REPORT OF THE
JOINT SUBCOMMITTEE STUDYING

Funding Requirements of the Virginia Unemployment Trust Fund

TO THE GOVERNOR AND
THE GENERAL ASSEMBLY OF VIRGINIA

HOUSE DOCUMENT NO. 64

COMMONWEALTH OF VIRGINIA
RICHMOND
2001

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REPORT OF THE JOINT SUBCOMMITTEE STUDYING THE FUNDING REQUIREMENTS OF THE VIRGINIA UNEMPLOYMENT TRUST FUND

To: The Honorable James S. Gilmore, III,
Governor of Virginia, and
The General Assembly of Virginia

Richmond, Virginia
April 2001

I. INTRODUCTION

The Joint Subcommittee Studying the Funding Requirements of the Virginia Unemployment Trust Fund continued its work in 2000 pursuant to House Joint Resolution 249 (Appendix A). The resolution recites that continued oversight of the Unemployment Trust Fund is warranted to ensure its adequacy to meet current and projected benefit payments.

HJR 249 increased the size of the joint subcommittee from 10 to 12 members. Delegate John H. Rust. Jr., of Fairfax was elected chairman, and Senator John Watkins of Chesterfield was elected vice chairman. The other members appointed to the joint subcommittee were Senator Chichester of Stafford, Senator Y. B. Miller of Norfolk, Senator Puckett of Buchanan, Senator Wampler of Bristol, Delegate Cranwell of Vinton, Delegate Hull of Falls Church, Delegate Katzen of Fauquier, Delegate Kilgore of Scott, Delegate Purkey of Virginia Beach, and Delegate Spruill of Chesapeake. Delegate Cranwell resigned from the joint subcommittee mid-year and was replaced by Delegate Armstrong of Martinsville prior to the joint subcommittee's October meeting.

Since its establishment in 1977, the joint subcommittee has met and received an annual report on the status of the Unemployment Trust Fund from the Virginia Employment Commission (VEC). The joint subcommittee's duties also include reviewing and recommending major revisions to the Unemployment Compensation Act that may be proposed from time to time by the VEC and by representatives of business and organized labor. In 2000, the scope of the joint subcommittee's study was expanded from examining the current and projected funding levels of the Trust Fund to include studying adequacy of Virginia's formula for determining Trust Fund solvency in light of the Commonwealth's current and future economic conditions. This report summarizes the joint subcommittee's work during the 2000 interim, during which it held two meetings.

II. THE FEDERAL-STATE UNEMPLOYMENT INSURANCE SYSTEM

Virginia's unemployment insurance program provides temporary financial relief to Americans who are unemployed through no fault of their own and are looking for work. The program is designed to ensure that at least a significant portion of basic living expenses can be paid while an employee searches for suitable work. The Federal Unemployment Tax Act (FUTA) provides for a payroll tax on virtually all employers but allows employers a credit against the federal tax for the taxes paid to a conforming state unemployment insurance program. Each state administers a separate unemployment insurance program within minimum guidelines established in FUTA. Eligibility and the amount and duration of benefits are determined by each state.

Moneys in the Trust Fund are used solely to pay unemployment compensation benefits to unemployed Virginians. The weekly benefit amount is calculated to provide an eligible unemployed worker wage replacement benefits equal to approximately 52 percent of his pre-unemployment wage up to the statutory maximum weekly benefit of $268. An employee's weekly benefit is determined by dividing the amount earned in the highest two of the last four calendar quarters immediately preceding the quarter in which he became unemployed (the "base period") by 50. To qualify for benefits, Virginia employees must have earned at least $2,500 in total wages in the two quarters of the base period in which earnings were highest, providing a weekly benefit amount of $50. The duration of an eligible person's benefits, which ranges from a minimum of 12 weeks to a maximum of 26 weeks, is determined based on the total amount of wages earned in the base period.

Employers pay a combination of federal and state taxes to fund unemployment benefits. The proceeds from these taxes are deposited in the federally-maintained Unemployment Trust Fund. Each state has a separate account in the Unemployment Trust Fund to which deposits are made. As used herein, "Trust Fund" refers to Virginia's account in the Unemployment Trust Fund. Virginia employers with one or more employees pay Trust Fund taxes on employee wages up to $8,000. The taxes are "experience rated," which means that those employers with higher levels of qualifying employee claims for benefits will pay higher tax rates. The minimum tax

rate for Virginia's employers is 0.0 percent if the Trust Fund achieves 100 percent solvency; otherwise, it is 0.1 percent. The maximum rate is 5.4 percent. New employers without significant experience are initially charged a tax rate of 2.5 percent.

Employers are also charged a "pool tax" to cover benefits paid out from the Trust Fund that cannot be charged to specific employers. Pool costs include (i) benefit payments made to employees of employers no longer in business and (ii) coverage of benefit payment costs that cannot be recovered from maximum-rated employers to whom they are attributable because of the 5.4 percent cap. If the Trust Fund solvency level is at 50 percent or more, however, pool taxes are offset by interest earned on the Trust Fund. The Trust Fund is also supplemented by a 0.2 percent "fund-building" tax whenever the Trust Fund's solvency level drops below 50 percent.

The Virginia Employment Commission administers the Commonwealth's unemployment insurance program. Title 60.2 of the Code of Virginia prescribes the VEC's duties, which include (i) collecting taxes to fund the program; (ii) processing and paying benefit claims; (iii) providing administrative adjudication of contested claims; (iv) ensuring that the Trust Fund is adequately funded; (v) operating a job service program; (vi) providing employment and unemployment statistics; and (vii) implementing the federal Workforce Investment Act. The VEC's administrative costs, as well as federal administrative costs, are paid from the proceeds of a separate FUTA payroll tax, equal to 0.8 percent of the first $7,000 of wages (or $56 per employee per year), collected from Virginia employers by the Internal Revenue Service and administered by the federal government separately from money in the Trust Fund. The VEC administrative funding level is based upon the U.S. Department of Labor's estimate of VEC's administrative expenses. Currently the VEC receives for its administrative expenses about 33 percent ($56 million of $171 million paid in fiscal year 1998) of the amount paid to the account by Virginia employers.

III. JLARC REPORT OF TRUST FUND SOLVENCY

In 1999, the joint subcommittee received the annual report from the VEC (Appendix B), in which it was projected that the Trust Fund balance would decrease from more than one billion dollars in 1999 to less than $800 million in 2003. Over that same period, the amount required to maintain solvency was expected to exceed the projected balance, bringing solvency to less than 100 percent. In light of this projected decrease in the Trust Fund balance, as well as the introduction in the 2000 Session of a number of bills that would have tapped into that balance, Delegate Rust asked JLARC staff to conduct a technical assessment of the Trust Fund. JLARC's preliminary assessment conducted during the 2000 Session is summarized in a memorandum to Robert Vaughn and Neil Menkes dated February 1, 2000 (Appendix C), and a subsequent letter to Delegate Rust dated March 15, 2000 (Appendix D). Gregory J. Rest of JLARC presented the results of the assessment to the joint subcommittee at its August 22, 2000, meeting (Appencix E).

The Code of Virginia requires the VEC to maintain a "solvent" Unemployment Trust Fund. The current formula for determining Trust Fund solvency involves calculation of the adequate fund balance. The amount required for an adequate fund balance is obtained by multiplying the assumed duration of 1.38 years by the product of (i) the average of the three highest ratios of benefits to total wages in the past 20 years (the assumed magnitude of demand) and (ii) total wages paid by taxable employers for the year ending June 30. The solvency level is determined each year by dividing the June 30 balance in the Trust Fund by the amount required to meet the statutory test for an adequate fund balance.

JLARC staff identified two concerns with the adequate fund balance formula. First, the assumed duration is arbitrary and is unrelated to past experience in Virginia. Second, the assumed magnitude of demand for benefits is projected to decrease because by 2003 the 20-year window for calculation will consist almost entirely of years of economic expansion. The recession years of the late 1970s and early 1980s will no longer be factors in determining the magnitude of demand for benefits. As a result, it was suggested that the size of what constitutes an adequate fund balance will decrease at the same time that Virginia's economy is expanding. Larger population, workforce size, total wages, and inflation can increase demand on the Trust Fund in the event of a recession. Recessions cause a sharp increase in demand for benefits, and after each recession, demand settles out at a level higher than that prior to the recession.

JLARC's preliminary examination identified an alternative formula for calculating the solvency of the Trust Fund. Under the alternative, determinations of Trust Fund solvency would include a consideration of the amount of money to be paid out during periods of high unemployment, divided by the revenue coming into the Trust Fund during the same period, as follows:

$$\frac{\text{Amount of benefits paid} = (\text{assumed duration}) \times (\text{assumed magnitude}) \times (\text{current wages})}{\text{Revenue} = (\text{assumed duration}) \times (\text{current revenues})}$$

- The duration of past high-unemployment periods can be observed, considering the periods in 1975-77, 1980-83, and 1990-92. Those benefits can be compared to a 20-quarter moving average, representing the average business cycle of five years. That comparison is the assumed duration.

- The magnitude is represented as the average ratio of benefits to total wages within each high-unemployment period.

JLARC staff advised that policymakers need to decide what kind of downturn against which the Trust Fund should be protected. Economists may predict the probability of each style of downturn experienced by Virginia's economy in the past three decades – that of the 1970s, 1980s or 1990s. The magnitude of each type of downturn can then be multiplied by the duration and the weighted probability of each to determine the average duration and average magnitude needed for JLARC's alternative formula. The balance needed to maintain the solvency of the Trust Fund using this formula may be higher or lower than that required under the current

adequate fund balance calculation, depending on the policy decisions made regarding the weighted probability.

Dr. Thomas Towberman, Commissioner of the Virginia Employment Commission, responded to the JLARC report by presenting the joint subcommittee with a history and analysis of the statutory adequate fund balance determination (Appendix F). In 1981, the General Assembly enacted legislation that required reserves equal to 1.5 years of benefits based on the average in the past 25 years of the three highest ratios of benefits to total wages. The federal Advisory Council on Unemployment Compensation (ACUC) recommended in its 1995 report that states accumulate reserves equal to one year of benefits based on the average in the past 20 years of the three highest ratios of benefits to total wages. Virginia amended its statute in 1997 to require reserves equal to 1.38 years of benefits based on the three-highest-ratio average in the past 20 years. In doing so, the General Assembly considered the ACUC standard, the Trust Fund balance, economic forecasts, and other policy considerations.

Dr. Towberman reported that according to the U.S. Department of Labor, Virginia's Trust Fund is financially sound. The reserves under Virginia's current standard exceed those required by the ACUC's standard by 38 percent, while Virginia has 73 months of benefits in reserve. North Carolina and Tennessee have only 32 months, and South Carolina has 47 months, of benefits in reserve. Moreover, unlike the formula offered by JLARC's staff, the current formula in Virginia assumes no revenues coming into the Trust Fund for 16.5 months. Dr. Towberman added that the current solvency formula is a widely recognized method for determining solvency and greatly exceeds the ACUC recommendation. If the Trust Fund were depleted, no legally qualified claimant would go unpaid, due to the availability of no-interest/low-interest loans from the U.S. Department of Labor. The source of these funds is part of the FUTA tax that is put in a reserve account.

Dr. Towberman cautioned that any solvency threshold that increases the required fund balance would decrease Trust Fund solvency and, therefore, increase employer taxes. If the JLARC alternative for anticipating a 1980s-type recession was implemented, in the first year after changing the average tax per employee would increase by $19, or 39.3 percent, resulting in a total increase in tax revenue of $59.6 million. Similarly, if the alternative addressing a weighted average of a 1970s, 1980s, and 1990s recession was implemented, the average tax per employee would increase by eight dollars, or 16.4 percent. Conversely, if the JLARC alternative formula addressing a 1990s-type recession was adopted, taxes per employee would decrease on average by $12.

Delegate Rust pointed out that in the 1974 recession, Virginia was paying out 1.8 percent of the total wages in the Commonwealth in unemployment benefits. With wages now approaching $100 billion, at the peak of a similar recession the Trust Fund would be paying $1.8 billion a year, almost twice the current Trust Fund balance. Delegate Rust also mentioned the tool for increasing the Trust Fund balance: when the Trust Fund drops to 50 percent of the adequate fund balance, employer taxes will increase to balance the Trust Fund. With the VEC projections to 2003, the Trust Fund would have to drop to $370 million before the correction

would kick in. If the Trust Fund were at this level in 2003, Virginia would have only 2 ½ months of reserves at the 1975 recession rate.

Other members of the joint subcommittee expressed concerns regarding the use of federal FUTA reserve funds to balance the federal budget. Senator Watkins observed that Trust Fund solvency estimates were based on benefit payments under schedules that predated the legislative amendments adopted during the 2000 Session. Delegate Rust asked the VEC to present the latest figures regarding the status of the Trust Fund at the next joint subcommittee meeting, including the 2000 legislative changes. In response to questions regarding the approaches used by other states to determine the solvency of their unemployment benefits trust funds, staff compiled a summary of their methods for calculating solvency. A copy of the summary is attached as Appendix G.

IV. JLARC POLICY ALTERNATIVES

At the second meeting of the joint subcommittee on October 30, 2000, Greg Rest of JLARC presented a series of policy alternatives to the current formula for solvency of Trust Fund (Appendix H). Rest posed two preliminary questions to be answered in any policy determination. First, should the solvency threshold be defined by the current formula, a revised formula designed to guard against a 1990s-style recession, or a revised formula eliminating the current 20-year window for the worst ratios of benefits to total wages? Second, should the current floor for adequacy of the Trust Fund remain in place, or should a revised floor combined with a new ceiling be used? The responses to these questions yield six alternative formulas for solvency:

1. Retaining the current formula and the current floor will require no changes to the Code, and would maintain the lowest employer taxes in the years 2000-2003. However, this option would allow the adequate fund balance to decrease while the Virginia workforce increases. This would result in a higher increase in employer taxes if an economic downturn occurs.

2. Guarding against a 90s-style downturn while retaining the current floor will ensure that the Trust Fund will meet a relatively mild downturn, since the adequate fund balance would increase as the Virginia economy expands, but this measure does not guard the Trust Fund against a more severe downturn than that of the 1990s.

3. Dropping the 20-year window and retaining the current floor will also ensure that the adequate fund balance increases with the economy, and guard against a more severe recession than that of the 1990s. Employer taxes would be higher in the near term, but the increase would be lower if a downturn occurs.

4. Retaining the current formula with a revised floor and ceiling does more to guard the Trust Fund against a recession, but artificial decreases in the adequate fund balance would cause unnecessary fluctuation in employer tax rates.

5. Guarding against a 90s-style downturn with a revised floor and ceiling would ensure that the Trust Fund could meet at least a relatively mild downturn. The adequate fund balance would increase as the economy and wage base expands, and employer tax rates would be lower at first. The disadvantage is that rates would be higher in 2003 because the fund-building tax would apply when the Trust Fund solvency level drops.

6. Dropping the 20-year window with a revised floor and ceiling would guard against the possibility of a more severe downturn by increasing the adequate fund balance as the wage base and economy increase. Tax rates would be higher in the near term, but the increase when a downturn occurs would be lower.

JLARC staff concluded that the current formula for solvency is fundamentally flawed. Options 5 and 6 would be substantial improvements over the status quo. Choosing between these two options would be a policy decision between the risk of a higher employer tax increase during a time of economic contraction, and higher employer taxes in the near future if the economy continues to grow.

V. VEC BRIEFING

A presentation by Dr. Towberman at the joint subcommittee's October 30 meeting highlighted an overall improvement in the Commonwealth's key unemployment statistics from 1999 to 2000 (Appendix I). Data comparing 1999 and 2000 revealed that:

- Most unemployment rates in 2000 have been at or below the same-month 1999 rates.
- Total initial claims for unemployment benefits were down 7.6 percent from 1999 to 2000.
- First payments to claimants were down 4.1 percent from last year.
- The average duration of unemployment since January 2000 was 10.5 weeks.
- Final payments to claimants in the first eight months of 2000 were 6.7 percent above the 1999 levels.

The VEC advised the joint subcommittee that the projected solvency level of the Trust Fund for 2000 was 105.6 percent. This figure represents a 1.5 percent decrease over the final fiscal year 1999 solvency level of 107.1 percent. The decline in the solvency level was attributed to employment and wages growing faster than tax revenues. The balance in the Trust Fund as of

January 1, 2000, was $1,017,500, up from $981.2 million on January 1, 1999. The VEC projected the Trust Fund balance to be around $1.035 billion by the end of 2000.

The VEC also reported that:

- Tax revenue will increase because of rising unemployment and wages.
- Interest revenue increased slightly due to higher Trust Fund balances.
- Benefit payments increased slightly, despite a better economy, due to legislated benefit increases.

VI. SUBCOMMITTEE DISCUSSION

At the request of Delegate Rust, Keith Cheatham of the Virginia Chamber of Commerce presented the joint subcommittee with a letter regarding the business community's position on a number of policy matters surrounding the Trust Fund (Appendix J). The Chamber favors an unemployment compensation system that meets its obligations through adequate state funding and does not rely on federal loans except in extreme circumstances. Reliance on federal funds to meet unemployment compensation requirements reduces employer input in policy matters, causes tax rates to increase more quickly and more steeply, and opens the door for more intrusive oversight from the U.S. Department of Labor.

The Chamber acknowledged concerns about the current solvency level of the Trust Fund, but expressed the business community's interest in a study of Virginia's entire unemployment compensation system. Though the Trust Fund is scheduled to decline by 2003, the solvency of the Trust Fund would be better served by a comprehensive study of the unemployment system. The business community asked that no bills be passed that would alter the Trust Fund's status, except increasing the 20-year window to 25 years, pending the outcome of the study.

VII. 2001 LEGISLATION

Following the presentation by the Virginia Chamber of Commerce, the joint subcommittee endorsed a recommendation to continue and expand its study. Delegate Rust and Senator Watkins introduced HJR 611 and SJR 395, respectively, in the 2001 Session. Both resolutions provide for the expansion of the joint subcommittee's mission to address (i) the current formula for determining solvency of the Unemployment Trust Fund, (ii) employee benefit eligibility criteria, (iii) the rationale for benefit levels, (iv) the propriety of regional or extended benefit features, (v) the appropriateness and sufficiency of pool charges, (vi) the propriety of diverting revenue to job training or economic development programs, and (vii) the

current tax schedules for employers. During the 2001 session, the House resolution was amended to incorporate HJR 784 (patroned by Delegate Hull), which requires the joint subcommittee to also study the means of calculating the weekly amount of unemployment compensation benefits for displaced employees, and to examine the methods used by other states to determine an employee's weekly benefit amount, including the indexing of unemployment benefits and the minimum and maximum benefit amounts provided by those states. Both houses agreed to HJR 611, a copy of which is attached as Appendix K.

As an interim measure to address Trust Fund solvency concerns during the course of the expanded study, Delegate Rust and Senator Watkins introduced HB 2679 and SB 833, respectively. The bills change the formula for determining the "adequate fund balance" of the Unemployment Trust Fund to consider benefits paid during the three highest of the past 25 years. The current formula considers benefits paid during the past 20 years. The business community supported the measures to prevent steeper, more rapid tax increases in the event of economic downturn. While the Senate passed SB 833, neither measure passed the House. Senate Bill 833 is attached as Appendix L.

VIII. CONCLUSION

The joint subcommittee wishes to express its appreciation to the JLARC staff, the VEC, and the business community for the combined effort in assisting the subcommittee's study of such a technical and controversial issue as the Unemployment Trust Fund. The joint subcommittee looks forward to beginning its expanded study of the entire unemployment insurance system in the 2001 interim.

Respectfully submitted,

Delegate John H. Rust, Jr., *Chairman*
Senator John Watkins, *Vice Chairman*
Delegate Ward Armstrong
Senator John H. Chichester
Delegate Robert D. Hull
Delegate Jay Katzen
Delegate Terry G. Kilgore
Senator Yvonne B. Miller
Senator Phillip P. Puckett, Jr.
Delegate Harry R. Purkey
Delegate Lionell Spruill, Sr.
Senator William C. Wampler, Jr.

GENERAL ASSEMBLY OF VIRGINIA -- 2000 SESSION

HOUSE JOINT RESOLUTION NO. 249

Continuing the Joint Subcommittee Studying the Funding Requirements of the Virginia Unemployment Trust Fund.

Agreed to by the House of Delegates, February 15, 2000
Agreed to by the Senate, March 2, 2000

WHEREAS, each year since 1977 a joint subcommittee consisting of five members of the Senate Commerce and Labor Committee and five members of the House Labor and Commerce Committee has met to study the funding requirements of the Virginia Unemployment Trust Fund; and

WHEREAS, such joint subcommittee met in 1999 pursuant to House Joint Resolution No. 589 (1999) to review the current status of, and long-term projections for, the Virginia Unemployment Trust Fund; and

WHEREAS, the Unemployment Trust Fund is financed by Virginia's employers and drawn on by working Virginians who become unemployed and must rely on such fund for unemployment compensation benefits; and

WHEREAS, continued legislative oversight of such fund is warranted to ensure its adequacy to meet current and projected benefit payments; now, therefore, be it

RESOLVED by the House of Delegates, the Senate concurring, That the Joint Subcommittee Studying the Funding Requirements of the Virginia Unemployment Trust Fund be continued. The joint subcommittee shall be composed of 12 members to be appointed as follows: 7 members of the House of Delegates to be appointed by the Speaker of the House, in accordance with the principles of Rule 16 of the Rules of the House of Delegates; and 5 members of the Senate to be appointed by the Senate Committee on Privileges and Elections.

The direct costs of this study shall not exceed $15,000.

The Division of Legislative Services shall provide staff support for the study. All agencies of the Commonwealth shall provide assistance to the joint subcommittee, upon request.

The joint subcommittee shall complete its work in time to submit its written findings and recommendations to the Governor and the 2001 Session of the General Assembly as provided in the procedures of the Division of Legislative Automated Systems for the processing of legislative documents.

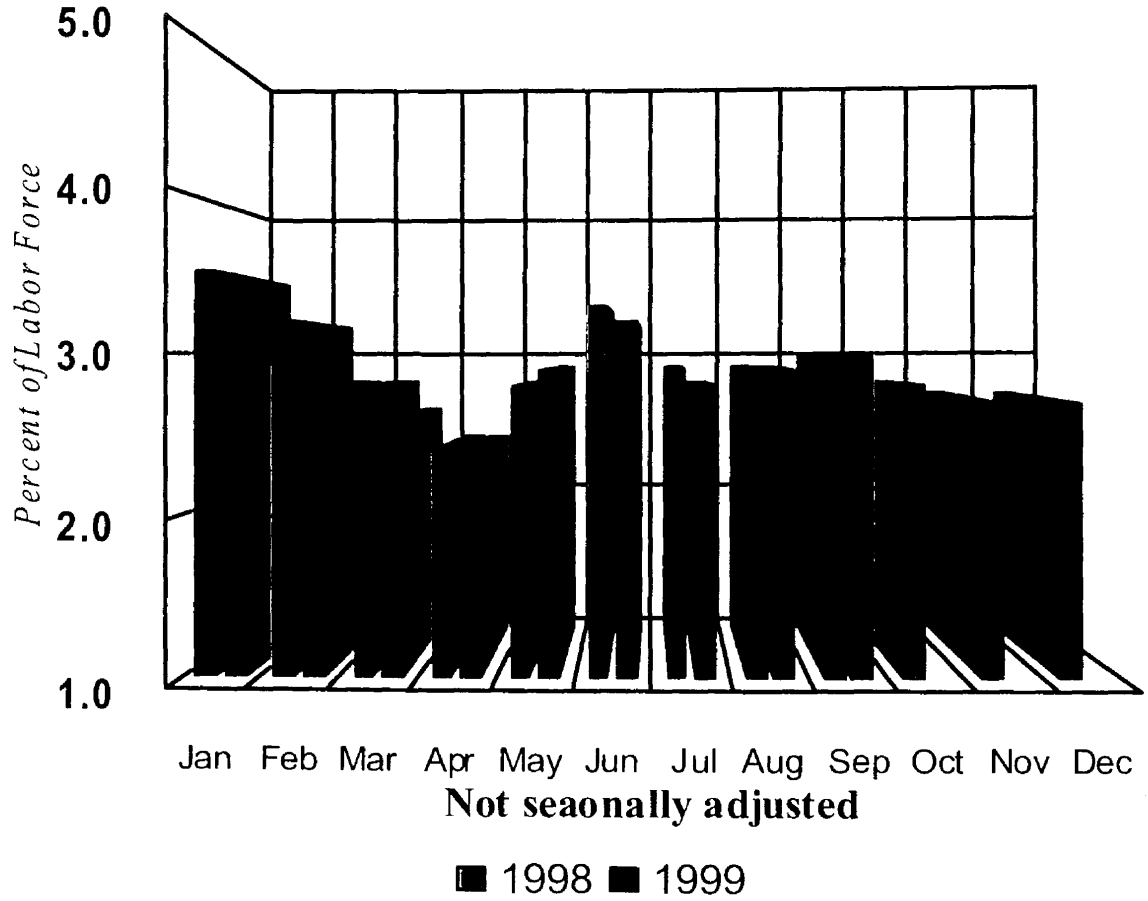
Implementation of this resolution is subject to subsequent approval and certification by the Joint Rules Committee. The Committee may withhold expenditures or delay the period for the conduct of the study.

