

Option (3) Implement Solvency Assessment

a) **Definition:**

A solvency assessment is a surtax used to repay federal loans. It would be a tax in addition to the regular “overall” unemployment insurance tax. It does not include socialized (pooled) costs or statewide experience factors.

b) **Current Policy/Practice:**

Not applicable

c) **Other States’ Practice in This Area:**

See Attachment (Pages 40-45)

d) **Proposed Change:**

1.00% (See attached chart)

e) **Estimated Fiscal Impact on Fund Per Year:**

Assuming current taxable wage base of \$7,000-\$123 million

f) **Pros and Cons of This Change:**

Pros –Additional revenue would be generated to either pay benefits in order to minimize future federal loans or repay federal loans.

Cons –More tax liability for employers
Detrimental to economic recruitment/growth

g) **Required Action to Implement:**

Legislative

h) **Time Frame Required for Implementation**

Agency-One to three months
Employers/Third Party Agents-unknown

i) **Impact on Agency in Implementation:**

IT programming changes/Forms Revisions/Employer Education

j) **Agency Recommendation:**

Yes

k) **Other Comments/Considerations:**

Need to establish specific amount of revenue needed/desired and/or time frame (i.e.-Sunset provision) if no intent to make permanent.

South Carolina Trust Fund Analysis
 Various Solvency Rates
 For Additional Estimated Revenue
 Under \$7,000 and \$20,000 Taxable Wage Bases

Projected Additional Revenue (In Millions \$'s)

Taxable Wage Bases

Solvency Rates	<u>\$7,000</u>	<u>\$20,000</u>
0.10%	\$12.3	\$31.7
0.20%	\$24.6	\$63.5
0.30%	\$36.9	\$95.2
0.40%	\$49.3	\$127.0
0.50%	\$61.6	\$158.7
0.60%	\$73.9	\$190.4
0.70%	\$86.2	\$222.2
0.80%	\$98.5	\$253.9
0.90%	\$110.8	\$285.6
1.00%	\$123.0	\$317.4

SURTAXES UNDER STATE UNEMPLOYMENT INSURANCE LAWS

In addition to the factors described in Tables 11 and 12 and the accompanying text, the total amount of taxes an employer must pay is affected by extra taxes or surtaxes. Surtaxes have been adopted to respond to actual or potential funding emergencies; repay federal advances or other loans; cover administrative costs for which federal grants are either not available or inadequate; finance extended benefits; establish training and placement services for claimants; and limit the potential indebtedness of negative balance, shared work, and reimbursable employers.

As used in Table 13, "surtax" means an extra tax, or a tax in addition to the regular, "overall" unemployment insurance tax. "Surtax" does not include socialized costs or statewide experience factors. Although often computed separately and added to employers' basic rates, these factors are integral parts of the overall rate determination formula. Nor does "surtax" include penalty rates, such as those assessed against delinquent employers.

As Table 13 shows, not all surtaxes are permanent, not all apply equally to all employers, and not all states require them.⁶

Table 13—SURTAXES UNDER STATE UNEMPLOYMENT INSURANCE LAWS

State ^{1,6} (1)	Surtax (2)	Amount ² (3)	Period or Conditions (4)	Purpose (5)
Alabama	Employee security enhancement assessment	0.06% ³	Expires 03/31/2008	Claimant placement, admin. costs, econ. develop.
Alaska	Fund solvency adjustment	-0.40 - 1.10% ^{3,5}	Triggered by specified fund reserve ratio	Solvency
Arizona	Employee tax	0.50%	Applies only to employers with a positive reserve ratio of less than 12%	Solvency
	Job training assessment	0.10%		
	Additional	1 - 2%		
Arkansas ¹	Stabilization tax	-0.10 - 0.80% ³	Applies only to shared work employers with negative reserve account balances	Solvency
	Advance interest tax	0.20%	When fund above 5% payrolls - when fund below 0.4% payrolls	
	Extended benefit tax	0.10% ²	When state has outstanding interest-bearing advance under Title XII	
California	Employment training	0.10%	When EB account below 0.2% of payrolls	Extended benefits cost
	Emergency solvency SUTA	1.15% of ER's rate in sched. F	See footnote 22	Training and admin. costs ¹
	Solvency tax	Max. Rate plus 2%	Fund below 6% payrolls	Solvency
Colorado ¹	Administrative surcharge	max. 0.011% ³	See footnote 23	Solvency
	Solvency tax	0.22% ⁵	Fund below 0.9% payrolls	Administrative
Connecticut	Solvency tax	0.10-1.40%	Fund below 0.8% wages	Solvency
Delaware ¹	Supplemental solvency assessment	0.20%		Solvency

