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Why does Illinois' Unemployment Insurance Trust Fund have a large deficit?

Authors

Xiaoyan Hu, PhD Student, Department of Public Administration, College of Urban Planning and Public Affairs, University of Illinois Chicago

Alea Wilbur-Mujtaba, PhD Student, Department of Public Administration, College of Urban Planning and Public Affairs, University of Illinois Chicago

David Merriman, Co-lead, Institute of Government and Public Affairs Fiscal and Economic Policy Working Group; James J. Stukel Presidential Professor of Public Administration at the College of Urban Planning and Public Affairs, University of Illinois Chicago

UNIVERSITY OF ILLINOIS SYSTEM

INSTITUTE OF GOVERNMENT AND PUBLIC AFFAIRS

INTRODUCTION

The economic disruption brought about by Covid and stay-at-home orders led to an unprecedented rise in unemployment and extreme fiscal stress on states' unemployment insurance (UI) trust funds. Although this happened in nearly all U.S. states, Illinois is one of only a few states that emerged with a very large—more than $4 billion—net deficit in the fund. Through this analysis, we seek to understand Illinois' experience and draw lessons about policy going forward. We begin by providing some background about the UI system and its financing.

Background on the Unemployment Insurance (UI) system

The unemployment insurance (UI) system was created in 1935. The system is a form of social insurance that provides temporary income support to eligible people who have lost their jobs through no fault of their own.[1] In addition to providing temporary income support to unemployed people, the system automatically provides economic stimulus when the unemployment rate increases during economic downturns.[2]

The system consists of three tiers of benefit payments.[3] Tier 1 is the regular state UI program administered by each state government. These benefits are funded through payroll taxes collected from employers.[4] States have some discretion under this program but usually provide benefits

Contact: Robin Fretwell Wilson, Director, IGPA: (217) 244-1227

for up to 26 weeks to qualified unemployed workers. Tier 2 is the Extended Benefits (EB) program, which is activated automatically in a recession when a state's unemployment rate exceeds a predetermined level. EB is usually financed jointly by state and federal governments on a 50-50 basis. Once activated, the benefits could be extended by up to 20 weeks. Tier 3 is the temporary federal benefits extensions that have been created by Congress during every recession since 1958. These benefits are fully funded by the federal government. To be eligible for benefits of any of the three tiers, an unemployed worker must file a claim and meet both monetary and nonmonetary criteria.[5] Subject to a few federal requirements, states generally have flexibility in setting both eligibility criteria and the levels of benefits.

Employers fund the system by paying state UI taxes. These taxes are remitted to the federal UI trust fund, where each state has a separate account called the UI trust fund. The government levies a Federal Unemployment Tax Act (FUTA) tax on employers to (1) cover the administrative costs of the UI programs; (2) provide federal loans to states' UI trust fund; and (3) pay for extended benefits during periods of high unemployment.

Both state and federal UI taxes are paid based on the taxable wage base. Employers pay taxes on each dollar of wages paid to their employees until a taxable wage cap or ceiling is met. The federal taxable wage ceiling is $7,000, with a federal tax rate of 6% levied on that portion of earnings. However, employers in states with a UI program meeting the federal standards can claim credits up to 5.4%, and thus the effective federal tax rate is usually 0.6% so the federal tax on employers in general is $42 or less.[6]

In contrast, each state sets its taxable wage ceiling and tax rate to finance its benefits.[7] The taxable wage base varies greatly from state to state but most states usually set a higher base than the $7,000 required under FUTA. In addition, most states automatically adjust their taxable wage base if FUTA is amended to apply a higher amount.[8] The taxable wage base may also vary for a given state in different years. Illinois has had a taxable wage base of $12,960 for most years since 2012. However, in 2012, 2013, and 2020, it had a taxable wage base of $13,560, $12,900, and $12,740, respectively.[9]

Each state's UI tax rate (or the employer contribution rate) is based on an experience rating system required by federal law. Under the system, each employer's tax rate depends on its "experience" of laying off eligible employees who have received UI benefits. The more employees that have been laid off, the higher the employer's UI tax rate.

The "experience rated" UI tax rate formulas are designed so that employer tax payments cover the cost of UI benefits. However, during recessions, when the unemployment rate is high, states' UI trust funds often become depleted.

The "experience rated" UI tax rate formulas are designed so that employer tax payments cover the cost of UI benefits. However, during recessions, when the unemployment rate is high, states' UI trust funds often become depleted. In this situation, states may draw on UI trust fund reserves or borrow from the federal government or other sources to continue UI payments. If a state borrows from the federal government and has an outstanding balance on January 1 of two consecutive years, it has to repay the full amount of the advance before November 10 of the second year. Otherwise, the credit available to employers in that state would be reduced every year until the full advance is repaid. In addition, interest is charged on advances in most cases.

