Status of the UI Trust Fund

September 22, 2020

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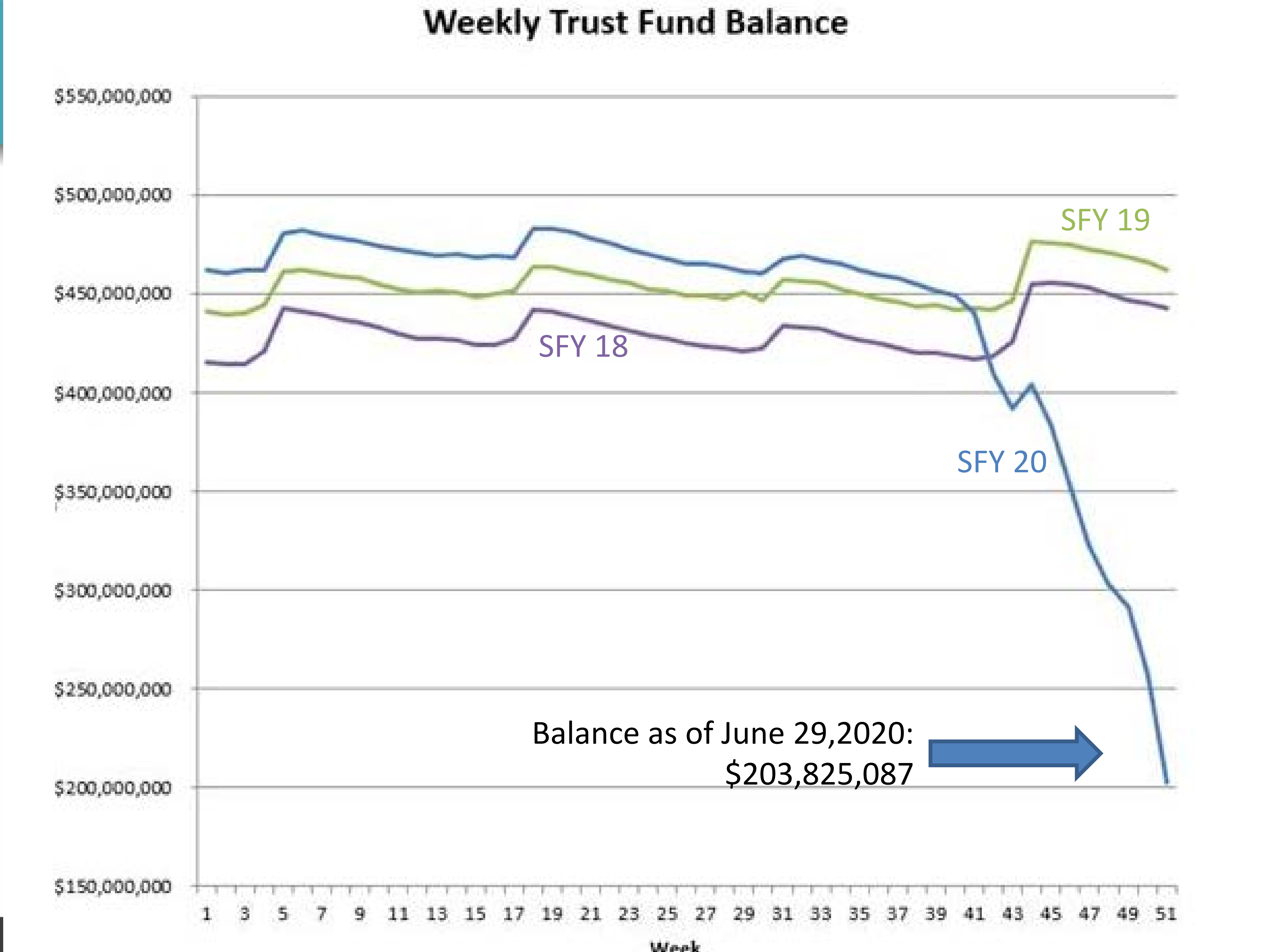
What is the Unemployment Insurance (UI) Trust Fund?

The UI trust fund is a bank account with the purpose of paying unemployment benefits to qualified New Mexicans who are unemployed through no fault of their own. It is funded by New Mexican employers' payroll taxes.

