

COMMITTEE ON LEGISLATIVE RESEARCH
OVERSIGHT DIVISION

FISCAL NOTE

L.R. No.: 5424S.01I
Bill No.: SB 1114
Subject: Unemployment Compensation
Type: Original
Date: March 20, 2022

Bill Summary: This proposal modifies provisions relating to unemployment compensation.

FISCAL SUMMARY

ESTIMATED NET EFFECT ON GENERAL REVENUE FUND			
FUND AFFECTED	FY 2023	FY 2024	FY 2025
Total Estimated Net Effect on General Revenue	\$0	\$0	\$0

ESTIMATED NET EFFECT ON OTHER STATE FUNDS			
FUND AFFECTED	FY 2023	FY 2024	FY 2025
Total Estimated Net Effect on <u>Other</u> State Funds	\$0	\$0	\$0

Numbers within parentheses: () indicate costs or losses.

ESTIMATED NET EFFECT ON FEDERAL FUNDS			
FUND AFFECTED	FY 2023	FY 2024	FY 2025
Unemployment Compensation Trust Fund	\$0 to \$4,614,076	\$0 to \$4,614,076	\$0 to \$4,614,076
Unemployment compensation Administration Fund (0948)	(\$44,955)	\$0	\$0
Total Estimated Net Effect on <u>All</u> Federal Funds	(\$44,955) to \$4,614,076	\$0 to \$4,614,076	\$0 to \$4,614,076

*Oversight used pre-Covid-19 unemployment statistics to estimate the impact of savings to the Federal Funds stemming from severance/termination payouts.

ESTIMATED NET EFFECT ON FULL TIME EQUIVALENT (FTE)			
FUND AFFECTED	FY 2023	FY 2024	FY 2025
Total Estimated Net Effect on FTE	0	0	0

- Estimated Net Effect (expenditures or reduced revenues) expected to exceed \$250,000 in any of the three fiscal years after implementation of the act or at full implementation of the act.
- Estimated Net Effect (savings or increased revenues) expected to exceed \$250,000 in any of the three fiscal years after implementation of the act or at full implementation of the act.

ESTIMATED NET EFFECT ON LOCAL FUNDS			
FUND AFFECTED	FY 2023	FY 2024	FY 2025
Local Government	\$0	\$0	\$0

FISCAL ANALYSIS

ASSUMPTION

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

Section 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, termination pay, vacation pay, or holiday 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. Department of Labor Data Summary, the average weekly wage for an employed Missourian is \$1,031, and the average tenure of an employee over age 25 is 4.9 years.

During the 12-month period ending June 30, 2021, DOLIR made 139,596 initial payments.

Using the average weekly unemployment payment of \$251.63, 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 cost savings of \$0 to \$8,781,635 is estimated for the Unemployment Insurance Trust Fund.

Calculation of UI Trust Fund Cost Estimate	
Average weeks of severance/termination pay	5.0
X Average unemployment payment	\$251.63
Total severance/termination payments per claimant	\$1,258.15
Initial payments – 1 year	139,596
X 5% Claimants receiving severance/termination payments	6979.8
Total payments per claimant	\$1,258.15
X Claimants receiving severance/termination pay	6,979.8
Estimated highest savings to the Unemployment Trust Fund	(\$8,781,635)*

**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%. Oversight will not show an average unemployment rate for FY 2020 or FY2021 due to the COVID-19 fluctuation in unemployment rates of initial filings and as a potential outlier.

Oversight notes that during the 12-month period ending June 30, 2019, DOLIR made 73,347 initial payments. Using this number Oversight recalculated the impact as follow:

Calculation of UI Trust Fund Cost Estimate	
Average weeks of severance/termination pay	5.0
X Average unemployment payment	\$251.63
Total severance/termination payments per claimant	\$1,258.15
Initial payments – 1 year	73,347
X 5% Claimants receiving severance/termination payments	3,667.35
Total payments per claimant	\$1,258.15
X Claimants receiving severance/termination pay	3,667.35
Estimated highest savings to the Unemployment Trust Fund	(\$4,614,076)*

**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 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 positive fiscal impact to the Unemployment Compensation Trust Fund and reflect the amount of Oversight's estimated savings (reduction of payments) in amount of

\$4,614,076 to better reflect the usual amount of initial filings outside of the FY 2020 and 2021 filings (COVID 19 Estimate).

