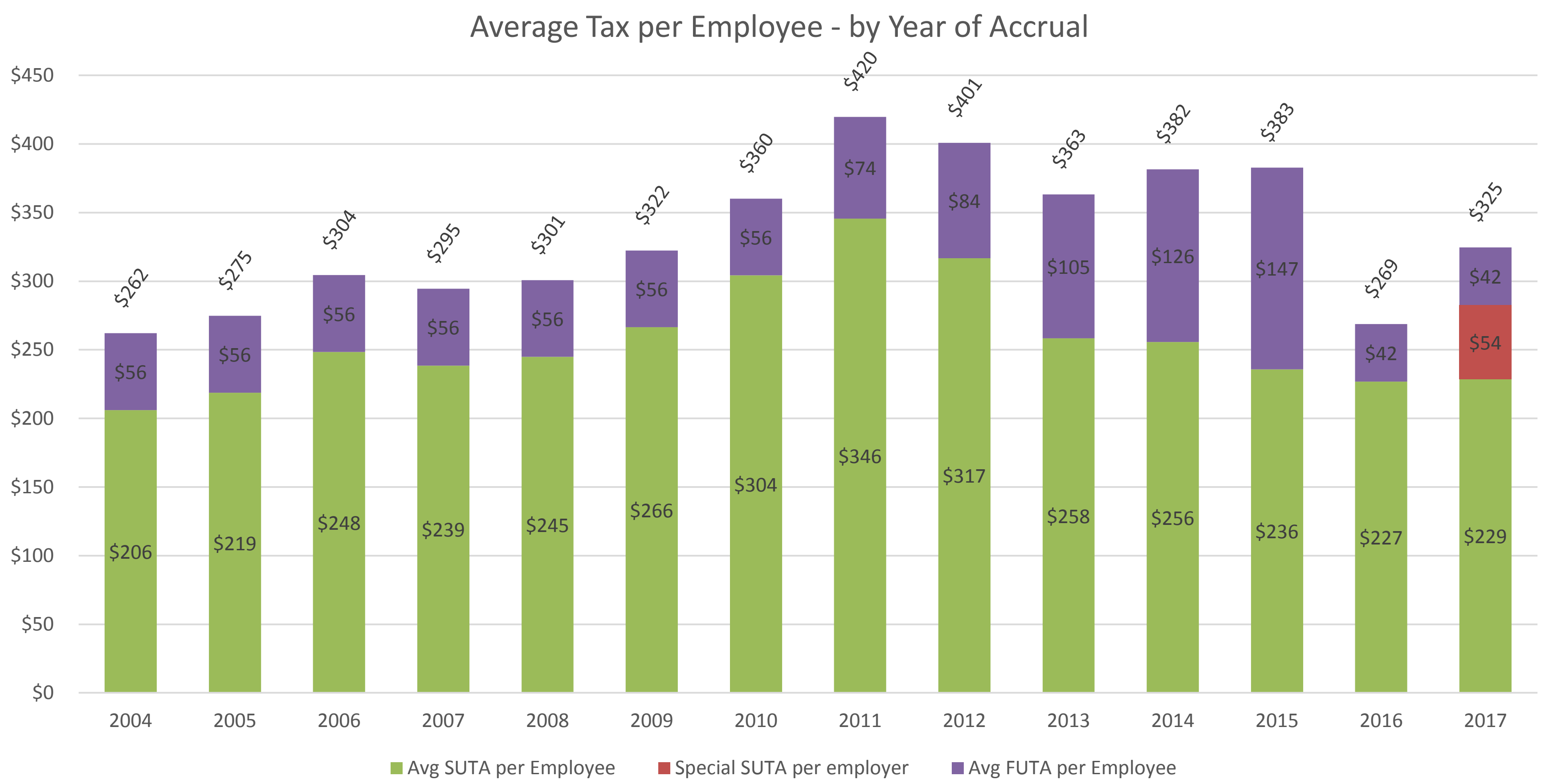
Total aggregate FUTA cost to Ohio employers = $1,466,000,000

Net Employer Tax Impact of HB390

2016 FUTA Tax reduction (payable in 2017)	= -$597,000,000
2017 SUTA Tax increase to repay state loan	= +$246,000,000
Net Tax Savings in 2017	= -$351,000,000

Total Employer Tax Load: Big Picture



Loan Repayment ≠ Solvency

- If HB390 allowed us to pay off the federal loan, why is further legislative action needed?
  - Even with continued employment growth, the imbalance between benefits and taxes will ultimately trigger more borrowing.
  - Even a small recession could render us insolvent.
  - In the event of future insolvency, HB390 provisions will automatically trigger significant tax increases.

