

2-9-1998

Final Report of the Commission to Study the Unemployment Compensation System, 1998

Maine State Legislature

Maine Office of Policy and Legal Analysis

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Maine State Legislature

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Executive Summary

The Commission to Study the Unemployment Compensation System was created by Resolves 1997, chapter 65. The Commission was first convened on September 24, 1997, and it met at least monthly through January 27, 1998. The Department of Labor abstained from participating in the decision making, which left nine voting members.

The Commission was charged with studying the unemployment compensation system to assess whether it is meeting the changing needs of the labor force and the business community. In particular, the Commission was to examine and report on the following issues:

- The seasonality exclusion;
- The disqualification from benefits of persons who lose work due to child care problems;
- The disqualification from benefits of persons who lose work due to transportation problems;
- The disqualification from benefits of persons who seek part-time work;
- The timeliness of the extended benefit trigger;
- The adequacy of benefit duration in the dislocated worker benefit program;
- The solvency of the Unemployment Compensation Fund and the experience rating system; and
- The minimum earnings thresholds.

The Commission was unable to agree on all recommendations and therefore issued both a majority report and a minority report. Despite disagreement over the total proposal, however, the entire Commission did agree on a number of basic issues:

1. The Unemployment Compensation Fund (the Fund) should have a level of financial cushion to protect against a downturn in the economy and the resulting increase in demand for unemployment benefits;
2. Reserve levels in the Fund should be measured in light of the recommendations of the national Advisory Council on Unemployment Compensation (ACUC), which suggests averaging the state's three highest cost benefit years to gauge the amount of reserve funds necessary;
3. The taxable wage base should be increased; and
4. An array system should be used to determine employers' experience rating.

A majority of the Commission (five out of the nine voting members) made the following additional recommendations.

1. Attain a Fund balance of \$233,900,000 by the year 2003--enough money to cover 12 months of benefit payments at ACUC levels.
2. Raise the taxable wage base to \$12,000.
3. Implement a schedule in the first year the array system is used to cushion the significant increases in employer tax rates that could otherwise result.
4. Increase total employer taxes by approximately 36.1% annually.
5. Maintain the existing 6.0% reduction in maximum benefit amounts.
6. Eliminate the seasonality exclusion, so that qualifying seasonal employees may collect unemployment insurance benefits.
7. Eliminate the requirement that individuals seek full-time work in order to be eligible for unemployment benefits.
8. Impose an employee tax of 0.2% per year on the first \$12,000 of wages.
9. Dedicate to the Fund \$10,000,000 from the revenue generated by the cigarette tax in each of the five years beginning in 1999 and ending in 2003.
10. Implement these recommendations beginning January 1, 1999, and repeal the implementing legislation December 31, 2003.
11. Require the Department of Labor to collect data on the recommended changes, as well as on child care and transportation problems experienced by benefit claimants.
12. Require the Department of Labor to report to the Joint Standing Committee having jurisdiction over labor issues by January 31, 2002, regarding the data collected and the impact the changes have had on Fund solvency and the economy, so that the Committee may evaluate whether the recommended changes should be continued beyond 2003.

In contrast, three of the voting Commission members endorsed a minority report with the following recommendations.

1. Increase the taxable wage base from \$7,000 to \$9,000.
2. Change the weekly benefit formula from 1/22 to 1/26 of high quarter earnings.

3. Reduce the maximum weekly benefit from 52% to 48% of the average weekly wage.
4. Attain a 2005 Fund balance sufficient to cover approximately six months of benefits, based on the average of Maine's three most expensive benefit cost years in the past 20 years.

One Commission member chose not to endorse either the majority or the minority proposals.

Majority Report

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I. INTRODUCTION

The Commission to Study the Unemployment Compensation System (the Commission) was created by Resolves 1997, chapter 65, a copy of which is attached as Appendix A. The Resolve notes that Maine's labor force has undergone dramatic change since the unemployment compensation system was first established and that the system is not meeting the labor force's current needs. The Resolve also notes that the solvency of the Unemployment Compensation Fund (the Fund) is an on-going problem, requiring short-term legislative fixes in the 116th, 117th and the 118th Legislatures.

The Commission was first convened on September 24, 1997, and held five day-long meetings, as well as one half-day meeting. A copy of the Commission's membership list is attached as Appendix B. The Department of Labor abstained from participating in the decision-making, which left nine voting Commission members.

The Commission was charged with studying the unemployment compensation system to assess whether it is meeting the changing needs of the labor force and the business community. In particular, the Commission was to examine and report on the following issues:

- The seasonality exclusion;
- The disqualification from benefits of persons who lose work due to child care problems;
- The disqualification from benefits of persons who lose work due to transportation problems;
- The disqualification from benefits of persons who seek part-time work;
- The timeliness of the extended benefit trigger;
- The adequacy of benefit duration in the dislocated worker benefit program;
- The solvency of the Unemployment Compensation Fund and the experience rating system; and
- The minimum earnings thresholds.

II. BACKGROUND

The unemployment compensation system is outlined in the Maine Employment Security Law, 26 MRSA §1041 et seq. It is an insurance program, not a welfare program, which is designed to provide an economic safety net for individuals who are out of work through no fault of their own.¹ The right to benefit payments is earned through employment, and each recipient must meet certain statutory eligibility requirements. In contrast to a welfare program, there is no assessment of the unemployed person's financial needs. Instead, assessment is made of the person's employment and wage history.²

¹ *An Overview of Unemployment Compensation*, Maine Department of Labor, October 27, 1997.

² *Id.*

The unemployment insurance program was first adopted in the late 1930's, in the midst of the Great Depression. The two original objectives of the program were to provide "an initial line of economic defense for working Americans who become unemployed through no fault of their own", thereby "spar[ing] many of them the indignities of public relief," and to "accumulate[] reserves during periods of prosperity. These reserves are then used during economic downturns to assist unemployed workers in meeting their necessary expenses. This function serves the important macroeconomic role of helping to stabilize the economy during recessions."³

The workforce that existed when the unemployment compensation system was first established is very different from today's workforce. The types of employees, as well as the types of jobs, have changed significantly. As noted by the federal Advisory Council on Unemployment Compensation (ACUC),

Married men who are the sole breadwinners for their families no longer constitute the majority of the work force. Taken together, women, contingent workers, part-time workers, temporary workers, single heads of households, and single individuals now make up the majority of workers.⁴

Thus, the people most likely to need unemployment compensation benefits are women, low-wage workers and temporary workers. The ACUC also stated:

Although the original goals of the Unemployment Insurance program remain valid, much else has changed. Increasingly, jobs are part-time, contingent, or temporary. Many workers find that they must either accept these jobs or have no job at all. At the same time, states compete more fiercely with each other to attract and retain employers than they did in the past. This competition creates great pressure for states to sacrifice the solvency of their Unemployment Insurance systems by reducing Unemployment Insurance taxes during periods of prosperity. As solvency has declined, the system has increasingly been forced to rely on tax hikes during recessions. This pay-as-you-go financing has eroded the system's macroeconomic stabilization capacity.⁵

The changes in the workforce require reevaluation of the unemployment compensation system, because many of the employees that have most recently become part of the workforce are the least likely to be covered. If the Fund is to remain solvent and citizens are to be protected against times of economic hardship, changes in Maine's existing system must be considered and, where necessary, implemented. Maine's economy has improved significantly since the recession in the early 1990's, and now is the time to strengthen our reserves.

