JOSH GREEN, M.D.
GOVERNOR

SYLVIA LUKE
LIEUTENANT GOVERNOR

JADE T. BUTAY
DIRECTOR

WILLIAM G. KUNSTMAN
DEPUTY DIRECTOR

STATE OF HAWAIʻI
KA MOKUʻĀINA O HAWAIʻI
DEPARTMENT OF LABOR AND INDUSTRIAL RELATIONS
KA ʻOIHANA PONO LIMAHANA

March 12, 2025

To: The Honorable Henry J.C. Aquino, Chair,
The Honorable Chris Lee, Vice Chair, and
Members of the Senate Committee on Labor and Technology

Date: Wednesday, March 12, 2025
Time: 3:00 p.m.
Place: Conference Room 224, State Capitol

From: Jade T. Butay, Director
Department of Labor and Industrial Relations (DLIR)

Re: H.B. 202 HD1 RELATING TO THE ADEQUATE RESERVE FUND

I. OVERVIEW OF PROPOSED LEGISLATION

The **DLIR strongly supports** this measure, which seeks to amend the definition of “adequate reserve fund” starting calendar year 2026, while preserving the exclusion for the COVID-19 Pandemic.

The "adequate reserve fund" will be calculated by multiplying the highest benefit cost rate from the past ten years (excluding June 2020–August 2021) by the total employer remuneration from the last four calendar quarters. A multiplier of one and one-quarter will be applied for calendar year 2026, and a multiplier of one and one-half will be applied for calendar year 2027 and beyond.

II. CURRENT LAW

The Benefit Cost Rate (BCR) is the total benefits paid during a consecutive twelve-month period divided by wages for a twelve-month period.

The Adequate Reserve Fund is a benchmark that equals the highest BCR during the most recent ten years times total wages for the last completed fiscal year ending June 30. The calculation of the Adequate Reserve Fund is designed to ensure there are enough reserves in the Unemployment Compensation Trust Fund (UCTF) to pay Unemployment Insurance (UI) benefits.

The Adequate Reserve Fund is used as a measure of the solvency of the UCTF and to determine the UI tax schedule: the ratio of the Current Reserve divided by the Adequate Reserve determines which UI tax schedule is in effect for a calendar year (Current Reserve/Adequate Reserve).

Ratio = Current reserve/adequate reserve

Ratio CR/AR	Tax Schedule
1.69 +	A
1.3-1.69	B
1.0 to 1.29	C
0.80 to 0.99	D
0.60 to 0.79	E
0.40 to 0.59	F
0.20 to 0.39	G
< .20	H

An employer's state unemployment insurance tax rate is computed once a year based on the employer's reserve ratio and the tax schedule in effect for the year.

III. COMMENTS ON THE HOUSE BILL

The DLIR strongly supports this measure as it safeguards the health and long-term stability of the UCTF by increasing the Adequate Reserve Fund calculation. The DLIR respectfully requests that the measure's defective date on page 4, line 8 be amended to take effect upon approval.

When §383-63 was originally drafted, guidance from the United States Department of Labor (U.S. DOL) was used to determine that the "one and one-half times" multiplier was the minimum necessary to withstand a severe spell of unemployment at the time. However, in 2010, the multiplier was reduced to a factor of one, which negatively impacted the UCTF's reserve balance.

The COVID-19 Pandemic caused an unprecedented surge in unemployment across Hawaii, rapidly depleting the UCTF, and forcing the State to borrow approximately $700 million from the U.S. DOL. Informal analyses suggest that if the one and one-half multiplier had remained in place, the UCTF would not have been as negatively impacted as it was.

Throughout the COVID-19 Pandemic, the DLIR supported employers by advocating for and implementing measures that became Act 1 (SLH, 2021) and Act 281 (SLH, 2022). Act 281 amended §383-63 to exclude the BCR from June 2020 to August 2021 to prevent the Pandemic-related, anomalous outflow from severely impacting the Adequate Reserve Fund definition and employer taxes.[1] Both of these acts provided immediate and sustained relief to employers.

