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FUNDING OF UNEMPLOYMENT COMPENSATION SUBCOMMITTEE OF THE STANDING COMMITTEES ON LABOR AND INDUSTRIAL RELATIONS

Report to the Members of the
First Session of the Sixty-seventh General Assembly

State of Iowa
1977

FINAL REPORT

FUNDING UNEMPLOYMENT COMPENSATION SUBCOMMITTEE

December, 1976

The Subcommittee established pursuant to SCR 122 to study the unemployment compensation trust fund and recommend a permanent solution to fund the unemployment compensation trust fund is composed of the following members: Senator Fred W. Nolting, Senator Lucas J. DeKoster, Senator Milo Merritt, Representative John Connors, Representative Wally Horn, Representative Terry E. Branstad.

The Subcommittee elected Senator Fred Nolting Chairperson and Representative John Connors Vice Chairperson.

Benefit payments reached $101.3 million in 1975 with receipts of $40.4 million. Payments of $105,659,000 have been made for unemployment compensation benefits during the calendar year 1976, while revenues of only $82,984,000 have been received through the period ending November 30, 1976. The trust fund has continued to decline from the $63,000,000 level on January 1, 1976 to $47,872,000 on December 22, 1976.

The Subcommittee reviewed past legislative actions intended to provide a temporary solution to the trust fund drain noting that during the 1975 Session of the Sixty-sixth General Assembly the legislature raised the taxable wage base from $4,200 to $6,000 and enacted a 0.7% add on tax to all the rates otherwise calculated for employers. Faced with mounting benefit payments resulting from continued unemployment and benefit payments which increase with the average annual wage, the legislature adopted a 0.9% add on tax and a 0.25% emergency add on for calendar year 1977 and extended the $6,000 taxable wage base.

The Subcommittee held three meetings. At the first meeting the Subcommittee reviewed the history of the funding problem and the current law. At the second meeting the Subcommittee heard from Mr. Ely Artenberg concerning the history of the unemployment compensation program and the purposes and philosophy behind the unemployment compensation program. Mr. Artenberg explained that originally all states collected an average yield of approximately 2.7% of total wages, which was the speculated adequate funding level. The wage base was then limited to $3,000 which effectively results in an unequal tax for each employee. The inequality occurs because the higher the employees salary the lower the percentage of total wages that is collected for the employee. This fixed income situation coupled with benefit payments rising with the average annual wage results in an ongoing funding problem. Mr. Artenberg recommended that the taxable wage base be tied to the average annual wage as benefits currently are. Mr. Artenberg also suggested that an array system provides a means

to preserve the certainty of income by selecting among tables with fixed yield rates.

At the third meeting Mr. David Beard, Actuary, Department of Job Service, explained the operation of the array system of funding unemployment compensation benefits. He stated that an array system is simply a method of allocating to each employer a contribution rate which results in a predetermined yield level of revenue. All employers are ranked according to their percentage of taxable wages contributed in excess of the benefits that have been charged against the employer's account. This listing of employers is then divided into groups each with equal total taxable wages. Each group is assigned a contribution rate. The lowest rates are assigned employers with the highest percentage of contributions in excess of benefit payments. This method results in predictable income yield because there is always a fixed amount of taxable wages in each group upon which a specific contribution rate will be charged. Various tables are developed which generate varying total revenues as percentages of the total taxable wages.

Mr. Steve Kadolph, Department of Job Services, explained the operation of the array system in Alaska, Idaho, Oregon and Kansas. The Subcommittee reviewed sample tax tables and suggested additional tax table parameters for development of additional tax tables. A copy of all six sets of tax tables as reviewed or suggested is attached to this final report.

Mr. Harold Keenan, Legal Counsel for the Department of Job Services, explained that with the passage of Public Law 94-566, the state of Iowa would be required to effect some changes in the current unemployment compensation law in order to be in compliance with newly adopted federal requirements. He indicated that the department would be in close contact with the legislature in order to implement the needed law changes.

The Subcommittee recommended that LSB 201S be forwarded to the appropriate standing committees for their consideration. The Subcommittee did not select a table from among the set of six sets. A copy of the proposed bill draft approved by the Subcommittee is attached which would implement the following changes:

1. Voluntary contributions are limited to an amount sufficient to lower an employer's contribution rate one percentage of excess rank.

