NELP

National Employment Law Project

UNEMPLOYMENT INSURANCE FINANCING:
STATE TRUST FUNDS IN RECESSION AS OF DECEMBER 31, 2008

Introduction
The U.S. economy has now been officially declared in recession for over a year. Over 3.6 million jobs have been lost since the recession began, and new unemployment insurance claims rose from 333,000 a week in January 2008 to 583,500 by January 2009. At the same time, continued claims rose from 2.7 million in the first month of 2008 to 4.75 million in January 2009. High levels of unemployment and unemployment insurance (UI) claims are expected throughout 2009.

In May 2008, NELP issued a briefing paper (*Unemployment Insurance Financing: Examining State Trust Funds Facing Recession*). Using U.S. Department of Labor data for the end of calendar year 2007, we described the solvency status of state UI trust funds. We found that taken as a whole, state UI trust funds were less prepared for recession at the end of 2007 when compared to their status prior to the 2001 recession. We also found that some 18 states had particularly low UI trust fund reserves, while a fairly large group of 21 states had reserves sufficient for a moderate recession. Readers should refer to this report if you need added background on UI financial terminology and how UI solvency is assessed.[1] In addition, you may wish to compare our September 30, 2008 solvency update to this December 31, 2008 update.[2]

In light of the unprecedented economic downturn that has taken place in the U.S., we are revisiting UI financing once again. This update uses UI financial data from the end of calendar year 2008 to bring the story of state UI trust fund solvency up to the start of 2009.

State UI Trust Fund Solvency Overview as of December 31, 2008
Unemployment numbers rose in every month of 2008, and UI claims numbers have risen steadily as well. Increased unemployment hurts UI solvency in two ways. First, UI claims and benefit payments rise and this increases payments for UI benefits. Second, wages subject to state UI payroll taxation disappear as businesses fail and workers are laid off. Since jobless workers are not earning wages, state UI payroll tax collections fall. These two related factors have taken a toll on states' UI solvency during 2008. States' trust fund reserves had fallen to $29.455 billion by December 31, 2008, a significant $8 billion decline from a year ago when they stood at $38.302 billion.[3]

For this update, Table 1 compares average monthly UI payments in each state over the past 12 months to that state's trust fund balance as of December 31. This calculation produces a number representing the approximate months of current average UI benefit payments that each state's trust fund reserves can sustain without relying upon any incoming UI payroll tax revenues. (We use this methodology for this update as a shorthand method of rating state solvency pending U.S. Department of Labor releasing its more standard solvency measures sometime in the next few weeks.) Our method here roughly approximates that used to calculate the average high cost multiple (AHCM), a commonly used solvency measure.

Our updated solvency analysis of recent state level UI financial data confirms the worsening overall UI solvency situation. As of the end of calendar year 2008, we see from Table 1 that:

- Insolvent: Eight States (California, Michigan, Indiana, Kentucky, New York, North Carolina, South Carolina, and Ohio) have now all borrowed from the federal loan fund. They are now insolvent. Only Michigan was borrowing when we last updated state solvency at the end of September 2008.

- Nearly Insolvent: Seven States We now deem 7 states as nearly insolvent (Missouri, New Jersey, Wisconsin, Alaska, Rhode Island, Pennsylvania and Idaho). These states had less than six months of reserves as of December 31, 2008 and it seems nearly inevitable that these states will go into the red given the major increase in claims and benefits and the time lag between when solvency legislation is enacted and takes effect.

- Less than Solvent: Nine States NELP has adjusted our analysis since September. Given the major increase in benefit payments, it is now our assessment that states that had less than 12 months of benefit payouts remaining in their trust fund on December 31st are more likely than not to be forced to borrow federal loans to pay benefits in 2009 or 2010. Our conclusion is based on the fact unrelenting increases in benefit payments in these states are poised to soak up remaining trust fund balances and incoming revenue. In these marginal states, however, the effectiveness of automatic tax increases and new revenue measures could avert a solvency crisis. The less than solvent states are Minnesota, Connecticut, Illinois, Florida, Massachusetts, Tennessee, Texas, Georgia and Alabama. Some of these states have publicly reported their own projections of insolvency in 2009.

- Barely Solvent: Seven states The worsening economic climate has spurred us to create a new class of states deemed barely solvent. These states had between 12 and 16 months of current benefits in reserves as of December 31. These states that have more than a year of recession level benefits in their trust funds are likely to dodge insolvency in 2009, but they are in genuine danger of insolvency in 2010, especially if the recovery is slow in coming. Indeed, some of these states are projecting trust fund shortfalls in 2010.

In summary, the solvency situation has worsened in recent months, as a majority of states now seem likely to face solvency problems. The ranks of less solvent states are growing, with 24 states now facing serious UI financing difficulties and anther seven coming up as barely solvent, for a total of 31 states with sub-optimal UI financing. In comparison, 14 states have 24 months of average benefit payments or more in their current reserves (from least to most: Oregon, Nebraska, Montana, New Mexico, District of Columbia, North Dakota, Alaska, Maine, Washington, Mississippi, Oklahoma, Utah, Wyoming, Louisiana). The remaining 6 states fall into a middle range of solvency.

While the solvency situation has become more problematic, new federal legislation is giving states breathing room. The stimulus bill passed by Congress has suspended interest payments on debt through December 31, 2010. Normally, states have to pay interest if they carry trust fund debt past September 30th. This new measure has eliminated one immediate cost of borrowing, although employers in borrowing states will still be responsible for eventually paying back the principal of the trust fund loans. Moreover, the recovery bill authorized up to $7 billion in federal transfers to state UI trust funds. These transfers are contingent on state's adopting eligibility rules that level the playing field for low-wage, women and part-time workers. Several insolvent or nearly insolvent states, like New York, Michigan, North Carolina, Ohio, New Jersey, Wisconsin and Rhode Island, will immediately qualify for a sizable federal grant to their trust funds based on existing laws. While these transfers won't be enough to reverse solvency problems, they will be a step in the right direction.

