COMMITTEE ON LEGISLATIVE RESEARCH
OVERSIGHT DIVISION

FISCAL NOTE

L.R. No.: 0785-01
Bill No.: SB 189
Subject: Employment Security
Type: Original
Date: January 20, 2017

Bill Summary: This proposal modifies provisions relating to employment security.

FISCAL SUMMARY

ESTIMATED NET EFFECT ON GENERAL REVENUE FUND			
FUND AFFECTED	FY 2018	FY 2019	FY 2020
Total Estimated Net Effect on General Revenue	**$0**	**$0**	**$0**

ESTIMATED NET EFFECT ON OTHER STATE FUNDS			
FUND AFFECTED	FY 2018	FY 2019	FY 2020
Total Estimated Net Effect on Other State Funds	**$0**	**$0**	**$0**

Numbers within parentheses: ( ) indicate costs or losses.
This fiscal note contains 9 pages.

ESTIMATED NET EFFECT ON FEDERAL FUNDS			
FUND AFFECTED	FY 2018	FY 2019	FY 2020
Unemployment Compensation Fund	$0 to Greater than $82,359,073	$0 to Greater than $82,359,073	$0 to Greater than $82,359,073
Unemployment Insurance Administration	Could exceed ($864,485)	Could exceed ($728,538)	Could exceed ($729,414)
Total Estimated Net Effect on All Federal Funds	**Could exceed $81,494,588**	**Could exceed $81,630,535**	**Could exceed $81,629,659**

ESTIMATED NET EFFECT ON FULL TIME EQUIVALENT (FTE)			
FUND AFFECTED	FY 2018	FY 2019	FY 2020
Total Estimated Net Effect on FTE	**0**	**0**	**0**

☐ 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 2018	FY 2019	FY 2020
Local Government	**$0**	**$0**	**$0**

FISCAL ANALYSIS

ASSUMPTION

Officials from the **Department of Labor and Industrial Relations (DOLIR)** state:

Division of Employment Security (DES)
Sections 288.036.1 stipulates that termination pay and severance pay shall be considered wages for the week with respect to which it is payable. The change in Section 288.060.3 removes an existing provision stating termination pay and severance pay shall not be considered as wages for 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 employee at the time of separation. For weeks in which an otherwise eligible claimant reports termination pay and severance pay, the claimant will be entitled to either a reduced weekly benefit payment or no weekly benefit payment, depending on the amount of the termination pay and severance pay reported. These changes would increase the balance of the Unemployment Insurance Trust Fund.

Based on data from the U.S. Bureau of Labor Statistics, the average weekly wage for an employed Missourian is $868, and the average tenure of an employee over age 25 is 5.5 years. During the 12-month period ending September 30, 2016, DOLIR made 95,613 initial payments.

Using the average weekly unemployment payment of $249.59, and the assumptions that severance payments would be made on a weekly basis at the common method of calculation of one week's pay per year of service and that up to 5% of employers make severance/termination payments, a savings of $0 to $6,562,637 is estimated for the Unemployment Insurance Trust Fund.

Calculation of UI Trust Fund Savings Estimate	
Average weeks of severance/termination pay	5.5
X Average unemployment payment	$249.59
Total severance/termination payments per claimant	$1,372.75
Initial payments – 1 year	95,613
X 5% Claimants receiving severance/termination payments	4,780.65
Total payments per claimant	$1,372.75
X Claimants receiving severance/termination pay	4,781
Estimated highest savings for Unemployment Trust Fund	$6,562,637

A change in any of the variables used in this calculation will result in an impact higher or lower than the estimate provided in this document.

ASSUMPTION (continued)

This bill amends sections 288.060.4 and 288.060.5 to index the maximum number of weeks payable to a qualified claimant based upon the average statewide unemployment rate during a specified quarter. DES assumes the effective date of a claim will be the effective date of a claimant's benefit year.