Illinois' UI Trust Fund

UI benefit payments quickly decreased Illinois' UI trust fund balance because of Covid-induced layoffs and economic disruption. To continue paying the UI benefits, Illinois borrowed more than $4.5 billion from the federal government. Illinois had the third-highest outstanding federal debt among US states at the end of both 2020 and 2021.[10]

In response to the pandemic and the associated economic downturn, the federal government provided temporary federal benefits to states through the Coronavirus Aid, Relief, and Economic Security Act (CARES) and American Rescue Plan Act of 2021 (ARPA). Many states allocated some of the federal relief funds to pay down their trust fund deficits soon after CARES and ARPA were passed. Illinois did not use federal funds to support the UI program until March 25, 2022, when the Governor of Illinois signed a bill dedicating $2.7 billion of the state's $8.1 billion ARPA funds to its UI fund. **Figure 1** below provides a cross-state comparison of UI trust fund net balances[11] per person, without and with federal relief funds, at the end of 2021.[12] Note that per capita deficits were greatly affected by states' choices about the use of federal relief funds.[13]

POTENTIAL REASONS FOR ILLINOIS' UI TRUST FUND INSOLVENCY

In this section, we explore two potential explanations for Illinois' large UI trust fund deficit. The first explanation could be thought of as "circumstances beyond the control of state policymakers" while the second explanation could be thought of as design characteristics that virtually assure the observed outcome. Of course, both could be partial contributors, so we attempt to disentangle their separate effects.

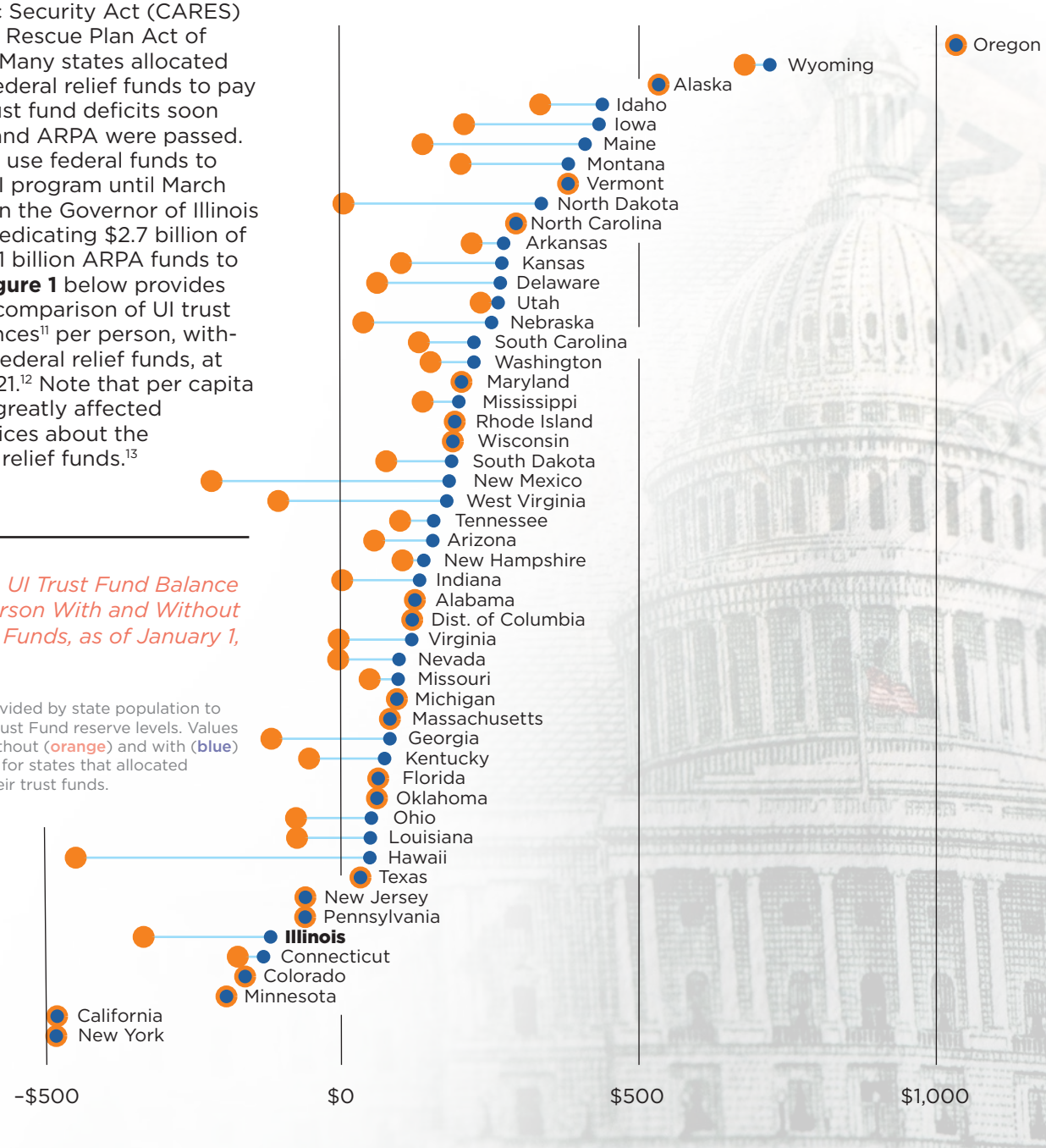


Figure 1: State UI Trust Fund Balance Dollars Per Person With and Without Federal Relief Funds, as of January 1, 2022

Net balance was divided by state population to show average UI Trust Fund reserve levels. Values were calculated without (**orange**) and with (**blue**) federal relief funds for states that allocated federal funds to their trust funds.

