

UNEMPLOYMENT INSURANCE: STATE'S UI FUND DEFICIT PROJECTED TO DROP SIGNIFICANTLY, AS EMPLOYERS CONTINUE TO FOOT THE BILL

The California Employment Development Department (EDD) this week reported that the deficit in the California Unemployment Insurance Fund is projected to be \$4 billion by the end of the year, down from \$6.4 billion at the end of 2015. The EDD projects that the deficit will drop to \$1.3 billion in 2017.

The May 2016 Unemployment Insurance (UI) Fund Forecast is welcome news, considering that the fund had a deficit of \$8.6 billion at the end of 2014. However, the EDD stated that “the current financing structure leaves the UI Fund unable to self-correct and achieve a positive fund balance sufficient to withstand an economic downturn.”

California’s recent increase in the minimum wage likely will have a negative impact on the fund, the report noted. “While increases in the minimum wage are expected to impact the average weekly benefit amount awarded to those receiving a higher wage, the minimum wage increase is not expected to have a substantial effect on UI contributions, as the UI taxable wage ceiling remains at \$7,000,” the report stated.

The state’s employer-funded UI program provides benefits to individuals who have lost their jobs through no fault of their own, are actively seeking work, are able to work, and are willing to accept employment. The UI fund has been in a deficit since 2009, when the state took out a \$10 billion federal loan to make benefit payments. The state subsequently defaulted on the loan, forcing employers to pay it back in the form of a reduction in federal employment tax credits.

Every year that the loan remains outstanding, employers’ Federal Unemployment Tax Act (FUTA) credit is reduced 0.3 percent. The tax credit reductions cost employers \$1.3 billion in additional federal employment taxes in 2015, and the EDD expects employers to pay an additional \$3.8 billion cumulatively in 2016 and 2017. These additional taxes pay down California’s federal loan balance.

Employer contributions (paid on behalf of employees) for 2015 were \$5.9 billion – an increase from \$5.8 billion the prior year. The EDD projects contribution totaling \$5.8 billion per year in 2016 and 2017. The EDD said this means employers will remain on the “F+” contribution rate schedule (Schedule F plus a 15 percent surcharge) unless changes are made to the financing structure.