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## **OLR Bill Analysis**

**sHB 6633 (as amended by House "A")\***

### ***AN ACT RESTRUCTURING UNEMPLOYMENT INSURANCE BENEFITS AND IMPROVING FUND SOLVENCY.***

#### **SUMMARY**

This bill makes several changes in the unemployment system. Among its changes, beginning in 2024, the bill does the following:

1. generally increases the minimum weekly benefit from \$15 to \$40 and requires it to be annually adjusted for inflation, except when the federal government is providing additional payments to claimants;
2. generally increases the minimum earnings claimants' need to qualify for the minimum benefit from \$600 to \$1,600 (annually adjusted for inflation);
3. freezes the maximum benefit rate for certain claims initially filed in 2024, 2025, 2026, and 2027;
4. increases the taxable wage base from \$15,000 to \$25,000 and requires it to be annually adjusted for inflation;
5. reduces employers' experience tax rates for 2024 and 2025 and temporarily reduces the experience period used for calculating employers' experience rates for 2026 and 2027;
6. expands the range of experience tax rates from the current range of 0.5% to 5.4% to the bill's range of 0.1% to 10%;
7. creates a "non-charge" against an employer's experience rate for benefits paid to a claimant through the Shared Work program for claims filed when the state's average rate of unemployment exceeds a specified threshold;

8. generally reduces the maximum fund balance rate from 1.4% to 1.0%;
9. eliminates an exception that allows certain claimants to receive unemployment benefits during a week for which they received severance pay;
10. prohibits claimants from receiving benefits during any week for which they received specified vacation pay; and
11. shortens the length of certain absences from work for which an employee may be fired and disqualified for benefits.

Additionally, the bill requires the Department of Labor (DOL) to cap the fund balance rate at 0.5% during a recession unless doing so would jeopardize the state's access to interest-free federal loans. It also requires DOL to adjust the experience rates for employers in industry sectors that are experiencing above-average employment losses in those sectors.

\*House Amendment "A" (1) bases the benefit ratio adjustment for industry sectors experiencing above-average employment losses on the prior calendar year's average, rather than the current average; (2) extends the maximum benefit freeze to benefit years starting on or after the first Sunday in October 2024 and before the first Sunday in October 2028, rather than just the benefit years starting on the first Sunday of 2024, 2025, 2026, and 2027; and (3) makes technical changes.

EFFECTIVE DATE: January 1, 2022

### **MINIMUM BENEFITS AND EARNINGS**

For benefit years commencing during 2024, the bill increases the minimum weekly unemployment benefit from \$15 to \$40 for all workers. However, it requires the minimum benefit to be \$15 when the federal government provides a fully federally funded supplement to the individual's weekly benefit amount.

For subsequent benefit years, the bill generally requires the

minimum benefit to be adjusted for inflation. Under the bill, the minimum benefit must be (1) adjusted by the percentage change in the U.S. DOL's employment cost index (or its successor index) for wages and salaries for all civilian workers over the 12-month period ending on June 30 of the preceding year and (2) rounded to the nearest dollar. This inflationary adjustment does not apply when the minimum benefit is set to \$15 as described above.

Because the law generally requires claimants to have earned at least 40 times their weekly benefit during their base period to qualify for benefits, increasing the minimum benefit also increases what these claimants must earn over the course of their base period to qualify for the minimum benefit (CGS § 31-235). So, to qualify for the bill's \$40 minimum weekly benefit, claimants must have earned at least \$1,600 ( $\$40 \times 40$ ) over their base period, instead of the \$600 required by current law. The minimum base period earnings required to qualify for benefits changes in subsequent benefit years is based on the inflationary adjustments described above.

### **MAXIMUM BENEFIT FREEZE**

Existing law caps the maximum benefit allowed for any unemployment claimant at 50% of the average wage of all workers in the state. Under current law, the labor commissioner must adjust the cap on the first Sunday of each October but cannot increase it more than \$18 each year. The bill prohibits the commissioner from increasing the cap in the benefit years starting on or after the first Sunday in October 2024 and before the first Sunday in October 2028.

### **TAXABLE WAGE BASE**

Beginning January 1, 2024, the bill increases the taxable wage base from the current \$15,000 to \$25,000. In general, the taxable wage base is the amount of wages paid to each employee on which the employer must pay unemployment taxes. The bill also requires the taxable wage base to be (1) annually adjusted for inflation, beginning January 1, 2025, by the percentage change in the U.S. DOL's employment cost index (or its successor index) for wages and salaries for all civilian workers over the 12-month period ending on June 30 of the preceding

year and (2) rounded to the nearest multiple of \$100.

## **EXPERIENCE RATE**

### ***Benefit Ratio for 2024-2027***

Under current law, DOL annually determines each employer's experience rate by calculating a benefit ratio for the employer over the previous three years (i.e., the experience period). This is the ratio between the amount charged to the employer's experience account for benefits paid to former employees and the amount of the employer's taxable wages. Under the bill, each employer's charged rate for the 2024 and 2025 calendar years must be divided by 1.471 and 1.269, respectively. This will reduce employers' experience rates by roughly 32% in 2024 and 21% in 2025. The bill also shortens the experience period for 2026 and 2027 from the previous three years to the previous year for 2026 and previous two years for 2027.

