north carolina
JUSTICE CENTER

JUSTICE CENTER FACT SHEET

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Just the Facts:

Fixing the Unemployment Insurance Trust Fund

The federal government established the unemployment insurance system after the Great Depression to support workers and ensure that the economy could recover in the face of massive job loss. The system works thanks to “forward-financing”—employers contribute to the unemployment insurance trust fund in good times so that in bad times, when benefit payouts increase and payrolls shrink, funds are available for workers who lose their jobs through no fault of their own. State governments administer the program and establish many of the details related to financing.

The Great Recession presents another moment to assess and improve the unemployment insurance system. Record unemployment and job loss along with a slow recovery have combined to put tremendous pressure on the system. Moreover, a series of tax cuts to employers in the 1990s reduced the trust fund balance such that when unprecedented claims came in at the start of the Great Recession, the state needed to access the federal loan program to meet their responsibilities under the system.

As policymakers now seek to design a system that works best for workers, employers and the economy as a whole, it is fundamental to re-establish forward-financing of the system. Policymakers should be guided by an approach that seeks to do the following:

- **Build a system that can better weather economic downturns** by ensuring adequate fund levels to reduce the reliance on borrowing to meet benefit payments in downturns.
- **Maintain the system’s ability to support the economy** by ensuring that the wage replacement function of the unemployment insurance system is adequate to support workers seeking work.

Principles

- **Adequacy:** North Carolina’s unemployment insurance system was inadequate to weather the most recent economic downturn, and it was in a precarious position well before the last recession. The adequacy of the unemployment insurance system is measurable and using these measures to ensure the trust fund balance is maintained at an adequate level is critical.
- **Full Participation:** North Carolina’s unemployment insurance system was designed to protect the economy, and that means workers and businesses alike. In order for it to be effective, full participation by employers is critical to ensuring the costs of the shared benefits of this insurance are widely shared.
- **Equitable Contributions:** North Carolina’s unemployment system uses an experience rating system that requires greater contributions from those businesses that have most utilized the system because of greater numbers of layoffs. Contributions required should be closely aligned with experience ratings so that wide variations do not result in great changes in tax levels.

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Recommendations

Do no harm to the wage-replacement function of unemployment insurance. Fundamental to the purpose of the unemployment insurance system is maintaining consumer demand so that the economy can be stabilized in periods of downturn. This is achieved by ensuring that workers have temporary wage replacement so that they can meet basic needs and remain connected to the labor force. The modest average payment in North Carolina of $290 per week provides a modest support to meet the basic needs of a family of one worker and two children. Each month the family's budget would still fall $1110 short of making ends meet according to the NC Budget and Tax Center's analysis of the Living Income Standard but these benefits allow families to maintain their spending and demand in the economy.

Expand the taxable wage base through better indexing. North Carolina is one of 17 states that wisely index their taxable wage bases for growth in payrolls. In other words, the amount of wages subject to taxation automatically increases along with wages and salaries. North Carolina's 2010 wage base was $19,700, so an employee's wages above that amount were not subject to the unemployment insurance tax. An indexed taxable wage base allows the financing of the unemployment insurance system to keep pace with changes in wage levels in the economy. North Carolina's taxable wage base is only indexed to 50 percent of the state's average annual wage. Increasing the taxable wage base from this current level incrementally to 80 percent of the average annual insured wages paid in the state could significantly improve the solvency of North Carolina's trust fund. A critical component to this effort will also be ensuring that employees are not misclassified as independent contractors or other non-covered workers and therefore not included in the calculation of taxable wages.

Reform the experience-rating system to better align taxes paid with benefits from the unemployment insurance system. An employer's unemployment-insurance tax rate is based on his or her experience rating— employers with more workers claiming unemployment benefits pay higher tax rates. However, there are important ways in which North Carolina can strengthen the link between taxes paid and benefits claimed. These include increasing the standard beginning rate for a new employer, raising the minimum tax rate from zero percent and better aligning the tax-rate range and increments with an employer's experience of layoffs.

Strengthen re-employment services and establish work-sharing for future downturns. North Carolina's job deficit—the number of jobs needed to make up for those lost and keep pace with the growing working-age population—is at half a million. As jobs return, it is critical that North Carolina policymakers invest in re-employment services that work: training for new industries at community colleges, one-on-one career counseling, and additional supports for workers taking on lower-wage work. Additionally, ahead of the next downturn, North Carolina policymakers should put in place a work-sharing program to increase the attachment of workers to their jobs. Under such a program, a worker would collect unemployment insurance benefits based on a reduction of hours rather than the loss of a job, thus reducing payments and improving the system's solvency.

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