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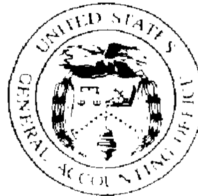
Report to the Acting Chairman, Subcommittee on Human Resources, Committee on Ways and Means, House of Representatives

May 1990

UNEMPLOYMENT INSURANCE

Trust Fund Reserves Inadequate to Meet Recession Needs



United States
General Accounting Office
Washington, D.C. 20548

Human Resources Division

B-239714

May 31, 1990

The Honorable Thomas J. Downey
Acting Chairman, Subcommittee on Human Resources
Committee on Ways and Means
House of Representatives

Dear Mr. Chairman:

This report responds to your request that we examine proposals contained in H.R.3896, the Unemployment Compensation Reform Act of 1990. Specifically, you requested that we assess

- the likely effect that a future recession would have on (1)reserve balances in the state trust funds and (2) state borrowing,
- the ability of the federal Unemployment Insurance (UI) accounts to meet the needs of states in a future recession, and
- the likely effect that a proposed increase to the taxable wage base and modifications to the extended benefits program would have on the financial status of the UI system.[1]

We used projections, from the Department of Labor's Unemployment Insurance Service state loan model,[2] to assess the impact of a severe recession, similar to the 1981-82 recession, on the financial status of the UI system. Labor developed the projections at our request. Our analysis assesses the system under three policy conditions—(1) the current program funding structure, (2) this structure with an increase in the taxable wage base starting in 1991, and (3) this structure with an increase in the taxable wage base together with changes to the Extended Benefits Program as called for in the bill. To determine the effect of an increase in the taxable wage base under an actual recession, we also used Labor's model to assess the outcome had this change been implemented in 1978, before the recessions of the early 1980s.

Background

The principal purposes of the UI program are to (1) provide a cash benefit to those who are temporarily unemployed and (2) help stabilize the economy during a recession by providing the unemployed with a portion

[1] The Extended Benefits Program provides up to an additional 13 weeks of UI benefits in areas of high unemployment. These modifications would, in part, lower the level of unemployment needed for states to begin paying extended benefits.

[2] This model produces fiscal year estimates of aggregate trust fund balances, loans and repayments, loan balances, reduced federal UI tax credits, interest earnings, and interest paid.

still owe the federal UI loan account $10.7 billion 5 years after the start of the recession. The federal UI loan account would be exhausted by the state loans, and general fund advances of $6.6 billion would be required.

This situation could result in state actions similar to those taken in the 1980s to become solvent, that is, making it more difficult for people to qualify for benefits, reducing the duration of such benefits, and increasing employer taxes. But these actions, in our opinion, jeopardized the program's principal purposes of providing cash benefits to the unemployed and helping to stabilize the economy during a recession.

An increase in the taxable wage base would be a step toward returning to a forward-funded UI program, but by no means would it result in this feature being fully restored immediately. On the basis of our analysis using Labor's model, states would need to borrow $3 billion less from the federal loan account and would owe $4.2 billion less after 5 years. In addition, the federal loan account would need $2.2 billion less in advances from the general fund.

To further illustrate the impact that an increase in the taxable wage base would have on UI trust fund reserves, we simulated what would have occurred had such a change been introduced in 1978. To do this, we used the actual economic circumstances that existed from the start of 1978 through the end of 1983, as well as the balances of the federal and state accounts at the beginning of that period. The overall effect would have been a $21 billion change in the financial status of the UI system by 1983—from minus $25 billion to minus $4 billion. Thus, the UI system would have been better off financially following the severe recessions of the 1980s.

Labor's model indicates that an increase in the taxable wage base, coupled with the lowering of the statewide level of unemployment needed to qualify for extended benefits, would produce similar but less dramatic results. These projections indicate that there would be $1.1 billion less in state borrowing during a recession than under current law and $3.3 billion less in outstanding loans at the end of 1995. Yet, 18 states would become insolvent. At the same time, the UI program would have paid out about three times as much in extended benefits as under current law—$17 billion compared with $6.2 billion.

The effects of a severe recession on the UI system under each of the three policy conditions are summarized in table 1.

Our work was carried out between October 1989 and April 1990. We testified on the preliminary results before your Subcommittee in February 1990.[5] As agreed with your office, we did not obtain written comments from the Department of Labor but consulted with agency officials to ensure that our use of data from Labor's model was technically correct.

