

Senate Costs Kentucky's Business \$700 Million

By Refusing to Enact HB349 – Unemployment Insurance Reform

Op-Ed by Speaker Pro Tem Larry Clark

Last year Governor 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 thirty years. I was honored to have been asked to serve on that task force, along with seventeen 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 eleven 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 to the 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 of Representatives on February 8th by a vote of 97-0.**

In February, when the House passed the bill, the unemployment rate was 10.7%, 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 federal benefits paid exclusively by the federal government). Today, those total borrowed funds have reached \$793.7 million.

Structural Imbalance

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.

Continued

Fixing the System

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 and its sister states 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 twelve years**, which is the time horizon the task force applied to design the package of employer contributions and employee benefits reductions included in House Bill 349. **It has been estimated that adoption of House Bill 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.

Senate Blocks House Bill 349

So, you may ask, what happened to House Bill 349? The answer: 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 15th.

The solutions proposed in House Bill 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 one, united voice in advocating passage of this important bill.

But when one chamber of the legislature turns its back on consensus and fails to respond to the clear needs of both the business community and its employees, the “model” is broken. It will be very 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 still that the unity of purpose defining the efforts of this past year can be maintained. More important, I hope those in the Senate who were unwilling to act favorably upon House Bill 349 can be persuaded that this kind of consensus should be rewarded, and not just on this issue, but on others as well.

Rep. Larry Clark
Speaker Pro Tem
46th Legislative District
Kentucky House of Representatives