



Unemployment Insurance Trust Fund Report

Revised Outlook Report February 2014

HIGHLIGHTS

This Outlook Report provides the current status and updated projections of the Unemployment Insurance Trust Fund for the 2014 through 2018 outlook period.

As required by MGL Chapter 151A, Section 14F, DUA publishes quarterly outlooks for the Trust Fund based on forecasts for total unemployment rate, annual wage and salary growth rate, and annual labor force. DUA, also, provides monthly reports updating the current status of the Trust Fund.

New economic assumptions from Moody's economy.com used in this revised outlook show lower average annual unemployment rates in 2014 and 2015 but higher rates in 2016 and 2017 as compared to the assumptions used in the last report. For 2014, the average annual unemployment is down from 6.8 percent to 6.6 percent followed by an estimated 6.3 percent annual rate in 2015 which is one-tenth of a percentage point lower than the rate used in the October Report. The annual wage and salary growth rates are lower than the previous estimates for 2014 to 2017. Total labor force is less in 2014 but higher for 2015 to 2017 from the previous assumptions.

The outlook presented is for the regular UI program based on 2013 employer experience rates, as well as benefit payments and employer contributions. The model will be updated with 2014 employer experience rates when they are finalized.

The private contributory and the government account reserves are estimated to be sufficient to cover benefit payments in 2014. As such, under the current economic assumptions, no federal loan advance is expected in 2014.

The Legislature has set rate schedule E for private contributory employer unemployment insurance contributions for 2014 payrolls.

The revised 2014 year-end projections indicate employer contributions, based on rate schedule E and a \$14,000 taxable wage base, will be \$1.883 billion or \$376 million less than the previous estimate of \$2.259 billion on a higher tax rate schedule G. Estimated benefit payments

of \$1.483 billion are \$98 million less than the prior estimate first released in the October 2013 Outlook Report. The private contributory account year-end balance is estimated to be \$1.015 billion, \$280 million lower than the previous estimate.

Employer contributions for 2015 payrolls are expected to be on rate schedule F. The year-end balance is estimated at \$1.640 billion.

Under the current economic assumptions and statutory provisions, the private contributory account solvency will continue to rebuild in 2016 through 2018.

No borrowing from the federal unemployment account is anticipated through 2018. A year-end 2018 private balance of \$1.925 billion is expected.

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 February 2014 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 2013 Outlook Trust Fund Reports are provided in Table 1.

The February 2014 Moody's Economy.com Annual Wage and Salary Growth Rate forecasts for 2014 through 2017 were revised downwards. The 2014 wage and salary growth rate was revised downwards from 6.6 percent down to 5.2 percent. The 2015 to 2017 rates were slightly lower than the previous estimates.

