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Businesses need it to succeed. Our citizens need it to survive. And our state needs it to grow.

That's why the South Carolina Chamber of Commerce is committed to keeping the costs of doing business affordable. In the coming year, several legislative initiatives will help decrease business costs and better your bottom line. In this three-part series, South Carolina Chamber business leaders explain the issues and lay out the solutions.

A MULTIMILLION DOLLAR PROBLEM

CHALLENGES FOR S.C.'S UNEMPLOYMENT COMPENSATION SYSTEM

By William Floyd

There is a record-breaking deluge of unemployment claims in South Carolina due to the current economic recession. Unemployment hit 11.5 percent statewide in August 2009, giving South Carolina the third highest unemployment rate in the nation (Michigan and Rhode Island have the highest unemployment rates). Some counties are harder hit than others, with Allendale and Union counties presently enduring unemployment rates of 21.8 percent and 20.8 percent, respectively. As employees are laid off or lose their jobs, they are turning to the South Carolina Employment Security Commission (ESC) in record numbers and filing claims for unemployment benefits.

Confronted by these unemployment claims, the ESC is running a deficit and relying on federal loans to stay afloat. Absent huge loans from the federal government, ESC would not be able to pay claims for unemployment benefits. Since December 2008, ESC has borrowed more than \$370 million from the federal government. More loans are expected during the remainder of 2009. South Carolina must eventually repay the loans. If not repaid, the loan balance will begin accruing interest, making the state's financial problems even worse.

In sunnier economic times, the ESC enjoyed a multimillion dollar surplus in its trust fund. Since 2001, though, the trust fund's balance has been declining every year. In recent years, the South Carolina Chamber warned the trust fund was insufficient and problems lay ahead if action was not taken. Unfortunately, changes were not made to reverse this concerning trend. When the current recession hit, the trust fund quickly evaporated, leaving the ESC and South Carolina in a deep financial hole.

As a result, South Carolina confronts some extreme challenges regarding unemployment compensation. For example, how will the state repay its almost half-billion dollar debt to the federal government? There are no easy answers to this tough question, but ultimately cutting expenditures or raising taxes will be part of the solution, which will impact employees and employers alike.

What changes could be made to avoid similar financial predicaments in the future? No quick fixes here either, but the solution requires effective leadership and involves short and long-term changes. Members of the legislature recognize the challenges confronting the ESC and have begun discussing possible solutions. One proposal, H.3442/S.391, would, among other things, significantly overhaul the ESC. Debate over this bill will likely resume when the legislature reconvenes in January.

Possible repairs to the unemployment compensation system could include some major and minor changes. They are:

- Restructure the ESC to create a cabinet-level director who reports directly to the governor.



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- Re-focus the ESC's mission: re-employment rather than unemployment.
- Deduct severance pay, if received, from unemployment compensation available to a claimant.
- Raise the earning threshold required before unemployment compensation.
- Completely disqualify employees who are discharged for cause (as opposed to being laid off, etc.) from receiving unemployment benefits.
- Make unemployment compensation available after two weeks, rather than the current one week, following unemployment.
- Restrict the option of a claimant continuing to receive unemployment benefits despite other work being available.

Repairs to the system are essential as the trust fund's deficit grows. Making these changes will be challenging. Nonetheless, changes are absolutely necessary and will benefit the state's employees and employers by having a stable, deficit-free system.



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