



Virginia Employment Commission

Report to

Commission on Unemployment Compensation

Coleman Walsh, Chief Administrative Law Judge
Virginia Employment Commission

September 29, 2009



Outline

- Current Economic Situation
- VEC Trust Fund
- Title XII Advance and Repayment Process
- Federal Emergency and Extended Benefits



Current Economic Situation

The Nation, Virginia, and
Virginia Areas



The Nation

- The National Bureau of Economic Research (NBER), the Princeton, New Jersey, think tank that officially designates U.S. recessions, announced in December 2008 that the U.S. had been in a recession since December 2007. The NBER sometimes does not define recessions until a couple of years later. (They did not fully define the March-November 2001 recession officially until July 2003.)



The Nation - *continued*

- As a result of the financial and housing crises, the recession has been worsened and prolonged.
- As a result of what has already happened:
 - It now looks like the bottom of the recession in the U.S. probably occurred in June with a slow recovery in 2010.
 - Employment and unemployment are the “caboose” of the economic train—always the last to turn around in both good and bad times.



The Nation - *continued*

- Employment should drop a total of 4.6 percent from its 2007 peak.
- Unemployment should peak about 10.0 percent at the beginning of 2010.



Virginia

- Virginia, as usual, is expected to perform better than the nation because over half of Virginia employment is in the less recession-prone:
 - Federal government and defense
 - Health care
 - Public and private higher education
 - Professional and business services



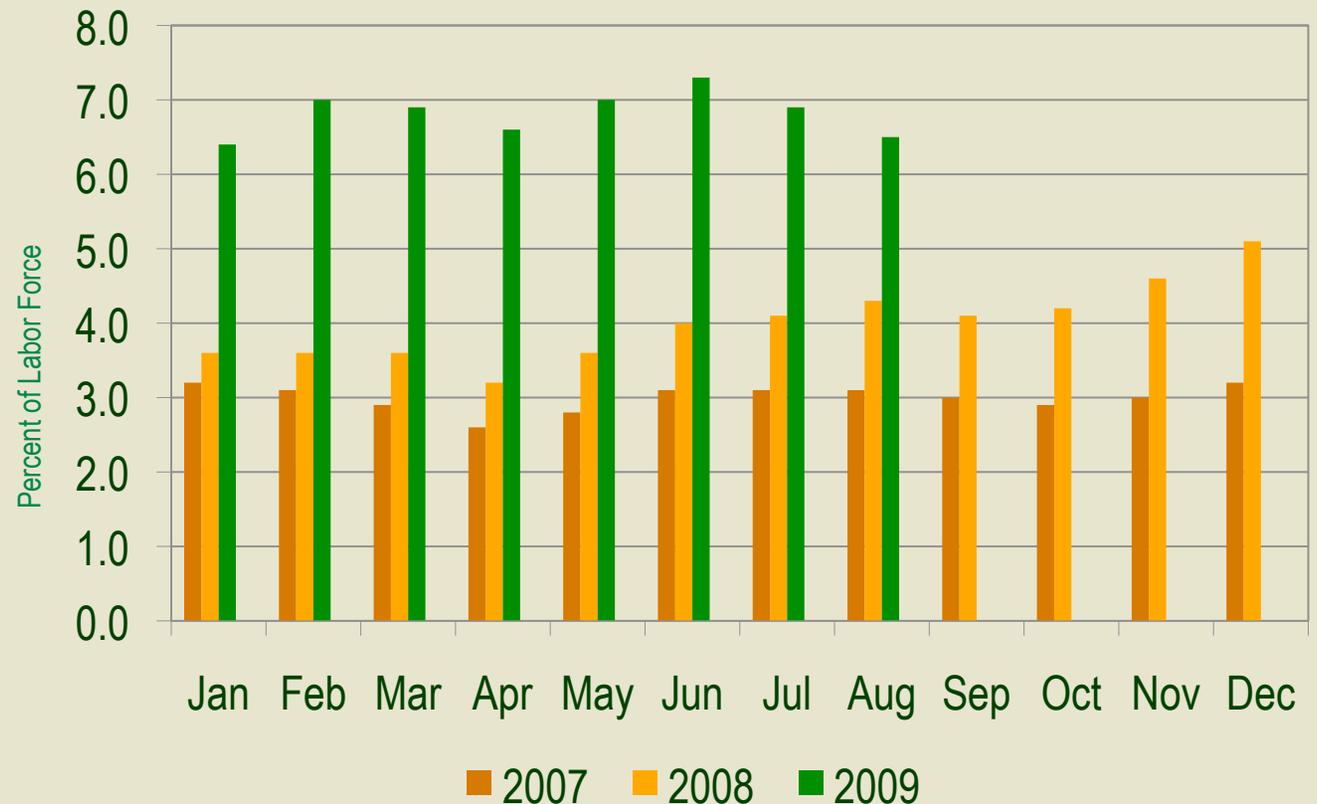
Virginia - *continued*

- Virginia should see negative job growth throughout 2009.
- Virginia unemployment should peak around 7.4%.
- A worst case scenario would have annual U.S. unemployment at 10.6% and Virginia unemployment around 8%.



Virginia's Unemployment Rates 2007 - 2009 *(year to date)*

- This year all unemployment rates have been about double the year-ago rates.
- June's rate of 7.3 percent was the highest rate since March 1983's 7.3 percent.



