



Unemployment Insurance Deficit Financing Study

SUMMARY

In 2017, the Chief Evaluation Office (CEO) partnered with the Employment and Training Administration to fund contractor Urban Institute to conduct the *Unemployment Insurance Deficit Financing Study*. The knowledge development study analyzes states' approaches to financing deficits in their Unemployment Insurance (UI) trust funds. The final report describes implementation of the diverse and complex Federal and state statutes and policies.

Findings are informed by interviews with federal and state government officials and bond market representatives, as well as results from a simulation model comparing the costs of two borrowing methods – municipal bonds and mechanisms in Title XII of the Social Security Act of 1935 and the Federal Unemployment Tax Act of 1939 (FUTA).

The Department of Labor-funded study is a result of the annual process to determine the Department's research priorities for the upcoming year. It contributes to the labor evidence base to inform [unemployment insurance](#) programs and policies and addresses Department strategic goals and priorities.

KEY TAKEAWAYS

- Respondents from all states—from UI systems as well as financing agencies, legislative staff, and other parts of government—suggested that **economic considerations played a key role borrowing decisions**. However, legal issues were also a concern for states pursuing borrowing with municipal bonds who considered legal obstacles such as state constitutional or statutory limits on indebtedness along with case law or legal opinions interpreting these laws to apply to debts incurred by state UI systems.
- State respondents in **five states cited interest rate differentials as a factor**. **There was a common perception that interest rates on loans from the US Treasury (Title XII loans) exceed those of municipal bonds**.
- **Current and former state UI agency staff in both bonding and Title XII states said that Title XII process was relatively straightforward, simple, and well understood**. Respondents reported the written guidelines on Title XII borrowing and repayment from the Department of Labor were helpful and “well communicated.” In contrast, there was no written guidance from the Department on UI bond issuances that these states could use for making borrowing decisions.



Unemployment Insurance Deficit Financing Study

- **The four states that issued municipal bonds to fund their UI trust funds often received helpful information from other states that did so previously, such as Texas, and from bond market representatives such as municipal financial advisers, underwriters, and bond counsel.**

[SEE FULL REPORT](#)

TIMEFRAME: 2017-2021

SUBMITTED BY: Urban Institute

DATE PREPARED: February 2021

PARTNER AGENCY: Employment and Training Administration

SPONSOR: DOL Chief Evaluation Office

CEO CONTACT: ChiefEvaluationOffice@dol.gov

The Department of Labor's (DOL) Chief Evaluation Office (CEO) sponsors independent evaluations and research, primarily conducted by external, third-party contractors in accordance with the [Department of Labor Evaluation Policy](#). CEO's research development process includes extensive technical review at the design, data collection and analysis stage, including: external contractor review and OMB review and approval of data collection methods and instruments per the Paperwork Reduction Act (PRA), Institutional Review Board (IRB) review to ensure studies adhere to the highest ethical standards, review by academic peers (e.g., Technical Working Groups), and inputs from relevant DOL agency and program officials and CEO technical staff. Final reports undergo an additional independent expert technical review and a review for Section 508 compliance prior to publication. The resulting reports represent findings from this independent research and do not represent DOL positions or policies.