SOUTH CAROLINA
Department of Employment and Workforce

SOUTH CAROLINA
UNEMPLOYMENT INSURANCE

FY2020

TRUST FUND ANNUAL ASSESSMENT

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EXECUTIVE SUMMARY

Each fiscal year, the South Carolina Department of Employment and Workforce is required to submit, by October 1st, a report to the Governor, General Assembly and the Review Committee indicating the amount in the Unemployment Insurance (UI) Trust Fund and making an assessment of its funding level in accordance with Section 41-33-45 of the South Carolina Code of Laws.

CURRENT STATUS

Unemployment benefit outlays for FY2020 totaled $673,298,788[1]. Revenues generated to fund the UI programs (including benefit outlays and trust fund rebuilding) totaled $235,314,742[2].

As of June 30, 2020, the UI Trust Fund had an unadjusted balance of $707,250,195[3]. The health of the trust fund has fluctuated substantially over the past fiscal year in response to the COVID-19 Pandemic.

Due to the ongoing recession, there will be no trust fund rebuilding process for CY2021. Legislative actions, including appropriating $500 million in CARES Act funding for the trust fund, will have a significant impact on the balance and future tax rate setting

FUTURE OUTLOOK

The agency is working with the General Assembly and Governor's Office to determine appropriate steps to cap the CY2021 tax rates while the recovery from the pandemic continues[4]. There will be no solvency surcharge in effect for CY2021 to rebuild the trust fund since revenues received in FY20 were lower than benefits paid in the same period. The trust fund balance as of June 30, 2021 will dictate if and how large any future solvency surcharges will be needed to rebuild the trust fund to the fund adequacy target described in state law.

1 Draft Annual Trust Fund Report-Finance Department
2 *Ibid*
3 Treasury Direct Account Statements: Jun 2020
4 CY2021 tax rates will be finalized the second week of November 2020. These values are subject to change.

CURRENT UNEMPLOYMENT INSURANCE TRUST FUND STATUS

The unadjusted UI Trust Fund balance as of June 30, 2020 was $707,250,195[5]. No federal advances (i.e., loans) were needed to pay state UI benefits during FY2020. All advances from the federal government were repaid as of June 11, 2015. The COVID-19 pandemic has had a significant negative impact on the trust fund balance. However, legislative action, including appropriating $500 million to the trust fund, has helped to mitigate the significant drain on the fund to date.

RECENT UNEMPLOYMENT INSURANCE TRUST FUND HISTORY

The components of the Trust Fund are defined as follows:

- **Contributions** – Contributions received from employers as of June 30th.
- **Interest** – Federal Treasury interest posted to each state's Trust Fund account quarterly.
- **Benefits** – State funded benefit payments less benefit overpayment recoveries.
- **Fund Balance** – Unadjusted Trust Fund balance
- **Total Wages** – Total covered payroll wages reported by all covered employers for the period beginning July 1 and ending June 30**.**

Historical data of the principal components of the state UI Trust Fund are outlined in Table 1. Graphs of the historical contributions, benefits, and fund balance are shown in Figure 1 based on calendar year data.

TABLE 1: UI TRUST FUND COMPONENTS, FY2016-2020

COMPONENT	FY2015	FY2016	FY2017	FY2018	FY2019
Contributions	408,702,921	355,337,119	322,013,056	322,977,548	235,314,742
Earned Interest	7,192,500	12,208,042	16,935,578	22,086,514	25,511,764
Benefits	176,496,176	171,037,281	171,7254,192	159,788,245	673,298,788
Fund Balance[6]	461,637,676	678,148,439	$870,154,660	$1,050,622,227	$707,250,195
Total Wages[7]	65.6 billion	70.0 billion	72.6 billion	77.0 billion	77.7 billion

