

No. 956

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UNEMPLOYMENT COMPENSATION

HOW MICHIGAN COMPARES WITH OTHER STATES

Council Comments No. 953, issued May 1985, analyzed the progress Michigan has made since 1982 in reducing its unemployment compensation fund debt. This Council Comments compares Michigan to the 13 other major states with over five million people on a number of key features of unemployment compensation for both 1982 and 1984. Several of these states, in addition to Michigan, have made changes in their unemployment compensation laws since 1982.

In Brief

As compared to the 13 other major states:

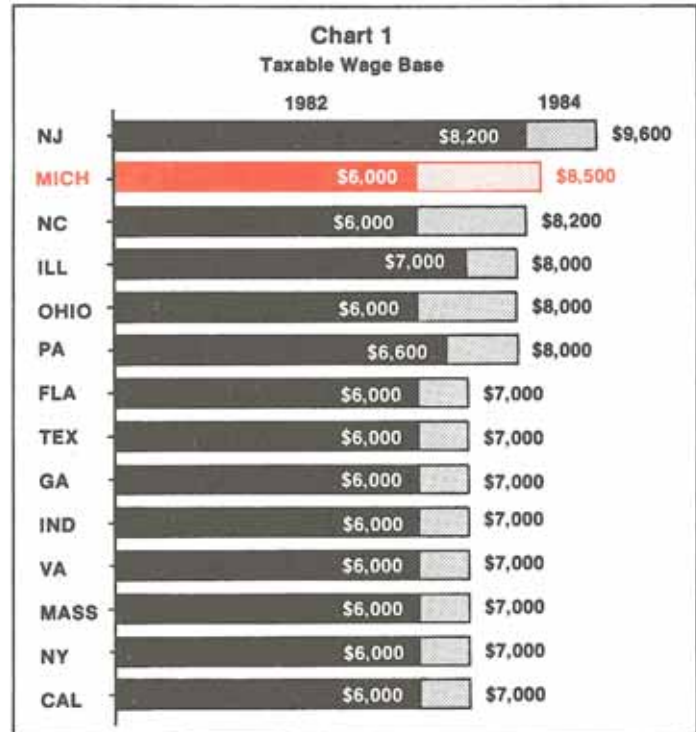
- Between 1982 and 1984 Michigan increased its taxable wage base more than any other major state. In 1984 Michigan had the second highest taxable wage base.
- Michigan had the highest maximum tax rate in both years, and had the third greatest increase in its maximum tax rate between 1982 and 1984.
- The combination of a high taxable wage base and a high maximum tax rate gave Michigan the highest maximum tax per employee in both 1982 and 1984.
- The average tax per employee in Michigan was highest in 1984 and fourth highest in 1982.
- When total unemployment taxes are divided by total payrolls in the state, Michigan ranked second highest in 1984 and fifth highest in 1982 in the average tax rate as a percent of total wages.
- Michigan ranked fifth highest in maximum benefits in both 1982 and 1984.
- Although the average weekly benefit in Michigan declined by seven percent between 1982 and 1984, Michigan ranked highest in both years.
- The average weekly benefit as a percent of the state average weekly wage also declined in Michigan between 1982 and 1984. Michigan ranked fourth highest in 1982 and was tied for fourth highest in 1984.
- In total unemployment loans outstanding from the federal government, Michigan was highest in 1982 and third highest in 1984. During that period Michigan reduced its debt by a greater amount than any of the other states.

UNEMPLOYMENT TAXES

The unemployment compensation financing package adopted by the Michigan legislature in December 1982 made a number of changes designed to increase the tax revenues of the system. The taxable wage base was increased, tax rates were increased and permitted to rise faster than they had previously, and negative-balance employers were subject to a new solvency tax and lost a credit against the state tax for one-half of federal unemployment penalty taxes paid.

Taxable Wage Base

The 1982 Michigan legislation provides for a series of annual increases in the taxable wage base (the maximum amount of a worker's earnings subject to tax). The Michigan taxable wage base was increased from \$6,000 in 1982 to \$8,000 in 1983, \$8,500 in 1984, \$9,000 in 1985 and \$9,500 in 1986. As shown in Chart 1, Michigan increased its taxable wage base more than any other major state between 1982 and 1984, both in total dollars (up \$2,500) and as a percent (up 42%). All of the 14 states increased their taxable wage bases to at least \$7,000 between 1982 and 1984 to conform to an increase in the federal taxable wage base. In 1984 Michigan had the second highest taxable wage base among the 14 states. For 1985 four of these 14 states (Illinois, New Jersey, North Carolina and Michigan) have increased their taxable wage bases by \$500.



