

Council Comments:

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UNEMPLOYMENT COMPENSATION: HOW MICHIGAN COMPARES WITH OTHER STATES

This **Council Comments** is the second in a two-part series dealing with the unemployment compensation system in Michigan. Part one, **Council Comments** No.988, focused on the solvency of the trust fund in Michigan. This issue compares Michigan to the 14 other states with over 5 million people, and to the nation as a whole, on a number of features of unemployment compensation. The data used for this comparison was derived from the U.S. Department of Labor publication, UI Data Summary, 3rd Quarter CY1989, December 1989, and the publication of the National Foundation for Unemployment Compensation and Workers' Compensation, Highlights of State Unemployment Compensation Laws, January 1989 and 1990.

IN BRIEF

Of the 15 major states, Michigan was:

- * Among the highest in maximum and average weekly benefit amounts
- * Among the highest in wage-replacement ratios
- * The second longest in average actual duration of benefits
- * Among the highest in unemployment rates
- * The highest in maximum tax rates and highest in average tax rate
- * The 8th highest in amount of trust fund reserves
- * The only state with federal loans outstanding

Unemployment Benefits

Eligibility Under Michigan law, an eligible employee must have been employed at least 20 weeks during the past year, and must have earned 30 times the state minimum hourly wage of \$3.35 (\$100.50 per week for a base period wage of \$2,010). The federal minimum wage was increased to \$3.80 on April 1, 1990, and is scheduled to increase to \$4.25 on April 1, 1991. At the time this was printed, legislation was still pending to bring the minimum wage in Michigan in line with the federal changes. Alternatively, an eligible employee must have been employed 14 weeks and must have earned 20 times the state average weekly wage (a base period wage of \$9,484.40 in 1990).

Duration of Benefits The maximum length of time a claimant can claim benefits is standard at 26 weeks in every state except Massachusetts and Washington, both of which allow individuals to draw up to 30 weeks of benefits (excluding periods covered by extended benefits). In most states the length of time a claimant can claim benefits varies with the amount of wages earned over the past year. The length of time in Michigan is determined by the number of credit weeks earned. In 8 of 50 states, including Illinois and New York of the 15 major states, every claimant that meets the qualification requirements is eligible for benefits for the maximum potential time, 26 weeks.

