

# Michigan's Unemployment Insurance Situation

- State UI taxes paid by employers are deposited in the state's Unemployment Insurance Trust Fund. The fund is designed to operate under the assumption that benefit liabilities are funded in advance of actual payment. This allows for the systematic accumulation of benefit reserves in the trust fund during periods of economic growth in order to have sufficient assets to pay unemployment benefits during periods of economic decline.
- When Michigan's Unemployment Insurance Trust Fund runs out of money to pay benefits, loans from the Federal Unemployment Insurance system trigger on in order to continue benefit payments. At its' worst, Michigan was in debt to the Federal Unemployment Insurance system for almost \$3.9 billion. On a per capita basis Michigan leads the nation in federal borrowing.
- Recent increases in state trust fund collections have reduced the amount of state debt to about \$3.2 billion, but state employers will be assessed penalty and solvency taxes to repay these loans and interest. This increase in payroll taxes will have a negative affect on the ability of business to create jobs.
- Beginning in 2012, federal (FUTA) penalties on employers will be \$63 per employee per year. Negative balance employers will also pay an additional \$67.50 per year. Another assessment is necessary to pay off outstanding interest on the federal loans and could be as much as \$46 per employee per year. Beginning in 2013, additional federal penalties (called the "BCR add-on") are possible in future years for up to \$231 per employee per year. Total cost = \$340 for positive balance employers and \$408 for negative balance employers – per employee per year.<sup>i</sup>
- These penalties are **in addition** to regular state UI tax payments and could continue for years until all loans are repaid. Some projections show that in 2017-2018 the loans may be repaid, however at this point the Trust Fund balance would be zero with no reserves for another economic downturn. If another downturn occurs – the cycle repeats and borrowing resumes and so does another round of penalties and employer payroll assessments.

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<sup>i</sup> FUTA penalty of \$63 represents third year outstanding loan penalty of .03% reduction in the FUTA credit times federal wage base =  $.03 \times 7000 = \$21 \times 3 \text{ years} = \$63$ . Federal BCR add-on formula is  $\text{Max} [\text{five-year State Average Cost/Taxable Wages, } 2.7] - \text{Average Annual State Tax Rate on Total Wages}$ . Current UIA estimates of this amount is .033.  $.033 \times 7000 = \$231$ . Current maximum solvency tax on negative balance employers is \$67.50 per employee per year. The \$46 interest charge is derived by adding total estimated interest on federal debt of \$136 million per year divided by 3,039,103 employees currently in the UI system.