Although the UCTF has since rebounded from the impacts of the COVID-19 Pandemic and the Maui Wildfires, restoring the original one and one-half multiplier is essential. The DLIR believes that this phased approach will strengthen the UCTF's financial resilience, ensuring that the UCTF is prepared for future economic crises, including serving its purpose as an economic stabilizer during downturns, and protecting Hawaii's workforce from unexpected hardships while minimizing the impact on employers.

[1] *Effective for the calendar years 2023 through 2030, "adequate reserve fund" means an amount that is equal to the amount derived by multiplying the benefit cost rate that is the highest during the ten-year period ending on November 30 of each year by the total remuneration paid by all employers, with respect to all employment for which contributions are payable during the last four calendar quarters ending on June 30 of the same year, as reported on contribution reports filed on or before October 31 of the same year, but shall not include the benefit cost rate from June 2020 through August 2021.*

SUBJECT: UNEMPLOYMENT, Amends Formula to Increase Adequate Reserve Fund Temporarily

BILL NUMBER: HB 202 HD 1

INTRODUCED BY: House Committee on Labor

EXECUTIVE SUMMARY: Amends the definition of "adequate reserve fund" for calendar years 2026 and thereafter.

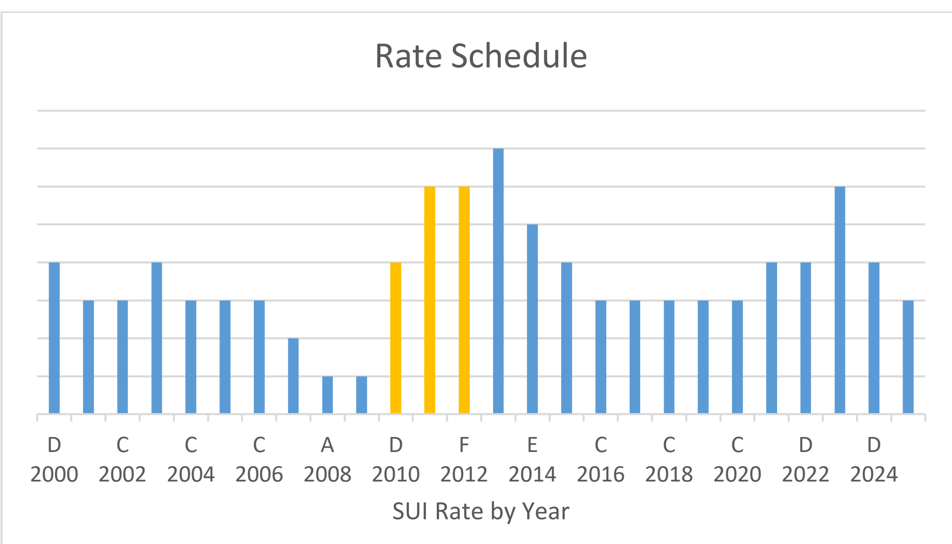
SYNOPSIS: Amends section 383-63, HRS, definition of "Adequate reserve fund" to mean an the amount that would be the adequate reserve fund under existing law, times

1) 125% for calendar years 2026; and
2) 150% for calendar years 2027 and thereafter.

EFFECTIVE DATE: January 1, 3000.

STAFF COMMENTS: State unemployment insurance (SUI) is largely funded by employers. Most employers are charged tax that depends on two things: the overall health of the fund into which SUI tax is collected, and the claims history of the employer. So, an employer with a long history of chargeable claims, for example, will pay more than others. Also, if there is lots of money built up in the fund then the tax rate goes down for everyone.

The health of the fund determines the proper tax rate schedule. The schedules are named after a letter of the alphabet, with A the least costly schedule and H the most expensive. The fund health is measured at the end of the year, and that measurement is used to set the rate for the following year. Here is a chart of the SUI rate schedule for the past 25 years:



Source: DLIR Reports compiled by Tax Foundation of Hawaii.

Although the Great Recession of 2008 and related events caused the fund to run out of money and we needed to borrow around $180 million from Uncle Sam, employers were not subjected to the dreaded Schedule H because our lawmakers passed special legislation to control the SUI rates and override the normal formulas for the years 2010 through 2012 (the orange bars in the diagram). That also happened for 2021, where Act 1, SLH 2021, set the rate at Schedule D for 2021 and 2022.

