UNEMPLOYMENT BENEFITS; INCREASE MAXIMUM BENEFIT

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FISCAL ANALYSIS

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HOUSE BILL 5763 AS INTRODUCED
Sponsor: Rep. Randy Richardville
House Committee: Employment Relations, Training and Safety

FLOOR ANALYSIS - 3/5/02
Analyst(s): Bob Schneider

SUMMARY

Generally, the bill would increase state costs related to unemployment benefits paid out of the Michigan Unemployment Insurance Trust Fund. The magnitude of increase would vary over time and be dependent upon prevailing economic conditions. However, it is estimated that the annual impact of the bill's provisions in terms of increased benefit costs would range from between $32.0 million and $120.0 million depending upon prevailing economic conditions.

BACKGROUND

The bill would amend the Michigan Employment Security Act to do each of the following:

- Increase an individual's maximum weekly benefit from $300 to $362 a week and implement a one-week waiting period for benefits
- Provides that severance pay and other payments intended to continue wages be considered renumeration for the purposes of the Act and thus be considered in determining employment and benefit status
- Impose the burden of proof in showing "good cause" for leaving work voluntarily on the person leaving employment
- Authorize Indian tribes and tribal units to pay reimbursements in lieu of contributions under the same terms and conditions as other reimbursing employers under the Act. Tribes and tribal units would be required to post security in order to pay reimbursements.

Generally, the bill would increase state costs related to unemployment benefits paid out of the Michigan Unemployment Insurance Trust Fund. The magnitude of increase would vary over time and be dependent upon prevailing economic conditions. However, it is estimated that the annual impact of the bill's provisions in terms of increased benefit costs would range from between $32.0 million and $120.0 million depending upon prevailing economic conditions. This estimate is broken down further in following sections.

Increase in Maximum Benefit

The bill increases the maximum weekly benefit available to persons qualifying for unemployment benefit payments from $300 to $362. The Unemployment Agency estimates that roughly 60% of current unemployment benefit recipients are at the $300 limit. Benefit payments are generally determined by taking an individual's quarterly earnings during the quarter of his or her benefit period during which he or she earned the most in income and multiplying these earnings by 4.1%. Individuals are also allowed to increase benefits by $6 for each dependent up to a maximum of 5. The resulting payment, however, is currently subject to the $300 limit.

The impact of raising the cap from $300 to $362 is very difficult to estimate. The impact depends upon a number of factors (e.g. the distribution of income for unemployed individuals, the duration of unemployment for persons at different income levels) which are difficult to measure or judge. This analysis is based on income distribution patterns for high school graduates and for those with limited college experience (which is used to estimate the overall income distribution of the unemployed population). The analysis assumes that roughly 60% of unemployed persons are at the current $300 cap. Thus, the increase in the cap would have no immediate effect on 40% of the unemployed population. Of the population affected, it is assumed that the average benefit payment would rise to roughly $345 per week. Given current duration patterns, it is then estimated that, in an average year, benefit payment costs would rise by roughly $130 million. In periods of high unemployment and duration, this impact could be increased to up to $300 million per year.

