NEW JERSEY

Unemployment Insurance Task Force Report

Issued February 25, 2011

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nj.gov/labor

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Executive Summary

The New Jersey Unemployment Insurance Trust Fund is a critical provider of income security for our State's dislocated workers who become unemployed through no fault of their own. Both employers and workers contribute to the fund. In Fiscal Year 2010, the fund collected $2.2 billion and paid out $3.4 billion in benefits to 564,000 individual claimants.

By 2009, after almost two decades of underfunding attributable to $4.6 billion in diversions and a prolonged recession that pushed the State's unemployment rate to a peak of 10 percent in 2009, the fund was incapable of meeting its benefits obligations. As of November 2010, the rate continues to exceed 9 percent. This sustained demand for unemployment benefits drained the fund and drove it into insolvency. As of April 30, 2010, the State had borrowed $1.75 billion, with borrowing resuming January 4, 2011, and projections indicating that up to an additional $1 billion will be needed to pay claims over the next two years.

New Jersey employers will shoulder the tax responsibility to restore fund solvency and repay the federal loan. This will include: 1) a scheduled UI tax rate increase, costing an average $300 per employee annually; 2) an initial annual assessment beginning in 2011 to begin payment of interest on the federal borrowing; and, 3) beginning in January 2012, an additional 0.3% FUTA (federal unemployment) tax to repay New Jersey's federal loan. The FUTA tax assessment will be approximately $21 per employee, and will increase by 0.3% annually. A proposal to temporarily waive interest payments and delay FUTA tax assessments is currently being considered by the federal government.

The 12-member Unemployment Insurance Task Force was formed and initially met in October 2010 to assess the current unemployment insurance program and recommend changes that may provide an equitable tax formula for employers as the fund returns to solvency, while balancing the impact of any changes in revenue collections and benefit payments against the interests of workers, employers, and the overall growth of the State's economy.

The Task Force offers two recommendations:

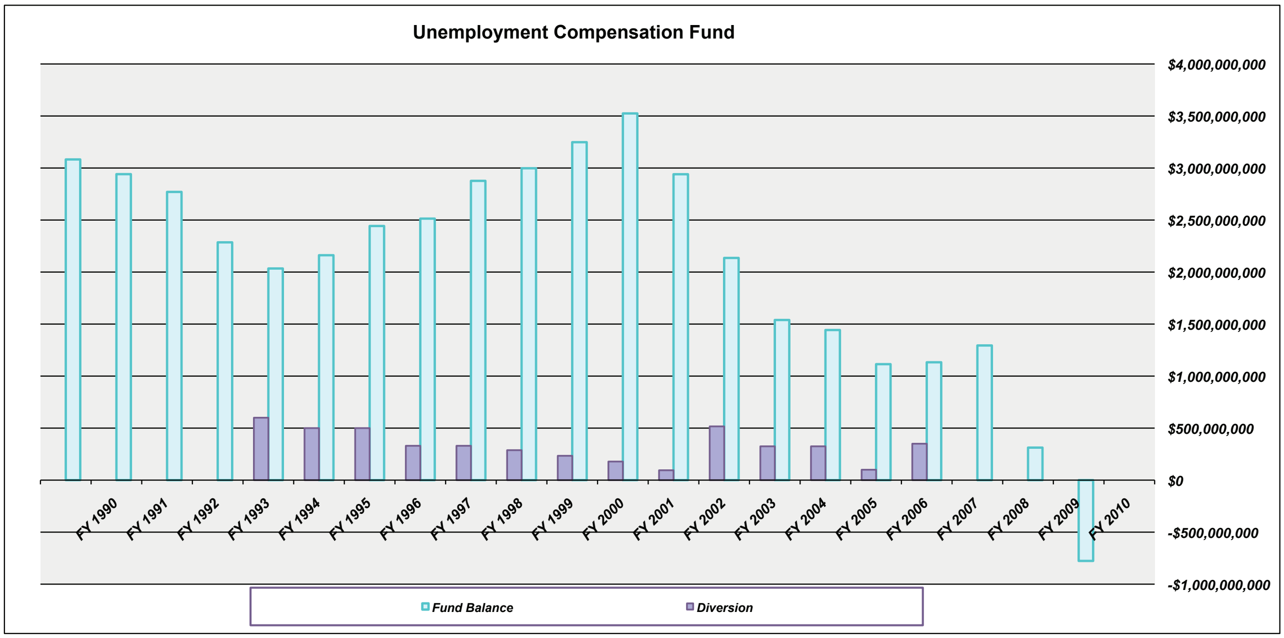
- *Phase In Annual Employer Tax Increases Over Next Three Years*
- *Achieve Long-Term Fiscal Stability by Returning UI Fund Tax Bands to FY 2003 Tax Structure*

The report also includes additional considerations on a number of revenue and benefit options examined by the Task Force, but presented without recommendation. Many require further study and will be reviewed as the Task Force meets over the next two years. A few of the options did not receive a recommendation based on sensitivity to the state of the economy, federal repercussions for benefit formula modifications and potential dislocation of workers. Certain issues received no recommendation due mainly to the inability of the Task Force's voting members to reach consensus.

New Jersey Unemployment Insurance (UI) Task Force Overview

The New Jersey Unemployment Insurance (UI) Task Force (Task Force) was established under P.L. 2010, c. 37, to study and assess the current deficit crisis of the State's unemployment insurance system, review its revenue collections and benefit payment methods, and develop recommendations to achieve long-term fiscal stability of the Unemployment Insurance Trust Fund.

Besieged by a severe economic recession that resulted in sustained levels of high unemployment and benefit payments, New Jersey was forced to borrow an initial $325 million from the Federal Unemployment Trust Fund to cover its unemployment insurance benefit payments in Fiscal Year 2009. This underfunding was the result of nearly two decades of fund diversions totaling $4.6 billion and multiple tax table adjustments. The chart below shows annual fund balances and amounts diverted from Fiscal Year 1990 to Fiscal Year 2010.



Compounding the problem is that New Jersey's UI benefits are among the nation's most generous. As of April 30, 2010, the State had borrowed $1.75 billion, with borrowing resuming on January 4, 2011, and projections indicating that up to an additional $1 billion will be needed to pay claims over the next two years. New Jersey is one of 31 states with outstanding loans from the Federal Trust Fund. To date, the amount borrowed nationally equals more than $42 billion.

Over a two-year period, New Jersey's unemployment rate more than doubled from 4.5 percent in December 2007 to a high of 10 percent in December 2009. In addition, the average number of individuals exhausting 26 weeks of regular benefits went from 45 percent to 65 percent.

The 12-member Unemployment Insurance Task Force met in October 2010 to commence its assessment of the current unemployment insurance program and to recommend changes that may be needed to facilitate the trust fund's return to solvency while balancing the impact of any changes against the interests of workers, employers and the overall growth of the State's economy. Weekly meetings were held thereafter during November and December 2010.

The Task Force will reconvene over the next two years to continue its review of the fiscal state of the UI Trust Fund, evaluate the effect of recent amendments and any implemented recommended changes, and develop additional recommendations and alternatives, as needed.

The UI Task Force Membership and Organization

Task Force Members

Appointed by Governor Chris Christie, the Task Force membership includes representatives from business, labor and elected officials; there are six voting members and six non-voting members.

