# Ways and Means Committee - Employment Security Commission Ad Hoc Study Subcommittee

Staff Handout #1

December 9, 2009

## ESC FAQ

### Am I eligible?

If you meet certain legal requirements, you may be eligible to receive unemployment benefits. (You will receive a definite answer when you file a claim.)
The following rules apply:

You must be laid off through no fault of your own.

You must have worked for an employer (or employers) who paid taxes in your name.

You must have earned a minimum amount of wages during the 12-month period occurring before the quarter in which you were laid off. (Contact your local Workforce Center for details.)

### How much can I draw? For how long?

If eligible, you can expect to draw approximately half of your regular pay, up to a maximum of $326.00 per week in South Carolina. The regular state program provides for a maximum of 26 weeks.

### I am receiving a severance package from my former employer. Do I have to wait until my severance pay ends before I file a claim for unemployment?

No. Your severance pay will not effect your ability to file an unemployment claim. The money you receive as severance pay is not deducted from your weekly unemployment benefits.

### Can I earn money while drawing benefits?

Yes, you may earn money while drawing. However, you are required to report all earnings and may be prosecuted if you fail to do so. You may earn up to 1/4 of your weekly benefit amount with no deduction in your unemployment check.

### Are unemployment benefits taxable?

Yes, payments are taxable. When you file a claim for unemployment, you will be given the option of having taxes withheld. At the end of the year, you will be furnished a statement for tax purposes

### Can my benefits be cut off?

Yes. While you are drawing, you are required by law to be able, available, and actively seeking full-time work. This means, for example, that if you took a trip, or even spent time in the hospital (and were physically unavailable) you would not be eligible to draw during that time. Failure to seek work also might disqualify you.

### Do I have to accept another job if offered?

You may be required to accept another job, if offered. However, the job must be comparable to your old job. (A computer programmer, for example, could not be forced to take a job as a carpenter.)

### Do I have the right to appeal a decision?

You (and your employer) have the right to appeal any decision. Contact your local Workforce Center to find out what your rights are.

### Can I quit my job and receive benefits?

If you quit your job voluntarily, without a good work-related reason, you will be disqualified.

### How can I get answers to other questions?

To get answers to any question concerning this program and your rights, contact your nearest Workforce Center. Or telephone **(803)737-3071** in Columbia, S.C

## Weeks of Unemployment Compensation

| "Type" | # of Weeks | Funds Source |
|---|---|---|
| State Regular Program | 26 | State UI Tax<br>$610 million loan |
| Federally Authorized Extensions: | | |
| Tier # 1 | 20 | Stimulus |
| Tier # 2 | 13 + 1 | Stimulus |
| Tier # 3 | 13 | Stimulus |
| Tier # 4 | 6 | Stimulus |
| State Extended Benefit Program* | 20 | Stimulus |

*Most recent amendment to UI State law to change from the state uninsured unemployment rate to the state's total unemployment rate. ARRA changed how SEB plan is funded. It is normally 13 weeks and costs are shared ½ by Feds and ½ by employer. With unemployment rate "trigger", the SEB goes to 20 weeks and the Feds will pay 100%. Note: This provision applies just to December 31 and ends with a sunset provision, unless Congress authorizes additional funding.

Note: Once a person has exhausted their unemployment benefits, they must have gone back to work and earned 8 times their weekly benefit amount to qualify for a new claim.

Source: ESC

**UI Budget**

Estimated FUTA Receipts vs. Amounts Returned

FY 2010 State UI Allocations (Planning Targets)

- State Tables (Att1)
- Secondary Tables (Att2)
- Postage (Att3)

FY: 2009 Report State UI Allocations Submit

Trust Fund Loans

- Outstanding Loans from the Federal Unemployment Account. Balances as of December 04, 2009 are:

| | |
|---|---|
| Alabama | $107,608,519.98 |
| Arkansas | $179,448,602.84 |
| California | $5,087,009,797.18 |
| Connecticut | $84,685,130.36 |
| Florida | $737,700,000.00 |
| Idaho | $81,576,625.22 |
| Illinois | $905,413,172.31 |
| Indiana | $1,389,497,006.83 |
| Kentucky | $534,600,000.00 |
| Michigan | $2,956,482,333.32 |
| Minnesota | $173,614,869.16 |
| Missouri | $389,297,773.03 |
| Nevada | $49,633,588.08 |
| New Jersey | $789,937,333.38 |
| New York | $1,805,361,895.74 |
| North Carolina | $1,427,032,159.26 |
| Ohio | $1,615,137,799.00 |
| Pennsylvania | $1,586,712,275.78 |
| Rhode Island | $110,384,900.00 |
| South Carolina | $633,557,228.00 |
| South Dakota | $2,985,604.18 |
| Texas | $1,050,787,268.55 |
| Virgin Islands | $7,063,499.90 |
| Virginia | $59,318,000.00 |
| Wisconsin | $785,468,292.65 |
| Total | $22,550,313,674.75 |

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# CURRENT CONTRIBUTION RATES

| Employer's Reserve Ratio | Base Rate | <2.00% 0.10% | <1.90% 0.20% | <1.80% 0.30% | <1.70% 0.40% | <1.60% 0.50% | <1.50% 0.60% | <1.40% 0.70% |
|---|---|---|---|---|---|---|---|---|
| +9% or More | 0.54% | 0.64% | 0.74% | 0.84% | 0.94% | 1.04% | 1.14% | 1.24% |
| +8% but < 9% | 0.89% | 0.99% | 1.09% | 1.19% | 1.29% | 1.39% | 1.49% | 1.59% |
| +7% but < 8% | 1.24% | 1.34% | 1.44% | 1.54% | 1.64% | 1.74% | 1.84% | 1.94% |
| +6% but < 7% | 1.59% | 1.69% | 1.79% | 1.89% | 1.99% | 2.09% | 2.19% | 2.29% |
| +5% but < 6% | 1.94% | 2.04% | 2.14% | 2.24% | 2.34% | 2.44% | 2.54% | 2.64% |
| +4% but < 5% | 2.29% | 2.39% | 2.49% | 2.59% | 2.69% | 2.79% | 2.89% | 2.99% |
| < +4% but > -5% | 2.64% | 2.74% | 2.84% | 2.94% | 3.04% | 3.14% | 3.24% | 3.34% |
| -5% but < -10% | 2.99% | 3.09% | 3.19% | 3.29% | 3.39% | 3.49% | 3.59% | 3.69% |
| -10% but < -15% | 3.34% | 3.44% | 3.54% | 3.64% | 3.74% | 3.84% | 3.94% | 4.04% |
| -15% but < -20% | 3.69% | 3.79% | 3.89% | 3.99% | 4.09% | 4.19% | 4.29% | 4.39% |
| -20% but < -25% | 4.04% | 4.14% | 4.24% | 4.34% | 4.44% | 4.54% | 4.64% | 4.74% |
| -25% but < -30% | 4.39% | 4.49% | 4.59% | 4.69% | 4.79% | 4.89% | 4.99% | 5.09% |
| -30% but < -35% | 4.74% | 4.84% | 4.94% | 5.04% | 5.14% | 5.24% | 5.34% | 5.44% |
| -35% but < -40% | 5.09% | 5.19% | 5.29% | 5.39% | 5.49% | 5.59% | 5.69% | 5.79% |
| -40% or More | 5.40% | 5.50% | 5.60% | 5.70% | 5.80% | 5.90% | 6.00% | 6.10% |