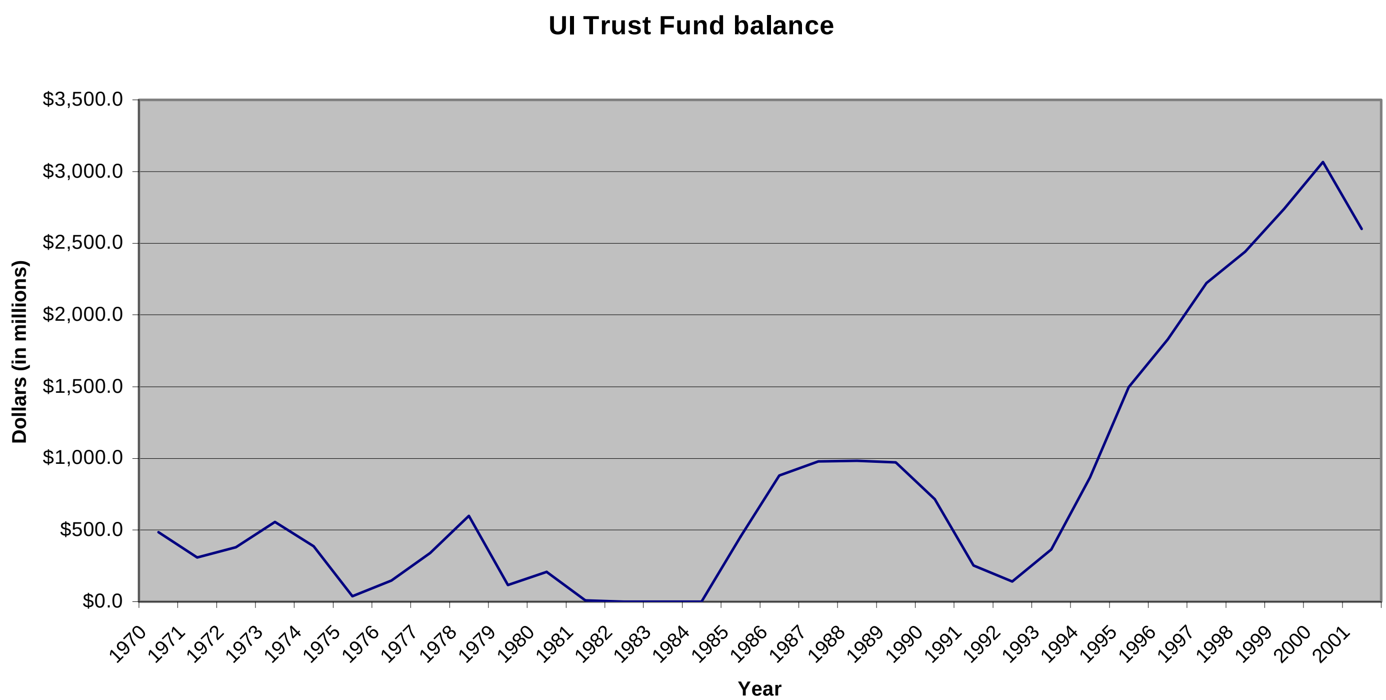
Finally, over the long term, the impact of the bill in this regard will increase as lower-income workers that would currently be below the cap see there incomes increase. Eventually, some of these workers would become eligible for increased benefits.

