



MASSACHUSETTS STATE UNEMPLOYMENT TAX ACT REFORM

SUTA Reform

Abstract

The COVID-19 pandemic has created a fiscal crisis. Massachusetts State Unemployment trust fund that holds the money to distribute benefit payments has not collected enough revenue to comply with the Department of Labor standards for decades. The benefit payments do not factor in purchase power, the tax structure is regressive, an employer's tax rate increases when layoffs occur through no fault of the employer, and smaller businesses pay at higher rates than large businesses. This paper critiques current tax structure and benefit payment calculations of the Massachusetts State Unemployment Tax Act and presents an equitable and easy to understand tax structure. The proposed tax structure would create a solvent trust for the normal times and provide a safety buffer for future economic downturns, natural disasters, and economic shifts. We argue that benefit payments should factor in purchase power, the experience rating system should be abolished, the tax base should capture full wages without a ceiling. A simulation analysis illustrates the feasibility of the new tax structure and benefit calculations and shows that the existing structure does not collect enough revenue even during normal times. This proposal would bring this social insurance up to the standards of other developed nations.

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Introduction

The middle class has been squeezed to the point of making the American Dream impossible to afford. While some would argue that corporations are to blame, this proposal explains a more intricate and uncomfortable problem. There are laws that deliberately burden the lower economic classes and small businesses, laws that are rooted in racism and marginalization of women. Please see Appendix A. But, to those without a thorough understanding of economics, law, or accounting, these pieces of legislation do not look like the wolves in disguise that they are. The *Massachusetts General Law Part 1 Title XXI Chapter 151A Section 14*, makes inequalities look like social problems, as opposed to being the direct result of systematic imbalances created by outdated legislation; legislation that minimizes business expenses and creates tax loopholes, which is lobbied for by large institutions, not the private citizen.¹ This results in corporations paying less into the social system from which they benefit. The average citizen lacks the time and the necessary knowledge to advocate for their needs properly, which allows Big Business the power to control our society and economy.

We have an opportunity right now, as COVID-19 exposes cracks in the system that have long been there. We must unite to make the necessary changes in legislation that would support citizens rather than corporate profits. Employees, employers, and the Commonwealth of Massachusetts all will benefit from State Unemployment Insurance reform. Larger corporations have not been contributing into the unemployment system as they should because of antiquated and biased legislation. This is our opportunity to save small businesses and enact legislation that puts human life before shareholder profits.

A unique aspect of our current reality is that, for the first time, three groups that often have conflicting interests in our economy, can now be on the same side of one issue -- small business owners, the working class, and State Legislators can be allies. Employers will face a large tax liability increase through no fault of their own and at a time when their businesses are in jeopardy;² the employees have experienced unemployment benefits that pay too little to survive; and the Commonwealth has failed to create a healthy state unemployment trust fund for decades and is now in need of a solution to increase the trust fund revenue. Please see Appendix C and F. Finally, the service industry is being hit the hardest of them all.⁴ This industry is a microcosm that is representative of our greater economy's burdens. Ownership is represented by entrepreneurs who fall in the middle class. Employees are a collection of middle to lower economic class who are breadwinners, students, artists, and immigrants; **this industry is the heart of America.**

This perfect storm created by the current pandemic can be the catalyst for citizens and State Legislature to dive in and ask how we got here and why this program is not working properly at the time when we all need it to work.

¹ <https://malegislature.gov/Laws/GeneralLaws/PartI/TitleXXI/Chapter151a/Section14>

² <https://www.mass.gov/info-details/employer-unemployment-faq-covid-19#employer-charges>; "Under the CARES ACT, private and governmental contributory employers will not be charged for COVID-19 related claims until Dec. 31, 2020 unless extended. These COVID-19 related claims will be charged to the Solvency Fund."

³ <https://malegislature.gov/Laws/SessionLaws/Acts/2020/Chapter81>. This stopgap bill will help small businesses in the short term. It is not a long-term solution to the regressive tax structure or means to generating income for the insolvent program.

⁴ Opportunity Insights: The Economic Impacts of COVID-19: Evidence from a New Public Database Built Using Private Sector Data Raj Chetty, John N. Friedman, Nathaniel Hendren, Michael Stepner, and the Opportunity Insights Team <https://opportunityinsights.org/wp-content/uploads/2020/06/tracker-summary.pdf>

Unemployment Benefit Payments

Current System

Benefit payments are the weekly sum a laid off employee receives, which is determined differently in every state. The payments are aimed to replace enough income to cover the cost of living, while incentivizing the worker to find a new job as quickly as possible. In Massachusetts, laid off employees are entitled to 50% of their average weekly wage but not exceeding \$855.00 per week. Benefits for employees who only worked a portion of the year or whose income fluctuated within the year are calculated by taking 50% of the average income from the two highest earning quarters.⁵ Please see Appendix B for expanded benefit calculations. This yields after-tax weekly payments that are about 40% of regular wages.

The Committee on Economic Security recommends that benefit payments preserve purchase power of individuals, whereas current Massachusetts legislation does not do this.⁶

Low wage earners cannot live on 40% of what they are accustomed to making. This HURTS people.

Shortcomings with Benefit Payment Calculations

According to the Social Security Act, benefit payments should cover the cost of living.

As explained by President Franklin D. Roosevelt on March 23, 1934:

“Of course, unemployment insurance alone will not make unnecessary all relief for all people out of a major economic depression, but it is my confident belief that such funds will, by maintaining the purchasing power of those temporarily out of work, act as a stabilizing device in our economic structure and as a method of retarding, the rapid downward spiral curve and the onset of severe economic crises.”¹

Cost of living is calculated by the table below according to Department of Labor Consumer Price Index reports. If someone who is making just enough at their current job to live gets laid off and receives 50% of their average salary, they automatically have to forgo something that is a necessity like housing, food, transportation, utilities and/or healthcare. The catch is that 32% of take-home income does not go to miscellaneous or entertainment, as is suggested in the table but that, in fact, the actual cost of living does not line up with the table below in Massachusetts. Housing alone can be 50% of people’s income. Please see Appendix C for further explanation on lack of purchase power in Massachusetts.

Table 1 Department of Labor Cost of Living Breakdown. Sourced from Monthly Consumer Price Index Reports. This is a federally issued report. This table does not represent the cost of living in Massachusetts.

Percentage of Income Allocation via Department of Labor Cost of Living for Average American	
Cost of Living Categories	Percentage Breakdown Cost of Living Categories
Housing/Utilities	36%
Food/Groceries	15%
Transportation	10%
Health Care	7%
Misc. Necessities/Entertainment	32%

⁵ <https://www.mass.gov/info-details/how-your-unemployment-benefits-are-determined>

⁶ <https://www.ssa.gov/history/reports/ces/cesbookc6.html> Part 1 Chapter VI Section 118

Preserving the purchasing power of the unemployed to avoid personal and national economic collapse is the goal of unemployment insurance. In Massachusetts, the necessary weekly income is about \$630 after taxes (\$725.00 before taxes) in benefit payments. Under current legislation, a person would need to make \$80,000 a year prior to becoming unemployed for weekly payments to equal that amount.

Ultimately, preserving purchasing power during unemployment for all citizens is impossible. Impossible because many people are already working jobs that do not pay enough to have full purchasing power to cover basic needs at their regular jobs.

The question then is what is an equitable benefit payment that is appropriate in an imperfect system? There are four major factors to consider: First, the Committee on Economic Security recommends a minimum and maximum benefit payment range. Second, people cannot make more on unemployment than what they earned while working. Third, what is the correct value that equals economic stabilization for everyone. Fourth, how to maintain the incentive to find new employment as quickly as possible.

Massachusetts Unemployment Insurance Tax Structure

Current situation

The Department of Unemployment Assistance under the umbrella of the Executive Office of Labor and Workforce Development (EOLWD) is tasked with administering the Unemployment Insurance (UI) program in the Commonwealth per *Section 1 of Chapter 23 of the Massachusetts General Laws*. The Massachusetts State Legislature is responsible for designing the program, and the US Department of Labor oversees it. The Massachusetts UI trust fund is funded by tax revenue, which is held in an account maintained by the U.S. Treasury.

Revenue is collected by levying a tax on employers, and different employers are subject to different tax rates. To calculate the tax rate, two factors are considered: first, the overall health of the state-wide trust fund is determined (this varies year-to-year based on the account balance, revenue collected in prior years, and payment obligations) and second, each employer is assigned a score, which is based on that employer's prior UI contributions and the UI benefits that the former employees have received. The score assigned to each employer is called the *Employer Account Reserve Percentage*, and the score given to the state's trust fund health is called the *Unemployment Compensation Fund Reserve Percentage*. The two scores above, are used as indices into the *Table of Contribution Rates and Schedules*, which yields the tax rate for a given employer. This employer-specific tax rate is called the *Experience Rating*. Please see Appendix J for expanded explanation on how to calculate *Experience Rating*. Table 1 shows the *Table of Contribution Rates and Schedules*, where each column labeled A through G represents *Unemployment Compensation Fund Reserve Percentage* – this is the trust fund health, and each row represents an *Employer Account Reserve Percentage* – this is the employer score.⁷

Every year, the US Department of the Treasury evaluates the health of the states' UI funds by determining the *Reserve Ratio* for each state. This *Reserve Ratio* triggers which column of the *Table of Contribution Rates and Schedules*, will be used for the year. The table is enacted by Massachusetts State Legislature per *General Law Part 1 Title XXI Chapter 151A Section 14*. Please see Appendix F for the health of the fund.

