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Summary of Legislative Action on UI Solvency Assessment

Today, as part of its action on COVID-19 emergency leave legislation, the House acted to address the steep increase in the solvency assessment that employers pay as part of their Unemployment Insurance premium.

The increase in the solvency assessment is due to the sharp rise in unemployment claims resulting from the COVID-19 pandemic and legislation passed last year to ensure that COVID-19 layoffs did not adversely impact an individual employer's experience rating. The legislation assigned COVID-19 related claims to the UI solvency fund and as a result are borne by the broader employer community with initial solvency assessments due on June 1st. The legislation today included provisions to reassign COVID claims to a new UI trust fund, thus eliminating the solvency assessment spike and spreading out the cost of COVID claims over a much larger time horizon.

Solvency Assessment Fix Legislation

This legislation eliminates the steep increase in solvency assessments by transferring COVID layoff costs to a new fund that will be repaid over a longer period of time through an employer assessment and bond proceeds. This approach smooths out the immediate spike in employer assessments and prevents the deleterious impact on employer experience that occurs with a significant solvency account balance. The plan does not assume the use of any resources aside from employer surcharges and bond proceeds to cover COVID related layoff costs. However, the approach is flexible enough to allow other resources (i.e. federal relief funds) to offset the fund balance.

The Administration estimates that this plan will reduce the 2021 and 2022 solvency assessments as follows:

	Without Action	After Legislation
2021 Solvency assessment	9.23%	1.12%
2022 Solvency assessment	6.00%	0.95%

The savings of this solvency assessment reduction is partially offset by the immediate imposition of a COVID surcharge to generate $150 million in CY 2021 and $250 million in CY 2022. Beginning in 2023, these employer surcharges would begin to service the debt on up to $7 billion in bonds to repay federal UI advances, and provide UI fund solvency. The surcharge is likely to increase after 2022, but the amount is not set forth in the legislation.

Even with the new COVID surcharge, the legislation will significantly reduce employer UI rates in 2021 to levels much closer to those paid in 2020.

Specifically, the new language:

- Creates a new 'COVID Employer Relief Account, within the state's UI trust fund and transfers all COVID-19 related charges from the UI solvency account to it
- Expands the UI employer assessment, created to repay the UI bonds authorized in chapter 9 of the acts of 2021. Under the new language:
  - The assessment will begin in 2021 and 2022, irrespective of whether or not bonds have been issued, and terms the assessment the 'COVID Surcharge'
  - The purpose of the UI surcharge will be to pay principal, interest and administrative costs related to the UI bonds (current language) and to generate up to $400 million toward the COVID Employer Relief Fund in CY 2021 (up to $150 million) and CY 2022 (up to $250 million)
    - The COVID Employer Relief Account fund will be credited with the $400 million in assessment revenue as well as bond proceeds
- Establishes August 1st as the date upon which the current practice of charging COVID_19 layoff costs to the Solvency Account/COVID Relief Account would end and new layoffs, even if COVID-19 related, will be charged to the employer's account.
- Any negative balance in the COVID Employer Relief Account as of 9/30/2022 would be recovered through the normal rate setting process.

Bottom Line

The language included in today's COVID leave bill addresses the immediate problem of the spike in employer solvency assessments, currently due on June 1st. By separating COVID claims from the solvency account, employer payments in 2021 and 2022 will be reduced and the costs associated with the pandemic can be spread out in line with payments to repay UI bonds, authorized earlier this year.

The new language does not direct any federal or state resources to offset employer UI costs related to COVID, but leaves open that possibility. The changes summarized here are an important step in managing COVID disruption to the UI system, but additional actions are necessary to offset costs for employers.