Financial Outlook

Wisconsin
Unemployment
Insurance
Program

Report prepared for the Governor and Legislature,
pursuant to § 16.48 Wisconsin Statutes

Reggie Newson, Secretary
Department of Workforce Development
April 2015
UCD-8967-P (R.04/2015)

Executive Summary

The Unemployment Insurance (UI) Trust Fund ended 2014 with a balance of $214 million. This is the first year since 2008 that the UI Trust Fund finished a year with a positive balance. The UI Trust Fund is currently able to meet its benefit cost without having to borrow. In addition, the UI Trust Fund and UI tax revenue are projected to be sufficient to pay benefits for the immediate future. The UI Trust Fund no longer having to borrow means that Wisconsin employers in good standing will receive the full federal unemployment (FUTA) tax credit. This reduces the effective FUTA tax rate from 1.5% to 0.6%. In addition, there will be no additional interest costs associated with a UI Trust Fund loan.

The economy is projected to grow throughout the projection period of 2015 through 2017 and correspondingly the UI Trust Fund is projected to continue to grow through the end of 2017. Employers are currently paying taxes based upon the highest UI tax schedule, Schedule A. The current projection for the UI Trust Fund balance exceeds $300 million on June 30, 2015. This means that for 2016, the expected UI Tax Schedule will be Schedule B. The projected end of the year UI Trust Fund balance in 2017 is $887 million which is close to the trigger for Schedule C of a UI Trust Fund balance greater than $900 million. This means that the tax schedule might change again before the end of the projection period to Tax Schedule C.

UI benefit payments are projected to fall in 2015 before increasing slightly for 2016 and 2017. UI benefits are expected to stay at historically low levels throughout the projected period. UI tax revenue is expected to fall each year due in part to a change in the effective UI tax schedule and in part to the improvement of employer reserve fund balances.

While the UI system has repaid its loans and the UI Trust Fund is expected to grow over the next 3 years, the UI financing system still has longer term structural challenges. The UI Trust Fund is not expected to reach a balance that would be adequate in case of a significant economic downturn. If a recession were to occur, UI would likely need to borrow in order to pay benefits. Additional discussions will be necessary to address potential longer term challenges.

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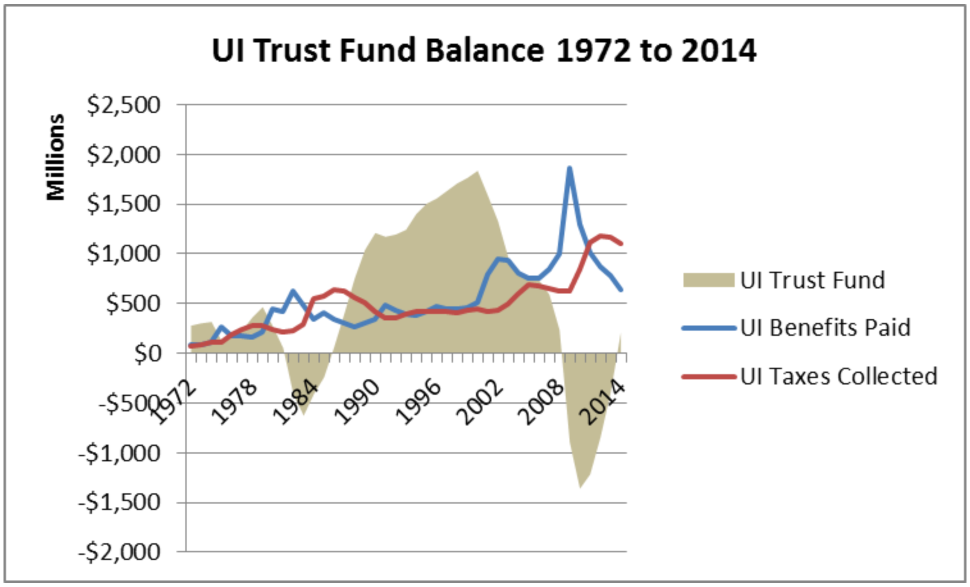
Introduction

The Department of Workforce Development is pleased to present this report on the financial outlook of the State of Wisconsin Unemployment Insurance (UI) program.



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Wisconsin's improving economy has led to lower UI benefit payments than during and immediately following the Great Recession. This combined with other factors has improved the UI Trust Fund balance to the point that the UI Trust Fund loan has been retired. The UI Trust Fund ended 2014 with a positive balance exceeding $214 million. By contrast, in January of 2011 the Trust Fund had a negative balance of $1.4 billion.

This *Financial Outlook*[1] investigates both the short term state of the UI Trust Fund as well as examining long term issues in the UI financing system. It begins with Section 1 -- an overview of the UI financing systems. Here the basics of how the UI benefits and UI tax systems function are explained. Explanations of special programs and temporary federal credit reductions and other assessments on employers that arose because of the Great Recession are also provided.

Section 2 provides a brief history of the UI Trust Fund and UI financing system covering the past few decades.

Section 3 summarizes law changes in the past two years that are expected to substantially affect the UI financing system.

Section 4 provides a forecast for the UI Trust fund. Using economic forecasts, the Department estimates UI benefits and UI taxes through the end of 2017. From these projections the UI Trust Fund balance is calculated over the period.

[1] Tables in this report are not adjusted for inflation.

Section 1: Unemployment Insurance Benefits and Financing System

The Unemployment Insurance system on an individual level provides risk mitigation in the case of job loss by paying benefits. This section provides a brief background on the financing system for Unemployment Insurance in Wisconsin.

Unemployment Insurance Benefits

Unemployment benefits are paid to claimants who are determined to have lost employment through no fault of their own and have a work history with an employer(s) that participates in the UI program. To continue to qualify for benefits, a claimant must be able and available for work and actively seeking work if required to do so. The amount of benefits a claimant receives is based upon the claimant's past earned wages. Under the regular Unemployment Insurance program, a claimant may receive up to 26 weeks of benefits in Wisconsin, consistent with the maximum duration for the vast majority of states.

Covered Employers in the Unemployment Insurance System

The majority of employers in Wisconsin are known as Covered Employers, or employers who participate in Wisconsin's UI program. By statute, there are some categories of employers that are not required to participate in UI in Wisconsin. An example of such employers would be certain religious organizations.

Covered Employers fall into two groups:

Reimbursable Employers

Reimbursable employers, in a sense self-finance unemployment benefits for their workers. Wisconsin UI administers payment to individuals who worked for reimbursable employers and then bills those employers directly to pay UI benefits. Employers who are allowed to be reimbursable are set by statute. Local governmental entities and non-profit organization can elect to be funded as reimbursable employers. The State of Wisconsin is required to be a reimbursable employer.

Taxable Employers

Taxable employers consist of the vast majority of employers in the state of Wisconsin. Individual employers pay for the UI system as a whole through quarterly assessed taxes. The system spreads unemployment benefit risk across all employers instead of having employers needing to self-finance their own unemployment insurance.

Unemployment Insurance Taxes

Unemployment Insurance (UI) benefits are financed through a series of taxes levied on an employer's payroll. Taxes are levied by both the federal and the state governments. The first section will focus on the state taxes. The next section will look at the federal taxes, often referred to as FUTA taxes. A third, temporary assessment called the Special Assessment for

Interest (SAFI) was assessed to employers in 2011 and 2012 to cover the interest due on the federal loan.

State Taxes

Unemployment insurance taxes are a payroll tax used exclusively to pay Wisconsin UI benefits as required by federal law. They are assessed on the taxable wage base. For Wisconsin in 2013 and 2014 the taxable wage base was $14,000. An employer in Wisconsin is assessed UI taxes on the first $14,000 in wages paid to each employee. The tax rate an employer pays on wages up to the wage base is determined by two separate factors. The first is the effective UI tax schedule in effect for a given rate year. The effective UI tax schedule depends upon the balance in the UI Trust Fund. Currently Schedule A, the highest rate schedule, is in effect. As the Trust Fund balance improves, schedules with lower rates are set to automatically take effect.

The other factor that impacts the tax rate an employer pays is that employer's experience with the UI system. In general, the greater degree to which employees of a given employer use the UI system to collect benefits, the higher the tax rate that employer pays. New Wisconsin employers, who do not have a previous history with the Wisconsin UI system, are assigned a new employer tax rate. This rate varies depending upon the industry and size of the employer. These rates are in effect for a three year period. Once the period is over, these employers' taxes are then based upon their experience with the UI system.

There are the two components of UI state taxes that an employer pays.

Basic Taxes

The basic tax is generally the larger of the two portions of the state tax. The basic tax is the portion of the tax an employer pays that is credited to its UI account. The amount an employer pays in basic taxes is heavily tied to the employer's experience with the UI system.

Solvency Taxes

The solvency tax is generally the smaller of the two tax amounts. The amount of solvency tax an employer pays is less affected by its experience with the UI system compared to the basic tax. Solvency taxes are credited to the UI Balancing Account, which is used to pay benefits not charged to specific employers and represents risk sharing among employers participating in the Unemployment Insurance system.

Both portions of the state UI tax are held at the U.S Treasury in order to pay benefits.

UI Employer Account

The employer account is not a savings account for the employer. The account acts only as a measure to gauge a given employer's experience with the UI system. The net difference between all the taxes collected over the entire employer's history and the charged benefits over the entire employer's history constitutes the balance of the employer's account, also known as the Reserve Fund Balance. If an employer's account falls below zero, benefits will still be paid to its eligible former workers. The basic tax an employer pays is entered as a credit on the account. UI benefits received by former (or in some cases current) workers are charged against the account.

This balance determines which tax bracket the employer falls into, and ultimately the tax rate an employer pays. On June 30th, the end of the state's fiscal year, the employer's account balance for that day is compared to the employer's current payroll[2]. A ratio is calculated (i.e., the reserve fund percentage) of the employer's account balance divided by the employer's payroll. This percentage is then compared to the current tax schedule in effect, and the employer's tax rate for the following calendar year is determined.

UI Balancing Account

Some benefit payments are not charged to a specific employer's account, they are charged to the Balancing Account. The Balancing Account represents the social insurance aspect of the Unemployment Insurance system for employers. There are seven basic categories of charges to the Balancing Account: 10% Write-offs, Quits, Misconduct, Substantial Fault, Continued Employment, Approved Training, and Second Benefit Year. In the past there have been other benefit programs that have been charged to the UI Balancing Account. Full descriptions of these charges are located in Appendix G.

Revenue to the Balancing Account typically comes from two sources[3]. The first and by far the largest is the solvency tax paid by employers. The second source is any interest earned on the UI Trust Fund. For 2014, the UI Trust Fund earned $2 million in interest revenue.

<u>Federal Unemployment Taxes (FUTA)</u>

Employers participating in the Unemployment Insurance system pay taxes levied by both the state and federal government. The taxes pay for different portions of the Unemployment Insurance program. The state taxes collected are used to pay benefits for Wisconsin's unemployed workers. Federal taxes are often referred to as FUTA taxes after the Federal Unemployment Tax Act. These taxes are collected for three purposes. The first is to pay for administration of the Unemployment Insurance program. The second is to pay for federally funded Extended Benefits and Emergency Unemployment Compensation (EUC). The third is to provide loans to states to pay state UI benefits when the state UI Trust Fund is below zero. In the past two years Wisconsin has accessed these federal funds for all three reasons.

1. **Unemployment Insurance Administration**
   Like all other states, the administration of Wisconsin's Unemployment Insurance program is funded by FUTA tax revenues. The United States Department of Labor determines the amount of grant funding available to each state. Receipt of federal grant funds requires compliance and conformity with federal UI law.

2. **Extended Benefits and EUC**
   Wisconsin qualified for the Extended Benefit (EB) program from February of 2009 until April 2012. Normally funding for the EB program is shared equally by both the state and

[2] While the payroll used is for the fiscal year ending June 30th, employers' 2nd quarter contribution and wage reports and payments due July 31st are reflected in this calculation if made on a timely basis.
[3] Other federally distributed funds are also credited to the UI Balancing Account. One example is the FUTA credit reduction revenue which occurs when the UI system is borrowing.

the federal government. The state portion is funded through the state's UI Trust Fund and the federal portion is funded through FUTA tax revenue. During the Great Recession, the funding for EB was entirely paid by the federal government until the end of 2013. It has now reverted to again having shared costs between the federal government and the state. If Wisconsin would qualify for EB in the future, the cost would once again be split between the federal government and Wisconsin's UI Trust Fund.

The U.S. Congress has the option of authorizing EUC payments, which they typically do during severe recessions. Funding for the additional benefits normally comes from FUTA tax revenues reserved over time for this purpose. The severe nature of the Great Recession caused Congress to authorize general tax revenue to partially fund EUC. Wisconsin claimants received EUC benefits throughout the Great Recession until Congress ended the program at the end of 2013.

3. Trust Fund Borrowing

After the Wisconsin UI Trust Fund was exhausted, Wisconsin was forced to borrow from the federal government in order to pay benefits. Wisconsin finished paying back the federal loan in 2014.

FUTA Credit Reductions

The rate for FUTA is 6.0% on the first $7,000 of an employee’s wages; however, up to 5.4% can be credited back to employers if a state’s Unemployment Insurance program meets certain requirements, including maintaining a positive UI Trust Fund balance. If a state's UI Trust Fund remains negative on January 1st for two consecutive years, the FUTA tax credit is reduced by 0.3 percentage points each year while the loan is outstanding. From 2011 through 2013, Wisconsin employers were subject to FUTA tax credit reductions with the total cost to employers of $291 million. The Wisconsin UI Trust Fund became positive in 2014, therefore; employers were again eligible for the full FUTA credit. Now that Wisconsin's UI Trust Fund is positive, a Wisconsin business with 50 full-time employees will experience a $3,150 reduction in federal unemployment taxes.

