

# Unemployment Trust Fund Reform Study

## Questions for Interested Parties

*(Finalized 9/4/09)*

Thank you for the opportunity to testify. For those of you who may not be familiar with VBSR, we are a statewide business association with over 700 members. Our members employ well over 10% of the state's workforce and contribute well-over 3 billion dollars into the state's economy. We recently surveyed our members and found more than 60% of them have been in business more than 15 years (86% for over 5 years).

VBSR is in the process of finalizing our UI policy, and like you, we still have some more work to do. In the meantime, we wanted to share some of our initial thoughts and opinions, knowing that some of these might change as we move through our process.

### 1. Unemployment Trust Fund Purpose

What do you believe is the purpose of the Unemployment Trust Fund?

- a. What is the purpose of the benefits paid to employees?
- b. Does the Unemployment Insurance Program benefit employers?
- c. Does the Unemployment Insurance Program have any benefit to the community?
- d. What are the positive and negative affects on the economy?

In our discussions so far, there has been consensus that there are two principal purposes of UI :

- 1) Help people- to protect employees' income during economic contractions and to help avoid additional burdens on other state income-supplement and assistance programs.
- 2) Help the economy- to dampen the cyclical swings of economic activity by maintaining a higher level of consumer demand and business income than would otherwise be the case.

As you are aware, both of these functions are under threat in Vermont at present: unemployment is likely to continue to increase in the current downturn.

### 2. Underfunding

How do you account for the underfunding of the Unemployment Trust Fund?

We are finding this to be a systematic and political problem. As with many benefit-related programs, policy makers have provided benefits without ensuring adequate fiscal means to ensure the sustainability of the program. While many of the interested parties have enjoyed temporary gains (benefits have been raised, taxable wage base did not go up) this has created a situation that may increase the state's indebtedness and threaten the general fund. Most importantly, you need to create a sustainable system.

### 3. Long Term Solvency Issues

What topics and areas do you believe the Committee should examine in its effort to address the Unemployment Trust Fund long-term solvency issues?

Preliminary ideas for long term solvency that we are exploring, that we hope you do too, include:

- indexing the taxable wage base to growth in the average wage. (17 other states do this).
- instituting a contribution "inflater" that activates when the trust fund falls below a certain percentage of total taxable payroll (Florida).

- adding categories at the top end of the tax rate schedule on an exponentially increasing scale (there are too many negative balance employers topping out at Rate Class 18, 19, 20).
- restructuring the tax rate schedule and the employer experience rating system so that employers with relatively small numbers of employees, employees laid off, and incidences of layoff, have a smaller percentage increase in their contribution burden than employers for whom all these variables are high. Today, the structure is the reverse. (When we move to schedule V, those on the high-end have a smaller percentage increase than those at a lower rate class).
- providing “forgiveness” to small firms that have one-time layoffs of just a few employees.
- Regarding seasonal employers---we need to acknowledge that our climate ensures that certain industries are seasonal and that these businesses are substantial contributors to our economy. We need to learn more about what is the appropriate experience rating formula for these employers and maybe modify the formula to support those seasonal employers who engage in job exchanges with other employers- to protect the incomes of their employees. We have also discussed implementing seasonality provisions on the benefits side- limiting benefits to unemployment that occurred during the operating period of the seasonal industry.
- Vermont has a high percentage of “reimbursable” employers; the state is lending money to these employers without charge (29% of the wage base is not in the pool). 6% of the benefits paid out are to employees of reimbursable employers. These employers should be required to cover both the administrative costs and the real cost of money borne by the State on their behalf. (Even the State of Vermont is a reimbursable employer).

#### **4. Proposed Solution(s)**

What is your proposed solution to the underfunding of the Unemployment Trust Fund?

**a. Short term solution?**

Of course we need to raise the taxable wage base....we need to learn how fast we can prudently go. We do not want to have businesses moving to “independent contractors” instead of staff, etc. We will also need to borrow- we need to develop a prudently designed proposal to borrow sufficient funds to see us through this crisis. It would be most advantageous if the federal government could provide some relief and flexibility in this regard.

**b. Long term permanent solution?**

See above.

**c. How should any solution treat the interests of employees and employers?**

A basic principle is fairness and shared responsibility.

**d. Should all Vermonters be asked to pay interest on federal borrowing or should this be targeted to those responsible for funding the system (i.e., employers)?**

Following from above, we all benefit from a stable economy which the UI program helps to ensure. We think you do need to look beyond employers to all those who benefit from the system (based on ability to pay).

**e. What are the relative merits of either borrowing versus implementing precipitous increases in the taxable wage base?**

As discussed above, increases cannot be precipitous. As you will hear from any business group, this is the worst time we could imagine to raise costs on businesses who are already under considerable strain. Increases need to be gradual so they can be planned for and absorbed. Need a balanced approach, run the numbers and consult directly with employers. Our group is interesting in looking more at the ratio of UI contributions to total payroll.

**5. Program Operations**

As a claimant, or as an employer of a claimant, is the Unemployment Insurance Program “user friendly” and have claims been processed in a timely fashion?

We did not solicit feedback from our members on this.

**6. Enforcement**

Should enforcement be a priority with respect to employers not paying taxes at all or not paying their fair share, as required by law?

Yes. Yes. Yes. A level playing field is critical...not only for employers but for recipients as well. Enforcement ensures fairness and is critical to ensuring that the program succeeds.

**7. Other Comments**

One thing we learned is that many businesses are not able to understand/engage in this policy discussion as much as they would like. It is complicated and they are busy. We need to do more education about the value of the system, and the potential impacts and unintended consequences of any changes. We need to have more scenarios to share so that we can tell individual businesses what it would mean to them specifically-what increasing the taxable wage base would mean to their bottom line- like offering them examples of cost per employee: The DOL Employer Impact Analysis table should be revised to calculate the impact on various employment sizes within a single rate class, in order to be able to compare like with like. This can be done for a selection of different rate classes.