

# SENATE LABOR COMMITTEE

## STATEMENT TO

### **SENATE, No. 2730**

with committee amendments

# **STATE OF NEW JERSEY**

DATED: MAY 12, 2011

The Senate Labor Committee reports favorably and with committee amendments Senate Bill No. 2730.

This bill modifies the provisions of the "unemployment compensation law" (R.S.43:21-1 et seq.), by:

1. Reducing the unemployment insurance (UI) tax rates which will be imposed on employers during fiscal years 2012 and 2013; and
2. Modifying, for all years after FY 2011, the UI trust fund reserve ratios which set employer UI tax rates in such a manner that larger reserves are required in the UI trust fund than under the current law before employer UI taxes are reduced.

First, the bill provides immediate tax relief for employers during fiscal years 2012 and 2013. The bill reduces employer UI tax rates by applying the tax rates of the "D" column of the UI tax table in R.S.43:21-7 during fiscal year 2012 and the tax rates of the "E" column of that tax table in FY 2013. During FY 2011, the tax rates of the "C" schedule were applied. Because the UI trust fund is currently in deficit, the tax rate, under current law, would increase, starting on July 1, 2011, to the highest tax rates set by the law, the rates found in the "E" column, plus an additional 10% surcharge. The employer tax burdens under the "D" schedule and the "E" schedule are significantly lower.

Second, for all years after FY 2011, the bill raises the UI trust fund reserve ratios which set employer UI tax rates in such a manner that larger reserves are required in the UI trust fund than under the current law before employer UI taxes are reduced. Specifically, the bill sets the reserve ratio triggers at the same levels they were during FY 2003. That will result in the building up of UI trust fund reserves sufficient to reduce the likelihood that any future recession will result in the deep UI trust fund deficits which have caused such large employer UI tax increases during the current period of high unemployment. The new reserve ratio triggers provided by the bill will still permit employer UI tax reductions as reserves accumulate, but the tax reductions will not be as large. The new reserve ratio triggers will have no effect on tax rates until the UI trust fund has a positive balance. The Department of

Labor and Workforce Development estimates that the fund will not attain a positive balance before FY 2017.

The committee amendments to this bill change the requirements regarding notification to employers when benefit payments are made and charged to their employer account. The changes reflect the efforts of the Department of Labor and Workforce Development to modernize notification to employers by electronic or digital means. Currently, the statute requires the department to send or furnish copies of certain records to employers regarding benefit payments charged to their employer account. The amendments change this requirement to allow the department to utilize technology in order to reduce costs associated with mailing paper notifications.

Fiscal impact:

The OLS notes that this bill will reduce the revenue otherwise collected from the employer paid unemployment insurance tax for the State Unemployment Insurance (UI) Compensation Trust Fund by approximately \$371.5 million for taxes paid in FY 2012 and \$281.4 million in FY2013.

The UI trust fund is currently operating at a deficit and is borrowing funds from the federal government to pay UI benefits. Thus, any reduction in revenue pursuant to this bill will be offset by funds borrowed from the federal government that will need to be repaid with interest to the federal government. The OLS analysis indicates that, pursuant to changes proposed in this bill, the UI trust fund will regain solvency approximately one fiscal year later than under current law.

The OLS analysis also indicates that this bill may extend the length of time employers are subject to an increased Federal Unemployment Tax Act (FUTA) tax and an increased State employer UI tax to pay back the additional \$652.9 million in principal borrowed from the federal government.

Furthermore, the OLS analysis indicates that interest payments accrued on the additional \$652.9 million in principal borrowed from the federal government will equal approximately \$14.9 million and \$11.3 million in interest in FY 2013 and FY 2014 respectively and will continue to accrue until the federal loan is repaid. State law requires an additional assessment on employers which is deposited in the Unemployment Compensation Auxiliary Fund (UCAF) be used to pay this accrued interest. This bill will increase the revenue generated for the UCAF from this assessment and increase the expenditures from the UCAF to pay the interest accrued on the additional \$652.9 million loan.

Additionally, this bill amends the UI tax table to increase the reserve ratio needed to shift the UI tax rate. This change will most likely result in a more stable employer UI tax rate for a longer period of time and allow a greater reserve of funds to be retained in the UI

trust fund. For example, under current law, when the reserve ratio in the UI trust fund reaches 1.4%, employers are moved to the lowest tax column “A.” Conversely, under this bill, a 1.4% reserve ratio would maintain the highest tax column of “E.” The changes proposed under this bill will allow the UI trust fund to maintain a larger reserve in times of lower unemployment to be used to pay benefits, without having to increase UI taxes, in times of high unemployment.