

COURTING CRISIS:
OHIO POLICY HAS UNDERMINED
UNEMPLOYMENT COMPENSATION FUND

A REPORT FROM
POLICY MATTERS OHIO

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Executive Summary

Ohio's unemployment compensation trust fund – the money that pays benefits to unemployed Ohioans – has been broke for more than two years. If no action is taken, Ohio employers and the state itself will pay close to half a billion dollars in taxes and interest between last month and the end of 2013. Employers will find their unemployment taxes going up, beginning with a \$21 charge for each employee making \$7,000 in January 2012—and employers that have laid off the fewest employees will see the largest relative increases in tax rates. Already, the state has taken \$70 million that had been intended first for anti-smoking programs and then for health and human-service programs and diverted it to pay interest on our \$2.3 billion unemployment debt. If a long-term plan is not developed to begin rebuilding the fund, the state runs the risk of having a large, long-term debt to the federal government – a debt that will siphon off badly needed state resources, burden employers and could threaten the UC system, weakening coverage for jobless workers and reducing its positive effect on the economy.

Unemployment compensation not only provides a crucial backstop to jobless workers and their families – more than 3 million Americans avoided poverty in 2010 because of UC, according to the Census Bureau – it injects funds into the economy when they are most needed, acting as an automatic stabilizer. This eased the effects of the downturn.

Ohio, however, has underfunded its UC system. For 11 out of the past 12 years, employers have paid less into the fund than was paid out in benefits. Like Ohio, more than half the states are borrowing from the federal government to pay unemployment benefits. But Ohio's system was among the least prepared to face a serious recession.

Ohio's trust fund has not met generally accepted solvency standards since 1974. Even in 2000, when Ohio had more than \$2.2 billion in its fund, the state had less than two-thirds of the needed reserves to meet the benchmark, recommended by a nonpartisan federal commission. That year, 28 other states met the benchmark, while only six states had a poorer solvency position than Ohio. The situation was similar in 2007, as the recession began. Altogether, if Ohio employers had paid the average tax paid by employers across the U.S. between 1996 and 2006, the state trust fund would have received an additional \$1.7 billion, or most of the deficit we currently face. While it's not unreasonable that Ohio had to borrow during this period of high and long-term unemployment, it's clear that Ohio's UC solvency problem is not so much a product of the poor economy as much as poor policy.

Ohio employers pay taxes on only the first \$9,000 in each employee's annual wages, or less than a quarter of wages paid. That amount, which is well below the national average, hasn't been raised since 1995; if it had risen with inflation since then, it would be \$13,330. Sixteen states index their taxable wage bases, improving the likelihood that their trust funds will stay solvent.

Big increases in the number of unemployed and in long-term unemployment increased the benefit payout and contributed to the insolvency of the Ohio fund. Yet benefit levels – and the share of unemployed Ohioans who get benefits at all – are not high. The average weekly benefit is less than \$300, below the U.S. average, and has fallen since 2008. While that

represents a slightly higher share of average wages than in the country as a whole, it is not enough to keep a family of three above the official poverty line.

Ohio has persistently provided state benefits to a smaller share of its unemployed workers than does the average state. Recently, that share has fallen to a 25-year low of just 22 percent. Yet unlike most states, Ohio did not modernize its system to expand access to benefits and thus take advantage of a federal law that would have pumped \$176 million into the state's trust fund. We need to take measures to improve the share of Ohio unemployed who receive benefits—and avoid cuts to existing weekly benefit amounts or the 26 weeks that claimants can receive them. Ohio was able to avoid such draconian steps during the 1980s, when its debt was relatively higher than it is today, so those kinds of steps should not be needed now.

For the last year and a half, most Ohioans receiving unemployment compensation have been getting it because they have been out of work at least 26 weeks and qualify for benefits to the long-term unemployed paid by the federal government. Since mid-2008, the U.S. has injected \$10 billion into the Ohio economy with UC aid, most of it through such extended benefits. However, these benefits are set to be phased out next year if Congress does not approve their extension. More than 57,000 Ohioans face a cut-off of such benefits in January 2012, according to the National Employment Law Project. These benefits need to be maintained.

A report commissioned by the state in 2007 on the solvency issue contains recommendations that would take the state a long ways toward a solid fund. Representatives of Ohio employers and employees made proposals in 2008 to tackle the solvency question, and while they did not reach agreement, their discussions then also provide a basis for a solution. Each of these included an increase in the share of wages being taxed, a temporary freeze on maximum benefits, and a surtax to help pay interest on the debt, as 22 states already provide for in their laws (that way, interest costs fall on employers, as they should, not individual taxpayers).

Legislation introduced in the U.S. Senate would give the states and employers a two-year breather on paying interest and the debt, and provide a long-term path to solvency. Ohio employers on average pay less than a penny for each dollar of wages in unemployment tax. After years of underfunding this crucial system, Ohio needs to face the need for more adequate financing and a higher taxable wage base, in particular.

Introduction

Ohio's unemployment compensation trust fund – the money that pays benefits to unemployed Ohioans – has been broke for more than two years. Thankfully, the federal government automatically lends money to the state fund so it can continue paying benefits without interruption.

However, if no action is taken, Ohio employers and the state will pay close to \$500 million in additional taxes and interest between September 2011 and the end of 2013. Employers will find their unemployment taxes going up, starting with a \$21 payment per employee next year for most employees. And the state already has started using scarce funds to pay interest on the \$2.3 billion debt we have accumulated. If a long-term plan is not developed to begin rebuilding the fund, the state runs the risk of having a large, long-term debt to the federal government – a debt that will siphon off badly needed state resources, burden employers and could threaten the unemployment compensation system (UC), weakening coverage and reducing its positive effect on the economy.

It doesn't have to be that way. A report on solvency commissioned by the state in 2007 contains recommendations that would take the state a long way toward a solid fund. Representatives of Ohio employers and employees made proposals in 2008 to tackle the solvency issue, and while they did not reach agreement, their discussions also provide a basis for a solution. Legislation introduced in the U.S. Senate would give the states and employers a two-year breather on paying interest and the debt, and provide a long-term path to solvency.

How the UC system is financed

The UC system is a federal-state partnership, in which the U.S. establishes certain rules but states have considerable flexibility in how they set benefits and taxes. Begun in the Great Depression in the 1930s, unemployment compensation is an “automatic stabilizer” that pumps money into the economy when more workers are laid off. This helps unemployed workers and their families and also stimulates the economy. The most effective approach is to build up the unemployment trust fund in good times to ensure that there is money in the fund to pay higher benefits that naturally ensue when the economy weakens. This is known as “forward financing.”

Unemployment compensation is funded by a dedicated payroll tax on employers, separate from the state budget. Ohio employers pay tax on the first \$9,000 in each employee's wages each year.¹ Rates vary, depending on how much an employer has paid in tax and how much in benefits its laid-off workers have received. Part of the tax also is based on how solvent the system is; Ohio employers have been paying the maximum amount under that part of the formula since 2006. A third component of the tax rate is based on benefit costs that are not picked up by all employers, such as when a company goes out of business and its employees receive benefits. That is called the “mutualized rate.”²

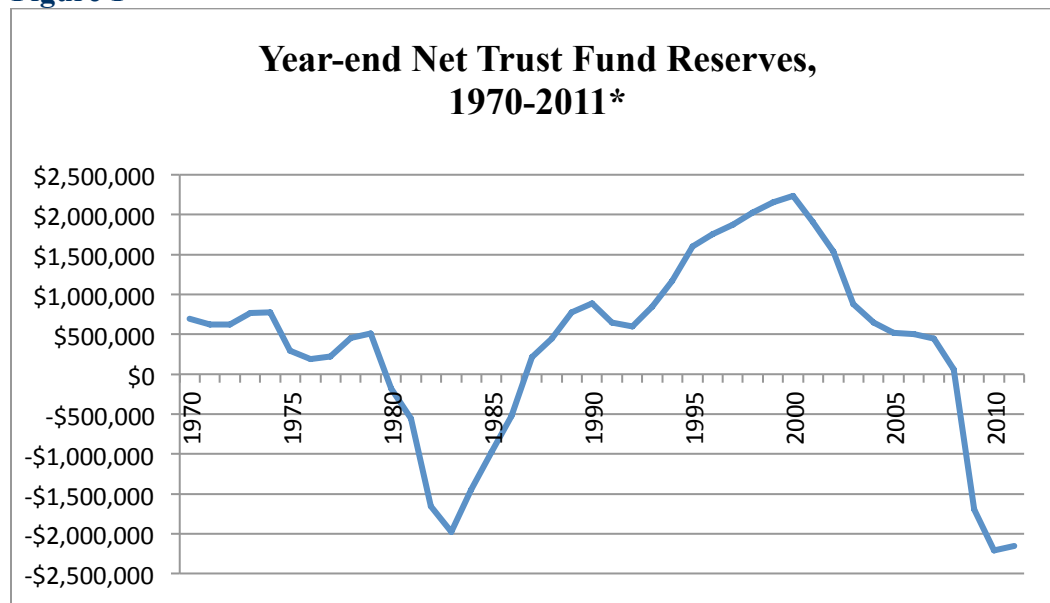
¹ Employees of government and nonprofit employers are covered differently. These employers reimburse the state for benefits that are paid to laid-off employees who qualify. They do not pay UC payroll taxes.

