



Unemployment Insurance Trust Fund Report

Outlook Report August 2020

This Outlook Report provides the status of the Unemployment Insurance Trust Fund and updated projections for the 2020 through 2024 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, released in July 2020, used in these projections showed a higher average annual unemployment rate for 2020 but small to no revision to the 2021 to 2024 rates as compared to the assumptions used in the May 2020 Outlook Report. The 2020 average annual unemployment rate increased from 6.3 percent to 8.8 percent followed by a 7.0 percent annual rate in 2021, which is unchanged from the previous rate used. Total labor force decreased in 2020 to 2024 posting an average annual decrease of 35,051. The annual wage and salary growth rates are lower in 2020, 2022 and 2023 but higher in 2021.

The outlook presented is for the regular UI program based on 2020 employer experience rates, and benefit payments and employer contributions through the second quarter of 2020.

Employer contributions, based on rate schedule E and a \$15,000 taxable wage base are projected at \$1.498 billion, \$87 million less than the previous estimate of \$1.585 billion. Estimated benefit payments of \$6.434 billion are \$42 million higher than the previous estimate of \$6.392 billion first released in the May 2020 Outlook Report. The difference is primarily due to higher claims and benefit payments in the second quarter related to COVID-19. The 2020 year-end balance, projected at -\$2.483 billion, is \$711 million less than the previous projection of -\$3.194 billion. The difference is due to the federal CARES Act reimbursements estimated at \$615 million as well as an emergency UI relief fund and transfers totaling \$224 million added to the trust fund balance. In addition, benefit payments are projected to be less in the third and fourth quarter as more individuals continue to return to work. Through the end of July, a total of \$853 million was borrowed from the federal UI account and Massachusetts will continue to borrow for the

remainder of 2020. Advances from the federal account will be interest-free in 2020.

With an insolvent trust fund, tax rate schedule G is expected to trigger for employer payrolls in 2021. Employer contributions for 2021 are projected to be \$2.464 billion, \$313 million higher than the previous estimate of \$2.151 billion due to an increase in taxable payrolls. Benefit payments are projected to be \$4.817 billion, a decrease of \$310 million from the previous estimate. As a result, the projected 2021 year-end balance at -\$4.836 billion is \$1.334 billion less than the previous estimate of -\$6.170 billion. Interest bearing loans will be needed from the federal UI account throughout the year. Interest on federal advances will be due in the fall. Private contributory employer federal unemployment taxes for 2022 will be increased due to the negative beginning -year account balances in 2021 and 2022.

For 2022 rate schedule G is projected to trigger for employer contributions. With a \$15,000 taxable wage base, employer contributions are projected to be higher at \$2.522 billion and benefit payments estimated at \$2.852 billion are in-line with the projections released in the May Outlook Report. The year-end 2022 private contributory account balance will continue to be insolvent and projected at -\$5.166 billion. As in the previous year, interest bearing advances will be needed throughout the year.

Rate schedule G is projected to trigger for 2023 employer payrolls. Employer contributions are estimated at \$2.508 billion and benefit payments projected to be \$1.631 billion. Year-end 2023 private contributory account balance continues to be insolvent at -\$4.289 billion. Advances from the federal UI account will continue and interests will be incurred.

Employer payrolls are projected to remain on tax rate schedule G and generate \$2.544 billion in employer contributions in 2024. Benefit payments are projected at \$1.468 billion and a year-end balance still insolvent at -\$3.214 billion. Interests bearing loans will continue in 2024.

Interest on advances cannot be paid from the trust fund but by additional surcharges on private contributory employers or other revenues

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 July 2020 forecasts were used in the simulations for this report. The current assumptions, along with assumptions used to produce the simulation estimates published in the February and May 2020 Outlook Reports are provided in Table 1.

The July 2020 Moody's Analytics Data Services Annual Wage and Salary Growth Rate forecast for 2020 was revised down by two and four-tenths of a percentage point from -4.1 percent down to -6.5 percent but the 2021 rate increased from 0.8 percent to 1.3 percent. The rates for 2022 and 2023 were revised down.

