COMMITTEE ON LEGISLATIVE RESEARCH
OVERSIGHT DIVISION

FISCAL NOTE

L.R. No.: 0637-01
Bill No.: Truly Agreed To and Finally Passed HB 150
Subject: Unemployment Compensation; Employees - Employers
Type: Original
Date: May 19, 2015

Bill Summary: This proposal modifies the duration of unemployment compensation, the method to pay federal advances, and raises the fund trigger causing contribution rate reductions.

FISCAL SUMMARY

ESTIMATED NET EFFECT ON GENERAL REVENUE FUND			
FUND AFFECTED	FY 2016	FY 2017	FY 2018
Total Estimated Net Effect on General Revenue	**$0**	**$0**	**$0**

ESTIMATED NET EFFECT ON OTHER STATE FUNDS			
FUND AFFECTED	FY 2016	FY 2017	FY 2018
Total Estimated Net Effect on Other State Funds	**$0**	**$0**	**$0**

Numbers within parentheses: ( ) indicate costs or losses.
This fiscal note contains 8 pages.

ESTIMATED NET EFFECT ON FEDERAL FUNDS			
FUND AFFECTED	FY 2016	FY 2017	FY 2018
Unemployment Compensation Trust	$0 to Greater than $13,952,936	$0 to Greater than $13,952,936	$0 to Greater than $13,952,936
Unemployment Insurance Administration	(Could exceed $460,866)	(Could exceed $225,755)	(Could exceed $228,062)
Total Estimated Net Effect on All Federal Funds	**Could exceed 13,492,070**	**Could exceed $13,727,181**	**Could exceed $13,724,874**

ESTIMATED NET EFFECT ON FULL TIME EQUIVALENT (FTE)			
FUND AFFECTED	FY 2016	FY 2017	FY 2018
Unemployment Insurance Administration	4 FTE	4 FTE	4 FTE
Total Estimated Net Effect on FTE	**4 FTE**	**4 FTE**	**4 FTE**

☒ Estimated Net Effect (expenditures or reduced revenues) expected to exceed $100,000 in any of the three fiscal years after implementation of the act.

ESTIMATED NET EFFECT ON LOCAL FUNDS			
FUND AFFECTED	FY 2016	FY 2017	FY 2018
Local Government	**$0**	**$0**	**$0**

FISCAL ANALYSIS

ASSUMPTION

Officials from the **Office of Administration - Division of Accounting** assume the proposal will have no fiscal impact on their organization.

Officials from the **Attorney General's Office** assume any potential cost arising from this proposal can be absorbed with existing resources.

Sections 288.036 & Subsection 288.060.3

Officials from the **Department of Labor and Industrial Relations (DOLIR)** state the change in Section 288.036.1, stipulates that termination pay and severance pay shall be considered wages for the week with respect to which it is payable.

DOLIR assumes the change in Section 288.060.3 removes an existing provision stating termination pay and severance pay shall not be considered as wages regarding the calculation of partial benefits. Applied together, these changes will require claimants to report termination pay and severance pay as wages for each week it is payable. Wages from severance pay when paid as a lump sum will be pro-rated on a weekly basis at the rate of pay received by the insured at the time of separation. For weeks in which an otherwise eligible claimant reports termination pay and severance pay, the claimant will either be entitled to a reduced weekly benefit payment or no weekly benefit payment, depending on the amount of the termination pay and severance pay reported.

If these changes are enacted, it will likely have a positive impact on the Unemployment Insurance Trust Fund.

Based on data from the U.S. Bureau of Labor Statistics, the average wage for an employed Missourian is $622 per week and the average tenure of an employee over age 25 is 5.5 years. In January 2015, DOLIR received 35,700 initial unemployment claims. A common method of calculating severance pay is one week's pay for each year of service.

