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Greater Hartford Legal Aid

Testimony of Attorney Susan Garten
In Opposition to HB 5851, SB 437 and SB 447

I am a managing attorney at Greater Hartford Legal Aid, Inc. I am submitting this testimony on behalf of the state's legal services programs. We often represent low-income workers, who depend on unemployment insurance ("UI") to pay for basic necessities for their families when they lose their jobs.

I am also a member of the Employment Advisory Security Board. The legislature created the eight-member Board to advise the Labor Commissioner on policy matters related to UI (CGS §31-250a). The Board, with four labor and four employer representatives, worked hard over the past year to analyze various solutions to problems with Connecticut's UI system. Our balanced Board rejected the harshest proposals that are before you today, including forcing the newly unemployed to wait a week before receiving benefits and reducing benefits for workers whose earnings vary during the year.

The fundamental objective of the UI system is to provide insurance in the form of temporary, partial wage replacement to workers experiencing involuntary unemployment through no fault of their own. Our UI trust fund, from which those benefits are paid, has been insolvent since 2008.

The UI Trust Fund is <u>not</u> insolvent because unemployment benefits are too generous. Forty states replace a higher percentage of workers' average wages than Connecticut does. And Connecticut capped annual benefit increases at $18 per year in 1988 (CGS §31-231a(b); maximum is $594/week).

The UI Trust Fund is insolvent because the amount of wages on which UI taxes are assessed has not increased in 16 years. Our taxable wage base has been frozen at $15,000 since 1999. If the taxable wage base had kept up with wage growth, it would currently be $21,800. Our fund would have weathered the Great Recession without having to borrow millions of dollars from the federal government, and employers wouldn't have had extra assessments or higher tax rates to repay the interest on the borrowed funds.

The solution is to fix, once and for all, the financing structure of the UI tax fund. The taxable wage base should be increased to a sustainable level, and it should be indexed to wage growth so that our trust fund establishes a robust balance in economically vibrant years and can weather the next, inevitable, economic downturn. (See attached proposals.)

HB 5851, and other bills that reduce benefits, do nothing to fix the system. They only punish the unemployed.

° Proponents say that a **waiting week** will save the trust fund millions of dollars. But families and the state economy would be seriously harmed by a waiting week.

A waiting week means no money for a family at the outset of unemployment, immediately destabilizing family financial security. The DOL estimated that a waiting week would impact 91,500 workers. Many workers and families have no financial margin. Rent and utility bills may go unpaid, leading to a domino effect of eviction, shut offs, and loan defaults.

A waiting week also takes money out of state economy. UI is a highly effective stimulus for local economies because unemployed workers are most likely to spend benefits on essentials like housing, food and health care. Every $1 of UI generates $1.55 in economic activity. (Zandi, Moody's Analytics).

° Unemployment benefits are currently based on the highest two quarters of earnings in a base period. HB 5851 would change that to **four quarters**. This change would fall harshly on seasonal workers and workers whose earnings vary week to week, month to month, because their employers don't give them full-time or steady hours. These low wage workers in our food, health care, and retail industries cannot afford a significant cut in their weekly unemployment benefit if they lose their jobs. (Only AK, IN, KY, LA, and WV use four quarter averaging.)

We also oppose freezing the maximum weekly benefit rate and raising the base period wages needed to qualify for benefits. Like other parts of HB 5851 and similar bills, these flip the burden of restoring trust fund insolvency onto workers, rather than fixing the broken financing system.

Proposal to Restore Solvency

to the Unemployment Insurance Trust Fund

Connecticut has borrowed $431 million since the trust fund was depleted in October 2009.

Connecticut's trust fund became insolvent as the unemployment rate rose because we went into the recession without adequate reserves. CT's 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 15 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, 19 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.

Considering that Connecticut paid out $847 million in benefits in 2013, cuts to benefits will hurt Connecticut residents while the unemployment rate remains extremely high. 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:

- Increase the taxable wage base to $20,000 over a 2-3 year period.
- Once the taxable wage base is at $20,000, index the base to wages with a cap on the amount of annual increase. If we follow the example of 18 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.