February 16, 2009 **81st Legislature** **Senate Finance**

UNEMPLOYMENT COMPENSATION TRUST FUND: OPPORTUNITIES TO MODERNIZE ELIGIBILITY & FIX SOLVENCY

The American Recovery & Reinvestment Act (ARRA) includes more than $555 Million for Texas to modernize its Unemployment Insurance (UI) eligibility rules. To qualify for these funds, the Texas Legislature must make three common-sense policy changes that would save jobs, increase economic activity, and limit demand on other social services programs. This testimony not only explains what Texas must do to get funding under the Unemployment Insurance Modernization Act (UIMA), but also lays out specific reforms to address chronic insolvency of the Unemployment Compensation Trust Fund.

- **Less than 1 in 5 jobless Texans (17 percent) qualify for UI: (TX recipiency rate=50th; national average=34 percent);**
- **UI as Stabilizer & Stimulus: $1 in UI benefits=$2.15 in economic impact.**

Benefits of UI Modernization

- **Minimize Payroll Tax increases in 2010;**
- **Possibly keep funding for Enterprise Fund and Skills Development Fund intact;**
- **Inject an additional $400 million into the economy (2009-2011);**
- **Limit additional demand on social services (CHIP, Medicaid, TANF).**

ARRA INCLUDES $555 MILLION FOR UI MODERNIZATION

How Does Texas Qualify for the Funding?

Adoption of the Alternate Base Period (1/3 of Funding=$185M):

- Allows additional 25,000 Texans to qualify for UI;
- Provides $50-$55M in additional benefits per year; and
- Generates nearly $120M in economic activity.

And Any Two of the Following Eligibility Reforms to Draw Down Remaining 2/3 of Funding ($370M):

- Extended Benefits in Training (less than $2M per year);
- Family Reasons for Leaving Work (less than $3M per year);
- $15 Weekly Dependent Allowance (cost unknown); or
- Flexibility in Full-Time Work Search Rule ($19-$20M per year).

THE UNEMPLOYMENT TRUST FUND IS INSOLVENT

TWC Projects $750M Deficit for FY 2010 (Balance~$100M).

How can the Legislature Improve Fund Solvency?

- ***Our statutory ceiling is too low***: Our trust fund ceiling needs to be raised and linked to our *total covered wages* (exposure), **NOT** taxable wages. In the span of one year, we are projected to go from above the ceiling to below the floor (and possibly negative) by the end of 2009;
- ***Our taxable wage base is too small and not indexed for inflation:*** Our taxable wage base ($9,000) was last raised in 1989.

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