### ***Tax Rate***

Under current law, the experience tax rate ranges from a 0.5% minimum for employers with a benefit ratio of 0.005 or less to a 5.4% maximum for employers with a benefit ratio of 0.54 or greater. Beginning with the 2024 calendar year, the bill lowers the minimum rate to 0.1% for employers with a benefit ratio of 0.1% or less and increases the maximum rate to 10% for employers with a benefit ratio of 10% or more.

### ***Benefit Ratio Adjustment for Certain Industry Sectors***

Starting on January 1, 2022, if the average benefit ratio of all employers within an industry sector (based on the North American Industry Classification System) increases over the prior calendar year's average by 0.01 or greater (which would increase experience rates by at least one percentage point), the bill requires the department to adjust the benefit ratio for each employer in that sector downward by 50% of the average increase for the sector. The mining and construction sectors are considered one sector for purposes of this adjustment.

### ***Shared Work Program Non-Charge***

In general, a portion of an employer's unemployment insurance taxes are based on the employer's "experience rate," which reflects the amount of unemployment benefits paid to the employer's former employees over a certain period. The law, however, allows several non-charging separations in which an employee can collect benefits without affecting a former employer's experience rate. (In these instances, the benefits paid to the former employee are "pooled" and paid by all employers who pay unemployment taxes.)

Beginning January 1, 2024, the bill allows a non-charge for employees who are paid benefits through the Shared Work program (see BACKGROUND) for claims filed in a week in which the state's average unemployment rate is 6.5% or more based on the most recent three months of DOL-published data. For more drastic spikes in the unemployment rate, it also authorizes the DOL commissioner to allow a non-charge for such employees for claims filed in a week in which the state's average unemployment rate is 8% or more in the most recent month of DOL-published data.

### **MAXIMUM FUND BALANCE RATE**

In addition to its individual experience rate, each employer is also charged a flat fund balance rate that is set each year by the DOL commissioner. This rate is, generally, calculated to ensure that the unemployment trust fund maintains a statutorily determined amount of funding in it. Under current law, the maximum fund balance rate is 1.4%. The bill reduces the maximum rate to 1% beginning with the 2024 calendar year, except as described below.

The bill requires the DOL commissioner to set the maximum fund balance rate at no greater than 0.5% during a recession unless doing so would jeopardize the state's access to interest-free federal advances, including those that are subject to certain funding goals established under federal law (see BACKGROUND). Under the bill, this requirement applies during a calendar year that begins during an economic recession declared by the National Bureau of Economic Research on or before November 15 of the prior calendar year.

## **SEVERANCE AND VACATION PAY**

Current law generally prohibits claimants from receiving benefits during any week for which they received severance pay but makes an exception if, as a condition for receiving the severance pay, a claimant was required to forfeit a right or claim against an employer. The bill eliminates this exception starting on January 1, 2024.

Beginning on that same date, the bill also prohibits claimants from receiving benefits during any week for which they received vacation pay related to an identifiable week or weeks (1) designated as a vacation period under an arrangement between the individual (or his or her representative) and the employer or (2) that is the customary vacation period in the employer's industry. Under the bill, this provision does not apply to payments of accrued vacation pay that the claimant receives upon separation from employment.

## **INELIGIBILITY FOR BENEFITS DUE TO ABSENCES**

By law, employees are ineligible for unemployment benefits if they were terminated after three separate instances of being absent from work without either good cause or notifying the employer. Under current law, an "instance" of absence can be either one day or two consecutive days (thus, an employee who is absent for two consecutive days counts as one absence). Beginning January 1, 2024, the bill instead requires each day of being absent without good cause or notice to be counted as an instance of absence.

## **BACKGROUND**

### ***Shared Work Program***

The Shared Work Program is a voluntary program that allows employers to reduce their employees' work hours in lieu of layoffs. The affected employees receive a proportionally reduced unemployment benefit, which still gives them a greater total income than if they had been laid off with a full unemployment benefit. By remaining employees, they also maintain their fringe benefits (e.g., health insurance).

### ***Federal UI Funding Goals***

Under federal regulations, state unemployment systems may access certain interest-free federal loans if (1) the state’s unemployment trust fund maintained an average high-cost multiple (AHCM) of at least 1.0 over the previous five consecutive years and (2) the state did not recently reduce its unemployment tax rate beyond certain thresholds (20 C.F.R. § 606.32). In general, an AHCM of 1.0 indicates that a trust fund holds enough funds to cover one year of benefits in a recession that is the average magnitude of the last three recessions.

**Related Bills**

sHB 6595 (File 463), reported favorably by the Labor and Public Employees Committee, contains provisions (§§ 26-27) that disregard an employer’s benefit charges and taxable wages between July 1, 2019, and June 30, 2021, when calculating the employer’s unemployment tax experience rate for taxable years starting on or after January 1, 2022.

SB 711 (File 183), reported favorably by the Commerce Committee, creates a “non-charge” against an employer’s experience rate for the unemployment benefits paid to former employees because of COVID-19.

SB 1002 (File 464), reported favorably by the Labor and Public Employees Committee, contains provisions (§§ 26-27) that disregard an employer’s benefit charges and taxable wages between July 1, 2019, and June 30, 2021, when calculating the employer’s unemployment tax experience rate for taxable years starting on or after January 1, 2022.

**COMMITTEE ACTION**

Finance, Revenue and Bonding Committee

Joint Favorable Substitute

Yea 48 Nay 0 (04/22/2021)