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Opinion: State unemployment insurance needs reform now

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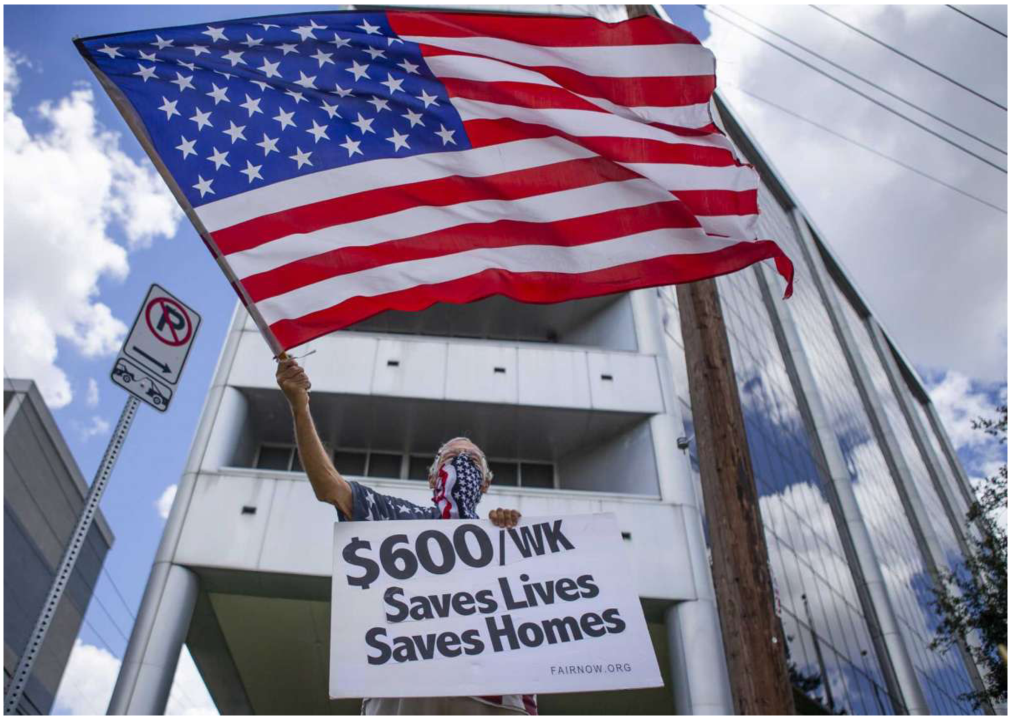

Ira B Dember waves a flag and holds a sign in solidarity with unemployed workers with the organization United Here, a union that represents hospitality workers, demonstrating along Memorial Drive on Tuesday, Aug. 11, 2020, outside of Senator John Cornyn's office in Houston. The demonstration involved a food distribution for unemployed hospitality workers who have watched their $600 benefits expire.

Mark Mulligan, Houston Chronicle / Staff photographer

Many consider Texas to be among the most independent and fiscally responsible states in the nation, but during the past year, an explosion of unemployment benefits and possible overpayments have left the state $6.7 billion in debt to the federal government.

Texas' unemployment insurance, or UI, program had major financial problems even before the pandemic. In February of last year, the U.S. Department of Labor released its annual solvency report of state UI programs. Texas was ranked second to last among all 50 states in the U.S., ahead of California and tied with New York. Certainly, few Texans want to be grouped in a bottom three with these two states, but their programs share similar flaws that bear an unfair burden on the most but their programs share similar flaws that bear an unfair burden on the most economically vulnerable workers and employers.

It is unacceptable that Texas has one of the least fiscally solvent and most poorly designed unemployment insurance programs. Encouraging policymakers to make simple and fiscally responsible policy changes now could help support and accelerate Texas' economic recovery and power continued economic growth in the years ahead.

These programs are funded by payroll taxes on employers, which most workers are unaware of but directly affect the cost to an employer of hiring any worker. For three decades, Texas has held its taxable wage base for UI at $9,000 — meaning, $9,000 is the maximum amount of earnings on which a Texas employer pays UI tax for any employee in a year. Texas' UI tax rates are also "experience-rated," taxing employers anywhere between $28 and $568 per worker annually (0.31 percent-6.31 percent) depending on the employer's number of recent layoffs.

Despite Texas holding its unemployment insurance tax base constant since 1989, the average wage in the economy has almost tripled, and Texas has kept pace by allowing unemployment insurance benefits to grow. Laid-off Texans who qualify currently receive 52 percent of their most recent earnings up to a weekly maximum of $535, paid for up to 26 weeks. This implies workers receive partial insurance on earnings up to $53,500 annually but pay taxes on earnings up to just $9,000 annually, granting the highest paid workers "free insurance" on $44,500 of earnings.

The system hurts low-wage and part-time workers. Consider this scenario of two individuals working for the same company: Scott is paid $10 hourly and works 20 hours per week; John is paid $25 hourly and works 40 hours per week. Even though the tax cost to the employer is identical for these two workers, if both were laid off, John's weekly UI benefit would be five times as great as Scott's ($520 versus $104).

This could be different. Most states (31 out of 50) have weathered the recession without borrowing from the federal government, including neighboring Oklahoma, which was ranked seventh on last year's solvency report. Other neighboring states Louisiana and New Mexico have also had to borrow far less than Texas.

In Oklahoma and New Mexico, UI tax bases are double and triple that of Texas, $18,100 and $24,800, respectively. These larger tax bases mean that both states can have much lower tax rates for their employers and provide more protections for low-wage and part-time workers.

The best path forward is clear: Texas needs to broaden its tax base beyond $9,000. This will allow Texas to lower tax rates on employers, which will reduce the cost to employers of hiring lower-income workers and rationalize the program's financing. Because employers of lower-income workers have been disproportionally hit by the pandemic-related slowdown, reducing the hiring costs for these employers could help accelerate Texas' economic recovery.

Some may argue that we cannot afford to raise taxes on anyone, even in a targeted way, as we try to recover from the recession. But this reform would change taxes very little, on average, while relieving the tax burden from millions of low-income Texans.

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