



# Unemployment Insurance Trust Fund Report

Quarterly Outlook Report October 2009

## UNEMPLOYMENT INSURANCE TRUST FUND OCTOBER QUARTERLY OUTLOOK REPORT

This Quarterly Report provides updated projections for the Unemployment Insurance Trust Fund for the 2009 through 2013 outlook period. As required by MGL Chapter 151A, Section 14F, DUA publishes quarterly outlooks for the Trust Fund based on forecasts for the total unemployment rate, annual wage and salary growth, and annual labor force. DUA also provides monthly reports updating the current status of the Trust Fund.

Report highlights include:

New economic assumptions show lower annual average total unemployment rates for 2009 to 2013. For 2009, the annual average unemployment rate is expected to be 8.4 percent followed by a 9.3 percent annual rate in 2010. These are the latest outlooks available for Massachusetts.

The outlook presented is for the regular UI program.

Updated 2009 year-end projections have employer contributions at \$1.407 billion, \$21 million less than the previous estimate. Benefit payments of \$2.731 billion are \$44 million less than the prior estimate.

When measured as a percent of total payroll, the \$2.731 billion benefit payments are 2.09 percent or just \$53 million less than the 1991 benefit cost rate of 2.13 percent.

Special incentive payment distributions of \$162.7 million, which are provided for in the American Recovery and Reinvestment Act (ARRA), plus federal interests generate an expected year-end private contributory account balance of -\$31 million.

Benefit payments during 2010 of \$2.694 billion are \$90 million less than the previous estimate. Loans from the federal unemployment account would be required from mid January to early May and then again from mid June through December. The ARRA waives the federal interest which would have been due on 2010 loans.

In 2011, interest-bearing loans from the federal unemployment account would be required throughout the entire year. Interest due on these loans is estimated at \$27 million.

For 2012, interest-bearing loans from the federal unemployment account are projected to be required from January through July, again in September and October and again in December. Interest due is estimated at \$14 million.

In 2013, interest free cash flow loans from the federal unemployment account are projected to be required from January to late April. Loans will be repaid by the end of April and no further borrowings from the federal account would be required for the rest of the year.

## TRUST FUND BALANCE

As of September 30, 2009, the Massachusetts Unemployment Insurance Trust Fund ending balance was \$445.3 million. The private contributory account balance was \$333.2 million and the governmental contributory account balance was \$112.1 million.

## ECONOMIC ASSUMPTIONS

DUA utilizes independent economic forecasts as the basis for its estimates of income and expenditure for the Massachusetts Unemployment Insurance program. Moody's Economy.com September 2009 forecasts were used in the benefit financing simulations for this report. The current assumptions, along with assumptions used to produce the simulation estimates published in the May and August 2009 Quarterly Outlook Trust Fund Reports are provided in the following table.

### Moody's Economy.com Forecasts

	Wage & Salary Growth (%)			Total Unemployment Rate (%)		
	04/09	07/09	09/09	04/09	07/09	09/09
2009	-1.8	-1.2	-1.2	8.2	8.7	8.4
2010	-0.4	-0.7	-0.5	9.1	9.7	9.3
2011	3.9	2.9	3.2	7.8	8.6	8.3
2012	6.0	5.3	5.3	5.9	6.8	6.5
2013	7.2	6.3	6.4	4.5	5.7	5.4
Labor Force						
	04/09	07/09	09/09			
2009	3,435,032	3,431,859	3,429,784			
2010	3,453,306	3,449,162	3,446,650			
2011	3,462,294	3,458,193	3,455,619			
2012	3,451,629	3,447,198	3,444,605			
2013	3,445,469	3,440,753	3,438,082			

The September 2009 Moody's Economy.com Wage and Salary Growth forecasts for annual wage and salary growth rates were revised slightly upwards in 2010, 2011 and 2013 and remained unchanged in 2009 and 2012. The 2009 wage and salary growth rate is unchanged at 1.2 percent. The 2010 annual rate showed an upward revision of two-tenths of a percentage point while 2011 showed a higher increase of three-tenths of one percentage point.

