



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

BILL ANALYSIS



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

Senate Bill 322 (as reported with amendments)
 Sponsor: Senator Dave Honigman
 Committee: Human Resources, Labor, and Veteran Affairs

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RATIONALE

The cost of operating a business in Michigan apparently is high compared with the cost in other states. One factor contributing to business costs is the rate of taxation required to support the unemployment insurance (UI) system, and Michigan's UI tax rate is among the highest in the country. Reportedly, Michigan's UI tax rate ranks third in the nation based on total and taxable wages; State revenue from employer taxes ranks fifth highest, at \$1.3 billion; and Michigan's average UI cost per employee (\$446) ranks sixth highest nationally. Business operators consistently have cited Michigan's high UI costs as a major component of the cost of doing business in the State, and contend that it hinders their ability both to hire workers and to ensure continuing profitable enterprises. Further, since UI is an experience-rated system, the high level of taxes is directly related to Michigan's level of unemployment benefits. Michigan's average weekly benefit amount reportedly ranked seventh nationally in 1994 at \$212.95, and total benefits paid out ranked eighth highest at \$937.5 million. In addition, according to the Michigan Jobs Commission, the State's maximum unemployment benefit for an individual with no dependents is the highest among Michigan's competitor states and the State's minimum earnings requirement to qualify for benefits is the third lowest in that group of eight states. Some people contend that Michigan's high UI costs, generous unemployment compensation benefit payouts, and low benefit qualifying criteria impede the State's economic and employment competitiveness. They claim that, unless the UI burden on employers is eased, Michigan will remain at a competitive disadvantage with respect to other states, and that UI benefits and taxes must be reduced if Michigan is to be considered an attractive place for private investment and job creation.

CONTENT

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

- **Reduce the weekly benefit rate for those receiving unemployment compensation benefits, and eliminate indexing of the maximum weekly benefit as a percentage of the State average weekly wage.**
- **Require that an individual serve a one-week waiting period before being eligible to receive unemployment compensation benefits.**
- **Restrict the payment of benefits for a seasonal employee's periods of unemployment.**
- **Revise provisions for the payment of unemployment compensation benefits for a week in which an eligible individual earned partial remuneration.**
- **Revise some of the conditions under which an individual is disqualified from receiving unemployment compensation benefits, and disqualify certain temporary employees and in-home salespersons from eligibility for benefits.**
- **Revise the definition of "credit week".**
- **Repeal a section of the Act that provides an alternative calculation for an individual to establish a "benefit year".**
- **Reduce the maximum level of the account building component of the tax formula used to calculate an employer's contribution to the Unemployment Compensation (UC) Fund.**

- **Decrease the maximum nonchargeable benefits component of the tax formula used to calculate an employer's contribution to the UC Fund, under certain circumstances.**
- **For calendar years after 1995, reduce some employers' contribution rates if the UC Fund met certain criteria.**
- **In the case of an actual or potential transfer of business, provide for temporary contribution rates, until the Michigan Employment Security Commission (MESC) issued a rate determination.**

Contribution Rates

The Act provides that each employer's contribution rate for each calendar year is the sum of a chargeable benefits component, an account building component, and a nonchargeable benefits component. Each component is determined by a formula specified in the Act.

Account Building Component. The Act specifies that, for calendar years after 1993, and before 1999, the account building component is not to exceed the lesser of .69 of the percentage calculated under the Act's formula, or 3%, if on June 30 of the preceding calendar year, the balance in the UC Fund was less than 50% of the aggregate of all contributing employers' annual payrolls for the 12 months ending March 31, times the cost criterion. The bill would change the maximum account building component to .50 of the percentage calculated under the Act's formula, or 3%, whichever was less, if the UC Fund balance were less than 50% of the aggregate of contributing employers' annual payrolls for the 12 months ending March 31 times the cost criterion. This maximum contribution rate would apply in *all* calendar years after 1993.

"Cost criterion" means the number arrived at as of each computation date (i.e., June 30), through the following calculation: "(I) With respect to each period of 12 consecutive months starting after 1956, calculate the percentage ratio of the benefits paid during the 12 months to the aggregate amount of the payrolls paid by employers within the most recent calendar year completed before the start of the 12 month-period"; "(ii) Select the largest percentage ratio...to be used as of that computation date".

