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Report: Irresponsible Tax Breaks Created Today's Shortfall in Michigan Unemployment Insurance Fund

Jobless Workers Take Biggest Hit, But Benefit Cuts Will Not Restore Solvency

Ann Arbor – While Michigan enacted deep cuts to its unemployment insurance (UI) program earlier this year and more cuts will be considered when lawmakers return to Lansing after Labor Day, a new report from the National Employment Law Project explains that no amount of UI benefit cuts can make up for financing shortfalls caused by years of ill-advised tax breaks that dwindled reserve funds and left the state woefully unprepared for a recession.

"Michigan lawmakers have dug such a deep hole for the state's unemployment insurance trust fund that relying on benefit cuts to restore the fund to solvency is an exercise in futility and delusion," said **Christine Owens, executive director of the National Employment Law Project**. "State leaders who think benefit cuts are the solution need to get real and start focusing on policies that will honestly deal with the chronic underfunding of Michigan's UI trust fund."

The report, entitled, "Can't Get There From Here: Facing Reality in Financing Michigan's Unemployment Insurance Program," recounts a series of ill-advised UI payroll tax cuts dating back to the 1990s that have contributed to Michigan's current UI financing shortfall. Due to the shortfall, Michigan is currently borrowing $3.2 billion from the federal government to keep its UI program running during this prolonged period of high unemployment. The first interest payment on this debt is due September 30th.

Between 1996 and 2000, Michigan businesses received a $750 million tax cut, courtesy of the UI trust fund and unemployed workers who sacrificed $350 million of benefits as the result of a cap on the maximum weekly benefit amount. In 2002, the second year of what would be the trust fund's decade-long decline, lawmakers granted employers another tax break, this time cutting the amount of wages subject to taxation by $500.

Most recently, with trust fund borrowing in excess of $1 billion, Michigan gave businesses a two-year break on a special tax designed to cover interest payments on trust fund loans, potentially leaving state taxpayers on the hook for a $50 million shortfall this year. And, despite historic borrowing, Michigan dug a deeper hole by allowing a state tax credit to partially offset a federal tax increase that would have begun paying back trust fund loans.

In March, Michigan became the first state in the nation to cut the maximum number of weeks that jobless workers can file for unemployment insurance from 26 weeks down to 20 weeks, for claims filed in January 2012 and thereafter. Pending legislation would further reduce UI benefit levels and restrict program eligibility. During the years since 1995 that Michigan's employers have been awarded billions in UI payroll tax cuts, Michigan's maximum weekly benefit has only been raised once (in 2002), and remains at only $362 a week.

State lawmakers have sought to justify deep unemployment insurance cuts by suggesting that they will help stave off UI payroll tax increases on employers, but that is a false promise, according to the report. Benefit cuts will do little to lower upcoming federal interest payments and do nothing to stop future federal UI tax payroll increases on Michigan's employers. The report urges policy makers to accept the reality that the only way to restore Michigan's unemployment insurance program to solvency is through a return to adequate levels of UI financing.

The report points out the critical importance of maintaining a robust unemployment insurance program: the UI system acts as a stabilizer during economic downturns by providing a lifeline for jobless workers and their families while also boosting consumer demand in local economies. Unemployment insurance programs are widely regarded as one of the most effective ways to boost spending and economic output.

Proposed federal legislation would temporarily waive federal interest payments and offer immediate tax relief to states that reform their financing practices and get on a path to long-term solvency.

"Michigan's unemployment insurance financing problems are rooted in a history of irresponsible employer tax breaks that date back to the 1990s. Because of those tax breaks, which the state really couldn't afford, Michigan's UI fund paid out more than it took in for 10 straight years, leaving the state ill-prepared to cope with the Great Recession," said Owens. "Rather than cutting benefits, Michigan should be looking for ways to rebuild the long-term financial health of the state's UI trust fund. Expecting jobless workers to make all the sacrifices, when employers have long enjoyed the tax breaks that got us into this mess, is just plain wrong."

The National Employment Law Project is a non-partisan, not-for-profit organization that conducts research and advocates on issues affecting low-wage and unemployed workers. For more about NELP, visit www.nelp.org.

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