

February 5, 2013

Please Don't Cut Unemployment Benefits!

Dear Legislator:

Unemployment benefits help workers who lose jobs through no fault of their own and cannot find new employment; these benefits also help sustain the economy and are particularly important in economic times such as these.

The Trust Fund, from which benefits are paid and which is supported by taxes on employers, is in severe deficit. A major reason is that in the 1990s, when both the economy and the Trust Fund were sound, taxes on employers were reduced. The lower tax rates were inadequate to support the Fund when the state suffered two successive economic downturns.

The current proposal, drafted without any input from those who represent unemployed workers and now being hurriedly pushed through the legislature would make up the deficit almost entirely on the backs of workers by drastically cutting unemployment benefits. This proposal would take our level of benefits which is currently in the middle of states to the bottom of the barrel. Just a few examples of the proposed cuts, which taken together are the most draconian cuts made by the legislature of any state, include:

- A cut in the maximum weekly benefit any worker can receive to \$350, a decrease of \$175/week;
- A sliding scale reduction in the maximum duration of benefits from 26 to 20 weeks. If the economy improves even modestly, workers would receive even fewer weeks of benefits, in some cases as few as 12 weeks. Only one other state has such a sliding scale and only 7 have a maximum below 20;
- A change in the formula used to determine benefit amounts that will result in lower checks for many workers, particularly those who have experienced a reduction in hours or wages;
- A requirement that unemployed workers take any job that pays 120% of their benefit amount or become ineligible for benefits (the average worker who receives \$290/week in benefits would have to take any job offering \$8.70/hour);
- An additional waiting week, which no other state has;
- Elimination of provisions that allow benefits for workers who are unable to work at particular workplaces due to health conditions, are unable to accept shift changes because they must take care of minor children or disabled family members, or must leave their jobs because their spouses were transferred.

By contrast, the proposal raises taxes on employers by only a small amount. The proposal also relies on required federal tax surcharges on employers to reduce the deficit, but these are only temporary. The cuts in benefits for unemployed workers are permanent.

Moreover, the proposal does nothing to put in place policies that support forward-financing to build a system that can weather economic downturns by ensuring adequate fund levels in the future. Rather, it continues the pay-as-you go model that puts the fund in crisis during future downturns and creates political pressure to cut benefits. Instead of dramatically cutting benefits, the law should be changed to:

- * Expand the taxable wage base through better indexing. North Carolina indexes its taxable wage base for growth in payrolls, but the taxable wage base is only indexed to 50% of the state's average annual wage. Increasing the taxable wage base to 60% would achieve solvency by 2016 alone and would increase contributions in the first year of implementation by about \$55 million and then incrementally increase in future years along with the growth in wages;

- * Reform the experience rating system to better align taxes paid with benefits from the unemployment insurance system. An employer's unemployment-insurance tax rate is based on its experience rating – the more an employer's workers claim benefits, the higher the tax rate. However, the state should increase the standard beginning rate for new employers (48 states have higher starting rates); raise the minimum tax rate from zero to .5%; increase the maximum tax rate (34 states have higher maximum rates); and better align the tax-rate range and increments with an employer's experience of lay-offs;

- * Do no harm to the wage-replacement function of unemployment insurance. Formulas to calculate benefits should be tied to wages in the economy to ensure that the wage replacement function of the unemployment system is sufficient to serve its stabilizing function and does not erode over time;

- * Strengthen re-employment services. The state must have in place, whether through the Worker Training Trust Fund or some other consistent state appropriation, sufficient funds to support innovation and implementation of re-employment services.

Unemployed workers depend on these benefits to pay bills, shop at local merchants, and keep their families going. The proposed cuts would not only make their lives significantly more difficult but also would adversely affect our state's economy. The time should be taken to adopt a more balanced approach, rather than one that depends almost entirely on severe sacrifices by those who cannot afford them and who did nothing wrong.

Thank you.

Sincerely,

Name, City
