

Massachusetts' Unemployment Insurance Financing Reform

Robert Pavosevich, Mike Miller

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Unemployment Insurance Program

Federal Statutes

- 1) Each State is responsible for paying benefits to claimants within its state boundaries, (having worked for a state employer). There are no interstate transfers or national trust fund.
- 2) Each employer must be graded individually for the assignment of UI tax rates.

Two Issues with Massachusetts' UI Law

1) Solvency of UI Trust Fund

The UI Trust Fund is diminishing in its ability to operate counter-cyclically.

2) Experience Rating Methodology

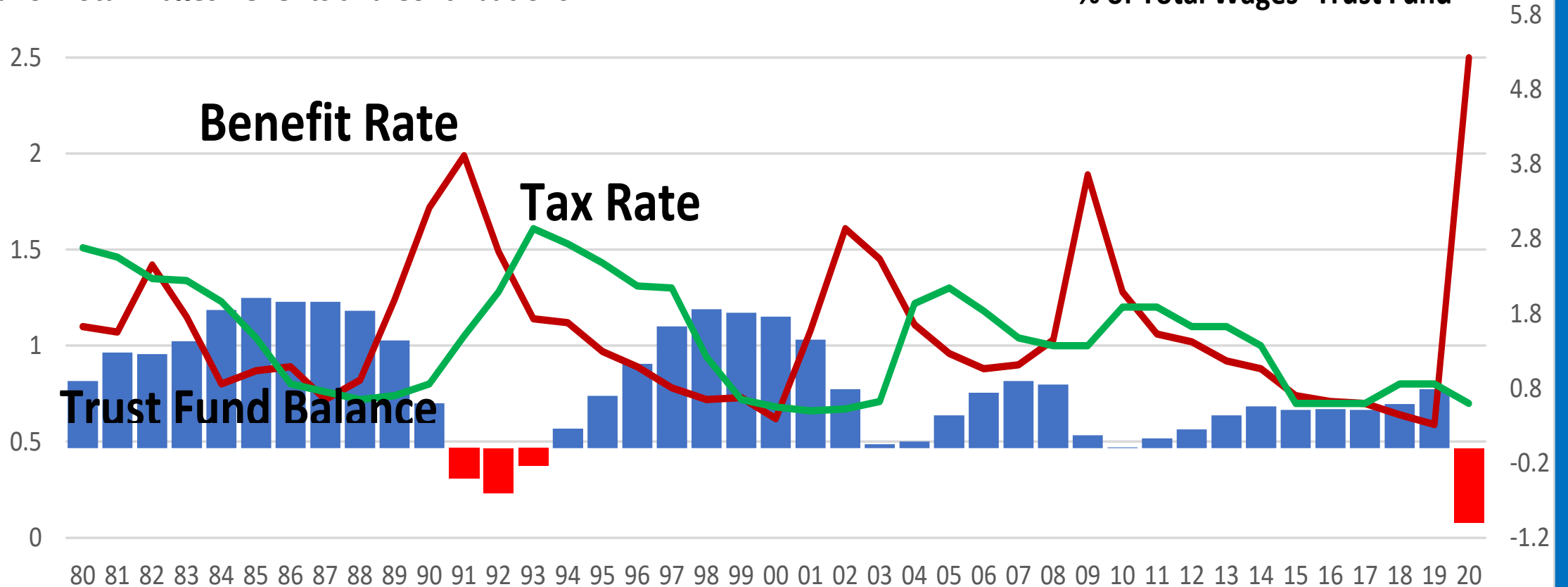
Methodology doesn't provide incentives for employment stability.

Massachusetts

Benefits, Contributions and Trust Fund Balance (1980 - 2020)

% of Total Wages Benefits and Contributions

% of Total Wages - Trust Fund



Solvency Issues

1) Poorly Constructed Solvency Tax

Solvency Tax (Social Tax) does not raise taxes enough to cover benefit payments.

