Financial Outlook

Wisconsin
Unemployment
Insurance
Program

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

Caleb Frostman, Secretary
Department of Workforce Development
April 2019
UCD-8967-P (R.04/2019)

Executive Summary

Due in large part to historically low Unemployment Insurance (UI) benefit payments, Wisconsin's UI Trust Fund ended 2018 with a balance of over $1.7 billion. UI benefit payments charged to the Trust Fund have continued to decline over the reporting period from $457 million in 2016 to $408 million in 2017 and $376 million in 2018.

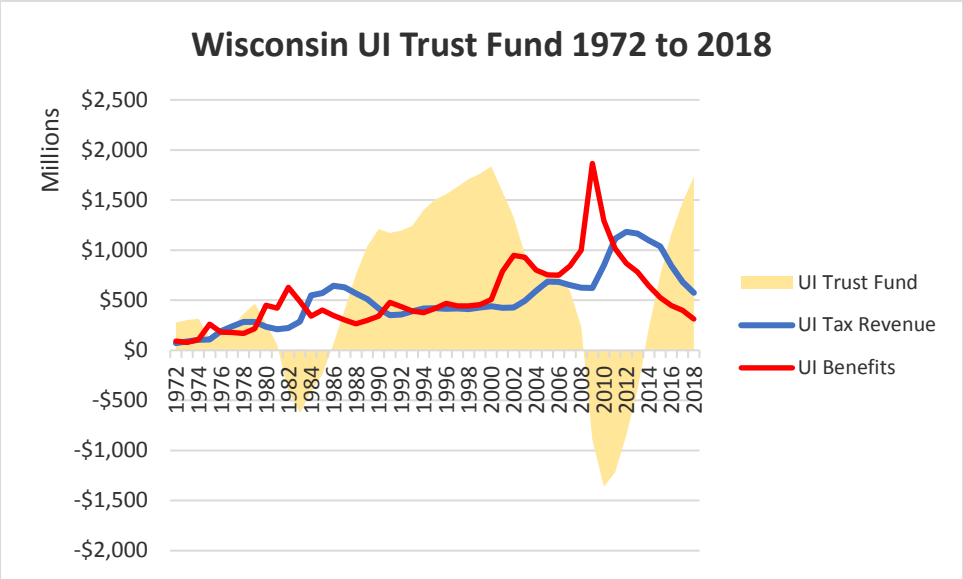
These historically low benefit payments have caused the Trust Fund to grow quickly over the past two years. The economy is expected to grow slowly throughout the projection period of 2019 through 2022. If such growth occurs and benefit payments stay at historically low levels, the Trust Fund balance is expected to be sufficient to pay benefits without resorting to borrowing from the federal government. If, however, benefit payments return to more typical amounts, the Trust Fund will begin to shrink. If a mild recession were to occur in the next few years, the Trust Fund would likely remain solvent and pay expected benefits without needing to borrow; however, the UI financing system would have trouble rebuilding the Trust Fund after the recession.

The Secretary recommends the Unemployment Insurance Advisory Council review all relevant factors and provide to the Governor and the Legislature proposed solutions to further strengthen the Trust Fund. The Secretary believes a strong Trust Fund is vitally important to our state's economy and should be adequately funded and able to pay much needed benefit payments to workers out of work through no fault of their own without reliance on the federal government. UI benefit payments are vital to the ability of individuals to continue to provide for themselves and their families during an unfortunate and unforeseen employment separation and contribute to the health of our local and state economies during an economic slowdown. The Department of Workforce Development has significant information and research on the issues and alternative solutions and is prepared to support the Unemployment Insurance Advisory Council as it considers options to improve not only the Trust Fund, but the vitality and strength of the entire UI program and ensure that it is able to carry out its mission of supporting Wisconsin workers through an employment transition after losing work through no fault of their own.

Table of Contents

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.



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

Due to multiple factors, UI benefit payments have been historically low the past two years since the last *Financial Outlook* which has led to substantial growth of the UI Trust Fund. At the end of 2018 the Trust Fund had a balance of $1.731 billion. This is an increase of $572 million over the 2016 ending balance of $1.159 billion. The decline in benefit payments combined with the increased Trust Fund balance resulted in a decrease in UI taxes paid by employers.

This *Financial Outlook* provides a basic summary of the UI program to measure the adequacy of the Trust Fund and the UI financing system. It provides background on UI financing as well as projections for the near-term future of the program.

Section 1 is an overview of the UI financing system and explains the basics of how the UI benefits and UI tax systems function.

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

Section 3 provides forecasts for the UI Trust Fund under differing benefit payment scenarios. Using economic forecasts, the Department estimates benefit payments and taxes through the end of 2022. From these projections the Trust Fund balance is calculated over the period for each scenario.

Section 4 provides long run simulations of the UI Trust Fund through 2027 under scenarios presented in Section 3. These simulations provide a better demonstration of the underlying financial system of the Wisconsin Unemployment Insurance program.

Section 1: Unemployment Insurance Benefits and Financing System

Unemployment Insurance (UI) is funded by employer contributions to provide temporary economic assistance to Wisconsin's eligible workers during times of unemployment. This section provides a brief background on the Wisconsin UI financing system.

Unemployment Insurance Benefits

UI benefits are paid to claimants who have lost employment through no fault of their own and have a work history with one or more employers that participate in the UI program. To continue to qualify for UI benefit payments, a claimant must be able and available for full-time work and, unless granted an exception, must be actively searching for work. The amount of UI benefit payments a claimant may receive is based on the claimant's past earned wages, up to a maximum weekly benefit rate of $370, an amount below the national average of $446. Wisconsin is also below the average of $492 per week of bordering states. The maximum weekly benefit rate for all states is located in Appendix D. Under the regular UI program, a claimant may receive up to 26 weeks of benefits in Wisconsin, which is consistent with the maximum duration for the vast majority of states.

Covered Employers in the Unemployment Insurance System

Most employers in Wisconsin participate in the UI program and are considered "covered employers."

Covered employers fall into two groups:

Taxable Employers

Most employers in Wisconsin are taxable employers. Individual employers fund UI benefit payments and partially fund UI program operations through quarterly assessed taxes. Unemployment benefit risk is spread across all employers through taxes that are experience-rated, instead of employers self-financing unemployment benefits.

Reimbursable Employers

Reimbursable employers self-finance unemployment benefits for their workers. Local governmental entities, non-profit organizations, and Native American Tribes can elect to be reimbursable employers. UI administers payment to individuals who worked for reimbursable employers and bills those employers directly to reimburse the UI benefits paid.

Unemployment Insurance Taxes

UI benefits are financed by UI taxes levied on an employer's payroll. Taxes are levied by both federal and state governments.

State Taxes

State UI taxes are a payroll tax that finance Wisconsin UI benefits. Employers are assessed UI taxes on each employee's wages up to the taxable wage base. In 2017 and 2018 the taxable wage base was $14,000; therefore, an employer 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 factor is the UI tax schedule in effect for a given rate year. The UI tax schedule in effect is determined by the UI Trust Fund balance on June 30th of the previous year. Schedule D, the lowest rate schedule, is currently in effect. As the Trust Fund balance changes, tax schedules with higher or lower rates automatically take effect. The higher the Trust Fund balance, the lower the tax rate schedule in effect.

The second factor that impacts the tax rate an employer pays is the employer's experience with the UI system. The more that current or former employees of an employer collect UI benefits, the higher the tax rate that employer will pay. New Wisconsin employers who do not have a previous history with the Wisconsin UI system are assigned a new employer tax rate for the first three years for which they make contributions. This rate varies depending on the industry and size of the employer. After three years, these employers' taxes are then based on their experience with the UI system.

There are two components of state UI taxes collected:

Basic Taxes

The basic tax is generally the larger portion of the state tax. The basic tax is the portion of the tax an employer pays that is credited to the employer's 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 smaller than the basic tax amount. Solvency taxes are deposited in the Trust Fund and credited to the UI Balancing Account. Benefit payments not charged to specific employers are charged to the UI Balancing Account; it represents risk sharing among employers participating in the UI system.

Administrative Assessment

Occasionally, there will be a separate assessment collected along with the UI state tax that is used for specific UI administrative programs. An assessment was implemented for tax years 2017 and 2018 to fund UI program integrity activities. The assessment amount is a flat 0.01 percent rate with a corresponding reduction in the solvency tax rate for all employers subject to a solvency tax. The administrative assessment does not change the amount of tax any given employer is required to pay.

UI Employer Account

The employer account acts only as a measure to gauge a given employer's experience with the UI system. It is not a savings account for the employer to pay for future benefits. The net difference between all the taxes collected and the charged benefit payments 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 the employer's eligible former workers. The basic tax an employer pays is entered as a credit on the account. UI benefit payments paid to former (or in some cases current) workers are charged against the account.

An employer's account balance on June 30th determines the employer's tax bracket, and ultimately the tax rate an employer pays the next calendar year. The employer's account balance is compared to the employer's current taxable payroll[1]. The employer's reserve fund percentage is the ratio of the employer's account balance to 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

The Balancing Account represents the social insurance aspect of the system for employers. Revenue credited to the Balancing Account typically comes from two sources[2]. The first source, and by far the largest, is the solvency tax paid by employers. The second source is any interest earned on the UI Trust Fund. The Trust Fund earned $36.9 million in interest revenue for 2018.

Some benefit payments are not charged to a specific employer's account but are instead charged to the Balancing Account. There are seven basic categories of benefit payments charged to the Balancing Account: 10 Percent 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 Balancing Account. Full descriptions of these charges can be found in Appendix G.

The balance in the Balancing Account represents the lifetime revenues credited and benefits charged to the account. The current balance was -$583 million as of December 31, 2018. Therefore, the solvency taxes and interest are not sufficient to cover charges against the balancing account.

Federal Unemployment Taxes (FUTA)

Employers participating in the UI system also pay federal unemployment taxes. FUTA[3] taxes pay for the following:

1. Unemployment Insurance Administration

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

[1] While the payroll used is for the fiscal year ending June 30, employers' 2nd quarter contribution and wage reports and payments due July 31 are reflected in this calculation if made on a timely basis.

[2] 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.

[3] Federal Unemployment Tax Act, 26 U.S.C. § 3301.

2. Extended Benefits (EB) and Extended Unemployment Compensation (EUC)

Wisconsin qualified for the EB program from February 2009 until April 2012. Normally funding for the EB program is shared equally by both the state and 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.

The U.S. Congress has the option of authorizing EUC payments, which has typically occurred during severe recessions. Funding for the additional benefits normally comes from FUTA tax revenues reserved over time for this purpose. Congress authorized general tax revenue to partially fund EUC during the Great Recession.

3. Trust Fund Borrowing

After the UI Trust Fund was exhausted in 2009, Wisconsin borrowed from the federal government to pay benefits. Wisconsin finished repaying all federal loans with interest in 2014.

Costs Involved with UI Trust Fund Borrowing

FUTA Credit Reductions

The rate for FUTA is 6.0 percent on the first $7,000 of an employee's wages; however, up to 5.4 percent can be credited back to employers if a state's program meets certain requirements, including the state maintaining a positive Trust Fund balance. If a state's Trust Fund remains negative on January 1st for two consecutive years, the FUTA tax credit is reduced by 0.3 percentage points each year the loan is outstanding. From 2011 through 2013, Wisconsin employers were subject to FUTA tax credit reductions for a total cost of $291 million. The additional federal taxes were used to repay the federal loans. When the Trust Fund became positive, employers were again eligible for the full FUTA credit.

