

MEMORANDUM



JOINT BUDGET COMMITTEE

TO Joint Budget Committee Members
FROM Vance Roper, JBC Staff (303-866-3147)
DATE January 8, 2018
SUBJECT Unclaimed Property Program Legislative Options

During the FY 2018-19 budget briefing for the Department of the Treasury, the committee requested further analysis on the Unclaimed Property Trust Fund (UPTF) for claim payouts during economic recession years and options for legislative solutions to address the unfunded liability in the fund.

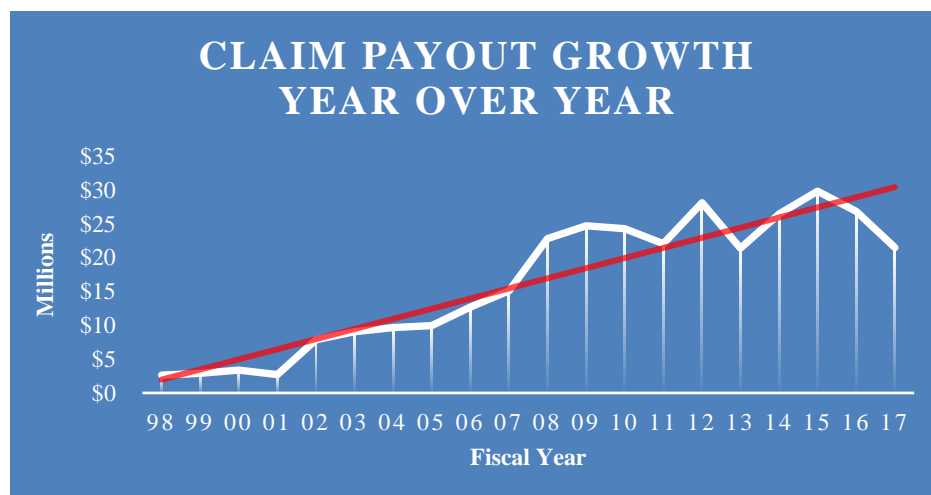
Take away message

After analysis of the UPTF, several take away messages stand out. The analysis of these messages are contained in the sections below.

- Left unchanged, the UPTF will have an unfunded liability of \$1.3 billion within twenty years;
- Recessions are the biggest factor on the health of the fund. Two recessions in a ten-year period (as was experienced in the 2000s) would take the fund into negative territory within ten years;
- Several options exist that could reduce the unfunded liability, with each option requiring legislation. If these options are used, future planning for when the unfunded liability is eliminated should be considered; and
- Using the UPTF to fund the Adult Dental Program remains the largest factor in the growth of the unfunded liability.

Economic recession effects on unclaimed property claims

Recessions appear to have an effect on claim payouts in the unclaimed property program. Economic recessions began in 2001 and 2007. The years following the recessions experienced claim payout increases of 187 percent from 2001-02 and 53 percent from 2007-08. Furthermore, the claim payouts do not decline following the recession increases. For example, claim payouts increased from \$15,000 in 2007 to \$23,000 in 2008. These payouts continued to grow from the 2008 figure. As each recession occurs, the fund payouts increase significantly and future payout growth occurs from the increased post-recession amount. The *Claim Payout Growth Year Over Year* chart below displays the change in growth from 1999 to 2017.



Projected balances of the unclaimed property trust fund

The balance of the Unclaimed Property Trust Fund is affected by multiple factors to include transfers from the fund, fund revenue increases, interest, expenses, claim payouts, and economic recessions. Each factor affects the projections and whether the fund can meet the intended obligations. The tables below consider these factors for the projections.

Several assumptions were made in order to reach the projections. Growth rates for revenue and claims are based on the previous ten-year average for those areas. Adult dental and fund expense growth are based on a conservative rate of two percent. Interest and miscellaneous income growth are based on the previous five-year average. All dollars are non-discounted and reflect 2018 dollars.

The first chart is the *UPTF Balance with No Changes*, which estimates the fund balances over the next twenty years if the committee made no changes to the fund.

