

The Impacts of the COVID-19 Crisis on Rhode Island's Unemployment and Temporary Disability Insurance Programs

The Second in a Series on the Fiscal Impact of COVID-19

June 2020



RIPEC

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I. Introduction

The COVID-19 pandemic has presented an unparalleled public health and economic crisis. First reported to World Health Organization officials out of Wuhan, China in December 2019, COVID-19 spread exponentially across much of the globe and throughout the United States between January and May 2020. In the U.S., there were 1.7 million confirmed cases and 102,640 fatalities by June 1. At the same time, the number of worldwide confirmed cases and fatalities were 6.1 million and 371,166, respectively.¹ The rapid spread of COVID-19 led governors nationwide to take unprecedented measures that included stay-at-home orders, school closures, and the closure of nonessential businesses. Together, business closures, social distancing protocols, and the global consequences of the pandemic—such as a sharp decline in oil prices—have led to unprecedented unemployment throughout the United States, with a reported 36.7 million unemployment claims between March 19 and May 9 and a 14.6 percent unemployment rate in April.²

Regarding both the public health and economic aspects of the COVID-19 crisis, Rhode Island has been one of the hardest hit states in the country. As of June 1, Rhode Island's 14,991 confirmed cases and 720 fatalities respectively ranked third and fifth highest nationally in per capita terms.³ In response to the public health emergency, Governor Gina Raimondo declared a state of emergency on March 9, and in the weeks thereafter she issued a series of executive orders that mandated: quarantine for out-of-state travelers, residents to stay at home, and the closure of nonessential and public-facing businesses.⁴ On May 9, the governor's stay-at-home order expired and the first of three planned phases of reopening began.⁵ In the meantime, Rhode Island's economy has severely contracted. The state experienced an unprecedented uptick in initial and

¹ World Health Organization, [Coronavirus Disease Situation Report – 133](#), June 1, 2020.

² U.S. DOL, [Unemployment Insurance Weekly Claims Data](#); U.S. Bureau of Labor Statistics, "[The Unemployment Situation – April 2020](#)." The measurement of unemployment in the United States is both complicated and confusing. Early each month, the Bureau of Labor Statistics of the U.S. Department of Labor announces the total number of employed and unemployed people in the United States. This information, particularly the unemployment rate—the percentage of the labor force that is unemployed—typically receives widespread media attention. This report is not derived from actual unemployment claims, but instead is the result of a monthly survey of about 60,000 households called the Current Population Survey (CPS). Because the CPS sample size, while large, is insufficient to create reliable monthly estimates for states or smaller geographical areas, a different method called the Local Area Unemployment Statistics (LAUS) program is used to produce monthly and annual employment and unemployment data for states, counties, and metropolitan areas. The LAUS program derives its data by utilizing statistical models incorporating CPS historical data, state UI system information, and data from the Current Employment Statistics (CES) Program, which surveys about 145,000 businesses and government agencies each month. U.S. Bureau of Labor Statistics, "[Labor Force Statistics from the Current Population Survey, How the Government Measures Unemployment](#)." A recent addition to these complications, U.S. DOL's state report for April had data collection issues: the survey response rate was lower than usual because the Census Bureau did not conduct in-person interviews and two call centers were closed because of the pandemic. Tami Luhby, "[43 states have record unemployment. See where your state ranks](#)," *CNN Business*, May 22, 2020.

³ R.I. Department of Health, [COVID-19 Disease Data](#), accessed June 1, 2020; *New York Times*, "[Coronavirus in the U.S.: Latest Map and Case Count](#)," accessed June 1, 2020. Rhode Island's relatively high number of confirmed cases is in some part due to the availability of testing in the state, which is among the highest in the nation. Michael Powel, "[Rhode Island Pushes Aggressive Testing, a Move that Could Ease Reopening](#)," April 29, 2020.

⁴ R.I. Office of the Governor, [Executive Orders](#).

⁵ [Reopening RI](#).

continuing unemployment claims between March and May, with a peak of 108,341 initial and continuing claims for the week ending April 25, 2020.⁶ Similarly, Rhode Island's unemployment rate experienced its largest month-over-month increase on record between March and April, increasing from 4.7 percent to 17.0 percent.⁷ Unemployment participation in the United States also has hit unprecedented levels, but the Ocean State's April unemployment rate exceeds that of the U.S., and the state ranked fifth highest nationally in terms of unemployment claims as of April 25.⁸

In April, RIPEC issued the first in a series of reports regarding how the burgeoning economic emergency caused by the COVID-19 pandemic has and will impact the State of Rhode Island, and the critical choices before its policymakers. That report, "[The COVID-19 Economic Crisis: Federal Assistance and Rhode Island's Budget](#)," analyzes the funding provided to Rhode Island by the federal government as well as the potential impact of the COVID-19 crisis on the Rhode Island budget. It also emphasizes the need for additional federal assistance to avoid severe budgetary fallout and offers a set of guiding principles for state policymakers to consider in responding to current fiscal challenges.⁹

This report, "The Impacts of the COVID-19 Crisis on Rhode Island's Unemployment and Temporary Disability Insurance Programs," is the second of RIPEC's series, and examines the fiscal impact of the COVID-19 crisis on two important income support programs for employees: Unemployment Insurance (UI) and Temporary Disability Insurance (TDI)/Temporary Caregiver Insurance (TCI).¹⁰ UI is funded at federal and state levels through employer taxes and TDI/TCI is funded by state withholding taxes on employees. While both programs are operated as separate funds apart from the state's general fund budget, the fiscal health of these programs can have major consequences for Rhode Islanders.

In addition to this introduction, there are three sections in this report. Section II gives a brief history of UI, describes UI's federal and state funding mechanisms, and examines the relative solvency of Rhode Island's UI trust fund balance. Section II additionally delves into how COVID-19 has altered benefits, eligibility, and claims trends, as well as the probable impact of COVID-19 claims on the trust fund and the likely consequence of trust fund insolvency for Rhode Island employers. Similarly, Section III provides historic background on the state's TDI/TCI program, details its benefit structure, and describes how the program is funded, before explaining how COVID-19 has

⁶ R.I. DLT, "[Weekly Update of Claims Activity, Week Ending: April 25, 2020](#)."

⁷ R.I. DLT Media Advisory, "[Rhode Island-Based Jobs Fell 88,800 from March; April Unemployment Rate Rose to 17.0 Percent](#)," May 21, 2020. The second largest month-over-month unemployment rate increase in Rhode Island history was from February to March 2020 (3.4 percent to 4.6 percent). R.I. DLT Media Advisory, "[Rhode Island-Based Jobs Fell 5,600 from February; March Unemployment Rate Rose to 4.6 percent](#)," April 16, 2020.

⁸ U.S. DOL, News Release, "[Unemployment Insurance Weekly Claims: May 9, 2020](#)," May 14, 2020.

⁹ RIPEC, "[The COVID-19 Economic Crisis: Federal Assistance and Rhode Island's Budget](#)," April 2020.

¹⁰ Over the past several years, RIPEC has published reports on both UI and TDI. See: RIPEC, "[Summary of Unemployment Insurance Analysis of the Rhode Island Unemployment Insurance Trust Fund](#)," January 2011; RIPEC, "[Rhode Island Temporary Disability Insurance \(TDI\) and Temporary Caregiver Insurance \(TCI\)](#)," June 2015; RIPEC Policy Brief, "[How Rhode Island Unemployment Insurance Benefits Compares](#)," February 2019.

impacted both eligibility requirements and claims trends. Section III subsequently models how elevated TDI/TCI claims during the COVID-19 pandemic have impacted the program's fiscal health and lays out probable consequences for Rhode Island employees' contribution rates. Finally, in Section IV—the conclusion of this report—RIPEC summarizes the challenges facing Rhode Island's UI and TDI/TCI programs and offers short- and long-term policy options for policymakers to consider.

II. Unemployment Insurance

Background

UI is funded through employer payroll taxes at both the federal and state level. State taxes are maintained as separate restricted funds as part of the federal unemployment insurance trust fund, while federal payroll taxes are allocated to states based on state administrative need. The program has federal guidelines for state participation but enables states to establish their own parameters. Each state therefore sets its own payroll tax rates, wage bases, and benefit structures, while both federal and state payroll taxes fund statewide programs.¹¹

Benefits in Rhode Island

Last raised in June 2019, Rhode Island has set minimum UI benefits to \$53 per week and maximum benefits to \$586 per week, with a dependent allowance of the greater of \$15, or 5 percent of weekly benefit per dependent for up to five dependents.¹² In 2019, the average weekly UI benefit was \$368.¹³ Benefits are calculated based on 3.85 percent of the average of an individual's two highest quarter wages out of the last five completed calendar quarters, which equates to about 50 percent of salary, exclusive of dependent allowances, for those employees under the maximum benefit. To qualify, a worker must have accumulated at least \$12,600 in wages during the last five calendar quarters.¹⁴ UI benefits are payable for up to 26 weeks.¹⁵

COVID-19 Impacts

CARES Act

The Coronavirus Aid, Relief and Economic Security (CARES) Act was signed into law by the president on March 27, 2020 and—among other things—appropriates federal funds to provide supplemental and temporary economic relief to unemployed Americans. Under the CARES Act, states may enter into agreement with the Secretary of Labor to extend their maximum allowable unemployment benefits for 13 weeks at federal expense. Rhode Island has opted into this additional benefit, and also opted into a provision by which the federal government funds the

¹¹ Tax Policy Center Briefing Book, "[What is the unemployment insurance trust fund, and how is it financed?](#)"; U.S. DOL, "[Unemployment Compensation: Federal-State Partnership](#)," May 2019.

¹² U.S. DOL, "[Significant Provisions of State Unemployment Insurance Laws](#)"; R.I. DLT, "[2020 UI and TDI Quick Reference](#)"; R.I. DLT, "[Maximum Weekly Benefit Amounts for Unemployment and Temporary Disability Insurance to Increase Beginning July 1, 2019](#)," June 21, 2019.

¹³ U.S. DOL, "[Unemployment Insurance Data](#)."

¹⁴ R.I. DLT, "[2020 UI and TDI Quick Reference](#)." Like many states, Rhode Island has a "WorkShare" program, under which employees can receive a percentage of unemployment benefits commensurate with the reduction in work hours. Employees receiving WorkShare benefits in Rhode Island represent a relatively small percentage of those claiming unemployment compensation. National Council of State Legislatures, "[Work Share Programs](#)," January 9, 2019; U.S. DOL, "[Significant Provisions of State Unemployment Insurance Laws](#)."

