



Virginia Employment Commission

Report to

Commission on Unemployment Compensation

Coleman Walsh, Chief Administrative Law Judge
Virginia Employment Commission

September 29, 2009



Outline

- Current Economic Situation
- VEC Trust Fund
- Title XII Advance and Repayment Process
- Federal Emergency and Extended Benefits



Current Economic Situation

The Nation, Virginia, and Virginia Areas



The Nation

- The National Bureau of Economic Research (NBER), the Princeton, New Jersey, think tank that officially designates U.S. recessions, announced in December 2008 that the U.S. had been in a recession since December 2007. The NBER sometimes does not define recessions until a couple of years later. (They did not fully define the March-November 2001 recession officially until July 2003.)



The Nation - *continued*

- As a result of the financial and housing crises, the recession has been worsened and prolonged.
- As a result of what has already happened:
 - It now looks like the bottom of the recession in the U.S. probably occurred in June with a slow recovery in 2010.
 - Employment and unemployment are the “caboose” of the economic train—always the last to turn around in both good and bad times.

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The Nation - *continued*

- Employment should drop a total of 4.6 percent from its 2007 peak.
- Unemployment should peak about 10.0 percent at the beginning of 2010.

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Virginia

- Virginia, as usual, is expected to perform better than the nation because over half of Virginia employment is in the less recession-prone:
 - Federal government and defense
 - Health care
 - Public and private higher education
 - Professional and business services

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Virginia - *continued*

- Virginia should see negative job growth throughout 2009.
- Virginia unemployment should peak around 7.4%.
- A worst case scenario would have annual U.S. unemployment at 10.6% and Virginia unemployment around 8%.

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Virginia's Unemployment Rates 2007 - 2009 (year to date)

- This year all unemployment rates have been about double the year-ago rates.
- June's rate of 7.3 percent was the highest rate since March 1983's 7.3 percent.



Note: Not Seasonally Adjusted

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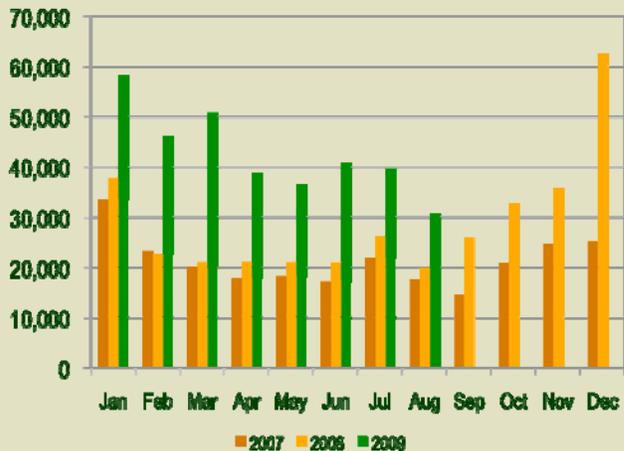


VEC Trust Fund



UI Initial Claims 2007 - 2009 (year to date)

→ Total initial claims through August this year are up 79.5% because of more motor vehicle, furniture, textiles, building-related, and finance layoffs. For the same period, initial claims are up 101.3% from 2007.



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Workload*

Calendar Year	Insured Unemployment Rate	Initial Claims
2006	1.03%	260,804
2007	1.07%	260,561
2008	1.44%	356,220
2009	2.85%	633,931
2010	2.40%	531,924

*2006, 2007, and 2008 actual; 2009 and 2010 projected

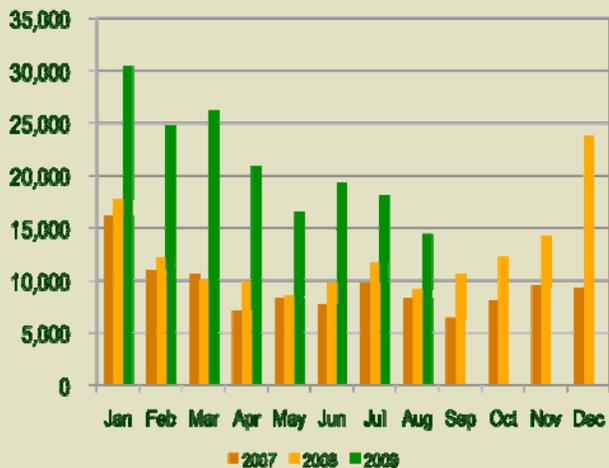
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UI First Payments

2007 - 2009 (year to date)

