

COMMITTEE ON LEGISLATIVE RESEARCH
OVERSIGHT DIVISION

FISCAL NOTE

L.R. No.: 3751-01
Bill No.: SB 680
Subject: Employment Security; Department of Labor and Industrial Relations
Type: Original
Date: March 11, 2020

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

FISCAL SUMMARY

ESTIMATED NET EFFECT ON GENERAL REVENUE FUND			
FUND AFFECTED	FY 2021	FY 2022	FY 2023
Total Estimated Net Effect on General Revenue	\$0	\$0	\$0

ESTIMATED NET EFFECT ON OTHER STATE FUNDS			
FUND AFFECTED	FY 2021	FY 2022	FY 2023
Total Estimated Net Effect on <u>Other</u> State Funds	\$0	\$0	\$0

Numbers within parentheses: () indicate costs or losses.

This fiscal note contains 7 pages.

ESTIMATED NET EFFECT ON FEDERAL FUNDS			
FUND AFFECTED	FY 2021	FY 2022	FY 2023
Unemployment Compensation Trust Fund	\$0 to \$4,042,642	\$0 up to \$4,851,171	\$0 up to \$4,851,171
Unemployment compensation Administration Fund (0948)	(\$44,955)	\$0	\$0
Total Estimated Net Effect on <u>All</u> Federal Funds	(\$44,955) to \$3,997,687	\$0 to \$4,851,171	\$0 to \$4,851,171

ESTIMATED NET EFFECT ON FULL TIME EQUIVALENT (FTE)			
FUND AFFECTED	FY 2021	FY 2022	FY 2023
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 2021	FY 2022	FY 2023
Local Government	\$0	\$0	\$0

FISCAL ANALYSIS

ASSUMPTION

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

Division of Employment Security (DES)

Sections 288.036 and 288.060 will change the methodology used by the Division of Employment Security (DES) to calculate unemployment benefits for Missourians, which could change the amount of unemployment benefit payments made to claimants.

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. 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 \$920, and the average tenure of an employee over age 25 is 5.0 years. During the 12-month period ending June 30, 2019, DOLIR made 73,347 initial payments.

Using the average weekly unemployment payment of \$264.56, 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 reduction of \$0 to \$4,851,171 (see calculation on the next page) is estimated for the Unemployment Insurance Trust Fund.

ASSUMPTION (continued)

Calculation of UI Trust Fund Cost Estimate	
Average weeks of severance/termination pay	5.0
X Average unemployment payment	\$264.56
Total severance/termination payments per claimant	\$1,322.80
Initial payments – 1 year	73,347
X 5% Claimants receiving severance/termination payments	3,667.35
Total payments per claimant	\$1,322.80
X Claimants receiving severance/termination pay	3,667.35
Estimated highest impact to the Unemployment Trust Fund	\$4,851,171

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.

Oversight notes that according to the U.S. Department of Labor, Missouri’s average seasonally adjusted unemployment rate for the time period of October to December 2018 was 3.1%. Additionally the Missouri seasonally adjusted unemployment rate for October to December 2019 was 3.1%.

ITSD Impact

This proposal will require a new batch job to be written to calculate automation adjustment percentage, amount and post it to employers account. Correspondence needs to be modified to notify the employers regarding automation adjustment amount and due date etc. Annual rate batch needs to be modified to lower down the contribution rate of employers who paid automation adjustment based on business rules. New tables need to be created to store unemployment automation fund and each employer's contribution towards it. It also includes changes to Termination and Severance Pay which is impacting several areas in the application.

Oversight notes that **DOLIR** stated that they would have to make change to the its programming within the Unemployment Insurance IT structure, where rules related to Maximum Benefit Amount calculation and Severance Pay would have to be changed forward. DOLIR estimates the proposal would create one time expense within FY2021 in amount of \$44,955 (405 hours x \$111).

ASSUMPTION (continued)

Oversight notes that the DOLIR has stated the proposal would have a direct fiscal impact on their organization. Oversight does not have any information to the contrary. Therefore, Oversight will reflect cost of \$44,955 to the Unemployment Compensation Administration Fund for IT costs and reflect savings (reduction of payments) to the Unemployment Compensation Trust Fund of \$4,851,171 for severance pay and reduction of weekly benefits as estimated by DOLIR.

Officials from **Office of Administration** assume that this proposal could lower unemployment benefit costs for employers by adding severance and termination pay to the definition of wages, which would reduce the weekly benefit amounts received by some claimants. However, the Office of Administration assumes this bill would have no impact to the Office of Administration or other state agencies that do not provide severance or termination pay.

Officials from **Attorney General's Office, Missouri Department of Transportation, Department of Conservation, Office of Administration - Budget & Planning, Office of State Courts Administrator, and State Auditor's Office**, each assume that this proposal will have no fiscal impact on their respective agencies.

Officials from **City of Kansas City** assume that this proposal will have small positive impact on the local government.

Officials from **City of Springfield** do not believe that this proposal will have a substantial fiscal impact on the local government.

Officials from **Missouri University** assume that this proposal poses insignificant fiscal impact to the University.

Officials from **State Technical College and University of Central Missouri** assume that this proposal poses no fiscal impact to the respective universities.

Oversight assumes the proposal would not pose any substantial fiscal impact to the local political subdivisions; therefore, Oversight will note zero fiscal impact on the fiscal note to political subdivisions.

Oversight only reflects the responses that we have received from state agencies and political subdivisions; however, other colleges, school districts, counties, and cities were requested to respond to this proposed legislation but did not. A general listing of political subdivisions included in our database is available upon request.

<u>FISCAL IMPACT - State Government</u>	FY 2021 (10 Mo.)	FY 2022	FY 2023
UNEMPLOYMENT COMPENSATION ADMINISTRATION FUND (0948)			
<u>Costs - DOLIR</u>			
Expense - IT Consultant	<u>(\$44,955)</u>	<u>\$0</u>	<u>\$0</u>
NET EFFECT ON UNEMPLOYMENT COMPENSATION ADMINISTRATION FUND (0948)			
	<u>(\$44,955)</u>	<u>\$0</u>	<u>\$0</u>
UNEMPLOYMENT COMPENSATION TRUST FUND			
<u>Savings - DOLIR</u>			
Severance Pay considered wages	\$0 up to <u>\$4,042,642</u>	\$0 up to <u>\$4,851,171</u>	\$0 up to <u>\$4,851,171</u>
ESTIMATED NET EFFECT ON UNEMPLOYMENT COMPENSATION TRUST FUND			
	<u>\$0 up to \$4,042,642</u>	<u>\$0 up to \$4,851,171</u>	<u>\$0 up to \$4,851,171</u>
 <u>FISCAL IMPACT - Local Government</u>			
	FY 2021 (10 Mo.)	FY 2022	FY 2023
	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>

FISCAL IMPACT - Small Business

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.

FISCAL DESCRIPTION

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

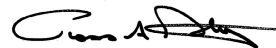
This legislation is not federally mandated, would not duplicate any other program and would not require additional capital improvements or rental space.

SOURCES OF INFORMATION

Attorney General's Office
Department of Labor and Industrial Relations
Department of Conservation
Office of Administration - Budget & Planning
Missouri Department of Transportation
Office of State Courts Administration
State Auditor's Office
City of Kansas City
City of Springfield
City of Columbia
Missouri University
State Technical College of Missouri
University of Central Missouri



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