Council Comments

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UNEMPLOYMENT COMPENSATION IN MICHIGAN – 2. HOW MICHIGAN COMPARES WITH OTHER STATES

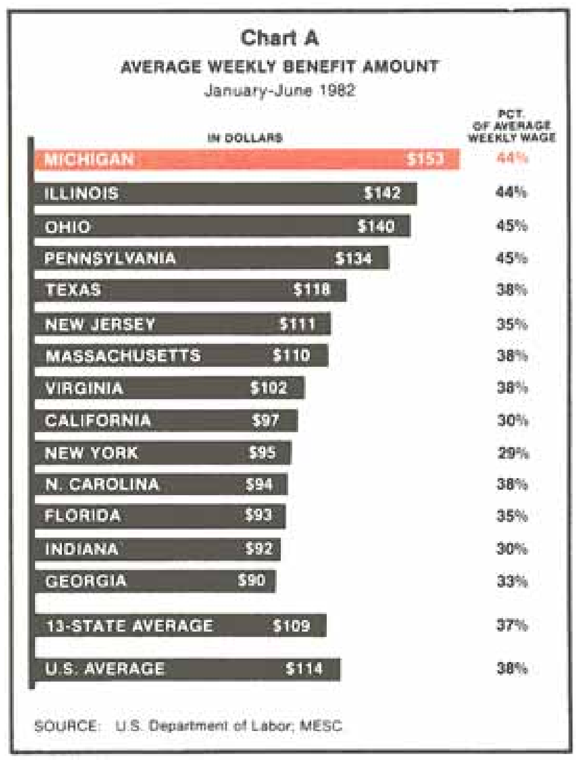
This is the second in a series[1] on the crisis in financing the Michigan Unemployment Compensation Fund. This analysis compares Michigan with the 13 other major states with over five million people on key features of unemployment compensation.

IN BRIEF

As compared with other major states, the Michigan unemployment compensation system has a high level of benefits which, combined with a high level of unemployment, produces a high total cost. Unemployment taxes on employers in Michigan are also relatively high, although not high enough to cover the cots, with the result that the Michigan Unemployment Compensation Fund is deeply in debt.

Compared with the unemployment compensation systems in the 13 other major states, Michigan has:

- The highest average weekly benefits.
- The highest maximum benefit for a single worker, and fifth highest with dependent allowances included.
- The highest unemployment rate in 1981.
- The highest total benefit cost per worker as a percent of total payroll.
- The highest maximum tax rate on taxable wages and maximum tax yield per employee.
- The highest average tax rate (tied for 1st) on taxable payroll and the fifth highest average tax rate on total payroll.
- The highest federal unemployment debt per covered employee.



[1] The first publication, *Council Comments No.* 932, analyzed the fiscal crisis confronting the Michigan Unemployment Compensation Fund.

UNEMPLOYMENT COMPENSATION - MICHIGAN COMPARED WITH OTHER STATES

The federal-state unemployment insurance system enacted by Congress in 1935 as part of the Social Security Act gives states the responsibility, within broad federal guidelines, to develop programs suited to conditions within individual states. Thus, the states have broad latitude to determine significant matters such as the taxable wage base (it must equal or exceed the federal taxable wage base), minimum and maximum tax rates and experience rating methods, eligibility and disqualification rules, benefit amounts and duration. All 50 states have unemployment insurance programs and they vary significantly in their provisions.[2]

This *Council Comments* compares certain key aspects of unemployment compensation in Michigan[3] and 13 other major states with a population of five million or more. In some instances, comparisons with the l3-state average (unweighted), the United States average and the 50 states are included.

BENEFITS

Eligibility

In Michigan, an individual is eligible for regular benefits if he or she has worked at least 18 weeks in employment covered by the unemployment compensation act and has earned during each of those 18 weeks an amount equivalent to 20 times the hourly minimum wage or $67 per week in 1982. Both the federal extended benefits program (up to 13 additional weeks) and the new federal supplemental compensation program (up to 10 additional weeks), require 20 weeks of covered employment for eligibility. The individual must be able to work and available for and seeking full-time employment. A person who voluntarily quits a job without good cause, is discharged for cause, or is involved in a labor dispute is usually ineligible for unemployment compensation. An eligible Michigan worker is entitled to regular benefits for a maximum of 26 weeks, including the first week of unemployment.

