



Unemployment Insurance Trust Fund Report

Quarterly Outlook Report February 2012

HIGHLIGHTS

This Quarterly Report provides the status and updated projections of the Unemployment Insurance Trust Fund for the 2012 through 2016 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.

New economic assumptions show lower than previously published annual average total unemployment rates for 2012, 2013 and 2015. For 2012, the annual average unemployment rate is down significantly from 8.1 percent to 7.3 percent followed by a 7.6 percent annual rate in 2013 which is 0.3 of a percentage point lower than the 7.9 percent rate used in the October 2011 Quarterly Outlook Report. The annual wage and salary growth rates are lower than the previous estimates for 2012 through 2014.

The outlook presented is for the regular UI program based on 2011 employer experience rates.

The private contributory and government account reserves were sufficient to cover benefit payments through early March. Cash flow loans from the federal unemployment account will be required in early March through the end of April to finance benefits. Loans will be repaid in early May when employer contributions for first quarter payrolls are due. Under the current economic outlook, no further borrowing is expected for the rest of 2012 making the loans interest free.

The Legislature has set schedule E for employer unemployment insurance contributions for 2012 payrolls. Individual employer rates will be based on the employer's experience through the end of September 2011.

Updated 2012 year-end projections indicate employer contributions, based on rate Schedule E and a \$14,000 taxable wage base, will be \$1.901 billion or \$369 million less than the \$2.270 billion estimate on rate Schedule G. Estimated benefit payments of \$1.517 billion are \$129 million less than the prior estimate first released in the October Quarterly Outlook Report. The private contributory account year-end balance is estimated to be \$498 million, \$244 million lower than the previous estimate of \$742 million if employer contributions were on rate Schedule G. The difference is due to the lower tax rate schedule for 2012 payrolls.

Under the current economic assumptions and statutory provisions, trust fund solvency will continue to rebuild in 2013 to 2016. No further borrowing from the federal unemployment account is anticipated through 2016. A year-end 2016 private account balance of \$2.493 billion is expected, yielding an average high cost multiple of 0.77.

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 January 2012 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 August and October 2011 Quarterly Outlook Trust Fund Reports are provided in Table 1.

The January 2012 Moody's Economy.com Annual Wage and Salary Growth Rate forecast for 2012 to 2014 were, all, revised downwards. The 2012 wage and salary growth rate was revised downwards, from 7.4 percent to 5.6 percent. The 2013 rate from 8.6 percent to 6.8 percent and the 2014 rate slightly lower, 6.6 percent to 6.3 percent. The 2015 rate is projected to increase from 5.6 percent to 5.9 percent.

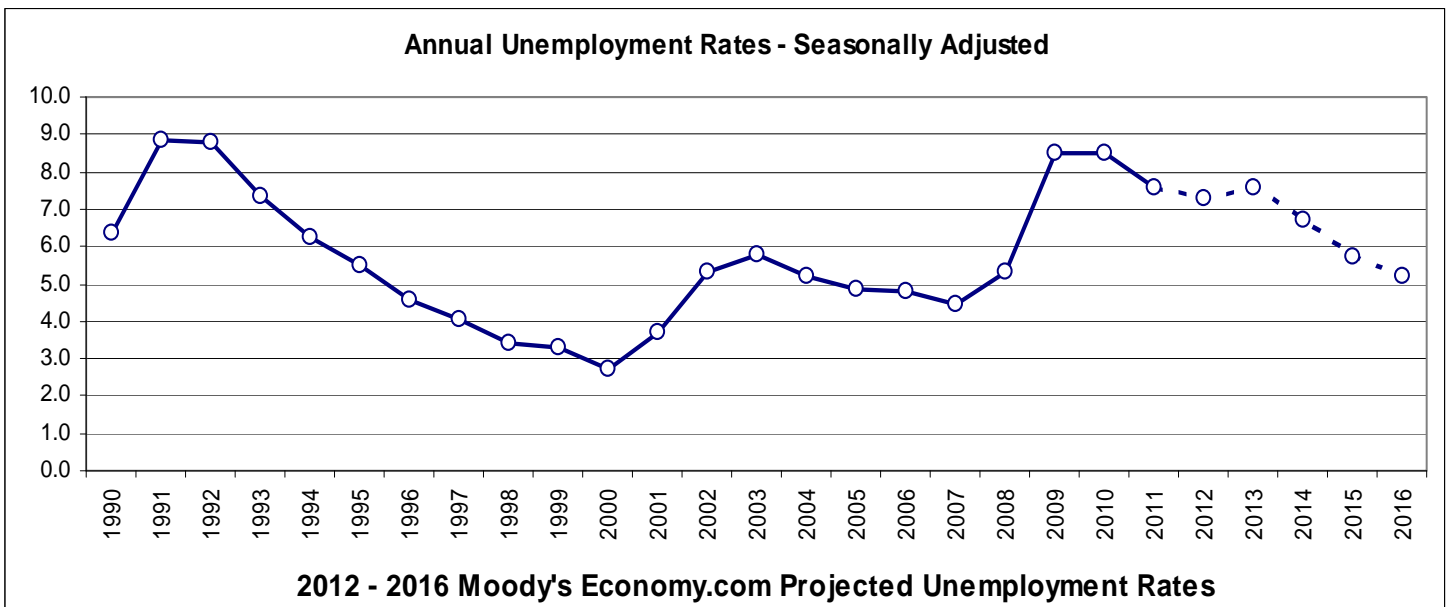
The projected annual average total unemployment rate for 2012 showed a significant downward revision of eight-tenths of a percentage point, from 8.1 percent down to 7.3 percent. This change is in line with total unemployment rates for 2011. Downward revisions were also made for the 2013 and 2015 annual unemployment rates; for 2013 from 7.9 percent to 7.6 percent; and for 2015 from 5.9 percent to 5.7 percent. In 2014 the annual unemployment remained unchanged at 6.7 percent.

