

# Unemployment Insurance Solvency

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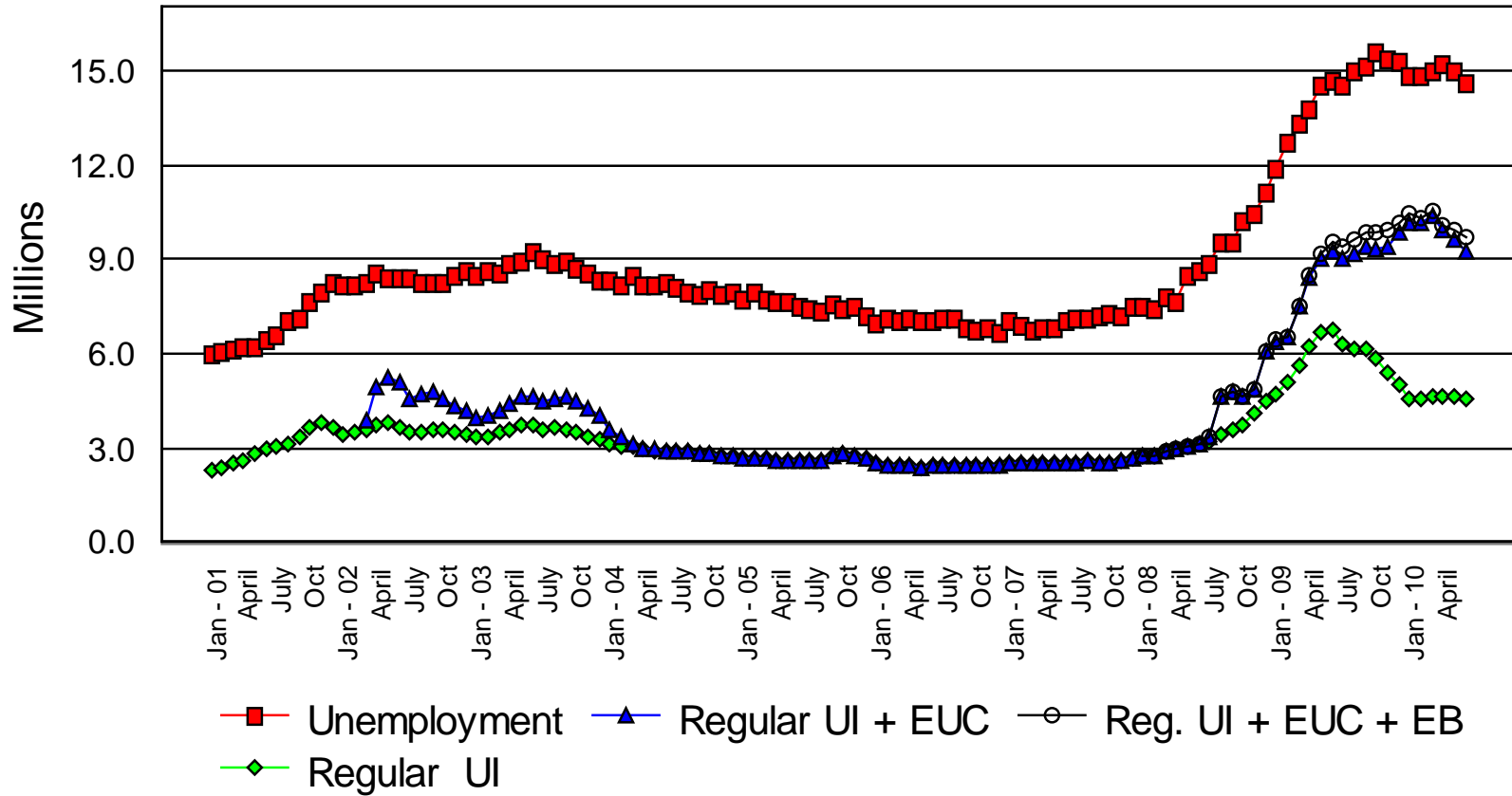
# The Perfect Storm of 2008-2010

