

South Dakota Department of Labor and Regulation Unemployment Insurance Advisory Council 2016 Annual Report

This document serves as the report of meetings, discussions, and recommendations of the Unemployment Insurance (UI) Advisory Council, pursuant to SDCL 61-2-7.1. Council members appointed by Governor Dennis Daugaard include Secretary of Labor and Regulation (DLR) Marcia Hultman (chair), Robert Anderson, Tim Fitzgerald, Carol Hinderaker, Don Kattke, Shawn Lyons, David Owen, and Douglas Severson. The report is available to any interested person or groups and can be found on the DLR website at dlr.sd.gov.

Council action for 2016 began with a meeting on December 11, 2015. The Council was informed about the continual decline in the amount of federal funding DLR receives to administer the UI program. The Council was also introduced to two pieces of proposed DLR legislation intended to cover the shortfall in funding from the U.S. Department of Labor for UI administrative costs.

SB43 increased the current penalty from \$5 to \$25 for employers who fail to make a required UI contribution or submit a quarterly wage report. SB47 reduced experience-rated employer contribution rates by .02 percent beginning January 1, 2017. The amount of the reduction would then be paid into the UI administration fund, which covers UI administrative expenses. These two bills were introduced during the 2016 legislative session. On January 25, 2016, the Council moved to endorse both bills. SB43 passed and became law effective July 1, 2016. The second bill, SB47, did not pass.

The Council met on May 9, 2016. This meeting started with an update on the condition of the Trust Fund (Attachment A) and resumed the 2015 discussion on trust fund adequacy and the concept of adjusting rates based on the strength of the Trust Fund. The Council was presented with three commonly used measures of assessing trust fund solvency: reserve ratio, high cost multiple, and average high cost multiple.

The reserve ratio measures trust fund balance against total wages. It reflects the size of the economy by taking into consideration wage inflation and employment growth. The "cost multiple" measures compare trust fund reserves to past benefit payouts during recessions. These measures assess the risk of insolvency by comparing the reserve ratio to benefit experience. The high cost multiple uses the highest historical benefit cost rate during a 12-month period. The average high cost multiple uses the average of the three highest benefit cost rates during the last three recession or past twenty years.

Consensus of the Council was to use an average high cost multiple (AHCM) of 1.5 to 1.75 as the starting point for an adequate trust fund balance. After further discussion at the July 19, 2016, meeting, the Council agreed to an AHCM of 1.6 as the starting point for an adequate trust balance.

At the September 22, 2016, meeting, the Council was presented with a proposed annual tax rating process which incorporates a reduction to current tax rates when the June 30 Trust Fund balance reaches an AHCM of 1.6. Rates for the following year would then be reduced by a set amount for all experienced-rated employers. Employers would still receive their upcoming tax rates before the start of each year. The proposal also included offsetting the current tax rates by .02 percent. This reduction to the current rates would be used to offset a .02 percent administrative fee to address the continued underfunding by the U.S. Department of Labor for the UI program.

Under the proposal, a June 30 AHCM of 1.6 or above would trigger an alternate tax table. The Trust Fund is projected to reach the target AHCM on June 30, 2017. An alternate tax table would then be used in the tax rating process for the upcoming year, 2018. Consensus of the Council was to use an alternate tax rate table that reduced tax rates by 0.1 percent. Trust Fund projections based on the .1 percent reduction forecast the June 30, 2018, AHCM to remain at 1.62. This would trigger the alternate tax rate table for the 2019 tax rating process. (Attachment B).

The Council moved to support DLR in drafting legislation that will result in an administrative offset fee of .02 percent and establish the process of implementing an alternate tax table when the June 30 AHCM is 1.6 percent or above. The alternate tax table reduces tax rates by 0.1 percent (Attachment C).

The Council recommends to the Governor and the 2017 Legislature that legislation be passed that will result in the establishment of an administrative fee and create an alternative tax table when the June 30 Trust Fund balance is at an AHCM of 1.6 or above.

Respectfully submitted on October 19, 2016, by the Unemployment Insurance Advisory Council.

