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ResearchReport

Unemployment Compensation Offsets

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Issue

This report explains the statutory offsets (i.e., reductions) for unemployment compensation benefits because of an individual's pension income. It also includes disqualifications under unemployment law due to retirement status.

Summary

Connecticut law generally requires that a claimant's unemployment benefits be offset (reduced) by his or her pension benefits if the employer providing the pension employed the claimant during the claimant's "base period" (typically the first four of the five calendar quarters before the claimant filed for unemployment). The offset is reduced if the claimant contributed to the pension. In addition, the offset requirement does not apply if the claimant's work for the employer during the base period did not affect his or her eligibility for the pension or increase the pension payment. Federal law requires all states to include these offsets in their state unemployment compensation programs.

Subject to certain exceptions, state law also generally makes a retiree who goes back to work ineligible for unemployment benefits unless he or she has earned in the new employment at least 40 times the amount of his or her weekly unemployment benefit. This is a normal eligibility requirement for unemployment compensation.

State and Federal Offset Provisions and Their Limited Applicability

State Law

The offset requirement in state law largely hinges on whether the claimant receives a pension from an employer who was part of the claimant's employment base period, the 12-month period from which wages are used to determine the claimant's benefits. Pensions for the purpose of the offset are defined broadly to include governmental and private pensions, retirement pay, annuities, and other similar periodic payments.

The law requires that unemployment compensation benefits be reduced by the pension amount that the claimant receives under a pension plan his or her base period employer maintained or contributed to. The unemployment weekly benefit must be reduced by the prorated weekly amount of the pension.

If the employer providing the pension only employed the claimant outside of the base period (e.g., five years earlier), the pension will not trigger an offset.

If the claimant contributed to the pension, the weekly pension amount used for the offset is reduced by the proportion that the claimant's contributions bear to the total of all payments for the claimant in the pension plan (e.g., if the claimant contributed 50% to the pension, then the amount of the offset would be reduced by 50%). Also, if the pension is paid under the Social Security Act, the individual's contributions to the plan are considered as reducing the prorated weekly pension amount by 100%, thus eliminating the Social Security offset altogether (CGS § 31-227(g)).

Furthermore, the offset does not apply if the individual's work or pay during the base period did not affect his or her eligibility for the pension or increase the pension payment (CGS § 31-227(g)).

Federal Law

The Federal Unemployment Tax Act (FUTA) establishes many general parameters of state unemployment compensation law. In some areas, FUTA sets specific requirements that states must follow. In others, it allows states flexibility within the parameters. For example, FUTA requires that all states have offsets for pension income and the offsets are the same as in state law.

FUTA requires states to reduce a person's unemployment compensation amount by the amount the person receives in "governmental or other pension, retirement or retired pay, annuity, or any other similar periodic payment which is based on the previous work of such individual" (26 USC §

3304(a)(15)). The FUTA reduction is allowed only if (1) the pension is maintained by a base period employer or chargeable employer and (2) the claimant's work during the base period contributes to or increases the amount of the pension (except if it is a Social Security or railroad act plan) (26 USC § 3304(a)(15)).

Also, FUTA allows state law to reduce the offset by considering the claimant's contributions to the pension. FUTA also excludes from any offset a rollover distribution that is not counted as part of a claimant's gross income for tax purposes (26 USC § 3304(a)(15)).

State Law Disqualifications

Another state law requires that a retired individual must again become employed and earn enough to qualify for unemployment benefits, but there are some limitations on this requirement. It doesn't apply if the individual retired (1) involuntarily or (2) because (a) his or her work became unsuitable considering the individual's physical condition and the degree of risk to his or her health and safety, (b) the individual asked the employer for other suitable work, and (c) the employer did not offer the individual such work (CGS § 31-236(9)).

JM:kc