In nearly all cases, solvency problems has been growing in troubled states over a course of many years as a result of active pursuit of lower UI payroll taxes or neglect of sound UI financing principles. Just as it has taken years for states to get into solvency trouble, it is going to take a long period for states to plot a way back to solvency. It is important for insolvent states to make such a long-term plan, and begin making progress soon. However, it is highly inadvisable for states to restrict or reduce UI benefits, especially during a recession. Unemployment benefits are one of the only sources of significant economic stimulus tools available to states in today's economy. Reductions in UI benefits in 2009 will only deepen an already severe recession and should be avoided. Ultimately, the scope of this recession and number of states involved with solvency difficulties may require federal action to not only relieve financial pressure on state UI programs, but to ensure that states are mandated to undertake increased forward funding of UI trust funds before the next recession.

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Endnotes

[1] Available at <http://www.nelp.org/page/-/UI/State_Unemployment_Insurance_Trust_Fund_Solvency_2008.pdf>.

[2] Available at: <http://www.nelp.org/page/-/UI/Trust%20Fund%20Solvency%20Update%202008-Final.pdf>.

[3] U.S. Department of Treasury, Bureau of Public Debt, Unemployment Trust Fund Report, December 31, 2008 and U.S. Department of Labor, UI quarterly data summary, 4th Quarter 2007.

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Trust Fund Solvency Update
February 2009

(yellow)	Insolvent	8 states
(green)	Nearly Insolvent and almost certain to borrow in 2009	7 states
(cyan)	Less than Solvent - serious risk of solvency problems in 2009-10	9 states
(peach)	Barely Solvent - Could face solvency problems in 2010	7 states

State	Trust Fund Balance as of 12.31.08	Average Monthly Benefits Paid, Past 12 Months Ending 12.08	Average Monthly Benefit Payments in TF Reserves	Outstanding Loans from the Federal Unemployment Account as of 02.12.09
Indiana	$12,915,420	$80,973,456	0.0	370,884,149
Michigan	$29,715,568	$185,420,192	0.0	1,217,000,000
Ohio	$63,121,348	$132,213,437	0.0	201,737,799
South Carolina	$753,892	$40,363,163	0.0	122,820,631
New York	$7,083,649	$230,788,442	0.0	358,219,435
California	$639,200,417	$568,174,719	1.1	153,136,037
Kentucky	$81,860,701	$46,904,439	1.7	38,675,000
North Carolina	$190,694,947	$107,428,543	1.8	13,141,000
Missouri	$118,482,719	$48,380,910	2.4	
New Jersey	$516,779,464	$198,333,420	2.6	
Wisconsin	$234,746,144	$87,616,153	2.7	
Arkansas	$82,953,941	$28,503,641	2.9	
Rhode Island	$73,858,010	$22,717,274	3.3	
Pennsylvania	$981,161,947	$237,515,215	4.1	
Idaho	$88,456,182	$18,265,869	4.8	
Minnesota	$508,445,312	$75,642,327	6.7	
Connecticut	$445,329,365	$61,917,856	7.2	
Illinois	$1,456,078,076	$193,090,548	7.5	
Florida	$1,320,284,562	$152,300,799	8.7	
Massachusetts	$1,241,755,682	$142,412,040	8.7	
Tennessee	$438,291,586	$46,804,683	9.4	
Texas	$1,313,252,568	$132,586,997	9.9	
Georgia	$909,804,862	$79,205,349	11.5	
Alabama	$314,100,464	$26,799,808	11.7	
Delaware	$131,379,818	$10,677,774	12.3	
Nevada	$606,022,226	$44,728,681	13.5	
South Dakota	$25,480,743	$1,837,194	13.9	
Vermont	$137,837,444	$9,405,664	14.7	
Maryland	$773,782,472	$52,790,866	14.7	
Virginia	$616,444,800	$42,050,636	14.7	
New Hampshire	$152,421,946	$9,768,300	15.6	
Colorado	$627,981,687	$34,381,923	18.3	
West Virginia	$232,319,248	$12,548,063	18.5	
Kansas	$566,419,275	$27,190,292	20.8	
Iowa	$737,040,277	$35,123,873	21.0	
Hawaii	$424,974,841	$18,400,896	23.1	
Arizona	$866,979,728	$36,487,379	23.8	
Oregon	$1,970,662,818	$67,539,379	29.2	
Montana	$274,993,983	$8,441,384	32.6	
Nebraska	$280,970,757	$8,617,933	32.6	
North Dakota	$139,632,358	$3,769,414	37.0	
New Mexico	$512,785,397	$13,813,523	37.1	
District of Columbia	$411,777,477	$11,000,601	37.4	
Maine	$453,214,123	$11,919,874	38.0	
Alaska	$353,513,269	$9,061,430	39.0	
Mississippi	$679,152,016	$14,691,028	46.2	
Washington	$4,044,330,439	$85,672,798	47.2	
Utah	$822,706,593	$16,204,039	50.8	
Oklahoma	$824,285,608	$15,994,594	51.5	
Wyoming	$258,778,153	$3,817,792	67.8	
Louisiana	$1,460,752,891	$17,812,340	82.0	
US Totals	*$29,455,767,214*	$3,587,156,701		