

SENATE FISCAL AGENCY
MEMORANDUM



DATE: April 17, 2020
TO: Members of the Senate
FROM: Cory Savino, Fiscal Analyst
RE: Update on Michigan Unemployment Insurance

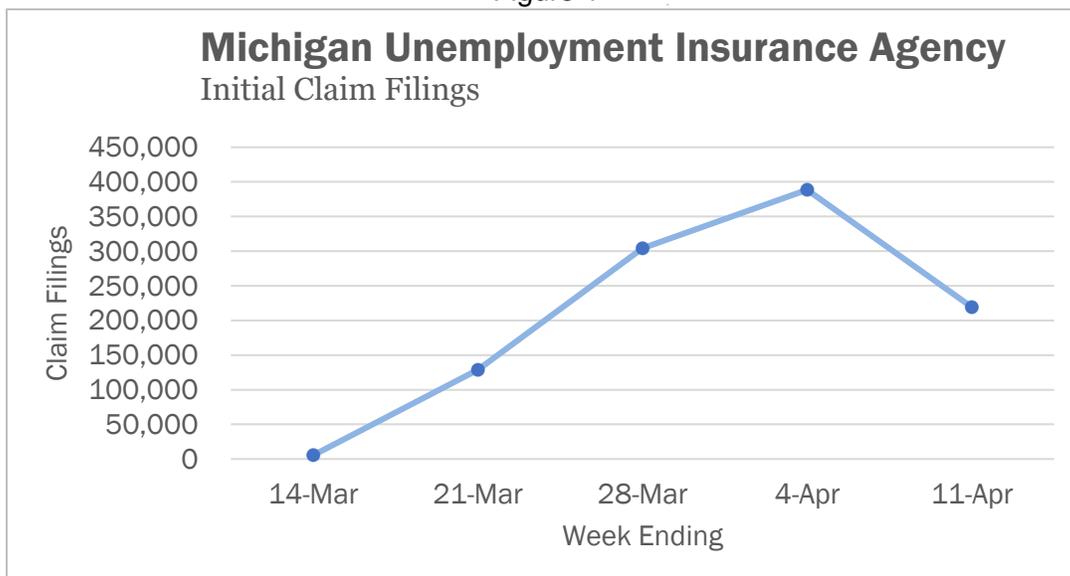
Introduction

Because of the coronavirus disease 2019 (COVID-19) pandemic, associated Executive Orders, and the Federal expansion of unemployment benefits, the Michigan Unemployment Insurance system has experienced an unprecedented number of claims filed for unemployment insurance. The purpose of this memorandum is to discuss briefly the status of the Michigan unemployment insurance system, the Federal expansion of unemployment benefits and eligibility, 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 declaration of a state of emergency on March 10, 2020, the Michigan Unemployment Insurance Agency (UIA) has experienced significant increases in initial claims filed for unemployment insurance. For the week ending March 14, the UIA received 5,472 in initial claim filings. For the week ending March 21, the UIA received 129,298 initial claim filings, and on week ending April 4, the UIA received 388,554 initial claim filings. In total, from March 15 to April 11, the UIA received around 1.1 million in initial claim filings. To put this into context, from week ending January 4 to March 14, the Michigan UIA received an average of 7,851 initial claims per week. This period also included the expansion of eligible unemployment insurance recipients under the Federal Coronavirus Aid, Relief, and Economic Securities Act (CARES Act), which means that Federal benefits will cover some recipients. Figure 1 below shows the number of initial claim filings made each week since the declaration of a state of emergency.

Figure 1



Because many individuals are filing for unemployment insurance for the first time and under changing qualifications, the UIA has experience increased demands to complete initial filings on phone, respond to questions, and review claims. In response, the 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. Although this increase triples the number of employees at the call center, the call center has not been able to keep up with the increase in initial claim filings.

In calendar year 2019, claimants received an average of 11.3 weeks of benefits, with an average weekly payment of \$315. 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.

Executive Order 2020-24

Executive Order (EO) 2020-24 expands 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, have a confirmed COVID-19 diagnosis, or who have had contact in the last 14 days with someone who has a confirmed case, and those who must care for someone with a confirmed diagnosis. The order expands the number of weeks for which a person may draw unemployment from 20 to 26 weeks and allows individuals to file for unemployment within 28 days of the last day of work and be considered to have filed on time. Finally, the order assesses the charge for State unemployment insurance 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.

The Executive Order results in additional individuals who may qualify for unemployment insurance and limits potential tax revenue because of the change of charges to the State's nonchargeable account, which is limited to 1% for all contributing employers with three or more years in business.

Federal Expansion

The Federal CARES Act includes an expansion of eligible recipients and benefits for individuals who are unemployed because of COVID-19. The Act provides an additional \$600 per week to all unemployment claimants for up to four months, from weeks ending March 31 to July 31. This is entirely supported by the Federal Pandemic Unemployment Compensation (FPUC) Fund. The State makes the combined \$600 and State base payment to the claimant, and the \$600 portion is reimbursed by the FPUC Fund. The CARES Act includes extended benefits for an additional 13 weeks (in addition to the 26 weeks of benefits provided under State law and EO 2020-24). The Federal Unemployment Insurance Fund will pay for these extended benefit weeks.

Finally, the CARES Act expands 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 Federal Families First Coronavirus Response Act allocates \$1.0 billion to be distributed to individual state unemployment trust funds for emergency administration. Of the total, \$500.0 million is distributed within 60 days and the additional \$500.0 million will be distributed when state unemployment benefits increase 10% over the same quarter from the previous year. The distribution will be based on the proportion of unemployment insurance tax revenue generated for each state in the previous 60 days. On April 6, the Unemployment Insurance Agency received \$14,554,800 for emergency administration.

State Unemployment Trust Fund

As of March 31, the Michigan Unemployment Trust Fund has a balance of \$4.5 billion, which is the third highest trust fund balance in the country. Of the 1.1 million individuals who have filed initial claims since March 15, the UIA estimates 800,000 individuals qualify under current Michigan Unemployment Insurance; the remainder will be covered by the FPUC. Assuming the average weekly base benefit will be between \$315 and \$362, there will be a total weekly payout of between \$252.0 million and \$289.6 million, with the first week paid for by the FPUC. The number of claimants likely will fluctuate throughout the next few months as sectors of the economy close and reopen based on COVID-19 cases and Executive Orders. Currently, there is a sufficient balance in the Michigan Unemployment Trust Fund to cover individuals through the duration of the current stay-at-home order. Depending on the level that businesses reopen or increase staff levels, the level of payouts could begin to decline significantly, which would greatly increase the solvency of the Trust Fund.

Conclusion

Because of the COVID-19 pandemic, pertinent Executive Orders, and Federal CARES Act, the Michigan UIA has experienced an unprecedented increase in individuals seeking unemployment benefits for both State base payments and the expansion of benefits granted under Federal law. The Michigan UIA has begun increasing staff level and has 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 current stay-at-home order; however, the Fund balance is likely to experience a significant decrease before it begins to increase again. At this time, it is currently 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