



SOUTH CAROLINA
Department of Employment and Workforce

SOUTH CAROLINA
UNEMPLOYMENT INSURANCE

FY2023

**TRUST
FUND
ANNUAL
ASSESSMENT**

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EXECUTIVE SUMMARY

Each fiscal year, the South Carolina Department of Employment and Workforce (DEW) is required to submit, by October 1, a report to the Governor, General Assembly and the Review Committee indicating the amount in the Unemployment Insurance (UI) Trust Fund and making an assessment of its funding level in accordance with Section 41-33-45 of the South Carolina Code of Laws. This assessment covers fiscal year 2023 (July 1, 2022-June 30, 2023).

CURRENT STATUS

Unemployment benefit outlays for FY2022 totaled \$130,597,287¹. Revenues generated to fund the UI programs totaled \$271,220,724².

As of June 30, 2023, the UI Trust Fund had an unadjusted balance of \$1,554,293,460³. The health of the Trust Fund has been strong over the past fiscal year.

The Trust Fund is above its adequate balance as of June 30, 2023, and there will be no Trust Fund rebuilding process required for CY2024.

For historical context, all previous advances from the federal government were repaid as of June 11, 2015. The COVID-19 pandemic had a significant negative impact on the Trust Fund balance. Fortunately, the Trust Fund was fully funded going into CY2020 and thus in better shape to weather a downturn. Additionally, swift legislative action, including appropriating \$836.4 million to the Trust Fund, has helped to mitigate the significant drain. The balance as of June 30, 2023 exceeded the state definition of adequate funding. Thus, no solvency surcharge will be required for CY2024, and weekly UI payments continue to remain at or below pre-pandemic levels.

More than 20 states had to borrow from the federal government to continue making unemployment benefit payments at some point during the past three years. As of September 5, 2023, three states/territories (CA, NY, and VI) continued to have an outstanding balance, and two states (CA, NY) are actively borrowing. In addition to paying back these loans, these states must also now pay interest on the accumulated balances. The federal waiver on interest expired September 6, 2021. For

¹ Treasury Direct Account Statements

² *Ibid*

³ Treasury Direct Account Statements: Jun 2023

FY2023, these states accumulated more than \$400 million in interest costs alone. South Carolina avoided this fate, and South Carolina employers will not have to pay increased UI taxes or a solvency surcharge to pay off loans and rebuild the Trust Fund.

FUTURE OUTLOOK

The economic recovery from the pandemic-induced recession is largely complete. As of July 2022, all jobs lost

had been recovered statewide and UI claim payments remain at or below their pre-pandemic levels. This strong recovery combined with effective management of the Trust Fund, in partnership with the Governor’s Office and General Assembly, will result in no solvency surcharge for CY2024⁴.

RECENT UNEMPLOYMENT INSURANCE TRUST FUND HISTORY

The components of the Trust Fund are defined as follows:

- **Contributions** – Revenue received from employers, federal government, or other states as of June 30.
- **Interest** – Federal Treasury interest posted to each state’s Trust Fund account quarterly.
- **Benefits** – Benefit payments less benefit overpayment recoveries.

- **Fund Balance** – Unadjusted Trust Fund balance
- **Total Wages** – Total covered payroll wages reported by all covered employers for the period beginning July 1 and ending June 30.

Historical data of the principal components of the state UI Trust Fund are outlined in Table 1. Graphs of the historical contributions, benefits, and fund balance are shown in Figure 1 based on calendar year data. Note that data may not match from prior years as historical information has been updated to include data from reimbursable entities and combined wage claim information from other states.

