States in Crisis: Unemployment Insurance Trust Fund Solvency

By Jennifer Burnett [1]
Friday, July 1, 2011 at 12:00 AM

As state leaders came together to hammer out their 2012 fiscal year budgets, they faced a challenging task: Find a way to close huge budget gaps while facing an increased demand for services like unemployment benefits. Sustained high unemployment rates, long-term unemployment and unsustainable funding models have exhausted state unemployment trust funds, requiring states to borrow large sums from the federal government. As of March 2011, 31 states had borrowed more than $42.5 billion from the federal government to continue paying unemployment benefits, and sizable interest payments on those loans come due in the fall of 2011. Paying back those loans with interest will be a struggle and could have an impact on both economic recovery and future fiscal stability.

About the Author
Jennifer Burnett, senior research analyst, joined The Council of State Governments in 2006. She coordinates the research efforts at CSG, including requests for information from members, analysis and presentation of data—particularly public access to interactive online databases —and reports on emerging state policy trends. Burnett manages States Perform, a website that provides users with access to customizable and up-to-date comparative performance measurement data for 50 states in six key areas. Prior to joining CSG, Burnett was a research associate at the University of Kentucky Center for Business and Economic Research and a legislative aide for a member of Canadian Parliament. She holds bachelor’s degrees in economics and finance from the University of Kentucky, a master’s degree from the Patterson School of Diplomacy and International Commerce at the University of Kentucky and a juris doctor from the Salmon P. Chase College of Law. Her areas of expertise include: tracking fiscal and economic trends, performance management and measurement, tax policy, state budgets, income trends, unemployment insurance, surveys, evaluations and data collection and analysis.

Unemployment Rates Remain High and People are Unemployed Longer

In 2010, the national average unemployment rate was 9.6 percent and forecasters predict that rate will hover around 9 percent throughout the rest of 2011, with moderate improvement in 2012—around 8 percent. While the national unemployment rate is elevated, rates in the states and
regions vary significantly. North Dakota (3.9) and Nebraska (4.7) had the lowest rates in 2010, while Michigan (12.5) and Nevada (14.9) had the highest. The Midwest had the lowest average annual unemployment rate in 2010 at 7.7, followed by the East at 8.4. The Western and Southern regions both had annual rates of 9.3.

In addition to elevated unemployment rates, people are receiving benefits longer. Based on U.S. Department of Labor reports, the average amount of time individuals received unemployment benefits was 37.1 weeks in February 2011—more than double the average duration of unemployment when the recession began in December 2007 and up from 29.3 weeks a year before. Those workers considered to be “long term unemployed”—jobless for 27 weeks or more—made up 43.9 percent of the unemployed in February, essentially unchanged from January but up from 39.3 percent a year before.

State Unemployment Trust Fund Loans Have Been Exhausted

Since the beginning of the Great Recession in 2007, states have struggled to continue paying unemployment benefits to thousands of citizens month after month. Eventually, many states ran out of money to pay those benefits and were forced to turn to the federal government for help. The Federal Unemployment Account allows states to obtain loans to make sure the flow of unemployment benefit dollars remains uninterrupted even if states are fiscally struggling.

According to the Department of Labor, at the end of January 2010, 26 states were borrowing money from the Federal Unemployment Account to help pay increasing claims for unemployment insurance benefits, with outstanding loans then totaling more than $30 billion. By March 18, 2011, 32 states plus the Virgin Islands were borrowing nearly $45.7 billion. By the end of 2010, Maryland, New Hampshire, South Dakota, Tennessee and Texas had repaid their loans in full, but New Hampshire and Texas have borrowed more since the beginning of 2011.

The Labor Department estimates by the fourth quarter of 2013, as many as 40 states may need to borrow more than $90 billion to fund their unemployment programs and those loans may take a decade or more to pay off. California and Michigan are the top borrowers of federal funds, with a combined total of more than $14.3 billion in loans.

Sustained high unemployment affects unemployment insurance trust funds in two primary ways—decreased supply and increased demand. More people need unemployment benefits for longer, increasing the money going out, while fewer people are paying into the reserves through payroll tax collections, draining the supply of funds coming in.

The Bill Comes Due

Until the end of 2010, a provision in the American Recovery and Reinvestment Act delayed interest from accruing on state unemployment loans. Now, that provision has expired and interest payments will become due in September 2011 at a rate of nearly 4.1 percent. When President Obama unveiled his 2012 budget in February, it included a provision that would give states a two-year respite from automatic tax increases and interest payments on unemployment insurance loans. The status of that proposal remains unclear amid heated Congressional debates over the federal budget.

