

Unemployment Insurance

State Trust Fund Solvency

National Employment Law Project
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FREE SOUP COFFEE & DOUGHNUTS FOR THE UNEMPLOYED

FREE SOUP &

HORAN BAILIFF

PARKING

Unemployment Insurance Program Financing

Employers

```
graph TD; A[Employers] --> B[1) Federal Tax]; A --> C[2) State Tax];
```

1) Federal Tax

Flat Rate:

**0.8% on first
\$7,000 of
wages (\$56
maximum per
covered
employee.)**

Pays for:

**Administration
Extended
Benefits (EB),
and loans.**

2) State Tax

Variable Rate:

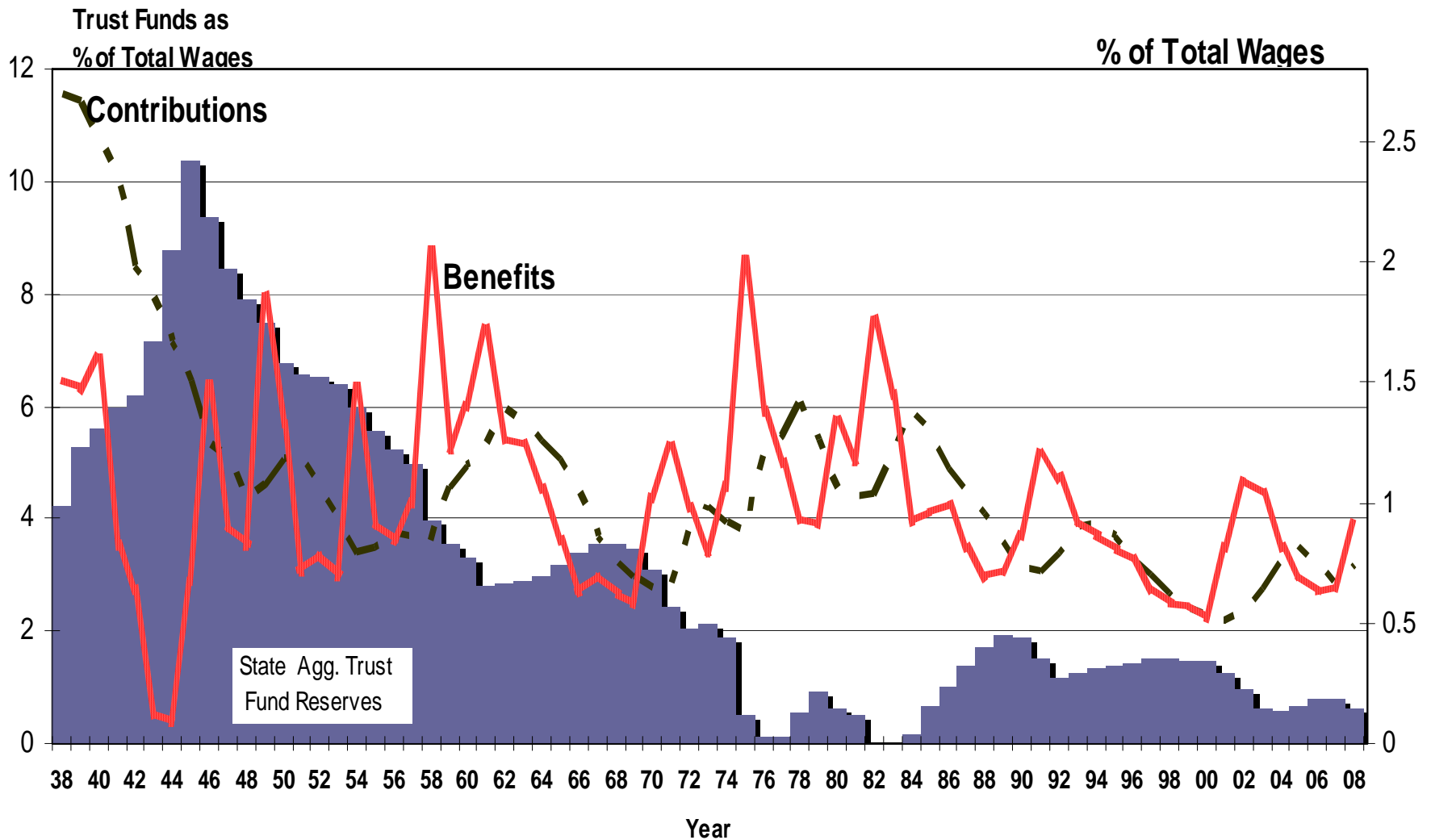
**On average about
\$275 per job in FY
2008.**

Pays for:

