

Senate Fiscal Agency
P. O. Box 30036
Lansing, Michigan 48909-7536



Telephone: (517) 373-5383
Fax: (517) 373-1986
TDD: (517) 373-0543

Senate Bill 1126 (as introduced 2-21-02)
Sponsor: Senator Glenn D. Steil
Committee: Human Resources and Labor

Date Completed: 3-4-02

CONTENT

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

- **Require each employee to pay \$3 per quarter to the Unemployment Agency.**
- **Establish a waiting week before an unemployed individual could receive benefits.**
- **Replace the \$300 maximum weekly benefit with a maximum ranging from \$315 for an individual with no dependents, to \$415 for an individual with five or more dependents.**
- **Increase the number of weeks a person must work, or the amount a person must earn, in order to qualify for benefits after a disqualifying act or discharge.**
- **Decrease the pay rate of a job that an unemployed individual must accept.**
- **Include severance pay in amounts that are considered wages in a determination of a person's unemployment status and amount of benefits.**
- **Decrease the maximum "nonchargeable benefits component" of the formula that determines an employer's contributions, depending on the number of weeks in which there were no benefit charges against the employer's account.**

Employee Payments

Under the bill, each employee of an employer subject to the Act would have to pay \$3 per quarter to the Unemployment Agency. The employer would have to withhold the payments from the employee's wages.

(Under Executive Order 2002-1, the Unemployment Agency will be transferred to

a new Bureau of Worker's and Unemployment Compensation.)

Waiting Week

Currently, when there is a determination, redetermination, or decision that benefits are due to an unemployed individual, the benefits immediately become payable. Under the bill, the benefits would become payable one week from the date of the determination, redetermination, or decision.

Also, the Act states that each eligible individual is to be paid a weekly benefit rate with respect to the week for which he or she earns or receives no remuneration. Under the bill, an eligible individual would be paid a weekly benefit rate for each week that he or she earned or received no remuneration, beginning one week after the first week that the individual earned or received no remuneration.

Maximum Weekly Amount

Under the Act, an individual's weekly benefit rate is based on percentage of his or her former weekly wages, plus \$6 for each dependent, up to a maximum of five dependents, except that the maximum weekly benefit rate may not exceed \$300. Under the bill, an individual's weekly benefit rate would be based on the same percentage of former wages, but the maximum would be \$315 for an individual with no dependents. A person could receive an additional \$20 for each dependent, up to a maximum of five dependents, but his or her weekly benefit rate, including dependents, could not exceed \$415.

(Subject to the maximum described above, an individual's weekly benefit rate is 4.1% of his

or her wages paid in the calendar quarter of the base period in which the individual was paid the highest total wages. "Base period" means the first four of the last five completed calendar quarters before the first day of the individual's benefit year. "Benefit year" means the period of 52 consecutive calendar weeks beginning the first calendar week in which an individual files a claim for benefits.)

Requalification

The Act establishes specific grounds upon which an individual is disqualified from receiving benefits. Depending on which ground applies, the person may requalify, after the week in which the disqualifying act or discharge occurred, by completing a required number of requalifying weeks or earning a certain amount of wages. (A requalifying week is one in which the individual earns or receives remuneration in an amount equal to at least one-third of the minimum amount needed in a calendar quarter of the base period for the individual to qualify for benefits.)

The bill would require an individual to complete 13 requalifying weeks, instead of six as presently required, if he or she were disqualified for any of the following reasons:

- The individual failed without good cause to apply for available suitable work after receiving notice from the employment office (presently in the Department of Career Development) or the Commission (presently the Unemployment Agency) of the availability of that work.
- The individual failed without good cause while unemployed to report to his or her former employer within a reasonable time after the employer provided notice of the availability of an interview concerning available suitable work with that employer.
- The individual failed without good cause to accept suitable work offered to him or her or to return to his or her customary self-employment when directed by the employment office or the Commission.
- The individual lost his or her job due to absence from work resulting from a violation of law for which the individual was convicted and sentenced to jail or prison.
- The individual was discharged for participating in a strike in violation of a collective bargaining agreement that resulted in curtailment of work or interference with production, or for

participating in a wildcat strike or other concerted action not authorized by his or her recognized bargaining representative.

