FOCUS

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Is the Unemployment Fund Job Ready?

The state's once indebted unemployment fund has made a significant recovery in recent years, rising from a negative balance of more than $1 billion at the end of 2010 to a positive one of more than $1.7 billion at the end of last year. However, to meet a federal recommendation for reserve levels, the state would have needed about $1.9 billion in 2018, according to a recent state report.

After sinking deeply into debt during the Great Recession, Wisconsin's fund for jobless benefits has built up a substantial balance. With unemployment at historic lows, the state's reserve fund has paid back a federal loan. That in turn has helped lower taxes on employers, which had risen to pay the debt and higher benefits.

What comes next for the state's jobless program? Should the first state in the nation to provide unemployment compensation further strengthen that fund or can it afford new obligations?

Time to Add Benefits?

Created in 1932, Wisconsin's unemployment system uses payroll taxes on employers to fund temporary benefits for qualifying workers who lose their job through no fault of their own. In his 2019-21 budget, Gov. Tony Evers (D) has proposed a number of changes to the program that would benefit jobless workers but may represent added commitments for the state's unemployment insurance trust fund:

• Raising the maximum weekly benefit from $370 to $406 in January 2020—the first increase since 2014. The national average is $446, according to the state Department of Workforce Development (DWD).

• Eliminating the one-week waiting period for receiving benefits. Established in January 2012, the policy has lowered benefits payments by about 5% a year, DWD reports. Forty other states have a one-week waiting period in at least some cases.

• Indexing to inflation the maximum amount (currently $500 a week) that partially employed workers can earn and still obtain jobless benefits.

How Employers are Taxed

Most Wisconsin employers pay state and federal taxes on a portion of their payroll to finance the unemployment system and jobless claims. These rates can go up or down based on: an employer's size; the claims by an employer's workers; the balance in the unemployment fund; and any state borrowing from the federal government to pay claims.

• Repealing the state's drug testing program for applicants.

• Revising rules that the unemployed accept "suitable" job offers or lose benefits.

• Narrowing the reasons for denying benefits to terminated workers from a "substantial fault" standard to cases of being late or absent at work.

• Expanding benefits to those who voluntarily leave their job because their spouse had to relocate to stay employed.

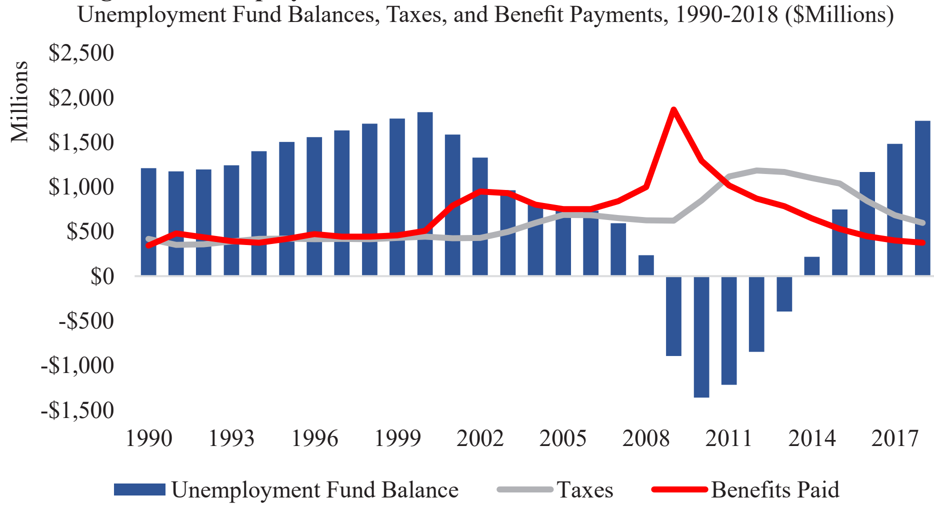
In evaluating the proposal, lawmakers may consider the financial strength of the state's unemployment fund. The current economic expansion is one of the longest on record; unemployment stands at 2.9% in the state; and payments for jobless benefits are at their lowest point since the mid 1990s. When a recession arrives, however, reserves could be needed to pay higher benefits and provide economic stimulus.

Past Debt, Challenges

Wisconsin has been caught unprepared before. From 2000 to 2010, Wisconsin's unemployment fund paid out more each year than it took in—even while the economy grew. (See Figure 1.) Without the reserves needed to pay higher claims during the Great Recession, the state had to borrow money from the federal government to do so. The fund ended 2010 with a negative balance of $1.36 billion, according to U.S. Department of Labor (DOL) figures.

The reasons for the fund's decline included sluggish job growth after the

Figure 1: Unemployment Fund Almost Recovered from Great Recession
Unemployment Fund Balances, Taxes, and Benefit Payments, 1990-2018 ($Millions)



Source: U.S. Department of Labor

2001 recession and the state's failure to adjust key parts of the unemployment system to reflect the changing economy. For example, the amount of a worker's wages subject to unemployment taxes remained at $10,500 for most of those years and was not adjusted to reflect rising incomes. In 2008, legislation was enacted to raise that taxable amount (currently $14,000) but by then another recession had begun.

To cover the higher benefits and repay more than $1 billion in federal loans, Wisconsin employers paid higher state and federal unemployment taxes. The state also used $25 million in general purpose revenue from income and sales taxes. By the end of 2014, the jobless fund had a positive balance and it is still growing. State unemployment tax collections fell from $1.19 billion in 2012 to $598 million in 2018.

On December 31, 2018, the fund had $1.74 billion in reserves—the largest year-end amount since 2000 without adjusting for inflation. The number of initial benefit payments to workers has also declined from 447,970 in 2009 to 106,770 in 2018. The state is clearly better prepared now for a recession than it was in 2007. This raises a question, however: Could more be done to prepare for another downturn?

The federal government recommends states maintain a minimum solvency level that accounts for a state's current reserves as well as the potential claims that might have to be paid in a recession. The target looks at whether the state fund would be able to cover one year of benefit payments at a rate equal to the average of the three highest claims years within the past two decades.

This solvency target should be a 1 or higher and hitting this mark may qualify states for interest-free federal loans for the program. The federal government reports that, as of January 1, Wisconsin's solvency level was .89, which was 32nd nationally and still below the DOL recommendation. Under current law the state is still building reserves and may be able to keep doing so as long as the economy remains favorable.

This invites another question: Is the state in a financial position to increase benefits? On the one hand, the public and policymakers might decide the state's relatively strong reserves allow for adding or restoring some benefits that either failed to keep pace with inflation or were reduced in prior years. Also, interest rates are low, making borrowing relatively inexpensive if it is needed. On the other hand, interest rates may rise in the future and elected officials could opt to keep building the jobless fund's balance now to avoid borrowing later.

Of the many potential compromises, one might be to link higher benefits to certain triggers such as a rising unemployment rate. Such an approach would help to ensure expanded benefits—and the reserves to pay for them—are available when they are most needed. ☐

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POLICY FORUM
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633 W Wisconsin Ave | Suite 406 | Milwaukee, WI 53203

401 North Lawn Ave | Madison, WI 53704

(414) 276-8240 | (608) 241-9789

wispolicyforum.org

info@wispolicyforum.org

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