Source: State UI trust fund balance and outstanding debt data are from the 2022 State UI Trust Fund Solvency Report. Population data are from the ACS.

Allocated federal fund data are from the NCSL as of 1/1/2022 except for Illinois' $2.7 billion allocation in April 2022.

Circumstances beyond the control of state policymakers: high number and duration of unemployment claims

One possible explanation for the poor fiscal condition of Illinois' UI trust fund is the extreme labor market disruption brought about by Covid along with the Covid-induced statewide stay-at-home orders[14] and mitigation plans (Original Restore Illinois Plan).[15]

States differed in the duration and type of their statewide stay-at-home orders.[16] Most states imposed statewide stay-at-home orders during roughly the same periods between March and May 2020. After that, states lifted their restrictions and imposed different mitigation plans to bring back their economies. In anticipation of its statewide stay-at-home order ending on May 29, 2020,[17] Illinois released a five-phase restoration plan on May 5, 2020. On June 11, 2021, Illinois moved to Phase 5 and fully reopened most of its industries and activities.[18]

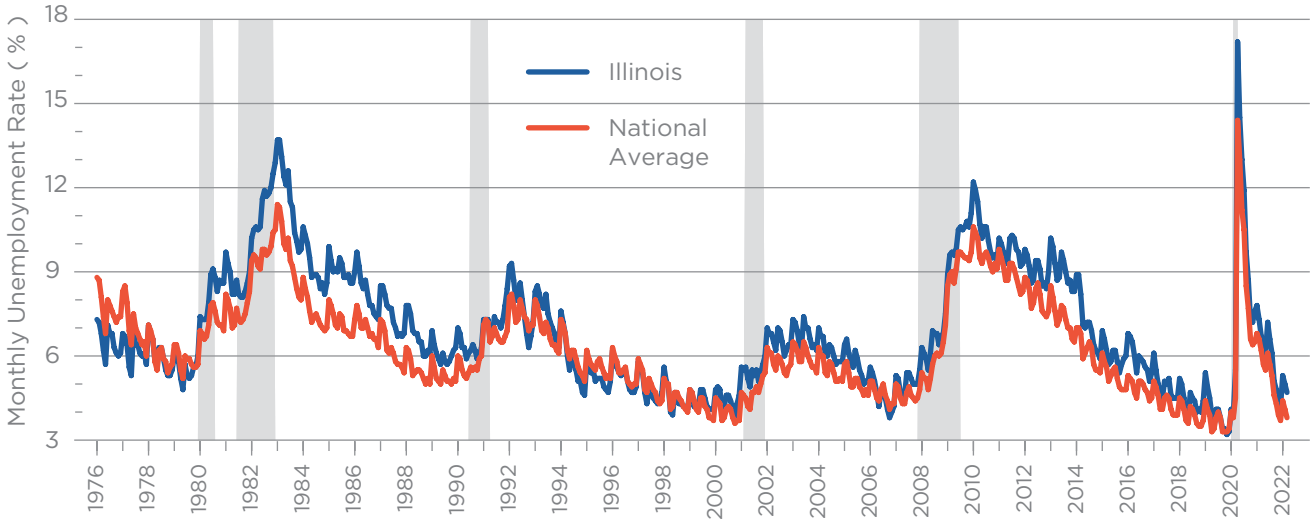
Figure 2 below shows the unemployment rates in Illinois and the national average from January 1976 through March 2022. Illinois' unemployment rate has been consistently higher than the national average since the 1980s. The unemployment rates in Illinois and the national average show parallel trends, but the largest increase for both of them occurred during the Covid-19-induced economic recession from March to April 2020. This period is also the time when most states imposed stay-at-home orders. At the end of April, the unemployment rates in Illinois and the national average peaked at 17.2% and 14.4%, respectively.

Illinois' unemployment rate has usually been higher than the national average since the 1980s. After the Covid-19 induced economic recession, the discrepancy between Illinois' unemployment rate and the national average grew larger.

Naturally, an increased number of unemployed people will lead to an increase in the number of unemployment claims and increased expenditures from the UI trust fund. Nearly all states faced this pressure. Did Illinois face especially difficult circumstances and does this explain its relatively large UI debt?

We conducted statistical analyses that compared Illinois' pre- and post-Covid unemployment rates to pre- and post-Covid unemployment rates in other states.[19] Illinois' unemployment rate would typically be about 1.02 percentage points greater than the national average in the pre-Covid period, but during the post-COVID period from March 2020 through May 2021 the rate has been about 1.93 percentage points greater than the national average. If Illinois' post-Covid unemployment rate had been "normal" relative to the national average, the unemployment rate in Illinois would have been only 1.02 percentage points higher than that of the national average. In the post-Covid period (through May of 2021) the national average

Figure 2: Illinois' and the National Average Unemployment Rate since 1976



Source: Federal Reserve Economic Data. Not seasonally adjusted

unemployment rate was roughly 7.2%. Thus, under the hypothetical situation, Illinois' unemployment rate would have been just 8.22% (=7.2+1.02) rather than the actual 9.13% (=7.2+1.93).