Table 13—SURTAXES UNDER STATE UNEMPLOYMENT INSURANCE LAWS
— Continued

State ^{1,6} (1)	Surtax (2)	Amount ² (3)	Period or Conditions (4)	Purpose (5)
Delaware (cont.)	Training tax	0.15%		Counseling, training, placement of dislocated workers.
District of Columbia	Interest surcharge	0.10%	When fund has loans outstanding with interest liability.	Solvency
Georgia	Admin. assessment ¹⁹	0.2% ²¹		Admin. costs
	Admin. assessment	0.08% ³	Min and max rates exempt	Admin.
	Solvency increase	0.0%	Applies to all rates	Solvency
Hawaii	Employment and training fund tax	0.01% ³	Permanent	Employment assistance and training
Idaho ¹	Workforce dev. training fund	0.03%	Expires 1/1/2012	Training
	Reserve fund	0.17%	When less than 1% of taxable wages	Interest for Admin.
Illinois	Fund building tax	0.40%		Solvency
Iowa ¹	Reserve Fund Contribution	up to \$50 million ³	Applies only to build reserve fund up to \$150 million	Interest used for Workforce Field Offices ¹²
Kansas	Surcharge	0.20 - 2.00%	Applies only to neg. bal. employers with 2 or more years' experience.	Limit negative deficit
Louisiana ¹	Solvency tax	Up to 30% of contributions ³	When fund under \$100 mil.; or if interest is due on any advanced federal monies.	Solvency
Maine	Competitive Skills Scholarship Fund (CSSF)	0.05%	Reduces UI contributions rate for all schedules except H or when maximum rate is 5.4%	Training
Massachusetts	Advance interest tax	Established by Commissioner if interest is due	When state has outstanding interest-bearing advance under Title XII	Pay interest due on Federal loans
	Contribution	.06% ³	Adjustment made if yearly collection exceeds \$18 million.	Training & technical assistance
Michigan	Solvency tax	Up to 2%	Applies only to neg. bal. employers with more than 4 years' liability, and the agency has outstanding federal interest bearing loans.	Pay interest due on Federal loans

