

Update: June 2010

Tax Intelligence

Economic Data Points to Higher Unemployment Tax Costs for 2011

Situation

The struggling economy has placed the Unemployment Insurance ("UI") system under enormous pressure. While indicators show an economic recovery is in process, the effects of high unemployment on state UI trust funds are evident in the latest statistics and information including:¹

- As of June 28, 2010, there are **35 jurisdictions** (including the Virgin Islands) that have borrowed approximately **\$38.4 billion** in Title XII loans to pay current unemployment benefits. There are currently 12 states that have outstanding Title XII loans over \$1 billion.
- The Congressional Budget Office has projected that \$157 billion in unemployment benefits will be paid in 2010, compared to \$43 billion in 2008.
- The United States Department of Labor ("US DOL") has estimated the 2010 benefit overpayment rate (i.e. unemployment benefits inappropriately paid to claimants) of 9.6%. As applied to the projected figures, states may erroneously overpay approximately \$15 billion in 2010 to claimants. Based on US DOL data, a majority of the benefit overpayments are made to individuals who were initially allowed benefits and later ruled ineligible or workers who have been hired but continue to claim unemployment.
- The total unemployment rate ("TUR") for the U.S. was 9.7% for May 2010, which was down from 9.9% in April 2010. However, a large portion of the May reduction was attributable to the 411,000 temporary workers hired by the Census Bureau during the month.
- In May 2010, there were **17 jurisdictions with an unemployment rate of over 10%** with only six states with an increase over the prior month.
- There are discussions in Congress, based on a recent recommendation by the Government Accountability Office *to raise the federal unemployment ("FUTA") taxable wage base limit*. This action would require all states with taxable wage base limits below the new federal threshold to increase their wage base limits as well.
- Employers in Michigan, Indiana and South Carolina will likely lose a portion of their FUTA tax credit in 2010 to repay outstanding trust fund loans. As of January 2010, there were 26 states with trust fund loans which may be subject to FUTA credit reductions in calendar year 2011 if balances remain unpaid.

Solution

Economic data continues to indicate that employers should anticipate higher federal and state UI taxes in their financial forecasts associated with continued pressure on state unemployment tax reserves. TALX projects that UI increases will continue for the next five to ten years. Employers should insure that financial models anticipate the significant tax increases expected over the extended economic recovery.

Value

TALX can assist employers with budgeting for the anticipated increases in 2011 unemployment tax costs and beyond. Our experience and expertise allow TALX to partner with organizations to plan for the financial impacts of rising rates and proactively manage unemployment tax liability. For more information, please contact Pete Krieshok at (314) 214-7325 or pkrieshok@talx.com or visit our corporate blog at <http://blog.talx.com>.

¹ Source: National Association of State Workforce Agencies and U.S. Department of Treasury