³ *Unemployment Insurance in the United States: Benefits, Financing, Coverage* (hereafter "ACUC 1995 report"), Advisory Council on Unemployment Compensation, Washington D.C., February 1995, page 3.

⁴ *Report and Recommendations*, Advisory Council on Unemployment Compensation, Washington D.C., February 1994, page 5.

⁵ *Id.*

III. PROCESS

1. Procedure

Due to the complex nature of the issues to be evaluated, the Commission decided that it needed input from a variety of experts. As a result, a series of panels were convened, during which a number of presentations were made. The panel members represented the Maine Department of Labor, the United States Department of Labor, the National Federation of Independent Business, the National Employment Law Project, the Maine Chamber & Business Alliance and the Maine Center for Economic Policy.

The Commission also considered the recommendations made by the ACUC, which was established in 1991 and issued annual reports to the President and Congress in 1994, 1995 and 1996. The reports focused on different aspects of unemployment compensation systems and made many recommendations for both federal and state laws.

Some of the most helpful and pertinent information was provided by the state Department of Labor (DOL). The DOL generated a large amount of data specific to unemployment in Maine, to assist the Commission in determining viable means of ensuring the solvency of the Fund and providing benefits to as many unemployed Maine workers as reasonably possible.

A list of additional references considered by the Commission during its deliberations is found in Appendix C.

2. Philosophy

Instead of simply recommending a means for ensuring the solvency of the Fund, the Commission was cognizant of the many issues playing into unemployment taxes and benefits. The Commission made a point of reviewing and reaffirming the original policy goals enacted as part of the Maine Employment Security Law, specified in 26 MRSA §1042. The Commission focused on four of the original goals in its deliberations: preventing the spread and lightening the burden of unemployment; accumulating reserve funds; maintaining citizen purchasing power in times of unemployment; and limiting the serious social consequences of unemployment. As a result, the Commission made fairness a priority in its deliberations--fairness to employers, to employees, to women, and to low-wage workers.

Recognizing that the current problems in the unemployment compensation system did not develop overnight, the Commission became convinced that a reasonable solution to the problems would not involve immediate results. To date, short-term fixes have only produced short-term benefits. Instead, the Commission focused on long-term solutions that would create solvency and stability and provide more coverage over a period of years.

Additionally, the Commission felt that balance was critical and generated the most reasonable solutions. Therefore, the Commission chose not to endorse recommendations that

insured against worst case scenarios. The Commission's goals were to pay benefits to as many unemployed workers as was reasonable and to keep the Fund from constantly teetering on the brink of insolvency. While not every unemployed worker in Maine will receive benefits and the Fund may, on occasion, need to borrow money in order to make payments, the majority of the Commission considers the recommendations in this report to provide a realistic and reliable system of compensation.

IV. SCOPE OF THE PROBLEM

1. Status of the Unemployment Compensation Fund

The Unemployment Compensation Fund is on the brink of insolvency and has been for many years. In the First Regular Session of the 116th Maine Legislature, the Governor submitted LD 978 (PL 1993, c. 22), an emergency bill to address the Fund's looming insolvency. At that time, the Fund was projected to experience a deficit of \$14,400,000 in 1993 and a deficit of \$43,600,000 for 1994, based on insured unemployment rates of 4.8% and 4.6%, respectively.

LD 978 addressed the solvency dilemma by increasing employer contributions and limiting unemployment benefits. Benefits were reduced by freezing the maximum weekly benefit amount until June 1, 1995, and by reducing the weekly benefit amount by \$6 for all new claims filed from April 1, 1993, to December 31, 1994. The bill also charged employers a flat surtax of 0.7% of covered wages in 1993 and 0.8% in 1994, while increasing the maximum contribution (tax) rate by 1.0%. As a result of the emergency action taken in LD 978, the Fund was estimated to have ending balances of \$11,000,000 in 1993 and \$1,100,000 in 1994.

LD 978 prevented the State from having to borrow money to pay benefits. And, far better than projected, the Fund balance was about \$70,000,000 by the end of 1994. However, solvency was still an issue. In the First Regular Session of the 117th Maine Legislature, another emergency bill, LD 842 (PL 1995, c. 9), was introduced to again take "stop-gap" measures to avoid the insolvency predicted for 1998.

LD 842 also reduced benefits. It limited maximum weekly benefit amounts to 94% of what otherwise would have been available and lowered the weekly benefit amount by \$3 on all new claims filed between April 1, 1995, and December 31, 1997. The bill also imposed a 0.4% surtax on employers for 1995, 1996 and 1997 and eliminated the sunset provisions that were in effect for the alternate base period and the Dislocated Worker Benefit program. It was estimated that, with the assistance of LD 842, the Fund would attain balances of \$41,950,000 for 1998 and \$6,450,000 for 1999.

Unfortunately, the public laws enacted in 1993 and 1995 did not solve Maine's unemployment problems. In the First Special Session of the 118th Maine Legislature, LD 1753 (PL 1997, c. 380) was passed. It extended the 6% reduction in maximum weekly benefits, the \$3 reduction in all weekly benefits and the 0.4% surtax on employers until 1998. The bill also forced a tax schedule of P, the tax schedule with the highest rates.

Despite these short-term fixes, the unemployment crisis still exists. As can be seen in Appendix D, even moderate unemployment rates will bankrupt the Fund by the year 2002. If no changes are made to the current system, the Fund deficit is anticipated to approach \$200,000,000 by the year 2005.

2. Consequences of insolvency.

A deficit in the Fund creates a number of serious ramifications. First and foremost, a deficit creates an inability to pay benefits. The State would then have to borrow money from the federal government to cover the costs of payable benefits.

Any funds borrowed from the United States Department of Labor must be paid back with interest, at a rate that is not necessarily competitive. Current Maine law automatically imposes an additional employer surtax in an amount sufficient to pay the interest due in that year on borrowed funds. And if the principal of the federal loan is not repaid within a specified time (22 to 34 months), employers suffer another financial detriment. The federal government penalizes employers with lost federal tax credits, which increase each year that the principal on the loan is not repaid.

Another important consequence of insolvency is the significant amounts of interest that are lost. In 1996 alone, the Fund generated \$6,626,075 in interest. See Appendix E. Thus, Fund solvency is an issue not only of collected money, but also of earned money.

A list and a spread sheet indicating the costs that will be incurred under existing law is found in Appendix F. If no changes to the current law are made, total costs and lost revenue will reach \$296,800,000 in 2005 and will only continue to climb.

