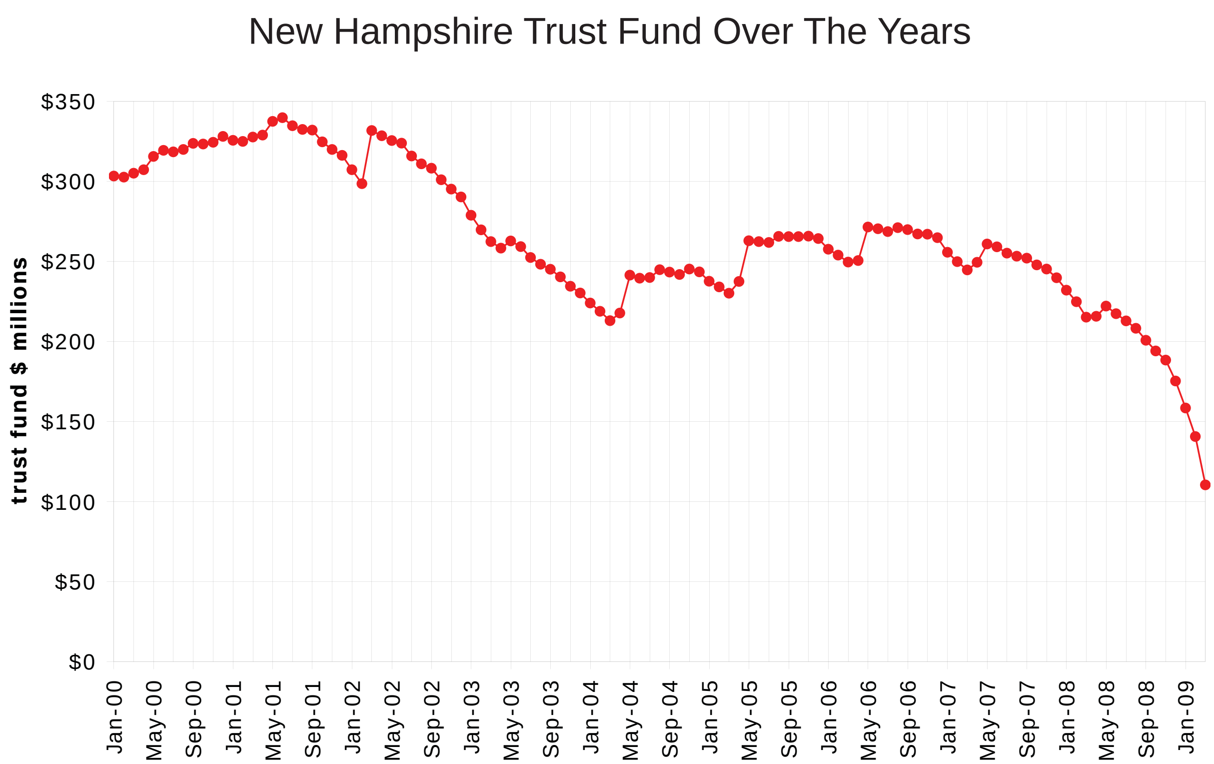
State of New Hampshire
Department of Employment Security
Trust Fund Report

May 21, 2009

REVISED FINAL REPORT

Table of Contents

The Need for Action



The trust fund balance as of May 19, 2009 is $123,312,071.88.

The Need for Action

New Hampshire's unemployment taxation receipts are the primary source of revenue for the unemployment compensation trust fund and are no longer adequate to fund current benefit entitlements. New Hampshire workers have received more in benefits than employers have paid in taxes during six of the last eight years. After years of having one of the most solvent trust funds in the United States, New Hampshire anticipates having to borrow money from the Federal Unemployment Account no later than March of 2010. To minimize the amount which must be borrowed more revenue is urgently required.

The current economic downturn is exacerbating the problem. Higher unemployment will increase benefit payments but the revenue stream from taxable wages has reached its maximum potential using the current taxable wage base of $8,000 and current tax table. Trust fund projections show benefits exceeding revenue by $155 million from April of 2009 through March of 2010 with an assumption of 6.3% average unemployment reaching a high of 7.3% during first quarter 2010.*

The unemployment insurance program has three goals:

- Mitigate the negative impact of unemployment on workers and their families.
- Help stabilize the economy by allowing unemployed workers to continue to spend during periods of high unemployment and taking money out of the labor market during economic expansions. It has both economic stimulus and anti-inflation goals.
- Stabilize the workforce by allowing employees to wait out short term lay offs and then return to the same employer.

Given current New Hampshire law, the excess of unemployment benefit payments over revenue will greatly limit the system's ability to achieve its goals. Without reform, New Hampshire will face years of borrowing from the federal government or other market sources, such as issuing bonds. Trust fund borrowing would ultimately lead to both the payment of interest and to much higher federal taxes on the state's businesses.

* Projected by the New England Economic Partnership as of November 2008. Details can be located in the *Assumptions* section at the end of this report.

The Need for Action

- According to a National Association of State Workforce Agencies analysis using the 4th Quarter Unemployment Insurance Data Summary from the US Department of Labor, a majority of states are either currently borrowing from the federal government, or have relatively low trust fund solvency levels.
- If unemployment insurance claims continue to rise, more states will be forced to increase unemployment taxes, cut benefit payments, or borrow from the federal government in order to shore up their trust funds.
- States needing to borrow from the federal government will find respite in interest-free loans available to them until the end of 2010 as a result of the American Recovery and Reinvestment Act of 2009 (ARRA).

	State	Trust Fund Loans 3.18.09
1	Michigan	$1,628,800,000
2	California	$1,086,396,995
3	New York	$851,136,535
4	Indiana	$581,478,809
5	Ohio	$527,137,799
6	North Carolina	$279,539,764
7	South Carolina	$200,659,606
8	Wisconsin	$189,857,364
9	Kentucky	$139,000,000
10	Missouri	$84,532,523
11	New Jersey	$103,304,864
12	Arkansas	$17,846,829
13	Rhode Island	$9,538,384
14	Pennsylvania	$23,925,518

National Association of State Workforce Agencies Bulletin. March 20,2009. NASWA ANALYSIS SHOWS MANY STATES WITH UI SOLVENCY CONCERNS. www.workforceatm.org/sections/members/bulletin/bulltemp.cfm?results_art_filename=bu032009.htm

What Are the Consequences of Not Increasing Revenue?

Explanation of FUTA (Federal Unemployment Tax Act) credit losses

1. States may take cash advances from federal unemployment trust funds when state trust funds are depleted. New Hampshire will have to take cash advances from the federal unemployment trust fund of more than $160 million to pay benefits by the end of 2010.

2. Normally, if the funds are not repaid by the end of September during the year, interest will accrue. Currently the interest rate is 4.64% annually. Interest on such advances has been waived under federal law from February 17, 2009 through December 31, 2010.

3. Payment of interest on loans cannot come from unemployment taxes. Another source of revenue for payment, such as a new solvency tax on employers, would be required to make interest payments commencing September 30, 2011. (Some states issue bonds to repay the debt.)

4. The current net federal tax rate after application of the 5.4% credit for timely payment of state unemployment insurance taxes is 0.8% of the first $7,000 in wages. If New Hampshire receives advances in 2010 and such advances are not repaid by November 09, 2012, employers would lose 0.3% of the 5.4% credit, raising the net FUTA tax for 2012 on New Hampshire employers to 1.1%.* This would result in New Hampshire employers paying an additional $11.7 million dollars in FUTA tax. The following year there would be an additional 0.3% loss of credit raising the net federal tax to 1.4%. This would cause New Hampshire employers to owe an additional FUTA tax of $23.4 million dollars. Each year, the basic credit reduction increases by 0.3%, but there may be a further add-on credit reduction if the state maintains a loan balance for 2013 or 2014.

5. The loss of FUTA tax credits effectively shifts costs from negative rated employers whose employees frequently receive benefits, to positive rated employers who do not use the unemployment insurance system as often. There is no experience rating in federal unemployment tax law, all employers have the same tax rate unless a portion or all of the 5.4% federal credit is lost.