Trust Fund Overview

Virginia Employment Commission
Dr. Thomas J. Towberman, Commissioner
November 1999

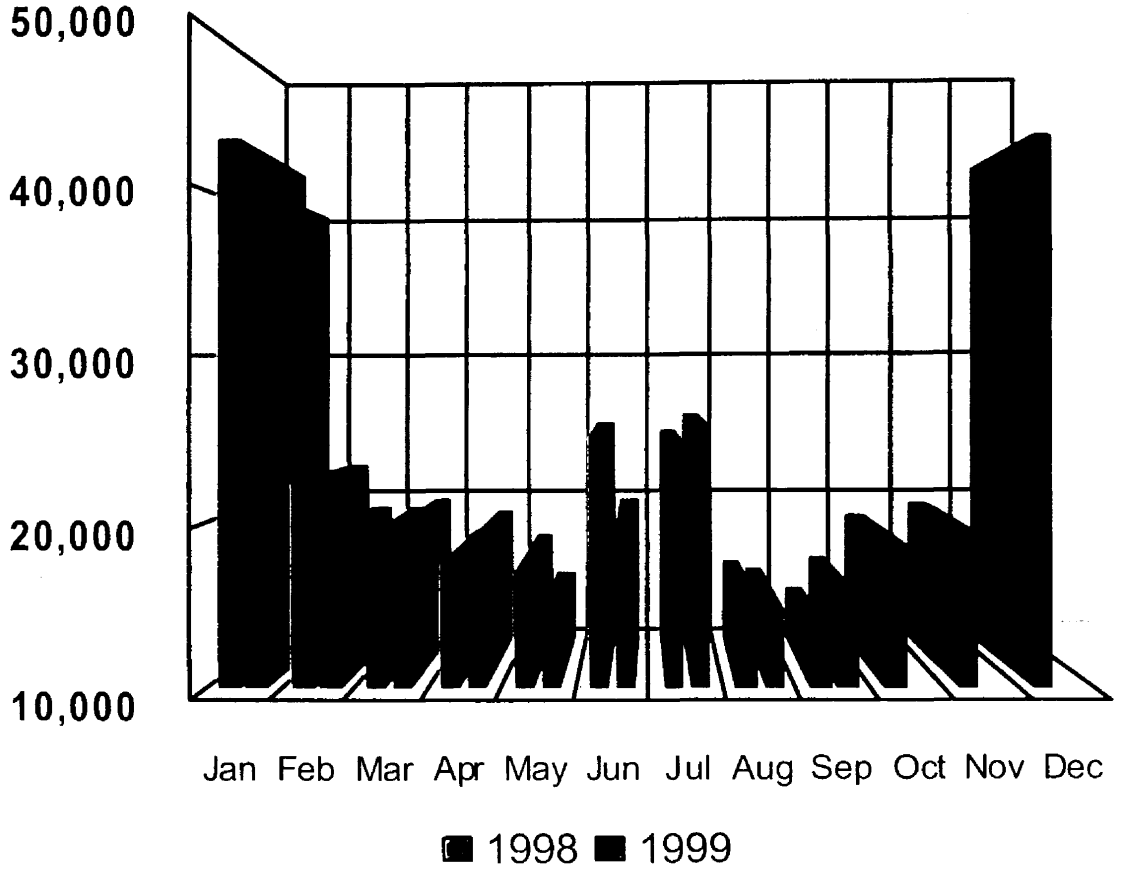
Virginia's Unemployment Rate
1998 vs. 1999

- Most unemployment rates in 1999 have been below the same-month 1998 rates. Many rates are 30-year lows.
- Higher unemployment is present in Southwest, Southside, Northern Neck, Eastern Shore, and older urban areas.



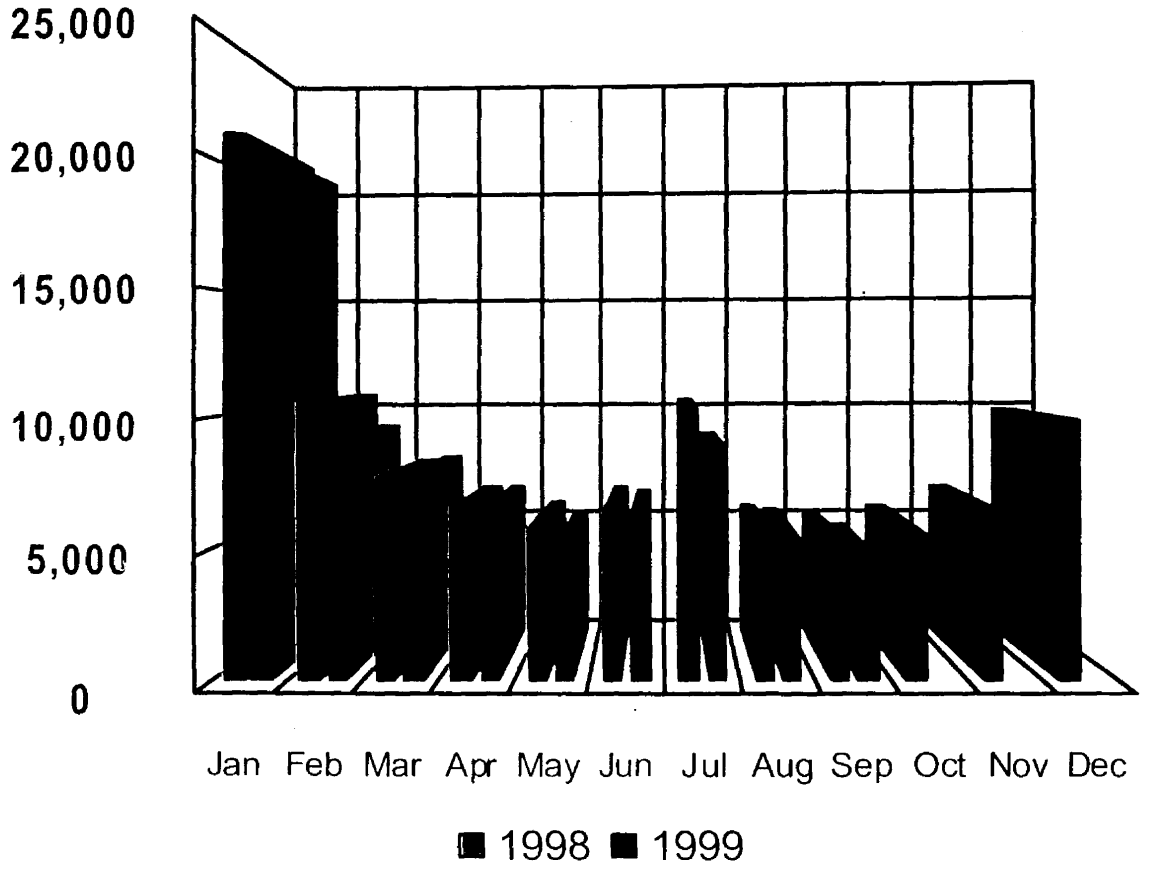
U.I. Initial Claims
1998 vs. 1999

- Total initial claims this year are down 4.8% from 1998 to 1999 for two reasons:
  - better economy (more jobs in services, construction and trade)
  - another mild winter
- Average duration of unemployment since January 1999 has been 1[illegible] weeks.



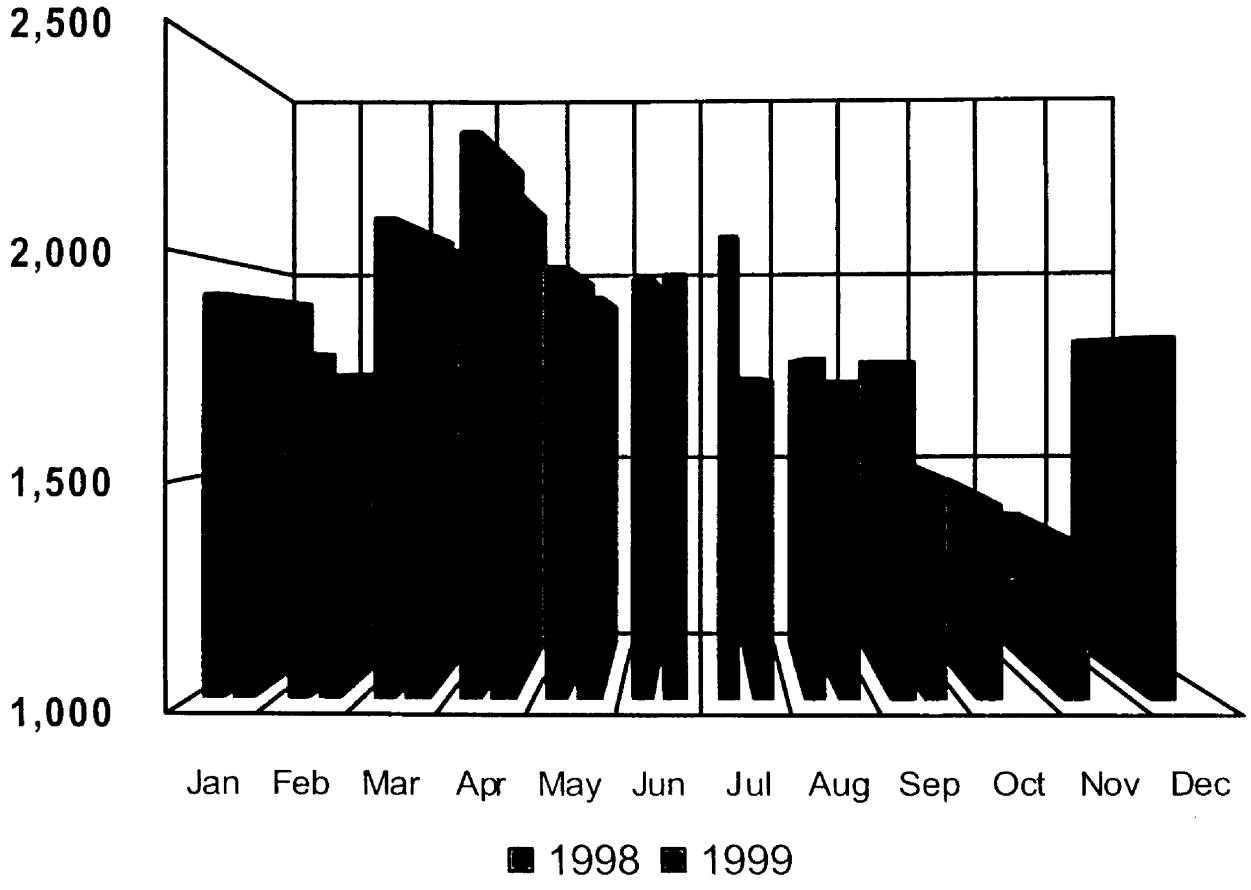
U.I. First Payments
1998 vs. 1999

- A claimant can receive only one First Payment in his benefit year; so First Payments are a good proxy for the number of claimants receiving unemployment benefits.
- First Payments are down 6.6% from last year.



U.I. Final Payments
1998 vs. 1999

- For the first nine months, Final Payments are down 6.7% from 1998 to 1999.
- The exhaustion rate this year has been about 21.4%.



U.I. Benefits

- Benefits are paid to workers unemployed through no fault of their own.
- Benefit levels set by the General Assembly:
  - minimum weekly benefit $50 (July 1999)
  - maximum weekly benefit $230 (July 1999)
- Benefits determined by earnings in first 4 of last 5 completed calendar quarters. This is called the Base Period.
- Otherwise eligible claimants are not paid for first week of unemployment. This is called the Waiting Week.

Legislative Recap: Weekly Benefits

Year	Maximum	Minimum	Minimum Qualifying Earnings
1996	$224	$65	$3,250
1997	$226	$60	$3,000
1998	$228	$55	$2,750
1999	$230	$50	$2,500
2000	$232	$50	$2,500

Legislative Recap: Weekly Benefits

- Approximately 5,549 new claimants were monetarily eligible since lower earnings requirement became effective on July 1, 1997.

U.I. Taxes

- Taxes are paid by employers to the VEC on first $8,000 of each employee's wages.
- Tax rates are set by General Assembly:
  - minimum tax 0.0% or $0 per employee (97,600 employers)
  - maximum tax 5.4% or $432 per employee (2,200 employers)
- Individual employer's tax rate determined by:
  - Trust Fund solvency level
  - employer's experience over last 4 years
- Two surtaxes can also be levied:
  - Pool Tax used to recover benefits that cannot be charged to a specific employer
  - Fund-Building Tax used to push solvency over 50%

Trust Fund Solvency
Adequate Fund Balance

- Solvency = 1.38 X Average Cost Rate X Wages
- 1.38 represents 16.5 months of benefits with no revenue
- Average Cost Rate is the average of 3 highest ratios of benefits to total wages in the past 20 years
- Wages are total wages paid by taxable employers for the year ending June 30
- Solvency Level = June 30 balance divided by Adequate Fund Balance

VEC Administrative Funding

- Employers also pay a FUTA tax to the Internal Revenue Service (FUTA is the Federal Unemployment Tax Act).
- FUTA is a flat tax of 0.8% on first $7,000 of each employee's wages which costs $56 per employee per year.

VEC Administrative Funding

- Revenue from the FUTA tax is used to pay for SESA (State Employment Security Agency) administration at both the state and national levels.
- Virginia's employer's paid over $171 million in FUTA taxes in FY 1998.
- VEC receives about $56 million from U.S. DOL.

Trust Fund Data

(Millions of Dollars)

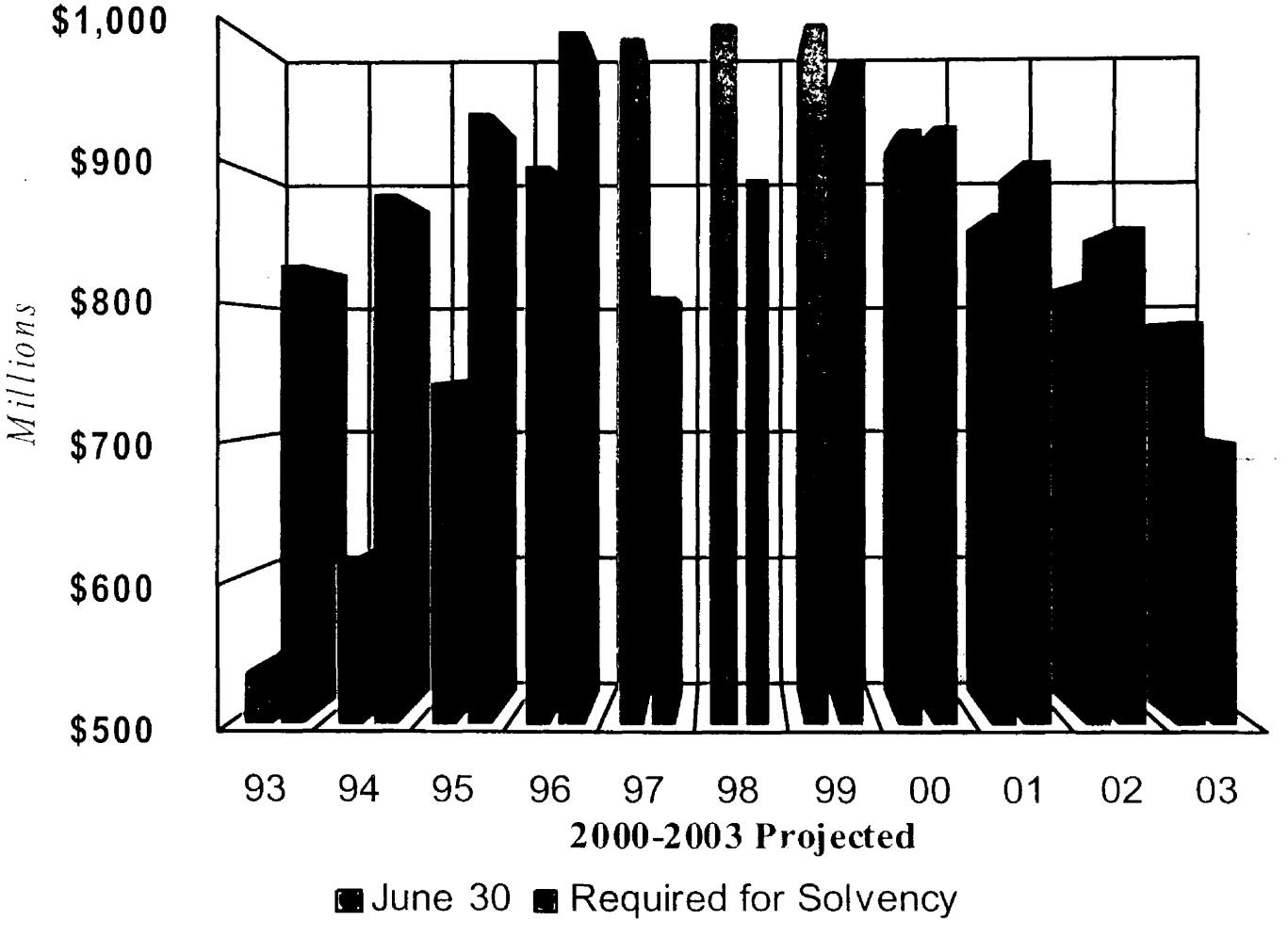
	1998 *(Actual)*	1999 *(Projected)*
January 1 Balance	$958.2	$981.2 (Actual)
Tax Revenue	$143.4	$138.2
Interest Revenue	$66.4	$67.1
Benefits	$186.8	$183.6
Dec 31 Balance	$981.2	$1,002.9
Solvency Level (6/30)	114.3%	107.1% *(Actual)*

Trust Fund Data

- Tax revenue will decline because of 1997 legislated tax cut and fewer benefit charges.
- Interest revenue shows small increase because of slightly higher Trust Fund balances.
- Better economy means benefit payments show small decline despite legislated benefit increases.
- The Fund should be up by about $22 million by the end of the year.
- The solvency level decreased by 7 percentage points from 1998 due to employment and wages growing faster than tax revenues.

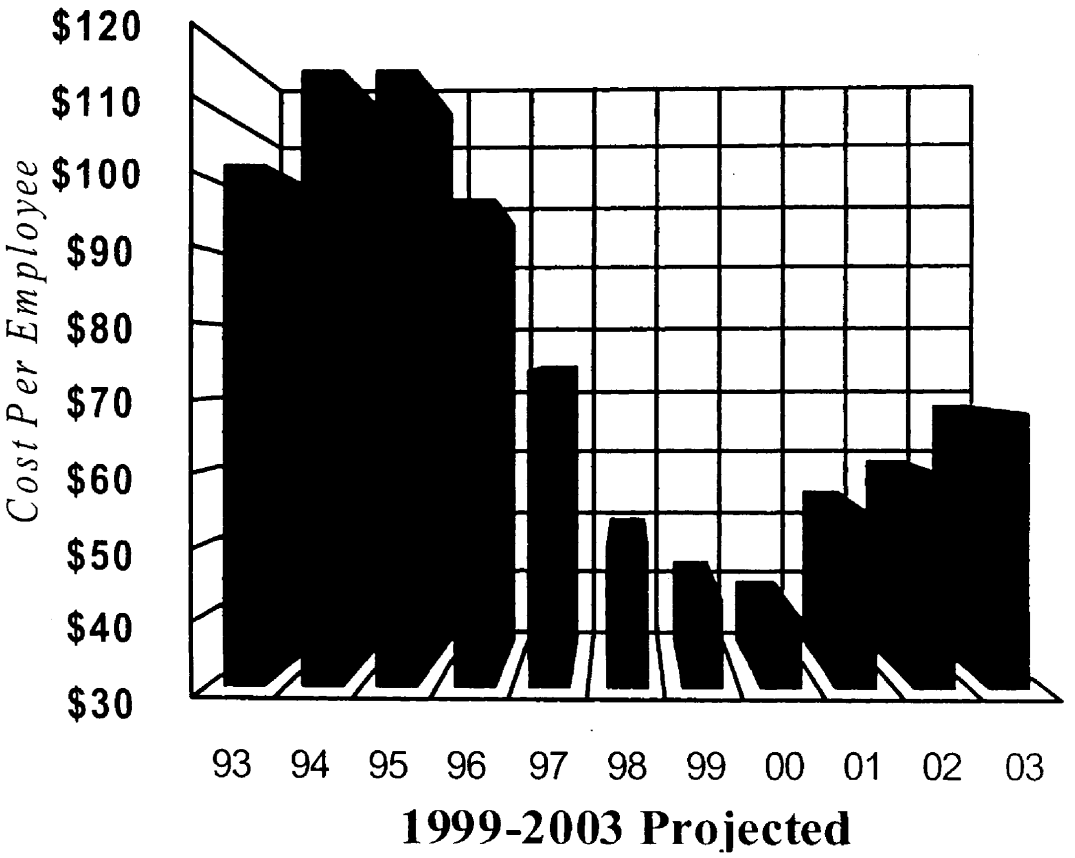
Trust Fund Balances

Projections assume no further legislated changes in benefits or taxes.



Average Tax

- The average tax peaked at $115 in 1995 and is expected to fall to $43 in 1999 and $40 in 2000.
- The 65% decrease in the average tax can be attributed to the good economy and the 1997 tax cut out-weighing the benefit increases.
- Projections assume no further legislated changes in benefits or taxes.



Average Tax Rate by Industry

Experience-Rated Only

	1998 Employment	1998 Wages	1999 Wages
Services	946,601	0.26%	0.25%
Retail Trade	587,154	0.22%	0.23%
Manufacturing	405,264	0.56%	0.58%
Construction	188,652	0.59%	0.59%
Finance, Insurance, Real Estate	174,211	0.30%	0.31%
Transportation, Communications & Utilities	164,294	0.47%	0.48%
Wholesale Trade	145,895	0.41%	0.40%
Agriculture, Forestry & Fishing	33,064	0.41%	0.37%
Mining	10,496	1.43%	1.54%

COMMONWEALTH of VIRGINIA

Joint Legislative Audit and Review Commission

Philip A. Leone
Director

Suite 1100, General Assembly Building, Capitol Square
Richmond, Virginia 23219

(804) 786-1258

February 1, 2000

MEMORANDUM

TO: Robert Vaughn and Neil Menkes

FROM: Greg Rest and Daniel Oney

SUBJECT: Preliminary technical assessment of Unemployment Insurance Trust Fund

At the request of Delegate John H. Rust, Jr., JLARC's fiscal analysis and expenditure forecasting staff conducted a preliminary technical assessment of the Unemployment Insurance Trust Fund. Briefly stated, JLARC staff identified two sets of problems regarding Trust Fund calculations. One has to do with how the duration of a period of high unemployment is represented. The other is how the magnitude of demand for unemployment benefits during a high-unemployment period is determined.

Because this preliminary analysis was not a full-scale JLARC study, many of the estimates generated by JLARC staff should be considered illustrative in nature. More accurate estimates require data we currently do not have, given the timeframe for this preliminary analysis. This memorandum: (1) discusses a conceptual framework for assessing the solvency level of the Trust Fund; (2) examines problems with the current method for assessing the solvency of the Trust Fund; and (3) presents some alternative scenarios to illustrate the potential impacts of policy decisions for addressing these problems.