<u>Special Assessment for Interest (SAFI)</u>

Federal law prohibits using regular UI taxes to pay the interest on a federal loan to a state Trust Fund balance, so instead a separate funding source is needed. Wisconsin chose initially to pay these interest charges through a special assessment on employers. SAFI charges were assessed on Wisconsin employers to pay the interest charged on the federal loans to the UI Trust Fund. Although liability for the interest payments remained, employers were not assessed after 2012. Starting in 2013, the Wisconsin Legislature provided state general revenue to cover interest due on the UI loan.

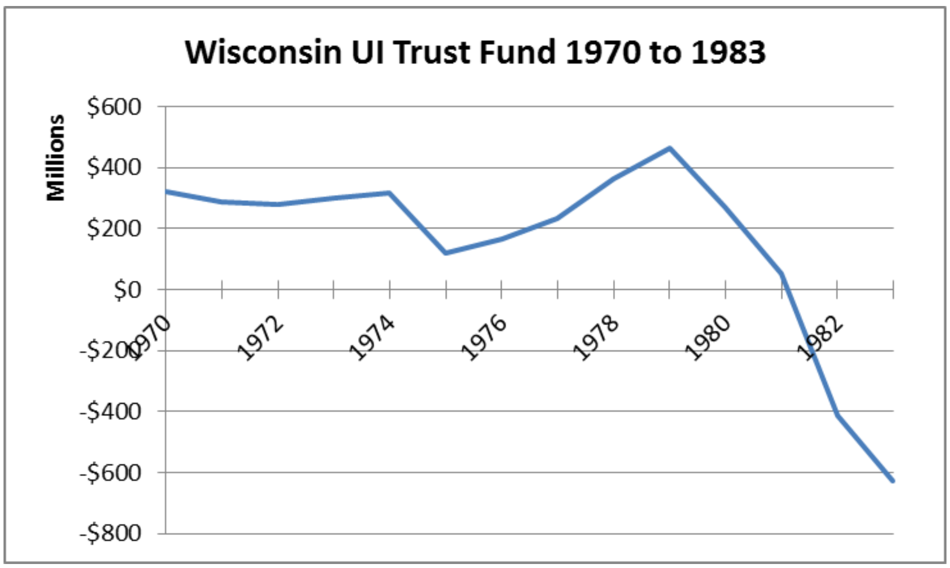
The interest assessments and the FUTA credit reduction are meant to provide incentives to keep states from allowing their Trust Funds to lapse into insolvency. Given the time inconsistency between when the interest and credit reductions are assessed and when states need to decide to build up their Trust Funds, it may not be the most effective compliance mechanism. Ideally, the system builds a large Trust Fund that is drawn down during a recession and builds back up during expansions. The Trust Fund should be large enough so that taxes would not need to be raised until after the recovery is underway.

Section 2: Modern History of the Wisconsin Unemployment Insurance Trust Fund

The Unemployment Insurance Trust Fund and Unemployment Insurance financing system has changed a great deal since the start of the Wisconsin Unemployment Insurance system in 1935. This section focuses on the modern history of the UI financing system beginning with the events that produced the current system.

Creation of Our Current UI Financing System: 1981-1982 Recession and Aftermath

Much of the current Wisconsin UI financing system developed as a response to the tribulations of the UI Trust Fund during the recession of the early 1980s. The UI Trust Fund was rapidly depleted by the recession. The Wisconsin UI system had to borrow in order to pay UI benefits.



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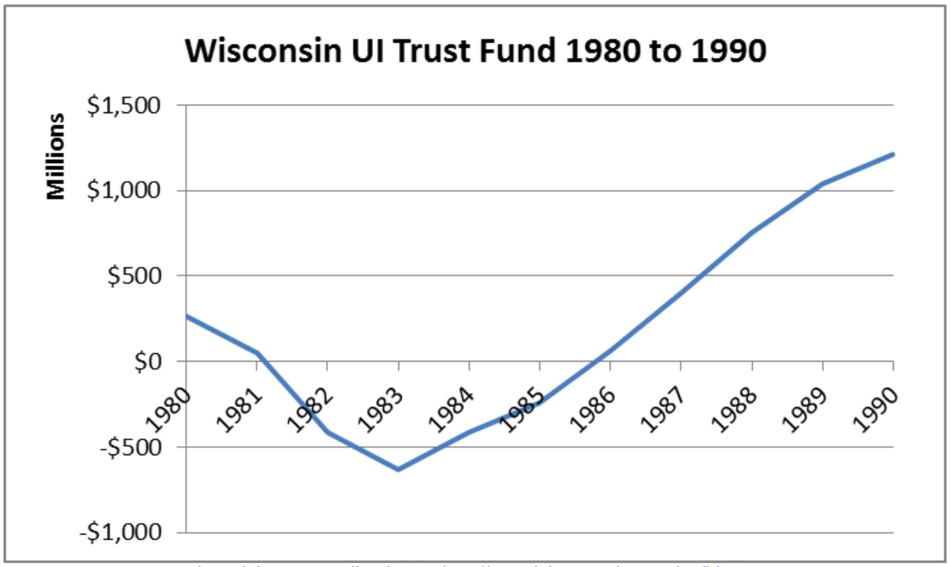
Wisconsin borrowed nearly a billion dollars ($988 million) between 1982 and 1986. To provide context, this was about 4.1% of Total Covered Payroll in the mid-1980s. The same 4.1% of Total Covered Payroll in 2014 would be about $4.2 billion. The maximum outstanding loan balance reached $737 million in 1984, which would be similar to $3.1 billion in 2014. As a result, Wisconsin's employers paid $124 million in interest.

To eliminate the large UI Trust Fund debt, the Wisconsin State Legislature passed and the Governor signed pieces of legislation that provided for a number of major changes to the UI financing system. These changes included:

- Increasing the taxable wage base from $6,000 to $10,500;
- Creating new rate schedules that are dependent on the UI Trust Fund balance;
- Increasing the Rate Limiter to 2%;
- Temporarily discontinuing the 10% write-off;
- Limiting the effect of voluntary contributions;

- Charging the state share of Extended Benefits to employers instead of the Balancing Account;
- Reducing the benefit duration from 34 weeks to 26 weeks;
- Increasing the requirements to qualify for benefits;
- Increasing the requalification requirements; and
- Eliminating the indexing of the weekly maximum benefit amount.

These changes allowed Wisconsin to rapidly repay the UI Trust Fund loan and build up a sizable UI Trust Fund by the end of the 1980s.



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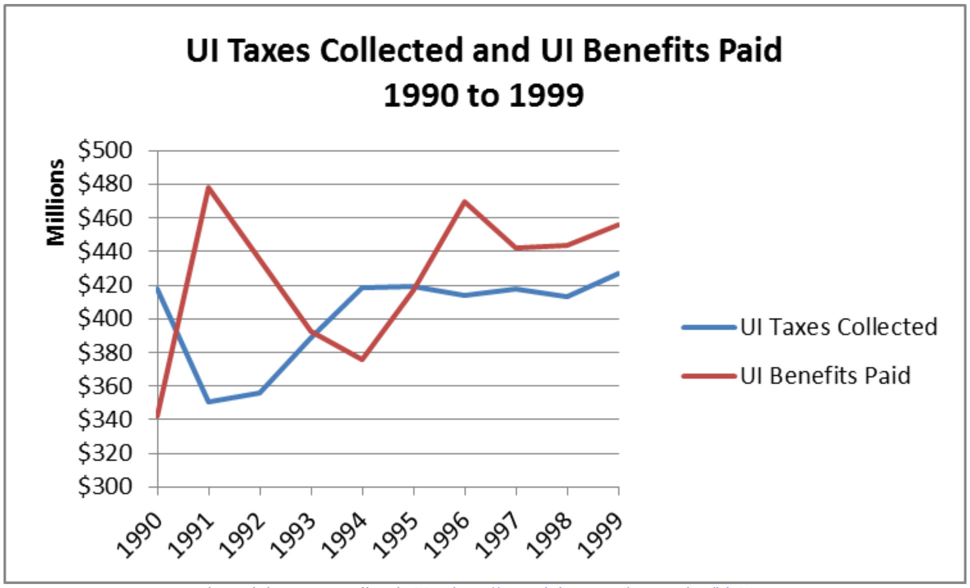
The Static UI Financing System in the 1990s

The UI Trust Fund accumulated a large balance before the onset of the 1991 recession. When the recession hit, total paid UI benefits increased and exceeded the UI tax revenue collected. As the recession wound down, tax revenue rebounded and benefits fell as expected.



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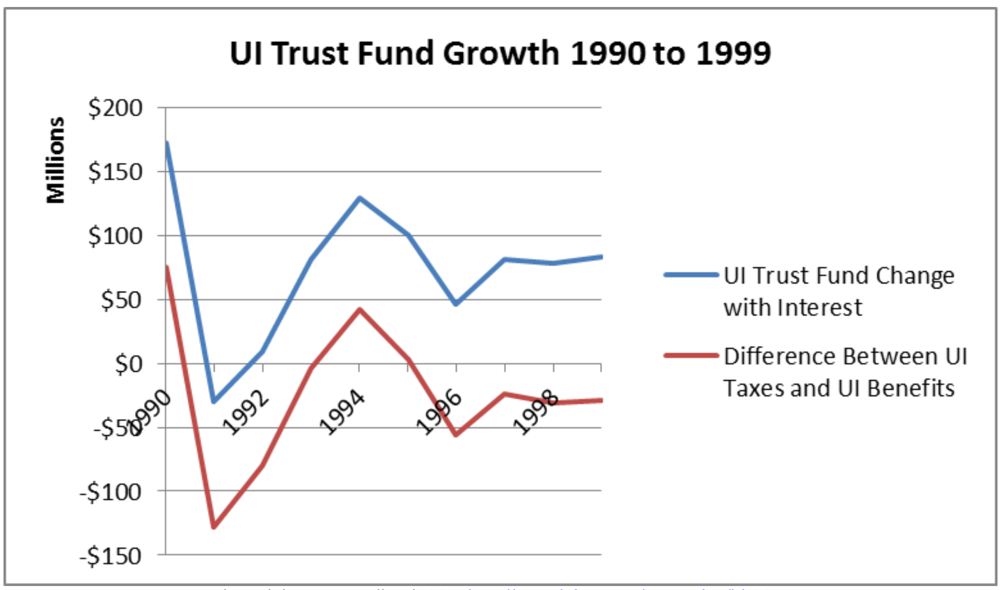

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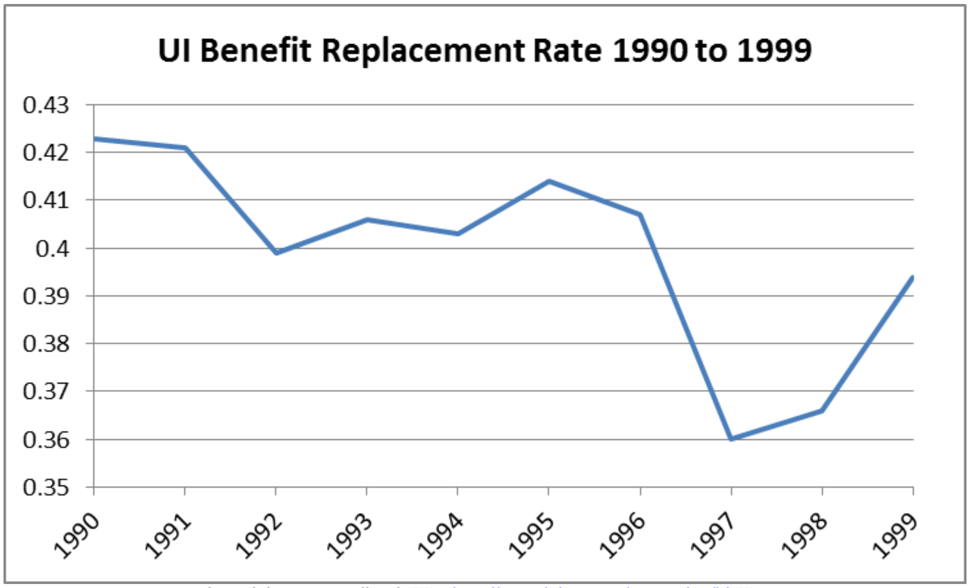
The real value of benefits to the unemployed fell during this period. The UI benefit replacement rate (the ratio of the average weekly benefit amount to the average weekly wage) declined over the 1990s. Although the benefit replacement rate was declining, UI benefits paid increased in the late 1990s due to the average wage increasing over the period.



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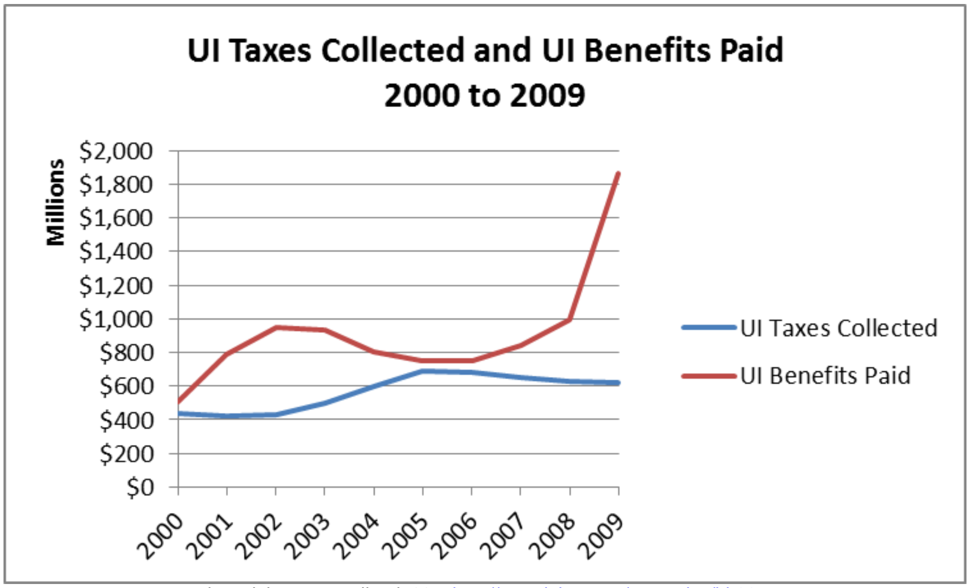
The average weekly benefit amount was 42.3% of the average weekly wage in 1990 and fell to 39.4% in 1999.