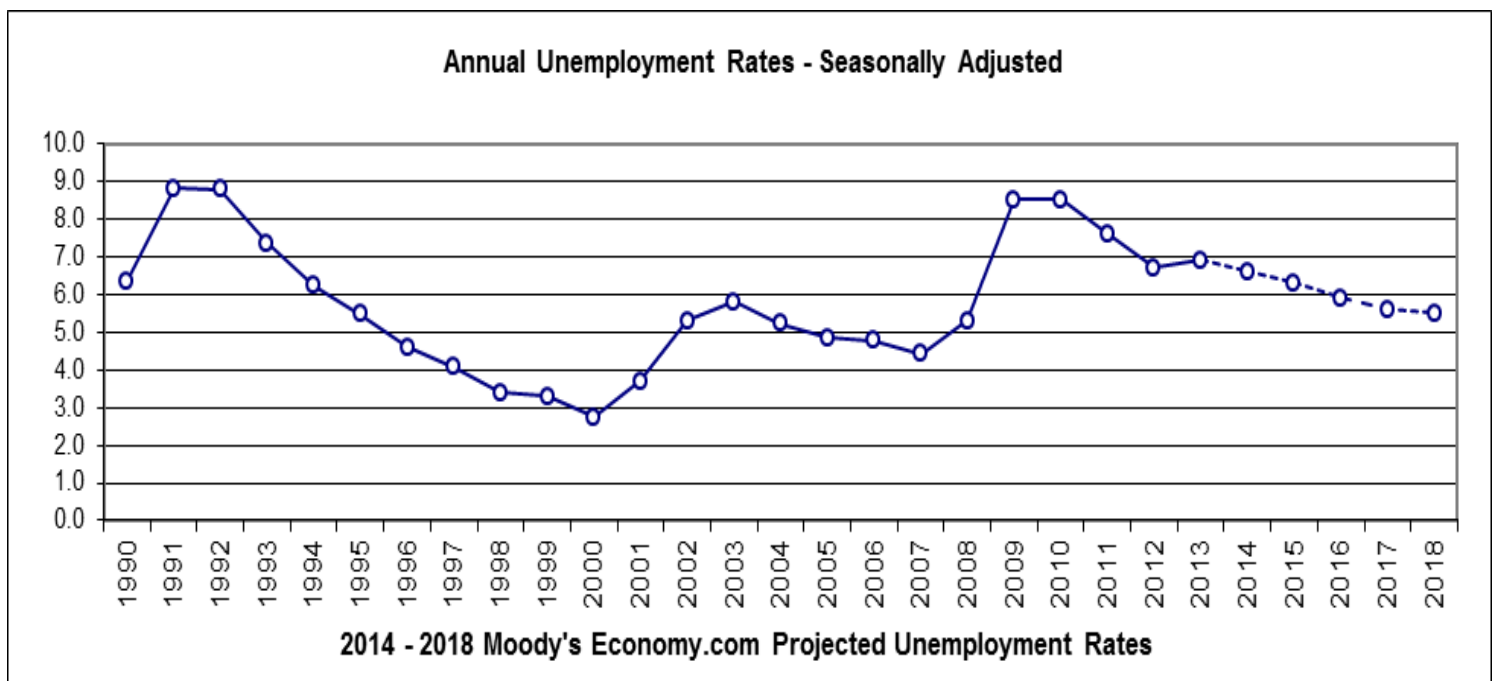
The projected annual average total unemployment rates for 2014 and 2015 were revised down while the 2016 and 2017 rates were revised upwards. A decrease of two-tenths of a percentage point revision was made in 2014, from 6.8 percent to 6.6 percent; followed by a one-tenth of a percentage point decrease in 2015 from 6.4 percent to 6.3 percent. Upward revisions of two-tenths of a percentage point were posted for both 2016 and 2017.

The annual labor force projections for 2014 showed a decrease of 9,793 but increases in 2015 to 2017 ranging from 119 to 20,319 from the labor projections used in the October 2013 Outlook Report. The labor force is projected to be 3,586,960 in 2018.

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

	Wage & Salary Growth (%)			Total Unemployment Rate (%)			Labor Force		
	13-Aug	13-Oct	14-Feb	13-Aug	13-Oct	14-Feb	13-Aug	13-Oct	14-Feb
2014	6.4	6.6	5.2	6.1	6.8	6.6	3,504,012	3,507,639	3,497,846
2015	6.9	7.8	7.6	6.1	6.4	6.3	3,535,668	3,537,681	3,537,800
2016	6.9	6.7	6.4	5.7	5.7	5.9	3,561,599	3,559,342	3,572,976
2017	6.5	5.9	5.6	5.3	5.4	5.6	3,573,846	3,565,445	3,585,764
2018	NA	NA	5.0	NA	NA	5.5	NA	NA	3,586,960

Source: Moody's Economy.com



UNEMPLOYMENT INSURANCE TRUST FUND BALANCE

As of January 31, 2014, the Massachusetts Unemployment Insurance Trust Fund ending balance was \$668.1 million. The private contributory account balance was at \$561.6 million and the governmental contributory account balance was \$106.5 million. The private contributory account balance at \$2.7 million less than expected is in-line with the projection.

