STATE BUDGET 2008-09: SPECIAL SESSION

ENSURING BENEFITS FOR CALIFORNIA'S UNEMPLOYED

RESTORING SOLVENCY TO THE UNEMPLOYMENT INSURANCE FUND WHEN WE NEED IT MOST

Over the years California's Unemployment Trust Fund has helped millions of struggling Californians get through tough employment downturns and difficult transition periods, while also pumping billions of dollars into our economy. But now, when California needs both of those things most, the Fund is on the brink of bankruptcy. That's because while the state has increased the benefits provided to unemployed Californians, it has done almost nothing to increase the money going into the fund. This imbalance has caused the fund to atrophy in our current employment climate, as the unemployment rate has risen higher and faster than anyone predicted. Governor Schwarzenegger has a plan to rescue this fund and ensure it continues to help those Californians most in need.

California's rising unemployment has placed unexpected additional strain on our already-strained Unemployment Insurance Fund – and without action the fund is projected to be insolvent beginning in 2009. Our unemployment rate has risen higher and faster than anyone predicted – and California's unemployment trust fund is quickly running out of money.

- California's unemployment rate stands at 7.7 percent – much higher than projections made by both the state's Department of Finance and UCLA's economic forecasts.

- The financing system for the trust fund is over 20 years old – and while benefits have increased, contributions have remained the same – and rising unemployment is placing unexpected demands on the fund.
  Maximum weekly payments have nearly doubled since 2001, from $230 to $450, and the percentage of a person's weekly wage they can receive in benefits has increased from 39% to 50%.

- The Fund is projected to be $2.4 billion in the red for the coming calendar year and $4.9 billion in the red in 2010. If no changes are made, federal taxes for California employers will increase in 2012.

Governor Schwarzenegger has a solution to shore-up the fund and save it from bankruptcy – protecting benefits to unemployed Californians. The Governor is calling for a gradual increase in contributions into the Fund, combined with a small reduction in benefits in order to maintain the fund's solvency. The components of his plan are as follows:

- Maintain payments to the unemployed in the short-term by taking out a federal loan.
- Increase the amount in contributions employers make to the Fund by increasing the taxable wage ceiling from $7,000 to $10,500 and the maximum tax rate from 6.2 percent to 8.1 percent. The increased contributions will range from a minimum of $56 to a maximum of $416.50 per employee.
- Slightly reducing benefit levels including lowering the replacement rate from 50 percent to 45 percent and increasing the minimum earnings requirement to file a claim from 3.5 weeks to 7.5 weeks in a year.