² Ironically, the mutualized rate was cut in 2010 by \$18 per covered employee, leading employers in most tax brackets to see overall rate reductions for the year even though the state's unemployment compensation trust fund was broke. Because of state statute, funds the state received from the federal government were placed in the mutualized account, causing the rate to go down. See

The overall unemployment tax is modest, both as a share of wages and as a share of state and local taxes paid by employers. Ohio employers on average pay less than a penny for each dollar of wages in unemployment tax.³

Ohio's unemployment trust fund went broke in January, 2009, and accumulated debt of \$2.6 billion before the state paid off \$298 million in debt in September. That leaves a current debt of \$2.3 billion. Unemployment has fallen since the depths of the recession, as has the share of jobless Ohioans who receive UC. Combined with declines in the average benefit and the length of time claimants receive benefits, the amount of benefits paid out has declined since the peak in 2009. Meanwhile, taxes have risen as the cost of benefits previously paid out has worked its way into employer tax rates. As a result, Ohio's debt has stabilized, as shown in Figure 1.⁴

Figure 1



Sources: U.S. Department of Labor, Ohio Department of Job & Family Services.

*The 2011 figure is a Policy Matters Ohio estimate.

Under the American Recovery and Reinvestment Act (ARRA) of 2009, the federal government waived interest that Ohio and other states would have had to pay on their unemployment compensation debt during 2009 and 2010. However, that waiver has not been extended. As a result, the State of Ohio became liable for interest on its loans from the U.S. in January, and the first payment – \$70.9 million – was paid in September. The Ohio Department of Job & Family Services estimates that another \$92 million will be due a year later. That's a total of more than

<http://www.policymattersohio.org/UnemploymentTaxRateCutMay2010.htm> The following year, the rate was raised back to where it had been in 2009, but employers paid tens of millions of dollars less into the fund in 2010.

³ See Figure 4 for details.

⁴ The trust fund has about \$300 million in it, leaving net debt to the federal government in October at about \$2 billion. That will allow the state to avoid borrowing more this year, but will likely be used up during the winter, according to the Ohio Department of Job & Family Services. Much of unemployment tax is paid in the spring, so trust fund reserves vary significantly during the course of any year.

\$160 million over the upcoming biennium that will come out of the state's hard-pressed resources.⁵

ODJFS expects that the state will not have to borrow more until next year. Under federal rules, if a state repays borrowed money during a given year by Sept. 30 and does not borrow again before the end of the year, it does not have to pay interest on those borrowings. Thus, when the state repaid the \$298 million it had borrowed earlier this year, it chopped \$6.8 million out of the interest that was due. ODJFS hopes to continue that pattern next year, keeping its interest bill down. However, that still leaves a large debt.

Some 27 states and the Virgin Islands are now borrowing from the U.S. to pay unemployment benefits.⁶ Most of them are not dipping into their own coffers to pay the interest. Rather, they collect surtaxes on their regular employer tax. Fourteen of the 27 collect such a tax; in fact, 22 states in all have some form of interest assessment in their state laws.⁷ During discussions in 2008 about how to maintain the solvency of the Ohio fund, both employee and employer representatives on the Unemployment Compensation Advisory Council (UCAC), the body officially charged with making recommendations to the General Assembly on UC matters, proposed a surtax on existing taxes to help pay the interest. However, the UCAC did not agree on an overall solution and legislation was never introduced or enacted (see page 10). Thus, all Ohioans, rather than Ohio employers, are paying the state's federal interest cost. This is inappropriate.

Ohio paid the interest in September after the General Assembly included in the new state budget a provision to transfer \$103.3 million in funds to use for paying UC interest that were originally received as part of the litigation settlement with tobacco companies. This measure received no discussion or debate, as it was only added to the budget in the conference committee in June. The money was the subject of an earlier Ohio Supreme Court case, in which the court ruled that the General Assembly could reallocate the money from its original purpose, supporting anti-smoking programs.⁸ In the budget for FY2010-2011, the General Assembly designated the \$258 million instead for Medicaid optional services, protective services for children and adults, an expansion of the Children's Health Insurance Program, breast and cervical cancer screenings, and children's buy-in program to Medicaid. However, only \$155 million of the funds were spent because the Supreme Court ruling did not come until December 2010, after the end of Fiscal Year 2010 and well into the following fiscal year.⁹ While the effect of the money transfer depends on the program, \$23 million that might have been used to provide badly needed protective services for children and adults, for example, were not. The bottom line is that money

⁵ If states don't pay the interest due, a substantial credit that employers receive on federal unemployment tax would be eliminated. States cannot use money from their regular UC taxes to pay interest.

⁶ U.S. Department of Labor, Employment and Training Administration, Trust Fund Loans, available at <http://workforcesecurity.doleta.gov/unemploy/budget.asp#tfloans>

⁷ National Employment Law Project, "Understanding Payment of Interest on Federal Loans to State Unemployment Trust Funds," Jan. 19, 2011, p.2, see <http://www.nelp.org/page/-/UI/2011/UI.Interest.Fact.sheet.pdf?nocdn=1>

⁸ Gongwer News Service Ohio Report, "Justices OK diversion of tobacco settlement cash, hand governor victory," Volume #79, Report #247, Dec. 22, 2010.

⁹ Emails from Dave Pagnard, deputy communications director, Office of Budget and Management, Aug. 11, 2011, and Tom Betti, communications manager, Aug. 16, 2011

originally intended for tobacco use prevention and then designated for health and human services instead has been used to pay employers' interest bill on unemployment debt.

Even with these funds, the state will have to come up with additional money to pay interest due next year, and into the future. When Ohio has so many unmet needs, and important programs seeing major reductions in funding, it is incongruous at best for the state to be forking over tens of millions of dollars in interest charges that have arisen because UC payroll taxes have not kept pace with higher benefit costs during recent economic bad times.

Employer taxes are about to go up

Apart from the interest costs that the state is taking on, employers also will start seeing higher taxes next January if the debt remains unpaid. As noted, the unemployment compensation system is a federal-state partnership, and if a state goes more than two years without repaying federal loans, the U.S. Department of Labor begins reducing a credit on federal (FUTA) taxes that employers separately pay.¹⁰ Next year, this will be 0.3 percent of the first \$7,000 earned by each covered worker in the state, or \$21 per worker. That totals roughly \$95 million in 2012, according to an estimate made for the state last spring by Wayne Vroman of the Urban Institute, the UC expert hired to do the state's 2007 study on solvency.

The amount of those taxes grows each year that the debt goes unpaid, by the same amount -- \$21 per employee.¹¹ Unlike the usual unemployment tax, which is based in large measure on previous layoffs by each employer and how much their former employees have drawn in unemployment benefits compared to their previous tax payments, the FUTA credit reduction is a flat, across-the-board amount. This means that employers that have laid off the fewest workers will see much greater relative increases in the federal unemployment tax they pay, although they will still pay a much lower combined federal and state amount.

Take a company that has the best relative experience and is paying the lowest tax rate, 0.7 percent of the first \$9,000 in each employee's wages, or \$63 per employee. They will pay \$21 more per employee in 2012, or 33 percent more than last year, everything else being equal. By contrast, an employer at the top rate of 9.6 percent is paying \$864 per employee this year. They will see the same \$21 per employee increase, or 2.4 percent. According to the U.S. Department of Labor, more than a quarter of all Ohio employers covered under the UC system are paying the minimum rate in 2011.¹² Those employers that rarely lay off workers may be surprised when they see the rate increases they will have to pay.

These amounts are likely to be offset somewhat by a reduction in federal tax that Congress approved last year. The ongoing amount of federal tax, to support administration of state UC systems, loans to states, extended benefits and other items, was reduced from 0.8 percent of the first \$7,000 of each employee's wages to 0.6 percent. President Obama has proposed resuming

¹⁰ These federal taxes support extended unemployment benefits for those out of work for more than 26 weeks, loans to state funds, and state administration of the UC system. FUTA is the Federal Unemployment Tax Act.

¹¹ After the third or fourth year in a row, an additional amount conceivably could be added to the credit reduction

¹² U.S. Department of Labor, Office of Workforce Security, Division of Fiscal & Actuarial Services, "Significant Measures of State Unemployment Insurance Tax Systems," September 2011, p. 44, available at <http://workforcesecurity.doleta.gov/unemploy/pdf/sigmeasuitaxsys11.pdf>.

the higher rate, which has been paid for decades. However, if current rates stay in effect, employers will see a reduction in their federal tax for each employee next year and in ensuing years. This would save Ohio employers roughly \$63 million a year when it is fully in effect, for tax bills due in 2013. But that won't be the case for the federal unemployment tax bills due next Jan. 31 covering 2011, when employers will continue paying most of the tax at the old rate.¹³

Even with this reduction, between fall 2011 and the end of 2013, Ohio employers and the state will be on the hook for about \$473 million in higher FUTA taxes and federal interest charges. Table 1 shows the estimated costs.

