

COMMITTEE ON LEGISLATIVE RESEARCH  
OVERSIGHT DIVISION

**FISCAL NOTE**

L.R. No.: 4276-01  
Bill No.: SB 869  
Subject: Employment Security  
Type: Original  
Date: February 5, 2018

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

**FISCAL SUMMARY**

<b>ESTIMATED NET EFFECT ON GENERAL REVENUE FUND</b>			
<b>FUND AFFECTED</b>	<b>FY 2019</b>	<b>FY 2020</b>	<b>FY 2021</b>
<b>Total Estimated Net Effect on General Revenue</b>	<b>\$0</b>	<b>\$0</b>	<b>\$0</b>

<b>ESTIMATED NET EFFECT ON OTHER STATE FUNDS</b>			
<b>FUND AFFECTED</b>	<b>FY 2019</b>	<b>FY 2020</b>	<b>FY 2021</b>
<b>Total Estimated Net Effect on <u>Other</u> State Funds</b>	<b>\$0</b>	<b>\$0</b>	<b>\$0</b>

Numbers within parentheses: ( ) indicate costs or losses.

This fiscal note contains 9 pages.

<b>ESTIMATED NET EFFECT ON FEDERAL FUNDS</b>			
<b>FUND AFFECTED</b>	<b>FY 2019</b>	<b>FY 2020</b>	<b>FY 2021</b>
Unemployment Compensation Trust Fund	\$0 to \$41,938,726	\$0 to \$83,877,452	\$0 to \$83,877,452
Unemployment Insurance Administration	Could exceed (\$171,003)	Could exceed (\$35,056)	Could exceed (\$35,932)
<b>Total Estimated Net Effect on <u>All</u> Federal Funds</b>	<b>Could be less than \$41,767,723</b>	<b>Could be less than \$83,842,396</b>	<b>Could be less than \$83,841,520</b>

<b>ESTIMATED NET EFFECT ON FULL TIME EQUIVALENT (FTE)</b>			
<b>FUND AFFECTED</b>	<b>FY 2019</b>	<b>FY 2020</b>	<b>FY 2021</b>
<b>Total Estimated Net Effect on FTE</b>	<b>0</b>	<b>0</b>	<b>0</b>

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

<b>ESTIMATED NET EFFECT ON LOCAL FUNDS</b>			
<b>FUND AFFECTED</b>	<b>FY 2019</b>	<b>FY 2020</b>	<b>FY 2021</b>
<b>Local Government</b>	<b>\$0</b>	<b>\$0</b>	<b>\$0</b>

## FISCAL ANALYSIS

### ASSUMPTION

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

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 \$879, and the average tenure of an employee over age 25 is 5.5 years. During the 12-month period ending June 30, 2017, DOLIR made 95,382 initial payments.

Using the average weekly unemployment payment of \$258.14, 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 \$6,771,025 is estimated for the Unemployment Insurance Trust Fund.

ASSUMPTION (continued)

<b>Calculation of UI Trust Fund Savings Estimate</b>	
Average weeks of severance/termination pay	5.5
X Average unemployment payment	\$258.14
Total severance/termination payments per claimant	\$1,419.77
Initial payments – 1 year	95,382
X 5% Claimants receiving severance/termination payments	4,769.10
Total payments per claimant	\$1,419.77
	4,769.10
X Claimants receiving severance/termination pay	
Estimated highest savings for Unemployment Trust Fund	<b>\$6,771,025</b>

*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.*

This proposal 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. Division of Employment Security (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 \$77.1 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:

<b>If Unemployment Rate Is</b>	<b># Regular UI Weeks Reduced</b>	<b>Maximum Duration for Regular UI</b>	<b>Estimated Regular UI Benefits NOT Paid to Eligible Recipients (Trust Fund)</b>	<b>Incremental Difference For Additional Week</b>
>=9.0%	0 weeks (no change)	20 weeks		
8.6% - 8.9%	1 week	19 weeks	\$9,240,026	\$9,240,026
8.0% - 8.5%	2 weeks	18 weeks	\$19,088,330	\$9,848,304
7.6% - 7.9%	3 weeks	17 weeks	\$29,515,946	\$10,427,616
7.0% - 7.5%	4 weeks	16 weeks	\$40,551,840	\$11,035,894
6.6% - 6.9%	5 weeks	15 weeks	\$51,993,252	\$11,441,412
6.0% - 6.5%	6 weeks	14 weeks	\$64,274,666	\$12,281,414
< 6.0%	7 weeks	13 weeks	\$77,106,427	\$12,831,761

ASSUMPTION (continued)

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.