Table 13—SURTAXES UNDER STATE UNEMPLOYMENT INSURANCE LAWS
— Continued

State ^{1a} (1)	Surtax (2)	Amount ² (3)	Period or Conditions (4)	Purpose (5)
Minnesota	Additional assessment	14% of tax due		Solvency
	Workforce Development fee	.10% of taxable wages		Replenish training fund for dislocated workers.
Missouri	Additional rates	10 - 30% ¹⁶ depending on avg. fund balance and 0.25%-1.5% additional surcharge for max rated employer.	10% when fund below \$450 million; 20% when below \$400 million; 30% when below \$350 million. Surcharge of 0.25% added if max-rated for prior 2 years; additional fraction added each year employer continues to be max-rated up to 1.5%. Effective 2009, 2010 and 2011; capped at \$13 million per year	Solvency
	Automation surcharge	0.05% or less		Fund updates to automated system
Montana	Admin. fund tax	0.08 - 0.18% ²⁰		Administration
Nebraska	St. Unemployment Insurance Tax	0.00 - 25% of contributions ³	Rate set annually & includes caps.	Interest from fund used for training
Nevada	Career Enhancement Tax	0.05%	Excludes reimbursable employers and employers at 5.40% rate.	Job Training
New Hampshire	Emergency tax	0.50% ³	If commissioner determines an emergency exists.	Solvency
	Admin. contribution ¹³	0.20%		Administration
New Jersey	Rate increase	10% basic rate ³	When fund balance falls below .50% of taxable wages	Solvency
New York	Subsidiary tax	0.00 - 0.925% ⁵	When General Account balance below \$650 million	Reduce neg. employer bal.
	Reemployment service fund	0.075%		Automated programs & staff funding
North Carolina	Interest assessment surcharge	(Rate established yearly by the Commissioner)	When fund has loan outstanding with interest liability	Pay interest due on Federal loans
	Employment Security Comm. Reserve Fund	0.20% ⁴	Expires 1/1/2009	Administration & expenditure
Ohio	Reserve Fund Replenishment	20%	Effective next tax year if reserve fund balance is less than \$163,349,000 on Aug 1.	
	Minimum safe level adjustment	Up to 0.20% plus additional % determined by formula ³	When fund 15% or more below minimum safe levels	Solvency
Oklahoma	Surcharge	Proportional to employer's total tax liability as of the last completed qtr. for current CY not to exceed 33 ¹ / ₃ % per taxable year.	When fund less than \$25 million	Solvency

Table 13—SURTAXES UNDER STATE UNEMPLOYMENT INSURANCE LAWS
— Continued

State ¹ (1)	Surtax (2)	Amount ² (3)	Period or Conditions (4)	Purpose (5)
Oregon	Wage security tax (BOLI)	0.03%	1st quarter of every odd-numbered year.	Special fund - for wage claims on bankrupt employers
	Supplemental Employment Dept. Admin. Fund (SEDAF)	0.09%	All 4 quarters every year	Provide Employment Dept. services
Pennsylvania ¹	Surchage	-1.10 - 5.80% ³	Fund balance ratio at or above 150% or below 125%	Solvency
	Solvency	0.25 - 0.65% ³	Fund balance ratio below 95%	Solvency
	Employee	0.02 - 0.08% ³	Fund balance ratio below 125%	Solvency
Puerto Rico	Special tax	0.0 - 1.0% ³	For employers with rates between 1.4% and 5.4%	ES, Training & Admin.
Rhode Island	Surtax	0.30% quarterly ³	Fund balance below zero	Solvency
	Job development	0.21% ³		Job development fund
South Carolina	Administrative contingency assessment	0.06% ³	Max rate of 6.10% is exempt	Job placement for claimants
	Additional rates	0.10 - 0.70%	Statewide reserve ratio below 2.0%. Applies to all rates	Solvency
South Dakota	Investment in SD future fee	0.70 - 1.0% rated employers; 0.58% new employers	Varies according to employers' reserve ratios	Research & economic development
	Additional rates	0.10 - 1.50%	When fund below \$11 million	Solvency
Tennessee	Job skills fee ⁹	0.15%	Only when fund on the previous 12/31 or 6/30 is \$750 million or more ¹⁴	Job Training
Texas ^{1,3}	Deficit tax rate	Up to 2.00%	When fund below the greater of \$400 million or 1% taxable wages	Solvency
	Obligation Assessment	Up to 1.33%	Outstanding indebtedness	Interest
	Training Assessment	0.10%	When fund above the greater of \$400 million or 1% taxable wages	Job Training
Utah	Deficiency Surtax	1.0%	X ¹⁷	X ¹⁷
Virginia	Fund building rate	0.20% ³	When fund balance factor 50% or less or pool costs exceed interest earned	Solvency
Virginia	Pool costs rate	Varies ³	When fund balance factor 50% or less, or pool costs exceed interest earned	Recover pool costs
Virgin Islands	None			

