



Setting the Record Straight about Stimulus Funding for Unemployment Insurance in Florida April 15, 2009

Overview

The American Recovery and Reinvestment Act (ARRA) of 2009 provides the states with billions of dollars of federal money to boost their unemployment programs. Even given the tremendous surge in joblessness in Florida and across the nation, these proposals have been among the most controversial aspects of the stimulus legislation. As Florida deliberates on proposals to draw down the state's share of stimulus dollars (Senate Bill 516 and House Bill 1333), this report sets the record straight about many of the misconceptions circulating about the new funding.

- The stimulus legislation provides the states with incentive funding that exceed the costs needed to help fill the gaps in the unemployment program that deny benefits to low-wage, part-time and women workers.
- If Florida passes the necessary laws to qualify for the incentive funding, the state's unemployment trust fund will receive a major boost of \$444 million in federal funding. These funds are enough to pay for six years of the new benefits, helping about 40,000 Floridians qualify for unemployment insurance.
- Because this major infusion of federal funding comes all at once, it will reduce the automatic tax increase that will become effective next year. **Our analysis finds that UIMA funding would cut expected UI tax increases by 20 percent next year, saving employers \$105 million in taxes.**
- The stimulus funding will cover six years of the expanded benefits proposed by Senate Bill 516 and House Bill 1333. Congress has given Florida and other states the flexibility to repeal the provisions after the recession is over and before the federal funds are depleted, so it can eliminate long-term increases in employer taxes.
- The ARRA includes another key provision which, if adopted into state law, will allow Florida to provide 20 weeks of federally-funded extended unemployment benefits to an estimated 83,000 workers who are expected to run out of their current federal extension of benefits between March and June. By the end of 2009, this provision would deliver an \$806 million boost to the state economy, with all but \$40 million of the benefit costs covered by 100% federal funding. In addition, the state can sunset this provision at the end of 2009 to contain its cost exposure.

Common Questions with Answers that are Correct

Q. How does the incentive funding under the stimulus bill work?

A. Incentive funding goes to states that affirmatively take steps to modernize their UI program to meet the needs of today's economy.

- According to the U.S. General Accounting Office, low-wage workers are twice as likely to be unemployed but they are three times less likely to collect unemployment benefits. Part-time workers, 68% of whom are working women, are half as likely as full-time workers to collect unemployment benefits. The stimulus bill has set aside \$7 billion to help states close those gaps during this unprecedented recession.
- Florida will qualify for \$148 million in ARRA stimulus funding if it adopts a provision called the “alternative base period” which helps large numbers of low-wage workers qualify for benefits (totaling 27,000 workers in Florida at an annual cost of about \$45 million in benefits, or less than one-third of the total federal funding for this provision). Senate Bill 516 and House Bill 1333 propose making this change to Florida's unemployment law.

Twenty-five states have already adopted the alternative base period (before the ARRA incentive funding was even available), which corrects a policy that predates the computer age when the states failed to count a worker's latest three to six months of wages for eligibility purposes to allow time for the state to track down the wage information by hand from the employer.

- The remaining federal incentive funds (\$295.9 million) are available if Florida adopts two of four additional reforms (i.e., helping part-time workers collect benefits, workers forced to leave their jobs due to urgent family circumstances, workers who are long-term unemployed and would benefit from training with the help of extra unemployment benefits, and workers who would qualify for \$15 a week in extra benefits for each dependent).
- If Florida does enact SB 516/HB 1333 and consistently provides benefits to workers who have to leave their jobs due to certain urgent family reasons (domestic violence, caring for a sick child when no other alternative care is available, and leaving a job to follow a spouse who has to leave his job to move to another location), another 16,400 workers will collect benefits at an annual cost of \$18.3 million.
- Forty states are considering legislation to enact stimulus funding. In just two months since the stimulus bill passed, 9 states have already enacted legislation or have bills on their governor's desk, including southern states like Arkansas and Georgia. Other southern states that already qualify for stimulus funding based on their existing laws include North Carolina and Virginia.