⁷ <https://www.mass.gov/service-details/learn-about-unemployment-insurance-ui-contributions>

Table 2 is used to determine employer Experience Rating (the tax rate for that employer). The fund Reserve Percentages are indicated in Columns A-G and represent the "health" of the trust fund. Tax rates are low when the fund is "healthy" (column A), and they get progressively greater when the fund is not healthy (column G). The left side of the table represents Employer Account Reserve Percentages

DEPARTMENT OF UNEMPLOYMENT ASSISTANCE TABLE OF CONTRIBUTION RATES AND SCHEDULES							
Unemployment Compensation Fund Reserve Percentage							
Employer Account Reserve Percentages	A 1.65% and over	B 1.5% or more less than 1.65%	C 1.2% or more less than 1.5%	D 0.9% or more less than 1.2%	E 0.6% or more less than 0.9%	F 0.3% or more less than 0.6%	G less than 0.3%
Positive Percentage							
17.0 or more	0.56	0.64	0.73	0.83	0.94	1.07	1.21
16.0 but less than 17.0	0.64	0.73	0.83	0.95	1.08	1.22	1.39
15.0 but less than 16.0	0.73	0.83	0.94	1.07	1.21	1.38	1.57
14.0 but less than 15.0	0.81	0.92	1.04	1.18	1.34	1.53	1.73
13.5 but less than 14.0	0.97	1.10	1.25	1.42	1.61	1.83	2.08
13.0 but less than 13.5	1.05	1.19	1.35	1.54	1.75	1.99	2.26
12.5 but less than 13.0	1.13	1.28	1.46	1.66	1.89	2.14	2.43
12.0 but less than 12.5	1.21	1.37	1.56	1.77	2.01	2.29	2.60
11.5 but less than 12.0	1.29	1.47	1.67	1.89	2.15	2.45	2.78
11.0 but less than 11.5	1.37	1.56	1.77	2.01	2.29	2.60	2.96
10.5 but less than 11.0	1.45	1.65	1.87	2.13	2.42	2.75	3.12
10.0 but less than 10.5	1.53	1.74	1.98	2.25	2.56	2.91	3.30
9.5 but less than 10.0	1.61	1.83	2.08	2.36	2.69	3.05	3.47
9.0 but less than 9.5	1.70	1.93	2.19	2.49	2.82	3.21	3.65
8.5 but less than 9.0	1.78	2.02	2.29	2.61	2.96	3.37	3.82
8.0 but less than 8.5	1.85	2.10	2.39	2.72	3.09	3.51	3.99
7.5 but less than 8.0	1.94	2.20	2.50	2.84	3.23	3.67	4.17
7.0 but less than 7.5	2.02	2.30	2.61	2.96	3.37	3.82	4.35
6.5 but less than 7.0	2.09	2.38	2.71	3.08	3.50	3.97	4.51
6.0 but less than 6.5	2.17	2.47	2.81	3.20	3.63	4.13	4.69
5.5 but less than 6.0	2.25	2.56	2.91	3.31	3.76	4.28	4.86
5.0 but less than 5.5	2.34	2.66	3.02	3.43	3.90	4.43	5.04
4.5 but less than 5.0	2.42	2.75	3.13	3.55	4.04	4.59	5.21
4.0 but less than 4.5	2.50	2.84	3.23	3.67	4.17	4.74	5.38
3.5 but less than 4.0	2.58	2.93	3.33	3.79	4.30	4.89	5.56
3.0 but less than 3.5	2.67	3.03	3.44	3.91	4.44	5.05	5.74
2.5 but less than 3.0	2.75	3.12	3.54	4.02	4.57	5.20	5.90
2.0 but less than 2.5	2.82	3.21	3.65	4.14	4.71	5.35	6.08
1.5 but less than 2.0	2.90	3.30	3.75	4.26	4.84	5.50	6.25
1.0 but less than 1.5	2.98	3.39	3.85	4.38	4.98	5.65	6.43
0.5 but less than 1.0	3.06	3.48	3.96	4.50	5.11	5.81	6.60
0.0 but less than 0.5	3.14	3.57	4.06	4.61	5.24	5.96	6.77
Negative Percentage							
0.0 but less than 1.0	4.22	4.79	5.45	6.19	7.03	7.99	9.08
1.0 but less than 3.0	4.58	5.21	5.92	6.72	7.64	8.68	9.86
3.0 but less than 5.0	4.95	5.63	6.39	7.27	8.26	9.38	10.66
5.0 but less than 7.0	5.32	6.04	6.86	7.80	8.86	10.07	11.44
7.0 but less than 9.0	5.68	6.46	7.34	8.34	9.48	10.77	12.23
9.0 but less than 11.0	6.05	6.87	7.81	8.88	10.09	11.46	13.02
11.0 but less than 13.0	6.42	7.29	8.29	9.42	10.70	12.16	13.81
13.0 but less than 15.0	6.78	7.71	8.76	9.95	11.31	12.85	14.60
15.0 but less than 17.0	7.15	8.13	9.24	10.49	11.93	13.55	15.39
17.0 but less than 19.0	7.52	8.54	9.71	11.03	12.53	14.24	16.18
19.0 but less than 21.0	7.88	8.96	10.18	11.57	13.15	14.94	16.97
21.0 but less than 23.0	8.25	9.37	10.65	12.11	13.76	15.63	17.76
23 or more	8.62	9.79	11.13	12.65	14.37	16.33	18.55

The dollar tax liability for a given employer is determined by applying the tax rate (as determined above) to the tax base. The State Legislature sets the taxable wage base, which is currently \$15,000 per employee. This means that an employer pays UI taxes only on the first \$15,000 of an employee's income. Wages above the \$15,000 ceiling are not subject to state unemployment tax.

The rationale for utilizing the *Experience Rating* to set the tax rate is to incentivize employers to keep layoffs low. However, as will be shown in the next section, the *Experience Rating* system is deeply flawed. Similarly, the tax base ceiling has a long history dating to 1939 to offer a tax break to businesses, but as the next section will show, this approach results in regressive taxation and insufficient revenue to maintain a healthy trust fund.⁸⁹¹⁰ Please see Appendix A and L.

⁸ <https://www.ssa.gov/history/pdf/Downey%20PDFs/Social%20Security%20Amendments%20of%201939.pdf>

⁹ <https://www.ssa.gov/history/pdf/Downey%20PDFs/Social%20Security%20Amendments%20of%201939.pdf> page 347 paragraph header "Unemployment-Insurance Tax Relief"

¹⁰ <https://www.ssa.gov/history/reports/ces/cesbook4.html> Part 1 Chapter IV part 75

Shortcomings with Current Tax Structure

Wage Base Ceiling

The taxable wage base ceiling necessarily results in regressive taxation. Please see Appendix K – Effective Tax Rate and Nominal Tax Liability Analysis. Businesses that pay higher wages contribute to the UI program at a lower rate (as percentage of full wages). In other words, under the current system with a \$15,000 wage base ceiling, an employer paying its worker \$15,000 per year, will pay the UI tax on the employee’s full wage; whereas, an employer that pays a \$150,000 salary, will only pay tax on 10% of the salary. Most low wage earners work in small business, restaurant, service, and retail industries, as such, regressive taxation places a heavier burden on these businesses.¹¹ A restaurant business in the Commonwealth that employs dishwashers, hostesses, food service managers, and head chefs with an average salary of \$33,135.23 per year, pays an effective tax rate of 2.26%. By comparison, a business that employs investment analysts, loan officers, and financial managers, pays an effective tax rate of .68% on an average salary of \$110,242.28. The above example shows the disproportionate tax burden placed on lower wage businesses - businesses that can least afford it because of their lower profit margins.

Furthermore, the existing wage base ceiling and the corresponding *Table of Contribution Rates and Schedules* do not raise sufficient tax revenue to meet the UI trust fund obligations even under normal circumstances. Please see Appendix K. To bridge the shortfall, the Commonwealth has had to borrow money from the US Treasury, and because the trust fund has not met key performance metrics set forth by the US Treasury, the loans are not interest-free. Interest payments, which total over 60 million, will be the burden of small businesses, which will ultimately pass to the employees in the state.¹² Please see Appendix F. Additionally, the Commonwealth will be ineligible for the Federal Unemployment Tax Act (FUTA) credit worth \$378 dollars per employee. Please see Appendix E.

Tax Schedule Freezes

Every year since 1998, the legislature has “frozen” the tax schedule at rates lower than what is necessary to maintain a healthy trust fund.¹³ These actions disregard trust fund health, as determined by the *Unemployment Compensation Fund Reserve Percentage*, in favor of enacting business tax cuts, thereby bankrupting the fund. From 1998 to 2019 the tax cuts for Big Business have totaled \$12,901,563,484.82. Please see Appendix I. Right now, we are borrowing funds from the Federal government to cover benefit payments. This is the taxpayers subsidizing Big Businesses’ profits.

Experience Rating

The *Experience Rating* system is too complicated. Its primary goals are to stabilize the employment market by deterring businesses from frivolous layoffs and to prevent businesses from abusing the UI system; additionally, it’s used so that the State complies with *26 US Code Chapter 23 FUTA 3302 (b)*.¹⁴ However, inadvertently, the *Experience Rating* system needlessly penalizes businesses during recessions, without adding meaningful stability to the job market, and while complying with *FUTA 3302 (b)* makes businesses eligible for a federal tax credit, most employers **already fully capture it**. Please see Appendix E.

