Members

Sen. Brandt Hershman, Chairperson
Sen. Phil Boots
Sen. Karen Tallian
Rep. David Niezgodski
Rep. Russ Stilwell
Rep. Daniel Leonard
Steve Schreckengast
John Griffin
Nancy Guyott
Ron Metz
Mark Everson

UNEMPLOYMENT INSURANCE OVERSIGHT COMMITTEE

Legislative Services Agency
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Authority: IC 2-5-30

MEETING MINUTES[1]

Meeting Date:	**October 13, 2010**
Meeting Time:	**10:00 A.M.**
Meeting Place:	**State House, 200 W. Washington St., Senate Chambers**
Meeting City:	**Indianapolis, Indiana**
Meeting Number:	**1**

Members Present: **Sen. Brandt Hershman, Chairperson; Sen. Phil Boots; Sen. Karen Tallian; Rep. David Niezgodski; Rep. Daniel Leonard; Steve Schreckengast; John Griffin; Nancy Guyott; Ron Metz; Mark Everson.**

Members Absent: **Rep. Russ Stilwell.**

Senator Brandt Hershman, Chairperson, called the meeting to order at 10:15 a.m. Committee members introduced themselves. The Committee briefly reviewed the Legislative Council's policies governing study committees and the topic assigned to the Committee.

Senator Hershman noted that the unemployment insurance program is a federal-state partnership and that the issue of unemployment trust fund solvency is not unique to Indiana. Currently, forty states have borrowed more than $90 billion to pay benefits.

Senator Hershman then introduced Douglas Holmes, President of the National Foundation

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[1] These minutes, exhibits, and other materials referenced in the minutes can be viewed electronically at http://www.in.gov/legislative Hard copies can be obtained in the Legislative Information Center in Room 230 of the State House in Indianapolis, Indiana. Requests for hard copies may be mailed to the Legislative Information Center, Legislative Services Agency, West Washington Street, Indianapolis, IN 46204-2789. A fee of $0.15 per page and mailing costs will be charged for hard copies.

for Unemployment Compensation and Workers' Compensation, and President, UWC-Strategic Services on Unemployment and Workers' Compensation (UWC), to discuss the national level perspective. Senator Hershman also thanked DWD Commissioner Everson for opening up a WorkOne office for an afternoon tour by Committee members.

I. Presentation by the Department of Workforce Development (DWD) (Exhibit 1)

(A) Unemployment claims processing and other operational issues

DWD Commissioner Mark Everson presented the Workforce Development overview (Exhibit 1). He expressed concern that Indiana still has a high unemployment rate, although continued unemployment claims, which represent individuals who are out of work and searching for work, are at a more normal level after peaking at 168,000 during the first quarter of 2009 (Slide 1, Exhibit 1). Indiana recently has had strong job creation compared to the rest of the country. The state tied for second place with Massachusetts for the number of jobs created in August (Slide 2, Exhibit 2). Additionally, Indiana's initial unemployment claims have returned to 2007 levels (Slide 3, Exhibit 1). The drop in claims is tied to improvements in the national economy, and Indiana is relatively well positioned for economic growth.

DWD has gone through a challenging period, and Commissioner Everson gives DWD high grades for meeting the challenges. One challenge has been the absolute level of activity as the result of federal programs (Slide 4, Exhibit 1). A second challenge has been the starts and stops in DWD's systems caused by the delayed enactments of the federal extensions of unemployment benefits. Following Congressional action to extend benefits, DWD added 83,000 people back onto its rolls in less than two weeks. Additionally, weeks of paid claims increased 300% over the 2006-2007 period (Slide 5, Exhibit 1). Currently, the system is shedding several thousand people per week as they exhaust federal benefits. Commissioner Everson estimates the state will owe about $2 billion in federal advances by the end of the calendar year (Slide 6, Exhibit 1).

Commissioner Everson then presented information about the current workforce regions and WorkOne Centers. The state provides unemployed individuals with assessment, training, and reemployment services through 12 regional areas. The State Workforce Investment Council (SWIC) sets policies for and oversees activity in 11 regions, while the Indianapolis Private Industry Council (IPIC) performs those functions for Marion County (Slide 7, Exhibit 1). There are 90 WorkOne Centers across the state: 27 full service centers and 63 express service centers.

Currently, DWD is asking the eleven regional boards whether they want to become independent of the SWIC. The regions must respond by the end of November. Any governance changes will occur by the end of the current fiscal year. Changes in governance will not affect the geography of the regional areas.

(B) Federal programs affecting unemployment

Scott Sanders, DWD Deputy Commissioner, Systems Information and Analysis, discussed the various federal programs affecting the state's unemployment system. The federal stimulus legislation provided a new tier of federally funded extended unemployment benefits and created a temporary "federal additional compensation" of $25 per week. In March 2009, Indiana reached an unemployment rate that triggered "on" extended federal-state benefits. In November 2009, the federally funded extended benefits were modified to add Tiers 3 and 4. The federal extensions expired and then were reinstated several times, making it difficult for the state to pay benefits correctly and in a timely manner

(Slides 8-10, Exhibit 1). The state also had to deal with the interchange between regular unemployment and benefits provided under the Trade Adjustment Assistance Reform Act of 2002. As it looks now, the state has weathered the storm. Extended benefits expire in November, so that as individuals finish the tier of benefits that they are receiving, they will no longer go to the next tier.

Mr. Sanders discussed the claims "tsunami" DWD is experiencing. DWD is paying more benefits on the federal side than it has in the past. Almost 167,000 individuals received some form of payment last week (Slides 11-12, Exhibit 1). Individuals who receive the federal Tier 4 benefit are required to submit at least three job applications per week and to take a job at minimum wage if one is offered. Claimants sometimes decide not to receive Tier 4 benefits because of this requirement.

(C) Trust fund overview

The trust fund is structurally unbalanced in that benefits have exceeded employer contributions since 2001 (Slides 13 and 15, Exhibit 1). Indiana has received federal advances totaling $1.88 billion so far, and the borrowed amount is projected to increase to $2 billion by year end. In January 2011, employers will begin making the higher contributions that were delayed one year by SB 23. In addition, the FUTA credit reduction of 0.3%, equaling $21 per employee, will take effect. Finally, federal interest on the loaned amount will start accruing, and the state needs a funding source to pay the interest.

