

Unemployment Insurance Advisory Council 2010 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.

During the 2001-2003 recession, the Trust Fund dropped to a low level. The 2006 Legislature adopted changes recommended by the Council. These changes were in place and working to restore solvency to the Trust Fund until South Dakota's economy started to feel the effects of the current recession in late 2008.

By early 2009, benefit payments were increasing at an unprecedented rate, and the Trust Fund balance was dropping faster than any predications. (Attachment A) The Council introduced legislation which was passed by the 2009 Legislature to adopt Option One of the American Recovery and Reinvestment Act (ARRA) stimulus bill. Option One provided \$5.9 million in federal funds to the Trust Fund by adopting an alternative base period for workers who could not qualify for benefits using the regular base period.

Despite this addition of federal stimulus money, benefit payments remained high, and Trust Fund levels continued to decline. By late 2009, the Trust Fund was once again estimated to reach insolvency by the end of the year. The Council recommended to the Governor and the 2010 Legislature that legislation be passed to expand benefits to receive the \$11.7 million in federal funds provided in Option Two of the ARRA stimulus bill (HB1018).

Council action for 2010 began with a meeting on January 19, 2010. The Council received updated financial projections reflecting the potential impact of HB1018. (Attachment B) HB1018 would expand eligibility for benefits under Option Two of the ARRA stimulus bill by providing an additional 26 weeks of benefits to UI exhaustees participating in state-approved or Workforce Investment Act (WIA)-funded training programs for high demand occupations. This bill also codified current policy of providing benefits to part-time workers. HB1018 passed and was signed into law by Governor Rounds. The Trust Fund then received a one-time federal payment of \$11.7 million on June 8, 2010. The projected annual cost to the Trust Fund as a result of the expanded benefits is \$800,000.

South Dakota law contains a provision for an automatic employer surcharge based on a low fund balance at the end of any calendar quarter. The surcharge impacts all employers in the State. The surcharge triggered on at the end of September 2009 at the maximum rate of 1.5 percent. The Trust Fund balance had dropped to an all-time

low of \$2.8 million. By mid-October, the Trust Fund reached insolvency. Federal loan monies were requested for benefit payments. These loans were available at zero interest through 2010. By the end of 2009, South Dakota reached a negative account balance of \$7.7 million. (Attachment C)

Emergency legislation was developed by the business community, the SDDOL, and other interest groups and proposed to the Council on February 3, 2010. SB186 was introduced to modify the UI tax system and reduce the employer surcharge payable in 2010. The Bill reduced the surcharge payable and increased taxes effective January 1, 2010, and was designed to be revenue neutral. (Attachment D) It contained three sections addressing:

- Wage Base
- Contribution Rate/Reserve Ratio Table
- Employer Surcharge

Wage Base

The wage base is the amount of wages on which the UI contribution rate is paid. The 2006 Legislature increased the wage base in increments from \$7,000 to \$10,000 by 2010. SB186 proposed additional increases every year through 2015. The wage base would increase from \$10,000 in 2010, to \$11,000 in 2011, \$12,000 in 2012, \$13,000 in 2013, \$14,000 in 2014, and \$15,000 in 2015.

Contribution Rate/Reserve Ratio Table

SB186 established a new contribution rate/reserve ratio table. The maximum rate increased from 8.5 percent to 9.5 percent. SB186 also required employers to have higher account balances to receive a zero rate. Employers with negative account balances would receive higher rates.

Employer Surcharge

SB186 temporarily capped the employer surcharge rate at 1 percent for 2010 and 0.75 percent for 2011. Under current law, employers were estimated to pay a 1.5 percent rate in both 2010 and 2011. The current employer surcharge system triggers on and off based on the Trust Fund balance at the end of each quarter. In order to distribute the employer surcharge equitably among employers, SB186 proposed that effective 2012, the employer surcharge would remain in effect for four consecutive quarters. The surcharge rate could increase during this time, but would not decrease during the four quarter period.

