

# **FISCAL FOCUS**

## **Unemployment Insurance in Michigan**

**Prepared by  
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**November 2012**



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November 2012

TO: Members of the House of Representatives

This report provides a basic overview of the unemployment insurance program as administered by the Unemployment Insurance Agency in Michigan under current law. It is impossible to avoid generalizations and simplifications that may not reflect the reality of certain aspects of the program as they may affect or apply to particular individuals or populations. However, this report presents legislators with a concise review of the major facets and functions of the unemployment insurance program in Michigan.

Paul Holland, Fiscal Analyst, is the author of this report. Kathryn Bateson, Administrative Assistant, prepared the material for publication.

Please do not hesitate to call if you have questions about the information in this report.

A handwritten signature in black ink that reads "Mary Ann Cleary".

Mary Ann Cleary, Director



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## ACRONYMS/ABBREVIATIONS

ABC	Account Building Component
AHCM	Average High Cost Multiple
BCR	Benefit Cost Rate
BPW	Base Period Wages
CBC	Chargeable Benefits Component
DOL	Department of Labor
DOL, ETA	Department of Labor, Employment and Training Administration
FUTA	Federal Unemployment Tax Act
HFA	House Fiscal Agency
HLA	House Legislative Analysis
HQW	High Quarter Wages
IUR	Insured Unemployment Rate
LARA	Department of Licensing and Regulatory Affairs
MAHS	Michigan Administrative Hearing System
MARVIN	Michigan's Automated Response Voice Interactive Network
MESA	Michigan Employment Security Act
MFA	Michigan Finance Authority
NBC	Nonchargeable Benefits Component
OA	Obligation Assessment
OEO	Office of Employer Ombudsman
PRO	Problem Resolution Office
SAWW	State Average Weekly Wage
SFA	Senate Fiscal Agency
SSA	Social Security Act
STC	Short-Time Compensation
SUTA	State Unemployment Tax Act
TUR	Total Unemployment Rate
UIA	Unemployment Insurance Agency
UTF	Unemployment Trust Fund
WBA	Weekly Benefit Amount

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# EXECUTIVE SUMMARY

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- The federal-state unemployment insurance system was established during the Great Depression and is administered within Michigan by the Unemployment Insurance Agency.
- Unemployment insurance provides basic income support for involuntarily unemployed workers from taxes levied on employers and functions as a countercyclical macroeconomic stabilizer by bolstering consumer purchasing power during recessions.
- The amount of wages liable for state unemployment taxation decreased from 38.9% of total insured wages in 1985 to 23.0% in 2010 and the average state unemployment tax rate, in terms of total insured wages, decreased by 47.3% between 1985 and 2010.
- In 2010, the average weekly amount of benefits paid to unemployed workers was \$297, 36.0% of the state average weekly wage, and the average duration in which workers collected regular benefits was 18.9 weeks, a 78.3% increase since 2000.
- In 2010, \$1.4 billion in unemployment taxes were remitted, an increase of 15.5% since 2000, and \$2.0 billion in (non-reimbursable) unemployment benefits were paid, an increase of 84.1% since 2000.
- During the Great Recession, Michigan's account in the Unemployment Trust Fund became insolvent and the state borrowed \$3.7 billion from the federal government to pay benefits that were repaid through the issuance of state bonds under Public Acts 267 and 268 of 2011.
- In 2011, the Legislature enacted Public Acts 14 and 269 substantially amending the Michigan Employment Security Act by generally raising tax collections and reducing benefit payments.
- From 2011 to 2014, the UIA estimates that reserves in Michigan's UTF account will increase by over tenfold, to \$1.3 billion, attributable to both macroeconomic improvement and recent statutory amendments to the Michigan Employment Security Act.



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# PROGRAM ADMINISTRATION

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Confronting unprecedented levels of extensive and persistent unemployment following the onset of the Great Depression in the early 1930s, Congress enacted the Social Security Act (SSA) in 1935. Establishing the federal-state unemployment insurance system, the SSA enabled the provision of basic income support for involuntarily unemployed workers from taxes levied on covered employers and deposited into the Unemployment Trust Fund (UTF). Unemployment insurance also functions as a countercyclical macroeconomic stabilizer; unemployment taxes accrue to the UTF during periods of economic expansion, creating a surplus, while unemployment benefits are withdrawn during periods of economic constriction, bolstering consumer purchasing power. In 1939 Congress enacted the Federal Unemployment Tax Act (FUTA) incorporating provisions of the SSA levying a federal unemployment tax on employers covered under the unemployment insurance system into the Internal Revenue Code. The federal statutes stipulate conformity requirements for state unemployment insurance programs in order to receive certification from the U.S. Department of Labor (DOL).

