

Testimony of George Wentworth

National Employment Law Project

Testimony Regarding:

- **House Bill 5367: An Act Concerning the Total Unemployment Benefit Rate and an Online Employment Exchange**

Hearing before Connecticut General Assembly Committee on Labor and Public Employees

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Introduction

My name is George Wentworth. I am Senior Counsel with the National Employment Law Project (NELP). NELP is a national law and policy center based in New York City that engages in research, policy analysis and advocacy on behalf of low wage and jobless workers. NELP is committed to improving the effectiveness of the unemployment insurance (UI) system by promoting state and federal policies that maximize program access for low-wage workers and improve income security for all workers. Prior to joining NELP in 2009, I worked at the Connecticut Department of Labor for 35 years where I oversaw development of unemployment insurance policy and regulations.

I am testifying this afternoon in opposition to House Bill 5367, *An Act Concerning the Total Unemployment Benefit rate and Online Employment Exchange*. This bill has been proposed in response to the insolvency of the Connecticut Unemployment Trust Fund. Like most other states, Connecticut's trust fund was not prepared for extraordinarily high volumes of claims during the Great Recession and the long ensuing recovery. And like most other states, Connecticut was required to borrow from the federal government to pay benefits and now employers are paying higher federal unemployment taxes as that debt is recouped. While the scope and depth of the recession was unprecedented in the nearly 80-year history of the state's unemployment insurance program, it is equally clear that more could and should have been done to shore up the program's financing before the recession. Specifically, Connecticut addressed its last solvency crisis responsibly by gradually increasing the wage base on which taxes are imposed throughout the 1990's until it reached \$15,000 in 1999. But because the taxable wage base has not kept pace with rising wages since, the trust fund was only half as solvent as it should have been entering the recession in 2007.

The Labor Department is currently projecting that the trust fund's remaining federal debt of \$100 million will be repaid before the end of this year. This will result in the elimination of additional FUTA taxes currently being paid by Connecticut employers, reducing the federal UI tax from \$189 to \$42 per employee. The fact that Connecticut's federal debt will soon be paid off does not mean that Connecticut should take its eye off the need to shore up its unemployment insurance program and trust fund. Current Department projections suggest that after the debt is repaid, the UI trust fund will have less than a quarter of the reserves it needs to handle the costs associated with another recession and spike in unemployment for at least the next five years.

In order to be ready for the inevitable next economic downturn, it is essential that the state address the fundamental financing problem facing the system. It is important that representatives of business and workers work together to forge a serious solvency plan that enacts responsible financing improvements and some changes in benefits.

But any cuts or restrictions on benefits should be carefully calibrated so that they do not undermine the core purpose of the program and hurt workers and their families struggling to get back to some level of economic security. Some of this work has already begun at the Employment Security Advisory Board which has made recommendations regarding both financing and benefits.

Unfortunately HB5367 contains a number of provisions that would be extremely harmful to Connecticut workers who become unemployed, including the highest minimum earnings requirements in the nation and a formula for calculating weekly benefits that would be among half dozen strictest nationally. This bill is not a useful start to thoughtful even-handed solvency reform. Instead it relies entirely on severe cuts to worker benefits that would disproportionately hurt those who need unemployment insurance the most.

This testimony includes:

- A brief overview of the purpose of unemployment insurance (UI)
- A review of the performance of Connecticut's UI system in the eight years since the onset of the Great Recession
- An examination of HB5367
- A general discussion of unemployment insurance financing and a proposed financing solution for Connecticut

Purpose of Unemployment Insurance

Social insurance experts, economists and a bi-partisan federal commission have all identified four related purposes for unemployment insurance (UI):

- (1) Income replacement for laid off workers to prevent hardships and maintain living standards during periods between jobs.
- (2) Boosting the economy by maintaining consumer spending and reducing the spread of layoffs through benefit payments from trust funds accumulated during better times.
- (3) Support for job search and matching of laid off workers to jobs that better fit their skills, training, and past work.
- (4) Retaining attachment to the labor market and specific employers during temporary layoffs.¹

To serve these significant social purposes, UI benefits are paid by virtue of prior employment and as a matter of right under conditions largely established by state UI laws. Unemployment insurance is the first line of defense against the economic impact of wage loss due to

¹ See *Advisory Council on Unemployment Compensation, Defining Federal and State Roles in Unemployment Insurance* (1996) p.7

unemployment. UI benefits keep food on the table, help pay rent and mortgages and cover health care costs.

Unemployment insurance dramatically reduced the prevalence of poverty among the population who received them in the Great Recession and ensuing recovery. In 2010, for example, over one quarter (27.5%) of unemployed Americans who received UI benefits would have been considered poor prior to counting the UI benefits they received; after counting UI benefits, their poverty rate was cut by well over half, to 12.5%.²

Mark Zandi, chief economist for Moody's Economy.com, studied the economic impact of various forms of government outlays during the previous recession and testified in February 2012 before the U.S. Joint Economic Committee that each dollar of unemployment insurance spent generates \$1.55 in economic activity. In addition, another major study covering five recessions concluded that each dollar of UI benefits produces \$2.15 in economic growth because such a substantial portion of unemployment benefits are spent on basic goods and services.³

How did Connecticut's UI Program Perform during the Great Recession and Ensuing Recovery?

