

Unemployment Insurance Trust Fund Solvency

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Outline

1. Unemployment and UI Benefits in 2008-2009
2. UI Financing and Trust Funds
3. Suggestions to Improve UI financing

1. Unemployment and UI Benefits in 2008-2009

- Increase in Unemployment
- Growth in Claims
- Comparison with Past Recessions
- EB and EUC

Chart 1. Unemployment and UI Claimants, 2001 to 2009

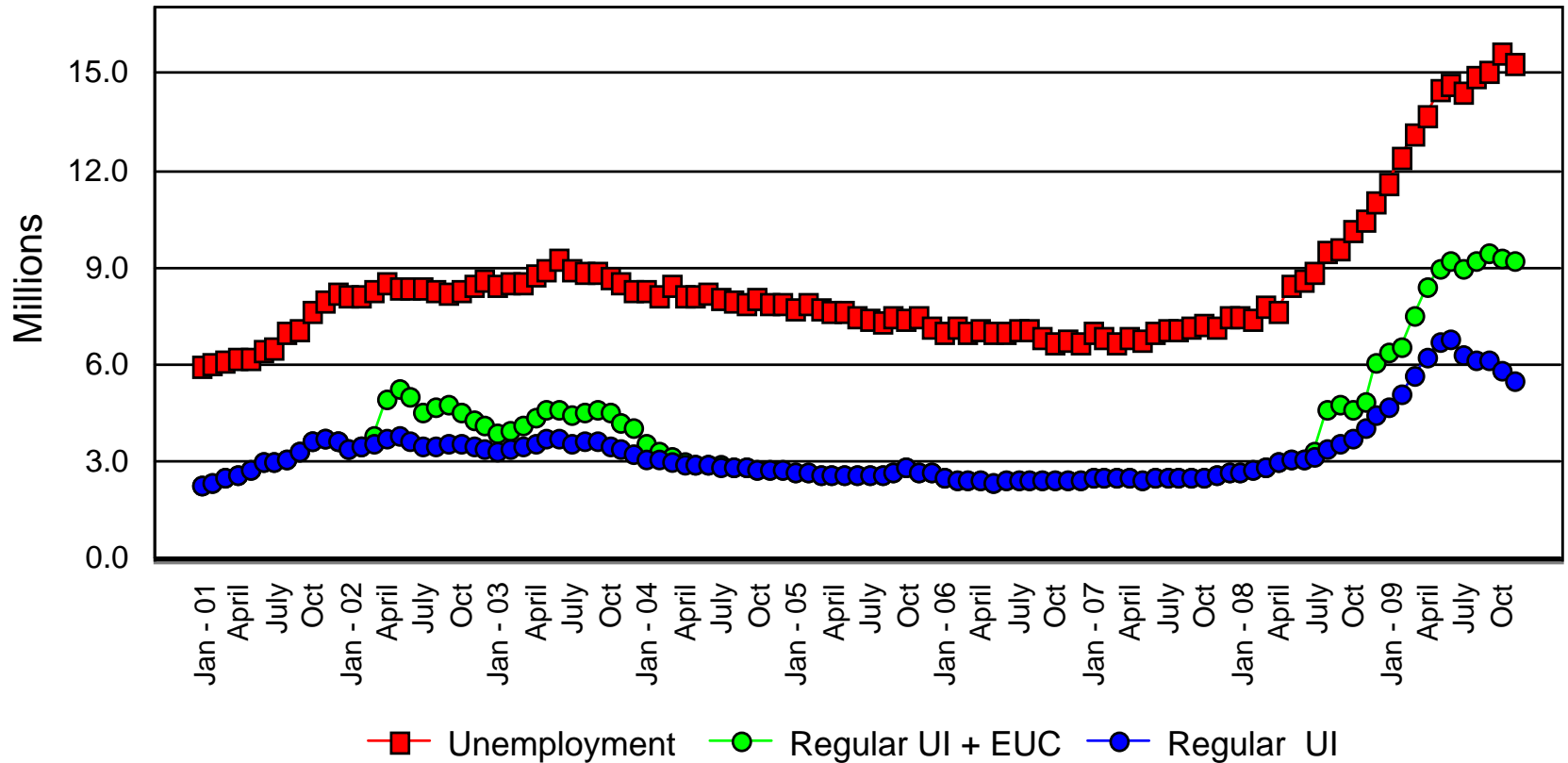


Chart 1A. National and Regional Unemployment Rates