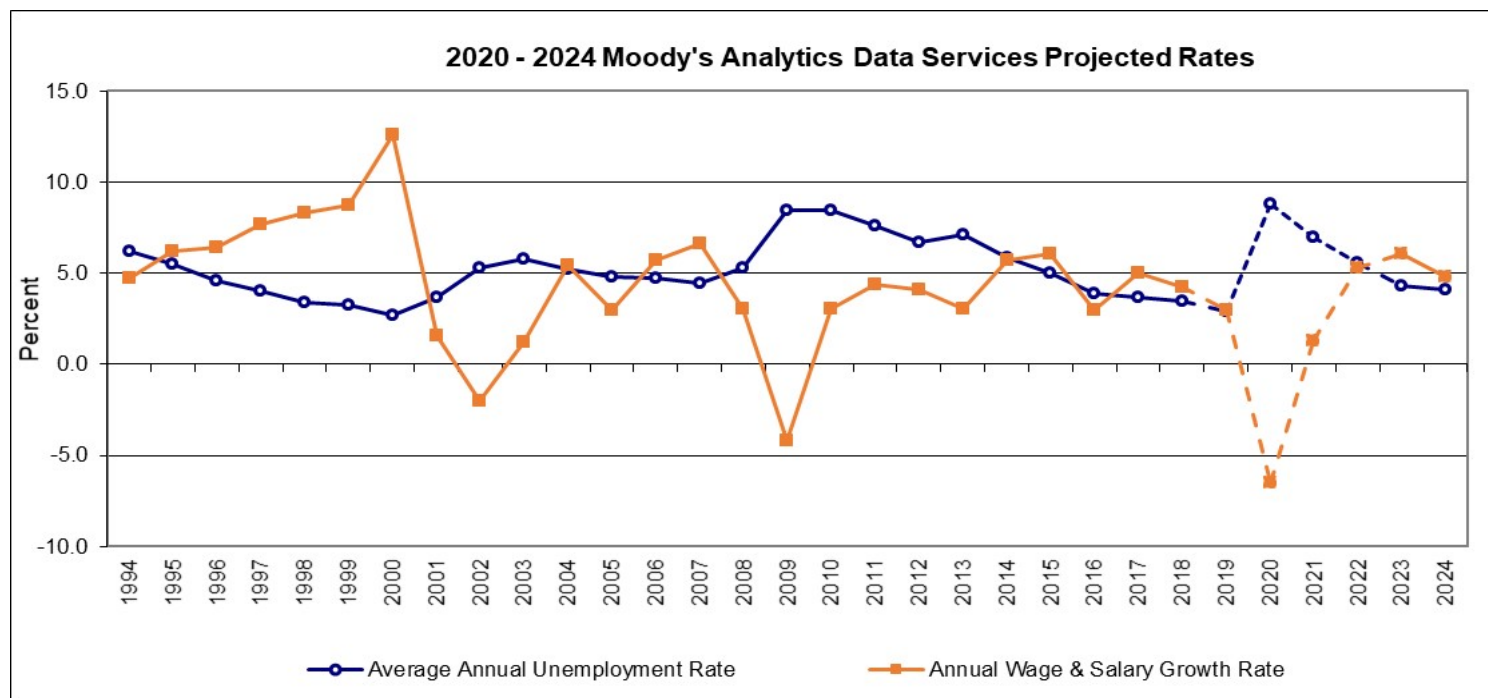
The projected annual average total unemployment rate for 2020 was revised upwards by two and five-tenths of a percentage point, from 6.3 percent to 8.8 percent. The annual average unemployment rates for 2022 to 2024 showed small to no revision from the rates used in the May Outlook Report.

The annual labor force projections for 2020 to 2024 showed an average annual decrease of 35,051 from the Moody's Analytics Data Services projections released in April 2020. The 2020 labor force showed the largest decrease of 98,958 or 2.6 percent. The labor force is projected to be 3,817,861 in 2024.