The Reserve Ratio of a business is a metric used to measure its contributions to the UI program. It is roughly defined as (employer UI reserves) / (3-year average of total wages). The *Experience Rating* method uses the Reserve Ratio of the business to evaluate its performance with regard to UI contributions. A business with a higher Reserve Ratio enjoys a lower tax rate and vice versa. Using the Reserve Ratio for the *Experience Rating* is problematic for several reasons. Namely, the Reserve Ratio is not a good predictor of whether a business is likely to have frequent layoffs, and therefore, UI claims. Furthermore, the Reserve Ratio depends on variables that are outside of the employer’s control, such as the length of time that a former employee collects benefits.¹⁵

¹¹ <https://opportunityinsights.org/wp-content/uploads/2020/06/tracker-summary.pdf>

¹² <https://www.mass.gov/unemployment-insurance-ui-trust-fund-report>

¹³ <https://malegislature.gov/Bills/188/S2001>

¹⁴ <https://www.law.cornell.edu/uscode/text/26/3302>

¹⁵ <https://onlinelibrary.wiley.com/doi/full/10.1111/pbaf.12244#.XrCQd8woO-I.email>

The *Experience Rating* system penalizes businesses for layoffs, which results in higher tax rates during recessions.¹⁶ Additionally, certain industries, such as those that employ seasonal workers, construction, and ones that are vulnerable to natural disasters -- like hurricanes and COVID-19, are more susceptible to volatility in the marketplace, which negatively impacts their Reserve Ratio and therefore Experience Rating.¹⁷ The Experience Rating method was inequitable even before the COVID-19 pandemic, and now, small businesses and low-wage workers who have been hit hardest by COVID-19 are being negatively impacted just at a time when we need social insurance to work. This is a clear indicator that this program needs to be fixed.¹⁸

Proposal

The sections above demonstrate the numerous shortcomings of the current system. Unfortunately, creating a perfect solution is impossible due the gravity of COVID-19. To cover current benefit payment obligations with a 10% unemployment rate, would require the tax rate to be 3% of **full wages**. Currently, the unemployment rate is steady at 7%, with a high of 17% in May, but unemployment is projected to increase in the coming months as larger institutions start to lay people off,¹⁹ small businesses continue to close at extremely high rates,²⁰ and restricted capacity for many of the businesses that are able to remain open forces them to lay off additional personnel.²¹ A 3% tax on full wages would be more than a 3-fold increase in tax liability on businesses and people when they are hurting most. Please see Appendix K.

We propose an alternate approach to determine benefit payments and to raise revenue for the UI trust fund. There are four key points:

- **Increase benefit payments to factor in purchasing power for the lowest earners.**
Propose to provide benefit payments that are 90% of the pre-unemployment wages up to full purchasing power.
- **Remove the Experience Rating System.**
Using the Reserve Ratio to measure fund health makes sense, but using the same metric to determine the employment health of a business, does not. No other country in the developed world uses the Experience Rating system. If there is a justifiable need to measure ‘employment risk’, there are other metrics that capture it more accurately.²²
- **Increase the employer tax base to full wages.**

Table 3 Proposed Tax Table. Floor of \$10,000 will provide financial relief to low-income earners and small businesses. Businesses pay full tax on high income earners because businesses reap the rewards of people retaining purchase power while unemployed.

Proposed Massachusetts State Unemployment Tax Table	
Salary	Employer
From \$0-\$10,000	No tax
\$10,001-and above	1%

¹⁶ <https://onlinelibrary.wiley.com/doi/full/10.1111/pbaf.12244#.XrCQd8woO-I.email>

¹⁷ <https://opportunityinsights.org/wp-content/uploads/2020/06/tracker-summary.pdf> Industries that are customer facing are more susceptible to economic shifts. Customer facing businesses have been hit the hardest when consumer spending decreased in response to COVID-19. The pandemic has shown that when high income earners cut spending by saving and avoiding a pandemic it is small businesses that are affected the most. The Experience Rating method is not equitable because service industries are hurt the most during economic downturns, resulting in those businesses who are struggling to survive receive tax increases.

¹⁸ <https://malegislature.gov/Laws/SessionLaws/Acts/2020/Chapter81>. This stopgap bill will help small businesses in the short term. It is not a long-term solution to the regressive tax structure or means to generating income for the insolvent program.

¹⁹ <https://www.washingtonpost.com/graphics/2020/business/50-biggest-companies-coronavirus-layoffs/>

²⁰ <https://www.wbjournal.com/article/report-37-of-mass-small-businesses-have-closed>

²¹ <https://www.mass.gov/info-details/covid-19-updates-and-information>

²² <https://onlinelibrary.wiley.com/doi/full/10.1111/pbaf.12244#.XrCQd8woO-I.email>

Proposal in Detail

This proposal addresses four core issues: sustaining purchase power, regressive tax structure, return on investment, predictability in tax liability. Aligning our policy with recommendations and knowledge from the Government Accountability Office²³, The Economic Security Board²⁴, U.S. Advisory Council on Unemployment Compensation²⁵, the Department of Labor²⁶, and Developed Countries²⁷ is good for the economic wellbeing of the Commonwealth. Below are further explanations on these solutions.

- Increase benefit payments to factor in purchasing power for the lowest earners.

The proposed solution is to provide benefit payments that are 90% of the pre-unemployment wages up to full purchasing power.

The function looks like this:

Formula is currently being recalculated as talks with legislators and allies continue

This solution addresses the four concerns mentioned above.

There is a minimum and maximum range. The equation ensures people who were making less than a living wage before being unemployed are not making more on unemployment now. The calculation sustains purchasing power for all income levels as much as possible. All benefit payments are less than what the employee was making before unemployment. **It is not perfect. Everyone loses. But this method prevents the lowest income level brackets from complete economic devastation.**

- Remove the Experience Rating System.

These alternative options measure employment risk by using variables that the employer can control. They incentivize hiring and payroll increases while disincentivizing layoffs.²⁸ If the political will is not there to remove the Experience Rating system then these alternatives created by Michael Miller and Robert Pavosevich are better than the Reserve Ratio method.

Table 4 Alternative Methods of Experience Rating. These methods are better measuring tools of employment risk.

Employment Variation

Employment change percentage = $100 \text{ percent} \times \frac{\text{employment } (t) - \text{employment } (t-1)}{\text{average employment}}$

Employment change percentage (t) = $100 \text{ percent} \times \frac{\text{employment } (t) - \text{employment } (t-1)}{\text{average employment}}$

Then

Employment variation index = $\frac{(\text{sum of positive change percentages}) + W \times (\text{sum of negative change percentages})}{12}$

Payroll Variation

Payroll change percentage (t) = $100 \text{ percent} \times \frac{\text{total wages } (t) - \text{total wages } (t-1)}{\text{average total wages}}$

Payroll Variation index = $\frac{(\text{sum of positive change percentage}) + W \times (\text{sum of negative change percentages})}{12}$

- Increase the employer tax base to full wages.

²³ <https://www.gao.gov/products/GAO-10-440>

²⁴ <https://www.ssa.gov/history/reports/ces/cesbookc4.html>; "Contributions"

²⁵ https://oui.doleta.gov/dmstree/misc_papers/advisory/acuc/collected_findings/adv_council_94-96.pdf

²⁶ <https://oui.doleta.gov/unemploy/solvency.asp>

²⁷ <https://www.dol.gov/sites/dolgov/files/OASP/legacy/files/A-Comparative-Analysis-of-Unemployment-Insurance-Financing-Methods-Final-Report.pdf> page 211

²⁸ onlinelibrary.wiley.com/doi/pdf/10.1111/pbaf.12244

Table 5 Proposed Tax Table. Floor of \$10,000 will provide financial relief to low-income earners and small businesses. Businesses pay full tax on high income earners because businesses reap the rewards of people retaining purchase power while unemployed. Please see Appendix K.

Proposed Massachusetts State Unemployment Tax Table	
Salary	Employer
From \$0-\$10,000	No tax
\$10,001-and above	1%

Employer Contribution: = if(Salary<Floor, 0, Employer Rate*(Salary-Floor))

Appendices

Appendix A - Historical Context

The Unemployment system is a social safety net that works like insurance and allows people to receive benefit payments when they lose their job through no fault of their own. The program dates to 1935 - The Social Security Act was passed by the 74th United States Congress and signed into law by Franklin D. Roosevelt. It was a part of the second wave of the New Deal legislation, which was developed to address the social and economic needs following the Great Depression. The programs focused on relief, recovery, and reform. Relief for the unemployed and the poor, recovery from economic collapse, and reform of the financial system.

Historically, only two states, Ohio and Wisconsin, ratified legislation for unemployment insurance before it became a national concern in the 1930s. The Ohio fund was pooled and taxed at a variable flat rate. The Wisconsin fund had a variable rate based on the reserve (account balance) of each employer, also known today as the Experience Rating system based on the Reserve Ratio method. The first House draft of the Social Security Act in 1935, called for a pooled fund with a variable flat rate. The Senate amended the bill by adding provisions for business to receive reduced rates under certain conditions. These provisions were ultimately accepted into the final bill, which was ratified in August 1935. The law created a federal and state unemployment program. The states were given wide freedoms on how they would set up and administer their systems and the federal government set forth conditions that, when met, would qualify states for certain incentives. If states follow certain administrative and tax protocol the states would be eligible for reimbursements and tax credits. The key is that the Experience Rating method is NOT mandated, it is optional, though most states adopted the Wisconsin precedent without understanding other options.

When the Social Security Act was enacted in 1935, the employee's full wages were the tax base. Full wages were chosen because the Committee on Economic Security reported that it is economically advantageous to build fund reserves large enough for dramatic swings in the labor force.²⁹ In 1939, the first amendment to the Social Security Act extended benefits to dependents, survivors' wives, and minorities.³⁰ In response to expanded coverage, a minority House group argued that the fund reserves were enough, and businesses needed a tax break. Typically, a tax cut would be done by reducing the rate, but Congress would have had to get this approved by the Social Security Board. To circumvent the Board, Congress lowered the tax base from full wages to a ceiling of \$3,000.³¹

Since then, states have followed the same methodology of setting the base without considering the Committee on Economic Security recommendations to adjust legislation based on changing conditions and ignoring reports from the Department of Labor explaining that the wage base has not kept pace with inflation or wage growth.³²³³

The original tax cut to the UI system and introduction of a wage ceiling originates from a direct attempt to bankrupt the social insurance fund in 1939 in response to opening benefit payments to women. The tax base continued to not align with wage growth when benefits were opened to agricultural and domestic workers in 1950; continuing the trend of tax cuts.