The private contributory account is projected to have a balance of \$1.015 billion at the end 2014, a reserve of \$1.640 billion in 2015 and a projected balance of \$1.956 billion by the end of 2016.

The 2014 year-end private contributory account balance of \$1.015 billion is \$280 million lower than the previous estimate of \$1.295 billion first published in the January 2014 Outlook Report. The difference in the year-end balance is primarily due to a lower tax rate schedule, E, set by the Legislature rather than the statutory triggered schedule G. It is anticipated that no borrowing from the federal unemployment account will be required in 2014. Year-end reserves as a percent of total wages are expected to be six-tenths of a percentage point.

The year-end 2015 account balance is expected to be \$1.640 billion, a \$25 million increase from the previous

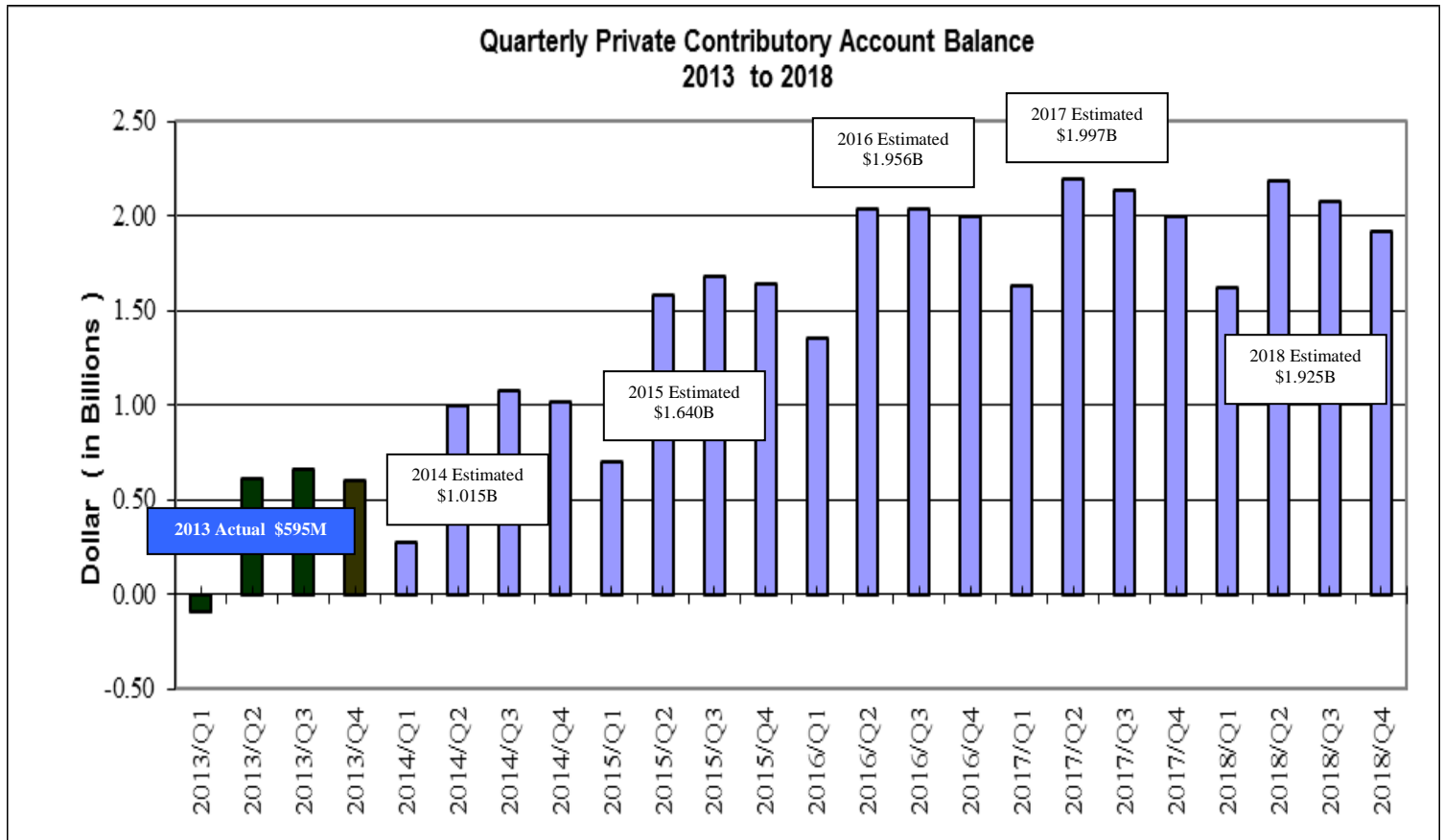
estimate of \$1.615 billion. The previous estimates were based on the triggering of a higher tax rate schedule.