Voting Members

Co-Chair Ed Fedorko, Mechanical & Allied Crafts Council of New Jersey

Co-Chair Melanie Willoughby, New Jersey Business and Industry Association (NJBIA)

Michael Capelli, New Jersey Regional Council of Carpenters

Laurie Ehlbeck, National Federation of Independent Business (NFIB)

Geri Kelly, Columbia Bank, on behalf of Commerce and Industry Association of New Jersey

Ray Pocino, Vice-President, Eastern Regional Manager, Laborers International

Non-Voting Members

Joseph Egan, Assemblyman, District 17, Chairman, Assembly Labor Committee

Peter Isberg, Automatic Data Processing, Inc.

Fred H. Madden, Jr, Senator, District 4, Chairman, Senate Labor Committee

Joseph Pennacchio, Senator, District 26

Robert Schroeder, Assemblyman, District 39

Harold J. Wirths, Commissioner, NJ Department of Labor and Workforce Development

Organizational Structure

The Task Force formed two subcommittees: 1) Intake and 2) Outtake. The Department of Labor and Workforce Development provided expert programmatic and professional resources to support the Task Force and its subcommittees with research and analysis, as directed.

The Intake Subcommittee reviewed the current methods for financing the fund, including the generation and collection of fund revenues through the tax structure, including tax tables, employer experience ratings, worker contribution rates, and debt repayment.

The Outtake Subcommittee evaluated the current methods New Jersey uses to determine UI benefit payments, as well as possible alternatives for limiting or reducing UI benefit payments in the interest of improving the short-term and long-term solvency of the UI Trust Fund.

A summary of the findings, recommendations and alternatives considered is included herein. It incorporates information on New Jersey's current law, regulations or formulas, comparable laws, regulations or formulas from other states, and possible changes to be considered in New Jersey with any cost estimates, as available.

Task Force Recommendations

Recommendation 1

Phase In Annual Employer Tax Increases Over Next Three Years

The Task Force unanimously recommends the passage of legislation that incrementally shifts the effective FY 2012 tax from column C to column D, the FY 2013 tax from column D to column E, and the FY 2014 tax from column E to column E+10. Any such legislation should include language indicating that should the financial status of the UI Trust Fund provide for a lower tax rate for employers by using the formula currently in the law than would be provided by the operation of this clause, then this clause would be suspended and the methodology that currently exists would be used to determine the employer tax rates.

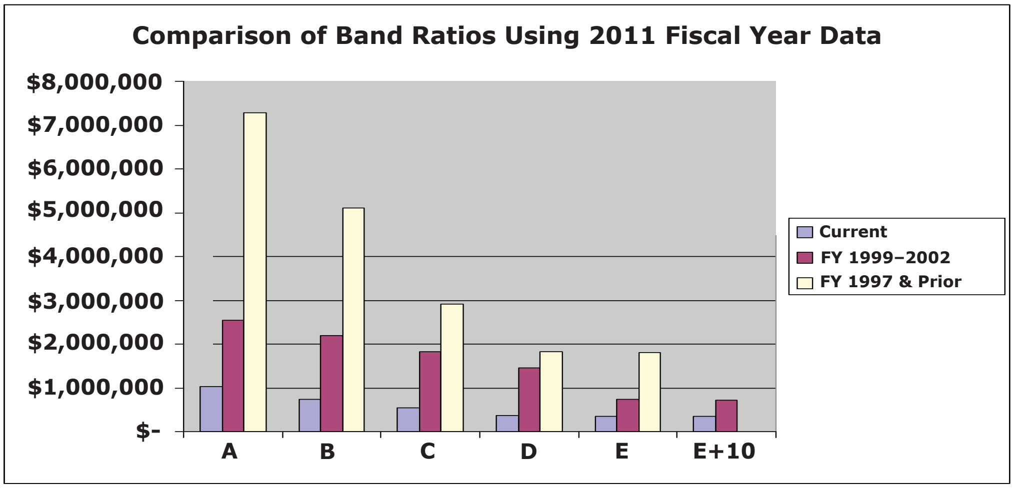
The Task Force recognizes the immediate need to shield employers from the harsh economic impact of a scheduled tax increase that will shift the current tax liability from tax column C to column E+10 on July 1, 2011, under N.J.S.A. 43:21-7c. The scheduled tax column shift would translate into an average tax increase of approximately $300 per employee for New Jersey employers, based on the average change in the incremental tax rates in the tax table. The Task Force is sensitive to the struggle that businesses face in this difficult economic time, and recommends managing the tax increase through legislation that phases in an annual single tax column shift over the next three years. The Task Force acknowledges the need for additional tax revenues in the short term to restore solvency to the UI Trust Fund, but also seeks to provide predictability through incremental increases to help New Jersey businesses better anticipate their annual operating costs to support short- and long-term business planning. For the upcoming Fiscal Year (FY) 2012, this single column shift is expected to reduce the employers' tax liability from $300 to $100 per employee on average, a savings of about $450 million. A change in State statute would be needed to implement this measure.

Recommendation 2

Achieve Long-Term Fiscal Stability by Returning UI Fund Tax Bands to FY 2003 Tax Structure

The Task Force unanimously recommends a rollback to the tax structure that was in place in Fiscal Year 2003. This measure will deliver much-needed, long-term stability to the UI Trust Fund when solvency is realized, and eliminate the short-term tax change unpredictability that has complicated New Jersey employers' business planning under the current tax band structure.

New Jersey's tax tables have been adjusted multiple times since Fiscal Year 1998, narrowing the bands used to determine the tax column establishing the tax liability an employer will pay in any given year. The result is that tax changes have become more volatile. The current UI Trust Fund tax bands are too narrow and create uncertainty and volatility for employers, who now are subject to significant tax rate changes triggered by small fluctuations in fund balances. The following chart offers examples of the structure of the tax bands in place prior to any changes (FY 1997 & Prior), through the midpoint of the tax bands from FY 1999 to 2002, to the current bands and the balance required in the UI Trust Fund for each column in the tax table.



The Task Force reviewed the impact on the employer tax rates and considered the effect of rolling back to tax bands used in a prior period to restore long-term fiscal stability in the UI Trust Fund. The objective is to provide year-to-year predictability of employer tax liability as solvency is realized and the fund balance is restored over the next several years. The table below shows a projection of which column would be in use if the State moved the tax structure back to the bands that have been in place since Fiscal Year 1999.

Unemployment Compensation Fund
Tax Table Columns

Fiscal Year	2011	2012	2013	2014	2015	2016	2017	2018	2019
2005-present	D-forced	E+10	E+10	E+10	E+10	E+10	A	A	B
2004	D-forced	E+10	E+10	E+10	E+10	E+10	C	B	A
2003	D-forced	E+10	E+10	E+10	E+10	E+10	E	C	A
1999–2002	D-forced	E+10	E+10	E+10	E+10	E+10	E	D	B

Fiscal Year	2011	2012	2013	2014	2015	2016	2017	2018	2019
2005-present	D-forced	E-forced	E+10	E+10	E+10	E+10	A	A	B
2004	D-forced	E-forced	E+10	E+10	E+10	E+10	C	B	B
2003	D-forced	E-forced	E+10	E+10	E+10	E+10	E	C	B
1999–2002	D-forced	E-forced	E+10	E+10	E+10	E+10	E	D	C

The next table shows historical band data reviewed by the Task Force. It shows the Trust Fund ratio calculation within each column as established at program inception and subsequently adjusted over time to the present.