<u>Waiting Week.</u> While Michigan provides full unemployment benefits for the first week of unemployment, the other major states (except Virginia) require a waiting week, although in some of them the waiting week can be compensated under specific circumstances. Of the 50 states, 39 require a waiting week and 11 do not (see Table). States, including Michigan, that do not have a non-compensable waiting week must pay 100% of the cost of the first week of extended benefits with the federal government and the state sharing 50-50 the cost of the next 12 weeks of extended benefits.

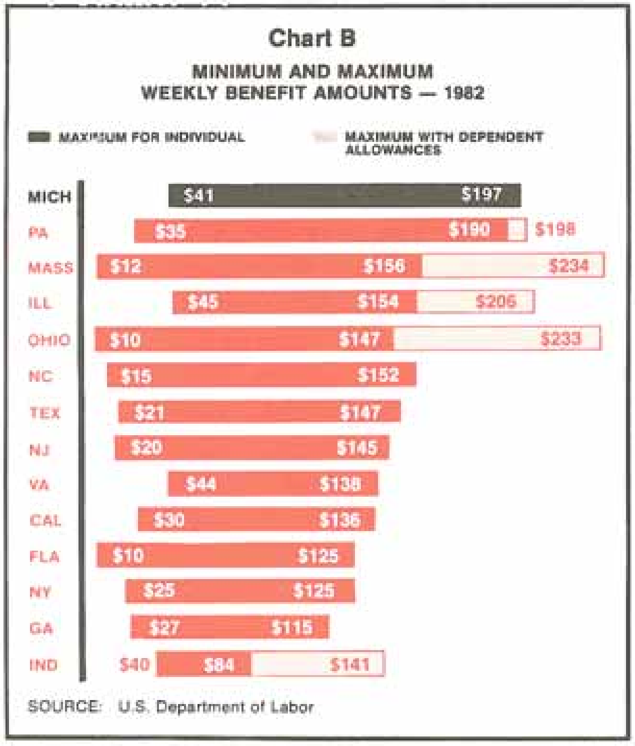
STATES WITH NO WAITING WEEK

Alabama	MICHIGAN
Connecticut	Nevada
Delaware	New Hampshire
Iowa	Virginia
Kentucky	Wisconsin
Maryland	

Source: U.S. Department of Labor

<u>Maximum Duration of Benefits.</u> The Michigan provision for a maximum of 26 weeks of regular benefits is the same as in 11 of the 13 other major states. Massachusetts and Pennsylvania provide 30 weeks of regular benefits.

[2] See Tax Foundation, Inc., *Unemployment Insurance: Trends and Issues,* Research Publication No. 35, November 1981.
[3] Certain provisions *of* the current Michigan law “sunset” or expire on March 31,1983.



Level of Benefits

Under current Michigan law, an eligible Michigan worker is entitled to weekly benefits equal to 70% of his or her average weekly net income (gross minus federal and state income taxes and social security taxes)-up to a maximum of 58% of the state's average weekly wage.

Michigan has a high level of benefits as compared with the 13 other major states. The average weekly benefit in Michigan during the first six months of 1982 of $153 is the highest among the 14 major states and is $44 higher than the average of the 13 other major states (see Chart A on page 1). Michigan also has the highest average weekly wage of the 14 major states ($351 per week in calendar 1981). In average weekly benefit as a percent of average weekly wage, Michigan at 44% is tied for third highest among the 14 major states.

The minimum and maximum benefit amounts in Michigan also are high compared with the other states. The minimum benefit payment in Michigan of $41 per week for a single individual is third highest among the 14 major states and the maximum benefit for a single individual of $197 is the highest (see Chart B). Five of the 14 major states provide for dependent allowances and the maximum benefits in four of those states (including maximum allowances for dependents) are higher than in Michigan, which has the same maximum benefit for an individual and for a family.

Indexing Benefits. The maximum weekly benefit in Michigan is indexed to the state average weekly wage-the maximum benefit in any year is 58% of the state average weekly wage for the 12 months ending the preceding June 30. Thus, as the average weekly wage changes, the maximum unemployment benefit also changes.