¹⁵ Center for Budget and Policy Priorities, "[How Many Weeks of Unemployment Compensation Are Available?](#)," May 4, 2020.

payment of benefits during the first week of an individual’s unemployment in states that choose to waive their seven-day waiting period. The CARES Act also uses federal funds to provide an additional \$600 in weekly unemployment benefits to individuals, increasing the maximum weekly benefit in Rhode Island (including dependents allowance) to \$1,332.¹⁶ For workers in 36 states, including Rhode Island, the addition of \$600 in weekly unemployment benefits equates to the average unemployed worker receiving more than 100 percent of their typical weekly wages.¹⁷ The additional weekly benefit of \$600 provided under the CARES Act expires on July 31, 2020.

The CARES Act also established an entirely new unemployment compensation scheme, the Pandemic Unemployment Assistance (PUA) program, which provides a maximum of 39 weeks of federally funded benefits to out-of-work individuals who are self-employed or otherwise would not be covered under the state’s UI system. PUA benefits are provided retroactively and available on or after January 27, 2020 and until December 31, 2020. The benefits individuals receive under PUA vary by state and are determined by each state’s unemployment laws. Thus, while the PUA program is funded by the federal government, Rhode Island PUA recipients are provided with benefits comparable to Rhode Islanders claiming UI, including the additional weekly benefit of \$600 made available under the CARES Act.¹⁸ For the week ending May 23, the Rhode Island Department of Labor and Training (DLT) reported 3,995 initial PUA claims and 38,972 continuing PUA claims.¹⁹

The supplemental unemployment benefits provided under the CARES Act do not affect the fiscal solvency of Rhode Island’s UI program because these benefits are federally funded and are in addition to those benefits otherwise provided. The CARES Act, however, does provide funding through the Coronavirus Relief Fund that could be used to cover shortfalls in a state’s UI program resulting from the COVID-19 crisis.²⁰ The Relief Fund appropriated \$150 billion for state, local, and tribal governments, with \$1.25 billion earmarked for the State of Rhode Island to cover unbudgeted expenditures incurred due to the COVID-19 crisis.

Under U.S. Treasury Guidance, Coronavirus Relief Funds can be used to pay for “[u]nemployment compensation costs related to the COVID-19 public health emergency.”²¹ Subsequent Treasury Guidance is more explicit on allowing Relief Funds to offset losses or prevent insolvency in UI trust funds:

¹⁶ CARES Act, [Title II](#); R.I. DLT, “[COVID-19 Workplace Fact Sheet](#).”

¹⁷ In Rhode Island, individuals with wages at or below \$31.25 receive more money under the CARES Act elevated benefit scheme than through their typical wages; workers at these lower wages comprise over three-fourths—76.9 percent—of the workforce. Ella Koeze, “[The \\$600 Unemployment Booster Shot, State by State](#),” *New York Times*, April 23, 2020. R.I. DLT, “[Rhode Island Labor Market Conditions](#),” May 2020 Revenue Estimating Conference, 14.

¹⁸ Even though PUA is federally funded, the means through which rates are determined means that because UI benefits are more generous in Rhode Island than in most states, PUA benefits in Rhode Island are also more generous than in most states. *Ibid*; U.S. DOL, “[Unemployment Insurance Relief During COVID-19 Outbreak](#).”

¹⁹ R.I. DLT, “[Weekly Updates of Claims Activity, Week Ending: May 23, 2020](#).”

²⁰ CARES Act, [Title II](#).

²¹ CARES Act, [Title V](#); U.S. Dept. of Treasury, “[Coronavirus Relief Fund Guidance for State, Territorial, Local, and Tribal Governments](#),” April 22, 2020.

To the extent that the costs incurred by the state unemployment insurance fund are incurred due to the COVID-19 public health emergency, a State may use Fund payments to make payments to its respective state unemployment insurance fund, separate and apart from such State's obligation to the unemployment insurance fund as an employer. This will permit States to use Fund payments to prevent expenses related to the public health emergency from causing their state unemployment insurance funds to become insolvent.²²

Eligibility Changes

Pursuant to federal guidance, the Rhode Island DLT has substantially relaxed eligibility rules to allow claimants to receive UI benefits, under both the regular UI program and the emergency Pandemic Unemployment Assistance program, for work absences connected with the COVID-19 pandemic. Claimants may now qualify for UI benefits if:

1. The individual or someone they reside with has been diagnosed with COVID-19 or is seeking a diagnosis;
2. The individual is the primary caregiver for a family member, or member of their household, that has been diagnosed with COVID-19 or is seeking a diagnosis;
3. The individual has been quarantined by a medical professional or public health official as a result of COVID-19;
4. The individual is the primary caregiver for a child whose school or childcare center has been closed as a result of COVID-19; or
5. The individual or a member of their household is at high risk of contracting COVID-19 because of their medical condition, their age or other rationale as offered by the Department of Health.²³

Claims Trends

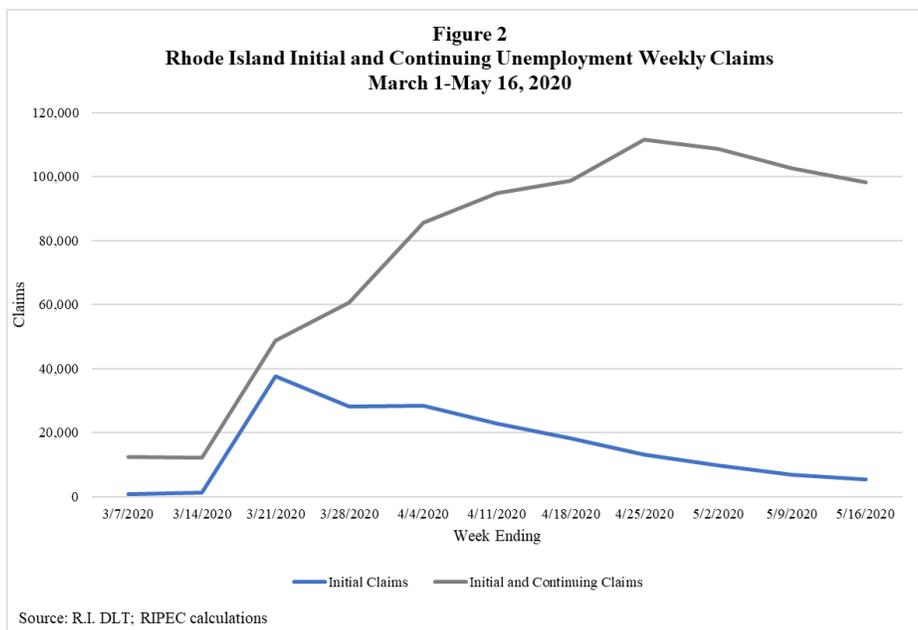
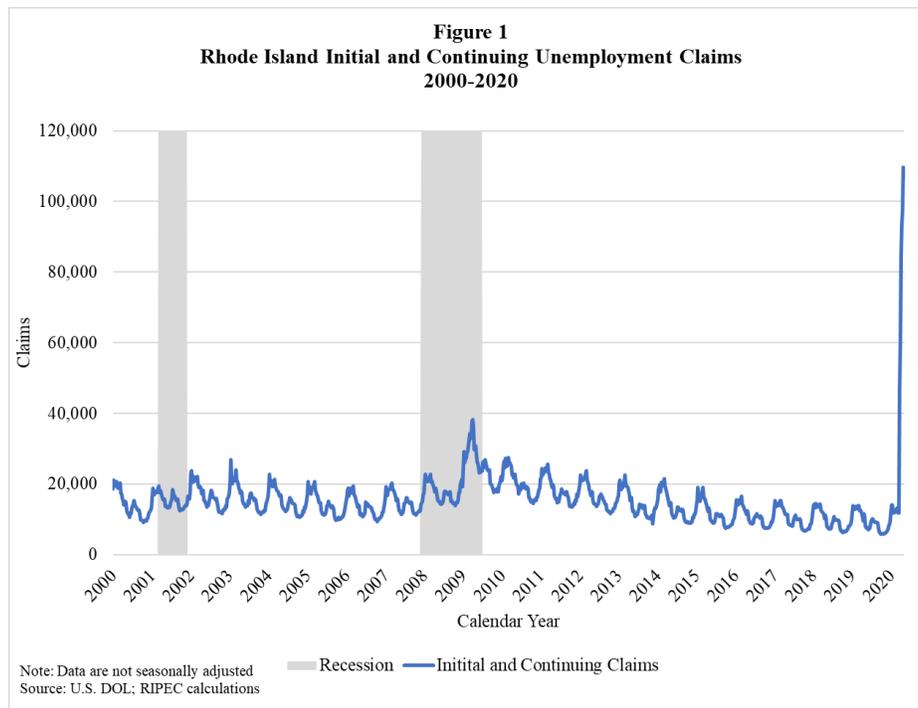
As result of the COVID-19 health crisis, Rhode Island experienced increases in UI participation between March and May of 2020 that far exceed previous economic downturns, both in terms of participation rate and the speed at which UI rolls increased. For instance, the highest number of initial weekly UI claims during the Great Recession was 3,987 (for the week ending February 28, 2009), compared to initial weekly claims of 35,847 for the week ending March 21, 2020. While UI claims activity is an important indicator of the trend of unemployment activity over time, the better measure of the number of those receiving unemployment benefits at a given point in time is the number of initial claims received and the number of continuing claims paid during the most recent week (continuing claims are claims previously filed, found to be eligible and receiving benefits).²⁴ The largest number of initial and continuing UI claims reported during the Great

²² U.S. Treasury, "[Coronavirus Relief Fund Frequently Asked Questions Update as of May 4, 2020.](#)"

²³ R.I. DLT Memorandum, "[Unemployment Insurance Eligibility—Pandemic Response.](#)" April 13, 2020.

²⁴ Claims represent requests for unemployment compensation; not all claimants are found eligible for benefits, and there may be duplicative claims filed by the same individual. There is also an indication that a significant number of UI claims filed in Rhode Island and certain other states may be fraudulent. Claims often are aggregated over a span

Recession was 38,227 in the week ending March 28, 2009.²⁵ In comparison, initial and continuing UI claims in Rhode Island reached a peak of 108,341 for the week ending April 25, 2020, by far the highest rate of initial and continuing UI claims in the program’s history.²⁶



of time to reflect total unemployment, but this measure further overstates the number of individuals receiving unemployment by failing to account for those leaving the unemployment rolls. Even the measure of initial and continuing claims overstates those receiving unemployment since some initial claims will be found ineligible.

²⁵ U.S. DOL, [Unemployment Insurance Weekly Claims Data](#).