3. Inadequacy of benefits.

At the same time that Fund solvency is critical, the low percentage of people who receive unemployment benefits is also a serious issue. The United States Department of Labor stated that only four out of ten of Maine's unemployed workers receive benefits; and, as noted above, the change in the workforce has resulted in a situation in which most of the new workforce participants are the individuals least likely to be covered under the current unemployment compensation system.

One significant area of concern is those claimants who are denied benefits because they have either child care or transportation problems. With a few specific exceptions, an employee in Maine is disqualified from receiving unemployment benefits if the employee voluntarily leaves work without good cause attributable to the employment.⁶ Child care and transportation problems are not included in the list of permissible reasons for voluntarily leaving work. Additionally, even individuals who do not voluntarily leave work but continue to have child care

⁶ 26 MRSA §1193, sub-§1, ¶A.

and transportation problems may be unable to meet the “able and available for work” requirement.⁷

The United States Department of Labor, the National Employment Law Project, the Maine Center for Economic Policy, the Maine Blue Ribbon Commission on Hunger and Food Security and the Maine Commission to Study Poverty Among Working Parents all recommend extending benefits to claimants who are unemployed due to either child care or transportation problems. An informal survey of Maine benefit adjudicators estimated that in 1997, 1,581 workers were denied benefits due to transportation problems and 540 workers were denied benefits due to loss of child care. See Appendix G. However, the Commission discovered no exact data on those claimants either in Maine or elsewhere in the country.

The Commission decided that an informed decision could only be made with more precise data and chose not to extend benefits to claimants who have child care or transportation problems for the time being. However, the majority of the Commission did recommend collecting data on those claimants for further evaluation in 2002.

The majority of the Commission also recommends narrowing the gap between the total unemployed and those receiving benefits by providing coverage for individuals seeking part-time work and for individuals who work for seasonal employers. The Commission anticipates that the data collected on those newly-eligible claimants will show that the four out of ten unemployed individuals currently receiving benefits has become a much higher percentage.

V. RECOMMENDATIONS

The entire Commission agreed on four fundamental issues:

1. The Unemployment Compensation Fund should have a level of cushion to protect against a downturn in the economy and the resulting increase in demand for unemployment benefits;
2. Reserve levels in the Fund should be measured in light of the recommendations of the national Advisory Council on Unemployment Compensation (ACUC), which suggests averaging the state’s three highest cost benefit years to gauge the amount of reserve funds necessary;
3. The taxable wage base should be increased; and
4. An array system should be used to determine employers’ experience rating.

This is the majority report of the Commission, endorsed by five of the nine voting Commission members. In light of the four issues noted above, the majority of the Commission

⁷ 26 MRSA §1192, sub-§3.

makes the following specific recommendations (analyzed in detail in Appendix F) for the immediate attention of the Legislature.

1. Attain an Unemployment Compensation Fund balance of \$233,900,000 by the year 2003--enough money to cover 12 months of benefit payments at ACUC levels.

Several recommendations were made to the Commission as to what qualifies as an adequate reserve account. The current federal standard suggests that the Fund have 1.5 times the amount required to pay 12 months of benefits at the same level as was paid in the most expensive year of benefit payments in the past 20 years (the “1.5 reserve multiple”). Others recommend having at least 18 months of benefits in reserve. The ACUC recommended that the Fund have enough in reserve to pay at least one year’s worth of benefits at levels comparable to its previous “high cost year”, the average of the three highest annual levels of unemployment benefits in any of the previous 20 calendar years.⁸

The entire Commission felt the ACUC approach of averaging the three most expensive benefit years was the most reasonable. Rather than simply gauging need by the worst case scenario, it provides a more accurate idea of what the state can expect in another high-cost benefit year. The Commission did not agree, however, on the number of months of reserves that should be attained. Some members of the majority were more comfortable with 18 months of reserves but agreed that a 12-month reserve was a reasonable and more realistic goal.

The majority of the Commission recommends that the Fund reach \$233,900,000 in the year 2003 to cover 12 months of benefits at ACUC levels. As seen in Appendix F, adding that number to the projected deficit in 2003 brings the total amount of new funds needed by 2003 to \$322,400,000. However, also noted in Appendix F, this proposal distributes those new funds equitably between employer-based and non-employer-based sources. Forty-three percent of the new funds are generated by non-employer resources, and 57% of the new funds are generated by employer resources. In addition, the array system more fairly distributes payments among employers. The specific funding sources are described in the recommendations that follow.

2. Raise the taxable wage base to \$12,000.

The taxable wage base is the ceiling on the taxable wages for each employee in the State. The federal wage base is \$7,000, and no state may establish a wage base less than that. Maine is one of 11 states that have a wage base of \$7,000⁹. Appendix H shows the wage bases in every state, which reach as high as \$26,000. Maine is the only New England state with a wage base of \$7,000, and Rhode Island, at \$17,600, has the highest wage base in New England.

The wage base in Maine today represents about one third of the average person’s total wages. By way of comparison, 100% of an employee’s wages were taxed when the unemployment compensation system first began in 1938. The wage base did not fall below 50%

⁸ ACUC 1995 report, Recommendation 1995-2, page 9.

⁹ 26 MRSA §1043, sub-§19.

of average wages until 1980, and it has declined steadily since then. A chart depicting the taxable wage bases in effect since the system's inception is found in Appendix I. Also of note is the fact that, while Maine's taxable wage base increased at regular intervals in 1972, 1978 and 1983, it has not been increased in 15 years.¹⁰

The minimum wage in Maine is currently \$5.15.¹¹ An employee working 40 hours per week, year-round would earn \$10,712, nearly \$4,000 more than the taxable wage base. Many more employees earn well over that amount. Weekly unemployment benefit amounts are determined based on the person's previous earnings, so anyone who earns more than \$7,000 per year could receive benefits that were not entirely paid for. As seen in Appendix J, from July 1995 to June 1997, only 22.5% of all unemployment claimants earned wages of \$7,000 or less. On the other hand, over three-fourths of all claimants in that time period earned more than \$7,000 and, as a result, received benefits not entirely paid for by their employers.

The entire Commission felt that raising the taxable wage base would more closely reflect actual wages in Maine, while helping to ease the burden placed on the Fund by a wage base that has not kept pace with inflation. A person who earns at least \$16,000 per year is entitled to the maximum weekly benefit, and it was suggested that the wage base be raised to \$16,000 so that taxed wages correspond to benefits. However, a majority of the Commission reached a compromise and recommends raising the taxable wage base to \$12,000. That wage base ranks 18th out of the 28 different taxable wage rates currently in effect around the country.

3. Implement a schedule in the first year the array system is used to cushion the significant increases in employer tax rates that could otherwise result.

4. Increase total employer taxes by approximately 36.1% annually.

Not all employers pay the same tax rate on taxable wages. Individual employer tax rates are based on an employer's experience rating. Maine currently uses a reserve ratio system to determine individual employer tax rates, which means that all the benefits charged against an employer are subtracted from all the taxes the employer has paid into the Fund. The balance is then divided by the employer's average payroll for the past three years, and the employer's tax rate is determined based on that number and the employer contribution rate schedule in effect for that year.

