MICHIGAN CHAMBER of Commerce

Leading Businesses. Moving Michigan **Forward.**

Reducing Maximum Number of Weeks of UI Benefits

National UI Issues Conference - UWC

Wendy Block, MI Chamber

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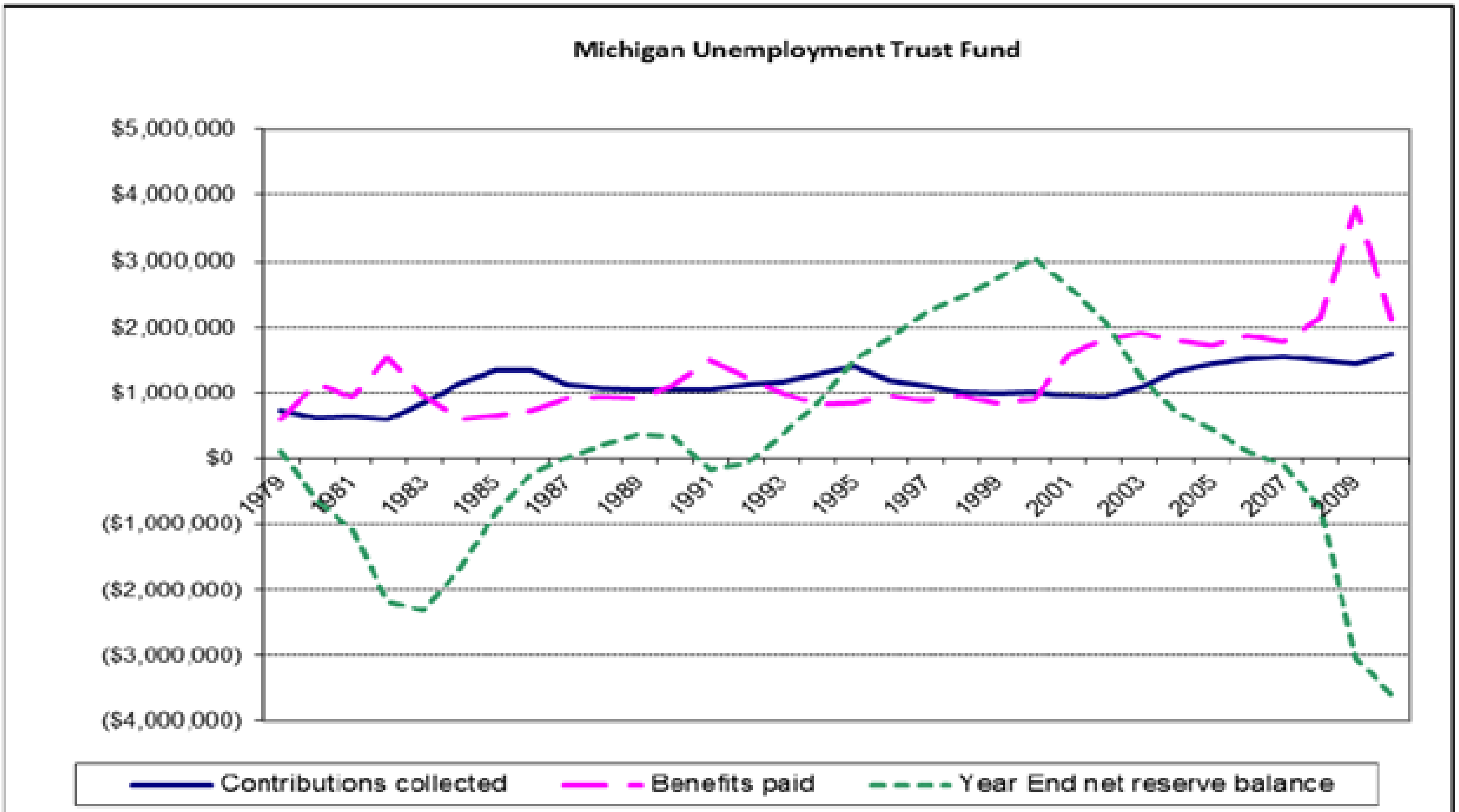
UI Crisis

- 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

UI Crisis



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

UI Crisis

- “Doing nothing” was becoming the most expensive option, due to state/federal penalties
- Saw crisis as an opportunity to develop a proactive plan to eliminate the debt and reform the state’s UI tax and benefit system