Each state administers its own unemployment insurance program and, once certified by the DOL, receives substantial grants to support program administration and ensures that employers within their state obtain a significant credit on the federal unemployment tax. During an Extra Session in 1936, the Legislature enacted the Michigan Employment Security Act (MESA) establishing the state's unemployment insurance program in conformity with federal requirements. Both of the federal statutes and the MESA have been amended numerous times as economic and political conditions change.

The Unemployment Insurance Agency (UIA) within the Department of Licensing and Regulatory Affairs (LARA) administers state and federal unemployment insurance laws within Michigan, compiles and submits required information and statistics to the DOL, and functions as the agent for the federal government. The UIA could be thought to have two fundamental constituencies, employers and workers, both of which participate in the unemployment insurance program through telephone, internet, and limited in-person interaction.

The UIA maintains individual tax accounts for every employer in the state covered by the unemployment insurance system and calculates an applicable tax rate for each employer based upon the extent that employers' former employees collected unemployment benefits. Employers register with the UIA and thereafter submit quarterly employee wage and employer tax reports for the calculation of benefits and tax liability. The UIA administers several programs intended to increase employer compliance with state and federal unemployment insurance laws. Employers will soon be required to file quarterly tax and wage reports through the Michigan Web Account Manager; improving accuracy and expediting transactions.

The Office of Employer Ombudsman (OEO) provides an immediate connection to the UIA, accelerating responses to employer questions and concerns via telephone and internet communication. The Tax Service provides inquiring employers with information pertaining to their tax compliance, coverage, liability, rate, payments, and appeals. The UIA also publishes the *Michigan Employer Advisor* newsletter containing pertinent information about the unemployment insurance program and organizes *Employer Seminars* across the state offering specific education and expert speakers on unemployment insurance. The UIA manages an anti-fraud campaign; publicizing a fraud hotline, collaborating with the DOL to

reclaim fraudulent benefits, and cross-referencing records with national databases to more rapidly identify fraud.

Unemployed workers file claims for benefits with the UIA which applies statutorily-defined standards to claimants' previous wages, attachment to the workforce, and other eligibility requirements to make a determination as to whether the claimant qualifies for unemployment benefits. Claimants must routinely report to the UIA that they are able, available, and actively seeking employment in order to remain eligible to receive benefits. The UIA primarily utilizes telephone and internet technology to interact with workers filing claims for unemployment benefits. Unemployed workers are directed to call the Inquiry Line or go to a specific UIA webpage to file an initial claim or access additional information about their claim. A determination made by the UIA is mailed to the claimant stating whether the worker is eligible and whether the claim is valid.

The UIA maintains Michigan's Automated Response Voice Interactive Network, also known as MARVIN, which enables claimants to communicate with the UIA's automated information system via telephone or, more recently, internet. Through MARVIN, claimants can confirm continued unemployment, submit information to meet eligibility requirements, and ascertain the amount and duration of their benefits. The UIA operates various Problem Resolution Offices (PROs) throughout the state where unemployed workers with questions or concerns pertaining to their claim may meet directly with a representative of the UIA or use free telephone and internet connections to file their claim.

Appeals by employers and claimants of UIA benefit (re)determinations are initially mediated within the Michigan Administrative Hearing System (MAHS) by administrative law judges while further appeals are made to the Michigan Compensation Appellate Commission and, ultimately, a state Circuit Court.

The Advocacy Program mandated by Section 5a of the MESA requires the UIA to implement a program that provides information, consultation, and representation for claimants or employers appealing UIA determinations, at either or both levels of appeal. Such advocacy is provided at no cost to claimants or employers and is supported with annual appropriation from the Penalty and Interest Account of the Contingent Fund. The UIA approves and independently contracts with individuals who possess extensive knowledge of the MESA, UIA policy, and appellate procedure to provide advocacy services. Advocates are not required to be attorneys but are prohibited from being state employees.

The Unemployment Trust Fund (UTF) is managed by the United States Treasury and consists of 59 accounts, including:

- 53 individual state accounts into which state unemployment taxes are deposited and from which unemployment benefits are withdrawn;<sup>1</sup>
- Four federal accounts into which federal unemployment taxes are deposited and from which grants to states for administrative costs, loans to states with insufficient reserves, and federal and extended benefits are withdrawn; and
- Two accounts administered by the Railroad Retirement Board.

