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Thursday, Sep 04, 2003

Business

Posted on Thu, Sep. 04, 2003

Insurance fix could cost jobs

By George Avalos
CONTRA COSTA TIMES

California employers could face billions more a year in taxes to bail out the state's tottering system to pay unemployment benefits to people who have lost their jobs.

The higher payments to buttress the unemployment insurance system could cost up to 700,000 jobs if employers seek to chop employees as a way to offset their higher expenses, some business leaders warned Wednesday.

No final decisions have been made yet to rescue the benefits system, officials with the state's Employment Development Department said Wednesday. But higher taxes is one scenario that could be used to extricate California from the mess that threatens the jobless-benefits system, which is on the brink of insolvency.

The system could run out of money by the end of this year, or sometime in 2004, without more revenue or reduced costs. The EDD estimated that the unemployment insurance system could be \$1.38 billion in the red next year. A group of government, business, labor and academic leaders is meeting to attempt to craft recommendations for fixing the broken system.

"The reality is that these higher taxes will force more employers out of California," said Julianne Broyles, a lobbyist on employment issues for the California Chamber of Commerce. "Employers who have to face these higher costs will tend to look elsewhere to base their operations."

The chamber believes that one of the scenarios under consideration could increase taxes to employers by \$3 billion to \$5 billion a year, starting in 2005. The increased taxes could erase 310,000 to 700,000 jobs between now and 2007, according to the statewide chamber.

But EDD officials were quick to note that the state Legislature would have to actually craft a solution for the unemployment insurance quagmire.

"It's definitely a serious problem," said Michael Bernick, director of the state EDD. "At this point, we're looking at a wide range of

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options."

One option would increase the maximum level of wages on which employers could pay taxes for each employee. At present, that top amount is \$7,000 in taxes per employee. One scenario would raise the cap to \$15,000 for each employee. That would significantly boost the revenue paid into the system by employers, but business leaders argue that such a plan would also pressure their bottom lines.

"Workers should be concerned about losing their jobs or not getting hired at all," Broyles said.

Employers have proposed that state officials tighten eligibility standards and slow the increase in benefit payments to employees. But labor leaders criticized that approach.

"We don't want to go backwards," said Martha Guzman, legislative coordinator with the United Farm Workers. "We're definitely worried that benefits could be rolled back."

But business leaders criticize Gov. Gray Davis and the Legislature for dramatically increasing benefits that California workers receive when they lose their jobs. In 2001, the maximum weekly benefit was \$230, according to the EDD. Claims filed starting in 2002 topped out at \$330, a 43 percent jump. The maximum benefit went to \$370 this year, another 12 percent increase.

Carol Evans of the California Taxpayers Association worries that the unemployment system could be in serious trouble for years to come.

"The California economy is usually late to come into a recession, and then is far later than the rest of the country to come out of it," Evans said. "So the EDD is probably not overstating the problem. This hole may be deeper than anybody thinks."

George Avalos covers the economy. Reach him at 925-977-8477 or gavalos@cctimes.com.

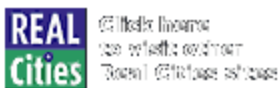
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