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

	Wage & Salary Growth (%)			Total Unemployment Rate (%)			Labor Force		
	20-Jan	20-Apr	20-Jul	20-Jan	20-Apr	20-Jul	20-Jan	20-Apr	20-Jul
2020	4.0	-4.1	-6.5	6.3	6.3	8.8	3,852,598	3,796,407	3,697,449
2021	2.9	0.8	1.3	7.0	7.0	7.0	3,860,770	3,800,730	3,780,216
2022	3.3	5.9	5.3	5.5	5.5	5.6	3,880,616	3,800,952	3,782,917
2023	3.6	6.2	6.1	4.3	4.3	4.3	3,896,972	3,813,678	3,795,038
2024	3.7	4.8	4.8	4.0	4.0	4.1	3,907,533	3,836,968	3,817,861

Source: Moody's Analytics Data Services



UNEMPLOYMENT INSURANCE TRUST FUND BALANCE

As of July 31, 2020, the preliminary Massachusetts Unemployment Insurance Trust Fund ending balance was -\$747.9 million. The private contributory account balance was at -\$880.8 billion and the governmental contributory account balance was \$132.9 million. The private contributory account balance was \$21.8 million more than the projection of \$859.0 million at the end of July.

The increase in unemployment due to the Covid-19 pandemic results in an insolvent unemployment insurance private contributory account throughout the outlook period. As a result, Massachusetts will need to rely on advances from the federal unemployment insurance account.

The 2020 year-end private contributory account balance is projected to be -\$2.483 billion, a decrease of \$711 million from the projection of -\$3.194 first released in the May Outlook Report. The difference was due to the combination of CARES Act reimbursements, estimated at \$615 million, for the waiting period week payments and 50 percent of private non-profit reimbursable benefit payments, an emergency unemployment relief fund plus trust fund transfers totaling \$224 million and projected decreases in benefit payments in the third and fourth quarters. In June and July, a total \$853 million was borrowed from the federal unemployment account and additional federal advances will be needed throughout the year. The loans will be interest-free in 2020.

The year-end 2021 account balance is now expected to be -\$4.836 billion, a decrease of \$1.334 billion from the previous estimate of -\$6.170 billion. The difference is a carryover from the previous year's higher ending balance as well as projected increases in contributions, decreases in benefit payments and federal reimbursements. Projected employer contributions of 1.22 percent of total payroll are not sufficient to cover benefit payments estimated at 2.38 percent of total payroll. Advances from the federal

unemployment account will be required throughout the year. Private contributory employer's federal unemployment taxes for 2022 payroll will increase \$21 per employee due to outstanding advances at the beginning of 2021 and 2022 and not paid back before November 10, 2022. Interest on federal advances, totaling \$60 million, will also be required in the fall of 2021.

