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Lessons Left Unlearned:

Unemployment Insurance Financing After the Great Recession

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In recent years, policymakers and the public have justifiably focused concern and legislative attention on assisting jobless workers with federal unemployment benefit extensions. At the same time, the demand for assistance during and after the recession caused many states to run out of trust fund reserves used to pay state unemployment benefits, and this funding crisis triggered state benefit restrictions starting in 2011. In light of the continuing weak labor market recovery, renewed attention to financing state programs is central to understanding the prospects for state unemployment insurance programs.

In the spring of 2010, the National Employment Law Project (NELP) issued two reports about the financing of state unemployment insurance (UI) programs (NELP 2010a, 2010b). NELP's previous papers explained the importance of forward financing—the accumulation of pre-recession UI trust fund reserves—and advocated federal and state financing mechanisms to build and maintain sufficient state UI trust fund balances.

The purpose of this current report is to revisit the trust fund crisis of 2010 to answer three hypothetical questions: (1) Could the trust fund solvency crisis have been avoided had all states accumulated the amount of pre-recession trust fund reserves recommended by financing experts? (2) How much did employers need to contribute on a per-employee basis to have ensured adequate pre-recession trust fund reserves? (3) By how much will employer contributions need to increase in the future for state trust funds to prepare for the next recession?

The remainder of the paper is structured as follows: Section 1 provides a brief overview of the UI program, the financing of UI benefits, and a history of previous financing crises. Section 2 summarizes the extent of borrowing during the Great Recession and places today's crisis in a historical context. Section 3 compares three generally accepted measures of solvency and shows how only a handful of states met even the least rigorous of the measures going into the recent recession.

Sections 4 to 6 apply a basic accounting framework to estimate (1) the number of states that would have borrowed had all states entered the recession with adequate reserves; (2) the amount of employer contributions that would have been necessary following the 2001 recession for all state trust funds to have been prepared for the recent recession; and (3) the amount of new reserves necessary for states to be solvent by the end of 2016. The paper concludes with a brief discussion of the UI financing factors that determine a state's capacity to accumulate pre-recession trust fund reserves.

SECTION 1: UNEMPLOYMENT INSURANCE: PURPOSE, FINANCING, AND RECENT EXPERIENCE

The primary objectives of the unemployment insurance (UI) system are to provide temporary, partial wage replacement during periods of involuntary unemployment and to stabilize the economy by maintaining the purchasing power of unemployed workers during recessions (ACUC 1995, 31-32; Vroman 1998, 1). Over the ten years prior to the Great Recession, workers filed an average of 17.1 million initial UI claims per year.[1] During the downturn, this figure peaked at over 29 million in 2009, when the unemployment rate reached double digits for the first time in nearly three decades.[2]

UI claimants have significant attachment to the labor force, and the majority of payments go to middle-income households (CBO 2010, 3 and Table 1; Stone and Shaw 2011, 7).[3] To be eligible for UI, claimants must meet requirements such as a minimum duration of employment, sufficient earnings, and a qualifying reason for separation, such as a layoff (Boushey and Wenger 2006, 2). A worker's earnings and recent employment history also determine the duration (in the 43 UI jurisdictions that do not pay a flat number of weeks) and amount of UI compensation he or she is eligible to receive.[4] For example, the majority of states require claimants to have at least $25,000 of base period earnings prior to job loss to qualify for the state's maximum duration and benefit amount.[5]

The capacity of the UI program to insure families against unexpected job loss and to stabilize the economy during downturns is at serious risk (GAO 2010, 31). In the wake of the Great Recession and slow recovery, several states and the federal government have taken steps to limit the number of unemployed workers who qualify for UI, to force more experienced or skilled job seekers to accept low-wage work, and to lower the value of weekly UI payments relative to prior wages (NELP 2011b). Cuts to state UI programs are an ill-conceived attempt by state lawmakers to reduce benefit costs in response to federal and state tax increases associated with negative trust fund balances and federal loans.

Some observers misleadingly attribute state borrowing to the fact that unemployed workers were eligible for up to 99 weeks of UI in some high-unemployment states during the recession.[6] During this downturn, UI benefits beyond the first 26 weeks have been covered by the federal government at almost no cost to states.[7] The inability of some states to adequately finance their regular state UI programs during the recent period of high demand is directly related to the shortcomings of state policy and the failure of the federal government to effectively promote responsible financing.

Although under federal law each state must collect UI contributions from employers and deposit these contributions in a state trust fund held in the U.S. Treasury, employer contribution rates vary between and within states, depending on the characteristics of each state's employer tax regime and trust fund reserves, as well as the layoff history of individual firms. The intended purpose of the trust fund system is to accumulate reserves when the economy is strong so that funds are available to pay claims during downturns (ACUC 1995, 3). In theory, the trust fund system should allow states to meet a heightened number of claims during recessions without relying on program cuts or employer contribution increases to make ends meet during the downturn. In this sense, the UI program is meant to be a countercyclical measure, designed to pump money into the economy when unemployed workers and businesses need it the most (Vroman 1998, 10; 2010, 1).

Within each state, there is significant temptation and sometimes political pressure from business groups for lawmakers to reduce employer contributions before sufficient reserves are accumulated (Galle 2012, 2–5). Discipline on the part of lawmakers as well as a commitment from the employer community is required to save up adequate pre-recession reserves in a state's UI trust fund. Since a majority of states began to move away from forward-financing principles in the 1970s and 1980s (Vroman 1998, 10; GAO

2010, 14; GAO 1988, Galle 2012, 4), it has become common for states to borrow from the federal government to pay UI claims after state trust funds run dry.

Twenty-five states borrowed between 1974 and 1976, while 32 UI programs required federal assistance related to the severe downturns of the early 1980s (Vroman 2011b, 6). Far fewer states required loans during the comparatively mild 1990–1991 and 2001 recessions, but overall, only five[8] of the 53 UI jurisdictions[9] have not borrowed at least once since 1975 (Vroman 2011b, 6). Historically, the federal government has served as a backstop for this system, making loans to states that have exhausted trust fund reserves so that UI claimants are not left stranded. States are able to borrow as much as they need to cover UI claims; however, long-term loans accrue interest and states that fail to pay back loans after two years are subject to an automatic federal repayment mechanism (Vroman 2009, 6).[10]

Despite this history of borrowing during past recessions, states have not learned their lessons, and have tended over time to stray farther from forward funding of UI. Thirty-one states reduced UI taxes by at least 20 percent between 1995 and 2005 (Henchman 2011, 21). And during the decade from 2000-2009, average UI contribution rates were only 0.65% of total wages, the lowest in the life of our federal-state UI program, breaking the decade record low of 0.76% set in the 1990s. These decades also featured low rankings for overall solvency, although the 1980s had the lowest overall solvency by decade.

The number of states borrowing and the amount borrowed inevitably increase during the deepest recessions, and this latest downturn, the deepest since the Great Depression, is no exception. Borrowing costs and the consequences of low trust fund balances on state employer contribution rates hit businesses before state economies had time to recover fully from the recent recession.[11] Regardless of the fact that average employer contribution rates reached historic lows over the decade leading up to the recession, employers naturally felt that they were under siege by untimely UI-related cost hikes (Galle 2012, 14).

Both recent and past policy proposals to address trust fund solvency have tended to focus more on curtailing and reducing benefit payments than on the revenue side of the equation (NELP 2011b; Vroman 2011b, 20). Over the past 30 years, support for accepted norms in the UI program has been systematically eroded, with state lawmakers now more willing to go after long-standing features of the program, such as the duration of state benefits or suitable work protections that were previously seen as untouchable. Between 1981 and 1987, 44 states enacted more restrictive benefit eligibility standards or stricter disqualification provisions (GAO 1988, 5). Thirty-five states increased the minimum earnings threshold to qualify for benefits, and 18 states enacted stricter formulas for calculating monetary eligibility (GAO 1988, 73).

Today, we are witnessing a similar pattern, albeit along different dimensions. Six states already reduced the maximum duration of UI benefits below the 26-week standard that has held since the 1950s (Vroman 2011b, 18). Several of these states and others have also enacted additional barriers, including drug testing requirements and the exclusion of seasonal workers from coverage (NELP 2011b). Only Colorado, Rhode Island, and Vermont (NELP 2011b) legislated substantive, long-term changes to their financing mechanisms, including the increase and indexing of their state taxable wage bases, whereas the majority of states did nothing to raise revenue or passed token policies that will raise a negligible amount of revenue.[12]

Forward funding of UI trust funds requires longer-term perspectives than most federal and state stakeholders hold (Galle 2012), a willingness to raise taxes when there is no existing crisis, and defending trust fund reserves rather than cutting state UI taxes. An accurate description of the last three decades is that UI solvency has not been taken seriously at the federal level and in the majority of states. While a handful of states and their employers have made UI solvency a priority, in a majority of

states, stakeholder approaches to trust fund solvency have ranged from studied indifference to explicit abandonment of forward financing as a legitimate policy goal.

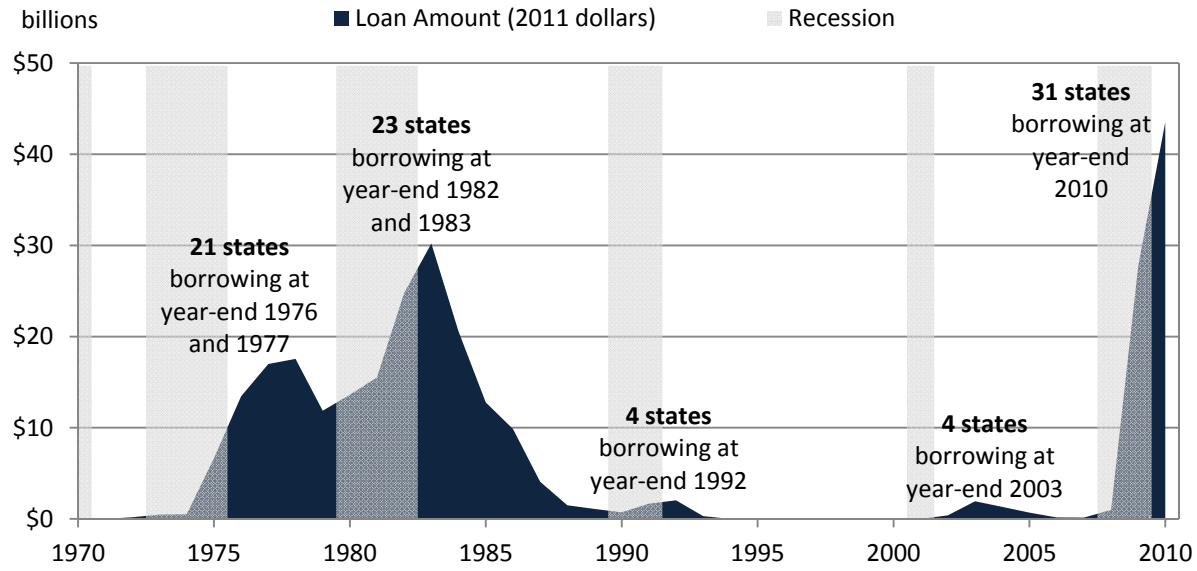
SECTION 2: UNPRECEDENTED STATE UI TRUST FUND BORROWING DURING GREAT RECESSION

Leading UI financing expert Wayne Vroman described the 2007-09 recession as "the most serious challenge to unemployment insurance (UI) financing since state UI programs were founded more than 75 years ago" (2011b, 1). Over the past four years, 36 of the 53 UI programs required federal loans to pay UI claims (Vroman 2011b, 4). All but six of these states borrowed long term, with loan balances stretching across multiple years, triggering interest payments and federal penalties.[13]

Loan amounts and the duration of borrowing varied among the 36 states that relied on federal loans in recent years, but large states universally fared poorly. Washington, with the 14th largest labor force in 2007, was the biggest state to avoid borrowing. Today, the 12 largest states (including Michigan and Texas, which issued bonds) account for over three-quarters of the total amount borrowed.[14] California alone has a loan balance of nearly $10 billion.