The Shrinking of the UI Trust Fund in the 2000s

The 2001-2002 recession began to expose the structural deficiencies of the 1990s. After the end of the recession, the Trust Fund continued to dwindle and taxes collected never exceeded benefits. Nationally, growth was tepid during the early part of the decade and growth was slightly slower in Wisconsin than in the nation.

The level of unemployment claims had increased over typical levels in the late 1990s. Interest earnings were no longer covering the gap between benefits and taxes. The system did not respond to either the recession or the shrinking UI Trust Fund. Taxes collected never exceeded benefits paid, and in fact started to fall even though the Trust Fund continued to decline.



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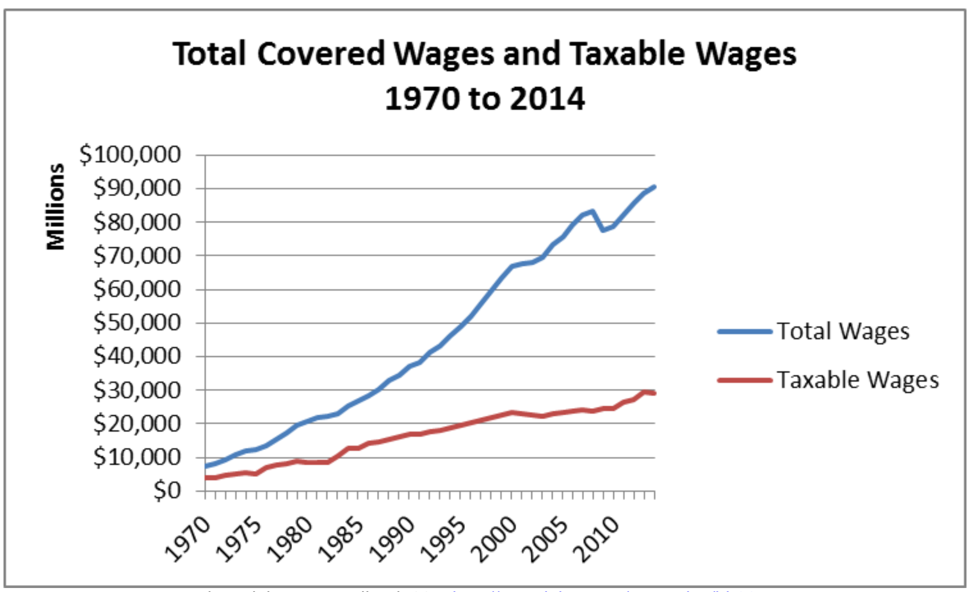
What caused the financing system to be unresponsive? There are two main reasons:

1. **UI Taxable Wage Base Not Reflective of Wage Growth**
   The taxable wage base remained at $10,500, the level set in 1986. As a result, the ratio of taxable wages to total wages fell throughout the 1990s and 2000s.

   Growing wages caused benefits payment to increase faster than tax revenue, even without a change in benefit policy. When the economy started to recover in 2003, employment did not rise as quickly as wages. Because the wage base was set in 1986, the increase in wages was not subject to taxes even though it was still increasing the risk to the system through higher benefits.



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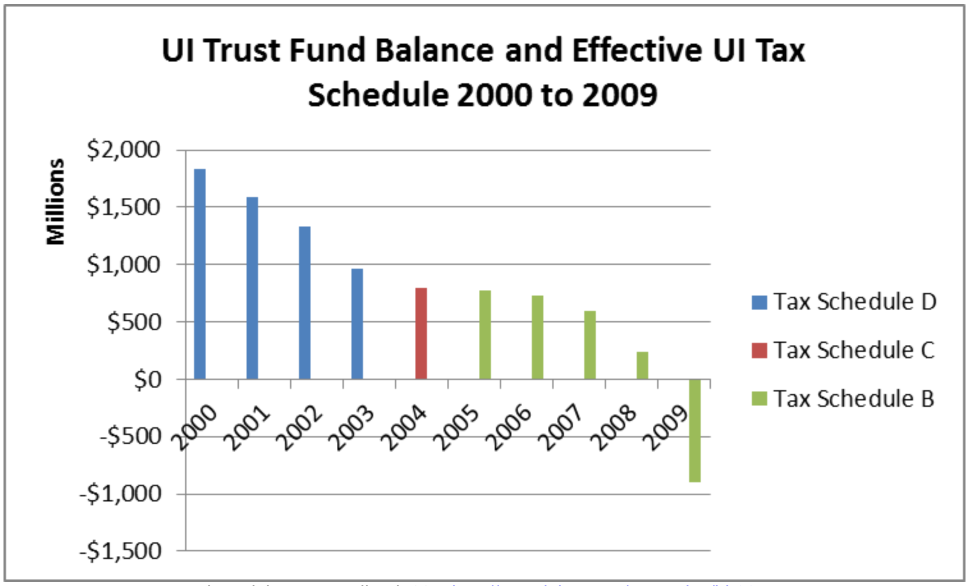
2. **The UI Tax Rate Schedule Change Triggers Reflect the 1980s Economy**
   The UI tax system is comprised of four tax rate schedules. The balance of the Trust Fund determines which schedule is in effect. When these schedule triggers were established, they reflected the Wisconsin economy of the late 1980s. However, as the Wisconsin economy grew the triggers did not. Therefore the fixed trigger amounts did not reflect the economy of the early 2000s. Even with the Trust Fund shrinking rapidly, the balance never fell below the $300 million balance threshold needed to trigger the highest tax rate schedule. Without the implementation of the higher rates in Tax Schedule A, the Trust Fund continued to shrink.



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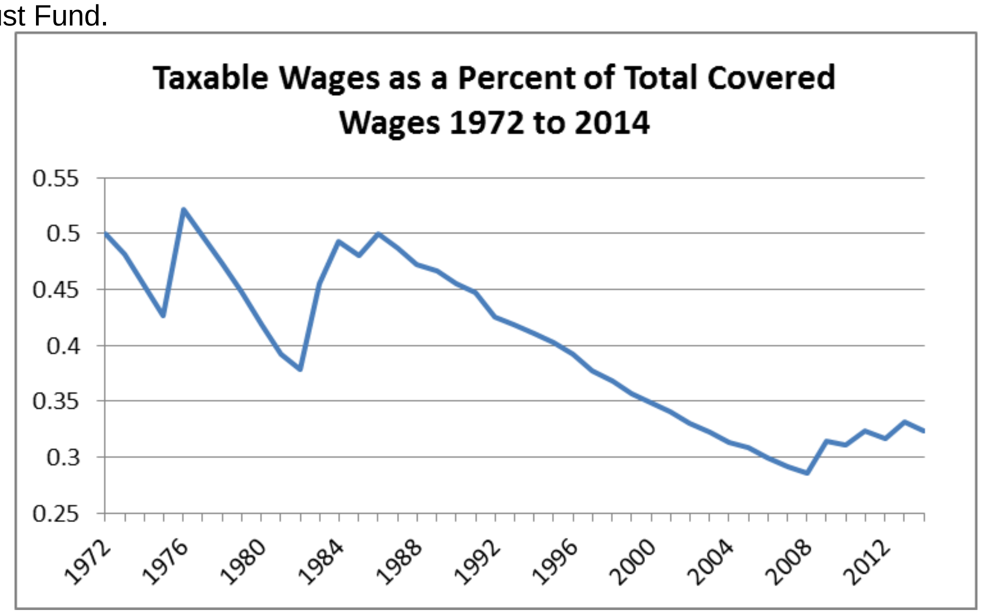
Between 2003 and the onset of Great Recession, benefits paid remained above taxes collected. Unlike in the 1990s, interest earnings were not large enough to cover the gap and the Trust Fund continued to shrink. Any type of downturn would have inevitably caused the depletion of the UI Trust Fund.



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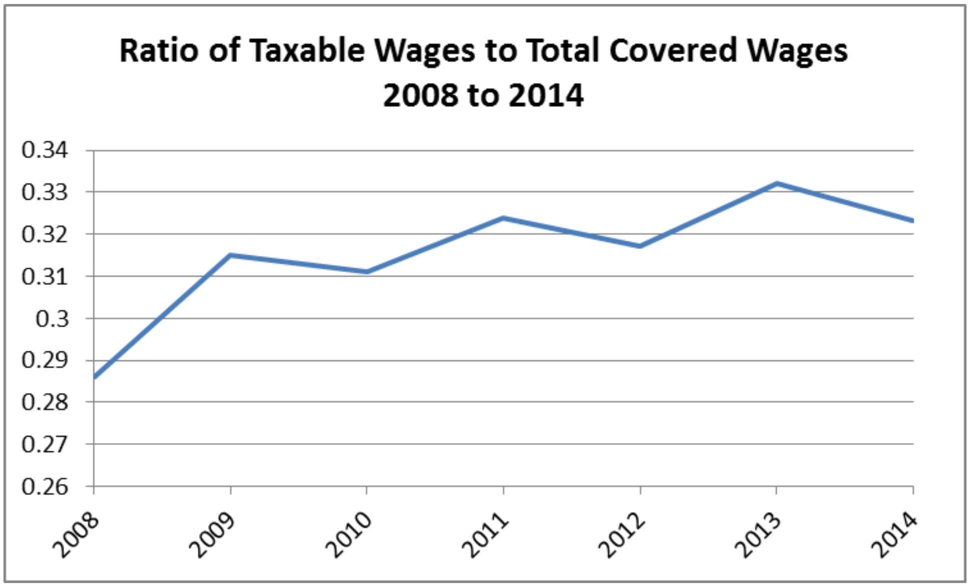
In 2008 legislation was enacted which increased the taxable wage base to $12,000 in 2009, $13,000 in 2011, and $14,000 in 2013. This helped to reduce a portion of the decline of the ratio of the UI taxable wages to overall wages. Currently, taxable wages as a percent of total wages are above where they were in 2008 when the law was put in place. However, since the wage base is now set at $14,000, as the economy grows and wages increase it will once again lose some of its value.



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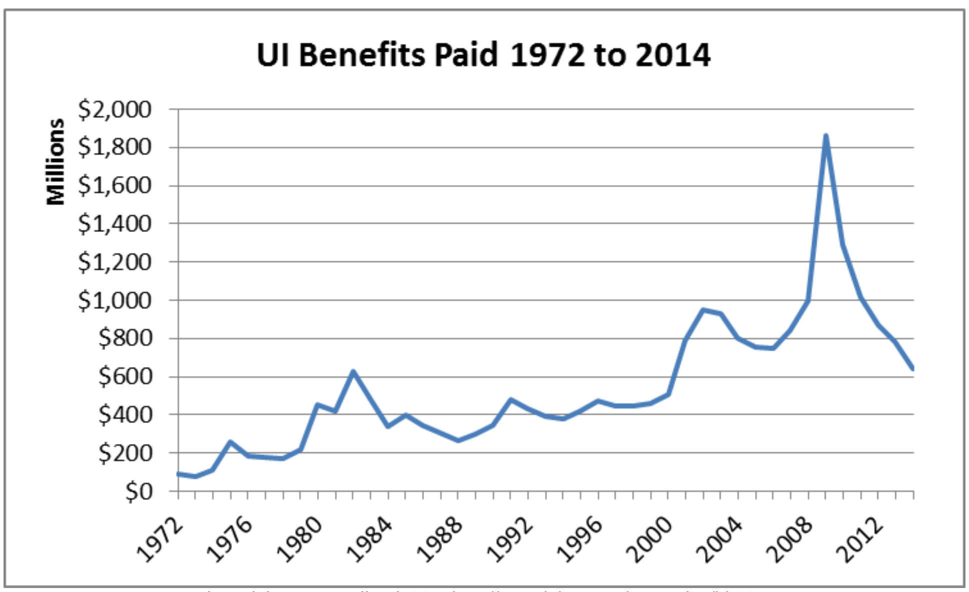
The Great Recession



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The Great Recession strained the entire nation's Unemployment Insurance system, Wisconsin included. The Great Recession's initial impact on the Wisconsin UI system started in 2007, but it was not until 2008 and 2009 that UI benefits increased dramatically while overall employment fell. In raw dollar terms, the four largest benefit outlays in Wisconsin history occurred in the years 2008, 2009, 2010, and 2011, with the largest amount, $1.8 billion, occurring in 2009.