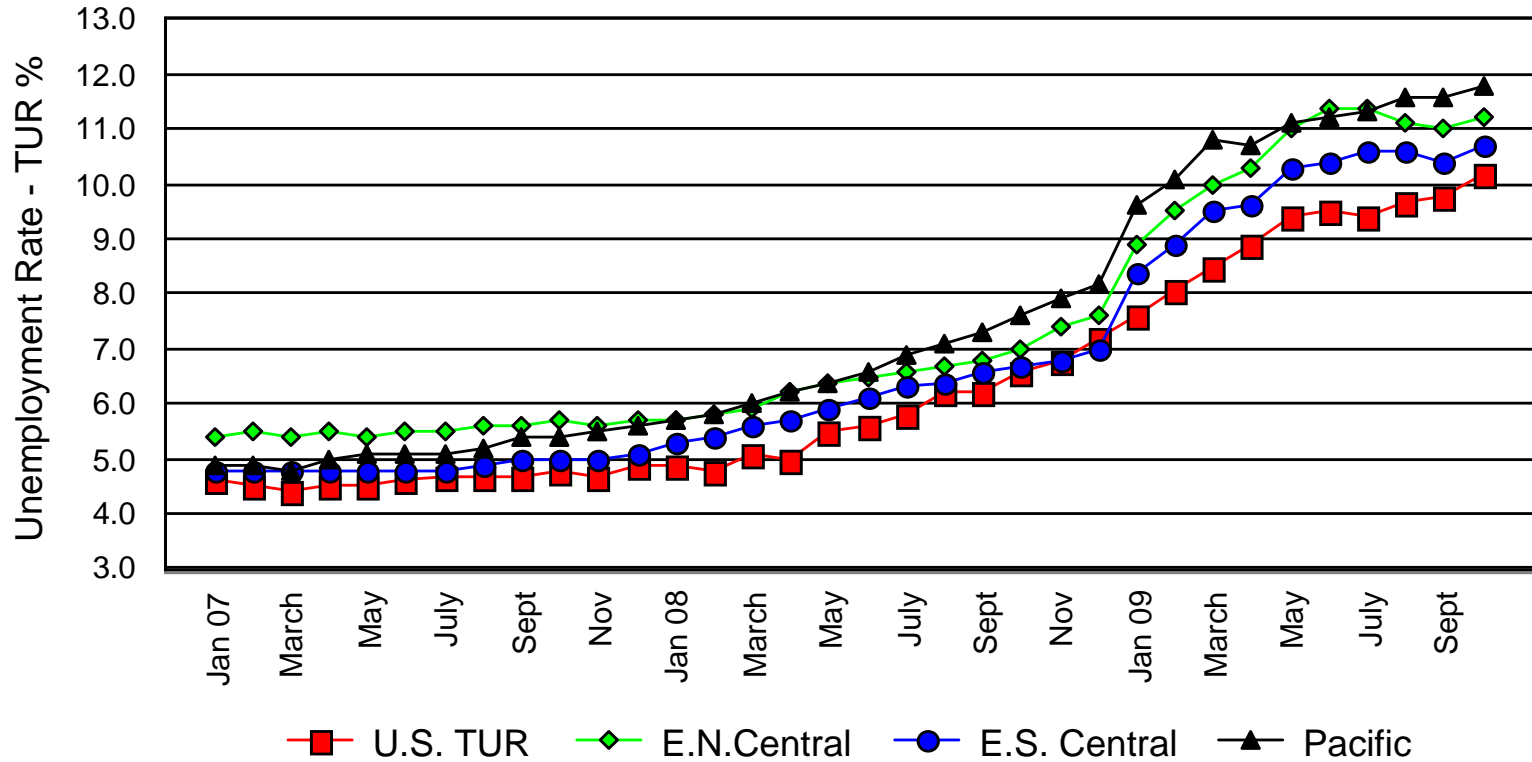


Chart 2. Monthly Continued Claims: Ratio to Low Average Five Downturns - Regular UI Program

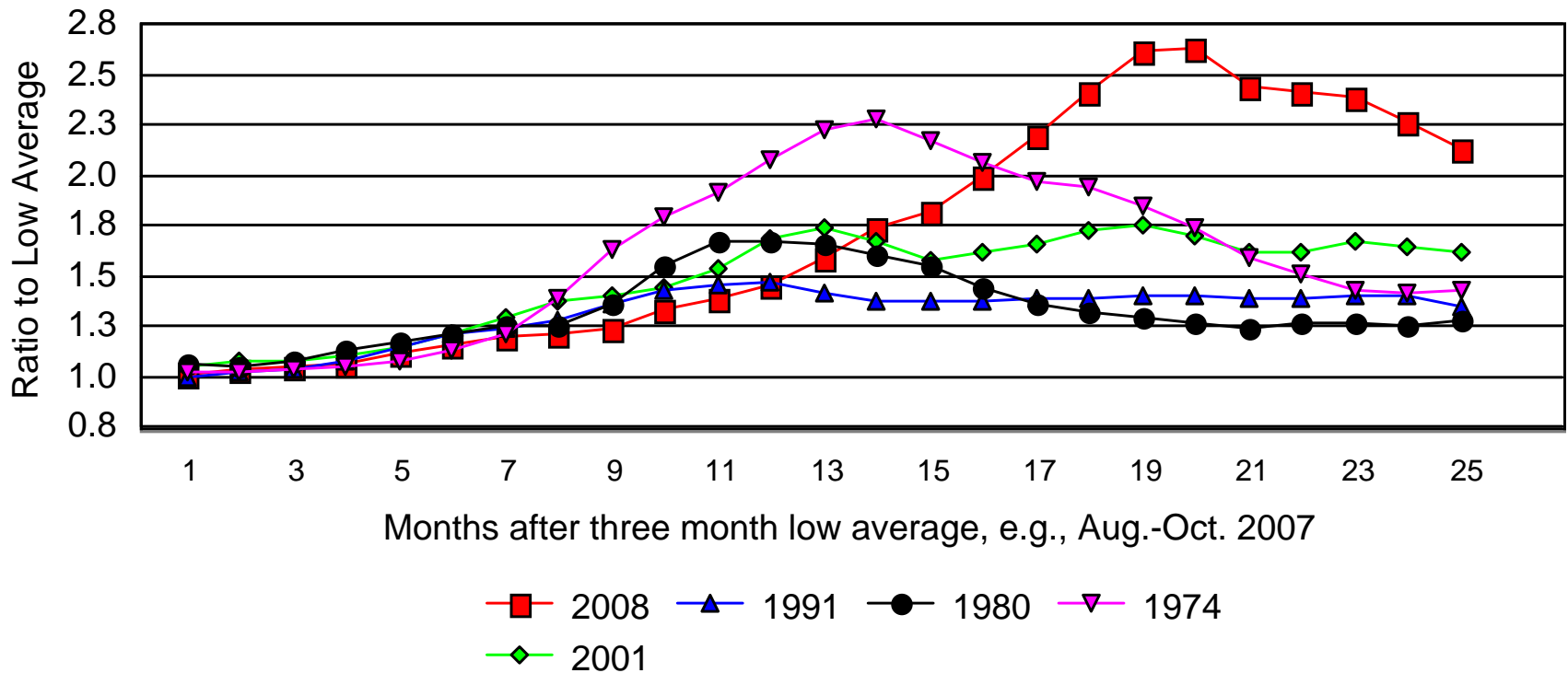
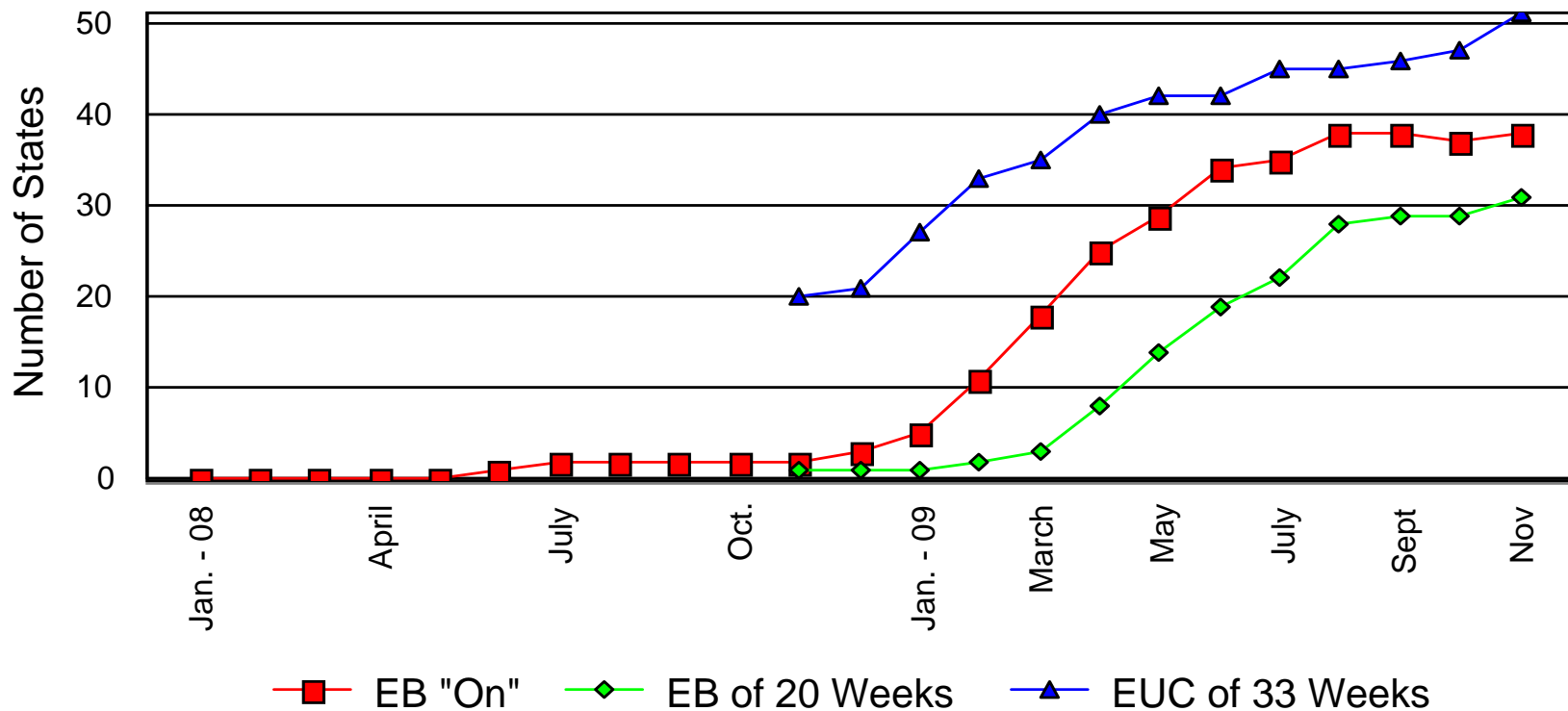


