Massachusetts Taxpayers Foundation

Now is the Time

Unemployment Insurance Reforms

Policy Fact Sheets

Understanding the State's Unemployment Insurance System

The Pandemic's Impact on the UI Trust Fund

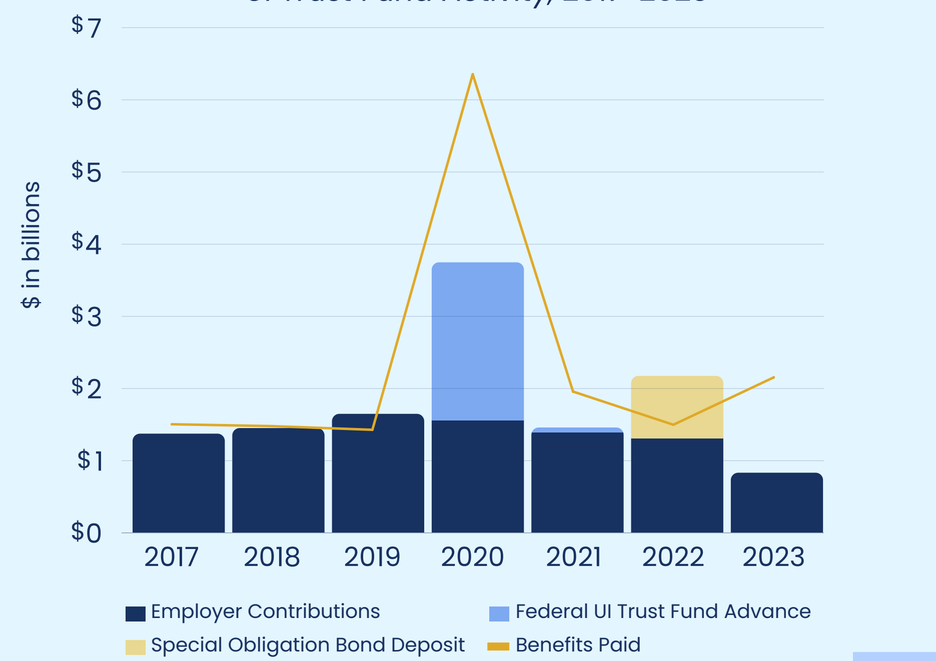
The state's UI system is still feeling the impact of significant unemployment during the pandemic, which resulted in thousands of additional individuals receiving UI benefits for an extended period. **By April 2020, the state's unemployment had skyrocketed to 17.8 percent, growing more than fivefold from the 3.1 percent rate just two months earlier (in February 2020).** To address this crisis, policymakers quickly took measures to make UI benefits more responsive, including waiving the work search requirement, extending benefit periods, and implementing enhanced programs funded through federal legislation. The sudden increase in the demand for UI benefits, as well as federal pandemic policy changes had seismic impacts on the state's UI system – from large federal UI loans that required repayment, to state benefit expansions, to system errors that resulted in the improper use of billions in federal funds – that continue to reverberate through the system and have ramifications on ongoing UI reform discussions.

This Fact Sheet provides an overview of the factors that affected UI during the pandemic and still matter today. It summarizes legislative action taken during the pandemic to mitigate impacts on employers and employees, looks at how the state used bonding and employer assessments to repay federal UI loans, and summarizes the impact of the misuse of $2.5 billion of federal resources to pay state UI benefits during the pandemic.

Understanding the Pandemic's Impact on UI

Heading into 2020, the UI system appeared on relatively sound footing. The balance of the UI Trust Fund was projected to reach $1.9 billion in 2020 and trigger a lower set of UI assessment tax rates for employers. **Instead, the pandemic changed UI trends overnight, resulting in a negative UI Trust Fund balance by June 2020.** In that year, benefits exceeded $6 billion, compared to $1.4 billion in the year before. In response to this sudden and extreme change in employer and employee needs from the UI system, the state took several legislative actions.

UI Trust Fund Activity, 2017-2023



State Changes to UI Benefits

In May 2020, state policymakers enacted *An Act Providing Additional Support to Those Affected by the Novel Coronavirus Through the Unemployment Insurance System*. The bill was designed to make the system more responsive to the challenges of the pandemic by expanding benefits and changing how claims affected employers. Key provisions of the bill included:

- Extending the time non-profits had to repay the UI system for UI claims, without interest or penalty.
- Ensuring the maximum benefit period of 30 weeks while enhanced federal benefits were in place, or while claims were over 100,000.
- Removing the cap on UI dependent benefits.[1]
- Limiting the impact of pandemic claims on an employer's experience rating, which would have penalized employers for layoffs caused by mandatory business closures and other pandemic impacts.

