Massachusetts projects large jump in unemployment taxes

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The Massachusetts Department of Unemployment Assistance recently released its Annual Outlook Report on the Commonwealth's Unemployment Insurance Trust Fund. The Report projects middling economic figures, which will require gradual but significant increases in unemployment taxes paid by employers to cover the Fund's unemployment payments.

The unemployment insurance system

Generally, all private, for-profit employers with one or more employees working in Massachusetts must contribute to the Massachusetts unemployment insurance program. Agricultural employers are treated more favorably. Each quarter, employers pay taxes to the Commonwealth based on the first $15,000 in wages per employee.

The tax rate is determined by two factors.

First, an employer's reserve percentage is calculated, based on the amount that the employer has paid into the system in the last three years and the number of unemployment claims made against that employer. The fewer claims made, the better the reserve percentage. Employers that have been in existence three years or less are assigned a reserve percentage of 10.5-11 percent.

Second, on an annual basis, the Department determines the Rate Schedule based on the Fund's own reserve percentage. That reserve percentage is calculated from the Fund's inflows and outflows. The Schedule ranges from A on the low end of tax rates to G on the high end. If the Fund is paying out more than it receives, its reserve percentage will drop, moving the Schedule toward higher tax rates.

The combination of an employer's reserve percentage and the Fund's reserve percentage results in what is referred to as an experience rate – in other words, the tax rate paid by employers.

The Fund's diminishing funds

The Department projects that the Fund will have a balance of $1.91 billion at the end of this year. That is down from $2.9 billion at the end of 2023 and $3.5 billion at the start of 2023. The Department projects that the Fund will be insolvent by the first quarter of 2027. Three specific data points underlie these calculations.

First, the Department projects quarterly wage/salary growth to be around 1 percent from the beginning of 2025 through the end of 2028, slightly lower than the 1.3 percent anticipated for the fourth quarter of 2024.

Second, the Department projects the Commonwealth's unemployment rate to hit 3.7 percent in 2025, up from the 2.9-3.2 percent experienced at the beginning of 2024.

Third, the Department projects almost no increase in the civilian labor force. Specifically, the Department estimates that the private work force will be 3,850,000 at the end of 2025, only 8,000 more workers than projected for the end of 2024.

The employers' burden

Employers will make estimated contributions of $1.1 billion into the Fund in 2024. Those contributions are based on Schedule C tax rates, which are generally between 0.73 percent and 4.06 percent, depending on the employer's reserve ratio.

The DUA has estimated employer contributions of about $1.8 billion for 2025 and $2.4 billion in 2026. The increase in 2025 funds is the result of a move to Schedule D, with tax rates of 0.83 percent to 4.61 percent.

To cover its growing costs, the Department anticipates continuing to increase rates on an annual basis until hitting Schedule G, the highest level of rates, in 2028. Schedule G taxes employers at between 1.21 percent and 6.77 percent.

The solvency of the Fund is a subject of discussions on Beacon Hill. In 2022, amid the COVID-19 pandemic, the Commonwealth issued $2.681 billion in bonds to help pay back funds advanced from the federal government for unemployment benefits and to deposit $867.6 million into the Fund.

Without either unexpected economic growth or better long-term planning, Massachusetts employers should be prepared to foot the bill for higher unemployment insurance costs.