Unemployment Compensation Fund
Tax Table Columns

Period	Column A	Column B	Column C	Column D	Column E	Column E+10
7/1/04-present	1.40% & over	1.00%-1.39%	0.75%-0.99%	0.50%-0.74%	0.49% & under	same as Column E
7/1/03	2.50% & over	2.00%-2.49%	1.50%-1.99%	1.00%-1.49%	0.99% & under	same as Column E
7/1/02	3.50% & over	3.00%-3.49%	2.50%-2.99%	2.00%-2.49%	1.00%-1.99%	0.99% & under
7/1/98-6/30/02	4.50% & over	3.50%-4.49%	3.00%-3.49%	2.50%-2.99%	1.00%-2.49%	0.99% & under
7/1/97	6.00% & over	4.00%-5.99%	3.00%-3.99%	2.00%-2.99%	1.00%-2.49%	0.99% & under
7/1/96 & prior	10.00% & over	7.00%-9.99%	4.00%-6.99%	2.50%-3.99%	2.49% & under	deficit

Additional Task Force Considerations

In addition to the aforementioned recommendations, the Task Force reviewed a number of other revenue and benefit options. The findings are included below. The Task Force did consider each option through a prismatic sensitivity to the state of the State's economy, federal repercussions for benefit formula modifications, and potential dislocation of workers.

Revenue Collections

Tax Rate Structure

The following table provides an overview of state tax information for the generation of annual employer Unemployment Trust Fund contributions per worker for New Jersey and other states.

UI Task Force: Selected Data for New Jersey and Other States

State	Average Weekly Wage (2008)	Taxable Wage Base	Tax Rate Range	Minimum Tax	Maximum Tax
New Jersey	**$1,059**	**$29,700**	**.3%–7.7%**	**$89.10***	**$2,286.90**
New York	$1,159	$8,500	1.5%–9.9%	$127.50	$841.50
Connecticut	$1,123	$15,000	1.9%–6.8%	$285.00	$1,020.00
Massachusetts	$1,091	$14,000	.8%–15.4%	$112.00	$2,156.00
California	$990	$7,000	.1%–6.2%	$7.00	$434.00
Maryland	$953	$8,500	.3%–13.5%	$25.50	$1,147.50
Illinois	$937	$12,520	.65%–7.25%	$81.38	$907.70
Pennsylvania	$853	$8,000	.3%–9.2%	$24.00	$736.00
Ohio	$784	$9,000	.1%–11.8%	$9.00	$1,062.00

* The minimum tax would be further reduced should the Trust Fund balance equal or exceed 10% of the prior year's taxable wages, as provided for under N.J.S.A 43:21-7(c)(5)(B).

Consolidation of Experience Rating Within Columns

New Jersey's employer tax columns feature a range of graduated tax rates based on an employer's employment experience. The Task Force reviewed the impact on employers and the fund if the various tax rates within each of the columns were condensed to provide for fewer rates within each column. It was determined that there is neither administrative nor financial advantage to condensing the columns.

Further consideration was given to the concept of assessing new employers a higher initial experience rating based upon the employer's industry sector. No changes are being recommended at this time.

Worker Contribution Rates

In New Jersey, both workers and employers contribute to the UI Trust Fund. New Jersey is one of only three states (along with Alaska and Pennsylvania) that levy worker contributions.

New Jersey workers contributed a maximum $114 each in Calendar Year 2010, which is expected to generate about $300 million in revenue to the fund. Employers pay a much larger contribution to the fund. In the fiscal year that ended June 30, 2010, employer UI taxes generated $1.7 billion in fund contributions.

The Task Force discussed imposing a worker surcharge while the fund remains insolvent, but makes no recommendation to do so. A surcharge of 0.2% would generate approximately $200 million annually in revenue to the fund. The following table displays the worker contribution rate schedule beginning in 1936 to the present day. During certain years either all or a portion of the employee contribution was diverted to fund indigent health care.

Worker Contribution Rates
Unemployment Insurance & Health Care
Calendar Years 1936 - 2011

Period	Rate UI	Rate HC	Total UI & HC
1936 - 1948	0.010000	-	0.010000
1949 - 1974	0.002500	-	0.002500
1975 - 1985	0.005000	-	0.005000
01/01/86-06/30/86	0.005000	-	0.005000
07/01/86-12/31/86	0.006250	-	0.006250
1987 - 1992	0.006250	-	0.006250
1993 - 1995	0.000000	0.006000	0.006000
01/01/96-03/31/96	0.006000	-	0.006000
04/01/96-12/31/96	0.000000	0.006000	0.006000
1997	0.000000	0.005000	0.005000
1998	0.001000	0.003000	0.004000
1999	0.001500	0.002500	0.004000
2000 - 2001	0.002000	0.002000	0.004000
2002 - 2003	0.001825	0.002000	0.003825
01/01/04-06/30/04	0.001825	0.002000	0.003825
07/01/04-12/31/04	0.003825	-	0.003825
2005 - 2011	0.003825	-	0.003825

Benefit Payments

Maximum Weekly Benefit Rate

It should be noted that any reduction in UI benefit payments, including the proposals noted below to reduce the Maximum Weekly Benefit Rate (MWBR), would preclude the receipt of federal funds to pay claims under the Emergency Unemployment Compensation (EUC) Program.

In New Jersey, the MWBR is calculated as 56 and 2/3 percent of the Statewide Average Weekly Wage (SAWW) for the second preceding calendar year. For 2010, New Jersey's MWBR of $600 was based on the SAWW for 2008 of $1,059.29.

Three states have a higher MWBR than New Jersey (Connecticut, Massachusetts and Rhode Island). Thirty-six states, including New Jersey, have an automatic adjustment to their MWBR.

The following chart lists the 2010 MWBR for selected states:

State	No Dependents	Maximum Dependents	Percentage of SAWW Used
New Jersey	$600	$600	56 2/3
Connecticut	$537	$612	60
Maryland	$410	$410	No automatic adjustment
Massachusetts	$629	$943	57 1/2
New York	$405	$405	No automatic adjustment
Ohio	$375	$508	Percentage not specified by law
Pennsylvania	$564	$572	66 2/3
Rhode Island	$546	$682	67

In 2011, New Jersey's MWBR will decline slightly from $600 to $598, because of a decline in the SAWW for 2009 to $1,056.54. This is the first time in more than 40 years of record keeping that the average weekly wage has decreased.

The Task Force examined the effect of two alternatives for the MWBR on benefit costs for the period from 2011 through 2014.

If the Maximum Weekly Benefit Rate of $598 scheduled for 2011 were maintained for 2012 through 2014, we estimate there would be annual average cost savings in the range of $31 to $85 million for 2011–2014, depending on estimates of average weekly wages in the State. The majority of the cost savings would be realized in later years.

If the Maximum Weekly Benefit Rate were decreased to $550 for 2011 to 2014, we estimate there would be an estimated annual average cost savings in the range of $258 to $312 million for 2011–2014.

Based on the federally imposed benefit modification restriction, the Task Force makes no recommendations at this time to adjust the MWBR.

Benefits for Partial Unemployment

Partial unemployment benefits may be payable to workers in the following scenarios:

1. Workers who have reduced hours during an economic downturn; and
2. Unemployed workers who find short-term work while looking for a full-time job.

Partial unemployment benefits are paid to UI claimants working part time and earning less than their weekly benefit rate (WBR). All states disregard a portion of the claimant's earnings in computing the partial benefit amount to provide an incentive for the claimant to work. The larger the disregard, the more a state pays in partial benefits.

The following examples compare the calculation of partial benefits in New Jersey with two neighboring states. The comparisons were done for a claimant with a WBR of $400 (the average WBR in 2009 in New Jersey) and earnings of $200.