The projections are that about 40 states will borrow a total of $65 billion from the federal Department of Labor by the end of this recessionary period (Slide 14, Exhibit 1). These amounts will be affected by the economy.

In Indiana, the General Assembly mandated lower premium schedules while unemployment benefits were adjusted from 1997 through 2005. In 2005, premiums were racheted up to Schedule A (highest rates).

The distribution of employers has changed (Slides 16-17, Exhibit 1). The number of employers having a credit balance decreased from 72,000 to 68,000, while the number of debit balance employers increased from 19,000 to 26,000. Currently, 42,500 employers are at the lowest rate, and 13,500 employers pay at the highest rate.

The three industries with the greatest number of repeat claimants (those drawing unemployment benefits three consecutive years) are manufacturing, construction, and administrative services (temporary employees) (Slide 18, Exhibit 1).

(D) FUTA credit reduction and taxable wage base

Because Indiana's trust fund has had an outstanding loan balance since November 2008, employers' FUTA credits will be reduced 0.3% for 2010 (Slide 19, Exhibit 1). The FUTA credit is a 5.4% federal income tax credit allowed against employer contributions paid to the state trust fund. The FUTA credit reduction will increase by 0.3% each year that Indiana has an outstanding loan balance. In addition, federal legislation has been introduced to increase the federal taxable wage base from $7,000 to $10,000, which would increase the amount of employers' FUTA tax.

(E) Interest payment on federal loan balance

The state trust fund has had an interest free loan of amounts needed to pay unemployment benefits since November 2008 (Slide 20, Exhibit 1). Beginning on January

1, 2011, the state will begin paying interest on the outstanding loan balance to the federal government. The expected interest rate is 3.93%. The first interest payment will be due September 30, 2011, and is projected to total $60 million. Federal law forbids the state from using the trust fund to pay the interest. A newly passed federal rule does not help Indiana's borrowing or interest payments.

(F) Indexing of the state taxable wage base

Twenty-two states have an indexed taxable wage base (Slide 21, Exhibit 1). Sixteen states (Arkansas, Hawaii, Idaho, Iowa, Minnesota, Montana, Nevada, New Jersey, New Mexico, North Carolina, North Dakota, Oklahoma, Oregon, Utah, Washington, and Wyoming) index the taxable wage base based on the average annual or weekly wage. Six states (Illinois, Louisiana, Missouri, Rhode Island, Tennessee, and West Virginia) index the taxable wage base based on the state's trust fund balance. Forty-five percent of these states are borrowing from the federal government.

(G) Indexing of weekly unemployment benefits

Thirty-three states index the weekly unemployment benefit amount based on a percentage (which ranges from 48% to 67%) of the state's average weekly wage (Slide 22, Exhibit 1). These states are Arkansas, Colorado, Connecticut, Hawaii, Idaho, Illinois, Iowa, Kansas, Kentucky, Louisiana, Maine, Massachusetts, Minnesota, Montana, Nevada, New Jersey, New Mexico, North Carolina, North Dakota, Ohio, Oklahoma, Oregon, Pennsylvania, Rhode Island, South Carolina, South Dakota, Texas, Utah, Vermont, Washington, West Virginia, Wisconsin, and Wyoming. Fifty-eight percent of these states are borrowing from the federal government.

(H) Committee member questions and comments

In response to Representative Leonard's question, Mr. Sanders said that the FUTA credit reduction would be capped if Indiana's outstanding loan balance is not increasing. Without any effort to reduce the loan balance, the FUTA credit reduction could double. The federal Department of Labor is in agreement with DWD as to how Indiana is trying to address the outstanding loan balances, so DWD expects assessment of the basic credit reduction without any additional fines or penalties.

Senator Hershman commented on the urgency of the situation, especially given the size of the loan and the impact of the federal penalties. SB 23 was a measured effort to address the issue.

Senator Hershman asked whether the three industries shown on Slide 18, Exhibit 1 (Repeat UI Claimants by Industry) as having the most repeat claimants are the biggest industries in Indiana in terms of the number of employees. Mr. Sanders responded that the numbers of repeat claimants reflected the fact these industries use seasonal workers. The use of a three year history to determine an employer's experience balance is a matter of Indiana law, so the General Assembly could change the formula.

Commissioner Everson confirmed for Senator Boots and Mr. Metz that the FUTA credit reduction would continue after the HB 1379 rates go into effect and until the trust fund has a positive balance, although the amount of the credit reduction could be capped using Indiana's three-year "look back" rules.

In response to a question from Senator Hershman, Commissioner Everson responded that an individual who is reemployed after receiving unemployment benefits must work at least

three quarters (with two quarters of earnings) to requalify for unemployment benefits. The minimum earnings per quarter needed to qualify for a benefit are $2,400, and the maximum earnings per quarter used to compute a benefit are $9,250.

Senator Tallian asked for an update on DWD's UI modernization project. Commissioner Everson discussed the multi-year project designed to give employers access to their records online. The project was scheduled to be rolled out in October 2010, but Commissioner Everson delayed the introduction because he knew it could not be completed properly. The project is now scheduled to launch at the end of the calendar year and to be completed in Spring 2011.

Senator Tallian asked several questions about DWD's auditing functions. DWD has two audit systems. The first is operational overpayment audits, which are conducted in arrears as employer reports are received. Indiana ranks ninth nationally in this type of audit. The second type of audit is a random audit. Indiana's rate is 5.5 compared to the national rate of 6.2. Two areas in which Indiana's rate is higher than the national averages are registration for work (Indiana Career Connect) and work search issues. Senator Tallian indicated that Indiana has a high error rate for issues involving an employee's separation from the employee's last employer: 2.91% versus 1.77% nationally. DWD indicated that 87% of initial eligibility decisions are made within 21 days, but Indiana has difficulty meeting the federal standard. Commissioner Everson indicated that DWD is looking at the entire process from top to bottom with assistance from Eli Lilly's Six Sigma team.

Senator Tallian next asked about DWD's staffing levels. DWD has decreased its full time employees and increased its use of intermittent workers. More employees are being hired, but DWD is trying to determine its true needs so that it doesn't overhire.

