Unemployment Insurance in Massachusetts

Burdening Businesses and Hurting Job Creation

by John O’Leary and Steve Poftak

Executive Summary

High unemployment insurance taxes deter job creation and burden Massachusetts businesses. The current system also subsidizes certain workers and business sectors, at the expense of most Massachusetts workers and companies. Pioneer’s October 2006 report, Measuring Up: The Cost of Doing Business in Massachusetts, cited unemployment insurance (UI) costs as a key competitive disadvantage for Massachusetts compared to other states. Between 2003 and 2005, the average UI taxes paid by a typical Massachusetts company almost doubled. The Division of Unemployment Assistance (DUA), the state entity that oversees the unemployment insurance system estimates that in 2005, Massachusetts led the nation in UI taxes per employee—an average of $637 per employee, about twice the US average of $315 per employee. In 2006, Massachusetts’ UI taxes cost business an average cost of $629 per employee, more than twice the national average cost of $298.

The high cost of unemployment insurance in Massachusetts is driven by three key factors: subsidies paid to fund the disproportionate benefits
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paid to employees of certain industries; the ability of “frequent flier” or “serially” unemployed workers to draw income from the system; and generous benefits compared to other states.

The unemployment insurance system was intended to provide temporary income to those who unexpectedly lose their jobs through no fault of their own. However, this massive entitlement program (in 2004, it paid out $1.4 billion in benefits) has become rife with abuse and unintended consequences. Given the magnitude of the program—it projects benefit payments of $1.2 billion per year over the next four years— it demands serious scrutiny.

The unemployment insurance tax is based on each company’s prior history of tax payments in relation to benefits utilized by former employees. In other words, the more UI benefits are paid out to a company’s employees, the higher the tax rate will be for that company—but only up to a current limit of $1,530 per employee per year at the highest possible tax rate. At a maximum benefit rate of $600 per week (the highest rate in the country), it’s easy to see the incentive to utilize the system to augment wages, in certain seasonal industries.

Massachusetts’ benefit levels, which are far above the national average, add to the costs for Massachusetts businesses. There is also evidence to suggest that these generous benefits provide a disincentive to reemployment. In 2000, Massachusetts had an unemployment rate well below the national average (2.7 percent vs. 4.0 percent). However, Massachusetts’ claimants stayed on UI 19 percent longer than the national average (16.3 weeks vs. 13.7 weeks) in 2000. Despite a healthy economy, we gave out $744 million in unemployment benefits, 53 percent more benefits than the national average: $283 per covered job here vs. an average of $185 everywhere else.

The key problems with our current system are:

1) Excessive Cross-Subsidization: The cap on experience rating at -15% results in massive cross-subsidy. Firms that are consistent employers subsidize other firms that are seasonal or irregular employers.

Table 1: States’ average UI costs per employee for calendar year 2006
Source: Massachusetts Division of Unemployment Assistance

![Table 1: States’ average UI costs per employee for calendar year 2006](image-url)
2) Abuse of the Self-Triggering Mechanism: 
Unemployment insurance is meant as a social safety net for those who lose their jobs and incomes through no fault of their own. The ability for the self-employed or firm owners to “lay themselves off” is an abuse of the system.

3) Frequent Fliers: Too many individuals repeatedly and consistently apply for unemployment insurance. In many instances, the applicant has a number of consecutive applications per year. This has the effect of turning a social safety net into an ongoing wage supplement for a select number of workers.

4) High Benefits: A significant cost driver for unemployment insurance in Massachusetts is the generous benefit package. Massachusetts has the shortest period for individuals to qualify for insurance, the longest payout period, and the highest level of cash benefits in the nation.

The authors suggest the following reforms:

1) Increase the experience rating factor. By increasing the maximum tax that could be imposed on companies that make heavy use of UI, the state could reduce the subsidy of seasonal enterprises, especially in the construction and tourism sectors, by employers in other sectors. These subsidies exceeded $312 million in 2005, much of that to ongoing businesses that effectively use UI as a wage subsidy for their workforce.

2) Limit Repeated, Serial Utilization of Unemployment Insurance. Support reforms at the federal level to restrict eligibility for UI for those workers who have received benefits in four consecutive years, or received benefits in seven years over a ten year period

3) Expose and Prevent Self-Triggering. Set a higher standard of scrutiny for repeated applications for benefits. Applicants would have to demonstrate that the business in question actually closed, rather than performing a cosmetic “layoff” to enable benefit collection.

