

# Unemployment Insurance Financing Issues

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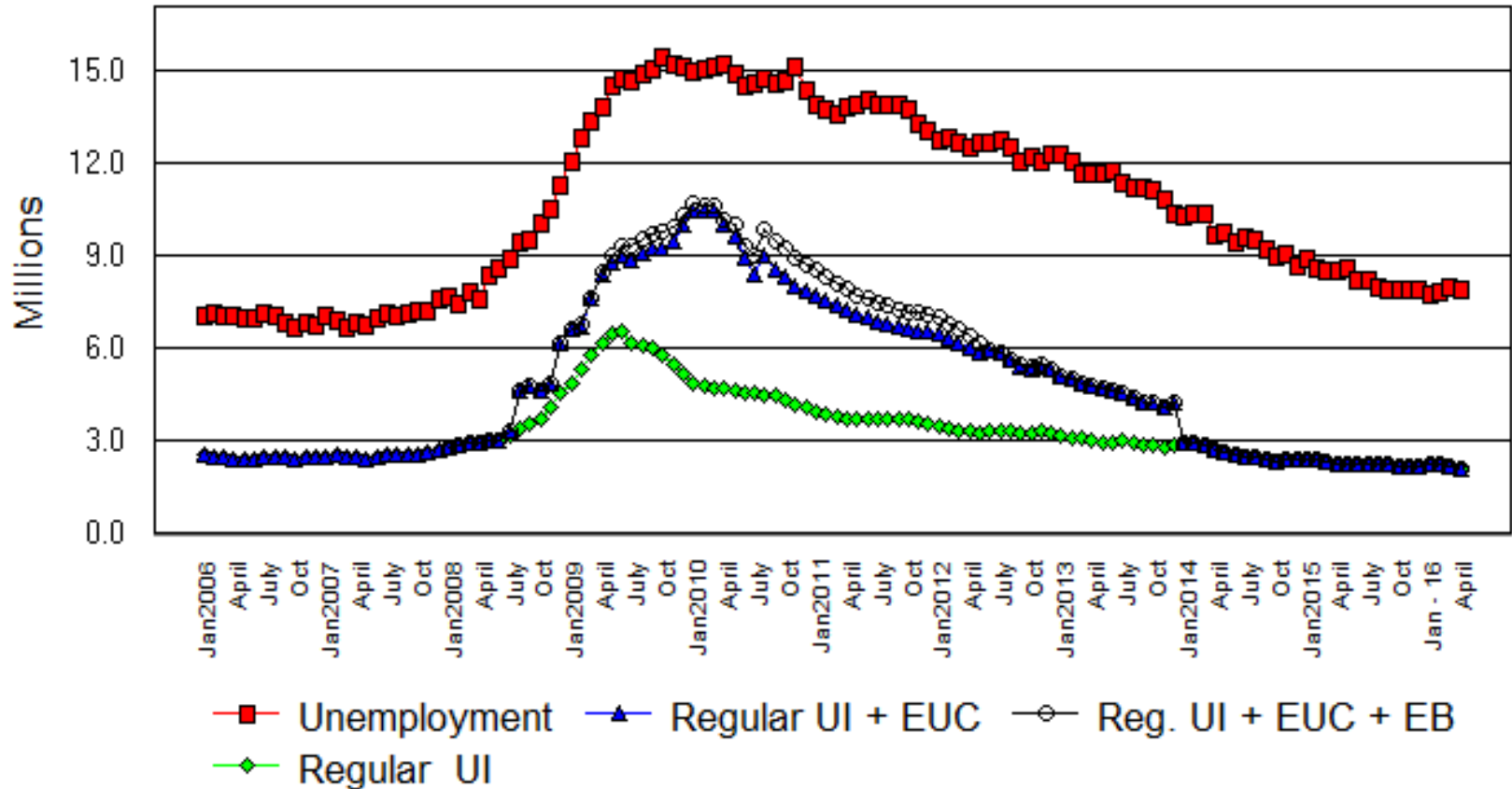
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# Outline

- Unemployment and UI Reciprocity
- Trust Funds during and after the Great Recession
- The big states
- Tax base indexation
- State borrowing options
- Corporate profits and UI taxes