Under the bill, instead of charging pandemic-related UI claims to an employer's account, all pandemic-related UI claims were moved to the state's Solvency Fund, which limited the impact on an individual employer's experience rating.

UI changes in this bill had two long-term impacts on the UI system: increased generosity of UI benefits for an extended period and assigning pandemic-related UI claims to the Solvency Fund, which had unanticipated impacts on employers, discussed later in this Fact Sheet.

Federal Unemployment Action

To help workers impacted by the pandemic, the federal government enacted several pieces of legislation, including the Coronavirus Aid, Relief, and Economic Security (CARES) Act, which established three unemployment programs using federal funding in addition to a state's regular UI benefits, which were extended under the American Rescue Plan Act (ARPA), including:

- **Pandemic Unemployment Assistance (PUA)** - This program extended the number of weeks UI claimants could receive benefits from 30 weeks in Massachusetts to 79 weeks and expanded eligibility to include workers not eligible for regular UI benefits, such as self-employed workers and independent contractors.
- **Federal Pandemic Unemployment Compensation (FPUC)** - This program extended the benefit amount for individuals eligible for regular UI or PUA benefits to $600 per week between March and July 2020 and $300 per week from December 2020 to September 2021.
- **Pandemic Emergency Unemployment Compensation (PEUC)** - This program provided up to 13 weeks of additional UI benefits for individuals who claimed the maximum number of weeks and were able and available to work or actively seeking work.

Insolvency of the Fund and Federal UI Loans

When a state pays out UI benefits in excess of its UI Trust Fund balance, it can take federal UI loans to ensure the continuation of benefit payments, typically in times of significant economic downturns like the Great Recession. **Between June 2020 and April 2021, Massachusetts borrowed $2.3 billion from the federal government to continue paying UI benefits during the pandemic, a majority of which ($2.2 billion) were borrowed in 2020.** While the federal government delayed the accrual of interest and extended the amount of time states had to repay federal UI loans, the state had to meet the new deadlines on interest and principal payments to avoid FUTA credit reductions on employers.

[1] Prior to the policy change, the cap on UI dependent benefits was 50 percent of a claimant's weekly benefit amount per dependent.

- **Interest -** During the pandemic, the federal government waived interest accrual on UI loans until September 6th, 2021, but required states to make their first interest payment by September 30th, 2021, to avoid potential penalties. Generally, if a state takes out a federal UI loan and does not meet deadlines for the borrowing to be interest-free, the states is subject to penalties.
- **Principal -** If a state carries a loan balance for two consecutive Januarys, and the loan is not fully repaid by the November following the second January, the **FUTA credit for employers is decreased by 0.3 percent each year there is a balance**. The loan repayment deadline was delayed by the federal government during the pandemic to November 2021, providing states more time to repay the loan and preventing FUTA credit reductions for employers.

As federal deadlines approached, the challenge for Massachusetts was how to repay federal UI loans in a timely manner, continue supporting UI benefits throughout the pandemic, avoid sky-high employer assessments, and retain a solvent UI Trust Fund.

The Aftermath of the Pandemic - State Policy Actions

Since the economy emerged from the depths of the pandemic, policymakers have been faced with three major UI challenges that affect employers and the long-term solvency of the UI Trust Fund:

- Repaying federal UI loans.
- Addressing the spike in the Solvency Fund assessment.
- Repaying the federal government for the improper use of pandemic-era UI funds.

This section reviews the myriad actions taken by policymakers in 2021 and 2022 to repay federal UI loans and prevent a spike in Solvency Fund assessments on employers and it highlights the new challenge facing policymakers - a 2023 audit that found the state misused $2.5 billion in federal pandemic-era funds to pay for state UI benefits and the repayment agreement that was reached with the federal government.

1 Repaying Federal UI Loans

Faced with how to repay both interest and principal of the federal UI loans in a timely manner without penalties, the state applied $500 million in ARPA Fiscal Recovery Funds toward the loan, and the Baker administration proposed legislation, ultimately signed into law, authorizing the sale of special obligation bonds to repay the remaining balance to avoid significant interest accrual and FUTA credit reductions on employers by spreading the financial impact on employers over time. At the time, the Baker administration estimated the UI Trust Fund would have faced a $6 billion shortfall without the sale of special obligation bonds.[2]

Authorization of Special Obligation Bonds

After state policymakers dedicated $500 million of ARPA funds to repay about 20 percent of outstanding federal UI loans, **policymakers authorized the sale of special obligation bonds in 2021 to repay the remaining $1.8 billion**. These bonds achieved an AAA rating, which helped the state secure lower interest rates, because they were supported by a dedicated UI assessment on employers to repay the bonds, as described in the following section.