Table 13—SURTAXES UNDER STATE UNEMPLOYMENT INSURANCE LAWS
— Continued

State ¹ (1)	Surtax (2)	Amount ² (3)	Period or Conditions (4)	Purpose (5)
Washington ¹	Employment admin. tax	0.02%		Employment assistance
	Administrative tax	0.01%	Employers in rate classes 1-39 ¹⁵	Training prog. UI Trust Fund
	Solvency surcharge	None in 2009	X ¹⁸	Solvency
West Virginia	Penalty surcharge	1.00%	Debit balance employers ⁷	Limit negative bal. employers
Wisconsin ¹	Administrative account	0.20%	When funds are needed and Agency may prescribe a lower rate	Administration
	Administrative fee ¹⁰	Lower of 0.01% or solvency rate	Extended through CY 2009	Development design of UI information tech systems
Wyoming ^{3,11}	Solvency adjustment factor	0.26%	If trust fund balance is less than 3.5% of payrolls	Solvency
	Pool costs adjustment factor	0.168%	Rate equal pool costs divided by last year's taxable wages	Recoup non- charged benefits
	Employment support fund	0.112%	Fund solvency for UI & ES program	UI/ES admin. and support

FOOTNOTES FOR TABLE 13

1. Surtax applied to pay the interest on loans when necessary. In most of these states, the surtax rate is unspecified and determined by amount of interest owed. But the surtax in **Arkansas**: is 0.2%; **Pennsylvania**: up to 1%; **Texas**: 0.2%; **Washington**: up to 0.15%. All surtaxes exclude reimbursable employers, with other exclusions as specified. Following interest payment surtaxes exclude reimbursable employers, and also exclude as specified, **Arkansas**: excludes only reimbursable employers; **Colorado**: governmental employers, reimbursable nonprofit organizations, rated employers with zero balances or with positive balances of 7% or more; **Delaware**: and nonprofit, governmental, and zero rate employers; **Idaho**: nonprofit, governmental employers; **Pennsylvania**: new employers; **Wisconsin**: excludes employers with payrolls of \$25,000 or less, but includes reimbursable employers. Other states with interest payment surtaxes in the following states: **California**: interest on federal advances may be paid from Employment Training Fund, if the legislature approves; **Louisiana**: includes the payment of bonds issued or interest due to pay federal advances, debt service, admin. costs; **Texas**: includes payment of debt service on bonds or to pay federal advances.
2. Percentages include percent of taxable payroll, unless otherwise indicated.
3. **Alaska**, **Texas**: excludes reimbursable and new employers; **Alabama**: excludes reimbursable and new employers and calculated rates of 5.40%; **Arkansas**, **California**, **Hawaii**, **Indiana**, **Louisiana**, **Maryland**, **Maine**, **Massachusetts**, **Nebraska**, **Ohio**, **Rhode Island**, **Virginia**, **Washington**, **Wyoming**: excludes reimbursable employers; **Arkansas**: beginning July 1, 2007, through June 30, 2011, Arkansas allows proceeds of the stabilization tax of 0.025% of taxable wages to be used for the Department of Workforce Services Training Trust Fund and another 0.025% of taxable wages to be used for the Department of Workforce Services Unemployment Insurance Administrative Fund. These will be collected until each fund has a balance of \$2.5 million each year. **Colorado** excludes reimbursable employers and political subdivisions; **Georgia**: excludes employers at minimum 0.03%, negative balance employers at 5.4%, and reimbursable employers who elect to contribute; **Hawaii**: excludes reimbursable employers and employers at 0%; **Iowa**: excludes reimbursable and governmental employers; **New Jersey**: excludes reimbursable employers and governmental and nonprofit employers who elect the reimbursement option; **Oregon** (special tax): excludes employers at 5.4% rate or more; **Nebraska**: principle is used to build a state reserve for benefits and earned interest is used to pay for worker training. A SUIT rate of 11.1% of contributions will be collected in 2008. **Pennsylvania**: surcharge and solvency excludes reimbursable employers, new employers exempted from solvency tax, and employee tax assessed on total wages, amounts vary with fund balance ratio; **Puerto Rico**: excludes governmental employers. **South Carolina**: the 0.06% administrative contingency assessment is added to employers with less than a 5.40% tax rate; **New Hampshire**: Rate of

