



North Carolina's UI system was not able to respond quickly enough to reduce benefits and/or increase state UI tax revenue to avoid insolvency. Even before the recession the state's trust fund had been depleted due to benefit amounts and duration that were high and tax effort that did not keep up with benefit pay-out.

California	\$8,386,716,023	Georgia	\$760,781,100
Pennsylvania	\$3,874,720,165	Nevada	\$683,525,170
New York	\$2,508,175,516	Florida	\$588,677,400
<b>North Carolina</b>	<b>\$2,431,563,462</b>	Missouri	\$574,518,700
Ohio	\$2,282,770,338	Colorado	\$435,207,615
Indiana	\$1,679,358,475	Arkansas	\$317,049,780
Illinois	\$964,820,908	Rhode Island	\$200,062,195
Kentucky	\$961,179,155	Arizona	\$196,164,136
Wisconsin	\$870,487,211	Vermont	\$77,731,860
New Jersey	\$827,216,586	Delaware	\$76,412,258
Connecticut	\$810,380,845	Virgin Islands	\$34,659,393
South Carolina	\$782,283,236	<b>Total</b>	<b>\$30,324,461,539</b>

The size of the current Title XII outstanding loan balance of approximately \$2.4 billion is larger in comparison to the size of outstanding loans in other states and too large to eliminate in a short period of time. North Carolina is among 23 states (including the Virgin Islands) that are currently borrowing from the FUA in order to pay UI benefits (as of May 15, 2012).

	2004	2005	2006	2007	2008	2009	2010	2011
Benefits (millions)	\$909.1	\$817.2	\$836.7	\$903.6	\$1,289.1	\$2,757.9	\$1,981.9	\$1,406.9
Tax Revenue (millions)	\$1,063	\$928.8	\$961.2	\$927.7	\$907.4	\$803.4	\$824.4	\$937.1
Annual Cash Flow	(\$153.9)	\$111.6	\$124.5	\$24.1	(\$381.7)	(\$1,954.5)	(\$1,157.5)	(\$469.8)
UI Rate	5.4%	4.9%	4.7%	5.0%	8.4%	11.3%	9.8%	10%

According to the US Department of Labor, for the twelve months ending December 31, 2011, North Carolina paid \$1,406,958,000 in state UI benefits and the state UI tax revenue was \$937,127,000. This suggests that there is an annual deficit of approximately \$470 million per year to overcome before the fund could begin to reduce the outstanding loan balance. An earlier historical review by the North Carolina Department of Employment Security underscores the imbalance has been in place since 2008.

Significant reductions in benefit amount and/or duration will be needed to eliminate the annual deficit in benefit payments compared to contributions and to reduce the current UI trust fund deficit.

#### **Average Wage Replacement Rate**

US Average	46.2%
North Carolina	51.9%
Georgia	45.7%
South Carolina	46.5%
Tennessee	41.3%
Virginia	45.2%
Florida	41.0%

North Carolina's maximum WBA is higher than states in the Southeast, is indexed to automatically increase each year, and is higher than the national average.

#### **Maximum Weekly Benefit Amount**

US Average	N/A
North Carolina	506
Georgia	330
South Carolina	326
Tennessee	275
Virginia	378
Florida	275

*Source: National Foundation for Unemployment Compensation and Workers' Compensation (UWC), Highlights of State Unemployment Compensation Laws, 2011*

The trend among states that have recently enacted legislation to improve the solvency of the state UI trust funds has been to reduce the number of potential of benefits from 26 to a lower number (Michigan 26 to 20; Missouri 26 to 20; South Carolina 26 to 20; Florida 26 to 12-23 depending on state unemployment rate; Georgia 14-20 depending on the state unemployment rate).

#### **Maximum Number of Weeks of Benefits**

US Average	N/A
North Carolina	26
Georgia	14-20
South Carolina	20
Tennessee	26
Virginia	26
Florida	12-23

The faster an individual finds employment the lower the duration and the lesser amount of benefits being paid out of the UI Trust Fund.

**Average Duration of Benefits**

US Average	17.5 weeks
North Carolina	16.3
Georgia	13.3
South Carolina	15.2
Tennessee	15.3
Virginia	16.8
Florida	18.7

*Source: United States Department of Labor Data Summary for the 4<sup>th</sup> Quarter of 2011.*

The chart below shows the continuous increase of the taxable wage base in North Carolina and what the per employee cost means to job providers in the state.

**Impact of Yearly Taxable Wage Base Increases on Employers**

<u>Year</u>	<u>Tax Base</u>	<u>Selected tax rate</u>	<u>Tax/employee</u>
1998	\$12,600	2.0%	\$ 252
1999	13,200	2.0	264
2000	13,900	2.0	278
2001	14,700	2.0	294
2002	15,500	2.0	310
2003	15,900	2.0	318
2004	16,200	2.0	324
2005	16,700	2.0	334
2006	17,300	2.0	346
2007	17,800	2.0	356
2008	18,600	2.0	372
2009	19,300	2.0	386
2010	19,700	2.0	394
2011	19,700	2.0	394
2012	20,400	2.0	408

The above chart shows that employers in this rate class alone have experienced an over 60 percent increase in the per employee cost of unemployment compensation over a 14 year period. This excludes additional costs, such as the 20 percent surtax and yearly FUTA offset credit reductions that increase the per employee cost by \$21 each year the state carries a UI loan balance.

According to the US DOL publication, “Significant Measures of State Unemployment Insurance Tax Systems” published in September of 2011, the average per employee state UI taxes paid by employers in North Carolina compares as follows:

US Average	N/A
North Carolina	\$336
Georgia	\$241
South Carolina	\$297
Tennessee	\$333
Virginia	\$177
Florida	\$286

Since the USDOL publication was prepared, South Carolina and Florida have addressed UI solvency with some increases in state unemployment tax which is not fully reflected in this comparison. However, the conclusion from reviewing other state UI tax burdens is that the state UI tax paid by employers in North Carolina is 29<sup>th</sup> in the country and above comparison states in the Southeast.

**Average UI Tax as a Percent of Total Wages**

US Average	0.91%
North Carolina	0.92
Georgia	0.55
South Carolina	0.92
Tennessee	0.83
Virginia	0.48
Florida	0.68

*Source: US Department of Labor Data Summary for the 4<sup>th</sup> Quarter of 2011 with reference to data through the 2<sup>nd</sup> quarter of 2011*

