

Unemployment Insurance Advisory Council 2009 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 Rounds include Secretary of Labor Pam Roberts (chair), Carol Hinderaker, Robert Anderson, David Owen, Paul Aylward, Jason Dilges, Bob Riter, Jr., Homer Harding, and Mark Merchen. The report is available to any interested person or groups and can be found on the South Dakota Department of Labor (SDDOL) website at www.sdjobs.org.

The Council held meetings in 2009 on January 14, February 12, February 24, April 27, June 25, August 20, and October 8. The focus was the impact of the recession on the solvency of the Trust Fund, an expected employer surcharge which will trigger on to produce additional employer payments to the Trust Fund, impacts of that surcharge, potential long-term adjustments to the unemployment insurance system, and the availability of special modernization funds available through the American Recovery and Reinvestment Act (ARRA) stimulus bill.

The Trust Fund had dropped to a low level after the 2001-2003 recession. Changes recommended by the Council were adopted by the 2006 legislature and were on the way to restoring solvency to the Trust Fund at the time the national recession began to affect the South Dakota economy in late 2008. However, the changes were not in place long enough to provide the Trust Fund balance needed in 2009. (Attachment A)

Benefit payments through October 2008 were consistent with projections, but then began increasing dramatically. Payments for the year totaled \$25.1 million, rather than the \$21.2 million expected. In 2009, weekly payments from the Trust Fund ranged from two to five times higher than the previous year. (Attachment B) Payments are expected to total \$64.9 million for the year, and the Trust Fund will have a negative \$7.8 million balance at year end. Financial projections for 2009 are contained in Attachment C.

On January 14, 2009, the Council received a financial update but no change appeared necessary. By the February 12 and February 24 meetings, the Trust Fund balance was dropping faster than predicted. Congress had adopted the ARRA bill. The Council received a briefing on Options One and Two for UI modernization incentives as contained in the stimulus bill.

Option One provided \$5.9 million in federal funds to the state Trust Fund if benefits were expanded by creating an alternative base period for workers who could not qualify

for benefits using the regular base period. The regular base period is the first four of the last five completed quarters before the claim is filed. The alternative base period would be the four completed quarters before the claim was filed, allowing workers to use more recent wages to qualify for benefits.

Option Two becomes available only if Option One is adopted, and remains available through August 24, 2011. Option Two requires the State adopt two of four options to further expand benefits. It would provide an additional \$11.7 million of federal economic stimulus money for the UI Trust Fund. The four choices are providing 26 more weeks of benefits to workers in state-approved training in addition to the 26 weeks already available; providing a dependent allowance based on family size of the unemployed worker; providing benefits to part-time workers (already available in South Dakota, but state law would need to be clarified); and expanding eligibility for workers who quit employment for compelling family reasons.

The Council made a recommendation to the Governor and the Legislature that Option One for UI modernization be adopted effective July 1, 2010. This recommendation was passed by the Legislature in HB 1176, but was made effective July 1, 2009. Cost to the Trust Fund for the newly authorized alternative base period benefits is projected at \$700,000 annually. The Trust Fund received the \$5.9 million from Option One on April 3, 2009. The new eligibility standard was implemented and worker eligibility to date is consistent with projections.

Updated financial projections through 2010 and additional details on UI modernization were received by the Council at the April 24 and June 25 meetings. South Dakota law contains a provision for an automatic employer surcharge based on a low fund balance at the end of any calendar quarter. It triggers on when the balance is \$11 million or less and remains in effect until the balance reaches \$16.5 million at the end of a quarter. The surcharge rate is between 0.1 percent and 1.5 percent, depending on the Trust Fund balance. The surcharge will trigger based on the September 30, 2009, Trust Fund balance at a 1.5 percent rate and will be applied to taxable wages paid beginning October 1, 2009, for taxes due January 31, 2010. The taxable wage base is \$9,500 in 2009 and \$10,000 in 2010. The surcharge is projected to remain in effect for three quarters (through June 30, 2010.) (Attachment D)

In addition to UI Modernization Options One and Two, on August 20, 2009, the Council received options for long-term solutions to the Trust Fund solvency issue and financial projections based on each. Options presented were increasing the wage base, changing the surcharge impact period, and increasing the reserve required in the employer account for each tax rate. The Council also received projections through 2011 indicating the surcharge is again projected to trigger based on the March 31, 2011, and June 30, 2011, Trust Fund balances and be assessed on second and third quarter 2011 wages. (Attachment E)

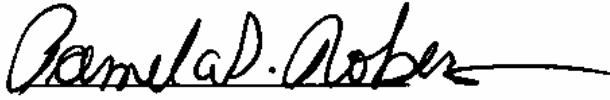
Consensus of the Council and attendees at the August 20, 2009, meeting was to recommend to the Governor and the 2010 Legislature that legislation be passed to

expand benefits to receive the \$11.7 million in UI Modernization funding. The specific option recommended was that UI exhaustees participating in state-approved or Workforce Investment Act (WIA) funded training programs receive additional UI payments of 26 weeks. The policy of providing benefits to part-time workers needs to be codified and would also be included in the legislation to meet federal review requirements. (Attachment F) No other corrective actions would be recommended in 2010 due to the on-going recession. The current UI tax system would be further analyzed in 2010 to develop long-term strategies for consideration by the 2011 legislative session.

