

MEMO

To: Economic Outlook and Revenue Assessment Committee

Cc:

From: Bob Fick, Department of Labor

Date: 1/4/08

Re: Unemployment Insurance

Members of the committee inquired about the impact on the Unemployment Insurance Trust Fund and the employer tax rate of unemployment hitting 5 percent.

The following is an analysis of what would happen if the state were hit today by the same kind of slowdown that hit in 2001-2002. The unemployment rate at that point was between 5 percent and 5.5 percent.

Adjusted for today's economy, a similar slowdown now would hit the fund with over \$250 million a year in claims during the two toughest years. The fund would have the \$312 million balance to start with but only about \$110 million in tax receipts the first year under the record low base tax rate the current formula is setting. That rate of less than 1 percent would jump to around 2.5 percent in the second year as the trust fund balance plunges to around \$170 million. That increase would generate enough revenue to essentially match benefits paid in the second year but not restore the fund balance. The rate would stay above 2 percent for several more years until the balance is restored.

A severe recession like the one in 1982-1983 or a more moderate one like 1985-1986 would break the fund. A severe recession now would put the fund \$418 million in the red, a more moderate results in \$108 million in red ink.

The formula would again trigger a dramatic tax rate increase approaching the maximum base rate of 3.36 percent to begin replenishing the fund. But it would not raise enough money quickly enough to avoid running a deficit. Since unemployment benefits are mandated, the state would have to borrow from the federal government to meet its obligations. Based on Idaho's experience, it is likely any borrowing would occur in March. If that loan, taken out in 2009 for example, were not repaid in full with interest by the beginning of 2011, Idaho employers would begin losing the Federal Unemployment Insurance Tax credit in addition to paying state taxes at the maximum base rate. Currently the federal tax is 6.2 percent of the first \$7,000 paid to each employee, or \$434 per employee. But Idaho employers only have to pay \$56 per employee because the rest is credited to the state tax payments. In a loan situation, the amount owed the federal government would increase to begin paying off the loan by \$21 an employee initially, \$42 an employee the next year, \$63 the year after and so on until the entire \$434 per worker is paid to the federal government. At the same time, employers would still be paying a tax to the state to rebuild the fund and cover existing unemployment claims.

When the New York trust fund went broke in the 1990s, that state's employers were hit with an extended 33 percent increase in their taxes to right the trust.