Special Assessment for Interest (SAFI)

Federal law prohibits using regular state UI taxes to pay interest on a federal loan to a state Trust Fund; therefore, a separate funding source is needed. Wisconsin initially paid the interest charges on its federal loans through a special assessment on employers (SAFI) in 2011 and 2012. Although liability for the interest payments remained, the SAFI was not assessed after 2012. Starting in 2013, the Wisconsin Legislature provided state General Purpose Revenue (GPR) to cover interest due on the UI loan. In total, $103 million in interest costs were assessed on Trust Fund loans due to the Great Recession, with employers paying $78 million through SAFI and the remaining $25 million paid with Wisconsin GPR funds.

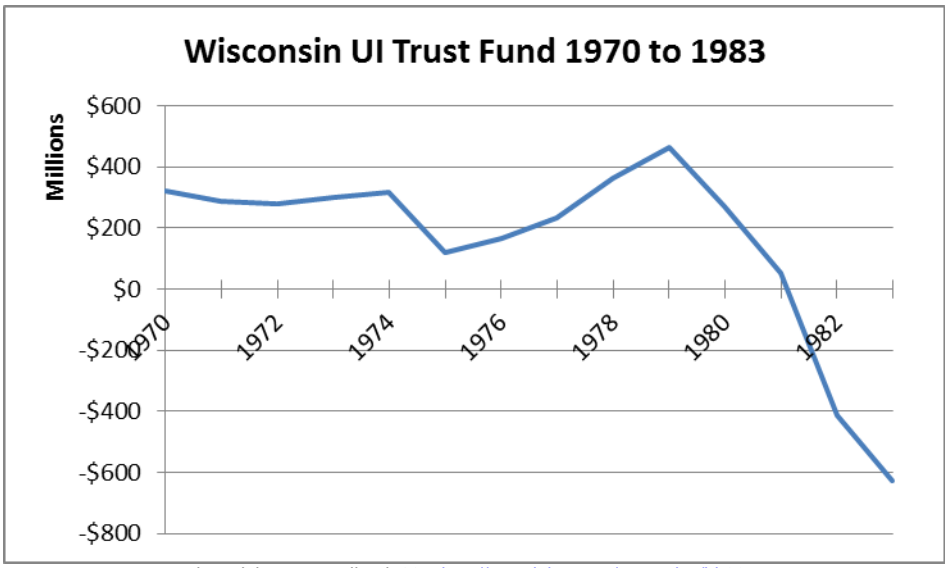
The cost to employers of borrowing from the federal government is significant. Ideally, the UI system builds a large Trust Fund that is drawn down during a recession and builds back up during periods of expansion. The UI Trust Fund should be large enough so taxes would not need to be raised until after the recovery is underway.

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

The UI Trust Fund and UI financing system have dramatically changed since the start of the Wisconsin UI system in 1935. This section focuses on the modern history of the UI financing system beginning with the events that produced the system in its current form.

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

Much of the current Wisconsin UI financing system was developed as a response to the difficulties experienced by the Trust Fund during the recession of the early 1980s. The Trust Fund was rapidly depleted by the recession and Wisconsin had to borrow from the federal government to pay UI benefits.



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

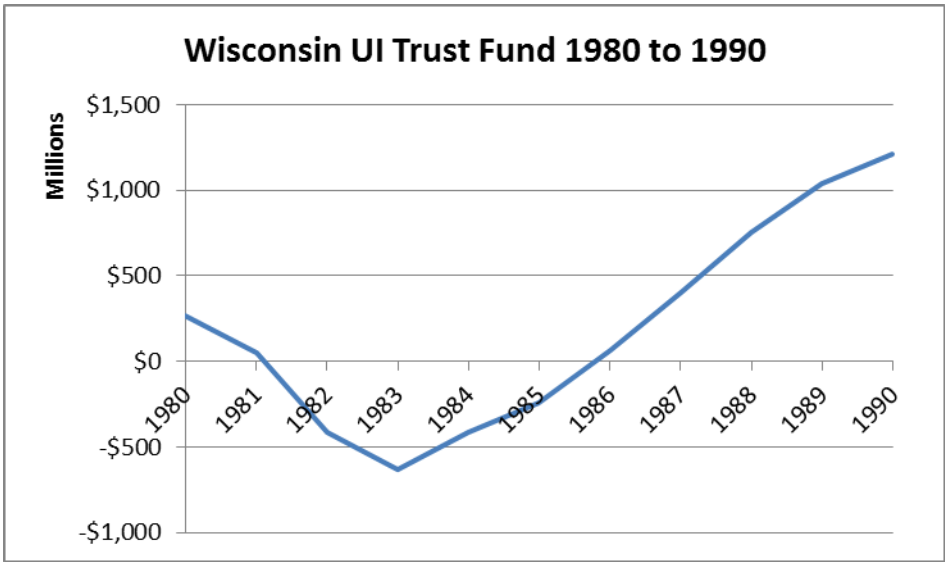
Wisconsin borrowed nearly $1 billion ($988 million) between 1982 and 1986. To provide context, this was about 4.1 percent of Total Covered Payroll in the mid-1980s. The same 4.1 percent of Total Covered Payroll of taxable employers in 2018 would be about $4.2 billion. Wisconsin's employers paid $124 million in interest as a result of borrowing in the mid-1980s.

To eliminate the large Trust Fund debt, Wisconsin enacted legislation that provided 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 tax rate schedules that are dependent on the Trust Fund balance;
- Increasing the Rate Limiter to two percent;
- Temporarily discontinuing the 10 percent write-off;
- Limiting the effect of voluntary contributions;
- Charging the state's portion of Extended Benefits to employers instead of the Balancing Account;
- Reducing the maximum 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 Trust Fund by the end of the 1980s.



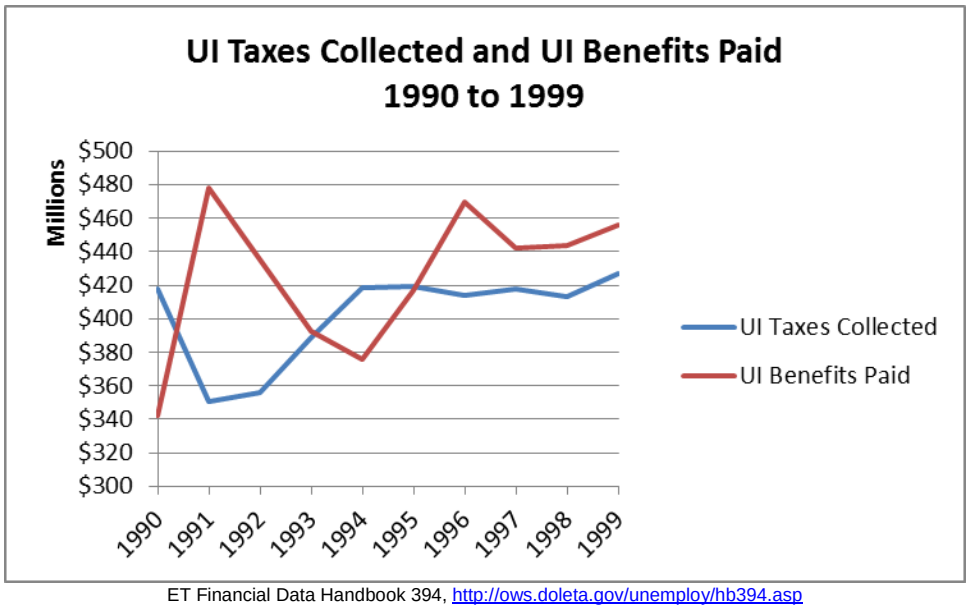
ET Financial Data Handbook 394, http://ows.doleta.gov/unemploy/hb394.asp

The Static UI Financing System in the 1990s

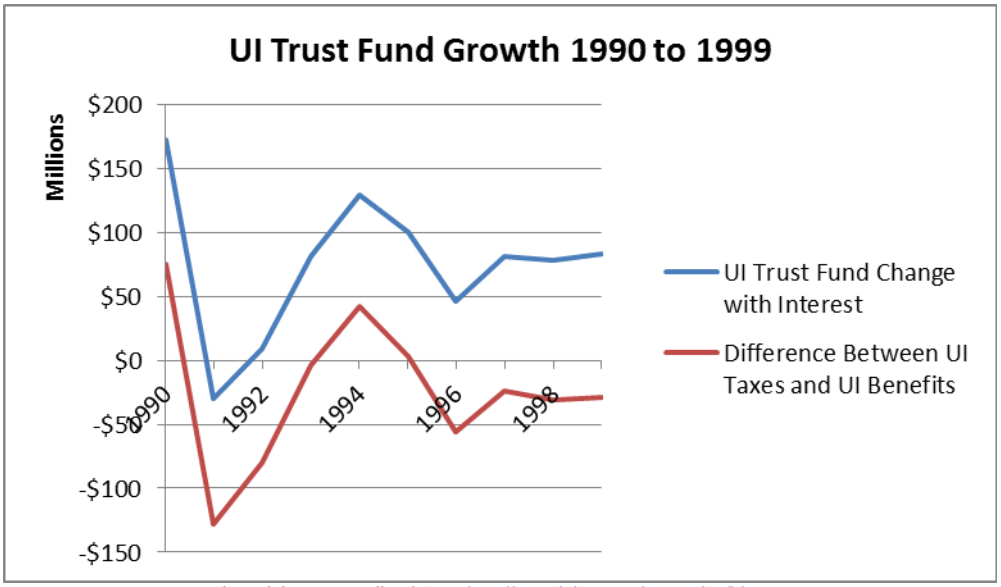
The Trust Fund accumulated a large balance before the onset of the 1991 recession. When the recession hit, total UI benefits paid exceeded UI tax revenue collected; however, the Trust Fund remained solvent. As the recession wound down, tax revenue rebounded, and benefit payments fell as expected.

During periods of economic growth, the UI financing system is designed to build up the Trust Fund to pay UI benefits during an economic downturn and avoid borrowing. This is what occurred following the 1991 recession. After the Trust Fund reaches a balance large enough to finance a recession, year-to-year UI benefits paid, and UI tax revenue collected should be roughly equal to maintain the Trust Fund balance ensuring it will be large enough for the next recession.

Beginning in 1996, annual UI benefits paid began to exceed annual UI tax revenue collected. The mid-1990s were a high interest rate environment so the large interest returns allowed the Trust Fund to continue to grow despite the UI program running a yearly deficit.



