

UNEMPLOYMENT BENEFITS; INCREASE MAXIMUM BENEFIT



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FISCAL ANALYSIS

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HOUSE BILL 5763 SECOND CONFERENCE REPORT

ENROLLED ANALYSIS - 4/11/02

Sponsor: Rep. Randy Richardville

Analyst(s): Bob Schneider

House Committee: Employment Relations, Training and Safety

SUMMARY

The bill would increase the maximum unemployment benefit payable to unemployed persons from the current level of \$300 to \$362. This provision would increase state costs related to unemployment benefits paid out of the Michigan Unemployment Insurance Trust Fund. The magnitude of the increase would vary over time and be dependent upon prevailing economic conditions. Had this provision been in effect for calendar year 2001 (which saw increased unemployment claims due the slowing economy), it is estimated that benefit payments would have increased by around \$195.0 million. However, the annual impact of this provision in an average year (such as those experienced during most of the 1990s) would have been closer to \$135.0 million. The impact would grow more dramatically during a serious recession. The increased maximum benefit would also eventually increase state revenues contributed by employers not already at their maximum unemployment tax rate since these rates are based in part on benefit payment levels and employer reserves remaining after benefit payments are made.

An increase in the percentage factor used to determine the maximum number of weeks a person is eligible for unemployment benefits would further increase benefit payments by around \$12 million annually. Other provisions of the bill could also impact benefit payments. However, their impact is indeterminate.

In terms of other revenue implications, the reduction in the taxable wage limit would temporarily reduce revenue to the Trust Fund by around \$45.0 million, although offsetting increases in tax rates would follow over time. The reduction in the maximum nonchargeable benefit component of the unemployment tax is expected to reduce annual employer contributions to the UI Trust Fund by around \$6 million annually, and an increase triggered to the maximum chargeable benefits tax rate would increase revenue by around \$10 – 15 million.

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 \$362
- Starting in calendar year 2003, reduce the taxable wage limit on which unemployment taxes to employers are based from the first \$9,500 in employee wages to the first \$9,000.
- Increase the percentage factor used to determine the number of weeks for which an individual is eligible to receive benefits. The change would increase the number of eligible benefit weeks for certain individuals with irregular earnings during their base period (e.g. worked only two out of four quarters). It would also trigger an increase in the maximum tax rate for the chargeable benefits component of the unemployment tax from 6.0% to 6.3%
- 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

- Provide that severance pay and other payments intended to continue wages be considered remuneration for the purposes of the Act and thus be considered in determining employment and benefit status
- Increase 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
- Increase the amount of damages the Unemployment Agency can collect from individuals having made false statements or misappropriated funds that were to be used for benefits as well as broadening the circumstances under which the agency can seek damages
- 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.
- Codifies the provisions of Executive Order 2002-1 creating the Bureau of Worker's and Unemployment Compensation
- Provides for a \$79.5 million transfer from the Employment Security Contingent Fund to the state's general fund (The Governor's FY 2003 Executive budget proposal includes the use of this funding to support the K-12 budget. The Contingent Fund had a balance of \$90.3 million as of the end of FY 2001). Also, provides that any balance in the Contingent Fund in excess of \$15.0 million at the end of FY 2002 and subsequent fiscal years be transferred to the Unemployment Trust Fund

Details on the provisions of the bill with the most significant fiscal implications are provided below.

Increase in Maximum Benefit

The bill increases the maximum weekly benefit available to persons qualifying for unemployment benefit payments from \$300 to \$362. This provision would increase benefit levels to individuals who are currently qualify for benefits at or above the \$300 benefit cap. Benefit payments are generally determined by taking an individual's quarterly earnings during the quarter of his or her benefit base 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 Unemployment Agency estimates that roughly 60% of current unemployment benefit recipients are at the current \$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) that 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 are 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. Based on this data, it is estimated that the increase in the maximum benefit rate would increase benefit payments by roughly \$195 million in a year similar to calendar year 2001. In a more typical year similar to the mid to late 1990s, benefit payments would increase by around \$135 million.

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 their 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.

Change in Taxable Wage Base

Under current law, an employer's unemployment tax is applied to a taxable wage limit of the first \$9,500 of each employee's wages. The bill reduces this taxable wage limit to \$9,000. Thus, each employer's tax determined through the chargeable benefits component, nonchargeable benefits component, and account-building component of the unemployment tax would generate less tax revenue for the Trust Fund. It is estimated that the initial impact of the changes would be a revenue reduction of around \$45 million. However, over time, this reduction would be offset by

increases in the tax rates of employers. In particular, the chargeable benefits tax rate for each employer is determined by dividing the sum of benefits charged to the employer's account over the last five years by the taxable payroll of the employer over the last five years. Since this provision would reduce taxable payroll, it would tend to increase the chargeable benefits tax rate over time, offsetting the initial revenue reduction.

