

Unemployment Insurance Trust Fund Report

August 2013 Report

HIGHLIGHTS

This Quarterly Report provides the status and updated projections of the Unemployment Insurance Trust Fund for the 2013 through 2017 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 higher unemployment rates for 2013 to 2016, and unchanged in 2017, as compared to the previously published annual average total unemployment rates for 2013 to 2017. For 2013, the annual average unemployment rate is up from 6.3 percent to 6.5 percent followed by a 6.1 percent annual rate in 2014 which is 0.1 of a percentage point higher than the 6.0 percent rate used in the May 2013 Outlook Report. The annual wage and salary growth rates are lower than the previous estimates except for 2017. Total labor forces for 2013, and 2016 to 2017 are lower but higher for 2014 and 2015 from the previous assumptions.

The outlook presented is for the regular UI program based on 2013 employer experience rates and claims, benefit payments and contributions through the end of June 2013.

Cash flow loans from the federal unemployment account that were required in April to finance benefits were repaid and under the current economic outlook, no further borrowing is expected for the rest of 2013 making the loans interest free.

The revised 2013 year-end projections indicate employer contributions, based on rate Schedule E and a \$14,000 taxable wage base, will be \$1.758 billion or \$66 million less than the previous estimate of \$1.824 billion. Estimated benefit payments of \$1.524 billion are \$21 million lower than the prior estimate first released in the May Outlook Report. The private contributory account year-end balance is estimated to be \$559 million, \$46 million less than the previous estimate.

Contributions for 2014 payrolls are expected to be on rate schedule G. The year-end balance is estimated at \$1.356 billion.

Under the current economic assumptions and statutory provisions, private contributory account solvency will continue to rebuild in 2014 to 2017.

No further borrowing from the federal unemployment account is anticipated through 2017. A year-end 2017 private account balance of \$1.916 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 August 2013 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 February and May 2013 Outlook Trust Fund Reports are provided in Table 1.

The August 2013 Moody's Economy.com Annual Wage and Salary Growth Rate forecasts for 2013 through 2016 were revised downward. For 2017 the rate is slightly higher than previous estimate. The 2013 wage and salary growth rate was revised downwards, from 5.3 percent to 3.5 percent while the 2014 to 2016 rates showed

decreases of three-tenths to six-tenths of a percentage point.

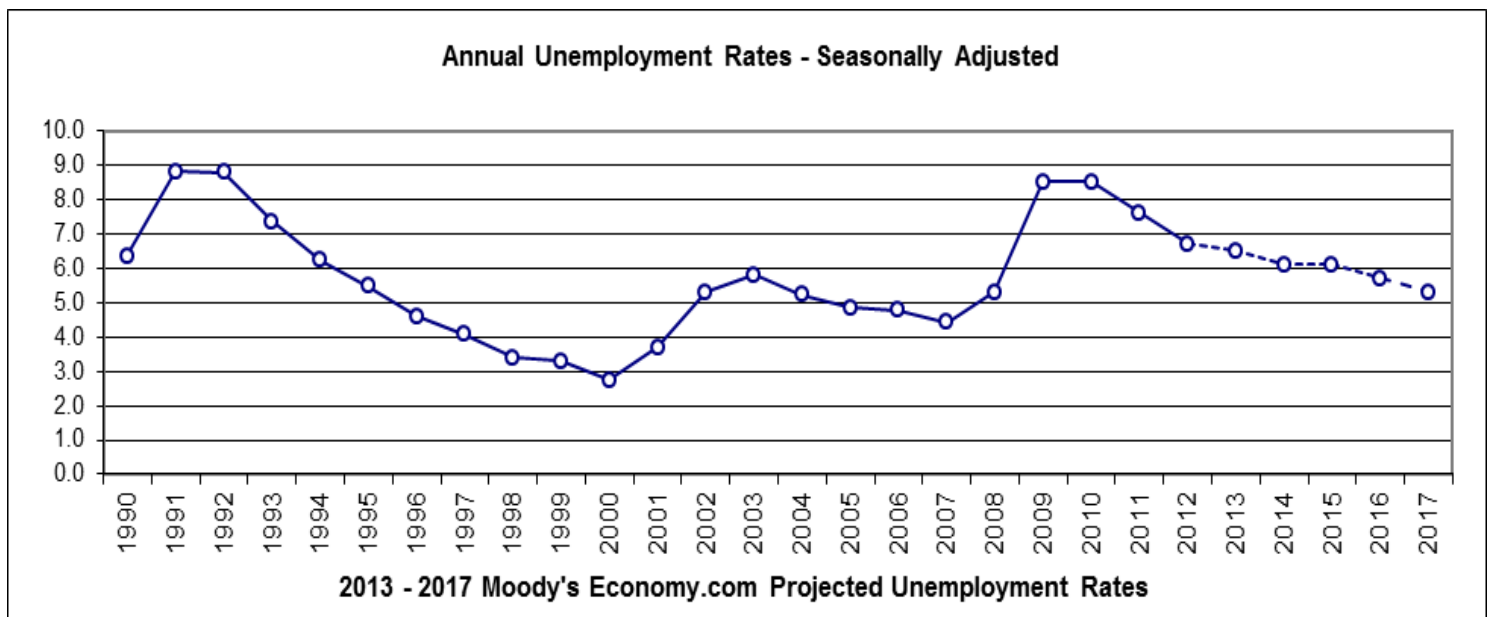
The projected annual average total unemployment rates for 2013 to 2016 were all revised upwards while the 2017 rate remained unchanged. An increase of two-tenths of a percentage point revision was made in 2013 from 6.3 percent to 6.5 percent and upward revisions of one-tenth to two-tenths of a percentage point were posted in 2014 to 2016.