Connecticut's unemployment rate, which stood at 5.0 percent at the beginning of 2008, reached 9 percent at the end of 2009. It remained above 9 percent until August 2011 and did not fall below 8 percent until February of 2013. Throughout this period, the Connecticut UI program was vital to the state's economic stability. In addition to the basic 26-week state UI program, Congress authorized two extension programs (Extended Benefits and Emergency Unemployment Compensation), which provided additional weeks of federally funded benefits at different levels between July 2008 and the end of 2013.

In CY 2009, Connecticut paid out over \$1.3 billion in state benefits⁴ to over 223,000⁵ Connecticut workers. This represented an increase of 80 percent over CY 2008 when the system paid out \$743 million in state benefits.⁶ Benefit payments fell to approximately \$1.04 billion in CY 2010⁷ before declining again in CY 2011 to \$893 million, where they essentially

² Congressional Research Service Report to Congress, *Antipoverty Effects of Unemployment Insurance*, October 16, 2012. p. 22.

³ Lawrence Chimerine et al. *Unemployment Insurance as an Economic Stabilizer: Evidence of Effectiveness over Three Decades*, Unemployment Insurance Occasional Paper 99-8

⁴ U.S. Department of Labor, *Handbook 394*, <http://www.workforcesecurity.doleta.gov/unemploy/hb394.asp>.

⁵ Estimated from first payments for 2009, U.S. Department of Labor, *Monthly Program and Financial Data*, <http://www.workforcesecurity.doleta.gov/unemploy/claimssum.asp>.

⁶ U.S. Department of Labor, *Handbook 394*.

⁷ U.S. Department of Labor, *Handbook 394*.

remained in CY 2012.⁸ As the state's average unemployment rate skyrocketed in 2009, UI benefits doubled as a percentage of the state's total payroll.⁹

Over the past eight years, the Connecticut Department of Labor made roughly 1.26 million first payments to the state's unemployed. As the following table illustrates, the state trust fund paid out roughly \$7.2 billion in state benefits between 2008 and 2015, while an additional \$4.8 million was paid under the two federal extension programs that ended in 2013. As the state's economy recovers, both benefits and first payments are now trending toward the pre-recession levels of 2007. In 2015, first payments declined to approximately 120,000 and benefits paid dropped to \$700 million, representing declines of almost 50 percent from the peak numbers of 2009. Clearly, the Connecticut unemployment insurance program played a key role in moderating the impact on the state's economy of the worst recession since World War II.

	First Payments	Benefits Paid (millions)			Total
		State	EUC	EB	
2008	153,263	\$743	\$143	\$0	\$886
2009	223,342	\$1,337	\$765	\$92	\$2,194
2010	174,314	\$1,047	\$1,150	\$291	\$2,488
2011	161,793	\$893	\$891	\$243	\$2,027
2012	146,518	\$880	\$698	\$74	\$1,652
2013	146,208	\$847	\$539	\$0	\$1,386
2014	137,079	\$728	\$0	\$0	\$728
2015	120,404	\$701	\$0	\$0	\$701
Total	1,262,921	\$7,175	\$4,186	\$700	\$12,062

Note: First Payments capture State UI intrastate and interstate payments.

⁸ U.S. Department of Labor, *Handbook 394*.

⁹ Benefit payments represented 0.87 percent of CT total wages in 2008 and 1.72 percent in 2009. Calculations based on U.S. Department of Labor, *Handbook 394*.

House Bill 5367: Four-Quarter Averaging

House Bill 5367 proposes a change in the statutory formula for calculating a claimant's UI weekly benefit amount that would unnecessarily harm a very large percentage of unemployed workers filing for UI benefits. The proposal would change the current law in the following way. Today, when a person loses a job and files for benefits, his or her benefit amount is calculated by looking at a 4-quarter base period of wages. The existing law calls for adding the wages in the two highest quarters of earnings and dividing by 52. This formula is generally calibrated to produce a weekly benefit amount that equals roughly half of the worker's pre-layoff weekly wage, based on an average of the two highest quarters of wages in the base period.

Before 1993, Connecticut applied a formula that called for dividing the claimant's single highest quarter of base period wages by 26 to calculate a weekly benefit rate. The single high-quarter formula is still used in 23 states and is the most common nationally. As part of an effort to restore trust fund solvency in 1993, the legislature changed to the 2-high-quarter formula for the purpose of reducing the average weekly benefit. This effort was successful as the average benefit dropped by approximately 5 percent in the first year after implementation in 1994. Two-quarter averaging is the second most common method for calculating unemployment benefits with 17 states considering the 2 highest base period quarters in their statutory formulas. There are still 23 states that use the single high quarter formula.

