# *Public Hearing*

before

## SENATE LABOR COMMITTEE
## ASSEMBLY LABOR COMMITTEE

*"Testimony regarding the fiscal condition of the State Unemployment Insurance Trust Fund and related issues"*

**LOCATION:** Committee Room 4
State House Annex
Trenton, New Jersey

**DATE:** March 18, 2010
10:00 a.m.

**MEMBERS OF JOINT COMMITTEE PRESENT:**

Senator Fred H. Madden Jr., Chair
Senator Sandra B. Cunningham, Vice Chair
Senator James Beach
Senator Richard J. Codey
Senator Michael J. Doherty
Senator Joseph Pennacchio
Assemblyman Joseph V. Egan, Chair
Assemblyman Nelson T. Albano
Assemblyman Craig J. Coughlin
Assemblyman Wayne P. DeAngelo
Assemblyman Frederick Scalera
Assemblyman Ronald S. Dancer
Assemblyman Jay Webber

**ALSO PRESENT:**

Gregory L. Williams
Robert A. Melcher
*Office of Legislative Services*
*Committee Aides*

Eugene Lepore
*Senate Majority*
Owen G. Fletcher
*Assembly Majority*
*Committee Aides*

Victoria Brogan
*Senate Republican*
Joseph Glover
*Assembly Republican*
*Committee Aides*

***Hearing Recorded and Transcribed by***
**The Office of Legislative Services, Public Information Office,**
**Hearing Unit, State House Annex, PO 068, Trenton, New Jersey**

# TABLE OF CONTENTS


| | Page |
|---|---|
| Ronald L. Marino<br>Assistant Commissioner<br>New Jersey Department of Labor and Workforce Development | 3 |
| George M. Krause<br>Chief Financial Officer<br>New Jersey Department of Labor and Workforce Development | 23 |
| George Wentworth, Esq.<br>Unemployment Insurance Modernization Coordinator<br>National Employment Law Project | 38 |
| Amy Coss<br>Member<br>Board of Directors<br>New Jersey Restaurant Association | 45 |
| Douglas J. Holmes<br>President<br>UWC-Strategic Services on Unemployment & Workers' Compensation, and<br>President<br>National Foundation for Unemployment Compensation and Workers' Compensation | 47 |
| Eric Richard<br>Legislative Affairs Coordinator<br>New Jersey State AFL-CIO | 51 |
| AJ Sabath<br>Representing<br>New Jersey Building and Construction Trades Council | 54 |
| Melanie Willoughby<br>Senior Vice President<br>Government Affairs<br>New Jersey Business and Industry Association | 56 |
| Michael Egenton<br>Vice President<br>Environment and Transportation<br>New Jersey State Chamber of Commerce | 59 |

## TABLE OF CONTENTS (continued)

**Page**

Laurie Ehlbeck
State Director
National Federation of Independent Business-New Jersey 61

Matthew McDermott
Legislative Agent
Mechanical and Allied Crafts Council of New Jersey, and
Representing
New Jersey State Pipe Trades Association 63

Edward Fedorko
Vice President
Insulators
New Jersey State Building and Construction Trades Council, AFL-CIO 65

Joseph DeMark Jr.
Business Manager
Local 25
Sheet Metal Workers International Association, and
Vice President
Sheet Metal Workers
New Jersey State Building and Construction Trades Council, AFL-CIO 66

**APPENDIX:**

Memorandum, plus attachments
submitted by
Gregory L. Williams 1x

Testimony
submitted by
George Wentworth, Esq. 35x

Testimony, plus attachment
submitted by
Amy Coss 57x

# TABLE OF CONTENTS (continued)

## APPENDIX (continued):

| | Page |
|---|---|
| Testimony submitted by Douglas J. Holmes | 61x |
| Testimony submitted by Eric Richard | 66x |
| Letter addressed to Senate and Assembly Labor Committees from Bill Mullen President New Jersey Building and Construction Trades Council submitted by AJ Sabath | 69x |
| Letter, plus attachments addressed to Senate and Assembly Labor Committees from Melanie Willoughby | 71x |
| Testimony submitted by Laurie Ehlbeck | 82x |
| Letter addressed to Senate and Assembly Labor Committees from Joann DelVescio President New Jersey Travel Industry Association | 85x |
| Testimony submitted by Board of Directors, and Members of the Legislative Outreach Committee New Jersey Staffing Alliance | 86x |

rs: 1-68

**SENATOR FRED H. MADDEN JR. (Co-Chair):** If everyone will take their seats, please.

Okay, we'll start the meeting.

Ladies and gentlemen, welcome to a joint public hearing between the State Senate Labor and the State Assembly Labor Committees.

The testimony in the hearing today will focus on New Jersey's Unemployment Insurance Trust Fund. The purpose of today's hearing is simply to get the stakeholders at the table with the legislators to talk about current trends; the effects, or lack thereof, of our current unemployment system; the conditions of what it's like living under the unemployment world out there right now; to give the legislators the ability to be asked questions of you and, at the same time, have the legislators ask questions of yourself for clarification.

The sole purpose of today's meeting was simply to continue to talk, keep an open dialogue and partnership with those who are affected by the unemployment world so that the legislators can stay on top of their game, so to speak.

Do I have any opening comments from members of the panel? (no response)

May I have a roll call, please?

MR. WILLIAMS (Committee Aide): First the roll call for the Senate Labor Committee; Senator Pennacchio.

SENATOR PENNACCHIO: Here.

MR. WILLIAMS: Senator Doherty.

SENATOR DOHERTY: Here.

MR. WILLIAMS: Senator Codey.

SENATOR CODEY: Here.

MR. WILLIAMS: Senator Beach.

SENATOR BEACH: Here.

MR. WILLIAMS: Vice Chairwoman Cunningham.

SENATOR CUNNINGHAM: Here.

MR. WILLIAMS: Chairman Madden.

SENATOR MADDEN: Here.

MR. MELCHER (Committee Aide): And the roll call for the Assembly Labor Committee; Chairman Egan.

**ASSEMBLYMAN JOSEPH V. EGAN (Co-Chair):** Here.

MR. MELCHER: Vice Chairwoman Evans. (no response) Assemblyman Albano.

ASSEMBLYMAN ALBANO: Here.

MR. MELCHER: Assemblyman Coughlin.

ASSEMBLYMAN COUGHLIN: Here.

MR. MELCHER: Assemblyman DeAngelo.

ASSEMBLYMAN DeANGELO: Here.

MR. MELCHER: Assemblyman Scalera.

ASSEMBLYMAN SCALERA: Here.

MR. MELCHER: Assemblyman Dancer.

ASSEMBLYMAN DANCER: Here.

MR. MELCHER: Assemblyman Peterson. (no response) Assemblyman Webber.

ASSEMBLYMAN WEBBER: Here.

And apologies from Assemblyman Peterson. He's got a conflict with the Appropriations Committee. So he would be here if he could.

SENATOR MADDEN: Okay. Thank you.

The first individual up to testify today will be Assistant Commissioner from the New Jersey Department of Labor and Workforce Development, Mr. Ron Marino.

Mr. Marino, we're asking you to step forward to take the microphone and testify. We're asking you to, at a minimum, focus your comments on current trends, past practices, what unemployment has done over the landscape of at least the past six months -- nine months if possible -- so the Committee can open up with a general idea of what's really happening out there, comments. We'd appreciate having an update on those numbers as they apply to the newly unemployed applying for weekly benefits. And also, if you could address those who have exhausted all of the extensions, we'd appreciate it.

Thank you, again, Commissioner.

**ASST. COMMISSIONER RONALD L. MARINO:** Thank you very much, Senator Madden.

I also have with me our CFO, George Krause, who may be able to answer any fiscal questions that you may have concerning unemployment insurance.

Currently, we're nearing 500,000 people who are currently collecting unemployment insurance in the State of New Jersey. Right now, the maximum unemployment insurance amount that anyone can receive in any given week is $600. Last year alone, in excess of 700,000 new people filed for unemployment insurance in the State of New Jersey. And as I just mentioned, 500,000 -- or nearing 500,000 -- are filing unemployment.

However, the trend of people who are filing unemployment this year is down compared to that of last year. Data through March 15 of this year shows 21 percent of the people who are -- new claims that are being filed -- less than what was filed a year ago. That trend now is seemingly going down in the State of New Jersey, which basically is a good thing. It's showing the fact that the economy is picking up; it's showing the fact that New Jersey is having a much more positive impact with regard to employers, the various customers in the State of New Jersey; and more jobs may, in fact, be being created -- employers bringing back people in the State of New Jersey.

What I wanted to do was perhaps give the panel a background a little bit with regard to unemployment insurance. An individual who files for unemployment insurance can collect up to 26 weeks of unemployment. After the 26 weeks of unemployment-- There was Federal legislation that was passed in 2008 that provided for an additional amount of federally funded -- 100 percent -- unemployment insurance to these individuals. Currently, people who would have filed a year or so ago could collect up to a maximum of 99 weeks of unemployment insurance. Twenty-six weeks of that would be for regular unemployment insurance. You have four various tiers of unemployment, which is what the Federal government has allocated. We call it Tier 1, which is an additional 20 weeks; Tier 2, an additional 14 weeks; Tier 3 is an additional 13 weeks; and Tier 4 is an additional 6 weeks.

In addition to that, the State has what is known as *extended benefits*. Extended benefits are based on what the condition of the unemployment rate is for the past three months -- average. If the past three months' average is 6 percent unemployment or greater, they would be getting an additional 13 weeks. If, however, the unemployment rate was an additional 8 percent for a three-month period -- average -- you would get actually 20 weeks. So if you add all of those together, you come up to 99 weeks of unemployment insurance.

Unfortunately, what happened last year was that when they initially did the various tiers, they stopped after Tier 2. So when a claimant was collecting unemployment, they collected the 26 weeks. Then they collected 20 weeks of Tier 2, and then they collected Tier 2, and then after that they went on to extended benefits and collected another 20 weeks. There was a hiatus between the months of August, September, October, going into November. In November, the Federal government passed additional legislation, which was Tier 3 and Tier 4, which I just recently mentioned. So what you had last August, September, and October were people who were exhausting all available unemployment insurance that they had, and they were actually not getting anything from the State. They lasted until November, where the Feds then came back and said Tier 3 and Tier 4. They now started to collect additional unemployment benefits. That Tier 4 is now ending. By the end of this month, we will have approximately 51,000 people who would have exhausted all Federal and State unemployment insurance benefits.

Also, in addition to what the Federal government was paying, the Federal government also had what is known as the Federal Additional Compensation. I mentioned that maximum $600 per week. The Federal government also said that, what they would be doing is, they would give that individual an additional $25 a week. So basically an individual is collecting $625 maximum a week. And, again, that would have been for the 99 weeks.

Now, the Federal government just recently passed an extension of those requirements. It was supposed to end on February 28, 2010, with a phase-out period of people being on whatever tier they would have been on. They recently passed an amendment that extended that to April 5, 2010. And that's been approved by the President.

Yesterday, the House voted and approved an additional amendment to carry it through May 5. It is now with the Senate in order for the Senate to pass that legislation. Basically, the reason why they are passing it for this particular month is that there is legislation already there to extend all of these programs to the end of 2010. Unfortunately, they haven't crossed every *t* and dotted every *i*, and they felt they were going to go into Easter break, and that they would not be able to pass that legislation properly before the April 5 breakdown date. So they're extending it to May 5. It's only now with the Senate in order to continue with that additional extended unemployment program.

I do want to add another comment that we have. Part of the program that the Federal government is paying-- They also came back and said, "If you're having extended benefits, as opposed to it being a 50/50 breakdown -- whereby the State would pay 50 percent of the extended benefit and the Federal government would pay 50 percent of the extended benefits -- the Federal government will pay 100 percent of the extended benefits." So that exists. That continues through the April 5 date. And as I mentioned, that is also part of the amendment to make it May 5, and also part of the potential amendment to make it last through December 31, 2010.

So if there are any questions that you may have with regard to that, I'd be very pleased to answer those.

ASSEMBLYMAN EGAN: Could I ask you a question about the $25? Is the $25 above the $600?

ASSISTANT COMMISSIONER MARINO: Yes, it is. It is totally above the $600. So if an individual is making $300, they're going to get $300 through the UI program and an additional $25 through the Federal Additional Compensation Program, for $325 a week. I mentioned the maximum being $600. So an individual would get $600 plus an additional $25.

ASSEMBLYMAN EGAN: Thank you.

SENATOR MADDEN: Assemblyman Scalera.

ASSEMBLYMAN SCALERA: Thank you, Chairman.

I'll be honest -- this is not my total expertise. I made some notes while you were speaking, because I have a couple of questions.

Of those 92 (*sic*) weeks, only 26 weeks are truly covered by the cost from New Jersey. The remainder of those weeks are covered--

ASSISTANT COMMISSIONER MARINO: Of the 99-week maximum that anyone could collect unemployment, 26 weeks are the weeks in which it will be an impact on New Jersey's Unemployment Trust Fund.

ASSEMBLYMAN SCALERA: Okay. So anybody who's been on the system for more than that is over on the Federal side.

ASSISTANT COMMISSIONER MARINO: That's correct.

ASSEMBLYMAN SCALERA: I want to talk about our Fund and where we have to go. So our fund is failing just covering the initial 26 weeks, not the remaining weeks up to 99.

ASSISTANT COMMISSIONER MARINO: You are correct.

ASSEMBLYMAN SCALERA: And that's also the one we're cutting back now between the $600 and the $625 -- and we're cutting it back by -- our payments -- we're cutting them back by, what, $50 -- I think is it -- the proposal?

ASSISTANT COMMISSIONER MARINO: The Governor's plan is to put a freeze on and, in fact, reduce the unemployment -- the maximum unemployment benefit rate down to $550.

ASSEMBLYMAN SCALERA: And it's still within-- But after those 26 weeks, they would go up to the Federal number.

ASSISTANT COMMISSIONER MARINO: No, the Federal formula says, "You take what exists for the unemployment numbers and just carry those numbers through, basically, for the balance of the 99-week period."

ASSEMBLYMAN SCALERA: Okay. So by us bringing back the $550 then, they're at that $550 for up to 99 weeks because that's our number -- that's what the State is going to pay the most -- I mean the Feds are going to pay the most of.

ASSISTANT COMMISSIONER MARINO: That's correct.

ASSEMBLYMAN SCALERA: Okay. Thank you.

SENATOR MADDEN: Governor Codey.

SENATOR CODEY: How many New Jerseyans are presently receiving unemployment?

ASSISTANT COMMISSIONER MARINO: As I mentioned, it's nearing 500,000 people.

SENATOR CODEY: Nearing 500,000.

ASSISTANT COMMISSIONER MARINO: The data as of a week ago was 496,000 people collecting unemployment in New Jersey in one of those -- either regular unemployment insurance of 26 weeks, or one of the Federal extended programs.

SENATOR CODEY: Oh, okay. Do you know how many of those are on the extended program as opposed to the regular?

ASSISTANT COMMISSIONER MARINO: No, I don't. But the last estimate that we had, which was based on data through the end of last year, had approximately 36 percent of the people collecting unemployment through the regular unemployment program.

SENATOR CODEY: Okay.

ASSISTANT COMMISSIONER MARINO: Most of the people went through the regular unemployment program, and--

SENATOR CODEY: But now extended.

ASSISTANT COMMISSIONER MARINO: --dumped into the Federal programs.

SENATOR CODEY: Okay. What the Governor's proposed -- why would that result in a loss of Federal unemployment dollars?

ASSISTANT COMMISSIONER MARINO: I'm sorry, would you repeat that please?

SENATOR CODEY: What the Governor has proposed, from my understanding of what I've heard and read, would result in a loss of Federal dollars.

ASSISTANT COMMISSIONER MARINO: It's not actually a loss of Federal dollars.

SENATOR CODEY: What is it?

ASSISTANT COMMISSIONER MARINO: What the Governor's plan is -- there should be-- New Jersey, right now, is one of the five highest states with regard to unemployment insurance. Massachusetts, in fact, is the highest. Last year, New Jersey was the highest. Massachusetts was paying out $628 a week. New Jersey was paying $584 a week. Under the Governor's plan, even reducing this down to $550 still keeps New Jersey in the top five or six states with regard to unemployment insurance program.

The issue really is: We are paying out a maximum of $600 in unemployment insurance. New Jersey is one of the most liberal states with regard to the payout programs for unemployment insurance. It's not just that amount of money, but there are also other programs for collecting unemployment insurance that New Jersey has in place. And basically that is becoming a drain with regard to the Unemployment Insurance Trust Fund.

SENATOR CODEY: Okay, but my question, sir--

ASSISTANT COMMISSIONER MARINO: I'm sorry, $25.

SENATOR CODEY: So we do lose Federal money.

ASSISTANT COMMISSIONER MARINO: We will lose Federal money if, in fact, that takes place. You are correct.

SENATOR CODEY: Okay. We are one of very few states in the country that employees contribute. Is that correct?

ASSISTANT COMMISSIONER MARINO: Yes, we are.

SENATOR CODEY: How many states have the same system we do, sir, where the employees contribute?

ASSISTANT COMMISSIONER MARINO: I believe there are three states in which employees contribute unemployment insurance -- employees add money to the Unemployment Insurance program.

SENATOR CODEY: It just seems rather odd that we would be reducing their benefits when we are an anomaly, nationwide, in that employees contribute to this; and yet we're going to reduce it, where in other states they're not, but yet they don't even contribute.

ASSISTANT COMMISSIONER MARINO: Again, you're looking at what the condition of the Unemployment Trust Fund is and the health of that Unemployment Trust Fund.

As I mentioned, I have George Krause, our CFO, from Labor. And he can address, if you wish, information that you may want to ask or may want to know about with regard to the condition of the Trust Fund, currently, and why these things need to be done in order to make the UI Trust Fund solvent.

SENATOR CODEY: Okay. But it is very different. Most people don't know that it's both the employer and the employee who contribute there, as opposed to the rest of the country.

ASSISTANT COMMISSIONER MARINO: That's correct.

SENATOR CODEY: But yet we're going to cut that.

SENATOR MADDEN: That could happen if-- What would happen is--

SENATOR CODEY: That was my question under what the Governor has proposed.

SENATOR MADDEN: Just basically what would happen, Governor, is the high level -- the $600 recipient would lose $50 of State money and $25 of Federal money -- and actually $75 of Federal money if you're in the extended program.

ASSISTANT COMMISSIONER MARINO: If, in fact, the plan that the Governor has put in -- is interested in doing. I was in contact with the U.S. DOL. And prior Governor Corzine signed an agreement with regard to the $25 Federal Additional Compensation Program. Included in that analysis, which does seem to have some legalese about it, stipulated that if, in fact, the states were to modify the computation that it uses in order to determine the maximum unemployment rate that people will be getting, that $25 would be rescinded. And you cannot change it anything later than -- or anything other than the December of 2008-- When the Governor made that determination, the FAC program was going to expire prior to July 1, 2010. So at that juncture then, the plan would be valid, because the FAC program was going to be phased out by that particular date.

Since that timeframe, what has occurred is this additional extension to April 5, and another potential extension to May 5, and again another extension to the end of December of this year. The extension to April 5 will now bring the phase-out period to some time in late July. If you were to do it by May, add another four weeks to that to sometimes -- perhaps early September. Again, if the Federal government extends the FAC program -- all of these extended programs -- to the end of the year, you're looking at some time in May 2011 before that phase-out period would take place.

Obviously, the Governor's legislative recommendation would be not to reduce the maximum unemployment rate because of the impact that it's going to have with regard to the $25 additional unemployment compensation that would be given through the Federal government.

SENATOR CODEY: Okay. So we're right to say that--

ASSISTANT COMMISSIONER MARINO: That's correct.

SENATOR CODEY: --if we did what he wants, we lose that $25.

ASSISTANT COMMISSIONER MARINO: Right, if, in fact, he did what he wants. But, again, that decision to go that route was done with the understanding that the $25 phase-out program was going to be before the end of June. And the proposal was going to be effective as of July 1. Obviously, since that's now been extended, modifications would have to be in place to say, "Notwithstanding whatever the phase-out, whatever the closure of the Federal Additional Compensation agreement is, the Sunday after that or the following period after that would be when that modification to the maximum unemployment rate would be -- would take place."

SENATOR CODEY: Could you explain to me what are the differences amongst other states in how they administer unemployment?

ASSISTANT COMMISSIONER MARINO: Most states administer unemployment--

SENATOR CODEY: Other than the fact that we have our employees contribute.

ASSISTANT COMMISSIONER MARINO: Most states operate in a similar fashion as the State of New Jersey has. Employers make contributions based on a prescribed work history that they may have. And that may, in fact, modify whatever the taxable amount of money that employers would be making into the Trust Fund.

Some states, where the issue you're finding out is-- The liberalization that the State of New Jersey has with regard to eligibility for benefits is far more open and allows a lot more people to enter into the unemployment program and to collect unemployment benefits, as opposed to comparisons with other states.

For instance, the unemployment maximum for the state of New York is $405. The maximum unemployment benefits for Pennsylvania is $578. It's very different throughout various states based on prescribed formulas that exist. And as I mentioned, New Jersey not only has a much more liberal formula that we use, New Jersey also allows a lot of other people to collect unemployment benefits who normally would not be collecting unemployment benefits in other states. And if you want, I could maybe mention a couple of those.

New Jersey has partial unemployment. Somebody can collect unemployment and also have -- and also work one or two days during the week. There's only a small handful of states that have partial unemployment. New Jersey has what is known as a waiting week that -- no longer has a waiting week. January 1, 2002, legislation was put in place whereby New Jersey eliminated the waiting week. So anybody who was collecting unemployment will collect unemployment from week one. In the past, prior to January 1, 2002, if an individual only was unemployed for two weeks, they would have only gotten paid for one week. If an individual was unemployed for say four, five, or six weeks, they would have gotten that additional first week of unemployment. A very small number of states have this elimination of the waiting week parameters.

One other thing that exists, which is also a drain on the Trust Fund-- It has to do with misconduct. In New Jersey, if you're ineligible to collect unemployment because of misconduct -- something that you did, something that the claimant did -- chronic absenteeism, excessive lateness, failed drug test, those kinds of things. What happens in New Jersey currently is, you have a waiting week of six weeks, and then you can collect the additional 99 weeks of unemployment. In most other states, what happens is, they treat that individual similar to as if they were voluntarily quitting their job, which then means that you have to find -- you get no benefits, you have to find another job, you have to work *X* amount of weeks at another job, earn *X* amount of money, and then be laid off from that job through no fault of your own. That is a much more strict mechanism with regard to this misconduct as opposed to what New Jersey has.

So there's just a couple which have been a major drain on the unemployment insurance program.

SENATOR MADDEN: Okay. Thank you, Commissioner.

Commissioner, I just want to run back to the $600 per week that an individual in New Jersey can receive as a maximum. And I just want to make sure that we bring home something that I think the Committee needs to hear.

Your testimony is that the $600 weekly unemployment benefit is the number one highest weekly benefit in the country.

ASSISTANT COMMISSIONER MARINO: Can I interrupt you a second? No, sir, it isn't. It is one of the top five.

SENATOR MADDEN: One of the top five.

ASSISTANT COMMISSIONER MARINO: The state of Massachusetts is the highest currently.

SENATOR MADDEN: And do you know what that is?

ASSISTANT COMMISSIONER MARINO: Yes. Well, last year it was $628.

SENATOR MADDEN: Okay, hold on. Just bear with me for a second. If we were to eliminate $50 a week from that range, you actually testified we would drop down a little bit to be somewhere around five.

ASSISTANT COMMISSIONER MARINO: Right.

SENATOR MADDEN: Now, apples to apples, to compare our weekly benefit rate in New Jersey against the weekly benefit rate across the country in some of the lower paying states -- the Carolinas, the lower mid-west, and things of that nature -- do you know what the average weekly wage is in New Jersey? It is $1,050. The average weekly unemployment benefit -- the average weekly benefit, not the highest, the average -- was $333 -- or $393.

ASSISTANT COMMISSIONER MARINO: Actually, last year it was $379. And if I could address that--

SENATOR MADDEN: So what percentage-- When you rate unemployment, in terms of its average weekly payout, against the average weekly wage in New Jersey, where do we rank there?

ASSISTANT COMMISSIONER MARINO: Well, let me take a step back.

SENATOR MADDEN: No. Do you know where we rank as a state? What's our number? We're throwing numbers out there that we're one, we're the highest here. Where are we, in terms of our average weekly benefits that we pay employees who contribute to the system versus the average weekly salary or pay?

ASSISTANT COMMISSIONER MARINO: That information I don't have offhand right now.

SENATOR MADDEN: My numbers say we're ranked 30th, and we're below the national average.

ASSISTANT COMMISSIONER MARINO: Right. But if--

SENATOR MADDEN: Right? Okay.

ASSISTANT COMMISSIONER MARINO: Yes, we are.

SENATOR MADDEN: Okay.

ASSISTANT COMMISSIONER MARINO: But if you-- But if I could address--

SENATOR MADDEN: I think the Committee needs to know that, because there's a lot of talk about us being number one, we're paying the highest money out weekly. And it's misleading. The people who are actually receiving the unemployment, who are living on what they're getting out of a system they contributed to -- those numbers are below the national average, in terms of percentage, based on the average weekly salary. And the Committee needs to know that.

ASSISTANT COMMISSIONER MARINO: Senator, if I may make one comment about that: Those numbers are somewhat skewed. And the reason why they're somewhat skewed is what I just mentioned a few minutes ago. It has to do with partial unemployment. So if, in fact, $600 is the maximum that you can collect-- If, in fact, you are getting a partial benefit amount, you are already counted in the number of people collecting unemployment. But since you are also making $300 during that week, you're also getting $300 in unemployment benefits. That $300 in unemployment benefits is, in fact, drawing down the actual average amount of unemployment insurance throughout the entire State of New Jersey. So what I'm saying is that $379 figure -- which is the average amount of unemployment insurance that claimants are collecting now -- really should be higher if you eliminated those individuals who are collecting partial unemployment from the State of New Jersey.

SENATOR MADDEN: Well, we can move those numbers. I mean, how many-- All right, of the 496,000, I believe, who are collecting unemployment right now, what percentage of those, or what number of those, are into this category that you're classifying where they work partial -- they collect partial unemployment (indiscernible)?

ASSISTANT COMMISSIONER MARINO: Those numbers I do not have.

SENATOR MADDEN: We don't have those.

ASSISTANT COMMISSIONER MARINO: I do not have those numbers available to me now, unfortunately.

SENATOR MADDEN: Okay. What is, by way-- When we throw out New York, for instance, or we throw out Pennsylvania-- Pennsylvania is -- their highest week is $578. By formula, on New Jersey's average weekly pay-- Every year you get that number in Labor, correct?

ASSISTANT COMMISSIONER MARINO: Yes.

SENATOR MADDEN: And we take 56-and-two-thirds percent of that average weekly, and that becomes our highest number that we will pay out in benefits. So it's already set by formula. Nobody is just coming up and giving money away. There's a structure to this. So as the economy or the workforce makes more money on an average week -- if they become unemployed, the potential is that the unemployment number moves along with that proportionately.

If our 56-and-two-thirds percent that we pay out in unemployment-- Do you know what Pennsylvania -- since we're talking about Pennsylvania a lot -- do you know what their percentage is that they do on their average weekly pay? It's 66-and-two-thirds. It's actually 10 percent higher than New Jersey.

And I think it's important for the Committee to understand that also. We take what somebody makes a week, and we're giving them a percentage based on a fund that they contribute to. And we're actually taking less of a percentage out of the fund than some of these other states. So when people start really just throwing numbers out and where we land-- I just want to make sure that we try to stay -- and really talk about what's really happening here in terms of the overall averages.

ASSISTANT COMMISSIONER MARINO: Senator, may I respond to that?

SENATOR MADDEN: Yes.

ASSISTANT COMMISSIONER MARINO: Each state has a different way in which they do the calculations with regard to what that maximum benefit amount is going to be. In New Jersey, 56-and-two-thirds percent-- However, what most states do is take 50 percent of that amount to come up with the maximum rate. In Pennsylvania and a lot of the other states -- in most of the states it's 50 percent. So really, you're looking at a different scenario than-- Even though the percentage of the average wage is higher than Pennsylvania, we take 60 percent of that.

I'll give you an example: $1,000. Somebody makes $52,000 a year, $1,000 a week. Sixty percent of that, $600, that's the maximum that would take place. In a lot of other states -- again, that may be a higher percentage -- but they would only take 50 percent of that to get to their maximum. It's the same situation in--

SENATOR MADDEN: But they're in a-- Commissioner, we'll carry this on, because I have some other questions. But the reality is, the structure and the cost of living in these other states is a whole lot less than New Jersey. And I just don't want the Committee to think that we just have this most expensive payout in unemployment in terms of what people are making versus the percentage of the pay we're replacing in their households on unemployment. There are some states-- We're throwing numbers around. But there are states that calculate this -- their payout at 70 percent of the average wage, and we know that. So we're at 56-and-two-thirds. Just realize that we are not number one in the percentage of payout on our weekly pay. That's really the point that I'm trying to drive home. If you take the average of our average weekly check versus the average weekly wage, we're, like, below the national average in terms of percentages. We come out, like, number 30 out of 50 states. So this isn't something where people just have this great fund that they're being overly compensated from, in my personal opinion.

I'm going to defer to Assemblyman Egan, Chairman Egan, for further questions.

ASSEMBLYMAN EGAN: I've got a question before you leave, Commissioner. But I believe Assemblyman Coughlin--

ASSEMBLYMAN COUGHLIN: One of my questions was answered, Mr. Chairman. It was about the percentage relative to income.

However, I do have a question. How many people currently receive unemployment benefits in the State of New Jersey as of today?

ASSISTANT COMMISSIONER MARINO: The figures as of today I don't know. The figure as of the 15th was 496,000 and change.

ASSEMBLYMAN COUGHLIN: At what rate are the claims declining?

ASSISTANT COMMISSIONER MARINO: As I mentioned, the comparison I did was from January 1 of this year to March 15 of this year. And I compare that to January 1 of last year to March 15 of last year. And there's a 21 percent reduction in the amount of new claims being applied.

ASSEMBLYMAN COUGHLIN: And how about going forward? Have you made any projections with regard to periods beyond the end of March?

ASSISTANT COMMISSIONER MARINO: The initial projections are that the unemployment rate, which now stands at 9.9 percent, will be going down at obviously a slower pace. And obviously as the unemployment rate goes down, and those people eligible to collect unemployment goes down, the fund will get somewhat healthier. But obviously the fund is in dire straits as we speak.

ASSEMBLYMAN COUGHLIN: And how many -- 51,000 I think you said.

ASSISTANT COMMISSIONER MARINO: Yes, 51,000 people will exhaust all unemployment benefits as of March 27, and approximately 1,500 per week thereafter.

ASSEMBLYMAN COUGHLIN: Okay. That's my question.

Thank you.

ASSEMBLYMAN EGAN: Assemblyman DeAngelo.

ASSEMBLYMAN DeANGELO: Thank you, Mr. Chairman.

Through you, Chair, a couple of questions. In reference to Pennsylvania, do their employees contribute into their unemployment fund?

ASSISTANT COMMISSIONER MARINO: I believe they do not contribute.

ASSEMBLYMAN DeANGELO: Also, how many people -- or the percentage of -- how many people are now receiving the maximum benefit?

ASSISTANT COMMISSIONER MARINO: Approximately 36 percent of the people currently collecting unemployment are getting $600, their maximum amount.

ASSEMBLYMAN DeANGELO: From that maximum amount, are you factoring in those individuals who are getting partial payment?

ASSISTANT COMMISSIONER MARINO: No.

ASSEMBLYMAN DeANGELO: Okay. That's all.

Thank you, Mr. Chairman.

ASSEMBLYMAN EGAN: Yes, Assemblyman.

ASSEMBLYMAN ALBANO: Thank you, Chairman.

Just a quick question: If the unemployment fund was at a zero balance right now, we were starting all over, would the funds that are coming in from the employer and the employee -- how many people could the unemployment fund sustain and stay at that balance?

**GEORGE M. KRAUSE:** I'm not sure I understand that question. How many people?

ASSEMBLYMAN ALBANO: Do we know, on a year's average, how much money actually comes in from the employer and the employee to the Trust Fund?

MR. KRAUSE: Yes, it depends on what tax bracket we're in. But in 2009, total contributions were just about $1.8 billion.

ASSEMBLYMAN ALBANO: Okay, $1.8 billion.

MR. KRAUSE: Yes, $1.8 billion.

ASSEMBLYMAN ALBANO: Okay, but that $1.8 billion-- How many people can this fund sustain on unemployment at that time and stay at a level balance? Are we talking 250,000, 300,000, 400,000 people without going into the negative?

MR. KRAUSE: That's difficult to answer. I can tell you though, that in 2007 we paid out about $1.9 billion in benefits. So whatever we had on the rolls in 2007-- Now, again, you're looking at 2007 benefit rates, so we're not talking apples and apples here. But essentially, at $1.9 billion -- I don't know if we can tell how many people that would-- It depends on the average rate.

ASSISTANT COMMISSIONER MARINO: That would be difficult. And I'm trying to remember exactly what the numbers were for 2007. At the start of 2007, we were at approximately 4.6 percent unemployment at that juncture. So if you want to equate the percentages of unemployment compared to the 9.9 percent that we're handling now, you're obviously looking at approximately twice as many people collecting.

ASSEMBLYMAN ALBANO: Okay. So we could probably-- The system could probably sustain a 4 to 5 percent unemployment rate. That would be--

MR. KRAUSE: I would say--

ASSEMBLYMAN ALBANO: Ballpark.

ASSISTANT COMMISSIONER MARINO: Based on those numbers I would say that would be--

MR. KRAUSE: Lower fours.

ASSEMBLYMAN ALBANO: Okay. That answers my questions. Thank you.

Thank you, Chairman.

ASSEMBLYMAN EGAN: Assemblyman Scalera.

ASSEMBLYMAN SCALERA: Thank you, Chairman.

I have to come back-- I'm doing math here on the side. So if I put everything together -- what you said -- and I've listened to what you said to Senator Codey and Senator Madden -- and I'm trying to look at how it affects the unemployed person. Basically, by us cutting that $50 for the 26 weeks, it's about $1,350 cost that we're saving per person, per state.

But by doing that over the 90 (*sic*) weeks, the resident unemployment is actually losing over $6,200. Because if we reduce it, the $25 comes off the top. So for an expenditure of us saving $1,300 per person, we're losing $4,900 in Federal funds. But the real number is to the person on unemployment, in trouble -- they're losing $6,200 over the 90 weeks. Because if we reduce ours, we lose the $25 from there. So they're losing $50 from us, the $25 from the State (*sic*), figure it all out. The person, after 90 weeks, made $6,200 less on unemployment than he would have if we left our -- the $600 in place for the first 26.

ASSISTANT COMMISSIONER MARINO: As I mentioned, the intention of the Governor's plan is not to interfere with the FAC agreement that currently exists. So none of that would take place, with regard to the Federal extensions, because they would have all ended. Some day the Federal extensions are going to end, whether it be this year, whether it be some time next year. Someday they're going to end. When that Federal Additional Compensation agreement ends is when the Governor's plan would become effective.

ASSEMBLYMAN SCALERA: Okay. Well, whenever that date does occur-- When is that date again?

ASSISTANT COMMISSIONER MARINO: Right now it's-- You have April 5, which is the FAC -- all of the extensions. And now you have a phase-out period of approximately 20 weeks thereafter.

ASSEMBLYMAN SCALERA: But from that time period -- if I did my math correctly -- a person -- once we reduce our fund and add the Federal money, that person lost about $6,200 over the 90 weeks.

ASSISTANT COMMISSIONER MARINO: Again, what I'm saying is the fact that there would not be -- they would have lost that anyhow, because the Federal government would have also stopped the additional unemployment.

ASSEMBLYMAN SCALERA: Well, in my first notes -- and then I will be quiet -- but in my first notes, they're possibly -- definitely taken to the end of 2010. So let's split the difference. So if it's from the May time period, and we phased it out -- because April to May -- until we phase it out -- they could still lose about $3,000 then.

ASSISTANT COMMISSIONER MARINO: By taking-- If the Federal government extends their programs to the end of this year, the Governor's plan would not be effective until after that.

ASSEMBLYMAN SCALERA: Okay.

ASSISTANT COMMISSIONER MARINO: It would not be effective until after that.

I mentioned earlier that the figure was February 28, and the phase-out period would be prior to July 1 of this year, at which time the Governor's plan would go into effect -- the Governor's legislation would go into effect. Since now we've had one extension, we'll probably have additional extensions carrying it through the end of this year, together with the phase-out period. In all probability, the Governor's plan will not take effect until sometime in 2011.

ASSEMBLYMAN SCALERA: So if we get to 2011, the Feds have done it, our reduction doesn't affect the Federal portion then, you say?

ASSISTANT COMMISSIONER MARINO: That's correct. That's what I'm saying.

ASSEMBLYMAN SCALERA: Okay. Thank you.

ASSEMBLYMAN EGAN: Assemblyman Webber.

ASSEMBLYMAN WEBBER: Thank you, Chairman, through you, a couple of questions on both the rates -- the taxation rates on both employees and employers.

I didn't realize that we were one of three states that requires employees to pay into the system. What is the rate for an employee to pay in the system?

MR. KRAUSE: It's about .38 percent.

ASSEMBLYMAN WEBBER: And that's frozen and uniform across the board for every employee in the state?

MR. KRAUSE: Yes.

ASSEMBLYMAN WEBBER: And the two other states that require employees to pay in -- do you know what their rates are?

MR. KRAUSE: I do not.

ASSISTANT COMMISSIONER MARINO: I do not either.

ASSEMBLYMAN WEBBER: And how did we come up with the .38 percent? Is that frozen in statute, or is that a formula that--

MR. KRAUSE: It's in the statute.

ASSEMBLYMAN WEBBER: Do you know how that came about or why that figure was chosen?

MR. KRAUSE: No, it came about probably in 1948, and it's been modified a couple of times since then. But I don't think it's based on any scientific formula.

ASSISTANT COMMISSIONER MARINO: That rate had been much higher, and it is now down to the 3.8 (*sic*) percent, as George mentioned.

ASSEMBLYMAN WEBBER: When was it reduced last, do you know?

MR. KRAUSE: Probably 2000, 2002, something like that. It's been awhile.

ASSISTANT COMMISSIONER MARINO: The rate that was provided for the worker was also modified because a portion of that went for charity care, and that ended several years ago. So the rate, say -- and I just want to throw out a number -- let's just say it was 4 percent that was being deducted out of the worker, half of that -- 2 percent -- was going for charity care.

ASSEMBLYMAN WEBBER: And that--

ASSISTANT COMMISSIONER MARINO: That ended a couple of years ago, correct. So now all is going to the unemployment fund or literacy fund that we have.

ASSEMBLYMAN WEBBER: But the tax on the employees stopped being used for charity care, but the unemployment insurance fund still had diversions to pay for charity care after the tax went down or went away.

MR. KRAUSE: No, they stopped at the same time.

ASSEMBLYMAN WEBBER: Okay. And then the rate on employers -- I understand that's affected by their experience rating. Do you have an average -- what the average employer pays for the average employee?

MR. KRAUSE: The current weighted average is just about 2.6 percent.

ASSEMBLYMAN WEBBER: Of wage or salary?

MR. KRAUSE: Of taxable wages.

ASSEMBLYMAN WEBBER: And that's what the category-- Are we at A or B?

MR. KRAUSE: We're at B.