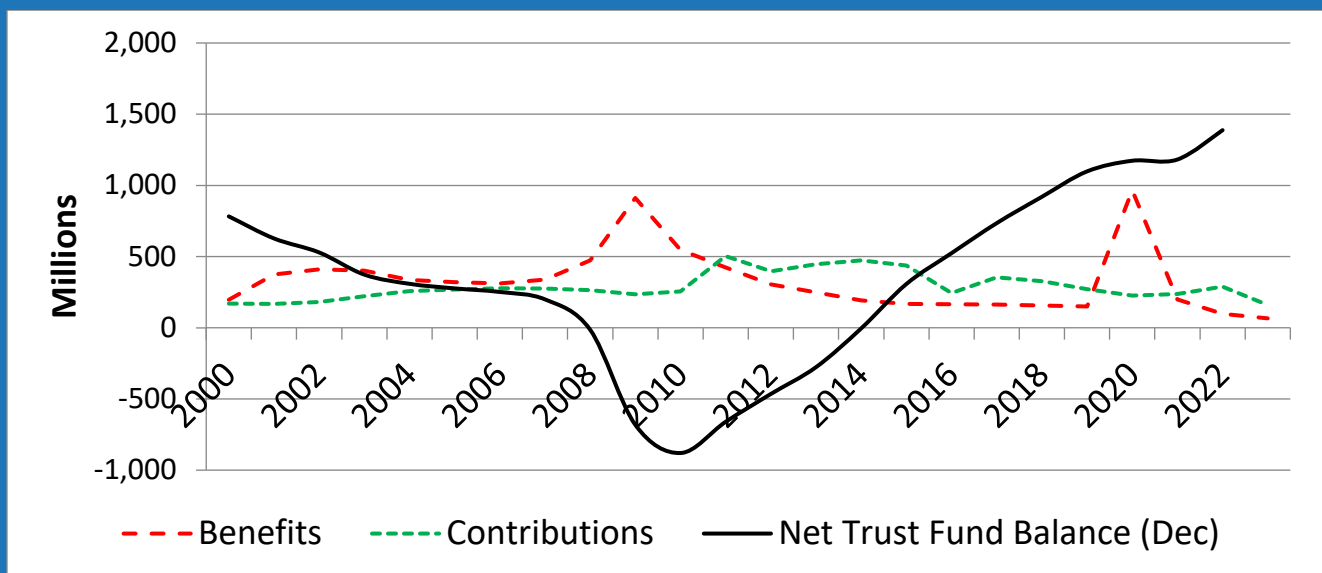
⁴ CY2024 tax rates will be mailed to all businesses the second week of November 2023.

TABLE 1: UI TRUST FUND COMPONENTS, FY2019-2023

COMPONENT	FY2019	FY2020	FY2021	FY2022	FY2023
7/1 Begin Fund Balance	\$870,154,660	\$1,050,622,227	\$707,250,195	\$1,181,566,146	\$1,387,797,571
Contributions	\$315,229,172	\$477,274,994	\$284,303,507	\$319,727,912	\$271,220,724
Earned Interest	\$22,086,514	\$25,511,764	\$25,511,764	\$23,473,578	\$25,872,453
CARES Act	N/A	N/A	\$836,397,251	N/A	N/A
Benefits	\$156,848,119	\$846,158,789	\$669,858,385	\$133,533,512	\$130,597,287
6/30 End Fund Balance ⁵	\$1,050,622,227	\$707,250,195	\$1,181,566,146	\$1,387,797,571	\$1,554,293,460
Total Wages ⁶	\$75.9 billion	\$78.0 billion	\$83.2 billion	\$93.4 billion	\$102.7 billion

Note: Not equivalent to audited financial statements.

FIGURE 1: HISTORICAL CONTRIBUTIONS, BENEFITS, AND FUND BALANCE, CY2000-2023⁷



⁵ Treasury Direct Account Statements Jun 2017-Jun 2023, Unadjusted

⁶ Internal estimates August 21, 2023

⁷ US Department of Labor: Financial Handbook 394 <http://www.oui.doleta.gov/unemploy/hb394.asp> (information from US Department of Labor excludes all federal advances and other fiscal year-ending adjustments) and ETA2112 Reports; contributions data exclude CARES Act funding

After 10 years of continuously falling annual benefit payments, South Carolina experienced a significant increase in benefit costs in the spring of 2020 as a result of the COVID-19 pandemic. This dramatic increase in benefit costs combined with declining tax revenues brought the Trust Fund balance from a high of nearly \$1.1 billion as of January 2020 to just over \$700 million by June 2020. An \$836.4 million infusion from legislatively appropriated CARES Act funds was received in August and December 2020 bringing the Trust Fund balance back over \$1.1 billion as of December 2020. Benefit payments have declined dramatically since the spring of 2020 and are now routinely at or below pre-pandemic levels. Barring any additional economic turmoil, the Trust Fund balance is expected to stay over \$1.5 billion for the foreseeable future.

SOLVENCY STANDARDS

South Carolina has adopted the most widely accepted measure of Trust Fund solvency, known as the Average High Cost Multiple (AHCM). See S.C. Code Ann. § 41-31-45(A). This measure of whether a state has enough money to cover unemployment claims during an economic downturn was devised in 1995 by the federal Advisory Council on Unemployment Compensation.

