SOUTH CAROLINA
Department of Employment and Workforce

SOUTH CAROLINA
UNEMPLOYMENT INSURANCE

FY2021

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. This assessment covers fiscal year 2021 (July 1, 2020-June 30, 2021).

CURRENT STATUS

Unemployment benefit outlays for FY2021 totaled $605,363,253[1]. Revenues generated to fund the UI programs (including benefit outlays and trust fund rebuilding) totaled $236,323,032[2].

As of June 30, 2021, the UI Trust Fund had an unadjusted balance of $1,181,566,146[3]. The health of the trust fund has fluctuated substantially over the past fiscal year in response to the COVID-19 pandemic.

The General Assembly's appropriation of $836.4 million in CARES Act funding for the trust fund has had a significant positive impact on the balance. Due to this additional support and continued economic recovery, the trust fund is at its adequate balance as of June 30, 2021, and there will be no trust fund rebuilding process required for CY2022.

FUTURE OUTLOOK

The economic recovery from the pandemic-induced recession continues throughout the state. To date, more than 250,000 jobs have been recovered and weekly unemployment payouts are approaching pre-pandemic levels. This strong recovery combined with the CARES Act appropriations will result in no solvency surcharge for CY2022[4].

[1] Draft Annual Trust Fund Report-Finance Department
[2] *Ibid*
[3] Treasury Direct Account Statements: Jun 2021
[4] CY2022 tax rates will be finalized by the second week of November 2021.

CURRENT UNEMPLOYMENT INSURANCE TRUST FUND STATUS

The unadjusted UI Trust Fund balance as of June 30, 2021 was $1,181,566,146[5]. No federal advances (i.e., loans) were needed to pay state UI benefits during FY2021. All previous advances from the federal government were repaid as of June 11, 2015. The COVID-19 pandemic had a significant negative impact on the trust fund balance. However, swift legislative action, including appropriating $836.4 million to the trust fund, has helped to mitigate the significant drain. The balance as of June 30, 2021 met the state definition of adequate funding. Thus, no solvency surcharge will be required for CY2022, and weekly UI payments continue to decline towards pre-pandemic levels.

Unlike during the Great Recession when the state had to borrow more than $1 billion from the federal government to continue making unemployment benefit payments, the trust fund at the end of FY2021 is solvent and fully funded. South Carolina's UI Trust Fund is in an excellent position coming out of the COVID-19 pandemic-induced downturn because the state fully rebuilt the trust fund prior to the pandemic, and because the Legislature swiftly appropriated CARES Act funds to bolster the UI Trust Fund. Unlike many other states, South Carolina did not have to borrow money from the federal government to pay UI benefits during the pandemic.

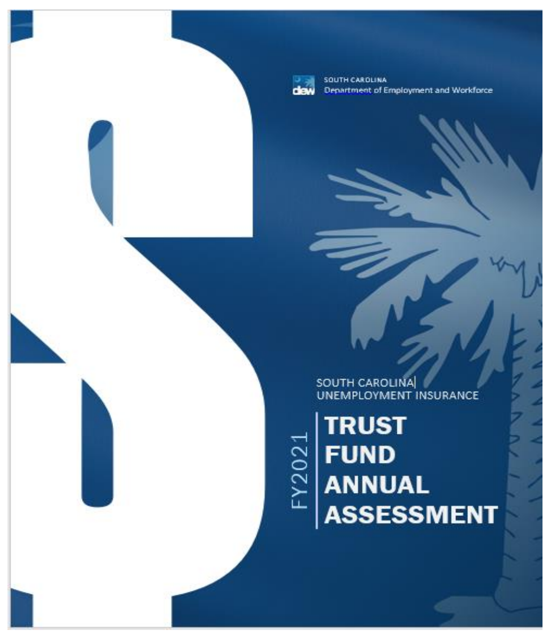
More than 20 states had to borrow from the federal government to continue making unemployment benefit payments at some point during the past 18 months. As of mid-September, 12 states continued to have an outstanding balance. In addition to paying back these loans, these states must also now pay interest on the accumulated balances. The federal waiver on interest expired September 6, 2021. For the period September 6 through September 30, 2021, these states accumulated more than $44.8 million in interest costs alone. South Carolina avoided this fate, and South Carolina employers will not have to pay increased UI taxes or a solvency surcharge to pay off loans and rebuild the trust fund.

