

UNEMPLOYMENT INSURANCE FUND: EMPLOYERS CONTINUE TO BEAR BURDEN AS BROKEN UI FUND REMAINS IN DEFICIT

The California Employment Development Department (EDD) recently released two reports on the status of the state's Unemployment Insurance (UI) Fund and the Disability Insurance (DI) Fund, offering more bad news for California employers. The [May 2015 Unemployment Insurance \(UI\) Fund Forecast](#) and the [May 2015 Disability Insurance \(DI\) Fund Forecast](#) provide a look at the direction each fund is heading, and offer an explanation of the trends.

UI Fund Forecast

The 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, and 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 tax credit is reduced 0.3 percent. Therefore, the credit dropped 1.5 percent in 2015, and will drop 1.8 percent in 2016. The credit reductions cost employers \$1.8 billion in additional federal employment taxes from 2012 through 2014, and the EDD expects employers to pay an additional \$3 billion cumulatively in 2015 and 2016. These additional federal employment taxes pay down California's federal loan balance.

A new twist for the state's fifth-year default on the federal loan is a federal benefit cost rate (BCR) add-on, which can increase federal employment taxes even more. However, the federal government granted Governor Jerry Brown's waiver request in November 2014, and no additional burden was placed on employers. The governor likely will have to make another waiver request this November.

The Brown administration has made legislative attempts to pass along to employers the interest payments on the massive federal loan, but CalTax and the business community have been successful in blocking that idea. Interest began accruing January 1, 2011, and California has paid more than \$1.09 billion in interest since then (with \$611.7 million borrowed from the disability insurance fund in 2011 and 2012, respectively). The EDD expects the state to pay the federal government an additional \$174.5 million and \$131.6 million in interest payments in 2015 and 2016, respectively.

The EDD projects the state's UI fund deficit to drop from 2014's \$8.6 billion to \$7 billion by the end of 2015, and to \$5 billion by the end of 2016. "If changes are not made to the current financing structure, the UI Fund will continue to be in a deficit," the report states, as the "current structure leaves the UI fund unable to self-correct and achieve a positive balance."

The EDD projects unemployment levels for 2015 to be lower than they were in 2013. The number of unemployed individuals is projected to be 1.3 million in 2015, and 1.2 million in 2016. The report notes that UI regular benefit payments covered by the fund were \$6 billion in 2014, and are expected to be \$5.9 billion in 2015 and \$5.8 billion in 2016. The decline in projected benefits for 2016 is based on a projected decline in unemployment.

Employer contributions (paid on behalf of employees) for 2014 were \$5.8 billion, and the EDD projects that contributions will decrease to \$5.7 billion for 2015, and remain there for 2016. This means that the EDD will keep employers on the current “F” contribution rate schedule, plus a 15 percent surcharge, unless changes are made to the financing structure.

DI Fund Forecast

The State Disability Insurance (SDI) Program provides benefits to workers who are unable to work due to injury, illness or pregnancy. California is one of only five states that provide disability insurance for their workers. The program is funded through employee contributions via payroll withholding.

According to the EDD, the DI fund balance was \$2.9 billion at the end of 2014, and is projected to remain at \$2.9 billion at the end of 2015, with a slight spike to \$3.2 billion by the end of 2016. The projections do not take into account two separate loans, totaling more than \$611 million, taken out by the state for payment of the interest due on advances to the UI fund.

Employee contributions to the DI fund were \$5.8 billion in 2014, and are projected to drop to \$5.4 billion in 2015, before increasing to \$6.2 billion in 2016. The fluctuations, according to the EDD, are a result of fluctuations in the SDI contribution rate and the taxable wage ceiling over the next few years.

The SDI contribution rate, which is set by a statutory formula, was 1 percent for 2013 and 2014, decreased to 0.9 percent in 2015, and is projected to bounce back to 1 percent in 2016. The taxable wage ceiling for 2015 is \$104,378, and is projected to be \$108,160 in 2016.

According to the EDD, a DI fund balance ranging from 25 percent to 50 percent of the prior 12 months of disbursements is considered adequate to maintain solvency. The adequacy rate was 58 percent in 2014, and is projected to be 51 percent for 2015 and 2016, respectively. (**CalTax:** Some Capitol observers believe that with such a large surplus, the rate and taxable wage base should not increase, and some of the surplus should be funneled to the UI fund – so the funding of that program is not placed solely on the backs of employers, and so the deficit can be reduced and a reserve can be built.)

Total DI benefits, including paid family leave, are expected to be \$5.5 billion in 2015, increasing to \$5.8 billion in 2016. These amounts are up from \$5.3 billion in 2014.

Within these benefits, paid family leave is projected to be \$659.9 million by the end of 2015, and is expected to rise to \$707.3 million by the end of 2016.