

Rising Hurricane-Related Jobless Claims Trigger State Cuts in Limited Jobless & Training Benefits

by
National Employment Law Project

As a result of a significant rise in unemployment benefit claims related to Hurricanes Katrina and Rita, Louisiana will soon be cutting jobless benefits and training funds while also increasing unemployment taxes to replenish the state's unemployment funds. As described below, the ripple effect of the rise in unemployment claims is being felt in Mississippi as well. By comparison, Alabama has not experienced a major increase in state unemployment claims since Hurricane Katrina.

- **Cuts in Jobless Benefits:** Because of a projected \$1 billion decline in Louisiana's unemployment funds resulting from the record increase in jobless claims, Louisiana law requires that the maximum weekly unemployment benefit be reduced from \$258 a week to \$221 a week. Prior to these reductions, which will take effect January 1, 2006, Louisiana's average unemployment benefits already ranked 4th lowest in the nation.
- **Increased Unemployment Taxes:** The projected decline in Louisiana's trust fund reserves also requires state unemployment taxes to increase by 21% (from an average of \$126 per worker to \$153 per worker annually).
- **Cuts in Funding for Training:** Louisiana's job training program receives up to \$50 million yearly in payroll taxes diverted from the state's unemployment trust fund. However, due to the projected decline in the state's unemployment trust fund, the special training tax will be suspended leaving less than \$10 million in carryover training funds. In addition, \$20 million in funding provided to community and junior colleges under a new Mississippi program will be terminated when - in six to nine months -- the state's unemployment fund falls below \$500 million in reserves.

These developments are, in large part, the product of a federal policy adopted in the late 1980's requiring the state unemployment programs to absorb most of the costs of layoffs caused by a major disaster. Prior to this cost-cutting measure adopted by Congress in 1988, the federal "disaster unemployment assistance" (DUA) program covered all workers unemployed as a result of a major disaster regardless of their eligibility for state unemployment benefits.

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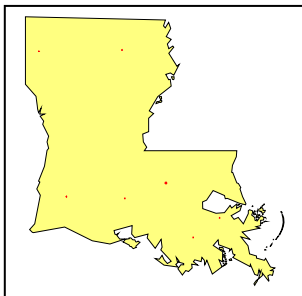
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These state developments also underscore the importance of providing federal fiscal relief to adequately compensate Louisiana and other states hit hard by major disasters. However, in addition to federal compensation to cover the costs of current state unemployment benefits, far more federal relief is needed to address the urgent needs of the families left jobless as a result of Hurricanes Katrina and Rita.

Of special significance, Congress should provide targeted funding for a significant increase in the amount of state unemployment benefits and DUA given the exceptionally low level of benefits provided in Louisiana, Mississippi and Alabama. In addition, an extension of these benefits, beyond the current 26 weeks, is necessary to account for the long-term financial hardships of the hurricane evacuees and their families.

What follows is more detail on the latest developments in Louisiana, Mississippi and Alabama, including background on the increases in state jobless claims, the record low level of jobless benefits, and the specific state policies that triggered the cuts in benefits and the increase in unemployment taxes.

Louisiana



Benefit Levels: The state's average weekly unemployment benefit of \$192 ranked 4th lowest in the nation, while the maximum weekly benefit of \$258 ranked 6th lowest nationally. The average weekly benefit in the U.S. is \$270, and the average maximum state benefit is \$377.

Jobless Claims: During the 12 months prior to Hurricane Katrina, Louisiana paid about 83,000 new unemployment claims and \$233 million in total unemployment benefits. As a result of Hurricane Katrina, Louisiana reports having paid 168,514 unemployment insurance (UI) claims totaling almost \$182 million, and another 69,947 federally-funded disaster unemployment assistance (DUA) claims totaling \$31 million.¹ After Hurricane Rita, Louisiana paid another 14,866 UI claims totaling over \$2.3 million in benefits, and 5,664 DUA claims totaling \$757 million.

Trust Fund Reserves: Prior to Hurricane Katrina, Louisiana had a trust fund balance of \$1.5 billion, while generating \$184 million a year in revenue from payroll taxes. The state's trust fund reserves accounted for 3.25% of total wages in the state, which was higher than all but two other states. As a result of Hurricane Katrina, the state projects that it will pay over \$900 million in benefits through August 2006, leaving a trust fund balance of \$500 million.²

¹ Conversation with Ed Pratt, Public Relations Officer, Louisiana Department of Labor (dated October 17, 2005); Press Release, Louisiana Department of Labor, "Labor department releases Rita jobless claims, updated Katrina claims: Benefits reach historic levels" (October 13, 2005).

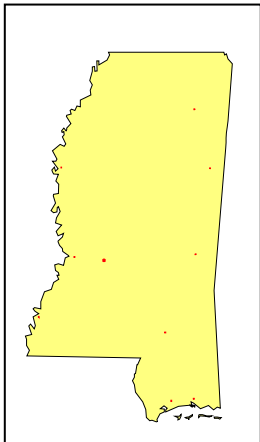
² Press Release, Louisiana Department of Labor, "LA's Unemployment Trust Fund to Take Hit: Forecasters expect \$1 billion reduction due mostly to Katrina, Rita" (September 30, 2005).