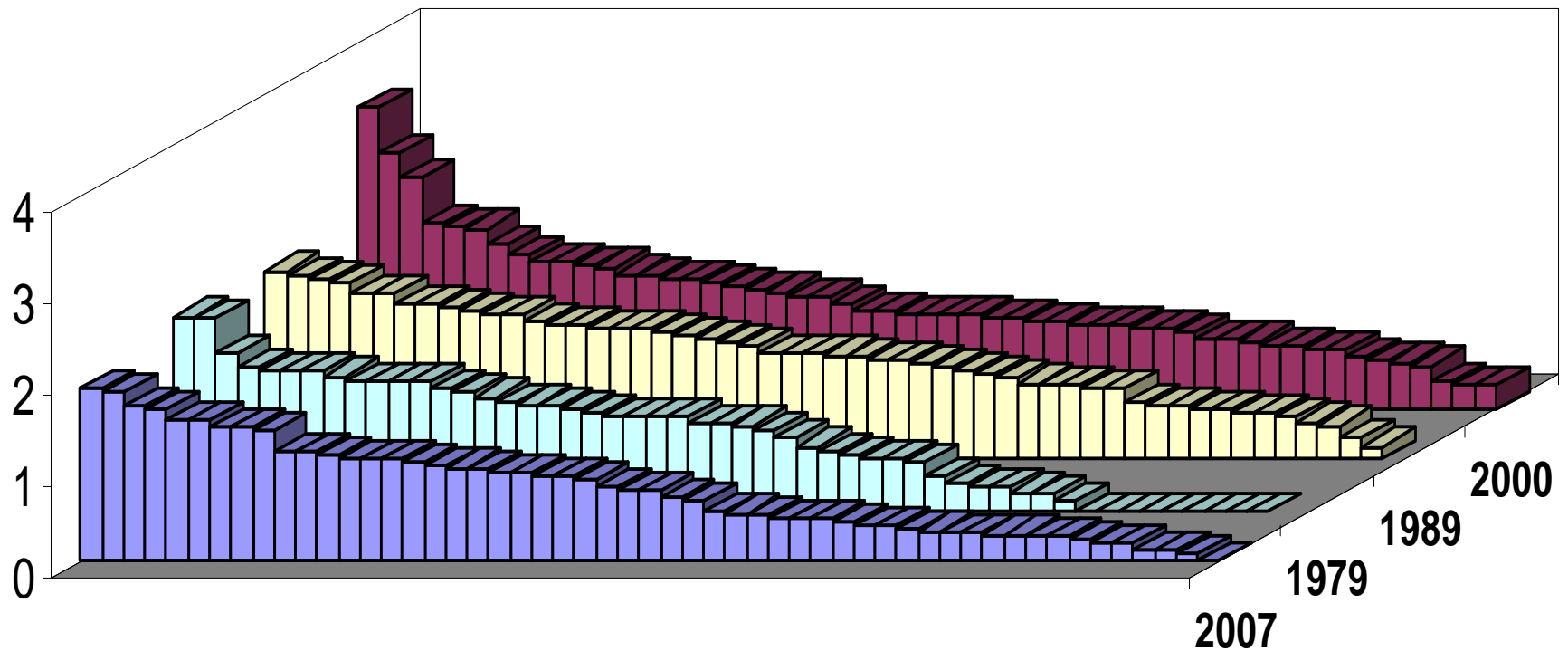
**State benefits
and State share
of EB.**

