Employers to Save Hundreds per Employee over Next Two Years as UI Trust Fund Completes Accelerated Loan Repayment

Trust Fund forced to borrow during Great Recession to pay benefits; final payment on federal loan ensures Delaware businesses will avoid punitive increase in federal taxes

Wilmington, DE – As a result of legislation proposed by Governor Markell and members of the General Assembly in 2013, the Unemployment Insurance Trust Fund, which had been severely depleted during the Great Recession and had to borrow from the federal government to ensure benefits could be paid, today finished repaying the federal loan – saving the average Delaware employer $288 per employee in increased fees and penalties over the next two years.

If the federal loan had not been retired by November 10, 2014, Delaware employers would have owed $105 per employee in January under the Federal Unemployment Tax Act (FUTA), rather than returning to the normal pre-recession amount of $42 per employee. Without enactment of House Bill 168 in 2013, the Trust Fund would not have repaid its loan until after November 10, 2015, subjecting Delaware businesses to an even stiffer federal penalty – and a FUTA bill of $315 per employee in January 2016.

“We recognize the impact this effort has had on the business community and I want to thank them for their willingness to work with us on a solution,” said Governor Markell. “By accelerating the loan’s repayment, we have reduced the overall tax burden on our employers in the near term, and begun to restore the long-term health of our Unemployment Insurance Trust Fund so it can better support workers in difficult times. The money Delaware businesses will save means more opportunities to reinvest in their companies now, including their workforce, and more activity for Delaware's economy."

"This was a tremendous team effort including the Administration, the Legislature, organized labor, and the business community," said Sen. Marshall, a member of the Unemployment Insurance Advisory Council that approved the reform package as well as a lead sponsor of HB 168. "The end result illustrates what we can accomplish when we all work together."

The Trust Fund was able to repay the federal loan because of the revenue and savings generated by provisions of HB 168. That legislation – crafted with the assistance of representatives of both employers and employees – increased the amount of wages per employee that is subject to state unemployment tax (from $10,500 to $18,500), while also saving more than $2 million per year by implementing a one-week waiting period (through 2017) before unemployed workers can start receiving their benefits.

"This was a very difficult process, but we have finally reached the point where we can restore the full FUTA credit to the business community and begin replenishing the Unemployment Trust Fund," said Rep. Mulrooney, another member of the Advisory Council and a primary sponsor of HB 168.

Even at the higher taxable wage base, the state's cost per employee is still less than Maryland, Pennsylvania and New Jersey because of the state's low UI tax rate.

"None of us wanted to pursue this course of action," said Bob Byrd, another member of the Advisory Council, "but it simply had to be done and it needs to be remembered that these funds helped a larger number of our citizens during a most troubling economic period."

Without HB 168, an average employer would have paid $136.50 per employee in combined federal and state unemployment taxes in January 2015, and $346.50 per employee in January 2016, totaling $483 over the two years. Now, that same employer will pay $97.50 in combined taxes per year for a total of $195, resulting in a total two-year savings of $288 per employee.

"House Bill 168 was designed to bring some relief for our hardworking businessmen and women who have spent the last seven years recovering from the recession. With their support we were able to implement this legislation, which allows them to avoid onerous federal tax penalties that would have hindered their efforts to not only to survive, but to grow during these difficult economic times," said Delaware State Chamber of Commerce President Rich Heffron. "The business community's close involvement in reforming the unemployment insurance trust fund was critical to ensuring that the state's taxable wage base shrinks as quickly as possible once the Trust Fund is healthy again."

"This bill had the support of the business community and labor leaders," said Governor Markell, "because it was the most responsible way to pay off the loan early enough to ensure employers avoided the increasingly punitive spike in federal UI taxes, while also minimizing the impact on the unemployed."

As a consequence of the severity of the economic recession, Delaware's Unemployment Insurance Trust Fund was forced to borrow funds to pay unemployment benefits beginning in March 2010, reaching a high of $78 million in March, 2013. Thirty-six other states also were required to borrow money to pay benefits – eleven of those states have yet to repay their loans.

“Like most states’ UI trust funds, Delaware’s trust fund was forced by the recession to borrow money to support Delawareans who were out of work through no fault of their own,” said Labor Secretary John McMahon. “House Bill 168 has accomplished exactly what we had hoped for our employers and our workers. As the economy improves, it is critical that we put our Trust Fund back on solid footing.”