

The Proposed NASWA \$6 Billion Special Reed Act Distribution

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The Proposal

- NASWA proposed a \$6 Billion Special Reed Act Distribution on October 24, 2008 (see letter);
- NASWA has no position on UI Modernization;
- NASWA did not view the \$6 Billion Special Reed Act Distribution as competitive with UI Modernization when it made this proposal.

Special Reed Act Distribution Would:

- Distribute \$6 billion dollars to state unemployment trust fund accounts with 10% or \$600 million set aside for employment services and UI administration;
- Distribution is based on state's share of federal unemployment taxes estimated to have been paid by employers in each state (see state-share table)
- States can use these funds to cover the cost of benefits; to avoid tax increases or expensive borrowing from the Federal government; or to fund employment services or unemployment insurance administration.

Sufficient Funds in Loan Account

- Based on projections by USDOL, NASWA believes there is at least \$6 billion credited to the Federal Unemployment Account (Loan Account) in the Unemployment Trust Fund to cover the cost of the proposal.
- See letter dated October 24, 2008

Evidence from 2002 \$8 Billion Special Reed Act Distribution

- In the first two years, about \$4 billion was spent by states on employment services, unemployment insurance administration and benefits;
- Also in the first two years, States avoided increasing unemployment taxes by about \$4 billion dollars
- (see study summary)

Economic Stimulus Criteria

- Economists assert there are three criteria for evaluating economic stimulus proposals:
 - Whether it is **Temporary**;
 - Whether it is **Timely**; and
 - Whether it is **Targeted**

Special Reed Act Distribution is Economic Stimulus

- It is a **Temporary** one-time infusion of \$6 Billion into state unemployment trust fund accounts;
- It is **Timely** with benefits occurring within two years;
- It is **Targeted** to provide fiscal relief to States; and
 - It helps low-wage workers with employment services and;
 - Reduces the burden of unemployment taxes on low-wage workers.

UI Modernization is Permanent Reform

- The economic stimulus should be temporary, timely and targeted.
- UI modernization is targeted on low-wage workers. The benefit side is targeted to help low wage workers, but the extension of the .2 percent FUTA surtax imposes an additional tax burden on low-wage workers. In harmony with NGA policy, NASWA has consistently opposed the .2 percent surtax extension.
- But, it is not Temporary and it is likely to take two years or more for many states to enact the needed reforms to qualify for the incentive payments;
- 30 States would have to amend their State UI laws to qualify for the incentive payments under UI Modernization.

NASWA Board of Directors Meets Next Week

- In summary, NASWA supports a \$6 Billion Special Reed Act Distribution;
- NASWA has no formal position on UI Modernization, but as of today there is no consensus.
- NASWA will be discussing these issues next week and might announce additional policy positions later.