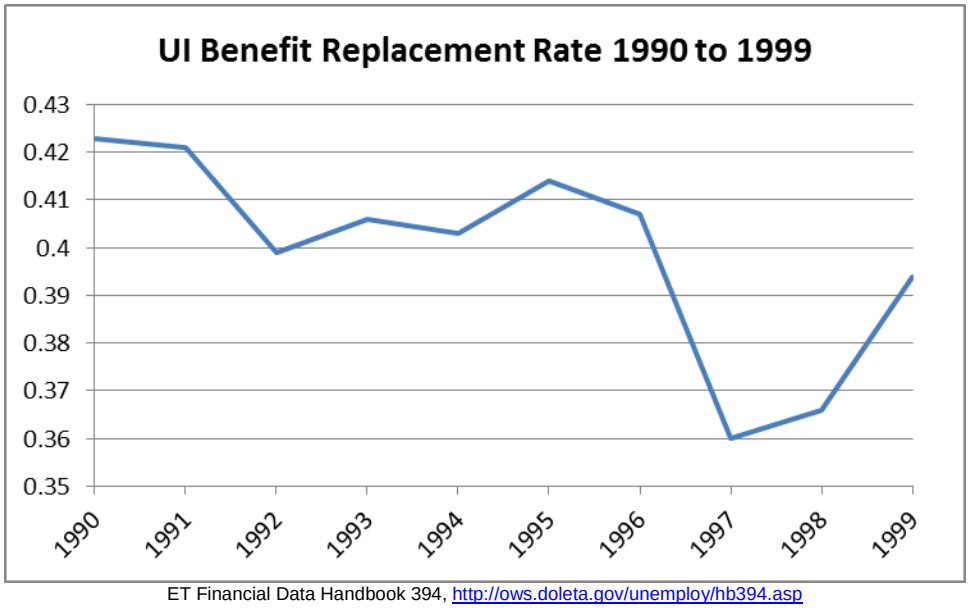
ET Financial Data Handbook 394, http://ows.doleta.gov/unemploy/hb394.asp



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

The yearly deficit between benefit payments and tax revenue in the 1990s was not due to increases in the UI benefit formula. In fact, the real value of UI benefits to the unemployed fell during this time. The UI benefit replacement rate (the ratio of the average weekly benefit amount to the average weekly wage) declined over the 1990s. The average weekly benefit amount was 42.3 percent of the average weekly wage in 1990 and fell to 39.4 percent in 1999. (The replacement rate has continued to decline over the past two decades to a current rate of 35 percent.) Although the benefit replacement rate was declining, benefits paid increased in the late 1990s due to the average wage increasing over the period. Increases in an individual's wages increases the amount of a person's benefit entitlement. Benefit payments are expected to increase over time due to increases in wages earned and increases in the number of people

employed and eligible for benefits. The Trust Fund ended 1999 with a positive balance of $1.7 billion.

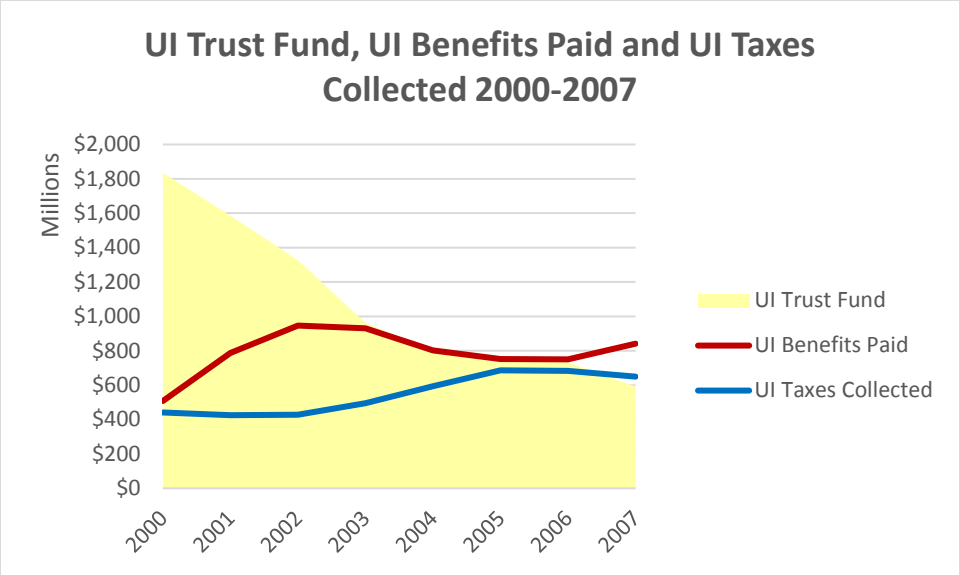


ET Financial Data Handbook 394, http://ows.doleta.gov/unemploy/hb394.asp

The Shrinking of the UI Trust Fund in the 2000s

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

The level of unemployment claims in the 2000s had increased over levels typical in the late 1990s. Interest earnings were no longer covering the gap between benefit payments and taxes. The system did not respond to either the recession or the shrinking Trust Fund. Taxes collected never exceeded benefits paid, and taxes started to fall, even though the Trust Fund continued to decline.

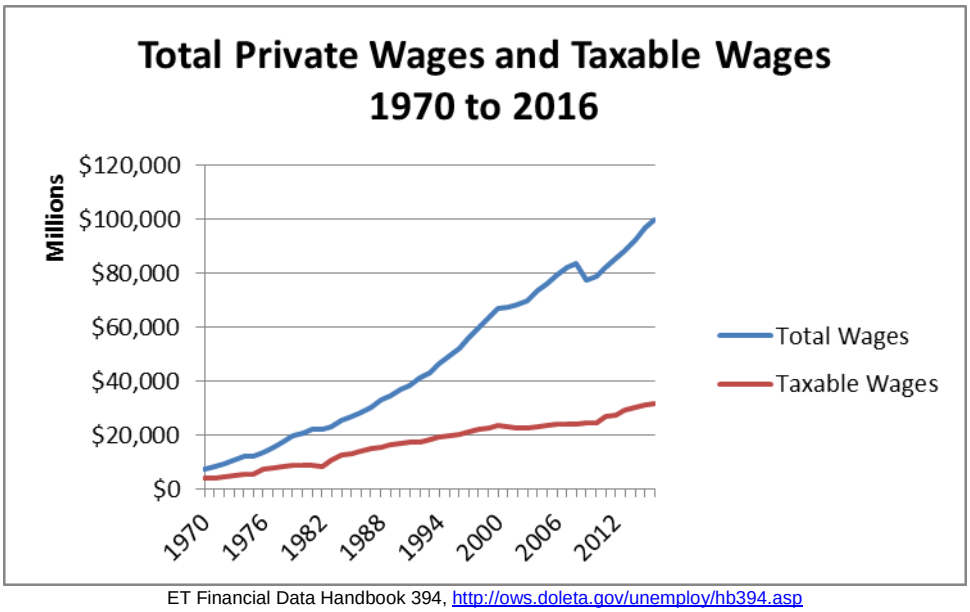


ET Financial Data Handbook 394, http://ows.doleta.gov/unemploy/hb394.asp

There are two main reasons why the financing system was non-responsive:

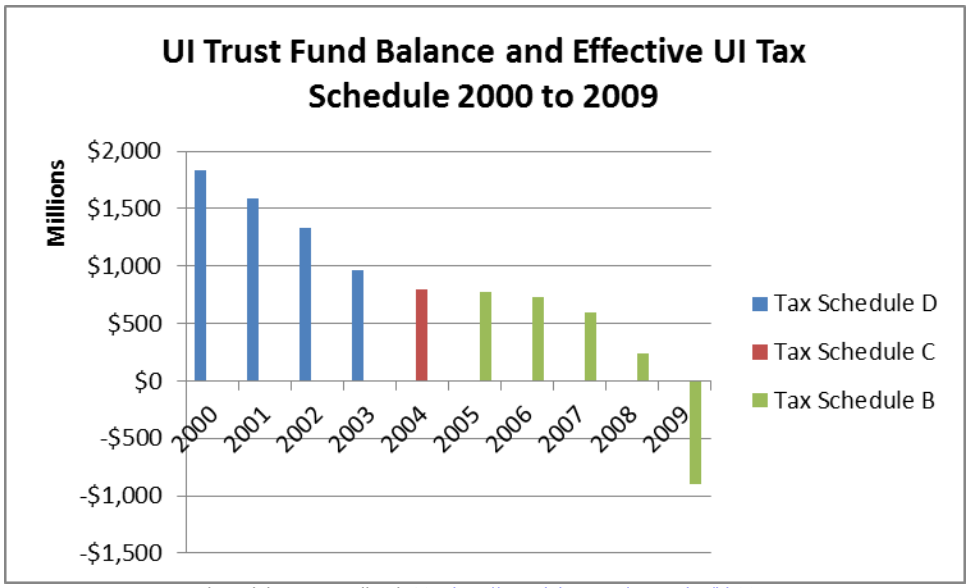
1. **UI Taxable Wage Base Not Reflective of Wage Growth**
   The taxable wage base remained at $10,500, the level set in 1986. As a result, the ratio of taxable wages to total wages fell throughout the 1990s and 2000s.

   Increasing wages caused benefit payments 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 benefit payments.



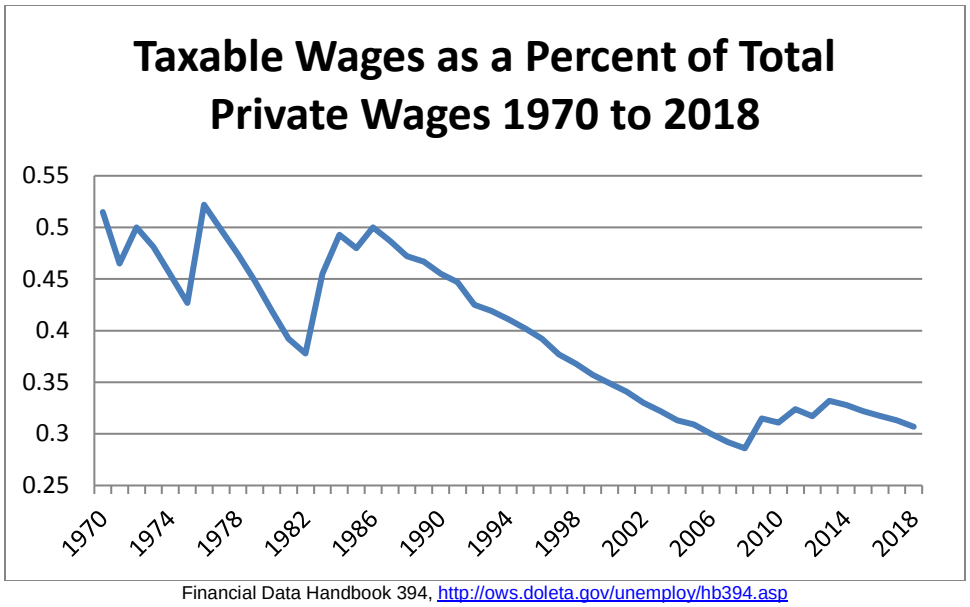
ET Financial Data Handbook 394, http://ows.doleta.gov/unemploy/hb394.asp

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 as of June 30th determines which schedule is in effect for the next tax year and the dollar amount will trigger a corresponding tax schedule. When the schedule triggers were first established, they reflected the Wisconsin economy of the late 1980s. However, as the Wisconsin economy grew the triggers did not. When the triggers were adjusted in 1997, the threshold values were not updated to reflect any economic growth between 1989 and 1997. 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 (Schedule A). Without the implementation of the higher rates in Schedule A, the Trust Fund continued to shrink.



