



UNIVERSITY OF MINNESOTA
TWIN CITIES

Industrial Relations Center
537 Management and Economics Building
271 19th Avenue South
Minneapolis, Minnesota 55455



800576

February 15, 1986

NOT FILMED

Governor Rudy Perpich
Office of the Governor
State of Minnesota
St. Paul, Minnesota 55155

Dear Governor:

Late in 1985 you established our Task Force on Unemployment Insurance. You asked us to assist you and Commissioner Joe Samargia in the development of an unemployment insurance policy that would restore UI fund solvency, equalize taxes and assist the state's unemployed. We believe we have done just that in the enclosed report of the task force entitled Redirecting Minnesota's Unemployment Insurance Policy. We hope that you will agree with us that the ideas expressed in this report represent a reasonably fair and balanced set of recommended actions.

The advice offered by the task force is "dispassionate," as you requested. Indeed, the entire task force approached this project in as detached and objective way as possible. Further, even though we failed to reach a unanimous accord, it was an honor to have served with the other members of the task force.

The labor members of the task force chose not to join the majority in making the recommendations presented. Nevertheless, members Killeen and Richardson were outstanding task force participants whose views certainly influenced many of the recommendations contained in our report. Each of these members subsequently may proffer a dissenting report.

These two members, and Messrs. Norlinger and Dirkswager gave generously of their time and energy. Further, the work of the task force would have been seriously delayed without the contributions made by a colleague, Dr. Joshua Schwarz, and by James Cohn, an MA-IR graduate student. Without their help, we would not have completed our task by mid-February as we promised. Lastly, a great debt is owed to Commissioner Joe Samargia, Assistant Commissioner Gene Sampson and others at the Department of Jobs and Training for the support they gave to the task force. By copy of this letter, I want to thank all of these individuals for their wisdom, dedication and cooperation.

Governor Rudy Perpich
February 15, 1986
Page 2

In closing, if we can be of continuing assistance in resolving this enormously difficult area of Minnesota economic policy, please let us know.

Sincerely,



Mario F. Bognanno
Professor and Director, Industrial Relations Center and
Chair, Governor's Task Force on Unemployment Insurance

MFB:md
Enclosure

cc: Commissioner Joe Samargia
Assistant Commissioner Eugene Sampson
Ed Dirkswager
Robert Killeen
John Norlinger
Jordan Richardson
Joshua Schwarz
James Cohn

EXECUTIVE SUMMARY

Late in 1985, Governor Perpich appointed a five-member tri-partite task force to review Minnesota's unemployment insurance (UI) policy. The task force was asked to make recommendations that would restore the UI fund to solvency and equalize taxes while still assisting the state's unemployed citizens. It was the Governor's hope that a responsible set of recommendations could be generated by a task force made up of individuals who had no prior personal involvement in the debate over UI policy. The members of the task force are Ed Dirkswager, Senior Vice President, Group Health, Inc.; Robert Killeen, Director, Sub-Region 10, UAW; John O. Norlinger, General Manager, Delta Industrial; Jordan N. Richardson, Business Manager, General Laborers Union; and Mario F. Bognanno, Professor and Director, Industrial Relations Center, University of Minnesota.

To gain a better understanding of the problems faced by the UI program, the task force requested a briefing by the Unemployment Insurance Division of the Department of Jobs and Training. In addition, the task force held three days of public hearings during which it took testimony from private citizens, representatives of both labor and business, legislators and the Commissioner of the Department of Jobs and Training.

Through this process, the history of Minnesota's UI fund deficits was fully described. Further, the impact of these deficits were repeatedly brought to the task force's attention. The Federal response to borrowing by the states is to charge interest and impose a Federal Unemployment Tax Act (FUTA) penalty for debt repayment. The penalty applies to a base of \$7,000 and increases .3 percent for all employers for each year of indebtedness.

Labor's concerns, as expressed in the public hearings, focused on the plight of the unemployed and the tough eligibility requirements for receiving UI. In their view, the deficit is recession-driven and compounded by the excessive number of employers who pay at the minimum rate in Minnesota.

Business representatives, on the other hand, testified that access to the program is too easy especially for seasonal workers. In addition, they believe that statutory benefit and tax escalators make for poor public policy because they remove these increases from the political arena. Administrative practices regarding work search, suitable work and a perception of bias in appeal hearings are also among the concerns of these representatives. Lastly, a significant reserve fund was opposed by business because they believe that surpluses tend to lead to benefit increases.

Legislators summarized bills that were developed during the last session, and the Department of Jobs and Training focused on the role of job listing and advanced notice of plant closing in reducing fund costs.

After carefully reviewing the UI program itself and the positions of all interested parties the task force came to the following conclusions:

1. National rankings can be misleading when trying to make interstate comparisons of UI programs.
2. The benefit cost rate (total benefits divided by total wages) appears to be the most valid measure for comparison.

3. An analysis of historic benefit cost rate and unemployment rate data show Minnesota to be below the National average in 17 of the last 20 years including 1983 and 1984 (the last years for which hard data are available).
4. For years in which the benefit cost rate was above the National average, Minnesota's unemployment rate in high wage industries (Table 7) appears to have been above the National average.
5. The current fund deficit is a function of both insufficient tax revenues and generous benefits.
6. Minnesota is the only jurisdiction in the Nation to use a split wage base to differentiate between program users and nonusers.
7. Minnesota's minimum tax rate and wage base have not changed since 1979.
8. The maximum tax rate charged to employers who utilize the program heavily is insufficient to cover the benefits paid to their employees.
9. Benefit adjustments ought to be guided by corresponding National norms.

Some areas suggested for program modification were considered too dramatic for immediate consideration and acceptance. These ideas include the concept of establishing lifetime wage credits to address obsolete skills among the structurally unemployed; providing tax credits to encourage employers to

list jobs with the employment service; and addressing work force attachment concerns through a 1 percent of annual earnings formula for calculations of weekly benefit amounts.

In light of all the testimony and conclusions reached, the task force was guided by the principles of tax equity, fund solvency, assisting the unemployed and establishing a durable policy when recommending the following:

1. Access

Adopt a high quarter wage formula utilizing the first four of the last five completed calendar quarters, with high quarter earnings of \$1,300.00, and total base period wages of 1.4 times high quarter earnings.

2. Benefit Amount and Duration

Cap the maximum weekly benefit amount at its current level of \$228.00 for 3 years, and then reduce the rate at which it escalates to 60 percent of average weekly wage. Revise the individual weekly benefit amount calculation to 1/26th of high quarter earnings, and maximum duration to the lesser of 1/3rd of total base period earnings divided by the weekly benefit amount or 26 weeks.

3. Requalification

Increase the requalification requirements for individuals who are unemployed through their own choice or fault to 8 weeks of employment with earnings of 8 times their weekly benefit amount.

4. Suitable Work

Establish a decreasing percentage of the claimant's former weekly wage to constitute "suitable work" as the period of unemployment lengthens: 100 percent during the first four weeks; 85 percent from week five through eight; 75 percent from week nine through twelve; and 70 percent for weeks beyond twelve.

5. Waiting Week

Eliminate reimbursement of the waiting week.

6. Extended Benefits

Provide an additional four weeks of UI benefits to unemployed workers who live in regions of the State where the insured unemployment rate is at least 1.75 times the state-wide insured unemployment rate.

7. Solvency

Establish a solvency assessment of 10 percent on experience rated employers when the UI fund balance as of December 31 of any year is less than \$50 million.

8. Tax Rate and Tax Base

Converge the split wage base over the next five years. Set the minimum tax rate at 1 percent, and the maximum tax rate at 8.5 percent. Provide a .2 of one percent credit for employers who have not had benefits charged to their accounts during the relevant experience rating period.

9. Breaking the FUTA Penalty Cycle

Legislative advance of money to the UI fund to insure solvency on January 1, 1987. This advance is to be promptly repaid from employer contributions received in January, 1987.

These recommendations, taken as a whole, meet the objectives set out in the Governor's charge. Projections show that the UI fund will become solvent in 1987 and remain so throughout the remainder of the decade. Long-run fund status stability is produced through a combination of relatively modest increases in taxes and decreases in benefits.



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Minneapolis, Minnesota 55455



February 17, 1986

TO: Governor Rudy Perpich*

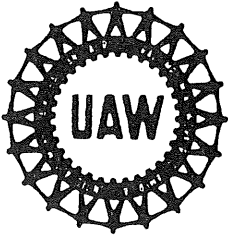
FROM: Mario F. Bognanno, *MFB*
Chair, Governor's Task Force on Unemployment Insurance

SUBJECT: Minority Report

The attached addendum is a Minority Report which should be read in conjunction with the Task Force's Report which is also included.

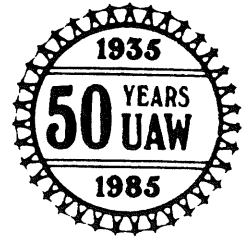
MFB:md
Attachment

cc: Commissioner Joe Samargia
Assistant Commissioner Eugene Sampson
Ed Dirkswager
Robert Killeen
John Norlinger
Jordan Richardson
Joshua Schwarz
James Cohn



Region 10

Ralph W. Koenig
Director



OWEN BIEBER, *President*

Robert Vicars
Assistant Director

OAK CREEK, WI
Ralph Amerling
William Bauman
Jack Cole
Joseph Kiriaki
Jerry Lisiecki
Robert McNatt
Gene Sylvester
William Troestler

BLOOMINGTON, MN
55420
One Appletree Sq.
Suite 1341
612-854-5323
Bob Killeen
Thomas Schneider
Warren Triplett
Jerry Yourzek

OSHKOSH, WI
54901
1118 High Ave.
414-231-5460
Bernard Lepianka

SHEBOYGAN, WI
53081
5425 Superior Ave.
414-458-1351
Charles Conrardy, Jr.

MINORITY REPORT
GOVERNOR PERPICH'S TASK FORCE ON
UNEMPLOYMENT COMPENSATION

FROM: BOB KILLEEN/JORDON RICHARDSON

We accepted appointment to the task force with the naive belief that based on testimony that reflects the needs of the underemployed and the unemployed and how this works a hardship on the Minnesota business community, a conclusion could be reached and recommended.

It soon became apparent that business represented by a coalition of 28 different groups, Minneapolis Chamber, Minnesota Retail Merchants, National Federation of Independent Business, Minnesota State Builders Association, Minnesota Association of Commerce and Industry, Minnesota Business Partnership and others, are intent on solving their pre-conceived problem on Unemployment Compensation by cutting benefits to the underemployed and unemployed.

The only unemployed worker was a building tradesman testifying with great feeling and credibility about the misery of being seasonally unemployed, and his inability to find a job because employers will not hire a building tradesman as they know the worker will go back to his trade when work is available. His plight is totally disregarded by the group of 28 who argue so-called seasonal workers should be denied benefits because of their alleged abuse of the system by being laid off each year in the same time period.

Alleged "abuse of the system" ran through the testimony of all business representatives. When asked a number of times for examples of abuse, none were given, although the Business Partnership was going to mail Killeen examples of abuse cases that he never received. This problem of refusing suitable work does not exist, or if it does, is a very minimal problem with Minnesota's tough qualification requirements and review processes. The total lack of evidence of any abuse discredits their entire argument for tightening up qualifications for the unemployed.

The only others testifying for the underemployed and the unemployed of the State were:

Kit Hadley from Southern Minnesota Legal Services - who gave excellent testimony on the plight of working women who fail to qualify because of Minnesota's high earnings requirements, and loss of unemployment compensation benefits for those working women on part time jobs.

The part-time worker problem is particularly inequitable for

working women who are a part of a national trend of rapidly growing numbers of part time jobs that do not receive Unemployment Compensation benefits, while denied fringe benefits allowed full time workers; undisputed by the business "group of 28".

