



January 5, 2010

UI Trust Fund and Workforce Enhancement Training Fund Overview

Key Takeaway

The Unemployment Insurance (UI) program is a federal-state partnership designed to replace the lost earnings of eligible workers who become unemployed through no fault of their own. UI benefits are funded through the Unemployment Insurance Tax which is paid by employers. A portion of the tax is returned to employers through a rate reduction (.3%) and then an additional contribution of .3% is collected and used to fund worker training administered by Mississippi's community colleges, provided the UI Trust Fund remains above three (3) solvency targets. As a result of the recession, the UI Trust Fund balance has fallen below one of the three (3) solvency targets. This memo provides background information on the UI Trust Fund and the Workforce Enhancement Training Fund as well as a comparison between the existing law and the proposed changes to keep this workforce training program in place.

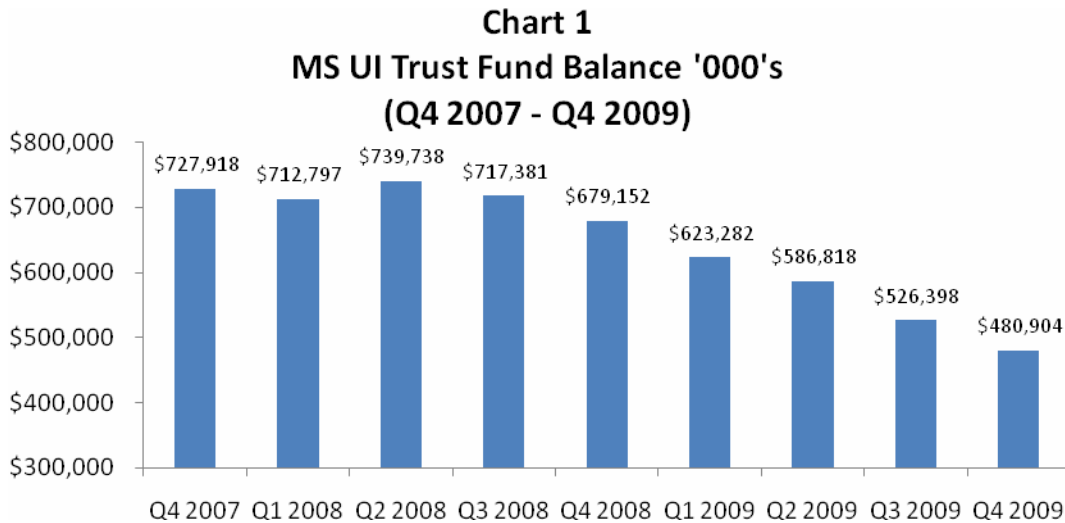
Unemployment Insurance Trust Fund

The Unemployment Insurance program is funded through a UI Tax which is paid by employers. In Mississippi, employers pay between 0.4% and 5.4% on the first \$7,000 of wages. This translates to a contribution of approximately \$28 to \$378 per employee on an annual basis. The taxable wage base and the maximum tax rate of \$7,000 and 5.4% respectively are the lowest rates in the country.

During a recession, Mississippi's UI Trust Fund is affected in two ways:

- *Less Money Comes into the Fund*
As employers layoff workers to manage falling demand for the products and services that they produce, the number of employees on which tax collections occur drops. The drop in tax collections means that less money is coming into the UI Trust Fund.
- *Benefit Payouts Exceed incoming Revenues*
Simultaneously, as layoffs increase, more people become eligible for UI benefits. As eligible claims rise - especially for prolonged periods - the benefits paid by the fund exceed the revenue coming into the fund resulting in a falling balance.

Chart 1 illustrates the balance of Mississippi’s UI Trust Fund by quarter since the start of the recession in December of 2007.

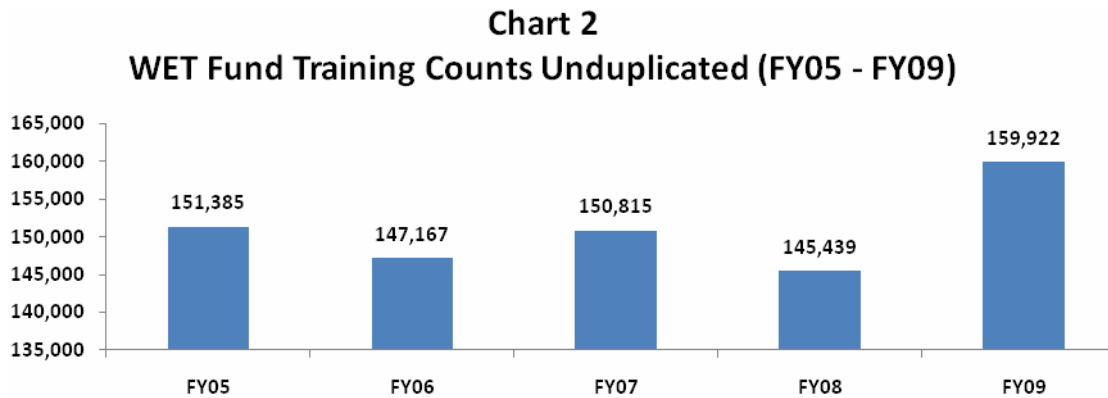


Source: U.S. Department of Labor and U.S. Department of Treasury

Mississippi’s Workforce Enhancement Training Fund

In 2005, Mississippi created the Workforce Enhancement Training (WET) Fund. The WET Fund is funded by the UI tax on employers equivalent to 0.3% on the first \$7,000 of taxable wages. The Mississippi Department of Employment Security collects the funds and the State Board for Community and Junior Colleges through its member institutions administers the training. The training targets incumbent workers – those who are already employed – and provides them with additional skills that will result in higher wages. The community colleges spent \$20.4 million on WET Fund projects in FY09.