Chart 2A. Activation of Long-Term UI Benefits End-of-Month Counts of 51 "States"



2. UI Financing and Trust Funds: Background

- Perfect storm of UI financing
- Trust fund reserves
- The reserve ratio multiple
- Indexation of the taxable wage base
- Analysis of trust fund loans in 2009

The Perfect Storm in UI Financing

1. Serious recession has caused record payouts
 - \$75-80 billion of regular UI benefits in 2009
 - High payouts anticipated in 2010 and later years
2. Pre-recession trust fund reserves were low
3. Timing of recession
 1. Increase in payouts in second half of 2008 meant that most state UI taxes did not automatically increase in January 2009 because most computation dates are June 30

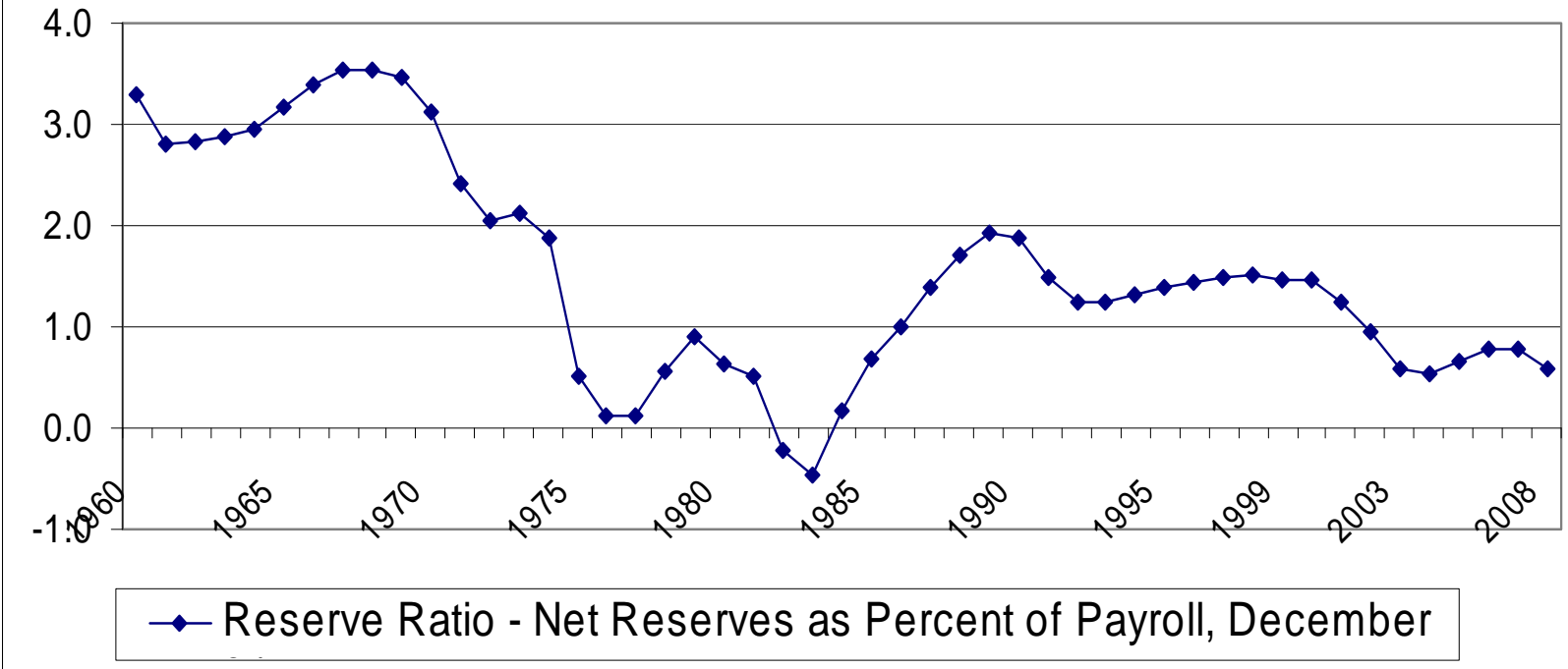
Current Trust Fund Balances

- Net reserves across 51 programs -\$8.0 billion – Oct. 31
- Net reserves across 51 programs -\$9.8 billion – Nov. 30
- 12 month loss of reserves – More than \$40 billion
- 24 States plus Virgin Islands have borrowed
- Loan totals:
 1. \$10.3 billion June 30
 2. \$22.0 billion Nov. 30
- 3 States reserves of \$5.2 billion Nov. 30 (LA, OR and WA)
- 48 states with net reserves (total reserves less outstanding loans) of -\$14.9 billion Nov. 30
- All 10 largest states have borrowed in 2009
- 18 of 20 largest states have borrowed in 2009 (end of Nov.)

Pre-recession Reserves: 51 States

	Net Reserves, Dec. 31 (\$Bill.) (1)	Total Payroll (\$Bill.) (2)	Reserve Ratio =100*(1)/(2)
1989	36.87	1,918	1.92
2000	54.05	3,702	1.46
2007	37.62	4,760	0.79
2007/2000	.732	1.268	.541