ASSEMBLYMAN WEBBER: We're at B. And if the fund goes -- is insolvent, runs out of money March 31--

MR. KRAUSE: The fund is insolvent.

ASSEMBLYMAN WEBBER: Okay. And my understanding is we go to E plus 10.

MR. KRAUSE: Correct.

ASSEMBLYMAN WEBBER: What would the employers' rate be then at E plus 10, the average rate?

MR. KRAUSE: I believe it's 3.9 percent, but let me check.

I don't think I have an average rate for E plus 10. I don't think we calculate that for E plus 10. Really, it's a function of where the employers are going to be in those various-- I mean, there's like 30 different rates within each column. So it's a function of where they're going to be.

ASSEMBLYMAN WEBBER: Thank you, Chairman.

SENATOR MADDEN: We have just a follow-up here now with Senator Pennacchio, followed by Senator Doherty, and then we will be moving on to further witnesses.

SENATOR PENNACCHIO: Thank you.

I just want to get this straight, because I don't want to seem like I have to correct you, but I think I have to correct you. It's not 3.8 percent.

ASSISTANT COMMISSIONER MARINO: It's .38.

SENATOR PENNACCHIO: It's .0038. So at a max out of $28,000, the most an employee, per year, can pay is how much?

MR. KRAUSE: The actual wage, currently, is 29.7. The employer rate -- the average employer rate is 2.6. The worker rate is .38.

SENATOR PENNACCHIO: It's .0038. The maximum amount that an employee can pay is how much?

MR. KRAUSE: It's that times 29.7.

SENATOR PENNACCHIO: I think it's $130-plus.

MR. KRAUSE: Well, the $138 includes everything. I think it includes WDP, and literacy, and UI.

SENATOR PENNACCHIO: Now I'm really confused. Take that a little slower, I'm dyslexic.

MR. KRAUSE: If you look at your paycheck -- a paycheck for a typical New Jersey resident -- some employers will not show-- They'll show the amount withheld for -- they'll call it *unemployment.* But really, unemployment -- that rate could consist of unemployment, WDP, and literacy. There are three elements in the amount of tax withheld from workers. Now, depending on how the employers show it, they may not show all those -- those three categories. They might just show one and call it *unemployment insurance.*

SENATOR PENNACCHIO: All right, but there's a maximum amount that they can take out.

MR. KRAUSE: Right, it's the rate times the taxable wage base, which is 29.7.

SENATOR PENNACCHIO: Do we know what the -- if you don't know the maximum amount of employee contribution -- what the amount would be, in raw dollars, of what went into the system, how much was paid by the employees, and how much was--

MR. KRAUSE: We collect about -- in the UI fund it's about $300 million from workers.

SENATOR PENNACCHIO: From workers.

MR. KRAUSE: Yes.

SENATOR PENNACCHIO: And the total fund is $1.8 billion, you said, per year that they collect?

MR. KRAUSE: Revenues for 2009 were about $1.9 billion.

SENATOR PENNACCHIO: So out of roughly $2 billion, employees pay roughly $300 million. What is the effect of not doing anything at all and giving that automatic bump into a further column for the employee?

MR. KRAUSE: Employee rates don't change.

SENATOR PENNACCHIO: No, no, I'm sorry, the employer? If we do nothing, there's an automatic increase. What will be that trigger, and how much will it affect the employee?

MR. KRAUSE: All right. Employers will go from Column B to Column E plus 10. In total, it's about a billion dollars for the year.

SENATOR PENNACCHIO: How much?

MR. KRAUSE: A billion.

SENATOR PENNACCHIO: A billion. Okay. What does that come out to in dollars per employee? How much additional will an employer have to pay per employee?

MR. KRAUSE: Again, it depends on where they are. Let me give you an example.

SENATOR PENNACCHIO: Okay.

MR. KRAUSE: Maybe that will help.

Our best employers, at the lowest rate in Column B, pay four-tenths of 1 percent. So that tax is $119 per worker. If they go to E plus 10, their rate will go to 1.32 percent. So they'll be paying $392. So that is a $273 increase, or 230 percent. That's our very best employer. Our worst employers, right now, are paying 5.4 percent in Column B, $1,604 per worker. If we go to E plus 10, it will go to 7.7 percent, or $2,287 per worker, an increase of $683, or 43 percent.

SENATOR PENNACCHIO: Through the Chair, that's why we keep hearing different numbers. It depends on the ratings that you have.

MR. KRAUSE: Right. It depends on where you are. Like I said, there are 30 different rates in each column.

SENATOR PENNACCHIO: Okay. I just want to finish with this and maybe get your comments on it. Because one of the things you briefly mentioned was how some of these people are struggling, and there's no doubt people are struggling. As they look for part-time work, some of those benefits, they still get -- continue to get some unemployment benefits. But in my view, I know that I don't like the way the formula is being set up right now. The first 20 percent is -- you can earn 20 percent of what your unemployment benefit is without being penalized at all with unemployment, which really is a trite amount, a small amount.

Don't you think it's a disincentive that, afterwards, you're being penalized dollar-for-dollar, for every dollar you earn, there's one less dollar of unemployment, especially if these recessions are getting longer and more protracted? Don't you think that maybe we can look at things like that? That way people can help themselves and not be as dependent on government for their living while they're looking for work? That's just a comment. I open it up for your--

ASSISTANT COMMISSIONER MARINO: Right now, New Jersey has partial unemployment. So if somebody is collecting $600 in unemployment -- don't count the $25. It has nothing to do with the formula. They can make up to $720 that week and still get some unemployment. If you make--

SENATOR PENNACCHIO: One dollar.

ASSISTANT COMMISSIONER MARINO: Pardon me?

SENATOR PENNACCHIO: One dollar.

ASSISTANT COMMISSIONER MARINO: Well, if you make $300 in a week from working, you will also then get $420 from us for unemployment insurance. So that gets you to a higher figure.

Unfortunately, the more money you make during the week, the less amount of unemployment benefits you're going to be able to collect. But you will still be able to collect something up to our figures.

SENATOR PENNACCHIO: Ending with this: To me, it seems philosophically-- I'm philosophically opposed to the fact that it seems it's more dependent on government, because the more you try to earn -- even if it it's on a part-time basis to try to feed your family while you're unemployed -- the more you're being penalized.

ASSISTANT COMMISSIONER MARINO: One of the issues you need to consider is: Will the employer augment their wages that they're paying to the individual because they're going to be collecting unemployment? That's another factor that needs to roll into this.

SENATOR PENNACCHIO: I understand that. But we're assuming that's the same employer. If a person has lost their job because the business has gone out of business-- It could be something as simple as driving a cab a couple of nights a week in order to try to sustain their livelihood for their families. Why are we penalizing that?

Thank you.

SENATOR MADDEN: Commissioner, we have one more legislator. I know I spoke to you before the meeting and you have things to take care of. But I'm going to defer now to Senator Doherty.

Senator.

SENATOR DOHERTY: Thank you, Chairman Madden.

During the Governor's budget address on Tuesday, he noted that there had been an amount of money that's been diverted over the years from the unemployment insurance fund to general purposes.

ASSISTANT COMMISSIONER MARINO: Yes.

SENATOR DOHERTY: What is that exact amount.

MR. KRAUSE: It's \$4.6 billion.

SENATOR DOHERTY: Okay, \$4.6 billion. And how many years was that done? Any idea of when this practice began?

MR. KRAUSE: It started in 1993 and ended in 2006.

SENATOR DOHERTY: And how does this compare to other states in the United States? Any other state have anything similar to \$4.6 billion diverted?

MR. KRAUSE: I'm not aware of any other state that has done this kind of diversion for these purposes. I'm not aware of any.

SENATOR DOHERTY: Has any other state ever taken the unemployment insurance fund, one time or at all, and put it into the general fund?

MR. KRAUSE: Again, I'm not aware of any. We didn't take it from the unemployment insurance fund. What you did was, basically, you altered the taxing structure so that when an employer wrote us a check, they wrote us a check for -- so much went into the UI fund, and then so much went into this, what we called, *healthcare* fund. So really, the diversion took place when the employer wrote the check. We didn't come in and actually take it out of the fund. You can't take it out of the UI fund. That's illegal. So what happened was the tax rate structure was changed so that rates were diverted at that point in time.

Have other states done that? Honestly, I don't know. I'm not aware of any, but I don't know.

SENATOR DOHERTY: I don't know. Maybe I misunderstood, but it seemed to me that-- I've been in the Legislature for eight years, and it seems just about every year around budget time there's a bill we vote on to divert money from the UI fund to the other -- charity care. The general fund is going to go for hospital coverage. And I know-- I'm not a big employer, but I know that I do contribute for my employee that I have. And I don't see anywhere on there, when I fill out the forms, that -- "Hey, make your check out to the hospitals as opposed to the UI fund."

MR. KRAUSE: As I said, it ended in 2006. And what happened was, when you filled out your employer tax return that went to the Division of Revenue, there was a line item on there for charity care --

for health care. So the rates were actually delineated. There was unemployment insurance, there was temporary disability insurance, there was Workforce Development, literacy, and there was healthcare. They were all delineated on that tax form. So when you wrote your check, you basically were telling us how much of that check went to each of those funds. So when it came to us in Trenton, the money went to each fund, based on your check and your return. That's how it worked.

ASSISTANT COMMISSIONER MARINO: In addition to that, it was also part of your experience rating notice that was being provided. When you saw your experience rate, it was also broken down into unemployment, health care, workforce, and so on.

SENATOR DOHERTY: Just a couple more questions. Let me get this straight. When the Governor said $4.6 billion was diverted from the unemployment fund, that's not accurate?

MR. KRAUSE: Well, it's accurate in that, but for that legislation, that money would have gone into the unemployment insurance fund.

SENATOR DOHERTY: Okay. Now, what would the state of the unemployment insurance fund be today over the last 17 years if we hadn't diverted $4.6 billion? Would we be having this discussion?

MR. KRAUSE: No, we would not. We would not be sitting here having this discussion, all things being equal -- unless there was other action taken.

SENATOR DOHERTY: Okay. So what would you recommend we tell business owners, small businesses? That we're not going to perhaps do this again in the future? Because a lot of them feel a little sore, as you can imagine. They've been paying their taxes and contributing for this rainy day of 2010 where we have very high unemployment and, in essence, there's a potential a lot of them are going to be asked to pay twice. They've already paid, put this money into the fund, it was raided, and no, in spite of their best efforts to keep their heads above water, now they're going to have to reach into their pocket again and really pay twice. That just seems very unfair and makes it very difficult to stay in business.

MR. KRAUSE: Senator, I don't disagree with you.

SENATOR DOHERTY: Thank you.

Thank you, Chairman.

SENATOR MADDEN: Okay, Senator.

Commissioner, one last-- You mentioned a *best employer*, *worst employer*, and gave different rates. For clarification, real quick, describe what a *best employer* is and a *worst employer*.

MR. KRAUSE: I gave that-- The best employer, by our definition, is the one who has the least experience in laying people off. They lay very few people off. The worst employer is the one who lays off more people. And as Ronny mentioned, we have an experience-rated system. So we have an account, essentially, for every employer. We keep track of the money that comes into the fund that they contribute, and we keep track of the money that gets paid out in benefits. And we determine their ratio based on their experience. Those who don't lay off many get the lower rate, those who lay off more get a higher rate.

SENATOR MADDEN: No further questions from the panel.

Thank you, Commissioner Marino and Mr. George Krause.

I want to call up to testify Mr. George Wentworth, National Employment Law Project. At the same time we'll call up Amy Coss, C-O-S-S; and Deborah Dowdell, from the Milford Oyster House Restaurant and New Jersey Restaurant--

We have three. We're rolling along. I appreciate your patience. It's been very informative so far.

If you have written testimony, I'd ask that we receive copies of that. One thing that I do ask you is, just don't come up, and sit, and read two pages of testimony that we can read on our own. If you could summarize your testimony and field yourself for questions, that would help us move the Committee along in a very positive manner.

First, we'll hear from Mr. George Wentworth.

**GEORGE WENTWORTH, ESQ.:** Chairmen Madden and Egan, members of the Senate and Assembly Labor Committees, good morning. Thank you for this opportunity to testify.

My name is George Wentworth. I'm with the National Employment Law Project. NELP is a national law and policy center based in New York that engages in research, policy analysis, and advocacy on behalf of low-wage and low-income workers. We're committed to improving the effectiveness of the unemployment insurance system by promoting state and Federal policies that maximize program access for low-wage workers and improve income security for all workers.

I have provided extensive testimony which, thankfully, I will not be reading. I do want to just highlight some of the major concerns on the front end of the testimony. In response to the hearing notice, I have a little bit of information about the effectiveness of the unemployment insurance program, nationally. That's something that NELP tracks as part of our charge. A little bit about trust fund solvency, which is, in fact, a national issue. And then I'd like primarily to just focus my actual testimony on how New Jersey should respond to its current insolvent trust fund going forward, and also respond to three major benefit cuts that Governor Christie has proposed.

The primary goals of unemployment insurance -- there really are four that you will see in all of the literature. First and foremost is partial wage replacement. Unemployment insurance is really about helping people not fall into poverty and maintain some kind of living standards between jobs. But another very important purpose that sometimes gets overlooked is the -- unemployment insurance is an economic stimulus. Those dollars go into local economies and basically keep other people working, and prevent other layoffs and unemployment from actually spreading. UI, in fact, supports job search, helps people look for jobs at their highest wage and skill level -- which is important to the economy generally -- and helps a lot of workers who have some form of attachment to a particular industry or employer -- just tide themselves and their families over financially during temporary layoffs.

Speaking specifically about New Jersey's unemployment insurance system: As I think has been testified, in 2009, close to $3.5 billion in regular State-funded unemployment benefits were paid out to New Jersey residents and another $3.6 billion in Federal benefits. The New Jersey unemployment rate today is 9.9 percent, slightly above the national average of 9.7 percent.

The New Jersey unemployment insurance program has been effective and is regarded well, nationally, in terms of meeting the goals that I outlined earlier. Roughly 55 percent of the State's unemployed receive unemployment insurance benefits, and the average weekly benefit check is somewhere around $389. I think I heard the figure $393 a little bit earlier. On their face, these numbers seem reasonable, and they are in line with what your state's workforce should expect.

On the other hand, these benefits should be considered in the context of New Jersey's high cost of living. The average weekly check only replaces about 36 percent of the average worker's pre-layoff wages, which ranks 27th among the 50 states -- right in the middle. One reason that New Jersey benefits are generally adequate is that New Jersey is one of 36 states that currently indexes your maximum weekly benefit, in some way, to the average weekly wage. New Jersey uses a formula of 56-and-two-thirds percent, which is by no means the highest. About half of the states that do index their maximum rate, index at a rate higher than 56-and-two-thirds. States like Arkansas do 66-and-two-thirds, Utah does 62-and-a-half, and Idaho does 60 percent.

I have a fair amount of information in here that speaks to the economic stimulative impact of unemployment insurance. Basically, this research comes from the Congressional Budget Office, the Center for Budget and Policy Priorities, major studies commissioned by the U.S. Department of Labor, MIT, and a survey of unemployed workers that our organization did in 2008.

And without going through all of it, suffice it to say that unemployment insurance has been, over and over, demonstrated to reduce poverty. Individuals who receive unemployment insurance are less likely to skip meals and reduce their family's food consumption than workers who are not receiving unemployment insurance. Workers who receive unemployment insurance are less likely to fall behind in paying their rents, less likely to have their homes foreclosed upon, and are more likely to retain some kind of savings.

One of the major findings of the MIT research was that the average worker, at the point that they become unemployed, has only got about five-and-a-half weeks worth of savings. So the unemployment insurance really fills an important gap there and enables those workers to hold onto those savings longer than they otherwise would have.

And ultimately, there's lots of research which shows the stimulative effect of unemployment insurance. The Congressional Budget Office, just last month, basically said that for every dollar of unemployment insurance that is paid out, there's growth in the gross domestic product of up to $1.90.

So let me shift here to the issue of trust fund insolvency. There's a lot of information in my written testimony about the national issue. It really is a national crisis. Today there are 32 states that have insolvent trust funds. To date, the borrowing from the Federal government is up to about $35 billion. New Jersey's borrowing is just about $1.4 billion of that. Projections are that borrowing from the Federal government by the state trust funds is going to rise to about $90 billion by 2012 before things start evening out.

It's important to know that this is different than almost any other prior recession for a couple of big reasons. One is long-term unemployment. The percentage of workers who are collecting unemployment insurance in this country longer than 26 weeks, which is the Federal benchmark for what's a long-term unemployed individual, is now 41 percent. Forty-one percent of all people collecting unemployment insurance -- or who are unemployed generally -- are out of work for more than six months. These records have been kept since 1948, and that breaks all previous records. So that is, first and foremost, a distinguishing factor about this recession.

The other thing is that the administration, as recently as two days ago, repeated its projections for the national economy going forward. As I said, the national rate is 9.7 percent now. The Council of Economic Advisors is saying that they expect the national unemployment rate to hover around 10 percent for the rest of this year, to maybe come down to an average of 9 percent in 2011, and probably still be in the 8 percent range in 2012. When you consider that in the context of the unemployment insurance program, what the payouts are likely to be, how you're going to tackle your borrowing and your insolvency, it is a critical factor in doing any planning. You really, I think, have to plan on your payouts continuing to be high for the foreseeable future.

Like I said, there's kind of a national trend. You heard about diversions. That is really-- The $4.6 billion that has been diverted out of your fund is quite different from a lot of states. But another thing that this body -- or that this State has done since -- really since 1996 is to do some benefit reductions -- I'm sorry, tax reductions -- interventions basically with the normal functioning of the tax tables. And that has, in addition, deprived the trust fund of billions of dollars that would otherwise be going into it.

I mean, the greatest danger for the unemployment insurance system is a failure to grapple with the hard financing issues now. States that kind of cobble something together over the -- to try and pull out of this slowly over several years, really run the risk of doing a lot of harm; first in terms of what will probably be repeated -- efforts to kind of fray the safety net further, to make additional benefit reductions -- but also in terms of penalties for employers.

As I said, the story of New Jersey's trust fund is pretty well-documented. The actual statutes that govern UI taxes in New Jersey are, by themselves, pretty much a model of forward financing for the nation. And forward financing is a term that you will hear a lot of. It's basically the notion that unemployment trust funds ought to accumulate in good times so that you've got the dollars to pay them out in bad times. And that requires a certain amount of political will, a certain financial responsibility.

The actual statutes establish a taxable wage base that's 28 times the State's average weekly wage. Right now that taxable wage base is over $29,000. That kind of indexing should normally guarantee that you have sufficient reserves built up in good times to get through the -- to get the fund through the bad times. There are a series of schedules that are sensitive enough to increase payouts to make sure that employer contributions can be normally adjusted gradually and effectively, and thus avert dramatic hikes associated with insolvency. And as has been testified, New Jersey is one of three states that has employee contributions.

If I could just speak to the proposed benefit cuts. First, the $50 cut in maximum benefit rate-- There has been discussion of the Federal Additional Compensation agreement. Basically, by cutting the maximum benefit, you'd be in violation of an agreement with the U.S. Department of Labor that says you should not be reducing your average weekly benefit amount. Cutting the maximum would do that. It is true that that is only in place as long as the agreement is authorized by Congress. But the bottom line is, nobody knows how long that agreement is going to be authorized. The Senate just passed something that would authorize it through the end of 2010. And it seems to be tied to Recovery Act provisions that were enacted back in February of '09, when the national unemployment rate was closer to 8 percent. So we really don't know how long that agreement is in place.

The waiting week disqualification: It is true that New Jersey is one of a minority of states that doesn't have a waiting week. But the fact is, the waiting week is an anachronism. It goes back to a time when states needed an extra week in order to calculate benefits. They no longer need that. And the fact is, except for people who collect their full 26 weeks, it really is a one-week disqualification. It's one week less of benefits that workers are going to get. And the bottom line is: Does it really make sense? Does New Jersey want to embrace a policy that says, "We're going to start out every unemployed worker's period of unemployment with a week where they do not get any compensation?" It really reduces financial stability for workers.

Finally, the proposal with respect to extended benefits: The extended benefits program is something that you are required to have by

Federal law. And the bottom line is: It's being subsidized now as a result of the Recovery Act by the Federal government. The Governor's proposal would ultimately mean that when the Recovery Act stops the Federal funding, this program would disappear in terms of-- You'd have to have very, very high unemployment rates to ever see extended benefits trigger on again.

Thank you for your attention.

SENATOR MADDEN: Okay, Mr. Wentworth.

Any questions of Mr. Wentworth? (no response)

Seeing none, we'll jump over to Amy Coss.

**A M Y C O S S:** Good morning, Chairmen and members of the Committee.

My name is Amy Coss, and my brother and I own a restaurant in Milford, New Jersey. I am testifying today as a small business owner, and a member of the New Jersey Restaurant Association Board of Directors, about the dire and immediate future consequences of an unemployment tax increase if the Legislature fails to act and fails to pass true reform to the New Jersey unemployment trust fund.

My business employs 22 people, including myself. My experience rating is 2.10 percent. Restaurants are the state's largest private-sector employer, with over 300,000 working in the industry. We offer many employment opportunities, including entry-level positions, as well as full-time, paying careers.

SENATOR MADDEN: Thank you, Ms. Coss.

I'm reading along with you. I've read your letter already.

MS. COSS: Okay. Well, I'll just say that--

SENATOR MADDEN: For the benefit of the Committee--

MS. COSS: --the difference in this employment--

SENATOR MADDEN: Bear with me here.

MS. COSS: Yes.

SENATOR MADDEN: For yourself and anybody coming up to testify, we have the written testimony in front of us. Some have been submitted prior. In order to move the Committee along, we ask that you summarize the high points of your written testimony and avail yourself for questions from the Committee if we need clarifications on what we read. I'm just trying to move along.

MS. COSS: Thank you.

I have a reserve balance of $13,414.10. This is in a trust fund that I have paid into for the past 13 years. An increase of $300 to as much as $2,000, which has been discussed, would mean the difference between my business surviving and my business going under. I make approximately $0.03 on every dollar that I bring into my business as profit, and I do not have the room in my business to absorb this increase.

SENATOR MADDEN: What increase do you think you're receiving?

MS. COSS: We were unclear. Deborah Dowdell, President of the Association, reached out to several people. I did include my piece of paper that the unemployment trust fund sends me with my experience rating and my reserve balance. And no one could figure out how to figure what my actual increase would be, including myself and industry experts who were asked. So I don't know.

SENATOR MADDEN: Any questions from members of the panel? (no response)

Seeing none, thank you, Ms. Coss.

Mr. Wentworth, thank you.

Have a safe day.

Mr. Douglas Holmes, UWC-Strategic Services on Unemployment and Workers' Compensation; Mr. Eric Richard, New Jersey AFL-CIO; and AJ Sabath, New Jersey Building and Construction Trades Council.

When we're ready, we'll hear from Mr. Holmes first.

Thank you.

**D O U G L A S J. H O L M E S:** Thank you, Mr. Chairmen, members of the Committee.

SENATOR MADDEN: Same rules stay. If we have written testimony, summarize, get to the high points, avail yourself for questions. That would work best for the Committee.

Thank you.

MR. HOLMES: Thank you very much, Mr. Chairman.

My name is Douglas J. Holmes. I'm President of UWC-Strategic Services on Unemployment and Workers' Compensation. We're an organization based in Washington, D.C.

SENATOR MADDEN: Pull it in. (referring to PA microphone)

MR. HOLMES: We're a national organization representing business in Washington, D.C. We focus on unemployment insurance and workers' compensation issues, both nationally and with individual states.

I'm also President of the National Foundation for Unemployment Compensation and Workers' Compensation that does a comparison publication of state unemployment laws on an annual basis.

A couple of things that have not been addressed that I thought would be helpful -- particularly the FAC -- the Federal Additional Compensation that's been talked about a couple of times. I want to try to be as clear as possible about what's going on with that provision that was part of the ARRA, the Recovery Act. I think it's Section 2002. But that section provides-- The background of it is that when they passed the additional $25 per week in new Federal funding, Congress did not want states reducing the state benefit amount by $25 a week to effectively subvert or put the $25 Federal in. So that's why they've added that provision. And it is an agreement requirement so that as a state signs the agreement saying, "We'll accept the additional $25," part of the agreement is that you don't -- and here's the key phrase -- adopt computations that reduce the average weekly benefit amount as compared to what the computation would have been at the end of 2008. So that's the language that's being construed, and that's why there's an issue with flatly reducing the maximums that have been talked about before.

No question, we've had other witnesses talk about the solvency problems. And New Jersey is at $35.7 billion. It's up there. I think it's in the top 10. There are a number of states above it in terms of how much is outstanding in loans. But it is important to note that this is a national problem. The Department of Labor expects 40 states to be borrowing by the end of 2010. And also, it's important to note that the account -- the very account that states are borrowing from is, itself, bankrupt. The

Department of Labor projects that that account -- Federal unemployment account will be bankrupt to the tune of $93 billion by 2012. So every additional dollar that is advanced for unemployment compensation -- the bottom line is, it goes to add to the Federal deficit.

We really need a short-term and a long-term strategy. And given the situation that we're in, this is true for many, many states, not just New Jersey. I'll give the example of Hawaii in particular. In Hawaii, they had a similar problem that you're experiencing. They had an automatic increase in their wage base that was triggered on because the trust fund balance went below a certain level. And the increase was dramatic. From 2009 to 2010, they were looking at an increase, on average, of going from $90 an employee to $1,070 per employee -- almost a $1,000 per employee increase in one year. No employer is budgeted for that. They didn't reasonably expect that they would be seeing that kind of increase. So they took the steps to go through and modify the increase, and reduce it to something that was less than that to alleviate the situation so they didn't bring their economy to a halt. We should be looking at ways to encourage job creation and employment. This would be a job killer for that kind of an increase.

A couple issues I would like to touch on that were discussed earlier-- On the average tax per employee-- There is a publication that is put out by the Department of Labor every quarter. And I've cited, in my testimony, that publication from September 30. There should be one coming out soon. But the essence of this is that as far as the weekly benefit amount is concerned -- at least as of September 30 -- New Jersey had the fifth highest in the country, higher than other states in the region. New

Jersey was $389.05 per week. This is the average, not the maximum -- $389.05, compared to Pennsylvania at $349, New York at $313, Delaware at $258, Maryland at $309. So, yes, New Jersey is a high-tax, high-unemployment benefit state in terms of the weekly benefit amount. You can verify that with the Department of Labor.

It's also the high tax-- One thing to remember--

SENATOR MADDEN: Let's bring your testimony home so we can open it up for questions.

MR. HOLMES: Thank you.

On the question of high tax-- The best measure of that is the average tax per employee on total wages. That way you can eliminate the differential problem with the different tax bases. Some states have a state unemployment tax base of $7,000. New Jersey is up to $28,900. But if you do it in terms of total wages -- what is the tax in terms of total wages -- that gives you an apples to apples comparison. And using that -- looking at the Department of Labor reports, Pennsylvania is a little bit higher, but New Jersey's is 50 percent higher than New York, 181 percent higher than Delaware, and 217 percent higher than Maryland's tax on total wages. So there's no question that you're already moving into a situation where you have high taxes being applied to employers.

Just to close, the three items that, I think, on the benefits side that -- because it's four items. I agree that it makes sense to look at the elimination of the waiting week. The reason I believe that waiting weeks were adopted initially was because as people become unemployed, their last check shows up a week or two after the end of their employment. Since unemployment insurance is a wage-replacement program, states reasonably provided for a waiting week before they started to kick into the benefits.

I think also that the total benefits payable could be reduced. The formula that's being used to determine the weekly benefit amount in New Jersey is higher than other states with similar formulas. By that, what I mean is that you're at 60 percent of the average weekly wage, plus the dependency allowance. I know that in Ohio it's 50 percent plus the dependency allowance. I think you can make some modifications to bring New Jersey closer to other states that will save some money for the trust fund.

Finally, let me just say that my organization is working with a national coalition to try and get some relief at the Federal level. We've written a letter to the Senate and have been advocating for support of continued relief from Title XII interest penalties, as well as relief from the FUTA offset credit penalties, so that states will have additional time to address solvency in a meaningful way over an appropriate period of time.

Thank you, Mr. Chairman. I'm happy to answer any questions you may have.

SENATOR MADDEN: All right. We're just going to move on to the next witness first.

Let's go to Mr. Eric Richard.

**ERIC RICHARD:** Chairman Madden, Chairman Egan, members of the Committee, good morning.

My name is Eric Richard, speaking on behalf of the New Jersey State AFL-CIO. We've distributed to the Committee an extensive position paper on our position on this issue.

I'd like to, if I could, just highlight two specific points. The first is the importance, in our opinion, of maintaining the existing benefit structure for the unemployment insurance system. And the second is recommendations for moving forward.

First and foremost, as we all know, New Jersey residents, specifically the unemployed, are in a particularly difficult period right now. We're all familiar with the unemployment statistics. We understand that in 2009, our home foreclosure rate was in the top 10 in the nation. These are hard times for unemployed New Jerseyans. In our opinion, the last thing we should be doing is reducing benefits for unemployed workers.

A $50 per week reduction, the elimination of the one-week waiting period, in our opinion, is a bad idea. A lot of folks have said everything must be on the table. Respectfully, the AFL-CIO would ask you to take that off the table. A reduction of benefits for unemployed workers is really the last thing not just the workers need, but that our economy needs. And the statistics reinforce that.

Very briefly, reducing unemployment benefits is counterproductive to the local and State economy. This has consistently been recognized at the Federal level. A comprehensive study spanning 30 years, titled Unemployment Insurance as an Economic Stabilizer: Evidence of Effectiveness Over Three Decades, published by the U.S. Department of Labor, provides the evidence to illustrate the significant economic benefits of unemployment benefits.

More recently, as you know, the Obama administration recognized this and increased weekly unemployment benefits by $25 per week as a component of the stimulus law. And in January of this year, the

CBO, the Congressional Budget Office, announced that an increase in aid to the unemployed was one of the core recommendations for boosting the economy.

Finally, the Chief Economist from Moody's testified before the United States Senate Budget Committee in November that each dollar of UI money spent produced $1.63 in economic activity. And since that money is typically spent on basic goods and services, local economies benefit the most.

To summarize, reducing unemployment insurance benefits is bad for workers and it's bad for the local economy.

Moving on to solutions: The New Jersey State AFL-CIO is sensitive to the tax shock argument that the business community has expressed. However, we also believe we need to have an honest conversation with the business community. We can no longer allow or abandon the naturally adjusting schedule, as we have done over the past decade, to change for the UI contributions. Businesses and corporations have been in the lowest possible schedule, the A schedule, from July 1998 to June 2009. In fact, they should have been in either the C or B schedule since 1996. And if the schedule operated naturally without the passage of various laws adjusting the reserve ratio, there would be an estimated $5 billion more in the unemployment insurance system.

Secondly, in regard to recommendations: The State AFL-CIO strongly supports SCR-60, which will be on the ballot this year, to stop future raiding of the fund. We will be mobilizing in favor of the passage of this provision this fall.

Third: We are working with our congressional delegation in an attempt to find solutions and funding, as well as looking to minimizing or postponing payments on the interest of money borrowed from the Federal government.

And fourth: A phase-in for the adjustment to the schedule has been discussed. In light of our argument today, we would need more details on the specific level of funding and the timeframe for that phase-in. I understand legislation has been enacted, or soon will be enacted -- I'm sorry, a bill has been introduced. We have not had the opportunity to look at that bill yet. However, we believe the 17 percent funding level that has been recommended by the Governor is too low, and it is too low once you take into consideration our recommendation to not alter the existing benefit structure.

So, again, those are our recommendations for reform. And, again, we would respectfully ask you to keep the existing benefit structure in place. New Jersey's workers need it, and New Jersey's regional economy needs it as well.

Thank you very much.

SENATOR MADDEN: AJ.

**A J S A B A T H:** My name is AJ Sabath, and I'm here today on behalf of the New Jersey Building and Construction Trades Council's President Bill Mullen.

Mr. Chairmen, Senator Madden and Senator (*sic*) Egan, members of the Committee, the Building Trades Council appreciates the attention that you're paying to this. We submitted testimony, so I'm not going to go into great detail or reiterate a lot of the other things that some of the other people have testified to.

But there are some things specific to the building and construction trades industry that I think are important. You know, while the unemployment rate is hovering just below the national average -- around 9 percent -- there are about 9,700 jobs that were lost in January of 2010. The construction sector is one of the hardest sectors that is hit by loss of jobs. And we all know with just the low home starts, flat construction, with utility and highway construction lagging, and with public construction at a virtual stand-still, it's no surprise that a sobering fact is the unemployment rate among the building and construction trade ranges somewhere between 30 and 50 percent -- substantially higher than the average workforce. And New Jersey's unemployment insurance system is a tremendous safety net that helps people in our industry from the time where they're on the bench between jobs. So it's very important that we maintain the fund's integrity.

We don't have any official position on any of the proposals that have been kicked around, because we-- The only thing that we're reviewing right now is Senator Madden's bill that was introduced on Monday to delay the implementation of the phase-in of the employer tax.

But in closing, I just would like to reiterate that we commonly refer to the unemployment insurance benefit as a benefit, and that really is kind of a misleading statement. It's technically correct. But we're one of three states that -- New Jersey employees pay into it, as we've heard. So when you're debating reducing New Jersey's benefits, or when you're debating how to potentially exclude current recipients from the future, please consider the fact that employees pay as well.

Thank you very much.

SENATOR MADDEN: Thanks, AJ.

Any questions from members of the Committee? (no response)

Seeing none, thank you for your testimony.

Next we'll call up from the New Jersey Business and Industry Association, Melanie Willoughby; New Jersey State Chamber of Commerce, Mike Egenton; NFIB, Laurie Ehlbeck.

We'll start with Melanie Willoughby.

And again, just to reiterate, if we have written testimony before us, just-- You know what you really need to say -- the high points -- and please avail yourself for questions.

Thanks, Melanie.

**MELANIE WILLOUGHBY:** Thank you, Mr. Chairmen, Chairman Madden and Chairman Egan, and members of the Committee for holding this hearing, because it's very important to us in discussing this critical issue.

As you know, I'm Melanie Willoughby, with the New Jersey Business and Industry Association, and I'm here with my colleagues and we're representing the UI business coalition that is in support of stopping the impending $1 billion UI payroll tax on private sector employers which, if we do nothing, will take effect on July 1 of this year.

I have provided to you a very substantial amount of information, so I am going to keep this very brief.

First of all, I want to thank the Legislature, because, first of all, in the last two years, an automatic tax increase would have been triggered. But fortunately the Legislature did act. And so by depositing State general revenue funds -- and there were also Federal funds as well -- the Legislature was able to limit the payroll tax to employers. So thank you for taking that action.

And we're asking you to take action again. Because in the past 12 months, New Jersey's UI fund has borrowed approximately $1.4 billion from the Federal government to meet the demands now of the unemployment. And, unfortunately, it seems unavoidable that we're going to have to continue to borrow.

Now, we do believe that New Jersey's economy will be hurt by a $1 billion tax increase. But we ask that a multi-year phase-in of the UI payroll increase will minimize the adverse impact of the tax burden by providing employers with certainty and being able to plan for the incremental increases.

Now, employers did pay the required taxes that should have left a surplus in the fund, but diversions have left the fund bankrupt. You know our system is designed to automatically build reserves during times of economic expansion and also to shoulder the burden of increased demands for benefits during times of economic recession. However, the diversion of $4.7 billion really did leave the fund insolvent.

Now, I did hear from my colleague that there was a concern about the fact that there was an adjusting of the reserve ratio over that period of time so that there would be no tax increases while the money was being diverted. Certainly that made sense. Why would you be taxing employers twice? Once because you were diverting the money that we had already paid, and second, in order to then supplement the fund of the money you had diverted. So that was why there was that naturally adjusting schedule to avoid the tax shock on employers.

Now, also moving forward, I want to talk with you about the steps that we are asking the Legislature to take. First, I've already mentioned that we want the multi-year phase-in, which would mean you have to act by May 31 in order to ensure that we do not have a hike to E plus 10, which would be a $1 billion increase.

Number two: We also ask that you modify UI benefits. We feel that it's important in order to ensure our competitiveness that New Jersey should resemble those of other states in our region. And I have given you a list of the UI benefits that we believe you should take a look at. But this list is not complete. We certainly feel that a look at the overall way that we do our UI structure should certainly be in order. The ones that we have mentioned to you are the ones that are pretty common in terms of us being an outlier with other states in our region.

I also want to mention that overall, what we're talking about today is the fact that there needs to be systemic changes for addressing the long-term needs of the unemployed. The continuation of the UI fund as being the benefit and the last benefit for these individuals is not the answer. We need to look at the fact that if we are going to be in this type of recessionary time, and in order to climb out of it, how are we going to address the jobs that have been lost forever? How are we going to address the training that many of these people need in order to move into a new career? And we need to look at that in addition to looking at the picture of the UI. If we just focus on UI as being the answer, it is not. It needs to be a much broader look at the whole issue of how we handle people being moved back into being employed.

I also want to mention that employees certainly are part of the solution, as has been mentioned prior, because they do pay into the system. And so certainly we would agree that -- if you were to suggest it, of course -- that the employee rate could also be raised to help with solving -- with the solvency of the fund, if you feel that the employees should be part of the solution, which we do.

So in conclusion, I would certainly be happy to answer any questions. And I now -- to my colleagues.

SENATOR MADDEN: Okay. We'll just move right over to Mike.

**MICHAEL EGENTON:** Thank you, Chairman.

I'll just say that obviously the highlights that Melanie has pointed out -- the New Jersey State Chamber is in line with our other trade associations.

Some key words that Melanie pointed out I want to stress to the Committee: *Certainty* and *predictability* is needed in these tough economic times. And I will just use the few minutes that I have, Chairman, to say, to reach the solvency by 2015, 2016, we really have to take the opportunity to implement the reform measures to get to that point. And obviously these reform measures were highlighted, as you know, by the Governor in his UI address. And obviously there have been some points that I wanted to just highlight that are critical to getting to the solvency in the UI fund.

First, we endorse the constitutional amendment on the ballot in November, and we will also help advocate for that. And as you know, that prohibits the Legislature from taking money from any fund for reasons other than the intended purpose. Secondly, to advocate strongly for the Federal government to continue to fully fund any extension of benefits. Thirdly, to bring New Jersey's unemployment benefits more in line with other states in order to lower the outflow of funds and add stability moving forward.

Some of the recommendations include adding a one-week waiting period for new claims. Currently, Chairman, 40 states have this process. Reducing the amount of benefits received by an employee who is fired for misconduct, such as theft. Chairman, currently 43 states don't provide benefits or provide limited benefits to those who are terminated for misconduct. And reducing the maximum weekly benefit -- the maximum weekly benefit increased from $584 to $600 in January. Making any extended benefits contingent on Federal funding -- currently Congress is considering extending UI benefits but doesn't necessarily have to pay for such an extension. Twenty-one states currently make any benefit extension contingent on full Federal funding.

So to just encapsulate, Chairman, in order to move forward to reach the goal of solvency, we certainly encourage and urge this Committee and the Legislature to look at the reform measures that are on the table to help us get to that goal.

Thank you, Chairman.

SENATOR MADDEN: Laurie.

**LAURIE EHLBECK:** Chairman Madden, Chairman Egan, and members of the Committee, good morning.

My name is Laurie Ehlbeck, and I'm the New Jersey State Director of the National Federation of Independent Business, and I thank you very much for allowing me to speak today about this important issue.

I've submitted testimony, and I don't want to be duplicative. I just wanted to go over a couple of my points.

