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***California's Unemployment Insurance System is Broke and
Desperately Needs Both Short and Long Term Fixes***

[Sacramento] - California's Unemployment Insurance (UI) system must borrow from the federal government in order to pay benefits to jobless workers and faces long-term insolvency unless critical reforms are made, according to a new report by the California Budget Project (CBP). The report, *Building a Sound Foundation for California's Unemployment Insurance System*, concludes that California must act soon to ensure that the state's safety net for jobless workers can meet its obligations now and in the future.

"California's Unemployment Insurance (UI) system is broke. It lacks sufficient funds to pay benefits and is structurally incapable of fulfilling its goal of aiding unemployed workers over the long-term," said Jean Ross, Executive Director of the California Budget Project. "The current financing system doesn't raise enough money to pay for the benefits owed to California's jobless workers. The problem isn't our benefit structure - California's benefits are modest relative to those of other states - it is the financing system, which was designed for the labor market of 1983."

The report points out the UI trust fund faces a \$722 million deficit and that the state must borrow from the federal government to meet its commitments. Employers face unemployment insurance tax penalties if federal borrowing continues. The report documents that the long-term fiscal health of the California's UI system is in jeopardy because:

- Payments into the system have not kept pace with rising wages since employers only pay taxes on the first \$7,000 of workers' wages, a cap based on 1983 pay scales.
- Because it is based on an outdated wage standard, the state's current financing system fails to build sufficient reserves in good years to meet the demands of workers who lose their jobs during economic downturns.
- The current UI system rewards businesses that engage in frequent layoffs, such as seasonal employers, and penalizes more stable firms.
- Current eligibility rules prevent many workers with substantial recent work history from receiving benefits when they lose their jobs through no fault of their own.

“The structural imbalance of the system jeopardizes benefits for all Californians who may need them in the future,” added Ross. “And if the structural problems are not corrected, employers will face substantial penalties the longer the state has to borrow from the federal government to pay benefits.”

Building a Sound Foundation for California’s Unemployment Insurance System concludes that the state needs to take immediate steps to balance the UI trust fund in the short term and ensure that it is solvent in future years. Among the recommendations are:

- Ensure that contributions into the system are sufficient to meet demands for benefits paid out of the system. This could be accomplished, in part, by bringing the share of wages subject to the UI payroll tax up to today’s national average.
- Indexing the amount of wages that are subject to the UI payroll tax to ensure that the system has sufficient resources to meet the demands of a changing economy.
- Modify eligibility rules to more fairly consider recent wages earned by workers who lose their jobs through no fault of their own.

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The California Budget Project (CBP) was founded in 1994 to provide Californians with a source of timely, objective, and accessible expertise on state fiscal and economic policy issues. The CBP engages in independent fiscal and policy analysis and public education with the goal of improving public policies affecting the economic and social well-being of low- and middle-income Californians. Support for the CBP comes from foundation grants, publications, and individual contributions.