

Broad overview of Vermont's Unemployment Insurance Program

July 23, 2009

Purpose of Unemployment Insurance

- | To provide partial wage replacement to workers who find themselves out of work.
- | To provide economic stability for a community when major unemployment occurs.
- | To encourage workers to remain in the community and to be available for work recalls by employers.

Unemployment Insurance Laws

- | Unemployment Insurance is governed by a mixture of State & Federal Law
- | Title III of the Social Security Act and the Federal Unemployment Tax Act (FUTA) establish the basic parameters and standards.
- | States have some flexibility in establishing tax structures, determining claimant eligibility, and defining benefit levels.

Employer covers workers if:

- | It pays wages of \$1500 or more during a calendar quarter; or
- | Employs one or more workers for some part of a day in each of 20 weeks during the calendar year; or
- | Pays cash wages of \$1000 or more during a quarter for **domestic services** in a private home; or

Employer covers workers if:

- | Pays cash wages of \$20,000 or more in any calendar quarter or employs 10 or more workers in **agricultural services** during some part of a day in each of 20 weeks; or
- | It has to pay federal unemployment taxes (FUTA) on the worker's wages; or
- | Voluntarily elects to provide coverage.

Financing Unemployment Insurance

- | A federal tax (FUTA) is paid on the first \$7,000 of wages paid to each employee.
 - | This pays for the administration of the program at both the federal and state level.
- | In Vermont, a state tax (SUTA) is paid on the first \$8,000 in wages paid to each employee.
 - | 2009 Special Session increased taxable wage base to \$10,000 effective January 1, 2010
 - | This money is deposited in an account in the US Treasury and can only be used to pay unemployment benefits.

State Tax Rates

- | Two factors determine an employer's Vermont SUTA rate:
 - | A ratio (experience rating) is calculated each year that reflects the benefits charged to the employer's account in relationship to wages paid by the employer. The experience rating is used to allocate the cost among employers.
 - | The current value of Vermont's UI trust fund reserves determines which of 5 possible tax schedules shall be applied for the next year.

Some employers are self-insured:

- | Government & non-profit (IRC 501(c)) entities may elect to reimburse VDOL the cost of benefits paid their workers.
- | If they elect to reimburse, they do not pay quarterly taxes into the fund and are not relieved of any benefit cost.
- | They do not pay any of the administrative costs.

Federal Unemployment Tax

- | The effective federal tax is 6.2% of the first \$7,000 of each employee's wages, but:

- | The rate is reduced to 0.8% if:
 - | The state's law conforms to federal requirements,
 - | The state has not gotten advances from the federal trust fund accounts within the last 2 years, and
 - | The employer has paid all state UI taxes.

Eligibility for Benefits

- | To determine monetary eligibility:
 - | The worker must have earned covered wages in at least two of the five calendar quarters (base period) prior to applying for benefits.
 - | The worker must have earned at least \$2,099 in the highest quarter and wages in the remaining three quarters of the base period must equal or exceed 40% of the highest quarter.
- | If above criteria is met, a weekly benefit amount is determined.

Eligibility for Benefits

- | Benefits are paid if:
 - | The worker is laid off due to lack of work or quit with good cause attributable to the employer.
 - | The worker must be able and available for work. Generally to demonstrate the worker is able & available:
 - | Must make 3 job contacts a week
 - | Must be willing to accept a job offer.

Eligibility for Benefits

- | **Benefits are delayed if:**
 - | The worker was fired for misconduct
 - | substantial disregard of an employer's interest

 - | The worker quit because a health condition prevents the worker from doing the specific job but can do other work.

Eligibility for Benefits

- | Benefits are disqualified if:
 - | The worker was fired for gross misconduct
 - | Examples: theft or violence at the workplace
 - | The worker quit without good cause attributable to the employer.

Weekly Benefits

- | The weekly benefit is calculated by dividing the two highest quarters' wages by 45 up to a maximum of \$425.
 - | 2009 Special Session, froze maximum amount at \$425 until June 30, 2010.
 - | The maximum amount is adjusted upward each year at the same rate as the average wage of all workers.
- | The worker's total benefit during a benefit year is 26 times the weekly benefit amount.

Current Status of UI Program

Week ending 07/18/09

- | Trust Fund Balance -\$64.5M
 - | Down from 129M January 2009

1st Quarter CY 2009 (USDOL)

- | Tax Rate – Average effective tax rate 0.72%
rakes 18th nationally
- | Trust Fund as a percent of wages .75% ranks
23th nationally
 - | Down from 2.01 % ranked 13th nation 2nd Qtr CY08

