

MAY 2011 UNEMPLOYMENT INSURANCE (UI) FUND FORECAST

INTRODUCTION

This report provides the status of the UI Fund and includes information on the current and projected fund balance, receipts, disbursements, and contribution rates.

The UI Fund deficit was \$6.2 billion at the end of 2009, and \$9.8 billion at the end of 2010. The UI Fund is projected to have a deficit of \$11.1 billion at the end of 2011. This includes the addition of \$839 million in incentive funds from the American Recovery and Reinvestment Act (ARRA) of 2009 that will be applied to offset the deficit in 2011 Q2. The deficit will increase to \$12.7 billion at the end of 2012 if changes are not made to the financing structure.

Unemployment levels are projected to be 2,186,000 in 2011 and 2,044,000 in 2012 compared to the actual unemployment level of 2,082,000 in 2009 and 2,270,000 in 2010. The UI regular benefit payments covered by the State's UI fund were \$11.3 billion in 2009 and \$9.0 billion in 2010. The UI regular benefit payments are forecasted to be \$7.9 billion in 2011, and \$7.7 billion in 2012. The latest figures for the Total Unemployment Rate (TUR) has the Federal-State extended (FED-ED) Unemployment Compensation Act of 1970 triggered on through January 8, 2012. Normally, under the FED-ED program, each state is responsible for fifty percent of the benefit payments. However, with the passage of the "Tax Relief, Unemployment Insurance Reauthorization, and Job Creation Act of 2010," states are not required to fund any part of the FED-ED benefits. Consequently, even with the FED-ED trigger on, there is no financial impact to the UI Trust Fund for extended benefits.

There was an additional \$8.9 billion in 2009, \$13.6 in 2010, and an estimated \$10.0 billion in 2011 and \$1.2 billion in 2012 of extended benefits and Federal Additional Compensation that are fully federally funded.

Total receipts for the UI Fund were \$4.8 billion in 2009, \$5.4 billion in 2010, and are projected to be \$6.6 billion in 2011, and \$6.1 billion in 2012.

For 2011, employers' UI contributions are based on the "F" contribution rate schedule plus a 15 percent surcharge, which is required by current statute when the UI Trust Fund reserve ratio dips below a specified level. Employers will remain on this contribution rate schedule for 2012. Also in 2012, the amount owed to the Federal Government on the outstanding loan will be reduced due to the Federal Unemployment Tax Act (FUTA) credit reduction. This occurs when the State UI Fund is in deficit for two consecutive years. The estimated FUTA credit reduction due in the beginning of 2012 is \$301.6 million. This represents a loss of 0.3% FUTA tax credit in 2011. The President has proposed legislation to delay the FUTA credit reduction for two calendar years and if passed, the first FUTA credit reduction payment would not be due until the beginning of 2014.

Beginning on January 26, 2009, California began borrowing from the Federal Government to pay UI benefits. As part of the ARRA, interest owed on borrowed funds is waived through December 2010. Interest will begin accruing on January 1, 2011, and repayment to the Department of Labor would need to occur no later than September 30, 2011. The estimated interest due on September 30, 2011, is \$306.7 million and \$459.2 million on September 30, 2012.

The data contained within the following pages of this document represent only projections to the California UI Trust Fund and does not include any of the unemployment benefit dollars paid for by the Federal Government.