Nonchargeable Benefit Component. The Act specifies that, for calendar years after 1993, and

before 1999, if there are no benefit charges against an employer's account for the 60 months ending as of the computation date and if the Act's advocacy assistance program is funded and operates for that fiscal year, the maximum nonchargeable benefit component cannot exceed one-half of 1%. The bill would apply this provision to *all* calendar years after 1993 and remove the requirement that the advocacy assistance program be funded and operate.

The bill also specifies that, for calendar years after 1993, the maximum nonchargeable benefit component would be .4 of 1%, if there were no benefit charges against an employer's account for 72 months; .3 of 1%, if there were no benefit charges against an employer's account for 84 months; .2 of 1%, if there were no benefit charges against an employer's account for 96 months; and .1 of 1%, if there were no benefit charges against an employer's account for 108 months.

Contribution Rate Reduction. The bill would require that, unless an employer's contribution rate were .1 of 1%, for calendar years beginning after December 31, 1995, the calculated contribution rate be reduced by 10% or by deducting .1 of 1% from the contribution rate, whichever resulted in the lower rate, for employers who had made contributions in accordance with the Act for more than four consecutive years, if the UC Fund balance, excluding money borrowed from the Federal Unemployment Trust Fund, equaled or exceeded 1.2% of the aggregate amount of all contributing employers' annual payrolls for the 12 months ending on the contribution date.

Temporary Contribution Rates. In the case of an actual or potential transfer of business, and until the MESC issued a rate determination to the transferor employer or transferee employer pursuant to the Act, the employer would be liable to pay quarterly contributions for that calendar year at a temporary rate.

For a transferor or transferee employer with a contribution rate based on five or more years of experience, the temporary rate would be the employer's contribution rate most recently determined for the employer. For a transferor or transferee employer with a contribution rate based on at least one year, but less than five years, of experience, the temporary rate would be 2.7% for an employer with a contribution rate based on the first two years of experience, 3.8% for an employer with a contribution rate based on the third year of experience, and 5% for an employer with a

contribution rate based on the fourth year of experience. For a transferee employer with no previous contribution experience, the temporary rate would have to be the standard rate as otherwise provided in the Act.

When a rate determination replacing a temporary rate was issued to an employer, it would affect only the contribution rates for the calendar year in which the rate determination was issued. The temporary rate would be final, as to any calendar year before the calendar year to which the temporary rate had applied. If the rate provided in the rate determination for any prior year were more favorable to the employer than was the temporary rate for that prior year, however, the rate provided in the determination would have to be applied retroactively.

Benefits

Weekly Benefit Rate. The Act provides that the weekly benefit rate for an individual, for benefit years beginning before January 1, 1997, is 70% of his or her average after tax weekly wage. The bill would change that rate to 65% of the person's after tax weekly wage.

In addition, the Act specifies that a person's weekly benefit rate cannot exceed 58% of the State average weekly wage. The maximum weekly benefit amount cannot exceed \$293, however, for benefit years beginning on or after January 2, 1994, but before January 5, 1997. For benefit years beginning after January 5, 1997, an individual's weekly benefit rate cannot exceed 53% of the State average weekly wage. For benefit years beginning on or after January 4, 1998, but before January 3, 1999, an individual's weekly benefit rate cannot exceed 55% of the State average weekly wage. The bill would delete this indexing of the maximum weekly benefit as a percentage of the State average weekly wage and provides, instead, that a person's maximum weekly benefit rate could not exceed \$293.

Waiting Week. The bill specifies that, in order for an unemployed individual to be eligible for benefits under the Act, the MESC would have to find that, within each benefit year and prior to the first period with respect to which he or she claimed benefits, the individual had served a waiting period of one week of unemployment in which he or she was otherwise eligible for, and entitled, to receive benefits.

