Commonwealth of Massachusetts
Charles D. Baker, Governor
Rosalin Acosta, Secretary
Executive Office of Labor and Workforce Development

Unemployment Insurance Trust Fund Report

Outlook Report February 2019

HIGHLIGHTS

This Outlook Report provides the status of the Unemployment Insurance Trust Fund and updated projections for the 2019 through 2023 outlook period.

As required by MGL Chapter 151A, Section 14F, DUA publishes quarterly outlooks for the 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 status of the Trust Fund.

New economic assumptions from Moody's Analytics Data Services used in these projections show lower average annual unemployment rates for 2019 to 2022, as compared to the assumptions used in the October 2018 Outlook Report. For 2019, the average annual unemployment rate improved from 3.4 percent to 3.2 percent followed by a 3.5 percent annual rate in 2020, which is three-tenths of a percentage point lower than the previous rate used. Total labor force increased in 2019 to 2022 posting an average annual increase of 57,572. The annual wage and salary growth rate is lower in 2019, higher in 2020 and remained the same in 2021 and 2022.

The outlook presented is for the regular UI program based on 2018 employer experience rates, benefit payments, and employer contributions.

Chapter 63 of the Acts of 2017 sets tax rate schedule E for 2019 employer contributions.

The revised 2019 year-end projections indicate employer contributions, based on rate schedule E and a $15,000 taxable wage base, will be $1.782 billion, $29 million more than the previous estimate of $1.753 billion. Estimated benefit payments of $1.354 billion are $164 million lower than the previous estimate of $1.518 billion first released in the October 2018 Outlook Report. The difference is due to a projected decrease in the annual average unemployment rate resulting in less weeks compensated and insured unemployment. The average weekly benefit amount is also projected to be smaller. As a result, the private contributory account year-end balance estimated at $1.561 billion is $197 million higher than the previous estimate of $1.364 billion. The projected 2019 ending balance is $460 million more than last year's ending balance of $1.101 billion.

For 2020 rate schedule E is projected to trigger for employer contributions. With a $15,000 taxable wage base, employer contributions are projected to be $1.758 billion and benefit payments are estimated at $1.730 billion. Year-end 2020 private contributory account balance is projected at $1.629 billion, $324 million more than the previous estimate due to a projected decrease in benefit payments and a carryover from the 2019 higher year-end balance.

Tax rate schedule D is now projected to trigger for 2021 employer payrolls. Employer contributions estimated at $1.538 billion are $172 million less than the previous estimate of $1.710 billion on a higher tax schedule. Benefits payments at $2.131 billion are in-line with the previous projection. Year-end 2021 private contributory account balance is projected at $1.072 billion.

Tax rate schedule E is projected to trigger for 2022 employer payrolls. Employer contributions are estimated at $1.845 billion, a decrease of $177 million from the previous projection of $2.022 billion on schedule F. Benefit payments projected at $2.167 billion is $31 million less and with a year-end balance of $774 million just $7 million higher than the previous estimate of $767 million.

For 2023, tax rate schedule F is projected to trigger for employer payrolls and generate $2.207 billion in contributions. Benefit payments are projected at $2.434 billion and a year-end balance of $565 million.

Based on the current economic assumptions and statutory provisions, no borrowing from the federal unemployment account is anticipated throughout the 2019 to 2023 outlook period.

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 Analytics Data Services January 2019 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 August and October 2018 Outlook Reports are provided in Table 1.

The January 2019 Moody's Analytics Data Services Annual Wage and Salary Growth Rates forecasts for 2019 was revised down by nine-tenths of a percentage point from 6.0 percent down to 5.1 percent, the 2020 rate increased from 4.1 percent to 4.2 percent. The rates for 2021 and 2022 were unchanged.