We produced a rough estimate of the cost to the UTF of Illinois' unusually high unemployment rate. In the post-Covid period from March 2020 through May 2021, Illinois unemployment benefit payments totaled about $7.9 billion.[20] If Illinois' unemployment benefits had experienced a percentage change equal to its unemployment rate under the hypothetical and actual situations, the hypothetical benefit payments would have been close to $7.1 billion instead of the $7.9 billion that occurred.[21] In other words, if Illinois could have achieved its "normal" relative unemployment rate during the post-Covid period it would have decreased the UI benefit payments by about $0.8 billion. This difference would account for about 19% of Illinois' UI outstanding debt of $4.2 billion at the end of May 2021.

We estimate that Illinois' UI benefit payments would have decreased by about $0.8 billion if Illinois' unemployment rate had maintained its historical relationship to the national average unemployment rate.

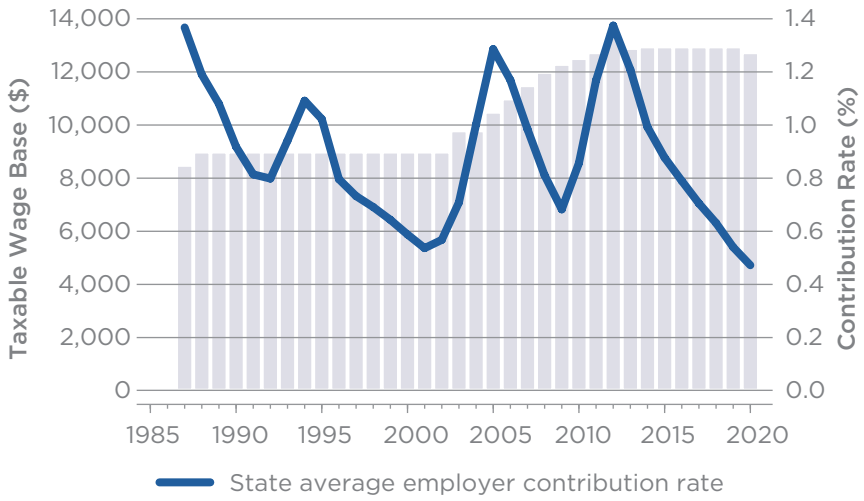
Design characteristics: "Pay-as-you-go" Financing

More than two decades ago a report of the National Employment Law Project[22] suggested that the structural flaws in Illinois' "pay-as-you-go" financing strategy for the UI trust fund was the main reason for its fiscal stress in the early 2000s. The system has allowed employer tax rates to fall during economic booms and the taxable wage base to grow much more slowly than total wages. As a result, trust fund balances have not been adequate to pay benefits when the unemployment rate rises rapidly.

Almost two decades after the release of the 2003 report, Illinois' UI trust fund financing strategy appears unchanged. Illinois has continued its pay-as-you-go financing of the UI trust fund. **Figure 3** shows that the state average employer contribution rate has decreased during each economic boom after the 1980s, and the taxable wage base has been relatively flat except for a small and gradual increase from 2003 to 2012. These increases did not keep pace with the growth of total wages.

Illinois' pay-as-you-go financing practices have resulted in low trust fund balances, prevented the accumulation of additional reserves during good years, and increased the likelihood of deficits during economic downturns.

Figure 3: Illinois Taxable Wage Base (in Dollars) and UI Tax Rate (as a Percent of Total Wages)



Source: Illinois Taxable Financial Data and Taxable Employment and Wage Data, https://oui.doleta.gov/unemploy/hb394.asp. Figure 3 on the left shows Illinois' taxable wage base; on the right shows the average employer contribution as a percentage of state total wage.

Currently, Illinois' targeted trust fund balance has been set to $1 billion. It was last adjusted in 2006 from its previous level of 750 million, set in 1988.[23] If the fund is less than the target balance, then payroll taxes automatically increase, and vice versa. During good times, if the targeted fund balance is set too low, it is easy for the fund balance to exceed the targeted fund balance which triggers a decrease in payroll tax rates. Since a fund balance of $1 billion will be insufficient to get Illinois' UI trust fund through a severe economic downturn, the current financing strategy results in deficits.

Under pay-as-you-go UI financing, employer contributions are enough to cover the state UI benefit payments during years of typical unemployment, but they are not sufficient to build UI trust fund reserves. As a result, Illinois has maintained a low UI trust fund balance for many years. **Table 1** compares the UI trust fund balance in 2000, 2007, and 2019. Each of the three years is the last year of economic recovery and growth before a new recession. Illinois' trust fund balance, measured as a percent of state total wages, was 1.1, 0.8, and 0.7 percent in 2000, 2007, and 2019. In other words, through three economic boom periods, Illinois' trust fund gained no additional ability to weather an economic storm. Thus, it becomes nearly inevitable that severe recessions will stress Illinois' UI financing system.

Reserves accumulated in good years are not enough to cover the high benefit payments during economic downturns. However, increasing employer contributions during economic downturns can slow economic activity and prolong an economic slump.

