

QUARTERLY TRUST FUND REPORT

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THE UNEMPLOYMENT INSURANCE TRUST FUND

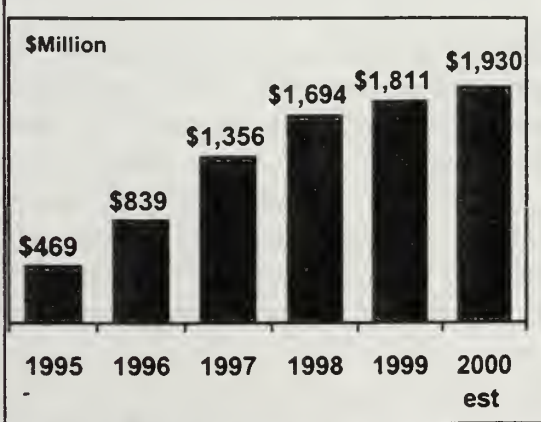
The March 31, 2000 Massachusetts Unemployment Insurance Trust Fund balance was \$1.743 billion. The private contributory account balance was \$1.675 billion at the end of March and the governmental contributory account balance was \$69 million.

CURRENT CONDITION OF THE FUND

The number of residents employed and the number of jobs in Massachusetts, two of the measures used to monitor the strength of the Commonwealth's economy, are at record high levels. For the first two months of the year, 3,202,000 residents were employed and 100,200 residents were unemployed and seeking work. The year to date total unemployment rate of 3.0% is a full percentage point below the national rate and 0.2% below last year's annual rate of 3.2%.

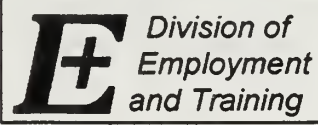
These positive economic trends are directly reflected in the status of the Unemployment Insurance Trust Fund. The Fund's end-of-quarter reserves of \$1.675 billion were \$113 million higher than the \$1.562 billion balance on hand one year ago.

Massachusetts Unemployment Trust Fund Reserves



ASSUMPTIONS USED IN THIS FORECAST

DET utilizes an independent economic outlook as the forecast for Massachusetts. The benefit financing simulations in this report are based on the forecasts produced by Regional Financial Associates (RFA) and issued in March 2000.



This report is prepared by the Economic Research Office of the Massachusetts Division Of Employment and Training. Questions can be directed to DET at (617)626-6600

The assumptions used in this report are arrayed below and compared to the assumptions used to produce the prior two simulations published in October 1999 and January 2000. The March RFA assumptions for the labor force and the total unemployment rate are based on the revised benchmark data released by DET in late February.

	Wage & Salary Growth (%)			Total Unemployment Rate (%)		
	10/99	01/00	04/00	10/99	01/00	04/00
2000	5.5	6.3	6.4	3.0	3.0	3.2
2001	5.1	5.3	5.7	3.1	3.2	3.5
2002	5.2	5.3	5.2	3.2	3.3	3.7
2003	4.9	5.0	5.0	3.4	3.5	3.9
2004	N/A	4.8	4.7	N/A	3.6	4.1

	Labor Force		
	10/99	01/00	04/00
2000	3,294,800	3,293,200	3,304,200
2001	3,305,100	3,302,200	3,320,600
2002	3,328,000	3,325,700	3,341,300
2003	3,351,700	3,350,100	3,365,600
2004	N/A	3,376,000	3,391,000

The 6.4% rate of wage growth projected for 2000 is slightly higher than the 6.3% growth projection used in our January report. The projected annual wage and salary growth rate for 2001 is 5.7%, a 0.4% increase over the previous growth rate of 5.3%. The remainder of the 2002 to 2004 outlook period has annual growth rates of 5.2%, 5.0% and 4.7%.

Our current projections for the total unemployment rates for the 2000 to 2004 period are 0.2% to 0.5% higher than those used in the January report. At 3.2%, the projected total unemployment rate for 2000 is expected to be the same as the 1999 actual rate.

The Massachusetts labor force is projected to continue to have slightly more growth over the years 2000 through 2004 than was forecast in DET's January report, but comparable to the expected growth used in the October outlook. The labor force is expected to average 3,304,200 in 2000. The outlook for the entire five-year period is for moderate growth, reaching 3,391,000 by 2004.

