

Bill Analysis: Senate Bill 447 (LC 36 2103-EC)

Senate Bill 447 Cuts Unemployment Benefits for Georgia Workers

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Overview

More than a decade of employer tax cuts left Georgia unprepared for a recession and high unemployment. Starting in 2000, state legislators, governors, and the former Commissioner of the Georgia Department of Labor gave tax breaks to employers, even during strong economic times, which dramatically reduced the unemployment insurance (UI) system's reserves and left it inadequately prepared for the recent recession.

- In 1999, Georgia's unemployment trust fund balance was nearly \$2 billion.
- From 2000 to 2003, the balance fell to \$703 million, due to decreased revenue collections during the "Unemployment Insurance Tax Holiday", when most employers paid no state unemployment tax, and due to the increased unemployment payments from the 2001 recession.
- From 2004 forward, Georgia passed legislation to suppress automatic tax rate increases, also known as surcharges, triggered when the health of the unemployment trust fund was weak. The automatic surcharge from 2003 to today should have been 100 percent but was suppressed by legislation that gave the Georgia Commissioner of the Department of Labor sole discretion for imposing a surcharge, *capped at 35 percent* until 2011 (raised to 50 percent in 2012).
- By December 2009, Georgia's unemployment trust fund balance was \$0.
- Prior to leaving office, former Commissioner Thurmond imposed the 35 percent surcharge in 2011, for the first time. That 35 percent surcharge continued into 2012.

Table 1 Georgia Unemployment Trust Fund History

Year	Georgia UTF Balance	State-Wide Reserve Ratio	Minimum State UI Tax Rate	Maximum State UI Tax Rate
1999	\$1.96 billion	1.93	0.04%	5.40%
2000	\$1.90 billion	1.73	0%	5.40%
2001	\$1.54 billion	1.37	0%	5.40%
2002	\$1.25 billion	1.13	0%	5.40%
2003	\$703 million	0.63	0%	5.40%
2004	\$870 million	0.75	0%	5.40%
2005	\$1.12 billion	0.89	0%	7.02%
2006	\$1.27 billion	0.96	0.03%	6.21%
2007	\$1.28 billion	0.92	0.03%	5.40%
2008	\$910 million	0.66	0.03%	5.40%
2009	\$0	0	0.03%	5.40%

Sources: U.S. Department of Labor, Employment and Training Administration Handbook 394. UI State Tax Rates from U.S. DOL, ETA, Office of Workforce Security - Significant Provisions of State UI Laws, except the 1999 rates from National Employment Law Project and the 2000 and 2001 rates based on author interpretation of Senate Bill 222. Note: State-wide Reserve Ratio is calculated every June 30 (the unemployment trust fund balance including accrued interest divided by the total covered wages paid in Georgia during the previous calendar year). Most experts agree that an ideal pre-recession reserve ratio is at least 2.00. Prior to the suppression legislation, Georgia's automatic surcharge of 100 percent would be triggered by a State-Wide Reserve Ratio of less than 1.00.

As a result, Georgia borrowed \$721 million from the federal government from December 2009 through December 2011 and has borrowed an additional \$15.7 million so far in 2012, to continue meeting its obligation to pay state UI benefits.

The financing of Georgia's UI system is outdated and imbalanced. Employers pay state UI tax only on each of their workers' first \$8,500 in wages (the same taxable wage base as 1990) and 30 to 40 percent of employers pay just \$2.87 per employee per year. Secondly, Georgia's unemployment benefits already rank near the bottom. Less than one in four Georgia jobless workers receive state UI benefits and these weekly benefits replace only about one-third of an average worker's weekly wage, for an average of just three months.

SB 447 seeks to address the challenge of repaying Georgia's federal loan by making drastic UI benefit cuts and making small changes to the funding of Georgia's unemployment trust fund.

What the Bill Would Do

Overall, SB 447 reduces benefits to the unemployed in two ways. If passed, SB 447 would:

- Impose a waiting week, which in essence eliminates one week of UI benefits for half of all recipients; and
- Reduce the number of weeks a person could receive UI benefits. The maximum duration of UI benefits would change to a sliding scale of 12 to 20 weeks from 26 weeks. This would be less than any other state in the country.

With regard to Georgia's unemployment trust fund and the outstanding \$736.7 million loan from the federal government, SB 447 would:

- Continue to suppress the automatic state UI tax rate that would be in place, by capping the surcharge at 50 percent. This would reflect a small increase in the optional surcharge of 35 percent now in place and make the 50 percent surcharge mandatory until the federal loan is repaid and the balance in Georgia's unemployment trust fund is \$1 billion.
- Raise the taxable wage base to \$9,500 from \$8,500 in 2013, after 23 years (Table 2).

Table 2 Georgia's Taxable Wage Base History

Period	Number of Years	Georgia Taxable Wage Base
1976 - 1982	7	\$6,000
1983 - 1985	3	\$7,000
1986 - 1989	4	\$7,500
1990 - 2012	23	\$8,500
2013 -		\$9,500

Program Cost

A fiscal note for SB 447 has not been released; however, the Georgia Department of Labor (DOL) estimates the total annual reduction in UI benefits to be:

- \$36.1 million for the waiting week and
- \$156.1 million for cutting the maximum number of weeks from 26 to 20 weeks.

Georgia DOL has not released figures for the funds raised by imposing a 50 percent surcharge (up from 35 percent) and increasing the taxable wage base to \$9,500. However, an employer who paid \$2.87 per employee in state UI taxes for 2012 would pay \$3.56 per employee in 2013.

Policy Considerations

SB 447 proposes cutting UI benefits to correct for more than a decade employer tax breaks that took \$3 billion from Georgia's Unemployment Trust Fund.

SB 447 will hurt Georgia families and local economies. UI protects workers laid off through no fault of their own. It is especially important today, when there is only one job available for every 5 unemployed workers.

In nearly all states, workers receive a maximum of 26 weeks. Now is the worst time for Georgia to fall behind this standard. According to Georgia DOL, approximately 125,000 additional Georgia families could be cut off from benefits under this change before they can find a new job. The average unemployed worker nationally has looked for work for about 40 weeks. Imposing a waiting week would mean laid off workers would get no benefits during the first week of unemployment. Furthermore, unemployed workers *already* wait a few weeks to get their first check, a difficult burden for families who have just lost a primary source of income.

UI benefits are proven to boost the economy during hard times. The non-partisan Congressional Budget Office estimated that each \$1 of unemployment payments generates up to \$1.90 in economic growth because jobless workers continue to pay rent, buy groceries, and meet other basic needs.

Georgia should protect UI benefits (that already rank low compared to other states) and update its state unemployment insurance tax system to be reasonable, fair, and predictable by:

- 1. Broadening the tax base by raising the taxable wage base to be more reflective of the growth in average annual wages and to be more in line with other states.**

Raising the taxable wage base to \$9,500 is a good start but is not sufficient. The Georgia taxable wage base would be greater than \$16,000 had it been adjusted annually for growth in the annual average wage. Today, 38 states have a higher taxable wage base than Georgia and 17 increased theirs in 2011. Most southern states have a higher taxable wage base than Georgia and higher effective tax rates.

- 2. Raising minimum employer state UI tax rate.** Every employer should pay their fair share. The state should examine broadening the base by raising the minimum (e.g., to one percent).