Table 1. Illinois UI Trust Fund Balance, State Total Wage, and Reserve Ratio Ending of 2000, 2007, and 2019

Year	(1) UI Trust Fund Balance as of Dec 31 ($million)	(2) State Total Wage as of Dec 31 ($million)	(3) Reserve Ratio*
2000	2,091	185,874	1.1%
2007	1,802	226,423	0.8%
2019	1,946	297,156	0.7%

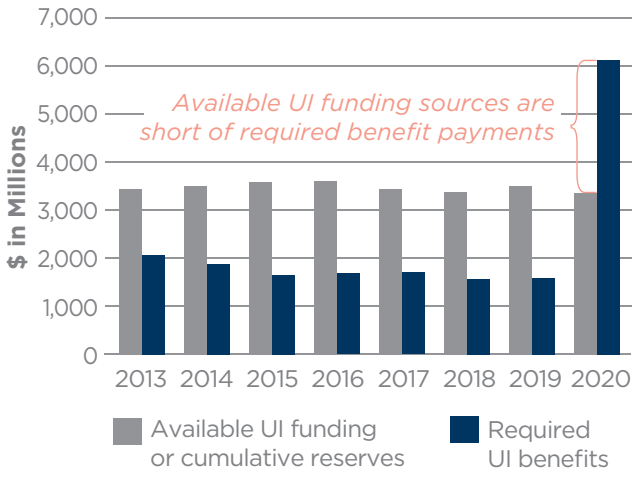
Notes: * Column (1)/Column (2)

Source: ET Financial Data Handbook 394 Report, Illinois Taxable Financial Data and Taxable Employment and Wage Data, *https://oui.doleta.gov/unemploy/hb394.asp*

Figure 4 shows that the current year UI funding resources (trust fund balances plus current year employer contributions) were sufficient to pay UI benefits during the relatively high economic activity years of 2013 to 2019 but were not nearly sufficient when the pandemic hit in 2020.

U.S. Department of Labor, Employment & Training Administration (ETA) assesses the adequacy of a state's UI trust fund reserves using the Average High-Cost Multiple (AHCM) which is the ratio of a state's trust fund balance in the current year to its projected benefit payouts.[24] An AHCM value of one—indicating a reserve sufficient to pay benefits for one year without additional revenue—is considered the minimum level for adequate state solvency going into a recession.

Figure 4: Illinois' Available UI Funding and Benefit Payments Required 2013-2020



Source: Illinois Taxable Financial Data and Taxable Employment and Wage Data, *https://oui.doleta.gov/unemploy/hb394.asp*.

Illinois' AHCM has consistently been among the lowest of any state. The last time Illinois achieved an AHCM of one was in 1974.[25] Of the top ten states with negative trust fund balances (without federal relief funds) in Appendix 2, only Georgia, Minnesota, and Hawaii had an AHCM near or exceeding the recommended value of 1 at the beginning of 2020. All exhausted their UI reserves during 2020 and 2021 (**Table 2**).

Table 2. Comparison of the Average High-Cost Multiples among the Ten States

State Name	2020	2021	2022
California	0.21	0.00	0.00
New York	0.37	0.00	0.00
Illinois	0.42	0.00	0.00
Georgia	1.25	0.05	0.31*
Minnesota	0.94	0.00	0.00
Colorado	0.78	0.00	0.00
Ohio	0.42	0.00	0.18*
Pennsylvania	0.65	0.00	0.00
Hawaii	1.29	0.00	0.09*
Connecticut	0.50	0.00	0.00

Note: * All states would have AHCM values of zero without the use of federal funds. AHCM scores do not go below zero when a state has a negative balance or debt.

Source: State UI Trust Fund Solvency Report, https://oui.doleta.gov/unemploy/solvency.asp.

CONCLUSIONS AND POLICY IMPLICATIONS

As of January 1, 2022, Illinois' UI trust fund balance had a deficit of $4.18 billion—the 3rd largest deficit among US states. We argue that Illinois' higher-than-average post-pandemic unemployment rate and the pay-as-you-go financing contributed to its UI trust fund deficits. While dramatic increases in the unemployment rate brought about by a pandemic may be beyond state policymakers' control, some actions could be taken to diminish the chances of large future UI trust fund deficits. We discuss three reforms that state policymakers might consider.

First: Conduct a thorough evaluation of recent experience with Illinois' UI programs and the trust fund to identify potential reasons for, and policy responses to, revenue declines and cost increases

Illinois policymakers should thoroughly evaluate the flow of revenues into the UI trust fund and payouts from the fund, especially during the pandemic. Furthermore, they should determine the reasons for and extent of declines in revenues, and similarly, the reasons for and extent of increases in benefit payouts. A detailed examination of Illinois' experience compared to that of other states should be conducted. Several questions could be considered. To what extent was Illinois' higher than normal rate of unemployment during the pandemic the result of the public health emergency? What role did industrial structure play? How was Illinois' UI trust fund different from or similar to that of other states?

While we do not explicitly discuss the cost of UI fraud in the above analysis, there is evidence that UI fraud was rampant nationwide[26] and that Illinois was no exception.

