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Preparing for the Next Recession: How to Improve UI Trust Fund Solvency

Wendy Block, Michigan Chamber

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UWC – National UI Issues Conference – Austin, TX

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About the Michigan Chamber

- Statewide business organization
- 6,000 members
- Businesses of every size and type in all 83 counties
- Advocate for Michigan's job providers in the legislative, political and legal process



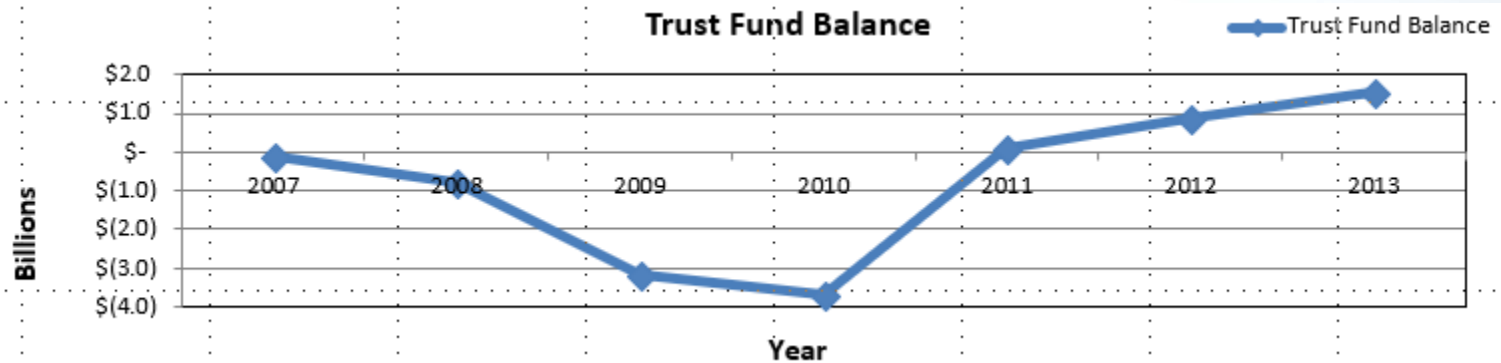
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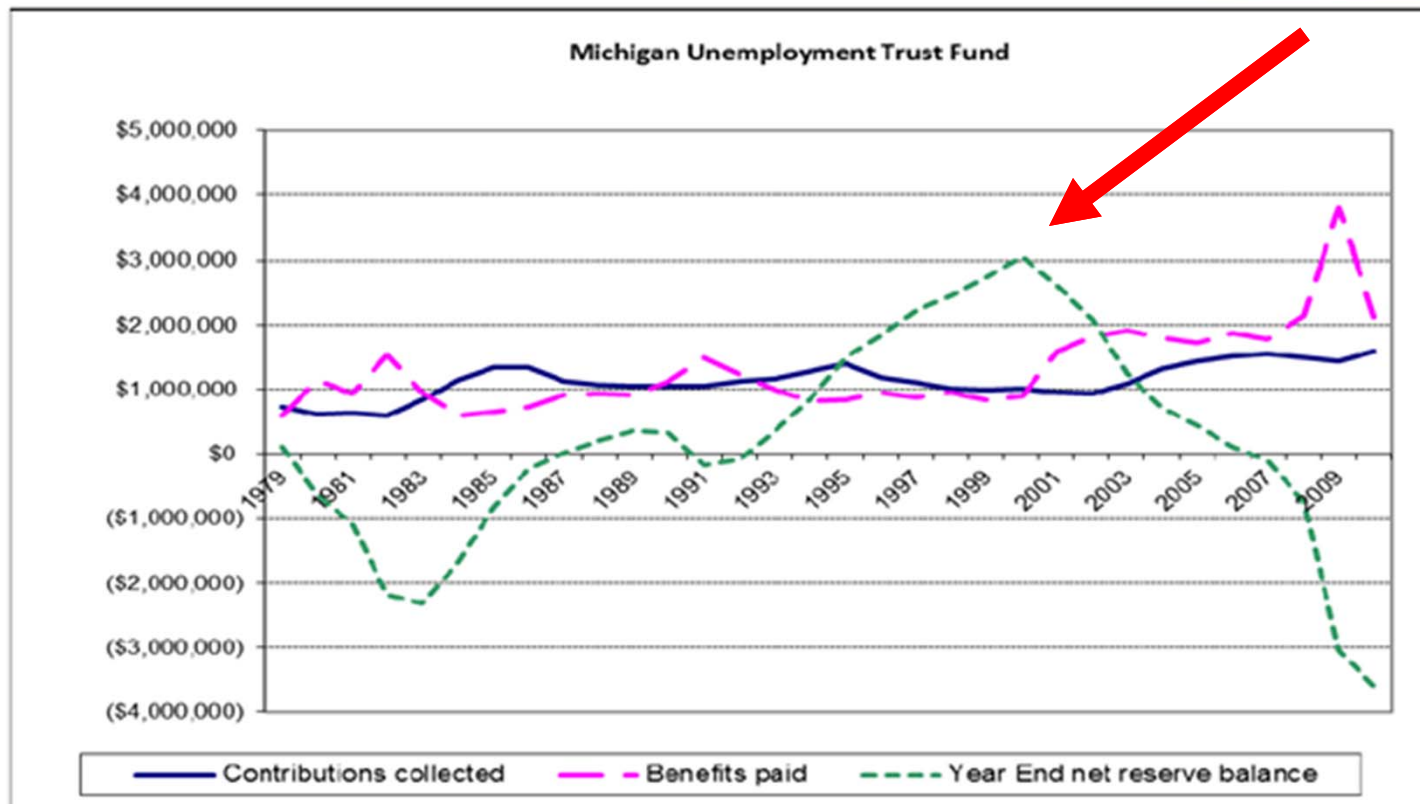
A UI System in Crisis

