Now is the Time

Unemployment Insurance Reforms

MTF
Massachusetts Taxpayers Foundation

Policy Fact Sheets

Understanding the State's Unemployment Insurance System

The pandemic hugely disrupted the state's economy and workforce, as unemployment rates jumped from **3.1 percent in February 2020**, one of the lowest in state history, to **17.8 percent in April 2020**, the highest in over four decades. During the pandemic, state and federal unemployment benefits were expanded to address the unprecedented spike in unemployment, and billions in federal loans were used to keep the Unemployment Insurance (UI) program solvent. Following the pandemic, the state issued a $2.68 billion bond to repay outstanding federal loans, improve the solvency of the fund, and avoid a sharp spike in solvency assessments paid by employers. The debt service on the bond is currently being paid by an employer surcharge scheduled to sunset in 2031. After the issuance of the bonds, it was discovered that more than $2 billion in federal UI resources were misapplied during the pandemic. The state is now responsible for repaying $2.1 billion to the federal government over the next ten years.

In order to understand the impact of this $2.1 billion obligation and to assess options for moving forward, these Policy Fact Sheets provide an overview of how the state's UI system is structured and financed, the impact of the pandemic on the UI Trust Fund, and the opportunity to reform the UI system.

The Basics: Understanding the Structure and Financing of the System (Published July 2025)

This Fact Sheet lays out how the state collects funds to support UI benefits and the role of the federal government in the state's unemployment system. This section also takes a closer look at the recent history of the state's UI Trust Fund and how the Massachusetts UI assessment rate compares to other states.

The Pandemic's Impact on the UI Trust Fund

This Fact Sheet will review the sudden increase in the demand for UI benefits, the policy changes made by state and federal policymakers to enhance benefits during this period, and the actions taken by the state to cover the cost of pandemic-era UI claims, which have major ramifications on the UI system today, including the repayment agreement made by the Healey-Driscoll administration to repay the federal government for misused federal funds during the pandemic.

The Current State of the UI Trust Fund and the Opportunity for Reform

This Fact Sheet will examine employer contributions and UI benefits in the years following the sale of special obligation bonds and the implementation of the COVID-19 Recovery Assessment in 2022, and how the current balance of the UI Trust Fund differs from previous projections. MTF will also lay out the tools available to policymakers to reform the UI system to support cost savings for the system, ensure employers will not be solely responsible for repaying the federal government, and improve the long-term solvency of the UI system.

The Basics: Understanding the Structure and Financing of the System

Massachusetts funds unemployment benefits through quarterly tax assessments on employers, except entities that opt to self-fund unemployment benefits, such as some public employers and non-profit organizations (see the figure to the right). Funds collected from the assessment are transferred to the state's UI Trust Fund, which, as required by federal law, is held separately from the state budget and other funds. An employer's UI assessment rate is applied to the **first $15,000 in wages per employee** per computational rate year (October 1 through September 30) and is based on the **employer's experience rating** and the statewide **contribution rate schedule**. The business contribution system is intended to align with business cycles, accounting for seasonal fluctuations and economic ups and downturns.

Self-Funded UI Benefits

Non-profit (i.e. organizations holding 501(c)(3) status) and governmental entities in Massachusetts have the option to self-fund UI benefits instead of paying the state's UI assessment. Meaning these organizations, or reimbursable employers, do not pay forward the cost of UI benefits but instead reimburse the state for UI benefits when a former employee has an eligible claim. This option is often a more financially feasible option for entities that experience low turnover rates and allows them to directly cover the cost of UI benefits as they arise.

Employer Experience Rating

An employer's experience rating is used to determine which UI assessment rates are levied on a business. **The experience rating is based on how much an employer pays out in UI benefits relative to their taxable payroll.** To determine an employer's experience rating, the state determines an employer's reserve percentage, **which is calculated by dividing the employer's UI account balance by their three-year taxable payroll average.**[1] All contributory employers have an account where their contributions are set aside to cover UI benefit costs. Employers who maintain a high account balance will have a higher experience rating, signaling low usage of the UI system, and will therefore be assigned a lower contribution rate.

High Experience Rating (Positive)	• Fewer former employees claiming UI benefits • Higher UI account balance • Lower UI tax assessment rates
Low Experience Rating (Negative)	• Greater number of former employees claiming UI benefits • Lower UI account balance • Higher UI tax assessment rates

There are 45 different UI assessment rates that correspond to an employer's experience rating. For example, under the current Schedule D rates, UI assessment rates range from 0.83 percent ($124.5 per employee) for employers with the highest experience rating to 12.65 percent ($1,897.5 per employee) for the lowest experience rating.

[1] New businesses are assigned a rate for the first three years and are then given an experience rating for the fourth year.

The underlying calculation of experience rating has remained unchanged over the last 30 years. Changes to the experience rating statute are rare, but **policymakers enacted legislation during the pandemic to prohibit any COVID-19-related layoffs from impacting an employer's experience rating.** This action prevented a business from experiencing high assessment rates the next year as a result of significant layoffs during the pandemic, which would have placed significant financial pressure on businesses. However, this change also resulted in unanticipated increases to UI solvency assessments borne by all UI employers, which will be covered in an upcoming Fact Sheet.