5 Highest Benefit Years based on Benefits Paid as a Percent of Total Payroll 1972-2014

Year	Benefits as a Percent of Total Payroll
1982	2.84
2009	2.41
1980	2.17
1975	2.13
1983	2.11

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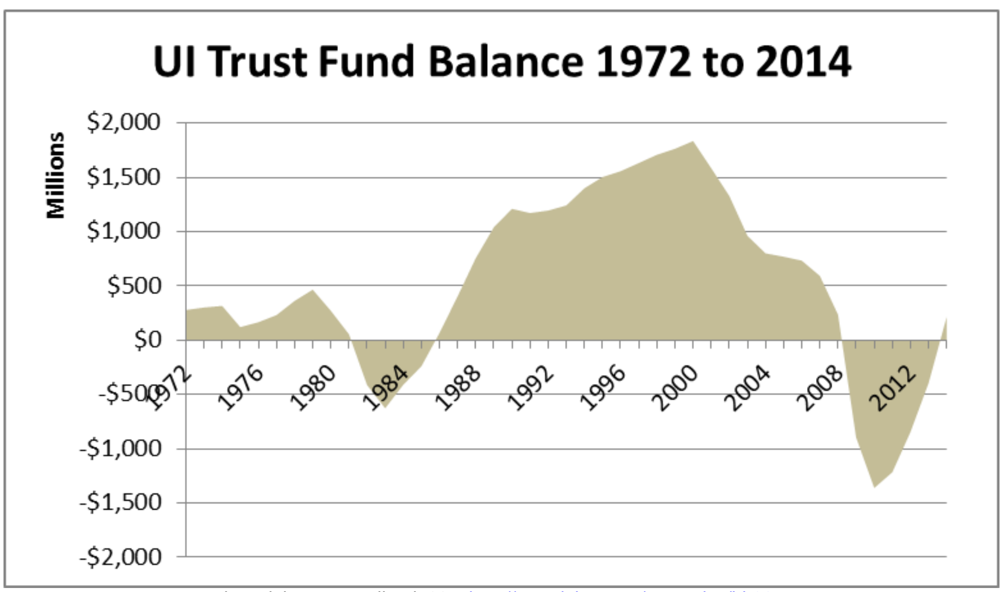
A better way to measure benefit expenditures is by comparing it to the amount of wages in the economy. Payroll can be viewed in terms of how many dollars are at risk. An analogy can be made to homeowners insurance. The more expensive the home, the more money that needs to be paid out if there is a fire. For Unemployment Insurance, the more wages in the economy, the more benefits that will need to be paid during a recession.

When looking at benefits as a percentage of total payroll, the percentage during the Great Recession, while high, is below benefit payments during the 1981-1982 recession. When viewed from this perspective, only 2009 is among the highest benefit years since 1972. The level of benefits paid during the recent recession was in line with other recessions and reflected the growth of the economy and the increase in total payroll over 4 decades.



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As shown the Wisconsin UI Trust Fund was shrinking throughout the 2000s; the Great Recession was the catalyst that caused the UI Trust Fund to borrow in order to pay UI benefits.

The decline of the UI Trust Fund and the need to borrow to pay benefits led to policy responses taking effect. Some of these policy responses were in place due to currently existing laws and regulations:

- The reduction in the FUTA tax credit. Revenue from the tax credit reduction is used only to pay off the Trust Fund loan.

- Trigger to the highest Wisconsin UI tax schedule, Schedule A. When the Trust Fund fell below $300 million in 2009, Schedule A went into effect for 2010. This schedule raises approximately $90 to $100 million more per year than the next schedule, Schedule B. When the Trust Fund balances exceeds $300 million, an automatic trigger to UI tax Schedule B will occur.

  By the time the Wisconsin UI financing system switched to Tax Schedule A, however, the UI Trust Fund was already exhausted. This is an indicator that the dollar value assigned to the trigger amounts was too low to prevent the need to borrow from the federal government. To put it in perspective, quarterly benefit payments have exceeded $300 million in 8 of the 16 quarters between 2009 and 2012.

There were three Wisconsin legislative changes meant to address the structural deficit in the UI Fund during and following the Great Recession:

- Considering 32 hours to be fulltime work

- Eliminating partial benefits for anyone who earns over $500 per week

- Establishing a Waiting Week for UI claimants

The largest positive impact results from the establishment of the waiting week. The first week that an individual is otherwise deemed eligible for benefits is withheld. This does not reduce the maximum amount of benefits to which a person is entitled; rather, it requires that a claimant file for one eligible week before getting paid. The expected impact is a reduction in the amount of benefits paid by approximately 5% per year. For 2014 this amounted to approximately $32 million in reduced benefit payments.

Recovery and Paying Off the UI Trust Fund Loan

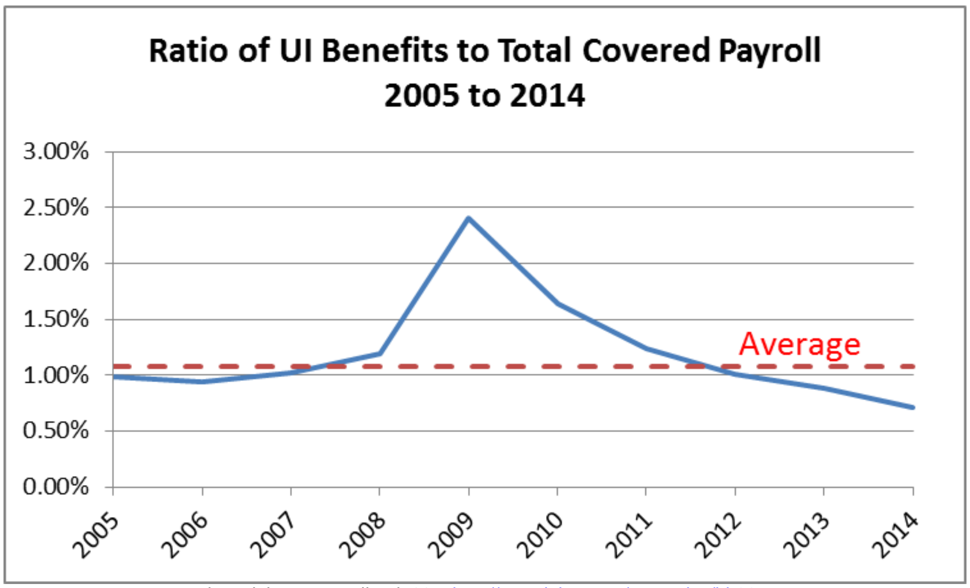
The nation experienced a slow recovery following the end of the Great Recession. This meant an attending slow employment recovery meant that many people were on UI for long periods of time. Many of these additional weeks came under Emergency Unemployment Compensation (EUC) which meant that the Wisconsin UI Trust Fund was not responsible for paying those benefits. The current low level of benefits paid is both a result of an improving economy and a diminished wage base for many people who can no longer qualify for UI benefits going forward due to lack of employment.

There are three significant factors that helped pay off the UI Trust Fund loan and allowed for a positive balance:

1. Low level of UI benefits paid due to a reduction in filing activity;
2. Increase in UI tax revenue due to the highest tax rate schedule being in effect and a decline in employer experience rating due to high benefit payments; and
3. FUTA tax credit reduction.

Wisconsin UI Benefits

UI benefits were elevated through 2011. UI benefits fell to a more normal level in 2012.In 2013 UI benefits fell to an amount below average, and 2014 UI benefits were substantially below average. The low level of UI benefits has reduced expenditures from the Wisconsin UI Trust Fund.



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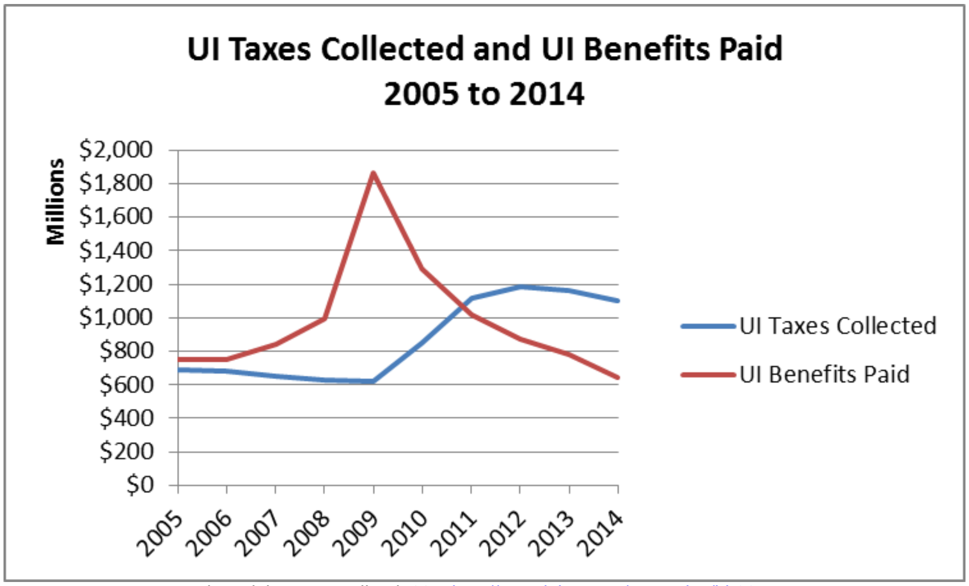
UI Tax Revenue

While UI benefits have declined rapidly, UI tax revenue has declined at a slower rate. The UI Trust Fund has started building up balances as the net difference between taxes and benefits grows. This is only a short-term trend, however, as better experience ratings and a shift to lower tax schedules is set to reverse the positive trend in coming years. See Section 6 for a detailed outlook for the future of the UI Trust Fund.



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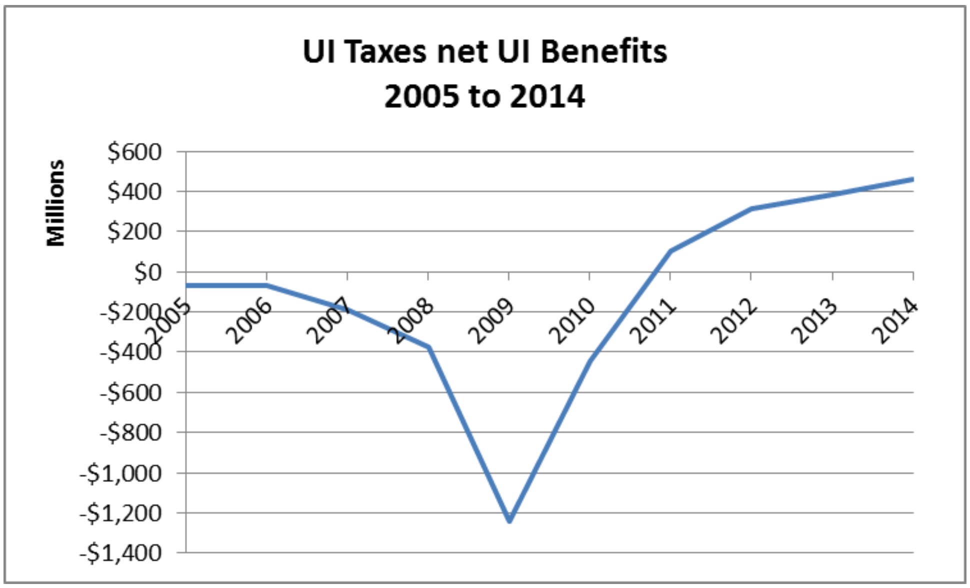

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FUTA Tax Credit Reduction

For states that borrow from the U.S. Treasury, the FUTA tax credit is reduced according to the number of years a state has borrowed. Employers in Wisconsin had their credit for their Federal Unemployment Taxes (FUTA) reduced leading to higher federal unemployment tax bills. The funds the federal government collects are used to reduce the state's debt. The FUTA credit reduction experienced by Wisconsin employers added approximately $291 million to the UI Trust Fund. Without the revenue from the FUTA credit reduction the Wisconsin UI Trust Fund would still have been negative until first quarter receipts at the end of April 2015.

Cost of Wisconsin UI Borrowing during and after the Great Recession

Borrowing in order to pay UI benefits has costs associated with it that are borne by UI employers and other Wisconsin taxpayers. As mentioned above, the reduction in employer's FUTA credit increased federal UI taxes by $291 million over the years 2012 to 2014. It is important to note two things about the FUTA tax increase that differentiates it from state UI taxes. The first is that it's a flat wage tax, meaning the tax rate is not experience rated. Employers are taxed at the same rate no matter how much or how little they have used the UI system in the past. The second difference is that the FUTA tax does not affect future tax rates. If employers paid $291 million in higher state UI taxes, their future tax rates will decline as they built up their employer account. The FUTA taxes are not credited to employers.

The other large borrowing cost was interest payments on the loans received. In total, UI Trust Fund Borrowing accumulated $103 million in interest costs. Of this amount, $78 million was paid by employers through the Special Assessment for Interest (SAFI). The remaining $25 million was paid through the use of Wisconsin General Purpose Revenue (GPR) funds. Interest rates during this recession were low; however, low interest rates do not accompany every recession. The 1982 recession had very high interest rates. In the future it is possible the interest cost could be much higher if interest rates are higher.

Direct Costs of Wisconsin UI Borrowing during and after the Great Recession (Millions of $)

	2011	2012	2013	2014	**Total**
FUTA Credit Reduction		$47	$96	$148	**$291**
Trust Fund Loan Interest Paid Via SAFI	$42	$36			**$78**
Trust Fund Loan Interest Paid Via GPR			$19	$6	**$25**
Total Borrowing Costs					**$394**

Wisconsin UI Tax Data

Section 3: Recent UI Law Changes with Significant Impact on the UI Trust Fund

The 2013-2014 legislative session resulted in a number of law changes to Unemployment Insurance since the publication of the previous Financial Outlook. Listed here are changes that have estimated impacts to the UI Trust Fund greater than $1 million per year.

Redefining Misconduct and Establishing the New Category of Substantial Fault

2013 Wisconsin Act 20 redefined misconduct in UI law. The definition of misconduct was changed and specific, though not exhaustive, examples of what may be considered misconduct were enumerated. In addition, a new lower, standard was created, "substantial fault." This includes acts or omissions of an employee over which the employee exercised reasonable control and which violate reasonable requirements of the employee's employer.