²⁶ Ibid; R.I. DLT, [“Weekly Update of Claims Activity, Week Ending: April 25, 2020.”](#)

The United States also has experienced unprecedented UI participation, with the U.S. Department of Labor (DOL) reporting 36.7 million seasonally adjusted initial unemployment claims between the weeks ending March 14 and May 9, compared to 2.2 million initial claims in the equivalent 9-week period in 2019.²⁷ The rate of UI participation in the Ocean State has exceeded the U.S. average, however; the DOL reported that for the week ending April 25, Rhode Island ranked fifth highest nationally in terms of its unemployment claims, after California, Michigan, Nevada, and Pennsylvania, respectively.²⁸ It is unclear the extent to which Rhode Island’s relatively high rate of claims is the product one or more of the following conditions: 1) in response to the public health crisis, the governor used executive orders to enforce temporary closures of nonessential businesses earlier and for a longer stretch of time than has been the case in many other states, 2) the state has relatively high levels of infection, 3) the state has processed claims at a relatively fast rate, or 4) fraudulent claims have artificially inflated the total.²⁹

Makeup of Claims

Rhode Islanders with lower wage jobs have been disproportionately affected by unemployment during the COVID-19 crisis. The Rhode Island DLT reported that 66.0 percent of initial claims between March 9 and May 8 were filed by individuals in lower wage jobs, though this group comprises 57.3 percent of Rhode Island’s workforce. In total, 38.8 percent of lower wage earners filed for unemployment between March 9 and May 8. Mid-wage earners make up 19.6 percent of the workforce and filed 14.4 percent of initial claims in this period. Collectively, nearly one-quarter, 24.8 percent, of mid-wage earners filed initial claims. Higher wage earners make up a disproportionately small share of initial claims, comprising 23.1 percent of the workforce but 16.1 percent of initial claims. Of higher wage earners, 23.5 percent filed initial claims in this period. DLT was unable to classify the wage group associated with 3.6 percent of initial claims.³⁰

Figure 3
Unemployment by Wage Group, March 9-May 8, 2020

	Median Hourly Wage	Workforce Size	Percent of Total Workforce	Initial Claims Filed	Percent of Initial Claims Filed	Percent of Group's Workforce
Higher Wage Jobs	\$36.58	111,360	23.1%	17,900	16.1%	23.5%
Mid-Wage Jobs	\$23.97	94,260	19.6%	17,908	14.4%	24.8%
Lower Wage Jobs	\$14.89	276,280	57.3%	77,954	66.0%	38.8%
All Jobs	\$20.21	482,030		117,731		24.4%

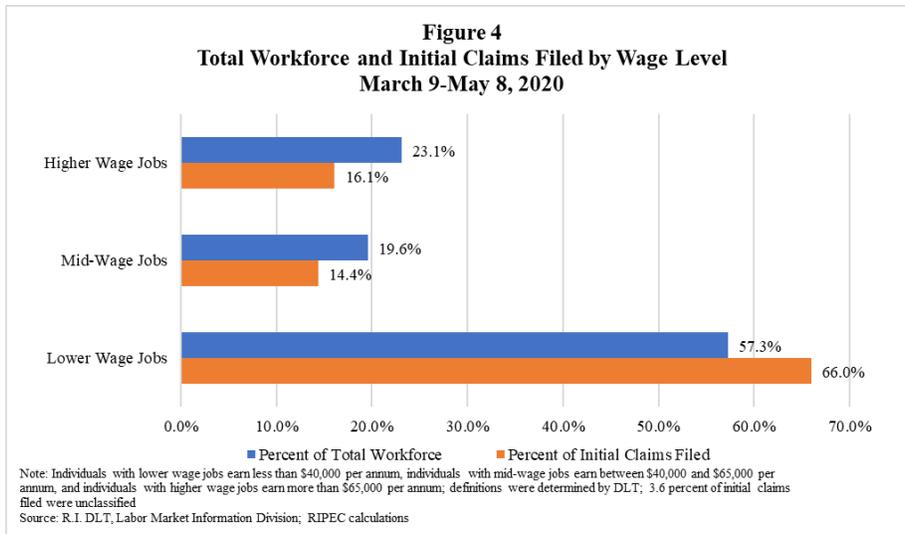
Note: Totals may not sum because 3.6 percent of initial claims were unclassified; Individuals with lower wage jobs earn less than \$40,000 per annum, individuals with mid-wage jobs earn between \$40,000 and \$65,000 per annum, and individuals with higher wage jobs earn more than \$65,000 per annum; definitions were determined by DLT
Source: R.I. DLT, Labor Market Information Division; RIPEC calculations

²⁷ U.S. DOL, [Unemployment Insurance Weekly Claims Data](#).

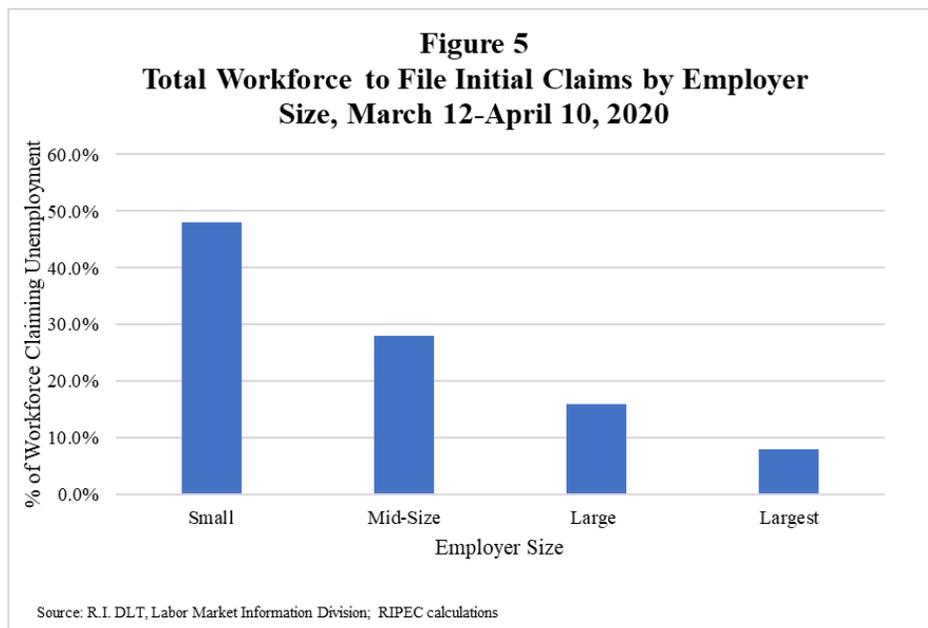
²⁸ U.S. DOL, News Release, “[Unemployment Insurance Weekly Claims: May 9, 2020.](#)” May 14, 2020.,

²⁹ U.S. Centers for Disease Control and Prevention, “[Cases and Deaths by State](#)”; Kevin Rinz, “[Understanding Unemployment Insurance Claims and Other Labor Market Data During the COVID-19 Pandemic](#),” May 11, 2020; “[Feds Suspect Vast Fraud Network is Targeting U.S. Unemployment Systems](#),” *New York Times*, May 17, 2020.

³⁰ Definitions of lower wage, mid-wage, and higher wage earners were determined by DLT. Individuals with lower wage jobs earn less than \$40,000 per annum, individuals with mid-wage jobs earn between \$40,000 and \$65,000 per annum, and individuals with higher wage jobs earn more than \$65,000 per annum. R.I. DLT, Labor Market Information Division.



Rhode Island employees of smaller businesses have been disproportionately represented on the unemployment rolls during the COVID-19 crisis. Nearly half—48 percent—of the total workforce of small Rhode Island employers filed an initial claim between March 12 and April 10, 2020. In comparison, 28 percent of employees of mid-size employers have filed an initial claim in the same period. Rhode Island’s large employers have had a disproportionately small portion of their total workforce file initial claims; approximately 16 percent of this cohort’s workforce filed a claim and fewer than 10 percent of those employed by the state’s largest employers filed a claim.³¹



³¹ The precise definitions of small and mid-size employers are somewhat unclear. In written testimony provided by the R.I. DLT to the May 2020 Revenue Estimating Conference, small employers are defined as having between one and ten employees, mid-size employers as having between 20 and 99 employees, large employers as having between 100 and 499 employees, and the largest employers as having over 500 employees. R.I. DLT, “[Labor Market Conditions in Rhode Island](#),” May 2020, 5.

UI Funding

Like nearly every other state, Rhode Island's UI program is funded entirely by a tax imposed on employers.³² Unemployment taxes are levied at the state and federal level. The federal payroll tax rate is set at 6.0 percent on a taxable wage base of \$7,000, but with a credit for state unemployment taxes paid up to 90 percent of the federal tax (5.4 percent). For employers, this translates to a tax of 0.6 percent or a maximum of \$42 per covered employee per year. This federal tax is used to fund both federal and state administrative costs, federal share of benefits under the Extended Unemployment Compensation Act of 1970, advances to states to pay unemployment compensation, and benefits under some federal supplemental and emergency programs.³³

Unemployment claimant benefits are funded primarily through state taxes on employer payrolls.³⁴ These taxes are deposited by the state to its account in the Unemployment Trust Fund in the U.S. Treasury and are withdrawn as needed to pay benefits. There are no federal requirements for the minimum amount of funds that should be kept in a state's trust fund. However, each state operates on a "forward funding" basis by building up reserves in anticipation of paying a higher amount of benefits during recessionary periods.³⁵ If it is anticipated that the balance of a state's unemployment fund will become insufficient to pay benefits during a specified period of time, a state may request an advance from the U.S. DOL. States are generally required to pay interest on federal advances, but this requirement is waived for the remainder of 2020 under the CARES Act.³⁶ If a state fails to repay an advance by November 10 of the year in which the second January 1st has passed since the advance, then the federal payroll tax will be increased by reducing the federal UI payroll tax credit of 5.4 percent by 0.3 percent. The federal tax credit will further be reduced by 0.3 percent each year thereafter until the loan is repaid.³⁷

The tax on employers is calculated according to a state base rate and adjusted by an experience rating based on the amount of benefits charged to an employer's account. This ensures that companies with greater numbers of unemployment charges pay more into the fund and is designed to encourage employers to stabilize their workforce.³⁸ Rhode Island employer payroll tax rates range widely from between 0.90 percent and 9.40 percent with a new employer tax rate of 1.27

³² Three states—Alaska, New Jersey, and Pennsylvania—require employee contributions. U.S. DOL, "[Unemployment Compensation: Federal-State Partnership](#)."

³³ U.S. DOL, "[Unemployment Compensation: Federal-State Partnership](#)."

³⁴ Rhode Island's FY 2020 budget as enacted includes expenditures of \$162.7 million for unemployment benefits, and total program costs of \$178.1 million, including administrative expenses. R.I. Office of Management and Budget, Governor's FY 2021 Budget Proposal, [Budget Volume 1: Technical Appendix](#).

