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

- Unemployment
- Regular UI + EUC
- Reg. UI + EUC + EB
- Regular UI
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

<table>
<thead>
<tr>
<th>Annual Benefits</th>
<th>Regular UI</th>
<th>EUC</th>
<th>EB</th>
<th>Total UI</th>
</tr>
</thead>
<tbody>
<tr>
<td>2007</td>
<td>32.0</td>
<td>-</td>
<td>0.0</td>
<td>32.0</td>
</tr>
<tr>
<td>2008</td>
<td>42.6</td>
<td>7.8</td>
<td>0.0</td>
<td>50.5</td>
</tr>
<tr>
<td>2009</td>
<td>79.2</td>
<td>43.1</td>
<td>6.1</td>
<td>128.4</td>
</tr>
</tbody>
</table>

$ billions, 51 programs
Chart 3. Aggregate Reserve Ratio, 1960 to 2009

Reserve Ratio - Net Reserves as Percent of Payroll

aggregate 51 programs, December 31
Chart 4. Reserve Ratio Multiples, December 2007
51 Programs Ranked by Size

state size - total payroll in 2007
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

<table>
<thead>
<tr>
<th>Tax Base</th>
<th>Indexed</th>
<th>Not Indexed</th>
</tr>
</thead>
<tbody>
<tr>
<td>Above 25,000</td>
<td>10</td>
<td>0</td>
</tr>
<tr>
<td>16,000 – 25,000</td>
<td>5</td>
<td>1</td>
</tr>
<tr>
<td>10,000 – 15,000</td>
<td>1</td>
<td>12</td>
</tr>
<tr>
<td>8,500- 9,500</td>
<td>0</td>
<td>9</td>
</tr>
<tr>
<td>7,700 - 8,000</td>
<td>0</td>
<td>7</td>
</tr>
<tr>
<td>7,000</td>
<td>0</td>
<td>6</td>
</tr>
<tr>
<td>Number &amp; Avg. Tax Base</td>
<td>16 - 27,288</td>
<td>35 - 9,749</td>
</tr>
</tbody>
</table>
Chart 6. Reserve Ratios: 17 Indexed States and 17 Large States, 1960 to 2008
## Indexation and Reserve Ratio Multiples – December 2007

<table>
<thead>
<tr>
<th>RRM – Dec. 31, 2007</th>
<th>Indexed Programs</th>
<th>Non-indexed Programs</th>
<th>51 Programs</th>
</tr>
</thead>
<tbody>
<tr>
<td>Below 0.50</td>
<td>4</td>
<td>26</td>
<td>30</td>
</tr>
<tr>
<td>0.50 to 0.99</td>
<td>7</td>
<td>7</td>
<td>14</td>
</tr>
<tr>
<td>1.00 and Above</td>
<td>5</td>
<td>2 (ME,MS)</td>
<td>7</td>
</tr>
<tr>
<td>Total</td>
<td>16</td>
<td>35</td>
<td>51</td>
</tr>
</tbody>
</table>
## Indexation and Borrowing in 2010

<table>
<thead>
<tr>
<th></th>
<th>Indexed States</th>
<th>Non-indexed States</th>
<th>All States</th>
</tr>
</thead>
<tbody>
<tr>
<td>States with Loans</td>
<td>5</td>
<td>29</td>
<td>34</td>
</tr>
<tr>
<td>All States</td>
<td>16</td>
<td>35</td>
<td>51</td>
</tr>
<tr>
<td>Probability of Loans</td>
<td>0.31</td>
<td>0.83</td>
<td>0.67</td>
</tr>
</tbody>
</table>
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