



Confronting the UI Solvency Crisis

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The Road is Long

- Patience: Magnitude of recession and borrowing means that it will take several years for most states to return to solvency. Any solvency plan should be implemented over several years.
- Breathing room: Federal interest waiver through the end of CY2010 gives states opportunity to thoughtfully re-examine tax structures.

Getting Ready for 2010: Practical Suggestions

- Automatic Tax Increases:
 - Most states will have significant increases in 2010 that can start to improve the situation, if you can protect them from legislative meddling
- Protecting Benefits:
 - States accepting the \$25 per week federal additional compensation cannot cut weekly benefit amounts (does not prevent freezes in maximum weekly benefits).
 - Advocates must argue for the positive stimulus impact of UI benefits in today's economy. Benefits have a bigger fiscal stimulus than tax cuts.
- FUTA Credit Reductions:
 - Federal UI taxes will go up by \$21 per worker in most states in 2011 (more than that). Revenue goes toward loan principal. FUTA credit reductions allow for some progress in the face of legislative gridlock.

Key State Tax Reforms

- Taxable Wage Base: the whole ball game (almost)
 - Brings in more revenue
 - Improves responsiveness
 - Fairer for all employers
- Maximum Tax Rate:
 - Should be high enough for experience rating to function.
 - In 2008, maximum tax ranged from \$378 per worker (FL, AZ, MS) to \$2,675 (MN).
 - *Not a panacea.*
- Eliminate Zero tax rates: Employers should never get something for nothing.

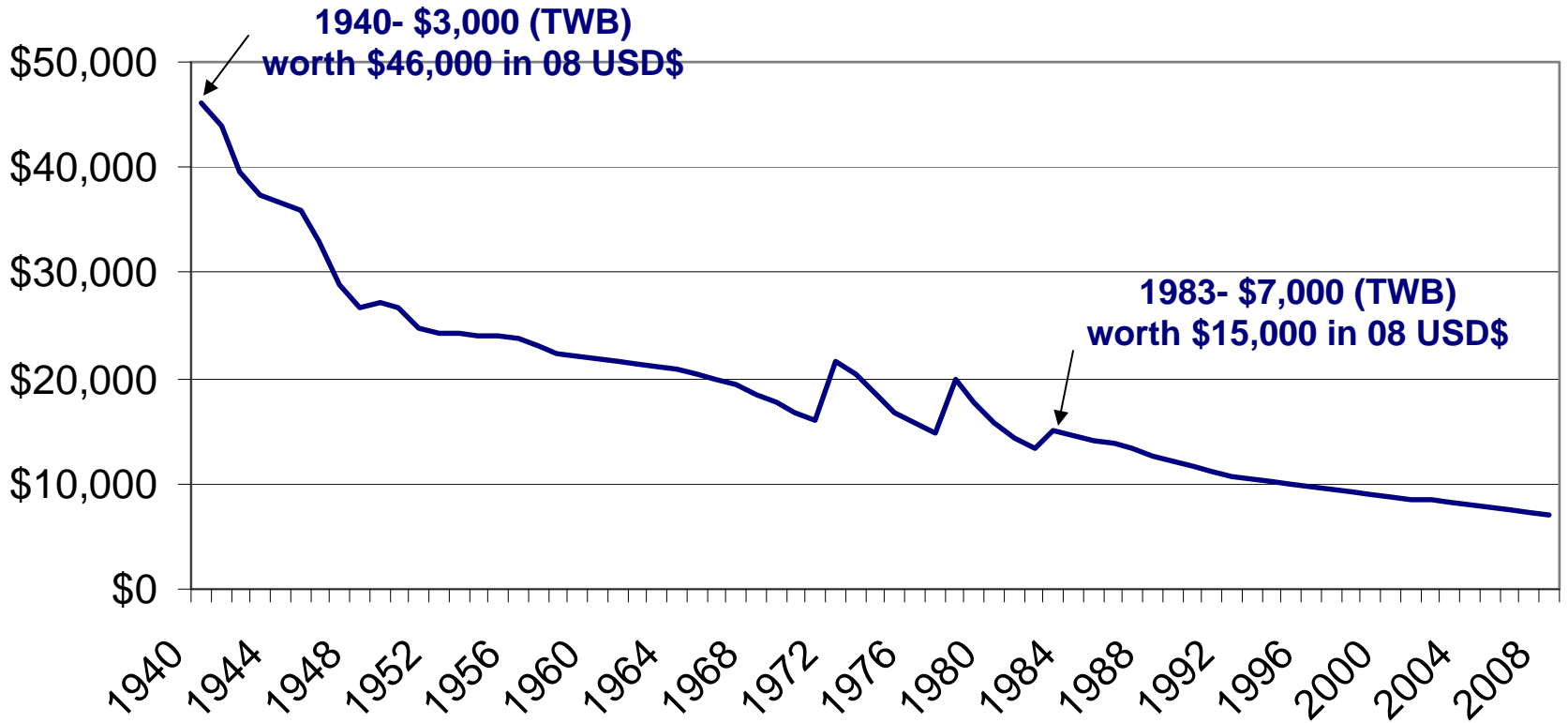
States will Need Help

- A national problem: The federal UI trust funds are broke. The \$90 billion debt (40 states) will leave a \$90 billion debt in the federal trust funds by 2012.
- Danger for workers: In the 1980's, UI reciprocity rates fell dramatically in response to solvency problems early in the decade, as states tightened eligibility rules.
- A renewed federal role: In order to prevent a race to the bottom and to mitigate interstate competition re: UI costs and benefits, Congress needs to craft a renewed federal role.
- Bailout not likely: No strings attached "bailout" of the states is unlikely given federal deficit worries.

Recipe for a Federal Solution: Increase & Indexing the Federal Taxable Wage Base

- **Jump starts state solvency:**
 - State taxable base cannot be lower than the federal wage base.
 - Significant boost in the wage base will ease state legislative and interstate compensation pressures.
- **Key point:** Stabilizes the federal trust funds, which were exhausted earlier this year.
 - Faster loan repayment by the states
 - Modest increase in federal revenues as increase is phased in over time.

Value of the Federal UI Taxable Wage Base in 2008 Inflation Adjusted Dollars



2nd Possible Ingredient – *Debt Relief*

- Offer partial loan forgiveness (interest/principal) to the states and their employers.
- Relief would be contingent on protecting workers from benefit or eligibility cuts.
- Could tie aid to other minimum financing and benefit changes.

3rd Possible Ingredient – *Changing the Incentives*

- Interest premium for solvent states (recommended by the Advisory Commission on Unemployment Compensation)
- Less favorable borrowing rules for those who don't prepare. (Recommend by new DOL proposed rules)
- Additional federal tax credits for states that do right by workers – could be limited to solvent states.



Discussion

- Comments/thoughts/suggestions on what strategies will work in states next year, and what we can do to support each other.
- Questions and suggestions about various federal policy ideas, and what we can do to shape and promote federal solutions.