



February 7, 2012

PREPARED TESTIMONY FOR THE RECORD of the:

JOINT ECONOMIC COMMITTEE

Offered by Mark W. Everson, Commissioner

Indiana Department of Workforce Development

I. Introduction

Mr. Chairman, Vice Chairman Brady, and members of the committee, thank you for the opportunity to testify on the important subject of unemployment insurance.

My name is Mark W. Everson, and I serve as commissioner of the Indiana Department of Workforce Development. The Department of Workforce Development operates the state's unemployment insurance system, workforce training programs funded by the United States Department of Labor, and works with the Bureau of Labor Statistics to report labor statistics for Indiana. Additionally, we administer Adult Education programs working with the United States Department of Education.

The federal-state unemployment insurance partnership is an important, proven system which has successfully served the nation for more than seven decades. In my testimony today, I will review the condition of the unemployment insurance system in Indiana, as well as actions Indiana has taken to reform our program and eliminate the indebtedness of our trust fund. In addition, I will explain the need for flexibility on the part of states if we are to collectively secure the long-term health of the unemployment insurance system.

Unemployment insurance has provided support for those temporarily out of work in both strong and weak economies. Over time, the system has adapted well to changes in the American economy, and the evolution of the nation's workforce. Nevertheless, the system has been severely strained by the recent recession. It can weather the storm, but states require flexibility on the part of our federal partners to do so. States can also be laboratories for policy changes designed to improve the program and help the nation's workforce meet the challenges of the twenty-first century. While you consider the appropriateness of extending emergency unemployment compensation and perhaps imposing new rules upon states, I urge Congress to respect the long established separation of the roles played by states and the federal government in the operation of the program. Please also consider that the future of the program depends not only on how well the unemployed are served, but also on continued support of employers who fund the system, as well as the public at large. The vast majority of



Americans support a system providing relief to the worker who finds himself or herself involuntarily unemployed, and who actively seeks to return to work. However, if those outside the system begin to believe that amounts paid are too generous, are paid for too long, or that those who do not qualify can obtain benefits, support for the system is undermined. This damages both the system itself and tarnishes the image of those who are unemployed. It remains important to let states design their unemployment insurance programs. We are closest to the businesses and claimants who use the system, and best positioned to balance competing public policy interests.

II. Overview of Indiana's Unemployment Insurance System

Last week 138,000 individuals collected some form of unemployment insurance benefits in Indiana, comprising 74,000 who drew state paid benefits and 64,000 whose benefits were paid 100% by the federal government. Those individuals drawing federal benefits had exhausted eligibility for state benefits and were either on emergency unemployment compensation or state extended benefits. Similar to other states, Indiana has a significant number of people who unfortunately have been unemployed for over half a year. I would note, however, that our state initial and continued claims have returned to 2007 levels.

In Indiana, the total number of claimants drawing either state or federally funded benefits at any one time peaked at over 271,000 in early 2010. For calendar year 2011 Indiana paid out approximately \$2.0 billion in benefits, down from \$3.5 billion in 2009. This included \$840 million in state benefits, down from \$1.9 billion in 2009, as well as \$1.2 billion in federal benefits, down from \$1.6 billion in 2009. Over the course of last year, 373,000 discrete individuals collected benefits for one week or more, and received an average weekly benefit of just under \$300.

Indiana Unemployment Insurance System Benefits Paid (\$ millions)			
	2009	2010	2011
State	\$1,865	\$1,025	\$840
Federal	<u>\$1,600</u>	<u>\$2,004</u>	<u>\$1,171</u>
Total	\$3,465	\$3,029	\$2,011