**NOTE:** These base rates may include a surcharge of from one-tenth (0.10%) to seven-tenths (0.70%) percent depending upon the annual statewide reserve ratio computation.

# Federal Offset Credit Reduction

| Years After First Loan | Basic Credit Reduction | Additional Federal Tax Per Employee | Total Additional FUTA Tax For All Employers * | Cumulative Total |
|---|---|---|---|---|
| 1 | 0.0% | $0 | $0 | $0 |
| 2 | 0.3 | $21.00 | $37,800,000.00 | $37,800,000.00 |
| 3 | 0.6 | $42.00 | $75,600,000.00 | $113,400,000.00 |
| 4 | 0.9 | $63.00 | $113,400,000.00 | $226,800,000.00 |
| 5 | 1.2 | $84.00 | $151,200,000.00 | $378,000,000.00 |
| 6 | 1.5 | $105.00 | $189,000,000.00 | $567,000,000.00 |
| 7 | 1.8 | $126.00 | $226,800,000.00 | $793,800,000.00 |
| 8 | 2.1 | $147.00 | $264,600,000.00 | $1,058,400.000.00 |
| 9 | 2.4 | $168.00 | $302,400,000.00 | $1,360,800,000.00 |
| 10 | 2.7 | $189.00 | $340,200,000.00 | $1,701,000,000.00 |
| 11 | 3.0 | $210.00 | $378,000,000.00 | $2,079,000,000.00 |
| 12 | 3.3 | $231.00 | $415,800,000.00 | $2,494,800,000.00 |
| 13 | 3.6 | $252.00 | $453,600,000.00 | $2,948,400,000.00 |
| 14 | 3.9 | $273.00 | $491,400,000.00 | $3,439,800,000.00 |
| 15 | 4.2 | $294.00 | $529,200,000.00 | $3,969,000,000.00 |
| 16 | 4.5 | $315.00 | $567,000,000.00 | $4,536,000,000.00 |
| 17 | 4.8 | $336.00 | $604,800,000.00 | $5,140,800,000.00 |
| 18 | 5.1 | $357.00 | $642,600,000.00 | $5,783,400,000.00 |
| 19 | 5.4 | $378.00 | $680,400,000.00 | $6,463,800,000.00 |

* Taxable Wages of $12.6 Billion

Distribution of Employers and Taxable Wages and FUTA Cost By Tax Rates 1/

| Tax Rate | Employers | Taxable Wages | Projected Costs to Employers FUTA Credit Reductions By Tax Rates |
|---|---|---|---|
| 1.24 | 52,486 | $6,840,666,699 | $20,522,000 |
| 1.59 | 4,084 | $ 656,013,318 | $ 1,968.000 |
| 1.94 | 3,443 | $ 754,656,814 | $ 2,264,000 |
| 2.29 | 4,037 | $ 564,039,624 | $ 1,692,000 |
| 2.64 | 2,947 | $ 506,054,974 | $ 1,518,000 |
| 2.99 | 2,644 | $ 370,240,062 | $ 1,111,000 |
| 3.34 | 23,151 | $1,663,476,644 | $ 4,990,000 |
| 3.69 | 1,503 | $ 321,137,602 | $ 963,000 |
| 4.04 | 990 | $ 221,313,452 | $ 664,000 |
| 4.39 | 719 | $ 123,465,495 | $ 370,000 |
| 4.74 | 546 | $ 97,336,878 | $ 292,000 |
| 5.09 | 433 | $ 61,396,454 | $ 184,000 |
| 5.44 | 386 | $ 61,794,309 | $ 185,000 |
| 5.79 | 278 | $ 29,163,352 | $ 87,000 |
| 6.10 | 3,142 | $ 329,049,528 | $ 987,000 |
| Total | 100,789 | $12,599,775,205 | $37,799,000 |

1/ Based on Taxable Wages for Rate Year 2009 (July 2007-June 2008)