²⁹ <https://www.ssa.gov/history/reports/ces/cesbookc4.html> Part 1 Chapter IV part 75

³⁰ H.R. 6635 and Public Law 76-379

³¹ <https://www.ssa.gov/history/pdf/Downey%20PDFs/Social%20Security%20Amendments%20of%201939.pdf> page 347 paragraph header "Unemployment-Insurance Tax Relief"

³² <https://www.ssa.gov/history/reports/ces/cesbookc4.html> Part 1 Chapter IV part 76

³³ <https://fas.org/sgp/crs/misc/R44527.pdf>

Appendix B - Benefit Payment Expanded Calculation

Calculation of Benefit Payment:

Calculating the UI Benefit Payment

Step 1: List the total wages in the last 4 quarters.

Quarter 1	Quarter 2	Quarter 3	Quarter 4
\$12,000.00	\$10,000.00	\$10,000.00	\$8,000.00

Step 2: Add the top 2 quarters together.

Quarter 1	Quarter 2	Quarter 3	Quarter 4
\$12,000.00	\$10,000.00	\$10,000.00	\$8,000.00

$$12,000 + 10,000 = \$22,000$$

*In cases that two or fewer quarters have earnings, use only the quarter that has the highest wages. Step 3: Divide the sum of the two highest quarters by 26.

$$\$22,000/26 = \$846.15$$

*if the example has two or fewer quarters, divide the highest quarter by 13 to determine your average weekly wage.

Step 4: Divide the average weekly wage from step 3 in half. This equals the weekly benefit amount before taxes.

$$\$846.15/2 = \$423.07$$

\$423.07 is the weekly benefit amount.

The total amount of benefits the applicant can receive in the benefit year is called your maximum benefit amount. The maximum benefit amount is the lesser of either 30 times the weekly benefit amount or 36% of the total wages in the base period.

Scenario A: weekly benefit amount multiplied by 30

$$\$423.07 \times 30 = \$12,694.50$$

Scenario B: 36% of the total wages in the base period

$$\$12,000 + \$10,000 + \$10,000 + \$8,000 = \$40,000 \text{ (total wages)}$$

$$\$40,000 \times 0.36 = \$14,400$$

Calculating the Duration of the Benefit Period

The number of weeks you are eligible to receive benefits is calculated by dividing your maximum benefit amount by your weekly benefit amount. The maximum number of weeks a claimant can receive full benefits is 30 (capped at 26 weeks during periods of extended benefits and low unemployment). However, many individuals qualify for less than 30 weeks of coverage.

Example:

$$\text{Maximum benefit amount} / \text{Weekly benefit amount} = \text{number of benefit weeks}$$

$$\$12,694.50 / \$423.07 = 30 \text{ weeks}$$

Appendix C – Lack of Purchase Power in Massachusetts

Table 6 The most expensive area in Massachusetts to live is the Boston, Cambridge-Newton metropolis. According to the "Living Wage" calculation in the below table shows the bare minimum needed to live in this area with no dependents.³⁴

Living Wage Calculator Estimate for Boston, Cambridge-Newton Metropolis	
Typical Expenses	Amount
Food	\$ 3,495.00
Medical	\$ 2,924.00
Housing/Utilities	\$ 17,352.00
Transportation	\$ 3,899.00
Other: personal care, housekeeping supplies	\$ 2,890.00
Required Annual Income After Taxes	\$ 30,560.00
Annual Taxes	\$ 4,263.00
Required Annual Income Before Taxes	\$ 34,824.00
Hourly Wage Needed	\$ 16.74

Table 7 Estimated benefit payment calculation follows Massachusetts statute. Minimum wage in the State of Massachusetts is \$12.00 hour

Estimated Benefit Payments of Minimum Wage Worker	
Minimum Wage Salary	\$24,960.00
Estimated Benefit Payments Per Week	\$240.00
Estimated Taxes Per Week	\$36.12
Estimated Benefit Payments After Taxes	\$203.88
Estimated Monthly Taxes Withheld	\$144.48
Estimated Monthly Benefit Payment	\$815.52

Table 8 A person earning minimum wage has zero purchasing power when on unemployment. This contradicts the original goal of unemployment insurance.

Estimated Purchasing Power of Unemployed Minimum Wage Earner Massachusetts Per Month		
\$815.52 to Spend After Taxes		
"Living Wage" Typical Expenses	"Living Wage" Typical Expenses Per Month:	Monthly Budget:
	\$2,546.67	\$815.52
Housing/Utilities	\$1,446.00	-\$630.48
Transportation	\$324.92	-\$955.40
Food	\$291.25	-\$1,246.65
Medical	\$243.67	-\$1,490.32
Other: personal care, housekeeping supplies	\$240.83	-\$1,731.15

³⁴ <https://livingwage.mit.edu/metros/14460>; © 2021 Dr. Amy K. Glasmeier and the Massachusetts Institute of Technology

Table 9 Estimated benefit payment calculation follows Massachusetts statute. Salary estimates based on 2019 Department of Labor statistical analysis.

Estimated Benefit Payments Restaurant Industry	
Restaurant Industry Average Salary	\$31,718.01
Estimated Benefit Payments Per Week	\$304.98
Estimated Taxes Per Week	\$45.90
Estimated Benefit Payments After Taxes	\$259.08
Estimated Monthly Taxes Withheld	\$183.60
Estimated Monthly Benefit Payment	\$1,036.32

Table 10 This person has zero purchasing power. This contradicts the original goal of unemployment insurance.

Estimated Purchasing Power of Unemployed Restaurant Employee Per Month		
\$1,036.32 to Spend After Taxes		
"Living Wage" Typical Expenses	"Living Wage" Typical Expenses Per Month: \$2,546.67	Monthly Budget: \$1,036.32
Housing/Utilities	\$1,446.00	-\$409.68
Transportation	\$324.92	-\$734.60
Food	\$291.25	-\$1,025.85
Medical	\$243.67	-\$1,269.52
Other: personal care, housekeeping supplies	\$240.83	-\$1,510.35

Table 11 Estimated benefit payment calculation follows Massachusetts statute. Wage calculations derived from 2019 Department of Labor statistical analysis.

Estimated Benefit Payments Average Massachusetts Employee	
Massachusetts Average Salary	\$63,761.03
Estimated Benefit Payments Per Week	\$613.09
Estimated Taxes Per Week	\$92.27
Estimated Benefit Payments After Taxes	\$520.82
Estimated Monthly Taxes Withheld	\$369.08
Estimated Monthly Benefit Payment	\$2,083.27

Table 12 This person has sustained purchasing power for shelter, transportation, and food. They still cannot afford health care or personal care items, and environment maintenance purchases.

Estimated Purchasing Power of Unemployed Average Massachusetts Employee Per Month		
\$2,083.27 to Spend After Taxes		
"Living Wage" Typical Expenses	"Living Wage" Typical Expenses Per Month:	Monthly Budget:
	\$2,546.67	\$2,083.27
Housing/Utilities	\$1,446.00	\$637.27
Transportation	\$324.92	\$312.35
Food	\$291.25	\$21.10
Medical	\$243.67	-\$222.57
Other: personal care, housekeeping supplies	\$240.83	-\$463.40

Table 13 Comparing the percentage breakdown of the cost of living provided by the Department of Labor versus actual cost of living percentage breakdown in Massachusetts shows that housing is a problem. Housing has caused the average Massachusetts person to not be able to afford anything outside of the necessities. Before considering taxes

Cost of Living Categories per Department of Labor Compared to Living Wage Calculator			
Cost of Living Categories per the Department of Labor	Percentage Breakdown of Cost of Living	Living Wage Values	Percentage Breakdown Cost of Living in Massachusetts
Housing/Utilities	36%	\$ 17,352.00	57%
Food/Groceries	15%	\$ 3,899.00	13%
Transportation	10%	\$ 3,495.00	11%
Health Care	7%	\$ 2,924.00	10%
Misc. Necessities/Entertainment	32%	\$ 2,890.00	9%
Bare Minimum to Live Before Considering Taxes	100%	\$ 30,560.00	100%

Appendix D – National Debt

SUTA collected by the State from employers are deposited into the US Treasury unemployment trust fund. This trust fund is then invested into government backed securities.³⁵ Known as Treasury bonds, Treasury Notes, and Treasury bills, which are used to fund the national debt. As of right now the national debt is at a historical high. The United States must find more “buyers of debt” to leverage the current economic stimulus packages. Think of it as using today’s money to invest in tomorrow’s future. It is an economic stabilization mechanism, by increasing the trust fund accounts we will be able to ensure a stable economic future exists.

