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SLC STATE UNEMPLOYMENT INSURANCE FINANCES IMPROVE

AN ISSUE ALERT FROM THE SLC

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During the Great Recession, states faced enormous challenges related to funding a number of vital programs. One of those programs was adequately financing their unemployment insurance trust funds, a program that originated in the 1930s. Unemployment insurance programs in the states are a federal-state endeavor that provides unemployment benefits to eligible workers who are unemployed through no fault of their own and who meet other eligibility requirements specified by state law. This temporary financial assistance is administered by the individual states within broad guidelines established by federal law. The major objective of the program, as it was when first introduced, still revolves around functioning as an automatic economic stabilizer: providing the unemployed funds to take care of essential expenditures, thereby maintaining household purchasing power and ensuring economic activity during a downturn or recession.

Based on the compromise reached during the Roosevelt Administration when the program was first introduced, eligibility for unemployment insurance, benefit amounts, duration of time benefits are available, all are determined by the particular state's law. The main source of benefit funding in most of the states is a tax imposed on employers. Nationally, the average tax is about 0.89 percent of total wages, and the average weekly check is about $315 with significant variations from state to state. While the benefits are funded by the payroll tax, firms that dismiss a significant number of workers pay a higher tax. The federal government absorbs the administrative costs of the program and, in a steep recession like the Great Recession, also pays for the extension of benefits beyond the customary 26 weeks. In fact, in early April 2014, more than three months after emergency federal jobless benefits expired, the U.S. Senate approved a five-month extension of federal unemployment insurance, which would be retroactive to when benefits expired on December 28, 2013. While this bipartisan bill passed 59 to 38 with the support of six Republicans, news reports indicate that it faces stiff opposition in the U.S. House of Representatives.[1]

As a result of the doggedly high unemployment rates in so many states during the Great Recession and the actions taken by states (such as expanding unemployment benefits and cutting unemployment insurance taxes), the unemployment insurance funds in a majority of the states were thrust into perilous shape. The funds were attacked at both ends: more people were tapping benefits while a shrinking number of companies were paying fewer taxes to replenish the funds. A review of the balances of state unemployment trust funds presented in Table 1 documents this trend for the years 2009 through 2013.

As evident in the status of the unemployment insurance trust fund balances during a five-year period (2009 – 2013), the SLC states faced considerable challenges. Cumulatively, the SLC state balances stood at $2.7 billion in 2009 at the start of the Great Recession, dropped to $2.5 billion in 2010, one of the toughest years of the Great Recession, before beginning a slow climb in the years 2011 through 2013. In fact, the balance of $6.5 billion for the 15 SLC states at the end of 2013 represented an increase of 138 percent between the start and end of the review period (2009 to 2013). It should be noted that even before the start of the Great Recession, the balances in several SLC states were in a precarious state: In 2009, Alabama for instance had a balance of $8.9 million in 2009, while South Carolina had a balance of

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$9.9 million. Louisiana's balance of $1.1 billion ranked the highest among the SLC states in 2009.

With the deleterious effects of the Great Recession tapering off and the employment situation in the SLC states improving, fewer and fewer individuals were eligible for unemployment insurance payments by 2013. As a result of this development and essential reforms to state plans, the balances of these trust funds improved significantly by 2013. For instance, Alabama increased its balance in 2013 by 2,399 percent compared to 2009, from $8.9 million to $223.6 million. Similarly, Texas boosted its balance by 3,379 percent (from $40.1 million) to $1.4 billion) between 2009 and 2013. Other states with notable increases were South Carolina by 1,706 percent (from $9.9 million to $179.9 million); North Carolina by 1,056 percent (from $19.2 million to $222.4 million); Arkansas by 596 percent (from $13.9 million to $97.3 million); and Florida by 490 percent (from $135.5 million to $798.9 million). For the United States as a whole, the cumulative trust fund balances in all the states expanded by 108 percent between 2009 and 2013: from $11.1 billion to $23 billion.

During the height of the Great Recession when state unemployment funds were depleted, states were forced to secure loans from the federal government to continue making payments to their unemployed workers. However, states are required to pay interest on these loans. Importantly, under a provision of the *American Recovery and Reinvestment Act (ARRA) of 2009* states were given a reprieve and provided interest-free loans through December 31, 2010. In fact, at the end of 2010, the federal government had extended loans that amounted to $40.2 billion to states across the country. Non-SLC states such as California ($9.5 billion), Michigan ($3.7 billion), Pennsylvania ($3 billion) and Ohio ($2.3 billion) were among the highest borrowers during 2010. Several SLC states borrowed from the federal government too, including North Carolina ($2.5 billion), Florida ($2 billion), South Carolina ($886.7 million) and Kentucky ($804.7 million). With the improving economy, and as a result of the unemployment insurance reforms enacted by different states, a number of the SLC states have either been able to completely pay off the federal government loans and interest or significantly reduce what they currently owe. In fact, cumulatively for the 50 states, the outstanding loan amount declined by 49 percent in 2013, from $40.2 billion to $20.7 billion. The trends for the SLC states are presented in Table 2.