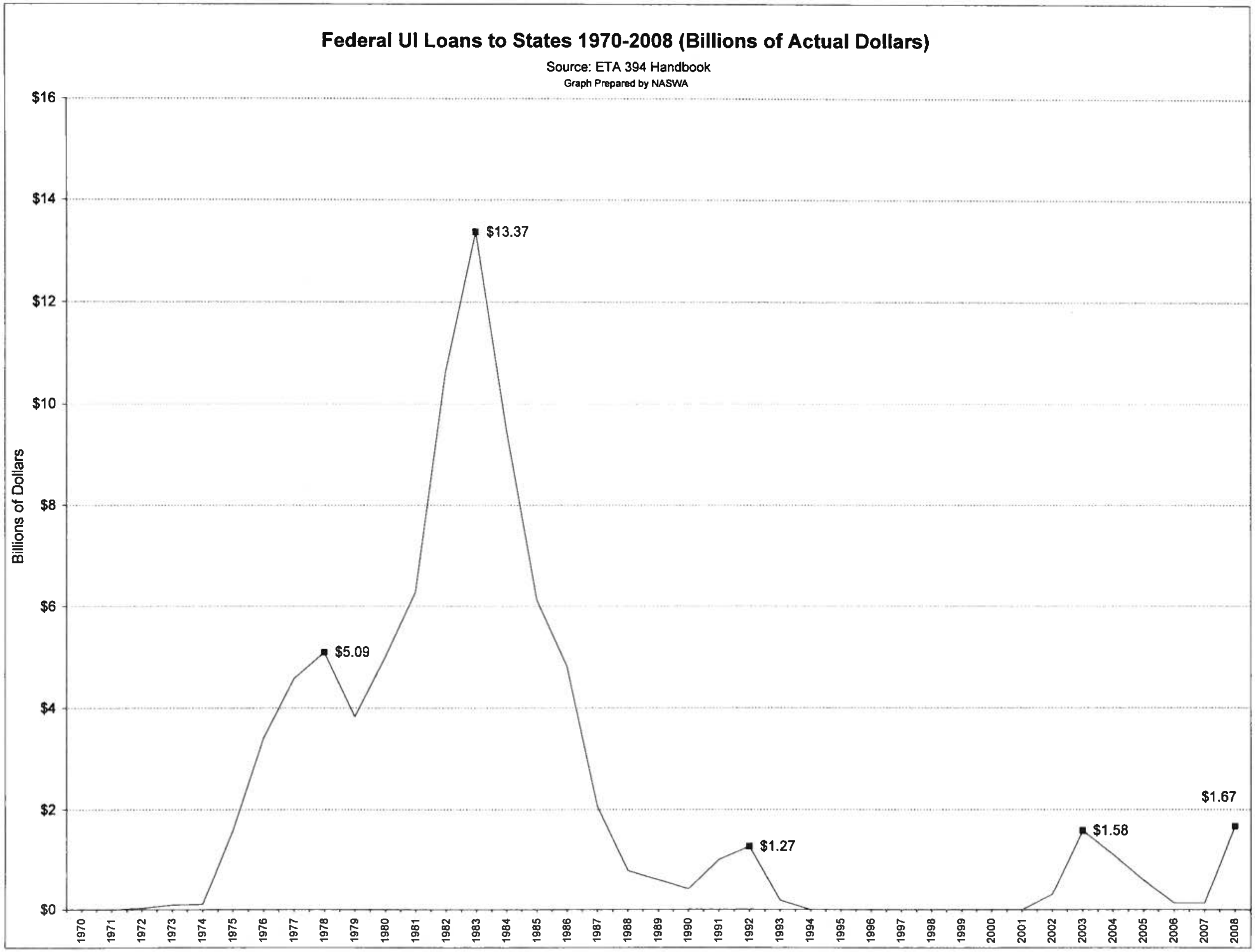
## Table 12—MINIMUM & MAXIMUM U.C. TAX RATES, 2009

| State | Current Tax Minimum | Current Tax Maximum | Taxable Wage Base |
|---|---|---|---|
| Alabama[1] | 0.70% | 6.30% | $8,000 |
| Alaska[1] | 1.50 | 5.90 | 32,700 |
| Arizona[2] | 0.02 | 5.40 | 7,000 |
| Arkansas[1] | 0.90 | 10.80 | 10,000 |
| California[1] | 1.50 | 6.20 | 7,000 |
| Colorado[2] | 0.00 | 5.40 | 10,000 |
| Connecticut[1] | 1.90 | 6.80 | 15,000 |
| Delaware[1] | 0.30 | 8.20 | 10,500 |
| D.C. | 1.30 | 6.60 | 9,000 |
| Florida | 0.12 | 5.40[5] | 7,000 |
| Georgia[1] | 0.03 | 6.21 | 8,500 |
| Hawaii | 0.00 | 5.40 | 13,000 |
| Idaho[1] | 0.447 | 5.40 | 33,200 |
| Illinois[1,4] | 0.60 | 6.80 | 12,300 |
| Indiana | 1.10 | 5.60 | 7,000 |
| Iowa | 0.00 | 8.00 | 23,700 |
| Kansas | 0.00 | 7.40 | 8,000 |
| Kentucky[3] | 1.00 | 10.00 | 8,000 |
| Louisiana | 0.10 | 6.20 | 7,000[9] |
| Maine | 0.44 | 5.40 | 12,000 |
| Maryland | 0.60 | 9.00 | 8,500 |
| Massachusetts | 1.26[14] | 12.27[14] | 14,000 |
| Michigan | 0.06 | 11.05 | 9,000 |
| Minnesota | 0.40[2] | 9.30[2] | 26,000 |
| Mississippi | 0.70 | 5.40 | 7,000 |
| Missouri[8] | 0.00 | 9.75[1] | 12,500[11] |
| Montana[1] | 0.13 | 6.30 | 25,100 |
| Nebraska | 0.00% | 5.40% | $9,000 |
| Nevada | 0.30[1] | 5.40 | 26,600 |
| New Hampshire | 0.10[7] | 6.50 | 8,000 |
| New Jersey[2] | 0.30[1] | 5.40 | 28,900 |
| New Mexico | 0.03 | 5.40 | 20,900 |
| New York[1,2] | 1.225 | 9.625 | 8,500 |
| North Carolina | 0.00 | 6.84[2] | 19,300 |
| North Dakota | 0.20 | 9.86 | 23,700 |
| Ohio[6] | 0.70 | 9.40 | 9,000 |
| Oklahoma | 0.10 | 5.50 | 14,200 |
| Oregon | 0.90 | 5.40 | 31,300 |
| Pennsylvania[1,2] | 1.8370 | 9.9836 | 8,000 |
| Puerto Rico | 1.40 | 5.40 | 7,000 |
| Rhode Island | 1.69 | 9.79 | 18,000 |
| South Carolina[1] | 1.24[2] | 6.10 | 7,000 |
| South Dakota[1] | 0.00 | 9.08 | 9,500 |
| Tennessee[10] | 0.50 | 10.00 | 7,000 |
| Texas[1] | 0.26[15] | 6.26[15] | 9,000 |
| Utah[1] | 0.20 | 9.20 | 27,800 |
| Vermont[13] | 1.10 | 7.70 | 8,000 |
| Virginia | 0.18 | 6.28 | 8,000 |
| Virgin Islands | 0.00 | 6.00 | 22,100 |
| Washington | 0.00[2] | 5.40[2] | 35,700 |
| West Virginia | 1.50 | 8.50[1] | 8,000 |
| Wisconsin[1] | 0.10[12] | 9.80[12] | 12,000 |
| Wyoming[1] | 0.30 | 9.10 | 21,500 |