2. The initial contribution rate for an employer prior to receipt of an experience rating will be assigned to the ninth percentage of excess rank from among twenty-one percentage of excess ranks.

3. The taxable wage base is set at 66 2/3 percent of the average annual wage, instead of the current fixed wage of $6,000.

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The Subcommittee did not approve a final recommendation for the particular tables to be implemented or the initial contribution rate of construction employers who have not acquired an experience rating and currently pay 4.0% plus 0.7 percent of their taxable wages.

The Subcommittee intends to meet the first week of the 1977 Session of the Sixty-seventh General Assembly for possible approval of a rate table set and to set the initial contribution rate for construction employers.

Set 2	ONE	Two	Three	FOUR	FIVE	SIX	Seven	Eight	Nine
Reserve Multiple Trigger → / RATE Class ↓	3.0 and over	2.5 to 3.0	2.0 to 2.5	1.5 to 2.0	1.25 to 1.50	1.00 to 1.25	.75 to 1.00	.50 to .75	Less Than .50
1	0	0	0	0	.1	.4	.7	1.0	1.
2	0	0	0	.1	.2	.5	.8	1.1	1.
3	0	0	.1	.2	.3	.6	.9	1.2	1.
4	0	.1	.1	.3	.4	.7	1.0	1.3	1.
5	.1	.1	.2	.4	.5	.8	1.1	1.4	1.
6	.1	.1	.3	.5	.7	1.0	1.3	1.6	2.
7	.1	.2	.4	.6	.9	1.2	1.5	1.8	2.
8	.1	.2	.5	.8	1.1	1.4	1.7	2.0	2.
9	.2	.3	.6	1.0	1.3	1.6	1.9	2.2	2.
10	.2	.4	.7	1.2	1.5	1.8	2.1	2.4	2.
11	.2	.5	.9	1.4	1.8	2.1	2.4	2.7	3.
12	.3	.7	1.1	1.7	2.1	2.4	2.7	3.0	3.
13	.3	.9	1.3	2.0	2.4	2.7	3.0	3.3	3.
14	.4	1.1	1.6	2.3	2.7	3.0	3.3	3.6	4.
15	.5	1.3	1.9	2.6	3.0	3.3	3.6	3.9	4.
16	.8	1.6	2.2	2.9	3.3	3.6	3.9	4.2	4.
17	1.1	1.9	2.6	3.2	3.6	3.9	4.2	4.5	4.
18	1.5	2.2	3.0	3.5	3.9	4.2	4.5	4.8	5.
19	1.9	2.6	3.4	3.8	4.3	4.6	4.9	5.2	5.
20	2.4	3.1	3.9	4.3	4.7	5.0	5.3	5.6	6.
21	2.7	3.7	4.6	5.0	5.3	5.6	5.9	6.2	6.

IDJS 11/30/76

Annual .6 1.0 1.4

Reserve Multiple Trigger → / RATE CLASS ↓	3.0 & OVER	2.7 to 3.0	2.3 to 2.7	1.9 to 2.3	1.5 to 1.9	1.0 to 1.5	.75 to 1.0	.50 to .75	
1	0	0	0	.0	.1	.2	.3	.6	
2	0	0	0	.1	.2	.3	.4	.9	
3	0	0	.1	.2	.3	.4	.7	1.2	
4	0	.1	.1	.3	.4	.5	1.0	1.5	
5	.1	.1	.2	.4	.5	.7	1.3	1.7	
6	.1	.1	.3	.5	.6	.9	1.5	1.9	
7	.1	.2	.4	.6	.7	1.2	1.7	2.1	
8	.1	.2	.5	.7	.8	1.5	1.9	2.3	
9	.2	.3	.6	.8	1.0	1.7	2.1	2.5	
10	.2	.4	.7	1.0	1.4	1.9	2.3	2.7	
11	.2	.5	.8	1.3	1.8	2.1	2.5	2.9	
12	.3	.6	1.1	1.6	2.0	2.3	2.7	3.1	
13	.3	.7	1.3	1.8	2.2	2.5	2.9	3.3	
14	.4	.9	1.5	2.0	2.4	2.7	3.1	3.5	
15	.5	1.1	1.7	2.2	2.6	2.9	3.3	3.7	
16	.8	1.4	1.9	2.4	2.8	3.1	3.5	3.7	
17	1.1	1.7	2.1	2.6	3.0	3.3	3.7	4.1	
18	1.4	2.0	2.4	2.8	3.3	3.5	3.9	4.3	
19	1.7	2.4	2.8	3.1	3.6	3.8	4.2	4.6	
20	2.3	2.8	3.1	3.4	3.9	4.1	4.6	4.9	
21	2.3	3.4	3.6	3.7	4.2	4.5	4.9	5.2	
IOJS 11/30/76	0.6	0.9	1.2	1.5	1.8	2.1	2.5	2.9	