As documented in Table 2, nine of the 15 SLC states secured loans from the federal government to bolster their unemployment insurance funds in 2010; by 2013, three of these states, Alabama, Florida and Virginia, had a zero balance in terms of what they owed the federal government. The re-

Table 1 SLC State Unemployment Insurance Trust Fund Balances, in Dollar Millions

State	2009	2010	2011	2012	2013	2009 to 2013
Alabama	$8,947	$8,007	$6,951	$91,179	$223,622	2,399%
Arkansas	$13,977	$51,800	$87,680	$82,306	$97,251	596%
Florida	$135,506	$102,956	$48,937	$30,810	$798,920	490%
Georgia	$18,045	$19,887	$89,763	$29,935	$26,499	47%
Kentucky	$10,437	$9,144	$67,988	$40,606	0	-100%
Louisiana	$1,144,195	$895,643	$790,309	$756,454	$815,975	-29%
Missouri	$13,878	$18,537	$13,479	$37,423	$66,288	378%
Mississippi	$469,903	$339,704	$365,142	$462,913	$510,776	9%
North Carolina	$19,245	$225,658	$225,767	$225,558	$222,385	1,056%
Oklahoma	$488,513	$269,431	$434,771	$746,598	$1,067,524	119%
South Carolina	$9,963	$6,990	$122,151	$210,738	$179,947	1,706%
Tennessee	$167,600	$159,482	$311,083	$547,167	$770,978	360%
Texas	$40,130	$292,901	$475,639	$1,026,547	$1,395,933	3,379%
Virginia	$68,552	$63,269	$55,334	$47,016	$219,464	220%
West Virginia	$123,859	$76,837	$105,325	$108,144	$101,772	-18%
SLC Total	$2,732,750	$2,540,246	$3,200,319	$4,443,394	$6,497,334	138%
U.S. Total	$11,060,354	$9,506,552	$11,310,905	$16,697,820	$22,968,387	108%

Source: U.S. Department of Labor, Employment & Training Administration (Accessed March 27, 2014)

maining six SLC states that secured loans in 2010 also have significantly reduced their loan amounts by 2013. Georgia was the state that reduced its loan amount most rapidly, by 73 percent, between 2010 and 2013 ($532.5 million to $145.3 million). Arkansas (65 percent) and Missouri (55 percent) were the two states with next highest reductions in terms of paying back the federal government over the review period. April 2014 information from North Carolina also revealed that the state was well on its way to paying off funds borrowed during the Great Recession; specifically, officials with the state's Division of Employment Security indicated that the amount outstanding to the federal government "should dip below the $1 billion mark by the middle of 2014 and should be paid off by the end of 2015."[2]

Experts tracking state unemployment insurance trends maintain that trust fund balances alone are not a useful reflection of trust fund solvency levels and often rely on different solvency measures. Among these are the following: the Average High Cost Multiple (AHCM), which measures the number of years a state could pay unemployment insurance benefits at peak recessionary levels; and, the High Cost Multiple (HCM), which incorporates the state's own eligibility requirements, benefit history and unique experience with periods of high unemployment over several decades. In both these measures, the recommended threshold is 1. Table 3 provides details on the AHCM and HCM levels in the SLC states in 2009 and 2013.

In 2009, when the intensity of the Great Recession impacted states quite severely, 10 of the 15 SLC states had AHCM and HCM levels that were negligible, i.e., very bleak. Of the remaining five SLC states, only a single state (Mississippi) had an AHCM level that exceeded the recommended threshold; the remaining four states had AHCM levels above zero but still below the recommended threshold of 1. With regard to the HCM levels, the position of the SLC states was also dire; not a single state secured the recommended threshold of 1, with five states (Louisiana, Mississippi, Oklahoma, Tennessee and West Virginia) reaching a level above zero but less than 1.

In terms of the AHCM and HCM levels in 2013, when the Great Recession had abated and there was a nascent economic recovery in play in the states, the status of the SLC states did improve. Specifically, there were only seven states with negligible AHCM and HCM levels, i.e., states with trust funds that were "broke" or "near broke," with

Table 2 SLC State Unemployment Insurance Loan Balances, in Dollar Millions

Status of Federal Loans to SLC States	2010	2013	Change
Alabama	$201,849	0	-
Arkansas	$330,853	$117,352	-65%
Florida	$1,957,500	0	-
Georgia	$532,500	$145,251	-73%
Kentucky	$804,700	$639,788	-20%
Louisiana	-	-	-
Missouri	$722,117	$321,570	-55%
Mississippi	-	-	-
North Carolina	$2,508,604	$1,833,395	-27%
Oklahoma	-	-	-
South Carolina	$886,662	$456,512	-49%
Tennessee	-	-	-
Texas	-	-	-
Virginia	$346,892	0	-
West Virginia	-	-	-
SLC Total	$8,291,677	$3,513,868	-58%
U.S. Total	$40,220,175	$20,656,443	-49%

Source: U.S. Department of Labor, Employment & Training Administration (Accessed March 27, 2014)

