



Unemployment Insurance Trust Fund Report

Outlook Report August 2015

HIGHLIGHTS

This Outlook Report provides the current status and updated projections of the Unemployment Insurance Trust Fund for the 2015 through 2019 outlook period.

As required by MGL Chapter 151A, Section 14F, the Department of Unemployment Assistance publishes quarterly outlooks for the Unemployment Insurance Trust Fund based on forecasts for total unemployment rate, annual wage and salary growth rate, and annual labor force. DUA also provides monthly reports updating the current status of the Trust Fund.

New economic assumptions from Moody's economy.com used in these projections show lower annual average unemployment rates for 2015 to 2019 as compared to the assumptions used in the May Outlook Report. For 2015, the average annual unemployment rate is down from 4.8 percent to 4.6 percent. The projected annual rate at 4.5 percent in 2016 is three-tenths of a percentage point lower than the rate used in the May report. The total unemployment rate is projected to be 4.5 to 4.6 percent through the entire outlook period. The labor force is expected to be higher in 2015 and 2016 but lower in the rest of the outlook years. The annual wage and salary growth rates are higher than previously published in all the outlook years except in 2016 which is down by nine-tenths of a percentage point.

The outlook presented is for the regular UI program based on 2015 employer experience rates and benefit payments and employer contributions through the end of the second quarter 2015.

Legislation enacted in June 2014 introduced a new experience rating table and a \$15,000 taxable wage base for private contributory employers beginning in 2015. In addition, rate schedule C was set for employer contributions for 2015 to 2017 payrolls.

The revised 2015 year-end projections indicate employer contributions, based on rate schedule C and a \$15,000 taxable wage base, will be \$1.266 billion or \$237 million less than the previous estimate of \$1.503 billion. This is due to a lower than projected employer contributions in the second quarter. Estimated benefit payments of \$1.359 billion are \$112 million lower than the previous estimate of \$1.471 billion first released in the May 2015 Outlook Report. As a result, the private contributory account year-end balance estimated at \$762 million is

\$128 million lower than the previous estimate of \$890 million and \$74 million less than the 2014 year-end balance.

Under the current economic assumptions, no federal loan advances are expected in 2015 as the private and governmental contributory account reserves are expected to be sufficient to cover benefit payments.

Employer contributions for 2016 payrolls on schedule C and the \$15,000 taxable wage base are expected to be \$1.260 billion. Benefit payments are projected to be \$1.388 billion with a year-end balance of \$651 million that is \$295 million less than the previously published estimate of \$947 million this due to a lower projected employer contributions couple with the lower ending balance in 2015.

In 2017 benefit payments are expected to be \$1.486 billion, a decrease of \$63 million compared to the previous estimate of \$1.549 billion due primarily to a decrease of two-tenths of a percentage point in the annual average unemployment rate, from 4.7 percent to 4.5 percent. With employer contributions of \$1.309 billion, the year-end private account balance is expected to be \$489 million or \$476 million less than the May estimate of \$965 million. As in the previous year, the difference is caused by lower contributions and ending year-end balances.

Based on the current economic assumptions, the private contributory account will continue to rebuild in 2018 and 2019. Under the same assumptions and statutory provisions, no borrowing from the federal unemployment account is anticipated through 2019. The 2019 year-end balance is expected to be \$1.183 billion.

ECONOMIC ASSUMPTIONS

DUA utilizes independent economic forecasts as the basis for its estimates of income and expenditure for the Massachusetts Unemployment Insurance program. Moody's Economy.com July 2015 forecasts were used in the benefit financing simulations for this report. The current assumptions, along with assumptions used to produce the simulation estimates published in the February and May 2015 Outlook Trust Fund Reports are provided in Table 1.

The July 2015 Moody's Economy.com Annual Wage and Salary Growth Rate forecasts for 2015 to 2019 were revised upwards, except in 2016 which was revised down from 6.9 percent to 6.0 percent.

The projected annual average total unemployment rates for the outlook years were all revised down. A decrease of two-