Seasonal Employment. For weeks of unemployment beginning after the bill's effective date, benefits for seasonal employment would be payable only for weeks of unemployment that occurred during the normal seasonal period of work in the industry in which the person was employed. Benefits could not be paid for seasonal employment for any week of unemployment that began during the period between two successive normal seasonal work periods, to any person who performed the service in the first of those work periods if there were a reasonable assurance that he or she would perform the service for a seasonal employer in the second of the normal seasonal work periods. If benefits were denied for any week solely because of this provision and the individual were not offered an opportunity to perform in the second normal seasonal work period for which reasonable assurance of employment had been given, the person would be entitled to a retroactive payment of benefits for each week that he or she had previously filed a timely claim for benefits. An individual entitled to retroactive benefits could apply for them by mail in accordance with the Michigan Administrative Code (R 421.210).

At least 20 days before the estimated beginning date of a normal seasonal work period, an employer could apply to the MESC in writing for designation as a seasonal employer. At the time of application, the employer would have to display conspicuously a copy of the application on the employer's premises. The MESC would have to determine if the employer were a seasonal employer within 30 days after receiving the application. If the MESC failed to reject an application by the 30-day deadline, the application would be approved and the MESC would have to provide the applicant with a seasonal employer designation. If the employer were determined to be a seasonal employer, the employer would have to display conspicuously on its premises notices furnished by the MESC to notify employees of the determination and the estimated beginning and ending dates of its normal seasonal work period. The notice also would have to specify that an employee would have to apply in a timely manner for unemployment compensation at the end of a first seasonal work period to preserve his or her right to receive retroactive unemployment compensation in the event that he or she was not reemployed by the seasonal employer in the second of the normal seasonal work periods.

The MESC could terminate a seasonal employer designation for cause and would have to terminate the designation upon the designee's request. The termination of a seasonal employer designation would become effective on the first date of a seasonal employment period immediately following the date the MESC provided the employer with written notice of the termination. An employer whose designation was terminated could not reapply for a seasonal employer designation until a complete regularly recurring seasonal employment period had occurred.

If a seasonal employer informed an employee who received assurance of rehiring that, despite the assurance, he or she would not be rehired at the beginning of the employer's next season, the employee would be entitled to receive benefits in the same manner he or she would receive benefits from an employer who was not a seasonal employer.

A successor of a seasonal employer would be considered a seasonal employer unless the successor, within 120 days after acquiring the business, requested that the MESC provide written cancellation of the determination. A determination would be subject to review in the same manner and to the same extent as other determinations under the Act.

"Normal seasonal work period" would mean the period or periods of time determined pursuant to rules promulgated by the MESC during which an individual was employed in season employment. "Seasonal employment" would mean the employment of one or more individuals primarily hired to perform services in an industry that did either of the following:

- Customarily operated during regularly recurring periods of 40 weeks or less in a period of 52 consecutive weeks.
- Customarily employed at least 50% of its employees for regularly recurring periods of 40 weeks or less within a period of 52 consecutive weeks.

Periods of Partial Remuneration. The Act provides that each eligible individual must be paid a weekly benefit rate for a week in which he or she earns or receives no remuneration or remuneration of less than one-half his or her weekly benefit rate. An eligible person is paid one-half of his or her weekly benefit rate for a week in which he or she earns or receives remuneration equal to at least one-half but less than the amount of the benefit rate. The

Act also specifies that, if within two consecutive weeks in which a person was not unemployed, there was a period of seven or more consecutive days for which he or she did not earn or receive remuneration, that period is considered a week for benefit purposes if a claim for benefits for that period is filed within 30 days after the end of the period.

The bill, instead, provides that an eligible individual would be paid a weekly benefit rate for a week for which he or she received no remuneration. If a person earned or received remuneration that, together with his or her weekly benefit, equaled or exceeded 1-1/2 times his or her weekly benefit rate amount, he or she could not receive benefits for that week. In addition, each eligible individual's weekly benefit rate would be reduced with respect to each week in which he or she earned or received partial remuneration, at the rate of 50 cents for each whole dollar of remuneration earned or received during that week.

Disqualification For Benefits. The Act specifies various conditions that disqualify a person from receiving unemployment compensation benefits. For purposes of requalifying conditions, disqualification for theft or destruction of property is divided into categories of \$25 or less and more than \$25. The bill would delete this value amount distinction. In order to requalify for benefits, a worker disqualified for theft or property destruction would have to complete 13 requalifying weeks of employment, which currently is required for theft or destruction resulting in loss or damage of over \$25.

