



Virginia Employment Commission *report to*

The Commission on Unemployment Compensation

James Ellenberger, *Deputy Commissioner*
Virginia Employment Commission

July 27, 2005



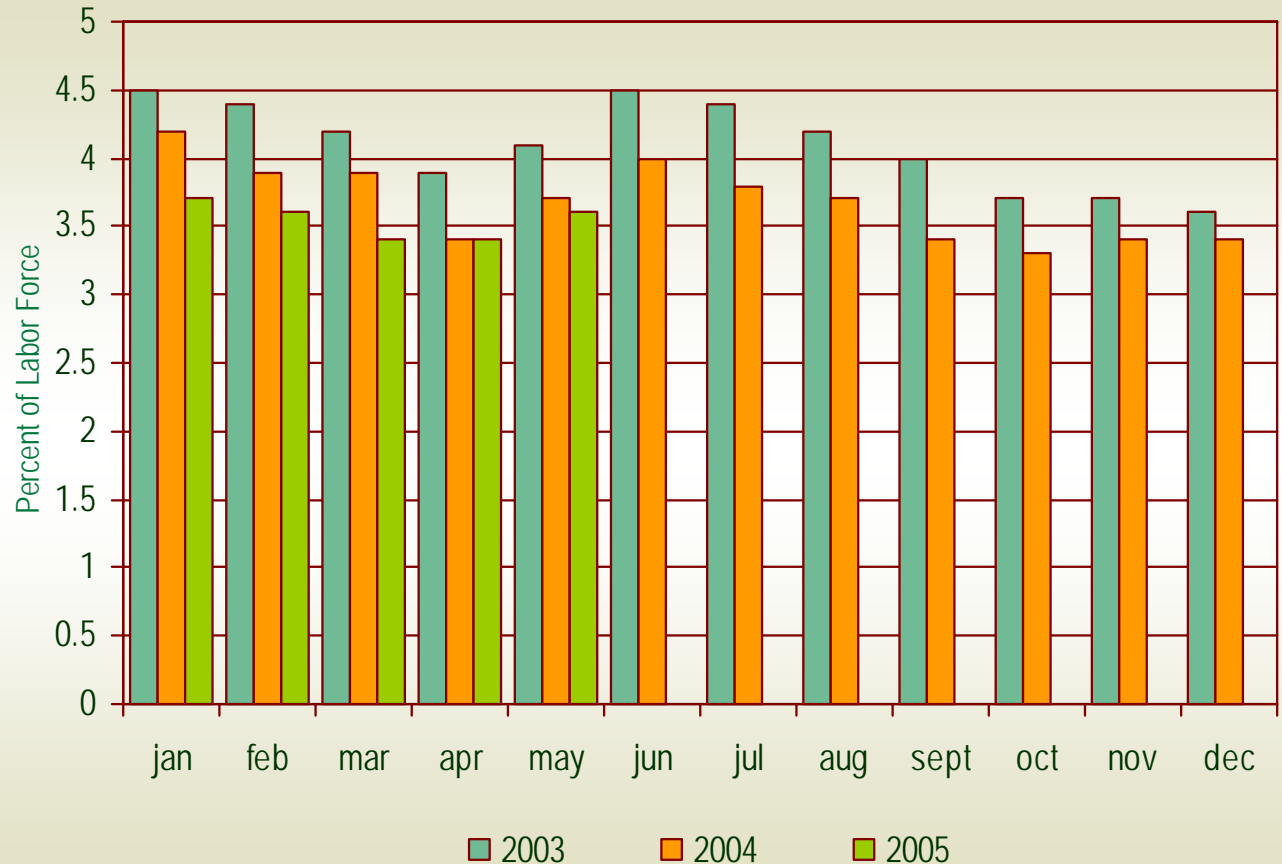
VEC Trust Fund





Virginia's Unemployment Rates 2003 - 2005 *(year to date)*

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

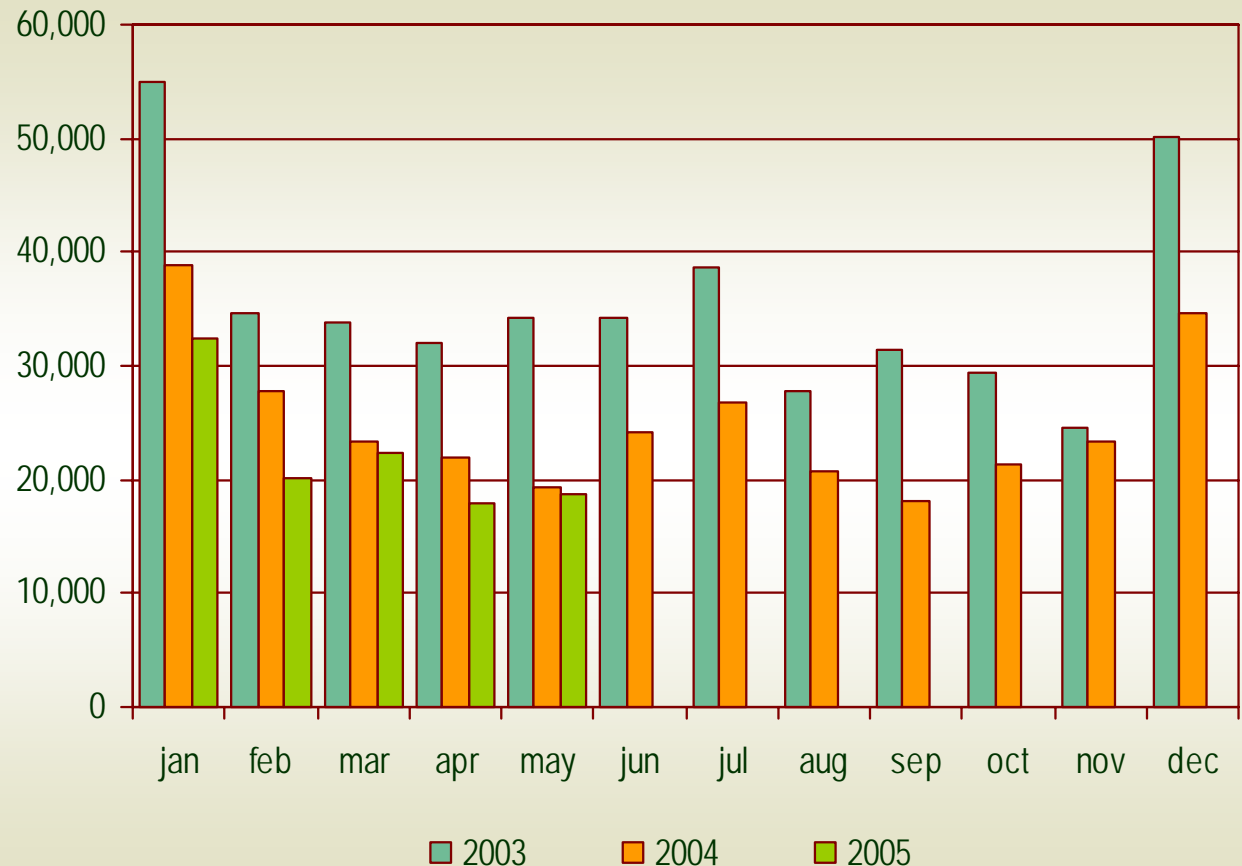




UI Initial Claims

2003 - 2005 *(year to date)*

→ Total initial claims through May this year are down 15.2% because of fewer temporary factory furloughs and generally improving economy. For the same period, initial claims are down 41.3% from 2003.