The annual labor force projection for 2012 remained virtually unchanged while 2013 to 2015, all, showed increases of less than one-tenth of a percentage point for an average growth of 1,578 from the labor force projections used in the October 2011 Quarterly Outlook Report. The labor force is expected to be 3,482,556 in 2016.

Table 1: Moody's Economy.com Forecasts, Three Most Recent Reports

	Wage & Salary Growth (%)			Total Unemployment Rate (%)			Labor Force		
	11-Jul	11-Sep	12-Jan	11-Jul	11-Sep	12-Jan	11-Jul	11-Sep	12-Jan
2012	7.6	7.4	5.6	7.6	8.1	7.3	3,496,099	3,493,821	3,493,638
2013	8.6	8.6	6.8	7.1	7.9	7.6	3,490,206	3,487,237	3,488,888
2014	7.0	6.6	6.3	5.9	6.7	6.7	3,487,325	3,484,934	3,486,736
2015	5.3	5.6	5.9	5.4	5.9	5.7	3,483,636	3,482,541	3,483,822
2016	N/A	N/A	5.2	N/A	N/A	5.2	N/A	N/A	3,482,556

Source: Moody's Economy.com



UNEMPLOYMENT INSURANCE TRUST FUND BALANCE

As of January 31, 2012, the Massachusetts Unemployment Insurance Trust Fund ending balance was \$155 million. The private contributory account balance was at \$62.3 million and the governmental contributory account balance was \$92.7 million. The private contributory account balance was \$30 million lower than projected due to higher benefit payments made caused by an increase in the average weekly benefit amount. Employer contributions were lower than expected in January but should be in-line with the projections at the end of the first quarter.

The private UI Trust Fund is projected to have a balance of \$498 million at the end of 2012, a reserve of \$1.207 billion in 2013 and a projected reserve of \$1.729 billion by the end of 2014.

The 2012 year-end private contributory account balance is estimated to be \$498 million or \$244 million less than the previous estimate of \$742 million published in the January Monthly Outlook Report. The difference in the year-end balance is primarily the result of a lower tax schedule (Schedule E) rather than the tax schedule (Schedule G) triggered by the ratio of the balance of the private contributory account at the end of the third quarter and the previous year total payrolls. Beginning in early March through late April, interest free cash flow loans from the federal unemployment account will be required to finance benefits. Loans will be repaid in early May and no further borrowing is expected for the rest of 2012.