As of the May 2012, total borrowing exceeded $43 billion, including 26 states with outstanding federal loans of $38 billion and three states that borrowed in the private bond market to pay off federal loans, including Texas ($1.7 billion), Idaho ($188 million), and Michigan ($3.3 billion) (**Table 1**).[15] Today's borrowing is truly unprecedented in regard to the number of states requiring loans and the total amount borrowed. Previously, the maximum number of states to have an end-of-year loan balance was 23, coinciding with the back-to-back recessions of the early 1980s when, after adjusting for inflation, federal loans peaked at just over $30 billion (**Figure 1**) (GAO 2010, 9).

Figure 1
Number of Borrowing States and Dollar Amount of Federal Loans at Year End: 1970 to 2010



Note: At the end of 2010, Texas issued $1.96 billion of debt in the private bond market to pay off its federal loans and has subsequently paid back about $300 million. Texas is included in the number of states borrowing in 2010 as is original amount of private market bonds.

Source: NELP calculations based on U.S. Department of Labor, Handbook 394.

It also insightful to compare the size of states' loan balances relative to the amount of wages paid to employees covered by UI to identify small- and medium-sized states that may carry significant loan balances relative to the size of their economies. Relative to covered wages, Michigan carried the nation's highest loan balance at the end of 2010, with borrowing equal to three percent of total wages paid within the state.[16] Remarkably, this percentage is far below Michigan's (and the nation's) historic worst of 4.8 percent in 1983.

By this measure of insolvency, several smaller states with deceptively modest loan balances move into the top 10 most indebted states, including South Carolina, Rhode Island, and Nevada. Meanwhile several states with loan balances well in excess of a billion dollars (e.g., California, New York, and New Jersey) move further down the list when taking into account the size of each state's labor market.

Six of the 36 borrowing states did not require long-term assistance. Tennessee borrowed for a single month, while New Hampshire required loans during the first quarters of 2010 and 2011, and South Dakota also borrowed for only two quarters. Massachusetts, Hawaii, and Maryland all took out substantial loans but were able to pay them back quickly, and all three states remained solvent as of April 2012.[17]

The remaining 30 states had loan balances on January 1st of two consecutive years or issued bonds in the private debt market to pay back federal loans. Michigan began borrowing in 2007, before the recession officially started and joined by New York, Indiana, and South Carolina the following year. New York was able to pay back its loan the same year, but then borrowed again during the first quarter of 2009 and now carries one the highest loan balances. Likewise, Indiana and South Carolina never regained their footing. Most states with long-term loan balances owed interest and faced federal tax penalties (i.e., FUTA credit reductions) for the first time in 2011.

Long-term federal loans cost indebted states over $3 billion in combined federal interest and FUTA credit reductions in 2011 (**Table 1**). After Congress allowed an interest waiver that had been in place in 2009 and 2010 to expire, 29 states collectively made a $1.2 billion interest payment on federal loans in September 2011. In addition to interest, the federal government also has an automatic repayment mechanism known as the "FUTA tax credit reduction," that increased federal taxes on 2011 wages by $1.87 billion for employers in 21 states that have been borrowing for the longest duration.[18]

The FUTA credit reduction applies to states that have outstanding loan balances on January 1st of two consecutive years and fail to repay the borrowed amount by November 10th of the second year. This penalty amounts to $21 per employee in the first year and increases by $21 per year until a state's loan is fully repaid. For example, Michigan employers owed an extra $63 per employee in 2011 because the state was in its FUTA third credit-reduction year. After the third year of insolvency, states face potential added FUTA credit penalties, but federal law permits states to easily avoid these measures. (FUTA credit reductions on 2011 wages were payable by January 31, 2012.) The federal government is expected to collect twice as much through the FUTA credit reduction in 2012 (USDOL 2012, 14 [Reduced Credits, 2013]).

Table 1

Summary of Federal Loans, Municipal Bonds, and Costs Related to Federal Loans as of May 1, 2012

State	Federal Loans ($ million) [a]	Municipal Bonds ($ million) [b]	Total Borrowing ($ million)	Borrowing-Related Costs: 2011 Interest Payment ($ million) [c]	Borrowing-Related Costs: Estimated 2011 FUTA Credit Reduction ($ million)
United States	**$38,340**	**$5,182**	**$43,522**	**$1,238**	**$1,787**
Alabama	$99	---	$99	$3.9	---
Arizona	$382		$382	$8.2	---
Arkansas	$317	---	$317	$10.1	$22.1
California	$10,741	---	$10,741	$303.5	$295.0
Colorado	$435	---	$435	$11.4	---
Connecticut	$810	---	$810	$22.6	$31.7
Delaware	$76	---	$76	$1.7	---
Florida	$1,809	---	$1,809	$56.1	$151.8
Georgia	$761	---	$761	$21.0	$77.5
Hawaii	---	---	---	$0.2	---
Idaho	---	$188	$188	$5.5	---
Illinois	$2,103	---	$2,103	$71.4	$108.0
Indiana	$2,035	---	$2,035	$60.4	$106.8
Kansas	$142	---	$142	$4.6	---
Kentucky	$961	---	$961	$28.2	$32.9
Michigan	---	$3,323	$3,323	$106.0	$216.4
Minnesota	---	---	---	$14.9	$47.3
Missouri	$796	---	$796	$23.3	$48.2
Nevada	$832	---	$832	---	$25.5
New Jersey	$880	---	$880	$48.0	$74.9
New York	$3,759	---	$3,759	$95.4	$154.3
North Carolina	$2,842	---	$2,842	$78.5	$72.5
Ohio	$2,283	---	$2,283	$70.7	$93.3
Pennsylvania	$3,875	---	$3,875	$104.6	$101.7
Rhode Island	$288	---	$288	$7.1	$8.3
South Carolina	$782	---	$782	$26.5	---
Texas	---	$1,671	$1,671	---	---
Vermont	$78	---	$78	$2.1	---
Virgin Islands	$34	---	$34	$0.7	$0.7
Virginia	$350	---	$350	$8.8	$69.8
Wisconsin	$869	---	$869	$42.3	$48.6

[a] U.S. Department of Labor, Outstanding Loans from the Federal Unemployment Account, Balances as of May 1, 2012.

[b] For information on Idaho, Michigan, and Texas bonds, see the Municipal Securities Rulemaking Board, "Electronic Municipal Market Access," http://emma.msrb.org/default.aspx. In addition to the three states noted here, Arkansas, Illinois, Kentucky, and Pennsylvania all approved legislation allowing the state to issue debt in the private bond market. However, as of May 2012, none of these states have issued debt.

[c] U.S. Department of Labor, "Interest on Title XII Advances for FY2011," http://www.workforcesecurity.doleta.gov/unemploy/docs/Interest_pay_FY11TXII.xls.

[d] NELP state-by-state estimates based on estimated number of covered workers and past FUTA tax receipts. The President's FY 2013 budget estimated total FUTA credit reductions of $1.87 billion in FY 2012.

Vroman attributes the magnitude of state borrowing to the confluence of four factors: low pre-recession trust fund reserves, the severity and duration of the recession, the timing of the downturn, and low post-recession employment (2011, 2). Vroman's characterization of these causes as a "perfect storm" connotes that today's severe insolvency arose from an unexpected combination of factors, but does not imply that today's crisis was somehow unpredictable. Indeed, Vroman and others warned for years that state UI trust funds were heading for disaster in the event of a severe recession (1998, 17–18). The Government Accountability Office blames today's borrowing on the long-term financial decline of state UI programs that left the United States less prepared in 2007 than for any of the previous three recessions (2010, 20).[19]

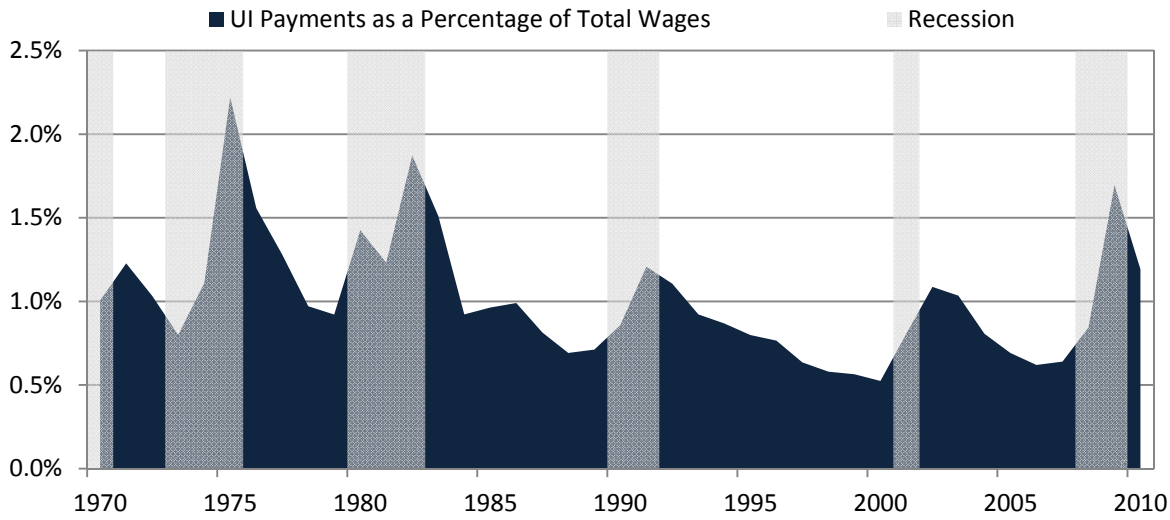
The Great Recession was the "deepest and longest of the entire post-World War II period" (Vroman 2011, 3), with the unemployment rate peaking at 10 percent in 2010, during which time the number of unemployed workers averaged over 14.8 million. Four years after the start of the recession, the economy is still more than five million jobs short of pre-recession employment levels. Even during the "jobless recovery" following the 2001 recession, the economy returned to pre-recession employment levels in just under four years. While unemployment peaked at 10.8 percent during the back-to-back recessions in the early 1980s, employment recovered in just over two years following the start of the first of the two recessions.