Bill 5367 would change Connecticut's 2-quarter formula further by averaging the earnings in all four quarters of the base period.¹⁰ By taking into account the other two quarters, weekly benefit amounts will decrease for claimants who have had breaks in employment or fluctuation in wages for any reason – whether because of unemployment, sporadic or seasonal work schedules, unpaid family or medical leave or gaps between work assignments. This would place Connecticut among a small group of outlier states using the most severe method for calculating weekly unemployment insurance benefits. Only five states – Arkansas, Indiana, Kentucky, Louisiana and West Virginia – use a 4-quarter average formula to calculate benefits.¹¹

Connecticut has, to date, relied on the mainstream approach of averaging the claimant's two highest quarters of base period earnings to get an accurate picture of what the worker's weekly income looked like before being laid off. Using this approach, the average weekly benefit amount is \$353 which is 16th nationally in a state with the country's fourth highest weekly wage. A jobless Connecticut worker's unemployment benefit typically replaces only 42

¹⁰ While the language is less clear, it appears that Proposed Bill 434; *An Act Concerning Unemployment Compensation Calculations* may be intended to achieve the same purpose.

¹¹ *Significant Provisions of State Unemployment Insurance Laws*, USDOL, Employment & Training Administration, July 2014.

percent of what he earned before layoff. But by shifting to 4-quarter averaging under this proposal, any jobless worker who does not already qualify for maximum benefits and who has any recent deviation in quarterly wages would see a drop in benefits. Consider the following example:

Example

Claimant has base period earnings of \$34,000. Wages are spread out over 4 quarters as follows:

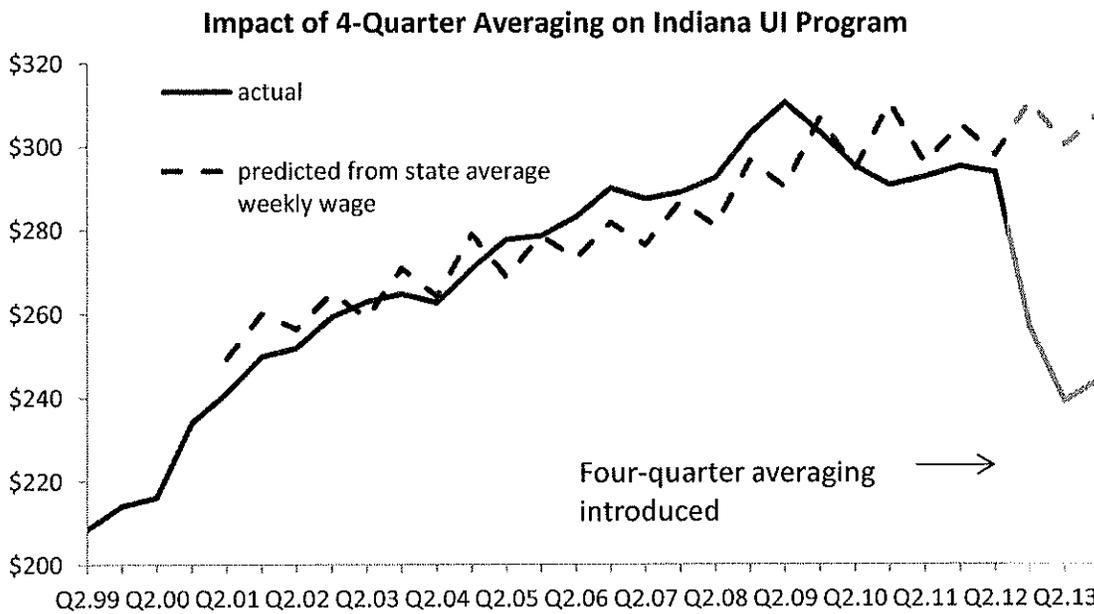
Q1	Q2	Q3	Q4
5000	8000	10,000	11,000

Under current law, the 2 high quarters of \$10,000 and \$11,000 are added and divided by 52. Since \$21,000 divided by 52 = 403, the claimant is entitled to **\$403** per week.

Under the proposed law change, the claimant's total base period wages (\$34,000) are divided by 4 to produce an average quarterly base period wage of \$8,500. That figure is then divided by 26 to generate a weekly benefit amount of **\$326**.

Thus, under House Bill 5367, the unemployed worker whose \$34,000 in wages currently qualifies her for a weekly benefit of \$403 sees *a cut of \$77 per week* based on the same exact wages.

The last state to implement 4 -quarter averaging was Indiana in 2012. Prior to implementation, Indiana's average weekly benefit amount was \$295, which was 28th highest in the nation. Now that 4-quarter averaging has been in place for three years, the average UI benefit in Indiana is \$256 a decline of more than 13 percent and a rate that ranks 42nd nationally. See the following chart.