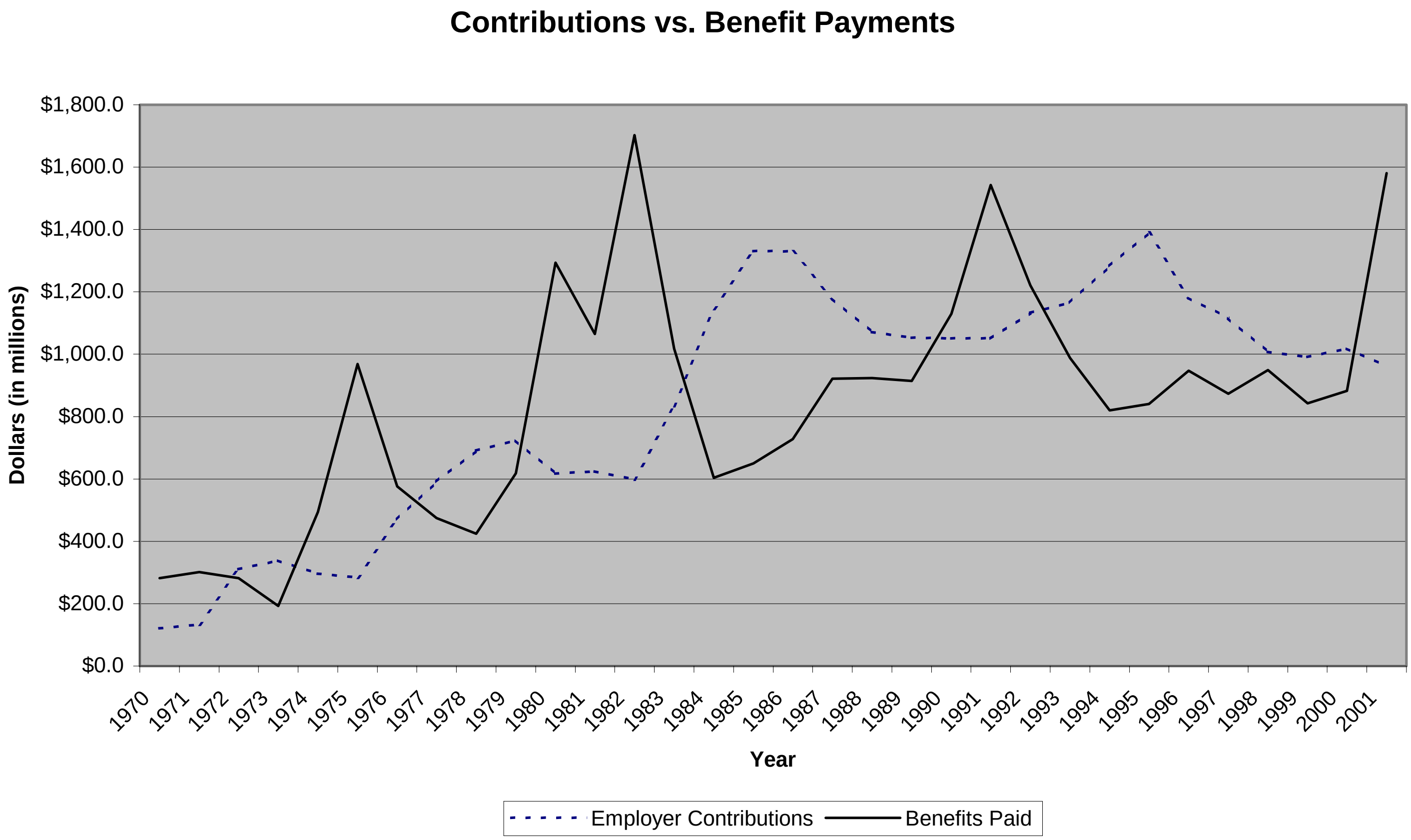
One Week Waiting Period
The second primary element of the bill in terms of fiscal ramifications is the introduction of a one-week waiting period for benefits. The waiting period would be imposed on all individuals filing a new unemployment claim. Benefit payments would begin "one week after the first week that the individual earns or receives no renumeration." Current law also establishes a maximum benefit period of 26 weeks. For workers that are unemployed for 26 weeks or more, this provision would not affect their overall benefit earnings. However, most individuals (roughly 85 - 90% in Michigan according to recent U.S. Census data) enter new employment prior to 26 weeks. Assuming (based on an analysis of available data) roughly 375,000 initial claims are filed in an average year and that the new average benefit will be approximately $300 weekly, it is estimated the waiting week would reduce benefit payments by roughly $98.0 million. The impact would increase in times of high unemployment and duration to an amount of up to $180.0 million.

Severance Pay Considered Renumeration
Another provision of the bill would change current law to provide that any severance pay received by an individual would be considered as renumeration for purposes of determining whether the individual met the definition of "unemployed" as well as of determining benefit levels. By potentially reducing or delaying access to benefits for some, this provision would be expected to offset the overall benefit costs associated with the bill. It is unknown, however, how significant this provision will be on overall benefit costs.

Solvency of the Trust Fund
A significant question is how the bill would affect the balance of the Trust Fund over time. The attached charts demonstrate the variability in both employer contributions to the Trust Fund as well as benefits paid from the Trust Fund. During periods of recession and high unemployment, employer contributions decrease while payments increase. In contrast, contributions increase and payments fall during more robust periods. This leads the Trust Fund's balance to vary considerably over time.

The bill would be expected to draw down on the Trust Fund balance over time. This, however, would lead to offsetting increases in employer contributions from employers not already providing their statutory maximum contribution rate (as well as direct payments from reimbursing employers).




Contributions vs. Benefit Payments
Dollars (in millions)
$1,800.0
$1,600.0
$1,400.0
$1,200.0
$1,000.0
$800.0
$600.0
$400.0
$200.0
$0.0
1970 1971 1972 1973 1974 1975 1976 1977 1978 1979 1980 1981 1982 1983 1984 1985 1986 1987 1988 1989 1990 1991 1992 1993 1994 1995 1996 1997 1998 1999 2000 2001
Year
Employer Contributions
Benefits Paid