In the real world of underemployed and unemployed, the unemployment rate in the nation is not the 7% touted by the administration, a statistic that does not count those workers who have become discouraged looking for meaningful jobs and those underemployed. When including these groups, the unacceptable high become 12.7%.

Another economic fact in the real life of the unemployed is unlike layoffs prior to 1979 - 1980, when laid off workers could find other meaningful work, and sometimes could find a better job. This is rarely the situation now. The jobs today are in the low-paid service industry of what is left of Industrial America after concession bargaining and work transfers to low wage countries.

Dan Gustafson, State AFL-CIO president - spoke on behalf of the unemployed, Union and non-union workers, testified as to how unemployment insurance costs have been shifted to many small businesses that pay up to nine times more than other companies (including large companies with government contracts without foreign competition).

His judgement that the unemployment insurance battle is not one of a poor business climate, but rather one of a poor political climate, is a sound one based on many years in the legislative trenches on this issue.

The elimination of the waiting week is particularly repugnant to those who spent many hours gaining benefits for the first week of layoff. We never have been able to figure out how workers become more unemployed the second, third or fourth week of unemployment than they were the first, other than to save money for those only interested in bottom line economics.

This report is purposely lacking statistics since most of those testifying -- to the point of apologizing for the mountain of statistics presented to the Task Force -- admitted that, regardless of your concept of the unemployment compensation problem, you can justify your case with the data available.

I don't believe this will detract from the report, when as late Tuesday evening, February 11, 1986, the President of the United States was still formulating United States policy for the underemployed and unemployed of this nation on the jobs available in the Washington, D.C. want ads.

This kind of callous disregard for the impact of the underemployed and unemployed of this nation and State has resulted in the loss of more than two million manufacturing jobs since 1979.

The social consequences of further cutbacks to those in need of unemployment benefits within our state is totally unacceptable to our citizens, if they understand its affect on families.

Studies have shown that each 1 percent increase in unemployment

over a period of six years was associated with 37,000 deaths, 920 suicides, 4,000 state mental hospital admissions and 330 state prison admissions. The recently passed House IR-business Unemployment Bill, will compliment this calamity by further cuts of benefits to the unemployed.

Further evidence that the group of "28's" agreement for benefit reductions lacks merit, is that the cost of government for Corporate America has been shifted in the past two decades. The share of federal revenue collected from wages and individual income has increased from 63 cents to 80 cents of the tax dollar, while the Corporate share has declined from 21 cents to 9 cents while demanding even greater services from city, state and county governments.

Many corporations pay no taxes at all - General Electric, W. R. Grace & Co., General Dynamics, Boeing, Dow Chemical, and Lockheed - and in the words of former administrator of the federal budget, Dave Stockman, in 1981, any corporation paying taxes after the 1981 tax cut, should hire a new tax accountant.

Much testimony by the business group centered around enemployment compensation benefits in other states. Such comparisons will support whatever position you need to further your argument. Texas was one state mentioned, as Minnesota was in a tax give-away race with Texas to lure a high tech computer research facility that finally located in Austin, Texas.

Texas has a very favorable unemployment insurance system for the business community, but the system was not created for corporate America, it was structured for unemployed workers. They don't do too well in Texas. Their maximum benefit of \$189.00 per week with an unemployment rate of 8.1% in October, 1985, represented 605,000 unemployed of which only, (6.3% were receiving benefits or about 99,000). This is good for oilmen, but very bad for unemployed workers.

While this has been taking place, the number of unemployed receiving benefits in the nation, has been dropping from a level of 76% in 1975 to just 33% in 1985, (U.S. Bureau of Labor Statistics). Minnesota is at 28%, but hardly a figure to be proud of, or one to use as justification for benefit cuts.

Our concern is based on daily living with the misery and suffering experienced by those that are underemployed and unemployed in and out of our own Unions, the United Auto Workers and the Laborers International Union of North America.

We know and see the unemployed and the underemployed people who feel alone and abandoned in welfare offices and food pantries. The only work they can find is shoveling snow, cleaning yards, cutting grass or working on Robert Street.

Their spouses talk of depression, anxiety, aggression, economic loss of self-esteem and marital problems, and Friday, February 14, 1986, an unemployed man set himself on fire in front of the White House.

Instead of struggling to retain benefits, the jobless of this state and nation should be aided through full-time full-employment policies to provide them with meaningful jobs, lost through federal policies of encouraging job transfers to Third World contries, and the complete abandonment of the family farmer who, when making any kind of profit, is one of the nation's job creators through his consumer buying power.

Those in the Minnesota legislature who have been listening only to the group of "28" should spend just eight hours talking to the unemployed and underemployed at the unemployment offices or the food pantries in their districts.

Those are the people in need. Take your eyes off of Corporate America's bottom line, and bring some compassion and understanding to those in the food and unemployment lines, before voting to shift even more onto the backs of the unemployed and underemployed.

Therefore, in good conscience, we could not concur with the unbalanced recommendations contained in the Majority Report.

Bob Killeen
International Representative, UAW

Jordon Richardson
Business Representative
Laborers International Union of North America

A REPORT ISSUED

BY

THE GOVERNOR'S TASK FORCE ON UNEMPLOYMENT
INSURANCE

ON

REDIRECTING MINNESOTA'S UNEMPLOYMENT INSURANCE
POLICY

February, 1986

A REPORT ISSUED

BY

THE GOVERNOR'S TASK FORCE ON UNEMPLOYMENT
INSURANCE

The task force membership is as follows:

Ed Dirkswager, Group Health, Inc.
Robert Killeen, United Automobile Workers
John Norlinger, Delta Industrial
Jordan Richardson, General Laborers Union
Mario Bognanno, Task Force Chair, Industrial
Relations Center, University of Minnesota

The opinions and recommendations presented in this report are:

<u>Accepted</u>	<u>Rejected</u>	<u>Abstained</u>	<u>Name</u>	<u>Date</u>
(X)	()	()	<u>Ed Dirkswager</u>	<u>2-14-86</u>
(X)	()	()	<u>Mario F. Bognanno</u>	<u>2-14-86</u>
()	(X)	()	<u>LR Killeen</u>	<u>2-15-86</u>
(X)	()	()	<u>John A. Norlinger</u>	<u>2-15-86</u>
()	(X)	()	<u>Jordan Richardson</u> (Signed by M.B.)	<u>2-15-86</u>

TABLE OF CONTENTS

I. The Charge of the Task Force	01
II. Task Force Precedure	03
A. Public Input	03
B. Study and Drafting of Recommendations	05
III. Purpose of the UI Policy	07
A. Nature of Minnesota's UI Financial Problem	07
B. Consequences of Federal Borrowing	12
IV. Testimony	15
A. Proposals for Reform of UI Policy	15
1. Private Citizens	15
2. Labor Representatives	16
3. Business Representatives	18
4. Legislators	20
5. Department of Jobs and Training	22
6. Conclusion	23
B. Cause of the Current Problem	24
V. Criteria Adopted by the Task Force	32
A. Fund Solvency	32
B. Tax Equity	34
C. Assisting the State's Unemployed	37
D. Durability	39
E. Creative Measures and Areas for Study	41

VI. Task Force Recommendations	49
A. Access to Benefits, Benefit Amounts, and Duration of Benefits	49
1. Access to Benefits	49
2. Weekly Benefit Amounts	51
3. Duration of Benefits	53
4. Obtaining Base Year Data	53
B. Requalification for Benefits Following Disqualification. . .	56
C. Waiting Week Reimbursement	58
D. Assistance to Distressed Regions	59
E. Taxable Wage Base and Tax Rates.	60
F. Solvency Provision	62
G. Breaking the FUTA Penalty Cycle.	62
VII. Summary of Effects	64

I. THE CHARGE OF THE TASK FORCE ON UNEMPLOYMENT INSURANCE

In a letter dated November 4, 1985, Governor Rudy Perpich appointed a five-member Unemployment Insurance Task Force to assist him and Jobs and Training Commissioner Joe Samargia in developing changes to the State's unemployment insurance policy. The members of the task force are Ed Dirkswager, Senior Vice President, Group Health, Inc.; Robert I. Killeen, Director, Sub-Region 10, UAW; John O. Norlinger, General Manager, Delta Industrial; Jordan N. Richardson, Business Manager, General Laborers Union; and Mario F. Bognanno, Professor and Director, Industrial Relations, University of Minnesota.

The task force is made up of two labor officials and two business officials and an academic member who serves as Chair. The Governor invited the task force to take a "fresh look" at Minnesota's unemployment insurance (UI) policy. Specifically, he invited recommendations that will:

- . restore the Minnesota UI Fund to solvency;
- . equalize UI taxes; and
- . assist the state's unemployed citizens.

To achieve these objectives, the Governor felt that it was important to have a balanced representation on the task force; thus, none of the members of

the task force have been protagonists in the UI controversy that has been a source of political and economic division for the past two years.

II. TASK FORCE PROCEDURE

Following establishment of the task force, background information on UI was provided to each member. These and subsequent materials were reviewed with the task force in a day-long briefing session sponsored by the Department of Jobs and Training held on December 10, 1985. The briefing covered taxes, benefits, eligibility determinations and appeals, budgeting, and quality control.

A. Public Input

The task force scheduled and held publicly advertised hearings on January 3, 6 and 10, 1986 in Room 184 Hubert Humphrey Center, University of Minnesota, Minneapolis, Minnesota. The date, time and list of appearances at these hearings follows.

January 3, 1986

- 9:30 Dr. George Seltzer, Professor
University of Minnesota
- 10:00 Dan Gustafson, President
Minnesota AFL-CIO
- 10:30 Rep. Phil Riveness (DFL)
Bloomington, MN

2:00 Sen. Nancy Braatas (IR)
Assistant Minority Leader
Rochester, MN

January 6, 1986

9:30 Katherine "Kit" Hadley, Attorney
Southern Minnesota Regional Legal Services

10:00 Margaret Martin
Private Citizen

11:00 John VanDoorn, President
Minnesota Retail Merchants Association

11:30 Rep. Steve Sviggum (IR), Chair
Labor-Management Relations
Unemployment Insurance-Workers Compensation Division
Kenyon, MN

January 10, 1986

9:30 Michael Hickey
National Federation of Independent Business

10:00 Tim Michaels on behalf of
Sen. Florian Chmielewski, Chair
Senate Committee on Employment
Sturgeon Lake, MN

10:30 Nancy Christenson
Greater Minneapolis Chamber of Commerce

11:00 Mary Marinowski, Executive Director
Minnesota State Builders' Association

1:00 Francis Fitzgerald, Director
Labor-Management Relations
Minnesota Association of Commerce and Industry

1:30 John Lennes, Partner
Spano, Lennes, and Associates

2:00 George Dixon, Chairman
Minnesota Business Partnership
William A. Hodder, Chairman, President & CEO
Donaldson Company

- 3:00 William Schreiner
Private Citizen
- 3:30 Joe Samargia, Commissioner
Department of Jobs and Training
- 4:30 Dr. Rudy Pinola
Private Citizen
- 5:00 Sharon Anderson
Private Citizen

In addition to having received testimony and material from the above noted individuals, the task force received a 2 1/2 page letter from Abe Rosenthal, President, Minnesota Transport Service Association outlining his concerns and proposals for changing the state's UI program.

B. Study and Drafting of Recommendations

Subsequent to the hearings, the task force met to review the testimony and information, discuss alternative proposals, and make recommendations. These study meetings were held January 15 and 29, February 7 and 14, 1986.

The Department of Jobs and Training was most cooperative in sharing their time and talents with the task force. The Department's computer software and programmers were used in producing the UI tax and benefit forecasts presented herein.

The task force is responsible for this report. However, it must be recognized that Joshua Schwarz, Ph.D., Lecturer, Industrial Relations

Center, University of Minnesota and James Cohn, MA-IR candidate, Industrial Relations Center, University of Minnesota made significant contributions to the basic research and drafting of this report. The task force greatly appreciates the pro bono assistance provided by these gentlemen.