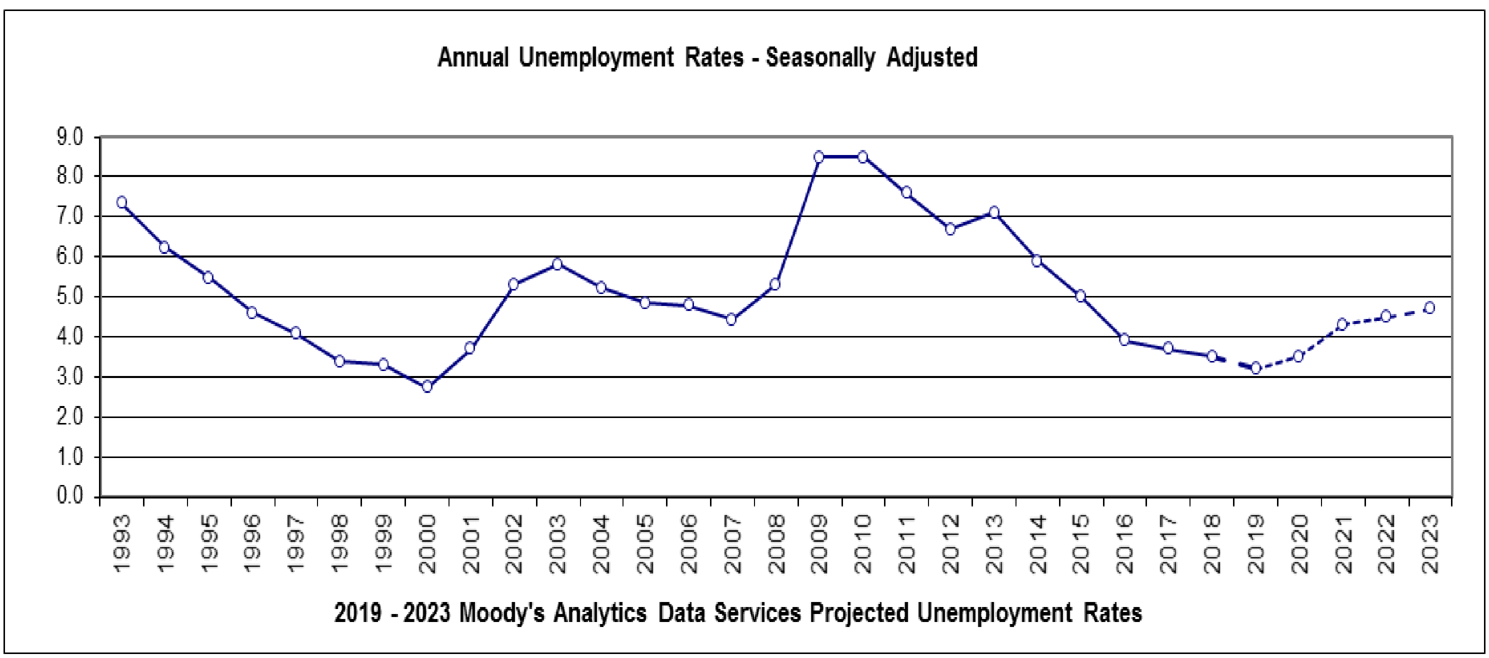
The projected annual average total unemployment rates for 2019 to 2022 were all lower than the rates used in the October 2018 Outlook Report. In 2019, an improvement of two-tenths of a percentage point, from 3.4 percent to 3.2 percent, and in 2020 three-tenths of a percentage point revision from 3.8 percent to 3.5 percent. For 2021 and 2022, the annual average unemployment rates were reduced by two-tenths of a percentage point.

The annual labor force projections for 2019 to 2022 showed an average annual increase of 57,572 from the Moody's Analytics Data Services projections released in September 2018. The 2019 labor force showed the largest increase of 59,672. The labor force is projected to be 3,922,067 in 2023.