[2] MTF Bulletin: COVID-19 and the Unemployment Insurance Trust Fund

In 2022, the state issued $2.7 billion in special obligation bonds, with $1.8 billion (67 percent) used to pay off the state's federal UI loan and interest. The remaining $867.6 million was deposited into the state's UI Trust Fund, intended to improve the fund's solvency, with the intent of limiting rate schedule increases in future years while the assessment was being repaid. The rationale for the bond sale was to avoid a costly FUTA credit reduction for employers and prevent UI assessment rate increases on employers in the years following the pandemic. Following the deposit, the reserve percentage of the UI Trust Fund improved, resulting in Schedule A rates for employers in 2023, the lowest set of UI assessment rates.

Usage of Special Obligation Funds Issued, 2022

Purpose	Amount Supported by Bonds
Federal UI Trust Fund Loan	**$1,803.5**
Principal	*$1,768.0*
Interest	*$33.5*
UI Trust Fund Deposit	**$867.6**
Total Bonds Issued	**$2,680.0**

$ in millions

The COVID-19 Recovery Assessment

To service the special obligation bonds used to repay federal UI loans, a separate assessment on employers was created to service the bonds' debt. The separate assessment allowed the state to spread the financial burden of the principal, interest, and administrative costs related to the special obligation bonds until 2031 but meant that all but $500 million of pandemic-related federal UI loans would be repaid by employers as well as interest on the bonds.[3] Like the state's standard UI assessment, businesses that contribute to the state's UI Trust Fund pay the COVID-19 Recovery Assessment quarterly on the first $15,000 in wages per employee based on their experience rating.

COVID-19 Recovery Assessment Rates per Employee

Experience Rating	2021	2022	2023	2024	2025
Highest	$14.85	$17.70	$106.20	$43.95	$31.50
Lowest	$226.35	$269.40	$1634.4	$670.35	$480.00

As part of the legislation, the COVID-19 Recovery Assessment works as follows:

- The amount generated by the assessment during each of the first two years (2021 and 2022) was set at **$150 million**.
- Following the sale of the special obligation bonds, the assessment after 2022 was set to ensure the state meets **125 percent** of the debt service payment, and funds were deposited in a separate fund.

2023 COVID-19 Recovery Assessment Rates

In 2023, Massachusetts employers paid more through the COVID-19 Recovery Assessment than the state UI assessment. The temporary assessment on employers generated **$915 million** and represented **126 percent** of the state UI assessment. This amount primarily driven by two factors:

- The state now had to meet the **125 percent debt service payment** after the sale of special obligation bonds.
- State **UI assessment rates were adjusted** from **Schedule E** to **Schedule A** following the deposit of proceeds from the sale of special obligation bonds to the UI Trust Fund, thereby reducing standard UI payments.

[3] Commonwealth of Massachusetts Official Statement, 2022

As of January 2025, $1.4 billion in bonds are outstanding, while the estimated revenue generated from the assessment between 2025 and 2030 is $1.7 billion. The revenue generated from the COVID-19 Recovery Assessment is designed to make higher payments on the bonds than required to limit the accrual of interest and repay the bonds sooner. By ensuring a 125 percent debt service payment on the bonds, the assessment on employers is expected to decrease each year that the bonds are outstanding. For example, 2025 COVID-19 Recovery Assessment rates are 28.3 percent lower than 2024, and the revenue generated in 2025 is expected to be $100 million (21.5 percent) less.

COVID-19 Recovery Assessment Annual Revenue[4]

Year	Assessment Revenue
2021	$150
2022	$150
2023	$915
2024	$465
Estimated Revenue	
2025	$365
2026	$334
2027	$318
2028	$301
2029	$284
2030	$122

$ in millions

UI Contribution Schedule Freeze

To avoid increases in state UI assessments during the first two years that employers began paying the COVID-19 Recovery Assessment, **policymakers temporarily froze otherwise automatic contribution rate schedule changes in 2021 and 2022, with the expectation that the contribution rates would be upgraded to Schedule A in 2023,** following the influx of funds from the sale of special obligation bonds. During this time, the 2020 Schedule E assessment rates were maintained, pausing the implementation of Schedule G rates, the highest assessment rate schedule, which would have increased UI assessments by at least 28 percent.