Maximum weekly benefits are set as a percentage of and indexed to the average weekly wage in 33 of the 50 states and in six of the **14** major states. In those states, the maximum benefit amounts range from 50%-to-70% of the average weekly wage. Several other states, including Ohio and Texas, use other means of indexing their maximum benefit amounts.

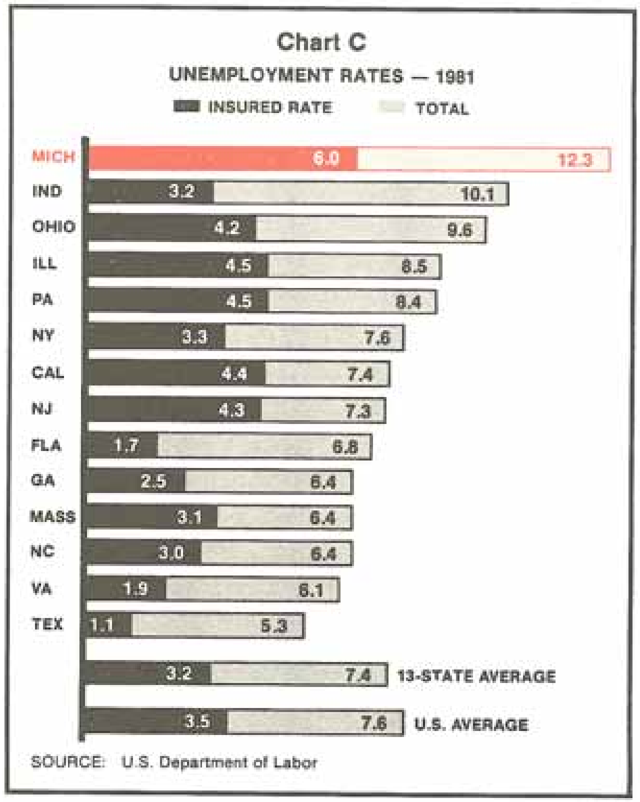
NUMBER OF STATES WITH MAXIMUM WEEKLY BENEFIT INDEXED TO AVERAGE WEEKLY WAGE

Percent of Average Weekly Wage	Total All State	Comparison States
50%	4	(Ill and NJ)
51 – 60%	15	(Michigan – 58%; Mass – 57.5%)
61 – 70%	14	(Pa – 66 2/3%; NC – 66 2/3%)
Total Indexed States	33	6

Source: UBA, Inc.

UNEMPLOYMENT RATES

In .1981, Michigan had both the highest total unemployment rate (12.3%) and the highest insured unemployment rate (6.0%) of any of the major states. The total unemployment rate is the total number of unemployed individuals available for and seeking work divided by the total civilian labor force. The insured unemployment rate is the number of individuals filing continued claims for regular benefits divided by total employment covered by the unemployment compensation act.



The unemployed in Michigan are unemployed longer than in most of the other major states. The average duration of regular benefits in Michigan (see Table below) was longer than in any of the other major states except New York and was almost five weeks longer than the average in the 13 other major states.

