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Michigan's Unemployment Trust Fund

- **Status of Michigan's Unemployment Trust Fund December 2011**
  - Michigan owed $3.2 billion in Trust Fund loans (Title XII) to the United States Treasury
  - Federal penalties continued to rise and Michigan was unable to repay the interest
    - Penalties incurred were specifically used to repay the debt and could not be used to build a sustainable Trust Fund
    - Michigan had to borrow from the General Fund to repay interest owed to the United States Treasury
- **Impact on Michigan employers**
  - Michigan was left with a $117 million unfunded interest liability owed to the United States Treasury in 2012
    - Potential of a $250 million unfunded interest liability through 2017
  - Federal Unemployment Tax Act (FUTA) credit reduction penalty would cost employers $264 million in 2012
    - States receive a 5.4% credit if there is no Federal loan balance outstanding
    - After two consecutive years with an outstanding balance, FUTA credit reduction penalty is triggered
    - Penalty is .3% each year a balance remains
      - Michigan's penalty would have been 1.2% in 2012 ($84 per employee)
      - Continue to rise $21 per employee each year while Michigan has a Federal loan balance
  - Potential triggering of the Benefit Cost Ratio (BCR) costing employers $739 million
    - Could trigger when states incur 5 years of consecutive borrowing with no repayment
      - 2012 would have been Michigan's 5th consecutive year of Federal borrowing

- **How Michigan's Trust Fund became insolvent**
    - Benefits paid began exceeding contributions collected in 2001
        - From 2008 through 2010 Michigan paid out $7.6 billion in benefits while collecting $4.1 billion in contributions
            - 2008 $2.1 billion in benefits paid
            - 2009 $3.6 billion in benefits paid
            - 2010 $1.9 billion in benefits paid
    - Michigan went from a solvent Trust Fund in 2000 with a $3.1 billion reserve to an insolvent Trust Fund in 2011 with a $3.2 billion deficit
- **What was done to eliminate the Federal debt and gain solvency**
    - Refinance the debt through the bond markets
        - Public act's 267 and 268 allowed Michigan to issue bonds to repay the debt to the United States Treasury
    - Short term variable rate bonds were issued in December 2011 while a long term solution was enacted June 2012
        - Obligation Assessment (OA) was created to repay the bonds
        - Bond repayment is expected to last 7 years
    - **Michigan employers are expected to see a savings of approximately $1 billion over the life of the transaction**
- **Current status**
    - Michigan's Trust Fund is solvent with a balance of $1.5 billion
    - Michigan's economy continues to grow
        - Covered employment has risen on average of 4% since 2009
    - Contributions collected exceeds benefits paid by $450 million in 2012 and 2013
- **Michigan expects to have a positive Trust Fund balance of $2.5 billion by 2017**