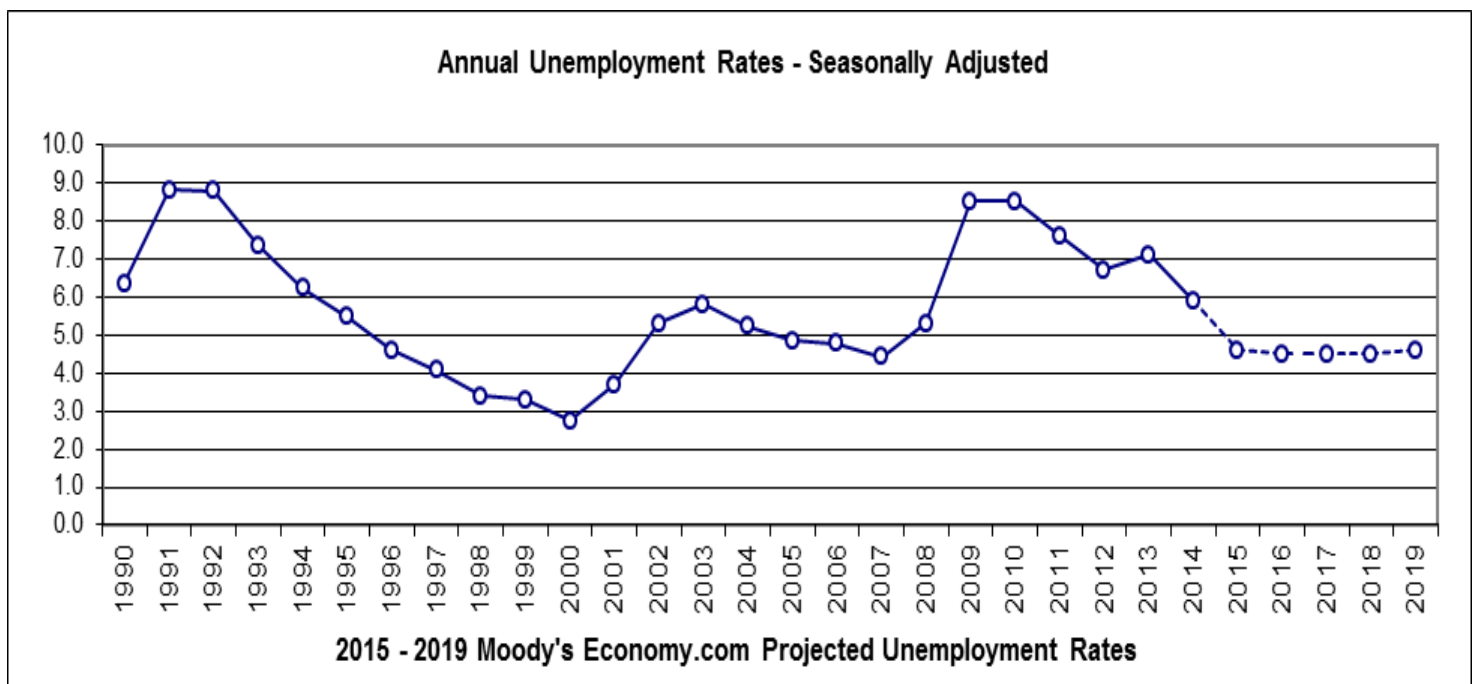
tenths of a percentage point revision was made in 2015, from 4.8 percent to 4.6 percent. Downward revisions of either two-tenths or three-tenths of a percentage point were made in the 2016 to 2019 annual average unemployment rates with the rates holding steady at 4.5 and 4.6 percent.

The annual labor force projections for 2015 to 2019 showed an average annual revision of -2,085 from the Moody's economy.com projections released in April. Labor force increased in 2015 and 2016 but declined in 2017 to 2019. The labor force is projected to be 3,715,541 in 2019.

Table 1: Moody's Economy.com Forecasts, Three Most Recent Reports

	Wage & Salary Growth (%)			Total Unemployment Rate (%)			Labor Force		
	15-Jan	15-Apr	15-Jul	15-Jan	15-Apr	15-Jul	15-Jan	15-Apr	15-Jul
2015	5.6	5.7	6.1	5.3	4.8	4.6	3,545,121	3,618,671	3,636,068
2016	7.1	6.9	6.0	4.5	4.8	4.5	3,582,263	3,657,767	3,665,754
2017	6.3	6.1	6.4	4.1	4.7	4.5	3,601,508	3,686,277	3,679,647
2018	6.0	5.7	6.5	4.1	4.8	4.5	3,610,842	3,708,285	3,693,980
2019	4.6	4.7	5.1	4.2	4.8	4.6	3,616,967	3,730,414	3,715,541

Source: Moody's Economy.com



UNEMPLOYMENT INSURANCE TRUST FUND BALANCE

As of July 31, 2015, the preliminary Massachusetts Unemployment Insurance Trust Fund ending balance was \$1.169 billion. The preliminary private contributory account balance was at \$1.054 billion and the preliminary governmental contributory account balance was \$115 million. The preliminary private contributory account balance is \$43.6 million more than projected due mostly to higher than predicted employer contributions in the month of July.

The private contributory account is projected to have a balance of \$762 million at the end 2015, a reserve of \$651 million in 2016 and a projected balance of \$489 million by the end of 2017.

The 2015 year-end private contributory account balance of \$762 million is \$128 million lower than the previous estimate of \$890 million first published in the May 2015 Outlook Report. The difference in the year-end balance is primarily due to a downward revision in employer contributions.

