

Economic Affairs Committee

**Thursday, January 13, 2011
10:15 AM
Reed Hall (102 HOB)**

**Dean Cannon
Speaker**

**Dorothy L. Hukill
Chair**

Committee Meeting Notice

HOUSE OF REPRESENTATIVES

Economic Affairs Committee

Start Date and Time: Thursday, January 13, 2011 10:15 am

End Date and Time: Thursday, January 13, 2011 12:15 pm

Location: Reed Hall (102 HOB)

Duration: 2.00 hrs

Overview of Unemployment Compensation

NOTICE FINALIZED on 01/06/2011 10:45 by Adeyemo.Martha



Florida House of Representatives

Economic Affairs

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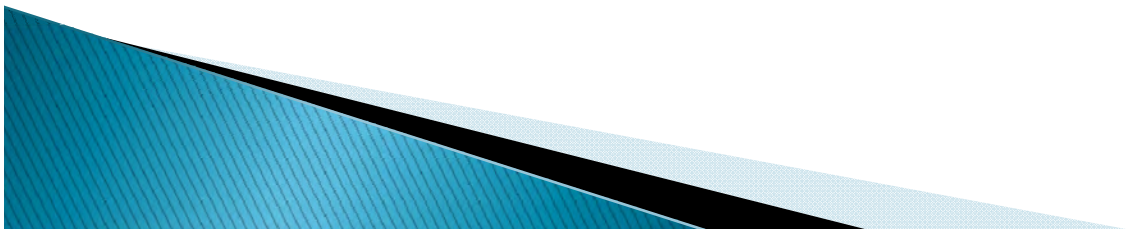
Ritch Workman
(R-30)

Unemployment Compensation Overview

Economic Affairs Committee
January 13, 2011

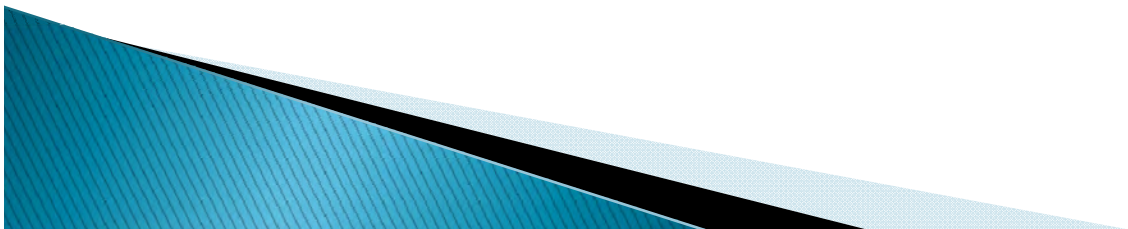
OUTLINE

- Basic Program Structure
- How the Taxes Work
- What is Happening Now (and What is *Going to Happen*)?
- Recent UC History & State Comparisons



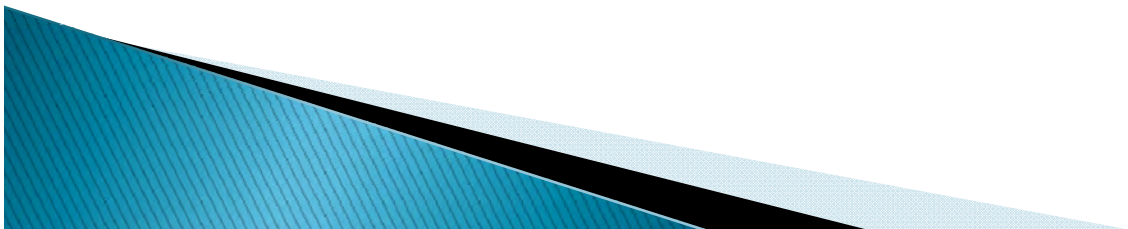
U.C. Program: Basic Structure

- Joint Federal–State Administered Program
- Purpose of the system:
 - Provide *benefits for eligible individuals* who are unemployed
 - *Economic Stabilization*



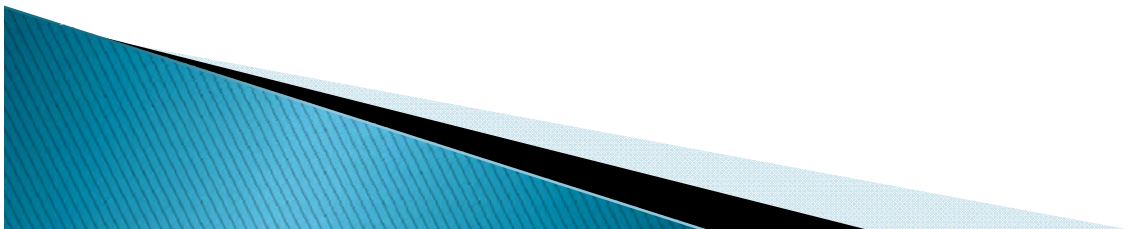
Federal Requirements

- ▶ Sets broad coverage provisions, some benefit provisions, the federal tax base and rate, and administrative requirements;
- ▶ Ensures conformity and substantial compliance of state law, regulations, rules, and operations with federal law;
- ▶ Sets broad overall policy for administration of the program, monitors state performance; and provides technical assistance as necessary; and
- ▶ Holds and invests all money in the UC trust fund until drawn down by states for payment of compensation.



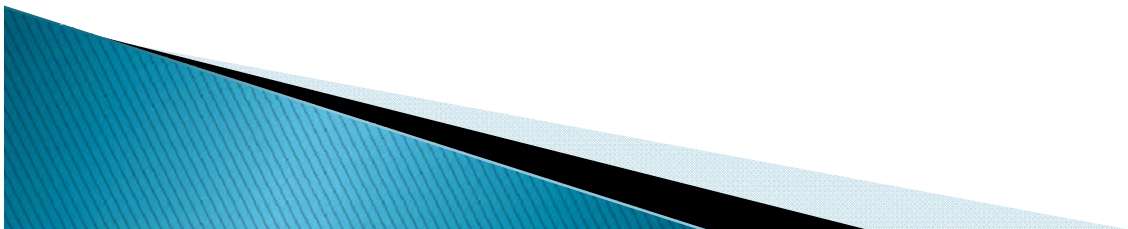
State's Role

- ▶ Each state designs its own UC program within the framework of the federal requirements;
- ▶ Determines operation methods and directly administers the program;
- ▶ Takes claims from individuals, determines eligibility, and insures timely payment of benefits to workers; and
- ▶ Determines employer liability, and assesses and collects state UC taxes.



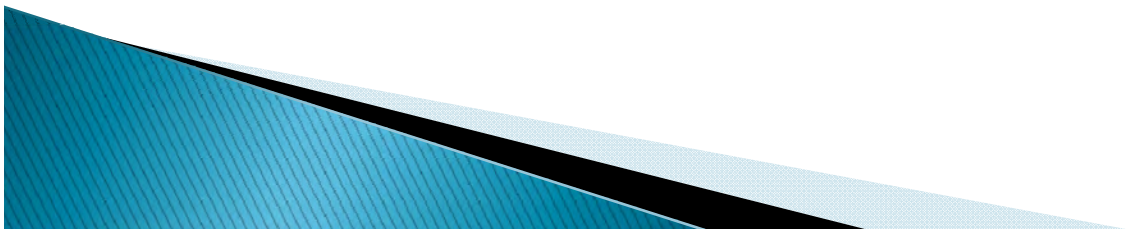
Benefit to State

- ▶ Employers receive up to a 5.4% tax credit against the 6.2% federal unemployment tax.
- ▶ The state is entitled to federal grants to cover all the necessary costs of administering the program.



