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September 28, 2010

State Unemployment Insurance Trust Fund Faces Major Deficit

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Due to the national recession, Missouri like most states has experienced significantly high levels of unemployment over the last two years. Missouri unemployment increased from 4.7 percent in January of 2007 to 8.1 percent in January of 2008 and peaked at 9.4 percent in January of 2010.[1] Both the jump in unemployment and the length of the recession have strained State Unemployment Insurance (UI) Trust Funds throughout the country. In fact, 31 states have resorted to borrowing from the U.S. Government in order to cover unemployment benefits during this period.[2]

To cover the increased need for unemployment benefits in Missouri, the state began borrowing from the federal Trust Fund in February 2009. **As of August 27th, Missouri had accrued a UI Trust Fund debt of more than $722 million.**[3] In total, the 31 states that have borrowed to cover UI benefits owe a combined $39 billion (see Appendix).[4] These states are required to repay this amount along with interest. Under the American Recovery and Reinvestment Act a short term moratorium on state interest payments was enacted through December 2010. Without further Congressional action, Missouri and 30 other states will be required to begin repayment of interest and principle in 2011. These repayments would come at a time of continued high levels of unemployment and at a time when state general fund budgets are already strapped. According to the Congressional Budget Office, the national unemployment rate is expected to remain above 8 percent until 2012.[5]

Missouri faces both the short term problem of addressing the coming loan interest payments in 2011, and a longer term problem of returning the state's UI Trust Fund to solvency. **As discussed further in this brief, the most prudent policy option during this severe recession would be Congressional action to extend the moratorium on state loan payments, coupled with federal repayment relief.**

The Missouri Unemployment Insurance Trust Fund

The Missouri UI Trust Fund provides unemployment benefits to qualified Missouri workers who lose their job through no fault of their own. The Trust Fund is financed by a tax that employers pay and is based on employment classification and wages paid. In normal economic times, the fund generates sufficient employer contributions to pay out the unemployment benefits that are needed.

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[1] U.S. Department of Labor, Bureau of Labor Statistics, Local Area Unemployment Statistics, Historical Data, retrieved September 27, 2010.
[2] National Conference of State Legislatures, "Unemployment Insurance: State Trust Fund Loans", August 31, 2010
[3] IBID
[4] IBID
[5] Center on Budget & Policy Priorities, "To Avoid Looming Tax Increases for Employers and Likely Benefit Cuts for Unemployed Workers, Moratorium on State Interest Payments to Federal UI Trust Funds Needs to be Extended", Iris Lav and Michael Leachman, September 13, 2010; and Congressional Budget Office, "Fiscal Policy Choices in Uncertain Times", September 16, 2010.

Unfortunately, during an economic downturn, state trust funds can experience deficit periods when the amount of benefits being paid out well exceeds the amount of employer contributions to the fund. As a result, the federal government allows states to borrow from the Federal UI Trust Fund to cover the benefits for unemployed workers. This borrowing is not unusual during significant recessions. During the recession of the late 1980s many states accrued significant federal UI loan balances.[6]

Missouri has been borrowing from the Federal Trust Fund since February of 2009 to cover the bulk of UI benefits paid to Missouri workers during the current recession. **As of August, 27, 2010 Missouri's Trust Fund loan balance reached $722 million.**[7] This amount is expected to continue to grow over the next few years as unemployment rates are expected to remain above 8 percent until 2012.[8] As a result, Missouri's outstanding loan balance is projected to grow to $1.79 billion by the end of calendar year 2014.

Missouri Trust Fund Loan Balance 2010 - 2014[9]

	Trust Fund Loan Balance
As of August 27, 2010	$722 million
December 31, 2010 projected	$894.6 million
December 31, 2011 projected	$1.34 billion
December 31, 2012 projected	$1.67 billion
December 31, 2013 projected	$1.827 billion
December 31, 2014 projected	$1.793 billion

No Easy Policy Solutions

In the short term, Missouri anticipates a UI loan interest payment of $51 million in September, 2011.[10] However, the more significant concern for policymakers should be the size of Missouri's growing overall loan balance. For comparison, the current amount of Missouri's loan balance, $722 million as of August 27th, is equal to approximately 9 percent of Missouri's FY 2011 State General Revenue Operating Budget.[11]

Securing the amount of funds for the loan balance repayment will be a difficult challenge for Missouri and for nearly every other state. Very few states will be able to generate payments from their general revenue funds as most, including Missouri, estimate significant shortfalls in their general revenue budgets in the next year.[12] In addition, last year 46 states including Missouri made deep cuts to critical services including education, public health, senior services and transportation due to general fund shortfalls.[13] State general revenue funds cannot absorb the additional demands of repaying UI Trust Fund loans at this time without increasing the risk of further cuts to core services.