### FOOTNOTES FOR TABLE 12

1. The rates include additional taxes or fees in the following states-- **Alabama**: employment security assessment (ESA) of 0.06%. **Alaska**: an employee tax of 0.50%. **Arkansas**: 0.80% stabilization tax. **California**: 15% emergency solvency surcharge. **Connecticut**: solvency tax of 1.4%. **Delaware**: 0.20%. **Georgia**: 0.08% assessment on all rates except 0.03% and 6.21%. **Idaho**: minimum tax rate is an aggregate of three components. Unemployment Contributions is 0.254%, and the Workforce Development Fund is 0.008%. Administrative Reserve Fund is not in effect for 2009. No Administrative Reserve Fund or Workforce Development Fund components are charged against the highest rate and all of the 5.4% is for Unemployment Contributions. **Illinois**: 0.40% fund building rate. **Missouri**: includes percentage increase based on the average fund balance and highest surcharge for max-rated employer. **Montana**: includes administrative fund tax of 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%. **Nevada**: 0.05% career enhancement tax. **New Jersey**: 0.1175% for workforce development. **New York**: minimum rate includes 0.525% subsidy; maximum rate includes 0.925% subsidy. **Pennsylvania**: regular maximum 9.2%, minimum 1.5%, and delinquent employer rate increase of 3.0%; adjusted by a solvency trigger mechanism of 5.8% plus an additional contributions tax of 0.25%. **South Carolina**: includes surcharge of 0.70%. **South Dakota**: includes investment fee of 0.0% to 0.58%. **Texas**: effective tax rate for 2009 = General Tax Rate (GTR) + Replenishment Tax Rate (RTR) + Employment Training Investment Assessment. **Utah**: socialized benefit tax of 0.20% for 2009. **West Virginia**: maximum includes a 1.0% surtax for all debit reserve balance employers or new foreign businesses engaged in construction trades. **Wisconsin**: minimum and maximum solvency taxes, maximum to 0.90%. **Wyoming**: 2009 Positive Fund Balance factor included in the tax rates is applied to experience rated employers with a zero experience rate at 0.12% (0.0012). This factor is applied to all other employers at 0.42% (0.0042).

2. The rates do not include additional fees or penalties in the following states-- **Arizona**: additional surtax of 1.0% or 2.0% will be added to the tax rates of shared work employers with negative reserve account balances. **Colorado**: excludes surcharge tax of 0.22% and solvency surcharge of 0.20% for rated employers with a benefit charge balance of less than $100 in the last three fiscal years. **Minnesota**: does not include solvency surtax of 14% of tax due and a 0.10% workforce development fee. When all factors are combined (tax rate, assessments, fee), the total amount due ranges from 0.5560% to 10.7020%. **New Jersey**: effective January 1, 2009, additional employee tax of 0.3825% of taxable wages, not to exceed $110.54 per year. **New York**: rates do not include 0.075% re-employment tax, which applies to all tax rated employers. In addition, if an employer fails to file all required quarterly tax reports by the state's quarterly deadline, there will be imposed a penalty of five percent of the amount of contributions required if the failure is for not more than one month, and an additional five percent for each additional month or fraction thereof during which the failure continues, not to exceed twenty-five percent. The minimum penalty shall not be less than $100 for each occurrence. **North Carolina**: a 20% surtax applies when the state reserve fund balance falls below $163,349,000 on Aug. 1. **Pennsylvania**: additional employee tax of 0.6% in 2009. **South Carolina**: a 0.06% administrative contingency assessment is added to employers with less than a 6.10% tax rate. **Washington**: for minimum, experience rated tax is 0.0%, plus social cost rate of 0.35%, plus employment administrative surcharge of 0.03%. For maximum, experience rated tax is 5.4%, plus social cost factor of 0.50%, plus employment administrative surcharge of 0.02%.
3. **Kentucky**: there is no surtax in Kentucky.
4. **Illinois**: an employer whose contribution rate is 5.5% or higher and whose total quarterly wages are less than $50,000 pays contributions of 5.4% in that quarter.
5. **Florida**: short-time compensation maximum, 6.40%.
6. **Ohio**: the penalty rate for delinquent employers is 11.8%.
7. **New Hampshire**: includes a fund balance reduction, established for the entire next calendar year by the trust fund balance on September 30th. For 2009, the rate is 1.0%. Fund Balance Reductions are only given to positive balance employers whose tax rates are 2.7% or less, and to new employers who have yet to receive an earned merit or experience rate
8. **Missouri**: rates can include a percentage increase or decrease depending on fund balance and an additional surcharge up to 1.5% for maximum rated employers. Workshare employers can have a maximum rate of 13.65%. Employers liable for contributions (except those with a rate equal to zero) are subject to an automation surcharge and will have their rate reduced by 0.05% in 2009, 2010 and 2011.
9. **Louisiana**: annual wage base varies according to trust fund balance.
10. **Tennessee**: rates apply to first and second quarters of 2009 only. The trust fund balance is read every June 30 and December 31, and will be read again June 30, 2009, to determine rates for July 1, 2009, through December 31, 2008. The maximum and minimum tax rates are expected to change as of July 1, when the trust fund is read again.
11. **Missouri**: taxable wage base set by law at $12,500 for 2009. For 2010 and subsequent years: if the average fund balance is $350 million or less, the wage base will increase by $1,000; if the average fund balance is $650 million or more, the wage base will be reduced by $500. The wage base is limited to no lower than $7,000 and no higher than $13,000.
12. **Wisconsin**: the stated rates apply to employers with payrolls greater than $500,000. For employers with payrolls under $500,000, the minimum rate is 0.05%, and the maximum rate is 9.80%.
13. **Vermont**: rates valid through June 30, 2009, at which time new rates will be calculated.
14. **Massachusetts**: minimum and maximum rates temporarily increased to 1.26% and 12.27%, respectively, until the governor signed HB 4528 into law, which returned rates to 2007 levels.
15. **Texas**: reduced all rates by 0.12% after the rates were issued. Revised rate notices sent at the end of Feb. (Does not apply to 2009 rates.)