Maine is currently at Schedule P, the schedule with the highest permissible tax rates under the reserve ratio system. There are currently 33 tax rates, but 51% of Maine's employers have the lowest tax rate. See Appendix K. No more than 3.3% of all Maine employers are in any other tax bracket, with the exception of the highest tax bracket, which represents 8.5% of employers. This imbalance in the reserve ratio system has contributed significantly to the insolvency problem. With over half of Maine's employers paying the lowest possible tax rate, not nearly enough revenue is generated to cover benefit costs. Another downside to the reserve ratio system is that

¹⁰ *Id.*

¹¹ 26 MRSA §664.

it makes it very difficult for employers to improve their tax rates; therefore, employers have no incentive to reduce unemployment.

To combat the problem of bottom-heavy experience ratings, the entire Commission was in favor of adopting an “array contribution system”. A detailed explanation of the specific computations used in the array system can be found in Appendix L. In an array system, employers are listed in order of their reserve ratios. The list is then divided into 20 contribution ranks (rather than the current 33), each representing 5% of total taxable wages. In that way, tax rates are distributed evenly among employers--only 5% of all taxable wages can be represented in any tax rate. Additionally, the array system generates a predetermined amount of money, which provides predictability for the Fund. Additionally, employers in an array system can more easily improve their experience ratings, thus creating an incentive to reduce unemployment and lower their tax rates.

The array system does not require any additional work from either employers or the State. The same reporting requirements that exist now for the reserve ratio system would also be required under the array system. One drawback to the array system is the disproportionately severe tax rates that may result in the first year the system is adopted. To avoid that, a majority of the Commission recommends using a schedule in the first year that eliminates the severity of the change.

A majority of the Commission also recommends that the amount generated by the array system be \$182,500,000 from 1999 to 2003, which represents an increase in employer taxes of approximately 36.1% per year. See Appendix F. Incorporated into the increased taxes is the \$60,000,000 that would have been generated if the 0.4% surtax currently in effect were continued beyond its sunset date in 1998. Appendix M shows projected Fund balances through 2005, and Appendix N lists estimated yearly tax rates that result with the majority’s proposal.

5. Maintain the existing 6% reduction in maximum benefit amounts.

As noted in Section IV, maximum weekly benefits have been reduced by 6% since 1995. Maintaining that reduction would help generate necessary new funds from non-employer sources. The total amount that would be generated from 1999 to 2003 is \$24,500,000. See Appendix O.

6. Eliminate the seasonality exclusion, so that qualifying seasonal employees may collect unemployment insurance benefits.

Under current Maine law, employees who work in seasonal industries are restricted in their collection of unemployment benefits. A seasonal industry is one that operates only during a regularly recurring period or periods of less than 26 weeks in a calendar year.¹² A list of currently recognized seasonal industries is attached as Appendix P.

¹² 26 MRSA §1251.

A person employed in seasonal work is eligible to collect unemployment benefits only when unemployed during the season in which the base period wages were earned.¹³ If a person has both seasonal and non-seasonal base period wages, the person may collect the maximum available benefits for seasonal unemployment. For non-seasonal unemployment, however, the person may only collect the amount of available benefits to which the person would have been entitled if benefits were determined solely on the non-seasonal base period wages.¹⁴

ACUC recommendation number 1995-29 urges states to eliminate seasonality exclusions and subject seasonal employees to the same eligibility requirements as all other unemployed workers.¹⁵ The National Employment Law Project, the Maine Center for Economic Policy, the Maine Commission to Study Poverty Among Working Parents and the National Commission for Employment Policy also recommend eliminating Maine's seasonality exclusion.

Maine is one of only 14 states that have seasonality provisions.¹⁶ As noted in Appendix P, there are a total of 1,178 seasonal employers in Maine. There is no precise data on the number of seasonal employees, but eliminating the seasonality provisions would make unemployment benefits available to a much greater number of workers. That would, in turn, help alleviate the hardship created for Maine employees due to the decrease in the number of full-time, year-round jobs. It would also prevent an individual's attachment to the workforce from being measured solely by the status of the individual's employer. Therefore, a majority of the Commission recommends eliminating the seasonality exclusion and permitting otherwise qualified seasonal employees to collect unemployment benefits.

7. Eliminate the requirement that individuals seek full-time work in order to be eligible for unemployment benefits.

Maine requires unemployed workers to be available for full time work, at least 35 hours per week, in order to receive unemployment benefits.¹⁷ It is one of 39 states that disqualify employees for seeking only part-time work.¹⁸ According to a survey conducted by the Interstate Conference of Employment Security Administrators (ICESA) in Washington, D.C., 14 states permit an employee to receive benefits while seeking part-time work if the employee has a history of part-time work, and nine states authorize benefits if the employee has been advised by a physician to work part-time due to a physical or mental condition.¹⁹

¹³ *Department of Labor Rules Governing the Administration of the Employment Security Law* (hereafter "Rules"), Ch. 6, §2, sub-§B, ¶2.

¹⁴ *Rules*, Ch. 6, §2, sub-§B, ¶3.

¹⁵ ACUC 1995 report, page 18.

¹⁶ *Highlights of State Unemployment Compensation Laws*, National Foundation for Unemployment Compensation & Workers' Compensation, Washington D.C., January 1997, Table 24, page 63.

¹⁷ 26 MRSA §1192, sub-§3.

¹⁸ ACUC 1995 report, page 104.

¹⁹ *Id.*

During the recession that began in 1990, 6% of Maine's jobs were lost. Nearly all jobs have been recovered, but the jobs that replaced those lost during the recession are not of the same caliber as the ones they replaced. Most new jobs are in service and trade industries, which typically hire the most part-time workers.²⁰

The ACUC's recommendation numbered 1995-20 states: "Workers who meet a state's monetary eligibility requirements should not be precluded from receiving Unemployment Insurance benefits merely because they are seeking part-time, rather than full-time, employment."²¹ The United States Department of Labor, the National Employment Law Project and the National Commission for Employment Policy also urge coverage for part-time workers, arguing that attachment to the labor force should not be measured solely by full-time work. A majority of the Commission agreed and recommends that persons seeking even part-time work in Maine be eligible for unemployment benefits.

8. Impose an employee tax of 0.2% per year on the first \$12,000 of taxable wages.

The total cost of eliminating the seasonality exclusion (Recommendation 6) and permitting those seeking part-time work to receive benefits (Recommendation 7) from 1999 to 2003 is \$39,100,000. See Appendix F. Rather than impose even greater tax burdens on employers to cover that cost, a majority of the Commission agreed that it was equitable to require employees to pay a small tax.

An employee tax of 0.2% on the first \$12,000 of taxable wages per year would generate \$44,000,000 over the five-year period. Employees earning \$12,000 or more would pay only \$24 per year, and those who do not earn at least \$12,000 would pay even less. The tax would make the benefits extended in Recommendations 6 and 7 revenue neutral, and the \$4,900,000 difference would contribute to solvency.