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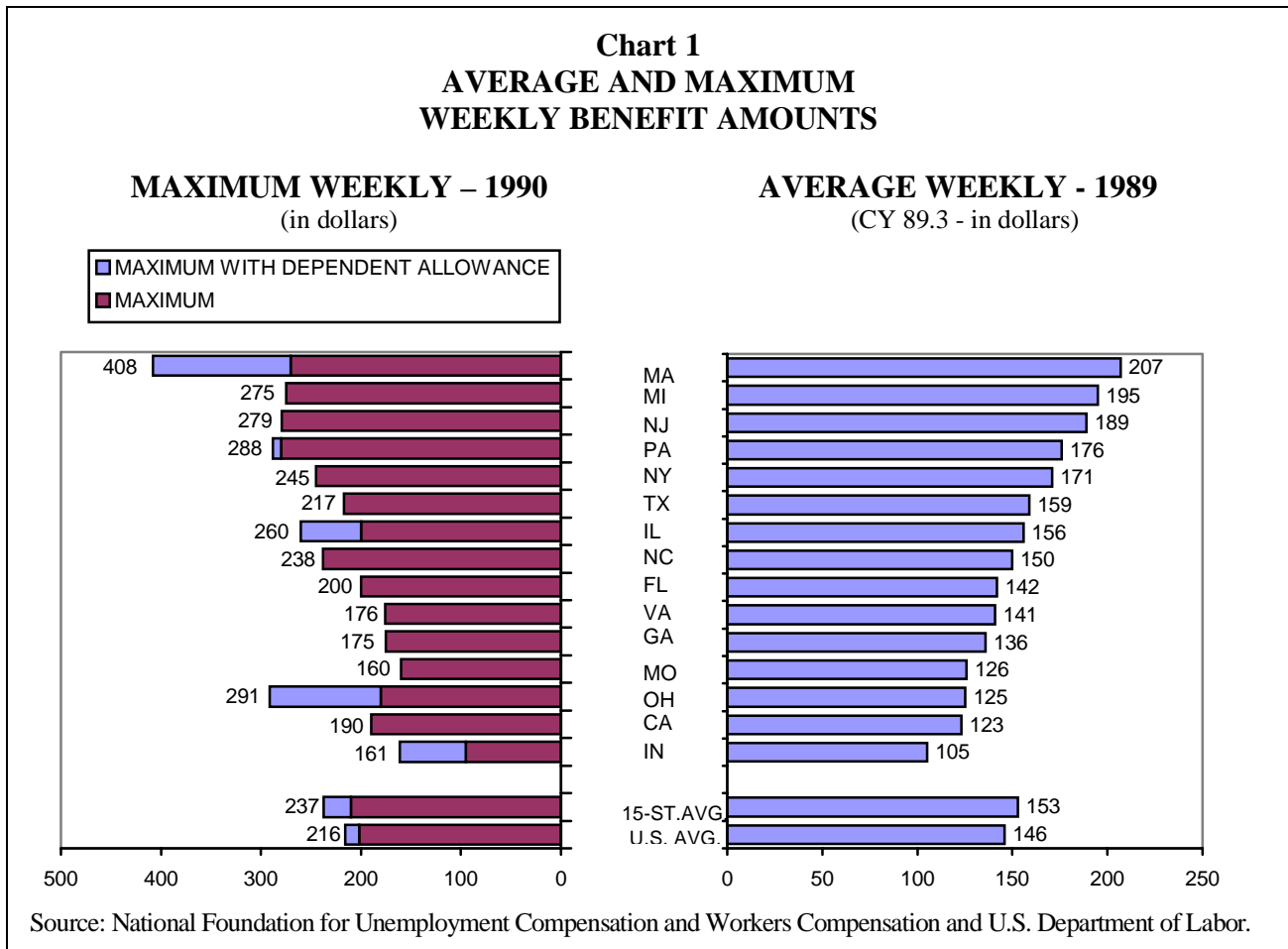
ROBERT L. QUELLER, Vice President-Executive Director

The average actual duration of benefits in Michigan over a 12-month period was 13.5 weeks, ranking Michigan third highest among the 15 major states. Benefits in the 15 most populous states averaged 12.9 weeks and the nation averaged 12.7 weeks in duration over this same time period.

Level of Benefits There are two fundamental objectives in setting unemployment compensation benefit levels: the benefit amount should be directly related to the individual’s wage when employed and the weekly benefit should generally replace about half of the weekly income when employed. At the same time, the benefit should not undermine any incentive to return to the labor force. Benefit levels in Michigan replace 70% of the recipient’s “after tax earnings,” up to a maximum level, beyond which a claimant cannot receive a full wage replacement. Some states have provisions to provide allowances for dependents.

Michigan is one of 6 of the 15 major states that have indexed their maximum weekly benefit to the state average weekly wage. The Michigan maximum is 58% of the state average weekly wage, which is \$474.22 for the 12-month period ending June 30, 1989. The 1990 maximum weekly benefit of \$275 will prevent claimants whose after tax earnings are greater than \$392 per week from receiving 70% of their after tax earnings. On average, maximum weekly benefits in the 15 states replace about 50% of average weekly wages while, nationally, maximum weekly benefits replace about 52% of average weekly wages.

The minimum weekly benefit in Michigan, \$59, is tied with New Jersey as the highest minimum



weekly benefit payment of the 15 states. This is significant, because generally the lower the minimum benefit allowed the lower the threshold for which lower wage and part-time employees can qualify for benefits.

Average Weekly Benefits In Michigan, weekly benefits average \$195.39, the second highest of the 15 major states. Michigan was \$42 per week higher than the average of the 15 states and \$50 per week higher than the average for the rest of the nation (see **Chart 1**). Average weekly benefits in Michigan replaced 41.9% of average weekly wages, compared to an average wage replacement of 35.9% for the 15 largest states and an average of 37.6% for the nation.

