

**SENATE FISCAL AGENCY
 MEMORANDUM**

DATE: January 12, 2021
TO: Members of the Michigan Senate
FROM: Cory Savino, Fiscal Analyst
RE: Update on Michigan Unemployment Insurance

Introduction

Because of the coronavirus disease 2019 (COVID-19) pandemic, associated Executive Orders, statutory changes, and the Federal expansion of unemployment benefits, the Michigan Unemployment Insurance Agency (UIA) has experienced an unprecedented number of claims filed for unemployment insurance. The purpose of this memorandum is to briefly review the status of the Michigan Unemployment Insurance system, the State's changes to the UIA, the Coronavirus Aid, Relief, and Economic Security Act (CARES Act), the Lost Wages Assistance Program (LWA), the recent Federal Coronavirus package, and the status of the State's Unemployment Trust Fund.

Status of the Michigan Unemployment System

Since the identification of the first cases of COVID-19 and the declaration of a state of emergency on March 10, 2020, the Michigan UIA experienced significant increases in initial claims filed for unemployment insurance. For the week ending March 14, 2020, the Michigan UIA received 5,472 initial claim filings. This quickly increased to hundreds of thousands per week in initial claims. In total, from March 15, 2020, to April 11, 2020, the Michigan UIA received around 1.1 million in initial claim filings. This period also included the expansion of eligible unemployment insurance recipients under the Federal CARES Act, which means that Federal benefits covered more recipients with additional payments. In total for 2020, over 4.3 million claims were created, of which, 1.8 million were standard unemployment claims and 1.7 million were claims made by newly eligible claimants under the CARES Act.

Since many individuals filed for unemployment insurance for the first time and under changing qualifications, the Michigan UIA experienced increased demands to complete initial filings over the phone, respond to questions, and review claims. In response, the Michigan UIA has increased staffing to the call resource center, from 130 employees in the week ending March 14 to 500 employees by the week ending April 10. Further, Federal revenue for administration was received and additional appropriations from Coronavirus Relief Funds. This allowed the Michigan UIA to have around 3,000 employees for customer service needs.

To receive State unemployment insurance, an individual must show a history of working and earnings during a full one-year period (the base period) before the full quarter an individual applies for unemployment insurance. Additionally, the individual must have earned at least \$2,871 during one quarter of the base period, which is an average of 30 hours a week at the State minimum wage for one quarter. The weekly benefit for an eligible worker is calculated at 4.1% of what was earned during the highest quarter of the base period, with an additional \$6 per week per

dependent, for a maximum benefit of up to \$362 per week. This means that for every 100,000 additional individuals who receive benefits, the State will pay out \$31.5 million to \$36.5 million in weekly benefits from the Michigan Unemployment Trust Fund.

In 2020, the Michigan UIA paid out over \$27.1 billion in unemployment insurance benefits with the vast majority of these benefits paid for with Federal dollars. Out of that total, \$20.2 billion was from the Federal programs created in the CARES Act. After that, \$4.9 billion was paid out from the Michigan Unemployment Trust Fund and \$1.6 billion from the LWA.

State Action

Executive Order (EO) 2020-10 expanded the qualification for benefits to individuals who have left work involuntarily for medical reasons or have been designated unemployed because of a leave of absence to include individuals who display COVID-19 symptoms, who have a confirmed COVID-19 diagnosis, who have had contact in the last 14 days with someone who has a confirmed case, or who must care for someone with a confirmed diagnosis. The order expanded the number of weeks for which a person may draw unemployment from 20 to 26 weeks and allowed individuals to file for unemployment within 28 days of the last day of work and be considered to have filed on time. The order expanded shared-work plans to include COVID-19 for eligibility. Finally, the Order assessed the charge for State Unemployment Insurance (UI) taxes to the State's Nonchargeable Account if an individual becomes unemployed because of an executive order requiring his or her employer to close or limit operations. This caps the total UI tax rate on the first \$9,000 of an employee's wages at 1.0% instead of what could be as high as 6.3%. The changes in EO 2020-10 were extended in subsequent order including, EOs 2020-24, 2020-57, and 2020-76.

