



Virginia Employment Commission *report to*

The Commission on Unemployment Compensation

James Ellenberger, *Deputy Commissioner*
Virginia Employment Commission

July 19, 2004



VEC Trust Fund





VEC Administrative Funding

- Employers pay a FUTA tax to the Internal Revenue Service
(FUTA is the Federal Unemployment Tax Act).
- FUTA is a flat tax of 0.8% on first \$7,000 of each employee's wages, which costs \$56 per employee per year.



VEC Administrative Funding

(continued)

- Revenue from the FUTA tax is used to pay for SESA (State Employment Security Agency) administration at both the state and national levels.
- Virginia's employers paid over \$191 million in FUTA taxes in FY 2002.
- VEC received about \$63 million from U.S. DOL in FY 2002.



VEC Administrative Funding

(continued)

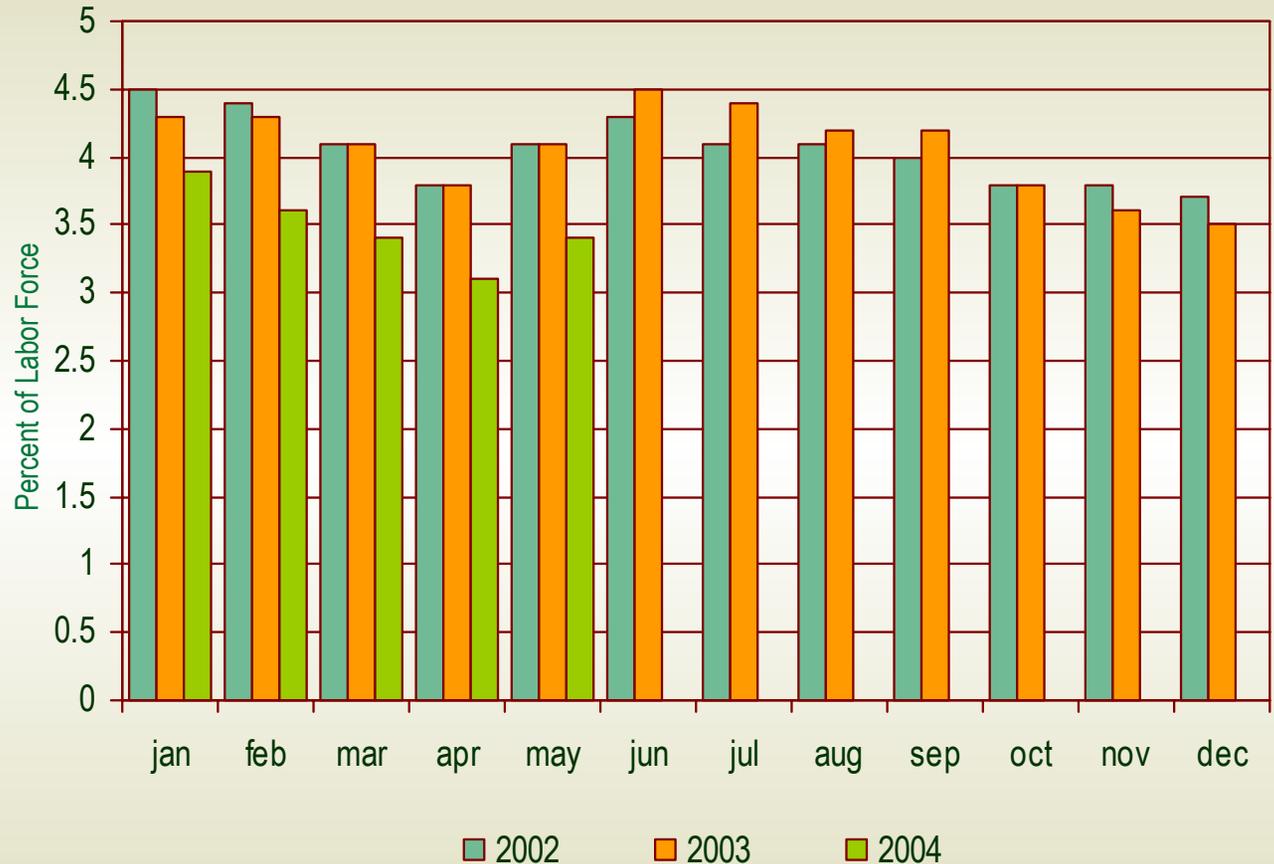
- VEC paid \$153.8 million in TEUC benefits in CY 2003. This was funded by FUTA.
- VEC received \$214.9 million on March 13, 2002. This money was collected by the FUTA tax.



Virginia's Unemployment Rates

2002 - 2004 *(year to date)*

→ Since October 2003, all unemployment rates have been at or below year-ago rates.