III. PURPOSE OF THE UI POLICY

The purpose of the UI policy is to provide partial income replacement to persons temporarily out of work through no fault of their own. Other attributes of the program are as follows:

- . no private sector alternative to this social insurance program exists;
- . UI provides a short run alternative to welfare while maintaining workers' dignity during job search;
- . work teams are held together during temporary layoffs;
- . UI reduces the spread of unemployment during bad economic times by providing a counter-cyclical stimulus; and
- . UI allows a better matching of workers' skills with employers' needs.

A. Nature of Minnesota's UI Financial Problem

Most state UI programs were financially sound during the quarter century after World War II; however, the past 15 years have been different. Table 1 shows that for the ten-year period from 1974 to 1983, benefits paid exceeded contributions collected in all states and Federal jurisdictions for at least some of that period. For Minnesota, benefits exceeded contributions in

8

TABLE 1: SUMMARY OF YEARS IN WHICH BENEFITS PAID EXCEEDED CONTRIBUTIONS COLLECTED

	<u>Total</u>	<u>1974</u>	<u>1975</u>	<u>1976</u>	<u>1977</u>	<u>1978</u>	<u>1979</u>	<u>1980</u>	<u>1981</u>	<u>1982</u>	<u>1983</u>
Alabama	5	X	X	X				X		X	
Alaska	2				X	X					
Arizona	6	X	X	X					X	X	X
Arkansas	6	X	X	X				X	X	X	
California	5	X	X					X	X	X	X
Colorado	7	X	X	X				X	X	X	X
Connecticut	7	X	X	X	X				X	X	X
Delaware	6	X	X	X	X			X	X		
Dist. of Col.	8	X	X	X	X	X			X	X	X
Florida	5	X	X	X						X	X
Georgia	7	X	X	X				X	X	X	X
Hawaii	5	X	X	X					X	X	
Idaho	6		X	X				X	X	X	X
Illinois	7		X	X	X			X	X	X	X
Indiana	5	X	X					X	X	X	
Iowa	7	X	X	X				X	X	X	X
Kansas	5		X				X	X	X	X	
Kentucky	7		X	X			X	X	X	X	X
Louisiana	7		X		X	X		X	X	X	X
Maine	4		X	X	X					X	
Maryland	4		X	X						X	X
Massachusetts	4	X	X	X						X	
Michigan	7	X	X	X				X	X	X	X
Minnesota	7	X	X	X				X	X	X	X
Mississippi	4		X					X		X	X
Missouri	5	X	X					X	X	X	
Montana	5	X	X	X						X	X
Nebraska	5	X	X					X		X	X
Nevada	4	X	X							X	X
New Hampshire	6	X	X					X	X	X	X
New Jersey	5	X	X	X				X		X	
New Mexico	5	X	X	X						X	X
New York	5	X	X	X	X					X	
North Carolina	6		X	X				X	X	X	X
North Dakota	6			X	X	X		X		X	X
Ohio	7	X	X	X				X	X	X	X
Oklahoma	5		X	X					X	X	X
Oregon	5	X	X						X	X	X
Pennsylvania	10	X	X	X	X	X	X	X	X	X	X
Puerto Rico	4	X	X	X	X					X	
Rhode Island	6	X	X	X	X	X	X			X	
South Carolina	7	X	X	X				X	X	X	X
South Dakota	7	X	X	X	X			X	X	X	
Tennessee	6		X	X	X			X	X	X	
Texas	7	X	X	X				X	X	X	
Utah	6	X	X	X				X	X	X	
Vermont	6	X	X	X	X					X	X
Virginia	4	X	X	X				X			
Washington	5	X	X						X	X	X
West Virginia	10	X	X	X	X	X	X	X	X	X	X
Wisconsin	6	X	X					X	X	X	X
Wyoming	4							X	X	X	X

Source: Minnesota Department of Jobs and Training.

seven of those years.¹ Projections made by the Department of Jobs and Training based on the current Minnesota statute indicate that benefits will exceed revenues in every year from 1986 to 1990 (see Table 2, row C).

This program cannot operate successfully when benefit costs regularly exceed tax revenues. UI was originally designed to build reserves during periods of economic growth to be expended during recessions. Therefore, one should not expect revenues to exceed costs in every year but only over some longer time horizon. Due to experience rating, tax rates and hence program revenues are a function of benefits paid out over the previous several years. As Table 3 illustrates, the positive cash flows in 1977, 1978 and 1979 were sufficient to pay off the previously incurred debt. However, the 67.4 million dollar reserve in 1979 was incapable of carrying the fund through the recessions of the early 1980s. This was a period of high unemployment during which employers were paying relatively low taxes based on the healthy labor market of the late 1970s resulting in a fund deficit that reached its peak in 1983. Thus, during the current non-recessionary period, employers on average are paying a higher tax that ideally should reimburse the fund for benefits paid during the 1980 and 1981/1982 recessions. However, under the current UI law, these reimbursements are not and will not produce a fund surplus, even under the optimistic assumption of labor market growth. Note that the 1988, 1989 and 1990 positive fund balances shown in Table 2, row E are the result of a projected January 1, 1988 FUTA penalty and not the result of positive cash flow.

¹Minnesota's UI program experienced a negative cash flow during 1984 and a positive cash flow during 1985.

**TABLE 2: PROJECTED REVENUE, BENEFITS AND FUND STATUS FOR MINNESOTA'S UI PROGRAM,
1986-1990**

<u>January 1986 Economic Assumptions* (in Millions)</u>						
	<u>1986</u>	<u>1987</u>	<u>1988</u>	<u>1989</u>	<u>1990</u>	<u>Total</u>
I. A. Revenue	335	355	379	405	433	1907
B. Benefits	358	383	401	430	463	2035
C. State Revenue Less Benefits	-23	-28	-22	-25	-30	-128
D. FUTA Revenue (1.1, 0, 1.7)	110	0	181	0	0	291
E. Fund Status (-95)	-8	-36	+123**	+98**	+68**	

Source: Minnesota Department of Jobs and Training, Research and Statistics, January 31, 1986.

* Economic Assumptions:	<u>1986</u>	<u>1987</u>	<u>1988-1990</u>
Employment Growth	<u>1.4%</u>	<u>2.6%</u>	<u>2.5%</u>
Average Wage Growth	4.4	4.9	4.9
Unemployment Rate	6.3	6.3	6.0

** Positive fund balance attributed solely to the projected \$181 million FUTA penalty to be assessed against employers on January 1, 1988.

TABLE 3: ANNUAL CASH FLOW AND FUND BALANCE FOR MINNESOTA'S UI PROGRAM, (1974-1985)

Year	Cash Flow (Tax Revenues-Benefit Costs)	Fund Balance (Millions)
1974	-	+79.0
1975*	-	-34.6
1976	-	-103.6
1977	+	-88.5
1978	+	-10.7
1979	+	+67.4
1980	-	-20.2
1981	-	-90.8
1982	-	-299.9
1983	-	-351.9
1984	-	-210.4
1985	+	-86.1

Source: Minnesota Department of Jobs and Training.

*First year in which Minnesota borrowed.

B. Consequences of Federal Borrowing

Loans made by the Federal government to cover deficits in state UI funds were interest free before April 1, 1982. Borrowing from the Federal government prior to that date was seen by some as good money management. Thus, the UI debt incurred during the 1970s was described to the task force as being a "planned deficit." In the current environment, an annual interest charge is assessed against borrowed Federal funds. Thus, a deficit run-up is no longer considered to be good money management.

Besides charging 10% interest on borrowed funds, the Federal government levies a redemption tax, the FUTA penalty, on all covered employers. This penalty is regressive because each employer is assessed the same penalty per employee regardless of actual lay-off experience. The penalty's adverse effect also accumulates over time as suggested by Table 4, panel II.

The FUTA penalty levied on all employers in covered employment amounted to .3% on the first \$6,000 dollars earned by each employee or \$18 per employee for the year 1982. For each successive year that the fund is in debt, the penalty increases by an additional .3%. Thus, as shown in Table 4, panel II, Minnesota's FUTA penalty climbed to .6% or \$42 per employee in 1983. The penalty has continued to accumulate to its 1985 rate of 1.1% or \$77 per employee. In order to break this chain of incrementations, Federal law requires that the fund must be out of debt on November 10th of one year and

TABLE 4: FUTA TAX COLLECTIONS/PROJECTIONS

I. Debt Free Status*

Year	Standard FUTA Tax		Standard Federal Offset		FUTA Penalty Rate		Federal UI Tax Assessed		Multiplied by Federal Wage Base		Tax Per Employee
Pre-1985	3.5%	-	2.7%	+	0%	=	.8%	x	\$7,000	=	\$56
1985	6.2%	-	5.4%	+	0%	=	.8%	x	\$7,000	=	\$56

II. Minnesota FUTA Tax and Penalty History/Projections

Year	Standard FUTA Tax		Standard Federal Offset		FUTA Penalty		Federal UI Tax Assessed		Multiplied by Federal Wage Base		Tax Per Employee	
1982	3.4%	-	2.7%	+	.3%	=	1.0%	x	\$6,000	=	\$60	\$ 42 FUTA Tax \$ 18 FUTA Penalty
1983	3.5%	-	2.7%	+	.6%	=	1.4%	x	\$7,000	=	\$98	\$ 56 Tax \$ 42 Penalty
1984	3.5%	-	2.7%	+	.8%**	=	1.6%	x	\$7,000	=	\$112	\$ 56 Tax \$ 56 Penalty
1985	6.2%	-	5.4%	+	1.1%	=	1.9%	x	\$7,000	=	\$133	\$ 56 Tax \$ 77 Penalty
1986	6.2%	-	5.4%	+	1.4%***	=	.8%	x	\$7,000	=	\$56	\$ 56 Tax \$ 0 Penalty
1987	6.2%	-	5.4%	+	1.7%	=	2.5%	x	\$7,000	=	\$175	\$ 56 Tax \$119 Penalty

Source: Table adopted from "Unemployment Insurance Testimony + Statistical Analysis", Minnesota Association of Commerce and Industry.

* Employers liable for FUTA tax only, no FUTA penalty.

** In 1984, the FUTA penalty only increased .2 percentage points for Minnesota.

*** Projections indicate that the fund will be out of debt on November 10, 1986; thus, there will not be a FUTA penalty accruing in 1986. However, since projections also indicate that the fund will again be in debt on January 1, 1987, the applicable FUTA penalty rate that otherwise would have been payable on 1986 taxable wages will continue to mount to 1.4%.

Note: Penalties are incurred in one year and must be paid in the following calendar year.

January 1st of the next. Thereafter, if the state begins to borrow again and it is in debt on January 1st of two successive years, then the resulting FUTA penalty will be .3% if the debt is not repaid by November 10th of the second year.

Returning to Table 4, panel II, the Department of Jobs and Training projects that the fund will be out of debt on November 10, 1986, thus no FUTA penalty is shown to accrue for that year. However, the FUTA penalty rate is shown to continue to accumulate because the Department also projects a return to debt status on January 1, 1987. If both of these projections hold up and if Minnesota is in debt on November 10, 1987, then the state's employers will be assessed a FUTA penalty of 1.7% on the first \$7,000 earned per employee or up to \$119 per employee payable in January 1988.

IV. TESTIMONY

The task force heard testimony from private citizens, representatives of both labor and business, legislators, and the Commissioner of the Department of Jobs and Training. The diverse backgrounds of these individuals and the viewpoints they expressed appear to represent the range of opinions held by interested Minnesotans.

A. Proposals for Reform of UI Policy

1. Private Citizens

Several individuals testified on their own behalf. The view of these citizens was that the UI program in Minnesota provides economic security to both workers experiencing temporary job loss and the general public. The former are assisted through partial income replacement and the public benefits by limiting the adverse effects of unemployment on society. Concern was also expressed that the financial problems of UI should be resolved equitably to provide both short and long run stability.