Note: Not Seasonally Adjusted



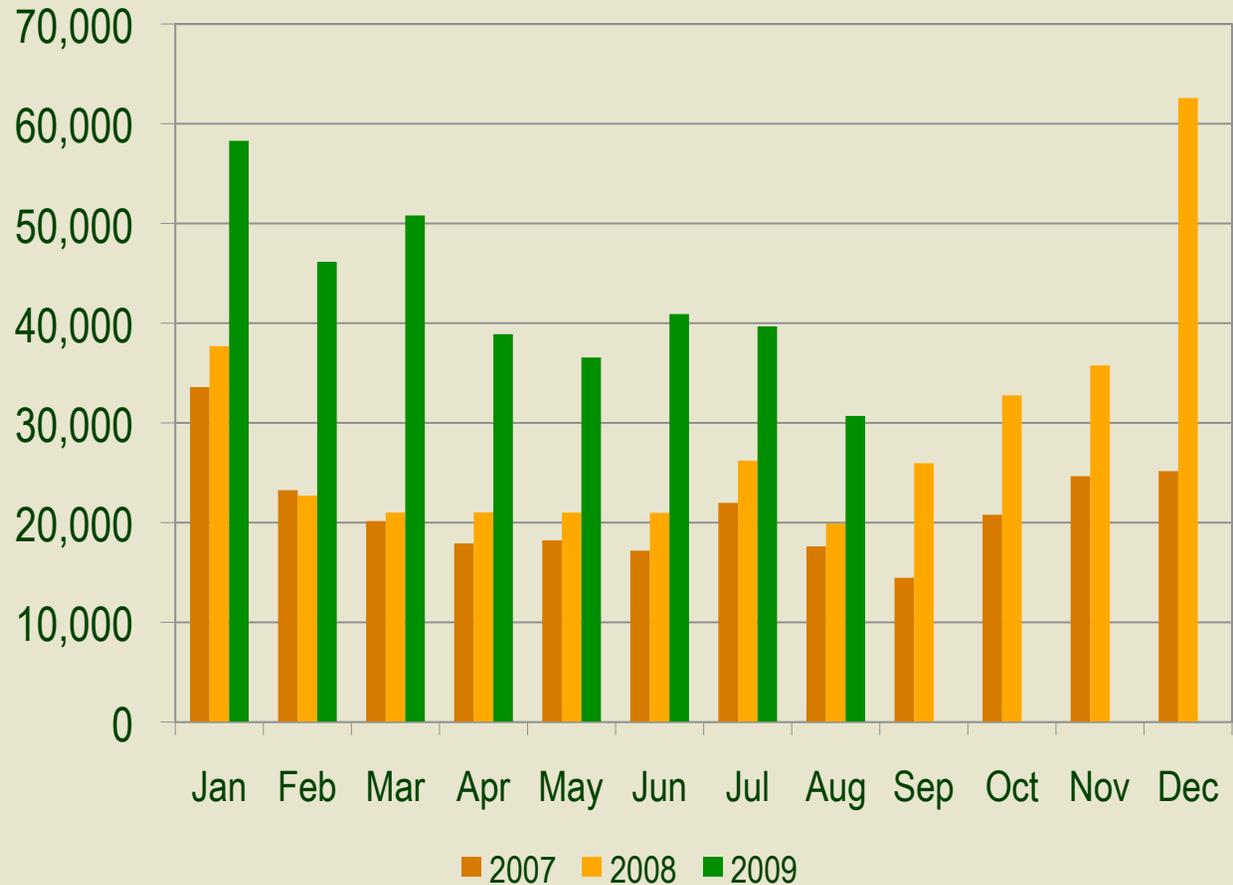
VEC Trust Fund



UI Initial Claims

2007 - 2009 *(year to date)*

➔ Total initial claims through August this year are up 79.5% because of more motor vehicle, furniture, textiles, building-related, and finance layoffs. For the same period, initial claims are up 101.3% from 2007.





Workload*

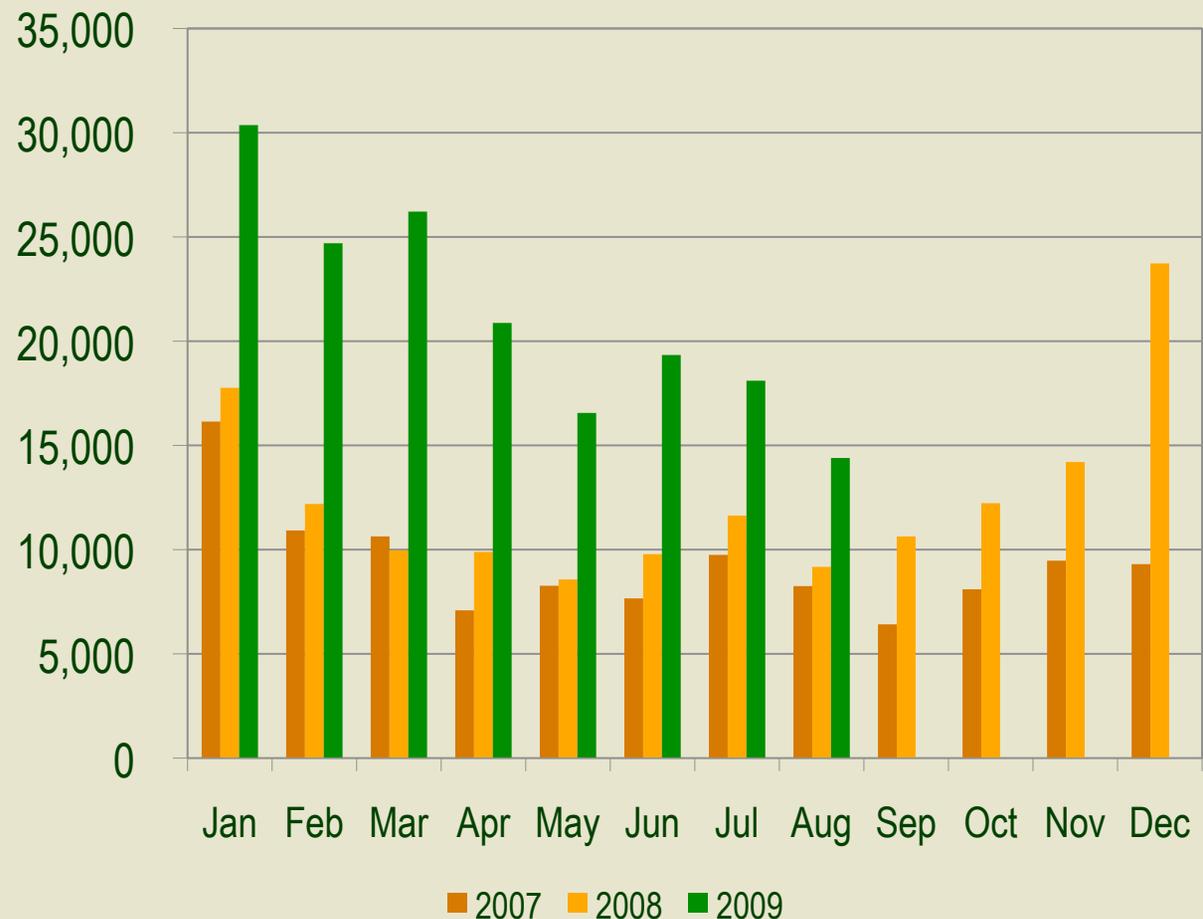
Calendar Year	Insured Unemployment Rate	Initial Claims
2006	1.03%	260,804
2007	1.07%	260,561
2008	1.44%	356,220
2009	2.85%	633,931
2010	2.40%	531,924

