Illinois Businesses and Organized Labor Reach Agreement on Unemployment Insurance

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As many *eHELPS* readers know, the unemployment insurance system was created by the US Congress in 1935. As designed by the federal government, the system is funded by taxes on employers. These taxes fund the benefits to workers who are laid off thru no fault of their own. The only way to cut taxes for employers is to cut benefits for laid off workers and their dependents.

Unique to Illinois, business groups and organized labor reach agreements through an "agreed bill process" for any unemployment insurance related issues. The agreed bill process for unemployment insurance has been in place since 1984. It was created to end the wild swings that used to occur in the system - either benefit increases and tax increases or benefit cuts and tax decreases - depending on whose supporters were in control at the time. Since its inception, the process brings together representatives of labor and employers to solve problems in the system. Once agreed, the four leaders and the Governor agree to support and enact the agreement. Further, any votes in favor of the agreement are not used for campaign purposes.

After months of negotiation, a deal was reached to fund the unemployment insurance trust fund. Details of the agreement may be found in SB 1698 HA 1 include the following elements:

1. The agreement reduces employer taxes by $913M over the first 5-years.

2. State pays remaining $1.363B in Title XII borrowing. If the state pays this by December 31st, the $114M FUTA tax penalty goes into the Illinois Trust Fund and not to Washington, DC. The scenario that was agreed to includes paying the $1.363B and the $114M being deposited into the Illinois Trust Fund. Pursuant to Federal law, there is nothing we can do to change the fact the $114M FUTA penalty will occur.

3. The target balance for the Adjusted State Experience Factor (ASEF) will increase from $1.0B to $1.75B. Labor had originally asked that it be increased to $3B. Then asked for $2B. We settled at $1.75B.

4. The Taxable Wage Base (TWB) will increase over a five-year period by 2.4% per year. The TWB was last increased in 2009. Labor had asked that the TWB be increased by an average of 2.4% per year forever. They agreed to a fixed 2.4% increase per year for the first five years and then the TWB is frozen at that number. That means the TWB will increase from $12,960 to $14,592 over five years and will then be frozen at $14,592.

5. An additional $450M of state monies will be loaned, interest free, to the UI Trust Fund. These monies will help protect against the possibility of the predicted recession being deeper than expected. These monies will be paid back, interest free, by the employers over a ten-year period beginning in 2024. If in any year the June 1st Trust Fund balance is less than $1.2B, nothing will be owed that year and the payment schedule will be extended another year.

6. "Speed bumps" will be pushed back two more years. Speed bumps exist to force both sides back to the table. They are approximately $500M for each side. A $500M benefit cut for labor and a $500M tax increase for business IF no deal is reached. These speed bumps have served their purposes to-date and have never been enacted.