A small business person expressed frustration with the bureaucracy involved in UI. She recognized that administering the program is a

difficult task and recommended that employers increase their involvement in monitoring the program by, for example, reporting claimants who refuse job offers.

A seasonal employee and UI claimant acknowledged that he and others have come to depend on the program. Without these benefits, he stated, workers would either demand higher wages from their current employers or go on welfare. One reason for the lack of re-employment on the part of some seasonal workers, according to this witness, is that employers refuse to hire such workers for only the "off-season". Lastly, this and other witnesses thought that unemployed workers in approved training programs should not be disqualified from benefits.

2. Labor Representatives

Representatives of Minnesota's working people expressed their views to the task force. One of their major concerns dealt with the issue of access to UI benefits. Statistics were presented to demonstrate that a smaller proportion of Minnesota's unemployed qualify for benefits than nationally. Specifically, only 28% of Minnesota's unemployed workers were eligible for benefits in 1985, while the national average was 32%. It was pointed out that Minnesota's formula for calculating a credit week excludes many low wage earners and permanent part time employees. Proposals to stiffen access requirements would exclude even more workers. Under the current law, persons who now earn less than \$103 per week are not eligible for benefits no matter how many weeks per

year they work. The view was also expressed that this formula has greatest impact on women and minorities. Labor's proposed solution to this issue is to develop an "alternative credit week" formula (in addition to the regular 15 credit week calculation), with minimum earnings for eligibility of 20 times the Federal minimum wage for at least 20 weeks.

Labor's view of the deficit is essentially that it is due to the recession and benefits should not be cut. As they see it, the low tax rate and wage base applied to non-experience rated employers, and the ability of larger employers to "buy down" their tax bill, results in an inequitable distribution of the tax burden. Additional revenue should, in labor's view, be raised by increasing the minimum tax rate from 1% to 2% and by eliminating the split taxable wage base which should continue to be automatically escalated. Concern was also expressed that the experience rating not increase too rapidly for the small employer who has a single layoff experience.

The final point to come out in this testimony was that the distribution of taxes collected and benefits paid differs within the state. Sixty percent of taxes are collected in the metropolitan area where the economy is strongest, while 60% of benefits are paid in out-state areas where unemployment is generally higher. In the view of the state AFL-CIO, tax and benefit cuts proposed by the business community would exacerbate intra-state differences in economic well being.

3. Business Representatives

The task force heard testimony from a variety of representatives of Minnesota's business community. These witnesses addressed a broad range of issues facing Minnesota's UI program.

a. Benefit Modifications

The business community was nearly unanimous in its view that benefits should be reduced to eliminate deficits. They feel that the current 15 credit-week requirement should be increased to 20 weeks, permitting benefit access only to those people who are "truly attached" to the labor force. It was proposed that minimum earnings required to establish a credit week should be set at 30 times the minimum wage, or \$101.

The business representatives' major suggestion to reduce benefit costs, particularly those associated with seasonal employment, is to set the weekly benefit amount at 1% of claimant's base year earnings. Under this plan, the current \$58 minimum benefit amount would be legislated. Other proposed changes in benefits were as follows: eliminate the escalator on maximum weekly benefit amounts and legislate future increases; roll back the maximum weekly benefit from the current \$228 to \$220; eliminate the waiting week reimbursement; reduce benefits to those filing claims during the same season year after year; reduce benefit duration

from the current 70% of credit weeks to 66 2/3%; and increase the requirements to re-qualify for benefits after a disqualification.

b. Tax Modifications

With respect to taxes, business testified that the taxable wage base escalator should be removed, and that future taxable wage base adjustments should be legislated.

c. Program Administration

A variety of proposals regarding the administration of the UI program were also presented. Business representatives recommended that "suitable work" be explicitly defined in the statute. Specifically, a claimant should be required to accept work or lose benefits if an available job pays 80% or more of the individual's previous average wage during the 6th to 10th week of unemployment, 60% during the 11th to 14th week, and 50% thereafter.

Additional modifications in program administration call for the following: increase the time employers have to respond to UI request report inquiries about reasons for separation from the current 7 calendar days to 7 working days; require claimants to pick up benefit checks in person to ensure that they are engaged in job search activity; define voluntary separation from temporary service employers so claims are denied to persons for whom work was available; and move the appeals process into the Administrative Hearings Office to reduce employers' perceptions of bias.

Representatives of the business community also told the task force that they did not want to establish a large reserve in the UI fund. Their concern is that surpluses would eventually lead to benefit increases.

4. Legislators

Prominent members of the State Senate and House of Representatives from both political parties testified before the task force. All of these legislators have shown a long-term interest in the UI program and considerable knowledge of its workings.

a. DFL Legislators

1) Benefits

The DFL legislators proposed changes in UI benefits that would change the eligibility criteria to require a claimant to earn at least \$1,300 in his/her high base period quarter and earn at least 1.25 times this high quarter amount over the base period. Further, they would reduce the maximum weekly benefit amount escalator to 60% of the state-wide average weekly wage and extend benefit duration for claimants residing in counties with very high unemployment rates.

2) Taxes

A second set of measures addressed program revenues. These proposals call for reducing the tax rate for non-experience rated employers to 0.8% in 1986, 0.7% in 1987 and 0.6% in 1988; implementing a 10% experience rated solvency tax to insure fund reserves; eliminating the current provision permitting voluntary contributions or "buy-downs"; increasing the maximum tax rate for experience rated employers to 8.0%; and converging the split wage base so that by 1988 all employers will pay taxes on a common base of \$12,000 (\$9,500 in 1986, \$11,000 in 1987 and \$12,000 in 1988).

3) Program Administration

The DFL legislators also suggested that funding should be provided to increase efforts to detect and eliminate abuses of the UI system, and help claimants find work; and provide benefits for claimants engaged in on-the-job training.

b. IR Legislators

1) Benefits

The IR legislators called for eliminating the escalator on the maximum weekly benefit amount and legislating its future levels; increasing the number of credit weeks required to qualify for benefits to 20 and freezing the earnings requirement at \$100 per week; calculating the weekly benefit amount as 1 percent of annual wages with a minimum benefit amount of \$58 per week; reducing the current duration of

benefits to 66 2/3% of credit weeks; denying benefits to claimants who refuse work paying a wage of at least 85% of past earnings in the first six weeks of unemployment, 75% in weeks 7-13 and 65% thereafter; eliminating the waiting week payment; stiffening the requirement to re-qualify for benefits after having been disqualified; extending the duration of benefit eligibility for claimants in counties with an insured unemployment rate that is twice the state's rate; denying employees benefits in the third year if they collected benefits in the same quarter of the previous two years; and removing the current maximum severance pay delay of 28 days.

2) Taxes

The opinions on tax issues expressed by the IR legislators were to remove the taxable wage base escalator for experience rated employers and to cap it at \$11,400 in 1987. Finally, they proposed maintaining the lower wage base of \$8,000 for non-users of the program.

5. Department of Jobs and Training

Joe Samargia, Commissioner of the Department of Jobs and Training also testified. The Commissioner stressed that the most effective way to reduce UI benefit costs would be to put people back to work sooner. He expressed frustration that more businesses do not list vacancies with the job service. The job service has or will have in the near future a

computerized job matching system, capacity to test and rank potential applicants for employers and an automated resume service for professionals. He observed that employers could dramatically reduce UI costs if only they would work more closely with the department by listing jobs, hiring from the job service, and providing advanced notice of plant closings.

6. Conclusion

The labor and business views shared with the task force on UI policy can best be characterized as polarized. Generally, advocate witnesses did not display an appreciation for policy alternatives which differed from their own. There is little in the task force's record to suggest areas of prospective moderation and mutuality. More flexibility was displayed by some legislators and private citizens.

On the one hand, some business witnesses would solve the debt problem by cutting benefits. In the extreme case, their proposals amount to cutting benefits twice, once to eliminate the debt and once to finance a tax cut.

On the other hand, some labor witnesses failed to propose reforms to the UI program other than to solve the state's debt problem by increasing UI taxes.

B. Cause of the Current Problem

The dichotomy of views referenced above for reforming Minnesota's UI policy are based on beliefs about different causes for the program's debt. In general, testimony centered on whether the current debt was caused by either excessive benefits or insufficient taxes. The task force concludes, however, that the debt has resulted from both of these causes.

The UI system in Minnesota is complex. To borrow an analogy made recently in an editorial from the Minneapolis Star and Tribune, the perception of what an elephant looks like to a blind man depends on what part of the animal's anatomy he feels. Similarly, one's impression of Minnesota's law compared to other states depends on what aspect is examined.

The following includes a discussion of some commonly made comparisons and why they may be misleading.² According to a recent article appearing in Review of Labor and Economic Conditions, one of the major problems in assessing state UI laws is that little systematic data are collected on the characteristics of claimants. As a result, anecdotal evidence dominates most discussions about UI programs. Even though interstate comparisons of UI programs can sometimes be of dubious value, they are inevitably made. Thus, an examination of the caveats associated with such comparisons is necessary.

²Parts of this analysis are based on the testimony delivered by John Lennes, Partner, Spanno, Lennes and Associates, and a recent article by John Berglund, Research Analyst, Research and Statistics, Department of Jobs and Training, called "Problems with Comparing State Unemployment Insurance Laws," Review of Labor and Economic Conditions, 12 (August 1985): 10-16:

Often, tax rates at the minimum or maximum are ranked among the states.³ This comparison is of little use because tax rates or tax bases in isolation are meaningless unless they are combined to calculate total tax liability.⁴ Even after multiplying rates and bases at the minimum and maximum, one has no sense of average tax liability in the state because this figure depends on the distribution of employers' between these extremes.⁵ Another problem inherent in ranking states on any dimension is that the mean and median of the distribution may be different. Also, rankings are sensitive to small numeric changes.

Another issue in interstate comparisons of UI taxes is whether Federal (FUTA) and state taxes should be combined. A good argument for excluding FUTA, is that minimum taxes are not under the control of the state legislature; whereas, penalties and interest surcharges, at least indirectly, are

³The minimum tax rate in Minnesota is 1% unless there is a fund surplus in which case the rate can fall as low as .1% which would make it among the lowest in the nation. The maximum tax rate is 7.5% which is about 14th highest in the nation.

⁴The minimum state tax in Minnesota in 1985 was 1% of \$8,000 or \$80.00 (19th highest). The maximum state tax in 1985 was 7.5% of \$10,300 or \$772.50 (9th highest).

⁵The average 1985 Minnesota UI tax rate was 2.8% ranking 32nd in the nation.

under some state control. Including temporary penalties can make tax comparisons very sensitive to the particular years examined.⁶

The task force agrees with the assertion that the single best overall index of UI program performance for comparative purposes is the benefit cost rate. This ratio consists of total benefits paid in a state over a given period divided by total payroll, excluding reimbursable benefits and wages.⁷ A point made several times during the hearings is illustrated in Table 5. This table shows the total unemployment rate for the United States and for Minnesota along with the benefit cost rates. As one can see, the unemployment rate in Minnesota is below the national average while the benefit cost figures are above the national average for the latest period, 1980-1984. Some have concluded that Minnesota's benefit costs are too high because they exceed the national mean, whereas the national employment rate exceeds Minnesota's. However, a more careful analysis compromises this conclusion.

Table 6 presents data on these same variables but on a year-by-year basis. It shows that the unemployment rate for Minnesota has been consistently

⁶In 1985, Minnesota employers paid UI taxes on the following schedule of minimums:

- . 1% on the first \$8,000 or up to \$80 per employee in state taxes;
- . .8% on the first \$7,000 or up to \$56 per employee in basic FUTA taxes; and
- . 1.1% on the first \$7,000 or up to \$77 per employee in FUTA penalties.