The recovery following the 2007-09 recession is uniquely marked by endemic long-term unemployment. During 2011, the average duration of unemployment spanned nearly 40 weeks, and the percentage of long-term unemployed (those out of work for over 26 weeks) was close to 44 percent.[20] Both measures experienced a twofold increase over pre-recession levels and far exceed earlier levels during the severe 1980s recessions.

As a result of high unemployment and the extended duration of unemployment spells, an unprecedented number of unemployed workers relied on state UI programs. First payments—the number of people receiving benefits for at least one week—peaked at over 14 million in 2009. That year, the total number of weeks compensated reached a historic high and a record percentage of claimants exhausted state benefits. Fortunately, millions of claimants were eligible for extra weeks of benefits paid for by the federal government, but there is no doubt that state programs came under enormous stress.

However, relative to wages covered by the UI system, benefit payments were higher during the milder recessions of 1970s and 1980s than compared to the recent downturn. Another way to measure the severity and duration of the recession is to examine the benefit cost rate—the amount of benefits paid in a year as a percentage of total wages covered by the program. As expected, the peak national benefit cost rate (1.7 percent in 2009) far exceeded the rate during either of the most recent previous two recessions (**Figure 2**).[21] However, in 1975, the benefit cost rate reached 2.2 percent and peaked again in 1982 at nearly 1.9 percent. During both downturns, the cost rate remained above one percent for four straight years. Preliminary 2011 data indicate that the cost rate will drop to one percent or less.

Figure 2
Unemployment Insurance Benefits Paid as a Percentage of Total Covered Wages: 1970 to 2010



Note: Unemployment insurance benefits paid include regular state benefits and benefits paid through the federal-state Extended Benefits program.

Source: NELP calculations based on U.S. Department of Labor, Handbook 394.

Despite the historic nature of the recent downturn, nearly every state trust fund experienced a more significant single-year benefit payout rate at some other point in the past 50 years. During the Great Recession, benefits paid as a percentage of total wages exceeded the previous maximum dating back to 1960 in only five states (Colorado, Hawaii, Indiana, Nevada, and New Mexico).

Additionally, in no state did the three-year average benefit payout rate from 2008 to 2010 exceed the previous three-year maximum during the past 50 years. During the Great Recession, 12 states exceeded the maximum three-year rate from the 1980s recessions, and only ten states exceeded the three-year maximum established around the 1973-75 recession. Not only was the recent payout rate not exceptionally high relative to the 1980s and 1970s, it appears that today's rate will not remain elevated for as long it has in the past. At least by this narrow measure, the back-to-back recessions of the 1980s as well as the 1973-75 recession put a more intense and possibly longer-lasting strain on the UI system.

Despite the severity of this recession, there is reason to believe that much of today's borrowing could have been avoided had states not entered the recession with historically low trust fund balances. The remainder of the paper will examine how trust fund borrowing may have unfolded had the states met one of the reserve measures frequently recommended by UI financing experts.

SECTION 3: DEFINING "ADEQUATE" RESERVES

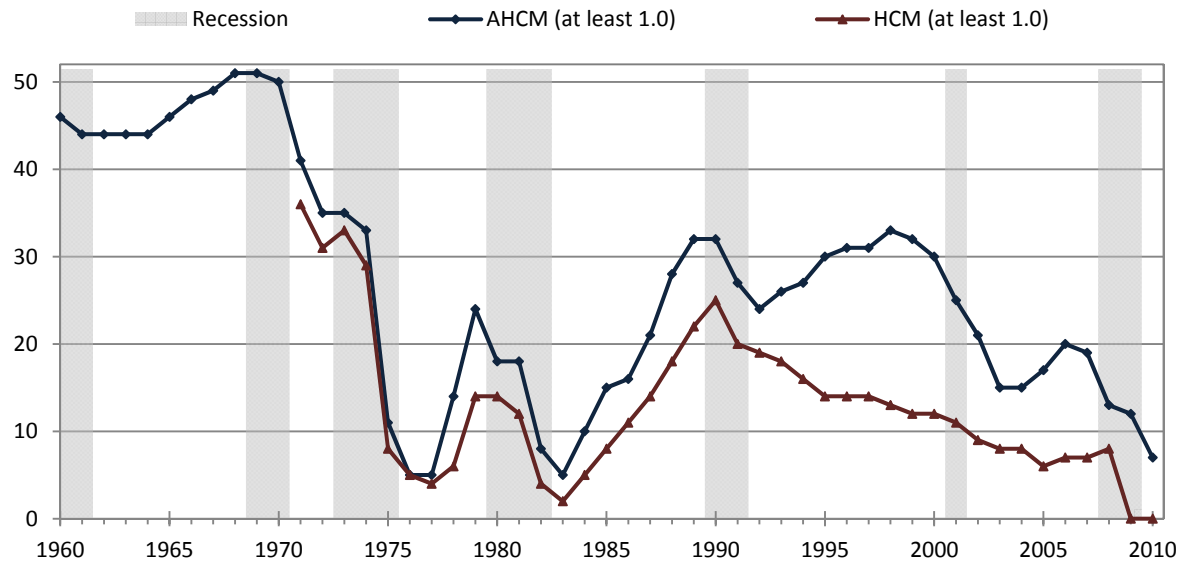
There are three widely accepted benchmarks used to gauge the ability of a state's UI trust fund to remain solvent during a recession: the reserve ratio, High-Cost Multiple (HCM), and Average High-Cost Multiple (AHCM).

- The **Reserve Ratio** represents a state's trust fund balance as a percentage of total wages paid over the most recent 12-month period. In the past, NELP has recommended a reserve ratio of two percent (2010a, 9). At the end of 2007, two percent of total U.S. wages would have required a trust fund balance of just over $95 billion.

- The **High-Cost Multiple (HCM)** compares the size of past UI benefit payment amounts in a 12-month period to current trust fund balances. This multiple relies on the highest benefit cost rate (benefits as a percentage of wages) a state has ever experienced. An HCM of 1.0 means that a state has enough trust fund reserves to pay benefits for one year at the state's highest-ever benefit cost rate. Today, an HCM of 1.0 is seen by many to represent adequate pre-recession reserves (Vroman 2011b, 2; 2009, 4). In 2007, states would have needed reserves of nearly $116 billion to meet this benchmark.

- The **Average High-Cost Multiple (AHCM)** is similar to the HCM, but uses the three highest calendar-year benefit cost rates over the past 20 years or during the period covering the last three recessions, if longer (GAO 2010, 8). The Advisory Council on Unemployment Compensation, a federal advisory panel, recommended in 1995 that states maintain a pre-recession AHCM of 1.0 (1995, 9). To have met this benchmark at the end of 2007, states needed a collective reserve balance of $76 billion (**Table 3**).

Figure 3
Number of States Meeting Average High-Cost Multiple and High-Cost Multiple Benchmarks



Source: NELP analysis of U.S. Department of Labor, Handbook 394.

To put these benchmarks in perspective, at the end of 2007, the nation's actual collective trust fund balance was only $38 billion or just six months of reserves based on the AHCM. The number of states meeting either the HCM or AHCM benchmarks has fallen dramatically since the 1990s. At the beginning of the recent recession, 19 states met the AHCM benchmark, and only seven of these states met the more demanding HCM threshold (**Figure 3**).[22]

HIGH-COST MULTIPLE: GOOD PREDICTOR OF A STATE'S ABILITY TO WITHSTAND RECESSION-LEVEL UI CLAIMS

Using the HCM measure, seven states went into the recession with at least one year of trust fund reserves, and an additional six states had at least nine months of reserves. Of these 13 states with high reserve balances, only Hawaii borrowed as of February 2012 (**Table 2**).

Hawaii's experience points to how vulnerable even a well-financed trust fund is to reductions of employer contributions and how sensitive trust fund revenues are to changes in the state taxable wage base. Hawaii lawmakers ill-advisedly reduced the state's taxable wage base from $35,000 to only $13,000 in 2008 and 2009, causing employer contributions to plummet from $143 million in 2006 to just $44 million in 2009.[23] Hawaii began borrowing in the fourth quarter of 2010, but managed to pay back its loans only after restoring the taxable wage base to $38,800 in 2010.

At the opposite end of the spectrum, 29 of 30 states with less than six months of trust fund reserves at the end of 2007 were forced to borrow. West Virginia, the only state in this group to avoid borrowing, proactively raised the state taxable wage base from $8,000 to $12,000 in 2010 when the state's trust fund balance began to dwindle.

Table 2
Borrowing Outcome Based on High-Cost and Average High-Cost Multiples

	Cost Multiple	Number of States	Number of States Borrowing	Percentage Borrowing
High-Cost Multiple (2007)	at least 1.0	7	1	14%
	less than 1.0	46	35	76%
Average High-Cost Multiple (2007)	at least 1.0	19	6	32%
	less than 1.0	34	30	88%

Source: NELP analysis of U.S. Department of Labor, Handbook 394 and U.S. Department of Treasury, Unemployment Trust Fund Reports, http://www.treasurydirect.gov/govt/reports/tfmp/tfmp_utf.htm.

AVERAGE HIGH-COST MULTIPLE: MODESTLY EFFECTIVE PREDICTOR OF A STATE'S CAPACITY TO AVOID BORROWING

Thirteen of the 19 states with an AHCM of at least 1.0 at the end of 2007 managed to avoid borrowing during the recession (**Table 2**). Of the six that did borrow, New Hampshire, Vermont, and Hawaii were able to repay their loans quickly.

Meanwhile, only 4 out of 34 states with less than 12 months of reserves made it through the recession without borrowing (**Table 2**). One of the states (West Virginia) avoided borrowing by proactively changing state tax policy as previously discussed. And, in contrast to the HCM measure, an AHCM indicating more than nine months but less than a year of reserves is inadequate. Four of the seven states in this category ended up borrowing, and of those four, Delaware, Georgia, and Kansas have been unable to pay back their loans as of May 2012.

Of the two multiples, the HCM sets a higher standard for solvency and offers more protection against the threat of borrowing. While a number of states with one year of AHCM reserves borrowed, even attaining this less stringent solvency standard greatly reduced the probability of borrowing. Given the actual level of reserves in 2007 and today's substantial trust fund deficits, it appears unlikely that a critical mass of states will reach the HCM standard in the near future. In comparison, the AHCM standard sets a more realistic goal for states, while also offering a reasonable amount of assurance against borrowing, especially in a less severe recession. In the following section, we employ a simple accounting framework to test how all state trust funds would have performed in theory through the end of 2010 had they all entered the recession with an AHCM of at least 1.0.