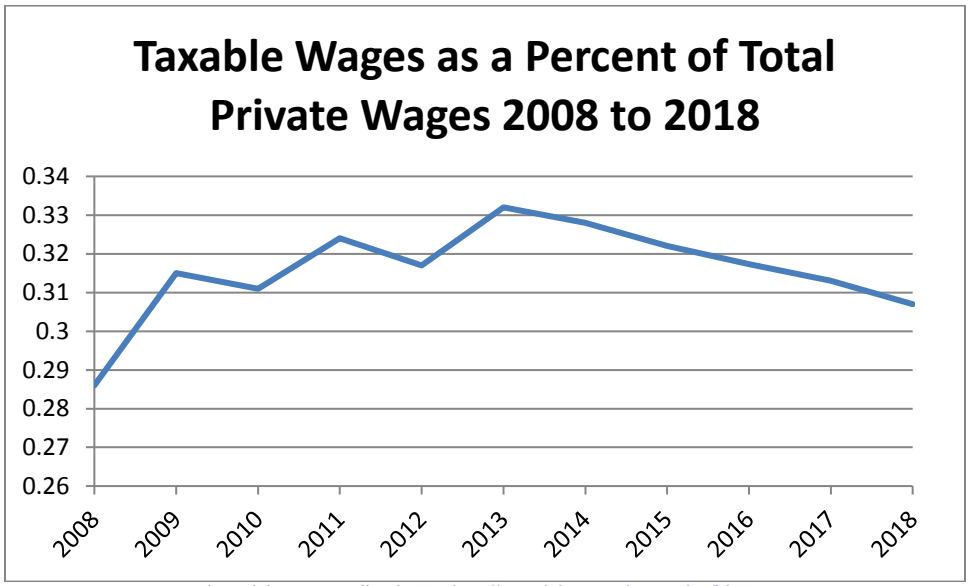
ET Financial Data Handbook 394, http://ows.doleta.gov/unemploy/hb394.asp

Between 2003 and the onset of the 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 Trust Fund.



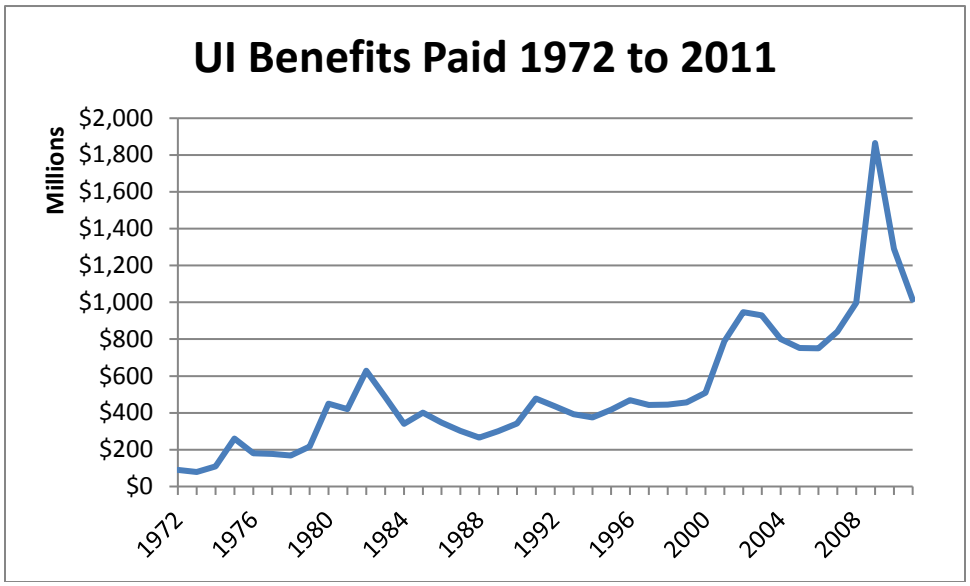
Financial Data Handbook 394, http://ows.doleta.gov/unemploy/hb394.asp

Legislation was enacted in 2008 that increased the taxable wage base to $12,000 in 2009, $13,000 in 2011, and $14,000 in 2013 where it was set to remain. This helped to reduce a portion of the decline of the ratio of the UI taxable wages to overall wages; however, by the time the wage base increased to $14,000 in 2013, the wage base again began to lose value relative to total wages and its value has continued to decline.



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

The Great Recession



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

The Great Recession strained the entire nation's Unemployment Insurance system. The Great Recession's initial impact on the Wisconsin UI system started in 2007, but it was not until 2008 and 2009 that UI benefit payments 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 1972-2018

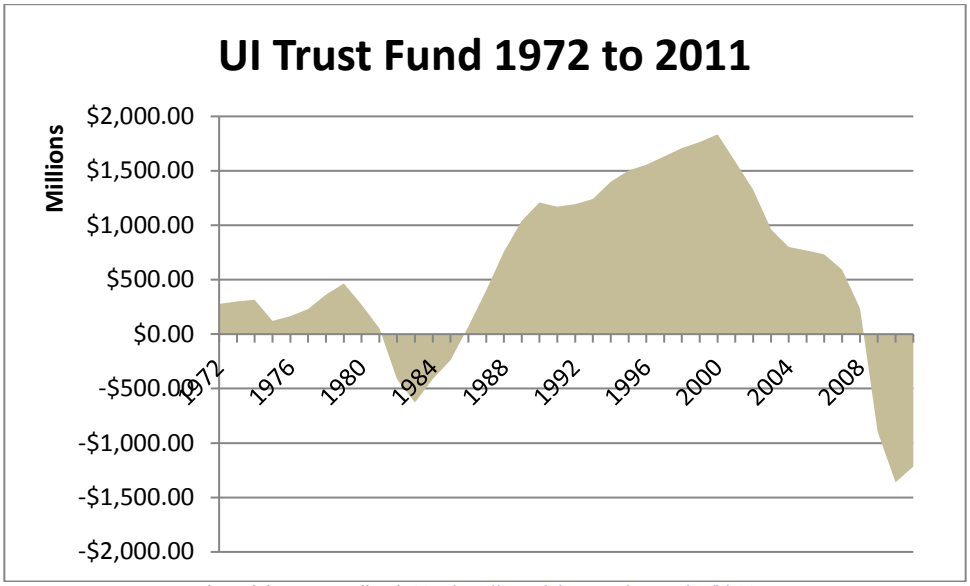
Year	Benefits as a Percent of Total Payroll
1982	2.84
2009	2.41
1980	2.17
1975	2.13
1983	2.11

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

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 benefit payments 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 Great Recession was in line with other recessions and reflected the growth of the economy and the increase in total payroll over four decades.



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

As illustrated above, the Wisconsin UI Trust Fund was shrinking throughout the 2000s; the Great Recession was the catalyst that caused the Trust Fund to become insolvent and the state to borrow from the federal government to pay UI benefits.

The decline of the 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 existing laws and regulations:

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

- 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 in tax revenue than the next schedule, Schedule B. When the Trust Fund balance exceeds $300 million, an automatic trigger to Schedule B occurs.

Schedule A was not in effect until the Trust Fund was already insolvent; a strong 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 exceeded $300 million in eight of the 16 quarters between 2009 and 2012.

There were three Wisconsin legislative changes aimed to address the structural deficit in the UI Trust Fund during and following the Great Recession; all reduced benefit payments for claimants:

- Defining full-time work to be 32 hours or more;

- Eliminating partial benefits for individuals earning over $500 per week; and

- Establishing a waiting week for UI claimants.

The waiting week caused the largest reduction in UI benefit payments, reducing payments by approximately 5 percent per year. Under the waiting week, the first week of benefits is withheld from eligible claimants. While the waiting week does not reduce the total amount of benefit payments a claimant is eligible to receive, the waiting week will reduce benefits paid for those claimants who do not exhaust their claim. The fewer weeks an individual claims, the larger the percentage reduction in benefit payments the waiting week represents. For example, a claimant claiming 6 weeks will see a 16.67 percent reduction in benefits under a waiting week versus no waiting week in place. In the current period with fewer claimants exhausting, many more claimants are having sizeable reductions in benefit payments due to the waiting week than was true when the law was enacted. At that time, more claimants exhausted their claim and still received payment for their maximum number of weeks.

During the Great Recession, UI benefit payments were reduced by approximately $50 million dollars per year. Because of the multiplier effect[4] of UI benefit payments during a recession, this reduced the economic activity in Wisconsin by $80 to $100 million per year. After the recession the waiting week has continued to reduce benefit payments; for 2018 this amounted to approximately $19.9 million.

Recovery and Paying Off the UI Trust Fund Loan

The nation experienced a slow growth recovery following the end of the Great Recession. This had an attendant slow employment recovery which had many people receiving UI benefits for long periods of time[5]. The low level of benefits paid was both a result of an improving economy and diminished base period wages for many people who were no longer qualified for UI benefits going forward due to a lack of employment.

Despite the lengthy period of above average paid benefits, the Trust Fund finished 2014 with a balance of $215 million and the Trust Fund loan paid. There are three significant factors that contributed to repaying the loan and obtaining a positive balance:

1. Low level of UI benefits paid due to a reduction in filing activity;

2. Increase in UI tax revenue as a result of the highest tax rate schedule being in effect and a decline in employer experience rating due to high benefit payments; and

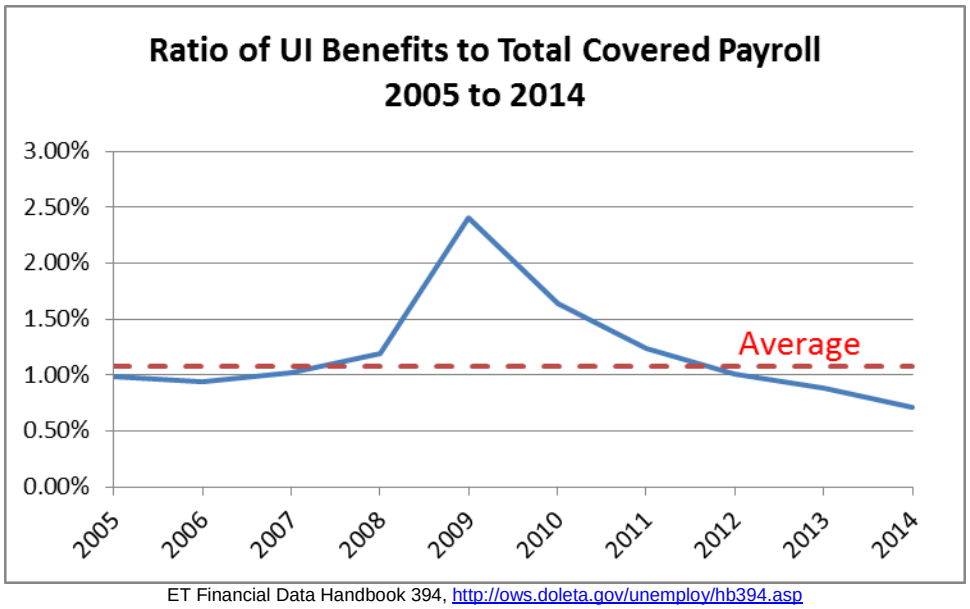
3. FUTA tax credit reduction.

[4] Estimates of the multiplier for UI benefits during the Great Recession range from 1.6 (The Testimony of Mark Zandi Chief Economist, Moody's Analytics Before the House Budget Committee "Perspectives on the Economy".) to 2.0 (IMPAQ International, The Role of Unemployment Insurance as an Automatic Stabilizer during a Recession by Wayne Vroman).

[5] Additional weeks of these benefits were paid under Emergency Unemployment Compensation (EUC) pursuant to federal legislation and were funded with federal taxes.