How Vermont ranks nationally

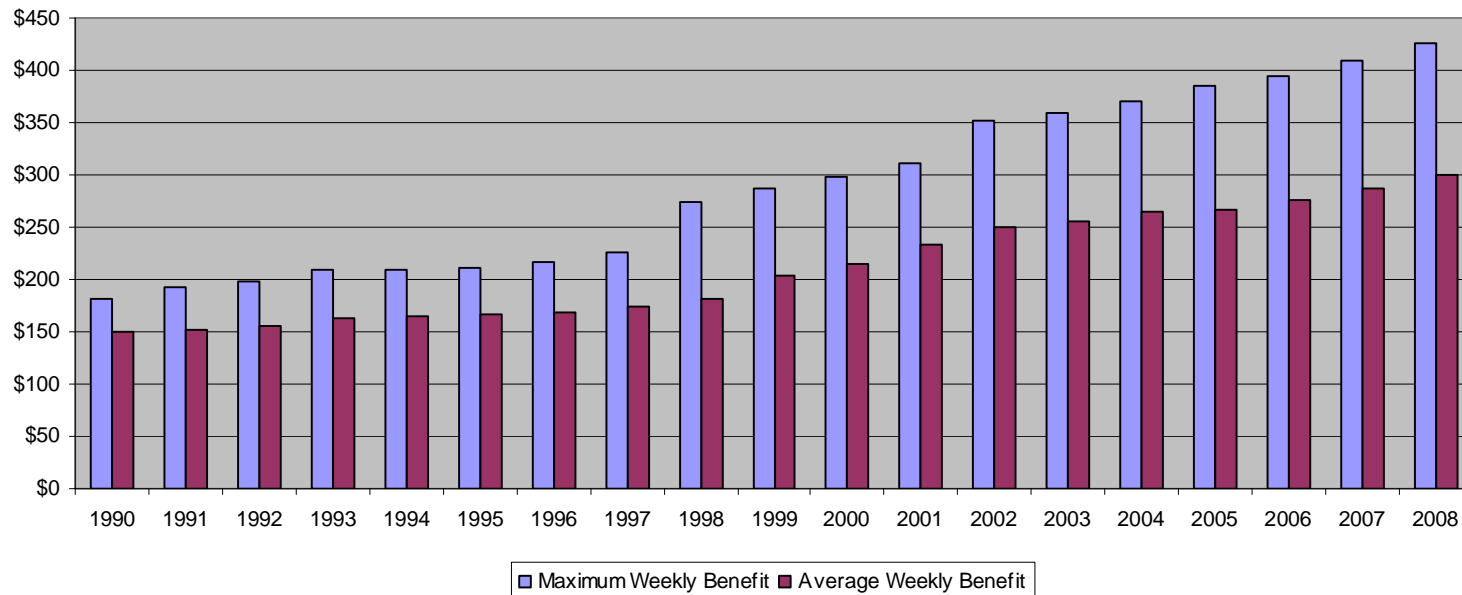
- | Maximum benefit - \$425, 16th highest
- | Average benefit as % average wage – 42%, rank 10th
- | Average benefit- \$300, rank 20th
- | Reciprocity rate - 49%, rank 8th
- | Benefit exhaustion rate – 25%, rank 52nd
- | Average duration – 13.9 weeks, rank 30th

Source: USDOL UI Data Summary 1st Quarter CY 2009

Why is the fund in trouble?

- By current Vermont law, benefit payments increase each year indexed to the rise in average wages.