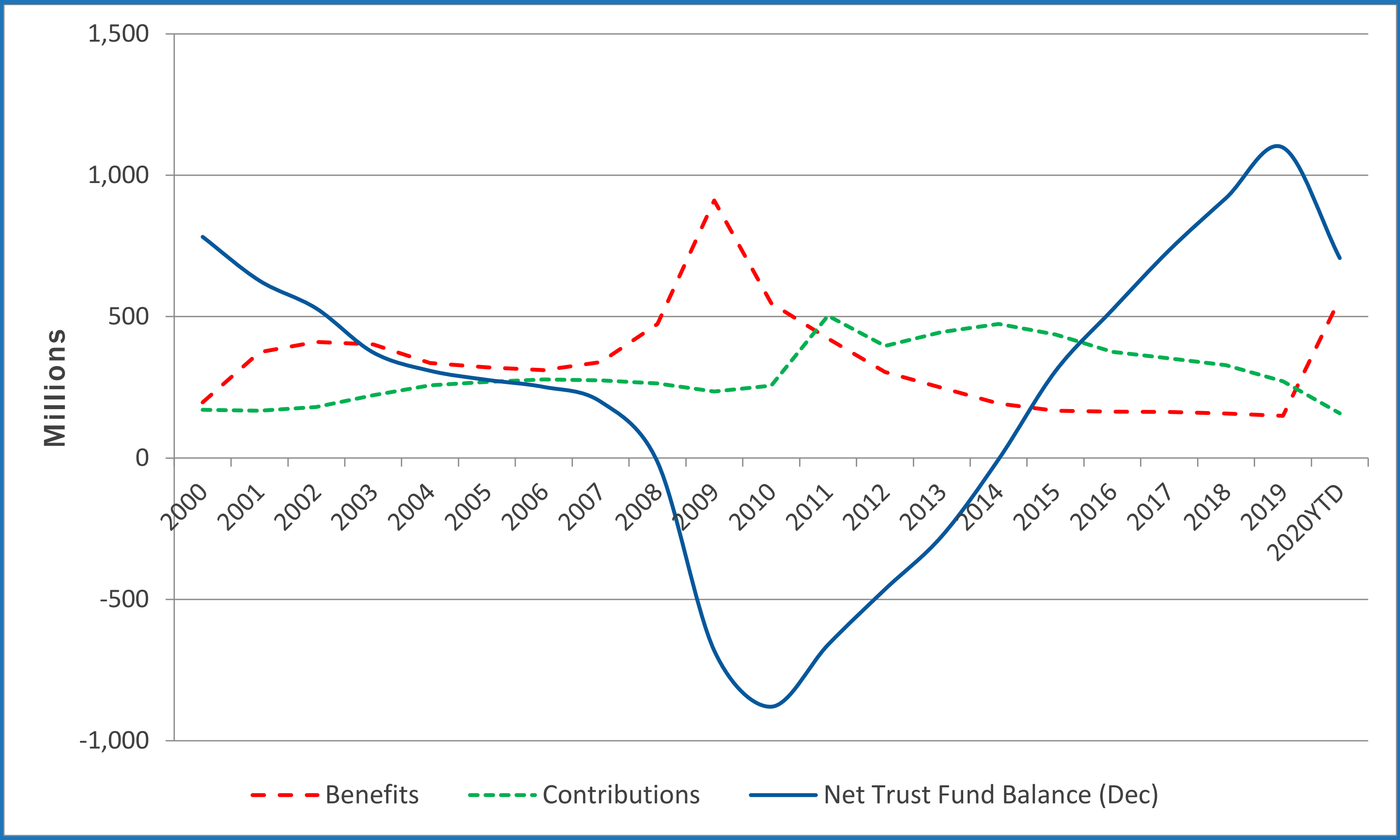
Note: Certain adjustments have been made to correctly carry-forward prior year balance.

[5] Treasury Direct Account Statement: Jun 2019

[6] Treasury Direct Account Statements Jun 2015-Jun 2019, Unadjusted

[7] Internal estimates August 12, 2019

FIGURE 1: HISTORICAL CONTRIBUONS, BENEFITS, AND FUND BALANCE, CY2000-2020[8]



After 10 years of continuously falling annual benefit payments, South Carolina experienced a significant increase in benefit costs in the last three months of FY20 as a result of the COVID-19 pandemic. This dramatic increase in benefit costs combined with declining tax revenues brought the trust fund balance from a high of nearly $1.1 billion as of January 2020 to just over $700 million by June 2020. A $500 million infusion from legislatively appropriated CARES Act funds was received in August 2020 bringing the trust fund balance back over $900 million as of September 2020. While benefit payments are beginning to decrease, tax revenue is not expected to increase in the near future, so the trust fund balance will continue to fall in the coming months without additional external funding.

