COMMITTEE ON LEGISLATIVE RESEARCH
OVERSIGHT DIVISION

FISCAL NOTE

L.R. No.: 4856-01
Bill No.: HB 1409
Subject: Unemployment Compensation; Employees-Employers
Type: Original
Date: January 5, 2018

Bill Summary: This proposal modifies the duration of unemployment compensation, modifies 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 2019	FY 2020	FY 2021
Total Estimated Net Effect on General Revenue	**$0**	**$0**	**$0**

ESTIMATED NET EFFECT ON OTHER STATE FUNDS			
FUND AFFECTED	FY 2019	FY 2020	FY 2021
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 2019	FY 2020	FY 2021
Unemployment Compensation Trust Fund	$0 to Greater than $83,877,452	$0 to Greater than $83,877,452	$0 to Greater than $83,877,452
Unemployment Insurance Administration	Could exceed ($878,173)	Could exceed ($700,134)	Could exceed ($701,282)
Total Estimated Net Effect on All Federal Funds	**Could exceed $82,999,279**	**Could exceed $83,177,318**	**Could exceed $83,176,170**

ESTIMATED NET EFFECT ON FULL TIME EQUIVALENT (FTE)			
FUND AFFECTED	FY 2019	FY 2020	FY 2021
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 2019	FY 2020	FY 2021
Local Government	**$0**	**$0**	**$0**

FISCAL ANALYSIS

ASSUMPTION

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

Division of Employment Security (DES)
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 $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.

Calculation of UI Trust Fund Savings Estimate	
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
X Claimants receiving severance/termination pay	4,769.10
Estimated highest savings for Unemployment Trust Fund	**$6,771,025**

ASSUMPTION (continued)

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 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 $77.1 million less in regular unemployment insurance (UI) benefits if the indexing method is implemented. This chart, based on the current claims level, 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	$9,240,026	$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

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

ASSUMPTION (continued)

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.

- 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 $654,224 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.

DOLIR assumes a cost for FY19 in the amount of **$223,949**, FY20 in the amount of **$45,910**, and FY21 in the amount of **$47,058** 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

ASSUMPTION (continued)

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 less than $100,000 but could change depending upon how many employees are eligible to receive a benefit payment which varies throughout any given year. The MDC must and does comply with the Unemployment Compensation laws.

Officials from the **Attorney General's Office** assume that any potential costs arising from this proposal can be absorbed with existing resources. Attorney General's Office may seek additional appropriations if there is a significant increase in litigation.

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

FISCAL IMPACT - State Government	FY 2019 (10 Mo.)	FY 2020	FY 2021
UNEMPLOYMENT COMPENSATION TRUST FUND			
Savings - DOLIR Section 288.036.1 - Severance Pay	$0 to $6,771,025	$0 to $6,771,025	$0 to $6,771,025
Savings - DOLIR Reduction of weekly benefits based on unemployment rate Subsection 288.060.4 & 288.060.5	$0 to Greater than $77,106,427	$0 to Greater than $77,106,427	$0 to Greater than $77,106,427
ESTIMATED NET EFFECT ON UNEMPLOYMENT COMPENSATION TRUST FUND	**$0 to Greater than $83,877,452**	**$0 to Greater than $83,877,452**	**$0 to Greater than $83,877,452**

FISCAL IMPACT - State Government	FY 2019 (10 Mo.)	FY 2020	FY 2021
UNEMPLOYMENT INSURANCE ADMINISTRATION FUND			
Loss Revenue **-** DOLIR Reduction of number of weeks unemployment eligibility for claimants Section 288.330	$0 to ($654,224)	$0 to ($654,224)	$0 to ($654,224)
Costs - DOLIR Expense - IT Consultants Subsection 288.036.1 and Section 288.122	($223,949)	($45,910)	($47,058)
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 ($878,173)**	**Could exceed ($700,134)**	**Could exceed ($701,282)**

FISCAL IMPACT - Local Government	FY 2019 (10 Mo.)	FY 2020	FY 2021
	$0	**$0**	**$0**

FISCAL IMPACT - Small Business

This proposal could have a direct impact on small businesses.

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 changes the laws regarding unemployment compensation. Currently, the maximum total amount of benefits any insured worker may receive during any benefit year must not exceed 20 times his or her weekly benefit amount or 33 1/3% of his or her wage credits. This proposal repeals that provision and, beginning January 1, 2019, limits benefits based upon a sliding scale from 13 weeks if the Missouri average unemployment rate is below 6%, to 20 weeks if the Missouri average unemployment rate is 9% or higher.

The proposal specifies the meaning of "Missouri average unemployment rate" is based upon the seasonally adjusted statewide unemployment rates, and revises the definition of "wages" as it applies to employment security laws to include termination pay and severance pay. Any lump sum payment of wages from severance pay must be prorated for the purposes of determining unemployment benefits.

The proposal specifies that for 60 days from the effective date of the proposal an employer may file a timely appeal for recovery of overpayments for the last five years due to the erroneous experience rating.

The proposal raises the amount required in the Unemployment Compensation Fund before an employer's contribution rate is decreased. The proposal also modifies the procedures for the Board of Unemployment Fund Financing to meet and consider the issuance of credit instruments to repay federal advances to the fund, and modifies the time employers shall pay the interest assessment on 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
Attorney General's Office
Department of Transportation
Office of State Courts Administrator
Office of Administration-Accounting
Office of Administration-Personnel
Office of Administration-Administrative Hearing Commission

Ross Strope

Acting Director
January 5, 2018

SK:LR:OD