

VERMONT DEPARTMENT OF LABOR

REPORT

Unemployment Insurance Trust Fund Report

**Submitted:** January 31, 2020

**Submitted To:**

The Senate Committee on Economic Development, Housing & General Affairs

The Senate Committee on Finance

The House Committee on Commerce & Economic Development

The House Committee on Ways & Means

**Submitted By:**

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&

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# Memorandum

**To:** The Honorable Phil Scott, Governor  
Senator Michael Sirotkin, Chair, Senate Econ. Development, Housing & General Affairs  
Senator Ann Cummings, Chair, Senate Finance  
Representative Michael Marcotte, Chair, House Commerce & Economic Development  
Representative Janet Ancel, Chair, House Ways & Means

**CC:**

**From:** Michael Harrington, Acting Commissioner, Vermont Department of Labor

**Date:** January 31, 2020

**Re:** UNEMPLOYMENT INSURANCE TRUST FUND REPORT

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## INTRODUCTION

In partnership with the U.S. Department of Labor's Employment and Training Administration (ETA), the Vermont Department of Labor (VDOL or Department) maintains a statistical model used for forecasting Vermont's Unemployment Insurance (UI) Trust Fund (TF) net<sup>1</sup> balance. This analytical tool is effective in long-run assessments of the overall flow of monies into and out of the UITF. It is also useful in determining the incremental impact of proposed policy changes.

This report and accompanying analysis of the UITF is completed in fulfillment of State law. "On or before January 31 of each year, the Commissioner (of labor) shall submit to the Governor and the Chairs of the Senate Committee on Economic Development, Housing and General Affairs and on Finance and the House Committees on Commerce and Economic Development and on Ways and Means a report covering the administration and operation of this chapter during the preceding calendar year. The report shall include a balance sheet of the moneys in the Fund and data as to probable reserve requirements based upon accepted actuarial principles, with respect to business activity, and other relevant factors for the longest available period." 21 V.S.A. § 1309.

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<sup>1</sup> The ETA UITF model currently functions as a 'net' concept in that the individual UI accounts (loan account, cash account, etc.) are rolled up into a net concept. Out of model analysis is necessary to decipher model results.

## IMPORTANT TECHNICAL NOTES

In late 2018, VDOL was provided a new UITF model built by the ETA. This new model required extensive testing which resulted in numerous adjustments by the model architects. Late in 2019, the model was determined to be functioning adequately. Vermont staff are cautiously optimistic that all issues have been resolved. The accompanying charts and graphs are based in part on output from this new model.

## SUMMARY OF RECENT UI REFORM

The laws surrounding UI were overhauled in the 2010 legislative session due to Vermont's diminishing, and ultimately negative, UITF balance. The foundation of the reform's efforts was to balance the impacts to employers and UI claimants. The largest impact to employers was the increase in the employers' taxable wage base. The taxable wage base was increased from \$8,000 to \$10,000 in 2010; to \$13,000 in 2011; and to \$16,000 in 2012. For this measure, the General Assembly created three triggers that tied future adjustments of the taxable wage base to economic factors. The first provided for the taxable wage base to index upward annually by the same percentage as the annual average wage once the UITF had a balance greater than zero and all Title XII loans were repaid.<sup>2</sup> Indexing of the taxable wage base commenced January 1, 2015 with an increase in the taxable wage base from \$16,000 to \$16,400. The taxable wage base increased to \$16,800 in 2016, \$17,300 in 2017, and to \$17,600 in 2018. The second trigger took effect upon return to Tax Rate Schedule III in 2018 when the taxable wage base was reduced by \$2,000 to \$15,600. In 2019, the taxable wage base resumed indexing and was increased to \$16,100. The third trigger is effective upon return to Tax Rate Schedule I at which time the taxable wage base will drop by an additional \$2,000 in the following year. Migration to Tax Rate Schedule I is projected to occur in 2020. No indexing occurs in the year in which the second and third triggers are met.

### Additional 2010 Reforms Relating to Employers:

- Increased late filing penalties from \$35 to \$100, and provided that employer accounts could not be relieved when untimely or inaccurate reporting led to an overpayment of benefits.
- Establishment of a misclassification penalty of up to \$5,000 for each improperly classified worker. In addition, provided that an employer found to have misclassified workers would also be prohibited from contracting with the State for up to three years.
- Shortened time period for timely reporting of new hire information from 20 to 10 days.