Q. Will these new reforms increase taxes on Florida Businesses?

A. No, the incentive funds will reduce taxes in 2010 and 2011.

- The Florida UI trust fund has dropped to \$750 million on March 31, 2009, down from \$2 billion a year ago at this time. With benefits running at over \$200 million per month in the last 2 months, the fund is at severe risk of being depleted. The Agency for Workforce Innovation predicts that the balance will drop to \$505 million by June 30, 2009.
- If Florida enacted the necessary reforms, the state would be able to immediately draw down \$444 million in federal UI incentive funds. The money would hit the state's coffers well before the expanded benefits need to be paid out and provide a timely boost to the state's trust fund. In total, the federal funding will pay for about six years of the benefits linked to the necessary modernized eligibility criteria required under the ARRA, allowing these benefits to be paid out during the recession without tapping into any trust fund dollars.
- Employers would experience tax relief next year because of this infusion of funds into the state trust fund. Taxes are set to automatically increase next year because the fund will fall below the adequate balance set by law (roughly \$2 billion) on June 30th. Without stimulus funds, the Florida Department of Revenue predicts that UI taxes will increase by 78% percent next year.
- If the state acts quickly and is able to **add** funds to the trust fund before June 30th, it would **reduce** the shortfall between the actual fund and the adequate balance amount. This would significantly **curtail** the tax increase required in Florida to help replenish the fund in 2010. We calculate that the added UIMA funding could have the effect of **slashing the potential tax increase on impacted employers by \$105.6 million. This is a 20 percent reduction from the expected \$528 million increase in taxes.**
- The unemployment tax reduction would carry forward to 2011 as well. By next June 2010, there will still be a surplus in the federal grant – limiting tax increases in 2011 as well. This is significant because the Department of Revenue is currently predicting that UI taxes will be up by 98% in 2011 compared to 2008. (Note: The appendix includes more details about Florida UI tax rates.)

Q. Will businesses be forced to pay higher taxes after the stimulus money runs out?

A. No.

- The U.S. Department of Labor has recently clarified that states are not required to pay out these expanded benefits after the federal funding is depleted. If the state does not want to have to continue covering the costs of these expanded benefits, the legislature is free to

repeal the provisions after the end of the recession. The leading Congressional sponsors of the legislation were clear about this provision from the early days after passage of the bill, and recently Assistant Secretary of Labor Douglas Small cemented this flexibility in an official guidance letter. This clarification caused Gov. Gibbons (R) of Nevada to reverse his position on the bill, and even has caused Gov. Jindal (R) of Louisiana to reconsider his initial fervent opposition to modernizing their unemployment program.

Q. Can Florida also Provide Extended Benefits to the State's Long-Term Unemployed and contain its cost exposure?

A. Yes, but it needs to make a temporary change to its state law.

- By July, about 1.3 million workers in the U.S. will run out of their federal Emergency Unemployment Compensation (EUC), the temporary program that has provide two extensions of benefits since July 2008. These extensions provide a total of 20 to 33 weeks of federally-funded extended unemployment benefits.
- However, as part of the ARRA, the states with unemployment rates exceeding 6.5% are entitled to tap an additional 13 weeks of benefits paid for 100% by the federal government (or 20 weeks for states with over 8% unemployment, averaged over 3 months). This third extension must be paid out of a 1970s program known as Federal-State Extended Benefits or simply EB. These costs of benefits are normally shared 50-50 between the federal government and the states but the stimulus bill is providing 100% federal funding for 2009. Neither SB 516 nor HB 1333 currently contains language necessary to allow Florida to take advantage of this provision.
- To access the federal benefits, the states must amend their current EB law to adopt a provision known as the optional trigger. If Florida adopts the change, an estimated 83,000 workers who are scheduled to run out of their 33 weeks of EUC between now and June will qualify for an additional 20 weeks of benefits under the EB program. Most of these workers will exhaust their EUC (45,000) by the end of April. If Florida were to change its EB rules and cover these hard pressed families, an estimated \$806 million in benefits will circulate in the Florida economy in 2009.
- In contrast to the ARRA modernization funding, this provision can be sunset by the states by law at the time of its enactment. The Administration has circulated information that Florida would be responsible for part of the costs of EB benefits costs in 2010 as the 100% federal sharing is phased out. In fact, the state can sunset the expanded EB rules in December 2009—eliminating virtually all the state costs. States like Georgia, California and Ohio have already enacted new legislation written in precisely this manner to minimize state costs.
- The only possible state costs relate to laid off government and some nonprofit employers. A quirk in the UI law allows government and nonprofit employees to “self-insure” their unemployment risk. These employers don’t pay UI taxes—rather they reimburse the state when their ex-employees collect UI benefits. Under existing laws, these employers will

have to reimburse the federal government for EB benefits. However, the latest data available show that only 5% of all Florida UI beneficiaries fall into this category. Thus the state can draw down more than \$806 million in federal funds at a cost of only \$40 million. When the economic impact – and sales tax revenue made from purchases with UI benefits – from the federal tax dollars are accounted for, there is virtually no state cost for this expansion.

