Ohio's Unemployment Compensation Pays Federal Debt

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Bridget E. McAuliffe
Professional

On Wednesday, August 31, Ohio issued its final payment of $218 million to end its obligation to the federal unemployment trust fund. Ohio and more than 30 other states borrowed money from the federal unemployment trust fund in response to the great recession. Ohio borrowed $3 billion over 2009-2014 due to an underfunded state unemployment fund at the time of the economic downturn. Of those states, Ohio and California were the only states that still owed the federal government in 2016. Under a mandatory repayment system, employers have paid a higher federal unemployment to pay down the loan's principle, while the state has paid interest on the loan. Ohio issued the final the payment as a result of a measure included in HB 390 which the Ohio legislature passed on May 25. This permitted the state to borrow money from the unclaimed funds up to $250 million to repay the debt by November 1, 2016. The plan was developed by Senate President Keith Faber and the business community in an effort to avoid the 6th annual increase in the federal penalty tax on employers, which would have been implemented on January 1, 2017 if the debt was not paid in full by November 1 deadline. It is estimated the early payment will save employers an additional $351 million in penalty payments to the feds in 2017. The plan requires employers to repay the state the money it borrowed from the unclaimed funds. Employers will be assessed approximately $50 per employee in 2017, while the federal unemployment tax rate will return to approximately $45 per employee due to loan repayment. Even with the new assessment employers will pay to the state to repay the unclaimed funds, it is estimated the payment is approximately $75 less per employee in 2017 had the federal debt not been repaid. In addition, the two-year grace period for future borrowing is reestablished. If there is another significant economic downturn in the future, the plan will require employers to begin repaying the debt immediately before the federal penalties kick-in after two-year grace period. In addition, a broader unemployment compensation system reform effort is also under way. HB 394 (Sears) stalled during the spring session and a joint legislative committee was established to continue working on the issue over the summer to develop an agreed upon plan for the long-term sustainability of the system. The Committee is being Chaired by Senator Bob Peterson (R-Washington Courthouse) and Rep. Kirk Schuring (R-Canton). The Committee is taking input from a broad group of stakeholders including labor groups, businesses and Ohio's workers. During the Committee's first hearing, Bruce Madson, assistant director for employment services at Ohio Department of Job and Family Services (ODJFS), told members of the committee that Ohio's unemployment system is structurally out of balance. Unemployment benefits are statutorily indexed to wage growth and increase frequently, while an employer's tax rate rises and falls depending on experience rating, and the

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taxable wage base is constant. The state's unemployment taxes rise and fall in response to economic cycles. He called unemployment compensation "an event-driven program." He warned the Committee that even though the state has repaid its federal obligation, another significant economic downturn would immediately make the fund insolvent. The Committee is working to reach a solution for approval during lame duck session in December. The Committee is scheduled to meet on October 6, 20 and November 3.