The New Mexico Department of Workforce Solutions administers the unemployment insurance program. Rules, policies, and procedures are set by New Mexico Statue and the Department, with oversight by the U.S. Department of Labor.

- As of December 31, 2019, New Mexico’s UI Trust Fund was at a solvency rate higher than the Federally-recommended minimal level.
- In March 2020 there were about 9,600 people receiving unemployment; in July 2020 it was over 150,000.
- Since March 15, 2020 New Mexico has paid out over $2 Billion in benefits.
- We are spending more on UI benefits than the funding/taxes we are collecting from employers.
- We estimate that the UI Trust Fund will run out of money in September 2020.


Weekly Trust Fund Balance
$550,000,000
$500,000,000
$450,000,000
$400,000,000
$350,000,000
$300,000,000
$250,000,000
$200,000,000
$150,000,000
SFY 19
SFY 18
SFY 20
Balance as of June 29,2020:
$203,825,087
1 3 5 7 9 11 13 15 17 19 21 23 25 27 29 31 33 35 37 39 41 43 45 47 49 51
Week
WORKFORCE SOLUTIONS

Borrowing from the Feds

The USDOL provides loans to states who require TF support; initially interest-free, as of now interest starts accumulating in January.

This option has been used by many states in the past, but never in New Mexico.

If the loan isn't paid back timely, federal unemployment insurance taxes will increase. Rates are currently 0.6% but can be upped to 6.4%.

To pay back the loan, and replenish the UI Trust Fund, the options are:

- Decrease benefits (either the amount and/or of length of time spent on UI) through a state law change
- Increase taxes (tax rate and/or weekly benefit amount) but the former will happen automatically, or additionally through state law
- Combination
- Use a other borrowing to pay off debt to Feds once 0% interest is stopped
- Simply let the Federal Government raise taxes

How are UI taxes computed?

- Currently, the amount of tax an employer pays depends on:
    1. the number of its employees;
    2. the state's taxable wage base;
    3. and the contribution rate assigned to the employer.

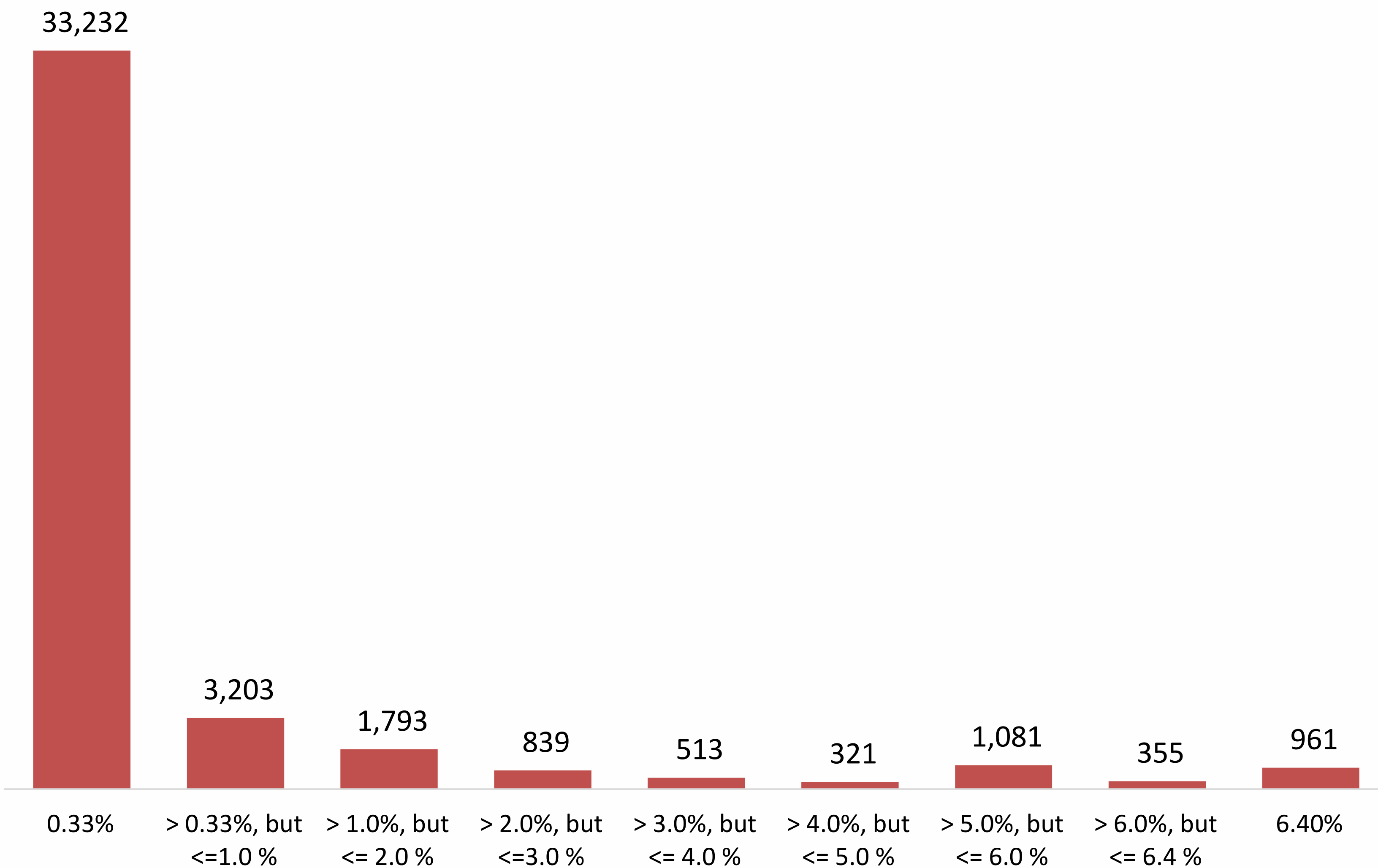
#1 and #2 are easy to understand…but #3 isn't