History of UI Financing

Aggregate State Benefits, Contributions and Reserve Ratio



AHCM By State Pre-Recession



States Above 1.0 AHCM

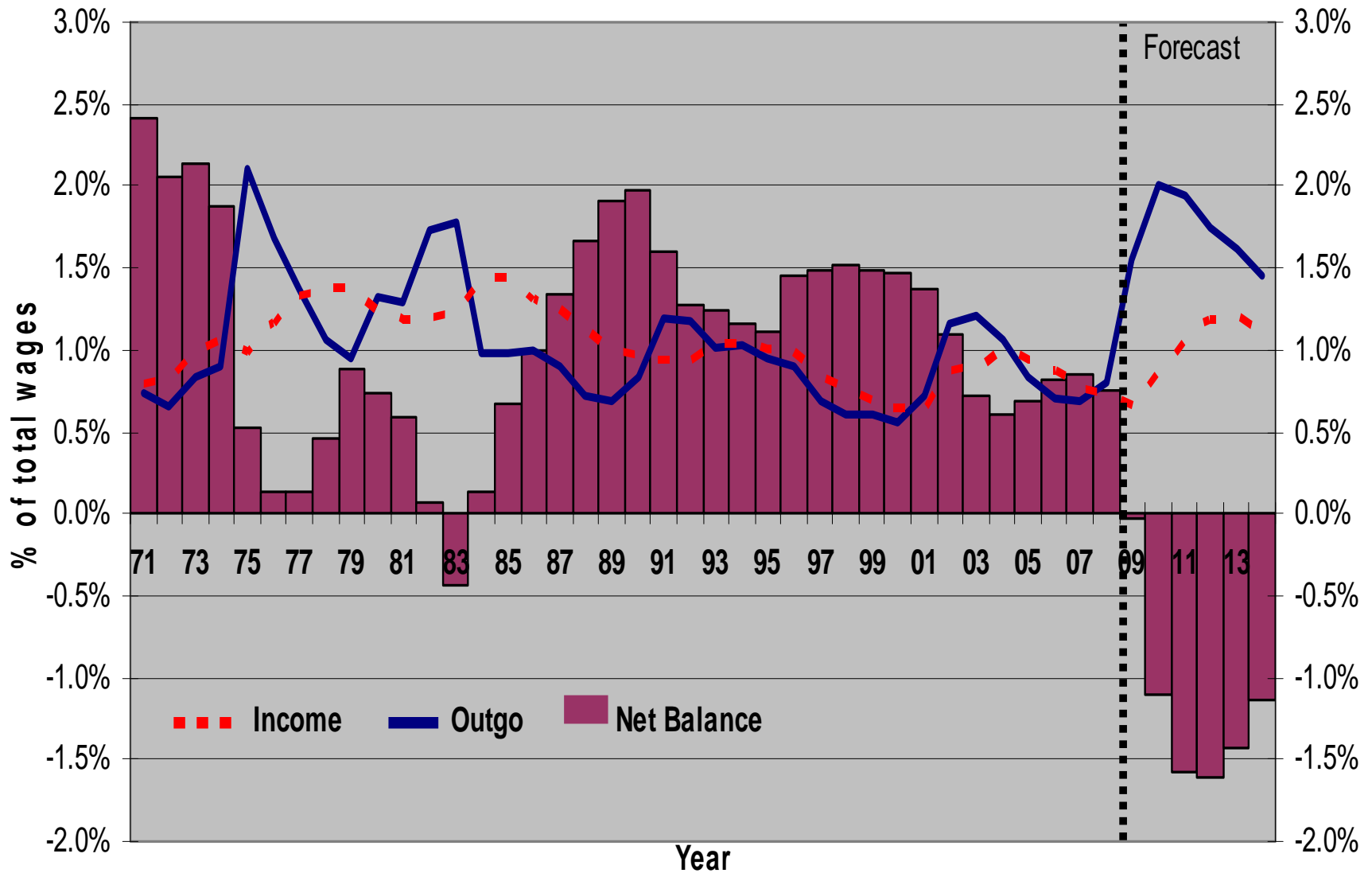
1979 = 24

1989 = 32

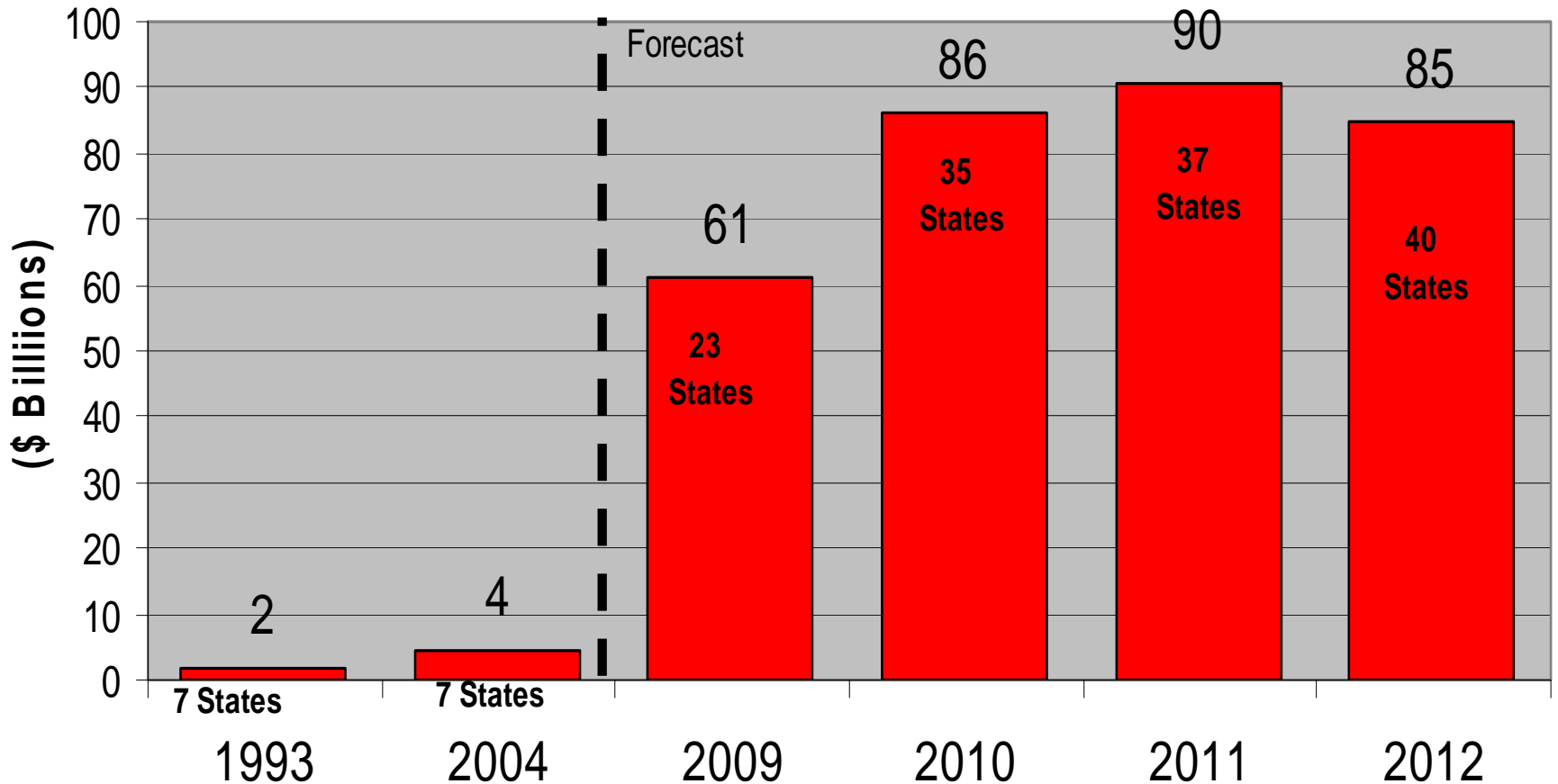
2000 = 30

2007 = 19

State Trust Fund Status



Forecasted Level of Title XII Borrowing*

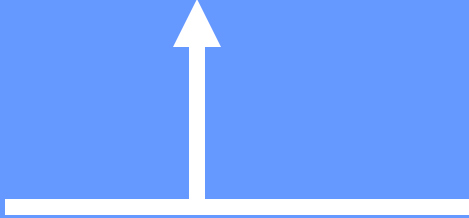


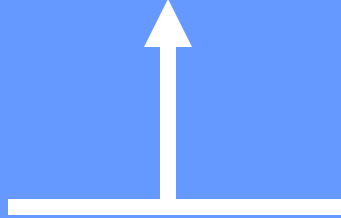
* Based on President's economic projections of mid-session FY2010