³⁵ U.S. DOL, "[State Unemployment Insurance Trust Fund Solvency Report 2020](#)."

³⁶ States may borrow interest free if the advance is taken after January 1 and repaid by September 30 of the same year. States also may borrow without interest if certain solvency and tax maintenance requirements are met. Rhode Island does not appear to meet these requirements at the present time. States have the option to use private borrowing or budget appropriations to cover shortfalls in unemployment trust funds. U.S. DOL, "[State Unemployment Insurance Trust Fund Solvency Report 2020](#)"; U.S. SSA, [Compilation of the Social Security Laws, Repayment by States of Advances to State Unemployment Funds](#).

³⁷ U.S. DOL, "[State Unemployment Insurance Trust Fund Solvency Report 2020](#)."

³⁸ U.S. DOL, "[Conformity Requirements for State UC Laws, Experience Rating](#)."

percent on a taxable wage base of \$24,000 (or \$25,500 for high tax group employers).³⁹ This translates to an employer cost ranging from a minimum of \$216 to a maximum of \$2,256 per covered employee per year. For the second quarter of 2019, the most recent information available, the average employer tax rate was 2.51 percent on taxable wages of \$23,600, for an average employer cost of \$592 per covered employee per year.⁴⁰ On April 9, 2020 Governor Raimondo signed an executive order declaring that employers with unemployment claims related to the COVID-19 crisis will not have their experience tax rating impacted for COVID-19 related claims filed since January 27, 2020.⁴¹

Rhode Island's UI Trust Fund

While Rhode Island's UI trust fund balance was greater than at any time in the program's 84-year history as of January 1, 2020, it was not considered adequate and ranks in the bottom half of states, according to the U.S. DOL. In the 2020 edition of its "State Unemployment Insurance Trust Fund Solvency Report," the U.S. DOL found that Rhode Island is one of 22 states and jurisdictions with an unemployment compensation trust fund below the minimum level recommended to adequately sustain a recession. Determined by dividing a state's reserve ratio by the average of the three greatest rates of benefits a state has paid out over the last two decades, a state's ratio is considered adequate if over a value of one.⁴² With a ratio of 0.91, Rhode Island's trust fund balance of \$537.9 million was determined inadequate. Rhode Island's trust fund solvency ranked 34th in the nation, according to this measure. In New England, Rhode Island ranked fourth, ahead of Massachusetts (0.42) and Connecticut (0.50) but behind New Hampshire (1.0), Maine (1.32), and Vermont (2.53), which ranked first in the nation.⁴³ Rhode Island's trust fund was last considered solvent by the U.S. DOL in 1990, when the trust fund balance was \$255.7 million, or \$500.1 million in 2019 dollars.⁴⁴

³⁹ The tax includes a Job Development Assessment of 0.21 percent. [R.I. Dept. of Labor and Training, "2020 UI and TDI Quick Reference Guide."](#)

⁴⁰ U.S. DOL, [Unemployment Insurance Data](#).

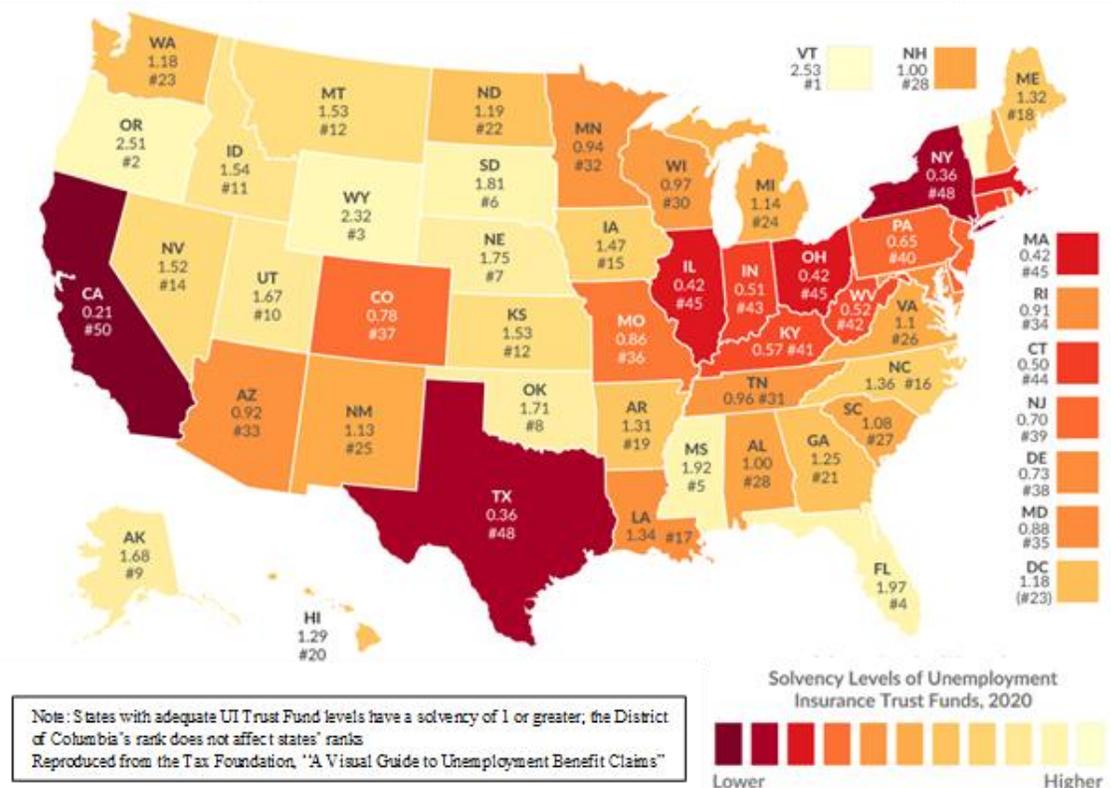
⁴¹ R.I. Office of the Governor, [Executive Order 20-19](#), April 9, 2020. This executive order expired on May 8 and therefore would appear to not apply to claims filed after such date.

⁴² The reserve ratio is derived by taking the trust fund balance and dividing by the state's total wages paid for the year. The benefit cost rate is the ratio of benefits paid in the year divided by wages for the same year. The measure utilized by the U.S. DOL takes the reserve ratio divided by the average of three greatest benefit cost rate over the past 20 years. According to the U.S. DOL's 2020 report, Rhode Island's reserve ratio is 2.76, its current benefit cost is 0.73, but its high 3-year average benefit cost is 3.01.

⁴³ Based on Tax Foundation calculations, Rhode Island could pay claims for 13 weeks before the UI fund was depleted as of April 4, 2020. Jared Walczak, ["States' Unemployment Compensation Trust Funds Could Run Out in Mere Weeks,"](#) Tax Foundation, April 9, 2020. U.S. DOL, ["State Unemployment Insurance Trust Fund Solvency Report,"](#) February 2020.

⁴⁴ Rhode Island's UI trust fund was established in 1936. The DOL has not altered the means through which it determines solvency, but because it is determined by the average of the three greatest rates of benefits a state has paid out over the last two decades as well as trust fund balance, Rhode Island's trust fund was considered solvent in 1990 and not 2020 even though its reserves were lower in 2019 dollars in the former year, R.I. Gen. Laws, [§ 28-42-21](#); U.S. DOL, ["State Unemployment Insurance Trust Fund Solvency Report,"](#) February 2020.; U.S. DOL, [Unemployment Insurance Data](#).

Figure 6
Solvency Levels of State UI Trust Funds, 2020



Despite Rhode Island’s UI trust fund’s historically high balance before the COVID-19 crisis, it has a recent history of insolvency. During the Great Recession, the Ocean State’s high unemployment rate was among the worst and most persistent in the nation, exceeding 10 percent for 45 months (between January 2009 and September 2012).⁴⁵ As a result, like at least 30 other states, Rhode Island exhausted its UI trust fund and was required to borrow money from the federal government.⁴⁶ As shown in a RIPEC analysis of the UI trust fund from 2011, this phenomenon was both the product of high unemployment rates and long-standing policies that led to a weakening of trust fund reserves.⁴⁷ Rhode Island began borrowing to sustain UI payments in March 2009 and by January 2011 was \$228.3 million in the red.⁴⁸ Rhode Island’s UI trust fund balance did not move into the black until the end of 2014; between 2014 and 2020, its trust fund balance experienced year-over-year increases.⁴⁹

⁴⁵ R.I. DLT, [Rhode Island Historic Unemployment Rates Seasonally Adjusted, 1976 – Present](#).

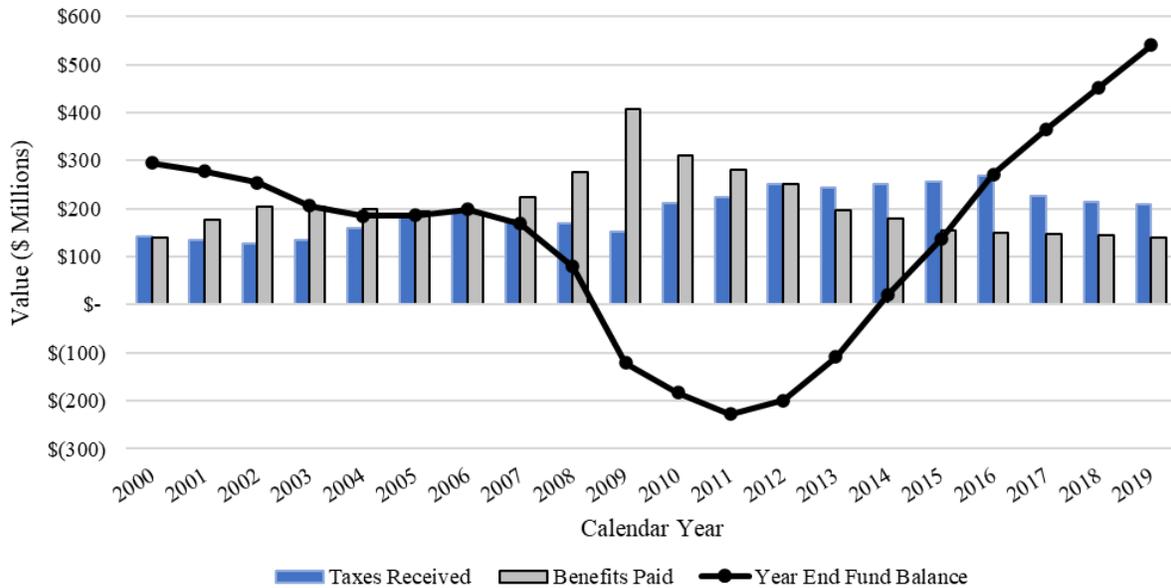
⁴⁶ Mary A. Burke and Austin J. Drukker, “[Understanding Rhode Island in the Great Recession](#),” Federal Reserve Bank of Boston, March 1, 2016; RIPEC, “[Summary of Unemployment Insurance and Analysis of the Rhode Island Unemployment Insurance Trust Fund](#),” January 2011, 1.