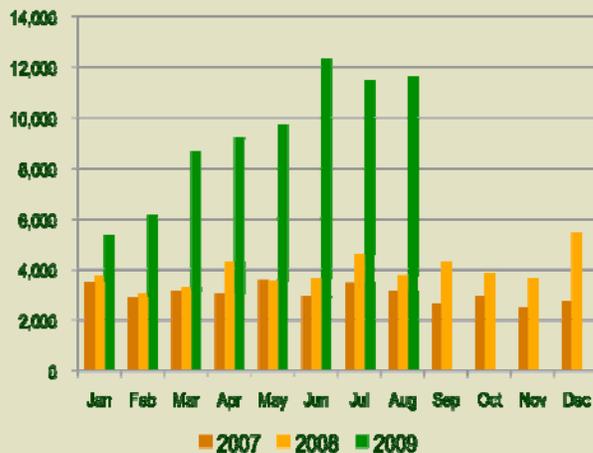
- A claimant can receive only one first payment in his benefit year; so first payments are a good proxy for the number of claimants receiving unemployment benefits.
- Through August, first payments are up 91.7% from last year and up 116.7% from 2007.
- The average duration in August was 14.2 weeks, up from last August's 12.8 weeks.



UI Final Payments

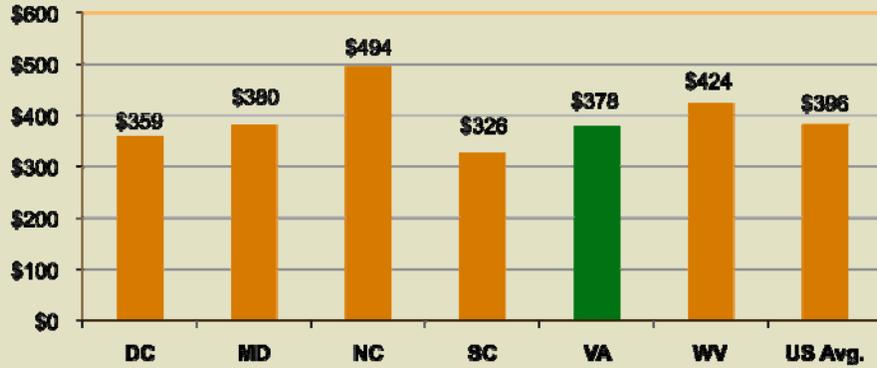
2007 - 2009 (year to date)

- For the first eight months of 2009, final payments are up 148.6% from 2008 and up 189.3% from 2007.
- The exhaustion rate in August was 52.5%, up from last August's 35.5%.

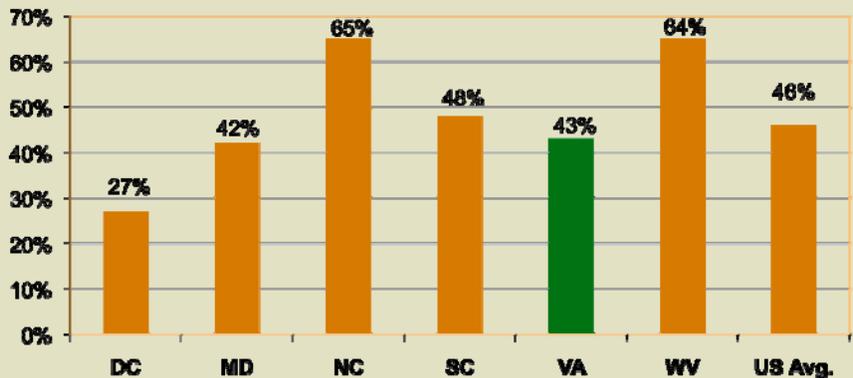




2009 Maximum Weekly Benefit Fourth Circuit



2009 Maximum Weekly Benefit Replacement Rate Fourth Circuit





Trust Fund Data—Standard Forecast (Millions of Dollars)

(Projections will be updated in December)

	2009	2010
January 1 Balance	\$546.7	—\$194.2
Tax Revenue	\$319.9	\$569.6
Interest Revenue	\$12.4	\$0.0
Benefits	\$1,136.2	\$936.8
December 31 Balance	—\$194.2*	—\$561.4
Solvency Level (6/30)	23.9%	—20.1%

*Includes \$62.8 million Incentive Distribution from Federal government.

Actual Projected

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Standard Forecast—1981-1982 Recession Scenario

- Loans would total about \$1.3 billion.
- The trust fund would have negative balances for 15 straight quarters—2009q4 through 2013q2. In some of these quarters, the loan balance is reduced, but not to zero.
- The cash balances for June 30, 2010 and 2011 are negative.