Copies of this report will be sent to the Secretary of Labor and other interested parties. Please call me on (202) 275-1793 if you or your staff have any questions about this report. Major contributors are listed in appendix V.

Sincerely yours,

Edward A. Densmore

for Franklin Frazier
Director, Education
and Employment Issues

[5] Unemployment Insurance: Comments on H. R. 3896, The Unemployment Compensation Reform Act of 1990 (GAO/T-HRD-90-15, Feb. 22, 1990).

Table III.3: Increased Taxable Wage Base and Changes to Extended Benefits 17

declining activity. This approach was followed consistently during the first three decades after the program's inception in 1935. Increasingly, however, many states have not accumulated reserves sufficient to cover benefits during recessions and, instead, have relied on federal loans to sustain their programs during these periods.

The federal loan account was established in 1954 to provide advances to state programs that otherwise would become insolvent and be unable to make benefit payments. The expectation was that the states would repay these loans from future payroll tax revenue when the economy recovered. Initially, these loans were interest free, essentially providing (1) a subsidy to debtor states and (2) little incentive for states to repay loans or to build trust fund reserves to meet future needs. Beginning in 1982, however, the federal government has charged interest on these loans.

A number of state trust funds became insolvent in the past, and this number has increased over the years—from 1 in 1972, 13 in 1975, and 23 in both 1982 and 1983. Loans to state trust funds have been quite large, necessitating general fund advances from time to time. State UI trust funds have borrowed about $29.6 billion to pay benefits—$11.8 billion in loans were needed during 1982-83 alone. Overall, this has resulted in negative balances in the UI system, evidence that the program was not forward funded. As shown in table I.1, during the 9 consecutive years from 1976 to 1984, the total balance of the three federal accounts and 53 state accounts was negative. The total balance for the three federal accounts was negative for 12 consecutive years, from 1975 to 1986.

actions have included an increase in employer UI taxes while unemployment rates were still high, tightening the requirements for UI benefits, and reducing the length of such benefits.

Overall, the system had a high-cost multiple of .89 as of December 1989, meaning about 11 months of recession benefits were in reserve. This is a considerable improvement over the .07 high-cost multiple in 1984.

The results of a simulated severe recession, using Labor's model and the equivalent of the 1981-82 recession, are shown in table II.1. The model indicates that if such a recession was to begin in 1991, the states would need to borrow about $17.4 billion from the federal loan account for 1991 to 1995. Moreover, 17 state programs would become insolvent, with negative balances in their trust funds at the end of 1 or more years during this period. Of these 17 insolvent states, 15 had a high-cost multiple below 1.0 before the simulated recession. At the end of 1995, the states would owe about $10.7 billion and the net balance of the state trust funds (balances of state trust fund minus outstanding loans) would be $16.5 billion. The federal loan account would have an estimated balance of $2.3 billion at the start of 1991, but this amount would be insufficient to meet state loan requirements. The federal loan account would need advances of $6.6 billion from the general fund.

Table II.1: Effects of Severe Recession Under Current Legislation (Fiscal Years 1991 Through 1995)

Dollars in billions	
State borrowing	$17 4
General fund advances to loan account	6 6
State loan balances, end of 1995	10 7
Net state UI balances, end of 1995	16 5

Note: The number of insolvent states is 17

Effect of a Taxable Wage Base Increase

The original act establishing the UI system imposed a federal UI payroll tax on the total annual wages paid employees. A legislative change in 1939, however, imposed the federal tax on the first $3,000 of annual wages; this tax has been limited to a portion of annual wages ever since. The wage base has not kept pace with the growth in wages. Had the 1939 ceiling been continually indexed to wage inflation, the current ceiling would be over $42,000. The gap between the wage base and wage growth has been allowed to exist because revenues based on a lower wage base were more than ample to cover benefit payments to the unemployed through the 1960s. The taxable wage base was subsequently increased three times—to $4,200 in 1970, $6,000 in 1976, and $7,000 in 1982.

Table II.2: Effects of Severe Recession Under Current and Proposed Legislation (Fiscal Years 1991 Through 1995)

Dollars in billions

	Current law	Increased wage base
State borrowing	$17 4	$14 3
General fund advances to loan account	$6 6	$4 4
State loan balances, end of 1995	$10 7	$6 5
Net state UI balances, end of 1995	$16 5	$29 1
Insolvent states	17	16

Had the taxable wage base increase been implemented starting in January 1978 (before the recessions of the early 1980s), the system would have been better able to handle the subsequent severe recessions. Using the Labor model, we estimate that with an increase in the taxable wage base, the net balance of state trust fund reserves at the end of 1983 would have changed from minus $5.8 billion to a positive $4.9 billion, a difference of $10.7 billion. Equally dramatic changes would have occurred in the federal accounts, with their net balances increasing by a total of $10.3 billion. The simulation results show that the overall effect of the wage base increase, had it been introduced in 1978, would have been a $21 billion change in the financial status of the UI system by 1983—from minus $24.5 billion to minus $3.5 billion (see table II.3).

