Senate

General Assembly **File No. 155**

February Session, 2012 Substitute Senate Bill No. 258

Senate, March 28, 2012

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 AN INCREASE IN THE MAXIMUM ALLOWABLE UNEMPLOYMENT COMPENSATION TRUST FUND BALANCE.

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 Subsection (f) of section 31-225a of the general statutes is repealed and the following is substituted in lieu thereof (*Effective October 1, 2012*):

(f) (1) For each calendar year commencing with calendar year 1994 but prior to calendar year 2013, 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 2013, 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 equal to 0.5. Commencing with calendar year 2014 and ending with calendar year 2018, 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 that is increased by 0.1 from the preceding calendar year. Commencing with calendar year 2019, 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 equal to 1.0. If the fund balance tax rate established by the administrator results in a fund balance in excess of the amount prescribed in this subdivision 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, 2013, 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, 2012*	31-225a(f)

LAB *Joint Favorable Subst.*

OFA Fiscal Note

State Impact:

Agency Affected	Fund-Effect	FY 13 $	FY 14 $	Future Years
Labor Dept.	UCF - None	None	None	See Below

Note: UCF=Unemployment Compensation Fund

Municipal Impact: None

Explanation

The bill phases in a change in 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. 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 the state 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. There is no fiscal impact to the state and municipalities, as they do not pay unemployment taxes, but rather reimburse the Unemployment Compensation fund for any claims made by former employees.

The bill has no impact on the immediate insolvency of the fund, which is estimated at $754,981,923 as of March 23, 2012.[i]

The Out Years

The annualized ongoing fiscal impact identified above would continue into the future subject to inflation.

OLR Bill Analysis
sSB 258

AN ACT CONCERNING AN INCREASE IN THE MAXIMUM ALLOWABLE UNEMPLOYMENT COMPENSATION TRUST FUND BALANCE.

SUMMARY:

Beginning with the 2013 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 ideal amount of money the fund should contain. Under current law, the fund's goal is 0.8% of the total wages paid by contributing employers. In 2013, the bill changes the goal to an average high cost multiple (AHCM) of 0.5 (i.e., one half year's worth of average recessionary level unemployment benefits) then increases it by 0.1 per year until it reaches an AHCM of 1.0 (one year's worth of average recessionary level unemployment benefits) in 2018. From that point forward, the bill requires the fund's goal to be an AHCM of 1.0.

The bill maintains the current law's fund balance tax rate paid by employers that varies between zero, when the fund meets its goal, and a statutory maximum of 1.4%, when the fund is significantly below its goal (see BACKGROUND). As under current law, it also (1) requires the fund administrator to lower the rate when the fund exceeds its goal and (2) prohibits the administrator from setting a rate that will result in the fund exceeding its goal.

EFFECTIVE DATE: October 1, 2012

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 paid by contributing employers 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. 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 therefore 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 without any additional funding.

BACKGROUND

The AHCM

The AHCM expresses 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 without any additional funding. If the state's AHCM is 0.5, then the state should be able to cover six months of benefits.

Unemployment Taxes

The first 26 weeks of a claimant's unemployment benefits are financed by unemployment taxes paid by employers. 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 has two components: (1) the employer's experience rate, which is based on the amount of benefits paid to an employer's former employees and (2) the fund balance rate, which varies from zero to 1.4% depending on the trust fund's status in relation to its funding goal.

Federal Regulations

Under regulations implemented by the U.S. Department of Labor in 2010, to qualify for a short-term interest free unemployment loan from the federal government, a state's trust fund must have met certain AHCM goals in at least one of the five years preceding the loan request. These goals are phased in over five years, with an AHCM of 0.5 required in 2014, and an AHCM of 1.0 required in 2019.

COMMITTEE ACTION

Labor and Public Employees Committee

Joint Favorable Substitute
Yea 9 Nay 2 (03/15/2012)

[i] 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 on outstanding loans on January 1, 2011; interest costs for 2012 are expected to be $25-$30 million and are payable by September 30, 2012. The bill has no impact on these anticipated interest payments.