Table 1: Moody's Analytics Data Services Forecasts, Three Most Recent Reports

	Wage & Salary Growth (%)			Total Unemployment Rate (%)			Labor Force		
	18-Jul	18-Sep	19-Jan	18-Jul	18-Sep	19-Jan	18-Jul	18-Sep	19-Jan
2019	5.8	6.0	5.1	3.3	3.4	3.2	3,767,296	3,792,753	3,852,425
2020	3.7	4.1	4.2	3.8	3.8	3.5	3,781,202	3,806,038	3,863,952
2021	2.5	2.3	2.3	4.5	4.5	4.3	3,797,526	3,822,871	3,879,683
2022	3.6	3.4	3.4	4.7	4.7	4.5	3,824,189	3,848,254	3,904,142
2023	NA	NA	3.6	NA	NA	4.7	NA	NA	3,922,067

Source: Moody's Analytics Data Services



UNEMPLOYMENT INSURANCE TRUST FUND BALANCE

As of January 31, 2019, the preliminary Massachusetts Unemployment Insurance Trust Fund ending balance was $1.194 billion. The private contributory account balance was at $1.073 billion and the governmental contributory account balance was $121 million. The private contributory account balance is $2.0 million less than the latest projection of $1.075 billion for the month of January.

The private contributory account is projected to have a balance of $1.561 billion at the end 2019, a reserve of $1.629 billion in 2020 and a projected balance of $1.072 billion by the end of 2021.

The 2019 year-end private contributory account balance of $1.561 billion is $197 million higher than the previous estimate of $1.364 billion first published in the January 2019 Outlook Report. The difference in the year-end balance is the result of expected decreases in benefit payments. The revised annual average unemployment rate is down two-tenths of a percentage point resulting in less insured unemployment and weeks compensated. The average weekly benefit amount is also, projected to be smaller than the previous estimate. Year-end reserves as a percent of total wages are expected to be 0.80 percent.

The year-end 2020 account balance is expected to be $1.629 billion, a $324 million increase from the previous estimate of $1.305 billion primarily the result of the higher ending balance of 2019 and a projected decrease in benefit payments.

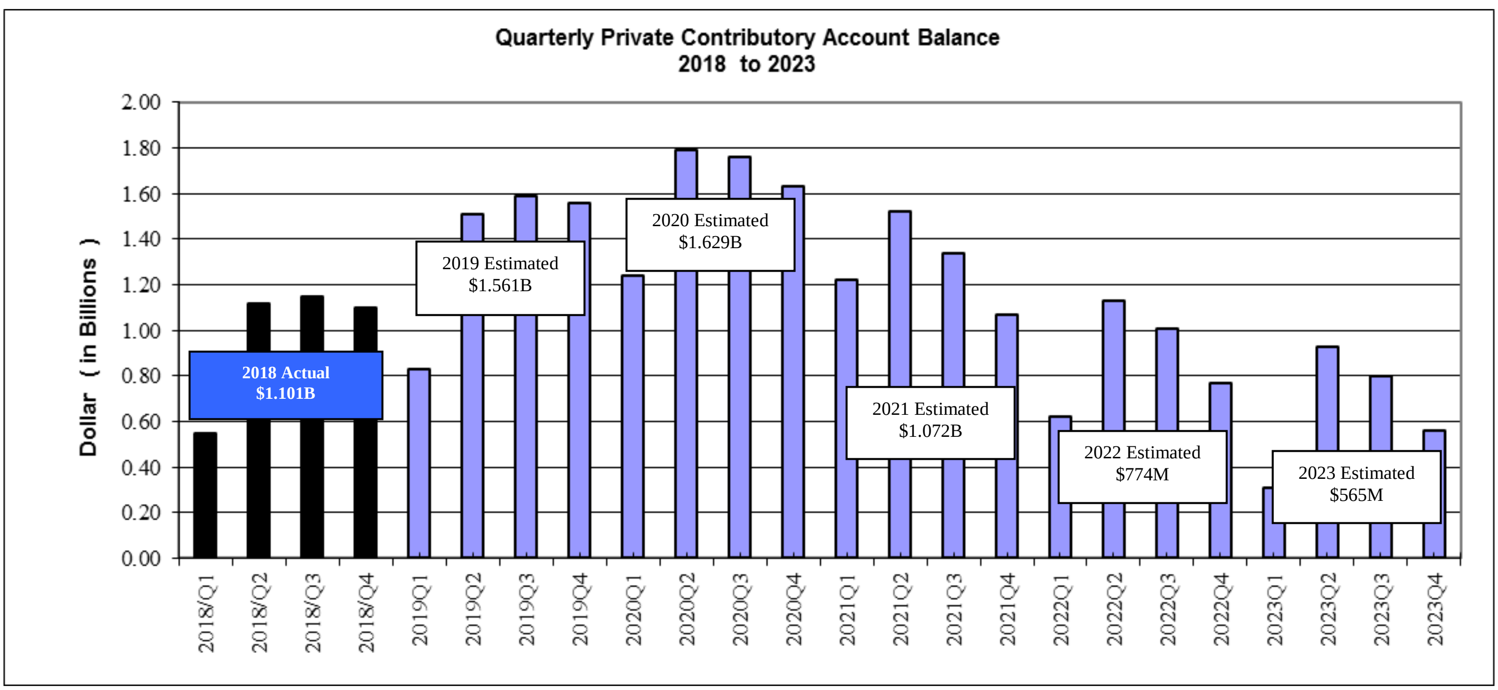
The year-end 2021 private account balance is expected to be $1.072 billion, $148 million higher than the previous estimate of $924 million. However, this increase in the projected ending balance is just a carryover from the higher year-end balances of the previous two years.

