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Unemployment Insurance

SOLVENCY PROPOSAL: ADD EMPLOYEE CONTRIBUTIONS

Nearly seven years after the end of the Great Recession, concern about the solvency of state unemployment insurance trust funds is mounting. One expert urges states to prepare for the next economic downturn by adopting modest employee contributions through payroll deduction.

This alone won't fill the shortfalls many states face, but it could change the politics of UI policy. Seeing UI contributions on a pay stub could encourage more dislocated workers to apply for benefits when they need them, according to Andrew Stettner, a senior fellow at the Century Foundation.

The New York City-based progressive public policy think tank recently published Stettner's report *Speeding the Recovery of Unemployment Insurance*.

"The time has come for a serious look at the preparation of unemployment trust funds for the next recession. The current economic recovery is now eighty months old (approaching seven years). The average period of economic recovery during the post war era is 58 months, and while the U.S. economy has weathered global challenges, economists warn of a recession in the next two years," he writes.

Wayne Vroman, a senior fellow at the Urban Institute, made nearly the same observation in a recent paper on UI reforms by large states in the wake of the recession, *The Big States and Unemployment Insurance Financing*.

How Much Is in the Till?

At issue is how much money states are holding in their UI trust funds and what they are doing with financing mechanisms and benefit policies to adjust these funding levels.

In UI administration, the so-called average high-cost multiple is an actuarial figure representing how long a state can pay out benefits at the average rate of its three most recent high-cost years in the past 20 years or three recessions, whichever is longer. The Department of Labor reports this data based on trust fund balances at the end of each calendar year. An average high-cost multiple of 1 means a state has adequate funds to pay 12 months of benefits at a recession-level drawdown rate.

DOL encourages states to maintain an average high-cost multiple of 1.

Only 19 states met this mark going into the recent recession. Going into the recessions that started in 1989 and 2000, 33 and 34 respectively were on target, Stettner points out.

Only 18 states met this financing threshold as of Dec. 31, 2015.

Arizona, California, Connecticut, Indiana, Kentucky, New York, Ohio, Pennsylvania, Rhode Island, the Virgin Islands and West Virginia had average high-cost multiples of 0.25 or less, meaning they could pay out no more than three months of benefits if the economy soured and lots of people applied for benefits.

These numbers are from the Department of Labor's latest annual report on state UI trust fund solvency.

Reforms

This year, the Obama Administration sought several UI reforms in its fiscal year 2017 budget proposal, including a solvency provision. Several of these reforms affect benefit policies such as restoring benefit duration to 26 weeks in states where it has been reduced and providing incentive funding for states to cover part-time workers and those who leave jobs for compelling family reasons.

But the administration's solvency proposal would reduce Federal Unemployment Tax Act credits — effectively raising employer tax payments — in states that have average high-cost multiples below 0.5 for two years in a row.

Stettner, Vroman and authors of other reports issued in the past on UI trust fund solvency look at many of the same issues.

In the aftermath of the Great Recession, many states saw their UI trust funds run dry.

Thirty-six states took out trust fund solvency loans from the U.S. Treasury. California, Indiana, Kentucky, Ohio and the Virgin Islands still owed the federal government a combined total of $6.6 billion, as of April 6, according to DOL.

Some states turned to the municipal bond market to fill their UI coffers.

Other responses included benefit reductions and other policies limiting benefits.

After 2010, Arkansas, Florida, Georgia, Illinois, Kansas, Michigan, Missouri, North Carolina and South Carolina reduced the duration of benefits.

Fifteen states froze or reset UI mechanisms that adjust weekly benefit amounts annually with increases in wages. This was half of the number of states that have these provisions in their UI systems, according to Stettner.

In 2013, North Carolina lawmakers approved a sweeping UI reform that not only cut benefit duration and reduced maximum benefit levels, but also changed the state's definition of a suitable job that a UI claimant is expected to accept if offered. As a result, some claimants have had to accept wages of $10.50 per hour or risk losing their benefits (ETR 2/8/13, p. 625).

Negative Ramifications

These changes have had negative ramifications for workers, according to Stettner. Department of Labor data show that the share of unemployed workers receiving UI fell to an all-time low of 26 percent in 2013 and inched up only to 27 percent in 2014 and 2015. It exceeded 30 percent from 1985 through 2010, reaching almost 45 percent in 2000.

States have discretion in the design of their benefits and financing mechanisms, within the limits of federal requirements. States must tax employers for at least the first $7,000 in wages they pay to each of their workers each year. Known as the taxable wage base, this can be set higher. States must vary tax rates based on how many former employees of a firm collect UI benefits. And maximum tax rates must be at least 5.4 percent for employers with high layoff rates.

Stettner and Vroman both point out that states whose taxable wage base is indexed to wages paid have rebuilt their UI reserves faster than other states.

Stettner calls indexed taxable wage bases "the single most important feature of solvent trust fund systems … modest amounts of additional revenue are collected each year, happen without state legislative action and are evenly spread across all employers."

Stettner suggested another little-used way for states to make solvency gains: charging workers a UI tax.

This is done in only three states, Alaska, New Jersey and Pennsylvania. It works as a payroll tax deduction, just like Social Security. The employee tax rates are much lower than employer taxes in these states, and in Alaska and New Jersey they apply to the state's taxable wage base.

In Alaska, the rate ranges between 0.5 and 1 percent, depending on trust fund levels. In New Jersey, it is 0.3825 percent. Pennsylvania's employee assessment also fluctuates with its trust fund solvency. The rate ranges from zero to 0.08 percent of a worker's total wages.

Stettner recommends following Pennsylvania's approach, taxing all wages so the burden is spread evenly between high- and low-income earners, at a relatively low rate of perhaps 0.2 percent. That would give states $100 per year from workers earning $50,000.

In addition to driving up UI tax revenue for states, employee assessments could give workers more voice in political debates on UI policy. A pay stub deduction could remind more workers that UI benefits are available and correct the impression that UI benefits are a form of welfare.

According to Stettner, former New Jersey Labor and Workforce Development Commissioner David Socolow told him that pay stub notifications of UI tax withholdings are the "cheapest way possible to advertise UI."

"Stettner's advocacy of employee UI payroll taxes adds an important element to the UI financing discussion. The vast majority of states rely entirely on employer payroll taxes to finance state UI programs, which generate a politically powerful lobby among employers that seek to keep them low," Ross Eisenbrey, vice president of the Economic Policy Institute, noted in a blog post.

✓ Find the report *Speeding the Recovery of Unemployment Insurance* at www.tcf.org.

—Ryan Hess

About ETR — The *Employment & Training Reporter* is a weekly trade journal covering the field of workforce development with a special emphasis on public sector programs in the United States. Since 1969, ETR coverage of the whole range of U.S. federal, state and local programs has included the Workforce Innovation and Opportunity Act, the Carl D. Perkins Vocational and Technical Education Act, education for employment at the secondary and technical levels, Temporary Assistance for Needy Families and work supports, as well as vocational rehabilitation and employment for the disabled.

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