

F I N A L R E P O R T

## UNEMPLOYMENT INSURANCE STUDY COMMITTEE

January, 1988

CREATION

The Unemployment Insurance Study Committee was established by the Legislative Council to monitor the implementation of the new unemployment insurance system approved by the General Assembly in Senate File 507, passed late in the 1987 Session, and, if necessary, to recommend solutions to any problems that arise during the implementation of the system.

Members serving on the Study Committee were:

Senator James D. Wells, Co-chairperson  
Representative Gary Sherzan, Co-chairperson  
Senator John A. Peterson  
Senator Linn Fuhrman  
Representative Rod Halvorson  
Representative Donald F. Hermann

The Study Committee was authorized two meetings which were held on October 29, and December 17, 1987.

FIRST MEETING - TESTIMONY

The first meeting of the Unemployment Insurance Study Committee was held on Thursday, October 29, 1987, in Room 1 of the State House. The Committee received testimony from the Department of Employment Services, the Iowa Association of Business and Industry, and the Iowa Federation of Labor AFL-CIO. Mr. Richard G. Freeman, Director, Mr. Kent Sovern, Mr. Ralph Hoksbergen, and Mr. Paul Moran testified on behalf of the Department of Employment Services. Mr. Freeman briefed the Committee on the background of Senate File 507, explaining that the bill was developed as a result of U.S. Department of Labor objections to expanding employer incentives passed by the General Assembly in 1985 which were intended to aid economic development. He observed that if Iowa would have been found to be out of conformity with federal law it could have cost Iowa employers an extra \$102 million in increased taxes. He stated that the solution to accomplishing economic development goals and meeting federal conformity requirements was to move from a reserve

Unemployment Insurance Study Committee  
Final Report - January, 1988  
Page 2

ratio employer tax computation system to a benefit ratio array system which would no longer provide specific benefits to certain employers based on their contribution records but would provide overall lower tax rates and be more responsive to the business cycle. He also pointed out that Senate File 507 reduced the taxable wage base to \$11,000 and the employer contribution rate table was set at Table Three which contains rates below the 1987 rates, thus resulting in a further reduction of taxes collected from employers. He explained that another provision of Senate File 507 allowed the Department to collect an administrative surcharge of six-hundredths of a percent on the state's taxable wage base to maintain support for rural and satellite Job Service offices throughout the state. He also called for the repeal of the sunset provisions in the bill at the earliest possible date.

Mr. Kent Sovern briefed the Committee on the Department's legislative proposals. The first was an amendment to Senate File 507 to bring Iowa in conformity with federal law. The U.S. Department of Labor objected to Iowa allowing new employer rates for five years rather than three as under the federal law. The second amendment dealt with the surcharge. He explained that the amendment would prevent any funds collected under the surcharge from reverting to the trust fund so that they remain available for the uses designated. He reported that the third amendment repealed the sunset provision on Senate File 507, and the fourth amendment dealt with another federal conformity problem regarding confidentiality. Mr. Ralph Hoksbergen reported to the Committee on the condition of the Unemployment Compensation Fund. He reported that benefits paid from the trust fund would be in the \$130 million to \$140 million range, down from the \$300 million range during the last recession. He stated that both benefits paid and contributions received were running at better than optimistic projections and that the trust fund would end the year with a positive balance of around \$250 million to \$260 million. Mr. Sovern concluded the Department's testimony with a report on the Job Service Teleconference conducted to provide employers with information on Senate File 507 and related topics. He explained that the teleconference used Iowa Public Television technology to produce the conference by use of a satellite uplink with teleconference sites in area schools and hospitals and other sites with receiving stations. He stated that representatives of 4,200 employers participated, that there was a good response from the participants, and that a follow-up is planned.

Mr. Don Hauser of the Iowa Association of Business and Industry stated that his organization is basically in favor of Senate File 507 and those members contacted are very happy with the reduction in the tax rates. He supported lifting the sunset, but wished to more closely examine those administrative expenses which are to be

Unemployment Insurance Study Committee  
Final Report - January, 1988  
Page 3

covered by the surcharge. He called for a further reduction of the taxable wage base and further steps to control the payout of benefits and to tighten the qualifications for benefits. He also commented that the proposed neutral content rewrite of chapter 96 is viewed as nonsubstantive by his organization, but that his organization is opposed to any changes to those sections dealing with labor disputes because the present sections have been frequently interpreted by the court.

Mr. Don Rowen of the Iowa Federation of Labor AFL-CIO stated that Senate File 507 was helpful in a general sense on unemployment, but he reminded the Committee that only 30 percent of the unemployed receive benefits because the remainder are disqualified for one reason or another. He declared that he would oppose the rewrite of chapter 96 until a section-by-section analysis could be carried out to insure that there was not a loss of favorable provisions.

SECOND MEETING - TESTIMONY

At the second meeting of the Committee on Thursday, December 17, 1987, the Committee received additional testimony from the Department of Employment Services on the application of the surcharge, the effect of the red balance amendment, and changes in employer contribution rates.

Mr. Kent Sovern of the Department explained to the Committee that if the amendment to prevent reversion into the trust fund was not passed, there would be a \$391,000 shortfall in the Department's budget for the operation of the rural and satellite offices because the largest share of collections are in the first quarter and these would revert before there could be an appropriation. With the amendment, there would be a \$610,000 balance. He stressed that it was still necessary for the General Assembly to appropriate the money before the Department could use it.