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[8] US Department of Labor: Financial Handbook 394 http://www.oui.doleta.gov/unemploy/hb394.asp (information from USDOL excludes all federal advances and other fiscal year-ending adjustments) and ETA2112 Reports

SOLVENCY STANDARDS

South Carolina has adopted the most widely accepted measure of trust fund solvency, known as the Average High Cost Multiple (AHCM). *See* S.C. Code Ann. § 41-31-45(A). This measure of whether a state has enough money to cover unemployment claims during an economic downturn was devised in 1995 by the federal Advisory Council on Unemployment Compensation.

The AHCM is calculated by taking the trust fund balance as a percent of estimated wages for the most recent 12 months (also known as the reserve ratio) and dividing it by the Average High Cost Rate, which is the average of the three highest calendar year benefit cost rates, in the last 20 years or a period including three recessions, whichever is longer. Benefit cost rates are benefits paid as a percent of total wages in taxable employment.

The SC General Assembly has adopted the Department of Labor's recommendation that a state have an AHCM of 1.0, which means that the state has enough funds to pay one year of benefits at the Average High Cost. This should be sufficient to fund benefits during a moderate recession. Pursuant to state law, the agency promulgated regulations, 47-500 and 47-501, to return the trust fund to an adequate balance within 5 years. The agency achieved this goal as of June 30, 2019. However, as a result of the pandemic, the state trust fund on deposit with the US Treasury had a positive, unadjusted balance of $707.3 million as of June 30, 2020.[9]

Trust fund rebuilding is paused when the state is in a recessionary period as evidenced by benefits paid exceeding tax contributions in the most recently completed fiscal year. Since FY20 benefits were significantly in excess of employer contributions, there will be no trust fund rebuilding solvency surcharges in effect for tax year 2021. It is expected that the rebuilding period, if required, will begin in tax year 2022.

Table 2 shows South Carolina's three highest benefit cost rate years, the state's actual (or projected) total wages, and the trust fund balance that would be required to achieve the recommended solvency level of 1.0. Note that the average high cost rate is likely to increase once the full calendar year 2020 benefit costs are known. The average high cost rate used in Table 2 for 2021 forward is currently a projection.

TABLE 2: SOLVENCY STANDARDS AND PROJECTIONS[10]

CALENDAR YEAR	HIGH COST YEARS	AVERAGE HIGH COST RATE	TOTAL WAGES[11] 2 YEARS PRIOR (BILLIONS$)	TARGET BALANCE (AHCM=1.0) (MILLIONS$)
2015	1991, 2009, 2010	1.30	$57.0	$743.7
2016	1991, 2009, 2010	1.30	$60.2	$785.3
2017	1991, 2009, 2010	1.30	$63.9	$834.2
2018	1991, 2009, 2010	1.30	$67.3	$877.7
2019	1991, 2009, 2010	1.30	$71.1	$928.2
2020	1991, 2009, 2010	1.30	$74.3	$969.6
2021	*2009, 2010, 2020*	*1.30*	*$78.7*	*$1,026.1*
2022	*2009, 2010, 2020*	*1.48*	*$77.1*	*$1,147.4*
2023	*2009, 2010, 2020*	*1.48*	*$80.2*	*$1,186.0*
2024	*2009, 2010, 2020*	*1.48*	*$83.4*	*$1,233.4*

Projections in italics

[9] Treasury Direct Account Statement: Jun 2020

[10] US Department of Labor: Financial Handbook 394 and Agency calculations—small differences may be due to rounding.

[11] Assumes 1.5% total wage contraction between 2019 and 2020 followed by 4% wage growth thereafter. Numbers will change as economic conditions change. Note that the wages in Table 2 are based on calendar year data while the wages in Table 1 are based on fiscal year information.