Tax Rates and Yield Per Employee

In 1984 Michigan had the highest maximum tax rate of any of the 50 states. This, combined with a high taxable wage base, means that the potential maximum tax for an employer with a very negative experience rating could have been as much as \$935 per employee in 1984 (11% x \$8,500), compared to \$540 in 1982 (9% x \$6,000). Table 1 shows that the maximum rates and yields vary widely among the 14 most populous states.

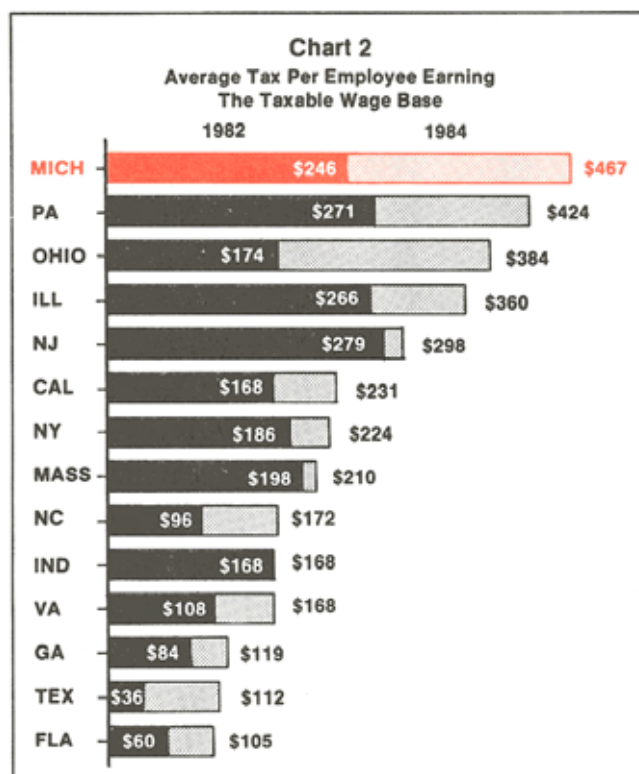
Table 1

Maximum Rate and Tax Per Employee
Earning the Taxable Wage Base
1982 and 1984

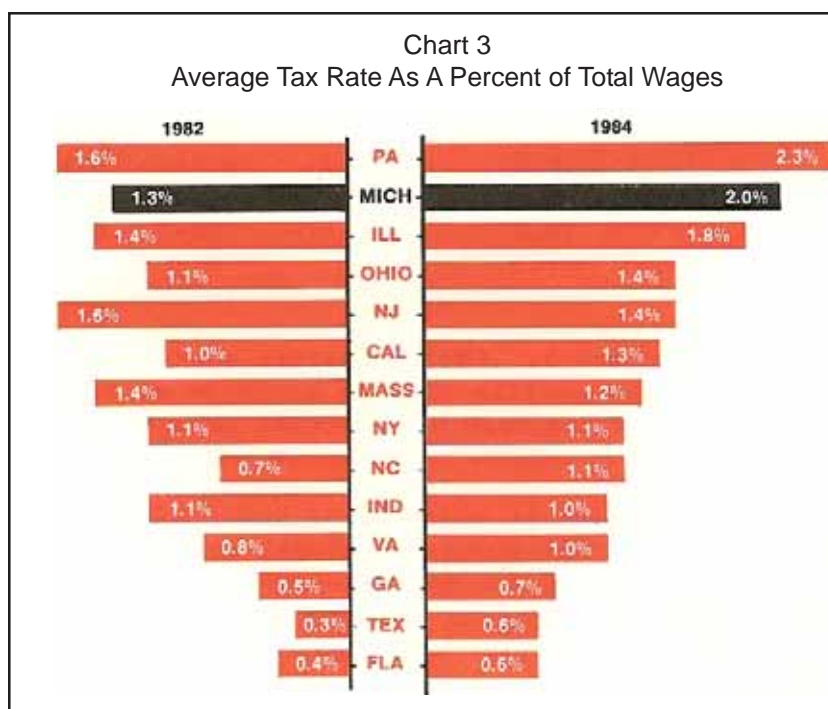
	<u>Maximum Rate*</u>		<u>Maximum Tax</u>	
	<u>1982</u>	<u>1984</u>	<u>1982</u>	<u>1984</u>
Michigan	9.0%	11.0%	\$540	\$935
Penn	6.6	9.4	436	756
Texas	4.0	8.4	240	591
Virginia	6.9	7.1	414	497
N Carolina	5.7	6.8	342	561
Illinois	5.7	6.7	399	536
Ohio	4.8	6.7	399	536
New Jersey	6.2	6.2	508	595
Mass	6.7	6.1	402	427
Georgia	5.4	5.4	323	377
New York	5.2	5.2	312	364
Calif	4.0	4.7	240	329
Florida	4.5	4.5	270	315
Indiana	3.3	4.5	198	315

* Rounded to nearest 1/10 of 1%.

