Ky. employers will pay for Senate's inaction

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At issue | April 16 Herald-Leader news article, "Unemployment fix left undone by legislature"

By Larry Clark

Around this time last year, Gov. Steve Beshear established a task force to address a persistent problem of insolvency in Kentucky's unemployment insurance system that was exacerbated by the worst labor market in 30 years.

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I was honored to have been asked to serve on that task force, along with 17 other Kentuckians representing widely divergent interests in the business and labor communities. Our task force included several other members of the House of Representatives and Senate, both Democrats and Republicans.

After 11 full task-force meetings and five sub-group meetings, employer and employee interests came together to deliver a set of recommendations to the governor and General Assembly about how to return the unemployment insurance system to solvency.

Those recommendations became House Bill 349, legislation that I sponsored and that passed the Kentucky House by 97-0 on Feb. 8.

Then the unemployment rate was 10.7 percent, where it stands today. In February, we had 133,000 claimants, with 221,000 total unemployed. Today, those figures are 148,000 and 223,000, respectively.

Then, we had borrowed $640 million from the federal government just to pay regular benefits (this does not include extra benefits paid exclusively by the federal government). Today, those total borrowed funds have reached $793.7 million.

Kentucky paid $1.1 billion in regular unemployment insurance benefits in 2009. But employer contributions only covered $368 million of those benefits. This imbalance is due not only to currently difficult economic circumstances but more so to long-neglected structural problems in the way we fund the system.

Unemployment insurance is a joint federal and state program. It provides a safety net of modest benefits for the unemployed. It is important to our communities too, because, by some estimates, every dollar in benefits paid returns $1.64 to the local economy when those individuals buy groceries, shop and pay bills.

The system is funded by employer contributions to an unemployment insurance trust fund, calculated on the first $8,000 of an employee's wages. Our 86,000 employers also pay a federal unemployment insurance tax based on the employee's first $7,000 in wages, but employers get a credit against that tax if they pay their state unemployment contributions on time and in full.

If benefits exceed the amount of employer contributions, the federal government lends money to cover the difference. In 2011, Kentucky will join many other states in becoming a "credit reduction state," which means Kentucky will begin repaying the debt owed the federal government, with interest.

"Credit reduction" means just what it says — employers will see a reduction in their federal credit that, if we do nothing, will cost them $1.8 billion in additional federal taxes and interest over the next 12 years, which is the time horizon the task force applied to design the package of employer contributions and employee benefits reductions included in HB 349.

It has been estimated that adoption of HB 349 would save our employers up to $700 million over the same period — they would pay marginally higher employer contributions at the state level but would save their federal credit. At the same time, employees would forego $300 million in reduced benefits.

So, you may ask, what happened to HB 349? In the Senate: nothing. It received one committee hearing and no vote. It was not debated on the Senate floor and was not voted upon by the full body before conclusion of the regular session on April 15.

The solutions proposed in HB 349 were the product of faithful negotiations by knowledgeable, committed individuals genuinely interested in resolving a problem we all recognized. The way the task force approached its work could be a model for cooperation among management and labor on other issues.

Representatives of the various labor organizations, UPS, the Kentucky Chamber of Commerce, the Kentucky Association of Manufacturers and the Kentucky Retail Federation should all be commended for speaking with a united voice in advocating passage of this important bill.

It will be difficult in the future to gather the same level of support necessary to crafting and passing new legislation to solve this ongoing problem. I hope those in the Senate who were unwilling to act favorably upon HB 349 can be persuaded that this kind of consensus should be rewarded — not just on this issue, but on others as well.