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[6] IBID #5

[7] National Conference of State Legislatures, "Unemployment Insurance: State Trust Fund Loans", August 31, 2010

[8] Congressional Budget Office, "Fiscal Policy Choices in Uncertain Times", September 16, 2010.

[9] U.S. Department of Labor, "Missouri Unemployment Trust Fund Projection: U.S. Department of Labor Benefit Financing Model", available at: http://labor.mo.gov/DES/Forms/MOBFM%202010Q2.pdf

[10] Missouri Department of Labor and Industrial Relations

[11] Missouri Office of Administration, Division of Budget & Planning, FY 2011 Operating Budget Summary, available at: http://oa.mo.gov/bp/budgetfacts2011/FY11TotalsbyDept.pdf, retrieved on September 27, 2010

[12] See Missouri Budget Project, "Following a Decade of Deficits: Missouri's Revenue Crisis Continues", August 4, 2010, available at www.mobudget.org

[13] Center on Budget & Policy Priorities, "An Update on State Budget Cuts: At Least 46 States Have Imposed Cuts That Hurt Vulnerable Residents and the Economy", August 4, 2010, available at www.cbpp.org

Other than dipping into general fund budgets, states have utilized other options following past recessions to repay Trust Fund loans. These options include increasing the employer tax or reducing unemployment benefits.[14] Neither of these policies is optimal during a prolonged recession as both could further weaken the already stressed economy. Missouri's UI benefits are already far from generous, starting at just $35 per week and increasing to a maximum benefit of $320 per week.[15] Reducing these limited benefits to laid-off workers would only result in diminished economic activity in local communities.[16]

Similarly, increasing employers' costs at this point may also weaken economic recovery. Following past recessions, states have enacted increases in the employer-paid state unemployment tax to cover the cost of repaying the UI debt. In many states this increase is automatic.[17]

In addition, under the Federal Unemployment Tax Act (FUTA), employers in states that become delinquent in repayments to the Federal Trust Fund for more than two years can face increases in their Federal Unemployment Tax rate. Similar to state unemployment taxes, employers pay a FUTA tax that contributes to the Federal Unemployment Trust Fund. In states that are current on loan payments (or which have no outstanding debt to the Federal Trust Fund) employers receive a credit on this tax. For example, the FUTA tax is 6.2 percent on the first $7,000 of taxable wages per employee. Missouri employers currently receive a 5.4 percent credit, resulting in an effective FUTA tax rate of 0.8 percent. Assuming Missouri were to become delinquent in loan repayment for more than two years, employers in the state could be required to increase their FUTA tax contributions for a period of time. Under the current circumstances, employers in Missouri could face both increases in the effective federal FUTA tax rate and an increase in the state unemployment tax.

None of these described options are tenable because each could further compromise the economy.

A More Prudent Option

Mark Zandi, chief economist at Moody's Analytics, recommended another option in recent testimony before Congress: extend the federal moratorium on interest payments beyond 2010. This option would allow the states to recover economically before payment demands would begin. The **Center on Budget & Policy Priorities** further recommends that Congress provide additional partial payment relief to the states in exchange for UI financing reforms so that states do not have to rely so heavily on the federal government for loan assistance in the next recession. Congress could also include maintenance of effort requirements to ensure that unemployed workers are not subject to erosion of benefits.[18]

[14] IBID #5
[15] U. S. Department of Labor, Comparison of State Unemployment Laws, available at: http://www.workforcesecurity.doleta.gov/unemploy/pdf/uilawcompar/2010/monetary.pdf
[16] IBID #5
[17] IBID #5
[18] IBID #5

APPENDIX

State Trust Fund Loans
As of August 27, 2010

(Amounts Rounded)

Source: National Conference of State Legislatures

Missouri	**$722 million**
Alabama	$283 million
Arizona	$59 million
California	$7.7 billion
Colorado	$251 million
Connecticut	$498 million
Delaware	$13 million
Florida	$1.6 billion
Georgia	$416 million
Idaho	$202 million
Illinois	$2.2 billion
Indiana	$1.7 billion
Kansas	$88 million
Kentucky	$795 million
Maryland	$134 million
Massachusetts	$387 million
Michigan	$3.8 billion
Minnesota	$487 million
Nevada	$490 million
New Jersey	$1.7 billion
New York	$3.2 billion
North Carolina	$2.3 billion
Ohio	$2.3 billion
Pennsylvania	$3 billion
Rhode Island	$225 million
South Carolina	$887 million
Texas	$1.3 billion
Vermont	$33 million
Virgin Islands	$16 million
Virginia	$347 million
Wisconsin	$1.4 billion
TOTAL	**$39 billion**