New Jersey NFIB represents thousands of small businesses in New Jersey: everywhere from commercial enterprises, manufacturers, family farmers, neighborhood retailers, service companies. We're truly the Main Street businesses of the state. Our average business employs five employees, so we're really, truly the mom and pop employers of the state.

Small business counts for more than 90 percent of all business in the state. They're struggling. Every day I talk to one of my members who is thinking about closing his doors when a child graduates from high school, tomorrow, next year. But every single day in my job I have this conversation with someone, and it's very sad.

New Jersey is becoming an increasingly hostile place to do business. A sudden increase in the payroll tax from Column B to Column E plus 10 could be devastating. It could be the last straw for a lot of these businesses. Therefore, NFIB recommends that the current law be amended to provide for a multi-year phase-in of the tax increase and the capping of future rate increases to one column per year, as we discussed. This change will result in a 17 percent income (*sic*), approximately -- increase, I'm sorry -- or approximately $130 per employee. It's a much easier pill to swallow.

In addition, we recommend the modification of benefits to resemble those of other states in the region by requiring a one-week waiting period for the payment of benefits and prohibiting claimants who have been fired for misconduct from collecting benefits. This will help ensure the competitiveness of New Jersey business.

Lastly, we strongly support the consideration and passage of proposed legislation that will put a constitutional amendment on the ballot this November to prevent future raids.

I appreciate the opportunity today to talk to you about the concerns about the Main Street businesses. And I look forward to talking to you in the future.

Thank you very much.

SENATOR MADDEN: Any questions from members of the Committee? (no response)

Your testimony you gave was great. They're excellent and thorough reports you submitted. And we will be reviewing those also.

Thank you for your time.

MS. WILLOUGHBY: Thank you very much.

MS. EHLBECK: Thank you.

MR. EGENTON: Thank you, Chairman.

SENATOR MADDEN: Mr. Mike Maloney, Business Administrator for Plumbers and Pipefitters Local Union 9.

UNIDENTIFIED SPEAKER FROM AUDIENCE: He had to leave, Mr. Chair.

SENATOR MADDEN: He had to leave. Okay.

Matt McDermott, Mechanical and Allied Crafts Council of New Jersey and New Jersey State Pipe Trades Association; Mr. Edward Fedorko, Insulators and Asbestos Workers, New Jersey State Building Trades; and the third -- we'll call up one more -- Mr. Joe DeMark, Sheet Metal Workers.

Matt, when you're ready, we'll start with yourself, followed by Ed Fedorko, and then Joe.

**MATTHEW McDERMOTT:** Good morning, Mr. Chairman and members of the Committee. We appreciate the opportunity to be here today.

I'm here on behalf of the 55,000 members of the Mechanical and Allied Crafts Council, which include the crafts of electrical, plumbing and pipefitting, elevator constructor, heat and asbestos insulators, heat/frost insulators, and sheet metal workers.

These are-- I guess to start this way-- At this point, after such great detail, it's easy to say and comment on what they said -- the folks before us. I think everyone has made very valuable points about the actions that you're considering today and going forward with respect to the solvency of the unemployment insurance fund.

As for the members of our trades specifically, a lot of these locals are facing unemployment levels -- that have been sustained, unfortunately -- of 20, 30, and 40 percent unemployment. And as we've heard already, there is a ripple effect among the economy as to the value of that UI benefit that they get. And almost all of them receive the highest maximum level of the $600. So they would be impacted by a reduction in those weekly benefits.

The other fact is that it is a financial hardship that many of them are facing today. They are out of work, they are coming close to losing the mortgage on their homes, their health insurance. Just trying to make it every single day has become a huge struggle for highly sophisticated, highly skilled, and educated crafts members. And that is a difficulty that we have to address.

So, long-term, I'm not sure what the solutions are other than what many people have already discussed. Federal intervention is going to be important to address some of the interest issues that we face, because I don't know where we're going to find the money in our current economic situation to repay that and maintain some fiscal health in New Jersey.

On the business side, certainly we need businesses to grow in New Jersey. Our trades sustain themselves in the private sector. And as we've heard earlier, there is not a lot going on in the private sector. Construction and building has been decimated in the private sector. And until we can inspire businesses to reinvest in New Jersey and recognize that this is a great state in which to do work, and to invest, and to grow, we're not going to have the opportunities to grow out of this the way we need to.

So we support any effort we can to mitigate some of that hardship that they would face in the tax increase, so we commend Senator Madden for his leadership on the bill that he has put in. We are looking at it, as well as other people have said. So we don't have a particular position yet on it, but we think it's going in the right direction, and I'm sure that you will figure out the right way to go with that.

So I would like to then turn it over to our locals, for you to hear from them directly as to the issues that they're facing, and the hardships as well.

SENATOR MADDEN: Thank you, Matt.

Mr. Ed Fedorko.

**EDWARD FEDORKO:** Mr. Chairmen, Chairman Madden, Chairman Egan, and fellow Committee members, I'd like to thank you for this opportunity to speak this morning.

Unemployment is out of hand in the building trades. We read the newspapers, we see it on the news every night. The numbers are reaching 10 percent. If they were 10 percent in the building trades, we would celebrate. As Matt said, and some of the speakers before us, the numbers are quickly approaching 50 percent. My trade -- I'm Vice President of the New Jersey State Building Trades, representing the insulators and asbestos workers. Our trade numbers are currently at 40 percent.

Collecting unemployment is a way of life for our members. It's part of the job description. Cutting this benefit would be disastrous to my membership. Our members pay for their own health benefits. We're hourly employees. If we take a day off, we don't get paid. If we're late for work, we don't get paid. If we're out of work, we run out of health benefits. Currently, we probably have close to 10 to 15 percent of my membership out of health benefits right now. Families, children, sick people are out of health benefits.

Cutting unemployment in any way would be detrimental to my membership and the entire construction industry.

I'm going to be brief. I mean, everybody spoke on a lot of points that I don't want to be redundant on.

The thing that is particularly troubling to me is, these cuts are being considered-- Probably the main reason is because of the raiding that's gone on by past administrations. I mean, it's ludicrous to have done that in the past, and now to cut benefits on top of it.

Again, I thank you for the opportunity to speak here. I will turn it over to Joe DeMark at this time.

SENATOR MADDEN: Mr. DeMark.

**JOSEPH DeMARK JR.:** Good afternoon, Chairman Madden, Chairman Egan, Committee members.

Thank you for giving me the opportunity to speak.

I'm the Business Manager for Sheet Metal Workers Local 25. I also sit on the State Building Trades as a Vice President. And I speak for the sheet metal workers throughout the state.

The impact of this is devastating. The economic climate right now, as far as jobs -- to the construction trades, and specific to sheet metal workers -- we're experiencing, the past two years, 40 percent unemployment; and this year 45 percent unemployment, probably into next year. This cut, this reduction, is, I'm afraid-- Every day it gets worse. On the way in here, I got on my BlackBerry -- e-mail, more layoffs -- day-to-day layoffs that really hurt. Our members have exhausted all their benefits as far as the local union. The only thing they have left -- a prayer -- is this unemployment insurance.

It affects the members, their families, the education of their children -- as far as high schools, as far as extra curricular activities that they once enjoyed, as far as colleges -- municipal and State colleges. I've had disaster stories that members come to me -- and they have to pull their children out of State colleges, municipal colleges. They can't afford to go on like this. They're losing their homes, they're getting divorced. It goes on and on.

But I live this day to day. I commend the Committee, I commend Chairmen Madden and Egan for what they're doing to try and stop this (indiscernible). But this cut is very serious and is devastating to the building trades. And I would implore the Committee to consider what I have just said.

Thank you for your time.

SENATOR MADDEN: Any follow-up questions from members of the Committee of the witnesses? (no response)

Thank you, gentlemen. Have a safe day.

MR. DeMARK: Thank you.

SENATOR MADDEN: Our last two witnesses for today are Ms. Christina Genovese, Chamber of Commerce, Southern New Jersey.

UNIDENTIFIED SPEAKER FROM AUDIENCE: I believe she had to go upstairs to testify.

SENATOR MADDEN: Oh, you don't see her.

UNIDENTIFIED SPEAKER FROM AUDIENCE: She's not here. She had to go up to testify on another bill.

SENATOR MADDEN: Okay. Mr. Ed Waters, Chemistry Council of New Jersey. (no response)

Okay. We don't have Mr. Waters.

MR. EGENTON: Chairman, South Jersey Chamber is upstairs on the pension bill.

SENATOR MADDEN: Okay.

Is Mr. Waters in the room? No one knows where he is at either?

MR. EGENTON: No, I don't know, Mr. Chair.

SENATOR MADDEN: Okay. Well, we're ready to take testimony from the Chamber. They're the last ones up.

Committee members, in your packet you've received written testimony and a written report, one from a Joann DelVescio, from the New Jersey Travel Industry Association, that was issued to you this morning. We ask that you read that thoroughly. There's no need to testify on her behalf. And also from the New Jersey Staffing Alliance, a report that was issued prior to us coming here. If you could read that -- again, no need to testify. But they're asking that you read thoroughly their written testimony.

Is there anyone whose name wasn't called who signed up to testify today? (no response)

Are there any final comments or follow-up questions from any members of the Committee? (no response)

On behalf of Co-Chairman Joe Egan and myself, we want to thank you for attending. Ladies and gentlemen, that concludes today's joint hearing on labor and the unemployment trust fund.

Thank you.

**(HEARING CONCLUDED)**

# APPENDIX

FRED H. MADDEN
*Chairman*

SANDRA B. CUNNINGHAM
*Vice-Chair*

JAMES BEACH
RICHARD J. CODEY
MICHAEL J. DOHERTY
JOSEPH PENNACCHIO

GREGORY L. WILLIAMS
*Office of Legislative Services*
*Committee Aide*
(609) 984-0445
(609) 777-2998 fax

New Jersey State Legislature
**SENATE LABOR COMMITTEE**
STATE HOUSE ANNEX
PO BOX 068
TRENTON NJ 08625-0068

# MEMORANDUM

TO: Members of the Senate Labor Committee

FROM: Gregory L. Williams
Lead Research Analyst

DATE: March 17, 2010

SUBJECT: Background on the New Jersey Unemployment Insurance

## General Background on the New Jersey Unemployment Insurance (UI)

A historical perspective of the UI fund and its revenue collections and benefit payouts is in the OLS budget analysis of the Department of Labor and Workforce Development(DLWD) for Fiscal Year 2004-2005 (or "FY 2005") available on PDF pages 20 through 28 of: http://www.njleg.state.nj.us/legislativepub/budget/labor05.pdf
References will be made to this later. While it doesn't cover the development of the last five years, it gives a very good overview of the UI system from the early 1970's until 2005. A more recent overview is provided in the FY 2010 OLS analysis of the DLWD on PDF pages 36 through 47 at:
http://www.njleg.state.nj.us/legislativepub/budget_2010/labor_workforce_development10.pdf

## Major Reasons of the Current Deficit of the New Jersey UI Fund

New Jersey's UN fund is projected to have a $1.2 billion deficit as of March 31, 2010. Before 2010 is over, it is expected that as many as 40 states will have UI funds in deficit, borrowing from the federal government to continue UI benefit payments.

There are three main reasons for the NJ UI fund to have fallen into deficit this year:

1. The worst recession in 70 years caused, in the year 2009, the largest UI benefit payments in the State's history, $3.5 billion from the State UI fund for regular benefits and $3.7 billion in federally-funded extensions and supplements, a total of more than $7 billion in one year. Even in the worse previous recessions total annual benefits were always less than $3 billion.

2. The well-know diversion of $4.7 billion of UI taxes to charity care (the "Health Care Subsidy Fund" or HCSF) between 1993 and 2006. A list of these diversions can be found in the OLS budget analysis of the DLWD for FY 2010 at PDF pages 49 and 50 of: http://www.njleg.state.nj.us/legislativepub/budget_2010/labor_workforce_development10.pdf

3. Less well known, but just as important, is that employer UI taxes were significantly reduced between 1998 and now, during the same time as some of the diversions. Most of these tax cuts are described in the OLS analysis of the FY 2005 budget cited above at: http://www.njleg.state.nj.us/legislativepub/budget/labor05.pdf . See in particular Table III and the accompanying text on PDF pages 27 and 28. In most years from FY 1998 on, the tax cuts were $250 million or more per year, resulting in total tax cuts of $4.9 billion, which exceeds the amount diverted to the HCSF. As shown in Table III and the text, the reserve ratio that trigger higher UI taxes were reduced by laws cited in the text which were passed in 1996, 1997 and 2002. After that report was issued, another law, P.L.2005, c.249, again reduced the reserve ratios to keep the employer's UI taxes rate in the "A" schedule, which gives the lowest tax rates. Then, in 2008, $260 million was appropriated from the General Fund to the UI fund to continue to keep employer UI taxes low, see PDF pages 49 and 50 of in the OLS report on diversions at: http://www.njleg.state.nj.us/legislativepub/budget_2010/labor_workforce_development10.pdf ) Another $160 million was appropriated in 2009 from the general fund to the UI fund. In total, six laws were enacted between 1998 and 2009 to reduce employer UI taxes. Without those reductions, the UI fund would not now be in deficit, even with the record benefit payouts of the last two years. As shown in the attached spread sheet entitled "UI taxes actual pre 98 schedules," employer UI taxes were $4.9 billion less from 1998 to 2010 than they would have been if the law hadn't been changed to lower the trigger ratios for lower tax rates. Instead of a $1.2 billion deficit in the UI fund, we would now have a $3.3 billion positive balance. Instead of being faced with an increase to the "E" schedule plus a 10% surcharge, the "C" schedule would be in effect in 2011.

The table also gives an estimate of the impact on the UI fund through FY 2013 of: (1) the Governor's proposal of UI benefit and tax cuts and (2) S-1813, which leaves benefits the same, but reduces taxes, although not a much as the Governor's proposal. All numbers are from, or derived from, data provided by the Department of Labor and Workforce Development, including

estimates and revenue projections provided in past year's department answers to OLS budget questions, at pages 53 through 57 of:
http://www.njleg.state.nj.us/legislativepub/budget_2010/Department_Response/DOL_responses10.pdf.

Also attached is spreadsheet entitled "UI taxes for FY 2010 2011" which summarizes the effect of the different UI tax schedules on a per-employee basis. This shows how much average employer UI taxes will rise for each step of the UI tax schedule.

## Relative "Generosity" of the New Jersey UI system

Looking at the New Jersey page of the "UI Data Summary" (which can be found at: https://ows.doleta.gov/unemploy/content/data_stats/datasum09/DataSum_2009_3.pdf) you will see that the "AWBA" (average weekly benefit amount) at $393.72 is ranked at "5", that is, it is the fifth highest in the nation. That makes New Jersey's UI benefits look relatively generous.

But, New Jersey's AWW (Average Weekly Wage), is also very high, at $1,050, and also ranked at "5", or the fifth highest among states. Consequently, NJ's average UI benefit, as a percentage of the average wage, ranks number 30, or below average among states. Therefore, NJ's UI benefits are, relative to wages, less generous than average.

With respect to the maximum weekly UI benefit, New Jersey, with the highest rate ($600 per week), looks very generous. But, the "Comparison of State Unemployment Insurance Laws" at (http://www.ows.doleta.gov/unemploy/uilawcompar/2009/comparison2009.asp) shows that this is somewhat misleading. The $600 figure is higher than all other states only because New Jersey wages are so high. The $600 per week New Jersey maximum is based of the formula of 56 and 2/3rds percent of the State Average Weekly Wage (SAWW). 20 other states have formulas which are higher. Two states have rates of 70% or higher, 10 states have rates of 66 and 2/3rds or 67%. Eight more state have rates between New Jersey's rate and 65%. Viewed this way, New Jersey's maximum benefit rate is a little above average.

ui_ratio.wk4

| UI fund balances, in $ billions | | | | Following Fiscal Year: | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| Year 31-Mar | 31-Mar Fund Balance | Prior CY taxable wages | Fund Reserve Ratio | Actual Column of UI Tax Schedule | Column of UI Tax Schedule under pre-1997 Ratios | altered fund balance* | Estimated difference in revenues | General Fund transfer | Altered reserve ratio* |
| 1992 | $2.688 | $37.661 | 7.137% | B | B | $2.688 | $0.000 | | 7.137% |
| 1993 | $2.425 | $39.529 | 6.135% | C | C | $2.425 | $0.000 | | 6.135% |
| 1994 | $2.070 | $41.015 | 5.047% | C | C | $2.070 | $0.000 | | 5.047% |
| 1995 | $2.163 | $42.535 | 5.085% | C | C | $2.163 | $0.000 | | 5.085% |
| 1996 | $2.406 | $43.881 | 5.483% | C | C | $2.406 | $0.000 | | 5.483% |
| 1997 | $2.398 | $45.677 | 5.250% | B | C | $2.398 | $0.000 | | 5.250% |
| 1998 | $2.763 | $48.431 | 5.705% | A | C | $3.013 | $0.250 | | 6.221% |
| 1999 | $2.952 | $50.163 | 5.885% | A | B | $3.652 | $0.450 | | 7.280% |
| 2000 | $3.158 | $55.894 | 5.650% | A | B | $4.108 | $0.250 | | 7.350% |
| 2001 | $3.501 | $58.531 | 5.981% | A | B | $4.701 | $0.250 | | 8.032% |
| 2002 | $3.194 | $60.760 | 5.256% | A | B | $4.644 | $0.250 | | 7.643% |
| 2003 | $2.288 | $62.537 | 3.658% | A | C | $3.988 | $0.250 | | 6.377% |
| 2004 | $1.622 | $63.287 | 2.563% | A | C | $3.832 | $0.510 | | 6.055% |
| 2005 | $1.326 | $65.080 | 2.038% | A | C | $4.046 | $0.510 | | 6.217% |
| 2006 | $1.038 | $67.943 | 1.527% | A | C | $4.270 | $0.512 | | 6.284% |
| 2007(e) | $1.066 | $70.493 | 1.513% | A | B | $5.026 | $0.728 | | 7.130% |
| 2008 | $1.259 | $72.947 | 1.726% | A | B | $5.236 | $0.277 | $0.260 | 7.178% |
| 2009 | $0.747 | $74.338 | 1.005% | B | C | $4.943 | $0.369 | $0.150 | 6.650% |
| 2010(e) | ($1.214) | $73.595 | -1.650% | E + 10% | C | $3.321 | $0.339 | | 4.512% |
| 2011(e) | ($2.868) | $74.846 | -3.831% | E + 10% | D | $1.046 | ($0.621) | | 1.398% |
| 2012(e) | ($2.716) | $77.091 | -3.523% | E + 10% | D | $0.842 | ($0.356) | | 1.093% |

*Altered means using pre-98 schedule of reserve ratio and not counting the 08 & 09 GF returns

Total added revenue, 1998 to 2012: $3.968

***Total added revenue, 1998 to 2010:*** ***$4.945***

Source: Department of Labor and Workforce Development, including answers to OLS budget questions, various years.

| UI fund balances, in $ billions | | | | Current | *Governor's plan* | | | | |
|---|---|---|---|---|---|---|---|---|---|
| Year 31-Mar | 31-Mar Fund Balance | Prior CY taxable wages | Fund Reserve Ratio | Column of UI Tax Schedule | Column of UI Tax Schedule | altered fund balance** | Estimated difference in revenues | Benefit Cuts | Altered reserve ratio** |
| 2009 | $0.747 | $74.338 | 1.01% | B | B | $0.747 | $0.000 | $0.000 | 1.005% |
| 2010(e) | ($1.214) | $73.595 | -1.65% | E + 10% | C | ($1.819) | ($0.605) | $0.000 | -2.472% |
| 2011(e) | ($2.868) | $74.846 | -3.83% | E + 10% | D | ($3.530) | ($0.356) | $0.299 | -4.716% |
| 2012(e) | ($2.716) | $77.091 | -3.52% | E + 10% | E + 10% | ($2.980) | $0.000 | $0.398 | -3.865% |

**Altered means changes which would result from Governor's plan.

| UI fund balances, in $ billions | | | | Current | *S-1813 plan* | | | | |
|---|---|---|---|---|---|---|---|---|---|
| Year 31-Mar | 31-Mar Fund Balance | Prior CY taxable wages | Fund Reserve Ratio | Column of UI Tax Schedule | Column of UI Tax Schedule | altered fund balance** | Estimated difference in revenues | Benefit Cuts | Altered reserve ratio*** |
| 2009 | $0.747 | $74.338 | 1.01% | B | B | $0.747 | $0.000 | $0.000 | 1.005% |
| 2010(e) | ($1.214) | $73.595 | -1.65% | E + 10% | C | ($1.819) | ($0.605) | $0.000 | -2.472% |
| 2011(e) | ($2.868) | $74.846 | -3.83% | E + 10% | E + 10% | ($3.473) | $0.000 | $0.000 | -4.640% |
| 2012(e) | ($2.716) | $77.091 | -3.52% | E + 10% | E + 10% | ($3.321) | $0.000 | $0.000 | -4.307% |

***Altered means changes whichwould result from S-1813.

Governor's plan benefit cuts

1. Cut cap on WBA by $50 144,000 claimants get maximum $600
   UI weekly benefit (30% of 480,000 total) X 19.7 weeks average benefit X $50 = $142 million
2. Misconduct: $189 million
3. Waiting period: $67 million
4. Not paying for EB if less than 100% federally funded. Not paying at all is not allowed and feds are paying 100% through the end of 2010 at least, anyway. What is allowed is switching to the TUR EB trigger if 100% federal funding ends, but NJ may lose even the TUR EB by the time 100% fed. runs out. No certain savings.

All changes phase Phase in over 26 weeks, cuts first year use about 25%.

Total approx. $350 million on second year -- will decline later as total benefits decline.

Source: Governor's press release on plan, with OLS modification of estimates for points 1 and 4.

| ADJUSTED TO FY 2010 | | | | Employer tax Increase over B | | Tax per worker in $ based on 3.2 million private sector workers | | | Employer tax Increase over B | | Average Wage | Tax as percent of average wage | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| UI tax column | UI taxes in millions of $ | | | | | | | | | | | | |
| | Employer | Worker | Total | Amount | Percent | Employer | Worker | Total | Amount | Percent | | Tax | Tax increase over B |
| A | $1,591 | $307 | $1,898 | NA | NA | $497 | $96 | $593 | NA | NA | $53,200 | 0.93% | NA |
| B | $1,836 | $307 | $2,143 | $0 | 0.0% | $574 | $96 | $670 | $0 | 0.0% | $53,200 | 1.08% | 0.00% |
| C | $2,309 | $307 | $2,616 | $473 | 20.5% | $721 | $96 | $817 | $148 | 20.5% | $53,200 | 1.36% | 0.28% |
| D | $2,568 | $307 | $2,875 | $732 | 28.5% | $802 | $96 | $898 | $229 | 28.5% | $53,200 | 1.51% | 0.43% |
| E | $2,649 | $307 | $2,956 | $814 | 30.7% | $847 | $96 | $945 | $274 | 32.3% | $53,200 | 1.59% | 0.51% |
| E + 10% | $2,914 | $307 | $3,221 | $1,078 | 37.0% | $932 | $96 | $1,030 | $358 | 38.4% | $53,200 | 1.75% | 0.67% |

Source: DLWD response to FY2010 OLS questions on pages 53 through 57 of
http://www.njleg.state.nj.us/legislativepub/budget_2010/Department_Response/DOL_responses10.pdf. From that source:
A through D is from DLWD projection for FY 2010
E plus 10% is from DLWD projection for FY 2011adjusted to 2010 tax base
E is derived

| ADJUSTED TO FY 2011 | | | | Employer tax Increase over B | | Tax per worker in $ based on 3.2 million private sector workers | | | Employer tax Increase over B | | Average Wage | Tax as percent of average wage | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| UI tax column | UI taxes in millions of $ | | | | | | | | | | | | |
| | Employer | Worker | Total | Amount | Percent | Employer | Worker | Total | Amount | Percent | | Tax | Tax increase over B |
| A | $1,627 | $314 | $1,941 | NA | NA | $509 | $98 | $607 | NA | NA | $53,200 | 0.96% | NA |
| B | $1,877 | $314 | $2,191 | $0 | 0.0% | $587 | $98 | $685 | $0 | 0.0% | $53,200 | 1.10% | 0.00% |
| C | $2,361 | $314 | $2,675 | $484 | 21.0% | $738 | $98 | $836 | $151 | 20.5% | $53,200 | 1.39% | 0.28% |
| D | $2,626 | $314 | $2,940 | $749 | 29.2% | $821 | $98 | $919 | $234 | 28.5% | $53,200 | 1.54% | 0.44% |
| E | $2,711 | $314 | $3,025 | $833 | 31.5% | $847 | $98 | $945 | $260 | 30.7% | $53,200 | 1.59% | 0.49% |
| E + 10% | $2,982 | $314 | $3,296 | $1,105 | 37.9% | $932 | $98 | $1,030 | $345 | 37.0% | $53,200 | 1.75% | 0.65% |

Source: DLWD response to FY2010 OLS questions on pages 53 through 57 of:
http://www.njleg.state.nj.us/legislativepub/budget_2010/Department_Response/DOL_responses10.pdf. From that source:
A through D is from DLWD projection for FY 2010 adjusted to 2011 tax base
E plus 10% is from DLWD projection for FY 2011
E is derived

# UI Data Summary for New Jersey

CYQ: 2009.3

## Benefits

| | (Quarterly) | Past 12 Months | Rank | High Value | Qtr | Low Value | Qtr |
|---|---|---|---|---|---|---|---|
| Benefits Paid (000): | $917,026 | $3,578,410 | 6 | $1,010,195 | 2009.1 | $64,334 | 1972.4 |
| Initial Claims: | 159,391 | 772,367 | 12 | 290,136 | 1975.1 | 93,677 | 1987.3 |
| First Payments: | 111,684 | 482,442 | 9 | 185,783 | 1975.1 | 45,958 | 1988.2 |
| Weeks Claimed: | 2,642,022 | 10,313,291 | 9 | 2,904,747 | 2009.1 | 762,372 | 1987.4 |
| Wks Compensated: | 2,467,027 | 9,496,553 | 8 | 2,724,700 | 1975.1 | 715,819 | 1987.4 |
| Exhaustions: | 85,010 | 258,075 | 9 | 85,010 | 2009.3 | 18,202 | 1988.4 |
| Exhaustion Rate: | | 61.3% | 9 | 61.3% | 2009.3 | 33.3% | 1988.3 |
| Average Duration: | | 19.7 | 4 | 19.7 | 2009.3 | 13.7 | 1974.1 |
| AWBA: | $389.05 | $393.72 | 5 | $401.87 | 2009.2 | $61.32 | 1971.1 |
| As % of AWW: | | 37.5 | 30 | | | | |
| Avg. Benefits per First Payment: | | $7,417 | | | | | |

## Financial Information

| | | Past 12 Months | Rank |
|---|---|---|---|
| State Revenues (000): | | $1,884,710 | 4 |
| Total Wages (000)**: | $53,048,192 | $209,798,286 | 7 |
| Total Wages (Taxable Employers)(000)**: | $42,978,730 | $170,289,884 | 7 |
| Taxable Wages (000)**: | $32,697,010 | $75,209,965 | 3 |
| Avg. Weekly Wage**: | | $1,050.68 | 5 |
| Avg. Tax Rate on Taxable Wages (%) **: | | 1.97 | 23 |
| Avg. Tax Rate on Total Wages (%) **: | | 0.87 | 9 |
| Calendar Yr Taxable Wage Base: | | $28,900 | 5 |
| Trust Fund (TF) Balance (000): (Including Loans): | $36,448 | | 39 |
| TF as % of Total Wages*: | 0.02 | | 42 |
| Interest Earned (000): | $0 | | 46 |
| Avg. High Cost Multiple +: | 0.16 | | 43 |
| High Cost Multiple +: | 0.09 | | 44 |

## Labor Force

| | (Quarterly) | Past 12 Mos | Rank |
|---|---|---|---|
| IUR (%): | 5.3 | 5.1 | 8 |
| TUR (%): | 9.5 | 8.2 | 19 |
| Total Unemp. (000): | 436.7 | 372.7 | 11 |
| **Insured Unemployed (000) ***** | | | |
| Regular Programs: | 202.3 | 196.3 | 9 |
| All Programs: | 357.5 | 321.4 | 9 |
| **Recipiency Rates (%) ***** | | | |
| Regular Programs: | 46 | 53 | 7 |
| All Programs: | 82 | 86 | 4 |
| Covered Emp. (000)**: | 3,717 | 3,840 | 10 |
| Civ. Labor Force (000): | 4,574 | 4,534 | 10 |
| Subj. Employers (000): | 236 | 241 | 7 |

## Extended Benefits

| | (Quarterly) | Past 12 Months |
|---|---|---|
| Extended Benefits (000): | $269,855 | $443,951 |
| EB First Payments: | 27,481 | 85,371 |
| EB Weeks Claimed: | 772,879 | 1,275,969 |
| EB Exhaustions: | 41,620 | 42,580 |

## Loans

| | | Rank |
|---|---|---|
| Outstanding Loan Bal (000): | $587,178 | 9 |
| Loan per Cov Employee: | $153 | 12 |
| Loan as % of Total Wages*: | 0.3531 | 13 |

* Based on extrapolated wages for the most recent 12 months.

** Wages and Covered Employment lag the rest of the Data Summary information by six months

*** Regular programs include State UI, UCFE and UCX.

\+ Refers to most recent calendar year. Fourth and first quarter issues publish measure based on extrapolated wages. Second and third quarter issues publish measure based on actual wages.

See glossary for data definitions

*Note: Blank cells appearing in any section of this report indicates that information is unavailable.*

# STATE OF NEW JERSEY
# OFFICE OF THE GOVERNOR

## Protecting New Jersey's Small Businesses and Laying the Foundation for Job Creation
## Christie Plan Provides Critical Relief During Economic Crisis

In the face of a fiscal emergency and skyrocketing unemployment, Governor Chris Christie is taking action to stave off a devastating, automatic tax hike for New Jersey employers. Governor Christie's proposal recognizes that with a 10.1% unemployment rate and a business climate that ranks dead last in the nation, now is not the time to further burden our small businesses.

The impending employer tax increase will impose the highest rate created under the law, forcing small business owners to pay on average an increase of 52 percent or $400 per employee. Small businesses already struggling to survive against the highest taxes in the nation are now being asked to bear the burden of a depleted Unemployment Compensation Fund, when nearly $4.6 billion of employer and employee contributions were previously diverted for other purposes.

Under the Christie Plan, small businesses will see manageable payroll tax increases that will dramatically limit the impact on employers. Instead of a 52 percent increase, averaging $400 per employee, the Christie Plan reduces the rate, allowing for a 17 percent rise of $130 per employee. While law mandates these automatic increases, this phase in gives employers room to breathe, the flexibility to prepare for them in advance, and the ability to assume the costs over time.

At a time when New Jersey is struggling to create jobs, Governor Christie's plan will give small businesses some needed flexibility and provide critical relief during these tough economic times.

## THE CHRISTIE PLAN TO PROTECT NEW JERSEY'S SMALL BUSINESSES

**Reducing the Automatic Tax Increase Threatening Struggling Small Businesses.** The Christie Plan reduces the employer tax increase required under current law. The impending employer tax increase will impose the highest rate created under the law (it jumps from the second lowest rate to the highest column E + 10). This change would increase the employer tax on average by 52 percent or $400 per employee. Never before has the rate increased as dramatically as it is slated to do July 1st. The Christie Plan reduces this increase to one step on the tax table. Consequently, on July 1, 2010 employers will experience a 17 percent increase or $130 per employee.

**Capping the Rate Change to Allow Small Businesses to Plan for the Future.** The Plan limits future legally required increases to one column per year. The practical effect of this change is to cap the rate increases expected in July 2011 through July 2013. These increases will be limited to one column per year in order to mitigate the "tax shock" that employers would experience if the legally required increase was implemented. This gives small businesses breathing room during these tough economic times and the ability to plan ahead.

**Bringing New Jersey Unemployment Benefits In-line with Other States.** Right now New Jersey is an outlier compared to other states when it comes to unemployment benefits. While it is important to help those New Jerseyans who are looking for work, the State's current benefits exceed what practically every other state in the nation provides. In order to keep the Unemployment Compensation Fund solvent for the future, changes need to be made.

- **Bringing New Jersey's Weekly Benefit More In-Line with the Rest of the Country.** Only six states pay weekly benefits in excess of $500, making New Jersey the state with the second highest benefits level in the country. Under this proposal, New Jersey would rank third highest, with a weekly benefit maximum of $550. Annually, this change from $600 to $550 will save $295 million.

- **Implementing Practical One-Week Wait Period Like Neighboring States.** Forty states have a "wait period," including New York and Pennsylvania. This change will not shorten the maximum duration of the regular benefit period. If a claimant qualifies for the full 26 weeks, then he/she will receive benefits for that period. Annually, this change will save $67 million.

- **Tougher Eligibility Standards for Dismissal as a Result of Misconduct.** The Plan requires employees dismissed for misconduct to obtain other employment for a prescribed period of time before they can once again qualify for an unemployment benefit. While virtually all states have more stringent standards for individuals dismissed due to misconduct, New Jersey's treatment of these individuals is more lenient. This change would save an estimated $189 million.

- **Using Federal Dollars for Extended Benefits.** The Plan will make the "extended benefit" provision dependent on the continuation of 100 percent federal funding of benefit costs. This is a provision that has been adopted in 21 other states, including three neighboring states. This would result in $1.6 billion in savings over the next two years.

**Preventing Future Diversions from the Trust Fund.** The Christie Plan supports a constitutional amendment (SCR-60) on the ballot this November to prevent future raids of the Unemployment Compensation Fund.

**Request Federal Action to Help Avoid Job-Killing Payroll Tax Increases**. The Plan would call on the federal government to continue full federal funding for extended benefits and to help states avoid job-killing payroll tax increases. Twenty-eight states have insolvent unemployment insurance funds and are now receiving federal loans. It is anticipated that 40 states will be receiving loans by the end of this calendar year.

# INCOME AND BENEFITS PAID UNDER THE NEW JERSEY UNEMPLOYMENT COMPENSATION PROGRAM
## SELECTED DATA
## (MILLIONS OF DOLLARS)

| | | | BENEFITS | | | | | TRUST FUND CASH BALANCE |
|---|---|---|---|---|---|---|---|---|
| DATE | TOTAL INCOME (1) | INTEREST (2) | REGULAR UI (3) | EB (4) | FSC/TEUC/ EUC08(4) | FAC(4) | ABT(4) | DECEMBER 31 |
| 1995 | 1,305.6 | 132.1 | 1,298.0 | - | -2.4 | - | 24.0 | 1,987.8 |
| 1996 | 1,600.8 | 141.9 | 1,362.6 | - | -2.9 | - | 23.7 | 2,028.8 |
| 1997 | 1,583.4 | 146.7 | 1,186.1 | - | -2.5 | - | 22.7 | 2,384.9 |
| 1998 | 1,438.7 | 171.1 | 1,131.2 | - | -1.7 | - | 19.8 | 2,676.4 |
| 1999 | 1,221.0 | 174.5 | 1,123.5 | - | -1.8 | - | 24.8 | 2,708.8 |
| 2000 | 1,510.1 | 189.5 | 1,088.9 | - | -1.6 | - | 22.9 | 3,086.4 |
| 2001 | 1,588.6 | 203.8 | 1,516.4 | - | -1.8 | - | 22.8 | 3,121.7 |
| 2002 | 1,128.5 | 173.3 | 2,042.9 | - | 786.3 | - | 26.0 | 2,306.3 (8) |
| 2003 | 1,381.9 | 112.6 | 2,045.9 | - | 609.7 | - | 36.6 | 1,512.4 (8) |
| 2004 | 1,505.1 | 67.6 | 1,877.5 | - | 65.9 | - | 45.7 | 1,001.8 (8) |
| 2005 | 1,752.4 | 42.9 | 1,760.6 | - | -7.7 | - | 40.7 | 914.6 (8) |
| 2006 | 1,645.0 | 35.6 | 1,713.4 | - | -3.0 | - | 37.6 | 693.6 (8) |
| 2007 | 1,958.9 | 32.8 | 1,855.4 | - | -2.3 | - | 39.7 | 650.4 (8) |
| 2008 | 1,982.2 | 31.2 | 2,235.2 | - | 570.9 | - | 29.2 | 516.8 (8) |
| 2009 | 1,947.8 | 4.6 | 3,475.8 | 584.0 | 2,688.9 | 388.6 | 5.2 | 69.5 |
| 2008 | | | | | | | | |
| JAN | 60.9 | - | 204.3 | - | * | - | 3.4 | 496.9 |
| FEB | 193.6 | - | 185.0 | - | -0.1 | - | 3.6 | 487.5 |
| MAR | 21.1 | 6.1 | 198.1 | - | -0.1 | - | 4.0 | 297.1 |
| APR | 60.0 | - | 188.8 | - | -0.3 | - | 4.0 | 161.4 |
| MAY | 751.4 | - | 147.3 | - | -0.2 | - | 3.4 | 742.2 |
| JUN | 18.7 | 6.4 | 164.2 | - | -0.2 | - | 3.6 | 847.0 (9) |
| JUL | 154.3 | - | 186.5 | - | 17.8 | - | 2.1 | 802.1 |
| AUG | 359.8 | - | 162.7 | - | 127.3 | - | 0.3 | 974.1 |
| SEP | 12.7 | 10.4 | 184.0 | - | 123.1 | - | 0.1 | 792.9 |
| OCT | 101.0 | - | 169.7 | - | 103.5 | - | 1.0 | 708.3 |
| NOV | 221.8 | - | 180.2 | - | 54.6 | - | 2.1 | 750.7 |
| DEC | 26.9 | 8.3 | 264.4 | - | 145.5 | - | 1.6 | 516.8 |
| | 1982.2 | 31.2 | 2235.2 | | 570.9 | | 29.2 | 516.8 |
| 2009 | | | | | | | | |
| JAN | 18.5 | - | 276.0 | - | 178.6 | - | 0.1 | 222.4 |
| FEB | 219.4 | - | 292.6 | - | 171.9 | - | 0.1 | 141.4 |
| MAR | 19.8 | 2.7 | 367.0 | - | 195.5 | 29.7 | 0.2 | 262.2 (10) |
| APR | 137.2 | -0.3 | 306.1 | 23.8 | 213.7 | 34.6 | 0.2 | 104.5 |
| MAY | 629.5 | - | 280.4 | 65.4 | 154.3 | 44.5 | -0.1 | 407.2 |
| JUN | 17.3 | 3.4 | 322.7 | 86.2 | 170.1 | 35.9 | 0.1 | 97.5 |
| JUL | 444.4 | -2.5 | 283.5 | 90.3 | 208.6 | 38.0 | 0.1 | 497.7 (9) |
| AUG | 32.9 | - | 278.5 | 107.4 | 198.1 | 48.3 | 0.1 | 226.5 |
| SEP | 29.9 | 2.1 | 267.9 | 73.9 | 232.4 | 36.7 | 1.0 | 36.4 |
| OCT | 44.9 | -2.1 | 242.1 | 62.0 | 237.1 | 42.4 | 1.3 | 47.3 |
| NOV | 343.7 | - | 272.9 r | 26.1 r | 274.9 | 36.2 r | 1.1 | 156.7 |
| DEC | 10.3 | 1.3 | 286.1 | 48.9 | 453.7 | 42.3 | 1.0 | 69.5 |
| | 1947.8 | 4.6 | 3475.8 | 584.0 | 2688.9 | 388.6 | 5.2 | 69.5 |

(r) revised

* Less than 0.1 million.

