

F I N A L R E P O R T

UNEMPLOYMENT COMPENSATION SUBCOMMITTEE

January, 1983

The Unemployment Compensation Subcommittee of the Senate and House Committees on Labor and Industrial Relations was created by the Legislative Council in 1982 to study Iowa's unemployment compensation law, with emphasis on maintaining the solvency of the fund and analyzing the tax structure, and not on reducing benefits. The Subcommittee was authorized two meeting days. The following legislators served on the Subcommittee:

Senator Merlin Hulse, Co-chairperson
Representative Sonja Egenes, Co-chairperson
Senator Ted Anderson
Senator Clarence Carney
Senator Arthur Gratias
Senator George Kinley
Representative John Connors
Representative Roger Halvorson
Representative Richard Running
Representative Philip Tyrrell

The Subcommittee held its first meeting on August 22, 1982. The primary purpose of the meeting was to gather information relating to the trust fund insolvency. All members were present. Ms. Colleen Shearer, Director of the Department of Job Service, addressed the Subcommittee and stated that Job Service personnel would provide the best facts and projections available to help the Subcommittee assess the status of the unemployment trust fund. Ms. Shearer stressed that the projected trust fund insolvency is based on projected payouts and not on specific projections of an economic upturn or downturn.

The Legislative Service Bureau provided the following information to the Subcommittee:

1. A summary of the testimony before the Job Service Advisory Council on August 26, 1982. Recommendations in the testimony included reinstating the one-week waiting period, implementing a seasonality provision, maintaining a reasonable level of benefit payments, freezing benefits, strengthening the attachment-to-the-labor-force and temporary unemployment requirements, resisting attempts to expand the noncharging provisions or to abandon the zero tax rates, enacting a single benefit formula, disqualifying certain temporary employees from benefits, investing in job creation programs, and continuing to borrow from the federal government while postponing a solution to the trust fund's insolvency.

2. Trust fund projections for 1982.
3. Federal interest projections and state revenue from the 0.1% surcharge.
4. Fiscal impacts of suggested options relating to trust fund solvency.
5. Other states' experience with a waiting period, seasonal employment, and employee contributions.
6. The financial status of the federal unemployment insurance structure.
7. The experience of states surrounding Iowa relating to maximum and average weekly benefit amounts and recent changes in state law.
8. Information provided to the Job Service Advisory Council by the Department of Job Service.
9. Information relating to the federal supplemental compensation program.
10. Information on the percent of employers in ranks 1 through 7, 8 through 14, and 15 through 21 of tax table 3.

In official action taken by the Subcommittee, a motion to request the Governor to call a special session of the Legislature to deal with the insolvency of the unemployment trust fund was defeated. A motion was passed directing the Legislative Service Bureau to draft a letter to all members of the Legislature and to the Governor describing the severity of the trust fund crisis in terms of the trust fund's projected income, payout, anticipated debt, anticipated federal interest due, and anticipated funds available to pay the interest. A copy of the letter is attached.

During the time period between the first and second Subcommittee meetings, the Legislative Service Bureau and the Department of Job Service continued to provide the latest updates relating to trust fund solvency. The following information was made available to the Subcommittee members:

1. The most recent Job Service economic assumptions and projected benefit payments for 1982 through 1984.
2. The most recent Job Service analysis on the impact of various options to achieve trust fund solvency.
3. The impact of the increase in the federal unemployment tax.
4. An analysis by Job Service of Iowa Small Business Employers' "Partnership Plan" for Unemployment Insurance Reform.

5. An analysis by Job Service of rate distributions by payroll intervals by eight broad industrial categories relating to the impact of small business proposals across the eight broad industrial categories.

6. Information by Job Service on limiting employers' yearly tax movement to three ranks on tax table 3.

7. A fiscal analysis delineating the special zero-rated employers which will not be eligible for the zero rate in 1983.

At its second meeting, seven Subcommittee members were present. The Subcommittee discussed the recommendations of the Job Service Advisory Council approved by the Council at its November 4, 1982 meeting. The eight recommendations are attached, as are Job Service's analysis of the effect of the eight-point program for trust fund solvency. The Subcommittee also received Job Service's trust fund balance and federal interest report from December 15, 1982. The report is attached.

In its formal actions, the Subcommittee defeated a motion to receive the Job Service Advisory Council's recommendations and a statement concerning Iowa's law on temporary unemployment, and to send both documents to the Senate and House Committees on Labor and Industrial Relations without recommendation. Due to the fact that only two Senators were present, the Subcommittee was precluded by its rules from making a final joint recommendation to the Legislative Council and the General Assembly. The House members of the Subcommittee, however, did approve on a three-to-two vote, a motion to send the Job Service Advisory Council recommendations, without amendment, to the House Committee on Labor and Industrial Relations with a favorable recommendation. Those eight recommendations are attached.

