



**UI FACT SHEET**

**1. Wage Growth**

1976 – 2005 average annual wage growth 4.0%

**2. Trust Fund Growth**

1990-2006 average annual Trust Fund growth 5.0% (includes recession years)

In February 2003, the Unemployment Insurance Division funded a study conducted by Dr. Wayne Vroman, Urban Institute, regarding the UI Trust Fund Adequacy in Montana (see attached Executive Summary).

In November 2006, the UI Division met with Dr. Vroman and discussed the proposal outlined in HB 59. Dr. Vroman stated that the proposal would **not** impact short-term or long-term Trust Fund solvency, nor would the proposal cause employer contribution rates to increase.

Dr. Vroman is internationally recognized as an expert in the area of Unemployment Insurance, Labor Market, Wages and non-Wage compensation, Welfare Reform, and Supplemental Security Income. Dr. Vroman's professional background includes: Assistant Professorship of Economics at Oberlin College and University of Maryland; Visiting Professor, School of Business, UC Berkley; Lecturer for the Foreign Service Institute; Associate Director and Chief Statistician for the National Commission on State Workmen's Compensation Laws; and, since 1977, Economist for the Urban Institute. Dr. Vroman is the author or co-author of more than 140 publications, 46 project reports, six books, 16 monographs, and has testified at 12 different state and federal legislative committees.

**Total Covered Wages**

CY 2001	\$6,710,675,000
CY 2002	\$6,954,062,000
CY 2003	\$7,223,871,000
CY 2004	\$7,715,825,000
CY 2005	\$8,356,968,000
CY 2006	\$8,676,965,000 (est)
Average 2001 – 2006	\$7,606,394,333

**Experience Rated Taxable Wages**

CY 2001	\$4,090,149,000
CY 2002	\$4,255,329,000
CY 2003	\$4,461,544,000
CY 2004	\$4,704,380,586
CY 2005	\$5,033,490,000
CY 2006	\$5,319,479,000 (est)
Average 2001-2006	\$4,645,728,598

**Experience Rated Average Tax Rate**

CY 2001	Schedule 1	1.37%
CY 2002	Schedule 1	1.37%
CY 2003	Schedule 1	1.37%
CY 2004	Schedule 1	1.37%
CY 2005	Schedule 1	1.37%
CY 2006	Schedule 1	1.37%
Average 2001-2006		1.37%

**UI Tax Contributions Received**

SFY 2001	\$57,166,000
SFY 2002	\$59,688,000
SFY 2003	\$62,886,000
SFY 2004	\$66,158,000
SFY 2005	\$73,056,000
SFY 2006	\$76,575,000
Average increase 2001 – 2006:	5.6%

**Benefit Payments**

SFY 2001 \$70,992,000  
 SFY 2002 \$80,716,739  
 SFY 2003 \$83,546,996  
 SFY 2004 \$89,578,804  
 SFY 2005 \$74,857,595  
 SFY 2006 \$72,978,492

**Trust Fund Interest Earnings**

SFY 2001 \$11,460,000  
 SFY 2002 \$11,851,000  
 SFY 2003 \$12,194,022  
 SFY 2004 \$11,341,217  
 SFY 2005 \$10,951,000  
 SFY 2006 \$10,296,000

**Penalty and Interest Income**

SFY 2001 \$477,000  
 SFY 2002 \$276,000  
 SFY 2003 \$200,000  
 SFY 2004 \$293,500  
 SFY 2005 \$452,000 \*  
 SFY 2006 \$590,000

\* UI Tax Bureau returned to DLI beginning SFY 2005

**Number of Insured Employees**

SFY 2001 341,000  
 SFY 2002 368,051  
 SFY 2003 371,619  
 SFY 2004 376,578  
 SFY 2005 382,807  
 SFY 2006 393,497

Rate of increase 2001-2002: 7.3%

Rate of increase 2002-2003: 1%

Rate of increase 2003-2004: 1%

Rate of increase 2004-2005: 1.6%

Rate of increase 2005-2006: 2.7%

Rate of increase 2001-2006: 13%

Average rate of increase 2001-2006: 4.43%

**Insured Unemployment Rate**

2001 2.4%  
 2002 2.5%  
 2003 2.7%  
 2004 2.5%  
 2005 1.9%  
 2006 2.1%

**Total Unemployment Rate (Seasonally Adjusted)**

2001 5.8%  
 2002 4.6%  
 2003 4.4%  
 2004 5.8%  
 2005 4%  
 2006 3.6%

**Average Weekly Benefit Amount**

SFY 2001 \$197  
 SFY 2002 \$183  
 SFY 2003 \$182  
 SFY 2004 \$190  
 SFY 2005 \$210  
 SFY 2006 \$207

Increase 2001-2005: 5%

**Average Duration of a Claim (in weeks)**

2001 13.88  
 2002 15.4  
 2003 15.1  
 2004 16.3  
 2005 15.6  
 2006 15.2

**Number of Initial Claims Filed**

2001	55,823
2002	78,821
2003	76,917
2004	71,168
2005	57,602
2006	53,524

**Total Weeks Claimed**

2001	415,467
2002	484,925
2003	566,358
2004	564,383
2005	427,278
2006	395,215

**Telephone Call Center Calls**

2002	155,623
2003	164,779
2004	139,952
2005	116,150
2006	112,220

*Question:* What happens when there is a draw on the fund and how do rates respond?