The year-end 2022 account balance is estimated to be $774 million, just a $7 million increase from the previously released balance of $767 million.

The 2023 year-end private contributory account balance is estimated at $565 million, 0.25 percent of total wages.

It is anticipated that no borrowing from the federal unemployment account will be required throughout the outlook period.

The chart below shows the 2018 actual and projected quarterly private UI Fund balance through 2023.



BENEFIT OUTLAYS

The updated simulation for the outlook period shows decreases in benefit payments in 2019, 2020 and 2022 and a small increase in 2021.

Preliminary benefit payments in January 2019 totaled $151.4 million, a $6.4 million decrease from the January 2018 payment of $157.8 million but $7 million more than the projection of $144.4 million.

Initial claims in the month of January 2019 were 9.2 percent lower and weeks compensated were 5.7 percent less than in January 2018. The average weekly benefit amount of $516.05 in January 2019 was $16.15 or 3.2 percent more than the $499.90 amount in the same month in 2018.

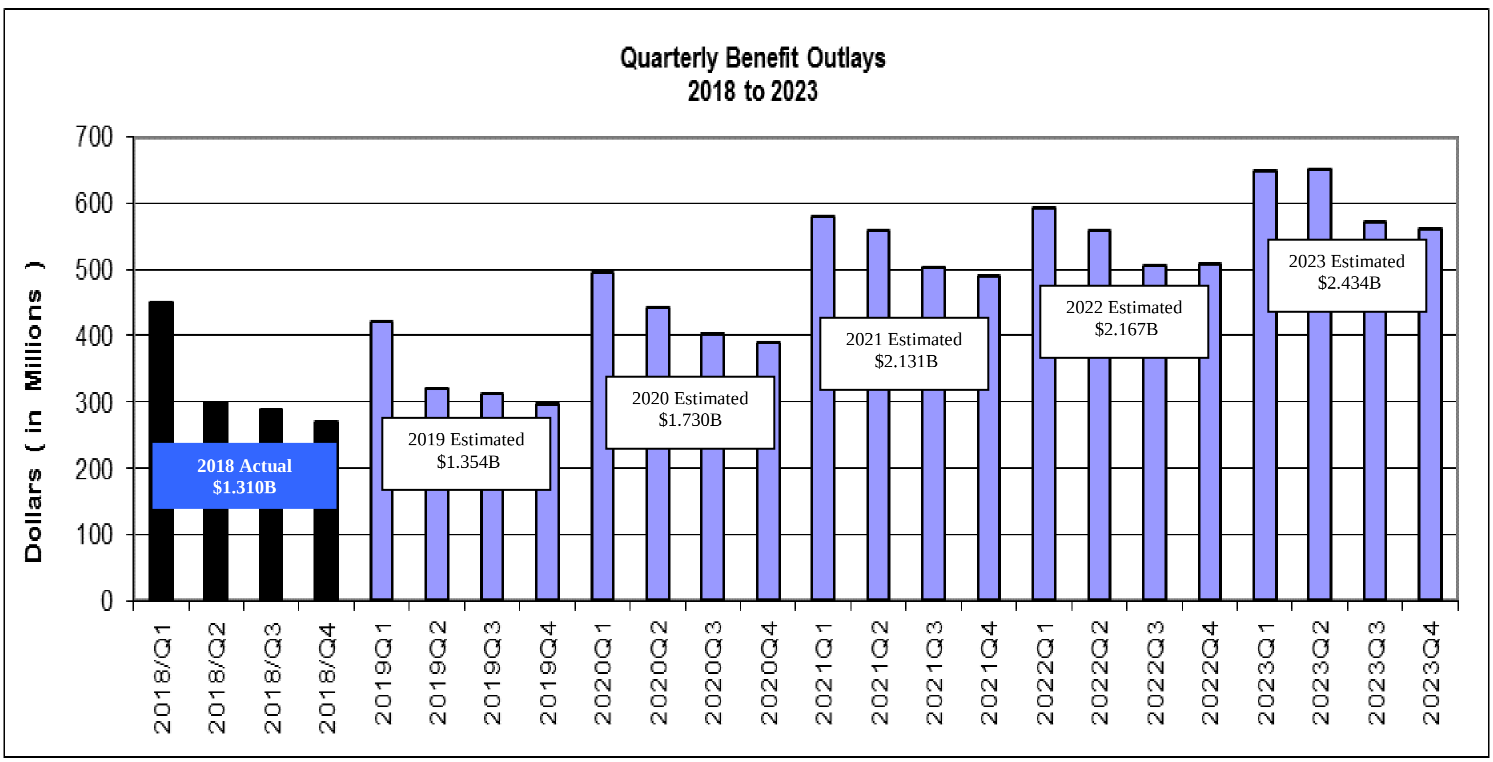
Benefit payments for 2019 are now estimated to be $1.354 billion, $164 million less than the previous estimate of $1.518 billion first released in the October 2018 Outlook Report. The difference is due to projected decreases in total weeks compensated and insured unemployment generated by two-tenths of a percentage point improvement in the annual average unemployment rate.

