



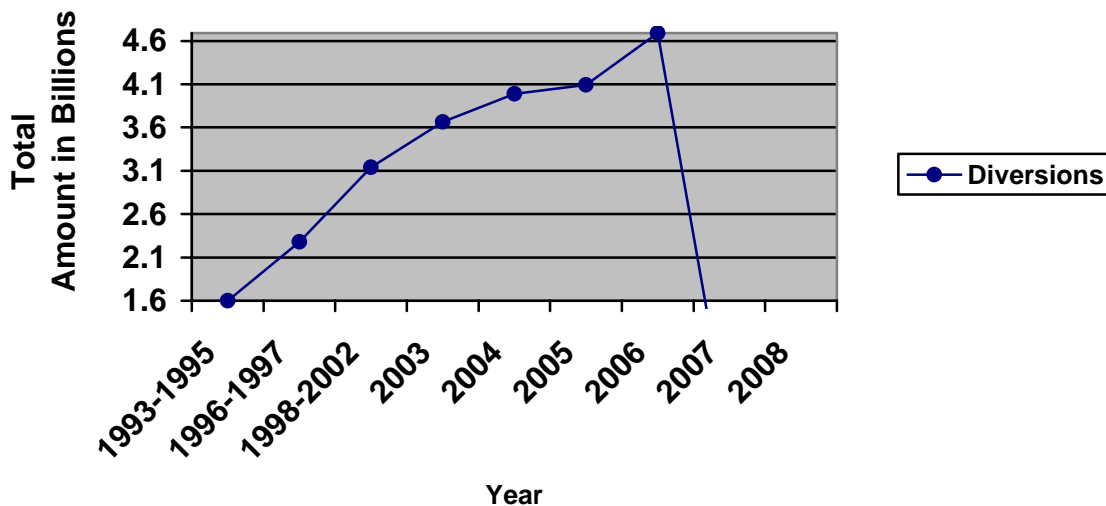
RESTORE THE FISCAL INTEGRITY OF DEDICATED PAYROLL FUNDS BEFORE THEY BECOME INSOLVENT

DESCRIPTION

For the past 14 years New Jersey has used tax revenue from dedicated payroll funds to offset the annual expenses of State government. Despite specific statutory language that dedicates payroll taxes for specific purposes, New Jersey has continuously diverted these funds to meet annual budget obligations. This practice has diminished the balance of our payroll funds. This year the practice has led the Unemployment Insurance Trust fund to automatically trigger a \$350-\$400 million employer tax increase.

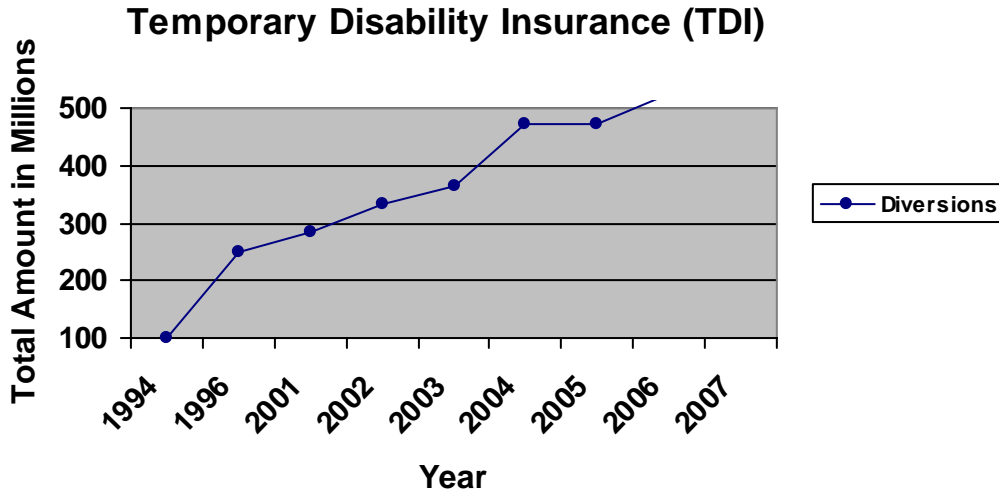
Since 1993 over \$4.7 billion has been diverted from the Unemployment Insurance (UI) Trust fund. In 2005, New Jersey diverted \$350 million from the UI Fund for uncompensated healthcare financing. Unfortunately, this diversion has left the fund dangerously close to insolvency. Presently, the UI fund has approximately \$1 billion dollars available to pay UI benefits. This represents a 20-year low point in the balance of the fund.

Unemployment Insurance Diversions



Similarly, New Jersey has continuously raided its Temporary Disability Benefits Law trust fund (TDI) to the tune of nearly \$600 million over the past 18 years. In the fiscal year 2007 State budget, the Legislature diverted \$50 million from the

TDI fund. The fiscal year 2008 budget diverted \$75 million from the fund. Both diversions were used for general operating expenses of the State, and they have significantly diminished the balance of the TDI fund.



BACKGROUND

New Jersey's Unemployment Insurance (UI) system was established in 1937 and began paying benefits to laid-off workers in 1939. One of the main objectives of the program is to "alleviate the hardship of involuntary unemployment on workers and their families, and to stabilize the economy." The benefits allocated for the unemployed are financed from taxes paid by employers and workers.

In addition, New Jersey is one of only five states that provide temporary disability benefits to workers who become injured or sick outside the workplace. The Temporary Disability Benefits Law provides qualified employees with up to 26 weeks of partial wage replacement. For 2008, the law provides a maximum of \$524 per week. The program is funded by both employer and employee contributions and pertains to most private sector employment.

In accordance with the State regulations for 2008, employer taxes are based on the first \$27,700 of each worker's annual wages and the experience rating of employers. The funds collected from the taxes are deposited in payroll funds administered by the New Jersey Department of Labor and Workforce Development. While both workers and employers pay into these funds, only employer rates change periodically depending upon usage. In other words, a company that has a greater percentage of workers claim TDI benefits will contribute more than a company that has a lesser percentage of workers file claims.

NJBIA POSITION

Historically, the Legislature and other interest groups have viewed the UI Trust Fund, TDI and other funds as being flush with cash and able to sustain diversions for worthy programs. Unfortunately, over a decade of diversions has left these funds with inadequate reserves to meet their current benefit obligations. Additionally, these raids will eventually bankrupt the funds, forcing higher employer taxes. An increased tax burden on employers during an already sluggish economy will make it harder to attract and retain quality businesses.

The Association opposes future diversions from the UI fund, TDI fund or other changes in dedicated payroll funds. As a result of the past diversions, employers now face the prospect of paying higher payroll taxes during a faltering economy. This is illustrated by the current crisis impacting the UI Trust Fund. The Association supports S-1698 and encourages the Legislature to quickly pass this legislation.

LEGISLATIVE HISTORY

P.L. 2005, c. 123 (formerly S-2607) this law redirects \$350 million in unemployment taxes to Health Care Subsidy Fund and modifies UI benefits.

Fiscal year 2007 State Annual Appropriations Act diverted \$50 million from the TDBL trust fund for General Fund Purposes.

Fiscal year 2008 State Annual Appropriations Act diverted \$75 million from the TDBL trust fund for General Fund Purposes.

S-1698 – Buono - Revises calculation of Unemployment Trust Fund Reserve Ration for experience rating year beginning July 1, 2008; appropriates \$260 million to unemployment compensation fund.

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