*2006, 2007, and 2008 actual; 2009 and 2010 projected



UI First Payments 2007 - 2009 *(year to date)*

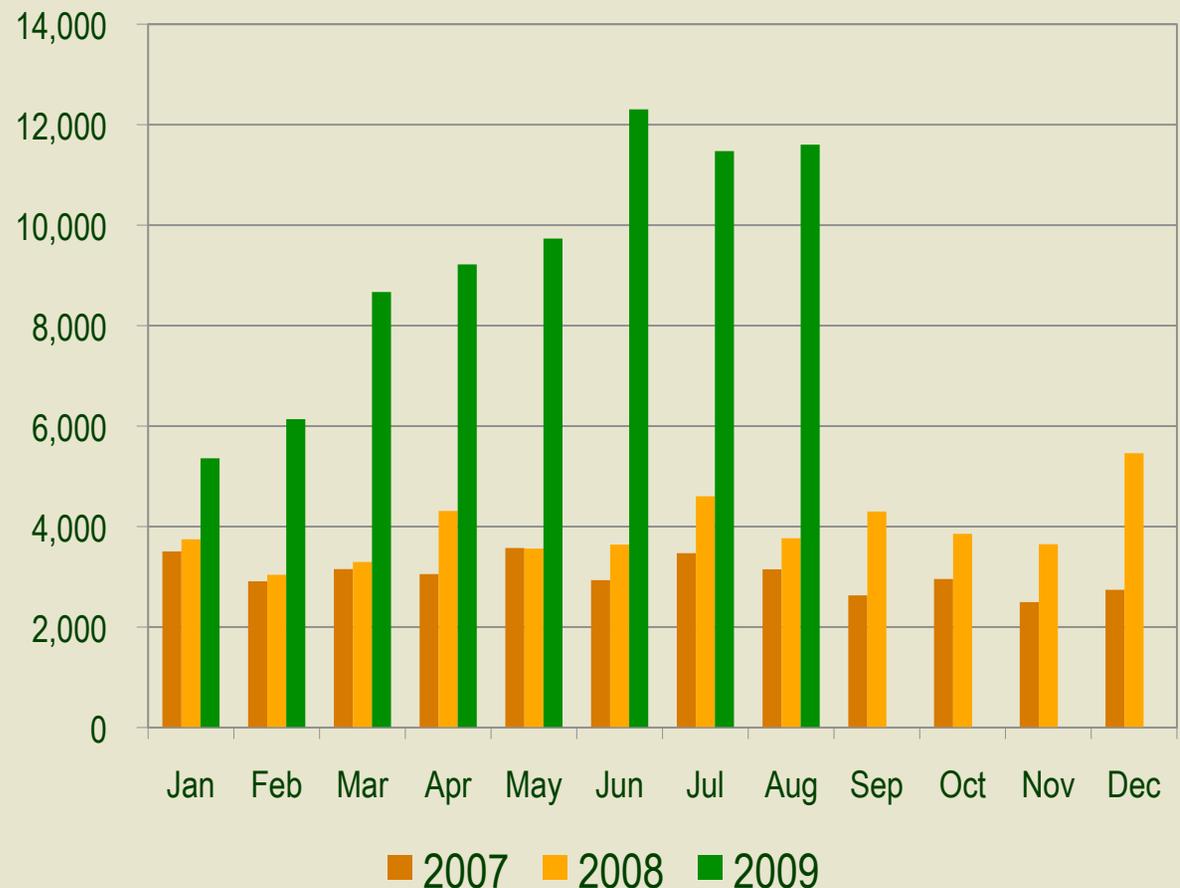
- A claimant can receive only one first payment in his benefit year; so first payments are a good proxy for the number of claimants receiving unemployment benefits.
- Through August, first payments are up 91.7% from last year and up 116.7% from 2007.
- The average duration in August was 14.2 weeks, up from last August's 12.8 weeks.