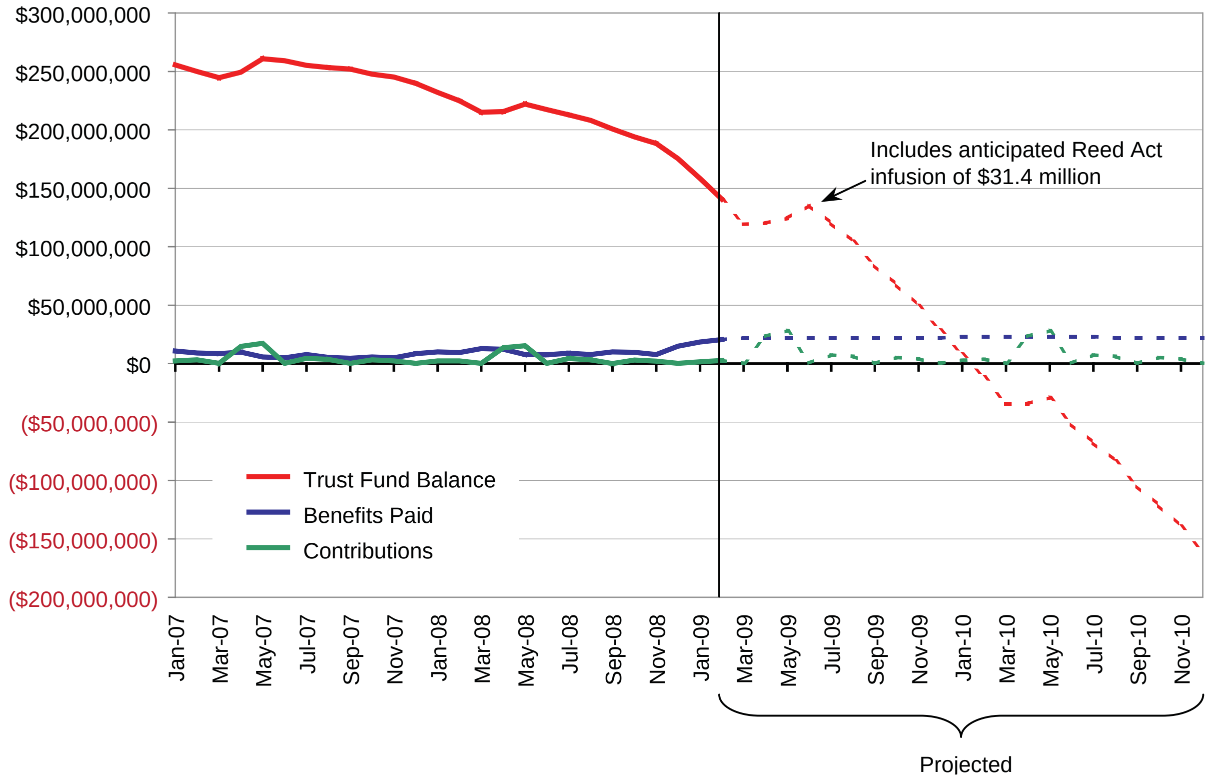
6. Projections of the unemployment trust fund show New Hampshire will need to take cash advances for years to come once the fund is depleted, unless revenue increases are enacted.

7. As is reflected on page 10, benefits paid have exceeded revenues in six of the last eight years. Under the current tax structure, New Hampshire's ability to repay any loans would be severely restricted.

* If the state shows an increase in solvency, then there is the possibility of applying for a waiver.

If We Do Nothing:
$8,000 Taxable Wage Base

Projected Trust Fund Balance, Benefits Paid, and Contributions
If We Do Nothing



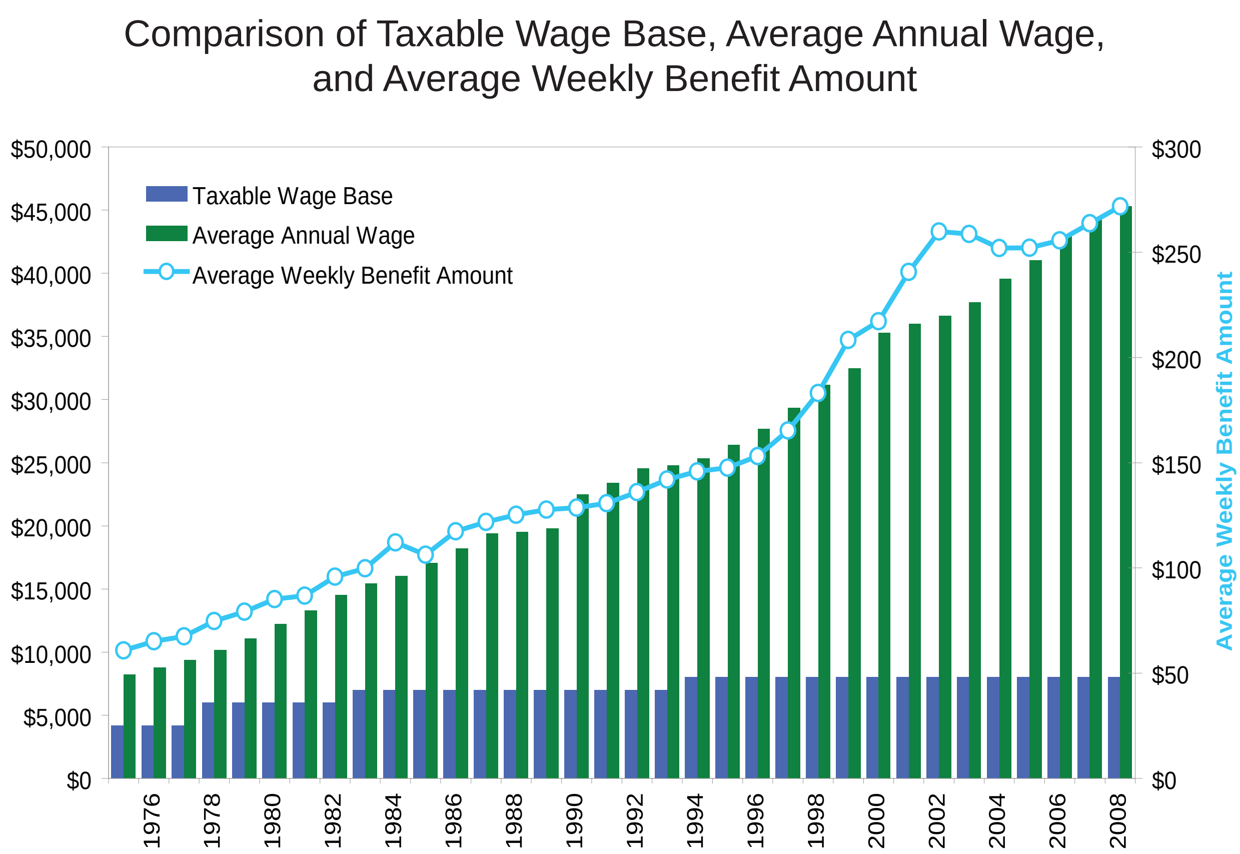
Trust Fund Projections

Trust fund projections, assuming current projected unemployment rate increases for 2009 and 2010, show the fund moving into a negative position early in 2010.

The economic projections assume average annual unemployment rates of 6.3% in 2009 and reaching a high of 7.3% in the first quarter of 2010.*

* Projected by the New England Economic Partnership as of November 2008.

How Did the Fund Get Into This Position?