2000 OUTLOOK

The current economic assumptions for continued strong wage and salary growth, a low total unemployment rate and moderate labor force growth, indicate that Trust Fund reserves will reach \$1.930 billion by the end of 2000. At \$1.930 billion, projected year-end reserves will be \$119 million higher than the actual 1999 closing balance of \$1.811 billion and \$57 million more than the \$1.873 billion December 31, 2000 reserve balance estimate published in the January report.

Legislation enacted by the Legislature and signed into law by the Governor late last year, froze employer contributions on special Schedule "B" for the year 2000. Employer contributions on special Schedule "B" are expected to generate income of \$784 million at an estimated average annual cost of \$319 per employee. This income forecast is up \$33 million over the \$751 million estimate contained in our January report.

Benefit outlays are now estimated at \$794 million, which is \$17 million less than the \$811 million outlay estimate published in the January 2000 report. Interest earnings for the year are now estimated at \$129 million, \$7 million more than in January outlook.

2001 - 2004 PROJECTIONS

The simulation estimates for the 2001 to 2004 period under current law are arrayed in Table 1.

The outlook for the 2001 to 2004 period shows employer contributions returning to Schedule "C" for the four-year period, assuming the statutory "triggers" were allowed to set rates by default in these years.

During 2001, employer contributions based on Schedule "C" would increase to \$896 million, an increase of \$125 million, or 14% above 2000 levels. On a per employee basis, 2001 contributions would cost \$363 on Schedule "C", an increase of 14% above the current average cost of \$319. Employer contributions, plus interest earnings of \$140 million, would generate revenues of \$1.036 billion.

Benefit payments are now expected to be \$847million for 2001. Consequently, if rates triggered up to Schedule "C" in 2001, Trust Fund reserves would grow to \$2.119 billion by the end of that year.

Virtually all analysts believe, however, that this rate increase is both unreasonable, and completely unnecessary. Several alternative legislative proposals regarding contribution rates for the year 2001 are now under discussion. These range from freezing rates at the current Schedule "B", to reducing them a bit to a new Schedule "A+", to reducing them further to Schedule "A". The key characteristics of each of these scenarios are discussed below.

- Freezing rates at "B"

This scenario would hold the average cost per employee at \$312, quite close to the current levels, while adding \$60 million to the year 2000's projected \$1.930 billion surplus. Thus, under a freeze, we estimate a December 31, 2001 Trust Fund balance of \$1.990 billion.

- Cutting rates to "A+"

This scenario would set rates 0.2% higher than those that appear in the existing codified Schedule "A" rate table. This new "A+" Schedule would trim the average cost per employee to an estimated \$299, representing a 6% reduction below current costs, and the first drop below the \$300 cost per employee mark in a decade. Under "A+" rates, the Trust Fund would add an estimated \$27 million to its reserves next year, to reach an end-of-year balance of \$1.957 billion.

- Cutting rates to "A"

The Cellucci-Swift rate trigger bill, H. 3958, filed at the beginning of the legislative session, would have set rates for the year 2001 at Schedule "A" if that bill's new rate triggers were in effect today. Schedule "A" would reduce the average cost per employee to \$278, a 13% cut below present average costs. Under Schedule "A", Trust Fund reserves would end the year 2001 at \$1.903 billion. This is slightly below the expected December 31, 2000 balance of \$1.930 billion, but nearly \$100 million above the \$1.811 billion reserve balance at which the Trust Fund began the current year. The Administration continues to believe that this rate cut to Schedule "A" is the preferred policy choice.

The impacts of these scenarios on the average cost per employee and the Trust Fund's cash reserves are depicted visually on pages 5 and 6. It is clear from these data that rate reduction is achievable without placing the Trust Fund's reserves in jeopardy. With this year's shortened legislative session now drawing near to its end, it is hoped that legislative action on unemployment insurance rates for the year 2001 will be taken soon.