Experience Rating Calculation

Employer UI Account Balance

Contributions - Benefits Paid

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Three-Year Taxable Wage Average

Contribution Rate Schedules

There are seven different statewide contribution rate schedules depending on the UI Trust Fund. By law, the contribution rate schedule is adjusted annually based on the balance of the UI Trust Fund as of September 30, in relation to the total payroll of all private contributing employers. For example, if UI claims increase over the current year, the following year's contribution schedule might be adjusted to a higher set of UI assessment rates. However, it is not uncommon for policymakers to freeze otherwise automatic contribution rate schedule changes, especially in times of economic downturns, as was done during the pandemic and the Great Recession.

Employer UI Assessment Rate Range per Employee by Contribution Rate Schedule

Experience Rating	Schedule A	Schedule B	Schedule C	Schedule D	Schedule E	Schedule F	Schedule G
Highest	$84.0	$96.0	$109.5	$124.5	$141.0	$160.5	$181.5
Lowest	$1293.0	$1468.5	$1669.5	$1897.5	$2155.5	$2449.5	$2782.5

UI Solvency Fund

The UI Solvency Fund pays claims in several cases when certain rare circumstances are met, for example, because a business is no longer operating or if an employee separates for urgent and compelling reasons. The cost of these claims is socialized with businesses that contribute to the state's UI Trust Fund through a flat UI Solvency Fund assessment, which is typically less than one percent of the taxable wage base, 0.77 percent in 2024.

Contribution rate schedules are determined by the UI Trust Fund's balance compared to the three-year payroll average of contributing employees. When the balance of the UI Trust Fund divided by the three-year payroll average is greater than 1.65 percent, rate Schedule A assessments are implemented, which include the lowest assessment for employers. When the result of the calculation is less than 0.3 percent, signaling high usage of UI benefits, rate Schedule G is implemented, with the highest assessment rates for employers to replenish the UI Trust Fund. Under Schedule A, UI assessment rates range from 0.56 percent to 8.62 percent, and Under Schedule G, UI assessment rates for all employers are more than doubled, ranging from 1.21 percent to 18.55 percent.

The Federal Unemployment Tax Act (FUTA)

In addition to state UI assessments, businesses also pay a federal unemployment tax authorized by the Federal Unemployment Tax Act (FUTA). The FUTA tax rate is 6 percent on the first $7,000 paid to each employee during a calendar year, but a credit of up to 5.4 percent is given to employers who pay state UI assessments on a timely basis - **resulting in an effective tax of 0.6 percent**. These federal taxes are used to fund UI and job service programs, cover half the cost of extended unemployment benefits during times of high unemployment, and support the Federal Unemployment Insurance Trust Fund, which states can borrow from to support unemployment benefits if the balance of the state's fund is low. For example, between June 2020 and April 2021, Massachusetts borrowed $2.27 billion from the federal UI trust fund to support unemployment benefits after UI payments began to outpace the balance of the state's UI trust fund.[2]

If a state borrows funds from the Federal Unemployment Insurance Trust Fund to address the solvency of the fund, employers will experience FUTA credit reductions to repay the loan if the state does not meet loan payment deadlines.

For example, if Massachusetts carries a federal UI loan balance for two consecutive Januarys and does not fully repay the loan by November 10th of the second year, **the FUTA tax credit for employers is reduced by 0.3 percent**, essentially resulting in an assessment increase to 0.9 percent from 0.6 percent. Each subsequent year the loan remains in arrears, **the FUTA tax credit is reduced by a further 0.3 percent**. If, after five years, the loan remains unpaid, the federal employer tax credit reduction is steeper. As detailed in the following Fact Sheet, at the end of the pandemic, Massachusetts was in danger of missing federal repayment deadlines, and so policymakers authorized special obligation bonds to be repaid by employers, to repay all federal loans and avoid FUTA tax increases.

A mid-sized business with 10 employees and an 8 percent experience rating pays **$7,461.00** a year in UI taxes.

2025 UI TAX BILL	
DESCRIPTION	**PRICE**
MA UI Assessment	$408.00
MA UI Solvency Assessment	$133.50
FUTA Assessment	$42.00
COVID-19 Recovery Assessment	$103.20
Employer Medical Assistance Contribution[3]	*$51.00*
Workforce Training Fund Program[4]	*$8.40*
Total Annual Cost per Employee	**$746.10**

Federal Solvency Recommendations

The US Department of Labor (DOL) recommends that states maintain a high UI Trust Fund balance to ensure solvency. The federal government uses several criteria to assess solvency, but a primary factor is the Average High Cost (ACH) Multiple. A state's UI system is considered solvent if it has an **ACH Multiple of at least 1.0**, which is calculated by dividing the average of the highest **Benefit Cost Rates** (measured by dividing the benefits paid in a year by wages paid in the same year) in the last 20 years by the state's **Reserve Ratio** (measured by dividing the UI Trust Fund balance by a state's total annual wages paid).