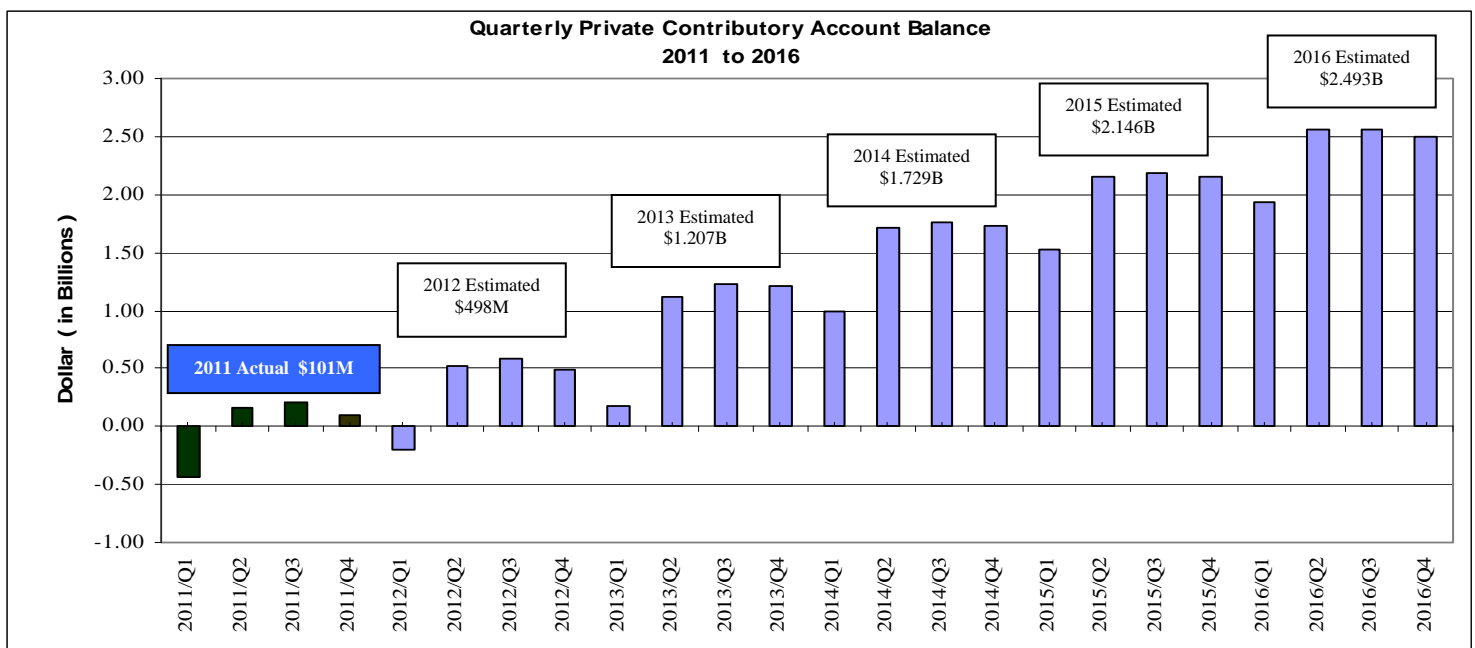
The year-end 2013 private contributory account balance is expected to be at \$1.207 billion, a difference of \$117 million from the previous estimate of \$1.324 billion released in the January Monthly Outlook Report. The year-end balance difference is a carryover from the lower 2012 ending private account balance.

The year-end 2014 account balance is expected to be \$1.729 billion, a \$365 million decrease from the previous estimate of \$2.094 billion due primarily to a projected increase in benefit payments and lower year ending private account balances the previous years.

Under the current economic assumptions, trust fund solvency will continue to rebuild in 2015. The December 31, 2015 account balance is now estimated at \$2.146 billion, \$579 million lower than the previous estimate of \$2.725 billion. The difference is primarily due to a projected increase in total weeks compensated resulting in an increase in benefit payments.

By the end of 2016, the private contributory account balance is expected to be \$2.493 billion or 1.32 percent of total payrolls.

The chart below shows the 2011 actual and projected quarterly private UI Fund balance through 2016.



BENEFIT OUTLAYS

The updated simulation for the outlook period results in significant changes in benefit payments.

Benefit payments through the end of January totaled \$171.8 million, a 7.9 percent increase from the January 2011 payments of \$159.2 million. Benefit payments were \$19.7 million higher than the projection. Through the end of January, initial claims and continued weeks compensated were 1.8 percent and 6.0 percent higher than January of last year, and the average weekly benefit amount was \$10.69 more.

Benefit payments for 2012 are now estimated to be \$1.517 billion or \$129 million less than the previous estimate of \$1.646 billion first published in the October Quarterly Outlook Report. The difference is due to the decrease in the annual unemployment rate generating less insured unemployment and total weeks compensated.