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<sup>1</sup> 53 accounts: The 50 states in addition to the District of Columbia and the territories of Puerto Rico and the U.S. Virgin Islands.

The Michigan Treasurer manages four state funds pertaining to unemployment insurance as authorized by the MESA:

- The Unemployment Compensation Fund essentially functions as a clearing account for unemployment tax and benefit transfers between the state and the UTF.
- Federal grants to support the administrative costs of the UIA are received from the DOL, deposited into the Administration Fund, and are appropriated in the state budget.<sup>2</sup>
- The Penalty and Interest Account of the Contingent Fund receives interest, penalties, and damages assessed on employers and claimants for outstanding amounts owed to the UIA and for engaging in activities prohibited by the MESA.
  - Solvency Tax revenue, levied when the amount of outstanding federal loans (referred to as "Title XII Advances") is greater than the reserves in the state's UTF account or when revenue is insufficient to pay the projected interest on such loans, is deposited into a special account within the Contingent Fund and withdrawn to pay interest liability.
- The Obligation Trust Fund receives revenue generated by the Obligation Assessment on employers when there are outstanding bond obligations issued by the Michigan Finance Authority (MFA) on behalf of the UIA and expended to pay MFA bond obligations and related expenses and repay state and federal loans.

The UIA recovers amounts illegally obtained from and assesses penalties, damages, and fines on employers, workers, and other interested parties who commit fraud, make false statements, or fail to comply with the law. The UIA can also refer the case to a county prosecutor who can seek additional criminal punishment, including prison, community service, and additional fines. The UIA assesses employers or workers for outstanding state unemployment taxes and reimbursements or benefit overpayments, which accrue interest at 1.0% per month not to exceed 50.0% of the amount outstanding. The UIA may, under warrant, levy property for payment of the outstanding amount plus penalties and interest or bring civil action with additional damages. Benefit overpayments may be recovered by the UIA via direct repayment, garnishment of wages and benefits, or deductions from tax refunds for up to 3 years, 6 years if benefits are collected illegally, with interest. Benefit and tax amounts illegally obtained but subsequently recovered are deposited within the Unemployment Compensation Fund and any additional amounts (penalties, interest, damages, and fines) are deposited into the Penalty and Interest Account of the Contingent Fund.

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<sup>2</sup> While funding for administration of the UIA is appropriated in the annual state budget, the funding for UI benefit payments is not appropriated as benefits are paid as required by state and federal law.



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# EMPLOYER CONTRIBUTIONS

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Unemployment taxes (sometimes termed "contributions") are levied quarterly on employers covered under the unemployment insurance system by both the state and federal governments (202,000 employers in 2011).<sup>3</sup> State taxes are referred to as "SUTA", an acronym for State Unemployment Tax Act, whereas federal taxes are referred to as "FUTA", an acronym for Federal Unemployment Tax Act. SUTA taxes are deposited into the state's account in the UTF and can be withdrawn only to pay unemployment benefits. Revenue generated from FUTA taxes are deposited into the various federal accounts within the UTF. Unemployment insurance taxes are calculated by multiplying the tax base by a tax rate. The tax base is the amount of employee wages that are subject to taxation (designated "taxable wages") and each state is permitted to establish its own tax base. The tax rate is the proportion of wages, within the tax base, that the employer is liable to remit; there is an extensive range of policy considerations and complex formulae utilized by states to calculate tax rates. In addition to SUTA taxes, under specific circumstances, the MESA stipulates that the UIA levy a Solvency Tax or an Obligation Assessment.

State and local units of government (including public schools) and nonprofit organizations are exempt from federal taxation and therefore do not pay the FUTA tax and therefore do not contribute toward the administrative costs of the UIA. These entities may also choose to be exempted from SUTA taxes, although federal law requires that the state unemployment insurance program cover their employees. Whereas private, for-profit employers remitting SUTA taxes are designated as "contributing employers", public or not-for-profit employers may choose to directly reimburse (dollar-for-dollar) the UIA for benefits paid to their former workers and are designated "reimbursing employers". Unemployment benefits paid to former workers of reimbursing employers are charged to and reimbursements paid by these employers are credited to a pooled account known as the Nonchargeable Benefit Account. Because public and not-for-profit employers do not pay FUTA taxes, a portion of which supports grants to state agencies, they do not contribute to the funding for administration of the UIA. In 2010, 23.0% of employers are reimbursing employers; 13.0% from the public sector and the remaining 10.0% being private nonprofits.

