

## **Chattanooga Area Chamber of Commerce**

### **ISSUE ALERT – December 2008**

#### **Tennessee's Unemployment Insurance Trust Fund in Jeopardy**

- **Solutions to this crisis may have a financial impact on your business**

#### **The Issue**

The sharp increase in unemployment claims has reduced the Unemployment Insurance Trust Fund to the point where it may be nearing insolvency. Although this situation is a natural extension of the current economic downturn and does not reflect any mismanagement or lack of oversight, the way that the matter is remedied could impact every company conducting business in the state.

#### **Federal Role**

Unemployment Insurance (UI) is a federal-state program jointly financed through federal and state employer payroll taxes. Generally, employers must pay both state and federal unemployment taxes if:

- They pay wages to employees totaling \$1,500 or more in any quarter of a calendar year, or
- They have at least one employee during any day of a week during 20 weeks in a calendar year, regardless of whether or not the weeks were consecutive.<sup>i</sup>

Employers pay the federal government FUTA payroll tax to administer the program. FUTA covers the costs of administering the UI and Job Service programs in all states. In addition, it pays one-half of the cost of extended unemployment benefits (when authorized by Congress during periods of high unemployment), and provides for a fund from which states may borrow, if necessary, to pay benefits.

#### **How Tennessee Operates**

Tennessee's unemployment tax is paid to the Department of Labor and Workforce Development solely for benefits to qualified unemployed workers. This tax is paid on the first \$7,000 of wages earned per employee. The rate ranges from 0.3% - 10% based on experience ratings in a calendar year. All new employers pay a basic rate of 2.7% until rated.<sup>ii</sup>

In Tennessee, unemployment benefits range from \$30.00 - \$275.00 weekly, based on 1/26<sup>th</sup> of average wages earned in the highest two quarters of qualified employment. The \$275.00 amount is the fourth lowest in the U.S. Claimants can receive benefits for a maximum of 26 weeks. Federal law prohibits states from reducing the 26 week maximum.

#### **Impact on Business**

According to the University of Tennessee's Center for Business and Economic Research, the state's unemployment rate in September was 7.2%. The Center is forecasting that to rise to an average of 8.5-9% during the first two quarters of 2009.<sup>iii</sup> If unemployment does approach

that level, Tennessee policy makers will have to consider options to ensure the UI fund meets its obligations. Some of these options include:

- Raising the UI tax rate on employers
- Raising the base wage amount subject to tax (Tennessee is at \$7,000; the Southeastern average is nearly \$9,000)
- Borrowing from the federal government's FUTA reserve, which must be repaid within one-year before interest penalties apply
- Borrowing from the state's Rainy Day Fund reserve which currently stands at \$750 million
- Reducing the maximum benefit amount

### **Current Status**

The Unemployment Compensation Advisory Council has the latest Unemployment Fund figures, and is in the process of evaluating potential solutions. This council consists of professional staff from the state Department of Labor, and employer and employee representatives. They will present their findings to the General Assembly's Joint Committee on Business Taxes. This committee was scheduled to hold hearings on December 10 regarding the issue, but the most recent fund data only became available December 5. The committee is expected to reconvene before the legislative sessions commences on January 13.

It has been suggested that Congress may authorize an extension of benefits and provide funding to states to cover that extension. Also, additional financial assistance to states may be appropriated separately to help shore up states' funds.

Any changes to state unemployment laws must be authorized by the General Assembly. The Chamber will continue to monitor this situation very closely, and keep you informed. Again, this is an issue which impact every business. Every option presents tough choices, and we will continue to work with state government and the General Assembly towards a fair, reasonable, and workable solution.

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<sup>i</sup> United States Department of Labor, Employment & Training Division

<sup>ii</sup> United States Department of Labor, "*Significant Provisions of State Unemployment Laws*", July 2008

<sup>iii</sup> The Tennessee Journal, November 14, 2008