- The individual was employed by a temporary help firm (under certain circumstances).

The bill would require an individual to complete 26 requalifying weeks, instead of 13 as presently required, if he or she were disqualified for any of the following reasons:

- The individual was discharged for an act of assault and battery, theft, or willful destruction of property, connected with his or her work.
- After receiving notice of a layoff or discharge, before the effective date of the layoff or discharge, the individual committed a theft resulting in loss or damage to the employer.
- The individual was discharged for 1) illegally ingesting, injecting, inhaling, or possessing a controlled substance on the employer's premises; 2) refusing to submit to a drug test that was required to be administered in a nondiscriminatory manner; or 3) testing positive on a drug test that was administered in a nondiscriminatory manner.

Currently, an individual may requalify by earning at least seven times his or her weekly benefit rate, or 40 times the State minimum hourly wage times seven, whichever is less, if he or she is discharged for either of the following reasons:

- The individual left work voluntarily without good cause attributable to the employer.
- The individual was discharged for misconduct connected with his or her work or for intoxication while at work unless the discharge was subsequently reduced to a disciplinary layoff or suspension.

Under the bill, in order to requalify under these circumstances, an individual would have to earn 17 times his or her weekly benefit rate. (As presently required, the amount would have to be earned in employment for an employer liable under the Act or the unemployment compensation law of another state.)

Offer of Work

Under the Act, an individual must be denied benefits if he or she refuses an offer of work

determined to be suitable (considering the degree of risk to the individual's health, safety, and morals, his or her physical fitness and prior training, his or her length of unemployment and prospects for securing local work in the individual's customary occupation, and the distance of the available work from the individual's residence). This requirement applies if the individual has been unemployed for a certain length of time, and if the pay rate for the suitable work is at least a certain percentage of the individual's gross pay rate immediately before becoming unemployed, as shown in Table 1.

Table 1
Offer of Work Requirements

Weeks of Unemployment	Percentage of Prior Gross Pay
1 to 13	80%
13 to 20	75%
More than 20	70%

Under the bill, an individual would have to be denied benefits if he or she refused an offer of suitable work for which the pay rate was at least 70% of the gross pay rate the individual received immediately before becoming unemployed (regardless of how long he or she had been unemployed).

Remuneration

Under the Act, an individual is considered unemployed for any week during which he or she performs no services and for which remuneration is not payable to the individual, or for any week of less than full-time work if the remuneration payable to the individual is less than his or her weekly benefit rate.

The Act provides that all amounts paid to a claimant by an employing unit or former employing unit for a vacation or a holiday, and amounts paid in the form of retroactive pay or pay in lieu of notice, must be considered remuneration in a determination of whether an individual is unemployed and a determination of benefit payments. Under the bill, severance payments, salary continuation, or other remuneration intended by the employing unit as continuing wages as the result of the separation, also would have to be considered remuneration for these purposes.

The bill would delete a provision under which payments in the form of termination,

separation, severance, or dismissal allowances, and bonuses, are not considered wages or remuneration.

Nonchargeable Benefits Component

The Act requires employers to pay a percentage of total wages as a contribution to the State's Unemployment Compensation Fund. The amount of an employer's contribution is based, in part, on a "nonchargeable benefits component". The maximum nonchargeable benefits component (NBC) is 1%, although the maximum is 0.1% if there are no benefits against an employer's account for the 108 months ending as of the computation date.

The bill would reduce the maximum nonchargeable benefits component for calendar years after 2002, if there were no benefit charges against an employer's account for a specified number of months ending as of the computation date, as shown in Table 2.

Table 2
Proposed Nonchargeable
Benefits Component

Maximum NBC	Months without Charges
0.1%	60
0.09%	72
0.08%	84
0.07%	96
0.06%	108

MCL 421.19 et al.