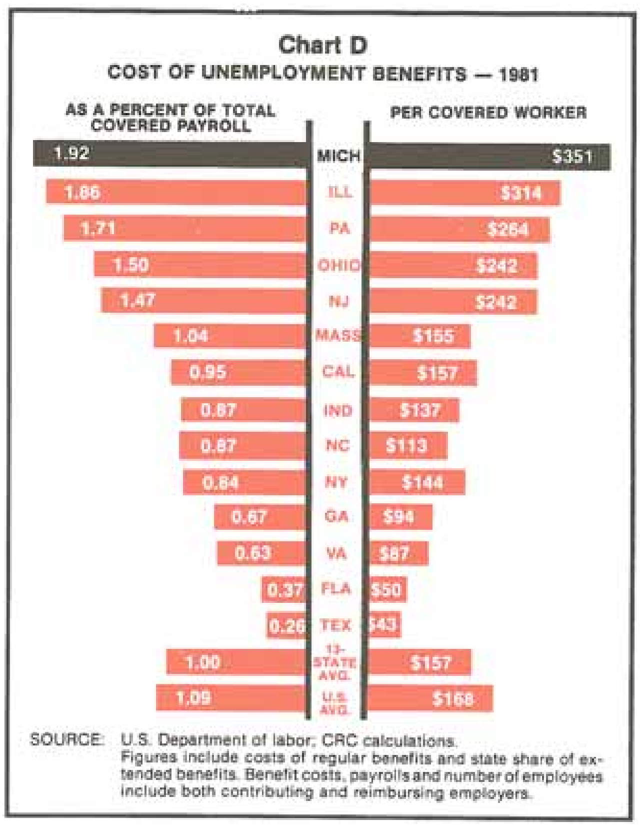
AVERAGE DURATION OF BENEFITS (IN WEEKS) JAN-JUNE 1982

MICHIGAN	19.7	Massachusetts	15.5
New York	19.7	Indiana	13.8
California	19.1	Florida	12.2
New Jersey	18.3	Texas	10.5
Illinois	18.0	Virginia	10.4
Ohio	18.0	North Carolina	9.9
Pennsylvania	16.7	Georgia	9.8
13-State Avg.	14.8	U.S. Avg.	15.6

Source: U.S. Department of Labor

TOTAL COST OF UNEMPLOYMENT BENEFITS

The combination of high weekly benefits, high unemployment, and long average duration of benefits produces a high total cost of unemployment compensation in Michigan. In 1981, total benefit payments in Michigan were $1.1 billion including both regular benefits and the state share of extended benefits. The total cost of benefits in Michigan as a percent of the total covered payroll was 1.92%. This was the highest among the major states and almost double the l3-state average (see Chart D). The cost of benefits per covered worker was $351 in Michigan, the highest among the major states, and more than double the l3-state average.



UNEMPLOYMENT TAXES

The Michigan Unemployment Compensation Fund is financed by taxes levied upon the payrolls of employers covered by the law. Currently, state unemployment taxes are levied on the first $6,000 of wages paid a covered worker (the taxable wage base) and the state unemployment compensation tax rate varies from 1.0% to 9.0% depending upon the individual employer’s experience rating.

The federal government also levies an employer payroll tax, currently upon the first $6,000 of wages paid per employee. The federal tax pays for the administrative costs of operating the program, the federal government’s share of extended benefits, and it also provides monies which a state may borrow when it has exhausted its own reserves. The present federal tax rate of 3.4% is reduced by 2.7% if a state’s unemployment compensation program meets certain minimum standards. Thus, the effective federal rate is normally 0.7%, although this rate is increased by penalty taxes in states that have failed to repay unemployment compensation debts to the federal government. Michigan will be subject to a federal penalty tax of 0.3% on 1982 taxable payrolls, payable in January 1983. Thus, the 1982 effective rate of the federal tax on Michigan employers will be 1.0%.

Effective January 1,1983, the federal taxable wage base will increase to $7,000 and the federal tax rate will increase to 3.5%, while the maximum credit will remain at 2.7%, providing an effective federal tax rate of 0.8%, plus any penalty taxes.

<u>Taxable Wage Base</u>

The current taxable wage base of $6,000 in Michigan is the same as in ten of the other major states-only Pennsylvania ($6,600), Illinois ($7,000) and New Jersey ($8,200) have higher taxable wage bases. As shown in the table, a majority (27 states) of the 50 states has the same $6,000 taxable wage base as Michigan, which is the minimum base prescribed under federal law (states can exceed the federal minimum taxable wage base). With the increase in the federal base to $7,000 on January 1,1983, states will be required to have a taxable wage base of at least $7,000.

DISTRIBUTION OF STATES BY TAXABLE WAGE BASE – 1982

	$6,000	27	States
$6,001	- $7,000	7	States
$7,001	- $8,000	3	States
$8,001	- $9,000	5	States
$9,001	- Above	8	States