The average tax paid by employers in Michigan in 1984 was 5.5 percent, which was the highest in the 14 states. Again, with a high taxable wage base, this means that the average tax per employee earning the taxable wage base is high in Michigan. As shown in Chart 2 the 1984 average in Michigan was \$467, the highest in the 14 states. In 1982 Michigan at \$246 ranked fourth highest. The increase in Michigan between 1982 and 1984 was the highest in dollar amount (\$221) and third highest after Texas and Ohio in percentage terms. Note, however, that the average tax rate and the average tax per employee reflect not only statutory provisions but also past unemployment levels, and Michigan has had high levels of unemployment. In both 1982 and 1984 the total unemployment rates in Michigan were the highest of the 14 states.



When 1984 total unemployment taxes are divided by total payrolls in the state (including payrolls in excess of the taxable wage base), Michigan at 2.0 percent ranked second highest behind Pennsylvania (2.3%), as shown in Chart 3. Michigan had ranked fifth highest of the 14 states in 1982. Michigan and Pennsylvania also had the greatest increase in the average tax rate on total payroll between 1982 and 1984.

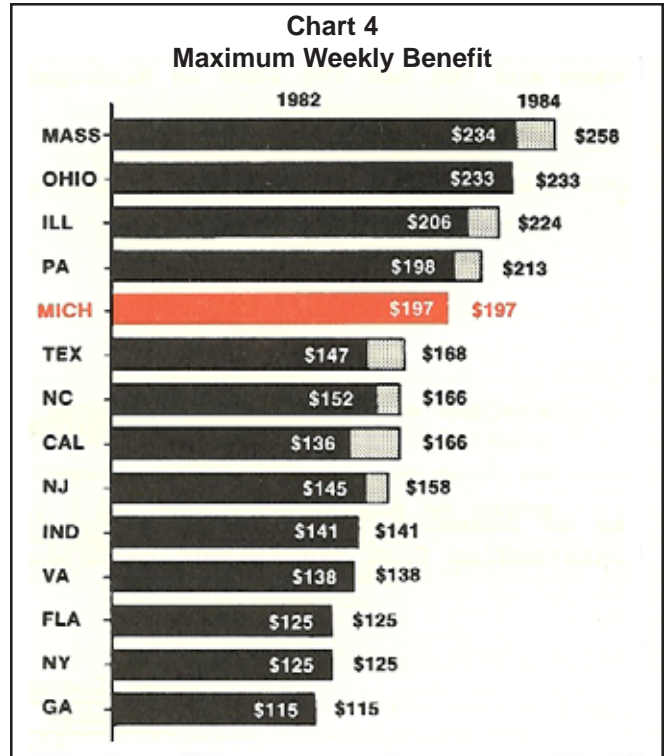


UNEMPLOYMENT BENEFITS

The 1982 Michigan unemployment compensation package also made a number of changes in unemployment benefits to reduce the cost of the system. The maximum weekly benefit, which had been indexed to 58 percent of the state average weekly wage, was frozen at the 1982 level of \$197 through 1986, after which it will begin to rise again. Benefits below the maximum were reduced from 70 percent to 65 percent of after-tax earnings. And, eligibility was tightened by increasing the minimum work requirement from 18 to 20 weeks and the minimum earnings requirement from 20 to 30 times the minimum wage.