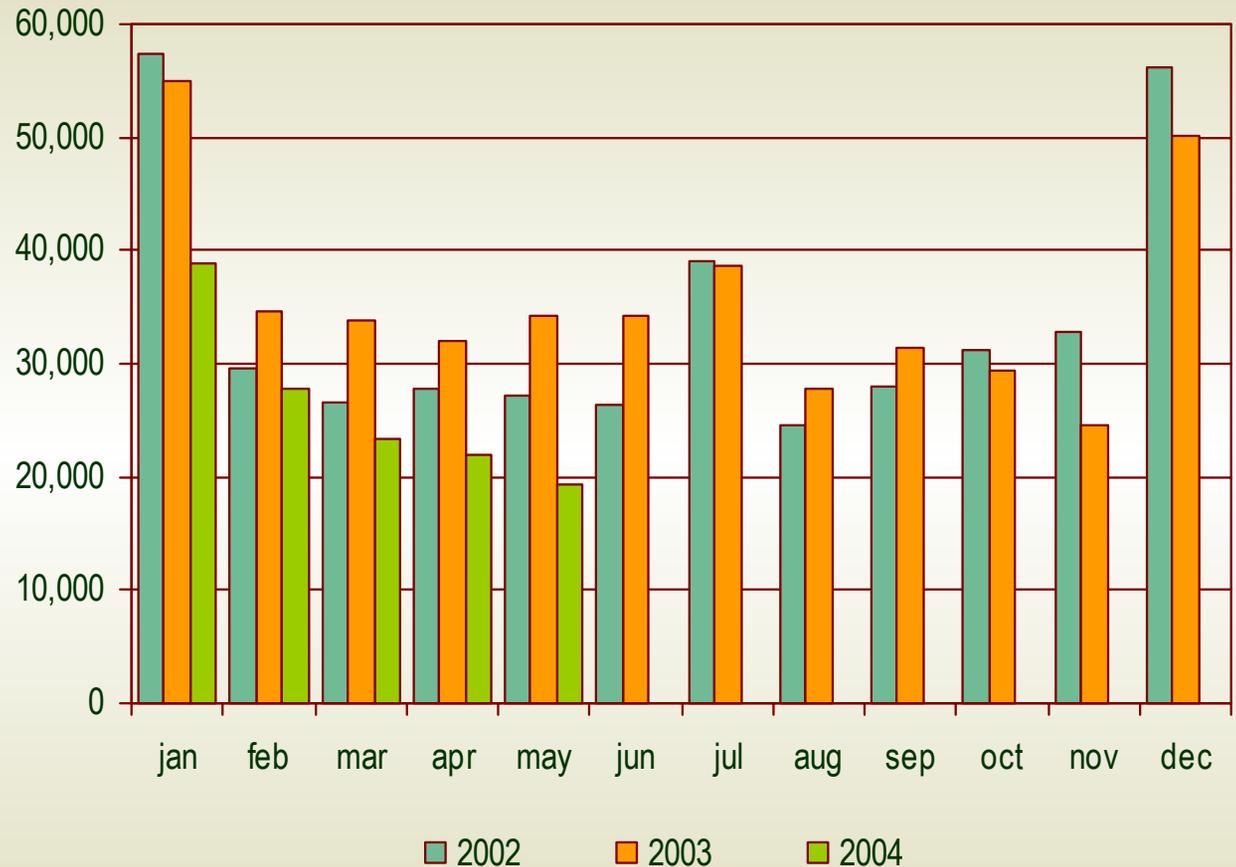




UI Initial Claims

2002 - 2004 *(year to date)*

→ Total initial claims through May this year are down 30.8% because of fewer temporary factory furloughs and better weather for outside construction work.