The idea of determining an unemployed worker’s average wage based on all four quarters of a recent work history is particularly harsh policy at this point in the recovery. Many of those who lost good family-sustaining jobs during the recession are still struggling to get back on their feet. Many have taken jobs that pay far less than what they were earning before the recession. A 2014 NELP report underscores the nature of the nation’s low-wage recovery. While employment losses between 2008 and February 2010 occurred throughout the economy, 78 percent of jobs lost were in high-wage and mid-wage industries. However, the report found that only 56 percent of jobs recovered since then were in those same industries, while 44 percent were in low-wage industries (where the average wage was less than \$13.33 per hour).¹²

In addition, many workers are working part-time when they want to be working full-time. Part-time workers represent 22.2 percent of the Connecticut workforce, but the percentage who are working part-time involuntarily grew from 2.9 percent before the recession to 4.7 percent in 2012.¹³ These workers are frequently subject to unexpected changes in their scheduled hours, resulting in fluctuation in wages between quarters. Workers in the temporary industry, often the best available opportunity for a jobless workers trying to find the way back into secure full-time employment, experience similar wage fluctuations as they experience gaps between assignments. Under current law, workers with part-time and temporary work histories already experience lower benefit rates based on the reduction in their total wages. This proposal would impose a double penalty since the worker’s already low total wages would be averaged out in a way that places greater significance on the quarters in

¹² *The Low-Wage Recovery: Industry Employment and Wages Four Years into the Recovery*, National Employment Law Project, April 2014.

¹³ Krzyzek, Matthew, *Part-Time Employment Trends: An Update*, Connecticut Economic Digest, May 2014.

which the worker's wages were the lowest, including quarters where there were no wages at all.

Finally, this proposal would dramatically reduce the benefits of seasonal workers. Like every other state, Connecticut relies on a number of industries that are seasonal in nature to sustain its economy. Slashing the safety net for workers for whom available work weeks are curtailed by weather only undermines the ability of Connecticut citizens to make a living in these industries, which in turn, threatens the viability of the employers in these industries.

House Bill 5367: Increasing the Minimum Earnings Threshold

HB5367 raises the minimum weekly benefit amount from \$15 to \$50 per week. Proponents of the bill claim that this would increase the minimum wages that a claimant must earn in a 4-quarter base period in order to qualify for UI from \$600 to \$2000. That calculation is incorrect. The actual impact of increasing the minimum benefit amount to \$50 at the same time as imposing 4-quarter averaging would be to increase the minimum earnings requirement to \$5200. That would be the highest minimum earnings requirement in the nation. The highest earnings requirement in the country is currently \$4933 in North Carolina. The national median is \$2500 and 31 states have requirements below \$3000. The Employment Security Advisory Board has had thoughtful discussions about a possible increase in the minimum earnings requirement. This bill, on the other hand, would make Connecticut the strictest state in the nation in terms of what a jobless worker must earn to qualify for benefits.

House Bill 5367: Online Resume Posting Requirement

HB 5367 would require all UI claimants to post a resume "on an online employment exchange designated by the administrator and designed for employers and jobseekers in the state". Under this provision, claimants who have not complied by their sixth week of benefits would be disqualified from benefits. This requirement is borrowed from Rhode Island where this approach was implemented in September 2014. There are, however, some issues to be considered before enacting such an approach into Connecticut law:

- (1) Unlike Rhode Island, the Connecticut Department of Labor does not currently operate an online employment exchange on which resumes can be posted. The costs of constructing such a system would likely be substantial and would also likely interfere with other ongoing IT systems work associated with the Department's UI Modernization project.
- (2) Rhode Island's posting requirement is waived for claimants who are (a) temporarily laid off and have a definite return-to-work date within 8 weeks of their last day of work (b) in an approved training program or in the DLT WorkShare program, (c) members in good standing of a trade union, which has a union hiring hall, and (d) individuals with limited English proficiency. HB 5367

would apply to all Connecticut UI claimants, imposing unnecessary obstacles to benefits for workers who will either derive no advantage from the requirement or will have difficulty complying.¹⁴

- (3) Unemployment insurance claimants are already required by law to register with the state employment service as a condition of eligibility.
- (4) There have been no studies that have found that Rhode Island's posting requirement has been successful in getting unemployed workers back to work faster.

Unemployment Insurance Financing

Since 2008, 35 states have borrowed more than \$51 billion from the U.S. Treasury, which far surpassed the prior record borrowing of the early 1980's. There is still almost \$7.4 billion in outstanding debt and Connecticut is one of three states with an outstanding loan (currently \$100 million), though Connecticut projects it will pay back its remaining debt later this year.¹⁵ In addition, six states are borrowing in the private securities market, accounting for almost another \$11 billion.¹⁶

How did states get in this situation? The obvious answer is both the depth and duration of the recent economic downturn. Unemployment peaked at 10 percent in 2010 while the number of unemployed workers exceeded 15 million for several months. The economy took close to six years to return to pre-recession employment levels. In comparison, employment returned to pre-recession levels within four years of the onset of the 2001 recession and back-to-back recessions of the early 1980s.

Another unique aspect of the current downturn is the emergence of epidemic long-term unemployment. Nationally, the average duration of all unemployed workers was just over 39 weeks in 2012, essentially unchanged from a year earlier. Even today, roughly a quarter of all unemployed workers have been without work for 27 weeks or longer. As a result of prolonged unemployment spells, the percentage of unemployed workers exhausting state benefits reached a historic high of 55% in 2009 and, stands at over 38% today, well above historic norms.