Table 1

PROJECTION 2000-2004

Massachusetts Benefit Financing Simulation

Private Contributory Trust Fund Account (All \$ in Millions)

	1999	2000	2001	2002	2003	2004
Balance, January 1	\$1,694	\$1,811	\$1,930	\$2,119	\$2,265	\$2,334
Income	\$778	\$784	\$896	\$892	\$878	\$875
Trust Fund Interest	\$117	\$129	\$140	\$152	\$161	\$164
Outlays	\$777	\$794	\$847	\$898	\$970	\$1,038
Balance, December 31	\$1,811	\$1,930	\$2,119	\$2,265	\$2,334	\$2,335
Schedule	B*	B*	C	C	C	C
Average Cost/Employee	\$318	\$319	\$363	\$359	\$351	\$347

* Chapter 175 of the Acts of 1998 established a special Schedule "B" which self-repeals January 1, 2003.
 Figures may not add because of rounding.

Table 2

Economic Assumptions Based on RFA Forecasts and Massachusetts Simulation

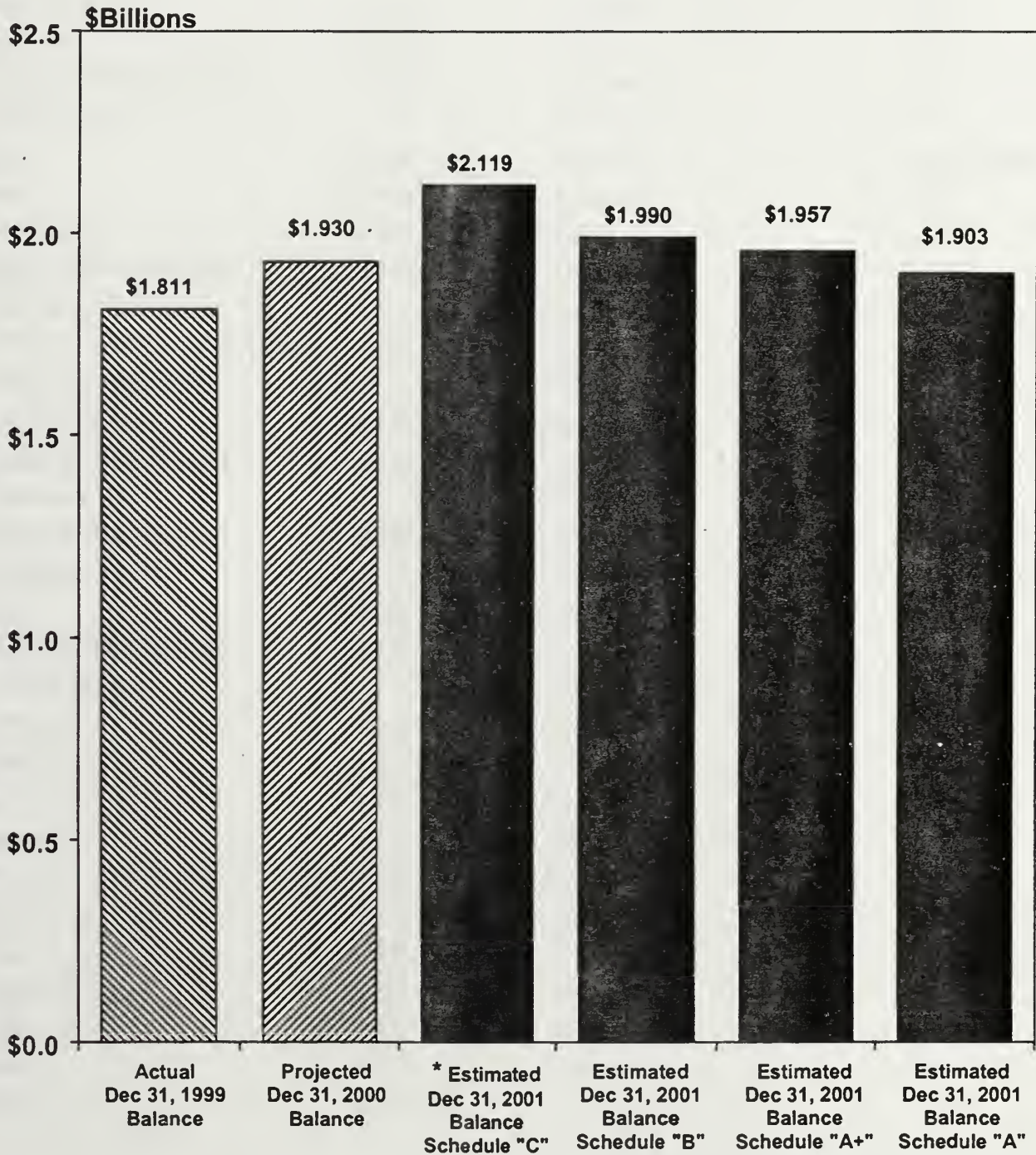
Benefit Financing Simulation Output

	1999	2000	2001	2002	2003	2004
Total Covered Payroll (\$Billions)	\$101.4	\$105.0	\$111.4	\$117.8	\$124.5	\$131.3
Contributory Payroll (\$Billions)	\$28.4	\$29.3	\$29.8	\$30.3	\$30.8	\$31.4
Covered Employment (Thousands)	3,126	3,140	3,154	3,172	3,194	3,216
Nominal Contribution Rate (\$10,800)	2.7%	2.7%	3.0%	2.9%	2.8%	2.8%
Contributory Wage Proportion	28.0%	27.9%	26.8%	25.7%	24.7%	23.9%
Solvency Assessment	0.37%	0.24%	0.29%	0.28%	0.32%	0.36%
Contributions as % of Total Payroll	.77%	0.75%	0.80%	0.76%	0.71%	0.67%
Total Unemployment Rate	3.2%	3.2%	3.5%	3.7%	3.9%	4.1%
Insured Unemployment Rate	2.2%	2.1%	2.2%	2.2%	2.3%	2.3%

Figures may not add because of rounding.

