NEWS RELEASE
For Immediate Release:
Wednesday, February 9, 2011

Contacts:
CBPP: Shannon Spillane, 202-408-1080, spillane@cbpp.org
NELP: Tim Bradley, 314-440-9936, tim@berlinrosen.com

820 First Street NE, Suite 510
Washington, DC 20002
Tel: 202-408-1080
Fax: 202-408-1056
center@cbpp.org
www.cbpp.org

75 Maiden Lane, Suite 601
New York, NY 10038
Tel: 212-285-3025
Fax: 212-285-3044
nelp@nelp.org
www.nelp.org

STATE UNEMPLOYMENT INSURANCE SYSTEMS NEED MAJOR REFORMS TO AVOID EMPLOYER TAX INCREASES, DEEP BENEFIT CUTS FOR JOBLESS WORKERS

National Organizations Offer Plan that Limits Tax Hikes, Maintains Benefits

Many states' systems for financing unemployment insurance (UI) are broken and, without major reforms, will remain broken, requiring years of high federal taxes on employers and threatening UI's role as a key economic stabilizer during recessions, according to a major new report from the Center on Budget and Policy Priorities (CBPP) and the National Employment Law Project (NELP).

By enacting the plan outlined in the report, however, federal policymakers would give states a framework to restore the long-term health of their UI systems, avoid significant tax increases on employers while the economy remains weak, provide immediate rewards and new incentives to states with solvent UI trust funds, and prevent damaging cuts in UI eligibility and benefits for jobless workers — all *without* increasing the federal deficit.

"States face a tremendously urgent crisis when it comes to their unemployment insurance trust funds," said Michael Leachman, assistant director of the Center's State Fiscal Project and co-author of the report. "If federal policymakers address this crisis using our plan, employers could save as much as $50 billion in taxes and states would maintain the critical benefits they provide to people who lose their jobs."

The plan is consistent with the policy framework that reportedly will be part of the President's fiscal year 2012 budget.

"It is a major step forward for the President's FY 2012 budget to address the UI trust fund crisis. Our proposal rests on the same core principles — giving employers and states relief now while taking concrete steps to restore the long term solvency of the UI trust fund as the economy recovers," stated Andrew Stettner, deputy director of the National Employment Law Project. "The plan endorses two key aspects of what the Administration's proposal reportedly includes — raising the taxable wage base up from the inadequate, outdated level of $7,000 and endorsing a two-year moratorium on federal UI tax increases."

The joint CBPP and NELP plan also suggests additional relief and positive incentives for employers, takes further steps to restore the solvency of trust funds, and builds on existing federal protections of state benefit levels.

– more –

The Challenge

States tax employers to finance regular UI benefits for unemployed workers, generally up to 26 weeks. States UI trust funds may run dry when unemployment remains high for sustained periods, forcing states to borrow from the federal UI trust fund and repay the loans later. At the moment, 30 states have exhausted their UI trust funds and are borrowing from the federal government.

Total outstanding loans, which reached an estimated $41 billion at the end of 2010, will climb to a record $65 billion in 2013, according to the U.S. Department of Labor. If a state does not fully repay its loan within two years, the federal government is required to recoup it by raising federal UI taxes on employers in the state.

Employers could face significant increases in both state and federal UI taxes as states begin to repay the loans. To repay the principal, federal UI taxes on employers will rise automatically in a number of states this year or in early 2012 and rise to very high levels over the next few years. Employers in borrowing states will pay $5 billion to $7 billion in higher federal UI taxes before the end of 2013, and $16 billion to $24 billion in higher federal UI taxes over the next five years. Employers will continue paying these high federal UI taxes until states pay off their loan principal.

Separately, states must make interest payments on these loans, and they often enact special assessments on employers to cover those costs. So, while paying higher federal UI taxes in the years ahead, employers also will face higher state UI taxes starting this year, as states enact special assessments to pay interest due on their loans by September 2011. States will pay $1.4 billion in interest in federal fiscal year 2011 and another $2.2 billion in 2012, the Labor Department projects.

These tax increases will come even as the economy remains weak and will likely stay weak for several years. And, states facing large loan repayments will face considerable pressure to substantially cut UI eligibility and benefits in the coming years.

"Only about one third of jobless workers receive state UI benefits as it is," said Iris Lav, senior advisor at the Center on Budget and Policy Priorities and co-author of the report. "The last thing we need is to see weaken our unemployment insurance system further. Not only does UI help families make ends meet when a family member gets laid off, but it also provides a critical boost to the economy during downturns."

Highlights of the Plan

The plan outlined in the new report would enable states to restore the long-term health of their UI systems, avoid significant tax increases on employers during a weak economy, and prevent damaging cuts in UI eligibility and benefits for jobless workers, without increasing the deficit.

It has five central elements:

- The federal government would gradually raise the amount of a worker's wages subject to the federal UI tax (i.e., the FUTA taxable wage base). This would automatically raise the floor for the taxable wage bases in the states which by law cannot be lower than the federal wage base, helping those states rebuild their trust funds. (The federal UI tax *rate* would fall, however, so that *overall federal UI taxes* did not go up.)

– more –

- The federal government would provide a moratorium, until 2013, on state interest payments on their UI loans.
- The federal government would also postpone, for two years, the FUTA tax increases required to recoup the loan principal in borrowing states.
- The federal government would offer immediate rewards and future incentives for states that currently have and continue to maintain adequate trust fund levels.
- The federal government would excuse a state from repaying part of its loan if the state (a) enters a flexible contractual agreement with the U.S. Labor Department to rebuild its trust fund to an appropriate level over a reasonable number of years, and (b) agrees to maintain UI eligibility, benefit levels, and an appropriate tax rate over the loan-reduction period.

This plan would produce the following benefits:

- Employers would not pay higher federal UI taxes until the beginning of 2014, saving them $5 billion to $7 billion while the economy remains weak and $10 billion to $18 billion over the next five years. Also, employers would pay no additional assessments to cover interest payments in 2011 or 2012, saving them $3.6 billion.
- In addition, partial loan forgiveness that comes from a state's commitment to build adequate trust funds would save employers about $37 billion by the end of the decade. Counting the interest payments on this principal as well, employers could save as much as $50 billion.
- All or nearly all states would assume a path to permanent solvency.
- Employers in responsible states would receive concrete rewards and a more level playing field between the states.
- Adequate trust funds would stabilize UI tax rates over time, avoiding the roller-coaster tax rates common in many states — very low during healthy economic times, rising rapidly during recessions — that harm businesses and the economy.
- States would maintain current UI benefit and eligibility levels.
- The federal deficit would not rise as a result of these policies.

# # #

The Center on Budget and Policy Priorities is a nonprofit, nonpartisan research organization and policy institute that conducts research and analysis on a range of government policies and programs. It is supported primarily by foundation grants.

The National Employment Law Project (NELP) works to restore the promise of economic opportunity in the 21st century economy. In partnership with national, state and local allies, we promote policies and programs that create good jobs, strengthen upward mobility, enforce hard-won worker rights, and help unemployed workers regain their economic footing through improved benefits and services.