The year-end 2016 account balance is expected to be \$1.956 billion; just \$4 million lower than the previous estimate of \$1.960 billion. Under the current economic assumptions, trust fund solvency will continue to rebuild relative to total wages through 2016.

Employer contributions on schedule D are estimated at \$1.480 billion virtually the same level as benefits which are estimated to be \$1.488 billion. The December 31, 2017 account balance is estimated at \$1.997 billion, a decrease of \$104 million than the previous estimate of \$2.101 billion due to an increase in expected benefit payments.

Employer contributions would remain on rate schedule D for 2018 payrolls. By the end of 2018, the private contributory account balance is expected to be \$1.925 billion or 0.89 percent of total payrolls.

The chart below shows the 2013 actual and projected quarterly private UI Fund balance through 2018.



BENEFIT OUTLAYS

The updated simulation for the outlook period resulted in a decrease in benefit payments in 2014 but increases in 2015 to 2017.

Benefit payments in January 2014 totaled \$169.1 million, a 0.6 percent decrease from the January 2013 payment of \$170.1 million. Benefit payments were \$2.1 million or 1.3 percent lower than the projection of \$171.2 million. Initial claims in January 2014 were 12.7 percent lower than last January while weeks compensated were 4.2 percent less. The average weekly benefit amount of \$422.69 in January 2014 was \$28.39 more than in January 2013. The average duration of a claim was 17.1 weeks.