Table 1

	Interest	Additional U.S. Tax	U.S. Tax Cut
Sept. 2011	\$ 70.9 million (paid)		
2012	\$ 92 million	\$ 95 million	-\$13 million*
2013	\$ 96 million	\$195 million	-\$63 million
Totals**	\$258.9 million	\$290 million	-\$76 million

Sources: Wayne Vroman, Urban Institute; Ohio Department of Job & Family Services, Policy Matters Ohio estimates. Interest figures are for amounts due Sept. 30 of each year.

*Ohio collects about 80 percent of its state tax in the first two quarters of the year. That is based on the first \$9,000 in each employee's wages, while the federal tax is collected only on the first \$7,000. Thus, a very rough estimate of tax savings in calendar 2012 is 20 percent of the total once the tax cut is fully phased in.

**Totals are cumulative, from September 2011 through December 2013.

These numbers reflect just the short-term costs of doing nothing to address the trust fund deficit. Interest costs will add up to tens of millions of dollars each year, and employer taxes will continue to go up. Without action, Ohio is unlikely to rebuild its fund for years to come. That makes it highly likely that we would be unprepared for the next recession – and would find ourselves in debt again as a result.

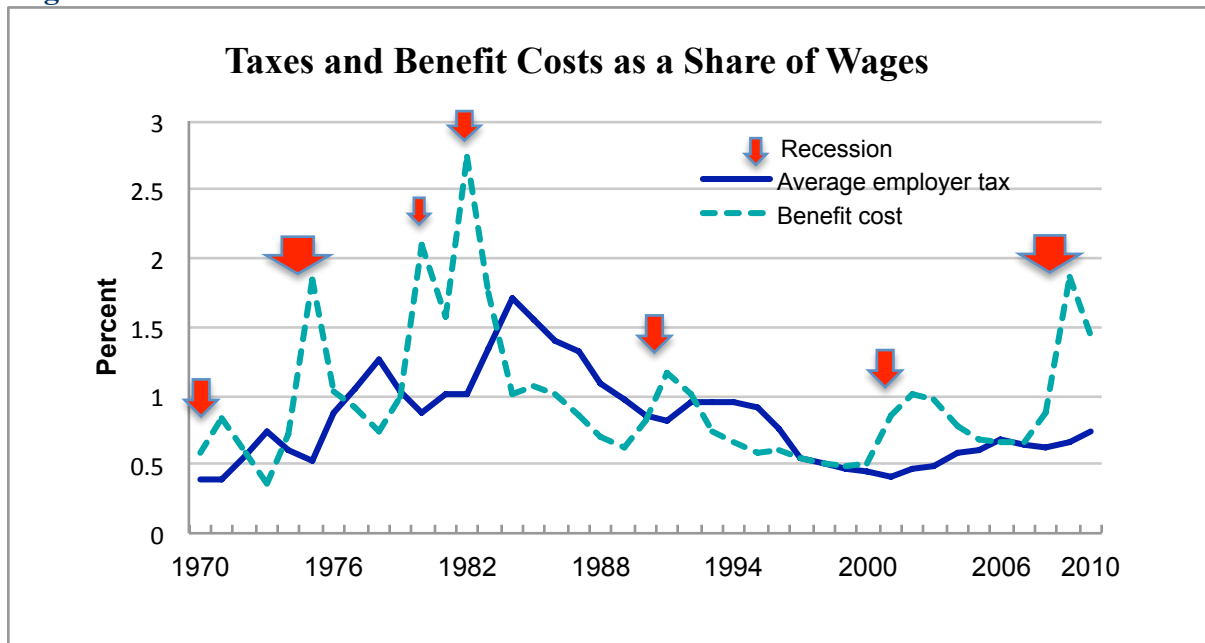
Ohio has underfunded its UC system

There is no question that Ohio has underfunded its UC system. As Figure 2 below depicts, after previous recessions in the 1970s, 1980s and 1990s, taxes rose to replenish the trust fund. By contrast, taxes rose only modestly after the 2001 recession. Even before that, in the late 1990s, the growth of the fund was restrained as taxes were cut; for three years, more than 30,000 Ohio employers paid no unemployment tax at all.¹⁴ Benefits spiked with the recent recession, and though they were well below early 1980s levels as a share of wages, they exposed how Ohio had underfinanced its system. It's not unreasonable that Ohio had to borrow during this period of high and long-term unemployment, but the state did not adequately prepare for a deep recession and is not facing up to the reality of the need for a stronger tax system.

¹³ The federal tax rate changed effective July 1, 2011. Since the tax only covers the first \$7,000 in wages paid, most employees made that amount during the first half of 2011, and so their employers will pay the old, 0.8 percent rate on all of their covered wages. The lower tax rate will only be paid on the wages of those workers hired later in the year, or low-paid or intermittent workers who didn't earn \$7,000 in the first half of last year.

¹⁴ Schiller, Zach, "Unemployment Isn't Working: A Proposal to Better Insure Ohio's Workers," Policy Matters Ohio, September 2001, p. 18, see <http://www.policymattersohio.org/uiintro.html>

Figure 2



Source: U.S. Department of Labor. Arrow size represents approximate length of official recessions.

In 2010, Ohio paid out \$522.6 million more in benefits than it received in contributions. With the single exception of 2006, when employer taxes exceeded benefits by less than 2 percent, the last time the state's employers paid as much in taxes as the benefits received was in 1998. This may finally change in 2011. ODJFS estimates that the fund will collect more than \$1.5 billion during calendar 2011, and pay out about \$1.3 billion in benefits.

Ohio's trust fund has not met generally accepted solvency standards since 1974. The nonpartisan, federal Advisory Council on Unemployment Compensation recommended in the early 1990s that states accumulate trust fund reserves great enough to pay one year's worth of unemployment claims at recession-level benefit payment levels.¹⁵ Even in 2000, when Ohio had more than \$2.2 billion in its fund, the state had under two-thirds of the needed reserves to meet that recommended benchmark. That year, 28 other states met the recommended solvency benchmark, while only six states had a poorer solvency position than Ohio.¹⁶ At the end of 2007, 19 states met the recommended solvency level; only Michigan had a poorer position than Ohio, whose fund was tied with Missouri's as the second weakest in the nation. In short, both at its most recent historic peak and as the recession began, Ohio's trust fund was among the least prepared to face a serious downturn.

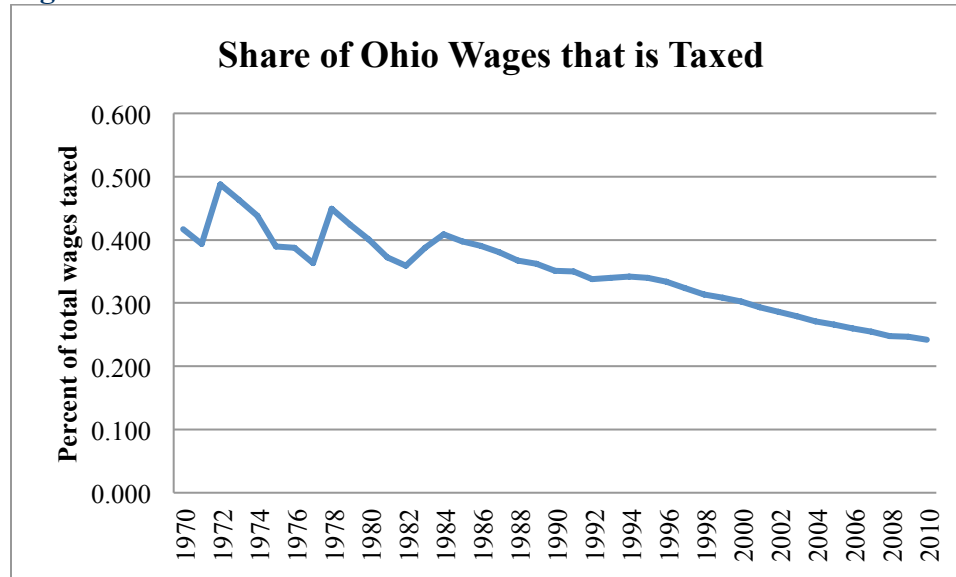
A key weakness in this system is the small share of employee earnings that is taxed. The unemployment compensation system was set up through the Social Security Act of 1935, and

¹⁵ The standard measure of solvency is based on states having enough money in their trust funds to pay for one year of benefits at the average of the three highest payout years during the last 20 years or the last three recessions, whichever is longer. This is called the Average High Cost Multiple.

¹⁶ U.S. Department of Labor, Employment & Training Administration, ET Financial Data Handbook 394, see <http://workforcesecurity.doleta.gov/unemploy/hb394.asp>. This does not include the District of Columbia, Puerto Rico and the Virgin Islands, which are typically included in DOL data.

employers pay tax for Social Security on each employee's earnings up to \$108,600. Ohio's \$9,000 taxable wage base has not been raised since 1995; if it had risen with inflation since then, it would be \$13,330. It covers less than a quarter of wages paid. Figure 3 shows how the share of Ohio wages that is taxed has declined, from 40 percent or more for most of the 1970s to 24 percent in 2010.

Figure 3



Source: U.S. Department of Labor

The average taxable wage base across the country is \$12,454.¹⁷ Only 18 states have taxable wage bases at or below \$9,000. The Urban Institute's UC expert Vroman concluded in 2008 – before the fund went broke – that the low taxable wage base was a key factor in the Ohio system's weak financing.