4) Enhance the DUA’s anti-fraud powers. The DUA should have the ability to garnish wages in established fraud cases in which a court judgment has been rendered. Currently, DUA uncovers millions of dollars in fraud that it cannot collect.

5) Align benefit levels more closely with those of other states. Bringing benefits closer to national averages, in terms of time, eligibility, and/or payment levels, would reduce unemployment insurance taxes and discourage gaming of the system.

1. A Primer on the Massachusetts Unemployment Insurance System

The Employers’ Role

Unemployment insurance in Massachusetts is funded through taxes on payroll paid by employers into a trust fund administered by the state. The tax on an employer is determined by applying a tax rate, which is determined through the application of an experience rating to a tax schedule, to the employer’s taxable wage base.

The unemployment insurance tax rate is based on the “experience rating” which determines the tax level for a firm. Experience rating is based on the level of benefits paid to a firm’s former workers, and is computed differently by different states.

Thirty-three states use a reserve ratio system, in which the state sets up a notional account for each firm. This account takes in the firm’s tax contributions and debits the benefits paid to former employees. The reserves from each year are carried forward, and the cumulative total of these reserves is divided by a measure of wages paid by the firm to determine the firm’s reserve ratio. This ratio is then applied to a graduated tax schedule
to determine the level of tax applied, utilizing the basic principle that a lower reserve ratio (i.e. where more tax contributions are being distributed to former employees in the form of benefits) results in generally higher tax rates.

Seventeen states calculate the experience rating with the benefit ratio approach. The benefit ratio is calculated by dividing the benefits paid out to a firm’s former employees, over a specific period, by the total wages for the same duration. This ratio is then applied to a tax schedule, utilizing the general principle that a higher benefit ratio (i.e. a greater proportion of the company’s wage base is paid out in benefits), results in a higher tax rate.¹

Massachusetts utilizes the reserve ratio approach to determine experience ratings. However, it caps both ends of the ratio scale. Regardless of actual ratio (i.e. the actual relationship between taxes paid and benefits received), the ratios utilized for the calculation of unemployment insurance taxes cannot be greater than 16% or less than -15%. This has the effect of limiting the potential liability of certain firms with high levels of benefit collection by former (and some future) employees. This approach also means that Massachusetts demands contributions from firms whose former employees rarely, if ever, collect benefits. (Later sections of this Policy Brief will explore the consequences of the caps on both ends of the experience rating system.)

The experience rating is applied to a set of tax rates. In Massachusetts, the tax rate is broken down into a series of schedules, labeled “A” to “G”. The schedule in effect in a given year is determined by the solvency of the trust fund that collects unemployment taxes. Schedule D was in effect for 2006 and ranges from a tax rate of 10.96% for those with the lowest reserve ratio to 1.12% for those with the highest reserve ratio. The range of schedules is designed to increase the tax levels, across various experience ratings, when the fund’s assets drop. Table 2 shows the variation in rates across the various schedules.

Table 2: Schedules of UI contribution rates

NOTE: In Table 2, the “spike” in Schedule B is the result of a drafting error in legislation. It is expected that future legislation will correct the error.

The Schedules’ intent is to ensure that the fund always has enough assets to pay benefits, but it also creates a paradoxical effect. During the period following an economic downturn that produces job losses—and increased disbursement of unemployment benefits—the graduated tax system raises taxes on employers, adding an additional cost per employee.

Compared to other states, Massachusetts has relatively high tax rates for companies with high experience ratings (indicating strong reserve ratios and little usage of benefits), as well as those with low experience ratings. Thirty-one states or territories had lower minimum rates for companies with the highest experience ratings. Several states had a minimum tax rate at or close to zero—Delaware (.1%), Florida (.001%), Iowa (0%), Mississippi (.1%), Missouri (0%), North Carolina (0%), North Dakota (.1%), Ohio (.1%), Texas (0%), Utah (.1%), Virgin Islands (.1%), and Wyoming (0%)—compared to Massachusetts’ 2006 minimum rate of 1.12%. In plain terms, other states tax companies that rarely use UI at much lower rates.

In 2006, no state had a higher maximum tax rate than Massachusetts. 5

The tax rate, as determined by experience rating and tax schedule, is then applied to an employer’s taxable wage base. In Massachusetts, the taxable wage base is the first $14,000 of wages paid to each employee. Thirty-two states have a lower taxable wage base than Massachusetts.

The Benefit Side of UI

Massachusetts has among the highest benefit amounts and longest duration of any state UI program. In addition, Massachusetts has the least stringent eligibility standards for individuals to collect UI.