Financial Impacts of Freezing the Contribution Schedule Change per Employee

Experience Rating	With Schedule Freeze	Without Schedule Freeze	$ Difference per Employee	% Difference per Employee
Highest	$141.50	$181.50	$41.00	28.27%
Lowest	$2,155.50	$2,782.50	$627.00	29.09%

While Schedule A rates were assessed on employers in 2023, total employer contributions to the UI system increased because of the large COVID-19 Recovery Assessment. Combined, employers paid $1.7 billion in UI contributions and assessments in 2023, $435 million (33 percent) more than in 2022. However, since employer contributions raised by the COVID-19 Recovery Assessment ($915 million in 2023) directly service the repayment of the special obligation bonds, these employer contributions do not impact the UI Trust Fund. By freezing increases in state UI assessment rates during this time, paired with elevated UI benefits, the structural solvency of the UI Trust Fund deteriorated.

2 Addressing Solvency Fund Challenges

Legislation passed in May 2020 reassigned all COVID-related UI claims to the Solvency Fund to spread the cost across all employers who contribute to the UI Trust Fund. However, this created a situation where, if no action was taken, employers would have faced significant increases in their Solvency Fund assessment rates, which are typically quite small. Unlike the UI Trust Fund, which is

[4] Unemployment Insurance Trust Fund Quarterly Outlook Report, April 2025

structured to reach solvency over three years, the Solvency Fund is structured to reach solvency in any given year.

Solvency Assessment Without Legislative Action, 2020 -2021

Year	Rate	Cost per Employee
2020	0.58%	$87.0
2021	9.23%	$1,384.5

By moving COVID-related claims to the Solvency Fund, **an employer's Solvency Fund assessment rate was projected to increase from 0.58 percent in 2020 to 9.23 percent in 2021**, an increase of 15x. This potential spike prompted policymakers to enact legislation in May 2021 that created a new account, the COVID-19 Employer Relief Account, to hold pandemic-related UI claims that were previously held in the Solvency Fund. Following this legislation, the Solvency Fund Assessment rate decreased from 9.23 percent to 1.12 percent, meaning employers would pay $165 per employee instead of $1,384.50 per employee, a savings of more than $1,200.

This action was part of a larger approach by policymakers to spread the cost of pandemic-related UI claims over a longer period by generating funds through the sale of obligation bonds that would be repaid over ten years, which would have otherwise been generated through a steep one-year increase in the Solvency Fund assessment. In moving UI claims to the Solvency Fund and then to the COVID-19 Employer Relief Account, policymakers limited the immediate impact of the surge in UI claims on employers by not allowing claims to be assigned to an employer's individual UI account and preventing a spike in Solvency Fund assessments. Instead, these actions delayed the impact on employers until after the pandemic (2021), when the first COVID-19 Recovery Assessments were charged on employers to rebuild the UI Trust Fund and repay federal UI loans that support pandemic-era UI benefits.

3 Repaying Misused Federal Funds

During the pandemic, the state incorrectly used $2.5 billion of federal UI funds to pay state UI benefits. This occurred while the state-administered standard UI benefits and new programs established in the CARES Act, which provided funding to states to oversee programs that expanded eligibility to include workers not covered by the state's UI system, like gig workers, extended the duration of benefits, and provided a weekly supplemental benefit amount. The misuse of federal funds was discovered in an audit of the UI Trust Fund in 2023, which prompted the Healey-Driscoll administration to negotiate repayment options with the U.S. Department of Labor, resulting in the state agreeing to repay a portion of the funds. Had an agreement not been reached, the state's liability would have been over $3 billion, which would likely have been repaid through the UI Trust Fund, further depleting the fund and triggering higher assessments on employers to rebuild the balance.

Timeline of Improperly Used Federal Funds for State UI Benefits

	2020	2021	2022	2023	2025
Unemployment Rate	The Massachusetts unemployment rate skyrocketed to 17.8 percent, fueled by the pandemic.	Between April 2020 and April 2021, the Massachusetts average unemployment rate was 10.7 percent.	The annual average unemployment rate dropped to 3.3 percent.	The annual average unemployment rate remained near pre-pandemic lows at 3.2 percent.	Between January and April, the average unemployment rate ticked up to 4.4 percent.
Policy Action	The federal government passed the CARES Act, which established PUA, FPUC, and PEUC.	The federal government passed ARPA, which extended PUA, FPUC, and PEUC through September 4th, 2021.	The state issued special obligation bonds to repay federal UI loans.	An audit showed the state improperly used $2.5 billion of federal funds to support state UI benefits.	The Healey-Driscoll administration reached an agreement with the U.S. Department of Labor to repay $2.1 billion and interest starting on December 1st, 2025.