### Additional 2010 Reforms Relating to UI Claimants:

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<sup>2</sup> Vermont had borrowed \$77.7 million from the U.S. Department of Labor through a Title XII loan between February 2010 and April 2011. The VDOL repaid the federal loan in full by July 1, 2013; 18 months ahead of the earliest projected pay-off date.

- Modification to the maximum benefit amount payable in a benefit year. The new formula established that a claimant would be eligible for an amount equal to 26 weeks times their weekly benefit amount or 46% of the base period wages, whichever is less.
- Capped maximum benefit amount (to 23 weeks) for a worker found to have separated from his or her last employer due to misconduct.
- Exclusion of usable wages for claimants found to have caused their own separation from employment due to gross misconduct (as determined by the Department).
- Capped the weekly benefit amount (WBA) at \$425 and tied the annual adjustment of the maximum weekly benefit amount (MWBA) to economic factors.
  - When the UITF balance is greater than zero and all Title XII loans repaid, the MWBA will be adjusted by a percentage equal to the percentage change during the preceding calendar year in the statewide average weekly wage. As projected, indexing commenced in July 2014.
  - Effective the first Sunday in July, upon return to Tax Rate Schedule III, the MWBA for all new initial claims will be equal to 57% of the statewide annual average weekly wage, returning the MWBA to its position prior to the reform relative to the average wage. This occurred in 2018 when the MWBA was set to \$498 per week. The indexing of the MWBA, as described above, resumed in 2019 with an increase to \$513 per week.
- Increase in the maximum number of weeks that can be disqualified when it has been determined a claimant was discharged.
- Established that severance pay shall always be considered disqualifying.
- Implemented a one-week waiting period with an effective date of July 1, 2012. This waiting period did not change the WBA a claimant will receive but did delay the payment of their first week of benefits. The required one-week waiting period ended on July 1, 2017.

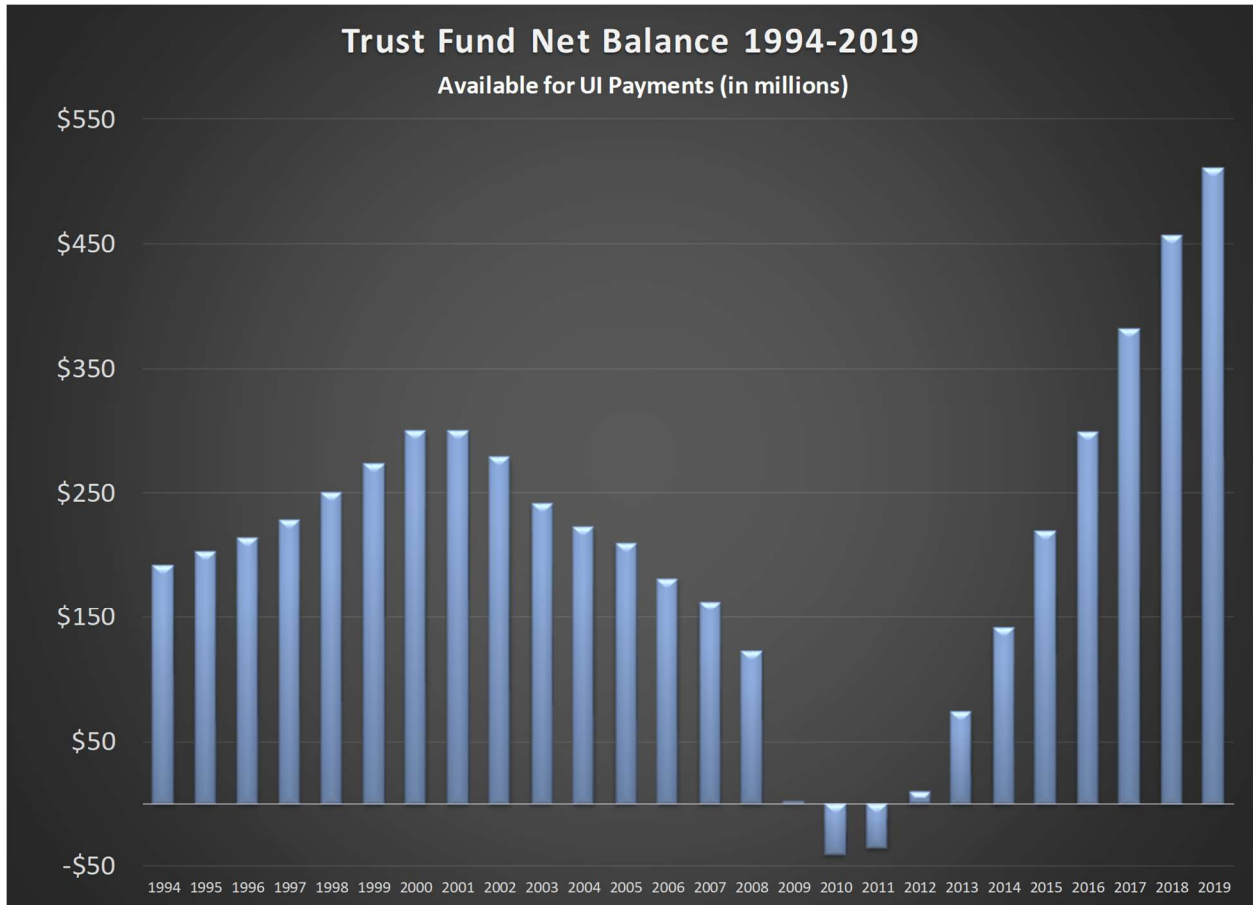
In addition to these measures, a previous Vermont Commissioner of Labor also established a work search requirement for individuals with a return-to-work date greater than 10 weeks. As a result of these changes, both employers and UI claimants are sharing in Vermont's unemployment insurance reform. While these represent the most substantial changes to UI laws, there have been more recent adjustments, including Disregarded Earnings.