A public hearing was held by the Council on February 9, 2010, to receive public input regarding SB186. The Council voted to endorse SB186 but also continue to study the UI tax system and the impacts of the bill. SB186 passed the 2010 Legislature and was signed into law by Governor Rounds.

On February 17, 2010, the Council held another public hearing asking for suggestions for Council consideration in 2010. Several items were mentioned: employer surcharge

rate, wage base, employer tax rate notice, 2009 tax table reinstatement, and the negative account balance statute. The Council also established a target Trust Fund balance of \$76 million based on a recommendation from the U.S. Department of Labor.

The Council reviewed the current UI financial projections (Attachment E) at their August 24, 2010, meeting. The Council also heard testimony from the public regarding changing the timing for annual employer tax rate notices, eliminating the negative interest charge on negative balance employers, reinstating the 2009 tax table once the Trust Fund reaches \$76 million, and reviewing the Investment Fee hold harmless clause. Consensus of the Council was to consider these issues at upcoming meetings.

The final 2010, Council meeting was held October 5, 2010. As a result of this meeting, the Council recommends to the Governor and the Legislature that the timing of tax rate notices from calendar end to fiscal year end (June 30) be ultimately made.

The Council will next meet in early January 2011 to review UI financial projections and make further recommendations to the Governor and 2011 Legislature if necessary.

Respectfully submitted on October 5, 2010, by the Unemployment Insurance Advisory Council.

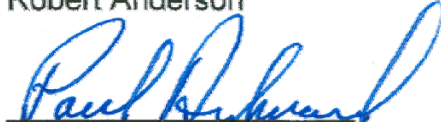
Members:


