



# Review of UI Trust Fund

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Employment Security Council

October 3, 2019

Department of Employment, Training, & Rehabilitation

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Jeremey Hays, Economist

*Prepared by the Research and Analysis Bureau*

# Agenda

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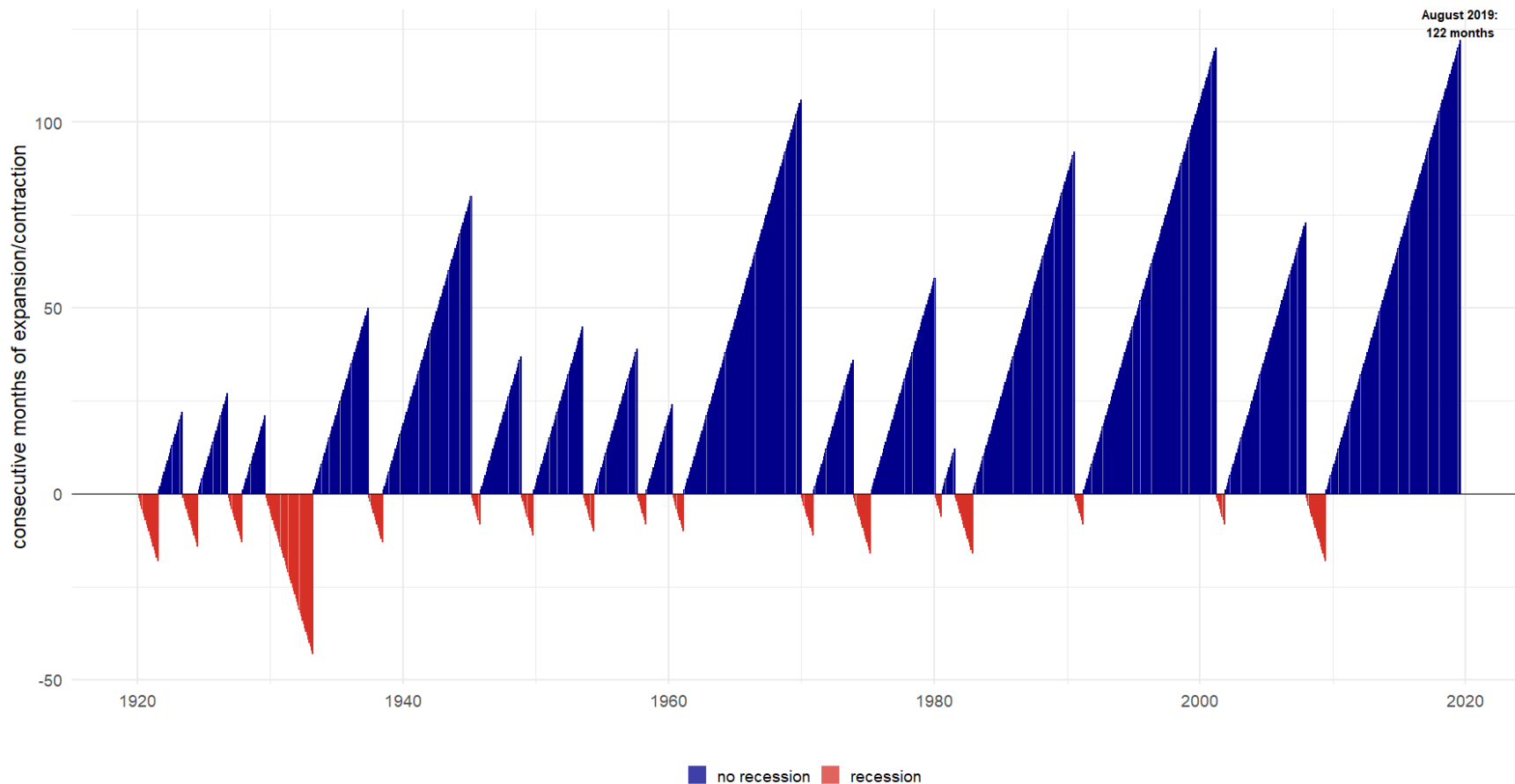
- National Perspective and Outlook
- Nevada Unemployment Insurance Trends
- Nevada's Unemployment Insurance Trust Fund
- 2020 Rate Discussion & Tax Rate Forecasts

# National Perspective:

## Longest Economic Expansion in U.S. History

### U.S. Economic Expansions & Contractions

consecutive months of expansion/contraction



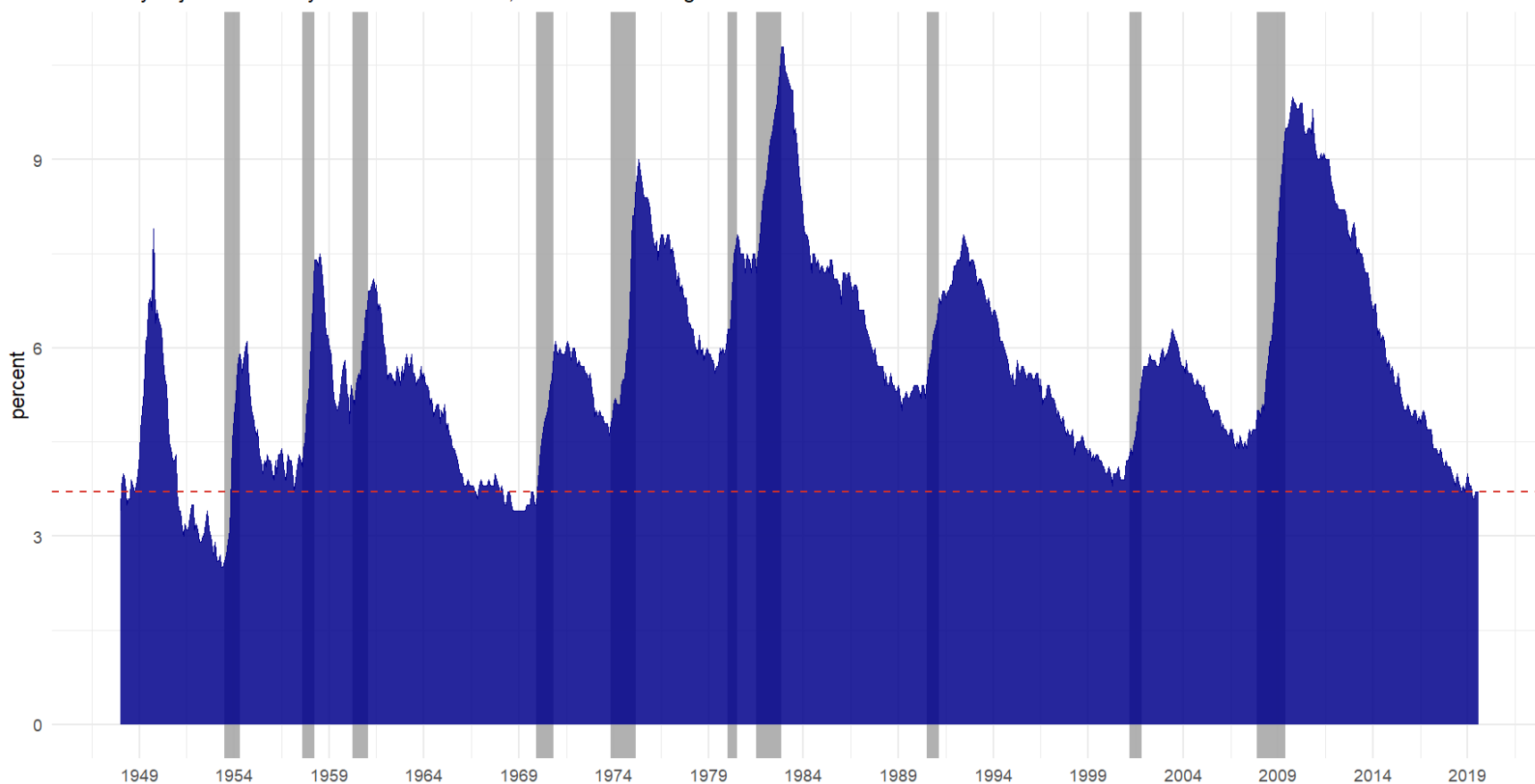
Source: National Bureau of Economic Research Recession Dates

