



Olds Plaza Building, 10th Floor
Lansing, Michigan 48909
Phone: 517/373-6466

NONCHARGEABLE BENEFITS: MENTAL AND PHYSICAL ILLNESS

House Bill 4200 as introduced First Analysis (7-3-97)

Sponsor: Rep. Paul Baade
**Committee: Labor and Occupational
Safety**

THE APPARENT PROBLEM:

The Michigan Employment Security Act establishes the unemployment compensation fund and provides guidelines and restrictions for the collection of contributions from employers and the distribution of funds to unemployed workers. Under the act, the yearly unemployment insurance tax rate for "contributing" employers in business for at least five years is made up of three "components" which are computed separately (according to a formula specified in the act) and then added together (the resultant rating is called an "experience" rating and is intended to weigh the number of claims made against the employer and the amounts paid). The three components are the chargeable benefits component (CBC), the account building component (ABC), and the nonchargeable benefits component (NBC).

One of the problems occasionally faced by employers, particularly smaller employers, occurs when an employee is unable to continue to work for the employer as the result of a mental or physical illness. When this occurs the employee's unemployment benefits are charged to the employer, even though the reason for the employee's unemployment is due to the employee's inability to continue to work for that employer. It has been suggested that since the employer in these cases is not the cause of the employee's unemployment it is unfair to charge the employee's unemployment benefits to the employer and thus increase the employer's unemployment insurance tax rate. Legislation has been introduced to prevent the unemployment benefits in such cases from affecting the employer's tax rate.

THE CONTENT OF THE BILL:

House Bill 4200 would amend the Michigan Employment Security Act to provide that benefits paid to an individual who was involuntarily unemployed as a result of a mental or physical illness or condition would be charged to the

non-chargeable benefits account rather than to the employer or employing unit.

MCL 421.29

FISCAL IMPLICATIONS:

According to the Michigan Employment Security Agency, the bill would have no fiscal impact on the agency. (7-1-97)

ARGUMENTS:

For:

When benefits are charged to the employer rather than to the nonchargeable benefits account, the employer's unemployment tax rate may be increased. Thus, in cases where a former employee's unemployment is beyond the direct control of the employer, it is unfair to charge the benefit costs directly to the employer. Many businesses, particularly smaller employers, are not always able to find employment within their businesses for individuals who due to physical or mental illness cannot continue to perform the work for which they were hired. For example, if a driver for a trucking company is, due to illness, no longer able to drive a truck and there are no other jobs available within the company that the employee could perform, then the dismissal of that employee should not be reflected in the employer's tax rate.

Against:

The purpose of the nonchargeable benefits account is to support the socialized costs of unemployment benefits (those benefits paid to claimants who requalify for benefits or those benefits charged against employers that have gone out of business). As a result, whenever benefits are paid and not charged to an employer a drain is made on the nonchargeable benefits account trust fund. Too many of these claims could affect the solvency of the fund.

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In addition, the bill would essentially reward businesses for failing to provide "favored" work for (i.e., make special arrangements to accommodate) their employees who are limited by physical or mental illness. Many businesses currently go to great lengths to provide favored work for their employees in order to avoid unemployment claims that would raise the company's tax rate. If this bill passes, those companies that currently offer favored work to avoid unemployment tax consequences could discontinue those policies knowing that the company will not face any tax consequences for not offering such work. Again, if this happens too often it could significantly increase the drain on the nonchargeable benefits account trust fund.

POSITIONS:

The Small Business Association of Michigan does not support the bill. (7-2-97)

Analyst: W. Flory

■ This analysis was prepared by nonpartisan House staff for use by House members in their deliberations, and does not constitute an official statement of legislative intent.