Failure to extend an interest or tax-increase moratorium could jeopardize or stall economic recovery—
states have and will continue to raise state taxes on employers to regain trust fund solvency and to avoid automatic federal tax increases. States also must find nearly $1.7 billion for interest repayment in their already stressed budgets: The Center on Budget and Policy Priorities is projecting shortfalls totaling $112 billion for fiscal year 2012.

To start paying down their debt before an interest payment comes due, states are evaluating their current tax rates and making changes. In Delaware, that means the state’s employers will find a new bill in the mail this year. The state has borrowed less than $41 million so far—less than 1 percent of what larger states like California have borrowed—but Tom MacPherson, director of the unemployment insurance division at the state Department of Labor, estimates that number will eventually grow to around $76 million. When the state’s unemployment trust fund became insolvent, it triggered an automatic “temporary emergency employer assessment,” which means the state’s employers will be billed up to $11.50 per employee this year.

“Although this provision has been a part of Delaware unemployment law for over 20 years, this is the first time that we have actually had to use it,” said MacPherson. According to him, that equals an interest payment that is a little more than $3.1 million for his state, which would come due Sept. 30, 2011. In 2008, Delaware increased the taxable wage base for the first time in 20 years—from $8,500 to $10,500—but it is likely no new changes are on the horizon.

In August 2011, Connecticut will begin charging businesses a special assessment equal to about $40 million—or around $40 per employee. The state could eventually borrow more than $1 billion to keep its unemployment program afloat, bringing total interest costs to a projected $100 million.

Florida has borrowed more than $2 billion so far and continues to borrow more each month. Florida’s unemployment taxes have nearly tripled this year and the minimum tax employers pay will more than double again in 2012. The state will have to pay out up to $61 million in interest charges in September.

In Indiana, state legislators are trying to get borrowing under control by both cutting unemployment benefits and raising employer insurance premiums. Under House Bill 1450, which was signed into law earlier this year, average weekly payouts for unemployment benefits were cut by more than 20 percent, down from the previous average of $283, and reduces eligibility for seasonal employees. Employer premiums will also increase under the bill, but will not be as high as previously scheduled under a law passed two years ago. At the end of March, the state had borrowed nearly $2.2 billion.

Gov. Earl Ray Tomblin of West Virginia—one of the few states that have not yet had to borrow money—has proposed the state use rainy day funds to replenish the state’s unemployment account so that it won’t face a big interest bill later.

Texas has also taken a pre-emptive approach: The state sold $2 billion in bonds that it used to pay down the state’s debt at the end of 2010. The interest rate on the bond is about half the rate it would be paying the federal government. According to Ann Hatchitt, director of communications for the Texas Workforce Commission, bond sales allow Texas to have more control over the interest rate and the payback period for any debt necessary to replenish the trust fund and may limit the need for tax increases. “By issuing bonds over a seven-year period, we can minimize the impact of rising tax rates for Texas employers,” said Hatchitt. Although the state paid off its previous debt in 2010, the state has since borrowed more, owing $14.3 million at the end of March 2011.

Paying interest to the federal government is a difficult pill to swallow for states as they struggle to balance their budgets in one of the most challenging fiscal situations in memory. During The Council of State Governments’ 2010 National Conference in Providence, R.I., the Executive Committee passed
a resolution in support of extending interest relief on unemployment loans. The resolution urges Congress to delay interest accrual on state loans from the Federal Unemployment Account until states have recovered from the impact of the recent recession.

In addition to CSG’s resolution, governors from 14 states wrote a letter to Congress at the end of 2010, also urging the federal government to extend the interest moratorium for another two years. “Extending the interest-free loans would allow states to avoid increasing payroll taxes, reducing benefits, or both, while the economic recovery continues,” the letter said.

As state leaders work to regain solvency in their unemployment programs while addressing the myriad other fiscal concerns in their states, it is uncertain whether Congress will take action to extend the interest moratorium or offer states other relief. It is certain, however, that states face a long road ahead to recovery.

Tags:
- Book of the States 2011
- Policy Area
- Economics and Finance
- Labor and Employment
- Unemployment and Unemployment Insurance

© 2016 The Council of State Governments. All Rights Reserved.

Source URL: http://knowledgecenter.csg.org/kc/content/states-crisis-unemployment-insurance-trust-fund-solvency

Links