Service Multiple Trigger → / RATE CLASS ↓	2.7 + Over	2.4 to 2.7	2.1 to 2.4	1.8 to 2.1	1.5 to 1.8	1.2 to 1.5	.9 to 1.2	.6 to .9	.6 Less
1	0	0	0	0	.1	.5	.8	1.1	
2	0	0	0	0	.2	.6	.9	1.2	
3	0	0	0	0	.3	.7	1.0	1.3	
4	0	0	0	0	.4	.8	1.1	1.4	
5	0	0	0	0	.5	.9	1.2	1.5	
6	0	0	0	.1	.6	1.0	1.4	1.8	
7	0	0	0	.2	.7	1.1	1.5	1.9	
8	0	0	0	.3	.8	1.2	1.6	2.0	
9	0	0	.1	.4	.9	1.3	1.7	2.1	
10	0	0	.2	.6	1.0	1.4	1.8	2.2	
11	0	0	.3	.8	1.2	1.6	2.0	2.4	
12	0	.2	.4	1.0	1.4	1.8	2.2	2.6	
13	0	.3	.5	1.2	1.6	2.0	2.5	2.9	
14	.1	.5	.7	1.3	1.8	2.1	2.6	3.0	
15	.3	.8	.9	1.4	1.9	2.2	2.7	3.1	
16	.5	.9	1.0	1.5	2.0	2.5	3.0	3.6	4
17	.7	1.0	1.5	2.0	2.5	3.0	3.5	4.2	5
18	1.0	1.5	2.5	3.0	3.5	4.0	4.5	5.3	6
19	1.5	2.0	3.0	4.0	4.5	5.0	5.5	6.4	6
20	2.0	3.0	4.0	5.0	5.5	6.0	6.5	6.5	6
21	6.5	6.5	6.5	6.5	6.5	6.5	6.5	6.5	6

EOJS 11/30/76

[illegible]	.6	.8	1.0	1.4	1.8	2.2	2.6	3.0	3.

Set 4

Slope Multiple → / Taiboca Rate Class ↓	TABLE 1	TABLE 2	TABLE 3	TABLE 4	TABLE 5	TABLE 6	TABLE 7	TABLE 8	TABLE 9
	3.0 + OVER	2.7 to 3.0	2.3 to 2.7	1.9 to 2.3	1.5 to 1.9	1.0 to 1.5	.25 to 1.0	.50 to .75	.5% to Less
1	0	0	0	0	.2	.4	.6	.8	1.
2	0	0	0	.1	.3	.5	.7	.9	1.
3	0	0	.1	.2	.4	.6	.8	1.0	1.
4	0	.1	.1	.3	.5	.7	.9	1.1	1.
5	.1	.1	.2	.4	.6	.8	1.0	1.2	1.
6	.1	.1	.2	.5	.7	.9	1.1	1.4	1.
7	.1	.2	.3	.6	.8	1.0	1.2	1.6	2.
8	.1	.2	.4	.7	.9	1.1	1.4	1.8	2.
9	.2	.3	.5	.8	1.0	1.2	1.6	2.0	2.
10	.2	.4	.6	.9	1.1	1.3	1.8	2.3	2.
11	.2	.5	.7	1.0	1.2	1.4	2.1	2.6	3.
12	.3	.6	.8	1.1	1.3	1.6	2.4	2.9	3.
13	.3	.7	.9	1.2	1.4	1.7	2.7	3.2	3.
14	.4	.8	1.0	1.3	1.5	2.3	3.0	3.6	4.
15	.5	.9	1.3	1.6	1.8	2.8	3.4	4.0	4.
16	.6	1.0	1.6	1.9	2.3	3.4	3.8	4.4	5.
17	.8	1.5	2.0	2.5	3.0	4.0	4.3	4.9	5.
18	1.0	2.0	2.5	3.1	3.7	4.5	4.8	5.5	6.
19	1.8	2.5	3.2	3.8	4.4	5.0	5.4	6.0	.
20	2.5	3.0	4.0	4.5	5.0	5.5	6.0	6.0	6.
21	4.0	4.0	4.5	5.0	5.5	6.0	6.0	6.0	6.
IDJS 12/20/76 Ave Yield	.6	.9	1.2	1.5	1.8	2.2	2.4	3.0	3.