FUND BALANCE

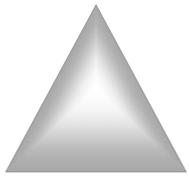
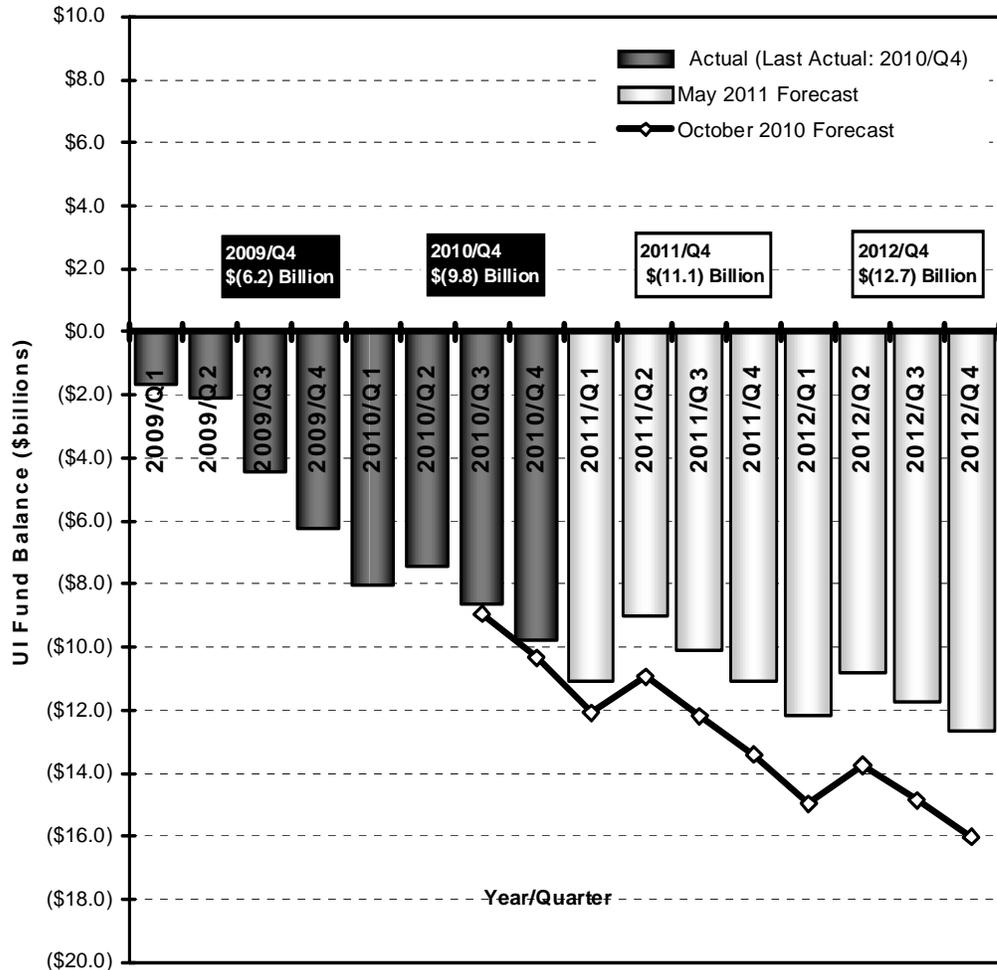
The UI Fund balance had a deficit of \$6.2 billion at the end of 2009, a deficit of \$9.8 billion at the end of 2010, a projected deficit of \$11.1 billion at the end of 2011, and a projected deficit of \$12.7 billion at the end of 2012, if no changes are made to the financing structure.

The combination of a decrease in weeks compensated, along with a drop in the average weekly benefit amount have resulted in a lower projected benefits paid forecast and a decrease in the fund balance deficit from the October 2010 Fund Forecast.

This fund forecast includes an addition of \$839 million in 2011 of American Recovery and Reinvestment Act (ARRA) of 2009 to offset the deficit. Proposals are being reviewed that, if approved, will appropriate some of the ARRA funds for administrative purposes.

The chart below shows the projected quarterly UI Fund balance through 2012. These estimated balances could change depending upon actual employment levels and claims filed.

UI Fund Balance 2009 - 2012



The UI Fund has a projected deficit of \$11.1 billion at the end of 2011.