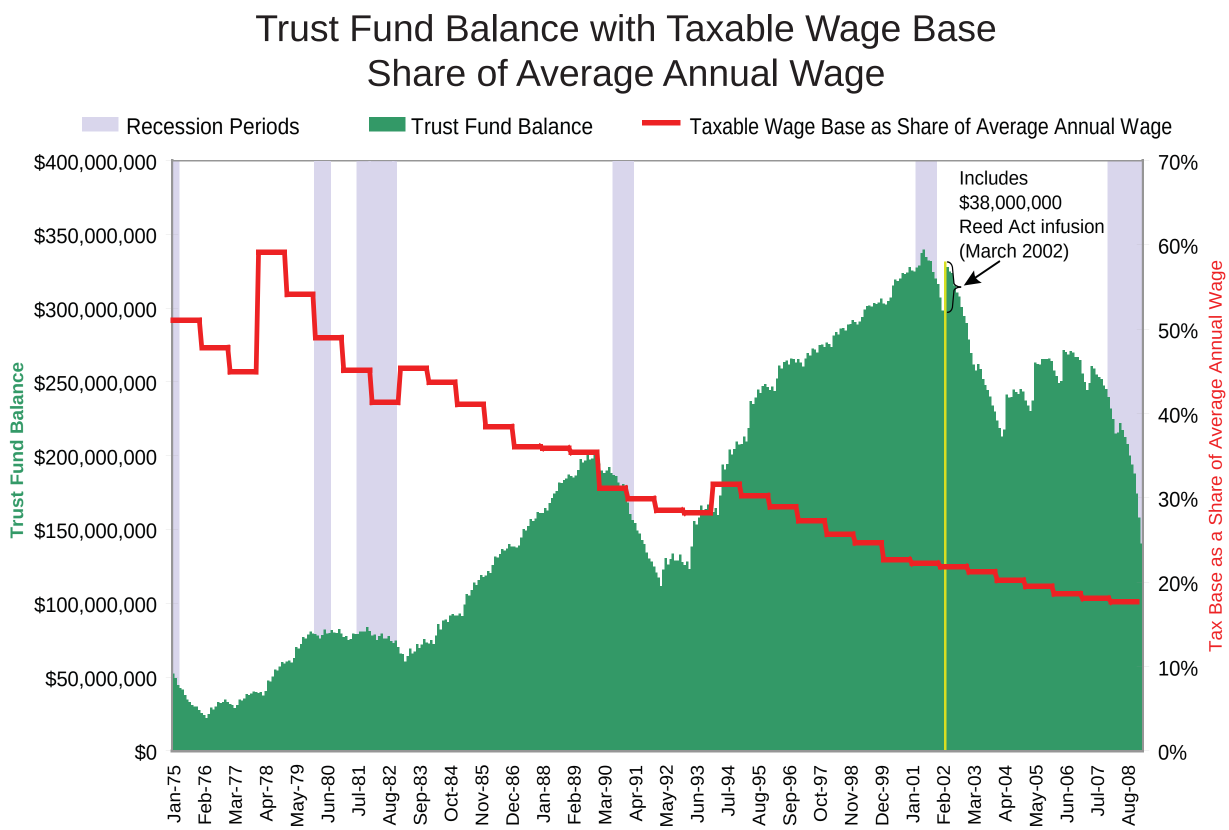


A New Hampshire employer pays unemployment taxes on only the first $8,000 of earnings paid to each employee.

This $8,000 amount is referred to as the "taxable wage base" (TWB). This amount was last changed effective January 1, 1994 when it was increased from $7,000 to $8,000.

Since 1994, the "average weekly benefit amount" paid to a claimant has increased by 86.6%.

How Did the Fund Get Into This Position?



Taxable Wage Base as Share of Average Annual Wage, 1975 - 2008:

- 1975 = $4,200 or 51.1% of Average Annual Wage
- 1978 = $6,000 or 59.1% of Average Annual Wage
- 1983 = $7,000 or 45.4% of Average Annual Wage
- 1990 = $7,000 or 31.2% of Average Annual Wage
- 1994 = $8,000 or 31.6% of Average Annual Wage
- 2008 = $8,000 or 17.7% of Preliminary 2008 Average Annual Wage

State unemployment tax revenue has been increasing but not fast enough to keep up with benefits paid.

New Hampshire has not increased the taxable wage base since 1994 when the taxable wage base represented 31.6% of the average annual wage. As of 2008, that share represents 17.7%.

The trust fund never fully recovered to previous levels after the 2001 recession, which left it more susceptible to rapid depletion during the next (current) recession.

How Did the Fund Get Into This Position?

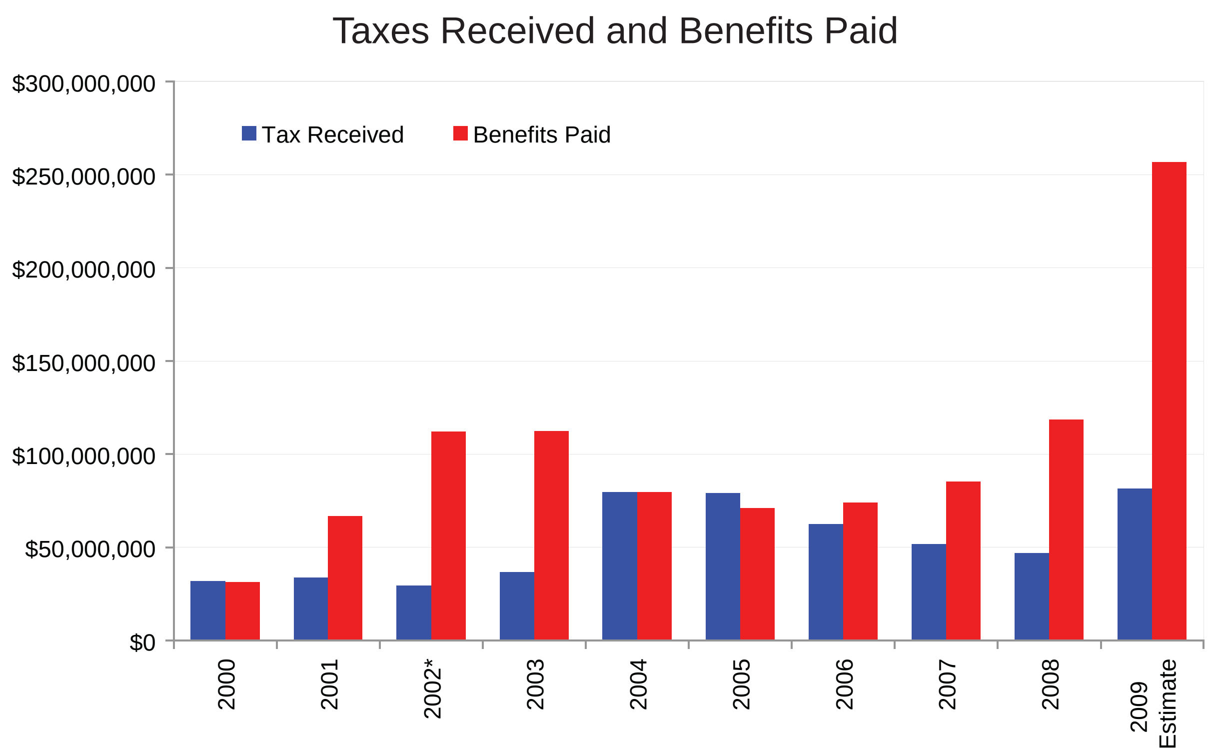
The average weekly benefit payments have outpaced the revenues from the taxable wage base through the years

Year	Minimum	Maximum	Average	Annual Earnings		Taxable Wage Base
				For minimum WBA not less than:	For maximum WBA not less than:	
1970	$13.00	$60.00	$46.31	$600	$6,000	$3,000
1971	$14.00	$75.00	$47.96	$600	$6,600	$3,000
1972	$14.00	$75.00	$52.49	$600	$6,600	$4,200
1973	$14.00	$80.00	$55.26	$600	$6,600	$4,200
1974	$14.00	$80.00	$58.88	$600	$6,600	$4,200
1975	$14.00	$95.00	$60.84	$600	$7,800	$4,200
1976	$14.00	$95.00	$65.13	$600	$7,800	$4,200
1977	$21.00	$102.00	$67.49	$1,200	$8,600	$4,200
1978	$21.00	$102.00	$74.74	$1,200	$8,600	$6,000
1979	$21.00	$114.00	$79.17	$1,200	$10,500	$6,000
1980	$21.00	$114.00	$85.19	$1,200	$10,500	$6,000
1981	$26.00	$132.00	$86.86	$1,700	$16,500	$6,000
1982	$26.00	$132.00	$95.83	$1,700	$16,500	$6,000
1983	$26.00	$141.00	$99.77	$1,700	$19,500	$7,000
1984	$26.00	$141.00	$112.07	$1,700	$19,500	$7,000
1985	$36.00	$150.00	$106.26	$2,600	$22,500	$7,000
1986	$36.00	$150.00	$117.34	$2,600	$22,500	$7,000
1987	$39.00	$156.00	$121.84	$2,800	$23,500	$7,000
1988	$39.00	$156.00	$125.20	$2,800	$23,500	$7,000
1989	$35.00	$162.00	$127.73	$2,800	$23,500	$7,000
1990	$35.00	$168.00	$128.62	$2,800	$23,500	$7,000
1991	$34.00	$179.00	$130.72	$2,800	$23,500	$7,000
1992	$32.00	$188.00	$136.00	$2,800	$23,500	$7,000
1993	$32.00	$196.00	$141.99	$2,800	$24,500	$7,000
1994	$32.00	$204.00	$145.85	$2,800	$25,500	$8,000
1995	$32.00	$216.00	$147.58	$2,800	$27,500	$8,000
1996	$32.00	$228.00	$153.11	$2,800	$29,500	$8,000
1997	$32.00	$246.00	$165.26	$2,800	$29,500	$8,000
1998	$32.00	$275.00	$183.12	$2,800	$29,500	$8,000
1999	$32.00	$301.00	$208.27	$2,800	$29,500	$8,000
2000	$32.00	$301.00	$217.21	$2,800	$29,500	$8,000
2001	$32.00	$331.00	$240.59	$2,800	$32,500	$8,000
2002	$32.00	$372.00	$259.84	$2,800	$36,500	$8,000
2003	$32.00	$372.00	$258.60	$2,800	$36,500	$8,000
2004	$32.00	$372.00	$251.96	$2,800	$36,500	$8,000
2005	$32.00	$372.00	$252.12	$2,800	$36,500	$8,000
2006	$32.00	$372.00	$255.58	$2,800	$36,500	$8,000
2007	$32.00	$427.00	$263.65	$2,800	$41,500	$8,000
2008	$32.00	$427.00	$272.03	$2,800	$41,500	$8,000