Federal UI Loans to States 1970-2008 (Billions of Actual Dollars)
Source: ETA 394 Handbook
Graph Prepared by NASWA
Billions of Dollars
$16
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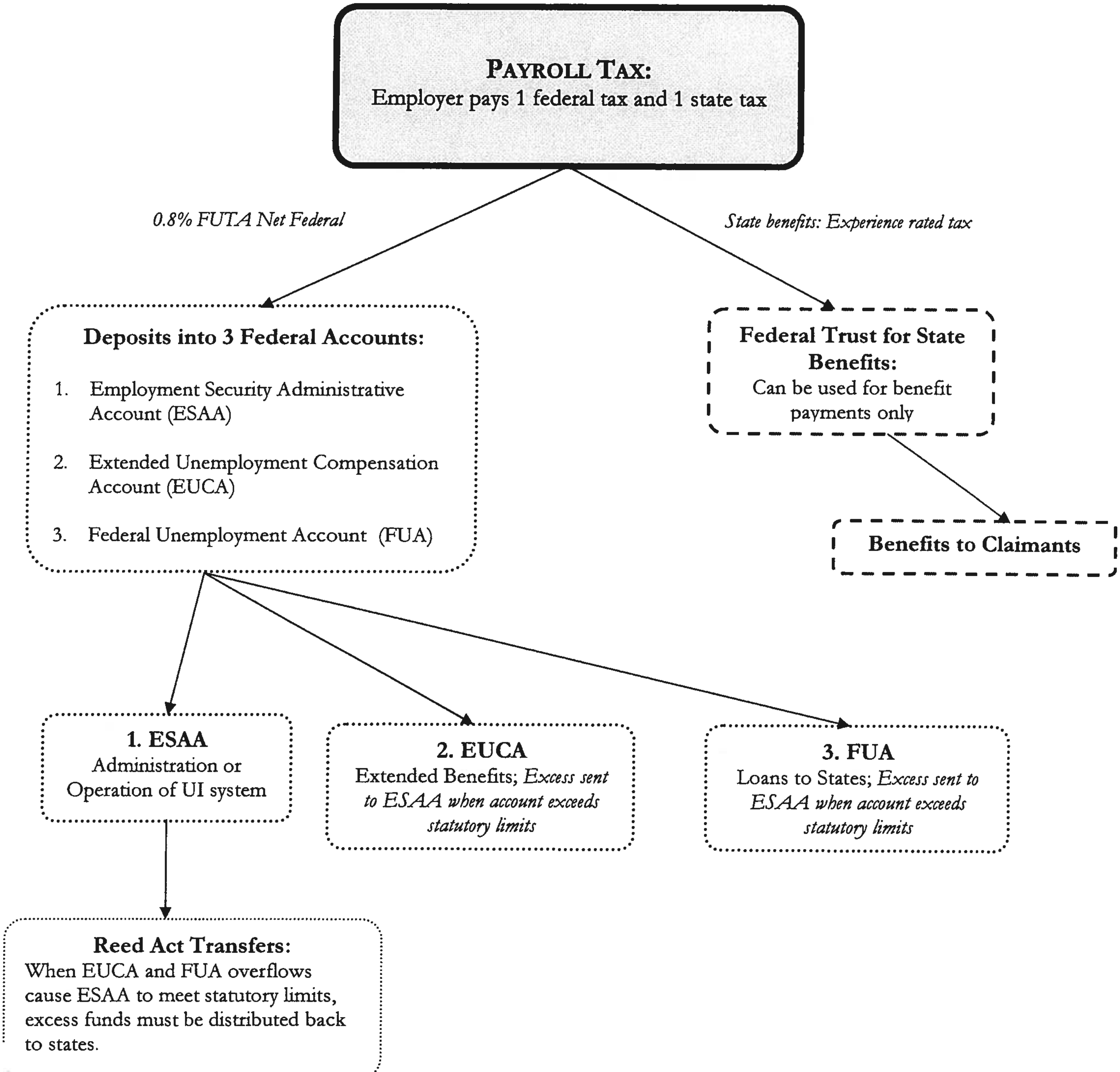
# FUNDING AND FLOW OF FEDERAL UNEMPLOYMENT TAX ACT (FUTA) RECEIPTS





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## South Carolina Unemployment Insurance Tax Structure Analysis

# Preliminary Options for Restructuring

This analysis is a response to the inquiry concerning the adequacy of the South Carolina Unemployment Insurance (UI) tax system. It contains a preliminary outline of several options that can be used to adequately finance the South Carolina UI program.

A) Raising the Maximum Taxable Wage Base

Raising the Maximum Taxable Wage Base will raise the level of wages that each employer is paying and it will raise the proportion of total wages that are taxed for higher wage employers compared to lower wage employers. With higher taxable wages revenue will also increase, it is estimated that making a one time fixed increase in the wage base will raise taxable wages in the following way:

| Taxable Wage Base ($) | Est. Amt. 2009 Tax Wages ($) | % Increase from $7,000 (%) |
|---|---|---|
| **7,000** | 15,587,392 | |
| **8,000** | 17,571,190 | 13% |
| **8,500** | 18,513,293 | 19% |
| **10,000** | 21,158,626 | 36% |
| **11,000** | 22,784,977 | 46% |
| **12,000** | 24,312,967 | 56% |
| **15,000** | 28,359,033 | 82% |

(Note: With a one time increase in the wage base it is expected that revenue will increase by the estimated increase in wages, but that with each succeeding year it will be a smaller impact in revenue as employers pay higher rates their reserve ratio balance may increase and lead to lower tax rates.)

Ideally the tax base should be indexed to a portion of wages so the wage proportion does not decline each year and is allowed to keep pace with the increasing level of benefit payments. Eighteen states currently index their wages to the average annual wages in the previous year or prior second year (anywhere from 50% to 100%).

For example, if South Carolina were to index their wage base to 30% of the previous years average annual wage it would produce an estimated wage base of:

| Year | Tax Base ($) | % of Total Wages |
|---|---|---|
| 2010 | 10,600 | 30% |
| 2011 | 10,900 | 30% |
| 2012 | 11,200 | 30% |
| 2013 | 11,500 | 30% |
| 2014 | 11,800 | 30% |

This would be a relatively small increase in the base but would prevent the continual erosion of the portion of wages that are taxed for UI purposes.

B) Level of Tax Rates

To have an adequately financed system a series of schedules must be constructed that meets the long term average benefit costs of the state. This would entail putting in place a base schedule that generates a level of revenue at least equal to the long term benefit cost rate in the state (approximately .65% - .70% of total wages). This schedule would be effective when the state is at a pre-determined desired level of solvency in its trust fund.

The current South Carolina revenue generating capacity of its tax table is quite limited:

| | Tax Schedule | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | **0** | **.1** | **.2** | **.3** | **.4** | **.5** | **.6** | **.7** |
| **Est. Avg. Rate*:** | **.36** | **.38** | **.41** | **.43** | **.46** | **.48** | **.50** | **.52** |

* Based on estimates using the 2008 ETA 204 report distribution of employers

The estimated revenue under all of the current South Carolina schedules is below the long term benefit cost rate of the state. Without any changes the state would remain in schedule +.7 and have little chance of ever building up its trust fund or moving to a lower tax schedule.

One option, for forming an adequately financed structure of rates, would have a base schedule of .67% of total wages with three or four schedules above and below the base schedule ranging up to +/- 30%:

| | Tax Schedule | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | **A** | **B** | **C** | **D** | **E** | **F** | **G** | **H** |
| **Est. Avg. Rate*:** | **.50** | **.55** | **.60** | **.67** | **.72** | **.77** | **.82** | **.87** |

* Based on estimates using the 2008 ETA 204 report distribution of employers

Schedule D would be active when the state has reached its desired level of financing (could be an Average High Cost Multiple of 1.0 or an equivalent Reserve Ratio of approximately 1.6%).