The AHCM is calculated by taking the Trust Fund balance as a percent of estimated wages for the most recent 12 months (also known as the reserve ratio) and dividing it by the Average High Cost Rate, which is the average of the three highest calendar year benefit cost rates, in the last 20 years or a period including three recessions, whichever is longer. Benefit cost rates are benefits paid as a percent of total wages in taxable employment.

For the upcoming year, 2024, the three highest cost years in the last 20 years or last three recessions (2001-2021) are 2009, 2010, and 2020. For instance, in 2009, the state paid out approximately 1.84 percent of total wages in benefits (\$910 million in benefits

divided by \$49.4 billion in total wages). Averaging the high cost rate for those three years gives the average high cost rate of 1.439053448 percent. The most recently completed calendar year of 2022, the state paid \$98,146,398,871 in total wages. Multiplying the 1.44 percent by approximately \$98.1 billion provides the adequate balance for CY2024...\$1,412,379,137.

The South Carolina General Assembly has adopted the US Department of Labor's recommendation that a state have an AHCM of 1.0, which means that the state has enough funds to pay one year of benefits at the Average High Cost. This should be sufficient to fund benefits during an average recession.

Table 2 shows South Carolina's three highest benefit cost rate years, the state's actual (or projected) total wages, and the Trust Fund balance that would be required to achieve the recommended solvency level of 1.0. Note that CY2020 is now a new high cost year and factors into the Trust Fund adequacy calculations for CY2024.

TABLE 2: SOLVENCY STANDARDS AND PROJECTIONS⁸

CALENDAR YEAR	HIGH COST YEARS	AVERAGE HIGH COST RATE	TOTAL WAGES ⁹ 2 YEARS PRIOR (BILLIONS\$)	TARGET BALANCE (AHCM=1.0) (MILLIONS\$)
2015	1991, 2009, 2010	1.30	\$57.1	\$742.3
2016	1991, 2009, 2010	1.30	\$60.3	\$783.9
2017	1991, 2009, 2010	1.30	\$64.0	\$832.0
2018	1991, 2009, 2010	1.30	\$67.2	\$873.6
2019	1991, 2009, 2010	1.30	\$71.1	\$924.3
2020	1991, 2009, 2010	1.30	\$75.1	\$976.3
2021	2009, 2010, 2020	1.44	\$77.2	\$1,111.7
2022	2009, 2010, 2020	1.44	\$79.9	\$1,150.4
2023	<i>2009, 2010, 2020</i>	<i>1.44</i>	<i>\$88.2</i>	<i>\$1,269.6</i>
2024	<i>2009, 2010, 2020</i>	<i>1.44</i>	<i>\$98.1</i>	<i>\$1,412.4</i>
2025	<i>2009, 2010, 2020</i>	<i>1.44</i>	<i>\$104.7</i>	<i>\$1,507.0</i>
2026	<i>2009, 2010, 2020</i>	<i>1.44</i>	<i>\$108.9</i>	<i>\$1,567.3</i>

Projections in italics

For CY2024, the fund adequacy target is projected to be \$1,412.4 million based on total wages paid in the last available full year, 2022, of \$98.1 billion and an average high cost rate of 1.44. The adequate fund balance will continue to increase as the state’s economy continues to expand and will reach over \$1.56 billion by 2026.

TRANSPARENCY OF FUNDING (PROVISO 83.3)

In accordance with FY2023-24 Appropriations Act Proviso 83.3 this report also provides information on (1) state unemployment taxes collected by tax rate class, (2) unemployment benefit claims paid, (3) how many unemployment claims were made in error, (4) payments made to the federal government for outstanding unemployment benefit loans, and (5) the balance in the state’s UI Trust Fund at fiscal year’s end.

⁸ US Department of Labor: Financial Handbook 394 and Agency calculations—small differences may be due to rounding.

⁹ Assumes 4% total wage growth annually. Numbers will change as economic conditions change. Note that the wages in Table 2 are based on calendar year data while the wages in Table 1 are based on fiscal year information.