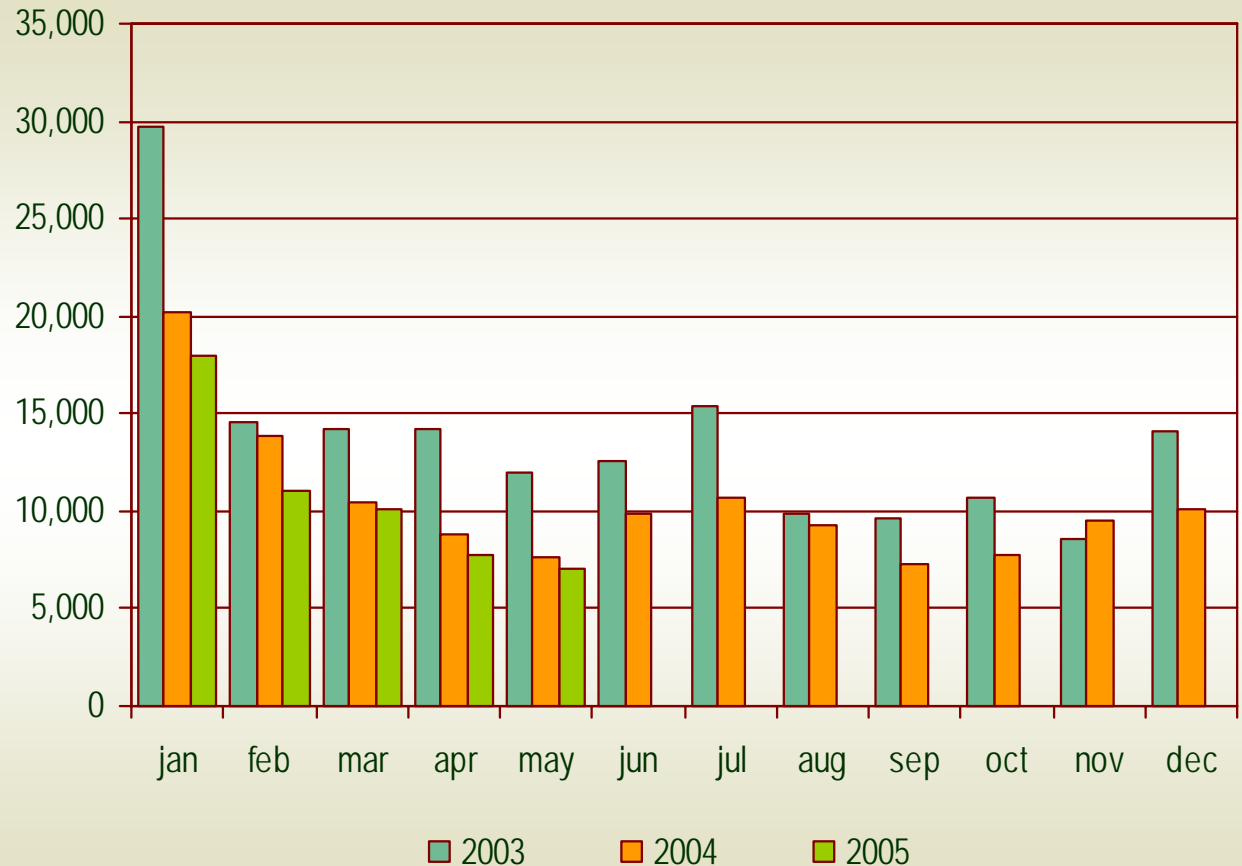




UI First Payments

2003 - 2005 *(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 11.8% from last year and 36.5% from 2003.
- The average duration in May was 12.6 weeks, below last May's 14.1 weeks.