The annual labor force projections for 2013 to 2017 showed minimal revisions of a decrease of 503 in 2013 to an increase of 3,384 in 2015 from the labor force projections used in the May Outlook Report. The labor force is expected to be 3,573,846 in 2017.

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

| | Wage & Salary Growth (%) | | | Total Unemployment Rate (%) | | | Labor Force | | |
|------|--------------------------|--------|--------|-----------------------------|--------|--------|-------------|-----------|-----------|
| | 13-Jan | 13-Apr | 13-Aug | 13-Jan | 13-Apr | 13-Aug | 13-Jan | 13-Apr | 13-Aug |
| 2013 | 4.2 | 5.3 | 3.5 | 6.5 | 6.3 | 6.5 | 3,487,236 | 3,483,662 | 3,483,159 |
| 2014 | 6.9 | 6.9 | 6.4 | 6.1 | 6.0 | 6.1 | 3,508,745 | 3,502,746 | 3,504,012 |
| 2015 | 7.3 | 7.5 | 6.9 | 5.9 | 5.9 | 6.1 | 3,538,084 | 3,532,284 | 3,535,668 |
| 2016 | 6.9 | 7.2 | 6.9 | 5.5 | 5.6 | 5.7 | 3,564,110 | 3,562,684 | 3,561,599 |
| 2017 | 6.0 | 6.3 | 6.5 | 5.3 | 5.3 | 5.3 | 3,575,480 | 3,575,962 | 3,573,846 |

Source: Moody's Economy.com



UNEMPLOYMENT INSURANCE TRUST FUND BALANCE

As of July 31, 2013, the Massachusetts Unemployment Insurance Trust Fund ending balance was \$887.9 million. The private contributory account balance was at \$786.7 million and the governmental contributory account balance was \$101.2 million. The private contributory account balance was \$8.9 million higher than projected due to a lower than expected payments in July.

The private contributory account is projected to have a balance of \$559 million at the end of 2013, a reserve of \$1.356 billion in 2014 and a projected reserve of \$1.597 billion by the end of 2015.

The 2013 year-end private contributory account balance is \$46 million lower than the previous estimate of \$605 million published in May Outlook Report. The difference in the year-end balance is primarily the result of replacing second quarter projected employer contributions and benefit payments with actual data which were lower than the projections. A cash flow loan of \$10.9 million from the federal unemployment account was required in April to finance benefits but has since been restored and no further borrowing is expected for the rest of 2013.