Along with the change in the standard for disqualifying, the penalty was changed. Both standards have a requalification requirement of the claimant earning seven times the weekly benefit rate and earning wages for at least fourteen weeks before claiming again. The difference between the two standards is the treatment of wages. Under misconduct, the wages from the separating employer are removed from the base period, lowering the maximum benefit amount if the claimant requalifies for benefits. With substantial fault, the wages remain in the base period for the claimant. This law change is expected to save the UI Trust Fund approximately $10.6 million per year.

Elimination and Modification of Quit Exemptions and Change of the Requalification Requirement

2013 Wisconsin Act 20 removed and recombined the quit exemptions in UI law. In addition, the requalifying requirements were changed from 4 weeks of wages and earning 4 times the weekly benefit rate to having the claimant earn 6 times the weekly benefit rate. These changes are expected to save the UI Trust Fund approximately $7.6 million per year.

Contribution Financing Tax Rates

2013 Wisconsin Act 20 amended the UI tax schedule so that overdrawn employers with reserve percentages lower than negative 7.0 percent have higher contribution rates. The highest contribution rate increased from 8.5 to 10.7 percent of taxable payroll. Also, each of the four schedules amended the solvency tax so that in each of the added contribution rates in each of the four schedules the solvency rate is set at 1.30 percent of taxable payroll. These additional taxes are expected to increase UI tax revenue by approximately $23.5 million per year.

Department Error Benefit Overpayments

2013 Wisconsin Act 36 redefined what is considered department error in the establishment of overpayments. If an overpayment is determined department error, the claimant is not required to reimburse the department for benefits paid in error. This law change clarifies what can be considered department error. This is expected to save the UI Trust Fund approximately $1 million per year.

SSDI and UI Payments

2013 Wisconsin Act 36 provides that a claimant cannot simultaneously collect both Social Security Disability Insurance (SSDI) and UI benefits. This is expected to save the UI Trust Fund approximately $1.5 million per year.

Financial Record Matching

In order to be able to better recover delinquent balances, 2013 Wisconsin Act 36 authorizes the Department to enter into agreements with financial institutions to match UI delinquent debtor files against accounts held at Wisconsin financial institutions. This is expected to increase the UI Trust Fund by approximately $8 million per year due to increased collections.

Repeal Extended Training Benefits

2013 Wisconsin Act 36 eliminates extended training benefits for claimants who enter training after exhausting regular UI benefits. Such benefits were charged against the UI Trust Fund's Balancing Account. This is expected to save the UI Trust Fund approximately $7.6 million per year.

Increase Weekly Benefit Amount

2013 Wisconsin Act 36 increased the maximum weekly benefit rate from $363 to $370 beginning in 2014. The minimum weekly benefit rate remained at $54 per week. This is expected to cost the UI Trust Fund approximately $7.6 million per year.

These changes along with other law changes with smaller fiscal impact included in 2013 Wisconsin Acts 20 and 36 are expected to save the UI Trust Fund approximately $54 million per year.

Section 4: UI Trust Fund Projection

The UI Trust Fund balance is projected to grow slowly over the next two years. This near term growth is due to revenues exceeding benefits, with low levels of benefit payments over the next four years while UI tax collections are expected to decline significantly over this time frame. The UI Trust Fund, while positive over this period, is not expected to grow fast enough to prevent substantial borrowing in the case of an economic downturn.

Underlying Economic Assumptions

The UI Trust Fund forecast is based upon growth rates estimated by the Congressional Budget Office (CBO) for the years 2015 through 2017 and published in the January 2015 The Budget and Economic Outlook 2015 to 2025. Economic growth for the United States is expected to be above average over the entire period, with higher growth in 2015 and 2016 and slightly slower growth in 2017. Using the forecasts for growth in the U.S. over the next three years, similar forecasts were developed for economic growth in Wisconsin. These economic forecasts then serve as a basis for UI benefit and UI tax revenue forecasts.

Projected UI Trust Fund Balance

Unemployment Insurance Reserve Fund Activity and Condition

(in millions)

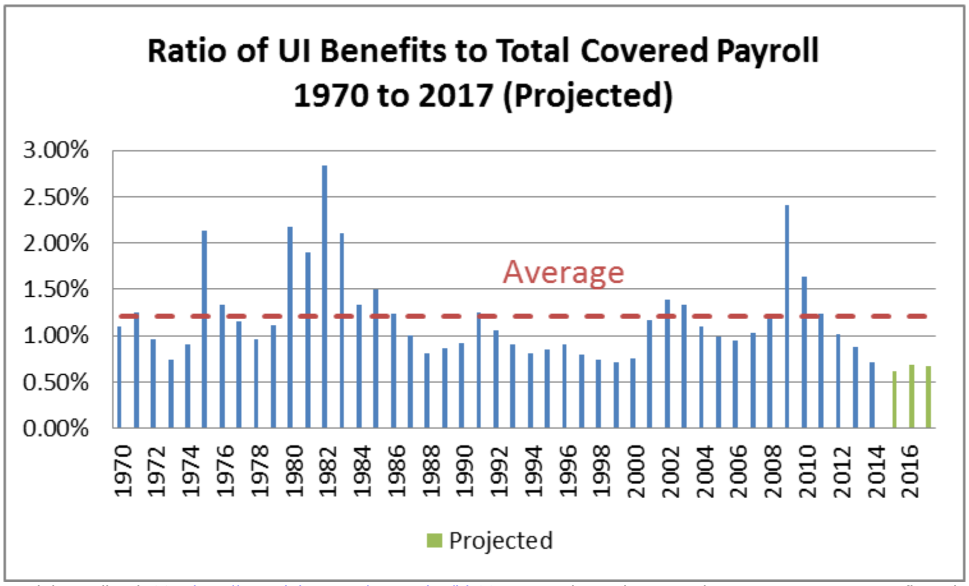
Year	2014	2015	2016	2017
Opening Unemployment Reserve Fund Balance	**($401)**	**$214**	**$644**	**$805**
Revenues:				
State Unemployment Revenues (employer taxes)	**1,107**	**1,007**	**816**	**753**
Interest Income	**2**	**11**	**18**	**21**
Federal Revenues (FUTA credit reduction)	**148**	**0**	**0**	**0**
Total Revenue	**1,257**	**1,018**	**834**	**774**
Expenses:				
Unemployment Benefit Expense	**642**	**588**	**673**	**692**
Ending Unemployment Reserve Fund Balance	**214**	**644**	**805**	**887**

Projections from Wisconsin Unemployment Insurance Division based upon Wisconsin Unemployment Insurance data and the U.S. Congressional Budget Office The Budget and Economic Outlook 2015 to 2025 January, 2015.

The Wisconsin UI Trust Fund finished 2014 with a positive balance of $214 million; the first time the UI Trust Fund had a positive balance at the end of a year since 2008. Over the next three years, the UI Trust Fund is expected to grow to a balance of $887 million at the end of 2017. This is similar in dollar terms to the balance the UI Trust Fund had at the end of 2003 (though substantially less when compared to the overall size of the economy). The UI Trust Fund is expected to continue to grow generally due to continued historically low benefit amounts. UI tax revenue, while high for the first two years, is expected fall significantly for 2016 and 2017. This is due, in part, to the UI Tax Schedule, which is projected to change from the highest tax schedule, Schedule A, down to the next lower schedule, Schedule B. This change alone reduces annual tax revenue by $90 to $120 million under current economic circumstances.

Projected UI Benefits

UI benefit payments in 2014 were the lowest since 2000 despite having an unemployment rate approximately two percentage points higher than in 2000. To normalize for economic growth, it is beneficial to look at benefit payments relative to the total amount of covered payroll. For 2014, UI benefits were 0.71% of covered payroll. This was the lowest amount since 1969 and an amount far below what is typically seen. The average percentage for 1970 to 2013 is 1.22% and the median is 1.07%.



ET Financial Handbook 394, http://ows.doleta.gov/unemploy/hb394.asp, Wisconsin Unemployment Insurance Benefit Projections

The UI benefit projection for the next 3 years is based upon the CBO projected U.S. unemployment rate for 2015 through 2017. This leads to a slight increase in the dollar amount of projected benefits in 2016 and 2017 as payrolls and overall employment are expected to increase.

Projected UI Trust Fund Revenue

Total revenue into the Trust Fund is expected to fall considerably over the next three years. There are three main factors contributing to the decline in revenue: the end of the FUTA credit reduction; the recent decline in benefits leading to declining employer tax rates; and the shift of UI tax schedules from UI Tax Schedule A to UI Tax Schedule B.

FUTA Credit Reduction Ending

The credit employers received on their federal UI taxes was reduced due to the Wisconsin UI Trust Fund borrowing from the federal government to pay benefits during the Great Recession.

In accordance with federal law, the revenue generated by this credit reduction was used to pay back the loan. The FUTA credit reduction increased Wisconsin UI tax revenue by approximately $47 million in 2012, $96 million in 2013, and $148 million in 2014 for a total of $291 million over the three years. Without the additional revenue from the FUTA credit reduction, the Wisconsin UI Trust Fund would still be borrowing to pay UI benefits until 2015 first quarter tax payments are received.

At the end of 2014, the UI Trust Fund was no longer borrowing. Importantly, the Wisconsin UI Trust Fund had a positive balance on November 9th, 2014 the date used to determine whether there will be a credit reduction for the year. Since the balance was positive, there is no longer a FUTA credit reduction lowering the federal UI tax rate for Wisconsin Employers. In addition, by ending the year with a positive balance, the escalating scale of the FUTA credit reduction has been reset.

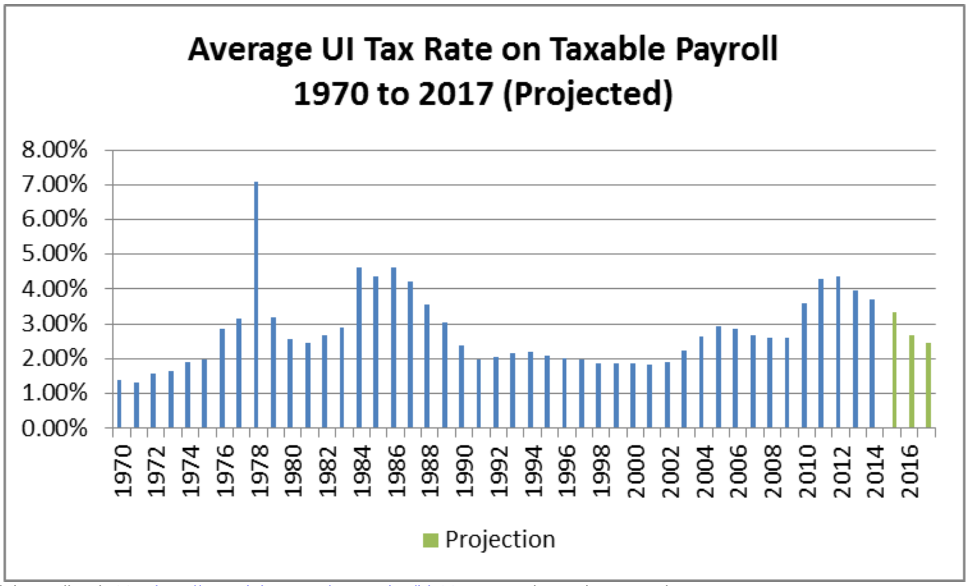
There are no projections of negative balances that would lead to further FUTA credit reductions through 2017. The UI Trust Fund revenue is expected to fall by $148 million in 2015 due to the end of the FUTA credit reduction. There is no reason to expect future credit reductions and the accompanying revenue during the projection period.

UI Trust Fund Interest

The UI Trust Fund is deposited with the United States Treasury and any positive balance earns interest for the UI Trust Fund. During the projection period, the UI Trust Fund is expected to earn an increasing amount of interest in each of the next two years, increasing from $11 million in interest in 2015 to $21 million in 2017. However, interest rates over the next decade are expected to be fairly low compared to the 1990s. With lower interest rates and lower UI Trust Fund balances, interest income is not expected to be a large source of UI Trust Fund revenue.

Declining UI Tax Rates

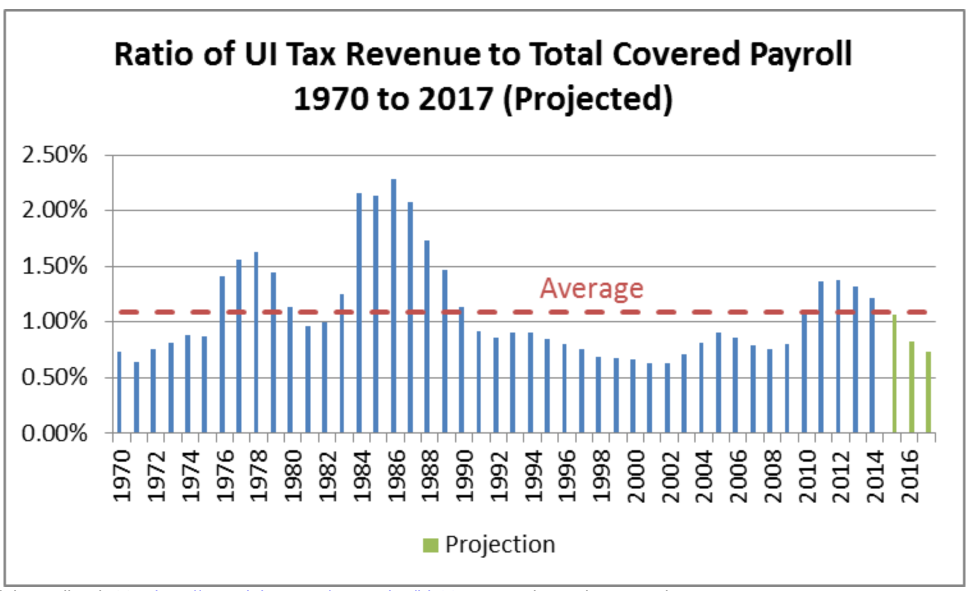
A combination of factors has led to employers improving their Reserve Fund position and reducing their tax rates. First, UI benefit payments have been decreasing over the past two years. Secondly, there have been increased employer contributions over the past five years due to UI Tax Schedule A, the highest tax schedule, being in effect. This additional tax revenue combined with the decline in benefit charges improved many employers' Reserve Fund balances. The lower tax rates reduced UI tax revenue from 2013 to 2014 and will continue to reduce projected UI tax revenue through 2017.