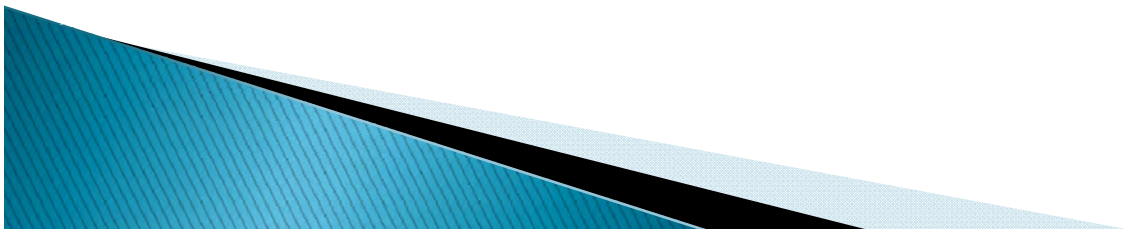
Current State UC Program Policy Choices

- ▶ Maximum Weekly Benefit Amount = \$275
- ▶ Maximum # of Benefit Weeks = 26
- ▶ Part-time Work Eligible for Benefits
- ▶ Maximum Business Tax Rate = 5.4%

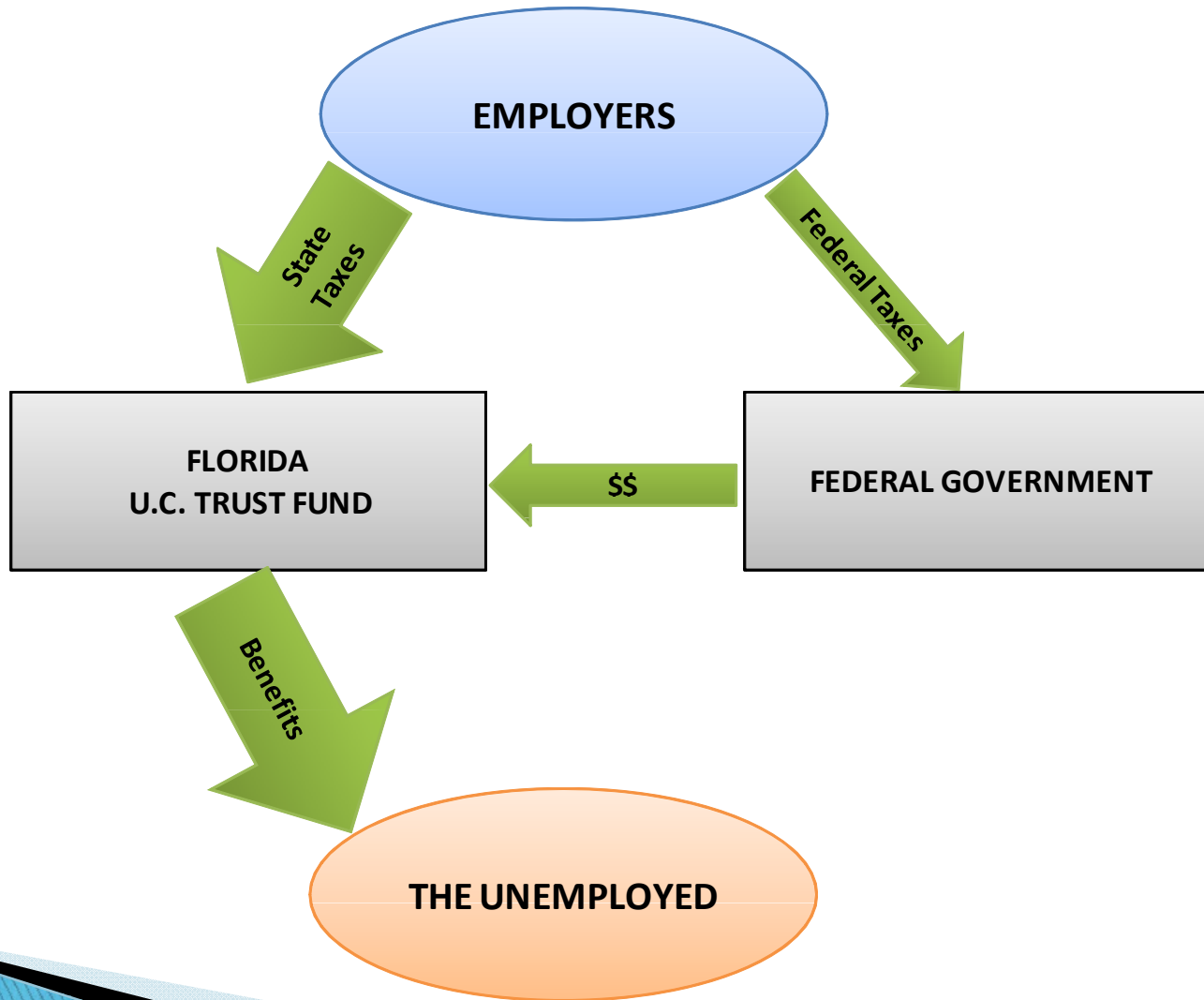


Current State UC Program Policy Choices

- ▶ Benefit eligibility liberally construed in favor of a claimant (s. 443.031)
- ▶ Disqualification from receiving benefits:
 - voluntarily leaving the job w/out good cause attributable to the employer; or
 - when the employee has been discharged for misconduct connected with the job (s. 443.101)
- ▶ Claimant available for work means actively seeking and being ready and willing to accept suitable employment (s. 443.036)

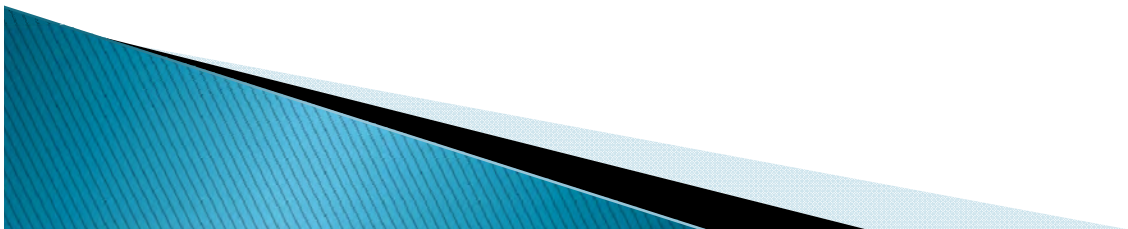


U.C. Program: Basic Structure



UC Taxes

- **Florida employers pay two distinct taxes:**
 - **State Tax** pays for:
 - U.C. benefits to unemployed Floridians
 - **Federal Tax** pays for:
 - Cost of administration
 - State Loan Advances
 - Some Extended Unemployment Benefits
 - Job Service Programs