Searching for Solutions

- Federal government (US-DOL) left states little flexibility on this question with "non-reduction rule" – <u>unless</u> willing to sacrifice EUC benefits

    - Off-limit: Weekly benefit amount, including his/her dependent allowance

    - Fair Game: Provisions that affect the *duration* of UI, including: number of weeks, waiting week, base period provisions, overpayments, coordination with other payments

Solutions

- Michigan Chamber Foundation commissioned an independent study in late 2010
  - Goal: Use the study's findings to advocate for <u>mix</u> of reforms and solvency solutions to put the trust fund on the road to long-term solvency
  - Challenge: Keeping state competitive given we already maintained one of the highest experience rated tax rate spreads in the nation: .06% to 10.3%

Phase I: Reforms

- Lawmakers debating federal extension (March 2011)
  - Passed a compromise bill (PA 14 of 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

Reforms: Phase II

- Went on to enact more reforms:
  - Passed a combination of cost-saving reforms and solvency solutions (Public Acts 267, 268 and 269 of 2011)

  - Solvency Solutions:
    - Authorization for a 10-year tax exempt bond repaid with an employer-financed obligation assessment (base amount is $63/employee)
    - Taxable Wage Base from $9,000 to $9,500 with a "float provision" based on TF balance
    - 5 to 3 year look-back to determine experience rates

Reforms: Phase II (cont'd.)

❖ <u>Cost-saving Reforms</u>

- Increases penalties for claimants who scam or defraud the system
- Tightens eligibility and disqualification standards
- Strengthens the "looking for work" requirement to ensure individuals are available for, and actively seeking work
- Increases the suitable work requirements and thresholds (can't refuse work because can make more/same on unemployment)
- Increases pursuit of overpayments and increases the penalties for fraud
- Allows more employers to seek a seasonal employer exemption

Savings

- No Bonding:
  - Employer Costs - No Bonding:

Solvency Tax:	$513,000,000
FUTA Credit Reduction (‘11-’19):	$3,827,326,546
Unfunded Interest Liability:	$126,785,709
TOTAL COSTS:	$4,467,112,255

- Bonding:
  - ❖ Obligation Assessment (2012-2020) $3,491,907,411

**** Savings of approximately $1 million over life of bond**
**** 10 year bond but expected to pay back in 7 years**

Results

- 26 to 20:
  - GAO estimates $391 million saved since 2012
  - UIA claims data suggest saved $300 m in year 1
    - Saved approx. $68 million in 2014
    - More during years of higher unemployment
- Fraud Software:
  - $752,000 in increased detection in first year
  - $4.4 million in 2013

Impact of Reforms: Employers & Claimants

- Tax Rate:
  - – Peaked at 5.56% in 2012
  - – Dropped to 4.27% in 2014
    - Recession years have fallen off, rates have stabilized

- Unemployment Rate:
  - – Peaked at 13.5% in 2009
  - – April 2015 rate was 8.3%

Impact: Employers & Claimants

- Number of claimants collecting benefits:
  - Peaked at 300,000 regular UI claimants each week in 2009
    - 550,000 including federal programs
    - Backlogs and low federal timeliness
  - Now servicing under 100,000 claimants
    - Best timeliness and quality scores since 1997

Impact: Employers & Claimants

- UI Benefits Paid:
  - Peaked at $3.6 billion during 2009
  - Reduce to approximately $1 billion last year

**Even with 26 to 20 reduction, exhaustion rate is 41.6%, below the national average of 43.1%

Impact: Employers & Claimants

- Trust Fund Balance:
  - – At peak, nearly $3.9 billion in deficit
  - – April 2015 balance of $1.9 billion
    - Expected to reach $2.5 billion by 2016

Summary

- Previous situation:
  - One of the highest UI rates in the country (2009-11)
  - Benefits exceeded contributions from 2000-11
    - $3.9 billion deficit in Trust Fund

- Current situation:
  - UI rate continues to decline
  - Mix of solutions has allowed Trust Fund to become healthy and solvent once again
    - $1.9 billion and again earning interest
    - Expect TF balance to continue to grow and reach $2.5 b by 2016

Summary

- 26 to 20 didn't magically reverse MI's UI troubles—but continues to play significant role in efforts to rebuild Trust Fund balance, prepare for next recession.
- States should retain the right to be flexible with their UI programs.

Questions?

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