

# QUARTERLY TRUST FUND REPORT

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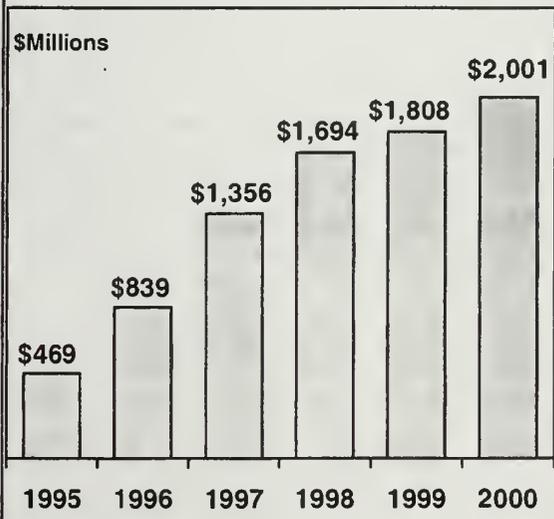
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**Massachusetts Unemployment Trust Fund Reserves**



## THE UNEMPLOYMENT INSURANCE TRUST FUND

The July 31, 2001 Massachusetts Unemployment Insurance Trust Fund balance was \$2.092 billion. The private contributory account balance was \$2.014 billion at the end of July and the governmental contributory account balance was \$78 million.

## CURRENT CONDITION OF THE FUND

The Commonwealth's economy has shown signs of slowing in recent months as the total unemployment rate inched up to 3.4% in June 2001 and the rate of job growth moderated. The total unemployment rate for the first half of the year -- January to June -- has averaged 3.1%. Over the twelve months ending June 2001 Massachusetts added 50,100 jobs, bringing total jobs in the state to a record high of 3,370,200. However, the pace of job growth has slowed noticeably during 2001, and the industry mix of job growth has changed. Manufacturing and certain technology services industries have posted significant job losses, particularly over the past three months, while other sectors -- including construction and most of the services sector -- have continued to grow.

Unemployment insurance claims also reflect these patterns, with claims rising overall, and particularly among workers in the manufacturing and technology services sectors. Over 22% of the claimants in June 2001 previously worked in the manufacturing sector, which is nearly twice this industry's share of total employment in Massachusetts. Unemployment insurance claims averaged 77,100 per week during the second quarter of 2001, just below the first quarter average of 83,200 per week, but well above the comparable quarter in recent years.



The Economic Research Office of the Massachusetts Division of Employment and Training prepares this report. Questions can be directed to DET at (617) 626-6600

At the end of July 2001, Unemployment Insurance Trust Fund reserves were \$2.014 billion. This is \$39 million higher than the \$1.975 billion balance on hand in July 2000, but we do not expect to see further growth in the Trust Fund this year.

rely on independent economic outlooks without modifying them, and we will therefore do so again with the current report's forecast. At 3.8%, the rate is 0.6% higher than the previous estimates for 2002 through 2004 and 0.7% above the May estimate for 2005.

**ASSUMPTIONS USED IN THIS FORECAST**

DET utilizes independent economic outlooks as the forecast for Massachusetts. The benefit financing simulations in this report are based on the average of the RFA and the DRI-WEFA forecasts issued in June 2001.

The outlook for the Commonwealth's labor force is for slightly higher growth in 2001 than the previous estimate. The current report's projected annual average labor force of 3,340,700 for 2001 is 104,100 or 3.2 % higher than the 2000 level of 3,236,600. The annual labor growth for 2002 of 30,400 is just above the annual labor force growth estimate used in the May report. The annual growth in the labor force for the remaining three years of the outlook -- 2003, 2004, 2005 -- are virtually the same as previous estimates. The labor force is projected to reach 3,452,000 by 2005.

The assumptions used in this report are arrayed below and compared to the assumptions used to produce the prior two simulations published in our January 2001 and May 2001 reports.

**2001 OUTLOOK**

	Wage & Salary Growth (%)			Total Unemployment Rate (%)		
	01/01	05/01	08/01	01/01	05/01	08/01
2001	5.5	5.5	6.4	2.7	2.9	3.2
2002	5.2	5.1	5.0	3.0	3.2	3.8
2003	4.9	5.5	5.1	3.2	3.2	3.8
2004	4.6	5.1	4.8	3.3	3.2	3.8
2005	4.4	5.0	4.6	3.4	3.1	3.8

The 2001 outlook for moderate labor force growth, moderate growth in wages and salaries, higher total unemployment and a noticeable increase in unemployment insurance claims concentrated among workers in the manufacturing and technology services industries, generates an expected year-end Trust Fund balance of \$1.965 billion. This is a downward revision of \$148 million from DET's May estimate of \$2.113 billion and it would give us a closing balance that is essentially the same as we started the year with.