Mr. Sovern supplied further information on contribution rates which had been requested by the Committee. He pointed out that 55 percent of computed rate employers were paying a tax rate below one percent. New employer rates were set at two and one-tenth percent for nonconstruction and nine percent for construction. He noted that under Senate File 507, 697 employers had a rate increase of greater than one percent and 845 had a rate decrease of greater than one percent. He stated that the provision of Senate File 507 which generated the most complaints was that known as the red balance provision which requires that employers who had a negative contribution/benefit balance over the last two periods of 20 months be placed in the nine percent contribution rate even if they

currently had a positive balance in their account. He noted from the tables provided that there were 47 employers that had moved from paying a rate of less than one percent to the nine percent rate because of that amendment.

#### COMMITTEE RECOMMENDATIONS

The Committee reviewed and amended a proposed bill which consisted of the Department's proposed amendments to Senate File 507. The measures which brought Iowa law into conformity with federal law regarding the time period new employers are granted special rates and confidentiality of records were adopted, as was the measure to repeal the sunset on Senate File 507. Some members of the Committee expressed a desire to more closely examine the issue of preventing the moneys collected as the result of the surcharge from reverting to the trust fund, and that provision was deleted from the bill. Representative Hermann offered a bill to abolish the red balance provision from Senate File 507 and the bill was adopted and incorporated into the Committee bill.

The Committee recommends to the Legislative Council for the consideration of the appropriate standing committees of the Seventy-second General Assembly the following bill: An Act relating to the benefit ratio array system under the unemployment insurance law by making the benefit ratio array system permanent, by resolving potential federal conformity issues concerning new nonconstruction experience-based rates and access to job service information by business and labor organizations, by abolishing the special employer contribution rate for employers with certain negative balance account histories with retroactive applicability, and by providing an effective date. (LSB 7750SI)

A copy of the bill, as recommended by the Committee, is attached to and by this reference made a part of this report.

Unemployment, final  
mf/sc/14

SENATE FILE \_\_\_\_\_  
BY (PROPOSED UNEMPLOYMENT  
INSURANCE STUDY COMMITTEE BILL)

Passed Senate, Date \_\_\_\_\_ Passed House, Date \_\_\_\_\_  
Vote: Ayes \_\_\_\_\_ Nays \_\_\_\_\_ Vote: Ayes \_\_\_\_\_ Nays \_\_\_\_\_  
Approved \_\_\_\_\_

A BILL FOR

1 An Act relating to the benefit ratio array system under the  
2 unemployment insurance law by making the benefit ratio array  
3 system permanent, by resolving potential federal conformity  
4 issues concerning new nonconstruction experience-based rates  
5 and access to job service information by business and labor  
6 organizations, by abolishing the special employer contribution  
7 rate for employers with certain negative balance account  
8 histories with retroactive applicability, and by providing an  
9 effective date.

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

11  
12  
13  
14  
15  
16  
17  
18  
19  
20  
21  
22  
23  
24

S.F. \_\_\_\_\_ H.F. \_\_\_\_\_

1 Section 1. Section 96.7, subsection 2, paragraph c,  
2 subparagraph (1), Code Supplement 1987, is amended to read as  
3 follows:

4 (1) A nonconstruction contributory employer newly subject  
5 to this chapter shall pay contributions at the rate specified  
6 in the twelfth benefit ratio rank but not less than one  
7 percent until the end of the calendar year in which the  
8 employer's account has been chargeable with benefits for  
9 twenty two consecutive calendar quarters immediately  
10 preceding the computation date.

11 Sec. 2. Section 96.7, subsection 2, paragraph d,  
12 unnumbered paragraph 5, Code Supplement 1987, is amended by  
13 striking the unnumbered paragraph.

14 Sec. 3. Section 96.11, subsection 7, paragraph c,  
15 subparagraph (9), Code Supplement 1987, is amended by striking  
16 the subparagraph.

17 Sec. 4. 1987 Iowa Acts, chapter 222, section 10, is  
18 repealed.

19 Sec. 5. APPLICABILITY. Section 2 of this Act applies  
20 retroactively to contribution rates for calendar year 1988 and  
21 subsequent calendar years.

22 Sec. 6. EFFECTIVE DATE. Sections 2 and 5 of this Act,  
23 being deemed of immediate importance, takes effect upon  
24 enactment.

25

#### EXPLANATION

26 This bill deletes the prospective repeal of the new benefit  
27 ratio array system under the unemployment insurance law. The  
28 bill also addresses two potential federal conformity issues by  
29 giving new nonconstruction employers an experience rating  
30 after 12 quarters of experience, rather than after 20 quarters  
31 of experience, and by deleting the access of business and  
32 labor organization representatives to job service information  
33 regarding employers and claimants.

34 In addition, this bill abolishes the special employer  
35 contribution rate under the unemployment insurance law,

1 established in Senate File 507 (1987 Session), for employers  
2 which have had negative five-year account balance histories on  
3 the last two computation dates. The bill is retroactively  
4 applicable to employer contribution rates for calendar year  
5 1988 and subsequent calendar years and takes effect upon  
6 enactment.

7 COMPANION TO LSB 7117IS

8  
9  
10  
11  
12  
13  
14  
15  
16  
17  
18  
19  
20  
21  
22  
23  
24  
25  
26  
27  
28  
29  
30  
31  
32  
33  
34  
35