C) Trigger values

States have various types of triggers for activating higher and lower tax schedules all of which are based on some measure of the UI trust fund balance. Twenty-three states use the reserve ratio (trust fund balance / total wages), fourteen states use a measure of past high benefit costs, and nine states use just the dollar value in the UI trust fund. Two states even include the amount the trust fund has either fallen or risen from the desired level of funding and then include that difference in the tax rates of the following year, as a trigger amount.

South Carolina uses the reserve ratio to trigger increases and decreases in the solvency amount added to each tax rate (in effect creating separate tax schedules), these triggers range from 1.4% to 2.0%. These triggers are relatively close together and could cover a wider range of trust fund experience by having slightly lower and higher values and be centered around the desired solvency level of UI trust fund. One example of triggers that would maintain the reserve ratio calculation and provide a wider distribution would be:

| | 0 | .1 | .2 | .3 | .4 | .5 | .6 | .7 |
|---|---|---|---|---|---|---|---|---|
| **Res. Ratio (%)** | **> 2.1** | **2.1 < 1.9** | **1.9 < 1.75** | **1.75 < 1.6** | **1.6 < 1.4** | **1.4 < 1.2** | **1.2 < 1.0** | **< 1.0** |

D) Distribution of Rates

Almost 60% the state's taxable employers located within the same reserve ratio interval and being taxed the same tax rate. With so many employers being taxed at the same tax rate it is difficult to raise state revenue without raising the rates of most all employers and there is no opportunity for the best rated employers to lower their rates.

Extending the tax schedule to higher reserve ratio intervals would be a large improvement over the current distribution because it allows for greater incentive for employers to lower their rate and it would separate the large group employers located at the greater than 9.0% reserve ratio interval. At the same time the negative reserve ratio intervals have 9 intervals many of which have less than .5% of employers. These intervals can actually be combined, creating a schedule with the same number of intervals but is extended to 25%:

| Reserve Ratio Intervals | | |
|---|---|---|
| (%) | | (%) |
| | > | 25 |
| 20 | to | 25 |
| 15 | to | 20 |
| 10 | to | 15 |
| 9 | to | 10 |
| 8.0 | to | 9.0 |
| 7.0 | to | 8.0 |
| 6.0 | to | 7.0 |
| 5.0 | to | 6.0 |
| 4.0 | to | 5.0 |
| 0 | to | 4.0 |
| -10.0 | to | 0 |
| -20 | to | -10 |
| -30 | to | -20 |
| -40 | to | -30 |
| | < | -40 |

Ideally it would be advantageous to pre-determine the proportion of employers (wages) that will receive each tax rate. This is called the array system and there are currently ten states that use this method to assign tax rates. In this method there are no reserve ratio intervals, employers are simply ranked from the highest to lowest reserve ratio and then placed into groups by the size of their wages. For example 10% of employer's wages can be placed into ten groups of assigned tax rates from say .8% to 6.1% to raise an amount equal to the long term benefit costs of the state (.67% of total wages).

| Number of Array Group | Array Intervals % of Tax Wages | Tax Rate (%) |
|---|---|---|
| 1 | 10.0 | 0.80 |
| 2 | 10.0 | 1.20 |
| 3 | 10.0 | 1.60 |
| 4 | 10.0 | 2.00 |
| 5 | 10.0 | 2.40 |
| 6 | 10.0 | 2.80 |
| 7 | 10.0 | 3.20 |
| 8 | 10.0 | 3.60 |
| 9 | 10.0 | 4.00 |
| 10 | 10.0 | 6.10 |

## Appendix 1.

Example of new tax table:

**From 40% to -40% Reserve Ratio Experience Rate under a $7,000 wage base**

| | | | Reserve Ratio Triggers (%) | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| | | | >2.0 | 1.9 > 2.0 | 1.75 > 1.9 | 1.6 > 1.75 | 1.4 > 1.6 | 1.2 > 1.4 | 1.0 > 1.2 |
| | | | A | B | C | D | E | F | G |
| (%) | | (%) | (%) | (%) | (%) | (%) | (%) | (%) | (%) |
| | | 40 | 0.25 | 0.28 | 0.30 | 0.32 | 0.35 | 0.37 | 0.39 |
| 35 | to | 40 | 0.49 | 0.54 | 0.58 | 0.62 | 0.67 | 0.71 | 0.76 |
| 30 | to | 35 | 0.73 | 0.79 | 0.86 | 0.93 | 0.99 | 1.06 | 1.12 |
| 25 | to | 30 | 0.96 | 1.05 | 1.14 | 1.23 | 1.32 | 1.40 | 1.49 |
| 20 | to | 25 | 1.20 | 1.31 | 1.42 | 1.53 | 1.64 | 1.75 | 1.86 |
| 15 | to | 20 | 1.44 | 1.57 | 1.70 | 1.83 | 1.96 | 2.09 | 2.22 |
| 10 | to | 15 | 1.68 | 1.83 | 1.98 | 2.13 | 2.28 | 2.44 | 2.59 |
| 9 | to | 10 | 1.91 | 2.09 | 2.26 | 2.43 | 2.61 | 2.78 | 2.96 |
| 8 | to | 9 | 2.15 | 2.34 | 2.54 | 2.74 | 2.93 | 3.13 | 3.32 |
| 7 | to | 8 | 2.39 | 2.60 | 2.82 | 3.04 | 3.25 | 3.47 | 3.69 |
| 6 | to | 7 | 2.62 | 2.86 | 3.10 | 3.34 | 3.58 | 3.82 | 4.05 |
| 5 | to | 6 | 2.86 | 3.12 | 3.38 | 3.64 | 3.90 | 4.16 | 4.42 |
| 4 | to | 5 | 3.10 | 3.38 | 3.66 | 3.94 | 4.22 | 4.50 | 4.79 |
| 0 | to | 4 | 3.33 | 3.64 | 3.94 | 4.24 | 4.55 | 4.85 | 5.15 |
| -5.0 | to | 0 | 3.57 | 3.90 | 4.22 | 4.54 | 4.87 | 5.19 | 5.52 |
| -10 | to | -5 | 3.81 | 4.15 | 4.50 | 4.85 | 5.19 | 5.54 | 5.88 |
| -15 | to | -10 | 4.04 | 4.41 | 4.78 | 5.15 | 5.52 | 5.88 | 6.25 |
| -20 | to | -15 | 4.28 | 4.67 | 5.06 | 5.45 | 5.84 | 6.23 | 6.62 |
| -25 | to | -20 | 4.52 | 4.93 | 5.34 | 5.75 | 6.16 | 6.57 | 6.98 |
| -30 | to | -25 | 4.76 | 5.19 | 5.62 | 6.05 | 6.48 | 6.92 | 7.35 |
| -35 | to | -30 | 4.99 | 5.45 | 5.90 | 6.35 | 6.81 | 7.26 | 7.72 |
| -40 | to | -35 | 5.23 | 5.70 | 6.18 | 6.66 | 7.13 | 7.61 | 8.08 |
| | | -40 | 5.47 | 5.96 | 6.46 | 6.96 | 7.45 | 7.95 | 8.45 |
| **Est. Avg. Tax Rate:** | | | **.55** | **.60** | **.65** | **.7** | **.75** | **.8** | **.9** |