During the 2014 legislative session, the Disregarded Earnings was increased from 30% to 50% of an individual's weekly wage. This provision is designed to encourage UI claimants to accept less than-full-time jobs while remaining eligible for at least a portion of their unemployment benefits.

## BACKGROUND

From the period of 2001 to 2010, Vermont's UITF's annual debits exceeded their credits. As depicted in graph below, the State went from having a positive UITF balance in 2001 of \$300.4 million to a negative balance of -\$40.6 million by 2010. This required the State to borrow money from the U.S. Federal Government and cover its debts through a Title XII loan. The Title XII loan amount increased to \$77.7 million in 2011 due to a shortage of cash in the first quarter

of that year. Due to the changes in the State’s UI laws and improved economic conditions, 2011 was net positive in that more cash was collected in contributions than was paid out in the form of UI benefits. This was the first time since 2001 that the UITF had experienced a net positive contribution to benefit ratio. This positive accrual trend established in 2011 has continued annually to the current year. The ending UITF net balance on December 31, 2019 is estimated to be \$510.9 million (see below).



DECEMBER 2019 MODEL FORECAST

The level of contributions is governed by the tax rate schedule in effect for Vermont employers. The tax rate schedule is determined annually in July via a calculation considering both the historical utilization of the fund and the current fund balance. There are five tax rate schedules – level five or “V” is the highest. In July 2017, the tax rate schedule migrated from the highest rate to tax rate schedule IV. In July 2018, the tax rate schedule migrated from the tax rate schedule IV to tax rate schedule III. Based on the available UITF balance and the utilization of the fund over the last ten years, the annual calculation in 2019 resulted in no change to the tax rate schedule. As such, in July 2019, tax rate schedule III remained in place.

As has been the practice, two model simulations are presented in this report. A ‘baseline’ forecast absent consideration of the business cycle and an alternate ‘theoretical recession’ simulation. The second scenario is modeled to provide insight on how the UITF will respond to a potential economic downturn. The theoretical recession is based on historical data and forecasted to occur two years in the future. The next recession could begin at any time – either before or after this arbitrary two-year parameter. In both the baseline forecast and the ‘theoretical recession’ forecast, it is anticipated that the balance in the UITF will be sufficient to move down to tax rate schedule I in July 2020. Should this migration occur, it would result in lowering the tax rate schedule employers pay and a decrease of \$2,000 to the taxable wage base in 2021.

