NEW HAVEN LEGAL ASSISTANCE ASSOCIATION, INC.
426 STATE STREET
NEW HAVEN, CONNECTICUT 06510
TELEPHONE: (203) 946-4811
FAX: (203) 498-9271

TESTIMONY IN SUPPORT OF SB 988
AN ACT CONCERNING THE SOLVENCY OF THE
UNEMPLOYMENT COMPENSATION TRUST FUND

March 3, 2011

My name is Susan Nofi-Bendici, I am the Deputy Director at New Haven Legal Assistance and I am speaking on behalf of Connecticut's legal aid organizations.

We support SB 988, An Act Concerning the Solvency of the Unemployment Compensation Trust Fund. As you all know, Connecticut has been borrowing from the federal government since 2009 to pay unemployment benefits. Like many other states, we were not prepared for the recession because we did not build up adequate reserves when times were good. SB 988 sets a target for reserves, using the Average High Cost Multiple formula, so that we will be better prepared going forward.

Setting the Average High Cost Multiple at 1 will insure that we have enough reserves to cover one year of recession-level benefits. There are many good reasons to take this fiscally responsible step. Healthy reserves will help Connecticut avoid the kind of massive long-term borrowing that will result in interest payments and increased FUTA charges. To be eligible for short-term interest free borrowing in the future, states are now required by federal regulation to use the Average High Cost Multiple formula.

But the most important reason to responsibly sustain the trust fund is to ensure that unemployment benefits continue to be there for the unemployed workers who need them. According to CT DOL, 170,000 workers had to rely on this critical safety net in 2010. Unemployment dollars – including federally-funded benefit extensions - are not only a lifeline to jobless workers, but they flow back into Connecticut's economy. Unemployed workers spend their benefits immediately because benefit rates are lower than what they used to earn. Even with unemployment insurance, many jobless workers struggle to provide for their families' basic needs. The weekly unemployment benefit is what keeps a roof over our clients' heads while they compete for scarce jobs. As severe as the recession has been, its effects on individuals and the state's economy would have been even more devastating without unemployment insurance. The system is functioning just as it should, as an effective stabilizer during bad economic times.

Although setting this goal for reserves will help Connecticut avoid a return to insolvency in the future, this bill will not restore the fund to solvency in the immediate future because we are already at the maximum tax rate. We hope that the new Administration and the General Assembly will develop a plan to get the fund back on sound financial footing in the short term, while maintaining current access and eligibility. However, adopting this nationally-recognized Average High Cost Multiple goal is one important step toward addressing the fund's long-term solvency.

Proposal to Restore Solvency to the Unemployment Insurance Trust Fund

Connecticut has borrowed approximately $500 million since the trust fund was depleted in October 2009: how did we get here?

Connecticut's trust fund became insolvent as the unemployment rate rose because we went into the recession without adequate reserves. Employers only pay unemployment taxes on the first $15,000 of each worker's wages. This taxable wage base has remained stagnant for more than 10 years. From 1999-2009, the statewide average weekly wage increased by 43%. However, the taxable wage base has not been increased since 1999. Although Connecticut is one of the highest wage earning states in the country, sixteen other states have a higher taxable wage base than Connecticut.

Cutting benefits will not get the trust fund out of the red. Cuts will devastate jobless workers and their families, and will take benefit dollars out of Connecticut's economy.

Connecticut is projected to borrow a total of $1 billion by 2012. Considering that the total amount of benefits Connecticut paid out in 2009 was $1.3 billion, cuts to benefits will do little to address the staggering debt and rebuild a reserve. However, cuts to benefits will hurt Connecticut residents while the unemployment rate remains extremely high. (The national unemployment rate is projected to remain above 8 % into CY 2012.) Unemployment dollars are not only a lifeline to jobless workers, but they flow back into Connecticut's economy. Unemployed workers spend their benefits immediately because the average weekly benefit amount replaces only 30% of the average weekly wage. It is critical that the state restore sound forward financing principles now so that the UI system is prepared to respond meaningfully to any future economic downturns.

Recommendations for responsible trust fund financing:

1. Beginning in CY 2012, increase the taxable wage base to $20,000 over a 2-3 year period.

2. Once the taxable wage base is at $20,000, index the base to wages with a cap on the amount of annual increase. Connecticut's maximum weekly benefit rate is indexed to the growth in wages. If we follow the example of 17 other states and index our taxable wage base to growth in wages, this will naturally balance premiums with growth in benefit costs. The majority of states that index have trust funds that remained solvent during this recession.

3. Stay in the black by maintaining reserves equal to one year of "peak-level" benefits, which is in accordance with federal recommendations (average high cost multiple.)

4. Continue to call on Congress to extend the federal interest waiver another year to give states like CT time to develop a responsible financing plan. **NOTE:** A bill has been introduced in the U.S. Senate, the Unemployment Compensation Solvency Act of 2011 (S. 386) that would, if passed, provide such interest relief as well as other rewards/incentives, such as loan abatement, for states adopting reasonable financing reforms.