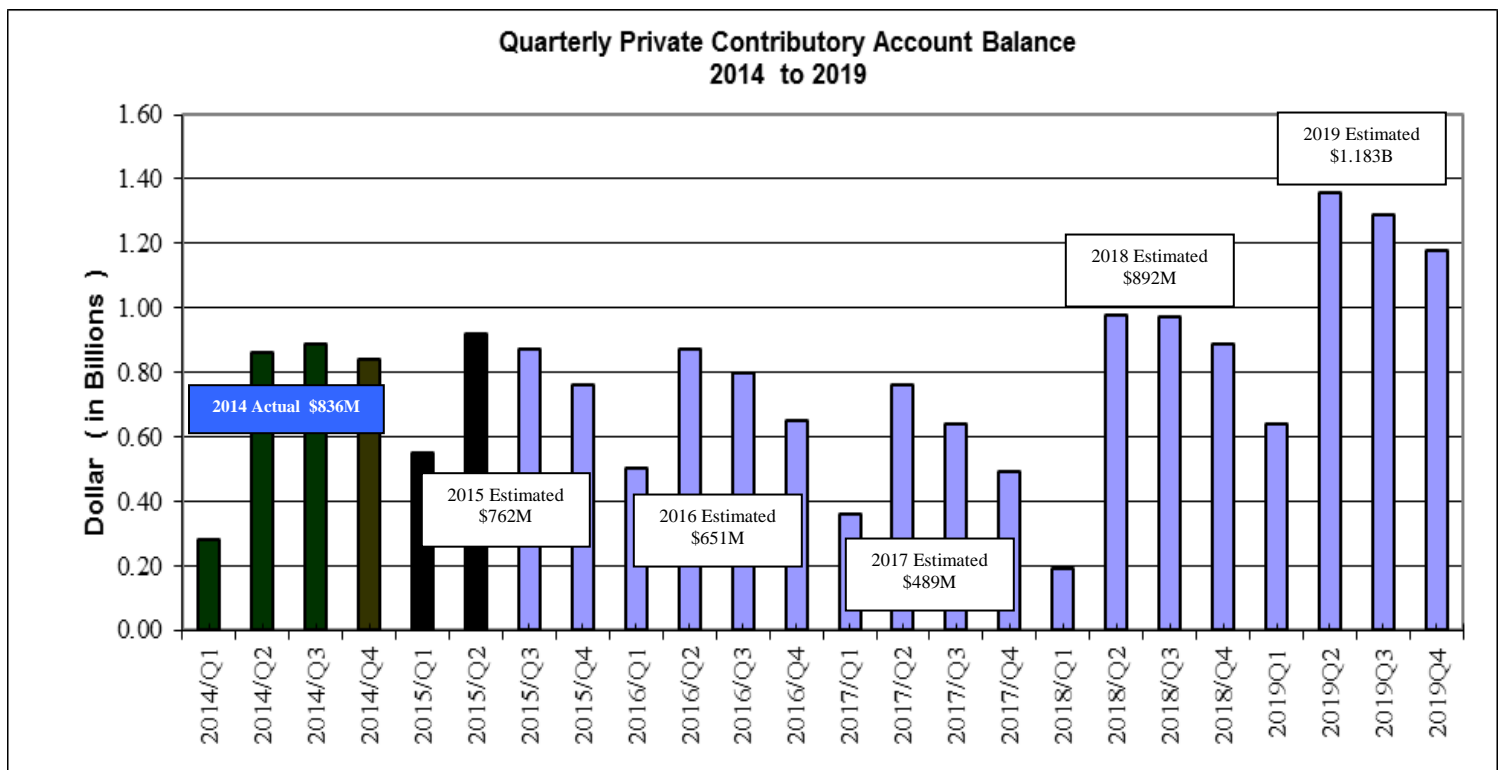
The year-end 2016 account balance is expected to be \$651 million, a \$296 million decrease from the previous estimate of \$947 million. The difference is a carryover of the lower 2015 year-end balance and a projected decrease in employer contributions.

The year-end 2017 account balance is expected to be \$489 million; \$476 million lower than the previous estimate of \$965 million. As in the previous year, the difference is a carryover of lower ending year-end balances coupled with lower expected employer contributions.

The December 31, 2018 account balance is estimated at \$892 million, a \$412 million decrease from the previous estimate of \$1.304 billion. Similarly, the difference was caused by the lower year-end balances in the previous years.

As in 2018 rate schedule F is projected to trigger for 2019 payrolls. By the end of the year, private contributory account balance is expected to be \$1.183 billion or 0.53 percent of total payrolls.

It is anticipated that under the current economic assumptions no borrowing from the federal unemployment account will be required in the outlook period. The chart below shows the 2014 actual and projected quarterly private UI Fund balance through 2019.



BENEFIT OUTLAYS

The updated simulation for the outlook period resulted in decreases in benefit payments in 2015 to 2019.

Preliminary benefit payments through July 2015 totaled \$865.9 million, a \$121.3 million decrease from the January to July 2014 payment of \$987.2 million and \$10.5 million less than the projection of \$876.3 million. Initial claims through July 2015 were 7.9 percent lower than last year's first seven month's total while weeks compensated were 14.4 percent less. The average weekly benefit amount of \$430.34 in July was \$22.73 more than last year's \$407.61 amount. The average duration of a claim was 18.1 weeks.