Source: U.S. Dept. of Labor, Office of Unemployment Insurance, Division of Fiscal and Actuarial Services

UI State Taxable Revenue

$$\text{Employer Contributions} = \text{UI Assigned Tax Rate} * \text{Taxable Wages}$$

- 
- 1) Benefits Paid
 - 2) State Law

- 
- 1) Total Wages
 - 2) Taxable Wage Base

Adequate Financing Rate

The flat tax rate necessary to adequately fund UI benefits.

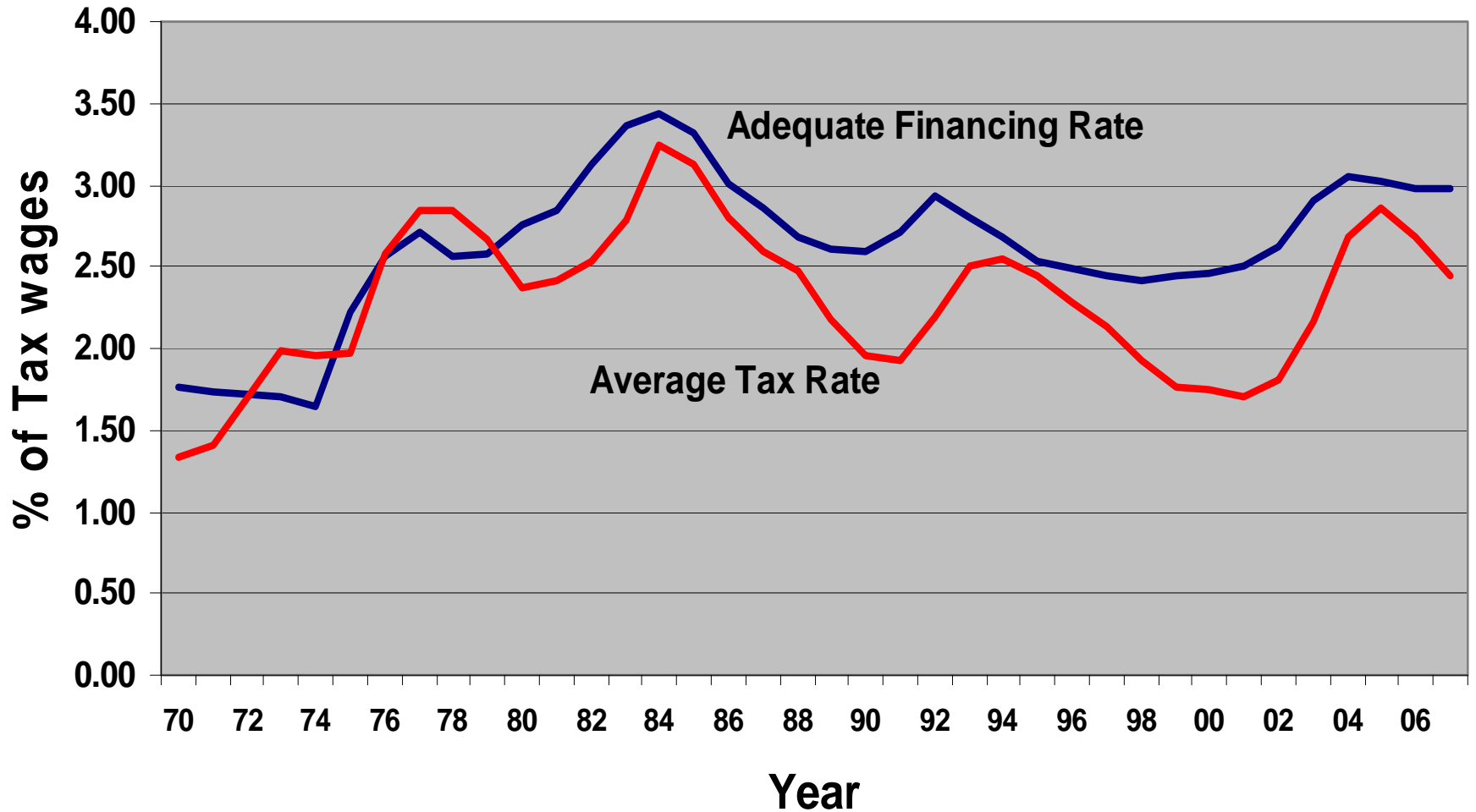
$$\text{Adequate Financing Rate} = \text{Long Term Avg. Benefit Cost Rate} + \text{Solvency Amount}$$