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Standard Forecast—1981-1982 Recession Scenario

- The 2010 and 2011 solvency levels are *negative*.
- Total interest payments from 2011 to 2013 would be about \$36.7 million. Interest payments in 2011 and 2012 would be \$22.0 and \$14.4 million. Interest payments in 2013 would be about \$0.3 million.
- Interest cannot be paid from the trust fund or federal administrative grants.
- In 2011 employers would lose 0.3 percentage point of the FUTA credit and pay an additional \$87 million in FUTA taxes or an additional \$21 per employee.

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June 30 Balances (millions) and Solvency Level 1997 - 2015

- When solvency drops below 50%, Fund Builder Tax is triggered the following year.
(Projections will be updated in December)



→ 2009-2015 projected

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Average Tax per Employee 1997 – 2015 (Virginia only)

→ The increases from 2003 through 2015 are the result of higher benefit schedules and the recessions.
(Projections will be updated in December)



→ 2004, 2005, and 2010-2014 Fund Builder Tax in effect. → 2009 – 2015 projected.



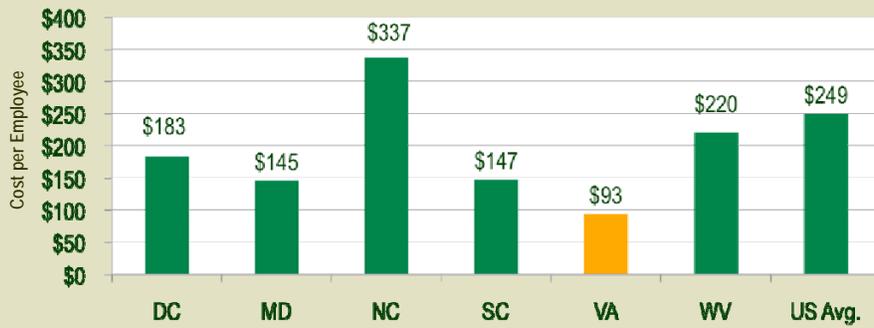
Average Tax per Employee 2009-2015 (Including FUTA)

Year	Average State	Maximum FUTA	Total
2009	\$95	\$56	\$151
2010	\$171	\$56	\$227
2011	\$255	\$77	\$332
2012	\$263	\$56	\$319
2013	\$244	\$56	\$300
2014	\$211	\$56	\$267
2015	\$156	\$56	\$212

→ 2010-2014 Fund Builder Tax in effect. → 2009 – 2015 projected.



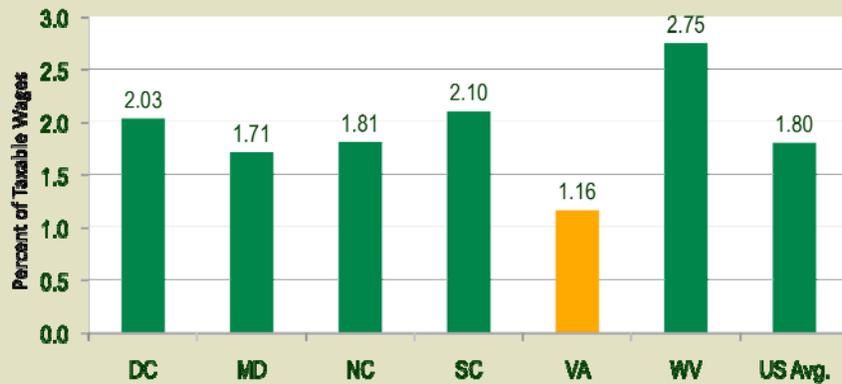
Average Tax per Employee Fourth Circuit – Year Ending 9/30/08



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Average Tax Rate Fourth Circuit – Year Ending 9/30/08



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Taxable Wage Base Fourth Circuit – Calendar Year 2008



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Trust Fund Balance Fourth Circuit – 6/30/09



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Current Recession Compared to Historical Recessions

	73-75 Recession	81-82 Recession	90-91 Recession	2001 Recession	07-09 Recession
Highest Monthly Unemployment Rate	7.6%	8.4%	7.1%	4.5%	7.4%
Highest Annual Unemployment Rate	6.4%	7.4%	6.2%	4.2%	6.7%
Highest Annual Number Unemployed	147,000	196,591	206,341	156,557	279,462
Highest Annual Number Employed	2,135,000	2,482,021	3,146,897	3,588,079	3,960,011
Highest Annual Benefits Paid	\$138.2 million	\$245.1 million	\$328.0 million	\$755.3 million*	\$1,136.2 million
Average Weekly Benefit Amount	\$58	\$100	\$145	\$297*	\$278
Average Weekly Wage	\$156	\$274	\$431	\$703	\$896
Exhaustion Rate	42.9%	31.3%	35.9%	41.8%	52.5%**
Average Duration	15.4 weeks	11.5 weeks	14.0 weeks	14.4 weeks	14.2 weeks**
Lowest Solvency Level in Effect	N/A***	+5%***	+60%	+35%***	-20%***

