



NATIONAL CONFERENCE  
of STATE LEGISLATURES

*The Forum for America's Ideas*

## NCSL FISCAL BRIEF: THE OTHER BUDGET DEFICITS, STATE UNEMPLOYMENT INSURANCE FUNDS

*By Mandy Rafool  
April 1, 2011*

Following a long and deep recession with an economic recovery that has been slow to gain momentum, many states find themselves with diminished or insolvent unemployment insurance trust funds. This article looks at recent actions taken by state legislatures to address this issue.

Unemployment insurance is a joint, federal-state program that provides unemployment benefits in the form of payments to eligible workers who have lost their jobs. The program is financed by a combination of federal and state payroll taxes that are held in trust funds managed by the U.S. Department of Treasury. The federal tax primarily covers administrative costs and the state tax pays for the benefits that workers receive.

Each state determines the appropriate funding level for their own trust fund, and for many years, the general policy trend has been to keep payroll taxes very low. According to the Government Accountability Office, unemployment trust funds are in historically poor financial condition. Total state reserves in 2000 came to about \$54 billion. That number had dropped to \$38 billion by the end of 2007 when the recession hit.<sup>1</sup> This meant that many states entered the economic downturn with underfunded unemployment trust fund balances and by the end of 2009, balances (excluding loans) had fallen to -\$15.4 billion, the lowest level in the program's history.<sup>2</sup>

The depth and duration of the recent recession resulted in a national unemployment rate of close to 10 percent for nearly two years. This caused unemployment claims to spike dramatically and the underfunded trust funds ran dry quickly. To cover the gap between rising payments for benefits and declining payroll tax revenue, many states were forced to borrow funds from the federal government. As of March 2, 2011, the U.S. Department of Labor reported that 31 states had outstanding loans from the federal unemployment account, totaling more than \$44 billion.

The American Recovery and Reinvestment Act of 2009 (ARRA) gave states an extended break on interest payments for those loans, but the grace period ended on Dec. 31, 2010, and states began accruing interest on Jan. 1, 2011. Because financial conditions in the states are still weak and most states are facing another year

---

<sup>1</sup> National Employment Law Project, *Understanding the Unemployment Trust Fund Crisis of 2010*, (New York, NY, April 2010).

<sup>2</sup> Andrew Sherrill, *Unemployment Insurance Trust Funds: Long-standing State Financing Policies Have Increased Risk of Insolvency*, (Washington, D.C.: Government Accounting Office, 2010).

of severe budget shortfalls, discussions are under way at the federal level to extend the grace period. However, barring any action by Congress, states will need to start making interest payments in September 2011. Employers in states that fail to make interest payments or pay off the outstanding balance of their loans within the designated timeframe will face an effective federal tax increase.

In November 2010, NCSL surveyed legislative fiscal officers about the status of their state unemployment insurance funds and asked whether legislative action was being considered. Fifteen states reported that lawmakers had considered or took action in the 2010 legislative sessions regarding unemployment insurance issues; however, only eight of those states took any corrective action to address unfunded liability in the funds. Legislatures in Idaho, Iowa, Kentucky, Nevada, Rhode Island, South Carolina, Texas and Vermont adopted measures to help boost depleted trust funds. More than half the states including Maine, Oregon and Virginia have trigger mechanisms in place that automatically adjust tax rates on employers when reserve balances are insufficient. Maryland, New Hampshire, Tennessee and West Virginia reported already taking action, during the 2009 legislative sessions. In addition, 10 states reported that the issue was likely to be considered during 2011 legislative sessions. The results are displayed in the following table.

State Actions on Unemployment Insurance Funds, 2010				
State	Considered or Taken Any Legislative Action to Address Unfunded Liability in the Unemployment Insurance (UI) Fund?	Comment	Plans to Address Unfunded Liability in the Unemployment Insurance Fund During the 2011 Session?	Comment
Alabama	No		No	
Alaska	No		No	Costs are automatically recovered in a countercyclical manner. No problems are anticipated.
Arizona	Yes	Proposals were considered but no action was taken.	Yes	Plan unresolved.
Arkansas	No		Yes	No formal plan has been released to date.
California	No	The UI fund ended FY 2009 with a shortfall of \$6.2 billion. Absent corrective action, the fund deficit is projected to increase to approximately \$20 billion at the end of 2011. High unemployment rates remain a concern.	N/R	
Colorado	No		Yes	The issue is expected to be debated during the 2011 session.
Connecticut	No		Yes	Although there are no definitive plans in place, policymakers

State Actions on Unemployment Insurance Funds, 2010				
State	Considered or Taken Any Legislative Action to Address Unfunded Liability in the Unemployment Insurance (UI) Fund?	Comment	Plans to Address Unfunded Liability in the Unemployment Insurance Fund During the 2011 Session?	Comment
				recognize that there is a problem and some action may be necessary.
Delaware	No		No	
Florida	No		No	
Georgia	No		No	
Hawaii	Yes	Approved a measure that lowers the unemployment tax rate for employers until 2012.	N/R	
Idaho	Yes	Approved a bond measure.	N/R	
Illinois	No		N/R	
Indiana	Yes		Yes	
Iowa	Yes	<p>The Legislature previously took action to maintain the solvency of the trust fund by establishing an automatic tax rate adjustment to ensure an adequate fund balance.</p> <p>During the 2010 session, the Legislature enacted a contingency appropriation to transfer funds from the cash reserve fund if the balance in the unemployment insurance fund dipped low enough to trigger a tax rate increase. In the end, that appropriation was not needed.</p>	N/R	
Kansas	No		N/R	
Kentucky	Yes	Several state laws were amended during the 2010 extraordinary session, including a graduated increase of the taxable wage base and the implementation of a one-week waiting period before eligible workers can file a claim.	N/R	
Louisiana	No	There is no unfunded unemployment insurance liability.	No	
Maine	No	Maine has a self-adjusting process to address funding issues.	No	