DISBURSEMENTS, REGULAR UI BENEFITS

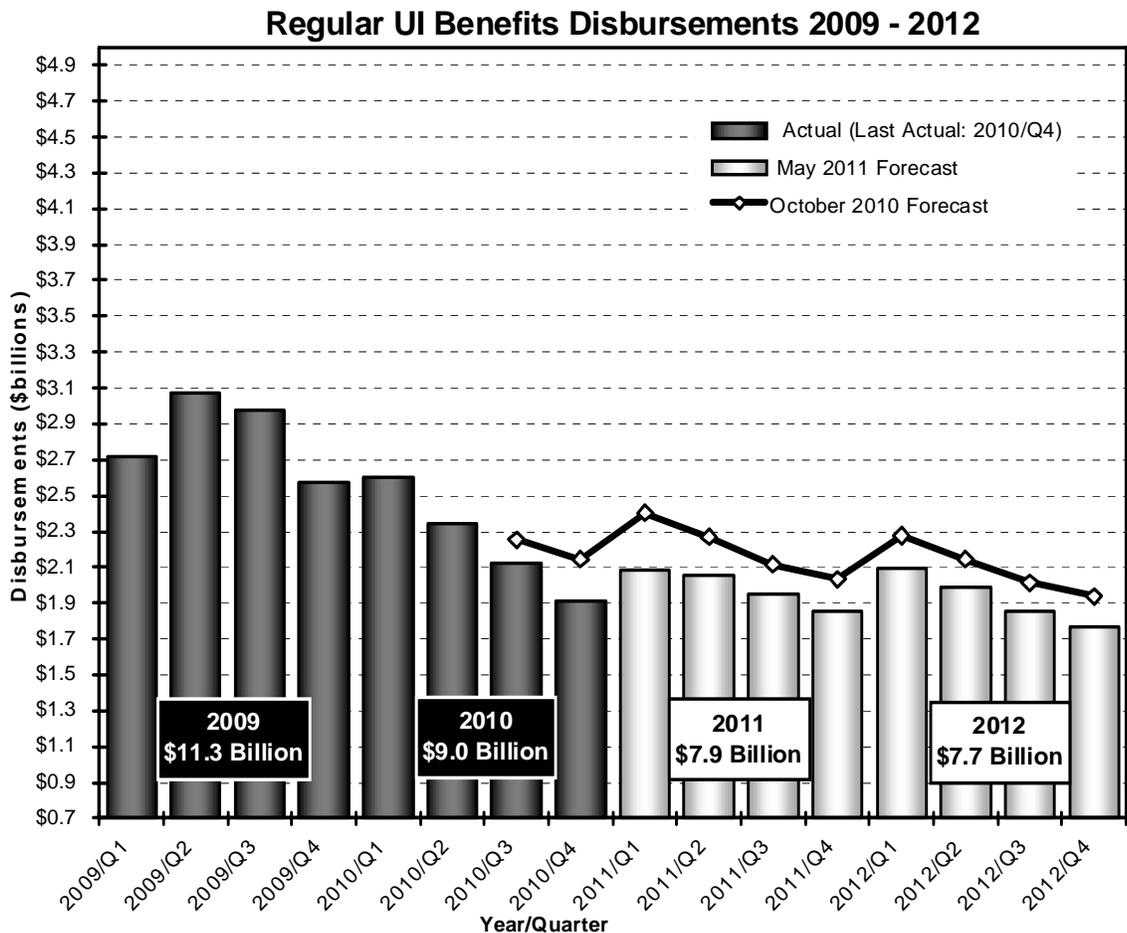
Total regular UI benefit payments were \$11.3 billion for 2009, and \$9.0 billion in 2010. Regular UI benefit payments are projected to be approximately \$7.9 billion in 2011, and \$7.7 billion in 2012. The projected decrease in benefit payments for 2011 is due to a projected decrease in the number of weeks paid.

While regular UI benefit amounts are significantly decreasing since the peak of the recession, even if and when the disbursement levels reach pre-recessionary levels, the current financing system cannot self-correct during better economic times because of the significant deficit owed.

The FED-ED is currently triggered on and is expected to remain triggered on until January 8, 2012. Under federal law signed December 17, 2010, the state is not liable for any benefits paid for FED-ED.

The chart below shows the projected quarterly disbursements through 2012. These estimated disbursements could change depending upon actual claims filed.

Regular UI benefit payments are projected to be \$7.9 billion in 2011.