To be eligible to collect, an individual must be an employee in a “covered” job. Most jobs are covered, with only a handful of exceptions. For example, employees of some religious organizations, elected officials, real estate brokers who work entirely on commissions, employees of educational institutions, and some independent consultants are not eligible.

Those who are in covered jobs must satisfy two conditions to collect UI.

First, they must demonstrate sufficient “workforce attachment” in terms of earnings. In other words, an employee needs to have worked at the company long enough to be considered “attached” to the employer. Second, their reason for separation from the employer must meet certain criteria.

In terms of workforce attachment, Massachusetts once again has one of the lowest minimum requirements. In order to be eligible for UI, an individual needs to have only earned “15 weeks’ worth” of wages, not necessarily 15 weeks of actual work. It is important to note that although 15 weeks’ worth of wages might qualify an individual for UI, it is unlikely that someone with only 15 weeks’ worth of earnings would qualify to collect for the entire 30-week maximum duration of benefits.

Massachusetts has a unique “base period,” that is, the timeframe which is reviewed to determine eligibility. All 49 other states define the primary base period as the first four of the last five completed calendar quarters preceding the date of the claim. Massachusetts, on the other hand, defines the primary base period as the last four completed calendar quarters, allowing for the use of more recent earnings. Due to inflation, this base period tends to include slightly higher wages.

Moreover, Massachusetts allows for the most liberal “alternate base period.” In Massachusetts, for example, if you have earnings in only one or two quarters, you are allowed to calculate your average weekly wage by taking your earnings in the highest
single quarter and dividing by 13. This has the
effect of raising the weekly benefit amount someone
would be eligible for, meaning that benefits are
exhausted more quickly.

Massachusetts also defines reasons for separation
much more loosely than other states. Individuals
are not eligible if they leave their job without cause
or are fired for misconduct. However, in addition
to layoffs and other involuntary separations,
individuals may be eligible to collect UI if
they leave their jobs for “urgent, compelling or
necessitous reasons” unrelated to their employer, or
if they are participating in certain types of organized
work actions (strikes) as part of a collective
bargaining action.

**Benefit Eligibility Example**

Sally works as the manager of a store on Cape
Cod and earns $15,000 over 15 weeks. Her
average weekly wage is $1,000. Because
she earned 15 weeks’ worth of wages, she is
indeed eligible for UI. In most states, Sally
would not be eligible to collect any UI, as most
states require 20 weeks’ worth of work to meet
minimum eligibility requirements.

Sally’s benefit amount would be limited to
36% of her total earnings during the base
period—in this instance, 36% of $15,000, or
$5,400. Sally would be eligible to collect $500
per week for 10.8 weeks. (Her 11th check
would be for only $400.)

**2. Previous Reform Efforts: Solving
Half the Problem**

The most recent reforms of unemployment
insurance occurred in 2003. At the time, the UI
Trust Fund was facing imminent insolvency. In
2003, the Private Contributory UI Trust Fund
brought in $808 million while disbursing benefits of
$1.677 billion, a deficit of $869 million.

Governor Mitt Romney proposed several changes to
UI law, reducing the maximum number of weeks of
eligibility from 30 to 26; increasing the workforce
attachment requirement from 15 weeks’ worth
of work to 20; creating a new experience rating
chart; boosting overall UI taxes; and implementing
stronger anti-fraud measures.

The final legislation resulted in a new experience
rating chart, a huge boost in UI taxes, and some
watered-down anti-fraud measures. Governor
Romney allowed the bill to become law without
his signature in November of 2003. In essence, the
Legislature had addressed half of the UI problem by
increasing UI taxes without reducing UI benefits.

When the full effect of the law went into place, UI
taxes had jumped from their 2003 level of $808
million to over $1.5 billion in 2007. A burden on
business that had been heavy in 2003 had become
oppressive by 2007, and it is projected to remain so
for years to come. Contributions are projected to be
$1.6 billion in 2008, declining somewhat to $1.375
billion in 2009.

Contribution rates are projected to exceed benefit
payouts for the foreseeable future, resulting in an
expansion of the privately contributed balance of the
Unemployment Trust Fund by almost $750 million
from 2007 to 2011, resulting in a fund balance in
excess of $2 billion. A positive fund balance allows
the Trust Fund to weather economic downturns
when payouts exceed contributions.