New Jersey
Formula: Disregard = 1/5 of WBR
With a WBR of $400, the disregard = $80
Earnings deducted from the WBR = 200 – 80 = $120
Partial benefit paid to the claimant = 400 – 120 = $280

Pennsylvania
Formula: Disregard = 2/5 of WBR
With a WBR of $400, the disregard = $160
Earnings deducted from the WBR = 200 – 160 = $40
Partial benefit paid to the claimant = 400 – 40 = $360

Maryland
Formula: Disregard = $100
With a WBR of $400, the disregard = $100
Earnings deducted from the WBR = 200 – 100 = $100
Partial benefit paid to the claimant = 400 – 100 = $300

When comparing New Jersey, Maryland and Pennsylvania, New Jersey has the lowest earnings disregard, and, therefore, the lowest partial benefits. Since there is no benefit to the solvency of the fund, the Task Force recommends no changes in benefits for partial unemployment.

School-Related Earnings

The Task Force examined the current eligibility criteria for individuals with certain school-related earnings (i.e., school bus drivers, crossing guards, cafeteria workers) and the impact of benefits paid to these workers on the UI Trust Fund. Under New Jersey law, employees of educational institutions are ineligible for UI benefits during holiday periods, breaks, and/or summer vacation if they are under contract and have the expectation of returning in the next academic year or term. As most school bus drivers, crossing guards, and cafeteria workers are not employed by educational institutions, their school-related wages are considered when determining UI eligibility during holiday periods, breaks, and/or summer vacation. Kansas and Arizona have provisions restricting UI benefit payments to school bus drivers.

Data on UI benefit payments were compiled for three school-related occupation groups in New Jersey for Calendar Year 2009:

- ***$6.7 million*** in UI benefits were paid to approximately 3,700 claimants indicating they were in the Crossing Guard occupation.

  Note: Most school crossing guards are employed by municipalities, who reimburse the UI Trust Fund for benefits paid to their former employees; as a result trust fund savings would be significantly less than the $6.7 million.

- ***$22.4 million*** in UI benefits were paid to approximately 8,300 claimants who indicated they were in the Bus Drivers, School, or Special Client occupation. The large majority of these workers were employed by privately owned bus companies.

- ***$20.5 million*** in UI benefits were paid to approximately 6,700 claimants who identified themselves in the Cooks, Institution and Cafeteria, Food Preparation Workers and Combined Food Preparation and Serving Workers occupations. The large majority of these workers were employed by privately owned food services companies.

The above-noted benefit payments include all possible claimants in each occupation; i.e., all bus drivers, not just school bus drivers. Accordingly, the actual savings realized would be significantly less.

The Task Force makes no recommendation on modifying school-related earnings eligibility criteria at this time.

Waiting Week

Most states require eligible workers to serve a waiting period of one week before collecting UI benefits.

New Jersey is one of 12 states with no waiting week. Prior to January 1, 2002, New Jersey did have a waiting week provision, which was eliminated by the enactment of P.L. 2002, c. 13. New Jersey's previous waiting week provision allowed for the waiting week to become payable if the claimant was unemployed for four consecutive weeks (including the waiting week).

Other states:

Neighboring states with no waiting week:
- Connecticut
- Maryland
- Delaware

Neighboring states with a waiting week:
- Massachusetts
- New York
- Pennsylvania

Five states with a waiting week provision allow for the waiting week to become compensable after a prescribed period of time. Twelve states with a waiting week, including Massachusetts and New York, allow it to be waived under certain circumstances.

If New Jersey required claimants to serve a waiting week, estimated savings of approximately $56–59 million annually would be realized. This savings estimate was based on the assumption that the waiting week would become compensable only after 26 weeks of unemployment.

The Task Force notes the correlation between a modification in the waiting week and claims related to school-related and/or seasonal employment, which would have a broader impact on projected cost savings depending on certain recommendations.

Since New Jersey does not have a waiting week provision, the State UI Trust Fund pays 100 percent of the first week of Extended Benefits (EB). The federal government pays 50 percent of any additional EB weeks claimed. As part of the current federal Emergency Unemployment Compensation Program, the federal government is funding 100 percent of the EB program.

The Task Force plans to continue its review of this issue when benefit exhaustion rates stabilize. In reviewing claimant exhaustion rates data, the Task Force found what it considered a higher than normal rate of claimants exhausting benefits in this economy, and seeks to monitor exhaustion rates data going forward before making any further recommendations.

Seasonal Employment

New Jersey does not now restrict UI benefits for seasonal workers. Fifteen states restrict the payment of UI benefits to workers who earned some or most of their wages in seasonal employment. Seasonal is defined in terms of the industry, employer, or occupation involved. The most frequent restriction used by 12 states, including Massachusetts and Pennsylvania, provides that seasonal wage credits are available for payment of UI benefits only during the seasonal operating period of the employer or industry.

Massachusetts: Benefits are restricted for some seasonal wages in the operating period of a seasonal industry. A seasonal industry is defined as operating during a regularly recurring period of 16 weeks or less.

Pennsylvania: Benefits are restricted for seasonal wages for less than 180 days of work in the operating period. Restriction applies only if there is a reasonable assurance of reemployment.

There were insufficient data available to the Task Force to adequately study seasonal UI claimant activities on which to base cost savings estimates and determine potential recommendations. The issue will be reexamined as part of the Task Force's ongoing agenda.

Misconduct Review

The State recently amended the unemployment insurance eligibility criteria for workers who are fired for misconduct or who voluntarily quit their jobs. The eligibility requirements are more stringent, particularly for workers fired for severe misconduct. A three-tiered structure was established — simple misconduct, severe misconduct, and gross misconduct — which either prohibits payment of unemployment benefits or extends the waiting period before benefits can be paid.

The Task Force plans to continue its review of the modified misconduct provisions, as well as the impact of planned employer education programs on the criteria used by the New Jersey Department of Labor and Workforce Development in determining misconduct under the amended provisions.

Income/Employer Payments Excluded from Benefits

Because of the many different types of income subject to special treatment in the UI system, further study is needed to identify which types of income could yield potential savings if they were excluded from UI benefits. There are currently no cost estimates available. Possible categories of income/employer payments for consideration include:

Wages in lieu of notice: In New Jersey, UI benefits are denied for the week of receipt of wages in lieu of notice. Nine other states, including Massachusetts and Connecticut, also deny benefits. Twenty additional states reduce benefits by the weekly prorated amount of the payment.

Dismissal/Severance payments: New Jersey has no provision for dismissal payments. Five states deny benefits during the week of receipt. Thirteen states reduce benefits by the weekly prorated amount of the payment.

Workers' Compensation: New Jersey UI law has no provision for a Workers' Compensation offset. Nine states, including Massachusetts and Connecticut, deny all benefits during the week of receipt. Seventeen states, including Delaware, Illinois, Rhode Island, and California, reduce UI benefits by the weekly prorated amount of the payment.

Holiday Pay: New Jersey has no provision for holiday pay. Four states, including Massachusetts and New York, deny all benefits during the week of receipt. Fifteen states, including Illinois and Pennsylvania, reduce benefits by the weekly prorated amount of the payment.

Vacation Pay: New Jersey has no provision for vacation pay. Eight states, including New York, deny all benefits during the week of receipt. Twenty-two states, including Ohio, Pennsylvania, and Maryland, reduce benefits by the weekly prorated amount of the payment.

Back Pay: New Jersey has no provision for back pay. Six states deny all benefits during the week of receipt. Eighteen states, including Pennsylvania, reduce benefits by the weekly prorated amount of the payment.

The Task Force makes no immediate recommendation on what income sources may or may not be excluded from UI benefits, but will more closely examine the various categories, gather comparative data from other states and attempt to develop a cost-savings model to support any future recommendations.