In addition, the bill would disqualify from eligibility for benefits a person who was employed by a "temporary help firm" if each of the following applied:

- The firm provided the employee with a written notice before he or she began performing services for the client stating, in substance, that within seven days after completing services for a client, the employee was under a duty to notify the temporary help firm of the completion of those services and that failure to provide notice would constitute a voluntary quit that would affect the employee's eligibility for unemployment compensation.
- The employee did not notify the temporary help firm that he or she had completed his or her services for the client, within seven days after completion of the assignment.

"Temporary help firm" would mean an employer whose primary business was to provide a client with the temporary services of one or more individuals under contract with the employer.

The bill also would disqualify a person who was discharged as a result of failing a test for the unlawful use of a controlled substance, if that test were administered in a nondiscriminatory manner (i.e., pursuant to a labor-management contract or an employer rule or policy).

In-Home Salespersons. The bill would exclude from the definition of "employment" services performed as a direct seller engaged in the trade or business of selling, or soliciting the sale of, consumer products or services to a buyer on a buy-sell basis in the home or in an establishment other than a permanent retail establishment, if both of the following conditions applied:

- Substantially all cash or other remuneration paid for services was determined by sales or service performance volume, and not by the number or hours worked.
- The service was performed pursuant to a written contract that provided that the person was not an employee with respect to the service for Federal tax purposes.

"Credit Week". Currently, with respect to benefit years established before January 1, 1997, "credit week" means a calendar week of an individual's "base period" during which he or she earned wages equal to or greater than 20 times the State minimum hourly wage in effect on the first day of the calendar week in which he or she filed an application for benefits. Under the bill, a credit week would be a calendar week of the base period during which the person earned wages equal to or greater than 30 times the State minimum hourly wage. ("Benefit year" means the period of 52 consecutive calendar weeks beginning with the first calendar week with respect to which the individual files an application for benefits. "Base period", for benefit years beginning before January 1, 1997, means the period of 52 consecutive weeks ending with the day immediately preceding the first day of the person's benefit year. For benefit years beginning after January 1, 1997, "base period" means the first four of the last five completed calendar quarters before the first day of the person's benefit year.)

Repealer

The bill would repeal a section that provides that, if an individual is not able to establish a benefit year because of insufficient credit weeks, a benefit year may be established if the person has at least 14 credit weeks in his or her base period, and has base period wages in excess of 20 times the State average weekly wage, applicable to the calendar year in which his or her benefit year is established (MCL 421.46a).

MCL 421.19 et al.

ARGUMENTS

(Please note: The arguments contained in this analysis originate from sources outside the Senate Fiscal Agency. The Senate Fiscal Agency neither supports nor opposes legislation.)

Supporting Argument

Although Michigan has made recent improvements to its business climate with the reduction of property, income, and business taxes, the State's UI taxes still are among the highest in the nation. The cost of UI has a negative effect on employer profits, leaving less money available for reinvestment, expansion of operations, and creation of jobs. According to testimony before the Senate Human Resources, Labor, and Veteran Affairs Committee presented by the Michigan Chamber of Commerce, a 1994 survey conducted by the U.S. Chamber of Commerce revealed that the average payment by employers for unemployment insurance was \$227 per employee. In Michigan, the average UI tax cost per employee is \$446. This situation, which is exacerbated by the generous unemployment compensation benefits provided for in Michigan's UI system, puts Michigan at an economic disadvantage compared with other states and hinders the development of the State's economy, investment in Michigan businesses, and job creation. The bill would make more strides toward improving the competitiveness of Michigan's business climate.

With the enactment of the bill, Michigan would be a much more attractive place to do business. Reducing the maximum level of the UI tax's account building component, decreasing the nonchargeable benefits component for employers who had no benefit charges over an extended period, and reducing contribution rates when the

UC Fund met specific standards of viability should help to alleviate the UI tax burden on Michigan businesses. In addition, lowering the benefit ratio to 65% of a person's after tax weekly wage, reimplementing the waiting week for collection of benefits (which had been part of Michigan's UI system until 1974), and redefining "credit week" to mean 30, rather than 20, times the State minimum wage, would reduce the long-term growth in Michigan employers' UI contribution rates. Further, tightening up benefit qualification criteria for seasonal workers, repealing the alternative earnings qualifier, and excluding some temporary workers and those involved in in-home direct sales from eligibility for benefits would help to reduce the drain on the State's UC Fund, thereby contributing to the integrity of Michigan's UI system and generally promoting Michigan as a good place to do business.