Senator Hershman asked whether Indiana is unique with regard to its challenges with separation and other issues that are stressing DWD's system. Commissioner Everson responded that Indiana is not unique and that state unemployment systems across the country have experienced deterioration in their performance. He emphasized that DWD was one of the first systems nationally to restore claimants' benefits when the federal extensions were enacted.

II. Presentation Concerning National Unemployment Insurance Issues by Douglas J. Holmes (Exhibit 2)

Douglas J. Holmes, President, National Foundation for Unemployment & Workers' Compensation (Foundation), and President, UWC-Strategic Services on Unemployment and Workers' Compensation (UWC), discussed the outlook for federal measures to help states with the repayment of trust fund loans and interest (Exhibit 2). He also provided information about actions that states have taken to strengthen state trust funds and to pay back federal loans and interest.

UWC is a membership organization comprised of large and small businesses. The Foundation looks at unemployment issues on a long term, national basis.

(A) Background

The most effective solution to trust fund solvency issues is job creation, because it reduces benefit payout and increases tax revenue. The best comparison of a state's unemployment tax burden is the average tax compared to total wages (Page 2, Exhibit 2). Indiana's tax on total wages as of June 2010, was 0.56%, below the national average of 0.62% and lower than surrounding states. Based on historical comparisons from the 1970s

and 1980s, employers can expect their tax burden to double or maybe triple in the next few years. In addition, Indiana has a larger federal loan than surrounding states in comparison to the state's size. The mix of state and federal unemployment tax increases will depend on legislation and policy in the next two years. Mr. Holmes suggests a short term and a long term plan to deal trust fund solvency issues. The short term plan should assure economic recovery, while the long term plan should involve a plan for long term debt management, including consideration of measures to reduce benefit payout and increase taxes until solvency is achieved.

As of October 5, 2010, 32 states were borrowing from the federal government with a total debt of $40.3 billion (Page 3, Exhibit 2). Indiana's share was $1.83 billion. The federal Department of Labor projects that the states' borrowing will peak in 2013 with 40 states owing about $65.2 billion. Interest on outstanding loans will begin to accrue on January 1, 2011, at a rate of 3.94%. Assuming that Indiana owes $2 billion on January 1st, the state's interest payment will be approximately $80 million per year with the first payment due by September 30, 2011. Interest payments must come from a source other than state unemployment taxes. Other cash flow or high unemployment rate waivers are available after the current waiver ends on December 31, but Indiana is not likely to qualify to use them.

Automatic FUTA per employee tax increases have begun: Michigan in 2009 and Indiana and South Carolina in 2010. The impact of the FUTA tax increases is to increase the tax paid by employers, change the tax burden to more of a flat tax and less experience rated, and shift costs to low contribution rate employers (Page 4, Exhibit 2). Additionally, the FUTA rate is not controllable through claims management and experience rating.

(B) Federal responses

The extension of federal Emergency Unemployment Compensation (EUC) continues for claims through April 30, 2011, and restricts a state from taking measures to reduce the state's average weekly benefit through April 30, 2011, as a condition for receiving federal reimbursement (Page 5, Exhibit 2). Senator Stabenow has filed a bill on the federal level asking for a further extension.

President Obama's "UI Integrity" proposal increases recovery tools, but also provides for federal work sharing requirements and a new employer reporting penalty.

The FUTA surtax of 0.2% has been extended through June 30, 2011. Mr. Holmes expects additional extensions of the surtax, which will be used to offset other spending in the federal budget. The President's budget makes the surtax permanent. The surtax raises $1-1.5 billion per year.

A GAO study suggested increases to and indexing (to the average weekly wage) of the federal taxable wage base. Congress is looking at increases of up to $14,000.

Federal Representative McDermott is interested in further unemployment benefit expansions and FUTA tax base increases and indexing, both of which would impact states currently having a low taxable wage base the most, including Indiana.

Mr. Holmes predicted that it will be difficult for Congress to extend the Title XII interest waiver and eliminate the FUTA surtax, because of the impact on the federal budget (Pages 6-7, Exhibit 2). Title XII interest revenue is about $2 billion per year, and the FUTA offset credit revenue is $2-3 billion per year. The FUTA surtax revenue is $1-1.5 billion per year.

Title XII interest and FUTA offset credit relief is not likely to be considered for stand alone legislation, but could be included in larger bills during the lame duck session. If there is no action during the lame duck session, relief is still possible in the next Congress, but the FUTA offset credit increase for 2010 will be paid by the end of January 2011. In addition, states that have not borrowed may be less supportive of relief, arguing that they have already addressed solvency and did not get any relief.

Relief from automatic Title XII interest and reductions in the FUTA credit is possible only if the states, businesses, and workers push for it. A business coalition requested an additional two year period of relief from Title XII interest and FUTA offset credit reductions in a letter to the Senate in February 2010. Committees with jurisdiction, Senate Finance and House Ways and Means, are aware of the issue. The National Governors' Association and the National Conference of State Legislatures have adopted policy statements in support of interest relief. Individual states are beginning to let Congressional delegations know of the impact of the federal penalties.

(C) Long term measures to improve state trust fund solvency

Even with federal relief, tax and benefit measures are needed to improve state trust fund solvency over the long term (Pages 8-10, Exhibit 2).

Benefit solvency measures enacted in other states that may be part of Indiana's legislative solution include:

- Increased work search requirements and elimination of waivers
- Increased eligibility reviews and reemployment services
- Improved benefit payment control using systems-based identification and collection of overpayments
- Linking claimants likely to exhaust benefits more effectively to job search services and target training that leads to a job (such as OJT and Customized Training)
- Reducing the maximum weekly benefit maximum
- Reducing the total benefits payable or the duration of the benefits
- Increasing minimum qualifying requirements
- Changing the high quarter formula used to establish the weekly benefit amount to a percentage of base period wages
- Deducting from weekly unemployment benefit payments workers' compensation cash payments and food stamp overpayments for the same week
- Requiring the allocation and deduction of separation pay
- Increasing penalties for fraud and refusal of suitable work

Tax solvency provisions adopted in other states are:

- Establishing a target balance in the state unemployment trust fund that is adequate to cover a reasonably foreseeable recession
- Increasing the state taxable wage base in increments to improve solvency over time
- Indexing the taxable wage base to a percentage of covered wages
- Stretching the contribution rate schedule to distribute costs more consistently with experience rating
- Providing an automatic reduction in taxes and/or benefits once the solvency target is exceeded
- Using bonds to eliminate debt and avoid federal FUTA offset and

interest penalties
- Minimizing the non-charging of benefits, but giving short term relief to employers whose rates have increased dramatically because of the recession
- Maintaining a constant monitoring of the status of trust fund solvency and being prepared to make adjustments if federal relief is available or unforeseen economic changes occur

Senator Hershman commented that Indiana has already tried some of the measures suggested by Mr. Holmes.

