Ideas in Action

Florida TaxWatch

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Ideas in Action is a public forum to present discussion in vital issues affecting the economy, public policy, and concerns that touch the lives of many Floridians. The opinions expressed in this Ideas in Action are those of the authors and do not necessarily reflect those held by the members, staff, or the distinguished Board of Trustees of Florida TaxWatch.

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Money for Unemployment Compensation from the Federal Economic Stimulus
Take it or Leave it?

Pro

by

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with assistance from **Michael Walsh**

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Florida's businesses and workers are both struggling during this time of severe economic stress. As of January 2009, Florida's unemployment rate was 8.6%[1] leaving more than 800,000 people unemployed out of a workforce of 9.3 million.[2] It is anticipated that the state's unemployment rate may increase to a peak of 10% or higher before it declines.[3] As of March 2009, there were 290,000 laid off workers receiving state Unemployment Compensation benefits, and another 106,000 receiving the federal extension benefits. However, under current law, an estimated 83,000 of them will lose their eligibility for all benefits by the end of June 2009.[4] Florida also has numerous part-time workers, especially seasonal workers and women, who were laid off from low wage jobs and who are still unemployed. The majority of them receive no benefits from the Unemployment Compensation program, due to the manner Florida uses to establish eligibility.

The Unemployment Insurance Modernization Act (UIMA) is part of the American Recovery and Reinvestment Act (economic stimulus bill) and it provides substantial economic incentives for Florida to

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by

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Thanks, but No Thanks

In the best interest of the Florida economy, the state should decline the portion of the federal stimulus money for unemployment compensation that is conditional upon Florida public policy changes that Congress demands of the states.

In order to obtain much of the federal stimulus money for unemployment compensation, Florida would be required to adopt policy changes that would undermine the long-term financial stability of Florida's unemployment compensation system.

One shot of short-term money resulting in the long-term financial insecurity of Florida's unemployment compensation system. No deal.

Not out of spite: Unemployment Compensation funds flowing into the Florida economy will generate commerce as those dollars are spent back in the economy. But at some point, the cycle needs to be

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further assist unemployed workers with a $443 million grant. To receive $148 million of these funds, Florida must change its eligibility policy to what is called the "alternative base period," which includes consideration of the person's earnings in the month of application in the "look back period."

Another $295.9 million is available if Florida also elects to provide benefits in <u>at least two</u> of the following four situations: 1) part- time workers denied benefits because they are required to seek full -time work; 2) individuals who leave jobs due to compelling family situations such as domestic violence; 3) workers with dependent family members qualifying for state benefits, but whose benefits should be increased to help care for dependents; and 4) permanently laid-off workers requiring extra unemployment benefits to participate in training. Finally, the American Recovery and Reinvestment Act temporarily provides an option for states to extend benefits for those people who are still jobless after exhausting the benefit period and provides for the federal government to pay the full cost. In addition, all states will receive funds to support an increase of $25 per week to eligible unemployed workers.

Should Florida elect to enact these reforms? The Center unequivocally believes the answer is yes and offers three primary reasons. First, the federal dollars are sufficient to meet the increased costs associated with the reforms. The "alternative base period" provision is estimated to cost $45.2 million annually and will provide much needed financial assistance to over 27,000 workers who have been laid off.[5] If Florida elects to cover part-time workers and extend benefits to workers leaving jobs for family reasons, the annual cost is estimated to be $26.3 million and will provide assistance to over 12,000 people.[6] Providing extended benefits will cost the state very little, including some minor administrative costs (Florida is already receiving $31.7 million from the federal government for administration), and will benefit 83,000 people about to lose their benefits in June as well as thousands more who will qualify for extended benefits thereafter. Extended benefits for state and local public employees will cost the state somewhere between 3.5% and 6% of the benefit costs; however, Florida may elect to end the provision in December 2009 to minimize its cost exposure. [7]

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broken and businesses need to be unencumbered to get back to what they do best – employ Floridians.

The Unemployment Compensation system is 100 percent funded by a tax on employers. Despite Florida's unemployment numbers above the national average, Florida's Unemployment Compensation fund is, at this time, staying afloat.

Projections do tell us, however, that the tax rate on Florida businesses will have to increase this year. In a recent meeting of business and community leaders, there was a quick consensus to support a tax rate increase in order to keep Florida Unemployment Compensation funds adequate to meet expected needs.

Federal stimulus money or not, unemployment taxes will be going up, probably this year, and the Florida business community will meet its obligations.

Portions of the federal stimulus package, such as an additional $25 weekly benefit, and an extension of the duration of benefits, do not have strings attached, and would not affect the stability of the Florida Unemployment Compensation fund.

Great. Send that money.

Other chunks of stimulus money would require that Florida make permanent policy changes, significantly increasing the long-term costs of the Unemployment Compensation system, such as increased benefits for persons with dependant family members, allowing workers to draw benefits when voluntarily quitting their job, and allowing workers to declare their past wage earnings (upon which their benefits are calculated) without documentation. These are all public policy changes that the business community would oppose for good reasons in the best of times, and are certainly changes that NFIB and the business community will not support at a time when we are already contemplating increased unemployment compensation taxes.

