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TO: HENRY MCMASTER, GOVERNOR OF SOUTH CAROLINA

FROM: G. DANIEL ELLZEY, EXECUTIVE DIRECTOR

SUBJECT: OPTING OUT OF "AGREEMENT IMPLEMENTING THE RELIEF FOR WORKERS AFFECTED BY CORONAVIRUS ACT"

DATE: MAY 6, 2021

I. Background

On May 4, 2021, Montana announced it was using federal funds authorized by the American Rescue Plan Act to issue "return-to-work bonuses" to individuals on unemployment who rejoin the labor force and maintain employment for at least one month. At the same time, Montana also announced that it was fully opting out of the federal unemployment programs enacted in response to the COVID-19 pandemic. This "opt-out" is effective June 27, 2021. Montana cited a low unemployment rate (3.8%), a shrinking labor force (-10,000 people), and high number of job postings as the reasons for its decision.

This memorandum explains the implications in the event South Carolina follows a similar course of action.

II. Federal Programs

South Carolina elected to participate in the six unemployment-related programs in connection with the Coronavirus Aid, Relief, and Economic Security Act and Continued Assistance to Unemployed Workers Act of 2020. The agreement South Carolina signed to initiate these programs allows South Carolina or the United States Department of Labor to terminate the programs upon thirty days' written notice to the other party.

1. Pandemic Unemployment Assistance (PUA) – Section 2102

What It Is: benefits to the self-employed, the underemployed, independent contractors, and individuals who have been unable to work as a direct result of COVID-19. This includes individuals diagnosed with COVID-19 or instructed to quarantine.

How It Would Change: Beginning no sooner than 30 days from the date South Carolina provides written notice to USDOL, South Carolina would stop paying PUA benefits to existing claimants and not process any new PUA claims filed after the expiration of the notice period.

What is the impact: For claim week ending May 1, 2021, 37,284 claimants received PUA benefits for a weekly cost of $6.2 million.

2. **Pandemic Emergency Unemployment Compensation (PEUC) – Section 2107**

What It Is: Extension of unemployment benefits for claimants beyond the traditional 20 weeks by an additional 51 weeks. PEUC allowed claimants to extend their time on unemployment where they normally would have expired.

How It Would Change: Beginning no sooner than 30 days from the date South Carolina provides written notice to USDOL, South Carolina claimants who have exhausted their regular UI benefits would no longer be eligible for payments.

What is the impact: For claim week ending May 1, 2021, 56,318 claimants received PEUC benefits for a weekly cost of $14.6 million; however, approximately 9,300 PEUC would be eligible to move to regular unemployment insurance compensation.

3. **Federal Pandemic Unemployment Compensation (FPUC) – Section 2104**

What It Is: $300 weekly add-on benefit for all types of unemployment assistance.

How It Would Change: Beginning no sooner than 30 days from the date South Carolina provides written notice to USDOL, South Carolina would stop issuing the $300 weekly FPUC benefit payments for weeks after the expiration of the notice period.

What is the impact: For claim week ending May 1, 2021, 108,483 claimants received FPUC benefits for a weekly cost of $37.0 million.

4. **Mixed Earners Unemployment Compensation (MEUC)**

What It Is: $100 weekly add-on benefit for those who are eligible for regular UI benefits, but also earned self-employment income.

How It Would Change: Beginning no sooner than 30 days from the date South Carolina provides written notice to USDOL, South Carolina would stop paying MEUC benefits to existing claimants and stops processing any MEUC claims received after the notice period.

What is the Impact: For claim week ending May 1, 2021, 21 claimants received MEUC benefits for a weekly cost of $34,400.

5. **Emergency Unemployment Relief for Governmental Entities and Nonprofit Organizations – Section 2103**

What It Is: Funding for 75% of UI benefits paid to employees of governmental entities and non-profits. These entities are known as "reimbursable employers" because they reimburse the UI trust fund dollar-for-dollar for any benefits paid to their employees instead of paying UI taxes. The rationale for the program was to lessen the financial burden of COVID-19 shutdowns because these employers would not benefit from capping tax rates and non-charging like other employers would.

How It Would Change: Beginning no sooner than 30 days from the date South Carolina provides written notice to USDOL, South Carolina would stop receiving funding for this program. Reimbursable employers go back to being charged 100% of the benefits DEW pays out to their employees after the expiration of the notice period.