Senator Hershman then expressed concern that the likely federal responses penalize employers struggling to recover from the recession, such as:
- no extension of the interest waiver;
- required state premium increases;
- interest charges above market rate (4% versus 1.6%) with the revenue being used for other purposes;
- benefit increases and the expansion of the unemployment program; and
- increases to and indexing of the federal taxable wage base.

He said that federal actions may increase premiums on employers that have never laid anyone off, and the states are at the mercy of a dysfunctional system in Washington., D.C.. There were no additional comments from Committee members or from the public.

Senator Hershman asked Committee members to evaluate and reflect on the presentations and to provide him with any recommendations that they would like the Committee to adopt. If he does not receive any recommendations, he will not schedule another Committee meeting and will ask the Legislative Services Agency to prepare an informational report concerning the Committee's activities this interim.

The meeting adjourned at noon.

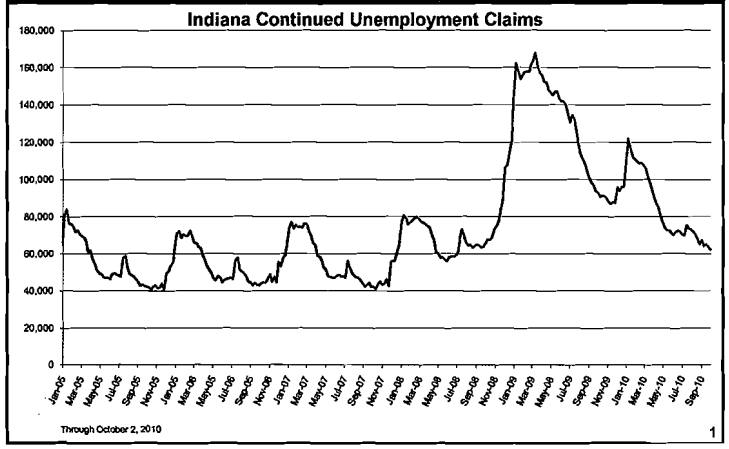
The Committee reconvened at 1:30 p.m. for an on-site inspection of the WorkOne office located at 805 Beachway Drive, Suite 110, Indianapolis, IN 46224.

INDIANA WORKFORCE DEVELOPMENT AND ITS WorkOne CENTERS

Workforce Development Overview

October 13, 2010

INDIANA WORKFORCE DEVELOPMENT AND ITS WorkOne CENTERS



INDIANA WORKFORCE DEVELOPMENT AND ITS WorkOne CENTERS

Private Sector Job Growth

Indiana is tied for 2nd in the U.S. in private sector job growth–August YTD 2010

1.	Oklahoma	2.7%
2.	Indiana	2.4%
	Massachusetts	2.4%
4.	Utah	2.2%
5.	Minnesota	2.0%
	Total US	0.7%

Indiana has added the 5th most private sector jobs in 2010

1.	Texas	155,000
2.	Florida	74,100
3.	New York	68,900
4.	Massachusetts	65,000
5.	Indiana	54,700
	Total US	763,000

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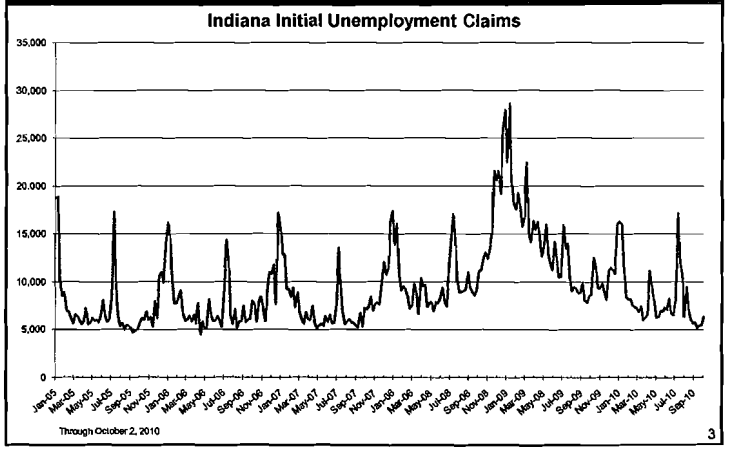
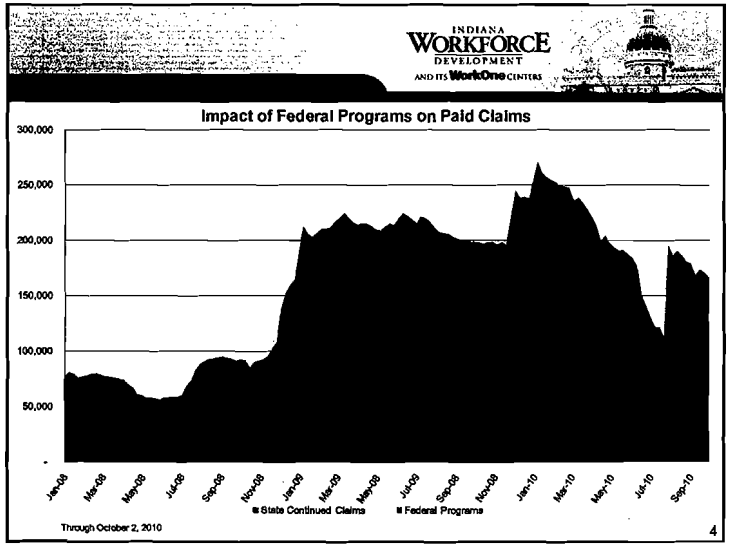
INDIANA WORKFORCE DEVELOPMENT AND ITS WorkOne CENTERS