The maximum and average weekly benefits as a percent of average weekly wages are wage-replacement ratios, used to examine the extent to which benefits are replacing lost wages. These wage-replacement ratios indicate that Michigan is replacing lost wages at higher rates than the average of the 15 most populous states and the national average.

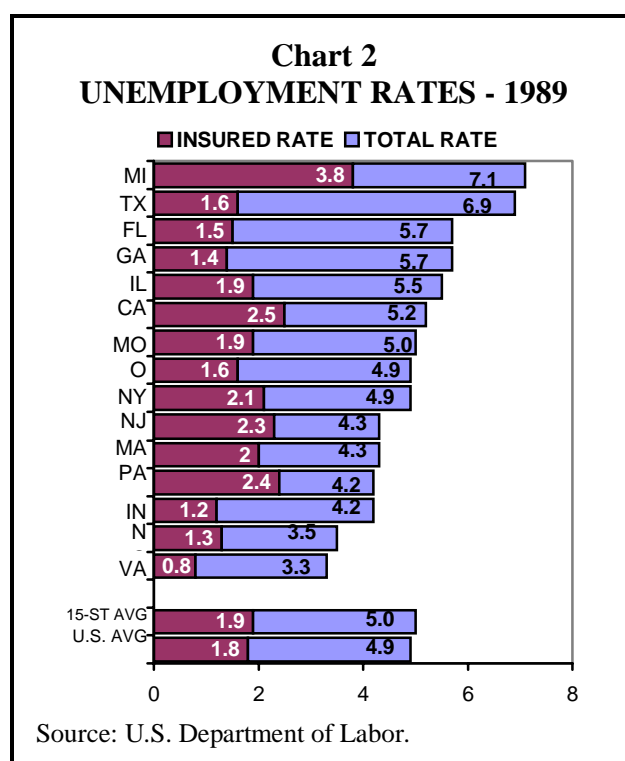
Unemployment Rates

The insured unemployment rate of 3.8% and total unemployment rate of 7.1% ranked Michigan the highest among the 15 states in both measures of unemployment (see **Chart 2**). The insured unemployment rate indicates the number of individuals covered by the unemployment compensation system who are unemployed and are filing claims for regular benefits. The total unemployment rate measures all individuals in the civilian labor force, at least 16 years old, who do not have a job, but are available for and are actively seeking work, including those people on temporary layoff. Using the insured unemployment rate as a comparative measure should be done cautiously, due to differences between states in eligibility, disqualification, duration, and use of a waiting period.

Unemployment Taxes

The unemployment compensation system in Michigan, and in every other state except Alaska and New Jersey, is 100% employer financed. Alaska and New Jersey finance their systems through both employee and employer taxes.

The federal government levies an employer payroll tax upon the first \$7,000 of wages paid to each employee. This federal tax is used to pay for the administrative costs of operating the unemployment compensation program, the federal share of extended benefits, and also to provide funds which a state may borrow when it has exhausted its own reserves. The federal tax rate of 6.2% is reduced by 5.4% if a state's unemployment compensation program meets certain minimum standards. Thus, the effective federal tax rate is 0.8% of taxable wages, excluding any penalty taxes.



Taxable Wage Base Each state must set its taxable wage base at least equal to the federal taxable wage base to permit its employers to receive the maximum credit against the federal payroll tax. Sixteen states, including 7 of the 15 most populous states, have the \$7,000 minimum taxable wage base, while the other states have set their taxable wage bases greater than the federal wage base. Among the most populous, these include Ohio and Pennsylvania - \$8,000, Georgia - \$8,500, Illinois and Texas - \$9,000, Michigan - \$9,500, North Carolina - \$11,100, and New Jersey \$13,900 (see **Table 1**). Seventeen states in the nation, including New Jersey and North Carolina among the most populous, have indexed their taxable wage bases as a fixed percentage of average annual wages. The taxable wage base in Michigan is subject to revision through legislative action.