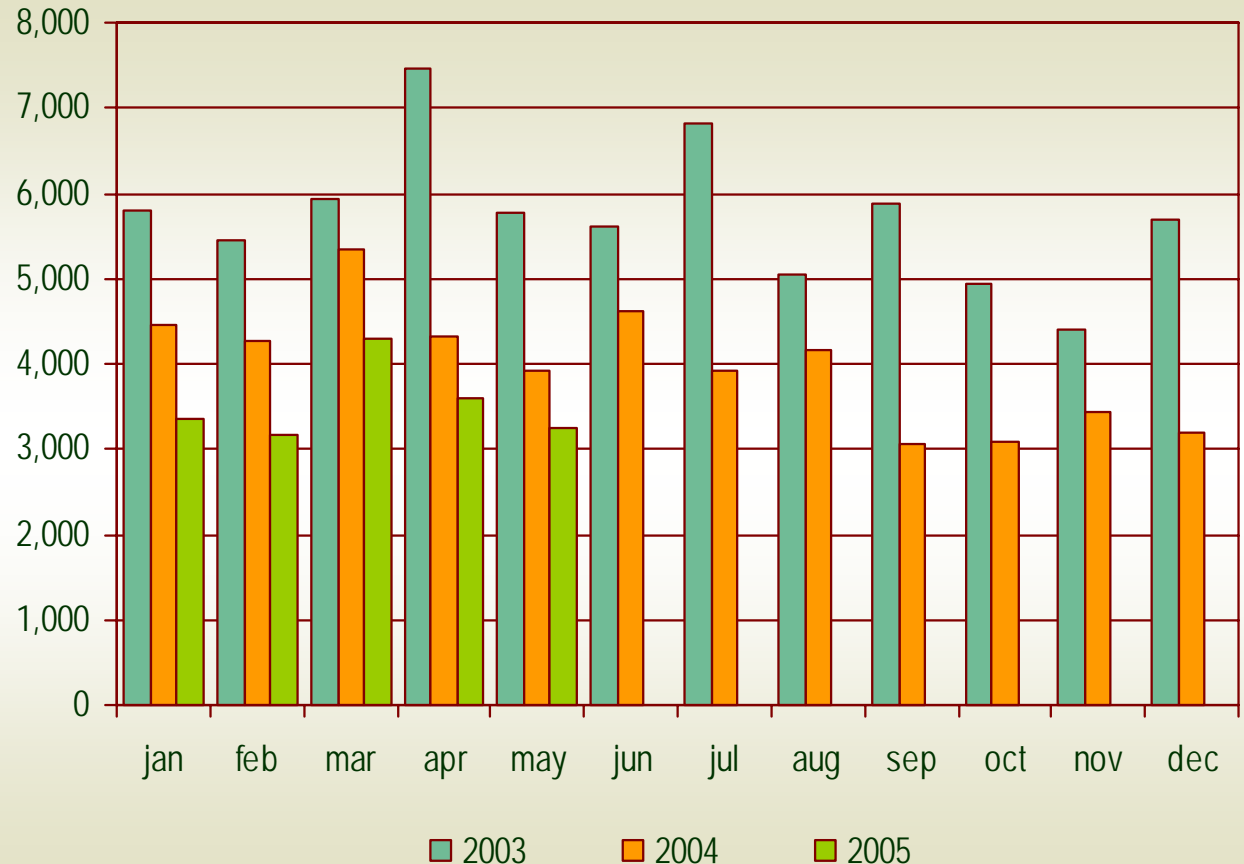


UI Final Payments

2003 - 2005 *(year to date)*

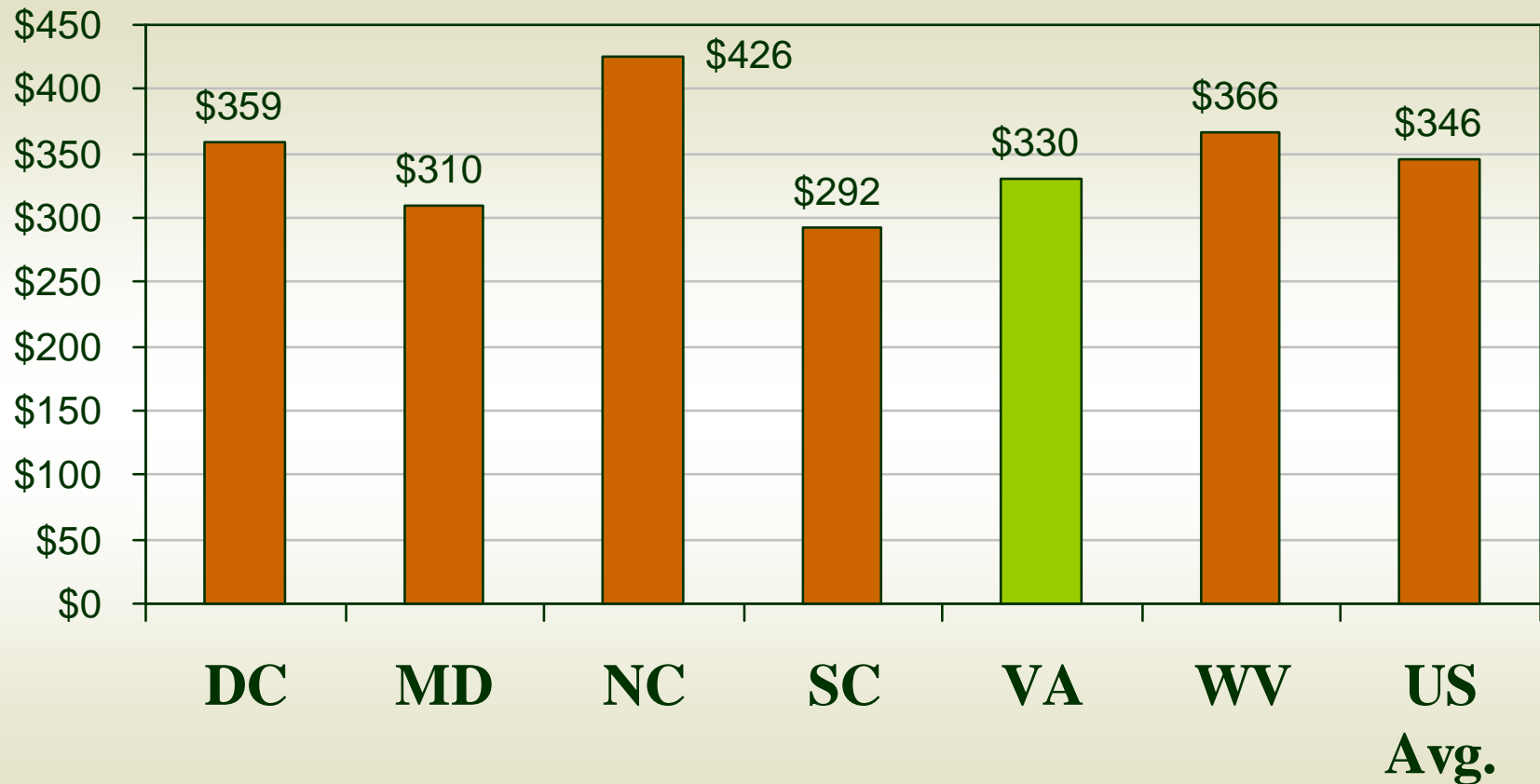
➔ For the first five months of 2005, final payments are down 20.9% from 2004 and 42% from 2003.

➔ The exhaustion rate in May was 33.3%, down from last May's 36.1%.



