UI Trust Fund Solvency – Employer Perspective

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by

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• The Federal- State UI system is financed by employers

• Understanding of the UI system, benefits, and taxes has eroded and program expanded beyond the purpose for which it was established. States differ significantly.
  • Increased coverage and eligibility of unemployed workers and higher partial wage replacement percentages, particularly for low wage and seasonal workers
  • Relaxed integrity (able, available, actively seeking work, separation disqualification)
  • Lack of understanding that UI is not “entitlement”
• Lack of administrative funding for integrity, systems connections with employers, and employment services
News media has failed to distinguish between “unemployment insurance” (not means tested; partial wage replacement) and “public assistance” (means tested; payments based on need).

Consistent with insurance, state UI costs should be experience rated and go down with fewer claims and benefit payout.

Lack of focus on integrity and priority to pay quickly has resulted in higher levels of fraud and overpayment.

Until recently the program has expanded benefit eligibility and wage replacement to the point of discouraging claimants from accepting work available in the labor market. (e.g. EB enactment, prohibitions against DQ, coverage of reimbursers, dependency, weak work search)
The cost per employee varies from as low as $82 per employee on average in Oklahoma to $695 in Massachusetts.

- Industrial mix and wage rates differ significantly.
- Volatility of local economies vary significantly.
- States with economic growth differ from states losing employment base.
- State UI tax systems differ (reserve ratio, benefit ratio, other).
State UI and FUTA are bottom line costs of doing business that directly impact the cost of hiring.

Management of human resources costs higher in staff intensive industries.

Individual employer rates vary considerably (construction, mfg., staffing) compared to (financial services and business support).

Large swings in cost can affect employer survival during economic downturns. Small employers with low experience rates who have significant lay-offs experience large increases by percentage. Max rated employers benefit from subsidy.
Cost out changes in benefit provisions before enacting
Avoid increases in state UI and FUTA tax to increase bottom line profit
Pay attention to rates to be competitive in the US and world market
Avoid unanticipated increases in state and federal unemployment taxes to enable management of tax burden as a business expense
Manage claims costs through administration based on cost benefit analysis
Avoid unnecessary compliance sanctions
Return to program to a design that is sustainable
• Focus on integrity and push back against benefit creep
  • Increase work search requirements – eliminate waivers
  • Increase eligibility reviews and reemployment services
  • Improve benefit payment control through systems based identification and collection of overpayments
  • Link claimants likely to exhaust benefits more effectively to job search services and target training that leads to a job (e.g. OJT, Customized Training)
• Require non-paid waiting week; reduce the WBA
• Reduce the total benefits payable or duration
• Increase minimum qualifying requirements
• Change form the High Quarter formula used to establish the weekly benefit amount to a percentage of base period wages
• Deduct workers compensation cash payments and Food stamp overpayments for the same week from weekly UI payments
• Require allocation and deduction of separation pay
• Increase penalties for fraud and refusal of suitable work

Tax Solvency provisions adopted in some states include:
• Establish a target balance in the state unemployment trust fund that is adequate to cover a reasonably foreseeable recession
• Increase state unemployment tax base in increments to improve solvency over time
• Stretch the contribution rate schedule to distribute costs more consistently with experience rating
• Provide automatic reductions in taxes once the solvency target is exceeded
• Consider using bonds to eliminate debt and avoid federal FUTA offset and interest penalties
• Minimize the non-charging of benefits, but also examine short term options to give short term relief to employers whose rates have increased dramatically due to the recession
• Maintain a constant monitoring of the status of fund solvency and be prepared to make adjustments if there is federal relief available or changes in the economy that were not foreseen.
• Relief from FUTA offset penalty and Title XII Interest at least until economic recovery

• No federal mandates on state UI solvency (AHCM and HCM standards create hardships)

• No federal benefits should be paid for from FUTA fund sources (EB is an expansion from 1970)

• Fundamental standards for Able, Available, and Work Search

• Federal funds should focus more on integrity