State Actions on Unemployment Insurance Funds, 2010				
State	Considered or Taken Any Legislative Action to Address Unfunded Liability in the Unemployment Insurance (UI) Fund?	Comment	Plans to Address Unfunded Liability in the Unemployment Insurance Fund During the 2011 Session?	Comment
Maryland	Yes	The state received \$126.8 million in federal stimulus funds for the state UI trust fund, but only after benefits were expanded in specified ways. Legislation increased the minimum amount of qualifying wages eligible for benefits and the minimum weekly benefit was increased. The state also borrowed \$133.8 million from the federal government. Prior year legislation included provisions for higher employer contributions based in part on the level balance in the state UI fund. While this was not a new change, employers now contribute more per employee.	N/R	
Massachusetts	No	In FY 2010, the state froze UI tax rates to avoid substantial increases.	Yes	There is general understanding that a structural change to the UI rate structure is necessary. It is likely to be taken up in the next two-year session (maybe not in 2011).
Michigan	No		N/R	
Minnesota	No		No	
Mississippi	No		N/R	
Missouri	No		Yes	Legislation is expected to be introduced.
Montana	No		No	
Nebraska	No	No unfunded liability foreseen.	No	No unfunded liability foreseen.
Nevada	Yes	The average state unemployment tax rate was increased from 1.33 percent to 2.0 percent, effective Jan. 1, 2011. The rate increase would be insufficient to restore solvency to the unemployment insurance fund but would limit the amount that must be borrowed. On Sept. 10, 2010, the Dept. of Employment, Training and Rehabilitation indicated it had submitted a bill draft request to impose an assessment on employers to pay interest costs on the state's trust	N/R	

State Actions on Unemployment Insurance Funds, 2010				
State	Considered or Taken Any Legislative Action to Address Unfunded Liability in the Unemployment Insurance (UI) Fund?	Comment	Plans to Address Unfunded Liability in the Unemployment Insurance Fund During the 2011 Session?	Comment
		fund loans. The department has not yet indicated the amount of the assessment.		
New Hampshire	Yes	Legislation relevant to the solvency of the unemployment compensation trust fund passed in 2009 and the limits were raised.	No	
New Jersey	No		N/R	Uncertain
New Mexico	No		Yes	The UI fund is approaching insolvency. Significant measures are needed to address this issue.
New York	No		No	No plans have been discussed thus far.
North Carolina	No	Select committees of the General Assembly have expressed concerns regarding the unfunded liability, but no bills have been filed nor studies formally undertaken.	N/R	A decision will be made during the 2011 session on how to address this issue.
North Dakota	No		No	
Ohio	No		N/R	Uncertain.
Oklahoma	No	No problem in this area is anticipated.	No	
Oregon	No	The state has a mechanism in place that automatically increases rates when the fund gets to a certain level, so there is no need to borrow.	No	
Pennsylvania	No		N/R	Unknown.
Puerto Rico	No		No	The contributions are still sufficient to cover unemployment insurance. Also, the extension of unemployment assistance made by the federal government has helped.
Rhode Island	Yes	Employer rates rising.	N/R	
South Carolina	Yes	The General Assembly passed a measure that changed the methodology used by the Dept. of Employment and Workforce when calculating employer Unemployment Insurance Trust Fund contributions	N/R	

State Actions on Unemployment Insurance Funds, 2010				
State	Considered or Taken Any Legislative Action to Address Unfunded Liability in the Unemployment Insurance (UI) Fund?	Comment	Plans to Address Unfunded Liability in the Unemployment Insurance Fund During the 2011 Session?	Comment
		during times of fund solvency and insolvency. The act also changed the methodology used to calculate individual unemployment benefits for unemployed workers.		
South Dakota	No		N/R	Not currently an issue.
Tennessee	No	Adjustments were made in 2009 to comply with ARRA and to increase the wage base to strengthen UI balances.		Even with the 2009 changes, the state borrowed/repaid \$20 million in 2010. The fund is expected to be negative again in early 2011, but will be repaid in the same year. The need for additional changes has not yet been determined but will be based on an analysis of projected new applicants and wage schedule revenue.
Texas	Yes	Received a Title XII advance program loan from the U.S. Dept. of Labor and issued revenue bonds.	N/R	
Utah	No		N/R	
Vermont	Yes	The state changed the UI program last year on both the funding and benefits side. In FY 2013 revenue into the UI fund is expected to exceed outflow and the fund balance is expected to be positive by 2015.	N/R	
Virginia	Yes	Already addressed through existing statutory processes to adjust tax rates based on fund balances.	No	
Washington	No	As of Oct. 31, 2010, the unemployment insurance trust fund is healthy and currently has a balance of \$2.3 billion, or 13.1 months of benefits.	N/R	
West Virginia	Yes	The base wage subject to tax was raised in the 2009 legislative session. However, this has not corrected the situation.	Yes	
Wisconsin	No		Yes	

State Actions on Unemployment Insurance Funds, 2010				
State	Considered or Taken Any Legislative Action to Address Unfunded Liability in the Unemployment Insurance (UI) Fund?	Comment	Plans to Address Unfunded Liability in the Unemployment Insurance Fund During the 2011 Session?	Comment
Wyoming	No		No	
(N/R) = No response.				
Source: National Conference of State Legislatures survey of legislative fiscal officers, November 2010.				