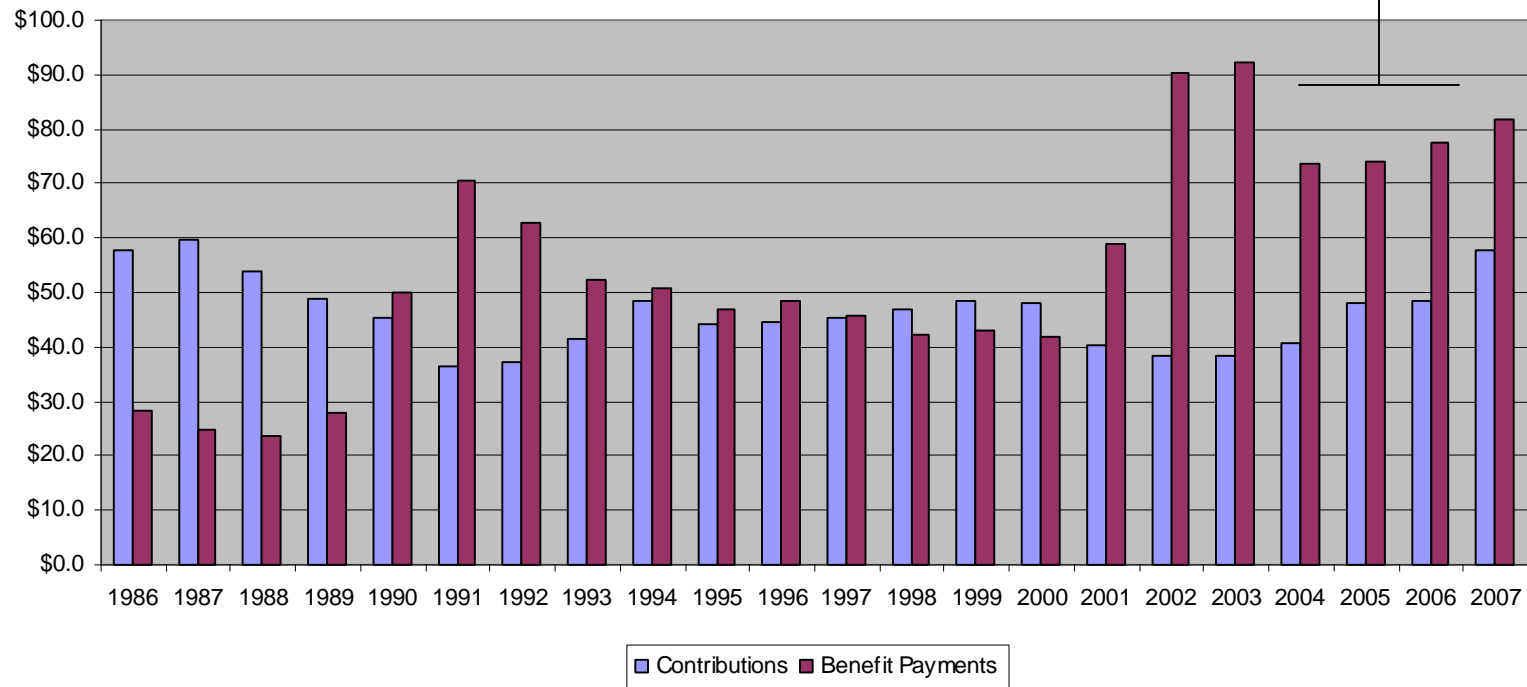
Weekly Benefits



Revenue increased but not enough

Note that benefits outstrip contributions even in relatively good economic times.

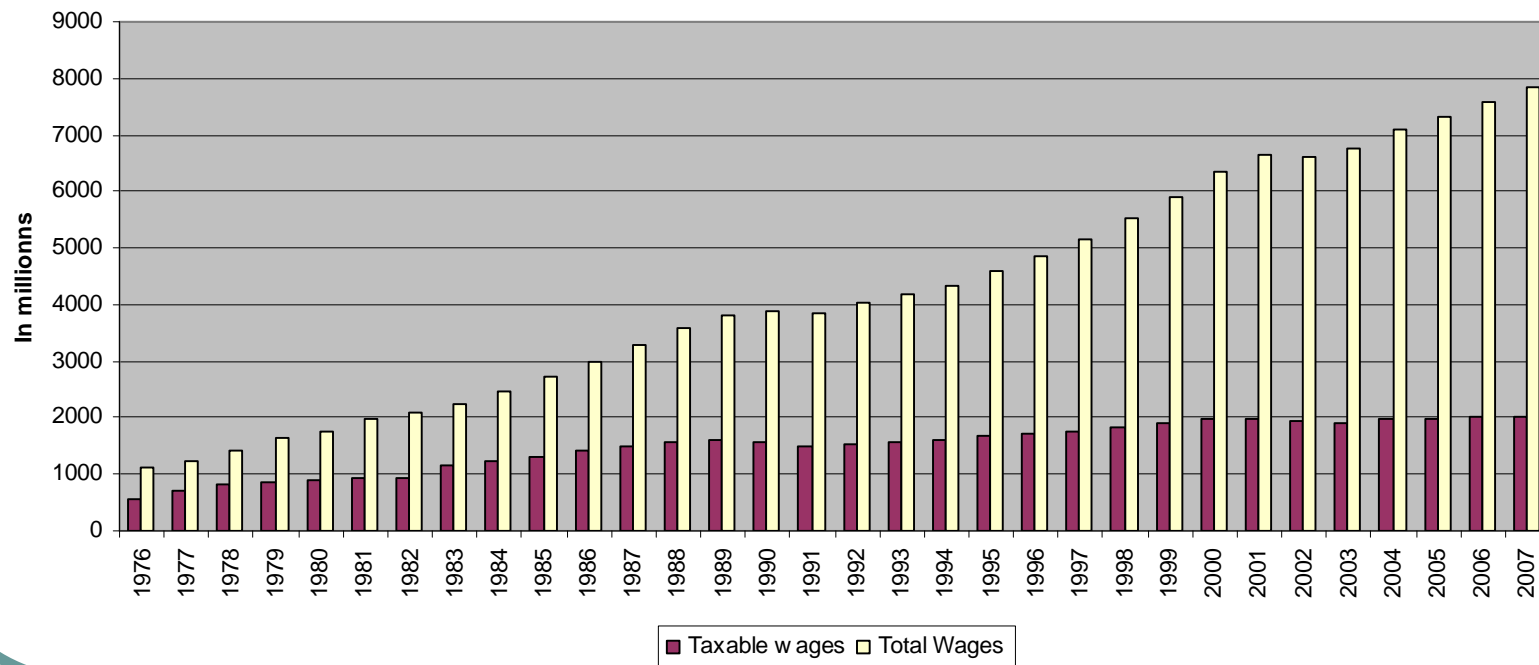
UI Benefits & Contributions



Taxable wages have remained stable

By Vermont law, UI taxes are charged against the first \$8,000 (will increase to \$10,000 01/01/10) of an employee's wages

Tax Paying Employers- All Wages and Taxable Wages



Consequences Of Doing Nothing

Vermont's UI Trust Fund will Bankrupt by Early 2010

- | Would need to borrow over to \$300M over the next several years.
- | Under existing law, maximum benefit would not increase once VT borrows money.