Conceptual Framework

The principal function of Virginia's unemployment insurance system is to alleviate hardship for the unemployed, by partially replacing the loss of wages for unemployed workers. Section 60.2-113 of the *Code of Virginia* specifies that the Virginia Employment Commission shall, among other things, "maintain a solvent trust fund financed through equitable employer taxes which provide temporary partial income replacement to involuntarily unemployed workers." The inclusion of the word "solvent" indicates that in the event of a period of a relatively higher volume of unemployment claims (such as during an economic downturn, which has often occurred unexpectedly), the Unemployment Trust Fund should have enough money in it to pay all unemployment benefits specified in Section 60.2 of the *Code*.

The solvency threshold used for the Trust Fund can serve as an indicator for how large the Fund's reserve should be to meet unemployment benefit claims during a high-unemployment period, should it occur. This indicator can have three main components:

- *Duration* (representing how long a high-unemployment period may last, in years);
- *Magnitude* of demand for unemployment benefits (which can be operationalized as the ratio of unemployment benefits paid by the Virginia Employment Commission (VEC) in proportion to taxable wages paid by employers, during some high-unemployment year); and
- *Current taxable wages* paid by employers (to bring the Trust Fund reserve in line with the current size of the Virginia economy).

Taken together conceptually, these components constitute a reasonable approach for constructing an indicator of how much money may be needed for unemployment benefits if a

period of high unemployment were to hit Virginia unexpectedly.

The current solvency threshold is called the "Adequate Fund Balance." VEC defines the Adequate Fund Balance as:

1.38 x "average cost rate" x "wages"

Conceptually it is consistent with the approach outlined above, because it has three operational parts that can be seen as corresponding to the three components listed above:

- the assumed duration is 16.5 months, or 1.38 years;
- the "average cost rate" is the average of the three highest ratios of benefits to total wages in the past twenty years; and
- "wages" represents total taxable wages paid by employers in the past year ending on June 30th.

However, these particular operational definitions may not be the best ways to represent the three components of a solvency threshold.

Problems with the Current "Adequate Fund Balance" Method

JLARC staff identified two sets of problems regarding Trust Fund calculations. One has to do with how the duration of a period of high unemployment is represented. The other is how the magnitude of demand for unemployment benefits during a high-unemployment period is determined.

Duration of High-Unemployment Period

The current figure in the Adequate Fund Balance formula of 16.5 months is an arbitrary one. Legislators have said it was chosen as part of the public policy

process, and no conceptual basis underlying it has been determined.

Another way to represent the duration of a high-unemployment period is to use the duration of a recession as a proxy. According to National Bureau of Economic Research business cycle data, since World War II the average recession has lasted 10.4 months.

However, the duration of a recession is not a perfect measure of the duration of a high-unemployment period. While there is a strong association between the two, a recession is defined as two consecutive quarters of declining economic output as measured by Gross Domestic Product (GDP). Due to this technical definition, the duration of a recession may be different from the duration of a period of relatively high unemployment in Virginia. This divergence could also be due to recession periods generally being defined on a national level, when periods of relatively high unemployment in Virginia need to be defined on a State level.

JLARC staff plan to continue pursuing how the duration of "high-unemployment periods" can be defined and measured in Virginia. JLARC staff have requested from VEC monthly unemployment benefits data and quarterly total wage data, which may provide a more direct means of measuring high-unemployment periods in Virginia.

Magnitude of Demand for Unemployment Benefits

This component is probably the most troublesome part of the current formula for the "Adequate Fund Balance," because it is projected to decrease substantially in the next four years (Figure 1). The projected decrease is due to an artifact of the current formula: the current formula uses a twenty-year window for averaging the three years with the highest benefits-to-wages ratios. Recently, that twenty-year window could include years in which the 1980, 1981-82 and 1990-91 recessions took place. By the year 2003, that twenty-year window would include almost all

economic expansion years, with the only exception being the years in which the relatively milder 1990-91 recession took place.

This problem is troublesome because, under the current method, the Adequate Fund Balance will shrink, while the Virginia economy has been steadily growing and will likely continue to grow. Consequently, the average level of demand on the Trust Fund is likely to increase, not decrease, in future years. Yet the total Trust Fund balance, like the Adequate Fund Balance, is forecast to decrease through 2003 (see Figure 2).

Several factors put increasing demand on the Trust Fund, and can be represented by different indicators: (1) population, (2) workforce size, (3) total wages, and (4) inflation.

Population

Virginia's population has steadily increased over time. With an increasing population, any given recession will affect more people. Furthermore, Virginia's population is projected to continue increasing (see Figure 3).

Workforce Size

A second more direct pressure on the unemployment trust fund is a growing workforce. As Virginia population increases the size of the workforce increases. The size of the workforce has been increasing since at least the late 1960's (see Figure 4). Any given recession will cause more unemployment in a larger workforce.

Total Wages

A third pressure on the trust fund is growing wages. The benefits paid to unemployed workers are a function of the prevailing wage rate. At any given benefit level, and for a given number of unemployed, total benefits paid from the fund will be increasing if wages are also

increasing. Wage data available since 1978 demonstrate this increase (see Figure 5).

Inflation

A final component to consider when assessing the need for a growing trust fund is inflation. As measured by the consumer price index, the economy has experienced some level of price inflation for some time (see Figure 6). A deflationary period implying increasing value of the dollar would reduce the nominal dollar demand on the fund. An inflationary situation increases the nominal dollar demand on the fund.

As a result of these underlying variables the unemployment trust fund has to cover the needs of a growing labor force that is earning an increasing income. The observed pattern of total benefits bears this out (see Figure 7). Each recession causes a sharp increase in demand for trust fund moneys. Furthermore, each recession since the mid 1970's has caused a higher spike in demand than the previous recession. Finally, after each recession the non-recessionary demand on the fund settles out at a higher level than before the last recession. This pattern is evident in Figure 7. Note in particular that the recession of the early 1990's, while less severe than the recession of the early 1980's, resulted in a greater demand of total dollars for unemployment benefits than the 1980's recession.

Alternative Scenarios

A more direct way to represent the duration and magnitude of a high-unemployment period for a solvency threshold is to pose it as a policy decision. The duration and benefits-to-wages ratios of previous periods of relatively high unemployment can be identified (which may coincide with the 1973-75, 1980, 1981-82, and 1990-91 recessions). Then the policy question to ask is: "Should the Trust Fund have enough money in it to withstand a high-unemployment period of the magnitude experienced in [for example, the 1981-82 economic downturn]?" In that way, if

a smaller threshold level for solvency is used, it is because a judgment is explicitly made, for example, that a 1990-91-style economic downturn is more likely to occur in the future than one of the magnitude experienced in 1981-82 - rather than being due to an arbitrary artifact of an average across a twenty-year window.

Using data on benefits paid and taxable wages from VEC, JLARC staff have put together a spreadsheet that illustrates roughly how solvency thresholds would change under different policy decisions. (The estimates generated by JLARC staff are very rough right now, because we do not yet have monthly and quarterly data requested from VEC.) First the impacts of changing levels of magnitude alone are presented. Then the impacts of changing both assumed duration and magnitude at the same time are presented.

Changing Levels of Magnitude

JLARC staff made some rough estimates regarding how the solvency level of the Trust Fund would change, depending on whether: (1) the current method for calculating the adequate fund balance is used; (2) the State wishes to guard against an economic downturn of a magnitude similar to the 1990-91 recession; or (3) the State wishes to guard against the magnitude of a 1981-82-style recession.

Scenario 1: Current Method

The first spreadsheet ("Scenario 1" or Figure 8) presents some of the key variables that are used in this analysis.

"*Benefits*" = unemployment benefits paid by the VEC in a given year.

"*Total Wages*" = total wages paid by employers in a given year that are subject to the unemployment insurance tax.

"*Benefits/Wages*" = the ratio of unemployment benefits to total wages represents, for a given year, the degree of

severity of unemployment in proportion to the total wage base.

"*Average Cost Rate*" = the number used by the VEC to represent the second component of the Adequate Fund Balance for a given year. For 1981 through 1996, VEC defined it as the average of the three highest ratios of benefits to total wages in the past 25 years. From 1997 onwards, VEC has defined it as the average of the three highest rations of benefits to total wages in the past 20 years.

"*Adequate Fund Balance*" = the actual number used by the VEC for a given year.

"*Estimated Adequate Fund Balance*" = a number generated by JLARC staff, using the VEC formula for Adequate Fund Balance. These estimates are based on "Total Wages" in the spreadsheet (for the year ending December 31), when the VEC's "Adequate Fund Balance" numbers are based on total wages for the year ending June 30th.

The "Estimated Adequate Fund Balance" numbers are not exactly the same as the actual "Adequate Fund Balance" numbers, although they are generally in the ballpark and can serve to illustrate the general impact of different policy choices. (Our estimates should be closer once we get quarterly wage data from the VEC.) The estimates for the years 2000 through 2003 can be used as a baseline for comparison with Scenarios 2 and 3, in which alternative assumptions are made. In the Scenario 1 baseline, the Estimated Adequate Fund Balance continues to use an average of the three highest benefit/wage ratio over a twenty-year history (the "Average Cost Rate").

Scenario 2: Assuming Magnitude Associated with 1991 Downturn

This option (Figure 9) assumes the appropriate magnitude of demand for unemployment benefits should be the same level observed in 1991, a year associated with the effects of the most recent recession. (However, it also

keeps the 1.38-year duration assumption in place as well). Under this scenario, the 1991 benefits-to-wages ratio is used, instead of the average rate based on a twenty-year history. The illustrative impacts indicate that under this assumption, the Adequate Fund Balance needed is substantially below its current level, but it will be steadily increasing over time.

Scenario 3: Assuming Magnitude Associated with 1982 Downturn

This scenario (Figure 10) assumes the magnitude of demand for unemployment benefits would resemble what was experienced during 1982, when a more severe recession occurred. Again, the 1.38-year duration period assumption has not been changed. The illustrative impacts in Scenario 3 indicate that the Adequate Fund Balance would need to be substantially higher than it currently is to protect the Trust Fund against the magnitude of demand associated with a high-unemployment period such as that experienced in 1982.

Changing Magnitude and Duration of Economic Downturns

Under the next two scenarios, the 1.38-year duration assumption is changed as well as the assumed levels of magnitude. Durations of recession periods (1981-82 and 1990-91) on the national level are used instead, according to the National Bureau of Economic Research. They are sixteen months for the 1981-82 recession, and six months for the 1990-91 recession. (These figures are used as proxies for high-unemployment periods in Virginia for now. We may be able to derive more accurate numbers once we get the monthly and quarterly data we requested from the VEC.)

Scenario 4: Assuming 1991 Magnitude and Six-Month Duration

The policy option reflected by this scenario (Figure 11) is to assume that the Trust Fund should be protected from an economic downturn of the same magnitude and duration as that experienced in the early 1990s. If this assumption is the policy option chosen, then the Adequate

Fund Balance required is substantially smaller than its current level, although it will continue to grow over the years.

Scenario 5: Assuming 1982 Magnitude and Sixteen-Month Duration

Alternatively, Scenario 5 (Figure 12) assumes that the policy choice is to protect the Trust Fund from a more severe economic downturn, such as the one experienced in 1982. Under this scenario, substantially higher balances are required than under the current method for calculating the Adequate Fund Balance.

Assuming Different Downturns Have Different Probabilities of Occurring

Up to this point, the policy options have been structured in "either-or" terms: either the Trust Fund is protected from a relatively mild downturn (such as the 1990-91 recession), or else it is protected from a more severe one (like the 1981-82 recession). An alternative approach is to assume that different types of downturns have different probabilities of occuring.

To illustrate, in Scenario 6 (Figure 13), supposing that a period of high unemployment occurs, it is assumed to have a 60-percent chance of being a 1991-style downturn, and a 40-percent change of being a 1982-style downturn. The results from Scenario 6 show that under this set of assumptions, the solvency thresholds are lower than the Adequate Fund Balance in the years 2000, 2001 and 2002, but that the solvency threshold is greater in the year 2003.

gjr

COMMONWEALTH of VIRGINIA

Joint Legislative Audit and Review Commission

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Director

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March 15, 2000

The Honorable John H. Rust, Jr.
P.O. Box 460
Fairfax, Virginia 22030

Dear Delegate Rust:

At your request, JLARC staff received additional data from the Virginia Employment Commission in February. The data are quarterly total wages and quarterly benefits starting in 1970. As I mentioned to you a couple of weeks ago, JLARC staff had a chance to study further how the solvency threshold for the Unemployment Insurance Trust Fund could be defined. This letter presents (1) a formula for defining the solvency threshold; and (2) an approach for determining specific values for the components of the formula.

Formula for Defining Solvency Threshold

In order for the Trust Fund to stay solvent during an economic downturn, there are two main considerations to anticipate: (1) how much money could be paid out in benefits during a period of relatively high unemployment; and (2) how much revenues could be coming into the Trust Fund during this period.

The first consideration could be represented with the following formula:

(Assumed duration) x (Assumed magnitude) x (Current wages).

"Assumed duration" means the length of time a period of relatively high unemployment is assumed to last. "Assumed magnitude" means how deep the economic downturn is assumed to be. Specifically, this "assumed magnitude" is in terms of the average proportion of the total wage base that is paid out in unemployment benefits during a high-unemployment period. "Current wages" represents the current base of total taxable wages.

The second consideration could be represented by:

(Assumed duration) x (Current revenues).

The notion in this second consideration is that some of the money used to pay benefits could be coming in as revenues during the period of high unemployment. "Assumed duration" again is the same length of time a high-unemployment period is assumed to last, as in the first consideration. "Current revenues" serves as a proxy for future revenues, by being the most recently observed annual tax revenues and interest revenues accruing to the Trust Fund. Although projected amounts for the future may be more accurate forecasts, they are also more subject to manipulation, when most-recently-observed actual revenues collected are not as subject to dispute or manipulation.

Because the second consideration in part offsets the first consideration, the solvency threshold can be defined by the formula:

[(Assumed duration) x (Assumed magnitude) x (Current wages)]

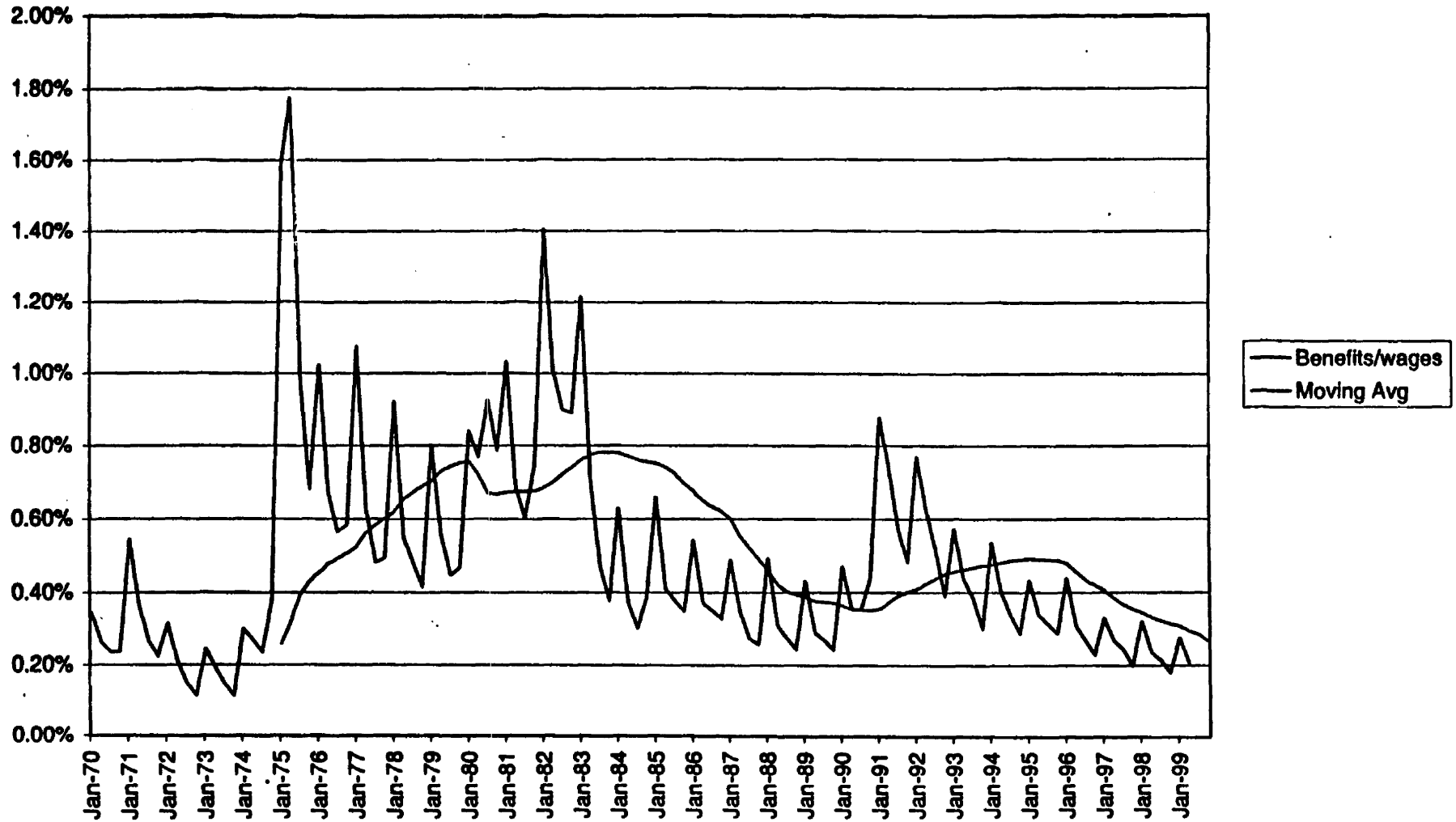
- [(Assumed duration) x (Current revenues)].

Determining Specific Values for the Formula

Using data from the VEC, the duration and magnitude of actual high-unemployment periods can be observed. Figure 1 shows the periods in which the ratios of unemployment benefits to total wages were relatively high. Using a 20-quarter moving average as a benchmark

Figure 1

Quarterly Benefits/Wages Compared to 20-Quarter Moving Average



(roughly corresponding to the 61-month average business cycle), four periods of relatively high unemployment can be identified: 1Q-75 through 2Q-77 (lasting 10 quarters, or 2.5 years); 1Q-80 through 2Q-81 (lasting 6 quarters, or 1.5 years); 4Q-81 through 1Q-83 (lasting 6 quarters, or 1.5 years); and 4Q-90 through 3Q-92 (lasting 8 quarters, or 2 years). Further, the two high-unemployment periods in the early 1980s are so close in time that alternatively they may be treated as one longer period (lasting 13 quarters, or 3.25 years).

Having determined the timeframe of each of these high unemployment periods, the magnitude associated with each one can then be determined. The magnitude would be represented as the average ratio of benefits to total wages, for all quarters within a high-unemployment period. The magnitude of the 1970s downturn would be 0.93 percent, the back-to-back downturn of the early 1980s would be 0.91 percent, and the early 1990s would be 0.62 percent.

The spreadsheet shown in Figure 2 illustrates how these components can be used in the proposed formula for determining a solvency threshold. The remaining question is: When the next economic downturn occurs, what is the chance that it would resemble what was experienced in the 1970s? Or the 1980s? Or the 1990s?

In the spreadsheet in Figure 2, the following hypothetical probabilities were assigned to the following scenarios:

1970s-style downturn - 10 percent

1980s-style downturn - 30 percent

1990s-style downturn - 60 percent.

These probabilities were arbitrarily chosen for illustrative purposes. One possible way to determine more appropriate values could entail asking a panel of economists to assign probabilities to the different types

FIGURE 2

ALTERNATIVE SCENARIOS FOR DETERMINING SOLVENCY THRESHOLD

Most recent year's annual total wages ($ thousands):	83,999,595
Tax revenue in most recent year (1999):	145,900
Interest revenue in most recent year (1999):	67,100

Scenario	Duration	Magnitude	Weights	Wtd Durtn	Wtd Mag.
Q1-75 to Q2-77	2.5	0.0093	0.1	0.25	0.00093
Q1-80 to Q1-83	3.25	0.0091	0.3	0.975	0.00273
Q4-90 to Q3-92	2	0.0062	0.6	1.2	0.00372
			1	2.425	0.00738

Solvency threshold ($ thousands):

[(Avg. duration) x (Avg. magnitude) x (Current wages)] - [(Avg. duration) x (Current revenues)]

2.425	0.00738		83,999,595	2.425		213,000
	=	1,503,299		-	516,525	
	=	986,774				

of economic downturns occurring, given an economic downturn is assumed to occur.

An average duration and average magnitude can be determined by using the probabilities as weights. Then, along with other information (such as 1999 total wages and 1999 Trust Fund revenues), these numbers can be used in the formula to determine the amount of money needed in the Trust Fund to maintain solvency.

If you have any questions or would like any further analysis, please call me or Greg Rest at (804) 786-1258.