Chart 3. Aggregate UI Reserve Ratio, 1960 to 2008

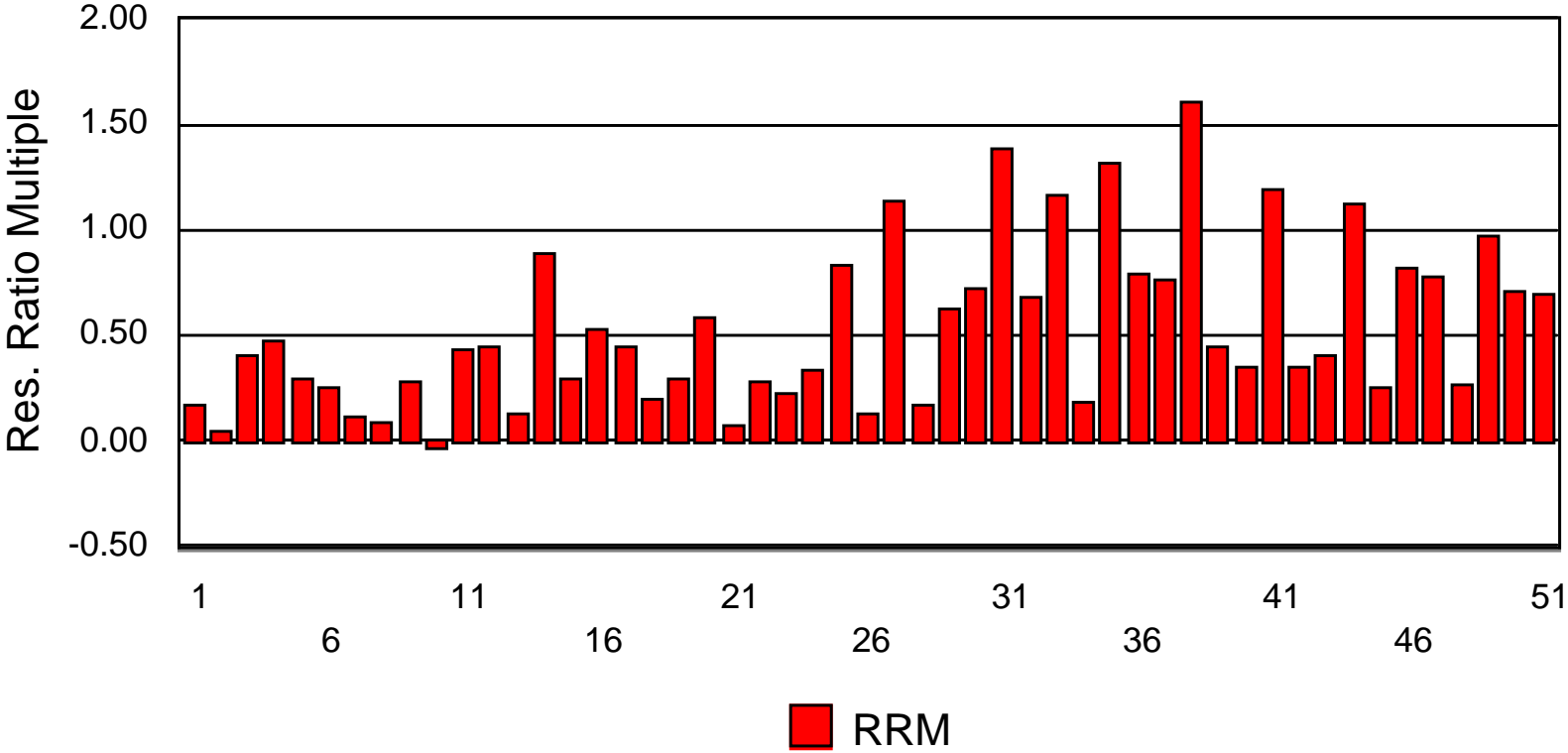


The Reserve Ratio Multiple - RRM

- RRM - Measure of UI trust fund adequacy
- Considers three factors
 - (1). Net end-of-year reserves
 - (2). Scale of state economy (total payroll as proxy)
 - (3). Potential benefit payouts (highest past 12 month payout rate as proxy)
- Formula $RRM = [(1)/(2)\%] / (3)\%$
- Numerator – $[(1)/(2)\%]$ - Reserve ratio as a %
- Denominator – $(3)\%$ - High cost rate as a % of payroll
- Highest twelve month high cost rate 2.22% - Jan.-Dec. 1975
- Suggested Solvency Standard - $RRM = 1.0$, or 12 months
- U.S. RRM - December 2007 = 0.35, or 4.2 months
- U.S. RRM - December 2008 = 0.27, or 3.2 months
- U.S. RRM – December 2009 may equal -0.11

Chart 4. Reserve Ratio Multiples, December 2007

51 Programs Ranked by Size



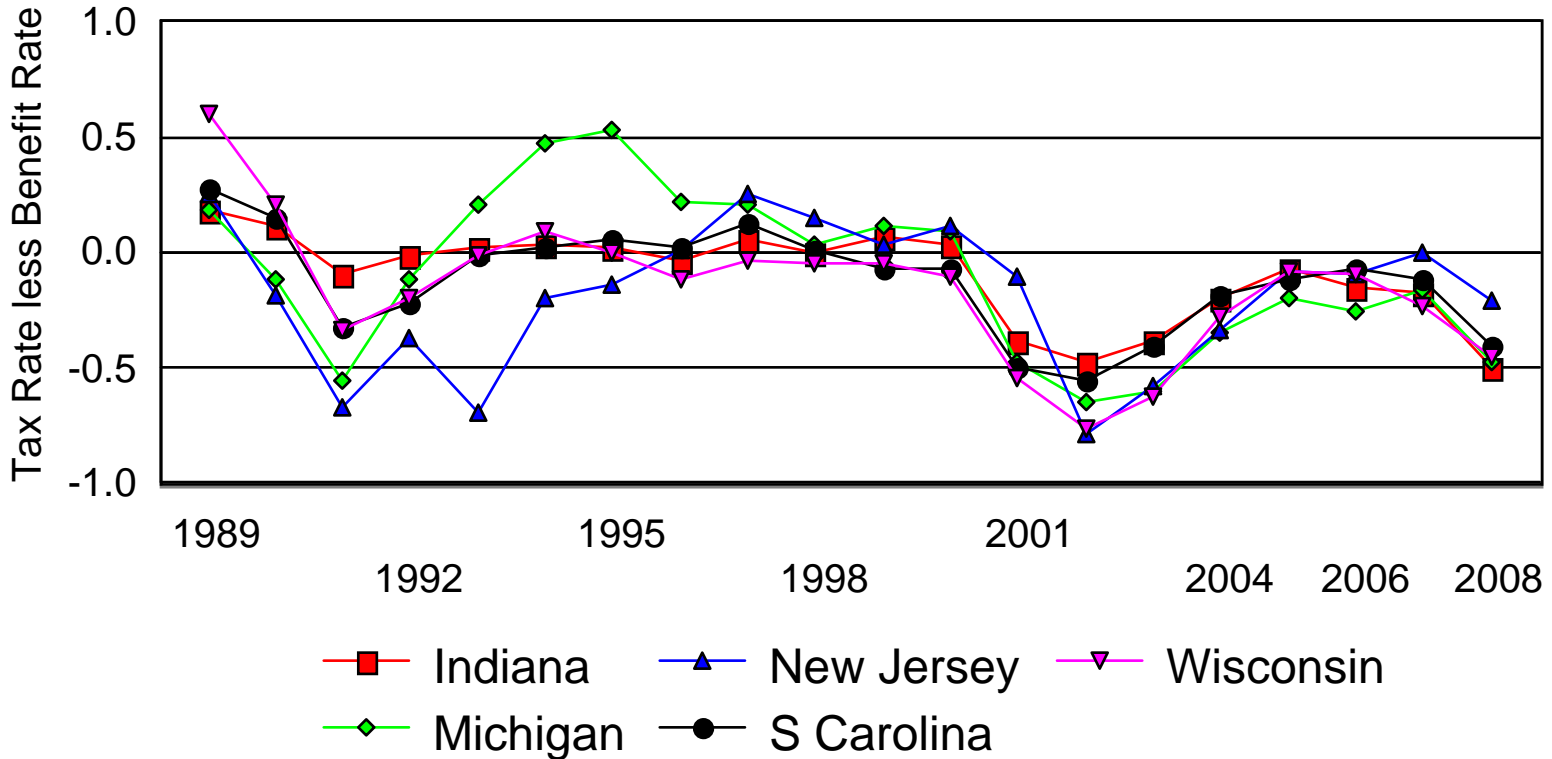
Summary: Large and Small States-2007

	Net Reserves (\$Bill) (1)	Total Payroll (\$Bill) (2)	Reserve Ratio [(1)/(2)]% (3)	High Cost Rate % (4)	RRM (3)/(4) (5)	1
All States	37.6	4,760	0.79	2.24	0.353	
10 Largest	12.6	2,690	0.47	2.48	0.190	
10 Smallest	2.25	118	1.91	2.99	0.639	
Large/ Small	5.2	22.8	0.25	0.83	0.297	