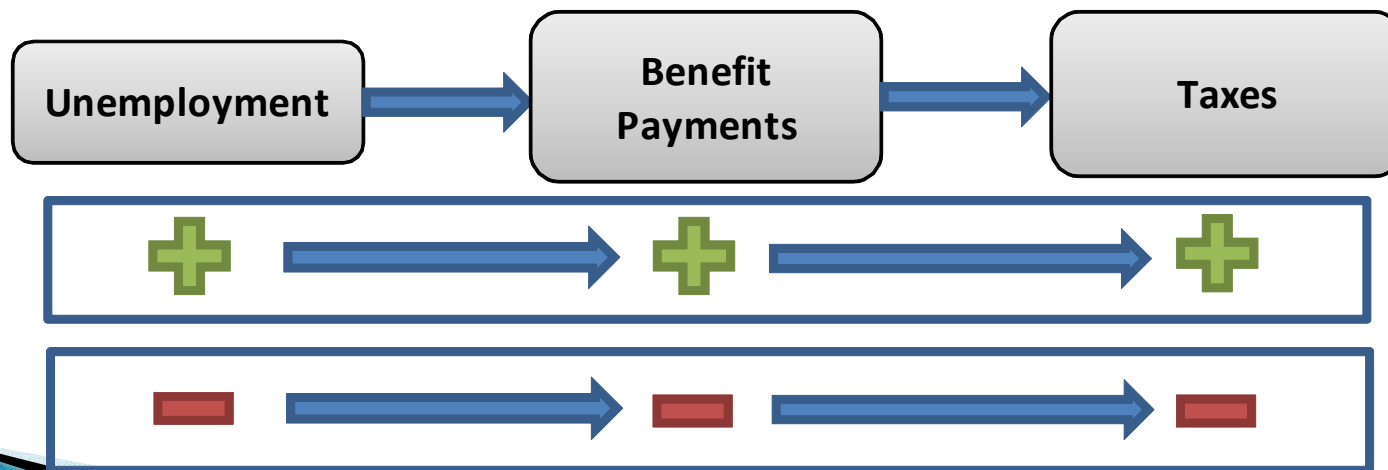
U.C. Program: Basic Structure

- State tax payments are deposited into the U.C. Trust Fund
- *If Trust Fund runs out of money* Federal Gov't will make loans to the fund
- Agency for Workforce Innovation (AWI) administers in Florida
 - Dept. of Revenue provides unemployment tax collection services



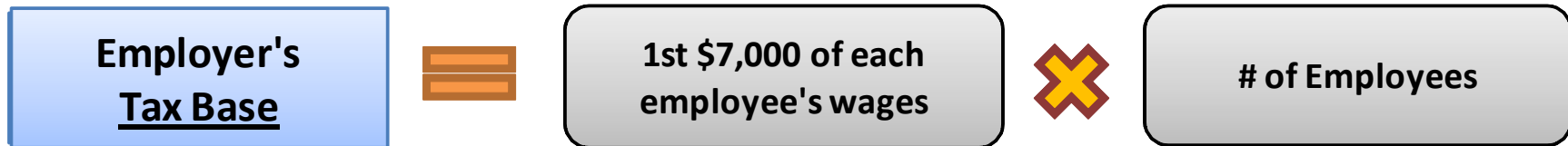
U.C. Program: Basic Structure

- System *responds to changing economic conditions*
- State taxes depend on unemployment benefits paid in prior periods



The State Tax (= *Tax Base* x *Tax Rate*)

▪ Tax Base:

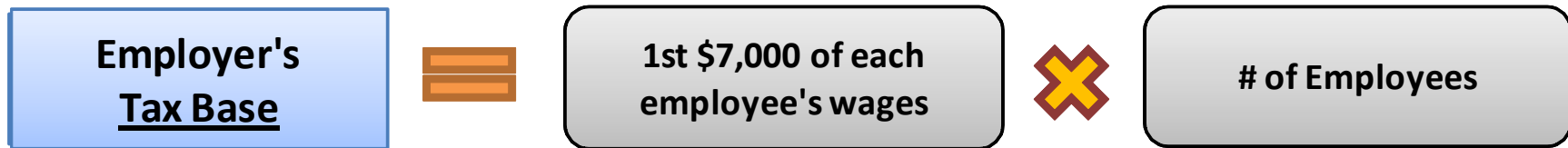


▪ Tax Rates

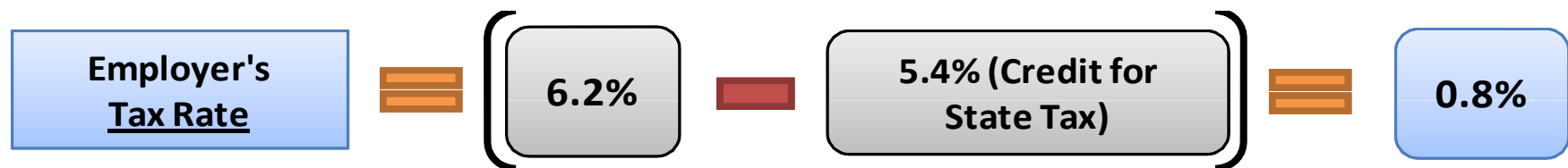
- Specific to each employer
- *Automatically recalculated* each year
- Rates range between *calculated minimum* (no less than 0.1%) and *the statutory maximum rate* (5.4%)
 - *There are some exceptions*
- *New employers* (with no experience) get an “initial” rate (2.7%)

The Federal Tax

- Tax Base:



- Tax Rate:



- The *0.8% tax rate can increase* if the 5.4% credit is reduced

 - Can happen if the State has an outstanding Federal loan balance for too long.