Wisconsin UI Benefit Payments

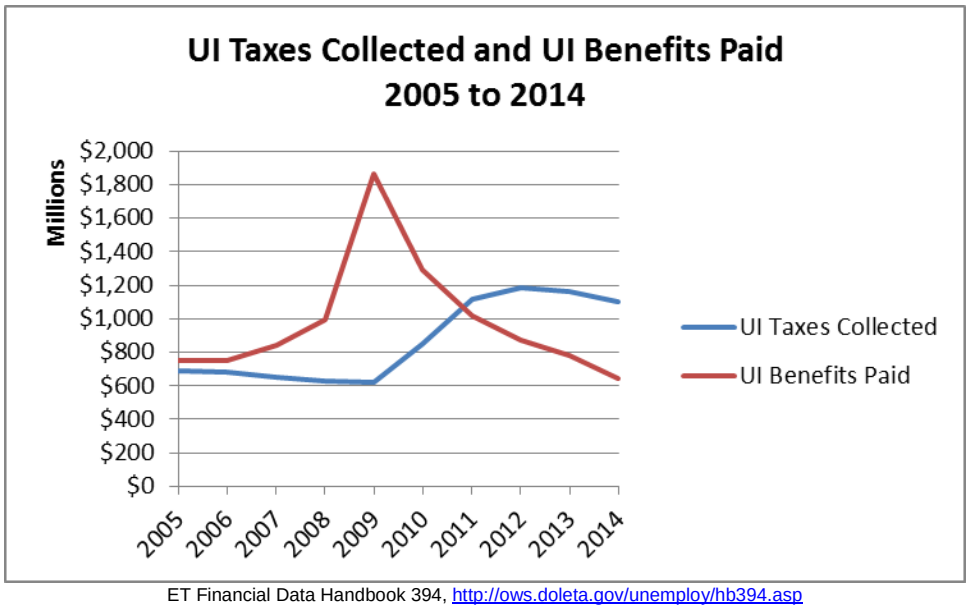
UI benefit payments were elevated through 2011 and fell to a more normal level in 2012. In 2013 UI benefit payments fell to an amount below average and were substantially below average in 2014. The low level of UI benefit payments reduced expenditures from the Trust Fund.



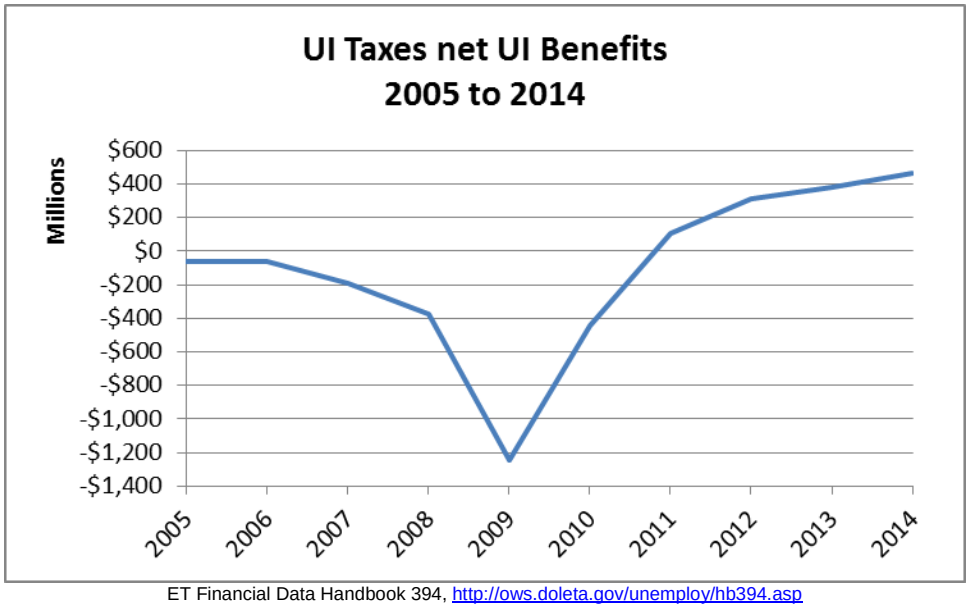
ET Financial Data Handbook 394, http://ows.doleta.gov/unemploy/hb394.asp

UI Tax Revenue

While UI benefit payments declined rapidly, UI tax revenue also declined but at a slower rate. The UI Trust Fund balance has increased as the net positive difference between taxes and benefits has grown. This is only a short-term trend as better experience ratings and a shift to lower tax schedules is set to reverse the positive trend in coming years. See Section 4 for a detailed outlook for the future of the Trust Fund.



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



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

FUTA Tax Credit Reduction

As described in Section 1, the Federal Unemployment Tax (FUTA) credit is reduced in states that borrow from the U.S. Treasury at a rate based on the number of years a state has borrowed. Employers in Wisconsin had credit for their 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 Trust Fund. Without the revenue from the FUTA credit reduction the Trust Fund would have remained negative until first quarter receipts at the end of April 2015.

Cost of Wisconsin UI Borrowing during and after the Great Recession

Borrowing to pay UI benefits has costs associated with it that are borne by covered employers and other Wisconsin taxpayers. As mentioned above, the reduction in employers' FUTA credit increased federal UI taxes by $291 million from 2012 to 2014. There are two details about the FUTA tax increase that differentiates it from state UI taxes. First, 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. Second is the FUTA tax does not affect future tax rates.

The other large borrowing cost was interest payments on the federal loans. In total, Trust Fund borrowing accumulated $103 million in interest costs. Of the interest costs, $78 million was paid by employers through the Special Assessment for Interest (SAFI). The remaining $25 million was paid with 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 $)

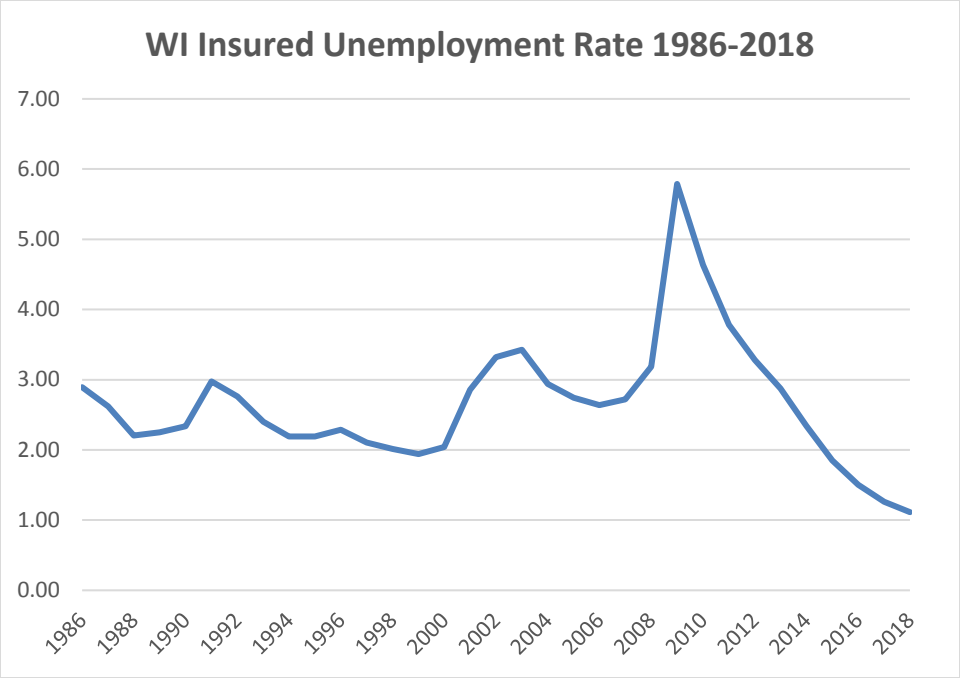
	2011	2012	2013	2014	**Total**
FUTA Credit Reduction		$47	$96	$148	**$291**
Trust Fund Loan Interest Paid Via SAFI	$42	$36			**$78**
Trust Fund Loan Interest Paid Via GPR			$19	$6	**$25**
Total Borrowing Costs					**$394**
Total Costs Paid by Employers					**$369**

Wisconsin UI Tax Data

Wisconsin UI Benefit Payments post Great Recession

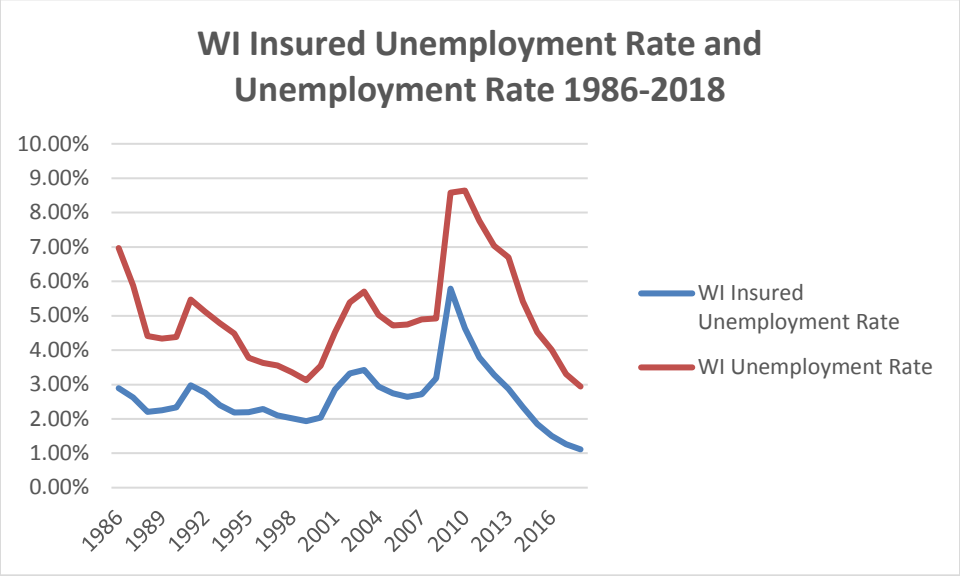
UI benefit payments have continued at historically low levels since the end of the Great Recession. There are two complementary reasons for this decline in benefit payments; a decline in unemployment claims, and the value of unemployment benefits relative to wages.

The decline in unemployment claims is illustrated by the insured unemployment rate declining to levels that have not been experienced in the modern UI system. The insured unemployment rate is the ratio of the UI claims to covered employment, so it represents the percent of covered employment that is collecting UI benefits.



U.S. Employment and Training Administration, Insured Unemployment Rate in Wisconsin [WIINSUREDUR], retrieved from FRED, Federal Reserve Bank of St. Louis; https://fred.stlouisfed.org/series/WIINSUREDUR

This decline in claim activity is even more pronounced when compared to the overall unemployment rate over the same period. Unemployment rates for the past few years are very similar to rates reported in the late 1990s, but the current rate of unemployment claims is approximately half of what occurred during that period.

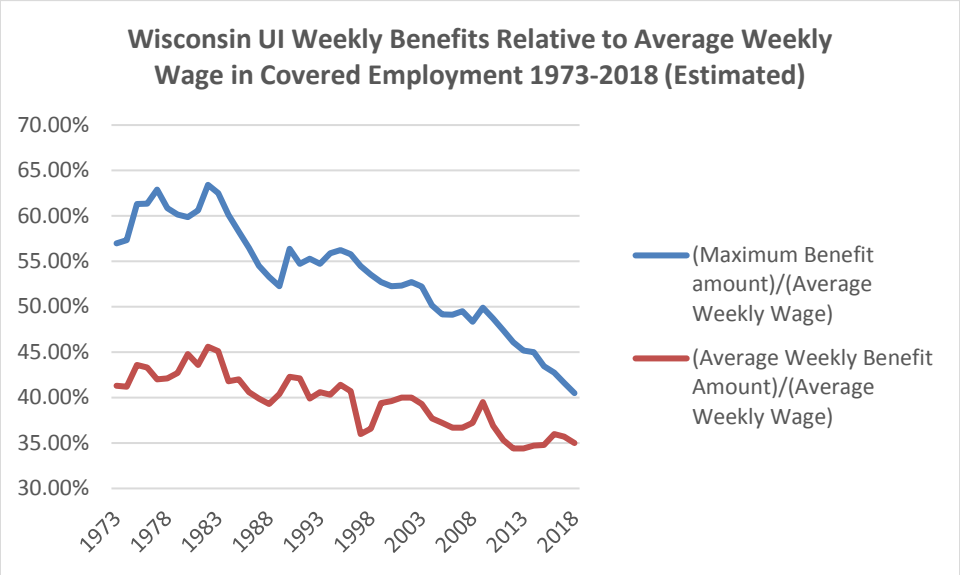


U.S. Employment and Training Administration, Insured Unemployment Rate in Wisconsin [WIINSUREDUR], U.S. Bureau of Labor Statistics, Unemployment Rate in Wisconsin [WIUR], retrieved from FRED, Federal Reserve Bank of St. Louis; https://fred.stlouisfed.org/

Over the past years there has been a break in the historic relationship between unemployment and unemployment claims. If UI benefit claims following the Great Recession had been closer to historic normal claim levels, even with the lower unemployment rate, unemployment benefit

payments would be expected to be $175 million to $250 million more per year. This equates to about $460 million to $675 million of the increase in the Trust Fund balance since 2015.