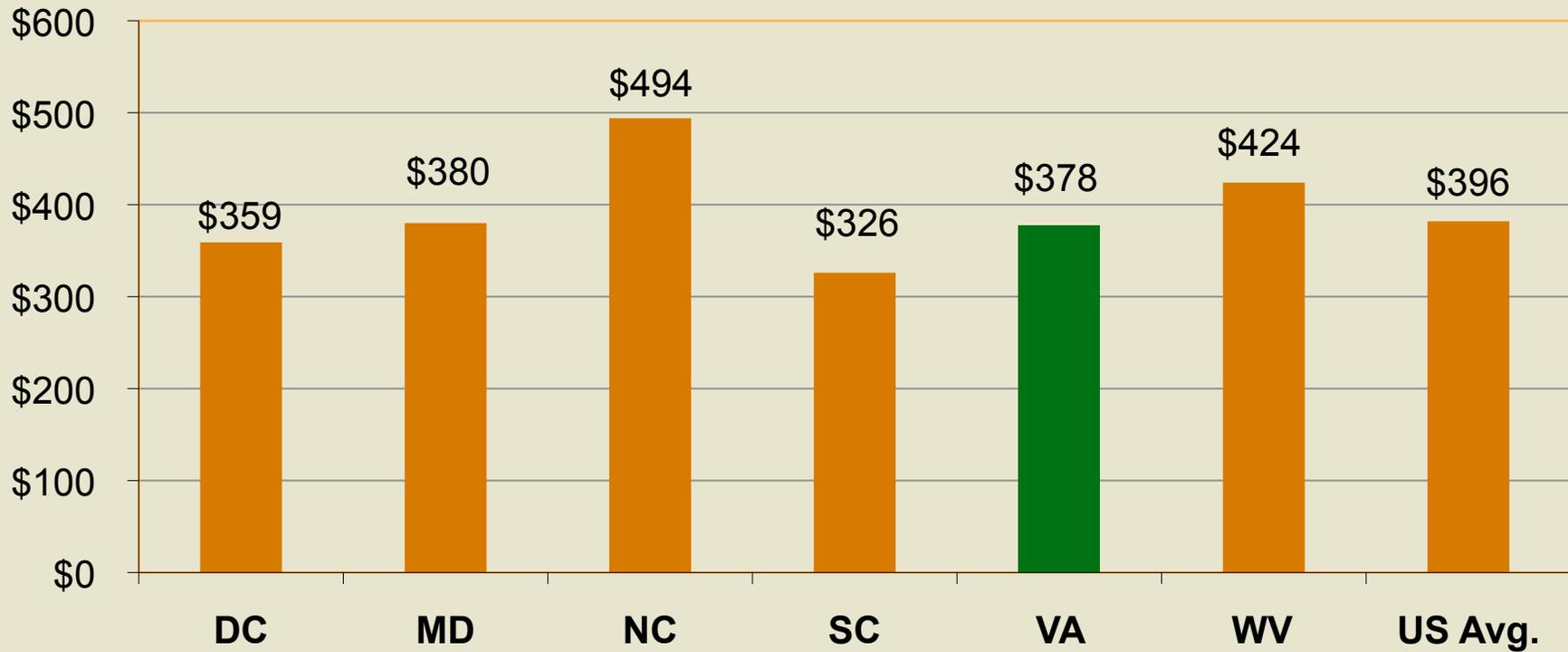
UI Final Payments 2007 - 2009 *(year to date)*

- For the first eight months of 2009, final payments are up 148.6% from 2008 and up 189.3% from 2007.
- The exhaustion rate in August was 52.5%, up from last August's 35.5%.





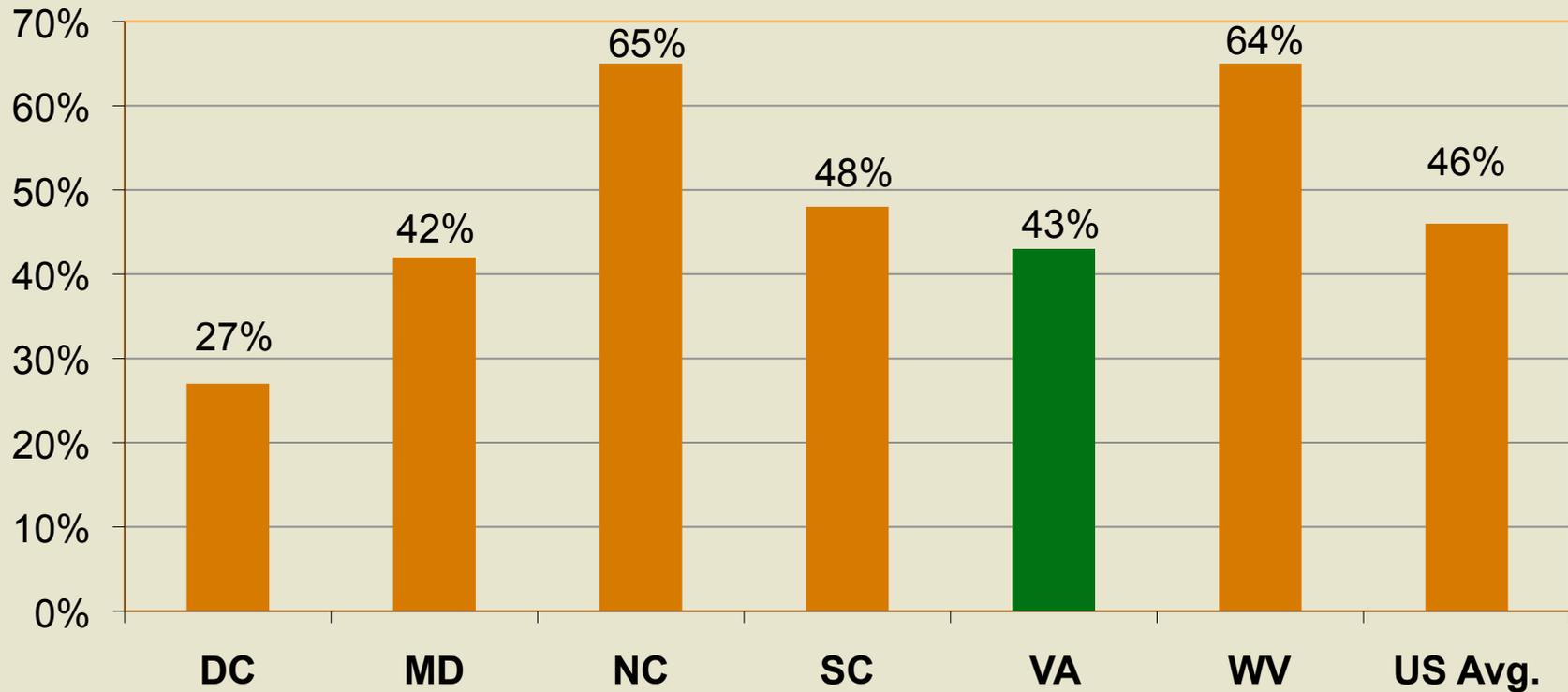
2009 Maximum Weekly Benefit Fourth Circuit