Based on data from the Department of Labor, the UI fraud payments in Illinois from 7/1/2020 through 6/30/2021 (SFY21) were about $431 million.[27] However, security experts estimated that fraud could cost over $1 billion.[28] Furthermore, according to the Illinois Office of the Auditor General's audit that was released in mid-June of 2022, nearly $1.9 billion of the $3.6 billion in UI payments from the Pandemic Unemployment Assistance (PUA) program funded by the federal government in SFY21 were fraudulent claims, and the majority of them were related to identity theft.[29]

The auditor recommended that the state, or the Illinois Department of Employment Security (IDES), implement security controls over the PUA system, maintain accurate and complete PUA claimant data, and conduct monthly cash reconciliations on a timely basis.[30] While the auditor's analysis

recognized that the IDES accepted all these recommendations and that some remedies have been implemented, it suggested that the IDES expand its focus to the state's entire UI system. In addition to fraudulent claims in the PUA program, we suspect that other federally funded UI programs and the state's regular UI program could also face similar problems. Consequently, it is important to focus on reducing fraud in the entire system for a comprehensive evaluation of the state's UI system.

Second: Reexamine rules surrounding the trust fund to formulate a sustainable and less volatile financial plan

Illinois should formally evaluate the benefits and costs of a forward-funding approach for its UI trust fund. This approach would require higher employer taxes during economic booms but would allow tax rate stability or even tax cuts during economic downturns. Illinois should study the potential impact of such a change in financing strategy on the labor market and employer viability, especially during downturns. Would lower state payroll taxes during downturns allow quicker economic recoveries? What would be the impact on different industries and at different points in the wage distribution? What is the appropriate UI targeted fund balance?[31] Should this target be indexed to taxable wages?

Third: Consider whether it is appropriate to use federal relief funds to address current and future UI trust fund deficits

Nine states borrowed from the federal government to continue their UI benefit provisions through the end of both 2020 and 2021.[32] Illinois has consistently had the third-highest outstanding federal debt.

By January 1, 2022, most states had used all or part of their CARES and APRA funds to help ease the pressures on their UI programs. As of March 25, 2022, Illinois has allocated $2.7 billion of its APRA funds to address its outstanding UI debt to the federal government.

The question of how the remaining federal relief funds should be used remains. Should these funds be used to pay the UI debt accumulated in the past or be spent on current investments in an attempt to make up for earlier deficits? The first option may largely benefit employers by avoiding increased federal payroll taxes. The second potentially distributes future benefits to more people in the form of better infrastructure or services if the current, relatively low federal interest rate is taken into consideration. Even after applying the $2.7 billion to the $4.5 billion hole in the UI trust fund, a UI debt of $1.8 billion remains. Consequently, the state needs to find ways to resolve the remaining balance of this unprecedented deficit.

The current Illinois UI trust fund situation has taken more than five decades to get into, and time will be required to resolve it. But state leaders do need to address it, as the UI system plays a critical role in providing temporary income support to the unemployed and also in maintaining spending power that supports economic recovery during downturns.

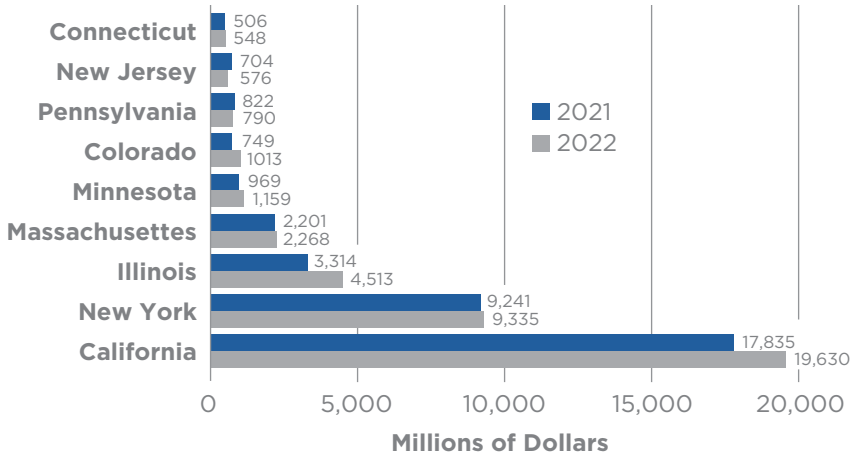
APPENDIX

Appendix 1.

Use of Federal Government Loans to Continue UI Benefit Programs in Nine States

The figure shows nine states borrowed from the federal government to continue their UI benefit programs through the end of both 2020 and 2021.

Appendix 1. Use of Federal Government Loans to Continue UI Benefit Programs in Nine States



Source: State UI Trust Fund Solvency Report, 2021 and 2022.

Appendix 2.

Cross-State Comparison of UI Trust Fund Net Balances and Net Balances Per Person, Without and With Federal Relief Funds, as of January 1, 2022