³⁵ <https://fas.org/sgp/crs/misc/RS22077.pdf> section “The Unemployment Trust Fund and the Federal Budget”

Appendix E - FUTA Tax Credit

FUTA tax is collected along with SUTA tax. FUTA collections are stored in the federal unemployment trust fund. It is there for when states need to borrow money because their trust fund is insolvent, to cover administration cost, and job training courses.^{36,37} According to 26 US Code Chapter 23 FUTA is a 6% tax on the first \$7,000 earned wages of an employee. The employer is entitled up to a 5.4% tax credit, essentially a \$378.00 in tax savings per employee. The tax credit directly reduces the amount of tax owed versus a deduction, which reduces income that is subject to be taxed. 26 US Code Chapter 23 FUTA 3302 (a) and (b) and 3303 stipulate the process on earning this credit. 3302 (a) says that whatever tax the employer pays in SUTA can directly reduce the 6% FUTA tax liability. If the SUTA payments do not get the employer to the point of capturing the full 5.4% credit, then 26 US Code Chapter 23 FUTA 3302 (b) says that the remainder of the credit is capturable IF the state complies with 26 US Code Chapter 23 FUTA 3303. 3303 details that each state is strongly encouraged to use an Experience Rating system for assigning tax rate to employers. Essentially rendering FUTA tax liability to 0.6% or \$42.00 per employee rather \$420.00 per employee.³⁸

The key takeaway is that if an employer is subject to more than \$378.00 in SUTA tax liability per employee then compliance with 26 US Code Chapter 23 FUTA 3302 (b) is NOT needed, meaning the state does not need to have an Experience Rating system for assigning tax rate to employers.

Table 14 Nominal Breakdown of 26 US Code Chapter 23 FUTA 3302.

26 US CODE 3302 Credits Against Tax		
1 employee example	Company A: new business SUTA tax rate 2.4%	Company B: 7% Experience Rating SUTA tax rate
Massachusetts \$15,000 wage cap	\$360.00	\$1,050.00
FUTA \$7,000 at 6%	\$420.00	\$420.00
FUTA \$7,000 at 5.4% maximum credit	\$378.00	\$378.00
FUTA \$7,000 at .6% minimum liability	\$42.00	\$42.00
(a) Contributions to the State	\$360.00	\$378.00
(b) Additional Credit	\$18.00	\$-

³⁶ If the State does not pay back loans in an appropriate timely manner, we could become a credit reduction State. This adds to the pressure to generate tax revenue quickly. Losing out on the FUTA tax credit is irresponsible and would cost businesses money

³⁷ <https://fas.org/sgp/crs/misc/RS22954.pdf>

³⁸ <https://www.law.cornell.edu/uscode/text/26/subtitle-C/chapter-23>

Appendix F - Solvency

Social Security Act Title XII outlines eligibility requirements and regulations for borrowing interest free money from the Federal Unemployment Trust Fund.³⁹ There are three requirements that a state must meet to be eligible for interest free loans. 1) The state must achieve a 1.0 Average High-Cost Multiple (AHCM) within the past 5 years, 2) 75% of its 5-year Average Benefit Cost Rate and 3) 80% of the prior year’s average tax rate.

1) Average High-Cost Multiple is the comparison of the State’s trust funds Reserve Ratio with its fund’s Benefit Cost Ratio. The Reserve Ratio is determined by dividing the trust fund balance by the states total wages paid within a year. The Benefit Cost Rate is the amount of benefits paid out in a year divided by that year’s aggregate wages. The Average High-Cost Multiple is the product of the Reserve Ratio divided by the average the three highest Benefit Cost Rate in the last 20 years. **If the product is greater than 1 then the solvency is adequate for going into a recessionary period.**

Equation 1 Average High-Cost Multiple formula. One of the parameters used measure eligibility for interest free loans from the Federal Government.

$\frac{\text{Balance in Massachusetts Unemployment Trust Fund} / \text{Total Wages of Covered Employment}}{(\text{1}^{\text{st}} \text{ High-Cost Multiple Year} + \text{2}^{\text{nd}} \text{ High-Cost Multiple Year} + \text{3}^{\text{rd}} \text{ High-Cost Multiple Year}^{\text{40}}) / 3}$

2) The Benefit Cost Rate is the level of benefits paid out in a year divided by that year’s aggregate wages. So this parameter is saying that this year’s tax rate must be at least 75% of the 5-year benefit cost rate multiple.

3) Finally, this year’s tax rate must be at least 80% of last year’s tax rate.

Table 15 Massachusetts has not had a solvent trust fund for decades according to Department of Labor. This means that Massachusetts taxpayers are responsible for to pay interest on loans that should have been interest free.

Eligibility for Interest Free Borrowing Massachusetts			
2006	Ineligible	2014	Ineligible
2007	Ineligible	2015	Ineligible
2008	Ineligible	2016	Ineligible
2009	Ineligible	2017	Ineligible
2010	Ineligible	2018	Ineligible
2011	Ineligible	2019	Ineligible
2012	Ineligible	2020	Ineligible
2013	Ineligible		

The interesting fact is that the State Commonwealth has not achieved a 1.0 average High-Cost Multiple since 2000.⁴¹ In fact, many states have not had adequate solvency for decades. These are not just economic echoes from the Great Recession either, economists and bureaucrats alike have warned about advocated the problem of state trust funds not being healthy for decades.⁴² Therefore, the State is going to be charged interest on the Federal loans that are currently being taken out.⁴³ This is the fault of the legislatures not creating a successful SUTA program.

³⁹ https://www.ssa.gov/OP_Home/ssact/title12/1200.htm

⁴⁰ First, Second, and Third High Cost Multiple Years in the last 20 years.

⁴¹ <https://oui.doleta.gov/unemploy/solvency.asp> Yearly issued reports on solvency and whether each state qualifies for interest free federal unemployment trust fund loans.

⁴² <https://fas.org/sgp/crs/misc/R44527.pdf> last paragraph “The combination of increases in the wage base and the doubling of the tax rate has not kept pace with inflation or wage growth, and the proportion of total revenue to total covered wages continues to decline. By 2015, the net federal unemployment tax revenue was equivalent to an *effective tax rate* of 0.1% on the total wages in covered employment.”

⁴³ <https://fas.org/sgp/crs/misc/RS22954.pdf>

Appendix G – Other States’ UI Tax Structure⁴⁴

Appendix H - Developed Countries

Table 16 Examples of developed countries unemployment systems. Note that no other country uses the Experience Rating system. No other country has a ceiling as low as the US.

	Employee Tax Rate	Employer Tax Rate	Employee Minimum Wage Base	Employee Maximum Wage Base	Employer Minimum Wage Base	Employer Maximum Wage Base	Maximum Benefit	Maximum Duration
United States FUTA (current)	N/A	6%	N/A	N/A	none	\$7,000	N/A; funds are available for states to borrow from interest free if the state meets DOL requirements	N/A
Massachusetts SUTA (current)	N/A	Experience Rating System	N/A	N/A	none	\$15,000	40% of insured's annual income after taxes; \$823 maximum	26 weeks
Massachusetts SUTA (proposed)	0.50%	0.50%	\$10,000	\$150,000	\$10,000	none	\$823; consider purchase power in benefit calculations	26 weeks
Norway	5.1% Universal, social insurance and NDC	14.1% Universal, social insurance and NDC	\$6,000	12X wage base; currently \$72,000	none	none	90% insured's previous annual income	52 Weeks
Germany	1.50%	1.50%	none	\$92,300	none	\$92,300	60% of income	6 to 24 months
Australia	Voluntary contributions with tax incentives. Includes unemployment, sick time, maternity leave	9.5% raising .5% yearly until 2025 reaching 12% unemployment, sick time, maternity leave	none	none	none	none	\$400 a week. Adjusted 2 times a year and indexed with Consumer Price Index	26 weeks
Canada	1.62% includes unemployment, sick time, maternity leave	2.268% includes unemployment, sick time, maternity leave	1.62% of \$1,500 refunded back if income is \$1,500 or lower	\$60,000 adjusted annually	none	\$60,000 adjusted annually	55% of income	maximum 26 weeks
United Kingdom	12% and 2% finance sickness and maternity benefits, work injury benefits, and unemployment benefits	13.8% finance sickness and maternity benefits, work injury benefits, and unemployment benefits	\$10,000-\$60,000 at 12%	and 2% of anything greater than \$60,000	\$10,000	none	\$75 a week for people under 25. \$100 a week for persons 25-35 plus a means based of a "universal credit" based on household income, age, household composition; payment capped at \$650 a week	26 weeks
dollars are rounded due to exchange rates								

⁴⁴ <https://oui.doleta.gov/unemploy/content/sigpros/2020-2029/January2020.pdf>; follow link to Department of Labor table with significant provisions of States Unemployment Insurance Laws

Appendix I - Freezing

Table 17 Massachusetts tax revenue analysis since 1997. State law makers have neglected market driven tax schedules as to gift Big Business tax breaks. This shows how taxpayers of Massachusetts subsidizes Big Businesses.