Ohio Unemployment Tax Structure

State Unemployment Tax

- Rates will range from 0.3% to 8.5%, compared to 2012, when they ranged from 0.7% to 9.6%.
- Average tax rate for 2016 will decline to 2.5%, compared to 3.8% in 2011
- Average tax per employee will decrease to $225 from a high of $342 in 2011

Ohio Unemployment Tax Components

- **Base Rate**
  - The base rate is the largest portion of the tax. It is fixed in statute and varies each year based on experience factors. These include the size of the employer’s payroll, how much the employer has paid in taxes, and how much its account has been charged for benefits. Base rates range from .1 to 6.5 percent.
- **Minimum Safe Level (MSL) Tax**
  - The rate schedule is adjusted each year based on the trust fund balance. The tax rate ranges from .2 to 2.0 percent based on an employer’s experience rating.
- **Mutualized Rate**
  - A flat rate used to cover benefits that cannot be assigned to a specific employer – for example, benefits owed to former employees of businesses that have closed.
  - No regular mutualized tax will be levied in 2016, and none is expected for several years.
  - A special mutualized tax of .5% will be levied for 2017 only to repay the state loan.
- **Base Rate + MSL Rate + Mutualized Rate = Employer SUTA Tax Rate**

Experience Rated Tax System

- Two Primary Factors: Employer Claim History and Trust Fund Balance

Base Rate	Final Rate	Minimum Safe Level Tax
6.5	8.7	2.2
5.7	7.7	2.0
4.8	6.5	1.7
4.0	5.5	1.5
3.3	4.5	1.2
2.5	3.5	1.0
1.6	2.3	.7
.9	1.4	.5
.1	.3	.2