The second reason is less of a break in recent UI history and more of a result of a long-run pattern in UI benefits. Over the last few decades, the value of UI benefits has not kept pace with growth in wages.



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

As the chart above illustrates, there has been a constant decrease in the maximum benefit rate relative to the average weekly wage. From the end of the Great Recession forward, there has been a sharp decline in the replacement rate of the UI weekly benefit rate. As this ratio falls the value of the UI benefit, both in supporting worker households and supporting the economy during downturns, falters.

From 1992 to 2003, the maximum weekly benefit rate increased each year. Starting in 2003, the rate of increase slowed but there were still regular increases until 2009. Starting in 2009, the maximum weekly benefit rate stalled at $363 for 5 years. In 2014 it increased to $370, where it again has stalled for 5 years. All maximum weekly benefit amounts since 1992 are listed in Appendix C.

If the UI benefit rate was closer to the long-term replacement rate of 40 percent of average wages, UI benefit payments would have averaged $100 million more per year in 2017 and 2018, with $94 million being charged to the UI Trust Fund. This likely would have led to increased UI tax revenue of approximately $31 million.

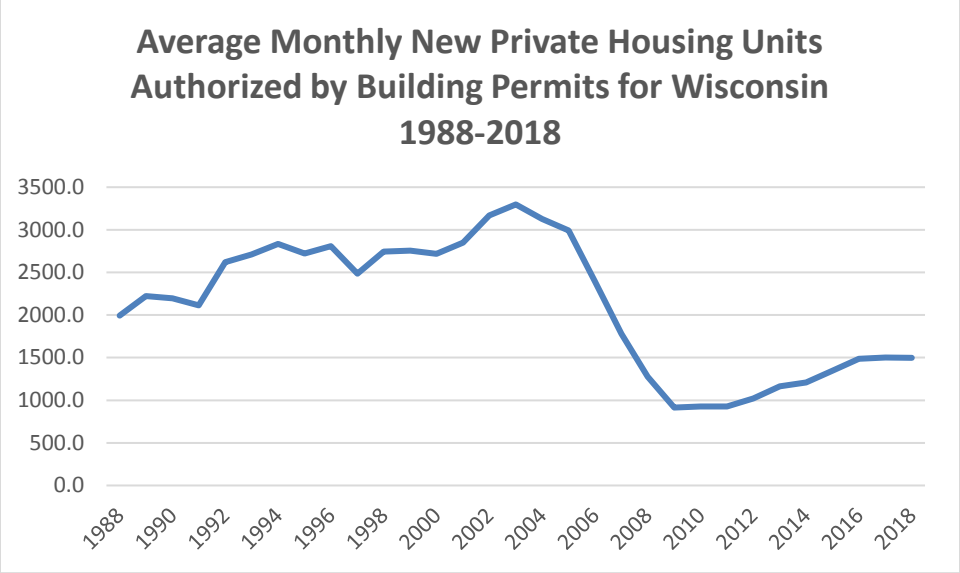
In summary, the rapid growth of the Trust Fund can be attributed to the historically low UI benefit payments over the last two years. Historically low benefit payments added approximately $525 to $600 million to the Trust Fund over the reporting period of 2017 to 2018.

There are multiple possible reasons for the current claim rate falling far below historic norms. One of these reasons may be the lack of employment growth in the manufacturing and construction industries since the end of the Great Recession. Employees engaged in manufacturing and construction represent the largest two industries that claim unemployment insurance in

Wisconsin. Over the period of July 1, 2015 through June 30, 2018 construction employees represented 28 percent of all charged benefits and manufacturing employees represented 20.7 percent of all charged benefits. The fact manufacturing employment still has not fully returned to pre-recession levels of employment and construction employment has just reached that level 10 years later may be reasons for the current low level of UI claims in Wisconsin.

Federal Reserve Bank of St. Louis and U.S. Bureau of Labor Statistics, All Employees: Manufacturing in Wisconsin [SMU55000003000000001A], retrieved from FRED, Federal Reserve Bank of St. Louis; https://fred.stlouisfed.org/series/SMU55000003000000001A

If there is an increase in employment in the manufacturing or construction sectors, such as through a boom in residential construction, UI benefit payments may return to their historic levels. Since the end of the construction boom in the mid-2000s, new private housing building permits have been substantially below the previous historic trend. If in the future there were a shift in demand to return housing starts to the long run level, construction employment would increase and could lead to higher UI claims even assuming economic growth.



U.S. Bureau of the Census, New Private Housing Units Authorized by Building Permits for Wisconsin [WIBPPRIVSA], retrieved from FRED, Federal Reserve Bank of St. Louis; https://fred.stlouisfed.org/series/WIBPPRIVSA

Section 3: UI Trust Fund Projection

Historically low levels of Wisconsin UI benefit payments present a challenge when trying to forecast future UI Trust Fund amounts. If benefit payments return to historically normal levels, projections of the Trust Fund would be significantly different than if benefit payments continue at the current, historically low levels. Note that the UI benefit payments listed below only include benefit payments that are charged to the Trust Fund. Reimbursable employer benefit charges are not included since those benefit payments do not impact the Trust Fund. Approximately six percent of benefits paid by Wisconsin UI are reimbursable benefits.

To account for the high variance associated with projecting in the current environment, this report provides three different projection scenarios. This *Financial Outlook* assumes for a baseline analysis that historically low UI benefits will continue for the projection period given that benefits are now in their fourth year of substantially reduced benefit levels. Next, there is a projection assuming benefits were to return to levels more in line with historic patterns. Finally, a projection that assumes a recession were to occur in 2020 is included.

The projections are based on IHS Global Insight macroeconomic projections for underlying economic variables such as labor force growth and the unemployment rate. These variables are then combined with other assumptions to project future UI benefit payment amounts. Both the UI benefit projections and IHS economic variables are then entered into the Wisconsin UI Tax Model to produce projections of UI tax revenue. The UI benefit payments and UI tax revenue projections are then combined to produce UI Trust Fund balance projections.

Scenario 1: UI Benefit Payments Remain at Historically Low Levels -- Using the Average Claim Ratio of the Last 3 Years

Unemployment Insurance Reserve Fund Activity and Condition					
(Millions $)					
	2018	2019	2020	2021	2022
Opening Unemployment Reserve Fund Balance	$1,472	$1,731	$1,905	$2,024	$2,064
Revenues:					
State Unemployment Revenues (employer taxes)	$598	$498	$462	$455	$467
Interest Income	$37	$45	$49	$51	$52
Total Revenue	$635	$543	$511	$506	$519
Expenses:					
Unemployment Benefits	$377	$369	$402	$454	$492
Ending Reserve Fund Balance	**$1,731**	**$1,905**	**$2,013**	**$2,064**	**$2,091**

Projections from Wisconsin Unemployment Insurance Division based upon Wisconsin Unemployment Insurance data and IHS Wisconsin projections January 2019.

The projection under scenario 1 uses IHS Global Insight projections and assumes that the Wisconsin economy continues to grow at the current modest rate. At the same time, it assumes that Wisconsin's unemployment rate will slowly return to long term historical levels near four percent. This reflects projections that assume the United States will return to the long-run unemployment equilibrium. While the unemployment rate is expected to return to a long run level,

this projection still assumes that the historically low claim ratio continues. The claim ratio is the ratio of the insured unemployment rate to the overall unemployment rate and can be thought of as the proportion of people unemployed who are collecting unemployment insurance. The insured unemployment rate is the rate of weeks claimed to the number of workers in covered employment.

With UI benefit payments continuing below long-term levels, employer UI account reserve fund balances continue to increase, which in turn, causes employer tax rates to decline and UI tax revenue to fall over the projection period. Under this projection, the Trust Fund is expected to grow throughout the projection period. The UI tax schedule is expected remain in Schedule D.

Scenario 2: UI Benefit Payments Increasing to Historically Typical Level

Unemployment Insurance Reserve Fund Activity and Condition					
(Millions $)					
	2018	2019	2020	2021	2022
Opening Unemployment Reserve Fund Balance	$1,472	$1,731	$1,737	$1,688	$1,597
Revenues:					
State Unemployment Revenues (employer taxes)	$598	$498	$491	$526	$565
Interest Income	$37	$45	$43	$41	$39
Total Revenue	$635	$543	$534	$567	$604
Expenses:					
Unemployment Benefits	$377	$535	$582	$658	$712
Ending Reserve Fund Balance	**$1,731**	**$1,737**	**$1,688**	**$1,597**	**$1,488**

Projections from Wisconsin Unemployment Insurance Division based upon Wisconsin Unemployment Insurance data and IHS Wisconsin projection January 2019.

Wisconsin economic growth is the same under scenario 2 as it is under scenario 1. The only difference is that for scenario 2 the rate of unemployment claims increases to levels historically associated with the projected unemployment rate instead of current claim levels. Scenario 1 assumes a claim ratio over the past three years of 0.37. Scenario 2 adjusts the ratio to 0.55 to represent the average historic ratio that existed in Wisconsin prior to the Great Recession. This could occur for example, if construction and manufacturing employment return to pre-recession levels.

Compared to scenario 1, the larger rate causes UI benefit payments to be significantly higher in scenario 2; benefit payments are between $180 million and $220 million more per year. It is important to note that while UI benefit payments increased by a substantial amount, UI tax revenue only increases by $30 million to $100 million, indicating that the current Wisconsin UI financing system is not responsive to changes in benefit amounts. UI taxes are anticipated to remain in Schedule D throughout the projection period even though the Trust Fund balance is decreasing.

The Trust Fund under this scenario would begin to decline as UI benefit payments outpace new UI tax revenue. A similar decline occurred historically when the UI tax schedule was set at Schedule D, the lowest tax rate schedule.

Scenario 3: U.S. Enters Recession in 2020

Unemployment Insurance Reserve Fund Activity and Condition					
(Millions $)					
	2018	2019	2020	2021	2022
Opening Unemployment Reserve Fund Balance	$1,472	$1,731	$1,905	$1,441	$929
Revenues:					
State Unemployment Revenues (employer taxes)	$598	$498	$461	$586	$710
Interest Income	$37	$45	$42	$30	$18
Total Revenue	$635	$541	$503	$616	$728
Expenses:					
Unemployment Benefits	$377	$369	$967	$1,128	$1,174
Ending Reserve Fund Balance	**$1,731**	**$1,905**	**$1,441**	**$929**	**$483**

Projections from Wisconsin Unemployment Insurance Division based upon Wisconsin Unemployment Insurance data and IHS Wisconsin projection January 2019.