RECENT UNEMPLOYMENT INSURANCE TRUST FUND HISTORY

The components of the Trust Fund are defined as follows:

- **Contributions** – Revenue received from employers, federal government, or other states as of June 30th.
- **Interest** – Federal Treasury interest posted to each state's Trust Fund account quarterly.
- **Benefits** – 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. Note that data may not match from prior years as historical information has been updated to include data from reimbursable entities and combined wage claim information from other states.



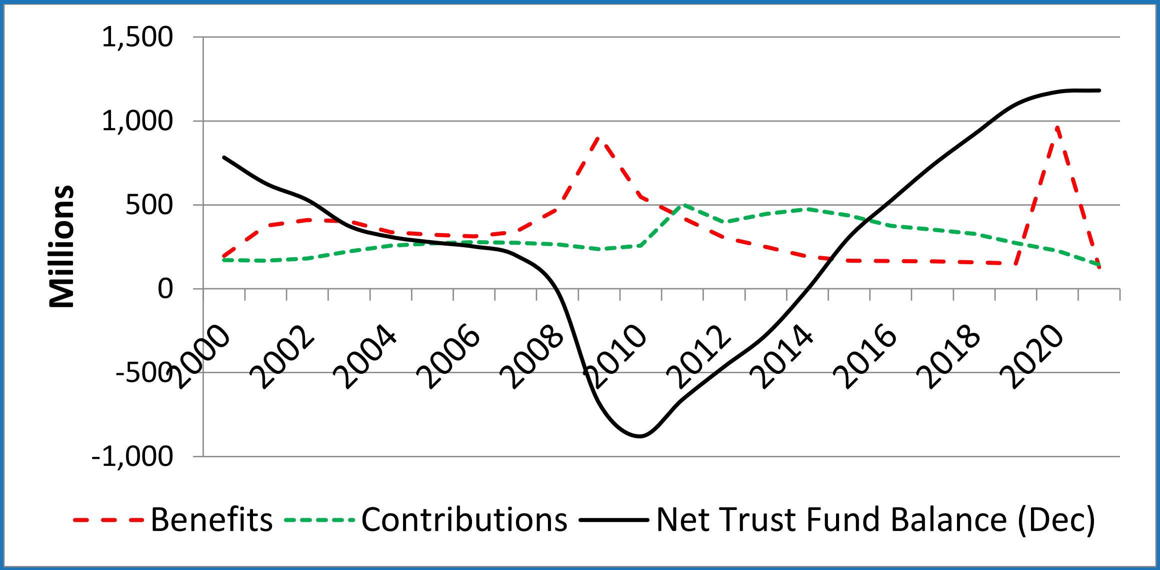
[5] Treasury Direct Account Statement: Jun 2021

TABLE 1: UI TRUST FUND COMPONENTS, FY2017-2021

COMPONENT	FY2017	FY2018	FY2019	FY2020	FY2021
7/1 Begin Fund Balance	$461,637,676	$678,148,439	$870,154,660	$1,050,622,227	$707,250,195
Contributions	$387,107,629	$348,257,937	$315,229,172	$477,274,994	$284,303,507
Earned Interest	$12,208,042	$16,935,578	$22,086,514	$25,511,764	$23,473,578
CARES Act	N/A	N/A	N/A	N/A	$836,397,251
Benefits	$182,804,908	$173,187,294	$156,848,119	$846,158,789	$669,858,385
6/30 End Fund Balance[6]	$678,148,439	$870,154,660	$1,050,622,227	$707,250,195	$1,181,566,146
Total Wages[7]	$69.9 billion	$72.6 billion	$75.9 billion	$79.0 billion	$82.3 billion

Note: Not equivalent to audited financial statements.

FIGURE 1: HISTORICAL CONTRIBUTIONS, BENEFITS, AND FUND BALANCE, CY2000-2021[8]



[6] Treasury Direct Account Statements Jun 2017-Jun 2021, Unadjusted
[7] Internal estimates August 18, 2021
[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

After 10 years of continuously falling annual benefit payments, South Carolina experienced a significant increase in benefit costs in the spring of 2020 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. An $836.4 million infusion from legislatively appropriated CARES Act funds was received in August and December 2020 bringing the trust fund balance back over $1.1 billion as of December 2020. Benefit payments have declined dramatically since the spring of 2020 and are now approaching pre-pandemic levels. Barring any additional economic turmoil, the trust fund balance is expected to stay over $1 billion for the foreseeable future.

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.