Borrowing by State in 2009

State Rank RRM 12/07	Average RRM 12/07	Number of States	Loans in 2008/09	Prob. of Borrowing
42 to 51	0.11	10	10	1.00
32 to 41	0.26	10	8	0.80
21 to 31	0.41	11	5	0.45
11 to 20	0.71	10	1	0.10
1 to 10	1.20	10	0	0.00
All States	0.35	51	24	0.47

Chart 4B. Tax Rate less Benefit Rate, 1899 to 2008

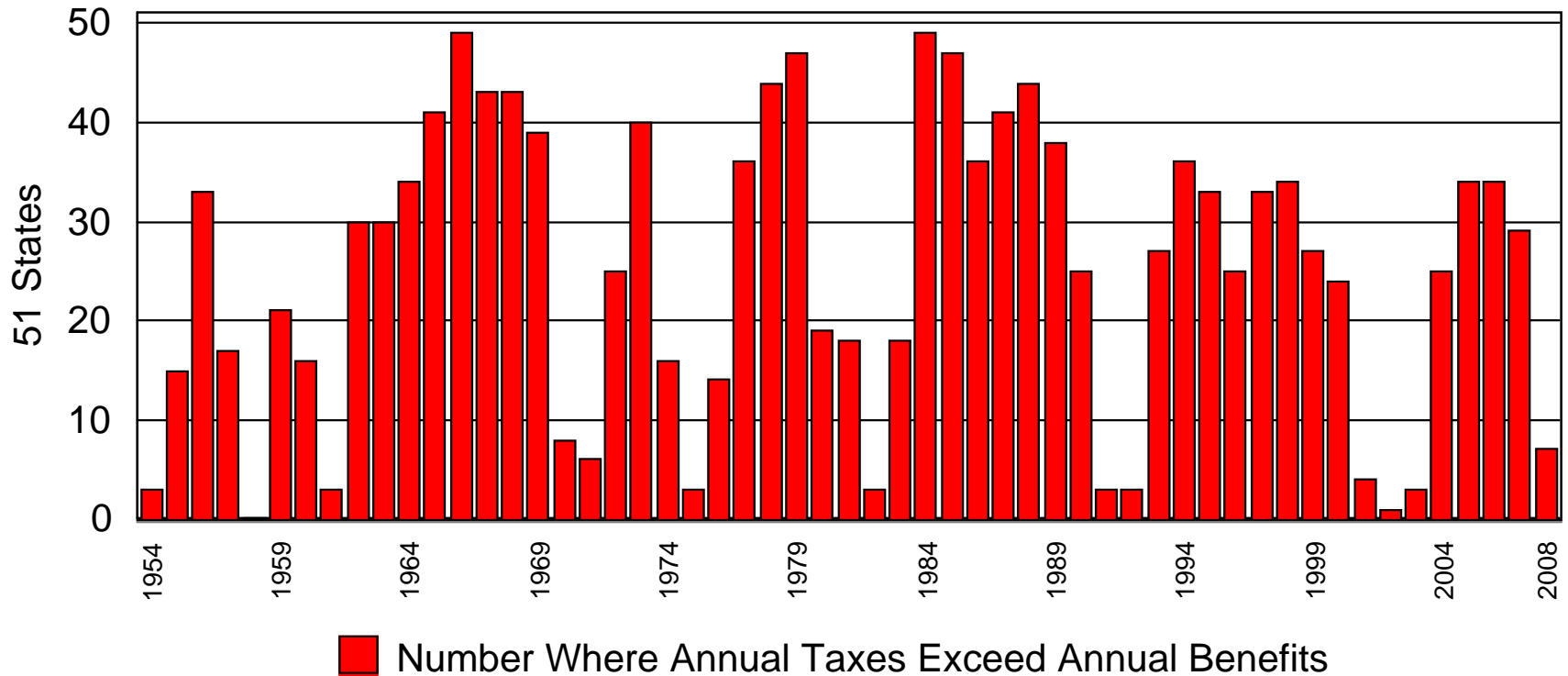


Annual Net Taxes: Taxes less Benefits: 5 States, 3 Recessions and 3 Recoveries

	Years	Data Points	Negative Net Taxes	Positive Net Taxes
Recession	1980-82	15	14	1
Recovery	1984-88	25	0	25
Recession	1991-92	10	10	0
Recovery	1994-98	25	6	19
Recession	2001-02	10	10	0
Recovery	2004-07	20	19	1

Indiana, Michigan, New Jersey,
South Carolina and Wisconsin

Chart 5. States Where Taxes Exceed Benefits



Indexation in UI Programs

- 16 states plus the Virgin Islands have indexed taxable wage bases
 - Last adoption - Oklahoma in 1986
- 30 states plus Puerto Rico and the Virgin Islands have indexed maximum weekly benefits
 - Most adoptions during the 1960s and 1970s
- Indexation of tax base associated with high tax bases

UI Tax Bases in 2009

Tax Base	Indexed	Not Indexed
Above 25,000	9	0
16,000 – 25,000	5	1
10,000 – 15,000	2	9
8,500- 9,500	0	9
8,000	0	8
7,000	0	8
	16	35

Indexation in 2009

	Indexed Tax Base	Big States: Tax Base not Indexed	All Other States	51 “States”
Max WBA Indexed	16 (RI included)	5 (CT, IL, MA, OH, PA)	9	30
Max WBA Not Indexed	1 (AK)	12	8	21
States and Share of 2007 Employment	17 18%	17 67%	17 15%	51 100%

Tax Base Indexation

- Present in 16 states (out of 51)
- Present in just 4 large states (Minnesota, New Jersey, North Carolina, Washington)
- Indexation percentages range from 100 percent of average statewide wages (Hawaii, Idaho) to 47.5 percent (Oklahoma)
- Indexation associated with high tax bases (simple averages - \$25,225 indexed versus \$9,323 non-indexed states in 2009) and high taxable wage proportions
- Indexation associated with high trust fund reserves

Chart 5. Taxable Wage Proportions, 1966 to 2008.