ASSUMPTION (continued)

The average weekly unemployment payment would be $237.91. Since several factors can affect to the exact payment amount, DOLIR used this estimated weekly unemployment payment, the assumption that severance payments would be made to individuals on a weekly basis, and the assumption that up to 10% of employers make severance/termination payments to calculate savings of $0 to $4,671,363 to the Unemployment Compensation Trust Fund. (5.5 weeks [covered under severance pay] X $237.91 [unemployment payment] = $1,308.51 per claimant X 3,570 claimants [10% X 35,700] = $4,671,362.85 [rounded])

For fiscal note purposes, **Oversight** will use the Department of Labor and Industrial Relations estimated savings to the Unemployment Compensation Trust Fund. Oversight will range the savings as $0 (no claimants report termination and severance pay as wages) to $4,671,362 (DOLIRs estimate of 10% of employers make severance/termination payments). It should be noted the revenue generated may fluctuate in any given year depending on the number of variables used in the calculation.

Subsections 288.060.4 & 288.060.5

Officials from the **Department of Labor and Industrial Relations (DOLIR)** assume the proposed changes in this section would index the maximum number of weeks benefits are payable to a qualified claimant based upon the average statewide unemployment rate during a specified quarter.

The average of the seasonally adjusted statewide unemployment rates for the time period of January first through March thirty-first shall be effective on and after July first of each year and shall be effective through December thirty-first. The average of the seasonally adjusted statewide unemployment rates for the time period of July first through September thirtieth shall be effective on and after January first of each year and shall be effective through June thirtieth. The **Division of Employment Security (DES)** interprets effective date of a claim to be the effective date of a claimant's benefit year.

DOLIR officials estimate the proposed language may result in eligible claimants receiving from $0 (no change) to $83.3 million less in regular unemployment insurance (UI) benefits than they would under current provisions. The following chart illustrates the DOLIR estimate of potential benefit reductions.

ASSUMPTION (continued)

If Unemployment Rate is	# Regular UI Weeks Reduced	Maximum Duration for Regular UI	Estimated Regular UI Benefits NOT Paid to Eligible Recipients (Trust Fund)	Incremental Difference For Additional Week
> = 9.0	0 Weeks (no change)	20 weeks		
8.6 - 8.9	1 week	19 weeks	$ 9,281,573	$ 9,281,573
8.0 - 8.5	2 weeks	18 week	$ 19,100,151	$ 9,818,578
7.6 - 7.9	3 weeks	17 week	$ 29,797,573	$ 10,697,422
7.0 - 7.5	4 weeks	16 weeks	$ 41,660,647	$ 11,863,074
6.6 - 6.9	5 weeks	15 weeks	$ 54,627,066	$ 12,966,419
6.0 - 6.5	6 weeks	14 weeks	$ 68,573,821	$ 13,946,755
< 6.0	7 weeks	13 weeks	$ 83,300,444	$ 14,726,623

Oversight does not have a way to estimate future unemployment rates; therefore, it is difficult to accurately predict the amount of savings this proposal could generate. Oversight will indicate savings to the Unemployment Compensation Trust Fund as $0 (unemployment rate higher than reduced benefit rate) to Greater than $9,281,573 (the DOLIR estimate of savings from a one week reduction in benefits.)

Section 288.122

Officials from the **Department of Labor and Industrial Relations (DOLIR)** assume the change in this section will allow employers who reasonably believe that they were assigned an erroneous experience rating as a result of the purchase of a company the right to file an appeal for recovery of overpayments up to the last five years due to erroneous assignment. Appeals based on this section will be allowed for a period of sixty days beginning with the effective date of this bill. This bill will result in additional work that cannot be absorbed by current staff.

The Department of Labor and Industrial Relations - Division of Employment Security (DES) makes approximately 3,380 successorship determinations each year. On average 2% of successorship determinations are appealed each year which equates to approximately 68 (3380 X 2%) cases. This provision allows employers who have been determined successors, over the last five years, the opportunity to appeal. This means the DES can expect new appeals on 340 (5 X 68) successor determinations. The DES estimates it will take an additional three contribution specialists I and an appeals referee III to handle the additional workload.