Table 3

Summary of Actual and Recommended Pre-recession Reserves (Year-End 2007)

	Average High-Cost Multiple (2007)	Recommended Reserves for an AHCM of 1.0 ($ millions)	Actual Pre-recession Net Reserves ($ millions)	Difference [Actual - Recommended] ($ millions)
United States	**0.52**	**$76,296**	**$38,168**	**-$38,127**
Alabama	0.52	$794	$411	-$384
Alaska	1.07	$309	$331	Met Benchmark
Arizona	1.12	$886	$990	Met Benchmark
Arkansas	0.32	$479	$151	-$328
California	0.27	$9,338	$2,533	-$6,805
Colorado	0.67	$943	$630	-$312
Connecticut	0.54	$1,106	$598	-$508
Delaware	0.90	$193	$174	-$19
District of Columbia	1.10	$364	$400	Met Benchmark
Florida	1.05	$2,100	$2,204	Met Benchmark
Georgia	0.97	$1,315	$1,282	-$33
Hawaii	1.88	$296	$556	Met Benchmark
Idaho	0.47	$418	$196	-$222
Illinois	0.34	$5,230	$1,802	-$3,428
Indiana	0.29	$1,066	$307	-$759
Iowa	0.88	$840	$740	-$99
Kansas	0.97	$657	$638	-$19
Kentucky	0.21	$1,076	$231	-$845
Louisiana	0.94	$1,540	$1,445	-$95
Maine	1.64	$293	$479	Met Benchmark
Maryland	0.78	$1,296	$1,017	-$279
Massachusetts	0.50	$2,559	$1,290	-$1,268
Michigan	-0.03	$3,809	-$103	-$3,912
Minnesota	0.38	$1,455	$546	-$909
Mississippi	1.70	$428	$728	Met Benchmark
Missouri	0.12	$962	$113	-$849
Montana	1.45	$193	$281	Met Benchmark
Nebraska	1.19	$235	$279	Met Benchmark
Nevada	1.02	$777	$793	Met Benchmark
New Hampshire	1.19	$201	$240	Met Benchmark
New Jersey	0.21	$3,157	$650	-$2,507
New Mexico	1.88	$307	$576	Met Benchmark
New York	0.08	$5,086	$430	-$4,656
North Carolina	0.23	$1,684	$394	-$1,290
North Dakota	0.79	$171	$134	-$37
Ohio	0.12	$3,666	$445	-$3,221
Oklahoma	1.51	$552	$831	Met Benchmark
Oregon	1.45	$1,329	$1,933	Met Benchmark
Pennsylvania	0.30	$5,120	$1,546	-$3,574
Puerto Rico	1.00	$528	$529	Met Benchmark
Rhode Island	0.38	$422	$160	-$262
South Carolina	0.26	$772	$199	-$573
South Dakota	0.32	$76	$25	-$51
Tennessee	0.48	$1,186	$566	-$620
Texas	0.45	$3,987	$1,775	-$2,212
Utah	1.46	$576	$843	Met Benchmark
Vermont	1.20	$148	$178	Met Benchmark
Virgin Islands	0.80	$28	$22	-$5
Virginia	0.70	$1,100	$775	-$325
Washington	1.53	$2,475	$3,794	Met Benchmark
West Virginia	0.45	$544	$245	-$299
Wisconsin	0.29	$2,012	$592	-$1,420
Wyoming	1.15	$212	$244	Met Benchmark

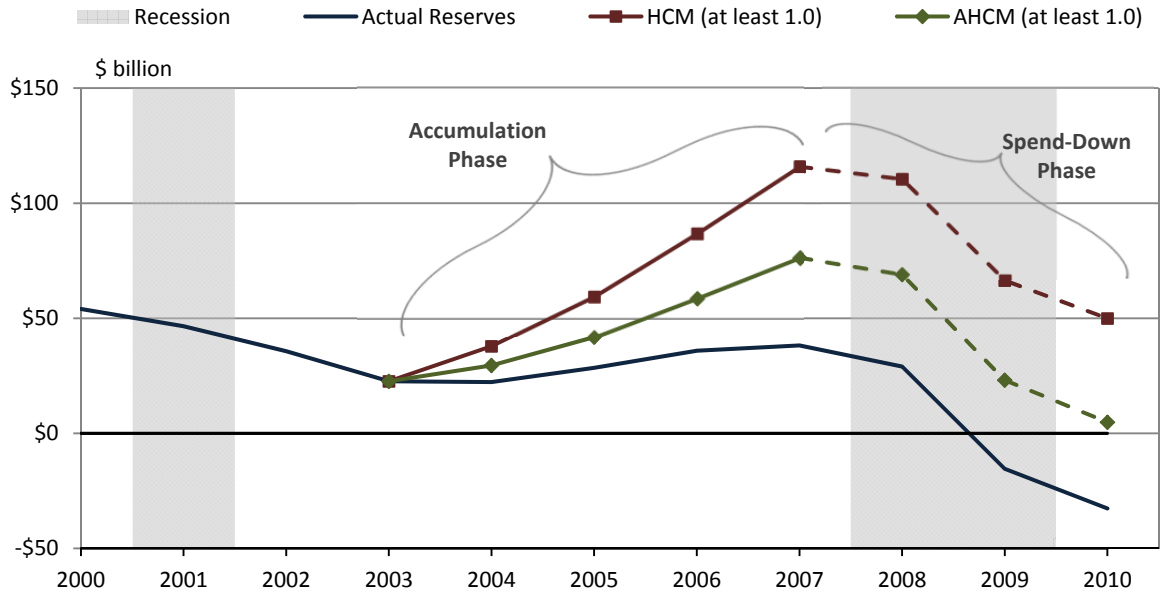
Source: National Employment Law Project analysis of U.S. Department of Labor, Handbook 394.
Note: Rows may not add exactly as a result of rounding.

SECTION 4: ADEQUATE PRE-RECESSION RESERVES COULD HAVE PREVENTED MASS BORROWING

According to our analysis, had the 34 states that started the recession with inadequate reserves met the AHCM solvency benchmark, the number of borrowing states would have fallen to 13 with the total amount borrowed dropping to $9 billion by the end of 2010. Moreover, the U.S. net trust fund balance would most likely have remained positive through 2010, rather than running a net $32.7 billion deficit (**Figure 4**).

Figure 4

U.S. Net Trust Fund Reserve Balance Likely to have Remained Positive had State Trust Funds Reached an HCM or AHCM of 1.0 by 2007



Source: NELP projections based on an analysis of actual pre-recession cost multiples and predicted trust fund reserves.

The analysis applies a simple accounting framework to answer the question: What would have happened if all 53 UI jurisdictions entered the 2007 recession with an AHCM of at least 1.0? State trust fund balances are a function of benefits paid, employer contributions, interest earned on positive balances, and any additional transfers (e.g., UI modernization incentive payments). We started by calculating the actual amount of reserves necessary for each state to have met the AHCM benchmark at the end of 2007. From the imputed beginning trust fund balance, we subtracted real benefits paid, while adding back real employer contributions, estimated interest earned, and actual UI modernization payments for 2008, 2009, and 2010. We then compared real 2010 end-of-year trust fund loans with the hypothetical amount that would have been borrowed had all states begun the recession with adequate pre-recession reserves **(Tables 4 and 5)**.[24]

ACTUAL BORROWING

As mentioned, 19 states met the AHCM benchmark at the end of 2007. Of these states, only five had an outstanding loan balance at the end of 2010, and the amount borrowed accounted for just under $3.0 billion of the $42 billion that was actually borrowed (**Table 4**).[25] The relatively small amount borrowed is partially attributed to the fact that the overwhelming majority of these 19 states with adequate pre-recession reserves were small. Florida (4th), Washington (14th), and Arizona (19th) were the three largest states (by size of labor force) to meet the solvency benchmark.[26]

Table 4

Actual Versus Hypothetical Unemployment Insurance Trust Fund Borrowing (2010)

	Number of States	Number of States Borrowing (Year-End 2010)	Amount Borrowed (Year-End 2010)	Percentage of States Borrowing	Loan as a Percentage of Total Wages Paid in Borrowing States
		Actual Borrowing			
Met AHCM Benchmark in 2007	19	5 [a]	$2.9	26%	0.77%
Did not Meet AHCM Benchmark	34	26	$39.3	76%	1.17%
Total	**53**	**31**	**$42.2**	**58%**	**1.13%**
		Hypothetical Borrowing			
		Assumed 34 insolvent states met AHCM benchmark in 2007			
Met AHCM Benchmark in 2007	19	5 [a]	$2.9	26%	0.77%
Did not Meet AHCM Benchmark	34	8	$5.9	24%	0.55%
Total	**53**	**13**	**$8.8**	**25%**	**0.61%**
***Addendum*:**					
		Hypothetical Borrowing			
		Assumed 19 solvent states had exactly an AHCM of 1.0 in 2007			
Met AHCM Benchmark in 2007	19	9	$3.5	47%	0.72%

Source: NELP analysis of U.S. Department of Labor, Handbook 394. See Methodology section in Appendix for more information.
[a] An additional state (New Hampshire) borrowed, but repaid its loan before the end of 2010 and is not included in the total here.
Note: The Addendum illustrates what would have happened if the 19 states that exceeded the solvency benchmark in 2007 had just enough reserves for an AHCM of 1.0. Lowering the beginning reserve balance for these states increases the number of borrowing states from five to nine and the amount borrowed by just $600 million.

Of the 34 states that did not have an AHCM of 1.0 at the end of 2007, 26 (76 percent) borrowed. At the end of 2010, outstanding loans were over one percent of wages in these 26 borrowing states. Relative to wages, the debt level in the states with inadequate pre-recession reserves is significantly higher compared to those states that met the pre-recession AHCM benchmark, but later required trust fund loans. An adequate pre-recession reserve balance did not prevent borrowing in all states, but it certainly reduced overall borrowing needs in those states that did require federal loans.