UNEMPLOYMENT INSURANCE OVERSIGHT COMMITTEE
OCTOBER 13, 2010
EXHIBIT 1


INDIANA WORKFORCE DEVELOPMENT AND ITS WorkOne CENTERS
Impact of Federal Programs on Paid Claims
300,000
250,000
200,000
150,000
100,000
50,000
Jan-08
Mar-08
May-08
Jul-08
Sep-08
Nov-08
Jan-09
Mar-09
May-09
Jul-09
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May-10
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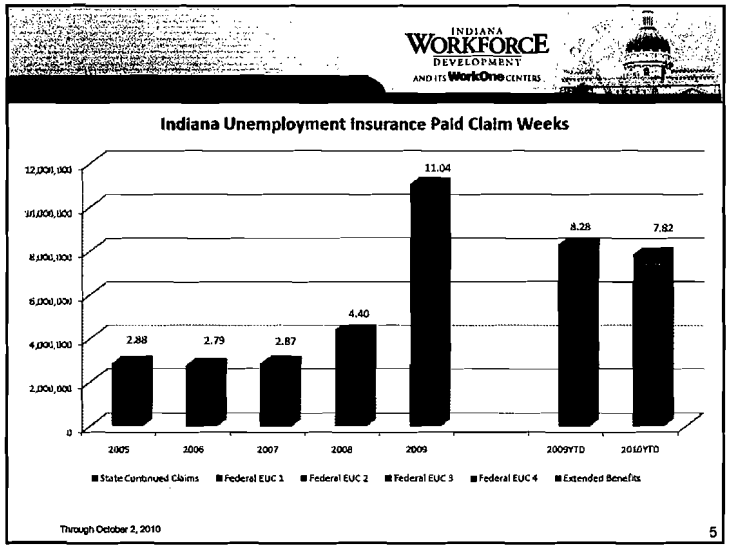
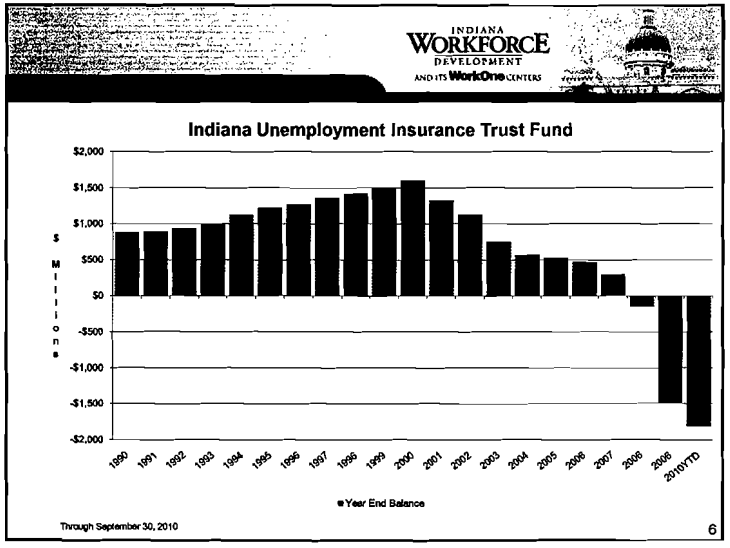
Sep-10
State Continued Claims
Federal Programs
Through October 2, 2010
4


INDIANA WORKFORCE DEVELOPMENT AND ITS WorkOne CENTERS
Indiana Unemployment Insurance Paid Claim Weeks
2.88
2.79
2.87
4.40
11.04
8.28
7.82
2005
2006
2007
2008
2009
2009YTD
2010YTD
State Continued Claims
Federal EUC 1
Federal EUC 2
Federal EUC 3
Federal EUC 4
Extended Benefits
Through October 2, 2010
5


INDIANA WORKFORCE DEVELOPMENT AND ITS WorkOne CENTERS
Indiana Unemployment Insurance Trust Fund
$2,000
$1,500
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-$1,500
-$2,000
$ Millions
1990
1991
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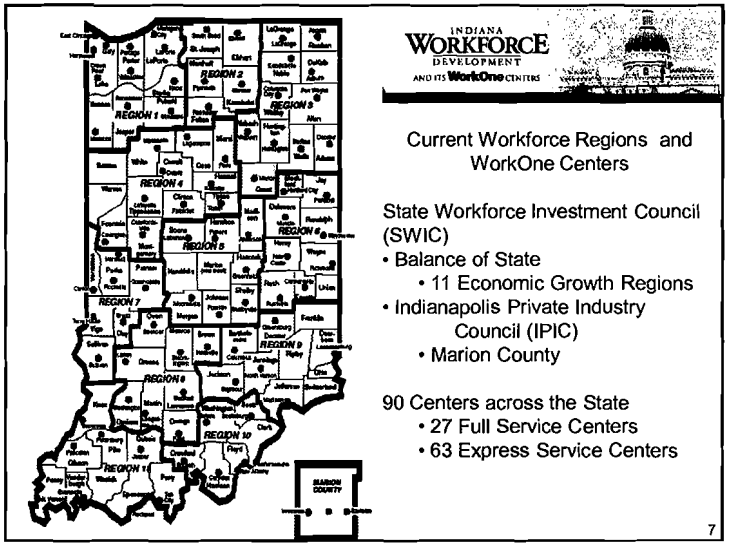
2010YTD
Year End Balance
Through September 30, 2010
6


INDIANA WORKFORCE DEVELOPMENT AND ITS WorkOne CENTERS
Current Workforce Regions and WorkOne Centers
State Workforce Investment Council (SWIC)
• Balance of State
• 11 Economic Growth Regions
• Indianapolis Private Industry Council (IPIC)
• Marion County
90 Centers across the State
• 27 Full Service Centers
• 63 Express Service Centers
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INDIANA WORKFORCE DEVELOPMENT AND ITS WorkOne CENTERS

Creation of Federal Programs

Unemployment Insurance changes	Effective Date	Benefits available for Hoosiers
Federal EUC # 1 (13 weeks) created	June 30, 2008	July 6, 2008
Federal EUC # 1 expanded (20 weeks) and EUC #2 (13 weeks) created	November 21, 2008	December 7, 2008
FAC created ($25/week) and federal Extended Benefits funded	February 17, 2009	March 2, 2009
Indiana triggers on Extended Benefits	March 15, 2009	March 23, 2009
Federal EUC # 2 expanded (14 weeks), EUC #3 (13 weeks) created and EUC #4 (6 weeks) created	November 6, 2009	November 23, 2009