# Chart 1. Unemployment and UI Claimants, 2006-2016



### Chart 2. UI Recipiency Rates, 2006 TO 2016

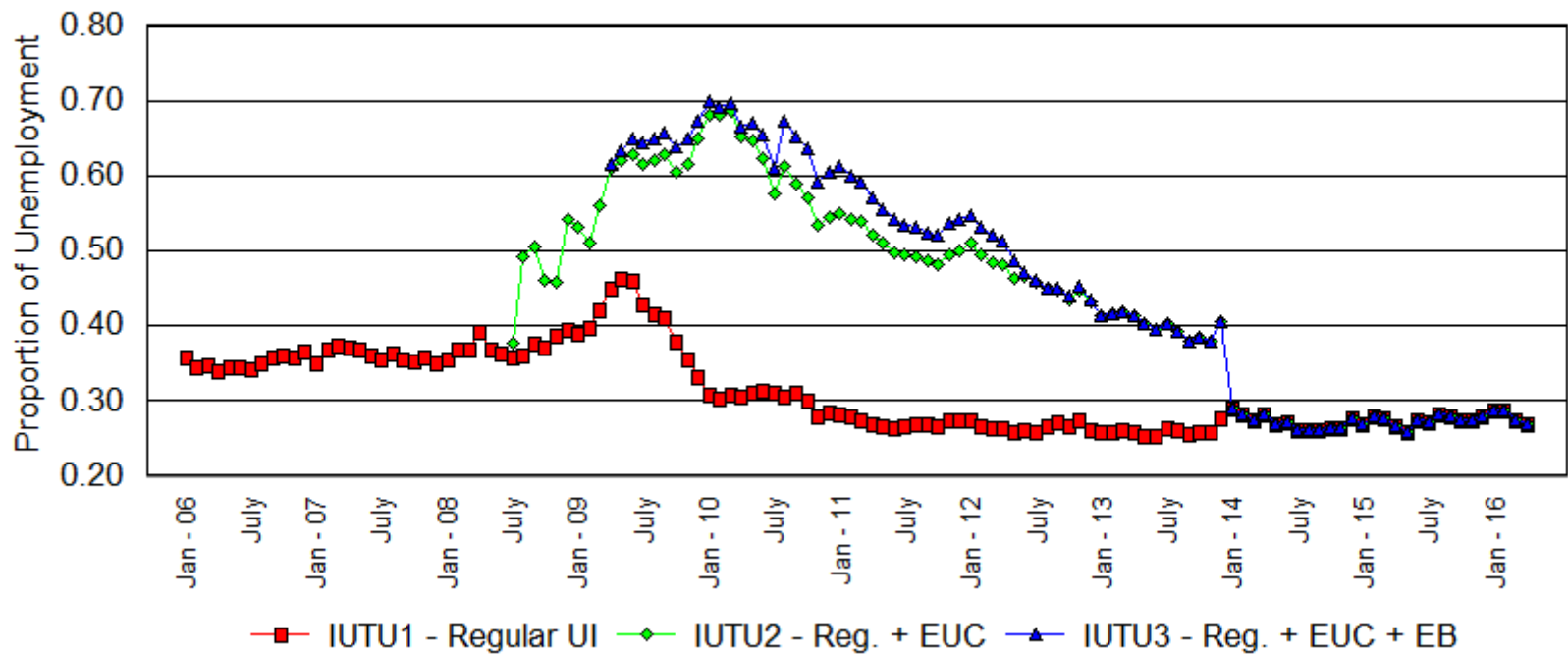
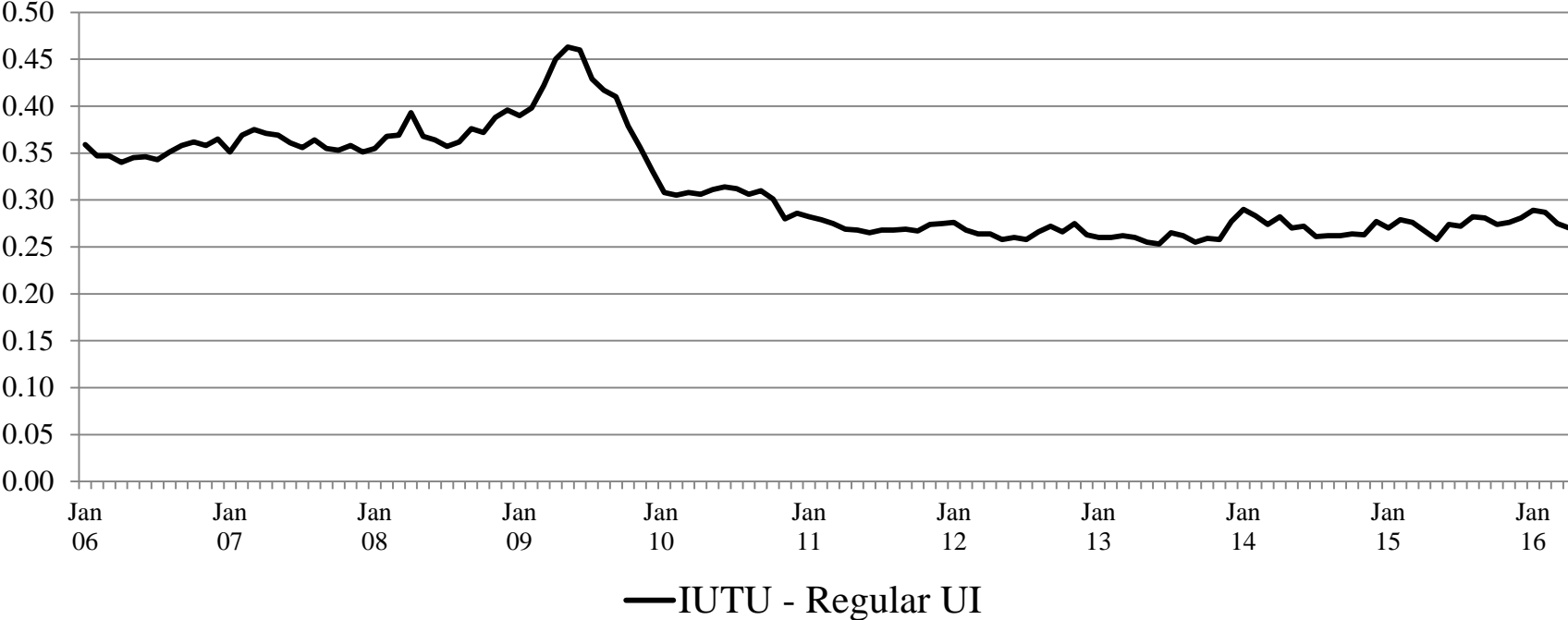


