RESPONSES TO REVENUE LAWS QUESTIONS ON UI PROPOSAL

EXECUTIVE SUMMARY (context and methodology are outlined in more detail below)

- **During the Great Recession, a reduction in the weekly benefit amount (WBA) to a maximum of $350 would have impacted nearly 132,000 UI claimants**
- **During the Great Recession, a reduction to a maximum of 20 benefit weeks would have impacted between approximately 400,000 and 440,000 UI claimants (between 61% and 67%)**
- **Changing the calculation of WBA to use the two most recent quarter wages, instead of highest quarter wages, will lower benefits by approximately 34%**
- **All employers will experience an increase in Federal Unemployment Taxes until the debt is retired. The increase in rates is expected to continue through 2018 if the provisions of the proposal are not enacted and through 2015 if the provisions of the proposal are enacted.**
- **Under the UI proposal, minimum and maximum tax rates will increase by .06%**
- **North Carolina's experience-rated and formula-based UI system makes it challenging to pinpoint the exact impact on all employers' tax rates. However, long-term:**
  - **Employers with negative UI account balances will experience higher tax rates**
  - **Some employers with positive UI account balances will experience either lower rates or no change**
  - **Employers within sectors that have higher unemployment rates (and are therefore more likely to have negative UI account balances), such as manufacturing and construction, are likely to have higher tax rates**

1. **What is the number of claimants that would have been affected by benefit reductions?**

Maximum WBA Reduction from $535 to $350

To estimate the number of claimants who would have been impacted by a reduction in the maximum weekly wage, the first step was to estimate the number of unemployed persons filing for benefits after the beginning of the recession in December 2007. US DOL provides first payments on a quarterly basis. First payments are the initial payments received during a benefit year and are used as a proxy for the number of persons who became unemployed and would have been impacted by a reduction in the maximum weekly benefit amount beginning in January 2008. There were 658,591 first payments during the six quarters between Q1 2008 and Q2 2009. This period best approximates the duration of the recession.

Based on information received from DES in 2012, approximately 20% of weekly claims checks exceed $350. Applying this percentage to the number of first payments during the recession results in an estimated 131,718 claimants that would have been impacted by the reduction in maximum weekly benefit amount. It is possible that some claimants received more than one first payment during the recession; therefore, the estimate is likely high, but should serve as a good approximation.

Reduction in Maximum Duration of Benefits

Upjohn reports that between 2006 and 2011, 43% of claimants exhausted their maximum eligibility of 26 weeks. Therefore, 43% of claimants would have been affected by a reduction from 26 weeks. Upjohn estimates that for each additional week of reduction in maximum duration, an additional 3 – 4% of claimants would be affected. Therefore, the percentage of claimants affected by a reduction from 26 weeks to 20 weeks would have affected between 61% and 67% of claimants. Applying this percentage to the total number of first payment recipients identified in Question #1 (658,591) results in a range of 401,000 to 441,000 claimants. Further, applying this percentage range to the 131,718 claimants receiving greater than or equal to $350 WBA indicates an impact of between 80,000 and 88,000 claimants.