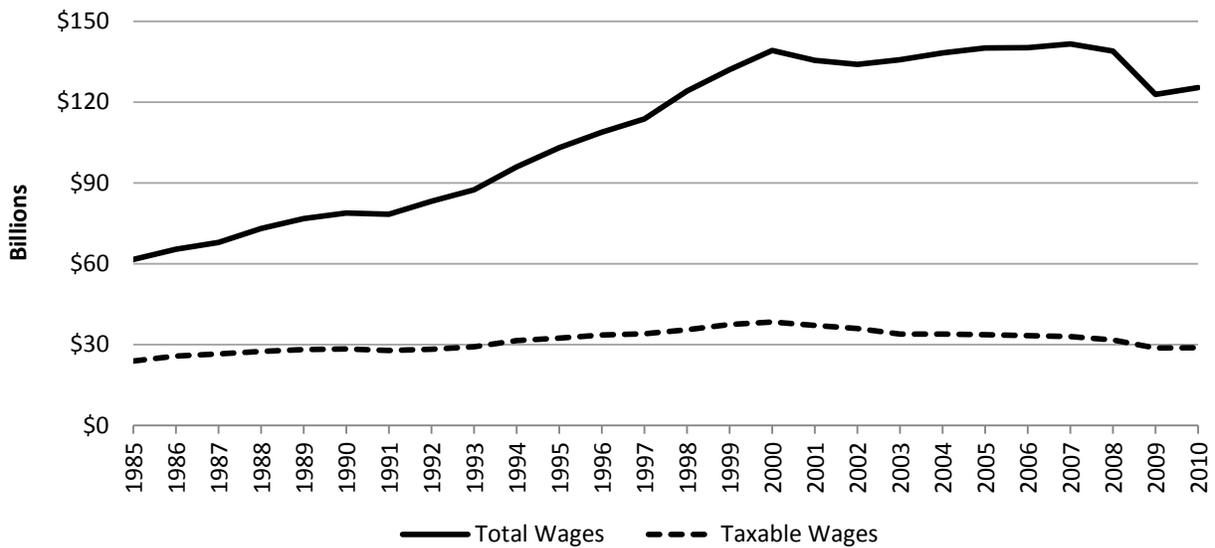
The federal unemployment insurance tax base is set at the first \$7,000 of wages paid to each worker by contributing employers. The FUTA tax rate is 6.0% on wages within the \$7,000 tax base. The federal government offers a credit on FUTA taxes up to 5.4% if the state unemployment insurance program is certified by the DOL and the employer has remitted its SUTA taxes on time and in full. Thus, the effective FUTA tax rate for qualified employers is 0.6% (\$42 per employee). The FUTA credit will, however, be incrementally reduced every year (initially by 0.3%) the state has outstanding federal loan debt on January 1 for two consecutive years, with further reductions in successive years.

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<sup>3</sup> Employers excluded from the unemployment insurance system include self-employed individuals and employers that employ worker(s) for less than 20 different weeks during a calendar year, pay less than \$1,000 in wages during a calendar year, acquire less than 75.0% of the assets of a liable employer, pay less than \$1,000 in wages to domestic workers during a calendar quarter, employ less than 10 agricultural workers, employ 10 or more agricultural workers for less than 20 different weeks during a calendar year, or pay less than \$20,000 in wages to agricultural workers during a calendar quarter.

The UIA levies quarterly SUTA taxes on the first \$9,500 that contributing employers pay to workers. The statutory SUTA tax base has remained markedly stable since 1985 when the base was increased to \$9,000, twice alternating between \$9,000 and \$9,500. Due to the effects of inflation, the proportion of insured wages subject to the SUTA tax has decreased considerably. As evidenced by Figure 1, in 1985, taxable wages were 38.9% of the total insured wages paid within the state. By 2010, taxable wages were 23.0% of the total insured wages; a decrease of 40.9%. Adjusting for inflation, the 2012 tax base is equivalent to \$4,671 as measured in constant 1985 dollars and would require an increase to \$18,303 in order to correspond with rising wage levels since 1985.

**Figure 1**  
**Taxable Wages**



SOURCE: US DOL, ETA, *Financial Data Handbook 394*, 2011.

