



**ISSUE BRIEF
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Funding for Unemployment Compensation Program: Florida Should Take It, Not Leave It

Florida's businesses and workers are both struggling during this time of severe economic stress. As of February 2009, Florida's unemployment rate was 9.4%.¹ – leaving more than 874,000 people unemployed out of a workforce of 9.2 million.² It is anticipated that the state's unemployment rate may increase to a peak of 10% or higher before it declines.³ As of March 2009, there were 290,000 laid off workers receiving state Unemployment Compensation benefits and another 106,000 receiving the federal extension benefits. However, under current law, an estimated 83,000 of them will lose their eligibility for all benefits by the end of June 2009.⁴ Florida also has numerous part-time workers, especially seasonal workers and women who were laid off from low wage jobs and who are still unemployed. The majority of them receive no benefits from the Unemployment Compensation program, due to the manner Florida uses to establish eligibility.

The Unemployment Insurance Modernization Act (UIMA) is part of the American Recovery and Reinvestment Act (economic stimulus bill) and it provides substantial economic incentives for Florida to further assist unemployed workers with a \$443 million grant. To receive \$148 million of these funds, Florida must change its eligibility policy to what is called the "alternative base period," which includes consideration of the person's earnings in the month of application in the "look back period."

Another \$295.9 million is available if Florida also elects to provide benefits in at least two of the following four situations: 1) part-time workers denied benefits because they are required to seek full-time work; 2) individuals who leave jobs due to compelling family situations such as domestic violence; 3) workers with dependent family members qualifying for state benefits, but whose benefits should be increased to help care for dependents; and 4) permanently laid-off

workers requiring extra unemployment benefits to participate in training. Finally, the American Recovery and Reinvestment Act temporarily provides an option for states to extend benefits for those people who are still jobless after exhausting the benefit period and provides for the federal government to pay the full cost. In addition, all states will receive funds to support an increase of \$25 per week to eligible unemployed workers.

Should Florida elect to enact these reforms? The Center unequivocally believes the answer is yes and offers three primary reasons. First, the federal dollars are sufficient to meet the increased costs associated with the reforms. The “alternative base period” provision is estimated to cost \$45.2 million annually and will provide much needed financial assistance to over 27,000 workers who have been laid off.⁵ If Florida elects to cover part-time workers and extend benefits to workers leaving jobs for family reasons, the annual cost is estimated to be \$26.3 million and will provide assistance to over 12,000 people.⁶ Providing extended benefits will cost the state very little, including some minor administrative costs (Florida is already receiving \$31.7 million from the federal government for administration), and will benefit 83,000 people about to lose their benefits in June as well as thousands more who will qualify for extended benefits thereafter. Extended benefits for state and local public employees will cost the state somewhere between 3.5% and 6% of the benefit costs; however, Florida may elect to end the provision in December 2009 to minimize its cost exposure.⁷

Second, the provision of financial assistance to workers who have lost their jobs is appropriate and will actually be beneficial to the economy and the businesses struggling to survive in this fiscal crisis. A U.S. Department of Labor study found that for every dollar paid in jobless benefits there is a \$2.15 impact on the economy.⁸

Third, the additional coverage and benefits connected to the federal stimulus bill will not appreciably affect an increase in Unemployment Compensation taxes paid by businesses. Although an increase should be expected, there are other more influential factors. Primarily, the overall trend in business layoffs and closures is much more likely to cause such an increase.

Instead, the federal dollars linked to these reforms will partially replenish the trust fund for Unemployment Compensation, especially relative to the associated cost and overall economic benefits. The factor that will be responsible for “triggering” an increase in business taxes for the program will be the overall economic crisis not the adoption of reforms required by UIMA. The balance in the Unemployment Compensation trust fund is already characterized as insufficient by some state officials and therefore an across the board tax increase may be required. In addition, the “experience rate” of some businesses that layoff significant numbers of employees will increase, effecting a tax increase for them in addition to any across the board increase that is “triggered” by depletion of the overall trust fund. Regardless, businesses will pay a higher tax for the Unemployment Compensation trust fund within the next two years, but the funds provided by the UIMA will act to reduce that tax burden.

For more background, it should also be noted that Florida’s benefit amount in the

Unemployment Compensation program is very low. In the fourth quarter of 2008, Florida's average weekly benefit amount was \$237.24, which ranked as the seventh lowest in the nation including Washington, DC. The national average weekly benefit amount was \$299.64.⁹

Not only are the benefit levels low compared to other states, but the Unemployment Compensation tax rate paid by Florida employers is also very low. In the second quarter of 2008, Florida's average Unemployment Compensation tax rate was .31% of total wages, ranking the state as the fourth lowest (tied with Arizona and Texas) in the nation including Washington, D.C. The national average tax rate was .62% of total wages or twice the rate experienced by businesses in Florida.¹⁰

Finally, it should also be understood that if the state decides at a later point to repeal these provisions, it can do so without penalty from the federal government and with the recognition that thousands of laid off workers have received much needed financial help during a period of unparalleled economic struggles for families, businesses and government.

This paper was written and researched by John C. Hall, Executive Director of the Florida Center for Fiscal and Economic Policy, with assistance from Michael Walsh, Senior Research Analyst. An earlier version appeared originally in Ideas in Action, a publication of Florida TaxWatch (www.floridataxwatch.org).

¹ Florida Agency for Workforce Innovation Press Release, March 27, 2009.

² Ibid.

³ Office of Economic and Demographic Research, "Florida: An Economic Overview," March 16, 2009.

⁴ <http://workforcesecurity.doleta.gov/unemploy/wkclaims/report.asp>. And National Employment Law Project calculations based on <http://www.dol.gov/opa/media/press/eta/ui/current.htm>. Floridians have represented 7.3% of inflow into the program, so NELP estimates that they represent 7.3% of the current caseload.

⁵ Ibid.

⁶ Ibid.

⁷ U.S. Department of Labor Annual Data, Handbook 394, <http://workforcesecurity.doleta.gov/unemploy/hb394.asp>

⁸ "Unemployment Insurance as an Economic Stabilizer: Evidence of Effectiveness over Three Decades", Chimerrine, Lawrence, et. al, Washington, DC.

⁹ U.S. Department of Labor, Employment and Training Administration, UI Data Summary.

¹⁰ Ibid.