Extended Benefits Tied to Full Federal Funding

Under state and federal law, New Jersey claimants are currently entitled to a maximum of 99 weeks of benefits: 26 weeks of regular state-funded benefits; 53 weeks (Tiers I–IV) of Emergency Unemployment Compensation (EUC), which is fully funded by the federal government; and 20 weeks of Extended Benefits (EB), normally funded 50/50 by the state and federal government, but currently fully funded by the federal government through December 31, 2011. The Task Force considered, but offered no recommendation on, the proposal to amend New Jersey's UI law to require that extended benefits be paid only when fully funded by the federal government due to full federal funding of these benefits through December 31, 2011.

Staff of the Department of Labor and Workforce Development advised the Task Force of a recently issued USDOL policy authorizing states to amend current extended benefits provisions. New Jersey is expected to trigger off extended benefits under current law in May 2011, unless New Jersey amends the trigger provision in state law consistent with the USDOL policy. The Task Force made no formal recommendation on modifying the trigger provisions.

Issues Requiring Further Study

Reduction in Weekly Benefit Rate Over Term of Claim

The Task Force examined the effect of a proposal to reduce the weekly benefit rate by 10 percent for claim durations greater than 20 weeks. The effect of this proposal was estimated using an available 20-percent random sample of UI recipients with dates of claim in 2008 so that all claimants would have completed their benefit years by the end of 2009. This sample was used in order to get complete duration data for the sample.

New Jersey does not currently reduce UI benefits for claimants with longer durations. There are currently no states that reduce UI benefits for claimants having longer durations. It is uncertain how adoption of this restriction might affect extended benefits computations. This provision would need the approval of the U.S. Department of Labor.

The results of the study showed:

- Fifty-seven percent of claimants with dates of claim in 2008 had durations greater than 20 weeks.
- Claimants received an average of $2,101 in benefits for weeks of unemployment beyond 20 weeks. Under the proposed 10-percent reduction in their WBR, they would have received an average of $1,891 after 20 weeks for an average saving of $210 per claimant.
- The estimated number of claimants with durations greater than 20 weeks was 218,700. Multiplying by an average savings of $210 results in a total savings of $45.9 million for claimants with claims beginning in 2008.
- The estimated savings was updated to claimants with dates of claim in 2009 by adjusting for the increase in the estimated average WBR and the estimated number of claimants. For 2009, the estimated average savings was $218 and the estimated number of claimants with durations greater than 20 weeks was 261,100, resulting in a total saving to the UI Trust Fund of $56.9 million.

Due to this concept's uniqueness, the Task Force makes no recommendation pending further consideration and study.

Alternative Methods of Computing the Weekly Benefit Rate

New Jersey uses the Average Weekly Wage formula to calculate the weekly benefit rate (WBR). The WBR is 60 percent of the average weekly earnings in the base year, plus any dependency allowance, up to a maximum in 2010 of $600. New Jersey and Ohio are the only two states using the Average Weekly Wage method.

All 50 states, plus Puerto Rico, the Virgin Islands, and the District of Columbia, use one (or a combination) of four methods to calculate the weekly benefit rate:

1. High-Quarter Method (HQ)

More than half of the states determine the weekly benefit amount by using the base period quarter in which wages were highest. (29 states, including New York, Pennsylvania, Maryland)

2. Multi-Quarter Method (MQ)

The weekly benefit amount is calculated as a multiple of the total or average quarterly wages paid in more than one quarter. (13 states, including Massachusetts)

3. Annual-Wage Method (AW)

Weekly benefits are computed as a percentage of annual wages in the base period. (5 states)

4. Average-Weekly-Wage Formula (WW)

Weekly benefits are computed as a percentage of the worker's average weekly wages in the base period. (2 states, New Jersey and Ohio).

Four states (including Connecticut) use a combination of the four methods.

Past analysis by the Department of Labor and Workforce Development showed that total benefits would not change dramatically. The Task Force makes no recommendation on this issue, pending further review.