The majority of the Commission determined that taxing employees while they are working makes more sense than denying benefits when those same people are unemployed and need assistance the most. For a very small price on an individual employee basis, a great number of workers in Maine who have never before been eligible for benefits now will be, thus helping to stabilize the economy during a recession, carry out the purposes of the unemployment compensation system and increase the percentage of Maine's unemployed workers who receive benefits.

9. Dedicate to the Fund \$10,000,000 per year from the revenue generated by the cigarette tax.

²⁰ *Food for Life and Work Through Normal Channels: Ending Hunger in Maine*, report of the Maine Blue Ribbon Commission on Hunger and Food Security, November 1, 1996, Executive Summary, page 10; *Structural Changes in Maine's Labor Market*, Maine Department of Labor, Division of Economic Analysis and Research, November 1995.

²¹ ACUC 1995 report, page 18.

Public Law 1997, chapter 560 created a new cigarette tax of 37 mills per cigarette. Money generated by that tax is deposited into the Tobacco Tax Relief Fund and is expended as provided in 22 MRSA §1546. Unallocated money generated by the new tax is expected to be \$28,900,000 in Fiscal Year 1999. Thereafter, the available money will likely decline by 3% to 9% per year.

In light of the serious insolvency issue faced by the unemployment compensation system, as well as the Commission's desire to mitigate the significant increase in the tax burden imposed on employers, the Commission considered an appropriation from the Tobacco Tax Relief Fund. The Commission fully realizes that this is an unusual approach, but the solvency crisis is also unusual. The appropriation would last only five years, and it would be a significant help to employers, who will annually be paying 36.1% more in taxes, even with this assistance. Therefore, the majority of the Commission recommends allocating \$10,000,000 of the cigarette tax relief money each year from 1999 to 2003 to the Unemployment Compensation Fund.

10. Implement these recommendations beginning January 1, 1999, and repeal the implementing legislation December 31, 2003.

The changes recommended in this report, while considered by a majority of the Commission to be necessary, are extensive and may have effects that cannot be fully predicted at this time. Additionally, by 2003, the Fund may be rebuilt to the point that the precautions recommended here are no longer necessary. Therefore, the entire Commission felt it crucial to build in a mechanism to eventually terminate these measures. If the unemployment compensation situation changes so greatly in the next five years that the recommendations in this report are unnecessary or even detrimental, the sunset provision will automatically eliminate them.

11. Require the Department of Labor to collect data on the recommended changes, as well as on child care and transportation problems experienced by benefit claimants.

One of the obstacles the Commission encountered during its deliberations was the lack of data, both at state and federal levels. For example, data on Maine's seasonal employees was not available simply because seasonal employees have never factored into Maine's unemployment compensation system. As a result, the entire Commission saw the need for more data.

To assist in future evaluations of the unemployment compensation system, the Commission recommends that the Department of Labor be directed to collect data on persons seeking part-time work, on claimants who are denied benefits due to child care problems and on claimants who are denied benefits due to transportation problems. The information that should be collected include the claimant's gender, the weekly benefit amount on the claim, the claimant's qualifying wages, and the industry in which the claimant works. Those elements will generate much-needed information for future decision-makers.

12. Require the Department of Labor to report to the Joint Standing Committee having jurisdiction over labor issues by January 31, 2003, regarding the data collected and the impact the changes have had on Fund solvency and the economy, so that the Committee may evaluate whether the changes recommended here should be continued beyond 2003.

The sunset provision in Recommendation 10 and the data collection in Recommendation 11 will only be helpful if the Department of Labor reports back to the legislative committee that has jurisdiction over labor issues in time to make any necessary alterations. Legislation implementing the recommendations in this report will sunset on December 31, 2003, so a report by January 31, 2003, will give the committee time to evaluate the unemployment compensation system, and to enact any legislation considered necessary, in light of the new data.

VI. LEGISLATION

Legislation recommended by a majority of the Commission is attached as Appendix Q.

Minority Report

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III. Legislation	4

I. ANALYSIS

1. Background

The minority believes that the primary issue that needs to be addressed with Maine's unemployment compensation system is the solvency of the Unemployment Compensation Trust Fund (the Fund). Without legislative changes that address the tax and benefit structures, the Department of Labor estimates that the Fund will become insolvent in 2002, even with moderate unemployment rates. That insolvency will grow to more than \$170 million by 2005. Should that occur, the state would be required to borrow from the federal unemployment trust fund in order to continue benefit payments. Those loans would bear interest and would have to be repaid by escalating penalty taxes on employers. At the same time, in order to avert further insolvencies, the state would have to enact substantial tax increases and/or benefit cuts. The imposition of substantial state tax increases at a time when federal penalty taxes are in effect could have serious economic implications, particularly during an economic downturn.

Both the minority and the majority of the Commission believe that such a scenario can be avoided if the Legislature acts now. The two groups fundamentally disagree, however, on how that end should be achieved. The minority favors steps toward a permanent solution which seeks to balance the burdens placed on employers and employees. That can be done only if tax increases are accompanied by meaningful benefit reductions. Over the past several years, the Legislature has enacted three temporary but balanced measures to keep the Fund solvent. Each sought to bolster Fund balances by raising roughly two-thirds of the necessary funds through employer surtaxes and one-third through temporary benefit reductions. The majority's recommendations, however, lack such a balance and place a disproportionate burden on employers.

2. Taxable Wage Base

Under the majority recommendation, the state's taxable wage base would be increased from the current \$7,000 to \$12,000. For the average employer of full-time workers, this will represent more than a 70% increase in unemployment taxes. To place this in perspective, the average employer now pays a tax rate of approximately 3% (excluding the temporary surtax). Under current law, therefore, that employer pays \$210 per employee ($\$7,000 \times 3\%$). Under the majority's proposal, that same employer would pay \$360 per employee ($\$12,000 \times 3\%$). This wage base increase would raise an estimated \$125 million between 1999 and 2003.

3. Increased Taxes and the Array System

The majority would also redesign the unemployment tax rate structure to develop an "array system" to raise an additional \$60 million over the same period. For the average employer, this would represent an added increase over and above the 70% increase. We do not know the exact extent of the increase at this point, since the Department of Labor had yet to develop the array system at the time this report was prepared. And we stress the term average employer, because these proposals will affect different employers in different ways. Employers of part-time

workers earning less than \$7,000 annually, for example, will be unaffected by the wage base increase. One thing, however, is certain. Most employers, with the exception of some who rely on part-time workers, are likely to pay dramatically higher taxes.

4. Benefit Component

The majority report meaningfully addresses only one component of the solvency issue, the amount of revenues collected. It does virtually nothing to address the amount of benefits which are paid annually. This is the root of the Fund's current solvency problem. Under the current system, taxes are expected to remain relatively constant over the next several years, approximately \$100 million per year. Benefits, however, are expected to grow dramatically, increasing from approximately \$130 million in 1999 to \$170 million in 2005. (These projections assume a moderate unemployment level of 3% over that period.) The only recommendation of the majority which addresses this side of the equation is an extremely modest proposal to continue the temporary reduction in maximum benefit levels until 2003. This is expected to save the Fund only \$22 million between 1999 and 2003.