For the upcoming year, 2022, the three highest cost years in the last 20 years or last three recessions (2000-2020) are 2009, 2010, and 2020. For instance, in 2009, the state paid out approximately 1.84 percent of total wages in benefits ($910 million in benefits divided by $49.4 billion in total wages). Averaging the high cost rate for those three years gives the average high cost rate of 1.438880713645 percent. The most recently completed calendar year of 2020, the state paid $79,973,607,130 in total wages. Multiplying the 1.44 percent by approximately $80 billion provides the adequate balance for CY2022…$1,150,724,809

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 an average recession. Pursuant to state law, the agency promulgated regulations, 47-500 and 47-501, to return the trust fund to an adequate balance within five years. The agency achieved this goal as of June 30, 2019. Throughout the spring and summer of 2020, the trust fund balance declined; however, trust fund rebuilding was paused while the state was in a recessionary period.

Continued economic recovery and the appropriation of $836.4 million in CARES Act funding for the trust fund has restored the trust fund to an adequate balance as of June 30, 2021.

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 CY2020 is now a new high cost year and factors into the trust fund adequacy calculations for CY2022.

TABLE 2: SOLVENCY STANDARDS AND PROJECTIONS[9]

CALENDAR YEAR	HIGH COST YEARS	AVERAGE HIGH COST RATE	TOTAL WAGES[10] 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	$786.3
2017	1991, 2009, 2010	1.30	$64.0	$835.0
2018	1991, 2009, 2010	1.30	$67.3	$877.7
2019	1991, 2009, 2010	1.30	$71.1	$927.5
2020	1991, 2009, 2010	1.30	$74.3	$969.6
2021	*2009, 2010, 2020*	*1.44*	*$78.1*	*$1,131.7*
2022	*2009, 2010, 2020*	*1.44*	*$80.0*	***$1,150.7***
2023	*2009, 2010, 2020*	*1.44*	*$83.2*	*$1,196.8*
2024	*2009, 2010, 2020*	*1.44*	*$86.5*	*$1,244.6*

Projections in italics

For CY2022, the fund adequacy target is projected to be $1,150.7 million based on total wages paid in the last available full year, 2020, of $80.0 billion and an average high cost rate of 1.44. The adequate fund balance will continue to increase as the state's economy continues to expand and will reach over $1.2 billion by 2024.

MAXIMUM WEEKLY BENEFIT AMOUNT

S.C. Code of Law §41-35-40 defines an unemployed individual's weekly benefit amount as "fifty percent of his weekly average wage…However, no insured worker's weekly benefit amount may be less than forty-two dollars nor greater than sixty-six and two-thirds percent of the statewide average weekly wage most recently computed before the beginning of the individuals' benefit year." This statute provides a range at which the Department can set the maximum weekly benefit amount between a low of forty-two dollars and a high of sixty-six and two thirds percent of the statewide average weekly wage. Historically, the maximum weekly benefit amount has been set by the unemployment agency at an amount less than fifty percent of the statewide average weekly wage. The Employment Security Commission (ESC) set the maximum weekly benefit amount in South Carolina in 2008 at $326 as the UI Trust Fund faced significant financial distress as a result of the Great Recession. The maximum amount has been set each year at $326, within the range provided by §41-35-40, since that time as the state repaid the federal loan and rebuilt the UI Trust Fund to its adequate balance. If the ESC or SCDEW had set the maximum weekly benefit amount higher than $326, the state's employers would have faced higher UI taxes. Similarly, if the maximum weekly benefit amount were to increase in future years, it would likely have a negative impact on the trust fund balance and could require higher UI taxes to adequately fund.

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

[10] Assumes 4% total wage growth annually. 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.

TRANSPARENCY OF FUNDING (PROVISO 83.3)

In accordance with FY2021-22 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) how many unemployment claims were made in error, 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, 2020

TAX RATE CLASS	# OF EMPLOYER ACCOUNTS	BASE CONTRIBUTIONS	CONTINGENCY CONTRIBUTIONS	% OF TOTAL CONTRIBUTIONS
1	65,882	$841,992	$3,532,690	1.7%
2	406	$1,683,734	$582,577	0.9%
3	439	$1,877,397	$583,136	1.0%
4	490	$4,377,908	$555,773	1.9%
5	390	$2,051,678	$515,179	1.0%
6	503	$2,360,258	$533,762	1.1%
7	535	$3,825,595	$783,913	1.8%
8	498	$2,709,172	$497,788	1.3%
9	220	$1,989,833	$328,827	0.9%
10	511	$3,623,527	$489,860	1.6%
11	607	$3,980,211	$529,359	1.8%
12	29,738	$12,368,656	$1,386,642	5.4%
13	810	$5,066,419	$504,751	2.2%
14	907	$10,813,517	$531,973	4.4%
15	953	$11,501,873	$506,450	4.7%
16	1,053	$13,136,200	$523,387	5.4%
17	1,049	$12,706,453	$458,606	5.2%
18	1,474	$14,725,670	$476,011	6.0%
19	2,003	$16,837,253	$490,965	6.8%
20	10,075	$113,342,887	$1,475,670	45.0%
TOTAL	**118,543**	**$239,820,231**	**$15,287,318**	