Sincerely,

Philip A. Leone
Director

PAL/gjr

Figure 1. Adequate Fund Balance Over Time

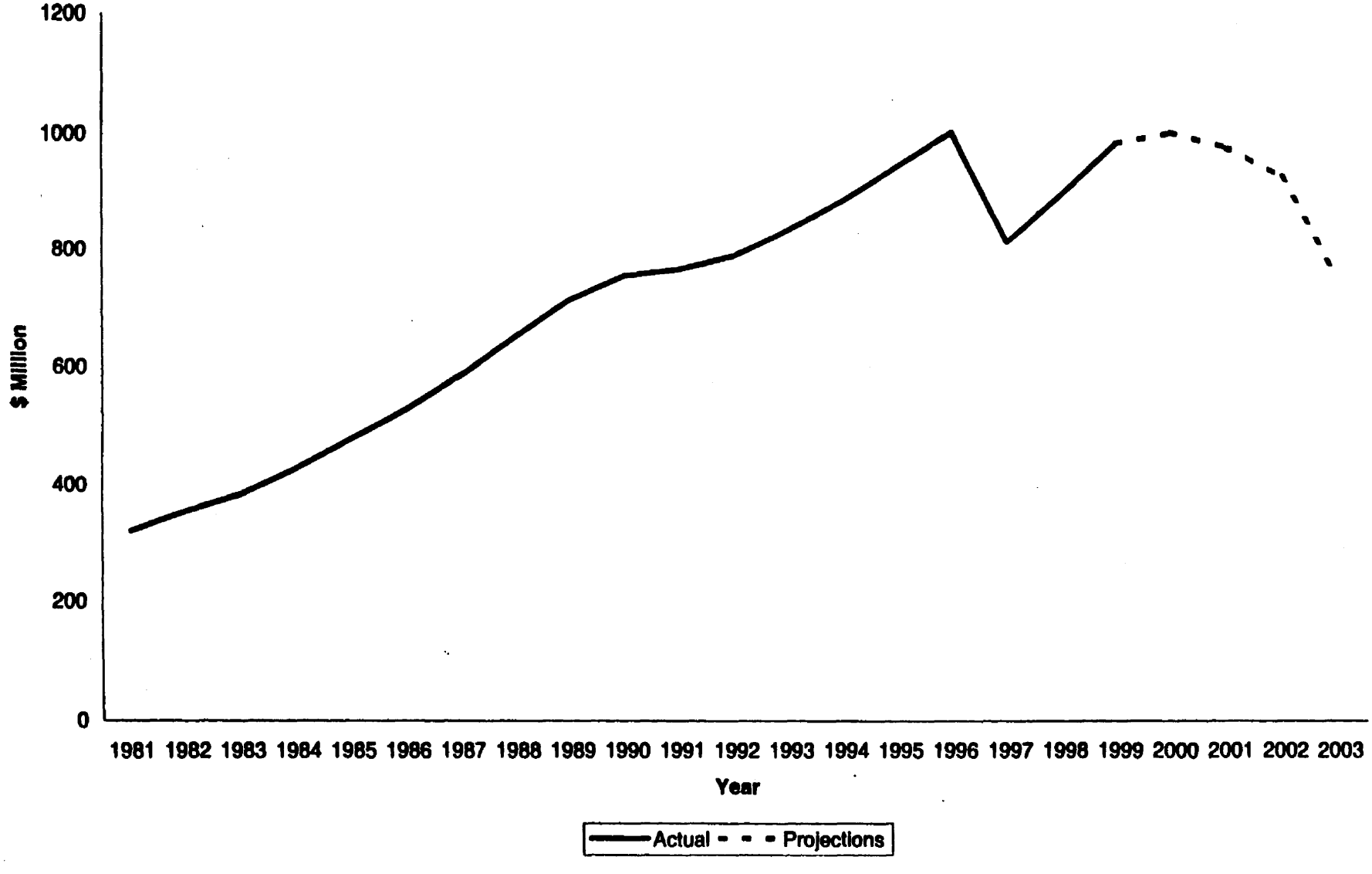


Figure 2. Year End Fund Balance

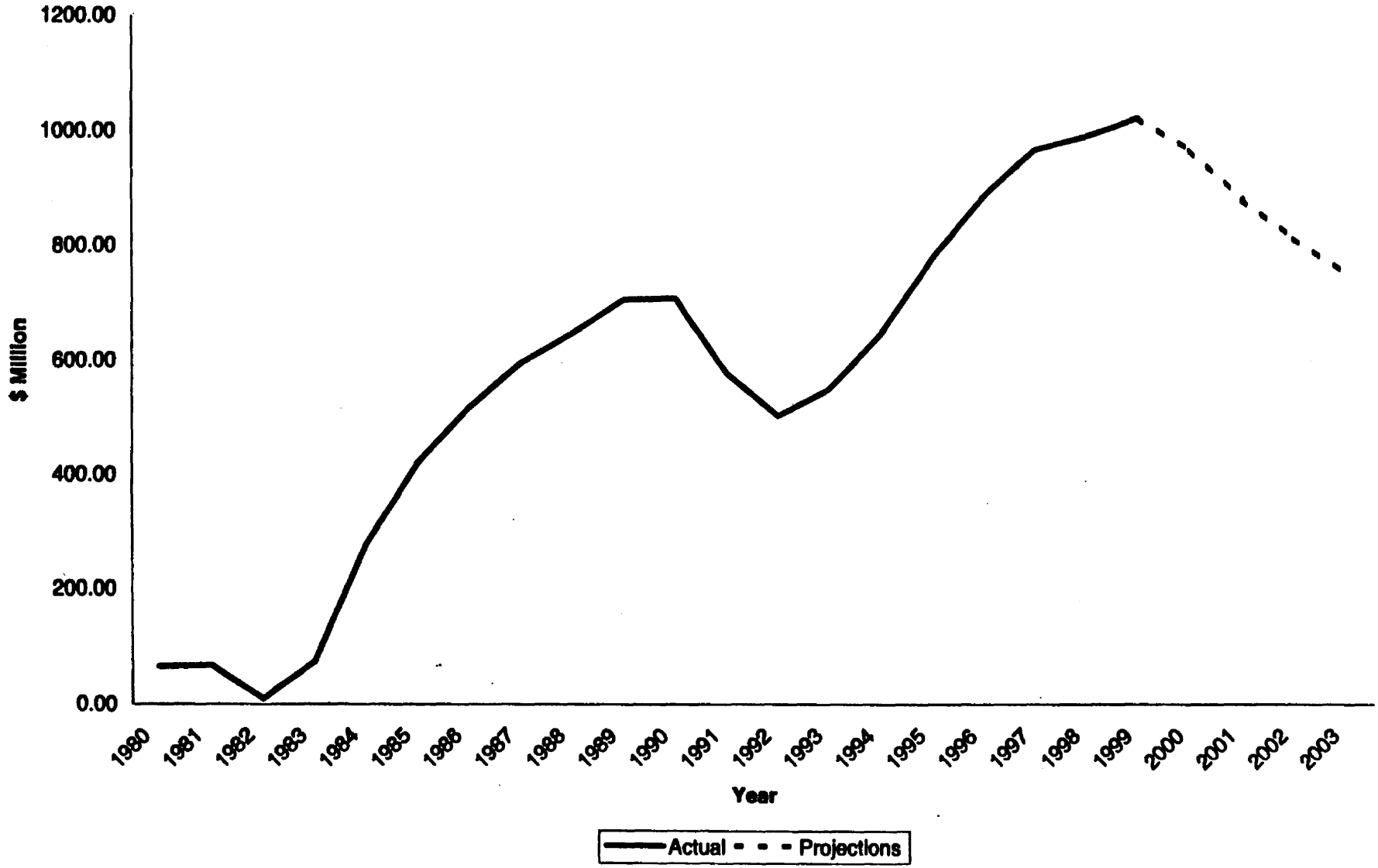


Figure 3. Virginia Population

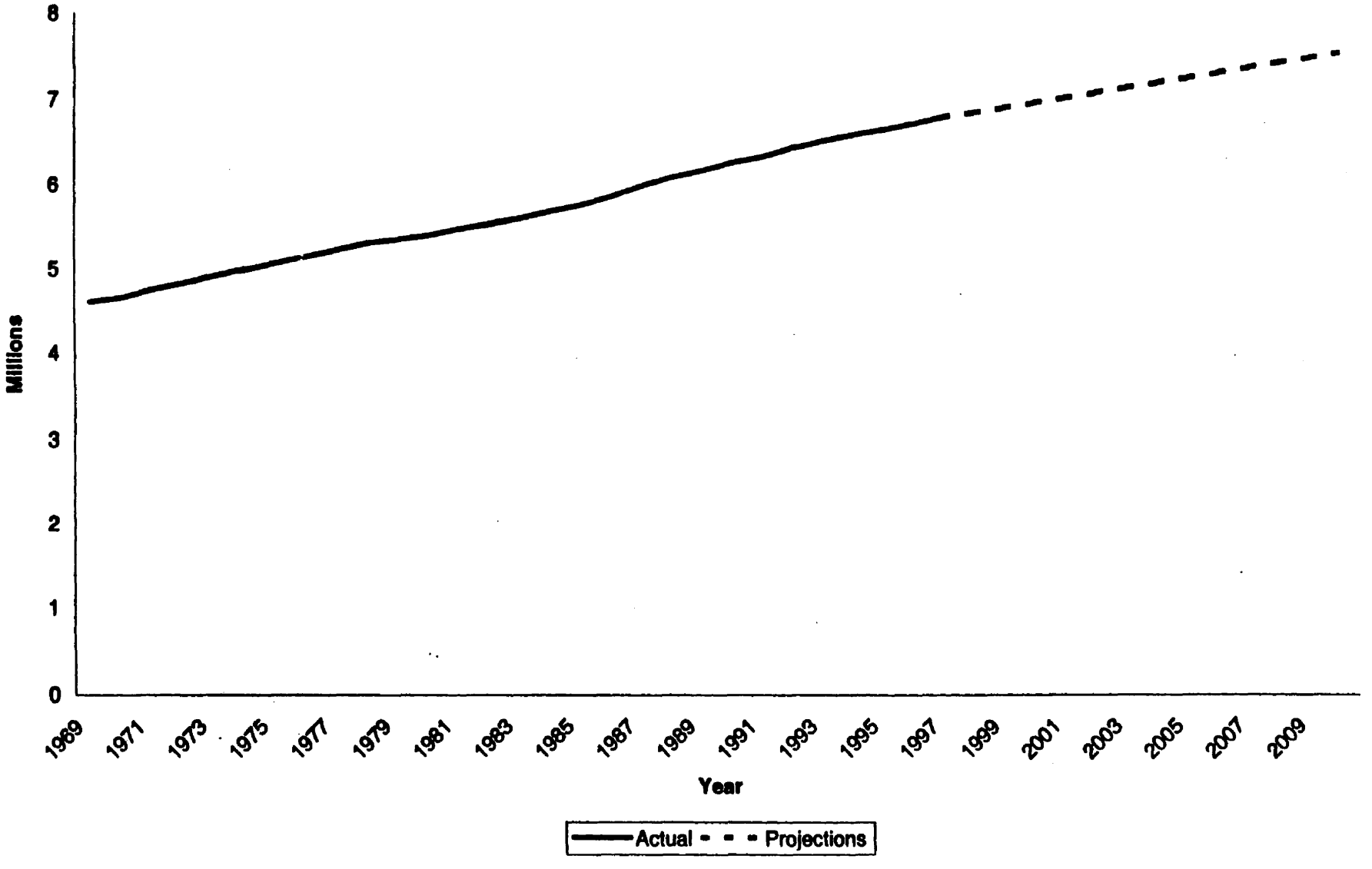


Figure 4. Virginia Workforce

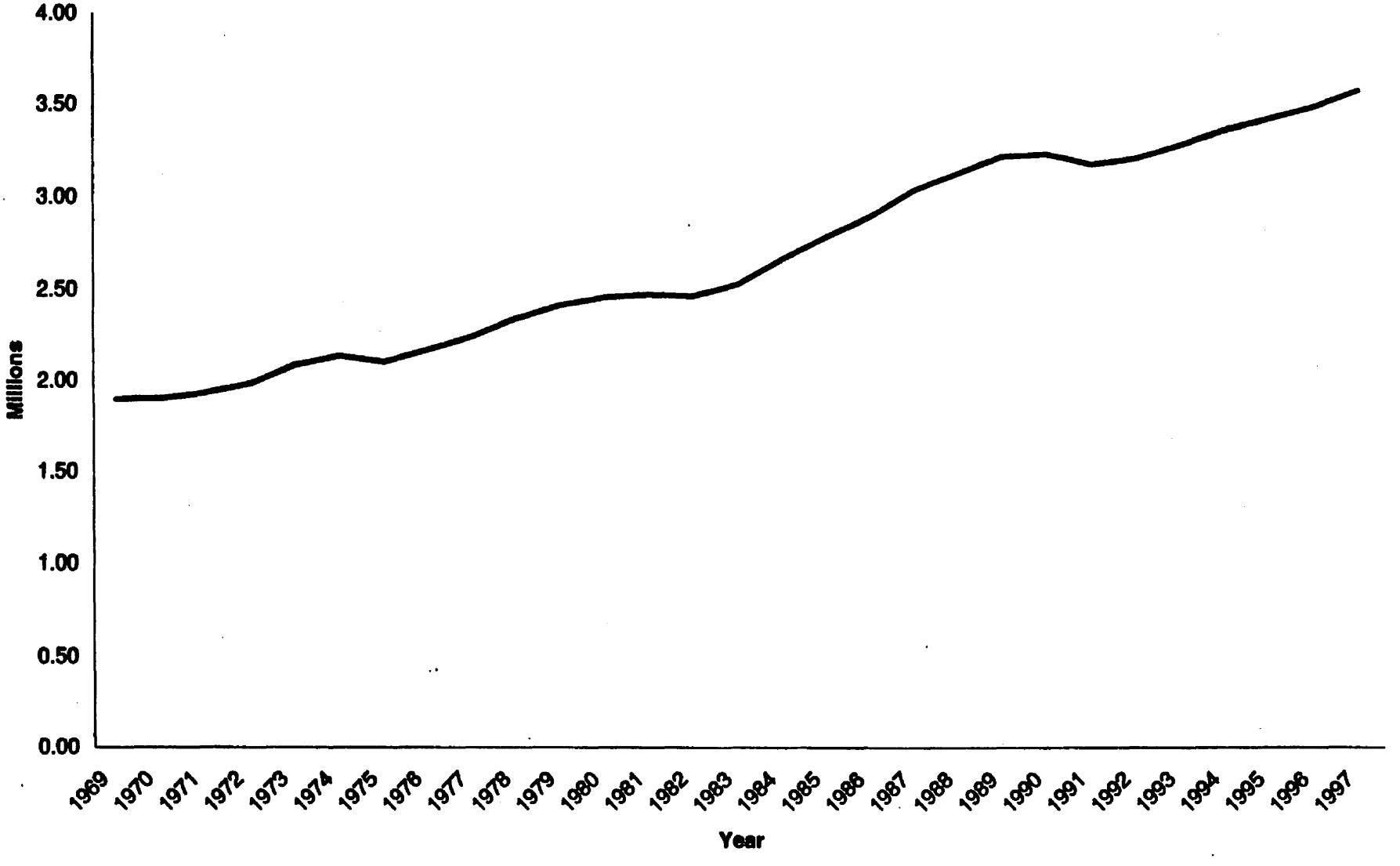


Figure 5. Virginia Wages

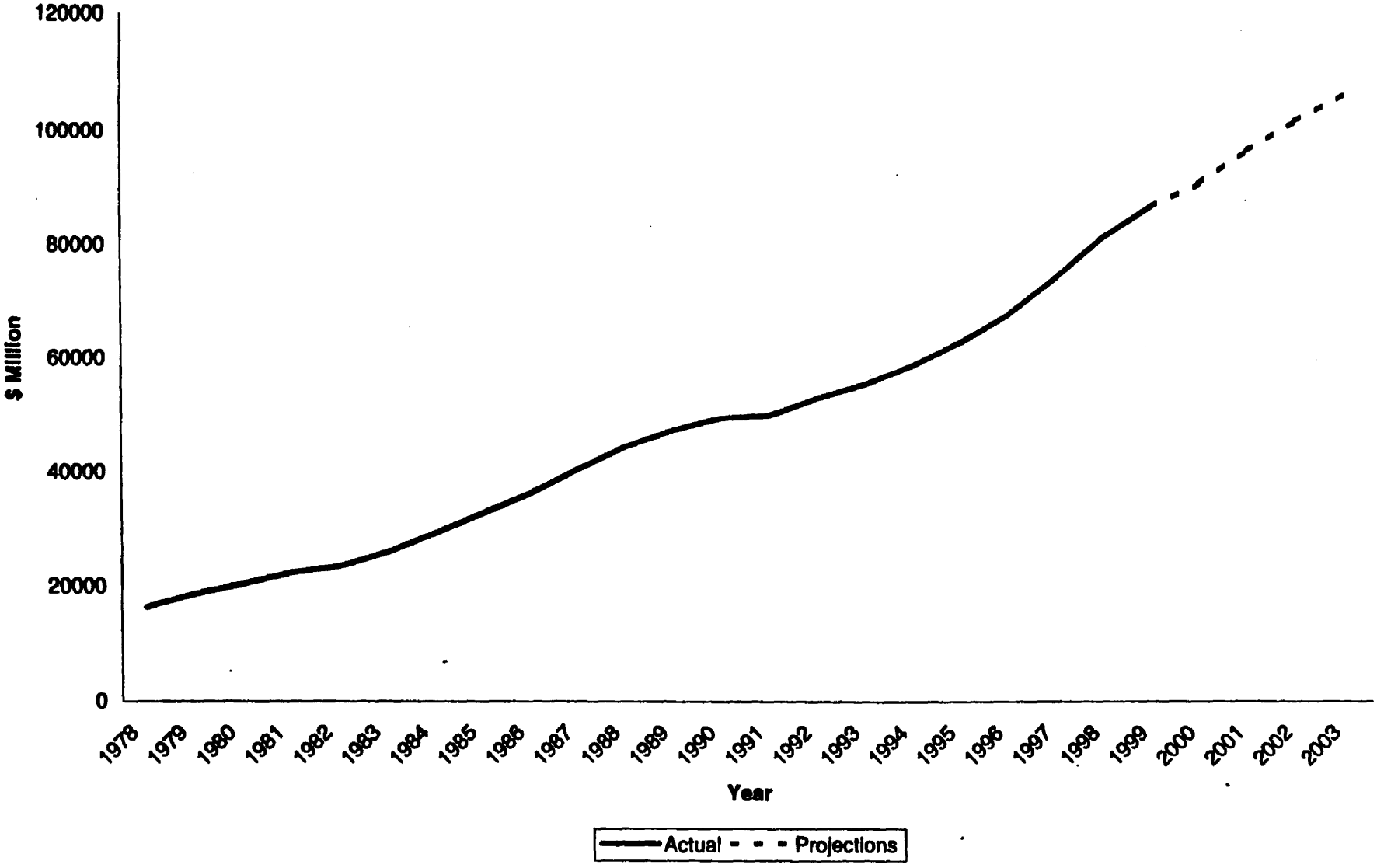


Figure 6. Consumer Price Index

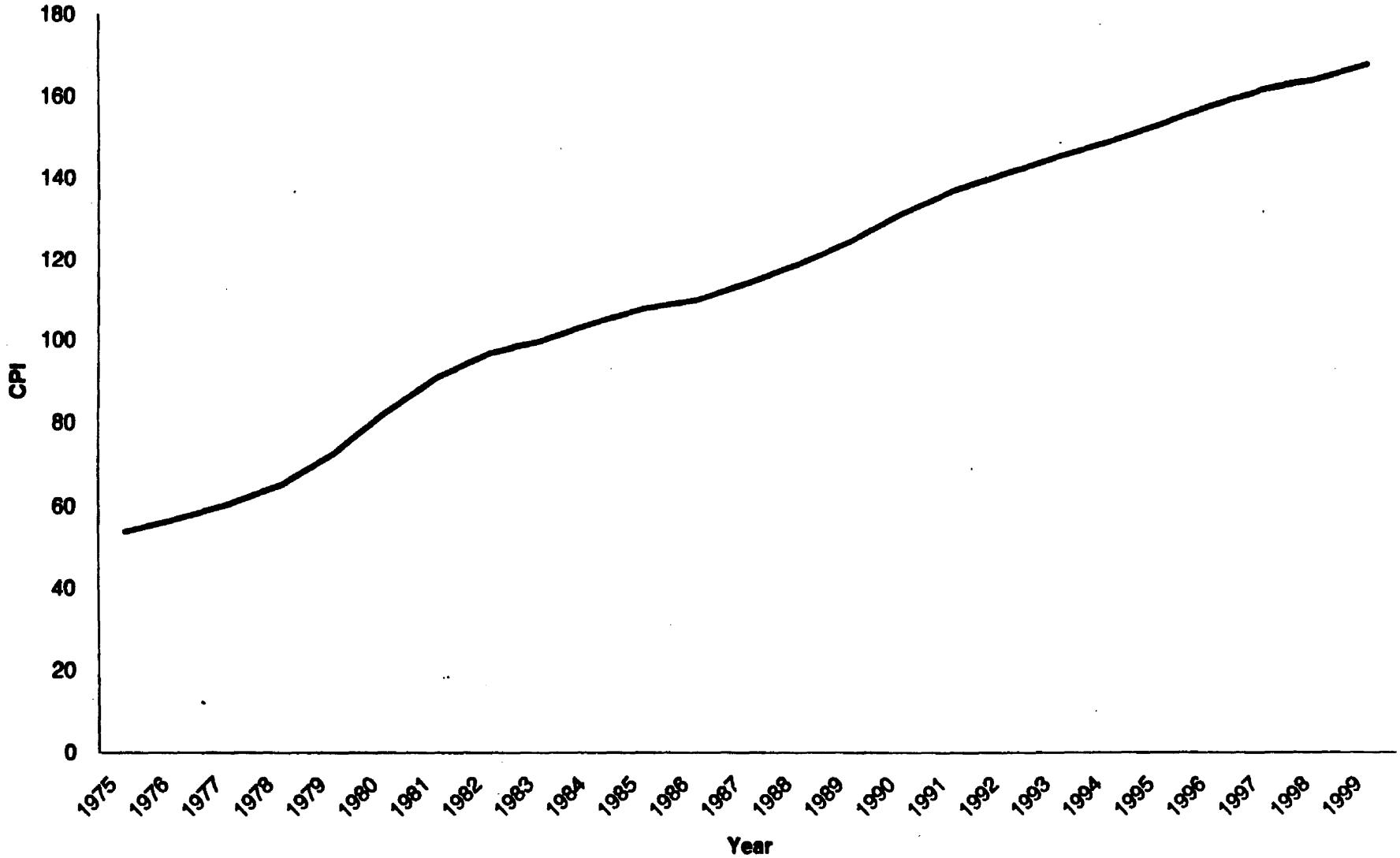


Figure 7. Total Benefits Paid

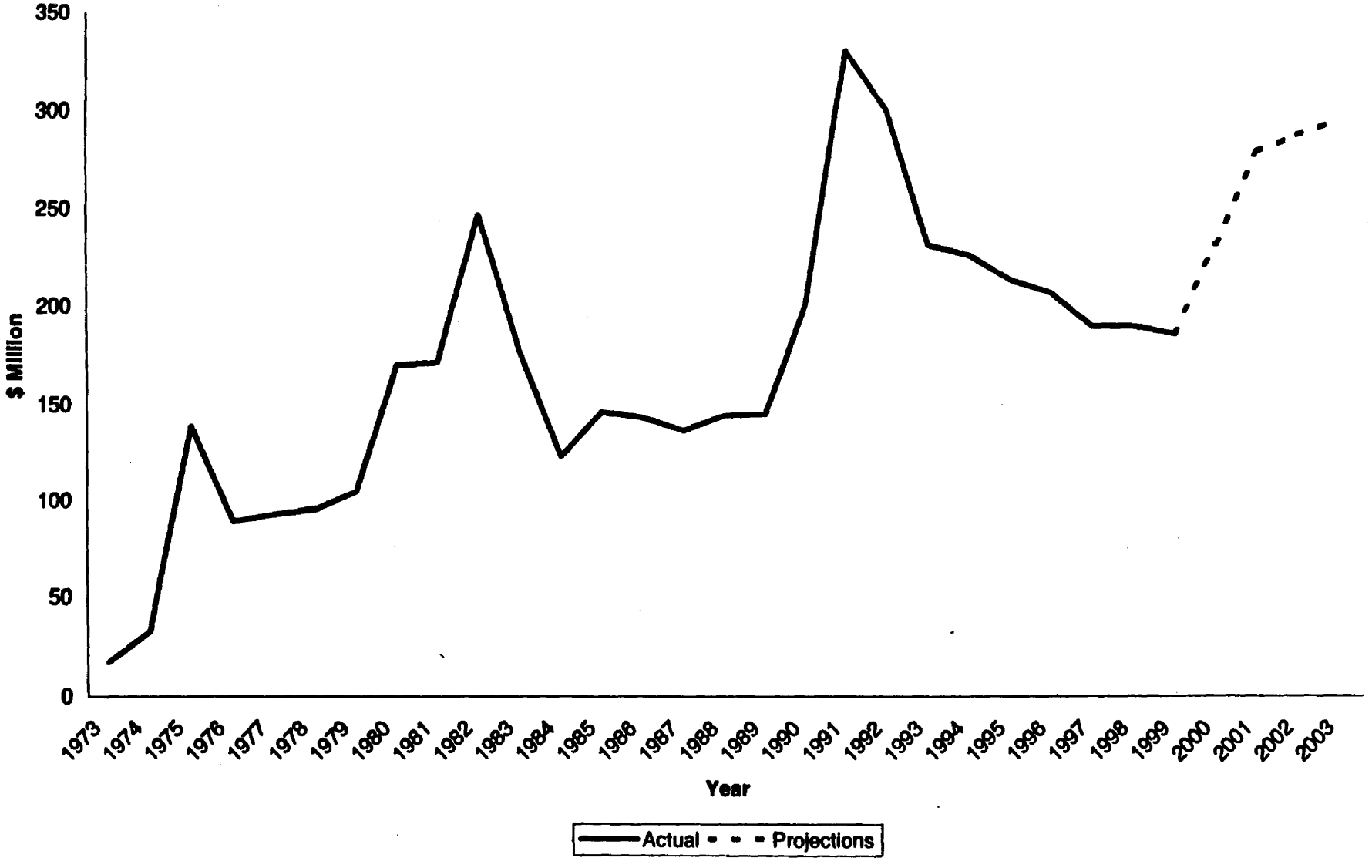


Figure 8

"Scenario 1"

Year	Benefits* (Millions)	Total Wages** (Billions)	Benefits/ Wages	Average Cost Rate***	Adequate Fund Balance*** (Millions)	Estimated Adequate Fund Balance
1973	$ 17.4	n/a		n/a	n/a	
1974	$ 33.0	n/a		n/a	n/a	
1975	$ 138.3	n/a		n/a	n/a	
1976	$ 88.5	n/a		n/a	n/a	
1977	$ 92.3	n/a		n/a	n/a	
1978	$ 94.9	$ 16.4	0.58%	n/a	n/a	
1979	$ 104.3	$ 18.7	0.56%	n/a	n/a	
1980	$ 169.2	$ 20.4	0.83%	n/a	n/a	
1981	$ 170.3	$ 22.4	0.76%	1.01%	$322.1	324.2
1982	$ 245.1	$ 23.5	1.04%	1.02%	$355.3	351.1
1983	$ 175.6	$ 26.0	0.68%	1.03%	$384.2	382.4
1984	$ 122.0	$ 29.3	0.42%	1.03%	$428.5	427.2
1985	$ 144.7	$ 32.7	0.44%	1.03%	$478.0	479.0
1986	$ 141.7	$ 36.1	0.39%	1.03%	$527.0	531.5
1987	$ 134.9	$ 40.2	0.34%	1.03%	$584.0	589.4
1988	$ 142.7	$ 44.1	0.32%	1.03%	$650.0	651.2
1989	$ 143.3	$ 47.0	0.30%	1.03%	$711.0	703.7
1990	$ 198.1	$ 49.1	0.40%	1.03%	$751.0	742.4
1991	$ 328.0	$ 49.5	0.66%	1.03%	$761.5	761.7
1992	$ 296.9	$ 52.5	0.57%	1.03%	$782.3	788.0
1993	$ 227.9	$ 54.9	0.42%	1.03%	$828.2	829.7
1994	$ 222.4	$ 58.1	0.38%	1.03%	$878.7	872.9
1995	$ 210.0	$ 62.0	0.34%	1.03%	$937.6	927.8
1996	$ 203.5	$ 66.7	0.31%	1.03%	$994.5	994.2
1997	$ 187.0	$ 73.1	0.26%	0.84%	$805.9	810.3
1998	$ 186.8	$ 80.3	0.23%	0.84%	$888.0	889.1
1999	$ 183.0	$ 85.4	0.21%	0.84%	$974.9	960.4
Projections						
2000	$ 227.5	$ 89.2	0.26%	0.83%	$991.1	999.9
2001	$ 274.2	$ 95.0	0.29%	0.76%	$965.5	965.9
2002	$ 282.5	$ 100.0	0.28%	0.68%	$915.4	914.9
2003	$ 290.0	$ 104.5	0.28%	0.53%	$745.6	747.9

No Change

*actual data through November 1999

**actual data through Second Quarter 1999

***In 1997, Section 60.2-533 was amended so that the adequate fund balance was based on 1.38 times the average of the 3 highest cost rates for the last 20 years instead of 1.5 times the average of the 3 highest cost rates for the last 25 years. The adequate fund balance and average cost rate were first computed in 1981.