UPTF BALANCE WITH NO CHANGES							
YEAR	YEARLY REVENUE 8.3% GROWTH	CLAIM PAYOUT 3% GROWTH	ADULT DENTAL 2% GROWTH	EXPENSES 2% GROWTH	INTEREST/MISC INCOME 6.9% GROWTH	FUND BALANCE	UNFUNDED LIABILITY
Current Year	n/a	n/a	\$33,000,000	\$2,400,000	\$1,996,434	\$238,830,000	(\$514,061,095)
1	94,270,510	24,810,000	33,660,000	2,448,000	2,134,188	274,316,698	(548,034,907)
2	99,162,103	25,554,300	34,333,200	2,496,960	2,281,447	313,375,787	(582,583,620)
3	104,459,697	26,320,929	35,019,864	2,546,899	2,438,867	356,386,659	(617,711,516)
4	110,196,993	27,110,557	35,720,261	2,597,837	2,607,149	403,762,145	(653,422,466)
5	116,410,483	27,923,874	36,434,667	2,649,794	2,787,042	455,951,336	(689,719,885)
6	123,139,694	28,761,590	37,163,360	2,702,790	2,979,348	513,442,638	(726,606,687)
7	130,427,428	29,624,437	37,906,627	2,756,846	3,184,923	576,767,079	(764,085,237)
8	138,320,045	30,513,171	38,664,760	2,811,983	3,404,682	646,501,894	(802,157,296)
9	146,867,749	31,428,566	39,438,055	2,868,222	3,639,605	723,274,406	(840,823,968)
10	156,124,913	32,371,423	40,226,816	2,925,587	3,890,738	807,766,232	(880,085,632)
11	166,150,421	33,342,565	41,031,352	2,984,098	4,159,199	900,717,835	(919,941,883)
12	177,008,046	34,342,842	41,851,979	3,043,780	4,446,184	1,002,933,463	(960,391,459)
13	188,766,854	35,373,128	42,689,019	3,104,656	4,752,971	1,115,286,486	(1,001,432,163)
14	201,501,643	36,434,321	43,542,799	3,166,749	5,080,926	1,238,725,185	(1,043,060,786)
15	215,293,420	37,527,351	44,413,655	3,230,084	5,431,509	1,374,279,024	(1,085,273,016)
16	230,229,914	38,653,172	45,301,928	3,294,686	5,806,284	1,523,065,435	(1,128,063,346)
17	246,406,137	39,812,767	46,207,967	3,360,579	6,206,917	1,686,297,176	(1,171,424,975)
18	263,924,987	41,007,150	47,132,126	3,427,791	6,635,194	1,865,290,291	(1,215,349,698)
19	282,897,901	42,237,364	48,074,769	3,496,347	7,093,023	2,061,472,734	(1,259,827,791)
20	\$303,445,567	\$43,504,485	\$49,036,264	\$3,566,274	\$7,582,441	\$2,276,393,720	(\$1,304,847,887)

The following table is the twenty-year projection with two recessions over this period. This number is a conservative estimate as the economy suffered two recessions during a ten year period from 2000-2010. The most recent recession increased claim payouts by 53 percent, which was the percentage used for both recessions in the table. As mentioned above, recessions cause a large jump in the dollar amount of claims paid, which does not recede over time.