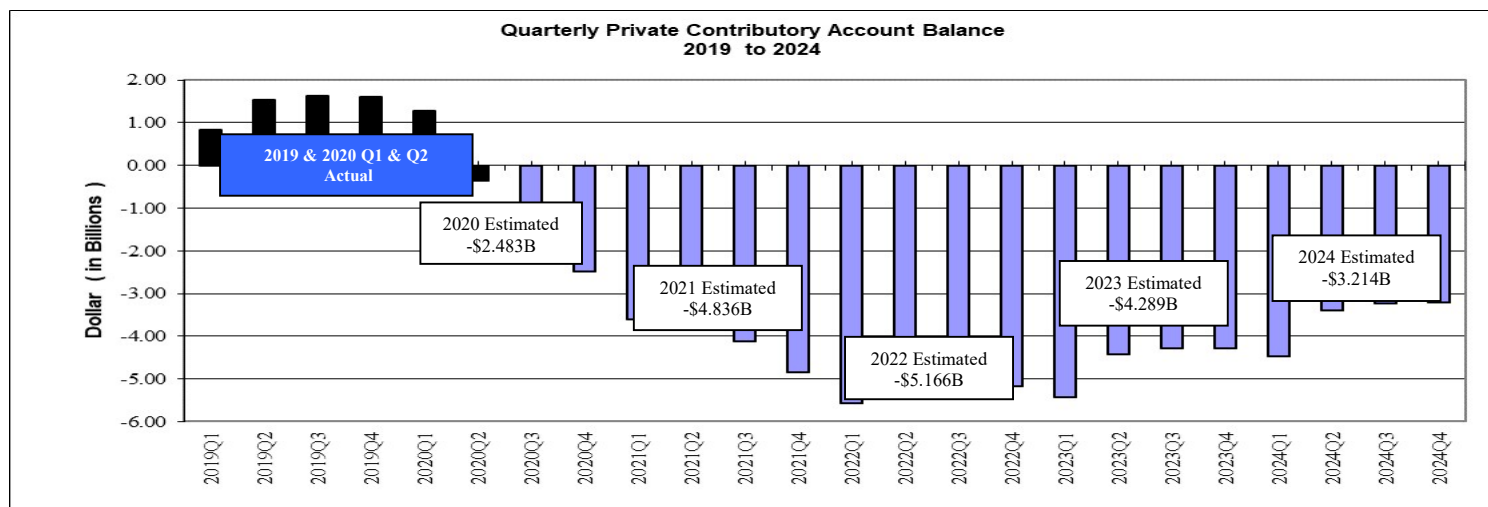
Current outlooks indicate the trust fund will continue to be insolvent in 2022 with a year-end private account balance estimated at -\$5.166 billion as projected benefit payments continue to be higher than employer contributions.

Year-end 2023 private contributory account balance remains insolvent and is estimated to be -\$4.289 billion. A slow recovery from the prolonged effects of the pandemic has estimated employer contributions now estimated to be higher than projected benefit payments. However, interest bearing borrowings from the federal account will still be required throughout 2023.

The 2024 year-end private contributory account balance, still insolvent, is estimated at -\$3.214 billion. As in the previous year, projected employer contributions are expected to be higher than benefit payments. Loans will be needed throughout the year with federal interest due.

Private contributory employer federal unemployment taxes will continue to increase through the 2023 and 2024 outlook period

The chart below shows actual 2019 and 2020 first and second quarter and projected quarterly private UI Private Trust Fund balances through 2024.



BENEFIT OUTLAYS

The updated simulation for the outlook period shows mostly decreases in benefit payments as the reopening of Massachusetts continues and claimants return to work.

Preliminary benefit payments in July 2020 of \$769.4 million pushed the year-to-date payments total to \$4.063 billion, \$3.251 billion or 400 percent more than the January to July 2019 benefit payments of \$812 million. Year-to-date initial claims at 1,193,294 and continued weeks claimed at 10,206,920 were up 637 percent and 443 percent over the same seven months last year, respectively.

Benefit payments for 2020 are now estimated to be \$6.434 billion, an increase of \$42 million from the previous estimate of \$6.392 billion. The increase was primarily the result of larger than projected benefit payments in the second quarter. Benefit payments in the third and fourth quarter are projected to be less than previously estimated in May.

In March, the federal CARES Act of 2020 was enacted. The Act provides federally funded programs for relief for workers whose claims are related to the pandemic. Additional state benefit programs, TRA and RED, are excluded. The Pandemic Unemployment Assistance (PUA) program provides up to 39 weeks of benefits to individuals who were self-employed, gig workers, or not eligible for regular unemployment compensation; the Pandemic Emergency Unemployment Compensation (PEUC) provides up to 13 weeks of extended benefits to individuals who have exhausted or expired their regular unemployment compensation since July 2019 and are not eligible for regular UI. PUA and PEUC program costs are federally funded through week ending December 26, 2020.

The Act included the Federal Pandemic Unemployment Compensation (FPUC) program, which provided an additional \$600 weekly benefit for each week claimed, ended on the last claimable week of July 25, 2020.