The tax year 2007 ratio is set by the following calculation. The UI Trust Fund balance as of October 2006 was \$250,207,889.67 and the Total Covered Wages (Excluding Reimbursable, State & Local Government, July 1, 2005 through June 30, 2006) was \$8,776,747,339 for a ratio of .0285, or schedule 1 for tax year 2007.

To incur a rate schedule change, the ratio would need to drop below .0245, in accordance with MCA 39-51-1218. The ratio is affected by any combination of figures; more or less taxes collected, increased or decreased benefits paid and increased or reduced covered wages the previous year. The trust fund balance would need to be reduced in excess of \$40,000,000 in a single year to change the ratio, all other factors remaining equal. However, such a tax schedule change would be only for 1 year and revert back to rate schedule 1, since our assumption that all other factors remained the same and the trust fund balance would recover in that time. To move to the rate schedule 3, the ratio would need to go below .0225, which would need a one time hit of \$57 million.. Again, if all things returned to normal, the fund would recover to rate schedule 2 for one year and then back to rate schedule 1.

Montana's State Average Annual Wage has increased continually since 1976. This means that even during periods of high unemployment, wages continue to grow.

## **Speaking points on unemployment rates –**

**Prepared by Research and Analysis Bureau (R&A), January 9, 2007**

Differences in stated rates on American Indian Reservations are due to variations in methodology between R&A [based on Bureau of Labor Statistics (BLS) methodology] and Bureau of Indian Affairs (BIA) calculations. **Significant differences include:**

- Population Measured:
  - R&A – Civilian population living on the reservation
  - BIA – All tribal members living on the reservation
- Labor force definition:
  - R&A – Civilian population age 16 and older who are either employed or actively seeking employment
  - BIA – Number of tribal members between ages 16 and 64 who are available for work (i.e. not incarcerated or disabled)
- Employed definition:
  - R&A – Worked as a paid employee, owner of business or farm, or worked at least 15 hours as an unpaid family laborer
  - BIA – Tribal members working for money
- Unemployed definition:
  - R&A – Have not worked during monthly survey period, are available for work, and have actively sought employment during the last four weeks
  - BIA – Difference between the labor force estimate and the employment estimate
- R&A Unemployment estimate: Includes people drawing unemployment (actual count – UI claimants), people who have exhausted their benefits but are still unemployed (estimated based on available data), people entering the workforce for the first time (estimated based on available data), and people reentering the workforce (estimated based on available data).

### **Sources:**

BLS Definitions:

<http://www.bls.gov/lau/laufaqs.htm#Q3>

Reservation Fliers (contain unemployment rates for 7 American Indian Reservations)

<http://www.ourfactsyourfuture.org/cgi/databrowsing/?PAGEID=4&SUBID=249>

### **Non-technical points**

- **Neither measurement is incorrect.** However, comparisons must be made using comparable methodologies. For example, it is not accurate to discuss BIA rates for one region and then compare them to R&A rates for another region. Regions with high BIA unemployment rates will still have relatively high rates when compared using R&A rates
- Unemployment rate is not the only indicator of economic well-being of a region or population
- Other indicators can include poverty rates, median household income, and labor force participation rates

**Unemployment Rate Information for Montana**  
**Prepared by the Research and Analysis Bureau, January 9, 2007**

Unemployment Rate		Historical Averages	
Year	Month	Rate	
2006	Jan	3.8%	10-year average (Dec 1996 - Nov 2006): 4.6%
2006	Feb	3.7%	5-year average (Dec 2001 - Nov 2006): 4.2%
2006	Mar	3.4%	1-year average (Dec 2005 - Nov 2006): 3.6%
2006	Apr	3.6%	
2006	May	3.8%	
2006	Jun	3.5%	
2006	Jul	3.8%	
2006	Aug	3.5%	
2006	Sep	3.6%	
2006	Oct	3.6%	
2006	Nov	2.8%	

# Unemployment Insurance Trust Fund Adequacy in Montana

Final Report  
March 2003

by  
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\*Economist, the Urban Institute. This draft report was prepared under terms of a contract between the Unemployment Insurance Division, Montana Department of Labor and Industry and the Urban Institute. Support from the staff of the Unemployment Insurance Division is acknowledged, especially Randy Routzahn and Ward Stiles. Opinions expressed in the report at the author's and do not necessarily reflect the opinions of the Montana Department of Labor and Industry or the Urban Institute.

## Executive Summary

During 2001 and 2002 the U.S. economy experienced its tenth recession since the end of World War II. Like the recession of the early 1990s, the downturn has been comparatively mild. Nevertheless the national unemployment rate increased from 4.0 percent of the labor force in 2000 to 5.8 percent in 2002, and unemployment rates have increased in nearly all states. During 2000-2002 Montana might be described as a fish swimming upstream. It was one of two states (along with Hawaii) where the unemployment rate decreased, declining from 5.0 percent to 4.6 percent. This improvement in the state's labor market despite the national recession has had a favorable effect on Montana's unemployment insurance program.