In 2020, benefit payments are projected to be $1.730 billion, $68 million lower than the previous estimate of $1.798 billion. The revision, as in the previous year, is due to a decrease in the projected annual average unemployment rate resulting in fewer insured unemployment and weeks compensated.

For 2021, benefit payments are projected to be $2.131 billion, at just $13 million higher, is in-line with the previous estimate of $2.118 billion first released in October 2018.

Benefit payments are projected to be $2.167 billion in 2022, $31 million lower than the previous estimate of $2.198 billion. As in previous years, the decrease is the result of expected decreases in total weeks compensated and insured unemployment generated by a lower annual average unemployment rate.

In 2023, benefit payments are predicted to be $2.434 billion, $267 million more than the projected benefit payments in 2022 as the annual average unemployment rate is expected to go up to 4.7 percent.



EMPLOYER CONTRIBUTIONS

Updated projections for employer contributions showed increases in 2019 and 2020 but decreases in 2021 and 2022 caused by lower tax rate schedules.

Employer contributions in the month of January 2019 totaled $123.5 million, an increase of $13 million from the January 2018 contributions of $110.5 million and $4.5 million more than projected.

For 2019, employer contributions on rate schedule E, as set by statute and a $15,000 taxable wage base, are estimated at $1.782 billion, a small increase of $29 million from the previous estimate of $1.753 billion.