TAX COLLECTIONS BY TAX RATE CLASS

Tax rates are set on a calendar year basis in the fall of each year. Tax rates for CY2021 were set in November 2020.

In CY2020, a total of $239.8 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 benefits, all businesses in the state are also responsible for paying a 0.06% administrative contingency assessment which totaled nearly $15.3 million for 2020.

Table 3 shows the estimated contributions paid for CY2020 by each tax rate class.

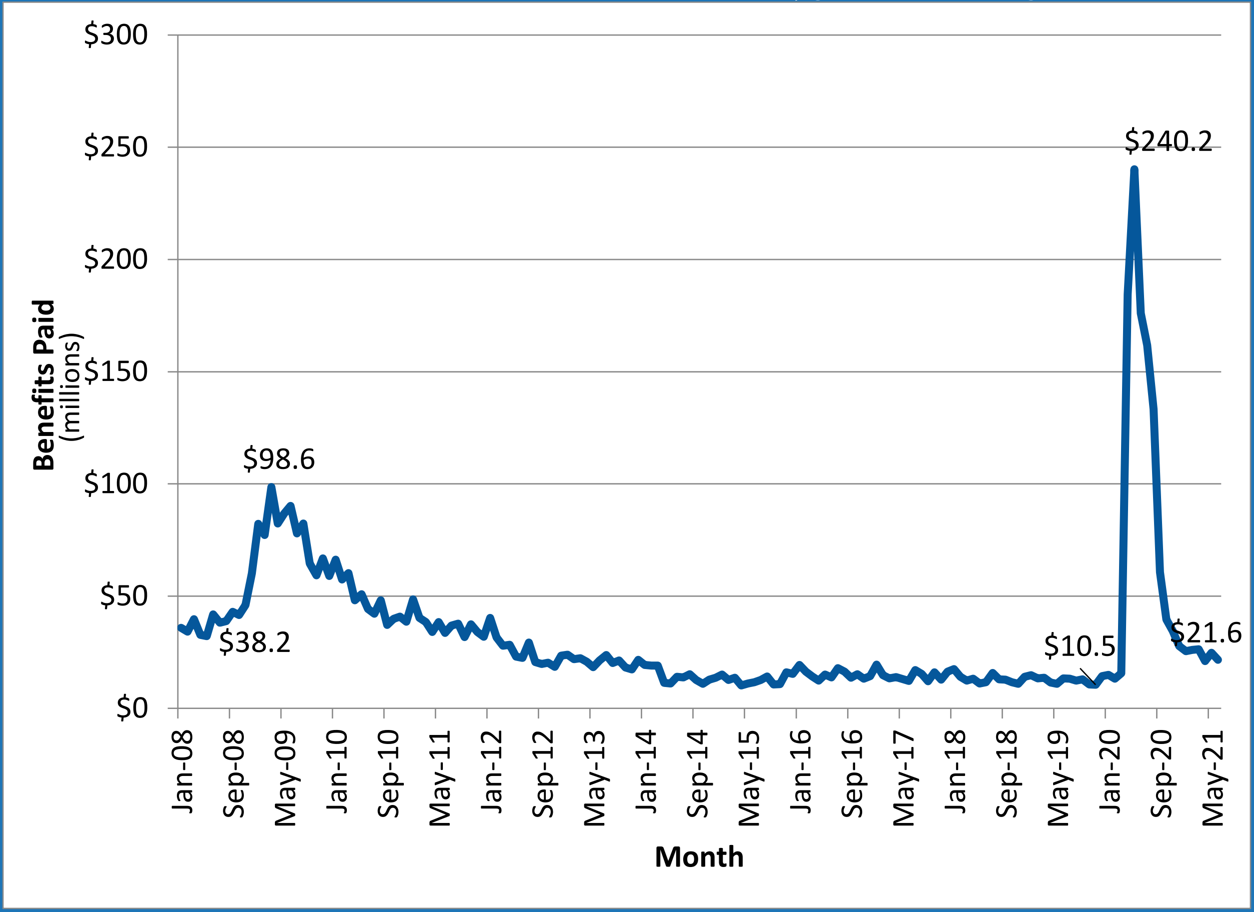
There are a large number of businesses in tax rate class 1 due to the relatively short three-year look back period used to compute a business' experience rating. A majority of businesses in tax rate class 1 are relatively small in size. Approximately 5 percent of the state's taxable wages (excluding 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 remained elevated throughout the year but have come down significantly from their spring 2020 peaks.

