



## **Issue Brief: Vermont's Unemployment Insurance Trust Fund**

### **The Issue**

Unemployment insurance began in 1935 during the Roosevelt era, and is designed to: provide partial wage replacement to workers who find themselves out of work as a bridge from one job to another; to provide economic stability for a community when major unemployment occurs by supporting workers ability to continue to spend; and to encourage workers to remain in the community and to be available for work recalls by employers.

Unemployment Insurance is paid for by employers. In Vermont, a state tax (SUTA) is paid on the first \$8,000 in wages paid to each employee. This money is deposited in an account in the US Treasury and can only be used to pay Vermont benefits. The Federal Government also charges an Unemployment Tax (FUTA) on businesses to pay for national and state administrative costs and to pay for federally mandated extended unemployment benefits when they occur. Some of the FUTA tax is also put aside for states to borrow when they need more money. The FUTA tax is paid on the first \$7,000 of wages paid to each employee.

### **How the Fund Works**

Contributions into Vermont's unemployment insurance trust fund come from employers who pay based on a portion of each employee's salary and a set rate. For a company employing 25 people, with a tax rate of 2.0%, their UI Tax would be determined as follows:

$$[25 \text{ employees}] \times [\$8,000 \text{ twb}] \times [2.0\% \text{ tr}] = \$4,000 \text{ Total UI Tax}$$

### **How Rates Are Set:**

Rates range from 0.4% - 8.4% and are experience-based, and impacted by the solvency of the fund.

### **Benefit Levels:**

The maximum weekly benefit amount is 57% of the average weekly wage of the employee up to \$425 per week. Beginning this year, and only for a period of time, Vermonters will also receive an additional \$25 per week from the Federal American Recovery and Reinvestment Act.

### **The Problem**

Overtime, money paid out of the fund in the form of unemployment benefits has continued to rise due to legislative increases in the base weekly benefit amount, and by the addition of an automatic cost of living adjustment occurring July 1 of each year. This has been compounded by the current economic climate in which payments into the fund are down, while payments out of the fund are up in correlation with the state's unemployment rate. However, with this unprecedented economic cycle, current projections show this fund will be depleted by the first quarter of next year.

## **State Solutions**

The Vermont Chamber of Commerce supports the following changes to the Vermont Unemployment Insurance Trust Fund:

### *Increasing the Taxable Wage Base*

- Contributions into the state's unemployment insurance fund via the taxable wage base were increased this passed year. Previously, Vermont employers paid unemployment taxes on the first \$8,000 of their employees' salaries; this has been increased to \$10,000 beginning next year, and could be increased further from \$10,000 to \$12,000 and again from \$12,000 to \$14,000 or more in order to address the solvency issues. While this is a direct tax increase on employers it is a necessary part of any solution but must be coupled with benefit modifications.

### *Benefit Modifications*

- Modify the weekly benefit amount to be 50% of the average wage, from its 57% wage replacement rate. Limit total annual benefits to 1/3 wages or 26 weeks, whichever is shorter. Require an average of 20 weeks of work to qualify for benefits. Collectively, these changes will reduce expenditures by \$16.9 million annually.
- Disqualify employees from receiving benefits if they are fired for misconduct, a substantial or intentional disregard of the employer's interests. Presently if someone is fired for misconduct, they can still collect unemployment benefits for the full 26 weeks after a 9-week delay. This reduction will save \$2.9 million annually.
- Reduce the maximum weekly benefit amount to its June 2008 level of \$409 per week. This reduction will save \$5 million annually.
- Order repayment of benefits by claimants when those benefits have been erroneously awarded through false claims. This change will save \$460,000 annually.

### *Borrowing Money from the Federal Unemployment Fund*

- States also have the option of borrowing money from the Federal Unemployment Trust Fund. However, interest payments on the borrowed money must come from outside the state's UI Fund. Furthermore, borrowing money from the Federal Fund also triggers a negative FUTA Tax penalty. (See Federal Solutions below)

## **Federal Solutions**

*Extending interest-free unemployment insurance trust fund loans to states beyond December 31, 2010.* The principle balance of federally borrowed funds is payable directly from Vermont's Unemployment Insurance Trust Fund, the interest accrued on the borrowed funds is not. Instead, interest on the borrowed funds must be paid from sources other than UI Taxes, creating yet another political hurdle as these funds would need to come from the state's General Fund. Currently, interest-free Unemployment Insurance Trust Fund loans are available to states until December 31, 2010. The Vermont Chamber of Commerce supports extending interest free borrowing until December 31, 2012.

### *Delaying the implementation of the FUTA Tax Penalty*

For any state borrowing federal unemployment dollars, advances must be repaid by September 30 of the year in which they are borrowed. If they are not repaid by that date, employers lose 0.3 percentage points of their federal tax credit. The tax credit will decline by 0.3 percentage points per year until the balance is repaid, or employers are paying the full FUTA tax of 6.2 percent. The Vermont Chamber of Commerce supports delaying the imposition of the FUTA tax penalty for two years.

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