Not only does the majority fail to make any meaningful benefit reductions, it actually proposes to substantially broaden benefit eligibility at a substantial additional cost to the Fund. It proposes to repeal the seasonality provisions of existing law under which benefits are limited for seasonal workers. It also proposes to remove the disqualification for those who are either unavailable for or unwilling to accept full-time work. For comparison purposes, it should also be noted that Maine is by no means unique in disqualifying part-time workers now. Part-time workers are also disqualified in 39 other states. Together, these changes will increase benefit costs by more than \$50 million between 1999 and 2003.

To offset those costs, the majority proposes enactment of a temporary employee tax of 0.2% of taxable wages, or \$24 per employee per year. From a political perspective, it is difficult to conceive of that tax as becoming permanent. It is equally difficult, on the other hand, to conceive of the new entitlements created by broadened eligibility as being anything but permanent. Political reality, therefore, suggests that employers will ultimately be required to assume the burden of this expansion of eligibility.

5. Adequacy of Current Benefits

The majority's proposals to broaden benefit eligibility stem from the perception that the Maine system covers too few workers and that the existing benefits are not adequate. As to the first perception, no state provides benefits to all unemployed workers. In every state, workers must meet certain eligibility standards in order to be eligible. They must, for example, be able and available for work, and they must have sufficient base period earnings, just to name a few. They must also not have been separated from employment for reasons that result in benefit disqualification, e.g., voluntarily quitting, discharge for misconduct, etc. During the Commission's deliberations, advocates of expanded eligibility repeatedly lamented the fact that Maine's system provides benefits to only 40% of unemployed workers. In fact, according to the U. S. Department of Labor, the percentage is actually 42%. More importantly, the national

average is only 35%. Maine's system, therefore, may not be perfect, but it is certainly not lagging in comparison with other states.

As to the issue of benefit adequacy, a number of points should be considered:

1. On average, Maine's system already replaces a higher percentage of an unemployed worker's prior wages than nearly 40 other states. (Recent comparisons suggest a less generous wage replacement rate. That, however, is due to the temporary benefit reductions which will expire after 1998.) In large part, this is due to the basic benefit computation formula under which a worker is entitled to weekly benefits which equal 1/22 of high quarter earnings. This issue is addressed in Recommendation #3.

2. Maine is one of relatively few states which pay dependency benefits in addition to a worker's normal weekly benefit amount. Under Maine law, an unemployed worker receives \$10 per dependent per week. That is one of the reasons that Maine's maximum weekly benefit is higher than the maximum in nearly 40 states. This feature of Maine's system has cost nearly \$20 million since 1990.

3. Maine is one of a handful of states that has a dislocated workers program, a program which provides dislocated workers with an additional 26 weeks of benefits while they are in an approved training program. This has cost the Fund more than \$20 million since 1990.

4. Maine is one of a handful of states that has an alternate base period. In a word, the alternate base period allows a broader range of base period earnings to be considered in determining whether a worker is eligible for unemployment benefits. Since its inception in 1993, the alternate base period has cost the Fund nearly \$16 million.

II. RECOMMENDATIONS

The minority recommendations seek to achieve a greater balance between the burdens assumed by employers and employees. And, in keeping with the spirit of compromise reflected in earlier temporary fixes, they incorporate employer tax increases with significant benefit reductions. While the majority report states that 12 or even 18 months of reserves are required for Fund solvency, the minority recommends a modest six months of reserves, based on the average of Maine's three most expensive benefit cost years in the past 20 years. Six months of reserves at that rate translates into a Fund balance of \$125 million in 2005, which would require \$322 million in new revenue: \$125 million reserve added to the \$197 million projected deficit. In addition, if the insured unemployment rate (IUR) is 3.0 in 1998, as the majority projects, these numbers should be adjusted to reflect an additional \$20 million in benefit cost savings.

Under the minority recommendations, employers will pay \$215 million in additional taxes between 1999 and 2005. Benefits, on the other hand, will be reduced by \$105 over the same period of time. In comparing the dollar amounts in the majority and minority reports, one should

bear in mind that the projections in the majority report cover the period from 1999 through 2003. The projections in this report reflect an additional two years, through 2005.

Therefore, the minority of the Commission makes the following specific recommendations for the immediate attention of the Legislature.

- | | |
|--|---------------------|
| 1. Increase the taxable wage base from \$7,000 to \$9,000 | \$115 million |
| 2. Replace the existing tax rate schedule with an array system | \$100 million |
| 3. Change the weekly benefit formula from 1/22 to 1/26 of high quarter earnings | \$70 million |
| 4. Reduce maximum weekly benefits from 52% to 48% of the average weekly wage | <u>\$35 million</u> |
| 5. Total Revenue Generated:
(Eliminates deficit and leaves six or more months of benefits, depending on the IUR in 1998.) | \$320 million |

III. LEGISLATION

Legislation recommended by the minority of the Commission is attached as Appendix R.

Appendices

- A. Authorizing Legislation
- B. Commission Membership
- C. Additional Reference Materials
- D. Maine Unemployment Compensation Trust Fund Projections Based on Current Law
- E. Disbursements and Revenues Under the State Unemployment Insurance Program, 1980-1996
- F. Proposal for Unemployment Insurance Program Solvency
- G. Adjudicator Survey on Part-Time and Voluntary Quit Denials
- H. Unemployment Compensation Taxable Wage Bases
- I. Taxable Wages as a Percent of Total Wages, Maine, 1938-1996
- J. Distribution of Claimants Based on Their Base Period Wages, July 1995 to June 1997
- K. Distribution of Employers by Tax Rate
- L. Array Contribution System--Majority Proposal
- M. Maine Unemployment Compensation Trust Fund Projections, 1996-2005
- N. Estimated Tax Rates under the Majority Scenario
- O. Projected Benefit Costs of Various Options, 1999-2005
- P. Seasonal Industry for Tax Year 1997
- Q. Legislation Recommended by the Majority
- R. Legislation Recommended by the Minority

CHAPTER 65

H.P. 268 - L.D. 332

Resolve, to Establish the Commission to Study the Unemployment Compensation System

Emergency preamble. Whereas, Acts and resolves of the Legislature do not become effective until 90 days after adjournment unless enacted as emergencies; and

Whereas, the nature of the labor force and economy has changed dramatically since the State's unemployment compensation system was established; and

Whereas, the Joint Standing Committee on Labor has been presented this session with substantial evidence that the unemployment compensation program is not meeting the changing needs of the labor force and the business community; and

Whereas, the Legislature has passed legislation in each of the last 2 legislative sessions creating short-term solutions to the problem of the solvency of the Unemployment Compensation Fund; and

Whereas, the solvency of the fund is a continuing issue that requires a long-term solution that would create more certainty for both employees and employers; and

Whereas, these issues are sufficiently urgent that they must be addressed during the next legislative session; and

Whereas, if the study commission to be established by this resolve were to begin its work 90 days after adjournment, it would not have enough time to study the issues and develop legislation to be considered during the next legislative session; and