TABLE 3: CONTRIBUTIONS BY TAX RATE CLASS, 2022

TAX RATE CLASS	# OF EMPLOYER ACCOUNTS	BASE CONTRIBUTIONS	CONTINGENCY CONTRIBUTIONS	% OF TOTAL CONTRIBUTIONS
1	69,089	\$72,350	\$3,397,729	1.4%
2	925	\$1,920,474	\$653,805	1.0%
3	624	\$2,111,540	\$657,090	1.1%
4	521	\$1,964,705	\$490,773	1.0%
5	622	\$2,409,571	\$597,375	1.2%
6	534	\$2,724,438	\$611,190	1.3%
7	604	\$3,049,135	\$621,015	1.4%
8	638	\$2,975,902	\$518,790	1.4%
9	462	\$3,998,526	\$666,540	1.8%
10	624	\$3,724,070	\$545,306	1.7%
11	541	\$4,017,815	\$536,287	1.8%
12	42,339	\$14,396,064	\$1,669,778	6.3%
13	976	\$5,368,772	\$523,948	2.3%
14	920	\$11,054,924	\$587,221	4.6%
15	905	\$10,408,452	\$506,853	4.3%
16	1,058	\$10,792,233	\$476,207	4.4%
17	1,312	\$13,808,598	\$550,812	5.6%
18	1,540	\$13,742,152	\$490,287	5.6%
19	2,281	\$16,690,386	\$538,842	6.8%
20	18,095	\$142,171,335	\$2,141,355	56.6%
TOTAL	144,610	\$267,401,440	\$16,781,202	

TAX COLLECTIONS BY TAX RATE CLASS

Tax rates are set on a calendar year basis in the fall of each year. Tax rates for CY2023 were set in November 2022.

In CY2022, a total of \$267.4 million was collected in the form of total state unemployment taxes based on employer-submitted wage reports. These funds were used to pay unemployment benefits to eligible individuals who were separated through no fault of their own and to continue building the state Trust Fund to the acceptable solvency level as defined in state law. In addition to the base tax rate for benefits, all businesses in the state are also responsible for paying a 0.06% administrative contingency assessment which totaled nearly \$16.8 million for 2022.

Table 3 shows the estimated contributions paid for CY2022 by each tax rate class.

There are a large number of businesses in tax rate class 1 due to the relatively short three-year look back period used to compute a business' experience rating. A majority of businesses in tax rate class 1 are relatively small in size. Approximately 5 percent of the state's taxable wages (excluding new businesses and delinquent accounts) are assigned to each category. Businesses with less than 12 months of liability are assigned a new business tax rate of class 12. This accounts for the large volume of

businesses in that category in Table 3. Any business with a delinquent wage and contribution report or delinquent unemployment taxes is assigned to rate class 20, which accounts for the larger volume of businesses in that category.