(See notes, attached)

## FOOTNOTES

(1) Trust fund income includes employer and employee contributions, interest, and reimbursable income and is derived from the BA-29 report.

(2) Interest payments are credited to the state's account in the Unemployment Trust Fund (UTF) at the end of each calendar quarter and are included in income figures.

(3) Benefits include payments to claimants under the Regular UI program and are derived from the BA-29 report. These figures include payments made to the former employees of both contributory and reimbursable employers, but do not include refunds collected.

(4) The Federal Emergency Unemployment Compensation (EUC) Program (known in New Jersey as FSC) operated from November 1991 to April 1994. The maximum entitlement under the FSC Program varied between 7 and 33 weeks, depending on the level of the program's triggers.

Under the Workforce Development Partnership Program (WDP), which was signed into law on July 7, 1992, certain individuals may be able to collect additional unemployment insurance benefits. Eligibility was initially restricted to claimants who were entitled to not less than 26 weeks of Regular UI benefits, had exhausted their entitlement to regular UI and were permanently separated from employment and unlikely to return to such employment. Effective July 8, 2001 the 26-week potential duration rule was eliminated, affecting ABT payments in October 2001, when the change was implemented. Additional Benefits During Training (ABT) are payable at the regular weekly benefit rate for up to 26 weeks while the individual is in approved training. Beginning July 2004, the WDP law was revised to limit ABT to 2.0 percent of the Unemployment Trust Fund (UTF) balance on December 31 of the previous year. Included is a carry forward provision from prior years.

The federal Temporary Extended Unemployment Compensation (TEUC) program, enacted in March 2002, provided up to 13 weeks of extended benefits for UI claimants who were unemployed after March 9, 2002, exhausted their UI benefits, had a regular UI claim dated March 19, 2000 or later and filed a regular UI claim after March 10, 2001. Benefits were payable from March 10 through December 28, 2002.

On January 8, 2003, the TEUC program was extended through May 31, 2003 for filing of TEUC claims and through August 30, 2003 for payments on claims filed. The extension was retroactive to the previous expiration date of December 28, 2002. On May 28, 2003 the Temporary Extended Unemployment Compensation Act (TEUC) of 2002 was amended to end December 31, 2003. The last date for filing claims was December 21, 2003 and the last allowable payments were for week ending April 3, 2004.

On April 16 2003, special rules created for determining TEUC eligibility for certain displaced airline and related workers were enacted. Such workers may qualify for up to 39 weeks of TEUC-A. Benefits are payable beginning April 20, 2003. The program ended December 27, 2003 for filing of TEUC-A claims and payments ended January 1, 2005 for claims filed.

On June 6, 2008, President Bush signed legislation that allowed the federal government to establish the Extended Unemployment Compensation (EUC) program. This program was expanded on November 21, 2008. The maximum amount of EUC payable is 20 times the original weekly benefit amount or 80% of the original maximum benefit amount, whichever is less. EUC benefits are payable as of beginning July 6, 2008 and will continue to be payable until August 7, 2010.

New Jersey reached the six percent average total unemployment rate for the three-month period ending November 2008, qualifying eligible claimants for up to an additional 13 weeks benefits of EUC 08. During this period, claimants can receive up to 33 weeks of federally funded Extended Unemployment Insurance Benefits.

On February 17, 2009, President Obama signed the American Recovery and Reinvestment Act of 2009. The stimulus legislation creates the Federal Additional Compensation (FAC) program. The FAC program provides an additional $25 benefit for every week paid under regular UI or extended benefit programs.

As of the week ending March 21, 2009, New Jersey triggered on to a period of Extended Benefits (EB) under the guidelines of the Federal-State Unemployment Compensation Act of 1970 and N.J. Extended

Benefits law. In February 2009, federal legislation was enacted providing 100 percent federal funding for the EB program for claims dated prior to January 1, 2010.

Beginning May 3, 2009, New Jersey qualified for High EB that provides additional benefit to claimants equal to 20 weeks or 80% of the maximum benefit amount on the original unemployment claim, whichever amount is less.

On November 6, 2009, President Obama signed legislation providing additional Emergency Unemployment Compensation (EUC) benefits. The EUC benefits provide eligible claimants 20 additional weeks with an unemployment rate of 8.5 percent or higher, which includes New Jersey beginning November 8, 2009.

(5) Beginning in the second quarter of 1993, employer and worker unemployment insurance contributions were reduced because of the redirection of a portion of UI employer taxes and all of the worker tax to fund the costs of the Workforce Development Partnership Program (WDP) and charity health care. The redirection of .025% of the worker tax to WDP became permanent on January 10, 1996. The charity care diversion lapsed for the first quarter of 1996 (reflected in second quarter receipts), but resumed in the second quarter of 1996 (reflected in third quarter receipts) as a result of the enactment of P.L. 1996, Chapter 28, which renewed the health care diversion through December 31, 1997.

The charity care diversion was renewed again for the period January 1, 1998 (reflected in second quarter receipts) through December 31, 2002 as a result of the enactment of P.L. 1997, Chapter 263. A portion of employer UI taxes was redirected to the Health Care Subsidy Fund for calendar years 1998 through 2000, while a portion of the worker tax was diverted for the period 1998 through 2002.

Effective July 1, 2001, employer taxes were reduced by 0.0175 percent for the Supplemental Workforce Fund (SWF) for Basic Skills and January 1, 2002 worker tax was reduced by 0.0175 percent for SWF.

P.L. 2002, Chapter 13, extended the health care diversion through June 2003. For January through June 2002 a new diversion of $325 million was added to the previously scheduled $66.5 million for a total of $391.5 million. An additional $125 million was diverted to the Health Care Subsidy Fund from April – June 2002. The bill also included a new diversion of $325 million for July 2002 through July 2003. The additional amounts were financed by reductions in UI employer and worker taxes during the period January 2002 to July 2003.

On June 30, 2003, P.L. 2003, Chapter 107 was signed. This bill diverted an additional $325 million for health care from July 1, 2003 through June 30, 2004. The reduction in UI worker and employer taxes was extended through June 2004.

A bill diverting $100 million for health care was signed on June 29, 2004 and reduced employer taxes through June 30, 2005.

An amended bill redirecting $350 million for health care was approved on July 2, 2005 and reduced employer taxes through June 30, 2006.

Income and trust fund balance figures include the following amounts collected for health care in excess of the statutory limit on contributions to the Health Care Subsidy Fund: $216.7 million in 1994, $258.7 million in 1995, $96.9 million in 1996, $93.8 million in 1997, $53.4 million in 1998, $10.1 million in 1999, $30.3 million in 2000, $50.3 million in 2001, $17.0 million in 2002, $5.3 million in 2003, $14 million in 2004, $-0.9 million in 2005, $37.0 million in 2006, $2.7 million in 2007, $1.8 million in 2008 and $ 1.3 million through December 2009.

(6) Under the terms of the State Fiscal Year 1990 Appropriations Act, 40% of worker contributions received between July 1989 and June 1990 or $100 million, whichever was greater, was transferred to the Uncompensated Care Offset Account. A total of $40.7 million was transferred during 1989, while the 1990 transfers were $59.3 million. Under the terms of an agreement with the U.S. Department of Labor, the $100 million plus accrued interest was to be repaid in two installments in state fiscal years 1993 and 1995. The first payment, received on September 30, 1992, was $37.5 million, while the final payment of $101.8 million was received on September 30, 1994. Both amounts are included in total income.

(7) Reflects accounting adjustments made to FSC benefits from July 1992 through June 1994.

(8) Includes $242.8 million in federal Reed Act funds transferred to the State UTF less $0.4 million expended in 2002, $13.7 million expended in 2003, $9.7 million expended in 2004, $11.9 million expended in 2005, $48.7 million expended in 2006, $28.1 million expended in 2007, $ 21.9 million expended in 2008, and $89.8 million expended through December 2009.

(9) Includes $260 million and $120 million transferred from the General Fund to the UTF on June 27, 2008 and July 24 2009 respectively.

(10) Includes $206.8 million deposited as part of the Federal American Recovery and Reinvestment Act of March 2009.

New Jersey Department of Labor
and Workforce Development
Program Planning, Analysis and Evaluation
Date: February 2010

Key - FSC - Emergency Unemployment Compensation (EUC) Program, known in New Jersey as FSC [Federal Supplemental Compensation Program]. See footnote (4).
ABT - Additional Benefits During Training. See footnote (4).
NJEB - New Jersey Extended Benefits Program. See footnote (4).
TEUC/TEUC-A - Temporary Extended Unemployment Compensation. See footnote (4).
SWF - Supplemental Workforce Fund (SWF) for Basic Skills. See footnote (7).
FAC - Federal Additional Compensation program. See footnote (4).
EB - Extended Benefits. See footnote (4).



12x

Back to Data Summary Home | Back to State Selection Page

# UI Data Summary for New Jersey

CYQ: 2009.3

## Benefits

| | (Quarterly) | Past 12 Months | Rank | High Value : Qtr | | Low Value : Qtr | |
|---|---|---|---|---|---|---|---|
| Benefits Paid (000): | $917,026 | $3,578,410 | 6 | $1,010,195 | 2009.1 | $64,334 | 1972.4 |
| Initial Claims: | 159,391 | 772,367 | 12 | 290,136 | 1975.1 | 93,677 | 1987.3 |
| First Payments: | 111,684 | 482,442 | 9 | 185,783 | 1975.1 | 45,958 | 1988.2 |
| Weeks Claimed: | 2,642,022 | 10,313,291 | 9 | 2,904,747 | 2009.1 | 762,372 | 1987.4 |
| Wks Compensated: | 2,467,027 | 9,496,553 | 8 | 2,724,700 | 1975.1 | 715,819 | 1987.4 |
| Exhaustions: | 85,010 | 258,075 | 9 | 85,010 | 2009.3 | 18,202 | 1988.4 |
| Exhaustion Rate: | | 61.3% | 9 | 61.3% | 2009.3 | 33.3% | 1988.3 |
| Average Duration: | | 19.7 | 4 | 19.7 | 2009.3 | 13.7 | 1974.1 |
| AWBA: | $389.05 | $393.72 | 5 | $401.87 | 2009.2 | $61.32 | 1971.1 |
| As % of AWW: | | 37.5 | 30 | | | | |
| Avg. Benefits per First Payment: | | $7,417 | | | | | |

## Financial Information

| | (Quarterly) | Past 12 Months | Rank |
|---|---|---|---|
| State Revenues (000): | | $1,884,710 | 4 |
| Total Wages (000)**: | $53,048,192 | $209,798,286 | 7 |
| Total Wages (Taxable Employers)(000)**: | $42,978,730 | $170,289,884 | 7 |
| Taxable Wages (000)**: | $32,697,010 | $75,209,965 | 3 |
| Avg. Weekly Wage**: | | $1,050.68 | 5 |
| Avg. Tax Rate on Taxable Wages (%) **: | | 1.97 | 23 |
| Avg. Tax Rate on Total Wages (%) **: | | 0.87 | 9 |
| Calendar Yr Taxable Wage Base: | | $28,900 | 5 |
| Trust Fund (TF) Balance (000): (Including Loans): | $36,448 | | 39 |
| TF as % of Total Wages*: | 0.02 | | 42 |
| Interest Earned (000): | $0 | | 46 |
| Avg. High Cost Multiple +: | 0.16 | | 43 |
| High Cost Multiple +: | 0.09 | | 44 |

## Labor Force

| | (Quarterly) | Past 12 Mos | Rank |
|---|---|---|---|
| IUR (%): | 5.3 | 5.1 | 8 |
| TUR (%): | 9.5 | 8.2 | 19 |
| Total Unemp. (000): | 436.7 | 372.7 | 11 |
| **Insured Unemployed (000) *** | | | |
| Regular Programs: | 202.3 | 196.3 | 9 |
| All Programs: | 357.5 | 321.4 | 9 |
| **Recipiency Rates (%) *** | | | |
| Regular Programs: | 46 | 53 | 7 |
| All Programs: | 82 | 86 | 4 |
| Covered Emp. (000)**: | 3,717 | 3,840 | 10 |
| Civ. Labor Force (000): | 4,574 | 4,534 | 10 |
| Subj. Employers (000): | 236 | 241 | 7 |

## Extended Benefits

| | (Quarterly) | Past 12 Months |
|---|---|---|
| Extended Benefits (000): | $269,855 | $443,951 |
| EB First Payments: | 27,481 | 85,371 |
| EB Weeks Claimed: | 772,879 | 1,275,969 |
| EB Exhaustions: | 41,620 | 42,580 |

## Loans

| | | Rank |
|---|---|---|
| Outstanding Loan Bal (000): | $587,178 | 9 |
| Loan per Cov Employee: | $153 | 12 |
| Loan as % of Total Wages*: | 0.3531 | 13 |

* Based on extrapolated wages for the most recent 12 months.

** Wages and Covered Employment lag the rest of the Data Summary information by six months

*** Regular programs include State UI, UCFE and UCX.

\+ Refers to most recent calendar year. Fourth and first quarter issues publish measure based on extrapolated wages. Second and third quarter issues publish measure based on actual wages.

See glossary for data definitions

*Note: Blank cells appearing in any section of this report indicates that information is unavailable.*

Prepared by DOL/ETA/OWS Division of Fiscal and Actuarial Services

# Background Paper: Unemployment Insurance – An Overview

Budget Pages.... C–15, D-234, D-236, H-15

## HISTORY/OVERVIEW

The Social Security Act of 1935 authorized a federal-state unemployment insurance (UI) system to provide temporary partial wage replacement to individuals who lose their jobs through no fault of their own. New Jersey's UI system, established by the "unemployment compensation law," P.L.1936, c.270 (C.43:21-1 et seq.), began paying benefits to laid off workers in 1939. The main goals of the UI system are to alleviate the hardship of involuntary unemployment on workers and their families and to stabilize the economy. As stated in the New Jersey "unemployment compensation law," the system is designed to meet those goals by facilitating "the systematic accumulation of funds during periods of employment to provide benefits for periods of unemployment, thus maintaining purchasing power and limiting the serious social consequences of poor relief assistance."

Nationally, the UI system operates as a federal-state partnership. The federal program provides broad requirements for eligibility and states determine the details of the operation and administer their programs within the minimum requirements established by federal law.

Federal law, pursuant to Titles III, IX, and XII of the Social Security Act and the Federal Unemployment Tax Act of 1939 (FUTA), defines the employment that is a "covered service" and must be covered by unemployment insurance in the states' programs. Federal law also defines the method for triggering extended benefits, the federal tax base and rate for federal taxes and how states will apply for and repay any loans from the federal Unemployment Trust Fund. The federal government also serves as the depository for state contributions and federal payroll taxes that finance UI. Furthermore, the federal government provides annual appropriations for grants to states for administration of the UI program and oversees the appropriate and efficient use of such funds.

States must meet the minimum requirements established by the federal law. Within these parameters, states are permitted to set UI eligibility provisions (including minimum time periods and/or minimum amount of wages earned before workers can become eligible to receive benefits), determine benefit amounts, and set state payroll tax wage base and rate structures for employers. States also: determine operation methods; administer the program; take claims from individuals; determine eligibility; pay benefits to workers; determine employer liability; and assess and collect contributions.

## FUNDING

Unemployment insurance is funded jointly through the federal unemployment tax, more commonly referred to as FUTA for the act under which it was established, levied on employers, and a state unemployment insurance tax levied on employers and employees. All of the revenues collected from these taxes are deposited into a variety of specific fund accounts in the federal Unemployment Trust Fund.

## Background Paper: Unemployment Insurance – An Overview (Cont'd)

Federal Funding

FUTA is used primarily to finance administrative costs of the system, fund loans to states and cover extended benefits. Revenues collected from FUTA are deposited into the employment security administration account (ESAA), the extended unemployment compensation account (EUCA) and the federal unemployment compensation account (FUA) located in the federal Unemployment Trust Fund.

The amount of tax levied under FUTA is established in Section 3301 of the Social Security Act. Section 3301 imposes a payroll tax for every "covered service," equal to a specified percentage of total wages paid during a calendar year. FUTA currently provides that the tax rate is 6.2 percent. Wages subject to the tax are defined in Section 3306(a) of FUTA as the first $7,000 paid to an employee in a calendar year. However, FUTA provides for a tax credit of up to 5.4% for employers who pay state taxes on time for "covered services," as defined under FUTA, in an approved state UI program. Thus, the effective FUTA tax rate is 0.8 percent (6.2 – 5.4) or $56 ($7,000 x 0.008) per employee. The total amount of FUTA tax collected from wages in New Jersey for 2007 was approximately $218.4 million (3.9 million covered employees x $56).

State Funding

In addition to the federal tax, state governments also levy payroll taxes on employers and in three states, including New Jersey, payroll taxes on employees. These taxes are deposited into the state unemployment insurance trust fund account (UI fund) within the federal Unemployment Trust Fund. Each state has its own UI fund account within the federal Unemployment Trust Fund. For reports of these accounts, one can search on http://www.treasurydirect.gov/govt/reports/tfmp/tfmp_utf.htm.

The New Jersey "unemployment compensation law" establishes the State tax rate for both employers and employees. The tax rate is applied to income earned up to the statutorily defined taxable wage base (N.J.S.A.43:21-3). The taxable wage base is 28 times the State average weekly wage (SAWW) for all covered workers. The SAWW is calculated annually by the Department of Labor and Workforce Development. The taxable wage base for 2009 is $28,900.

Employee Contribution

In New Jersey, the tax on the employee is levied at a rate of 0.03825% on the first $28,900 income earned. Thus, in 2009, the maximum employee contribution is approximately $110 per employee (0.03825 x 28,900). The total amount of employee contributions in New Jersey in 2007 was $309.8 million.

Employer Contribution

In New Jersey, the employer's tax rate is determined by individual employers' experience and the annual experience of the State UI Fund. The experience rating tax table (following, N.J.S.A. 43:21-7), dictates the tax rate of the employer. The tax rate is dependent upon the annual experience of the State UI fund, as calculated through the determination of the overall fund reserve ratio. The overall fund reserve ratio is determined on March 31 of each year by dividing the fund balance on that date by the taxable wages from the previous calendar

## Background Paper: Unemployment Insurance – An Overview (Cont'd)

year. The fund reserve ratio is used to determine the tax column that will be applied to employers in the next fiscal year.

Since July 1, 1998, the tax rate has been in the "A" column and system wide tax increases have been avoided. Tax increases have been avoided partially because of legislative enactments (P.L. 1996, c.30; P.L.1997, c.263; P.L.2001, c.152; P.L.2002, c.13; P.L.2003, c.107; and P.L.2004, c.45) amending the experience rating tax table. Each new tax table authorized by these enactments established a lower reserve ratio to maintain the lowest tax rate for employers. For example, the current experience rating table became effective on July 1, 2004. Prior to its enactment, the previous experience rating table required a fund reserve ratio of 2.50% or more to maintain the tax rate in column A. Currently, to maintain the tax rate in column A, the fund reserve ratio must be 1.40% or more, a figure that would have triggered a column D tax rate under the previous table. In each case, these changes in the tax table were made in conjunction with legislation that diverted funds from the UI Fund to other funds.

EXPERIENCE RATING TAX TABLE

Fund Reserve Ratio[1]

| Employer Reserve Ratio[2] | 1.40% and Over A | 1.00% to 1.39% B | 0.75% to 0.99% C | 0.50% to 0.74% D | 0.49% and Under E |
|---|---|---|---|---|---|
| Positive Reserve Ratio: | | | | | |
| 17% and over | 0.3 | 0.4 | 0.5 | 0.6 | 1.2 |
| 16.00% to 16.99% | 0.4 | 0.5 | 0.6 | 0.6 | 1.2 |
| 15.00% to 15.99% | 0.4 | 0.6 | 0.7 | 0.7 | 1.2 |
| 14.00% to 14.99% | 0.5 | 0.6 | 0.7 | 0.8 | 1.2 |
| 13.00% to 13.99% | 0.6 | 0.7 | 0.8 | 0.9 | 1.2 |
| 12.00% to 12.99% | 0.6 | 0.8 | 0.9 | 1.0 | 1.2 |
| 11.00% to 11.99% | 0.7 | 0.8 | 1.0 | 1.1 | 1.2 |
| 10.00% to 10.99% | 0.9 | 1.1 | 1.3 | 1.5 | 1.6 |
| 9.00% to 9.99% | 1.0 | 1.3 | 1.6 | 1.7 | 1.9 |
| 8.00% to 8.99% | 1.3 | 1.6 | 1.9 | 2.1 | 2.3 |
| 7.00% to 7.99% | 1.4 | 1.8 | 2.2 | 2.4 | 2.6 |
| 6.00% to 6.99% | 1.7 | 2.1 | 2.5 | 2.8 | 3.0 |
| 5.00% to 5.99% | 1.9 | 2.4 | 2.8 | 3.1 | 3.4 |
| 4.00% to 4.99% | 2.0 | 2.6 | 3.1 | 3.4 | 3.7 |
| 3.00% to 3.99% | 2.1 | 2.7 | 3.2 | 3.6 | 3.9 |
| 2.00% to 2.99% | 2.2 | 2.8 | 3.3 | 3.7 | 4.0 |
| 1.00% to 1.99% | 2.3 | 2.9 | 3.4 | 3.8 | 4.1 |
| 0.00% to 0.99% | 2.4 | 3.0 | 3.6 | 4.0 | 4.3 |
| Deficit Reserve Ratio: | | | | | |
| -0.00% to -2.99% | 3.4 | 4.3 | 5.1 | 5.6 | 6.1 |
| -3.00% to -5.99% | 3.4 | 4.3 | 5.1 | 5.7 | 6.2 |
| -6.00% to -8.99% | 3.5 | 4.4 | 5.2 | 5.8 | 6.3 |
| -9.00% to -11.99% | 3.5 | 4.5 | 5.3 | 5.9 | 6.4 |
| -12.00% to -14.99% | 3.6 | 4.6 | 5.4 | 6.0 | 6.5 |
| -15.00% to -19.99% | 3.6 | 4.6 | 5.5 | 6.1 | 6.6 |
| -20.00% to -24.99% | 3.7 | 4.7 | 5.6 | 6.2 | 6.7 |
| -25.00% to -29.99% | 3.7 | 4.8 | 5.6 | 6.3 | 6.8 |
| -30.00% to -34.99% | 3.8 | 4.8 | 5.7 | 6.3 | 6.9 |
| -35.00% and under | 5.4 | 5.4 | 5.8 | 6.4 | 7.0 |
| New Employer Rate | 2.8 | 2.8 | 2.8 | 3.1 | 3.4 |



15x

## Background Paper: Unemployment Insurance – An Overview (Cont'd)

[1]Fund balance as of March 31 as a percentage of taxable wages in the prior calendar year.
[2]Employer Reserve Ratio (Contributions minus benefits as a percentage of employer's taxable wages).

In addition to determining what column will be used to calculate the tax rate, the employer's reserve ratio (left hand column in table) is calculated through an experience rating system. To determine the employer's ratio, the benefits paid out by the employer are subtracted from all the contributions an employer has made to the State UI Fund and then that amount is divided by the amount of the employer's taxable wages (average of all payroll over the previous three years). The more charges against the account, the higher the tax rate, the fewer claims against the account, the lower the tax rate. The purpose of the experience rating system is to ensure an equitable distribution of costs of the system among the employers who cause unemployment and to encourage employers to stabilize their workforce.

Dependent on their experience rating, New Jersey employers are taxed on a scale from 0.03% to a maximum of 5.4% on the first $28,900 (2009) paid in wages, a range from a minimum of $87 to a maximum of $1,560 per employee. New employers, since they have no experience, begin at a tax rate of 0.26%, or $751 a year, per employee. The average tax rate on taxable wages ($27,700 in 2007) was 2.02%, or $559.54 per employee, which was 24th in the nation. The total amount of employer contributions in New Jersey for 2007 was $1.5 billion.

### ELIGIBILITY

Unemployment insurance is available to individuals in New Jersey, who, in most instances, have lost their jobs through no fault of their own. Persons who are **not** eligible for unemployment insurance include those who: voluntarily left their employment: were terminated for "gross misconduct;" are not employed in a "covered service," as defined in federal unemployment compensation law; certain corporate officers and owners of businesses and those who have not worked enough hours or for a sufficient amount of time to qualify.

More specifically, some examples of employment exempt from "covered services" under section 3306 of the Social Security Act and therefore not covered under unemployment insurance are: ministers or members of religious orders; services performed in the employ of a foreign government; insurance solicitors who work on commission; certain agricultural labor; and certain domestic service. In addition, FUTA excludes from its definition of "covered service" several categories of employers that, while not required to pay the FUTA tax or the State tax, are required to provide unemployment compensation benefits through an alternate system. Examples of these types of services include: federal employers; non-profit employers; maritime employers; railroad employers; and the State. Furthermore, corporate officers or business owners who have ceased working but the corporation has not filed for bankruptcy are not eligible for unemployment insurance but those individuals whose corporations have filed for bankruptcy are eligible. Lastly, individuals must have earned at least 20 times the minimum wage for at least 20 weeks or earned at least 1,000 times the state hourly minimum wage during their base year. The base year is either: the first four calendar quarters of the last five completed quarters before the date of the claim; the four most recently completed calendar quarters before the date of the claim; or the three most recently completed calendar quarters before the date of the claim and the weeks in the filing quarter up to the date of the claim.

## Background Paper: Unemployment Insurance – An Overview (Cont'd)

### BENEFITS

Once an individual's eligibility for unemployment insurance is established, the level of benefits must be determined. In New Jersey, weekly UI benefits are 60 percent of a laid-off worker's weekly wages (plus dependent allowances), up to 57 percent of the Statewide average weekly wage (SAWW) for all workers, a maximum weekly benefit of $584 in 2009. The average New Jersey weekly benefit was $347 in 2007, fourth highest in the nation, but thirtieth in the nation as a percentage of average wages. The total amount of benefits paid to workers in New Jersey in 2007 was $1.934 billion.

In addition, the federal American Recovery and Reinvestment Act of 2009 (ARRA), includes a provision providing each individual receiving unemployment benefits an additional $25 per week of their claim. These additional funds are available from March 6, 2009 through January 1, 2010.

#### Duration of Benefits

Individuals may continue to collect unemployment benefits for up to 26 weeks in New Jersey. To remain eligible for benefits during this time, the individual must: report to the local One-Stop Career Center as scheduled; be able and available to work; actively seek work; not refuse any offer of suitable work and claim the weekly unemployment benefits on the Internet or by telephone. In New Jersey, in 2007, 139,116 individuals exhausted their benefits (44.7%), fourth highest in the nation. The average claim duration was 18.1 weeks, third highest in the nation.

### Extended Benefits

There are four means by which an individual can access unemployment benefits beyond their regular 26 week duration. All of these benefits are cumulative and are in addition to the original 26 weeks of benefits. Two are permanently established in statute; the jointly funded federal-state extended benefits program and the State funded additional benefits during training program. Two are temporary in nature and are generally issued as either an act of Congress or an act of the State.

#### Federal/State Extended Benefits Program

First, the joint federal-state mandated extended benefits (EB) program is triggered when states reach certain levels of unemployment. The EB program provides for 50 percent of regular benefits or an additional 13 weeks of benefits, whichever is less, for workers. These benefits are equally funded from the state UI fund and from the federal extended unemployment compensation account (50/50). In New Jersey, the trigger for these benefits is an unemployment rate of at least 6.5% in each of the most recent three months, which must also represent 110% of the rate for the corresponding three-month period in either of the previous two years. If the average total unemployment rate reaches 8% and is 110% of the rate for the corresponding three-month period in either of the previous two years, New Jersey may extend benefits for 20 weeks or 80% of regular benefits.

New Jersey met the qualifications to trigger EB in the week ending March 7, 2009 and the State is currently operating under EB.

## Background Paper: Unemployment Insurance – An Overview (Cont'd)

In order to provide greater relief to the states, the American Recovery and Reinvestment Act of 2009 (ARRA), includes a provision that eliminates the required State contribution for EB. Therefore, the federal government will be paying the total cost of the EB program initiated between February 17, 2009 and January 1, 2010.

Federal Temporary Extension of Unemployment Benefits

The second means to provide additional UI benefits are temporary extensions of unemployment compensation (TEUC) through an Act of Congress. The extensions are usually given for 50 percent of regular benefits or 13 week allotments, whichever is less, and there are certain qualifications that individuals must meet to access the funds. To qualify, individuals must have: filed an initial claim that was in effect during or after the onset of the TEUC; exhausted regular benefits or have no benefit rights due to the expiration of a benefit year ending during or after the onset of the TEUC; have no rights to regular or extended benefits under any state or federal law; and had 20 weeks of full-time work, or the equivalent in wages, in the base period.

Congress has issued a TEUC three times since June 26, 2008. The first TEUC was included in the Federal Fiscal Year 2008 supplemental spending bill (H.R.2642) and extended benefits for 50 percent of regular benefits or 13 weeks, whichever is less, through March 2009. Pursuant to amendments adopted in the ARRA, the deadline for these TEUC benefits are extended to May 30, 2010, enabling a greater number of individuals to benefit from the extension.

The second TEUC was included in the "Unemployment Compensation Act of 2008" (Public Law 110-449), enacted November 21, 2008, and provides for an additional 50 percent of regular benefits or 13 weeks, whichever is less, for states in which the unemployment rate reaches or exceeds an average of 6.0% for three consecutive months. New Jersey reached that trigger for the three-month period ending November 28, 2008. Workers in the State qualified for the additional 50 percent of regular benefits or 13 weeks, whichever is less, under these TEUC benefits as of January 10, 2009.

The third TEUC was also issued as a result of the "Unemployment Compensation Act of 2008" and provided an additional seven weeks of federally funded benefits beginning November 23, 2008 to all claimants.

State Emergency Unemployment Benefits Program

The third means by which individuals can continue their benefits beyond the initial 26 week period are State emergency unemployment benefits programs. While such a program is not currently active, the State has, in the past, statutorily authorized additional benefits through these emergency programs. This has occurred twice in the previous 15 years, from December 30, 2001 to March 9, 2002 and from June 2, 1996 to March 1, 1997. During the 2001/2002 extension, benefits were granted for 10 weeks, while the 1996/1997 extension provided up to 50% of the original benefit amount or 13 weeks, whichever was less.

Additional Benefits during Training

The fourth means by which individuals can continue their benefits beyond the initial 26 week period is the State funded, Additional Benefits during Training program (ABT). If

## Background Paper: Unemployment Insurance – An Overview (Cont'd)

approved by a State counselor, eligible individuals may enroll in an approved training program and receive their unemployment insurance benefit for an additional 26 weeks. These funds are provided from the State UI fund. The total amount of ABT paid to workers in New Jersey in 2007 was $39.7 million.

Current Status of Benefits

All of these extensions, EB, TEUC, and ABT are cumulative and are provided to an individual in the following order, TEUC first, then EB, then ABT. Therefore, an individual who became unemployed in January, 2009 would be eligible for, in addition to the original 26 weeks of regular unemployment insurance benefits, an additional 13 weeks of extended benefits, plus 33 weeks of temporary extended benefits, plus 26 weeks of ABT for qualified individuals or a total of 98 weeks of successive possible benefits.

### CURRENT FUND STATUS

Since January, 2008, the unemployment insurance system has experienced very high volumes of benefit claims due to steadily rising unemployment during the current recession. Unemployment has steadily increased from 4.6% in January, 2008, to 8.3% in March, 2009. As a result, the UI Fund was completely depleted as of March 11, 2009. On this date, the State commenced borrowing from the federal unemployment account to pay State UI benefits. States are permitted to borrow from the federal unemployment account to pay state UI claims, but must return the funds on a scheduled basis. The American Recovery and Reinvestment Act (ARRA) of 2009 contains a provision that temporarily waives the accrual of interest on loans issued from the federal unemployment account to states. This provision is in effect until December 31, 2010.

Beginning in March, 2008, when the department estimated that the balance of the UI Fund would be approximately $977.3 million on March 31, 2008, the Governor and the Legislature took action to avoid triggering an automatic tax rate increase on employers because of the low reserve ratio, as discussed on pages 2 and 3 of this backgrounder. The balance in March, 2008 was not sufficient to continue UI tax rates during FY2009 in the "A" tax schedule, which provides the lowest UI tax rates for employers. Thus, P.L.2008, c.20 was enacted in June, 2008 authorizing the transfer of $260 million into the UI fund from the General Fund and delaying the date for calculating the reserve ratio from March 31 to June 30, 2008. These changes enabled the fund to maintain the ratio needed to retain the "A" tax schedule for FY2009 and therefore avoided a tax increase for employers.

However, the increasing benefit payments throughout FY2009 decreased the fund to a zero balance in March, 2009. Foreseeing the depletion of the UI fund due to increased benefit needs, Governor Corzine proposed, as part of his mid year correction to the FY2009 budget on February 17, 2009, an additional $270 million be transferred to the UI Fund. This amount has been decreased to $150 million for FY2009 under the proposed spending outlined in the Budget in Brief (Appendix II, page 7) and reflected in the Statement of the UI Fund (page H-15). Yet, even with these added funds, the UI fund balance is now estimated to be approximately $750 million on March 31, 2009, resulting in a reserve ratio of approximately 1.0, which will trigger a shift to column B and a tax increase on July 1, 2009.

The UI tax increase will cost employers approximately $100 per employee and will generate an additional estimated $394 million. Even with this additional revenue, the

## Background Paper: Unemployment Insurance – An Overview (Cont'd)

department is estimating that the UI Fund balance will be negative $1.6 billion on June 30, 2010 (page H-15). It is worth noting that the department's estimates are based on a "worst case scenario" and assume a ten percent decrease in revenue collected in FY2009 and a 35 percent increase in benefit payments in FY2010.

ARRA Funding

The federal American Recovery and Reinvestment Act (ARRA) of 2009 authorized, at a minimum, $221.77 million for unemployment insurance programs in the State for FY2009 and FY2010. Of this amount, $207 million was deposited into the State UI Fund on March 27, 2009 to assist in paying benefits and $14.773 million was authorized to offset additional State UI administrative costs. Additionally, ARRA authorized a federally funded $25 weekly unemployment benefit supplement available to all individuals receiving any form of State UI benefits beginning with the week ending February 28, 2009, and ending with all claims filed before January 1, 2010. The State will also receive funds from the federal government for the administrative expenses associated with this program. The total amount to be received is as yet undetermined.

Individuals receiving UI are also eligible under ARRA to purchase subsidized health insurance through a COBRA plan of their former employer, if available. COBRA (the Consolidated Omnibus Budget Reconciliation Act of 1985) allows certain people to extend employer-provided group health coverage, if they would otherwise lose the coverage due to certain events such as divorce or loss of a job. Under ARRA, UI recipients pay 35 percent of their COBRA premium and former employers pay the remaining 65 percent. Employers are then reimbursed by the federal government though a payroll tax credit.

**SUMMARY**

The unemployment compensation program is a state/federal partnership that has operated since 1935, in the wage of the Great Depression. The federal government establishes the parameters of the program and the states develop, implement, administer and monitor each program. The costs of the states' programs are funded jointly by federal and state taxes.

Currently, due to the economic recession the country is experiencing, the unemployment compensation program is under financial stress nationwide and in New Jersey. State UI programs nationwide are relying on federal dollars through the extension of benefits and the borrowing of federal dollars to support the trust funds. Absent a decrease in unemployment, a change in benefit level or an infusion of federal dollars, the current trust funds can not be maintained on the current tax structure.



20x

# Background Paper: New Jersey Unemployment Insurance Trust Fund Cash Balance 1994 – 2009

Budget Page.... H-15

The Social Security Act of 1935 authorized a federal-state unemployment insurance (UI) system to provide temporary partial wage replacement to individuals who lose their jobs through no fault of their own. New Jersey's UI system, established by the "unemployment compensation law," N.J.S.A.43:21-1 et seq., began paying benefits to laid off workers in 1939. The main goals of the UI system are to alleviate the hardship of involuntary unemployment on workers and their families and to stabilize the economy.

Unemployment insurance is funded jointly through the federal unemployment tax, established under the Federal Unemployment Tax Act and levied on employers and a State UI tax levied on employers and employees. All of the revenues collected from these taxes are deposited into a variety of specific fund accounts in the federal Unemployment Trust Fund.

The New Jersey UI Trust Fund account located within the federal Unemployment Trust Fund contains the revenues received by the State from the employer and employee unemployment insurance tax and specific allocations of funds from the federal government. For example, some of the federal funds allocated to the State through the "American Recovery and Reinvestment Act of 2009" are deposited into the State UI fund.

Following is a chart, provided by the Department of Labor and Workforce Development, that provides the New Jersey UI Trust Fund "Cash Balance" as it is recorded on December 31 of each year from 1994 through 2008. The chart also displays monthly cash fund balances for the years 2007 through January 2009.

The chart demonstrates the cyclical collection of revenue received by the State UI Trust Fund and how this interacts with the calculation of the "reserve ratio" determining the employer's UI State tax rate in the upcoming year. Two factors influence the cyclical nature of collections. First, only wages up to a certain level are taxed for UI benefits. In 2009, the first $28,900 in wages paid to an employee are subject to the State UI employer and employee tax. Therefore, any earnings above this figure are not taxed and thus, tax revenue collected for the fund (displayed as the Total Income column in the chart) generally decreases as the year progresses when many people have already surpassed $28,900 in wages and have completed their UI tax obligations for that year.

The chart also reflects that employers submit their UI tax payments to the State on a quarterly basis and are not required to pay the taxes to the State until the end of the first month after the end of the quarter. Subsequently, the chart indicates larger than average revenue as "Total Income" in May of each year. This revenue reflects the first quarter payments by employers into the fund. Although there is a delay in the appearance of that revenue in the cash balance of the fund, the payment is calculated as accrued revenue by the department for the first quarter of the calendar year (January through March). This is salient information because it is the "accrued revenue" plus any "cash balance" of the fund, less any liabilities, of the fund on March 31 of each year that equals the "fund balance." The "fund balance" is used to calculate the "reserve ratio" of the fund which, as previously stated, is used to determine the employer's tax rate for the following year.

## Background Paper: New Jersey Unemployment Insurance Trust Fund Cash Balance 1994 – 2009 (Cont'd)

The "reserve ratio" is a calculation of the total fund balance on March 31 of that year (including the accrued revenue for the first quarter) as a percentage of total wages paid in the State the previous year. Since the first quarter is generally the highest revenue generating quarter for the fund, the "reserve ratio" is calculated on March 31 each year to result in the highest "reserve ratio" possible for the following year's tax rate. Once the "reserve ratio" is determined, the State then sets the corresponding tax rate for employers. If the "reserve ratio" is low, a new higher tax rate may be triggered to generate more revenue for the fund. If the "reserve ratio" is high, the current tax rate may be maintained or a new lower tax rate may be triggered because funds are at an adequate level to compensate beneficiaries in the upcoming year.

For example, in response to OLS questions during the review of the FY2009 budget, the department estimated that the UI fund would have a "reserve ratio" of 1.41% on March 31, 2009. The "reserve ratio" was calculated by dividing the estimated fund balance of $1.059 billion on March 31, 2009 by the estimated total wages paid in 2008, $75.377 billion, resulting in a reserve ratio of 1.41% (1.059 / 75.377 = .014049). However, due to the experience of the fund throughout 2008 and thus far in 2009, the fund balance fell to approximately $750 million on March 31, 2009, resulting in a reserve ratio of approximately 1.0% which will trigger a tax increase on July 1, 2009.

For a more detailed analysis of any of the topics above, please see the backgrounder "Unemployment Insurance – An Overview," beginning on page 34 of this report.