- Employers must pay a tax on wages paid to each worker up to a specified amount. This amount is called the taxable wage base. The taxable wage base changes every year and is based on a percentage of the average wage for all workers in New Mexico.
- The taxable wage base in New Mexico for Calendar Year 2020 was $25,800.
- The contribution rate assigned to an experienced employer is set in Statute and complicated and difficult to understand.
- The contribution rate for new employers is based on the average tax rate of all experienced employers in that industry. Tax rates for most industries are at the minimum.

The issue

- ***The Governor signed SB3, which freezes employer tax rates for the upcoming year.***
- ***But the current UI tax structure will not replenish the UI Trust Fund at a rate fast enough to avoid interest payments and the imposition of federal UI Tax rates because most employers are already paying the lowest tax rate.***
- ***But even if the reserve factor is set at the highest level, most employer rates will not increase enough to replenish the trust fund.***

Number of employers by 2020 tax rate



Options

- Decrease benefits but will adversely affects claimants
  - Decrease weekly benefit amount. As of now the maximum is $461, [1] with an additional $25 paid a week per dependent, up to two dependents.
  - Decrease length of time receive UI (currently maximum is 26 weeks)

- Increase revenues but will adversely affects employers
  - If temporary freeze is not continued after next year, the reserve factor will increase and so will payroll taxes.
  - Increase taxable wage base

- Combination

- Us a different borrowing scenario to pay off Feds though other bonds or SIC (CO and TX used this strategy in early 2010's).

- Simply let the Federal Government raise taxes. The State of California did this from 2011-2017.

[1] NMSA 54-1-4. "No benefit as so computed may be less than ten percent or more than fifty-three and one-half percent of the state's average weekly wage for all insured work."

Good News?

- We didn’t draw down on Federal funds in August
    - The UI trust fund drew down on federal funds on September 8
    - We probably won’t require the requested $125M in October

- Early beneficiaries are beginning to roll into federally funded long-term programs
    - <> 123,000 currently on unemployment

Continuing Efforts

- Need to Consider Repayment Options
  - Federally driven plan not likely most desirable
  - We will have a significant debt even with quick recovery
  - Options include:
    - Bonding against UI revenue streams
    - Permanent fund loan
      - US in very low interest rate environment

- Concurrently, need to continue evaluating fund solvency alternatives
  - Without unlikely outside assistance, both reliant on same revenue stream/wage base

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Questions?

Thank you!