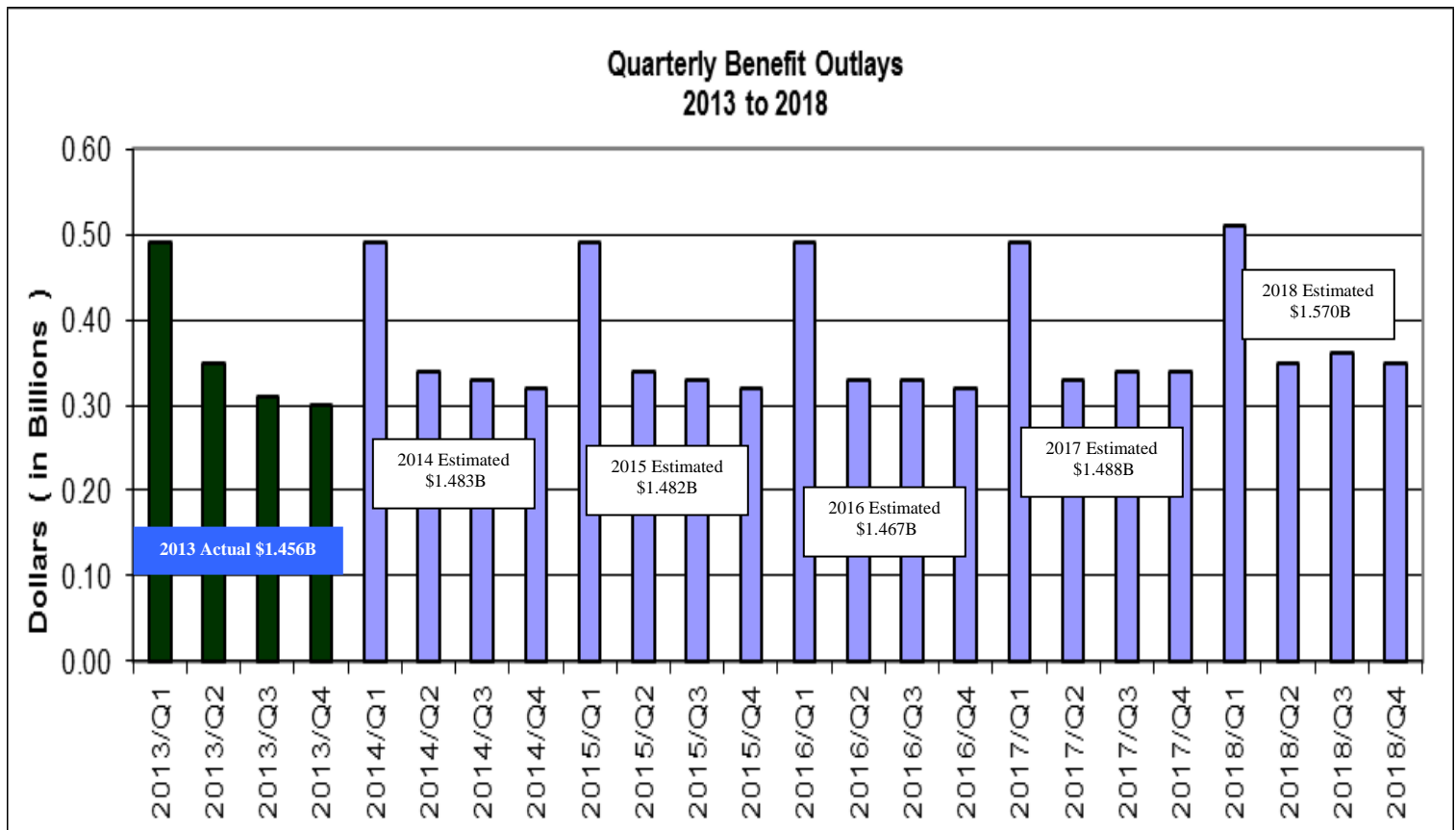
Benefit payments for 2014 are now estimated to be \$1.483 billion or \$98 million less than the previous estimate of \$1.581 billion first released in the October 2013 Outlook Report due to a projected decrease in benefit payments caused by two-tenths of a percentage point improvement in the average annual unemployment rate.

For 2015, benefit payments are estimated to be \$1.482 billion, an increase of \$40 million from the previous estimate of \$1.442 billion.

In 2016, benefit payments are projected to be \$1.467 billion; an increase of \$140 million from the previous estimate of \$1.327 billion first released in the October 2013 Outlook Report. The difference is due to the estimated increase in the average weekly benefit amount.

For 2017, benefit payments are projected to be \$1.488 billion or \$163 million more than the previous estimate of \$1.395 billion. As in the previous year, the revision is caused by a projected increase in the average weekly benefit amount.

For 2018, benefit payments are now projected to be \$1.570 billion.



EMPLOYER CONTRIBUTIONS

The Legislature has set rate schedule E for employer contributions for 2014 payrolls. Employer contributions are estimated at \$1.883 billion, \$376 million lower than the previous estimate of \$2.259 billion on a higher tax rate schedule G.

Employer contributions in January 2014 totaled \$135.4 million, an increase of 1.0 percent from the January 2013 contributions of \$134.1 million. Employer contributions at \$0.5 million or 0.4 percent more are in-line with the projection.

