

STAND. COM. REP. NO.

1169

Honolulu, Hawaii

MAR 19 2025

RE: H.B. No. 202
H.D. 1
S.D. 1

Honorable Ronald D. Kouchi
President of the Senate
Thirty-Third State Legislature
Regular Session of 2025
State of Hawaii

Sir:

Your Committee on Labor and Technology, to which was referred H.B. No. 202, H.D. 1, entitled:

"A BILL FOR AN ACT RELATING TO THE ADEQUATE RESERVE FUND,"

begs leave to report as follows:

The purpose and intent of this measure is to amend the definition of "adequate reserve fund" by increasing the multiplier used to calculate its amount from the existing factor of one, to one and one-quarter for calendar year 2026, and one and one-half for calendar year 2027 and thereafter.

Your Committee received testimony in support of this measure from the Department of Labor and Industrial Relations.

Your Committee received testimony in opposition to this measure from the Hawaii Food Industry Association, Grassroot Institute of Hawaii, and Chamber of Commerce Hawaii.

Your Committee received comments on this measure from the Tax Foundation of Hawaii.

Your Committee finds that the adequate reserve fund serves as a benchmark to ensure that the Unemployment Compensation Trust Fund is sufficiently funded to pay unemployment insurance benefits in times of a severe spell of unemployment. Your Committee



further finds that an employer's unemployment insurance tax rate is computed once a year using two factors: the employer's claim history, which is the unemployment insurance benefits paid out to the employer's former employees over the years; and the applicable unemployment insurance tax rate for the year. The unemployment insurance tax rate for the year is calculated by dividing the current reserve balance of the Unemployment Compensation Trust Fund by the adequate reserve fund, which is determined by multiplying the highest benefit cost rate (the total amount of unemployment insurance benefits paid to unemployed individuals during a twelve consecutive month period divided by the total amount of wages paid by all employers) during the most recent ten-year period by the total amount of wages paid by all employers during the last four calendar quarters, multiplied by a certain factor. Therefore, a lower than appropriate multiplying factor will result in a lower amount of adequate reserve fund, which in turn will lower the unemployment insurance tax rate for employers and jeopardize the solvency of the Unemployment Compensation Trust Fund in times of significant increase in unemployment.

Your Committee further finds that despite guidance from the United States Department of Labor that an adequate reserve fund multiplier of one and one-half times was the minimum necessary for the Unemployment Compensation Trust Fund to withstand a severe spell of unemployment, in 2010, the State reduced the multiplier to a factor of one, which negatively impacted the Unemployment Compensation Trust Fund's reserve balance. Your Committee additionally finds that the unprecedented surge in unemployment due to the COVID-19 pandemic rapidly depleted the Unemployment Compensation Trust Fund, requiring the State to borrow approximately \$700 million from the United States Department of Labor to pay out the claimed unemployment insurance benefits. According to testimony, had the adequate reserve fund's multiplier factor remained at one and one-half times as initially set, the State would not have needed to borrow funds from the federal government. This measure incrementally restores the original one and one-half multiplier in the adequate reserve fund's calculation, effectively increasing the required reserve amount to safeguard the long-term health of the Unemployment Compensation Trust Fund and by extension, the State's economy and social safety net.



Your Committee has amended this measure by:

- (1) Inserting an effective date of July 1, 2050, to encourage further discussion; and
- (2) Making technical, nonsubstantive amendments for the purposes of clarity and consistency.

Your Committee notes the concerns expressed by local businesses that this measure will increase the unemployment tax rate, thereby raising operating costs and unduly burdening their finances. Your Committee finds that this issue merits further consideration and respectfully requests that subsequent Committees to which this measure is referred consider this matter.

As affirmed by the record of votes of the members of your Committee on Labor and Technology that is attached to this report, your Committee is in accord with the intent and purpose of H.B. No. 202, H.D. 1, as amended herein, and recommends that it pass Second Reading in the form attached hereto as H.B. No. 202, H.D. 1, S.D. 1, and be referred to your Committee on Ways and Means.

Respectfully submitted on
behalf of the members of the
Committee on Labor and
Technology,


HENRY J. C. AQUINO, Chair