The year-end 2014 private contributory account balance is expected to be at \$1.356 billion, \$35 million less than the

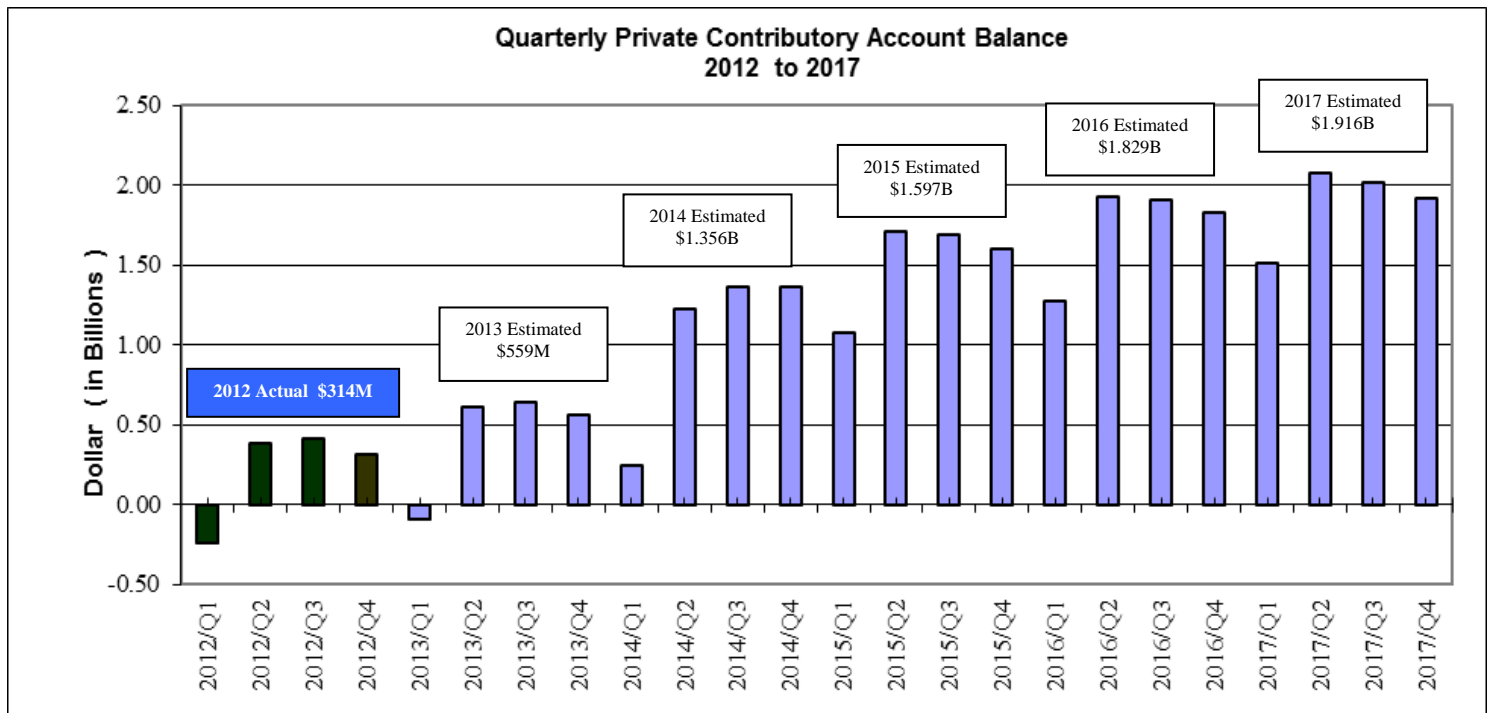
previous estimate of \$1.391 billion caused primarily by the lower 2013 year-end balance.

The year-end 2015 account balance is expected to be \$1.597 billion, a decrease of \$37 million from the previous projection of \$1.634 billion.

Under the current economic assumptions, trust fund solvency will continue to rebuild in 2016. The December 31, 2016 account balance is now estimated at \$1.829 billion, \$23 million lower than the previous estimate of \$1.852 billion. As in the previous years, the difference in the year-end balance is primarily the result of a carryover of the 2013 lower year-end ending balance.

By the end of 2017, the private contributory account balance is expected to be \$1.916 billion or 0.96 percent of total payrolls.

The chart below shows the 2012 actual and projected quarterly private UI Fund balance through 2017.



BENEFIT OUTLAYS

The updated simulation for the outlook period results in decreases in benefit payments in the outlook period with the exception of 2015.

