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DEPUTY DIRECTOR

STATE OF HAWAIʻI
KA MOKUʻĀINA O HAWAIʻI
DEPARTMENT OF LABOR AND INDUSTRIAL RELATIONS
KA ʻOIHANA PONO LIMAHANA

February 6, 2025

To: The Honorable Jackson D. Sayama, Chair,
The Honorable Mike Lee, Vice Chair, and
Members of the House Committee on Labor

Date: Thursday, February 6, 2025
Time: 9:00 a.m.
Place: Conference Room 309, State Capitol

From: Jade T. Butay, Director
Department of Labor and Industrial Relations (DLIR)

Re: H.B. 202 RELATING TO THE ADEQUATE RESERVE FUND

I. OVERVIEW OF PROPOSED LEGISLATION

The measure seeks to amend the definition of “adequate reserve fund” for calendar years 2026 to 2030 while preserving the exclusion for the COVID-19 Pandemic.

For calendar years 2026 to 2030, the "adequate reserve fund" will be calculated by multiplying the highest benefit cost rate from the past ten years (excluding June 2020–August 2021) by total employer remuneration from the last four calendar quarters, then applying a multiplier of one and one-quarter for years 2026 to 2027 and one and one-half for years 2028-2030.

The DLIR supports this measure and respectfully requests amendments.

II. CURRENT LAW

The Benefit Cost Rate (BCR) is the total benefits paid during a consecutive twelve-month period divided by wages for a twelve-month period.

The Adequate Reserve Fund is a benchmark that equals the highest BCR during the most recent ten years times total wages for the last completed fiscal year ending June 30. The calculation of the Adequate Reserve Fund is designed to ensure there are enough reserves in the UCTF to pay Unemployment Insurance (UI) benefits.

The Adequate Reserve Fund is used as a measure of the solvency of the UCTF and to determine the UI tax schedule: the ratio of the Current Reserve divided by the Adequate Reserve determines which UI tax schedule is in effect for a calendar year (Current Reserve/Adequate Reserve).

Ratio = Current reserve/adequate reserve

Ratio CR/AR	Tax Schedule
1.69 +	A
1.3-1.69	B
1.0 to 1.29	C
0.80 to 0.99	D
0.60 to 0.79	E
0.40 to 0.59	F
0.20 to 0.39	G
< .20	H

An employer's state unemployment insurance tax rate is computed once a year based on the employer's reserve ratio and the tax schedule in effect for the year.

III. COMMENTS ON THE HOUSE BILL

The DLIR supports this measure as it safeguards the health and long-term stability of the UCTF. The DLIR respectfully requests that the "adequate reserve fund" be calculated using a multiplier of one and one-quarter for calendar year 2026, increasing to one and one-half starting in calendar year 2027, and maintained at one and one-half permanently.

When Section 383-63, HRS, was originally drafted, guidance from the United States Department of Labor (USDOL) was used to determine that the "one and one-half times" multiplier was the minimum amount needed to withstand a severe spell of unemployment at the time. However, around 2010, the multiplier was decreased to a factor of one, which negatively impacted the UCTF's reserve balance.

The COVID-19 Pandemic caused an unprecedented surge in unemployment across Hawaii, rapidly depleting the UCTF and forcing the State to borrow approximately $700 million from the USDOL. Informal analyses suggest that if the one and one-half multiplier had remained in place, the UCTF would not have been as negatively impacted as it was.

Throughout the COVID-19 Pandemic, the DLIR supported employers by advocating for and implementing measures that became Act 1, SLH 2021, and Act 281, SLH 2022. These acts provided both immediate and sustained relief to employers.

Although the UCTF has since rebounded from the impacts of the COVID-19 Pandemic and the Maui Wildfires, restoring the original one and one-half multiplier is essential. The DLIR believes that this phased approach will strengthen the UCTF's financial resilience, ensuring that the UCTF is prepared for future economic crises, and protect Hawaii's workforce during unexpected hardships while minimizing the impact on employers.

LEGISLATIVE TAX BILL SERVICE

TAX FOUNDATION OF HAWAII

735 Bishop Street, Suite 417 Honolulu, Hawaii 96813 Tel. 536-4587

SUBJECT: UNEMPLOYMENT, Amends Formula to Increase Adequate Reserve Fund Temporarily

BILL NUMBER: HB 202

INTRODUCED BY: SAYAMA, LEE, M., TAKENOUCHI, YAMASHITA

EXECUTIVE SUMMARY: Amends the definition of "adequate reserve fund" for calendar years 2026 through 2028.