With debt-free status, there would not have been a \$77 per employee FUTA penalty in 1985.

⁷Algebraically, the benefit cost rate (B) equals the product of the covered unemployment rate (C) multiplied by the wage replacement rate (W) or $B = C \times W$. The measure W is sometimes referred to as the "liberality index."

TABLE 5: TOTAL UNEMPLOYMENT RATES AND BENEFIT COST RATES FOR THE
UNITED STATES AND MINNESOTA, FIVE YEAR AVERAGE, 1950-1984

Year	United States		Minnesota	
	Unemployment Rate	Benefit Costs	Unemployment Rate	Benefit Costs
1950-1954	4.0	1.00	NC	.74
1955-1959	5.0	1.20	NC	1.06
1960-1964	5.7	1.33	NC	1.10
1965-1969	3.8	.67	NC	.47
1970-1974	5.4	1.02	4.3	.88
1975-1979	7.0	1.29	5.0	1.14
1980-1984	8.3	1.33	6.7	1.40

Note: NC data not calculated separately for Minnesota in those years.

Source: John Berglund, "Problems with Comparing State Unemployment Insurance Laws," Review of Labor and Economic Conditions, 12 (August, 1985), Table 1.

TABLE 6: TOTAL UNEMPLOYMENT RATES, AND BENEFIT COST RATES FOR THE U.S. AND MINNESOTA, ANNUAL AVERAGE, 1975-1984

Year	United States		Minnesota	
	Unemployment Rate	Benefits/Wages	Unemployment Rate	Benefits/Wages
1975	8.5	2.03	5.9	1.67
1976	7.7	1.39	5.9	1.38
1977	7.1	1.16	5.1	1.10
1978	6.1	.93	3.8	.77
1979	5.8	.94	4.2	.78
1980	7.1	1.34	5.9	1.51
1981	7.0	1.17	5.5	1.28
1982	9.7	1.72	7.8	1.89
1983	9.6	1.43	8.2	1.36
1984	7.5	.94	6.3	.91

Source: Review of Labor and Economic Conditions, 12, (August 1985), pp. 19; and Department of Employment and Training.

below the U.S. rate for the past decade and that, except for 1980, 1981, 1982, the benefit cost rate in Minnesota was also below the national average. Of particular significance is that Minnesota's benefit cost rate was lower than the national average in 1983 and 1984. Indeed, preliminary data on benefit costs for 1985 indicates that once again Minnesota will be below the national mean.

It does not necessarily follow, however, that even if Minnesota's benefit costs were consistently above the national average with unemployment rates below this average, that Minnesota's program is more liberal than other states' programs. Dr. Rudy Pinola, former Director of Research for the Department of Jobs and Training, testified that research performed by him and others indicates that roughly 90% of interstate variations in benefit cost rates are due to differences in labor market structure. For example, a state could have a lower unemployment rate but higher costs due to differences in the distribution of unemployment across occupations. If unemployment in Minnesota relative to the nation were concentrated among high wage earners rather than low wage earners, then one would expect total benefit costs to be higher.

Table 7 shows the distribution of unemployment across occupations for the U.S. and Minnesota in 1980, the first year Minnesota's benefit costs exceeded the national average. Column 3 shows the relative median hourly earnings for those occupations in the latest year for which such data are available, 1978. It is clear from this analysis that except for the occupation "managers and administrators," Minnesota's unemployment rate

TABLE 7: UNEMPLOYMENT RATES FOR THE U.S. AND MINNESOTA
AND MEDIAN HOURLY EARNINGS BY OCCUPATION, 1980

	1980 Unemployment Rates		U.S. Median Hourly Earnings by Occupation
	U.S.	MN	
<u>Total</u>	6.4	5.2	\$4.09=100
White Collar			
<u>Total</u>	3.7	2.9	
Professional/			
Technical	2.5	2.6	140
Manager/			
Administrators	2.4	1.3	114
Sales	4.4	2.4	72
Clerical	5.3	4.3	91
Blue Collar			
<u>Total</u>	10.0	10.3	
Craft	6.6	7.0	156
Operators	12.2	12.9	109
Transport	8.8	10.4	129
Laborer	14.6	14.5	100
Services	7.9	4.6	72

Source: U.S. Bureau of Labor Statistics, Labor Force Statistics Derived From the Current Population Survey: A Databook, Vol. 1, (Washington, D.C.: U.S. Government Printing Office, 1980), p. 736, Table C-26; and U.S. BLS, Geographic Profile of Employment and Unemployment, 1980 (Washington, D.C.: U.S. Government Printing Office, 1982), Table 3.

exceeds the nation's rate for all occupations paying above the average (i.e., paying more than \$4.09). Moreover, Minnesota's rate is below the national rate for occupations paying under the national average (i.e., under \$4.09).

In summary, the task force concludes that UI benefit cost rates do not necessarily indicate that Minnesota's overall UI program is "out of line" with the national norm, after controlling for differences in the structure of unemployment. Indeed, to repeat, in seven of the last 10 years, including 1983 and 1984, Minnesota's benefit cost rate was below the national mean. Thus, the task force dismisses the set of proposals which suggest that fund solvency should be restored exclusively through reductions in benefits. Similarly, task force concerns for continued economic growth and job creation dictate that policy proposals which involve only increases in taxes in order to correct the deficit are also less than prudent. Redirecting Minnesota's UI policy and restoring fund solvency requires a careful balancing of various proposals. Only with a sharing of the burden between employers and future unemployed workers, through adjustments of both taxes and benefits, will Minnesota be able to have an equitable and solvent UI program.

V. CRITERIA ADOPTED BY THE TASK FORCE

The Governor's stated objectives of fund solvency, tax equity, and citizen assistance served as the criteria which guided the task force's deliberations and recommendations.

A. Fund Solvency

Fund solvency was viewed by the task force as a matter of both immediate and long-term concern. All witnesses agreed that there is an immediate need to insure a positive fund balance on November 10, 1986 and again January 1, 1987, to break the accumulating chain of regressive FUTA penalties. It would be injudicious to subject employers to a \$181 million FUTA penalty in 1988 for lack of a projected 8 million dollars on January 1, 1987.

A long-term view is also important. As Table 2 (above) illustrates, even if the immediate financial challenge is met, the fund deficits will continue to mount. What makes this especially alarming is that these projections are based on assumptions of wage and employment growth. The task force feels that, ideally, it would be prudent to accumulate fund surpluses during good times in order to finance year-to-year operating deficits that are normal

during periods of economic recession. This prevents having to raise taxes when employers can least afford it, during a business downturn.

The task force heard considerable testimony from the business community, however, that a fund surplus was not desirable. In their opinion, fund surpluses have a tendency to lead to benefit increases. In addition, the employers expressed a preference to retain use of their capital for as long as possible.

Given the unpopularity of building an adequate fund surplus, the task force believes that a solvency tax triggered by a relatively low fund balance is the preferred alternative for achieving the solvency goal. A state administered solvency tax has advantages over Federal borrowing and the resulting FUTA penalties because the solvency tax need not accumulate in size over time, be regressive, or be payable in one lump sum. Most of the other task force recommendations also impact on the solvency goal by reducing the likelihood of having to trigger the solvency tax.

Benefit adjustments such as adopting a high quarter wage formula to determine eligibility and benefit levels, capping the maximum weekly benefit amount, extending requalification requirements, defining suitable work, and eliminating waiting week reimbursement all serve to moderate the escalating flow of benefit payments. Similarly, both elimination of the split wage base and an increased maximum tax rate will serve to help insure that employers avoid costly future debt.

B. Tax Equity

Tax equity was an important criterion since Minnesota's UI program is entirely employer funded. The practice of employer funding is followed by all but three states and Federal jurisdictions. Not all employers pursue the same staffing and layoff policies. The employees of some employers draw more heavily on UI than do others. As an incentive to stabilize employment and because it is only fair that employers who use the program more heavily make relatively greater contributions towards financing the program's operation, Federal law requires that each jurisdiction establish an "experience rated" tax system. Since 1982, however, Minnesota employers with no experience rating have paid a lower state UI tax rate (i.e., 1%) and that tax has been assessed against a lower wage base (i.e., \$8,000) than is applied to experience rated employers. Minnesota is the only jurisdiction to distinguish between experience rated and non-user employers by using a split wage base. Figured on a per-employee basis, state UI taxes have been \$80.00 or less per year for the past five years for employers with no experience rating, while experience rated employers have carried an ever growing tax burden. The taxable wage base used by experience rated employers to compute their state UI taxes has increased from the inter-employer parity base of \$8,000 (which was first set in 1979) to \$10,700 (as of January 1, 1986).

Expanding on this point, all non-user employers pay a minimum tax of 1% on the first \$8,000 earned by each employee, while experience rated employers

pay the sum of a minimum 1% tax, and their experience rating (as determined by formula) on a higher taxable wage base equal to 60% of the statewide average annual wage. The 1% minimum tax paid by all employers is intended to cover social costs of the UI program.

Social costs refer to those charges incurred by the program that are not directly repaid by any specific employer and that must be repaid by all employers as a group. These costs accrue from cancelled charges (payments to individuals who had been disqualified and subsequently requalified for benefits), business closings, and excess charges (reflecting benefit charges not covered by employers who are already at the maximum tax rates).

In 1985, benefits as a percent of taxable wages in Minnesota were 2.91%. About 42% of this rate (or benefits equal to 1.2% of taxable wages) was social costs. Thus, the current 1% minimum tax assessed against an \$8,000 wage base for some employers and a \$10,700 wage base for other employers does not fully cover these benefit costs. Therefore, a common wage base, rather than a split-wage base would tend to equalize the program's social cost burden while leaving some room to reward employers with no actual unemployment experience through a minimum rate adjustment.

The tax equity criterion has also caused the task force some concern when applied to the state's maximum tax rate of 7.5%. Raising this maximum would be unpopular, yet 26% of all experience rated employers (11% of all employers) are at this maximum and their employees receive nearly 64% more in benefits than are financed by their contributions. Some employers at the

maximum tax rate are in seasonal industries. To the extent that their employees draw UI benefits, their wage bill is offset in part by the UI benefits paid. If their workers did not receive UI benefits, employers in those industries would have to pay a greater wage in order to attract a labor supply. To sum, the tax contributions of maximum rate employers finance only about one third of the benefits paid out to their employees. In addition, the UI program acts as a payroll subsidy. Thus, the current maximum tax rate of 7.5% seems inadequate. In relative terms, increasing the maximum tax rate to 8.5% would leave Minnesota tied for 10th highest in the nation based on 1985 data (the latest available). Three of the four states that border Minnesota have maximum rates greater than or equal to 8.5%. The following states have maximum tax rates of greater than or equal to 8.5%: Tennessee 10.7; Delaware 9.5; Georgia 8.64; Iowa 9.0; Kentucky 10.0; Michigan 10.6; Pennsylvania 9.9; Michigan, 10.6; Oklahoma 9.2; South Dakota 9.0; Wisconsin 8.5; West Virginia 8.5.

The task force was guided by this criterion in recommending that Minnesota gradually return to a common taxable wage base for all employers. To minimize the impact of this proposal on those employers who already exercised the "buy down" option, the split-wage base conversion is phased in over a five year period. A .2% tax credit for employers with no actual experience rating would partially off-set the effects of this change for most employers currently at the lower wage base. Still further, the maximum tax rate should be increased to insure fair share payment by heavy user employers. Lastly, this criterion also guided the task force to recommend

that the solvency tax proposal should be progressive (i.e., assessed only on experience rated employers).

C. Assisting the State's Unemployed Citizens

Assisting the state's unemployed citizens is, of course, the purpose of the UI program. Market driven forces do a good job of allocating and valuing the inputs and outputs in the economy, and the long-run efficiency and distributional results of a market driven economy are generally good.