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INDIANA WORKFORCE DEVELOPMENT AND ITS WorkOne CENTERS

On Again/Off Again Federal Extensions

Unemployment Insurance changes	Expiration Date	Reinstated Date
1st Expiration	December 7, 2009	December 23, 2009
2nd Expiration	February 28, 2010	March 2, 2010
3rd Expiration	April 5, 2010	April 15, 2010
4th Expiration	June 5, 2010	July 22, 2010
5th Expiration	November 30, 2010	

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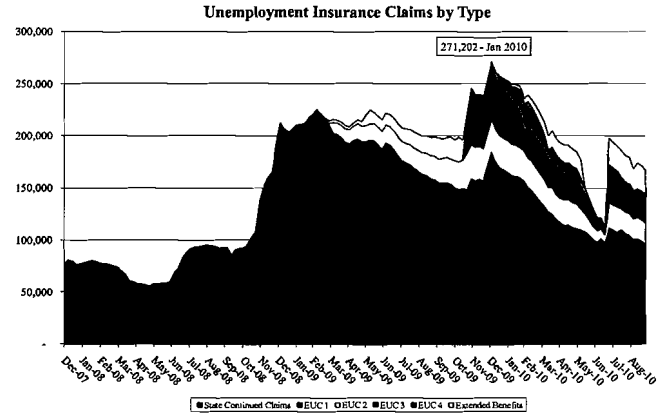
INDIANA WORKFORCE DEVELOPMENT AND ITS WorkOne CENTERS



Through October 2, 2010

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INDIANA WORKFORCE DEVELOPMENT AND ITS WorkOne CENTERS

Claimants Collecting

- Weekly paid claims for October 2, 2010: 166,962
- Hoosiers can collect up to 99 weeks of benefits, which are detailed below:

Program	Max # of Weeks	Cumulative Max Weeks	Claimants
Regular UI	26	1-26	62,215
Fed Extension #1	20	27-46	33,976
Fed Extension #2	14	47-60	20,292
Fed Extension #3	13	51-73	18,584
Fed Extension #4	6	74-79	9,143
Extended Benefits	20	80-99	22,752

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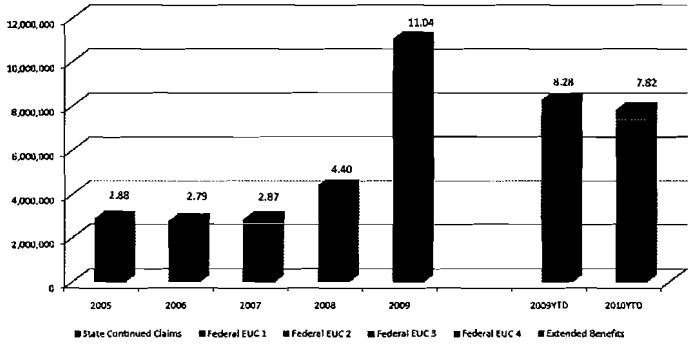
INDIANA WORKFORCE DEVELOPMENT AND ITS WorkOne CENTERS

Indiana Unemployment Insurance Paid Claim Weeks



Through October 2, 2010

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INDIANA WORKFORCE DEVELOPMENT AND ITS WorkOne CENTERS

Trust Fund Overview

- UI Trust Fund has been structurally imbalanced since 2001 (Benefits exceeding Premiums)
- Current balance of $1.8 billion grows to $2.0 billion by year end
- HEA1379 Rate Structure in effect beginning in 2011
- FUTA credit reduction reflected in Jan 2011
- Funding for Interest payment needed in 2011
- Current model projects balance in 2011 to grow to $2.3 billion

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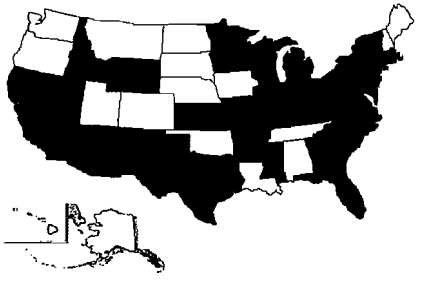
INDIANA WORKFORCE DEVELOPMENT AND ITS WorkOne CENTERS

States Borrowing from DOL for their UI Trust Funds

California	$8,387.9
Michigan	$3,814.1
New York	$3,176.9
Pennsylvania	$3,008.6
Ohio	$2,314.2
North Carolina	$2,311.0
Illinois	$2,239.6
New Jersey	$1,749.6
Florida	$1,671.0
Texas	$1,515.8
Wisconsin	$1,424.8
South Carolina	$886.7
Kentucky	$795.1
Missouri	$722.1
Nevada	$536.1
Minnesota	$532.1
Connecticut	$498.5
Georgia	$416.0
Massachusetts	$387.3
Virginia	$346.9
Arkansas	$330.9
Colorado	$314.3
Alabama	$283.0
Rhode Island	$225.5
Idaho	$202.4
Maryland	$133.8
Arizona	$131.0
Kansas	$88.2
Vermont	$32.7
Delaware	$15.5
Totals	$40,326.2



Red States are borrowing by Oct 5, 2010 – 31 States in total – Total of $40.3 Billion outstanding

Yellow States will borrow in – States in total – Total borrowed $26 Billion

Blue States projected borrowers by end of Sept 2013 – 35-40 States in total – DOL estimate of $85 Billion outstanding

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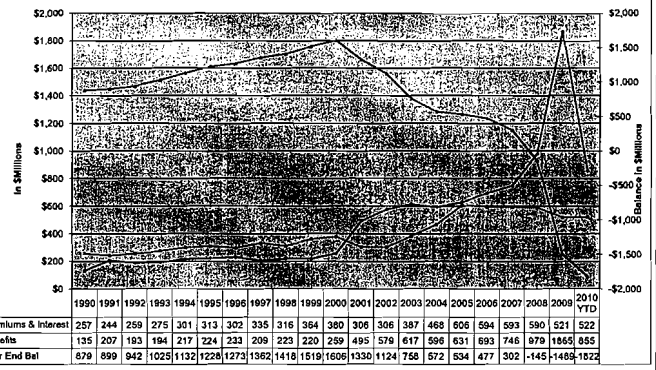
INDIANA WORKFORCE DEVELOPMENT AND ITS WorkOne CENTERS