III. Indebtedness of the Trust Fund

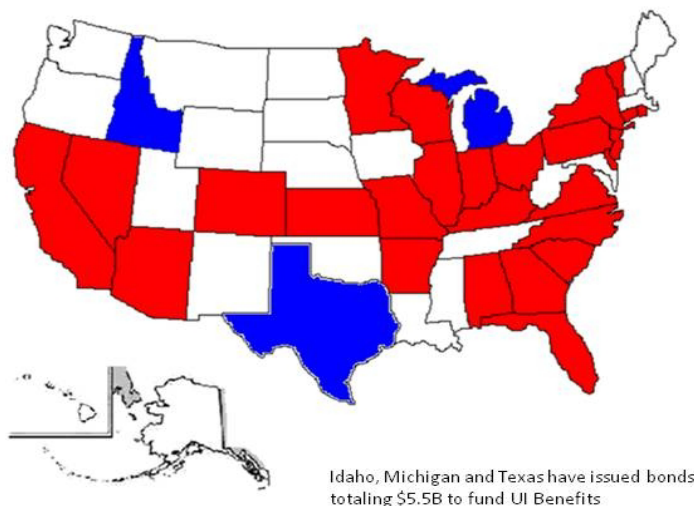
As you are no doubt aware, 27 states have borrowed over \$38 billion to continue funding the state portion of unemployment insurance benefit programs. Three states also incurred



significant indebtedness, but have borrowed over \$5.5 billion from other sources to pay off their federal debt. The states with the highest indebtedness per worker are Indiana, Nevada, North Carolina, California and Pennsylvania.

At the start of the last decade, Indiana's trust fund held a \$1.6 billion surplus. In 2001, the state legislature enacted a series of benefit increases implemented in steps over much of the past decade, and provided limited premium relief to employers. These legislative actions created a continuing structural imbalance. To work, the trust fund should realize a surplus in good years for use when times get tough. Revenues have failed to exceed benefit expenditures in every year since the passage of the 2001 legislation. Many states may blame their trust fund insolvency on the severity of the recent recession. In Indiana trust fund coffers were empty by late 2008, just as the collapse arrived. Over the next two years, the trust fund plummeted as benefit payments skyrocketed. At the end of 2010, the trust fund owed the federal government \$1.96 billion.

State Unemployment Insurance Trust Fund Loan Balances (in \$millions)



State	Loan Balance	Interest Payable
California	\$10,214.9	\$120.3
New York	3,641.3	41.4
Pennsylvania	3,517.2	40.2
North Carolina	2,743.3	33.1
Illinois	2,322.1	25.9
Ohio	2,166.7	28.4
Indiana	2,037.6	24.6
Florida	1,832.5	22.0
New Jersey	1,632.7	18.0
Wisconsin	1,326.5	15.3
Kentucky	948.7	12.1
Nevada	806.7	9.5
South Carolina	782.5	10.2
Missouri	770.3	9.3
Georgia	721.1	9.2
Connecticut	709.9	10.0
Arizona	398.3	4.4
Colorado	382.2	4.0
Arkansas	330.9	4.2
Virginia	318.3	3.2
Rhode Island	254.0	2.8
Minnesota	241.1	2.3
Michigan	118.3	31.8
Kansas	92.8	0.7
Vermont	77.7	1.0
Delaware	68.0	0.8
Alabama	55.1	0.4
Virgin Islands	31.9	0.4
Totals	\$38,542.5	\$485.3

State Trust Fund Advances as of January 30, 2012



IV. Indiana's Actions to Repair its Unemployment Insurance Program

The unemployment insurance program has three overall design elements; revenues – the premiums paid by employers into the system; eligibility - that is, who is entitled to receive benefits; and benefit levels - that is, the method of calculating how much an unemployed individual receives each week and for how long. A change in any element impacts the trust fund. In early 2011, Indiana's legislature enacted balanced, comprehensive reform, addressing all three elements. Although the trust fund got into trouble mostly due to increases in benefit payments, over two-thirds of the cost of the fix is being paid by employers.