State Name	(1) UI Trust Fund Balance ($ millions)	(2) Outstand-ing Debt ($ millions)	(3) Federal Relief Funds: CARES and APRA ($ millions)	(4) Balance Without Federal Relief Funds ($ millions) **	(5) Balance With Federal Relief Funds ($ millions) ***	(6) Popu-lation (millions)	(7) Balance Without Federal Relief Funds Per Person ****	(8) Balance With Federal Relief Funds Per Person *****
California	577	19,630	6	-19,059	-19,053	40	-481	-480
New York	74	9,335	0	-9,261	-9,261	19	-482	-482
Illinois*	336	4,513	2,700	-4,176	-1,476	13	-334	-118
Georgia	923	0	2,200	-1,277	923	11	-117	84
Minnesota	51	1,159	0	-1,108	-1,108	6	-193	-193
Colorado	52	1,013	0	-961	-961	6	-161	-161
Ohio	622	0	1,500	-878	622	12	-75	53
Pennsylvania	29	790	0	-760	-760	13	-59	-59
Hawaii	71	0	700	-629	71	1	-449	51
Connecticut	87	548	155	-616	-461	4	-174	-130
New Jersey	52	576	0	-524	-524	9	-59	-59
New Mexico	390	0	851	-461	390	2	-218	185
Louisiana	237	0	575	-338	237	5	-73	51
Kentucky	338	0	575	-237	338	4	-53	75
West Virginia	317	0	502	-185	317	2	-105	181
Virginia	1,050	0	1,072	-22	1,050	9	-3	122
Nevada	324	0	335	-11	324	3	-4	100
North Dakota	264	0	260	4	264	1	6	341

(Appendix 2 table continues on page 10)

(Appendix 2 table continued)

State Name	(1) UI Trust Fund Balance ($ millions)	(2) Outstanding Debt ($ millions)	(3) Federal Relief Funds: CARES and APRA ($ millions)	(4) Balance Without Federal Relief Funds ($ millions) **	(5) Balance With Federal Relief Funds ($ millions) ***	(6) Population (millions)	(7) Balance Without Federal Relief Funds Per Person ****	(8) Balance With Federal Relief Funds Per Person *****
Indiana	923	0	900	23	923	7	3	135
Delaware	272	0	209	63	272	1	63	272
South Dakota	171	0	100	71	171	1	78	189
Nebraska	504	0	427	77	504	2	39	257
New Hampshire	196	0	50	146	196	1	106	142
Maine	565	0	375	190	565	1	140	416
Rhode Island	207	0	0	207	207	1	194	194
Montana	423	0	200	223	423	1	204	387
Vermont	241	0	0	241	241	1	387	387
Oklahoma	251	0	0	251	251	4	63	63
Kansas	801	0	500	301	801	3	103	275
Missouri	609	0	300	309	609	6	50	99
Alaska	390	0	0	390	390	1	541	541
Wyoming	425	0	25	400	425	1	686	729
Mississippi	596	0	182	414	596	3	140	201
Arizona	1,201	0	759	442	1,201	8	58	157
Massachusetts	2,854	2,268	0	585	585	7	85	85
Alabama	628	0	0	628	628	5	127	127
Idaho	844	0	200	644	844	2	340	445
Iowa	1,395	0	728	667	1,395	3	210	440
Arkansas	844	0	165	679	844	3	223	277
Tennessee	1,111	0	400	711	1,111	7	102	159
South Carolina	1,213	0	500	713	1,213	5	134	227
Utah	902	0	100	802	902	3	238	268
Michigan	963	0	0	963	963	10	96	96
Texas	1,037	0	0	1,037	1,037	30	34	34
Wisconsin	1,123	0	0	1,123	1,123	6	191	191
Washington	1,790	0	580	1,210	1,790	8	153	227
Maryland	1,250	0	0	1,250	1,250	6	206	206
Florida	1,433	0	0	1,433	1,433	22	65	65
North Carolina	3,227	0	0	3,227	3,227	11	299	299
Oregon	4,522	0	0	4,522	4,522	4	1,045	1,045

Notes: *On March 25, 2022, Illinois Gov. JB Pritzker signed a bill dedicating $2.7 billion ARPA funds to bring the state's outstanding UI debt to approximately $1.8 billion. The per person balance becomes -$118. ** (-1)*[Column (2)-column (1)+column (3)]; Table is ordered based on Column (4). *** (-1)*[Column (2)-column (1)]. **** Column (4)/Column (6). ***** Column (5)/Column (6).

Source: UI trust fund balance and outstanding debt data are from the 2022 State UI Trust Fund Solvency Report, https://oui.doleta.gov/unemploy/solvency.asp; federal relief funds data are from NCS, https://app.powerbi.com/view?r=eyJrIjoiMTcyNGQ5ZmUtNTY3Mi00YjViLTgyN-jMtZjk1NzVkYTUyZGUzIiwidCI6IjM4MmZiOGIwLTRkYzMtNDEwNy04MGJkLTM1OTViMjQzMmZhZSIsImMiOjZ9&pageName=ReportSection and https://app.powerbi.com/view?r=eyJrIjoiMmQ2NDRiNDYtN2NkZC00OTE2LThjYzQtYjAzNTE2ZDRjZWFiIiwidCI6IjM4MmZiOGIwLTRkYzMtN-DEwNy04MGJkLTM1OTViMjQzMmZhZSIsImMiOjZ9; population data are from the 2015-2020 ACS 5-Year estimates.

Appendix 3.

Comparison of pre- and post-Covid Illinois and National Average Unemployment Rates

The table below reports the results of an ordinary least square regression of the monthly unemployment rate on a constant, a dummy variable (Illinois_dummy) that equals 1 if the state equals Illinois and 0 otherwise, a dummy variable (post20_dummy) that equals 1 if for all months from March 2020 through May 2021 and 0 before March 2020, and an interaction variable (IL_post20) that is equal to Illinois_dummy*post20_dummy. The data set includes monthly unemployment rates from January 1976 through May 2021 for each US state. Data were obtained from the Federal Reserve Economic Database (FRED) at https://fred.stlouisfed.org/ using Stata's import FRED command for data series: ILURN and comparable data series for other states.