	Labor Force		
	01/01	05/01	08/01
2001	3,309,200	3,299,500	3,340,700
2002	3,329,800	3,326,600	3,371,100
2003	3,352,000	3,354,100	3,398,100
2004	3,378,700	3,383,100	3,426,000
2005	3,405,200	3,410,700	3,452,000

Employer contributions, based on special Schedule "B", are now estimated at \$812 million, \$17 million less than the estimate published in DET's May report. Employer contributions plus interest earnings of \$132 million will bring in combined revenues of \$944 million during 2001. The increase in unemployment insurance claims and payment activities during the year are now expected to result in net outlays of \$980 million, \$129 million more than DET's previous estimate of 2001 outlays and \$236 million more than the 2000 actual outlays of \$744 million.

Wage and salary growth for 2001 is estimated at 6.4%, up slightly from the 5.5% estimates used for the January and May simulations. The current projected wage and salary growth rate of 5.0% for 2002 is 0.1% below the May assumption of 5.1%. The estimates for 2003 through 2005 are also slightly lower than the previous estimates, with 5.1% growth for 2003, 4.8% for 2004 and 4.6% annual growth for 2005. Actual annual wage and salary growth has been higher than the assumptions used by DET for several years, but the recent moderation in the growth of jobs is in line with these estimates.

**2002 - 2005 PROJECTIONS**

The current report's projection for the total unemployment rate for 2001 is 3.2%, 0.6% above the actual 2.6% rate for 2000 and 0.3% above the 2.9% estimate for this year contained in our May report. The forecast has the total unemployment rate moving up to 3.8% for the rest of the outlook -- 2002 through 2005. While we believe that this forecast may be overly pessimistic for the outyears, it is our policy to

The simulation estimates for the 2002 to 2005 period under current law are arrayed in Table 1.

The simulation shows employer contributions for 2002 triggering to Schedule "C", absent legislative intervention to set rates on a different schedule next year. This would represent an increase over present

special Schedule "B" rates. It should be noted that we expect the level of reserves used in determining the rate schedule for 2002 to be on the low end of the Schedule "C" range. It is possible that higher than anticipated benefit outlays in August and September could trigger Schedule "D" in 2002.

For 2002, the current report's projected increase in unemployment is expected to increase outlays to \$1.095 billion, \$114 million more than our previous report's 2002 outlay estimate of \$981 million. The 2002 year-end Trust Fund balance is expected to be \$1.957 billion, \$252 million less than our previous estimate, published in May and substantially identical to the year's estimated opening balance of \$1.965 billion.

With higher levels of unemployment claims activity now projected to remain throughout the forecast period, Trust Fund reserves are now expected to be in the range of \$1.8 billion to \$1.9 billion over the entire period 2003 to 2005, while Schedule "D" is likely to be triggered in each of these years. If, as we suspect will be the case, the Massachusetts economy actually performs better in these years than our current outside economic forecast is predicting, then the Fund's performance will be better than is now predicted.

Table 1

**PROJECTION 2001-2005**

**Massachusetts Benefit Financing Simulation**

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

	2000	2001	2002	2003	2004	2005
Balance, January 1	\$1,808	\$2,001	\$1,965	\$1,957	\$1,975	\$1,941
Income	\$812	\$812	\$960	\$1,071	\$1,078	\$1,075
Trust Fund Interest	\$124	\$132	\$127	\$126	\$128	\$122
Outlays	\$744	\$980	\$1,095	\$1,178	\$1,240	\$1,333
Balance, December 31	\$2,001	\$1,965	\$1,957	\$1,975	\$1,941	\$1,805
Schedule	B**	B**	C	D	D	D
Average Cost/Employee	\$322	\$327	\$367	\$411	\$410	\$406

\*The Trust Fund income, outlays and balances exclude special "Reed Act" funding made available in 1999, 2000 and 2001 by Congress to States for the administration of the unemployment insurance program. These funds, temporarily deposited by Treasury in States' UI Trust Funds, may only be used for administrative functions and cannot legally be used for the payment of benefits. The amount excluded from the December 31, 2000 balance is \$4.7 million.

\*\* Under Chapter 175 of the Acts of 1998, rates under Schedule "B" are reduced by 0.075% below what would have been the case under prior law.

*Figures may not add because of rounding.*

Table 2

**Economic Assumptions Based on Average RFA & DRI Forecasts and Massachusetts Simulation**

**Benefit Financing Simulation Output**

	2000	2001	2002	2003	2004	2005
Total Covered Payroll (\$Billions)	\$116.4	\$122.8	\$129.5	\$137.8	\$146.0	\$154.5
Contributory Payroll (\$Billions)	\$30.5	\$30.5	\$31.7	\$32.2	\$32.7	\$33.1
Covered Employment (Thousands)	3,215	3,257	3,298	3,324	3,352	3,377
Nominal Contribution Rate (\$10,800)	2.7%	2.6%	3.1%	3.4%	3.3%	3.3%
Contributory Wage Proportion	26.2%	24.8%	24.5%	23.4%	22.4%	21.4%
Solvency Assessment	0.24%	0.29%	0.50%	0.56%	0.65%	0.74%
Contributions as % of Total Payroll	0.70%	0.66%	0.74%	0.78%	0.74%	0.70%
Total Unemployment Rate	2.6%	3.2%	3.8%	3.8%	3.8%	3.8%
Insured Unemployment Rate	1.9%	2.4%	2.5%	2.4%	2.4%	2.4%

*Figures may not add because of rounding.*