¹⁴ For an examination of how imposing electronic filing requirements (including online resumes) can drive down UI reciprocity, see "Ain't No Sunshine: Fewer than One in Eight Unemployed Workers in Florida Is receiving Unemployment Insurance", George Wentworth & Claire McKenna (September 2015). <http://www.nelp.org/content/uploads/Aint-No-Sunshine-Florida-Unemployment-Insurance.pdf> .

¹⁵ California currently owes over \$6.5 billion and Ohio has a debt of \$772 million. <http://www.workforcesecurity.doleta.gov/unemploy/budget.asp#tfloans>

¹⁶ Five Thirty Eight, "The Unemployment System is Not Ready for the Next Recession" by Ben Casselman. February 3, 2016. Sources: US Department of Labor, US Treasury.

The severity of the Great Recession contributed to the depletion of state trust funds, but was not the only factor driving unprecedented borrowing. In general, most state unemployment trust funds did not do enough to prepare for this recession and, in fact, were less prepared than they were for the last recession. At the beginning of CY2001, there was about \$54 billion in state trust funds to withstand the national recession that followed 9/11.¹⁷ By way of comparison, state trust fund balances had dropped to about \$38 billion by the beginning of CY2008 when the current recession began—a decline of over 42%¹⁸ and half the amount recommended by UI financing experts.¹⁹ While the breadth and depth of this recession have accelerated the current trust fund crisis, the problem—now national in scope—has its roots in the failure of many states to engage in responsible financial planning.

Unemployment Insurance financing experts are generally agreed that there are three key features in maintaining healthy unemployment trust funds: (1) adherence to forward funding principles, (2) setting taxable wage bases that are responsive to recessionary payment levels, and (3) indexing taxable wage bases as a percentage of the state's average annual wage.

To meet the primary goals of the UI program—payment of adequate temporary wage replacement to involuntarily unemployed individuals and stimulation of economic activity by maintaining consumer spending—a state must have a UI financing mechanism that will collect sufficient UI payroll taxes to maintain a strong program. UI programs were intended by their designers to accumulate reserves in trust funds prior to recessions in order to provide funding of higher UI claims during economic downturns. This is known as “forward financing.” Wayne Vroman, the nation's leading authority on UI financing, summarizes the economic rationale supporting forward funding of UI programs:

Trust fund balances are built up before recessions, drawn on during recessions, and then rebuilt during the subsequent recoveries. The funding arrangement implies that the program acts as an automatic stabilizer of economic activity, that it makes larger benefit payments than tax withdrawals during recessions and larger tax withdrawals than benefit payments during economic expansions.²⁰

Under the same rationale, cutting UI benefits or raising UI payroll taxes during a recession undermines the positive economic impact of UI. NELP supports forward financing because state UI programs work best when they build up trust fund reserves during periods of economic growth and then rely upon those reserves to moderate or avoid UI payroll tax

¹⁷ U.S. Department of Labor, *Handbook 394*, <http://www.workforcesecurity.doleta.gov/unemploy/hb394.asp>.

¹⁸ U.S. Department of Labor, *Handbook 394*.

¹⁹ Evangelist, Michael, 2011, “Lessons Left Unlearned,” New York, NY: National Employment Law Project, http://www.nelp.org/page/-/UI/2012/Report_UI_Solvency.pdf.

²⁰ Wayne Vroman (1998), *Topics in Unemployment Insurance Financing*, p. 10.

increases and/or UI benefit restrictions during economic recessions. In our view, Connecticut should recommit to forward financing (as it did in the 1990's) as a first step toward addressing its current solvency dilemma.

Traditional forward funding of UI has significant advantages. Maintaining adequate state trust fund balances permits states to receive significant federal interest payments on those trust fund balances. States that have abandoned forward financing, whether consciously or not, have lost out on federal interest payments which could have been relied upon to pay UI benefits during a recession.

As is often the case, states that borrowed during the downturn faced interest and loan repayment penalties before their economies were fully recovered. Long-term federal loans cost indebted states \$2.8 billion in 2012, including interest payments of \$1.1 billion and \$1.7 billion of FUTA credit reductions.²¹

In addition, since states with solvency concerns face pressures to make cuts on the benefits side of the UI cost equation, states with adequately financed trust funds can avoid these pressures. Just as tax increases during a recession are bad policy, benefit cuts or freezes undercut the positive economic impact of UI programs.

A key concept in measuring trust fund solvency is known as the Average High Cost Multiple (AHCM). A High Cost Multiple (HCM) of 1.0 means that a state has adequate reserves in its fund to pay out benefits for one year at its historically highest level of benefit payments without relying on any new payroll tax revenues. An *Average* High Cost Multiple of 1.0 means the state is able to pay a year of benefits at a level equal to the average payout in the three high payout calendar years during the past three recessions or twenty years.