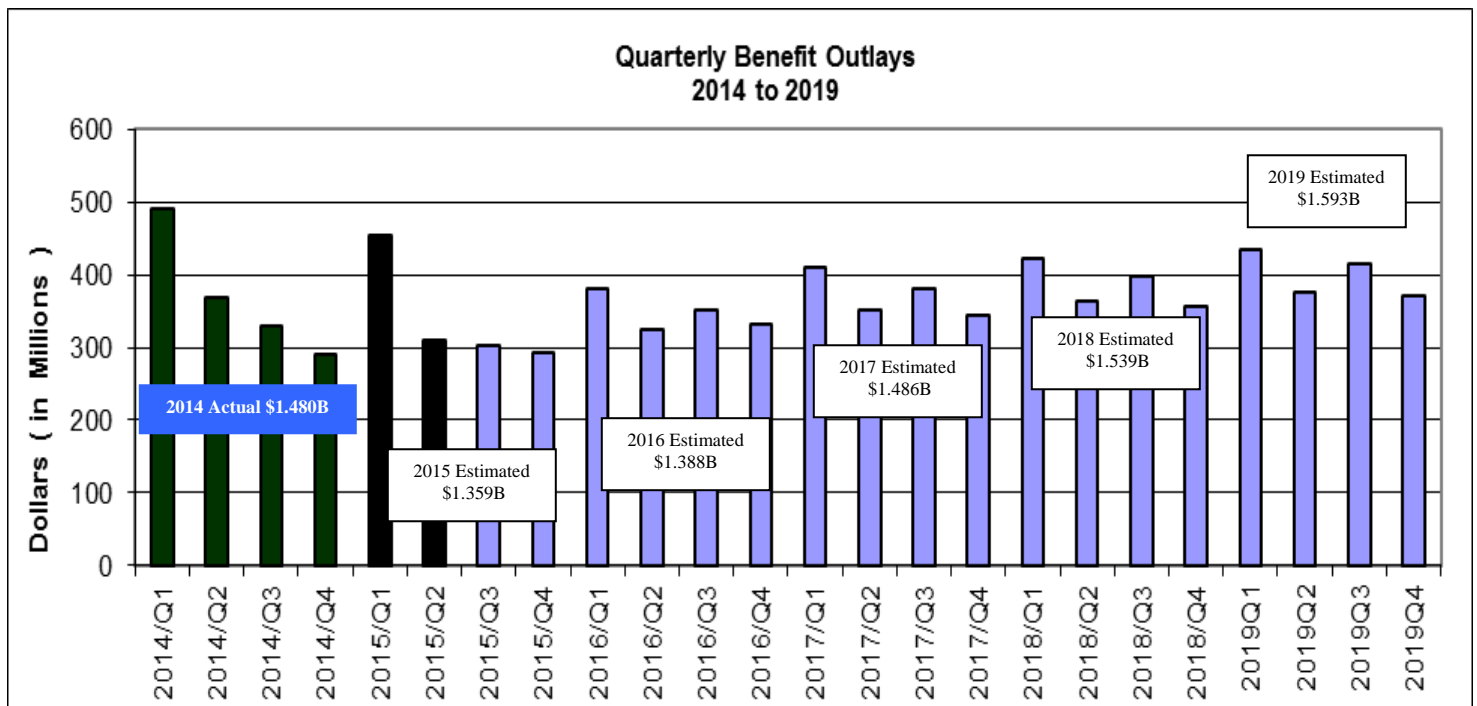
Benefit payments for 2015 are now estimated to be \$1.359 billion, \$112 million less than the previous estimate of \$1.471 billion first released in the May 2015 Outlook Report. A projected improvement in the average annual unemployment rate, from 4.8 percent to 4.6 percent, resulted in decreases in insured unemployment and weeks compensated.

In 2016, benefit payments are projected to be \$1.388 billion, a decrease of \$121 million from the previous estimate of \$1.509 billion. The revision was caused by a decrease in the estimated average weekly benefit amount due to a decrease in the average wage and salary growth rate in 2016. In addition, generated by three-tenths of a percentage point reduction in the annual average unemployment rate, decreases are projected in insured unemployment and weeks compensated.

For 2017, benefit payments are projected to be \$1.486 billion or \$63 million lower than the previous estimate of \$1.549 billion. As in the previous years, the large revision was caused by projected decreases in total weeks compensated and insured unemployment due to two-tenths of a percentage point decrease in the annual average unemployment rate.

For 2018, benefit payments are now projected to be \$1.539 billion, a decrease of \$97 million from the previous estimate of \$1.636 billion. As in previous years, a projected drop in the annual average unemployment rate generated decreases in weeks compensated and insured unemployment. The unemployment rate is projected to improve from 4.8 percent to 4.5 percent.

In 2019, benefit payments are expected to be \$1.593 billion, a \$137 million decrease as the annual average unemployment rate is projected to be lower.



EMPLOYER CONTRIBUTIONS

Legislation enacted in June 2014 introduced a new experience rate table and a \$15,000 taxable wage base starting in 2015. Further, rate schedule C was set for employer contributions for 2015 to 2017 payrolls.

Preliminary employer contributions through the end of July 2015 totaled \$1.075 billion, a decrease of \$327 million or 23.4 percent from the same time span in 2014 contributions of \$1.402 billion on a different and higher tax schedule. The preliminary employer contributions through July were \$33 million or 3.1 percent higher than the projection of \$1.042 billion.

Updated projections for employer contributions for 2015 to 2017 show large differences from the previous projections first released in the May 2015 Outlook Report. The variances are primarily due to lower than projected actual employer contributions in the second quarter.

For 2015 employer contributions on rate schedule C and a \$15,000 taxable wage base are now estimated at \$1.266 billion, a \$237 million decrease from the previous estimate of \$1.503 billion. The decrease was due to a projected decrease in the average contribution rate combined with the replacement of the lower actual employment contributions from the projected collections in the second quarter.