On October 2, 2020, the Michigan Supreme Court issued its ruling on legal challenges to the Governor's authority to issue emergency executive orders under the Emergency Management Act and Public Act (PA) 302 of 1945 that allowed changes to the Michigan Employment Security Act and expanded unemployment benefits *In re Certified Question from the US District Court, Western District of Michigan (Midwest Institute of Health, PLLC v. Governor)*, Docket No. 161492. Following this, PA 229 of 2020 was enacted, which put several provisions of the Executive Orders into law. The changes made included assessing the charges on claimants to an employer's nonchargeable account, expanded the number of eligible weeks from 20 to 26 weeks, allowing individuals to be considered having left work involuntarily for medical reason to include COVID-19 related reasons, and the changes made to the shared-work program. These changes were set to expire on December 31, 2020.

Senate Bill 604 was enacted as PA 258 of 2020, which in part would extend the expansion of benefits from December 31, 2020 to March 31, 2021. Senate Bill 604 included a provision that the bill may only be implemented if \$220.0 million is deposited into the Unemployment Compensation Fund in supplemental Senate Bill 748. Senate Bill 748 passed the Legislature with \$220.0 million General Fund/General Purpose (GF/GP) scheduled to be deposited into the Michigan Unemployment Compensation Fund after March 1, 2021, however, the Governor vetoed the line item when the supplemental was signed into law as PA 257 of 2020.

CARES Act

The CARES Act included an expansion of eligible recipients and benefits for individuals who are unemployed because of COVID-19. The Act provided an additional \$600 per week to all

unemployment claimants for up to four months, from weeks ending March 31, 2020 to July 31, 2020. This was entirely supported by the Federal Pandemic Unemployment Compensation (FPUC) Fund. The State made the combined \$600 and State base payment to the claimant, and the \$600 portion was reimbursed by the FPUC Fund. The CARES Act included extended benefits for an additional 13 weeks (in addition to the 26 weeks of benefits provided under State changes). The Federal Unemployment Insurance Fund pays for these extended benefit weeks. On July 31, 2020, the additional \$600 in additional benefits ended.

Finally, the CARES Act expanded individuals who qualify for unemployment insurance benefits to self-employed individuals, gig workers, independent contractors, freelancers, part-time workers, and furloughed employees who are no longer able to work because their employers have closed or reduced hours. Individuals who currently do not qualify for unemployment benefits but will under the eligibility expansion will receive, at minimum, 50% of the State average payouts as the base weekly allotment with additional amounts if the individual makes more to qualify. The Michigan UIA has determined \$160 per week to be the minimum base pay for these eligible individuals. The FPUC Fund also supports the base payment for these newly eligible individuals. The newly eligible claimants were allowed a maximum eligible week payout of 39 weeks ending on December 26, 2020.

The Federal Families First Coronavirus Response Act allocated \$1.0 billion to be distributed to individual state unemployment trust funds for emergency administration. Of the total, \$500.0 million was distributed within 60 days and the additional \$500.0 million distributed when state unemployment benefits increase 10% over the same quarter from the previous year. The distribution was based on the proportion of UI tax revenue generated for each state in the previous 60 days. On April 6, 2020, the Michigan UIA received the first \$14,554,800 for emergency administration.

Lost Wages Assistance Program

Following the expiration of the additional \$600 in FPUC payments, President Donald Trump signed a President Memorandum on August 8, 2020, which created the LWA program. The program used \$44.0 billion from the Federal Emergency Management Agency's (FEMA) Disaster Relief Fund to provide extra unemployment compensation payments for states to apply for. The LWA provided up to \$300 in additional Federal unemployment insurance payments. The State of Michigan applied and was awarded LWA benefits and an additional \$69.3 million in administrative support. A supplemental appropriated \$2.8 billion in Senate Bill 745 as a deposit into the Michigan Unemployment Compensation Fund. The State processed and distributed the \$300 weekly payments automatically to already certified claimants, which was spent over four weeks. The State paid out \$1.6 billion in LWA payments, before the entire \$44.0 billion Federal amount was exhausted.

