



JB Pritzker
Governor

Thomas D. Chan
Acting Director

Illinois Employment Security Advisory Board
December 12, 2019
Minutes

Board Attendees:

Springfield: Mark Denzler
Tim Drea
Joanna Webb-Gauvin

Chicago: James Argionis
John Easton
David Prosnitz

Phone: John Gedney
Rob Karr

With a quorum of the members present, the meeting was called to order by Chairman Argionis.

Agenda:

1. A motion was made to approve the minutes from September 19, 2019. The motion was seconded, and the minutes were approved.
2. Chairman Argionis discussed the prior meeting's postponement of the nomination of a Chairman Pro-Tempore due to the lack of sufficient public members of the ESAB. He suggested a further postponement of the nomination as the meeting still lacked a sufficient number of public members. Hearing no objections, the nomination was postponed.
3. Director's Comments (Tom Chan, Acting Director)

On December 2nd IDES mailed over 325,000 rate determination letters to Illinois employers. We analyzed the results and wanted to share with you a high-level explanation of the changes coming to rates next year. At a high level there are three main takeaways:

- First, for 2020, most of the factors that go into calculating an employer's contribution liability decreased (for example, the maximum tax rate, the taxable wage base, the fund builder rate and the Adjusted State Experience Factor all decreased);
- Second, as George will explain in more detail in a moment, IDES projects it will collect less in contributions in 2020 than it did in 2019;
- Nevertheless, most employers (58%) will actually see a tax increase next year.

Taxable employers fit into two broad categories: new employers and experience rated employers. In general, an employer is considered "new" if it has less than 3 years of experience paying wages. About 20% of employers were considered "new employers" last



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year. For 2020, employers with less than 3 years of experience will pay at a rate of 3.125%, which is a .05% reduction compared to 2019. Employers with 3 or more years of paying wages are “experience rated,” which means they are assigned a rate based on wages paid and unemployment benefits charged to their account. Most employers (about 80%) are experience rated. These employers are subject to minimum and maximum rates, which can change from year to year.

In 2020, the minimum rate is increasing and the maximum rate is decreasing. Employers with the maximum rate will see their rate fall .05% compared to 2019. About 8% of employers will pay at the maximum rate in 2020.

Employers at the minimum rate (about 58%) will see their rate increase. The law causing the minimum tax rate to increase was passed in 2011. That law froze the minimum experience based portion of rates at 0.0% from 2012 through 2019. But in 2020, the minimum experience-based portion of rate is going up to 0.2%. The result is that employers that pay at the minimum rate, which again is about 58% of employers, will see an increase to their rate in 2020.

Those employers between the minimum and the maximum rates, which is about 16% of employers, will also see a comparative reduction due to the lowering of both the State Experience Factor and the Fund Builder. For 2020, the ASEF dropped from 83% to 79% and the fund builder dropped from 0.475% to 0.425%.

Despite this, overall Trust Fund revenue will decline throughout 2020, as George’s projections show. There are a few reasons for this. Our handout attempts to estimate the impact of each rate component change. For example, the change expected to have the biggest impact on revenue is the decrease to the adjusted state experience factor. This reduction is projected to reduce contributions into the trust fund by nearly \$34 million in 2020. The two other big drivers are reductions to the taxable wage base and the fund builder.

The law causing the fund builder and taxable wage base to drop was passed in 2004. This law implemented solvency adjustments, which increase rates when the Trust Fund balance is low and reduce rates when the balance of the trust fund is high. Since the balance of the trust fund is currently above the target balance, the taxable wage base and fund builder rates will be dropping next year.

As a final note, the solvency adjustments also raise or lower the dependent child allowance rate. Since the balance of the trust fund is currently above the target balance, claimants with dependent children will see an increase in their dependent allowance to 17.9% of their average weekly wage, which is up from 17.7% in 2019. Note that 17.9% is the maximum allowed under the Act; but-for this cap, the dependent child allowance would have actually risen to 18% in 2020.