The trust fund is insolvent in a majority of states, including all of the largest states.¹⁸ Altogether, as of Oct. 20, 2011, 27 states and the Virgin Islands states owed the U.S. a total of \$38.9 billion.¹⁹ Many states have cut taxes and moved away from forward financing their unemployment compensation systems. Thus, states across the country entered the recession with lower reserves in their unemployment trust funds than before previous recessions. Reserves totaled \$37.6 billion in December 2007, compared to \$54.1 billion in December 2000; this represented only a little more than half as much as a share of payroll.²⁰

¹⁷ U.S. Department of Labor, Employment & Training Administration, UI Data Summary, 1st Quarter 2011, available at http://workforcesecurity.doleta.gov/unemploy/content/data_stats/datasum11/DataSum_2011_1.pdf

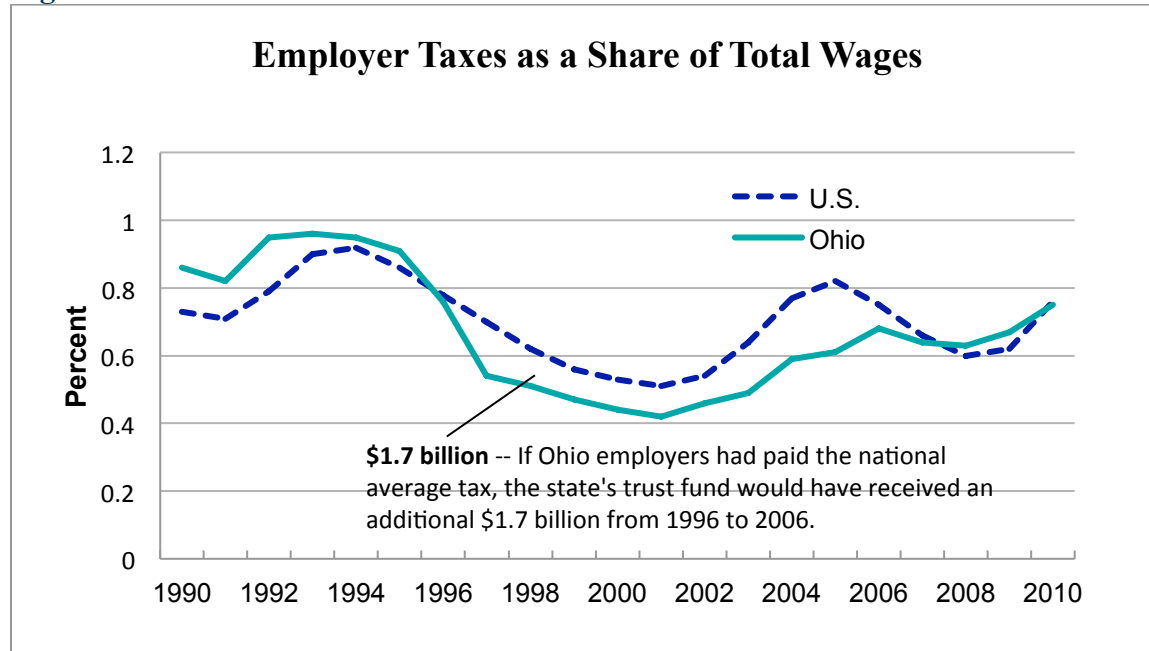
¹⁸ Texas is not in debt to the U.S., but borrowed \$2 billion privately to pay off its federal loans, so it, too, has substantial borrowings related to unemployment compensation.

¹⁹ U.S. Department of Labor, Employment & Training Administration, UI Budget – Trust Fund Loans, available at <http://workforcesecurity.doleta.gov/unemploy/budget.asp#tfloats>

²⁰ Vroman, Wayne, "Unemployment Insurance Trust Fund Solvency," Presentation at NELP annual conference, Dec. 7, 2009.

Ohio did even worse. Over a decade, between 1996 and 2006, the state's average tax as a share of wages was less than that of the nation as a whole. Figure 4 shows how much Ohio and U.S. employers paid in UC taxes as a share of wages. Altogether, if Ohio employers had paid the average tax paid by employers across the country, the state trust fund would have received an additional \$1.7 billion,²¹ or most of the deficit we currently face.

Figure 4



Source: U.S. Department of Labor

The U.S. Department of Labor has estimated that to adequately finance the Ohio UC system, employers on average would need to pay 61 percent more than they are this year.²² DOL calculates this based on states getting to solvency over a five-year period, including paying off federal borrowings and reaching a level of reserves that would pay recession-level benefits for a year.

Sixteen states index their taxable wage bases, usually to wages.²³ According to the National Employment Law Project, only one-third of non-indexed states were solvent as of June 2011, while nearly 60 percent of indexed states were debt-free.²⁴

²¹ Schiller, Zach, "Why Ohio's Unemployment Compensation Trust Fund Going Broke and What We Should Do About It," Policy Matters Ohio, June 2008, available at http://www.policymattersohio.org/OhioUCFund2008_0612.htm

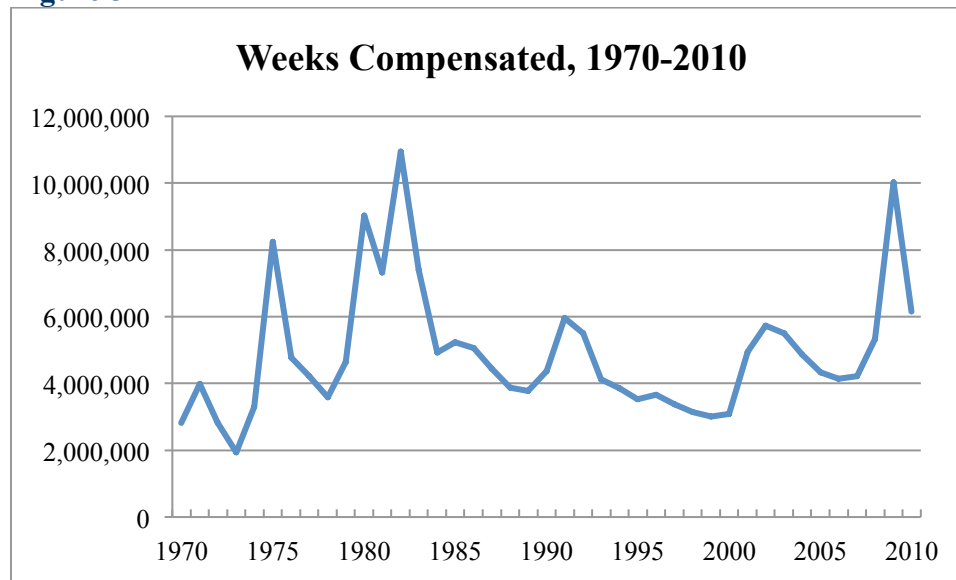
²² U.S. Department of Labor, Office of Workforce Security, Division of Fiscal & Actuarial Services, "Significant Measures of State Unemployment Insurance Tax Systems," September 2011, p. 44, available at <http://workforcesecurity.doleta.gov/unemploy/pdf/sigmeasuitaxsys11.pdf>.

²³ U.S. Department of Labor, Employment & Training Administration, "Comparison of State Unemployment Laws," p. 2-6, available at <http://workforcesecurity.doleta.gov/unemploy/comparison2011.asp> The Virgin Islands also indexes its wage base.

²⁴ Evangelist, Mike and Rick McHugh, National Employment Law Project, "Can't Get There from Here: Facing Reality in Financing Michigan's Unemployment Insurance Program," August 2011, p. 4, see http://www.nelp.org/page/-/UI/2011/MI_UI_Report_Cant_Get_There_From_Here.pdf?nocdn=1

Another key reason why the fund went broke was a huge increase in the benefit payout. The major reason was the enormous increase in unemployment, combined with an increase in the average length of time claimants received benefits, which was longer than at any time since the UC system was begun in the late 1930s. The share of unemployed receiving benefits also rose temporarily, as it often does in recessions (See Figure 11). The average number of Ohioans receiving weekly benefits grew by 29 percent in 2008, and then by another 80 percent, or 101,000 claimants, in 2009 (See Figure 2). On average, Ohio UC recipients received state benefits for 19.9 weeks in 2010, up from 14.9 weeks in 2008. The huge rise in unemployment and the length of time receiving benefits meant that the overall number of weeks compensated grew before falling in 2010, as shown in Figure 5.

Figure 5



Source: U.S. Department of Labor

Ohio's attempts to head off insolvency

The insolvency of Ohio's unemployment trust fund was not a sudden development. A request earlier in this decade by officials at the Department of Job & Family Services to reexamine the tax system was not heeded. In its November 2007 request to the State Controlling Board, ODJFS said, "The issue at this point is that the fund does not appear to be building to sufficient levels to stay solvent through another recession over the next several years."²⁵

Hired by ODJFS in 2007 to examine the issue and make recommendations, top UC expert Wayne Vroman produced his full report in July 2008. He noted that tax rates had been low in recent years, and did not increase much following the 2001 recession as they had after previous recessions and accompanying higher benefit payouts. "Most of the explanation for the loss of reserves since 2000 is due to the limited response of UI taxes and not... the rate of benefit payouts," he said at that time. Vroman concluded that "... it would seem that most of the adjustments should involve enhancements to revenue since the benefit side of Ohio's program has not undergone important changes in recent years. Benefit payments have grown as the

²⁵ State of Ohio, Controlling Board, Operating Request, Controlling Board No. JFS0100016, 11/19/2007

economy has grown, but taxes have lagged economic growth.” Vroman wrote this before most of the big increase in benefits from the recession. However, it underlines how Ohio was unprepared for the economic downturn.