⁴⁷ In Rhode Island, the UI trust fund balance fell from \$295.7 million in 2000 to \$168.4 million in 2007. RIPEC, “[Summary of Unemployment Insurance and Analysis of the Rhode Island Unemployment Insurance Trust Fund](#),” January 2011, 7; U.S. DOL, [Unemployment Insurance Data](#).

⁴⁸ RIPEC, “[Summary of Unemployment Insurance and Analysis of the Rhode Island Unemployment Insurance Trust Fund](#),” January 2011, 7, 9.

⁴⁹ U.S. DOL, [Unemployment Insurance Data](#).

Figure 7
Rhode Island UI Fund Income, Payout, and Fund Balance,
2000-2019 (\$ Millions)



Note: Benefits paid includes both regular benefits and state share of extended benefits; a negative fund balance indicates amount owed to the federal government

Source: R.I. DLT 2018 Statistical and Financial Digest; R.I. House Fiscal documents; RIPEC calculations

Fiscal Health of Program

Regardless of the timing and shape that economic recovery may take, Rhode Island’s record-high UI participation from March through May has already had a deep impact on the state’s UI trust fund. Rhode Island began 2020 with a UI trust fund balance of \$537.9 million and by May 18 that balance was depleted to \$395.6 million, a 26.5 percent decrease. The Rhode Island DLT recently projected that the fund will diminish to \$203.0 million by the end of June.⁵⁰

While determining the future fiscal status of Rhode Island’s UI fund is complicated by a series of uncertainties, based on current economic trends and absent the injection of federal or state subsidies, the fund will be insolvent within a matter of months. Making use of the most recent data available, RIPEC has developed a model of the likely effect of the COVID-19 crisis on the solvency of Rhode Island’s UI trust fund. Specifically, RIPEC’s model uses the most recent claims, benefit payment, and fund income data available, as well as economic forecasts relied upon by the state’s revenue estimators, in projecting out through calendar year 2020. While the model does not include projections beyond 2020, it is reasonable to expect that high employment, and resulting large deficits between UI claims and employer tax revenues will persist.

⁵⁰ R.I. DLT, COVID-19 UI Daily Report, May 19, 2020.

The average monthly benefit payment data used in RIPEC’s modeling from June to December are estimated based on the average payments made in April and adjusted for the forecasted unemployment rate. May 2020 benefit payments were estimated using reported claims data, available through May 15, and assumed steady unemployment claims through the final two weeks in May. From June to December 2020, RIPEC’s model assumes estimated benefit levels at 15.9 percent unemployment. This unemployment level was projected by the economic forecasting firm IHS Markit in its testimony before the May 2020 Revenue Estimating Conference for Fiscal Year (FY) 2021, which begins July 1, 2020.⁵¹ For UI trust fund income, RIPEC’s model uses the monthly average income calculated from the 12-month average employer payroll taxes as reported in the fourth quarter of FY 2019 and adjusted to account for projected unemployment levels in May through December.⁵²

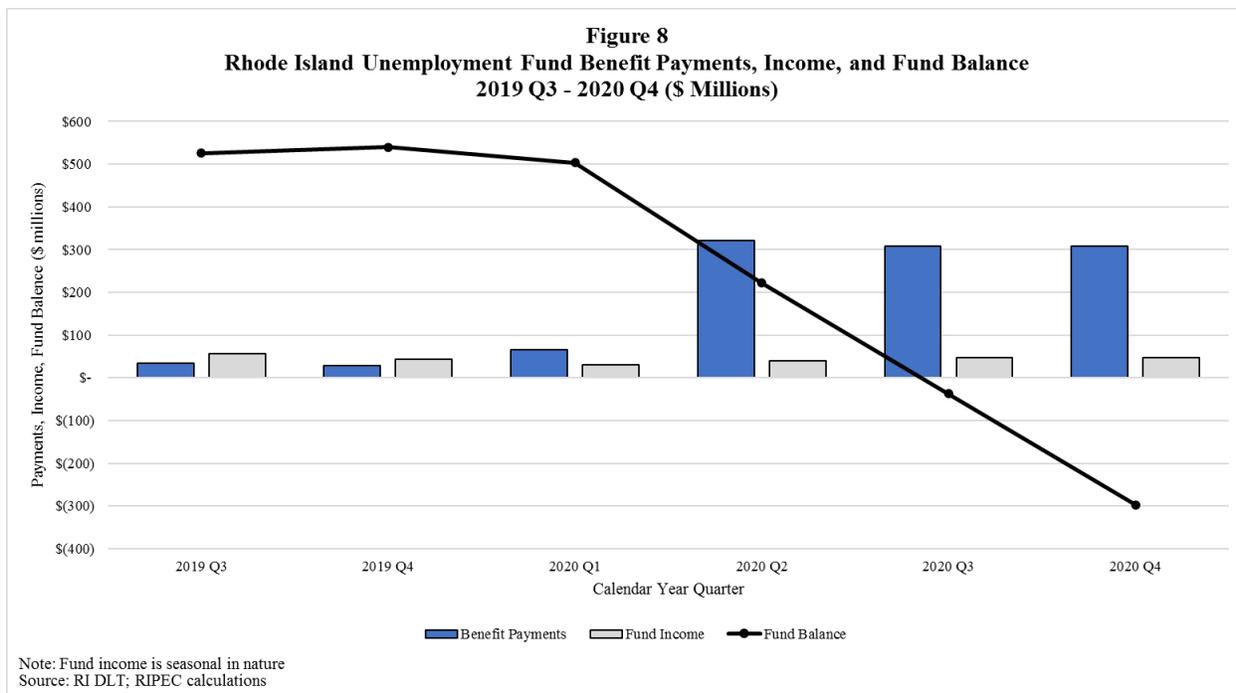
Figure 8 depicts the actual and estimated quarterly income, expenditures, and balance of Rhode Island’s unemployment trust fund from the third quarter of 2019 to the fourth quarter of 2020.⁵³ Based on RIPEC’s projections, the state will pay out \$102.6 million a month in UI benefits through the end of 2020. Coupled with reduced employer payroll tax revenues—estimated at \$15.9 million a month—these high benefit levels will lead to trust fund insolvency before September 30, 2020.⁵⁴ By December 31, 2020, Rhode Island’s UI trust fund is projected to have a \$300.0 million deficit, exceeding the highest year-end deficit the state experienced in the aftermath of the Great Recession (\$228.3 million at the end of 2011). Since high employment is projected to persist into 2021 and beyond, Rhode Island’s UI trust fund deficit can be expected to grow. Notably, the UI trust fund suffered losses for 27 months before hitting its Great Recession low, while the projected 2020 deficit will occur after 9 months of losses, even though, at the beginning of the calendar year, the trust fund had a higher balance than in the calendar year before the Great Recession began.

⁵¹ 15.9 percent is also the figure that the Conference’s three principals—the State Budget Officer, the House Fiscal Advisor, and the Senate Fiscal Advisor—adopted for the consensus economic forecast, and along with the remainder of that forecast, this projection helped drive the revenue and expenditure assumptions that were made by the Conference. For RIPEC’s purposes, 15.9 percent unemployment is conservative, because it serves as an average for the whole of FY 2021 (which runs until June 30, 2021), but RIPEC’s model runs only through December 31, 2020, and IHS Markit’s model assumes that the economy improves over the course of FY 2021. IHS Markit, “[The Rhode Island Outlook](#),” April 29, 2020; R.I. May 2020 Revenue Estimating Conference, [May 2020 Consensus Economic Forecast](#).

⁵² U.S. DOL, [Unemployment Insurance Data](#).

⁵³ Benefit payments and fund balance are actual from Q3 2019 through the beginning of Q2 2020. The remainder of Q2 2020 through Q4 are estimated. Fund income is estimated from Q3 to 2019 through Q4 2020.

⁵⁴ From July 2019 to February 2020, the average monthly benefit payment was \$11.7 million. In calendar year 2019, the average monthly fund income was \$18.2 million.



Consequences

If the UI trust fund becomes insolvent, Rhode Island will need to obtain a funding advance from the federal government to continue making UI payments.⁵⁵ UI taxes paid by employers eventually will need to increase to pay back the federal loan. Moreover, employer taxes will need to increase substantially to account for the overall higher claims experience resulting from the pandemic, which is likely to persist into 2021 and perhaps beyond.

While the current economic crisis is not entirely analogous to the Great Recession, it is instructive that Rhode Island’s Recession-era experiences of persistently high unemployment and borrowing federal funds in order to sustain its UI program significantly impacted the average employer’s UI tax bill.⁵⁶ During the Great Recession, Rhode Island was one of 25 states to face a federal tax credit reduction because it did not pay back its federal advance by November 10 of the year in which the

⁵⁵ Rhode Island qualifies for an interest free advance until December 2020 due to a temporary revision in federal law under the CARES Act. Typically, the criteria for an interest free advance is that a state must have an average high cost multiple (AHCM) value over 1.0 for one out of the last five years, and have maintained an average tax rate equal to at least 75 percent of the average of the previous five years benefit cost rates and 80 percent the previous year’s average tax. Rhode Island does not meet that criteria. The interest rate for 2020 was set at 2.4 percent. U.S. SSA, [Compilation of the Social Security Laws, Repayment by States of Advances to State Unemployment Funds](#); U.S. DOL, [“State Unemployment Insurance Trust Fund Solvency Report 2020”](#); U.S. DOL, [“FY 2020 State UI Allocations](#); U.S. DOL, Training and Employment Notice 16-19, [“Interest Rate on Title XII Advances During Calendar Year \(CY\) 2020,”](#) January 30, 2020.