The final 2009 Council meeting and public hearing was October 8, 2009. As a result of this meeting, the Council recommends to the Governor and the 2010 Legislature that legislation be passed to expand benefits to receive the \$11.7 million in UI Modernization funding by authorizing UI exhaustees participating in state-approved or Workforce Investment Act (WIA) funded training programs to receive additional UI payments of 26 weeks. Additionally the Council recommends codifying current policy of providing benefits to part-time workers be included in the legislation. The Council further recommends no other corrective actions be made in 2010 due to the on-going recession, but the current UI tax system be further analyzed in 2010 to develop long-term strategies for consideration by the 2011 legislative session.

Respectfully submitted on 2009, by the Unemployment Insurance Advisory Council.

Members:



Pamela S. Roberts



Carol Hinderaker



Robert Anderson



David Owen




Paul Aylward



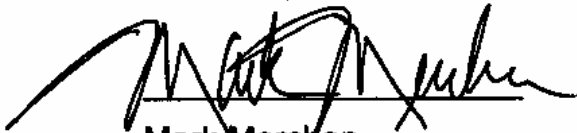
Jason Dilges



Bob Riter, Jr.



G. Homer Harding



Mark Merchen

Attachment A

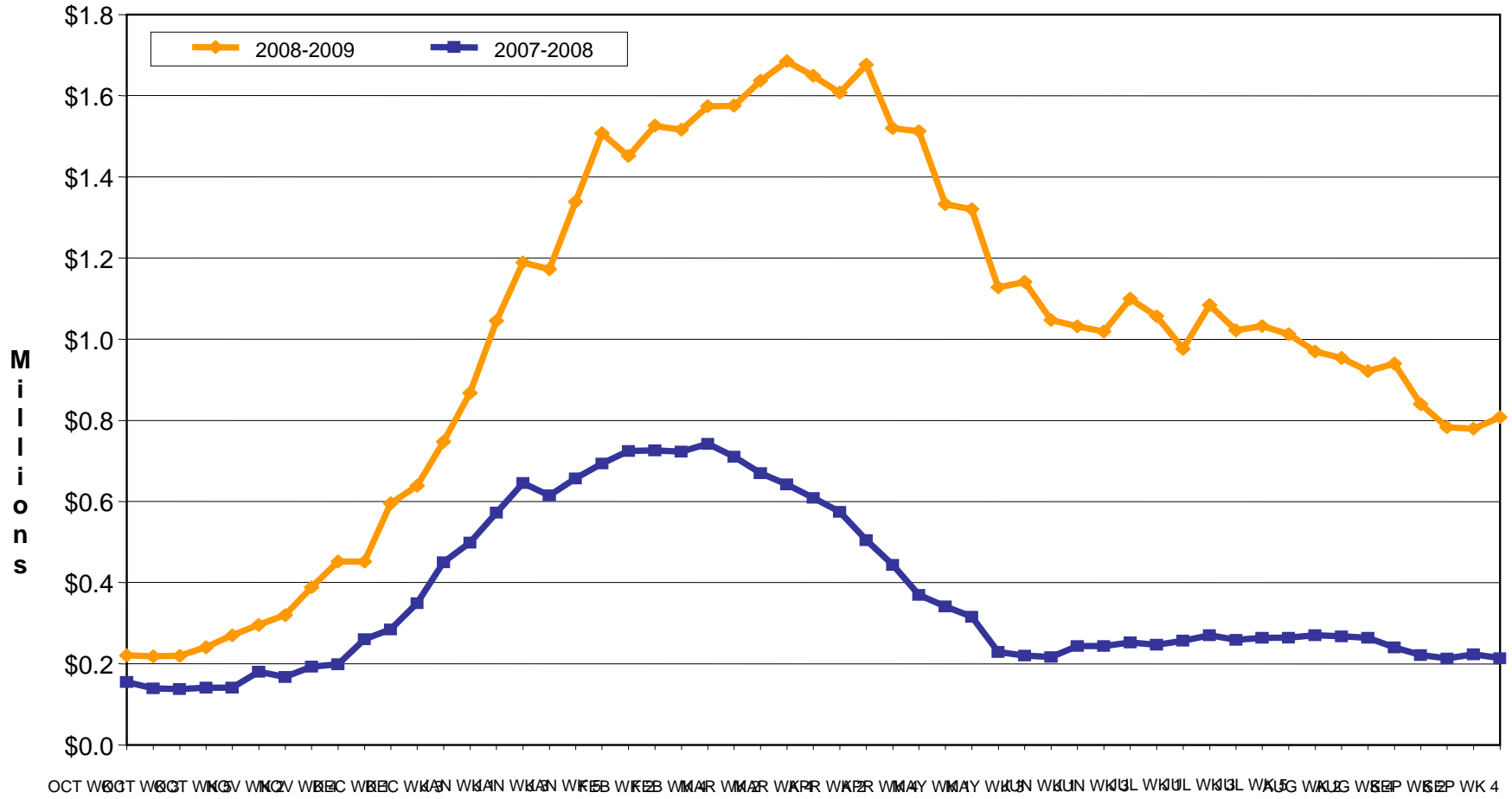
Unemployment Insurance Totals
(in millions)

