

THE ROAD TO ECONOMIC RECOVERY

Massachusetts' Economic Resilience Requires a Solvent UI System

As a result of the COVID-19 shut down, workers across the Commonwealth are increasingly depending on unemployment insurance (UI) as a crucial economic safety net. To address this demand, Massachusetts needs billions of dollars in federal loans, called Title XII advances, to prop up its unemployment system. Without these loans, the state's unemployment insurance trust fund is insolvent. Moreover, based on fund solvency the Massachusetts UI system was not prepared for a recession at any time during the previous 20 years. The problem is structural, occurring despite years of low unemployment and increasing employer contributions, but also one that can be addressed with policy changes.

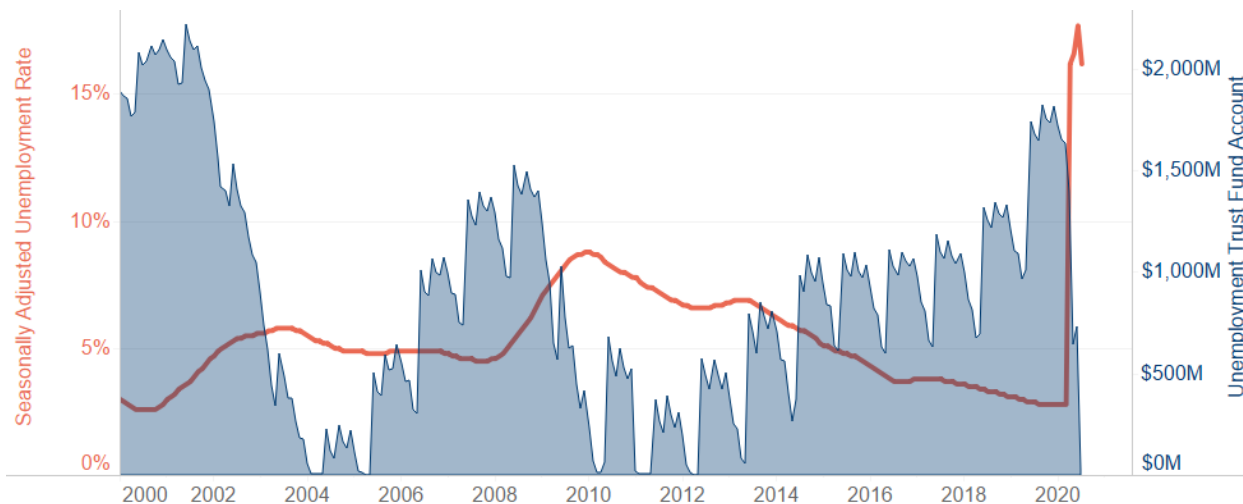
The solvency of the state's unemployment insurance program is significant for Massachusetts businesses because employers fund the program entirely through a payroll tax, except for this year when the state received additional funding via the CARES Act. Without sound management of the UI program, Massachusetts employers pay higher state and federal UI taxes and will be on the hook for interest payments for federal government loans that shore up the program during periods of high unemployment. These higher taxes not only put added strain on the businesses struggling as the economy reopens, they also put Massachusetts employers at a competitive disadvantage with their peers in other states.

In August 2020, the Massachusetts Department of Unemployment Assistance estimated a year-end trust fund deficit of \$2.5 billion and for the deficit to increase to nearly \$5.2 billion by 2022. To close the deficit, unemployment insurance taxes on employers will increase by a total of almost \$1 billion in 2021, from \$1.5 billion in 2020 to \$2.5 billion in 2021. That amounts to a \$319 increase in the average cost per Massachusetts employee, from \$539 per employee to \$858 per employee. This substantial tax increase comes at a time when many businesses are still fighting to stay afloat and keep people employed.

Importantly, the UI system's inadequacy did not emerge for the first time in 2020. Massachusetts consistently ranks at the bottom in the [Tax Foundation's annual ranks of state unemployment taxes](#). And as Figure 1 shows, Massachusetts had years of low unemployment when it could have reformed the UI system and boost its funding to prepare for an employment crisis. Yet just prior to the COVID-19 economic shutdown, the state's UI trust fund only held approximately \$125 million above the pre-Great-Recession peak despite historically low levels of unemployment. This trust balance was insufficient given the fund went insolvent during the Great Recession too.

THE ROAD TO ECONOMIC RECOVERY

Figure 1
Massachusetts Unemployment Rate Compared to UI Trust Fund Balance
2000-2020



Moreover, Massachusetts ranks poorly on two measures used by the U.S. Department of Labor (DOL) to determine the strength of a state’s UI Trust Fund: the reserve ratio and the solvency level. The reserve ratio is the beginning-of-year trust fund balance as a percentage of total wages in the previous calendar year. The dashboard shows that at the start of the year, Massachusetts ranked 44th nationally with a reserve ratio of 0.8. The solvency level is a measure of how well the reserve holds up against an average of the three years where the system saw the highest financial pressure in the last two decades. Solvency levels greater than 1 indicate a state has sufficient UI funds to withstand a recession. Massachusetts’ solvency level at the start of 2020 was a mere 0.4, ranked 46th nationally and continuing a streak of 20 consecutive years without a trust fund deemed prepared for a recession.

Fortunately, sound policymaking can remedy the structural issues that drive Massachusetts’ insolvent trust fund. First, Massachusetts’ UI benefits are generous compared to other states. As Table 1 shows, Massachusetts provides the highest weekly benefit amount (\$1,234) nationwide and although the high benefit level is partly attributable to comparatively high salaries in the state, Massachusetts also allows for the longest period to collect benefits (30 weeks) which adds to the total system cost.