Source: ETA 5159 Claims and Payment Activities report. ETA 218 Benefit Rights and Experience report.

Note: The average WBA is calculated using only weeks involving total unemployment, which are weeks in which the WBA is not reduced because of earnings. The average WBA is derived by dividing total benefits paid by the number of such weeks paid.

How Did the Fund Get Into This Position?



*Does not include $38,000,000 infusion from Reed Act

From 2000 through 2008, the trust fund received contributions of $450,647,968. During the same eight year period $750,314,558 in benefits were paid out.

This leaves the trust fund contributions lagging $299,666,590 from the amount of benefits paid.

From January 1, 2009 through March 30, 2009, benefit payments of $66,252,475 have been made, compared to $4,327,416 received in tax revenues.

In comparison, $118,448,321 were paid in benefits during all of 2008. In the first three months of 2009, benefit payments equaled over 55% of the benefits paid for all of 2008.

How Did the Fund Get Into This Position?

One contributor to decreased revenues in 2007 and 2008 was a change in the methodology used to calculate the net tax rate for a positive rated employer (one which has paid more in taxes than benefits charged to its individual account). A positive rated employer may receive a fund balance reduction (FBR), or discount off its tax rate, depending on the level of the unemployment trust fund.

Formerly the FBR was calculated each quarter based on the level in the unemployment trust fund in the next preceding calendar quarter. This approach allowed the discount to be adjusted quickly when the trust fund fell below set thresholds and to more quickly restore the trust fund to discount threshold levels. Section 2 of Chapter 308 of the Laws of 2006 (HB 1474), effective July 1, 2006, changed the calculation of the FBR to an annual computation effective for all 4 quarters during a calendar year, based on the balance in the unemployment trust fund on September 30th of the prior year. Due to this change, the FBR for all of 2007 was determined based on balance of the unemployment trust fund on September 30, 2006. Likewise, the FBR for all of 2008 was determined by the balance in the unemployment trust fund on September 30, 2007. As a result, the FBR was higher than it would have been if calculated quarterly, remitting a total of $29,348,350 less in revenue during the second and third quarters of 2007 and the four quarters of 2008.

Currently the FBR has the following thresholds:

- $225 million reduces taxes by 0.5%
- $250 million reduces taxes by 1.0%
- $275 million reduces taxes by 1.5%

Lost Tax in Trust Fund Based on New Fund Balance Reduction Method

	New Method	Old Method	
Quarter	FBR	FBR	Tax
2006-3	1.00%	1.00%	$0
2006-4	1.00%	1.00%	$0
2007-1	1.00%	1.00%	$0
2007-2	1.00%	0.50%	$2,994,461
2007-3	1.00%	0.50%	$2,104,725
2007-4	1.00%	1.00%	$0
2008-1	1.00%	0.50%	$11,072,398
2008-2	1.00%	0%	$6,028,693
2008-3	1.00%	0%	$4,155,996
2008-4	1.00%	0%	$2,992,077
2009-1	0%	0%	$0
			Total Lost Tax: $29,348,350

Why Did This Happen All of a Sudden?

New Hampshire's unemployment rate has typically been lower than the nation. This current economic situation has stretched through all segments of the labor market, not just specific jobs or industries. Therefore the sheer volume of claims being supported by the trust fund has increased dramatically in just the last three or four months.

Initial Claims, *1990 - 2009*

	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec
1990	9,982	6,624	5,704	7,282	4,838	5,356	6,532	6,034	4,561	6,964	7,597	11,549
1991	10,605	7,415	7,457	10,724	5,627	5,389	7,593	4,592	4,782	5,701	6,541	11,077
1992	9,836	5,795	5,757	9,761	4,217	5,361	5,959	3,905	3,954	4,407	4,733	8,417
1993	5,459	4,301	5,025	5,009	3,034	3,598	4,426	4,094	3,615	3,821	4,249	6,687
1994	5,258	3,757	4,610	4,688	3,972	4,287	5,079	3,516	2,901	3,548	3,578	5,910
1995	5,336	3,587	4,892	4,626	3,366	3,949	4,966	2,871	2,504	3,474	4,315	6,562
1996	5,833	5,020	3,819	5,349	3,122	3,186	4,979	2,631	2,476	3,434	2,723	6,012
1997	4,468	3,248	2,971	4,445	2,480	2,737	4,355	2,210	2,037	2,629	2,476	5,538
1998	4,004	2,891	2,690	3,226	2,131	3,793	4,402	2,259	1,982	2,333	2,604	5,324
1999	3,705	2,891	2,863	3,342	2,115	3,133	3,723	1,916	1,569	1,843	2,398	4,636
2000	3,123	2,139	2,467	2,467	1,682	2,132	2,990	2,427	1,213	1,649	2,859	4,330
2001	3,479	2,923	2,869	5,320	4,282	4,677	7,589	5,313	4,275	5,478	7,176	8,890
2002	6,417	4,550	3,988	6,228	4,239	4,738	6,211	3,812	4,014	4,914	4,584	8,481
2003	6,543	4,333	4,777	4,258	3,450	4,895	5,283	3,381	4,594	4,184	4,196	6,874
2004	6,090	4,356	4,233	4,013	2,897	4,338	4,254	3,254	2,853	3,490	4,494	6,821
2005	5,737	4,127	3,889	4,004	3,088	4,357	3,781	2,963	2,781	3,447	4,340	7,329
2006	5,832	3,967	3,599	3,836	3,570	4,347	4,172	3,016	2,768	3,576	4,265	6,592
2007	6,600	4,514	3,865	4,740	3,140	4,041	4,582	3,314	2,767	3,614	4,255	7,536
2008	6,680	5,260	4,459	5,659	3,706	5,145	5,569	4,210	4,520	5,680	7,178	13,189
2009	11,534	10,190	10,673									

Continued Weeks Claimed, *1990 - 2009*

	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec
1990	50,149	45,424	48,775	44,999	44,854	36,875	43,283	44,159	36,483	41,137	40,890	49,675
1991	72,658	65,875	67,678	72,745	67,476	54,560	66,121	57,938	52,449	49,564	37,415	51,032
1992	63,493	51,221	52,546	51,775	43,142	43,846	41,608	35,672	35,210	26,397	27,156	35,694
1993	38,883	36,662	39,217	18,334	16,765	19,905	19,928	24,400	26,836	23,867	30,948	31,318
1994	35,825	32,490	33,628	26,960	27,096	24,821	25,044	28,685	21,202	16,465	17,480	18,776
1995	26,119	23,761	25,752	18,551	22,132	20,048	22,383	24,452	17,778	16,505	17,202	18,437
1996	31,130	26,933	25,407	22,967	21,836	17,870	25,069	20,157	17,965	17,444	15,162	20,595
1997	25,263	22,372	22,579	19,802	17,419	15,604	19,872	16,003	14,879	12,153	10,796	15,450
1998	18,764	16,164	16,715	9,981	11,747	13,269	16,431	14,044	12,628	9,919	10,133	14,250
1999	16,780	16,542	18,097	11,622	12,549	14,049	14,884	15,347	12,406	9,614	10,104	13,716
2000	18,216	17,188	15,528	11,245	12,125	9,583	13,427	11,742	8,990	8,033	8,487	9,773
2001	17,578	15,307	15,663	17,258	19,015	19,292	32,968	27,764	28,167	35,192	34,499	44,335
2002	51,382	47,486	46,459	48,406	36,912	32,916	41,974	34,549	36,202	33,079	33,917	47,241
2003	49,002	47,862	55,691	42,627	35,441	37,766	37,505	33,473	35,009	29,113	29,242	40,917
2004	43,167	42,349	48,737	33,471	26,775	29,435	27,866	30,758	21,405	20,138	26,840	28,174
2005	38,742	40,994	37,107	29,302	28,160	22,760	24,057	27,458	18,438	20,318	21,150	25,665
2006	42,863	35,388	35,494	27,642	29,238	23,448	30,609	26,469	20,738	24,020	23,201	27,612
2007	46,112	39,725	39,653	38,868	27,651	23,690	32,633	26,672	21,443	25,779	23,684	35,069
2008	44,650	44,391	51,903	43,364	35,035	37,474	39,151	36,477	38,392	34,858	41,032	72,661
2009	82,696	90,728	125,063									

What Can We Do About It?