Scenario 3 assumes that the United States enters a moderate recession in 2020 similar to the 1991 or the 2001 recession. UI benefit payments are expected to increase to benefits levels similar to those observed in past recessions adjusted for the increase in the size of the Wisconsin economy. UI benefit payments under this scenario increase to $1.174 billion in 2022. In dollar terms, this is still more than $600 million below the taxable benefits paid in 2012 during the Great Recession. A recession similar to the Great Recession would lead to taxable UI benefit payments reaching more than $2 billion in a single year given economic growth over the past decade.

UI tax revenue is projected to increase slightly in 2021 due to the higher benefits paid in 2020. The higher benefits charged in 2020 would lead employers to face higher tax rates as their reserve ratios decrease. There is a much larger increase in tax revenue in 2022. This increase is due both to increased tax rates because of higher charged benefits as well as increases in UI tax revenue due to a projected UI tax schedule change.

As the Trust Fund balance is expected to quickly decrease in the face of a recession, the projected UI tax schedule is expected to change from Schedule D to Schedule C.

UI Tax Schedule Trigger Amounts

Tax Schedule	UI Trust Fund Amount
A	Less than $300 million
B	$300 to $900 million
C	$900 million to $1.2 billion
D	Greater than $1.2 billion

Wisconsin Unemployment Insurance Division (Wis. Stat. § 108.18(3m)

The tax rate assessed on an employer is based upon two separate factors. The first factor is the individual employer's experience with the UI system. This experience is measured by the employer's reserve ratio as described in Section 1. The other factor that determines a tax rate is the balance of the UI Trust Fund. The UI tax schedule in effect for the tax year is determined by the prior June 30th Trust Fund balance. As the Trust Fund balance increases, the tax schedule shifts and triggers to a tax schedule that consists of lower tax rates. When the Trust Fund balance declines, higher rate schedules become effective.

In this projection, the large increase in UI tax revenue ($124 million) from 2021 to 2022 is due to the change of UI tax schedules from Schedule D to Schedule C. The trigger amounts were first set as dollar values in 1989. The values were revised in 1997 to add Schedule D and lowered the amount required to trigger Schedule C from $ 1 billion to $900 million. However, these trigger values still reflect mid-1980's benefit payments and not the benefit payments of the current Wisconsin economy. In 1989, total covered wages were $34.6 billion. In 2018, total wages were approximately $105.5 billion. One billion dollars in 1989 was three percent of covered wages. Nine hundred million dollars in 2018 was 0.8 percent of covered wages.

These fixed values for tax schedules mean there will be abrupt large changes in tax schedule during a recession instead of a more deliberate, slower paced change. The fixed values also lead to a less responsive UI financing system.

UI Trust Fund Solvency

As demonstrated, the current UI Trust Fund balance could be nearly exhausted in the face of a moderate recession. However, under a moderate recession it appears the Trust Fund would likely avoid having to borrow to pay benefits. If there was a more serious recession as experienced in 1983 or 2008, it is likely that Wisconsin would need to borrow from the federal government to pay unemployment benefits.

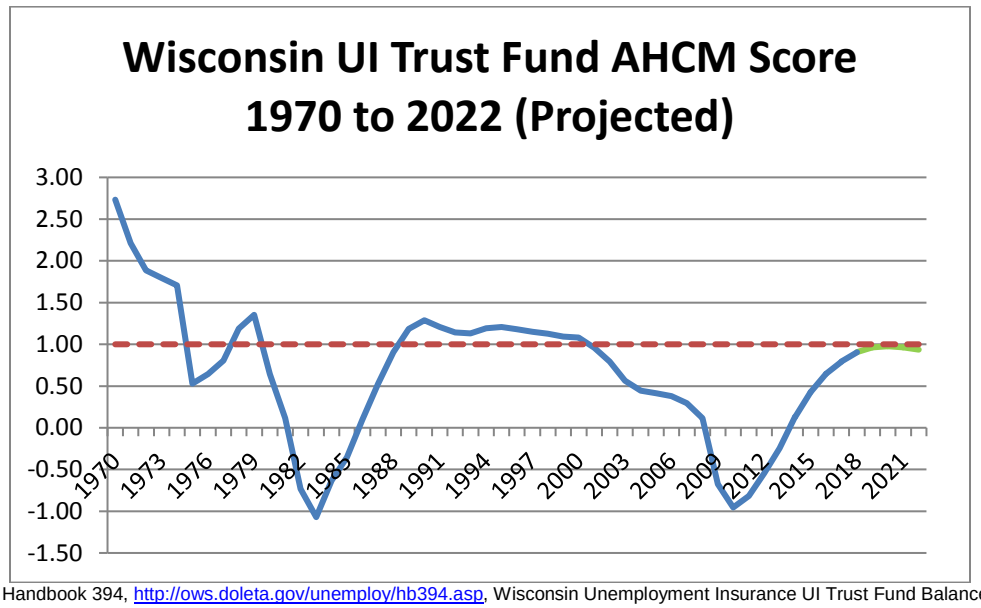
Average High Cost Multiple

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 on 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 two ratios: The Trust Fund as a percentage of total payroll and the average high cost rate. The average high cost rate is the average of the highest three benefit ratios of the last twenty years or three recessions (whichever time period is longer). The AHCM accounts for economic growth while looking only at dollar outlays and ignores both growth and inflation.

The three highest benefit ratios are then averaged to provide a benchmark known as the average high cost rate. For Wisconsin, these three years are 2002, 2009, and 2010, with corresponding benefit ratios of 1.39, 2.41, and 1.64 respectively. For purposes of calculating the AHCM, the average high cost rate for Wisconsin currently is 1.81. If Wisconsin has a ratio of its Trust Fund balance to its total payroll of 1.81, it is assumed to have a large enough Trust Fund balance to pay 12 months of benefits during a recession without having to borrow. To achieve an AHCM of 1.0 in 2018, Wisconsin's Trust Fund balance would have needed to be approximately $1.9 billion. USDOL recommends states' Trust Fund balances support at least a 1.0 AHCM. The current

AHCM Trust Fund to total payroll ratio of 1.81 is relatively low for Wisconsin compared to past values required to achieve a 1.0 score. The current ACHM no longer includes any of the comparatively large benefit amounts from the early 1980's recession.

Under scenario 1, which shows the largest Trust Fund balances of the three scenarios, Wisconsin does not reach an AHCM of 1.0, but does come very close at 0.98 in 2020 before declining slightly to 0.96 in 2021 and declining further to 0.94 in 2022. Given the other scenarios have lower projected trust fund balances, they also would not reach an AHCM of 1.0.



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

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

In 2007, if Wisconsin had maintained a Trust Fund balance that had an AHCM 1.0 or greater, it is less likely that Wisconsin would have had to borrow during the Great Recession. There would perhaps have been the need for federal interest-free short-term loans to pay benefits during peak usage periods, but no need for large, multiple year loans. 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 over the Great Recession would have been $369 million.

Decline of the Average High Cost Multiple during the Early 2000s

During the decade preceding the Great Recession, the Wisconsin UI Trust Fund's AHCM was in decline. Wisconsin UI benefit payments began to slightly exceed UI tax revenue in 1996, even though the difference between benefit payments 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. UI tax revenue finally exceeded UI benefits paid when the Great Recession caused a shift in the UI tax schedule to Schedule A in 2010 and employers' tax rates increased based on their experience.

Even if the Great Recession had not occurred, the 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 and triggered Schedule A. At this point the higher UI tax revenue would have equaled or slightly exceeded UI benefit payments. While the Trust Fund balance may have remained positive without the Great Recession, it would have declined to a very small positive amount.

There has not been a significant change in the underlying UI financing system since the early 2000s. If UI benefit payments return to levels typically experienced during the 1990s and 2000s, the Trust Fund is expected to decline along with the AHCM.

Section 4: Long Run Simulations of the UI Trust Fund

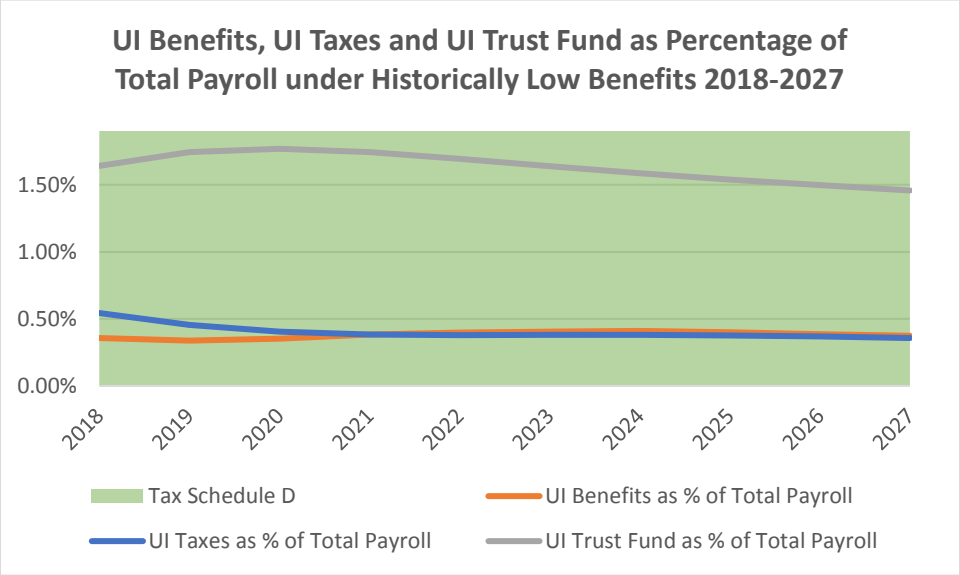
The projection period covered in Section 3 of the *Financial Outlook* runs until 2022. While this provides insight and knowledge about the short run condition of the Trust Fund, the period is not long enough to see the full dynamics of changes in the Trust Fund and the underlying financing system.

This section looks at the Trust Fund over the next decade under different scenarios to measure the long-term movement of the Trust Fund.

The measure used looks at benefit payments, taxes and the Trust Fund as a percentage of Wisconsin covered wages. This method allows for a better comparison of what occurs to these measures independent of the overall changes due to increases in wages and employment over the next ten years.

The three scenarios presented here have the same corresponding assumptions as the three in the previous section but are projected over the next ten years.

Scenario 1: UI Benefit Payments Remain at Historically Low Levels -- Using the Average Claim Ratio of the Last Three Years



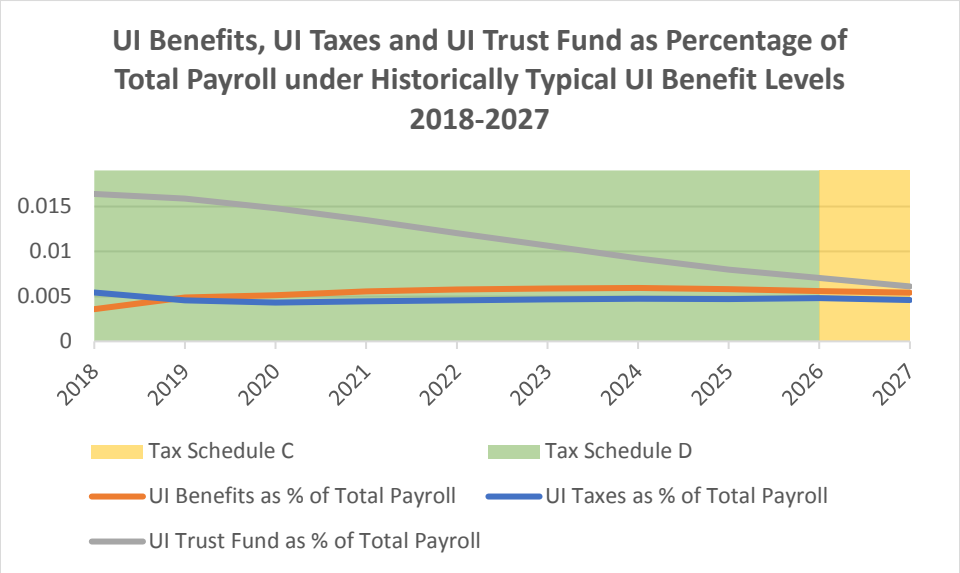
Projections from Wisconsin Unemployment Insurance Division based upon Wisconsin Unemployment Insurance data and IHS Wisconsin projections January 2019.