Indiana Unemployment Insurance Trust Fund



	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010 YTD
Premiums & Interest	257	244	259	275	301	313	302	335	316	364	380	306	306	387	468	606	594	593	590	521	522
Benefits	135	207	193	194	217	224	233	209	223	220	259	495	579	617	596	631	693	746	979	1865	855
Year End Bal	879	899	942	1025	1132	1228	1273	1362	1418	1519	1606	1330	1124	758	572	534	477	302	-145	-1469	-1822

Through September 30, 2010

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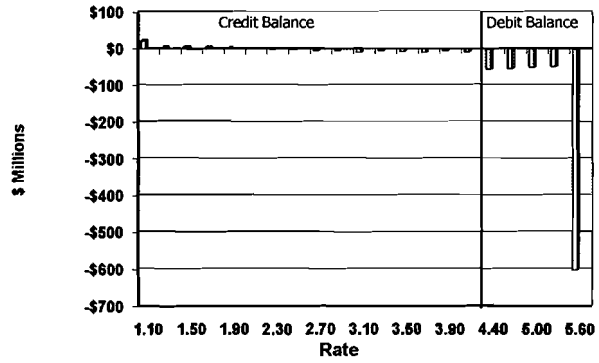
INDIANA WORKFORCE DEVELOPMENT AND ITS WorkOne CENTERS

Premiums received less benefits charged to employers based on assigned rate
Twelve Months Ending 6/30/09 (2010 rating cycle)



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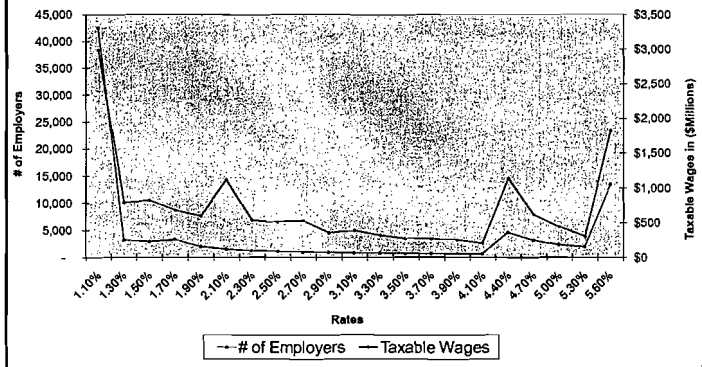
INDIANA WORKFORCE DEVELOPMENT AND ITS WorkOne CENTERS

2010 Distribution of Employers



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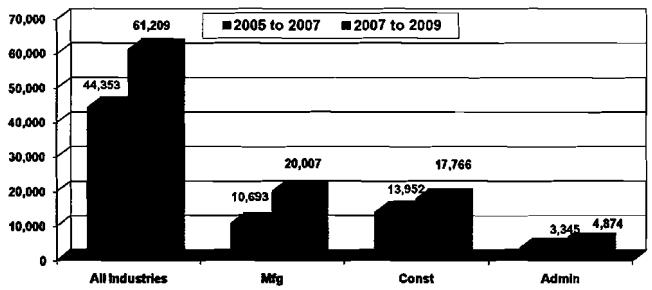
INDIANA WORKFORCE DEVELOPMENT AND ITS WorkOne CENTERS

Repeat UI Claimants by Industry



Estimated Benefits paid in 2009: 13 weeks @ $300 per week

$238.7 million	$78.0 million	$69.3 million	$19.0 million

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INDIANA WORKFORCE DEVELOPMENT AND ITS WorkOne CENTERS

Outstanding Advances Impact on FUTA Credits

- Since the Trust Fund has had an outstanding loan balance since November 2008, employers' FUTA credits will be reduced by 0.3% for 2010.
- Each year Indiana has an outstanding loan balance past the second year the basic credit reduction increases by 0.3 percentage points.

Years after 1st Loan	Basic Credit Reduction	Total FUTA Rate
2009	0.0%	0.80%
2010	0.3%	1.10%
2011	0.6%	1.40%
2012	0.9%	1.70%
2013	1.2%	2.00%
2016	2.1%	2.90%

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INDIANA WORKFORCE DEVELOPMENT AND ITS WorkOne CENTERS

Trust Fund Interest

- The Trust Fund has had an interest free loan since November 2008.
- The Trust Fund will begin paying interest on the outstanding balance to the federal government beginning January 1, 2011.
- The first actual interest payment, projected to total $80M to $100M in the first year, is due September 30, 2011.
- Federal law forbids the state from using the UI Trust Fund to pay the interest.
- Newly passed Federal rule does not help Indiana's borrowing or interest payments.

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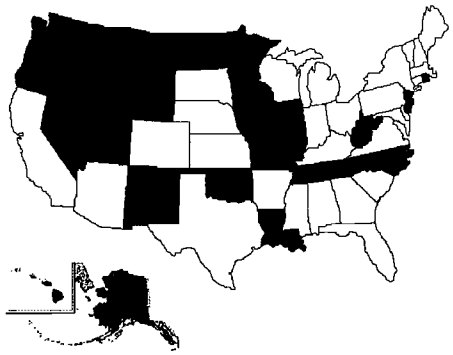
INDIANA WORKFORCE DEVELOPMENT AND ITS WorkOne CENTERS

States with Indexed Taxable Wage Base



Average Annual or Weekly Wage (16 States in total): AK HI ID IA MN MT NV NJ NM NC ND OK OR UT WA WY
Based on Trust Fund Balance (6 States in total): IL LA MO RI TN WV

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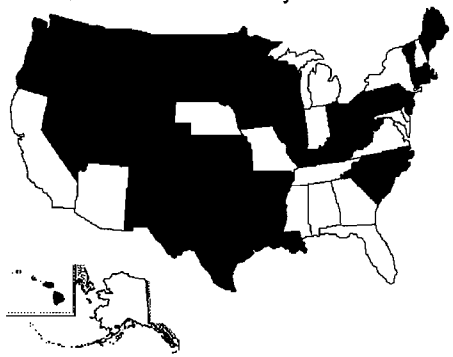
INDIANA WORKFORCE DEVELOPMENT AND ITS WorkOne CENTERS