Long Term

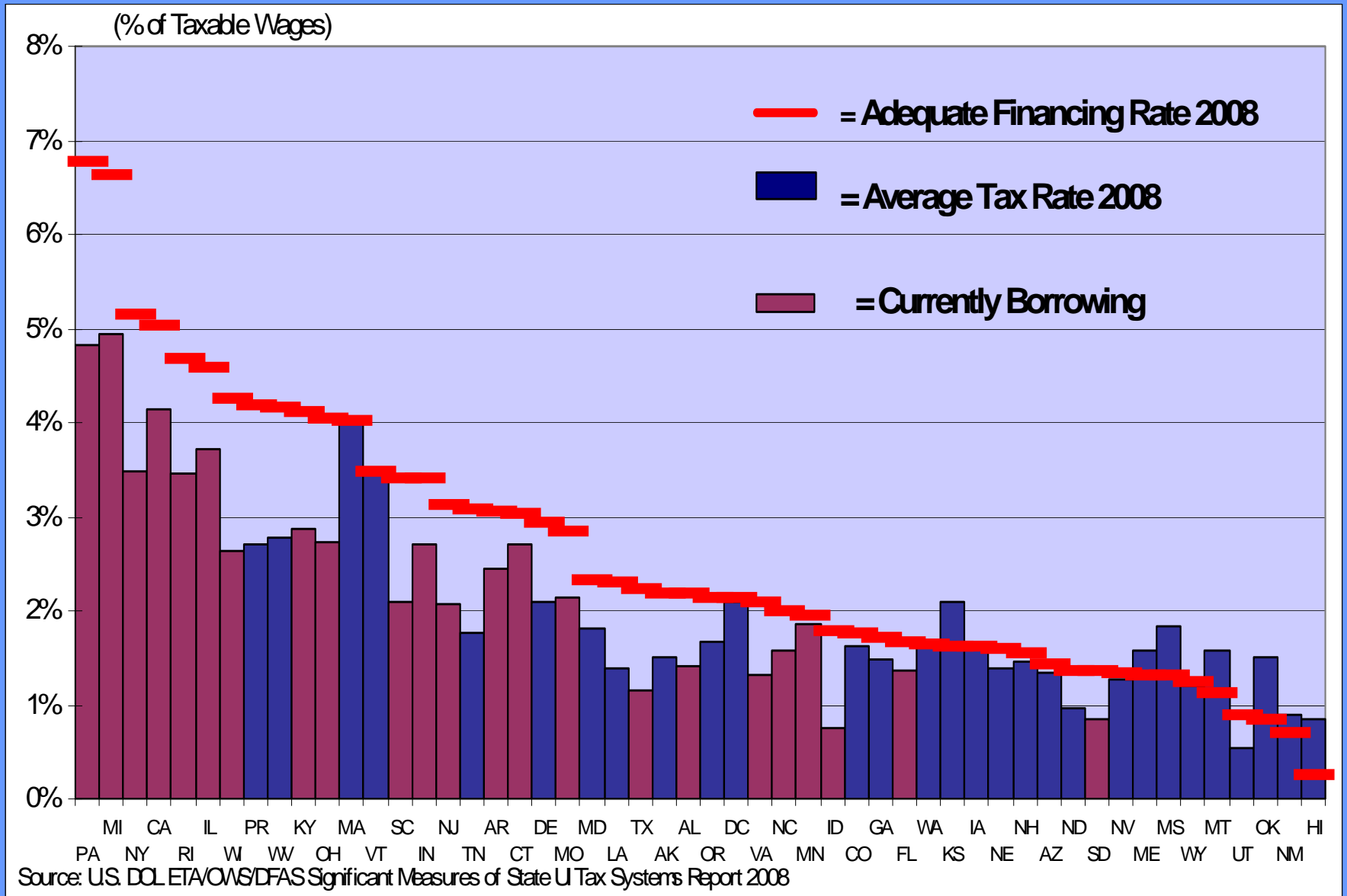
Benefit Cost Rate = 10 Year Avg. of (Benefits / Taxable Wages)

Solvency Amount = Difference Between Current Trust Fund and Amount needed to Reach AHCM 1.0 in 5 years.

UI Adequate Financing Rate with Average Tax Rate (as % of Taxable Wages)