January 27, 2000

Figure 9

"Scenario 2"

Year	Benefits* (Millions)	Total Wages** (Billions)	Benefits/ Wages	Average Cost Rate***	Adequate Fund Balance*** (Millions)	Estimated Adequate Fund Balance
1973	$ 17.4	n/a		n/a	n/a	
1974	$ 33.0	n/a		n/a	n/a	
1975	$ 138.3	n/a		n/a	n/a	
1976	$ 88.5	n/a		n/a	n/a	
1977	$ 92.3	n/a		n/a	n/a	
1978	$ 94.9	$ 16.4	0.58%	n/a	n/a	
1979	$ 104.3	$ 18.7	0.56%	n/a	n/a	
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1989	$ 143.3	$ 47.0	0.30%	1.03%	$711.0	703.7
1990	$ 198.1	$ 49.1	0.40%	1.03%	$751.0	742.4
1991	$ 328.0	$ 49.5	0.66%	1.03%	$761.5	761.7
1992	$ 296.9	$ 52.5	0.57%	1.03%	$782.3	788.0
1993	$ 227.9	$ 54.9	0.42%	1.03%	$828.2	829.7
1994	$ 222.4	$ 58.1	0.38%	1.03%	$878.7	872.9
1995	$ 210.0	$ 62.0	0.34%	1.03%	$937.6	927.8
1996	$ 203.5	$ 66.7	0.31%	1.03%	$994.5	994.2
1997	$ 187.0	$ 73.1	0.26%	0.84%	$805.9	810.3
1998	$ 186.8	$ 80.3	0.23%	0.84%	$888.0	889.1
1999	$ 183.0	$ 85.4	0.21%	0.84%	$974.9	960.4
Projections						
2000	$ 227.5	$ 89.2	0.26%	0.83%	$991.1	798.3
2001	$ 274.2	$ 95.0	0.29%	0.76%	$965.5	842.2
2002	$ 282.5	$ 100.0	0.28%	0.68%	$915.4	891.6
2003	$ 290.0	$ 104.5	0.28%	0.53%	$745.6	935.0

*actual data through November 1999

**actual data through Second Quarter 1999

***In 1997, Section 60.2-533 was amended so that the adequate fund balance was based on 1.38 times the average of the 3 highest cost rates for the last 20 years instead of 1.5 times the average of the 3 highest cost rates for the last 25 years. The adequate fund balance and average cost rate were first computed in 1981.

January 27, 2000

Using 1991 Benefits/Wages rate

Figure 10

"Scenario 3"

Year	Benefits* (Millions)	Total Wages** (Billions)	Benefits/ Wages	Average Cost Rate***	Adequate Fund Balance*** (Millions)	Estimated Adequate Fund Balance
1973	$ 17.4	n/a		n/a	n/a	
1974	$ 33.0	n/a		n/a	n/a	
1975	$ 138.3	n/a		n/a	n/a	
1976	$ 88.5	n/a		n/a	n/a	
1977	$ 92.3	n/a		n/a	n/a	
1978	$ 94.9	$ 16.4	0.58%	n/a	n/a	
1979	$ 104.3	$ 18.7	0.56%	n/a	n/a	
1980	$ 169.2	$ 20.4	0.83%	n/a	n/a	
1981	$ 170.3	$ 22.4	0.76%	1.01%	$322.1	324.2
1982	$ 245.1	$ 23.5	1.04%	1.02%	$355.3	351.1
1983	$ 175.6	$ 26.0	0.68%	1.03%	$384.2	382.4
1984	$ 122.0	$ 29.3	0.42%	1.03%	$428.5	427.2
1985	$ 144.7	$ 32.7	0.44%	1.03%	$478.0	479.0
1986	$ 141.7	$ 36.1	0.39%	1.03%	$527.0	531.5
1987	$ 134.9	$ 40.2	0.34%	1.03%	$584.0	589.4
1988	$ 142.7	$ 44.1	0.32%	1.03%	$650.0	651.2
1989	$ 143.3	$ 47.0	0.30%	1.03%	$711.0	703.7
1990	$ 198.1	$ 49.1	0.40%	1.03%	$751.0	742.4
1991	$ 328.0	$ 49.5	0.66%	1.03%	$761.5	761.7
1992	$ 296.9	$ 52.5	0.57%	1.03%	$782.3	788.0
1993	$ 227.9	$ 54.9	0.42%	1.03%	$828.2	829.7
1994	$ 222.4	$ 58.1	0.38%	1.03%	$878.7	872.9
1995	$ 210.0	$ 62.0	0.34%	1.03%	$937.6	927.8
1996	$ 203.5	$ 66.7	0.31%	1.03%	$994.5	994.2
1997	$ 187.0	$ 73.1	0.26%	0.84%	$805.9	810.3
1998	$ 186.8	$ 80.3	0.23%	0.84%	$888.0	889.1
1999	$ 183.0	$ 85.4	0.21%	0.84%	$974.9	960.4
Projections						
2000	$ 227.5	$ 89.2	0.26%	0.83%	$991.1	1,256.5
2001	$ 274.2	$ 95.0	0.29%	0.76%	$965.5	1,325.6
2002	$ 282.5	$ 100.0	0.28%	0.68%	$915.4	1,403.3
2003	$ 290.0	$ 104.5	0.28%	0.53%	$745.6	1,471.7

Using 1982 Benefits/wages rate

*actual data through November 1999

**actual data through Second Quarter 1999

***In 1997, Section 60.2-533 was amended so that the adequate fund balance was based on 1.38 times the average of the 3 highest cost rates for the last 20 years instead of 1.5 times the average of the 3 highest cost rates for the last 25 years. The adequate fund balance and average cost rate were first computed in 1981.

January 27, 2000

Figure 11

"Scenario 4"

Year	Benefits* (Millions)	Total Wages** (Billions)	Benefits/ Wages	Average Cost Rate***	Adequate Fund Balance*** (Millions)	Estimated Adequate Fund Balance
1973	$ 17.4	n/a		n/a	n/a	
1974	$ 33.0	n/a		n/a	n/a	
1975	$ 138.3	n/a		n/a	n/a	
1976	$ 88.5	n/a		n/a	n/a	
1977	$ 92.3	n/a		n/a	n/a	
1978	$ 94.9	$ 16.4	0.58%	n/a	n/a	
1979	$ 104.3	$ 18.7	0.56%	n/a	n/a	
1980	$ 169.2	$ 20.4	0.83%	n/a	n/a	
1981	$ 170.3	$ 22.4	0.76%	1.01%	$322.1	324.2
1982	$ 245.1	$ 23.5	1.04%	1.02%	$355.3	351.1
1983	$ 175.6	$ 26.0	0.68%	1.03%	$384.2	382.4
1984	$ 122.0	$ 29.3	0.42%	1.03%	$428.5	427.2
1985	$ 144.7	$ 32.7	0.44%	1.03%	$478.0	479.0
1986	$ 141.7	$ 36.1	0.39%	1.03%	$527.0	531.5
1987	$ 134.9	$ 40.2	0.34%	1.03%	$584.0	589.4
1988	$ 142.7	$ 44.1	0.32%	1.03%	$650.0	651.2
1989	$ 143.3	$ 47.0	0.30%	1.03%	$711.0	703.7
1990	$ 198.1	$ 49.1	0.40%	1.03%	$751.0	742.4
1991	$ 328.0	$ 49.5	0.66%	1.03%	$761.5	761.7
1992	$ 296.9	$ 52.5	0.57%	1.03%	$782.3	788.0
1993	$ 227.9	$ 54.9	0.42%	1.03%	$828.2	829.7
1994	$ 222.4	$ 58.1	0.38%	1.03%	$878.7	872.9
1995	$ 210.0	$ 62.0	0.34%	1.03%	$937.6	927.8
1996	$ 203.5	$ 66.7	0.31%	1.03%	$994.5	994.2
1997	$ 187.0	$ 73.1	0.26%	0.84%	$805.9	810.3
1998	$ 186.8	$ 80.3	0.23%	0.84%	$888.0	889.1
1999	$ 183.0	$ 85.4	0.21%	0.84%	$974.9	960.4
Projections						
2000	$ 227.5	$ 89.2	0.26%	0.83%	$991.1	387.6
2001	$ 274.2	$ 95.0	0.29%	0.76%	$965.5	408.9
2002	$ 282.5	$ 100.0	0.28%	0.68%	$915.4	432.9
2003	$ 290.0	$ 104.5	0.28%	0.53%	$745.6	453.9

Using 1991 benefits/wages rate

6 Month dimit

*actual data through November 1999

**actual data through Second Quarter 1999

***In 1997, Section 60.2-533 was amended so that the adequate fund balance was based on 1.38 times the average of the 3 highest cost rates for the last 20 years instead of 1.5 times the average of the 3 highest cost rates for the last 25 years. The adequate fund balance and average cost rate were first computed in 1981.

January 27, 2000

Figure 12

"Scenario 5"

Year	Benefits* (Millions)	Total Wages** (Billions)	Benefits/ Wages	Average Cost Rate***	Adequate Fund Balance*** (Millions)	Estimated Adequate Fund Balance	
1973	$ 17.4	n/a		n/a	n/a		
1974	$ 33.0	n/a		n/a	n/a		
1975	$ 138.3	n/a		n/a	n/a		
1976	$ 88.5	n/a		n/a	n/a		
1977	$ 92.3	n/a		n/a	n/a		
1978	$ 94.9	$ 16.4	0.58%	n/a	n/a		
1979	$ 104.3	$ 18.7	0.56%	n/a	n/a		
1980	$ 169.2	$ 20.4	0.83%	n/a	n/a		
1981	$ 170.3	$ 22.4	0.76%	1.01%	$322.1	324.2	
1982	$ 245.1	$ 23.5	1.04%	1.02%	$355.3	351.1	
1983	$ 175.6	$ 26.0	0.68%	1.03%	$384.2	382.4	
1984	$ 122.0	$ 29.3	0.42%	1.03%	$428.5	427.2	
1985	$ 144.7	$ 32.7	0.44%	1.03%	$478.0	479.0	
1986	$ 141.7	$ 36.1	0.39%	1.03%	$527.0	531.5	
1987	$ 134.9	$ 40.2	0.34%	1.03%	$584.0	589.4	
1988	$ 142.7	$ 44.1	0.32%	1.03%	$650.0	651.2	
1989	$ 143.3	$ 47.0	0.30%	1.03%	$711.0	703.7	
1990	$ 198.1	$ 49.1	0.40%	1.03%	$751.0	742.4	
1991	$ 328.0	$ 49.5	0.66%	1.03%	$761.5	761.7	
1992	$ 296.9	$ 52.5	0.57%	1.03%	$782.3	788.0	
1993	$ 227.9	$ 54.9	0.42%	1.03%	$828.2	829.7	
1994	$ 222.4	$ 58.1	0.38%	1.03%	$878.7	872.9	
1995	$ 210.0	$ 62.0	0.34%	1.03%	$937.6	927.8	
1996	$ 203.5	$ 66.7	0.31%	1.03%	$994.5	994.2	
1997	$ 187.0	$ 73.1	0.26%	0.84%	$805.9	810.3	
1998	$ 186.8	$ 80.3	0.23%	0.84%	$888.0	889.1	
1999	$ 183.0	$ 85.4	0.21%	0.84%	$974.9	960.4	
Projections							
2000	$ 227.5	$ 89.2	0.26%	0.83%	$991.1	1,211.0	← Using 1982 benefits/wages on 16 month duration.
2001	$ 274.2	$ 95.0	0.29%	0.76%	$965.5	1,277.6	
2002	$ 282.5	$ 100.0	0.28%	0.68%	$915.4	1,352.5	
2003	$ 290.0	$ 104.5	0.28%	0.53%	$745.6	1,418.4	

*actual data through November 1999

**actual data through Second Quarter 1999

***In 1997, Section 60.2-533 was amended so that the adequate fund balance was based on 1.38 times the average of the 3 highest cost rates for the last 20 years instead of 1.5 times the average of the 3 highest cost rates for the last 25 years. The adequate fund balance and average cost rate were first computed in 1981.

January 27, 2000

figure 13
"Scenario 6"

Year	Benefits* (Millions)	Total Wages** (Billions)	Benefits/ Wages	Average Cost Rate***	Adequate Fund Balance*** (Millions)	Estimated Adequate Fund Balance
1973	$ 17.4	n/a		n/a	n/a	
1974	$ 33.0	n/a		n/a	n/a	
1975	$ 138.3	n/a		n/a	n/a	
1976	$ 88.5	n/a		n/a	n/a	
1977	$ 92.3	n/a		n/a	n/a	
1978	$ 94.9	$ 16.4	0.58%	n/a	n/a	
1979	$ 104.3	$ 18.7	0.56%	n/a	n/a	
1980	$ 169.2	$ 20.4	0.83%	n/a	n/a	
1981	$ 170.3	$ 22.4	0.76%	1.01%	$322.1	324.2
1982	$ 245.1	$ 23.5	1.04%	1.02%	$355.3	351.1
1983	$ 175.6	$ 26.0	0.68%	1.03%	$384.2	382.4
1984	$ 122.0	$ 29.3	0.42%	1.03%	$428.5	427.2
1985	$ 144.7	$ 32.7	0.44%	1.03%	$478.0	479.0
1986	$ 141.7	$ 36.1	0.39%	1.03%	$527.0	531.5
1987	$ 134.9	$ 40.2	0.34%	1.03%	$584.0	589.4
1988	$ 142.7	$ 44.1	0.32%	1.03%	$650.0	651.2
1989	$ 143.3	$ 47.0	0.30%	1.03%	$711.0	703.7
1990	$ 198.1	$ 49.1	0.40%	1.03%	$751.0	742.4
1991	$ 328.0	$ 49.5	0.66%	1.03%	$761.5	761.7
1992	$ 296.9	$ 52.5	0.57%	1.03%	$782.3	788.0
1993	$ 227.9	$ 54.9	0.42%	1.03%	$828.2	829.7
1994	$ 222.4	$ 58.1	0.38%	1.03%	$878.7	872.9
1995	$ 210.0	$ 62.0	0.34%	1.03%	$937.6	927.8
1996	$ 203.5	$ 66.7	0.31%	1.03%	$994.5	994.2
1997	$ 187.0	$ 73.1	0.26%	0.84%	$805.9	810.3
1998	$ 186.8	$ 80.3	0.23%	0.84%	$888.0	889.1
1999	$ 183.0	$ 85.4	0.21%	0.84%	$974.9	960.4
Projections						
2000	$ 227.5	$ 89.2	0.26%	0.83%	$991.1	717.0
2001	$ 274.2	$ 95.0	0.29%	0.76%	$965.5	756.4
2002	$ 282.5	$ 100.0	0.28%	0.68%	$915.4	800.7
2003	$ 290.0	$ 104.5	0.28%	0.53%	$745.6	839.7

*actual data through November 1999

**actual data through Second Quarter 1999

***In 1997, Section 60.2-533 was amended so that the adequate fund balance was based on 1.38 times the average of the 3 highest cost rates for the last 20 years instead of 1.5 times the average of the 3 highest cost rates for the last 25 years. The adequate fund balance and average cost rate were first computed in 1981.

January 27, 2000

Assumes: 60% chance of "mild" downturn
(using 1991 benefits/wages rate, 6 month duration)
and 40% chance of "more severe" downturn
(using 1982 benefits/wages rate, 16 month duration)

Joint Legislative Audit and Review Commission
of the Virginia General Assembly

JLARC Staff Technical Assessment of Unemployment Insurance Trust Fund

Gregory J. Rest
August 22, 2000

Presentation Outline

2

- ☑ Conceptual Framework
- ☐ Concerns with Current Formula
- ☐ Alternative Formula
- ☐ Determining Specific Values for Components of Alternative Formula

Purpose of Unemployment Insurance Trust Fund

3

- *Code of Virginia* Section 60.2-113 specifies that Virginia Employment Commission (VEC) shall:

  "maintain a solvent trust fund financed through equitable employer taxes which provide temporary partial income replacement to involuntarily unemployed workers."

- Inclusion of word "solvent" indicates that, in the event of higher volume of unemployment claims, Unemployment Trust Fund should have enough money in it to pay all unemployment benefits specified in the *Code of Virginia*.

Solvency Threshold Can Be Used to Calculate a "Firewall"

4

- Provides indicator for how large Trust Fund's reserve should be to meet unemployment benefit claims during high-unemployment period.

- Can have three main components:
  - *Assumed Duration* of high-unemployment period;
  - *Assumed Magnitude* of demand for unemployment benefits (represented by ratio of unemployment benefits paid by VEC to taxable wages paid by employers); and
  - *Current Taxable Wages* paid by employers.

Current Formula for Solvency Threshold Is Called "Adequate Fund Balance"

5

- Adequate Fund Balance defined as:

  1.38 x "average cost rate" x "wages"

- Adequate Fund Balance can be seen as having three components:
  - *Assumed Duration:* 1.38 years, or 16.5 months
  - *Assumed Magnitude:* "average cost rate" is average of three highest ratios of benefits to total wages in past twenty years
  - *Current Taxable Wages:* "wages" represents total taxable wages paid by employers in past year ending on June 30th.

Presentation Outline

6

- ☐ Conceptual Framework
- ☑ Concerns with Current Formula
- ☐ Alternative Formula
- ☐ Determining Specific Values for Components of Alternative Formula

JLARC Staff Identified Two Sets of Concerns with "Adequate Fund Balance" Formula

7

- *Assumed Duration* of high-unemployment period (16.5 months) is arbitrary and unrelated to past experience in Virginia.
- *Assumed Magnitude* of demand for unemployment benefits is projected to decrease in next four years, due to an artifact of current formula.
  - Current formula uses 20-year window for averaging the three years with highest benefits-to-wages ratios.
  - Until recently, that 20-year window would include years reflecting recessions from the 1970s and 1980s as well as the 1990-91 recession.
  - By 2003, that 20-year window would include almost all economic expansion years (only exception being years in which relatively milder 1990-91 recession took place).

"Adequate Fund Balance" Will Shrink, While Virginia Economy Continues to Grow

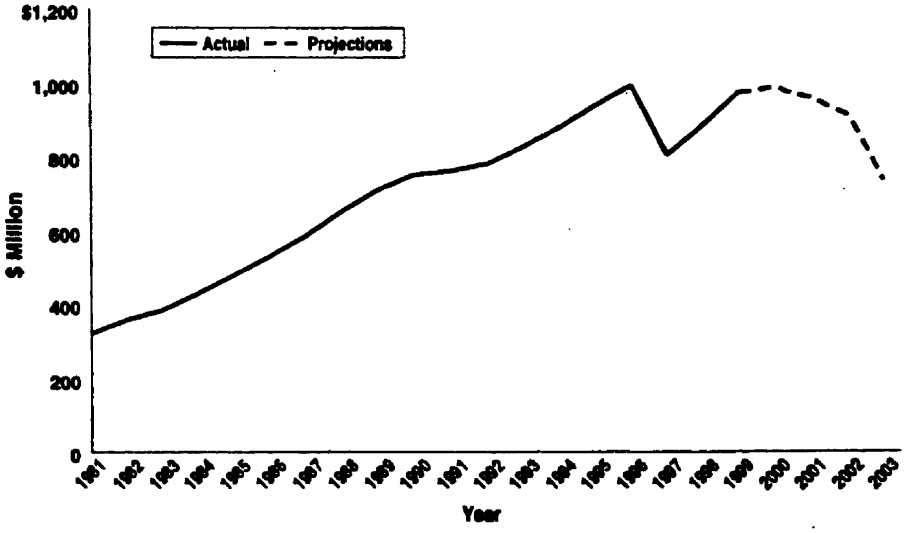
8

- Like Adequate Fund Balance, total Trust Fund balance is forecast to decrease through 2003.
- But average level of demand on Trust Fund is likely to increase in future years, because Virginia economy has been growing (as represented by key indicators):
  - Population
  - Workforce size
  - Total wages
  - Inflation.

