STATE OF CONNECTICUT

Senate

General Assembly

File No. 132

January Session, 2011

Substitute Senate Bill No. 988

Senate, March 22, 2011

The Committee on Labor and Public Employees reported through SEN. PRAGUE of the 19th Dist., Chairperson of the Committee on the part of the Senate, that the substitute bill ought to pass.

AN ACT CONCERNING THE SOLVENCY OF THE UNEMPLOYMENT COMPENSATION TRUST FUND.

Be it enacted by the Senate and House of Representatives in General Assembly convened:

Section 1. Subsection (f) of section 31-225a of the general statutes is repealed and the following is substituted in lieu thereof (*Effective October 1, 2011*):

(f) (1) For each calendar year commencing with calendar year 1994 but prior to calendar year 2012, the administrator shall establish a fund balance tax rate sufficient to maintain a balance in the Unemployment Compensation Trust Fund equal to eight-tenths of one per cent of the total wages paid to workers covered under this chapter by contributing employers during the year ending the last preceding June thirtieth. If the fund balance tax rate established by the administrator results in a fund balance in excess of said per cent as of December thirtieth of any year, the administrator shall, in the year next following, establish a fund balance tax rate sufficient to eliminate the fund balance in excess of said per cent. For each calendar year commencing with calendar year 2012, the administrator shall establish a fund balance tax rate sufficient to maintain a balance in the Unemployment Compensation Trust Fund that results in an average high cost multiple greater than or equal to 1.0. If the fund balance tax rate established by the administrator results in a fund balance in excess of said amount as of December thirtieth of any year, the administrator shall, in the year next following, establish a fund balance rate sufficient to eliminate the fund balance in excess of said amount. The assessment levied by the administrator at any time (A) during a calendar year commencing on or after January 1, 1994, but prior to January 1, 1999, shall not exceed one and five-tenths per cent, (B) during a calendar year commencing on or after January 1, 1999, shall not exceed one and four-tenths per cent, and **[**(C)**]** shall not be calculated to result in a fund balance in excess of eight-tenths of one per cent of such total wages, and (C) during a calendar year commencing on or after January 1, 2012, shall not exceed one and four-tenths per cent and shall not be calculated to result in a fund balance in excess of the amounts prescribed in this subdivision.

(2) The average high cost multiple shall be computed as follows: The result of the balance of the Unemployment Compensation Trust Fund on December thirtieth immediately preceding the new rate year divided by the total wages paid to workers covered under this chapter by contributing employers for the twelve months ending on the December thirtieth immediately preceding the new rate year shall be the numerator and the average of the three highest calendar benefit cost rates in (A) the last twenty years, or (B) a period including the last three recessions, whichever is longer, shall be the denominator. Benefit cost rates are computed as benefits paid including the state's share of extended benefits but excluding reimbursable benefits as a per cent of total wages in covered employment. The results rounded to the next lower one decimal place will be the average high cost multiple.

This act shall take effect as follows and shall amend the following sections:		
Section 1	*October 1, 2011*	31-225a(f)

Statement of Legislative Commissioners:

In subdivision (2) of subsection (f), "shall be divided by" was deleted and was replaced with "shall be the denominator" for consistency and to conform with proper use of language.

LAB *Joint Favorable Subst.-LCO*

The following Fiscal Impact Statement and Bill Analysis are prepared for the benefit of the members of the General Assembly, solely for purposes of information, summarization and explanation and do not represent the intent of the General Assembly or either chamber thereof for any purpose. In general, fiscal impacts are based upon a variety of informational sources, including the analyst's professional knowledge. Whenever applicable, agency data is consulted as part of the analysis, however final products do not necessarily reflect an assessment from any specific department.

OFA Fiscal Note

State Impact:

Agency Affected	Fund-Effect	FY 12 $	FY 13 $	Future Years
Labor Dept.	UCF - See Below	None	None	See Below

Note: UCF=Unemployment Compensation Fund

Municipal Impact: None

Explanation

The bill changes the method of calculating the unemployment compensation trust fund balance tax rate and increases the amount that can be retained in the fund by increasing the fund's current goal of $600 million to $1.1 billion, beginning with the 2012 calendar year. This increases the future long-term solvency of the fund in the event of future recessions and may avert future borrowing. Additionally, the bill satisfies one of the requirements Connecticut would need to meet in order to qualify for potential future interest free borrowing from the federal government in the event of a future insolvency in the fund.