This projected two-schedule drop in the tax rate schedule is due to a combination of economic and technical factors. The duration of the current U.S. economic expansion as measured by job growth now exceeds ten years. This positive economic trend increases contributions as employment rises and reduces the amount of UI benefits paid as the unemployment rate declines. Both factors aid in the accrual of funds in the UITF. Additionally, the calculation used to determine the tax rate schedule is based on “historical” data which is specifically defined as “in the last ten years”. As mentioned, the current period of economic growth now exceeds ten years and therefore the worst years of the past recession are no longer included in the historical data. The decrease to tax rate schedule I will set the rate of employer contributions to the lowest level as part of the natural dampening agents built into Vermont’s UI laws. The result is that due to the significant positive balance of the UITF, employer contributions are automatically throttled back.

#### FORECAST RISKS

Changes to federal or state UI laws: The attached forecast is based on current law – both federal and state. Should these laws change, this forecast will have to be reevaluated.

National and international economic uncertainty: The U.S. economy continues on a path of economic expansion – reaching a record number of consecutive months of reported job growth. Yet in this modern age of globalization, it is difficult to determine the U.S.’s exposure to international economic pressures around the globe. In addition, unforeseen volatility in energy prices and/or supply could create a ripple sufficient to derail the U.S. economic recovery. Threats of international entanglements also remain areas of concern for the forecast.

#### RECOMMENDATIONS FOR LEGISLATIVE CHANGE

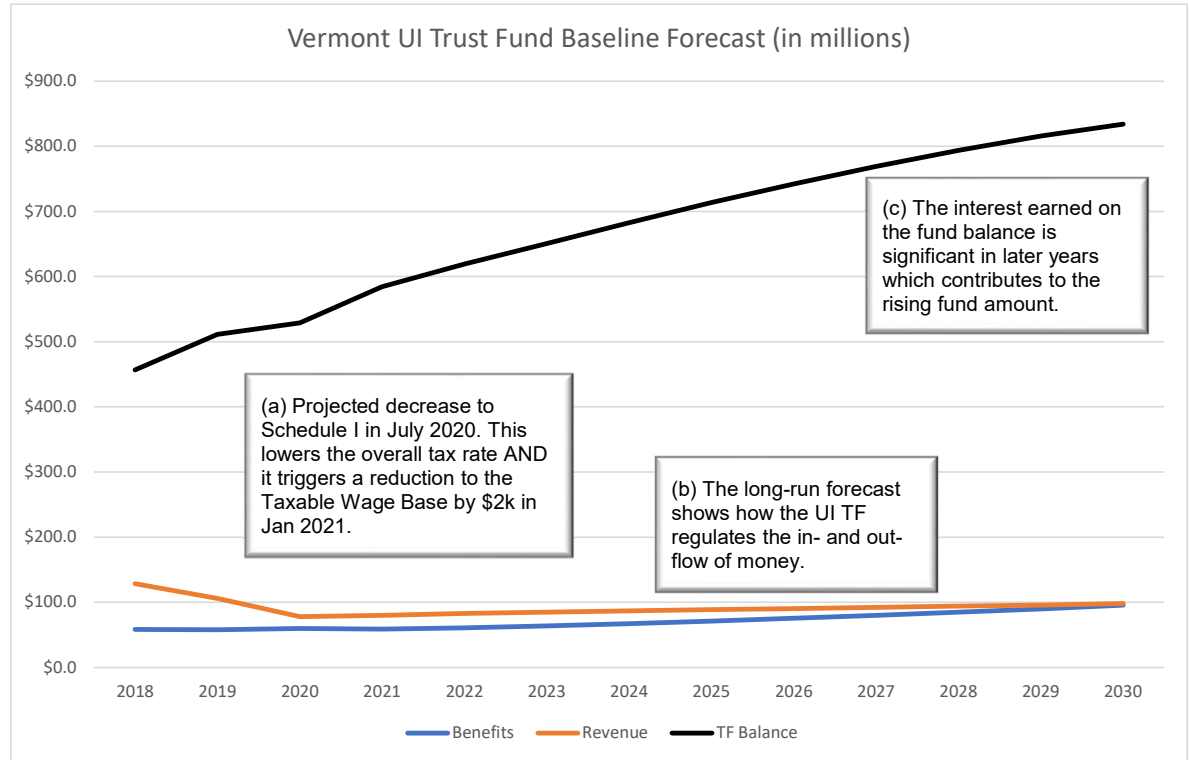
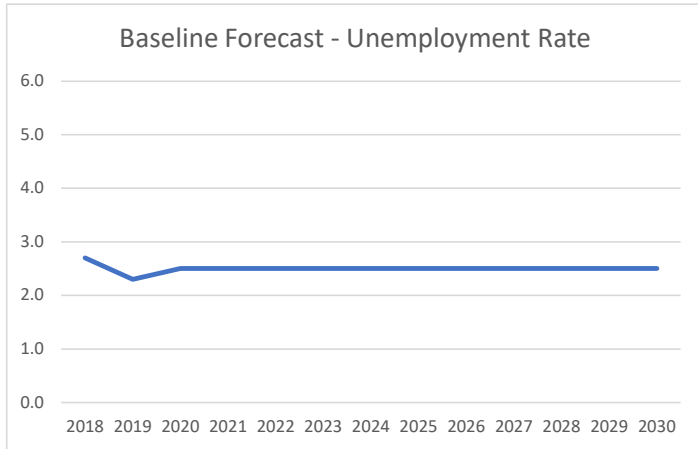
At this time, the Department is recommending a legislative update to permit the Department to require employers to register with the Department via electronic means. The Department currently requires quarterly reports to be submitted electronically. Additionally, the Department is examining reimbursable employers and whether those employers should be relieved of charges in certain circumstances.

