GBPI Georgia Budget & Policy Institute

Fact Sheet

Bill Analysis: House Bill 347 (LC 36 2204S/CCR) Formerly SB 447

HB 347 Reduces Unemployment Benefits for Georgia Workers to Repay Federal Loan

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Overview

Laid-off Georgians will lose their state unemployment benefits faster, while employers will get a permanent cut in their unemployment insurance (UI) obligations under the General Assembly's plan to repay a large federal loan to the state's unemployment trust fund. The new law means struggling families will bear most of the burden for repaying the $746.8 million loan. Lawmakers reduced the maximum number of weeks jobless Georgians can receive benefits to among the lowest in the nation, tying the maximum weeks to a statewide average jobless rate despite the fact that unemployment can vary greatly by county. The legislation (HB 347, formerly SB 447), signed into law by Governor. Deal, only modestly raises one portion of the employer contribution to Georgia's unemployment trust fund while handing employers a much larger permanent tax cut that will deprive the fund of more than $400 million in 2013. Georgia had to borrow money to cover its unemployment insurance obligations in the first place because more than a decade of employer tax breaks had drained more than $3 billion from the unemployment trust fund. Reducing benefits will take more money out of Georgia's economy at a time when unemployment remains high and could force additional families into more expensive assistance options.

Note: The language from SB 447 was placed in a stripped out version of HB 347 to address the Legislative Counsel's concern that SB 447 would violate the Georgia Constitution's requirement that revenue bills originate in the House of Representatives.

What the Bill Does

For Unemployed Georgians (effective July 1, 2012):

Reduces Maximum Weeks of Benefits

The new law reduces the maximum number of weeks laid-off Georgians can receive unemployment insurance to help them pay bills, feed and clothe their families, and cover other obligations while they look for another job. The maximum will be 14 to 20 weeks – depending on the state's unemployment rate, with benefits lasting longer the higher the rate is – instead of the current 26 weeks. Georgia joins Florida as the only two states that vary the maximum benefit weeks based on the state's unemployment rate. While Florida's law provides up to 23 weeks of benefits during periods of high unemployment, Georgia's maximum will be 20 weeks even if the state unemployment rate is above 9 percent.

In its first year alone, the new law is expected to cost 160,000 laid-off Georgians up to $160 million in lost benefits, according to the state Department of Labor. That translates into a loss of $260 to $1,820 for an eligible laid-off worker, depending on the number of weeks of benefits the UI recipient loses under the new law.

Note: The Georgia DOL estimated that in March 2012 (verified in August 2012), using 2011 data, an average weekly benefit of $260 and an unemployment rate that would trigger 19 weeks as the maximum weeks effective July 1 2012 - estimated that 160,000 Georgians would have been potentially eligible for 20 to 26 weeks under existing law. Those eligible for 26 weeks would experience a loss $1,820 (7 weeks of $260), those eligible for 25 weeks would stand to lose $1,560 (6 weeks of $260), and so forth. The GA DOL estimated total potential reduction in benefits, summing up the total lost weeks of benefits, was $160 million.

For Employers (effective January 1, 2013)

Permanently Decreases the Employer Tax Surcharge

The new law permanently lowers the automatic 100 percent surcharge applied to employer tax rates employers by capping it at a maximum of 50 percent.

- The bill applies the 50 percent surcharge each year until the $746.8 million loan is repaid.
- The automatic 50 percent surcharge continues until the unemployment trust fund balance is $1 billion.
- After that, the Georgia Commissioner of Labor has the discretion to impose a surcharge up to a maximum of 50 percent based on the health of the unemployment trust fund.

For 2013 alone, replacing the automatic 100 percent surcharge with HB 347's approach is estimated to cost the unemployment trust fund more than $400 million in forgone revenue.

History of the Employer Surcharge

Since 2000, state legislators, governors, and Georgia Department of Labor (DOL) commissioners gave tax breaks to employers over multiple years, often during strong economic times, which dramatically reduced the unemployment trust fund's reserves and left it without enough money to cover obligations when the Great Recession hit.

- From 2000-2003 Georgia employers enjoyed the largest UI tax break in U.S. history, during which most employers paid no state UI taxes. However, this "UI tax holiday" law (SB 222) included a provision to ensure the unemployment trust fund would stay solvent. The provision relied on a measure, the State-wide Reserve Ratio, to check the health of the unemployment trust fund and determine when and by how much to automatically increase employer tax rates.

  If the State-wide Reserve Ratio was at or below 1.25, the UI tax holiday would be null and void. This measure fell below 1.25 in 2002, which should have ended the UI tax holiday and automatically increased employers UI tax rates in 2003. However, Georgia lawmakers passed new legislation in 2002 to ignore this trigger and continue the UI tax holiday from January 1, 2003 through December 31, 2003.