A. Revenues:

Before the 2011 reform of the unemployment insurance program, Indiana employers paid premiums on the first \$7,000 of taxable wages and were charged a rate ranging from 1.1% to 5.6%. The 2011 reform increased the taxable wage base from \$7,000 to \$9,500 per employee and established new rates ranging from 0.5% to 7.4%. The wider range of rates increased total revenues, while at the same time providing relief to employers not utilizing the fund. The reform also established a surcharge to fund interest payments on our federal loan (Indiana paid \$60.4 million to the federal government September 30, 2011). These changes took effect January 1, 2011. When taking into consideration the premium changes, interest surcharge and a FUTA credit reduction of \$21 per employee, Indiana employers saw an aggregate cost increase of 60% in 2011 over 2010.

B. Eligibility:

Just as with premiums, states have had wide latitude in determining eligibility standards for coverage by the unemployment insurance system. The most notable change in eligibility standards in Indiana's reform package addressed repeat users of the system who plan and conduct regular shutdowns of their operations.

In recent years, more than 10% of individuals receiving unemployment insurance benefits in Indiana also received benefits in at least the prior two years. Many employers schedule routine factory shutdowns, usually during holiday periods, and have historically relied on the state's unemployment insurance fund to compensate workers during these events. Often these employers already paid the maximum premium rate under state law and had long since lost the disincentive that experience rating presumes. As a simple matter of arithmetic, any benefit payments that exceed an employer's contribution need to be covered by higher contributions from others, or be funded by the trust fund itself. The reform package included provisions that workers who are part of a shutdown based upon regular practice and policy of the employer, and who return to work after the routine shutdown, were not unemployed for the purpose of



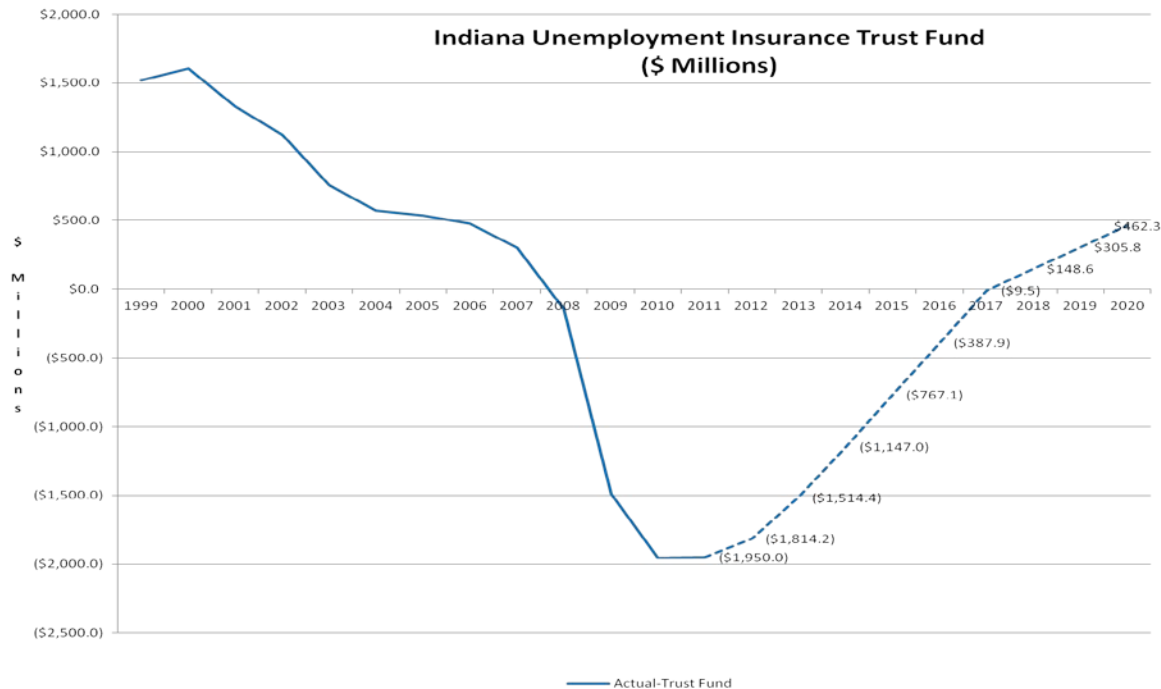
receiving unemployment compensation. This provision and other less significant eligibility provisions took effect on July 1, 2011.