Response: The reforms called for in the bill are unnecessary and could be detrimental to the economy. Michigan's business climate is strong and improving. The State has been cited in recent years as being among the nation's leaders in new job development, the unemployment rate is among the most favorable of the leading industrial states and has consistently been near or below the national rate over the last 18 months or so, and the UC Fund is projected to grow under the current parameters of Michigan's UI system. Although positive economic conditions and the viability and projected growth of the UC Fund may warrant offering UI tax breaks to employers, those conditions do not suggest that it is necessary at this time to reduce unemployment compensation benefit levels. Indeed, in the past, concern about the vulnerability of the UC Fund has been posed as a reason why benefits should be cut; that situation does not exist today and is not expected to arise in the near future. The benefit reductions proposed by the bill would only be a detriment to working class families and actually could have a negative effect on the State's burgeoning economy, because fewer temporarily unemployed workers would receive benefits and those who did would have less purchasing power to buy the products of the State's employers.

Supporting Argument

Workers dismissed for cause, such as for failing a drug test or stealing or destroying property, regardless of the value of that property, should be disqualified from receiving UI benefits. While stealing or destroying property currently disqualifies a dismissed worker for benefits, it is easier under the Act to requalify if the value of the property is \$25 or less. The bill would recognize

the seriousness of theft and vandalism by removing this value distinction and subjecting all employees fired for these reasons to the higher requalification standard. In addition, dismissal for drug use should be listed as a disqualifying factor.

Response: The \$25 threshold for the requalification standard discourages abuse by employers. If a worker inadvertently walks out of a workplace with a pen or a pair of gloves that belongs to the employer, for example, that worker should not be treated the same as someone who steals a computer. The Act currently sets a requalifying standard of six weeks' employment, even for amounts below the threshold, which is stringent enough. As for drug use, if disqualification were to apply, it should be tied to drug use that occurred on the job or affected job performance, and should require that the test be administered pursuant to a written policy of which the employee had prior notice.

Opposing Argument

The benefit reductions proposed by the bill could be devastating to Michigan's working families. The proposed reforms follow a "punish the victim" approach that would further disadvantage those workers already suffering the hardships of job loss by reducing their ability to pay for food, clothing, and other necessities. Although Michigan's unemployment benefits are among the highest in the country, it stands to reason that that should be true. Benefits are based on wages paid, and Michigan enjoys some of the highest wages in the country. Despite their relatively high ranking compared with other states, however, unemployment compensation benefits in Michigan reportedly provide income of only about 75% of the poverty level for a family of four, yet the bill would mandate an across-the-board 7% cut by lowering the benefit rate to 65% of average after tax income, as well as impose a no-benefits week before an unemployed worker could collect benefits, make it more difficult to qualify for benefits in the first place, and eliminate inflationary increases of benefit levels.

Reducing the benefit rate from 70% of average after tax wages, to 65% is harsh and unwarranted, considering the solvency of the UC Fund and the needs of unemployed workers. The so-called "waiting week" actually would be a "no-benefits week" for most unemployed workers. Although it is true that an unemployed worker who exhausted his or her 26 weeks of benefits would receive the payment for the lost week at the end of that period, the fact is that more than 70% of unemployed workers do not exhaust their benefits. Since these

workers would never reach a 27th week, they would not receive the foregone compensation for the first week of unemployment. The "waiting week", in effect, simply would be a benefit cut.

Stiffening the unemployment compensation qualifying standard to 30 times the State minimum wage would hit hardest two groups that already have great financial difficulty: low wage and part-time workers. While proponents of the bill may argue that the dollar figure to qualify for benefit eligibility under the current criterion (20 times the State minimum wage) is unreasonably low, that problem exists, at least in part, because the State's minimum wage is still \$3.35 per hour, or 26% less than the Federal minimum rate. Rather than penalizing low income workers by raising the qualifying multiplier, the minimum wage should be increased to a more realistic level.