Chart 2A. IUTU Ratio- Regular UI -2006-2016

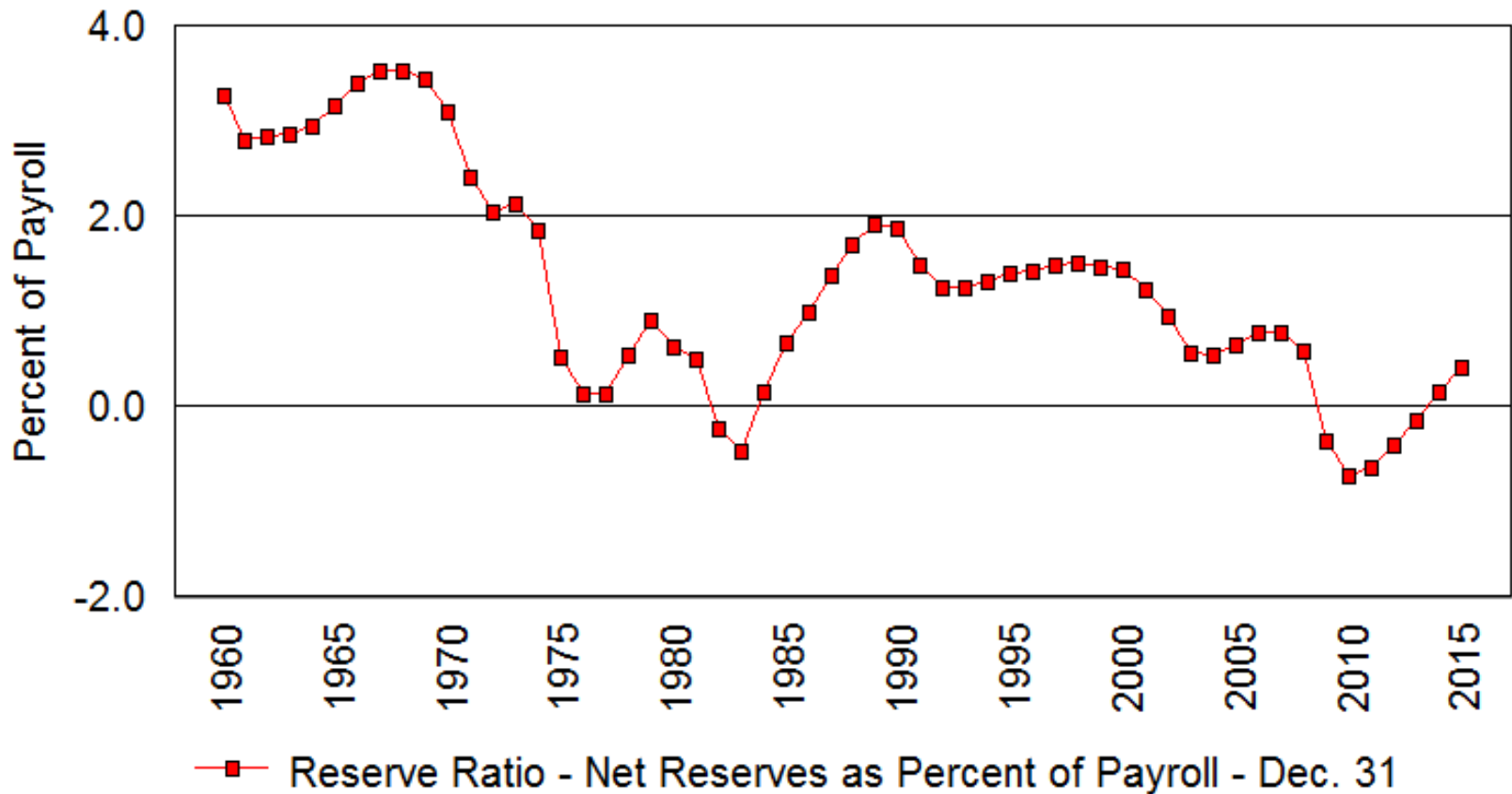


# Annual UI Benefits

<b>Annual Benefits</b>	<b>Regular UI</b>	<b>EUC</b>	<b>EB</b>	<b>FAC</b>	<b>Total UI</b>
2007	32.0	-	0.0	-	32.4
2008	42.5	7.8	0.0	-	50.3
2009	79.2	42.0	6.0	9.5	136.6
2010	58.2	65.7	9.1	10.3	143.2
2011	46.4	46.9	10.0	-	103.3
2012	42.4	35.5	3.0	-	79.8
2013	38.6	21.7	0.0	-	60.3
2014	34.4	0.0	0.0	-	34.4
2015	31.6	0.0	0.0	-	31.6

