



Budget Facts 2010

from the COMMONWEALTH FOUNDATION

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Unemployment Compensation

Pennsylvania faces a projected General Fund shortfall of at least \$1.1 billion. Gov. Rendell proposed a \$29 billion budget for FY 2010-11 that increases business taxes, imposes new taxes on natural gas and tobacco products, and expands the Sales Tax to include many goods and services currently exempt. This is the fifth in a series of fact sheets on the Pennsylvania state budget.

UNEMPLOYMENT IN PENNSYLVANIA

- Since December 2007, Pennsylvania has lost more than 200,000 jobs.
 - ⇒ The April 2010 data shows 584,000 Pennsylvania residents officially designated as unemployed, for an unemployment rate of 9%.
- As of May 15, 2010, 268,000 Pennsylvanians receive unemployment benefits, representing 46% of the state's unemployed.

PENNSYLVANIA'S UNEMPLOYMENT COMPENSATION FUND IS BANKRUPT

Pennsylvania has borrowed over **\$3 billion** from the federal government to keep its unemployment compensation fund solvent.

- Pennsylvania ranks among the top 10 states in highest unemployment taxes per employee.
 - ⇒ Last year, employers paid about \$380 per employee in unemployment compensation taxes.
 - ⇒ For 2010, the average **tax per employee increased to \$432** while benefits decreased by 2.3%.
 - ⇒ Sandy Vito, PA Secretary of Labor and Industry, estimates the average cost per employee will increase by \$189 by 2016 if no reforms are made.
- In March 2010, Pennsylvania paid out **\$442 million in UC benefits**.
 - ⇒ Only California, with three times the population and a much higher unemployment rate, pays out more in unemployment claims.
 - ⇒ Pennsylvania has among the most generous unemployment compensation eligibility and benefits in the country.

UNEMPLOYMENT COMPENSATION EXTENSIONS INCREASE UNEMPLOYMENT

- Since the 2008 “stimulus” was signed by President Bush, the Keystone state’s unemployment rate has increased from 5.8 percent to 9 percent.
- Economists agree that benefit extensions lead to prolonged periods of unemployment. Congress’s extension of benefits from 46 to 79 weeks has **nearly doubled** the average duration of aid for those out of work.
- Had the average unemployment claim duration for Pennsylvania matched the average of the five states with the lowest duration time, Pennsylvania would have and **additional 57,300**

jobs and the state would have **saved \$1.1 billion in UC trust funds** last year.

PROPOSED UC REFORMS ARE NO SOLUTION

Proposals to reform unemployment compensation in PA simply shuffle money around instead of addressing how government unemployment programs affect productivity and raise taxes on employers during economic downturns.

- Governor Rendell is advocating expanding benefits eligibility and increasing the threshold of taxable income. These changes would allow the commonwealth to qualify for a one-time **\$270 million** in stimulus aid.
 - ⇒ These changes would cost taxpayers **an estimated \$60 million per year**, long after the stimulus money disappears.
- “Work sharing” legislation (HB2160) recently passed the PA House, encouraging employers to reduce employees’ hours instead of laying off workers.
 - ⇒ Employees working reduced hours would be eligible for state unemployment benefits to make up the difference in salary (ostensibly paid for only by participating employers).
 - ⇒ The program doesn't improve economic conditions, but *masks* economic data, by manipulating the unemployment rate through reductions in hours for workers.
- A so-called “solvency” solution is under debate, which includes increasing the wages on which the UC tax is imposed, increasing solvency tax rates, and an alternate mechanism to calculate base wages.
 - ⇒ These changes would impose a **tax increase on employers** for every existing or new job—increasing the average cost per employee by about \$150—while increasing the eligibility for benefits.
 - ⇒ The proposed UC tax increase would take nearly \$800 million in 2010-11 and over \$1 billion in 2011-12 from Pennsylvania employers.
 - ⇒ Based on the Pennsylvania State Tax Analysis Modeling Program (PA-STAMP), the increased collections will result in **10,000 fewer private sector jobs** in 2011 and a loss of **13,000 jobs** by 2012.

RECOMMENDATIONS

The state unemployment system is bankrupt, and can only return to solvency by enacting true reforms that address cost-drivers and eligibility, without making it more expensive for employers to hire workers. These include:

- Making UC benefits contingent on participation in job search programs and acceptance of jobs offered—incentivizing reentry into the workforce.
- Deducting other benefits—such as severance pay, Social Security, and vacation pay—from unemployment benefits. Pennsylvania is one of few states where laid-off workers can collect severance pay and unemployment benefits simultaneously.
- Adjusting eligibility for benefits and ensuring that the number of weeks of benefits does not exceed actual weeks worked.

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