

Unemployment Insurance Advisory Council Meeting



May 9, 2016

Opening Remarks

2016 Legislative Session

- SB43 – Delinquent employer penalty increase
Proposed legislation increases the fee for late payments and/or reports from \$5 to \$25. The maximum total penalty for any quarter is \$300.
- SB47 – Employer contribution rate reduction & administrative fee establishment
Proposed legislation would have reduced experience-rated employer contributions by 0.02% beginning January 2017. The amount of reduction would have gone to pay for UI administration.

UI Trust Fund – Actual 2014 & 2015

UI Financials - Quarterly Summary

(in Millions)

2014	1st Qtr	2nd Qtr	3rd Qtr	4th Qtr	Total
Contributions/Interest In	\$4.9	\$19.2	\$12.3	\$7.3	\$43.7
Benefits Paid Out	\$12.1	\$5.7	\$3.5	\$5.2	\$26.5
Trust Fund	\$58.7	\$72.6	\$81.4	\$84.8	\$84.8

2015	1st Qtr	2nd Qtr	3rd Qtr	4th Qtr	Total
Contributions/Interest In	\$5.5	\$15.4	\$10.9	\$6.9	\$38.7
Benefits Paid Out	\$11.2	\$5.0	\$3.6	\$5.1	\$24.9
Trust Fund	\$78.9	\$89.5	\$96.7	\$99.5	\$99.5

UI Trust Fund – Projected 2016 as of April 28, 2016

Projected UI Financials - Quarterly Summary (in Millions)

2016	1st Qtr	2nd Qtr	3rd Qtr	4th Qtr	Total
Contributions/Interest In	\$4.8	\$15.7	\$10.3	\$6.7	\$37.5
Benefits Paid Out	\$11.7	\$6.7	\$4.7	\$6.3	\$29.4
Trust Fund	\$92.2	\$101.1	\$106.7	\$107.2	\$107.2

* Actual data through March 2016.

Trust Fund Solvency Measures

- The reserve ratio (RR) measure is a ratio of trust fund balances to total wages to gauge potential benefit payouts against the trust fund.
 - South Dakota's RR was .83 as of January 1, 2016. This means the trust fund could replace 83 percent of all wages.
 - UI solvency experts recommend a ratio of 2.0.
 - In order to achieve a RR of 2.0, the trust fund balance would need to be at \$240.1 million.

Trust Fund Solvency Measures Cont.

- The high cost multiple (HCM) measure is a ratio of trust fund reserves compared to the highest historical ratio of benefits to total wages.
 - South Dakota's HCM was .78 as of January 1, 2016. This means the trust fund could pay just over 9 months of benefits at the highest cost rate.
 - The US DOL recommendation is a HCM of 1.5 to 3.0.
 - In order to achieve a HCM of 1.5, the trust fund balance would need to be at \$191.3 million. The balance needed for a HCM of 3.0 would be \$382.7 million.

Trust Fund Solvency Measures Cont.

- The average high cost multiple (AHCM) measure is a ratio of trust fund reserves compared to the average of the three highest benefits to total wages ratios for the last three recessions or past twenty years.
 - South Dakota's AHCM was 1.52 as of January 1, 2016. This means the trust fund could pay out 18 months of benefits at the average highest cost rate.
 - The US DOL recommendation is an AHCM of 1.0.
 - In order to achieve a AHCM of 1.0, the trust fund balance would need to be at \$65.4 million.

