

# Employers Picking Up The Tab For State Loans

Kevin Freking, Associated Press

WASHINGTON (AP) — States that borrowed billions from the federal government to keep unemployment benefits flowing through the recession now have to start paying those loans back, and they're hitting businesses with new assessments and higher taxes to make that happen.

In all, 27 states owe the federal government nearly \$38 billion. The first interest payments on those loans were due Friday and totaled about \$1.1 billion.

Most states charged employers a one-time assessment to cover the charge. But those charges are only part of the story.

Businesses pay two types of unemployment insurance taxes. A federal tax primarily covers the administrative cost of the program, and a state tax pays for the basic benefits that laid-off workers receive. In most of the states that borrowed from the feds, the federal tax will increase by \$21 per worker next year. Similar increases will take place in subsequent years until the loans are paid in full. Meanwhile, the state taxes have soared in just about every state to deal with the strain caused by the high numbers of people applying for unemployment benefits.

Joe Olivo, owner of Perfect Printing in Moorestown, N.J., with 45 employees just outside Philadelphia, estimates that he'll pay an additional \$24,000 this year in unemployment insurance taxes. He's also dealing with higher expenses elsewhere, mainly for his employees' health care.

"The problem is I can't grow my sales fast enough or raise my prices fast enough to make up for that additional expense," Olivo said.

Olivo's rates also went up because, like many employers, he reduced staff during the recession, and states generally charge higher rates to companies with past layoffs.

"It all goes into putting me into a mode where you're just so much more hesitant to invest," he added. "I put my house and all my family's assets into loans when I choose to invest. I don't have the luxury of being wrong like some of these large companies."

States collect payroll taxes to pay future unemployment insurance benefits, but the recession soon drained whatever reserves most states had generated. Those states then had to resort to federal loans to keep payments flowing. The federal government is charging an interest rate of about 4 percent.

To make its interest payment, Connecticut assessed its employers a one-time charge of about \$40 per worker. New York charged businesses roughly \$24 per

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worker, and Delaware charged \$12.60, according to the National Employment Law Project, which is tracking states' efforts to repay their loans. Ohio is making its \$71 million interest payment with money obtained through a lawsuit settlement with tobacco companies. California is borrowing more than \$300 million from its disability insurance trust fund.

New Jersey sets an example of the triple whammy hitting employers. Businesses paid a one-time \$24 assessment per worker to cover the interest payment due last Friday. Next year, they'll pay an extra \$21 per worker in federal taxes to help pay off the loan principal. And at the state level, unemployment insurance taxes increased an average of \$130 per worker this year and will go up by a similar amount over the next two years.

"Right now, the way the economy is, any little bit that increases costs can put some of our members over the edge," said Lori Ehlbeck, state director for the National Federation of Independent Business in New Jersey.

Some states, such as Texas and Idaho, have paid off their federal loans by issuing bonds. Businesses in those states won't have to pay a higher federal tax next year as a result, but those businesses are still dealing with significantly higher state taxes.

The federal government delayed interest payments on the federal loans for two years, a byproduct of the 2009 economic stimulus bill. Congress declined to pass legislation that would delay interest payments any further.

States aren't just passing on the higher costs to businesses though. Many have looked to reduce benefits. Six states have reduced the number of weeks someone can collect basic benefits. For example, Michigan, South Carolina and Missouri cut the time frame for collecting benefits from 26 weeks to 20 weeks. Opponents of the cuts, such as the National Employment Law Project, argue that the cuts will not prevent significant tax hikes and that they undermine the program's ability to help the unemployed get through tough economic times.

The tax increases in some states cannot be blamed simply on the soaring demand for unemployment insurance. Many states went into the recession ill prepared for bad times. The reserves those states had set aside for unemployment insurance payments had dwindled to historically low levels generally because state lawmakers wanted to limit employer taxes. In New Jersey's case, lawmakers diverted money from the state's unemployment insurance trust fund and used the revenue to pay for health care for the indigent.

"What really galls me as a business owner in New Jersey is that they raided these funds for years and used it for other purposes," Olivo said. "They were warned that if there was ever a downturn, there was going to be a huge problem."

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