## Vermont Unemployment Insurance (UI) Trust Fund (TF) Baseline Forecast - December 2019

<b>Trust Fund Variables</b>	<u>2018</u>	<u>2019</u>	<u>2020</u>	<u>2021</u>	<u>2022</u>	<u>2023</u>	<u>2024</u>	<u>2025</u>	<u>2026</u>	<u>2027</u>	<u>2028</u>	<u>2029</u>	<u>2030</u>
Total Unemployment Rate	2.7	2.3	2.5	2.5	2.5	2.5	2.5	2.5	2.5	2.5	2.5	2.5	2.5
Labor Force	0.0	-0.34	-0.34	-0.34	-0.34	-0.34	-0.34	-0.34	-0.35	-0.35	-0.35	-0.35	-0.35
Covered Employment	0.3	0.20	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Maximum Taxable Wage Base	\$17,600	\$15,600	\$16,100	\$14,100	\$14,500	\$14,900	\$15,400	\$15,900	\$16,400	\$16,900	\$17,400	\$17,900	\$18,500
Tax Rate Schedule in Effect <sup>^</sup>	III	III	I	I	I	I	I	I	I	I	I	I	I
Maximum Weekly Benefit <sup>^</sup>	\$498	\$513	\$529	\$545	\$562	\$579	\$597	\$616	\$635	\$655	\$675	\$696	\$718

<b>Yearly Trust Fund Flow (in millions)</b>	<u>2018</u>	<u>2019</u>	<u>2020</u>	<u>2021</u>	<u>2022</u>	<u>2023</u>	<u>2024</u>	<u>2025</u>	<u>2026</u>	<u>2027</u>	<u>2028</u>	<u>2029</u>	<u>2030</u>
Total Benefits Paid	\$58.2	\$57.8	\$59.8	\$58.8	\$60.7	\$63.9	\$67.4	\$71.2	\$75.3	\$79.8	\$84.7	\$90.0	\$95.8
Total Revenue	\$128.5	\$105.9	\$78.0	\$79.8	\$82.9	\$84.7	\$86.7	\$88.7	\$90.2	\$92.1	\$94.0	\$95.8	\$97.9
Trust Fund Interest	\$9.8	\$11.8	\$12.5	\$13.5	\$14.3	\$15.1	\$15.9	\$16.6	\$17.4	\$18.1	\$18.8	\$19.4	\$19.9
Total Taxable Wages	\$3,822.4	\$3,349.2	\$3,074.6	\$3,042.7	\$3,170.7	\$3,235.9	\$3,313.5	\$3,389.7	\$3,445.3	\$3,518.0	\$3,589.3	\$3,659.1	\$3,738.6
Total Wages	\$14,224.4	\$14,667.6	\$15,000.1	\$15,496.0	\$16,008.4	\$16,537.6	\$17,084.4	\$17,649.2	\$18,132.7	\$18,732.2	\$19,351.5	\$19,991.3	\$20,652.3
Trust Fund Ending Balance	\$456.6	\$510.9	\$529.2	\$584.7	\$619.2	\$650.8	\$682.6	\$713.3	\$742.0	\$769.2	\$793.8	\$815.5	\$834.1