Options for Ways to Increase Revenue or Reduce Benefits

There are two options available to impact the unemployment trust fund balance, either increase revenue (unemployment taxes) or decrease benefit payments.

How to Raise Revenue

- Impose surcharges to quarterly tax rates
- Increase tax rates for all employers with a proposed new tax table
- Increase taxable wage base
- Return to previous method of quarterly adjustment to trust fund reduction discount (see table on previous page)
- Inverse rate for negative experience-rated employers

Benefits Adjustments

- Adjust number of weeks of benefit entitlement based on weeks worked in the base period
- Raise the minimum annual earnings required to be eligible for each level of benefits (may jeopardize federal stimulus payments to claimants)
- Reduce weekly benefit amounts (may jeopardize federal stimulus payments to claimants)
- Introduce a waiting week for benefit payments

The department does not recommend drastic reductions in claimant entitlements at this time, as it would not be in line with the goals of the unemployment insurance program. The maximum weekly benefit amount has not been increased since 2007.

Using the reference period from April 1, 2007 through March 31, 2008, approximately 17% of claimants exhausted their benefits. If a waiting week for benefits were introduced, roughly 83% of claimants would be affected. That would result in about $10.1 million in annual benefits that would not be paid. The savings would likely be $20,000,000 with today's current claim load.

What Can We Do About It?

- Impose surcharges to quarterly tax rates

A surcharge, either 0.5% or 1.0%, is a temporary adjustment to add additional revenues to protect the trust fund.

- Increase tax rates for all employers with a proposed new tax table

The tax table on the right, proposed to be effective July 1, 2009, would increase employer tax rates between 0.3% and 2.5%.

The higher increases would be for employers who have paid less in taxes than the benefits charged to their individual accounts. This enhances the merit aspect of the current tax table.

Increasing the tax rates alone at the current $8,000 taxable wage base would increase annual revenue by $23,253,199.

Proposed Changes to Tax Table (Effective July 1, 2009)

Current Rate	Proposed Rate Change	Difference
0.10%	0.40%	0.30%
0.15%	0.60%	0.45%
0.20%	0.70%	0.50%
0.30%	0.80%	0.50%
0.50%	1.00%	0.50%
0.70%	1.20%	0.50%
1.00%	1.50%	0.50%
1.50%	2.00%	0.50%
1.70%	2.20%	0.50%
1.90%	2.40%	0.50%
2.00%	2.50%	0.50%
2.20%	2.70%	0.50%
2.30%	2.80%	0.50%
2.40%	2.90%	0.50%
2.50%	3.00%	0.50%
2.60%	3.10%	0.50%
2.70%	3.20%	0.50%
2.80%	3.30%	0.50%
2.90%	3.40%	0.50%
3.00%	3.50%	0.50%
3.10%	3.60%	0.50%
3.20%	3.70%	0.50%
3.30%	3.80%	0.50%
3.40%	3.90%	0.50%
3.50%	4.00%	0.50%
3.60%	4.10%	0.50%
3.70%	4.20%	0.50%
3.80%	4.30%	0.50%
3.90%	4.40%	0.50%
4.00%	4.50%	0.50%
4.10%	4.60%	0.50%
4.20%	4.70%	0.50%
4.30%	4.80%	0.50%
4.50%	5.00%	0.50%
4.60%	5.10%	0.50%
4.70%	5.20%	0.50%
4.80%	5.30%	0.50%
5.00%	6.00%	1.00%
5.20%	6.20%	1.00%
5.30%	6.30%	1.00%
5.40%	6.40%	1.00%
5.50%	7.50%	2.00%
5.60%	7.60%	2.00%
5.70%	7.70%	2.00%
5.80%	7.80%	2.00%
5.90%	8.00%	2.10%
6.00%	8.50%	2.50%
6.50%	9.00%	2.50%

What Can We Do About It?

- Increase taxable wage base - The table below shows current taxable wage bases by state

2009 Total Taxable Wage Base by State (including District of Columbia)

State	Taxable Wage Base
Washington	35,700
Idaho	33,200
Alaska	32,700
Oregon	31,300
New Jersey	28,900
Utah	27,800
Nevada	26,600
Minnesota	26,000
Montana	25,100
Iowa	23,700
North Dakota	23,700
Virgin Islands	22,100
Wyoming	21,500
New Mexico	20,900
North Carolina	19,300
Rhode Island	18,000
Connecticut	15,000
Oklahoma	14,200

State	Taxable Wage Base
Massachusetts	14,000
Hawaii	13,000
Illinois	12,300
Missouri	12,500
Maine	12,000
Wisconsin	12,000
Delaware	10,500
Arkansas	10,000
Colorado	10,000
South Dakota	9,500
District of Columbia	9,000
Michigan	9,000
Ohio	9,000
Texas	9,000
Nebraska	9,000
Georgia	8,500
Maryland	8,500
New York	8,500

State	Taxable Wage Base
Kansas	8,000
New Hampshire	8,000
Pennsylvania	8,000
Vermont	8,000
West Virginia	8,000
Virginia	8,000
Alabama	8,000
Kentucky	8,000
South Carolina	7,000
Arizona	7,000
Louisiana	7,000
California	7,000
Indiana	7,000
Mississippi	7,000
Florida	7,000
Puerto Rico	7,000
Tennessee	7,000

Typically, the higher taxable wage bases are found in states that index their taxable wage base to the average annual wage. New Hampshire has not increased its taxable wage base since 1994.

What Can We Do About It?

Taxable Wages, Current Rate and New Rate

Cost Per Worker (Current Tax Rate)	$8,000	$10,000	$11,000	$12,000	$14,000
Minimum (0.1%)	$8	$10	$11	$12	$14
New Employer Rate 2.7%	$216	$270	$297	$324	$378
Maximum Rate 6.5%	$520	$650	$715	$780	$910

Cost Per Worker (Proposed New Tax Rate)	$8,000	$10,000	$11,000	$12,000	$14,000
Minimum (0.4%)	$32	$40	$44	$48	$56
New Employer Rate 3.2%	$256	$320	$352	$384	$448
Maximum Rate 9.0%	$720	$900	$990	$1,080	$1,260

Taxable Wage Base

With the exception of interest earned by the trust fund, the only regular revenue deposited to the trust fund comes from unemployment taxes. New Hampshire's taxable wage base has been at $8,000 since 1994. This means that once an employee has earned more than $8,000 in one year with the same employer, no more taxes are collected on the employee's behalf. The $8,000 in 1994 represented over 31% of the average annual wage of New Hampshire workers, in 2008 it was less than 18%.

During the same period, in an effort to provide temporary security for unemployed workers and to keep pace with New Hampshire's average annual wage, the maximum weekly unemployment benefit payment has been increased eight times with no mutual revenue increases. (See table on page 9)

An increase in the taxable wage base would allow for higher unemployment tax amounts to be collected to support the trust fund. This is illustrated in the graph above comparing the tax revenues received from various taxable wage bases with no change in tax rate.

What Can We Do About It?

These tables show the average cost and change in cost per employee for the proposed changes in the tax rate, taxable wage base, and temporary surcharge of 1.0%.