**IDAHO DEPARTMENT OF LABOR
UNEMPLOYMENT INSURANCE PROGRAM
ANNUAL INCOME AND OUTGO 1980 -- 2006
(Millions of Dollars)**

| YEAR | Average UI Tax Rate (%) | ANNUAL INCOME | | | | ANNUAL OUTGO | | TRUST FUND BALANCE | |
|---------|-------------------------|------------------|-------------------|---------------------|---------------------------------|-----------------------|-----------------------------------|-----------------------------|---|
| | | UI TAX RECEIVED* | INTEREST RECEIVED | TOTAL ANNUAL INCOME | TOTAL ANNUAL INCOME (INDEXED**) | TOTAL ANNUAL PAYMENTS | TOTAL ANNUAL PAYMENTS (INDEXED**) | COMBINED TRUST FUND BALANCE | COMBINED TRUST FUND BALANCE (INDEXED**) |
| 1980 | 1.4 | 43.8 | 7.4 | 51.2 | 62.2 | 57.3 | 69.6 | 88.8 | 107.8 |
| 1981 | 1.3 | 44.3 | 8.2 | 52.5 | 57.8 | 59.8 | 65.8 | 81.1 | 89.2 |
| 1982 | 1.4 | 46.6 | 5.4 | 52.0 | 53.9 | 106.3 | 110.1 | 26.9 | 27.8 |
| 1983 | 2.0 | 65.4 | 1.3 | 66.7 | 67.0 | 74.8 | 75.1 | 19.5 | 19.6 |
| 1984 | 2.4 | 89.1 | 3.4 | 92.6 | 89.1 | 57.0 | 54.9 | 55.1 | 53.0 |
| 1985 | 2.1 | 85.0 | 6.9 | 91.9 | 85.4 | 68.3 | 63.4 | 78.7 | 73.2 |
| 1986 | 2.1 | 83.8 | 8.2 | 92.0 | 83.9 | 76.3 | 69.6 | 94.4 | 86.2 |
| 1987 | 2.0 | 85.4 | 9.4 | 94.8 | 83.5 | 66.0 | 58.1 | 123.2 | 108.5 |
| 1988 | 2.0 | 92.4 | 8.8 | 101.2 | 85.6 | 54.6 | 46.2 | 169.9 | 143.6 |
| 1989 | 1.5 | 76.7 | 15.8 | 92.5 | 74.6 | 51.3 | 41.4 | 211.1 | 170.2 |
| 1990 | 1.2 | 67.2 | 19.7 | 86.9 | 66.5 | 55.3 | 42.3 | 242.6 | 185.6 |
| 1991 | 0.9 | 55.4 | 21.1 | 76.5 | 56.2 | 77.1 | 56.6 | 242.1 | 177.7 |
| 1992 | 1.2 | 72.0 | 18.8 | 90.9 | 64.8 | 78.2 | 55.8 | 254.7 | 181.5 |
| 1993 | 1.2 | 81.5 | 17.2 | 98.8 | 67.9 | 74.4 | 51.2 | 279.1 | 191.9 |
| 1994 | 1.0 | 76.6 | 16.3 | 93.0 | 62.7 | 78.2 | 52.8 | 293.7 | 198.2 |
| 1995 | 0.9 | 77.4 | 16.4 | 93.8 | 61.5 | 91.7 | 60.2 | 295.7 | 194.0 |
| 1996 | 1.2 | 99.8 | 16.7 | 116.4 | 74.2 | 95.8 | 61.0 | 316.4 | 201.7 |
| 1997 | 0.9 | 88.1 | 17.8 | 105.9 | 66.0 | 90.6 | 56.4 | 331.7 | 206.7 |
| 1998 | 0.8 | 78.3 | 18.3 | 96.7 | 59.3 | 97.6 | 59.9 | 330.8 | 202.9 |
| 1999 | 0.8 | 82.2 | 17.2 | 99.4 | 59.7 | 97.3 | 58.4 | 332.8 | 199.8 |
| 2000 | 0.8 | 90.4 | 17.3 | 107.7 | 62.6 | 98.8 | 57.4 | 340.4 | 197.7 |
| 2001 | 0.8 | 96.6 | 17.1 | 113.7 | 64.2 | 140.7 | 79.5 | 314.8 | 177.8 |
| 2002 | 0.8 | 96.2 | 13.7 | 110.0 | 61.1 | 173.4 | 96.4 | 276.6 | 153.8 |
| 2003 | 0.8 | 103.2 | 10.2 | 113.4 | 61.6 | 176.5 | 95.9 | 213.5 | 116.1 |
| 2004 | 0.8 | 109.4 | 6.6 | 116.0 | 61.4 | 137.9 | 73.0 | 191.4 | 101.3 |
| 2005 | 0.9 | 132.1 | 5.6 | 137.7 | 70.5 | 114.0 | 58.4 | 215.1 | 110.1 |
| 2006 | 1.0 | 157.1 | 8.7 | 165.9 | 82.3 | 96.3 | 47.8 | 281.4 | 139.6 |
| 2007*** | 0.8 | 135.7 | 8.2 | 143.8 | 69.8 | 106.1 | 51.5 | 317.0 | 153.9 |

E&P UI TAX PHASED IN AT 0.9% IN 2005 AND 1.0% IN 2006

Note: Experienced rated income and payments only, excludes State and local government and cost reimbursable employers.
 * Does not include training tax.
 ** Indexed to the Consumer Price Index (CPI) 1982-1984 = 100.
 *** 2007 Estimate

SOURCE: IDAHO DEPARTMENT OF LABOR, Communications and Research, Research & Analysis Bureau.

Revised: August 22, 2007

Workforce Development Training Fund Balance Sheet

Workforce Development Revenues

(4/96*11/30/07)

Interest Earnings **\$37,328,411**
\$4,614,411

Total Revenues and Interest Earnings **\$41,942,822**

Contracts

Completed Contracts **\$28,316,001**

Completed Contract Expenditures **\$22,707,809**

Unspent Balance **\$5,608,192**

Active Contracts **\$5,850,511**

Active Contract Expenditures **\$2,889,826**

Obligated Balance **\$2,960,685**

Administrative Expenditures **\$4,701,290**

Workforce Development Fund Balance **\$11,643,897**

November 30, 2007

Less Active Contract Obligated Balance **\$2,960,685**

Subtotal **\$8,683,212**

Less In-Process Contracts **\$3,344,000**

Subtotal **\$5,339,212**

Less Pending Contracts (3) **\$4,124,000**

Unobligated Balance **\$1,215,212**

Under Consideration - Not Yet Committed **\$764,000**