Benefit payments through the end of July totaled \$947.1 million, \$63.4 million or a 6.3 percent decrease from the January to July 2012 payments of \$1.011 billion. Benefit payments were \$28.3 million or 3 percent lower than the projection. Total initial claims in the first seven months of 2013 were 10.4 percent less and total weeks compensated were 16.3 percent lower than in the same time period in 2012. The average weekly benefit amount through July 2013 of \$395.76 was \$21.63 higher than the \$374.13 average check amount in 2012. In July the average duration of a claim was at 17.6 weeks.

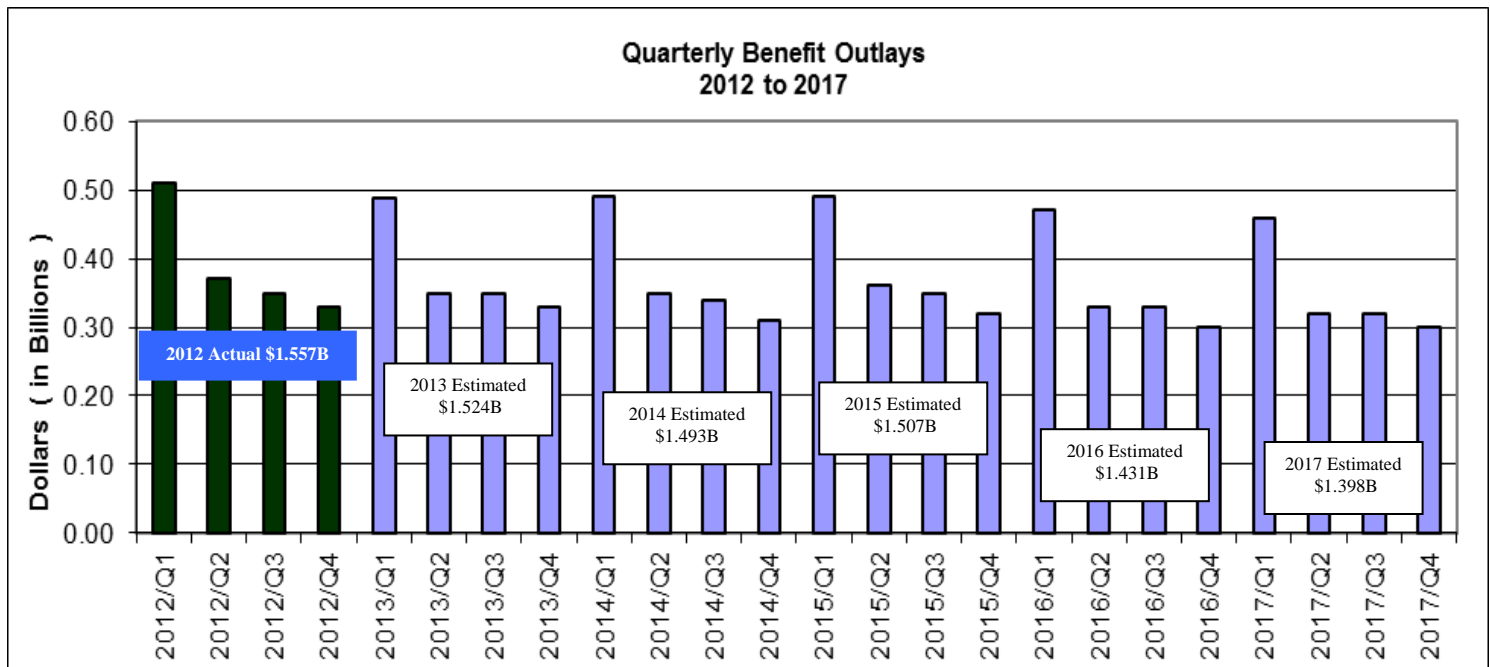
Benefit payments for 2013 are now estimated to be \$1.524 billion or \$21 million less than the previous estimate of \$1.545 billion first published in the May Outlook Report. The difference is due primarily to the replacement of projected benefit payments with actual data in the second quarter.

For 2014, benefit payments are estimated to be \$1.493 billion, in-line with the previous estimate of \$1.504 billion.