Once the recession has past, a four year period of trust fund rebuilding will begin to return the balance to an AHCM of 1.0, as recommended by the DOL and required by S.C. Code Ann. §41-31-45(A)(1). Rebuilding, if required, is expected to begin in tax year 2022.

For 2021, the fund adequacy target is projected to be $1,026.1 million based on total wages paid in the last available full year, 2019, of $78.7 billion and an average high cost rate of 1.30. That value will continue to increase as the state's economy continues to expand and will reach over $1.2 billion by 2024.

TRANSPARENCY OF FUNDING (PROVISO 83.3)

In accordance with FY2020-21 Appropriations Act Proviso 83.3 this report also provides information on 1) state unemployment taxes collected by tax rate class, 2) unemployment benefit claims paid, 3) number and dollar value of improper unemployment benefits paid, 4) payments made to the federal government for outstanding unemployment benefit loans, and 5) the balance in the state's UI Trust Fund at fiscal year's end.

TABLE 3: CONTRIBUTIONS BY TAX RATE CLASS, 2019

TAX RATE CLASS	# OF EMPLOYER ACCOUNTS	BASE + REBUILD CONTRIBUTIONS	CONTINGENCY CONTRIBUTIONS	% OF TOTAL CONTRIBUTIONS
1	63,589	$5,139	$3,396,322	1.0%
2	416	$2,685,867	$532,659	0.9%
3	505	$2,961,854	$546,716	1.0%
4	494	$3,041,740	$512,996	1.0%
5	440	$3,579,191	$531,494	1.2%
6	255	$4,132,035	$570,541	1.3%
7	522	$4,620,465	$568,404	1.5%
8	477	$5,076,094	$567,303	1.6%
9	517	$4,812,448	$467,083	1.5%
10	564	$6,094,401	$536,829	1.9%
11	549	$6,395,935	$515,787	2.0%
12	28,295	$20,716,354	$1,454,924	6.3%
13	837	$7,974,781	$473,538	2.4%
14	879	$17,949,564	$586,443	5.3%
15	1,009	$19,195,362	$573,400	5.6%
16	896	$17,515,491	$476,380	5.1%
17	1,138	$23,057,012	$559,733	6.7%
18	1,515	$24,757,813	$539,295	7.2%
19	1,720	$25,462,801	$501,990	7.4%
20	14,397	$134,100,995	$2,768,903	39.0%
TOTAL	**119,014**	**$334,135,342**	**$16,680,739**	

TAX COLLECTIONS BY TAX RATE CLASS

Tax rates are set on a calendar year basis in the late fall of each year. Tax rates for CY2019 were set in October 2018.

In CY2019, a total of $334.1 million was collected in the form of total state unemployment taxes based on employer-submitted wage reports. These funds were used to pay unemployment benefits to eligible individuals who were separated through no fault of their own and to continue building the state trust fund to the acceptable solvency level as defined in state law. In addition to the base tax rate for benefit and trust fund rebuilding, all businesses in the state are also responsible for paying a 0.06% administrative contingency assessment which totaled nearly $16.7 million for 2019.

Table 3 shows the estimated contributions paid for CY2019 by each tax rate class.

There are a large number of businesses in tax rate class 1 due to the relatively short three-year look back period used to compute a business' experience rating. A majority of businesses in tax rate class 1 are relatively small in size. Approximately 5 percent of the state's taxable wages (excluding new businesses and delinquent accounts) are assigned to each category. Businesses with less than 12 months of liability are assigned a new business tax rate of class 12. This accounts for the large volume of businesses in that category in Table 3. Any business with a delinquent wage and contribution report or delinquent unemployment taxes is assigned to rate class 20, which accounts for the larger volume of businesses in that category.