Percentage Factor in Determining Duration

The maximum duration of unemployment benefits for unemployed individuals is determined by a formula, which takes 40% of a person's 4-quarter, base period wages and divides by the person's calculated weekly benefit payment. The resulting figure is then subject to a provision that caps benefit weeks at 26 weeks. For the great majority of persons, this calculation leads to a figure that exceeds 26 weeks, and thus the separate 26-week limit applies. However, in some cases, such as where someone has earned the bulk of his or her income in a single quarter, the formula produces a limitation below 26 weeks. In these unique cases, the increase in the maximum weekly benefit would have reduced the maximum number of weeks of benefits for these individuals since the increased benefit leads to fewer weeks eligible for benefits. To prevent this, the percentage factor used in the formula was increased from 40% to 43% of base period wages. While holding some harmless, this provision also increases the amount of payments for some individuals whose benefits are below the maximum level. Overall, the provision is expected to increase benefit payments by around \$12 million annually.

A secondary effect of this action is that the maximum chargeable benefits component tax rate for employers would increase from 6.0% to 6.3% since changes in the percentage factor discussed above trigger automatic, proportionate increases in the maximum tax rate. It is very roughly estimated that the increase in the maximum chargeable benefits tax rate would increase revenue to the Trust Fund by \$10 – 15 million annually.

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 that 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 Remuneration

Another provision of the bill would change current law to provide that any severance pay received by an individual would be considered as remuneration 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

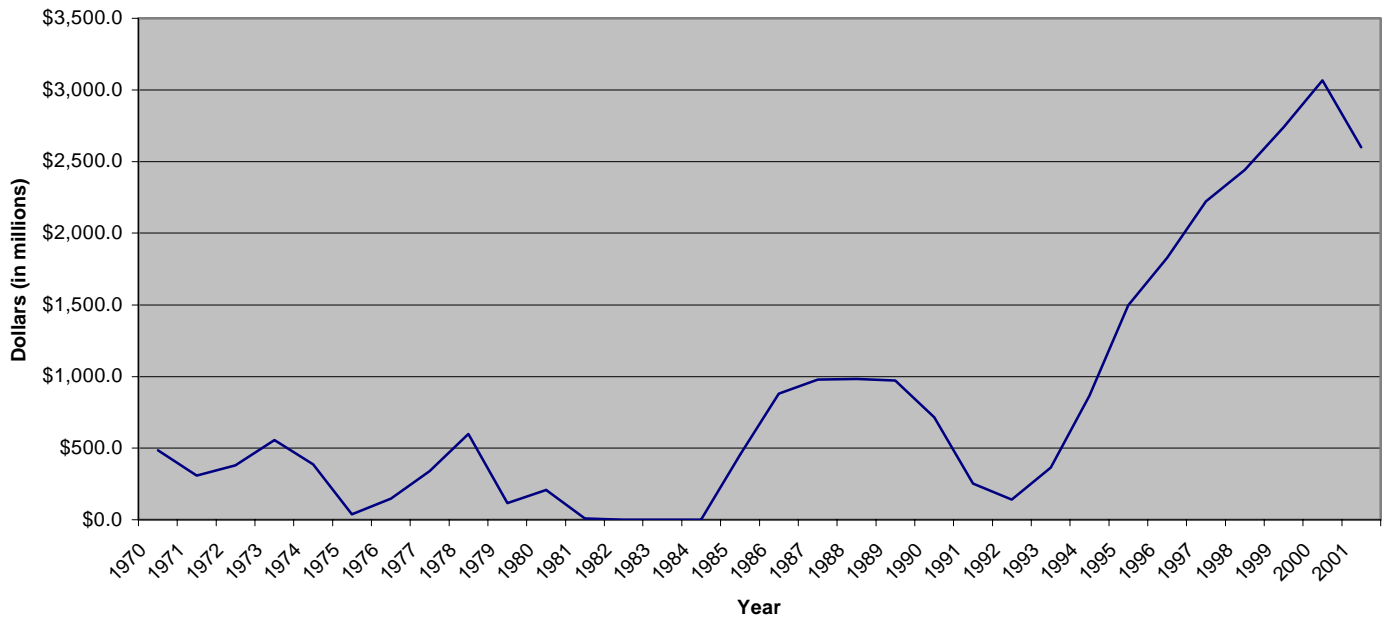
Other provisions of the bill such as the increase in re-qualification requirements and the reduction in income level at which some unemployed individuals would be required to either accept work or lose benefits would tend to reduce benefit payments made out of the Trust Fund. However, no information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

UI Trust Fund balance



Contributions vs. Benefit Payments