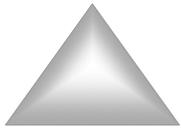


EMPLOYER CONTRIBUTIONS

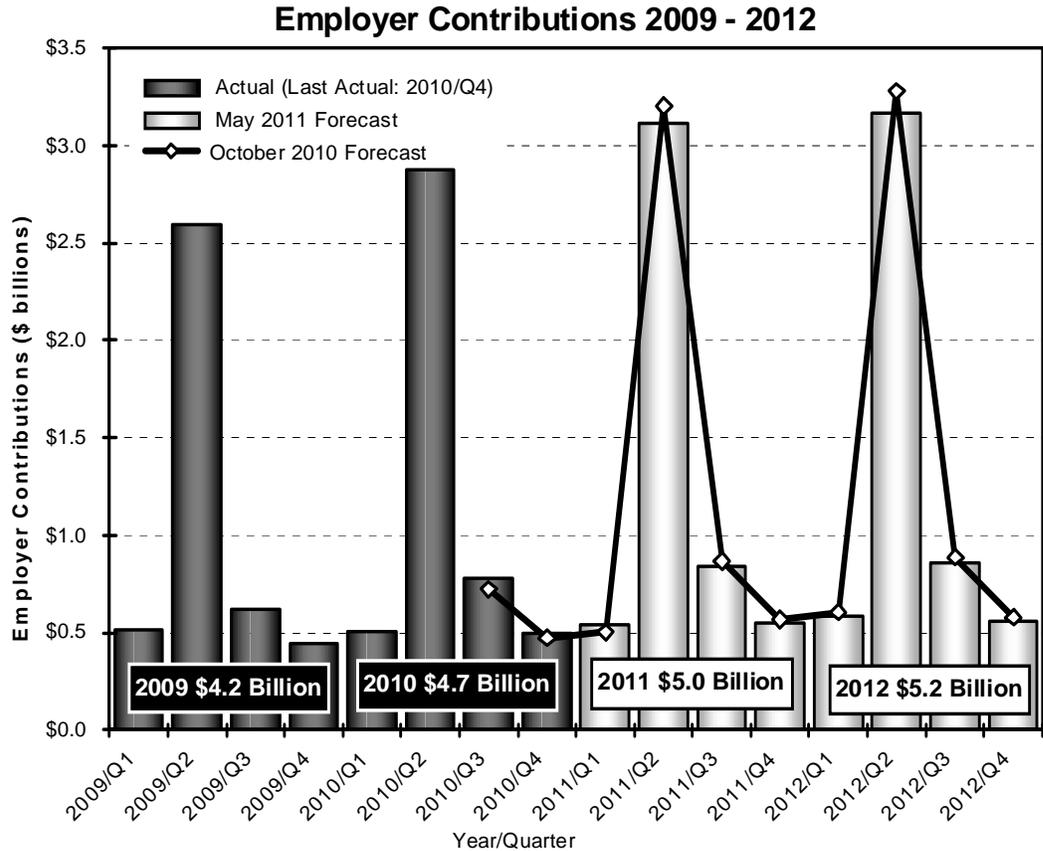
Employer contributions were \$4.2 billion in 2009, \$4.7 billion in 2010, and are projected to be \$5.0 billion in 2011, and \$5.2 billion in 2012. Total receipts were \$4.8 billion in 2009, \$5.4 billion in 2010, and are projected to be \$6.6 billion in 2011, and \$6.1 billion in 2012. Total receipts include employer contributions, interest, reimbursements, and other receipts. (See Table 1, page 5).

Employers are currently on the “F” contribution rate schedule, plus a 15 percent surcharge in 2011. Employers are projected to be on the same schedule in 2012. (Refer to page A4 in the Appendix for an explanation of the contribution rate schedules.)

The following chart shows the projected quarterly employer contributions through 2012. These estimated employer contributions could change depending upon actual employment levels.



Employer contributions are projected to total \$5.0 billion in 2011.



UNEMPLOYMENT INSURANCE FUND
FORECAST FOR CALENDAR YEARS 2011 – 2012

Table 1*
(Dollars in millions)

	2009	2010	2011(F)	2012(F)
YEAR END FUND BALANCE	(\$6,216.2)	(\$9,786.5)	(\$11,083.3)	(\$12,677.9)
Fund Balance as a Percentage of:				
Receipts	-	-	-	-
Employer Contributions	-	-	-	-
Disbursements	-	-	-	-
RECEIPTS PLUS FUTA CREDIT REDUCTION PLUS ARRA MINUS DISBURSEMENTS	(\$6,542.4)	(\$3,570.3)	(\$1,296.8)	(\$1,594.7)
RECEIPTS	\$4,789.9	\$5,423.4	\$5,809.4	\$5,807.0
Employer Contributions	\$4,173.5	\$4,666.7	\$5,043.7	\$5,167.3
Interest	\$2.3	(\$0.3) (a)	(\$1.0) (a)	\$0.0
Reimbursements	\$555.7	\$746.2	\$722.0	\$650.8
Other Receipts	\$58.4 (b)	\$10.8 (b)	\$44.7 (b)	(\$11.1) (b)
FUTA CREDIT REDUCTION	\$0.0	\$0.0	\$0.0	\$301.6
ARRA	\$0.0	\$0.0	\$839.0 (c)	\$0.0
DISBURSEMENTS	\$11,332.2	\$8,993.7	\$7,945.2	\$7,703.3
Regular Benefits	\$11,332.2	\$8,973.0	\$7,942.2	\$7,703.3
Other	\$0.0	\$20.7 (d)	\$3.0 (d)	\$0.0

(F) Forecast Last actual data through fourth quarter of 2010. Bolded numbers are estimates.
Totals may not be exact due to rounding.