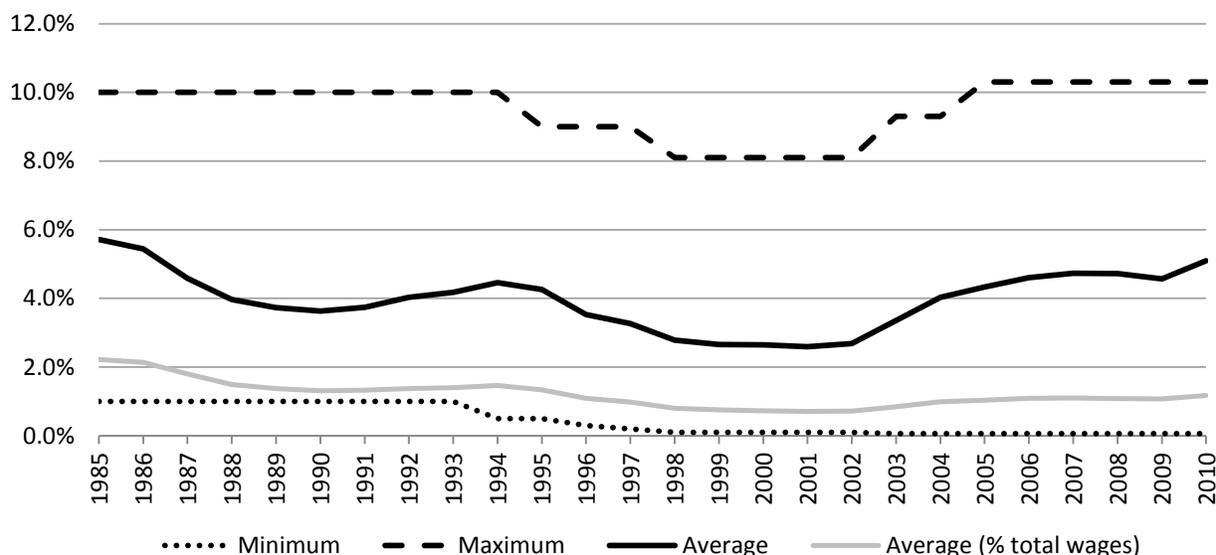
Unemployment insurance tax liability is based on the number of workers employed, not on the amount of wages paid. Both FUTA and SUTA taxes are levied on the taxable wages of each position in which a worker is employed. For example, if a worker earns \$9,500 at one part-time position and \$9,500 at another part-time position, each employer is liable for SUTA taxes on the taxable wages they pay, a combined total of \$19,000. However, if the worker had been employed at a single, full-time position and earned \$19,000 in wages, the employer would be liable for SUTA taxes only on the first \$9,500 of wages. The SUTA tax liability for a given employer is the same for each worker earning at least \$9,500; regardless of whether that worker earns \$9,501 or \$1,000,000 per year. Because both SUTA and FUTA taxes are levied on the *first* \$9,500 and \$7,000 of wages paid, respectively, employers typically remit a significant majority of taxes just after the first calendar quarter, when most of these wages are paid and thus tax liability incurred. Yet, employers with 25 or fewer workers and incurring 50.0% or more of their SUTA tax liability within the first quarter during the previous year can opt to distribute their first quarter SUTA tax remittance over four quarters of the current year.

The UIA maintains an individual account for each employer covered by the unemployment insurance system (an employer's "experience account") in addition to a pooled account (the Nonchargeable Benefit Account). Through the experience accounts, the UIA monitors and records the amount of SUTA taxes remitted by each contributing employer and the amount of unemployment benefits paid to its former workers. An employer's experience account is charged for most benefits paid to their former workers and credited for "experience rated" SUTA taxes remitted by the employer. Employers that have

remitted more taxes than benefits paid to their former workers are "positive balance employers", whereas employers whose former workers have collected more in benefits than they have remitted in taxes are "negative balance employers". The Nonchargeable Benefit Account is credited with non-"experience rated" SUTA taxes, employer reimbursements, and other miscellaneous monies and is charged for benefits not otherwise charged to individual employer experience accounts.