In 1995, the Advisory Council on Unemployment Compensation, a federal advisory panel, recommended that states maintain a pre-recession AHCM of 1.0. Generally, this has been the measure of solvency utilized by the USDOL in recent years. In CY2000, 30 states²² (including Connecticut had accumulated the recommended level of savings (AHCM of 1.0).²³ By CY2007, only 19 states met this solvency standard. Connecticut's UI trust fund entered the Great Recession with \$598 million in reserves –slightly more than half the \$1.1 billion needed to meet the federal solvency standard.

Of the 19 states that met the solvency standard in 2007, only six required a federal loan and three of these states were able to repay their loans quickly. In comparison 30 of the 34 states

²¹ U.S. Department of Labor, *UI Outlook FY 2013 Budget Midsession Review, Status of Loan Accounts*, <http://www.ows.doleta.gov/unemploy/pdf/MSR.pdf>.

²² For purposes of this testimony, "states" encompasses all 53 unemployment insurance jurisdictions, including the District of Columbia, Puerto Rico, and the Virgin Islands.

²³ U.S. Department of Labor, *Handbook 394*.

with inadequate reserves borrowed.²⁴ NELP estimates that had the 34 states that started the recession with inadequate reserves met the AHCM solvency benchmark, the number of borrowing states would have fallen to 13 with the total amount borrowed dropping to \$9 billion by the end of 2010.²⁵ Even though the Great Recession was severe, adequately prepared trust funds would have allowed most states to weather the storm without resorting to loans, while dramatically reducing the amount borrowed in those states that still required federal assistance.

Only wages below an annual threshold known as the “taxable wage base” are subject to state UI payroll taxes. NELP has long identified the annual, automatic adjustment of UI wage bases (known as “indexing”) as a key UI financing policy. Closely related to indexing is maintaining a higher taxable wage base level. All states with higher taxable wage bases have indexing. For this reason, indexing and higher taxable wage bases are addressed in tandem.

Of the 16 states with indexed taxable wages in 2007, ten were considered adequately prepared for the recession, while only 8 of 35 non-indexed states met the solvency standard.²⁶ States with indexed taxable wage bases also outperformed non-indexed states with only six (38%) requiring a loan during the downturn, compared to 29 (83%) of the non-indexed states.²⁷ Only two of the top ten largest states have an indexed taxable wage base, which is unfortunate given the fact that the largest twelve states accounted for over three-quarters of the total amount borrowed in 2012.²⁸ It is no coincidence that Washington, the largest state to avoid borrowing, also has an indexed taxable wage base.

In 2013, taxable wage bases rang from a high of \$39,800 (WA) to three programs with taxable wage bases at the federally allowed minimum of \$7000 (AZ, CA, and PR).²⁹ A total of 20 states have taxable wage bases of \$10,000 or less.³⁰ Notably, while a majority of states have maintained low taxable wage bases, 18 programs had taxable wage bases over \$20,000 in 2013.³¹ All of these states had indexing. See chart.

²⁴ Evangelist, 2012.

²⁵ Ibid.

²⁶ Ibid. (counts exclude Puerto Rico and Virgin Islands)

²⁷ Vroman, Wayne, 2012, “The Challenges Facing the UI Financing System.” Washington, DC: Urban Institute, <http://www.urban.org/UploadedPDF/412629-the-challenge.pdf>.

²⁸ Borrowed amount includes those states that issued bonds in the private debt market. See Evangelist, 2012.

²⁹ U.S. Department of Labor, *Significant Provisions of State UI Laws*, July 2011, <http://www.workforcesecurity.doleta.gov/unemploy/content/sigpros/2010-2019/July2011.pdf>.

³⁰ U.S. Department of Labor, *Significant Provisions of State UI Laws*.

³¹ U.S. Department of Labor, *Significant Provisions of State UI Laws*. Count includes the Virgin Islands.

State Taxable Wage Bases

\$10,000 or less	Over \$10 to \$15 K	Over \$15 to \$20K	Above \$20K
(20 States)	(14 States)	(1 State)	(18 States)
Alabama, Arizona, California, District of Columbia, Florida, Georgia, Indiana, Kansas, Kentucky, Louisiana, Maryland, Michigan, Nebraska, New York, Ohio, Pennsylvania, Puerto Rico, Tennessee, Texas, and Virginia	Arkansas, Colorado, Connecticut, Delaware, Illinois, Maine, Massachusetts, Mississippi, Missouri, New Hampshire, South Carolina, South Dakota, West Virginia, and Wisconsin	Vermont	Alaska, Hawaii, Idaho, Iowa, Minnesota, Montana, Nevada, New Jersey, New Mexico, North Carolina, North Dakota, Oklahoma, Oregon, Rhode Island, Utah, Virgin Islands, Washington, and Wyoming

Indexing is usually accomplished by setting a state's taxable wage base as a percentage of a state's average annual wage in a prior 12 month period. Of the 18 states with indexing, the formula ranges from 100 percent in Idaho to 46.5 percent in Rhode Island, with a couple of states using less common methods.³² (See following chart.) Indexing promotes UI solvency in a couple of important ways. The strongest rationale for indexing is that weekly benefit amounts increase each year due to growth in wages. This growth in benefit levels is especially true in states that index maximum weekly benefit amounts, like Connecticut.³³ But, even where maximum weekly benefit amounts are fixed and require legislative amendments, benefit amounts increase because of the growth in wages. As a result, average benefit payouts rise without any legislative action.