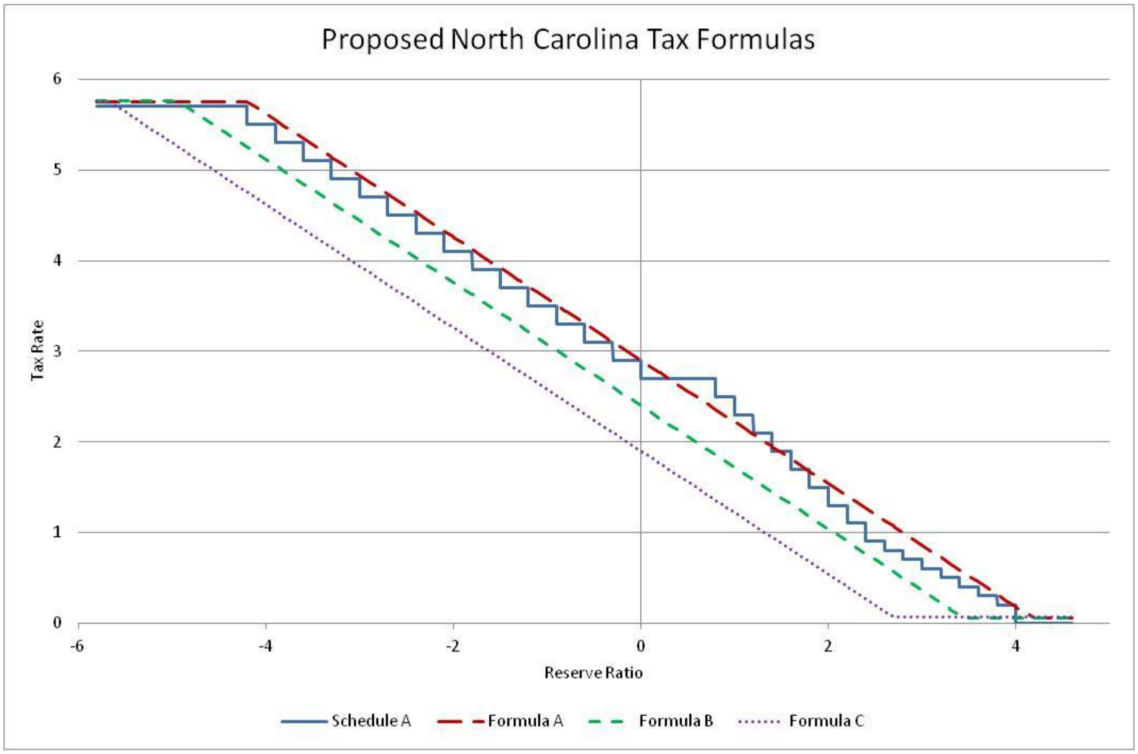
Base Weekly Benefit Formula on 2 Most Recent Quarters as Opposed to Highest Quarter in Base Period

Upjohn used data from a neighboring state to estimate the impact of this change. Computations were based on quarterly wage data for quarters preceding unemployment claims between 1996 and 2010. The data suggest that wages for the two quarters immediately preceding unemployment were 66.4% of the high quarter wages. Thus, overall UI compensation was reduced by 33.6% to reflect the impact of this change. This estimate was based on aggregate wage data; therefore, the actual number of claimants impacted is not known; however, the change would affect any claimant whose quarterly wages are reduced in the two quarters preceding an unemployment claim.

2. Impact of formula changes on employers

By replacing the current tax schedules with tax formulas, employers will see more immediate changes in tax rates with changes in reserve ratio. Currently, employers with negative account balances see a rate change of 0.2% for each 0.3% change in reserve ratio. The reserve ratio is the employer's balance in the trust fund divided by the past 3 years of taxable payroll. The proposed formula provides rate changes along a linear formula with rates rounded to the nearest one-hundredth percent. Therefore, employers will see changes in tax rate (positive or negative) associated with smaller changes in the reserve ratio.

Rates for negative reserve ratios are all equal to or higher than current rates. Some positive reserve rates are lower because the current schedule maintains a rate of 2.7% for reserve ratios of zero through 0.8%. The proposed formula has a rate of 2.9% for zero-rated employers, declining to 2.36% for employers with a 0.8 reserve ratio. The maximum and minimum tax rates are increased by 0.06%. The chart below shows the proposed linear tax formula compared to the current tax schedule.



Based on information provided by DES, approximately 19,000 employers, or 10% of all employers are at the highest tax rate, so their rates would increase by 0.06%. Overall, 74.1% of employers would experience rate increases based on their current experience ratings and 12.4% would experience rate decreases. 13.5% would see no change in tax rate.

The construction and manufacturing sectors have seen the highest rates of unemployment. These sectors have also experienced the slowest recovery. While some sectors, such as professional and business services and education and health services, now have higher levels of employment than before the recession, the construction and manufacturing sectors remain well below 2007 employment levels. This trend would suggest that employers in those sectors are more likely to have negative reserve ratios and would be more likely to experience rate increases than other employers. If the economy continues to improve over the next year, many employers may begin to improve their experience ratings and tax rates. Further, because the UI system is a dynamic model, any reduction in benefits would impact employers' experience ratings and final tax rates.

3. Because the model cannot be used to retroactively simulate changes, staff was unable to determine the fiscal impact that proposal changes would have had on the Trust Fund if implemented earlier.