However, the bill has no impact on the immediate insolvency of the fund, which is estimated at $669,163,062 as of March 17, 2011[1].

The bill has no impact on employer taxes through at least 2018.[2] There is no fiscal impact to the state and municipalities, as they do not pay unemployment taxes, but rather reimburse the fund for any claims

[1] Pursuant to the American Recovery and Reinvestment Act of 2009, the moratorium on interest free borrowing by the states from the federal government to maintain the solvency of the unemployment compensation trust fund ended December 31, 2010. The state began incurring interest payments on January 1, 2011, these costs are expected to be $25-$30 million by September 30, 2011. The bill has no impact on these anticipated interest payments.

[2] Solvency projections are available through 2018.

made by former employees.

The Out Years

The out year impact is discussed above.

OLR Bill Analysis

sSB 988

AN ACT CONCERNING THE SOLVENCY OF THE UNEMPLOYMENT COMPENSATION TRUST FUND.

SUMMARY:

Beginning with the 2012 calendar year, this bill increases the amount that can be retained in the unemployment compensation trust fund by changing the method used to calculate the fund's goal. Under current law, the fund's goal is 0.8% of the total wages paid by employers contributing to the fund. The bill changes the goal to an Average High Cost Multiple (AHCM) of at least 1.0 (i.e., at least one year of average recessionary level unemployment benefits).

Under current law, the fund balance tax rate paid by employers varies between zero, when the fund meets its goal, and a statutory maximum of 1.4%, when the fund is significantly short of its goal. The bill keeps the maximum fund balance tax rate at 1.4% and continues to require that, if the fund exceeds its goal at the end of a year, the fund administrator must lower the rate to eliminate the excess. It also prohibits the administrator from setting the rate at a level that will exceed the fund's goal. In practice, the rate has been at 1.4% for the past few years and the fund has been insolvent since October 2009.

EFFECTIVE DATE: October 1, 2011

THE AVERAGE HIGH COST MULTIPLE

The AHCM estimates how many years the current reserve in an unemployment trust fund can pay out benefits at a historically high payout rate. If a state's AHCM is 1.0 immediately prior to a recession, and if the recession is of the average magnitude of the last three recessions, then the money in the state's trust fund should be able to cover one year of unemployment benefits during that recession. If the

AHCM is 0.5, then the state should be able to pay out 6 months of benefits in the same recession.

Calculating the AHCM

Under the bill, the AHCM is determined by (1) expressing the amount in the unemployment trust fund at the end of each calendar year as a percentage of the total wages contributing employers paid to their workers during that year and (2) dividing that number by the average of the three highest annual benefit amounts, expressed as a percentage of the total covered wages, that were paid over the last 20 years or last three recessions, whichever period is longer.

Example

If a state has $500 million in its unemployment trust fund and total covered wages of $50 billion, it has 1.0% of covered wages in its trust fund (500/50,000 = 1.0%). If, during the three worst years of the state's last three recessions, the state paid annual benefits worth 1.5%, 2.0%, and 2.5% of its total covered wages, the average highest benefit amount would be 2.0%. The state's AHCM would be 1.0/2.0 = 0.5. With an AHCM of 0.5, the state could expect the $500 million in its trust fund to cover six months of recessionary level benefits.

BACKGROUND

Unemployment Taxes

The first 26 weeks of a claimant's unemployment insurance benefits are financed by employer taxes. In general, private-sector employers pay unemployment taxes on the first $15,000 in annual wages paid to each of their employees. The rate at which the employers are taxed consists of two separate components, (1) the employer's experience rate, which is based on the amount of unemployment compensation paid to the employer's former employees and (2) the fund balance tax rate, which varies from zero to 1.4% depending on the status of the trust fund in relation to its funding goal.

State and municipal employers do not pay unemployment taxes, but instead directly reimburse the trust fund for the cost of any unemployment benefits paid to their former employees.

New Federal Regulations

In October 2010, the U.S. Department of Labor implemented regulations that will require states seeking interest-free unemployment loans to meet certain funding goal requirements. Among the new requirements is that, a state's trust fund must have contained an AHCM of at least 1.0 in at least one of the five years preceding the request for the loan. These new regulations will be phased in with a required AHCM of 0.5 in 2014, rising to 1.0 in 2019.

COMMITTEE ACTION

Labor and Public Employees Committee

Joint Favorable
Yea 6 Nay 4 (03/11/2011)