The State Tax: Tax Rate Building Blocks

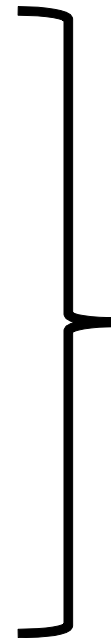
**Employer's
Tax Rate**



**Trust Fund Solvency
Factor**

"Socialized" Costs

Experience Rating

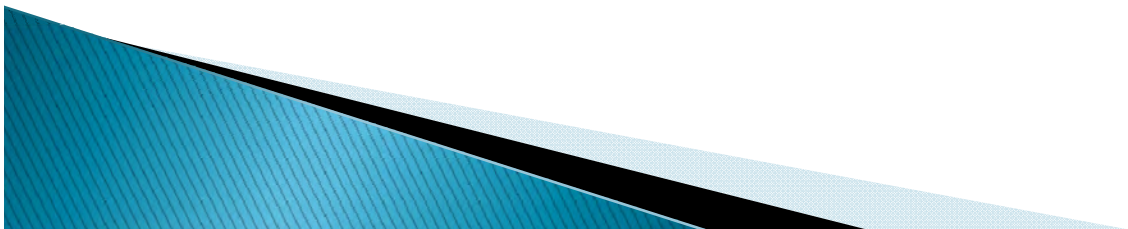


**Subject to
5.4%
Maximum**



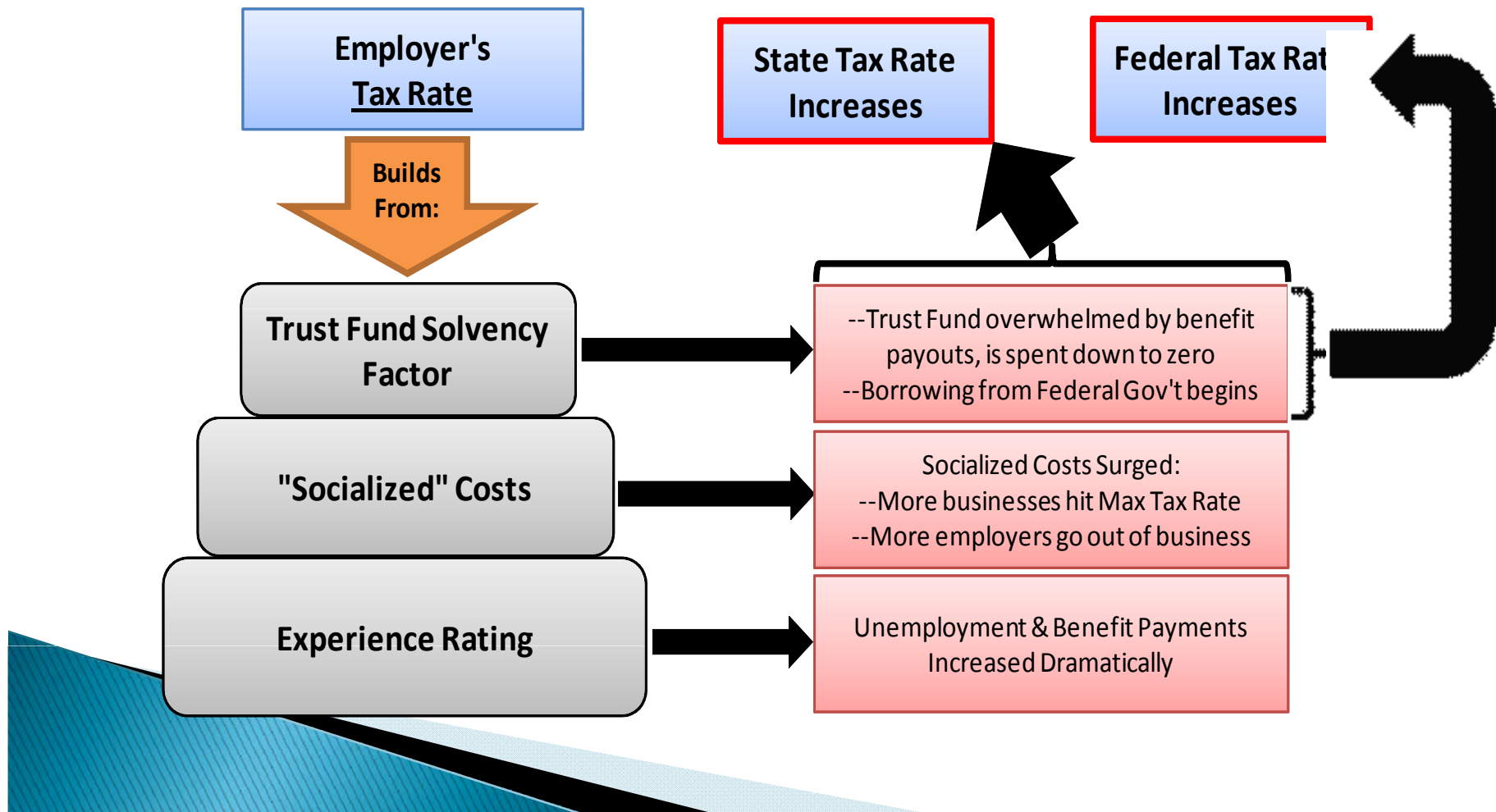
What is Happening Now?

- Under Current Law, the *normal functioning of the system* will:
 - Push tax rates and collections up for several years, then,
 - Pull tax rates and collections down
- This pattern depends on continued *improvement in employment*

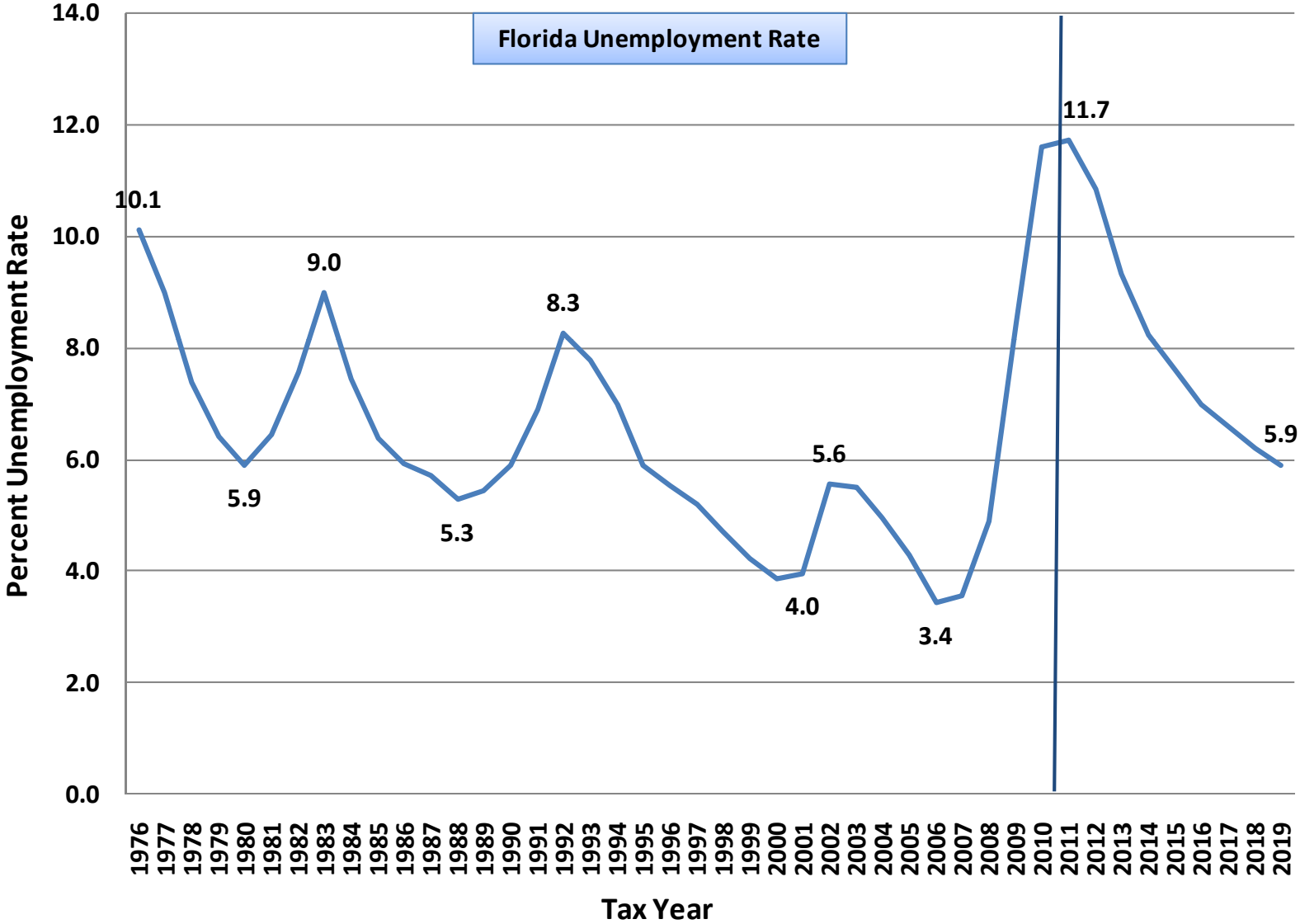


What is Happening Now?