STATE UNEMPLOYMENT BENEFITS PAID

State unemployment taxes fund up to 20 weeks of unemployment benefits to individuals who are out of work through no fault of their own. Prior to June 2011, the state unemployment taxes funded up to 26 weeks of unemployment benefits. Due to the reduction in the number of weeks available, continued job growth, economic improvement in the state, and stricter disqualification penalties being implemented, benefit payments have come down substantially from their height in 2009. The COVID-19 pandemic which began in March 2020 resulted in unprecedentedly high monthly benefit payments due to the shutdown of certain sectors of the state's economy. Those benefit payments remain high but have come down off their peaks of April and May 2020.

Figure 2 shows the benefits paid by month from January 2008 through June 2020. Monthly benefit payments reached a peak in the Great Recession in March 2009 at over $98 million. Benefit payments reached over $240 million in the month of May 2020 as pandemic-related shutdowns of certain types of businesses had their most significant impact. As of June 2020 that number had fallen to $176 million and continues to fall although it is still significantly higher than pre-pandemic levels and even greater than some of the highest benefit payment months of the Great Recession.

FIGURE 2: MONTHLY UNEMPLOYMENT BENEFIT PAYMENTS, JAN 2008 – JUN 2020

2020[12]

[12] United States Department of Labor, http://workforcesecurity.doleta.gov/unemploy/claimssum.asp

UNEMPLOYMENT INSURANCE IMPROPER PAYMENTS

The Fraud, Investigation, Recovery, and Enforcement (FIRE) Unit is responsible for preventing, detecting and recouping any improper payments to claimants from the UI program. Table 4 provides information on the number of fraud and non-fraud overpayment cases detected by the FIRE unit for the period FY2019 through FY2020 as well as the dollar amounts associated with the overpayments.

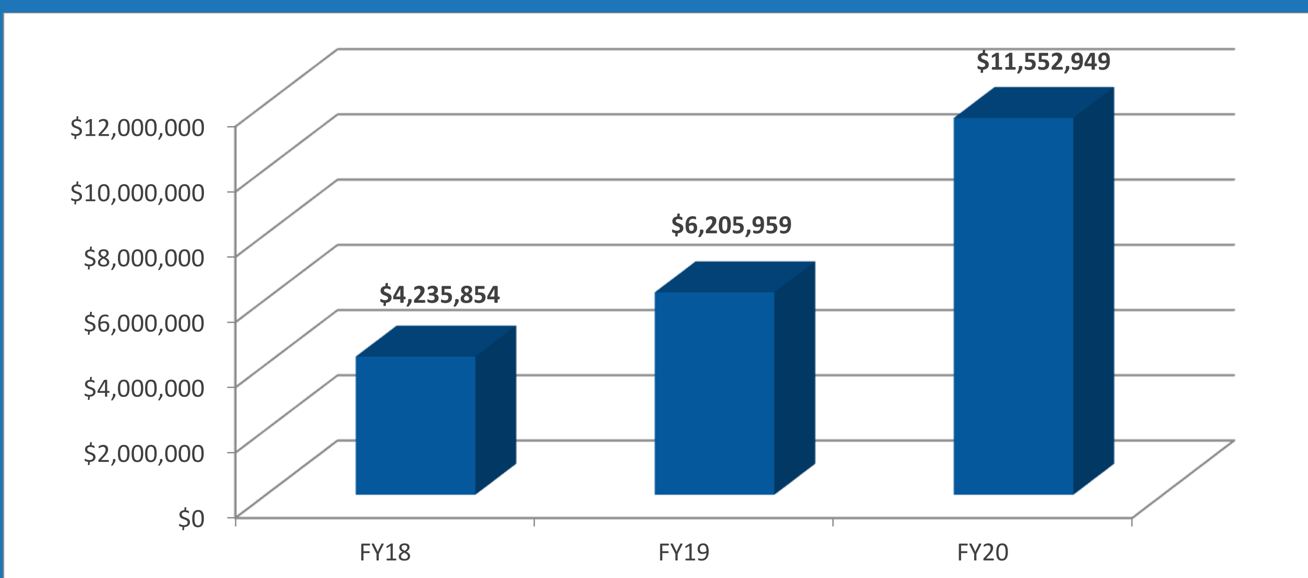
TABLE 4: IMPROPER PAYMENTS ESTIMATES, FY2019 – FY2020[13]

	Fraud		Non-Fraud		Total	
	FY19	FY20	FY19	FY20	FY19	FY20
Cases	1,161	1,872	8,564	17,237	9,725	19,109
Dollars	$1.7m	$3.5m	$4.8m	$17.2m	$6.5m	$20.6m

Overall the dollars overpaid increased between FY19 and FY20 as a result of the dramatic increase in overall benefit payment levels caused by the COVID-19 pandemic. Historically, the largest source of improper payments is claimants continuing to file for benefits after they return to work and failing to report their earnings.

