Jennifer Burnett

As the national unemployment rate hovers around 9.1% and with state unemployment rates as high as 12.9 percent, states are still struggling to pay out unemployment benefits. In September 2006, Michigan became the first state in recent history to borrow money from the federal government so that it could continue to send out unemployment checks. Now, 28 states plus the Virgin Islands are currently borrowing money and next month, many will have to start paying interest on those loans. For most, the bill will be in the millions of dollars.

Current unemployment conditions

In July 2011, the national unemployment rate remained at 9.1 percent, remaining virtually unchanged for four months. Twenty-eight states and the District of Columbia reported unemployment rate increases in July while 9 had decreases and 13 had no change.

Year-over-year, the national unemployment rate was down .4 percentage points from July 2010, while 37 states reported a decrease in the rate over the same time period, 7 states and the District of Columbia posted increases and 6 states had no change.

Nevada posted the highest state unemployment rate in July – 12.9 percent. California came in second at 12 percent. North Dakota had the lowest rate in July at 3.3 percent followed by Nebraska at 4.1 percent. Twenty-five states have unemployment rates significantly lower than the national average of 9.1 percent, 8 states and the District of Columbia have measurably higher rates, and 17 states have rates that are not considerably different from the national average.

Unemployment trust fund solvency

The fiscal impact of long-term, high unemployment rates is painfully clear to all state policymakers. Sustained high unemployment affects unemployment insurance trust funds – the accounts used to pay out unemployment benefits – 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.

This mismatch in supply and demand, along with unsustainable and potentially careless state management of trust funds when the economy was actually performing well, means that state trust funds have been drained quickly during this prolonged downturn.

Twenty-eight states plus the Virgin Islands are currently borrowing money from the federal government to help pay increasing claims for unemployment insurance benefits, with outstanding loans totaling more than $36.2 billion.

California and Michigan are the top borrowers of federal funds, with a combined total of more than $11 billion in loans. Michigan has been borrowing money for unemployment the longest of any state, since September 2006.

The Labor Department estimates that it will take a decade or more for some states to pay off their debt.

The bill comes due
The number of states borrowing and how much those states are borrowing is actually on a downward trend – down from 32 states borrowing $45.7 billion in March 2011. That’s likely because states are fast-approaching a dreaded deadline. Next month, states will have to begin making interest payments on their loans, something that was stalled until now by a provision in the American Recovery and Reinvestment Act.

For California, that means hundreds of millions of dollars going to an interest payment even as the state struggles to find the money just to pay for basic services.

Loree Levy with the California Employment Development Department told KPBS that the state’s fund is chronically imbalanced and the deficit keeps growing. “[We will borrow] $11.1 billion by the end of 2011. We forecast a deficit of $12.7 billion by the end of 2012 if we still have no solution.” The state’s first payment due in September will be about $320 million. New York borrowed from the federal government to make up for state’s own insolvent

New York will have to pay $95 million in interest by the end of September.

Wisconsin – which currently owes around $1.1 billion – sent out similar letters to employers in June. The state informed Wisconsin employers with payrolls over $25,000 last month to expect a .2 percent assessment increase so that the state could make its interest payment. The state is facing a $48 million interest payment due next month.

In order to help slow the loss of money from trust funds, a majority of states—35—already increased taxes on employers in the 2010 fiscal year, and seven states enacted legislation to raise the taxable wage base on employers for unemployment taxes, according to a survey by the National Association of State Workforce Agencies.

According to the Lexington Herald-Leader, Kentucky state officials are waiting for more information from the federal government on how to proceed in paying out the $28 million interest payment due in September. Joe Meyer, Secretary of the Education and Workforce Development Cabinet, told the newspaper that he met with officials with the U.S. Department of Labor in Washington, D.C., last week about the Sept. 30 interest payment.

“The federal guidance and procedures are very unclear,” said Meyer.

The state has borrowed around $950 million and has been borrowing since January 2009. If the state doesn’t make their interest payment on time, businesses could lose a federal tax credit worth about $600 million.

**Will the feds make a move?**

There may be a chance, however, that Congress will pass additional legislation just in time to extend the interest moratorium until states have had a chance to recover economically, although the feds have thus far ignored the pleas of state leaders to do just that.

New York Senator Charles E. Schumer, a Democrat, says he will introduce legislation that will retroactively extend the interest-free provision in the ARRA. Employers in his state are being assessed an additional tax to cover interest payments, which Schumer calls a “job-killing tax.”

Although it was rumored that the recently passed debt and deficit-reduction bill might include a respite for states from unemployment loan interest payments, the final bill did not include any such provisions.

Schumer explained to the Post Standard that, although legislation to reinstate interest-free lending has support from both parties, it wasn’t included in the debt ceiling bill because legislators were distracted. “People weren’t against it; they simply let it fall by the wayside as everyone was fighting,” Schumer said.

It is difficult to predict if Schumer’s plan will gain traction, or if Congress will act before states have made their September payments and charged employers additional taxes to cover their costs.

Author’s calculations of U.S. Department of Labor, Employment and Training Administration data.

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