Pamela S. Roberts



Carol Hinderaker


Robert Anderson

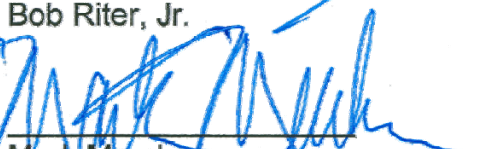

David Owen


Paul Aylward


Jason Dilges

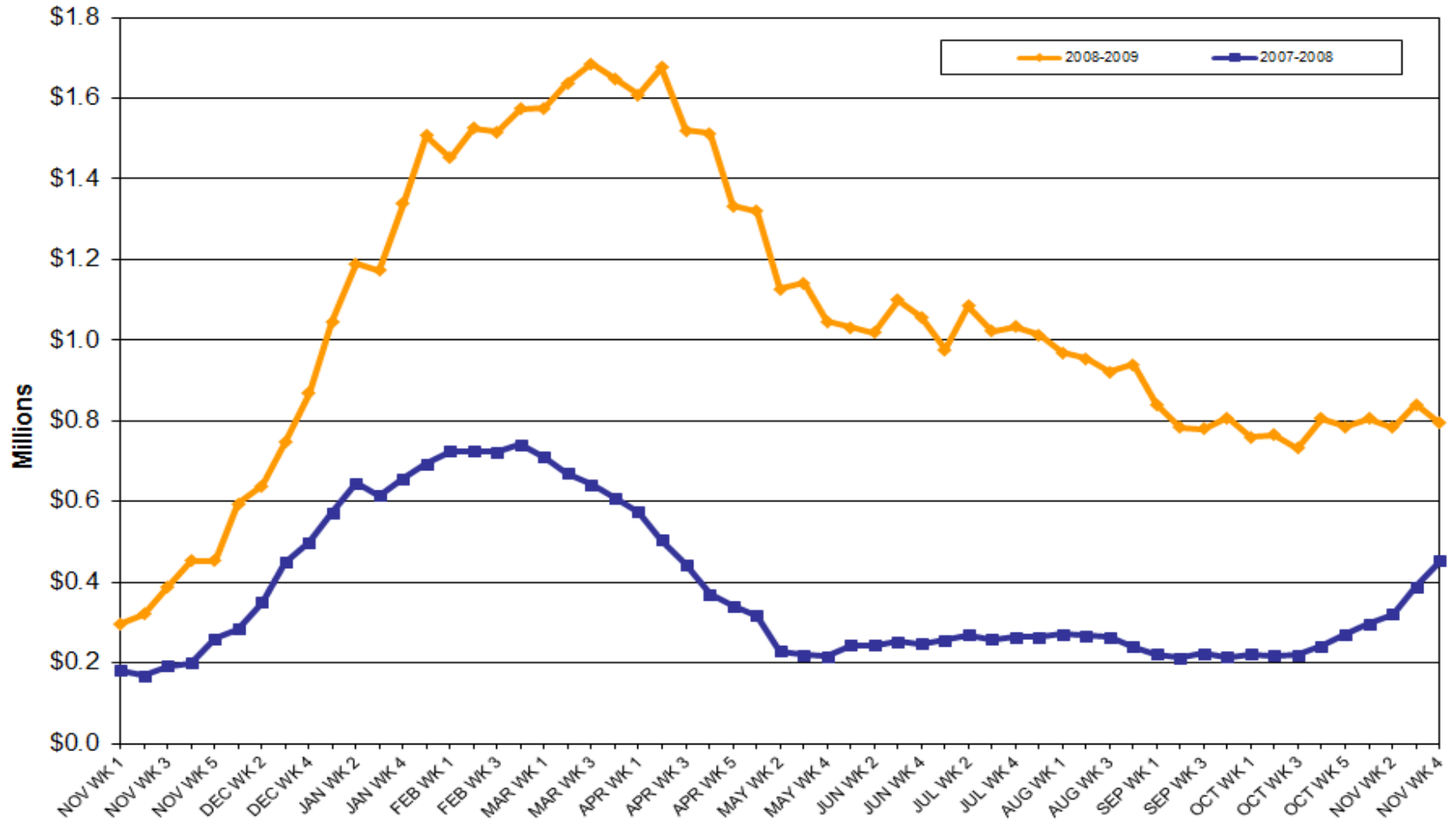

Bob Riter, Jr.


G. Homer Harding


Mark Merchen

Attachment A

Weekly UI Trust Fund Payments (November - November)



Attachment B - projections for the January 19, 2010 Council Meeting

UI Financial Projections - Quarterly Summary

(in Millions)

	1st Qtr	2nd Qtr	3rd Qtr	4th Qtr	Total
2010					
Contributions/Interest In	\$2.9	\$13.8	\$6.9	\$4.4	\$28.0
Stimulus Revenue In			\$11.7		\$11.7
Surcharge In	\$4.2	\$24.8	\$9.7	\$5.6	\$44.2
Benefits Out	\$24.6	\$15.6	\$10.8	\$14.4	\$65.4
Federal Repayment Out		\$23.0	\$2.0		\$25.0
Trust Fund	-\$25.0	\$0.0	\$15.6	\$11.2	\$11.2

Attachment C

Unemployment Insurance 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

Attachment D – estimates provided to 2010 Legislature

	Current Tax <u>+ Surcharge</u> = Total Revenue	Proposed Tax <u>+ Surcharge</u> = Total Revenue
2010	\$27.9 million <u>+ \$44.2 million</u> = \$72.1 million	\$43.4 million <u>+ \$30.9 million</u> = \$74.4 million
2011	\$28.9 million <u>+ \$40.6 million</u> = \$69.5 million	\$47.3 million <u>+ \$21.0 million</u> = \$68.3 million

Attachment E – estimates for August 24, 2010 Council Meeting

UI Financial Projections - Quarterly Summary (in Millions)

	1st Qtr	2nd Qtr	3rd Qtr	4th Qtr	Total
2010					
Contributions/Interest In	\$2.4	\$23.4	\$12.6	\$8.1	\$46.4
Stimulus Revenue In		\$11.8			\$11.8
Surcharge In	\$3.8	\$16.3	\$6.9	\$0.4	\$27.4
Benefits Out	\$21.9	\$11.6	\$7.2	\$11.3	\$52.0
Federal Repayment Out	\$0.0	\$24.0	\$0.0	\$0.0	\$24.0
Trust Fund	-\$24.0	\$15.9	\$24.7	\$21.9	\$21.9