The rate of SUTA taxes levied on contributing employers is predominantly determined via a method known as "experience rating" and currently ranges between 0.06% and 10.3% of taxable wages. As presented by Figure 2, the average SUTA tax rate in 1985 was 5.71% of taxable wages and was 5.1% of taxable wages in 2010. However, since the taxable wage base has remained essentially unchanged over that period, it is more instructive to contrast SUTA rates in terms of total insured wages; those rates were 2.2% in 1985 and 1.1% in 2010, a decrease of 47.3%. After six years of decreases following historically low unemployment and statutory reductions made in 1995, SUTA rates steadily rose beginning in 2001 due to increased unemployment caused by a recession and have remained elevated over the ensuing decade.<sup>4</sup>

**Figure 2**  
**SUTA Tax Rate**



SOURCES: HFA analysis and US DOL, ETA, Financial Data Handbook 394, 2011.

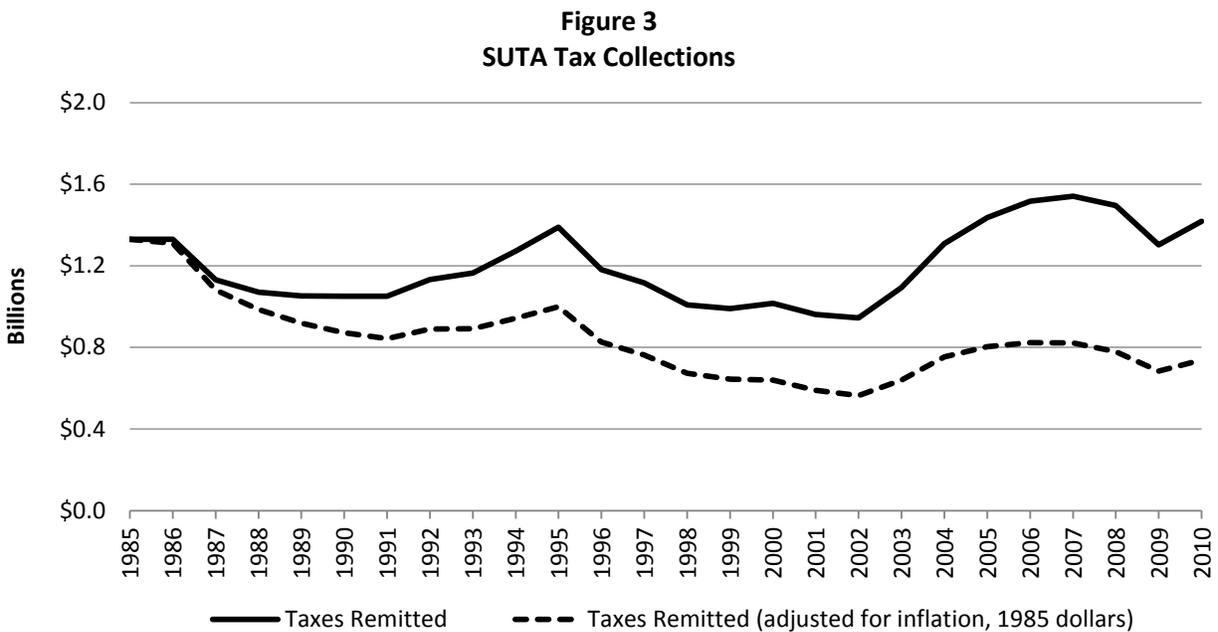
Experience rating is the method by which the UIA factors the extent that benefits are paid to employers' former workers (recorded as charges to the employer's experience account) into the determination of an employer's SUTA tax rate. Experience rating is intended to distribute the costs of unemployment benefits to employers whose former workers benefit from the unemployment insurance program. Accordingly, employers that more frequently lay off workers who then collect benefits would be expected to remit more SUTA taxes than employers with a more stable workforce.

The degree to which experience rating actually reflects the charges to contributing employers' experience accounts is limited by the statutory minimum and, especially, maximum SUTA tax rates. In 2011, 26.0% of employers (paying 22.0% of total wages) were liable for the maximum tax rate of 10.3%.

<sup>4</sup> 1995 PA 25; the UIA estimated that the act would reduce SUTA tax revenue by \$748 million, partially offset with a \$354 million reduction in benefits, between 1996 and 2000.

Although 64.0% of total unemployment benefits were paid to former workers of these employers, they remitted only 43.0% of total SUTA taxes. Total taxes remitted from employers liable for the maximum tax rate in 2011 will contribute toward only 47.0% of the unemployment benefits paid to their former workers. Twenty-eight percent (28.0%) of the total unemployment benefits paid in 2010 were paid to former workers of employers liable for the maximum rate and are in excess of the estimated SUTA taxes these employers will remit during the year.<sup>5</sup>

The annual revenue generated through the SUTA tax is exhibited by Figure 3 and mirrors the trend of the average SUTA tax rate. In 2010, employers remitted \$1.4 billion in SUTA taxes and contributed approximately \$7,026 on average. SUTA tax collections increased as unemployment rose following the 2001 recession; between 2000 and 2010, inflation-adjusted tax collections increased 15.2%, with the average employer remitting 24.4% more taxes.



