Paula R. Worthington
Senior Lecturer and Academic Director, Harris Policy Labs
1307 East 60th Street
Chicago IL 60637
pworthington@uchicago.edu
harris.uchicago.edu

COVID-19 Fiscal Pressures in Illinois: Unemployment Trust Fund

Paula R. Worthington

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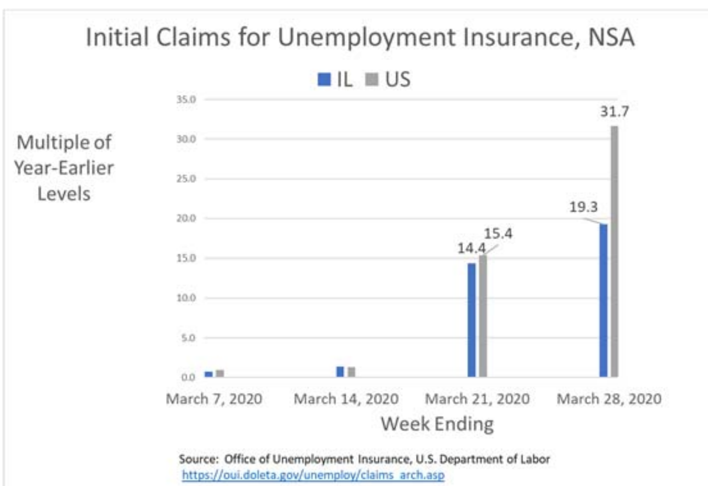
Overview

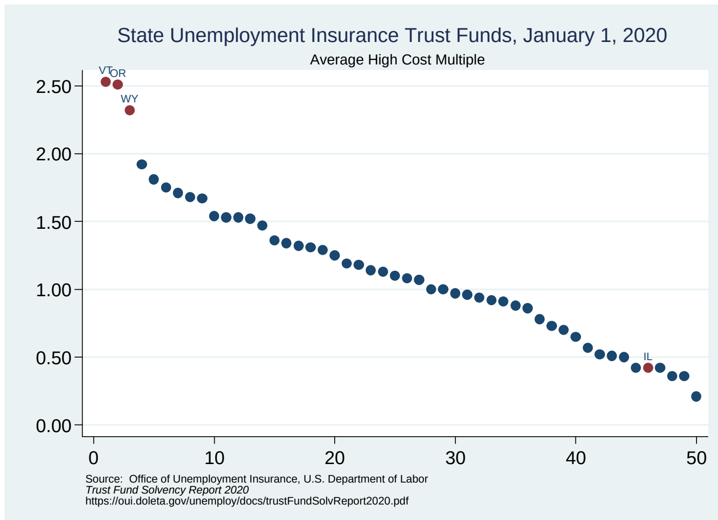
- Unemployment claims in Illinois surged in the second half of March, as economic activity deteriorated at an historically unprecedented pace.
- Illinois's unemployment insurance trust fund has inadequate funds available to meet demands for unemployment compensation.
- Illinois will likely rely on borrowing from the federal government and tapping additional resources made available through the Families First Coronavirus Response Act and the Coronavirus Aid, Relief, and Economic Security Act (CARES).

The Details

- The U.S. Department of Labor reported last week that Illinois workers filed 178,133 unemployment insurance claims in the week ending March 28, 2020, nearly 20 times higher than claims made in the corresponding period last year.
- Nationwide, claims doubled from the prior week, reaching 6.6 million on a seasonally adjusted basis—over 30 times higher than corresponding claims made last year--as COVID-19-related disruptions and layoffs accelerated in the second half of March. Illinois's claims grew far more slowly than U.S. claims in the most recent filings, but this likely does not suggest a "better than average" local employment situation but instead reflects the processing "crunch" state officials face from the "unprecedented volume" of claims (Antinori 2020).



- Illinois's unemployment insurance trust fund, which accumulates tax payments from employers and is used to fund benefit payments to eligible individuals, is in very weak condition. The state's average high cost multiple, which is the ratio of its most recent reserve ratio (trust fund balance over wages) to the average of its three highest benefit-to-cost ratios (benefits paid over wages) over the last 20 years, was 0.423 as of January 1, 2020, with values greater than 1 considered the "minimum level of adequate state solvency going into a recession" (Office of Unemployment Insurance 2020).
    - Only three states, Texas, New York, and California, had lower average high cost multiples, as Illinois's performance relative to other states has deteriorated steadily since 2014, when 22 states were in worse condition than Illinois.



- Under "normal" circumstances, states can borrow funds from the federal government to support their ability to pay unemployment benefits during times of cyclical fiscal stress. In addition, the Families First Coronavirus Response Act (HR 6201) and the Coronavirus Aid, Relief, and Economic Security Act (CARES) provide significant additional federal funds to help states meet the needs of laid-off workers nationwide.
    - HR 6201 includes up to $1 billion in "emergency administrative grants" to states to meet increased program administration demands, temporarily waives interest payments and accrual of interest on federal loans made to states, and temporarily removes state cost-sharing for extended benefits (Donovan, Isaacs, and Whittaker 2020).
    - The CARES Act, which extends eligibility to previously ineligible workers, raises benefit payments, and provides 13 additional weeks of federally-financed benefits, provides additional fiscal support, for example by decreasing the reimbursement rate from 100% to 50% for state and local government entities, nonprofits, and Indian Tribes who do not pay employee unemployment taxes but instead reimburse the state for the cost of unemployment compensation paid to their former employees (Isaacs and Whittaker 2020).

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About the Author

Paula R. Worthington is a Senior Lecturer at the Harris School of Public Policy at the University of Chicago, where she is affiliated with the Center on Municipal Finance and serves as academic director of the School’s Policy Labs program and faculty lead on its MPP program. At Harris, Worthington teaches courses in state and local government and cost-benefit analysis and advises students completing applied projects for public and nonprofit sector clients. She is consistently recognized for excellence in teaching, having received nine teaching awards since joining Harris in 2004. She may be reached at pworthington@uchicago.edu.