**3. Persistent Problems**

**Cross-Subsidies**

Cross-subsidies are a normal part of insurance.
For example, the premiums from healthy holders
of health insurance subsidize medical care for the
unwell. This system works because all participants
understand the role of the subsidy and almost no
one attempts to collect unnecessary health insurance
benefits. By contrast, thousands collect UI benefits
for reasons other than unexpected job loss.
Cross-subsidies in unemployment insurance reflect a persistent pattern of subsidies for the employees of a few specific industry sectors. All other employers support the disproportionate payouts to employees in those sectors. This is caused by perverse economic incentives that limit the total amount of unemployment taxes paid by frequent users of the system.

This does not appear to result from a deliberate policy judgment, as the subsidy of some businesses by others is not the intended purpose of unemployment insurance.

To demonstrate the extent of this subsidy, the following section examines data from 2006 unemployment claims, reviews recent research reports on the topic, and examines claimant data.

As demonstrated by Table 3, the largest category of UI claimants is in construction. Other significant industries include administration & waste management, manufacturing, and retail.

A review of nine major cross-subsidization studies, examining data from a number of states between 1968 and 1999, confirms the above pattern. In each case, the construction industry was a recipient of subsidies under the unemployment insurance systems of all states examined. Eight of the nine studies found the finance, insurance, and real estate industries to be net payers of subsidies.8

Table 3: UI claimants by industry sector

Source: Division of Unemployment Assistance, Unemployed Insurance Claimant Profiles, last accessed 12/12/07
One Massachusetts-specific study found that over 35% of firms in the construction and agriculture industries paid the maximum UI tax rate in 1995, indicating these firms’ employees were heavy utilizers of UI benefits. The same study also found that:

[C]onstruction is the sector of the Massachusetts economy most heavily subsidized by the Commonwealth’s UI system. For the entire 1988 – 1996 period, construction firms drew a net subsidy of over $25 per $1,000 of payroll, while employers as a whole were making a net contribution of $1.40 per $1,000. Over the nine-year period, the construction sector received 22 percent of all UI benefits and made only 9 percent of all contributions, while accounting for 5 percent of total wages paid to covered employees.  

Although unemployment insurance is funded by a tax on employers, the benefits received by laid-off employees are not necessarily paid by the employer that put them out of work. Many industries with frequent layoffs are “maximum negative” employers, meaning their out-of-work employees collect far more than the employer paid in unemployment insurance taxes.

In essence, premiums paid by companies that maintain steady employment subsidize those employers, and even entire industries, that have frequent layoffs. For certain employers, the UI system is a regular provider of a benefits package.

Table 4: Distribution of FTE equivalents by contribution rate

Source: Division of Unemployment Assistance

![Graph showing distribution of FTE equivalents by contribution rate]

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<th>Contribution rate</th>
<th>Estimated FTE equivalents (Earning &gt;$14,000)</th>
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for their intermittent and seasonal employees—paid for by others.

A break-down of UI claimants by the contribution rate of their companies provides further evidence of cross-subsidies. Table 4 shows large clusters of employees at the lowest and highest contribution rates. The concentration at the low end of the scale suggests there are a significant number of claimants from companies whose contribution levels subsidize other firms. The cluster of companies at the high end of the scale (10.96%, labeled as 11%) suggests that a large number of claimants are from firms whose contribution rate (if they were not subsidized by other firms) would be significantly higher.

Additional data on claimants and firm contributions confirm what Table 4 indicates. In 2004, laid-off workers from 3.9 percent of Massachusetts firms accounted for 32.5 percent of disbursed UI benefits. These heavy users paid $124 million in UI taxes, but their employees walked away with $403 million in benefits.

In 2004, 30 companies had employees who received more than $1 million in UI benefits over and above what the company paid in UI taxes.

About 5,500 companies have been regularly drawing heavily on UI, the benefits to their employees exceeding their UI taxes in 2002, 2003, and 2004. Total subsidy to these companies in those three years: $1.2 billion or a subsidy of about $73,000 per company per year. About 80 percent of these heavy-user companies had 10 or fewer employees.

These heavy-user companies come from all sectors of the economy. However, consistent with studies described above, construction companies, temporary services firms, school bus companies, and seasonal businesses, such as landscaping and pool maintenance, are represented disproportionately.

Certain economic activities result in uneven (but generally predictable) earning patterns, but the unemployment insurance system was not intended to subsidize these activities. Companies in industries with uneven earnings patterns often abuse the UI system and “lay off” their workers, sometimes several times per year, and enjoy a company-wide wage subsidy. Companies that provide steady, predictable employment end up subsidizing these industries at considerable cost.