Whereas, in the judgment of the Legislature, these facts create an emergency within the meaning of the Constitution of Maine and require the following legislation as immediately necessary for the preservation of the public peace, health and safety; now, therefore, be it

Sec. 1. Commission established. Resolved: That the Commission to Study the Unemployment Compensation System, referred to in this resolve as the "commission," is established; and be it further

Sec. 2. Membership. Resolved: That the commission consists of 11 members as follows:

1. The 5 current members of the State Advisory Council as established by the Maine Revised Statutes, Title 5, section 12004-I, subsection 53;

2. Four members of the Legislature, including 2 Senators appointed by the President of the Senate, and 2 Representatives appointed by the Speaker of the House of Representatives;

3. The Commissioner of Labor or the commissioner's designee; and

4. One member representing women's issues appointed by the Governor; and be it further

Sec. 3. Appointments. Resolved: That all appointments must be made no later than 30 days following the effective date of this resolve. The appointing authorities shall notify the Executive Director of the Legislative Council upon making their

appointments. When the appointment of all members is complete, the Chair of the Legislative Council shall call and convene the first meeting of the commission. The commission shall select a chair from among its legislative members; and be it further

Sec. 4. Staff assistance. Resolved: That the commission may request staffing and clerical assistance from the Legislative Council; and be it further

Sec. 5. Duties. Resolved: That the commission shall study the unemployment compensation program to assess whether it is meeting the changing needs of the labor force and the business community. The commission shall examine the seasonality exclusion, disqualification of persons who lose work because of problems with child care or transportation, the timeliness of the extended benefit trigger, the adequacy of benefit duration in the dislocated worker benefit program, the solvency of the

Unemployment Compensation Fund and the experience rating system, the disqualification of persons who seek part-time work, and minimum earnings thresholds; and be it further

Sec. 6. Reimbursement. Resolved: That the commission members who are Legislators are entitled to receive the legislative per diem, as defined in the Maine Revised Statutes, Title 3, section 2, and reimbursement for travel and other necessary expenses for each day's attendance at meetings of the commission, upon application to the Executive Director of the Legislative Council. The Executive Director of the Legislative Council shall administer the commission's budget; and be it further

Sec. 7. Meetings. Resolved: That the commission may meet up to 4 times; and be it further

Sec. 8. Report. Resolved: That the commission shall submit a report to the Joint Standing Committee on Labor by January 1, 1998 with specific recommendations including legislation if necessary; and be it further

Sec. 9. Legislation. Resolved: That the Joint Standing Committee on Labor may report out legislation that the committee determines is necessary to address issues that the commission is required to study pursuant to section 5 of this resolve; and be it further

Sec. 10. Appropriation. Resolved: That the following funds are appropriated from the General Fund to carry out the purposes of this resolve.

1997-98

LEGISLATURE

Commission to Study the Unemployment Compensation System

Personal Services	\$880
All Other	
1,300	
TOTAL	<hr/> \$2,180

Provides funds for the per diem and expenses of legislative members and miscellaneous costs, including printing, of the Commission to Study the Unemployment Compensation System.

Emergency clause. In view of the emergency cited in the preamble, this resolve takes effect when approved.

Effective June 12, 1997.

Members

COMMISSION TO STUDY THE UNEMPLOYMENT COMPENSATION SYSTEM

Steve Clarkin

International Paper Company
9 Green Street
Augusta ME 04330

Rep. Ed Povich

26 South Street
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Rep. Bob Pendleton

110 Holmes Road
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APPENDIX C

The following reference materials were provided to the Commission during its deliberations.

Baldwin, Marc, Roberta Spalter-Roth and Young-Hee Yoon, *Unemployment Insurance: Barriers to Access for Women and Part-Time Workers*, a project of the National Commission for Employment Policy, Washington, D.C., July 1995.

Collected Findings and Recommendations: 1994-1996, Reprinted from Annual Reports of the Advisory Council on Unemployment Compensation to the President and Congress, Washington, D.C., 1996.

Fitzgerald, John, *Working Hard Falling Behind: A Report on the Maine Working Poor Parents Survey*, a project of the Maine Center for Economic Policy, Augusta, Maine, March 1997.

Food for Life and Work Through Normal Channels: Ending Hunger in Maine”, Report of the Maine Blue Ribbon Commission on Hunger and Food Security, Augusta, Maine, November 1, 1996.

Hastedt, Christine B. and Luisa S. Deprez, “Assistance to Poor Families: What’s Next?”, *Maine Choices 1997: A Preview of State Budget Issues*, edited by the Maine Center for Economic Policy, Augusta, Maine, November 1996.

Highlights of State Unemployment Compensation Laws, National Foundation for Unemployment Compensation & Workers’ Compensation, Washington, D.C., January 1997.

Maine Commission to Study Poverty Among Working Parents, Report of the, Augusta, Maine, November 15, 1996.

Seguino, Stephanie, *Living on the Edge: Women Working and Providing for Families in the Maine Economy, 1979-1993*, Margaret Chase Smith Center for Public Policy, Orono, Maine, January 1995.

Tannenwald, Robert and Christopher J. O’Leary, “Unemployment Insurance Policy in New England: Background and Issues”, *New England Economic Review*, May/June 1997.

“Unemployment Compensation: Continuity and Change”, *University of Michigan Journal of Law Reform*, Ann Arbor, Michigan, Special Issue, March 30 & 31, 1995.

Wandner, Stephen A. and Thomas Stengle, “Unemployment Insurance: Measuring Who Receives It”, *Monthly Labor Review*, July 1997.

Women, Low-Wage Workers and the Unemployment Compensation System: State Legislative Models for Change”, National Employment Law Project, New York, New York, October 1997.

APPENDIX D

**Maine Unemployment Compensation Trust Fund Projections
Based on Current Law**

(Available in printed report only)

APPENDIX E

**Disbursements and Revenues
Under the State Unemployment Insurance Program
1980-1996**

(Available in printed report only)

APPENDIX F PROPOSAL FOR UNEMPLOYMENT INSURANCE PROGRAM SOLVENCY

Made by Sen. John Cleveland

January 12, 1998

SOLVENCY TARGET: ACUC model; @ 12 months by 2003; \$233,900,000

Funds required to achieve solvency:

\$233,900,000	Solvency reserves by 2003.
+ (88,500,000)	Projected deficit 2003.
\$322,400,000	Total <u>new</u> funds needed to meet solvency target in 2003.

