Pence announces plan to pay off federal unemployment loan

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INDIANAPOLIS — Republican Gov. Mike Pence said Thursday that Indiana will pay off recession-era loans owed to the federal government, which would have penalized employers for the sixth consecutive year had the state not taken action.

The governor said about $250 million will be borrowed from Indiana's surplus to make good on the debt, which was taken out to make unemployment payments after the state drained its own unemployment fund when the jobless rate topped 10 percent during the most recent recession. The state reserves will be replenished this spring through unemployment insurance payments made by employers.

By paying off the federal loan in the coming weeks, the state will spare employers from paying a penalty that has slowly increased and would have cost employers $126 per worker next year.

"Like many states, Indiana had to borrow money from the federal government to pay unemployment insurance benefits during the so-called great recession," Pence said, adding that the plan "will take $327 million dollars in new tax penalties off the table and off the books."

Businesses say the additional money will can be reinvested in workforce training or used to give employees raises now that the job market is more competitive.

The unemployment fund wasn't always in trouble as it had a surplus of $1.6 billion in 2000. But lawmakers raised benefit payments for the unemployed and lowered employer premiums, draining the account, and the recession compounded the problem as Indiana's jobless rate reached 10.8 percent in mid-2009. The state's unemployment rate has since fallen to 4.6 percent.

Sen. Luke Kenley said lawmakers drained the fund to a level they thought was adequate but "the recession of 2008 was so enormous that it wiped that out."

"Almost every state in the union, to my knowledge, had to get a loan from the federal government", he said.

It is now believed the unemployment fund should hold between $750 million to $1 billion in reserve, Pence said Thursday. The Department of Workforce Development projects the fund's reserves will grow to about $650 million by the end of 2018 as long as there isn't an economic downturn.

Pence first raised the possibility of paying off the federal loans early when he announced in July that state government finished the fiscal year that ended June 30 with cash reserves of $2.1 billion, or about 14 percent of state spending.

The Republican-dominated Legislature approved a package in 2011 that increased business taxes and cut some jobless payments in order rebuild the unemployment fund.