As with the increases in unemployment, decreases in Unemployment Insurance (UI) trust fund reserves occurred in most states between the end of 2000 and 2002. Across the 53 State UI programs, aggregate reserves declined in 43, were stable in one and increased in nine. Aggregate reserves nationwide decreased from \$54.05 billion to \$36.03 billion, or by about one third. The decreases would have been even larger had not the state trust funds received an infusion of \$8 billion of Reed Act monies in March 2002. Again, Montana has been among the minority of states that increased both its absolute UI reserves and its reserve ratio between 2000 and 2002. Total reserves increased by \$25 million to \$206.76 million, and the reserve ratio (reserves as a percent of covered payroll) increased from 2.42 to 2.56 or by 0.14. Only North Dakota and Maine registered larger increases in their reserve ratios during this recent period.

The UI program in Montana has a number of progressive features that help to assure both a strong increase of benefit payments to the unemployed during recessions and adequate funding of benefit payments. The benefits and revenue sides of the UI program both have automatic links to the level of average wages. Increases in average wages cause the maximum weekly benefit amount and taxable wages per employee to increase proportionately so that payouts and revenues automatically keep pace with changes in average wages. Also contributing to the strong financing basis of the UI program is the set of ten tax rate schedules that ensure a strong response of the average tax rate to drawdowns in the trust fund reserve during recessions.

For the time period covered by the report, i.e., 1966 to 2002, Montana operated with a UI program that had average costs roughly equal to the nationwide average. This was the result of three factors: 1) an average unemployment rate that roughly matched the national average, 2) a reciprocity rate (beneficiaries as a proportion of unemployment) that was about 10 percent below the national average and 3) a replacement rate (weekly benefits relative to weekly wages) that was about 17 percent above the national average. When all three factors are combined, the result is an average cost rate (benefits as a percent of covered payroll) that has been very similar to the U.S. average.

Montana experienced years of low trust fund balances in the late 1970s and early 1980s and needed loans from the U.S. Treasury to help finance benefit payments. Since 1990, however, the state has operated with a large trust fund balance. At the end of 2002, the balance of \$206.76 million was almost precisely at the level recommended by UI actuaries as needed for trust fund adequacy. Maintaining a large fund balance in recent years has yielded substantial interest earnings. Between 1990 and 2002 interest earnings totaled \$115 million and represented 14 percent of total trust fund revenues.

The report discusses reserve adequacy and notes the uncertainties in defining an adequate trust fund balance. The history of Montana's trust fund balance is summarized. An actuarial measure of fund adequacy (termed the reserve ratio multiple and defined in the text of the report) is introduced. Measures of fund adequacy are displayed in Table 3. At the end of 2002, the fund balance present in Montana met the actuarial standard suggested by the reserve ratio multiple.

While a large trust fund balance is important for assessing the state's financing situation, a large balance is just one of three important factors to be considered. The other two are the state's high tax base, indexed to 80 percent of average covered wages, and the set of ten tax rate schedules that provide a wide range of effective tax rates when the balance in the trust fund changes. The three factors combined mean the system of UI program financing present in Montana is strong and adequate to defray the expenses associated with high benefit payouts during a recession.

Because the UI program has a strong financing structure, it could afford to allow a one time drawdown of reserves during 2003 totaling some \$10-15 million would still leave more than \$190 million in the trust fund. As long as other features of the financing system are not weakened, a \$10-15 million drawdown would not pose an important threat to solvency. The balance would still be sufficient for unexpected short run contingencies.

The project has started to address questions of UI modeling appropriate in Montana to assess questions of fund adequacy. At present this analysis is incomplete, but the topic will be fully addressed before the project terminates at the end of May 2003.

The report provides answers to four questions to be addressed by the project.

Question 1. How many month's worth of benefit payments should Montana's UI trust fund maintain to provide an adequate reserve of money available to be paid as benefits?

The actuarial standard used in the report is to have a reserve ratio multiple of 1.5. This means the fund balance should represent 18 months of benefit payouts when paid at a rate equal to the average for the three highest cost years in the past 20 years, i.e., 1.70 percent of covered payroll. The balance that meets this standard is \$205 million.

Question 2. What is the ratio of Montana's UI trust fund balance to Montana's annual total wages in covered employment that would fund an adequate reserve?

The reserve ratio (reserves as a percent of payroll) that meets this standard is 2.55 percent, almost precisely the actual reserve ratio at the end of 2002.

Question 3. What is the impact of reducing the trust fund balance by \$10 to \$15 million?

A reduction of \$10-15 million would not represent an important increase in the threat of insolvency in Montana.

Question 4. Is Montana's unemployment insurance experience rating system and benefit financing model sound and sustainable? Should the system and the model be amended or revamped?

Montana's experience rating system is fully adequate as presently structured and does not need to be revamped. Modeling questions will be addressed later in the project.

# Montana Unemployment Insurance Benefits Paid & Claims Filed

## Totals By County (SFY2006)

