

Record Breaking Levels of Benefit Payouts – State & Employer Impact

Current Unemployment Environment

The national unemployment rate has been hovering between 9% and 10% since 2008. Individuals who are unemployed can currently receive up to ninety-nine weeks of various types of unemployment benefits. Thirty-two states have insolvent unemployment trust funds and twenty-five of those are facing possible FUTA credit reductions in 2011.

States are Attempting to Reduce the Amounts of Benefits Paid

Four states have already passed legislation reducing the number of weeks of eligibility for unemployment benefits in an effort to hold down costs. The accepted standard number of weeks of eligibility is twenty-six weeks. Michigan, South Carolina and Missouri have passed legislation reducing their standard number of weeks of potential eligibility to twenty weeks. This is a 23% reduction in the number of weeks of eligibility in these states. Arkansas has passed a bill reducing the number of weeks of eligibility to twenty-five weeks.

Florida is also considering a reduction in the number of weeks of benefits that can be paid, although nothing has yet been finalized. We feel more states will soon follow this trend.

Replenishing State Trust Funds by Increasing Taxable Wage Bases

Earlier in the year, President Obama's budget submission for Fiscal Year 2012 included a proposed increase in the FUTA taxable wage base to \$15,000 beginning in 2014. The proposed change also included a provision for permanent indexing of the FUTA wage base to future growth in wages. The current FUTA wage base of \$7,000 has not changed in nearly 30 years since it was set at this figure in 1983. In an effort to offset the cost related to the increase in the taxable wage base, there is also a provision included that would reduce the FUTA tax rate to 0.38%, which would make the net results "revenue neutral".

Although it appears the initial impact at the federal level would be small, the impact to employers at the state level could be significant. The change in the federal taxable wage base would result in individual states with current wage bases below \$15,000 following suit and increasing their wage bases to match the proposed new federal base. In 2011, there are 34 states with taxable wage bases below the proposed \$15,000 figure.

The following is an example of the potential impact on an employer at the state level, should this change take place. For an employer with an unemployment tax rate of 4.0% in a state such as California that currently has a taxable wage base of only \$7,000, the cost per employee would increase from \$280 to \$600. That represents a tax increase of \$320 (114%) per employee. And - this figure will continue to rise each year as the states keep pace with annual increases in the federal wage base due to indexing.

In the event there is no change in the taxable wage at the federal level, individual states will still continue to look at this issue as a means of replenishing depleted trust funds. As the level of available funds continues to decrease, we will certainly see new and creative ways to pay for these benefits.

TALX's experience, expertise, and proven results help employers navigate the uncertainty of the unemployment insurance system. For additional information regarding this article or other proactive unemployment cost management techniques, please contact Pete Krieshok at 314-214-7325, or by e-mail at pkrieshok@talx.com or visit our corporate blog at <http://blog.talx.com>.