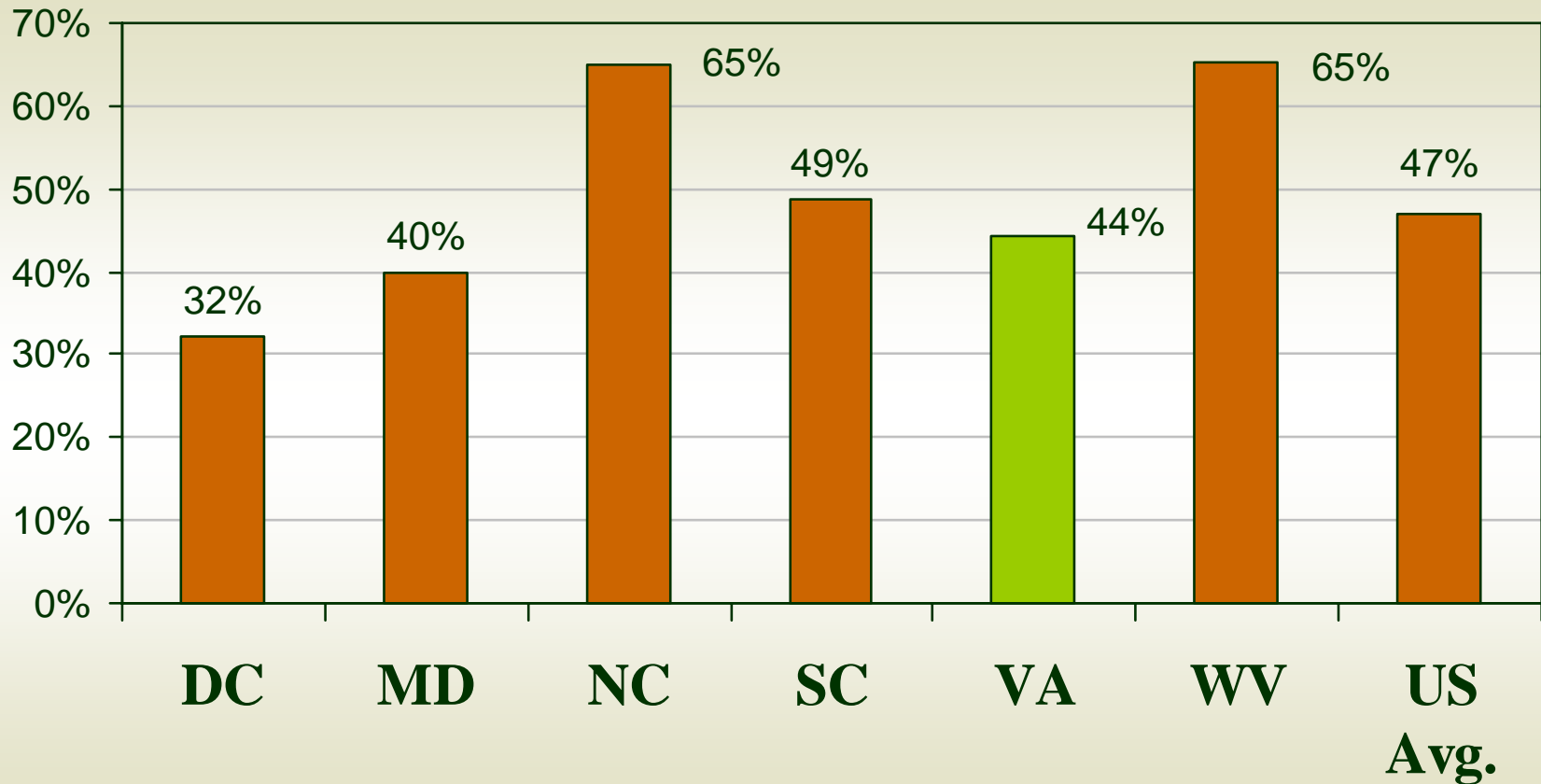


2005 Maximum Weekly Benefit Fourth Circuit





2005 Maximum Weekly Benefit Replacement Rate Fourth Circuit





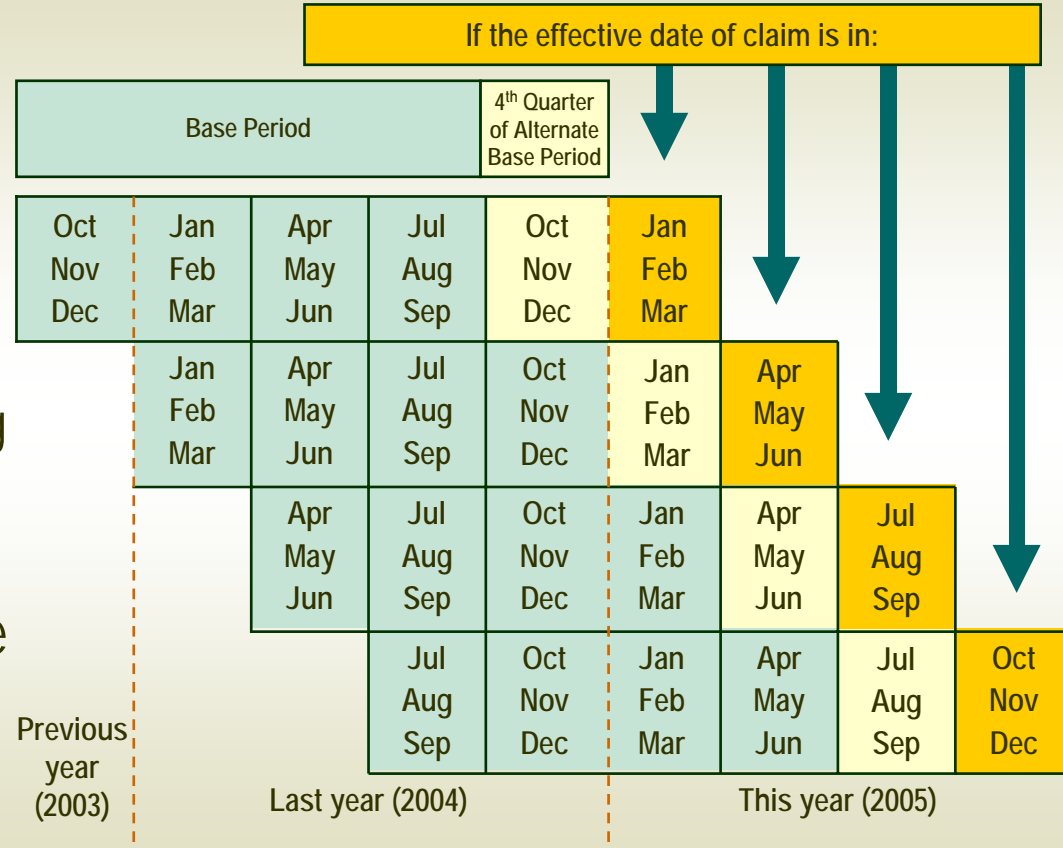
UI Benefits

→ 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 2005 is 0.52%, or \$41.60 per employee.
 - ⇒ 104,965 employers, or 61.4% of employers
 - Maximum tax for 2005 is 6.62%, or \$529.60 per employee.
 - ⇒ 8,949 employers, or 5.2% 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 = $1.38 \times \text{Average Cost Rate} \times \text{Wages}$.

→ 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 = $\text{June 30 balance} \div \text{Adequate Fund Balance}$.



Trust Fund Data

(Millions of Dollars)

(Projections will be updated in December)

	2004	2005
January 1 Balance	\$200.3	\$274.3
Tax Revenue	\$453.5	\$546.0
Interest Revenue	\$14.7	\$21.4
Benefits	\$385.3	\$360.3
December 31 Balance	\$274.3*	\$481.4
Solvency Level (6/30)	39.3%	49.9%

* \$9 million in Reed Act money deducted from Trust Fund balance for FY05 and FY06 appropriations for JS and UI administration.