1. Severe recession
2. Low pre-recession reserves
3. Timing of downturn, second half of 2008
4. Result

34 of 51 “states” have needed loans

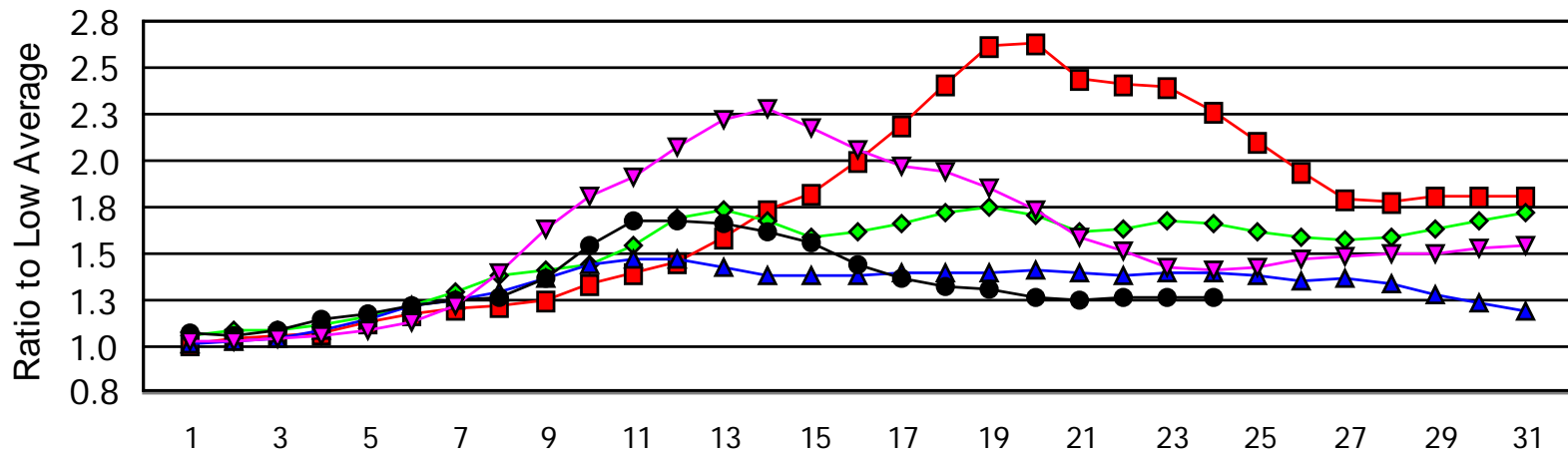
Net reserves end of June 2010 = -\$24.2 billion