The projected annual average total unemployment rate for 2009 to 2013 were all revised downwards. Unemployment rates were decreased by three-tenths of a percentage point in 2009 and in 2011 through 2013 while 2010 showed a slightly higher improvement of four-tenths of a percentage point from 9.7 percent to 9.3 percent.

The annual labor force projections for 2009 to 2013 show small downward revisions of less than one-tenth of a percentage point for an average annual decrease of 2,485 from the labor force projections used in the August 2009 Quarterly Outlook Report. The labor force is expected to be 3,438,082 in 2013.

### **2009 OUTLOOK**

The revised private contributory account projections are based on the 2009 distribution of employer experience rates, the Moody's Economy.com September 2009 forecasts and the 2009 first through third quarter unemployment insurance claims and payments activities.

Benefit payments are now estimated to be \$2.731 billion or \$44 million less than the previous estimate of \$2.775 billion published in the August Quarterly Outlook Report and the September Monthly Outlook Report. The change is due to the projected decrease in the unemployment rate which generated lower insured unemployment and total weeks compensated. At \$2.731 billion benefit payments would be 2.09 percent of payroll, just \$53 million below the 2.13 percent benefit cost rate in 1991.

The outlook for employer contributions of \$1.407 billion, based on rate schedule E, is \$21 million less than the previous estimate of \$1.428 billion. The reduction in contributions is primarily due to a lower average contribution rate and lower taxable payroll in the second quarter which resulted in less than expected actual contributions in the third quarter of the year.

The ARRA included special distributions to States to provide incentives for them to modernize their unemployment insurance eligibility laws and regulations. These incentive payments are available to States who demonstrate to the Department of Labor that their UI law contains certain benefit eligibility provisions. One third of the incentive funds are available to states that provide for a base period or alternate base period for claimants that use

recent wages. The remaining two thirds will be provided if state law contains two of four options for benefit eligibility. Massachusetts is eligible for \$162.7 million in UI Modernization funds and has received the first third of its allocation because the primary base period uses wages from the most recently completed quarter. The Commonwealth has certified to U.S. Department of Labor's Employment and Training Administration that it meets two of the four "modernization" eligibility criteria. First, Massachusetts statute provides for dependency allowance. The enactment in July of statutory changes that expand and extend benefits while attending training and the finalization of the regulations in October meet the second criteria. Once certified the remainder of the allocation will be deposited into the benefit payment account. This includes the federal funds in the account balance and the private solvency account.

Employer contributions, federal interest of \$24 million and the \$162.7 million UI Modernization incentive payments will generate total revenues of \$1.594 billion. These revenues are \$1.137 billion less than benefit payments during 2009. The year-end private contributory account balance is estimated to be -\$31 million or \$24 million higher than the previous estimate of -\$55 million published in the August Quarterly Outlook Report and the September Monthly Outlook Report.

Based on the economic assumptions used in this simulation, the overall UI Trust Fund balance at the end of 2009 is projected to be \$78 million.

NOTE: Massachusetts triggered on the federal/state Extended Benefits (EB) program in late March providing up to thirteen additional weeks of benefits. In July the statute was changed to provide for up to twenty weeks of benefits when the three month moving average total unemployment rates is 8.0 percent or higher. The higher level of extended benefits was triggered on in July. One hundred percent of private employers EB benefit payments are reimbursed from federal funding provided for through the ARRA. The funding change and the trigger for the higher level of EB weeks are temporary changes. The outlook estimates do not include any costs for EB, as the simulation model at present cannot estimate the costs based on the recent change. State and local governmental employers are liable for one hundred percent of the costs of EB benefits paid to their former employees.

