

Unemployment Integrity and Job Creation Proposal

The Great Recession of 2008-2009 caused the greatest increase in unemployment claims since the Great Depression of the 1930s, placing tremendous stress on the solvency of state and federal unemployment trust funds. As recently as the third quarter of 2008, the aggregate balance in state unemployment trust funds was \$37 billion and the balance in the federal unemployment trust fund exceeded \$36 billion. In 2007 state unemployment compensation benefits amounted to only \$32.7 billion and only \$10 million was paid from the extended unemployment compensation account.

The size and length of the Great Recession of 2008-2009 were not anticipated by economists or policy makers at the state or federal level. Trust fund balances that appeared to be sufficient in most states to weather a modest economic downturn were rapidly depleted as benefit pay-out increased and tax revenue associated with payroll spiraled downward. Although the economy appears now to have returned to expansion, increased levels of unemployment compensation persist and the dramatic increases in state and federal unemployment taxes have just begun. The US Department of Labor has projected higher unemployment taxes as a result of the recession through 2020.

Job creation has not yet followed the return of the economic expansion due to uncertainty on the part of employer job creators with respect to the future demand for goods and services, the future tax burden, and the perception of increased regulatory costs in the next three years.

To spur economic expansion a number of steps should be taken to minimize the costs of job creation, improve the integrity of the federal /state UI system, and to provide certainty with respect to the costs of doing business through 2012. The following federal legislation related to unemployment insurance should be enacted.

Extend the waiver of interest on loans to states to pay unemployment compensation through 2012— to reduce the cost to states and employers and encourage job creation.

The additional \$1.4 billion for 2011 and \$2.2 billion for 2012 in Title XII interest payments due from states create an unnecessary barrier to job creation for states and employers in these states. As of November 11th, Thirty-two states and jurisdictions had UI trust funds with outstanding debts of \$40.7 billion from the federal unemployment account. Interest of approximately 4.0% per year will be due on these outstanding balances to be paid from each of these states beginning no later than September 30 ,2011. The number of states borrowing is projected to increase to as many as forty, with loan amounts totaling \$65.2 billion by FY 2013.

Trust Fund Loans Outstanding as of November 11, 2010

| | |
|----------------|---------------------|
| Alabama | \$283,001,164.19 |
| Arizona | \$158,599,606.98 |
| Arkansas | \$330,853,383.31 |
| California | \$8,610,129,214.75 |
| Colorado | \$368,505,963.23 |
| Connecticut | \$498,452,705.05 |
| Delaware | \$21,140,505.48 |
| Florida | \$1,739,037,000.00 |
| Georgia | \$454,500,000.00 |
| Idaho | \$202,401,700.22 |
| Illinois | \$2,239,582,343.13 |
| Indiana | \$1,842,941,028.37 |
| Kansas | \$88,159,421.40 |
| Kentucky | \$795,100,000.00 |
| Maryland | \$133,840,764.71 |
| Massachusetts | \$387,313,005.04 |
| Michigan | \$3,810,769,149.67 |
| Minnesota | \$413,858,615.96 |
| Missouri | \$722,116,933.16 |
| Nevada | \$579,456,165.37 |
| New Jersey | \$1,749,563,533.38 |
| New York | \$3,176,873,427.71 |
| North Carolina | \$2,352,167,235.52 |
| Ohio | \$2,314,186,799.00 |
| Pennsylvania | \$3,008,614,960.83 |
| Rhode Island | \$225,472,937.00 |
| South Carolina | \$886,662,351.97 |
| Texas | \$1,510,491,134.88 |
| Vermont | \$32,657,064.94 |
| Virgin Islands | \$16,421,793.42 |
| Virginia | \$346,876,000.00 |
| Wisconsin | \$1,424,768,541.29 |
| Total | \$40,724,514,449.96 |

Waive Federal Unemployment Tax Act (FUTA) penalties on employers in states borrowing to pay unemployment compensation through 2012—without a waiver, FUTA taxes on employer payroll will be increased by approximately \$2.5 billion in 2011 and by approximately \$3 billion in 2012.