The agency has several means of collecting any overpayments made to claimants. Some of the most successful include the federal and state income tax refund intercept programs (TOPs and SOD). Involuntary wage withholding after the claimant returns to work is another avenue for collection for those who do not repay their overpayments or fail to enter into repayment agreements. Overpaid individuals have the option to repay their benefits securely and easily online. As overpayments increase, overpayment collections also tend to rise as there are more overpayments that are collectable.

FIGURE 3: OVERPAYMENT COLLECTIONS FY2018 – FY2020[14]



[13] ETA227 overpayment detections for fraud and non-fraud

[14] United States Department of Labor, http://workforcesecurity.doleta.gov/unemploy/claimssum.asp

UNEMPLOYMENT INSURANCE LOAN PAYMENTS

Between December 2008 and April 2011, the State of South Carolina borrowed over $1 billion from the federal government to continue funding unemployment benefits. The state unemployment tax system underwent a dramatic overhaul in 2011 that allowed South Carolina to cease all borrowing in April 2011. In September 2011, South Carolina made its first voluntary repayment to the federal government. Figure 2 (p. 5) shows the monthly loans taken by DEW and the cumulative loan from 2008 to present.

As of June 11, 2015, all loans were repaid to the federal government through a combination of a one-time increase in federal taxes for tax year 2010 and ten voluntary payments made between 2011 and 2015. Table 5 provides detailed repayment information.

TABLE 5: SOUTH CAROLINA UI LOAN PAYMENTS, APR 2011 – SEP 2015[15]

DATE	PAYMENT (MILLIONS)	REASON
Apr-Aug 2011	$35.30	Increased federal tax required in 2010[16]
Sep-11	$115.2	Voluntary Payment
Nov-11	$68.8	Voluntary Payment
Mar-Jun 2012	$0.3	Increased federal tax required in 2010
Aug-12	$106.5	Voluntary Payment
Dec-12	$0.004	Increased federal tax required in 2010
Mar-13	$0.01	Increased federal tax required in 2010
May-13	$144.02	Voluntary Payment
Jun- July 2013	$0.0034	Increased federal tax required in 2010
Oct-13	$75	Voluntary Payment
Nov-Dec 2013	$0.012	Increased federal tax required in 2010
Apr-14	$60	Voluntary Payment
May-Aug 2014	$0.024	Increased federal tax required in 2010
Sep-14	$126	Voluntary Payment
Nov-14	$0.001	Increased federal tax required in 2010
Dec-14	$75.00	Voluntary Payment
Jan-15	$0.013	Increased federal tax required in 2010
Mar-15	$75.00	Voluntary Payment
Jun-15	$120.50	Voluntary Payment
TOTAL	**$1,001.70**	