Figure 2 shows the benefits paid by month from January 2008 through June 2021. 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 2021 that number had fallen to $21.6 million and continues to fall. Figure 2 does not include any federal unemployment benefit payments.

FIGURE 2: MONTHLY UI BENEFIT PAYMENTS, JAN 2008 – JUN 2021[11]



[11] United States Department of Labor, https://oui.doleta.gov/unemploy/claimssum.asp

UNEMPLOYMENT INSURANCE IMPROPER PAYMENTS

IMPROPER PAYMENTS

The Integrity Unit is responsible for preventing, detecting and recouping any improper payments to claimants from the UI program. These improper payments include both overpayments and underpayments. They also include both fraud and non-fraud overpayments.

Historically, a majority of improper UI payments result from claimants who do not report wages earned when they file for UI benefits. DEW discovers the vast majority of these overpayments by cross-matching claims data against the wage reports South Carolina employers submit each quarter and by cross-matching data from the State Directory of New Hires. These tools, however, alert DEW of the improper payment after it has occurred. Further, DEW is required by federal law and due process standards to investigate each potential improper payment and afford the claimant a reasonable amount of time to respond before determining the payments were improper. The amount of time between the start of the improper payment and DEW's discovery, investigation, and adjudication of the improper payment will increase the amount of the improper payment.

CORRELATION TO CLAIM VOLUME

The COVID-19 pandemic prompted an historic spike in UI claim volume: 5,592,901 continued UI claims were filed in CY2020, a 632 percent increase over CY2019. Moreover, the state paid $1.1 billion in UI benefits in CY2020, a 629 percent increase over CY2019. The increase in claim volume happened rapidly as the state went from roughly 2,000 initial claims in a week to over 80,000 per week within four weeks in March and April 2020. This rapid spike naturally resulted in workload delays. For example, it took approximately ten weeks in CY2019 to detect and resolve a wage or new hire cross-match case. Due to the pandemic workload, it took more than 30 weeks to detect and resolve a wage or new hire cross-match hit in CY2020. The combination of 632 percent more claims and 200 percent longer detection and resolution time resulted in increased improper overpayments.

RECOUPMENT

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. Note that collection efforts for overpayments detected in CY2020 and CY2021 will continue to occur in future years, which may result in larger recoupment values in the coming years relative to the amount of benefits paid.

FY2020-FY2021

Table 4 provides information on the number of fraud and non-fraud overpayment cases detected by the unit for the period FY2020 through FY2021 as well as the dollar amounts associated with the overpayments. The higher numbers in FY2021 are largely the result of the subsequent discovery that payments made at the start of the pandemic (the last two quarters of FY2020) were improper.

TABLE 4: OVERPAYMENTS, FY2020 – FY2021[12]

	Fraud		Non-Fraud		Total	
	FY20	FY21	FY20	FY21	FY20	FY21
Cases	1,872	5,593	17,237	33,518	19,109	39,111
Dollars	$3.5m	$9.8m	$17.2m	$38.1m	$20.6m	$48.0m
Recouped	$5.7m	$4.4m	$5.9m	$8.0m	$11.6m	$12.4m
NET	-$2.2m	$5.4m	$11.3m	$30.1m	$9.1m	$35.6m

PRE-PANDEMIC AND PANDEMIC

While the dollar values of improper payments increased in FY2021, they were primarily the result of the large benefit payments made during the pandemic and are in line with historical rates of overpayment. Table 5 provides the total amount overpaid, the total benefits paid, and the overpayment rate between 2010Q1 and 2019Q4 (pre-pandemic) as well as 2020Q1 through 2021Q2 (pandemic). The overpayment rate (overpayments divided by total benefits paid) are the same during both time periods.

TABLE 5: OVERPAYMENT RATES

Period	Overpayments	Benefits Paid	Overpayment Rate
Pre-pandemic: 2010Q1-2019Q4	$133,983,289	$2,568,075,266	5.22%
Pandemic: 2020Q1-2021Q2	$64,614,883	$1,247,157,335	5.18%

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. 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 6 provides detailed repayment information.