Service multiple → / RATE CLASS ↓	3.0 + OVER	2.7 to 3.0	2.3 to 2.7	1.9 to 2.3	1.5 to 1.9	1.0 to 1.5	.25 to 1.0	.50 to .75	.50 + LESS
1	0	0	0	0	.2	.4	.6	.8	1.0
2	0	0	0	.1	.3	.5	.7	.9	1.2
3	0	0	.1	.2	.4	.6	.8	1.0	1.4
4	0	.1	.1	.3	.5	.7	.9	1.2	1.6
5	.1	.1	.2	.4	.6	.8	1.0	1.4	1.8
6	.1	.1	.2	.5	.7	.9	1.2	1.6	2.0
7	.1	.2	.3	.6	.8	1.0	1.4	1.8	2.2
8	.1	.2	.3	.7	.9	1.1	1.6	2.0	2.4
9	.2	.2	.4	.8	1.0	1.3	1.8	2.2	2.7
10	.2	.3	.5	.9	1.1	1.5	2.0	2.5	3.0
11	.2	.3	.6	1.0	1.2	1.8	2.3	2.8	3.4
12	.2	.3	.7	1.1	1.4	2.1	2.6	3.1	3.8
13	.3	.4	.8	1.2	1.6	2.4	2.9	3.4	3.9
14	.3	.5	1.1	1.4	1.9	2.7	3.2	3.7	4.3
15	.3	.5	1.5	1.8	2.3	3.0	3.5	4.0	4.6
16	.4	1.1	1.9	2.2	2.7	3.3	3.8	4.3	4.9
17	.5	1.6	2.3	2.7	3.1	3.6	4.1	4.6	5.2
18	.8	2.2	2.8	3.2	3.6	4.0	4.5	4.9	5.5
19	1.9	2.9	3.3	3.7	4.1	4.4	4.9	5.2	5.8
20	2.9	3.6	3.8	4.1	4.5	4.8	5.3	5.6	5.9
21	4.0	4.0	4.3	4.6	4.9	5.2	5.6	6.0	6.3
EDJS 12/30/76									
AVERAGE	.6	.7	1.2	1.5	1.8	2.2	2.6	3.0	3.4

Set 6	TABLE 1	TABLE 2	TABLE 3	TABLE 4	TABLE 5	TABLE 6	TABLE 7	TABLE 8	TABLE 9
Serve Multiple Trigger →	3.0 +	2.5 TO	2.0 TO	1.5 TO	1.25 TO	1.00 TO	.75 TO	.50 TO	.50 &
ATE CLASS ↓	OVER	3.0	2.5	2.0	1.50	1.25	1.00	.75	LESS
1	0	0	0	.0	.2	.4	.6	.8	1.0
2	0	0	0	.1	.3	.5	.8	1.0	1.2
3	0	0	.1	.2	.4	.7	1.0	1.2	1.4
4	0	.1	.2	.3	.6	.9	1.2	1.4	1.6
5	.1	.1	.3	.4	.8	1.1	1.4	1.6	1.8
6	.1	.2	.4	.6	1.0	1.3	1.6	1.8	2.0
7	.1	.2	.5	.8	1.2	1.5	1.8	2.0	2.2
8	.1	.3	.6	1.0	1.4	1.7	2.0	2.2	2.5
9	.2	.4	.7	1.2	1.6	1.9	2.2	2.4	2.8
10	.2	.5	.8	1.4	1.8	2.1	2.4	2.6	3.1
11	.2	.6	.9	1.6	2.0	2.3	2.6	2.8	3.4
12	.3	.7	1.0	1.8	2.2	2.5	2.8	3.0	3.7
13	.4	.8	1.2	2.0	2.4	2.7	3.0	3.2	4.0
14	.5	.9	1.4	2.2	2.6	2.9	3.2	3.5	4.3
15	.6	1.0	1.7	2.4	2.8	3.1	3.4	3.8	4.6
16	.7	1.3	2.0	2.6	3.0	3.3	3.6	4.1	5.0
17	.8	1.5	2.5	3.0	3.2	3.5	3.8	4.4	5.3
18	1.0	2.0	3.0	3.5	3.5	4.0	4.0	4.7	5.7
19	1.5	2.5	3.5	4.0	4.0	4.5	4.5	5.1	5.7
20	2.5	3.6	4.0	4.5	4.5	5.0	5.0	5.5	5.7
21	4.9	4.3	4.5	4.7	5.0	5.2	5.5	5.9	6.2
IDJS 12/20/76 AVG. YIELD	.6	1.0	1.4	1.8	2.1	2.4	2.7	3.0	3.3