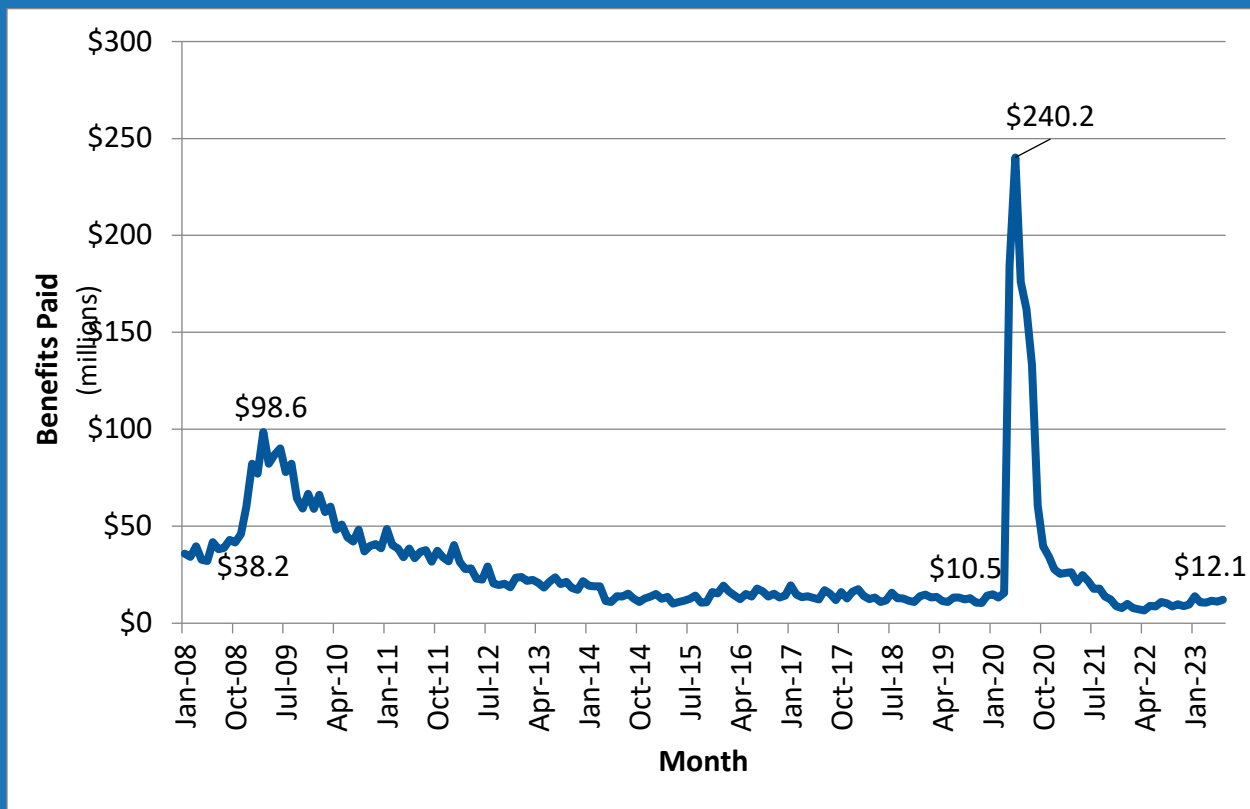
STATE UNEMPLOYMENT BENEFITS PAID

State unemployment taxes fund up to 20 weeks of unemployment benefits to individuals who are out of work through no fault of their own. Prior to June 2011, the state unemployment taxes funded up to 26 weeks of unemployment benefits. Due to the reduction in the number of weeks available, continued job growth, economic improvement in the state, and stricter disqualification

penalties being implemented, benefit payments have come down substantially from their height in 2009.

Figure 2 shows the benefits paid by month from January 2008 through June 2023. Monthly benefit payments reached a peak in the Great Recession in March 2009 at over \$98 million. Benefit payments reached over \$240 million in the month of May 2020 as pandemic-related shutdowns of certain types of businesses had their most significant impact. As of June 2023 that number had fallen to \$12.1 million. Figure 2 does not include any federal unemployment benefit payments.

FIGURE 2: MONTHLY UI BENEFIT PAYMENTS, JAN 2008 – JUN 2022¹⁰



¹⁰ US Department of Labor, <https://oui.doleta.gov/unemploy/claimssum.asp>

UNEMPLOYMENT INSURANCE IMPROPER PAYMENTS

IMPROPER PAYMENTS

The Integrity Unit is responsible for preventing, detecting and recouping any improper payments to claimants from the UI program. These improper payments include both overpayments and underpayments. They also include both fraud and non-fraud overpayments.

Historically, a majority of improper UI payments result from claimants who do not report wages earned when they file for UI benefits. DEW discovers the vast majority of these overpayments by cross-matching claims data against the wage reports South Carolina employers submit each quarter and by cross-matching data from the State Directory of New Hires. These tools, however, alert DEW of the improper payment after it has occurred. Further, DEW is required by federal law and due process standards to investigate each potential improper payment and afford the claimant a reasonable amount of time to respond before determining the payments were improper. The amount of time between the start of the improper payment and DEW's discovery, investigation, and adjudication of the improper payment will increase the amount of the improper payment.

RECOUPMENT

DEW has several means of collecting any overpayments made to claimants. Some of the most successful include the federal and state income tax refund intercept programs (TOPs and SOD). Involuntary wage withholding after the claimant returns to work is another avenue for collection for those who do not repay their overpayments or fail to enter into repayment agreements. Overpaid individuals have the option to repay their benefits securely and easily online. As overpayments increase, overpayment collections also tend to rise as there are more overpayments that are collectable. Note that collection efforts for overpayments detected in CY2020-CY2022 will continue to occur in future years, which may result in larger recoupment values in the coming years relative to the amount of benefits paid.

FY2022-FY2023

Table 4 provides information on the number of fraud and non-fraud overpayment cases detected by the unit for the period FY2022 through FY2023 as well as the dollar amounts associated with the overpayments. The higher numbers in FY2022 are largely the result of the subsequent discovery that payments made at the start of the pandemic (the last two quarters of FY2020) were improper.

