

UNEMPLOYMENT INSURANCE FUND: EMPLOYERS WILL CONTINUE TO BEAR HIGH COSTS FOR BROKEN UI FUND, STATE PROJECTS

The California Employment Development Department (EDD) recently released two reports updating the current status of the state's Unemployment Insurance (UI) Fund and the Disability Insurance (DI) Fund, offering more bad news for California employers. The reports, the [May 2014 Unemployment Insurance \(UI\) Fund Forecast](#) and the [May 2014 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 state's UI program provides benefit payments 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 in order to make benefit payments, and subsequently defaulted on the loan, requiring employers to pay it back in the form of a reduction in federal employment tax credits. Every year that the loan remains outstanding, the federal tax credit is reduced 0.3 percent, and has, therefore, dropped 1.2 percent in 2014, and will drop 1.5 percent for 2015. These credit reductions cost employers \$599 million for 2013, and are projected cost them \$928.6 million for 2014 and \$1.3 billion for 2015, according to this year's UI Fund Forecast.

While the Brown administration had tried to pass along the interest payments on the massive federal loan to employers, the business community has been successful in blocking that idea. Interest began accruing January 1, 2011, and the resulting three interest payments of \$303.5 million, \$308.2 million, and \$259 million were made to the U.S. Department of Labor on September 30 in 2011, 2012, and 2013, respectively. An estimated additional \$218.5 million and \$187.3 million will be due in 2014 and 2015, respectively.

The state's UI Fund deficit is projected to drop this year from 2013's \$9.7 billion to \$8.8 billion, and again by the end of 2015 to \$7.5 billion. However, the report states if changes are not made to the current financing structure, the UI Fund will continue to be in a deficit, because the current financing structure leaves the fund unable to self-correct.

The EDD projects unemployment levels for 2014 to be lower than they were in 2013. The number of unemployed individuals is projected to be 1,473,000 for this year (182,000 lower than in 2013), and is predicted to drop again in 2015 (approximately 135,000 fewer unemployed). The 2014 unemployment levels are lower than the EDD initially projected in October, but the 2015 projected unemployment is higher than it was in October. The report notes that UI regular benefit payments covered by the fund are projected to be the same for 2014 as they were in 2013 (\$6.2 billion), with a slight drop in 2015 to \$6.1 billion. The

decline in projected benefits for 2015 is based on a projected decline in unemployment.

The report also reiterates that because of the significant deficit, the financing system cannot self-correct during better economic times, even if disbursement levels were to reach pre-recessionary levels.

The UI Fund Forecast reports that employer contributions for 2013 were \$5.7 billion (up from \$5.4 billion), and projects 2014 and 2015 contributions to remain at \$5.7 billion. 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. The rate schedule is determined by the ratio of the UI Fund balance on September 30 of the prior calendar year to total coverage wages paid the prior completed state fiscal year. The “F +15 percent” is used when the ratio is below 0.6 percent. To move up to even an “F” schedule, the ratio must be between 0.6 and 0.8 percent, and must be between 0.8 and 1.0 percent to move up to an “E” schedule.

DI Fund Forecast

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

According to the EDD’s May 2014 Disability Insurance Fund Forecast, the DI fund balance is projected to be \$3.3 billion at the end of the year, up from \$2.9 billion at the end of 2013. The report projects a drop in the fund’s balance for 2015, to \$3 billion. The fund balance 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 on to the UI Trust fund. The contributions to the fund were \$5.5 billion in 2013, and are projected to increase to \$6 billion in 2014, before dropping to \$5.6 billion in 2015. The report explains that the fluctuations in contributions are due to fluctuations in the SDI contribution rate and the taxable wage ceiling over the next few years. The wage ceiling for 2014 is \$101,636, and is projected to be elevated to \$105,040 in 2015.

The SDI Fund Forecast states that a balance that is between 25 percent and 50 percent of the prior 12 months of disbursements is considered adequate to maintain solvency. For 2013, the adequacy rate was 55 percent, and is projected to rise to 59 percent this year, before dropping to 51 percent in 2015. (**CalTax:** Some Capitol observers believe that with such a large surplus, the rate imposed on employees should remain the same, but some of the money should be funneled to the UI Fund, so that funding of that program is not solely placed on the backs of employers, the deficit could be reduced, and a reserve could be built.)

Total SDI benefits for 2014 are expected to be \$5.3 billion, a \$300 million increase over last year, and are expected rise to \$5.7 billion in 2015. Within these benefits, Paid Family Leave accounted for \$580 million in 2013, is projected to be \$623.4 million by the end of 2014, and will rise to \$677.6 million by the end of 2015. Paid family leave is part of the SDI program and allows workers to take up to six weeks of paid leave per year to care for seriously ill family members. According to the report, the projected increases in net benefits are based on projected increases in the average weekly benefit amount and SDI claims paid, and increases mostly because claimants' wages increase year to year.