

## **UNEMPLOYMENT INSURANCE: EDD PROJECTS UI FUND DEFICIT TO GROW TO \$10.2 BILLION BY END OF YEAR**

California's general fund is not the only fund in the red. The state's unemployment insurance (UI) fund deficit is projected by the Employment Development Department (EDD) to grow to \$10.2 billion by the end of this year, and to \$10.3 billion by the end of 2013. The 2011 UI fund deficit was \$9.9 billion, up from the previous year's balance of \$9.8 billion. The EDD warns that the deficit will continue to grow, because the accrued interest on the outstanding loan is outpacing this financing structure.

California began borrowing money from the federal government in 2009, when it ran short on funds to pay out massive amounts of unemployment insurance benefits. That year, the state paid out \$11.3 billion in benefits, but collected only \$4.8 billion in receipts from employer contributions. Because of California's inability to pay back its loan within two years, California employers have seen their Federal Unemployment Tax Act (FUTA) credits reduced for 2012, and the credit reductions will continue and increase each year that California fails to pay back the federal loan. The FUTA credit was reduced 0.3 percent for 2012 is likely to be reduced 0.6 percent for 2013 (the credit is reduced by an additional 0.3 percent each year that the loan is outstanding).

The EDD's "May 2012 UI Fund Forecast" estimates that the FUTA credit reductions will cost California employers \$290 million in 2012 and \$580.9 million in 2013 in the form of higher federal employment taxes.

Numbers from the U.S. Treasury Department show that California's loan balance had actually declined to \$8.4 billion in May – lower than the \$9.8 billion deficit the state had at the end of 2011 – yet the EDD still forecasts that the deficit will grow to \$10.2 billion by the end of the year. This is because California's loan is repaid not only by employers' FUTA credit reductions, but employers' state employment tax payments also help to reduce the loan balance.

In April and May, California began to receive more state UI tax revenue from employers than the amount of benefits paid to claimants. This surplus revenue is applied to the outstanding federal loan. According to the EDD, this surplus trend usually occurs in the second quarter of the year, but UI benefits generally outgrow the employer contributions as the year goes on. So, the second quarter numbers make it appear that California is beginning to gain ground in paying back the loan, but the state is likely to fall behind again as the year progresses. By December, the state usually is further behind the loan repayment than it was the previous year.

California's current contribution rate schedule for employers is the "F+" schedule, which includes a 15 percent surcharge required by statute when the UI Trust Fund reserve drops below a specific amount. California will require employers to remain on this schedule for 2012 and 2013.

In addition to the UI fund deficit, the state must repay its loan from the disability insurance (DI) fund that it took out in the 2011 Budget Act. The \$303.5 million loan was

used to make the initial interest payment to the federal government on the UI loan. By law, the state must repay this loan with money from the general fund by June 30, 2016. The state plans to take out an additional loan from the DI fund for \$312.6 million to make this year's interest payment to the federal government. The second loan would be statutorily required to be repaid in five years, like the first one.

The governor's 2012-13 budget proposed a new surcharge on employers to cover the interest on the federal loan. The amount of the surcharge for each year would have been based on the EDD's projections of interest costs in the following year. The EDD estimated that the annual increased cost to employers will be between \$40 and \$61 per employee over the next few years, gradually declining as the federal loan is paid off." However, the surcharge was rejected by budget subcommittees.