51 programs. \$ billions

### Chart 3. Aggregate Reserve Ratio, 1960 to 2015



Aggregate 51 programs, December 31

# The Big States

- The 13 largest states (2014 UI employment)
  - Share of 2014 employment - 61%
  - Share of 2014 payroll 65%
  - Share of 2014 regular benefits 67%
- Low pre-recession reserves
  - All 13 borrowed during 2009-2011
- Washington – Largest state not to borrow
- Many big states have been slow to raise taxes
- Many big states have reduced regular benefits



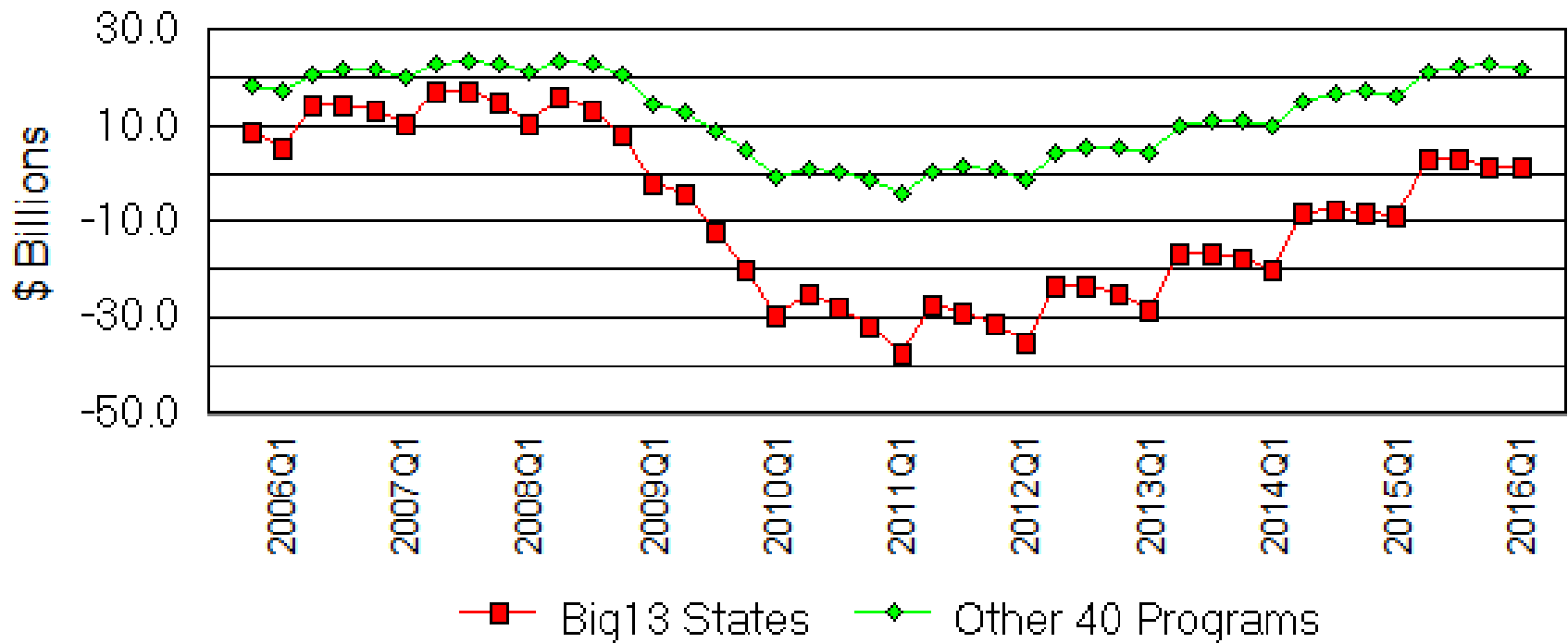
# Loans by State Size

<b>Size Rank 51 States</b>	<b>Avg. RRM Dec. 2007</b>	<b>Loans 2008- 2011</b>	<b>Treas Debt March 2014 \$Billions</b>	<b>Total Debt March 2014 \$Billions</b>	<b>Share of Total Debt March 2014 %</b>
1-10	0.23	10	16.7	24.3	80.8
11-20	0.34	9	2.5	2.7	8.9
21-31	0.61	7	1.7	2.2	7.2
32-41	0.83	5	0.1	0.7	2.5
42-51	0.68	4	0.2	0.2	0.9
U.S.	0.36	35	21.1	30.1	100.0