APPENDIX I — Unemployment Trends

TABLE I

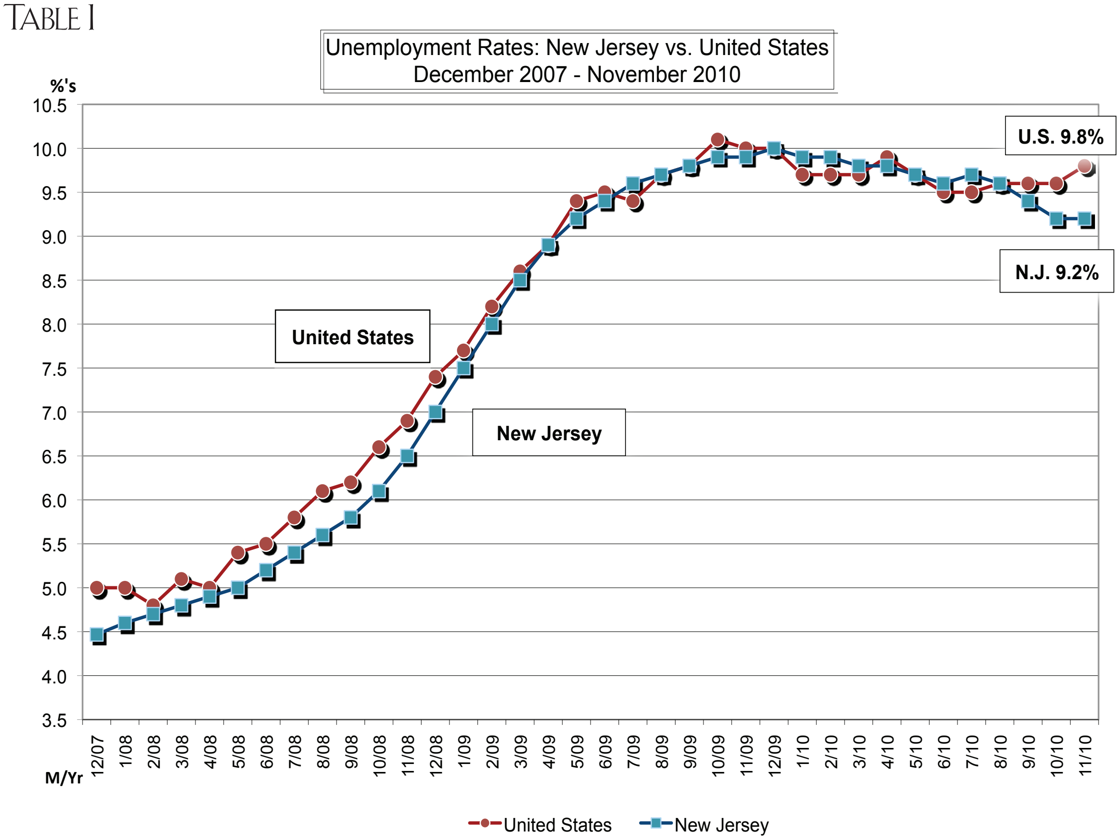


TABLE 2

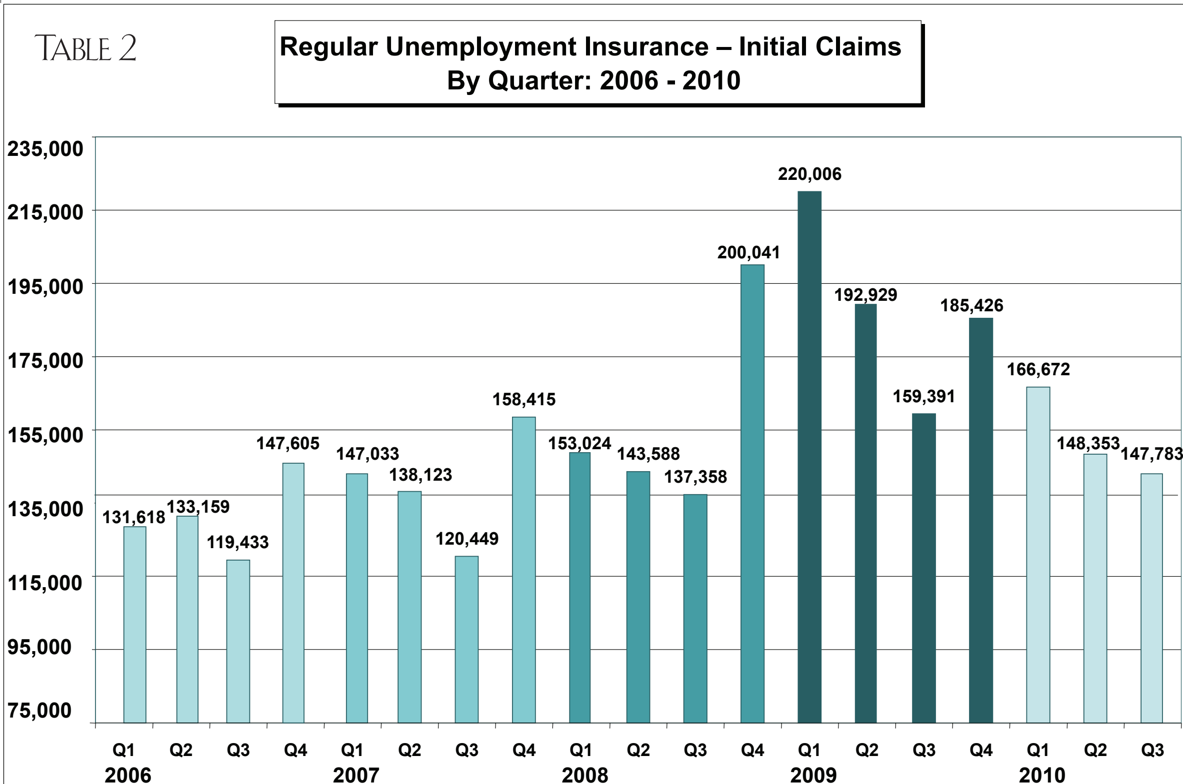


TABLE 3

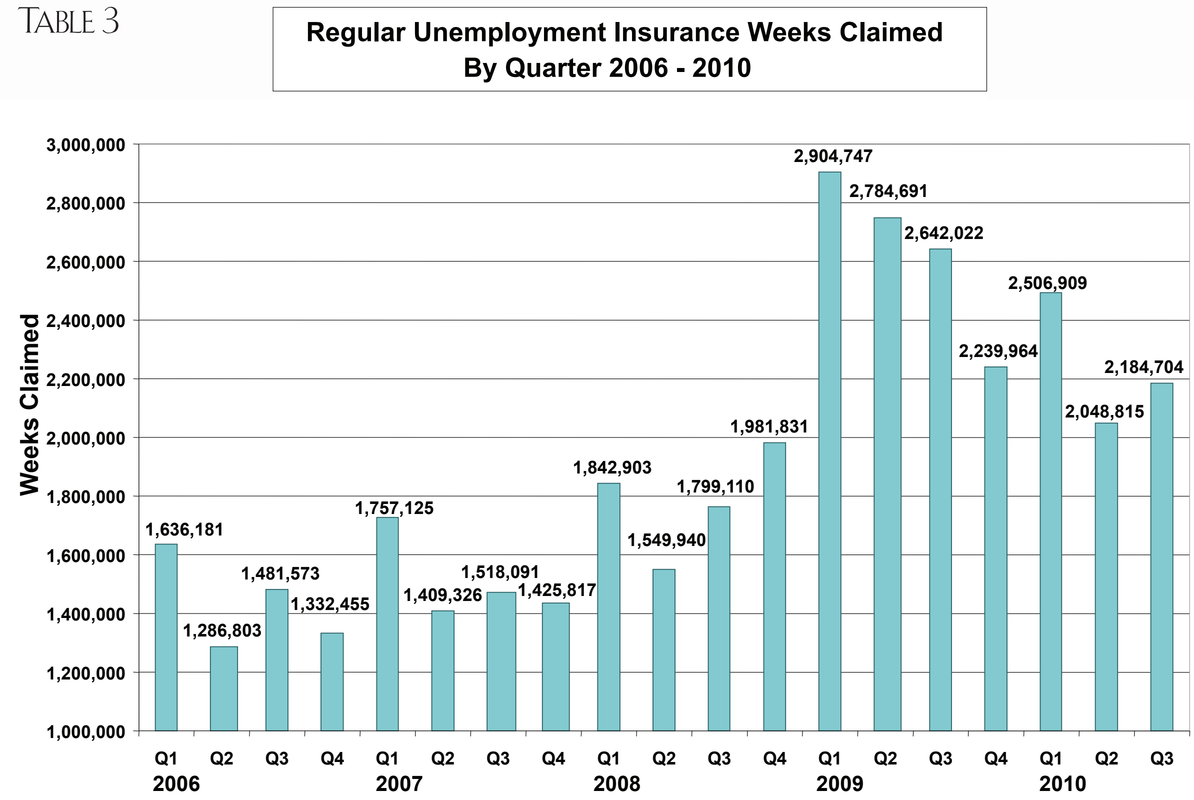
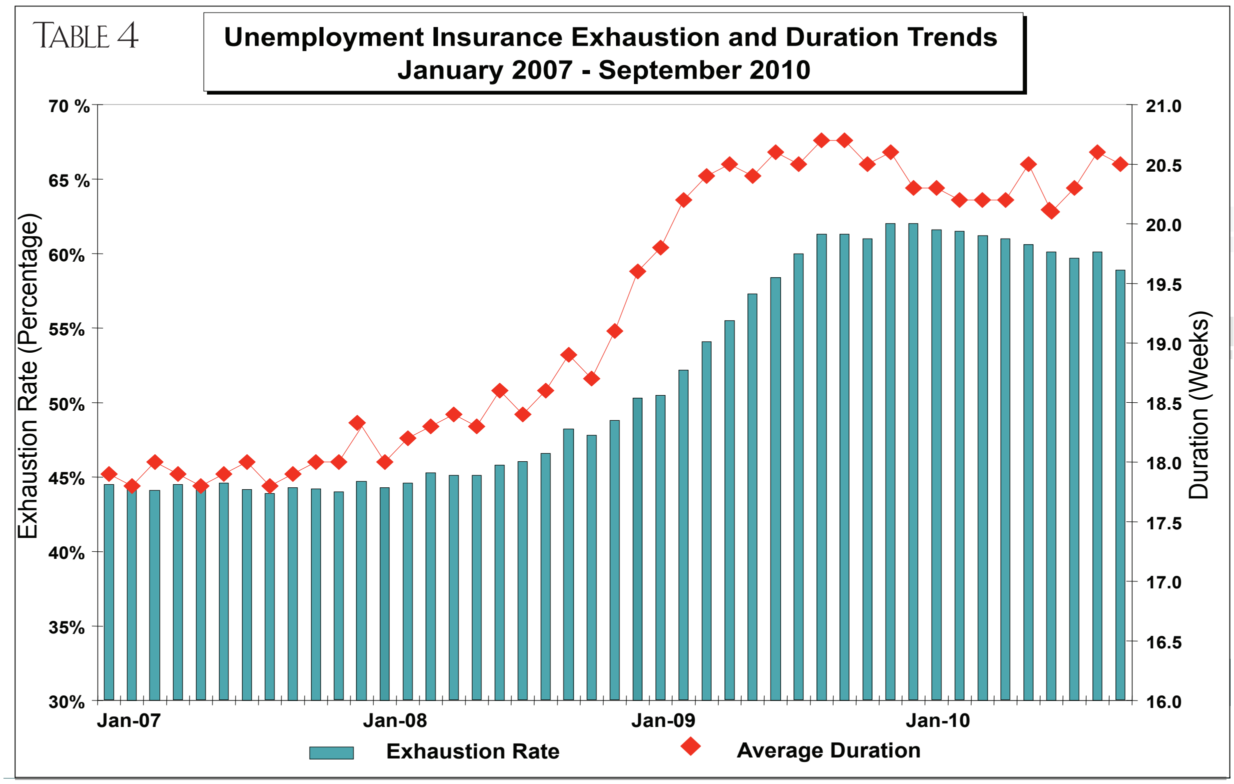