### **2009 ACTIVITY TO DATE**

Benefit payments through the end of September 2009 totaled \$2.078 billion, an 86 percent increase from the January to September 2008 payments of \$1.115 billion. Through the end of September, initial claims and continued weeks claimed were 41 percent and 60 percent higher than last year, while weeks compensated were 70 percent higher. Year-to-date benefit payments were \$38

million or 1.8 percent less than projected through September but should be in-line with the estimates for the year.

For new claims filed on or after October 4, 2009, the new maximum weekly benefit amount increased by \$1 to \$629.

Employer contributions collected through the end of September 2009 totaled \$1.228 billion, a slight increase of 0.7 percent from the January to September 2008 contribution. Contributions were \$19 million or 1.6 percent less than estimated at the end of the third quarter but should be in-line with the year-end projections.

The September private contributory trust fund balance of \$333.2 million was \$20 million or 6 percent higher than projected due to lower than expected benefit payments in the month of September. The balance includes \$54.2 million of UI Modernization funds deposited into the private contributory account in April.

### **2010 - 2013 PROJECTIONS**

Projections for the private contributory account for the years 2010 to 2013 have, also, been revised.

Benefit payments for the years 2010 to 2013 all show annual decreases, with the largest decrease in 2010, compared to the outlooks published in the August Quarterly Outlook Report and the September Monthly Outlook Report. The downward revisions in benefit payments are due to the decreases in the projected annual total unemployment rates.

For 2010, benefit payments are now estimated to be \$2.694 billion, a decrease of \$90 million over the previously published estimate, due to the projected four-tenths of a percentage point annual decrease in the total unemployment rate. Rate schedule G has triggered for employer contributions on 2010 payrolls. Employer contributions are estimated to be \$2.013 billion, a slight increase of \$7 million from the previously published estimate of \$2.006 billion due to a slight increase in the average contribution rate. Loans from the federal unemployment account would be required from mid January to early May and then again from mid June through December. The ARRA statute provides a waiver for any federal interest which would have been due on loans through the end of 2010. The year-end 2010 private contributory account balance is expected to be -\$712 million. The estimate released in the August Quarterly Outlook Report and the September Monthly Outlook Report was -\$834 million. The difference in the year-end balance is due to the decreased benefit payments in 2009 and 2010.

Benefit payments for 2011 are projected to be \$2.090 billion, a \$39 million decrease from the previously published forecast of \$2.129 billion, due to the projected

three-tenths of a percentage point decrease in the unemployment rate. Rate schedule G is projected to be triggered for employer contributions. Estimated employer contributions of \$2.023 billion in 2011, at just \$11 million less, are in-line with the previous estimate of \$2.034 billion. Interest bearing loans from the federal unemployment account are projected to be required during the year. Interest due on these loans is estimated to be \$27 million. Interest on advances from the federal loan account must be paid from a separate surcharge. The private contributory account year-end balance for 2011 is expected to be -\$778 million.

For 2012, benefit payments are projected to be \$1.512 billion or \$24 million less than the previous estimate of \$1.536 billion caused by the three-tenths of a percentage point decrease in the unemployment rate. Rate schedule G is projected to trigger for employer contributions generating revenues of \$2.069 billion, a decrease of \$22 million from the previous estimate of \$2.091 billion due to a lower average contribution rate. Interest-bearing loans from the federal unemployment account are projected to be required from January through July, again in September through October and again in December. Interest due on these loans is estimated to be \$14 million. The December 31, 2012 account balance is estimated at -\$221 million or \$152 million higher than the previous estimate of -\$373 million.

In 2013, benefit payments are expected to be \$1.286 billion, a decrease of \$30 million caused by the three-tenths of a percentage point decrease in the unemployment rate. Employer contributions based on rate schedule G are estimated to be \$1.950 billion, \$20 million less than the last estimate due to a lower projected contribution rate. Interest free cash flow loans from the federal account are projected to be required from January to late April. Loans will be repaid by the end of April and no further borrowings will be necessary for the rest of the year. By the end of 2013, solvency will be restored to the private contributory account with a balance which is expected to be \$521 million or 0.29 percent of total payrolls.