ET Financial Handbook 394, http://ows.doleta.gov/unemploy/hb394.asp, Wisconsin Unemployment Insurance UI Tax Revenue Projections

UI Tax Schedule Change

UI Tax Schedule A has been in place since 2009 due to the UI Trust Fund balance falling below $300 million. As the UI Trust Fund balance improves, it is expected to be above $300 million on June 30, 2015, at which point the UI Tax Schedule will automatically change to the next lowest schedule for tax year 2016, UI Tax Schedule B. This is expected to reduce UI tax revenue by approximately $97 million per year. This will occur in 2016 and is the major reason UI tax revenue is projected to fall from $1.0 billion in 2015 to $816 million in 2016.

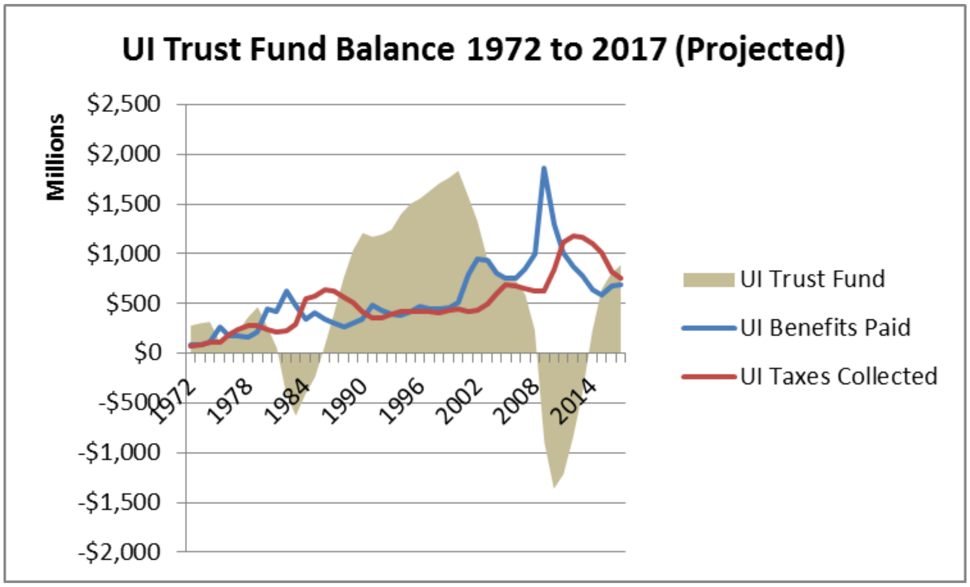


ET Financial Handbook 394, http://ows.doleta.gov/unemploy/hb394.asp, Wisconsin Unemployment Insurance UI Tax Revenue Projections

UI Trust Fund Balance

While the Wisconsin UI Trust Fund balance is expected to remain positive throughout the short-term forecast period, the risk to the UI Trust Fund is still very high. In 2017 the amount of UI benefits paid and the amount of UI revenue collected are projected to be virtually equal. This means that UI Trust Fund can only be expected to grow slowly or perhaps decline after 2017.

The forecast assumes fairly consistent economic growth over the next few years. Slowing economic growth would lead to a further reduction in UI tax revenue and an increase in benefit payments.

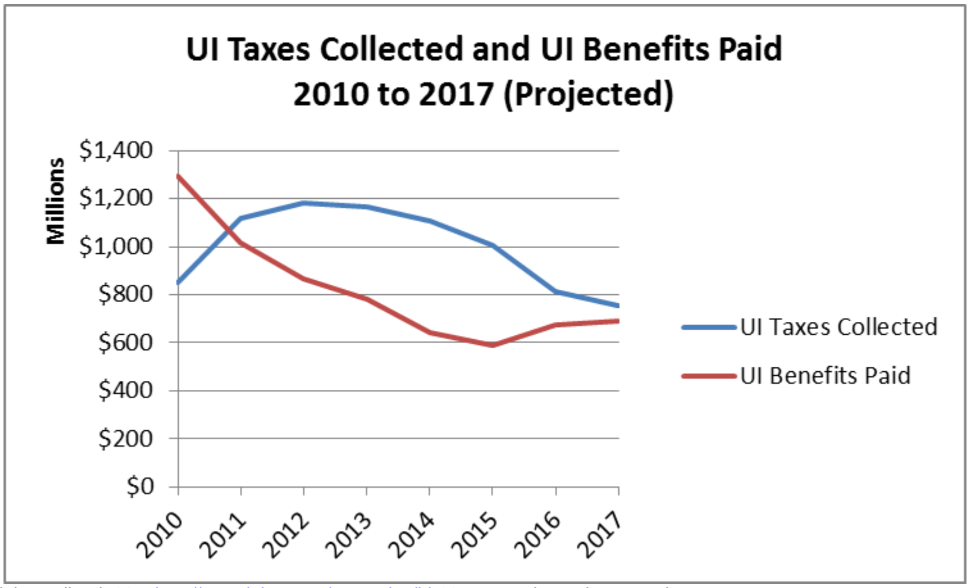


ET Financial Handbook 394, http://ows.doleta.gov/unemploy/hb394.asp, Wisconsin Unemployment Insurance UI Tax Revenue Projections

If UI benefits were to return to a more normal level as a percentage of total payroll, benefits would be expected to soon outpace UI tax revenue and the UI Trust Fund would begin to decline. This would mirror the shrinking of the UI Trust Fund in the years leading up to the Great Recession.

As can be seen, UI taxes are falling and are threatening to fall below UI benefits. This would likely cause the UI Trust Fund to decrease.

Currently year end projections for the UI Trust Fund in 2016 and 2017 are $805 million and $887 million respectively. The UI Trust Fund balance which triggers a change from Schedule B to Schedule C is $900 million. With projected UI Trust Fund balances over $800 million, it is very possible that Wisconsin would trigger on to Schedule C during the forecast period. Schedule C would further reduce UI tax revenue by approximately $37 million per year.



ET Financial Handbook 394, http://ows.doleta.gov/unemploy/hb394.asp, Wisconsin Unemployment Insurance UI Tax Revenue Projections

UI Trust Fund Sufficiency

The UI Trust Fund balance, while positive throughout the forecast period, is insufficient for any long-term period of time. If Wisconsin were to enter a recession, there is little chance that Wisconsin would avoid borrowing to pay UI benefits.

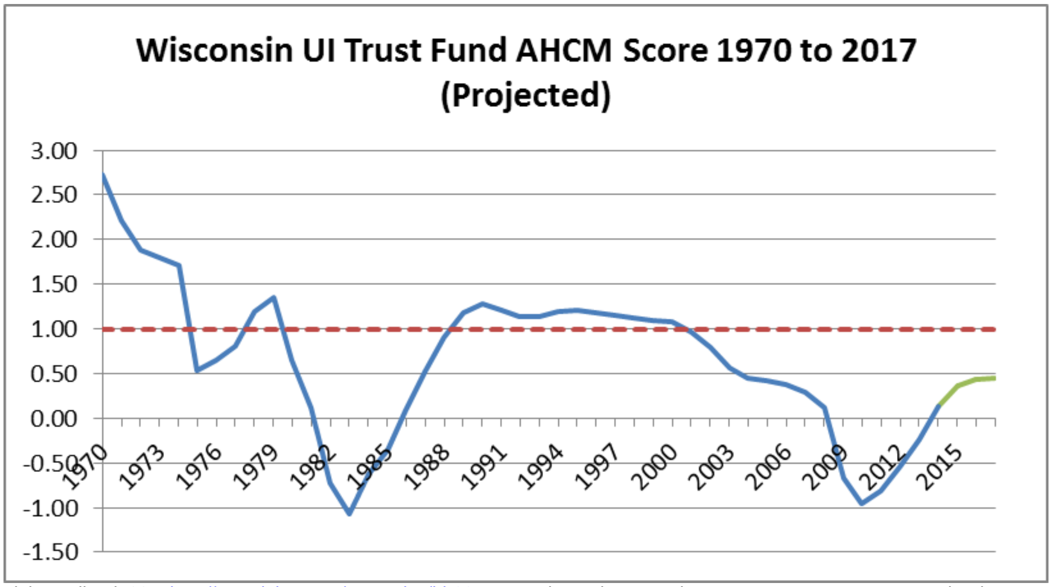
Average High Cost Multiple

Many different measures have been developed to determine if a state UI Trust Fund is sufficient to pay UI benefits in the event of a recession. The strongest measures are those that determine the balance that should be held based upon the historic amount of benefits paid during previous recessions while at the same time accounting for growth in the economy. The measure known as the Average High Cost Multiple (AHCM) achieves both these goals. The AHCM looks at UI benefits as a percentage of Total Covered Payroll, also known as the benefit ratio. The benefit ratio accounts for economic growth while looking only at dollar outlays ignores both growth and inflation.

The AHCM finds the highest three benefit ratios of the last 20 years or three recessions (whichever time period is longer), which are then averaged to provide a benchmark. For Wisconsin, these three years are 2002, 2009, and 2010, with corresponding benefit ratios of 1.39, 2.41, and 1.64 respectively. This places the current AHCM at a relative low for Wisconsin. It no longer includes any of the rather large benefit amounts from the early 1980's recession. The average ratio for Wisconsin currently is 1.81, which corresponds to a UI Trust Fund balance of approximately $1.6 billion for 2014.

If a UI Trust Fund has sufficient funds to cover an annual payout equal to this benefit rate, it receives an AHCM of 1.0 which then serves as an index for the Fund. A score of 2.0 represents 2 years of benefits at the highest average rate; likewise a score of 0.5 represents 6 months. The U.S. Department of Labor recommends that a state UI system have a UI Trust Fund balance large enough to have an AHCM of 1.0 or greater.

Historically, Wisconsin has been able to achieve an AHCM of 1.0. This occurred despite the fact that the previous UI Trust Fund balances as a percentage of total covered payroll required to meet 1.0 were higher than what is currently needed.



ET Financial Handbook 394, http://ows.doleta.gov/unemploy/hb394.asp, Wisconsin Unemployment Insurance UI Trust Fund Balance Projections

In 2007, if Wisconsin had maintained a UI Trust Fund balance that had an AHCM 1.0 or greater, the Wisconsin UI system would have been less likely to borrow during the Great Recession. There would perhaps have been the need for interest free short term loans to pay benefits during peak usage periods. This means that there would have been no SAFI assessment to employers. In addition, without needing to borrow, there would have been no FUTA credit reduction to employers. The total savings to employers would have been $369 million.

The above chart illustrates that Wisconsin's UI Trust Fund is not expected to approach an AHCM of 1.0 during the projection period. Given the expected falling of UI tax revenue going forward after the end of the projection period, it is unlikely that under current policy that the Wisconsin UI Trust Fund will approach an AHCM of 1.0 in the next decade.

Decline of the AHCM during the 2000s

During the decade preceding the Great Recession, the Wisconsin UI Trust Fund's AHCM was in decline. Wisconsin UI benefits began to slightly exceed UI tax revenue in 1996, even though the difference between benefits and UI tax revenue was less than interest income until 2001. Starting in 2001, UI benefit payments exceeded UI tax revenue and interest income for every year until 2011. When the Great Recession caused a shift in the UI Tax Schedule to Schedule A and employers' tax rates increased based on their experience, UI tax revenue exceeded UI benefits paid.

Even if the Great Recession had not occurred the Wisconsin UI Trust Fund was still on a trajectory to continue to shrink over time. It would likely have continued to decrease until the point in time when the balance would have dipped below $300 million, triggering UI Tax Schedule A. At this point the higher UI tax revenue would have equaled or slightly exceeded UI benefit payments. While the UI Trust Fund may have remained positive without the Great Recession, it would have declined to a very small balance.

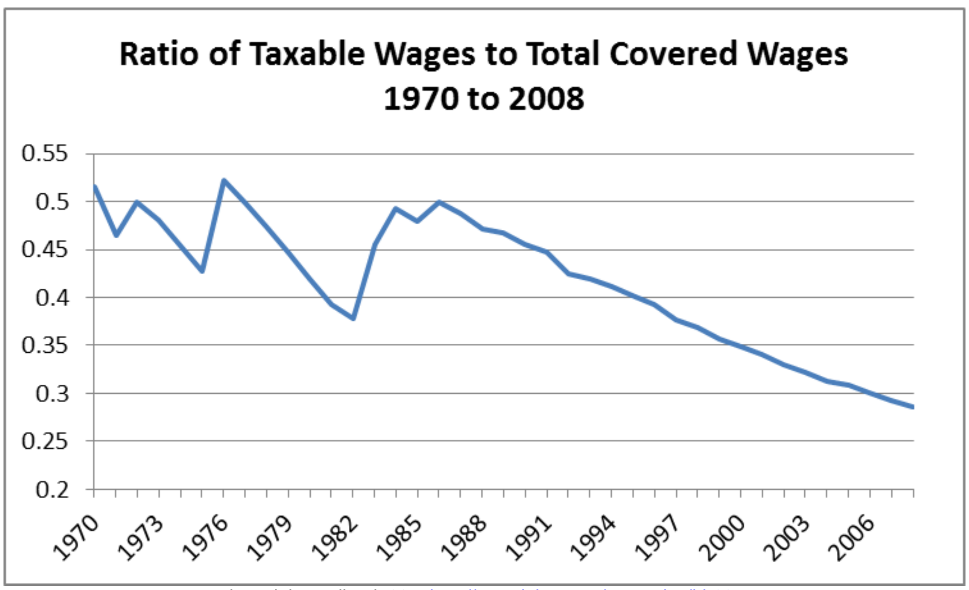
Policy Changes during the 2000s to Strengthen the UI Financing System

Implementation of the UI Benefit Waiting Week

The return to having claimants claim a week before being eligible for benefits occurred in January 2012. This will continue to reduce the amount of UI benefits paid out to UI claimants. .