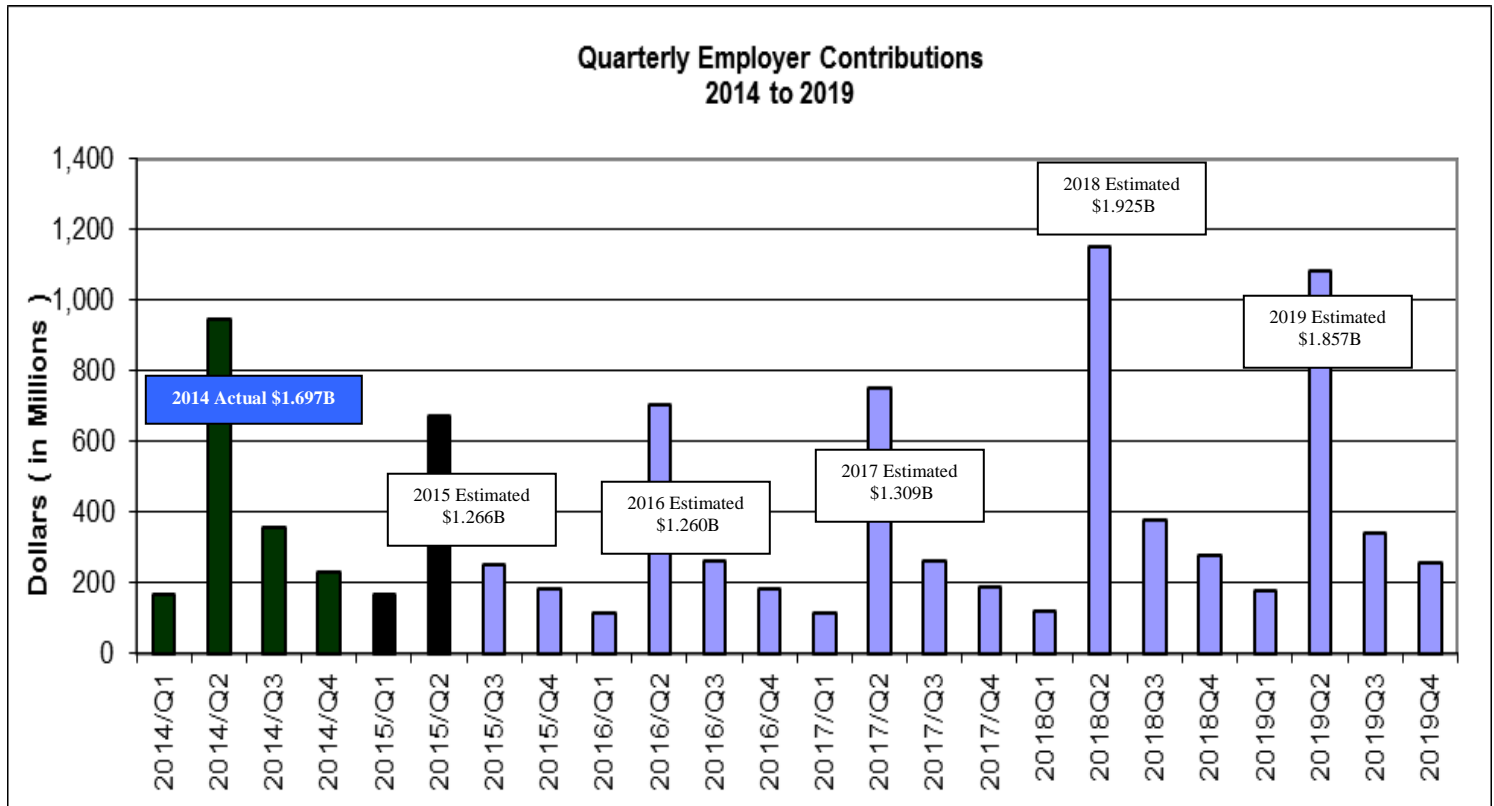
Employer contributions in 2016 on schedule C are estimated at \$1.260 billion, \$282 million less than the previous estimate of \$1.542 billion due to projected decreases in taxable payrolls and the average contribution rate.

For 2017 payrolls, employer contributions are projected at \$1.309 billion, a \$234 million decrease from the previous estimate of \$1.543 billion. As in the previous year, taxable payrolls and the average contribution rate are projected to be lower.

For 2018, rate schedule F is projected to trigger for employer contributions generating an estimated \$1.925 billion in contributions, a decrease of \$21 million from the previous estimate of \$1.946 billion.

Rate schedule F is again projected to trigger for 2019 payrolls with an estimated employer contribution of \$1.857 billion, \$35 million less than the previous estimate. As in previous years, the decrease in contributions was due to a projected decrease in taxable payrolls.

Table 2, on page 7, contains the new experience rate table that took effect this year.



TRUST FUND SOLVENCY

Federal regulations now require States to meet several new standards for interest free federal advances taken during the first five months of a calendar year and repaid in the fall. The first measure requires that in at least one of the five years prior to the calendar year the advances are taken, the trust fund reserves must be equal to an average high cost multiple solvency measure. The measure is phased in over five years from a multiple of .50 for 2014, .60 in 2015 up to 1.0 for advances in 2019. For 2015 the AHCM must be met based on 2014 performance.

The Average High Cost Multiple (AHCM) is computed based on the average benefit cost rate for the three highest years in the last twenty or the last three recessions whichever is higher.