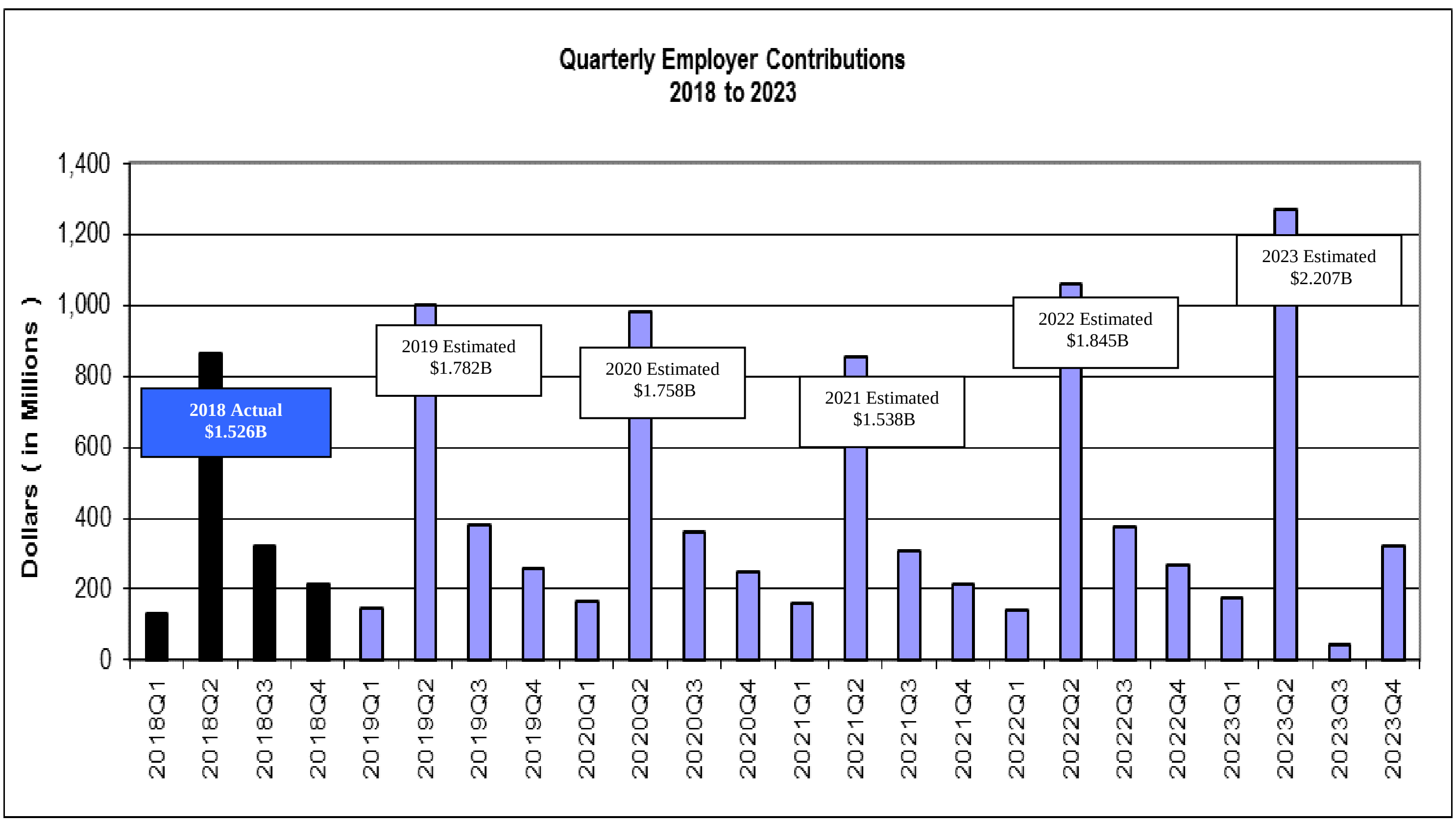
Rate schedule E is projected to trigger for 2020 payrolls. Employer contributions projected at $1.758 billion is an increase of $51 million from the previous estimate of $1.707 billion. The revision is due to an increase in taxable payrolls.

