



In March the Cape May County Chamber of Commerce Board of Directors voted to support the Unemployment Insurance Reform plan proposed by Governor Christie which calls for reducing unemployment benefits in order to avoid increased UI burdens on employers of up to \$1100 per employee. Governor Christie's plan would reduce these increases from 52% without any reforms on July 1 to 17%.

Recently we received the letter below from the Commissioner of Labor. While there is a "fix" bill running through the legislative process, the Governor's proposal is the optimum solution for the business community and is supported by the NJ Chamber of Commerce and the Business and Industry Association.

We encourage you, if you are so inclined, to communicate with legislative representatives and the Governor's office. The full text of the Letter from Commissioner Wirths follows.

Sincerely,

Vicki Clark, IOM President  
Cape May County Chamber of Commerce

## Governor Christie's Unemployment Fix

As you are aware, New Jersey's unemployment compensation system is in crisis, Nearly 475,000 New Jerseyans are currently collecting unemployment benefits and the State's unemployment rate hovers near 10%. With an unemployment insurance trust fund that has been insolvent since March of 2009, New Jersey has been forced to borrow approximately \$1.75 billion from the federal government, and the debt continues to grow each day.

While borrowing from the federal government may have been critically necessary over the past 14 months, we must be mindful that the borrowing will cause significant consequences for the business community and the State's economy. We must rein in some of these costs to quickly return the fund to solvency and avoid the long term consequences of continued borrowing.

On February 25, Governor Chris Christie proposed a plan that will do just that -return our unemployment insurance trust fund to solvency by 2014 without placing the entire financial burden on the employer. Through a combination of small benefit reductions that will maintain New Jersey's unemployment benefits at a level still more generous than most other states, the State will save over \$2 billion. These savings will translate into a reduced burden upon our already over-taxed businesses, a healthier unemployment insurance system for our State's workers, and greater opportunities for job creation in the private sector.

However, many businesses are not aware of other unemployment insurance-related financial burdens that will be imposed on businesses should the fund not return to solvency. It should be noted that the federal loans to pay unemployment insurance benefits mentioned above accrue interest. While the American Recovery and Reinvestment Act waived interest payments through the end of 2010, an interest rate of approximately 4% will begin to accrue as of January 1, 2011 . Businesses across the State will be liable for interest payments in excess of \$100 million per year starting in January of 2011 . The only responsible way to avoid making these interest payments for the long term is to reduce outlays so that additional fund revenues can be applied to loan repayment.

Furthermore, federal law provides that two years after a state initiates borrowing from the federal unemployment loan account, employers in the debtor state must begin to repay the principal. Principal loan payments are made through a graduated loss of the Federal Unemployment Tax Act (FUTA) credit available to employers. Currently, the FUTA tax is 6.2% with an offsetting credit of 5.4%, thereby yielding a net tax rate of 0.8%. For each year that a state has an outstanding loan balance, the FUTA tax credit is reduced by 0.3% until it is eliminated completely. In New Jersey, the FUTA tax penalties will be assessed against employers starting in 2011 with each increment yielding an additional \$21 tax per employee. This FUTA tax penalty can only be eliminated by quickly returning our fund to solvency.

For each year that our unemployment insurance trust fund is in deficit, New Jersey employers will be forced to pay the highest tax rates established by law. Pursuant to State law, there are five (5) columns of tax rates with column A having the lowest rates and column E having the highest rates. Employers will be paying the rates established in column E for as long as our fund is insolvent. At column E, employers pay nearly \$3.6 billion in unemployment insurance payroll taxes. If no action is taken to rein in costly benefits, the business community in this State will be paying these exorbitant taxes at column E until at least 2017.

Governor Christie's unemployment insurance reform proposal assures the long term stability of the state's unemployment insurance trust fund in a comprehensive, balanced manner. The Governor's proposal does not place an exorbitant financial burden on New Jersey employers and still maintains a level of benefits that are the 3rd highest in the nation. However, this plan needs legislative approval to move forward. I encourage members of the business community to reach out to their elected officials to express support for Governor Christie's proposal, which is outlined in bill, A-2627 (DeCrace). Unless this legislation is passed by May 31, New Jersey employers will face steep hikes in their unemployment insurance taxes and an increased FUTA tax penalty, which will delay job creation even further.

I ask that you continue to support the Governor's plan to reform and strengthen New Jersey's unemployment insurance trust fund. Please encourage your elected officials to support comprehensive UI reform before this tax increase hinders our financial recovery.

Sincerely,

Harold J. Wirths  
Acting Commissioner

*Information provided by the New Jersey Travel Industry Association and distributed by the Cape May County Chamber of Commerce.*