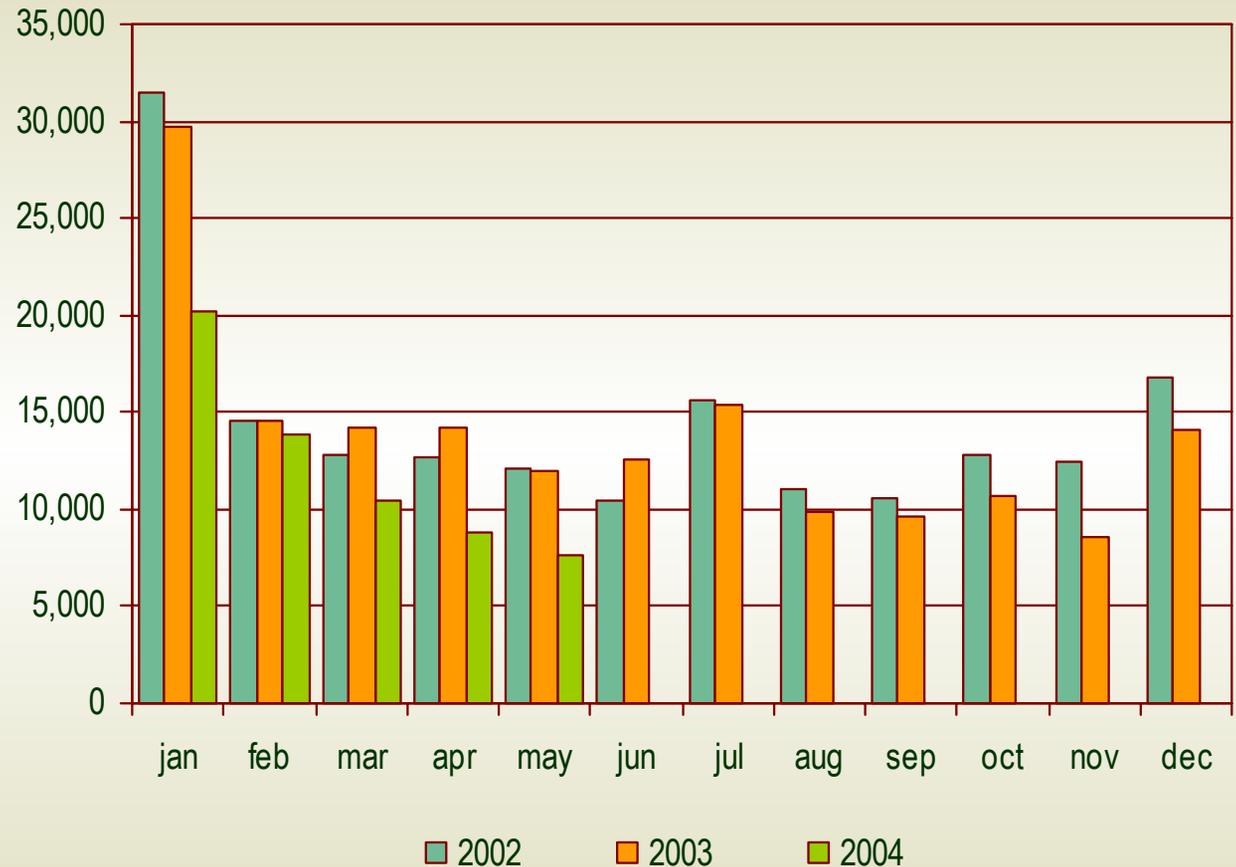




UI First Payments

2002 - 2004 *(year to date)*

- A claimant can receive only one first payment in his benefit year; so first payments are a good proxy for the number of claimants receiving unemployment benefits.
- Through May, first payments are down 28.0% from last year.
- The average duration in May was 14.1 weeks, the same as the previous May.