The December 31, 2013 account balance includes receipts of \$68.1 million in funds from additional federal UI taxes on Massachusetts employers. The Federal Unemployment Tax Act (FUTA) requires that when a State has outstanding advances from the federal loan account on two consecutive January 1st and outstanding loans are not repaid by November 10 of the second year, additional federal UI taxes are imposed to repay the loans. The repayments are made by reducing the credit provided to employers when their State is in conformity with federal requirements. The so-called FUTA credit reduction would be paid no later than January 31 of the next calendar year. The additional FUTA taxes, \$21 per employee, are collected at the federal level and used to reduce the outstanding loans in the Massachusetts UI fund but are not credited to or used in experience rating.

The simulation estimates for 2009 through 2013 are displayed in Tables 1 and 2 on Page 4.

Two tables showing the Solvency of the States' Trust Fund Balances as of June 30, 2009 and the balances as a percent of wages are attached.

Table 1

**PROJECTION 2009-2013**  
 Massachusetts Benefit Financing Simulation  
 Based on Moody's economy. com Projections

**Private Contributory Account (All \$ in Millions except Average Cost/Employee)**

	2008	2009	2010	2011	2012	2013
Balance, January 1	\$1,130	\$1,106	-\$31	-\$712	-\$778	-\$221
Income	\$1,410	\$1,407	\$2,013	\$2,023	\$2,069	\$1,950
Trust Fund Interest	\$58	\$24	\$0	\$0	\$0	\$10
Benefit Outlays	\$1,491	\$2,731	\$2,694	\$2,090	\$1,512	\$1,286
Incentive Distributions		\$163				
FUTA Credit Reduction						\$68
Balance, December 31	\$1,106	-\$31	-\$712	-\$778	-\$221	\$521
Federal Loan Interest				\$27	\$14	
Schedule*	"D"	"E"	"G"	"G"	"G"	"G"
Average Cost/Employee	\$565	\$583	\$835	\$828	\$842	\$792

\* 2008 rate schedule set by Legislation; 2009 to 2013 rate schedules projected based on statutory triggers.

Figures may not add up due to rounding.

Table 2

**Economic Assumptions Based on Moody's Economy.com Forecasts and Massachusetts Simulation**  
**Benefit Financing Simulation Output**

	2008	2009	2010	2011	2012	2013
Total Covered Payroll (\$Billions)	\$139.4	\$130.7	\$134.0	\$140.2	\$148.6	\$158.5
Contributory Payroll (\$Billions)	\$35.6	\$33.1	\$34.8	\$36.0	\$36.7	\$36.9
Covered Employment (Thousands)	3,192	3,089	3,087	3,127	3,147	3,153
Nominal Contribution Rate	3.9%	4.3%	6.0%	5.7%	5.7%	5.3%
Contributory Wage Proportion	25.5%	25.4%	26.0%	25.7%	24.7%	23.3%
Solvency Assessment	1.10%	0.95%	2.14%	1.68%	1.19%	0.94%
Trust Fund Balance as % of Total Payroll	0.79%	-0.02%	-0.53%	-0.56%	-0.10%	0.33%
AHCM (Proposed Fed Std 1.0)	0.42	-0.01	-0.27	-0.27	-0.08	0.17
Contributions as % of Total Payroll	1.01%	1.08%	1.50%	1.44%	1.39%	1.23%
Benefits as a % of Total Payroll	1.07%	2.09%	2.01%	1.49%	1.02%	0.81%
Total Unemployment Rate	5.3%	8.4%	9.3%	8.3%	6.5%	5.4%
Insured Unemployment Rate	2.9%	4.7%	4.5%	3.5%	2.4%	2.1%

Figures may not add up due to rounding.