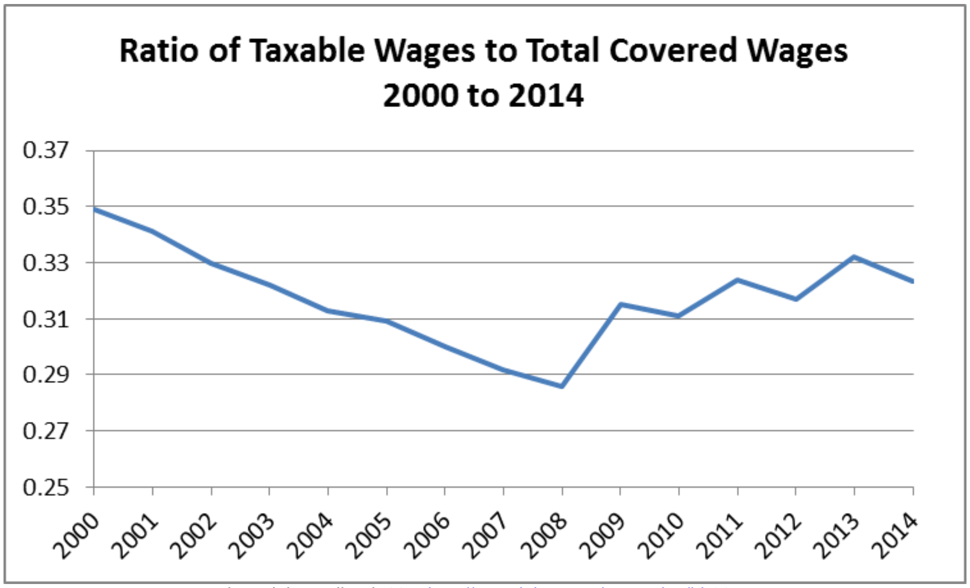
Increase of the UI Taxable Wage Base

The UI taxable wage base was increased in stages from $6,000 in 1982 to $10,500 in 1986 and remained at that level until 2009. During the period 1986 until 2008 the average weekly wage increased from $347 a week to over $734 a week. Over this period, the percent of a covered worker's wage that was subject to UI taxes declined significantly. Of note, between 1970 and 1995, this ratio only fell below 0.4 in two years, 1981 and 1982 with taxable wage base increasing by 33% to $8,000 in 1983 in response. Since 1995, the ratio has averaged .329 and has not been above 0.4. It went below 0.3 in 2007 and 2008.



ET Financial Handbook 394, http://ows.doleta.gov/unemploy/hb394.asp

Beginning in 2009, the taxable wage base increased in steps, growing to $12,000 in 2009, $13,000 in 2011 and $14,000 in 2013 with no future increases scheduled. This represented a 33% increase spread over 5 years; however, this only restored this ratio of taxable wages to total wages to about 33%. This reversed some of the decline in the ratio, but the increase to $14,000 in 2013 only covered the decline of the ratio from 2002 forward. Since the taxable wage base is fixed, the ratio has started to decline again as wage growth continued in 2014.



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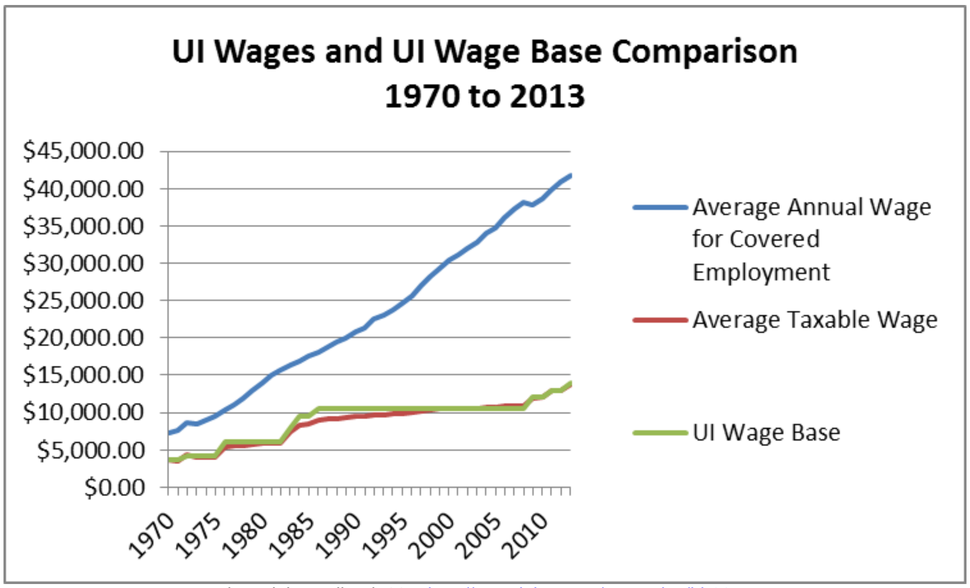

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Recommendation for UI Financial Outlook

The UI Advisory Council is expected to review Wisconsin unemployment law and provide specific recommendations concerning the strength of the UI Trust Fund and the ability to pay claims over the long term. The Secretary recommends that the Advisory Council review all relevant factors, and provide to the Governor and the Legislature legislative solutions to further strengthen the UI Trust Fund.

The proposal could address mechanisms to build and maintain sufficient reserve funding to meet the obligations of projected future benefit expenditures. Such mechanism could encompass both benefits and revenue.

The Department has significant information and research on the issues and alternative solutions, and is prepared to support the Council as it considers options to improve Wisconsin's Unemployment Insurance program.

Appendix A: Recent UI Law Changes with Impact on the UI Trust Fund

2011 Wisconsin Act 236

Crediting Benefit Overpayment Penalty Revenue to the UI Trust fund

Claimants who are found to have concealed earned wages are assessed a 15% penalty on any overpayment balance. Beginning on October 21, 2013 this penalty is placed in the UI Trust Fund. This is expected to increase the UI Trust Fund by about $750,000 per year.

2013 Wisconsin Act 20

Elimination and Modification of Quit Exemptions and Change of the Requalification Requirement

- Eight of the previously existing seventeen quit exemptions were removed.

- Two quit exemptions were modified. In the first, the time limit for when a claimant may quit a new job that the claimant was not required to accept because it was "new work" and continue to receive UI benefits was reduced from 10 weeks to 30 days. The second modification was to the quit to follow a spouse forced to relocate for employment. Now this exemption will only apply to those whose spouse is forced to relocate as a member of the U.S. Armed Forces.

- Two quit exemptions were combined into one exemption.

  The first exception that was combined was commonly referred to as the quit-to-take exception. It provides that an employee is eligible for benefits if he or she quits one job to accept a new job under certain circumstances:

  (a) First, the new job must be employment covered by the UI program;

  (b) Second, the employee needs to have been offered the new job before quitting the old job;

  (c) Third, the new job must have certain more favorable conditions; and,

  (d) Finally, the employee must have earned wages of 4 times his or her weekly benefit rate with the new employer before 4 weeks have elapsed after the week of the quit.

The second exception consolidated is commonly referred to as the quit-to-take while claiming partial benefits. It applied when an employee quits while filing partial unemployment to accept a new job in covered employment offered prior to quitting, and the new job offered a higher average weekly wage.

Now combined, if an employee terminates work, to accept covered employment, and the new employment satisfies any one of the following four conditions with respect to the new job compared to the job the employee quit:

(a) The weekly wages were at least equal;

(b) The number of hours of work were equal or greater;

(c) There was an opportunity for significantly longer term work; or,

(d) Closer to employee's home.

It will also apply regardless of whether or not the employee is working at a part-time job or whether the claimant earns a certain amount of wages in the subsequent work.

- Amends the requalification requirements such that a claimant must now earn 6 times the weekly benefit amount to qualify for benefits after quitting for a reason that is not exempt. Previously the requalification required a claimant to work for at least 4 weeks and earn 4 times their weekly benefit amount.

It is estimated that these changes to the quit exemption will reduce benefit payments by approximately $11.5 million per year. Direct UI Trust Fund savings are estimated to be $7.6 million after accounting for reduced UI tax revenue. These changes became effective on January 5, 2014.

Misconduct and Substantial Fault
A two-tiered standard for disqualifying claimants from receiving UI benefits was established. The "misconduct" standard was clarified. The definition of misconduct was refined and seven specific, yet not exhaustive, examples of employee actions were included. The seven examples are:

1. A violation of an employer's reasonable written drug and alcohol policy, if the claimant had knowledge of the policy and either admitted to the use of alcohol or drug or refused to take a test or tested positive in a test administered by the employer in accordance with a testing methodology approved by DWD.

2. Theft of an employer's property or services, theft of currency of any value, felonious conduct connected with the claimant's employment, or intentional or negligent conduct by a claimant that causes substantial damage to his or her employer's property.

3. A conviction of a crime or other offense subject to civil forfeiture, while on or off duty, if the conviction makes it impossible for the claimant to perform the duties that the claimant performs for the employer.

4. One or more threats or acts of harassment, assault, or other physical violence instigated by a claimant at the employer's workplace.

5. Under certain circumstances, absenteeism or excessive tardiness.

6. Unless directed by a claimant's employer, falsifying the employer's business records.

7. Unless directed by the employer, a willful and deliberate violation of a written and uniformly applied standard by a claimant for an employer that is licensed or certified by a governmental agency, which standard has been communicated by the employer to the claimant and which violation would cause the employer to be sanctioned or to have its license or certification suspended by the agency.

In addition, the new law provides that if the claimant's discharge is due to substantial fault, a claimant may be disqualified from receiving benefits. "Substantial fault" includes those acts or omissions of an employee over which the employee exercised reasonable control and which violate reasonable requirements of the employee's employer. Substantial fault essentially means that if an employer establishes a reasonable job policy to which an employee can conform, failure to conform constitutes substantial fault.

Substantial fault does not include:

1. Minor violations of the employer's rules unless the employee repeats the violation after receiving a warning,

2. Unintentional mistakes made by the employee, nor

3. Not performing work because the employee lacks skill, ability, or was not supplied equipment.

The new law also:

1. Removes the statutory language regarding disqualification for absenteeism or tardiness; and,

2. Provides that both the discharge for misconduct and discharge for substantial fault provisions have the requalification for benefits (earnings seven times the benefit amount and fourteen weeks.) However, if the claimant is disqualified from benefits under the substantial fault criteria, the wages earned at the job may be used in determining the claimant's eligibility for and amount of benefits should the claimant requalify for benefits. If the claimant requalifies the employer is not charged for any benefit payments, but instead these benefits will be charged to the UI balancing account.

This change in the misconduct definition and the addition of substantial fault classification is expected to reduce UI benefit payments by approximately $16 million per year. This would then save the UI Trust Fund approximately $10.6 million per year. This change became effective on January 5, 2014.

Contribution Financing Tax Rates

The UI tax schedule was amended so that overdrawn employers with reserve percentages lower than negative 7.0 percent have higher contribution rates. The highest contribution rate would increase from 8.5 to 10.7 percent of taxable payroll. Also each of the four schedules amended the solvency tax so that in each of the added contribution rates in each of the four schedules the solvency rate is set to be 1.30 percent of taxable payroll.

This is expected to increase UI Tax revenue by approximately $23.5 million per year. These new tax schedules were in place beginning January 1, 2015.

2013 Wisconsin Act 36

SSDI and UI Payments

Provides that a claimant cannot simultaneously collect both social security disability insurance (SSDI) and UI benefits. This became effective for determinations issued on or after January 5, 2014. This is expected to reduce UI benefits by approximately $2.3 million annually which will save approximately $1.5 million after accounting for UI tax revenue reductions.

Require Claimant to Create and Protect Security Credentials

Requires that a claimant create security credentials to file a claim and ensures that a claimant is held responsible for giving out UI security credentials that enables another person to improperly file for benefits on the claimant's behalf. This is expected to decrease UI benefits by approximately $184,000 per year. When accounting for the decreases in UI taxes, this will save the UI Trust Fund by about $121,000 per year. This provision went into effect on January 5, 2014.

Increase Weekly Benefit Amount

Increased the maximum amount of weekly benefits a UI claimant may receive from $363 to $370 while the minimum amount remained at $54 per week. The increase was effective beginning with benefit payments made after January 5, 2014. This is expected to increase UI benefits from the UI Trust Fund by $11.5 million. After accounting for the increase in UI tax revenue, this is expected to cost the UI Trust Fund approximately by $7.6 million per year.

Cafeteria Benefits Plans

2013 Wisconsin Act 36 makes consistent the treatment of cafeteria benefit plan payments by not paying benefits on untaxed wages. This provision became effective on September 29, 2013. This is expected to save the UI Trust Fund approximately $470,000 per year.