- Source for all data except inflation: Virginia Employment Commission
  Source for Consumer Price Index: U.S. Bureau of Labor Statistics

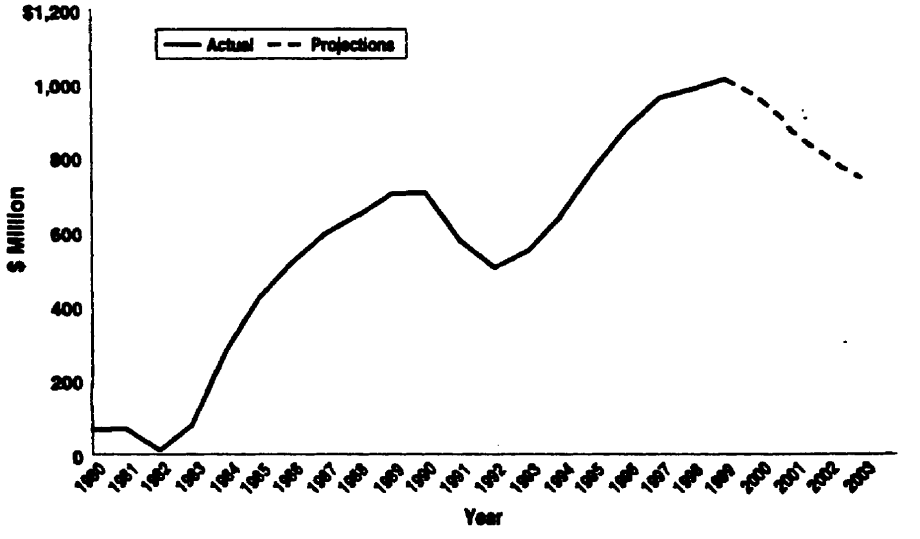
"Adequate Fund Balance" Over Time

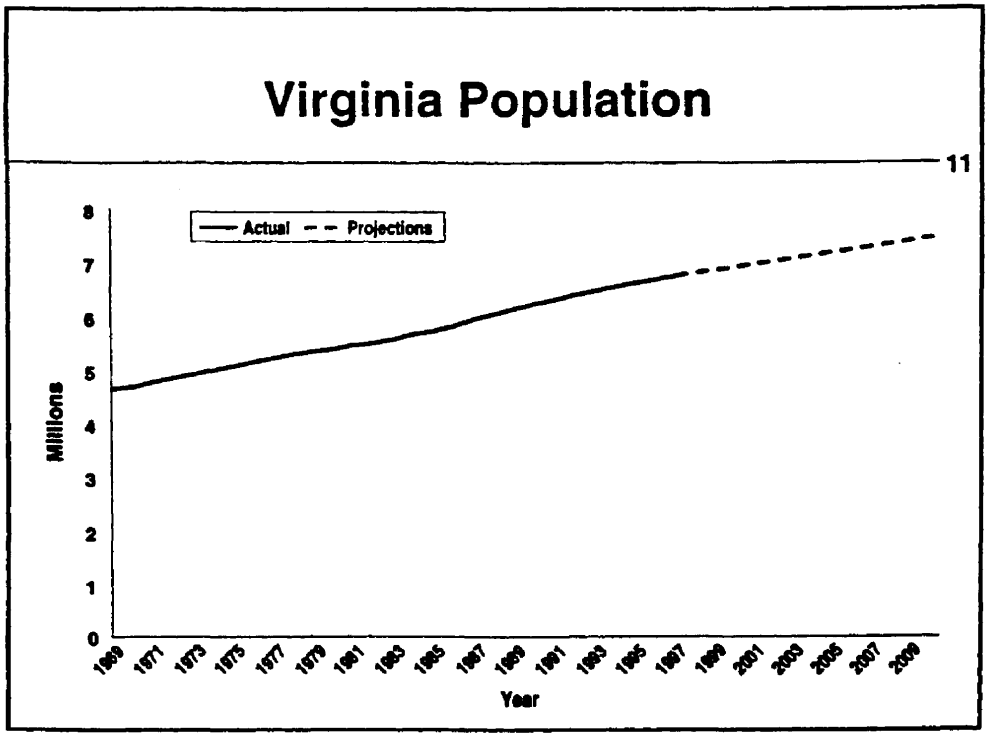
9



Year End Fund Balance

10




Virginia Population
11
Actual
Projections
Millions
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7
6
5
4
3
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0
1969
1971
1973
1975
1977
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1981
1983
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1991
1993
1995
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1999
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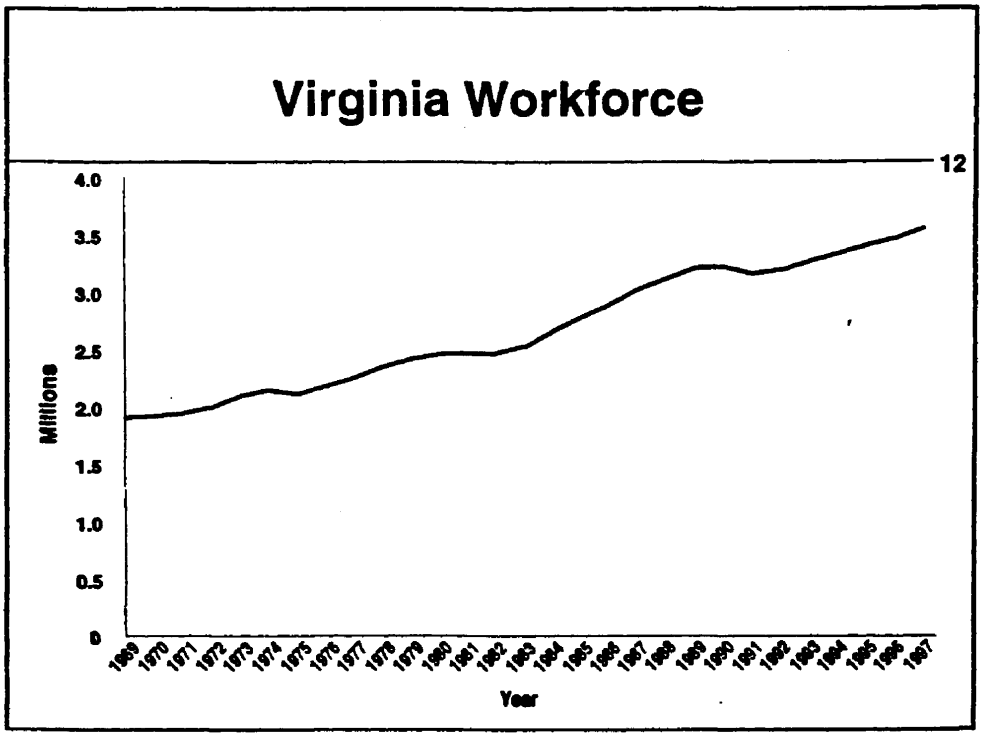
2003
2005
2007
2009
Year


Virginia Workforce
12
Millions
4.0
3.5
3.0
2.5
2.0
1.5
1.0
0.5
0
1969
1970
1971
1972
1973
1974
1975
1976
1977
1978
1979
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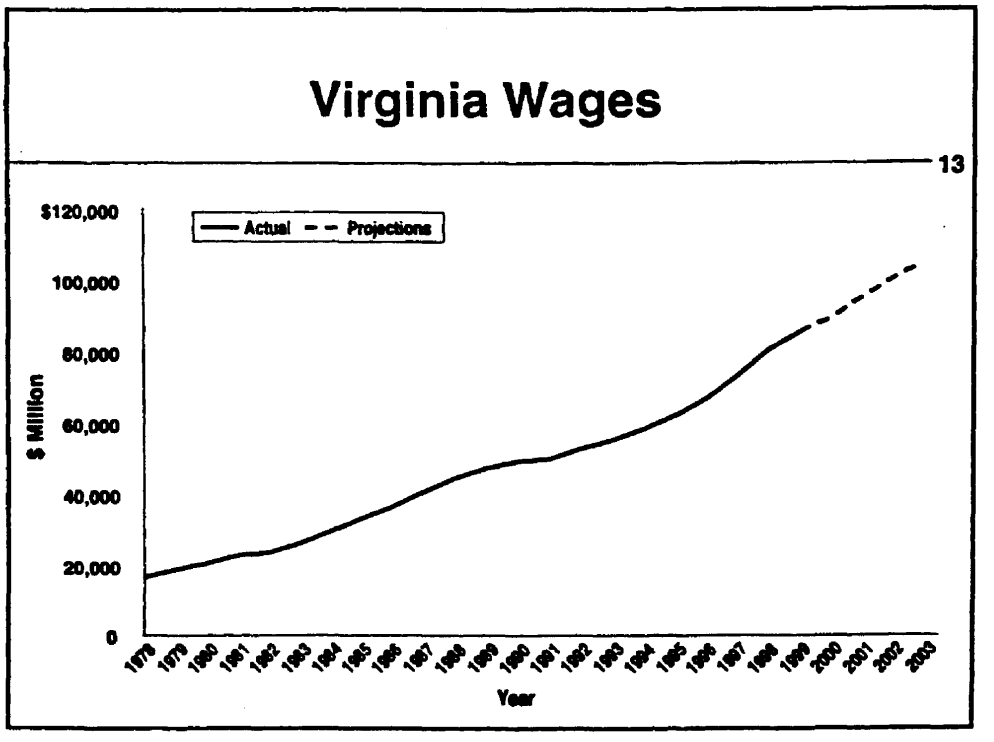
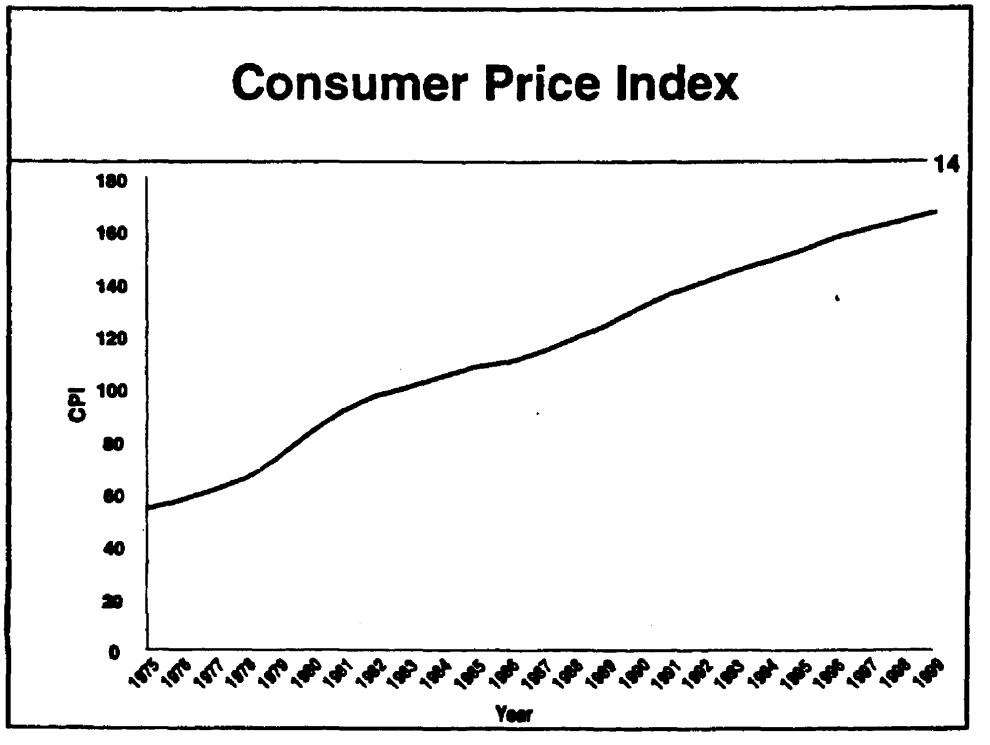
1997
Year


Virginia Wages
13
Actual
Projections
$120,000
100,000
80,000
60,000
40,000
20,000
0
$ Million
1978 1979 1980 1981 1982 1983 1984 1985 1986 1987 1988 1989 1990 1991 1992 1993 1994 1995 1996 1997 1998 1999 2000 2001 2002 2003
Year


Consumer Price Index
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180
160
140
120
100
80
60
40
20
0
CPI
1975 1976 1977 1978 1979 1980 1981 1982 1983 1984 1985 1986 1987 1988 1989 1990 1991 1992 1993 1994 1995 1996 1997 1998
Year

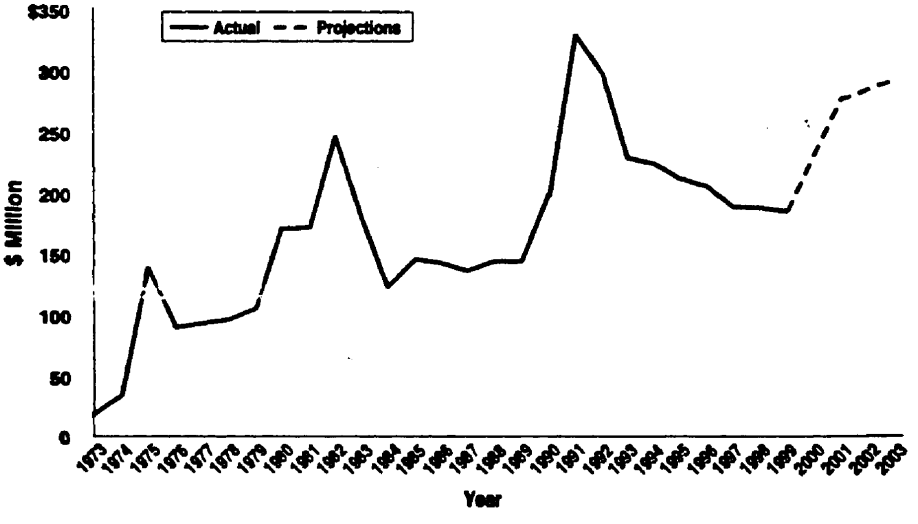
Unemployment Trust Fund Has to Cover Needs of Growing Labor Force that is Earning Increasing Income

15

- Each recession causes a sharp increase in demand for Trust Fund money.
- Each recession since the mid-1970s has caused a higher spike in demand than previous recession.
- After each recession, demand on Trust Fund settles out at higher level than before last recession.

Total Benefits Paid

16



Presentation Outline

17

- ☐ Conceptual Framework
- ☐ Concerns with Current Formula
- ☑ Alternative Formula
- ☐ Determining Specific Values for Components of Alternative Formula

For Trust Fund to Stay Solvent, There Are Two Considerations to Anticipate

18

- How much money could be paid out in benefits during period of relatively high unemployment:

  (Assumed duration) x (Assumed magnitude) x (Current wages)

- How much revenue could be coming into Trust Fund during this period:

  (Assumed duration) x (Current revenues)

Solvency Threshold Can Be Defined by Formula:

19

[(Assumed duration) x (Assumed magnitude) x (Current wages)]

- [(Assumed duration) x (Current revenues)]

where

Assumed duration = length of time high-unemployment period is assumed to last

Assumed magnitude = how deep economic downturn is assumed to be (proportion of total wage base paid out in unemployment benefits during high-unemployment period)

Current wages = current base of total taxable wages

Current revenues = most recently observed annual tax revenues and interest revenues accruing to Trust Fund

Presentation Outline

20

- ☐ Conceptual Framework
- ☐ Concerns with Current Formula
- ☐ Alternative Formula
- ☑ Determining Specific Values for Components of Alternative Formula

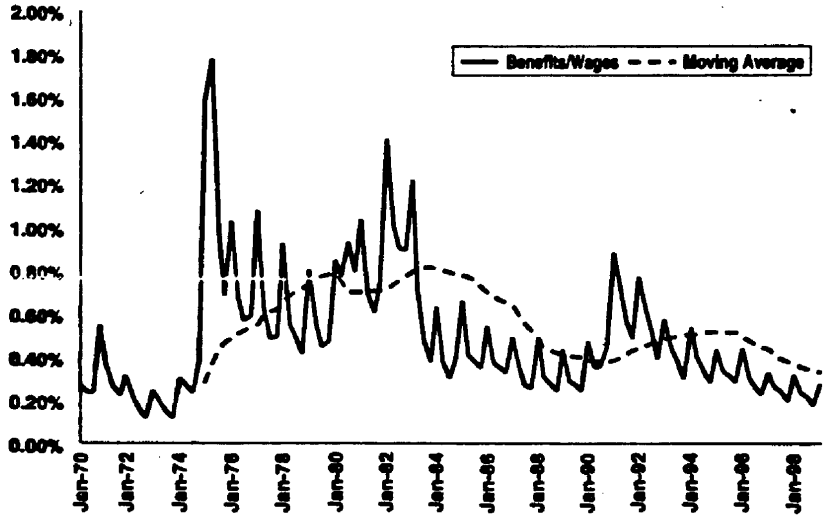
Duration of Past High-Unemployment Periods Can Be Observed

21

- Ratios of quarterly unemployment benefits to total wages since January 1970 are observed.
- 20-quarter (roughly corresponding to average business cycle) moving average of ratios used as benchmark.
- Three periods of relatively high unemployment identified:
  - 1Q-75 through 2Q-77 (lasting 2.5 years)
  - 1Q-80 through 1Q-83 (lasting 3.25 years)
  - 4Q-90 through 3Q-92 (lasting 2 years)

Quarterly Benefits/Wages Compared to 20-Quarter Moving Average

22



Corresponding Magnitudes of Identified High-Unemployment Periods

23

Magnitudes are represented as average ratio of benefits to total wages, for all quarters within high-unemployment period.

- 1Q-75 through 2Q-77: 0.93 percent
- 1Q-80 through 1Q-83: 0.91 percent
- 4Q-90 through 3Q-92: 0.62 percent

What Kind of Downturn Should Solvency "Firewall" Guard Against?

24

- Need to make assumptions regarding chances that next economic downturn would resemble what was experienced in 1990s, 1980s, or 1970s.
- Illustrative hypothetical probabilities regarding next economic downturn:
  - 1970s-style downturn: 10 percent
  - 1980s-style downturn: 30 percent
  - 1990s-style downturn: 60 percent

Putting the Components of Alternative Formula Together

25

Most recent year's annual total wages ($1,000s): 83,999,595
Tax revenue in most recent year (1999): 145,900
Interest revenue in most recent year: 67,100

Type of downturn	Duration	Magnitude	Weights
1970s	2.5 years	0.93%	10%
1980s	3.25 years	0.91%	30%
1990s	2.0 years	0.62%	60%

Weighted Average Duration: 2.425 years
Weighted Average Magnitude: 0.738%

Solvency threshold ($1,000s) =

[(Avg. dur.) x (Avg. mag.) x (Current wages)] - [(Avg. dur.) x (Current revenues)]

= [2.425 x 0.738% x 83,999,595] - [2.425 x (145,900 + 67,100)]

= [1,503,299] - [516,525]

= 986,774

So What? Alternative Solvency Threshold versus "Adequate Fund Balance" in Future Years

26

Year	Alternative Solvency Threshold ($ Millions)	"Adequate Fund Balance" ($ Millions)
1999	986.8	974.9
2000	1,159.1	991.1
2001	1,248.4	965.5
2002	1,268.3	915.4
2003	1,314.6	745.6

Alternative Illustrations: Assume 100% Chance of Different Types of Downturns Occurring

27

- 1980s-style downturn
- 1990s-style downturn

Alternative Illustration: Assume 100% Chance of 1980s-Style Downturn

28

Most recent year's annual total wages ($1,000s): 83,999,595
Tax revenue in most recent year (1999): 145,900
Interest revenue in most recent year: 67,100

Type of downturn	Duration	Magnitude	Weights
1970s	2.5 years	0.93%	0%
1980s	3.25 years	0.91%	100%
1990s	2.0 years	0.62%	0%

Weighted Average Duration: 3.25 years
Weighted Average Magnitude: 0.910%

1999 solvency threshold ($1,000s) =

[(Avg. dur.) x (Avg. mag.) x (Current wages)] - [(Avg. dur.) x (Current revenues)]

= [3.25 x 0.910% x 83,999,595] - [3.25 x (145,900 + 67,100)]

= [2,484,288] - [692,250]

= 1,792,038

Alternative Illustrations

($ Millions)

29

Year	Alternative Solvency Threshold 100% Chance 1990s-Style Downturn	100% Chance 1980s-Style Downturn	"Adequate Fund Balance"
1999	625.6	1,792.0	974.9
2000	746.1	2,053.1	991.1
2001	805.4	2,236.3	965.5
2002	811.0	2,260.4	915.4
2003	837.6	2,346.0	745.6

Presentation to the Joint Subcommittee Studying the Funding Requirements of the Virginia Unemployment Trust Fund

August 22, 2000

Dr. Thomas J. Towberman, Commissioner

Adequate Fund Balance History

General Assembly enacted 1981 legislation that required reserves equal to ***1.5 years*** *of benefits based on the average in the last* ***25 years*** *of the* ***3 highest ratios*** *of benefits to total wages.*

Source: Section 60.2-533 of the Code of Virginia.

Adequate Fund Balance History

1995 report of the Federal Advisory Council on Unemployment Compensation ***(ACUC)*** *recommended that the states accumulate reserves equal to* ***1.0 year*** *of benefits based on the average in the* ***last 20 years*** *of the* ***three highest ratios*** *of benefits to total wages.*

Source: Unemployment Insurance in the United States: Benefits, Financing, Coverage.

Adequate Fund Balance History

General Assembly enacted 1997 legislation that required reserves equal to ***1.38 years*** *of benefits based on the average in the* ***last 20 years*** *of the* ***3 highest ratios*** *of benefits to total wages.*

Source: Section 60.2-533(B) of the Code of Virginia.

Adequate Fund Balance History

When the standard was adopted, the General Assembly considered:

- ACUC standard
- Trust Fund balance
- Economic forecasts
- Policy and legislative considerations

Trust Fund Current Status

- According to the U.S. Department of Labor, our Trust Fund is financially sound.
- Virginia's standard exceeds ACUC's by 38 percent.
- As opposed to JLARC formula, current formula assumes ***no revenues*** for 16.5 months.

Alternative Solvency Thresholds
Tax Implications

Any solvency threshold that increases the required fund balance will decrease Trust Fund solvency and, therefore, increase taxes.

Alternative Solvency Thresholds
Tax Implications

Depending on the alternative selected in the first year after a change, the average tax per employee would increase as follows:

Downturn	*Avg. Tax Increase*	*Avg. Tax Increase %*	*First Year Tax Increase*
80s	$19	+39.3%	$59.6 Million
90s	-$12	-24.6%	-$37.3 Million
70s, 80s, 90s *(Weighted Avg.)*	$8	+16.4%	$24.9 Million

Trust Fund Solvency Summary

- The current solvency formula is a widely recognized method for determining solvency and greatly exceeds the ACUC's recommendation.
- If the Trust Fund were depleted, no legally-qualified claimant would go unpaid, due to the availability of no-interest/ low-interest funds from USDOL as required by the Social Security Act.

Fund Balance Requirements For Tax Changes
October 30, 2000

The following is a summary of how states trigger onto higher and lower tax rates, which is the primary method used for determining the adequate balance in their Unemployment Insurance Trust Funds. All states trigger on to higher and lower yearly employer tax rates based on some function of their UI trust fund. (As a basis for comparison, the following is the exact formulation that states use to trigger onto their lowest taxes):

Percentage of total wages paid in the state in the last fiscal year

Arizona: 12 percent
Arkansas: More than 5 percent.
California: 1.8 percent.
Connecticut: More than 8 percent.
District of Columbia: 3.0 percent.
Florida: More than 5 percent.
Georgia: 5 percent.
Idaho: 5 percent.
Indiana: 3 percent.
Kansas: 5 percent.
Maryland: 7.4 percent.
Massachusetts: 3 percent.
Michigan: 1.2 percent for largest of three possible reductions.
Montana: 2.6 percent.
New Jersey: 10 percent.
New Mexico: 4 percent.
New York: 5 percent. (Payroll used is the greater of the last year or the last three year average.)
North Carolina: 9 percent.
Rhode Island: 6.4 percent of total payrolls. (Payroll used is that for a three year average.)
South Carolina: 3.5 percent.
Washington: 3.4 percent.
West Virginia: 1.75 percent
Wyoming: More than 5 percent.

Percentage of taxable wages

Texas: 2 percent of taxable wages for 4 calendar quarters ending preceding June 30.

Formula based on some form of the benefit ratio

Alabama: 125 percent of the desired level. The desired level is 1-1/4 times the product of the highest payrolls of any one of the most recent three years and the highest benefits payroll ratio for any one of the 10 most recent fiscal years.

Alaska: The reserve multiple equals 3.0. The reserve multiple is measured by taking the current reserve fund ratio divided by the highest benefit cost rate. Highest benefit cost rate is determined by dividing total benefit payments during the past 10 years by wages paid during the past year.

Delaware: State experience factor less than 10 percent. State experience factor is the total benefits paid in last three years divided by total payroll for same three years. (Also, lowest add-on rate if fund exceeds 215 million)

Hawaii: 1.69 times adequate reserve fund. Adequate reserve fund is defined as 1.5 times highest benefit cost rate during the past 10 years multiplied by the total taxable remuneration paid by employers in the same year.

Iowa: Current reserve fund ratio divided by the highest benefit cost rate. Highest benefit cost rate is determined by dividing total benefit payments during the past 10 years by wages paid during the past year.

Maine: Average Reserve Multiple of 1.83. The average reserve multiple is the average of the three highest benefit ratios to total wages in the last 20 years.

Mississippi: Current reserve fund ratio (fund amount divided by wages) divided by the highest benefit cost rate (benefits to wages in last 25 years). This amount is compared to a desired level of 1.5 with the difference translated into a tax rate adjustment.

North Dakota: 25 percent of total benefits paid in last 12 months.