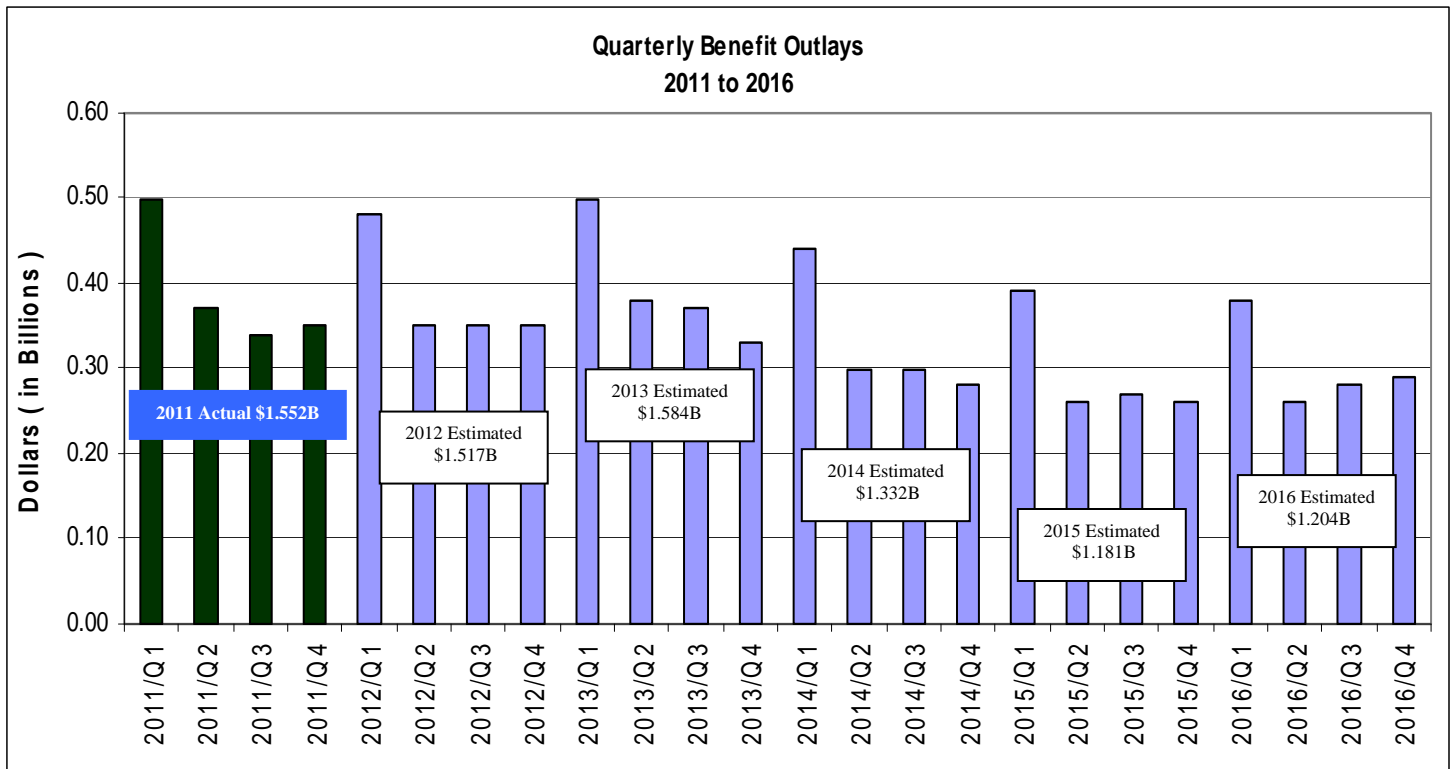
For 2013, benefit payments are estimated to be \$1.584 billion, an increase of \$172 million from the previous

estimate of \$1.412 billion. The increase is due to projected increases in insured unemployment and weeks compensated caused by an increase in the annual unemployment rate from 2012 to 2013.

In 2014, benefit payments are expected to be \$1.332 billion, an increase of \$330 million from the previous estimate of \$1.002 billion. The difference is due to an increase in the projected total weeks compensated and insured unemployment.

For 2015, benefit payments are projected to be \$1.181 billion, an increase of \$280 million from the previous estimate. As in previous years, the difference is due to projected increases in insured unemployment and weeks compensated.

For 2016, benefit payments are expected to be \$1.204 billion.



EMPLOYER CONTRIBUTIONS

Employer contributions through the month of January totaled \$133.0 million, an increase of 4.7 percent from January 2011 contributions of \$127.0 million. January 2012 employer contributions, however, were \$9.8 million lower than projected but should be in-line by the end of the first quarter.

Rate schedule E was set by legislation for employer contributions on 2012 payrolls. Employer contributions are estimated at \$1.901 billion. The outlook for employer contributions is \$369 million less than the previous estimate of \$2.270 billion set at a higher tax rate, schedule G, first released in the October 2011 Quarterly Outlook Report.