Benefit & Tax Measures Triggered by the Rising Katrina-Related Claims: In June 2005, Governor Blanco signed a law (Act No. 239) lowering the minimum level of trust fund reserves (from \$1.4 billion to \$1.15 billion) which automatically trigger an increase in unemployment taxes and cuts in unemployment benefits. At the same time, the new law required at least \$900 million in trust fund reserves in order to authorize the minimum diversion of \$6 million to the state's Workforce Development Training Accounts. A diversion of up to \$50 million is authorized when the fund balance exceeds \$1.4 billion.

On September 30, 2005, the state's Revenue Estimating Conference issued its annual trust fund projections that determine the state's unemployment tax and benefit levels effective January 1, 2006. By projecting a trust fund balance of \$500 million by August 2006, the Revenue Estimating Conference triggered the following measures required by state law.

- The maximum weekly unemployment benefit will decrease from \$258 to \$221, while benefits across the board will decrease as well according to a revised state benefit formula.
- In addition, the first \$8,500 per worker's wages will be taxed starting January 1, 2006, in contrast to the current \$7,000 taxable wage base. Assuming the state's average unemployment tax rate of 1.8% remains unchanged, the average employer will thus pay \$153 per worker in payroll taxes, compared with \$126 under current law.
- The diversion of UI payroll tax contributions to the state's Workforce Development Training Account, which is currently authorized to provide up to \$50 million in training funds, will be suspended leaving less than \$10 million in carryover training funds.

Mississippi



Benefit Levels: Mississippi's average weekly unemployment benefit of \$169 and the maximum benefit of \$210 rank the lowest in the nation.

Jobless Claims: During the 12 months prior to Hurricane Katrina, Mississippi paid about 55,000 new unemployment claims and \$138 million in total unemployment benefits. As of September 24th, Mississippi reports that 51,000 new jobless claims have been filed since Hurricane Katrina, or nearly as many claims as were paid in the previous 12-month period.³

Trust Fund Balance: Prior to Hurricane Katrina, Mississippi had a trust fund balance of \$676 million, while generating \$147 million a year in revenue. The

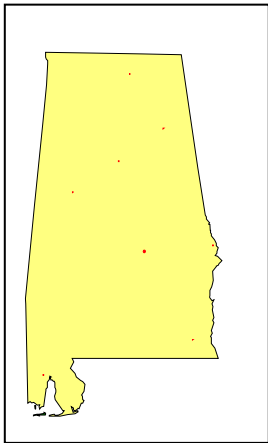
³ Associated Press, "Miss two-year colleges could lose work force training funds" (September 24, 2005).

state's trust fund balance accounted for 2.94% of total wages in the state, which was higher than all but five other states.

Benefit & Tax Measures Triggered by Katrina-Related Rise in Claims: On March 23, 2005, Governor Barbour signed a law (S.B. 2480) which diverted \$20 million a year from the state's unemployment trust fund to a new training fund (the Mississippi Workforce Training Enhancement Fund) to support job training through the state's community and junior college systems. The funding was generated by reducing the unemployment tax on employers by 0.3% while creating a new 0.3% payroll tax which funded the training program.

Like the Louisiana law, funding for the Mississippi program is dependent on the solvency of the state's unemployment trust fund. Under the new law, if Mississippi's trust fund balance falls below \$500 million at any time, then the 0.3% payroll tax funding the training program will be suspended and the 0.3% unemployment tax on employers will be automatically restored. As of September 22nd, Mississippi's trust fund balance was \$644 million, which does take into account most of the 55,000 new jobless claims filed since Hurricane Katrina. Our rough estimate indicates that it will likely take from six to nine months for the Mississippi trust fund to fall below the \$500 million threshold.⁴

Alabama



Benefit Levels: Alabama's average weekly unemployment benefit of \$183 and the maximum benefit of \$220 ranked the second lowest in the nation, behind Mississippi.

Jobless Claims: During the 12 months prior to Hurricane Katrina, Mississippi paid over 110,000 new jobless claims and almost \$226 million in total unemployment benefits. Alabama has not experienced a major increase in unemployment claims related to Hurricane Katrina.

Trust Fund Balance: Prior to Hurricane Katrina, Alabama had a trust fund balance of about \$268 million, while generating \$296 million a year in revenue. The state's trust fund balance accounted for 0.72% of total wages in the state.

Benefit & Tax Measures Triggered by Rise in Katrina-Related Claims: In 2005, Alabama increased its unemployment tax rates after several years of very low rates that

⁴ This projection is based on the following assumptions: 1) that over the next three months, at least 55,000 unemployment claims will be paid at the average benefit level of \$169 a week for 26 weeks, totaling roughly \$242 million in benefits over a six to nine-month period; and 2) that payroll tax revenue averages \$10 million a month, which compares to the monthly average of \$12 million in payroll tax revenue generated prior to the Hurricanes.

threatened the solvency of the state's unemployment trust fund.⁵ As a result, the employers are now paying at the highest unemployment tax rates authorized under the state's laws. Thus, even in the event that the trust fund projections (to be issued by the end of December 2005) indicate a decline in trust fund reserves, employer taxes will not be increased. In contrast to Louisiana, there is no automatic mechanism under the state law to reduce unemployment benefits in response to low trust fund reserves.

⁵ Press Release, Alabama Department of Industrial Relations, "2005 Unemployment Compensation Rate Schedule Announced." (available at <http://dir.alabama.gov/knowledge/newrate.aspx>).