States' jobless funds going 'absolutely broke'

40 state programs to be emptied by the jobless tsunami within two years
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The recession's jobless toll is draining unemployment-compensation funds so fast that according to federal projections, 40 state programs will go broke within two years and need $90 billion in loans to keep issuing the benefit checks.

The shortfalls are putting pressure on governments to either raise taxes or shrink the aid payments.

Debates over the state benefit programs have erupted in South Carolina, Nevada, Kansas, Vermont and Indiana. And the budget gaps are expected to spread and become more acute in the coming year, compelling legislators in many states to reconsider their operations.

Currently, 25 states have run out of unemployment money and have borrowed $24 billion from the federal government to cover the gaps. By 2011, according to Department of Labor estimates, 40 state funds will have been emptied by the jobless tsunami.

"There's immense pressure, and it's got to be faced," said Indiana state Rep. David Niezgodski (D), a sponsor of a bill that addressed the gaps in Indiana's unemployment program. "Our system was absolutely broke."

Give-and-take
The Indiana legislation protected the aid checks, Niezgodski said, but it came after a give-and-take this spring in which Gov. Mitchell E. Daniels Jr. (R) said the state had been providing "Rolls-Royce benefits" and several thousand union workers countered by protesting proposed cuts at the state capitol. In January, the legislature is slated to consider a bill to delay the proposed tax increases intended to refill the fund.

In Nevada, Gov. Jim Gibbons (R) and legislators have feuded over the unemployment program, which is $85 million in debt to the federal government, with Gibbons accusing the legislature of "callous disregard" for not setting a tax rate.

And last week, a state task force in Kentucky recommended cutting benefits about 9 percent and imposing a week's delay in their payment. The average benefit check there is about $309 a week. The task force also proposed raising taxes.

"There were some moments of high anxiety" during the negotiations between industry and labor groups, said Joseph U. Meyer, the state's acting secretary of education and workforce development. "But in the end, the realistic options became fairly apparent."

Two choices
State unemployment-compensation funds are separated from general budgets, so when there is a shortfall, only two primary solutions are typically considered -- either cut the benefit or raise the payroll tax.

Industry and business groups often lobby against raising the payroll tax on employers, while unions and other worker groups protest benefit cuts.

"We want to make sure Kentucky remains competitive and also maintain an environment of fairness," Meyer said of the negotiations.

Nationally, the average tax is about 0.6 percent of payroll; the average weekly check is about $300.

Not prepared
The troubles the state programs face can be traced to a failure during the economic boom to properly prepare for a downturn, experts said.

Unemployment benefits are funded by the payroll tax on employers that is collected at a rate that is supposed to keep the funds solvent. Firms that fire lots of people are supposed to pay higher rates. The federal government pays for administrative costs, and in a recession, it pays for the extension of unemployment benefits beyond 26 weeks. But over the years, the drive to minimize state taxes on employers has reduced the funds to unsustainable levels.

"The benefits haven't grown -- that's not the problem," said Richard Hobbie, director of the National Association of State Workforce Agencies.

Even so, he said, he expects to see unemployment checks reduced.

A shortfall in a state unemployment fund, he said, "usually means cuts in eligibility or benefits."

In Virginia, the unemployment program has borrowed $89 million from the federal government, while Maryland has not borrowed, according to the federal data.

Wayne Vroman, an expert in unemployment insurance at the Urban Institute, said that entering the recession, state programs were on average funded at only one-third the level they should have been, according to generally accepted funding guidelines.

"If you fund a program adequately, you don't need to come to these kinds of difficult decisions," he said.

Before the recession, he said, the funding guidelines "were rarely honored."

While the amount of the states' loans from the federal government is expected to grow rapidly, it is not expected to add to the federal debt. "In the past, the federal government has always gotten its money back," Vroman said.

Struggling to fill the gap

In the meantime, however, more states are struggling to fill the gap. West Virginia imposed a freeze on benefit levels this year, and legislators in South Carolina are considering one.

"We've obviously got problems with the fund," said South Carolina House Majority Leader Kenny Bingham (R), blaming the trouble in part on the state's unemployment rate of more than 12 percent.

The state owes about $654 million to the federal government for unemployment payments.

"We're not trying to cut benefits," he said. But "if you jack rates up, those business that are struggling to hang on, you make things more difficult."

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