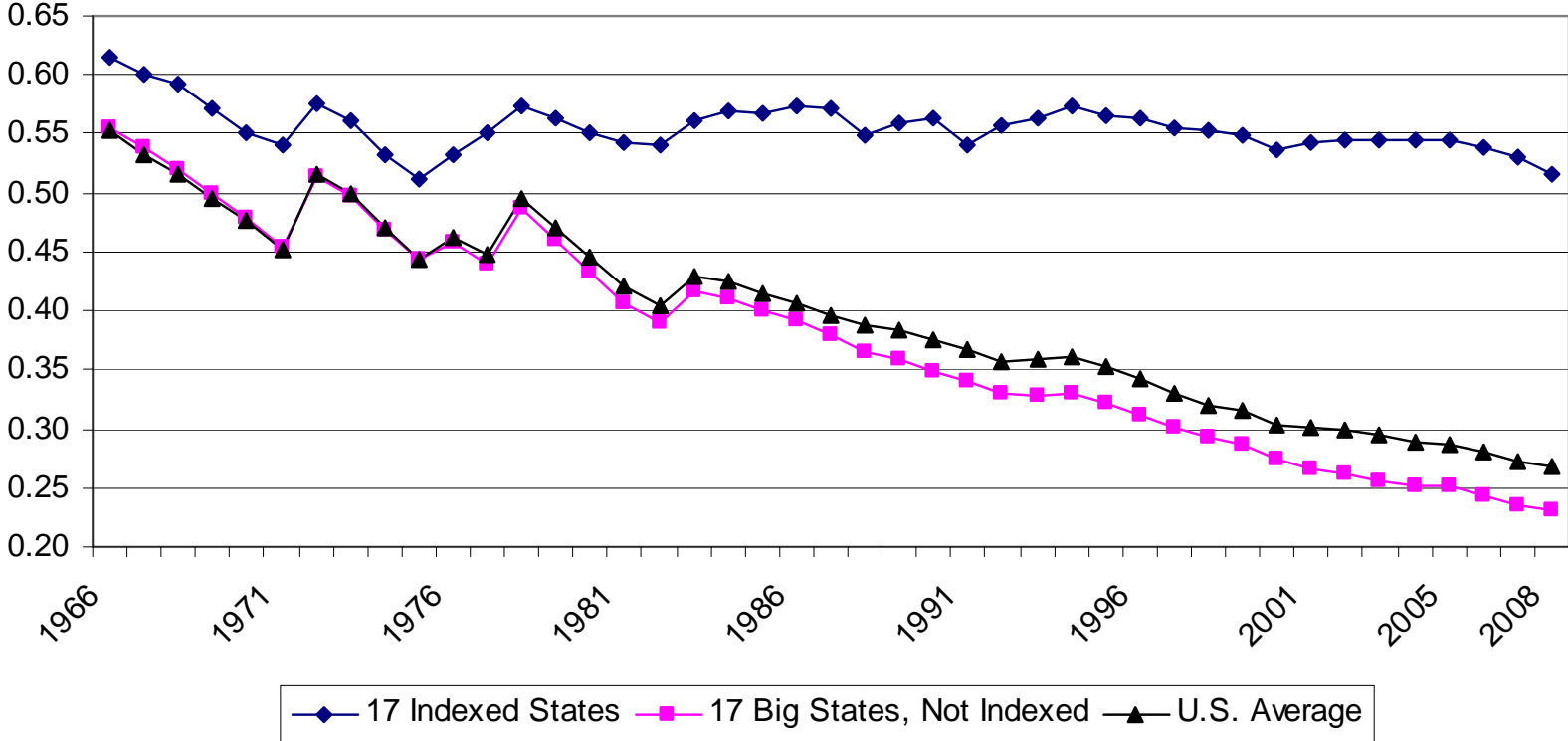
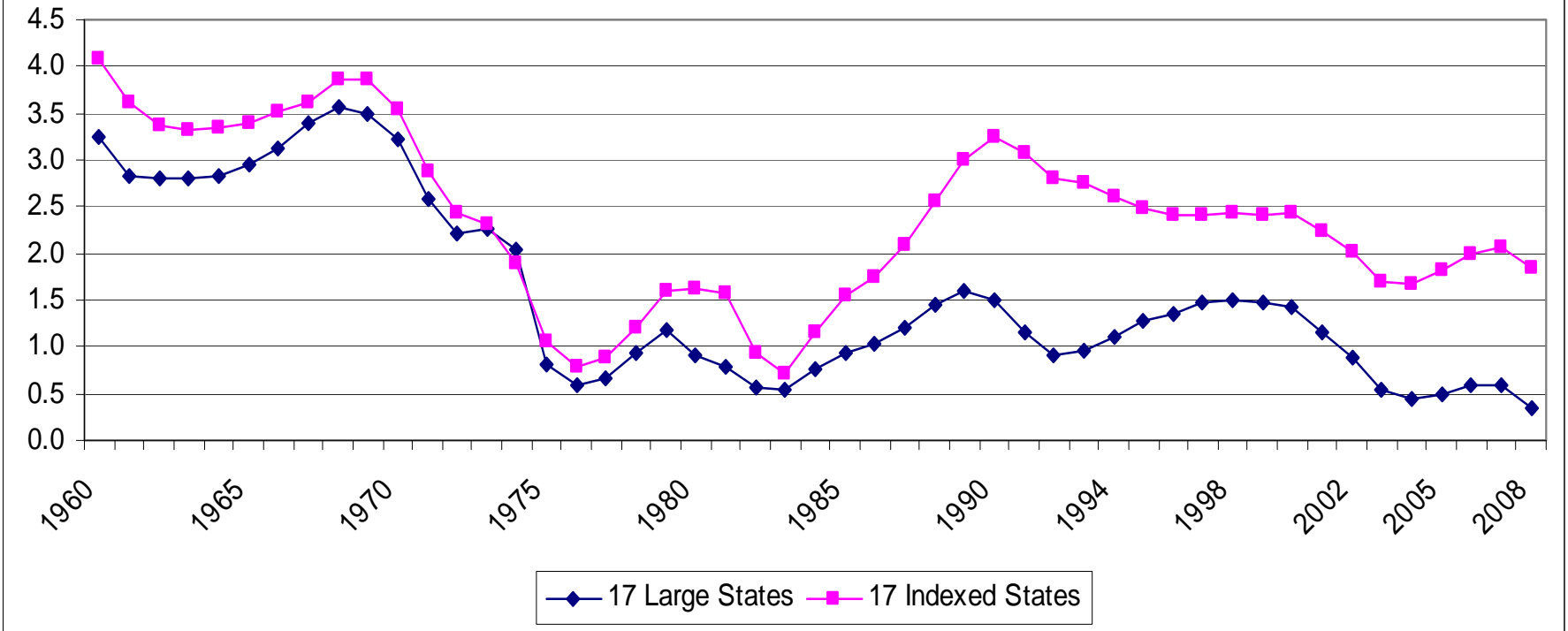