Massachusetts UI Trust Fund Reserves Under Different Rate Scenarios For 2001

Schedule "C" will be triggered if no rate legislation is passed



**UNEMPLOYMENT INSURANCE AS A COST OF DOING BUSINESS:
STATES RANKED BY COST PER EMPLOYEE**

(New England and Industrial States Capitalized)

Through First Quarter 1999

Alaska	\$ 428	Idaho	\$ 198
RHODE ISLAND	\$ 421	Arkansas	\$ 194
Washington	\$ 388	Kentucky	\$ 187
MASSACHUSETTS, 2001	\$ 363	New Mexico	\$ 175
(Schedule "C")		Wyoming	\$ 171
Oregon	\$ 354	Maryland	\$ 163 (Median)
Hawaii	\$ 340	Minnesota	\$ 161
NEW JERSEY	\$ 329	OHIO	\$ 151
MASSACHUSETTS, 2000	\$ 319	Mississippi	\$ 141
(Schedule "B")		North Dakota	\$ 137
MASSACHUSETTS, 1999 Actual	\$ 318	Kansas	\$ 134
(Schedule "B")		Louisiana	\$ 133
PENNSYLVANIA	\$ 314	Iowa	\$ 130
MASSACHUSETTS, 2001	\$ 312	Colorado	\$ 129
(Schedule "B")		TEXAS	\$ 126
MASSACHUSETTS, 2001	\$ 299	Indiana	\$ 117
(Schedule "A+")		Tennessee	\$ 114
MAINE	\$ 281	Alabama	\$ 107
MASSACHUSETTS, 2001	\$ 278	South Carolina	\$ 105
(Schedule "A")		Arizona	\$ 88
MICHIGAN	\$ 277	Missouri	\$ 87
CALIFORNIA	\$ 249	NORTH CAROLINA	\$ 85
West Virginia	\$ 249	Utah	\$ 80
Connecticut	\$ 247	NEW HAMPSHIRE	\$ 62
NEW YORK	\$ 245	FLORIDA	\$ 56
ILLINOIS	\$ 244	Nebraska	\$ 51
Nevada	\$ 243	Oklahoma	\$ 49
VERMONT	\$ 211	South Dakota	\$ 45
Delaware	\$ 205	Georgia	\$ 31
Montana	\$ 200	Virginia	\$ 31
Wisconsin	\$ 200		

Computed by DET based on US Dept. of Labor, Office of Workforce Security, Division of Actuarial Services, 3rd Quarter CY '99 UI Data Summary tax rates and preliminary average weekly wages.