Size measured by employment in 2009

# Chart 3A. End-of-quarter Net Reserves

## 2005Q4 to 2016Q1



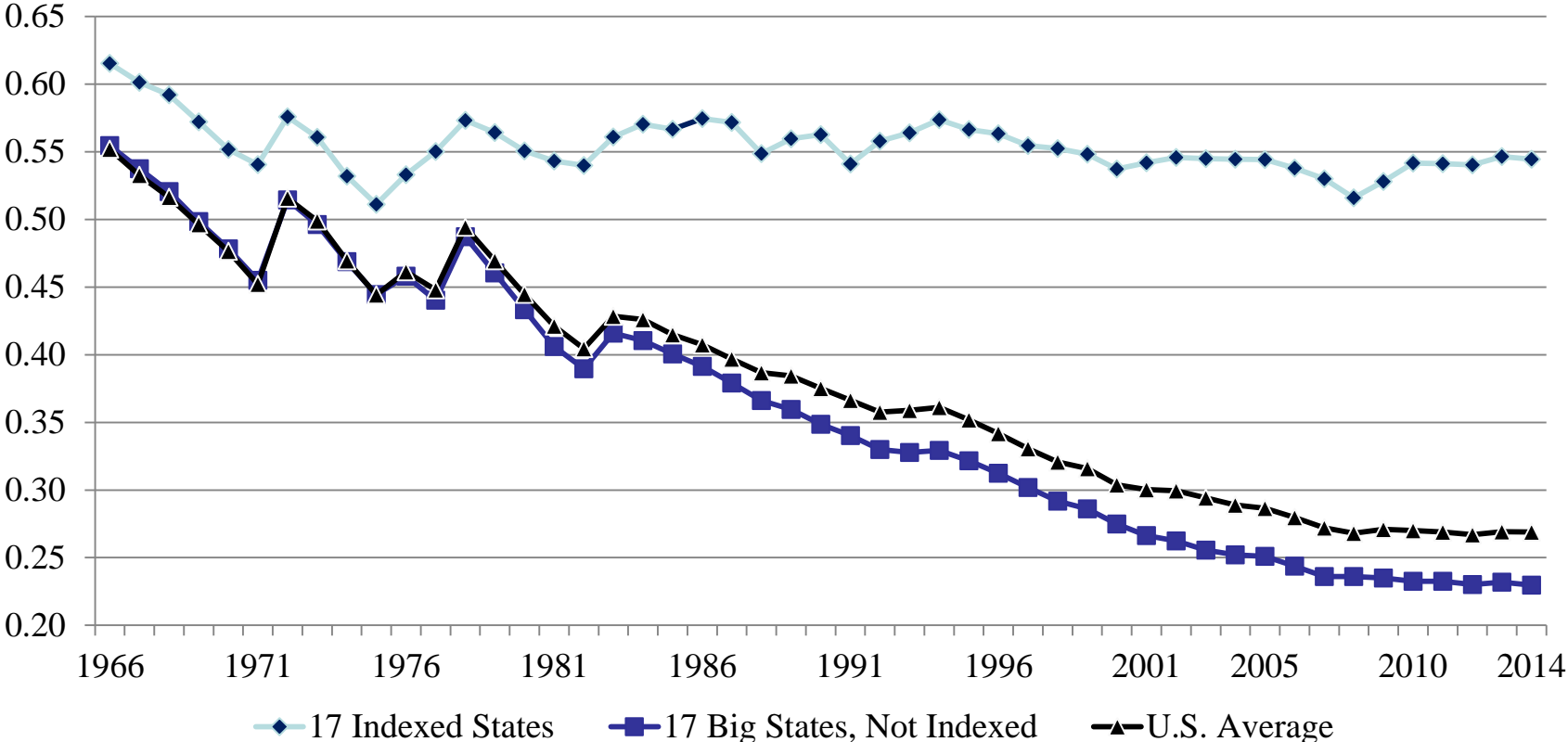
# Indexation in UI Programs

- 19 states plus the Virgin Islands have indexed taxable wage bases in 2016
  - Last adoption before 2012 - Oklahoma in 1986
  - Rhode Island reimplemented in 2012
  - Colorado implemented in 2013
  - Vermont implemented in 2015
- 28 states plus Puerto Rico and the Virgin Islands have indexed maximum weekly benefits (some frozen)
  - Most adoptions during the 1960s and 1970s
- Indexation of tax base associated with high tax bases