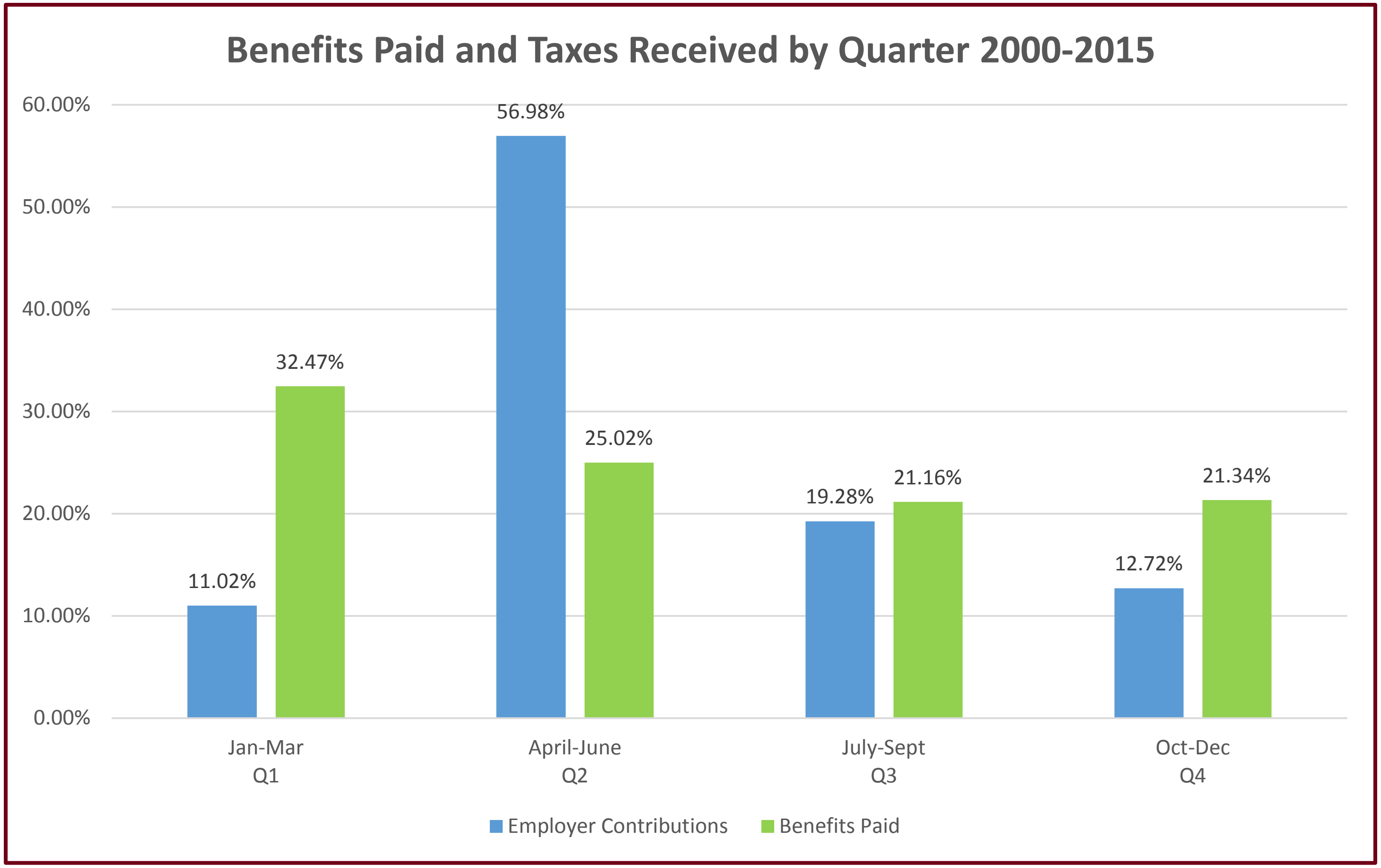
Employer Overview

- All SUTA taxes are paid by Ohio employers
- Ohio currently has 221,000 active employers in the UC tax system and another 5,000 reimbursing employers.
- 77% of Ohio employers have 20 or fewer employees.
- Only 2% of Ohio employers have more than 200 employees, but these employers collectively employ 56% of the total employees in covered employment.

Tax Rate Variances

- Minimum rate for 2016 remained at .3%
- 25% of experience-rated employers are at the minimum rate
- Only 6.3% of experience-rated employers are at the maximum rate
- 12.0% are at the delinquency rate
- 5.8% of employers experienced 2014 rate increases > 100%

Tax and Benefit Annual Cycles



Number of Ohioans Receiving Benefits

- Different methods for measuring
  - Continuing claims
  - Total individuals receiving a payment in year
- For the week ending July 30, 2016, we had about 59,000 regular continuing claims. During the week ending July 25, 2009, at the height of the recession we had about 239,000.
- In 2009 we issued a total of 698,248 1099 forms. This year we expect to issue fewer than 250,000.

Comparison with Other States

- Ohio's average UC tax rate on total wages (.59%) is lower than the US average (.74%). Rank: **14th lowest**
- Maximum benefit amount is higher than the average.   Rank: **10th highest**
- Average weekly benefit of $342 is higher than the average. Rank: **17th highest**
- Average weekly wage is close to the national average. Rank: **25th highest**
- Recipiency rate is low. Rank: **33rd highest**

How Other States Have Achieved Solvency

Increase Revenue

- Rate
  - Inflate Schedule
  - Raise or remove maximums
  - Raise minimums
- Taxable Wage Base
  - Change impact by industry
- Surtax
  - ATB or targeted

Reduce Expense

- Reduce benefit amount
- Reduce number of unemployed who qualify for benefits
- Reduce duration of benefits
  - Cap (Maximum)
  - Back-load

Critical Financial Sustainability Issues

- Maintain balance between benefits paid and taxes received
- Trust fund must have the ability to build adequate reserves to sustain typical recession
- Cyclical or counter-cyclical tax response.

