SENATE FISCAL AGENCY
MEMORANDUM

DATE: April 11, 2002

TO: Members of the Senate

FROM: Elizabeth Pratt, Fiscal Analyst
Jay Wortley, Senior Economist

RE: Comparison of Unemployment Insurance Changes in House Bill 5763

The Conference Committee on House Bill 5763 approved the conference report (CR-2) on April 11, 2002. The bill would make a number of changes to the Unemployment Insurance Program (UI). The changes recommended by the Conference Committee are described below and compared with the versions passed by the Senate and the House of Representatives.

CONFERENCE COMMITTEE AGREEMENTS ON MAJOR POINTS OF DIFFERENCE

Weekly Benefits Increase

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.

Senate-Passed Plan. 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. The proposal would also benefit claimants below the maximum payment who have dependents by increasing the payment per dependent from $6 to $20. Based on 2001 data, it is estimated these changes would increase benefit payments an estimated $217 million.

House-Passed Plan. House Bill 5763 (H-8) increases the maximum weekly benefit payment from $300 to $375. This increase would only benefit those claimants who qualify for the current maximum amount. Based on 2001 data, it is estimated that this would increase unemployment benefits by an estimated $183.5 million.

Conference. The maximum weekly benefit would be increased from the current $300 to $362. This increase in the maximum weekly benefit is equivalent to the increase in inflation since 1995, which was when the maximum weekly benefit level was increased to its current level of $300. It is estimated that the cost of this benefit increase would be approximately $153.0 million based on 2001 data.

Reduce Taxable Wage Base

Under current law, the taxable wage base is the first $9,500 of wages paid to an employee. The chargeable benefits component of the unemployment tax rate is calculated by dividing 60 months of charged benefits by 60 months of taxable payroll, up to a maximum chargeable benefit rate of 6.0%. If the taxable payroll were reduced, the rate would increase over time for employers not at the current law 6.0% maximum for this rate component.

Other components of the unemployment tax rate are the nonchargeable benefits component and the account building component. Unemployment tax rates vary currently between 0.1% and 8.1%. For calendar year 2000, the average unemployment tax rate was 2.65%.

Senate-Passed Plan. The taxable wage base would be reduced from $9,500 to $9,000. This would reduce unemployment tax payments by approximately $54 million in the first year of applicability based on data from 2000. In the second year and onward, however, the reduction in the taxable wage base would increase the chargeable benefits component of the unemployment tax rate for employers not already at the maximum rate. This would reduce the savings in subsequent years. In addition, the Senate bill includes an automatic trigger that would restore the taxable wage base to $9,500 if the balance in the Unemployment Trust Fund falls below $1.25 billion.

House-Passed Plan. No change from current law.

Conference. The Conference Report would reduce the taxable wage base from $9,500 to $9,000, but does not include any trigger, based on the balance in the Unemployment Trust Fund, to return the taxable wage base to $9,500..

Waiting Week/Delay Provisions

Under current law, a claimant that qualifies for unemployment benefits receives benefits beginning the first week they qualify.

Senate-Passed Plan. A claimant would not receive the benefits for the first week that they qualify until they accept full-time work or are no longer eligible for benefits. This delay in the payment of the first week's benefits would generate an estimated $1 million in additional interest earnings.

House-Passed Plan. No change from current law.

Conference. No change from current law.

Withdrawal From The Contingent Fund

The Contingent Fund was established primarily to receive payment of penalties and interest on late unemployment tax payments. It is a separate fund from the Unemployment Trust Fund. It is estimated that this Fund will have a balance of $93.8 million at the end of FY 2001-02.

Senate-Passed Plan. An amount of $79.5 million would be transferred from the Contingent Fund to the General Fund on June 30, 2002. This transfer was proposed in the Governor's Budget to help fund the General Fund grant to the School Aid Fund in FY 2002-03. The Senate bill would also require that whenever the balance in the Contingent Fund exceeds $15 million at the end of the fiscal year, beginning with FY 2001-02, the excess would be transferred to the Unemployment Trust Fund.

House-Passed Plan. No change from current law.

Conference. Same as Senate.

Other Points of Difference

Internet Site. Both the House and Senate bills require the Unemployment Agency to establish a new Internet site to track correspondence between employers and the Unemployment Agency. The Senate adds a requirement to post on the site within 10 days confirmations of receipt of requests for redetermination and protest. The Conference Committee adopted the Senate provision.

New Bureau. The Senate bill and the Conference Report would create a new Bureau of Worker's and Unemployment Compensation, which is consistent with Executive Order 2002-1.

Penalties. The Senate bill and the Conference Report would expand penalties for fraud or embezzlement related to the unemployment program.

Demonstration of Good Cause for Voluntary Termination. The bill would specify that an employee who voluntarily leaves a position would have the burden of proof to demonstrate that the termination was for good cause attributable to the employer in order to become eligible for unemployment benefits. This codifies current practice and would have no fiscal impact. The Conference Committee specifies that a former employer would have to notify the Unemployment Agency of a possible disqualifying separation within 30 days of the separation.

MAJOR POINTS OF AGREEMENT

The Conference Committee adopted the following provisions which the Senate and House agreed to previously.

Increase the Duration Multiplier. The Conference Report would increase the duration multiplier from .40 to .43, which increases unemployment benefits by an estimated $12 million. Without this change, the increase in the weekly benefit levels would automatically reduce the number of weeks of eligibility for claimants who work more intermittently during the year and therefore offset a portion of the increase in benefits they would receive because of the higher maximum. Increasing the duration multiplier to .43 would help these workers realize the entire increase in the maximum weekly payment. It would also slightly increase the number of weeks of eligibility for claimants without dependents and below the maximum payment who are eligible currently for less than 26 weeks of benefits.