FOOTNOTES FOR TABLE 13 — Continued

- contributing employers is reduced by 1/10th of 1%; all employers shall pay an administrative contribution (AC) equal to the amount of the reduction. 1/3 of the quarterly AC collected, up to \$1 million will be deposited each quarter in an incumbent worker training fund, unless the UC fund is less than \$275 million.
4. **North Carolina:** excludes reimbursable employers, and employers paying 5.40% up to 5.70%. The surtax has been extended until January 1, 2009.
 5. **Alaska:** no annual increase or decrease of more than 0.3%; **New York:** subsidiary tax is based upon the employer's individual unemployment insurance experience.
 6. States without surtaxes: **Florida, Indiana, Kentucky, Mississippi, New Mexico, North Dakota, Vermont.**
 7. **West Virginia:** also applies to foreign corporation or business entities engaged in the construction trades that have not been employers in the state for at least 36 consecutive months.
 8. **Colorado:** excludes reimbursing employers, political subdivisions, and rated employers with a benefit-charge balance of less than \$100 in the last three fiscal years.
 9. **Tennessee:** money diverted from the Trust Fund to fund the Tennessee Job Skills Program.
 10. **Wisconsin:** employers receive a matching reduction in their solvency rate, so the combined tax payment remains unchanged.
 11. **Wyoming:** fund balance and pool costs adjustment factors are computed yearly under different formulas. The combined rate cannot exceed 1.5%.
 12. **Iowa:** reserve fund interest pays partially for the operation of 56 workforce development offices around the state.
 13. **New Hampshire:** 1/3 or up to \$1 million of administrative contributions are diverted annually for a training fund for incumbent workers.
 14. **Tennessee:** No Job Skills Fee from January 1-June 30, 2008, because the trust fund balance on December 31, 2007, was below \$750 million. The balance on June 30, 2008, will determine if the fee is in effect for the last six months of 2008. When in effect, the Tennessee Job Skills Fee only applies to non-governmental employers with reserve ratios of at least 0.0%, and less than 12.0%. The fee does not apply to employers assigned the new employer rate, or to governmental employers. The fee expires December 31, 2010, unless extended by the General Assembly.
 15. **Washington:** all but 0.004% of the 0.01% administrative tax must be deposited in the Employment administrative tax account.
 16. **Missouri:** rates can include a percentage increase or decrease depending on the average fund balance plus an additional surcharge for maximum-rated employers and a reduction of 0.05% to offset the automation surcharge.
 17. **Utah:** if an employer has a deficit in payment of taxes for any of the four quarters of the fiscal year ending June 30, a surtax of 1.0% will be applied to taxes paid in the next calendar year beginning the next January 1. It will be removed when the previous fiscal year's taxes have been paid in full. The purpose is to encourage full payment of unemployment taxes by employers.
 18. **Washington:** assessed if trust fund holds less than seven months benefits, set at the lowest rate needed to provide nine months benefits, but no more than 0.2%.
 19. **District of Columbia:** payable by both contributory and self insured employers on first \$9,000 paid to each employee during calendar year.
 20. **Montana:** 0.13% for experience employers with a contribution rate of 0.0%, 0.18% for experience rated employers with contribution rate greater than 0.0%, and 0.08% for reimbursable employers. Beginning 07/01/08, governmental rated employers will pay 0.09%.
 21. **District of Columbia:** for assessments not paid when due, interest of 1.5% per month, or fraction thereof, will be added from the date the assessment became due until paid. If an administrative funding assessment is not paid on or before the first day of the second month following the close of the calendar quarter for which it is due, there will be added a penalty of 10% of the amount due, but not less than \$100.
 22. **California:** applies only to employers with a positive reserve balance and employers assigned the maximum rate plus 2% that obtain or attempt to obtain a more favorable UI rate of contributions due to deliberate ignorance, reckless disregard, fraud, intent to evade, misrepresentation, or willful non-disclosure.
 23. **California:** employers that obtain or attempt to obtain a more favorable UI rate of contributions due to deliberate ignorance, reckless disregard, fraud, intent to evade, misrepresentation or willful non-disclosure.