* Benefits increased 37.3% September 2001-January 5, 2003

** August 2009 values

*** 50% tax table used; fund-builder tax added. Current solvency method first used in 1981

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Impact of Trust Fund Insolvency

- Triggers fund builder tax (0.2%) through CY 2014.
- Social Security offset (50%) reinstated through CY 2014.
- Shift to highest tax table.
- Potential interest payments on federal loans (estimated \$22-36 million).
- Partial loss of FUTA tax credit (0.3%) in 2011 due to federal loan balances in consecutive years.

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Title XII Advance and Repayment Process



Advances (Loans)

- State sends request letter to the Secretary of Labor, sent September 15, 2009.
- Request is for projected amounts for a three consecutive month period.
- Request must be no earlier than the first of the month preceding the first month of the period.



Loans

- The Secretary certifies to the Treasury the amount to be authorized in each month.
 - State must use Reed Act funds or UI Modernization funds that are available to pay benefits before it may borrow.
 - After consultation with the U.S. Department of Labor, a sub account was established, obligating funds committed to IT projects.

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Loans (*continued*)

- The Bureau of Public Debt authorizes amount into the Automated Standard Application for Payment (ASAP) System.
- The department confirms the authorized amount and authorization period in a letter to the governor.
 - The authorized amount is the ceiling.

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Loans (*continued*)

- State draws money to pay benefits as usual
 - Treasury will transfer all available balances of regular UI funds and then transfer loan funds to total state drawdown request.
 - Status:
www.treasurydirect.gov/govt/reports/advance/AdvanceActivitiesSchedule.pdf

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Voluntary Repayments

- A state may make voluntary repayments at any time.
 - The governor sends a letter to the secretary with the amount and repayment effective date.
 - The department requests the treasury to apply the repayment(s).
 - The department confirms the repayment(s) in a letter to the governor.

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Repayments

- State may request Treasury to transfer all available account balances at the end of each business day (sweep the account) within a certain period to repay loan.
- Repayments applied to advances on a last-made-first repaid basis.

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Borrowing to Pay Unemployment Insurance Benefits

Outstanding loans (in millions) from the Federal Unemployment Account. Balances as of September 19, 2009, and date of first federal loan are:

Alabama	\$3	September 2009
Arkansas	\$93	March 2009
California	\$3,677	January 2009
Florida	\$236	August 2009
Idaho	\$54	June 2009
Illinois	\$307	July 2009
Indiana	\$1,190	November 2008
Kentucky	\$411	January 2009
Michigan	\$2,606	December 2007
Minnesota	\$49	July 2009
Missouri	\$264	February 2009
New Jersey	\$515	March 2009

Table continues on next slide

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Borrowing to Pay Unemployment Insurance Benefits

Outstanding loans (in millions) from the Federal Unemployment Account. Balances as of September 19, 2009, and date of first federal loan are:

New York	\$1,317	January 2009
North Carolina	\$1,107	February 2009
Ohio	\$1,267	January 2009
Pennsylvania	\$1,050	March 2009
Rhode Island	\$88	March 2009
South Carolina	\$504	December 2008
South Dakota	\$0	September 2009
Texas	\$414	July 2009
Virgin Islands	\$2	September 2009
Wisconsin	\$577	February 2009
Total	\$15,730	

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Federal Emergency and Extended Benefits



Emergency Unemployment Compensation (Federally Funded)

- Exhausted all rights to regular compensation – May 1, 2007.
- Tier I total amount equal to 75% of their regular benefits.
- Tier II total amount equal to 50% of their regular benefits.
- TRA claim is suspended until EUC is exhausted and TRA may be resumed.
- On November 21, 2008, Congress authorized up to an additional 7 weeks of benefits.

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Emergency Unemployment Compensation (Federally Funded)

- Through September 4, 2009 (Tiers I & II):
 - Applications mailed 188,143
 - Claims processed 130,890
 - Total amount paid \$328.5 million

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Extended Benefits (Federally Funded)

- Total amount equal to 50% of their regular benefits.
- Cost usually shared equally by state and federal governments.
- Federal legislation temporarily increases federal share to 100%.
- State legislation temporarily enables state to “trigger on” these benefits using total unemployment rate instead of insured unemployment rate.
- Claimant must exhaust regular UI and EUC (Tiers I & II) before they become eligible for EB.

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