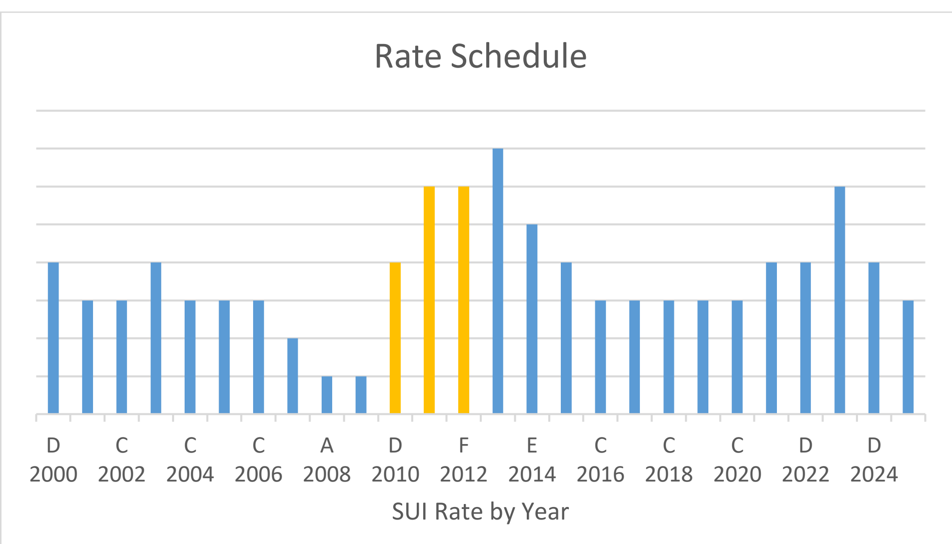
SYNOPSIS: Amends section 383-63, HRS, definition of "Adequate reserve fund" to mean an the amount that would be the adequate reserve fund under existing law, times

1) 125% for calendar years 2026 through 2027; and
2) 150% for calendar years 2028 through 2030.

EFFECTIVE DATE: January 1, 2026.

STAFF COMMENTS: State unemployment insurance (SUI) is largely funded by employers. Most employers are charged tax that depends on two things: the overall health of the fund into which SUI tax is collected, and the claims history of the employer. So, an employer with a long history of chargeable claims, for example, will pay more than others. Also, if there is lots of money built up in the fund then the tax rate goes down for everyone.

The health of the fund determines the proper tax rate schedule. The schedules are named after a letter of the alphabet, with A the least costly schedule and H the most expensive. The fund health is measured at the end of the year, and that measurement is used to set the rate for the following year. Here is a chart of the SUI rate schedule for the past 25 years:



Source: DLIR Reports compiled by Tax Foundation of Hawaii.

Although the Great Recession of 2008 and related events caused the fund to run out of money and we needed to borrow around $180 million from Uncle Sam, employers were not subjected to the dreaded Schedule H because our lawmakers passed special legislation to control the SUI rates and override the normal formulas for the years 2010 through 2012 (the orange bars in the diagram). That also happened for 2021, where Act 1, SLH 2021, set the rate at Schedule D for 2021 and 2022.

The change requested in this bill artificially increases tax rates by inflating the target for the reserve fund by 25% or 50% while, of course, the amount of money in the actual fund does not change.

To illustrate what happens if the bill takes effect, suppose the current unemployment reserve fund in Hawaii is $200 million (which is what it was in November 2022). Also suppose that the adequate reserve fund, calculated under existing law, is also $200 million. Under section 383-68(d), HRS, we would have a ratio of current to adequate reserve fund of 1.00 and employers would have a contribution rate schedule of C. That rate schedule is somewhat normal for us, as we had this schedule in effect for 11 of the past 25 years. That would correspond to a SUI tax for new employers (with a zero reserve ratio) of 2.4% of taxable wages.

If we are in the period 2026 through 2027, the adequate reserve fund is artificially raised to $250 million. That would make the ratio of current to adequate reserve fund drop to 0.80 and employers would have a contribution rate schedule of D. That would correspond to a SUI tax for new employers of 3.0% of taxable wages.

If we are in the period 2028 through 2030, the adequate reserve fund is artificially raised to $300 million. That would make the ratio of current to adequate reserve fund drop to 0.67, placing employers with a contribution rate schedule of E, and our new employer would receive a tax rate of 3.4% of taxable wages.

Is this really what we want?

Digested: 2/4/2025