⁵⁶ Rhode Island’s unemployment rate increased from 4.7 percent to 9.7 percent between January 2007 and December 2008. The unemployment rate reached 11.0 percent in April 2009 and did not fall below 10.9 percent until April 2012. Rhode Island’s unemployment rate remained at or above 9.0 percent until January 2014, and it took until December 2016 for the unemployment rate to return to its January 2007 level of 4.7 percent. R.I. DLT, [Rhode Island Historic Unemployment Rates Seasonally Adjusted, 1976 – Present](#).

second January 1st passed since the advance was made. Ultimately, Rhode Island did not repay its 2009 advance until 2014, and the state therefore experienced a credit reduction of 0.3 percent, 0.6 percent, and 0.9 percent in 2011, 2012, and 2013, respectively.⁵⁷ Consequently, in 2011, 2012, and 2013, Rhode Island employers paid federal rates of \$70, \$84, and \$104 per employee with a taxable wage of \$7,000 or greater. Once the state repaid its federal advance in 2014, employers' payments per employee fell to the current-day rate of \$42.⁵⁸

Increases of state UI taxes on employers had a greater impact during this period. In 2007, employers paid minimum rates of 1.69 percent and maximum rates of 9.79 percent on a taxable wage base of \$14,000, and while rates remained the same until 2016, the maximum taxable wage incrementally increased, from \$18,000 in 2008 to \$22,000 in 2015.⁵⁹ Additionally, because 1) there was persistently high unemployment, and 2) the amount paid by each employer is adjusted by an experience rating based on the amount of benefits charged to an employer's account, the average tax rate paid by Rhode Island employers increased substantially. In 2007, Rhode Island employers paid an average of \$503 per employee, and by 2011 employers paid an average of \$715 per employee. In 2015, this sum hit an apex of \$818 per employee, with the average payment steadily decreasing over the next three-and-a-half years, reaching \$592 in the second quarter of 2019.⁶⁰

When federal and state UI rates are added together and calculated in real—2019—dollars, the average Rhode Island employer paid \$266 more in state and federal UI taxes per employee in 2011 (\$892) than in 2008 (\$626). In 2015, the average Ocean State employer paid \$927, \$302 more than in 2008. The average sum paid by employers progressively decreased in the following years; the average Rhode Island employer paid \$47 more in state and federal UI taxes per employee in 2018 (\$673) than in 2008.⁶¹

⁵⁷ U.S. DOL, [Historical FUTA Credit Reductions](#).

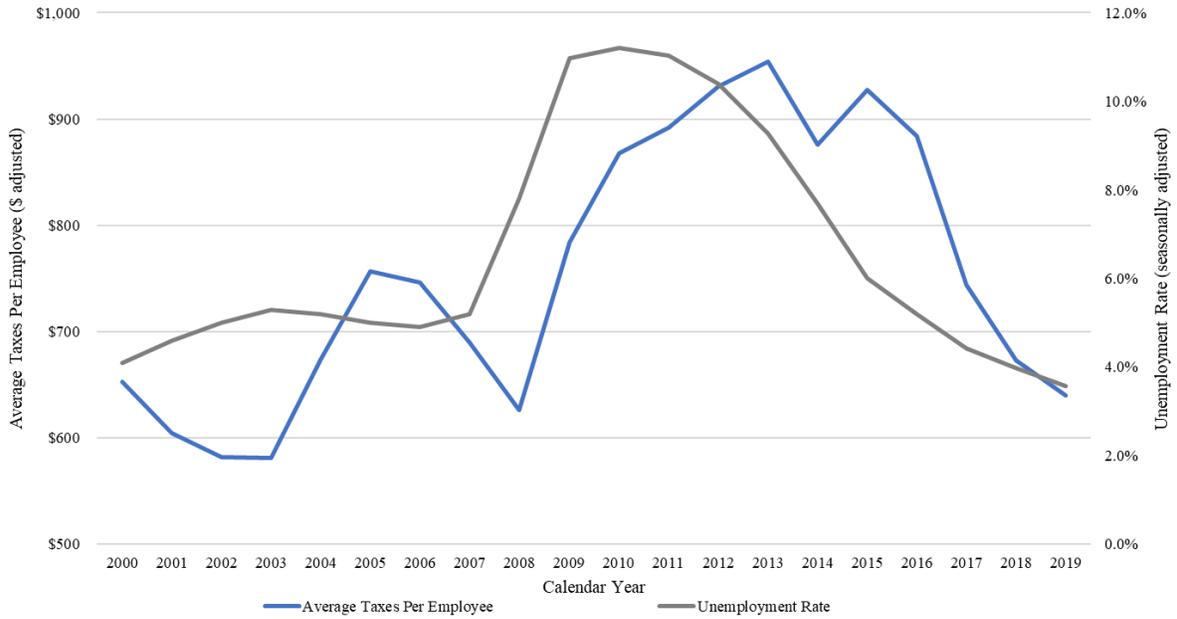
⁵⁸ 2011 rates were complicated both by the fact that Rhode Island incurred a 0.3 percent reduction on its credit reduction rate and that a 0.2 percent surtax on employee wages created in 1976 expired halfway through the calendar year, on June 30. Consequently, the UI tax rate for employers fell from 6.2 to 6.0 halfway through the year, while the credit reduction rate available to Rhode Island employers declined from a standard 5.4 percent to 5.1 percent for the entirety of the year. So, while Rhode Island employers paid an actual rate of 0.8 percent per employee earning at least \$7,000 in taxable wages prior to 2010, they paid a rate of 0.9 percent between January and June of 2011 and 1.1 percent between July and December. The rate paid per employee was therefore \$63 in the first half of the year and \$77 in the latter half of the year. While the number of employees per employer shifts over the course of any year, RIPEC could not assess how many of those employees had taxable wages of \$7,000 or more, and consequently used the average of the two maximum sums paid by employers per employee in 2011 in its calculations: \$70. Ibid; Julie M. Whittaker, "[Unemployment Compensation: The Fundamentals of the Federal Unemployment Tax \(FUTA\)](#)," Congressional Research Service, October 25, 2016.

⁵⁹ R.I. DLT, "[Statistical and Fiscal Digest, 2018](#)," 4.

⁶⁰ U.S. DOL, [Unemployment Insurance Data](#); R.I. DLT, [Rhode Island Historic Unemployment Rates Seasonally Adjusted, 1976 – Present](#).

⁶¹ RIPEC calculations assume that the average employee earned at least \$7,000 in taxable wages. It is likely that the reason why the average taxes paid by Rhode Island employers in 2008 is lower than the average tax paid in 2007 is because the effect of the Great Recession on unemployment and wage levels preceded DLT's reassessment of employer experience ratings. An experience year is the twelve-month period from October 1 through September 30 of the following calendar year. R.I. DLT, "[Employer Handbook: Guide to Rhode Island's Labor Laws and the Services Available to Employers](#)," 13-14; U.S. DOL, [Unemployment Insurance Data](#); U.S. DOL, [Historical FUTA Credit Reductions](#); U.S. Bureau of Labor Statistics, [CPI Seasonal Adjustment Tables](#); RIPEC calculations.

Figure 9
Average Rhode Island Employer UI Federal and State Taxes Per Employee & Unemployment Rate, 2000-2019 (\$ adjusted)



Note: Dollars adjusted to 2019 levels; 2019 tax data is from Q1 and Q2 of 2019 and all other years are from Q1-Q4; average federal taxes assume \$7,000 in taxable wages; 2011 federal taxes are calculated using an average of the two rates employed that year
 Source: U.S. DOL, Unemployment Insurance Data, Historical FUTA Credit Reductions; R.I. DLT, Seasonally Adjusted Unemployment Rates; U.S. BLS, CPI Seasonal Adjustment Tables

Temporary Disability/Caregiver Insurance

Background

TDI was established in Rhode Island in 1942 and was the first program of its kind in the United States. TDI provides income support for up to 30 weeks for workers to compensate for wage loss due to non-work-related illness or injury, and thereby not typically covered by Workers' Compensation. Rhode Island's TDI program remains relatively unique among the states; only four other states and one territory have TDI programs. In 2013 Rhode Island established a new TCI program which provides up to four weeks of income support to employees to care for a seriously ill family member or bond with a newborn or newly adopted or foster-care child.⁶²

Benefits in Rhode Island

To be eligible for TDI, an employee must be functionally unable to perform his or her customary and regular work duties, as certified by a qualified healthcare provider. An individual is required to be out of work for at least seven days to be eligible for TDI benefits. Eligible employees receive a weekly benefit of 4.62 percent of wages paid in the highest quarter of the relevant base period, which translates to a replacement rate of approximately 60 percent up to the maximum benefit.⁶³ The maximum TDI benefit rate is set each year at 85 percent of the average weekly wages paid for individuals covered under the program for the preceding year.⁶⁴ The maximum TDI benefit currently is \$867 per week, and the minimum TDI benefit is \$98 per week. TDI claimants with dependent children are entitled to the greater of \$10 or 7 percent of the benefit rate for each dependent up to a maximum of five. TDI benefits are not subject to federal or state income taxes. Notably, employees can be paid salary, sick, or vacation pay while receiving TDI benefits.

The TCI program has the same eligibility rules and pays benefits at the same level as the TDI program. Claimants may not receive TDI and TCI at the same time, and benefits received under the TCI program will reduce the number of weeks eligible to receive TDI. Unlike TDI, TCI benefits are subject to federal and state income taxes.⁶⁵

TDI Funding

The TDI and TCI programs are funded entirely through employee payroll deductions. The withholding rate and the taxable wage base is determined each year based on a statutory formula. The withholding rate is calculated based on the amount of disbursements and contributions over

⁶² New York, New Jersey, California, and Hawaii, as well as the Commonwealth of Puerto Rico, have TDI programs. R.I. DLT, "[Temporary Disability \(TDI\)/ Temporary Caregiver \(TCI\) Insurance.](#)"

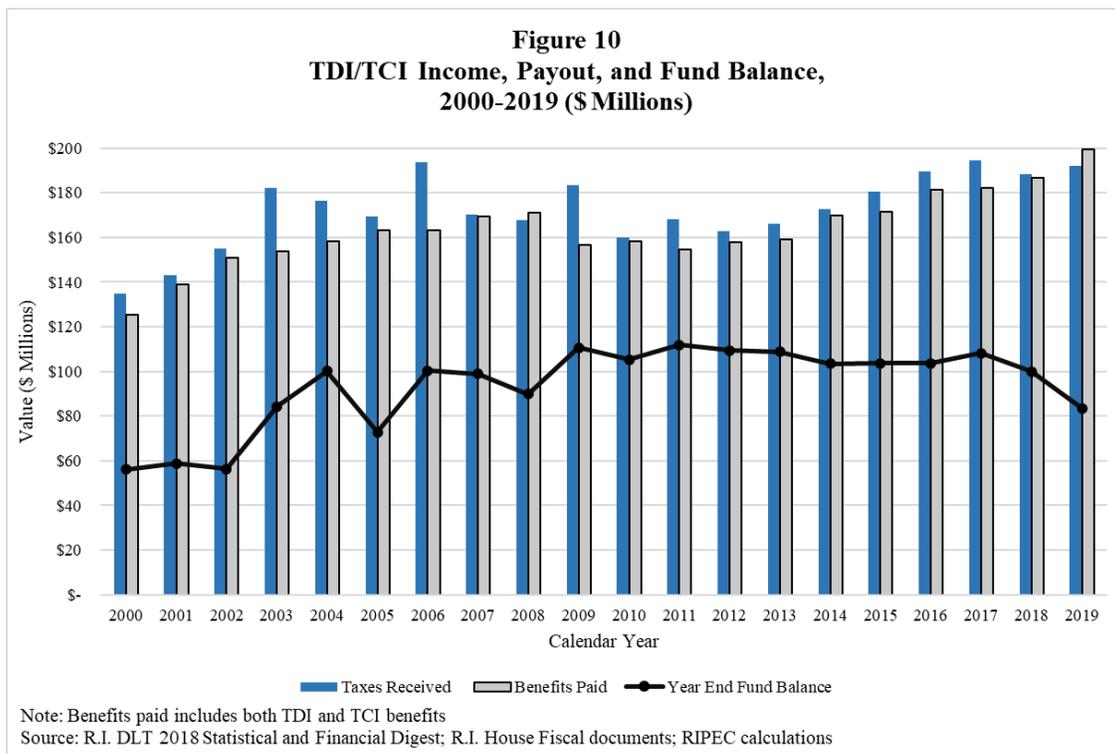
⁶³ The base period for purposes of TDI is the first four of the last five completed quarters before the starting date of an individual's claim.