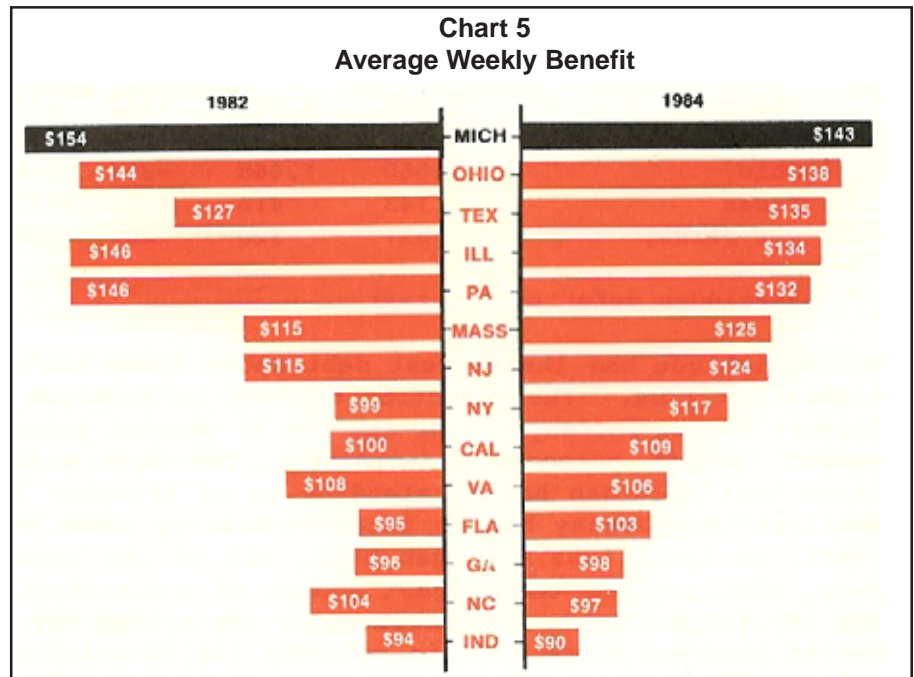
Maximum Weekly Benefit

Chart 4 shows the maximum weekly benefit amounts in 1982 and 1984. The maximums include dependent allowances in those states that provide additional funds for dependents. Michigan continues to rank fifth highest among the 14 states in the maximum weekly benefit. Seven of the 14 states, including Michigan, did not increase maximum benefits between 1982 and 1984. In the seven states that did increase maximum benefits, the increases range from eight percent to 22 percent.



Average Weekly Benefits

Average weekly benefits declined in seven of the 14 states between 1982 and 1984 (see Chart 5). Average benefits in Michigan declined from \$154 to \$143, a seven percent decline. This reflects the decrease in the benefit from 70 percent to 65 percent of after-tax earnings, offset in part by the tightening of eligibility requirements (which tends to raise the average weekly benefit amount because more low income workers who receive low benefits are disqualified). Michigan continues to have the highest average weekly benefit of the 14 most populous states.



While Michigan has the highest average weekly benefit, it also has the highest average weekly wage. The average weekly benefit as a percent of the state average weekly wage was 36 percent in Michigan in 1984, compared to 41 percent in 1982 (see Table 2). Three states in 1984 had higher benefits as a percent of the average weekly wage and two had the same as Michigan.

<u>State</u>	<u>1982</u>	<u>1984</u>
Ohio	43%	39%
Pennsylvania	46	39
Texas	37	38
MICHIGAN	41	36
Illinois	42	36
Massachusetts	37	36
New Jersey	34	34
Virginia	38	34
Florida	33	34
North Carolina	39	34
Georgia	34	31
New York	28	30
California	29	29
Indiana	30	27

OUTSTANDING LOANS

As of December 1984, eight of the 14 most populous states did not have loans outstanding from the federal government and six did, as shown in Table 3 below.

Table 3

Total Loans Outstanding* as of
December 31, 1982 and 1984
(in millions)

	<u>1982</u>	<u>1984</u>	<u>Change 1982 - 1984</u>		<u>Federal Penalty Tax on Wages Paid During 1984</u>
			<u>Amount</u>	<u>%</u>	
Pennsylvania	\$2,145	\$1,971	- \$-174	-2	0.8
Illinois	2,069	1,707	-362	-13	0.8
MICHIGAN	2,186	1,666	-520	-20	0.7
Ohio	1,660	1,446	-214	-5	0.7
Texas	143	416	+270	+191	0.3
New Jersey	521	320	-201	-39	0.6

* Excludes deferred interest.

While Michigan had the highest debt among these states in 1982, it was third highest in 1984. The reduction of debt in Michigan of \$520 million was the largest amount for any state, and the 20 percent reduction in Michigan was the second largest percentage decrease. The \$246 million of interest-bearing loans that Michigan had outstanding as of December 31, 1984, was the second smallest (New Jersey had no interest-bearing loans outstanding at the end of 1984). In April 1985 Michigan paid all of its interest-bearing debt. However, Michigan had the largest amount of noninterest-

bearing loans outstanding (\$1,420 million). While it still has a long way to go, Michigan has made better progress since 1982 in reducing its outstanding loans than most of the other populous states.

Employers in states that have had outstanding loans for two years are subject to federal (FUTA) penalty taxes (technically, they lose a portion of their credit against federal unemployment taxes). These penalty taxes are paid on the federal taxable wage base of \$7,000. The 0.7 percent penalty tax on wages paid by Michigan employers in 1984 was about average.

Sources: The comparative data in this report are derived from the U. S. Department of Labor publication Quarterly Unemployment Insurance Compilation and Characteristics, February 1985, and the UBA/National Foundation for Unemployment and Workers Compensation publications Highlights of State Unemployment Compensation Laws, January 1984 and 1985.