Table 5

Actual Versus Potential Loan Balance for 34 states that did not Meet Average High-Cost Multiple Benchmark at Year-End 2007

	Did State Borrow between 2007 and 2010?	Would State have Borrowed if it had Recommended Reserve Balance?	End-of-Year Loan Balance, 2010 (millions of dollars) Actual Loan	Potential Loan Had State Met AHCM Benchmark in 2007
State Total	**30 states**	**8 states**	**$39,313**	**$5,945**
Alabama	yes	no	$202	---
Arkansas	yes	no	$331	---
California	yes	yes	$9,454	$3,040
Colorado	yes	yes	$423	$96
Connecticut	yes	no	$523	---
Delaware	yes	yes	$32	$0.2
Georgia	yes	yes	$533	$469
Idaho	yes	no	$202	---
Illinois	yes	no	$2,376	---
Indiana	yes	yes	$1,955	$1,145
Iowa	no	no	---	---
Kansas	yes	no	$88	---
Kentucky	yes	no	$805	---
Louisiana	no	no	---	---
Maryland	yes	no	---	---
Massachusetts	yes	no	---	---
Michigan	yes	no	$3,710	---
Minnesota	yes	no	$545	---
Missouri	yes	no	$722	---
New Jersey	yes	no	$1,608	---
New York	yes	no	$3,134	---
North Carolina	yes	yes	$2,509	$910
North Dakota	no	no	---	---
Ohio	yes	no	$2,314	---
Pennsylvania	yes	no	$3,009	---
Rhode Island	yes	no	$225	---
South Carolina	yes	yes	$887	$272
South Dakota	yes	no	---	---
Tennessee	yes	no	---	---
Texas	yes	no	$1,960	---
Virgin Islands	yes	yes	$17	$11
Virginia	yes	no	$347	---
West Virginia	no	no	---	---
Wisconsin	yes	no	$1,401	---

Source: NELP analysis of U.S. Department of Labor, Handbook 394. See Methodology section in Appendix for more information.

HYPOTHETICAL BORROWING IN 34 STATES WITH INADEQUATE PRE-RECESSION RESERVES

The 34 states that ended 2007 with an AHCM of 1.0 had an aggregate trust fund balance of just under $22 billion. These states would have needed collective trust fund reserves of $64 billion to have met the AHCM solvency benchmark. While several states (i.e., Georgia, Kansas, Louisiana, and Delaware) were relatively close to being solvent, many of the largest states were billions of dollars short, including California ($6.8 billion), New York ($4.7 billion), Michigan ($3.9 billion), and New Jersey ($2.5 billion) (**Table 3**).

Limiting our analysis to the 34 insolvent states, we estimate that adequate pre-recession reserves would have reduced the number of states borrowing at the end of 2010 from 26 to 8 and the amount borrowed from $39 billion to $6 billion. Several of today's most indebted states and those hit hardest by the recession (Illinois, Michigan, New Jersey, New York, Ohio, and Pennsylvania) could have remained solvent at the end of 2010 (**Table 5**). Meanwhile, under our hypothetical scenario, those states that may still have borrowed would have required substantially smaller loans. California, which was borrowing over $9.5 billion at the end of 2010, could have reduced its loan by over two-thirds, while North Carolina could have cut borrowing by a similar margin.

Adding in the five states that met the AHCM benchmark in 2007 but still required trust fund loans brings the total number of borrowing states to 13 and the amount borrowed to just under $9 billion (**Table 4**). Our analysis demonstrates that adequate pre-recession reserves could have reduced the number of states requiring a loan at the end of 2010 by over half and overall borrowing by over three-fourths. While a pre-recession AHCM of 1.0 would not have eliminated all borrowing, far fewer states would have owed interest and faced FUTA tax credit reductions in 2011. Most importantly, today's most indebted states may have avoided steep employer contribution rate increases.

SECTION 5: WHAT IS THE COST OF ACCUMULATING UI TRUST FUND RESERVES?

Because many states did not have pre-recession reserves adequate to meet the demand for benefits, UI employer contributions had to increase before hiring and economic activity began to recover. Much of today's untimely pain could have been avoided had states maintained the level of trust funds reserves recommended by UI financing experts, but there is a cost associated with adequate preparation. **Collectively, states would have needed to collect an additional $38 billion in reserves over the pre-recession years to have met the AHCM benchmark by year-end 2007.**

Following the 2001 recession, the nation's net trust fund balance fell to just over $22.6 billion by the end of 2003, leaving just four years to close a $54 billion gap between actual reserves and the amount needed to have a year's worth of recession-level reserves available in 2007. Placed in a historical context, this gap appears less insurmountable, considering that following the back-to-back recessions of the early 1980s, the United States went from a collective negative trust fund balance to an AHCM of 1.0 in just six years.

Between 2004 and 2007, the simple average of contribution rates across all states was 0.73 percent of total wages or $280 per covered employee. This rate was an increase over previous years, but far below the program's historic average.[27] The 34 states that entered the Great Recession with less than adequate reserves had a simple average contribution per employee of $288 per employee over the same period. Based on actual benefits paid, we estimate that these states needed to collect $374 per

employee each year over this four-year period to have reached an AHCM of 1.0 by the end of 2007. This yearly $86 shortfall represents a 30 percent increase in the average per-employee contributions over the four years leading up to the Great Recession.

Examining each state on an individual basis, there was wide variation in the amount needed to close the solvency gap over the 2004 to 2007 period. Michigan, whose trust fund was actually running a negative balance at the end of 2007, would have needed to collect an additional $255 per employee per year to have accumulated enough reserves between 2004 and 2007. During this period, Michigan's unemployment rate averaged seven percent, the highest in the nation.[28] Other highly indebted states such as California, Illinois, New York, New Jersey, and Pennsylvania would have needed to collect well over $100 per employee more each year to have had adequate reserves at the end of 2007.

SECTION 6: PREPARING FOR THE NEXT RECESSION: HIGHLY INDEBTED STATES UNLIKELY TO ACCUMULATE RECOMMENDED RESERVES

Overall, as a result of years of tax reductions and neglect, state UI trust funds were poorly prepared for the severity of the Great Recession. As a result, the number of states requiring federal loans and the amount borrowed was unprecedented, leading a number of the most indebted states to enact severe cuts to their UI programs. To avoid repeating today's solvency crisis and protect the financial integrity of the UI program going forward, states must pay back the $42 billion owed at the end of 2010 and begin to accumulate trust fund reserves.

A collective net trust fund balance of $86 billion is necessary to reach an AHCM of 1.0 by the end of 2016 (Table 6).[29] Based on preliminary end-of-year 2011 net trust fund reserves, states must accumulate approximately $120 billion of reserves to pay back loans and reach the solvency benchmark by year-end 2016.[30] Setting aside this amount of reserves over five years (2012 through 2016) would require an average annual employer contribution rate of nearly 1.1 percent or the equivalent of $530 per employee (**Table 6**).[31] In comparison, the nation's 2010 average contribution rate was only 0.82 percent or $350 per employee, while the preliminary 2011 average was approximately $430 per employee.[32] Relative to recent history, the required rate would represent a substantial tax increase from current taxation levels; however, during the 1980s, the simple average employer contribution rate across all 53 UI jurisdictions was greater, at just over 1.2 percent of covered wages.

When looking at this accounting exercise, since 2010 several states have made drastic cuts to UI benefits that will lower their benefit cost rates going forward. A lower benefit cost rate will reduce the amount of benefits paid between 2012 and 2016 in these states. Our analysis does not incorporate these legislative changes and could overstate the per-employee contributions necessary to reach an AHCM of 1.0 by 2016 in some states. As of May 2012, the states that made the largest cuts include Florida, Georgia, Michigan, Missouri, Rhode Island, and South Carolina.

At the end of 2010, only seven states had an AHCM of 1.0, but the path back to solvency will be substantially easier for those states that entered the recession with adequate reserves. In 2010, employers in the 19 solvent states contributed an average of $328 per employee. Based on historical payout rates and projected wage and employment growth, we estimate that this amount may have to increase to $422 per employee on average from 2012 to 2016 for the solvent states to return to an AHCM of 1.0 by the end of 2016. Preliminary data shows that these states may already have increased contributions to the necessary amount in 2011.

On the other hand, employers in the 34 states that were insolvent prior to the recession contributed an average of $362 per employee in 2010. For these states to regain solvency by the end of 2016, we estimate that per-employee contributions must increase by over 60 percent to $591. These simple averages of state per-employee contributions mask substantial variation between states. Increases for today's most insolvent trust funds are even more extreme. California, for example, collected $390 per employee in 2010, but this amount will need to double in the future if the state is to pay back its loans and reach an AHCM of 1.0 by the end of 2016 (**Table 6**).

SECTION 7: ANALYSIS OF AVERAGE HIGH-COST MULTIPLE MUST BE TAKEN IN CONTEXT OF BENEFIT ADEQUACY AND STATE ECONOMIC PERFORMANCE

A pre-recession AHCM of 1.0 may be a relatively good predictor of state trust funds' capacity to avoid borrowing during a recession, but the measure says little about the quality of benefits paid to unemployed workers or the economic circumstances under which reserves had been accumulated. A state's propensity to accumulate adequate pre-recession reserves requires that employer contributions collected exceed benefits paid to unemployed workers when state economies are strong and unemployment claims are low (GAO 2006, 4). While states cannot control prevailing economic conditions, they do have wide discretion over benefit formulas and eligibility standards, as well as significant flexibility to determine employer contribution rates and the amount of wages subject to taxation.

Unsurprisingly, there is wide variation among the states in regard to the generosity of UI benefits and the financing mechanism used to fund benefits. The amount of benefits paid in a state is a function of the state's unemployment rate, the percentage of unemployed workers eligible for benefits, and the generosity of benefits (the amount of benefits and length of time benefits are provided). Meanwhile, employer contributions are determined by the amount of wages subject to taxation, the range of contribution rates, the overall health of the state's trust fund, and the layoff history of individual employers.

A high pre-recession trust fund reserve balance means little if state UI programs provide low benefits to a small fraction of unemployed workers, or if strong economic growth masks a weak financing system. Because benefit generosity and financing mechanisms can be measured along many dimensions, it would be an oversimplification to categorize states as strictly "good" or "bad." That being said, of the 19 states that entered the recession with adequate reserves, several "high-road" states maintained strong, well-financed programs whereas "low-road" states managed to remain solvent while keeping employer contribution rates low by paying inadequate UI benefits.

High-Road States: Washington and Oregon are examples of states exemplifying the "high-road" approach to financing UI benefits. Both states entered the recession with adequate reserves, paid better-than-average benefits, and avoided the temptation to cut employer contributions during the recession (**Table 7**). (Historically, Hawaii has also been a "high-road" state, but state lawmakers dramatically reduced the taxable wage base during the recession, forcing the state to borrow.) Both Washington and Oregon employ sound financing principles, such as indexing the taxable wage base for annual wage growth. Employer contributions rates in these two states were among the highest in the nation, demonstrating a substantial commitment from the employer community within each state toward financing a UI program that replaces lost wages for unemployed workers.