Table II.3: Effect of Increased Taxable Wage Base (1978- 83)

Dollars in billions

	Balances		
	1983 actual	With increased wage base	Difference
Federal accounts	−$18.7	−$8 4	$10 3
State accounts	−5.8	4 9	10 7
Total UI system	**−$24.5**	**−$3.5**	**$21.0**

Effect of Increased Taxable Wage Base and Revised Extended Benefits

In addition to increasing the taxable wage base, the proposed legislation would, among other things, change the circumstances under which federal-state extended benefits would be paid. UI beneficiaries are normally eligible for a maximum of 26 weeks of benefits and the Extended Benefits Program prolongs worker eligibility for UI benefits for up to an additional 13 weeks in areas of high unemployment. Extended benefits are paid after state unemployment rates reach specific levels. At present, mandatory benefits are paid to eligible recipients when a state's insured unemployment rate (1) equals or exceeds 5 percent for 13 consecutive

Simulation Results

Table III.1: Current Funding Structure

Dollars in billions

	1991	1992	1993	1994	1995	Total
State borrowing from federal loan account	1.4	5.9	4.0	3.2	2.9	**17.4**
General fund advances to federal loan account	0	3.4	2.6	6	0	**6.6**
State loan balances, end of year	1.7	7.3	10.1	10.9	10.7	[a]
Net state UI balances, end of year	22.7	7.7	6.8	10.6	16.5	[a]

[a]Not applicable.

Table III.2: Increased Taxable Wage Base

Dollars in billions

	1991	1992	1993	1994	1995	Total
State borrowing from federal loan account	1.4	5.3	3.5	2.1	1.9	**14.3**
General fund advances to federal loan account	0	2.9	1.5	0	0	**4.4**
State loan balances, end of year	1.7	6.8	8.3	8.1	6.5	[a]
Net state UI balances, end of year	22.7	9.2	11.6	19.1	29.1	[a]

[a]Not applicable

Table III.3: Increased Taxable Wage Base and Changes to Extended Benefits

Dollars in billions

	1991	1992	1993	1994	1995	Total
State borrowing from federal loan account	1.4	6.0	4.5	2.4	2.0	**6.3**
General fund advances to federal loan account	0	4.2	1.6	0	0	**5.8**
State loan balances, end of year	1.7	7.4	9.2	8.9	7.4	[a]
Net state UI balances, end of year	21.3	6.3	7.7	14.4	23.6	[a]

[a]Not applicable.

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Unemployment Insurance: Administrative Funding Is a Growing Problem for State Programs (GAO/HRD-89-72BR, May 24, 1989).

Unemployment Insurance: Administrative Funding Likely a Growing Problem (GAO/T-HRD-89-21, May 24, 1989).

Unemployment Insurance: Trust Fund Reserves Inadequate (GAO/HRD-88-55, Sept. 26, 1988).

Unemployment Insurance: Issues Related to Reserve Adequacy and Trust Fund Solvency (GAO/T-HRD-88-23, July 7, 1988).

Unemployment Insurance: Issues Related to Reserve Adequacy and Trust Fund Solvency (GAO/T-HRD-88-6, Dec. 14, 1987).

Economic Assumptions Used in Recession Simulation

	1990	1991	1992	1993	1994	1995
Total unemployment rate (percent)	5 7	9 0	10 2	7 8	7 3	7 0
Civilian labor force growth (percent)	8	1 5	1 4	1 2	1 4	1 2
Wage growth (percent)	5 8	6 1	5 9	5 3	4 7	4 5
Civilian employment (millions)	117 3	114 9	115.0	119 6	121 9	123 8

weeks and (2) is at least 20 percent higher than the average rate for the same 13-week period in the preceding 2 years.[2] At the state's option, benefits can also be paid when the insured unemployment rate reaches 6 percent, regardless of previous unemployment rates.

The proposed legislation would reduce the current insured unemployment rates by 1 percentage point, to 4 percent for the mandatory benefits and to 5 percent for the optional payments. The proposed legislation would also allow extended benefits to be paid when a state's total unemployment rate equals or exceeds 8 percent during the previous 12-month period.