The change requested in this bill artificially increases tax rates by inflating the target for the reserve fund by 25% or 50% while, of course, the amount of money in the actual fund does not change.

In some prior years, the adequate reserve fund did have a multiplier, as follows:

Year(s)	Number of Years	Multiplier
1969 to mid 1978	9 ½	150%
Mid 1978 to 1991	12 ½	100%
1992 to 2007	16	150%
2008 to present	17	100%

To illustrate what happens if the bill takes effect, suppose the current unemployment reserve fund in Hawaii is $200 million (which is what it was in November 2022). Also suppose that the adequate reserve fund, calculated under existing law, is also $200 million. Under section 383-68(d), HRS, we would have a ratio of current to adequate reserve fund of 1.00 and employers would have a contribution rate schedule of C. That rate schedule is somewhat normal for us, as we had this schedule in effect for 11 of the past 25 years. That would correspond to a SUI tax for new employers (with a zero reserve ratio) of 2.4% of taxable wages.

When the bill is fully phased in, the adequate reserve fund is artificially raised to $300 million. That would make the ratio of current to adequate reserve fund drop to 0.67, placing employers with a contribution rate schedule of E, and our new employer would receive a tax rate of 3.4% of taxable wages. That is a 42% tax rate increase.

Is this really what we want now?

Digested: 3/7/2025

HAWAII FOOD INDUSTRY ASSOCIATION
1050 Bishop St. PMB 235 |
Honolulu, HI 96813
P: 808-533-1292 | e:
info@hawaiifood.com

TO: Committte on Labor and Technology
FROM: HAWAII FOOD INDUSTRY ASSOCIATION
Lauren Zirbel, Executive Director

DATE: March 12, 2025
TIME: 3pm

RE: HB202 HD1 Relating to the Adequate Reserve Fund
Position: Oppose

The Hawaii Food Industry Association is comprised of two hundred member companies representing retailers, suppliers, producers, manufacturers and distributors of food and beverage related products in the State of Hawaii.

HFIA is in opposition to this measure. This would cause a drastic increase in the required contribution from employers. In order to compensate for this increase employers will have to take steps to offset the cost.

For some employers this will necessitate doing things like cutting jobs. Others may need to increase prices to compensate for this measure. Other employers that cannot find a way to manage the required increase may simply close.

We oppose any measure that would eliminate local jobs, increase prices on food and other items, and potentially force local businesses to close their doors.

We urge the Committee to not pass this measure as is.

Hawaii has the highest taxable wage base in the nation. We recommend the committee reduce the taxable wage base to the national median ($12,000) to lower employer costs and improve the ranking from 50th to 30th. We thank you for the opportunity to testify.

GRASSROOT
INSTITUTE OF HAWAII

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Removing barriers to Hawaii's prosperity

March 12, 2025, 3 p.m.
Hawaii State Capitol
Conference Room 224 and Videoconference

To: Senate Committee on Labor and Technology
Sen. Henry J.C. Aquino, Chair
Sen. Chris Lee, Vice-Chair

From: Ted Kefalas, Director of Strategic Campaigns
Grassroot Institute of Hawaii

RE: TESTIMONY OPPOSING HB202 HD1 — RELATING TO THE ADEQUATE RESERVE FUND

Aloha Chair Aquino, Vice-Chair Lee and other members of the Committee,

The Grassroot Institute of Hawaii would like to offer its **comments in opposition** to HB202 HD1, which would stealthily increase Hawaii's unemployment tax by redefining what comprises an "adequate reserve fund."

Currently set at 100%, the fund level would be increased by HB202 HD1 to 125% in 2026 and 150% for 2027 and beyond.

Put simply, this bill would increase the unemployment tax rate paid by local businesses by artificially raising the reserve fund far past 100%.

At present, the contribution rate schedule for Hawaii employers is set at C, which means that new employers pay a tax rate of 2.4%. If HB202 HD1 is enacted, that would push the contribution rate to D (3%) for 2026 and E (3.4%) for the years that follow. This would be a full 1-point tax increase, or a 41.67% hike in state unemployment insurance for new employers.