2009 Maximum Weekly Benefit Replacement Rate

Fourth Circuit





Trust Fund Data—Standard Forecast (Millions of Dollars)

(Projections will be updated in December)

	2009	2010
January 1 Balance	\$546.7	—\$194.2
Tax Revenue	\$319.9	\$569.6
Interest Revenue	\$12.4	\$0.0
Benefits	\$1,136.2	\$936.8
December 31 Balance	—\$194.2*	—\$561.4
Solvency Level (6/30)	23.9%	—20.1%

*Includes \$62.8 million Incentive Distribution from Federal government.



Actual



Projected



Standard Forecast—1981-1982 Recession Scenario

- Loans would total about \$1.3 billion.
- The trust fund would have negative balances for 15 straight quarters—2009q4 through 2013q2. In some of these quarters, the loan balance is reduced, but not to zero.
- The cash balances for June 30, 2010 and 2011 are negative.



Standard Forecast—1981-1982 Recession Scenario

- The 2010 and 2011 solvency levels are *negative*.
- Total interest payments from 2011 to 2013 would be about \$36.7 million. Interest payments in 2011 and 2012 would be \$22.0 and \$14.4 million. Interest payments in 2013 would be about \$0.3 million.
- Interest cannot be paid from the trust fund or federal administrative grants.
- In 2011 employers would lose 0.3 percentage point of the FUTA credit and pay an additional \$87 million in FUTA taxes or an additional \$21 per employee.



June 30 Balances (millions) and Solvency Level 1997 - 2015

→ When solvency drops below 50%, Fund Builder Tax is triggered the following year.

(Projections will be updated in December)



→ 2009–2015 projected



Average Tax per Employee 1997 – 2015 (Virginia only)

→ The increases from 2003 through 2015 are the result of higher benefit schedules and the recessions.

(Projections will be updated in December)



2004, 2005, and 2010-2014 Fund Builder Tax in effect.

→ 2009 – 2015 projected.



Average Tax per Employee 2009-2015 (Including FUTA)

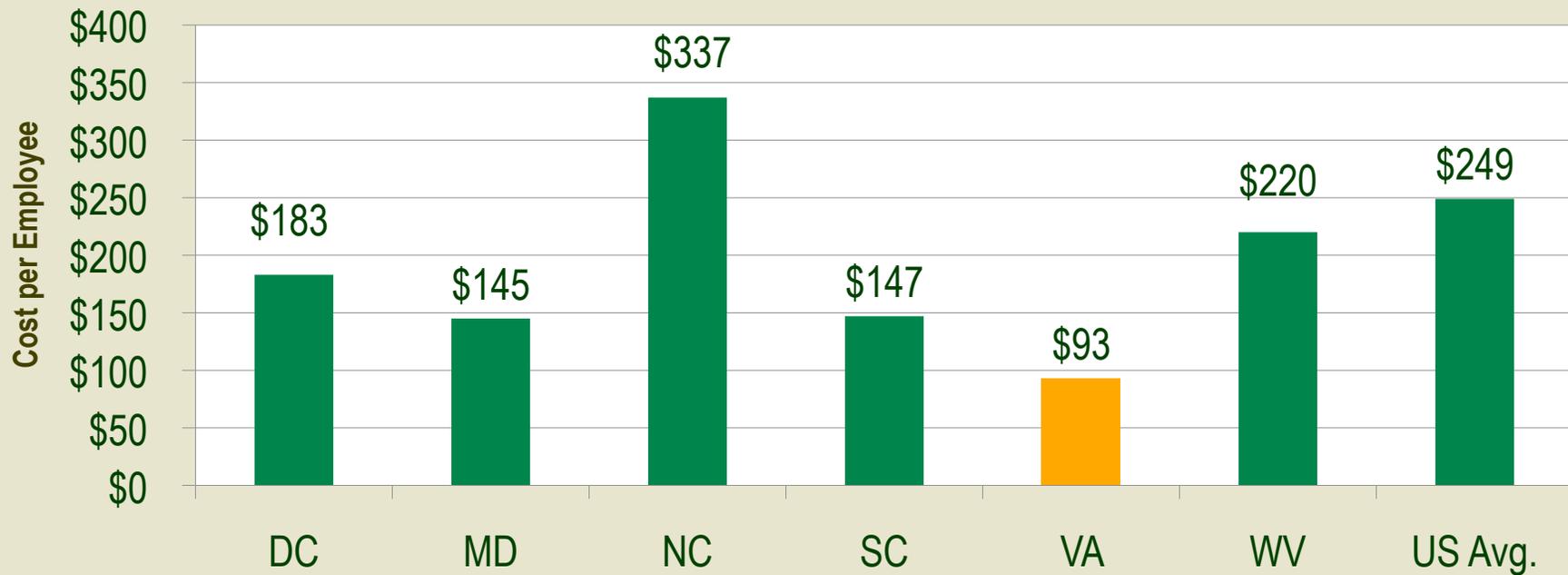
Year	Average State	Maximum FUTA	Total
2009	\$95	\$56	\$151
2010	\$171	\$56	\$227
2011	\$234	\$77	\$311
2012	\$263	\$56	\$319
2013	\$244	\$56	\$300
2014	\$211	\$56	\$267
2015	\$156	\$56	\$212

→ 2010-2014 Fund Builder Tax in effect.