22x

# Background Paper: New Jersey Unemployment Insurance Trust Fund Cash Balance 1994 – 2009 (Cont'd)

| | | | BENEFITS | | | TRUST FUND CASH BALANCE |
|---|---|---|---|---|---|---|
| DATE | TOTAL INCOME (1) | INTEREST (2) | REGULAR UI (3) | FSC/TEUC/ EUC08(4) | ABT(4) | DECEMBER 31 |
| 1994 | 1,244.9 (5)(6) | 126.1 | 1,282.1 | 72.8 (7) | 33.0 | 1,947.0 (5)(6) |
| 1995 | 1,305.6 | 132.1 | 1,298.0 | -2.4 | 24.0 | 1,987.8 |
| 1996 | 1,600.8 | 141.9 | 1,362.6 | -2.9 | 23.7 | 2,028.8 |
| 1997 | 1,583.4 | 146.7 | 1,186.1 | -2.5 | 22.7 | 2,384.9 |
| 1998 | 1,438.7 | 171.1 | 1,131.2 | -1.7 | 19.8 | 2,676.4 |
| 1999 | 1,221.0 | 174.5 | 1,123.5 | -1.8 | 24.8 | 2,708.8 |
| 2000 | 1,510.1 | 189.5 | 1,088.9 | -1.6 | 22.9 | 3,086.4 |
| 2001 | 1,588.6 | 203.8 | 1,516.4 | -1.8 | 22.8 | 3,121.7 |
| 2002 | 1,128.5 | 173.3 | 2,042.9 | 786.3 | 26.0 | 2,306.3 (8) |
| 2003 | 1,381.9 | 112.6 | 2,045.9 | 609.7 | 36.6 | 1,512.4 (8) |
| 2004 | 1,505.1 | 67.6 | 1,877.5 | 65.9 | 45.7 | 1,001.8 (8) |
| 2005 | 1,752.4 | 42.9 | 1,760.6 | -7.7 | 40.7 | 914.0 (8) |
| 2006 | 1,645.0 | 35.6 | 1,713.4 | -3.0 | 37.6 | 693.6 (8) |
| 2007 | 1,958.9 | 32.8 | 1,855.4 | -2.3 | 39.7 | 650.4 (8) |
| 2008 | 1,982.2 | 31.20 | 2,235.2 | 570.9 | 29.20 | 516.8 (8)(9) |
| 2007 | | | | | | |
| JAN | 58.9 | - | 199.1 | -0.1 | 3.2 | 555.4 |
| FEB | 179.3 | - | 174.1 | -0.2 | 3.2 | 558.1 |
| MAR | 23.7 | 6.6 | 174.1 | -0.2 | 3.1 | 377.6 |
| APR | 45.8 | - | 162.2 | -0.2 | 3.4 | 250.0 |
| MAY | 769.8 | - | 148.5 | -0.4 | 3.5 | 866.9 |
| JUN | 8.7 | 7.6 | 125.8 | -0.2 | 3.0 | 733.2 |
| JUL | 40.4 | - | 163.2 | -0.2 | 3.6 | 600.4 |
| AUG | 452.6 | - | 145.3 | -0.2 | 2.8 | 887.6 |
| SEP | 22.4 | 9.6 | 126.9 | -0.2 | 2.8 | 762.1 |
| OCT | 39.8 | - | 147.6 | -0.2 | 4.0 | 640.3 |
| NOV | 293.0 | - | 130.0 | -0.1 | 3.4 | 788.1 |
| DEC | 24.4 | 9.0 | 158.5 | -0.1 | 3.7 | 650.4 |
| 2008 | | | | | | |
| JAN | 60.9 | - | 204.3 | * | 3.4 | 496.9 |
| FEB | 193.6 | - | 185.0 | -0.1 | 3.6 | 487.5 |
| MAR | 21.1 | 6.1 | 198.1 | -0.1 | 4.0 | 297.1 |
| APR | 60.0 | - | 188.8 | -0.3 | 4.0 | 161.4 |
| MAY | 751.4 | - | 147.3 | -0.2 | 3.4 | 742.2 |
| JUN | 18.7 | 6.4 | 164.2 | -0.2 | 3.6 | 847.0 (9) |
| JUL | 154.3 | - | 186.5 | 17.8 | 2.1 | 802.1 |
| AUG | 359.8 | - | 162.7 | 127.3 | 0.3 | 974.1 |
| SEP | 12.7 | 10.4 | 184.0 | 123.1 | 0.1 | 792.9 |
| OCT | 101.0 | - | 169.7 | 103.5 | 1.0 | 708.3 |
| NOV | 221.8 | - | 180.2 | 54.6 | 2.1 | 750.7 |
| DEC | 26.9 | 8.3 | 264.4 | 145.5 | 1.6 | 516.8 |
| 2009 | | | | | | |
| JAN | 18.5 | - | 276.0 | 178.6 | 0.1 | 222.4 |
| FEB | 219.4 | - | 292.6 | 171.9 | 0.1 | 141.4 |

* Less than 0.1 million. (See notes, attached)

# Background Paper: New Jersey Unemployment Insurance Trust Fund Cash Balance 1994 – 2009 (Cont'd)

## FOOTNOTES

(1) Trust fund income includes employer and employee contributions, interest and reimbursable income and is derived from the BA-29 report (an internal department report).

(2) Interest payments are credited to the State's account in the Unemployment Trust Fund (UTF) at the end of each calendar quarter and are included in income figures.

(3) Benefits include payments to claimants under the Regular UI program and are derived from the BA-29 report. These figures include payments made to the former employees of both contributory and reimbursable employers, but do not include refunds collected.

(4) The Federal Emergency Unemployment Compensation (EUC) Program (known in New Jersey as FSC) operated from November 1991 to April 1994. The maximum entitlement under the FSC Program varied between 7 and 33 weeks, depending on the level of the program's triggers.

Under the Workforce Development Partnership Program (WDP), which was signed into law on July 7, 1992, certain individuals may be able to collect additional unemployment insurance benefits. Eligibility was initially restricted to claimants who were entitled to not less than 26 weeks of Regular UI benefits, had exhausted their entitlement to regular UI and were permanently separated from employment and unlikely to return to such employment. Effective July 8, 2001 the 26-week potential duration rule was eliminated, affecting ABT payments in October 2001, when the change was implemented. Additional Benefits During Training (ABT) are payable at the regular weekly benefit rate for up to 26 weeks while the individual is in approved training. Beginning July 2004, the WDP law was revised to limit ABT to 2.0 percent of the Unemployment Trust Fund (UTF) balance on December 31 of the previous year. Included is a carry forward provision from prior years.

The Federal Temporary Extended Unemployment Compensation (TEUC) program, enacted in March 2002, provided up to 13 weeks of extended benefits for UI claimants who were unemployed after March 9, 2002, exhausted their UI benefits, had a regular UI claim dated March 19, 2000 or later and filed a regular UI claim after March 10, 2001. Benefits were payable from March 10 through December 28, 2002.

On January 8, 2003, the TEUC program was extended through May 31, 2003 for filing of TEUC claims and through August 30, 2003 for payments on claims filed. The extension was retroactive to the previous expiration date of December 28, 2002. On May 28, 2003 the Temporary Extended Unemployment Compensation Act (TUC) of 2002 was amended to end December 31, 2003. The last date for filing claims was December 21, 2003 and the last allowable payments were for week ending April 3, 2004.

On April 16 2003, special rules created for determining TEUC eligibility for certain displaced airline and related workers were enacted. Such workers may qualify for up to 39 weeks of TEUC-A. Benefits are payable beginning April 20, 2003. The program ended December 27, 2003 for filing of TEUC-A claims and payments ended January 1, 2005 for claims filed.

On June 6, 2008, President Bush signed legislation that allowed the federal government to establish the Extended Unemployment Compensation (EUC) program. This program was expanded on November 21, 2008. The maximum amount of EUC payable is 20 times the original weekly benefit amount or 80% of the original maximum benefit amount, whichever is less. EUC benefits are payable as of beginning July 6, 2008 and will continue to be payable until August 27, 2009.

(5) Beginning in the second quarter of 1993, employer and worker unemployment insurance contributions were reduced because of the redirection of a portion of UI employer taxes and all of the worker tax to fund the costs of the Workforce Development Partnership Program (WDP) and charity health care. The redirection of .025% of the worker tax to WDP became permanent on January 10, 1996. The charity care diversion lapsed for the first quarter of 1996 (reflected in second quarter receipts), but resumed in the second quarter of 1996 (reflected in third quarter receipts) as a result of the enactment of P.L. 1996, Chapter 28, which renewed the health care diversion through December 31, 1997.

The charity care diversion was renewed again for the period January 1, 1998 (reflected in second quarter receipts) through December 31, 2002 as a result of the enactment of P.L. 1997, Chapter 263. A portion of employer UI taxes was redirected to the Health Care Subsidy Fund for calendar years 1998 through 2000, while a portion of the worker tax was diverted for the period 1998 through 2002.

Effective July 1, 2001, employer taxes were reduced by 0.0175 percent for the Supplemental Workforce Fund (SWF) for Basic Skills and January 1, 2002 worker tax was reduced by 0.0175 percent for SWF.

P.L. 2002, Chapter 13, extended the health care diversion through June 2003. For January through June 2002 a new diversion of $325 million was added to the previously scheduled $66.5 million for a total of $391.5 million. An additional $125 million was diverted to the Health Care Subsidy Fund from April – June 2002, under P.L.2002 c.29. The bill also included a new diversion of $325 million for July 2002 through July



24x

# Background Paper: New Jersey Unemployment Insurance Trust Fund Cash Balance 1994 – 2009 (Cont'd)

2003. the additional amounts were financed by reductions in UI employer and worker taxes during the period January 2002 to July 2003.

On June 30, 2003, P.L. 2003, Chapter 107 was signed. This bill diverted an additional $325 million for health care from July 1, 2003 through June 30, 2004. The reduction in UI worker and employer taxes was extended through June 2004.

A bill diverting $100 million for health care was signed on June 29, 2004 and reduced employer taxes through June 30, 2005.

An amended bill redirecting $350 million for health care was approved on July 2, 2005 and reduced employer taxes through June 30, 2006.

Income and trust fund balance figures include the following amounts collected for health care in excess of the statutory limit on contributions to the Health Care Subsidy Fund: $216.7 million in 1994, $258.7 million in 1995, $96.9 million in 1996, $93.8 million in 1997, $53.4 million in 1998, $10.1 million in 1999, $30.3 million in 2000, $50.3 million in 2001, $17.0 million in 2002, $5.3 million in 2003, $14 million in 2004, $-0.9 million in 2005, $37.0 million in 2006, $2.7 million in 2007 and $1.6 million through November 2008.

(6) Pursuant to budget language in the Appropriations Act for State Fiscal Year 1990 , PL 1989, C.122 40% of worker contributions received between July 1989 and June 1990 or $100 million, whichever was greater, was transferred to the Uncompensated Care Offset Account (for Charity Care). A total of $40.7 million was transferred during 1989, while the 1990 transfers were $59.3 million. Under the terms of an agreement with the U.S. Department of Labor, the $100 million plus accrued interest was to be repaid in two installments in state fiscal years 1993 and 1995. The first payment, received on September 30, 1992, was $37.5 million, while the final payment of $101.8 million was received on September 30, 1994. Both amounts are included in total income.

(7) Reflects accounting adjustments made to FSC benefits from July 1992 through June 1994.

(8) Includes $242.8 million in federal Reed Act funds transferred to the State UTF less $0.4 million expended in 2002, $13.7 million expended in 2003, $9.7 million expended in 2004, $11.9 million expended in 2005, $48.7 million expended in 2006, $28.1 million expended in 2007, and $21.2 million expended through November 2008.

(9) Includes $260 million transferred from the General Fund to the UTF on June 27, 2008.

New Jersey Department of Labor and Workforce Development, Program Planning, Analysis and Evaluation, Date: December 2008

Key - FSC - Emergency Unemployment Compensation (EUC) Program, known in New Jersey as FSC [Federal Supplemental Compensation Program]. See footnote (4).

ABT - Additional Benefits During Training. See footnote (4).

NJEB - New Jersey Extended Benefits Program. See footnote (4).

TEUC/TEUC-A - Temporary Extended Unemployment Compensation. See footnote (4).

SWF - Supplemental Workforce Fund (SWF) for Basic Skills. See footnote (7).



25x

# Background Paper: The Unemployment Insurance (UI) Trust Fund

Budget Pages.... B-6, D-247 to D-250 and H-43

## MAJOR CHANGES AFFECTING THE UNEMPLOYMENT INSURANCE SYSTEM IN FY 2005

There are two major fiscal proposals that would affect New Jersey's Unemployment Insurance (UI) trust fund during FY 2005: (1) the expenditure of $32.5 million from the fund to improve the administration of UI benefit payments and employment services; and (2) the redirection of $100 million from the UI trust fund to the Health Care Subsidy Fund (HCSF).

Normally, federal law prohibits the use of UI trust fund moneys for any purpose other than paying UI benefits to laid off workers. The $32.5 million budgeted for administrative purposes is permitted only because it is drawn from the $242.8 million that was deposited by the federal government into New Jersey's UI fund pursuant to the federal "Job Creation and Worker Assistance Act of 2002," (JCWAA). The $242.8 million is New Jersey's share of a one-time distribution under the JCWAA of $8 billion of previously accumulated federal "Reed Act" funds, the federal funds normally used to support State costs of administrating the Employment Service (ES) and UI programs. The JCWAA also allows states to use the $8 billion to fund increased UI benefits.

The department's FY 2005 budget request directs that $32.5 million, "or so much as may be necessary," of the "Reed Act" funds be used for "the improvement of services to unemployment insurance claimants through the improvement and modernization of the benefit payment system and other technology improvements and to employment service clients through the continued development of one-stop offices throughout the State and other investments in technology and processes that will enhance job opportunities for clients" (see page D-250). The $32.5 million proposed for FY 2005 is in addition to the total of $67 million appropriated in the FY 2003 and 2004 budgets from "Reed Act" funds for the same purposes.

Notwithstanding the previous appropriation of $67 million, the balance in New Jersey's Reed Act account for the State was $231.2 million as of March 31, 2004, only $11.6 million less that the amount of Reed Act funds received by the State. That $231.2 million helps to offset the loss of $941.5 million in UI revenues that would result from the proposed diversion of $100 million of UI taxes to the HCSF for FY 2005 (see page B-6) and the previous diversion of $841.5 million of UI taxes to the HCSF since the beginning of calendar year 2002. This is important for employers because the UI tax rate imposed on each employer is calculated on the basis of a combination of the employer's own "reserve ratio" (the amount of UI taxes paid by the employer minus the benefits paid to workers laid off by the employer as a percentage of UI taxable wages paid by the employer) and the "reserve ratio" for the entire UI trust fund (the fund balance as a percentage of the total UI taxable wages in the State). As explained below, the fund balance of the State's UI fund ($2.136 billion at the end of FY 2003) has been high enough for the last five years to keep employers in the "A" tax schedule, which provides the lowest UI tax rates for employers.

The $242.8 million Reed Act distribution and the shifting of $941.5 million of UI revenues to the HCSF are also important to workers, because of their interest in having UI benefits adequately funded, one of the purposes of the Reed Act distribution stated in the JCWAA. As described below, New Jersey, like other states, made major changes in its UI program during the mid-1980's to eliminate the fund deficit caused by the recessions of the 1970's and 1980's. The changes included large UI tax increases and major reductions in UI benefit availability for unemployed workers. More recent changes have given greater emphasis to tax reductions than to restoring previous levels of benefit availability for the unemployed.



8/0 ✓

# Background Paper: The Unemployment Insurance (UI) Trust Fund

## OVERVIEW OF NEW JERSEY'S UI SYSTEM

New Jersey's UI system, established in 1937, began paying benefits to laid off workers in 1939. The main goals of the UI system have been to alleviate the hardship of involuntary unemployment on workers and their families and to stabilize the economy. As stated in R.S.43:21-2, the system is designed to meet those goals by facilitating "the systematic accumulation of funds during periods of employment to provide benefits for periods of unemployment, thus maintaining purchasing power and limiting the serious social consequences of poor relief assistance."

Weekly UI benefits are 60% of a laid-off worker's weekly wages (plus dependent allowances), up to 57% of the Statewide average weekly wage (AWW) for all workers, a maximum weekly benefit of $490 in 2004. The average New Jersey weekly benefit was $334 in 2003, second highest in the nation, but lower than 28 other states as a percentage of average wages.

During CY 2003, 593,073 New Jersey residents filed UI benefit claims, with a weekly average of 132,640 workers laid off from jobs in the State receiving benefits. The average New Jersey UI claim lasted 18 weeks, 1.6 weeks longer than the national average claim. During that period, 195,806 New Jersey claimants, 54% of all claimants, exhausted all UI benefits, a maximum of 26 weeks, without being able to find work, compared to a national UI benefit exhaustion rate of 44%. That New Jersey benefit exhaustion rate, the highest in the nation, reached its second highest level on record (exceeded only by the State's 58% rate of 2002). Benefits to workers laid off from jobs in the State totaled $2.8 billion in CY 2003.

Benefits are financed from taxes paid by employers and workers on the first $24,300 of each worker's annual wages in 2004, an amount adjusted annually to reflect changes in the AWW. During calendar year 2002, New Jersey employers paid 0.9% of total payroll for UI taxes, higher than the national average of 0.5%. This State is one of only three states that impose a UI tax on workers. A New Jersey worker earning $24,300 or more in 2003 paid $130 in taxes for the UI and health care and workforce development funds. Employers paid an average of $343 per covered employee for those taxes.

What follows is a description of major changes in the State's UI system in the last 30 years regarding the benefits and taxes, and their impact on the solvency of the UI trust fund.

## THE LONG-TERM DECLINE IN TOTAL UI WAGE REPLACEMENT RATES

From the beginning of the 1970s until the mid-1990's, there was an overall decline in the degree to which New Jersey's system of regular and extended UI benefits sustained the incomes of unemployed workers. Chart I (based on data from Table I) indicates that the number of workers paid UI benefits when laid off from jobs in New Jersey during an average week in 1971 was 83% of the total number of unemployed workers who were seeking work. By 1994, the percentage of laid off workers receiving benefits had fallen to only 39%. Since then, the share of laid-off workers receiving UI benefits recovered significantly, rising to 71% by 2002.

The share of the total unemployed population receiving UI benefits reached a peak of 97% in 1975, due to an infusion of federal emergency UI benefits provided on an ad hoc basis for three years. Excluding such emergency funding (also provided in 1983, 1992, 1993 and 2002), the percentage of unemployed workers receiving State-funded regular UI benefits or State/federal extended UI benefits tended to decline from 1971 to 1994, but some of that loss has since been

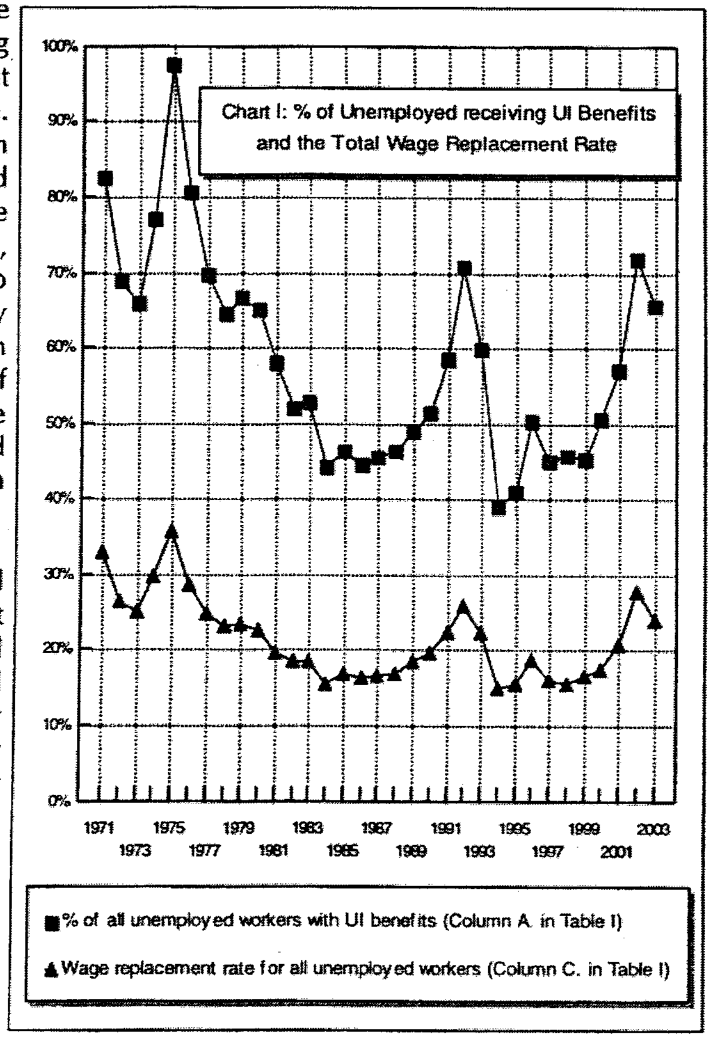
## Background Paper: The Unemployment Insurance (UI) Trust Fund (Cont'd)

reversed (see Table I).[1]

Even among workers covered by UI benefits, the adverse impact of joblessness is significant because the average weekly benefit amount (AWBA) is much lower than the average weekly wage (AWW), with the AWBA being only 37% of the AWW during the period from 1971 to 2003. Column "C" of Table I provides an overall "wage replacement rate," that is, the total amount of UI benefits paid as a percentage of the total amount that unemployed workers would have earned if they were all working at the average wage. The wage replacement rate declined from a peak of 36% in 1975 to a low of 15% in 1994, since rising to 28% in 2002 (see Table I and Chart I).

### CAUSES OF THE DECLINE IN UI BENEFIT COVERAGE

The declining percentage of unemployed workers receiving UI benefits was caused by national and State changes making it harder for laid-off workers to obtain UI benefits and shortening benefit duration. These included 1981 changes in the federal UI law (Pub.L.97-35) making it harder for a state to qualify for the federal/State extended UI benefit program, by basing eligibility on the state's insured unemployment rate, instead of its total unemployment rate. As shown in Table I, New Jersey has been disqualified from federal/State extended benefits ever since 1983. The State "emergency" UI benefits provided in 1991, 1996 and 2002, were temporary, and are no longer in effect. The federal emergency benefits in effect since March 2002 expired in December 2003, and provided a maximum of 13 weeks of benefits, much less than the maximum 33 weeks of federal extended benefits in the early 1990's and 39 weeks in the mid-1970's.




That 1981 federal law also imposed interest charges on state UI programs that borrow from the federal program. This led many states, including New Jersey, to overhaul their UI programs, most often making it harder for laid off workers to obtain benefits by raising benefit eligibility thresholds. New Jersey UI reform legislation, P.L.1984, c.24, raised UI benefit eligibility thresholds and indexed them to the AWW, causing the minimum weekly income and the alternative minimum annual income required for eligibility to more than double from 1984 to

1. "Extended" UI benefits, up to 13 additional weeks, supported by 50/50 State/federal funding, are triggered by unemployment rates set in advance by federal and State law. "Emergency" benefits, either entirely federally-funded or entirely State-funded, are of varying lengths and enacted on a, temporary, ad hoc basis. No State/federal extended benefits have been provided since 1983. Beyond the time period covered in Table I and Chart I, no State or federal emergency benefits are currently being provided.

## Background Paper: The Unemployment Insurance (UI) Trust Fund (Cont'd)

TABLE I: Percent of Unemployed Workers Receiving UI Benefits in New Jersey
Adjusted for the Ratio of the Average UI Benefit to the Average Weekly Wage

| | Number of Workers on Average Week Receiving the Following UI benefits: | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| Year | State funded Regular Benefits | State funded Extended Benefits | State/Fed. funded Extended Benefits* | Federal funded Emergency Benefits** | Total for All Benefits | Total Number of Unemployed Workers*** | A.Total Workers Receiving UI Benefits as % of Total Unemployed Workers | B. Ratio of Average Weekly Benefit to Average Weekly Wage (AWW) | C. Total UI Benefits as % of Total Wages at AWW Rate (A times B.) |
| 1971 | 106,700 | | 23,592 | | 130,292 | 157,925 | 82.5% | 39.7% | 32.8% |
| 1972 | 95,625 | | 18,434 | | 114,059 | 165,840 | 68.8% | 38.5% | 26.5% |
| 1973 | 93,115 | | 15,338 | | 108,453 | 165,098 | 65.7% | 38.1% | 25.0% |
| 1974 | 120,610 | | 24,146 | | 144,756 | 187,893 | 77.0% | 38.5% | 29.7% |
| 1975 | 170,202 | | 50,178 | 79,223 | 299,602 | 307,770 | 97.3% | 36.6% | 35.6% |
| 1976 | 133,362 | | 41,763 | 82,877 | 258,002 | 320,586 | 80.5% | 35.4% | 28.5% |
| 1977 | 122,350 | | 35,686 | 46,082 | 204,118 | 293,313 | 69.6% | 35.6% | 24.8% |
| 1978 | 115,633 | | 28,033 | 4,065 | 147,731 | 228,903 | 64.5% | 35.7% | 23.0% |
| 1979 | 123,996 | | 25,801 | | 149,797 | 225,013 | 66.6% | 35.2% | 23.4% |
| 1980 | 131,489 | | 23,559 | | 155,048 | 238,663 | 65.0% | 34.8% | 22.6% |
| 1981 | 123,298 | | 18,232 | | 141,530 | 244,748 | 57.8% | 33.8% | 19.5% |
| 1982 | 133,892 | | 12,944 | 11,543 | 158,379 | 304,967 | 51.9% | 35.3% | 18.3% |
| 1983 | 110,435 | | 3 | 31,832 | 142,270 | 269,291 | 52.8% | 35.1% | 18.5% |
| 1984 | 91,663 | | | 4,563 | 96,226 | 218,916 | 44.0% | 35.3% | 15.5% |
| 1985 | 90,321 | | | 4,261 | 94,582 | 204,544 | 46.2% | 36.6% | 16.9% |
| 1986 | 81,971 | | | | 81,971 | 185,167 | 44.3% | 36.9% | 16.3% |
| 1987 | 68,087 | | | | 68,087 | 150,344 | 45.3% | 36.8% | 16.7% |
| 1988 | 66,811 | | | | 66,311 | 144,169 | 46.3% | 36.4% | 16.9% |
| 1989 | 77,018 | | | | 77,018 | 157,197 | 49.0% | 37.5% | 18.4% |
| 1990 | 99,616 | | | | 99,616 | 193,868 | 51.4% | 38.0% | 19.5% |
| 1991 | 129,393 | 11,735 | | 6,172 | 147,300 | 251,485 | 58.6% | 37.9% | 22.2% |
| 1992 | 125,240 | | | 100,762 | 226,002 | 319,440 | 70.7% | 36.6% | 25.9% |
| 1993 | 102,825 | | | 66,205 | 169,030 | 282,416 | 59.9% | 37.4% | 22.4% |
| 1994 | 101,114 | | | | 101,114 | 259,637 | 38.9% | 38.3% | 14.9% |
| 1995 | 100,383 | | | | 100,383 | 246,597 | 40.7% | 38.2% | 15.6% |
| 1996 | 104,262 | 16,747 | | | 121,009 | 240,285 | 50.4% | 37.0% | 18.6% |
| 1997 | 90,225 | | | | 90,225 | 201,735 | 44.7% | 36.0% | 16.1% |
| 1998 | 84,186 | | | | 84,186 | 183,959 | 45.8% | 33.8% | 15.5% |
| 1999 | 84,878 | | | | 84,878 | 187,850 | 45.2% | 36.4% | 16.4% |
| 2000 | 78,470 | | | | 78,470 | 154,803 | 50.7% | 34.5% | 17.5% |
| 2001 | 100,436 | | | | 100,436 | 176,013 | 57.1% | 36.4% | 20.8% |
| 2002 | 127,068 | 3,082 | | 48,055 | 178,204 | 247,833 | 71.9% | 38.5% | 27.7% |
| 2003 | 127,211 | | | 36,376 | 163,587 | 249,249 | 65.6% | 36.6% | 24.0% |

Sources: "NJ Economic Indicators" for number of unemployed workers (with adjustments indicated below), "Statistical Appendix, 1979 Annual Report," NJDOL, for 1975-1978 Special Unemployment Assistance amounts, "IU Data Summary" and "ET Handbook," USDOL, for all other data.

* "State/Fed.-funded Benefits" means extended UI benefits funded by the State and federal governments on a 50/50 basis.

** "Federal Emergency Benefits include all 100% federally-funded benefits, including extended benefits for all indicated years, and, for 1975-1978, also including Special Unemployment Assistance for laid-off local government employees.

*** Number of unemployed workers from NJ Economic Indicators adjusted for the percentage difference between the New Jersey "Resident Employment" in the workforce (series 2 of the NJ Economic Indicators) and "Nonfarm Payroll Employment" (series 7), so that the number of unemployed more closely reflects the number of workers employed in the State and is more consistent with the other figures in the table, which are based on NJ workplaces.

1985. This change, together with stricter provisions disqualifying claimants for various misbehaviors, contributed to a continuing decline of wage replacement rates, which reached a low of 15% in 1994.

The increases in the earnings needed to qualify for UI benefits imposed by the 1984 law followed an earlier increase in 1975. A worker laid off between 1953 and 1975 could qualify for benefits by earning $15 or more during each of at least 17 weeks, a total of as little as $255 earned

## Background Paper: The Unemployment Insurance (UI) Trust Fund (Cont'd)

during the "base year" preceding the layoff. The minimum was increased to $30 for each of 20 weeks ($600 total) from 1975 until 1984 and then raised that year to $72 per week ($1,440 total) and indexed to the AWW, so that it rose steadily to $126 per week ($2,520 total) in 1995. In sum, the base year earnings needed to be eligible for UI benefits increased eightfold from 1975 to 1995.

### RECENT REFORMS TO ALLEVIATE DECLINING UI BENEFIT COVERAGE

Measures were taken during the last 12 years, however, to mitigate the reduced wage replacement rates. Largest in scale were federal "emergency" UI programs, providing laid off New Jersey workers with $2.1 billion in extended benefits in 1992 and 1993, and $786 million in 2002, at no cost to the State. Smaller State-funded temporary emergency programs in 1991, 1996 and 2002 provided another $396 million in UI benefits. This $3.2 billion in extended benefits represents a substantial share of the $19.3 billion total UI benefits paid from 1991 to 2002, but, because of their "one shot" nature, their effect has been temporary and unpredictable.

The State initiatives which improved UI benefits on a permanent basis were smaller in scale. P.L.1992, c.47 provided 26 weeks of extended UI benefits for laid off workers enrolled in job training. P.L.1995, c.394 adopted the "alternative base year" in 1995, making it easier for seasonal workers to get UI benefits. P.L.1995, c.394 linked the minimum income thresholds for UI eligibility (the "base week") to the minimum wage, instead of the higher AWW, reducing the minimum weekly earnings for UI benefit eligibility from $126 in 1995 to $101 in 1996. The base week increased to $103 per week with the minimum wage increase of 1999, but if the base week had continued to be tied to the AWW, it would have reached $174 by 2003, excluding any minimum wage worker working less than 34 hours per week. P.L.2002, c.13 eliminated the one-week waiting period for regular UI benefits. Most recently, P.L.2003, c.107 increased the duration of regular UI benefits from 75% of a worker's base weeks to 100% of the base weeks up to 26 weeks.

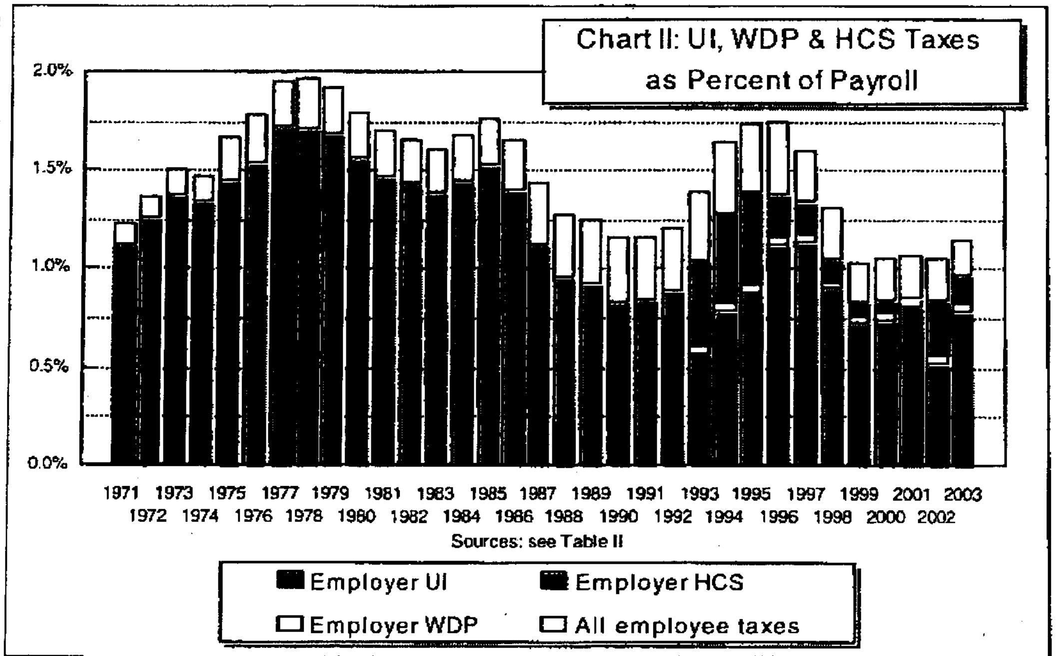
While the resulting increase in UI benefits is less than $200 million per year, those intiatives, together with the emergency extensions, represent a change from the dominant trend during the 1970's and 1980's of benefit reductions. The changes of the 1990's helped to increase of the portion of laid-off workers receiving benefits from 39% in 1994 to 71% in 2002. Another factor in that increase is that UI benefit recipiency rates tend to be higher at the start of recessions, with the recipiency rate falling to 66% in 2003.

### UI FINANCING AND UI TRUST FUND SOLVENCY

At the end of CY 2001, the cash balance of New Jersey's UI trust fund attained a record high of $3.1 billion.[2] This balance, almost twice the amount of UI benefits paid that year ($1.6 billion), represents a strong recovery for a trust fund that was in deficit from 1975 to 1983, forcing the State to borrow from the federal government to pay benefits. Despite the record high $2.1 billion in UI benefits paid in CY 2002, combined with a diversion of $517 million, the UI fund cash balance was $2.3 billion, high enough to keep in effect the "A" UI tax schedule, which provides employers with the lowest UI tax rates. In CY 2003, despite the payment of another $2.1 billion

2. Note that the "cash balance" of the UI fund is significantly lower than the "fund balance" used to determine employer UI tax rates. The "fund balance" includes UI tax revenues accrued from payrolls but not yet paid (employers are not required to pay UI taxes for a calendar quarter until after the end of the quarter). The cash balance includes only cash actually deposited. The "fund balance" of the UI fund, calculated only for March 31 and June 30 of each year, has exceeded the "cash balance" of the fund by amounts ranging from $300 million to $500 million.

## Background Paper: The Unemployment Insurance (UI) Trust Fund (Cont'd)




in benefits, the fund's cash balance remained above $1.5 billion and the "A" schedule remained in effect.

The reversal of fund insolvency was achieved largely through the changes made by P.L.1984, c.24, which not only reduced access to UI benefits as discussed, but also imposed a 10% surcharge on employers and ongoing UI tax increases on employers and workers. These changes allowed the State to repay its debt to the federal UI system and remove the surcharge by 1986. The 1984 changes also resulted in the indicated $3.1 billion balance in 2001, even while more than $3.896 billion were shifted from UI taxes into taxes supporting the Health Care Subsidy Fund (HCSF) from 1992 to 2003.

Chart II and Table II show the amounts paid by employers and workers for UI, HCSF and Workforce Development Partnership (WDP) taxes. The HCSF tax, which was $600 million in 1992 and $500 million each year in 1993 and 1994, was being steadily decreased in the following years, declining to $95 million in 2001. That pattern, however, was reversed by P.L.2002, c.13 and c.29, which increased the HCSF tax for 2002 and the first half of 2003 from $67 million to $842 million, followed by P.L.2003, c.107, which diverted another $325 million to HCSF.

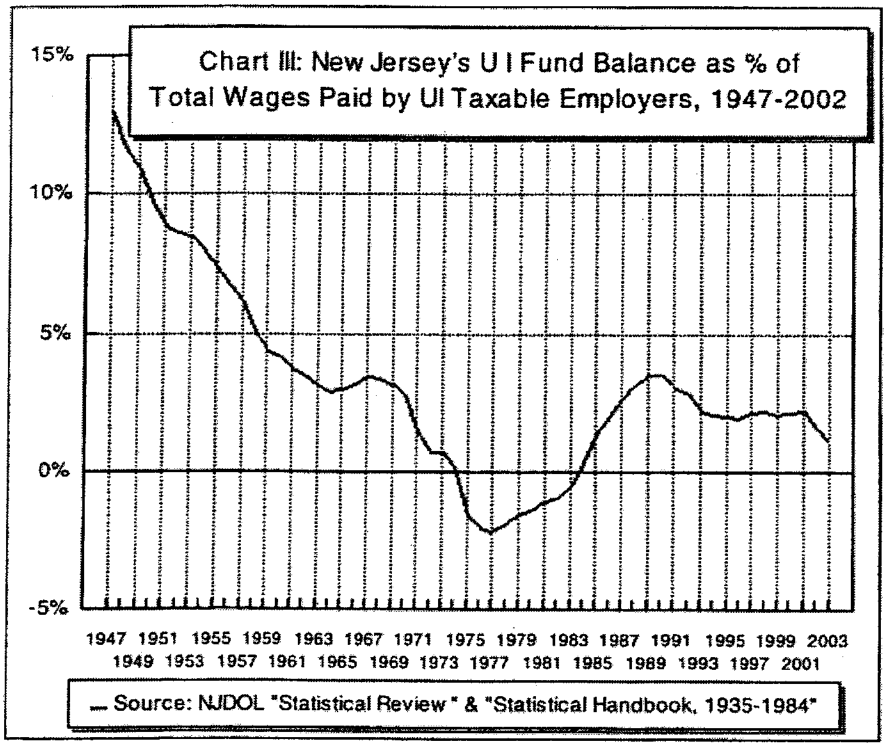
The shift of payroll tax revenues from UI taxes to HCSF taxes has resulted in a greater

Table II: New Jersey Unemployment Insurance, Workforce Development and Health Care Subsidy Taxes

| | UI taxes in millions | | | WDP taxes in millions | | | HCS taxes in millions | | | All taxes in millions | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Year | Employer | Worker | Total | Employer | Worker | Total | Employer | Worker | Total | Employer | Worker | Total |
| 1992 | $764.3 | $264.8 | $1,029.1 | $0.0 | $0.0 | $0.0 | $0.0 | $0.0 | $0.0 | $764.3 | $264.8 | $1,029.1 |
| 1993 | $502.5 | $75.5 | $578.0 | $34.5 | $11.1 | $45.6 | $376.4 | $223.6 | $600.0 | $913.4 | $310.2 | $1,223.6 |
| 1994 | $723.6 | $223.9 | $947.5 | $42.5 | $12.6 | $55.1 | $411.8 | $88.2 | $500.0 | $1,177.9 | $324.7 | $1,502.6 |
| 1995 | $842.9 | $269.2 | $1,112.1 | $43.9 | $13.4 | $57.3 | $443.5 | $56.5 | $500.0 | $1,330.3 | $339.1 | $1,669.4 |
| 1996 | $1,143.2 | $240.6 | $1,383.8 | $45.0 | $13.7 | $58.7 | $212.8 | $117.2 | $330.0 | $1,401.0 | $371.5 | $1,772.5 |
| 1997 | $1,244.7 | $103.1 | $1,347.8 | $48.0 | $14.5 | $62.5 | $167.4 | $162.6 | $330.0 | $1,460.1 | $280.2 | $1,740.3 |
| 1998 | $1,074.9 | $137.4 | $1,212.3 | $47.2 | $14.8 | $62.0 | $127.2 | $160.8 | $288.0 | $1,249.3 | $313.0 | $1,562.3 |
| 1999 | $937.9 | $102.5 | $1,040.4 | $44.6 | $14.4 | $59.0 | $87.1 | $146.8 | $233.9 | $1,069.6 | $263.7 | $1,333.3 |
| 2000 | $1,041.7 | $185.3 | $1,227.0 | $59.6 | $19.4 | $79.0 | $82.6 | $96.0 | $178.6 | $1,183.9 | $300.7 | $1,484.6 |
| 2001 | $1,135.0 | $192.6 | $1,327.6 | $63.9 | $18.0 | $81.9 | $12.3 | $82.6 | $94.9 | $1,211.2 | $293.2 | $1,504.4 |
| 2002 | $738.0 | $146.2 | $884.2 | $64.4 | $19.4 | $83.7 | $387.3 | $129.2 | $516.5 | $1,189.7 | $294.7 | $1,484.4 |
| 2003 | $1,120.6 | $131.8 | $1,252.4 | $65.6 | $19.7 | $85.3 | $193.2 | $131.8 | $325.0 | $1,379.5 | $283.2 | $1,662.7 |
| Total | $11,269.3 | $2,072.9 | $13,342.2 | $559.2 | $170.9 | $730.1 | $2,501.6 | $1,395.3 | $3,896.9 | $14,330.2 | $3,639.0 | $17,969.2 |

Source: New Jersey Department of Labor: "Annual Statistical Review," various years and information from NJDOL regarding WDP and HCS taxes. Employer UI taxes exclude the taxes of "reimbursable" public employers that do not pay into the UI trust fund. For 1993-2003, worker taxes include excess collections of HCS tax returned to the UI trust fund, because the returned excess collections were not attributed to employer accounts. 2003 numbers are estimates.