Unemployment Myths

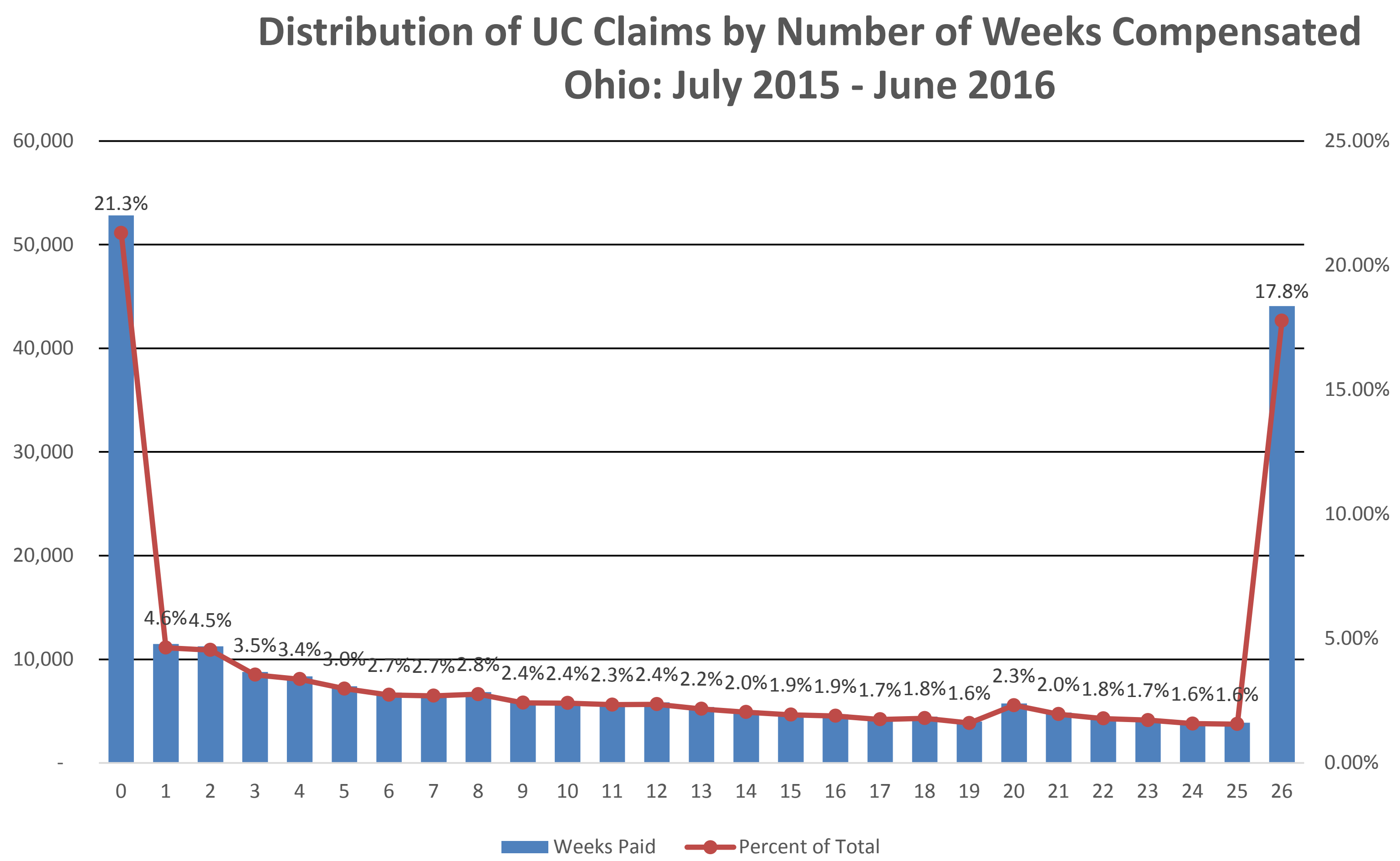
Myth #1:

Everyone is just staying on unemployment instead of working.

Myth #1: People prefer benefits to work.

- For 2015 Ohio’s exhaustion rate ranks 5th lowest among states.
- Our average duration on unemployment for 2015 was 14.6 weeks.

Distribution of Benefits – by weeks collected



Myth # 2:

It makes no sense for an employer to appeal. The system is stacked for the claimant.

Myth #2: Not employer-friendly

In the most recent quarter:

- Claimant Appeals to the UCRC
  - 25% favorable to appellant
  - 75% unfavorable to appellant
- Employer Appeals to UCRC
  - 36% favorable to appellant
  - 64% unfavorable to appellant
- Claimants are 30% more likely to appeal.

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