C. Benefit Levels:

Prior to the 2011 reform package, unemployment insurance benefit amounts in Indiana, as in many states, were calculated based only on the highest quarter of a worker's earnings. This method of calculation often yielded different benefit amounts for individuals who had earned the same wages over the course of the year. To provide an example under the current law, last month my department received a WARN notice indicating over 200 individuals will soon lose their jobs due to the closure of a K-Mart in Portage, Indiana. Assume that one of these workers has earned \$500 per week over the past year for a total annual salary of \$26,000. If this individual files, he or she qualifies for \$280 weekly. Contrast this with a worker earning the same \$26,000, but working only 3 quarters, common in Indiana's construction industry. Even though their annual earnings are equal, this construction worker would qualify for \$366, or \$86 more dollars weekly because only the high quarter is considered.

To address this inequity, the legislature determined that in the future benefit amounts should be calculated based on annual earnings. The reform statute will base benefit amounts on the individual's average weekly wage as opposed to just high quarter earnings. The new benefit formula also provides for replacing 47% of the individual's average weekly wage while holding unchanged the states maximum benefit amount of \$390. Under the reform package, the total projected reduction in expenditures with these adjustments to benefit levels is approximately 22%. These changes will apply to claims for benefits filed after July 1, 2012.

Thus far, the reform package is working as intended. As noted above, the trust fund balance was \$1.96 billion at the end of 2010 and held steady in 2011 to end the year at \$1.97 billion. This reflected lower benefit payments largely associated with an improving economy, but also the premium increases mentioned above. For calendar year 2012, premiums should exceed benefits for the first time in more than a decade. Given current projections, we expect to pay off the federal debt by 2018 (chart shown below).



V. The Non-Reduction Rule

The federal non-reduction rule was initially established in 2009 to prevent states from offsetting through benefit reductions a \$25 supplemental payment paid for with federal funds. The \$25 supplement has been discontinued, but for the first time, in early 2010, the federal government required the non-reduction rule to be tied to federal extended unemployment benefits. This is a departure from past federal extensions of benefits during periods of high unemployment, when no such rule was in place.

When Indiana enacted its reform package, the new benefit calculation was purposefully delayed until July 1, 2012, in order to take effect after the expiration of the federal extensions. While the non-reduction rule was eliminated from the House version of the most current federal extensions, it was retained in the recent two-month extension. We urge you to eliminate it from any further extension of this program.

There are currently three other states that may also be implicated by the non-reduction rule along with Indiana. These three states, Rhode Island, Pennsylvania and Arkansas, have in some form also reduced or are scheduled to reduce their weekly benefit amount. I would also note that other states have addressed trust fund solvency by avoiding the non-reduction rule but decreased the number of weeks of unemployment compensation eligible individuals can receive. A couple, Michigan and Florida, have gone from 26 weeks to 20 weeks of regular state



unemployment benefits. If the non-reduction rule remains in place, more states will likely shorten the number of weeks of unemployment in an effort to reduce their costs. In the future states may also be reluctant to increase benefit payments.

In summary, the recently enacted non-reduction rule has significantly altered the long-standing federal-state balance of the program. States should retain the flexibility to determine the most appropriate unemployment insurance benefits program and method of addressing unemployment insurance trust fund solvency. In recognition of this need for state sovereignty in determining the best unemployment insurance program, the National Association of State Workforce Agencies called for elimination of the non-reduction rule at its September 2011 annual meeting.

VI. Conclusion

In Indiana we value our partnership with the federal government in operating the unemployment insurance system. We believe we have put our program on a healthy and sustainable path. I commend Congress for looking at avenues of reform, such as work search and training requirements. However, as with the non-reduction rule, I ask you to provide states the flexibility to provide appropriate overall program design best suited for their circumstances. Thank you.