- (a) Net Fund Interest Adjustment for the prior calendar year.
- (b) This includes undisbursed Reed Act funding set aside for UI automation.
- (c) American Recovery and Reinvestment Act (ARRA) funds received to offset the Trust Fund Balance.
Proposals are being reviewed that, if approved, will appropriate some of the ARRA funds for administrative purposes.
- (d) Other Disbursements include the REED Act Distributions Financing Act of 1954 (Admin) and Miscellaneous Disbursements.

* The basis for the projections in this fund forecast is the January 2011 Labor Market Information Division (LMID) economic outlook. This forecast will be updated in October 2011 and may change depending upon actual employment levels, claims filed, and legislative changes.

UNEMPLOYMENT INSURANCE FUND
FORECAST FOR CALENDAR YEARS 2010 - 2012
Table 2

	2009	2010(F)	2011(F)	2012(F)
CLAIM ACTION				
New Claims (a)	2,825,357	2,789,157	2,528,000	2,346,000
First Payments	1,871,239	1,573,618	1,542,000	1,476,000
Weeks Compensated	37,872,703	31,684,436	29,043,000	27,429,000
Average Duration	20.2	20.1	18.8	18.6
Weekly Benefit Amount				
Maximum/Minimum	\$450/\$40	\$450/\$40	\$450/\$40	\$450/\$40
Average (All Claimants)	\$299	\$283	\$276	\$281
COVERED WAGES				
Total Wages (Less Reimbursables) (In billions)	\$579.6	\$588.7	\$606.2	\$622.0
Average Weekly Wage	\$969	\$969	\$973	\$1,024
Taxable Wages (In billions)	\$99.7	\$99.5	\$100.5	\$102.1
Percent of Total Wages	17.2%	16.9%	16.6%	16.4%
Regular Benefits/Taxable Wages	11.4%	9.0%	7.9%	7.5%
EMPLOYER CONTRIBUTION FACTORS				
Taxable Wage Ceiling	\$7,000	\$7,000	\$7,000	\$7,000
Contribution Rate Schedule	F+	F+	F+	F+
Average Contribution Rate (b)	4.18%	4.81%	5.06%	5.07%
EMPLOYMENT				
Average Covered Employment	14,371,888	14,178,000	14,352,000	14,878,000
Reimbursables - Average Covered Employment	2,867,867	2,853,000	2,838,000	2,942,000
All Others - Average Covered Employment	11,504,021	11,325,000	11,514,000	11,936,000
Contributions/Employment All Others	\$363	\$412	\$438	\$433
CALIFORNIA LABOR DATA (c)				
Civilian Labor Force	18,252,000	18,242,000	18,366,000	18,683,000
Unemployment Level	2,082,000	2,270,000	2,186,000	2,044,000
Civilian Unemployment Rate	11.4%	12.4%	11.9%	10.9%

(F) Forecast: Last actual data for wages and employment through second quarter 2010. Last actual data for all other items through the fourth quarter 2010. Bolded numbers are estimates.

Totals may not be exact due to rounding.

(a) This includes intrastate, interstate, and transitional claims.

(b) The average contribution rate is calculated based on contributions from April - March each year. This varies from the average contribution rate reported to the Department of Labor that is calculated based on calendar year contributions.

(c) California Labor Data is from the Labor Market Information Division's January 2011 economic outlook.

A P P E N D I X

UNEMPLOYMENT INSURANCE (UI) DEFINITIONS

The definitions below are informational only and arranged in the order of their appearance in Tables 1 and 2. The law is the California Unemployment Insurance Code (CUIC). Interpretations of the law are contained in opinions of the Attorney General, administrative and court decisions, and Title 22 of the California Code of Regulations.