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- Section 706 of the UI Act

When someone files a claim for unemployment benefits, IDES sends notice to the chargeable employer. If the employer has reason to believe that the individual is not eligible for benefits, employers are expected to respond to that notice with information about the separation. When employers fail to respond, benefits may be paid to individuals that are not eligible – which compromises the integrity of the UI system. In short, employers play a crucial role in IDES’s process for determining eligibility. A few years back, federal law was changed to require states to penalize employers that consistently fail to file timely and adequate information in response to a claim for benefits. IDES recently filed rulemaking to implement these federal requirements. Once these rules take effect next year, employers that develop a pattern of filing late or inadequate protests to claims for unemployment benefits will be subject to a new charging penalty that will be used in calculating their contribution rates. Over the next few weeks, IDES will be conducting a series of outreach efforts to make sure employers are aware of the coming changes. Most employers will not be affected by these changes because most employers already do a good job telling IDES about potential eligibility issues. But for those employers that are at risk of being penalized, all they need to do to come into compliance is file a timely protest if they have information that impacts a claimant’s eligibility.

4. Integrity Update (Trina Taylor/Tom Chan)

As of December 1, 2019, the year to date amount of potential improper payments prevented equals a little over \$66 million (66,465,810.00); we have identified over \$ 3 million (3,450,007.31) in overpayments and recovered \$32 million (32,341,847.19).

During prior meetings, there have been discussions regarding IDES being placed on High Priority Status by the Department of Labor starting in July 2017. One significant finding that attributed to Illinois being placed on high priority status was our failure to implement the 15% penalty on fraud overpayments in a timely manner due to the amount of technical and programmatic efforts required. However, as of 12/1/2019, IDES has begun to apply the 15 % penalty on improper payments as a result of fraudulent activities.

As far as our UI performance measures, Illinois continues to meet the majority of our core measures, however we did fall slightly below the acceptable level of performance in our nonmonetary determination quality percentage for separation issues, which can be attributed to the system outage we experienced in July; our overpayment detection and recovery measures also failed to reach the acceptable level of performance during this reporting quarter. As previously reported, we are optimistic that the overpayment recovery rate in addition to our detection rate and determination quality will improve by quarter ending December 31, 2019.

Lastly, representatives from the National Association of State Workforce Agencies (NASWA) UI Integrity Center were on site October 29th and 30th to conduct an analysis of our Benefit

Accuracy Measurement Unit (BAM) and the root cause for our improper payments. The UI Integrity team provided a list of recommendations that will assist in improving our improper payment measure and the process currently used by our BAM unit. IDES UI and Quality management will meet in the upcoming weeks to develop a plan on how to implement the recommendations.

On the Revenue side, IDES continues to make progress towards the two USDOL audit performance standards that it did not meet for 2018: (1) auditing 1% of all contributory employers and (2) auditing at least 1% of total wages. To meet the minimum audit figure for calendar year 2019, IDES needs to average approximately 3,300 audits or about 275 audits per month. From January through November, we averaged 265 audits per month. Our Audit division is still confident it will meet the USDOL target and will utilize overtime throughout the remainder of the year if necessary.

5. Quarterly Financials Presentation (George Putnam)

The state's UTF account ended the 2017 calendar year with a positive balance of \$1.60B and 2018 with a balance of \$1.92B. Year-end balances are projected to remain positive through 2022 – the extent of the forecast horizon – which is expected to close with a balance of \$980M. However, starting in 2019, the account is expected to run annual deficits through the end of the horizon. Finally, IDES continues to test the USDOL/ETA Trust Fund Solvency model to use for comparison to the Agency's model.

6. Open Discussion

There were several questions regarding both the Acting Director's discussion of 2020 rate determinations as well as the integrity reports. David Prosnitz asked what percent of recent benefit charges come from employers who are at the maximum tax rate and what percent of recent unemployment taxes are paid by these employers. Mark Denzler noted that Illinois has seen a drop in its Detection of Overpayments measure from 80% in fiscal year 2017 to approximately 50% today and asked about the cause. Finally, Tim Drea asked why Illinois failed the Tax Quality measure for fiscal years 2017 and 2018. Acting Director Chan stated that a response to these inquiries would be provided to the full board prior to the next ESAB meeting.

Motion to adjourn was made and seconded. The meeting adjourned.