Vroman recommended that Ohio:

- Increase the taxable wage base and index it to growth in wages
- Freeze the maximum weekly benefit from 2009 to 2011
- Redirect the flow of revenue from the mutualized and solvency taxes.²⁶

As Vroman was working on his report in early 2008, the state's Unemployment Compensation Advisory Council convened a legislative subcommittee, with members representing both employers and employees, to review the trust fund, make recommendations and review legislative remedies. It attempted to come up with a solvency package.²⁷ A series of meetings that year produced proposals from both employee and employer groups (see Appendix I for full proposals). Both proposals would have increased the taxable wage base, levied a surcharge on that wage base of 0.07 percent, and frozen maximum benefit levels for one year. The taxable wage base in the employee proposal was to be \$11,000, vs. \$10,000 in the employer proposal. The former would have raised \$225.6 million a year while the latter was estimated to bring in \$137 million a year.²⁸ If the two sides had split the difference on their proposals, the fund would have benefited to the tune of \$181 million a year, which by the end of 2011 would have added up to around half a billion dollars. A portion of this would have gone to pay interest, reducing the need to raid other state funds. And together with \$176 million in available federal money that the General Assembly declined to take advantage of (see page 17), this would have significantly cut into Ohio's \$2.3 billion debt. However, the UCAC did not act.

Even now, Vroman's recommendations and the proposals made at the UCAC in 2008 would form a good basis for restoring solvency to Ohio's unemployment compensation system. Most importantly, Ohio needs to significantly raise the share of wages that is taxed to put its fund on solid footing.

²⁶ Vroman, Wayne, The Urban Institute, “Solvency Recommendations for Ohio,” July 10, 2008, available at http://jfs.ohio.gov/ocomm_root/trustfundsolvency.pdf

Vroman also made some recommendations regarding benefits that together wouldn't add to the total payout. These included easing the monetary requirement to qualify for benefits, eliminating dependency benefits, and establishing worksharing and self-employment assistance programs

²⁷ The UCAC also unanimously recommended a package of changes to the UC system in 2006 that included an increase in the taxable wage base to \$9,500. However, that was to pay for the other changes in that package; it was not intended as a move to head off a broad solvency problem nor was the package expected to have a significant impact on trust fund solvency. Unemployment Compensation Advisory Council, Minutes, May 24, 2006, p. 2

²⁸ The employer proposal also would have had Ohio float a bond package to supplement the trust fund. In 1987, the Ohio Supreme Court ruled that issuing bonds to supplement the trust fund would violate the state constitution. In light of the ruling, Andrew Doehrel, president of the Ohio Chamber of Commerce and the lead employer representative, asked if characterizing the bonds as workforce development would fall within allowed exceptions. David Lefton of the state Attorney General's office said at a November 2008 meeting of the full Unemployment Compensation Advisory Council that it would not. He added that such a bond proposal could be placed on the ballot by the General Assembly as a constitutional amendment. Unemployment Compensation Advisory Council, Minutes, 11/13/2008 meeting, pp. 1-2

The last time Ohio's trust fund went broke

This isn't the first time that the Ohio unemployment trust fund has gone broke. During the deep recessions of the early 1980s, Ohio borrowed close to \$2 billion – an amount that today would be worth nearly \$4.5 billion, or nearly double the \$2.3 billion debt now on the books.^a The state borrowed for eight years, paying \$263.7 million in interest, and took a number of steps in order to pay off the debt.

Unemployed Ohioans are still living with some of the changes made to the system in the solvency crisis of a generation ago. Earnings requirements to qualify for benefits were substantially increased. Today, almost 30 years later, Ohio has one of the most stringent earnings tests of any state in the country, which is one of the reasons that so few unemployed Ohioans qualify for benefits (see Figure 11).^b The state also increased the earnings requirements to re-qualify for benefits following a suspension, established a one-week waiting period for benefits, rounded down benefits to the lowest even dollar and froze maximum benefits for two years.^c

It also significantly raised employer taxes, increasing the taxable wage base from \$6,000 to \$8,000 over two years, enacting a surtax until the loans were repaid and increasing the top standard experience rate. This was on top of the \$799 million in automatic federal tax increases that businesses paid.

One thing the General Assembly did not do was make any significant cut in ongoing weekly benefit amounts or the 26 weeks that claimants can receive them. Yet such cuts are now being enacted in a number of other states. Six states have approved reductions in the long-accepted 26-week standard, and some have altered benefit formulas to reduce average check amounts.^d Ohio was able to avoid such draconian steps when its debt was relatively higher than it is now. Thus, such steps should not be needed now.

^a U.S. Department of Labor, Employment and Training Administration, ET Financial Data Handbook 394, available at <http://workforcesecurity.doleta.gov/unemploy/hb394.asp>

^b “Ohio Still Excludes Many from Unemployment Compensation,” Policy Matters Ohio, December 2007, see http://www.policymattersohio.org/UCompOhioExcludes2007_12.htm

^c Madson, Bruce, Deputy Chief of Staff, Workforce Solutions Division, Ohio Department of Job & Family Services, “Update on Unemployment Compensation,” Testimony to the Senate Insurance, Commerce and Labor Committee, Feb. 23, 2010

^d McKenna, Claire and George Wentworth, National Employment Law Project, “Unraveling the Unemployment Insurance Lifeline: Responding to Insolvency, States Begin Reducing Benefits and Restricting Eligibility in 2011,” August 2011, see http://www.nelp.org/page/-/UI/2011/Unraveling_UI_Lifeline_Report.pdf?nocdn=1

A federal contribution to the solution

As noted earlier, unemployment compensation solvency is a national problem. As of Oct. 20, Indiana owed \$1.92 billion; California \$9.23 billion; Michigan \$3.20 billion, New York \$3.21 billion, and the list goes on. Thus, while Ohio needs to take steps to remedy the insolvency of its trust fund, the federal government should be part of the solution.

Together with Sen. Jack Reed and Sen. Sherrod Brown, Sen. Richard Durbin introduced a bill last winter that would provide a two-year breather to employers and states that otherwise will have to pay extra taxes and interest on the debt. At the same time, it provides a path to long-term solvency. The taxable wage base would be increased to \$15,000, and indexed to wage levels. States that produced plans to reach solvency over a seven-year period would be eligible for up to a 60 percent reduction in their outstanding debt. Those states that entered into such agreements would not reduce benefits or eligibility during the life of the agreements. Meanwhile, those states that properly fund their UC systems would be rewarded with higher interest rates on the funds they keep in their trust funds and lower federal unemployment tax rates. By raising state revenues and thus bolstering state unemployment insurance funds, which are held in the federal treasury, the bill would not increase the U.S. debt. It also would keep federal unemployment taxes level.²⁹

President Obama also has put forward a plan, which would waive state interest payments and automatic increases in employer tax rates for two years. It includes an increase in the taxable wage base and a cut in federal tax rates so that the federal unemployment tax would not change. Beginning in 2014, when the economy is on better footing, it would increase the pace at which states must repay their borrowings, so that states repay their loans more quickly and replenish their depleted trust funds.

Unemployment compensation and the economy

Unemployment compensation is a crucial backstop to workers and families during times of economic distress. But in addition to its role in supporting individuals and families, UC also helps stabilize the economy, creating additional demand for goods and services. In a 2010 study for the U.S. Department of Labor, Vroman, the Urban Institute UC expert, found that altogether, state and federal unemployment compensation programs made up for 18 percent of the gap in real Gross Domestic Product caused by the recession.³⁰ Thus, as bad as it was, the recession was shallower than it otherwise would have been because of unemployment compensation and the large increase in benefits that flowed to claimants and from there into the economy. Using simulations from Moody's Economy.com model, Vroman found in addition that UC benefits kept an average of 1.6 million Americans on the job in each quarter between the official start of the recession and the second quarter of 2010, reducing the unemployment rate by about 1.2 percentage points.³¹

Various experts have analyzed the economic effects of UC, and concluded that as benefits are spent, the economic effect cascades – a claimant buys food, pays the mortgage, and makes any number of purchases that then cycle through the rest of the economy, adding to spending and employment. Vroman estimated this multiplier at two, so that each dollar in benefits results in an increase in economic activity of \$2. An earlier study commissioned by the Labor Department in

²⁹ A briefing paper with a summary of the bill by the National Employment Law Project can be found at <http://www.nelp.org/page/-/UI/2011/solvency.leg.summary.04.05.2011.pdf?nocdn=1>