→ 2009 – 2015 projected.



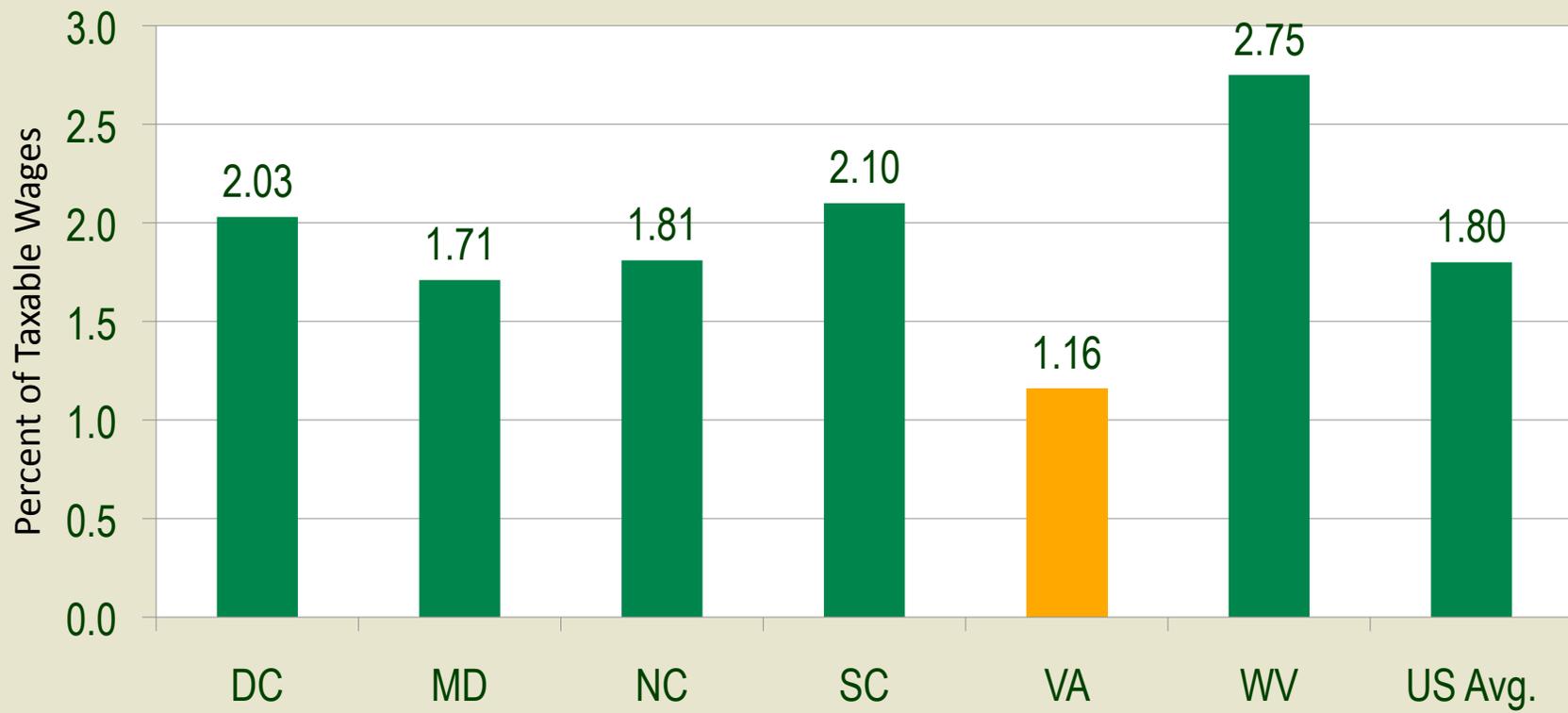
Average Tax per Employee Fourth Circuit – Year Ending 9/30/08