M E M O R A N D U M

TO: Members of the Sixty-ninth General Assembly
Governor Robert D. Ray

FROM: Unemployment Compensation Subcommittee, Senator Merlin
Hulse and Representative Sonja Egenes, Co-chairpersons;
Richard Johnson, Legal Counsel, Legislative Service Bureau

RE: Unemployment Trust Fund Insolvency

DATE: September 3, 1982

On August 27, 1982, the Unemployment Compensation Subcommittee held its first meeting to study the problem of the insolvency of the unemployment trust fund. In addition, several members of the Subcommittee attended a meeting on August 26, 1982 of the statutorily-created Job Service Advisory Council. The Advisory Council will meet in September and tentatively in October and will provide its recommendations to the legislative Subcommittee. The Subcommittee has been authorized a second meeting day by the Legislative Council and will meet at the call of the Co-chairpersons after receiving the Advisory Council's recommendations.

Pursuant to the formal request of the Subcommittee, the following trust fund projections are provided to members of the Sixty-ninth General Assembly and the Governor. The projections assume that the present law will be effective through 1984.

SUMMARY OF PROJECTED UNEMPLOYMENT TRUST FUND
DEFICITS AND FEDERAL LOANS AND INTEREST
FOR CALENDAR YEARS 1982-1984 UNDER PRESENT LAW
Projections by the Department of Job Service
August 1982¹ (\$ millions)

1982 Projections

Beginning Trust Fund Balance	\$ 95	Federal interest of approxi- mately \$228,500 will be due and payable October 1, 1982; the penalty and interest fund balance will be sufficient to pay the October 1, 1982 fed- eral interest.
Employer Contributions	+ 154	
	<u>249</u>	
Employee Benefits	- 305	
Ending Trust Fund Balance	- 56	
1982 Federal Loans	56	
1982 Federal Interest	1.2 ²	

1983 Projections

Beginning Trust Fund Balance	\$ -56
Employer Contributions	+ 150
	<u>94</u>
Employee Benefits	- 300
Ending Trust Fund Balance	- 206
1983 Federal Loans	150
1983 Federal Interest	12.3 ³

1984 Projections

Beginning Trust Fund Balance	\$-206
Employer Contributions	+ 202
	<u>4</u>
Employee Benefits	- 300
Ending Trust Fund Balance	- 304
1984 Federal Loans	98

Federal interest of approximately \$10,300,000³ will be due and payable October 1, 1983 for the fiscal year beginning October 1, 1982, and ending October 1, 1983; the penalty and interest fund balance and the temporary emergency tax fund balance will be insufficient to pay the October 1, 1983 federal interest. The temporary emergency tax of 0.1% on 1983 employer contributions will generate approximately \$3,800,000 by October 1, 1983, with an additional \$1,300,000 generated for the last two quarters of 1983.

1. The Department of Job Service continually updates its projections and should have better projections before November 1982.
2. This projection assumes that the Department of Job Service will not repay any additional portion of the principal of the 1982 federal loans.
3. This projection assumes that the Department of Job Service will not repay any portion of the principal of the 1983 federal loans before May of 1983, and assumes that the outstanding federal loans will approximate \$121,000,000 for the months of May through December, 1983. The Department of Job Service may very well repay a portion of the principal of the 1982 or 1983 federal loans at various times during 1982 or 1983 with quarterly employer contributions, thereby affecting the accrual of federal interest charges. The \$12,300,000 federal interest figure is composed of \$4,300,000 of interest for the first four months of 1983, plus \$1,000,000 of interest per month for the last eight months of 1983. The \$10,300,000 federal interest figure due October 1, 1983, is composed of \$1,000,000 of interest for the last calendar quarter of 1983, plus \$4,300,000 of interest for the first four months of 1983, plus \$1,000,000 of interest per month for the five months of May through September, 1983.

Iowa Department of Job Service Advisory Council Meeting November 4, 1982

Moved by Mr. Henely and seconded by Mr. Yon that the Council recommend the following legislative actions:

1. That those construction employers which do not qualify for an experience rating shall pay the highest rate currently being paid rather than being assigned Rank 21, i.e., 1982 6.5%, 1983 7%, etc., to 9%. (96.7(d)2) Financial impact not available at this time.
2. That the department develop an array system for red balance employers. (96.7(3)d) Financial impact not available at this time.
3. That Tax Table One be used in 1984. This will have no financial impact on the deficit projections since it is current law and has been used in the projections (96.7).
4. That a 1% surcharge on employers be triggered "on" whenever the trust fund balance falls below .75 of the highest 12-month payout and triggered "off" whenever the trust fund balance equals 1.5 of the highest 12-month payout. (96.7) Financial impact - 58 million dollars additional income per year.
5. That a freeze on benefits be implemented using the above trigger. (96.3(4)) Financial impact - 9-16 million dollars less payout per year.
6. That a one-week non-compensable waiting week be reinstated. (96.4) Financial impact - 15 million dollars less payout per year.
7. That a seasonality provision be instituted reducing benefits for those individuals laid off during a reoccurring period each year. (96.4) Financial impact - 8-19 million dollars less payout per year.
8. That the labor force attachment test be changed from $1\frac{1}{2}$ times to $1\frac{1}{4}$ times the high quarter base period earnings. (96.4(4)) Financial impact - 7-12 million dollars less per year.

