Unemployment Compensation Consultants, Analysts and Specialists – Since 1943
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Testimony submitted on behalf of Interstate Tax Services, Inc., its clients and the Employer Community as a whole.

Senate Labor Committee hearing – effects that changes to the PA UC Law have had on seasonal workers

Presented by:

Geoffrey D. Moomaw
President

Chairwoman Baker, Chairwoman Tartaglione and members of the Senate Labor & Industry committee, I wish to thank you for the opportunity today to present testimony regarding the effects that Act 60 of 2012 has had on seasonal workers under the PA Unemployment Compensation (UC) Law (Act)

First, some background on me and my firm. My name is Geoff Moomaw. I'm President of Interstate Tax Service, Inc., a registered PA corporation and we have been representing PA employer in the field of UC since 1943. My sister and I are the 3rd generation of our family to own and operate the firm and we currently represent about 2,000 PA employers. My grandfather, Paul C. Moomaw was the

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primary sponsor of the original UC bill passed by the General Assembly in December, 1936. In fact, he was the Democratic chairman of the House Labor Committee at that time.

The topic of conversation is the amendments to Section 401(a) of the Act, which increased the amount of base year wages that must be earned outside of the highest quarter in the Base Year Period (BYP) from 20% to 49.5%. This calculation is part of the process in determining an individual's financial eligibility under the Act. Financial eligibility is step one when filing for UC benefits. Think of it in this manner, an individual must be financially eligible to enter the UC system. If they are NOT financially eligible, then the UC office will not even ask if they are able and available for work or WHY ARE YOU UNEMPLOYED. There are other provisions regarding financial eligibility, but it is my understanding that Section 401(a) is the hot topic.

Does anyone desire an explanation of the BYP term or financial eligibility in general?

Please note that Act 60 of 2012 didn't amend only Section 401(a) of the Act, it amended many sections. Act 60 was passed to address the financial solvency of

the PA UC Fund (Fund). Effective, June 30, 2000, the PA UC Fund balance was $2.8 **billion**, by June 30, 2011, the Fund balance was $40 **million**, but $3.3 billion in Federal loans were outstanding[1]. Thus, in my eyes, effective June 30, 2011, the Fund balance was negative $3.26 billion. The Fund balance fortunately is trending up and as of June 30, 2014, the Fund balance was $540 million, but the UC bond balance was $2.2 billion. We believe that the changes of Act 60 & Act 6 of 2011 have significantly contributed to this improvement in the Fund balance.

Act 60 addressed the issue of solvency from both sides of the equation; benefits paid to employees and employer taxes. Tax issues within Act 60 appear below.

- Increased the taxable wage base on which employers pay their UC contributions from $8,000 to $10,000 incrementally through calendar year 2018.
- Triggers mechanisms exist in the law to add additional taxes on the employer depending on the Fund balance when compared to the prior 3 years of benefits paid. This is called the Solvency Percentage.

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[1]Data regarding PA UC Fund balance obtained from the Actuarial Evaluation 2014 report issued by L&I (see page 58).

- For calendar year 2013 through the **year when all debt is paid off;** if the solvency percentage is less than 250%, the Employer community will pay $325 million per year through additional taxes
- For years **in which all debt is paid off,** if the solvency percentage is less than 250%, the Employer community will pay $448 million per year through additional taxes.

We draw your attention to the 250% solvency percentage. This figures was a significant increase. Previous to Act 60, if the solvency percentage was 150% of greater, the employer was actually assessed a negative surcharge. This last occurred in calendar year 2002 and it was assessed at negative 1.4%. Thus, if an employer's basic tax rate computed to 5.7%, their total tax rate was .056202 (.057 x .986 = .056202). If the solvency percentage was between 125% but less than 150%, then there were no additional taxes. Once the solvency percentage was below 125%, then additional taxes were imposed. As a result of Act 60, additional taxes will be charged against the employer until such time that the solvency percentage exceeds 250%. Prior to Act 60 that threshold was at 125%.