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 income taxes will be paid by claimants from those benefits. DOLIR cannot estimate this amount.
- 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.

DOLIR assumes the cost for FY19 in the amount of \$171,003, FY20 in the amount of \$35,056, and FY21 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.

ASSUMPTION (continued)

**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 from the **Missouri Department of Conservation (MDC)** assume the proposal will have a fiscal impact of likely less than \$100,000 but could change depending upon how many employees are eligible to receive a benefit payment, which varies throughout a given year. MDC must and does comply with the Unemployment Compensation laws.

Officials from the **Department of Transportation, Office of Administration-Accounting, and Office of Administration-Personnel** each assume the proposal will have no fiscal impact on their respective organizations.

<u>FISCAL IMPACT - State Government</u>	FY 2019 (6 Mo.)	FY 2020	FY 2021
<b>UNEMPLOYMENT COMPENSATION TRUST FUND</b>			
<u>Savings - DOLIR</u>	\$0 to	\$0 to	\$0 to
Severance Pay	\$3,385,512	\$6,771,025	\$6,771,025
<u>Savings - DOLIR</u>	\$0 to	\$0 to	\$0 to
Unemployment Benefits	<u>\$38,553,213</u>	<u>\$77,106,427</u>	<u>\$77,106,427</u>
	\$0 to	\$0 to	\$0 to
<u>Total Savings - DOLIR</u>	<u>\$41,938,726</u>	<u>\$83,877,452</u>	<u>\$83,877,452</u>
<b>ESTIMATED NET EFFECT ON UNEMPLOYMENT COMPENSATION TRUST FUND</b>			
	<b>\$0 to</b>	<b>\$0 to</b>	<b>\$0 to</b>
	<b><u>\$41,938,726</u></b>	<b><u>\$83,877,452</u></b>	<b><u>\$83,877,452</u></b>

<u>FISCAL IMPACT - State Government</u>	FY 2019 (6 Mo.)	FY 2020	FY 2021
<b>UNEMPLOYMENT INSURANCE ADMINISTRATION FUND</b>			
<u>Cost - DOLIR</u> IT Consultants Expense	(\$171,003)	(\$35,056)	(\$35,932)
Cost - DOLIR Credit instrument increased charges	\$0 to <u>(Unknown)</u>	\$0 to <u>(Unknown)</u>	\$0 to <u>(Unknown)</u>
<b>ESTIMATED NET EFFECT ON UNEMPLOYMENT INSURANCE ADMINISTRATION FUND</b>	<b>could exceed <u>(\$171,003)</u></b>	<b>could exceed <u>(\$35,056)</u></b>	<b>could exceed <u>(\$35,932)</u></b>
<u>FISCAL IMPACT - Local Government</u>	FY 2019 (6 Mo.)	FY 2020	FY 2021
	<b><u>\$0</u></b>	<b><u>\$0</u></b>	<b><u>\$0</u></b>

FISCAL IMPACT - Small Business

There are over 156,000 small businesses covered by Missouri's unemployment insurance system. 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 proposal also raises the thresholds that trigger negative tax rate adjustments which lower employers' tax rates.

FISCAL DESCRIPTION

This proposal modifies provisions relating to employment security.

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 ½% and 9%;

FISCAL DESCRIPTION (continued)

- 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, 2019.

This proposal 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.

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

Under current law, when the average balance of the unemployment compensation 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 proposal 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 proposal changes that threshold to eight hundred seventy million.

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



FISCAL DESCRIPTION (continued)

Moreover, under current law, interest is charged to employers when the state has an outstanding balance for federal advancements. Under the proposal, 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  
Missouri Department of Conservation  
Department of Transportation  
Office of Administration-Accounting  
Office of Administration-Personnel

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Acting Director  
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