YEAR	Total Income	Benefits	Trust Fund
1996	14.0	15.6	48.6
1997	14.5	15.5	47.7
1998	15.5	15.4	48.1
1999	15.8	15.1	48.7
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
<i>2009</i>	<i>31.7</i>	<i>64.9</i>	<i>-7.8</i>

**Italicized - Projected*

Attachment B

Weekly UI Trust Fund Payments (October- September)



Attachment C

UI Financial Projections - Quarterly Summary (in Millions)

	1st Qtr	2nd Qtr	3rd Qtr	4th Qtr	Total
2009					
Contributions/Interest In	\$2.9	\$13.0	\$6.2	\$3.7	\$25.8
Stimulus Revenue In	\$0.0	\$5.9	\$0.0	\$0.0	\$5.9
Benefits Out	\$20.3	\$17.8	\$12.5	\$14.3	\$64.9
Trust Fund	\$8.9	\$8.8	\$2.8	-\$7.8	-\$7.8

Attachment D

UI Financial Projections - Quarterly Summary (in Millions)

	1st Qtr	2nd Qtr	3rd Qtr	4th Qtr	Total
2010					
Contributions/Interest In	\$2.7	\$13.0	\$6.2	\$4.1	\$26.0
Surcharge In	\$3.5	\$23.3	\$9.3	\$0.0	\$36.1
Benefits Out	\$15.3	\$10.4	\$6.3	\$8.0	\$40.0
Federal Repayment Out	\$0.0	\$0.0	\$16.9	\$0.0	\$16.9
Trust Fund	-\$9.0	\$26.0	\$18.3	\$14.4	\$14.4

Attachment E

UI Financial Projections - Quarterly Summary
(in Millions)

	1st Qtr	2nd Qtr	3rd Qtr	4th Qtr	Total
2011					
Contributions/Interest In	\$3.1	\$14.2	\$6.8	\$4.5	\$28.6
Surcharge In	\$0.0	\$0.0	\$9.7	\$0.4	\$10.1
Benefits Out	\$12.3	\$8.1	\$5.1	\$7.0	\$32.5
Trust Fund	\$5.2	\$11.3	\$22.7	\$20.6	\$20.6

Attachment F

UI Financial Projections - Quarterly Summary (in Millions)

	1st Qtr	2nd Qtr	3rd Qtr	4th Qtr	Total
2010					
Contributions/Interest In	\$2.7	\$13.0	\$6.2	\$4.3	\$26.2
Stimulus Revenue In	\$0.0	\$0.0	\$11.7	\$0.0	\$11.7
Surcharge In	\$3.5	\$23.3	\$9.3	\$0.0	\$36.1
Benefits Out	\$15.3	\$10.4	\$6.3	\$8.0	\$40.0
Stimulus Benefits Out	\$0.0	\$0.0	\$0.3	\$0.3	\$0.6
Federal Repayment Out	\$0.0	\$0.0	\$16.9	\$0.0	\$16.9
Trust Fund *	-\$9.0	\$26.0	\$29.8	\$25.7	\$25.7
2011					
Contributions/Interest In	\$3.2	\$14.4	\$6.9	\$4.5	\$29.0
Benefits Out	\$12.3	\$8.1	\$5.1	\$7.0	\$32.5
Stimulus Benefits Out	\$0.3	\$0.3	\$0.3	\$0.3	\$1.2
Trust Fund	\$16.3	\$22.2	\$23.7	\$20.9	\$20.9

* Trust Fund Difference Covered by Federal Borrowing as Needed