Trust Fund Solvency

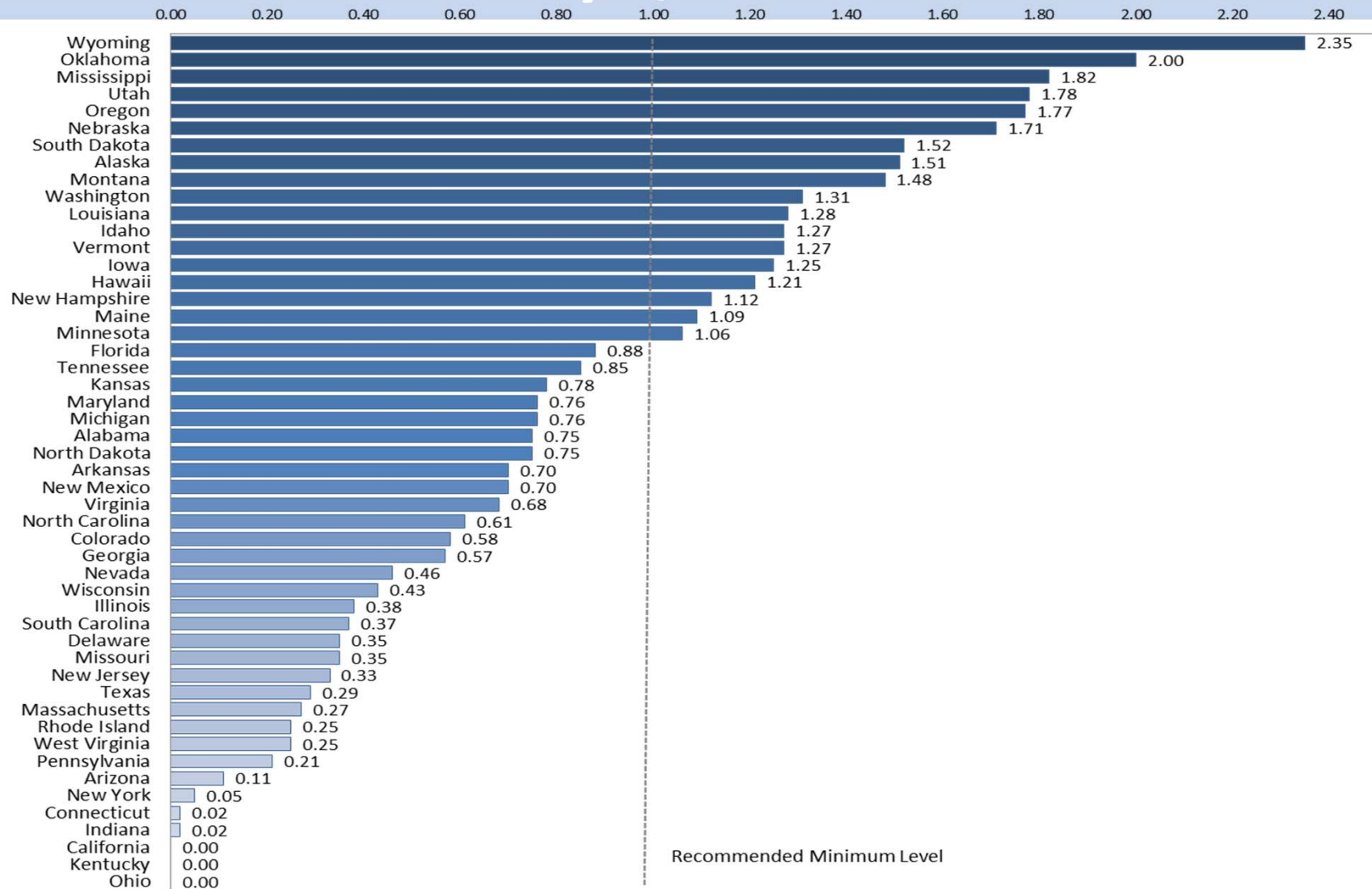
- US DOL currently recommends that States, to be minimally solvent, have reserves sufficient to pay at least one year of benefits during an average recession without receiving any additional revenue.

Average high cost multiple (AHCM) = 1.0

- Currently States must achieve an AHCM of 0.7 in order to be eligible to receive interest-free loans. By 2019, States will be required to have an AHCM of 1.0.

States' Trust Fund Solvency

AHCM as of January 1, 2016



Trust Fund Scenario – AHCM 1.0

- This scenario depicts the impact to the trust fund during the last recession had the trust fund achieved an AHCM of 1.0 on Jan. 1, 2009.

Jan. 1, 2009 Trust Fund - \$79.2 million
Plus Contributions In - \$31.6 million
\$110.8 million

Less Benefits Out - \$63.6 million

Dec. 31, 2009 Trust Fund - \$47.2 million

Jan. 1, 2010 Trust Fund - \$47.2 million
Plus Contributions In - \$44.5 million
\$91.7 million

Less Benefits Out - \$49.7 million

Dec. 31, 2010 Trust Fund - \$42.0 million

Trust Fund Scenario – AHCM 1.25

- This scenario depicts the impact to the trust fund during the last recession had the trust fund achieved an AHCM of 1.25 on Jan. 1, 2009.

Jan. 1, 2009 Trust Fund - \$99.1 million
Plus Contributions In - \$31.6 million
\$130.7 million

Less Benefits Out - \$63.6 million

Dec. 31, 2009 Trust Fund - \$67.1 million

Jan. 1, 2010 Trust Fund - \$67.1 million
Plus Contributions In - \$44.5 million
\$111.6 million

Less Benefits Out - \$49.7 million

Dec. 31, 2010 Trust Fund - \$61.9 million

Trust Fund Balances

- December 31, 2015 balance - \$99.5 million
- December 31, 2015 balance need to achieve AHCM:
 - AHCM of .50 - \$32.7 million
 - AHCM of .75 - \$49.0 million
 - AHCM of 1.0 - \$65.4 million
 - AHCM of 1.25 - \$81.7 million
 - AHCM of 1.5 - \$98.1 million
 - AHCM of 1.75 - \$114.4 million
 - AHCM of 2.0 - \$130.8 million