Benefit costs are measured as a percent of the total UI wages, the total liability of the UI system, is the second measure. Using this measure indexes the benefit costs to total wages. The measure is designed to encourage States to build sufficient reserves to finance an economic

downturn similar to ones in the past. For Massachusetts the measures are done for the overall trust fund and include both private and governmental contributory accounts. The ratio of the average tax rate and the benefit costs rate over the previous five years must be at least 75 percent.

The chart below arrays the new federal regulations, the actual and projected year-end all contributory account AHCMs, the ratios of average tax rate and total wages (federal standard at 80 percent of previous year) and the average tax rate and the benefit cost rate over the preceding five years (federal standard at 75 percent).

If federal advances are necessary in 2015 through 2019, Massachusetts will not meet the federal standard for AHCM. In addition the ratio of the average tax rate over the benefit cost rate in the preceding five years in 2015 to 2017 falls below the standard and therefore be subject to federal interest for all loans.

**Funding Standard for Interest-Free Loans Started in 2014
All Contributory Accounts (Estimated 2015 to 2019)**

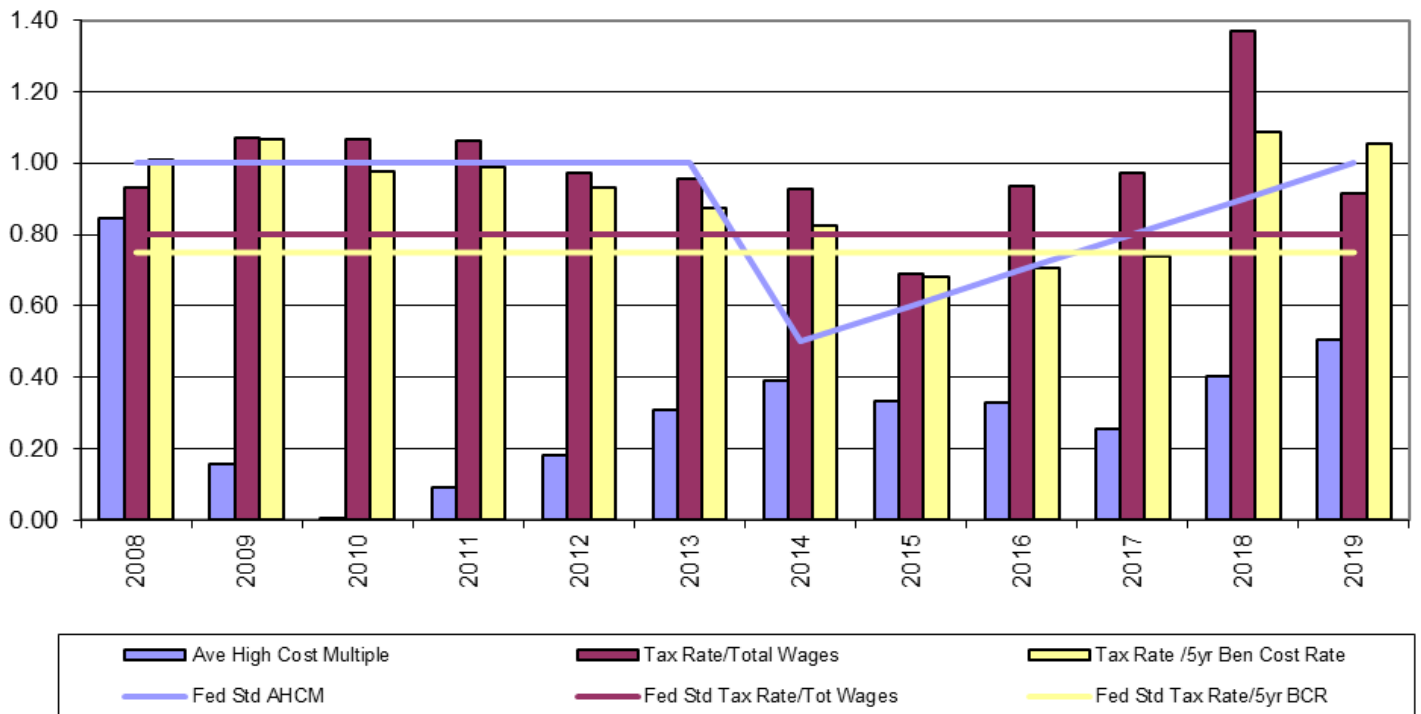


Table 2: Experience Rate Table

Employer Account Reserve Percentages	Unemployment Compensation Fund Reserve Percentage						
	A	B	C	D	E	F	G
	1.65% and over	1.5% or more less than 1.65%	1.2% or more less than 1.5%	0.9% or more less than 1.2%	0.6% or more less than 0.9%	0.3% or more less than 0.6%	less than 0.3%
Negative Percentage	Employer Contribution Rate*						
23 or more	8.62	9.79	11.13	12.65	14.37	16.33	18.55
21.0 but less than 23.0	8.25	9.37	10.65	12.11	13.76	15.63	17.76
19.0 but less than 21.0	7.88	8.96	10.18	11.57	13.15	14.94	16.97
17.0 but less than 19.0	7.52	8.54	9.71	11.03	12.53	14.24	16.18
15.0 but less than 17.0	7.15	8.13	9.24	10.49	11.93	13.55	15.39
13.0 but less than 15.0	6.78	7.71	8.76	9.95	11.31	12.85	14.60
11.0 but less than 13.0	6.42	7.29	8.29	9.42	10.70	12.16	13.81
9.0 but less than 11.0	6.05	6.87	7.81	8.88	10.09	11.46	13.02
7.0 but less than 9.0	5.68	6.46	7.34	8.34	9.48	10.77	12.23
5.0 but less than 7.0	5.32	6.04	6.86	7.80	8.86	10.07	11.44
3.0 but less than 5.0	4.95	5.63	6.39	7.27	8.26	9.38	10.66
1.0 but less than 3.0	4.58	5.21	5.92	6.72	7.64	8.68	9.86
0.0 but less than 1.0	4.22	4.79	5.45	6.19	7.03	7.99	9.08
Positive Percentage							
0.0 but less than 0.5	3.14	3.57	4.06	4.61	5.24	5.96	6.77
0.5 but less than 1.0	3.06	3.48	3.96	4.50	5.11	5.81	6.60
1.0 but less than 1.5	2.98	3.39	3.85	4.38	4.98	5.65	6.43