UPTF LEGISLATIVE OPTIONS MEMORANDUM
 JANUARY 8, 2018

UPTF BALANCE WITH NO CHANGES RECESSIONS

YEAR	YEARLY REVENUE 8.3% GROWTH	CLAIM PAYOUT 3% GROWTH	ADULT DENTAL 2% GROWTH	EXPENSES 2% GROWTH	INTEREST/ MISC INCOME 6.9% GROWTH	FUND BALANCE	UNFUNDED LIABILITY
Current Year			\$33,000,000	\$2,400,000	\$1,996,434	\$238,830,000	(\$514,061,095)
1	94,270,510	24,810,000	33,660,000	2,448,000	2,134,188	274,316,698	(548,034,907)
2	99,162,103	25,554,300	34,333,200	2,496,960	2,281,447	313,375,787	(582,583,620)
3	104,459,697	26,320,929	35,019,864	2,546,899	2,438,867	356,386,659	(617,711,516)
4	110,196,993	40,271,021	35,720,261	2,597,837	2,607,149	390,601,681	(653,422,466)
5	116,410,483	41,479,152	36,434,667	2,649,794	2,787,042	429,235,593	(689,719,885)
6	123,139,694	42,723,527	37,163,360	2,702,790	2,979,348	472,764,958	(726,606,687)
7	130,427,428	44,005,232	37,906,627	2,756,846	3,184,923	521,708,604	(764,085,237)
8	138,320,045	45,325,389	38,664,760	2,811,983	3,404,682	576,631,200	(802,157,296)
9	146,867,749	46,685,151	39,438,055	2,868,222	3,639,605	638,147,127	(840,823,968)
10	156,124,913	48,085,706	40,226,816	2,925,587	3,890,738	706,924,670	(880,085,632)
11	166,150,421	49,528,277	41,031,352	2,984,098	4,159,199	783,690,563	(919,941,883)
12	177,008,046	75,778,263	41,851,979	3,043,780	4,446,184	844,470,769	(960,391,459)
13	188,766,854	78,051,611	42,689,019	3,104,656	4,752,971	914,145,308	(1,001,432,163)
14	201,501,643	80,393,160	43,542,799	3,166,749	5,080,926	993,625,169	(1,043,060,786)
15	215,293,420	82,804,954	44,413,655	3,230,084	5,431,509	1,083,901,404	(1,085,273,016)
16	230,229,914	85,289,103	45,301,928	3,294,686	5,806,284	1,186,051,885	(1,128,063,346)
17	246,406,137	87,847,776	46,207,967	3,360,579	6,206,917	1,301,248,617	(1,171,424,975)
18	263,924,987	90,483,209	47,132,126	3,427,791	6,635,194	1,430,765,671	(1,215,349,698)
19	282,897,901	93,197,706	48,074,769	3,496,347	7,093,023	1,575,987,773	(1,259,827,791)
20	\$303,445,567	\$95,993,637	\$49,036,264	\$3,566,274	\$7,582,441	\$1,738,419,607	(\$1,304,847,887)

Note: Of the scenarios run, one scenario produced an instance where the fund balance went negative and stayed negative throughout the project. This instance was when two recessions occurred in a ten-year period (similar to the two recessions in the 2000s). This scenario used the 2001 magnitude in both recessions. The result was the fund running out of money between years nine and ten. The twenty-year projection final numbers leave the fund with a negative balance of \$1.1 billion and an unfunded liability of \$1.3 billion.

UPTF BALANCE WITH NO CHANGES AND TWO RECESSIONS IN 10 YEARS

YEAR	YEARLY REVENUE 8.3% GROWTH	CLAIM PAYOUT 3% GROWTH	ADULT DENTAL 2% GROWTH	EXPENSES 2% GROWTH	INTEREST/MISC INCOME 6.9% GROWTH	FUND BALANCE	UNFUNDED LIABILITY
Current Year			\$33,000,000	\$2,400,000	\$1,996,434	\$238,830,000	(\$514,061,094)
1	94,270,510	24,810,000	33,660,000	2,448,000	2,134,188	274,316,698	(548,034,907)
2	99,162,103	25,554,300	34,333,200	2,496,960	2,281,447	313,375,787	(582,583,620)
3	104,459,697	26,320,929	35,019,864	2,546,899	2,438,867	356,386,659	(617,711,516)
4	110,196,993	75,541,066	35,720,261	2,597,837	2,607,149	355,331,636	(653,422,466)
5	116,410,483	77,807,298	36,434,667	2,649,794	2,787,042	357,637,402	(689,719,885)
6	123,139,694	80,141,517	37,163,360	2,702,790	2,979,348	363,748,777	(726,606,687)
7	130,427,428	82,545,763	37,906,627	2,756,846	3,184,923	374,151,892	(764,085,237)
8	138,320,045	236,906,339	38,664,760	2,811,983	3,404,682	237,493,539	(802,157,296)
9	146,867,749	244,013,529	39,438,055	2,868,222	3,639,605	101,681,088	(840,823,968)
10	156,124,913	251,333,935	40,226,816	2,925,587	3,890,738	(32,789,599)	(880,085,632)
11	166,150,421	258,873,953	41,031,352	2,984,098	4,159,199	(165,369,383)	(919,941,883)
12	177,008,046	266,640,172	41,851,979	3,043,780	4,446,184	(295,451,084)	(960,391,459)
13	188,766,854	274,639,377	42,689,019	3,104,656	4,752,971	(422,364,311)	(1,001,432,163)