POSSIBLE FINANCIAL RESOURCES

Current and new non-employer resources:

\$9,000,000	3.0 → 2.8 IUR 1997 actual.
\$20,000,000	3.5 → 3.0 IUR 1998 estimate.
\$31,500,000	Additional interest income from new balances averaging \$100,000,000/year (6.3% x \$100,000,000/yr x 5 years; 1999-2003).
\$24,500,000	Maintain 6% benefit reduction (1999-2003).
\$4,900,000	Balance available from new 0.2% employee tax.
<u>\$50,000,000</u>	Contribution from cigarette tax relief (\$10,000,000/year x 5 years; 1999-2003).
<i>\$139,900,000</i>	<i>SUBTOTAL, CURRENT & NEW NON-EMPLOYER RESOURCES</i> <i>(43% OF TOTAL)</i>

Current and New Employer Resources

\$60,000,000	Maintain the resources from the 0.4% surtax (\$12,000,000/year x 5 years; 1999-2003) to be incorporated into new array system.
<u>\$122,500,000</u>	Employer tax increase (\$24,500,000/year x 5 years; 1999-2003); approximate average annual increase: \$24,500,000/year ÷ \$101,000,000/year = 24.3%.
<i>\$182,500,000</i>	<i>SUBTOTAL, CURRENT AND NEW EMPLOYER RESOURCES</i> <i>(57% OF TOTAL)</i>

* * * * *

\$139,900,000	
+ <u>\$182,500,000</u>	
\$322,400,000	TOTAL; FUND BALANCE BY 2003 FOR SOLVENCY ONLY

UNEMPLOYMENT TAX APPLICATION

- (1) Use array system.
- (2) Base on \$12,000 wage base.
- (3) Begin in 1999.

Possible consequences of no action:

- * (\$188,300,000) Deficit by 2005.
- * \$21,330,000 Interest costs go to Washington.
- * \$9,800,000 FUTA credit reduction in 2005.
- * \$31,500,000 Lost new interest earnings through 2003.
- * \$50,000,000 Lost cigarette tax relief revenue through 2003.
- * \$24,500,000 Lost revenue from continuing 6% benefit reduction through 2003.
- * Lost federal tax credits Unpaid borrowed funds from the USDOL may result in employers paying both their Maine unemployment tax and an additional 0.3-5.4% federal unemployment tax.
- * Automatic surtax Current Maine law requires an additional automatic surtax in an amount required to pay the interest due that year.
- * Interest-free money New federal laws will make it more difficult to borrow interest-free money in the future.
- * Tax burdens Heavy tax burdens on employers, possibly during recession, worsening state's economy.
- * Employee burdens Possible new/greater benefit cuts, further job cuts; wages/benefits are cut or not increased by employers; economic conditions, recession worsen.
- * Crisis management Decisions are made in crisis situation; results are poor for workers and employers.

SPREAD SHEET

FINANCIAL IMPACT OF NO ACTION

*Costs and lost revenues through 2005: **\$296,800,000***

The Unemployment Compensation Fund debt will still be \$200,000,000

	1999	2000	2001	2002	2003	2004	2005
Amount Borrowed for Fund				28,100,000	51,700,000	55,300,000	53,200,000
FUTA Offset Penalty							9,800,000 (rate: 0.3%)
Interest Surtax				1,600,000 (rate: 0.1%)	3,200,000 (rate: 0.1%)	6,500,000 (rate: 0.2%)	9,900,000 (rate: 0.3%)
6% Reduction on Max Benefits	4,100,000	4,300,000	4,500,000	4,700,000	5,000,000	5,200,000	5,400,000
Lost Interest Earnings (based on \$100m)	6,500,000	6,300,000	6,300,000	6,300,000	6,300,000	6,300,000	6,300,000
TOTAL	10,600,000	10,600,000	10,800,000	40,700,000	66,200,000	73,300,000	84,600,000

BENEFITS

Revenue Source

\$44,000,000 Employee tax of 0.2% per year, with a \$12,000 wage base (\$8,800,000/yr x 5 years; 1999-2003).

Benefit Changes

\$7,100,000 Remove the seasonality exclusion.

\$32,000,000 Remove the disqualification for seeking part-time work.

\$39,100,000 *TOTAL COST OF CHANGES IN BENEFITS*

* * * * *

\$44,000,000
- \$39,100,000
\$4,900,000 NET GAIN

SPREAD SHEET

Approximate Cash Resources by Year
12-month ACUC target: \$233,900,000 by 2003

	1998	1999	2000	2001	2002	2003
IUR 2.8%	9,000,000 (1997)					
IUR 3.0%	20,000,000					
0.4% surtax		12,000,000	12,000,000	12,000,000	12,000,000	12,000,000
6% reduction		4,100,000	4,300,000	4,500,000	4,700,000	5,000,000
Interest 6.3%		6,300,000	6,300,000	6,300,000	6,300,000	6,300,000
Employee tax excess		1,700,000	1,300,000	1,000,000	600,000	300,000
Cigarette tax contribution		10,000,000	10,000,000	10,000,000	10,000,000	10,000,000
Employer tax increase		24,840,000	24,840,000	24,840,000	24,840,000	24,840,000
TOTAL	29,000,000	58,940,000	58,740,000	58,640,000	58,440,000	58,440,000

APPENDIX G Adjudicator Survey on Part-Time and Voluntary Quit Denials

Gail Thayer surveyed the claims adjudicators and asked them to guess the number of claimants who were denied benefits for the following reasons:

Availability limited to part-time work	1048
[Several adjudicators commented that many individuals in this category were retirees, students and individuals without child care.]	
Quit due to loss of transportation	1581
Quit due to loss of child care	540

NOTE: These numbers are guesses and represent only individuals who filed claims and earned sufficient wages to satisfy the monetary eligibility requirements. If eligibility were expanded to allow benefits in these situations, we could expect an increase in the number of individuals filing claims--particularly in the part-time arena.

UNEMPLOYMENT COMPENSATION TAXABLE WAGE BASES

Hawaii	26,000
Alaska	24,200
Idaho	21,600
Washington	21,300
Oregon	20,000
New Jersey	18,600
Utah	17,800
Rhode Island	17,600
Nevada	17,200
Minnesota	16,300
Montana	16,000
Iowa	15,200
Virgin Islands	14,400
New Mexico	14,200
North Dakota	13,900
Wyoming	12,200
North Carolina	12,100
Connecticut	12,000
Oklahoma	10,900
Massachusetts	10,800
Wisconsin	10,500
Colorado	10,000
Michigan	9,500
Arkansas	9,000
D.C.	9,000
Illinois	9,000
Ohio	9,000
Texas	9,000
Delaware	8,500
Georgia	8,500
Maryland	8,500
Alabama	8,000
Kansas	8,000
Kentucky	8,000
Missouri	8,000
New Hampshire	8,000
Pennsylvania	8,000
Vermont	8,000
Virginia	8,000
West Virginia	8,000
Louisiana	7,700
Arizona	7,000
California	7,000
Florida	7,000
Indiana	7,000
Maine	7,000
Mississippi	7,000
Nebraska	7,000
New York	7,000
South Carolina	7,000
South Dakota	7,000
Tennessee	7,000

UNEMPLOYMENT COMPENSATION TAXABLE WAGE BASES

NEW ENGLAND STATES

Rhode Island	17,600
Connecticut	12,000
Massachusetts	10,800
New Hampshire	8,000
Vermont	8,000
Maine	7,000

APPENDIX I

**Taxable Wages
as a Percent of
Total Wages, Maine
1938-1996**

(Available in Printed Report Only)

APPENDIX K

Distribution of Employers by Tax Rate

(Available in Printed Report Only)

