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**REVITALIZING
UNEMPLOYMENT COMPENSATION**

-- A Program to Re-establish
Equity and Improve Benefits --

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A Special Message to Members of the
Sixty-fourth Legislative Session

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To the Members of the Legislature:

This message seeks to describe and analyze the problems relating to the Unemployment Compensation Program and recommends avenues for solution.

LONG-STANDING HUMANITARIAN POLICY

In the midst of the depression years, during the Extra Session of the 1936 Minnesota Legislature, the Unemployment Compensation Program was enacted into law. In the first section of that Act, it stated in part:

"The public policy of this State is declared to be as follows: Economic insecurity due to unemployment is a serious menace to the health, morals, and welfare of the people of this state. Involuntary unemployment is therefore a subject of general interest and concern which requires appropriate action by the legislature to prevent its spread and to lighten its burden...."

Its basic purpose is to meet the income loss problem of the involuntarily unemployed worker. In addition, it serves the great social purpose of assisting in the maintenance of consumer purchasing power in times of recession. It is also not to be forgotten that our present system of unemployment benefits is designed to preserve the self respect of the unemployed worker.

INSURANCE PROGRAM

First and foremost it is an insurance program - insurance against the loss of income by the wage earner. Insurance has been a well established and accepted principle in our American way of life. We insure our homes against fire - not because we expect our homes to burn down. We don't begrudge the premium we pay for insurance if we are fortunate enough not to have a fire in our home. It is a sharing of the loss, not only in fire insurance, but life insurance, hospitalization, automobile insurance, and the many other forms of insurance that are accepted as the American way of life simply because a catastrophe in any one of these various forms of adversities is too great a burden to be borne individually.

STATE EMPLOYMENT UP

I am happy to report to you that our economy is advancing dramatically. This month, there are 35,000 more jobs in Minnesota than one year ago. Seasonally adjusted unemployment is almost one full percentage point below the average nationwide. The unemployment rate is lower than at anytime since 1952. When so many are fully employed, it is easy to forget about the unfortunate few who are bypassed by progress, who are unable to find a job.

WAR ON POVERTY

The Congress of the United States recently, in passing its Economic Opportunity Act, said that:

"Although the economic well-being and prosperity of the United States have progressed to a level surpassing any achieved in world history, and although these benefits are widely shared throughout the Nation, poverty continues to be the lot of a substantial number of our people. The United States can achieve its full economic and social potential as a nation only if every individual has the opportunity to contribute to the full extent of his capabilities and to participate in the workings of our society. It is, therefore, the policy of the United States to eliminate the paradox of poverty in the midst of plenty in this Nation by opening to everyone the opportunity to live in decency and dignity."

As you know, the State of Minnesota has actively participated in the Economic Opportunity Act and is involved on every front in the war on poverty wherever it may exist in the State of Minnesota. But while we begin new programs to solve the problems of deprived and underprivileged people, we cannot forget the most basic economic programs of the past which have proven time and time again to be so effective in maintaining both individual and community economic stability.

The Unemployment Compensation program is basic, it is fundamental, it is important. It requires your serious consideration during this legislative session. In order to background for you the development of the unemployment compensation fund problem, let me review with you briefly the history of the fund.

FUND HISTORY

The Act was first passed in December 1936, but did not provide benefit payments until two years later. During those first years unemployed workers for the most part did not have covered earnings, therefore benefit payments in total were low. Shortly thereafter, the war period brought with it very high employment as well as low unemployment, thereby reducing the fund payouts. In addition, the fund received "extra" monies through the form of "war risk" taxes. After the war came the high economic activities of the post war boom. The fund had built up to \$134 million by 1953. Since that time our economy has been continuously changing.

FUND DEPLETION

In recent years a confluence of forces connected with change has contributed to an uncomfortably high level of unemployment. New techniques of production and automation as well as rapid rates of obsolescence in products have generated a constantly changing demand for new skills. It has been estimated that changes in technology alone displace about half a million workers a year, and it is rare that the displaced worker can find his next job without experiencing a period, some times a long period, of unemployment.

While employment in Minnesota today is relatively high, basically the unemployment rate since 1953 in Minnesota has been about 5.4%, and the fund has reduced on average \$10 million each year so that its balance to date is \$22.5 million. In addition to economic reasons for fund reduction, there are internal fund inequities which contribute to deficiencies, for example:

Two industries with only 8.6% of the State's employment are responsible for 38% of benefits paid. Over the past ten years the fund has declined \$104 million, and these same two industries have accounted for 65% of the decline.

If the current favorable economic conditions should continue, \$22.5 million would maintain solvency of the fund for two or perhaps three years. If, however, we should experience a recessionary period in 1966 or 1967, the fund would be depleted (note that in 1968, the fund declined by more than \$30 million) and the State would have to borrow funds from the Federal government in order to pay benefits.