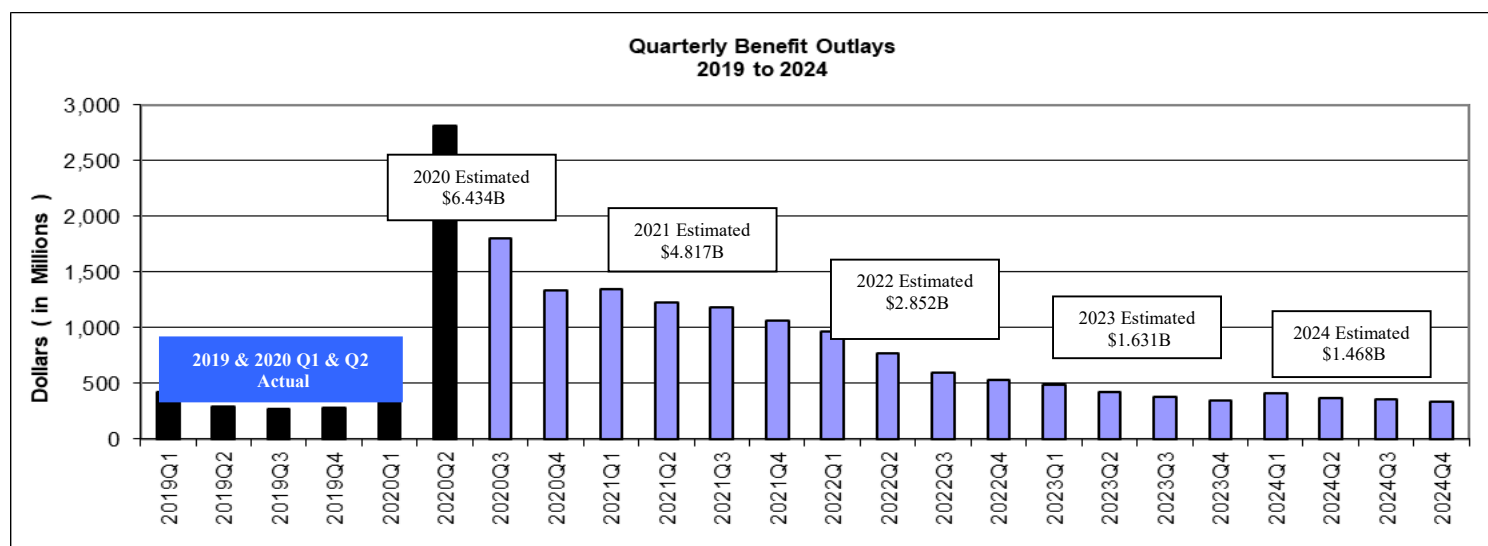
On May 3, 2020, Massachusetts triggered on the federal/state Extended Benefit (EB) program due to the rapid increase in UI claims. EB costs will be federally funded 100 percent for private contributory employers and 50 percent for reimbursable employers through week ending December 26, 2020.

In 2021, benefit payments are projected to be \$4.817 billion, \$310 million lower than previously estimated at \$5.127 billion. As the reopening of the state continues and claimants steadily return to work, the number of insured unemployment and weeks compensated are expected to be less generating a decrease in benefit payments.

For 2022, benefit payments are projected to be \$2.852 billion, in-line with the previous estimate of \$2.849 billion.

Benefit payments are projected to be \$1.631 billion in 2023, \$115 million less than the previous estimate. The difference was due to a projected decrease in weeks compensated leading to less benefit payments.

In 2024, benefit payments are predicted to be \$1.468 billion, a decrease of \$358 million from the previous projection. With a lower insured unemployment rate, estimated fewer insured unemployment and weeks compensated will result in a decrease in benefit payments.



EMPLOYER CONTRIBUTIONS

Updated 2020 projections for employer contributions decreased but increased in 2021 to 2024 as Massachusetts reopens and individuals return to work.

Employer contributions through the month of July 2020 totaled \$1.315 billion, a decrease of \$119 million from the January to July 2019 contributions of \$1.434 billion. The difference was due to less than expected taxable payrolls in the second quarter as establishments comply with safety standards and reopening in phases.