**Intro:** Baseline forecast assumes stable economic conditions at a level of full employment - i.e. no consideration of the business cycle.

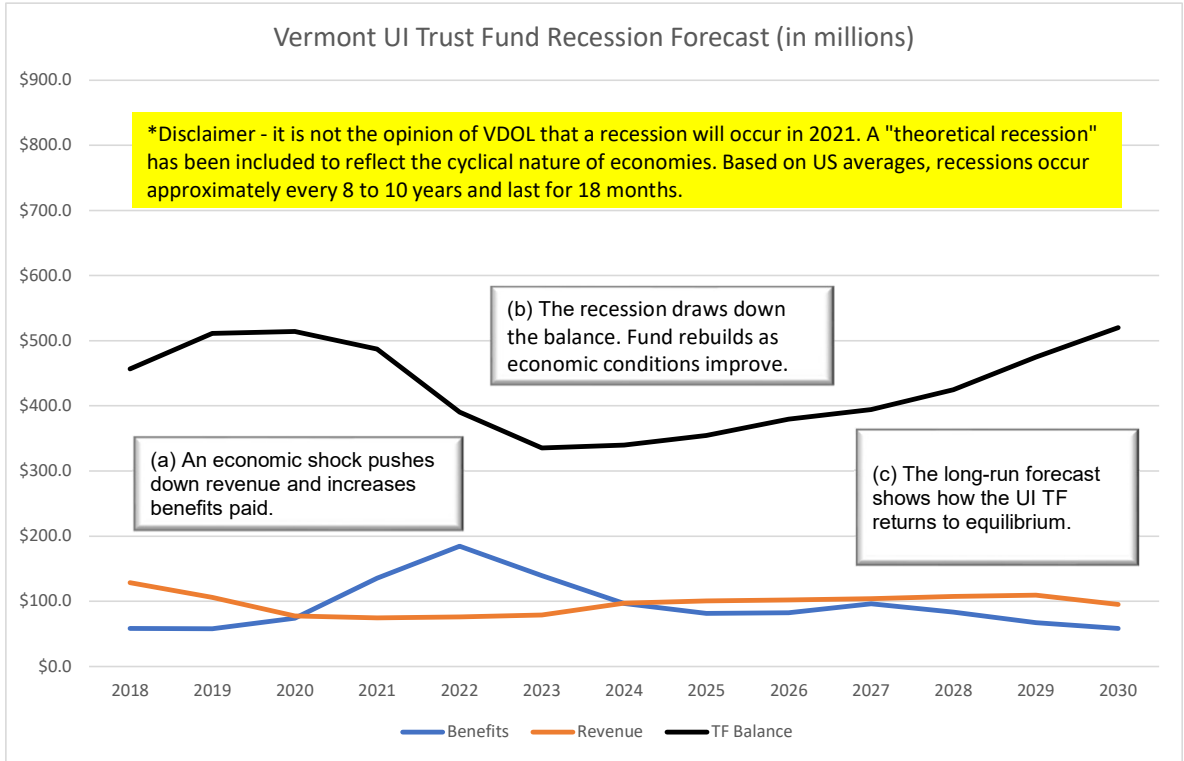
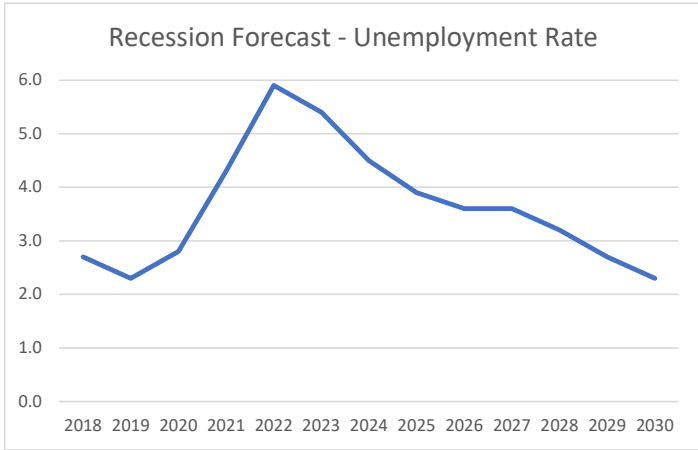
**Notes:** <sup>^</sup> Changes effective in July