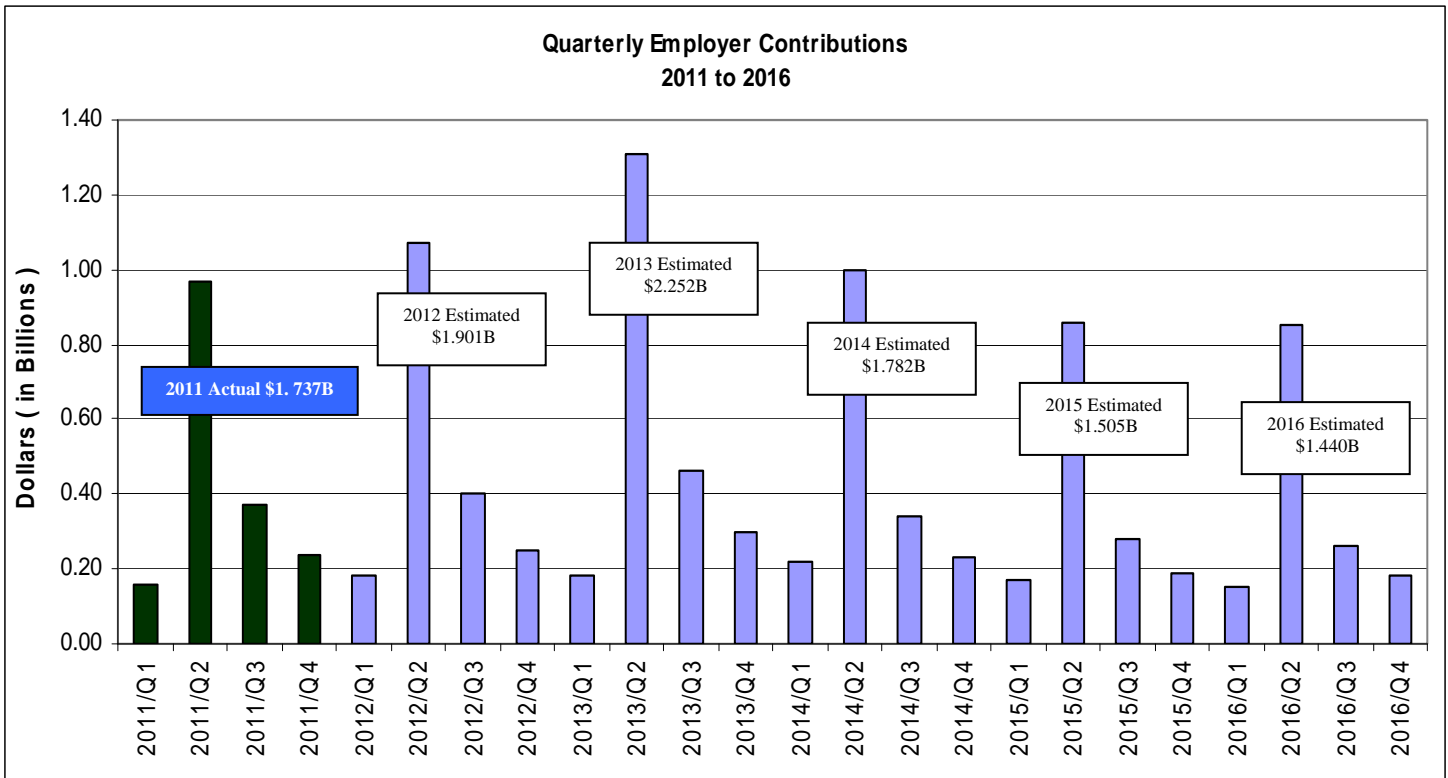
Rate schedule G has triggered for employer contributions on 2013 payrolls. Employer contributions are estimated at \$2.252 billion, an increase of \$309 million from the previous estimate of \$1.944 billion on a lower rate schedule F.

Rate schedule E is projected to be triggered for employer contributions on 2014 payrolls. Estimated employer contributions of \$1.782 billion is \$93 million higher than the previous estimate of \$1.689 billion. The higher level of employer contributions is due to an increase in the average contribution rate.

Rate schedule D is projected to trigger for employer contributions in 2015 generating revenues of \$1.505 billion, \$90 million more than the previous estimate of \$1.415 billion. As in 2014, the increase is due to a higher average contribution rate.

For 2016 payrolls, rate schedule D is projected to trigger for employer contributions. Employer contributions are estimated to be \$1.440 billion.

Table 2, on page 7, contains the experience rate table.



TRUST FUND SOLVENCY

Beginning in calendar year 2014, Federal regulations now require State’s to meet several new standards for interest free federal advances taken during the first five months of a calendar year and repaid in the fall. One of the key measures requires that in at least one of the five years prior to the calendar year the advances are taken, the trust fund reserves must be equal to an average high cost multiple solvency measure. The measure is phased in over five years from a multiple of .50 for 2014 advances to 1.0 for advances in 2019.

The Average High Cost Multiple (AHCM) is computed based on the average benefit cost rate for the three highest years in the last twenty or the last three recessions whichever is higher.

Benefit costs are measured as a percent of the total UI wages, the total liability of the UI system. Using this

measure indexes the benefit costs to total wages. The measure is designed to encourage States to build sufficient reserves to finance an economic downturn similar to ones in the past.

All advances taken would be subject to federal interest if the State does not meet the AHCM standard. Advances taken in the first four months of the year are generally large due to the high volume of claims activities in the winter months. Interest on Federal UI advances is paid through an additional surcharge on employers.

The chart below arrays the actual and projected year-end private contributory account AHCMs.