Variable	Coefficient
Illinois_dummy	1.016*** (0.09)
post20_dummy	1.363*** (0.13)
IL##post20	0.910 (0.88)
Constant	5.838*** (0.01)

* p<.1, ** p<.01, *** p<.001

Appendix 4.

Decomposition of Reasons for Illinois' Large Trust Fund Deficit

The table below shows a rough estimate of the cost of Illinois' higher than national average unemployment rate to its UI trust fund, assuming that Illinois' hypothetical unemployment benefit payments would decrease by the same ratio as the ratio of the hypothetical unemployment rate to the actual unemployment rate. Illinois' unemployment rates under the hypothetical typical situation and real situation were 8.22% and 9.13%, respectively. In the post-Covid period from March 2020 through May 2021, Illinois unemployment benefit payments totaled about $7.9 billion. Therefore, the hypothetical unemployment benefit payments would have been $7.12 billion under the hypothetical typical situation. Data for the monthly unemployment benefit payments were obtained from the US Department of Labor, Employment and Training Administration, Monthly Program and Financial Data at https://oui.doleta.gov/unemploy/claimssum.asp.

	Hypothetical	Actual
Illinois' average monthly unemployment rate from March 2020 through May 2021	8.22	9.13
Illinois' total UI benefit payments from March 2020 through May 2021	7.12	7.9

ENDNOTES

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[2] Daniel Beland, Christopher Howard, and Kimberly J. Morgan, *The Oxford Handbook of U.S. Social Policy* (Oxford University Press, 2014).

[3] Urban Institute, https://www.urban.org/sites/default/files/publication/30191/411851-Unemployment-Insurance-in-the-American-Recovery-and-Reinvestment-Act-HR-.pdf.

[4] Three states—Alaska, New Jersey, and Pennsylvania—require employee contributions under certain conditions, https://oui.doleta.gov/unemploy/pdf/uilawcompar/2021/financing.pdf

[5] Monetary criteria are related to a worker's earning history. Nonmonetary criteria are related to the conditions that lead to the worker's unemployment. See the *Oxford Handbook*, *supra* n. 2.

[6] For more details, see "Economic Policy Institute, Primer: How the Unemployment Insurance System Operates," https://www.epi.org/publication/primer-how-the-unemployment-insurance-system-operates/.

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[9] Illinois Department of Employment Security, Annual Employer Contribution Tax Rates, Historical Rate Chart, https://ides.illinois.gov/content/dam/soi/en/web/ides/ides_forms_and_publications/uitaxrates.pdf.

[10] See Appendix 1.

[11] Net balance equals the fund balance minus the outstanding debt.

[12] See Appendix 2 for state details.

[13] California only used $6 million of its CARES funds toward UI benefits.

[14] Executive Order 2020-10 (3/20/2020), https://coronavirus.illinois.gov/resources/executive-orders/display.executive-order-number-10.2020.html; BALLOTPEDIA, https://ballotpedia.org/States_that_issued_lockdown_and_stay-at-home_orders_in_response_to_the_coronavirus_(COVID-19)_pandemic,_2020#cite_note-8.

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[17] *Restore Illinois*, https://coronavirus.illinois.gov/restore-illinois.html.

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[19] See Appendix 3.

[20] U.S. Department of Labor, Employment and Training Administration, Monthly Program and Financial Data, https://oui.doleta.gov/unemploy/claimssum.asp.

[21] See Appendix 4.

[22] National Employment Law Project, Financing Unemployment Insurance in Illinois, https://www.nelp.org/wp-content/uploads/2015/03/Illinois-Trust-Fund-20031.pdf.

[23] *Ibid*.

[24] $$\text{AHCM} = \frac{\textit{Current year Trust Fund Balance}}{\left(\frac{B1}{W1} + \frac{B2}{W2} + \frac{B3}{W3}\right)/3 \times Wc}$$

AHCM is the ratio of a state's trust fund balance in the current year and its projected benefit payouts, where projected benefit payouts are estimated by taking the average of the three highest benefit/wage ratio over the last 20 years and multiplying it by the total wages paid in the current year. where *B1/W1*, *B2/W2*, and *B3/W3* is the ratio of benefits paid in a year to wages paid in the same year; *1, 2, 3* refers to three years over the last 20 years with the highest benefits/wages ratio; and *c* refers to current year.

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(Continued)

ENDNOTES *(Continued)*

[30] Financial Audit for the Period Ending June 30, 2021, Illinois Department of Employment Security, http://www.auditor.illinois.gov/Audit-Reports/EMPLOYMENT-SECURITY-DEPARTMENT.asp.

[31] In Illinois, Employer contribution rate = Benefit Ratio × State Experience Factor + Fund Build Rate. An increase in the targeted fund balance will increase the state experience factor, and thus the employer contribution rate. Similarly, an increase in the fund building rate will also increase the employer contribution rate. Currently, the targeted fund balance is $1 billion, https://ides.illinois.gov/content/dam/soi/en/web/ides/ides_forms_and_publications/ea-50-2022.pdf.

[32] See Appendix 1.

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