YEAR-END FUND BALANCE

The sum of all money remaining in the Unemployment Fund at the end of the year after all receipts and disbursements have been recorded but before the unamortized balance invested in capital assets is recorded.

RECEIPTS

Receipts:

This includes all income to the Unemployment Fund. Receipt items are on an “as received” basis rather than on an “as earned” basis.

Employer Contributions:

Contributions paid by an employer based on a contribution rate derived from the Experience Rating System. This system determines each individual employer’s contribution rate based on the employer’s employment experience and the condition of the UI Trust Fund. New employers are required to pay a rate of 3.4 percent for up to three years. (See Employer Contribution Factors on page A4.)

Interest:

Income produced by investing a portion of the Unemployment Fund. This investment is made by the federal government and California has no discretion in investment decisions.

Reimbursements:

Amounts received from employers (nonprofit organizations, state and local governments) required to reimburse the Unemployment Fund for benefits paid to their former employees.

Other Receipts:

Includes receipts from miscellaneous adjustments such as insurance checks reverted.

Federal Unemployment Tax Act (FUTA) Credit Reduction:

If a state has an outstanding UI loan on January 1 for two consecutive years, the state must repay the loan by November 10 of the second year or the state’s employers will have their federal tax credit reduced in increments of 0.3% per year. The full federal UI tax rate is 6.2%. Employers receive a 5.4% credit, resulting in an effective tax rate of 0.8% on the first \$7,000 of earnings per employee on an annual basis, or \$56 per employee. Additional offset credit reductions may apply to a state beginning with the third taxable year if a balance is still outstanding and certain criteria are not met.

American Recovery and Reinvestment Act (ARRA) of 2009:

An act, signed into law February 17, 2009, making supplemental appropriations for job preservation and creation, infrastructure investment, energy efficiency and science, assistance to the unemployed, and State and local fiscal stabilization.

DISBURSEMENTS

Disbursements:

All money paid from the Unemployment Insurance Trust Fund.

Regular Benefits:

Disbursements made to UI claimants under the authority of Division 1, Part 1, of the CUIIC. This includes only benefits paid under the California UI program from the UI Trust Fund. Regular benefits paid from the Federal Unemployment Benefit Account, which is separate from the California UI Trust Fund, including Unemployment Compensation for Federal Employees (UCFE) and Unemployment Compensation for Ex-Service Persons (UCX) programs or any combination of these programs are excluded. Benefits paid under extended benefit programs are also excluded.

- ◆ UI: A state program that provides benefits to individuals covered under state and federal unemployment compensation laws.
- ◆ UCFE: The federal program of unemployment compensation for federal employees.
- ◆ UCX: The federal program of unemployment compensation for ex-service personnel.

Federal-State Extended (FED-ED) Unemployment Compensation Act of 1970:

The FED-ED Program is available in every State and provides one-half of a claimant's total State benefits up to 13 weeks in States with an activated program, for a combined maximum of 39 weeks of regular and extended benefits. Weekly benefit amounts are identical to the regular State Unemployment Compensation for each claimant, and Federal funds pay half the cost. The program activates in a State under one of two conditions: (1) if the State's 13-week average insured unemployment rate (IUR) in the most recent 13 weeks is at least 5.0 percent and at least 120 percent of the average of its 13-week IURs in the last two years for the same 13-week calendar period; or (2) if its current 13-week average IUR is at least 6.0 percent.

California legislation modified the trigger from IUR to Total Unemployment Rate (TUR) effective February 1, 2009, in order to receive the maximum reimbursement, up to 20 weeks, from the federal government for emergency benefits. California became eligible when the State's TUR exceeded 6.5 percent. Current Legislation covers FED-ED benefits through January 8, 2012.

Federal Emergency Unemployment Compensation (EUC) Benefits:

July 2008 Federal legislation for all states provided up to 13 weeks of extended benefits for workers who exhausted their regular UI benefits. November 2008 Legislation added up to seven weeks to the earlier extension (EUC Tier I), for a total of up to 20 weeks. These added benefits are only payable for weeks beginning on or after November 23, 2008, and included a second extension (EUC Tier II) of up to 13 weeks for high unemployment states, which includes California, and also added an extra \$25 of UI benefits for each week a claimant is eligible for at least \$1 in UI benefits, also known as the Federal Additional Compensation (FAC). February 2010 legislation added additional extensions including Tier III (an additional 13 weeks), Tier IV (an additional 6 weeks), and an additional week to Tier II. For Tier II, an additional week of benefits was added to the original 13 weeks for a total of 14 weeks. The "Tax Relief, Unemployment Insurance Reauthorization, and Job Creation Act of 2010", enacted December 17, 2010, ensured these 100% federally funded EUC benefits would

continue through 2011. The last date to file EUC Tier I now stands at December 25, 2011. The last filing date for EUC Tiers II through IV is January 1, 2012. The last payable date for these claims is June 15, 2012. FAC benefits expired as of December 11, 2010.