**Frequent Filers and Self-Triggering**

For tens of thousands of unemployment insurance beneficiaries, the program functions as an ongoing wage subsidy, not insurance. Some individuals have been collecting UI virtually every year of their adult lives. Far from providing help after an unexpected job loss, UI is a planned-for and carefully managed annual income supplement.

In 2004, 247,000 individuals filed claims with the Massachusetts DUA. More than half these claimants (54 percent) had also filed for UI in 2003. Of those claiming in 2004, more than 18,000, or 7.3 percent, had collected UI in at least 11 of the preceding 20 years. And 700 individuals had collected UI benefits in each of the past 20 years.

Unemployment insurance is one of the few kinds of insurance that you can self-trigger and some business owners take advantage of the perverse incentives embedded in the law.

The following examples are from actual 2004 unemployment insurance claims. (To protect privacy, names and biographical details have been changed.):

**Basic Self-Triggering:** Ms. Q owns a jewelry store in Nantucket. She earned about $50,000 in the summer of 2004. In late autumn, she laid herself off and headed to Florida. She was eligible to collect $528 per week for 30 weeks, plus $25 per week for each of her two dependent children, bringing her UI benefits to $17,340—and raising her income for the season from $50,000 to $67,340.

Ms. Q pays the maximum UI insurance rate, capped
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at 10.96% on the first $14,000 of taxable wages, for a total UI tax of $1,534.40. In exchange for her tax payment of $1,534.40, Ms. Q gets $17,000 in benefits sent to her in Florida—subsidized by over $15,000 in taxes from other businesses in Massachusetts.

**Planned Group Self-Triggering:** A family business consists of five employees, including the president, treasurer, and director who are all related (husband, wife, and child). These family members collectively take in more than 90 percent of all wages paid out by the business, roughly $150,000 per year. Every year temporary workload reductions result in various family members being put on reduced work schedules—and collecting a wage subsidy through unemployment insurance. In 2004, the family business paid $5,100 in UI premiums, and family members collected $17,770 in benefits. These same family members collected in 2003 and 2005 as well.

**Repeated Self-Triggering:**
- A 47-year-old restaurant owner from Cape Cod earned $49,000 and then laid herself off, collecting $10,621 from UI. She has collected unemployment insurance benefits for 22 years.
- A 46-year-old man from Brockton earned $33,700 for driving a school bus—plus an additional $7,620 in benefits. He has collected UI for 24 years.
- A 52-year-old interior decorator from Boston earned $68,000 in 2004, but also took in $3,500 from UI. He has collected UI in each of the past 25 years.

The above anecdotes highlight a persistent and costly loophole in the unemployment insurance system—the built-in incentive to utilize the cap in experience rating (which limits the level of taxation) as a means to supplement wages in certain industries.

**Fraud**

The most common abuse of the unemployment insurance system is petty fraud: working under the table while collecting, and collecting when not looking for work (a statutory requirement of UI eligibility is to be able, available, and seeking work). It is difficult to trace these abuses and enforce penalties. The DUA, working with the Attorney General’s office, has recently prosecuted a number of fraud cases—including one person collecting from prison, another collecting from the middle of the Atlantic Ocean (a commercial fisherman), and a former DUA employee who was earning on one Social Security number while collecting on another.

**High Benefits**

As a result of the nation’s highest benefits, longest collection period, and easiest eligibility, Massachusetts hands out more in benefits per covered employee than any other state. In 2004, Massachusetts handed out a staggering 76 percent more benefits per covered employee than the national average.

Few would argue against providing a financial cushion to those who lose their jobs unexpectedly and through no fault of their own. The generosity of the UI system, however, should be balanced against the detrimental impact of high (and unequal) taxes on employers.

In 2004, Massachusetts allowed UI claimants to collect up to $528 per week, more than in any other state. That’s 51 percent above the national average of $348 per week. Massachusetts is the only state in the nation to allow claimants to collect for 30 weeks; 48 states limit UI to 26 weeks and one, Montana, sets the limit at 28 weeks.

UI benefits per covered worker in Massachusetts have exceeded the national average each year since 1990. Even when the Bay State had low unemployment rates, in the late 1990s, the Commonwealth was still handing out half again...
as much per worker compared with the national average. When the recession hit bottom in 2002, we gave out roughly double the average benefits per covered worker—or $741 for every job in the state. (This figure does not include money given out under the federal benefit extension.)