In addition, the increase in this multiplier, referred to in statute as the “percentage factor of base period wages” would automatically trigger an increase in the maximum chargeable benefits component of the unemployment tax described in MCL 421.19(1)(3)(ii). The increase in the percentage factor of base period wages would increase the maximum chargeable benefits component of the unemployment tax rate from 6.0% to 6.3%. This would increase the unemployment taxes of employers currently at the maximum rate.

Reduce Nonchargeable Benefit Rate. The Conference Report would decrease the nonchargeable benefits rate for eligible employers. Currently, the nonchargeable benefit rate varies from 0.1% for employers with no chargeable benefits in the last 108 months as of the computation date, to a maximum of 1.0%. The proposed substitute would reduce the rate as shown in Table 1.

The Unemployment Agency has estimated that this would reduce unemployment taxes for approximately 61,000 employers, reducing revenue by $6.3 million annually.

Table 1

Proposed Nonchargeable Benefits Component	
Maximum Nonchargeable Benefits Component	**Months Without Charges**
0.1%	60
0.09%	72
0.08%	84
0.07%	96
0.06%	108

Change Treatment of Wages up to $200. For a claimant with multiple employers during the year, the bill would exclude an employer who paid the claimant up to $200 in that year from being charged with his or her portion of the benefits. Instead, the portion of benefits attributable to that income would be paid as part of the nonchargeable costs of the unemployment program. This would reduce the administrative expense of apportioning this small amount of benefits attributable to that income. The costs would be shifted to the nonchargeable benefit account.

Permit Indian Tribes to Become Reimbursing Employers. The bill would allow Indian tribes to become reimbursing employers, reimbursing the State for actual unemployment costs at year end, instead of being required to be contributing employers. This change is required to be consistent with Federal law. Failure to make this change by June 30 would result in reduction of Federal payments to the State.

Treat Severance Pay as Remuneration When Calculating Benefits. The bill would provide that severance pay would be considered as remuneration for the purpose of determining eligibility for unemployment benefits. No data has been found on the number of unemployed workers that receive some type of severance pay from their former employer. However, based on national data comparing total and production employees, and an assumption that nonproduction employees are more likely to receive some type of severance pay, it is estimated (very rough) that treating severance pay as remuneration in the same way that pension income currently offsets benefit levels, would reduce unemployment benefits by about $10 million.

Other Provisions. The bill includes several items that would tend to reduce eligibility for unemployment benefits and costs to the Unemployment Compensation Fund by an unknown amount. These are:

- Broaden the definition of being dismissed for misconduct at work.
- Increase the earnings requirement to requalify for benefits after leaving a job voluntarily or being fired for misconduct.
- Reduce the amount of salary that a worker is requirement to accept without forfeiting benefits.
- Increase the number of weeks that must be worked to qualify for benefits after a disqualification.

The bill also includes provisions that would increase the administrative costs of the Unemployment Agency by an unknown amount. These would:

- Require the Unemployment Agency to receive an offer of employment from an employer and convey that offer to a former employee. Currently, an employer would make an offer through the Employment Services Agency in the Department of Career Development.
- Require creation of an Internet site within six months of the effective date to track employer correspondence with the Unemployment Agency and post confirmations of receipt of requests for redetermination and protests within 10 days. The development and maintenance of this new system would increase State costs by an unknown amount.

Summary. It is estimated that the net impact of the cost and revenue changes in H.B. 5763 (S-3) as passed by the Senate would increase costs to the Unemployment Trust Fund by $278.4 million. House Bill 5763 (H-8) as passed by the House would increase the costs to the Unemployment Trust Fund by $191.8 million. The Conference Report would increase the cost to the Unemployment Trust Fund by approximately $215.3 million. The major impacts are summarized in Table 2 on the following page.

Unemployment insurance recipients would either realize an increase, or no change in their benefits under the conference agreement. Unemployment insurance recipients that are currently at the maximum weekly benefit level, would receive an increase in benefits under the conference agreement of up to 21%. Currently, about 60% of all unemployment insurance recipients are at the maximum weekly benefit level. The 40% of unemployment insurance recipients that are currently not at the maximum weekly benefit level would not receive any change in benefits.

Table 2

Comparison of Senate, House, and Conference Unemployment Insurance Proposals (dollars in millions)

	Senate-Passed Plan H.B. 5763 (S-3)	House-Passed Plan H.B. 5763 (H-8)	Conference Agreement (CR-2)
Impact on State Unemployment Benefit Costs			
Increase Maximum Weekly Benefit	$217.1	$183.5	$153.0
Waiting Week/Delay Provision	(1.0)	0.0	0.0
Increase the Duration Multiplier to .43	12.0	12.0	12.0
Treat Severance Pay as Remuneration	(10.0)	(10.0)	(10.0)
Net Increase in Costs	$218.1	$185.5	$155.0
Impact on State Unemployment Fund Revenue			
Reduce Nonchargeable Benefits Rate	(6.3)	(6.3)	(6.3)
Reduce Taxable Wage Base from $9,500 to $9,000	(54.0)	0.0	(54.0)
Net Decrease in Revenue	$(60.3)	$(6.3)	$(60.3)
Net Loss to Unemployment Insurance Fund (Increase in Costs Plus Revenue Loss)	$278.4	$191.8	$215.3

The Senate version and the Conference Report also would implement the Governor's recommended withdrawal from the Contingent Fund, reducing the FY 2001-02 closing balance of the Contingent Fund from an estimated $93.8 million to approximately $13.7 million.

Please contact one of us at 3-2768 if you have any questions.

/kjh

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