December 2020 Federal Relief

A fifth Federal COVID-19 relief act was passed by Congress and was signed on December 28, 2020. This included temporary extensions of the Unemployment Compensation programs established in the CARES Act to March 14, 2021, with benefits extended through April 5, 2021, or when the maximum number of weeks is met. The Pandemic Unemployment Assistance program was modified to extend the eligible duration of maximum benefit weeks from 39 to 50 weeks. After 30 days of the bill enactment, states must verify the identity of applicants and applicants must recertify weekly. Also, applicants must document former employment starting

January 31. However, individuals who are otherwise eligible for benefits may not have their benefits terminated because of failure to submit past weekly benefit recertifications. The Federal Pandemic Unemployment Compensation amount is set at \$300 per week beginning December 26, 2020 and includes recipients of Short-Time Compensation. The maximum duration of Pandemic Emergency Unemployment Compensation weeks is extended from 13 to 24 weeks.

The Act extended several provisions from the CARES Act, which includes suspension of state trust fund loan interest accrual and payments. The State of Michigan does not currently have any Federal Trust Fund Loans. Also, the Act extended unemployment relief for governments and nonprofits, flexibility for staffing of State UIA's, and providing Federal funding for the first week of State benefits with the amount reduced from 100% to 50%.

The Act included a new requirement that states must monitor for refusal of job offers by benefits recipients. Also, the Act allowed states to add an additional \$100 in benefits to recipients who earned at least \$5,000 of self-employment income in the most recent taxable year provided they have documentation. Finally, the Act allowed states to waive the requirement that claimants repay incorrectly awarded benefits. At this time, the Michigan UIA is still working to implement this Federal COVID-19 relief bill.

State Unemployment Trust Fund

At the beginning of 2020, the Michigan Unemployment Trust Fund had a balance of over \$4.5 billion, which was the third highest trust fund balance in the country with the State only subject to pay for the standard state benefits. The balance of the Fund declined significantly in the first few months of the pandemic due to lockdowns that closed many businesses. As the State reopened major industries, the number of standard benefit claimants declined significantly, which preserved the trust fund balance over the summer. In September, those standard benefit claimants who were still on unemployment begin receiving expanded benefits after 26 weeks, which was funded with Federal dollars. This further slowed down the decreases to the Michigan Unemployment Trust Fund. As of December 2020, the Fund had a balance under \$750.0 million dollars.

The Michigan Employment Security Act has a provision that if the Michigan Unemployment Trust Fund has a balance above \$2.5 billion and is projected to continue to remain above that amount for the next year, the employee wages that the UI tax is applied to drops from the first \$9,500 of an employee's wages to the first \$9,000. This reduced amount has been in effect since 2017. Since the balance of the Trust Fund has been below \$2.5 billion since July, the employer's UI tax rate is set to be applied on the first \$9,500 of employee wages in 2021. If the Fund were to be insolvent, Michigan would have to loans from the Federal Trust Fund to support the shortfall, which is paid back with an even higher UI tax rate applied on employee wages.

Over the last two weeks, Michigan averaged 185,000 claimants per week. If the number of weekly claimants continued at this rate or is reduced, the Michigan Unemployment Trust Fund will remain solvent through at least the next quarter. Since the UI tax is applied on the first \$9,500 of an employee's wages, the Michigan Unemployment Trust Fund typically generates the most revenue in the first two quarters of the year. In 2020, the trust fund generated just under \$1.0 billion in revenue over the first and second quarters. The first two quarters of 2021 could generate more revenue under the increased tax. Given this, the Fund is likely to continue to remain solvent, however, if there is an unexpected increase in claims or additional closures, the Fund could become insolvent.

Conclusion

Because of the COVID-19 pandemic, State changes, and Federal action, the Michigan UIA has experienced an unprecedented increase in individuals receiving unemployment benefits for both the standard State payments and the expanded Federal benefits. The Michigan UIA increased staff and received additional Federal dollars to handle this increased activity. The Michigan Unemployment Trust Fund has a sufficient balance to meet the current need through the next quarter; however, the Fund balance could be at risk if claims increase again or additional closures are put in place. At this time, it currently is unknown how long the increased level of payouts will continue.

If you have any questions regarding the Michigan Unemployment Insurance Agency, please do not hesitate to contact me.

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c: Christopher Harkins, Director
Kathryn Summers, Associate Director