Actual



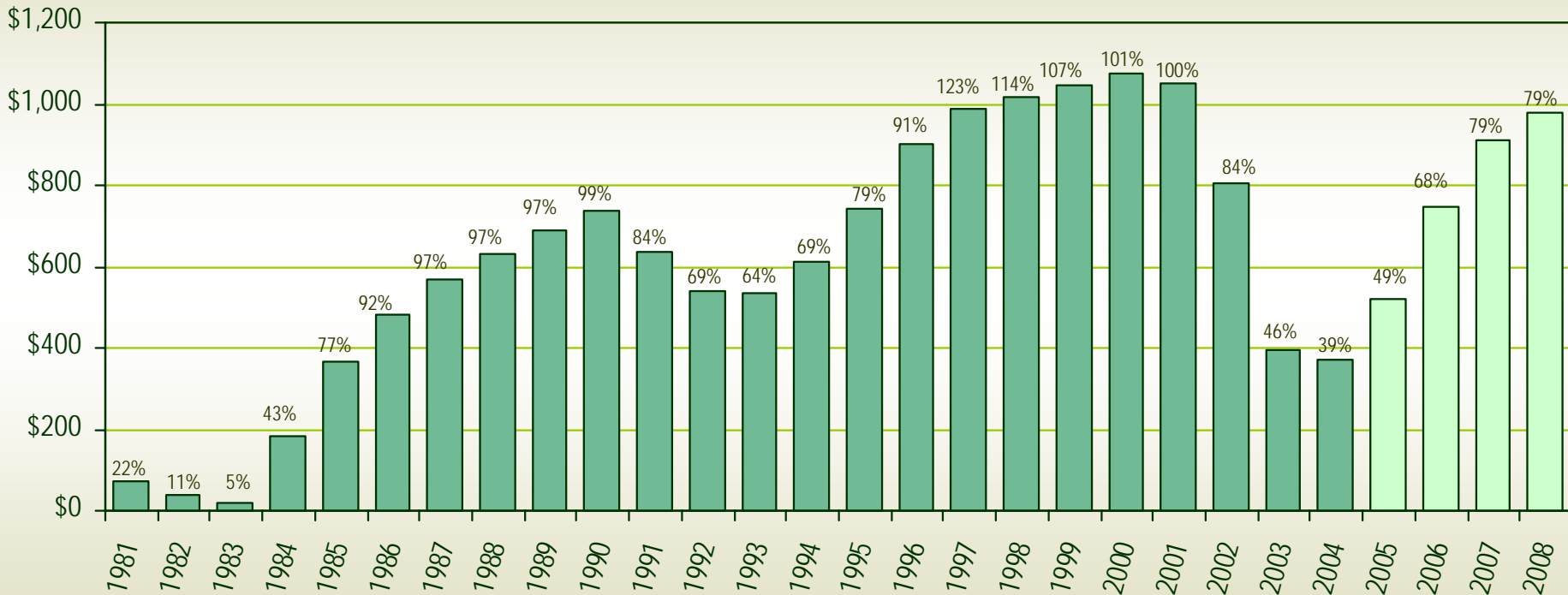
Projected



June 30 Balances (millions) and Solvency Level

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

(Projections will be updated in December)



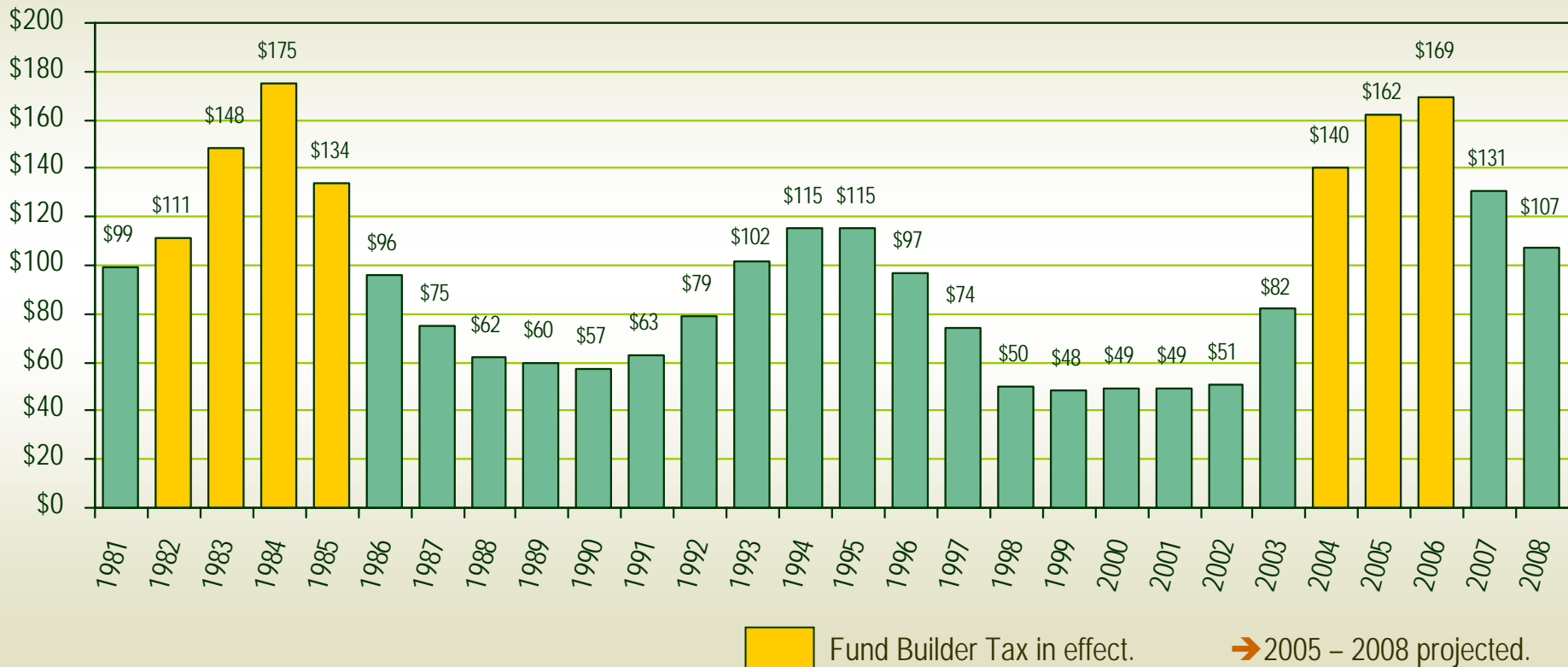
→ 2005 - 2008 projected.