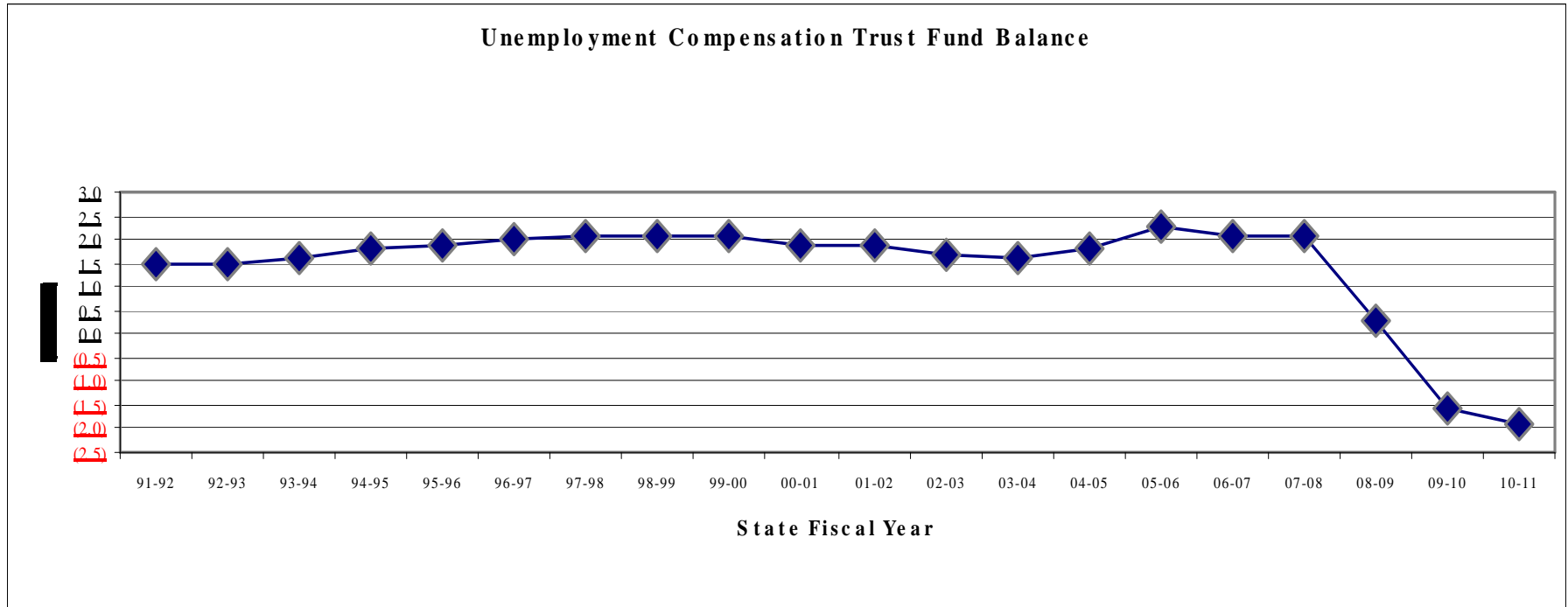
- The “Great Recession” turned into the “Perfect Storm”



Driving the System is Florida Unemployment




TRUST FUND BALANCE



Source: Agency for Workforce Innovation, Unemployment Compensation
State Fiscal Year 2010-11 data as of January 4, 2011

Legislative Action

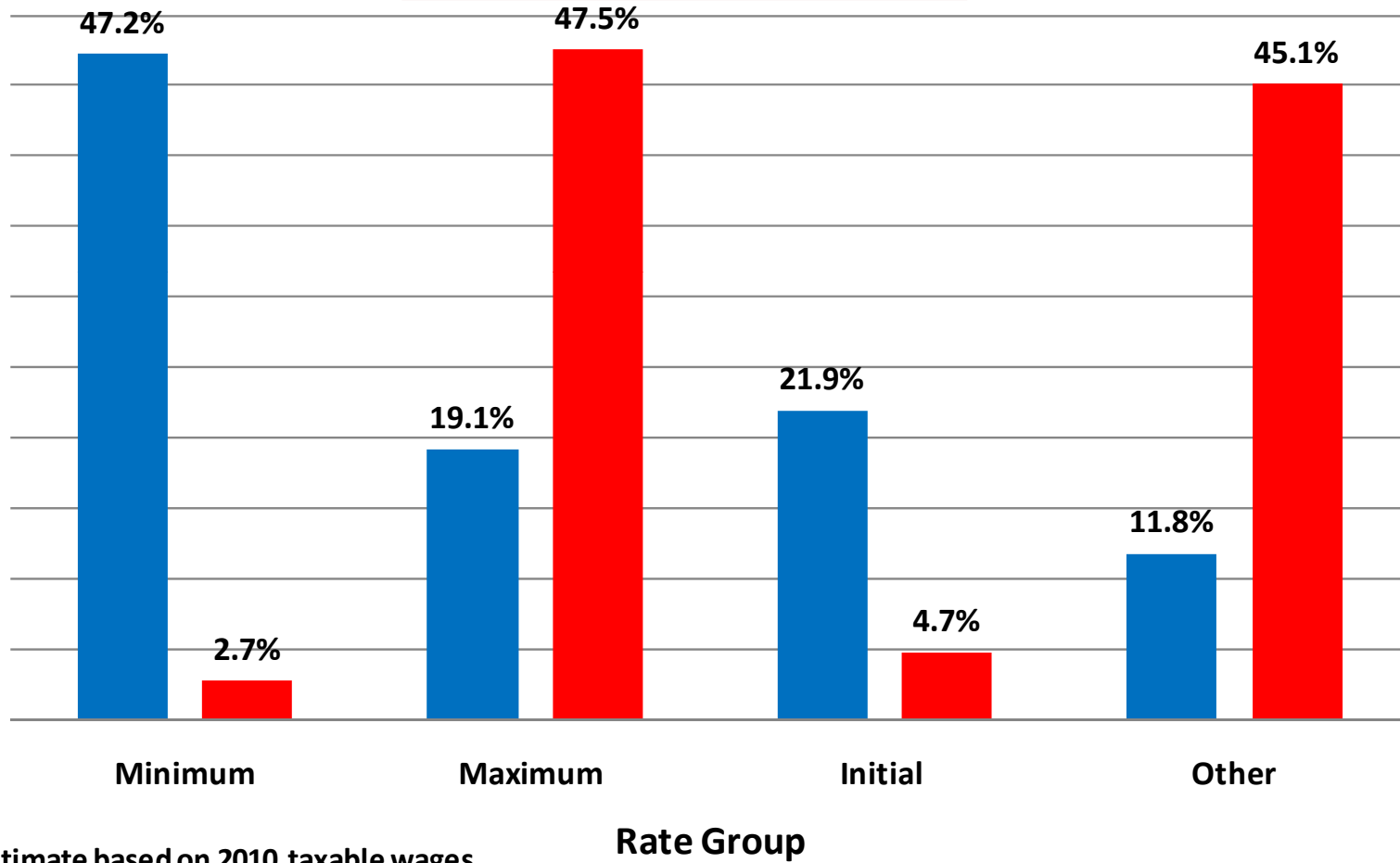
- Potential dramatic tax rate changes were the impetus for *law changes in 2009 and 2010*.
 - The 2010 law changes *will delay but not prevent large tax increases*.
 - Under *current law (2010)*:
 - Trust Fund Solvency Factor increase is suspended until 2012
 - Employers are allowed to pay taxes in installments over the course of the tax year (2010 and 2011)
 - An employer assessment in addition to the tax is authorized, to pay interest on Federal advances to the Trust Fund
 - The per employee wage base will increase to \$8,500 in 2012, until federal advances are repaid
- 

UC Forecast

| | December Min rate | Ending Federal Advance Balance | Additional Federal Tax Paid | Interest Due |
|---------|-------------------|--------------------------------|-----------------------------|--------------|
| 2009-10 | \$ 25.20 | \$ 1,612.5 | \$ - | \$ - |
| 2010-11 | \$ 72.10 | \$ 1,869.8 | \$ - | \$ - |
| 2011-12 | \$ 199.75 | \$ 1,315.6 | \$ 139.8 | \$ 61.4 |
| 2012-13 | \$ 172.55 | \$72.3 | \$ 290.4 | \$ 89.4 |
| 2013-14 | \$ 144.50 | \$ - | \$ 451.8 | \$ 43.3 |
| 2014-15 | \$ 71.4 | \$ - | \$ - | \$ 1.5 |
| 2015-16 | \$ 34.3 | \$ - | \$ - | \$ - |

