



**TESTIMONY OF THE NATIONAL EMPLOYMENT LAW PROJECT
REGARDING HOUSE BILL 5402**

**AN ACT ESTABLISHING A TASK FORCE TO EXAMINE UNEMPLOYMENT
COMPENSATION**

My name is George Wentworth and I am a senior staff attorney with the National Employment Law Project. NELP is a national non-profit organization based in New York City that conducts research and advocates on behalf of federal and state policies that help unemployed and low-wage workers. Prior to joining NELP, I worked at the Connecticut Department of Labor for 35 years, the last 20 as Director of Program Policy. I am here this afternoon to testify regarding House Bill 5402, *An Act Establishing a Task Force to Examine Unemployment Compensation*.

Connecticut's Unemployment Insurance program has been a cornerstone of the economic safety net in this state for three-quarters of a century. Last year alone, over 160,000 unemployed Connecticut workers received over \$893 million in state unemployment benefits. Nationally, every state unemployment insurance program was established in conjunction with the Social Security Act of 1935. It was the third pillar of the same New Deal promise that today insures that older workers will have some form of retirement pension and that workers with disabilities will have some financial protection from falling into poverty. The Social Security Act basically imposes a federal tax on the wages of all workers and then provides that employers will get a credit on most of those taxes if the state enacts an unemployment insurance law and operates a an unemployment insurance program within basic federal guidelines.

Unemployment insurance is a program of temporary partial wage replacement for workers who lose their jobs involuntarily. It is payable for a maximum of 26 weeks. Workers qualify for benefits because they have a history of employment and wages that have been subject to state and federal taxes. The formula for establishing a weekly benefit is tied to the amount of the claimant's recent earnings and generally aims to approximate about half of the worker's average weekly wage. Yet, the average weekly unemployment payment in 2011 was \$327. That is less than 28 percent of the state's average wage.

The Great Recession that began at the end of 2007 has taken a huge toll on the state's Unemployment Trust Fund. As unemployment skyrocketed from under 5 percent to over 9 percent, the trust fund became insolvent in less than two years and Connecticut began borrowing from the Federal unemployment trust accounts to keep paying benefits. While it has already begun paying back some of that loan, the debt stands at over \$700 million. This is not a unique situation; there are currently 28 states in this same boat with nearly \$40 billion in outstanding

federal loans. Connecticut employers will see their federal unemployment taxes increase by \$21 per employee for the next few years as federal law operates to recoup that debt. As the gap between revenues and benefit outlays begins to close again, it may be the right time to look at the unemployment insurance program – but not in the way prescribed by House Bill 5402.

This bill purports to create a task force to “examine” unemployment compensation benefits. Yet, it begins by setting out an agenda of items that amounts to a business wish list of ways to slash unemployment benefits. Nowhere is there any mention of even glancing in the direction of the structural financing problem that was the single largest source of the current insolvency. The list instead directs the task force to “determine whether such benefits should be adjusted’ in a number of ways including the following:

- **Reducing the amount of the weekly benefit over the course of the benefit period.** There is a 26 week maximum on state benefits, but with long-term unemployment so high, over 43% of all Connecticut claimants exhausted benefits last year. Do we really want to make it financially harder the longer a worker is unemployed? Do we really want to target the families of Connecticut workers who are having the toughest time finding a new job?
- **Savings through a waiting week.** Should we destabilize the finances of every family of a worker who loses a job by saying “let’s start you off with a week without income?”
- **Indexing the number of weeks of benefits an eligible worker receives to the state’s unemployment rate.** The only state in the country to adopt this approach is Florida which adopted a sliding scale that will provide a maximum of benefits that runs from 23 weeks (when the unemployment rate is 10.5% or higher) down to 12 weeks (when the rate hits 5%). The average American is unemployed over 40 weeks. Does this state really want to abandon the basic 6 month coverage that has been the national standard for more than 50 years at just the moment when long-term unemployment is at record levels?

It is true that last year a number of states cut benefits and imposed new eligibility restrictions, largely in response to business lobbies’ complaints about increased unemployment taxes. NELP has documented many of those cuts in a paper published last August¹. Many of these cuts resulted in reductions in available benefits under federal extension programs (Emergency Unemployment Compensation and Extended Benefits). So while Connecticut business interests are not unlike employers in other states with insolvent trust funds in their focus on one side of the ledger – cutting worker benefits – it is up to the this body to make sure that any “examination” of the state’s unemployment insurance program is even-handed and considers both sides of the equation.

The primary source of Connecticut’s insolvency is not overly generous benefits.. It is that the Unemployment Trust Fund has been underfinanced for the past decade and was not ready for the recession when it hit. The U.S. Department of Labor has standards for what reserves a state needs in its trust fund in order to withstand a recession similar to prior economic downturns. Even before the recession began in 2007 with an unemployment rate below 5%, USDOL said Connecticut only had about 57 percent of what it needed to stay solvent. So it should come as no surprise that Connecticut has had to borrow.

The last time Connecticut's Trust Fund had to borrow (in the early 1990's), the General Assembly –under the leadership of this Committee - took steps to implement “forward financing” – the common-sense principle that states should save during good times so that they are prepared for inevitable economic downturns. The key to this reform was gradually raising the taxable wage base (the amount of wages subject to unemployment taxes) over the course of the decade — from \$7,100 up to \$15,000 in 1999. The solution worked well, but by letting the taxable wage base stagnate at that level for the past 12 years, Connecticut has allowed unemployment insurance funding to fall out of sync with the wages they are meant to replace. Since unemployment benefit amounts are calculated as a percentage of wages, it is logical that employer contribution levels should similarly reflect wage growth to reflect the realities of our state's economy. Of the 16 states that employed this approach before the recession began, more than two-thirds maintained solvent funds and averted the need to borrow and the associated costs.

I raise this financing issue to remind this Committee that if the General Assembly wants to look seriously at Connecticut's Unemployment Insurance program, the task of the task force cannot be as one-sided as deciding how much pain should be inflicted on the families of the 150,000 Connecticut workers who are looking for a job. A serious examination entails looking at revenues as well as benefits. A serious examination looks at whether the taxable wage base needs to be increased and indexed. A serious examination of a program that has for 75 years helped stabilize Connecticut's economy during bad times proceeds cautiously and doesn't undermine the program's core purpose- to help unemployed workers make ends meet until they find that next job.

For these reasons, I urge the Committee to reject House Bill 5402 in its current form. And if this Committee believes that now is the time to examine the unemployment insurance program, then I encourage the Committee to draft a new bill that takes an even-handed look at both benefits and financing of the system.

Thank you for your time and attention.

ⁱ *Unraveling the Unemployment Insurance Lifeline*, Claire McKenna & George Wentworth (August 2011), National Employment Law Briefing Paper