# National Perspective:

## Unemployment Rate at Lowest Levels since 1960s

### U.S. Unemployment Rate

seasonally adjusted rates by month 1948 to 2019, dashed line at August 2019 rate

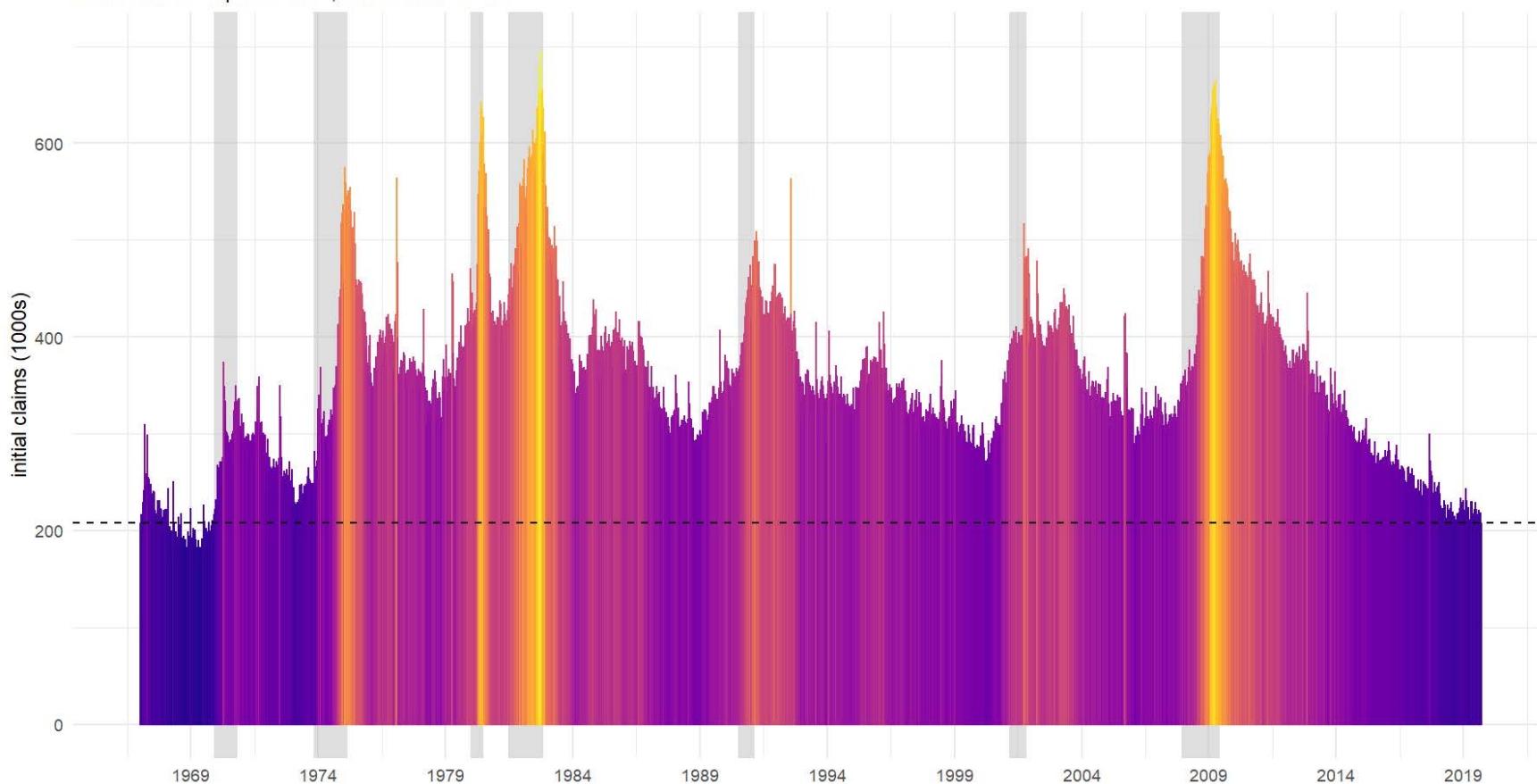


Source: U.S. Bureau of Labor Statistics, shaded bars represent NBER recessions

# National Perspective: UI Claims at Historic Lows

## U.S. Weekly Initial Claims for Unemployment Insurance

dotted line at September 14, 2019 value of 208k

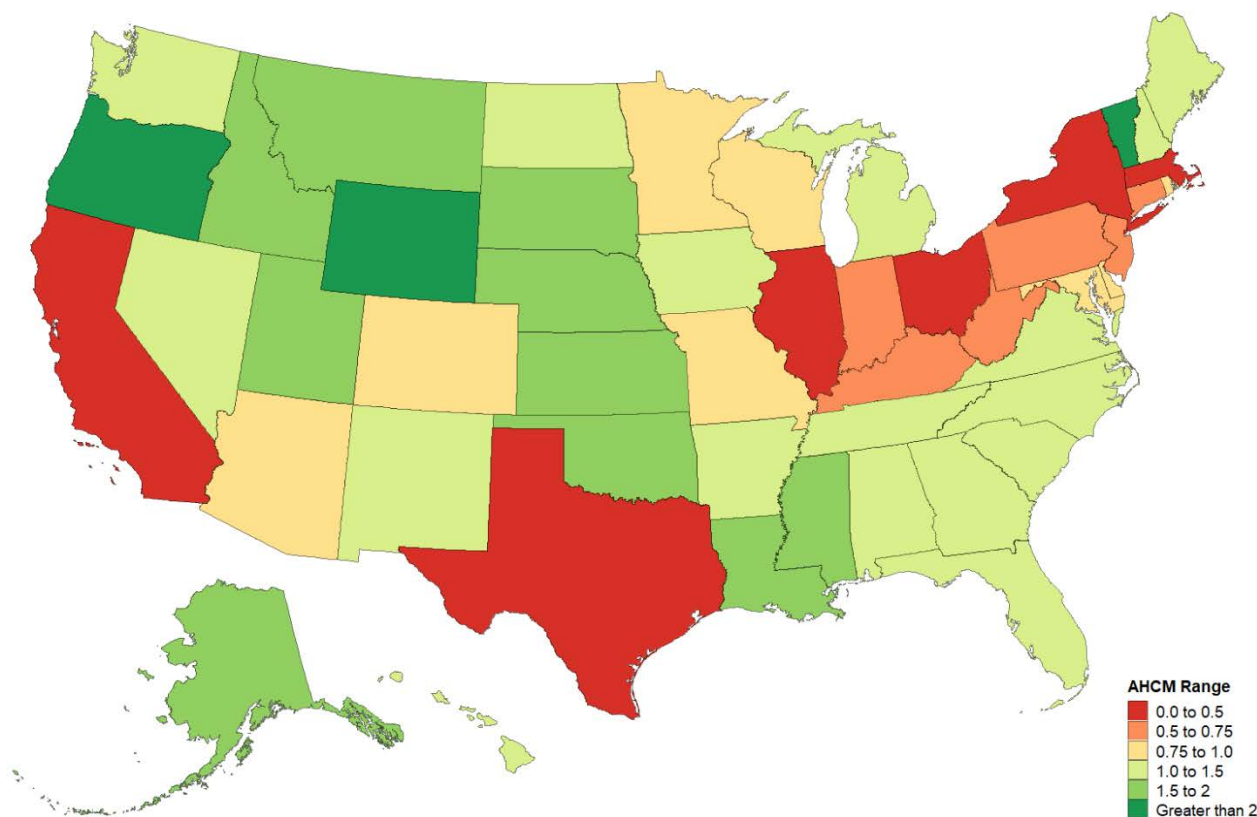


Source: U.S. Bureau of Labor Statistics

# National Perspective: Trust Fund Solvency is Improving Across the U.S.

## Average High Cost Multiple by State

as of 6/30/2019

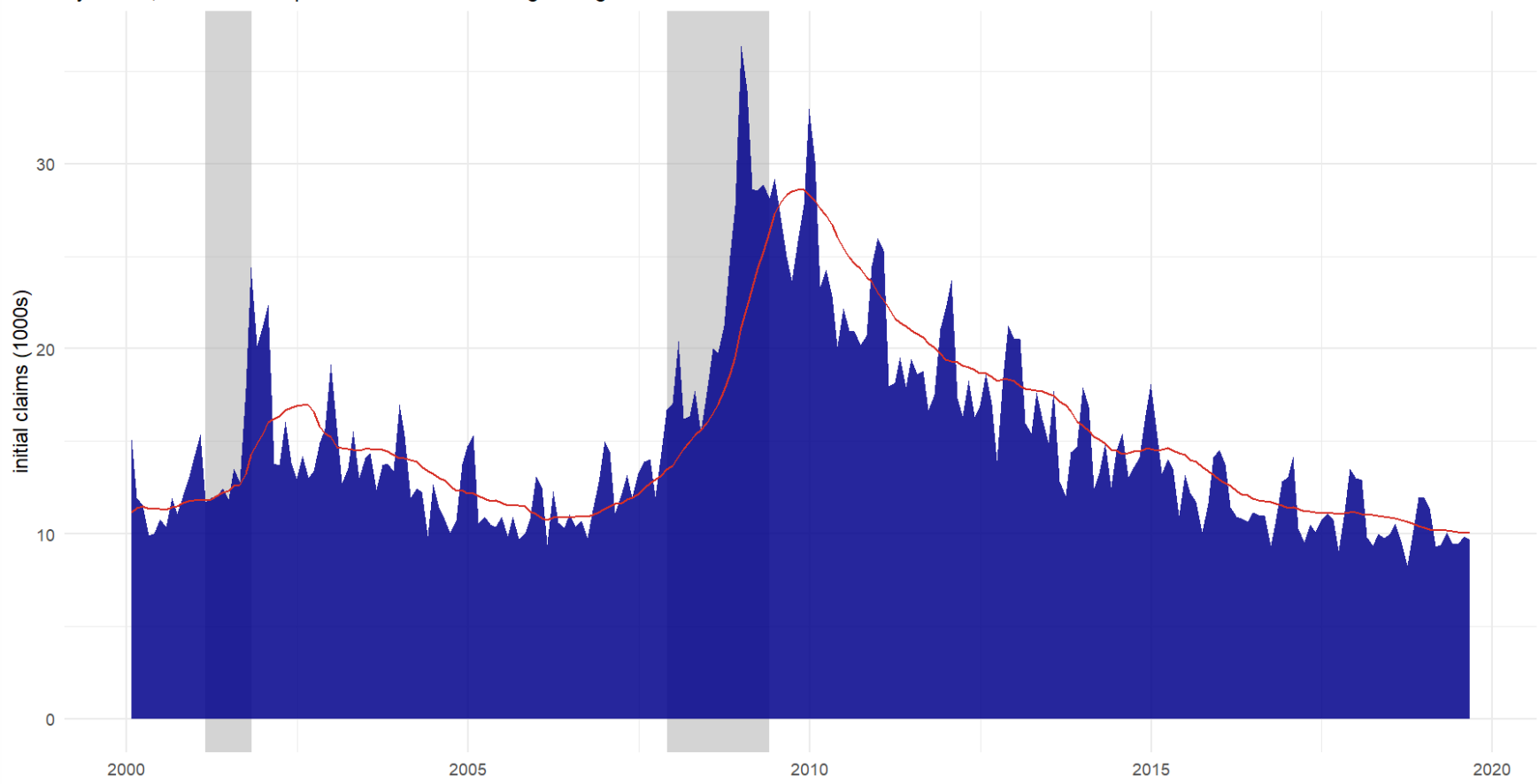


Sources: ETA 394, ETA 2112, and US Treasury  
 AHCM is calculated by dividing the Reserve Ratio (UITF balance divided by the previous year of Total Wages) by the Average High Cost Rate  
 \*Figure uses calendar year 2018 wages due to calculation lags