# Chart 1. Unemployment and UI Claimants, 2001-2010



data from BLS and OUI

## Chart 2. Monthly Continued Claims: Ratio to Low Average Five Downturns - Regular UI Program



Months after three-month low average, e.g., Aug.-Oct. 2007

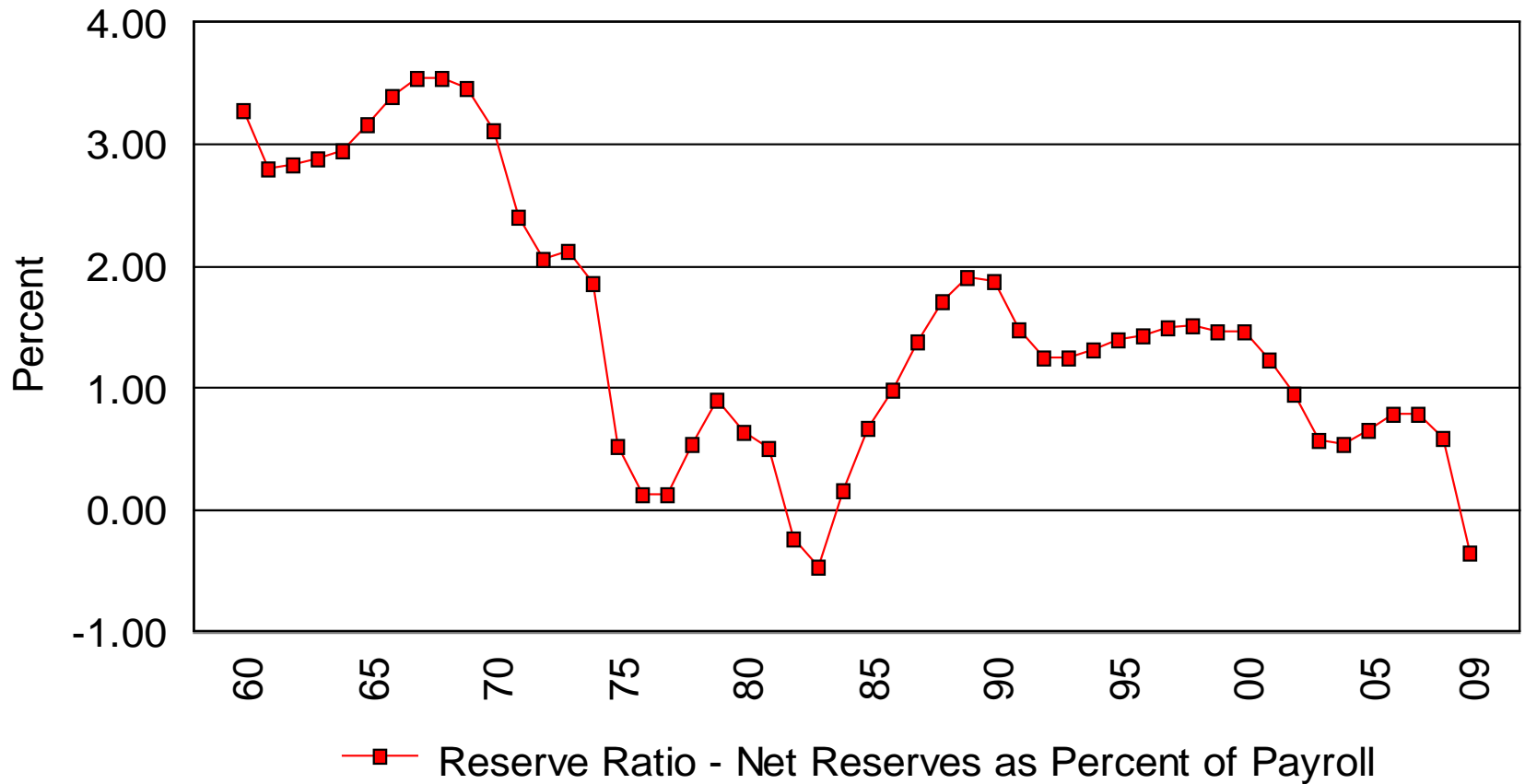
■ 2008    ▲ 1991    ● 1980    ▼ 1974  
◆ 2001

# Annual UI Benefits

| Annual Benefits | Regular UI | EUC  | EB  | Total UI |
|-----------------|------------|------|-----|----------|
| 2007            | 32.0       | -    | 0.0 | 32.0     |
| 2008            | 42.6       | 7.8  | 0.0 | 50.5     |
| 2009            | 79.2       | 43.1 | 6.1 | 128.4    |