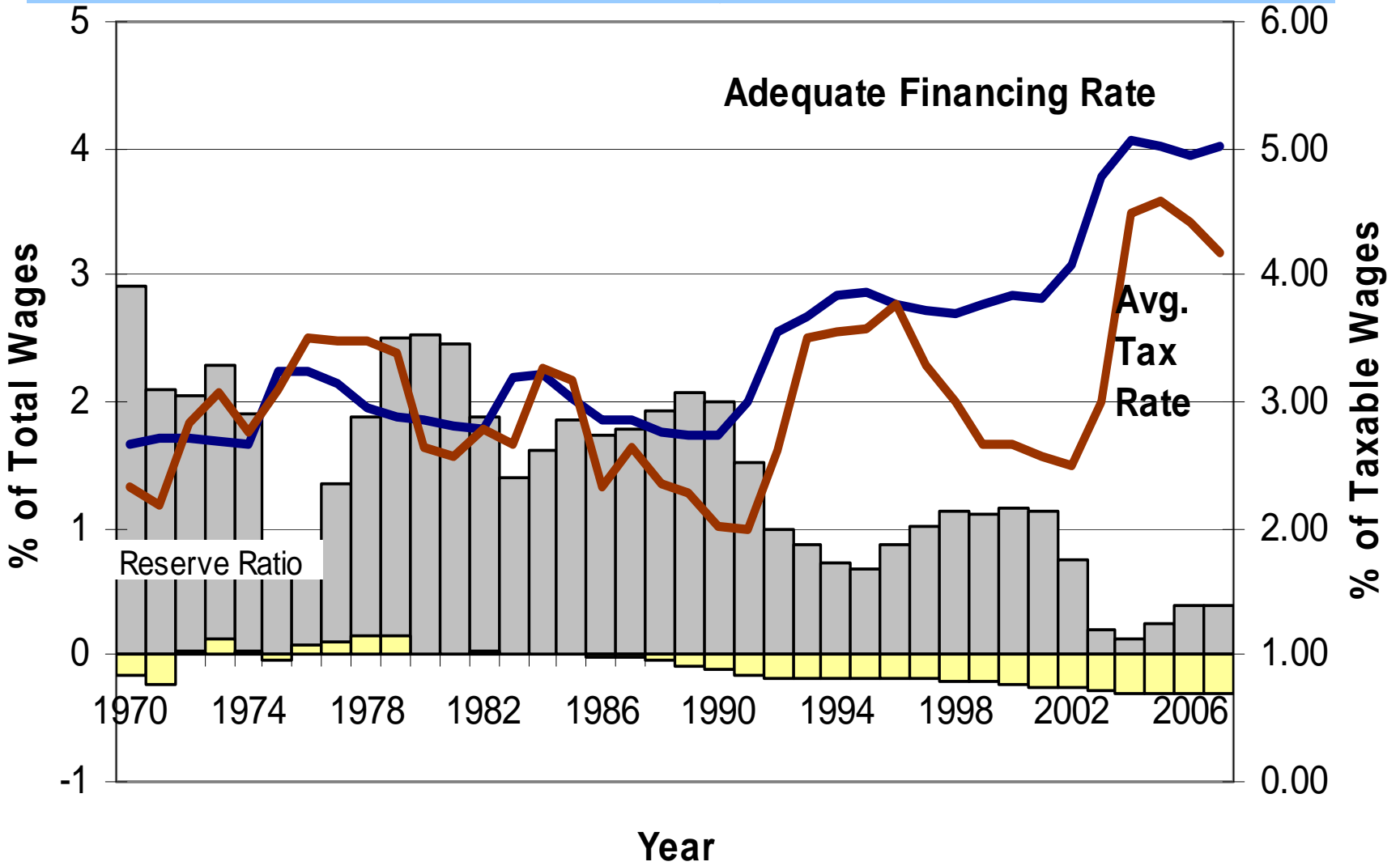


State Average Tax Rate Compared to Adequate Financing Rate

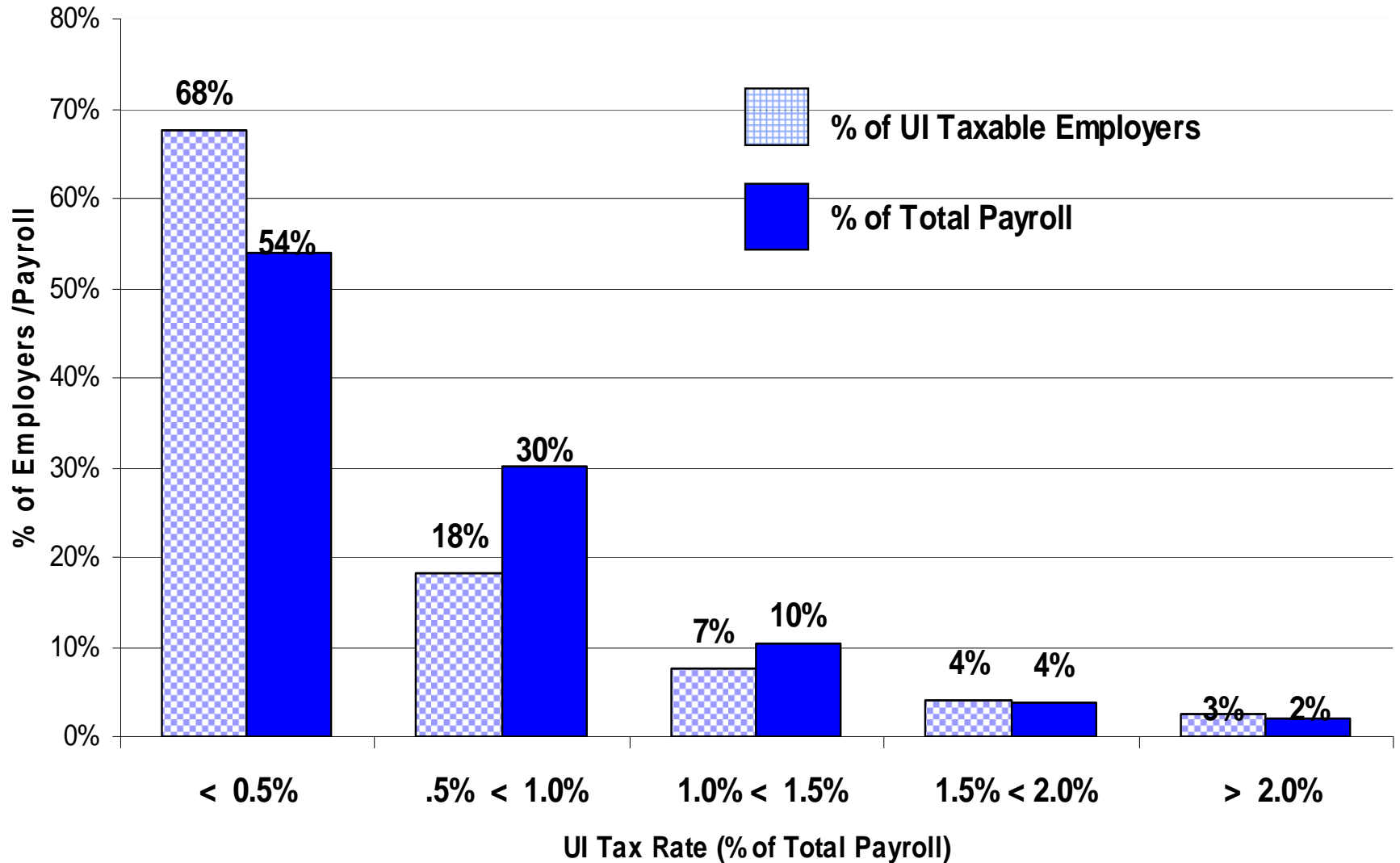


California

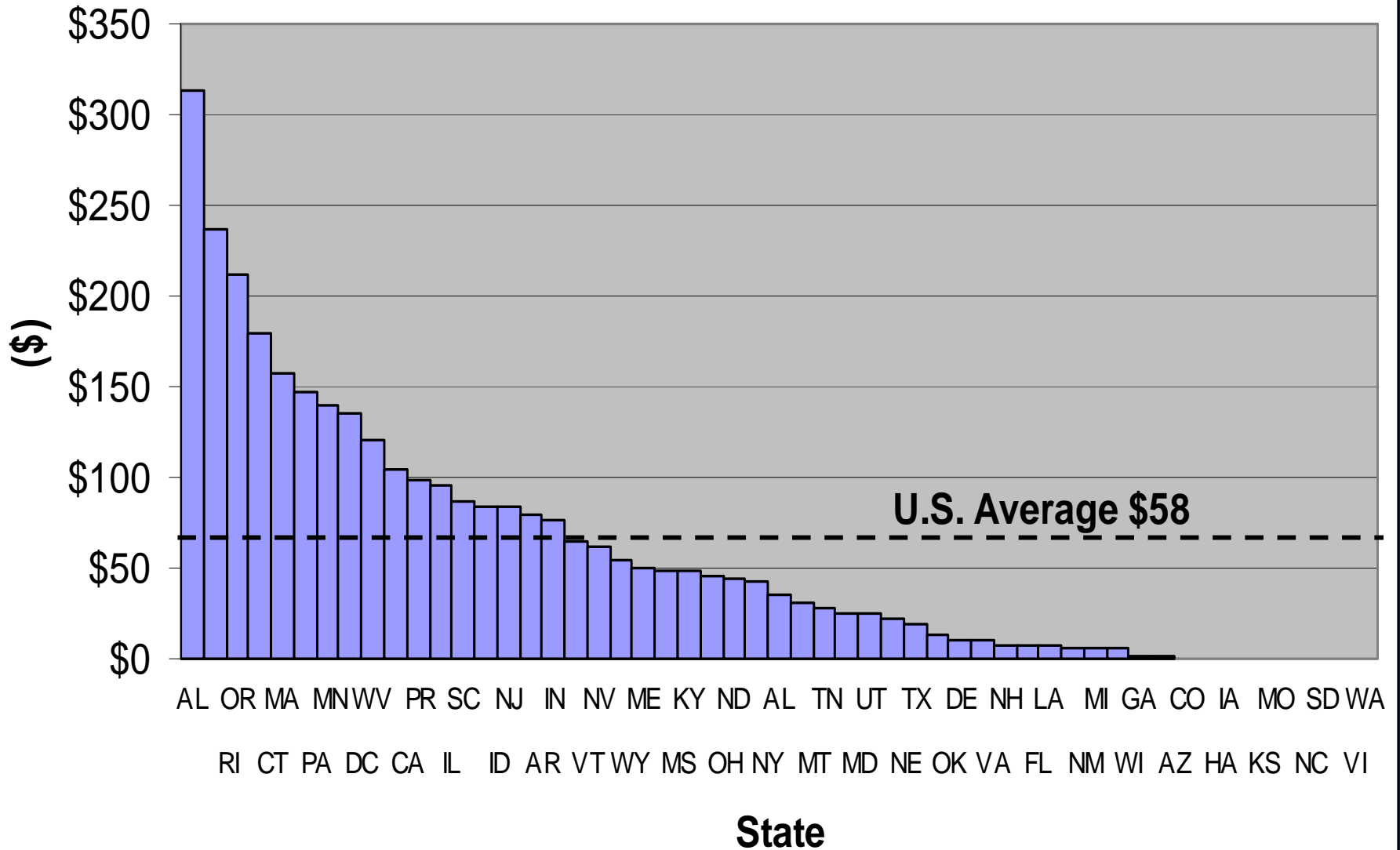
Difference Between Adequate Financing Rate and Avg. Tax Rate



Distribution of Employers and Wages by Effective UI Tax Rate (2008)



2008 Contributions Per Covered Employee at the Minimum Rate (Minimum Tax Rate * Taxable Wage Base)



Impact of Under-Funding in State UI Programs

- ❖ Reduces the effectiveness of UI as an automatic stabilizer for the economy.
- ❖ Leads to cuts in UI benefits.
- ❖ Reduces the level of Experience Rating UI taxes.