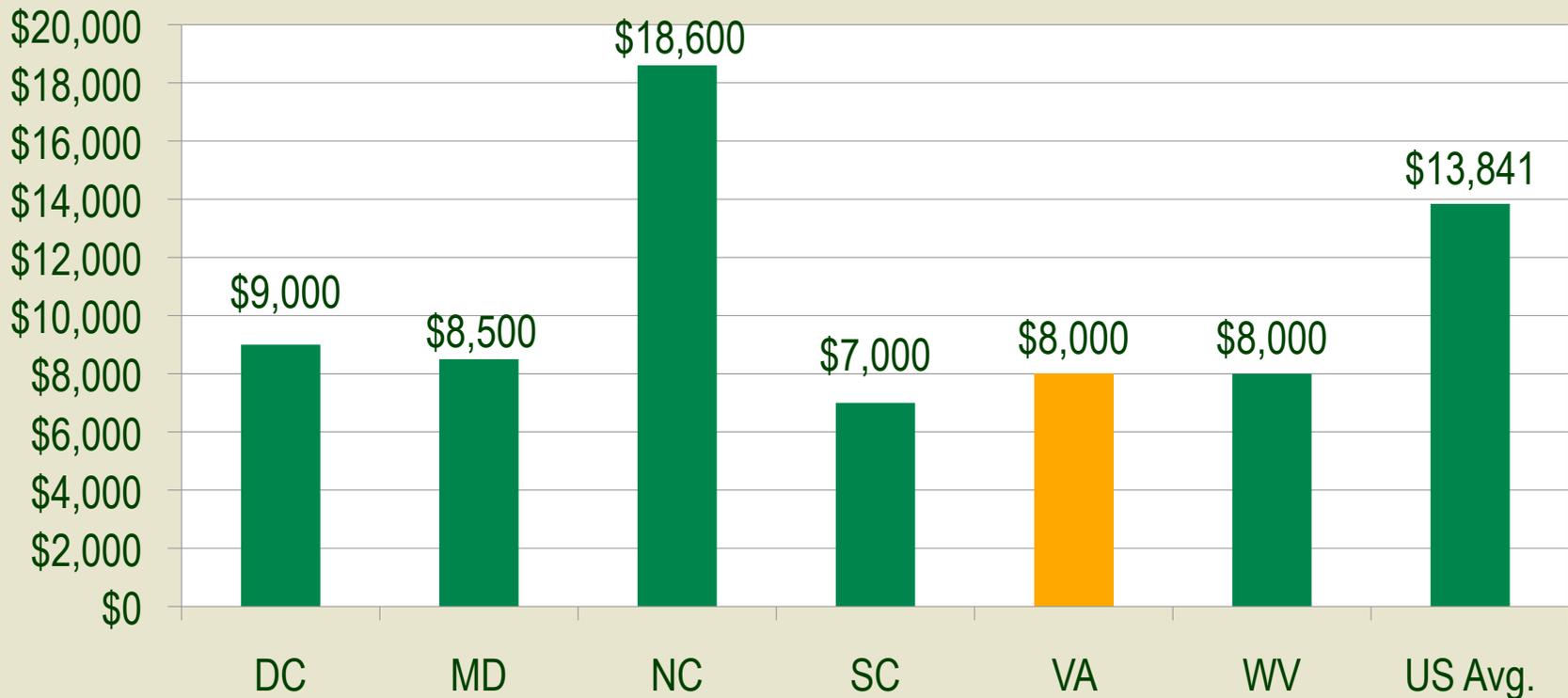
Average Tax Rate

Fourth Circuit – Year Ending 9/30/08



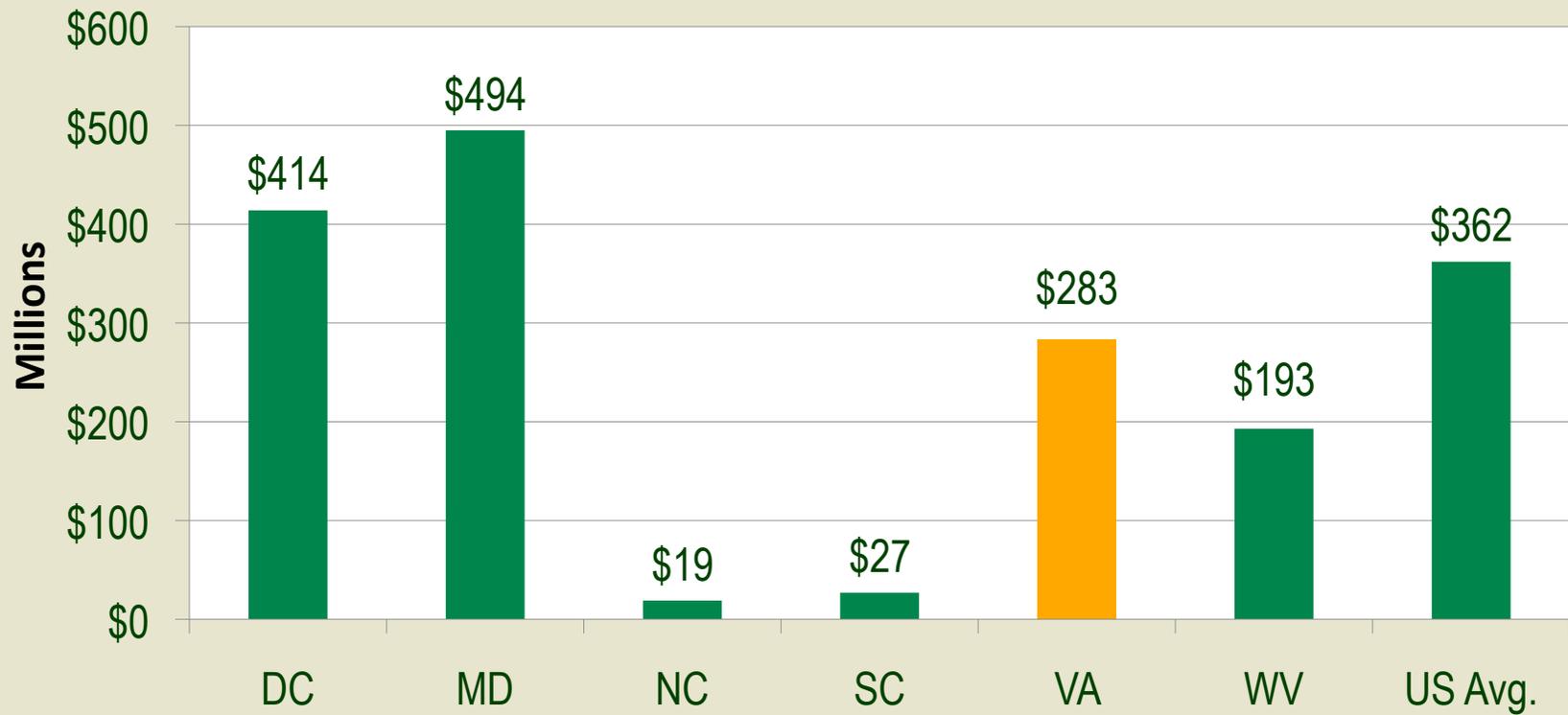


Taxable Wage Base Fourth Circuit – Calendar Year 2008





Trust Fund Balance Fourth Circuit – 6/30/09





Current Recession Compared to Historical Recessions

	73-75 Recession	81-82 Recession	90-91 Recession	2001 Recession	07-09 Recession
Highest Monthly Unemployment Rate	7.6%	8.4%	7.1%	4.5%	7.4%
Highest Annual Unemployment Rate	6.4%	7.4%	6.2%	4.2%	6.7%
Highest Annual Number Unemployed	147,000	196,591	206,341	156,557	279,462
Highest Annual Number Employed	2,135,000	2,482,021	3,146,997	3,588,079	3,960,011
Highest Annual Benefits Paid	\$138.2 million	\$245.1 million	\$328.0 million	\$755.3 million*	\$1,136.2 million
Average Weekly Benefit Amount	\$58	\$100	\$145	\$297*	\$278
Average Weekly Wage	\$156	\$274	\$431	\$703	\$896
Exhaustion Rate	42.9%	31.3%	35.9%	41.8%	52.5%**
Average Duration	15.4 weeks	11.5 weeks	14.0 weeks	14.4 weeks	14.2 weeks**
Lowest Solvency Level in Effect	N/A***	+5%***	+60%	+35%***	—20%***

* Benefits increased 37.3% September 2001-January 5, 2003

** August 2009 values

*** 50% tax table used; fund-builder tax added. Current solvency method first used in 1981



Impact of Trust Fund Insolvency

- Triggers fund builder tax (0.2%) through CY 2014.
- Social Security offset (50%) reinstated through CY 2014.
- Shift to highest tax table.
- Potential interest payments on federal loans (estimated \$22-36 million).
- Partial loss of FUTA tax credit (0.3%) in 2011 due to federal loan balances in consecutive years.



Title XII

Advance and Repayment Process



Advances (Loans)

- State sends request letter to the Secretary of Labor, sent September 15, 2009.
- Request is for projected amounts for a three consecutive month period.
- Request must be no earlier than the first of the month preceding the first month of the period.



Loans

- The Secretary certifies to the Treasury the amount to be authorized in each month.
 - State must use Reed Act funds or UI Modernization funds that are available to pay benefits before it may borrow.
 - After consultation with the U.S. Department of Labor, a sub account was established, obligating funds committed to IT projects.



Loans (*continued*)

- ➔ The Bureau of Public Debt authorizes amount into the Automated Standard Application for Payment (ASAP) System.
- ➔ The department confirms the authorized amount and authorization period in a letter to the governor.
 - ➔ The authorized amount is the ceiling.



Loans (*continued*)

- State draws money to pay benefits as usual
 - Treasury will transfer all available balances of regular UI funds and then transfer loan funds to total state drawdown request.
 - Status: www.treasurydirect.gov/govt/reports/tfmp/AdvanceActivitiesSchedule.pdf