Massachusetts Unemployment Trust Fund Tax Revenue										
Year	Taxable Wage Base	Reserve Ratio	Tax Schedule Per Massachusetts Legislature	Average Tax Rate for the Tax Schedule for "frozen" Schedule have been in place	What the Rate Schedule Should Have Been According to Department of Treasury Measurements	Average Tax Rate for the Tax Schedule that should have been in place	Total Taxable Wages	Tax Revenue Collected	Amount of Tax Revenue that Should Have Been Collected	Lost Revenue
1997	\$10,800.00	0.87	E	5.110%	E	5.110%	\$26,681,181,000.00	\$1,363,475,052.05	\$1,363,475,052.05	\$0.00
1998	\$10,800.00	1.01	C	4.074%	E	5.110%	\$27,626,150,000.00	\$1,125,351,220.25	\$1,411,765,330.38	\$286,414,110.13
1999	\$10,800.00	0.98	B	3.638%	E	5.110%	\$28,745,462,000.00	\$1,045,616,180.25	\$1,468,964,971.86	\$423,348,791.61
2000	\$10,800.00	0.95	B	3.638%	E	5.110%	\$30,487,998,000.00	\$1,109,000,927.25	\$1,558,012,917.80	\$449,011,990.55
2001	\$10,800.00	0.77	B	3.638%	F	5.723%	\$30,118,018,000.00	\$1,095,542,904.75	\$1,723,729,465.19	\$628,186,560.44
2002	\$10,800.00	0.4	B	3.638%	G	6.261%	\$28,842,353,000.00	\$1,049,140,590.38	\$1,805,747,615.45	\$756,607,025.07
2003	\$10,800.00	-0.02	B	3.638%	G	6.261%	\$28,117,030,000.00	\$1,022,756,966.25	\$1,760,336,955.73	\$737,579,989.48
2004	\$14,000.00	0	D	4.638%	G	6.261%	\$34,512,389,000.00	\$1,600,512,039.88	\$2,160,734,394.32	\$560,222,354.44
2005	\$14,000.00	0.19	D	4.638%	G	6.261%	\$34,841,102,000.00	\$1,615,756,105.25	\$2,181,314,293.47	\$565,558,188.22
2006	\$14,000.00	0.36	D	4.638%	G	6.261%	\$35,354,822,000.00	\$1,639,579,870.25	\$2,213,477,018.37	\$573,897,148.12
2007	\$14,000.00	0.44	D	4.638%	G	6.261%	\$35,676,842,000.00	\$1,654,513,547.75	\$2,233,637,885.52	\$579,124,337.77
2008	\$14,000.00	0.43	D	4.638%	G	6.261%	\$35,554,691,000.00	\$1,648,848,795.13	\$2,225,990,316.78	\$577,141,521.66
2009	\$14,000.00	0.05	E	5.110%	G	6.261%	\$33,332,106,000.00	\$1,703,353,946.87	\$2,086,839,826.40	\$383,485,879.53
2010	\$14,000.00	-0.03	E	5.110%	G	6.261%	\$33,921,041,000.00	\$1,733,449,997.70	\$2,123,711,574.41	\$390,261,576.71
2011	\$14,000.00	0.04	E	5.110%	G	6.261%	\$34,748,726,000.00	\$1,775,746,770.42	\$2,175,530,863.05	\$399,784,092.63
2012	\$14,000.00	0.12	E	5.110%	G	6.261%	\$35,432,903,000.00	\$1,810,709,925.56	\$2,218,365,474.57	\$407,655,549.02
2013	\$14,000.00	0.23	E	5.110%	G	6.261%	\$36,421,252,000.00	\$1,861,217,030.33	\$2,280,243,534.59	\$419,026,504.26
2014	\$14,000.00	0.3	E	5.110%	G	6.877%	\$37,320,333,000.00	\$1,907,162,317.13	\$2,566,370,019.08	\$659,207,701.95
2015*	\$15,000.00	0.28	C	4.120%	G	6.877%	\$41,159,227,000.00	\$1,695,760,152.40	\$2,830,355,403.88	\$1,134,595,251.48
2016	\$15,000.00	0.27	C	4.120%	G	6.877%	\$42,152,319,000.00	\$1,736,675,542.80	\$2,898,646,368.35	\$1,161,970,825.55
2017	\$15,000.00	0.27	C	4.120%	G	6.877%	\$43,433,137,000.00	\$1,789,445,244.40	\$2,986,723,098.94	\$1,197,277,854.54
2018	\$15,000.00	0.32	D	4.680%	F	6.053%	\$44,512,871,000.00	\$2,083,202,362.80	\$2,694,408,594.50	\$611,206,231.70
2019	\$15,000.00	0.4	E	5.326%	E	5.326%	\$45,615,997,000.00	\$2,429,508,000.22	\$2,429,508,000.22	\$0.00
*Legislation passed in 2014. It change the ceiling from \$14,000 to \$15,000. The tax table was recalculated and extended. The tax tables was frozen further.										\$12,901,563,484.82

Appendix J – How to Calculate Experience Rating

For example, lets say there's a restaurant with 30 employees and an Experience Rating of 3.32% this year as in **Figure 2**. Let's project that next year, Schedule G is used because the Trust Fund is insolvent. Employer's Reserve Ratios are most likely going to be in the negative territory, yielding an Experience Rate between 9.08% and 18.56%. For the sake of this example let's use the average between the two, yielding 13.82%. Theoretically, that is a possible **\$47,250.00** increase in tax liability. **This could be the primary obstacle that puts small companies out of business.**

Table 18 Example of 2020 vs Projected 2021 Experience Rating increase yielding increase SUTA tax liability.

	2020	2021
Number of Employees	30 Employees	30 Employees
Experience Rating	3.32%	13.82%
\$15,000 Tax Base Per Employee (\$15,000 X 30 employees)	\$450,000.00	\$450,000.00
SUTA Tax Liability	\$14,940.00	\$62,190.00
2021 Tax Liability Minus 2020 Tax Liability	\$47,250.00 Increase	

Example of Calculating Experience Rating and how to Forecast Next Year's Rating

Once a year the Department of Unemployment Assistance, specifically, the Rate Setting Unit calculates each entity's Experience Rating. Each company receives this new rating before January 31st. This rating and current account charges can be viewed in the employer's UI account.

Please refer to the below **Table 19 – Figure 3** to help fill out **Table 20**. **Table 20** has an example of the steps and uses data from **Table 19 – Figure 3**.

Step 1: Ending Balance

Current Experience Rating- These numbers are provided. Follow **Figures 1 and 2** to the “View Rate Notice” section in your company's UI account.

Next Year's Forecasted- Use **Figure 3** to navigate to “Calendar Summary Detail”. This information will help estimate the following:

Beginning Balance as of 10/01/19: Take your beginning balance from this year. Then subtract an estimate of this year's benefit charges. You can find the current charges by following **Figure 21** to “Calendar Year Summary and Detail” Plus Contributions Through 10/31/20: Plug in an estimate. Take last year's Contributions, divide it by 12 and then multiply it by the number of months your restaurant has been open this year.

Estimated Contributions 2020 = (last year's contributions / 12) x number of months restaurant has been open at full capacity

Minus Benefit Charges to Your Account: This is an estimate. Use **Figure 3** to go to “Calendar Year and Summary Detail”. Either plug in the charges occurred so far or add current to estimated future benefit payments.

Estimate of Benefit Charges = one full month of benefit charges x number of months restaurant not open at full capacity

Minus the Unapplied Credit Refunds: leave blank. It won't throw the calculation off unless there is a unique situation for your restaurant.

Minus the Solvency Assessment (.58% 2020, .68% 2021 of taxable payroll): This is an estimate. Take last year's taxable payroll. This can be found by following **Figure 2**. Multiple that by .68% then divide by 12 and then multiple by the number of months your restaurant has been open at full capacity.

Solvency Assessment = ((last year's payroll x .0068)/12) x number of months open at full capacity

Account Balance Adjustments (+ or -): leave blank

Any Transfer of Excess Reserves (+ or -): leave blank

Step 2: Reserve Ratio

Current Experience Rating- These numbers are provided. Follow **Figures 1 and 2** to the “View Rate Notice” section.

Next Year's Forecasted- use information **Figure 2**. Plug in an estimate for this year's payroll.

Step 3: Experience Rating

Current Experience Rating- use **Figure 2**.

Next Year's Forecasted- **Table 19**. Schedule G has been inputted into the table below because the trust fund will be insolvent next year.