Average Total Cost Per Employee

Taxable Wage Base	Current Average Tax Rate (2.2%)	New Average Tax Rate 0.5% higher (2.7%)	Addition of 1.0% surcharge to Current Average Tax Rate	New Average Tax Rate (2.7%) with 1.0% surcharge
$8,000	$176	$216	$256	$296
$10,000	$220	$270	$320	$370
$11,000	$242	$297	$352	$407
$12,000	$264	$324	$384	$444
$14,000	$308	$378	$448	$518

Increase in Average Total Cost Per Employee compared to current levels (2.2% average tax rate with $8,000 taxable wage base)

Taxable Wage Base	Current Average Tax Rate (2.2%)	New Average Tax Rate 0.5% higher (2.7%)	Addition of 1.0% surcharge to Current Average Tax Rate	New Average Tax Rate (2.7%) with 1.0% surcharge
$8,000	--	$40	$80	$120
$10,000	$44	$94	$144	$194
$11,000	$66	$121	$176	$231
$12,000	$88	$148	$208	$268
$14,000	$132	$202	$272	$342

What Can We Do About It?

These tables show examples of the effect proposed changes would have on specific employer types

$8,000 Taxable Wage Base

Employer	Number of Employees	Current Rate	Tax Due	1% Surcharge	Additional Tax Due	1.5% Inverse	Additional Tax Due	Cumulative Amount Due
Large Employer	7,500+	1.70%	$1,318,390	1.0%	$775,524	N/A	N/A	$2,093,914
Large Employer	4,500+	1.50%	$613,559	1.0%	$409,039	N/A	N/A	$1,022,598
Large Employer	350+	6.50%	$222,160	1.0%	$34,178	1.5%	$51,267	$307,605
Large Employer	650+	4.00%	$224,926	1.0%	$56,231	1.5%	$84,347	$365,504
Average Employer (10 Employees)		2.20%	$1,760	1.0%	$800	N/A	N/A	$2,560
Large Employer (100 Employees)		2.20%	$17,600	1.0%	$8,000	N/A	N/A	$25,600

$10,000 Taxable Wage Base

Employer	Number of Employees	Current Rate	Additional Tax Due	1% Surcharge	Additional Tax Due	1.5% Inverse	Additional Tax Due	Cumulative Amount Due
Large Employer	7,500+	1.70%	$329,598	1.0%	$969,405	N/A	N/A	$1,299,003
Large Employer	4,500+	1.50%	$153,390	1.0%	$511,299	N/A	N/A	$664,689
Large Employer	350+	6.50%	$55,540	1.0%	$42,723	1.5%	$64,084	$162,347
Large Employer	650+	4.00%	$56,232	1.0%	$70,289	1.5%	$105,434	$231,955
Average Employer (10 Employees)		2.20%	$440	1.0%	$1,000	N/A	N/A	$1,440
Large Employer (100 Employees)		2.20%	$4,400	1.0%	$10,000	N/A	N/A	$14,400

$12,000 Taxable Wage Base

Employer	Number of Employees	Current Rate	Additional Tax Due	1% Surcharge	Additional Tax Due	1.5% Inverse	Additional Tax Due	Cumulative Amount Due
Large Employer	7,500+	1.70%	$659,196	1.0%	$1,163,286	N/A	N/A	$1,822,482
Large Employer	4,500+	1.50%	$306,780	1.0%	$613,559	N/A	N/A	$920,339
Large Employer	350+	6.50%	$111,080	1.0%	$51,267	1.5%	$76,901	$239,248
Large Employer	650+	4.00%	$112,463	1.0%	$84,347	1.5%	$126,521	$323,331
Average Employer (10 Employees)		2.20%	$880	1.0%	$1,200	N/A	N/A	$2,080
Large Employer (100 Employees)		2.20%	$8,800	1.0%	$12,000	N/A	N/A	$20,800

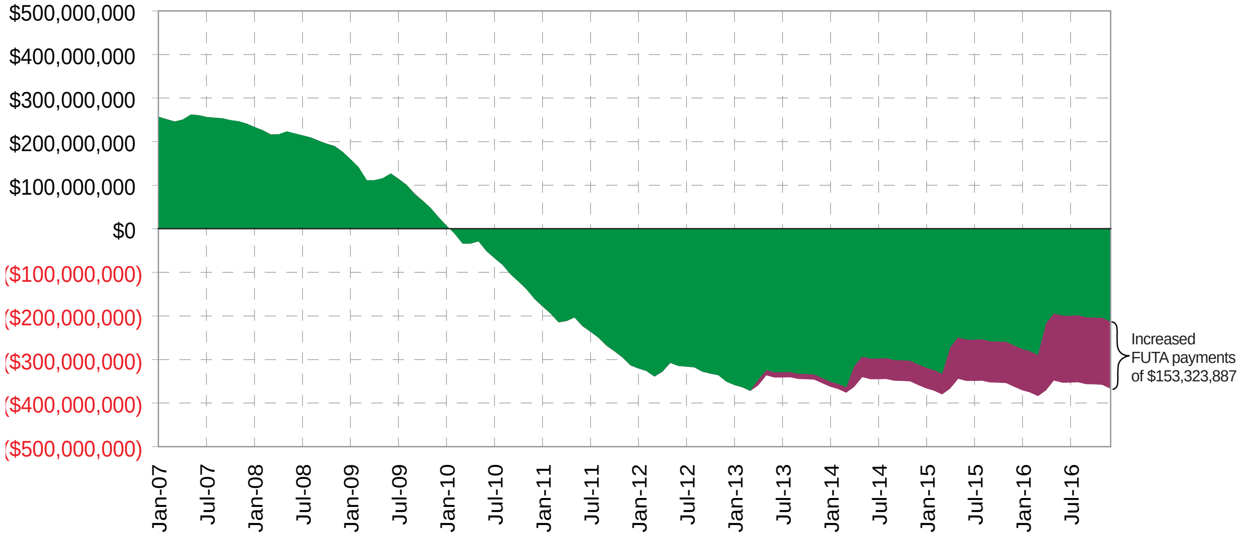
$14,000 Taxable Wage Base

Employer	Number of Employees	Current Rate	Additional Tax Due	1% Surcharge	Additional Tax Due	1.5% Inverse	Additional Tax Due	Cumulative Amount Due
Large Employer	7,500+	1.70%	$988,794	1.0%	$1,357,167	N/A	N/A	$2,345,961
Large Employer	4,500+	1.50%	$460,170	1.0%	$715,819	N/A	N/A	$1,175,989
Large Employer	350+	6.50%	$166,620	1.0%	$59,812	1.5%	$89,718	$316,150
Large Employer	650+	4.00%	$168,695	1.0%	$98,405	1.5%	$147,608	$414,708
Average Employer (10 Employees)		2.20%	$1,320	1.0%	$1,400	N/A	N/A	$2,720
Large Employer (100 Employees)		2.20%	$13,200	1.0%	$14,000	N/A	N/A	$27,200

What Can We Do About It?

What to Expect from the Current $8,000 Taxable Wage Base

If New Hampshire relies only on FUTA penalties, employers in the state would pay an additional $153,323,887 in lost FUTA tax credits through 2016, and owe an additional $70,764,871 in 2017 for 2016.



The initial 0.3% loss of FUTA credit for calendar year 2012 is payable by employers with their FUTA tax returns (940) due January 2013. Payments of $153,323,887 for lost FUTA credits will be received in calendar years 2013 through 2016 for credits lost for each preceding calendar year. Employers will owe another $70,764,871 for FUTA credit reductions in 2017 for calendar year 2016.

From the beginning of the borrowing cycle, $71,058,489 would be due in interest payments.

The total unemployment rate follows the projections provided in the New England Economic Partnership presentation (November 2008) through fourth quarter 2011. In January 2012, the total unemployment rate and corresponding benefit payments return to the same as in 2008, a rate of 3.8%. In January 2013, the total unemployment rate and corresponding benefit payments return to the same rate as in 2007, or 3.5%.

This assumes a daily sweep, meaning that all contributions paid into NHES would be forwarded to USDOL to reduce the balance that is accruing interest. It also assumes that payment by employers of lost FUTA credit amounts will be credited against our outstanding balance by April of each year.

Any money received as contributions goes directly toward repayment of borrowed principal. This is considered a daily sweep in that all money collected is dedicated toward repayment of outstanding balance.

When the trust fund runs a negative balance it will no longer be earning interest. But the state will be charged similar interest on the amount that it borrows.

Inverse Rate for Negative Experience Rated Employers

- Increase tax rates for negative balance employers when positive balance employers do not receive fund balance reduction by adjusting all negative balance employer tax rates.