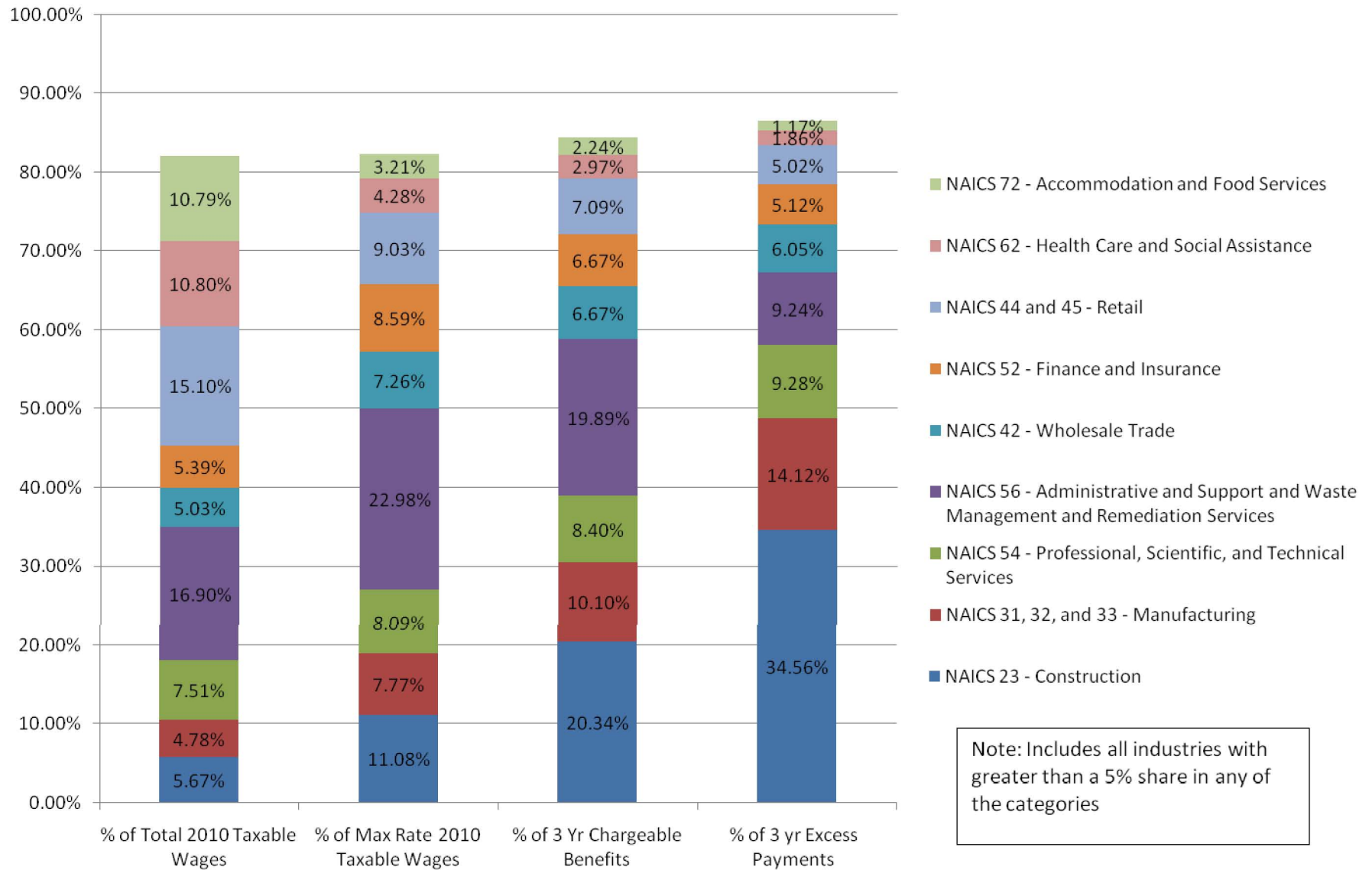
2011 U.C. Tax Distribution*

■ Pct of Taxpayers ■ Pct of Tax



*Estimate based on 2010 taxable wages

Comparison By Industry of Share of Total Wages, Wages for Employers at the Maximum Rate, Chargeable Benefits and Excess Payments



Recent History of U.C. Program

- U.C. Trust Fund

- Current Federal Advances and Interest

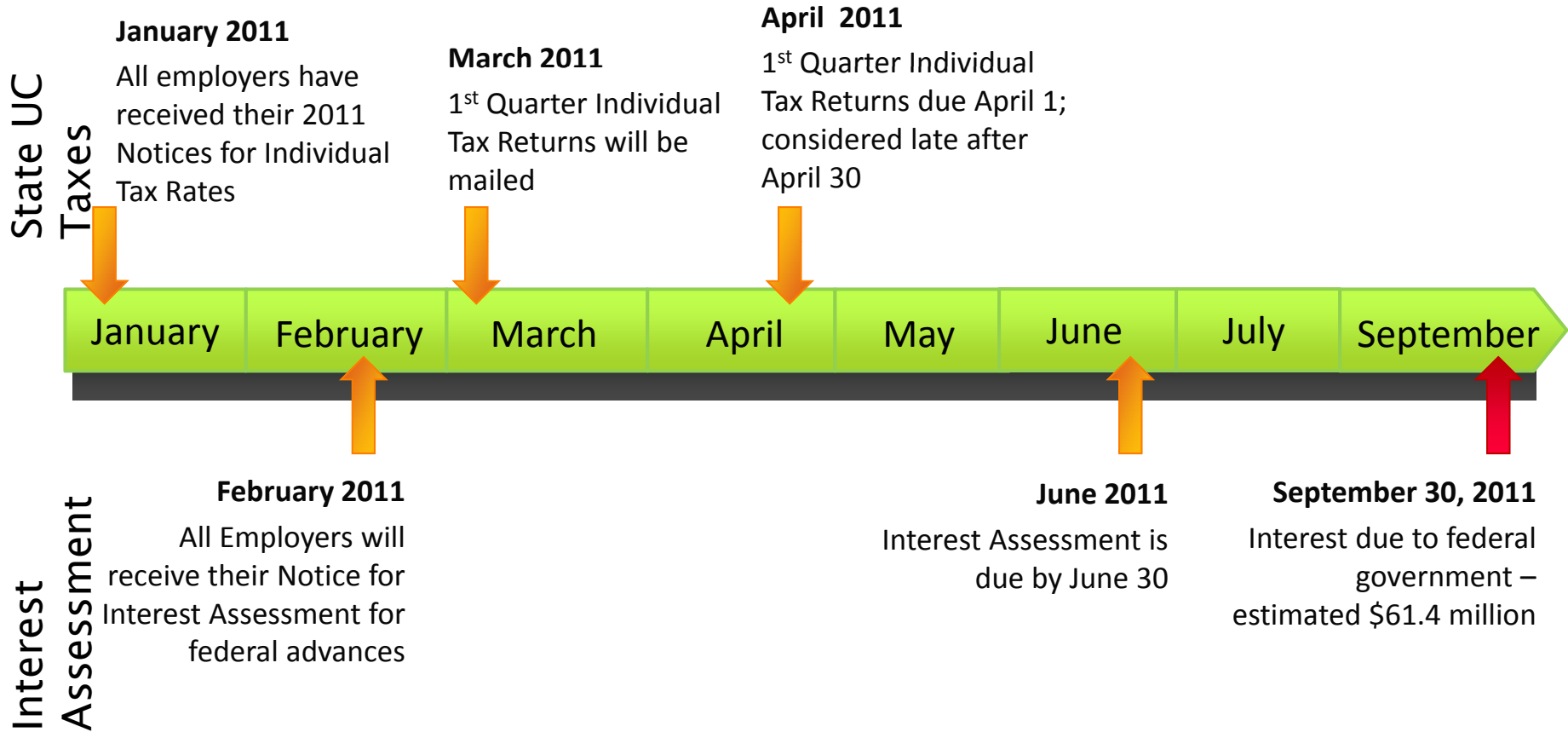
- As of January 2011, Florida has received \$1.981 billion in U.C. Trust Fund advances.
- In 2011, Business are projected to owe the Feds an interest assessment of \$61.4 million.
- Over the last three months, Florida has borrowed approximately \$115 million each month