- Beginning in 2000, Michigan UI Trust Fund took in less tax revenue than it paid in benefits
- At its worst, Michigan owed the federal government nearly \$3.9 billion
 - ❖ Led nation in borrowing on a per capita basis



MI UI Program in Crisis

WARNING



Source: U.S. Department of Labor, Employment and Training Administration, *ET Financial Handbook 394*; Michigan Unemployment Insurance Agency; U.S. Department of Treasury, Bureau of the Public Debt



Didn't Take Early Action

- Given debt, options limited:
 1. Congress – Waive all or part of principal and/or interest, delay repayment
 2. Raise State UI Taxes
 3. Explore Bonding
 4. Cut way out of problem (not realistic)
- “Do nothing” was most expensive option
 - State Solvency Tax: \$67.50/ee (+) 2012 FUTA: \$63/ee (+)
Federal BCR add-on in 2013: \$233/employee



Searching for Solutions

- Crisis an opportunity? Develop a proactive plan to eliminate the debt and reform taxes and benefits
- Chamber Foundation commissioned an independent study (2010)
- Goal: Use findings to advocate for mix of reforms and solvency solutions
 - Guiding Principle: Solution should not (cannot) singularly focus on revenue/taxes



Phase 1: Reforms

- Compromise bill passed when lawmakers were debating federal extension (March 2011)
 - Triggered 20 week federal extension
 - Reduced state benefit duration (26 to 20 weeks)
 - First state to enact
 - Effective Jan. 2012
 - Authorized Commercial Fraud Software



More Reforms Needed

- Chamber Foundation released study ('11)
- Key findings :
 - Only 18% of problem a result of MI's high unemployment levels
 - System plagued with issues
 - More expensive and less effective than neighboring states/similar transaction processes:
 - Too costly
 - Too slow
 - Inaccurate



Phase 2: Reforms

- Study was springboard for more reforms*
 - Solvency Solutions:
 - Authorized 10-year tax exempt bond repaid with an employer-financed obligation assessment (OA)
 - Base OA: \$42/employee
 - In 2018, average employer paid OA of \$112.50/employee.
 - Total state UI tax liability = \$403.20/employee
 - Taxable Wage Base from \$9,000 to \$9,500 with a “float provision” based on TF balance (\$2.5 B)
 - 5 to 3 year look-back to determine experience rates

*Public Acts 267, 268 and 269 of 2011



Phase 2, cont'd.