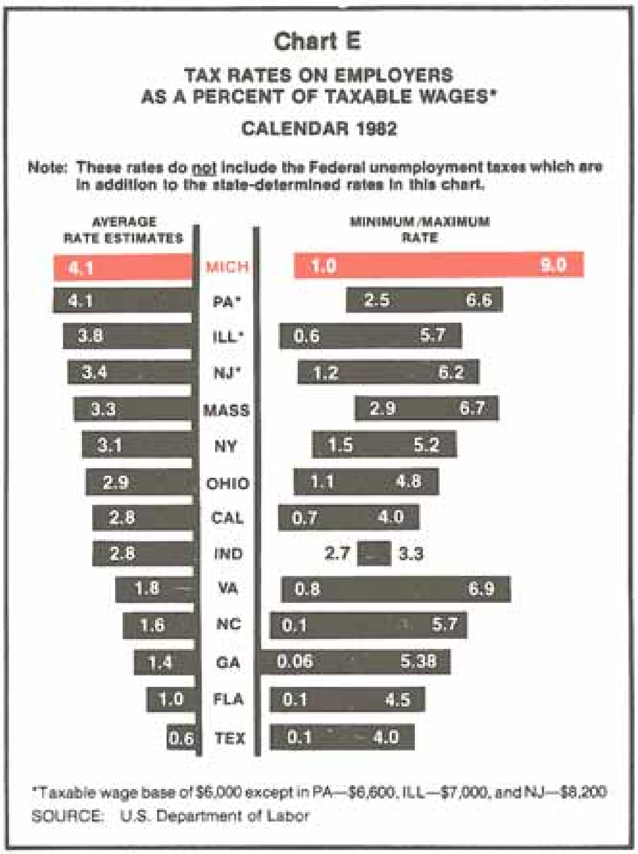
Source: U.S. Department of Labor

<u>Indexing the Taxable Wage Base.</u> While a majority of states, including Michigan, has established the taxable wage base as a fixed dollar amount, 14 states have indexed the taxable wage base to the state average wage, so that the taxable wage base changes each year in proportion to the change in the statewide average wage. As shown in the table, the indexing of the taxable wage base ranges from 100% of the state average annual wage in four states to about 54% of the state average annual wage (28 times the average weekly wage). Of the major comparison states, only New Jersey has indexed its taxable wage base.

STATES WITH INDEXED TAXABLE WAGE BASE COMPUTED AS PERCENTAGE OF STATE AVERAGE WAGE

Hawaii	(100%)	North Dakota	(70%)
Idaho	(100%)	Rhode Island	(70%)
Tennessee	(100%)	Iowa	(66 2/3%)
Utah	(100%)	Nevada	(66 2/3%)
Oregon	(80%)	New Mexico	(65%)
Washington	(80%)	Alaska	(60%)
Montana	(75%)	New Jersey	(28 x Avg. Weekly Wage

Source: U.S. Department of Labor



State Tax Rates

In Michigan, the state unemployment compensation tax rates vary from 1.0% to 9.0%, depending on the experience rating of each employer, and the average rate on contributing employers is estimated to be 4.1% in 1982 on the $6,000 taxable wage base. As shown in Chart E, the maximum 9.0% rate is the highest among the 14 major states (only one of the 50 states, Kentucky at 10%, has a higher maximum rate than Michigan). The Michigan minimum rate of 1.0% is about average among the 14 comparison states. The estimated 1982 average tax rate on employers in Michigan of 4.1% on the $6,000 taxable wage base is tied for highest with Pennsylvania. Note, however, that Pennsylvania, Illinois and New Jersey have higher taxable wage bases than Michigan.

Chart F reflects the combination of tax rates and taxable wage bases by showing the average, minimum and maximum tax yields per employee earning at least the respective taxable wage base in each of the states. In Michigan, for employees earning the $6,000 taxable wage base or more, the tax on employers would range from a minimum of $60 per employee (for employers at the minimum 1.0% rate) to a, maximum of $540 per employee (for employers at the maximum 9.0% rate). The minimum tax per employer in Michigan is fourth highest among the 14 states and the maximum tax per employee is the highest. The average tax per employee in Michigan earning $6,000 or more of $246 is fourth highest among the 14 states, after New Jersey, Pennsylvania and Illinois, all of which have taxable wage bases that are higher than Michigan.