Again using Labor's model, we simulated the effect the above changes in the Extended Benefits Program, coupled with an increase in the taxable wage base, would have on the financial condition of the federal accounts and the state trust fund accounts. This simulation showed that under a severe recession, beginning in January 1991, a total of about $17.0 billion in extended benefits would be paid to UI claimants for 1991 through 1995, compared with about $6.2 billion under existing law. Under this simulation, states would have to borrow about $16.3 billion from the federal loan account and 18 state programs would become insolvent during this period. At the end of fiscal year 1995, the states would still owe about $7.4 billion. The net balance of the state trust funds would be $23.6 billion. As in the other two simulations, the balance in the loan account would be insufficient to meet loan requirements—$5.8 billion in advances would be needed from the general fund. These results, along with those from simulations using the current funding structure and an increase in the taxable wage base, are summarized in table 1.1 (see p. 4).

[2] The insured unemployment rate is the number of regular UI benefit claimants divided by the average number of people in UI- covered employment for the first 4 of the last 6 completed calendar quarters.

H.R. 3896 would increase the taxable wage base from its current $7,000 to $10,000, with $1,000 increments over 3 years. Thereafter, the wage base would be indexed to the growth in average annual covered wages. This change, coupled with the expiration of the .2 percent temporary surtax at the end of 1990, would generate a federal employer UI tax of $48 in the first year (compared with $56 under current law), $54 in the second year, and $60 in the third year for each employee earning the base wage or more. Our analysis assumed that the .2 percent surtax expired at the end of 1990.

An increase in the taxable wage base will generate increased revenue for the federal trust fund accounts and increase reserves in some of the 53 state trust fund accounts. Only the 17 state trust funds with a taxable wage base at the current level of $7,000 will, however, receive the full amount of increased revenues generated by this proposal. Of the remaining states, 19 already have a wage base of $10,000 or more and 17 have a wage base of between $8,000 and $10,000. In an attempt to offset the effect of a taxable wage base increase, the states have, in the past, reduced the rate at which they tax employers following these increases. To the extent that this would again occur following the implementation of the wage base proposal, the increase in state trust fund reserves would be reduced. Labor's model includes, to some extent, reductions in state tax rates that traditionally have accompanied increases in the taxable wage base.

Simulation results, based on Labor's model and assuming a severe recession, coupled with an increase in the taxable wage base beginning in January 1991, are shown in table II.2. According to Labor's model, this condition would result in states' needing to borrow $14.3 billion from the federal loan account for 1991 to 1995. This would amount to $3 billion less than under current law. At the end of 1995, the states would owe about $6.5 billion ($4.2 billion less) and the net balance of the state trust funds would be $29.1 billion—$12.6 billion more than under existing law. The federal loan account would need advances of $4.4 billion from the general fund—$2.2 billion less than the current funding structure. Sixteen states would become insolvent between 1991 and 1995 under this condition, compared with 17 under the existing condition.

Results of GAO Analysis

Our analysis indicates that (1) many states may not have reserves sufficient to pay recession benefits and (2) the current financial condition of the UI system, overall, appears to be inadequate to handle a severe recession. This is so despite 7 years of economic expansion and reserves of $8.1 billion in the federal accounts and $36.2 billion in the state trust fund accounts as of January 1990. Our analysis also indicates a severe recession in the near future would most likely result in states' borrowing from the federal loan account in order to pay benefits to the unemployed. In addition, financing these federal loans would probably again require general fund advances.

Our analysis compared the UI system's ability to handle a severe recession under the current funding structure with its ability under an increase in the taxable wage base. In general, our analysis showed that this increase would be a step in the right direction, toward restoring the forward-funding basis of the UI system. But by no means would this increase result in the full restoration of forward funding in the immediate future.

Current UI System Reserves Are Inadequate

The most commonly used measure of the adequacy of financial reserves is known as the high-cost multiple. This measure compares current reserves with peak benefit payouts in the past. It is essentially an indicator of how long recession benefits could be paid from current reserve balances. An association of state employment security agency administrators has endorsed a target high-cost multiple of 1.5 as being indicative of reserve adequacy; this means there should be 18 months worth of benefits in the state trust fund in order for a state to go through a recession without needing loans. Judged by this measure, reserves today are inadequate. As of December 1989, only 7 of the 53 state programs had a high-cost multiple at or above the 1.5 standard. In contrast, 39 states had a high-cost multiple above 1.5 in 1969.