# Nevada UI Trends:

## Initial Claims Averaging 10k a Month

**State of Nevada Unemployment Insurance Initial Claims**  
by month, dashed line represents 12 month moving average



Source: ETA 5159



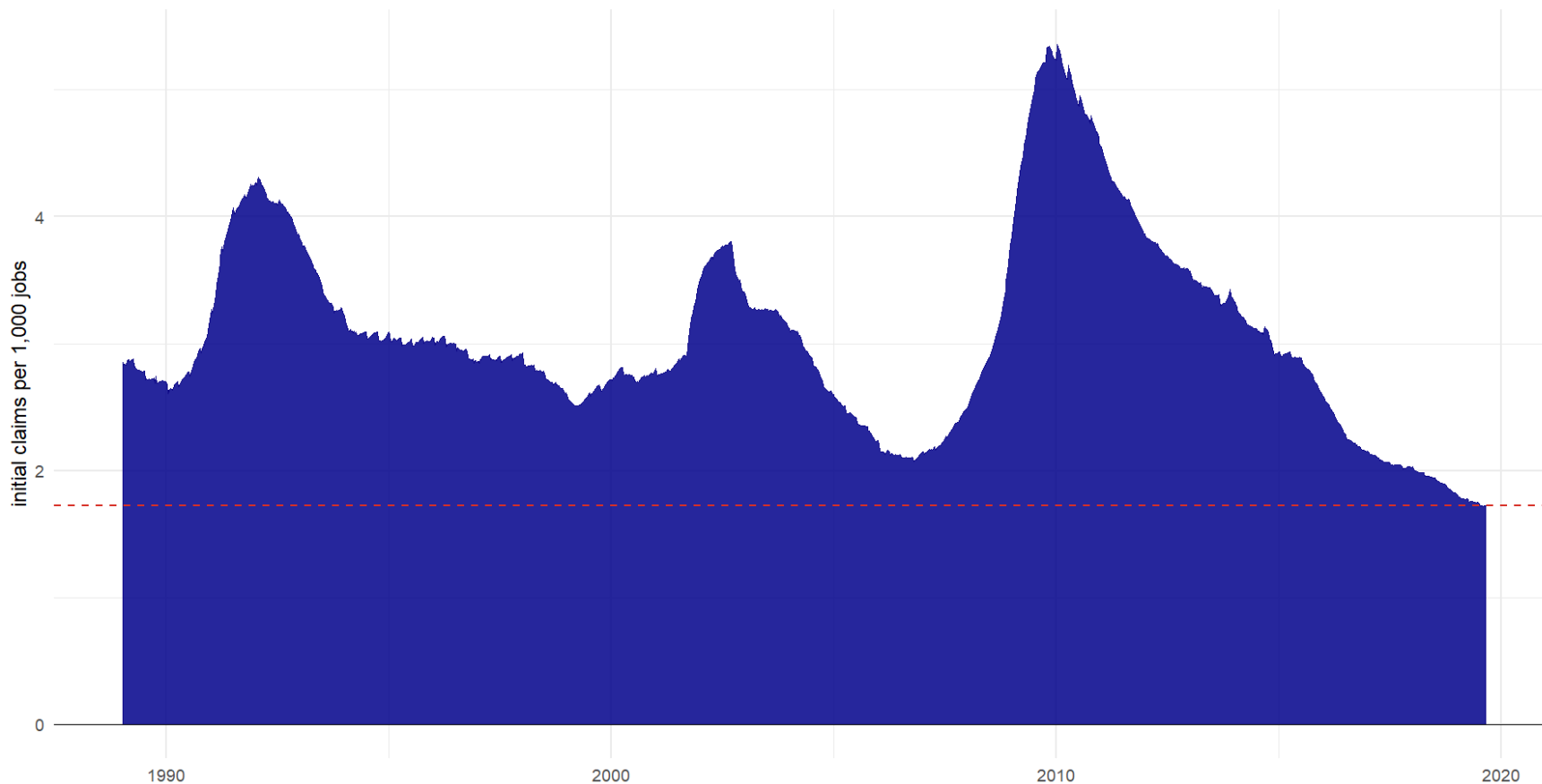
NevadaWorkforce.com  
@NVLaborMarket



# Nevada UI Trends: Initial Claims at All-Time Low Relative to # of Jobs

## State of Nevada UI Initial Claims per 1,000 Jobs

1989 to current



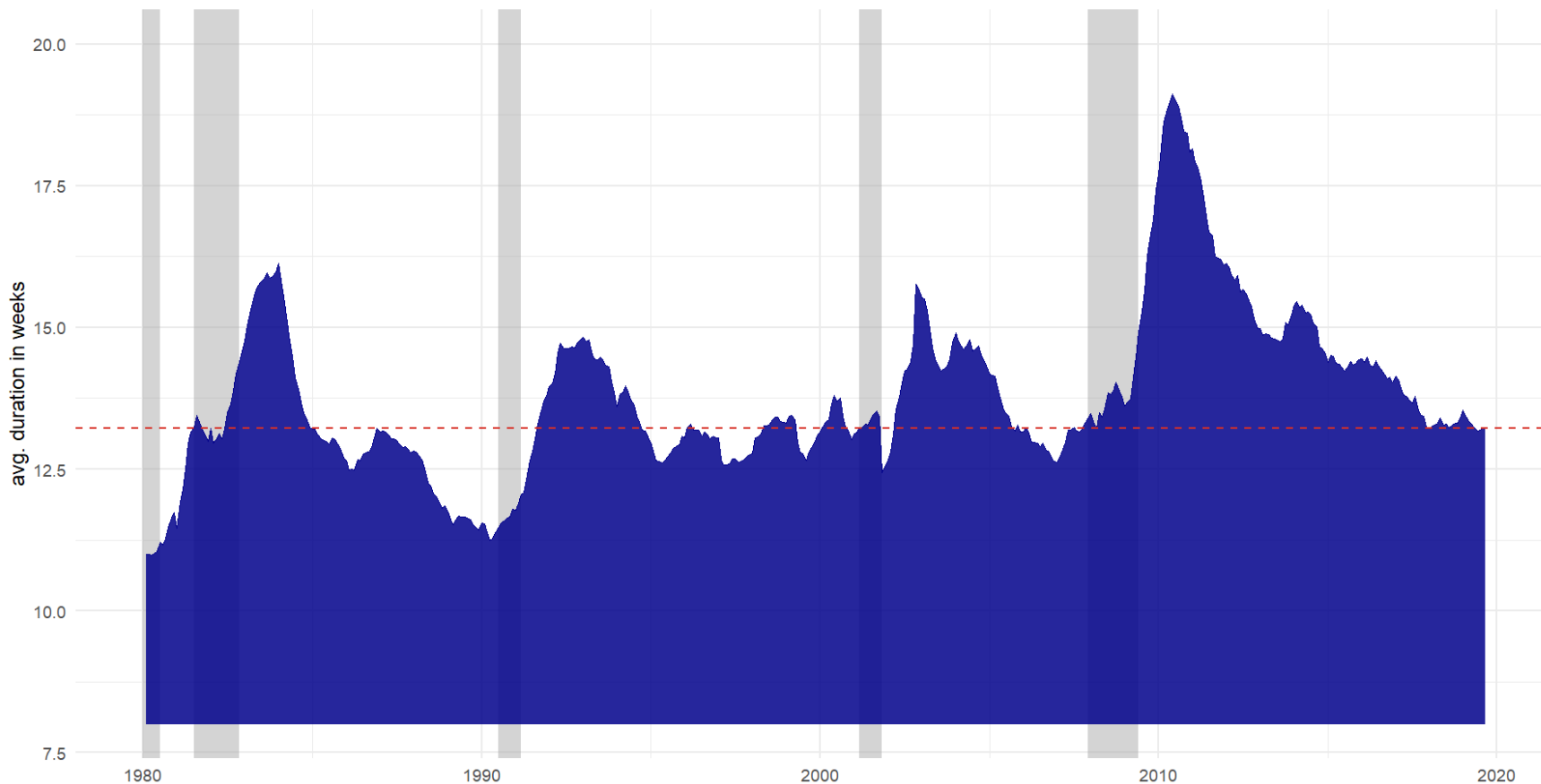
Source: ETA 539



# Nevada UI Trends: Average Duration of Benefits Flat

## State of Nevada Unemployment Insurance Average Benefit Duration

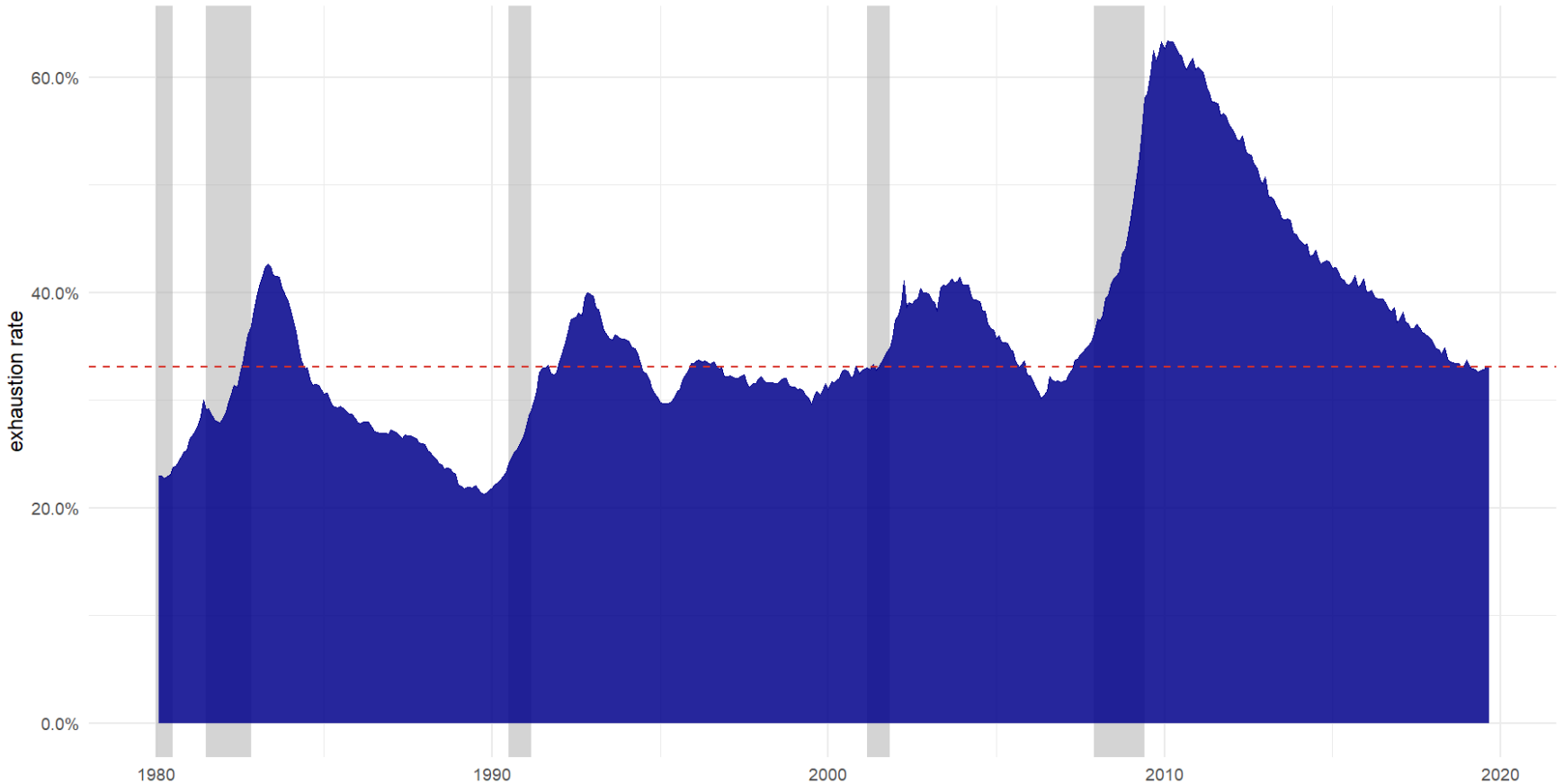
by month, dashed line represents August 2019 level



Source: ETA 5159

# Nevada UI Trends: Exhaustion Rate Beginning to Level Out

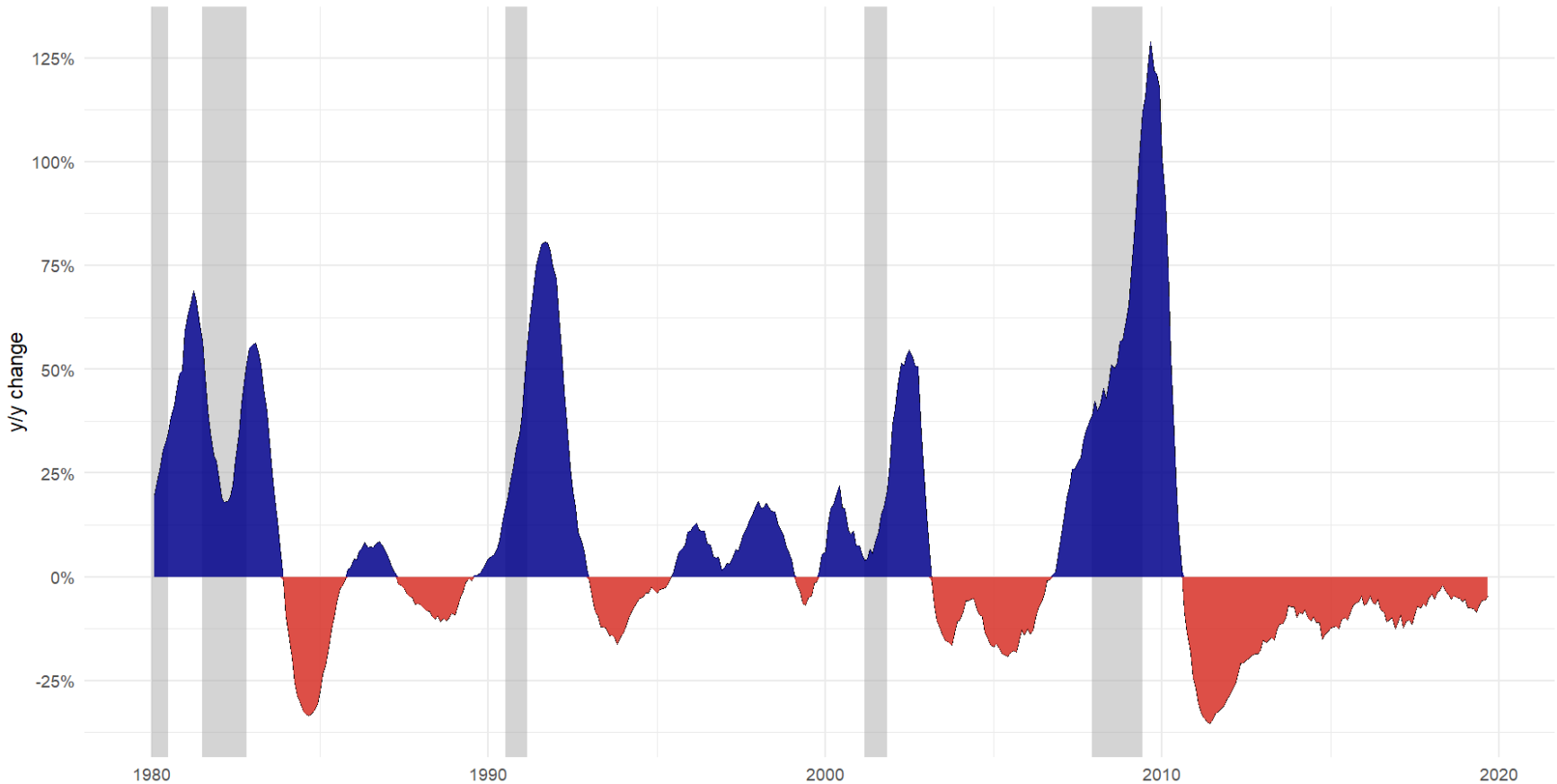
**State of Nevada Unemployment Insurance Exhaustion Rate**  
by month, dashed line represents August 2019 rate



Source: ETA 5159

# Nevada UI Trends: Benefit Payments Still in Decline

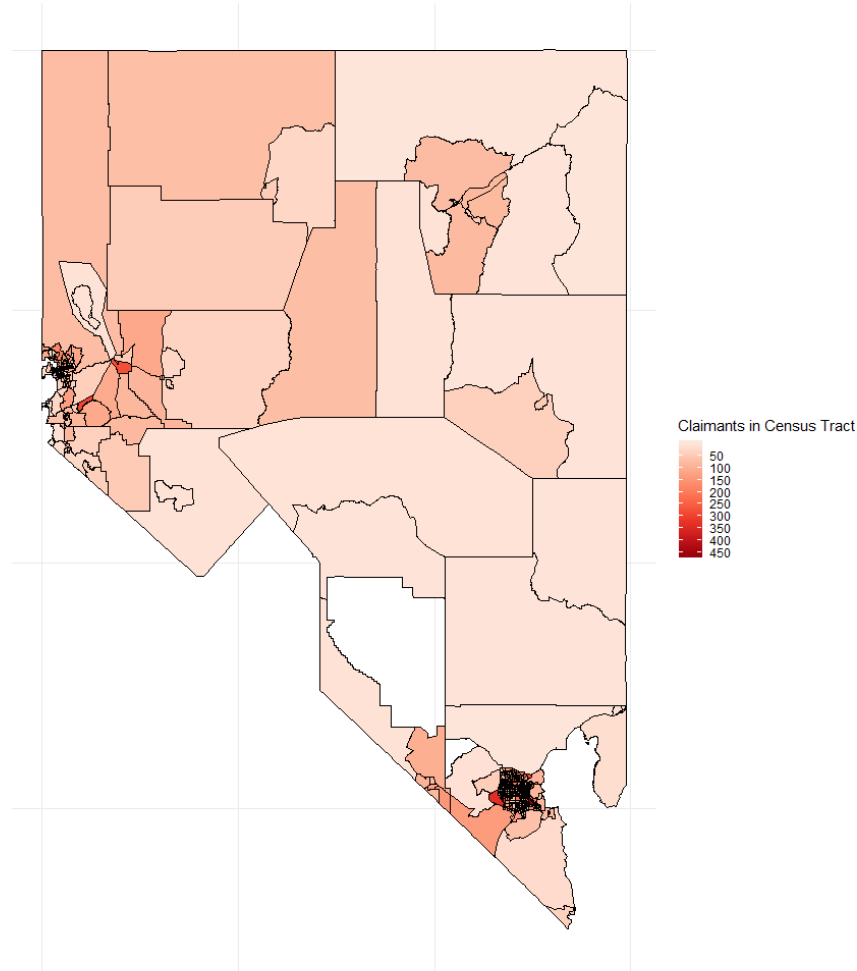
**State of Nevada Unemployment Insurance % Change in Benefit Payments**  
year-over-year using 12 month moving average



Source: ETA 5159

# Nevada UI Trends:

## Where are Claimants Coming From? 2018 Claimants By Census Tract



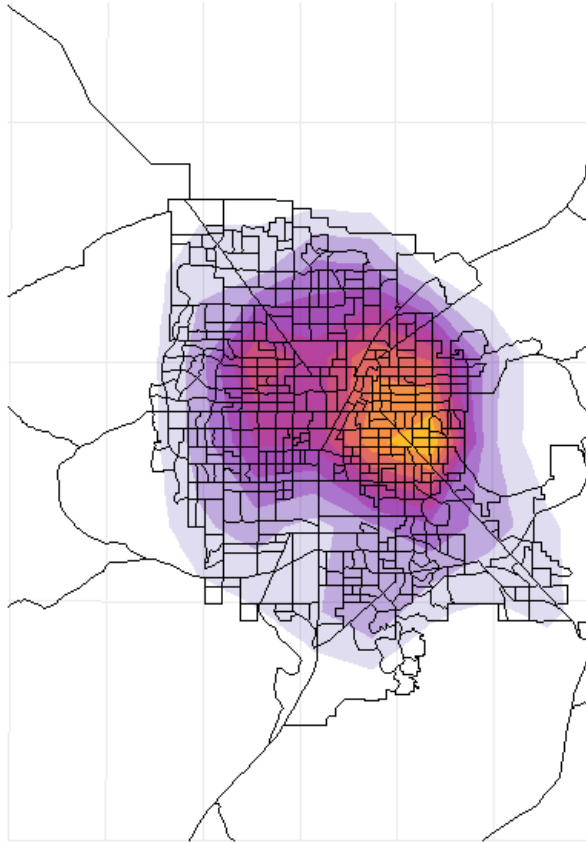
claims with BYE in 2018  
\*map only includes claimants that had an address that could be geo-coded