This projection assumes no recession over the next decade. Even with UI benefit payments continuing at historic lows over the next decade, it is expected that the Trust Fund will decline as a percentage of Total Covered Payroll. There are two main reasons this decline occurs. First, the unemployment rate is expected to approach the long-term rate in Wisconsin of near 4.5 percent over time. As the rate returns to its long-term rate, UI benefit payments are expected to increase as more claims are expected at higher rates of unemployment. Second, the economy increases at a faster rate than does tax revenue. In dollar terms, the Trust Fund is still expected to grow but not as fast as wages and employment.

Over the simulation period, even under historically low UI benefit payments, UI tax revenue falls below UI benefits paid. Over the period, interest from the Trust Fund covers the difference between benefit payments and tax revenue allowing the Trust Fund to continue to grow in dollar terms but shrink in terms of the percent of covered payroll. The Trust Fund balance stays high in dollar terms, resulting in UI taxes remaining in Schedule D for the simulation period.

Scenario 2: UI Benefit Payments Increasing to Historically Typical Level

This scenario has UI benefit payments return to long-term run historic values compared to the current levels of benefit payments. Like the previous scenario, this assumes that there is no recession over the next decade.

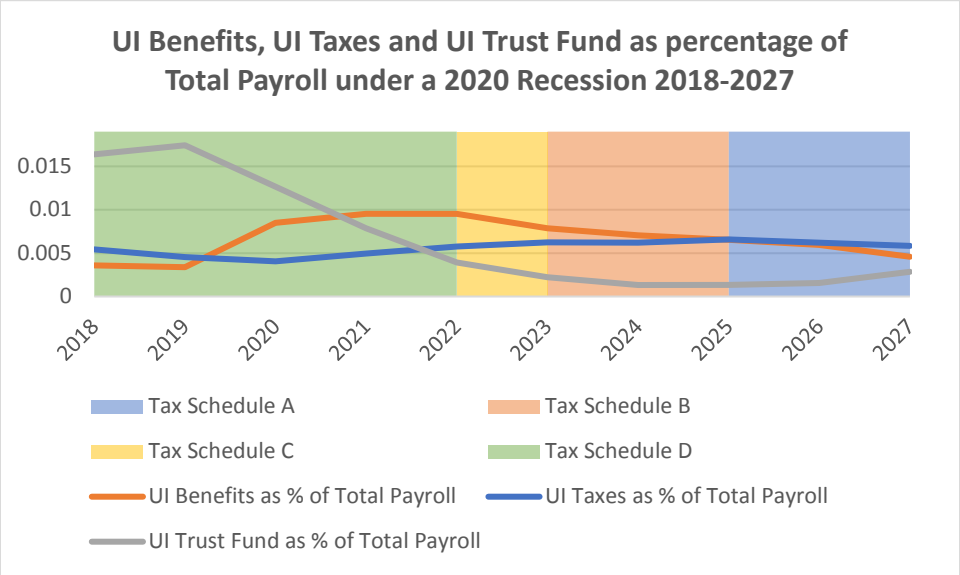


Projections from Wisconsin Unemployment Insurance Division based upon Wisconsin Unemployment Insurance data and IHS Wisconsin projections January 2019.

Under this scenario, the Trust Fund decreases consistently during the simulation period. UI benefit payments are greater than UI tax revenue and both amounts are much larger than under the previous scenario. Therefore, interest from the Trust Fund does not cover the difference between tax revenue and benefit payments. Again, this projection does not assume a recession. If a recession occurred with the higher rate of benefits and shrinking Trust Fund, Wisconsin would most likely need to borrow to pay benefits.

The large gap between benefit payments and tax revenue is an indication that if UI benefit payments do return to historically normal levels, the current UI financing system is inadequate. Under this simulation, UI tax rates do not shift into Schedule C until 2026 even though the Trust Fund declines over the entire period.

Scenario 3: U.S. Enters Recession in 2020



Projections from Wisconsin Unemployment Insurance Division based upon Wisconsin Unemployment Insurance data and IHS Wisconsin projections January 2019.

The recession starting in 2020 leads to three years of higher benefit payments. This draws down the Trust Fund; however, the Trust Fund remains solvent. The Trust Fund does not recover because UI tax revenue does not increase to exceed benefits paid until 2027. This occurs despite the UI tax schedule moving from D to C, from C to B, and finally from B to A.

Conclusion and Recommendations

If the United States and Wisconsin continue to experience modest growth and Wisconsin's UI benefit payments remain at historically low levels, the UI Trust Fund is projected to grow slightly over the projection period. However, if Wisconsin UI benefit payments were to return to more typical levels over the projection period, the Trust Fund balance would begin to decline. A mild to moderate recession in the near future would quickly shrink the Trust Fund.

The Secretary recommends the Unemployment Insurance Advisory Council review all relevant factors and provide to the Governor and the Legislature proposed solutions to further strengthen the Trust Fund. Such solutions could entail adjusting the UI tax schedule triggers to account for a substantially larger Wisconsin economy, adjusting the UI taxable wage base to reflect growth in wages since the last increase, or deeper changes in the underlying reserve balance system and tax schedules.

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

Appendix A: Wisconsin Unemployment Statistics 1992 to 2018
Wisconsin Unemployment Reserve Fund[6]

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

	Revenues						Expenses			
Year	Taxes	Interest and Other	Reed Act	ARRA	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**
2015	1,048	13			1	1,062	536		536	**741**
2016	852	22			0	874	458		458	**1,157**
2017	691	30			0	721	408		408	**1,470**
2018	598	37			0	635	376		376	**1,729**

[6] Ending reserve fund balances exclude monies set aside under the American Recovery and Reinvestment Act (ARRA) and Short-Time Compensation (STC).

Appendix B: Wisconsin Unemployment Statistics 1992 to 2018 Usage of Wisconsin Unemployment Insurance

ET Financial Data Handbook 394

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
2015	152,641	2,152,899	14.1	1.8	$370
2016	133,083	1,716,415	12.9	1.5	$370
2017	115,199	1,494,556	13.0	1.3	$370
2018	106,770	1,352,076	12.7	1.1	$370

Appendix C: Wisconsin Unemployment Statistics 1992 to 2018 Total Covered Employment, Average Weekly Wage, Average Weekly Benefit Amounts and Maximum Weekly Benefit Amount

ET Financial Data Handbook 394

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	2,728,833	$823	$285	$370
2015	2,765,376	$851	$296	$370
2016	2,772,828	$866	$312	$370
2017	2,234,432	$889	$317	$370
2018	2,792,000	$914	$320	$370

Appendix D: Maximum Weekly Benefit Rate by State

USDOL Comparison of State Unemployment Laws (2018)

State	Maximum Weekly Benefit Rate	Maximum Weekly Benefit Rate with Dependent Allowance	State	Maximum Weekly Benefit Rate	Maximum Weekly Benefit Rate with Dependent Allowance
AL	$265	$265	MT	$518	$518
AK	$370	$442	NE	$414	$414
AZ	$240	$240	NV	$439	$439
AR	$451	$451	NH	$427	$427
CA	$450	$450	NJ	$681	$681
CO	$573	$573	NM	$433	$483
CT	$613	$688	NY	$430	$430
DE	$330	$330	NC	$350	$350
DC	$432	$432	ND	$606	$606
FL	$275	$275	OH	$443	$598
GA	$330	$330	OK	$506	$506
HI	$619	$619	OR	$604	$604
ID	$414	$414	PA	$561	$569
IL	$458	$627	PR	$133	$133
IN	$390	$390	RI	$566	$707
IA	$455	$559	SC	$326	$326
KS	$474	$474	SD	$390	$390
KY	$448	$448	TN	$275	$275
LA	$284	$284	TX	$494	$494
ME	$418	$627	UT	$543	$543
MD	$430	$430	VT	$466	$466
MA	$769	$1,153	VI	$505	$505
MI	$362	$362	WA	$713	$713
MN	$693	$693	WV	$424	$424
MS	$235	$235	**WI**	**$370**	**$370**
MO	$320	$320	WY	$475	$475
National Average				**$446**	**$472**

Appendix E: Wisconsin Unemployment Statistics 1992 to 2018 Taxable UI Benefits and UI Taxes as a Percentage of Total Wages in Taxable Covered Employment

(Amounts in Millions of $)
ET Financial Data Handbook 394

Year	Total Wages in Taxable Covered Employment	Taxable Benefits as a Percent of Total Wages	Taxes as a Percent of Total Wages
1992	$41,212	1.06%	0.86%
1993	$43,218	0.91%	0.90%
1994	$46,208	0.81%	0.90%
1995	$49,104	0.85%	0.85%
1996	$51,877	0.91%	0.80%
1997	$55,968	0.79%	0.75%
1998	$59,724	0.74%	0.69%
1999	$63,497	0.72%	0.67%
2000	$66,771	0.76%	0.66%
2001	$67,452	1.17%	0.63%
2002	$68,151	1.39%	0.63%
2003	$69,588	1.34%	0.71%
2004	$73,323	1.09%	0.81%
2005	$75,730	0.99%	0.91%
2006	$79,249	0.95%	0.86%
2007	$82,118	1.02%	0.79%
2008	$83,328	1.20%	0.75%
2009	$77,419	2.41%	0.80%
2010	$78,617	1.64%	1.08%
2011	$82,114	1.23%	1.36%
2012	$85,601	1.02%	1.38%
2013	$88,438	0.89%	1.32%
2014	$92,088	0.70%	1.19%
2015	$96,775	0.54%	1.07%
2016	$98,756	0.45%	0.85%
2017	$103,271	0.39%	0.66%
2018	$105,552	0.36%	0.54%

Appendix F: Wisconsin Unemployment Statistics 1992 to 2018 UI Benefits Directly Charged to the Balancing Account (Excludes Charges for the -10 percent 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 Bal 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
2015	$64	$3	$1	$0	$4	$0	$12	----	$6	$91	$535
2016	$52	$2	$1	$0	$3	$0	$10	----	$5	$73	$457
2017	$47	$2	$1	$0	$3	$0	$8	----	$4	$65	$408
2018	$45	$2	$1	$0	$3	$0	$7	----	$3	$60	$376

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 percent 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 2018 this accounted for $47 million in charges to the Balancing Account. All other charges to the Balancing Account in 2018 totaled $60 million. Thus, write-offs represent approximately 44 percent of all charges to the balancing account in 2018. During the Great Recession the were $1.6 billion in write-offs from 2008 to 2012.

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 re-qualify 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 re-qualify 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 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.