## Background Paper: The Unemployment Insurance (UI) Trust Fund (Cont'd)




increase in overall employer payroll taxes from 1992 to 1998 than would have otherwise occurred. This is because each employer's UI tax rate is determined on the basis of two things: (1) the "reserve ratio" of the UI trust fund as a whole (as discussed later); and (2) the employer's own "reserve ratio," which is the UI taxes paid by the employer, minus benefits paid to workers laid off by the employer, as a percentage of the employer's taxable wages. Consequently, the shifting of payroll tax revenues from UI to HCSF taxes reduces the amount of UI taxes paid, reducing an employer's reserve ratio and leading to higher UI tax rates.

Notwithstanding this shift of tax revenue, the level of solvency of New Jersey's UI trust fund is now better than the national average, according to U.S. Department of Labor (USDOL) indicators. New Jersey's UI trust fund had a reserve ratio (fund balance divided by total wages paid by UI taxable employers) of 1.07% at the end of 2003, compared to the national average of 0.64%. New Jersey's high cost multiple (the reserve ratio adjusted for the difference between current UI benefits and their historic high) was 0.32%, which is higher than the national rate of 0.29%. Even if all UI tax collections stopped, New Jersey would be able to pay 8.5 months worth of benefits from its UI fund balance.

New Jersey's UI trust fund and most other state UI trust funds, however, are much less solvent than they have been at most times in the past. The national average high cost multiple, now 0.29%, was always greater than 1.0% before 1974. The national average reserve ratio, now 0.64%, was always higher than 2.0% before 1974. New Jersey's reserve ratio was 2.8% in 1970 and much higher in earlier years, as shown on Chart III. Yet, by 1975, the State's UI trust fund had a deficit of $348 million. New Jersey's reserve ratio is now between what it was in 1971 and 1972, only three years before the UI trust fund went into deficit.

Like New Jersey, most states eliminated their UI trust fund deficits from the 1970s or 1980s through reduced benefit availability and increased taxes. Like New Jersey, a majority of states continue policies keeping wage replacement rates well below what they were 30 years ago.

States across the nation, rather than restoring previous levels of access to UI benefits for laid off workers, have given greater emphasis to reversing the employer UI tax rate increases of the 1980's, or even reducing the employer tax rates below what they were in the 1980's. While New Jersey has improved benefit availability more than many other states during the 1990's, it recently

# Background Paper: The Unemployment Insurance (UI) Trust Fund (Cont'd)

Table III: New Jersey Unemployment Insurance Employer Tax Schedules, 1961 to 2003, including the UI Fund Reserve Ratios Determining the Schedules and Range of Tax Rates in Each Schedule

| Tax Schedule Name (after June 1986): | None | "A" | "B" | "C" | "D" | "E" | "Solvency Tax" |
|---|---|---|---|---|---|---|---|
| UI Fund Reserve Ratio: | More than 12.5% | 10% to 12.5% | 7% to 10% | 4% to 7% | 2.5% to 4% | Less than 2.5% | Less than 0% |
| Employer Tax Rates | | | | | | | |
| July 1961 to June 1971 | 0.4% - 3.0% | 0.4% - 3.3% | 0.4% - 3.6% | 0.7% - 3.9% | 1.0% - 4.2% | 2.8%-4.2% | None |
| July 1971 to December 1972 | 0.4% - 3.7% | 0.4% - 4.0% | 0.4% - 4.3% | 0.7% - 4.6% | 1.0% - 4.6% | 2.8%-4.6% | None |
| January 1973 to June 1975 | 0.4% - 3.7% | 0.4% - 4.0% | 0.4% - 4.3% | 0.7% - 4.6% | 1.0% - 4.6% | 1.2%-5.5% | None |
| July 1975 to June 1984 | 0.4% - 4.0% | 0.4% - 4.3% | 0.4% - 4.6% | 0.7% - 4.9% | 1.0% - 5.2% | 1.2%-6.2% | None |
| July 1984 to June 1986 | 0.4% - 4.0% | 0.4% - 4.3% | 0.4% - 4.6% | 0.7% - 4.9% | 1.0% - 5.2% | 1.2%-6.2% | 1.3% - 6.8% |
| UI Fund Reserve Ratio: | | More than 10% | 7% to 10% | 4% to 7% | 2.5% to 4% | 0% to 2.5% | Less than 0% |
| Employer Tax Rate, July 1986 to June 1997: | | 0.3% - 5.4% | 0.4% - 5.4% | 0.5% - 5.8% | 0.6% - 6.4% | 1.2%-7.0% | 1.3% - 7.7% |
| UI Fund Reserve Ratio: | | More than 6% | 4% to 6% | 3% to 4% | 2.5% to 3% | 1% to 2.5% | Less than 1% |
| Employer Tax Rate, July 1997 to June 1998: | | 0.3% - 5.4% | 0.4% - 5.4% | 0.5% - 5.8% | 0.6% - 6.4% | 1.2%-7.0% | 1.3% - 7.7% |
| UI Fund Reserve Ratio: | | More than 4.5% | 3.5% to 4.5% | 3% to 3.5% | 2.5% to 3% | 1% to 2.5% | Less than 1% |
| Employer Tax Rate, July 1998 to June 2002: | | 0.3% - 5.4% | 0.4% - 5.4% | 0.5% - 5.8% | 0.6% - 6.4% | 1.2%-7.0% | 1.3% - 7.7% |
| UI Fund Reserve Ratio: | | More than 3.5% | 3% to 3.5% | 2.5% to 3% | 2% to 2.5% | 1% to 2% | Less than 1% |
| Employer Tax Rate, July 2002 and after: | | 0.3% - 5.4% | 0.4% - 5.4% | 0.5% - 5.8% | 0.6% - 6.4% | 1.2%-7.0% | 1.3% - 7.7% |
| UI Fund Reserve Ratio: | | More than 2.5% | 2% to 2.5% | 1.5% to 2% | 1% to 1.5% | Less than 1% | Less than 1% |
| Employer Tax Rate, July 2003 and after: | | 0.3% - 5.4% | 0.4% - 5.4% | 0.5% - 5.8% | 0.6% - 6.4% | 1.2%-7.0% | 1.3% - 7.7% |

Source: R.S.43:21-7.

The ranges of taxes displayed for each schedule show minimum and maximum employer UI tax rates based on each employer's individual reserve ratio, with the highest tax rates imposed on employers with the most benefit payments per taxes paid as a percentage of total wages. These tax rates cover all employer taxes for UI, Workforce Development and the Health Care Subsidy Fund combined.

Employer UI tax schedule in effect:
From July 1974 until June 1986 was "E";
From July 1986 until June 1987 was "D";
From July 1987 until June 1989 was "C";
From July 1989 until June 1993 was "B";
From July 1993 until June 1997 was "C";
From July 1997 until June 1998 was "B";
From July 1998 until June 2004 is "A".
The 10% surcharge was in effect from July 1984 until June 1986.

has followed the national trend of providing substantial reductions in UI taxes. New Jersey employer UI taxes were reduced four times during the last eight years by legislation lowering the minimum UI trust fund reserve ratios (the fund balance divided by taxable wages only[3]) necessary to trigger lower UI tax rates for employers. P.L.1996, c.29 reduced minimum reserve ratios so that employers were taxed under schedule "B" instead of schedule "C" during FY 1998. Then P.L.1997, c.263 reduced UI trust fund reserve ratios so that employers were taxed under schedule "A" during FY 1999. If neither law had been enacted, the taxes would have continued at schedule "C," and employer UI taxes would have been $250 million higher in FY 1998 and more than $450 million higher in FY 1999. Finally, P.L.2002, c.13 and P.L.2003, c.107 further reduced the minimum ratio for the "A" schedule, with the effect of keeping that schedule in effect at least through FY 2004. This is the first time that schedule "A," which provides the lowest UI tax rates, has been in effect since the current set of schedules was established by P.L.1984, c.24. Table III summarizes these changes and their impact on the range of UI tax rates charged to employers.

3. Note the two meanings for the term "reserve ratio." On this page and on Chart III, "reserve ratio" refers to the ratio used to determine New Jersey employer UI tax rates, which is calculated by dividing the "fund balance" of the UI fund by total taxable wages. On pages 23 and 24 "reserve ratio" refers to the ratio used by the USDOL to compare the solvency of trust funds between states, which is calculated by dividing the "cash balance" of the UI fund by all wages paid by taxable employers, a ratio more than twice as high as the other ratio. Table III displays this "second" reserve ratio for New Jersey over a 50-year period. The difference between the "fund balance" and the "cash balance" is described in footnote 2. of this background paper.

## Background Paper: The Unemployment Insurance (UI) Trust Fund (Cont'd)

The current schedule "A" sets employer UI tax rates which are, on average, about the same as the employer UI tax rates under the pre-1984 schedule which applied only if the UI trust fund reserve ratio exceeded 10%. To have triggered those lower average UI tax rates under the pre-1984 law, or to have triggered schedule "A" tax rates at any time between 1984 and 1996, the UI trust fund reserve ratio would have to have been more than four times as high as it actually was in 2003, requiring a UI trust fund balance in 2003 of $6.3 billion. Employer UI taxes for 2003 are not only $450 million less than they would have been under the law in effect between 1984 and 1996, they are also more than $200 million less than they would be if the pre-1984 law was still in effect.

Other amendments to the UI law, phased in two steps during 1997 and 1998, reduced the combined UI/HCSF taxes on workers from 0.6% to 0.4%, lower than the 0.5% worker tax rate which was in effect before 1984. Consequently, worker taxes have been reduced more than $100 million per year, a reduction of up to $49 per year for each worker.

Thus, the UI tax increases which made the State UI trust fund's return to solvency possible have, in large part, been effectively repealed, with employers and workers now taxed at rates lower than they would have been taxed even under the pre-1984 set of schedules.

NELP

National Employment Law Project

# State of New Jersey
# Senate Labor Committee &
# Assembly Labor Committee

# Testimony regarding the New Jersey Unemployment Insurance Program

George Wentworth
Unemployment Insurance Modernization Coordinator
(860)257-8894
gwentworth@nelp.org

**National Employment Law Project**
75 Maiden Lane, Suite 601
New York, New York 10038
(212) 285-3025
**–www.nelp.org–**

March 18, 2010

# Testimony of National Employment Law Project
# Submitted to
# State of New Jersey Senate and Assembly Labor Committees

Chairmen Madden and Egan, members of the Senate and Assembly Labor Committees -- good morning and thank you for this opportunity to present testimony on New Jersey's unemployment insurance (UI) program. My name is George Wentworth and I am the Unemployment Insurance Modernization Coordinator for the National Employment Law Project (NELP). NELP is a national law and policy center based in New York City that engages in research, policy analysis and advocacy on behalf of low wage and jobless workers. NELP is committed to improving the effectiveness of the unemployment insurance (UI) system by promoting state and federal policies that will maximize program access for low-wage workers and improve income security for all workers. I will focus my testimony this morning on the three primary topics identified in the hearing notice including (1) the effectiveness of the UI program in mitigating financial hardship for unemployed workers, (2) the condition of New Jersey's Unemployment Insurance (UI) Trust Fund, and (3) current federal developments related to the UI program.

## 1. Background

The importance of a strong unemployment insurance (UI) program has never been more evident than in the current recession. The primary goals of the UI program are

- To partially replace the wages of laid off workers and to prevent hardships and maintain living standards between jobs
- To help stabilize local economies by maintaining consumer spending and reducing the spread of layoffs through benefit payments from trust funds accumulated during better times
- Providing support for job search and matching of laid off workers to jobs that fit their skills, training, and past work

- Retaining attachment to the labor market and specific employers during temporary layoffs.[1]

Since the beginning of the recession at the end of 2007, the UI program nationally has largely succeeded in meeting these goals. As the national unemployment rate has doubled in the past two years, the number of American workers who rely every week on UI benefits to pay for mortgages, rent, food and other essentials has never been higher (currently 11 million). The UI program has prevented millions of middle class Americans from falling into poverty, and it has mitigated the financial harm for thousands of small businesses, particularly in the communities hit hardest by plant closings and other major industry dislocation. The Congressional Budget Office recently concluded that each dollar in increased UI benefits paid as the recession pivots to a slow recovery with limited job growth will translate into an increase of anywhere from $.70 to $1.90 in the Gross Domestic Product (GDP).[2].

This recession has been unlike any other similar period in the past 50 years in terms of the depth of joblessness. Over 40 percent of all individuals filing for unemployment insurance are considered to be long-term unemployed – that is, unemployed more than 26 weeks. Congress has acknowledged the depth of this recession by enacting a greater number of weeks of federally-funded extension benefits than in any prior recession. These include up to 52 weeks of federally-funded benefits under the Emergency Unemployment Compensation (EUC) program and up to 20 weeks of benefits under the Extended benefits (EB) program, for which the federal government has increased its subsidy from 50% to 100% under the American Recovery & Reinvestment Act (ARRA). For a growing segment of the middle class, the UI program is the only financial safety net.

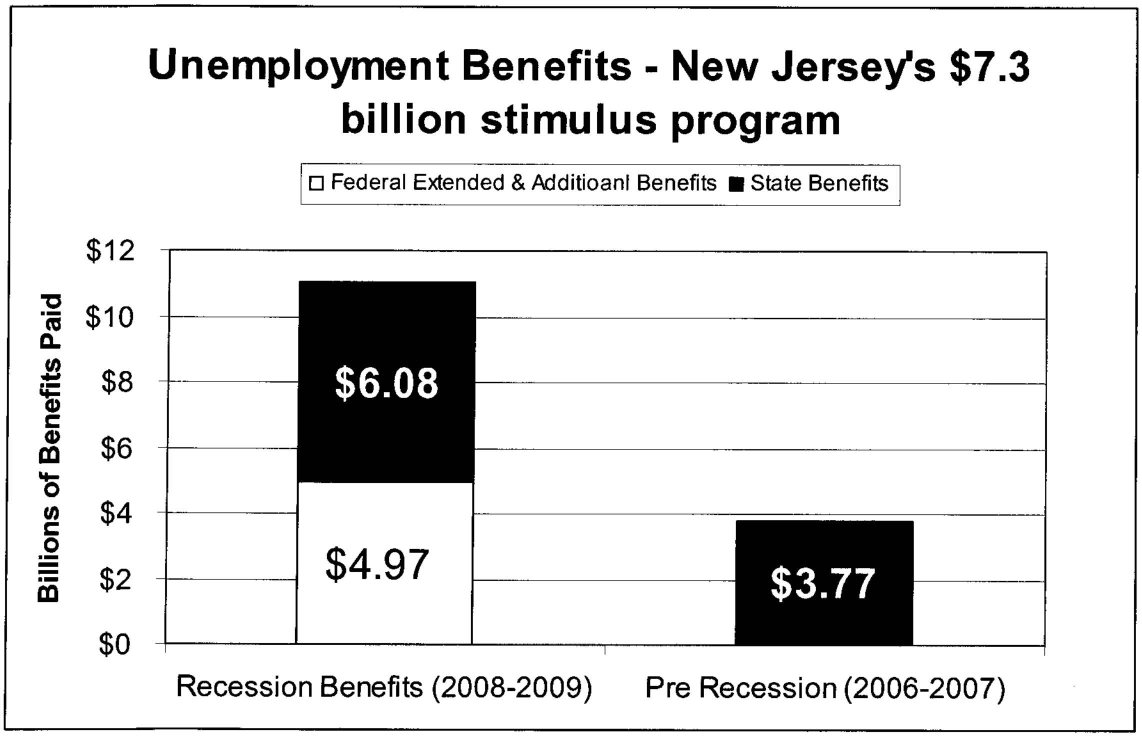
In 2009, New Jersey paid $3.475 billion in State funded regular UI benefits and $3.662 billion in federal benefits, including $2.689 in EUC benefits, $584 million in EB and $389 million in FAC benefits. With an unemployment rate slightly above the national average at 9.9%, there were over 193,000 unemployed workers on state UI benefits, and 278,400 claimants on federal extension

---

[1] See *Advisory Council on Unemployment Compensation, Defining Federal and State Roles in Unemployment Insurance* (1996) p.7

[2] See Congressional Budget Office, *Policies for Increasing Economic Growth and Employment in 2010 and 2011 (February, 2010),* pp. 17-18.

benefits in February. Thirty (30) percent of all claimants are receiving the maximum $600 weekly benefit.




The New Jersey unemployment insurance program has been effective in meeting these fundamental goals without being overly generous by any measure. Roughly 55% of the state's unemployed receive UI benefits, and the average weekly benefit check is $389 which is enough to keep individuals out of poverty. On their face, these numbers seems reasonable and in line with what the workforce should expect. On the other hand, these benefits should be considered in the context of New Jersey's high cost of living - the average weekly check only replaces about 36% of the average worker's pre-layoff wages, which ranks 27$^{th}$ among the 50 states. One reason that New Jersey's benefits are adequate is that the state is one of 36 that indexes its maximum weekly benefit amount to the state's average weekly wage. New Jersey uses a 56 and 2/3 percent formula, which is by no means the highest. Half of the states that index use a more generous formula, including more conservative jurisdictions like Arkansas (66 2/3%),Utah (62.5%) and Idaho (60%).

But for New Jersey – and for most states- meeting the needs of the state's unemployed workers has come at the cost of insolvency. There is currently a national crisis in the states' UI trust funds. In the past year, the number of insolvent states has grown to 32, including such large programs as California, Michigan, New York, Ohio and Pennsylvania. All northeastern state trust funds, with the exception of Maine, are currently borrowing. The U.S. Department of Labor (USDOL) has projected that as many as 40 state trust funds could go broke and be forced to borrow from the Federal Unemployment Account by the end of CY2010. To date, states have borrowed approximately $35 billion and the USDOL projects that this figure will eventually grow to $90 billion.

The challenge facing New Jersey lawmakers – and state legislatures around the country- is to restore financial stability to each state's UI trust fund, while at the same time not damaging the economic safety net during a time in which unemployment rates will continue to be high. The financial storm that has drained New Jersey's trust fund was not caused by the state's workers; they should not become its victims a second time. It is not an easy task but it will be crucial to maintaining the economic security of the state's workers and their families

**2. Unemployment Insurance as Economic Stimulus**

The importance of unemployment insurance to the economy of every state is well documented. Over and over, leading economic researchers have concluded that UI benefits are the most cost effective means of stimulating economic activity during a recession or other economic downturn. With 10 percent of the state's workforce out of work, more and more families are relying on UI to help them cover the necessities of living in this state. In a jobless recovery, unemployment insurance is what is keeping many of those families from falling into poverty.

- **UI substantially reduces poverty.** UI is one of the only programs that is able to prevent families from falling into poverty. A study by the Congressional Budget Office that examined the impact of UI benefits during the last recession found that the benefits cut short-term poverty rates among unemployed families in half - from 50 percent to 25 percent. This effect was observed after a family had a breadwinner out of work for more than three months, when bills had begun to accumulate.[3]

[3] Ralph Smith, "The Family Income of Unemployment Insurance Recipients," *Congressional Budget Office*, March 2004.

The Center on Budget and Policy Priorities found that UI benefits provided under federal stimulus legislation kept 800,000 individuals - including 230,000 children - out of poverty[4]. Assuming a proportional impact in New Jersey, this means that additional UI benefits provided under the American Recovery & Reinvestment Act have kept up to 25,000 New Jersey residents from falling into poverty.

- **Keeping food on the table.** Leading economic researchers have found that UI plays a substantial role in preventing workers from being forced to cut back on meals. M.I.T. economist Jonathan Gruber tracked UI recipients over time and found that large numbers of unemployed workers cut back on meals and then returned to normal levels of food consumption after re-employment. Without UI, unemployed workers would consume 22% less food compared to when they were working, thus illustrating how the program effectively tides workers over when the help is needed most. [5] In 2008, NELP commissioned a national survey of unemployed workers that found that 52% of unemployed workers needed their UI benefits to pay for groceries. But when comparing workers receiving UI with those who did not, 39% of workers without UI had trouble paying for groceries compared to 26% of those receiving UI. In addition 29% of those who had not received UI skipped meals because they did not have enough money for food, compared to just 15% receiving UI.[6]
- **Maintaining family housing.** The 2008 NELP survey found that 35% of renters had to move or move in with family or friends and that 46% of renters had fallen behind in their rent payments. Homeowners faced similar problems – 25% had fallen behind on their mortgages and 5% had lost their homes to foreclosure.[7] By providing workers the income they need to keep their homes while they find a new job, UI offers workers, their families, and communities important social and economic stability. The presence of UI reduces the

---

[4] Sherman, Arloc, *Stimulus keeping 6 Million Americans out of Poverty in 2009, Estimates Show,* (9/9/09), Center on Budget & Policy Priorities

[5] Gruber (1997) "The Consumption Smoothing Benefits of U.I.," *American Economic Review*, Vol. 87, no. 1, 192-205

[6] Hart Research Associates, *Unemployed in America: Job Market, Prospects for Employment, and Impact of Unemployment on Families and the Unemployed,* (12/8/08) Survey of 400 unemployed adults Commissioned by NELP.

[7] Id.

chances that a worker will be forced to sell the family home by almost one-half. It also prevents a potential 23% drop in spending on rental or mortgage payments.[8]

- **Preserving hard-earned savings.** UI also enables some workers to hold on to their hard-earned savings through periods of unemployment. UI benefits, by themselves, prevent workers from losing about 36% of their wealth. Moreover, Gruber's research found that the average worker only had sufficient financial assets to cover 5.4 weeks of unemployment.[9]
- **Workers on UI have few other sources of support.** In a Washington state survey, two-thirds of UI recipients indicated that UI provided their household's main source of income, and one-third said it was their only source of income.[10]
- **Workers spend UI on their basic family needs.** In Washington, families receiving UI spent 104% of their income (meaning, on average, families go into debt) while comparable households spend only 88.5% of their income. Washington families on UI spent 41% of their household budget on housing and 13% on food, thus spending more on these basic necessities than other consumers in western states..[11]
- **In recessions, UI saves jobs and fuels local economies.** An extensive study by the prominent economist Lawrence Chimerine demonstrates that UI has greatly reduced the negative impact of five consecutive recessions. Chimerine found that UI saved an average of 131,000 jobs in each downturn. Moreover, when workers spend UI dollars on basic goods, the money ripples through the economy and creates additional business. Chimerine estimated that each $1 of UI leads to $2.15 of economic growth. Moreover, Chimerine's research asserts that UI has become an even more substantial economic stabilizer over time, thus increasing its impact during the last recession compared with the recession of the 1980s[12].

---

[8] Id.

[9] Gruber (1999) "The Wealth of the Unemployed: Adequacy and Implications for Unemployment Insurance," NBER working paper 7348

[10] State of Washington (2002), "Claimant Expenditure Survey," published by the Washington State Employment Security Department

[11] State of Washington (2002), "Claimant Expenditure Survey," published by the Washington State Employment Security Department

[12] Chimerine, et al. (1999) "Unemployment Insurance as an Economic Stabilizer: Evidence of Effectiveness Over Three Decades," U.S. Department of Labor, Unemployment Insurance Occasional Paper 99-8

### 3. Trust Fund Insolvency

### A. National Problem

The New Jersey Unemployment Trust Fund became insolvent last year and has borrowed approximately $1.38 billion from the Federal Unemployment Account (FUA) in order to keep paying benefits. So how did New Jersey and 31 other states end up with insolvent trust funds? Certain answers are readily apparent. The increase in unemployment rates has been dramatic across the country. The national unemployment rate doubled in less than 2 years and currently stands at 9.7%- up almost 5 points from where it was when the recession began in early 2008. New Jersey's rate is slightly higher at 9.9%.

Increased unemployment hurts UI solvency in two ways. First, UI claims and their duration of benefit payments rise as unemployment grows more serious and this increases payments for UI benefits. Second, wages subject to state UI payroll taxation disappear as businesses fail and workers are laid off. Since jobs are disappearing and jobless workers are not earning wages, state UI payroll tax collections fall or slow at the same time as benefit payments rise.

This double punch can be seen in state UI program statistics collected during this recession. Nationally, total regular state UI benefit payments rose from $32.9 billion in CY 2007, to $43.5 billion in 2008, and skyrocketed to $80 billion in 2009. Current unemployment levels brought an unprecedented surge in the number of UI claimants nationwide. Between 2007 and 2009, the average number of initial claims filed each week increased by 75.6 percent - up from about 321,000 per week in 2007 to 564,000 per week in 2009. On the employment side of the equation, covered employers subject to UI taxes were reduced from 132.5 million in the 3rd quarter of 2008 to 127.4 million by the 3rd quarter of 2009.

The depth of the recession is clearly another key factor. Today, 41% of all unemployed workers are considered long-term unemployed – unemployed for 26 weeks or longer - the highest percentage since records have been kept. In nearly every state, workers are relying on unemployment insurance for longer durations than in any prior economic downturn.

But there is another part to the story. In general, most state unemployment trust funds did not do enough to prepare for this recession and, in fact, were less prepared than they were for the last recession. At the beginning of CY2001, there was about $54 billion in state trust funds to withstand the national recession that followed 9/11. By way of comparison, state trust fund balances had dropped to about $38 billion by the beginning of CY2008 when the current recession began- a decline of over 42%. Once benefit payments began to increase, overall reserves fell to $29.9 billion by the end of 2008, and dropped to only $14.2 billion by last September.

As of March 12, 2010, thirty-one (31) states and the Virgin Islands had trust funds that were insolvent and had borrowed in excess of $35 billion in federal loans.[13]. Of these 32 borrowers, 12 states have already borrowed over $1 billion each. California has borrowed close to $8 billion and Michigan has a federal loan over $3.6billion. The U.S. Department of Labor is projecting that by the end of 2012 as many as 40 states will face insolvency with total state borrowing over $90 billion.

While the breadth and depth of this recession have accelerated the current trust fund crisis, the problem – now national in scope - has its roots in the failure of many states to engage in responsible financial planning. For the most part, federal and state policy makers are only now starting serious reviews of UI financing options. The dramatic spike in unemployment claims activity during the past two years has accelerated insolvency in many state trust funds that were already far less prepared to withstand the current recession than for any previous economic downturn.

[13] The 32 jurisdictions with insolvent UI trust funds were Alabama, Arkansas. California, Colorado, Connecticut, Florida, Georgia, Idaho, Illinois, Indiana, Kentucky, Maryland, Massachusetts, Michigan, Minnesota, Missouri, Nevada, New Hampshire, New Jersey, New York, North Carolina, Ohio, Pennsylvania, Rhode Island, South Carolina, South Dakota, Texas, Vermont, Virgin Islands, Virginia and Wisconsin.

At the same time that most states have inadequate reserves and overall balances fell, it is important to recognize that some states have trust funds that are healthy and appear well-positioned to avert the need for borrowing in the foreseeable future. States like Alaska, Maine, Oregon and Washington have adopted strong financing mechanisms that have left them well prepared to withstand record claim levels during the current recession at the same time that they have maintained adequate benefit levels and reasonable benefit eligibility rules. These states demonstrate that if sufficient stakeholder understanding and political will exist, states can manage their UI financing affairs.

Unemployment Insurance financing experts are generally agreed that there are three key features in maintaining healthy unemployment trust funds: (1) adherence to forward funding principles, (2) setting taxable wage bases that are responsive to recessionary payment levels, and (3) indexing taxable wage bases as a percentage of the state's average annual wage.

To meet the primary goals of the UI program - payment of adequate temporary wage replacement to involuntarily unemployed individuals and stimulation of economic activity by maintaining consumer spending - a state must have a UI financing mechanism that will collect sufficient UI payroll taxes to maintain a strong program. UI programs were intended by their designers to accumulate reserves in trust funds prior to recessions in order to provide funding of higher UI claims during economic downturns. This is known as "forward financing."

Wayne Vroman, the nation's leading authority on UI financing, summarizes the economic rationale supporting forward funding of UI programs:

> Trust fund balances are built up before recessions, drawn on during recessions, and then rebuilt during the subsequent recoveries. The funding arrangement implies that the program acts as an automatic stabilizer of economic activity, that it makes larger benefit payments than tax withdrawals during recessions and larger tax withdrawals than benefit payments during economic expansions.

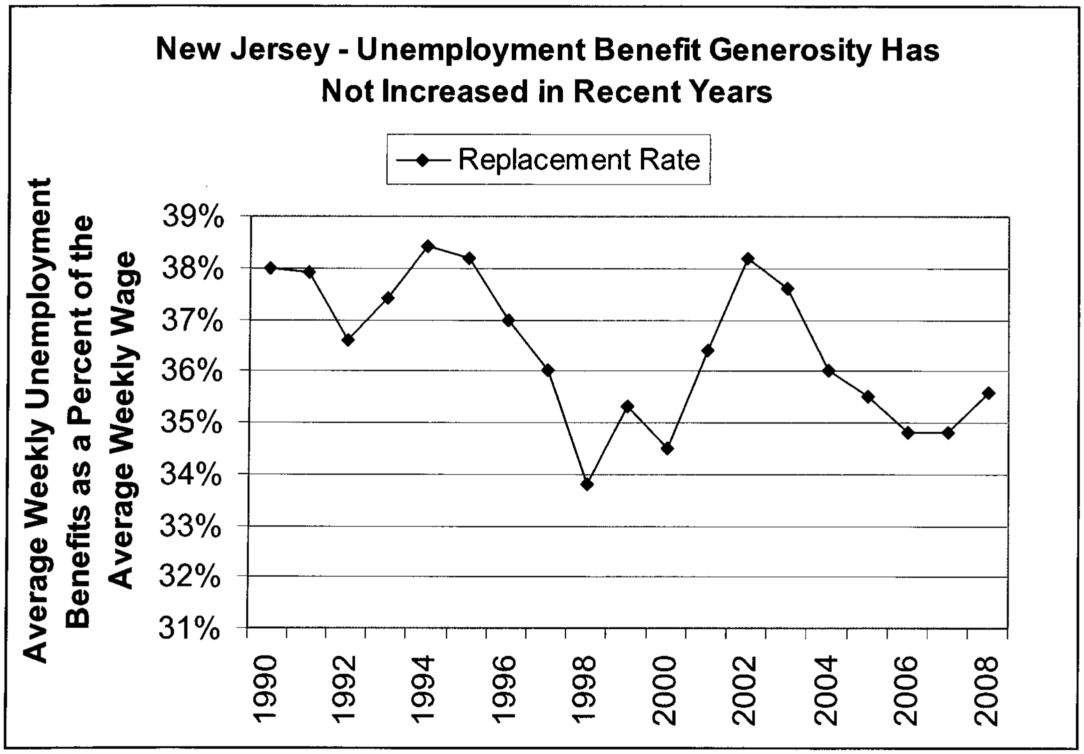
To return to the 5 percent unemployment rates that existed prior to the current recession, the economy will have to replace 10 million jobs - a task that will likely take years.[14] Because the ranks

[14] Peck, Don. *How a New Jobless Era Will Transform America,* Atlantic Monthly Online(March 2010)

of UI claimants will remain high in the intervening years, it is essential to every state economy that the UI program continues to work as an economic stimulant and that it is adequately financed. Without a commitment to rebuilding trust funds on some sort of reasonable time frame, the political will to maintain a program that provides meaningful economic support to unemployed workers will erode in many states.

The experience rating principle means that most employers can already expect to see their UI taxes rise over the next couple of years, even if a state takes no legislative action. This is because experience rates generally increase in the 2-3 years following higher claim activity. In addition, many states – like New Jersey - have special solvency mechanisms that are triggered when fund balances fall below certain levels and those supplemental taxes or higher tax tables are being activated all over the country. Whereas in past recessions, these tax increases would be hitting employers after the economy had entered a period of recovery and job growth, such is not the case in this recession. State legislatures face the challenge of fixing a system that is broken without increasing UI costs so high that they can legitimately regarded as deterrents to new hiring. And because unemployment rates will remain high, the usual self-correcting mechanisms of UI experience rating systems will – for many states – be inadequate to restore long-term solvency.

Nevertheless, state policymakers should resist reverting to the "equality of sacrifice" model in which benefits are cut and taxes raised to generate equivalent savings and revenues. Reducing the size of a benefit that – on average – only replaces about 36 percent of the worker's pre-layoff wages clearly undercuts the program's twin goals of helping unemployed Americans get through to their next job and stimulating local economies. As the following chart illustrates, New Jersey UI benefits have consistently replaced between 34 and 38 percent of pre-layoff wages over the last 20 years.

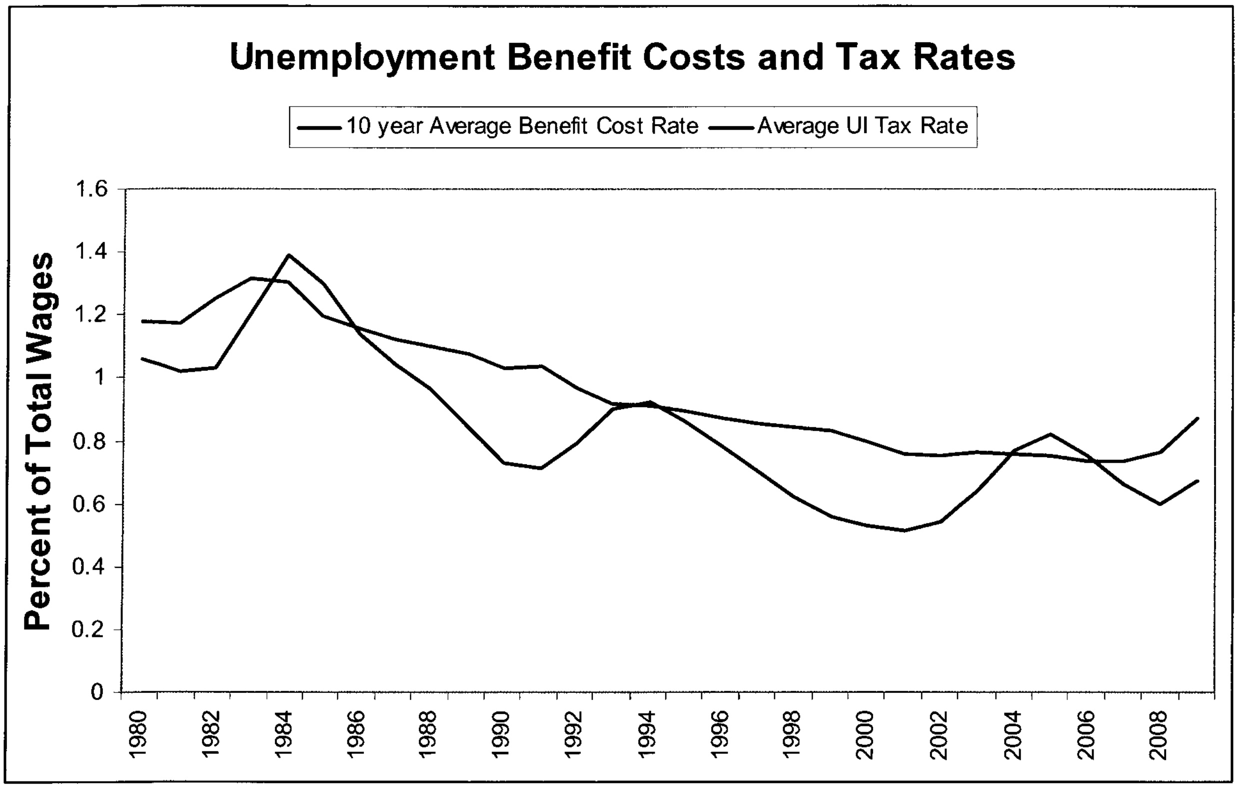



Cutting benefits when there are not enough good jobs to sustain an economic turnaround is dangerous. As an insurance program, UI benefits are intended to protect against the detrimental consequences of an adverse economic event - job loss - by insuring previous wages. Reducing benefit levels that only replace a third of the average worker's wages simply undermines the original purpose of the program – to help unemployed workers meet their basic financial needs until they find suitable new employment. The evidence is clear that by far the leading contributor to most states' insolvency is a long-standing failure to adequately finance trust funds, leaving them unprepared for the current recession.

A good way to judge whether benefit costs are to blame for solvency is to examine the benefit cost rate. This key metric is the total amount of UI benefit payments as a percent of the total wages insured by the program. This chart presents the benefit cost rate as a 10 year average to smooth out recessionary spikes. The general trend in UI benefit costs has been downward in the last three decades with a recent up tick in 2008 and 2009.



