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Highlights

Highlights of [GAO-10-440](#), a report to the Chairman, Subcommittee on Income Security and Family Support, Committee on Ways and Means, House of Representatives

Why GAO Did This Study

The federal-state unemployment insurance (UI) program relies on state trust funds to hold enough reserves to meet benefit needs during economic downturns. The sufficiency of such “forward funding” has been a policy concern for decades, particularly during the recent recession, which has caused very high unemployment rates. While the economy added jobs in March 2010, unemployment remains very high and has continued to rise in most states, suggesting that state UI programs will continue to face serious financial challenges for at least the near future.

This report (1) describes the current condition of state UI trust funds, (2) highlights policies or practices that have contributed to their conditions, and (3) identifies options for improving UI forward funding in the future. To address these questions, GAO analyzed statistics from the Department of Labor, reviewed applicable laws and regulations, interviewed state UI representatives and UI experts, and synthesized GAO’s and others’ findings to present policy options.

What GAO Recommends

The Congress should begin to consider options to improve trust fund solvency, including raising the FUTA taxable wage base from its current level of \$7,000 and indexing this base to average annual wages. GAO received comments from the Department of Labor that generally concur with our findings and conclusions.

[View GAO-10-440 or key components.](#)
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UNEMPLOYMENT INSURANCE TRUST FUNDS

Long-standing State Financing Policies Have Increased Risk of Insolvency

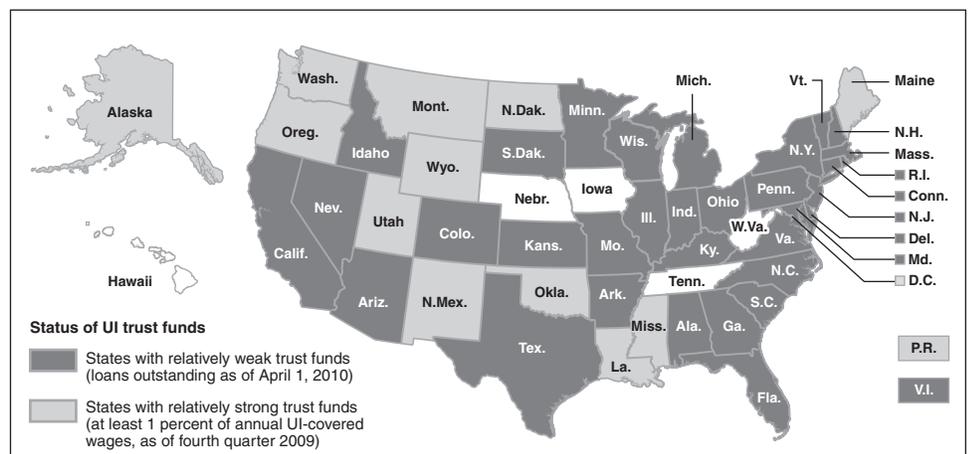
What GAO Found

By any measure, state UI trust funds are in historically poor financial condition. As of April 1, 2010, 34 of the 53 state trust funds have outstanding loans totaling \$38.9 billion from the federal government to pay benefits (see figure), and as of the end of 2009 no state had enough reserves to cover 12 months of benefits at historically high rates. Aggregate reserves net of loans measured -\$15.4 billion as of the end of 2009, the lowest level in the program’s history. Despite UI tax rates that are expected to rise significantly in many states in 2010, the Department of Labor projects that net UI reserves will remain negative for several years.

Long-standing UI tax policies and practices in many states over 3 decades have eroded trust fund reserves, leaving states in a weak position prior to the recent recession. While benefits over this period have remained largely flat relative to wages, employer tax rates have declined. Specifically, most state taxable wage bases have not kept up with increases in wages, and many employers pay very low tax rates on these wage bases.

Options to improve state UI trust fund financial conditions include raising and indexing the taxable wage base under the Federal Unemployment Tax Act (FUTA), which could induce many states to raise and index their own bases, and reducing the number of both employers paying very low rates and those that pay less in UI taxes than benefits paid to their former workers. Other options include adjusting state tax rates more frequently; raising solvency targets before lowering rates; setting additional conditions to receive interest-free federal loans; and raising interest credits for well funded trust funds. Now is the time to consider changes to policies to improve the long-term financial structure of UI trust funds.

Financial Condition of State UI Trust Funds



Source: Employment and Training Administration, Department of Labor.

Note: States highlighted in white did not have an outstanding loan as of April 1, 2010, and had trust funds with less than 1 percent of wages in reserves as of fourth quarter 2009.