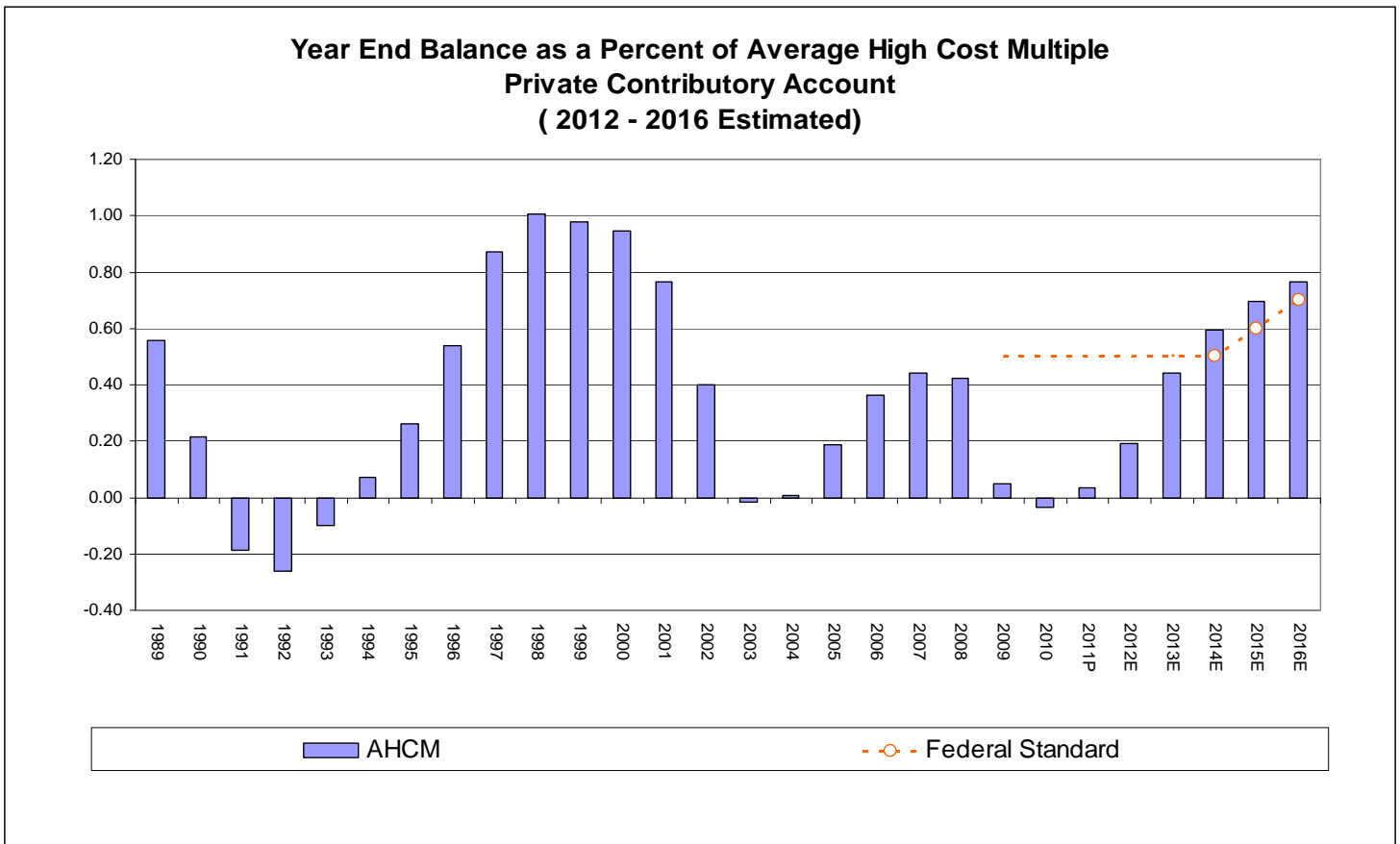


Table 2: Experience Rate Table

**Employer Account
Reserve Percentages**

Unemployment Compensation Fund Reserve Percentage

A	B	C	D	E	F	G
1.75% and over	1.6% or more less than 1.75%	1.4% or more less than 1.6%	1.1% or more less than 1.4%	0.8% or more less than 1.1%	0.5% or more less than 0.8%	less than 0.5%

Negative Percentage

Employer Contribution Rate*

15 or more	7.80	8.74	9.78	10.96	12.27	13.75	15.40
13.0 but less than 15.0	7.40	8.29	9.28	10.40	11.64	13.04	14.61
11.0 but less than 13.0	7.00	7.84	8.78	9.83	11.01	12.34	13.82
9.0 but less than 11.0	6.60	7.39	8.28	9.27	10.39	11.63	13.03
7.0 but less than 9.0	6.20	6.94	7.78	8.71	9.76	10.93	12.24
5.0 but less than 7.0	5.80	6.50	7.28	8.15	9.13	10.22	11.45
3.0 but less than 5.0	5.40	6.05	6.77	7.59	8.50	9.52	10.66
1.0 but less than 3.0	5.00	5.60	6.27	7.02	7.87	8.81	9.87
0.0 but less than 1.0	4.60	5.15	5.77	6.46	7.24	8.11	9.08