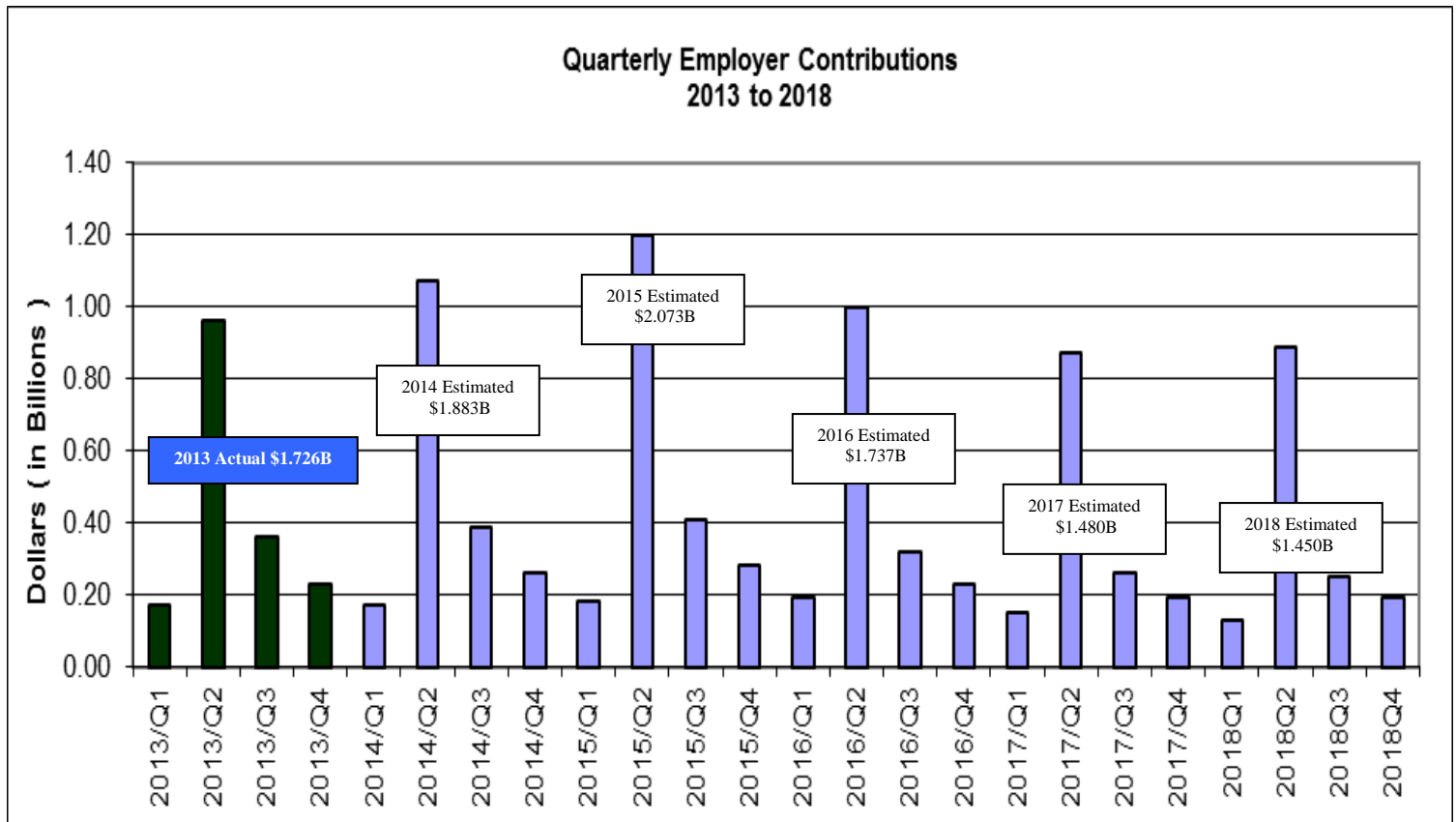
Rate schedule F is projected to be triggered for employer contributions on 2015 payrolls. Estimated employer contributions of \$2.073 billion are \$347 million higher than the previous estimate of \$1.726 billion which was on rate schedule E.