Ohio: 30 percent above minimum safe level. Minimum safe level is defined as an amount equal to two standard deviations above the average of the adjusted annual average weekly unemployment benefit payment from 1970 to the most recent calendar year prior to the computation date.

Oklahoma: More than 3.5 times benefits. Benefits used are the last 5 years.

Oregon: 200 percent of fund adequacy percentage ratio. The fund adequacy percentage ratio is computed as the ratio of the fund amount as of the computation date to a calculated amount of benefits which would be paid during the following calendar year if high unemployment were to occur.

Vermont: 2.5 times highest benefit cost rate. Highest benefit cost rate determined by dividing the highest amount of benefits paid during any consecutive 12-month period in the past 10 years by total wages during the four calendar quarters ending within that period.

Virginia: 1.38 times the highest benefit ratio times total wages. Highest benefit ratio is the average of the three highest ratios to total wages in the last 20 years.

Specified dollar amount

Colorado: $450 million.
Illinois: $750 million.
Kentucky: $350 million.
Louisana: $1 billion
Missouri: $600 million.
Minnesota: $300 million.
New Hampshire: $110 million.
Puerto Rico: $589 million.
South Dakota: More than $11 million.
Tennessee: $700 million.
Wisconsin: $1 billion.

Tax rates determined yearly by Trust Fund Committee
Nebraska
Nevada

STATE ADEQUATE FUN. ALANCE REQUIREMENTS
to Trigger Lowest Employer Tax Rates

Source: U.S. Department of Labor

STATE	% of Total Wages (last FY)	% of Taxable Wages	Benefit Ratio Formula	Specified Dollar Amount	Trust Fund Committee Determination
AL			125% of (1.25) x (highest payroll most recent 3 years) x (highest benefit ratio in one of 10 most recent years)		
AK			Current reserve fund ratio divided by (total benefit payments last 10 years / wages paid during past year)		
AZ	12 %				
AR	more than 5 %				
CA	1.8 %				
CO				$450 million	
CT	more than 8 %				
DE			Total benefits paid last 3 years / total wages paid last 3 years (must be less than 10 % for lowest tax rates)		
DC	3 %				
FL	more than 5 %				
GA	5 %				
HI			1.69 x (1.5) x (highest benefit cost rate during past 10 years) x (total taxable wages paid that year)		
ID	5 %				
IL				$750 million	
IN	3 %				
IA			Current reserve fund ratio divided by (total benefit payments last 10 years / wages paid during past year)		
KS	5 %				
KY				$350 million	

STATE ADEQUATE FUND BALANCE REQUIREMENTS
to Trigger Lowest Employer Tax Rates

Source: U.S. Department of Labor

LA				$1 billion	
ME			1.83 x average of 3 highest benefit ratios last 20 years		
MD	7.4 %				
MA	3 %				
MI	1.2 %				
MN				$300 million	
MS			Current reserve fund ratio divided by high benefit cost rate greater than or equal to 1.5		
MO				$600 million	
MT	2.6 %				
NE					annually
NV					annually
NH				$110 million	
NJ	10 %				
NM	4 %				
NY	5 % (greater of last year or last 3-yr average)				
NC	9 %				
ND			25 % total benefits paid last 12 months		
OH			30 % of (2 standard deviations above the average of the adjusted average weekly benefit payment each year since 1970)		
OK			more than 3.5 x benefits paid last 5 years		
OR			200 % of ratio of the current fund amount to the amount of benefits to be paid in the next year if high unemployment were to occur		
PA					not specified; agency determines tax rates

STATE ADEQUATE FUN. ALANCE REQUIREMENTS
to Trigger Lowest Employer Tax Rates

Source: U.S. Department of Labor

PR				$589 million	
RI	6.4 % (3-yr avg.)				
SC	3.5 %				
SD				more than $11 million	
TN				$700 million	
TX		2 %			
UT					
VT			2.5 x (total benefit payments last 10 years / wages paid during that year)		
VA			1.38 x average of 3 highest benefit ratios last 20 years		
WA	3.4 %				
WV	1.75 %				
WI				$1 billion	
WY	more than 5 %				

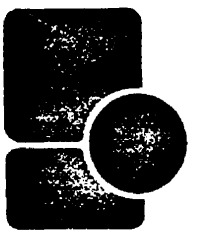
STATE ADEQUATE FUND BALANCE REQUIREMENTS
to Trigger Lowest Employer Tax Rates

VIRGINIA AND ITS ECONOMIC DEVELOPMENT COMPETITOR STATES

Source: U.S. Department of Labor

STATE	% of Total Wages (last FY)	% of Taxable Wages	Benefit Ratio Formula	Specified Dollar Amount	Trust Fund Committee Determination
DC	3 %				
FL	more than 5 %				
GA	5 %				
MD	7.4 %				
NC	9 %				
SC	3.5 %				
TN				$700 million	
VA			1.38 x average of 3 highest benefit ratios last 20 years		
WA	3.4 %				

Joint Legislative Audit and Review Commission
of the Virginia General Assembly



Alternatives for the Unemployment Trust Fund: A Preliminary Staff Analysis

Gregory J. Rest
October 30, 2000

Context for JLARC Staff Analysis

- During August 22, 2000 Subcommittee meeting:
  - JLARC staff presented technical assessment of Unemployment Trust Fund, raising a major concern:

    As Virginia economy and wage base are projected to expand, Trust Fund (and "Adequate Fund Balance") are projected to decline.
  - Subcommittee chairman requested JLARC staff to present alternatives at this meeting.
- At its September meeting, JLARC approved staff technical assistance to Subcommittee.

Presentation Outline

3

- ☑ Policy Alternatives
- ☐ Advantages and Disadvantages of Policy Alternatives

Two Sets of Policy Alternatives Address Two Sets of Questions

4

- How should the solvency threshold (or "Adequate Fund Balance") be defined?
  - Retain current formula
  - Revise formula to guard against 1990s-style downturn
  - Revise current formula by dropping 20-year window.
- What floor and/or ceiling should be set for the Trust Fund?
  - Current floor
  - Revised floor and add new ceiling

First Question: Alternative Definitions of Solvency

5

- Current formula for "Adequate Fund Balance" (as defined in *Code of Virginia* Section 60.2-533)
- Amount needed to guard against 1990s-style economic downturn

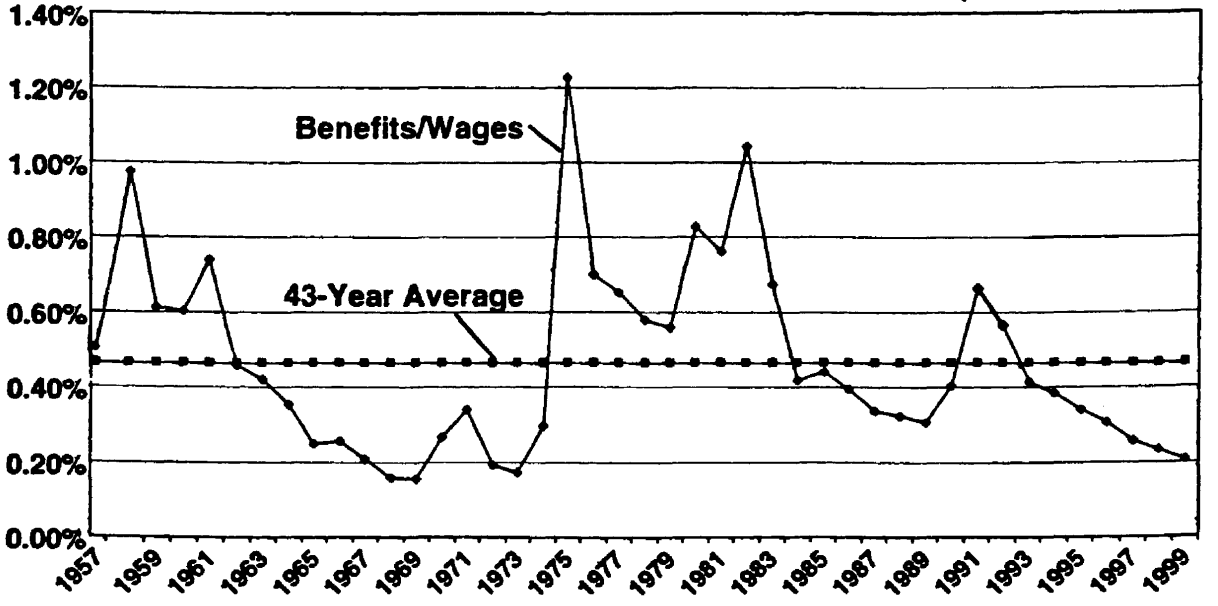
  Duration and *Magnitude* of downturn observed from Virginia data (shown in next slide)

- Keep current formula but drop 20-year window

  Use average of worst three years on record, rather than average of worst three years *within last 20 years.*

Calendar Year Benefits/Wages Compared to 43-Year Average

6



When Using Unemployment Data from Past

- Unit of time chosen: calendar year
  - Rather than quarter or month
  - Calendar year is unit of time on which State operates with regard to building up Trust Fund
- Three groups of relatively high-unemployment years:
  - 1991-1992 – in 20-year window
  - 1975-1983 – leaving 20-year window
  - 1957-1961 – not in 20-year window

When Using Unemployment Data from Past (Continued)

- To define "1990s-Style Downturn" alternative:
  - *Duration*: 2 years
  - *Magnitude*: 0.61 percent of total wages
- To define "Worst Case Scenario" (downturn experienced from 1975 through 1983):
  - *Duration*: 9 years
  - *Magnitude*: 0.78 percent of total wages

"Drop 20-Year Window" Alternative

9

- Three four-quarter periods (since January 1957) with highest benefit/wages ratios are:
  - 1Q-75 to 4Q-75 (1.24 percent)
  - 1Q-82 to 4Q-82 (1.01 percent)
  - 1Q-58 to 4Q-58 (0.97 percent).
- This alternative is roughly equivalent to:
  - 1.5 percent of total wages
  - Assuming 80-percent chance of "90s-Style Downturn" and 20-percent chance of "Worst Case Scenario".

Second Question: Alternative Floors and Ceilings

10

- Current floor

  1/2 Adequate Fund Balance is current threshold for additional "fund-building" employer tax to apply

- Revised floor, and add new ceiling
  - Revised floor: amount needed to guard Trust Fund against "90s-Style" downturn is alternative threshold for additional "fund-building" tax to apply
  - Ceiling:
    - amount needed to guard Trust Fund against "Worst Case Scenario"
    - when Trust Fund exceeds ceiling, then employer taxes are minimized

Six Combinations of Alternatives Possible

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	Current Floor	Revised Floor + New Ceiling
Current Formula	Option 1	Option 4
Revised Formula, "90s-Style Downturn"	Option 2	Option 5
Drop 20-Year Window	Option 3	Option 6

Presentation Outline

12

- ☐ Policy Alternatives
- ☑ Advantages and Disadvantages of Policy Alternatives

Option 1:
Current Formula, Current Floor

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- **Advantages:**
  - No changes to *Code of Virginia* needed, eliminating risk of unexpected effects
  - Lowest employer taxes in near term (2000 - 2003)
- **Disadvantages:**
  - Allows "Adequate Fund Balance" (and Trust Fund balance) to decrease while Virginia workforce increases
  - Highest increase in employer taxes if economic downturn occurs

Option 2:
"90s-Style Downturn," Current Floor

14

- **Advantages:**
  - "Adequate Fund Balance" would increase as Virginia economy and wage base expands
  - Ensures that Trust Fund could meet at least relatively mild downturn
  - Lower employer tax rates
    - In first year of implementation, compared to status quo
    - In all years, compared to "Drop 20-Year Window" option
- **Disadvantage:**

  Does not guard Trust Fund against more severe downturn than experienced in 1990s.

Option 3: "Drop 20-Year Window," Current Floor

15

- **Advantages:**
  - Adequate Fund Balance increases as Virginia economy and wage base increase
  - Guards Trust Fund against possibility of more severe downturn than experienced in 1990s
  - Lower employer tax increase when downturn occurs
- **Disadvantage:**

  Higher employer taxes in near term (2000 - 2003)

Option 4: Current Formula, Revised Floor + Ceiling

16

- **Advantage:**

  Compared to status quo, does more to guard Trust Fund against downturn
- **Disadvantages:**
  - Still allows "Adequate Fund Balance" to decrease as Virginia economy and wage base increase
  - Artificial decreases in "Adequate Fund Balance" causes unnecessary fluctuation in employer tax rates

Option 5: "90s-Style Downturn," Revised Floor + Ceiling

17

- **Advantages:**
  - "Adequate Fund Balance" would increase as Virginia economy and wage base expands
  - Ensures that Trust Fund could meet at least relatively mild downturn
  - Lower employer tax rates
    - in first year of implementation, compared to status quo
    - in all years, compared to "Drop 20-Year Window" option
  - Revised floor does more to ensure that Trust Fund would more quickly accrue money to withstand mild downturn
- **Disadvantage:**

  In 2003, employer tax rates would be higher because additional fund-building tax rate would apply

Option 6: "Drop 20-Year Window," Revised Floor + Ceiling

18

- **Advantages:**
  - Adequate Fund Balance increases as Virginia economy and wage base increase
  - Guards Trust Fund against possibility of more severe downturn than experienced in 1990s
  - Lower employer tax increase when downturn occurs
  - Revised floor would build up Trust Fund faster, should downturn occur relatively soon
- **Disadvantage:**
  - Highest employer tax rates in near term (2000 - 2003), compared to all other options

Conclusion: Which Alternatives Make the Most Sense?

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- In terms of defining "Adequate Fund Balance," Current Formula with 20-year window is fundamentally flawed.
- Revised floor (guarding against mild downturn) makes more sense than current floor (at arbitrary level: 1/2 "Adequate Fund Balance")

Options 5 and 6 Appear Preferable to Others

20

- Option 5: "90s-Style Downturn," Revised Floor + Ceiling
  Option 6: "Drop 20-Year Window," Revised Floor + Ceiling
- Either option appears to be substantial improvement over status quo.
- Which option to choose entails tradeoff between:
  - risk of higher employer tax increases during time of economic contraction, versus
  - increasing employer taxes in near future if economy continues to grow.

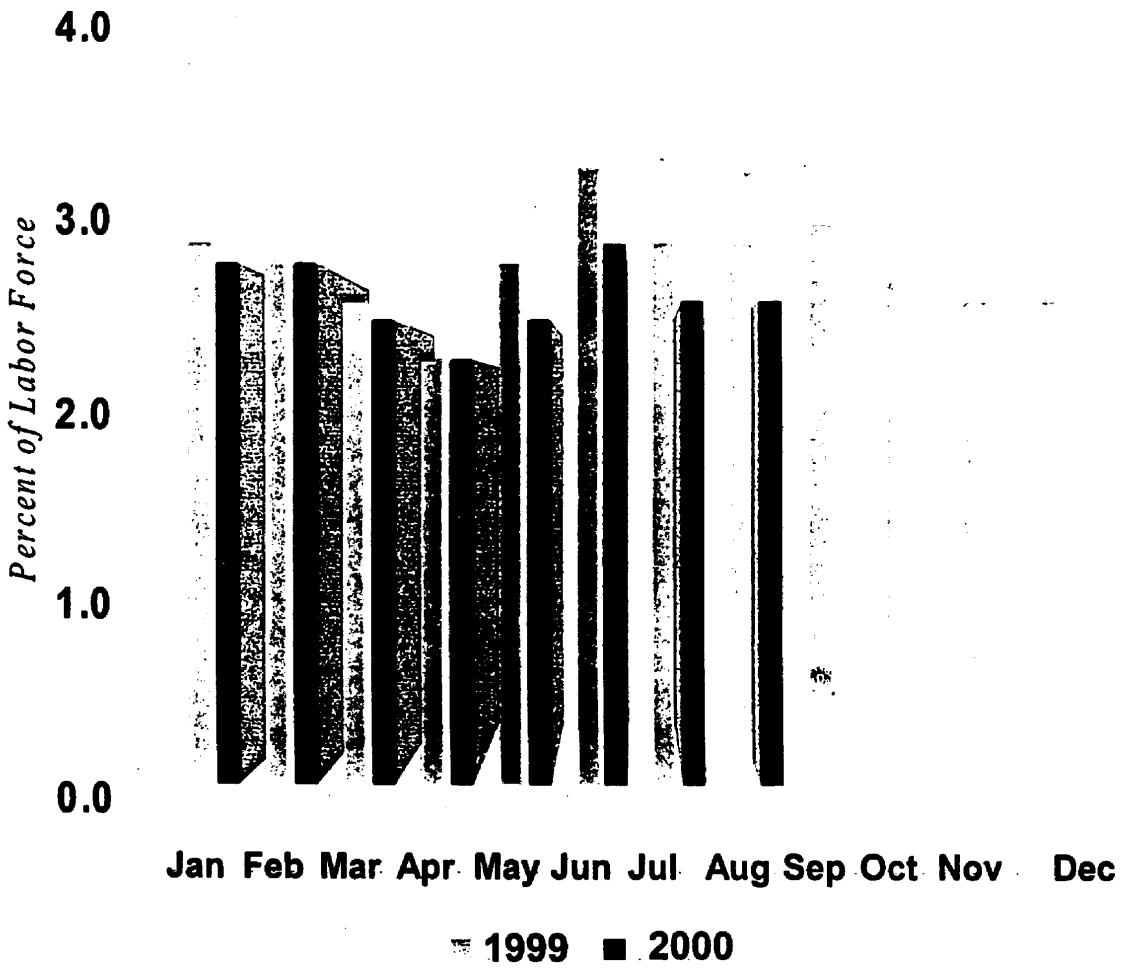
Trust Fund Overview

Presented to the Joint Subcommittee Studying the Funding Requirements of the Virginia Unemployment Trust Fund

Virginia Employment Commission
Dr. Thomas J. Towberman, Commissioner
October 30, 2000

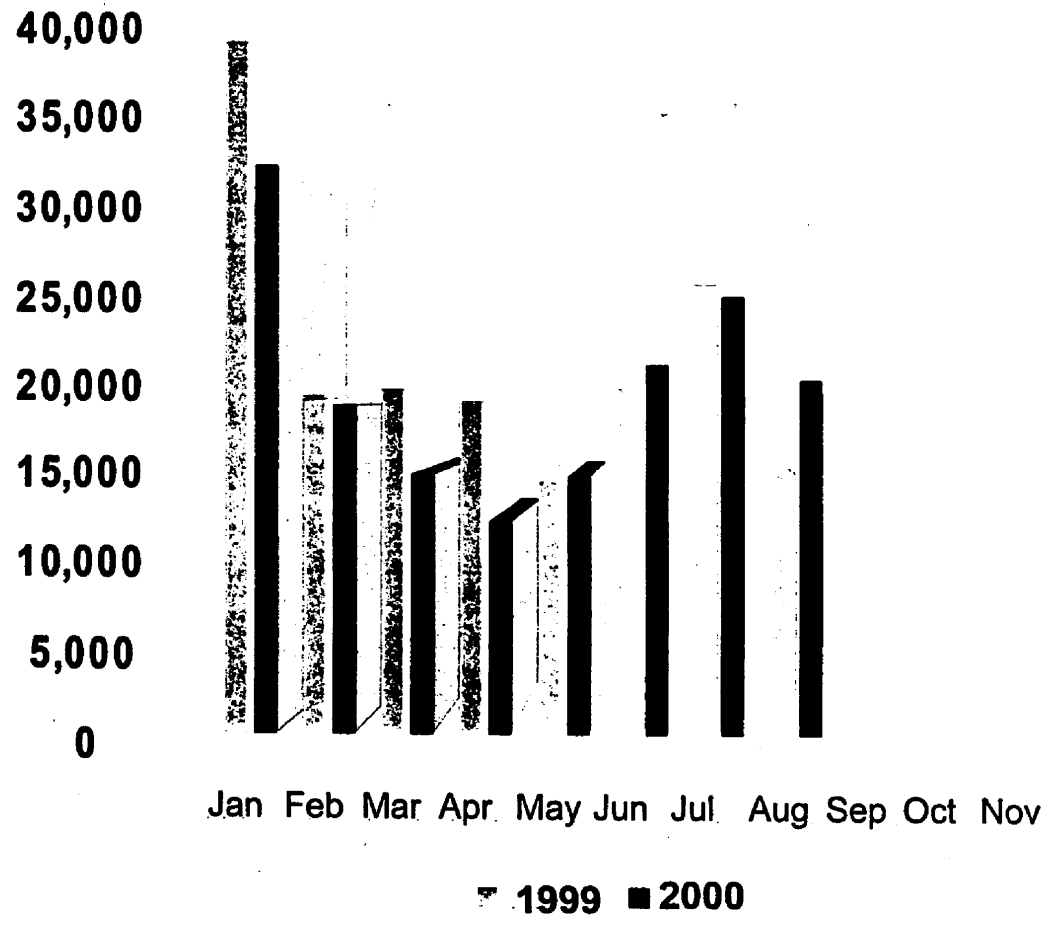
Virginia's Unemployment Rate
1999 vs. 2000

- Rates in 2000 have been at, or below, 1999 rates. Many localities are at their lowest in over 30 years.
- Several pockets of higher unemployment remain.



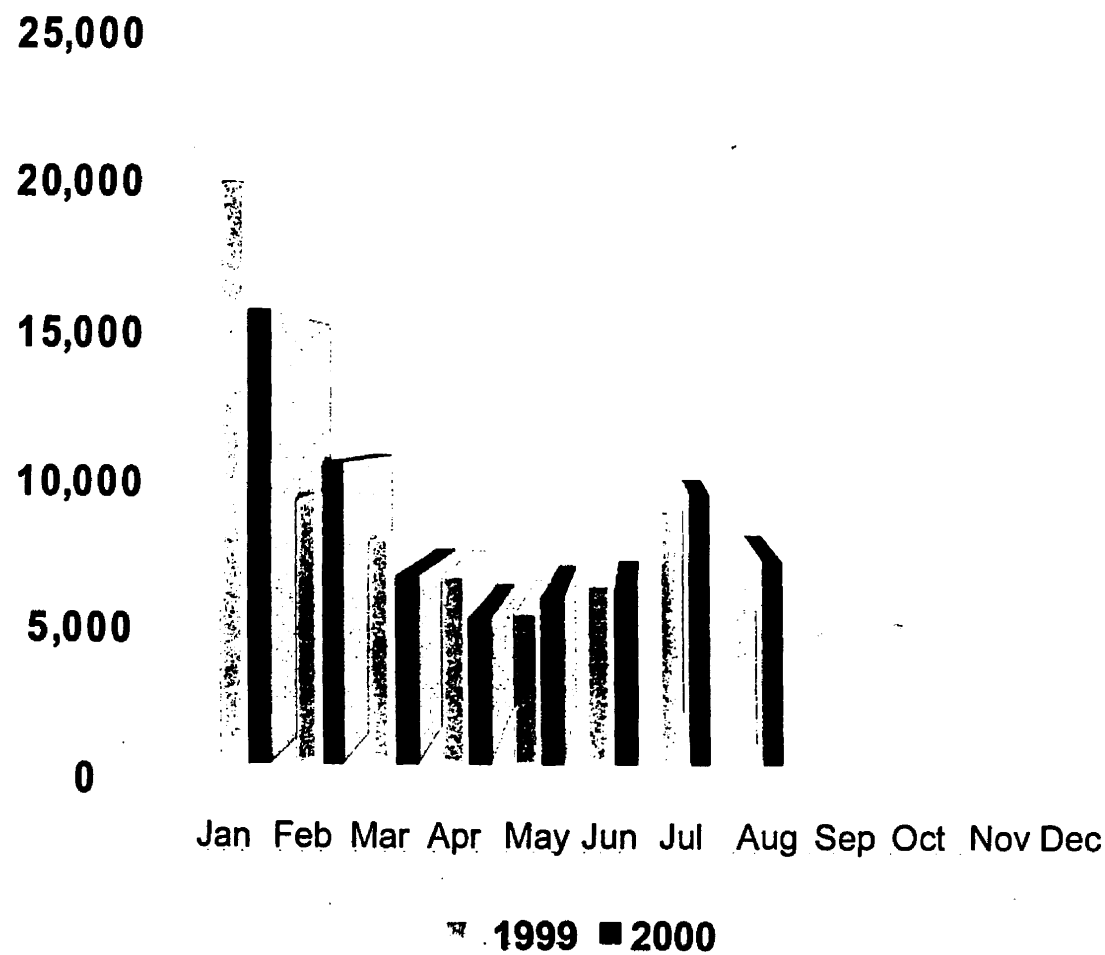
U.I. Initial Claims
1999 vs. 2000

- Total initial claims this year are down 7.6% because of continuing growth in the economy (more jobs in services, construction and trade).
- Average duration of unemployment since January 2000 has been 10.5 weeks.