Tax rate schedule D is now projected to trigger for 2021 payrolls with an estimated employer contribution of $1.538 billion, a decrease of $172 million from the previous estimate of $1.710 billion on a higher tax rate schedule E.

For 2022, tax rate schedule E is projected to trigger for employer payrolls generating $1.845 billion in contributions. This is a decrease of $177 million from the previous projection first released in October 2018 of $2.022 billion on tax rate schedule F.

Tax rate schedule F is projected to trigger for 2023 employer payrolls and generate $2.207 billion in employer contributions

Table 2, on page 7, contains the experience rate table that took effect in 2015.



TRUST FUND SOLVENCY

Federal regulations require States to meet several 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 (AHCM) solvency measure. The measure is phased in over five years from a multiple of .50 for 2014, .70 in 2016 up to 1.0 for advances starting in 2019. For 2019, the AHCM must be met based on 2018 performance.

The Average High Cost Multiple (AHCM) computations are 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. The Massachusetts measures are for the overall trust fund that includes both the 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 federal requirements, 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 2019 through 2023, Massachusetts will not meet the federal standard for AHCM, now set at 1.0, and therefore be subject to federal interest for all federal loans.

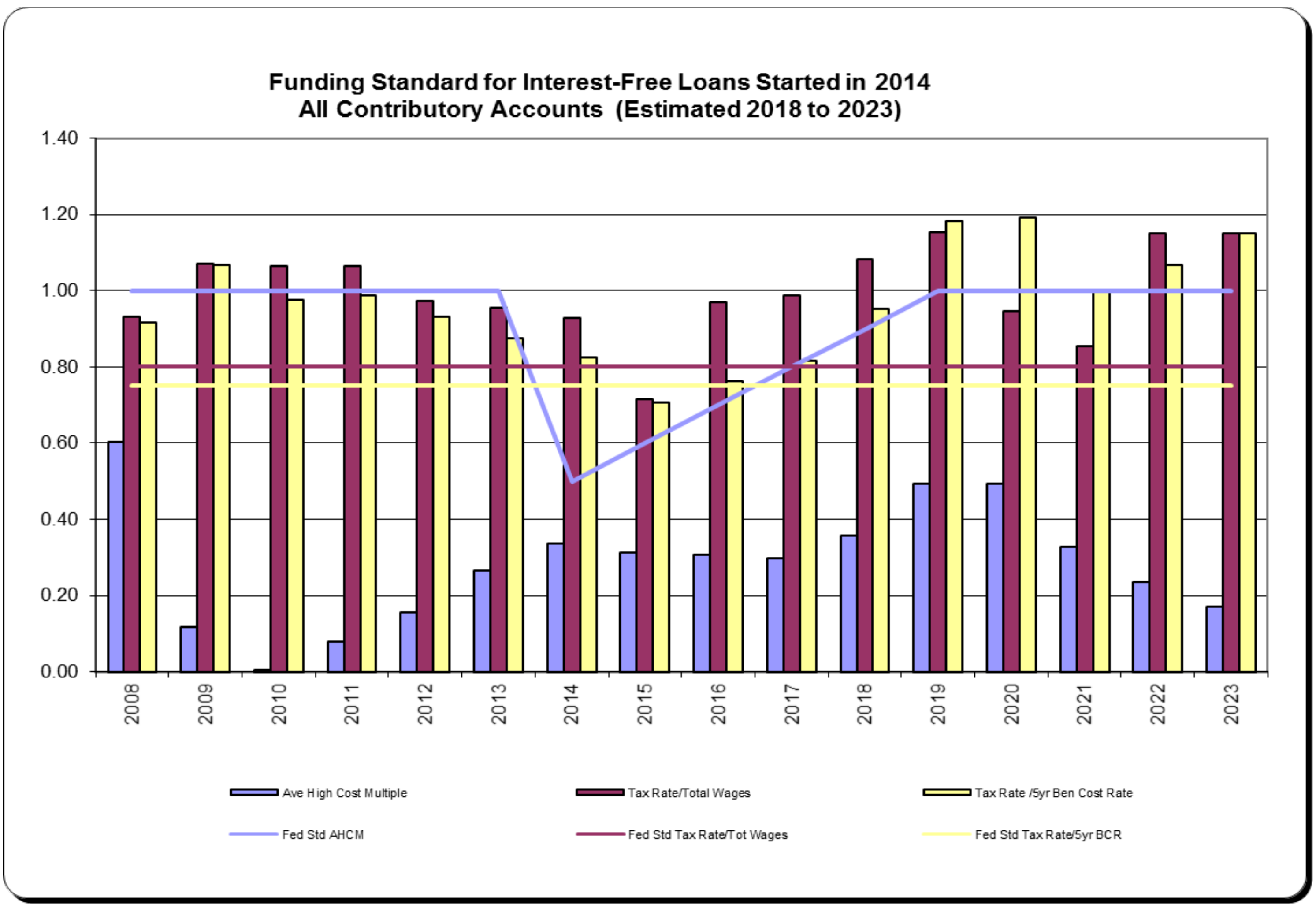


Table 2: Experience Rate Table

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 2019 through 2023 are displayed in Tables 3 and 4, below.

Table 3: Unemployment Trust Fund Projections for the Private Contributory Account, 2019 - 2023

(All $ in Millions except Average Cost/Employee)