For 2020, employer contributions on rate schedule E and a \$15,000 taxable wage base, are estimated at \$1.498 billion, a decrease of \$87 million from the previous estimate of \$1.585 billion first released in the May 2020 Outlook Report. The revision was due to a projected decrease in 2020 taxable payrolls. In June and July, Massachusetts has borrowed a total of \$853 million from the federal unemployment insurance account. Additional advances will be needed for the remainder of the year. The loans will be interest-free in 2020.

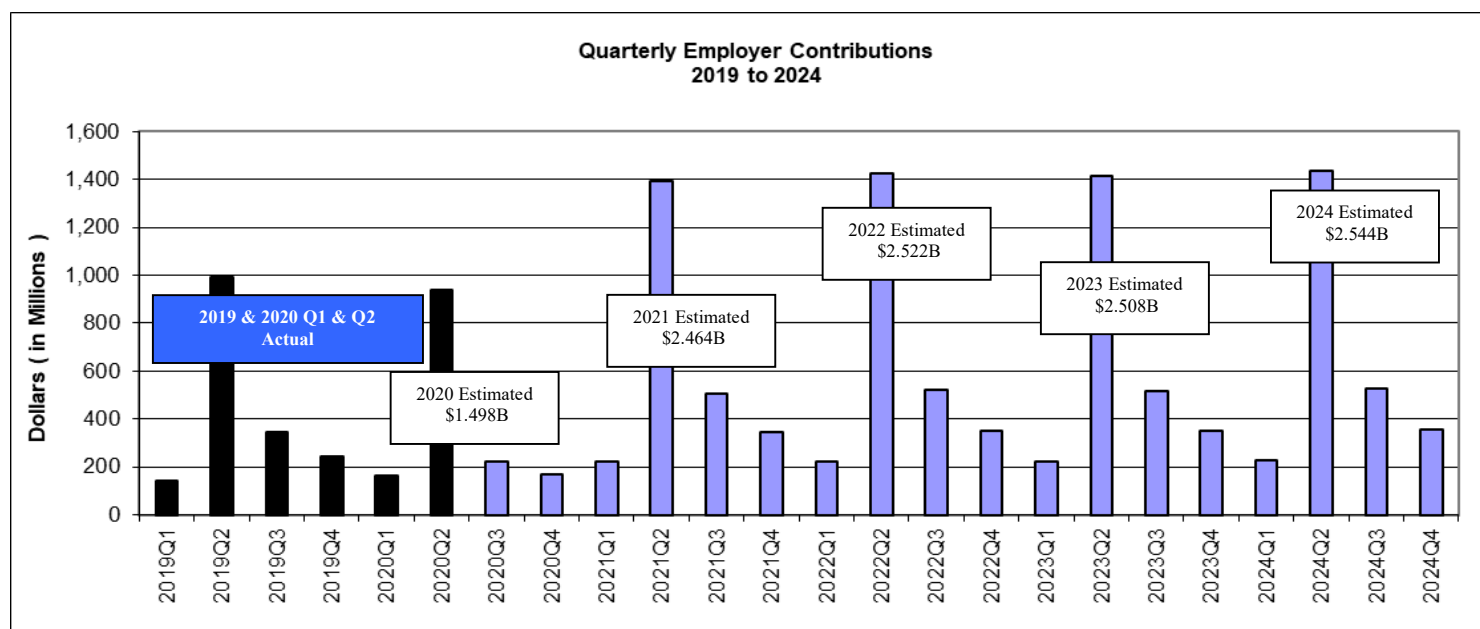
Rate schedule G is projected to trigger for 2021 employer payrolls and generate \$2.464 billion in employer contributions, \$313 million higher than previously projected at \$2.151 billion. With the reopening of businesses in Massachusetts well underway, taxable payrolls in 2021 are projected to be higher. However, since projected employer contributions are just one-half of estimated benefit payments, loans from the federal UI account will be required throughout the year. In addition, federal interests will be due on advances through 2021.