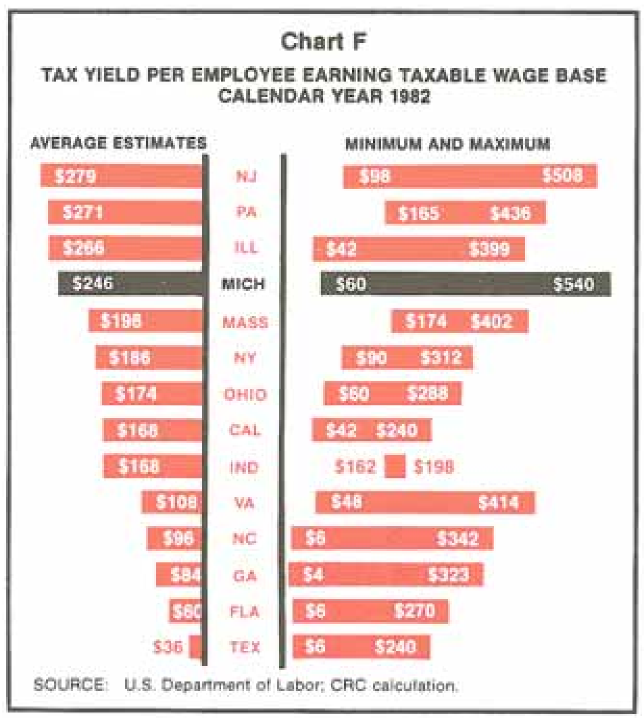
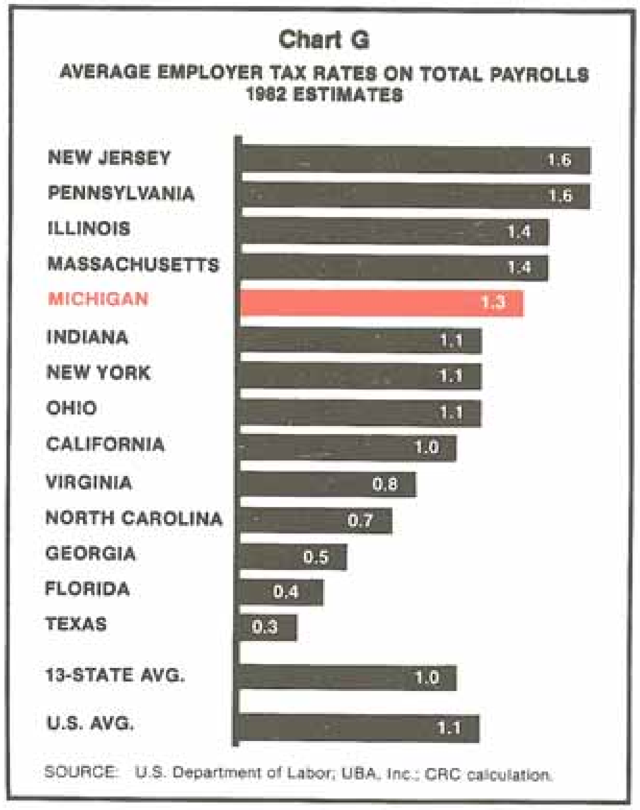


Chart G shows the estimated average effective tax rates paid by employers on their total payrolls. While the nominal average tax rate in Michigan on taxable payrolls is 4.1%, the effective average rate on total payrolls is 1.3%. While Michigan has a high nominal average rate (4.1%) on taxable wages, it also has the highest average annual wage of any of the comparison states. Thus, Michigan ranks fifth highest among the 14 major states in the effective average tax rate on total payrolls.



STATES REQUIRING EMPLOYEE TAXES

State	Base	Rate	Amount Per Employee
Alabama	$ 6,000	0.5%	$33
Alaska	14,600	0.5-1.0%	$73-$146
New Jersey	8,200	0.5%	$41

Source: U.S. Department of Labor

Taxes on Employees. In 47 of the 50 states, the unemployment compensation system is financed entirely by taxes on employers. In three states, however, unemployment taxes are also levied on employees (see Table, above left). The tax rates on employees range from 0.5% to 1.0% of the taxable wage base. New Jersey is the only one of the 14 major states with an unemployment tax on employees.