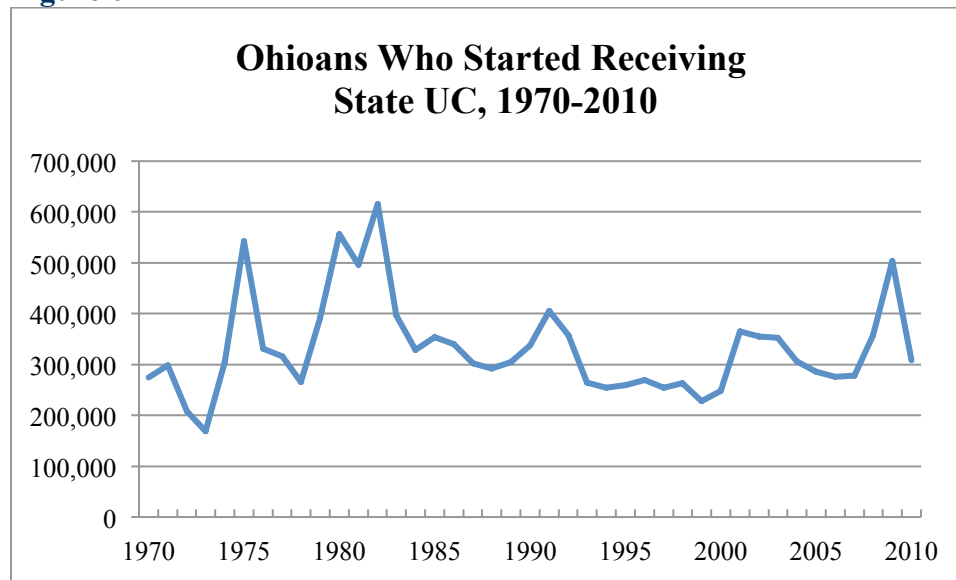
³⁰ Vroman, Wayne, Urban Institute, "The Role of Unemployment Insurance as an Automatic Stabilizer During a Recession," IMPAQ International, July 2010, p. 70. The report was a subcontract between the Urban Institute and IMPAQ International that is part of a multi-year project supported by the U.S. Department of Labor, Employment and Training Administration. See http://wdr.doleta.gov/research/FullText_Documents/ETAOP2010-10.pdf

³¹ Ibid, p. 63

1999 of UC's economic impact found that UC benefits produced \$2.15 of increased economic activity for every \$1 of UC benefits paid to jobless workers.³² The degree of economic stimulation from UC benefits estimated by economists has varied from study to study; Mark Zandi of Moody's Analytics found a multiplier of \$1.63 in 2009.³³ While the exact amount can only be estimated, there is little doubt that UC is an effective contributor to bolstering the economy.

In 2009, more than half a million Ohioans began receiving unemployment compensation. That was the largest number since the early 1980s. Figure 6 shows how the number of UC recipients climbed during the recession, though it has fallen since.

Figure 6



Source: U.S. Department of Labor

The U.S. Census Bureau found that in 2010, 3.2 million people were kept out of poverty with income support provided through unemployment compensation.³⁴

As in previous recessions, Congress extended unemployment compensation at federal expense beginning in July 2008. It created a series of four “tiers” of additional benefits, depending on the state unemployment rate. In addition, the 2009 Recovery Act supported 100 percent federal payment of the Extended Benefit program, the cost of which is typically split between the state

³² Lawrence Chimerine, et al., *Unemployment Compensation as an Economic Stabilizer: Evidence of Effectiveness Over Three Decades*, U.S. Department of Labor, Unemployment Insurance Occasional Paper 99-8, 1999.

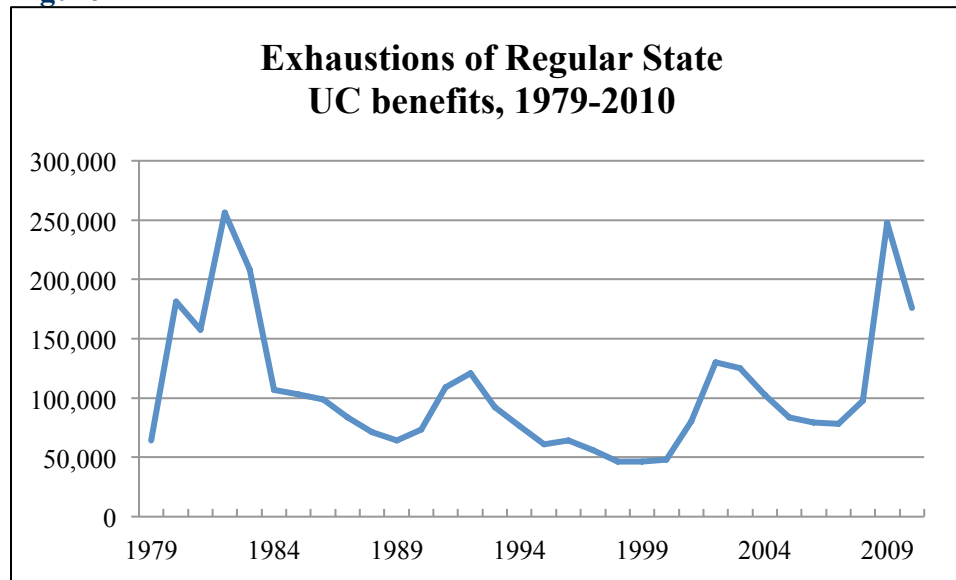
³³ Zandi, Mark, “The Economic Impact of the American Recovery and Reinvestment Act,” January 21, 2009, p. 9. “The virtue of extending UI benefits goes beyond simply providing aid for the jobless to more broadly shoring up household confidence,” Zandi stated. “Nothing is more psychologically debilitating, even to those still employed, than watching unemployed friends and relatives lose their sources of support.” See http://www.economy.com/mark-zandi/documents/Economic_Stimulus_House_Plan_012109.pdf.

³⁴ Cited by Danilo Trisi, Arloc Sherman and Matt Broaddus in “Poverty Rate Second-Highest in 45 Years; Record Numbers Lacked Health Insurance, Lived in Deep Poverty,” Center on Budget and Policy Priorities, Sept. 14, 2011, available at <http://www.cbpp.org/cms/index.cfm?fa=view&id=3580>

and the federal government. The result was an overall extension of benefits up to 73 weeks in states with high unemployment such as Ohio (see further discussion on pages 18 and 19).

This was crucial because so many Ohioans exhausted the 26 weeks of regular state benefits. In 2009, 247,778 Ohioans ran through all of their state benefits. That was more than 100,000 more than in any year since 1984. While the number has fallen since, it remains at double the rate it was during the economic expansion of the late 1990s.

Figure 7



Source: U.S. Department of Labor

Overall, this recession and the period since have seen the highest levels of long-term unemployment since records started being kept in 1946. Nationwide in September, 46 percent of the unemployed had been jobless for more than 26 weeks.³⁵ During 2010, 29 percent of Ohio's jobless workers had been unemployed for more than a year.³⁶

Ohio's modest unemployment benefits

Unemployment benefits in Ohio average less than \$300 a week. The average benefit on an annual basis would produce \$15,297, well below the \$18,530 that the federal government considers the poverty threshold for a family of three.³⁷

Claimants who qualify receive half of their previous wages, up to one of three maximums: \$387 a week if they have no dependents, \$470 if they have one or two dependents, and \$524 if they have three or more dependents. This dependency system is unique. It also discriminates against

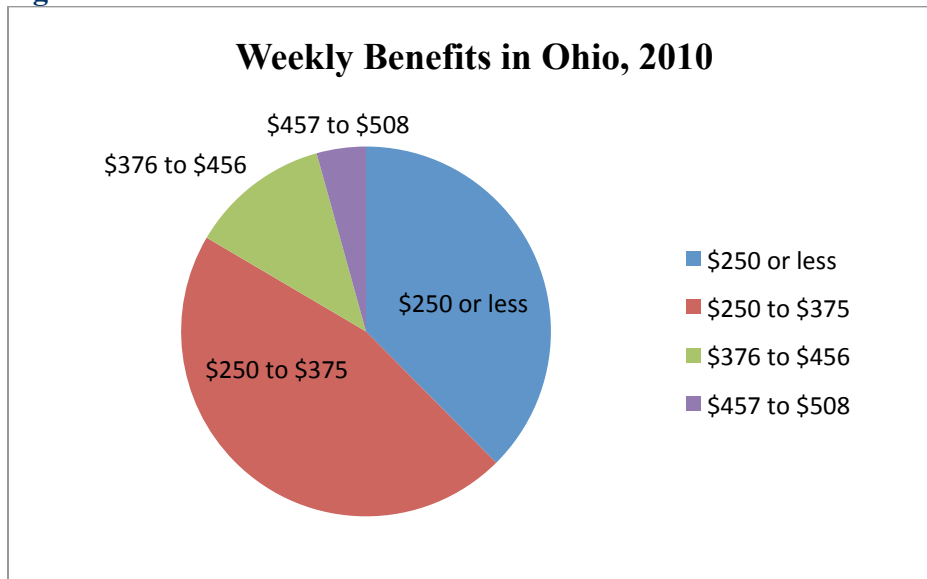
³⁵ U.S. Department of Labor, Bureau of Labor Statistics, Economic News Release, Table A-12, "Unemployed Persons by Duration of Unemployment," available at <http://bls.gov/news.release/empsit.t12.htm> Figure is seasonally adjusted.