TABLE 4



Appendix 2

Maximum Weekly Benefit Rate Savings Estimates: Methodology and Assumptions

Background

The Office of Labor Planning and Analysis (LPA) receives new economic forecasts from the Department of Treasury several times a year, with projections of:

Total Unemployment Rate (TUR)

Nonfarm employment

Wage and salary disbursements

We use the Treasury forecast, along with trends in recent actual data, to develop projections of the key variables used in the UI trust fund simulator model:

Insured Unemployment Rate (IUR)

UI covered employment

UI taxable wages

The UI trust fund simulator model uses a combination of actual data and projected variables to project both revenues and benefits. The discussion below focuses on benefit estimates.

Benefit Estimates – Scenario 1

As part of its economic forecast, Treasury supplies estimates of annual changes in employment and in the total unemployment rate (TUR) for the current year and three to four outlying years. Using the estimated TURs and recent actual data, LPA staff estimate the insured unemployment rate (IUR), which measures only persons receiving UI benefits. Estimated benefit payments are calculated using estimates of three key variables: the IUR, UI covered employment and the average UI weekly benefit amount (AWBA).

Our most recent UI trust fund baseline estimates were prepared as part of the September 2010 Budget Evaluation data. The new benefit estimates prepared for the UI Task Force on the effect of lowering the UI Maximum Weekly Benefit Rate (MWBR) were then compared with these baseline estimates.

Assumption 1: Claimants receiving weekly UI benefit payments, or the number of weeks compensated, are estimated by multiplying the IUR by UI covered employment.

The following table shows a combination of actual data for 2006 through 2009 and projected data for 2010 through 2014 for key variables: TUR, IUR, percent change in UI covered employment, and weeks compensated. Data for 2006 and 2007 are shown to illustrate pre-recession levels for key UI variables.

Year	TUR	IUR	Annual % change UI covered employment	Week Compensated
2006	4.7%	2.8%	0.9%	5,433,100
2007	4.3%	2.9%	0.2%	5,652,500
2008	5.5%	3.4%	-0.6%	6,540,500
2009	9.2%	5.1%	-4.3%	9,814,800
2010	9.7%	4.4%	-0.5%	8,158,200
2011	9.4%	4.4%	1.0%	8,188,900
2012	8.7%	4.1%	1.3%	7,860,700
2013	7.9%	3.8%	1.6%	7,400,000
2014	7.0%	3.5%	2.0%	6,905,100

Assumption 2: The Maximum Weekly Benefit Rate (MWBR) with no cap was estimated for 2012 through 2014, as specified in State law, as 56 and 2/3 percent of the Statewide Average Weekly Wage (SAWW) in the second preceding calendar year.

Since 1990, the SAWW has increased by an annual average rate of 3.8 percent, with an average annual increase of 3.4 percent during the last 10 years. The MWBR has increased by an annual average rate of 4.0 percent since 1990 and an annual average rate of 3.7 percent over the last 10 years.

Our baseline estimates for the SAWW and MWBR were much more conservative. The projected increases in wages from the Treasury forecast were used to estimate the SAWW. Then the MWBR was estimated for 2012 through 2014, as specified in State law, as 56 and 2/3 percent of the SAWW in the second preceding calendar year.

Year	SAWW	Annual % change SAWW	MWBR	Annual % change MWBR
2006	$989.23	4.40%	$521	3.60%
2007	$1,031.28	4.30%	$536	2.90%
2008	$1,059.29	2.70%	$560	4.50%
2009	$1,056.54	-0.3% actual data	$584	4.30%
2010	$1,072.75	1.50%	$600	2.70%
2011	$1,098.73	2.40%	$598	-0.3% actual data
2012	$1,129.77	2.80%	$607	1.50%
2013	$1,167.14	3.30%	$622	2.50%
2014	$1,208.56	3.50%	$640	2.90%

Assumption 3: The UI average weekly benefit amount (AWBA) was estimated based on the historical relationship between the AWBA and the MWBR.

The remaining key economic assumption needed for the model to estimate benefits is the UI average weekly benefit amount (AWBA). Since 1990, the AWBA has increased by an average of 3.3 percent annually, with an average annual increase of 3.6 percent over the past 10 years. Our baseline estimates of increases in the AWBA were much more conservative and were based on the historical relationship between the AWBA and MWBR.

	AWBA	Annual % change AWBA	MWBR	AWBA as % of MWBR
2006	$333	2.4%	$521	63.9%
2007	$349	4.9%	$536	65.2%
2008	$364	4.2%	$560	65.0%
2009	$377	3.7%	$584	64.6%
2010	$378	0.1%	$600	63.0%
2011	$380	0.5%	$598	63.5%
2012	$386	1.5%	$607	63.5%
2013	$395	2.4%	$622	63.5%
2014	$406	2.8%	$640	63.5%

To estimate the effect of placing a cap on the UI MWBR of either $550 or $598, new estimates of the AWBA were developed. It was assumed that the AWBA and the MWBR would maintain approximately the same relationship as in recent years. Over the past 10 years, the AWBA has averaged 65.7 percent of the MWBR, with the percentage declining slightly to 64.4 percent over the past 5 years and 63.5 percent during the past two years. Because the percentage has been steadily declining, the most recent proportion of 63.5 percent was used to estimate the AWBA based on a MWBR of either $550 or $598, yielding an estimated AWBA of $350 for a MWBR of $550 and an estimated AWBA of $380 for a MWBR of $598. UI Trust Fund estimates were provided in November from the trust fund simulator with and without the MWBR cap.