ASSUMPTION (continued)

Finally, DOLIR officials assume the proposed changes would modify the balance levels in the Unemployment Compensation Trust Fund at which employer contribution rates would be changed. DOLIR officials noted the proposed language would allow for a higher balance to be accumulated in the fund.

DOLIR assumes a cost of these 4 FTE would total $202,020 in FY 2016, and approximately $225,000 per year thereafter.

DOLIR officials also noted this proposal would require the Board of Unemployment Fund Financing to meet and consider using the use of credit instruments in place of federal advances when the federal debt is greater than $300 million.

Oversight assumes the Board of Unemployment Fund Financing would have the option to issue debt instruments in place of federal loans. Oversight notes the debt instruments may have a higher interest rate than the federal loans, but Missouri employers could potentially avoid the reduction in state tax credit on federal unemployment taxes if federal loans are paid off with state financing instruments. This would tend to offset the additional interest cost of the state financing instruments.

Officials from the **Department of Labor and Industrial Relations** also assumed that implementation of this provision would require computer programming costs estimated at $258,846.

Oversight will include the one time computer upgrades for the Department of Labor to the UI Administration Fund in this fiscal note.

Oversight will include a cost to the UI Administration Fund for the potential increased costs for the change to the repayment of the federal loan process. Oversight assumes the increased costs to the UI Administration Fund would be significantly less than the savings to the Unemployment Compensation Trust Fund. Therefore, these changes should result in a net savings to the State.

FISCAL IMPACT - State Government	FY 2016 (10 Mo.)	FY 2017	FY 2018
UNEMPLOYMENT COMPENSATION TRUST FUND			
Savings - DOLIR Section 288.036 & Subsection 288.060.3	$0 to $4,671,363	$0 to $4,671,363	$0 to $4,671,363
Savings - DOLIR Reduction of weekly benefits based on unemployment rate Subsection 288.060.4 & 288.060.5	$0 to Greater than $9,281,573	$0 to Greater than $9,281,573	$0 to Greater than $9,281,573
ESTIMATED NET EFFECT ON UNEMPLOYMENT COMPENSATION TRUST FUND	**$0 to Greater than $13,952,936**	**$0 to Greater than $13,952,936**	**$0 to Greater than $13,952,936**
UNEMPLOYMENT INSURANCE ADMINISTRATION FUND			
Cost - DOLIR			
Personal Service	($121,480)	($147,234)	($148,706)
Fringe Benefits	($61,961)	($75,097)	($75,847)
Computer programming changes	($258,846)	$0	$0
Expense and Equipment	($18,579)	($3,424)	($3,509)
Total Costs - DOLIR	($460,866)	($225,755)	($228,062)
FTE Change DOLIR	4 FTE	4 FTE	4 FTE
Cost - DOLIR Credit instrument increased charges Section 288.122	$0 to (Unknown)	$0 to (Unknown)	$0 to (Unknown)
ESTIMATED NET EFFECT ON UNEMPLOYMENT INSURANCE ADMINISTRATION FUND	**(Could exceed $460,866)**	**(Could exceed $225,755)**	**(Could exceed $228,062)**
Estimated Net FTE Change for the Unemployment Insurance Administration	4 FTE	4 FTE	4 FTE

FISCAL IMPACT - Local Government	FY 2016 (10 Mo.)	FY 2017	FY 2018
	$0	**$0**	**$0**

FISCAL IMPACT - Small Business

Small businesses may be impacted by the potential reduction in unemployment taxes and by the potential elimination of state tax credit reductions on federal unemployment taxes.

FISCAL DESCRIPTION

This proposal modifies the duration of unemployment compensation, the method to pay federal advances, and raises the fund trigger causing contribution rate reductions.

This legislation is not federally mandated, would not duplicate any other program and would not require additional capital improvements or rental space.

SOURCES OF INFORMATION

Department of Labor and Industrial Relations
Attorney General's Office
Office of Administration

Mickey Wilson, CPA
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May 19, 2015

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May 19, 2015

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