- Since 2003, policymakers continued to pass legislation to temporarily squelch employer state UI tax increases that would build back the reserves. In 2003, Georgia enacted legislation (SB 167) that suspended the automatic employer surcharge, which is an increase in state UI tax rates for all employers, unless the State-wide Reserve Ratio was less than 1 percent, at which point the Georgia Commissioner of Labor could impose a discretionary surcharge of up to 35 percent. Legislation was subsequently passed to continue this provision through 2012 (raising the maximum discretionary surcharge to 50 percent in 2012).

Each year the surcharge was suspended, from 2003 to 2011, the employer tax break amounted to approximately $300 to $400 million. These revenues could have been used to build up the unemployment trust fund during good economic times to avoid borrowing from the federal government.

Modestly Raises the Taxable Wage Base

Beginning in 2013, employers will pay state UI taxes on each employee's first $9,500 in wages, a modest $1,000 increase that will generate an estimated $105 million in extra money for the trust fund. The average taxable wage among other southern states is approximately $11,000.

Table 1 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

Cost

There is no fiscal note available for HB 347 (or SB 447); however, an estimated 60 percent of the revenue generated by the new law will come at the expense of laid-off Georgians (Table 2), based on data provided by the Georgia DOL to the Georgia Budget & Policy Institute during the 2012 legislative session.

Table 2 Allocation of Revenue Generated by House Bill 347

	Fiscal Impact for 2013 (Estimate)	Percent of Total Funds Generated
Reduction in State UI Benefit Weeks	$160 million (cost savings)	60 %
Increase in State UI Taxable Wage Base	$105 million (revenue generated)	40 %

Note: The $160 million cost savings is an upper bound estimate since it represents the loss of benefit weeks under HB 347 for all the unemployed Georgians who would have been eligible for 20 to 26 weeks under existing law. unemployed Georgians who would have been eligible for 20 to 26 weeks under existing law.

This is a conservative estimate because it does not include the impact of not allowing the surcharge to increase to 100 percent in 2013. Permanently lowering the surcharge to 50 percent will cost the unemployment trust fund more than $400 million in forgone revenue. If the surcharge were allowed to operate as intended, the trust fund debt would likely be repaid much faster.

Policy Considerations and Recommendations

Georgia's UI financing system is inadequate, unbalanced, and out of step with other states. In 2011, employers in Georgia paid less in unemployment taxes than almost any other state in the country. Georgia ranked 48th in the U.S. in the effective unemployment tax paid on total wages.

In 2012, one third to 40 percent of Georgia employers will pay just $3.19 per employee per year, a total of just $1 million of the $810 million in overall employer contributions. Under the new law, these same employers will increase their contributions by only 38 cents per employee in 2013.

At the same time, HB 347 significantly cuts UI benefits. State UI benefits are the safety net for workers who are laid-off through no fault of their own. The maximum number of weeks UI recipients can receive benefits is reduced and tied to a state average unemployment rate, regardless of significant variation in unemployment by county. For example, Hancock County's unemployment rate was 17 percent in January 2012, while Oconee County's was 5.9 percent.

Forty-four other states provide a maximum of at least 26 weeks of benefits for eligible laid-off workers. Now is the worst time for Georgia to fall behind that standard. In Georgia, there is only one job available for every five unemployed workers. The average unemployed Georgian is out of work for more than 40 weeks, and federal benefits that helped extend the safety net for jobless workers will expire at the end of 2012.

The reductions will hurt Georgia families and local economies. UI benefits help local economies during hard times. Each $1 of unemployment payments generates up to $1.90 in local economic growth because jobless workers are able to continue paying rent, buying groceries, and meeting other basic needs – typically in their community, according to the non-partisan Congressional Budget Office.

Rather than asking unemployed Georgians to bear the most burden for bailing out the UI trust fund, a better approach would be to:

1. **Restore the maximum weeks of state UI benefits back to 26 weeks.**
   The maximum 26 weeks of state UI benefits should be restored when the federal loan is repaid and the trust fund balance is $1 billion, if not sooner. This historic maximum is maintained by 44 other states. Georgia's UI system has a financing problem, not a spending problem. HB 347 applies a *temporary* 50 percent surcharge to employers (which ends when the trust fund reaches $1 billion) but a *permanent* cut to UI benefits.

2. **Make a larger amount of wages subject to the tax.**
   Raising the taxable wage base to $11,500 would generate the same amount of revenue as the Georgia DOL estimates for the new law without any benefit reductions. This would also put Georgia more in line with the average tax in other southern states.

   Georgia should also index the taxable wage base to the state's average annual wage growth. UI financing experts agree this is the most effective method to achieve and maintain solvency. If the taxable wage base had been adjusted annually for growth in the average wage since 1990, it would be $16,000 today.

3. **Raise minimum employer state UI tax rate.**
   Every employer should pay their fair share. Georgia's employers should pay more than the $3.56 per employee per year; only one third to 40 percent of them will in 2013. The state should consider raising the minimum UI tax rate, for instance, to 1 percent from .025 percent for employers to help repay the federal loan and make the unemployment fund solvent again.