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Read the report at:
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Bill for unemployment compensation debt begins to come due
Report finds underfunding a key to Ohio's $2.3 billion in borrowings

If no action is taken to improve the solvency of Ohio's unemployment compensation trust fund, Ohio employers and the state itself will pay close to half a billion dollars in taxes and interest between September 2011 and the end of 2013. Ohio underfunded its unemployment compensation (UC) system, leaving it among the states least prepared to face bad times and helping generate a $2.3 billion debt to the federal government.

These are among the key conclusions of a new report, "Courting Crisis: Ohio Policy has Undermined Unemployment Compensation Fund," released today by Policy Matters Ohio, a nonprofit, non-partisan research institute with offices in Cleveland and Columbus.

"After years of underfunding this crucial system, Ohio should face up to the need for more adequate financing and a higher taxable wage base," said Zach Schiller, research director at Policy Matters and author of the study. "While it's not unreasonable that Ohio had to borrow during this period of high, long-term unemployment, it's clear that Ohio's UC solvency problem is not so much a product of the poor economy as it is the result of poor policy."

The report found that Ohio's trust fund has not met generally accepted solvency standards since 1974. For 11 of the past 12 years, employers have paid less into the fund than was paid out in benefits. Ohio employers only pay taxes on 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 per employee.

Because of the unpaid debt to the federal government, Ohio employers will find their unemployment taxes going up starting in January, beginning with a $21 charge for each employee making $7,000. These automatic tax increases will grow each year. Meanwhile, 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 the unemployment debt. Tens of millions of dollars in interest charges will accrue each year, draining funds that would be better used to help

Ohio meet its basic needs. Together, the report estimates, such tax and interest costs will add up to $473 million by the end of 2013.

A study commissioned by the state in 2007 contained 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 provide a basis for a solution now. Like Ohio, more than half the states are borrowing from the federal government to pay unemployment benefits. 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.

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.

The report also found that:

- The share of jobless Ohioans receiving unemployment benefits recently has fallen to a 25-year low of just 22 percent.
- During the past 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. However, these benefits are set to be phased out next year if Congress does not approve an extension.
- Since mid-2008, the U.S. has injected $10 billion into the Ohio economy with UC aid, most of it through such extended benefits.

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.

Ohio was able to avoid cuts to existing weekly benefit amounts or the 26 weeks that claimants can receive them in the early 1980s, when its UC debt was relatively higher than it is today. There is no need to make those cuts now, the report concludes, and federal extended benefits need to be maintained.

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