Chart 2 shows the unduplicated number of Mississippians trained through the WET Fund.



Source: Mississippi State Board for Community and Junior Colleges

According to the Mississippi State Board for Community and Junior Colleges, eighty-one percent (81%) of people trained through the WET Fund remain employed 3 months post training. The average annual earnings for participants post training was \$33,397 – a self-sufficiency wage in most Mississippi Counties for a family of three.ⁱ The annualized wage increase from before to after trainings was \$4,346. The characteristics of WET Fund participants show that the program targeted a diverse range of Mississippians: 36% of the participants were minority and 44% were white, 46% of the trainees were men and 45% of the trainees were women.ⁱⁱ Over half of the participants have no college degree and every county has people who have been trained by the WET Fund.ⁱⁱⁱ

ⁱ Source: The Self-Sufficiency Standard for Mississippi 2009. www.mepconline.org/self-sufficiency-standard/

ⁱⁱ Note: 20% of trainees did not report race demographics; 9% of trainees did not report gender demographics.

ⁱⁱⁱ Source: Community College Workforce Performance Report FY 2008.

Proposed Changes

The primary reason for the UI Trust Fund is to pay benefits to eligible employees who have lost their job. Hence, funding for Mississippi’s WET Fund is contingent on a solvent UI Trust Fund. In the legislation that created the WET Fund, three (3) triggers were established to ensure that funding for the WET Fund would not compromise the payment of benefits. Upon reaching a trigger, WET Fund payments for Training are suspended indefinitely. Table 1 provides an overview of the triggers.

Trigger	Trigger Description	Trigger Effect
Trigger One	UI Trust Fund Balance	If the balance of the UI Trust Fund falls below \$500 million, the WET Fund Suspends
Trigger Two	Average High Cost Multiple (AHCM)	The AHCM basically measures how long the UI Trust Fund can pay benefits during a recession. If the AHCM falls below 1.0, the WET Fund Suspends
Trigger Three	Size of Fund Index	If the Size of fund index (SOFI) falls to 1.0 or below and the cost rate criterion (CRC) is the average of each high cost period during all economic cycles since 1974 then the WET Fund Suspends

In November, the balance of the Trust Fund fell below \$500 million. The proposed changes would disconnect the WET Fund collections from the triggers highlighted above.

As a result, the 0.3% employer tax would remain in place to fund the WET Fund regardless of economic conditions with one exception outlined below. Essentially, the community colleges that administer the WET Fund training would have a dedicated source of revenue to maintain training services for incumbent workers. The tax rate on employers for UI benefits and for the WET Fund collections would not change. A revised trigger would be created to ensure that the revenue structure of the Fund – UI Taxes – keeps the fund levels high enough to pay benefits for one (1) year. In the event of reaching the revised trigger, taxes will be recalibrated to keep the UI Trust Fund solvent. The change has been approved by the U.S. Department of Labor.

Table 2 provides a comparison between the current law and the proposed change.

Legislative Proposal Comparison to Existing Law	
Current Law	Proposed Changes
<p><u>Tax Rates</u> Employers pay between 0.4% and 5.4% on the first \$7,000 of wages. A portion of the tax is returned to employers through a rate reduction (.3%) and then an additional contribution of .3% is collected to fund the WET Fund for worker training.</p>	<p><u>Tax Rates</u> Tax rates do not change.</p>
<p><u>WET Fund Suspension</u> When a Trigger is tripped, the WET Fund suspends. There is no legislative provision to restart the WET Fund.</p>	<p><u>WET Fund Suspension</u> The WET Fund would not suspend. WET Fund collections would not be contingent upon the meeting of the three solvency targets and would therefore continue to occur and subsequently fund worker training regardless of the solvency of the Trust Fund.</p> <p>One safety net provision is included. If the Insured unemployment rate reaches 5.5% for three straight months, the WET Fund Tax collection suspends <u>temporarily</u> until the Insured unemployment rate reaches 4.5% for three straight months. Mississippi's Insured Unemployment Rate for the week of October 25 is 3.90% according to the U.S. Department of Labor.</p>
<p><u>UI Trust Fund Solvency Provisions</u> When a trigger is tripped, the tax that previously funded the WET Fund continues occur, however, the collections revert to funding UI benefits, not worker training.</p>	<p><u>UI Trust Fund Solvency Provisions</u> A revised trigger will be created where the SOFI must remain above 1.0 and the Cost Rate Criterion must remain above .0133. If the levels fall below the trigger, then the tax rate on employers will automatically be recalibrated to ensure that the UI Trust Fund balance is high enough to pay benefits for 1 year.</p>

Conclusion

The broad and deep recession has decreased the overall balance in the UI Trust Fund. As a result, the WET fund could potentially suspend. The WET Fund has an established track record of moving trainees towards self-sufficiency in every part of the state. In the past fiscal year, WET Fund spending topped \$20 million and reached nearly 160,000 Mississippians. The proposed changes, which have been approved by the U.S. Department of Labor, keep the WET Fund in place without an immediate increase in employer taxes while including a mechanism to preserve UI Trust Fund Solvency.

ⁱⁱⁱ Source: The Self-Sufficiency Standard for Mississippi 2009. www.mepconline.org/self-sufficiency-standard/

ⁱⁱⁱ Note: 20% of trainees did not report race demographics; 9% of trainees did not report gender demographics.

ⁱⁱⁱ Source: Community College Workforce Performance Report FY 2008.