Benefit Estimates – Scenario 2

In December, concerns were raised that the November estimates might have been too optimistic. A more conservative set of estimates was prepared, holding the IUR and UI covered employment assumptions constant (Assumption #1, page 17), but reducing the projected increases in the AWBA, SAWW and MWBR (Assumptions #2 and #3, pages 18 and 19, respectively). These estimates are shown below:

Year	SAWW	Annual % change SAWW	MWBR	Annual % change MWBR
2006	$989.23	4.4%	$521	3.6%
2007	$1,031.28	4.3%	$536	2.9%
2008	$1,059.29	2.7%	$560	4.5%
2009	$1,056.54	-0.3% actual data	$584	4.3%
2010	$1,060.77	0.4%	$600	2.7%
2011	$1,070.95	1.0%	$598	-0.3% actual data
2012	$1,084.66	1.3%	$601	0.5%
2013	$1,102.01	1.6%	$606	0.8%
2014	$1,124.05	2.0%	$614	1.3%

	AWBA	Annual % change AWBA	MWBR	AWBA as % of MWBR
2006	$333	2.4%	$521	63.9%
2007	$349	4.9%	$536	65.2%
2008	$364	4.2%	$560	65.0%
2009	$377	3.7%	$584	64.6%
2010	$378	0.1%	$600	63.0%
2011	$380	0.5%	$598	63.5%
2012	$382	0.4%	$601	63.5%
2013	$385	1.0%	$606	63.5%
2014	$390	1.3%	$614	63.5%

TABLE I

Appendix 2 -Table 1 - Scenario 1
Comparison of UI Trust Fund Estimates
Baseline Run With and Without $550 Cap on Maximum Weekly Benefit Rate (MWBR)
2011 - 2014

	Without Cap				With Cap			Difference
	Assumption #1 Weeks Compensated	**Assumption #2** MWBR	**Assumption #3** Average Weekly Benefit Amount (AWBA)	Regular UI Benefits (millions)	**Assumption #2** MWBR	**Assumption #3** Average Weekly Benefit Amount (AWBA)	Regular UI Benefits (millions)	Regular UI Benefits (millions)
2011	8,188,900	$598	$380	$3,111.8	$550	$350	$2,866.0	$245.8
2012	7,860,700	$607	$386	$3,033.8	$550	$350	$2,751.0	$282.8
2013	7,400,000	$622	$395	$2,923.0	$550	$350	$2,590.0	$333.0
2014	6,905,100	$640	$406	$2,803.6	$550	$350	$2,416.4	$387.2
								$312.2

Comparison of UI Trust Fund Estimates
Baseline Run With and Without $598 Cap on Maximum Weekly Benefit Rate (MWBR)
2011 - 2014

	Without Cap				With Cap			Difference
	Assumption #1 Weeks Compensated	**Assumption #2** MWBR	**Assumption #3** Average Weekly Benefit Amount (AWBA)	Regular UI Benefits (millions)	**Assumption #2** MWBR	**Assumption #3** Average Weekly Benefit Amount (AWBA)	Regular UI Benefits (millions)	Regular UI Benefits (millions)
2011	8,188,900	$598	$380	$3,111.8	$598	$380	$3,111.8	$0.0
2012	7,860,700	$607	$386	$3,033.8	$598	$380	$2,986.8	$47.0
2013	7,400,000	$622	$395	$2,923.0	$598	$380	$2,812.2	$110.8
2014	6,905,100	$640	$406	$2,803.6	$598	$380	$2,623.6	$180.0
								$84.5

Note: Calculations were made on unrounded data and differ from those computed from the rounded figures in the table.

Program Planning, Analysis and Evaluation
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TABLE 2

Appendix 2 - Table 2 - Scenario 2
Comparison of UI Trust Fund Estimates
Baseline Run With and Without $550 Cap on Maximum Weekly Benefit Rate (MWBR)
2011 - 2014

		Without Cap			With Cap			Difference
	Assumption #1	**Assumption #2**	**Assumption #3**		**Assumption #2**	**Assumption #3**		
	Weeks Compensated	MWBR	Average Weekly Benefit Amount (AWBA)	Regular UI Benefits (millions)	MWBR	Average Weekly Benefit Amount (AWBA)	Regular UI Benefits (millions)	Regular UI Benefits (millions)
2011	8,188,900	$598	$380	$3,111.8	$550	$350	$2,866.0	$245.8
2012	7,860,700	$601	$382	$3,002.8	$550	$350	$2,751.0	$251.8
2013	7,400,000	$606	$385	$2,849.0	$550	$350	$2,590.0	$259.0
2014	6,905,100	$614	$390	$2,693.0	$550	$350	$2,416.4	$276.6

Comparison of UI Trust Fund Estimates
Baseline Run With and Without $598 Cap on Maximum Weekly Benefit Rate (MWBR)
2011 - 2014

		Without Cap			With Cap			Difference
	Assumption #1	**Assumption #2**	**Assumption #3**		**Assumption #2**	**Assumption #3**		
	Weeks Compensated	MWBR	Average Weekly Benefit Amount (AWBA)	Regular UI Benefits (millions)	MWBR	Average Weekly Benefit Amount (AWBA)	Regular UI Benefits (millions)	Regular UI Benefits (millions)
2011	8,188,900	$598	$380	$3,111.8	$598	$380	$3,111.8	$0.0
2012	7,860,700	$601	$382	$3,002.8	$598	$380	$2,986.8	$16.0
2013	7,400,000	$606	$385	$2,849.0	$598	$380	$2,812.2	$36.8
2014	6,905,100	$614	$390	$2,693.0	$598	$380	$2,623.6	$69.4
								$30.6

Note: Calculations were made on unrounded data and differ from those computed from the rounded figures in the table.

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Appendix 3

Waiting Week Savings Estimates

The cost estimate for adding a waiting week for unemployment insurance (UI) was based on a legislative proposal that would pay for the waiting week at the end of benefit receipt for those who exhaust benefits. Those who do not exhaust benefits would not receive the waiting week payment.

The original estimate of annual savings from adding the waiting week was based on data for 2009, the most recent year with complete data.

2009 data:

Number of claimants with first payments: 469,700

Exhaustion rate: 62 percent

Average weekly benefit amount (AWBA): $377

The estimated cost saving in 2009 was derived by computing the number of claimants not exhausting benefits (who would not be paid for the waiting week) by the average weekly benefit amount (since they would lose one week of benefits).

Estimated saving:

469,700 X 38% = 178,500 claimants not receiving payment for the waiting week

178,500 X $377 = estimated cost savings of $67.3 million

Additional estimates were done for the period from 2010 through 2012 for Scenarios 1 and 2 and are shown in the tables below.

Scenario 1

	First Payments	Exhaustion Rate	Non-Exhaustees Rate	Average Payment	Non-Exhaustees	Estimated Savings
2005	315,000	46%	54%	$325	171,400	$55.7 million
2006	305,300	44%	56%	$333	169,700	$56.5 million
2007	311,600	45%	55%	$349	172,300	$60.1 million
2008	368,200	50%	50%	$364	183,000	$66.6 million
2009	469,700	62%	38%	$377	178,500	$67.3 million
2010	382,000	60%	40%	$378	152,800	$57.8 million
2011	361,800	58%	42%	$380	151,900	$57.7 million
2012	356,000	57%	43%	$386	153,100	$59.1 million
2013	335,300	56%	44%	$395	147,500	$58.3 million
2014	318,200	55%	45%	$406	143,200	$58.2 million

Scenario 2

	First Payments	Exhaustion Rate	Non-Exhaustees Rate	Average Payment	Non-Exhaustees	Estimated Savings
2005	315,000	46%	54%	$325	171,400	$55.7 million
2006	305,300	44%	56%	$333	169,700	$56.5 million
2007	311,600	45%	55%	$349	172,300	$60.1 million
2008	368,200	50%	50%	$364	183,000	$66.6 million
2009	469,700	62%	38%	$377	178,500	$67.3 million
2010	382,000	60%	40%	$378	152,800	$57.8 million
2011	361,800	58%	42%	$380	151,900	$57.8 million
2012	356,000	57%	43%	$382	153,100	$58.5 million
2013	335,300	56%	44%	$385	147,500	$56.8 million
2014	318,200	55%	45%	$390	143,200	$55.8 million

Scenario 2 is based on smaller, more conservative annual increases in the average UI benefit payment for 2012 through 2014.