DES estimates eligible claimants receiving from $0 (no change) to $75.8 million less in regular unemployment insurance (UI) benefits if the indexing method is implemented. This chart, based on the current claims level, which estimates a yearly decrease in benefits paid for each week reduction in the duration of unemployment benefits:

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	$9,079,633	$9, 079,633
8.0% - 8.5%	2 weeks	18 weeks	$18,756,985	$9,677,352
7.6% - 7.9%	3 weeks	17 weeks	$29,060,519	$10,303,534
7.0% - 7.5%	4 weeks	16 weeks	$39,933,308	$10,872,790
6.6% - 6.9%	5 weeks	15 weeks	$51,204,577	$11,271,269
6.0% - 6.5%	6 weeks	14 weeks	$63,215,879	$12,011,302
< 6.0%	7 weeks	13 weeks	$75,796,436	$12,580,558

If the number of individuals receiving benefits increases or decreases from current claim levels, the estimated amount of UI benefits not paid from the trust fund would also increase or decrease accordingly.

The change to Section 288.120 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 for up to the previous 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 the bill. DES believes it can absorb any additional work required to process these appeals with current staff.

Section 288.122 has been modified to allow for a higher balance for Missouri's Unemployment Trust Fund (UTF). This is accomplished by raising the UTF threshold amounts used for determining when negative tax rate adjustments are triggered, which lower employers' tax rates.

ASSUMPTION (continued)

Changes to Section 288.330 would require the Board of Unemployment Fund Financing to meet to consider authorizing the issuance, sale and delivery of credit instruments for the entire amount of the debt owed as an alternative to using loan advances from the USDOL when the debt is greater than $300 million.

This bill will also have several ancillary effects.

- Taxes paid into the UTF may be reduced.

- Since fewer benefits would be paid under this bill, fewer taxes will be paid by claimants from those benefits. DOLIR cannot estimate this amount.

- This bill will reduce the amount of money DOLIR receives from the United States Department of Labor (USDOL) to administer the unemployment program because it will decrease the number of weeks claimed. For the purposes of this estimate, DOLIR estimates that up to 35% of the federal funding could be reduced based on the reduction from 20 weeks to 13 weeks (7 weeks difference ÷ 20 current maximum weeks = -0.35). Applying this calculation to the current amount received by DOLIR for administration of the UI program, DOLIR estimates it could lose up to $693,482 in Federal funds.

- The duration of benefits provided under this bill would apply to all unemployed individuals in the state for six-month blocks based on the statewide average unemployment rate for the previous quarter. The duration of benefits may not be reflective of current economic conditions.

Oversight will show costs for FY18 in the amount of $171,003, FY19 in the amount of $35,056, and FY20 in the amount of $35,932 related to computer programming costs that would be necessary if this proposal was implemented. DOLIR does note in their assumptions that new IT projects/systems would need to be bid out because all ITSD resources are at full capacity.

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. Therefore, Oversight will show an unknown impact due to potential changes in credit instruments.

Officials at the **Office of Administration - Accounting** and **Office of Administration - Personnel** each assume this proposal will not have a fiscal impact on their respective organizations.

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

FISCAL IMPACT - State Government	FY 2018 (10 Mo.)	FY 2019	FY 2020
UNEMPLOYMENT COMPENSATION TRUST FUND			
Savings - DOLIR Section 288.036.1 - Severance Pay	$0 to $6,562,637	$0 to $6,562,637	$0 to $6,562,637
Savings - DOLIR Reduction of weekly benefits based on unemployment rate Subsection 288.060.4 & 288.060.5	$0 to Greater than $75,796,436	$0 to Greater than $75,796,436	$0 to Greater than $75,796,436
ESTIMATED NET EFFECT ON UNEMPLOYMENT COMPENSATION TRUST FUND	**$0 to Greater than $82,359,073**	**$0 to Greater than $82,359,073**	**$0 to Greater than $82,359,073**
UNEMPLOYMENT INSURANCE ADMINISTRATION FUND			
Loss Revenue - DOLIR Reduction of number of weeks unemployment eligibility for claimants Subsection 288.330	$0 to ($693,482)	$0 to ($693,482)	$0 to ($693,482)
Total Loss Revenue	$0 to ($693,482)	$0 to ($693,482)	0 to ($693,482)
Costs - DOLIR Expense - IT Consultants Subsection 288.036.1 - 288.122	($171,003)	($35,056)	($35,932)
Total Costs - DOLIR	($171,003)	($35,056)	($35,932)
Cost - DOLIR Credit instrument increased charges Subsection 288.122	$0 to Unknown	$0 to Unknown	$0 to Unknown
ESTIMATED NET EFFECT ON UNEMPLOYMENT INSURANCE ADMINISTRATION FUND	**Could exceed ($864,485)**	**Could exceed ($728,538)**	**Could exceed ($729,414)**