Further, eliminating the indexing of benefit levels as a percentage of the State's average weekly wage would compound the bill's detrimental effect on workers and their families. The maximum benefit level currently is set at \$293 through 1996, pursuant to compromise legislation enacted in 1993 that was designed to ensure the solvency of the UC Fund. The Fund is now solvent and balances are projected to grow at least through the year 2000. Permanently eliminating indexing and leaving the maximum benefit level at \$293 not only would require new legislation every few years or so to allow unemployment compensation recipients to catch up with inflation, but also would erode the purchasing power of laid-off workers. Indexing allows those workers and their families to maintain some minimal degree of economic activity.

Response: Michigan's benefit rates are among the highest in the nation, and lowering the benefit ratio to 65% would provide some reasonable balance and competitiveness to Michigan's UI system. In addition, many insurance policies include, as a check on benefits, deductible provisions or co-pay requirements. The unemployment compensation system is an insurance policy for covered workers and the waiting week merely would be an insurance deductible or co-pay for those who collect on the policy. The Act's qualifying standard for unemployment compensation benefits simply is too low. In Michigan, an unreasonably high number (74%) of UI claims are approved; in comparison, 70% of claims reportedly are approved in Ohio, 67% in Indiana, and 63% in Illinois. Further, indexing UI benefits acts as a constant strain on the UC Fund. While the 1993 legislation that froze the maximum benefit rate

helped ensure the health of the UC Fund, that temporary measure should be made permanent in order to protect the Fund's long-term integrity.

Opposing Argument

Eliminating the alternative earnings qualifier (AEQ) and restricting seasonal and temporary workers' eligibility for benefits would deny many workers whose job security is uncertain the ability to provide for themselves and their families during down times. Construction workers, for instance, usually do not work regularly scheduled shifts for single employers; they generally work for many different employers on an irregular basis over uncertain periods of time. They are not paid during the usually short lapses between jobs and often cannot meet the Act's 20-week qualifier for unemployment compensation benefits. The AEQ specifically accommodates this type of highly skilled, high-wage worker with little or no job security. By earning the equivalent of 20 weeks' worth of wages over a 14-week period, these workers can qualify under the AEQ to receive deserved benefits. Replacing the AEQ with the bill's seasonal employment provisions would not necessarily accommodate these workers, because they not only would have to meet the Act's 20-week working requirement, but also would have to rely on an employer's applying for designation as a seasonal employer and setting "normal seasonal work periods". In addition, a seasonal worker who was assured of work in a future seasonal work period, then was not hired, could receive his or her employment benefits only retroactively; the worker could not receive benefits during the actual intervening period of unemployment. Further, Michigan has been an attractive location for highly skilled construction workers to live and work due in part to the availability of the AEQ. Without this benefit, the State could see a depletion in the ranks of the building and construction trades, which could have a compounding negative economic effect.

Response: Like the qualifying criterion of 20 times the State minimum wage, the AEQ contributes to the State's low eligibility standard to qualify for unemployment compensation benefits. In addition, since some occupations are seasonal by their very nature, UI benefits should not be available to workers in those occupations during periods when they naturally would not be employed. The bill would continue to allow benefits to be available in periods of unemployment during the normal working season. In addition, there have been reports nationwide of employees of temporary work firms taking advantage of UI systems by filing unemployment

compensation benefit claims after fulfilling a temporary assignment, without notifying the “temp” firm that they had completed an assignment and were prepared to accept another. By requiring these employees to notify the temporary work firm, the bill would close that loophole.

Legislative Analyst: P. Affholter

FISCAL IMPACT

The tax reduction provisions of the bill would lower the contribution requirements of State and local governmental units. The actual savings of Federal unemployment taxes also would be determined by the level of benefits paid to past employees and by the number of part-time individuals who have been and would be employed in seasonal positions. Actual savings would vary according to the benefit experience of each governmental unit.

These changes would reduce the amount contributed into the trust fund. The reduced annual benefit payments from the trust fund together with the reduced contribution level from employers would have an indeterminate fiscal impact. Information is to be developed and should be available at a later date.

Fiscal Analyst: K. Lindquist

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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.