

Another Unconditional Giveaway of the Federal Unemployment Trust Funds: A Bad Deal for Jobless Workers and for the Unemployment Insurance Program

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After the states received an unprecedented \$8 billion in federal “Reed Act” funds in March 2002, some are advocating for another no-strings attached giveaway of the federal unemployment trust funds in 2008 of as much as \$11 billion. If enacted, the nation’s jobless workers, who are suffering from record rates of long-term unemployment, will be major losers. By further reducing the reserves in the federal unemployment trust funds when the funding is needed to pay extended benefits and loans to the states, the stability of the federal-state unemployment system will also be compromised. A Department of Labor-funded analysis of the 2002 Reed Act distribution to the states makes clear that the end result of another unconditional Reed Act distribution will be to significantly cut employer taxes without improving the long-term solvency of the state UI trust funds or expanding access to unemployment benefits to jobless families.

Basics of Unemployment Financing and the “Reed Act”

- A federal unemployment insurance payroll tax of \$56 per worker is deposited into federal trust funds that pay for benefit extensions, loans to insolvent state unemployment funds, and state and federal administration of the unemployment program. When these funds reach caps established by federal law *indicating a significant surplus*, then the state unemployment trust funds that pay regular unemployment benefits automatically receive a “Reed Act” distribution of the supplemental federal funds.
- In March 2002, Congress authorized an unprecedented \$8 billion Reed Act distribution to the states, which was almost three times the amount established by the federal caps in place at that time. Before then, \$100 million was the largest Reed Act distribution received by the states. Also for the first time, the 2002 Reed Act distribution was not specifically limited to spending on improvements in the program’s administration.
- Currently, the federal UI accounts have not reached their caps required to automatically trigger a Reed Act distribution. Indeed, *before* taking into account the cost of the extension of unemployment benefits (the 2002 federal extension cost \$25 billion), the federal unemployment trust funds had about \$30 billion in reserves. The fund generates about \$6 billion in revenue each year.

Another Premature, Unconditional Reed Act Distribution Will Hurt the Jobless When they Need the Help Most

- Given the recent surge in joblessness, there is every indication that more help will be needed to support struggling families, including an immediate expansion of the limited 13 weeks of Emergency Unemployment Compensation (the extension program enacted in June, that expires in March 2009) to help 800,000 scheduled to exhaust their EUC in October. A premature, no-strings attached Reed Act distribution would put more pressure on the federal unemployment trust funds, thus compromising the ability to expand and continue the EUC program.
- In addition, another “special” Reed Act appropriation threatens to undermine a key federal initiative to provide incentive funding to the states to help workers who now fall through the cracks of the UI program. The Unemployment Insurance Modernization Act,

which passed the House and has strong bi-partisan support in the Senate, would provide \$7 billion to the states by reauthorizing the current FUTA surtax (which has been in place for 30 years). The UIMA is a high priority for reform in the new Congress, especially given the struggling economy. Expanding workers' access to unemployment insurance in the near future will also help boost the economy in those communities hardest hit by the downturn.

A Reed Act Distribution Will Provide a Windfall to Employers, Without Helping Workers or Improving the Long-Term Solvency of the State Unemployment Trust Funds.

- Over the past decade, employers have lobbied successfully in the states to cut their UI taxes to record low levels, resulting in an increasing number of states now struggling to pay benefits during recessions.
- In 2006, before the current economic downturn, employers paid only 0.6% of total wages in state unemployment taxes. That is substantially lower than the 0.84% state tax on employers which was in place before the 1990s recession hit.
- At the federal level as well, employers are paying record low taxes, with the UI taxable wage base of \$7,000 left unchanged since 1983. Adjusted for inflation, federal unemployment taxes per employee have fallen from a peak over \$90 in the 1980s to their current level of \$56.
- According to a recent analysis of the 2002 Reed Act distribution by Decern Consulting and the National Association of State Workforce Agencies (NASWA), the states were “reluctant to appropriate Reed Act funds to increase or expand benefits” despite the availability of \$8 billion in federal funding (“Assessment of the Impact of the 2002 Reed Act Distribution,” at page 12). That was true even of the states with the most solvent UI trust funds.
- In response to the 2002 Reed Act distribution, most states did not report significant spending to improve administration of their state UI program, despite leeway under the federal law to apply Reed Act funds to support the Employment Service and state unemployment insurance administration.
- Instead, as a result of the 2002 Reed Act distribution, employer taxes were cut in at least 25 states by increasing the state UI trust fund balances just enough to prevent scheduled increases in contribution rates designed to replenish the state unemployment funds.
- Because unconditional Reed Act distributions have the effect of artificially suppressing employer taxes, it will not improve the long-term solvency of the state trust funds. Certainly, all of the major states likely to borrow this year from the federal government (including California, New York, Michigan, Ohio) will still face the need to fundamentally reform the financing of the UI programs to raise sufficient revenue in good economy times in order to pay benefits during recessions.
- In fact, UI trust funds may be worse off in some states, not better, as a result of another Reed Act distribution. For example, in ten states the 2002 Reed Act distribution had the effect of reducing payroll tax revenue by more than the total amount of federal funds they received. In Ohio's case, for example, state unemployment taxes were reduced by \$520 million as a result of the 2002 Reed Act distribution, which is \$173 million more than the state received in federal Reed Act funds.