Tax rate schedule E is projected to trigger for employer contributions in 2016 generating revenues of \$1.737 billion, \$109 million more than the previous estimate of \$1.628 billion, also, on rate schedule E. The difference is due to a higher taxable payrolls and average contribution rate.

For 2017 payrolls, rate schedule D is once again projected to trigger for employer contributions. Employer contributions are estimated to be \$1.480 billion, \$63 million more than the previous estimate of \$1.417 billion. As in the previous year, the difference is due to a projected increase in taxable payrolls and the average contribution rate.

For 2018, schedule D is projected to trigger for employer contributions generating an estimated \$1.450 billion in contributions.

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



TRUST FUND SOLVENCY

Beginning in calendar year 2014, Federal regulations now require States 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. The first measure 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. For 2014 the AHCM must be met based on 2013 performance.

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, is the second

measure. 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. For Massachusetts the measures are done for the overall trust fund and include both private and governmental contributory accounts. The ratio of the average tax rate and the benefit costs rate over the previous five years must be at least 75 percent.

The chart below arrays the new federal regulations the actual and projected year-end all contributory account AHCMs, the ratios of average tax rate and total wages (federal standard at 80 percent of previous year) and the average tax rate and the benefit cost rate over the preceding five years (federal standard at 75 percent). If federal loans were necessary in 2014, Massachusetts will not meet the federal standard for AHCM and therefore be subject to federal interest for all loans.