1.5 but less than 2.0	2.90	3.30	3.75	4.26	4.84	5.50	6.25
2.0 but less than 2.5	2.82	3.21	3.65	4.14	4.71	5.35	6.08
2.5 but less than 3.0	2.75	3.12	3.54	4.02	4.57	5.20	5.90
3.0 but less than 3.5	2.67	3.03	3.44	3.91	4.44	5.05	5.74
3.5 but less than 4.0	2.58	2.93	3.33	3.79	4.30	4.89	5.56
4.0 but less than 4.5	2.50	2.84	3.23	3.67	4.17	4.74	5.38
4.5 but less than 5.0	2.42	2.75	3.13	3.55	4.04	4.59	5.21
5.0 but less than 5.5	2.34	2.66	3.02	3.43	3.90	4.43	5.04
5.5 but less than 6.0	2.25	2.56	2.91	3.31	3.76	4.28	4.86
6.0 but less than 6.5	2.17	2.47	2.81	3.20	3.63	4.13	4.69
6.5 but less than 7.0	2.09	2.38	2.71	3.08	3.50	3.97	4.51
7.0 but less than 7.5	2.02	2.30	2.61	2.96	3.37	3.82	4.35
7.5 but less than 8.0	1.94	2.20	2.50	2.84	3.23	3.67	4.17
8.0 but less than 8.5	1.85	2.10	2.39	2.72	3.09	3.51	3.99
8.5 but less than 9.0	1.78	2.02	2.29	2.61	2.96	3.37	3.82
9.0 but less than 9.5	1.70	1.93	2.19	2.49	2.82	3.21	3.65
9.5 but less than 10.0	1.61	1.83	2.08	2.36	2.69	3.05	3.47
10.0 but less than 10.5	1.53	1.74	1.98	2.25	2.56	2.91	3.30
10.5 but less than 11.0	1.45	1.65	1.87	2.13	2.42	2.75	3.12
11.0 but less than 11.5	1.37	1.56	1.77	2.01	2.29	2.60	2.96
11.5 but less than 12.0	1.29	1.47	1.67	1.89	2.15	2.45	2.78
12.0 but less than 12.5	1.21	1.37	1.56	1.77	2.01	2.29	2.60
12.5 but less than 13.0	1.13	1.28	1.46	1.66	1.89	2.14	2.43
13.0 but less than 13.5	1.05	1.19	1.35	1.54	1.75	1.99	2.26
13.5 but less than 14.0	0.97	1.10	1.25	1.42	1.61	1.83	2.08
14.0 but less than 15.0	0.81	0.92	1.04	1.18	1.34	1.53	1.73
15.0 but less than 16.0	0.73	0.83	0.94	1.07	1.21	1.38	1.57
16.0 but less than 17.0	0.64	0.73	0.83	0.95	1.08	1.22	1.39
17.0 or more	0.56	0.64	0.73	0.83	0.94	1.07	1.21

Employer Contribution Rate is applied to the first \$15,000 of wages per employee.

The current law simulation estimates for 2015 through 2019 are displayed in Tables 3 and 4, below.

Table 3: Unemployment Trust Fund Projections for the Private Contributory Account, 2015 - 2019

(All \$ in Millions except Average Cost/Employee)

	2014	2015	2016	2017	2018	2019
Balance, January 1	\$603	\$836	\$762	\$651	\$489	\$892
Income	\$1,697	\$1,266	\$1,260	\$1,309	\$1,925	\$1,857
Trust Fund Interest	\$16	\$19	\$18	\$14	\$17	\$27
Benefit Outlays	\$1,480	\$1,359	\$1,388	\$1,486	\$1,539	\$1,593
Federal Loan Interests						
Balance, December 31	\$836	\$762	\$651	\$489	\$892	\$1,183
Schedule*	Old"E"	"C"	"C"	"C"	"F"	"F"
Average Cost/Employee	\$677	\$485	\$481	\$498	\$730	\$700

* 2014 to 2017 rate schedules set by Legislation, 2014 on \$14,000 taxable wage base; 2015 to 2019 on \$15,000 taxable wage base and 2018 and 2019 rate schedule projected based on current statutory triggers.

Source: Massachusetts Department of Unemployment Assistance benefit financing simulation

Figures may not add up due to rounding.