## South Carolina Unemployment Insurance Tax Structure Analysis

## Preliminary Overview of Current Tax System

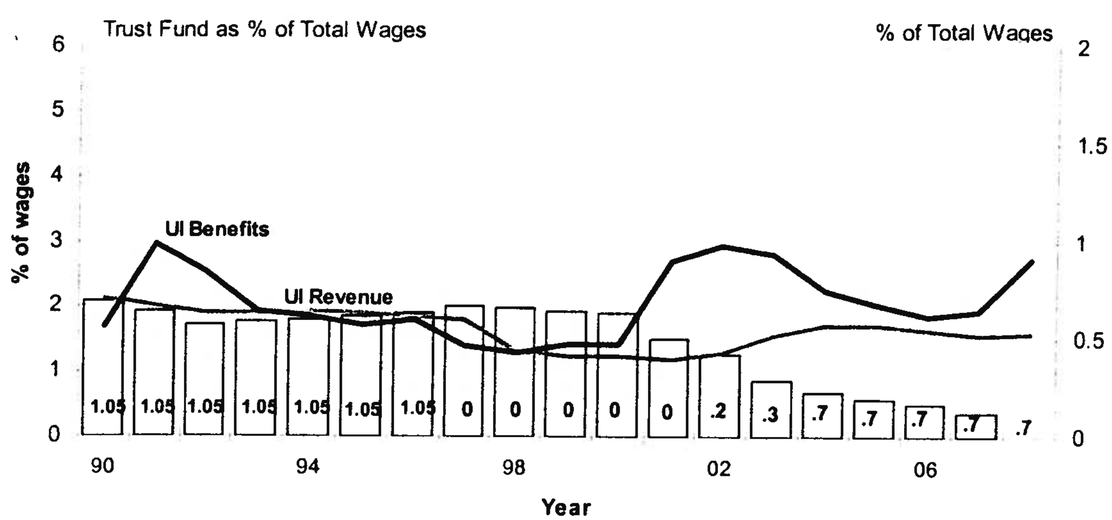
This analysis is a response to an inquiry concerning the adequacy of the South Carolina Unemployment Insurance (UI) tax system. It provides a brief overview of the current tax structure and a review the state's historical benefit costs. It can be used a background for creating a new UI tax structure for South Carolina.

### Current Financing Structure

Historically South Carolina had never had to borrow funds to pay for UI benefits, until 2009. Since 1998 the South Carolina UI Trust Fund slowly declined by paying out more in benefits than it has received in tax revenue in each year until finally going insolvent in March.

Following the 2001 recession the state continued to experience higher than average duration and the overall claims load that never returned to the pre-recessionary levels of the mid-nineties. This was due primarily to a rapid decline in the manufacturing employment in the state which declined by almost 33% from 1998 to 2008.

**Revenue, Benefits and Trust Fund Solvency (1974-2008)**




UI Revenue is dependent on the level of tax rates and the amount of wages that are taxed. The level of tax rates in South Carolina is actually not that low when compared to many states, actually a minimum rate of 1.24% is one of the higher minimums of any surrounding state and a 6.1% maximum rate is above the 5.4% maximum rate in many other jurisdictions. However, when these rates are combined with the low level of taxable wages then the amount of revenue generated compared to the benefit costs is relatively inadequate. South Carolina has a $7,000 taxable wage base, the federal minimum amount, which translates to 23% of total wages being taxed.

With a fixed taxable wage base the proportion of wages that are taxed will continue to fall. The state's portion of wages has fallen from a level of 62% in 1970 to 23% in 2008.

| Year | Proportion of Wages Taxed for UI |
|---|---|
| 1970 | 62% |
| 1975 | 53% |
| 1980 | 50% |
| 1985 | 45% |
| 1990 | 38% |
| 1995 | 33% |
| 2000 | 29% |
| 2005 | 25% |
| 2008 | 23% |

The state has been on the highest schedule of rates (+.7) since 2004. This schedule has yielded an average tax rate ranging between 2.2% and 2.4 % of taxable wages (approximately .52% to .55% of total wages), providing revenue of $250 to $270 million per year.