41nr



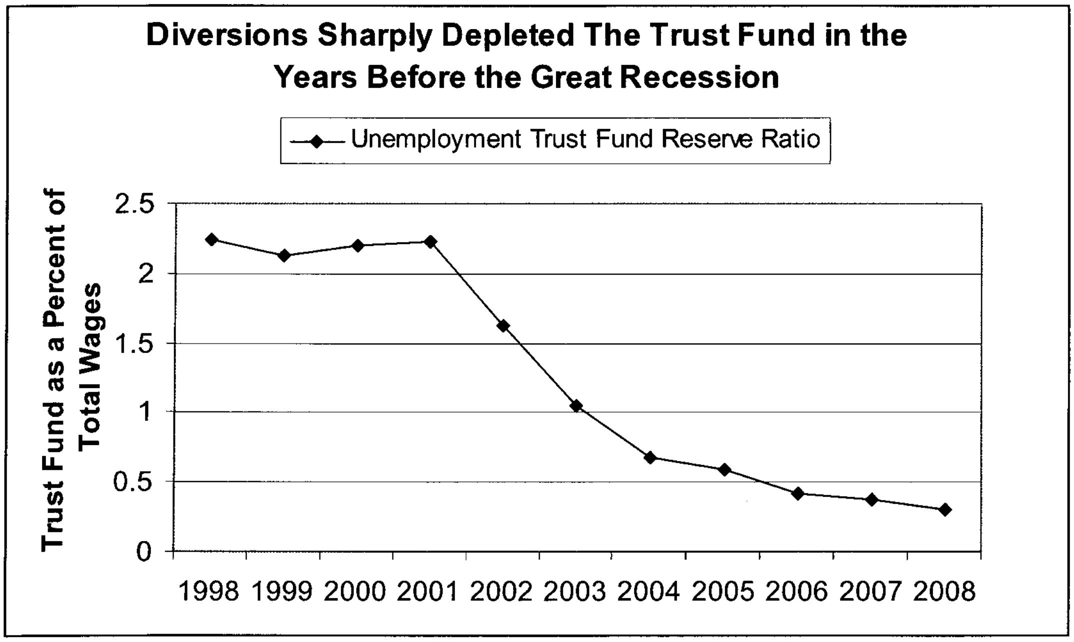

For the system to be in balance, the UI tax rate should hug close to 10 year benefit cost rate. In other words, the inflows must meet the outflows. (In fact, the U.S. Department of Labor recently proposed regulations with this as a new standard for qualifying for favored borrowing status). The red line in the chart above demonstrates that even as outflows from benefits had dropped consistently over the last three decades, inflows fell even further. The period from the mid 1990s forward was the most serious. There were only two years-- 2006 and 2007—in which taxes exceeded the average cost rate. State policy makers have been intentionally allowing the UI program to fall further and further behind, and this recession is making them pay for it. For most states that are currently borrowing, insolvency is attributable to inadequate financing, particularly low employer tax rates and long-term tax freezes. In nearly all cases, today's state solvency problems have been growing over the course of many years as a result of active pursuit of lower UI payroll taxes or neglect of sound UI financing principles.

The greatest danger to the UI system is a failure to grapple with the hard financing issues now. States that cobble together long-term plans that do not account for an immediate future of high unemployment and that do not aim to make permanent changes that will insure increased revenues over the long term will face severe consequences. Trying to dig out of insolvency without changing the pay-as-you-go philosophy will foreclose the possibility of UI benefits keeping pace with wage growth. The result will be the gradual erosion of replacement rates and a program that can no longer function as anything close to a safety net for workers.

**B. New Jersey's Insolvency**

The story of New Jersey's Trust Fund insolvency is well-documented. The actual statutes governing UI taxation in New Jersey are a model of forward financing for the nation. They establish a taxable wage base of 28 times the state's average weekly wage, the kind of indexing that should guarantee that sufficient reserves are built up in good times to get the Fund through the bad times. There are a series of schedules that are sensitive enough to increased payouts to make sure that employer contributions can be adjusted gradually and effectively, and thus avert dramatic hikes associated with insolvency. And New Jersey is one of only three states in the country, where employees also pay UI taxes, providing another major revenue source that should help the state maintain solvency.

The problem is that New Jersey's UI tax statutes have not been allowed to operate naturally. Instead, employer taxes that should have been deposited in the UI Trust Fund have been diverted to other purposes, principally the Health Care Subsidy Fund (HCSF). Between 1992 and 2006, approximately $4.6 billion in employer and employee contributions were diverted away from the UI Trust Fund. Since it violates federal law to use UI taxes for any purpose other than the payment of benefits, this was for the most part accomplished by a UI tax reduction coupled with a corresponding tax imposition of the same amount for a different purpose.




In addition, in the late 1990's and the early part of this decade, employer taxes were repeatedly reduced. A 2004 paper on New Jersey's UI Trust Fund prepared by the Legislature's Office of Legislative Services documented how the legislature reduced employer UI taxes four times in eight years by lowering the minimum UI Trust Fund reserve ratios (the fund balance divided by taxable wages) necessary to trigger lower UI tax rates.[15] In 1996, reserve ratios were altered to tax employers under Schedule "B" instead of Schedule "C" in FY 1998. A similar reduction in reserve ratios the next year resulted in employers being taxed under the more favorable Schedule "A" in FY 1999. These two actions alone cost the Fund more than $700 million in revenues. Similar legislative enactments in 2002 and 2003 cost the Fund hundreds of millions more in uncollected revenues. In total, since the late 1990's, New Jersey lawmakers have intervened to disrupt the natural workings of the UI tax statutes to divert $4.6 billion in taxes away from the UI Trust Fund and have also intervened in the setting of rate schedules to reduce employer tax revenues by additional billions.

[15] New Jersey Office of Legislative Services, *Background Paper: The Unemployment Insurance (UI) Trust Fund,* (April, 2004), pp.25-26.

## C. What Should New Jersey do to Restore Solvency to its UI Trust Fund?

New Jersey's system – when left unfettered to operate as designed – has all the elements to self-correct over time. The single most important feature is an indexed taxable wage base. Indexing is usually accomplished by setting a state's taxable wage base as a percentage of a state's average annual wage in a prior 12 month period. Of the 15 states with indexing, the formula ranges from 100 percent in Idaho to 50 percent in North Carolina, with a couple of states using less common methods. (See chart below.) Indexing promotes UI solvency because weekly benefit amounts increase each year due to growth in wages. As a result, average benefit payouts rise without any legislative action. In general, indexing taxable wage bases has proven over the course of this recession to be the most reliable method of maintaining solvency. Ten of the 15 states that index their taxable wage bases have maintained solvency in their trust funds during this recession. Those that have not maintained solvency– including New Jersey – have generally become insolvent because of legislative intervention in rate-setting in a way that was contrary to system design or have set a fund solvency goal that was too low.

**States with Indexed Taxable Wage Bases**

| Taxable Wage Base | State | Indexing Criterion |
|---|---|---|
| $31,300 | Alaska | 75% SAAW |
| $32,200 | Idaho | 100% SAAW |
| $22,800 | Iowa | 66.7% AWW times 52 |
| $25,000 | Minnesota | 60% SAAW |
| $23,800 | Montana | 80% SAAW |
| $23,800 | Nevada | 66.7% SAAW |
| $27,700 | New Jersey | 28 times AWW |
| $19,900 | New Mexico | 65% SAAW |
| $18,600 | North Carolina | 50% SAAW |
| $22,100 | North Dakota | 70% SAAW |
| $13,600 | Oklahoma | 50% SAAW |
| $30,200 | Oregon | 80% SAAW |



570

| | | |
|---|---|---|
| $26,700 | Utah | 75% prior fiscal year wage |
| $21,800 | Virgin Islands | 60% SAAW |
| $34,000 | Washington | 115% of prior TWB but not more than 80% SAAW |
| $20,100 | Wyoming | 55% SAAW |

Note: SAAW is state annual average wage. AWW is state's average weekly wage.

Source: USDOL Comparison of State Unemployment Insurance Laws (July 2008), Table 2.2.

The second positive aspect of New Jersey's Unemployment Program is its tax responsiveness. The system has 6 taxes schedules, A – E+, which provide for a wide spread of tax rates and which gradually can go into effect as the trust fund drops. In fact, as written, New Jersey's current system, adopted under Governor Kean, is a text book for proper unemployment financing, providing modestly variable rates that enable forward financing of the UI program.

Unfortunately the text book has not been followed. Rather than refilling the UI benefit coffers after the relatively mild recessions in the 1990s and 2000s, the legislature has interrupted tax schedules year after year. Had New Jersey allowed its financing to trigger gradual tax increases, the fund would not currently be in debt and we would not be forced to sit here today to discuss damaging benefit reductions.

And unlike other recent recessions, there are no signs that joblessness will drop dramatically anytime soon and this represents a very difficult challenge to the UI program. Most economists expect unemployment rates to remain in the 10 percent range throughout 2010 and the administration has forecast that unemployment will continue to average over 9 percent in 2011 and over 8% in 2012.[16]

While other states must reinvent their UI financing mechanism to deal with structural problems, New Jersey has a distinct advantage. All the state has to do in order to return to solvency is to get

[16] *Annual Economic Report of the President*, Council of Economic Advisers (February 2010).

out of the way of its existing statute. Governor Christie said as much in an interview earlier this year on New Jersey 101.5

> **It's really not a hard thing to figure out. There's a statute. And the statute has an automatic trigger for tax increases, based upon the level of deficit that exists.** Now, we will be looking to the federal government for assistance in this regard, to hope to ameliorate to some extent the tax increase that is going to foisted upon the business owners of the state of New Jersey come June because of the irresponsible budgeting conduct of the folks who proceeded us... We'll look for assistance from the federal government; to the extent we can get that, to help ameliorate the tax increase. **But the way we're going to fill it is by following the law. The statute requires that to happen.**[17]

NELP does not dispute that because of the unusual depth and duration of this recession, legislators are wary about tax increases that could rise to a level of deterring hiring. But we have serious concerns about what the Administration has proposed—limiting the tax increase to a single step in the six step tax schedule. This Committee and this Legislature need to examine this proposal carefully. It is, in fact, another intervention in rate schedules – one that will reduce UI tax revenues in the next fiscal year by something like $1.5 billion. It is easy to support the promotion of a positive business climate. But it is equally important to consider the need to provide a stable economic safety net for so New Jersey's unemployed.

Forward financing requires commitment to insurance principles and can only succeed if it is allowed to operate as designed. New Jersey has a choice to not make the same mistake it has made for years --routinely overriding statutory triggers that would otherwise enable the trust fund to recover the benefits paid out. For any insurance system to work effectively, reserves must be insulated from outside intervention for reasons unrelated to the risk that is being insured. The existing structure allows the state a chance to get out of the hole in a reasonable time and rebuild the fund for the next severe economic downturn. Failing to do so will create a hole so large that the state will not have a mechanism to rebuild its trust fund and stabilize unemployment taxes rates for years to come. This would leave the state subject to federal interest penalties, tax penalties and in effect the whim of Congress. The words of Governor Christie earlier this year offer a wiser choice for the state taking its own responsibility.

---

[17] "Christie: Unemployment Tax Hike Coming," Asbury Park Press Capitol Quickies, http://blogs.app.com/capitolquickies/2010/01/25/christie-unemployment-tax-hike-coming/

**4. Proposed $50 Cut in Maximum Weekly Benefit Rate**

Because the Administration's proposed change in the maximum weekly benefit rate would reduce the average weekly benefit amount for New Jersey claimants, it would be inconsistent with terms of the current agreement between USDOL and the State of New Jersey under the Federal Additional Compensation (FAC) program. That agreement, which was authorized in February 2009 by the American Recovery & Reinvestment Act (ARRA), provides an additional $25 in federally-funded benefits to every unemployment check issued to state residents, including regular state UI benefits, extension benefits and Trade Readjustment Allowances (TRA). In 2009, this agreement delivered an additional $389 million in federal benefits to New Jersey workers. Under the agreement, any modification in state law during the term of the agreement that would reduce the average weekly benefit amount below the 2008 average would immediately terminate entitlement to the $25 add-on for all New Jersey claimants.

Congress is in the process of reauthorizing the FAC program (and thereby extending the New Jersey agreement) through the end of the year. This is one year longer than the ARRA originally authorized the FAC program. The fact is that we do not know when the FAC program will end. And for as long as Congress decides to reauthorize the program, the damage caused by this proposal is by taking an additional $25 –federally funded dollars – each week out of the pockets of every unemployed New Jersey citizen who is receiving any form of UI benefit. Ultimately, this means that 30 percent of the unemployed initiating claims would actually lose $75 in benefits every week, but all claimants – and there are about 471,00 collecting either state or federal benefits would lose at least $25 in every single check if this proposed cut is enacted.

Because the ranks of UI claimants will likely remain high for the immediate future, it is essential to New Jersey's economy that the UI program continues to work as an economic stimulant. For some, cutting benefits to those unemployed who are trying to survive the worst labor market in years may seem like a necessary equality of sacrifice. But these cuts are not necessary to make New Jersey's trust fund solvent. They are simply punishing the victims of a tough economy more than they have been already.

**5. Proposed Imposition of Waiting Week Disqualification**

NELP opposes the adoption of the "waiting week" provision. The "waiting week" is a period at the start of an unemployment claim during which the individual satisfies all requirements for eligibility but for which no benefits are paid. The effect of a waiting week is to deny a week of benefits to a jobless worker. Only if unemployed workers draw their 26th and final week of state benefits as a result of not finding work are they effectively paid for their first week of unemployment. The majority of UI benefit recipients, however, find work prior to exhausting their benefits,

Waiting weeks have outlived their intended purposes. Waiting weeks were originally adopted primarily because states required a delay at the start of a new claim during which agencies processed UI claims manually. There is no continued vitality to this rationale. Like all states, New Jersey has wage information available electronically and it is administratively feasible to timely pay UI benefits for the first week of unemployment.

But this proposal is about saving the trust fund dollars. Proponents of waiting weeks argue that the newly unemployed are best equipped to handle a week without pay. But is that a policy New Jersey wants to embrace? At a time when over 40% of UI claimants are unemployed for six months or longer, does it make sense to start every worker's bout of unemployment by de-stabilizing the worker's family finances? While a waiting week may generate substantial savings to a UI trust fund, jobless workers get no waiting week on their rent payments, mortgages or utility bills. New Jersey workers forced to rely on unemployment insurance are already losing more than half of their pre-layoff wages. Asking these workers to absorb more costs of the UI system is unfair. The purpose of UI is to provide prompt replacement of lost wages, not to drive jobless workers deeper into debt.

The insolvency of New Jersey trust fund is not the result of workers exploiting an overly generous system. Insolvency is the result of a prolonged recessionary economy and years of under-funding the UI system. The imposition of a waiting week – like cutting the maximum weekly benefit rate– is a gross overreaction to the current situation that will needlessly hurt the vast majority of unemployed workers. For some, cutting benefits to those unemployed who are trying to survive the worst labor market in years may seem like a necessary equality of sacrifice. But these cuts are not necessary to make New Jersey's trust fund solvent. They are merely further punishing the victims of a tough economy.

**6. Proposed Change to Extended Benefits Program**

Finally, I would urge this Committee to reject the Governor's proposal regarding the Extended Benefits (EB) program. Every state is required by federal law to operate an EB program that provides 13 weeks of additional UI benefits beyond the basic state entitlement of 26 weeks during periods of high unemployment. This program is normally subsidized 50% by the state Trust Fund and 50% by the federal government. With enactment of the ARRA in February, 2009, the federal government assumed 100 % funding of the program for all states.

Because the triggers for high unemployment were set too high by Congress in 1981 (5% Insured Unemployment Rate), the program was not particularly responsive to regional and state recessions. In the early 1990's, Congress changed the EB law to allow state to adopt alternate triggers based on 3-month average total unemployment rates – 6.5% for 13 weeks and 8.0% for 20 weeks. New Jersey adopted these triggers so that the program would trigger on when the state economy got bad, even if the national economy was not.

The Administration appears to be proposing reverting back to the old non-responsive IUR triggers once the ARRA authorization expires. Since Congress has been and will likely continue reauthorizing the EB funding provisions of the ARRA for the foreseeable future, this proposal will have no immediate financial impact. The federal government has been and will continue paying for EB benefits. However, by going along with this proposal now, legislators would be effectively telling New Jersey's unemployed that once the federal subsidy ends, the state will be abandoning its commitment to provide additional weeks of benefits, even when the unemployment rate remains so high that jobs are still difficult to find. New Jersey's lawmakers have demonstrated a historic commitment to the idea that the unemployed need more help when times are tough. You should examine the Governor's EB proposal carefully so that you do not – even inadvertently – abandon that promise to New Jersey workers.

Thank you for your attention and the opportunity to address the Joint Committee.

New Jersey Restaurant Association®

SINCE 1942

126 West State Street
Trenton, NJ 08608
www.njra.org
Tel: 800.848.6368
Fax: 609.599.3340
e-mail: info@njra.org

New Jersey Restaurant Association Testimony

Before the Joint Assembly & Senate Labor Committees

Presented by Amy Coss, Member of the NJRA Board of Directors

Thursday, March 18, 2010

Chairmen and Members of the Committee: My name is Amy Coss and my brother and I own a restaurant in Milford, NJ. I am testifying today as a small business owner and as a member of the New Jersey Restaurant Association Board of Directors about the dire immediate and future consequences of an unemployment insurance increase if the legislature fails to act and fails to pass true reform to the NJ Unemployment Insurance Trust Fund. My business employs 22 people in NJ including myself and my experience rating is 2.100%. Restaurants are the State's largest private sector employers with over 300,000 people working in the industry. **The restaurant and hospitality industry has many types of job opportunities from entry level positions to well paying full time careers.**

I believe that the bankruptcy of the NJ Unemployment Trust Fund and subsequent need to find a solution is a state wide problem-not just an employer problem. In good faith, as an employer, I paid that money into the Trust Fund, as did my employees, to fund unemployment relief. As of June 30, 2009, the latest figures available, **I had a reserve balance of $13,414.10 in my unemployment account.** As a trust fund, my employees and I paid this money in for unemployment relief, not other things. Our trust in the fund was betrayed. I believe the burden to replenish the coffers should be shared by everyone, not just by employers. If a sum needs to be assessed to replenish the fund, I suggest that sum be assessed to each working person. How, as a business paying corporate minimum tax, fire safety tax, property tax, sales tax, and other taxes, fees and compliance costs are businesses better able to afford this tax than any other citizens? After all, we, as a society, have decided that our fellow humans should not suffer. It was not a group of employers who got together and decided to start this fund.

May I suggest that the legislature repeal paid family leave while keeping the paid family leave tax in place, and sending that money to the unemployment fund? I would suggest that if an individual chooses to stay home with a child (a choice I believe is a good one) that the individual choose a house, a car, and lifestyle that will enable that caregiver to live on the salary of the wage earning partner rather than society paying for the caregiver to stay home.

Further I have a story to share with you. I recently hired a woman to work one shift per week as a dishwasher in my restaurant. After one week she told me she couldn't afford to work because it would cost her too much in her welfare benefit. What is wrong with that picture when my business has a valid job but government programs have created a disincentive for people to work?

I have attached to my testimony a copy of my Notice of Employer UI Contribution Rates. I don't know what my increase would be so I hope somebody there knows how to figure it out. I believe it would cost me approximately $300 per employee, an increase my business certainly can't absorb. As a truly small business, in an industry with an average net profit of just 3%- yes that's 3 cents of every dollar we bring in is possible profit, we are totally maxed out. **We truly only made it through the winter by the skin of our teeth.**

On behalf of the New Jersey Restaurant Association, we support Governor Christie's proposal which includes a broad series of measures that are needed to restore fiscal solvency and offset future job losses. NJ restaurants are also a significant part of the tourism industry. We have been asked by the NJ Travel Industry Association to specifically reference their support for Governor Christie's UI Reforms as well. This plan will help to create an environment where the private-sector can generate jobs. The time of reckoning is upon us. New Jersey residents and lawmakers must stand up and support the tough reforms the governor is proposing – changes that require shared sacrifices. Only by doing so will we enjoy the shared success of our state's economic revitalization.

Thank you for the opportunity to testify. I will be happy to answer any questions you may have.

Questions:

Please contact Amy Coss, NJRA Director of Deborah Dowdell, NJ Restaurant Association President- 609.599.3316

Mar 15 10 11:41a Sojourner 609-397-9240 p.2

EMPLOYMENT SECURITY AGENCY

# NOTICE OF EMPLOYER CONTRIBUTION RATES

This determination shall be final if not protested in writing within 30 days (N.J.A.C.12:16-22.2)

EMPLOYER NAME: MISE EN PLACE, INC.
EMPLOYER ACCOUNT NO: 0-223-520-710/000-00
MAILING DATE: 06/29/2009
FISCAL YEAR: 07/01/2009 - 06/30/2010

**THIS IS NOT A BILL**

## UNEMPLOYMENT INSURANCE CONTRIBUTION RATE CALCULATION

A. EMPLOYER CONTRIBUTIONS PAID FOR ALL PAST YEARS ............ 18,442.70

B. BENEFITS CHARGED FOR ALL PAST YEARS ............ 5,028.60

C. RESERVE BALANCE AS OF JANUARY 31, 2009 ............ 13,414.10

D. AVERAGE OF WAGES UPON WHICH EMPLOYER CONTRIBUTIONS FOR UNEMPLOYMENT INSURANCE HAVE BEEN PAID:
LAST 3 YEARS ... 211,992.05
LAST 5 YEARS ... 181,527.87

E. UNEMPLOYMENT TRUST FUND RATIO ............ 1.005%

F. IF THERE IS A NUMBER SHOWN IN THE BOX TO THE RIGHT, YOUR RATE IS NOT BASED UPON A RESERVE RATIO (SEE NOTE BELOW)

1. THE BASIC RATE HAS BEEN ASSIGNED BECAUSE YOU HAVE NOT BEEN SUBJECT TO THE LAW DURING SOME PERIOD OF THE LAST THREE (3) CALENDAR YEARS.
2. YOUR RATE HAS BEEN ASSIGNED BECAUSE, DURING THE PAST THREE (3) CALENDAR YEARS, THERE HAS BEEN AT LEAST ONE (1) CALENDAR YEAR WITH RESPECT TO WHICH NO CONTRIBUTIONS WERE PAID.

G. RESERVE RATIO ............ 6.328%

***FINAL UNEMPLOYMENT EXPERIENCE RATE*** ............ 2.100%

Your Experience Rate is allocated to the Unemployment, Workforce, and Healthcare Funds as follows:

| | UI | WF/SWF | HC |
|---|---|---|---|
| 7-1-2009 to 12-31-2009 | 1.9825% | 0.1175% | 0.0000% |
| 1-1-2010 to 06-30-2010 | 1.9825% | 0.1175% | 0.0000% |

## DISABILITY INSURANCE CONTRIBUTION RATE CALCULATION

H. EMPLOYER AND WORKER DISABILITY CONTRIBUTIONS PAID FOR ALL PAST YEARS ............ 8,402.83

I. DISABILITY BENEFITS CHARGED FOR ALL PAST YEARS ............ 1,017.00

J. RESERVE BALANCE AS OF JANUARY 31, 2009 ............ 7,385.83

K. AVERAGE OF WAGES UPON WHICH EMPLOYER CONTRIBUTIONS FOR DISABILITY INSURANCE HAVE BEEN PAID:
LAST 3 YEARS ............ 106,436.67
LAST 5 YEARS ............ 118,194.00

L. IF THERE IS A NUMBER SHOWN IN THE BOX TO THE RIGHT, YOUR RATE IS NOT BASED UPON A RESERVE RATIO (SEE NOTE BELOW)

1. THERE WERE ONE OR MORE YEARS DURING THE LAST THREE (3) CALENDAR YEARS WITH RESPECT TO WHICH YOU PAID NO CONTRIBUTIONS TO THE DISABILITY BENEFIT FUND
2. YOUR EXCESS OR DEFICIT BALANCE IS $500.00 OR LESS.

M. EXCESS OR DEFICIT RESERVE BALANCE ............ 5.826%

[illegible] UNADJUSTED CURRENT YEAR ............ 0.000%

| POSITIVE RESERVE RATIO | EXPERIENCE RATE | WF/SWF | ALLOCATION HC | UI |
|---|---|---|---|---|
| 17.00% AND OVER | 0.4% | 0.1175% | 0.0000% | 0.2825% |
| 16.00% TO 16.99% | 0.5% | 0.1175% | 0.0000% | 0.3825% |
| 15.00% TO 15.99% | 0.6% | 0.1175% | 0.0000% | 0.4825% |
| 14.00% TO 14.99% | 0.6% | 0.1175% | 0.0000% | 0.4825% |
| 13.00% TO 13.99% | 0.7% | 0.1175% | 0.0000% | 0.5825% |
| 12.00% TO 12.99% | 0.8% | 0.1175% | 0.0000% | 0.6825% |
| 11.00% TO 11.99% | 0.8% | 0.1175% | 0.0000% | 0.6825% |
| 10.00% TO 10.99% | 1.1% | 0.1175% | 0.0000% | 0.9825% |
| 9.00% TO 9.99% | 1.3% | 0.1175% | 0.0000% | 1.1825% |
| 8.00% TO 8.99% | 1.6% | 0.1175% | 0.0000% | 1.4825% |
| 7.00% TO 7.99% | 1.8% | 0.1175% | 0.0000% | 1.6825% |
| 6.00% TO 6.99% | 2.1% | 0.1175% | 0.0000% | 1.9825% |
| 5.00% TO 5.99% | 2.4% | 0.1175% | 0.0000% | 2.2825% |
| 4.00% TO 4.99% | 2.6% | 0.1175% | 0.0000% | 2.4825% |
| 3.00% TO 3.99% | 2.7% | 0.1175% | 0.0000% | 2.5825% |
| 2.00% TO 2.99% | 2.8% | 0.1175% | 0.0000% | 2.6825% |
| 1.00% TO 1.99% | 2.9% | 0.1175% | 0.0000% | 2.7825% |
| 0.00% TO 0.99% | 3.0% | 0.1175% | 0.0000% | 2.8825% |
| SPECIALLY ASSIGNED RATE | 5.4% | 0.1175% | 0.0000% | 5.2825% |
| **DEFICIT RESERVE RATIO** | | | | |
| 0.00% TO 2.99% | 4.3% | 0.1175% | 0.0000% | 4.1825% |
| 3.00% TO 5.99% | 4.3% | 0.1175% | 0.0000% | 4.1825% |
| 6.00% TO 8.99% | 4.4% | 0.1175% | 0.0000% | 4.2825% |
| 9.00% TO 11.99% | 4.5% | [illegible] | 0.0000% | 4.3825% |
| 12.00% TO 14.99% | 4.6% | [illegible] | 0.0000% | 4.4825% |
| 15.00% TO 19.99% | 4.6% | [illegible] | 0.0000% | 4.4825% |
| 20.00% TO 24.99% | 4.7% | [illegible] | 0.0000% | 4.5825% |
| 25.00% TO 29.99% | 4.8% | [illegible] | 0.0000% | 4.6825% |
| 30.00% TO 34.99% | 4.8% | [illegible] | [illegible] | 4.6825% |
| 35.00% AND OVER | 5.4% | [illegible] | [illegible] | 5.4000% |
| SPECIALLY ASSIGNED RATE | 5.4% | [illegible] | 0.0000% | [illegible] |
| NEW EMPLOYER RATE | 2.8% | [illegible] | [illegible] | [illegible] |

### January 1, 2010 to June 30, 2010

| POSITIVE RESERVE RATIO | EXPERIENCE RATE | WF/SWF | ALLOCATION HC | UI |
|---|---|---|---|---|
| 17.00% AND OVER | 0.4% | 0.1175% | 0.0000% | 0.2825% |
| 16.00% TO 16.99% | 0.5% | 0.1175% | 0.0000% | 0.3825% |
| 15.00% TO 15.99% | 0.6% | 0.1175% | 0.0000% | 0.4825% |
| 14.00% TO 14.99% | 0.6% | 0.1175% | 0.0000% | 0.4825% |
| 13.00% TO 13.99% | 0.7% | 0.1175% | 0.0000% | 0.5825% |
| 12.00% TO 12.99% | 0.8% | 0.1175% | 0.0000% | 0.6825% |
| 11.00% TO 11.99% | 0.8% | 0.1175% | 0.0000% | 0.6825% |
| 10.00% TO 10.99% | 1.1% | 0.1175% | 0.0000% | 0.9825% |
| 9.00% TO 9.99% | 1.3% | 0.1175% | 0.0000% | 1.1825% |
| 8.00% TO 8.99% | 1.6% | 0.1175% | 0.0000% | 1.4825% |
| 7.00% TO 7.99% | 1.8% | 0.1175% | 0.0000% | 1.6825% |
| 6.00% TO 6.99% | 2.1% | 0.1175% | 0.0000% | 1.9825% |
| 5.00% TO 5.99% | 2.4% | 0.1175% | 0.0000% | 2.2825% |
| 4.00% TO 4.99% | 2.6% | 0.1175% | 0.0000% | 2.4825% |
| 3.00% TO 3.99% | 2.7% | 0.1175% | 0.0000% | 2.5825% |
| 2.00% TO 2.99% | 2.8% | 0.1175% | 0.0000% | 2.6825% |
| 1.00% TO 1.99% | 2.9% | 0.1175% | 0.0000% | 2.7825% |
| 0.00% TO 0.99% | 3.0% | 0.1175% | 0.0000% | 2.8825% |
| SPECIALLY ASSIGNED RATE | 5.4% | 0.1175% | 0.0000% | 5.2825% |
| **DEFICIT RESERVE RATIO** | | | | |
| 0.00% TO 2.99% | 4.3% | 0.1175% | 0.0000% | 4.1825% |
| 3.00% TO 5.99% | 4.3% | 0.1175% | 0.0000% | 4.1825% |
| 6.00% TO 8.99% | 4.4% | 0.1175% | 0.0000% | 4.2825% |
| [illegible] | 4.5% | 0.1175% | 0.0000% | [illegible] |

# Testimony
# of
# Douglas J. Holmes
# President, UWC – Strategic Services on Unemployment & Workers' Compensation

## Before the
## New Jersey Assembly
## Labor and Senate Labor Committees

## Hearing on Unemployment Insurance Trust Fund Solvency and Unemployment Tax and Benefit Provisions

March 18, 2010

Douglas J. Holmes
President
UWC – Strategic Services on Unemployment & Workers' Compensation
910 17th Street, NW, Suite 315
Washington, DC 20006
202-223-8904
holmesd@uwcstrategy.org

Mr. Chairman, members of the Labor and Senate Labor Committees, thank you for the opportunity to testify today with respect to the New Jersey Unemployment Insurance Program.

I am Douglas J. Holmes, President, UWC Strategic Services on Unemployment & Workers' Compensation (UWC), the national membership organization serving as the voice of business specifically with respect to unemployment insurance. UWC and its predecessor organization have served the business community in analysis of unemployment insurance policy since 1933. Our members include a broad base of national and state business organizations as well as individual employers with specific interest in unemployment insurance.

I also serve as President of the National Foundation for Unemployment Compensation and Workers' Compensation, a research foundation that annually publishes comparisons of state unemployment compensation laws and hosts the National Unemployment Insurance Issues conference.

I am testifying today to provide a national context to assist the committee in its review of the New Jersey unemployment trust fund and measures that may be taken to address unemployment tax rates and benefits to address short term and longer term solvency issues.

As of March 12th, New Jersey was one of 32 states and jurisdictions with outstanding loans totaling of $35.7 billion from the federal government to pay state unemployment compensation. New Jersey's outstanding debt of $1.38 billion ranks 10th behind California, Michigan, New York, Pennsylvania, Ohio, North Carolina, Illinois, Texas, and Indiana. The U.S. Department of Labor projects that 40 states will borrow before the end of 2010.

The problem of insolvency in the system is not limited to state unemployment trust fund accounts, as the Federal Unemployment Account (FUA) from which Title XII loans may be taken by states is itself insolvent and relying on transfers from federal general revenue to provide funds to cover state loan requests. The U.S. Department of Labor projects that the negative balance in the FUA will reach $93 billion by 2012. Because we are effectively relying on transferred federal general revenue to cover Title XII loans, with each additional dollar requested to pay state unemployment compensation the national debt increases.

Employers pay state unemployment contributions to fund the state unemployment benefit trust fund account and the Federal Unemployment Tax Act (FUTA) taxes to provide funds for federal and state administration, federal extended benefits, and the FUA loan fund.

Without question, the size of the unemployment insurance system deficit calls for a coordinated state and federal solution. Many states, including New Jersey, have deficits so great that it is not possible to increase state UI tax rates enough in the next five years to reach solvency levels without negatively impacting the creation of jobs that are essential to continued economic recovery. Although it may be that state unemployment trust funds were not in as solvent a position prior to the 2008 recession as they were prior to earlier recessions, the size and duration of the recession was caused by economic forces well beyond the control of any particular state, and we are now faced with developing solutions.

A short term and long term strategy is essential, recognizing that continued vigilance will be needed over the next ten years to improve and maintain solvency.

Many states and Congress have recognized the need to avoid significant unemployment insurance tax increases in 2010 for the very reason that large increases could put the economic recovery at risk.

Hawaii recently enacted legislation to reduce automatic state unemployment tax increases that would result from an increased tax base and rate schedule. Without the legislation, the average state unemployment tax per employee would have increased from $90 per employee to $1,070 per employee. Although state UI taxes will still be increased for a number of years to assure solvency in Hawaii, the reduction in the increase in 2010 was critical in avoiding a shock to businesses that would have discouraged hiring.

Indiana and Florida also recently delayed previously approved state unemployment tax increases to avoid a negative impact just as the states were striving to recover employment levels. In both cases, the states recognized that longer term solvency plans are needed in addition to the short term strategy avoiding the negative impact on state economies.

In enacting HR 3548 in 2009, Congress acted to continue the FUTA 0.2% surtax, but increases in FUTA tax levels have not been proposed in recognition of the need to avoid payroll tax increases until economic recovery is realized and employment numbers increase.

Turning to New Jersey, clearly a short term/long term strategy is needed that recognizes first the need to secure the recovery of jobs and secondly the need to address long term solvency issues in coordination with the federal government.

Long term solvency should not only address state unemployment tax rates, but also benefit eligibility and payment rates, to assure that the state system is sustainable over the long term. Determinations of the appropriate tax rates and benefit payments must be made in the context of other states in the region and industrial states across the country. A comparison with other states demonstrates that New Jersey state unemployment tax rates and benefits are among the highest in the country.

**Average tax per employee on total wages**

A commonly used measure of the cost of state UI systems is the average tax on total wages. This measure is tracked by the U.S. Department of Labor on a quarterly basis. As of the September 30, 2009 report, New Jersey had the ninth highest tax on total wages per employee in the country, slightly lower than Pennsylvania, but 50% higher than New York, 181% higher than Delaware, and 217% higher than Maryland's tax on total wages.

**Weekly benefit amount**

The average weekly benefit amount for claimants in New Jersey is the 5$^{th}$ highest in the country and higher than other states in the region at $389.05 per week compared to PA $349.30; NY $313.83; DE $258.80; and MD $309.27.

**Duration of benefits**
Claimants in New Jersey stay on unemployment compensation longer than in most states. The state ranks 4th nationally in duration of benefits with average duration of 19.7 weeks, compared to PA 18.4; NY 18.9; DE 20.2; and MD 17.6.

To be competitive with other states and to assure long term solvency, measures are needed to reduce taxes in comparison to other states, assure active work search, assist unemployed workers in returning to work, and setting benefit levels and qualifications that are consistent with other states.

**Benefit Related Solvency Measures to be Considered**
New Jersey law currently includes a number of benefit eligibility and payment provisions that result in very high benefit payout. Provisions to be considered include:

1. **Eliminate payment of the waiting week**

Unemployment insurance is a temporary partial wage replacement program designed to provide weekly payments as individuals become unemployed. Because individuals typically receive their last pay check a week or two after becoming unemployed the normal practice has been to provide for a non compensable waiting week before an individual may be paid unemployment compensation. Fourteen states, including New Jersey have elected not to require a waiting week and immediately make payments. Pennsylvania and New York have one or more waiting weeks, while Delaware and Maryland do not.

2. **Reduce the weekly benefit amount formula and/or freeze the maximum weekly benefit amount**

The New Jersey formula to determine the weekly benefit amount results in a weekly benefit amount that is consistently among the highest in the country. The formula provides for a WBA of 60% of the average weekly wage plus a dependency allowance up to certain caps, and permits individuals to earn up to 20% above the WBA and still be paid partial unemployment compensation for a week. One result of these factors is that the duration of unemployment compensation is higher than it would otherwise be. Not only are the benefit payouts greater than in other states, but because the differential from wages is smaller there is less of an incentive for individuals to accept suitable work that may be available. A reduction from 60% to 50%, elimination of the dependency allowance, and elimination of the extra 20% within which a partial week may be paid should be considered. An alternative to reducing the formula may be a freeze on maximum WBAs for a period needed to achieve solvency.

3. **Reduce the total benefits payable**

As a matter of policy, many states limit the amount of benefits to be paid to an individual in a benefit year to a fraction of the individual's base period wages. The fraction is typically one-third or one-half of base period wages on the theory that an individual should not receive more than 50% of his or her base period wages in unemployment compensation. Such a provision would be consistent with many other states, would not affect the weekly benefit amount to be paid upon becoming unemployed, but would reduce the average duration of unemployment compensation and the total payout in state unemployment compensation. As an aside, as long as federal emergency unemployment compensation is available, individuals would be able to continue claiming weeks of unemployment compensation well beyond the up to 20 or 26 weeks provided for in state law.

4. **Increase the penalties and requirements to remove disqualifications for individuals who become unemployed without cause and who refuse offers of work.**

Individuals who quit work without cause or are separated from employment for misconduct are no longer unemployed through no fault of their own, and should not be paid unemployment compensation. Also, individuals who refuse offers of suitable work are not available for work and should be disqualified. In both instances, most states impose a penalty that includes requiring subsequent work of a specific duration and earning wages of a specified amount before the disqualification may be removed for subsequent periods of unemployment. New Jersey's penalties are much lighter than most states, providing principally only for a small number of weeks during which the individual may not be paid unemployment compensation after the refusal or separation from employment.

**Tax Related Solvency Measures**

In recognition of the severe strain on state unemployment trust fund accounts and the already dramatically increasing state UI taxes across the country, a coalition of national and state business organizations are seeking federal relief from Title XII interest and FUTA offset penalty provisions. On February 16th the coalition sent a letter to the members of the U.S. Senate specifically calling for measures to:

- ✓ **Extend the waiver of interest on loans to states to pay unemployment compensation through 2012—helping states in the short term to plan to restore solvency and to implement solvency legislation within a reasonable timeframe.**

- ✓ **Waive Federal Unemployment Tax Act (FUTA) penalties on employers in states borrowing to pay unemployment compensation through 2011—without a waiver, FUTA taxes on employer payroll in approximately half of the states will be increased.**

- ✓ **Reduce the Federal Unemployment Tax.**

- ✓ **Provide $30 million in additional targeted administrative UI funding in FY 2010 and 2011 for state agencies to install automated systems and train personnel to better identify fraud and overpayments. This appropriation should be offset through enactment of a provision to add "New Hire" reporting as previously passed by the House of Representatives in HR 3458.**

We welcome support from state legislatures in seeking short term relief from federal interest and penalties, and look forward to working with you to identify longer term solvency measures for the state and federal unemployment insurance system.

I would be pleased to respond to any questions or provide additional comparison information to assist the committee in its review of options.

NEW JERSEY STATE AFL-CIO
106 West State Street
Trenton, New Jersey 08608
(609) 989-8730
FAX (609) 989-8734
www.njaflcio.org

CHARLES WOWKANECH LAUREL BRENNAN

CHARLES H. MARCIANTE



March 18, 2010

Dear Members of the Senate & Assembly Labor Committees:

**Re: Testimony of the New Jersey State AFL-CIO**
**Regarding the State Unemployment Insurance Trust Fund**

The New Jersey State AFL-CIO would like to direct our testimony to two specific issues: the first is to put into perspective the importance of maintaining the existing benefit structure for unemployed workers, and the second is to plainly illustrate why withholding changes in the UI schedule has placed us in the situation we are in. If we want the Unemployment Trust Fund to recover, we need to change course.