However, in the short-run problems do arise. Unexpected market contractions result in unexpected layoffs, both temporary and permanent. The UI program provides partial income replacement to individuals out of work through no fault of their own. Federal law provides that this program may not be based on need. UI is a wage replacement program that allows unemployed persons to continue to pay for such basics as housing, food, fuel and clothing until work can once again be secured. Further, it is intended that the purchasing power provided by UI benefits will help to create a counter-cyclical stimulus for an economy in retreat.

In order to provide for necessities, a reasonable level of income replacement is necessary. The general guide is a 50% replacement (up to a certain income level) for a finite number of weeks (up to a maximum of 26 weeks of "regular" UI). The weekly benefit amount and the number of weeks of potential duration depend on the size of the unemployed person's average weekly wage and on the length of work force attachment, respectively.

The task force is well aware of the fact that specifying tests for work force "attachment" is a difficult issue. Are permanent part-time employees to have access to the UI system? This problem has two dimensions, namely: (1) number of weeks worked; and (2) hours worked per week. The task force considers the former to be the measuring stick against which to define "attachment" and against which to consider the implications of seasonal employment. The latter dimension is, in contrast, a measure of work intensity. An increasing fraction of the Minnesota labor force is working on a regular part-time basis, particularly women, and this trend shows no signs of reversal.⁸

Minnesota's unemployment rate is not uniformly distributed across regions. Some parts of the state have been harder hit by past recessions than others. This often results in longer periods of unemployment and, correspondingly, greater need.

With citizen assistance concerns in mind, the task force recommends several actions which tend to modify current law with respect to program access, benefit amount and duration. The modifications recommended were motivated

⁸Nationally, women accounted for more than three-fifths of the increase in the civilian labor force from 1973-1983. Nearly 30% of all women in non-agricultural industries held part-time jobs (less than 35 hours per week) in 1983, and about 65% of all part-time workers were women. "20 Facts on Women Workers," Women and Work, U.S. Department of Labor, Office of the Secretary - Women's Bureau, November 1984. In Minnesota, 40% of women, compared with 15% of men, have part-time employment. Additionally, more than one-third of women who work part-time work at least 50 weeks per year. "Women in Minnesota - Labor Force Participation and Employment," Commission on the Economic Status of Women, handout.

by the need to redirect UI policy to restore long-term fund solvency rather than by the argument that Minnesota's benefit costs are "out of line." In considering each of these areas, the task force applied this criterion by giving consideration to corresponding national norms.

To defray administrative costs and improve efficiency while insuring sufficient work force attachment and easing the "earnings" barrier faced by permanent, part-time employees, Minnesota should adopt a high quarter wage formula for determining claimant eligibility and benefit levels. A side effect of this formula is that it will reduce average benefit duration. Consequently, along with a three year cap on the maximum weekly benefit amount, Minnesota's UI program will move toward national norms with the introduction of a high quarter wage formula.

Other recommendations such as a more explicit definition of suitable work and an extended interim for requalification serve to minimize potential abuses while promoting program fairness. Similarly, dropping the waiting week reimbursement and providing added benefit assistance to distressed areas will create a more equitable distribution of funds and strengthen the counter-cyclical impact of UI by targeting benefits to areas of greatest need.

D. Durability

Durability was identified by the task force as a fourth criterion to guide its recommendations. The task force decided early in its deliberations that

it should make recommendations which, when taken as a whole, would be viewed as balanced, responsible, and acceptable to the broad cross-section of interests concerned with Minnesota's UI policy. If this objective is realized, then the prospect that UI will become the target of debate whenever political controls change in either the administrative or legislative branches of state government is minimized.

The task force also linked the durability objective to the criterion of maintaining fund solvency. The task force was initially committed to using the current recovery period to build an adequate reserve in the state's UI fund on the argument that this is preferable to accumulating debt during the down cycle. Further, it was believed that adequate incentives existed for doing so since borrowing is no longer interest free and because FUTA penalties are so regressive. During the public hearings, however, business representatives argued against the need to build appreciable fund reserves.

The principal guideline to fund adequacy is a measure called the "reserve multiple." It calls for dividing the reserve ratio (the percent of total fund reserves to total payroll) by the highest 12-month benefit cost ratio (a measure of benefits paid divided by total payroll) experienced in the last 10 years. A reserve multiple between 1.5 and 3 is considered financially prudent.⁹ A reserve multiple of 1.5 implies that given a

⁹For a more detailed discussion on the question of establishing reserve multiples, the reader should review an article by Saul J. Blaustein, "State Unemployment Insurance Fund Adequacy: Past and Present Perspectives," Industrial Relations Research Association, Proceedings of the Thirty-Third Annual Meeting, Winter 1984, (Madison, Wisconsin: Industrial Relations Research Association, 1985), pp. 162-68.

period of benefit payments equal to that which existed in the previous high benefit cost year, fund reserves would reach exhaustion in 18 months. Applying this 1.5 multiple to Minnesota, a high benefit cost ratio of 2% (which it nearly was in 1982) and a 1985 total payroll of \$27,000,000,000 implies a fund reserve of \$815,000,000. Clearly, a fund reserve in this amount would be unacceptable to Minnesota businesses. Thus, the task force adopted the emergency solvency tax strategy referenced above. As a solvency tax "trigger," the sum of \$50,000,000 was selected. This amounts to a reserve multiple of .1, or 1.2 months.

E. Creative Measures and Areas for Study

A number of unique approaches to UI reform were presented to the task force. Most, however, were too dramatic to expect immediate acceptance. These ideas are discussed briefly here, with task force recommendations as to future consideration and analysis.

1. Lifetime Wage Credit System

When the Social Security Act was signed into law in 1935, it provided, among other things, for unemployment insurance to workers who lost their jobs through no fault of their own. Although periodic revisions in the law have been made over the past 50 years, the operating philosophy of UI is still geared toward providing temporary wage

replacement to workers who have been involuntarily separated from their jobs because of economic contraction.

It is known that rapid changes in technology and in the structure of the economy are speeding up the obsolescence of skills and jobs of many workers. Rather than facilitating the upgrading of skills and learning of new ones, the UI program as presently structured and administered is primarily oriented toward paying workers for being in a job search mode, rather than for using their benefit eligibility to learn new skills. Only a small fraction of the unemployed are authorized to draw benefits while engaged in training.

The current program does not promote investment in human capital. One witness who appeared before the task force proposed the establishment of a "lifetime wage credit" system as a way of bringing the UI program into step with the dynamics of the labor market. Essentially, the proposal would work as follows. For each year of employment covered by the program, a worker would earn wage credits in accord with his/her wages. These credits would be available for use by workers to periodically upgrade their skills. Instead of limiting the worker to a maximum of 26 weeks of training, the worker would be free to use wage credits to fully meet credentialing standards. This would permit workers to pursue new occupations, to periodically update skills, and to search more intensively and effectively for a job when unemployed and not otherwise engaged in training or skill upgrading. The details of this idea are far ranging, and the members of the task force

concluded that this proposal has merit. However, the task force believes that further study is required given the newness of this idea.

RECOMMENDATION #1

A program of lifetime wage credits should be modelled for simulation purposes. Then, this product should be examined and discussed by the interests involved before receiving legislative review.

2. The Job Service Program

The logic of having an integrated and tightly coordinated UI program and job placement service is sound. The two systems ought to function in a mutually reinforcing manner. For example, approximately \$145 million in benefit payment can be saved over a five-year period if the average duration of benefits is reduced from 14 weeks to 13 weeks. Theoretically, if more employers listed their job vacancies with the job placement service, then job matches would occur in greater numbers and with greater rapidity. However, the task force learned from Commissioner Joe Samargia that the Minnesota system is "broken" because only 10% of the state's business units list their vacancies with the job placement service. Commissioner Samargia observed that the job placement service is becoming a more valuable search/placement resource than ever before because of three new information systems which are coming on line and which are designed to greatly enhance the agency's effectiveness in the job matching area. These innovations include the following: (1) a state-wide job match system with the capacity to match job specifications against applicant qualifications; (2) a test

match system that organizes applicants into job categories based on test scores; and (3) an automated resume system designed in concert with six other states to computer load resume information about professional job applicants. It was suggested that since speedier job matches and reduced periods of unemployment are what will make the UI program more efficient, the task force ought to consider a "tax credit" for employers who use the job placement service.

This proposal is not without some appeal. However, the task force withholds endorsement simply because so little is known about why prospective employers do not use the job placement service.

RECOMMENDATION #2

A study should be commissioned to examine why employers do not use the job placement service. Results of this study should then be used as a guide for any policy changes which would promote increased and more effective use of the job placement service.

3. Calculation of Weekly Benefit as 1% of Annual Earnings

Several groups and individuals recommended that the fairest way to establish weekly benefit amounts for UI claimants is to have that amount equal 1% of the claimant's total base period earnings up to some maximum level. This formula was viewed as a means for dealing with the question of equal benefit treatment for persons with greatly differing lengths of employment duration. Specifically, if benefit amounts are tied solely to earnings, without weighting for length of employment,

all claimants would be treated equally and the difficulty of UI payments for seasonal employees would be addressed.

After careful consideration, the task force elected not to recommend this proposed solution. It was felt that there are better, more acceptable ways to deal with questions of work force attachment and seasonal employment such as (1) a sufficiently strong high quarter wage formula, (2) legislatively defining suitable work as a percentage of previous earnings, and (3) increasing the tax burden on seasonal employers. Further, the benefit formula of 1% of annual earnings would serve to set Minnesota apart from national norms. Only six states use an annual wage formula to determine benefit amount, and of these, all but one use a fraction greater than 1%.¹⁰

Lastly, and perhaps most significant, it should be noted that while the proponents of this idea suggested a minimum weekly benefit of \$58.00, the negative impact of using the 1% formula could be too great for many individuals and areas of the state to bear. While benefit levels for persons working for 52 weeks of the year would change very little, research conducted in May 1985 by the Minnesota Department of Jobs and Training shows that for persons who were employed 39 weeks of the base period, benefit reduction under this formula would average 18.2%. The average reduction for persons employed 26 weeks would be 28.4%, and for

¹⁰An annual wage formula for benefit calculation and the corresponding percent of annual earnings by state are as follows: Alaska (3.8 - .95, plus dependent allowance); Delaware (1.28); Kentucky (1.185); New Hampshire (1.8 - 1.2); Oregon (1.25); West Virginia (1.0).

persons employed 20 weeks, 37.8%. State estimates showed that this formula would reduce benefit outlays by \$337 million dollars for the years 1986 through 1990. Given the importance of UI benefits in both helping temporarily unemployed individuals meet basic needs, and in providing a strong counter-cyclical influence to an otherwise weak economy, the task force felt that it was best to recommend other solutions.

4. Move Appeals Procedure to A.H.O.

Some witnesses voiced concern over the appeals procedure used when questions arise with regard to benefit determination or employer liability. These appeals are currently dealt with by the Appellate Branch of the Department of Jobs and Training. The persons who raised this issue recommended that the appeals process be moved out of the department and into the Minnesota Administrative Hearings Office. The grounds for this recommendation was that there seems to be some biases in the current system in favor of UI claimants. It was stated that claimants prevail in their appeals a majority of the time.