Legislative Analyst: Suzanne Lowe

FISCAL IMPACT

The bill would affect the cost of the unemployment insurance program as follows:

Tax on Employees. The bill would impose a tax of \$3 per quarter on each employee covered by the unemployment system. The tax would be paid to the Unemployment Agency. Revenue from this tax is estimated at \$54.5 million annually.

Weekly Benefits Increase. The bill would change the calculation of weekly unemployment benefits, increasing the maximum payment and the amount paid for each dependent. Under current law, the

weekly benefit amount is calculated based on the worker's quarterly wages (using the highest quarterly wages received during the four-quarter base period) and the number of dependents. The benefit payment is equal to 4.1% of the quarterly wages plus \$6 for each dependent up to a maximum of five; however, the weekly benefit cannot exceed the \$300 maximum weekly payment established in statute.

Under Senate Bill 1126, the weekly benefit would be determined by a two-step calculation. First, the basic weekly benefit would be 4.1% of the quarterly wage, up to \$315. The second step would be to add \$20 for each eligible dependent up to a maximum of five. For a person with no dependents, the maximum benefit would increase from \$300 to \$315 per week. For a person with five dependents, the maximum benefit would increase from \$300 to \$415 per week.

Based on assumptions regarding eligibility and numbers of dependents, it is estimated that the additional cost to the Unemployment Compensation Fund for these increased benefits would be approximately \$217.1 million annually. The Unemployment Compensation Fund is funded currently by State unemployment taxes on employers. The increase in benefits would increase unemployment tax rates for employers not currently at the maximum.

Waiting Week. The bill would add a waiting week before a covered employee would be eligible for benefits. For a worker who remained unemployed for the maximum number of weeks for which he or she was eligible for benefits (14 to 26 weeks out of a 52-week period), his or her total payments would not be changed by this provision. Most workers, however, return to work before their benefit weeks are exhausted. For those workers, this amendment would reduce their payments by one week's benefit. The imposition of a waiting week is estimated to reduce costs of unemployment payments by approximately \$109.8 million annually.

Reduction of Unemployment Tax Rate for Some Employers. Senate Bill 1126 would reduce the contribution rate paid by employers who had no chargeable benefits for an extended period of time. Currently, the nonchargeable benefits component of the unemployment tax is between 1% and 0.1% of payroll. For employers with no chargeable benefits (no workers receiving unemployment

benefits) in the last 108 months, the rate is 0.1%. The bill would reduce the rate as described in Table 2 above. The Unemployment Agency has estimated that this would reduce unemployment taxes for approximately 61,000 employers, reducing revenue by \$6.3 million annually.

Other Impacts. Provisions in the bill that would increase the number of requalification weeks, increase the earnings requirement to requalify for benefits after leaving a job voluntarily or being fired for misconduct, and reduce the amount of salary that a worker is required to accept, would all tend to reduce eligibility for unemployment benefits and costs to the Unemployment Compensation Fund. The amount of this impact is unknown.

In summary, it is estimated that the Senate Bill 1126 would increase costs to the Unemployment Trust Fund by \$59.1 million annually as shown in Table 3 below.

Table 3
Estimated Fiscal Impact of S.B. 1126
on Unemployment Compensation Fund
(dollars in millions)

Proposed Changes	Estimated Fiscal Impact
Impact on State U.I.* Costs:	
Increase U.I. Benefits	\$217.1
Impose a Waiting Week	<u>(109.8)</u>
Net Increase in U.I. Costs	\$107.3
Impact on State U.I. Revenue:	
New Employee Tax	\$54.5
Reduce Nonchargeable Benefits Rate	<u>(6.3)</u>
Net Increase in U.I. Revenue	<u>\$48.2</u>
Net Impact of S.B. 1126 (Costs less Revenue)	\$59.1
*(U.I. means unemployment insurance.)	

The bill would have no fiscal impact on local government.

Fiscal Analyst: Elizabeth Pratt
Jay Wortley

S0102\S1126sa

This analysis was prepared by nonpartisan Senate staff for use by the Senate in its deliberations and does not constitute an official statement of legislative intent.