

LEGISLATIVE FISCAL ESTIMATE
SENATE, No. 3310
STATE OF NEW JERSEY
221st LEGISLATURE

DATED: JUNE 25, 2024

SUMMARY

Synopsis: Redirects portion of worker’s unemployment compensation fund contribution to unemployment compensation administration fund.

Type of Impact: No impact on State revenues or expenditures.

Agencies Affected: Department of Labor and Workforce Development.

Office of Legislative Services Estimate

Fiscal Impact	<u>Annual</u>
Unemployment Compensation Fund	Decreases by \$25.7 to \$27.3 million
Unemployment Compensation Administration Fund	Increases by \$25.7 to \$27.3 million

- The Office of Legislative Services (OLS) notes that the bill will have no impact on State revenues or expenditures, as the bill dedicates a portion of the employee unemployment withholdings from the unemployment compensation fund into the unemployment compensation administration fund.
- The OLS notes the estimated redirection of funds in the range of \$25.7 million to \$27.3 million over the next three years is unlikely to have any significant impact on the solvency of the unemployment compensation fund, which the Department of Labor and Workforce Development projects to have a balance of \$3.1 billion at the end of FY 2024.

BILL DESCRIPTION

This bill requires that a portion of what would have been the worker contribution to the unemployment compensation trust fund instead be collected and deposited directly into the unemployment compensation administration fund.

Under current law, workers who are either employed by nongovernmental employers, including non-profit employers, or who are employed by governmental employers that elect or are required to pay contributions, contribute 0.3825 percent of their wages to the unemployment compensation trust fund. The bill reduces this worker contribution to the unemployment compensation trust fund to 0.3625 percent of wages and requires that 0.02 percent of wages be collected and deposited directly into the unemployment compensation administration fund.

Under current law, workers who are employed by the State of New Jersey or any governmental entity or instrumentality that elects to make payments in lieu of contributions, contribute 0.0825 percent of their wages to the unemployment compensation trust fund. The bill reduces this worker contribution to the unemployment compensation trust fund to 0.0625 percent of wages and requires that 0.02 percent of wages be collected and deposited directly into the unemployment compensation administration fund.

The bill's redirection of funds, which applies to contributions made after December 31, 2023, is less than the amount that is not committed to separate trust funds of self-insured employers, so the amount that goes to the separate funds, and consequently employer contributions, will not be affected by the bill's provisions.

The unemployment compensation administration fund is funded by contributions from the federal government, but these contributions may not provide sufficient resources to maintain the State system. This redirection of contributions from the unemployment compensation trust fund to the unemployment compensation administration fund will increase the resources available for the unemployment compensation administration fund.

FISCAL ANALYSIS

EXECUTIVE BRANCH

None received.

OFFICE OF LEGISLATIVE SERVICES

The OLS used data provided by the department during the FY 2025 budget process to estimate the impact of moving 0.02 percent of employee contributions to the unemployment compensation administrative fund. The department forecasts employee contributions of \$545.4 million in calendar year 2024, \$559.4 million in calendar year 2025, and \$581.0 million in calendar year 2026. Applying the proportionate factors to each of these numbers will result in a redirection of \$25.7 million, \$26.3 million, and \$27.3 million in the respective calendar years.

The OLS notes that the annual diversion of \$25.7 to \$27.3 million only represents approximately 0.7 percent of the total anticipated total annual assessments paid by employers and employees. As such, it is not anticipated to have any material long-term effect on employee or employer withholdings. It is possible that over a long horizon, these diversions to the administration fund could lead to a requirement for increased withholdings to maintain the adequate trust fund balances; however, there are multiple factors which have a more significant impact on withholding requirements, such as unemployment rates, duration of claims, increases to maximum benefits, and changes in federal requirements. In addition, this increase in the administration allocation and spending does not account for the potential benefits that may be derived over time from improved infrastructure, staffing, and processes. It is difficult to say with

certainty what, if any, direct effect the increase in administrative spending will have on future withholding requirements.

The projected balance in the unemployment compensation fund is \$3.1 billion at the end of FY 2024, and \$3.7 billion at the end of FY 2025. The health of the fund and withholding requirements are not likely to be significantly impacted by the proposed diversion of employee withholdings to the administration fund.

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This legislative fiscal estimate has been produced by the Office of Legislative Services due to the failure of the Executive Branch to respond to our request for a fiscal note.

This fiscal estimate has been prepared pursuant to P.L.1980, c.67 (C.52:13B-6 et seq.).