Positive Percentage

0.0 but less than 0.5	3.90	4.37	4.89	5.48	6.14	6.87	7.70
0.5 but less than 1.0	3.80	4.26	4.77	5.34	5.98	6.70	7.50
1.0 but less than 1.5	3.70	4.14	4.64	5.20	5.82	6.52	7.30
1.5 but less than 2.0	3.60	4.03	4.52	5.06	5.66	6.34	7.11
2.0 but less than 2.5	3.50	3.92	4.39	4.92	5.51	6.17	6.91
2.5 but less than 3.0	3.40	3.81	4.26	4.78	5.35	5.99	6.71
3.0 but less than 3.5	3.30	3.70	4.14	4.64	5.19	5.82	6.51
3.5 but less than 4.0	3.20	3.58	4.01	4.50	5.04	5.64	6.32
4.0 but less than 4.5	3.10	3.47	3.89	4.36	4.88	5.46	6.12
4.5 but less than 5.0	3.00	3.36	3.76	4.21	4.72	5.29	5.92
5.0 but less than 5.5	2.90	3.25	3.64	4.07	4.56	5.11	5.72
5.5 but less than 6.0	2.80	3.14	3.51	3.93	4.41	4.93	5.53
6.0 but less than 6.5	2.70	3.02	3.39	3.79	4.25	4.76	5.33
6.5 but less than 7.0	2.60	2.91	3.26	3.65	4.09	4.58	5.13
7.0 but less than 7.5	2.50	2.80	3.14	3.51	3.93	4.41	4.93
7.5 but less than 8.0	2.40	2.69	3.01	3.37	3.78	4.23	4.74
8.0 but less than 8.5	2.30	2.58	2.89	3.23	3.62	4.05	4.54
8.5 but less than 9.0	2.20	2.46	2.76	3.09	3.46	3.88	4.34
9.0 but less than 9.5	2.10	2.35	2.63	2.95	3.30	3.70	4.15
9.5 but less than 10.0	2.00	2.24	2.51	2.81	3.15	3.52	3.95
10.0 but less than 10.5	1.90	2.13	2.38	2.67	2.99	3.35	3.75
10.5 but less than 11.0	1.80	2.02	2.26	2.53	2.83	3.17	3.55
11.0 but less than 11.5	1.70	1.90	2.13	2.39	2.67	3.00	3.36
11.5 but less than 12.0	1.60	1.79	2.01	2.25	2.52	2.82	3.16
12.0 but less than 12.5	1.50	1.68	1.88	2.11	2.36	2.64	2.96
12.5 but less than 13.0	1.40	1.57	1.76	1.97	2.20	2.47	2.76
13.0 but less than 13.5	1.30	1.46	1.63	1.83	2.05	2.29	2.57
13.5 but less than 14.0	1.20	1.34	1.51	1.69	1.89	2.11	2.37
14.0 but less than 15.0	1.00	1.12	1.25	1.40	1.57	1.76	1.97
15.0 but less than 16.0	0.90	1.01	1.13	1.26	1.42	1.59	1.78
16 or more	0.80	0.90	1.00	1.12	1.26	1.41	1.58

* Employer Contribution Rate is applied to the first \$14,000 of wages per employee.

The simulation estimates for 2011 through 2015 are displayed in Tables 3 and 4, below.

Table 3: Unemployment Trust Fund Projections for the Private Contributory Account, 2011 - 2015

(All \$ in Millions except Average Cost/Employee)

	2011	2012	2013	2014	2015	2016
Balance, January 1	(\$89)	\$101	\$498	\$1,207	\$1,729	\$2,146
Income	\$1,737	\$1,901	\$2,252	\$1,782	\$1,505	\$1,440
Trust Fund Interest	\$4	\$13	\$40	\$72	\$93	\$111
Benefit Outlays	\$1,552	\$1,517	\$1,584	\$1,332	\$1,181	\$1,204
Federal Loan Interests						
Balance, December 31	\$101	\$498	\$1,207	\$1,729	\$2,146	\$2,493
Schedule*	"E"	"E"	"G"	"E"	"D"	"D"
Average Cost/Employee	\$712	\$783	\$929	\$732	\$617	\$591

*2011 and 2012 rate schedules set by Legislation; 2013 to 2016 rate schedules projected based on statutory triggers.
Source: Massachusetts Department of Unemployment Assistance benefit financing simulation

Figures may not add up due to rounding.

Table 4: Benefit Financing Simulation Output

	2011	2012	2013	2014	2015	2016
Total Covered Payroll (\$Billions)	\$142.1	\$148.8	\$158.6	\$169.3	\$179.8	\$189.1
Contributory Payroll (\$Billions)	\$35.0	\$37.3	\$37.9	\$39.3	\$40.4	\$41.0
Contributory Wage Proportion	24.6%	25.1%	23.9%	23.2%	22.5%	21.7%
Nominal Contribution Rate	5.1%	5.1%	6.0%	4.4%	3.7%	3.5%
Contributions as % of Total Payroll	1.22%	1.28%	1.42%	1.05%	0.84%	0.76%
Benefits as a % of Total Payroll	1.09%	1.02%	1.00%	0.79%	0.66%	0.64%
Trust Fund Balance as % of Total Payroll	0.07%	0.33%	0.76%	1.02%	1.19%	1.32%
Solvency Assessment	1.71%	1.64%	1.20%	0.92%	0.69%	0.62%
AHCM (proposed Fed Std 1.0)	0.04	0.19	0.44	0.59	0.69	0.77
Covered Employment (Thousands)	3,125	3,110	3,103	3,116	3,123	3,120
Total Unemployment Rate	7.6%	7.3%	7.6%	6.7%	5.7%	5.2%
Insured Unemployment Rate	3.1%	3.0%	3.2%	2.6%	2.4%	2.4%