	2018	2019	2020	2021	2022	2023
Balance, January 1	$861	$1,101	$1,561	$1,629	$1,072	$774
Income	$1,526	$1,782	$1,758	$1,538	$1,845	$2,207
Trust Fund Interest	$24	$32	$40	$36	$24	$18
Benefit Outlays	$1,310	$1,354	$1,730	$2,131	$2,167	$2,434
Federal Loan Interests						
Balance, December 31	$1,101	$1,561	$1,629	$1,072	$774	$565
Schedule*	“D”	"E"	"E”	”D”	“E”	"F"
Average Cost/Employee	$552	$640	$631	$552	$657	$784

* 2018 to 2019 rate schedules set by Legislation, 2020 to 2023 rate schedule projected based on current statutory triggers, calculated with the previous three years average total wages. Taxable Wage Base of $15,000 effective beginning 2015.
Source: Massachusetts Department of Unemployment Assistance benefit financing simulation

Figures may not add up due to rounding.

Table 4: Benefit Financing Simulation Output

	2018	2019	2020	2021	2022	2023
Total Covered Payroll ($Billions)	$195.5	$196.0	$204.3	$209.1	$217.8	$226.3
Contributory Payroll ($Billions)	$44.3	$44.8	$46.0	$46.9	$48.1	$49.3
Contributory Wage Proportion	22.7%	22.9%	22.5%	22.4%	22.1%	21.8%
Nominal Contribution Rate	3.5%	4.0%	3.8%	3.2%	3.9%	4.6%
Contributions as % of Total Payroll	0.78%	0.91%	0.86%	0.74%	0.85%	0.98%
Benefits as a % of Total Payroll	0.67%	0.69%	0.85%	1.02%	0.99%	1.08%
Trust Fund Balance as % of Total Payroll	0.56%	0.80%	0.80%	0.51%	0.36%	0.25%
Solvency Assessment	0.76%	0.69%	0.95%	1.15%	1.21%	1.31%
AHCM	0.33	0.41	0.41	0.27	0.18	0.13
Covered Employment (Thousands)	3,539	3,565	3,565	3,567	3,593	3,604
Total Unemployment Rate	3.5%	3.2%	3.5%	4.3%	4.5%	4.7%
Insured Unemployment Rate	1.9%	1.8%	2.1%	2.4%	2.3%	2.5%

Source: Economic assumptions are based on Moody’s Analytics Data Services 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 12^{th} 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.