⁶⁴ R.I. Gen. Laws § 28-41-5(a)(1).

⁶⁵ R.I. DLT, "[Temporary Disability \(TDI\)/ Temporary Caregiver \(TCI\) Insurance.](#)"

the year ending September 30, together with changes in the fund balance.⁶⁶ The taxable wage base is set each year based on the annual earnings needed by an individual to qualify for the maximum weekly benefit amount. The withholding rate for 2020 was set at 1.3 percent of the first \$72,300 in earnings.⁶⁷ While TDI and TCI are funded through a combined payroll deduction, the programs are reflected as separate programs in the state budget. The FY 2020 budget as enacted included TDI benefits of \$177.2 million, TCI benefits of \$15.2 million, and total TDI/TCI program expenditures of \$203.1 million.⁶⁸

Like the UI program, TDI taxes are paid into a reserve fund, from which benefits and administrative expenses are paid.⁶⁹ Unlike the UI program, benefits paid under the TDI program are relatively stable over time, as illustrated in Figure 10. Similarly, the TDI reserve fund has been maintained at a very stable level in the range of approximately \$100 million over the past ten years. If the solvency of the TDI reserve fund is threatened, the Director of Labor and Training is authorized to recommend changes in contribution and/or benefit rates to the governor and General Assembly. The governor is empowered to declare an emergency and authorize the DLT Director to make necessary changes in benefits rates, waiting periods, or eligibility. It does not appear that the DLT Director would be empowered to change employee contribution rates under these emergency powers.⁷⁰



⁶⁶ The rate is the ratio of disbursements to contributions for the 12-month period ending on the immediately preceding September 30. Any decrease in the fund balance over the six months preceding September 30 is added to the disbursements in calculating the ratio. R.I. Gen. Laws [§ 28-40-1\(b\)](#).

⁶⁷ Ibid.

⁶⁸ R.I. Office of Management and Budget, Governor’s FY 2021 Budget, [Volume 1; Technical Appendix](#).

⁶⁹ R.I. Gen. Laws §§ [28-39-7](#), [28-39-8](#).

⁷⁰ R.I. Gen. Laws [§ 28-39-11](#).

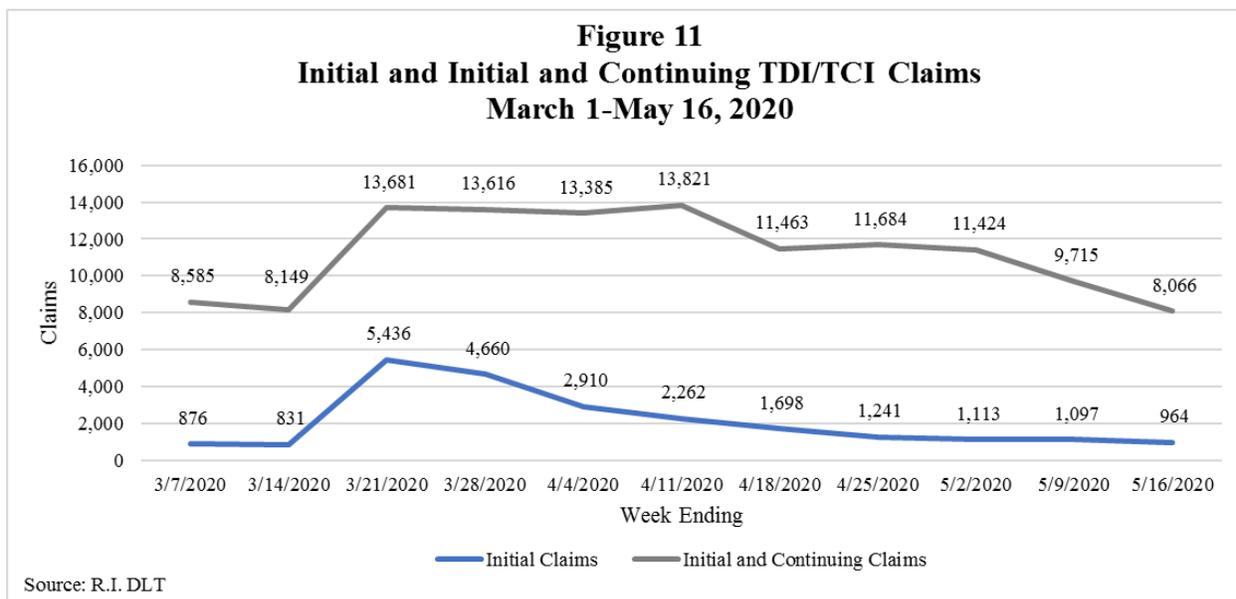
COVID-19 Impacts

Eligibility Changes

The Rhode Island DLT has relaxed eligibility requirements for TDI and TCI for absences connected with COVID-19. On March 12, 2020 the Rhode Island DLT issued an emergency regulation, allowing individuals diagnosed with, or quarantined because of exposure to, COVID-19 to claim TDI.⁷¹ For COVID-19 related TDI claims, the usual seven-day waiting period has been waived, and the required medical certification has been waived for individuals under quarantine. In addition, an individual may be eligible for TCI benefits in order to care for a family member impacted by COVID-19.⁷²

Claims Trends

From mid-March through early May, Rhode Island experienced a dramatic increase in TDI/TCI claims. TDI/TCI claims surged from an average of 854 initial claims a week in the first two weeks in March to an average of 3,817 claims in the four weeks after March 14. Initial and continuing claims peaked for the week ending March 21 at 13,681 and remained above 13,000 for the following three weeks. However, from April 11 onward, initial and continuing claims progressively decreased. The most recent data show that rates have returned to typical levels; there were 964 initial TDI/TCI claims and 8,066 initial and continuing TDI/TCI claims for the week ending May 16.



⁷¹ R.I. Department of State, [Emergency Regulations for the Waiver of Employees' and Employers' Duties and Obligations During a Potential Health Threat Related to the Infectious COVID-19 Virus Pursuant to Title 28 of Rhode Island General Laws](#).

⁷² R.I. DLT, ["COVID-19 Workplace Fact Sheet."](#)

Fiscal Health of Program

At the end of 2019, Rhode Island's TDI/TCI fund had a balance of \$83.5 million.⁷³ While the fiscal health of TDI/TCI through 2020 is reliant on the shape of the state's economic recovery as well as the severity and frequency of future COVID-19 flare-ups, RIPEC has used the most recent data regarding claims, benefit, and employee contribution levels to project the balance of Rhode Island's TDI/TCI fund through the end of the calendar year.⁷⁴ RIPEC's model accounts for the total benefit payments reported by DLT through the end of April 2020 and thereafter uses benefit levels as reported through the week ending May 16, 2020 to estimate May's total benefit payments. Based on the return to average claims levels for the week ending May 16, RIPEC's model assumes a stable benefit rate per claim for June through December 2020, consistent with the average claims experience for the eight months before the COVID-19 crisis.

While TDI benefit claims have stabilized to pre-COVID levels, high unemployment will continue to have a significant negative impact on employee contributions. The most recent fund income data available are from the end of 2019, when the fund had an annual income of \$192.0 million. For 2020, RIPEC's model adjusts 2019 employee contributions to account for: a rate increase from 1.1 percent in calendar year 2019 to 1.3 percent in 2020, the high unemployment levels recorded from mid-March through mid-May 2020, and the unemployment levels projected by IHS Markit and adopted in Rhode Island's May 2020 Revenue Estimating Conference, consistent with projections developed for the UI trust fund.⁷⁵ Based on Rhode Island's FY 2020 budget as enacted, RIPEC's model also assumes that the program's monthly administrative expenses will be unchanged at \$891,667.⁷⁶

Figure 12 illustrates actual and estimated TDI/TCI quarterly benefit payments, income, and fund balances from the third quarter of 2019 through the fourth quarter of 2020. Based on RIPEC's model, the TDI/TCI fund is not at risk of insolvency in 2020.⁷⁷ Though the fund experienced a significant increase in benefit claims in March, April, and early May, initial and continuing claims returned to average levels by mid-May. However, the larger impact on the TDI trust fund is the projected loss in revenues resulting from increased unemployment. RIPEC projects a \$7.7 million trust fund decrease in April, followed by a monthly decrease of \$2.8 million throughout calendar year 2020. Based on RIPEC modeling, the trust fund will have approximately \$50.3 million by December 31, 2020, amounting to a one-year fund decrease of \$33.2 million, or 39.7 percent. This

⁷³ R.I. House Fiscal Advisory Staff documents.