Attachment A – Trust Fund Totals and Projections as of September 2, 2016

UNEMPLOYMENT INSURANCE (UI) TOTALS
(in millions)

Year	Total Income <i>In</i>	Benefits Paid <i>Out</i>	Trust Fund
2000	17.5	15.2	51.1
2001	16.9	22.8	45.1
2002	36.1	29.8	51.2
2003	17.5	31.0	37.4
2004	18.0	28.1	27.3
2005	18.9	25.8	20.4
2006	19.5	20.8	19.5
2007	26.3	20.8	24.7
2008	26.5	25.1	25.5
2009	31.6	63.6	-7.7
2010	84.2	49.7	26.1
2011	48.8	38.7	36.5
2012	45.9	33.3	51.3
2013	43.7	30.1	65.9
2014	44.3	26.5	84.8
2015	38.7	24.9	99.5
<i>2016</i>	<i>38.6</i>	<i>28.9</i>	<i>109.6</i>
<i>2017</i>	<i>38.1</i>	<i>31.1</i>	<i>116.6</i>

** Italicized - Projected Data*

Attachment B – Trust Fund Projections for the September 22, 2016, Council Meeting

Based on Current Tax Rate Process

UI Financials - Quarterly Summary

(in Millions)

CY 2018	Projected	Projected	Projected	Projected	Total
	1st Qtr	2nd Qtr	3rd Qtr	4th Qtr	
Contributions/Interest In	\$5.1	\$15.9	\$11.1	\$6.7	\$38.8
Benefits Paid Out	\$13.5	\$6.3	\$4.9	\$6.7	\$31.4
Trust Fund	\$108.2	\$117.7	\$123.9	\$123.9	\$123.9

- CY 2018 projected trust fund accumulation: \$7.3 million

Based on Proposed Tax Rate Process

UI Financials - Quarterly Summary

(in Millions)

CY 2018	Projected	Projected	Projected	Projected	Total
	1st Qtr	2nd Qtr	3rd Qtr	4th Qtr	
Contributions/Interest In	\$5.1	\$13.6	\$9.6	\$5.8	\$34.1
Benefits Paid Out	\$13.5	\$6.3	\$4.9	\$6.7	\$31.4
Trust Fund	\$108.2	\$115.5	\$120.1	\$119.3	\$119.3

- Tax reduction trigger, June 30, 2017 AHCM: 1.62
- January 1, 2018 reduced tax rates go into effect
- CY 2018 projected trust fund accumulation: \$2.7 million
- Administrative fee revenue: \$800,000
- Tax reduction trigger, June 30, 2018 AHCM: 1.62
- January 1, 2019 reduced tax rates stay in effect.

Attachment C – Current and Proposed Tax Rates

Rate Reserve Ratio	Current	Proposed if AHCM is below 1.60		Proposed if AHCM is 1.60 or higher	
	Tax Rate	Tax Rate	Administrative Fee	Tax Rate	Administrative Fee
2.25 AND > 999.99	0.00	0.00	0.00	0.00	0.00
1.75 AND < 2.25	0.10	0.08	0.02	0.00	0.02
1.50 AND < 1.75	0.20	0.18	0.02	0.08	0.02
1.25 AND < 1.50	0.30	0.28	0.02	0.18	0.02
1.00 AND < 1.25	0.40	0.38	0.02	0.28	0.02
0.75 AND < 1.00	0.60	0.58	0.02	0.48	0.02
0.50 AND < 0.75	0.75	0.73	0.02	0.63	0.02
0.00 AND < 0.50	1.00	0.98	0.02	0.88	0.02
-0.25 AND < 0.00	1.50	1.48	0.02	1.38	0.02
-0.50 AND < -0.25	2.00	1.98	0.02	1.88	0.02
-0.75 AND < -0.50	2.50	2.48	0.02	2.38	0.02
-1.00 AND < -0.75	3.00	2.98	0.02	2.88	0.02
-1.50 AND < -1.00	3.50	3.48	0.02	3.38	0.02
-2.00 AND < -1.50	4.00	3.98	0.02	3.88	0.02
-2.50 AND < -2.00	4.50	4.48	0.02	4.38	0.02
-3.00 AND < -2.50	5.00	4.98	0.02	4.88	0.02
-3.50 AND < -3.00	5.50	5.48	0.02	5.38	0.02
-4.00 AND < -3.50	6.00	5.98	0.02	5.88	0.02
-4.50 AND < -4.00	6.50	6.48	0.02	6.38	0.02
-5.00 AND < -4.50	7.00	6.98	0.02	6.88	0.02
-5.50 AND < -5.00	7.50	7.48	0.02	7.38	0.02
-6.00 AND < -5.50	8.00	7.98	0.02	7.88	0.02
-6.50 AND < -6.00	8.50	8.48	0.02	8.38	0.02
-7.00 AND < -6.50	9.00	8.98	0.02	8.88	0.02
-999.99 AND < -7.00	9.50	9.48	0.02	9.38	0.02