# Nevada UI Trends: Where are Claimants Coming From? (Part 1)

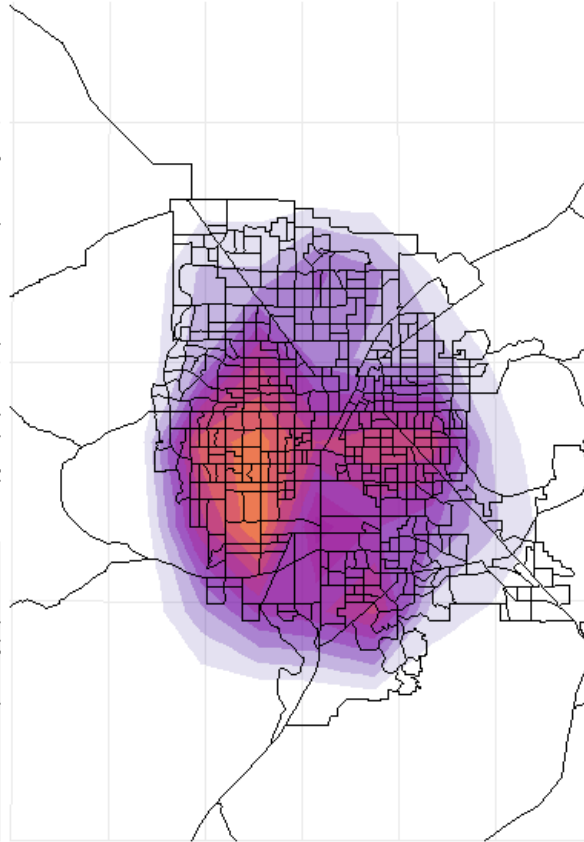
## Unemployment Insurance Claimants in Clark County by Race

claimants with BYE in 2018

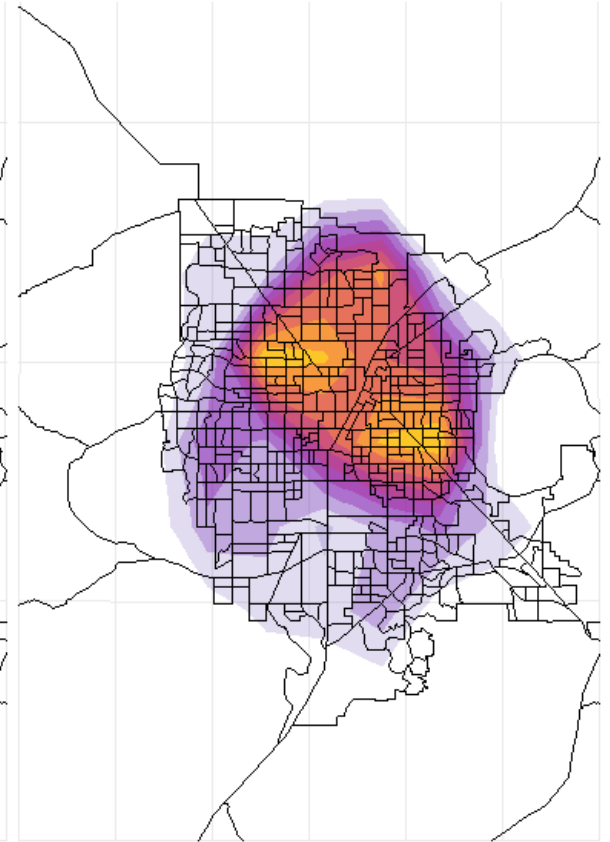
American Indian/AK Native



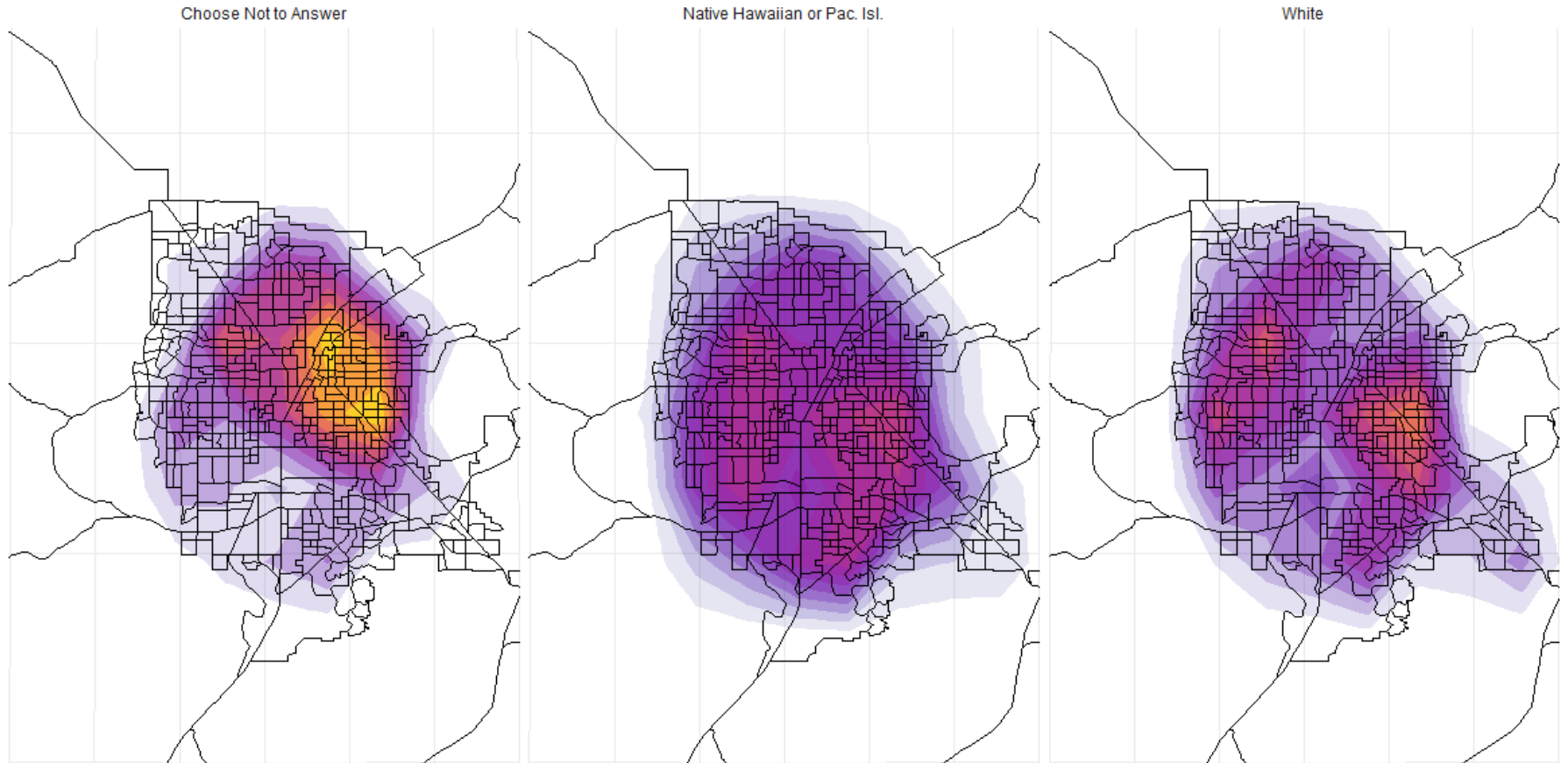
Asian



Black/African American



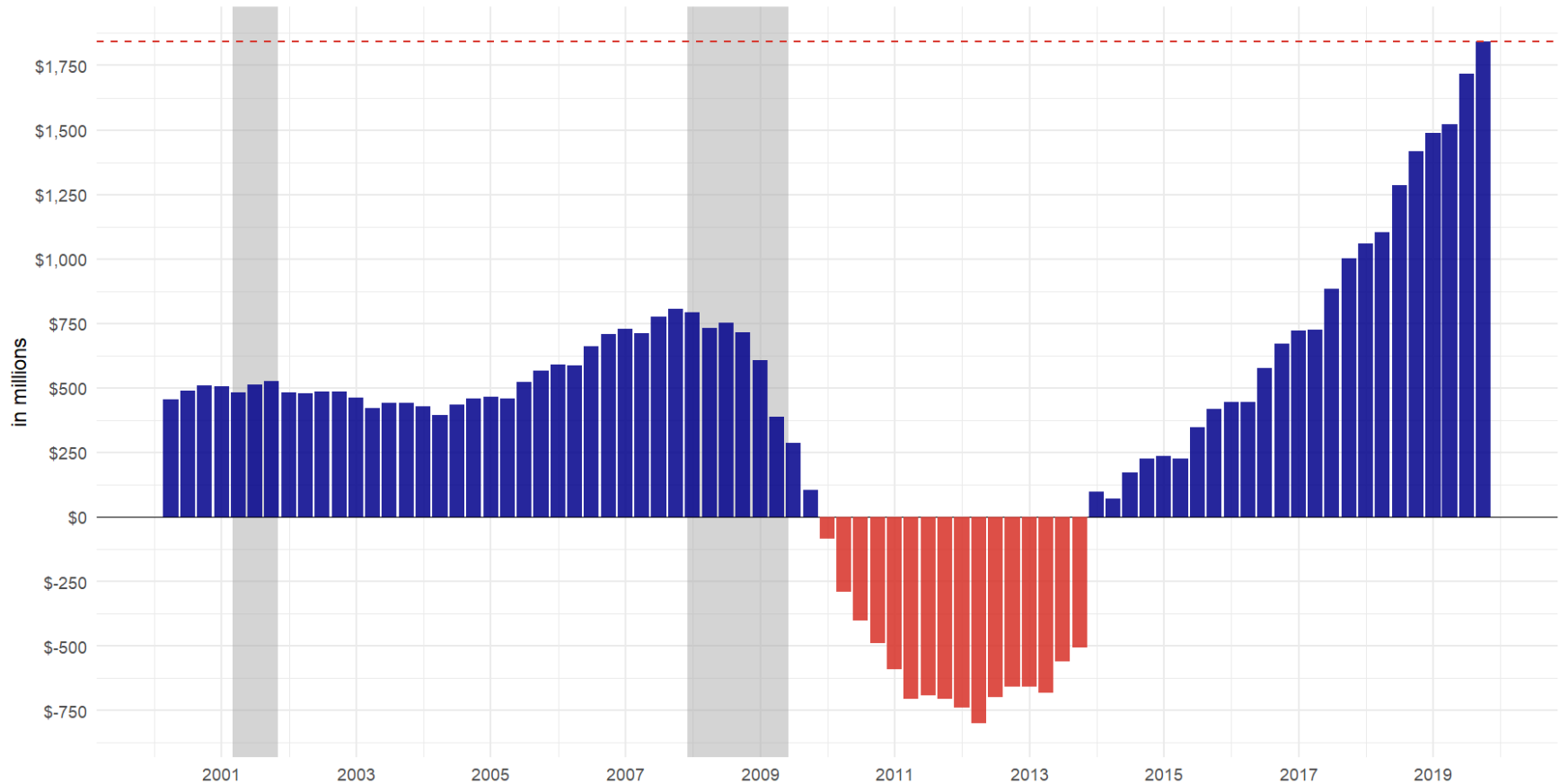
# Nevada UI Trends: Where are Claimants Coming From? (Part 2)