With an insolvent trust fund, 2022 employer contributions are expected to remain on rate schedule G. Employer contributions are projected to be \$2.522 billion, an increase of \$116 million from the previous estimate. As in the previous year, taxable payrolls are expected to be higher as the economy continues to recover. However, interest bearing loans will be needed throughout the year as projected benefit payments continue to be higher than expected contributions.

For 2023, rate schedule G is still projected to trigger for employer payrolls generating \$2.508 billion in contributions in-line with the previous estimate of \$2.499 billion. Although contributions are now projected to be higher than benefit payments, advances from the federal account will be necessary throughout the year. Interest will be payable on 2023 loans.

Tax rate schedule G remains projected to trigger for 2024 employer payrolls and generate \$2.544 billion in employer contributions. Interest will be due annually on outstanding federal advances and federal unemployment taxes will continue to increase to repay advances.

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 was phased in over five years from a multiple of 0.50 for 2014, 0.70 in 2016 and now at 1.0 for advances starting in 2019. For 2020, the AHCM must be met based on 2019 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. Massachusetts would have needed a trust fund balance of \$3.930 billion in 2019 to meet the AHCM solvency measure of 1.0.

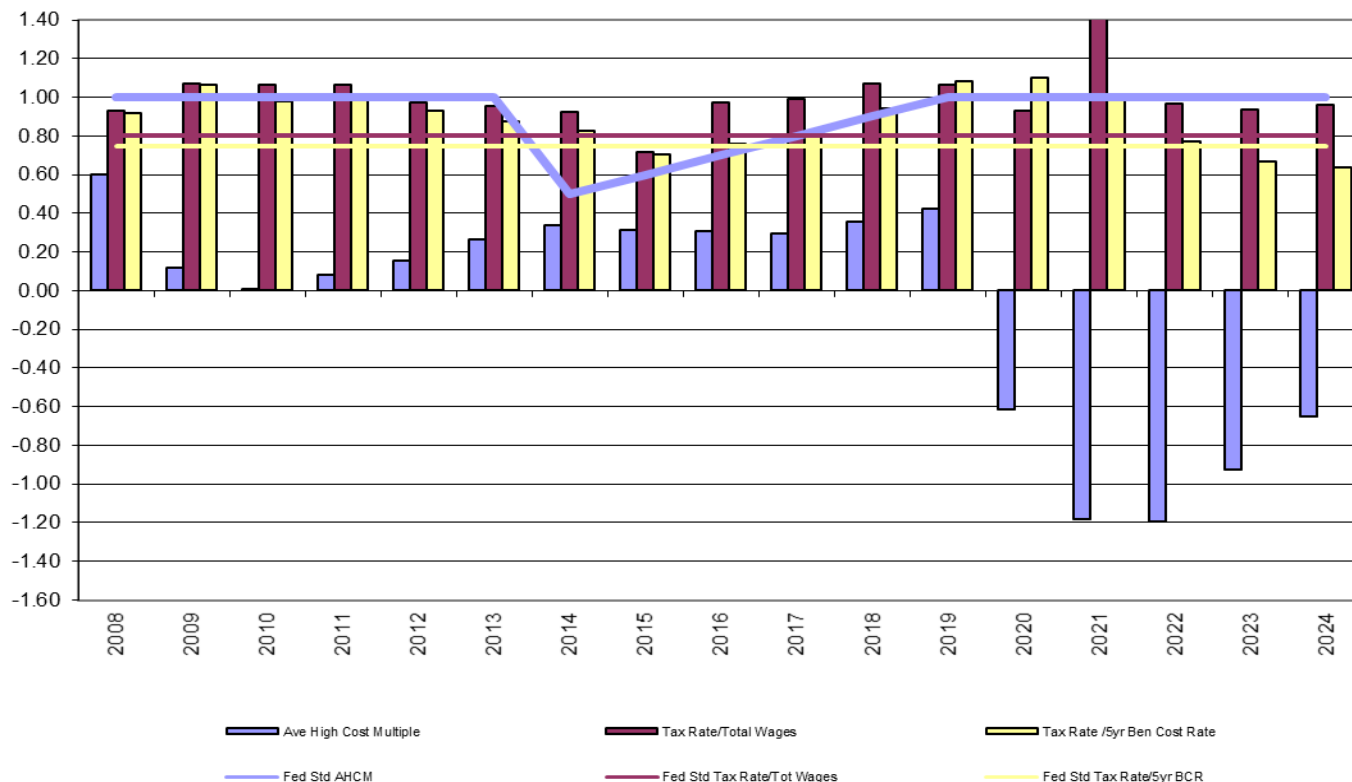
Benefit costs are measured as a percent of the total UI wages, the total liability of the UI system, is the second