States with Indexed Weekly Benefit Amount



% of Average Weekly Wage (33 States in total): AR CO CT HI ID IL IA KS KY LA ME MA MN MT NV NJ NM NC ND OH OK OR PA RI SC SD TX UT VT WA WV WI WY

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National UI Issues

Presentation for

The Indiana Unemployment Insurance Oversight Committee

National Unemployment Insurance Issues

by

Douglas J. Holmes, President

National Foundation for Unemployment & Workers' Compensation

October 13, 2010

UNEMPLOYMENT INSURANCE OVERSIGHT COMMITTEE
OCTOBER 13, 2010
EXHIBIT 2

UI Issues Background

- The most effective solution to solvency is job creation because it reduces benefit payout and increases tax revenue. Keeping employer tax burden low reduces costs and promotes job creation
- The best comparison of State UI tax burden is the average tax on total wages
- Indiana's tax on total wages as of June, 2010 was 0.56%, below the national average of 0.62% and lower than surrounding states. (MI – 1.07%; OH – 0.67%; IL – 0.65%; KY – 0.77%) Based on 1970s and 1980s comparisons the national average is expected to increase over the next three years to more than 1.4%.
- However, Indiana also has an outstanding federal loan that is greater than surrounding states in comparison to the size of the state
- The mix of state and federal UI tax increases will depend on legislation and policy in the next two years
- A short term/ long term plan to first assure economic recovery and then plan for long term debt management is needed with consideration of measures to reduce benefit payout and increase taxes until solvency is achieved.

- As of October 5th, 32 states with $40.3 billion in unemployment debt to federal government; Indiana - $1.83 billion
- USDOL projects peak in 2013 of 40 states owing $65.2 billion
- Outstanding loans will begin to accrue interest at 3.94% beginning January 1, 2011. Assuming Indiana owes $2 billion as of January 1, 2011 approximately $80 million per year must be paid with first payment due by September 30, 2011
- Payment of interest must be from sources other than state UI tax
- Federal Recovery Act waiver of interest ends 12/31/2010. Other cash flow or high unemployment rate waivers are available, but Indiana is not likely to qualify.

UI Issues Background

- Federal Unemployment Tax Act automatic Increases have begun (MI -2009), (IN, SC - 2010)
- Automatic FUTA per employee tax increase each year ($21, $42, $63, etc.). Increased FUTA penalty tax revenue will be deposited in the Indiana unemployment benefit account
- The impact of the penalty is to increase federal tax paid by employers, change tax burden to more flat tax and less experience rated, and shift costs to low contribution rate employers. Also, the FUTA rate is not controllable through claims management and experience rating
- "UI Modernization" incentive fund options should be reviewed for long-term impact on solvency but may cost more than the incentive funding provided and raise fundamental issues.

Federal Response

- The extension of federal Emergency Unemployment Compensation (EUC) lasts for claims through April 30, 2011, and also restricts states from taking measures to reduce the state average weekly benefit through April 30, 2011 as a condition of receiving federal reimbursement
- President's "UI Integrity" proposal increases recovery tools but also provides for work sharing federal requirements and a new employer reporting penalty
- The FUTA 0.2% surtax was extended through June 30, 2011
- GAO study suggests increases in taxable wage base needed
- Rep. McDermott interested in further UI benefit expansions; FUTA tax base increases and indexing that would impact low state UI tax base states the most, including Indiana.

Expected Responses

- Extend the FUTA 0.2% surtax through 2011 and additional years as needed to provide savings to offset other spending
- Include Title XII interest from states and FUTA offset penalty revenue to pay for spending in other areas of the budget
- Interest revenue is about $2 billion per year and FUTA offset credit revenue is $2 -$3 billion per year
- Title XII interest relief and FUTA offset credit relief not likely to be considered for stand alone legislation, but could be included in larger bills during the lame duck session. If no action in the lame duck session, relief is possible through the next Congress, but the FUTA offset penalty tax increase for 2010 will have been paid by the end of January , 2011
- Relief from automatic Title XII interest and FUTA offset credit penalties is possible only if states , businesses and workers push for them
- States with no debt may be less supportive of relief, arguing that they have already addressed solvency and did not get relief.

Current Efforts

- A business coalition requested two years of relief from interest and FUTA penalties in a letter to the Senate in February, 2010
- Legislative language was provided for consideration
- Committees with jurisdiction (Senate Finance and House Ways and Means) are aware of the issue – UWC submitted testimony before committees supporting relief
- National Governors' Association and NCSL policy statements support interest relief
- Individual states are beginning to let congressional delegations know of the impact of federal penalties.

Strengthen Unemployment Trust Fund

- Tax and benefit measures are needed to improve solvency over the long term – even with Federal relief
- Benefit solvency measures that have been adopted in other states may be part of an Indiana legislative solution
  - Increase work search requirements – eliminate waivers
  - Increase eligibility reviews and reemployment services
  - Improve benefit payment control through systems based identification and collection of overpayments
  - Link claimants likely to exhaust benefits more effectively to job search services and target training that leads to a job (e.g. OJT, Customized Training)
  - Reduce the maximum weekly benefit maximum
  - Reduce the total benefits payable or duration

- Increase minimum qualifying requirements
- Change form the High Quarter formula used to establish the weekly benefit amount to a percentage of base period wages
- Deduct workers compensation cash payments and Food stamp overpayments for the same week from weekly UI payments
- Require allocation and deduction of separation pay
- Increase penalties for fraud and refusal of suitable work

Tax Solvency provisions adopted in other states include:

- Establish a target balance in the state unemployment trust fund that is adequate to cover a reasonably foreseeable recession
- Increase state unemployment tax base in increments to improve solvency over time

Strengthen the Trust Fund

- Consider indexing the tax base to a percentage of covered wages
- Stretch the contribution rate schedule to distribute costs more consistently with experience rating
- Provide automatic reductions in taxes and/or benefits once the solvency target is exceeded
- Consider using bonds to eliminate debt and avoid federal FUTA offset and interest penalties
- Minimize the non-charging of benefits, but also examine short term options to give short term relief to employers whose rates have increased dramatically due to the recession
- Maintain a constant monitoring of the status of fund solvency and be prepared to make adjustments if there is federal relief available or changes in the economy that were not foreseen.

National Foundation

For

Unemployment Compensation & Workers' Compensation

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