

March 4, 2015

Major Issues Facing the Unemployment Insurance Program

LEGISLATIVE ANALYST'S OFFICE

Presented to:
Senate Labor and Industrial Relations Committee
Hon. Tony Mendoza, Chair





Unemployment Insurance Trust Fund Insolvency

- Unemployment Insurance (UI) Trust Fund Insolvent Since 2009, Necessitating Federal Loans.*** Beginning in January 2009, UI benefit payments exceeded available funds, requiring the state to obtain federal loans to continue the payment of UI benefits without interruption.
- Current Federal Loan Balance \$8.7 Billion—a Liability for Employers and the State.*** As of January 2015, California's outstanding federal loan balance is about \$8.7 billion. For each year that the state carries a federal loan balance, federal UI taxes on employers increase, with the proceeds from the increased taxes used to pay down the principal of the loan. The state must make annual interest payments on the loan, using General Fund monies. For 2014-15, the annual interest payment is estimated to be \$217 million.
- Federal Loan Balance Is Declining, With Estimated Full Repayment by 2019.*** The balance of the federal loan began to decrease in 2013 as revenues flowing into the fund exceeded benefits flowing out. This is primarily the result of (1) decreased total benefits reflecting an improving economy and labor market and (2) increasing federal UI taxes on employers. Federal UI taxes on employers will continue to increase each year until the full balance of the loan is paid. Absent other actions to reduce the balance, the loan is estimated to be fully repaid in 2019.
- Absent Changes to UI Program's Financing and/or Benefit Structures, Fund Risks Returning to Insolvency in Future Recession.*** Assuming that the loan is repaid in 2019, the UI fund would continue to be at risk of returning to insolvency unless ongoing changes are made to increase fund revenues, decrease benefits, or a combination of both.



UI Administration

- Recent Recession Resulted in Significantly Elevated UI Claims Activity.*** The recent recession resulted in historically high levels of UI claims activity. During this period of increased workload, the Employment Development Department (EDD) has struggled to process claims in a timely manner and respond to claimant inquiries about the status of claims and benefits.
- Problems With Planned Upgrade of Internal UI Processing System Resulted in Significant Delays and Diminished Customer Service.*** Workload challenges culminated in the fall of 2013, when problems with a planned upgrade of EDD's internal UI processing system resulted in significant delays in benefit payments and extreme difficulty for claimants attempting to ascertain the status of claims.
- Reported Insufficient Federal Funding for UI Administration a Significant Underlying Issue.*** Administration of the UI program has been funded primarily through a federal grant. However, EDD reports that in recent years the federal grant has not been sufficient to adequately administer the UI program.
- 2014-15 Budget Package Approved General Fund Support to Help Address Challenges.*** In June 2014, the Legislature approved additional funding (including \$47 million from the General Fund) to pay additional staff to process claims and respond to claimant inquiries. In connection with this increased funding, EDD committed to specific goals for improved customer service.
- Governor's Budget Proposes to Continue General Fund Augmentation in 2015-16.*** For 2015-16, the Governor's budget proposes to continue the General Fund augmentation for UI program administration in order to preserve the improvements in claims processing and customer service that have been achieved.