Chart 6. Reserve Ratios: 17 Indexed States and 17 Large States, 1960 to 2008



Indexation and Reserve Ratio Multiples – December 2007

RRM – Dec. 31, 2007	Indexed States	Non-indexed States	All States
Below 0.50	4	26	30
0.50 to 0.99	7	7	14
1.00 and Above	5	2 (ME,MS)	7
Total	16	35	51

Indexation and Borrowing in 2009

	Indexed States	Non-indexed States	All States
States with Loans	5	19	24
Total	16	35	51
Probability of Loans	0.31	0.54	0.47

Loans by Region in 2009

Census Division	Number of States	Loans & \$1 Billion Loans	Census Division	Number of States	Loans & \$1 Billion Loans
New Eng.	6	2 - 0	E S Cent	4	2 - 0
Mid-Atl.	3	3 - 2	W S Cent	4	2 - 0
E N Cent	5	5 - 3	Mountain	8	2 - 0
W N Cent	7	3 - 0	Pacific	5	1 - 1
South Atl.	9	4 - 1	U.S.	51	24 - 7

Determinants of Borrowing 2008-09

- 24 states have borrowed in 2008-09
- Regression analysis of borrowing
- RRM on 12/31/07 largest determinant
- State size also influences borrowing, large states more likely to borrow even controlling for RRM
- Recent unemployment rates (TURs) have small (positive) influence on borrowing

State Policy Responses

- Several states (11) have raised their UI tax bases
- The increases have been generally modest, \$2500 or less except for NH, RI, WV & WI
- Some increases are temporary (FL, VT, WV)
- Hawaii is facing a potential tax base increase of about \$25,000
- Several states with outstanding loans have not yet acted
 - Want to know the size of the problem
 - Interest does not accrue until 2011
 - Questions about federal policy regarding loans

Recent Tax Base Increases

State	Base in 2008	Base in 2010	Change	Tax Base/ Av. Earn. 2008	Tax Base/ Av. Earn. 2010	Change
Ark.	10,000	12,000	2,000	0.293	0.334	0.042
Ind.	7,000	9,500	2,500	0.182	0.235	0.053
Tenn.	7,000	9,000	2,000	0.176	0.216	0.040
Vt.	8,000	10,000	2,000	0.215	0.256	0.041
W. Va.	8,000	12,000	4,000	0.231	0.330	0.099
Wisc.	10,500	12,000	1,500	0.275	0.299	0.024

Recent Tax Base Increases

State	Base in 2008	Base in 2010	Change	TWP* 2008	TWP* 2010	Change
Ark.	10,000	12,000	2,000	0.325	0.354	0.029
Ind.	7,000	9,500	2,500	0.215	0.252	0.037
Tenn.	7,000	9,000	2,000	0.211	0.239	0.028
Vt.	8,000	10,000	2,000	0.248	0.277	0.029
W. Va.	8,000	12,000	4,000	0.267	0.336	0.069
Wisc.	10,500	12,000	1,500	0.286	0.303	0.017

* TWP - Taxable payroll/Total
payroll

Summary of Current Situation

- The downturn in the labor market of 2008-2009 is very severe – November unemployment rate = 10.0%
- Recession much more severe than in 1991 or 2001, similar to the back-to-back recessions of 1980 and 1982
- Aggregate reserve situation of the states is weak
 - 24 states + Virgin Islands have already needed loans in 2009
 - Large states have generally low reserve ratios and RRM's
 - Indexed states have generally high taxable wage proportions and high reserves
- Indexed states generally have higher weekly benefit maxima and higher benefit replacement rates than other states

3. Suggestions to Improve UI Financing - 1

- UI Taxes
 - Raise and index the federal UI tax base
 1. Increase it enough to make half of total payroll taxable
 2. Index the federal taxable wage base
 3. This will cause states to raise their state UI tax bases to remain in conformity
 - Increase the oversight of experience rating
 1. Oversee state reporting to ensure that all states have at least some employers at 5.4 percent or above
 2. Study the growth in employers taxed at the minimum rate
 3. Prohibit tax holidays as enacted in Georgia, Kansas and North Carolina in the 1990s

3. Suggestions to Improve UI Financing - 2

- Encourage states to build their trust funds
 1. Pay all states an added 1% on balances between $RRM = 0.25$ and $RRM = 0.50$
 2. Reward states with “large” balances with a bonus interest rate (added 1%) for loans made to other states with low or negative reserves (but total state net reserves on August 31, 2009 were just \$1.7 billion)
 1. As reserves have declined this possibility has become irrelevant
 3. Prohibit interest arbitrage when trust fund interest rates exceed the yield in the private bond market and a state deposits the proceeds of a private loan into its UI trust fund
 4. Prohibit “gaming” of cash flow loans through repeated repayments of Treasury loans on Sept. 30th of successive years
 5. Do not allow cash flow loans to states with “inadequate” pre-recession trust fund balances