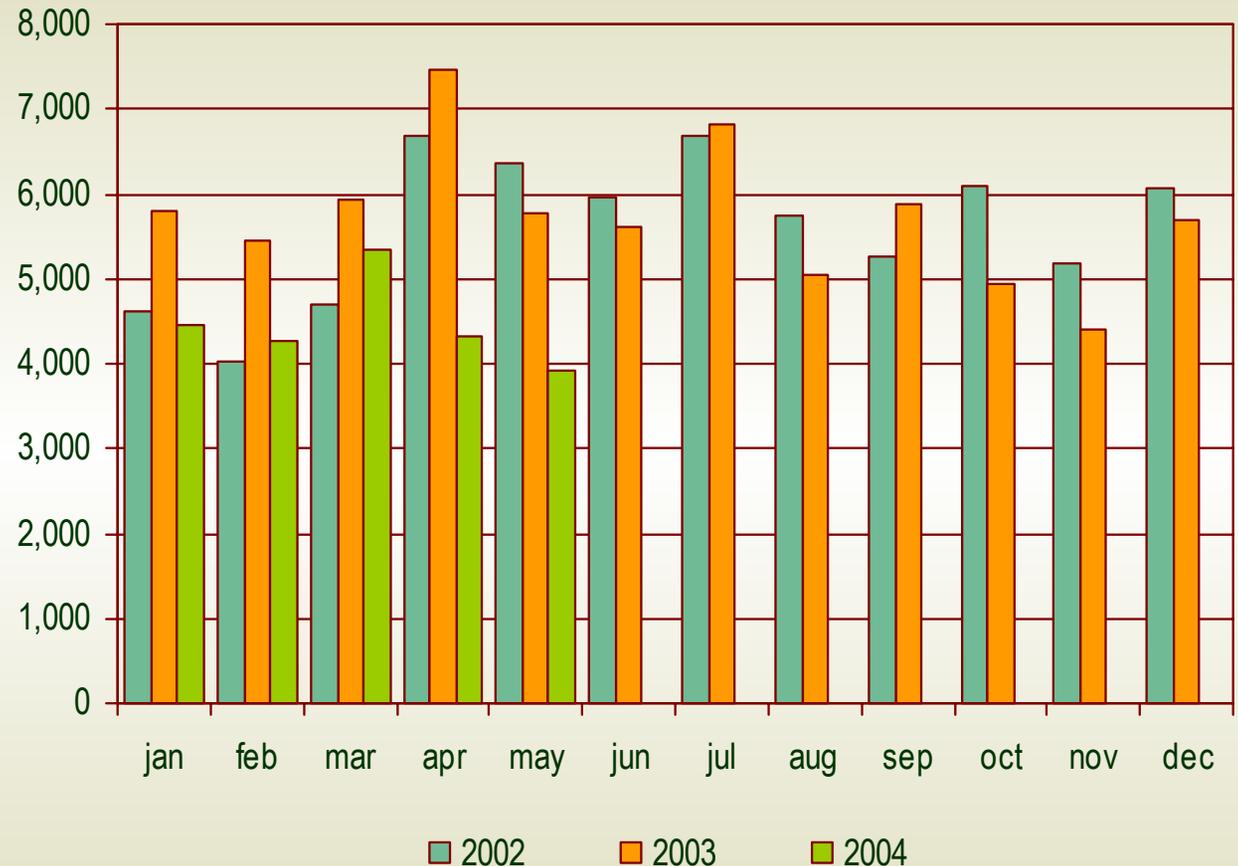




UI Final Payments

2002 - 2004 *(year to date)*

- For the first five months of 2004, final payments are down 26.6% from 2003.
- The exhaustion rate in May was 36.1%, down from last May's 41.8%.