In 2015, benefit payments are expected to be \$1.507 billion, at just \$8 million higher, is in-line with the previous estimate of \$1.499 billion.

For 2016, benefit payments are projected to be \$1.431 billion, a decrease of \$25 million from the previous estimate of \$1.456 billion. The small difference is due to a projected decrease in insured unemployment and total weeks compensated.

For 2017, benefit payments are expected to decrease to \$1.398 billion. As in the previous year, insured unemployment, total weeks compensated and the average weekly benefit amount are all projected to be lower than the previously published report.



EMPLOYER CONTRIBUTIONS

Employer contributions through the month of July totaled \$1.416 billion, a decrease of \$38 million or 2.6 percent from January to July 2012 contributions of \$1.454 billion. Year to date employer contributions were \$23 million or 1.6 percent less than the projection..

Rate schedule E was set by legislation for employer contributions on 2013 payrolls. Employer contributions are estimated at \$1.758 billion, \$66 million less than the previous outlook of \$1.824 billion first published in the May Outlook Report caused by a decrease in the projected average contribution rate.

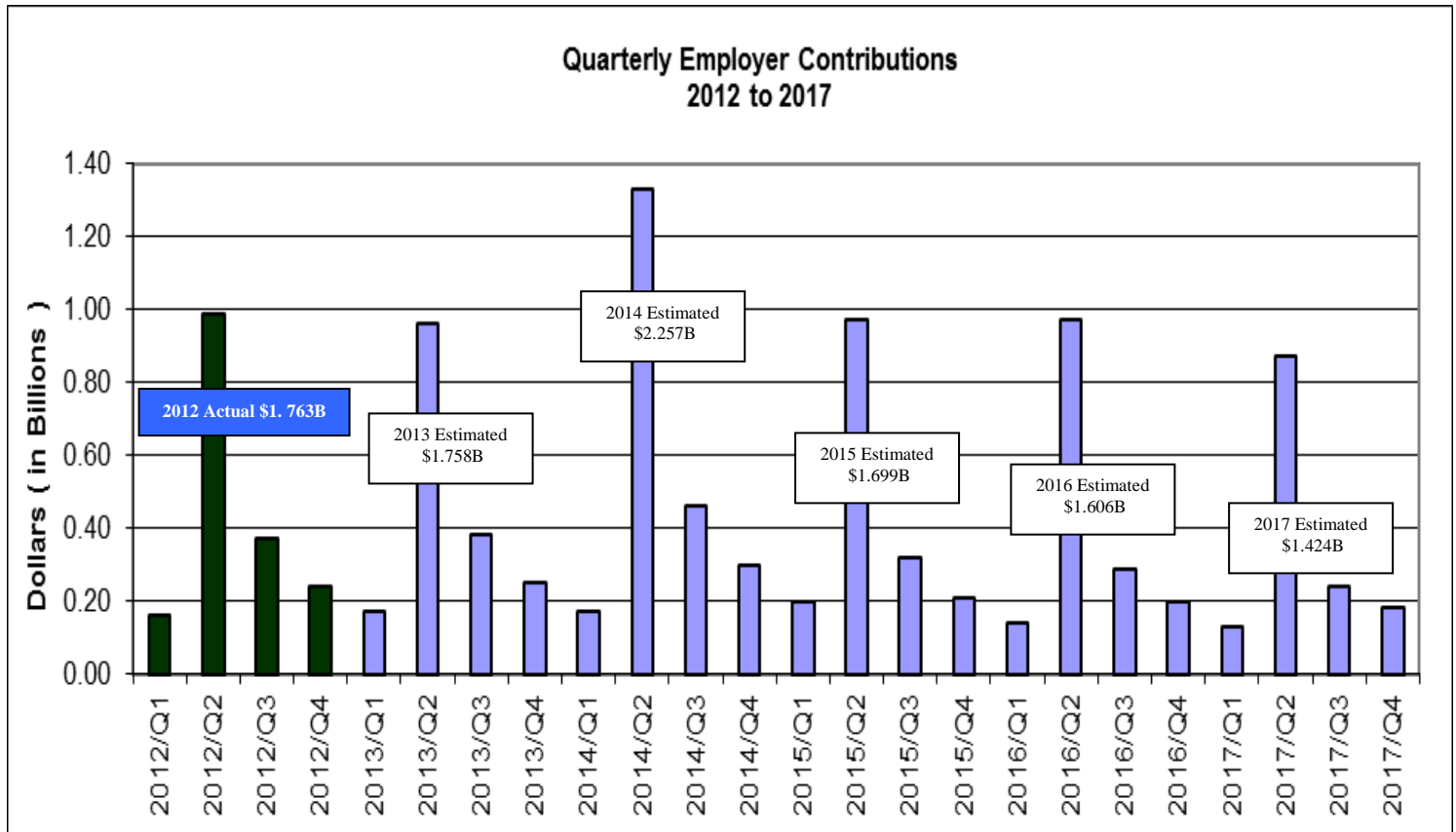
Rate schedule G has triggered for employer contributions on 2014 payrolls. Employer contributions are estimated at \$2.257 billion, in-line with the previous estimate of \$2.256 billion.