# Nevada's Trust Fund: Growing and Growing

## State of Nevada UI Trust Fund Balance

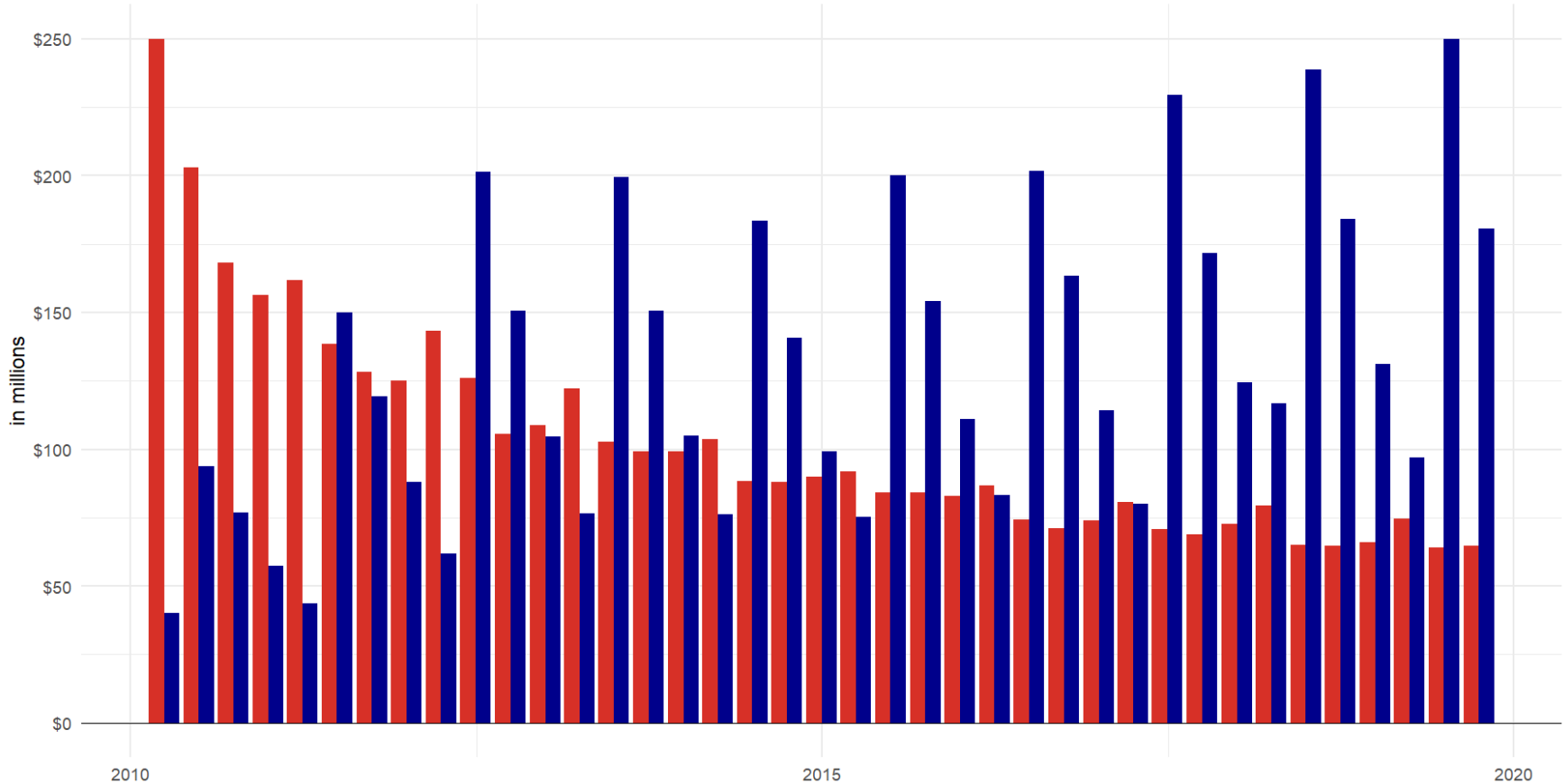
quarter-ending balances including borrowing



Source: ETA 2112 & Treasury Borrowing Reports

# Nevada's Trust Fund: Trust Fund Growth in Last 14 Quarters

**State of Nevada UI Contributions & Benefit Payments**  
quarter-ending totals (excludes UI bond proceeds)



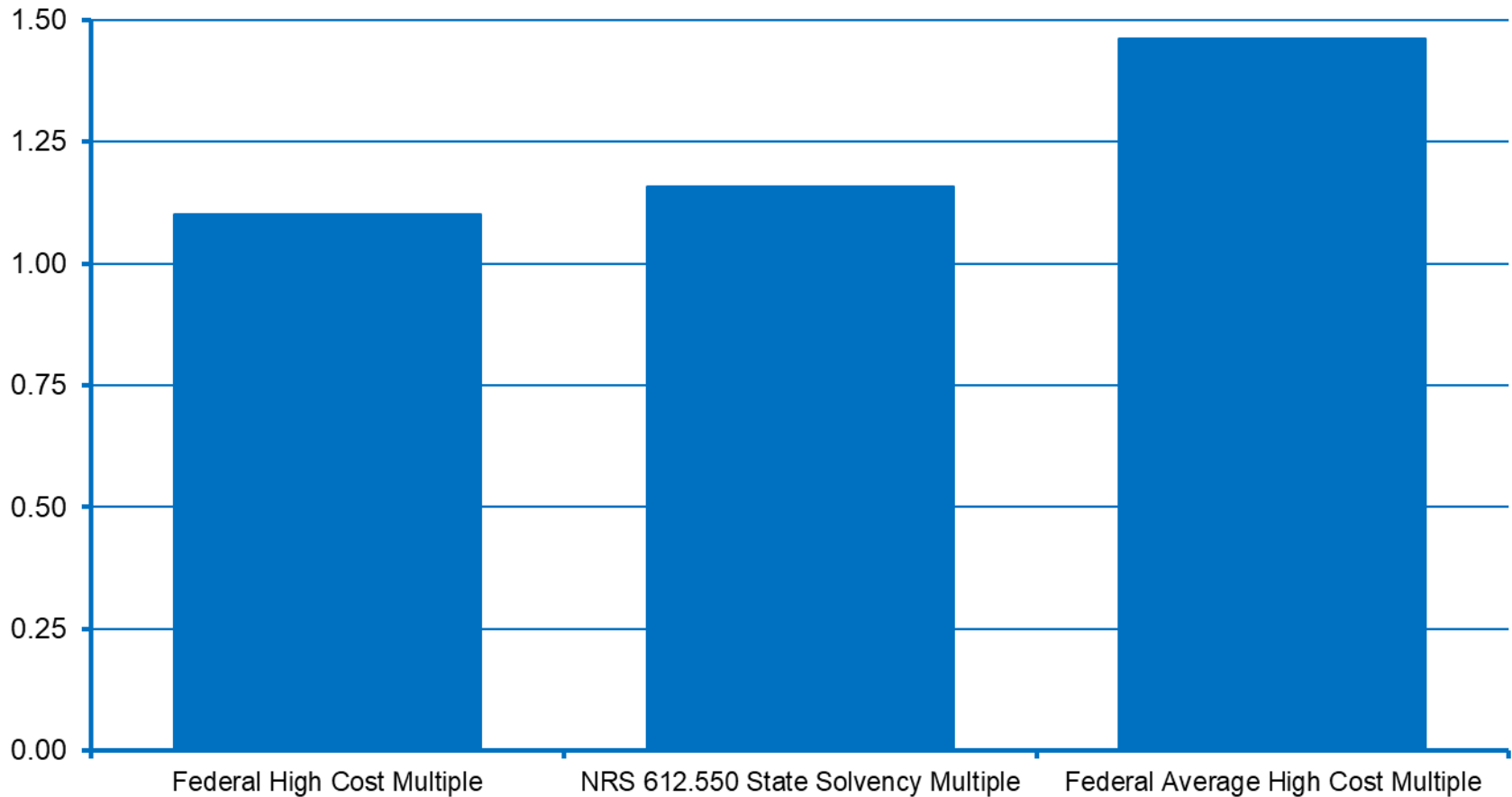
Source: ETA 2112



# Nevada's Trust Fund: Current Solvency Multiples

## Trust Fund Solvency Levels

quarter-ending Q3 2019



# 2020 Rate Discussion & Forecast: Where do we go from here?

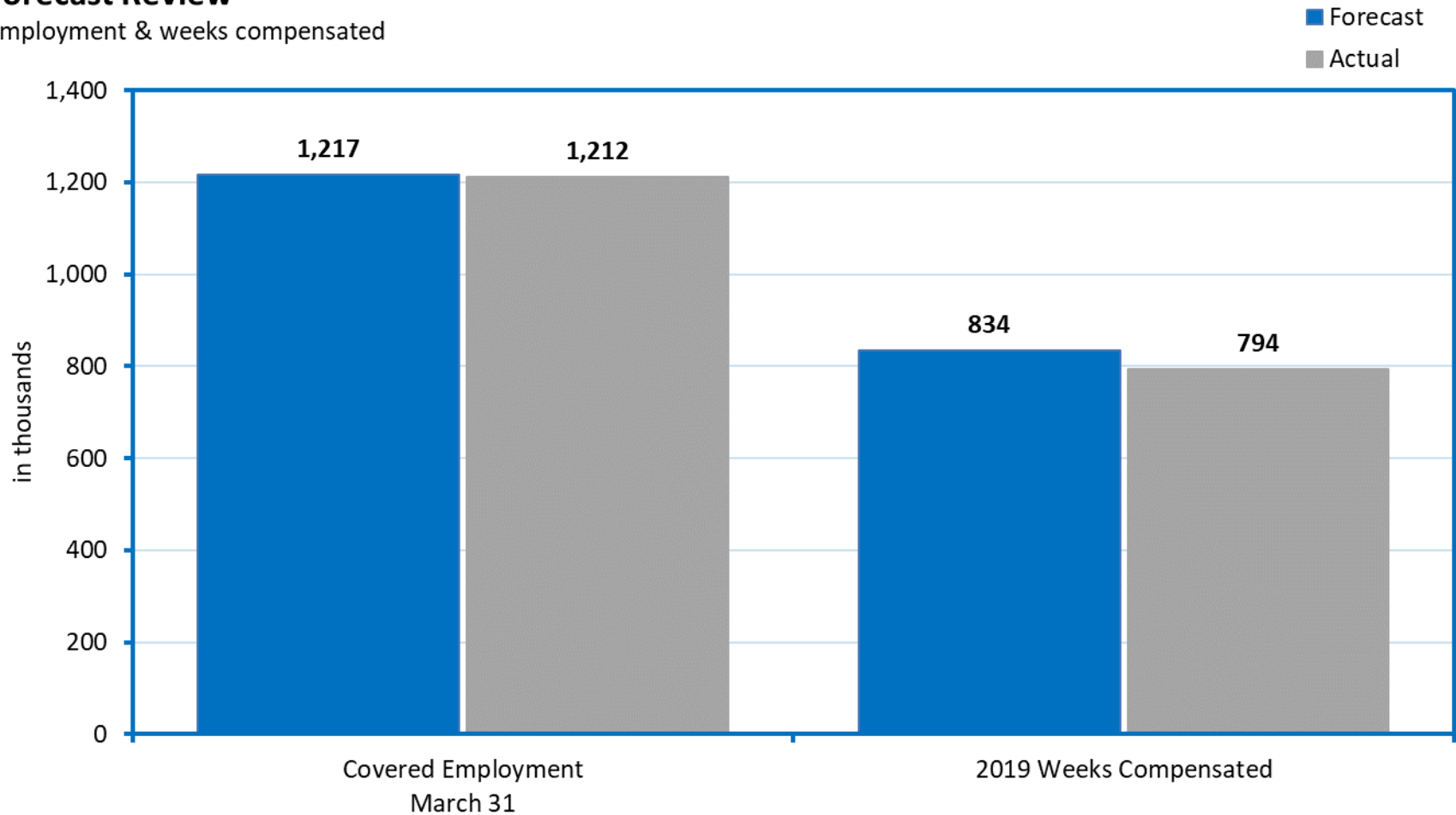
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- Desired solvency level?
- How aggressive do we need to be?
- Recession Watch 2020