SOURCE: US DOL, ETA, *Financial Data Handbook 394, 2011* and *Unemployment Insurance Agency*.

For claims of workers who were employed by multiple employers, the UIA charges the experience account of the most recent employer for the first two weeks of unemployment benefits collected by its former worker and thereafter charges the experience accounts of all employers within the Base Period in proportion to the amount of wages paid by each employer during the Base Period. The Base Period is the first four of the last five completed calendar quarters immediately preceding a worker's filed claim or, alternatively, the last four completed calendar quarters immediately preceding a worker's filed claim. This charging method assumes that the most recent employer is liable for the immediate effects of unemployment but protracted unemployment is sustained by macroeconomic conditions affecting the labor market.

For contributing employers that become liable for SUTA taxes on or after January 1, 2013, the MESA stipulates that their tax liability will be comprised of a 2.7% flat rate and a progressively experience

<sup>5</sup> U.S. Department of Labor, Office of Workforce Security, *Significant Measures of State Unemployment Insurance Tax Systems*, 2011.

rated component over the first two years.<sup>6</sup> Beginning in the third year of liability, the UIA will calculate employers' SUTA tax rate through the combination of three distinct components: the Chargeable Benefit Component, the Account Building Component, and the Nonchargeable Benefits Component. The first two components comprise employers' experience rated SUTA taxes, while the final component is levied at a rate reflecting employers' experience ratings. In addition, the UIA will levy the Solvency Tax and Obligation Assessment during periods when the state has outstanding interest-bearing federal loans or public bonds issued by the Michigan Finance Authority (MFA).

In each calendar year beginning on or after January 1, 2013, the Chargeable Benefits Component (CBC) calculation will be based on the amount of unemployment benefits charged to the employers' account over the previous 36-month period. The amount of benefits will then be divided by employers' taxable wages paid over the same period. The resultant quotient is rounded to the next higher 0.1% not to exceed 6.3%. The CBC of SUTA taxes are credited to individual employers' experience accounts. The CBC method is widely known as the "benefit ratio formula" for calculating employers' experience rating and is the largest component of employers' SUTA tax rate.

<p style="text-align: center;"><b><i>Chargeable Benefits Component (CBC)</i></b></p> <p style="text-align: center;"><b>CBC = <math>\frac{\text{36 Months of Employer's Benefit Charges}}{\text{36 Months of Employer's Taxable Wages}}</math></b></p> <p style="text-align: center;"><b><i>Not to Exceed 6.3%</i></b></p>
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The Account Building Component (ABC) calculation is intended to improve solvency within individual employer experience accounts by taxing employers with inadequate experience account reserves at a rate based on the aggregate experience of employers statewide with unemployment insurance. Each year the UIA calculates the official Cost Criterion, which is the quotient derived by dividing the total unemployment benefits paid to all workers during the previous 12-month period by the total wages paid by all insured employers during the same period. The Cost Criterion is represented as a ratio that illustrates total paid benefits as a percent of total insured wages (3.75% in 2012). In order to calculate an individual employer's ABC, the UIA ascertains the employer's Actual Reserve. The Actual Reserve is the balance of funds within an individual employer's experience account; if the Actual Reserve is positive, then more taxes have been credited than benefits charged, whereas a negative Actual Reserve is the result of more benefit charges than tax credits. The Actual Reserve is then subtracted from the Required Reserve, which is the product of multiplying the total wages paid by an individual employer during the previous 12 months by the Cost Criterion. The Required Reserve approximates the amount of funds necessary to support the unemployment benefits paid to former workers of an individual employer over 12 months based on the experience of all employers within the state during the previous 12 months. The difference between the Required Reserve and the Actual Reserve is the disparity between the actual funds within an employer's account and the amount of funds required to pay benefits if the employer was subject to the statewide average ratio of benefits to wages. This difference, if positive, is then divided by the total wages paid by the individual employer during the previous 12 months. That quotient is the employer's ABC rate which is multiplied by 0.5 with the

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<sup>6</sup> Employers within the construction industry are liable for a flat rate tax component equivalent to the average SUTA tax rate for employers within the construction industry in the state.

resultant product being the effective ABC tax rate; rounded to the next higher 0.1% not to exceed 3.0%.<sup>7</sup> The ABC of SUTA taxes are credited to individual employers' experience accounts. The ABC method is widely known as the "reserve ratio formula" for calculating employers' experience rating.