CLAIM ACTION

New Claims:

An application for determination of eligibility for benefits, weekly amount, and award which certifies either the beginning of a first period of unemployment within a benefit year, or the continuance of a period of unemployment into a new benefit year.

First Payments:

The first benefit payment made to a claimant in his/her benefit year.

Weeks Compensated:

The total number of weeks of unemployment for which regular benefits are paid.

Average Duration:

The number of weeks of benefits paid divided by the first payments.

Weekly Benefit Amount (WBA): Maximum/Minimum:

Per Section 1280 of the CUIC, effective January 1, 2005, the maximum weekly benefit amount is \$450. The minimum weekly benefit amount is \$40.

Average Weekly Benefit Amount (AWBA):

For all claimants, regular benefits divided by the number of weeks compensated including full, partial, and part-total weekly benefit amounts results in the AWBA.

COVERED WAGES

Total Wages:

All remuneration payable to employees subject to the CUIC for personal services, including tips and gratuities received by workers.

Average Weekly Wage:

Total wages less reimbursable wages divided by average covered employment less reimbursable employment divided by 52.2 weeks.

Taxable Wages:

Portion of total wages subject to taxation under Section 930 of the CUIC. (See Employer Contribution Factors below.)

Percent of Total Wages:

The ratio of taxable wages divided by total wages, expressed as a percentage.

Benefits/Taxable Wages:

The ratio of benefit expenditures to taxable wages. (Reimbursables excluded.)

EMPLOYER CONTRIBUTION FACTORS

Taxable Wage Ceiling:

The maximum remuneration paid to an individual by an employer during a calendar year, which is subject to Section 930 of the CUIC. The taxable wage ceiling is set by state law. The current ceiling is \$7,000.

Contribution Rate Schedule:

Per Section 977 of the CUIC, the Unemployment Insurance contribution rate schedule for the following calendar year is determined by the ratio of the Unemployment Insurance Trust Fund balance on September 30 of the prior calendar year to total covered wages paid for the prior completed state fiscal year.

Unemployment Insurance Trust Fund Balance (September 30)
Total UI Covered Wages (July 1 – June 30)

If the ratio is	Use schedule
Greater than 1.8%	AA
From 1.8% to more than 1.6%	A
From 1.6% to more than 1.4%	B
From 1.4% to more than 1.2%	C
From 1.2% to more than 1.0%	D
From 1.0% to 0.8%	E
From less than 0.8% to 0.6%	F
Below 0.6%	F schedule plus 15%

Contribution Rate Schedule:

The following tables are used to determine each employer’s contribution rate based on its reserve ratio and the schedule in effect for the year.