Table 6

Actual 2010 Net Reserves and Employer Contributions versus Amounts Necessary to be Solvent by 2016

	Actual 2010 Net Reserves ($ million)	Required Reserves for an AHCM of 1.0 by December 2016 ($ million)	Required Average Contribution per Employee 2012 to 2016	Actual Average Contribution per Employee 2010
United States	**-$32,674**	**$86,271**	**$530**	**$350**
34 Insolvent States	**-$35,981**	**$70,684**	**$591**	**$362**
Alabama	-$194	$658	$307	$290
Arkansas	-$279	$615	$545	$374
California	-$9,363	$12,551	$852	$390
Colorado	-$413	$1,263	$414	$243
Connecticut	-$483	$1,491	$882	$529
Delaware	-$31	$229	$544	$271
Georgia	-$513	$1,744	$368	$212
Idaho	-$97	$423	$530	$578
Illinois	-$2,374	$4,218	$783	$426
Indiana	-$1,937	$1,502	$601	$245
Iowa	$310	$787	$375	$440
Kansas	-$45	$646	$358	$302
Kentucky	-$796	$985	$631	$323
Louisiana	$896	$745	$246	$131
Maryland	$200	$1,472	$391	$441
Massachusetts	$18	$3,544	$948	$649
Michigan	-$3,522	$3,103	$993	$496
Minnesota	-$536	$1,650	$577	$466
Missouri	-$704	$1,128	$446	$279
New Jersey	-$1,572	$4,055	$1,031	$716
New York	-$3,100	$6,955	$883	$444
North Carolina	-$2,283	$2,481	$658	$258
North Dakota	$96	$133	$283	$278
Ohio	-$2,210	$2,506	$588	$309
Pennsylvania	-$2,915	$4,883	$1,004	$540
Rhode Island	-$188	$550	$1,154	$640
South Carolina	-$880	$854	$511	$185
South Dakota	$26	$70	$128	$242
Tennessee	$159	$1,116	$358	$327
Texas	-$1,667	$4,729	$400	$276
Virgin Islands	-$17	$37	$787	$41
Virginia	-$284	$1,405	$306	$183
West Virginia	$77	$366	$465	$370
Wisconsin	-$1,361	$1,791	$732	$418
19 Solvent States	**$3,307**	**$15,587**	**$422**	**$328**
Alaska	$245	$334	$781	$478
Arizona	-$225	$1,143	$316	$166
District of Columbia	$301	$436	$398	$329
Florida	-$1,855	$3,411	$363	$195
Hawaii	-$12	$429	$551	$386
Maine	$279	$360	$319	$315
Mississippi	$340	$361	$217	$137
Montana	$112	$225	$324	$317
Nebraska	$215	$241	$155	$295
Nevada	-$589	$1,230	$709	$284
New Hampshire	$4	$286	$271	$327
New Mexico	$225	$411	$343	$426
Oklahoma	$269	$610	$219	$137
Oregon	$911	$1,580	$638	$639
Puerto Rico	$294	$542	$526	$247
Utah	$313	$573	$260	$155
Vermont	-$37	$199	$648	$367
Washington	$2,392	$3,023	$667	$604
Wyoming	$124	$194	$303	$425

Source: NELP analysis of U.S. Department of Labor, Handbook 394. See Appendix for more information.

Low-Road States: Five of the 19 states with adequate pre-recession reserves pay benefits that put them in the bottom two-fifths with respect to generosity. And, despite having adequate pre-recession reserves, these states do not implement particularly strong financing principles. "Low-road" states include Arizona, the District of Columbia, Florida, New Hampshire, and Mississippi.[33] Prior to the recession, the taxable wage bases in these states ranged from $7,000 to $9,000 and employer contribution rates were among the absolute lowest in the nation (**Table 7**). The Great Recession exposed weak underlying financing principles in three of the five states (Arizona, Florida, and New Hampshire), causing them to borrow.[34] These three low-road states provide evidence that the strategy of financing even a minimal UI safety net with low employer contributions can backfire during a severe downturn.

CONCLUSION

We learned from the Great Recession that states with adequate pre-recession reserves were far less likely to borrow than their less-solvent counterparts. States that entered the recent recession with one year of recession-level reserves by the AHCM measure had a 32 percent chance of borrowing, whereas states that failed to meet this benchmark had an 88 percent of borrowing. Had all states gone into the recession with adequate reserves, the number of states and amount borrowed would have been reduced dramatically, as would have associated federal interest payments and repayment penalties. Presumably, there would also have been far less pressure on state lawmakers to enact today's drastic cuts, which undermine the capacity for the UI program to replace lost wages of unemployed workers and stabilize the economy during future recessions.

States were about $38 billion short of meeting recommended pre-recession trust fund reserve levels and will need to accumulate approximately $86 billion of trust fund reserves to be adequately financed by the end of 2016. At the end of 2010, the nation's collective trust fund balance stood at a negative $30 billion. Nationwide, employer contribution rates would have to increase by over 50 percent from 2010 levels for states to accumulate adequate reserves within the next five years. The necessary increase is even more extreme for the most highly indebted states. Realistically, it is unreasonable to believe that states will close this gap without doing further harm to the UI program's ability to sustain unemployed workers and their families through periods of temporary job loss.

Accumulating adequate pre-recession reserves requires a long-term commitment and foresight on the part of state lawmakers and employers to raise or maintain employer contributions when there is no existing crisis. Recent observers have pointed out that there is little incentive for myopic state lawmakers to accumulate adequate trust fund reserves (Galle 2012, 2–5). Those predominately large states that were not prepared for the recent recession needed to collect substantially more tax revenue from employers following the 2001 recession to have met the recommended solvency measure. Going forward, an even greater commitment will be necessary from insolvent states for the entire trust fund system to return to solvency over the next five years.

According to Galle, public choice theory predicts that political opposition—via employers—to UI taxes will be stronger than the corresponding support for UI benefits, particularly given the fact that mobile employers have greater bargaining power (2012, 5). Over the last two years, theory has played out in practice. With few exceptions, insolvent states have relied almost entirely on benefit cuts as a means to return state trust funds to zero (NELP 2011a), but there is no indication that most states have the political will to accumulate the reserves necessary for state trust funds to be truly solvent and able to withstand the next recession. Without substantial intervention from the federal partner, states will continue to be trapped in a race to the bottom, providing increasingly inadequate benefits with little promise of ever reaching recommended reserve balances in the foreseeable future.

Table 7

Summary of Cost Multiples and Borrowing with Measures of Employer Contributions and Benefit Generosity

	Taxable Wage Base (2007)		Trust Fund			Unemployment		Employer Contributions		Benefits (2003 to 2007)			
	Wages Subject to Taxation	Indexed	Average High-Cost Multiple (2007)	High-Cost Multiple (2007)	Did the State Borrow?	Average Unemployment Rate (2003 to 2007)	Average Unemployment Rate (2008 to 2011)	Average Contribution Rate (2003 to 2007)	State Rank (1 = highest)	Recipiency	State Rank (1 = highest)	Replacement Rate	State Rank (1 = highest)
United States [a]	$13,855 (average)	17 States	0.52	0.36	36 states	5.2%	8.4%	0.74%	---	36%	---	36%	---
Hawaii	$35,300	yes	1.88	1.50	yes	3.0%	5.9%	0.87%	12	42%	14	51%	1
New Mexico	$18,600	yes	1.88	1.60	no	4.9%	6.8%	0.47%	43	29%	38	37%	27
Mississippi	$7,000	no	1.70	1.32	no	6.7%	9.3%	0.50%	40	27%	42	32%	40
Maine	$12,000	no	1.64	1.12	no	4.8%	7.2%	0.65%	26	34%	30	39%	16
Washington	$31,400	yes	1.53	0.98	no	5.7%	8.4%	1.47%	2	37%	23	40%	12
Oklahoma	$13,200	yes	1.51	1.39	no	4.7%	5.8%	0.62%	28	24%	47	38%	22
Utah	$25,400	yes	1.46	1.17	no	4.1%	6.5%	0.59%	31	23%	48	43%	5
Montana	$22,700	yes	1.45	0.81	no	3.7%	6.4%	0.77%	21	46%	10	38%	20
Oregon	$29,000	yes	1.45	1.14	no	6.4%	9.5%	1.40%	3	42%	13	38%	23
Vermont	$8,000	no [b]	1.20	0.71	yes	3.9%	5.8%	0.64%	27	51%	8	41%	8
Nebraska	$9,000	no	1.19	0.73	no	3.6%	4.2%	0.56%	34	35%	27	36%	29
New Hampshire	$8,000	no	1.19	0.44	yes	3.8%	5.4%	0.31%	49	28%	41	33%	36
Wyoming	$18,100	yes	1.15	0.97	no	3.6%	5.6%	0.53%	37	30%	36	39%	15
Arizona	$7,000	no	1.12	0.45	yes	4.7%	8.7%	0.30%	50	26%	46	26%	49
District of Columbia	$9,000	no	1.10	0.80	no	6.4%	9.1%	0.43%	44	27%	45	23%	51
Alaska	$30,100	yes	1.07	0.77	no	6.9%	7.4%	1.54%	1	53%	3	26%	50
Florida	$7,000	no	1.05	0.46	yes	4.2%	9.7%	0.41%	46	29%	40	33%	37
Nevada	$24,600	yes	1.02	0.63	yes	4.6%	11.8%	0.78%	19	40%	19	35%	31
Puerto Rico	$7,000	no	1.00	0.73	no	---	---	---	---	---	---	---	---
Georgia	$8,500	no	0.97	0.43	yes	4.8%	9.1%	0.42%	45	27%	44	34%	35
Kansas	$8,000	no	0.97	0.72	yes	5.0%	6.3%	0.71%	24	31%	35	44%	3
Louisiana	$7,000	no	0.94	0.83	no	5.2%	6.5%	0.35%	48	34%	29	30%	44
Delaware	$8,500	no	0.90	0.42	yes	3.8%	7.4%	0.47%	42	53%	3	29%	45
Iowa	$22,000	yes	0.88	0.68	no	4.2%	5.5%	0.75%	22	39%	21	43%	4
Virgin Islands	$20,500	yes	0.80	0.69	yes	---	---	---	---	---	---	---	---
North Dakota	$21,300	yes	0.79	0.71	no	3.4%	3.7%	0.78%	18	32%	32	42%	6
Maryland	$8,500	no	0.78	0.52	yes	4.1%	6.5%	0.53%	38	33%	31	32%	39
Virginia	$8,000	no	0.70	0.45	yes	3.5%	6.0%	0.36%	47	27%	43	33%	38
Colorado	$10,000	no [b]	0.67	0.58	yes	5.0%	7.6%	0.52%	39	22%	49	39%	17

Table 7

Summary of Cost Multiples and Borrowing with Measures of Employer Contributions and Benefit Generosity