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Second, the provision of financial assistance to workers who have lost their jobs is appropriate and will actually be beneficial to the economy and the businesses struggling to survive in this fiscal crisis. A U.S. Department of Labor study found that for every dollar paid in jobless benefits there is a $2.15 impact on the economy.[8]

Third, the additional coverage and benefits connected to the federal stimulus bill will not appreciably affect an increase in Unemployment Compensation taxes paid by businesses. Although an increase should be expected, there are other more influential factors. Primarily, the overall trend in business layoffs and closures is much more likely to cause such an increase.

Instead, the federal dollars linked to these reforms will partially replenish the trust fund for Unemployment Compensation, especially relative to the associated cost and overall economic benefits. The factor that will be responsible for "triggering" an increase in business taxes for the program will be the overall economic crisis, not the adoption of reforms required by UIMA. The balance in the Unemployment Compensation trust fund is already characterized as insufficient by some state officials, and therefore an across the board tax increase may be required. In addition, the "experience rate" of some businesses that layoff significant numbers of employees will increase, affecting a tax increase for them in addition to any across the board increase that is "triggered" by depletion of the overall trust fund. Regardless, businesses will pay a higher tax for the Unemployment Compensation trust fund within the next two years, but the funds provided by the UIMA will act to reduce that tax burden.

For more background, it should also be noted that Florida's benefit amount in the Unemployment Compensation program is very low. In the fourth quarter of 2008, Florida's average weekly benefit amount was $237.24, which ranked as the seventh lowest in the nation including Washington, DC. The national average weekly benefit amount was $299.64.[9]

Not only are the benefit levels low compared to other states, but the Unemployment Compensation tax rate paid by Florida employers is also very low. In the second quarter of 2008, Florida's average Unemployment Compensation tax rate was .31% of total wages, ranking the state as the fourth lowest (tied with Arizona and Texas) in the nation including Washington, DC. The national average tax rate was .62% of total wages or twice the rate experienced by businesses in Florida.[10]

Finally, it should also be understood, that if the state decides at a later point to repeal these provisions, it can do so without penalty from the federal government and with the recognition that thousands of laid off workers have received much needed financial help during a period of unparalleled economic struggles for families, businesses and government.

Endnotes

1 Florida Agency for Workforce Innovation Press Release March 6, 2009.

2 *Ibid*.

3 Office of Economic and Demographic Research, "Florida: An Economic Overview," March 16, 2009.

4 http://workforcesecurity.doleta.gov/unemploy/wkclaims/report.asp. And National Employment Law Project calculations based on http://wwww.dol.gov/opa/media/press/eta/ui/current.htm Floridians have represented 7.3% of inflow into the program, so NELP estimates that they represent 7.3% of the current caseload.

5 *Ibid.*

6 *Ibid.*

7 U.S. Department of Labor Annual Data, Handbook394,http://workforcesecurity.doleta.gov/unemploy/hb394.asp

8 "Unemployment Insurance as an Economic Stabilizer: Evidence of Effectiveness over three Decades", Chimerine, Lawrence. et. al, Washington, DC.

9 U.S. Department of Labor, Employment and Training Administration, UI Data Summary.

10 *Ibid.*

About Florida TaxWatch

Florida TaxWatch is a statewide, non-profit, non-partisan taxpayer research institute and government watchdog that over its 30-year history has become widely recognized as the watchdog of citizens' hard-earned tax dollars. Its mission is to provide the citizens of Florida and public officials with high quality, independent research and education on government revenues, expenditures, taxation, public policies, and programs, and to increase the productivity and accountability of Florida Government.

Florida TaxWatch's research recommends productivity enhancements and explains the statewide impact of economic and tax and spend policies and practices on citizens and businesses. Florida TaxWatch has worked diligently and effectively to help state government shape responsible fiscal and public policy that adds value and benefit to taxpayers.

This diligence has yielded impressive results: in its first two decades alone, policymakers and government employees implemented three-fourths of Florida TaxWatch's cost-saving recommendations, saving the taxpayers of Florida more than $6.2 billion -- approximately $1,067 in added value for every Florida family, according to an independent assessment by Florida State University.

Florida TaxWatch has a historical understanding of state government, public policy issues, and the battles fought in the past necessary to structure effective solutions for today and the future. It is the only statewide organization devoted entirely to Florida taxing and spending issues. Its research and recommendations are reported on regularly by the statewide news media.

Supported by voluntary, tax-deductible memberships and grants, Florida TaxWatch is open to any organization or individual interested in helping to make Florida competitive, healthy and economically prosperous by supporting a credible research effort that promotes constructive taxpayer improvements. Members, through their loyal support, help Florida TaxWatch bring about a more effective, responsive government that is accountable to the citizens it serves.

Florida TaxWatch is supported by all types of taxpayers -- homeowners, small businesses, large corporations, philanthropic foundations, professionals, associations, labor organizations, retirees -- simply stated, the taxpayers of Florida. The officers, Board of Trustees and members of Florida TaxWatch are respected leaders and citizens from across Florida, committed to improving the health and prosperity of Florida.

With your help, Florida TaxWatch will continue its diligence to make certain your tax investments are fair and beneficial to you, the taxpaying customer, who supports Florida's government. Florida TaxWatch is ever present to ensure that taxes are equitable, not excessive, that their public benefits and costs are weighed, and government agencies are more responsive and productive in the use of your hard-earned tax dollars.

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