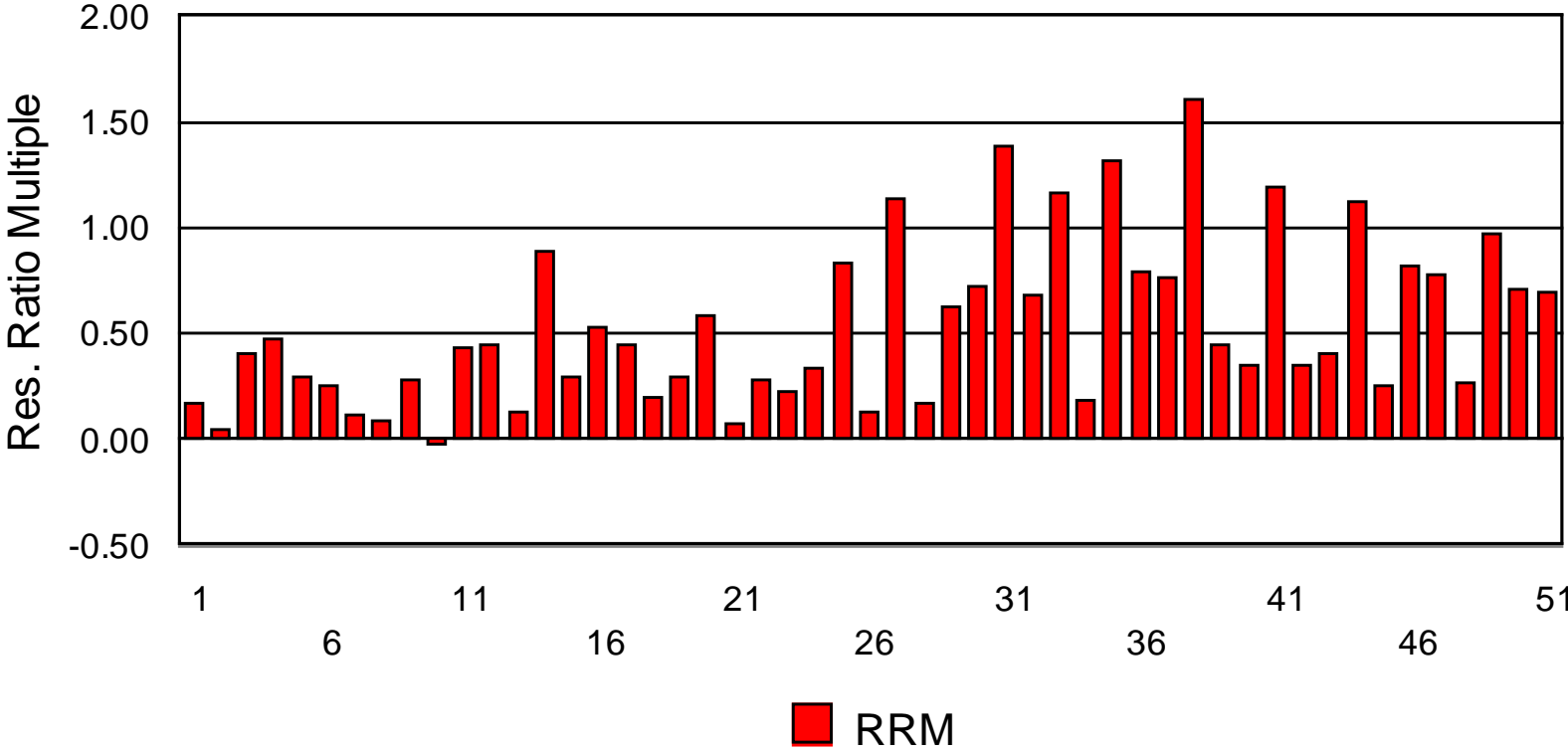
\$ billions, 51 programs

# Chart 3. Aggregate Reserve Ratio, 1960 to 2009



# Chart 4. Reserve Ratio Multiples, December 2007

## 51 Programs Ranked by Size



# Indexation in UI Programs

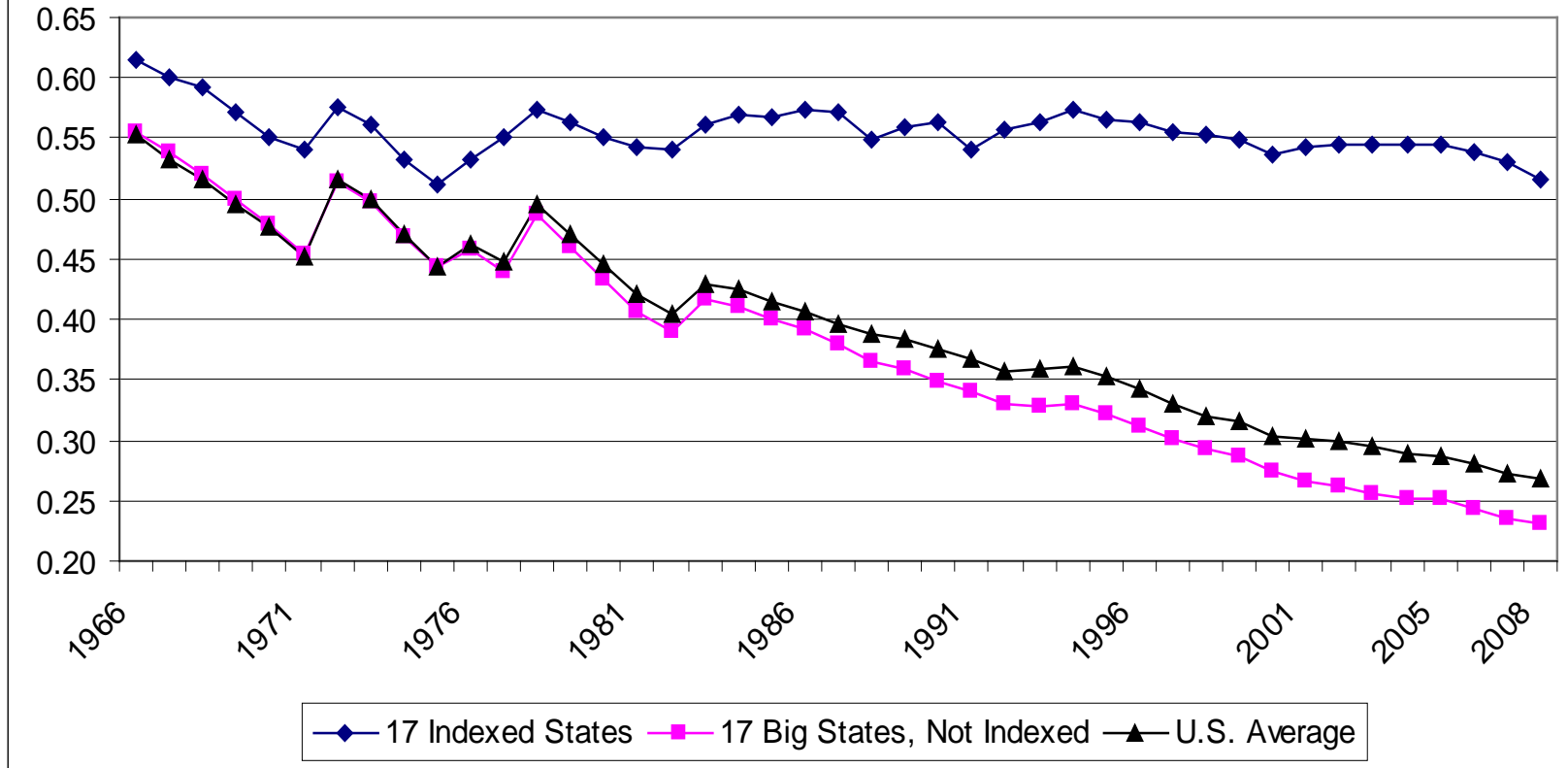
- 16 states plus the Virgin Islands have indexed taxable wage bases
  - Last adoption - Oklahoma in 1986
- 30 states plus Puerto Rico and the Virgin Islands have indexed maximum weekly benefits
  - Most adoptions during the 1960s and 1970s
- Indexation of tax base associated with high tax bases