Work Search Effort Random Audits

Requires the Department to conduct random audits on claimants collecting regular UI benefits to assess compliance with the UI law's work search requirement. This became effective for claimant's work search efforts conducted on or after January 5, 2014. This is expected to reduce UI benefits by approximately $247,000. After accounting for reduced UI tax revenue this is expected to save the UI Trust Fund approximately $163,000 per year.

Repeal Extended Training Benefits

Eliminates extended training benefits for claimants who enter training after exhausting regular UI benefits. This became effective with individuals who are not qualified for the program as of December 22, 2013. This is expected to save the UI Trust Fund approximately $7.6 million per year.

Department Error Benefit Overpayments

Clarifies the situations where the law would classify actions as Department error, thereby limiting the circumstances when claimants can retain erroneous overpayments. It also authorizes the Department to initiate legal action to recover erroneous overpayments from any person if the overpayment to that person did not result from Department error. Prior to the Department initiating legal action for recovery of erroneous overpayments, the claimant must have exhausted all administrative appeal rights. This became effective for determinations issued on or after January 5, 2014. This is expected to save the UI Trust Fund approximately $1 million per year.

Financial Record Matching

Authorized the Department to enter into agreements with financial institutions to match UI delinquent debtor files against accounts held at Wisconsin financial institutions. This provides for a more efficient method to determine if a delinquent employer or overpaid claimant has a bank account with sufficient assets to pay the debt. The law also provides certain protections for the debtors. The law became effective on January 1, 2014. This is expected to save the UI Trust Fund approximately $8 million per year through increased debt collection.

Appendix B: Wisconsin Unemployment Statistics 1992 to 2014
Wisconsin Unemployment Reserve Fund

(Amounts in Millions of $)
Wisconsin Unemployment Insurance Division Data

	Revenues						Expenses			
Year	Taxes	Interest and Other	Reed Act	ARRA[4]	FUTA Credit Reduction	Total Receipts	Benefit Expenses	Reed Act Expenditures	Total Expenses	**Ending Balance**
1992	358	90				448	437		437	**1,185**
1993	391	85				476	394		394	**1,267**
1994	418	87				505	377		377	**1,395**
1995	421	98				519	418		418	**1,496**
1996	415	102				517	471		471	**1,542**
1997	419	105				524	445		445	**1,621**
1998	414	110				524	452		452	**1,693**
1999	431	113				544	466		466	**1,771**
2000	442	117				559	515		515	**1,815**
2001	432	110				542	791		791	**1,566**
2002	430	88	166			684	949		949	**1,301**
2003	497	65				562	932		932	**931**
2004	596	48				644	795	3	798	**777**
2005	687	42				729	752	4	756	**750**
2006	684	39				723	753	3	756	**717**
2007	649	37				686	845	4	849	**554**
2008	628	21				649	997	23	1,020	**183**
2009	634	1		144		779	1,873	3	1,876	**(915)**
2010	850					850	1,288	(5)	1,283	**(1,348)**
2011	1,115					1,115	1,012	(6)	1,006	**(1,239)**
2012	1,187				47	1,234	876	(5)	871	**(876)**
2013	1,172				96	1,268	793		793	**(401)**
2014	1,107	2			148	1,257	642		642	**214**

[4] American Recovery and Reinvestment Act of 2009

Appendix C: Wisconsin Unemployment Statistics 1992 to 2014 Usage of Wisconsin Unemployment Insurance

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Year	First Payments	Weeks Compensated	Duration	Insured Unemployment Rate	Maximum Weekly Benefit Amount
1992	215,669	2,978,897	13.8	2.7	$240
1993	197,203	2,608,193	13.2	2.3	$243
1994	191,952	2,443,988	12.7	2.1	$256
1995	213,327	2,518,458	11.8	2.1	$266
1996	234,291	2,791,774	11.9	2.3	$274
1997	210,504	2,857,991	13.6	2.1	$282
1998	219,771	2,726,008	11.5	2.0	$290
1999	209,497	2,473,569	11.8	1.9	$297
2000	230,458	2,582,328	11.2	2.0	$305
2001	327,155	3,762,208	11.5	2.9	$313
2002	328,083	4,363,674	13.3	3.4	$324
2003	315,409	4,346,562	13.8	3.4	$329
2004	269,306	3,759,400	14.0	2.9	$329
2005	262,724	3,500,388	13.3	2.7	$329
2006	258,845	3,421,577	13.2	2.6	$341
2007	279,814	3,678,462	13.1	2.8	$355
2008	321,164	4,225,212	13.2	3.2	$355
2009	447,970	7,605,705	17.0	6.1	$363
2010	324,879	5,770,210	17.8	4.7	$363
2011	283,624	4,588,323	16.2	3.7	$363
2012	232,949	3,926,156	16.9	3.3	$363
2013	214,125	3,407,788	15.9	2.9	$363
2014	175,853	2,698,223	15.3	2.3	$370

Appendix D: Wisconsin Unemployment Statistics 1992 to 2014 Total Covered Employment, Average Weekly Wage, and Average Benefit Amounts

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Year	Covered Employment	Average Weekly Wage	Average Weekly Benefit	Maximum Weekly Benefit Amount
1992	2,253,976	$434	$175	$240
1993	2,308,361	$444	$183	$243
1994	2,384,509	$458	$188	$256
1995	2,449,029	$473	$199	$266
1996	2,493,484	$491	$202	$274
1997	2,550,955	$518	$188	$282
1998	2,602,559	$542	$215	$290
1999	2,661,710	$564	$223	$297
2000	2,703,542	$584	$233	$305
2001	2,686,548	$598	$242	$313
2002	2,660,922	$614	$248	$324
2003	2,657,571	$630	$252	$329
2004	2,684,896	$656	$251	$329
2005	2,714,477	$669	$253	$329
2006	2,737,431	$694	$259	$341
2007	2,751,715	$717	$267	$355
2008	2,743,267	$735	$273	$355
2009	2,614,062	$728	$288	$363
2010	2,600,207	$745	$275	$363
2011	2,634,447	$766	$270	$363
2012	2,664,284	$788	$271	$363
2013	2,691,719	$803	$276	$363
2014	2,694,526	$819	$285	$370

Appendix E: Wisconsin Unemployment Statistics 1992 to 2014 Taxable UI Benefits and UI Taxes as a Percentage of Total Wages in Taxable Covered Employment

(Amounts in Millions of $)
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Year	Taxable UI Benefits	UI Taxes	Total Wages in Taxable Covered Employment	Taxable Benefits as a % of Total Wages	Taxes as a % of Total Wages
1992	$435	$356	$41,212	1.06%	0.86%
1993	$392	$389	$43,218	0.91%	0.90%
1994	$376	$418	$46,208	0.81%	0.90%
1995	$417	$419	$49,104	0.85%	0.85%
1996	$470	$414	$51,877	0.91%	0.80%
1997	$442	$418	$55,968	0.79%	0.75%
1998	$444	$413	$59,724	0.74%	0.69%
1999	$456	$427	$63,497	0.72%	0.67%
2000	$508	$441	$66,771	0.76%	0.66%
2001	$788	$425	$67,452	1.17%	0.63%
2002	$947	$428	$68,151	1.39%	0.63%
2003	$930	$495	$69,588	1.34%	0.71%
2004	$802	$595	$73,323	1.09%	0.81%
2005	$752	$686	$75,730	0.99%	0.91%
2006	$750	$684	$79,249	0.95%	0.86%
2007	$841	$650	$82,118	1.02%	0.79%
2008	$998	$626	$83,328	1.20%	0.75%
2009	$1,865	$621	$77,419	2.41%	0.80%
2010	$1,291	$848	$78,617	1.64%	1.08%
2011	$1,014	$1,115	$82,114	1.23%	1.36%
2012	$869	$1,183	$85,601	1.02%	1.38%
2013	$783	$1,165	$88,438	0.89%	1.32%
2014	$642	$1,107	$90,600	0.71%	1.22%

Appendix F: Wisconsin Unemployment Statistics 1992 to 2014 UI Benefits Directly Charged to the Balancing Account (Excludes Charges for the -10% Write-Off)

(Amounts in Millions of $)
Wisconsin Unemployment Insurance Division Data

Year	Quit	Misconduct	Substantial Fault	Suitable Work	Continued Employment	Waiver Agency Error	2nd Benefit Year	Temporary Supplemental Benefits	Training Benefits	Subtotal Balancing Acct Direct Charges	Total UI Benefit Charges
1992	$51	$1	----	$0	$1	----	----	----	----	$53	$438
1993	$48	$1	----	$0	$1	----	----	----	----	$50	$394
1994	$50	$1	----	$0	$1	$0	----	----	----	$53	$377
1995	$61	$1	----	$0	$1	$0	----	----	----	$64	$418
1996	$69	$2	----	$0	$2	$0	$3	----	----	$77	$471
1997	$68	$2	----	$0	$4	$0	$12	----	----	$86	$445
1998	$69	$2	----	$0	$4	$0	$10	----	----	$85	$452
1999	$73	$2	----	$0	$4	$0	$10	----	----	$90	$466
2000	$81	$2	----	$0	$4	$0	$12	----	----	$99	$516
2001	$117	$3	----	$1	$5	$0	$17	----	----	$142	$791
2002	$112	$4	----	$1	$6	$1	$28	$11	----	$161	$949
2003	$99	$4	----	$1	$7	$0	$31	$0	----	$141	$932
2004	$85	$3	----	$1	$6	$0	$25	----	----	$119	$795
2005	$89	$3	----	$1	$5	$0	$20	----	----	$118	$752
2006	$94	$3	----	$0	$5	$0	$19	----	----	$122	$753
2007	$104	$4	----	$1	$5	$0	$19	----	----	$134	$845
2008	$112	$4	----	$0	$6	$0	$25	----	----	$148	$997
2009	$168	$7	----	$1	$11	$1	$50	----	----	$236	$1,874
2010	$86	$5	----	$0	$12	$1	$55	----	----	$158	$1,289
2011	$83	$4	----	$0	$9	$1	$33	----	$16	$146	$1,012
2012	$86	$3	----	$0	$7	$1	$24	----	$19	$140	$876
2013	$82	$3	----	$0	$5	$0	$22	----	$15	$128	$793
2014	$69	$3	$0	$0	$5	$0	$17	----	$8	$103	$642

Appendix G: Explanation of UI Benefit Charges to the Balancing Account

Standard Charges to the Balancing Account

Write-Offs

These are different from other Balancing Account charges since these are first charged to an employer's account. When the UI Division calculates the Reserve Fund Percentage for Basic Tax purposes, the Reserve Fund Percentage is limited to -10% and charged benefits that would decrease the Reserve Fund Percentage below that point are written off. These written-off benefit charges are re-charged to the Balancing Account. The largest charge to the Balancing Account comes from write-offs. In 2014 this accounted for $114 million in charges to the Balancing Account. All other charges to the Balancing Account in 2014 totaled $103 million. Thus write-offs represent over 50% of all charges to the balancing account in 2014.

Quits

When an employee quits work but becomes eligible for benefits, instead of charging the former employer, those benefits are charged to the Balancing Account. The idea is to not hold employers responsible when a claimant collects UI benefits due to no attributable action on behalf of the employer. A quit can occur if the claimant falls under one of the quit exceptions enumerated in statute or more likely if the claimant quits a job to take a new one and then is subsequently laid off. Quits are the second largest category of charges against the balancing account.

Misconduct

This situation occurs when an employer terminates an employee for misconduct connected with employment. The employee then finds employment at a second employer. This second employer then lays off the employee (i.e. the employee is not terminated for cause from the second employer). The claimant's benefit amount is based on his work history from both employers, assuming the claimant's new work history is sufficient enough to requalify for benefits. Wages from the terminated with-cause employer are removed from consideration when calculating a claimant's maximum benefit amount. These wages however, will be used to determine the weekly benefit amount a claimant can receive. Any portion of the pro-rated benefit amount that comes from the terminated with-cause employer will be charged to the Balancing Account.

Substantial Fault

This is similar to what occurs under misconduct. If an employee who is terminated with justifiable cause under substantial fault finds work with another employer and is then laid off he may requalify for benefits. If he does qualify for benefits, wages from the terminated with cause employer are used both in calculating the maximum benefit amount and the weekly benefit rate. The pro-rated portion of benefits assigned to the terminated with cause employer is instead charged to the Balancing Account.

Continued Employment

The typical case for this occurs when a claimant is working for two employers, either both part time, or one full time and one part time. The claimant is laid off from one employer but still continues working at the second employer. The claimant files a claim based upon the reduction in wages earned. These benefits will be based upon the entire earnings of the claimant but the current employer, who did not reduce the claimant's wages, will not be charged for their benefit share; instead they are charged to the Balancing Account.

Second Benefit Year

This occurs when an employer was charged for a claimant's benefits in the first benefit year, and wages paid by the employer are part of a second benefit year for a claimant, but the employer has not employed the claimant for over a year. This can occur because benefits are based upon the first 4 of the previous 5 quarters. The 5th quarter could be part of a future benefit claim. That employer would not be charged for the fifth quarter but those benefits would instead be charged to the balancing account.

Training Benefits

UI benefits paid to claimants participating in Department Approved Training programs are charged to the UI Balancing Account. The Training Benefits category includes benefits paid to claimants who were enrolled in the Extended Training program. The Extended Training program was ended by the Wisconsin Legislature in 2013, so no future charges for that program are expected.

Non-standard Charges to the Balancing Account

Temporary Supplemental Benefits

In 2002, special state Temporary Benefits were charged to the Balancing Account and similar programs in the future could also be changed to the Balancing Account.