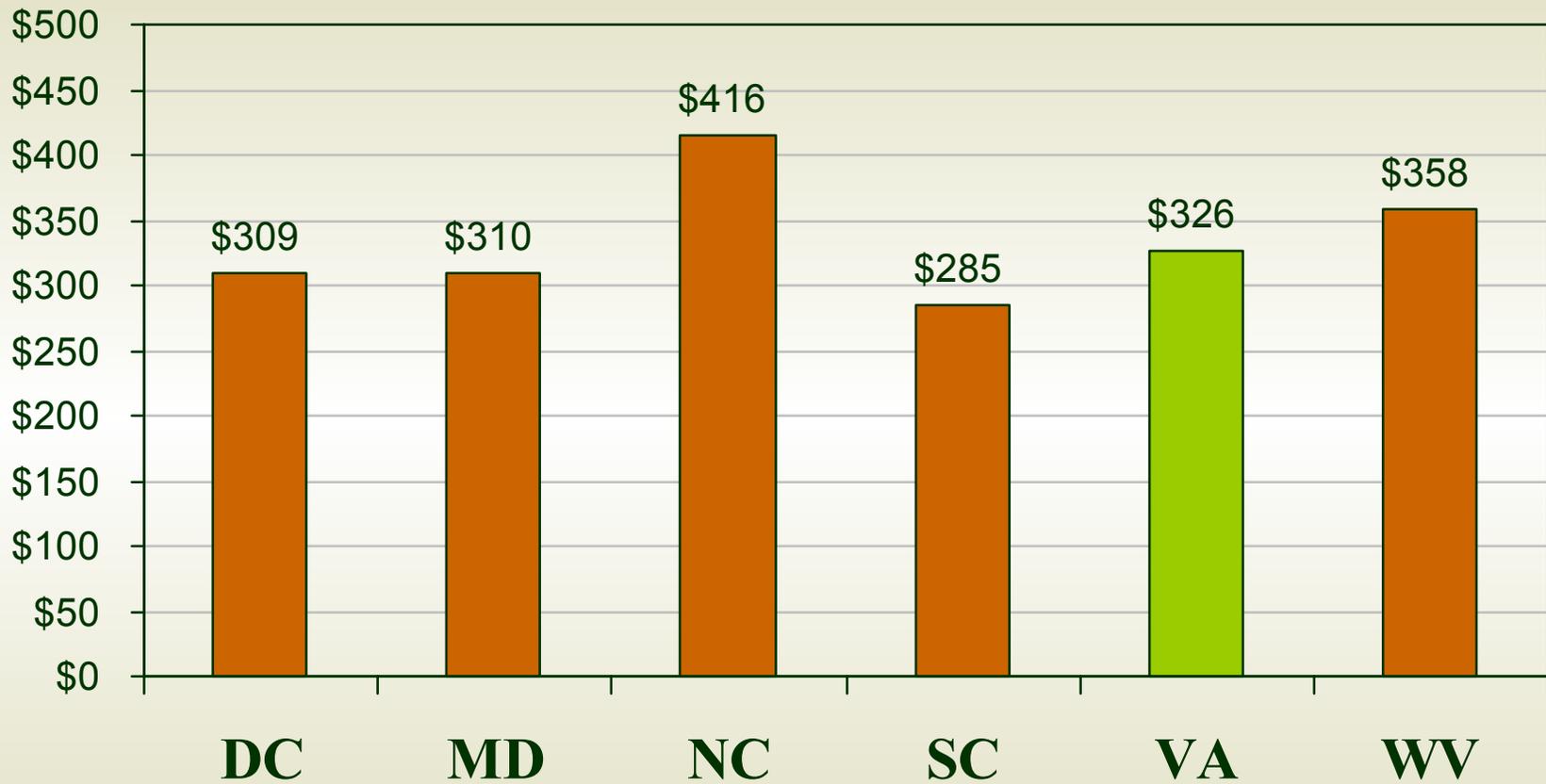


UI Benefits

- Benefits are paid to workers unemployed through no fault of their own.
- Benefit levels:
 - Minimum weekly benefit
 - \$50 (July 1999)
 - \$69 (Sept. 9, 2001 – Jan. 4, 2003)
 - \$59 (Jan. 5, 2003 – July 5, 2003)
 - \$50 (July 6, 2003)
 - 155 claimants at minimum through 2nd quarter
- Maximum weekly benefit
 - \$268 (Nov. 28, 1999)
 - \$368 (Sept. 9, 2001 – Jan. 4, 2003)
 - \$318 (Jan. 5, 2003 – July 5, 2003)
 - \$316 (July 6, 2003 – July 3, 2004)
 - \$326 (July 4, 2004)
- 28,935 claimants at maximum through 2nd quarter



2004 Maximum Weekly Benefit Fourth Circuit

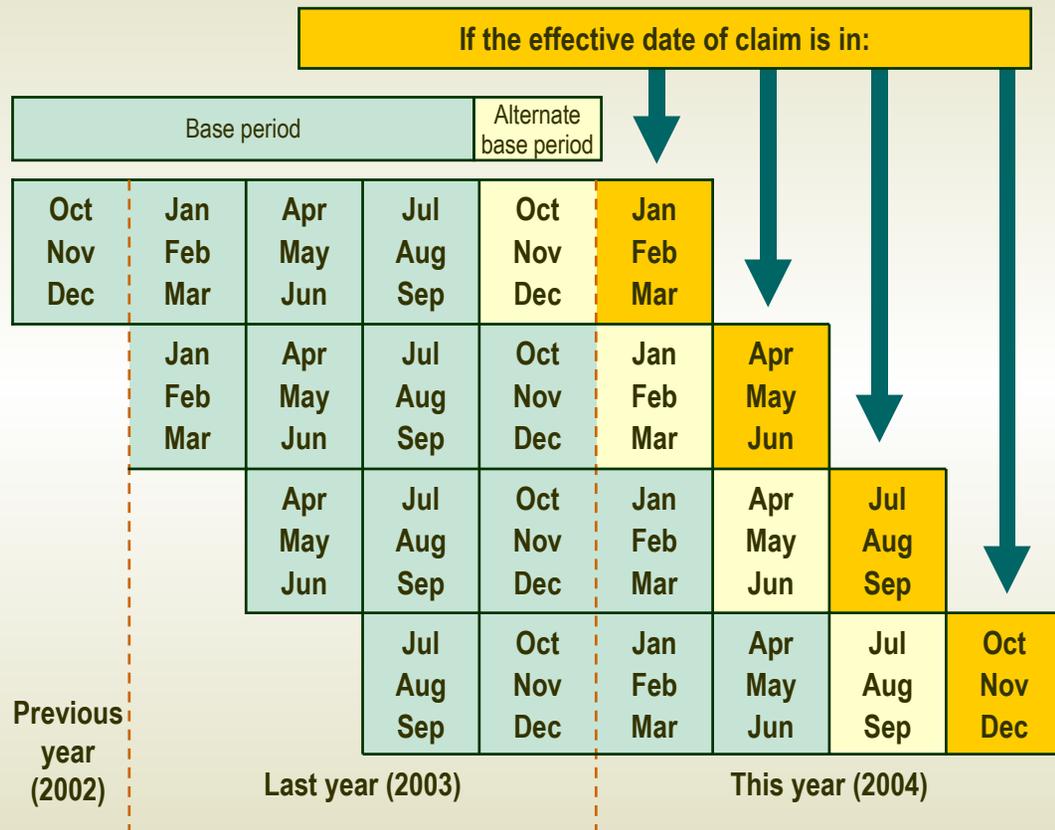




UI Benefits

- Benefits determined by earnings in the first 4 of last 5 completed quarters. This is called the **base period**.
- Effective July 6, 2003, for those claimants who do not qualify under the standard base period, **alternate base period**, consisting of the 4 most recent quarters, is used to determine eligibility.
- Otherwise eligible claimants are not paid for the first week of unemployment. This is called the **waiting week**.