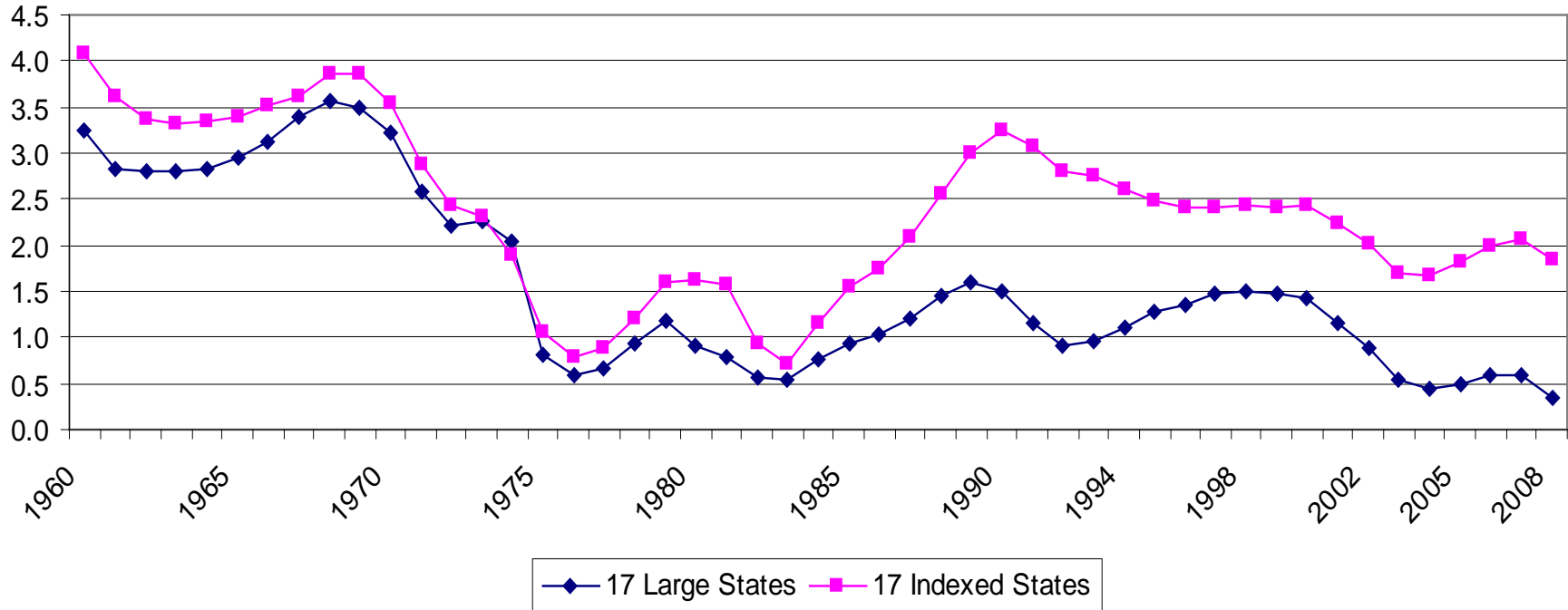
# UI Tax Bases in 2010

| Tax Base                  | Indexed     | Not Indexed |
|---------------------------|-------------|-------------|
| Above 25,000              | 10          | 0           |
| 16,000 – 25,000           | 5           | 1           |
| 10,000 – 15,000           | 1           | 12          |
| 8,500- 9,500              | 0           | 9           |
| 7,700 - 8,000             | 0           | 7           |
| 7,000                     | 0           | 6           |
| Number & Avg.<br>Tax Base | 16 - 27,288 | 35 - 9,749  |

Chart 5. Taxable Wage Proportions, 1966 to 2008.



### Chart 6. Reserve Ratios: 17 Indexed States and 17 Large States, 1960 to 2008



# Indexation and Reserve Ratio Multiples – December 2007

| RRM – Dec.<br>31, 2007 | Indexed<br>Programs | Non-indexed<br>Programs | 51 Programs |
|------------------------|---------------------|-------------------------|-------------|
| Below 0.50             | 4                   | 26                      | 30          |
| 0.50 to 0.99           | 7                   | 7                       | 14          |
| 1.00 and<br>Above      | 5                   | 2<br>(ME,MS)            | 7           |
| Total                  | 16                  | 35                      | 51          |

# Indexation and Borrowing in 2010

|                      | Indexed States | Non-indexed States | All States |
|----------------------|----------------|--------------------|------------|
| States with Loans    | 5              | 29                 | 34         |
| All States           | 16             | 35                 | 51         |
| Probability of Loans | 0.31           | 0.83               | 0.67       |

# Summary

- Big financing problem
- Most states having a hard time responding to scale of their financing problem
- Federal partner could mandate a higher federal tax base

# The Cost of Supplements to Wages and Salaries

- Source – BLS Employer Costs of Employee Compensation Survey - March 2010
- Total compensation - \$29.71 per hour
- Hourly wages - \$20.67
- Hourly cost of selected wage supplements
  1. Health Ins. \$2.48
  2. OASDI \$1.34
  3. DB & DC Pensions \$1.32
  4. Workers Compensation \$0.44
  5. Medicare \$0.34
  6. State and Federal UI Taxes \$0.18

UI taxes are 0.61 percent of hourly costs