UPTF BALANCE WITH NO CHANGES AND TWO RECESSIONS IN 10 YEARS

YEAR	YEARLY REVENUE 8.3% GROWTH	CLAIM PAYOUT 3% GROWTH	ADULT DENTAL 2% GROWTH	EXPENSES 2% GROWTH	INTEREST/MISC INCOME 6.9% GROWTH	FUND BALANCE	UNFUNDED LIABILITY
14	201,501,643	282,878,558	43,542,799	3,166,749	5,080,926	(545,369,848)	(1,043,060,786)
15	215,293,420	291,364,915	44,413,655	3,230,084	5,431,509	(663,653,573)	(1,085,273,016)
16	230,229,914	300,105,862	45,301,928	3,294,686	5,806,284	(776,319,852)	(1,128,063,346)
17	246,406,137	309,109,038	46,207,967	3,360,579	6,206,917	(882,384,382)	(1,171,424,975)
18	263,924,987	318,382,309	47,132,126	3,427,791	6,635,194	(980,766,427)	(1,215,349,698)
19	282,897,901	327,933,778	48,074,769	3,496,347	7,093,023	(1,070,280,398)	(1,259,827,791)
20	\$303,445,567	\$337,771,792	\$49,036,264	\$3,566,274	\$7,582,441	(\$1,149,626,719)	(\$1,304,847,887)

Legislative Options

Multiple options exist to deal with the unfunded liability in the UPTF. Several of these options are presented below. None of these options are mutually exclusive and a combination of these options may provide the greatest reduction in the unfunded liability. As this is a complex issue with multiple dimensions, there are too many potential combinations to model the results of any one option at this point. As such, staff would need JBC member guidance to develop any of the options below further.

Change the funding source of the Adult Dental Program

The Adult Dental Program is funded through the UPTF. If another funding source was found for the Adult Dental Program, the unfunded liability largely stabilizes. The unfunded liability at the end of the twenty-year projection is \$487 million, which is roughly \$28 million lower than the current unfunded liability. The *UPTF Balance With No Adult Dental* table below shows the 20 year projection without funding for the Adult Dental Program.