SENATE FILE _____

By

Passed Senate, Date_____ Passed House, Date_____

Vote: Ayes_____ Nays_____ Vote: Ayes_____ Nays_____

Approved_____

A BILL FOR

An Act to provide a permanent funding system for unemployment compensation benefits.

BE IT ENACTED BY THE GENERAL ASSEMBLY OF THE STATE OF IOWA:

S.F. _____ H.F. _____

Section 1. Section ninety-six point seven (96.7), subsection three (3), paragrah a, subparagraph seven (7), Code 1977, is amended to read as follows:

(7) Any employer may at any time make voluntary payments to his or her account in excess of the other requirements of this chapter, and all such payments shall be considered on any computation date as contributions required under the provisions of this chapter if they are paid by the employer not later than the next March ~~15~~ fifteen after such computation date. Voluntary contributions shall not exceed an amount sufficient to lower the rate of contribution of an employer to the lower rate of contribution assigned in the next lower percentage of excess rank.

Sec. 2. Section ninety-six point seven (96.7), subsection three (3), paragraph c, Code 1977, is amended to read as follows:

c. Each contributing employer's rate of contribution shall be two and seven-tenths percent except as otherwise provided in this chapter. No reduced rate of contribution shall be granted to a contributing employer until there shall have been twelve consecutive calendar quarters immediately preceding the first computation date throughout which his or her account has been chargeable with benefit payments. Provided, that with respect to the calendar year commencing January 1, 1972, and each calendar year thereafter, except as provided in ~~paragraphs~~ paragraph "d" ~~and "e"~~ of this subsection, a contributing employer who has not been subject to this chapter for a sufficient period of time to meet the twelve-quarter requirement shall qualify for a computed rate of contribution if there shall have been a lesser period throughout which his or her account has been chargeable, but in no event less than eight consecutive calendar quarters immeidately preceding the computation date; provided further, that with respect to the calendar ~~year~~ years commencing January 1, 1972, and ~~each calendar year thereafter~~ ending December

3, 1977, except as provided in ~~paragraphs~~ paragraph "d" and ~~"e"~~ of this subsection, each contributing employer newly subject to this chapter shall pay contributions at the rate of one and five-tenths percent and beginning January 1, 1978 at the rate specified in the ninth percentage of excess rank until the end of the calendar year in which the employer shall have had eight consecutive calendar quarters immediately preceding the computation date throughout which his or her account has been chargeable with benefit payments, thereafter his or her contribution rate shall be determined in accordance with ~~paragraphs~~ paragraph "d" ~~and "e"~~ of this subsection.

Sec. 3. Section ninety-six point seven (96.7), subsection three (3), paragraph d, Code 1977, is amended by striking the paragraph and inserting in lieu thereof the following:

d. The commission shall determine the rate table to be in effect for the rate period following the rate computation date, by determining the ratio of the current reserve fund ratio to the highest benefit cost rate on the rate computation date.

(1) The current reserve fund ratio shall be computed by dividing the total trust funds available for payment of benefits, on the rate computation date, by the total wages paid in covered employment excluding reimbursable employment wages during the first four calendar quarters of the five calendar quarters immediately preceding the rate computation date.

