

Connecticut's UI Trust Fund 2021 Reforms and Current Status

November 2021

UI Tax Changes

Temporary COVID-19 Related Rating Changes Effective January 1, 2022

- For all employers eligible to be experience rated, experience rates shall be calculated without regard to benefit charges and taxable wages for the experience years ending June 30, 2020 and June 30, 2021, when applicable.
- The state's "New Employer" rate shall be calculated without regard to benefit payments and taxable wages for calendar years 2020 and 2021, when applicable.

UI Tax Changes

Effective January 1, 2024

- The Taxable Wage Base (TWB) increases from \$15,000 to \$25,000. Each year thereafter, the TWB is indexed to the percentage change in the employment cost index, as calculated by the United States Department of Labor (USDOL).
- The state's minimum charged rate is reduced from 0.5% to 0.1%.
- The state's maximum charged rate increases from 5.4% to 10.0%.
- Effective January 1, 2024, if the average benefit ratio of a particular industry increases by 1% or greater over the average benefit ratio of that sector from the previous year, then the benefit ratio of each employer within such sector shall have their individual benefit ratio reduced by one-half of the increase.

UI Tax Changes

Effective January 1, 2024

- The state's maximum fund solvency tax is reduced from 1.4% to 1.0%, except that during periods of economic recession, the state's maximum fund solvency tax is reduced to 0.5%.
- Benefits paid to claimants under the state's voluntary shared work program during periods of high unemployment shall not be charged to base period employers.
- To minimize the short-term impact of the Taxable Wage Base (TWB) increase, experience rates in calendar years 2024 and 2025 will be reduced by factors of 1.471 and 1.269, respectively.

UI Benefit Changes

- Effective January 1, 2024:
 - all severance pay, including conditional severance pay, shall be allocable.
 - the minimum weekly UI benefit payment will increase from \$15 to \$40.
 - the minimum base period earnings requirement will increase from \$600 to \$1,600.
 - each day in which an employee is absent without either good cause for the absence or notice to the employer (No Call – No Show) constitutes a "separate instance" of willful misconduct.
- Effective January 1, 2025, the minimum UI benefit payment and corresponding minimum base period earnings requirement is adjusted annually by the percentage change in the employment cost index, as calculated by USDOL.
- The maximum UI benefit rate will be frozen in the benefit years commencing on or after the first Sunday in October of 2024 and prior to the first Sunday in October of 2028 (four-year freeze).

Fiscal Impact

- UI Tax Changes – Aggregate Revenue Gain = **\$130 Million Annually**
 - Increasing the taxable wage base from \$15,000 to \$25,000 with subsequent indexing
 - Reduce the minimum tax rate from 0.5% to 0.1%
 - Increase the maximum tax rate from 5.4% to 10.0%
 - Reduce the maximum fund solvency tax from 1.4% to 1.0%
- UI Benefit Changes – Aggregate Savings = **\$85 Million Annually**
 - Allocation of All Severance Pay
 - Increase in the Minimum Weekly Benefit Amount from \$15 to \$40
 - Increase in the Minimum Base Period Earnings from \$600 to \$1,600
 - Four Year Freeze in the Maximum Weekly Benefit Amount
 - Change in “No Call – No Show” Requirement

Federal Borrowing

- In order to continue paying Unemployment Insurance benefits to unemployed workers as required by law, Connecticut began borrowing funds from USDOL at the end of August 2020.
- Generally, federal loans carry interest immediately; but the federal government waived interest on UI trust fund loans in CARES Act 1 and 2 through March 14, 2021, and the American Rescue Plan Act of 2021 continued interest free borrowing until September 6, 2021.
- CT General Statutes Section 31-225a requires each contributing employer to pay an assessment sufficient to pay this interest. As such, interest costs will be collected through annual Special Assessments.

Federal Borrowing Interest Repayment

- The Special Assessment is a supplemental bill that is charged to active Connecticut contributory employers in August of any year that we accrued interest on our outstanding loan balance with USDOL from October 1 of the prior year through September 30 of the billing year.
- This interest payment is due from contributory employers to CTDOL by August 31 and from CTDOL to USDOL by September 30 of the billing year.
- After interest free borrowing expired on September 6, 2021, the first special assessment payment was due 9/30/21. Governor Lamont authorized this three-week, \$1.085 million assessment to be paid using CRF funds.
- Employers will be responsible for special assessment interest payments beginning August 2022.

Federal Borrowing **Principal Repayment**

- Principal payments are made by employers through increased Federal Unemployment Tax Act (FUTA) tax payments and through CTDOL UI Trust Fund when the Fund begins to have a surplus.
- The increased FUTA taxes are from a FUTA Credit Reduction calculation to employers. Since we had a UI loan outstanding on January 1, 2021, and anticipate having a UI loan outstanding on January 1, 2022, CT contributory employers will see FUTA tax increase on wages paid in 2022.
- Contributory employers will have FUTA tax increases based on wages they pay in 2022, but they won't pay the increased FUTA taxes until January 2023, when they file their 2022 Annual FUTA tax return.
- As of October 28, 2021, there are currently 113,075 contributory employers.

Trust Fund Status

- Trust Fund was last solvent in 1999.
- Trust Fund balance pre-pandemic on 3/2/20 was \$642.2M. Solvency was determined to be \$1.7B.
- Began borrowing end of August 2020.
- Federal Loan Balance is currently \$532,245,020.
- Total benefits paid thus far \$9.898B.
 - \$2.78B State
 - \$7.12B Federal
- A \$200M payment towards federal loan was made on 10/13/21 to reduce outstanding balance.
 - Temporarily reduced interest by \$13K a day for yearly savings of ~\$500,000.

Totals Through	10/27/2021
Trust Fund Balance:	\$13,688,055.55
Total Benefits Paid:	\$4.734B
Regular:	\$2.739B
PUA:	\$657.6M
PEUC:	\$1.1435B
EB-State:	\$37M
EB-Federal:	\$155M
MEUC:	\$1.744M
Total FPUC Paid:	\$4,798B
Sub-Total (Benefits & FPUC):	\$9.532B
LWA Paid:	\$366M
Grand Total Paid (All):	\$9,898B
Loan Balance:	\$532,245,020.59

Summary

- Connecticut's UI Tax and Benefits System has been largely unchanged since the 1990s.
- The 2021 UI reforms were achieved through the collaborative effort of business and labor.
- Immediate changes to the system plus the inclusion of indexing various tax and benefits measures will promote long term UI Trust Fund solvency.
- UI Trust Fund solvency reduces employer costs, allows for predictability of those costs, and stabilizes UI benefit payments to unemployed workers.