Approximately 10% of all initial determinations are appealed, with most appeals involving questions of reason for employment separation. Table 8 shows that in 1985 while claimants were the appellant a majority (76.9%) of the time, they did not have as much success as did employers. Claimant-appellants prevailed in 27.2% of their cases, whereas employer-appellants prevailed 32.2% of the time. In addition, these

TABLE 8: APPELLATE BRANCH ACTIVITIES FOR CALENDAR YEAR 1985

During the calendar year 1985, the Appellate Branch held hearings and issued decisions in 11,329 regular unemployment benefit cases. Statistics relative to those decisions are as follows:

	Number	Percentage	Federal Standard
Decisions Issued	11,329		
Claimant Appeals	8,709	76.9	
Employer Appeals	2,620	23.1	
Number of Decisions Issued Within 30 Days of Appeal	7,114	62.7	60
Number of Decisions Issued Within 45 Days of Appeal	9,829	86.7	80
Cases in Which Appellant Prevailed	3,219	28.4	
Cases in Which Claimant-Appellant Prevailed	2,375	27.2	
Cases in Which Employer-Appellant Prevailed	844	32.2	
Cases Appealed to Commissioner's Representative	2,357	20.8	
Cases Reversed by Commissioner's Representative	730	30.9	
Percentage of Total Appellate Regular Benefit Cases Reversed		6.4	

Source: Minnesota Department of Jobs and Training, Unemployment Insurance Division, Appellate Branch

data show that appeal decisions were issued on a schedule well within federal time standards, and there are no data to show whether or not this would be the case in another agency.

With regard to these proposals and data, the task force saw no demonstrated reason for changing the current appeals process. However, the task force recognized that a perception of bias does exist.

RECOMMENDATION #3

An ongoing training program with periodic case review workshops for appeals referees should be established to insure continued hearing fairness and decision consistency.

VI. TASK FORCE RECOMMENDATIONS

A. Access to Benefits, Benefit Amounts, and Duration of Benefits

1. Access to Benefits

Minnesota currently requires an individual to have at least 15 credit weeks during his/her base period in order to qualify for UI benefits. A credit week is defined as any week in which the person earned at least 30% of the statewide average weekly wage (= \$103.00 as of January 1, 1986), and the base period is the 52 weeks immediately preceding the week in which the claim is filed.

The issue in setting an eligibility standard is determining the amount of earnings and/or time spent working during the base period which constitutes a sufficient "attachment" to the work force to warrant benefits. Table 9 below shows the number of states using some variation of three common methods for determining eligibility.

Using the information from Table 9, when work force attachment is measured as some minimum number of weeks worked during the base period, a majority of states require persons to demonstrate a higher degree of attachment than does Minnesota. Of the eleven states using the credit weeks formula, eight require 20 credit weeks and one (Wisconsin)

TABLE 9: METHODS OF DETERMINING BENEFIT ELIGIBILITY (40 STATES)I. Credit Weeks Formula (11 States)

20 weeks - 8 states
 19 weeks - 1 state
 15 weeks - 1 state (Minnesota)
 14 weeks - 1 state

II. Weekly Benefit Amount (WBA) Formula (11 States)Earnings Equal to at Least:

50 times WBA - 1 state
 40 times WBA - 5 states
 36 times WBA - 1 state
 30 times WBA - 3 states
 18 times WBA - 1 state

III. High Quarter Wage (HQW) Formula (18 States)Earnings Equal to at Least:

1.5 times High Quarter Wages - 16 states
 1.25 times High Quarter Wages - 2 states

Source: U.S. Department of Labor, Employment and Training Administration, Comparison of State Unemployment Insurance Laws, "Significant Provisions of State UI Laws," (Washington, D.C.: U.S. Government Printing Office, 1986).

requires 19. Sixteen states use a high quarter wage (HQW) multiplier of 1.5 quarters (19.5 weeks), and two states use a multiplier of 1.25 times HQW (16.25 weeks). Wages in at least two quarters of the base period are a part of the eligibility test in 48 states, increasing the likelihood that the claimant had worked for a longer period of time.

On the earnings side, U.S. Department of Labor data available as of September 1985, show Minnesota's base period earnings requirement of \$1,485.00 to be lower than the wage requirement in 16 other states.¹¹ The range of earnings necessary for minimum benefits was \$150.00 to \$3,000.00, and the U.S. average was \$1,224.76. All but one jurisdiction require an earnings test for eligibility. The exception is Washington which requires 680 hours of work.

2. Weekly Benefit Amounts

The weekly benefit amount that a claimant receives under current Minnesota law is determined by the following method: claimant's total base period wages are divided by the total number of credit weeks earned during the base period to yield an average weekly wage; and the claimant is then entitled to 60% of the first \$85.00, 40% of the

¹¹In 1985, 30% of the statewide average weekly wage was \$99.00. When this figure is multiplied by 15 (minimum weeks required), the result is \$1,485.00. As of January 1, 1986, in order to qualify for a credit week, a claimant must earn \$103.00, so the minimum base period earnings of a claimant is now \$1,545.00.

next \$85.00, and 50% of the remainder of his/her average weekly wage, up to a maximum of 66 2/3 % of the statewide average weekly wage.¹²

The use of this formula for benefit calculations sets Minnesota apart from most other states. Minnesota is one of only ten states to use an average weekly wage formula for determining weekly benefits, while 35 states use a high quarter wage calculation to set these values. Moreover, Minnesota is the only state to use a formula involving multiple percentages of average weekly earnings. As a consequence, UI benefit levels in Minnesota tend to vary widely from national norms.

As of January 1986, Minnesota's maximum weekly benefit amount of \$228.00 was the third highest in the nation for an individual claimant. When states that provide additional dependents allowances are included in this list, the \$228.00 maximum ranks seventh. In addition, the combination of the credit weeks requirements, benefit amount and duration calculations results in a minimum weekly benefit for Minnesota claimants of \$58.00. Only two states have minimum weekly benefits equal to or greater than this amount. Lastly, in fiscal 1984, Minnesota's average weekly benefit (\$141.99) was the fourth highest in the nation. The U.S. average weekly benefit for this same period (\$119.00) would have ranked 28th.

¹²The maximum weekly benefit of 66 2/3 % of statewide average weekly wage is adjusted July 1 each year and currently equals \$228.00 (July 1, 1985-June 30, 1986).

3. Duration of Benefits

The number of weeks for which a Minnesota UI claimant can receive benefits is calculated as 70% of credit weeks, up to a maximum duration of 26 weeks.¹³

Only five other states use a credit weeks formula to calculate benefit duration. In order to bring Minnesota in line with national norms for all levels of benefit outlays, the formula for calculation of duration should be adjusted as well.

4. Obtaining Base Year Data to Determine Credit Weeks

Currently the state's UI system determines claimant eligibility, weekly benefit amount and potential benefit duration on the basis of a "request reporting" system. Essentially, once a claim is filed, the agency contacts relevant employers to ascertain wages, "credit weeks" and related eligibility information. This system of information collection and use is financed by FUTA taxes paid to the Federal government and then allocated back to the state.

At the Federal government's initiative, by September 1988 every state must have a "quarterly wage detail" system in place that will permit a

¹³Minimum benefits therefore equal \$58.00 for 11 weeks. Earnings of \$103.00 for 15 weeks result in a) qualification; b) 60% of first \$85.00 (=\$51.00) and 40% of next \$18.00 (=\$7.20) yields benefit amount of \$58.00; and c) 70% of 15 weeks is 11 weeks.

cross-match of wage information for income and eligibility verification purposes in a range of Federal-State programs like UI, Food Stamps, AFDC and so forth. The Federal government, however, did not make provision to finance the quarterly wage detail system. Rather, they require user agencies to pay their pro rata costs. However, if a state uses the quarterly wage detail system to determine UI benefit eligibility, the Federal government will pay the total cost of the system.

The information presented above points to the fact that Minnesota should consider some change in the formulae used to calculate both access to the UI program and benefit levels. Given the present status of UI funds, benefit calculations that treat the state's unemployed citizens fairly while bringing Minnesota's program into line with UI programs of other states are called for. The fact that a quarterly wage detail system is currently in place, coupled with the reality that it is more efficient than request reporting and that the Federal government will only reimburse one form of data collection strongly supports adoption of access and benefit formulae based on high quarter wages. Moreover, the request reporting system is onerous from the point of view of Minnesota employers.

The current credit week definition of 30% of the statewide average weekly wage is also problematic. Since the statewide average weekly wage escalates annually as a result of general wage inflation more and more part-time, minimum-to-low wage earners are frozen out of qualifying for benefits, even though they may work more than 15 weeks a

year. For example, at the current standard of \$103.00, an individual earning the minimum wage (3.35/hr.) would have to work 30.75 hours in a week for it to qualify as a credit week. By 1989, with a forecasted average weekly wage of \$448.00, this same individual earning minimum wage would barely qualify for benefits even if s/he works a 40 hour week.¹⁴

Finally, it should be noted that a high quarter wage formula can be used to calculate each of the variables outlined above, namely: eligibility; benefit amount; and duration. The standards for each of these aspects of UI benefits can be independently adjusted within the basic formula, and the laborious details of the current system are no longer encountered.

RECOMMENDATION #4

Adopt a high quarter wage formula for all determinations concerning claimant eligibility for UI benefits, weekly benefit amount, and duration of benefits. The standard for eligibility should require that the following conditions are met:

1. high quarter earnings must be at least \$1,300.00;
2. base period earnings must be equal to or greater than 1.4 times high quarter earnings; and
3. the base period is defined as the first four of the last five completed calendar quarters.

Weekly benefit amount should be defined as 1/26 of a claimant's high quarter earnings up to the legislated maximum.

¹⁴That is, 30% of \$448.00 = \$134.00 for a credit week, and minimum wage of \$3.35 times 40 hours = \$134.00.

Benefit duration should be defined as 1/3 of a claimant's total base period earnings divided by the weekly benefit amount up to a maximum of 26 weeks.¹⁵

The task force recognizes that time is needed to establish the data processing functions required to implement this change. However, the importance and value of this recommendation are also known. Thus, the task force urges a speedy implementation. If this cannot be done immediately, then it should be done within one year.

RECOMMENDATION #5

Adopt a three (3) year cap on the current maximum weekly benefit amount of \$228.00 through June 30, 1989. Thereafter, calculate the maximum weekly benefit amount as 60% of the statewide average weekly wage from the previous year.

B. Requalifications for Benefits Following Disqualification

A Minnesota claimant is disqualified from receiving benefits if s/he voluntarily quits employment without good cause attributable to the employer; is discharged for gross misconduct; or fails to apply for or accept suitable work without good cause. The disqualification penalty in these instances is a waiting period of 4 calendar weeks, and the claimant must earn at least 4 times his/her weekly benefit amount in insured work.

This particular aspect of Minnesota's UI program differs greatly from what is now the practice in most other states. Thirty-six states impose

¹⁵Characteristics of this high quarter wage standard are as follows:

- a) 1.4 times one quarter is equal to 18.2 weeks;
- b) \$1,300 is a function of Federal minimum wage (\$3.35 per hour) multiplied times 30 hours. In this case minimum base period earnings equal \$1,820.00;
- c) 1/26 benefit factor equals 50% wage replacement; and
- d) 1/3 duration factor equals 66 2/3 % of credit weeks.

disqualification penalties more stringent than the four week interim required in Minnesota. While the reasons for disqualification of a claimant are generally the same throughout the nation, 13 states require a period of 10 weeks and/or earnings equal to 10 times weekly benefit amount, while 4 states utilize an 8 week penalty and 9 states require 6 weeks. With regard to Minnesota's neighbors, Wisconsin requires 7 weeks in covered employment with earnings equal to 14 times the claimant's weekly benefit amount. Iowa uses a factor of 10, North Dakota 8, and South Dakota 6 weeks.

In light of the fact that UI benefits are intended for persons who are unemployed through no fault of their own, some measure should be taken to stem benefit flow to persons who are the direct cause of their own unemployment. Present trends indicate that Minnesota UI policy-makers should move towards national norms and there is much support for the argument that individuals who sever employment by their own will or action should endure greater consequence.

RECOMMENDATION #6

Adopt the policy that individuals who are properly disqualified using these standards be required to wait for a period of eight weeks and earn eight times their weekly benefit amount in insured work prior to again becoming eligible for benefits.