(2) The highest benefit cost rate shall be the highest of the resulting ratios computed by dividing the total benefit payments, excluding reimbursable benefit payments, during each consecutive twelve-month period, during the ten-year period ending on the rate computation date, by the total wages, excluding reimbursable employment wages, paid in the four calendar quarters ending nearest and prior to the last day of such twelve-month period.

If the current reserve fund ratio, divided by the minimum adequate reserve fund ratio:

Equals or exceeds	But is less than	The contribution rate table in effect shall be
0.0	0.5	1
0.5	1.0	2
1.0	1.5	3
1.5	2.0	4
2.0	2.5	5
2.5	3.0	6
3.0	---	7

The term "percentage of excess" means a number computed to six decimal places on October first of each year obtained by dividing the excess of all contributions attributable to an employer over the sum of all benefits charged to an employer by the employer's average annual payroll. An employer's percentage of excess is a positive number when the total of all contributions paid to an employer's account for all past periods to and including those for the quarter immediately preceding the rate computation date exceeds the total benefits charged to such account for the same period. An employer's percentage of excess is a negative number when the total of all contributions paid to an employer's account for all past periods to and including those for the quarter immediately preceding the rate computation date is less than the total benefits charged to such account for the same period.

Each employer qualified for an experience rating shall be assigned a contribution rate for each rate period that corresponds to the employer's percentage of excess rank in the rate table effective for the rate period from the following rate tables. Each employer's percentage of excess rank shall be computed by listing all the employers by decreasing percentages of excess, from the highest positive percentage of excess to the highest negative percentage of excess and grouping the employers so listed into twenty-one separate ranks containing as nearly as possible four point seventy-six percent of the total taxable wages. If an employer's

taxable wages qualify the employer for two separate percentage of excess ranks the employer shall be afforded the percentage of excess rank assigned the lower contribution rate. Employers with identical percentages of excess shall be assigned to the same percentage of excess rank.

Percentage of Excess Rank	Approximate Cumulative Taxable Payroll Limit	Contribution Rate Tables 1 2 3 4 5 6 7
1	4.8%	
2	9.5%	
3	14.3%	
4	19.0%	
5	23.8%	
6	28.6%	
7	33.3%	
8	38.1%	
9	42.8%	
10	47.6%	
11	52.4%	
12	57.1%	
13	61.9%	
14	66.6%	
15	71.4%	
16	76.2%	
17	80.9%	
18	85.7%	
19	90.4%	
20	95.2%	
21	100.0%	
Unrated (1)	---	
Unrated (2)	---	

Provided, however, that notwithstanding any other provision of this chapter, any employer which employs individuals for the construction, erection, demolition, alteration or repair

of roads and highways, or of bridges, buildings, factories, residences, earthwork, grading, river work, or any other construction project, and who has not qualified for an experience rating shall pay four point zero percent in the calendar year 1968 through the calendar year 1977 and be assigned to the rate specified in the _____ percentage of excess rank for the rate period beginning January 1, 1978 and every rate period thereafter until such time as the employer has qualified for an experience rating. Except that such employer shall not qualify for an experience rating until there shall have been twelve consecutive calendar quarters immediately preceding the rate computation date throughout which his account has been chargeable with benefit payments.

On or before the fifth day of December immediately preceding the next following rate period the commission shall make available to employers the table which will apply to the contribution rates in the following rate period.

Sec. 4. Section ninety-six point nineteen (96.19), subsection twenty-one (21), Code 1977, is amended to read as follows:

21. "Taxable wages". For the purposes of section 96.7, subsections 1 and 2 and subsequent to December 31, 1971, taxable wages shall not include that part of remuneration which, after remuneration equal to four thousand two hundred dollars has been paid in a calendar year to an individual by an employer or his predecessor with respect to employment during any calendar year, is paid to such individual by such employer during such calendar year unless that part of the remuneration is subject to a tax under a federal law imposing a tax against which credit may be taken for contributions required to be paid into a state unemployment fund, except that for the calendar years 1976 and 1977 the remuneration figure shall be six thousand dollars.

For the purposes of this subsection, the term "employment"