	Taxable Wage Base (2007)		Trust Fund			Unemployment		Employer Contributions		Benefits (2003 to 2007)			
	Wages Subject to Taxation	Indexed	Average High-Cost Multiple (2007)	High-Cost Multiple (2007)	Did the State Borrow?	Average Unemployment Rate (2003 to 2007)	Average Unemployment Rate (2008 to 2011)	Average Contribution Rate (2003 to 2007)	State Rank (1 = highest)	Recipiency	State Rank (1 = highest)	Replacement Rate	State Rank (1 = highest)
United States [a]	$13,855 (average)	17 States	0.52	0.36	36 states	5.2%	8.4%	0.74%	---	36%	---	36%	---
Connecticut	$15,000	no	0.54	0.23	yes	4.9%	8.0%	0.79%	17	49%	9	29%	45
Alabama	$8,000	no	0.52	0.33	yes	4.2%	8.4%	0.49%	41	35%	26	28%	47
Massachusetts	$14,000	no	0.50	0.28	yes	5.0%	7.4%	1.08%	6	52%	5	37%	26
Tennessee	$7,000	no	0.48	0.30	yes	5.3%	9.1%	0.53%	36	29%	37	31%	41
Idaho	$30,200	yes	0.47	0.35	yes	3.9%	7.7%	0.81%	15	52%	6	41%	11
Texas	$9,000	no	0.45	0.41	yes	5.5%	7.2%	0.57%	33	22%	50	35%	32
West Virginia	$8,000	no	0.45	0.35	no	4.9%	7.4%	0.84%	13	38%	22	38%	19
Minnesota	$25,000	yes	0.38	0.30	yes	4.5%	6.9%	0.88%	10	39%	20	41%	7
Rhode Island	$14,000	no [b]	0.38	0.25	yes	5.2%	10.2%	1.25%	5	45%	11	45%	2
Illinois	$11,500	no	0.34	0.30	yes	5.7%	9.0%	1.03%	7	40%	18	34%	34
Arkansas	$10,000	no	0.32	0.18	yes	5.4%	7.1%	0.88%	11	43%	12	40%	13
South Dakota	$8,500	no	0.32	0.25	yes	3.4%	4.4%	0.23%	51	20%	51	39%	18
Pennsylvania	$8,000	no	0.30	0.25	yes	5.0%	7.5%	1.29%	4	58%	1	39%	14
Indiana	$7,000	no	0.29	0.19	yes	5.1%	8.8%	0.59%	32	35%	25	41%	9
Wisconsin	$10,500	no	0.29	0.23	yes	5.0%	7.4%	0.82%	14	52%	7	38%	25
California	$7,000	no	0.27	0.18	yes	5.8%	10.7%	0.78%	19	41%	16	31%	42
South Carolina	$7,000	no	0.26	0.13	yes	6.5%	9.9%	0.55%	35	31%	34	35%	33
North Carolina	$17,800	yes	0.23	0.13	yes	5.3%	9.4%	0.81%	15	36%	24	38%	21
Kentucky	$8,000	no	0.21	0.16	yes	5.9%	9.4%	0.71%	25	29%	39	41%	10
New Jersey	$26,600	yes	0.21	0.11	yes	4.8%	8.3%	0.94%	9	56%	2	36%	30
Missouri	$11,000	no	0.12	0.07	yes	5.3%	8.4%	0.61%	29	34%	28	31%	43
Ohio	$9,000	no	0.12	0.09	yes	5.8%	8.9%	0.60%	30	32%	32	38%	24
New York	$8,500	no	0.08	0.04	yes	5.3%	7.6%	0.72%	23	40%	17	28%	48
Michigan	$9,000	no	-0.03	-0.02	yes	7.0%	11.2%	0.99%	8	42%	14	37%	28

[a] The U.S. taxable wage base is a simple average of the state taxable wage bases. The remaining columns are based on aggregate national data rather than the simple average across the UI jurisdictions.

[b] Rhode Island's taxable wage base will be indexed starting in 2012. Colorado's taxable wage base will be indexed once the state unemployment insurance trust fund is solvent. Vermont will index its taxable wage base starting in 2013 as long as the trust fund has a positive balance and the state has no outstanding federal loans.

Source: NELP analysis of U.S. Department of Labor, Handbook 394 and Bureau of Labor Statistics state unemployment rate data.

APPENDIX: METHODOLOGY

The U.S. Department of Labor's Handbook 394 was the primary source of data used to develop our solvency model. Column references throughout the following explanations refer to the corresponding columns of the Handbook 394.

Section 3: Defining "Adequate" Reserves

We determined the amount of reserves that were necessary for each state to have had met each of three solvency measures on December 31, 2007. These three measures are the Reserve Ratio, High-Cost Multiple, and Average High-Cost Multiple. These measures are derived from the following definitions:

- The **Reserve Ratio** is net reserves as of December 31 (column 13) divided by total wages paid in covered employment (column 3).

- The **Cost Rate** (column 20) is the ratio of benefits paid, including State share of extended benefits (column 10 + column 45), divided by total wages paid in covered employment (column 3) for the same period.

- The **Average High-Cost Rate** (column 22c) is the average of the three highest calendar-year cost rates in the last 20 years (or a period including three recessions, if longer).

- The **High-Cost Rate** (column 20) is the highest-ever calendar-year cost rate.

- **Average High-Cost Multiple**: The Reserve Ratio (column 19) divided by the Average High-Cost Rate (22d).

- **High-Cost Multiple**: The Reserve Ratio (column 19) divided by the High-Cost Rate (20).

- The national net trust fund balance required for an AHCM of 1.0 ($76 billion) is the sum of the required balances for all 53 UI jurisdictions.

Section 4: Adequate Pre-Recession Reserves Could Have Prevented Mass Borrowing

A state's end-of-year trust fund balance is a function of (1) employer contributions, (2) benefits paid to unemployed workers, (3) interest earned on the average net trust fund balance throughout the year, and (4) UI modernization incentive payments to state trust funds that were made between 2009 and 2010 in 38 states. We began our analysis by assuming that on December 31, 2007, each state had just enough reserves to reach an AHCM of 1.0 (by applying the methodology described above).

With the 2007 net reserve balance calculated above as a starting point, actual 2008 employer contributions were added to the balance while actual 2008 benefits paid were subtracted out. Estimated interest earned was calculated by multiplying the average actual interest rate for 2008 by the average of the estimated starting and ending trust fund balances (beginning reserves + employer contributions – benefits paid).[35]
Next, the interest earned was added to the estimated balance calculated above to determine the final ending balance for 2008. This process was repeated using the estimated 2008 ending balance as the starting point for 2009 and so forth, through the end of 2010. In 2009 and 2010, we also added UI modernization incentive payments to the accounts of the 38 states that qualified for the payments in either or both years. The assumed

year in which these payments took place was based on U.S. Department of Labor press releases that were issued as each state qualified for the incentive payments. Between 2009 and 2010, $3.4 billion worth of incentive payments were transferred from the federal government into state UI trust funds.

The addendum to **Table 4** illustrates what would happen if the beginning reserves were adjusted downward for the 19 states that entered the recession with AHCM exceeding 1.0. The analysis was the same as described above, except that beginning reserves were reduced for these 19 states so that each state had an AHCM of exactly 1.0. As expected, the hypothetical lower beginning reserve balance increased the number of states requiring a loan from five (the actual number) to nine, while amount borrowed increased by only $600 million.

Section 5: What Is the Cost of Accumulating UI Trust Fund Reserves?

At the end of 2007, state trust funds held a combined $38 billion. For each state to have had an AHCM of 1.0, the combined trust fund balance needed to be twice as large ($76 billion). We looked at the average employer contribution rates for each state over the four-year period 2004 to 2007 and compared this observed average to the rate needed to accumulate $76 billion of combined trust fund reserves. The actual beginning balance in 2004 was $22.6 billion, leaving states four years to accumulate the $54 billion needed to achieve an AHCM of 1.0 by the end of 2007.

We adopted the general accounting framework described in the previous section, starting with a beginning balance of $22.6 billion and subtracting out benefits paid over the four-year period. The difference is that this time, we knew our desired trust fund balance ($76 billion at the end of 2007) but did not know the amount of employer contribution rate needed to reach this balance. We used Microsoft Excel's "goal-seek" functionality, which uses an iterative process to find the value that results in a desired outcome. In this case, we were looking for the amount of employer contributions over a four-year period that would increase a state's trust fund balance from its 2004 starting point to the desired 2007 end point (i.e., a large enough balance to reach an AHCM of 1.0), taking into account interest earned on positive trust fund balances and actual total wages as well as benefits paid.

We repeated this goal-seek process for all 53 UI jurisdictions, identifying the employer contributions and contribution rate necessary to achieve an AHCM of 1.0 by the end of 2007, starting with actual beginning reserves in 2004.

After we identified total required contributions, we converted this into a dollars-per-employee estimate. To calculate the average contribution per employee in each of the 53 jurisdictions for each year (2004 to 2007), we divided the annual employer contribution amount from above by average covered employment for the corresponding in year in each of the jurisdictions. We then took the simple average over the four years to arrive at the average annual per-employee contribution rate that was necessary to reach an AHCM of 1.0 by the end of 2007.

Section 6: Preparing for the Next Recession: Highly Indebted States Unlikely to Accumulate Recommended Reserves

We adapted the methodology described in the previous section to determine the amount of reserves necessary to achieve an AHCM of 1.0 by the end of 2016, based on preliminary 2011 end-of-year reserves. Finding the amount of reserves necessary to reach an AHCM of 1.0 is simply a matter of multiplying a state's total calendar year wages in covered employment by the state's average high-cost rate. To estimate total wages paid in 2016, we calculated the actual 10-year compound average growth rate for each state's wages over the period 1997 to 2007. We chose this period because it did not include the volatile recessionary years

where aggregate wages decreased in many states. Basing the ten-year growth rate on the period 2000 to 2010 would have resulted in a lower amount of reserves needed to reach an AHCM of 1.0 by year-end 2016.

Starting with actual 2010 total wages, we applied the 10-year compound average growth rate to each successive year to estimate wages paid in 2011, 2012, 2013, 2014, 2015, and 2016. We then multiplied 2016 total wages by the average high-cost rate for 2010. (We do not know what the actual average high-cost rate will be in 2016.) Summing the results across all 53 jurisdictions, we estimated that that the United States will need combined reserves of $86 billion by the end of 2016.

Applying the methodology described in the previous section, we used an iterative process to determine the amount of contributions and the contribution rate necessary to achieve the desired AHCM by the end of 2016. But first, we needed to estimate future benefits paid in the years 2011 through 2016. To calculate a preliminary estimate for 2011, we used the previous 12 months of benefits paid from the U.S. Department of Labor's Quarterly Data Summary for Fourth Quarter 2011 and netted out benefits paid by reimbursable employers (applying the actual percentage of total benefits paid by reimbursable employers in 2010). A similar process was used to derive a preliminary estimate for 2011 employer contributions. For years 2012 to 2016, we identified the benefit cost rate (ratio of benefits paid to total covered wages) for each of the UI jurisdictions for the years 1998 through 2007. We then took the average of these ten rates and applied it to estimated total wages for the years 2012 through 2016. As with the total wage estimate, we thought it was best to exclude the benefit cost rates for the recessionary years 2008 to 2010. All else being equal, including the recessionary years would have increased the amount of employer contributions needed.