RECOMMENDATION #7

Adopt a more explicit definition of suitable work and amend the current statutory language to read:

"An offer of employment to a claimant will be considered suitable work when the wage rate offered to the claimant is:

1. equal to 100% of the claimant's average weekly base period wage, and it is offered during the first four weeks of the claim;
2. equal to at least 85% of prior wages during weeks 5 through 8 of the claim;
3. equal to at least 75% of prior wages during weeks 9 through 12 of the claim;
4. equal to at least 70% of prior wages and the offer is made after 12 weeks of benefits have been drawn."

C. Waiting Week Reimbursement

Current Minnesota law provides that an individual must complete a waiting period of one week during which s/he would otherwise be eligible for benefits under the statute. The benefit amount for this period is then paid to the claimant if benefits are drawn for at least four weeks and benefit payment is terminated by returning to work prior to exhaustion of potential benefits.

Of 43 states requiring a waiting week, only five make provision for reimbursement or repeal of that week. Iowa will pay for the first week of a claim on January 1st of the first calendar year for which its fund balance reaches a predesignated level. Eight of the ten states that do not impose a waiting week on claimants have benefits eligibility standards higher than

those used in Minnesota, either in terms of length of employment during the base period, earnings during the base period, or both.

It is clear that Minnesota differs from the vast majority of states by reimbursing claimants for the waiting week. From a pure insurance standpoint non-reimbursement of the waiting week is a logical step, with the waiting week acting as the deductible for which the claimant is responsible before receiving benefits.

RECOMMENDATION #8

Adopt a policy of not reimbursing the waiting week.

D. Assistance to Distressed Regions

Minnesota's UI laws currently make no provision for extending duration of regular benefits beyond the 26 week maximum for any claimants.

The adverse effects of recession are not uniformly distributed across the state. Some regions of the state are harder hit than others making reemployment more difficult in those areas. Thus, extending benefits seems warranted where the need is greatest and once the unemployed in these areas have exhausted their claim to regular benefits. The communities where the long-term unemployed live suffer. Aggregate purchasing power in those communities contract whenever the recession is so prolonged as to produce UI benefit exhaustions. Thus, not only is the human need great, but the

counter-cyclical impact of benefit dollars to these areas is also lost.

Five states presently have benefit "triggers" in place to aid distressed workers and areas experiencing long periods of high unemployment.

RECOMMENDATION #9

Adopt a policy under which claimants who live in Economic Development Regions where the insured unemployment rate is more than 1.75 times the statewide insured unemployment rate, will be eligible for an additional four weeks of regular UI benefits beyond the 26 week maximum duration.

E. Taxable Wage Base and Tax Rates

Current Minnesota law provides that experience rated employers pay taxes on a wage base equal to 60% of the state average annual wage. Employers with no experience rating are taxed at 1% on a fixed wage base of up to \$8,000 per employee. Experience rated employers have tax rates varying from 1.1% to 7.5% paid on a 1986 wage base of up to \$10,700 per employee.

Minnesota's minimum rate can go as low as .01% if there are sufficient reserves in the UI fund, but several years of fund deficit have prevented the decreasing minimum rates from going into effect. In addition, current law permits experience rated employers to make a voluntary contribution equal to 1.25% of the benefits charged against their account, and in doing so "buy down" the tax rate and wage base. An employer can in fact "buy down" to the 1% minimum tax rate and have this rate assessed against the

lower taxable wage base.

Minnesota is the only state with a split wage base. Further, the \$8,000 minimum has been in effect since 1979, while the high taxable wage base (\$10,700) now ranks twelfth highest in the nation. This inequity, an equalizing of the program's social cost burden across employers and the fact that real minimum taxes have declined for years suggests a need to adjust the minimum tax base to help off-set benefit costs.

With a common wage base, it becomes feasible to impose a differential minimum tax rate - through the use of a tax credit - aimed at rewarding the non-experience rated employer. Lastly, Minnesota employers who are paying the maximum tax rate are only covering 36% of the benefits paid to their employees. This percentage should be brought into closer alignment with actual contributions.

RECOMMENDATION #10

Adopt legislation to converge the two wage bases so that all employers in the state pay taxes on a common wage base. This should be done by the following method:

Escalate the high wage base at a rate of 4 1/2% per year (=\$11,200--1987, \$11,700--1988, \$12,200--1989, \$12,700--1990, and \$13,300--1991), while increasing the minimum wage base at a greater rate (\$8,900--1987, \$10,000--1988, \$11,100--1989, \$12,200--1990, and \$13,300--1991) such that the two bases merge into one by 1991. In 1992 and future years, all Minnesota employers should resume the payment of UI taxes on a common wage base equal to 60% of the state average annual wage of the previous year.

RECOMMENDATION #11

Adopt legislation which allows for a .2% tax credit for all

employers at the minimum tax rate who have no actual experience rating. This legislation should include the proviso that if fund reserves bring the minimum tax rates down, no employer will have a tax rate that is less than .1%.

RECOMMENDATION #12

Adopt maximum tax rate equal to 8 1/2% effective January 1, 1987.

F. Solvency Provision

Unemployment Insurance laws in Minnesota currently make no provision for maintaining solvency of fund reserves.

Thirty-four states mandate some form of solvency tax "trigger" related to fund balances. These emergency measures result in the avoidance of debt status, Federal borrowing and regressive FUTA penalties and interest. The solvency trigger recommended here is as small a fund balance level as is feasible.

RECOMMENDATION #13

Adopt a non-regressive 10% solvency tax to be levied against all experience rated employers on January 1 of any year when the previous year-end fund balance is less than \$50,000,000.

G. Breaking the FUTA Penalty Cycle

The Federal Unemployment Tax Act (FUTA) contains two dates critical to the

determination of penalty. The determination of whether a tax payment is due is made on the basis of whether the state fund is in deficit on November 10. The rate of taxation is determined by the number of consecutive years during which the fund has been in deficit on January 1. The Minnesota fund has been in debt each January 1 since 1981. In order to interrupt the cycle of FUTA payments and penalty increases, it is essential that the Minnesota fund be out of debt on November 10th and January 1st. Current projections indicate that the debt will be repaid by November 10, 1986; however, payments through the remainder of the year will lead to a deficit by January 1, 1987.

Adoption of the task force's recommendations should produce a positive fund balance on both November 10, 1987 and January 1, 1988 under current assumptions. This combination of events would break the FUTA penalty cycle of escalating rates. However, rather than to wait until January 1, 1988, the task force recommends the more conservative strategy, namely: to insure a positive fund balance on January 1, 1987.

RECOMMENDATION #14

Legislature should advance to the Minnesota Unemployment Insurance fund, the amount of money needed to insure solvency on January 1, 1987. This advance should then be repaid promptly from employer contributions received in January, 1987. Taking this action will interrupt the cycle of increasing penalties.

VII. SUMMARY OF EFFECTS

The effects of the task force's recommendations on revenues, benefits and Minnesota's UI fund balance are summarized in Table 10.

If these recommendations are implemented fully, the UI fund will become solvent in 1987. Further, projections show that fund solvency will be maintained and even grow through the remainder of the decade. Ultimately, a moderate sized balance with decreased fluctuations should result; indeed, by the end of the decade as the fund balance grows larger than \$80 million, the minimum tax rate will fall. This contingency may result as early as 1989.

If the fund dips below \$50 million, additional revenues are generated by a solvency tax. Enjoying the benefits of solvency and increased stability are well within reach.

Implementation of all of the task force's recommendations will add an estimated \$247 million to the UI fund over the next five years. Of this amount, \$122 million would come from increased revenues. This represents a five year total increase of 6.4% over projections. The major tax provisions call for converging the split wage base and increasing the tax rate for employers at the maximum to 8.5%. In combination, these provisions raise about \$76 million over the five year period. The other source of revenue is the 10% solvency tax which, if projections hold, will be triggered in 1987 and 1988. It should be noted that if this surtax is levied twice,

TABLE 10: PROJECTED REVENUE, BENEFITS AND FUND STATUS UNDER CURRENT LAW AND WITH TASK FORCE RECOMMENDATIONS, 1986-1990.

January 1986 Economic Assumptions*

(in Millions)

	1986	1987	1988	1989	1990	Total
I. A. Revenue	335	355	379	405	433	1907
B. Benefits	358	383	401	430	463	2035
C. State Revenue Less Benefits	-23	-28	-22	-25	-30	-128
D. FUTA Revenue (1.1, 0, 1.7)	110	0	181	0	0	291
E. Fund Status (-95)	-8	-36	+123	+98	+68	
<u>Effect of Revenue Provisions</u>						
II. A. Change Tax Bases \$8.0, \$10.7; 8.9, 11.2; 10.0, 11.7; 11.1, 12.2; 12.2, 12.7	0	+5	+9	+13	+15	+42
B. Maximum Tax Rate 8.5 1987-on	0	+8	+8	+9	+9	+34
C. Minimum Rate 0.8 for Zero Charge Employers	0	-3	-3	-4	-4	-14
D. 10% Surtax on Contributions of Non-zero's when fund less than \$50 million	0	+34	+36	0	0	+70
E. Revenue Effects of Benefit Reductions	0	0	-1	-3	-6	-10
Sum of Revenue Changes	0	+44	+49	+15	+14	+122
<u>Effect of Benefit Provisions</u>						
III. A. MWBA Cap \$228 86, 87, 88 60% of AWW 7-89 on (233,244,256)	0	-8	-18	-21	-20	-67
B. No Paid Waiting Week	-1	-11	-12	-13	-14	-51
C. Quarterly Formula 1.4XHQE, 1300 Min. Earnings in HQ, WBA = 1/26, Duration 1/3 BPE	-1	-11	-11	-11	-12	-46
D. Extended Benefits - 4 weeks	0	+9	+9	+10	+11	+39
Sum of Benefit Changes	-2	-21	-32	-35	-35	-125
FUTA Revenue	110	0	0	0	0	110
Fund With Above Suggestions	-6	+31	+90	+115	+134	

*Economic Assumptions	1986	1987	1988-
Employment Growth	1.4%	2.6%	2.5%
Average Wage Growth	4.4	4.9	4.9
Unemployment Rate	6.3	6.3	6.0

Research and Statistics
Department of Jobs and Training
February 14, 1986

Minnesota's experience rated employers will pay a total of \$70 million. This figure is considerably lower than the \$118 million FUTA penalty that would be assessed against all employers under the current law.

A portion of these increased revenues will be offset by tax reductions under the task force's recommendations. Employers having no actual layoff experience in the previous five years would be entitled to a .2% tax credit. Over the five year period, this amounts to a \$14 million tax cut. Moreover, if a sufficiently large fund surplus accumulates by June 30, 1989, then the minimum (1%) tax rate paid by all employers will decrease according to a schedule set by present statute.

The remainder of the increase in UI funds, \$125 million, is generated by net benefit reductions. This represents a five year total decrease of 6.1% under projections. The task force recommends that the maximum weekly benefit amount be frozen for three years and then escalated at 60% of the statewide average weekly wage. This action should reduce benefit outlays by \$67 million over five years. Eliminating reimbursement of the waiting week would save the program an additional \$51 million. Finally, determining benefit eligibility, amount and duration by the high quarter wage formula recommended by the task force is projected to reduce benefits by \$46 million. Extending benefits, however, for the unemployed in the state's more depressed regions will add \$39 million to benefit outlays.

To immediately side step the risks associated with an accumulating cycle of FUTA penalty rate increases, the task force recommends that the state advance a short-term loan to the UI fund.

The goal of the task force has been to recommend a redirection of Minnesota's UI policy. In doing so, the criteria of fund solvency, tax equity, assisting the state's unemployed citizens and durability were used as guides. In the view of the task force, the recommendations taken as a whole meet the objectives set out in Governor Perpich's charge in a reasonable and balanced manner. This report is more than an objective and comprehensive set of recommendations. It represents a fair blending of policy concerns.