State UI taxes are projected to increase from \$38 billion in FY 2010 to \$47 billion in 2011 and up to \$52 billion in 2012. If no action is taken by Congress, employers in the states listed in the chart below will have additional taxes imposed on them ranging from \$21 to \$84 per employee per year.

| State | Estimated FUTA Credit Reduction* | | | |
|----------------|----------------------------------|-------------|-------------|-------------|
| | 2009 (%) | 2010 (%) | 2011 (%) | 2012 (%) |
| Alabama | | | 0.3 | 0.6 |
| Arkansas | | | | 0.3 |
| Arizona | | | 0.3 | 0.6 |
| California | | | 0.3 | 0.6 |
| Colorado | | | | 0.3 |
| Connecticut | | | 0.3 | 0.6 |
| Delaware | | | | 0.3 |
| Florida | | | 0.3 | 0.6 |
| Georgia | | | 0.3 | 0.6 |
| Idaho | | | 0.3 | 0.6 |
| Illinois | | | 0.3 | 0.6 |
| Indiana | | 0.3 | 0.6 | 0.9 |
| Kansas | | | | 0.3 |
| Kentucky | | | 0.3 | 0.6 |
| Massachusetts | | | | 0.3 |
| Maryland | | | | 0.3 |
| Michigan | 0.3 | 0.6 | 0.9 | 1.2 |
| Minnesota | | | 0.3 | 0.6 |
| Missouri | | | 0.3 | 0.6 |
| North Carolina | | | 0.3 | 0.6 |
| New Hampshire | | | | 0.3 |
| New Jersey | | | 0.3 | 0.6 |
| Nevada | | | 0.3 | 0.6 |
| New York | | | 0.3 | 0.6 |
| Ohio | | | 0.3 | 0.6 |
| Pennsylvania | | | 0.3 | 0.6 |
| Rhode Island | | | 0.3 | 0.6 |
| South Carolina | | 0.3 | 0.6 | 0.9 |
| South Dakota | | | 0.3 | 0.6 |
| Tennessee | | | | 0.3 |
| Texas | | | 0.3 | 0.6 |
| Virginia | | | | 0.3 |
| Virgin Islands | | | 0.3 | 0.6 |
| Vermont | | | 0.3 | 0.6 |
| Wisconsin | | | 0.3 | 0.6 |

Total

* Assumes balance on January 1 every year and on November 10 of the indicated year and no application of the possible third year 2.7% add-on amount.

Enact integrity measures to increase effective UI overpayment recovery by providing for offset of benefit overpayments with income tax refunds and adding the reporting of the first day of earnings to the National New Hire data base to more effectively identify UI claimants who are working while being paid unemployment compensation.

Both of these integrity measures have been proposed with bi-partisan support and were included in the "Integrity Act" recently submitted by the US Department of Labor. The offset program administered by the Treasury Department has been estimated to provide savings of \$2.4 billion over ten years and the additional enhancement of the National New Hire data base has been estimated to save approximately \$100 million over ten years.

Provide \$30 million in additional targeted administrative UI funding in FY 2011 and 2012 for automated systems and personnel training to better identify fraud and collect overpayments.

Total outlays for state and federal unemployment compensation have increased from \$43 billion in 2008 to \$120 billion in 2009 and a projected \$160 billion in 2010. Yet there has been virtually no increase in appropriations dedicated to identifying and collecting overpayments. An appropriation of \$10 million was provided in FY 2009 in recognition of the need for dedicated funding, but additional appropriations have not as yet been provided.

Dedicated appropriations for integrity have been shown to produce increased net savings. With expenditure levels of \$160 billion and historically fraudulent unemployment compensation payment rates of 2.0% to 3.0% the amount of fraud to be detected and fraudulent overpayments to be collected ranges from \$3.2 billion to \$4.8 billion.

Dedicated funding of as little as \$30 million would provide funds for technology and dedicated staff time that is not only needed for proper administration of the program, but also would generate considerable net savings.