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Utah's jobless trust fund is about to go broke

Recession » Officials will spend the summer looking for a solution.

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Devastated by the recession, Utah's trust fund for paying jobless benefits is now expected to go broke.

The unemployment trust fund, which just two years ago held \$855 million, continues to drain rapidly as record numbers of out-of-work Utahns draw weekly benefits. At current rates, state analysts are estimating the fund will run out of money as early as fall of 2011.

"We are projecting that we will go insolvent," Kristen Cox, executive director of the Utah Department of Workforce Services, recently told officials who set trust fund policy.

The fund holds about \$384 million now, and is replenished by an average of about \$140 million a year in premiums paid by employers. That balance ranks as the fifth healthiest among the states, dozens of which have seen their trust funds wiped out since 2008.

But with unemployment hovering at historic highs -- Utah's was 7.3 percent in May, the highest rate since 1984 -- state analysts estimate the fund will continue to pay out jobless benefits totalling about \$450 million a year through 2011. And under current rules, automatic premium increases won't take effect in time to prevent the fund hitting bottom.

"Nobody could have anticipated this," Utah Unemployment Insurance Director Bill Starks said of the depth of the recession. "I think we've seen the worst of it, but it's going to be a slow recovery."

The problem highlights what's being called "the jobless recovery." While business activity has edged up in recent months -- nationally and in Utah -- only about 3,000 of Utah's 70,000 or so employers are doing any significant hiring, state officials say. At least 98,700 Utahns remain out of work, according to figures released last week.

And many well-paying jobs lost to the downturn, especially in the manufacturing sector, "are never coming back," said Tom Bingham, president of the Utah Manufacturers Association, a trade group. "If you think they will, you're fooling yourself."

The trust fund's governing council, made up of public, labor and business representatives, has scheduled a special meeting in July to discuss emergency measures for shoring up the fund.

Said Starks: "It's going to be a long summer for the council."

Steps being considered include modifying how Utah calculates employer premiums; reductions in weekly jobless benefits; and a one-time tax-withholding surcharge on employers.

Officials will also debate letting the fund go broke and temporarily borrowing money from the federal government, possibly interest free. Utah's unemployment trust fund last ran out of money during the 1982-83 recession. The state borrowed federal money then to bridge the gap, but repaid the loans within a year and avoided interest payments.

Utah's average weekly jobless benefit is \$321. Advocates for the disadvantaged are adamantly opposed to

lowering it.

"It's a really bad idea to cut benefits during a recession," said Melissa K. Smith, a policy analyst for Community Action Partnership of Utah, an association of nine non-profit agencies serving low-income Utahns.

While squeezing unemployed residents while they are hurting, Smith said, benefits cuts also would jeopardize consumer spending just as the economy is showing signs of bouncing back.

But business advocates are similarly wary of big boosts in employer costs to help the fund. Council member Greg Diven, who heads a management consulting firm, warned that raising unemployment premiums could backfire by forcing additional layoffs, making the trust fund's outlook worse.

As it is, business owners already face substantial increases in unemployment-insurance costs, under Utah's system of adjusting premium rates automatically when the fund dips below what are considered adequate reserves.

Utah fell below that adequate reserve level in the last half of 2008, and most employers will see resulting rate increases of 50 percent or more in 2011 -- separate from any further hikes aimed at averting fund bankruptcy.

Nationally, Utah's trust fund is among the last to hit the financial skids. Similar funds in 34 states and the Virgin Islands already have gone bankrupt, forcing state leaders to borrow a total of \$38.9 billion from the federal government to keep jobless aid flowing.

The U.S. Department of Labor now projects those numbers will rise to 40 states and \$90 billion in loans by mid-2012. Under the federal Recovery and Reinvestment Act of 2009, also known as the stimulus bill, those loans are interest-free only through the end of the year.

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What the state might do

As the Utah Unemployment Trust Fund inches toward bankruptcy, state officials are considering steps to keep the fund afloat, including:

Cut the state's average weekly unemployment benefit, now at \$321 per week, 18th highest in the country. Every dollar in cuts to the average benefit would eventually save the fund about \$1 million a year, but officials warn such cuts carry wider economic consequences.

Require employers to contribute to the fund with a tax-withholding surcharge. Only three other states have taken this step, which is considered a big accounting headache for employers.

Change how far back analysts look in considering past recessions to calculate what is an adequate fund reserve today. Currently, the state formula goes back 25 years, which doesn't include the 1982-1983 recession, the last time the Unemployment Trust Fund went broke.

Change how the state calculates its so-called "reserve factor" for the fund, allowing it to slide up and down more gradually over time and changing employer premiums more often as the economy rises and falls.

Do nothing until the fund goes broke, then borrow money from the feds to cover the shortfall. Such loans are interest-free through the end of 2010, and many expect Congress will extend that deadline.

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