Period when federal funds were misused (2020–2021)

The Repayment Agreement

The Healey-Driscoll administration reached an agreement with the U.S. Department of Labor in January 2025 to repay $2 billion to the federal government over ten years. The state also agreed to pay $73 million in back interest and settled on a 3.12 percent interest rate on the outstanding debt balance, which will be paid annually from the general fund starting December 2026. However, without reform, employers will be responsible for generating an additional $203.4 million annually until 2034 to meet the principal balance payment, which is first due on December 1st, 2025.

Main Takeaways of the Agreement

To repay the federal government for the misuse of $2.5 billion during the pandemic, the Healey-Driscoll administration and the U.S. Department of Labor reached an agreement, which includes:

- Repaying the principal balance of **$2 billion** over the next ten years through the **UI Trust Fund**, starting **December 2025**.
- Paying **interest** on the remaining principal balance over the next ten years based on a **3.12 percent interest rate** from the **General Fund**, starting **December 2026**.
- Paying **$73 million** in back interest from the **General Fund**.

Over the next ten years, Massachusetts is expected to pay the federal government $2.4 billion, including $2 billion in principal balance from the UI Trust Fund and $349 million in interest payments from the general fund. Since the first interest payment is due a year after the first principal balance payment, policymakers should prepare to appropriate $120.6 million in the state budget to make the first interest payment by December 1st, 2026, which does not take into account the $73 million in back interest the state owes. Under the agreement, the first $203.4 million principal payment will be due on December 1st this year, which would be drawn from the UI Trust Fund. Since contribution rate schedules are based on the balance of the UI Trust Fund on September 30th, UI assessment rates on employers will not be impacted by the first withdrawal from the fund until rates are set in 2026.

The UI Trust Fund was already facing solvency challenges before it was known that the state would have to repay the federal government. In the Annual Outlook Report released by the Department of Unemployment Assistance (DUA) in October 2024, the balance of the fund was projected to have a negative balance of $441 million in the first quarter of FY 2028. **After taking into account the $203.4 million annual withdrawal from the fund to repay the federal government, recent projections show the fund having a negative balance of $206 million by the first quarter of FY 2028**.

The UI Trust Fund will continue to face significant pressure. The state's unemployment rate has increased, and due to the unemployment rate in Springfield reaching 5.1 percent, the statewide **benefit period has been extended to 30 weeks**. In addition, the fund must now also accommodate additional **annual withdrawals of over $200 million for the next decade** to repay the federal government. Since the UI Trust Fund is supported by employer contributions, the impacts of insolvency will be passed onto will be passed onto employers if policymakers do not enact policy changes. Without reform, Department of Unemployment Assistance (DUA) projections show that there will be downgrades in UI contribution schedule rates each year, triggering the highest set of rates by 2028 for employers, while they continue to pay the COVID-19 Employer Recovery Assessment and repay the federal government for the misuse of funds during the pandemic.

Payment Schedule Based on Agreement Details

	Principal Balance	Principal Payment	Interest Accrued	Interest Payment
2025	$2,034.0	$203.4	$63.5	$0.0
2026	$1,830.6	$203.4	$57.1	$120.6
2027	$1,627.2	$203.4	$50.1	$50.8
2028	$1,423.7	$203.4	$44.4	$44.4
2029	$1,220.3	$203.4	$38.1	$38.1
2030	$1,016.9	$203.4	$31.7	$31.7
2031	$813.5	$203.4	$25.4	$25.4
2032	$610.1	$203.4	$19.0	$19.0
2033	$406.7	$203.4	$12.7	$12.7
2034	$203.2	$203.4	$6.3	$6.3
Total	**$2,073.3**		**$349.0**	

$ in millions

The Bottom Line

The state's UI system continues to feel the impacts of the pandemic, which has led to increased costs for employers and the UI Trust Fund that is projected to be insolvent within the next three years. While several policy actions were taken during the pandemic to ensure claimants could still receive benefits and the cost of pandemic-era claims was spread over time for employers, broader reforms are needed as UI benefits have remained elevated since the pandemic, and the state prepares to repay the federal government for misused funds beginning in December 2025. Policymakers should consider reforms that ensure **cost savings** for the UI system, **improve the solvency** of the UI Trust Fund, and **make the state more competitive to attract and retain businesses**. In a subsequent Policy Fact Sheet, MTF will review how recent contribution and benefit trends affect the long-term solvency of the fund and identify ways policymakers could reform the UI system.