# UI Tax Bases in 2016

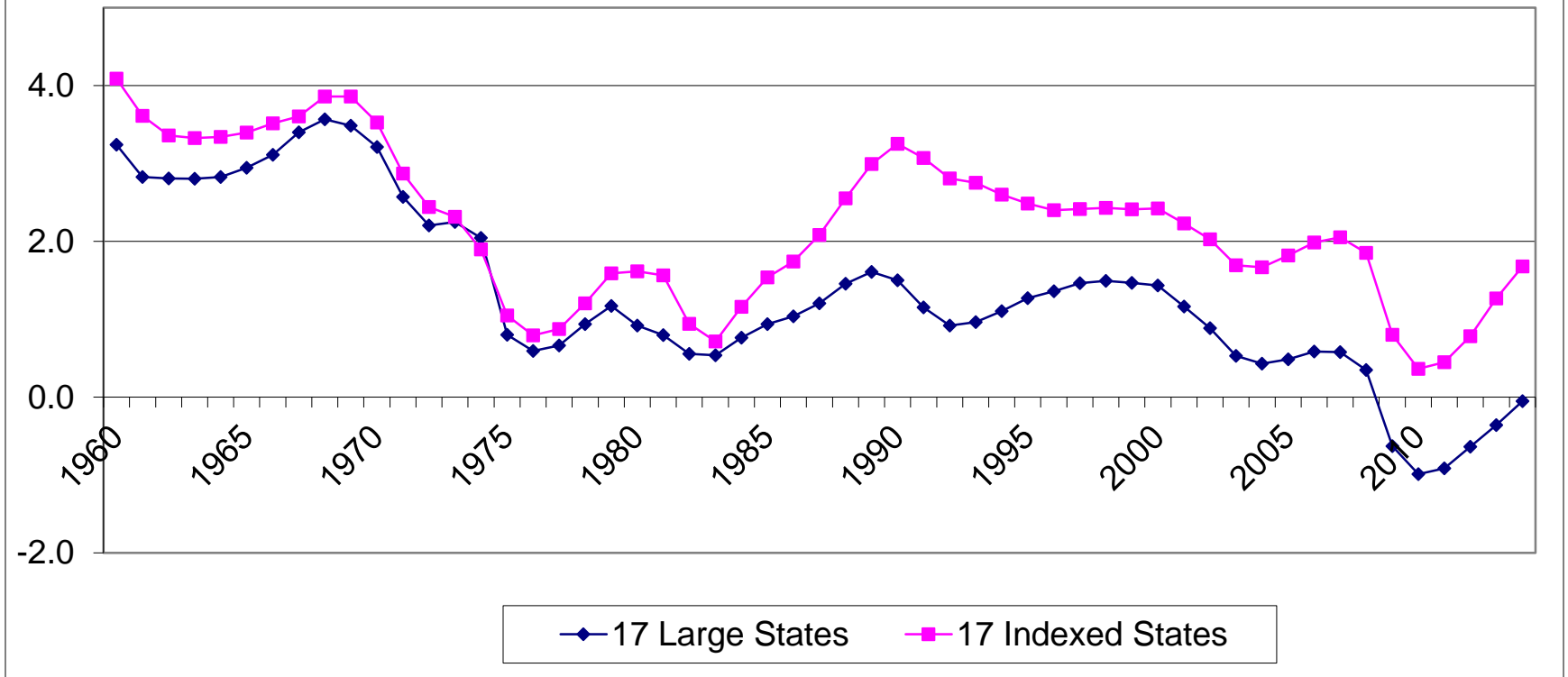
Tax Base	Indexed	Not Indexed
Above 25,000	13	0
16,000 – 25,000	5	1
10,000 – 15,000	1	15
8,100- 9,900	0	9
7,100 - 8,000	0	4
7,000	0	3
Avg. Tax Base	\$29,495	\$10,971
Number of States	19	32

# Chart 4. Taxable Wage Proportions 1966 to 2014



17 state simple averages. Rhode Island treated as indexed in all years.

Chart 5. Reserve Ratios: 17 Indexed States  
and 17 Large States, 1960 to 2015.



Reserves as a percent of payroll.  
17 state simple averages

# Indexation and Reserve Ratio Multiples – December 2007

RRM – Dec. 31, 2007	51 Programs	Non-indexed Programs	Indexed Programs
Below 0.50	30	26	4
0.50 to 0.99	14	7	7
1.00 and Above	7	2 (ME, MS)	5
Total	51	35	16
Avg. RRM	0.54	0.33	0.79

# State Size and Borrowing

	All States	20 Biggest States	31 Smaller States
All States	51	20	31
States with Loans	35	19	16
Borrowing Probability	0.69	0.95	0.52

States (of 51) with loans during 2009-2012.



# Location and Borrowing

	All States	Eastern States	Western States
All States	51	27	24
States with Loans	35	23	12
Borrowing Probability	0.69	0.85	0.50

States (of 51) with loans in 2009-2012.

# Indexation and Borrowing

	All States	Non-indexed States	Indexed States
All States	51	35	16
States with Loans	35	29	6
Borrowing Probability	0.69	0.83	0.38

States (of 51) with loans in 2009-2012.

# Borrowing Options for States

- Two broad options:
  - U.S. Treasury Title XII loans
  - Borrowing in the private securities market
    - Many instruments available in the private market
    - Instruments differ in tax treatment of interest, years to maturity, call (early redemption) features, fixed or variable interest rates and convertibility

# Title XII Loans

- Interest costs
  - Interest rate on long term Treasury instruments
  - 4.09% for 2011 debt
  - 2.94% for 2012 debt
  - 2.58% for 2013 debt
  - 2.39% for 2014 debt
  - 2.34% for 2015 debt
  - average loan balance can be minimized by daily debt management operations (borrowing and repaying to keep end-of-day balance at zero)
- No costs for daily trust fund transactions

# Private Market Instruments

- Wide range of private instruments
- Interest costs for private instruments
- Issuance costs, insurance
- Redemption costs
  - Costs to call bonds (early redemption)
  - Costs to convert bonds (from variable to fixed rate)
- Administration costs
  - Tax collections
  - Bond administration

# Limited History of Bond Issuances

- 1987 – Louisiana and West Virginia
- 1993 – Connecticut
- 2003 – Texas
- 2003-2005 – North Carolina (short term notes)
- 2004 – Illinois
- 2010 – Texas
- 2011 – Idaho, Michigan
- 2012 – Colorado, Illinois, Pennsylvania
- 2013 – Nevada, Arizona ( AZ - short term notes)