Base Period Explained





UI Taxes

- Taxes are paid by employers to the VEC on the first \$8,000 of each employee's wages.
- Tax rates:
 - Minimum tax for 2004 is 0.44%, or \$35.20 per employee.
 - ⇒ 103,700 employers, or 63% of employers
 - Maximum tax for 2004 is 6.54%, or \$523.20 per employee.
 - ⇒ 8,060 employers, or 4.9% of employers



UI Taxes

- Individual employer's tax rate based on:
 - Trust Fund solvency level that determines which of 15 tax tables is used.
 - Employer's experience over last 4 years.
- Two surtaxes can also be levied:
 - Pool tax used to recover benefits that cannot be charged to a specific employer.
 - Fund-building tax used to push solvency over 50%.



Trust Fund Solvency Adequate Fund Balance

→ Solvency = 1.38 × Average Cost Rate × Wages.

→ 1.38 represents 16.5 months of benefits with no revenue.

→ Average Cost Rate is the average of 3 highest ratios of benefits to total wages in the past 20 years.

→ Wages are total wages paid by taxable employers for the year ending June 30.

→ Solvency Level = June 30 balance ÷ Adequate Fund Balance.



Trust Fund Data

(Millions of Dollars)

(Projections will be updated in December)

	2003	2004
January 1 Balance	\$528.0	\$200.3
Tax Revenue	\$255.3	\$456.0
Interest Revenue	\$23.4	\$14.7
Benefits	\$606.4	\$374.0
December 31 Balance	\$200.3	\$297.0
Solvency Level (6/30)	45.5%	34.3%

 Actual

 Projected



Trust Fund Data

(continued)

- Tax revenue will increase as employers continue to pay for higher benefits resulting from recession and benefit increases instituted after September 11, 2001.
- Interest revenue decreases because of lower average Trust Fund balances.
- Benefit payments decrease as a result of fewer claims and lower benefit schedule effective July 6, 2003.
- The Fund is projected to increase to \$297 million by the end of 2004.
- The solvency level will decrease by 11 percentage points from 2003 to 2004 due to benefits being higher than tax and interest revenues in FY 2004.



Improvements to Forecast Since November 2003

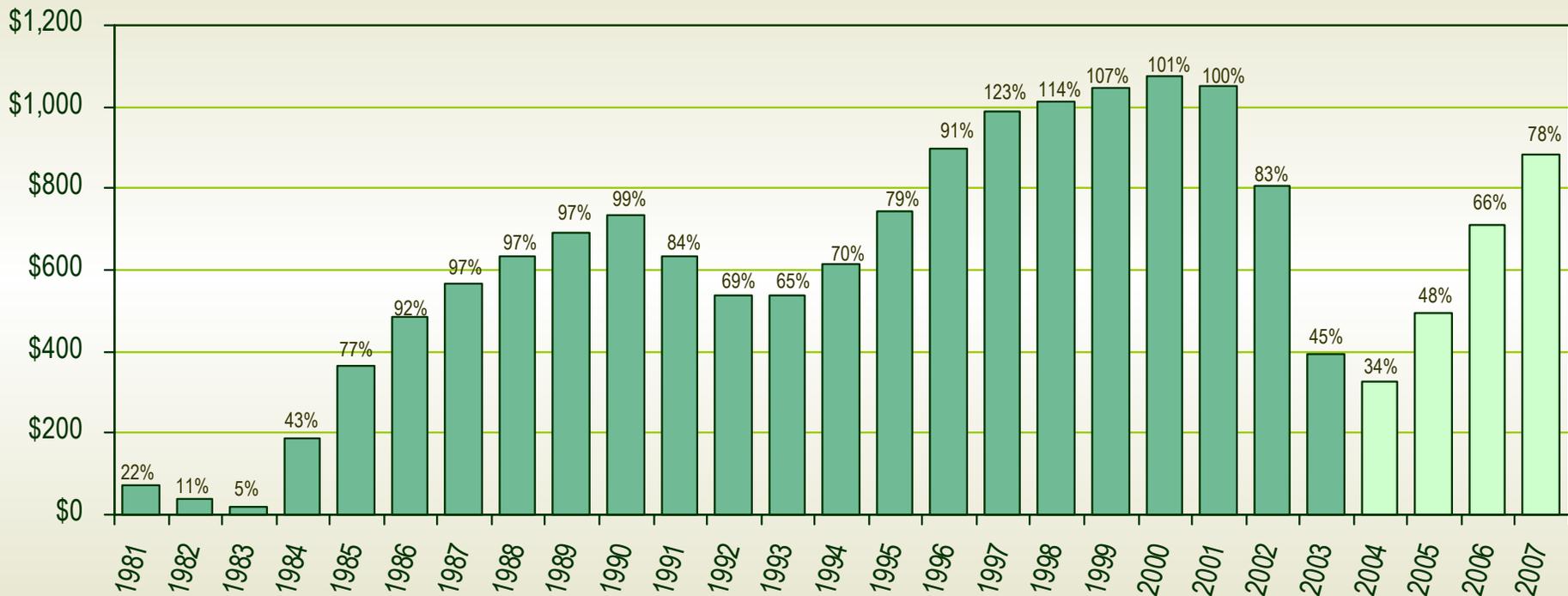
- Over 70% of the improvement is attributable to the 6.2 percent decrease in projected benefit payments.
- The remainder is due to the 3.4 percent increase in projected taxes and interest.
- The combined effect raises solvency by almost 11 percentage points.