A 1986 study undertaken for the Department of Labor concluded that state reserves would usually be adequate at high-cost multiples as low as 1.0.[1] Using this less stringent standard adds an additional 17 states to the list of 7 with sufficient reserves; however, 29 states would still have inadequate reserves according to this standard. In 1969, 51 of the 53 state trust funds surpassed the 1.0 standard.

[1] An Analysis of UI Trust Fund Adequacy, Vroman, Wayne and Barnow, Burt, Unemployment Insurance Service Occasional Paper 87-1 (Dec. 1986)

Table I: Financial Status of UI Accounts (1970-89)

Dollars in billions

Year	ESAA[a]	EUCA[b]	FUA[c]	Total federal accounts	State	UI system total
1970	06	$0	$6	7	$11 9	$12 6
1971	2	– 04	6	8	9 7	10 5
1972	3	– 6	5	2	9 4	9 6
1973	5	– 7	5	3	10 5	10 8
1974	7	–0 4	5	8	10 5	11 3
1975	4	–1 3	01	– 9	3 1	2 2
1976	5	–6 2	–2 4	–8 1	9	-7 2
1977	2	–8 4	–3 8	–12.0	9	-11 1
1978	3	–8 1	–4 7	–12 5	4 6	-7 9
1979	6	–7 1	–4.4	–10 9	8 6	-2 3
1980	8	–6 5	–3 9	–9 6	6 6	-3 0
1981	8	–6 4	–5 5	–11 1	5 8	-5 3
1982	5	–6.3	–7 9	–13 7	–2 6	-16 3
1983	3	–6 1	–12 9	–18 7	–5 8	-24 5
1984	9	–4 1	–9 1	–12 3	2 2	-10 1
1985	1 0	–2 2	–5 7	–6 9	10 1	3 2
1986	1 1	– 7	–4 1	–3.7	15 4	11 7
1987	1 6	1 3	–2 3	6	22 9	23 5
1988	1 9	3.6	1	5 6	31 1	36 7
1989	1 1	5 8	1 3	8 2	36 7	44 9

[a]ESAA Employment Security Administration Account (provides funds for administrative costs)

[b]EUCA Extended Unemployment Compensation Account (provides funds for extended benefits)

[c]FUA Federal Unemployment Account (provides loans to states)

Note The balances of EUCA and FUA consist of the end-of-the-year balance minus general fund advances The state account balance consists of end-of-the-year balance minus all outstanding federal loans

The Congress enacted several policy changes in the late 1970s and early 1980s that were designed to move the system toward a positive total reserve balance and restore the forward-funding basis of the program. These included the 0.2 percent federal surtax on employers and the charging of interest on federal loans to state trust funds. The latter change had the intended effect of expediting state repayment of federal loans. In an attempt to reduce funds spent on UI benefits, however, many states took actions that ran counter to the principal purposes of (1) providing the unemployed with a cash benefit while out of work and (2) stabilizing the economy during periods of recession. In the past, the

Detailed Background

The Unemployment Insurance (UI) program is the federal government's major means of providing income maintenance assistance to the unemployed. The program's principal purposes are to provide (1) individuals with temporary and partial wage replacement when they have lost their jobs and (2) countercyclical stabilization of the national economy during an economic decline by maintaining the purchasing power of the unemployed.

The UI system includes 3 federal accounts and 53 state accounts. The federal accounts are financed through a payroll tax on employers; they provide funds for state and federal UI program administration, one-half of an Extended Benefits Program (this program lengthens the period over which UI benefits are paid in areas of high unemployment), and loans to states with insolvent UI accounts. The state accounts are also funded through a payroll tax and are used to finance regular UI benefits and one-half of an Extended Benefits Program. Each state operates its own UI program, levying and collecting its own payroll tax and, within certain limits, determining the amount of benefits and the conditions for benefit eligibility. As a result, tax rates, benefit amounts, and trust fund balances vary across states, reflecting variations in program decisions and economic conditions.

The gross federal tax rate is 6.2 percent on the first $7,000 paid in wages annually to each employee. If a state meets certain federal requirements and has no delinquent federal loans, however, its employers are eligible for up to a 5.4 percent credit, making the net federal tax rate 0.8 percent. In order for employers to receive the maximum federal tax credit of 5.4 percent, states must establish a taxable wage base for state UI taxes at least equal to the federal taxable wage base—currently $7,000. All states have done this, and 36 states have adopted wage bases above the federally mandated base, ranging from $7,100 in Connecticut to $20,900 in Alaska.