**Source:** The Benefit Finance Model is developed and supported by USDOL ETA; forecasts presented here completed by VT Dept of Labor, E&LMI Division

## Vermont Unemployment Insurance (UI) Trust Fund (TF) Recession\* Forecast - December 2019

Trust Fund Variables	2018	2019	2020	2021	2022	2023	2024	2025	2026	2027	2028	2029	2030
Total Unemployment Rate	2.7	2.3	2.8	4.3	5.9	5.4	4.5	3.9	3.6	3.6	3.2	2.7	2.3
Labor Force	0.0	-0.34	-0.34	-0.34	-0.34	-0.34	-0.34	-0.34	-0.35	-0.35	-0.35	-0.35	-0.35
Covered Employment	0.3	0.20	-0.26	-3.40	0.25	0.84	1.35	0.70	0.97	0.83	0.31	0.45	0.29
Maximum Taxable Wage Base	\$17,600	\$15,600	\$16,100	\$14,100	\$14,600	\$14,800	\$15,000	\$15,300	\$15,700	\$16,100	\$16,600	\$16,900	\$17,300
Tax Rate Schedule in Effect <sup>^</sup>	III	III	I	I	I	I	II	II	II	II	II	II	I
Maximum Weekly Benefit <sup>^</sup>	\$498	\$513	\$531	\$549	\$567	\$573	\$582	\$594	\$609	\$623	\$640	\$653	\$669

Yearly Trust Fund Flow (in millions)	2018	2019	2020	2021	2022	2023	2024	2025	2026	2027	2028	2029	2030
Total Benefits Paid	\$58.2	\$57.8	\$73.8	\$135.1	\$184.7	\$139.5	\$96.5	\$81.2	\$82.2	\$96.0	\$83.2	\$66.8	\$58.1
Total Revenue	\$128.5	\$105.9	\$77.2	\$74.5	\$76.0	\$78.8	\$97.0	\$100.6	\$102.1	\$104.2	\$107.2	\$109.7	\$95.0
Trust Fund Interest	\$9.8	\$11.6	\$12.3	\$12.4	\$10.8	\$9.0	\$8.2	\$8.5	\$9.1	\$9.6	\$10.2	\$11.1	\$12.5
Total Taxable Wages	\$3,822.4	\$3,345.7	\$3,038.7	\$2,831.8	\$2,905.3	\$3,013.5	\$3,138.2	\$3,225.9	\$3,272.2	\$3,342.4	\$3,437.7	\$3,515.9	\$3,591.8
Total Wages	\$14,224.4	\$14,704.7	\$15,025.3	\$14,993.4	\$15,196.2	\$15,553.7	\$16,079.0	\$16,596.3	\$16,918.6	\$17,536.7	\$17,942.9	\$18,474.2	\$19,083.6
Trust Fund Ending Balance	\$456.6	\$510.9	\$514.2	\$487.4	\$390.3	\$335.1	\$339.8	\$354.5	\$379.6	\$394.2	\$424.7	\$474.7	\$520.2



**Intro:** \*Recession forecast is modeled after the 1990 recession and set to begin in two years (for discussion purposes only). The next recession could begin sooner or later.

**Notes:** ^ Changes effective in July

**Source:** The Benefit Finance Model is developed and supported by USDOL ETA; forecasts presented here completed by VT Dept of Labor, E&LMI Division