Average Tax per Employee

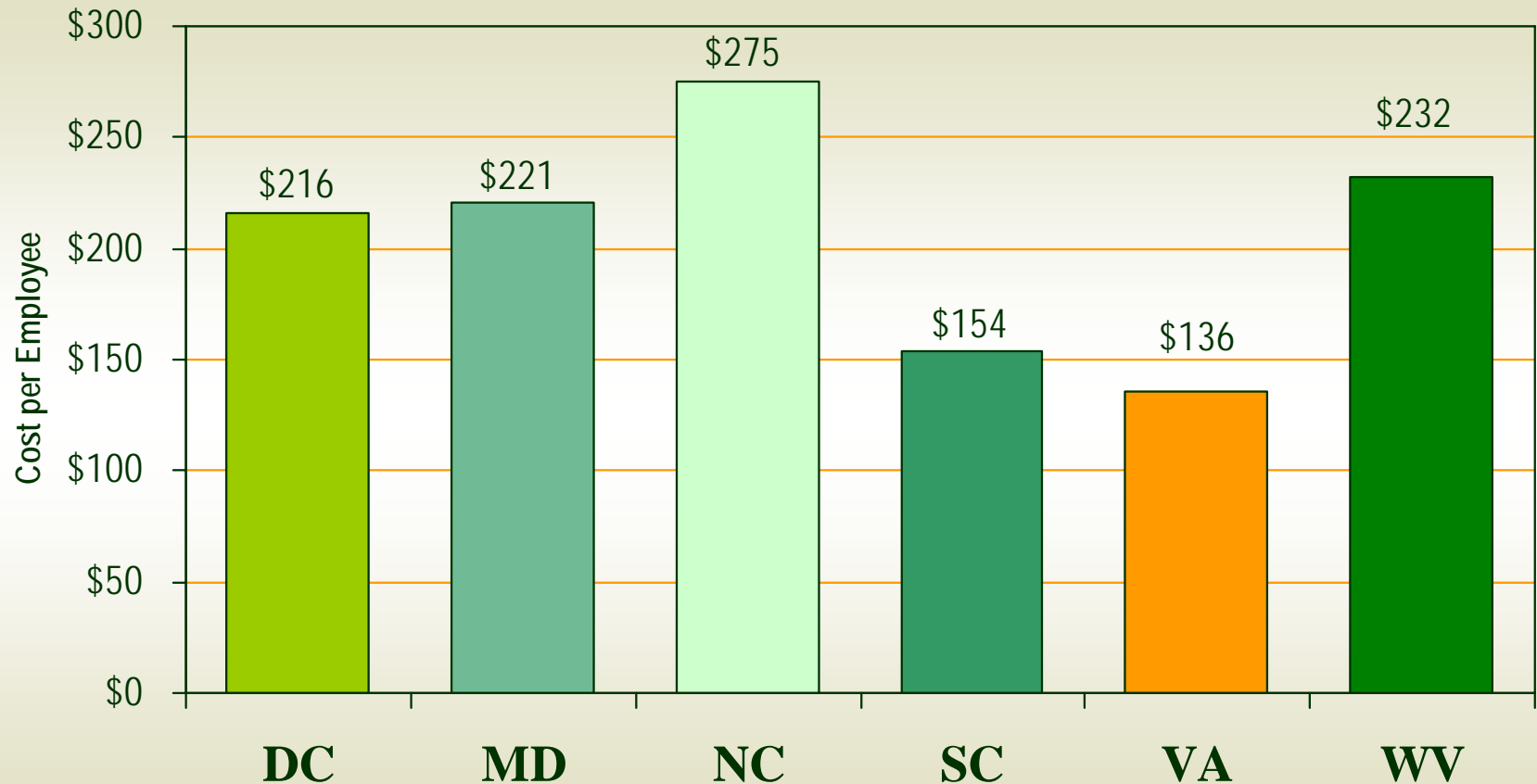
→ The increases from 2003 through 2008 are the result of higher benefit schedules and the recession.

(Projections will be updated in December)





Average Tax per Employee Fourth Circuit – Year ending 9/30/04





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July 27, 2005



VEC Budget and Strategic Priorities

Report to the Commission on Unemployment Compensation

Dolores Esser, *Commissioner*
Virginia Employment Commission



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 \$187.5 million in FUTA taxes in FY 2003.
- VEC received \$66.8 million from U.S. DOL in FY 2003.



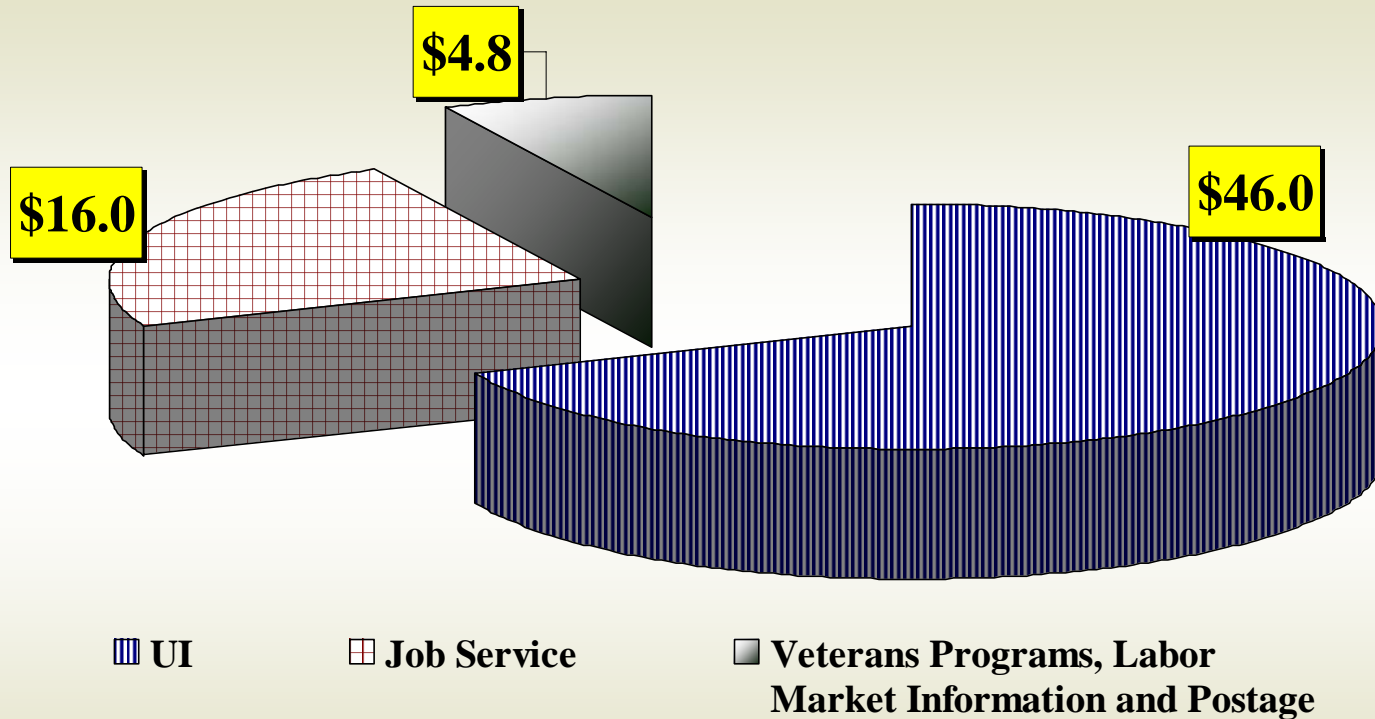
VEC Administrative Funding

(continued)

- ➔ FY 2003 grants of \$66.8 million were divided into:
 - ✓ \$46.0 million for UI;
 - ✓ \$16.0 million for Job Service;
 - ✓ \$4.8 million for Veterans' Programs, Labor Market Information and Postage.

