COMMISSION ON UNEMPLOYMENT COMPENSATION

EXECUTIVE SUMMARY OF 2019 INTERIM ACTIVITY AND WORK

January 2020

I. BACKGROUND

Chapter 33 (§ 30-218 et seq.) of Title 30 of the Code of Virginia establishes the Commission on Unemployment Compensation (UC Commission). The UC Commission is charged with:

- Evaluating the impact of existing statutes and proposed legislation on unemployment compensation and the Unemployment Trust Fund (the trust fund);
- Assessing the Commonwealth's unemployment compensation program and examining ways to enhance effectiveness;
- Monitoring the current status and long-term projections for the trust fund; and
- Reporting annually its findings and recommendations to the General Assembly and the Governor.

The UC Commission's membership is composed of Delegates Lee Ware, Kathy Byron, Riley Ingram, Joseph Lindsey, and Lamont Bagby and Senators Rosalyn Dance, Glen Sturtevant, and Richard Stuart. Delegate Ware chairs the Commission. Delegate Bagby serves as the Commission's vice-chairman.

The UC Commission met on July 17, 2019. Although § 30-220 of the Code of Virginia requires that the UC Commission meet at least two times per year, a second meeting was not held as a result of scheduling difficulties.

This executive summary of the interim activity and work of the UC Commission is submitted pursuant to § 30-224 of the Code of Virginia and is provided in lieu of an annual report.

II. ISSUES ADDRESSED

1. Status of the Unemployment Trust Fund

Ellen Marie Hess, Commissioner of the Virginia Employment Commission (VEC), provided an update on the status of the trust fund. The trust fund's balance on December 31, 2018, was $1.307 billion and was projected to be nearly $1.452 billion on December 31, 2019. Viewed from a fiscal year basis, the balance in the trust fund is expected to increase from $1.451 billion on June 30, 2019, to $1.570 billion on June 30, 2020.

On June 30, 2018, the solvency level was 79.2 percent. The solvency level of the trust fund is projected to be 83.4 percent on June 30, 2019, and 86 percent on June 30, 2020.

As a result of the unemployment compensation system's countercyclical funding system, the increase in the trust fund's solvency level has reduced the state unemployment tax rates; this reduction has contributed to a decline in state unemployment tax receipts from $433.2 million in 2018 to an estimated $424.6 million in 2019.

After six years of declines, the average total state unemployment tax per employee is expected to increase from $90 in 2019 to $96 in 2020. This average tax, which excludes the federal unemployment tax assessment but includes the pool tax and fund builder tax, rose from $99 in

2008 to $236 in 2012, then fell to $234 in 2013, to $221 in 2014, to $194 in 2015, to $157 in 2016, to $134 in 2017, and to $118 in 2018. The increase in the average total state unemployment tax per employee is attributed to rises in both the base tax (from $89.20 to $92) and the pool tax (from $0.80 to $4). The pool tax is set at a level calculated to collect the amount of benefits that cannot be charged to a specific employer. The fund builder tax of 0.2 percent of an employee's first $8,000 of wages, which was assessed from 2010 through 2015, has not been assessed in the four most recent years and is not forecast to be assessed through at least 2020 because the trust fund's solvency level is not expected to fall below 50 percent in any of those years.

2. Claims Data

There were a total of 69,512 initial claims for unemployment benefits for the first six months of 2019, which is fewer than the 69,940 initial claims filed during the first half of 2018. If the trend continues for the balance of 2019, annual claims for the year are projected to total 135,000, which would be the lowest such number in 46 years. In comparison, 144,166 initial claims for unemployment benefits were filed during 2018. The drop in initial claims for the first half of 2019 compared to the previous year has occurred despite there being roughly 300 more claims filed in January 2019 than in January 2018. January's position as the month in which the most initial claims have been filed in recent years was attributed to layoffs of persons hired for the holiday season and to winter weather that limits the availability of outdoor work.

Final payments of unemployment insurance (UI) benefits for the first five months of 2019 are down 11.8 percent from 2018 and down 24.6 percent from 2017. The exhaustion rate, which reflects the percentage of unemployment compensation recipients who use up all of the weeks of regular unemployment benefits for which they are eligible, was 35.9 percent in May 2019. In the corresponding month one year earlier, the exhaustion rate was 37.8 percent.

3. Employment Data

Commissioner Hess reported that Virginia's unemployment rate continues to trend lower. The unemployment rate (not seasonally adjusted) for May 2019 was 2.9 percent, which followed a rate of 2.5 percent in April. The corresponding rate for May 2018 was 2.8 percent.

A comparison of Virginia's over-the-year growth in non-farm employment to corresponding national data reveals that Virginia's growth rate of slightly less than one percent continues to lag behind the national rate, by approximately 0.5 percent.