# 2020 Rate Discussion: Review of 2019 Forecast

## Forecast Review

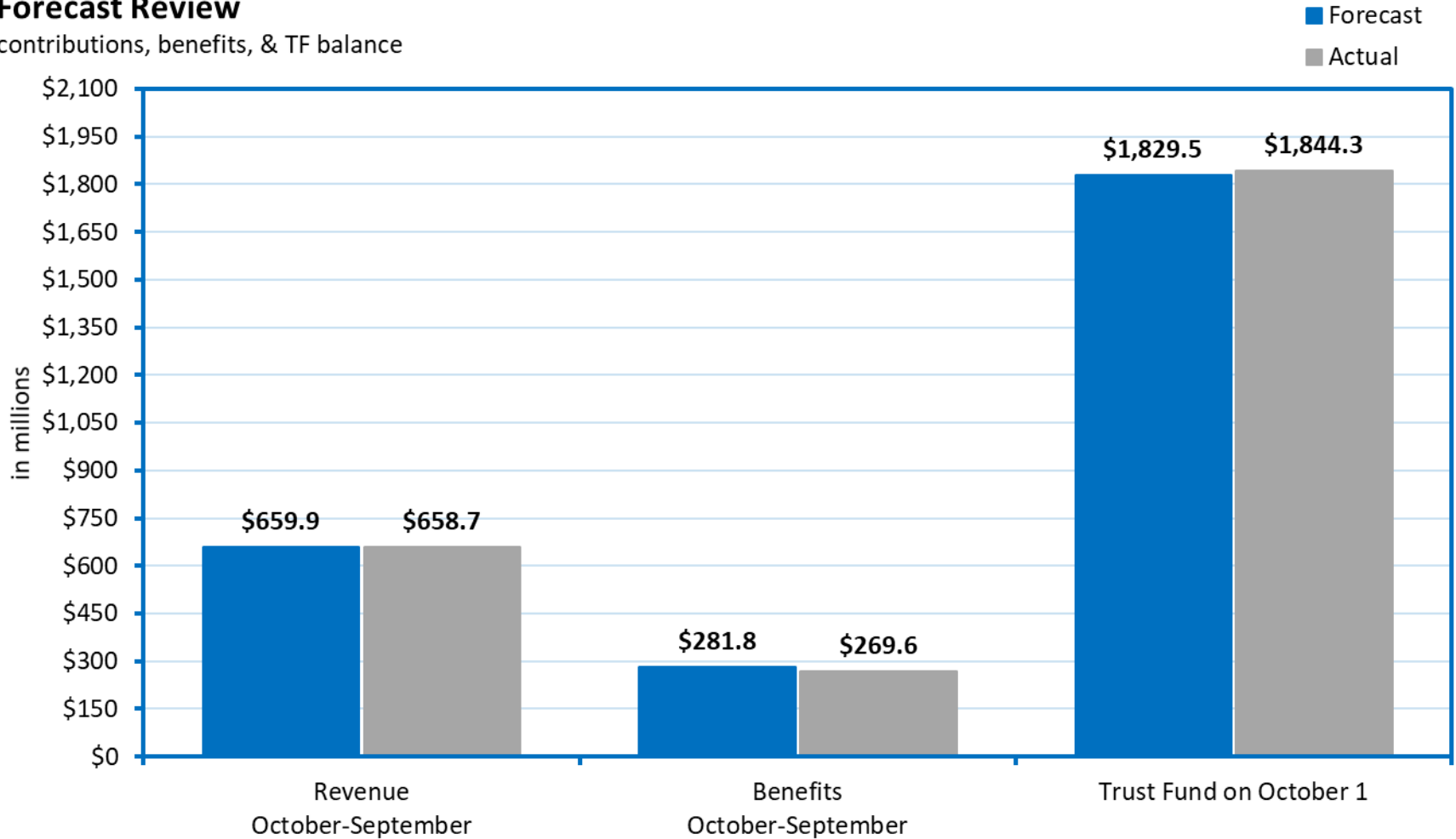
employment & weeks compensated



# 2020 Rate Discussion: Review of Forecast for 2019

## Forecast Review

contributions, benefits, & TF balance

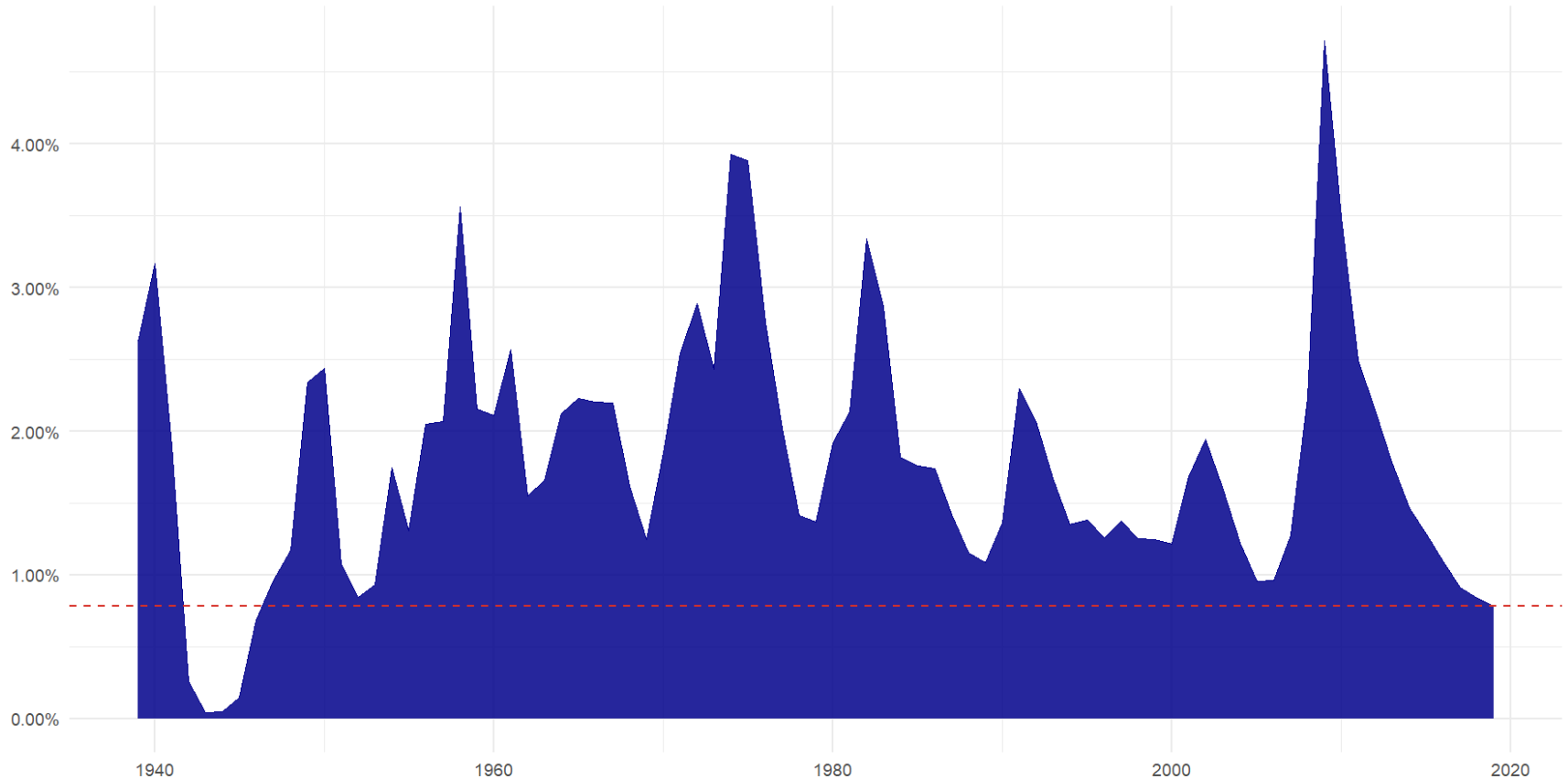


# 2020 Rate Discussion: Historical Solvency Review

Nevada Solvency Calculation	Actual	Actual	Actual	Actual	Actual	Preliminary
NRS 612.550	<u>2014</u>	<u>2015</u>	<u>2016</u>	<u>2017</u>	<u>2018</u>	<u>2019</u>
Covered Employment	1,009,195	1,051,719	1,087,749	1,125,334	1,168,816	1,211,668
Highest Risk Ratio	18.98%	18.98%	18.98%	18.98%	18.98%	18.98%
Highest Weeks Duration	19.12	19.12	19.12	19.12	19.12	18.42
Average Weekly Payment	\$310.18	\$318.88	\$326.32	\$335.91	\$347.25	\$360.12
<b>Solvency Target (Millions)</b>	<b>\$1,136.0</b>	<b>\$1,217.0</b>	<b>\$1,288.1</b>	<b>\$1,371.7</b>	<b>\$1,472.9</b>	<b>\$1,525.7</b>
<b>Beginning Fund Balance (Millions)</b>	<b>(\$507.8)</b>	<b>\$225.5</b>	<b>\$419.3</b>	<b>\$672.9</b>	<b>\$1,000.8</b>	<b>\$1,415.8</b>
Intake to Fund	1,100.9	535.9	571.3	613.7	690.5	696.7
Taxes	505.4	528.8	559.5	595.4	647.2	658.7
Bond Related	592.4	0.0	0.0	0.0	16.3	0.0
Interest	3.1	7.1	11.7	18.3	27.0	38.1
Payout From Fund	379.1	350.3	315.0	294.2	281.8	269.6
Regular Benefits	379.1	350.3	315.0	294.2	281.8	269.6
Net Change in Fund	721.8	193.8	253.6	327.9	415.0	428.5
<b>Ending Fund Balance (Millions)</b>	<b>\$225.5</b>	<b>\$419.3</b>	<b>\$672.9</b>	<b>\$1,000.8</b>	<b>\$1,415.8</b>	<b>\$1,844.3</b>
Solvency Level (Millions)	(910.4)	(797.7)	(615.2)	(370.9)	(57.1)	318.6
Multiple	0.20	0.34	0.52	0.73	0.96	1.16
Average High Cost Multiple	0.25	0.43	0.64	0.91	1.20	1.46
<b>Average Tax Rate</b>	<b>1.95%</b>	<b>2.00%</b>	<b>1.95%</b>	<b>1.95%</b>	<b>1.95%</b>	<b>1.85%</b>
Average Bond Assessment	0.63%	0.56%	0.62%	0.63%	-----	-----
CEP Rate	0.05%	0.05%	0.05%	0.05%	0.05%	0.05%
<b>Total Cost to Employers</b>	<b>2.63%</b>	<b>2.61%</b>	<b>2.62%</b>	<b>2.63%</b>	<b>2.00%</b>	<b>1.90%</b>
<b>Average Cost per Employee at Max Taxable Wage (excl FUTA &amp; Interest)</b>	<b>\$720.62</b>	<b>\$725.58</b>	<b>\$738.84</b>	<b>\$775.85</b>	<b>\$610.00</b>	<b>\$592.80</b>

# 2020 Rate Discussion: Nevada's Current BCR is Historically Low

**State of Nevada Unemployment Insurance Benefit Cost Rates by Year**  
for calendar years 1939 to 2019



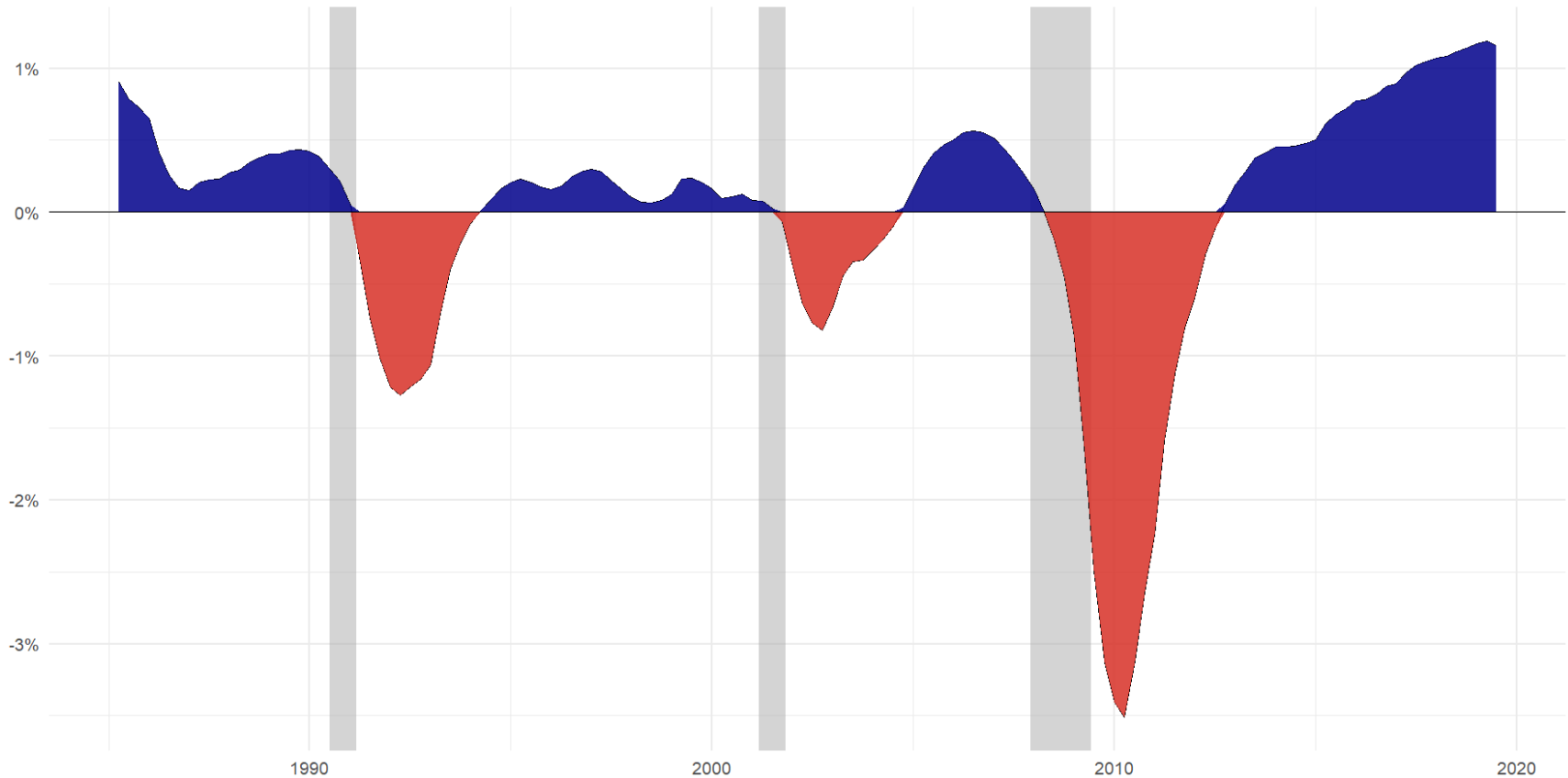
Source: ETA 394  
\*2019 rate is estimated

# 2020 Rate Discussion: Contribution Rates and Benefit Cost Rates

## Net Difference of UITF Average Tax Rate & Benefit Cost Rate

difference of quarterly rates

blue-shaded areas result in TF quarterly growth, red-shaded in TF quarterly decline