To estimate future interest earned on trust fund balances, we used the actual average 2011 unemployment trust fund yield and projected yields for 2012 through 2016. Our projected unemployment trust fund yields were based on the Congressional Budget Office's (CBO's) estimated 10-Year Treasury Note rates for calendar years 2012 to 2016. We averaged the ratio of actual unemployment trust fund and 10-Year Treasury Note yields over the past 12 years and multiplied this ratio by CBO's projected 10-Year Treasury Note rates for 2012 to 2016.

After applying the iterative process described earlier to identify the necessary employer contributions for each year (2011 through 2016), we divided this amount by the average number of covered employees per year to obtain an average per-employee contribution for each state. This U.S. average is the sum of state contributions divided by the sum of state covered employment. To estimate future employment, we applied the same process used to estimate future total wages, taking the average compound annual growth rate for the years 1997 through 2007.

As noted in text, several states have made drastic cuts to UI benefits that will lower their benefit cost rates going forward. A lower benefit cost rate will reduce the amount of benefits paid between 2012 and 2016 in these states. Our analysis does not incorporate these legislative changes and could overstate the per-employee contributions necessary to reach an AHCM of 1.0 by 2016. As of May 2012, the states that made the largest cuts include Florida, Georgia, Michigan, Missouri, Rhode Island, and South Carolina.

Limitations

To make the analysis relatively straightforward in Sections 4 and 5, we used actual benefit paid and employer contributions to determine year-end trust fund balances. In reality, both benefits paid and employer contributions may have followed different path throughout the recession had all states started the recession with an AHCM of 1.0. On the benefit side, a larger trust fund balance could have led state lawmakers to offer more generous benefits, potentially impacting the number of unemployed workers who filed an

unemployment insurance claim, the number of weeks of benefits paid, and the state's average weekly benefit amount.

Whereas a state's fund balance could theoretically influence benefit payments, it would almost certainly have an impact on employer contributions. States that went into the recession with an AHCM of less than 1.0 would have needed higher average employer contribution rates in prior years to have accumulated enough reserves to meet the solvency benchmark at the end of 2007. Presumably, employer contribution rates would have been higher at the start of the recession for many states. In addition, contribution rates would have behaved differently during the recession as these rates depend on a combination of a state's overall trust fund balance and each employer's history of layoffs and contributions.

A more complex analysis of the relationship between contribution rates and trust fund balances would be necessary to determine if contributions would have been higher or lower between 2008 and 2010 under a scenario where most states started the recession with significantly greater reserves. In addition, employer contribution rates affect state economies as well as employment (Vroman 2010, 56). Employer contribution rates would have been higher in the years prior to the recession and potentially higher or lower during the recession compared to the actual observed rates. The macroeconomic effects of contribution rates could potentially affect benefit payments and trust fund reserves.

ENDNOTES

[1] Unemployment insurance initial claims data is accessible through the U.S. Department of Labor's website at http://www.workforcesecurity.doleta.gov/unemploy/claims.asp. Between 1998 and 2007, a period that includes the relatively mild 2001 recession, initial claims ranged from a low of 15.5 million in 1999 to a peak of 21.1 million in 2001.
[2] The unemployment rate peaked at 10.0 percent in October 2009. Previously the unemployment rate reached 10.8 percent in November and December 1982 and remained above 10 percent between September 1982 and June 1983.
[3] Based on an analysis of data from the Current Population Survey (2010 March Supplement), the Congressional Budget Office found families that experienced unemployment and received unemployment insurance benefits had a median income of $54,800 in 2009 and that 70 percent of unemployment insurance benefits were paid to families that had income of more than twice the poverty threshold.
[4] Nine states and Puerto Rico provide 26 weeks of benefits to all workers who meet the qualifying-wage requirements, whereas the remaining states have variable durations that depend on claimants' work histories. For more information on monetary and nonmonetary eligibility criteria see U.S. Department of Labor, "Comparison of State Unemployment Laws," section on Monetary Entitlement available at:
http://www.workforcesecurity.doleta.gov/unemploy/comparison2011.asp.
[5] Most states define the "base period" as the first 4 of the last 5 completed calendar quarters preceding the filing of the claim. See previous note, Table 3-11: Benefit Entitlement and Duration of Benefits.
[6] For example, "High rates of unemployment and benefits lasting up to 99 weeks have led 34 states to borrow over $37 billion from the federal government to pay benefits (Henchman 2011, 1)."
[7] States are only responsible for covering the cost of Extended Benefit payments (the last 13 or 20 weeks of benefits) made to state and local employees under a change made by Congress in early 2009. In 2010, payments to state and local employees accounted for only $283 million or 3 percent of total Extended Benefits payments.
[8] The five states are Alaska, Mississippi, Nebraska, New Mexico, and Oklahoma.
[9] The 53 unemployment insurance jurisdictions include the 50 states, the District of Columbia, the Virgin Islands, and Puerto Rico.
[10] Interest is charged on a state's average daily balance over the federal fiscal year (October to September). A state can avoid an interest payment by (1) fully paying back its loans by September 31st and (2) by not taking out any additional loans between October and December (Vroman 2009, 6). Congress enacted an interest waiver for 2009 and 2010. The waiver expired in 2011 meaning that states owed interest on the average daily loan balance for the period January 1, 2011 to September 30, 2011.
[11] Average employer contribution rates increased in 51 of the 53 unemployment insurance jurisdictions in 2010 and increased again in 47 jurisdictions in 2011.
[12] Vroman (2011, 17) argues that five states (Maryland, New Hampshire, South Dakota, Tennessee, and West Virginia) made substantial changes to their financing mechanisms in recent years. Two of the measures Vroman highlights (i.e., allowing statutory experience-rating provisions to operate and temporary part-year tax increases for sub-periods within calendar years) may have enabled these states to avoid large debts during the recent recession, but will not necessarily lead to the accumulation of adequate reserves going forward. Excluding Maryland, all of these states also increased their taxable wage bases by modest amounts, but none went as far as Rhode Island and Colorado to implement wage base indexing. Automatic tax increases may have taken effect in other states and employers in long-term borrowing states are paying increased federal taxes, but these passive changes will not address the long-term stability of state trust funds.
[13] The six states that borrowed but paid off federal loans (without issuing debt in the municipal bond market) are Hawaii, Maryland, Massachusetts, New Hampshire, South Dakota, and Tennessee. These states avoided paying interest and were not subject to federal tax increases on employers.
[14] The 12 states are California, Florida, Illinois, Indiana, Michigan, New Jersey, New York, North Carolina, Ohio, Pennsylvania, Texas, and Wisconsin. The amounts that Texas and Michigan borrowed in the private bond market to pay down federal loans are included here.
[15] By the end of 2011, Texas had paid back approximately $300 million of its initial $1.96 billion offering.
[16] See the U.S. Department of Labor's Handbook 394 (http://www.workforcesecurity.doleta.gov/unemploy/hb394.asp). The loan balance as a percentage of total covered wages is equal to year-end federal loans to states (column 12) divided by total wages paid in covered employment (column 3).
[17] Massachusetts borrowed in March 2012, but quickly repaid its loan and was debt free by the end of April 2012.
[18] See the FY 2013 President's Budget for information on historic and projected interest payments and FUTA credit

reductions (http://www.ows.doleta.gov/unemploy/pdf/prez_budget.pdf). See table "Comparison of Projections" (page 6) for information on projected interest payments and table "Status of Loan Account" (page 14) for projected FUTA credit reductions.

[19] The Government Accountability Office's analysis considers the back-to-back recessions of 1980 and 1981–1982 as one recession.

[20] Historical data on the average duration of unemployment and percentage of unemployed workers out of work for over 26 weeks or more is from the Current Population Survey and is available through the Bureau of Labor Statistics (Table A-12. See unemployed persons by duration of unemployment (http://www.bls.gov/webapps/legacy/cpsatab12.htm).

[21] See the U.S. Department of Labor's Handbook 394 (http://www.ows.doleta.gov/unemploy/hb394/hndbkrpt.asp). The benefit cost rate for a calendar year is equal to the sum of benefits paid by the regular state program (column 10) and benefits paid by the federal-state extended benefits program (column 45), divided by total wages paid in covered employment (column 3).

[22] See the U.S. Department of Labor's Handbook 394 (http://www.workforcesecurity.doleta.gov/unemploy/hb394.asp) for state High-Cost Multiples (column 22) and Average High-Cost Multiples (column 22d).

[23] See Hawaii Act 110, L. 2007.

[24] See the methodology section in the appendix for an explanation of the analysis.

[25] The number of states and amount borrowed includes Texas which had borrowed $1.96 billion in the private debt market to pay back its federal loan in December 2010.

[26] Both Florida ($1.958 billion) and Arizona ($236 million) had outstanding loan balances at the end of 2010.

[27] The U.S. average contribution per employee takes into account covered employees, covered wages, and employer contributions across the 53 unemployment insurance jurisdictions. In practice, actual employer contributions vary greatly between states and within states depending on each state's unemployment insurance tax structure and the layoff history of individual employers.

[28] Michigan's current insolvency was exacerbated not only by higher than average unemployment, but by an ill-advised 2002 tax cut that lowered the amount of wages subject to UI taxes from $9,500 to $9,000 (NELP 2011c).

[29] See the methodology section in the appendix for more information on the analysis.

[30] This figure does not include annual interest payments on federal loans.

[31] Averages are the simple average across all 53 UI jurisdictions and are not weighted for the size of each state.

[32] Our analysis does not distinguish between state and federal unemployment taxes; we simply examine the amount of revenue needed to payback debt and reach an AHCM of 1.0. In reality, indebted states will pay back federal loans and begin accumulating reserves with some combination of state tax and automatic federal unemployment (FUTA) tax increases. Those few states that issued private market bonds will not face higher federal taxes, but will require special state taxes to pay back private market debt.

[33]For example, Mississippi retains significant reserves, but it does so by maintaining a low average weekly benefit amount ($190) and low maximum weekly benefit ($235 in 2012), and the state has a low UI program recipiency rate (only 22 of 100 unemployed received UI in 2011). Mississippi doubled its taxable wage base from $7,000 in 2010 to $14,000 in 2011 in response to a declining trust fund balance.

[34] In response to a declining trust fund balance, New Hampshire gradually increased its taxable wage base from $8,000 in 2009 to $14,000 in 2012. The state engaged in only short-term borrowing but also benefited from relatively low unemployment before and during the recession.

[35] The U.S. Department of Treasury reports quarterly unemployment trust fund yields dating back to 1999. For our analysis, we averaged the quarterly yields to estimate an average calendar-year yield. In addition, interest owed by states on federal borrowing (i.e., Title XII loans) in a given calendar year is based on the trust fund yield from the fourth quarter of the previous calendar year.

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