Table 4: Benefit Financing Simulation Output

	2014	2015	2016	2017	2018	2019
Total Covered Payroll (\$Billions)	\$160.9	\$174.4	\$184.7	\$197.2	\$210.8	\$222.8
Contributory Payroll (\$Billions)	\$37.3	\$39.7	\$40.3	\$40.8	\$41.2	\$41.6
Contributory Wage Proportion	23.2%	22.8%	21.8%	20.7%	19.5%	18.7%
Nominal Contribution Rate	4.6%	3.1%	3.1%	3.2%	4.8%	4.4%
Contributions as % of Total Payroll	1.05%	0.73%	0.68%	0.66%	0.91%	0.83%
Benefits as a % of Total Payroll	0.92%	0.78%	0.75%	0.75%	0.73%	0.72%
Trust Fund Balance as % of Total Payroll	0.52%	0.44%	0.35%	0.25%	0.42%	0.53%
Solvency Assessment	1.08%	1.00%	1.05%	1.06%	1.09%	1.13%
AHCM	0.30	0.25	0.20	0.14	0.25	0.31
Covered Employment (Thousands)	3,296	3,338	3,356	3,366	3,377	3,396
Total Unemployment Rate	5.9%	4.6%	4.5%	4.5%	4.5%	4.6%
Insured Unemployment Rate	2.6%	2.3%	2.5%	2.6%	2.7%	2.7%

Source: Economic assumptions are based on Moody's Economy.com forecasts and Massachusetts benefit financing simulation.

Figures may not add up due to rounding.

APPENDIX UNEMPLOYMENT INSURANCE DEFINITIONS

AVERAGE HIGH COST RATE:

The average of the three highest calendar benefit cost rates in the last 20 years (or a period including three recessions, if longer). The benefit cost rates private UI contributory employers benefits paid (including the state's share of extended benefits when applicable) as a percent of their total wages.

AVERAGE HIGH COST MULTIPLE (AHCM):

The ratio of the year-end trust fund balance as a percent of total wages divided by the Average High Cost Rate.

BENEFITS PAID:

The unemployment insurance benefits paid to individuals funded through the state program. This includes all weeks compensated including partial payments.

CIVILIAN LABOR FORCE:

The estimated average number of Massachusetts residents who are either employed or unemployed in the week of the 12th for the three months of the quarter.

COVERED EMPLOYMENT:

The number of employees covered by Unemployment Insurance reported to the state by employers. The numbers represent the count of all employees for the payroll period that includes the 12th of the month.

HIGH-COST MULTIPLE (HCM):

The ratio of the Trust Fund balance as a percent of total wages divided by the High Cost Rate. The High Cost Rate is the highest historical ratio of benefits paid to total wages for a 12-month period.

INITIAL CLAIMS:

Any notice of unemployment filed by an individual (1) to request a new determination of entitlement to and eligibility for unemployment compensation or (2) to begin a second or subsequent period of eligibility within a benefit year or period of eligibility following an additional separation from employment.

INSURED UNEMPLOYED:

The average number of weeks claimed for the three months of the quarter.

INSURED UNEMPLOYMENT RATE (IUR):

The rate computed by dividing Insured Unemployed for the current quarter by the average Covered Employment for the first four of the last six completed quarters.

OUTSTANDING LOAN BALANCES:

Balance, as of the end of the quarter, of advances acquired by the state under Title XII of the Social Security Act which allows states to use repayable advances from the federal UI account.

SOLVENCY ASSESSMENT:

The annual factor assessed to employer taxable payrolls to cover the net balance of charges and credits not directly assigned to individual employers.

TAXABLE WAGES:

Wages paid to covered employees that are subject to State Unemployment Insurance taxes. For Massachusetts, the first \$15,000 in wages per employee is covered by UI,

TAXABLE WAGE BASE:

For each State, the maximum amount of wages paid to an employee by an employer during a year in which their employment is subject to UI taxes. Wages above this amount are not subject to UI tax.

TOTAL UNEMPLOYED:

The estimated average number of residents, 16 years of age or older, who do not have a job but are available for work

and actively seeking work in the week of the 12th for the three months of the quarter. This includes individuals on layoff and waiting to report to a new job within 30 days.

TOTAL UNEMPLOYMENT RATE (TUR):

The rate computed by dividing Total Unemployed by the Civilian Labor Force.

TOTAL WAGES:

All wages or remuneration paid to workers on all payrolls covered by Unemployment Insurance.

TRUST FUND BALANCE (TF):

The balance in the individual state account in the Unemployment Trust Fund. Outlook estimates are for the private contributory account within the Trust Fund.

TRUST FUND AS % OF TAXABLE WAGES:

Year-end Trust Fund Balance as a percent of estimated taxable wages for the most recent 12 months; also referred to as the Reserve Ratio. Estimated wages are based on the latest growth rate in the 12 month moving average (MA).

UNEMPLOYMENT TRUST FUND (UTF):

A fund established in the Treasury of United States which contains all monies deposited by state agencies to the credit of their unemployment fund accounts.

WEEKS CLAIMED:

The number of weeks claimed for UI benefits, including weeks for which a waiting period or fixed disqualification period is being served. Interstate claims are counted in the state of residence.

WEEKS COMPENSATED:

The number of weeks claimed for which UI benefits are paid. Weeks compensated for partial unemployment are included. Interstate claims are counted in the paying state.