

UNEMPLOYMENT INSURANCE: UNEMPLOYMENT INSURANCE FUND FORECAST STILL GLOOMY

In a new forecast, the California Employment Development Department (EDD) [projects a \\$9.7 billion deficit in the state's crippled unemployment insurance \(UI\) fund](#) at the end of 2013. The UI fund deficit was \$10.2 billion at the end of 2012. The EDD predicts that if changes are not made to the UI financing structure, the fund will not recover for quite some time – the agency projects a deficit of \$8.8 billion at the end of 2014, and \$7 billion at the end of 2015.

The EDD administers the UI program, which 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 is separate and apart from the state's general fund, and has been in the red since January 2009.

To make UI benefit payments, California borrowed \$10 billion from the federal government in January 2009. California defaulted on that loan, and under federal law, employers must foot the bill.

California employers' federal employment taxes (FUTA) have been increasing dramatically since 2012 – in the form of a FUTA credit reduction – to pay down the federal loan. The additional federal employment taxes are the same for all employers, regardless of experience, size or industry.

For each year the state's loan remains unpaid, employers' FUTA credit is reduced 0.3 percent, resulting in a federal employment tax increase. California employers paid an additional \$291 million in federal employment taxes in 2012, and will pay an additional \$603 million in 2013, increasing to \$932 million in 2014, according to the EDD.

There were 1.9 million Californians unemployed in 2012, and the EDD projects the level to slowly decrease to 1.6 million for 2013, 1.5 million for 2014, and 1.3 million in 2015.

Regular UI benefit payments totaled \$6.6 billion in 2012, down from \$7.2 billion in 2011. The EDD does not expect much change in the next three years. Regular UI benefit payments are projected to cost \$6.3 billion in 2013, \$6.3 billion in 2014, and \$5.7 billion in 2015.

While benefit payment amounts are declining from the peak of the recession, because of the significant deficit, the current financing system will not self-correct during better economic times, even if disbursement levels drop to pre-recession levels.

Click [here](#) to view CalTax's fact sheet on California's broken UI financing system.