Source: Economic assumptions are based on Moody's Economy.com forecasts and Massachusetts benefit financing simulation.

Figures may not add up due to rounding.

APPENDIX UNEMPLOYMENT INSURANCE DEFINITIONS

AVERAGE HIGH COST RATE:

The average of the three highest calendar benefit cost rates in the last 20 years (or a period including three recessions, if longer). The benefit cost rates private UI contributory employers benefits paid (including the state's share of extended benefits when applicable) as a percent of their total wages.

AVERAGE HIGH COST MULTIPLE (AHCM):

The ratio of the year-end trust fund balance as a percent of total wages divided by the Average High Cost Rate.

BENEFITS PAID:

The unemployment insurance benefits paid to individuals funded through the state program. This includes all weeks compensated including partial payments.

CIVILIAN LABOR FORCE:

The estimated average number of Massachusetts residents who are either employed or unemployed in the week of the 12th for the three months of the quarter.

COVERED EMPLOYMENT:

The number of employees covered by Unemployment Insurance reported to the state by employers. The numbers represent the count of all employees for the payroll period that includes the 12th of the month.

HIGH-COST MULTIPLE (HCM):

The ratio of the Trust Fund balance as a percent of total wages divided by the High Cost Rate. The High Cost Rate is the highest historical ratio of benefits paid to total wages for a 12-month period.

INITIAL CLAIMS:

Any notice of unemployment filed by an individual (1) to request a new determination of entitlement to and eligibility for unemployment compensation or (2) to begin a second or subsequent period of eligibility within a benefit year or period of eligibility following an additional separation from employment.

INSURED UNEMPLOYED:

The average number of weeks claimed for the three months of the quarter.

INSURED UNEMPLOYMENT RATE (IUR):

The rate computed by dividing Insured Unemployed for the current quarter by the average Covered Employment for the first four of the last six completed quarters.

INTEREST FREE CASH FLOW LOANS:

During any calendar year that loans are drawn from the federal unemployment account from January to September are interest free if the loans are repaid by September 30 and no further loans are taken during the remainder of the calendar year.

OUTSTANDING LOAN BALANCES:

Balance, as of the end of the quarter, of advances acquired by the state under Title XII of the Social Security Act which allows states to use repayable advances from the federal UI account.

SOLVENCY ASSESSMENT:

The annual factor assessed to employer taxable payrolls to cover the net balance of charges and credits not directly assigned to individual employers.

TAXABLE WAGES:

Wages paid to covered employees that are subject to State Unemployment Insurance taxes. For Massachusetts, the first \$14,000 in wages per employee is covered by UI.

TAXABLE WAGE BASE:

For each State, the maximum amount of wages paid to an employee by an employer during a year in which their employment is subject to UI taxes. Wages above this amount are not subject to UI tax.

TOTAL UNEMPLOYED:

The estimated average number of residents, 16 years of age or older, who do not have a job but are available for work and actively seeking work in the week of the 12th for the three months of the quarter. This includes individuals on layoff and waiting to report to a new job within 30 days.

TOTAL UNEMPLOYMENT RATE (TUR):

The rate computed by dividing Total Unemployed by the Civilian Labor Force.

TOTAL WAGES:

All wages or remuneration paid to workers on all payrolls covered by Unemployment Insurance.

TRUST FUND BALANCE (TF):

The balance in the individual state account in the Unemployment Trust Fund. Outlook estimates are for the private contributory account within the Trust Fund.

TRUST FUND AS % OF TAXABLE WAGES:

Year-end Trust Fund Balance as a percent of estimated taxable wages for the most recent 12 months; also referred to as the Reserve Ratio. Estimated wages are based on the latest growth rate in the 12 month moving average (MA).

UNEMPLOYMENT TRUST FUND (UTF):

A fund established in the Treasury of United States which contains all monies deposited by state agencies to the credit of their unemployment fund accounts.

WEEKS CLAIMED:

The number of weeks claimed for UI benefits, including weeks for which a waiting period or fixed disqualification period is being served. Interstate claims are counted in the state of residence.

WEEKS COMPENSATED:

The number of weeks claimed for which UI benefits are paid. Weeks compensated for partial unemployment are included. Interstate claims are counted in the paying state.