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FISCAL ANALYSIS

HOUSE BILL 5763 SUBSTITUTE (H-8)
Sponsor: Rep. Randy Richardville
House Committee: Employment Relations, Training and Safety

REVISED FLOOR ANALYSIS - 3/14/02
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SUMMARY

Generally, the bill's provision to increase the maximum unemployment benefit to $375 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 $150.0 million in an average year to up to $350.0 million during economic downturns. The bill would also increase state revenues contributed by employers not already at their maximum unemployment tax rate since these rates are based in part on benefit payments.

The reduction in the maximum nonchargeable benefit component of the unemployment tax imposed on employers is expected to reduce annual employer contributions to the UI Trust Fund by around $6 million annually. Other provisions of the bill could also impact benefit payments. However, their impact is indeterminate.

Finally, the bill's requirement that the Unemployment Agency establish a secure Internet site to provide information to employers would increase agency costs related to increasing staffing to maintain the site as well as for technology costs in establishing the site. The magnitude of these costs is unknown at this time.

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 $375 a week
- Reduce the maximum nonchargeable benefits component of the unemployment tax assessed on employers to between 6/100 of 1% to 1/10 of 1% of taxable payroll for employers that have had no benefit charges against the employer's account for at least 60 months
- 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
- Increases the work and earnings requirements that would necessary to requalify an individual for unemployment benefits after the individual is disqualified from receiving benefits under the act (e.g. for leaving work voluntarily without good cause, discharged for misconduct)
- Reduce the income threshold at which an individual unemployed for less than 20 weeks would automatically be disqualified from receiving benefits for refusing an offer of suitable work from an offer that paid 80% (for those unemployed between 1 and 12 weeks) and 75% (for those unemployed between 13 and 20 weeks) of the gross pay rate received immediately before becoming unemployed to an offer that paid 70% of that gross pay rate
- Impose the burden of proof in showing "good cause" for leaving work voluntarily on the person leaving employment
- Requires the Unemployment Agency to establish and provide access to a secure Internet site to enable employers to determine if correspondence sent to the Unemployment Agency by an employer has been received
- 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 $150.0 million in a typical year and $350.0 million in years with increased unemployment levels. Details on these estimates is provided below.

Increase in Maximum Benefit
The bill increases the maximum weekly benefit available to persons qualifying for unemployment benefit payments from $300 to $375. 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 $375 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 - $350 per week. Given current duration patterns of around 11 weeks and assuming roughly 375,000 initial claimants begin to receive benefits, it is then estimated that, in an average year, benefit payment costs would rise by roughly $150 million. In periods of high unemployment and duration, this impact could be increased to up to $350 million per year.

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. Finally, in the long run, this provision would result in increased employer contributions to offset at least some of the benefit payments paid out due to the change. Unemployment tax contributions would increase from contributing employers not already at the maximum contribution levels. Contributions would also increase from reimbursing employers that have former employees that receive increased benefits as a result of the bill.

Nonchargeable Benefits Component of Unemployment Tax
The bill would reduce the maximum tax imposed on employer taxable payrolls for the nonchargeable benefits component of the state unemployment tax for those employers with no recent charges to their benefit accounts. This component is assessed on employers to provide benefit payments which are pooled among employers and not charged to a specific employer's account (e.g. for an employee that voluntarily leaves work then requalifies for benefits or an employee of a firm which has gone out of business). Employers with no benefit charges for at least 60 months will see the maximum tax decrease from 0.5% to 0.1% of taxable payroll. Likewise, rates fall from 0.4% to 0.09% for employers without charges for 72 months, from 0.3% to 0.08% for those without charges for 84 months, from 0.2% to 0.07% for those without charges for 96 months, and from 0.1% to 0.06% for those without charges for 108 months. The Unemployment Agency estimates that this provision will reduce employer contributions to the Trust Fund by around $6.0 million per year.

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.

Other Factors
Other provisions of the bill such as the increase in re-qualification requirements and the reduction in income level at which some unemployed individuals would be required to either accept work or lose benefits would tend to reduce benefit payments made out of the Trust Fund. However, no information appears to exist to allow an estimate of the actual magnitude of this benefit payment effect.

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. As discussed above, however, this 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.