BORROWING PROVISIONS

The Federal law permits the advancement of monies to the State on a month-by-month basis. The Department of Employment Security is currently authorized by State law to borrow such monies.

According to the Federal law, repayment of funds advanced is accomplished by increasing the Federal Unemployment Tax (by reducing the offset allowed) beginning with the tax on wages earned in the second year following the loan.

The Federal Tax will be increased each year until the loan is repaid. For example, if monies were borrowed in 1965, (and not repaid) then the tax for the taxable year 1967 would be raised from the present 0.4% to 0.7%. For the taxable year 1968, the rate would be further increased. The great disadvantage to Minnesota employers to "borrowing" is that the monies are repaid through a uniform tax with no experience rating and thus all employers, whether they have high unemployment experience or no unemployment experience, pay the same tax. Clearly Minnesota does not want to follow this path.

WORKERS, EMPLOYERS PENALIZED

During the last session of the Legislature, fund increases were included in a bill which I vetoed. These increases, however, were to be paid by reducing overall benefit cost by over 5% and by excluding over 16,000 Minnesota workers from covered unemployment while increasing the percentage of taxes paid by the small employers of the State. This price was clearly too high and unfair. The present program of Unemployment Compensation is already penalizing the small employer. To increase this inequity would have been grossly unfair.

Newspaper accounts recently indicate that consideration may again be given to a proposal which would eliminate from coverage by disqualification more than 21,000 persons presently eligible for benefits. I would have to oppose such a provision. I do not believe it necessary to adopt a requirement which would be the most stringent in the nation simply because the present one is perhaps not as stringent as it should be.

BENEFITS LAGGING

The Unemployment Compensation benefit schedule has not been increased since 1957. Recently many of our citizens have urged Congress to enact additional Federal standards which would apply to the benefit side of the Insurance Program. The obvious reason for the discussion is the present inadequate benefit schedule.

Minnesota, today, provides an average benefit of less than \$30 per week to its unemployed workers or less than 35% of the average weekly wage. In 1938, the average weekly benefit was 60% of the average weekly wage. Minnesota's average benefit today is 15% below the average benefit nationwide. Since the last benefit increase in 1957, the cost of living has increased approximately 15%.

The time to increase benefits is now. We must now take responsible action to provide a solvent fund and increased benefit payments. We must take action which will not arbitrarily reduce coverage unrealistically, but rather we must improve the unemployment compensation law to exclude only those who are not clearly attached to the labor force. I recommend the following general provisions for your serious consideration:

Benefit Recommendations

1. Qualifying Requirement: 12 weeks at \$20 and a total of \$750 in base period earnings (first four of the last five completed calendar quarters.)
2. Weekly Benefit Amount: (computed at 50% of the average weekly wage) with a minimum of \$15 and a maximum of \$49.
3. Duration (computed at 75% of the number of credit weeks) with a minimum of 17 weeks and a maximum of 27 weeks.
4. Disqualifications: for voluntary quit and misconduct 4-8 weeks with no reduction of duration.

FUND OBJECTIVES

The objectives of any proposed financing structure should be at least the following:

1. To place the financing of the Minnesota Unemployment Insurance Program on a sound basis, using the actuarially projected annual average benefit costs.
2. To provide at least a start toward rebuilding the Trust Fund to an acceptable level (based on currently accepted principles a Trust Fund should be large enough to cover all the benefit costs of an eighteen month recession. For Minnesota, it is estimated costs of such a recession would be approximately \$90 million.)
3. To provide, insofar as possible, for an equitable distribution of costs among covered employers establishing a sound relationship between the amount of unemployment caused by a firm and its assigned rate.

FUND RECOMMENDATIONS

1. Increase the tax base to \$4,800.
2. Increase the maximum rate to a rate of 4.5% of total earnings up to \$4,800.

3. Provide a "loaded" schedule (voluntary contributions not allowed) such that an employer, in addition to the minimum rate will pay a tax rate designed to return over a period of three years between 1.5 and 1.7 times the amount charged to him. This provision is based on a principal of "spreading the risk" of some of the non-recoverable costs among those employers who have had unemployment experience.
4. Keep the increase in the minimum tax rate as low as possible, commensurate with costs of the program.

RETURN TO SOLVENCY

This proposal will provide an overall benefit increase of 15%, the equivalent of the cost of living increase since 1957 when the benefit was last raised. It will raise our benefit schedule to the average paid across the country. It is designed to equalize the cost of the program so that those industries which have high unemployment experience will more equitably share the costs of the program. It will more evenly distribute costs between the larger employer and the small employer. It will return the fund to solvency. It is reasonable from a cost standpoint. It will cost on the average only one penny per hour more than the present program.

Therefore, this proposal should indeed be considered the minimum adjustment required.

It must now receive your study and review. I urge your careful consideration.