

## **South Dakota Department of Labor and Regulation Unemployment Insurance Advisory Council 2013 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 Daugaard include Secretary of Labor and Regulation (DLR) Pam Roberts (chair), Robert Anderson, Paul Aylward, Tim Fitzgerald, Carol Hinderaker, Don Kattke, Shawn Lyons, and David Owen. The report is available to any interested person or groups and can be found on the DLR website at [dlr.sd.gov](http://dlr.sd.gov).

The 2013 legislature passed one bill which affected unemployment insurance. HB1055 established a monetary penalty of 50 percent of the amount of the overpayment for the first offense of misrepresentation by a claimant to obtain benefits, and 100 percent of the overpayment amount on all subsequent offenses. In addition, the one-year limitation period for enforcing administrative fraud penalties was removed. HB1055 also prohibited the relieving of charges against an employer's unemployment insurance account for an overpayment of benefits if the overpayment occurred because an employer or their agent failed to respond timely or adequately to the DLR's request for information relating to the payment of benefits.

Council action for 2013 began with a meeting on February 12. The Council received a summary of the 2012 legislation and an update on the current financial status of the Trust Fund (Attachment A). The Trust Fund balance is continuing to increase at a steady pace as a result of the 2009 legislative changes. Focus continues on monitoring the continued solvency of the Trust Fund.

The September 24, 2013, meeting began with an update of the current state of the Trust Fund and the latest UI financial projections based on the most recent benefit payment and revenue information (Attachment B). On April 30, 2012, the Council adopted the U.S. Department of Labor's recommendation of a Trust Fund balance of \$76 million to cover one year of benefit payments. The Trust Fund is projected to reach \$76.1 million by the end of 2014.

The Council reviewed and discussed several options by the DLR to propose legislation in 2014 effective January 1, 2015, to reduce the revenue from employer unemployment contributions. Consensus of the Council supports legislation to reduce contributions with the following principles:

- Maintain a Trust Fund balance of at least the target established by the Council
- Preserve the maximum tax rate of 9.5 percent
- Adjust the reserve ratios for all employers
- Keep Trust Fund annual growth around \$1 million

Paul Aylward made a motion to proceed with a reduction in taxes for 2015. Rob Anderson seconded the motion. The motion passed 8-0.

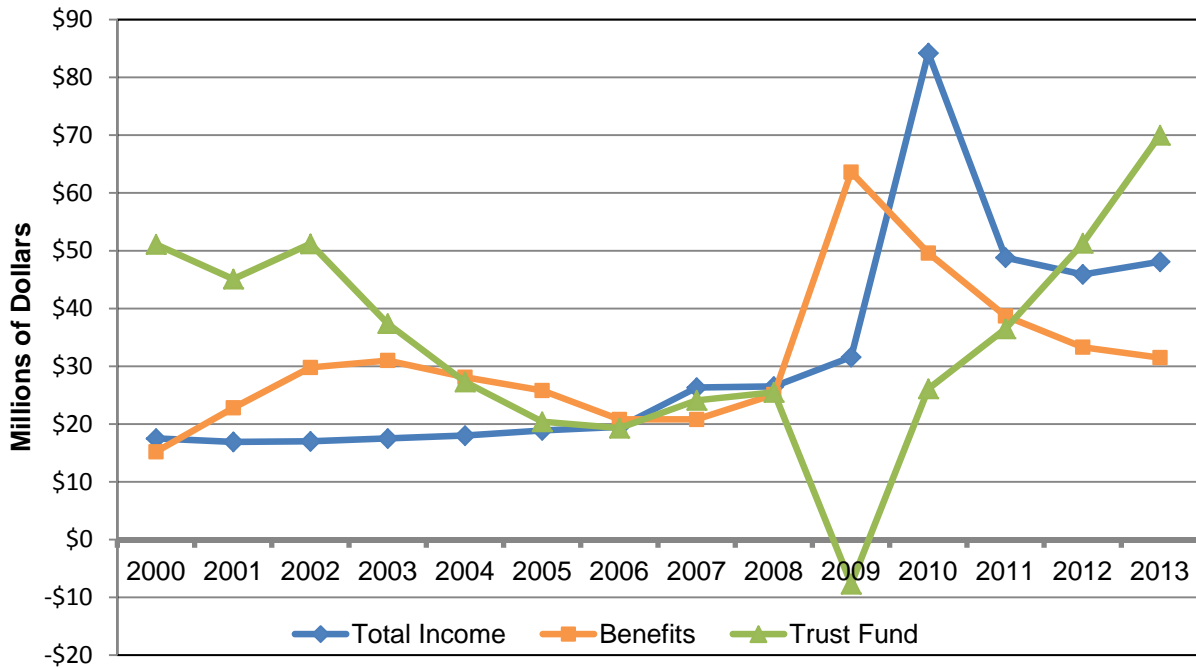
At the September 30, 2013, meeting, the Council reviewed a tax rate/reserve ratio reduction proposal based on the above principles. After some discussion, Shawn Lyons made a motion to recommend the taxable wage base be set at \$14,000 for 2014 and beyond, the tax rate/reserve ratio table be changed, and employer contributions be reduced effective January 2015. David Owen seconded the motion. The motion passed 7-0-1. The Council also established a new target Trust Fund balance of \$78 million for 2015 based on a recommendation from the DLR to increase the target balance by the rate of inflation.