Voluntary Repayments

- A state may make voluntary repayments at any time.
 - The governor sends a letter to the secretary with the amount and repayment effective date.
 - The department requests the treasury to apply the repayment(s).
 - The department confirms the repayment(s) in a letter to the governor.



Repayments

- State may request Treasury to transfer all available account balances at the end of each business day (sweep the account) within a certain period to repay loan.
- Repayments applied to advances on a last-made-first repaid basis.



Borrowing to Pay Unemployment Insurance Benefits

Outstanding loans (in millions) from the Federal Unemployment Account. Balances as of September 19, 2009, and date of first federal loan are:

Alabama	\$3	September 2009
Arkansas	\$93	March 2009
California	\$3,677	January 2009
Florida	\$236	August 2009
Idaho	\$54	June 2009
Illinois	\$307	July 2009
Indiana	\$1,190	November 2008
Kentucky	\$411	January 2009
Michigan	\$2,606	December 2007
Minnesota	\$49	July 2009
Missouri	\$264	February 2009
New Jersey	\$515	March 2009

Table continues on next slide



Borrowing to Pay Unemployment Insurance Benefits

Outstanding loans (in millions) from the Federal Unemployment Account. Balances as of September 19, 2009, and date of first federal loan are:

New York	\$1,317	January 2009
North Carolina	\$1,107	February 2009
Ohio	\$1,267	January 2009
Pennsylvania	\$1,050	March 2009
Rhode Island	\$88	March 2009
South Carolina	\$504	December 2008
South Dakota	\$0	September 2009
Texas	\$414	July 2009
Virgin Islands	\$2	September 2009
Wisconsin	\$577	February 2009
Total	\$15,730	



Federal Emergency and Extended Benefits



Emergency Unemployment Compensation (Federally Funded)

- Exhausted all rights to regular compensation – May 1, 2007.
- Tier I total amount equal to 75% of their regular benefits.
- Tier II total amount equal to 50% of their regular benefits.
- TRA claim is suspended until EUC is exhausted and TRA may be resumed.
- On November 21, 2008, Congress authorized up to an additional 7 weeks of benefits.



Emergency Unemployment Compensation (Federally Funded)

- Through September 4, 2009 (Tiers I & II):
 - Applications mailed 188,143
 - Claims processed 130,890
 - Total amount paid \$328.5 million



Extended Benefits (Federally Funded)

- Total amount equal to 50% of their regular benefits.
- Cost usually shared equally by state and federal governments.
- Federal legislation temporarily increases federal share to 100%.
- State legislation temporarily enables state to “trigger on” these benefits using total unemployment rate instead of insured unemployment rate.
- Claimant must exhaust regular UI and EUC (Tiers I & II) before they become eligible for EB.



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