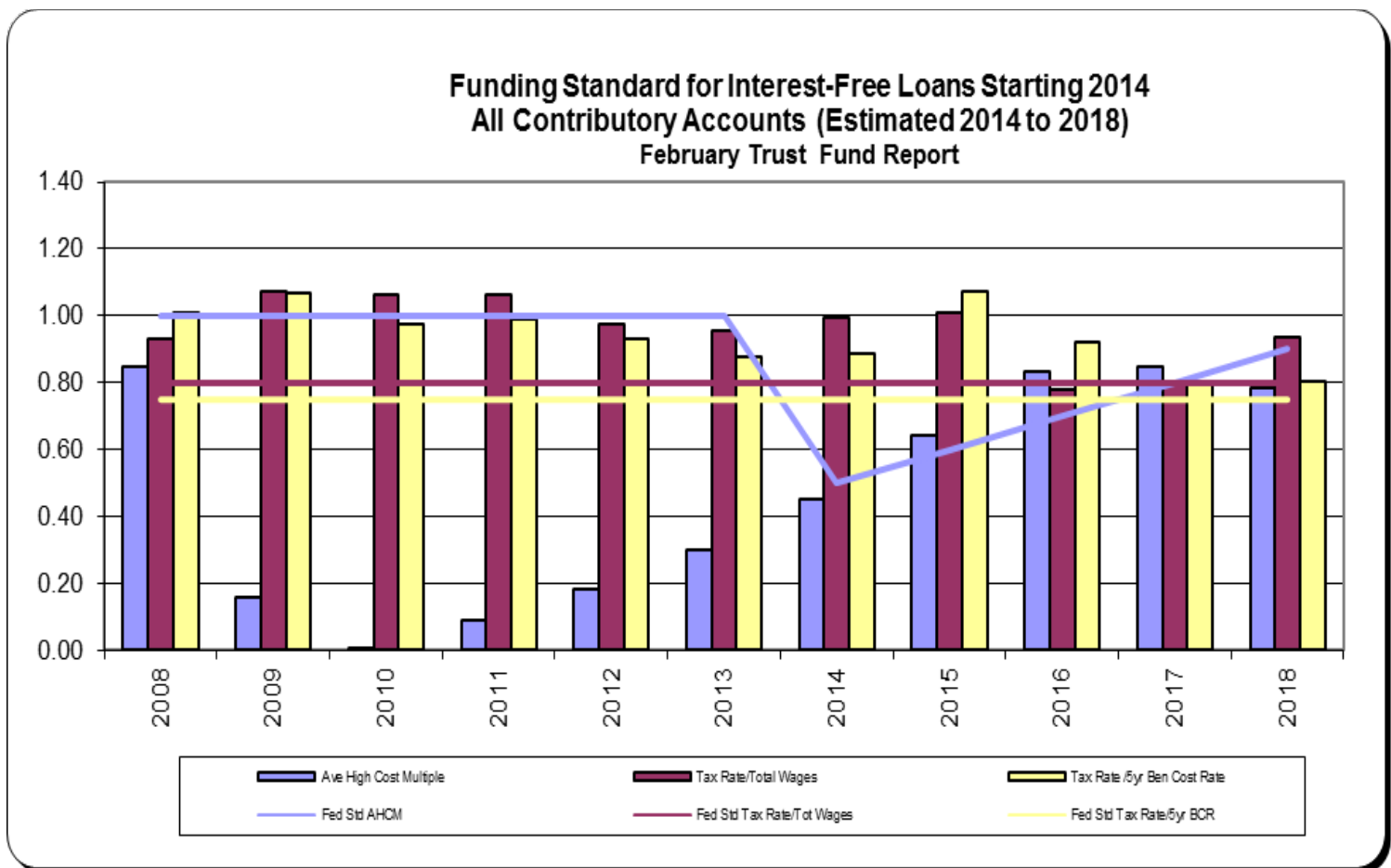


Table 2: Experience Rate Table

**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 current law simulation estimates for 2014 through 2018 are displayed in Tables 3 and 4, below.

Table 3: Unemployment Trust Fund Projections for the Private Contributory Account, 2014 - 2018

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

	2013	2014	2015	2016	2017	2018
Balance, January 1	\$314	\$595	\$1,015	\$1,640	\$1,956	\$1,997
Income	\$1,726	\$1,883	\$2,073	\$1,737	\$1,480	\$1,450
Trust Fund Interest	\$12	\$20	\$34	\$46	\$49	\$48
Benefit Outlays	\$1,456	\$1,483	\$1,482	\$1,467	\$1,488	\$1,570
Federal Loan Interests						
Balance, December 31	\$595	\$1,015	\$1,640	\$1,956	\$1,997	\$1,925
Schedule*	"E"	"E"	"F"	"E"	"D"	"D"
Average Cost/Employee	\$682	\$740	\$805	\$667	\$566	\$555

* 2013 and 2014 rate schedules set by Legislation; 2015 to 2018 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

	2013	2014	2015	2016	2017	2018
Total Covered Payroll (\$Billions)	\$152.0	\$165.2	\$180.0	\$193.6	\$205.3	\$215.4
Contributory Payroll (\$Billions)	\$36.4	\$37.1	\$38.1	\$38.9	\$39.5	\$39.7
Contributory Wage Proportion	23.9%	22.5%	21.2%	20.1%	19.2%	18.4%
Nominal Contribution Rate	4.8%	5.1%	5.5%	4.4%	3.7%	3.6%
Contributions as % of Total Payroll	1.14%	1.14%	1.15%	0.90%	0.72%	0.67%
Benefits as a % of Total Payroll	0.96%	0.90%	0.82%	0.76%	0.72%	0.73%
Trust Fund Balance as % of Total Payroll	0.39%	0.61%	0.91%	1.01%	0.97%	0.89%
Solvency Assessment	1.31%	1.08%	1.10%	1.03%	1.00%	1.05%
AHCM	0.23	0.36	0.53	0.59	0.57	0.52
Covered Employment (Thousands)	3,238	3,258	3,298	3,334	3,346	3,343
Total Unemployment Rate	6.9%	6.6%	6.3%	5.9%	5.6%	5.5%
Insured Unemployment Rate	2.6%	2.4%	2.4%	2.3%	2.3%	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.