In addition to high benefits, Massachusetts has some of the most liberal eligibility requirements in the nation. Whereas most states require that an applicant has earned wages equivalent to 20 weeks’ worth of work to qualify, Massachusetts demands only 15 weeks’ worth of work. This makes it easier for those with limited workforce attachment to qualify for benefits. (Claimants who have only 15 weeks’ worth of work behind them do not qualify for the full 30 weeks of benefits, but collect for a lesser amount of time based on earnings. The maximum you can collect on UI is 36 percent of what you earned.)

The high benefits and low eligibility threshold offered by Massachusetts provide a disincentive to reenter the workforce, and an incentive to be more selective about what sort of jobs individuals will accept.

4. Recommendations

Unemployment insurance is an important and useful benefit, for its beneficiaries and the general population. It serves to support the unemployed through periods of unemployment and serves as a stabilizing economic force – preventing at least some of the social dislocation that loss of income creates. However, our current system of unemployment insurance perverts the original intent of the system, diverts benefits from the truly needy, and increases the cost of employing workers in Massachusetts.

The key problems with our current system are:

1) Excessive Cross-Subsidization: The cap on experience rating at -15% results in massive cross-subsidy. Firms that are consistent employers subsidize other firms that are seasonal or irregular employers.

2) Abuse of the Self-Triggering Mechanism: Unemployment insurance is meant as a social safety net for those who lose their jobs and incomes through no fault of their own. The ability for the self-employed or firm owners to “lay themselves off” is an abuse of the system.

3) Frequent Fliers: Too many individuals repeatedly and consistently apply for unemployment insurance. In many instances, the applicant has a number of consecutive applications per year. This has the effect of turning a social safety net into an ongoing wage supplement for a select number of workers.

4) High Benefits: A significant cost driver for unemployment insurance in Massachusetts is the generous benefit package. Massachusetts has the shortest period for individuals to qualify for insurance, the longest payout period, and the highest level of cash benefits in the nation.

High unemployment costs add to the cost of doing business in Massachusetts and make it more expensive for employers to add new employees. To address this issue, we propose the following solutions:

1) Increase the experience rating factor. By increasing the maximum tax that could be imposed on companies that make heavy use of UI, the state could reduce the subsidy of seasonal and casual enterprises, especially in the construction and tourism sectors, by employers in other sectors. These subsidies exceeded $312 million in 2005, much of that to businesses that effectively use UI as a wage subsidy for their workforce.10

2) Limit Repeated, Serial Utilization of Unemployment Insurance. Support reform efforts at the federal level to restrict UI eligibility for those workers who have received benefits in four
consecutive years, or received benefits in seven years over a ten-year period.

3) Expose and Prevent Self-Triggering. A higher standard of scrutiny should apply to repeated applications for benefits. Applicants would have to demonstrate that the business in question actually closed, rather than performing a cosmetic “layoff” to enable benefit collection.

4) Enhance the DUA’s anti-fraud powers. The DUA should have the ability to garnish wages in established fraud cases in which a court judgment has been rendered. Currently, DUA uncovers millions of dollars in fraud that it cannot collect.

5) Align benefit levels more closely with those of other states. Bringing benefits closer to national averages, in terms of time, eligibility, and/or payment levels, would reduce unemployment insurance taxes and discourage gaming of the system.

The incomplete 2003 unemployment reform process demonstrated strong opposition to changing the system, particularly from groups representing highly subsidized industries. However, reform has the potential to lower the cost of doing business in Massachusetts, and to signal to out-of-state firms that state government is serious about addressing cost issues.

It is revealing that recent surveys by CFO and Chief Executive magazines rank Massachusetts near the bottom as a place to do business. Unemployment insurance reform would treat workers more fairly, benefit most existing businesses, and also help attract new employers to the state.

John O’Leary is the former director of the Division of Unemployment Assistance and Assistant Secretary for Administration and Finance for the Commonwealth of Massachusetts. Steve Poftak is the Research Director at Pioneer Institute.

1. Unemployment Trust Fund Report, September 2007
4. The previous discussion draws on pages 6 and 7 of GAO-06-769, Unemployment Insurance: States’ Tax Financing Systems Allow Costs to be Shared Among Industries. A number of variations exist to the two basic systems explained above. For the purposes of this paper the discussion only introduces the basic concepts.
8. “Summary of Findings of Cross-Subsidization among Industries from Literature Review,” pg. 19, Table 3, GAO-06-769, Unemployment Insurance: States’ Tax Financing Systems Allow Costs to be Shared Among Industries