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How North Carolina Has Led the Nation With Unemployment Indexing

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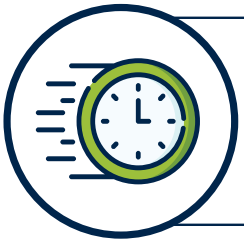
KEY FINDINGS

IN 2013, NORTH CAROLINA **LINKED THE DURATION OF UNEMPLOYMENT BENEFITS TO ECONOMIC CONDITIONS**.



INDIVIDUALS CYCLED OFF THE PROGRAM **NEARLY TWICE AS FAST**.

UNEMPLOYMENT COSTS IN THE STATE **DECLINED BY 87 PERCENT**.

EMPLOYER TAXES WERE CUT BY **NEARLY 75 PERCENT**.

NORTH CAROLINA'S UNEMPLOYMENT INSURANCE TRUST FUND **GREW BY $5.7 BILLION**.

NORTH CAROLINA'S UNEMPLOYMENT PROGRAM WEATHERED COVID-19 **MUCH MORE FAVORABLY THAN NON-INDEXING STATES**.

THE BOTTOM LINE:

TYING UNEMPLOYMENT BENEFITS TO ECONOMIC CONDITIONS CAN IMPROVE UNEMPLOYMENT PROGRAMS AND BETTER PREPARE STATES FOR ECONOMIC DOWNTURNS.

Overview

In the early 2010s, states across the nation were still struggling with the lingering effects of the Great Recession.[1] Some of the most severe and pronounced impacts were on state unemployment systems, which went from having more than $40 billion in their trust funds in 2007 to complete insolvency, having to borrow roughly $40 billion by 2011 just to keep benefits flowing.[2] North Carolina was not immune from this unemployment insurance (UI) trust fund crisis.

By early 2013, North Carolina had taken out $2.7 billion in federal loans for its UI trust fund, among the highest in the nation.[3] Policymakers decided to take action, adopting new reforms to the unemployment system that linked how long individuals could collect benefits to economic conditions.[4-6] Under these changes, individuals are eligible for 12 weeks of UI benefits when the state's unemployment rate is at or below 5.5 percent.[7] As the unemployment rate ticks up by each half a percentage point, claimants are eligible for another week of benefits—up to a maximum of 20 weeks.[8]

BY EARLY 2013, NORTH CAROLINA HAD TAKEN OUT $2.7 BILLION IN FEDERAL LOANS FOR ITS UI TRUST FUND, AMONG THE HIGHEST IN THE NATION.

The impact of this reform cannot be understated. Since 2013, North Carolina has become a nationwide model for sensible UI policy. Unemployment costs have declined, employer taxes have decreased, individuals have moved back into the workforce more quickly, the trust fund has been replenished, and the state has better navigated the effects of COVID-19 and government shutdowns.

Individuals cycled off the program nearly twice as fast

In 2013, individuals in North Carolina receiving unemployment remained on the program for nearly 16 weeks on average—roughly four months.[9] By 2018, the average time on unemployment in North Carolina had fallen to less than 9 weeks—meaning individuals were leaving the program nearly twice as fast as before the reform went into effect.[10] Meanwhile, the average unemployment duration in non-reform states fell by just one week over the same period.[11]

States sharing a border with North Carolina saw lackluster drops in program dependency over the same five-year period, with declines of less than a week in South Carolina, Tennessee, and Virginia.[12]

As states across the country struggled to cycle individuals off of unemployment and into the workforce, North Carolina stood as a shining example.

Unemployment costs declined by nearly 87 percent

Just before unemployment indexing was implemented in North Carolina, the state was paying out nearly $282 million per quarter in benefits.[13] However, five years later, the state was paying roughly $38 million per quarter—an astonishing drop of nearly 87 percent.[14]

Meanwhile, over the same period, program costs fell by less than one-third at the national level.[15] And North Carolina's UI program costs were declining three times as fast as states that did not reform their unemployment systems.[16] By 2018, North Carolina's unemployment costs had fallen to the lowest in the nation in relation to total wages.[17]

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Employer taxes were cut by nearly 75 percent

Prior to reforming its unemployment system, North Carolina businesses paid $10.30 in UI taxes for every $1,000 in wages.[18] By 2018, this had declined to just $2.60 in taxes per $1,000 in wages—a drop of nearly 75 percent.[19] North Carolina's unemployment taxes were declining twice as quickly compared to states that did not reform their unemployment systems.[20]

By 2018, North Carolina's average UI taxes were 53 percent lower than non-reform states.[21] And over that same five-year period, North Carolina went from having one of highest average tax rates in the region to one of the lowest average tax rates in the nation.[22] In total, this represents hundreds of millions in savings to North Carolina businesses across the state.

UI REFORM SAVED NORTH CAROLINA BUSINESSES HUNDREDS OF MILLIONS OF DOLLARS.

North Carolina's unemployment insurance trust fund grew by $5.7 billion

Before North Carolina linked its unemployment program to economic conditions, it still owed federal taxpayers $2.2 billion that it had borrowed to keep its unemployment system afloat.[23] The state's

net trust fund balance was close to $2 billion in the red—one of the largest deficits in the nation.[24]

In just two years after indexing unemployment, the state had completely paid off its outstanding loan to the federal government.[25] And five years after adopting unemployment indexing, it had a trust fund balance of $3.6 billion in the black.[26] In total, North Carolina's trust fund experienced a roughly $5.7 billion swing in just five years.[27]

IN TOTAL, NORTH CAROLINA'S TRUST FUND EXPERIENCED A ROUGHLY $5.7 BILLION SWING IN JUST FIVE YEARS.

North Carolina's unemployment program has weathered COVID-19 much more favorably than non-indexing states

Unsurprisingly, states' UI programs have been hit hard by COVID-19 and the government policies imposed during the pandemic. In particular, federal unemployment bonuses and expansions have decimated state economies and UI programs alike, fostering dependency and driving up deficits.[28-29]

From January 2020 to November 2021, trust fund balances declined by 113 percent nationally—going from $74 billion in assets nationwide to more than $9 billion in the red. [30] However, North Carolina's trust fund balance remains far healthier, having dropped just over 20 percent over that same time.[31] The state's trust fund assets remain above $3 billion—making it one of the largest in the nation.[32] This would be enough to cover another economic downturn should one occur.[33]

THE BOTTOM LINE: Tying unemployment benefits to economic conditions can improve unemployment programs and better prepare states for economic downturns.

North Carolina's experience with unemployment indexing is a true success story. Other states, such as Florida, have seen similar results after implementing unemployment indexing.[34] Policymakers around the country could secure healthier trust fund balances, lower taxes, and reduce dependency if they followed North Carolina's lead and adopted unemployment indexing.[35]

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North Carolina can also take the next step in improving the integrity of its unemployment system by codifying regular data cross-checks of UI recipients with publicly available data, recovering improper unemployment payments, strengthening work search requirements, and more.

Meanwhile, as states across the country continue to grapple with a labor shortage and job openings, one of the best things lawmakers could do is emulate the success of North Carolina by indexing unemployment to economic conditions.

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