

M A S S A C H U S E T T S
HIGH TECHNOLOGY COUNCIL
Proven Leadership in Action

LEGISLATIVE MEMO

To: Members of the Massachusetts General Court

From: Christopher R. Anderson, President

Date: January 14, 2013

Re: **Mass. High Tech Council Calls for UI Rate Freeze and System Reform**

The Massachusetts High Technology Council calls on the state Legislature to support the call from **Governor Patrick, Senate President Murray and House Speaker DeLeo to prevent a \$500,000,000 Unemployment Insurance (UI) payroll tax increase scheduled to hit employers effective January 2013.** The annual automatic tax hike is the result of uncompetitive and antiquated Unemployment Insurance System statutes.

Continuing an annual tradition that began during the Weld Administration and has been carried on nearly uninterrupted by Governors Cellucci, Swift, Romney, and Patrick, legislative intervention is required to prevent excessive Unemployment Insurance tax rates increases.

Why? For too long the state has adopted a band-aid approach to fixing the nation's costliest and most unpredictable UI system. Failure to reform this system puts Massachusetts employers at a significant disadvantage to peers in competitor states and nations. In addition to the rate freeze, the Council also calls for wider comprehensive reform of the state's UI system that would create 10,000 new jobs, \$3.9 billion in new wages and \$30 million in new state revenue over the next decade.

Rate Freeze

Employers fund 100 percent of state UI bills. When payroll and other costs of doing business increases become unpredictable and uncompetitive, jobs are either reduced or sent to lower cost environments.

The 2013 rate increase would boost the average cost per Massachusetts employee to \$932, up from \$726 in 2012 and \$638 in 2010.

A **2012 Tax Foundation** analysis comparing state business taxes ranked Massachusetts as having the second highest UI tax rate in the US (behind Rhode Island). By contrast, states such as North Carolina and Texas, which compete for many of the same tech jobs that dominate our economy, ranked as the 7th and 15th lowest cost states, respectively. Council members have repeatedly cited UI rates as a competitive disadvantage to doing business in the Commonwealth. The past rate freezes by the state Legislature without needed reforms have only accelerated the rate at which the UI Trust Fund balance has been depleted.

Comprehensive Reform

Beyond the immediate need to freeze rates, as was done the previous two years, the Council calls on legislative leaders and administration officials to adopt a comprehensive set of reforms to make our UI system competitive for the long term while protecting the benefits of those currently without a job.

We recommend the following four steps to reform:

1. **Providing benefits for 26 weeks** – Currently, all unemployed workers in Massachusetts are eligible for 30 weeks of benefits, and in 49 other states benefits last 26 weeks. We recommend bringing Massachusetts in line with every other state in the nation by providing 26 weeks of benefit payments.
2. **Strengthening eligibility requirements** – Massachusetts currently allows an individual who has been working for 15 weeks to be eligible for the same benefits as someone who has been in the workforce for 20 years. We recommend a minimum of 20 weeks, which is still low but more competitive with other state systems. We also recommend requiring earnings for eligibility over two quarters, which is the practice in a majority of other states.
3. **Increasing the time period for computing payroll taxes** – Massachusetts is one of only three states that determine UI taxes based upon the prior 12 months of payroll; 47 states use payroll paid for the past three to five years.
4. **Replacing rate-setting mechanism** – We suggest creating an automated rate-setting system that accounts for Trust Fund balance, unemployment data and economic conditions. A new rate-setting mechanism will make UI costs more stable and predictable without the need for annual legislative action.

None of these needed reforms will reduce the amount of weekly benefits paid out to displaced workers, which are the highest in the nation. Overall, Massachusetts pays out more on average to its unemployed workers than any other state – in some cases paying 150% of the benefit amount of key competitor states.

According to a **2011 Council-sponsored study** on the state's business cost structure, a commonsense reform initiative (including these key elements and other technical changes) will provide Massachusetts with more than 10,000 new jobs and \$3.9 billion in new wages over the next 10 years, and, unlike most budget-based tax cuts, will not take much needed revenues off the table. In fact, according to our projections, reforming UI will actually generate \$30 million in new income and sales tax revenue to help fund state program priorities.

These job and revenue projections only measure the direct impact of reforming UI. Making meaningful reforms to the UI system will create a more competitive business climate which will lead to more employer investment in Massachusetts.