UPTF Balance with no adult dental

Year	Yearly Revenue 8.3% Growth	Claim Payout 3% Growth	Expenses 2% Growth	Interest/Misc Income 6.9% Growth	Fund Balance	Unfunded Liability
Current Year			\$2,400,000	\$1,996,434	\$238,830,000	(\$514,061,095)
1	94,270,510	24,810,000	2,448,000	2,134,188	307,976,698	(514,374,907)
2	99,162,103	25,554,300	2,496,960	2,281,447	381,368,987	(514,590,420)
3	104,459,697	26,320,929	2,546,899	2,438,867	459,399,723	(514,698,452)
4	110,196,993	27,110,557	2,597,837	2,607,149	542,495,470	(514,689,141)
5	116,410,483	27,923,874	2,649,794	2,787,042	631,119,328	(514,551,893)
6	123,139,694	28,761,590	2,702,790	2,979,348	725,773,990	(514,275,335)
7	130,427,428	29,624,437	2,756,846	3,184,923	827,005,058	(513,847,258)
8	138,320,045	30,513,171	2,811,983	3,404,682	935,404,632	(513,254,558)
9	146,867,749	31,428,566	2,868,222	3,639,605	1,051,615,199	(512,483,175)
10	156,124,913	32,371,423	2,925,587	3,890,738	1,176,333,840	(511,518,023)
11	166,150,421	33,342,565	2,984,098	4,159,199	1,310,316,796	(510,342,922)
12	177,008,046	34,342,842	3,043,780	4,446,184	1,454,384,404	(508,940,519)
13	188,766,854	35,373,128	3,104,656	4,752,971	1,609,426,445	(507,292,204)
14	201,501,643	36,434,321	3,166,749	5,080,926	1,776,407,943	(505,378,028)
15	215,293,420	37,527,351	3,230,084	5,431,509	1,956,375,437	(503,176,602)
16	230,229,914	38,653,172	3,294,686	5,806,284	2,150,463,777	(500,665,004)
17	246,406,137	39,812,767	3,360,579	6,206,917	2,359,903,485	(497,818,667)
18	263,924,987	41,007,150	3,427,791	6,635,194	2,586,028,725	(494,611,263)
19	282,897,901	42,237,364	3,496,347	7,093,023	2,830,285,938	(491,014,587)
20	\$303,445,567	\$43,504,485	\$3,566,274	\$7,582,441	\$3,094,243,187	(\$486,998,420)

*Repay the UPTF from GF**

**This option assumes the UPTF does not transfer funds to the Adult Dental Program*

Another option is to repay the Unclaimed Property Trust Fund from the General Fund. The repayment can be stretched out of multiple years to limit the impact. Using the same twenty-year period as the projections above, the annual cost to repay the UPTF is \$25 million. If that timeframe was stretch to thirty years, the annual cost to repay the UPTF is \$17 million.

Remove ability to claim all property after set amount of years

A different option is to remove the ability to claim any property from the program after a certain number of years. These funds can then be redirected to pay down the unfunded liability. For example, statutes could be changed to remove the ability to claim property after 20 years. Looking at historical payouts, at the twenty-year mark claims are paid at a rate of 0.4%. Using the twenty-year mark could present a situation where few individuals are effected by the change, but where the unfunded liability can be reduced over time.

Remove ability to claim certain property after a set amount of years

The above option can be tweaked to remove the ability to claim certain property from the program on a tiered basis. In this option, the ability to claim property could be tiered into ten years, twenty years, and so on. Items such as un-used gift cards or airline tickets could be in the ten-year tier while tangible property could be in a higher tier. Below is the payout percentages from year ten through year twenty as a reference for determining tiered years.

YEAR	CLAIM PAYOUT PERCENT
10	0.08
11	0.09
12	0.07
13	0.07
14	0.06
15	0.07
16	1.30
17	0.04
18	0.04
19	0.03
20	0.04

Percentage reduction at specific intervals

This option is another twist on the two options presented above. This reduces the percentage of property that could be claimed at specific intervals with the remainder of those funds being used to reduce the unfunded liability. For example, the ability to claim property could be broken down to:

- 5 years Property owner can claim 85 percent of value;
- 10 years Property owner can claim 50 percent of value;
- 15 years Property owner can claim 25 percent of value;
- 20 years Property owner can claim 15 percent of value; and
- 25 years No value can be claimed by property owner.

The total payout for claims at the above intervals are contained in the table below. At the five year mark, nearly 77% of claims remain unclaimed. At year ten that number drops to 69% of claims remain unclaimed and by year twenty, 62% of claims remain unclaimed. Below is a table with cumulative

payouts in five-year intervals beginning at year five as a reference in determining the remaining claimable value.

YEAR	TOTAL CLAIM PAYOUT PERCENT
5	23.3
10	31.1
15	34.6
20	37.6

Remove interest paid to claimants of unclaimed property

The final option presented is the removal of interest paid to claimants on unclaimed property. The hearing responses from the Department discussed the six percent interest that can be paid on the property. The removal of this paid interest would help reduce the unfunded liability.