What is the Impact: The funding of benefits for employees of reimbursable employers returns to normal. Reimbursable employers do not have the benefit of federal funding if they still experience a layoff connected to COVID-19. While this provision provided millions of dollars in relief to the reimbursable employers in 2020, the benefit charges of these entities have declined significantly.

6. **Temporary Federal Funding of the First Week of Compensable Regular Unemployment for States with No Waiting Week – Section 2105**

What It Is: Funding for one week of benefits for states that waive the one-week waiting period claimants must typically serve prior to receiving UI benefits. South Carolina waived its statutory waiting week via Executive Order. In South Carolina, the analysis of whether to waive this statutory provision is not tied to federal funding, but to whether the labor market is such that claimants could pursue other employment during that first week of unemployment.

How It Would Change: The Governor rescinds/amends the Executive Order waiving the waiting week. Then, beginning no sooner than 30 days from the date South Carolina provides written notice to USDOL, South Carolina stops receiving funding for this program. The first week of unemployment for claimants who file after the expiration of the notice period would not be compensable.

What is the Impact: New claimants who (1) file after the expiration of the notice period and (2) do not exhaust all benefits receive one less week of benefits than they currently would. Between May 2020 and the end of March 2021, this provision resulted in approximately $88.7 million in funding. However, as state UI claim levels have declined, so too has the benefit of this provision. The state is averaging roughly $400,000 per week in first week waiting reimbursements.

III. Return-to-Work Bonus

In addition to opting out of the federal programs, Montana also decided to pay a return-to-work bonus. Described as an incentive for individuals to reenter the workforce, the bonus is a $1,200 payment to the first 12,500 Montanans with an active unemployment claim as of May 4, 2021, who:

- Discontinue receiving unemployment benefits
- Accept an offer of employment in the state of Montana
- Complete at least four full weeks of paid employment

These equates to a maximum payout of $15 million. Montana plans to use federal stimulus funds authorized by the American Rescue Plan Act to fund this bonus. As we understand it, Montana has reached out to the United States Treasury Department for confirmation that federal funds can be used for this purpose.

IV. Total Financial Impact

Assuming an end to the federal programs as of week ending June 26, 2021, the maximum amount of expected losses in federal funding to the state would be between $600 and $650 million, or around $63 million for each week of lost program time. Most of this would be the result of the end of the FPUC and PEUC programs.

Program	Anticipated 10-Week Funding Loss
PUA	$62.0 million
PEUC	$146.0 million
FPUC	$370.0 million
MEUC	$0.3 million
Reimbursable	$3.0 million
Waiting Week	$4.0 million
Total	**$585.3 million**

The current estimates are based on individuals currently filing and receiving payments. There may also be additional payments owed to individuals who are in pending status or have a future appeal reversal. Thus, the $600 million is the maximum expected loss from ending the program as of June 26, 2021.

These potential losses will be offset, to some extent, by individuals returning to work. There are currently more than 80,000 open jobs in the state. It is not possible to predict which individuals will go back, how quickly, or at what wage levels. But assuming that between 30 and 50 percent of the current unemployment claimants return to work at an average weekly wage of $500, between $223 and $372 million in wages could be earned over the ten week period between June 27th and September 4th. These earnings do not take into account any additional fringe benefits, which could include health benefits, retirement benefits, etc. Additionally, as the economy continues to recover, it is expected that more job openings will become available and be filled.

V. Other Considerations

1. *Declining claimant numbers:* The number of individuals drawing benefits will be decreasing rapidly regardless of whether South Carolina opts out of federal programs. 28,000 PUA claimants were required to provide documentation and did not. Therefore, they have disqualified themselves from benefits. We are also enforcing the requirement to search for work more aggressively. Lastly, we are engaging in broad reemployment efforts that will have an effect on the number of individuals drawing benefits each week. **See Attachment A.**

2. *Program-specific opt-out:* The agreement does not necessarily require a complete opt out of all federal programs, although that is what Montana did. Conceptually, South Carolina could opt out of one program such as FPUC and elect to remain in other programs. For this reason, we have provided separate analysis for each of the programs.

3. *Notice Period:* The agreement requires 30 days-notice from a state to effect a termination. However, there does not appear to be a limitation on providing more than 30-days notice. For example, Montana provided notice on May 4, 2021, but is continuing in the program for 53 days (through June 26, 2021).

4. *No ability to modify programs:* The agreement only allows for South Carolina to terminate participation in a program, i.e., we do not have authority to limit or modify a program. For example, we could not say to end benefits once a claimant receives a certain number of weeks or dollar amount.