Q. Do unemployment funds stimulate the economy?

A. Yes, for every dollar in benefits, there is \$1.64 in related economic benefits.

- Florida's state unemployment rate is 9.4%, the 8th highest rate in the nation. All told, the state has lost 563,000 jobs since 2007. At an average wage of \$765 per week, this translates into \$1.7 billion of consumer spending lost per month.
- UI benefits help to make up for the decline in consumer demand and spending. Between federal and state programs roughly 400,000 Floridians are now collecting UI benefits, up from 140,000 last year. As a result almost \$350 million of UI benefits are flowing through Florida's economy each month. Every dollar of benefits is worth \$1.64 in economic activity as the money ripples through local economies as jobless workers quickly spend their UI benefit checks on basic staples like food, rent and transportation.
- But the unemployment program could be doing much more to boost Florida's economy. Most strikingly, the maximum unemployment benefit check is just \$275 per week—much lower than other southern states like Georgia (\$330) and South Carolina (\$326). With checks averaging just \$239 per week in 2008, Florida's UI benefits were ranked 48th out of the 50 states and DC. The federal government is temporarily adding \$25 per week to each unemployment check, and this will deliver an additional estimated \$467 million in economic stimulus to Florida in 2009. If Florida elects to modernize its UI policies as required by the ARRA, up to an additional \$444 million may be added to the state's economy over the next several years.
- Moreover, throughout 2008, only 31 percent of jobless workers in Florida received a state unemployment check. The modernization funds will increase access to the unemployment program—enabling the program to more effectively replace lost wages and spending power of the Florida workforce.

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APPENDIX – UI Tax Rates Explained

An employer's unemployment insurance tax rate in Florida is based on a variety of factors, including claims by former employees. Taxes also increase across the board when the fund dips below the trust fund trigger as of June 30th. The trust fund trigger is equal to 3.7% of all taxable payrolls of roughly \$56.5 billion in Florida – approximately \$2 billion. With the fund well short of this minimum amount, employers are sure to get an automatic increase.

When the trust fund falls below this amount, a tax increase factor is added to the computation of each employee's tax rate, as a "positive adjustment factor." This factor is a **variable** amount, and is based on the shortfall in the fund on June between the actual balance and a separate amount – calculated as 4.7% of total taxes. The positive adjustment factor is based on a ratio of ¼ of the trust fund shortfall divided by total payrolls.

$$\text{Positive Adjustment Factor is } P = \left[\frac{0.25 * (4.7\% * W - X)}{W} \right]$$

W = Total taxable payrolls for 2008 were \$56,500,000,000
X = June 30th Trust Fund Balance

This positive adjustment factor is incorporated into the multiplier for UI tax rates. The multiplier goes on top of an employer's current usage of the UI program to ensure that the system can recover all its costs. We calculate that the positive adjustment factor without stimulus funding would be .0095. The effect of this added factor is to increase the "multiplier" on the basic tax rates from its current rate of 0.34 to 1.0859. However, performing calculation shows that the added stimulus funding would reduce the positive adjustment factor from .0095 to .0076. This change has the effect of reducing the multiplier from 1.0859 to 0.9375, which translates into a \$105 million decrease in taxes.

On its face, the tax mechanism is a well constructed actuarial model. However, taxes can only be charged on each employee's first \$7,000 in annual earnings. The actuarial rules have remained unchanged, as this amount has represented a smaller share of payrolls each year. For this reason, even the large tax increases expected are unlikely to adequately recover benefits.

Table 1 - Impact of UIMA funding on the 2010 UI taxes

	Baseline	Baseline Plus Incentive Funds
Trust Fund Balance (June 30, 2009)	\$505,000,000	\$949,000,000
UI Tax Increases (2008-10)	\$528,300,990	\$422,655,030
Total UI Revenues (2008)	\$839,564,000	\$839,564,000
Total UI Revenues (2010)	\$1,368,264,990	\$1,262,619,030

In 2008, Florida UI tax rates were just 0.31% of total wages paid in the state—a rate which is half of the national average. The effective tax rates are at this minimal level largely because taxes are only assessed on the first \$7,000 of each worker's pay check. The result is that average tax rate amounts to \$95 per employee per year, and 78 percent of Florida firms pay the minimum tax of just \$7 per employee per year.

Sources:

U.S. Department of Labor, Unemployment Insurance Quarterly Data Summary, 4th Quarter 2008

U.S. Department of Labor, Significant Measures of Unemployment Insurance Tax Systems, 2008

U.S. Department of Labor, Unemployment Insurance Program Letter 14-09 change 1, April 2009

Florida Statute, Section 443.131(3)(e)(1)c

DLES Communication (12/17/08) as cited in CCH Explanatory Guide to Florida's Unemployment Insurance Law ¶ 1120

Florida Department of Revenue letter to Senator Tony Hill, April 2009

Florida Agency for Workforce Innovation letter to Senator Tony Hill, April 2009