# Past Experiences

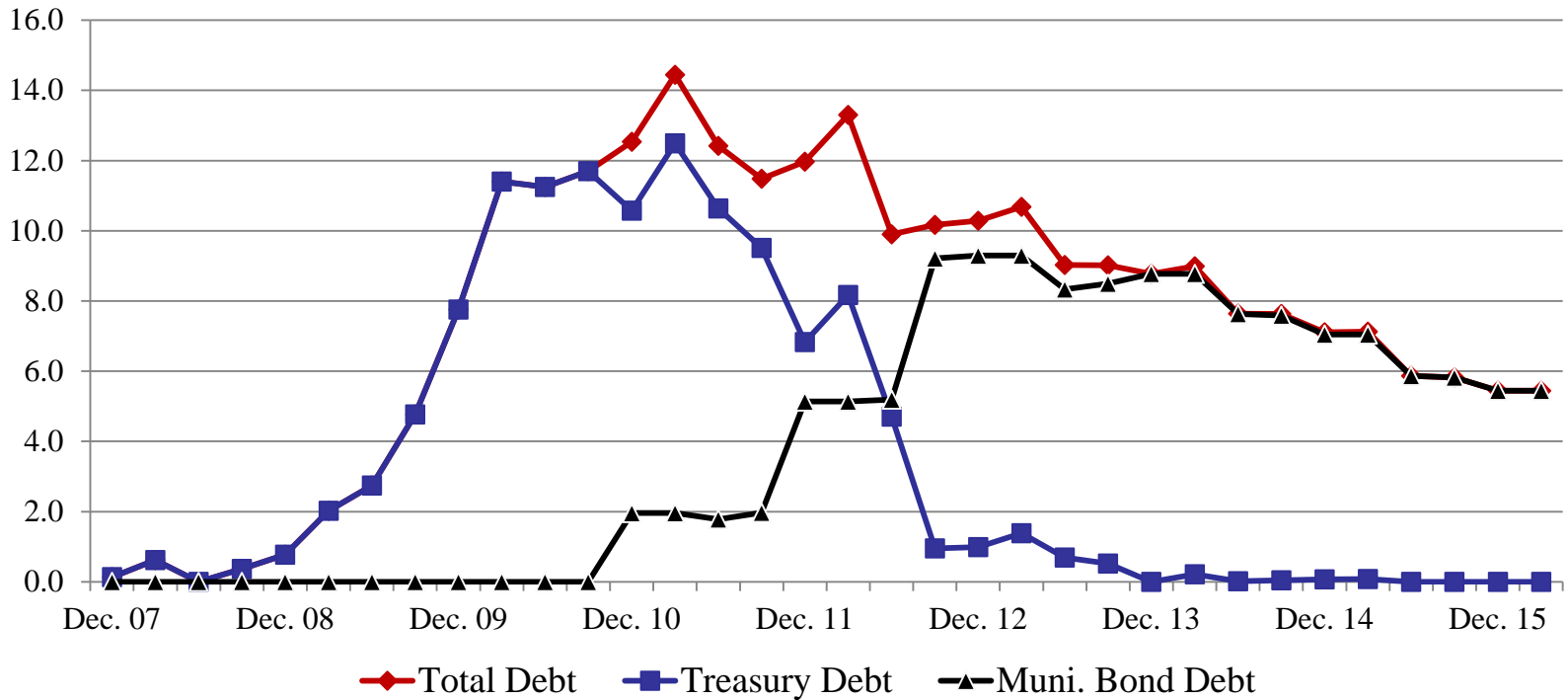
- Issuances smaller than legislative authorizations [TX 2003, IL 2004]
- Early repayment of bond principal – some bonds called early [LA 1987, WV 1987, TX 2003, IL 2004, TX 2010]
- Scale of borrowing has generally been smaller (as a percent of covered payroll) in recent years

# Recent Municipal Bond Issuances

<b>State</b>	<b>Issuance Date</b>	<b>Amount (\$mill.)</b>	<b>Loan as Pct. of Wages</b>	<b>Final Maturity Date</b>	<b>Interim Bank Loan?</b>	<b>Partly Callable ?</b>
Texas	Dec. 2010	1,960	0.47	June 2020	No	Yes
Idaho	Sept. 2011	188	1.14	Aug. 2015	No	No
Michigan	Dec. 2011	3,278	2.42	June 2020	Yes	Yes
Colorado	June 2012	625	0.72	July 2017	No	No
Illinois	July 2012	1,470	0.66	June 2020	No	Yes
Penn.	July 2012	2,829	1.46	July 2024	Yes	Yes
Arizona	Sept. 2013	200	0.22	May 2014	No	No
Nevada	Oct. 2013	549	1.29	June 2018	No	No