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

TABLE 6: SOUTH CAROLINA UI LOAN PAYMENTS, APR 2011 – SEP 2015[13]

DATE	PAYMENT (MILLIONS)	REASON
Apr-Aug 2011	$35.30	Increased federal tax required in 2010[14]
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**	

UNEMPLOYMENT INSURANCE TRUST FUND BALANCE

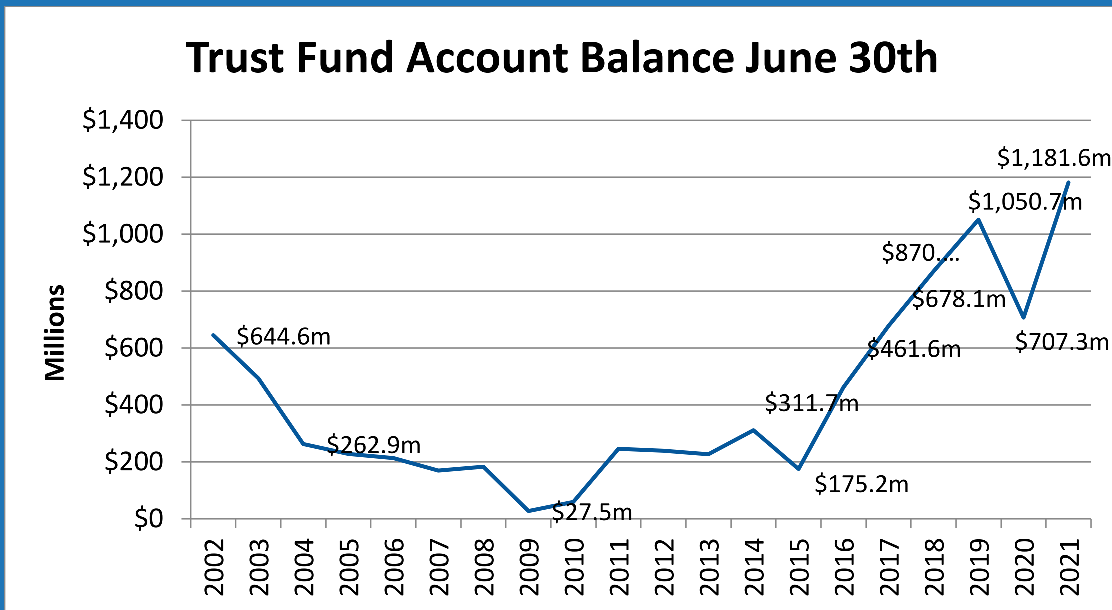
As of June 30, 2021, there was an unadjusted balance of $1,181,566,146[15] in the state's UI Trust Fund held at the US Treasury in Washington, DC. As shown in Figure 4, the balance in the UI Trust Fund declined steadily between June 30, 2002 and June 30, 2011 but has recovered over the past ten years. 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. The addition of $836.4 million in CARES Act funding restored the trust fund balance to pre-pandemic levels.

[13] Treasury Direct Monthly Statements

[14] 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 received funds in the following years.

[15] Account Statement June 2021: https://www.treasurydirect.gov/govt/reports/tbp/account-statement/report.html

FIGURE 4: UI TRUST FUND BALANCE AS OF JUNE 30, 2002-2021



CONCLUSION

The state's trust fund was adequately funded for a normal economic recession going into the spring of 2020. Despite the unprecedented nature of the benefit payments that occurred between March and May 2020, the trust fund was able to end FY2021 in a better position than it started. This is due to the appropriation of CARES Act funding by the state. This funding allowed South Carolina to freeze tax rates for tax year 2021, maintain an adequate fund balance, and avoid the need to borrow money from the federal government, as was done between 2008 and 2011.

Overall, FY2021 was a year of recovery for both the South Carolina economy and the UI Trust Fund. Two infusions of CARES Act funding in August and December 2020 helped to restore the fund to its pre-pandemic balance. Benefit payments declined significantly throughout the year as the economy fully reopened and both businesses and consumers gained confidence. It will be important to monitor how the uncertainty caused by the Delta variant impacts employment growth going forward, however, the trust fund appears to be in good shape to weather any moderate economic setbacks and no trust fund rebuilding solvency surcharge will be required for CY2022.

SOUTH CAROLINA
Department of Employment and Workforce
1550 Gadsden Street, Columbia, South Carolina 29202