June 30 Balances and Solvency Level

→ When solvency drops below 50%, Fund Builder Tax is triggered the following year.

(Projections will be updated in December)



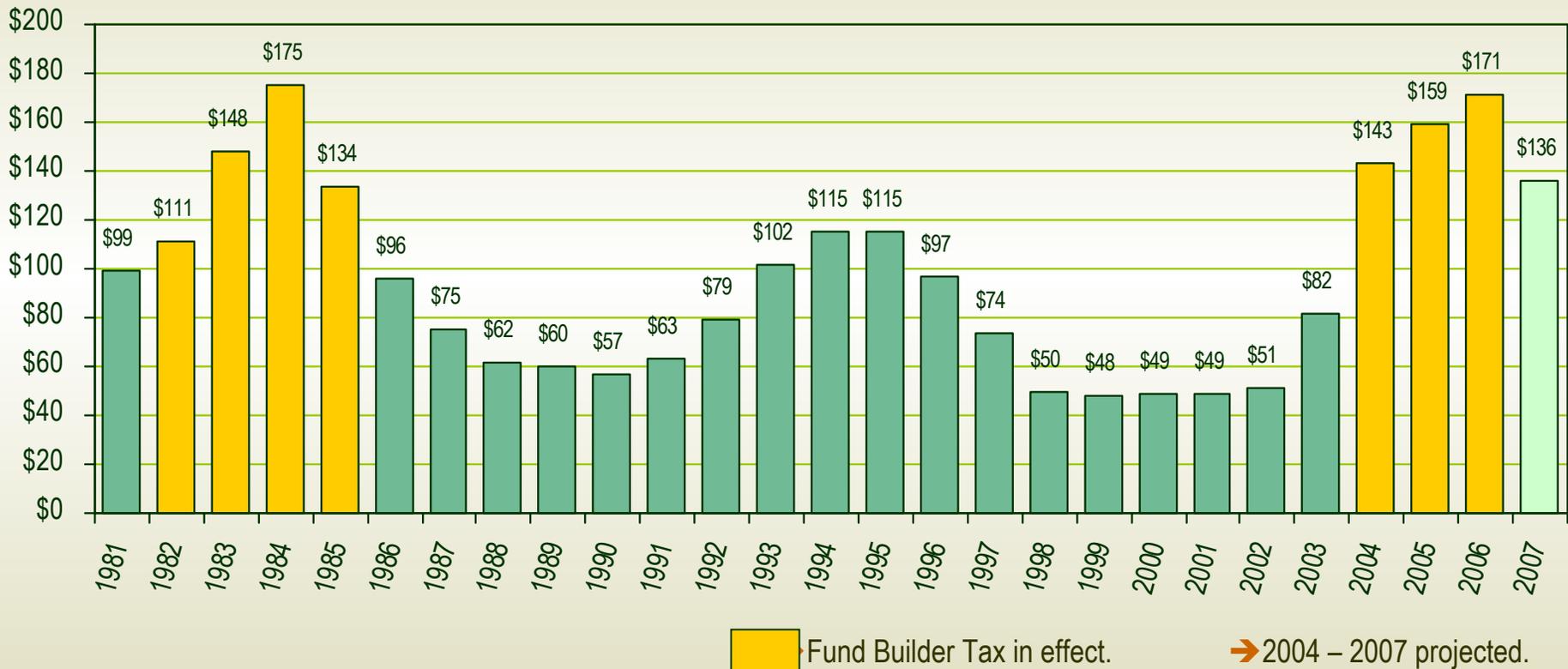
→ 2004 – 2007 projected.