Rate schedule E is projected to be triggered for employer contributions on 2015 payrolls. Estimated employer contribution of \$1.699 billion is in-line with previous estimate of \$1.691 billion.

Rate schedule E is projected to trigger for employer contributions in 2016 generating revenues of \$1.606 billion, at \$10 million less is in-line with the previous estimate of \$1.616 billion.

A lower tax rate, schedule D, has triggered for employer contributions in 2017. Employer contributions are estimated to be \$1.424 billion, \$156 million less than the previous estimate of \$1.580 billion on a higher rate schedule E.

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. 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.

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.

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 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.

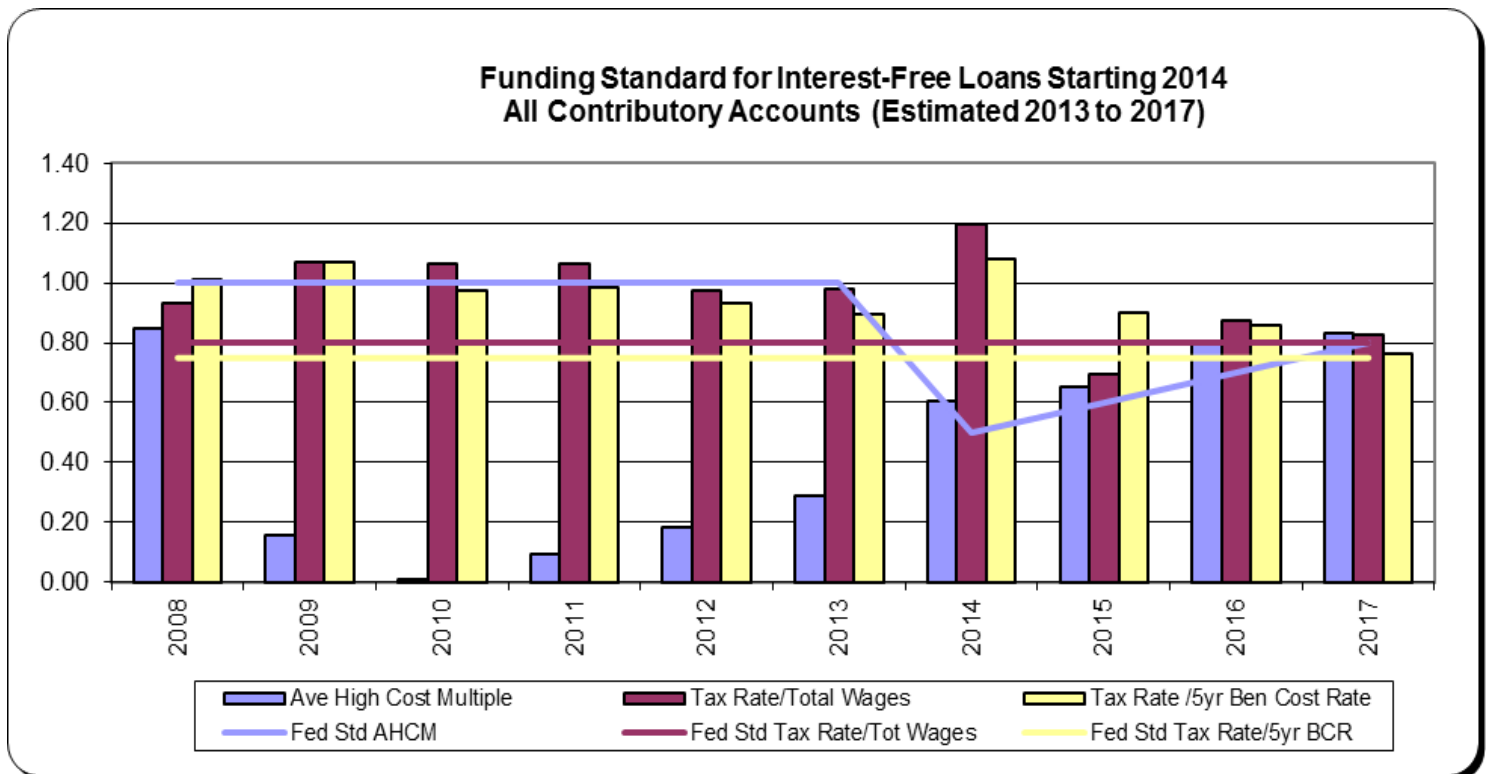


Table 2: Experience Rate Table

**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 simulation estimates for 2013 through 2017 are displayed in Tables 3 and 4, below.

Table 3: Unemployment Trust Fund Projections for the Private Contributory Account, 2013 - 2017

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

| | 2012 | 2013 | 2014 | 2015 | 2016 | 2017 |
|-----------------------------|---------|---------|---------|---------|---------|---------|
| Balance, January 1 | \$101 | \$314 | \$599 | \$1,356 | \$1,597 | \$1,829 |
| Income | \$1,763 | \$1,758 | \$2,257 | \$1,699 | \$1,606 | \$1,424 |
| Trust Fund Interest | \$8 | \$11 | \$32 | \$50 | \$57 | \$62 |