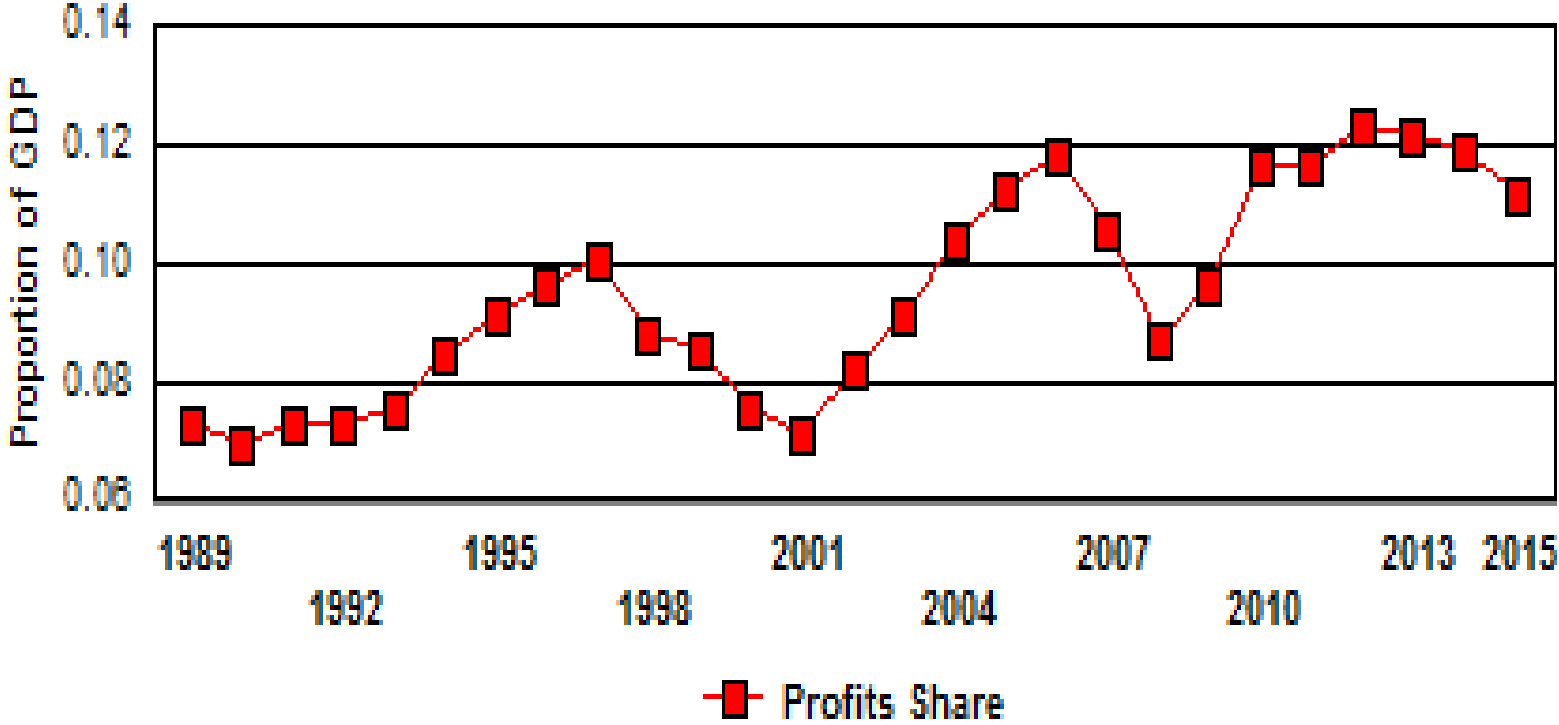
# Chart 6. Total UI Debt of Eight States December 2007 to March 2016



Eight states: AZ, CO, ID, IL, MI, NV, PA, TX  
Debt in \$ Billions

# Chart 10. Corporate Profits Share of GDP

1989 to 2015



Source: National Income and Product Accounts

# The Cost of Supplements to Wages and Salaries

- Source – BLS Survey - “Employer Costs for Employee Compensation”

Civilian workers	<u>1968</u>	<u>1988</u>	<u>1998</u>	<u>2010</u>	<u>2013</u>	<u>Dec. 2015</u>
Hourly compensation	\$3.65	\$13.79	\$19.76	\$29.71	\$31.09	\$33.58
Hourly wages	\$3.02	\$10.02	\$14.30	\$20.67	\$21.50	\$23.06

- Hourly cost of selected wage supplements

1. Health Insurance	\$0.08	\$0.78	\$1.15	\$2.48	\$2.67	\$2.79
2. OASDI	\$0.10	\$0.65	\$0.92	\$1.34	\$1.39	\$1.48
3. DB&DC Pensions	\$0.10	\$0.38	\$0.75	\$1.32	\$1.47	\$1.75
4. Workers’ Comp.	\$0.03	\$0.24	\$0.35	\$0.44	\$0.42	\$0.47
5. Medicare	\$0.02	\$0.18	\$0.23	\$0.34	\$0.35	\$0.38
6. UI Taxes(Sta+Fed)	\$0.03	\$0.15	\$0.13	\$0.18	\$0.25	\$0.22
UI taxes – Pct.	0.82	1.09	0.66	0.61	0.80	0.66
H. Ins. – Pct.	2.21	5.66	5.82	8.34	8.59	8.31