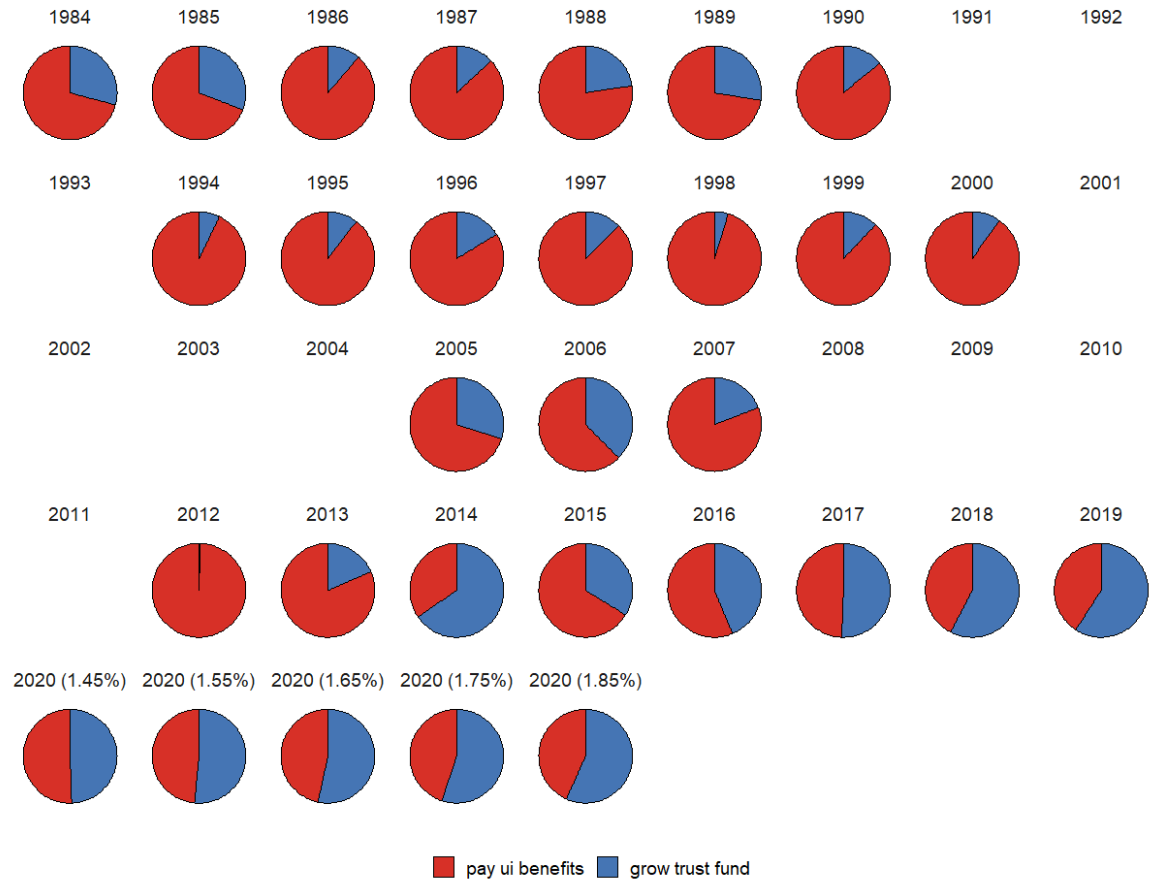


Source: ETA 2112

# 2020 Rate Discussion: Where do UI Contributions Go?

## Distribution of UI Contributions

by ESC year

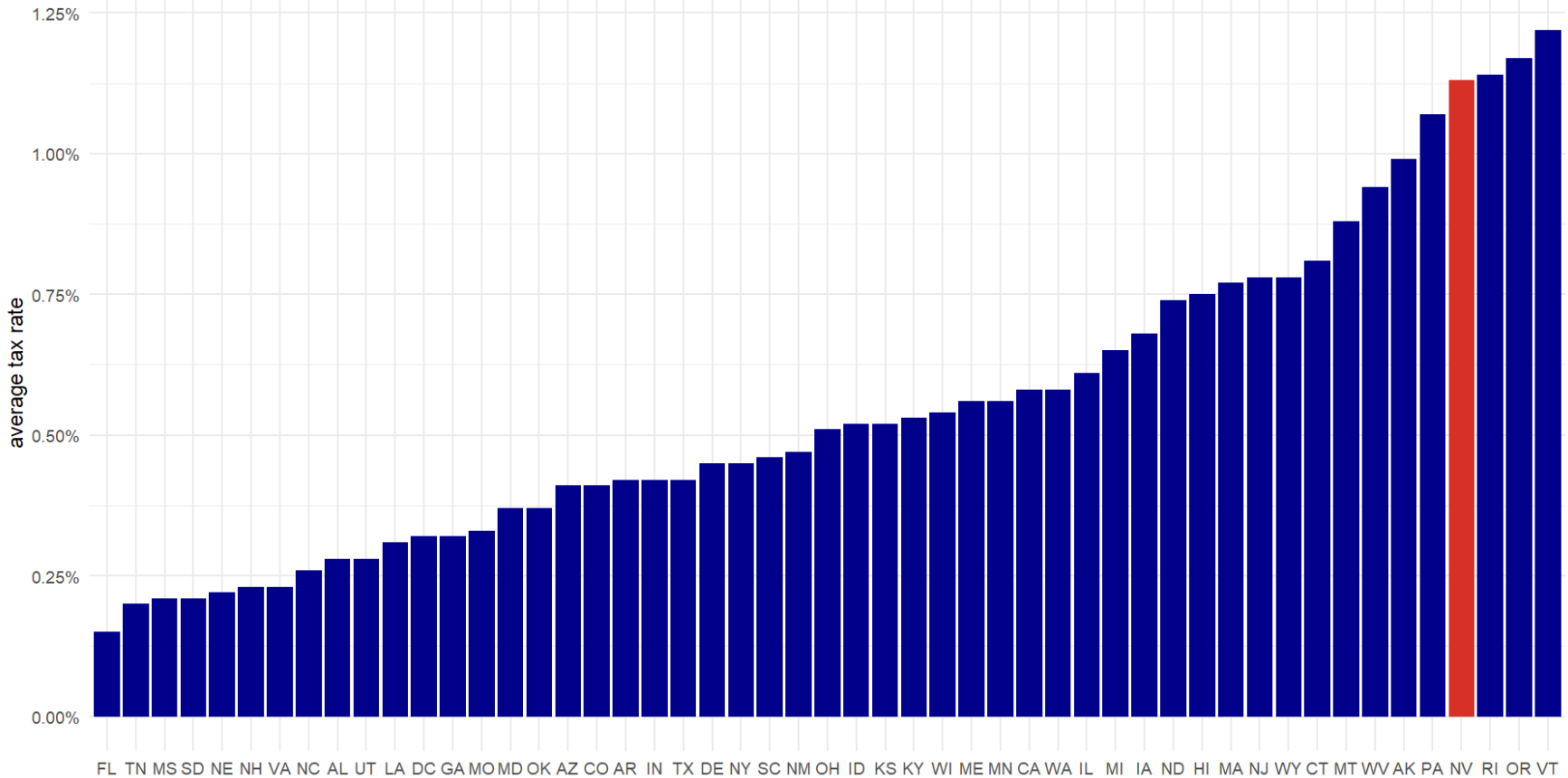


Source: ETA 2112



# 2020 Rate Discussion: Nevada had the 4<sup>th</sup> Highest UI Tax Rate in the Nation

**Unemployment Insurance Average Tax Rates by State**  
as of end of Q4 2018



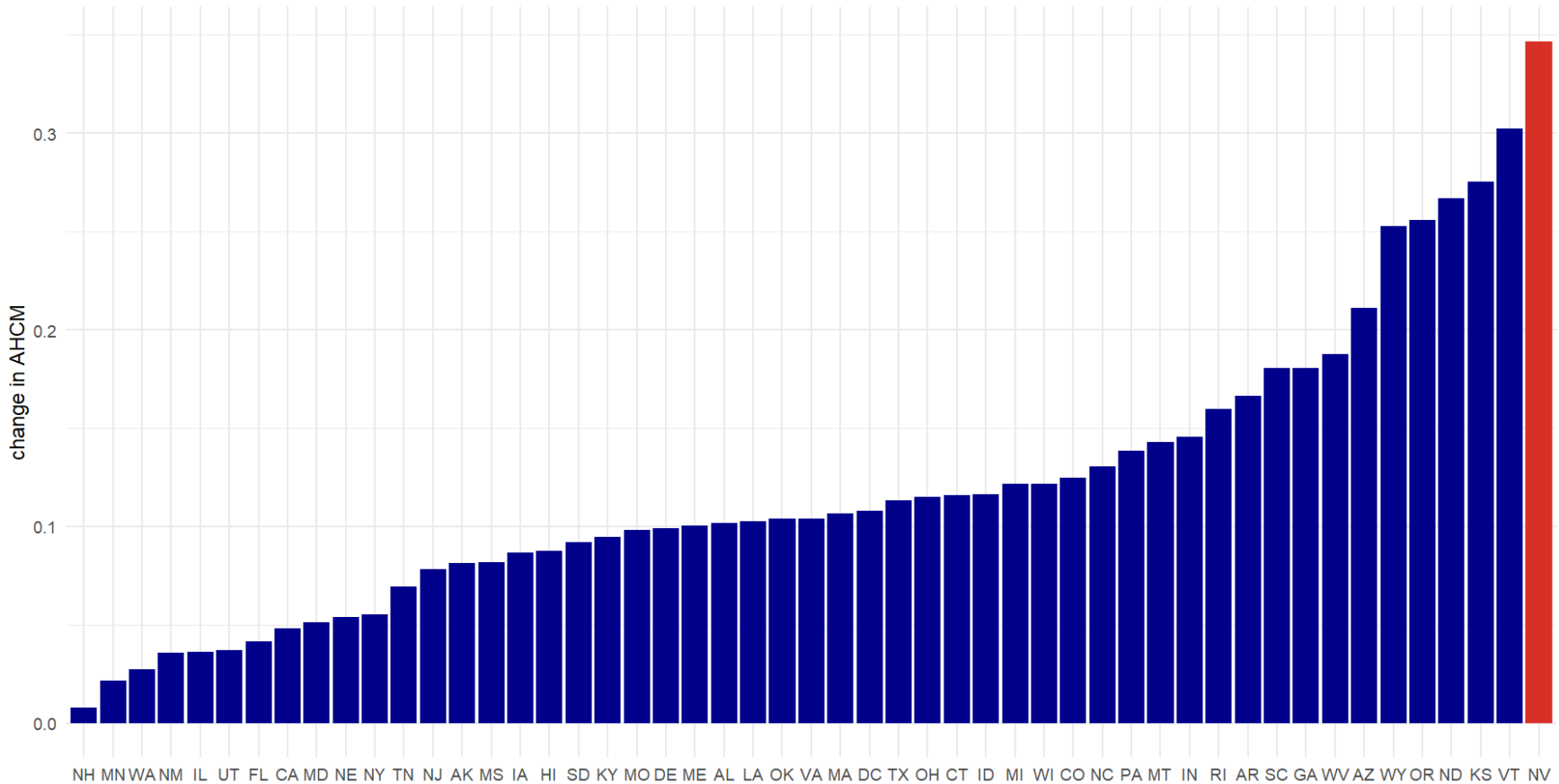
Source: ETA UI Data Summary

# 2020 Rate Discussion:

## Nevada's Trust Fund Growth is Amongst the Most Aggressive

### Unemployment Insurance Trust Fund Average High Cost Multiple by State

change in AHCM over-the-year, quarter-ending Q2 2019

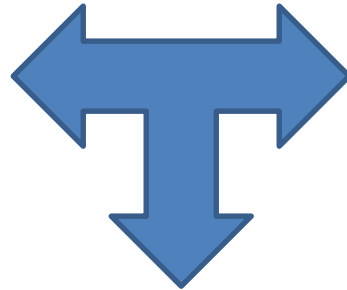


Source: ETA 2112

# 2020 Rate Discussion: Responding to a Potential Recession

What might an appropriate average tax rate be for 2020, given the potential for a recession to hit?

Recession: 40%  
No Recession: 60%



Recession Rate: 1.35%  
No Recession Rate: 1.85%

$$0.4 \times 1.35\% = 0.54\% +$$

$$0.6 \times 1.85\% = 1.11\% =$$

**1.65%**

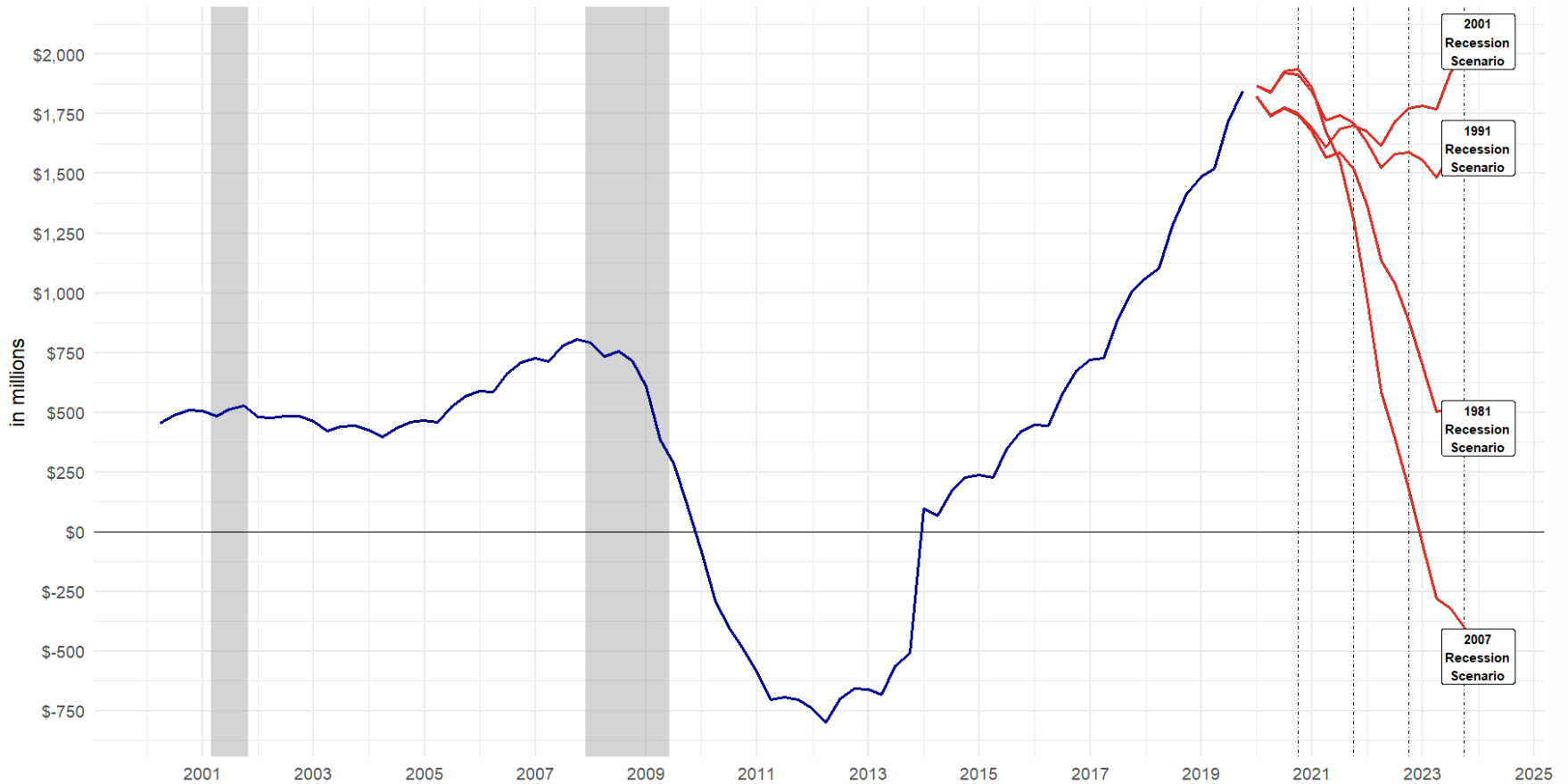
**Note:** The expected value here depends on both your assumed probabilities about an unknown future, and your own judgement about the best response to each outcome. It is a tool to help you structure your thoughts, not a crystal ball.