Negative Inverse Balance Rate Schedules

Currently			0% Increase Trust Fund >$275M		.5% Increase Trust Fund >$250M <$275M		1.0.% Increase Trust Fund >$225M <$250M		1.5% Increase Trust Fund <$225M	
Rate	2008 Taxable Wages	Tax Due	Rate	Tax Due	Rate	Tax Due	Rate	Tax Due	Rate	Tax Due
2.80%	64,516,925	1,806,474	2.80%	1,806,474	3.30%	2,129,059	3.80%	2,451,643	4.30%	2,774,228
2.90%	48,738,328	1,413,412	2.90%	1,413,412	3.40%	1,657,103	3.90%	1,900,795	4.40%	2,144,486
3.00%	37,503,180	1,125,095	3.00%	1,125,095	3.50%	1,312,611	4.00%	1,500,127	4.50%	1,687,643
3.10%	25,559,301	792,338	3.10%	792,338	3.60%	920,135	4.10%	1,047,931	4.60%	1,175,728
3.20%	43,600,423	1,395,214	3.20%	1,395,214	3.70%	1,613,216	4.20%	1,831,218	4.70%	2,049,220
3.30%	20,059,187	661,953	3.30%	661,953	3.80%	762,249	4.30%	862,545	4.80%	962,841
3.40%	20,739,757	705,152	3.40%	705,152	3.90%	808,851	4.40%	912,549	4.90%	1,016,248
3.50%	19,309,272	675,825	3.50%	675,825	4.00%	772,371	4.50%	868,917	5.00%	965,464
3.60%	20,415,357	734,953	3.60%	734,953	4.10%	837,030	4.60%	939,106	5.10%	1,041,183
3.70%	18,682,120	691,238	3.70%	691,238	4.20%	784,649	4.70%	878,060	5.20%	971,470
3.80%	7,887,105	299,710	3.80%	299,710	4.30%	339,146	4.80%	378,581	5.30%	418,017
3.90%	32,036,595	1,249,427	3.90%	1,249,427	4.40%	1,409,610	4.90%	1,569,793	5.40%	1,729,976
4.00%	21,831,884	873,275	4.00%	873,275	4.50%	982,435	5.00%	1,091,594	5.50%	1,200,754
4.10%	16,516,268	677,167	4.10%	677,167	4.60%	759,748	5.10%	842,330	5.60%	924,911
4.20%	6,956,303	292,165	4.20%	292,165	4.70%	326,946	5.20%	361,728	5.70%	396,509
4.30%	12,692,554	545,780	4.30%	545,780	4.80%	609,243	5.30%	672,705	5.80%	736,168
4.50%	7,360,606	331,227	4.50%	331,227	5.00%	368,030	5.50%	404,833	6.00%	441,636
4.60%	7,701,530	354,270	4.60%	354,270	5.10%	392,778	5.60%	431,286	6.10%	469,793
4.70%	4,790,956	225,175	4.70%	225,175	5.20%	249,130	5.70%	273,084	6.20%	297,039
4.80%	3,198,292	153,518	4.80%	153,518	5.30%	169,509	5.80%	185,501	6.30%	201,492
5.00%	1,435,731	71,787	5.00%	71,787	5.50%	78,965	6.00%	86,144	6.50%	93,323
5.20%	2,663,273	138,490	5.20%	138,490	5.70%	151,807	6.20%	165,123	6.70%	178,439
5.30%	1,368,274	72,519	5.30%	72,519	5.80%	79,360	6.30%	86,201	6.80%	93,043
5.40%	2,978,109	160,818	5.40%	160,818	5.90%	175,708	6.40%	190,599	6.90%	205,490
5.50%	12,883,697	708,603	5.50%	708,603	6.00%	773,022	6.50%	837,440	7.00%	901,859
5.60%	2,583,534	144,678	5.60%	144,678	6.10%	157,596	6.60%	170,513	7.10%	183,431
5.70%	6,953,672	396,359	5.70%	396,359	6.20%	431,128	6.70%	465,896	7.20%	500,664
5.80%	3,566,927	206,882	5.80%	206,882	6.30%	224,716	6.80%	242,551	7.30%	260,386
5.90%	8,409,837	496,180	5.90%	496,180	6.40%	538,230	6.90%	580,279	7.40%	622,328
6.00%	3,123,752	187,425	6.00%	187,425	6.50%	203,044	7.00%	218,663	7.50%	234,281
6.50%	21,709,131	1,411,094	6.50%	1,411,094	7.00%	1,519,639	7.50%	1,628,185	8.00%	1,736,730
	507,771,880	18,998,203		18,998,203		21,537,062		24,075,921		26,614,781
			Change from current rate 0%			2,538,859		5,077,718		7,616,578

Assess a fund balance surcharge to negative rated employers when the Trust Fund falls below certain levels. The concept would be the reverse of the concept of applying fund balance reduction to positive rated employers.

The surcharge would work as follows:

Trust Fund levels	Reduction to Positive Rated Employers	Surcharge to Negative Rated Employers
Below $225 Million	No Rate Reduction	1.5% Rate Increase
Above $225 but Below $250 Million	0.5% Rate Reduction	1.0% Rate Increase
Above $250 but Below $275 Million	1.0% Rate Reduction	0.5% Rate Increase
Above $275 Million	1.5% Rate Reduction	No Rate Increase

Recommended Initiative

$10,000 (2010), $12,000 (2011), $14,000 (2012) Taxable Wage Base

Base State UI Tax $8,000 Taxable Wage Base	Projected Unemployment Compensation Benefit Payouts		State UI Tax 0.5% Emergency Add-on 2Q,3Q, and 4Q 2009	Taxable Wage Base Change	1% Surcharge	Addition from Inverse for Negative Rated Employers	Waiting Week - based on Initial and Final Claims payments 1Q 2009	Interest	Projected Trust Fund Balance as of December 30
			1% Surcharge 3 Years						
$81,636,909	$265,835,848	2009	$8,112,784			$1,613,680			$27,119,307
$81,636,909	$270,596,993	2010		$20,409,227	$55,786,342	$9,520,723	$20,000,000		($61,454,107)
$81,636,909	$233,641,980	2011		$40,818,454	$66,943,611	$11,424,867	$20,000,000	$1,766,350	($77,438,931)
$81,636,909	$118,590,282	2012		$61,227,682	$78,019,814	$13,329,012	$10,000,000		$72,219,390

The Unemployment Insurance Advisory Council also approved a tax rate increase of 0.5% to any negative rated employer who maintains a negative balance for more than 3 consecutive years. Had the Council adopted the increase for all negative rated employers, the annual cost would have been $2.4 million. The Department is in the process of determining the number of employers that have maintained a negative balance for more than 3 years to determine the annual cost to this subset of negative rated employers.

Recommended Initiative

$8,000 (2009) - $10,000 (2010) - $12,000 (2011) - $14,000 (2012)

	1.0% Surcharge (2010 + 2011 + 2012), Waiting Week, Inverse on Negative Employers Fund Balance Reduction Levels $250,000,000, $275,000,000, & $300,000,000
Annual State UI Taxes (current rate) through December 2012 (reflects any fund balance reductions detailed below)	1,002,302,593
Reductions to State UI taxes from Fund Balance Reductions (by Calendar Year)	
FBR savings in 2014	10,806,251
FBR savings in 2015	27,625,157
FBR savings in 2016	101,583,877
Inverse Rate on Negative Balance Employers	75,875,318
0.5% 2Q, 3Q, + 4Q 2009 1.0% Add-on 2010, 2011, + 2012	208,862,551
Waiting Week for Benefits	90,000,000
Total State UI Tax	$1,287,040,462
Lost FUTA Credits	
2011 (payable 9/2012)	0
2012 (payable 9/2013)	11,794,145
2013 (payable 9/2014)	
2014 (payable 9/2015)	0
2015 (payable 9/2016)	0
2016 (payable 9/2017)	0
Total Additional FUTA Payments	$11,794,145
Interest on Fund Negative Balance	
2010	0
2011	1,766,350
2012	0*
2013	0
2014	0
2015	0
2016	0
Total Interest payments	$1,766,350
Extra Federal Obligations	$13,560,495
Total payable by employers (by December 2016)	$1,300,600,957
Trust Fund Balance (December 2016)	$317,923,458

* Assuming no interest charges will apply as long as all balances borrowed over past year are paid in full

Interest payments would need to come from a separate source. * Current interest rate is 4.64%. Table assumes the following interest rates: 4.2% in 2010; 3.8% in 2011; 3.5% in 2012 and 2013; 3.8% in 2014; 4.2% in 2015; and 4.64% in 2016

Assumes that trust fund balance trigger points are increased by $25 million each level and quarterly adjustments are restored.