Oversight notes that DOLIR-ITSD stated that a new batch job needs 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 needs 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 DOLIR estimates the proposal would create one-time expense to finish all necessary database changes in amount of \$44,955 (405 hours x \$111) for FY 2023. Therefore, **Oversight** will reflect the DOLIR-ITSD estimates to the Unemployment Compensation Administration Fund.

Officials from the **Department of Corrections**, the **Missouri Department of Conservation**, the **Missouri Department of Transportation**, the **Office of Administration**, and the **Missouri University System** each assume the proposal will have no fiscal impact on their organization. **Oversight** does not have any information to the contrary. Therefore, Oversight will reflect a zero impact in the fiscal note.

Officials from **University of Central Missouri** assume the proposal will have a potential for fiscal impact.

Officials from the **City of Kansas City** and **City of Springfield** each assume the proposal will have no fiscal impact on their organization. **Oversight** does not have any information to the contrary. Therefore, Oversight will reflect a zero impact in the fiscal note for these cities.

Officials from the **Office of the Secretary of State (SOS)** note many bills considered by the General Assembly include provisions allowing or requiring agencies to submit rules and regulations to implement the act. The SOS is provided with core funding to handle a certain amount of normal activity resulting from each year's legislative session. The fiscal impact for this fiscal note to the SOS for Administrative Rules is less than \$5,000. The SOS recognizes that this is a small amount and does not expect that additional funding would be required to meet these costs. However, the SOS also recognizes that many such bills may be passed by the General Assembly in a given year and that collectively the costs may be in excess of what the office can sustain with its core budget. Therefore, the SOS reserves the right to request funding for the cost of supporting administrative rules requirements should the need arise based on a review of the finally approved bills signed by the governor.

Oversight assumes SOS is provided with core funding to handle a certain amount of activity each year. Oversight assumes SOS could absorb the costs related to this proposal. If multiple

bills pass which require additional staffing and duties at substantial costs, SOS could request funding through the appropriation process.

<u>FISCAL IMPACT – State Government</u>	FY 2023 (10 Mo.)	FY 2024	FY 2025
UNEMPLOYMENT COMPENSATION ADMINISTRATION FUND			
<u>Cost - 288.136 DOLIR</u> Expense - IT Consultant p. 9	<u>(\$44,955)</u>	<u>\$0</u>	<u>\$0</u>
ESTIMATED NET EFFECT ON UNEMPLOYMENT COMPENSATION ADMINISTRATION FUND (0948)	<u>(\$44,955)</u>	<u>\$0</u>	<u>\$0</u>
UNEMPLOYMENT COMPENSATION TRUST FUND			
<u>Savings - ' 287.036 - Severance Pay</u>	<u>\$0 to \$4,614,076</u>	<u>\$0 to \$4,614,076</u>	<u>\$0 to \$4,614,076</u>
ESTIMATED NET EFFECT ON THE UNEMPLOYMENT COMPENSATION TRUST FUND	<u>\$0 to \$4,614,076</u>	<u>\$0 to \$4,614,076</u>	<u>\$0 to \$4,614,076</u>

<u>FISCAL IMPACT – Local Government</u>	FY 2023 (10 Mo.)	FY 2024	FY 2025
	<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.

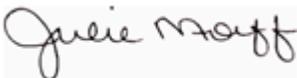
FISCAL DESCRIPTION

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.

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
Department of Corrections
Missouri Department of Conservation
Missouri Department of Transportation
Office of Administration
Office of the Secretary of State
Missouri University System
University of Central Missouri
City of Springfield
City of Kansas City



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March 20, 2022



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March 20, 2022