# 2020 Rate Discussion :

## What would Previous Recessions Look Like Today?

### State of Nevada UI Trust Fund Balance in Recession Scenarios

estimated periods: Q3 2019 to Q4 2023  
assumed 1.65% ui tax rate for all periods



# 2020 Forecast:

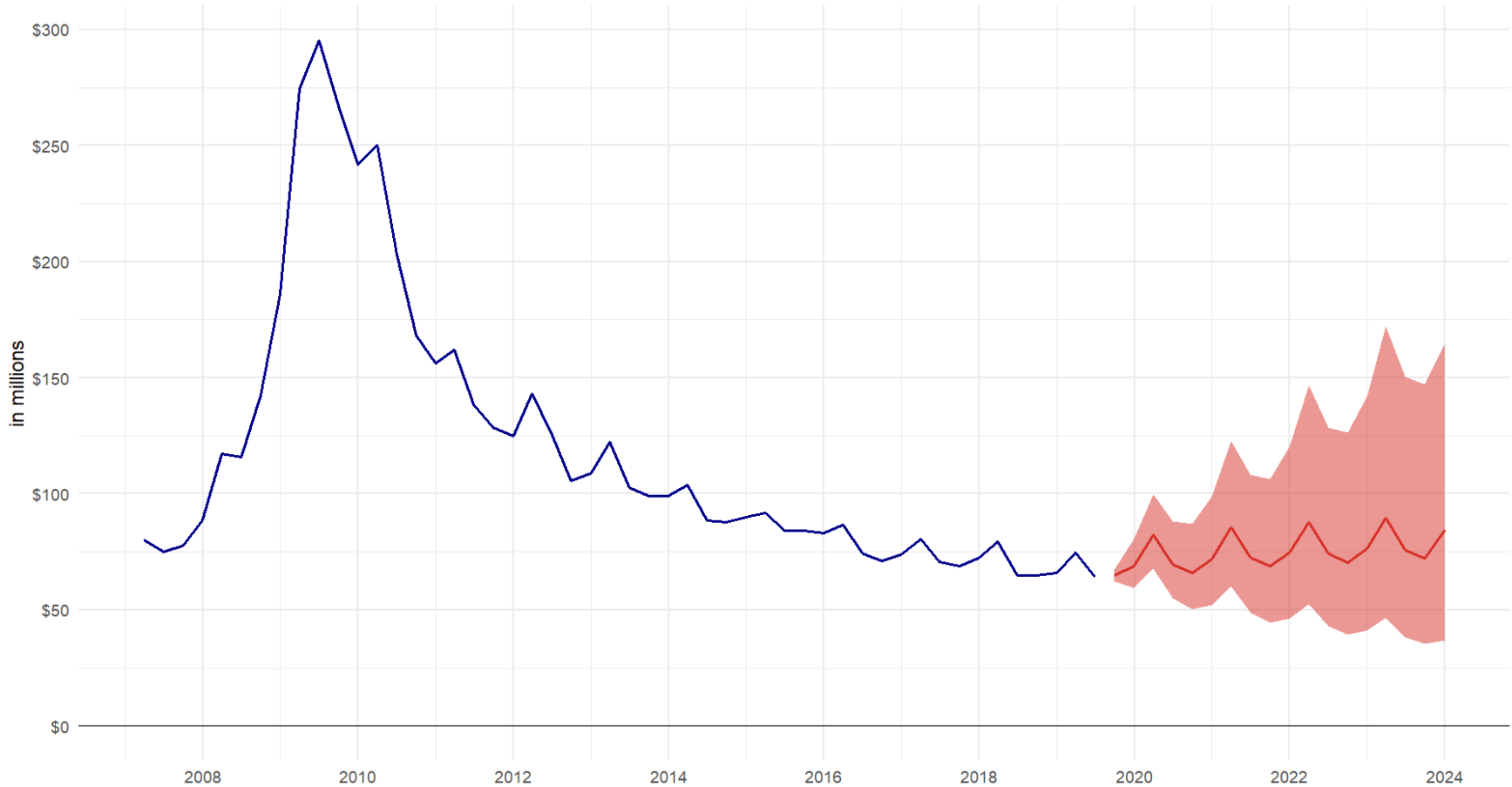
## Potential 2020 Tax Rates

<b>Nevada Solvency Calculation</b>	<b>2020</b>	<b>2020</b>	<b>2020</b>	<b>2020</b>	<b>2020</b>
Covered Employment	1,235,305	1,235,305	1,235,305	1,235,305	1,235,305
Highest Risk Ratio - 3/2011	12.42%	12.42%	12.42%	12.42%	12.42%
Highest Weeks Duration - 09/2011	16.21	16.21	16.21	16.21	16.21
Average Weekly Payment	\$372.29	\$372.29	\$372.29	\$372.29	\$372.29
<b>Solvency Target (Millions)</b>	<b>\$925.3</b>	<b>\$925.3</b>	<b>\$925.3</b>	<b>\$925.3</b>	<b>\$925.3</b>
<b>UI Trust Fund Level</b>					
<b>Beginning Fund Balance (Millions)</b>	<b>\$1,844.3</b>	<b>\$1,844.3</b>	<b>\$1,844.3</b>	<b>\$1,844.3</b>	<b>\$1,844.3</b>
Intake to Fund	614.8	638.9	662.9	686.9	710.9
Taxes	568.3	592.1	615.9	639.7	663.6
Interest	46.5	46.7	46.9	47.2	47.4
Payout From Fund	286.9	286.9	286.9	286.9	286.9
Regular Benefits	286.9	286.9	286.9	286.9	286.9
Net Change in Fund	327.9	351.9	375.9	400.0	424.0
<b>Ending Fund Balance (Millions)</b>	<b>\$2,172.2</b>	<b>\$2,196.2</b>	<b>\$2,220.3</b>	<b>\$2,244.3</b>	<b>\$2,268.3</b>
State Solvency Excess (Millions)	1,246.9	1,271.0	1,295.0	1,319.0	1,343.1
State Solvency Multiple	2.35	2.37	2.40	2.43	2.45
AHCM Solvency Excess (Millions)	884.4	908.4	932.5	956.5	980.5
Average High Cost Multiple	1.65	1.67	1.69	1.70	1.72
<b>Average Tax Rate</b>	<b>1.45%</b>	<b>1.55%</b>	<b>1.65%</b>	<b>1.75%</b>	<b>1.85%</b>
CEP Assessment	0.05%	0.05%	0.05%	0.05%	0.05%
<b>Total Cost to Employers</b>	<b>1.50%</b>	<b>1.60%</b>	<b>1.70%</b>	<b>1.80%</b>	<b>1.90%</b>
<b>Average Cost Per Employee at Taxable Wage Base</b>	<b>\$483.00</b>	<b>\$515.20</b>	<b>\$547.40</b>	<b>\$579.60</b>	<b>\$611.80</b>

# 2020 Forecast: Benefit Payments Expected to Rise

## State of Nevada UI Benefit Payments by Quarter

estimated periods: Q3 2019 to Q4 2023

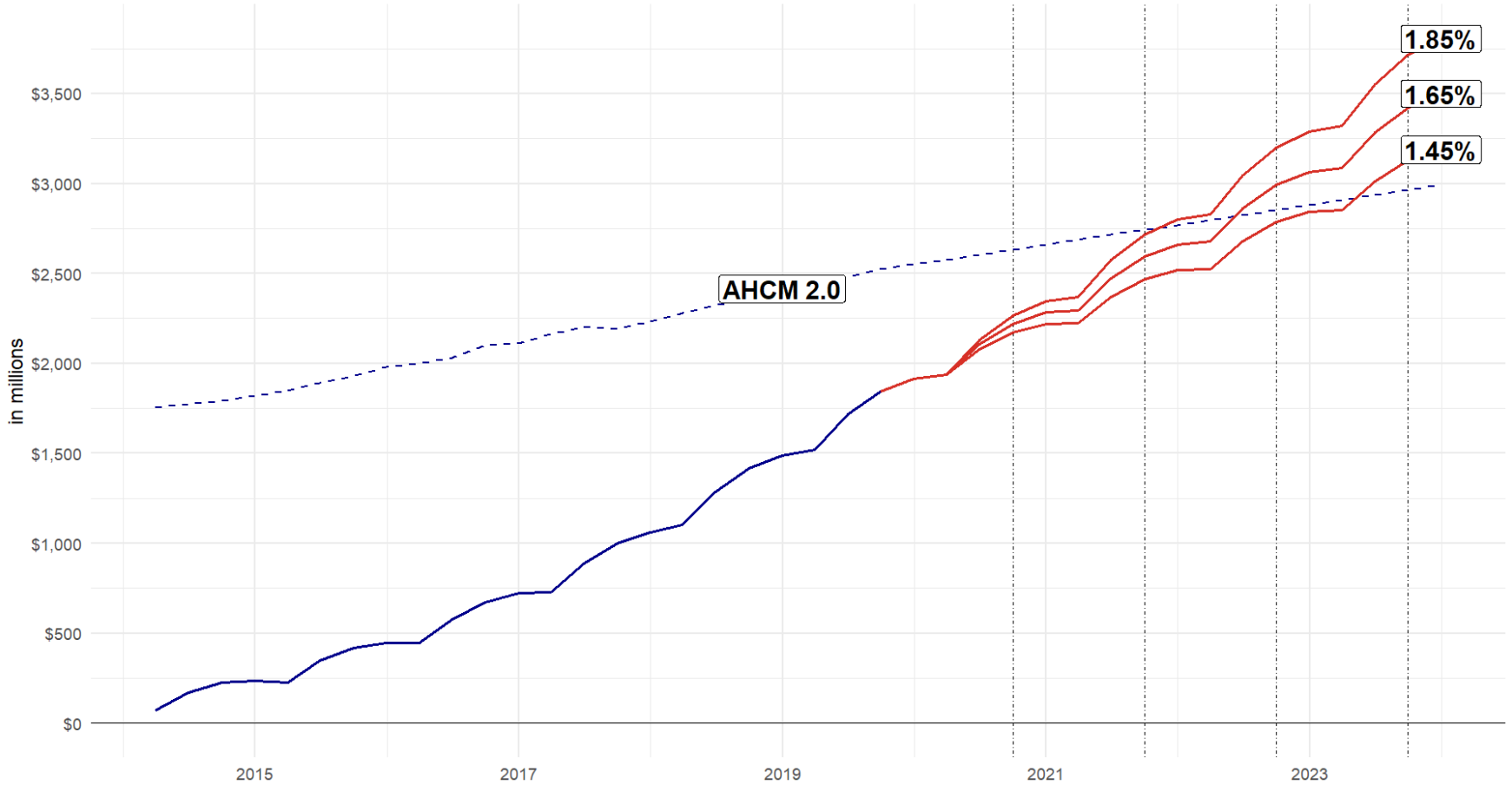


# 2020 Forecast:

## Estimated Trust Fund Balance Over Time

State of Nevada UI Trust Fund Estimated Balances at Various UI Tax Rates

estimated periods: Q3 2019 to Q4 2023



# 2020 Forecast: Long Term Effect of Different Rates

AHCM on Sept. 30 of Each Year					
Tax Rate	Current	2020 AHCM	2021 AHCM	2022 AHCM	2023 AHCM
1.45%	1.46	1.65	1.80	1.95	2.11
1.55%	1.46	1.67	1.85	2.02	2.21
1.65%	1.46	1.69	1.89	2.10	2.31
1.75%	1.46	1.70	1.94	2.17	2.41
1.85%	1.46	1.72	1.98	2.24	2.50

- Estimates reflect constant tax rate for all years in baseline, no recession scenario.



# 2020 Forecast:

## Potential 2020 Tax Rates

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# For Additional Information, Please Contact:

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