**SOLVENCY OF STATE TRUST FUNDS**  
**June 30, 2009 TRUST FUND BALANCES**  
**States Ranked by Trust Fund Balance**

State	Trust Fund Balance (\$000's)	As Percent of extrapolated wages most recent 12 months
Washington	\$3,398,783	3.20
Oregon	\$1,463,314	2.81
Louisiana	\$1,380,909	2.24
<b>Massachusetts*</b>	<b>\$758,601</b>	<b>0.54</b>
Oklahoma	\$716,959	1.49
Utah	\$640,429	1.76
Arizona	\$599,156	0.70
Mississippi	\$586,818	2.03
Georgia	\$586,334	0.43
Iowa	\$549,964	1.28
New York	\$510,760	0.13
Maryland	\$493,807	0.55
Florida	\$449,475	0.18
Kansas	\$413,720	0.87
New Mexico	\$392,713	1.70
Colorado	\$365,067	0.41
Virginia	\$363,455	0.27
Maine	\$360,883	2.32
Pennsylvania	\$350,046	0.18
Alaska	\$324,540	2.98
Texas	\$299,448	0.07
Nevada	\$285,227	0.65
Hawaii	\$281,242	1.60
Connecticut	\$243,629	0.31
Nebraska	\$242,194	0.96
Michigan	\$236,929	0.17
Wyoming	\$206,009	2.18
Montana	\$194,736	1.65
West Virginia	\$193,469	1.01
Illinois	\$183,115	0.08
Tennessee	\$162,881	0.19
California	\$118,013	0.02
Alabama	\$112,446	0.19
Minnesota	\$110,754	0.12
North Dakota	\$105,370	1.12
New Jersey	\$97,461	0.06
Ohio	\$87,656	0.05
Delaware	\$81,652	0.52
New Hampshire	\$80,557	0.37
Vermont	\$75,275	0.93
Missouri	\$49,130	0.06
South Carolina	\$27,476	0.05
Wisconsin	\$27,372	0.03
Indiana	\$19,732	0.02
North Carolina	\$19,243	0.02
Rhode Island	\$17,772	0.12
South Dakota	\$9,957	0.10
Kentucky	\$7,935	0.02
Arkansas	\$4,899	0.02
Idaho	\$2,753	0.02
<b>United States**</b>	<b>\$19,205,559</b>	<b>0.40</b>

\* Massachusetts overall trust fund balance

\*\* United States include Puerto Rico and Virgin Islands

SOURCE: U.S. Department of Labor, Employment and Training Administration, UIS Division of Actuarial Services

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Wyoming	\$206,009	2.18
Mississippi	\$586,818	2.03
Utah	\$640,429	1.76
New Mexico	\$392,713	1.70
Montana	\$194,736	1.65
Hawaii	\$281,242	1.60
Oklahoma	\$716,959	1.49
Iowa	\$549,964	1.28
North Dakota	\$105,370	1.12
West Virginia	\$193,469	1.01
Nebraska	\$242,194	0.96
Vermont	\$75,275	0.93
Kansas	\$413,720	0.87
Arizona	\$599,156	0.70
Nevada	\$285,227	0.65
Maryland	\$493,807	0.55
<b>Massachusetts*</b>	<b>\$758,601</b>	<b>0.54</b>
Delaware	\$81,652	0.52
Georgia	\$586,334	0.43
Colorado	\$365,067	0.41
New Hampshire	\$80,557	0.37
Connecticut	\$243,629	0.31
Virginia	\$363,455	0.27
Tennessee	\$162,881	0.19
Alabama	\$112,446	0.19
Florida	\$449,475	0.18
Pennsylvania	\$350,046	0.18
Michigan	\$236,929	0.17
New York	\$510,760	0.13
Minnesota	\$110,754	0.12
Rhode Island	\$17,772	0.12
South Dakota	\$9,957	0.10
Illinois	\$183,115	0.08
Texas	\$299,448	0.07
New Jersey	\$97,461	0.06
Missouri	\$49,130	0.06
Ohio	\$87,656	0.05
South Carolina	\$27,476	0.05
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