Options to Address Under-Funding of State UI Benefits

- Re-Insurance (National UI Commission, 1980)
 - Raise The Federal Taxable Wage Base (1983)
 - Federalize the System (Mashaw, Graetz, 1999)
 - Solvency Standards/Incentives – (ACUC, 1996)
 - Tax Rate Requirements – Minimum, Maximum and Social Rate Restrictions (1935)
 - Employee Tax (3 States, Inter. use)
-
- Restrict use of Cash Flow Loans based on state solvency (ACUC, 1996)

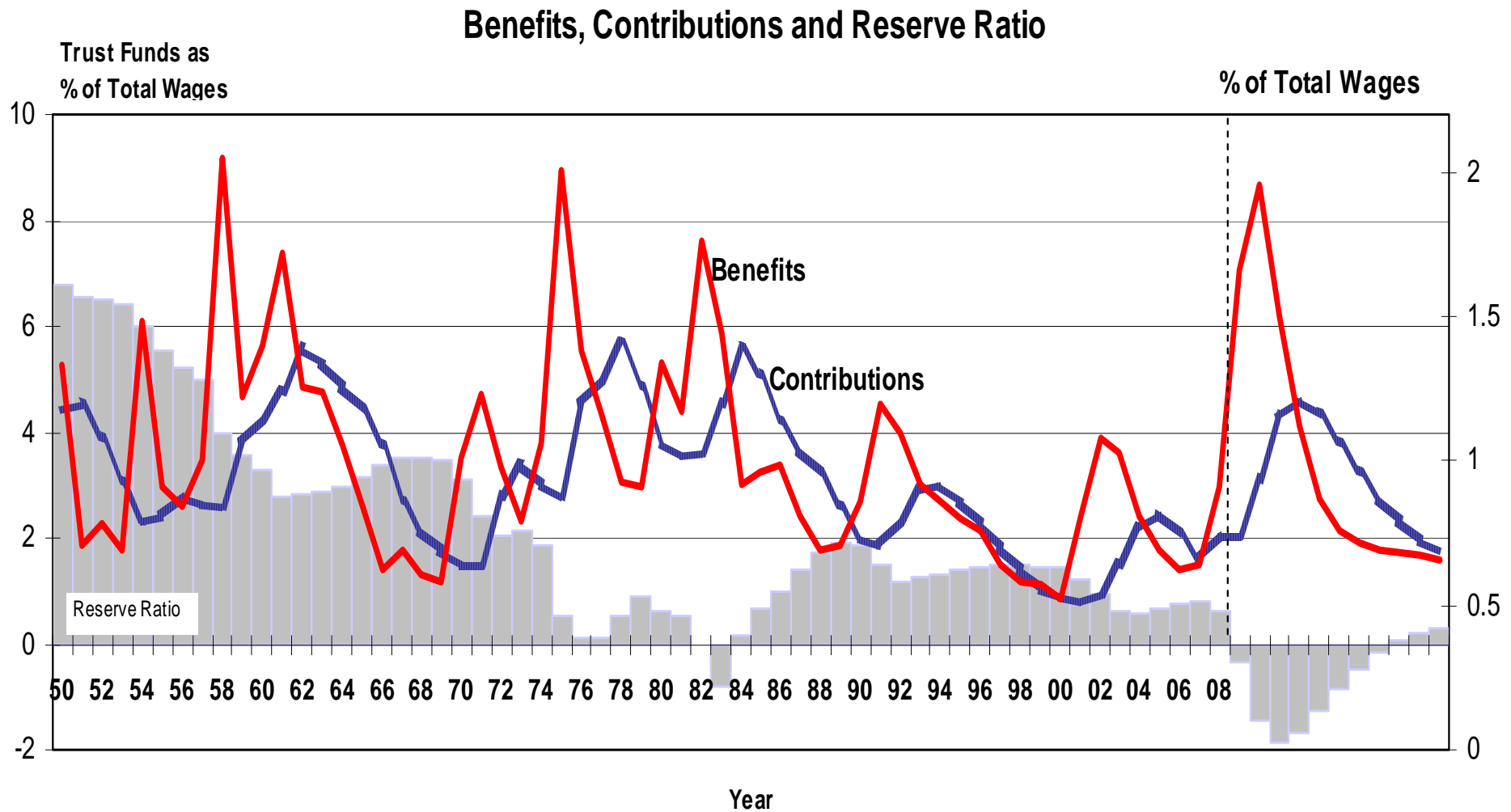
Addressing State UI Solvency

- 1) Helpful to make wage base and tax rate changes at the same time.
- 2) Solvency Standards / Incentives can be counterproductive if benefits can be cut.
- 3) There are several state examples of adequately funding a higher level of UI benefits: Oregon, Maine, Massachusetts ...

.....And Federal partner is always available for assistance in modeling, forecasting, and actuarial support:

<http://www.workforcesecurity.doleta.gov/unemploy/finance.asp>

Long Term Forecast with No Solvency Changes



Source: US DOL ETA/OUI/DFAS -usng mid-session FY10 economic assumptions.