Members of the Committee – these are difficult times for unemployed New Jersey residents. We are all familiar with the statistics. The January state unemployment rate was 9.9%, slightly higher than the national average. In 2009, New Jersey was one of the top 10 states for home foreclosures. Our state has been hit hard by job losses in the manufacturing sector, and unemployment in the Building and Construction Trades is painfully high.

**Effect on Unemployed Workers:**

Therefore, when debating policy solutions, we respectfully urge you to consider the plight of unemployed workers first. Reducing benefits for newly unemployed workers by $50 a week, or forcing workers to wait a week for their first check, as the Governor has recommended, would be a mistake. We live in a high cost of living state – consistently in the top five in the nation in annual rankings and every dollar for these workers is essential. These reductions would be devastating. New Jersey is one of only three states that have an employee contribution to their state UI Fund, and we have consistently made our contributions as required by law. Workers have been responsible in this regard, and therefore, should not see reduced benefits as a result.

When framing the debate on solving the UI Fund crisis – some policy makers say "everything must be on the table." We respectfully disagree, and urge you to take the Governor's proposal to reduce benefits "off the table." To some, the benefit reduction recommendation is simply a line-item to balance budgets, but to unemployed workers, it is a lifeline that cannot and should not be compromised. We are proud to see that legislative leadership shares our concern on this issue, as well as in the media.

The first recommendation is that we need to be honest with employers and say that we can no longer abandon the "naturally" adjusting schedule. Business and corporations have been in the lowest possible schedule – the A schedule from July 1998 to June 2009. In fact, they should have been in either the C or B schedule since 1996 if the schedule operated "naturally," without the passage of laws adjusting the reserve ratio. If this occurred, it is estimated that just under $5 billion more would have gone into the fund. Instead, corporations and businesses kept that money.

Second, we strongly supported SCR-60, which will be on the ballot this year to stop future raiding of the fund. We will be mobilizing in favor of passage of this provision this fall.

Third, we are working with our Congressional Delegation in an attempt to find solutions and funding, as well as looking to minimize or postpone payments on the interest on the money the state borrowed for benefits.

And fourth, a phase-in for an adjustment to the schedule has been discussed. In light of our argument today, we would need more details on the level of funding and the time frame for enactment to see how the fund would benefit before making a recommendation. However, we believe the 17% figure recommended by the Governor is inadequate, particularly if, as we recommend, the existing benefit structure is maintained.

In closing, we recognize the severity of the economic situation we are in. But we should not reduce benefits for workers – that is bad for them, and it's bad for New Jersey's economy. Thank you and the New Jersey State AFL-CIO would like to continue to work with you in your efforts to reform our UI Trust fund.

In Solidarity,

Charlie

Charles Wowkanech
President

Laurel

Laurel Brennan
Secretary-Treasurer

CW:LB:jd
OPEIU:153



68x

NEW JERSEY STATE BUILDING
& CONSTRUCTION TRADES COUNCIL
77 BRANT AVENUE
CLARK, NJ 07066
PH: (732) 499-0100

| | |
|---|---|
| **TO:** | Members of the Senate and Assembly Labor Committees |
| **FROM:** | Bill Mullen, NJ State Building and Construction Trades Council |
| **DATE:** | March 18, 2010 |
| **RE:** | Testimony on a joint hearing to review the fiscal condition of the State Unemployment Insurance (UI) Trust Fund and other related UI tax. |

---

The New Jersey Building and Construction Trades Council (NJBCTC) coordinates activities and provides resources to 15 affiliated trades unions in the construction industry. We represent 13 Local Building Trades Councils, more than 100 local unions and over 150,000 rank and file members.

Created in 1903, the NJBCTC has helped its 15 affiliated building trades unions to make job sites safer, deliver apprenticeship and journey-level training, organize new workers, support legislation that affects working families, and assist in securing improved wages, hours and working conditions through collective bargaining and project labor agreements.

Affiliated building trades members include, Boilermakers, Bricklayers, Carpenters, Electricians, Elevator Constructors, Finishing Trades (Painters, Glaziers, and Drywall Finishers), Insulators, Iron Workers, Laborers, Operating Engineers, Operative Plasterers and Cement Masons, Pipe Trades (Plumbers and Pipefitters, Sprinkler Fitters, HVAC Service Technicians), Roofers, Sheet Metal Workers, Teamsters.

The Building Trades Council truly appreciate the Legislature's joint committee effort in reviewing the fiscal condition of the State's Unemployment Insurance (UI) Trust Fund and related UI tax issues. The timing of this hearing could not be better. While New Jersey's unemployment rate dropped slightly in January, it is still higher than the national rate. New Jersey's jobless rate for January was 9.9 percent, down from 10 percent in December. The national rate was 9.7 percent. The state lost 9,700 private sector jobs in January, with construction being one of the hardest hit sectors.

The New Jersey Unemployment Insurance System provides a valuable safely net to our members who find themselves at the mercy of a tough economy. And what we are witnessing now is one of the worst economic downturns in half a century. Building construction is at an all time low, so are new home starts, utility and highway construction is decreasing, and public construction is nearly at a standstill. An unfortunate but sobering fact is that the unemployment rate among the Building Trades ranges between 30% and 50%.

Right now, we have no official position on any proposed changes to the UI system. We have not had a chance to review any. We only know what we have read in the papers. But it is understandable that the Building Trades would have concerns with any proposal that would limit eligibility or reduce weekly wage payments. We are also currently reviewing a bill introduced on Monday by Senator Madden that would slow the rate of the UI tax increase to employers.

In closing, I would just like to add that while everyone commonly refers to unemployment as a benefit - while this term is technically correct, it is very misleading to do so. New Jersey is one of only three States that requires employees to pay into the system. So when you are debating whether to reduce New Jersey's higher then average benefit amount, please consider that employees pay too.

Respectfully submitted by AJ Sabath, The Advocacy Group, LLC. (609) 469-9294
asabath@comcast.net.

New Jersey Business & Industry Association

NJBIA 100TH ANNIVERSARY

Celebrating a Century of Service to NJ Business

GOVERNMENT AFFAIRS TEAM

**Melanie Willoughby**
Senior Vice President

**Sara Bluhm**
Assistant Vice President
Energy & Federal Affairs

**David Brogan**
Vice President
Environmental Policy

**Dominick DiRocco, Esq.**
Assistant Vice President
Employment & Labor Policy

**Christopher Emigholz**
Director
Education &
Workforce Development

**Arthur Maurice**
First Vice President
Economic Development &
Taxation

**Frank Robinson**
First Vice President
Grassroots &
Transportation

**Christine Stearns, Esq.**
Vice President
Health & Legal Affairs

# MEMORANDUM

TO: The Members of the Assembly Labor Committee and Senate Labor Committee

FROM: Melanie Willoughby

DATE: March 18, 2010

***RE: Unemployment Insurance Trust Fund***

On behalf of the 22,000 members of the New Jersey Business and Industry Association (NJBIA), we would like to thank you for holding a hearing on the fiscal condition of the State Unemployment Insurance (UI) Trust Fund. We are very concerned about the impact of the impending $1 billion UI payroll tax increase on private sector employers and ask for your swift action in stopping the tax trigger from taking effect on July 1 of this year.

Our nation's unemployment compensation system is in crisis. A record 20 million Americans collected unemployment benefits last year and at least 30 states have exhausted their unemployment trust funds. To meet the growing demand for unemployment benefits, these states have been forced to borrow funds from the federal government, raise taxes and/or cut benefits. Collectively, the states have borrowed over $35 billion and increased borrowing for the foreseeable future is inevitable.

New Jersey has not been immune to the problems surrounding the unemployment compensation system nationwide. Unemployment in New Jersey has reached nearly 10 percent, exceeding the national average. In FY 2009, New Jersey's unemployment compensation fund collected approximately $1.7 billion from employers and workers but paid out $3.2 billion in benefits. In March 2009, our unemployment fund reached the breaking point and began borrowing from the federal government to meet its obligations.

The insolvency of the fund would have triggered an estimated $600-900 million tax increase last year. Fortunately, the Legislature acted to avert a large portion of this tax increase. By depositing State general funds and federal ARRA funds, the Legislature was able to significantly limit the tax increase.

In the last twelve months, New Jersey's UI Fund has borrowed approximately $1.4 billion from the federal government to meet the demand for unemployment benefits. Unfortunately, it seems unavoidable that New Jersey will need to continue borrowing.

Brief History of New Jersey's Unemployment Compensation System

New Jersey's unemployment compensation system was originally established in 1937. The system is funded by payroll taxes levied on both employers and employees, with a flat tax on workers and a variable tax on employers, which is calculated annually based upon an employer's experience rating with unemployment claims.

Pursuant to New Jersey law, taxes on employers are automatically increased when UI fund reserves drop below certain levels. Payroll taxes on employees are assessed at a flat rate regardless of UI fund reserves.

Currently, New Jersey employers pay an average tax of approximately $770 per employee. Dependent upon their experience rating, employers are taxed on a scale from 0.03% to 5.4% on the first $29,700 of each employee's wages. Based upon these percentages, employers pay between $90 and $1603 per employee.

New Jersey, Alaska and Pennsylvania are the only jurisdictions where employees contribute to the UI fund as well. In New Jersey, workers contribute a maximum of approximately $113 annually. In 2007, for example, employers in New Jersey contributed about $1.5 billion to the fund while employee contributions totaled approximately $309 million.

New Jersey's UI payroll tax rates for employers are determined by a calculation based upon the company's experience with UI claims and the amount of reserves in the UI fund. There are five columns of tax rates set forth in State statute which determine an employer's tax liability with column "A" having the lowest rates and column "E" having the highest rates. On March 31 of each year, the State examines the UI fund reserves and the tax columns shift if fund replenishment is needed. Thus, the system is designed to build reserves during times of economic expansion and to shoulder the burden of increased demands for benefits during times of economic recession.

Despite the law's automatic trigger for fund replenishment, the UI fund is currently insolvent. In addition to high unemployment, other factors have contributed to the financial condition of the fund. Thru the years State policy makers of both parties have diverted nearly $4.7 billion from the UI fund.

Fortunately, recent Legislatures have reversed that trend and have appropriated $410 million to the fund during the last two years. These actions by the Legislature have previously prevented significant tax increases for employers. But despite these appropriations, trust fund reserves have not been able to keep up with demand.

$1 Billion Payroll Tax Increase Scheduled for FY 2011

New Jersey's unemployment compensation system is designed to trigger automatic tax increases, through shifts in the tax columns, when fund reserves dip below statutorily mandated levels. Thus, because of the current insolvency of the UI trust account, the tax rates are scheduled to shift from column "B" to column "E" at the beginning of Fiscal Year 2011 (July 1, 2010). This 3 column shift will result in a $1 billion tax increase for employers statewide. While the average employer will see a 52% increase ($400 per employee), some employers will actually experience a 225% payroll tax increase with an additional tax liability potentially exceeding $1000 per employee.

Specifically, an employer with a very good experience rating currently pays approximately $119 per employee in UI payroll taxes. If action is not taken to stop the automatic tax increase, those employers will pay approximately $392 per employee in UI payroll taxes. If action is taken to phase in the tax increase, those employers will pay approximately $149 per employee. For employers with bad experience ratings, they will see a per employee tax increase from $1604 to $2287 if no action is taken. With a phased in tax increase those employers would pay $1723.

NJBIA's Position

Currently, unemployment in New Jersey hovers near 10 percent and the effects of the national recession have caused severe financial distress for businesses and workers alike. Private sector employers in New Jersey are working hard to reverse the current trend of economic contraction and put New Jerseyans back to work. A billion dollar payroll tax increase on private sector employers at this time of great economic uncertainty will undoubtedly stall economic growth and exacerbate the pressures on the UI system.

Therefore NJBIA supports the following steps:

- **Multi-year Phase-in**: Amend State law to provide for a multi-year phase-in of the tax increase, thus avoiding a $1 billion tax increase on July 1, 2010 while still providing much needed funds, and capping future rate increases to one column per year. This will give predictability to employers on how much to budget each year for the payroll tax increases.

- **Modify UI benefits**. To ensure our competitiveness, New Jersey's UI benefits should resemble those of other states in our region by: requiring a one-week waiting period for the payment of benefits; prohibiting claimants who have been fired for misconduct from collecting benefits; and freezing the automatic escalator. These changes should be reviewed and implemented quickly to ensure the fiscal solvency of the UI Fund.

- **Federal Assistance**: Urge federal lawmakers to extend the waiver of interest payments on UI loans; forgive the federal UI loans that have already been accrued; and, fully fund extended benefit payments.

Thank you for the opportunity to provide our comments on this critical issue. We urge policy makers to move quickly to avert a $1 billion tax increase for employers.

# Unemployment Insurance (UI) Payroll Tax Increase

New Jersey employers face a devastating Unemployment Insurance (UI) tax increase if action is not taken. Due to the insolvency of the State's UI Fund, an automatic tax increase will be triggered on July 1st in order to replenish the Fund. This $1 billion payroll tax will require employers to pay an average additional tax of $400 per employee, but some companies could pay as much as $1,000 or more.

New Jersey's economy is still struggling to recover from the effects of the national recession. This tax increase would hurt our companies' attempts to recover from the downturn. Therefore, NJBIA is committed to working closely with the Governor, as well as State and federal legislators, to mitigate the tax increase.

*Background:*

The UI system is funded by payroll taxes levied on both employers and employees. Pursuant to State law, taxes on employers are automatically increased for the purpose of fund replenishment when UI fund reserves drop below certain levels. The Fund was originally designed to accumulate revenues during periods of economic growth, so that during downturns there would be funds available to pay out benefits without raising taxes at the worst possible time.

Record unemployment levels for the last two years, coupled with the diversion of approximately $4.6 billion in UI funds by the State over the past 17 years, led to the fund's insolvency in March of 2009. Since then, the State has been borrowing from the federal government to meet the demand for unemployment benefits. It is anticipated that the Fund will have a $1.6 billion deficit by March 2010.

*NJBIA's Position:*

A billion dollar payroll tax increase on private sector employers at this time of great economic uncertainty will undoubtedly stall economic growth and exacerbate the pressures on the UI system. However the system cannot continue to operate in a deficit. Therefore NJBIA recommends the following steps:

- **Multi-year Phase-in**: Amend State law to provide for a multi-year phase-in of the tax increase, thus avoiding a $1 billion tax increase on July 1, 2010 while still providing much needed funds, and capping future rate increases to one column per year.

- **Modify UI benefits**. To ensure our competitiveness, New Jersey's UI benefits should resemble those of other states in our region by: requiring a one-week waiting period for the payment of benefits; prohibiting claimants who have been fired for misconduct from collecting benefits; and freezing the automatic escalator. These changes should be reviewed and implemented quickly to ensure the fiscal solvency of the UI Fund.

- **Federal Assistance**: Urge federal lawmakers to extend the waiver of interest payments on UI loans; forgive the federal UI loans that have already been accrued; and, fully fund extended benefit payments.

**Updated 2/25/10**

**Unemployment Insurance (UI) Payroll Tax Increase: Detailed Fact Sheet**

---

**New Jersey businesses face a $1 billion tax increase this year due to the insolvency of the Unemployment Insurance (UI) Compensation Fund.**

- While federal law requires each state to maintain a UI system, the states are free to establish tax rates and benefit levels.
- The UI system is funded by payroll taxes levied on both employers and employees. Workers pay a flat tax rate. The tax on employers is calculated annually based upon an employer's experience rating with unemployment claims.
- As originally established, the system was designed to build reserves during times of economic expansion and to shoulder the burden of increased demands for benefits during times of economic recession.
- When the UI fund balance dips below certain levels, a tax increase on employers is automatically triggered to raise enough revenue to replenish the fund.
- Because New Jersey's UI fund is insolvent, a $1 billion payroll tax increase will be triggered if something is not done before March 31.
- This $1 billion payroll tax will require employers to pay an average additional tax of $400 per employee, but some companies could pay as much as $1,000 or more.

**The current UI fund status will lead to a "three column" shift in the tax rate applied to employers.**

- State law sets forth an "Experience Rating Tax Table," which governs the tax rates that are applicable to employers, with tax column A being the lowest and tax column E being the highest.
- The tax rate is applied to income earned up to the taxable wage base, which is equal to 28 times the State average weekly wage. For 2010, the taxable wage base is $29,700.
- Currently, New Jersey employers are subject to the tax rates set forth in tax column B, which yielded $1.8 billion in UI payroll taxes in FY 2010.
- Because of the insolvency of the UI fund, the tax table will shift employers into column E at the start of FY 2011 on July 1, 2010. This shift will yield an additional $1 billion in UI payroll taxes.
- The State's UI "Experience Rating Tax Table" can be found at N.J.S.A. 43:21-7 and in the Office of Legislative Services analysis of the budget for the Department of Labor & Workforce Development for FY 2010 at http://www.njleg.state.nj.us/legislativepub/budget_2010/labor_workforce_development10.pdf

**Employee contributions to the UI fund will be unaffected by the shift to column E.**

- New Jersey is one of only three states where UI payroll taxes are levied on employees in addition to employers. (Alaska and Pennsylvania are the others)
- The tax on employees is levied at a rate of 0.03825% and in 2009 the maximum contribution was $110 per employee.
- Because employee contributions are levied at a flat rate without any variables, the tax will be unaffected by the shift to column E.

**State policy makers have diverted nearly $5 billion from the UI fund in recent years leaving the UI system critically underfunded.**

- Pursuant to a series of legislative enactments since 1992, the State of New Jersey has diverted approximately $5 billion in unemployment insurance taxes to the Health Care Subsidy Fund (HCSF).
- Despite vocal opposition by the business community Statewide, there have been a total of 8 UI tax diversions, most recently in FY 2006 when the Legislature sent $350 million to the HCSF.
- In order to prevent widespread tax increases due to the diversions, the State has continuously amended the UI tax table to lower the reserve ratio threshold that would trigger an increase on taxes for employers.

**Since March of 2009, New Jersey has been borrowing funds from the federal government to meet the demand for UI benefits.**

- Federal law requires the federal government to automatically loan money to state UI systems in deficit in order to maintain solvency.
- There has been a sharp increase in the demand for UI benefits since January of 2008 when the current recession began. This increased demand, coupled with $5 billion in UI fund diversions, has left the UI fund depleted.
- Due to the depletion of the UI trust fund, the State has been forced to borrow from the federal government in order to continue paying benefits to unemployed workers.
- It is estimated that New Jersey has borrowed approximately $1.6 billion in UI funds from the federal government.
- At least 27 other states have been borrowing as well, and more than $30 billion has been loaned by the federal government nationwide.
- The federal government has waived the interest on federal UI loans to the states until January of 2011 and employers are asking Congress to extend the waiver until 2012.
- Business is also asking for Congress to waive Federal Unemployment Tax Act (FUTA) penalties on employers in states borrowing to pay unemployment compensation through 2011. Without a waiver, FUTA taxes on employer payrolls in approximately half of the states will be increased.

- The business community is also seeking a reduction in the Federal Unemployment Tax.
- The State also needs Provide $30 million in additional targeted administrative UI funding in FY 2010 and 2011 for state agencies to install automated systems and train personnel to better identify fraud and overpayments. This appropriation should be offset through enactment of a provision to add "New Hire" reporting, as previously passed by the House of Representatives in HR 3458.

**State law should be amended to prevent a $1 billion tax increase this year.**

- New Jersey's economy can ill-afford a massive tax increase on private sector employers at this time.
- The federal government permits states to establish their own tax rates.
- A multi-year phase in of the UI payroll tax increase will minimize the adverse impact of the tax burden by providing employers with the opportunity to plan for incremental increases and to weather the current recession without laying off additional workers and exacerbating the strain on UI benefits.

**UI benefits reforms should be enacted to ensure the future solvency of the UI fund and make New Jersey competitive with other states in our region.**

- The benefits provided under New Jersey's UI system are some of the most generous in the nation.
- The State's UI benefits should be reformed to rein in the costs associated with operating the program and to make New Jersey more competitive with other states in our region.
- New Jersey law should require a one-week waiting period prior to collection of benefits.
- New Jersey law should prohibit workers who are fired "for cause" from collecting benefits.
- The automatic escalator for weekly UI benefits should be frozen at 2010 levels ($600/week).
- These reforms would not impact current benefit recipients.

**The federal government should provide relief to those states that are currently borrowing to pay UI benefits.**

- Federal lawmakers should take the following action: extend the waiver of interest payments on UI loans; forgive the federal UI loans that have already been accrued; and, provide additional funds for extended benefit payments to replenish the State's UI fund.

## Unemployment Insurance (UI) Payroll Tax Increase

## Frequently Asked Questions

---

**Q: Why will employers be subject to a record high UI payroll tax increase in July of 2010?**

A: New Jersey's UI payroll tax rates are set by State statute. The rate an employer pays is determined by a calculation based upon an employer's experience with UI claims and the amount of reserves in the UI fund. There are five columns of tax rates set forth in State statute which determine an employer's tax liability with column "A" having the lowest rates and column "E" having the highest rates. On March 31st of each year the State examines the UI fund reserves and the tax columns automatically shift depending on the amount of money needed to replenish the fund. Because the fund is currently insolvent, the tax rates are scheduled to shift from column "B" to column "E" at the beginning of the next fiscal year, which will result in a $1 billion tax increase for employers statewide.

**Q: How is New Jersey's Unemployment Insurance (UI) system funded?**

A: The State's UI system is funded by payroll taxes levied on both employers and employees. The taxes on employers automatically increase when UI fund reserves drop below statutorily required predetermined levels. Payroll taxes on employees are assessed at a flat rate regardless of UI fund reserves.

**Q: How much do employers and employees pay in UI payroll taxes?**

A: Employers paid approximately $1.5 billion in UI taxes in 2007 while employee contributions totaled approximately $309 million. Currently, New Jersey employers pay between $90 and $1604 per employee with an average tax of approximately $770 per employee. New Jersey is one of only 3 states (Alaska & Pennsylvania) where employees make contributions to the UI fund as well. In FY 2010, New Jersey workers will contribute a maximum of approximately $113.

**Q: How do New Jersey's average employer payroll taxes per employee compare to other states in our region?**

A: Employers in New Jersey pay an average tax of approximately $770 per employee. By comparison, the average tax for employers in New York is $389 per employee and, in Pennsylvania, $505 per employee.

**Q: What will the average tax increase be for employers on July 1, 2010?**

A: The amount of the UI tax increase will depend upon each individual employer's experience rating. Unless the law is changed, every employer will move from the tax rate in column B to the tax rate in column E+10. The average employer will see a 52% increase, averaging $400 per employee. However, because the system is experience rated, some employers will have a 225% payroll tax increase with an additional tax liability potentially exceeding $1000 per employee.

**Q: How will an employer's experience rating affect their scheduled tax increase?**

A: Here are two examples to illustrate how employers' experience rating affects their tax increase: 1) A typical employer with a very good experience rating pays approximately $119 per employee in UI payroll taxes. If no action is taken to stop the automatic tax increase to column E+10, this employer will pay approximately $392 per employee in UI payroll taxes. If action is taken to phase in the tax increase, this employer will pay approximately $149 per employee in the first phase of the move to column C. 2) A typical employer who experiences many layoffs, will see a per employee tax increase from $1604 to $2287 if no action is taken. With a phased in tax increase this employer would pay $1723 per employee in the first phase of the move to column C.

**Q: Will unemployed workers' benefits be jeopardized if the $1 billion UI payroll tax increase does not occur on July 1, 2010?**

A: No. The federal government is currently loaning New Jersey, as well as 31 other states with insolvent UI funds, money to pay claims and will continue to make such loans as long as the states are unable to meet the demand for benefits.

**Q: What are the consequences of accepting UI loans from the federal government?**

A: States that borrow UI funds from the federal government must repay the loans with interest and may also accrue penalties for non-payment of the loans. Interest was waived by the federal government through January 2011 and a bill pending in Congress would extend the interest waiver until 2012.

**Q: When will the principal on the federal loan need to be repaid?**

A: There is no specific repayment date required by the federal government. It is projected that our UI fund will be insolvent through at least 2017. Under current law, if a state borrows for more than two years, the Federal Unemployment Tax Act (FUTA) requires a "graduated" loss of the federal excise tax credit for all employers in the state. Any increase in the FUTA tax then is used to repay that state's outstanding loan balance. Because we started borrowing in March of 2009, New Jersey is facing the FUTA tax penalty in 2011.

**Q: What are New Jersey's UI benefits?**

A: UI weekly benefits are 60% of an unemployed workers' weekly wage up to 57% of the statewide average weekly wage for all workers. In 2010 the maximum weekly benefit is $600, up from $584 in 2009 and $560 in 2008. New Jersey law provides for an annual automatic calculation of the new maximum benefit based upon the statewide average weekly wage.

**Q: How long can an unemployed worker collect UI benefits?**

A: Currently, New Jersey beneficiaries are entitled to 99 weeks of unemployment benefits. State law provides for a standard 26 weeks of benefits and an additional 20 weeks if the unemployment rate is above 8%. In addition, four tiers of federal UI extensions provide for another 53 weeks of benefits. Generally, the federal government pays 50% of the cost of extended benefits but the American Recovery and Reinvestment Act (ARRA) provided for 100% funding for extended benefits through February 28, 2010. Congress recently provided for an extension of full funding through April 2010 and a bill has been presented to the President which will extend funding until 2011.

**Q: How do New Jersey's UI benefits compare to those in other states?**

A: New Jersey provides for very generous benefits in comparison with other states. For instance, in 2010 our State has the second highest maximum weekly benefit at $600 with only Massachusetts paying more ($942 in 2009). By way of comparison, in 2009 the maximum benefit in New York was $405/week, Pennsylvania was $566/week, Connecticut was $594/week and Delaware was $330/week. Moreover, 36 states, including New York, Pennsylvania, Massachusetts and California, require a one-week waiting period prior to the collection of benefits while New Jersey permits collection immediately. A comparative analysis of state UI benefit laws is set forth in the U.S. Department of Labor report found at the following link:

http://www.ows.doleta.gov/unemploy/comparison2009.asp

**Q: Can workers who are fired for misconduct collect unemployment benefits?**

A: Yes. While many states do not permit workers who are fired for misconduct from collecting unemployment benefits, New Jersey merely imposes a six week waiting period for those claimants. Misconduct that would require the imposition of the waiting period is generally considered to be workplace violations such as excessive tardiness, unexcused absences, use of offensive language, etc. Workers who are fired for "gross misconduct," which is generally equivalent to an indictable criminal offense, are barred from collecting benefits altogether. A worker who is alleged to have been discharged for misconduct is entitled to a review by the State Department of Labor & Workforce Development

(NJDOLWD). It is the NJDOLWD that determines whether a worker has been fired for misconduct, not the employer. The worker is also entitled to two layers of departmental appeals as well as the right to appeal a final administrative decision to the Appellate Division of the Superior Court.

**Q: What states currently have insolvent UI funds and how much have they borrowed from the federal government?**

**A:** As of March 2010, at least 30 states are borrowing from the federal government to pay UI claims, including New Jersey which has borrowed $1.4 billion. Collectively, these states have borrowed over $35 billion. In our region, Pennsylvania has borrowed $2.4 billion, New York has borrowed $2.6 billion and Connecticut has borrowed $310 million. Other notable states in deficit are as follows: California - $7.5 billion, Michigan - $3.5 billion, and Illinois - $1.7 billion.

**Q: Do government employers and non-profits participate in the UI system?**

**A:** No. In lieu of paying a payroll tax, government and non-profit employers have the option of directly reimbursing the UI fund for any benefits charged against them.

**Q: If an unemployed worker exhausts their State UI benefits, what federal extended benefits are available?**

**A:** As noted earlier, the State of New Jersey provides 26 weeks of standard benefits as well as an additional 20 weeks when the unemployment rate in N.J. reaches 8%. When these benefits are exhausted, the federal government provides an additional 34 weeks of benefits. In addition, if an individual is unemployed in a state where the unemployment rate exceeds 6% the federal government provides another 13 weeks of benefits; and if the unemployment rate exceeds 8.5% the federal government provides another 6 weeks of benefits. Thus, the total combined number of federal and State weeks is 99.

**Q: When will the State's unemployment trust fund become solvent once again?**

**A:** The solvency of the trust fund depends upon the rate of unemployment in future years, the amount of taxes collected by the State and the level of benefits paid out. However, it is anticipated that if Governor Christie's plan to phase in the UI tax increase and implement benefits reforms were enacted, the UI trust fund would be solvent again by 2015. Alternatively, if the UI payroll tax is phased in and no benefits reforms are enacted, the UI trust fund would be solvent again by 2019.

Testimony of

**Laurie Ehlbeck**
State Director
National Federation of Independent Business/New Jersey

Before the
New Jersey Assembly Labor Committee
&
Senate Labor Committee

Hearing on the Unemployment Insurance Trust Fund

March 18, 2010

Good morning, I am Laurie Ehlbeck, New Jersey State Director of the National Federation of Independent Business. Thank you for allowing me to speak with you today about the Unemployment Insurance Trust Fund.

NFIB New Jersey represents thousands of small businesses and is a melting pot of commercial enterprises, manufacturers, family farmers, neighborhood retailers and service companies. We are truly the main street businesses of New Jersey.

In New Jersey, as in the nation as a whole, small firms lead the way in employment and job creation. More than 90 percent of all businesses in New Jersey employ fewer than 100 workers and small businesses create almost 80 percent of the new jobs in the state.

This unprecedented recession has dragged on much longer than anyone could have anticipated. Many small business owners have had to shutter their businesses and still others are struggling to survive. An unemployment rate of almost 10 percent, and a business climate that ranks last in the nation make New Jersey an increasingly hostile place to start and grow a business.

Due to the insolvency of the State's Unemployment Insurance fund, an automatic tax increase will be triggered on July 1st in order to replenish the fund. This $1 billion payroll tax will require employers to pay an average additional tax of $400 per employees. Some businesses will pay as much as $1,000.

This impending employer tax increase will impose the highest rate created under the law, forcing small business owners to pay on average an increase of 52 percent or $400 per employee. Small businesses already struggling to survive against the highest taxes in the nation are being asked to bear the burden of a depleted fund.

This sudden increase is a bitter pill for business owners to swallow. Record unemployment levels, rapidly increasing health care costs, the additional costs of paid family leave and a struggling economy mean that small business owners are closing their doors at an unprecedented rate. NFIB members understand that the system cannot continue to operate in a deficit however.

Therefore, NFIB/NJ recommends that the current law be amended to provide for a multi-year phase in of the tax increase and capping of future rate increases to one column per year. This change will result in a 17 percent increase or approximately $130 increase per employee this year and will mitigate the impact to employers and give small businesses some breathing room during these tough economic times. It also gives them the ability to plan ahead for this increase cost.

We also recommend the modification of benefits to resemble those of other states in the region by requiring a one week waiting period for the payment of benefits and prohibiting claimants who have been fired for misconduct from collecting benefits. This will help ensure the competitiveness of New jersey business.

Lastly, NFIB/NJ strongly supports the consideration and passage of proposed legislation that will put a constitutional amendment on the ballot this November to prevent future raids of the Unemployment Compensation Fund.

I appreciate the opportunity to talk to you about concerns of the main street businesses of New Jersey and continue to be available to discuss this issue further.

Thank you.

President
Joann DelVescio
Sturdy Savings Bank

Vice President
Deborah Dowdell
New Jersey
Restaurant Association

Vice President
Sharon Franz
Steel Pier

Vice President
Vicki Clark, IOM
Cape May County
Chamber of Commerce

Secretary
Giulia Iannitelli
Innovative Marketing Designs

Treasurer
John Seitter
South Jersey
Tourism Corporation

Chairman Of The Board /
Past President
Marilou Halvorsen
Jenkinson's Boardwalk

Executive Director
Joseph A. Simonetta, CAE
NJTIA

Dear Senate and Assembly Labor Committee Member:

On behalf of the NJ Travel Industry Association, the voice of NJ's tourism industry, we support the dire need to reform NJ's Unemployment Insurance Trust Fund. Not only should we be concerned with the pending dramatic tax increase businesses face in July, without reform to the system we will continue to face the same problem year after year. It is critical that we make the Trust Fund solvent which will require the types of reforms that have been proposed by Governor Christie.

As you are aware, the Governor's proposal will reduce the pending tax increase from 52% to 17%. Without action by the legislature more jobs will be lost. We know through research that for every dollar invested in tourism marketing, $36 dollars are generated. Each visitor to the state creates $505 in expenditures, $96 of which goes to businesses not directly related to tourism. Each visitor creates $97 in tax receipts, $56 of which goes to local and state authorities. Every 229 visitors pay for 1 New Jersey public school student for the year. Every 161 visitors create 1 new job. $2.2 billion in state tax revenues was generated by the travel & tourism industry in 2007. $38 billion in revenues was generated in 2007. 1 out of every 9 New Jerseyans has a job in tourism, more than ½ million people. Tourism accounts for 11.4% of total employment or $16 billion in wages and salaries. If tourism did not exist, each NJ household would have to pay $1,330 more in taxes to maintain current tax receipts.

We need to start using commons sense solutions and best business practices to dig ourselves out of this hole. Tourism is an industry that produces income to the state. The more the State invests in tourism advertising, promotion and support the more income is received through a variety of sources including the sales tax, income tax, and hotel occupancy tax. Shutting more businesses down or causing those to lay off more workers would put more people on the unemployment roles stem the flow of revenue to the State, thus perpetuating the current economic downturn.

From the restaurant to the retail store to the hotel to the amusement park, the jobs and taxes created by travel and tourism are vital to our state's economy, and these small businesses need our legislature to act on the Governor's Unemployment Insurance Trust Fund proposals in order to avoid more job losses at a time when we are rebuilding our State's economy.

Sincerely,

Joann DelVescio

Joann DelVescio
President

NJ TRAVEL INDUSTRY ASSOCIATION

414 River View Plaza, Trenton, New Jersey 08611-3420 • Phone: 609-396-2020 • Fax: 609-393-9891 • eMail: Info@NJTIA.org

NJSA
New Jersey Staffing Alliance

March 17, 2010

To: Members of the New Jersey Senate Labor Committee

Members of the New Jersey Assembly Labor Committee

Dear Honorable Legislators: RE: Written Testimony

As members of the Board of Directors of the New Jersey Staffing Alliance and, as owners and senior managers of staffing firms based and operating for years in New Jersey, we appreciate the opportunity afforded to us by the New Jersey Legislature to provide written testimony as part of your effort to obtain input regarding the future of New Jersey's unemployment insurance program.

One reality exists for all of the citizens of New Jersey: *for prosperity and growth to return, there has to be an expansion of employment in the private sector of New Jersey's economy.* In 2008 and 2009, hundreds of thousands of private sector jobs were lost, while at the same time public sector jobs – funded by taxes primarily sourced from privately employed citizens and businesses - have remained constant and in fact have grown slightly. In simple terms, the supply of tax funds has declined without a similar decline in the public sector. The **ONLY** solution to this dilemma is to increase private sector jobs as soon as possible in New Jersey. If the cost of state, county and municipal government can also be reduced while private job growth starts, we will achieve a positive result quicker with a lower level of risk.

The staffing industry is in the forefront of the efforts to increase employment. As businesses see some initial growth and need staff, they will initially source talent through temporary staffing firms, achieving their immediate business objectives and fuel their path towards additional growth and expansion. Once long term confidence returns, New Jersey firms will then search for full time, direct employees from the temporary staff currently assigned to them, source their own candidates or engage a staffing firm to recruit qualified talent to further strengthen their organization and its expansion.

For too long, New Jersey businesses have instead chosen to expand outside of New Jersey, either in part or in total by moving entire business activities out-of-state. Our firms have seen it happen over and over again in the mid to late 2000's as we have staffed the last few months of operations prior to their move to other facilities in Pennsylvania and elsewhere. These decisions have been based on the factual costs



Nov

to do business in New Jersey compared to other options, as well as a lack of confidence in the New Jersey government to address these concerns in the near and long term.

-2-

Today, the Senate and Assembly committees are asking for input on the challenge of Unemployment Insurance Tax levels for 2010 and the years following. We would like to make the following comments for the Legislators to consider:

- This is a LANDMARK opportunity to show the business community that Trenton has really changed its approach to a problem. No longer can the state consider viable a "one prescription only" approach – increase taxes on employers – as its only choice. As revenues declined over the past two years, businesses knew that the only viable, protective approach was to manage down expenses since raising prices would only accelerate the decline of revenues, placing the businesses into a no-win downward spiral. The business community understands that taxes must rise but these increases have to be mitigated by a serious and structured reduction of expenditures. **ONLY** with this balance will the business community who will be considering increasing employment could see hope for doing it here in New Jersey. Assuming differently has proven to be incorrect.

- The structured reduction in expenditures that need to be considered are several, with some actually established to encourage the re-employment of unemployed staff rather than developing a "full time" unemployed base of benefit recipients:

    - The Governor's recent recommendations (waiting period, reduction in weekly maximum benefits, postponement of annual increases, etc.) must be supported and actually added to by the Legislature to show seriousness of purpose.

    - Other suggestions to consider are as follows:

        - With the number of jobs currently being advertised in various sources (internet, papers, etc.), unemployment recipients need to be required to show they are making efforts to apply for positions for which they are qualified. Access to sources should be available at all Job Centers and public libraries. Failure to do so by the recipients after a certain period should result in a reduction in benefits.

        - Access to lists of benefit recipients categorized by skill and geography should be made available at some stage of a person's unemployment to employers, allowing employers to identify talent and directly solicit their application for employment. NOTE it appears the federal government is considering tax breaks for employing long term unemployment benefit recipients so this will facilitate that program.

- Rejection of numerous qualified job offers by a benefit recipient should result in benefit reductions if not disqualification.

-3-

Part time work should be allowed and with partial reduction in benefits for the period employed if it is not already available, without terminating the eligibility for full benefits once the part time employment has ended (note the signers are not necessarily aware of the present policy in this matter, so if it is already allowed, then it needs to be better advertised/communicated). Gaining any work experience, even part time, increases an individual's employability.

There are many other suggestions that can be made and can be added to the above list. The primary message however is that the State of New Jersey needs to reduce the rate of expenditures associated with the outflow of unemployment funds in a judicious manner as well as build structure into the program that encourages recipients to be active in their search for new employment.

Doing this will act as a clear signal to the business community within and outside of the state that New Jersey is a place where businesses can grow their staff with confidence, where private employment will begin to rebound at an accelerated pace, where the number employed will increase, where the level of unemployed will be reduced, and where tax revenues to the state and local governments will be added, and a balance will return to New Jersey's economy.

New Jersey does not operate in a vacuum. There is a whole world outside its borders with whom we compete for our citizens' ultimate benefit and future.

Our thanks in advance for your kind attention to these comments.

Sincerely,

**New Jersey Staffing Alliance Board of Directors and Members of the Legislative Outreach Committee**

Kathy Warren, President, Bryant Staffing, Piscataway, President-NJSA

Elaine Balady, President, The Assurance Group, Maywood

Robert Earl, President, Express Employment Professionals of Southern New Jersey

Michael Gallo, President, Winston Staffing Services, Rutherford

David Kemp, Vice President, Express Employment Professionals of Hasbrouck Heights

Daniel Muhlfelder, President, L.J. Gonzer Associates, Cranford

Ron Saharyan, Director, Design Strategy Corp., Cranford

Scott Schnierer, Vice President, Comforce Staffing Services, Paramus

Jamie Schwartz, Executive Vice President, Haley Stuart, Montvale

Ken Sudnikovich, Executive Vice President, CoWorx Staffing, Watchung

Jack Wellman, President/COO, Joulé Inc., Edison

NJSA Office: 170 Kinnelon Rd., Ste. 33, Kinnelon, NJ 07405; Tel: 973-283-0072; www.njsa.com