| Benefit Outlays | \$1,557 | \$1,524 | \$1,493 | \$1,507 | \$1,431 | \$1,398 |
| Federal Loan Interests | | | | | | |
| Balance, December 31 | \$314 | \$559 | \$1,356 | \$1,597 | \$1,829 | \$1,916 |
| Schedule* | "E" | "E" | "G" | "E" | "E" | "D" |
| Average Cost/Employee | \$715 | \$726 | \$942 | \$703 | \$659 | \$581 |

*2012 and 2013 rate schedules set by Legislation; 2014 to 2017 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

| | 2012 | 2013 | 2014 | 2015 | 2016 | 2017 |
|--|---------|---------|---------|---------|---------|---------|
| Total Covered Payroll (\$Billions) | \$147.5 | \$150.6 | \$160.3 | \$173.0 | \$186.8 | \$199.8 |
| Contributory Payroll (\$Billions) | \$35.4 | \$36.0 | \$36.8 | \$37.6 | \$38.5 | \$39.2 |
| Contributory Wage Proportion | 24.0% | 23.9% | 23.0% | 21.7% | 20.6% | 19.6% |
| Nominal Contribution Rate | 5.0% | 4.9% | 6.2% | 4.4% | 4.2% | 3.6% |
| Contributions as % of Total Payroll | 1.20% | 1.17% | 1.41% | 0.98% | 0.86% | 0.71% |
| Benefits as a % of Total Payroll | 1.06% | 1.01% | 0.93% | 0.87% | 0.77% | 0.70% |
| Trust Fund Balance as % of Total Payroll | 0.21% | 0.37% | 0.85% | 0.92% | 0.98% | 0.96% |
| Solvency Assessment | 1.72% | 1.31% | 1.19% | 1.11% | 1.02% | 0.95% |
| AHCM (proposed Fed Std 1.0) | 0.12 | 0.22 | 0.49 | 0.54 | 0.57 | 0.56 |
| Covered Employment (Thousands) | 3,165 | 3,098 | 3,066 | 3,095 | 3,122 | 3,135 |
| Total Unemployment Rate | 6.7% | 6.5% | 6.1% | 6.1% | 5.7% | 5.3% |
| Insured Unemployment Rate | 3.1% | 2.9% | 2.9% | 3.0% | 2.8% | 2.7% |

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.