³⁶ "Long-Term Unemployment by State," *The Wall Street Journal*, July 21, 2010, available at <http://blogs.wsj.com/economics/2011/07/21/long-term-unemployment-by-state/tab/interactive/>

³⁷ U.S. Department of Health and Human Services, "The 2011 HHS Poverty Guidelines," available at <http://aspe.hhs.gov/poverty/11poverty.shtml>

low- and middle-income claimants with dependents; if you earn less than \$774 a week, you do not qualify for any additional benefits if you have dependents. Thus, while the top maximum benefit is \$524 a week, only a small share of claimants receive anywhere near that much. During calendar year 2010, almost 38 percent of all recipients received \$250 a week or less, while a total of five out of six received less than \$375 a week, the maximum weekly benefit amount that year for those without dependents. Figure 8 shows the breakdown of benefit amounts.

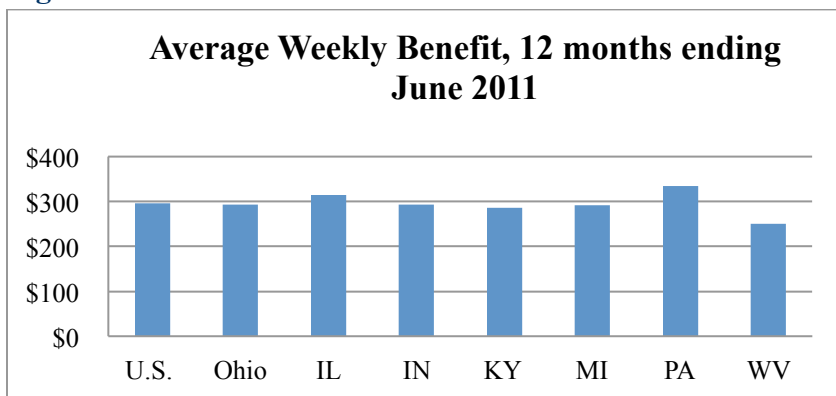
Figure 8



Source: Ohio Department of Job & Family Services

Ohio's average weekly benefit amounted to \$292.57 in the 12 months ended June 30. This was a tad below the national average of \$295.60, and in line with those of neighboring states, as shown in Figure 9.³⁸ Though maximum benefits have continued to increase with wage levels, the average benefit amount has fallen slightly recently, from \$302.69 a week in calendar 2008. This suggests that the average wage of recipients is somewhat lower.

Figure 9

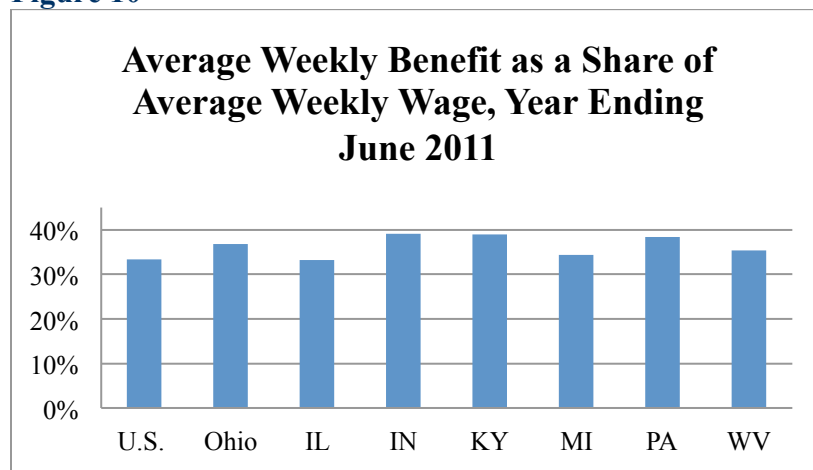


Source: U.S. Department of Labor

³⁸ U.S. Department of Labor, Employment & Training Administration, Unemployment Insurance Data Summary, 2nd Quarter 2011, p. 48, available at <http://workforcesecurity.doleta.gov/unemploy/content/data.asp>

Ohio's average benefits replace a slightly higher share of workers' wages than they do in other states. Figure 10 shows the share of average weekly wages replaced by unemployment benefits in Ohio compared to the nation as a whole and nearby states. Indiana, Kentucky and Pennsylvania replaced a larger share of workers' average wages than Ohio did in the year ended last June, while Illinois, Michigan and West Virginia replaced a smaller share. These "replacement rates," as they are called, measure the average weekly benefit as a share of the average wage in the state, not in relation to the previous wages received by UC claimants when they were working. One reason Ohio's replacement rate is higher than the national average is that our high standard for how much workers must earn to be eligible excludes many low-income workers from receiving unemployment compensation (see below). If we allowed more workers at lower wage levels to qualify, that would bring the replacement rate down.

Figure 10



Source: U.S. Department of Labor

Ohio's maximum UC benefit for those with one or two dependents would come nowhere near covering the weekly costs of a family of one parent and one child living in the Columbus area, according to an analysis by the Economic Policy Institute. Tallying up the costs of housing, food, transportation and other necessities for a safe and decent but basic standard of living, it found the costs for such a two-person family to be \$648 a week in 2007. That compares with a \$431 maximum UC benefit for such a family that year.³⁹

Many Ohioans who have worked for years are unable to collect unemployment benefits if they are laid off because they do not meet the state's stringent earnings test. Since the 1980s, the state has set minimum earnings at 27.5 percent of the state average weekly wage. Workers who do not average that amount over at least 20 weeks of work in 52 weeks do not qualify for benefits. Thus, a worker could work 29 hours a week at the minimum wage, earning over \$11,000 a year, and still not qualify. Ohio's earnings requirement is one of the toughest in the nation.⁴⁰

³⁹ Economic Policy Institute, Basic Family Budget Calculator, available at <http://www.epi.org/resources/budget/>

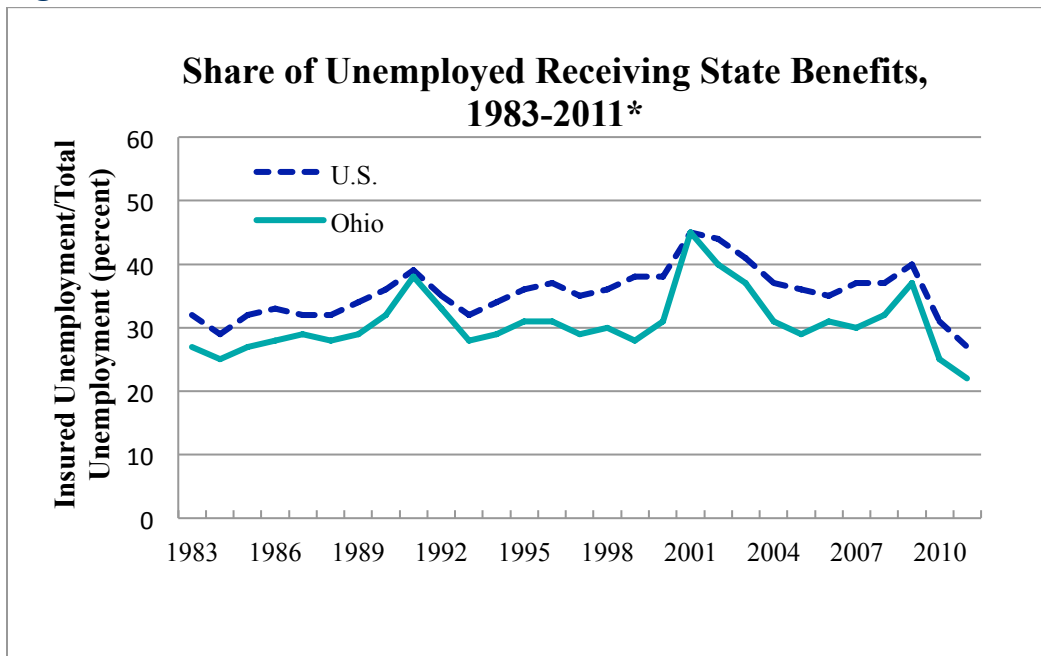
⁴⁰ Policy Matters Ohio, "Ohio Still Excludes Many from Unemployment Compensation," December 2007, available at http://www.policymattersohio.org/UCompOhioExcludes2007_12.htm

The Ohio General Assembly also did not approve measures to modernize the unemployment compensation system so that it conforms with today's workplace, turning down federal money by not making these updates.⁴¹ Under ARRA, states were encouraged to bring more unemployed workers into their UC systems, including those seeking part-time work; those affected by family circumstances such as caring for a sick relative, following a spouse to another job, or as a victim of domestic violence; and those who needed more than the regular 26 weeks of UC benefits to complete their training. Alternatively, states could qualify by ensuring that each a claimant received \$15 a week for each dependent, up to \$50 a week. States had to approve two of these four options to qualify for a second round of funding under ARRA, but unlike 33 states of all political shades, Ohio did not take action, foregoing \$176 million in federal funds.

Share of Ohio unemployed receiving benefits drops sharply

For years, fewer unemployed Ohioans have qualified for unemployment compensation than their counterparts in other states. Ohio's tough earnings standard and disqualification of jobless workers who are eligible elsewhere contribute to this dismal record. The share of unemployed receiving regular state benefits rose during the last recession, as it typically has in the past, but has again receded sharply. The share of Ohioans receiving state benefits recently – 22 percent – was the lowest of any time in more than 25 years. Figure 11 shows the share of unemployed who have qualified for state benefits in Ohio compared to the United States. These percentages do not include those jobless workers receiving extended benefits paid for by the federal government.