Table 19 State Issued Contribution Rates and Schedules

DEPARTMENT OF UNEMPLOYMENT ASSISTANCE TABLE OF CONTRIBUTION RATES AND SCHEDULES							
Unemployment Compensation Fund Reserve Percentage							
Employer Account Reserve Percentages	A 1.65% and over	B 1.5% or more less than 1.65%	C 1.2% or more less than 1.5%	D 0.9% or more less than 1.2%	E 0.6% or more less than 0.9%	F 0.3% or more less than 0.6%	G less than 0.3%
Positive Percentage							
17.0 or more	0.56	0.64	0.73	0.83	0.94	1.07	1.21
16.0 but less than 17.0	0.64	0.73	0.83	0.95	1.08	1.22	1.39
15.0 but less than 16.0	0.73	0.83	0.94	1.07	1.21	1.38	1.57
14.0 but less than 15.0	0.81	0.92	1.04	1.18	1.34	1.53	1.73
13.5 but less than 14.0	0.97	1.10	1.25	1.42	1.61	1.83	2.08
13.0 but less than 13.5	1.05	1.19	1.35	1.54	1.75	1.99	2.26
12.5 but less than 13.0	1.13	1.28	1.46	1.66	1.89	2.14	2.43
12.0 but less than 12.5	1.21	1.37	1.56	1.77	2.01	2.29	2.60
11.5 but less than 12.0	1.29	1.47	1.67	1.89	2.15	2.45	2.78
11.0 but less than 11.5	1.37	1.56	1.77	2.01	2.29	2.60	2.96
10.5 but less than 11.0	1.45	1.65	1.87	2.13	2.42	2.75	3.12
10.0 but less than 10.5	1.53	1.74	1.98	2.25	2.56	2.91	3.30
9.5 but less than 10.0	1.61	1.83	2.08	2.36	2.69	3.05	3.47
9.0 but less than 9.5	1.70	1.93	2.19	2.49	2.82	3.21	3.65
8.5 but less than 9.0	1.78	2.02	2.29	2.61	2.96	3.37	3.82
8.0 but less than 8.5	1.85	2.10	2.39	2.72	3.09	3.51	3.99
7.5 but less than 8.0	1.94	2.20	2.50	2.84	3.23	3.67	4.17
7.0 but less than 7.5	2.02	2.30	2.61	2.96	3.37	3.82	4.35
6.5 but less than 7.0	2.09	2.38	2.71	3.08	3.50	3.97	4.51
6.0 but less than 6.5	2.17	2.47	2.81	3.20	3.63	4.13	4.69
5.5 but less than 6.0	2.25	2.56	2.91	3.31	3.76	4.28	4.86
5.0 but less than 5.5	2.34	2.66	3.02	3.43	3.90	4.43	5.04
4.5 but less than 5.0	2.42	2.75	3.13	3.55	4.04	4.59	5.21
4.0 but less than 4.5	2.50	2.84	3.23	3.67	4.17	4.74	5.38
3.5 but less than 4.0	2.58	2.93	3.33	3.79	4.30	4.89	5.56
3.0 but less than 3.5	2.67	3.03	3.44	3.91	4.44	5.05	5.74
2.5 but less than 3.0	2.75	3.12	3.54	4.02	4.57	5.20	5.90
2.0 but less than 2.5	2.82	3.21	3.65	4.14	4.71	5.35	6.08
1.5 but less than 2.0	2.90	3.30	3.75	4.26	4.84	5.50	6.25
1.0 but less than 1.5	2.98	3.39	3.85	4.38	4.98	5.65	6.43
0.5 but less than 1.0	3.06	3.48	3.96	4.50	5.11	5.81	6.60
0.0 but less than 0.5	3.14	3.57	4.06	4.61	5.24	5.96	6.77
Negative Percentage							
0.0 but less than 1.0	4.22	4.79	5.45	6.19	7.03	7.99	9.08
1.0 but less than 3.0	4.58	5.21	5.92	6.72	7.64	8.68	9.86
3.0 but less than 5.0	4.95	5.63	6.39	7.27	8.26	9.38	10.66
5.0 but less than 7.0	5.32	6.04	6.86	7.80	8.86	10.07	11.44
7.0 but less than 9.0	5.68	6.46	7.34	8.34	9.48	10.77	12.23
9.0 but less than 11.0	6.05	6.87	7.81	8.88	10.09	11.46	13.02
11.0 but less than 13.0	6.42	7.29	8.29	9.42	10.70	12.16	13.81
13.0 but less than 15.0	6.78	7.71	8.76	9.95	11.31	12.85	14.60
15.0 but less than 17.0	7.15	8.13	9.24	10.49	11.93	13.55	15.39
17.0 but less than 19.0	7.52	8.54	9.71	11.03	12.53	14.24	16.18
19.0 but less than 21.0	7.88	8.96	10.18	11.57	13.15	14.94	16.97
21.0 but less than 23.0	8.25	9.37	10.65	12.11	13.76	15.63	17.76
23 or more	8.62	9.79	11.13	12.65	14.37	16.33	18.55

Figure 1 Employers "Account Maintenance" Tab in Employer Unemployment Site⁴⁵

Account Maintenance	
<ul style="list-style-type: none"> FAQ Employer Inbox Determination and Issue Summary Account Maintenance <ul style="list-style-type: none"> View Employer Account Profile Address Information Maintain Employer Name Maintain Owners/Officers Maintain Employer Reporting Units Provide Information on the Purchase or Sale of a Business Request Workshare Benefits Suspend Employer Account View Rate Notice Voluntary Contribution Third Party Administrator (TPA) Authorization Benefit Charge Activities Correspondence Employment and Wage Detail Reporting Payment Information User Maintenance EMAC Supplement Details 	<ul style="list-style-type: none"> View Employer Account Profile View summary profile and history information related to the Employer Account. Address Information View or Update address types. Maintain phone number. Maintain Employer Name Provide information regarding a change to the legal name of the business entity or change the Doing Business As (DBA) name of the business entity. Maintain Employer Reporting Units Create and update Employer reporting units Request Workshare Benefits Request Workshare Benefits View Rate Notice View most recent UI rate notice. Third Party Administrator (TPA) Authorization Create new or update existing TPA authorizations to access Employer account information.

⁴⁵ <https://uionline.detma.org/Employer/Core/Login.ASPX>

Figure 2 Employers "Account Maintenance" Tab and then "View Rate Notice" Section in Employer Unemployment Site

View Employer's UI Contribution Rate for the year: 2020

The following factors were used when calculating your 2020 Unemployment Insurance (UI) Experience Rate

Your Beginning Account Balance as of 10/01/2018:	\$18,544.43
Plus Contributions Paid through 10/31/2019:	\$16,547.29
Minus the Benefit Charges to your account:	\$2,163.00
Minus the Unapplied Credits/Refunds on your account. *	\$0.00
Minus the Solvency Assessment on your account:	\$2,397.17
Account Balance Adjustments (+ or -):	\$0.00
Any transfer of Excess Reserves (+ or -):	\$0.00
Equals your Ending Account Balance:	\$30,531.55
Average Annual Wages Subject to Contributions over the last Three Years:	\$402,208.70
Annual Wages Subject to Contributions, 10/1/2016 through 9/30/2017:	\$391,589.15
Annual Wages Subject to Contributions, 10/1/2017 through 9/30/2018:	\$401,732.60
Annual Wages Subject to Contributions, 10/1/2018 through 9/30/2019:	\$413,304.34
Reserve Percentage (Ending Account Balance/Wages Subject to contributions):	7.59 %
This Reserve Percentage has been applied to 2020 Experience Rate Schedule E resulting in a 2020 UI Contribution Rate of:	3.230 %
The 2020 Workforce Training Fund rate is:	0.056 %
Your 2020 EMAC Contribution Rate is:	0.340 %

The values above may include amounts transferred to your account from subsidiary accounts. To view transferred amounts [click here](#)
 *This may include amounts which were refunded to you.

[Home](#)

Figure 3 Employers Unemployment "Benefit Charge Activities": use this area to help estimate next year's "Benefit Charges to Your Account" in Figure

Benefit Charge Activities

Benefit Charges Search	Calendar Year Summary and Detail
Search Benefit Charge Data.	View historical Unemployment Benefit Charges and adjustments
Rated Year Summary	Benefit Charge Protest
View historical Unemployment Benefit Charges by rated year.	Protest benefits charged against your account.

Download

Table 20 Example and "How To" on Forecasting Your Companies Experience Rating for 2021

	Example In Text	Your Company's Current Experience Rate Example	Next Year's Forecasted Experience Rate
Step 1: Ending Balance			
Beginning Balance as of 10-01-18/19	\$18,544.43		
Plus Contributions Through 10-31-19/20	\$15,547.29		
Minus Benefit Charges to Your Account	\$2,163.00		
Minus the Unapplied Credit Refunds	\$-		
Minus the Solvency Assessment (.58% 2020, .68% 2021 of taxable payroll)	\$2,397.17		
Account Balance Adjustments (+ or -)	\$-		
Any Transfer of Excess Reserves (+ or -)	\$ -		
Ending Balance	\$30,531.55		
Step 2: Reserve Ratio			
Ending Account Balance	\$30,531.55		
Average Annual Wages Over the Past 3 Years:			
Year 1	\$391,589.15		
Year 2	\$401,732.60		
Year 3	\$413,304.34		
Total	\$1,206,626.09		
Average (total/3)	\$402,208.70		
Reserve Ratio: Ending Account Balance/Average Wages	$\$30,531.55 / \$402,208.70 = 7.59\%$		
Step 3: Experience Rating (Refer to Table 19)			
Find State Issued "Unemployment Compensation Fund Reserve Percentage" Column **	Schedule E	Schedule E	Schedule G***
Find your companies "Employer Account Reserve Percentages" Range	7.5 but less than 8.0		
Experience Rating		3.23%	
<p>* .0058 X \$413,304.34 = \$2,397.17. Solvency Assessment is assessed on the employer to cover the net balance of charges and credits not directly assigned to individual employers. Examples of this include dependent allowances. Solvency Assessment Rate is from the February 2020 Massachusetts Unemployment insurance Trust Fund Report.⁴⁶</p>			
**This can be found in Figure 2			
***the trust will be insolvent. Use Column G in Table 19			

⁴⁶ <https://www.mass.gov/info-details/employer-unemployment-faq-covid-19#employer-charges> ; "Under the CARES ACT, private and governmental contributory employers will not be charged for COVID-19 related claims until Dec. 31, 2020 unless extended. These COVID-19 related claims will be charged to the Solvency Fund."

Appendix K – Impact Study

Simple Solvency Test

Table 21 Average payment is based on current benefit payment calculations, 2019 Department of Lobar workforce statistics, maxed out benefit weeks, and recession unemployment projection.

Current Legislation	
3,585,020	Workforce
26	Weeks
10%	Unemployment Rate
\$576.96	Average Payment
358,502	Unemployed
\$5,377,835,841.63	Benefit Payments Per Year

Table 22 Average payment is based on proposed benefit payment calculations, 2019 Department of Lobar workforce statistics, maxed out benefit weeks, and recession unemployment projection.

Proposal	
3,585,020	Workforce
26	Weeks
10%	Unemployment Rate
\$755.28	Average Payment
358,502	Unemployed
\$7,040,033,632.13	Benefit Payments Per Year

Tax Structure Models

Table 23 \$15,000 tax base ceiling does not create a solvent fund during normal times, never mind recessionary times. Even if it did create a solvent fund the tax weight would be a burden on low-income earners and small businesses due to the ceiling.

