



Setting THE record straight

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Failure to address UC debt, reasons for it hurts stability of important safety net

As the General Assembly considers legislation (S.B. 1375) necessary to maintain 17,000 Pennsylvanians' eligibility for extended federal unemployment compensation benefits, the need to address the UC Trust Fund's massive debt and the reasons behind it should again be at the forefront of the debate.

The state's UC Trust Fund is currently in debt to the federal government for billions of dollars – the fourth largest federal UC debt in the nation. The recent recession and resulting unemployment no doubt increased the number of Pennsylvanians receiving benefits. However, a bad economy is not the only contributing factor. Because of the liberalization of benefits over the years (prior to Act 6 of 2011, recipients weren't even required to prove they were actually looking for work in order to receive benefits), the UC system has morphed from being a safety net for those out of work through no fault of their own, to an overly expansive program that allows people to qualify for benefits they do not deserve and others to receive more benefits than the state can reasonably afford to pay. A closer look at money going into the system versus money spent on benefits supports this conclusion.

Pennsylvania ranked third among the states for revenue into their respective trust funds in fiscal year 2011, according to the U.S. Department of Labor, with Pennsylvania employers paying the highest tax rate on taxable wages in the country. While some would argue that the amount of wages that are taxed in the state is relatively low, even with a lower taxable wage base, the Commonwealth remains a top 10 state in average tax rate for unemployment compensation. At the same time, Pennsylvania's current unemployment rate of 7.9 percent is below the national average of 8.5 percent, and the Commonwealth had the 11th highest amount of total taxable wages in the country. This data certainly indicates that Pennsylvania's UC trust fund is not suffering from a revenue problem. So, why the massive debt to the federal government? Again, data from the U.S. Department of Labor might shed some light.

Last year, no other state in the nation had a higher percentage of unemployed individuals receiving UC benefits. Individuals receiving UC in Pennsylvania also had the 9th highest average weekly benefit in the nation and on average, received benefits for a duration that was longer than in 37 other states. Clearly, Pennsylvania's UC program and system for awarding benefits is unsustainable and has expanded well beyond the original intent.

Act 6 of 2011 was a good start toward addressing the financial crisis facing the state's UC system. The law made changes to save the system about \$133 million annually, and contains commonsense measures that begin to address abuse of the program. This includes the work search requirement and establishing a 40 percent severance pay offset. But more is needed, starting with addressing the massive debt to the federal government. Senate Bill 1310, which is pending in the state House, would authorize the selling of bonds to pay off the debt to the federal government. Though employers will still incur the costs of paying the bondholders, they will ultimately save hundreds of millions of dollars by avoiding the tax increase. However, the bonding proposal is merely a stop gap measure. Systemic deficiencies still plague the UC system. If they are not dealt with, Pennsylvania will continue to incur more debt resulting in even higher taxes on employers and threatening the viability of the system.

Unemployment compensation is an important program to provide temporary support between jobs for hardworking Pennsylvanians who put in the hours, demonstrated a clear attachment to the workforce, and unfortunately lost their job through no fault of their own. These individuals, and all Pennsylvanians, are harmed by the current UC program that clearly is too expensive and conducive to abuse.

Pennsylvania Chamber members urge lawmakers to investigate Pennsylvania's UC program, determine how benefits have bankrupted the trust fund despite relatively low unemployment and robust revenue and make appropriate adjustments to at least put Pennsylvania on par with other states. Pennsylvania's UC Trust Fund will remain insolvent until lawmakers take action to address the problems. Only then will solvency be possible and the future sustainability of this important program be ensured.

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The Pennsylvania Chamber of Business and Industry is the state's largest broad-based business association, with its membership representing nearly 50 percent of the private workforce. More information is available on the Chamber's website at www.pachamber.org

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