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May 10, 2017

Major Issues Facing the Unemployment Insurance Program

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Presented to:
Senate Labor and Industrial Relations Committee
Hon. Steven Bradford, Chair

May 10, 2017

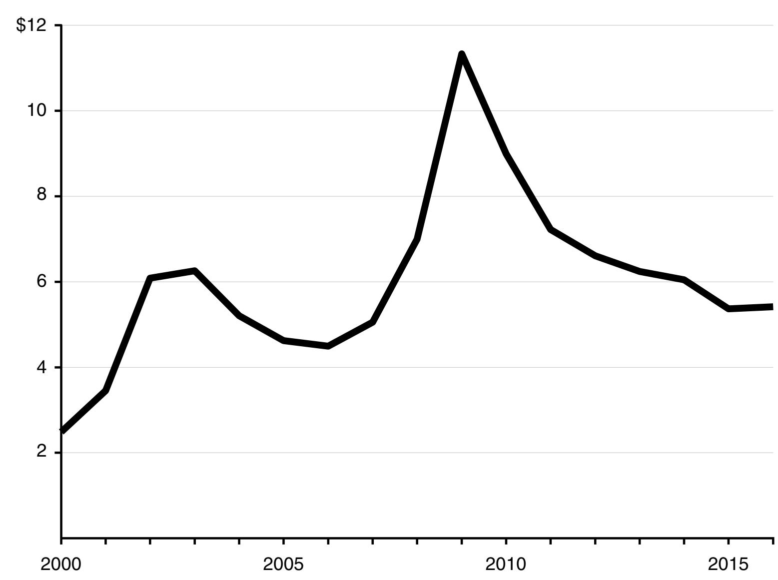
Background on the Unemployment Insurance Program

☑ ***Unemployment Insurance (UI) Program Assists Unemployed Workers.*** The UI program provides weekly benefits, funded through payroll tax contributions paid by employers, to workers who have lost their jobs through no fault of their own. The state has broad discretion to determine benefit levels and employer contributions. Under current law, weekly UI benefits are intended to replace up to 50 percent of a claimant's prior earnings for up to 26 weeks, subject to a weekly maximum benefit of $450.

☑ ***UI Program Closely Linked to Cycles of Economic Growth and Decline.*** The UI program is closely linked to cycles of growth and decline in the state's economy. During recessions, unemployment is relatively high and more people qualify for benefits, resulting in increased total benefit payments and administrative workload.

Annual State Unemployment Insurance Benefit Payments

(In Billions)



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UI Trust Fund Insolvency

- ☑ ***UI Trust Fund Reserves Ran Out in 2009, Requiring Federal Loans to Continue Paying Benefits.*** The UI trust fund exhausted its reserves in 2009 as the total amount of UI benefits paid to workers substantially increased and far exceeded revenues from employer taxes. As a result, the state has had to obtain federal loans to continue the payment of UI benefits without interruption.

- ☑ ***Current Federal Loan Balance $3.9 Billion—a Liability for Employers and the State.*** As of January 2017, California's outstanding federal loan balance was about $3.9 billion. For each year that the state carries a federal loan balance, federal UI taxes on employers increase, with the proceeds from the increased taxes used to pay down the principal of the loans. The state must make annual interest payments on the loans, using General Fund monies. For 2017-18, the interest payment is estimated to be $51 million.

- ☑ ***Federal Loan Balance Is Declining, With Estimated Full Repayment in 2018.*** The balance of federal loans has been declining since 2013 due to (1) decreased total benefits in an improving economy and (2) increased federal UI taxes on employers. Federal loans are estimated to be fully repaid in 2018.

- ☑ ***Absent Changes to UI Program's Financing and/or Benefit Structures, Fund Risks Returning to Insolvency in Future Recession.*** Assuming the loans are repaid in 2018, the UI trust fund would continue to be at risk of returning to insolvency in a future economic downturn unless ongoing changes made to increase fund revenues, decrease benefits, or a combination of both.

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UI Administration

- ☑ ***Challenges With Customer Service Following Last Recession.*** The last recession resulted in historically high levels of UI claims activity. During this period of increased workload, the Employment Development Department (EDD) struggled to process claims in a timely manner and respond to claimant inquiries. Workload challenges culminated in the fall of 2013, when problems with a partial upgrade of EDD's information technology (IT) system used to process UI benefits resulted in significant delays in benefit payments and extreme difficulty for claimants attempting to ascertain the status of claims.

- ☑ ***Reported Insufficient Federal Funding for UI Administration a Significant Underlying Issue.*** Administration of the UI program is funded primarily through a federal grant. However, EDD has reported that the federal grant has not been sufficient to adequately administer the UI program. Since 2014-15, the state budget has provided supplemental funding for UI administration from the General Fund. In connection with this increased funding, EDD committed to specific targets for improved customer service, which it generally continues to meet.

- ☑ ***Proposed Replacement of Benefits System a Significant Undertaking.*** While issues with the last upgrades to EDD's benefits IT system have been resolved, the partially upgraded system is complex and includes major components that are aging and costly to maintain. As part of the Governor's January budget proposal, EDD requested $4 million (special funds) to explore alternatives to completely replace the benefits IT system in the future. A modernized and integrated replacement for the current system has the potential to result in significant savings, but will be a significant undertaking for years to come.