



NC Justice Center

Opportunity and Prosperity for All

February 13, 2013

Via Fax and Hand Delivery

The Honorable Patrick McCrory
Governor, State of North Carolina
20301 Mail Service Center
Raleigh, NC 27699-0301

Dear Governor McCrory:

We write to urge you to veto House Bill 4 and to work with all interested parties to craft a solution to North Carolina's unemployment insurance debt to the federal government. We hope that through your leadership North Carolina will resolve this important issue with a balanced approach that will not do great harm to the state's economy, businesses and workers.

(1) HB 4's solution is much worse than the problem. Like most states, North Carolina had to borrow from the federal government to pay unemployment benefits during the Great Recession and the ensuing slow recovery. At 9.2 percent, North Carolina's unemployment rate is 5th highest in the nation. The federal government has begun collecting on the \$2.5 billion debt by slowly increasing employers' federal unemployment taxes by \$21 per employee per year. This year that tax increase is \$42; next year it will be \$63 and so on.

HB 4 will shorten the repayment schedule by 3 years from 2018 to 2015. In other words, by cutting benefits for all unemployed workers permanently, employers will see their temporary federal tax increases disappear. On the other hand, North Carolina workers who lose their jobs will have to rely on an unemployment insurance program that is no longer able to serve its primary purpose – to temporarily replace a portion of lost wages until the worker can find another job.

HB 4's plan to eliminate employer debt is based on cutting the size and duration of unemployment insurance benefits. The Legislative Office of Fiscal Research says that the House bill will save over \$1.5 billion in 2014. But \$951 million will come from cutting benefits. Benefit cuts will continue to outweigh employers' federal and state tax costs by more than 2 to 1 until the debt is gone. The employer costs will disappear but the benefit cuts will be permanent.

(2) Unemployment Insurance is critical to the state's economy. The benefit cuts in HB 4 will on average drain more than \$700 million annually from the state's economy. Unemployment insurance dollars go right back into local economies – to pay for rents, mortgages, food, clothing. Economists consistently characterize unemployment insurance as one of the most effective forms of economic stimulus – with every unemployment insurance dollar generating anywhere from \$1.55 to \$2 in economic activity.

(3) HB 4 will make it harder for unemployed North Carolinians and their families to survive. The cuts in benefits in HB 4 are among the most severe ever enacted by any state. The maximum benefit would be cut by a third – from \$535 to \$350. No state has

ever enacted such a large reduction. Since unemployment insurance is supposed to approximate something close to half a worker's pre-layoff earnings, workers earning more than \$700 per week will see less than half their wage replaced. Since the average weekly wage in North Carolina is over \$800, that affects most workers.

Another part of HB 4 will inject an element of arbitrariness to the benefit calculation designed to reduce the weekly benefit for **all workers**. The average unemployment insurance payment in North Carolina is currently about \$300 per week which is the national average. The new formula and reduced maximum will push the average benefit in North Carolina down to among the lowest rates in the country.

(4) Under HB 4, unemployed North Carolinians will have less weeks of unemployment insurance protection than in 45 other states. For more than 50 years, all states provided a maximum of 26 weeks of unemployment insurance for workers who lost their jobs through no fault of their own. Over the past 2 years, 3 states cut that number to 20 weeks and 2 others (Florida and Georgia) adopted "sliding scale" laws that tied the number of weeks to the state's unemployment rate; as a result, these states provide less than 20 weeks despite lingering high unemployment. HB 4 would cap benefits at 20 weeks even with the current high level of unemployment, and would reduce the maximum to 12 weeks when the unemployment rate is down to 5.5 percent. This would be the harshest scale in the country. There are three unemployed workers for every job in North Carolina, more than half of unemployed North Carolina workers are unable to find a job before they exhaust unemployment benefits, and older workers in particular, who have been hit hard during this economic downturn, are unemployed on average for 53 weeks. HB 4's approach seems geared to push even more families already struggling with job loss into extreme poverty.

(5) HB 4 will make North Carolina the only state in the country that provides no federal unemployment insurance for long-term unemployed workers. By rushing to implement benefit cuts in July, the bill will violate the state's agreement with the Secretary of Labor governing federal unemployment insurance for the rest of the year. As a result, North Carolina will become the only state in the country that does not provide additional weeks of benefits under the Emergency Unemployment Compensation (EUC) program – a program that does not cost the state or state employers a dime. State benefits will drop from 26 weeks to 20 or less. Federal benefits will drop from 47 weeks to zero. With one of the highest unemployment rates in the nation (9.2 percent), North Carolina will offer its jobless workers 20 weeks of unemployment insurance or less while unemployed workers in other states will qualify for anywhere from 40 to 73 weeks of benefits.

By deliberately violating the federal agreement to pay EUC, HB 4 will be draining over \$700 million in federal funds from the state economy over the second half of 2013. This will almost certainly undermine any ongoing economic recovery efforts. On July 1st, it is estimated that 104,000 North Carolinians will be abruptly cut off from the insurance they rely on to pay their rents and mortgages and to feed their families. Another 66,000 will not be eligible to enter the EUC program after July 1, 2013. 170,000 unemployed individuals will lose EUC benefits because of HB 4. This will be an economic

catastrophe that could easily be averted by simply delaying the state benefit cuts until January 2014. The decision to shut down federal unemployment insurance in North Carolina is without precedent nationally – both as a self-inflicted wound to the state economy and as an act of government callousness.

HB 4 was introduced on January 30, 2013, without any input from groups and organizations that have worked with and represented workers and their interests for years. There has been no opportunity for public input or reasonable discussion of the serious consequences that will result if HB 4 becomes law. Any attempt to amend the bill in committee and on the floors of the House and Senate has been rejected summarily. We ask that as Governor of all of North Carolina that you take the time and use your leadership to try and reach a compromise in this most important matter.

Thank you for your consideration of our request. Please contact Bill Rowe at bill@ncjustice.org or 919-856-2177 to discuss this matter further.

Sincerely,

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