U.I. First Payments
1999 vs. 2000

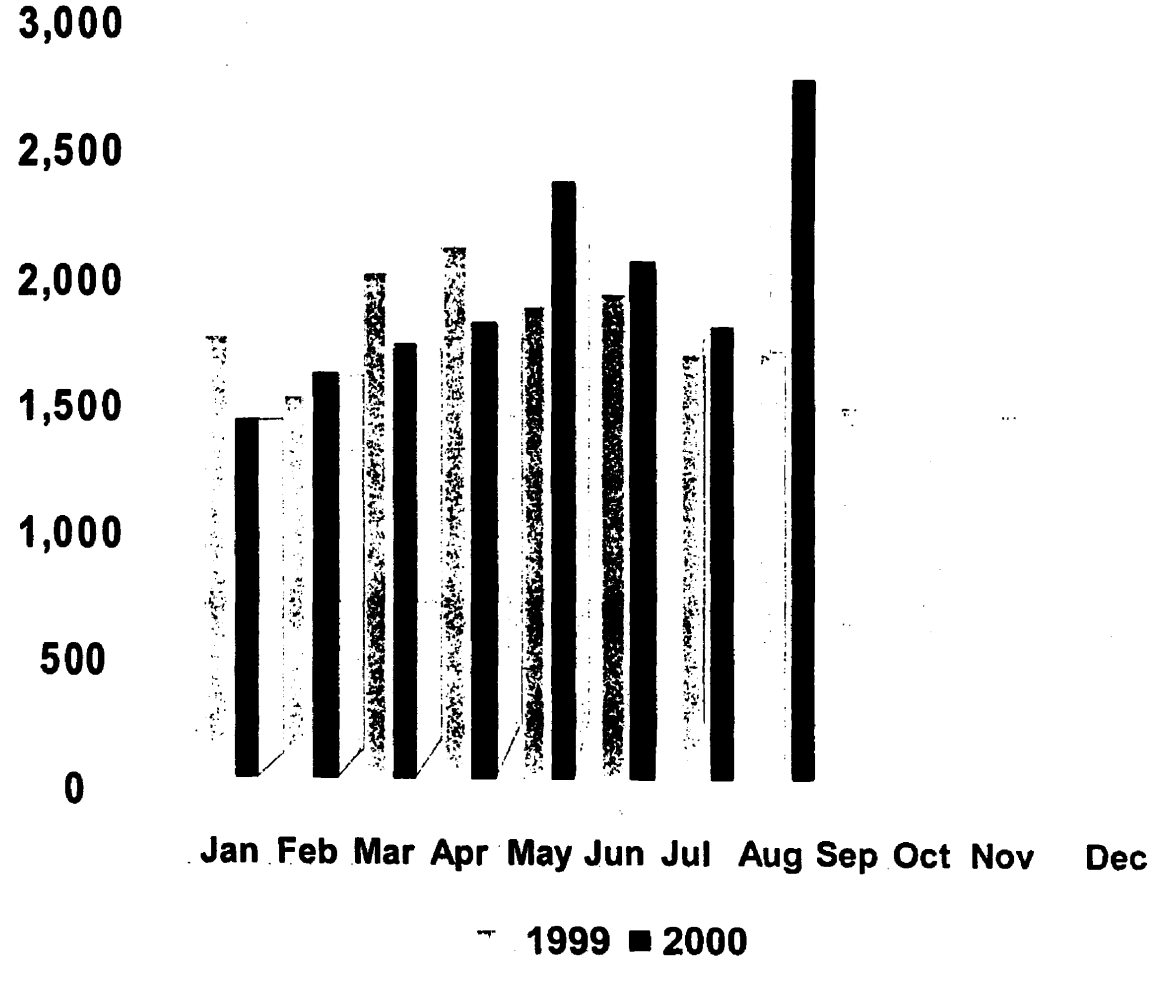
- A claimant can receive only one First Payment in his benefit year; so First Payments are a good proxy for the number of claimants receiving unemployment benefits.
- First Payments are down 4.1% from last year.



U.I. Final Payments
1999 vs. 2000

For the first eight months, Final Payments are up 6.7% from 1999 to 2000.

The exhaustion rate this year has been about 21.8%.



U.I. Benefits

- Benefits are paid to workers unemployed through no fault of their own.
- Benefit levels set by the General Assembly:
  - —minimum weekly benefit $50 (July 1999)
  - —maximum weekly benefit $268 (November 28, 1999)
- Benefits determined by earnings in first 4 of last 5 completed calendar quarters. This is called the Base Period.
- Otherwise eligible claimants are not paid for first week of unemployment. This is called the Waiting Week.

Legislative Recap: Weekly Benefits

Year	*Maximum*	*Minimum*	*Minimum Qualifying Earnings*
1996	$224	$65	$3,250
1997	$226	$60	$3,000
1998	$228	$55	$2,750
1999	$230	$50	$2,500
2000	$268	$50	$2,500

U.I. Taxes

- **Taxes are paid by employers to the VEC on first $8,000 of each employee's wages.**
- **Tax rates are set by General Assembly:**
  - —minimum tax 0.0% or $0 per employee (101,400 employers)
  - —maximum tax 5.58% or $446.40 per employee (2,000 employers)
- **Individual employer's tax rate based on:**
  - —Trust Fund solvency level that determines which of 15 tax tables is used
  - —employer's experience over last 4 years
- **Two surtaxes can also be levied:**
  - —Pool Tax used to recover benefits that cannot be charged to a specific employer
  - —Fund-Building Tax used to push solvency over 50%

Trust Fund Solvency
Adequate Fund Balance

- Solvency = 1.38 X Average Cost Rate X Wages
- 1.38 represents 16.5 months of benefits with no revenue
- Average Cost Rate is the average of 3 highest ratios of benefits to total wages in the past 20 years
- Wages are total wages paid by taxable employers for the year ending June 30
- Solvency Level = June 30 balance divided by Adequate Fund Balance

VEC Administrative Funding

- Employers also pay a FUTA tax to the Internal Revenue Service (FUTA is the Federal Unemployment Tax Act).
- FUTA is a flat tax of 0.8% on first $7,000 of each employee's wages which costs $56 per employee per year.

VEC Administrative Funding (continued)

- Revenue from the FUTA tax is used to pay for SESA (State Employment Security Agency) administration at both the state and national levels.
- Virginia's employers paid over $171 million in FUTA taxes in FY 1998.
- VEC receives about $56 million annually from U.S. DOL.

Trust Fund Data

(Millions of Dollars)

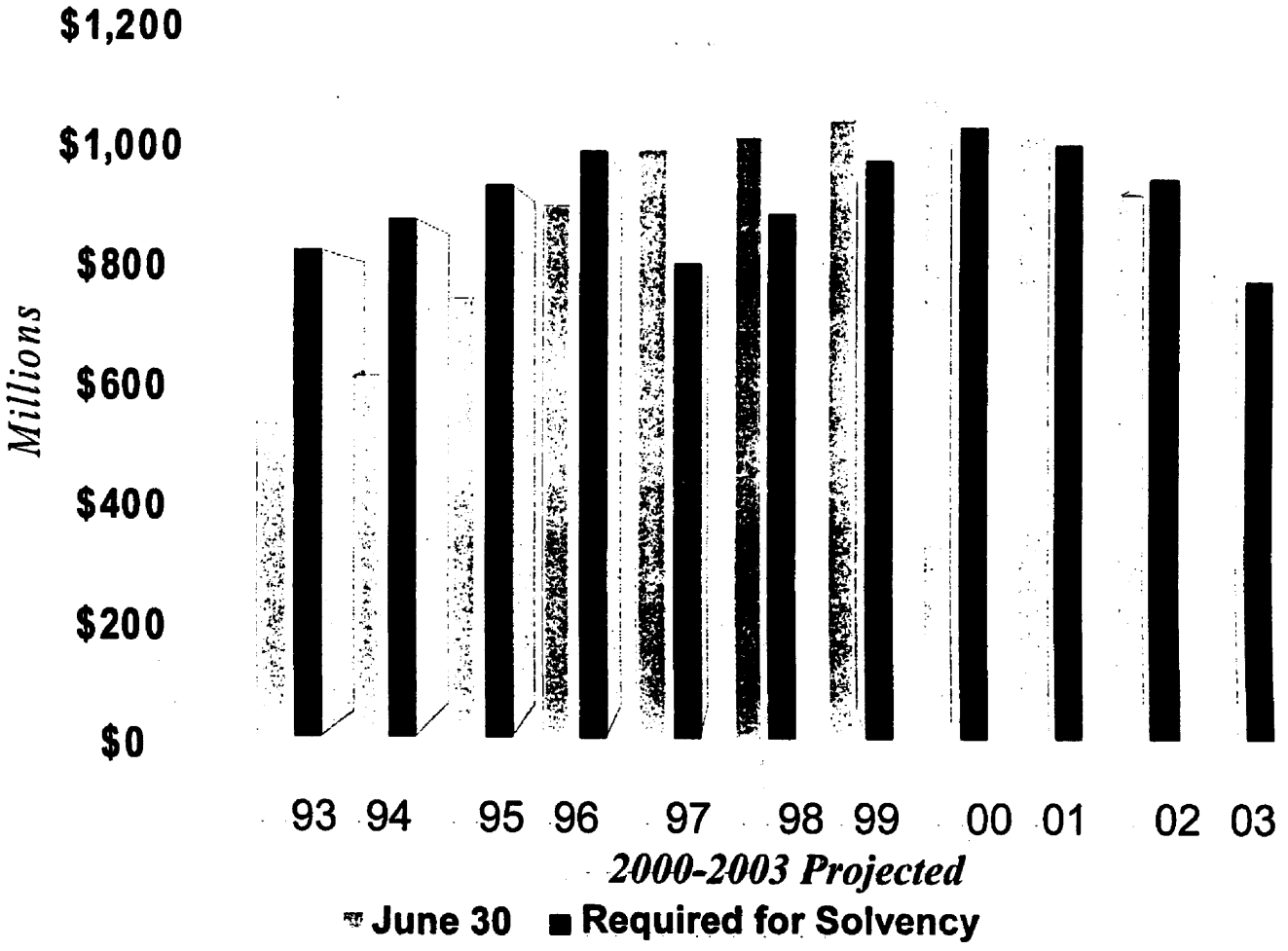
	1999 *(Actual)*	2000 *(Projected)*
January 1 Balance	$981.2	$1,017.5 (Actual)
Tax Revenue	$146.3	$149.5
Interest Revenue	$67.1	$68.2
Benefits	$178.5	$199.9
Dec 31 Balance	$1,017.5	$1,035.3
Solvency Level (6/30)	107.1%	105.6%

Trust Fund Data (continued)

- Tax revenue will increase because of rising employment and wages.
- Interest revenue shows small increase because of slightly higher Trust Fund balances.
- Despite better economy, benefit payments increase as a result of 2000 legislation.
- The Fund should be up by about $18 million by the end of the year.
- The solvency level is projected to decrease by 2 percentage points from 1999 due to employment and wages growing faster than tax revenues.

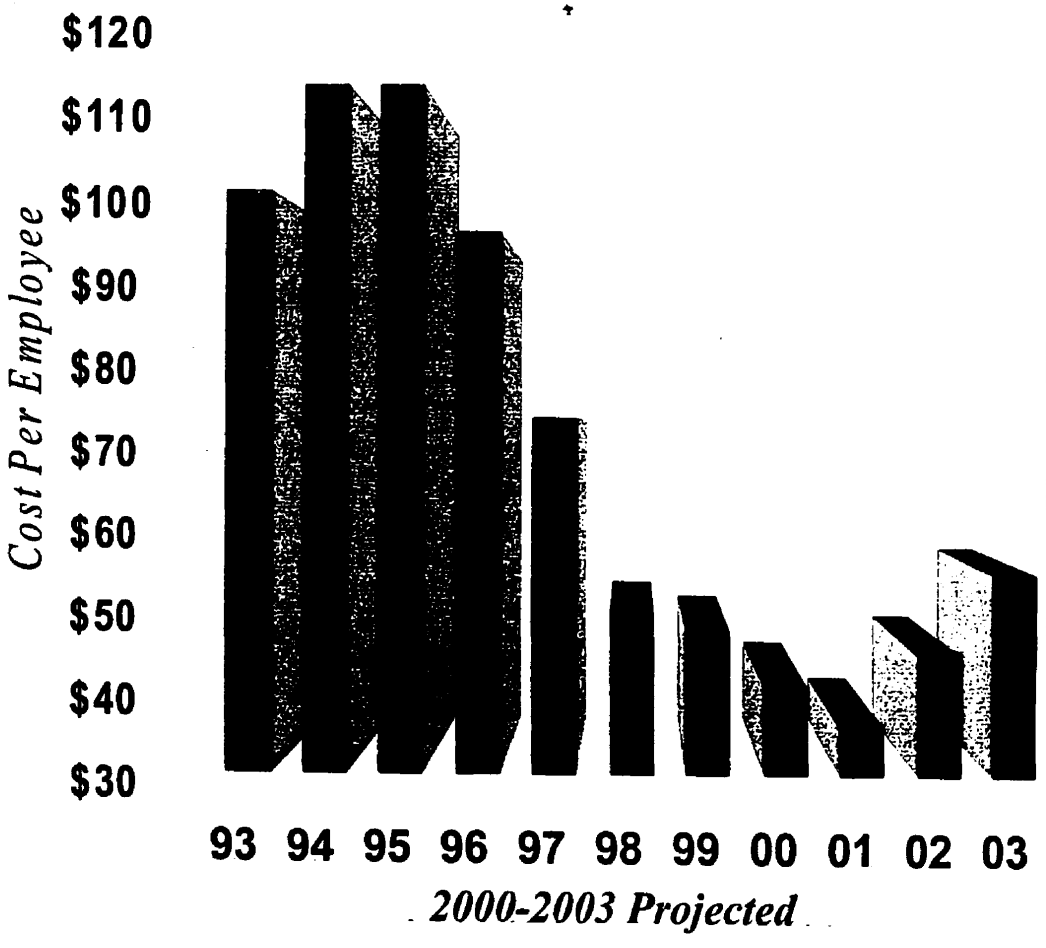
Trust Fund Balances

Projections assume no further legislated changes in benefits or taxes.



Average Tax per Employee

- The average tax peaked at $115 in 1995 and is expected to fall to $41 in 2000 and $36 in 2001.
- The decrease in the average tax reflects the good economy and 1997 tax cut out-weighing benefit increases.
- Projections assume no further legislated changes in benefits or taxes.



Borrowing

- VEC has never received money from General Fund to pay unemployment benefits.
- If high unemployment depletes trust fund, no-interest loans are available from Department of Labor.
- Virginia borrowed once, in 1983.

October 25, 2000

Via Fax/Email/Mail

The Honorable John H. Rust, Jr.
P. O. Box 460
Fairfax, VA 22030

Dear Delegate Rust:

Thank you again for meeting with us on October 16. We sincerely appreciate it.

I apologize for the delay in responding, but it's not easy getting all these folks to sing off the same page. I hope we have accomplished that by now.

You asked us to address three specific areas before you left. We did and have, until now, been refining our answer.

You asked us to consider:

1. **Whether we prefer a (unemployment compensation) system that meets its obligations primarily through an adequate state fund or if we prefer one that is reliant on federal funding in the event state funding is inadequate?** We favor a system that does not rely on federal loans except under the most extraordinary circumstances, such as a prolonged and severe recession. The alternative is to treat the availability of federal loans like a letter of credit. The disadvantages of this approach include that it downplays the stake of the employer community in decisions about unemployment compensation, it eliminates the dampening effect of forward funding (tax rates would go up more quickly and more steeply before the economy recovers), and it would surely invite punitive interest rates and repayment terms, and more intrusive administrative oversight from the US Department of Labor.

2. **Is there a need for an immediate, short-term (2001 session) solution to reverse or slow the decline in the trust fund balance?** We recognize that under the current statutory formula, the level required for "solvency" is projected to decline in several years and may at some point be inadequate. We acknowledge this concern, but request that no action be taken in the 2001 session to alter the formula. Instead, we favor a more comprehensive study of the Virginia unemployment compensation system.

   We believe there is time to include the formula in a broader study. We also believe that if the General Assembly were to authorize such a review, then it should also resist passing any

measure in the interim that might aggravate or accelerate the problem further before it is fully studied and understood. In other words, we ask that there be no "raids" on the fund, no increases in benefits or loosening of eligibility, and no tinkering with the financing, including both diverting revenue to other programs or increasing the tax.

3. **Is there a need for a larger look at the (unemployment compensation) system**? Yes! We support a comprehensive study of Virginia's system. Such a study should include a thorough review of the trust fund as well as a review of the issues the General Assembly has been asked to address in recent years (e.g., criteria for eligibility for benefits, the rationale for benefit levels, the propriety of regional or extended benefit features, pool charges, diversion of revenue to job training or economic development programs, the tax schedules, etc.). All of these, and undoubtedly more, must be considered in light of the different economy in Virginia.

   If a study is agreeable, we urge that it utilize resources and expertise beyond Legislative Services and the Virginia Employment Commission staff.

I hope these brief comments are helpful to you and the work of your Commission. If we can provide more information, please let us know.

Again, thank you for your assistance. We are grateful for it.

Sincerely,

Keith D. Cheatham
Public Policy Manager

cc: The Honorable John Watkins
Members of the Virginia Chamber Task Force Studying the UC Trust Fund

GENERAL ASSEMBLY OF VIRGINIA -- 2001 SESSION

HOUSE JOINT RESOLUTION NO. 611

Continuing the Joint Subcommittee Studying the Funding Requirements of the Virginia Unemployment Trust Fund.

Agreed to by the House of Delegates, February 24, 2001
Agreed to by the Senate, February 24, 2001

WHEREAS, each year since 1977 a joint subcommittee consisting of 5 members of the Senate Commerce and Labor Committee and 7 members of the House Labor and Commerce Committee has met to study the funding requirements of the Virginia Unemployment Trust Fund; and

WHEREAS, the joint subcommittee met in 2000 pursuant to House Joint Resolution No. 249 (2000) to review the current status of, and long-term projections for, the Virginia Unemployment Trust Fund; and

WHEREAS, the Unemployment Trust Fund is financed by Virginia's employers to provide benefits to Virginians with a firm attachment to the workforce who become unemployed through no fault of their own; and

WHEREAS, the current formula determining the adequacy of the Unemployment Trust Fund was enacted following a 1980 study of the unemployment compensation system; and

WHEREAS, the 1980 study of the unemployment compensation system was conducted in response to high levels of benefit payments in the recession years of the late 1970s; and

WHEREAS, since 1980, the Commonwealth's economy has changed, most recently enjoying considerable economic growth; and

WHEREAS, the work of the joint subcommittee has focused on the solvency of the unemployment trust fund, and not on the benefits to employees; and

WHEREAS, a comprehensive study of the unemployment compensation system has not been conducted since the early 1980s; and

WHEREAS, the changes in Virginia's economy during the past decade have resulted in changes to the needs of persons displaced from work through no fault of their own; and

WHEREAS, the current means of calculating an employee's weekly benefit amount may no longer be adequate to meet employee needs; and

WHEREAS, many other states use different methods for determining the weekly benefit amount of displaced employees; and

WHEREAS, the solvency level of the Unemployment Trust Fund is projected to decline by 2003; and

WHEREAS, legislative examination of the unemployment compensation system is warranted to ensure its adequacy to meet the changing needs of a growing economy; now, therefore, be it

RESOLVED by the House of Delegates, the Senate concurring, That the Joint Subcommittee Studying the Funding Requirements of the Virginia Unemployment Trust Fund be continued. The joint subcommittee shall be composed of 12 members to be appointed as follows: 7 members of the House of Delegates to be appointed by the Speaker, in accordance with the principles of proportional representation contained in the Rules of the House of Delegates; and 5 members of the Senate to be appointed by the Senate Committee on Privileges and Elections.

The scope of the study shall be expanded to address, but shall not be limited to, (i) the current formula for determining solvency of the Unemployment Trust Fund, (ii) employee benefit eligibility criteria, (iii) the rationale for benefit levels, (iv) the propriety of regional or extended benefit features, (v) the appropriateness and sufficiency of pool charges, (vi) the propriety of diversion of revenue to job training or economic development programs, and (vii) the current tax schedules for employers. The joint subcommittee shall also study the means of calculating the weekly amount of unemployment compensation benefits for displaced employees, and the methods used by other states to determine an employee's weekly benefit amount, including the indexing of unemployment benefits and the minimum and maximum benefit amounts provided by those states.

The Division of Legislative Services shall provide staff support for the study. All agencies of the Commonwealth shall provide assistance to the joint subcommittee, upon request.

The direct costs of this study shall not exceed $115,000. An estimated $100,000 shall be borne by

the Virginia Employment Commission for consulting or actuarial services. In addition, for the purposes of this study, the Virginia Employment Commission shall reimburse the General Assembly for the costs of compensation and expenses incurred by the legislative members of the joint subcommittee in the performance of their duties related to the study.

The joint subcommittee shall complete its work in time to submit its written findings and recommendations by October 20, 2002, to the Governor and the 2003 Session of the General Assembly as provided in the procedures of the Division of Legislative Automated Systems for processing legislative documents.

Implementation of this resolution is subject to subsequent approval and certification by the Joint Rules Committee. The Committee may withhold expenditures or delay the period for the conduct of the study.

2001 SESSION

010018560

SENATE BILL NO. 833

Offered January 10, 2001

Prefiled December 20, 2000

A BILL to amend and reenact § 60.2-533 of the Code of Virginia, relating to unemployment compensation; fund balance factor.

Patron—Watkins

Referred to Committee on Commerce and Labor

Be it enacted by the General Assembly of Virginia:

1. That § 60.2-533 of the Code of Virginia is amended and reenacted as follows:

§ 60.2-533. Fund balance factor.

A. As of July 1 of each calendar year, a fund balance factor, rounded to the nearest one-tenth of a percent, shall be determined as follows:

The net assets ~~which~~ *that* shall be compared with the "adequate balance" as determined in subsection B of this section, shall be comprised of the balance ~~which~~ *that* shall stand to the credit of the account of the Commonwealth of Virginia in the Unemployment Trust Fund in the Treasury of the United States; amounts withdrawn therefrom but not expended; employer payments not yet transferred to such account; net employer taxes receivable; and amounts due from claimants and other states, minus payables due to claimants, employers, other funds of the Virginia Employment Commission, and other states. The resulting percent shall be termed the "fund balance factor," except that if the percent determined is less than fifty percent, the fund balance factor shall be fifty percent.

B. As of July 1 of each calendar year, the Commission shall determine the "adequate balance" for the trust fund as follows:

For the ~~twenty-year~~ *twenty-five-year* period ending July 1 of the year of determination, the highest ratios of benefits divided by total wages of three separate consecutive four-quarter periods shall be averaged and multiplied by 1.38 to determine the fund adequacy multiplier. The fund adequacy multiplier shall be multiplied by the total wages for the year in question to determine the "adequate fund balance" for that year.

C. A fund building rate of two-tenths percent shall be added to all experience rating rates established pursuant to § 60.2-531, and to all assigned tax rates established pursuant to §§ 60.2-515, 60.2-526, 60.2-527 and 60.2-538, except that such rate shall not be applied if the fund balance factor determined pursuant to subsection B of this section exceeds fifty percent.

Official Use By Clerks			
Passed By The Senate		**Passed By The House of Delegates**	
with amendment	☐	with amendment	☐
substitute	☐	substitute	☐
substitute w/amdt	☐	substitute w/amdt	☐
Date: _____		Date: _____	
_____		_____	
Clerk of the Senate		Clerk of the House of Delegates	