Table 3 AHCM and HCM Levels in the SLC States, 2009 and 2013

	2009		2013	
	AHCM	HCM	AHCM	HCM
Alabama	N.A.	N.A.	0.4	0.17
Arkansas	N.A.	N.A.	N.A.	N.A.
Florida	N.A.	N.A.	0.3	0.16
Georgia	N.A.	N.A.	N.A.	N.A.
Kentucky	N.A.	N.A.	N.A.	N.A.
Louisiana	0.71	0.63	1.26	0.4
Missouri	N.A.	N.A.	N.A.	N.A.
Mississippi	1.11	0.89	1.62	0.87
North Carolina	N.A.	N.A.	N.A.	N.A.
Oklahoma	0.82	0.8	1.98	1.43
South Carolina	N.A.	N.A.	N.A.	N.A.
Tennessee	0.15	0.1	0.78	0.37
Texas	N.A.	N.A.	N.A.	N.A.
Virginia	N.A.	N.A.	0.21	0.11
West Virginia	0.22	0.17	0.31	0.13

N.A. = Not Applicable (These states have outstanding debt which may include bond debt exceeding their fund balances)
Source: U.S. Department of Labor, Employment & Training Administration (Accessed March 27, 2014)

reserves well below the recommended level. While this was an improvement over the performance of the 2009 levels, only three of the eight states had AHCM levels that exceeded the recommended threshold of 1 (Louisiana, Mississippi and Oklahoma, with the performance of the latter being the highest among the three states). The remaining five states all had AHCM levels above zero but below 1. With regard to HCM levels in 2013, only a single state, Oklahoma accomplished a level above the recommended threshold with the remaining seven states all securing levels above zero but below 1. In sum, based on their 2013 performance measures, while the SLC states, cumulatively, cannot be termed healthy in terms of the funding position of their unemployment trust funds, they have improved relative to their position in 2009.

Finally, two additional measures of the status of a state's unemployment insurance program may be gleaned from reviewing trends related to the Average Weekly Benefit Amounts (AWBA) and Average Duration (AD). The AWBA refers to benefits paid for total unemployment divided by the weeks' compensated for total unemployment, while AD refers to the number of weeks compensated for the year divided by the number of first payments. Experts contend that it is important to evaluate a state's AWBA and AD ratios, along with the state's AHCM and HCM levels, in determining a comprehensive review of the state's unemployment insurance position. Table 4 provides trends for both the AWBA and AD measures in 2013 in the SLC states.

According to Table 4, the SLC state with the lowest AWBA was Florida ($133.66 per week) and the highest was Texas ($349.02 per week) at the end of the fourth quarter of 2013. In addition, there were seven SLC states where the AWBA was lower than the SLC state average of $254.52 per week. The only SLC state with a higher per week AWBA than the national average of $314.59 was Texas. In terms of the AD, the SLC state with the lowest AD was Georgia (11.3 weeks), with Kentucky securing the highest (22 weeks). There were nine SLC states with an AD that was lower or equal to the SLC AD average of 15.9 weeks, while there were three SLC states that exceeded the national AD average of 16.8 weeks (North Carolina at 17.4 weeks, Florida at 19.2 weeks and the aforementioned Kentucky at 22 weeks).

In conclusion, while depleted unemployment insurance funds are yet another surging expenditure category plaguing state finances, the emergency loans from the federal government did offer a temporary reprieve. Impressively, SLC states have made significant progress in repaying these federal loans with several completely eliminating the debt owed to the federal government. A variety of fundamental reforms, including establishing a realistic taxable wage base and a realistic average tax rate on total wages, indexing the taxable wage base to reflect even a small increase every year, refraining from slashing tax rates or expanding benefits or tinkering with the program, reflect an assortment of measures that more states could consider to help ensure the financial solvency of the trust fund and allow the unemployed to receive a reasonable weekly benefit. If states move toward replenishing their trust funds during times of economic prosperity, this will ensure that the original objectives of the unemployment insurance program—acting as an economic stabilizer during bleak times—will occur. This also will mitigate the need for federal loans and attendant interest payments while consolidating the financial position of states with entities like the rating agencies.

Table 4 AWBA and AD in the SLC States, 2013

State	AWBA (Per Week)	AD (In Weeks)
Alabama	$208.66	15.8
Arkansas	$289.04	15.0
Florida	$133.66	19.2
Georgia	$267.61	11.3
Kentucky	$294.06	22.0
Louisiana	$210.18	15.3
Missouri	$245.09	14.7
Mississippi	$194.48	15.7
North Carolina	$257.29	17.4
Oklahoma	$296.36	16.6
South Carolina	$252.49	12.7
Tennessee	$239.55	15.0
Texas	$349.02	16.0
Virginia	$302.24	16.1
West Virginia	$278.09	15.9
SLC Average	$254.52	15.9
U.S. Average	$314.59	16.8

Source: U.S. Department of Labor, Employment & Training Administration (Accessed March 27, 2014)

Endnotes

1) 'Senate Extends Unemployment Insurance,' *The Christian Science Monitor*, April 7, 2014.
2) 'NC Expect to Pay Off Unemployment Debt by November 2015,' *The News-Observer*, April 2, 2014.

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