States with Indexed Taxable Wage Bases

2015 Taxable Wage Base	State	Indexing Criterion
\$38,700	Alaska	75% SAAW
\$40,900	Hawaii	100% SAWW
\$36,000	Idaho	100% SAAW
\$27,300	Iowa	66.7% AWW times 52
\$30,000	Minnesota	60% SAAW
\$29,500	Montana	80% SAAW
\$27,800	Nevada	66.7% SAAW

³² U.S. Department of Labor, Comparison of State UI Laws, Chapter on Financing, Table 2-2: Computation of Flexible Taxable Wage Bases, <http://www.workforcesecurity.doleta.gov/unemploy/comparison2013.asp>. Count includes the Virgin Islands.

³³ U.S. Department of Labor, Comparison of State UI Laws, Chapter on Monetary Entitlement, Table 3-6: States with Automatic Adjustments to Benefit Amounts, <http://www.workforcesecurity.doleta.gov/unemploy/pdf/uilawcompar/2013/monetary.pdf>

\$32,000	New Jersey	28 times AWW
\$23,400	New Mexico	60% SAAW
\$21,700	North Carolina	50% SAAW
\$35,600	North Dakota	70% SAAW
\$17,000	Oklahoma	50% SAAW
\$35,700	Oregon	80% SAAW
\$21,200	Rhode Island	46.5% SAAW
\$31,300	Utah	75% prior fiscal year wage
\$22,900	Virgin Islands	60% SAAW
\$42,100	Washington	115% of prior TWB but not more than 80% SAAW
\$24,700	Wyoming	55% SAAW

Note: SAAW is state annual average wage. AWW is state's average weekly wage.
Source: USDOL Comparison of State Unemployment Insurance Laws (2013), Table 2.2.

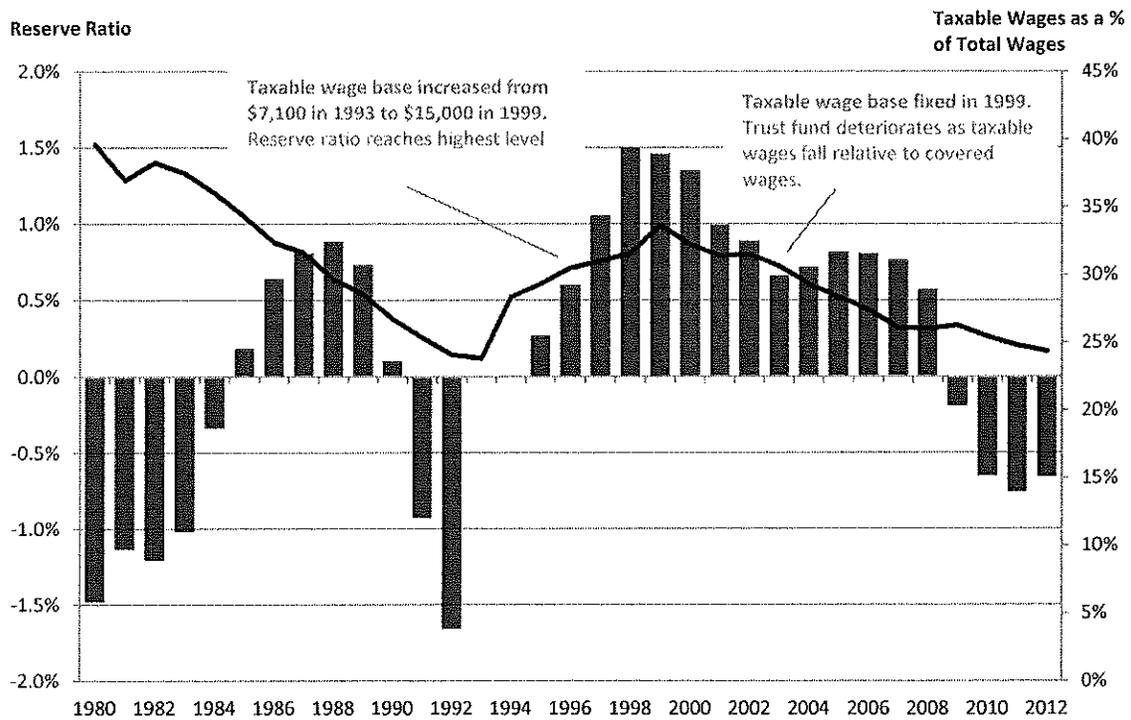
The obvious impact of paying for rising UI benefit levels on a fixed taxable wage base is aptly described by economist Philip Levine. "A major deficiency in the current system of UI financing is that the infrequent, ad hoc adjustments to the taxable wage base lead to a continual erosion of its financial stability Even in the absence of severe cyclical downturns, these basic relationships indicate that the current system of UI financing will drift toward insolvency."³⁴