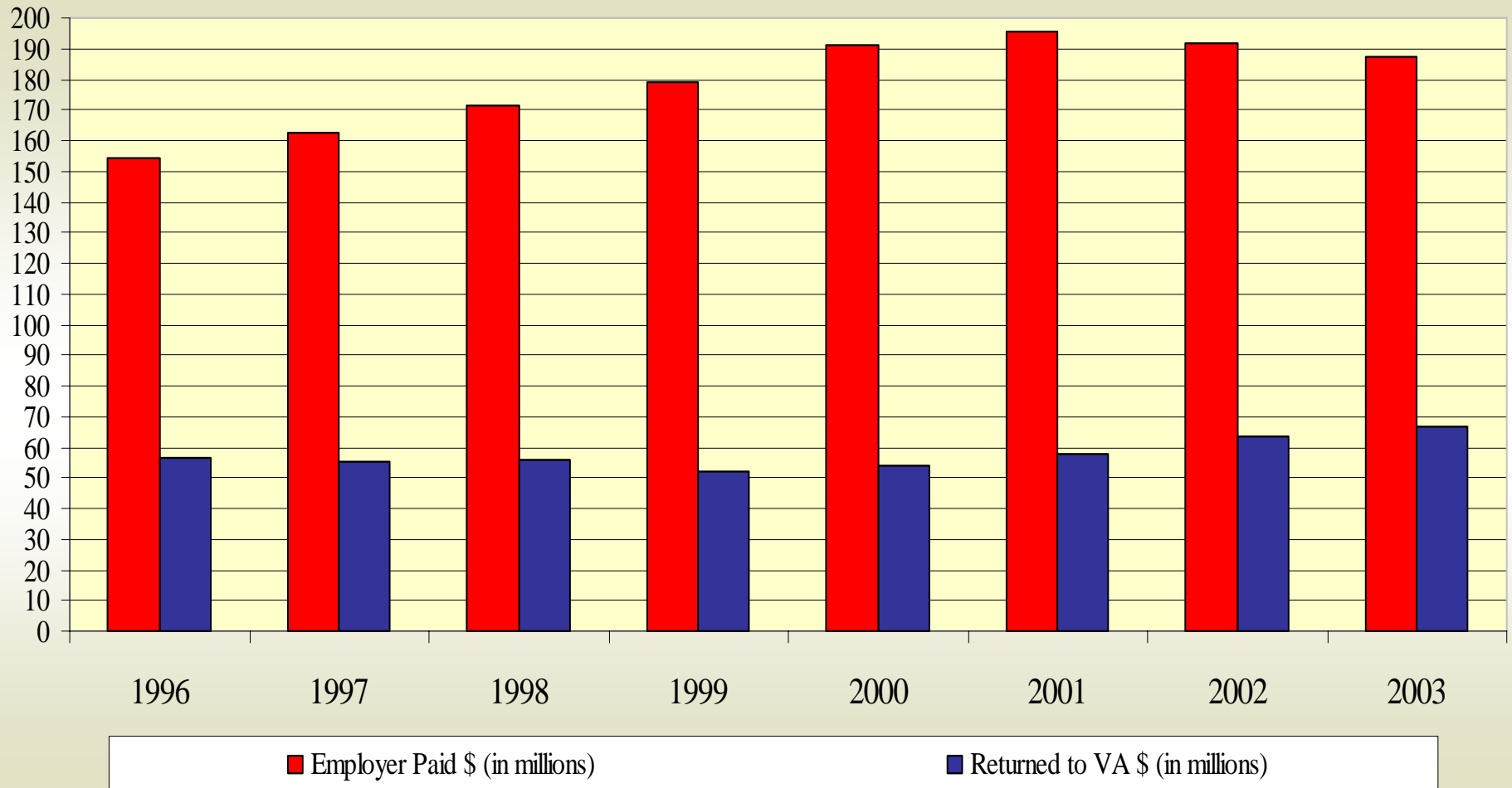


VEC Administrative Funding (by FUTA) 2003





8-Year Virginia FUTA History





Summary UI/JS History & Projections

	FY 03	FY 04	FY 05	FY 06	FY 07
UNEMPLOYMENT INSURANCE EXPENDITURES	\$47.6	\$49.7	\$48.1	\$42.7	\$43.8
UNEMPLOYMENT INSURANCE FUNDING	\$59.7	\$48.1	\$54.3	\$40.0	\$35.3
UI PROJECTED AVAILABILITY (DEFICIT)¹			\$6.2	\$ (2.7)	\$(8.5)
	PY 02	PY 03	PY 04	PY 05	PY 06
JOB SERVICE EXPENDITURES	\$17.9	\$19.2	\$19.9	\$19.1	\$19.2
JOB SERVICE FUNDING	\$18.6	\$19.5	\$21.4	\$21.1	\$17.6
JS PROJECTED AVAILABILITY (DEFICIT)			\$1.5	\$2.0	\$(1.6)

All figures in millions of dollars



Additional Challenges

- Although VITA and DRES initiatives are projected to save money over the long term, the short-term impact on the VEC has resulted in higher costs.
- VITA added costs of about \$200,000.
- DRES
 - Roanoke office lease
 - NOVA leases to double in 2006 at estimated cost to VEC of \$391,000



Strategic Priorities

- Under the Commonwealth's new strategic planning format, the VEC has five distinct service areas:
 - Job placement services
 - Unemployment insurance services
 - Workforce development services
 - Workforce system organization services
 - Economic information services
- These areas work in concert to provide a wide array of integrated workforce services to employers, workers, elected officials, and economic development professionals.



Strategic Priorities (continued)

- The importance of this strategic alignment of services is as follows:
 - UI enforces “work search” test and requires claimants to register with Job Service
 - Job Service seeks to match claimants to jobs listed by employers
 - If claimants are in need of core, or intensive services, they are provided or facilitated by the VEC and are coordinated with our One-Stop partners.
 - Objective is to return claimants to work faster, thus, improving trust fund solvency and enhancing the strength of Virginia’s economy.



Strategic Priorities (continued)

- ➔ Deliberations in the recent past, over how to best organize workforce services are shown as follows:
 - ➔ 2003 JLARC Report on Workforce Training
 - ➔ 2003 HB 2617 (Sears)
 - ➔ 2004 HB 526 (Hogan)
 - ➔ 2005 HB 2626 (Byron)
 - ➔ 2005 HJR 713 – Study of Workforce Services
- ➔ At the federal level, three different versions of WIA re-authorization before Congress.