2) Taxable Wage Base is fixed

Benefits increase with the increase in average total wages while wages taxed for contributions remain the same, (taxable wage base is held constant).

3) Political Involvement in Setting Tax Rates

Legislature reduces the level of taxes effective each year rather than allowing tax table to operate.

Experience Rating Issues

Reserve Ratio - Poor Grading System for Assigning Tax Rates

- A) For most employers taxes will increase with increased employment
- B) Tax rates not related to Employer Reserve Ratios
- C) Employer Taxes are not a good measure of layoffs

Experience Rating Methodology

Reserve Ratio Formula:

$$\frac{\text{Previous Balance} + (\text{Taxes Paid} - \text{Benefits Charged})}{\text{Taxable Wages}}$$

====> Higher value leads to lower tax rate, smaller value leads to higher tax rate

Unemployment Insurance Tax Table

| Negative Percentage | | | | | A | B | C | D | E | F | G |
|---------------------|-----|------|------|------|----------|----------|----------|----------|----------|----------|----------|
| (%) | | | | (%) | (%) | (%) | (%) | (%) | (%) | (%) | (%) |
| 23.0 | or | more | | | 8.62 | 9.79 | 11.13 | 12.65 | 14.37 | 16.33 | 18.55 |
| 21.0 | but | less | than | 23.0 | 8.25 | 9.37 | 10.65 | 12.11 | 13.76 | 15.63 | 17.76 |
| 19.0 | but | less | than | 21.0 | 7.88 | 8.96 | 10.18 | 11.57 | 13.15 | 14.94 | 16.97 |
| 17.0 | but | less | than | 19.0 | 7.52 | 8.54 | 9.71 | 11.03 | 12.53 | 14.24 | 16.18 |
| 15.0 | but | less | than | 17.0 | 7.15 | 8.13 | 9.24 | 10.49 | 11.93 | 13.55 | 15.39 |
| 13.0 | but | less | than | 15.0 | 6.78 | 7.71 | 8.76 | 9.95 | 11.31 | 12.85 | 14.6 |
| 11.0 | but | less | than | 13.0 | 6.42 | 7.29 | 8.29 | 9.42 | 10.7 | 12.16 | 13.81 |
| 9.0 | but | less | than | 11.0 | 6.05 | 6.87 | 7.81 | 8.88 | 10.09 | 11.46 | 13.02 |
| 7.0 | but | less | than | 9.0 | 5.68 | 6.46 | 7.34 | 8.34 | 9.48 | 10.77 | 12.23 |
| 5.0 | but | less | than | 7.0 | 5.32 | 6.04 | 6.86 | 7.8 | 8.86 | 10.07 | 11.44 |

Array System of Tax Rate Assignment

- Can be used with any experience rating method
 - Several Reserve Ratio states use array systems
- Independently determine revenue needs and tax rates
- Sort employers by experience factor (e.g. reserve ratio)
- Assign a fixed percentage of taxable wages to each tax rate
- Revenues from a set of tax rates are predictable

Benefit Ratio

Employer Benefit Ratio = recent benefit charges / taxable wages

- Direct relationship between benefit charges and tax rate

Issues With Benefit Charging

- Difficult to assign benefits to the “responsible” employer
- Employers can’t control benefit duration for permanent layoffs
- Administrative burden on states and employers
- Creates an adversarial relationship between employers and workers

Employment Variation Methodology

Employer Quarterly Employment Change Percentage = $\frac{\text{employment change}}{\text{average employment}}$

Employment Variation Index = $\left(\left(\text{sum of positive Change Percentages} \right) + W \times \left(\text{sum of negative Change Percentages} \right) \right) / 12$

Employment Variation Pros and Cons

Pros

- Incentivizes employment increases
- No incentive for employers to interfere with claims
- Easy to implement
- Savings in cost and administrative burden

Cons

- No employer policing of fraud
- Doesn't penalize converting full-time to part-time jobs

Alternatives

- Payroll variation
- Hours worked variation
 - Both would penalize full-time to part-time conversion