

Testimony of Gary Salamido
North Carolina Chamber
Raleigh, NC

Before the North Carolina
Joint Revenue Laws Study Committee

November 8, 2012

Good morning Madame Chair, Mr. Chairman and members of the Committee. I am Gary Salamido, vice president of government affairs for the North Carolina Chamber. The Chamber serves as the voice for North Carolina's business community – representing more than 35,000 members who employ 1.2 million North Carolinians. I want to thank the Committee for their attention and leadership on an issue that is critical to North Carolina employers and their ability to create jobs and get our unemployed citizens back to work.

The North Carolina Chamber is here today to discuss the implications of the Unemployment Insurance debt on employers and to present comprehensive reforms to the failing system. The economic downturn that began in late 2007 led to a sharp and persistent rise in North Carolina's unemployment that has since experienced a very slow recovery. As a result, a significant increase of claims quickly depleted the state's Unemployment Trust Fund (UTF), which has required more than \$2.5 billion in repayable advances from the Federal Unemployment Account (FUA) to fund the state's share of unemployment compensation benefits. When the Trust Fund was solvent in good economic times, there was a reduction in UI taxes while at the same time benefits were being expanded. The combination of these factors resulted in an unsustainable system that was ultimately not prepared for the severity of the recession. Neither the tax rates nor the benefit structure single-handedly led to the debt crisis and, similarly, fixing just one of these factors is not a viable solution to creating a solvent and effective UI system for the future.

The responsibility to repay this debt falls squarely on North Carolina employers, as they are the only group paying into the fund. Under current federal guidelines, and given the state's outstanding loan balance, North Carolina employers will repay approximately \$2.5 billion in principal and more than \$500 million in interest from 2011 to 2019 to extinguish the state's loan. On November 10, North Carolina faces the deadline to repay the federal UI loan in order to avoid additional tax penalties. As was the case in 2011, employers will face an additional Federal Unemployment Tax Act (FUTA) tax of .3 percent. This translates into a tax increase on every job from \$63 to \$84 per employee, and will continue to rise annually until the debt is paid. Inaction on this issue cost employers a total of \$395 million in 2012.ⁱⁱ

As you can see, there is a lot at stake for North Carolina employers. The additional tax burden with a status quo repayment approach could represent an unsustainable increase in total unemployment insurance taxes for businesses, threatening what is needed most, jobs for North Carolinians. The business community has responded, organizing a Reemployment Coalition of businesses, local chambers of commerce and allied business organizations to address the solvency, integrity and affordability of the UI system.

Additionally, the North Carolina Chamber Foundation, in conjunction with Capital Associated Industries, commissioned the *North Carolina UI Solvency Study* to provide recommendations to return North Carolina's Unemployment Insurance Trust Fund to a position of solvency and strength in the future. We greatly appreciate the cooperation and assistance of the Division of Employment Security in this process. Their support made it possible to gather the most accurate and thorough records from their office and the U.S. Department of Labor. The Study analyzes different sections of the UI system that must be addressed, and

includes the critical observation that “anything less than making the comprehensive reforms will only produce marginal results.”ⁱⁱⁱ The North Carolina Chamber believes a balanced solution should address solvency, affordability, integrity and reemployment and workforce training.

I would like to address these issues one at a time to demonstrate why they must be looked at holistically rather than in isolation. Before I discuss the Chamber’s recommendations, please know that nothing we propose should affect unemployed workers currently receiving benefits. Comprehensive reform, particularly around benefits, should focus on those unemployed after the enactment of reform.

Solvency: With one of the highest UI debts in the country, North Carolina needs to establish a reliable, predictable and stable UI Trust Fund for employees and employers. North Carolina needs to look at options to refinance the debt in order to assure Trust Fund solvency today and into the future. As you can see from the tax implications I just discussed, ***refinancing the debt is central to a solution.***

Integrity: Addressing integrity measures is necessary to improving the system and returning it to its original intent of getting people back to work. North Carolina experienced an improper payment rate of 8.86% totaling more than \$555 million in improper payments between July 1, 2008 and June 30, 2011.^{iv} There needs to be greater accountability for the employer taxes funding the UI system, as well as checks and balances to ensure system efficiency and reemployment. The North Carolina Chamber appreciates the current efforts of the DES to recover fraudulent payments and upgrade its information systems through the Treasury Offset Program (TOP). Implementing a cross-match system of this kind was one of the recommendations included in our Study to address the integrity of the system.^v

Reemployment: The most integral piece of the solution is that we must be able to shift the focus of the system from unemployment to reemployment. The system should improve alignment of workforce training and education programs through streamlined and enhanced accountability and increased use of technology among agencies. A robust worker retraining and placement program is essential to establishing and maintaining a stable UI trust fund.

Affordability: The UI system needs to be affordable. Data from the U.S. Department of Labor suggests that North Carolina’s unemployment insurance system is running an annual deficit of approximately \$470 million.^{vi} In comparison to other states in the region, North Carolina’s UI benefit levels are significantly higher. We must align the tax revenues with benefits in order for North Carolina to be competitive with surrounding states.

Moving forward, it is imperative that all of us do what is right for all parties – employers, employees and North Carolina, as a whole. You have the North Carolina Chamber’s full commitment to work toward a comprehensive plan that solves our state’s UI crisis and protects the jobs we have as well as our ability to create and attract more jobs.

Thank you, again, for your attention to this critical issue.

ⁱ Antonio C. Fiore, Douglas J. Holmes, Jim Hemmerly, Thomas Whitaker; *North Carolina UI Solvency Study Recommendations and Observations* (May 2012), 10.

ⁱⁱ Fiore, Holmes, Hemmerly, Whitaker; 50.

ⁱⁱⁱ Fiore, Holmes, Hemmerly, Whitaker; 5.

^{iv} Fiore, Holmes, Hemmerly, Whitaker; 25.

^v Fiore, Holmes, Hemmerly, Whitaker; 27.

^{vi} Fiore, Holmes, Hemmerly, Whitaker; 11.