The cost of unemployment

How will Ohio get back on steady ground? **Interviewed by Lisa Murton Beets**

Spending on unemployment compensation is at an all-time high, jumping from approximately $31 billion in 2008 to $120 billion in 2009, $160 billion in 2010 and a projected $120 billion for 2011. Numerous states, including Ohio, have depleted their unemployment compensation trust funds and have had to borrow from the federal government.

"Ohio employers have seen modest increases in their state unemployment taxes over the last few years as automatic triggers kicked in to try to keep the fund solvent. However, the increases just haven't been enough to stay ahead of the benefits paid out," says Anthonio C. Fiore, an attorney with Kegler, Brown, Hill & Ritter.

Eventually, the federal government will look to Ohio employers to replenish their fund through higher contributions or taxes. To keep the costs to employers from growing ever higher, Fiore says the state and its employers must work to reform the unemployment compensation system in Ohio and get people re-employed.

Smart Business spoke with Fiore about the tasks at hand.

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What is the status of Ohio's unemployment compensation (UC) trust fund?

Employers pay into both the state and federal unemployment compensation trust funds. Solvency of the state's UC trust fund had been a growing concern for a number of years, but it finally moved into the red in January 2009. Ohio currently owes the federal government over $2.6 billion for loans from the Federal Unemployment Compensation Account (FUA) – commonly referred to as Title XII loans.

How does the situation in Ohio compare to that in other states?

Ohio is in the same boat as many other states. The highest unemployment in nearly three decades is spread across the U.S. and very few counties and states have been immune. State unemployment taxes increased as a percent of total wages on average by 34 percent from 2009 to 2010 and are expected to increase even more for 2011 and 2012.

As of Sept. 1, 2011,twenty-seven states and the Virgin Islands have outstanding federal loans of over $36 billion. The United States Department of Labor (USDOL) projects a peak in 2013 of up to 40 states and $65.2 billion in outstanding loans. Interest on loans is charged at the rate of just over 4 percent for 2011. Approximately $1.7 billion will need to be paid from sources other than the state UI tax – employers in 19 states (not including Ohio) will pay a special assessment to cover this cost. The first interest payment from states is due September 30, 2011 and interest will continue to accrue as long as loans are outstanding.

State and federal unemployment taxes will continue to increase over the next three years and remain at higher rates for at least 10 years on average. Average UI taxes will more than double with some employers experiencing much higher tax increases as a percentage of total wages. Increased taxes will increase the cost of hiring. Increased duration of unemployment compensation will continue to be a disincentive to individuals deciding whether to actively seek and accept work available in the labor market. Relief from automatic Title XII interest and Federal Unemployment Tax Act (FUTA) offset credit penalties is possible only if states, businesses, and workers push for them. States with no debt may be less supportive of relief, arguing that they have already addressed solvency and did not get relief.

How long will it take Ohio to get its fund solvent once again?

The goal is not simply to pay back the $2.6 billion to the federal government. The goal is to replenish the fund to what is called 'minimum safe level' in order for it to weather future economic downturns. The minimum safe level is around $2.5 billion; therefore the state unemployment insurance (UI) fund is approximately $5 billion away from where it needs to be in the future. It could take three to five years to get the fund back to this level.

How can Ohio get the fund back to solvency?

Obviously, the best case scenario is finding a way to get more individuals employed, so fewer individuals are collecting unemployment. That would help Ohio rebuild the fund the fastest, versus raising employer taxes. In terms of direct costs to companies, businesses can work with third-party claims administrators and/or an attorney to more aggressively manage their claims to eradicate fraudulent claims and overpayments. The state itself is taking numerous proactive efforts and is focusing on ways to reform Ohio's unemployment compensation system, keep businesses in Ohio, attract new companies to Ohio, and get Ohioans re-employed.

How will developments at the federal level impact Ohio?

Pending legislation (H.R. 1745, also known as the Jobs Act) would reform aspects of the unemployment system. Ohio would benefit from some of the reforms that are being advocated by a broad coalition of national and state business associations. One of these is a requirement that would strengthen job search requirements for those receiving unemployment. In addition, President Obama recently released the 'American JOBS Act' with several provisions affecting unemployment compensation. While some provisions of the proposal have merit there is still uncertainty surrounding what price tag will be levied on those who fully fund the system – employers. The current system was developed in the 1930s and was not set up for the situation the country is currently in. Reforms would focus on getting people re-employed faster and into the jobs that are available. <<

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