**South Carolina Current Tax Table**

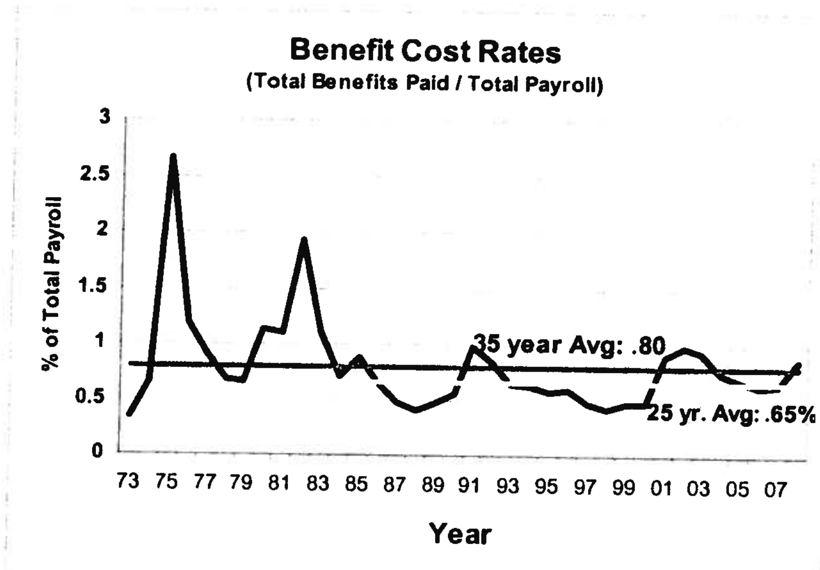
| Employer Reserve Ratio | | >2.0 | 1.9% > 2.0 | 1.8 > 1.9 | 1.7 > 1.8 | 1.6 > 1.7 | 1.5 > 1.6 | 1.4 > 1.5 | < 1.4 |
|---|---|---|---|---|---|---|---|---|---|
| | | 0 | 0.1 | 0.2 | 0.3 | 0.4 | 0.5 | 0.6 | 0.7 |
| (%) | (%) | | | | | | | | |
| > | 9.0 | 0.54 | 0.64 | 0.74 | 0.84 | 0.94 | 1.04 | 1.14 | 1.24 |
| 8.0 | 9.0 | 0.89 | 0.99 | 1.09 | 1.19 | 1.29 | 1.39 | 1.49 | 1.59 |
| 7.0 | 8.0 | 1.24 | 1.34 | 1.44 | 1.54 | 1.64 | 1.74 | 1.84 | 1.94 |
| 6.0 | 7.0 | 1.59 | 1.69 | 1.79 | 1.89 | 1.99 | 2.09 | 2.19 | 2.29 |
| 5.0 | 6.0 | 1.94 | 2.04 | 2.14 | 2.24 | 2.34 | 2.44 | 2.54 | 2.64 |
| 4.0 | 5.0 | 2.29 | 2.39 | 2.49 | 2.59 | 2.69 | 2.79 | 2.89 | 2.99 |
| < | 4.0 | 2.64 | 2.74 | 2.84 | 2.94 | 3.04 | 3.14 | 3.24 | 3.34 |
| > | -5.0 | 2.64 | 2.74 | 2.84 | 2.94 | 3.04 | 3.14 | 3.24 | 3.34 |
| -5.0 | -10.0 | 2.99 | 3.09 | 3.19 | 3.29 | 3.39 | 3.49 | 3.59 | 3.69 |
| -10.0 | -15.0 | 3.34 | 3.44 | 3.54 | 3.64 | 3.74 | 3.84 | 3.94 | 4.04 |
| -15.0 | -20.0 | 3.69 | 3.79 | 3.89 | 3.99 | 4.09 | 4.19 | 4.29 | 4.39 |
| -20.0 | -25.0 | 4.04 | 4.14 | 4.24 | 4.34 | 4.44 | 4.54 | 4.64 | 4.74 |
| -25.0 | -30.0 | 4.39 | 4.49 | 4.59 | 4.69 | 4.79 | 4.89 | 4.99 | 5.09 |
| -30.0 | -35.0 | 4.74 | 4.84 | 4.94 | 5.04 | 5.14 | 5.24 | 5.34 | 5.44 |
| -35.0 | -40.0 | 5.09 | 5.19 | 5.29 | 5.39 | 5.49 | 5.59 | 5.69 | 5.79 |
| < | -40 | 5.4 | 5.5 | 5.6 | 5.7 | 5.8 | 5.9 | 6 | 6.1 |
| Est. Avg.Tax Rate (Tax): | | 1.5 | 1.6 | 1.7 | 1.8 | 1.9 | 2 | 2.1 | 2.15 |
| Total Wages: | | 0.36 | 0.38 | 0.41 | 0.43 | 0.46 | 0.48 | 0.50 | 0.51 |

Depending on the size of the State Reserve Ratios, rates will increase by .1% points up to .7% points:

**Benefit Costs**

The adequacy of any tax structure is dependent on the amount of revenue it can generate in comparison to the costs the program is experiencing. Each UI tax structure is built to meet a specific level of UI benefit costs.

In South Carolina over the last 35 years the average benefits paid out per year has averaged .80% of total wages, this includes the highest years of the 1975 recession and the recessions of the early eighties. Over the last twenty years benefits have decreased to an average of .64% of total wages:




Given this data on benefit costs a new tax table should have a revenue generating capacity that meets these costs. Specifically a base schedule should have an average tax rate schedule that collects between .65% and .70% of total wages when the state has a desired level of funds in its trust fund reserve. When there is higher amount in the fund reserve then the state can lower rates and when it is below the desired level of funding the state can raise rates.

Current Estimated Revenue Generation of South Carolina Tax Table

| | Tax Schedule | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | 0 | .1 | .2 | .3 | .4 | .5 | .6 | .7 |
| Est.Avg. Rate: | .36 | .38 | .41 | .43 | .46 | .48 | .50 | .51 |

## Distribution of Tax Rates under the Reserve Ratio Intervals

The current tax table consists of one set of 16 base tax rates ranging from employers with individual Reserve Ratios over 9.0% to employers under -40% Reserve Ratios

| Employer Reserve Ratio (%) | (%) | No. of Employers | % of Total Wages (%) |
|---|---|---|---|
| > | 9.0 | 50,528 | 58% |
| 8.0 | 9.0 | 4,191 | 8% |
| 7.0 | 8.0 | 3,745 | 6% |
| 6.0 | 7.0 | 4,337 | 5% |
| 5.0 | 6.0 | 3,166 | 4% |
| 4.0 | 5.0 | 2,822 | 3% |
| < | 4.0 | 7,373 | 6% |
| > | -5.0 | 2056 | 4% |
| -5.0 | -10.0 | 1,305 | 2% |
| -10.0 | -15.0 | 844 | 1% |
| -15.0 | -20.0 | 621 | 1% |
| -20.0 | -25.0 | 340 | 0.5% |
| -25.0 | -30.0 | 340 | 0.5% |
| -30.0 | -35.0 | 340 | 0.5% |
| -35.0 | -40.0 | 340 | 0.5% |
| < | -40 | 2,573 | 3% |

*** Estimated distribution of employers and wages from the 2008 ETA-204 report submitted to the National Office.**

A majority of employers are located in the lowest tax rate interval of > 9.0%. These employers are most likely well above a 9.0% Reserve Ratio making it unlikely that a large group of them will fall into the rest of the schedule's rates. Also a relatively small number of employers are at the maximum tax rate making it very difficult to raise a significant amount of revenue by raising the maximum tax rate.

### Conclusions

In order to meet the long term expected benefit costs UI tax revenue will nee to increase significantly. There are many methods to arrive at a new distribution of rates that will provide a higher level of revenue, including adjusting all features of the table: the taxable wage base, the trigger values for new schedules, and the reserve ratio experience rating intervals for individual employers. With such a significant change in mind it would be a prudent idea to put in place a transition schedule of rates that will be active for a short period of time until a new tax table can be put into place and the current depressed economic conditions have passed.