Using this calculation, Massachusetts' **UI system has not been solvent since 2000**, despite an increase in the UI Trust Fund balance.

[2] Department of Unemployment Assistance Quarterly Outlook, April 2023

[3] As part of an employer's UI bill, they are assessed an Employer Medical Assistance Contribution (EMAC) tax on the first $15,000 of each employee's wages to fund health insurance programs for low-income individuals in Massachusetts. While the EMAC rate varies in the first five years a business is operating, the rate is fixed at 0.34 percent after the fifth year.

[4] As covered in MTF's previous report, employers are assessed a 0.056 percent tax on the first $15,000 of each employee's wages to support the Workforce Training Fund Program, a competitive grant program to support small and medium-sized businesses with employee training costs.

A Look Back at the UI Trust Fund

Even before the pandemic, the balance of the UI Trust Fund was likely too low to adapt to a significant change in the economy. **Since 2014, employer contributions to the UI Trust Fund totaled $15.12 billion, while benefits paid from the fund totaled $23.34 billion, a difference of $8.22 billion (42.7 percent).** During this period, there have been nine years where UI benefits from the fund have outpaced employer contributions, even as employers are assessed at the highest rates in the nation. While the balance of the UI Trust Fund reached $2.70 billion in 2024, a $2.13 billion increase - nearly five times the 2014 balance, over 40 percent of this increase is attributed to an $867.6 million deposit to the UI Trust Fund from the sale of special obligation bonds in 2022 described in the following Fact Sheet. Employer contributions in the table below are skewed as employer contributions do not reflect the COVID-19 Recovery Assessment that employers began to pay in 2021.

UI Trust Fund Activity, 2014 - 2024

Year	End of Year Unemployment Rate	Schedule	Starting Balance	Employer Contributions	Benefits Paid
2014	5.3%	E	$0.57	$1.73	$1.69
2015*	4.5%	C	$0.84	$1.33	$1.51
2016*	3.9%	C	$0.82	$1.32	$1.57
2017*	3.7%	C	$0.85	$1.38	$1.51
2018	3.3%	D	$0.86	$1.45	$1.48
2019	3.0%	E	$1.10	$1.65	$1.43
2020	7.4%	E	$1.65	$1.56	$6.36
2021*	*3.9%*	*E*	*$0.05*	*$1.40*	*$1.96*
2022*	*3.5%*	*E*	*$2.76*	*$1.31*	*$1.50*
2023	*3.7%*	*A*	*$3.75*	*$0.83*	*$2.15*
2024	*4.1%*	*C*	*$2.70*	*$1.15*	*$2.20*

$ in billions

*Denotes when legislation was enacted to determine the contribution rate schedule.
Italicized dates reflect years where employers were assessed the COVID-19 Recovery Assessment, apart from the UI assessment.

A strong and sustainable UI Trust Fund is necessary to account for economic downturns and higher unemployment rates. Over the last ten years, policymakers have enacted legislation aimed at improving the fund's solvency, which included **updating UI assessment tax rates** assigned to employer experience ratings and **increasing the taxable wage base** by $1,000 (from $14,000 to $15,000). However, over the same period, policymakers have frozen contribution rate schedules five times to prevent higher UI assessment tax rates on employers, limiting the amount of resources transferred to the UI Trust Fund. Over this time, UI benefits have also been made more generous, by growing the maximum weekly benefit by over 60 percent, adding pressure to the fund's solvency.

How Massachusetts Ranks Nationally[5]

According to the U.S. DOL Tax Measures Report, the average UI tax assessment on Massachusetts employers was **2.06 percent** of the taxable wage base in 2024. This means employers contributed an average of **$413 per covered employee**, an increase of $119 (40.5 percent) over 2023.[6] Based on this data, Massachusetts ranked

41st

in average employer **UI tax assessment rates** based on the taxable wage base

38th

in average UI **cost per employee**

However, Massachusetts fares better when viewing the UI tax assessment rate based on the percent of total wages, which does not account for the varying taxable wage bases. In 2024, the average UI tax assessment rate for Massachusetts employers was 0.43 percent of total wages, 29th overall.

It is clear that action is necessary to ensure the long-term solvency of the UI Trust Fund. In its most recent Annual Outlook Report, the Department of Unemployment Assistance (DUA), projects that the UI Trust Fund will have a negative balance by the first quarter of FY 2028.[7] Major reforms are needed to **ensure cost savings for the program**, **address the UI Trust Fund's solvency**, and **improve the state's ability to compete for businesses to operate in Massachusetts.**

[5] Rankings are out of 50 states and do not include Washington D.C., Puerto Rico, and the U.S. Virgin Islands
[6] U.S. Department of Labor Employment & Training Administration Tax Measures Report, 2023 and 2024
[7] Massachusetts DUA 2024 Annual Outlook Report on the Unemployment Insurance Trust Fund