Current Legislation: 15,000 tax base ceiling					
Weighted Average Method					
Total Employed	3,585,020				
Total Payroll	\$234,695,965,800.00				
Total Taxable Payroll	\$53,775,300,000.00				
Example Tax Rates	1.00%	2.00%	3.00%	4.00%	5.00%
Total Contributions	\$537,753,000.00	\$1,075,506,000.00	\$1,613,259,000.00	\$2,151,012,000.00	\$2,688,765,000.00
Cost to Employer Per Employee	\$150.00	\$300.00	\$450.00	\$600.00	\$750.00
Cost to Employee	N/A	N/A	N/A	N/A	N/A
Contribution Method					
Total Employed	3,585,020				
Total Payroll	\$234,695,965,800.00				
Total Taxable Payroll	\$53,775,300,000.00				
Example Tax Rates	1.00%	2.00%	3.00%	4.00%	5.00%
Total Contributions	\$537,753,000.00	\$1,075,506,000.00	\$1,613,259,000.00	\$2,151,012,000.00	\$2,688,765,000.00
Contribution Rate	0.23%	0.46%	0.69%	0.92%	1.15%
Average Salary	\$65,465.73	\$65,465.73	\$65,465.73	\$65,465.73	\$65,465.73
Cost to Employer Per Employee	\$150.00	\$300.00	\$450.00	\$600.00	\$750.00
Cost to Employee	N/A	N/A	N/A	N/A	N/A

Table 25 This tax structure does create a solvent fund. Unfortunately, it increases taxes on the very people who cannot afford it. Low-income earners and small businesses that have been hit the hardest during this recession. Please refer to Table 26. This would not only hurt people but would disincentivize hiring when unemployment is high, but could be a factor in some businesses going into bankruptcy.

65,000 Tax Base Ceiling					
Weighted Average Method					
Total Employed	3,585,020				
Total Payroll	\$234,695,965,800.00				
Total Taxable Payroll	\$181,166,650,500.00				
Example Tax Rates	1.00%	2.00%	3.00%	4.00%	5.00%
Total Contributions	\$ 1,811,666,505.00	\$ 3,623,333,010.00	\$ 5,434,999,515.00	\$ 7,246,666,020.00	\$ 9,058,332,525.00
Cost to Employer Per Employee	\$505.34	\$1,010.69	\$1,516.03	\$2,021.37	\$2,526.72
Cost to Employee	N/A	N/A	N/A	N/A	N/A
Contribution Method					
Total Employed	3,585,020				
Total Payroll	\$234,695,965,800.00				
Total Taxable Payroll	\$181,166,650,500.00				
Example Tax Rates	1.00%	2.00%	3.00%	4.00%	5.00%
Total Contributions	\$1,811,666,505.00	\$3,623,333,010.00	\$5,434,999,515.00	\$7,246,666,020.00	\$9,058,332,525.00
Contribution Rate	0.77%	1.54%	2.32%	3.09%	3.86%
Average Salary	\$65,465.73	\$65,465.73	\$65,465.73	\$65,465.73	\$65,465.73
Cost to Employer Per Employee	\$505.34	\$1,010.69	\$1,516.03	\$2,021.37	\$2,526.72
Cost to Employee	N/A	N/A	N/A	N/A	N/A

Effective Tax Rate and Nominal Tax Liability Analysis

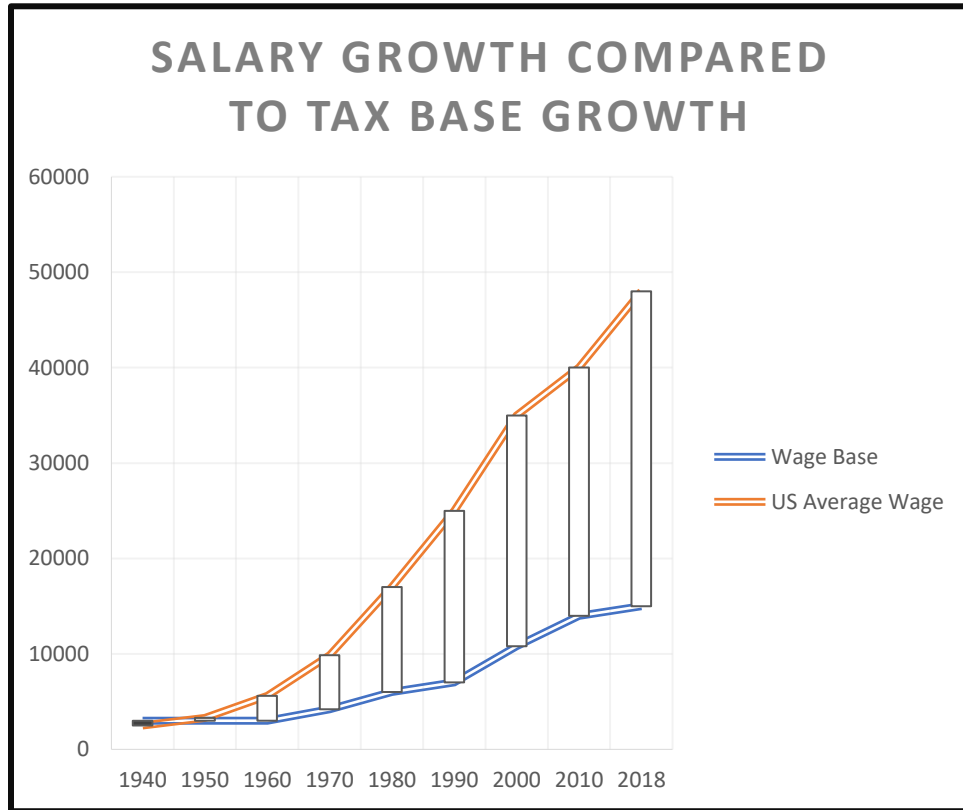
Table 26 Regressive tax structures have a larger weight on low-income individual, proportional have an equal weight on all income levels, progressive tax structure has a low weight on low-income earners and weighs heavier on high-income earners. This table shows how the current Massachusetts SUTA law is extremely regressive. A ceiling of \$65,000 would be less regressive in effective tax terms but would cause too much economic burden on the very people and businesses that are hurting right now. This table shows how it is possible for all individual's in the UI system can pay into the system in proportion to the rewards they reap from the economic ecosystem all while preserving purchase power of low-income individuals and capping tax liability for high-income earners.

Effective Tax Rate and Nominal Tax Liability Analysis*								
Income Bracket (Salary)	Current Legislation: \$15,000 Tax Base Ceiling		\$65,000 Tax Base Ceiling		Proposal			
	Employer		Employer		Employer		Employee	
	Effective Tax Rate	Tax Liability	Effective Tax Rate	Tax Liability	Effective Tax Rate	Tax Liability	Effective Tax Rate	Tax Liability
\$30,480.00	0.4921%	\$150.00	1.0000%	\$304.80	0.3360%	\$102.40	0.3360%	\$102.40
\$45,150.00	0.3322%	\$150.00	1.0000%	\$451.50	0.3893%	\$175.75	0.3893%	\$175.75
\$65,020.00	0.2307%	\$150.00	0.9997%	\$650.00	0.4231%	\$275.10	0.4231%	\$275.10
\$80,060.00	0.1874%	\$150.00	0.8119%	\$650.00	0.4375%	\$350.30	0.4375%	\$350.30
\$100,400.00	0.1494%	\$150.00	0.6474%	\$650.00	0.4502%	\$452.00	0.4502%	\$452.00
\$120,330.00	0.1247%	\$150.00	0.5402%	\$650.00	0.4584%	\$551.65	0.4584%	\$551.65
\$153,650.00	0.0976%	\$150.00	0.4230%	\$650.00	0.4675%	\$718.25	0.4556%	\$700
\$201,890.00	0.0743%	\$150.00	0.3220%	\$650.00	0.4752%	\$959.45	0.3467%	\$700
\$254,780.00	0.0589%	\$150.00	0.2551%	\$650.00	0.4804%	\$1,223.90	0.2747%	\$700

*tax rate is set at 1% in this example

Appendix L – US Average Salary Growth Compared to Tax Wage Base Growth

Table 27 1935 Social Security Act considered full wages as the tax base. In 1939, the average yearly salary was about \$1,800. That year the tax base was dropped to \$3,000. In 1939 this still incapsulated majority of salary as the base. Unfortunately, the federal government and states have not kept the bas inline with wage growth as the originators of the program.



Appendix M – The Employee Sharing the Tax Burden⁴⁷

“Upon the question of employee contributions the Committee on Economic Security made no recommendation, except that employees should not be taxed by the Federal law and that the matter be left entirely to the States for decision. This policy was followed in drafting the Social Security Act. The customary arguments for and against employee contributions are as follows.”

For	Against
<p>(1) Employee contributions justify giving employees a greater voice in the administration of unemployment compensation and a feeling of responsibility which will help to prevent abuse of the benefit provisions.</p> <p>(2) They will remove the taint of charity from benefits.</p> <p>(3) They will permit more adequate benefits. Benefits made possible by a 3-percent levy can be paid 50 percent longer if employees contribute an additional 1 percent.</p> <p>(4) Employer contributions in the long run tend to be deducted from wages; the employee will gain by making a small direct contribution.</p> <p>(5) Employee contributions are almost universally required in foreign unemployment insurance systems.</p>	<p>(1) Wage rates of many employees are so low that even a small rate of contribution will constitute a serious burden.</p> <p>(2) Employer contributions can be passed on to the consumer; this is not possible for employee contributions. Exclusive employer contributions are a recognition of the fact that unemployment is a legitimate cost of production.</p> <p>(3) The employee as a consumer will pay the large part of employer contributions; it is unfair to require him to pay an additional amount directly out of his wages.</p> <p>(4) The employee necessarily bears the greater part of the economic burden of unemployment even when compensated; he is not compensated during the required waiting period and, when he qualifies for benefits, he receives usually only about 50 percent of wages and for only a limited period. He should therefore not be asked to bear part of the cost of unemployment compensation.</p>

⁴⁷ <https://www.ssa.gov/history/reports/ces/cesbook6.html>; Chapter VI STANDARDS OF UNEMPLOYMENT COMPENSATION: STRUCTURAL PROVISIONS part 114