THE ROAD TO ECONOMIC RECOVERY

Table 1
Maximum Weekly Benefit Amount and Duration by State

State	Weekly Benefit	Weeks
Massachusetts	\$1,234	30
Washington	\$844	26
Rhode Island	\$749	26
Minnesota	\$740	26
Connecticut	\$724	26
New Jersey	\$713	26
Maine	\$693	26
Oregon	\$673	26
Illinois	\$669	26
Hawaii	\$648	26
Ohio	\$647	26
North Dakota	\$640	26
Colorado	\$618	26
Iowa	\$605	26
Pennsylvania	\$580	26
Utah	\$580	26
Montana	\$572	28
Kentucky	\$569	26
Oklahoma	\$539	26
Vermont	\$531	26
Texas	\$521	26
New Mexico	\$511	26
Wyoming	\$508	26
New York	\$504	26
Kansas	\$488	16
Nevada	\$469	26

State	Weekly Benefit	Weeks
Arkansas	\$451	16
California	\$450	26
Idaho	\$448	20
District of Columbia	\$444	26
Alaska	\$442	26
Nebraska	\$440	26
Maryland	\$430	26
South Dakota	\$428	26
New Hampshire	\$427	26
West Virginia	\$424	26
Delaware	\$400	26
Indiana	\$390	26
Virginia	\$378	26
Wisconsin	\$370	26
Georgia	\$365	20
Michigan	\$362	26
North Carolina	\$350	12
South Carolina	\$326	20
Missouri	\$320	20
Alabama	\$275	26
Florida	\$275	12
Tennessee	\$275	26
Louisiana	\$247	26
Arizona	\$240	26
Mississippi	\$235	26

THE ROAD TO ECONOMIC RECOVERY

Perhaps more important is that the state's system does not sufficiently account for time worked. Massachusetts is the only state in the country that does not require a minimum amount of time worked both to determine UI eligibility and to calculate weekly benefit amounts. To be eligible for UI benefits in Massachusetts, a worker must have earnings of 30 times their weekly benefit amount during the one-year base period, and a minimum of \$5,100 in wages during that period. The weekly benefit amount is calculated as 50 percent of an individual's average weekly wage, plus \$25 per dependent up to half of the individual's weekly benefit amount (average is based on quarter(s) with highest wages). Because neither formula accounts for time worked, the UI system does little to promote attachment to the labor force and enables misuse.

While structural issues meant Massachusetts was not prepared for the extent of job losses stemming from the COVID-19 economic shutdown, other states were ready. Table 2 compares Massachusetts' eligibility and benefit calculation formulas to several other states of similar size and composition. Each of these states had a trust fund prepared for economic crisis while still offering some of the most generous benefits in the country. A key difference from Massachusetts is that each of these states account for time worked in determining eligibility, benefits, or both: Washington averages two quarters worth of earnings to determine benefit amounts and both Oregon and Utah require earned wages in two separate quarters of the year-long base period.

Recommendations

Reforming the state's UI system should be a priority for the Commonwealth during the economic recovery, and Massachusetts can learn from other states and their successful management of UI systems.

Include a requirement that workers register a minimum amount of time worked to be eligible for benefits or include time worked in benefit calculations. Unemployment insurance is meant to be a safety net for the workforce, and not relied upon as a long-term source of income. But without requiring a minimum time worked for either eligibility or benefit calculations, the system can be misused, to the detriment of the broader workforce and employers. Closing this loophole would bring Massachusetts in line with every other state in the nation and is one step toward developing a resilient UI system that works for employees and employers.

Link duration period to the state's unemployment rate. Massachusetts offers the longest duration period for benefits regardless of employment levels or the strength of the overall economy. Policymakers should create an automatic adjustment to the duration period based on the state's unemployment rate. Alternatively, Massachusetts could take an approach similar to the federal government and reduce the duration period but enact temporary extensions or benefit increases if the state's employment and economic situation demands it.

THE ROAD TO ECONOMIC RECOVERY

Table 2
Eligibility and Benefit Calculations, Massachusetts vs. Comparison States

State (Trust Fund Solvency Level Rank)	Maximum Weekly Benefit Amount (Rank)	Maximum Weeks Allowed (Rank)	Eligibility Requirements	Weekly Benefit Amount Calculation
Massachusetts (46)	\$1,234 (1)	30 (1)	Earnings of 30x the weekly benefit amount during the base period, and a minimum of \$5,100 in earnings	50% of the average weekly wage, plus \$25 per dependent up to half of the individual's weekly benefit amount
Washington (22)	\$844 (2)	26 (3)	Worked at least 680 hours (17 weeks at 40 hours per week) and wages earned in the base period or alternate base period	3.85% of the average gross wages in the two highest earning quarters of the base period
Oregon (2)	\$673 (8)	26 (3)	1) Base period wages exceeding \$1,000 and total base period wages were at least 1.5x the wages earned in the highest quarter of the one-year base period OR 2) Worked at least 500 hours (12.5 weeks at 40 hours per week)	1.25% of the total one-year base period wages
Utah (9)	\$580 (15)	26 (3)	Base period wages exceeding \$3,900 and total base period wages were at least 1.5x the wages earned in the highest quarter of the one-year base period	1/26 of the wages earned in the highest quarter of the one-year base period, minus \$5