



National Employment Law Project

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GET THE FACTS STRAIGHT GOVERNORS:

Unemployment Provisions of the Economic Recovery Bill Will Help Jobless Workers & Boost Local Economies – While Cutting Employer Taxes in Key States

Washington, DC – Today advocates at the National Employment Law Project challenged assertions made Friday by Governors Bobby Jindal (LA) and Haley Barbour (MS) that the American Recovery & Reinvestment Act (ARRA) of 2009 would increase employer taxes with the bill's \$7 billion in incentive funding for states to modernize their unemployment programs. Contrary to the governors' claims, the infusion of federal funds in the ARRA will lead to tax cuts – cuts that far exceed the limited cost of filling holes in the unemployment safety net. Without reforms, the Governors would withhold millions of dollars from struggling state economies and deny thousands of jobless working families help to stay afloat as the unemployment crisis deepens.

“The Governors’ argument that adopting unemployment insurance modernization reforms paid for by the recovery bill will raise taxes on employers is a red herring and just plain wrong. The incentive funds in the economic recovery bill provide an unparalleled opportunity for states to meet the needs of families struggling with job loss in today’s economy while simultaneously preventing employer tax hikes in key states,” said **Christine Owens, Executive Director of the National Employment Law Project.**

States that adopt the unemployment insurance reforms that qualify for modernization incentive funding receive millions in federal grants up front, deposited all at once in their state unemployment trust funds at the very moment the funds most need the help. In many states, this major infusion of funds will avert mandatory tax increases that would otherwise take effect as state unemployment trust funds dropped below specified levels.

In Texas, for example, the state projects that its unemployment trust fund will fall \$750 million below a mandatory minimum level in October, automatically triggering a “solvency tax” hike on employers next year to make up the gap in funding. However, if Texas makes the required reforms to modernize its unemployment program, which now provides unemployment benefits to only 20% of jobless workers in the state, it will receive \$557 million in federal funding immediately, while the benefits resulting from the reforms will cost just \$80 million a year and help more than 45,000 jobless Texans. Texas employers could pay almost \$500 million less in unemployment taxes next year as a direct result of the unemployment insurance provisions of the economic recovery bill.

Many other states that currently provide unemployment benefits to an especially low percentage of workers, including South Carolina (34% of the unemployed collect jobless benefits), Mississippi (25 percent) and South Dakota (17 percent), would also realize reductions in employer tax obligations as a result of the federal funds at the same time the reforms they implement will provide much needed help for workers who have lost their jobs but do not receive unemployment benefits because of outdated eligibility rules.

Just over one-third (37%) of unemployed workers today collect state jobless benefits. Low-wage workers are twice as likely to become unemployed as higher wage earners but only one-third as likely to collect benefits, due in large part to outdated and antiquated state eligibility rules. Over the past decade, more than half the states have taken

major steps to address inequities in their unemployment programs, updating coverage rules to take into account changes in the economy and the workplace and to help jobless workers, including many low-wage earners, part-time employees and women workers, who fall through the cracks of the unemployment system.

The ARRA takes the most innovative and effective of these state reforms and provides federal funding to enable more states to enact similar measures, ensuring that more hard-working families hit hard by the severe recession can cover their basic necessities and get back on their feet. On average, the incentive grants received by the states adopting these reforms will provide enough federal funding to pay for at least seven years of the qualifying benefits. As noted, because these funds are provided up front, they come at the very moment most states need the extra funding to help boost their unemployment trust funds.

Rising job loss and the increase in claims for unemployment benefits is straining the states' already tapped unemployment insurance trust funds, many of which were ill-prepared at the start of this recession to meet the demands of a downturn. Over the next several years, many states will have to take steps to restore the solvency of their trust funds. In most states, the limited modernization reforms adopted as a result of the economic recovery bill will not, on their own, lead to across-the-board employer tax increases. Instead, the larger forces associated with the deepening downturn, including federal loan obligations and basic tax revenue policies, will drive decisions related to tax rates. Moreover, although the ARRA does not explicitly authorize states to sunset the unemployment modernization policies that qualify for incentive funding, states that determined these reforms were too costly in the long would be free to change their laws at a later date.

“The real cost of the refusal of Governors Jindal and Barbour to accept federal monies to modernize their state UI programs will be borne by thousands of families and their communities that will go without a much-needed boost to their economies. Given that the potential for employer tax hikes is speculative at best, and offset by advantages to the states, the lost opportunity for jobless families cannot be justified,” stated Owens.

“States have a historic opportunity right now to restore fairness and equity to the unemployment insurance system, providing much-needed benefits to families struggling to get by in the face of massive job loss, stimulate the economies of communities hardest hit by the recession, and, in many cases, cut employer taxes. Now is the time for governors and state legislatures to act in the best interests of working families and their communities, fully informed of the facts,” Owens concluded.

For more on how unemployment modernizations works, view this NELP fact sheet:
http://nelp.3cdn.net/c763952a5b73e8852c_3iim6sj65.pdf

A NELP spreadsheet showing the unemployment recipient rates by state, average and maximum benefits is also available upon request.

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