Recommendations

Objectives
Increase the short-term and long-term solvency of the trust fund while enhancing the merit structure of rewarding employers that maintain positive account balances.

Steps to solvency
- Impose emergency 0.5% add-on for remainder of 2009
- Gradually increase taxable wage base - $2,000 each year – to $14,000
- Impose additional 0.5% add-on three years through 2012
- Propose new tax table with an inverse penalty structure for negative balance employers tied to fund balance reductions for positive rated employers
- New claimants would be subject to a waiting week for benefits

Short-term Recommendation
Strongly recommend that the department utilize the 0.5 % emergency power tax increase for at least the last three quarters (2Q, 3Q, & 4Q) in 2009. An additional 0.5% would be added January 2010, for a total add-on of 1.0% for 2010, 2011, and 2012. With an add-on option, if and when the economy improves, the add-on can be removed.

Gradually increase the taxable wage base to $14,000 by steps. These $2,000 steps would provide a planned increase to budget expenses. Solvency would ultimately be restored depending on the length of the recession.

Employers in the rate loss penalty would be subject to an inverse rate adjustment tied to the fund balance reduction received by positive rated employers.
- 0% reduction for positive rated employers – 1.5% added to negative balance employers
- 0.5% reduction for positive rated employers – 1.0% added to negative balance employers
- 1.0% reduction for positive rated employers – 0.5% added to negative balance employers
- 1.5% reduction for positive rated employers – 0% added to negative balance employers

Long-term Recommendation
Increasing the Fund Balance Reduction triggers by $25,000,000 to help build the fund balance before slowing growth of contributions. Changes would be from current levels of:
- 0.5% reduction at $225,000,000 increased to 0.5% reduction at $250,000,000
- 1.0% reduction at $250,000,000 increase to 1.0% reduction at $275,000,000
- 1.5% reduction at $275,000,000 increase to 1.5% reduction at $300,000,000

Also, reinstate the quarterly fund balance reduction schedule, as that promotes a quicker response of contributions to the fund in times of need.

Assumptions

- No adjustment of merit rate based upon increased outputs and benefit payments
- No shrinking of taxable wages with smaller labor force
- No change in Average Weekly Benefit Amount
- Interest payments would need to come from a separate source. Current interest rate is 4.64%. Table assumes the following interest rates:
  - 4.2% in 2010; 3.8% in 2011; 3.5% in 2012 and 2013; 3.8% in 2014; 4.2% in 2015; and 4.64% in 2016 1.0% reduction at $250,000,000 change to 1.0% reduction at $300,000,000
- Assumes that trust fund balance trigger points are increased by $25 million each level and quarterly adjustments are restored.
  - 0.5% reduction at $225,000,000 change to 0.5% reduction at $250,000,000
  - 1.0% reduction at $250,000,000 change to 1.0% reduction at $275,000,000
  - 1.5% reduction at $275,000,000 change to 1.5% reduction at $300,000,000

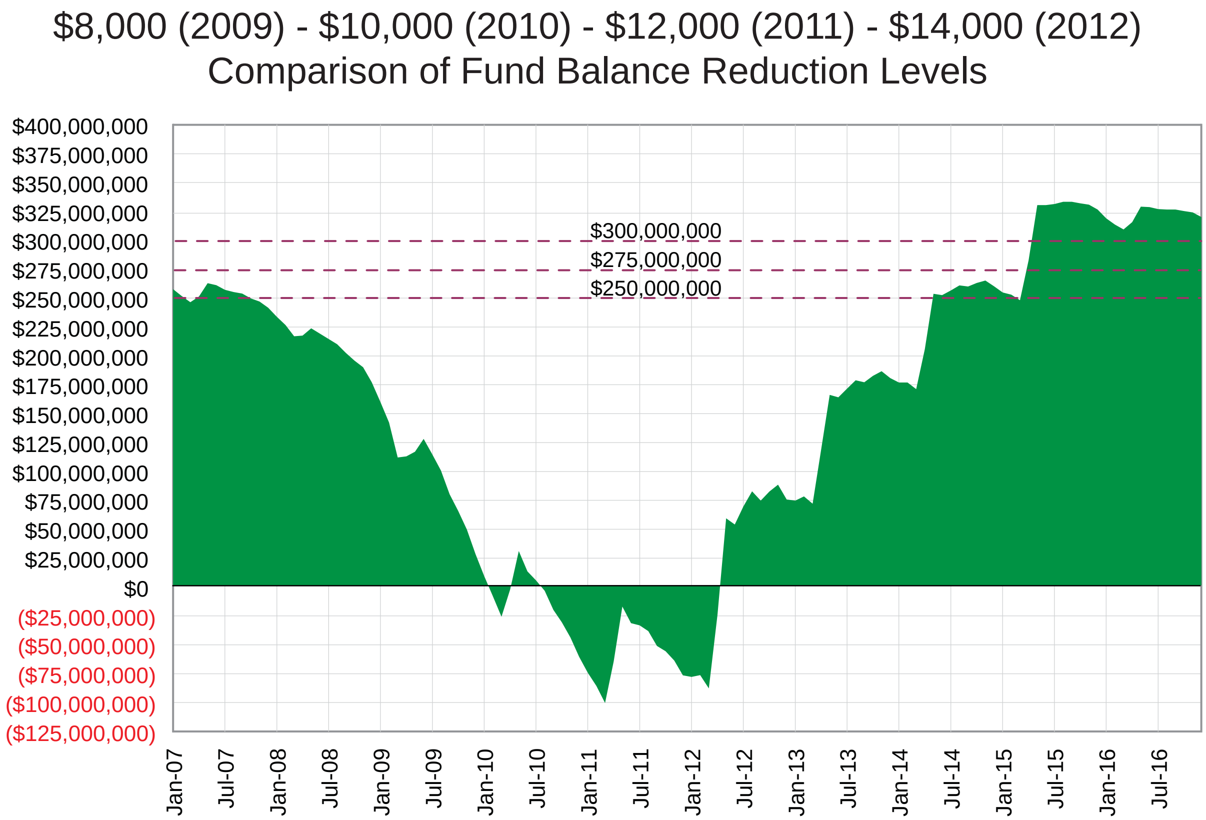
Projected*
Economic Indicators

	2008	Q1	3.7%
		Q2	3.9%
		Q3	4.3%
		Q4	4.8%
	2009	Q1	5.4%
		Q2	5.9%
		Q3	6.3%
Forecast		Q4	6.7%
	2010	Q1	7.1%
		Q2	7.3%
		Q3	7.4%
		Q4	7.4%
	2011	Q1	7.3%
		Q2	7.1%
		Q3	6.9%
		Q4	6.6%
	2012	Annual	3.8%
	2013	Annual	3.5%
	2014	Annual	3.5%
	2015	Annual	3.5%
	2016	Annual	3.5%

*As projected by
New England Economic Partnership
November 2008

- The total unemployment rate follows the projections provided in the New England Economic Partnership presentation (November 2008) through fourth quarter 2011. In January 2012, the total unemployment rate and corresponding benefit payments return to the same as in 2008, an annual average rate of 3.8%. In January 2013, the total unemployment rate and corresponding benefit payments return to the same annual average rate as in 2007, or 3.5%.
- That the same number of individuals who earn the $8,000 taxable wage base also earn the other maximum taxable wage base amounts proposed.

Recommended Initiative



This assumes a daily sweep, meaning that all contributions paid into NHES would be forwarded to USDOL to reduce the balance that is collecting interest. It also assumes that payment by employers of lost FUTA credit amounts will be credited against our outstanding balance by April of each year.

The initial 0.3% loss of FUTA credit for calendar year 2012 is payable by employers with their FUTA tax returns (940) due January 2013. Payments of $11,794,145 for lost FUTA credits were received in calendar years 2013 for credits lost in 2012.

From the beginning of the borrowing cycle $1,766,350 would be due in interest payments. Another source of income would have to be established for this payment.

Increasing the set of fund balance reduction trigger levels allows employers to reach reduced tax levels after 2nd quarter 2014.