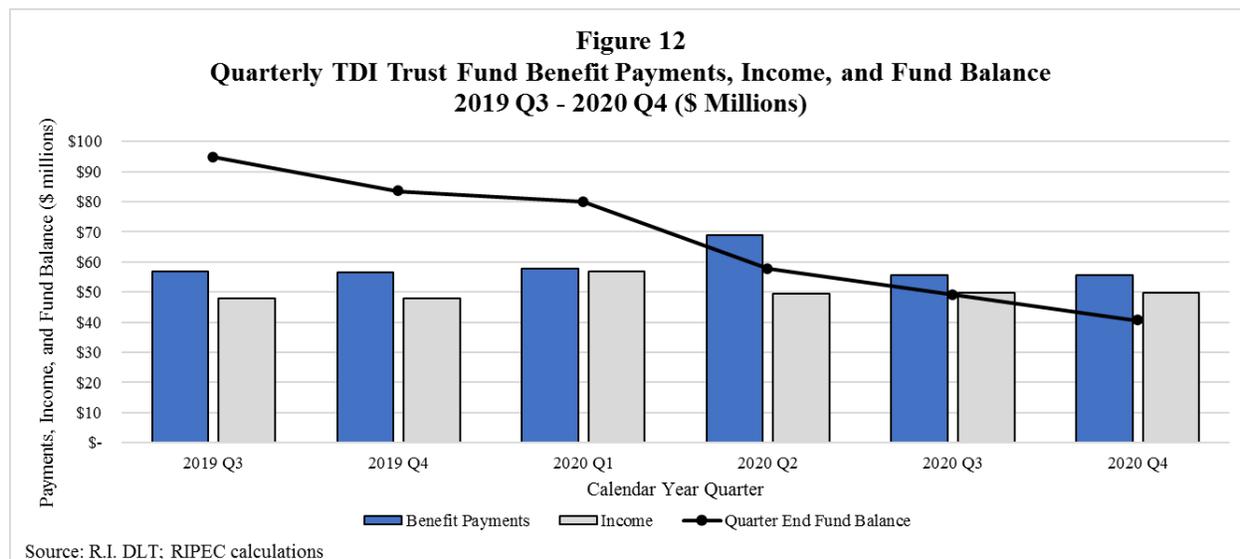
⁷⁴ Public health experts have forewarned of second or third waves, and the director for the Centers for Disease Control and Prevention was quoted in late April as stating that a flare-up in the winter of 2020 and 2021 could be "even more difficult" than the current outbreak. Carlie Porterfield, "[Report: CDC Director Warns a Second Coronavirus Wave Would Be 'Even More Difficult.'](#)" *Forbes*, April 21, 2020.

⁷⁵ RIPEC's income fund projections also utilizes the 2019 taxable wage base and 2020 TDI rate of 1.3 percent to determine fund income levels. RIPEC's model does not factor in the 2020 increase of the TDI/TCI taxable wage base from \$71,000 to \$72,300. R.I. DLT, [2020 UI and TDI Quick Reference](#), Effective January 1, 2020.

⁷⁶ R.I. Office of Management and Budget, [FY 2020 Budget as Enacted, Volume I: General Government](#), 151.

⁷⁷ Benefit payments from Q3 2019 through Q1 2020 are actual. Part of Q2 2020 data are actual and the remainder, as well as Q3-Q4 2020, are estimated. Fund balance and monthly income data are estimated for Q3 and Q4 2019 based on year-end data. Q1-Q4 2020 fund balance and monthly income data are estimated.

figure would amount to the trust fund’s lowest balance since 1994, when the fund had a year-end balance of \$61.7 million.



Consequences

As previously stated, the withholding rate for employee contributions to TDI/TCI is calculated based on changes in the fund balance as well as the amount of disbursements and contributions over the year ending September 30. Therefore, the uniquely high levels of TDI/TCI participation from mid-March through early May in 2020, along with the reduction in employee contributions over the relevant period, will yield a significant increase in the 2021 withholding rate, even if there is no additional COVID-19 flare-up. A greater cause for an increase in the withholding rate is that there is a high unemployment rate projected through the calendar year, which will significantly decrease the pool of employees making contributions into the fund.

Under RIPEC’s model, the withholding rate would increase from 1.3 percent in 2020 to 1.6 percent in 2021—an increase of 23.1 percent.⁷⁸ This would mark the highest withholding rate since 2003, when the rate was 1.7 percent and the taxable wage base was \$25,700 lower than in 2019.⁷⁹ For the average lower wage Rhode Island worker, this would amount to a \$93 tax withholding increase between 2020 and 2021. Comparatively, the average mid-wage worker would pay \$150 more in withholding and the average higher wage worker would pay \$217 more in withholding.

⁷⁸ RIPEC’s rate change calculation is based on the statutory formula detailed in R.I. Gen. Laws [§ 28-40-1\(b\)](#) and uses modeling to anticipate fund benefit payments between April and September 2020 as well as the fund’s September 30, 2020 balance.

⁷⁹ In 2003, the taxable wage base was \$45,300, compared to \$71,000 in 2019. R.I. DLT, [Statistical and Fiscal Digest 2018](#), 34

Figure 13
Employee Withholding Tax Impact

	Median Hourly Wage	Median Annual Salary	2020 Rate (1.3%)	Projected 2021 Rate (1.6%)	Change
Lower Wage Jobs	\$ 15	\$ 30,971	\$ 403	\$ 496	\$ 93
Mid-Wage Jobs	24	49,847	648	798	150
Higher Wage Jobs	37	76,086	940	1,157	217

Source: R.I. DLT; RIPEC calculations

Conclusion

In Rhode Island, the COVID-19 pandemic and its accompanying economic fallout have resulted in unprecedented levels of unemployment, which are expected to remain at historically high levels through at least the next year. The COVID-19 crisis also has caused a spike in Rhode Islanders claiming TDI/TCI benefits, as well as a loss in employee contributions which fund the program. Consequently, Rhode Island's UI and TDI/TCI systems have been placed under considerable financial stress.

In the case of UI, Rhode Island's trust fund, at a historically high level at the beginning of 2020, is expected to be completely depleted within only a few months, forcing the state to borrow from the federal government to continue to pay benefits. While unemployment due to COVID-19 has been excluded from determining an employer's experience rating for UI tax purposes, the burden of increased unemployment benefit costs will be imposed on all employers generally. Based on the trend of UI tax rates during and immediately following the Great Recession, UI tax rates can be expected to increase sharply as a result of the COVID-19 crisis, and it likely will take years to rebuild the UI trust fund.

While there are admittedly many demands on Rhode Island's \$1.25 billion allocation under the federal Coronavirus Relief Fund, the state should consider using a portion of that allocation to shore up the UI trust fund and mitigate the negative impact of higher taxes on employers. Rhode Island businesses already face relatively high taxes compared to other states, and many businesses will be financially challenged to resume operations in the current economic climate.⁸⁰ Moreover, the tax increases anticipated to be imposed on employers result directly from the public health emergency, including state-mandated closures. Using the federal relief funds to lessen the negative impact to the UI trust fund is consistent with the intent of the Fund. The use of relief funds for this purpose also has been specifically authorized by U.S. Treasury Guidance.⁸¹

Once the COVID-19 crisis and its economic fallout are behind us, Rhode Island should consider pursuing employer tax policies to build a larger UI trust fund. At the same time, the state should resist increasing UI benefit levels, which were reformed in 2011 to be more in line with neighboring states, and which remain relatively generous compared to other states.⁸² Although the trust fund was the largest in the state's history at the beginning of 2020, it was not considered adequate by the U.S. DOL and ranked in the bottom half of the states. The current crisis will mark

⁸⁰ According to the Tax Foundation, Rhode Island's 2020 overall business tax climate ranks 39th among the states. Jared Walczak, "[2020 State Business Tax Climate Index](#)," Tax Foundation, October 22, 2019.

⁸¹ It is likely Congress will pass further legislation to address the COVID-19 crisis. To the extent such legislation provides additional financial assistance to Rhode Island, the state similarly could consider using such funding to offset UI trust fund losses resulting from the crisis.

⁸² Rhode Island's UI laws underwent a major overhaul in 2011, at which time the replacement rate was reduced from 60 percent to 50 percent. [P.L. 2011, ch. 151, art. 4, § 2](#). Based on the most recent 2019 data, Rhode Island's maximum weekly benefits without dependents allowance were the tenth highest in the nation, and the state ranked third when including the maximum dependents allowance. RIPEC Policy Brief, "[How Rhode Island Unemployment Benefits Compare](#)," February 2019.

the second time in 11 years that Rhode Island will be required to borrow heavily from the federal government to sustain its UI program. If the state had a larger trust fund entering this most recent crisis, it may have been able to avoid insolvency, or at least minimize its federal borrowing and its accompanying costs.

In comparison to the devastating impact of UI claims on Rhode Island's UI system, the impact of the COVID-19 crisis on the TDI system appears to be more manageable. While TDI and TCI claims surged to more than several times the typical level in the third and fourth weeks of March, initial claims have since subsided and the level of total current claims has now returned to pre-COVID levels. However, the temporary spike in claims and the more persistent negative impact of high unemployment on employee contributions will continue to deplete the TDI trust fund to a level of about \$50.3 million at the end of 2020, from \$83.5 million at the beginning of the year. Consequently, RIPEC projects that, under the statutory formula, employee contributions will need to be increased sharply next year—from the current rate of 1.3 percent to 1.6 percent—imposing a significant additional cost on employees.

As with UI, the state could consider using a portion of its allocation of the federal Coronavirus Relief Fund to reimburse the TDI fund for those claims connected with the pandemic, thereby lessening the need to increase the employee contribution rate next year. While there does not appear to be specific U.S. Treasury guidance pertaining to using relief funds to defray the cost of claims under a state temporary disability program, such costs are akin to UI claims and would appear to be allowable to the extent that such TDI or TCI claims resulted from the public health crisis.

Once the COVID-19 crisis has been resolved and the TDI fund has been stabilized, Rhode Island should consider taking the opportunity to pursue reform of the TDI and TCI system. In a report published in 2015, RIPEC cited the need for reform of TDI and TCI. As set forth in that report, Rhode Island is one of only five states operating a public disability program, and it is the only state that requires participation in a public disability program without allowing employers the option of purchasing private insurance plans or self-insuring rather than participating in the program.⁸³ Finally, even if the current TDI/TCI structure is maintained, there would appear to be opportunity for efficiencies given the program's relatively high cost.⁸⁴

⁸³ RIPEC, "[Rhode Island Temporary Disability Insurance \(TDI\) and Temporary Caregiver Insurance \(TCI\)](#)," June 2015.

⁸⁴ For example, the 2020 employee tax rate for California's state temporary disability program, which provides disability and family leave benefits, is 1.0% of taxable wages up to an annual salary of \$122,909; benefits in California are 60 to 70 percent of salary up to \$1,300 per week. Employment Development Dept., State of California, "[What Are State Payroll Taxes](#)"; "[Fact Sheet State Disability Insurance Program](#)." The New Jersey Temporary Disability Insurance program has a current tax rate of 0.26% of taxable wages up to an annual salary of \$134,000; benefits under the New Jersey program are set at two-thirds of average weekly wage, up to a maximum of \$667 per week. Family leave benefits are funded separately. New Jersey Dept. of Labor and Workforce Development, Division of Temporary Disability and Family Leave Insurance, "[Information for Workers](#)."