Conversely, higher taxable wage bases put UI financing on a broader basis and increase the responsiveness of UI taxes when recovering from higher UI payments during a recession. Wayne Vroman has shown there is a strong correlation between taxable wage base levels and the ability of states' UI financing mechanisms to produce sufficient revenues to maintain solvent trust fund reserves during a recession. Similarly, the Advisory Council on Unemployment Compensation found from its studies that increasing state taxable wage bases was associated with improvements in the solvency of UI trust funds, as measured by reserve ratios. In short, Connecticut needs further increases in its taxable wage levels over time in order to reach and maintain adequate forward financing of its UI Trust Fund. More importantly, the single most important step toward long-term UI financial solvency would be indexing its taxable wage base.

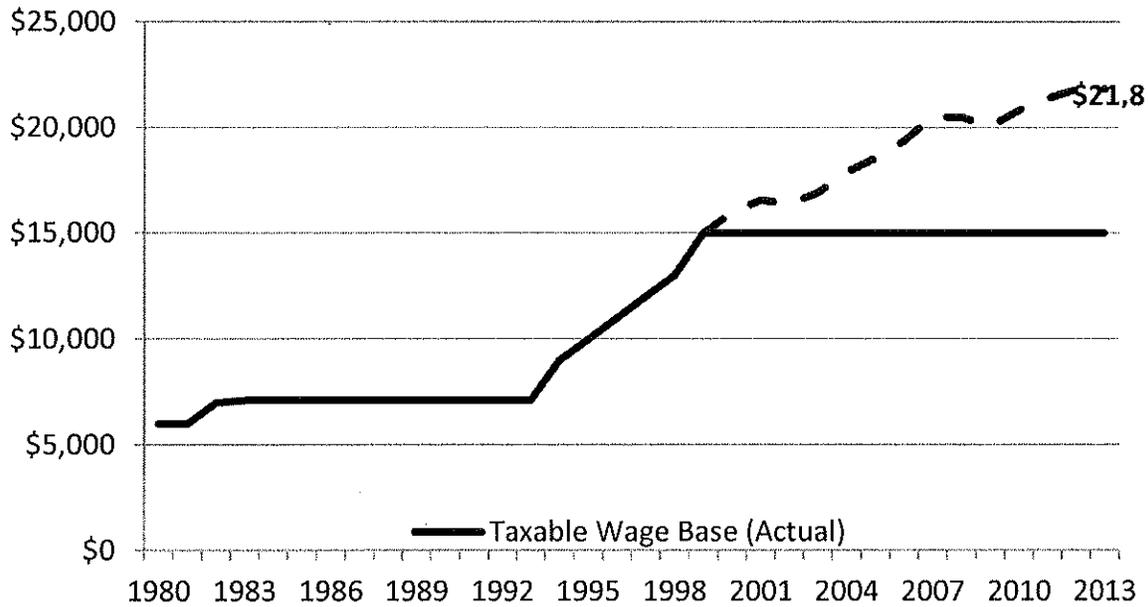
³⁴ Phillip B. Levine, "Financing Benefit Payments," in *Unemployment Insurance in the United States: Analysis of Policy Issues*, (Christopher O'Leary & Stephen A. Wandner, ed. Upjohn Institute, 1997).

A Connecticut Solution

Twenty-three years ago, faced with the insolvency of Connecticut's UI trust fund created by another recession, this Committee took the lead in crafting legislation that not only eliminated hundreds of millions of dollars of debt but also put the fund on a path toward sustained solvency. That solution was predicated on gradually increasing the taxable wage on which employers pay their UI taxes from the first \$7100 in earnings in 1994 up to the first \$15,000 in wages by the end of the decade. It was smart legislation, but it did not include an indexing feature. As a result, fund solvency began to erode early in the last decade and stood at only slightly more than half of the federally recommended level entering the recession in 2007. See table below.



Had Connecticut indexed its taxable wage base after 1999, the current taxable wage base would be approximately \$21,800 (see chart below) and the state would have had to engage in much less federal borrowing.



Connecticut has committed to the federal solvency standard (1.0 AHCM),³⁵ but it has not increased the taxable wage base. As a result, Connecticut will rely on the existing fund solvency tax (an additional 0.1 to 1.4 percent imposed on all employers) to fuel unsuccessful solvency efforts for several years, in addition to special assessments to pay off interest on any short-term federal borrowing. In the event of an economic downturn and substantial increase in unemployment, Connecticut's trust fund faces a significant risk of becoming insolvent again and employers again facing higher FUTA taxes to pay back any future federal loans.

A sensible long-term solution is to spread the costs out more evenly by raising the taxable wage base to a level somewhere close to where it would have been had there been indexing over the past 16 years (\$21,800 in 2015) and then indexing the wage base to future increases in the average weekly wage. Such forward-looking changes to system financing are an essential component of comprehensive reform that can also incorporate equitable changes in benefit rules that do not hurt those jobless workers who need unemployment insurance the most.

³⁵ Public Act 12-46.