



California **Labor** Federation | AFL-CIO

MYTHS VS. FACTS ABOUT UNEMPLOYMENT INSURANCE IN CALIFORNIA

California's Unemployment Insurance system is facing a serious fiscal crisis. According to the State EDD, the UI Trust Fund will become insolvent in January 2004.

Some employer organizations in California are taking advantage of the Trust Fund's fiscal crisis to spread ***misleading information*** about the state's UI system. It's time to ***separate the MYTHS from the FACTS about Unemployment Insurance in California.***

MYTH: CA businesses will pay the “highest UI tax rate in the country” in 2004.

FACT: This tax rate applies only to the first \$7,000 of wages—the lowest “taxable wage base” in the country!

Employer associations have complained that an “unprecedented hike” in the unemployment tax rate will give California the “highest UI tax rate in the country” in 2004.

It's time to check the facts. It's true that UI taxes will increase in 2004—the average California employer's tax rate will increase to 4.7 percent from the 2003 average of 3.1 percent.¹ But what the employer associations don't tell you is that ***California businesses pay those tax rates on only the first \$7,000 of wages, the lowest “taxable wage base” in the country!***

A taxable wage base of only \$7,000 means that California has:

- The lowest taxable wage base that the federal government allows,
- The lowest taxable wage base as a percentage of average wages, and
- A lower taxable wage base than 40 other states.²

California has also not increased its taxable wage base since 1983! A low and stagnant taxable wage base has meant that employer contributions to the UI Trust Fund have failed to keep pace with the growth in the state's economy. ***During the second quarter of 2003, California employers paid the lowest UI taxes in history*** when measured as a percentage of total wages. California employers paid 0.5 percent of total wages in UI taxes in 2003, compared to 0.97 percent in 1993 and 1.04 percent in 1983.³

MYTH: CA has the “most liberal” eligibility requirements in the country.

FACT: The UI reciprocity rate in CA reflects the national average.

Employer associations in California claim that the state's UI system allows too many unemployed Californians to receive benefits.

¹ California Employment Development Department (EDD)

² U.S. Department of Labor, Office of Workforce Security

³ U.S. DOL, Office of Workforce Security

The facts show that California's eligibility standards are in line with the rest of the country:

- ***California's reciprocity rate ranks 19th in the country***—46 percent of unemployed Californians receive UI benefits compared to a national average of 42 percent.⁴
- ***California turns away more UI applicants than the national average for failure to meet monetary eligibility requirements***—13 percent of UI claimants in California fail to meet the state's monetary eligibility requirements compared to a national average of 9 percent.⁵

MYTH: Recent benefit increases in CA were “too generous.”

FACT: Benefits in CA remain far below the national average.

Senate Bill 40 (Alarcon, 2001) increased maximum UI benefit levels in California. (Maximum UI benefit levels reached \$410 in 2004 and will reach \$450 in 2005.) Employer associations argue that these benefit levels are too “generous.”

The truth is that California's UI benefit increases were long overdue and are far from excessive. A few important facts about UI benefits in California and the SB 40 increases:

- Before the passage of SB 40 (Alarcon) in 2001, California ranked ***last in the country*** for the adequacy of its UI benefits (measured in terms of wages replaced).⁶
- ***California still ranks only 44th in the country for the adequacy of its UI benefits.*** During the third quarter of 2003, the average weekly unemployment benefit replaced only 32 percent of the average weekly wage in California, compared to a national average of 37 percent.⁷
- ***Seventy percent of UI recipients receive less than the weekly benefit maximum.***⁸
- ***The average UI recipient will see their benefits increase only \$20 in 2004.*** The EDD predicts the average UI benefit level will increase from \$243 per week in 2003 to \$263 in 2004.⁹

California's UI Trust Fund faces a serious fiscal crisis. California policymakers must look past the rhetoric to recognize that the UI Trust Fund needs adequate, sustainable funding to preserve the unemployment benefits that laid-off workers need to get back on their feet.

⁴ California EDD

⁵ Vroman, UI Working Group, 2003

⁶ U.S. DOL, Office of Workforce Security

⁷ U.S. DOL, Office of Workforce Security

⁸ California EDD

⁹ California EDD