Resolution #8

Repairing California's Broken Unemployment Insurance System Before the Next Recession

PRESENTED BY: **California Alliance of Retired Americans**

WHEREAS, Unemployment Insurance (UI) was originally designed to play a crucial role both by helping laid off workers and their families survive economically until the unemployed worker can find another job and by acting as an important stimulus to the economy by boosting demand for goods and services in times of recession. In 2009 alone, UI kept more than 5 million Americans out of poverty and saved more than 2 million jobs by boosting demand; and

WHEREAS, California's maximum weekly benefit of $450 has not been increased by the Legislature since 2001, when it passed the Federation's landmark UI reform bill, SB40, which increased the maximum weekly benefit from $230 to $450 over four years and increased the wage replacement rate from 39% of wages to 50% of wages over two years and qualified more part-time workers for benefits; and

WHEREAS, California only pays benefits to roughly one-third of our unemployed workers, the state's UI system now ranks 43rd in the nation in the percentage of the state's average weekly wage replaced by our benefits. Our state average weekly wage has grown from $806 in 2005 to $1128 in 2016, a 40% increase, while our maximum weekly benefit has remained the same at $450; and
WHEREAS, almost half (24) of the states automatically index their maximum weekly benefit amounts to prevent erosion due to inflation and many provide dependents' allowances making the system more progressive for working families; and

WHEREAS, California's UI financing system is woefully flawed and out of date. We are only one of three states still relying on the federally required minimum taxable wage base of $7,000, which was last increased in 1983, to fund our benefit program. Twenty states have indexed their UI tax bases. Washington has the highest at $44,000. Oregon's is $36,900. To equal the taxable wage base of 1943, when both the UI and the Social Security systems had a taxable wage base of $3,000 , we would have to have a wage base of at least that of Social Security which is currently $118,500 and is indexed; and

WHEREAS, in the early 1980's under the influence of Reaganomics, California along with some other states moved from a Counter-cyclical to a Pay-as-You-Go financing system for UI. This meant that instead of paying into the UI Trust Fund during periods of economic prosperity at levels that will support UI benefits during a prolonged downturn in the economy, California's employers must pay substantially higher contribution during periods of recession when they can least afford it and, if the taxable wage base and the schedule of tax rates are not adequate to fund the benefits, the state must borrow from the federal government to pay them; and

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WHEREAS, the result of this change in the financing system in the recent Great Recession was that starting in 2009, California had to borrow over $51 billion from the federal government to pay benefits and California employers had to pay UI taxes at the highest rates provided for in the state UI tax schedule plus a 15% surcharge. Moreover, employers have had their normal federal UI tax credits reduced each year of the unpaid loan resulting in a loss to them of an estimated $6.945 billion by the time the loan is repaid next year; and

WHEREAS, federal law does not require employers, but rather requires the debtor state to pay the interest on the federal loan; and

WHEREAS, this interest amounting to $ 611.7 million for the years 2011 and 2012 was paid by the state from monies borrowed from the worker funded Disability Insurance Fund (repaid with interest from the General Fund to the DI Fund in 2015 and 2016); and

WHEREAS, the state Employment Development Department projects that the UI Fund will not achieve a positive balance until 2017 and by the time the loan has been paid off in that year the General Fund, i.e. the taxpayers of California, will have paid $1.423 billion in interest, which basically represents just another tax subsidy to employers from the state; and

WHEREAS, these monies should have been used for any number of anti-recessionary purposes ,e.g. funding the COLA for the State Supplementary Program for our needy Aged ,Blind and Disabled residents and the Supplemental Security Program for our needy families which fell victim to the Great Recession thereby plunging over 1 million vulnerable Californians into poverty. Instead of going to Washington, over a billion dollars could have gone into helping people here at home and stimulating our state's economy; and

WHEREAS, the California Taxpayers' Association, which represents employers on UI issues facing the Legislature has the gall to suggest that the surplus in the worker-funded Disability Insurance Fund be transferred to the UI Fund "so that the funding of the program is not placed solely on the backs of employer and so that the deficit can be reduced and a reserve built"; and

WHEREAS, there are only three pathways to fixing California's broken UI system: 1) by an Act of Congress, 2) by a 2/3 vote of the California Legislature or 3) by a state ballot measure; and

WHEREAS, it is clear that any of these pathways is filled with obstacles which will take a great deal of public education, populist pressure and difficult negotiations to clear;

THEREFORE BE IT RESOLVED by this 31st Biennial Convention, that the California Labor Federation, AFL-CIO intensify its longstanding efforts to repair our UI system before we are hit with another recession by working with its affiliates and with our community allies to create the necessary climate to achieve reforms which will benefit both unemployed workers and the state's economy.

Adopted by Delegates