RESERVES AND DEBT

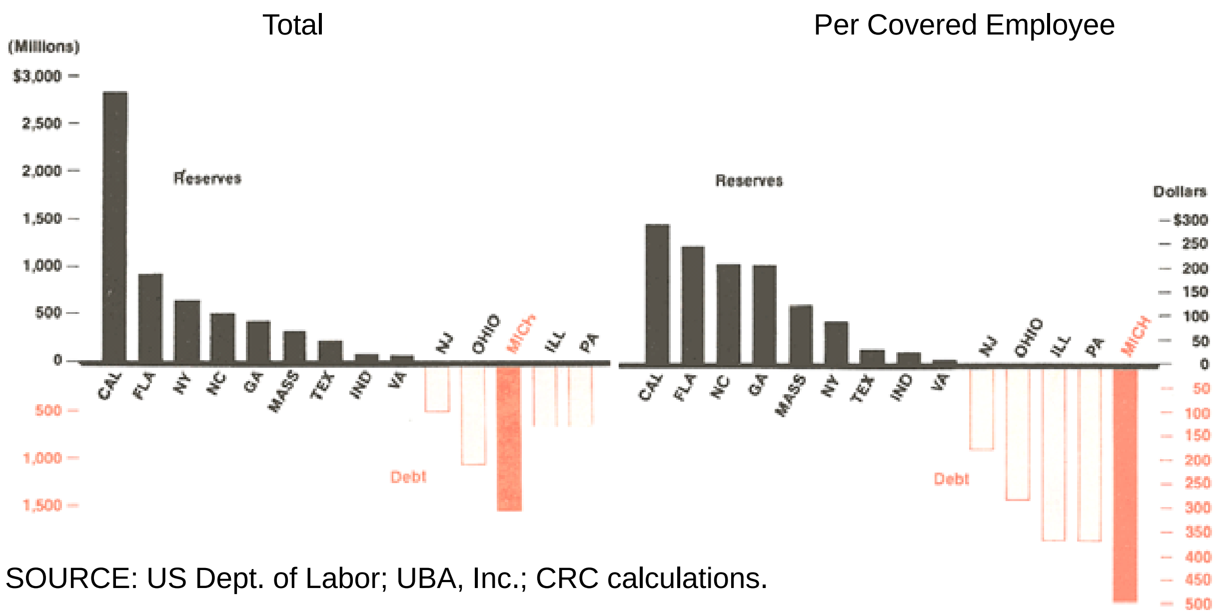
One of the goals of the federal-state unemployment compensation system is to accumulate reserves during periods of high employment to provide benefits during periods of high unemployment. A state unemployment fund is solvent when its current tax collections plus reserves are adequate to meet the costs of benefits paid. A state fund is insolvent when it cannot cover the costs of benefits paid and must then borrow from the federal government to make benefit payments. (Note that state unemployment compensation funds sometimes borrow temporarily from the federal government to meet cash flow requirements).

Of the 14 major states, nine have reserves and five, including Michigan, are in debt to the federal government. Chart H (see following page) shows the reserves (as of April 30,1982) and debts (as of July 31,1982) of the 14 major states. The amount of reserves ranged from $2.8 billion in California to $20 million in Virginia. The amount of debt ranged from $523 million in New Jersey to $1,645 million in Pennsylvania. Michigan, with a total debt of $1,598 million, had the third highest total debt as of July 31,1982. As of August 31,1982, Michigan had increased its debt to $1,691 million, which was the highest of any state.

When reserves and debt are expressed per covered employee, California had reserves of $285 per employee while Michigan had a debt of $499 per employee. Michigan had the highest debt per employee of the major states.

Chart H

UNEMPLOYMENT COMPENSATION FUND RESERVES (as of 4/30/82) or DEBT (as of 7/31/82)



SOURCE: US Dept. of Labor; UBA, Inc.; CRC calculations.

Under federal law, employers in states that have failed to repay loans by November 10 of the second calendar year they are outstanding are subject to federal penalty taxes. Employers in all five major debtor states will be subject to federal penalty taxes in January 1983, based on 1982 taxable wages (see Table). Employers in Illinois, New Jersey and Pennsylvania will be subject to a 0.6% penalty tax while employers in Michigan and Ohio will be subject to a 0.3% tax.

FEDERAL UNEMPLOYMENT DEBT AND PENALTY TAXES 1982 COMPARISON STATES

	Loans Outstanding as of July 31, 1982	Federal Penalty Tax Due January 1983 Amount	Rate
	(In Millions of $)		
ILL	$1,631	$139	0.6%
MICH	1,598	44	0.3
NJ	523	92	0.6
OHIO	1,160	61	0.3
PA	1,645	136	0.6

SOURCE: U.S. Department of Labor