Average Tax per Employee

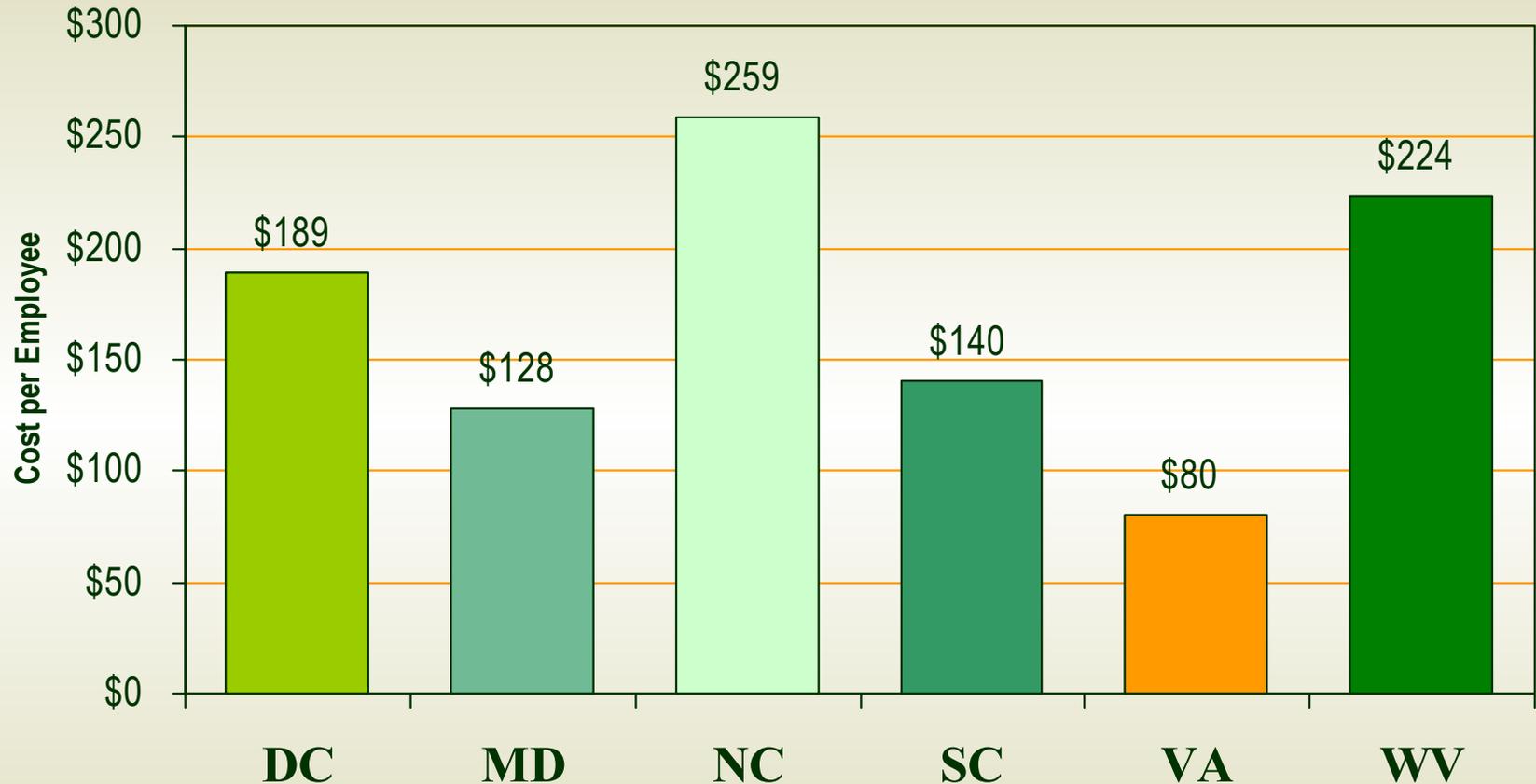
→ The increases from 2003 through 2007 are the result of higher benefit schedules and the recession.

(Projections will be updated in December)





Average Tax per Employee Fourth Circuit – Year ending 9/30/03





Borrowing

- VEC has never received money from General Fund to pay unemployment benefits.
- If high unemployment depletes Trust Fund, short-term, no-interest loans are available from U.S. Department of Labor.
- Virginia borrowed once, in 1983. The loan was for \$45.6 million and was paid back the same year.



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