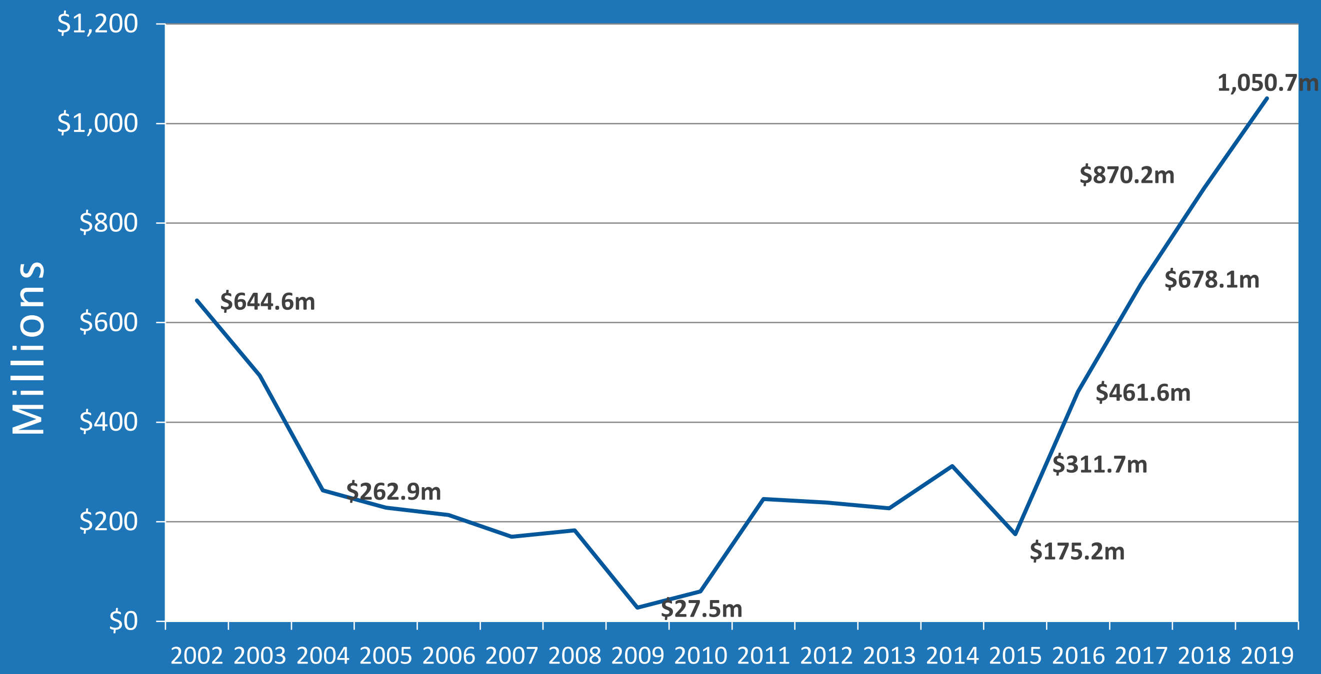
[15] Treasury Direct Monthly Statements

[16] For tax year 2010, SC employers experienced a 0.3% point increase in their federal unemployment taxes due to the outstanding federal loan. This additional tax collection was sent from the IRS to the federal Treasury to be applied to the state's outstanding loan balance. Due to amended returns, the state occasionally still receives

UNEMPLOYMENT INSURANCE TRUST FUND BALANCE

As of June 30, 2020 there was an unadjusted balance of $707,250,195[17] in the state's UI trust fund held at the US Treasury in Washington DC. As shown in Figure 4, the balance in the UI Trust Fund declined steadily between June 30, 2002 and June 30, 2011 but began to recover over the past eight years. Not shown is that these balances include loans between 2009 and 2015. The trust fund balance as of June 30, 2015 does not include any outstanding loans as they were repaid in full on June 11, 2015. The timing of the last loan payment accounts for the lower trust fund total in 2015 compared to 2014. The onset of the COVID-19 pandemic accounts for the significant dip in the trust fund balance in 2020.

FIGURE 4: UI TRUST FUND BALANCE AS OF JUNE 30, 2002–2020



CONCLUSION

FY2020 was an unprecedented year for the South Carolina UI Trust Fund. After starting the year fully funded, the COVID-19 pandemic resulted in benefit payments in the three month period that exceeded an entire year's benefit payments in the Great Recession. While the extremely high initial claims volume was short lived, it has a significant negative impact on the trust fund balance. The agency will continue to work with the General Assembly and Governor's Office to determine how to set taxes for 2021 with the least negative impact on businesses as they attempt to recover. We will also work to determine how additional external funding can help to rebuild the trust fund to the adequate fund target in the coming years and whether solvency surcharges will be needed in future years to rebuild the balance.

[17] Account Statement June 2019: http://www.treasurydirect.gov/govt/reports/tfmp/tfmp_utf.htm

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