Virginia's 2.9 percent unemployment rate for May 2019 was the lowest of the unemployment rates in the six jurisdictions comprising the area within the Fourth Circuit Court of Appeals (Maryland, Virginia, West Virginia, North Carolina, South Carolina, and the District of Columbia). Virginia's rate was also lower than the corresponding national rate of 3.6 percent. Virginia's labor force participation rate for May 2019 was 65.8 percent; the corresponding rate for June 2018 was 66.2 percent. Virginia's labor force participation rate for May 2019 exceeded the corresponding national rate of 62.8 percent (which was less than the national rate for June 2018 of 63.4 percent). Of the six jurisdictions comprising the area within the Fourth Circuit Court of Appeals, only two jurisdictions—the District of Columbia and Maryland—had higher labor force participation rates in May 2019.

Virginia's maximum weekly UI benefit of $378 reflects a weekly benefit replacement rate of 36 percent of the state's average weekly wage in 2019, which is the same rate as in 2018. The national average maximum weekly unemployment benefit in 2019 is $445, and the national average weekly benefit replacement rate is 43 percent (both of which are unchanged from 2018 and 2017). Virginia's maximum weekly unemployment benefit is lower than those of Maryland ($430), Washington, D.C. ($438), and West Virginia ($424), but higher than those of North Carolina ($350) and South Carolina ($326). The Commonwealth's trust fund balance of $1.459 billion on June 30, 2019, was the second highest, and its average state unemployment tax per employee of $110 was the lowest among the six jurisdictions comprising the area within the Fourth Circuit Court of Appeals.

4. Program Updates

Commissioner Hess provided the UC Commission with an update on the VEC's implementation of the Treasury Offset Program (TOP). Between January 1 and June 30, 2019, the VEC has collected over $1.8 million through the TOP. This amount was collected against over 31,000 records that arose from overpayments due to fraud.

During the 2014 Session, the General Assembly enacted Senate Bill 18 to establish a military trailing spouse (MTS) program. The MTS program provides that good cause for leaving employment exists if an employee voluntarily leaves a job to accompany the employee's spouse, who is on active duty in the military or naval services of the United States, to a new military-related assignment established pursuant to a permanent change of duty order from which the employee's place of employment is not reasonably accessible. Commissioner Hess reported that from July 1, 2018, through June 30, 2019, $520,148 in benefits were paid to 203 claimants. During the preceding fiscal year, the VEC paid out $652,705 in unemployment benefits to 223 claimants. In each year it has been in effect, the MTS program has had no effect on trust fund solvency levels, base tax rates, or pool tax rates. Commissioner Hess reminded the UC Commission members that the MTS program is scheduled to sunset on December 31, 2020.

5. Actions by Other States Addressing Localities with Low Labor Force Participation Rates

Commissioner Hess provided a report addressing localities with low labor force participation rates (LFPR), which measure the number of people in the labor force as a percentage of the civilian population 16 years and older and who are not in an institution, such as a prison or mental facility, or on active-duty military status. A related measure, the prime age LFPR, measures the number of people in the labor force as a percentage of the civilian noninstitutional population between the ages of 25 and 54. The labor force includes employed people doing any work, including part-time work, for pay and people who are actively seeking work.

Virginia's LFPR declined from nearly 70 percent in 2008-2009 to less than 65 percent in 2016. Since then, it has rebounded to the current level of 65.8 percent. The national LFPR has been lower than Virginia's LFPR for each year since 1998. Commissioner Hess observed that the LFPR is driven by local demographics, and that the aging of the baby boomer generation is a major factor because retirees are considered members of the civilian noninstitutional population.

Commissioner Hess cited five reasons why individuals abstain from the labor force: illness or disability (the leading cause for men), caring for a family member (the leading cause for women), retirement, further education, and discouragement with job opportunities. Commissioner Hess also identified policies that relevant literature indicates can raise the LFPR, including (i) policies aimed at making workplaces more accommodative for people with disabilities and those caring for family members; (ii) policies aimed at encouraging seniors to remain in the workforce; (iii) laws to turn the state into a model employer of disabled individuals; and (iv) policies intended to address various social issues including transportation and the opioid epidemic.

6. Other Issues

VEC spokesperson Valerie Braxton-Williams noted an issue with House Bill 2539, which creates the worker training tax credit. The legislation, which was enacted as Chapter 189 of the Acts of Assembly of 2019, provides a tax credit for employers that provide for the training of a qualified employee or non-highly compensated worker. The measure defines a "non-highly compensated worker" as "a worker whose income is less than Virginia's median wage, as reported by the [VEC], in the taxable year prior to applying for the credit." Ms. Braxton-Williams noted that the VEC does not report Virginia's median wage. She noted that the VEC will report data on the average weekly wage that is provided by the federal Bureau of Labor Statistics.

Other pending legislative matters discussed by the UC Commission included the pending sunset of the MTS program and House Bill 2480 of the 2019 Session, which would have required electronic filing by all employers of quarterly unemployment tax and payroll reports unless the VEC found that the requirement created an unreasonable burden on an employer.

III. CONCLUSION

The UC Commission wishes to express its appreciation for the service by the members - Delegate Riley Ingram, Senator Frank Wagner, Senator Rosalyn Dance, and Senator Glen Sturtevant, who did not return for the 2020 Session of the General Assembly.

Materials provided by speakers at the UC Commission's meetings in the 2018 interim may be found on the UC Commission's website at http://dls.virginia.gov/commissions/ucc.htm?x=mtg.