- National Picture

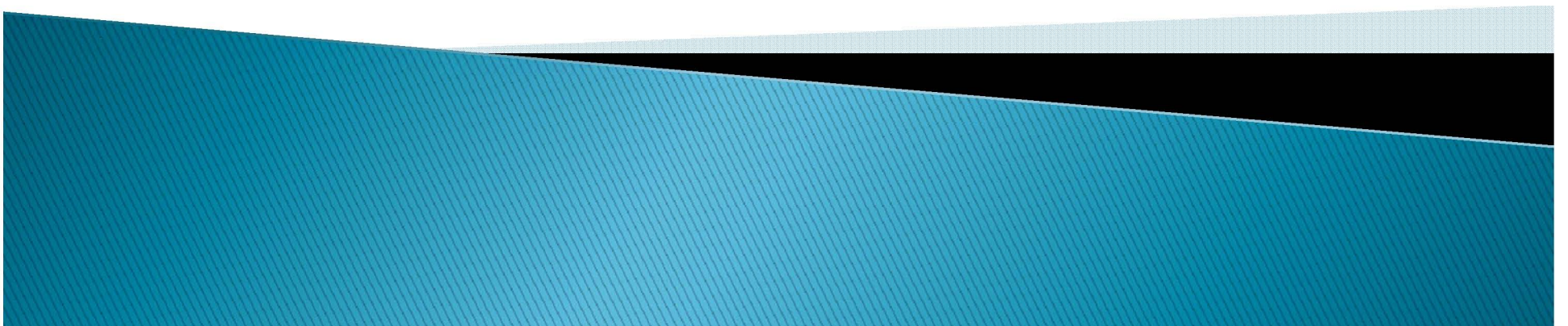
- As of January 2011, 31 states and territories including Florida have received advances from the Federal Government for a total of approximately \$40.5 billion. Four states, Maryland, New Hampshire, South Dakota, and Tennessee, have repaid their loans in full.

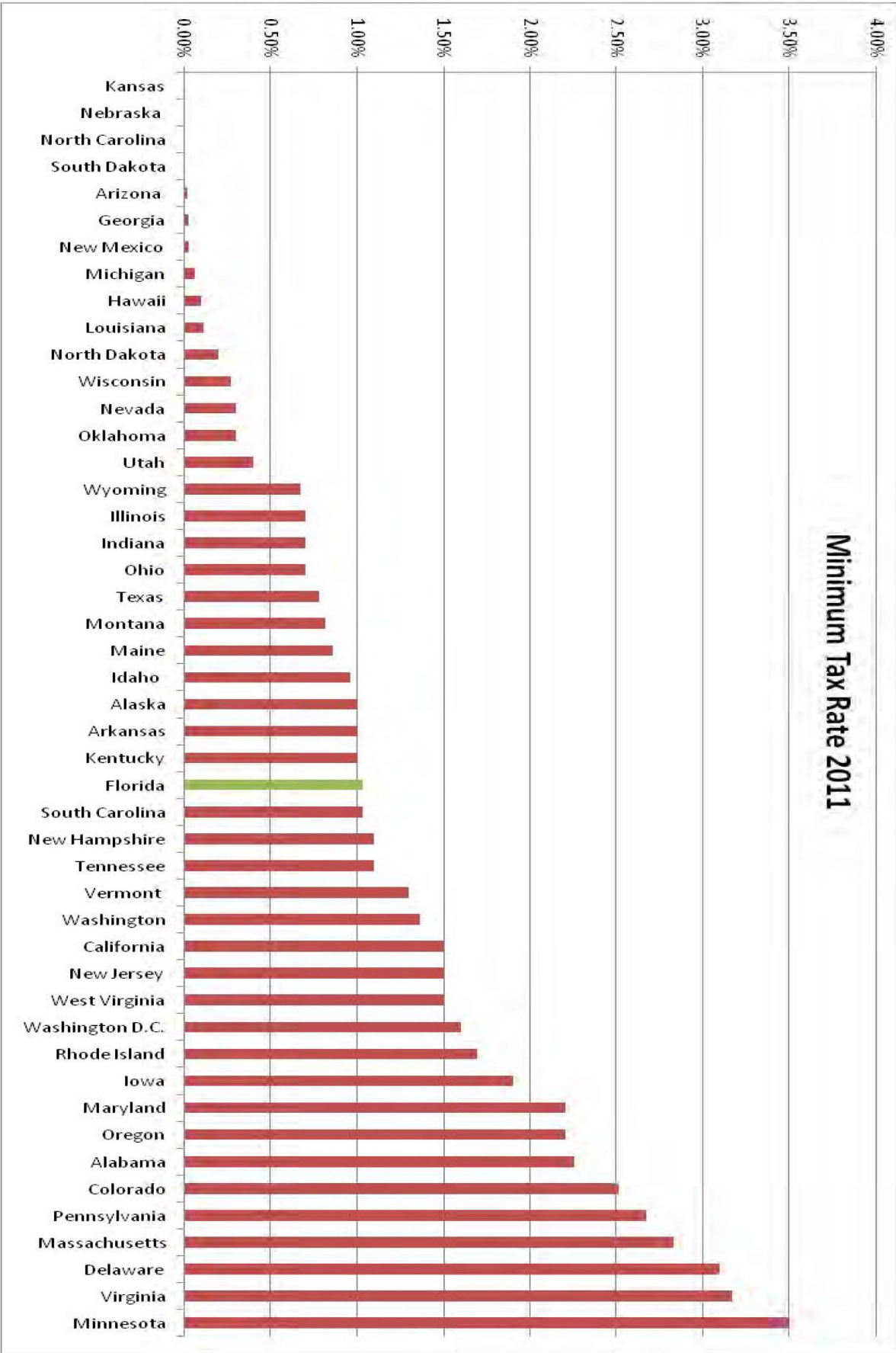
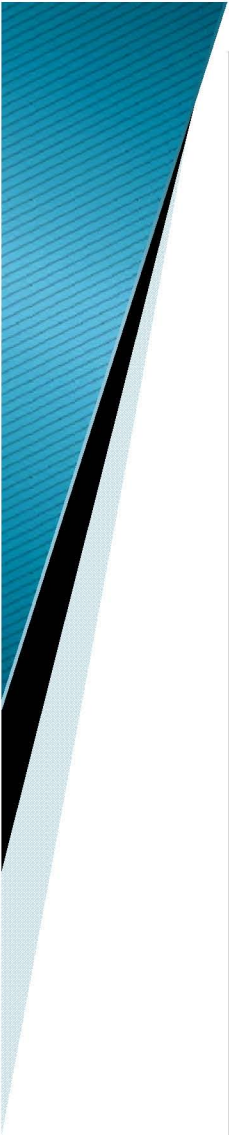


