



PENNSYLVANIA

August 4, 2015

Chairwoman Baker, Chairwoman Tartaglione, and members of the committee, thank you for the opportunity to testify today. My name is Neal Leshner and I am the Legislative Director for the National Federation of Independent Business (NFIB) in Pennsylvania.

The NFIB is Pennsylvania's leading small business organization representing nearly 15,000 small- and independent businesses in the commonwealth and roughly 350,000 nationwide.

NFIB members represent virtually every sector in Pennsylvania's economy. A typical NFIB member employs five or fewer workers and generates gross sales of \$400,000 per year.

The purpose of today's hearing is to discuss the changes that were made by the legislature in enacting Act 60 of 2012 and the particular impact Act 60 has had on seasonal workers. In order to have a full discussion on this matter, I believe it is important to discuss the history that ultimately led to the passage of the act, the comprehensive reforms included in the act, and the current solvency status of Pennsylvania's UC Trust Fund.

History

During and after the recession of 2008-2009, Pennsylvania racked up a large deficit in the UC Trust Fund which ultimately was borrowed from the federal government. In just a two year period, between the 2nd quarter of 2008 and the 2nd quarter of 2010, what was a \$1.7 billion surplus became a \$3 billion deficit. By the time Act 60 was passed, Pennsylvania owed nearly \$4 billion to the federal government.

The imbalance that existed in Pennsylvania's unemployment compensation system led the state to the third highest deficit of any state in the nation. In 2011, Pennsylvania was 2nd, only to California, in the amount of benefits paid out of the system despite an unemployment rate below the national average. Inaction to address this fiscal crisis would have meant crushing tax increases on Pennsylvania employers at a critical time for rebuilding Pennsylvania's economy.

Act 60 Reforms

After four years of negotiations and intensive work by a wide coalition of stakeholders, Act 60 passed the General Assembly with bipartisan votes in both chambers. The act contained a two-part solution aimed at addressing the insolvency of the fund by: (1) refinancing the outstanding debt; and (2) addressing the structural insolvency of the fund through reforms.

The General Assembly authorized the commonwealth to refinance the outstanding debt through the issuance of private bonds, which closed at the low fixed rate of 1.29 percent, saving employers approximately \$150 million in interest payments compared to the federal repayment structure. The debt service on the bonds is paid through the Interest Factor, which is capped at 1.1 percent of the state taxable wage base. This additional assessment will continue to be paid until 2019 when the bonds are scheduled to be repaid.

Act 60 also made several changes aimed at addressing the structural insolvency of the fund through reforms intended to bring benefit payments in line with the system's ability to pay those benefits, and realign how state UC taxes were calculated. The act made numerous changes including:

- Providing for a decrease in the State Adjustment Factor from 1.5 percent to 0.75 percent while increasing the taxable wage base from \$8,000 to \$10,000 over a six year period;
- Adjusting benefit eligibility by requiring a larger portion of the base-year wages be earned outside the highest quarter of earnings, increasing the threshold from 37 percent to 49.5 percent;
- Eliminating fixed benefit durations and instituting a rule that ties one week of benefits for each credit week earned over 18 weeks in the base year, capped at 26 weeks;
- Capping the maximum weekly benefit rate at \$573 through 2019;
- And, extending additional solvency triggers until the fund reaches 250 percent solvency, including additional tax, employer surcharge, employee tax, and benefit reductions.

Solvency Status of Pennsylvania's UC Trust Fund

According to the Pennsylvania Department of Labor and Industry (L&I), the balance in the UC Trust Fund on March 1, 2015 was \$392,081,421 (note: this does not take into account the outstanding balance of the employer financed bond which stood at \$2.24 billion at the beginning of this year). L&I estimates that based on current projections, the UC Trust Fund will not reach 250 percent solvency until 2024. This is the rate that needs to be achieved before the additional solvency measures, including additional tax, employer surcharge, employee tax, and benefit reductions, expire.

The U.S. Department of Labor also recommends an Average High Cost Multiple (AHCM) of 1.0, a measure that is widely viewed as a responsible standard for measuring the fiscal health of state's UC Trust Funds. AHCM compares the state trust fund balance to the average of the three highest years of benefit payments. According to the US Department of Labor, Pennsylvania's AHCM value as of 12/31/14 was 0.12 percent, among the lowest rates in the nation.

Pennsylvania's UC Trust Fund is nowhere near out of the woods. As we learned just a few years ago, when the fund ran a \$4.7 billion deficit in just two years, we could easily find ourselves billions of dollars in debt again with one economic downturn.

Act 60 was a comprehensive strategy that included the input of a broad coalition of stakeholders. We cannot afford to begin pulling the act apart piece by piece just a few years later without making corresponding reductions to benefits to ensure the solvency of the fund. The requirement that an individual have at least 49.5% of wages outside the high quarter is fair and not inconsistent with other states' practices.

Again, I appreciate the opportunity to testify and would be happy to answer any questions you may have.