On October 2, 2013, the Council reviewed proposals to reduce revenue from employer unemployment contributions effective January 2015. Shawn Lyons made a motion to recommend the taxable wage base be maintained at the scheduled amount of \$14,000 for 2014 and \$15,000 for 2015 and the tax rate/reserve ratio be changed and employer contributions be reduced effective January 2015 (Attachment C). Rob Anderson seconded the motion. The motion passed 7-0-1.

The Council recommends to the Governor and the 2014 Legislature that legislation be passed to reduce the threshold for employers to achieve a lower tax rate effective January 2015.

Respectfully submitted on October 4, 2013, by the Unemployment Insurance Advisory Council.

## Unemployment Insurance (UI) Totals



### UNEMPLOYMENT INSURANCE (UI) TOTALS (in millions)

Year	Total Income	Benefits	Trust Fund
2000	17.5	15.2	51.1
2001	16.9	22.8	45.1
2002	17.0	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	19.3
2007	26.3	20.8	24.1
2008	26.5	25.1	25.5
2009	31.6	63.6	-7.7
2010	84.2	49.6	26.1
2011	48.8	38.7	36.5
2012	45.9	33.3	51.3
<b>2013</b>	<b>48.1</b>	<b>31.5</b>	<b>70.0</b>

\* *Italicized - Projected Data*

Attachment B – Projections for the September 24, 2013, Council Meeting

**UI Financial Projections - Quarterly Summary**

(in Millions)

	<b>1st Qtr</b>	<b>2nd Qtr</b>	<b>3rd Qtr</b>	<b>4th Qtr</b>	<b>Total</b>
<b>2013</b>					
Contributions/Interest In	\$4.8	\$19.3	\$12.5	\$8.2	\$44.7
Benefits Out	\$12.9	\$6.6	\$6.4	\$7.3	\$33.2
Trust Fund	\$43.0	\$55.8	\$63.0	\$63.9	\$63.9

	<b>1st Qtr</b>	<b>2nd Qtr</b>	<b>3rd Qtr</b>	<b>4th Qtr</b>	<b>Total</b>
<b>2014</b>					
Contributions/Interest In	\$5.1	\$20.6	\$12.5	\$7.9	\$46.1
Benefits Out	\$13.7	\$7.3	\$5.9	\$7.0	\$33.9
Trust Fund	\$55.3	\$68.6	\$75.2	\$76.1	\$76.1

Attachment C – Projections for the October 2, 2013, Council Meeting

**Current**

**UI Financial Projections - Quarterly Summary**  
(in Millions)

	<b>1st Qtr</b>	<b>2nd Qtr</b>	<b>3rd Qtr</b>	<b>4th Qtr</b>	<b>Total</b>
<b>2015</b>					
Contributions/Interest In	\$5.2	\$20.9	\$13.1	\$8.5	\$47.6
Benefits Out	\$13.6	\$7.1	\$6.3	\$7.3	\$34.4
<b>Trust Fund</b>	<b>\$67.7</b>	<b>\$81.4</b>	<b>\$88.1</b>	<b>\$89.3</b>	<b>\$89.3</b>

- Tax rate: 0.0% - 9.5%
- Taxable wage base in 2015: \$15,000
- Account balance/employee for zero rate in 2013: \$825, average 3 weeks of benefits
- Zero-rated employers in 2013: 2,282, 10.9 % of 20,874 employers
- Maximum-rated employers in 2013: 740 (or 3.5%) of 20,874 employers
- Tax rate for zero reserve ratio balance/employee: 1.5%
- CY 2015 projected accumulated revenue: \$13.2 million

**Proposed**

**UI Financial Projections - Quarterly Summary**  
(in Millions)

	<b>1st Qtr</b>	<b>2nd Qtr</b>	<b>3rd Qtr</b>	<b>4th Qtr</b>	<b>Total</b>
<b>2015</b>					
Contributions/Interest In	\$5.2	\$15.4	\$9.5	\$6.1	\$36.2
Benefits Out	\$13.6	\$7.1	\$6.3	\$7.3	\$34.4
<b>Trust Fund</b>	<b>\$67.7</b>	<b>\$76.0</b>	<b>\$79.2</b>	<b>\$78.0</b>	<b>\$78.0</b>

- Tax rate: 0.0% - 9.5%
- Taxable wage base in 2015: \$15,000
- Account balance/employee for zero rate in 2013: \$742.50, average 2.7 weeks of benefits
- Zero-rated employers in 2013: 2,659, 12.7 % of 20,874 employers
- Maximum-rated employers in 2013: 703 (or 3.4%) of 20,874 employers
- Tax rate for zero reserve ratio balance/employee: 1.0%
- CY 2015 projected accumulated revenue: \$1.8 million