UC Tax and Interest Notices



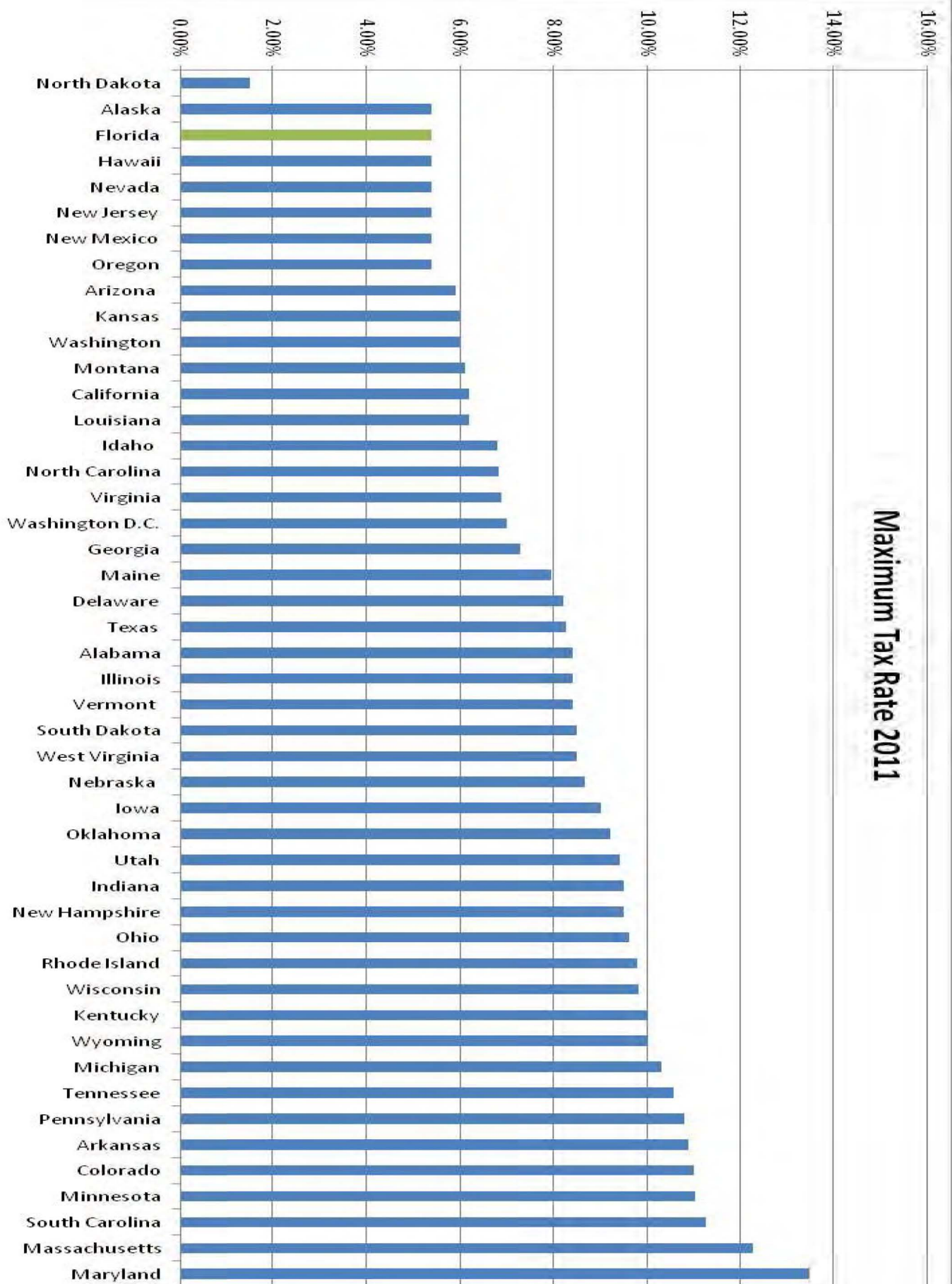
State Comparisons

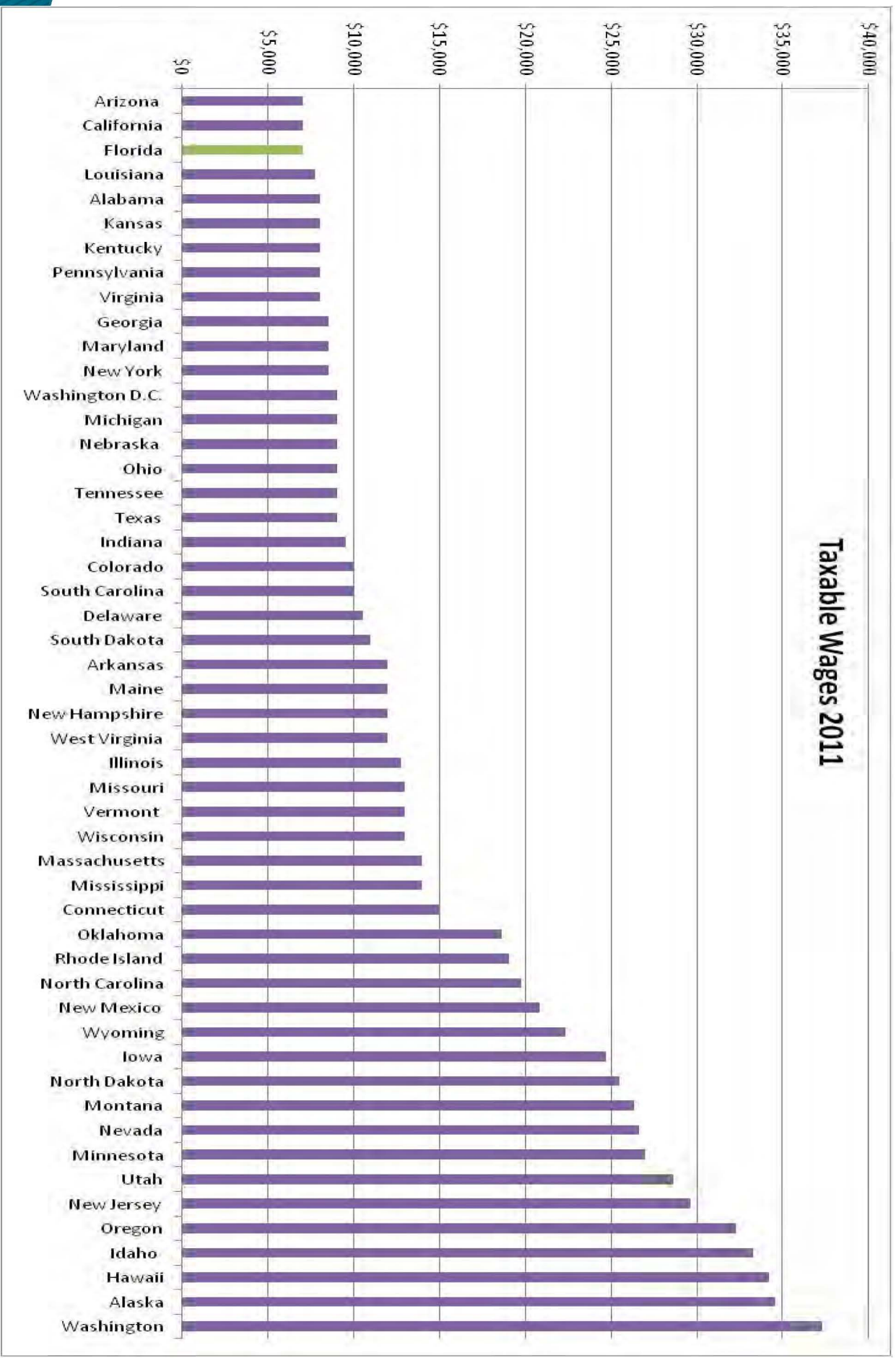




Minimum Tax Rate 2011

Maximum Tax Rate 2011





QUESTIONS?