Currently, the net federal tax rate of 0.8 percent is made up of a permanent tax rate of 0.6 percent and a temporary surtax of 0.2 percent The surtax was added in 1976 to help the system repay loans from the federal general fund. The surtax was extended in 1987 and is due to expire at the end of 1990.

The UI program was supposed to operate on a forward-funding basis; that is, tax rates and benefit amounts were set so that the system accumulated reserves during periods of rising economic activity in order to have sufficient reserves to cover benefit payments during periods of

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Table 1: Effects of a Severe Recession Under Three Policy Conditions (Fiscal Years 1991-95)

Dollars in billions

	Current law	Increased wage base	Increased wage base and extended benefits
State borrowing	$17 4	$14 3	$16 3
General fund advances to loan account	$6 6	$4 4	$5 8
State loan balances, end of 1995	$10 7	$6 5	$7 4
Net state UI balances, end of 1995	$16.5	$29 1	$23 6
Insolvent states	17	16	18

The detailed results of our analysis are contained in appendix II. In addition, appendix III provides details on the results of each of the simulations for the three policy conditions. Information on the economic assumptions used in Labor's model are contained in appendix IV.

Conclusions

Although state trust fund accounts are in their best financial condition since the years before the 1973 recession, the reserves in both the federal and state accounts are not adequate to handle a severe recession in the near future. Such a recession, starting in 1991, would result in another round of state borrowing, accompanied by advances from the general fund. Recent experience indicates that in order to repay loans, states raise taxes and cut benefits while unemployment is still high. Such actions lessen the effectiveness of the UI program in achieving its principal purposes of providing (1) income maintenance to the unemployed and (2) a countercyclical stimulus to the economy. These actions could be reduced if states maintained adequate balances in their trust funds.

The proposed increase in the taxable wage base is a means of moving in the direction of restoring the forward-funding basis of the program. The increased wage base would (1) improve federal trust fund reserves, (2) reduce the amount of general fund advances needed should a major recession begin anytime soon, (3) improve reserves in some states, thereby reducing the need for them to borrow,and (4) provide resources for a larger Extended Benefits Program. However, if states behave as in the 1980s, they will reduce tax rates as the wage base is increased. To the extent this occurs, state trust fund reserves may continue to remain inadequate.

of their purchasing power. The program is designed to operate on a forward-funding basis, under which the system is supposed to accumulate sufficient reserves during periods of economic growth to pay benefits during periods of economic decline. In recent years, however, many states have not accumulated reserves sufficient to cover benefits during a recession; instead, they have relied on advances from the federal UI loan account to sustain their programs during economic downturns. The drop in accumulated reserves has been caused, in part, by high unemployment during four recessions in the last two decades, additional expenditures for the continuation of benefits under the Extended Benefits Program, and increases in benefits without offsetting increases in revenues.[4]

In the past, the states have received substantial loans from the federal UI loan account. This account has needed general fund advances from time to time because of insufficient balances. Since the early 1970s, the states have borrowed about $29.6 billion to pay benefits. H.R. 3896 is aimed, in part, at restoring the forward-funding basis of the UI program by providing the means for the federal and state accounts to accumulate reserves sufficient to cover a recession. The bill would (1) increase the taxable wage base from $7,000 to $10,000 over 3 years and then index this base to the growth in average annual covered wages and (2) revise the Extended Benefits Program by making it easier for states with long-term, high unemployment to qualify for the program. Additional background on the UI program is contained in appendix I.

Results in Brief

The UI system has built considerable reserves during the past 7 years of economic expansion—$8.1 billion in the federal accounts and $36.2 billion in the state trust funds, as of January 1990. Nevertheless, the current financial condition of the UI system appears to be inadequate to handle a severe recession. According to Labor's model, under current law a severe recession in 1991 would result in 22 states having to borrow an estimated $17.4 billion between 1991 and 1995 to sustain their programs. During or immediately following the recession period, 17 of these states would become insolvent—that is, their trust funds would have negative balances at the end of a year. Fifteen states would

[3] The federal UI accounts include three accounts—the loan account, the extended benefits account, and the administration account.

[4] For a detailed discussion of the inadequacy of UI trust fund reserves and the factors that led to its decline in the 1970s, see Unemployment Insurance: Trust Fund Reserves Inadequate (GAO/HRD-88-55, Sept. 26, 1988).