Figure 11



Sources: U.S. Department of Labor, National Employment Law Project
 *2011 data are from second quarter.

⁴¹ See Policy Matters Ohio, “Less than Two Months Until Ohio Loses \$176 Million for Unemployment Compensation,” July 11, 2011, available at http://www.policymattersohio.org/UnemploymentRelease2011_0711.htm

Federal UC aid

Since the recession officially began in December 2007, the federal government has taken several steps to bolster the UC system. As already mentioned, the U.S. Department of Labor provided loans to the state trust funds, allowing them to continue paying benefits, and Congress created, expanded and continued a system of extended benefits for those who had run through state benefits (see page 13). Interest on the debt to the federal government was waived for two years in ARRA, additional funds were provided to state agencies to help administer benefits, unemployment benefits were temporarily exempted from federal taxes, and benefits for all recipients were increased by \$25 a week. Even though Ohio turned down two-thirds of the federal money that was available to states that took steps to modernize their UC systems, it benefited enormously from the various forms of federal aid. Altogether, the U.S. has provided \$10 billion to support Ohio's UC system since mid-2008. Table 2 shows the key elements of federal support.

Table 2

Estimated Value of Federal UC Aid to Ohio Since July 2008 (Millions of Dollars)	
Up to 53 Weeks of Emergency Unemployment Compensation, 7/08 through 9/2011	\$5,708.2
Up to 20 Weeks of Extended Benefits, 4/09 through 9/11	\$944.1
Additional \$25/Week in Benefits for All UC Recipients, 3/09 through 7/11	\$722.6
Waiver of Interest on Ohio Borrowings from U.S., 2009-2010	\$144.9
Incentive Funds for Counting Recent Earnings in Determining Eligibility	\$88.2
Exemption from Federal and State Income Taxes for UC Benefits, 2009	\$197.5
Borrowings from U.S. as of Oct. 20, 2011	\$2,313.0
Interest Paid on Borrowings from U.S., 9/11	-\$70.9
Total	\$10,047.6

Sources: U.S. Department of Labor, Ohio Office of Budget & Management, Policy Matters Ohio analysis. Excludes funding to administer the UC system.

More jobless Ohioans are receiving federally paid unemployment compensation than regular state benefits.⁴² Unless Congress votes to continue them, U.S. extensions of benefits will end January 1. Those who become unemployed in Ohio now will not be eligible for benefits beyond the 26 weeks of regular state benefits; those who are receiving extended U.S. benefits as of the new year will only receive them for the particular "tier" of benefits they are in. All extended benefits will end by June 2012. This will not only hurt the unemployed and their families, it will weaken the Ohio economy, since they will rein in their purchases. As it is, ODJFS projected last spring that 160,000 Ohioans will have run out of UC benefits between July 2009 and the end of 2011.⁴³

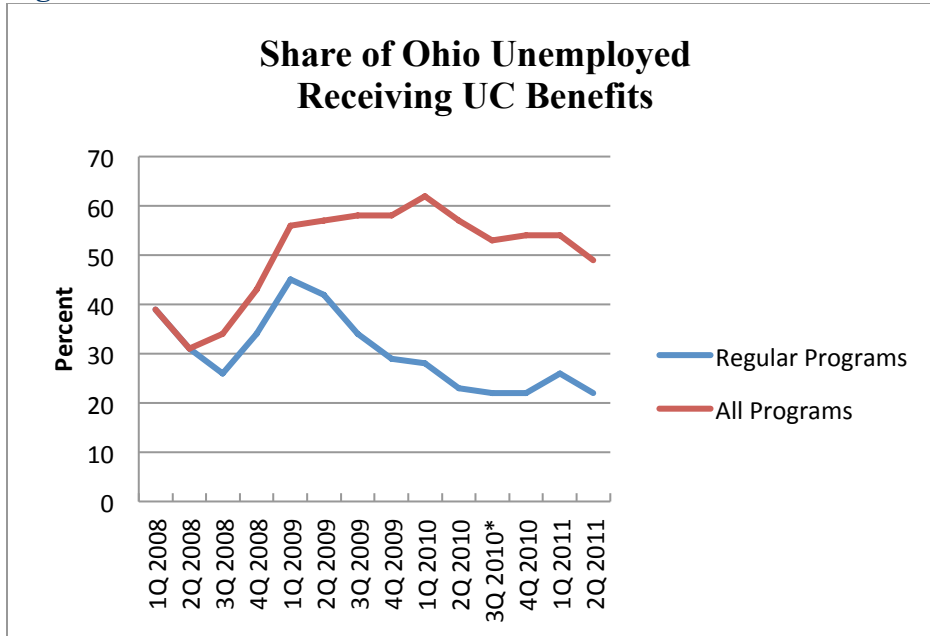
"The expanding list of people falling off the unemployment benefits roll is wreaking havoc at the Richland County Job & Family Services office," reported the *Mansfield News Journal* in August.

⁴² U.S. Department of Labor, Employment and Training Administration, "Unemployment Insurance Data Summary," 2nd Quarter 2011, p. 48

⁴³ Long, Jeff, Assistant Deputy Director, Office of Unemployment Compensation, Ohio Department of Job & Family Services, "Unemployment Compensation," Presentation to Have a Heart Ohio, Columbus, Ohio, June 7, 2011.

Hundreds of people who have hit 99 weeks on unemployment benefits are now showing up at the county's Job & Family Services department, the newspaper said, many seeking assistance for the first time, while staff at the department has been reduced.⁴⁴ If federal benefits are not continued, more than 57,000 Ohioans are likely to face a cut-off of benefits in January, according to a recent estimate by the National Employment Law Project.⁴⁵ Figure 12 below shows the share of unemployed Ohioans receiving regular state benefits, and those receiving all federal and state benefits.⁴⁶ For the last year and a half, a majority of those receiving benefits has been getting federally paid benefits.

Figure 12



Source: U.S. Department of Labor. Regular Programs include regular state benefits, along with benefits for federal civilian employees and ex-service members. All Programs includes all these, plus those receiving federally paid benefit extensions. Federal civilian employees and ex-service members accounted for only about 1 percent of those in regular programs during the 2008-2011 period.

*Revised figures are used for 3rd Quarter 2010.

⁴⁴ Whitmire, Lou, "Need for help overwhelming Richland County Jobs & Family Services Office," *Mansfield News Journal*, Aug. 17, 2011, see <http://www.mansfieldnewsjournal.com/article/20110817/NEWS01/108170304/Need-help-overwhelming-Richland-County-Jobs-Family-Services-office>

⁴⁵ National Employment Law Project, "Hanging on by a Thread: Renew Federal Unemployment Insurance to Aid Families, Boost Stalled Economy; Nearly Two Million Jobless Workers Face Premature Cut-Off in January 2012," October 11, 2012, p. 13, available at http://www.nelp.org/page/-/UI/2011/NELP_UI_Extension_Report_2011.pdf?nocdn=1

⁴⁶ See note to chart for description of who is included in each group.

Summary and Recommendations

Not all states – even those with high levels of unemployment – have seen their trust funds evaporate. Oregon, for instance, has nearly a billion dollars in its trust fund despite unemployment rates that have exceeded the national average. This illustrates that insolvency was not a product of the poor economy as much as it was the result of poor policy. Ohio has underfunded its unemployment compensation system.

Means are available to bolster the state's trust fund – and Ohio policymakers need to take steps to do so while urging Congress to move forward in a way like the Durbin bill, which supports the states and helps create a path to solvency. The state cannot afford to use scarce resources paying hundreds of millions of dollars in interest. The trust fund would best be strengthened through a solution based on expert recommendations and earlier negotiations, rather than the blunt instrument of the FUTA offset credit.

No less important than the condition of the fund and the need to prepare for the next recession is the weakening of the Ohio UC system's coverage of the unemployed. The share of unemployed Ohioans receiving state benefits has declined substantially. Large numbers of jobless Ohioans are not getting benefits to begin with or have run out of benefits. We need to take measures to increase the share of unemployed who receive benefits. The majority of those receiving unemployment compensation are getting them through federal payment of extended benefits, underlining the crucial importance of continuing those benefits after their current expiration.

Appendix I

2008 solvency proposals made at the Legislative Subcommittee of Ohio's Unemployment Compensation Advisory Council. Dollar estimates were those made at the time the proposals were considered.

Labor Proposal:

Recommended the following changes for the year 2009:

- (1) Increase the taxable wage base from \$9,000 to \$11,000, which will raise \$167 million in revenue
- (2) Freeze maximum benefits for one year which will raise \$25 million in revenue, and
- (3) Levy a "surcharge" of 0.07 percent which will raise \$33.6 million revenue (based on figures provided in item 1)

These three changes combined will generate \$225.6 million.

Employer Proposal:

Recommended the following changes for the year 2009:

- (1) Increase the taxable wage base from \$9,000 to \$10,000 which will raise \$84 million in revenue
- (2) Freeze maximum benefit levels for one year which will raise \$25 million in revenue
- (3) Levy a "surcharge" of 0.07 percent which will raise \$28 million in revenue based on the figures provided in item 1), and
- (4) Have Ohio float a bond package to supplement the Trust Fund.

The first three changes combined will generate \$137 million.

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