TABLE 4: OVERPAYMENTS, FY2022 – FY2023¹¹

	Fraud		Non-Fraud		Total	
	FY22	FY23	FY22	FY23	FY22	FY23
Cases	2,932	1,597	14,035	8,834	16,967	10,431
Dollars	\$8.8m	\$5.0m	\$14.8m	\$5.4m	\$23.6m	\$10.4m
Recouped	\$3.8m	\$3.8m	\$3.3m	\$5.7m	\$7.1m	\$9.5m
NET	\$5.0m	\$1.2m	\$11.5m	-\$0.3m	\$16.5m	\$0.9m

UNEMPLOYMENT INSURANCE LOAN PAYMENTS

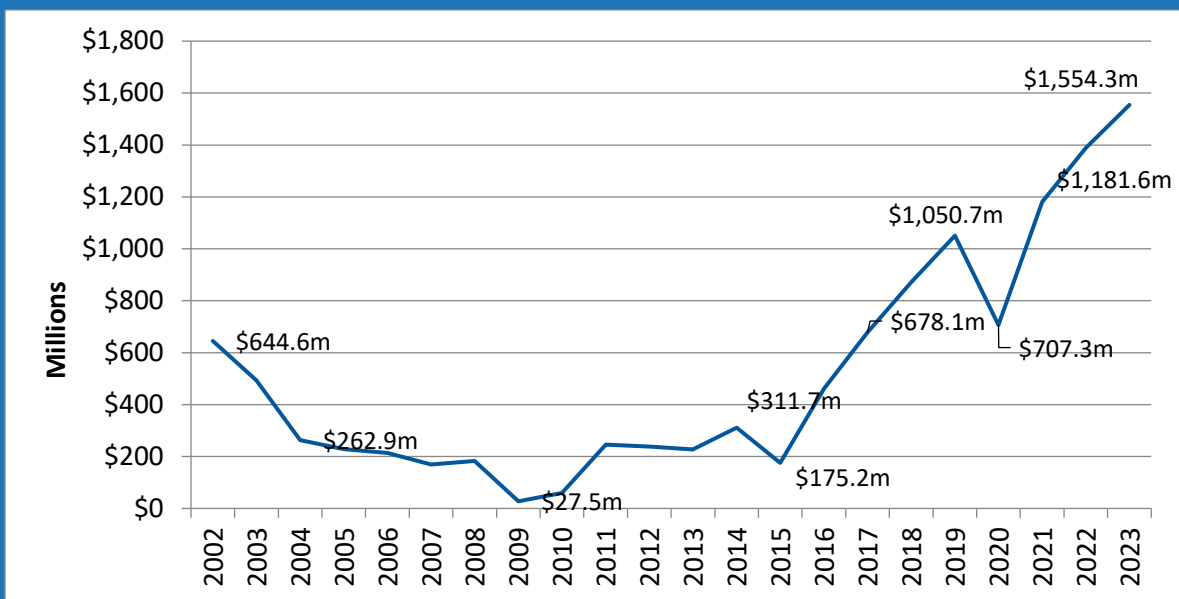
No federal loans were required or repaid during FY2023.

¹¹ ETA227 overpayment detections for fraud and non-fraud

UNEMPLOYMENT INSURANCE TRUST FUND BALANCE

As of June 30, 2023, there was an unadjusted balance of \$1,554,293,460¹² in the state's UI Trust Fund held at the US Treasury in Washington, DC. As shown in Figure 3, the balance in the UI Trust Fund declined steadily between June 30, 2002 and June 30, 2011 but has recovered over the past ten years. Not shown is that these balances include loans between 2009 and 2015. The Trust Fund balance as of June 30, 2015 does not include any outstanding loans as they were repaid in full on June 11, 2015. The timing of the last loan payment accounts for the lower Trust Fund total in 2015 compared to 2014. The onset of the COVID-19 pandemic accounts for the significant dip in the Trust Fund balance in 2020. The addition of \$836.4 million in CARES Act funding restored the Trust Fund balance to pre-pandemic levels.

FIGURE 3: UI TRUST FUND BALANCE AS OF JUNE 30, 2002–2023



CONCLUSION

The state's Trust Fund remains fully funded at the end of FY2023. This funding allowed South Carolina to freeze tax rates for tax year 2021, maintain an adequate fund balance, and avoid the need to borrow money from the federal government, as was done between 2008 and 2011. The balance in the Trust Fund is likely able to withstand any economic turndown that may occur as a result of Federal Reserve action to tame inflation.

¹² Account Statement June 2023: <https://www.treasurydirect.gov/govt/reports/tbp/account-statement/report.html>



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