Minimum and Maximum Tax Rates State taxes levied on employers in Michigan range from the minimum 1% flat-rate tax to a 10% tax on taxable wages, depending on an employer's "experience rating" (see **Table 2**). The maximum tax rates in Michigan and Tennessee are tied as the highest in the nation. The relatively wide range of tax rates and high maximum tax rate help to make Michigan one of the most experience-rated unemployment compensation systems. Most states have provisions to respond to financial difficulties. For Michigan, this is a solvency tax that applies to "negative balance" employers with more than 4 years' liability when the trust fund has outstanding federal interest-bearing loans. With this solvency tax of up to 2% of taxable wages, the maximum potential tax rate in Michigan can be as high as 12%.

The relatively high maximum tax rate and taxable wage base combine to give Michigan a maximum potential tax yield of \$950 per employee (\$9,500 x 10%) for an employer with a negative experience rating. This is the highest among the 15 states (\$1,140 per employee with the solvency tax).

Average Tax Rate The average tax rate as a percent of taxable wages is an indicator of the actual level of taxes levied against employers. In Michigan, taxes were levied at an average of 3.8% of taxable wages, the highest of the 15 most populous states. On a national basis, only Alaska had an average tax rate higher than Michigan, at 4.8% of taxable wages.

Table 1**DISTRIBUTION OF STATES BY TAXABLE WAGE BASE -- 1990**

	\$7,000	16	States
	\$7,001 - \$9,000	14	States
	\$9,001 - \$11,000	5	States
	\$11,001 - \$15,000	10	States
	\$15,001 - Above	5	States

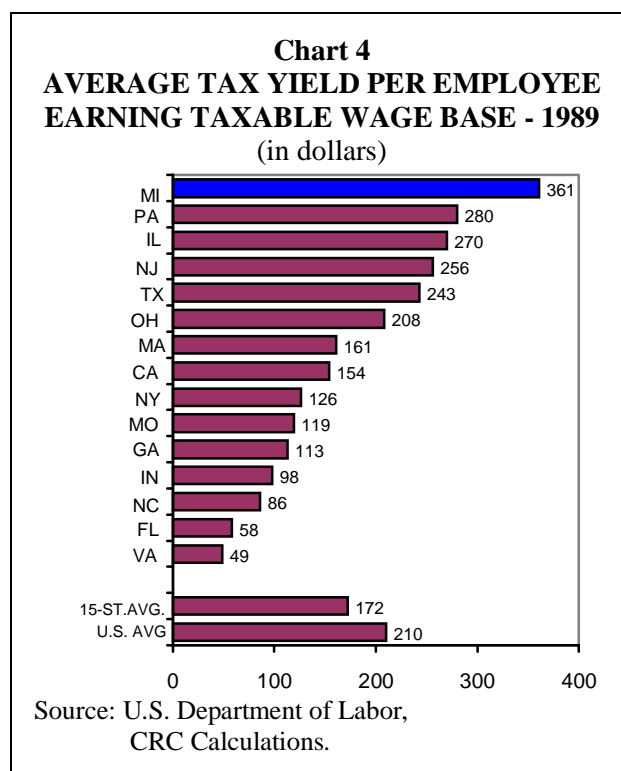
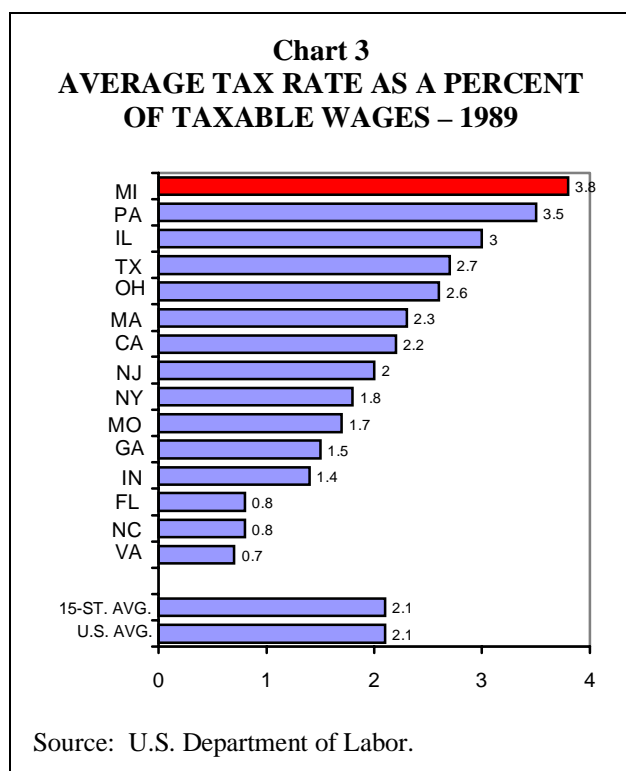
Source: National Foundation for Unemployment Compensation and Workers' Compensation.