- Cost-saving Reforms

- Higher penalties for claimants who scam/defraud system
- Tightens eligibility and disqualification standards
- Strengthens “looking for work” requirements to ensure individuals are available for & actively seeking work
- Increases the suitable work requirements and thresholds to prohibiting claimants from refusing to work because they can make a comparable amount on unemployment
- Increases pursuit of overpayments and increases the penalties for fraud
- Allows more employers to seek a seasonal exemption



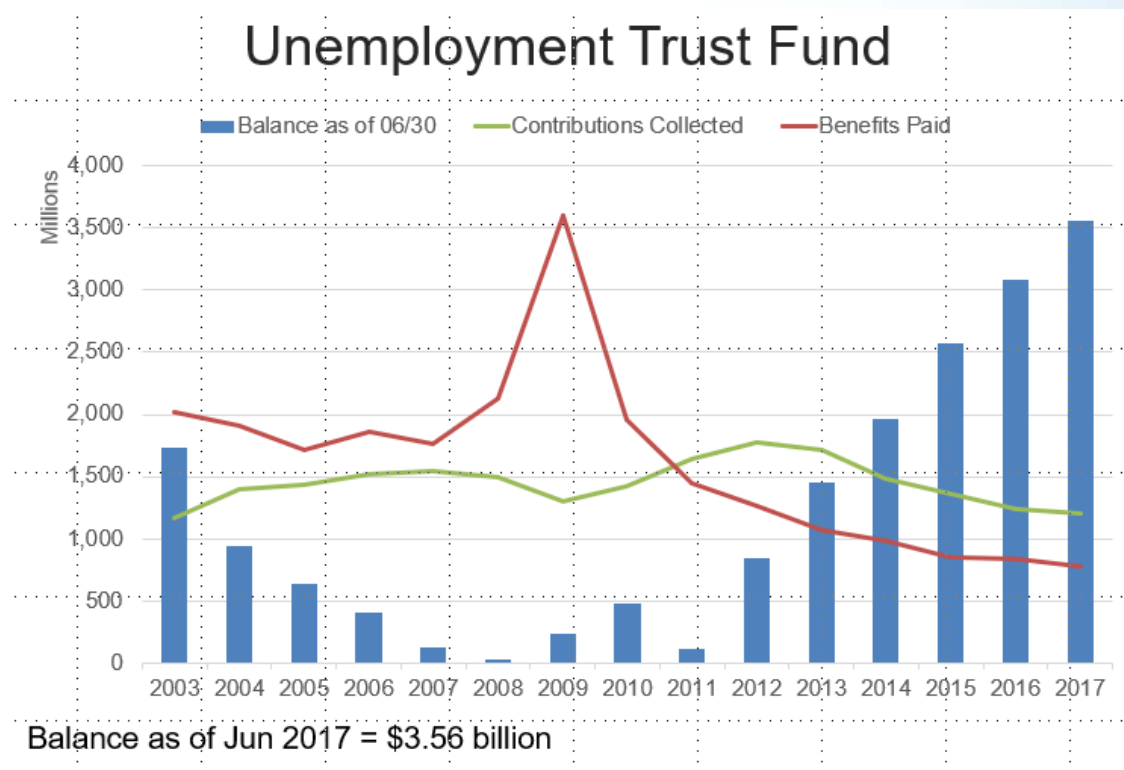
Savings

- Bonding:
 - Over \$1 billion in savings
 - Largest fixed rate bond deal in state history
 - Bond Deal of the Year (2012)
 - 10 year bond but expected to repay in 2019 (8 yrs)
- 26 to 20:
 - As much as \$300 million/year
- Other:
 - Immeasurable but significant
 - Key to employer buy-in



Results

- UI Trust Fund has stabilized, highest balance in state history



Results

Calendar Year	Average Actual Duration	Exhaustion Rate	Reemployment Rate
2013	13.6	46%	68%
2014	13.0	39%	72%
2015	12.4	33%	73%
2016	12.3	33%	75%
2017	12.0	32%	74%



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Take-Aways & How to Prepare

- Watch Trust Fund balance (contributions collected vs. benefits paid, unemployment rate)
 - Act early if you can; don't wait for a crisis!
 - Find healthy balance, too little vs. too much
 - Legislature may see as free pot of \$
 - Employers would rather hold onto \$ vs. have it banked with government



How to Prepare

- Don't assume only option = tax increase
- Reforms are arguably easier to pass when unemployment is low
- Copy what other states are doing



Questions?

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