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)