FISCAL IMPACT - Local Government	FY 2018 (10 Mo.)	FY 2019	FY 2020
	$0	**$0**	**$0**

FISCAL IMPACT - Small Business

This proposal could have a direct impact on small businesses.

Changes to Missouri's unemployment insurance laws have the potential to increase or decrease the amount of unemployment taxes small businesses pay depending on the state's average unemployment rate. This bill also raises the thresholds that trigger negative tax rate adjustments which lower employers' tax rates.

FISCAL DESCRIPTION

This act modifies provisions relating to employment security.

UNEMPLOYMENT BENEFITS

Under current law, the maximum duration for an individual to receive unemployment benefits is 20 weeks. This act bases the duration on the Missouri unemployment rate as follows:

- 20 weeks if the Missouri average unemployment rate is nine percent or higher;
- 19 weeks if the Missouri average unemployment rate is between 8 1/2% and 9%;
- 18 weeks if the Missouri average unemployment rate is 8% up to and including 8 1/2%;
- 17 weeks if the Missouri average unemployment rate is between 7 1/2% and 8%;
- 16 weeks if the Missouri average unemployment rate is 7% up to and including 7 1/2%;
- 15 weeks if the Missouri average unemployment rate is between 6 1/2% and 7%;
- 14 weeks if the Missouri average unemployment rate is 6% up to and including 6 1/2%; and
- 13 weeks if the Missouri average unemployment rate is below 6%.

These provisions take effect beginning January 1, 2018.

WAGES

This act modifies the definition of wages for purposes of employment security law to include termination pay and severance pay. The total amount of wages derived from severance pay, if paid to an insured in a lump sum, shall be pro-rated on a weekly basis at the rate of pay received by the insured at the time of termination for the purposes of determining unemployment eligibility.

EMPLOYER CONTRIBUTIONS

Recovery of Overpayment

Under this act, employers are permitted to recover overpayments to the unemployment compensation fund due to an erroneous experience rating.

FISCAL DESCRIPTION (continued)

Contribution Rates

Under current law, when the average balance of the unemployment compensation trust fund rises from between six hundred million and seven hundred twenty million dollars, an employer's contribution rate is reduced by 7% for the following year. This act changes that threshold to between seven hundred twenty million and eight hundred seventy million.

Under current law, when the average balance of the unemployment compensation trust fund exceeds seven hundred fifty million dollars, an employer's contribution rate is reduced by 12% for the following year unless the employer's calculated contribution rate is 6% or greater, in which case, the reduction may be no more than 10%. This act changes that threshold to eight hundred seventy million.

ISSUANCE OF CREDIT INSTRUMENTS

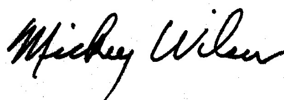
Under current law, the Board of Unemployment Fund Financing may issue credit instruments with a simple majority vote authorizing such issuance. This act requires the board to meet and consider the issuance of credit instruments when the amount owed to the federal government for advancements exceeds $300 million.

Moreover, under current law, interest is charged to employers when the state has an outstanding balance for federal advancements. Under the act, when credit instruments are issued to pay off the balance of the federal advancement, employers are required to continue to pay the interest assessment to fully finance the credit instruments.

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
Office of Administration - Accounting
Office of Administration - Personnel
Attorney General’s Office



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January 20, 2017

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January 20, 2017