measure. 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).

As the chart below shows, Massachusetts will not meet the federal AHCM standard making all federal advances subject to federal interest.

**Solvency Measures
All Contributory Accounts (Estimated 2020 to 2024)**



The current law simulation estimates for 2020 through 2024 are displayed in Tables 3 and 4, below.

Table 3: Unemployment Trust Fund Projections for the Private Contributory Account, 2020 - 2024

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

	2019	2020	2021	2022	2023	2024
Balance, January 1	\$1,101	\$1,602	-\$2,483	-\$4,836	-\$5,166	-\$4,298
Income	\$1,724	\$1,498	\$2,464	\$2,522	\$2,508	\$2,544
Trust Fund Interest	\$34	\$12				
Other Income**		\$224				
Benefit Outlays	\$1,257	\$6,434	\$4,817	\$2,852	\$1,631	\$1,468
CARES Act Reimbursements**		\$615				
Federal Loan Interests			\$60			
Balance, December 31	\$1,062	-\$2,483	-\$4,836	-\$5,166	-\$4,289	-\$3,214
Schedule*	E	E	G	G	G	G
Average Cost/Employee	\$617	\$539	\$858	\$913	\$917	\$925

*2019 rate schedule set by Legislation. 2020 to 2024 rate schedule projected based on current statutory triggers, calculated with the previous three years average total wages. Taxable Wages at \$15,000

Source: Massachusetts Department of Unemployment Assistance UNIS-X model

**Other Income from Emergency UI Relief Fund and CARES Act Reimbursement estimated from first payments and 50 percent of reimbursables benefits

Figures may not add up due to rounding

Table 4: UNIS-X Model Output

	2019	2020	2021	2022	2023	2024
Total Covered Payroll (\$Billions)	\$209.2	\$195.0	\$202.1	\$213.3	\$227.0	\$239.2
Contributory Payroll (\$Billions)	\$45.6	\$45.1	\$45.8	\$46.4	\$48.5	\$49.7
Contributory Wage Proportion	21.8%	23.1%	22.7%	21.8%	21.4%	20.8%
Nominal Contribution Rate	3.8%	4.3%	5.5%	5.7%	5.5%	5.3%
Contribution as a % of Total Payroll	0.82%	0.77%	1.22%	1.18%	1.10%	1.06%
Benefits as a % of Total Payroll	0.60%	3.30%	2.38%	1.34%	0.72%	0.61%
Trust Fund Balance as a % of Total Payroll	0.77%	-1.27%	-2.39%	-2.42%	-1.89%	-1.34%
Solvency Assessment	0.69%	0.58%	6.02%	6.50%	5.11%	4.35%
AHCM	0.40	-0.66	-1.24	-1.25	-0.98	-0.70
Covered Employment (Thousands)	3,579	3,555	3,674	3,683	3,695	3,717
Total Unemployment Rate	2.9%	8.8%	7.0%	5.6%	4.3%	4.1%
Insured Unemployment Rate	1.6%	7.7%	6.2%	4.5%	3.2%	2.1%

Source: Economic assumptions are based on Moody's Analytics Data Services forecasts and Massachusetts UNIS-X Model.

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.