Table 2**MINIMUM AND MAXIMUM TAX RATES AND MAXIMUM TAX YIELD AS A PERCENT OF TAXABLE WAGES -- 1990**

	Minimum <u>Tax Rate</u>	Maximum <u>Tax Rate</u>	Maximum <u>Tax Yield</u>
MI	1.0%	10.0%	\$950
PA	1.4775	9.062	725
GA	0.06	8.64	734
OH	0.9	7.9	632
IL	0.6	6.9	621
NC	0.012	6.84	759
TX	0.29	6.29	566
VA	0.1	6.2	434
MA	1.8	6.0	420
MO	0.0	5.58	391
NJ	0.4	5.4	751
NY	0.3	5.4	378
IN	0.2	5.4	378
CA	0.1	5.4	378
FL	0.1	5.4	378

Source: National Foundation for Unemployment Compensation and Workers' Compensation.

Michigan's average tax rate combined with the relatively high taxable wage base creates the highest average tax yield of the 15 major states, \$361 per employee earning the taxable wage base. Note, however, that the average tax levels reflect not only the statutory provisions of each state but also past unemployment levels, and Michigan has historically had relatively high levels of unemployment.



Trust Fund Reserves

Trust Fund Balance In Michigan, trust fund reserves totaled \$1,222 million, 8th highest of the 15 most populous states. Michigan, however, was the only state with federal loans outstanding, with over \$781 million in interest-free loans owed from prior to 1982 (see **Table 3**). A voluntary payment in November 1989 of \$179 million reduced the outstanding debt to \$602.5 million.

Different measures allow for the comparison of trust fund reserves taking into account the size of the labor force and the demands on each system. Using reserves per employee covered by the unemployment compensation system, the Michigan figure of \$332.11 was lower than the average of \$351.76 for the 15 states and the national average of \$386.50. The high-cost multiple measures how long the state historically highest-level benefits could be paid from current reserves. With a high-cost multiple of 0.45, Michigan has reserves to pay over 5 months of recession level benefits, and was lower than the 15 state average of 0.82 and the national average of 0.95. Months of benefits in the trust fund represents the length of time benefits could be paid from reserves, if pay-outs continued at their most recent levels and no additional funds were collected. With 15.0 months in reserve, Michigan did not compare favorably to the 15 state average of 39.6, or to the national average of 41.2. None of these measures takes outstanding debt into account (see **Table 3**).

Table 3
COMPARISONS OF TRUST FUND RESERVES -- 1989

	<u>Total Reserves</u> (in millions)	<u>Federal Loans Outstanding</u> (in millions)	<u>Reserves per Covered Employee</u>	<u>High-Cost Multiple</u>	<u>Months of Benefits in Trust Fund</u>
California	\$5,394	\$0	\$437.75	0.93	38.6
New York	3,360	0	423.06	0.82	33.0
Florida	2,037	0	405.27	1.36	74.5
New Jersey	2,756	0	781.81	1.08	46.4
Pennsylvania	1,633	0	340.04	0.58	20.7
North Carolina	1,446	0	494.93	1.23	81.6
Illinois	1,253	0	254.73	0.48	20.2
Michigan	1,222	781	332.11	0.45	15.0
Massachusetts	1,033	0	342.76	0.52	17.3
Georgia	1,012	0	367.11	0.99	48.8
Texas	937	0	145.92	0.72	14.9
Indiana	756	0	327.51	1.06	80.7
Ohio	750	0	165.31	0.30	18.8
Virginia	710	0	276.90	1.20	63.4
Missouri	390	0	181.25	0.55	19.8

Source: U.S. Department of Labor