The bill offers no explanation as to why redefining the "adequate reserve fund" at the expense of Hawaii's businesses would be necessary or desirable.

The Legislature should recall that the contribution rate returned to C only this year, after rising precipitously during the COVID-19 lockdowns. In 2021, the Legislature stepped in to prevent the contribution rate from rising to catastrophic levels. In 2023, the rate rose to level F, prompting some to call for a special Legislative Session to mitigate the harm from the spike in unemployment tax.

In effect, this bill would intentionally create a taxation scenario very similar to the one that required legislative intervention just a few years ago due to the threat it posed to Hawaii's economy.

Hawaii's business owners face many regulatory and financial challenges as they struggle to keep their doors open. This bill, if passed, would only add to that burden.

We urge you to defer HB202 HD1 and give Hawaii's overtaxed businesses a break.

Thank you for the opportunity to submit our comments.

Sincerely,

Ted Kefalas
Director of Strategic Campaigns
Grassroot Institute of Hawaii

Chamber of Commerce HAWAII

2030 BLUEPRINT
ECONOMIC ACTION PLAN FOR HAWAII

LATE

Testimony to the Senate Committee on Labor and Technology
Senator Henry J.C. Aquino, Chair
Senator Chris Lee, Vice Chair

Wednesday, March 12, 2025, at 3:00 PM
Conference Room 224 & Videoconference

RE: HB202 HD1 Relating to the Adequate Reserve

Aloha e Chair Aquino, Vice Chair Lee, and Members of the Committee:

My name is Sherry Menor, President and CEO of the Chamber of Commerce Hawaii ("The Chamber"). The Chamber respectfully opposes House Bill 202 House Draft 1, which amends the definition of "adequate reserve fund" for calendar years 2026 and thereafter.

This measure is detrimental for Hawaii because it substantially raises the required unemployment insurance reserve thresholds, thereby driving up costs for local businesses and threatening the state's economic resilience. The bill accomplishes this by redefining the "adequate reserve fund" to use a higher multiplier for calculating the benefit cost rate, which determines how much employers must contribute to fund unemployment benefits. Starting in 2026, the multiplier jumps to one and one-quarter, and from 2027 onward, it increases to one and one-half—raising the amount every employer owes. Smaller businesses in particular may struggle to meet these higher mandatory contributions, potentially curbing hiring and salary growth as the local economy continues to recover from past disruptions.

A closer review of House Bill 202 indicates that it introduces an indirect tax increase by modifying the calculation of the "adequate reserve fund" rather than explicitly changing tax rates. Specifically, the bill inflates the benchmark for how much the reserve fund "should" hold, creating the appearance of a shortfall when compared to the actual balance. For example, if the reserve fund currently stands at $200 million while the "adequate reserve fund" under existing law is also $200 million, employers would pay a mid-level rate. Under the proposed changes, however, that benchmark would rise to $300 million, making the fund appear only two-thirds funded and thereby moving employers to a higher tax schedule. In this scenario, new employers face a jump from Schedule C to Schedule E—equating to a 42% increase. Although supporters contend that a stronger reserve fund could reduce the need for federal loans during economic downturns, critics question whether the benefits justify significant new costs for employers, particularly in light of other state reserves that already exist for emergencies.

Moreover, the legislation lacks measures to offset the heightened costs to business owners, raising doubts about its necessity at a time when the state is still working toward sustained economic stability. History shows that Hawaii has shifted reserve fund requirements in the past, but reviving the 150% standard now could hamper growth, hiring, and ongoing recovery efforts. The Chamber opposes the measure because it will inflate operating costs for its members, deter job creation, and weaken Hawaii's overall economic momentum.

The Chamber of Commerce Hawaii is the state's leading business advocacy organization, dedicated to improving Hawaii's economy and securing Hawaii's future for growth and opportunity. Our mission is to foster a vibrant economic climate. As such, we support initiatives and policies that align with the 2030 Blueprint for Hawaii that create opportunities to strengthen overall competitiveness, improve the quantity and skills of available workforce, diversify the economy, and build greater local wealth.

We respectfully ask to defer indefinitely House Bill 202 House Draft 1. Thank you for the opportunity to testify.