Automated Systems

- Critical automated systems
 - Wage records
 - Tax
 - Benefits
- All of these systems are 20+ years old
- Without major modernization of these systems, integrity of Virginia's UI program is at risk
- Potential cost for replacing these systems could easily exceed \$45-\$50 million.



Automated Systems (continued)

- Revenue sources for this type of modernization project are limited.
 - VEC has insufficient program funds
 - USDOL has no plans to provide major automation grants
 - USDOL offered possibility of loans from FUTA funds
 - Reed Act appropriation not viable option as long as fund builder tax in effect
- VEC will work with administration, the General Assembly and stakeholders to develop a viable strategy to address these issues.



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Dolores Esser, *Commissioner*
Virginia Employment Commission

July 27, 2005



Review of 2005 Legislation

Report to the Commission on Unemployment Compensation

Coleman Walsh, *Chief Administrative Law Judge*

Virginia Employment Commission

July 27, 2005



SUTA Dumping Detection Pilot

Report to the Commission on Unemployment Compensation

Nancy Broaddus, *Chief of Tax*

Virginia Employment Commission

July 27, 2005





The VEC applied in 2004 to be a part of a U.S. Department of Labor pilot. The goal of the pilot was to develop software to detect employer attempts to artificially lower their UI Tax rate.

SUTA Dumping Detection System

User Name:

Password:

Login

U.S. Department of Labor :: Em



The software enables the VEC to detect:

- Movement of employees from one company to another
- Multiple companies reported under one federal EIN
- Multiple employers using the same address
- Multiple companies owned by the same individual
- Employer non-compliance with reporting requirements
- Some types of potentially fraudulent transactions



Compliance

Attempts to artificially reduce taxes through tax schemes are sometimes seen as an acceptable business risk by employers and their representatives. The IRS and state government agencies do not have the staff to monitor compliance as they once did.

Potential Revenue is being lost to the states. Automated systems, such as the SUTA Dumping Detection System, allow states to leverage the compliance staff.



States have different laws but . . .

One of the goals of the pilot was to incorporate the needs of all the states into one set of programs. Each state would use appropriate “filters” to search the database.

SUTA Dumping Detection System

:: Please select one of the search options from below ::

Quick Search

FEIN

Data Is Currently NOT Being Screened

System News

Search Options

- [Filter Screen Search](#)
- [Rapid Growth Search](#)
- [Voluntary Contribution Search](#)
- [Social Security Number Search](#)
- [Employer Information Search](#)
- [Tax Information Screen Search](#)
- [View Flaggged Records](#)
- [View Suppressed Records](#)



The SUTA Dumping Database contains:

Employee payroll information and data on all employers who report information to the Virginia Employment Commission and their quarterly tax reports and/or their initial *Report to Determine Liability for State Unemployment Tax* are uploaded to the Detection System.

A screenshot of the SUTA Dumping Detection System web interface. The page title is "SUTA Dumping Detection System". At the top, there is a search dropdown menu labeled "Select A Search" and a play button icon. On the right side, there are links for "Return to Home Page" and "Logout". The main content area is titled "Employer Search /" and contains a section for "UI Account Search". This section has a table with six rows, each with a checkbox and a text input field. The rows are: "UI Account Number - 10 digit", "Federal Employer ID Number:", "Employer Name", "Telephone Number", "SSN of Company Owner", and "Company Address". Below the table is a "List UI Accounts" button. At the bottom of the page, there is a footer with the text "U.S. Department of Labor :: Employment and Training Administration :: Office of Workforce Security".

UI Account Search	
<input type="checkbox"/> UI Account Number - 10 digit	
<input type="checkbox"/> Federal Employer ID Number:	
<input type="checkbox"/> Employer Name	
<input type="checkbox"/> Telephone Number	
<input type="checkbox"/> SSN of Company Owner	
<input type="checkbox"/> Company Address	



Companies that increase employees by 1,000% over a year may be doing extremely well . . . or, perhaps two companies are combined.

[Rapid Growth Search](#) / [Results](#) / [Exit and Entries](#) /

Search Type: Rapid Growth	Filters Used: startQuarter = "Q9", growthrate between "1003" and "1006000", employmentChange between "500" and "10000", recordType = "2"
Click Here to Save this Search	

Select # of years to display

 ▾

Note: selecting all years will ignore the "Start Year"

Select year to start analysis

 ▾

Press Refresh to show the results of the above time frame.



Tracking significant employee movement from one company to another . . .

[Flagged Records Search](#) / [Results](#) / [Exit and Entries](#) /

Search Type: Flagged Records Search	Filters Used: <code>userID = "autostat"/"vs0904"</code>
Click Here to Save this Search	

Growth History for UIAccount: 0006819916 during 2003-01
 Company Name: GATEWAY PC LLC
 Other Name:

[Add Notes to this Exit Account](#)

UIAccount	Company Name	Number of Employees	Sum of Wages	Last History
0006819916	GATEWAY PC LLC	1413	\$10,870,188.00	View Tax History
0006819916	GATEWAY PC LLC	242	\$2,295,614.00	View Tax History
0006819916	GATEWAY PC LLC	116	\$1,186,730.00	View Tax History
0006819916	GATEWAY PC LLC	18	\$47,270.00	View Tax History
0006819916	GATEWAY PC LLC	18	\$38,878.00	View Tax History
0006819916	GATEWAY PC LLC	18	\$17,180.00	View Tax History
0006819916	GATEWAY PC LLC	8	\$8,872.00	View Tax History
0006819916	GATEWAY PC LLC	8	\$18,610.00	View Tax History
0006819916	GATEWAY PC LLC	8	\$8,084.00	View Tax History
0006819916	GATEWAY PC LLC	4	\$842.00	View Tax History
0006819916	GATEWAY PC LLC	4	\$8,338.00	View Tax History
0006819916	GATEWAY PC LLC	4	\$4,590.00	View Tax History



. . . and other filters can help to insure compliance with employment law, as well as to detect intentional SUTA dumping.

➔ SUTA dumpers shift their UI tax costs to employers who play by the rules. The SUTA Dumping Detection System will help prevent this and provide us with an additional tool to promote trust fund solvency.



Important dates for Virginia SUTA dumping:

- March 20, 2005 – date legislation signed into law.
- October 2005 – wages for the second quarter 2005 will be available for download to the SUTA dumping software.



VEC Goals

- ➔ Return funds to the trust fund to assist in the reduction of tax rates for all employers.
- ➔ Educate employers and their representatives about the law and the risks of noncompliance through multiple means (press releases, VEC website, presentations, and mailings).
- ➔ Train staff to detect SUTA dumping through regional seminars and data sharing.



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