

R.I. Officials Weigh Major Overhaul Of Unemployment Law

By Neil Downing
Journal Staff Writer

PROVIDENCE — State officials are considering a plan that would overhaul Rhode Island's unemployment law for the first time in more than a decade.

The plan comes amid a financial crisis involving Rhode Island's unemployment trust fund, which typically gets its money from a tax on employers and pays benefits to laid-off workers.

The plan, presented to a state advisory board last week, would reverse certain provisions of a law enacted in 1998 that lowered the state unemployment tax for employers, saving them a combined total of \$500 million over the following 10 years.

But those same provisions also left the state's trust fund more vulnerable to an economic downturn: Because there were fewer dollars flowing into the fund, there was less money available to pay benefits. Thus, the fund eventually was depleted, as unemployment rose and demand for benefits soared.

Through March 25, the fund has had to borrow \$194.98 million from the federal government to help cover benefits.

On Monday, the state advisory board is scheduled to vote on a plan that has one overriding objective, said state economic development director Keith Stokes: to restore the trust fund to solvency.

The aim is to pay off the trust fund's debt over time while gradually building the fund's balance so it would be in a stronger financial position to weather future economic downturns.

To do that will require "a delicate balance," said the advisory board's chairman, William C. McGowan. "The balance is [between] keeping the benefits coming for those who need them ... and businesses [that] are also struggling to survive," said McGowan, business manager for the International Brotherhood of Electrical Workers union, Local 2323.

Part of the plan would alter the way that employers are taxed. For example:

- Employers typically pay state unemployment tax based on a certain amount of each worker's wages, a figure known as the taxable wage base. Under the plan, the wage base would rise more quickly than it otherwise would. (The plan would link the wage base to increases in the statewide average annual wage, instead of to the trust fund's balance.) The wage base is now \$19,000, the highest allowed by state law. Under the plan, it could rise to \$19,800 for 2012, and gradually increase to \$24,600 for 2020.

- Certain employers who, together, account for the largest overall draw on the state trust fund would have to pay more tax. For 2008, for example, these employers paid \$29.9 million in state unemployment tax, while their laid-off workers collected \$70 million in benefits, state labor agency figures show. Among the employers in this category are certain construction firms whose employees collect benefits when they are laid off for the season. The plan would set the taxable wage base for these employers \$3,000 higher than for other employers.

The plan would also change the way jobless benefits are calculated — not for those currently collecting, state officials stressed, but for those who file claims for benefits in the future. For example:

- The plan would generally freeze, for a few years, the maximum weekly benefit at the level to be set on July 1, 2011. After that, it would rise along with average wages, but at a slower pace than under the current formula.
- Rhode Island's unemployment benefit formula is generally designed to replace 60 percent of a laid-off worker's average weekly wage. Under the plan, jobless benefits would replace 50 percent of lost wages.

Overall, said state labor agency director Sandra M. Powell, "This is painful. I mean, we're talking about raising taxes and reducing benefits."

McGowan said, "I think what we have here is a compromise, maybe a middle-of-the-road approach. It's painful. It's painful on both sides. [But] I've yet to see any alternatives."

Even if approved by the advisory board, the plan would still require changes in state law.

Governor Carcieri "supports a plan that shares the pain and one that brings Rhode Island in line with its neighbors," said his spokeswoman, Amy Kempe.

"It is critical that the state return the trust fund to solvency and reform the system [in a way] that will allow for greater sustainability during future economic downturns and recessions," she said.

State Rep. Steven M. Costantino, D-Providence, head of the House Finance Committee, said, "There has to be a resolution so that the trust fund is healthy." He has not taken a position on the plan, but said that employers and the unemployed have a role to play. "If there is pain to be had, it should be shared," he said.

Rhode Island's trust fund problem is not unusual, said George M. Wentworth, policy analyst for the National Employment Law Project, a New York-based group that focuses on workplace policy issues.

"Our view is, a lot of state trust funds were not adequately prepared for this recession," he said.

The Rhode Island plan generally includes two changes for the employer tax raising \$7.1 million a year in revenue, and seven changes involving benefits that would result in about \$48.4 million a year in savings when fully implemented.

Wentworth said that too many of the changes involve benefits. "We don't think it's fair to balance the trust fund on the backs of unemployed workers," he said.

(State officials briefly considered levying a new tax on workers to help bolster the trust fund, but "It's not a direction that we're looking to go at this particular time," said Raymond A. Filippone, assistant director of the state labor agency who oversees unemployment programs.)

The advisory board last week approved a separate but related plan involving interest payments on the trust fund's federal debt.

Under current law, Rhode Island employers will have to pay a 0.3 percent surtax starting next year because the trust fund is insolvent.

The proposal approved by the board would essentially divert the 0.3 insolvency surtax into a separate account within the state's Job Development Fund, with the resulting revenue dedicated to paying interest on the federal debt, and possibly some principal.

BY THE NUMBERS Rhode Island jobless figures

12.7%

Rhode Island unemployment rate, third highest in the nation, behind Michigan (14.1%) and Nevada (13.2%).

73,200
Number of Rhode Island residents officially counted as unemployed and actively seeking work.

\$194.98 million
Amount the Rhode Island unemployment trust fund has borrowed from the federal government to help pay benefits to the unemployed, as of March 25.

\$37.8 billion
Total amount borrowed by bankrupt trust funds in 32 states and U.S. Virgin Islands to help pay jobless benefits.

Source: U.S. Bureau of Labor Statistics; Rhode Island Department of Labor and Training; U.S. Department of Labor.

ndowning@projo.com