Motion passed - five ayes and two nays

It was the Council's decision for each represented group (public, labor and business) to choose one representative to discuss the above motion with the Governor's office and legislative leaders. Possible modifications may be made to this motion after these discussions.

EFFECT OF ADVISORY COUNCIL'S 8-POINT PROGRAM FOR TRUST FUND SOLVENCY

These estimates are tentative and subject to revision based on computer file update for 1982 which are not available at this time.

	<u>1983</u>	<u>1984</u>
I Construction firms that lack experience. Charged highest tax rate - 7% 1983, 7.5% 1984 Revenue Increase -	\$+ 400,000	\$+ 700,000
II Red balance Array System. Increase tax 1 percent above present system starting in 1983. Revenue Increase -	\$+ 9,000,000	\$+ 9,000,000
III Tax Table I starting in 1984 Revenue Increase -	0	\$+53,000,000
IV Surcharge all employers 1% under a trigger formula starting in 1984. Revenue Increase -		<u>\$+58,000,000</u>
Net effect of proposals on revenue ..	+\$ 9.4 M	+\$120.7 M

EFFECT ON BENEFITS

	<u>1983</u>	<u>1984</u>
I Freeze benefits at present level under a trigger formula beginning July 1983 (\$9.0 M over 12 months) Benefit Reduction -	-\$4,500,000	-\$13,500,000
II One-week non-payable waiting period starting July 1983 (\$15.0 M over 12 months) Benefit Reduction -	-\$7,500,000	-\$15,000,000
III Seasonality provision starting in 1984 Benefit Reduction -	0	-\$14,000,000
IV Labor force attachment (increase 1½ to 1½) starting in July 1983 (\$10.0 M over 12 months) Benefit Reduction -	<u>-\$5,000,000</u>	<u>-\$10,000,000</u>
Net effect of proposal on benefits -	-\$17.0 M	-\$52.5 M

EFFECT OF ADVISORY COUNCIL'S 8-POINT PROGRAM ON PROJECTED DEFICIT UNDER
A SLOW RECOVERY ASSUMPTION 1982-1984

1982

I	Projected benefit payment - 1982	\$305.0 Million
	less effect of proposals in 1982	0
	Projected benefit payments - 1982	<u>\$305.0 Million</u>
II	Projected income - 1982	\$154.0 Million
	plus effect of proposals in 1982	0
	Projected income - 1982	<u>\$154.0 Million</u>
III	Projected deficit - 1982	(\$55.0 - \$60.0 Million)

1983

I	Projected benefit payments - 1983	\$300.0 Million
	less effect of proposals in 1983	-\$ 17.0 Million
	Projected benefit payments in 1983 (adjusted)	<u>\$283.0 Million</u>
II	Projected income - 1983	\$150.0 Million
	plus effect of proposals in 1983	+\$ 9.4 Million
	Projected income - 1983 (adjusted)	<u>\$159.4 Million</u>
III	Projected deficit - 1983	(\$123.6 Million)

1984

I	Projected benefit payments in 1984	\$300.0 Million
	less effect of proposals in 1984	-\$ 52.5 Million
	Projected benefit payments in 1984 (adjusted)	<u>\$247.5 Million</u>
II	Projected income in 1984	\$150.0 Million
	plus effect of proposals in 1984	+\$120.7 Million
	Projected income - 1984 (adjusted)	<u>\$270.5 Million</u>
III	Projected surplus - 1984	+\$ 23.0 Million
IV	Remaining Deficit at the end of 1984	(\$161.0 Million)

IOWA DEPARTMENT OF JOB SERVICE
INTER — OFFICE COMMUNICATION

IESC M - 1 (11 - 79)

DATE: December 15, 1982
TO: Colleen Shearer, Director *FAP*
FROM: Frederick A. Porter, Chief, Tax and Trust Fund Department
SUBJECT: U. S. Treasury Trust Fund Balance

Loans to date 50,550,000.00

Deposit 12/15/82 114,000.00
Withdrawal 12/15/82 2,500,000.00

Cash available 2,386,000.00

Trust Fund balance if
cash available used to
pay off a portion of the loan. (52,936,000.00)

Interest to 12/14/82 772,194.39
Interest 12/15/82 14,503.01
786,697.40

FAP:MB