

Employment Security Advisory Board Meeting
Thursday, December 8, 2016
Minutes

Attendees:

Springfield: Mark Grant (proxy for Kim Maisch)
William Potts

Chicago: Jim Argionis
Tim Drea
John Easton
Sharon Thomas-Parrott
David Prosnitz
Jim Nelson (proxy for Greg Baise)

Telephone: Rick Terven

Absent: Tony Garcia
Rob Karr
Michael Simmons

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

Agenda:

- Minutes of the meeting held September 15, 2016, were approved.
- **Director's Comments; Jeff Mays:**
SB 1941 - Last week, the General Assembly passed a bill that would allow for an additional 26 weeks' worth of unemployment benefits to certain steel workers. To qualify, among other things, the steel worker would have to have initiated a claim for regular unemployment benefits between 4/1/2015 and the date the Governor signs the bill and been certified since 1/1/2015 as being impacted by foreign trade. IDES estimates around 1800 individuals have the potential to qualify under the program. IDES understands the urgency of getting the additional benefits out to workers as soon as possible. However, the bill creates a brand new program that potentially involves the payment of tens of millions of dollars, and is not accommodated by the agency's current IT system. A substantial ramp-up will be necessary to take this program from an idea to implementation, with all the necessary safeguards for the state's Unemployment Trust Fund money. Much of the work to implement the program will be manual. The Department will do everything it can to start paying the benefits as soon as possible, including putting current initiatives on hold. However, payments under the program will definitely not begin this calendar year.

Shifting Focus from Unemployment to Employment – The Department is currently developing a pilot for an online self-assessment that claimants could conduct to determine whether their work histories and employment prospects warrant requiring them to participate in reemployment workshops as a condition of receiving benefits. The purpose of the pilot is to determine the reliability of self-assessments.

GenTax – IDES continues to work with the Department of Revenue to incorporate an unemployment tax component into that agency's GenTax system, to establish a fully integrated one-stop tax filing system for employers. The new unemployment tax component is scheduled to go into production mid-September 2017.

Overpayment and Tracking System (OATS) – Cross matches against monthly wage reports and electronic wage verification – both initiatives to help detect individuals who continue to claim benefits after returning to work – are expected to be implemented around the start of the second quarter of calendar year 2017. IDES has also completed the procedural steps necessary to continue recovering benefit overpayments by intercepting federal income tax refunds.

Enterprise Resource Planning (ERP) – IDES is a pilot agency in a statewide initiative that will replace a variety of the agency's legacy IT systems for back-office functions, including accounting, payroll, inventory and administration. ERP went into production in October. All pilot agencies have experienced issues with processing purchase orders, and there are still issues with the obligation process, but we are able to process most payments.

High-Priority Initiative with USDOL – Following up on last quarter's report about being designated as a high-priority state by the US Department of Labor, IDES will meet with USDOL for all of the week beginning 1/30/2017, to develop an agreed game plan for improving Illinois' performance against a number of federal measures that the state has not met regarding unemployment benefits (e.g., promptness of initial benefit payments and eligibility determinations). The performance issues predate the current Administration. USDOL staff appear to agree that many of the program initiatives IDES has already begun since 1/2015 will help address the issues.

2017 Unemployment Tax Rates – IDES has now notified employers of their state unemployment tax rates for 2017. Fewer than nine percent of IL employers will see their rates increase from 2016 to 2017; 47 percent will see their rates decrease; and 51 percent will be at the minimum.

- **Integrity Update; Joe Mueller:**

IDES has employed a variety of measures to identify, prevent and recover improper unemployment benefit payments, including 1) cross matches against a) state driver's license records, b) Social Security records, c) a national data base of incarcerated individuals, d) national and state new hire directories, and e) IDES's online job board (to check work search efforts); and 2) use of the Comptroller's offset at the state level and the federal Treasury Offset Program, to recover amounts due to the system. Beginning November 2011 through 11/30/2016, IDES estimates it has prevented \$701M in potential benefit overpayments, identified \$94M in overpayments and recovered nearly \$174M in overpayments. On the employer side IDES conducted 3,200 employer audits in SFY15, identifying \$296M in net unreported wages and \$6.5M in unreported UI taxes; for SFY16, the Department conducted approximately 3,900 audits, identifying \$162M in net unreported wages and \$3M in unreported taxes. Part of the reason for the drop in return on audits is because a larger share of the FY16 audits were random audits (75%), as opposed to audits triggered by a specific issue – e.g., a benefit assignment audit, which occurs when someone files for benefits, but the agency has no record of wages being reported for that individual. The Department is taking steps to reduce the share of random audits and increase the share of benefit assignment audits.

- **Quarterly Financials Presentation; George Putnam – Unemployment Trust Fund Projections:**

Factoring in more than \$1.5B in proceeds from the 2012 issuance of unemployment insurance bonds, the state's UTF account ended calendar year 2015 with a positive balance of \$1.5B and is projected to end calendar year 2016 with a positive balance of \$1.5B. Year-end balances are projected to remain positive through 2019 – the extent of the forecast horizon – which is expected to close with a balance of \$1.7B. The projections reflect the fact that, following the bond payment scheduled for 12/15/2016, all unemployment insurance bonds still outstanding must be redeemed by 12/2017. Following that redemption, revenues from the fund-building portion of the unemployment tax will again be deposited into the UTF account. The latest projections forecast \$330M less in revenues for the state's Unemployment Trust Fund account through 2019, compared to the projections presented at the 9/15/2016 ESAB meeting. The primary reason for the changes is the Department's decision not to use the forecasting model's average-tax-rate projections for 2017 through 2019. The average-tax-rate projections are a major driver of revenue projections, and there currently appear to be incongruities between the model's average-tax-rate projections and recent experience. For example, the model projects an average tax rate of 3.44 percent for calendar year 2017 - up from the actual average seen so far for calendar year 2016. However, that projection seems difficult to square with the fact that, for 2017, unemployment tax rates will increase for fewer than nine percent of IL employers. To flag the issue – and reduce the potential for overestimating revenues – IDES opted to assume a constant average tax rate of three percent for each of 2017 through 2019, instead of the higher average rates currently projected by the model. Since 3/2015, the Department has been following a multi-step process to reexamine the forecasting model, which, until recently, was based on old Quattro Pro software and had not undergone

significant scrutiny for some time. The agency has now converted the model to Excel, which should permit staff to more thoroughly examine it. The agency has always contemplated that a reexamination of how the model calculates average tax rates would be the next step following the conversion and expects to be able to offer some at least preliminary conclusions by the 3/2017 ESAB meeting.

- **Master Bond Fund Report; Linda DeMore:**

On 7/31/2012, \$1.6B in bond proceeds, net of premium and underwriters' discount, were deposited into the MBF upon closing of the Series 2012 Bonds. A little over \$1.5B was used to repay outstanding federal advances to the UTF account and establish a surplus in that account. The outstanding balance of the Series B bonds will be \$159M as of 12/16/2016, with future scheduled maturity through 12/15/2017 and with early optional redemptions.

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