Line	Reserve Ratio		Contribution Rate Schedules								
	Column 1	Column 2	AA	A	B	C	D	E	F	F+ 15%	
01	less than	-20	5.4	5.4	5.4	5.4	5.4	5.4	5.4	5.4	6.2
02	-20 to	-18	5.2	5.3	5.4	5.4	5.4	5.4	5.4	5.4	6.2
03	-18 to	-16	5.1	5.2	5.4	5.4	5.4	5.4	5.4	5.4	6.2
04	-16 to	-14	5.0	5.1	5.3	5.4	5.4	5.4	5.4	5.4	6.2
05	-14 to	-12	4.9	5.0	5.3	5.4	5.4	5.4	5.4	5.4	6.2
06	-12 to	-11	4.8	4.9	5.2	5.4	5.4	5.4	5.4	5.4	6.2
07	-11 to	-10	4.7	4.8	5.1	5.3	5.4	5.4	5.4	5.4	6.2
08	-10 to	-09	4.6	4.7	5.1	5.3	5.4	5.4	5.4	5.4	6.2
09	-09 to	-08	4.5	4.6	4.9	5.2	5.4	5.4	5.4	5.4	6.2
10	-08 to	-07	4.4	4.5	4.8	5.1	5.3	5.4	5.4	5.4	6.2
11	-07 to	-06	4.3	4.4	4.7	5.0	5.3	5.4	5.4	5.4	6.2
12	-06 to	-05	4.2	4.3	4.6	4.9	5.2	5.4	5.4	5.4	6.2
13	-05 to	-04	4.1	4.2	4.5	4.8	5.1	5.3	5.4	5.4	6.2
14	-04 to	-03	4.0	4.1	4.4	4.7	5.0	5.3	5.4	5.4	6.2
15	-03 to	-02	3.9	4.0	4.3	4.6	4.9	5.2	5.4	5.4	6.2
16	-02 to	-01	3.8	3.9	4.2	4.5	4.8	5.1	5.4	5.4	6.2
17	-01 to	00	3.7	3.8	4.1	4.4	4.7	5.0	5.4	5.4	6.2
18	00 to	01	3.4	3.6	3.9	4.2	4.5	4.8	5.1	5.1	5.9
19	01 to	02	3.2	3.4	3.7	4.0	4.3	4.6	4.9	4.9	5.6
20	02 to	03	3.0	3.2	3.5	3.8	4.1	4.4	4.7	4.7	5.4
21	03 to	04	2.8	3.0	3.3	3.6	3.9	4.2	4.5	4.5	5.2
22	04 to	05	2.6	2.8	3.1	3.4	3.7	4.0	4.3	4.3	4.9
23	05 to	06	2.4	2.6	2.9	3.2	3.5	3.8	4.1	4.1	4.7
24	06 to	07	2.2	2.4	2.7	3.0	3.3	3.6	3.9	3.9	4.5
25	07 to	08	2.0	2.2	2.5	2.8	3.1	3.4	3.7	3.7	4.3
26	08 to	09	1.8	2.0	2.3	2.6	2.9	3.2	3.5	3.5	4.0
27	09 to	10	1.6	1.8	2.1	2.4	2.7	3.0	3.3	3.3	3.8
28	10 to	11	1.4	1.6	1.9	2.2	2.5	2.8	3.1	3.1	3.6
29	11 to	12	1.2	1.4	1.7	2.0	2.3	2.6	2.9	2.9	3.3
30	12 to	13	1.0	1.2	1.5	1.8	2.1	2.4	2.7	2.7	3.1
31	13 to	14	0.8	1.0	1.3	1.6	1.9	2.2	2.5	2.5	2.9
32	14 to	15	0.7	0.9	1.1	1.4	1.7	2.0	2.3	2.3	2.6
33	15 to	16	0.6	0.8	1.0	1.2	1.5	1.8	2.1	2.1	2.4
34	16 to	17	0.5	0.7	0.9	1.1	1.3	1.6	1.9	1.9	2.2
35	17 to	18	0.4	0.6	0.8	1.0	1.2	1.4	1.7	1.7	2.0
36	18 to	19	0.3	0.5	0.7	0.9	1.1	1.3	1.5	1.5	1.7
37	19 to	20	0.2	0.4	0.6	0.8	1.0	1.2	1.4	1.4	1.6
38	20 or more		0.1	0.3	0.5	0.7	0.9	1.1	1.3	1.3	1.5

Average Contribution Rate:

The average of the rates assigned to all employers at the beginning of the year.

EMPLOYMENT

Average Covered Employment:

The monthly average of the number of workers who earned wages in employment subject to the unemployment compensation provisions of the CUIC.

Reimbursables:

The average number of workers whose employers reimburse the Unemployment Fund (dollar for dollar) for all benefit payments that are attributed to their employment and wages.

All Others:

The average number of workers whose employers are subject to the regular unemployment tax.

Contributions/Employment All Others:

All employer contributions divided by the average covered employment, which excludes reimbursables, provides an average cost per non-reimbursable employee.

CALIFORNIA LABOR DATA

Civilian Labor Force:

Those individuals, 16 years of age and older, who were working or actively seeking work.

Unemployment Level:

Comprised of non-institutionalized civilians who did not work, but made specific efforts to find a job.

Civilian Unemployment Rate:

The number of unemployed persons in California expressed as a percentage of the total number of persons in the California civilian labor force.