<p><b><i>Account Building Component (ABC)</i></b></p> <p><b>Cost Criterion = <math>\frac{12 \text{ Months of State Total Benefits}}{12 \text{ Months of State Total Insured Wages}}</math></b></p> <p><b>Required Reserve = Cost Criterion x 12 Months of Employer's Total Wages</b></p> <p><b>Actual Reserve = Employer's Benefit Charges - Employer's SUTA Taxes</b></p> <p><b>ABC = <math>\frac{(\text{Required Reserve}) - (\text{Actual Reserve})}{12 \text{ Months of Employer's Total Wages}} \times 0.5</math></b></p> <p style="text-align: right;"><b><i>Not to Exceed 3.0%</i></b></p>
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The UIA calculates the Nonchargeable Benefits Component (NBC) by multiplying the total wages paid by all insured employers during the 12 months ending March 31 by the Cost Criterion and subsequently subtracting the existing balance in the state's UTF account (net of federal loans) from that product. If positive, the difference is divided by the total wages paid by all insured employers during the 12 months ending March 31 and rounded to the next higher 0.1% not to exceed 1.0%. For employers with benefit charges within the previous 5 years and a CBC rate greater than or equal to 0.2%, the NBC is levied at the 1.0% rate. However, progressively lower NBC rates are levied on employers with CBC rates less than 0.2% and without benefit charges during previous years, down to a minimum of 0.06% if no charges in the previous nine years. The NBC of SUTA taxes are credited to the Nonchargeable Benefit Account.

<p><b><i>Nonchargeable Benefits Component (NBC)</i></b></p> <p><b>NBC = <math>\frac{((12 \text{ Months of State Total Insured Wages} \times \text{Cost Criterion}) - (\text{State UTF Balance} - \text{Federal Loans}))}{12 \text{ Months of State Total Insured Wages}}</math></b></p> <p style="text-align: center;"><b><i>Not to Exceed 1.0%, Lower Rates if No Benefit Charges During Previous Years</i></b></p>
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If the balance in the state's account within the UTF is (or is expected to become) insufficient to cover the payment of unemployment benefits, the state can take out interest-bearing loans from the federal government as authorized by Title XII of the SSA. These loans bear interest which cannot be repaid from SUTA tax revenue. During periods in which the reserves in the state's account within the UTF are less than the total amount of outstanding federal loans on the preceding June 30 or in which the UIA projects insufficient funds to meet interest obligations, the MESA requires the imposition of the Solvency Tax. On January 1, the Solvency Tax is levied on fully experience-rated employers that had a negative balance in their experience accounts as of the preceding June 30. Revenue generated from the Solvency Tax is expended on the state's interest obligations. The rate of the Solvency Tax is calculated

<sup>7</sup> If, on June 30 of the preceding year, the balance in the state's UTF account was equal to or greater than 50.0% of an amount equal to the aggregate of all contributing employers' payrolls for the 12 months ending March 31 multiplied by the Cost Criterion, then the ABC rate is multiplied by 0.25 (rather than 0.5) and cannot exceed 2.0% (rather than 3.0%).

through the same method as employers' ABC rate, adjusted to generate sufficient revenue but not to exceed 0.25 of the ABC rate. The Solvency Tax is remitted in the same manner and at the same time as SUTA taxes. Negative balance employers can avoid liability for the Solvency Tax by making a voluntary payment, by November 30, equal to the negative balance in their experience account on June 30.

$$\begin{aligned} & \textbf{Solvency Tax} \\ & \textbf{Solvency Tax = ABC Rate} \\ & \textbf{Not to Exceed 0.25 of the ABC} \end{aligned}$$

The MESA authorizes the UIA to request that the Michigan Finance Authority (MFA) issue bond obligations or other financial instruments to support the repayment of interest-bearing federal loans made under Title XII of the SSA. In any year in which MFA bond obligations are outstanding, the UIA levies a quarterly Obligation Assessment (OA) on employers within the state. The State Treasurer, in consultation with the UIA, determines the amount of the OA to ensure sufficient funds to cover the bond obligations and related expenses and contingencies. The OA is partially based on employers' experience rating and is levied on all employers in the same manner and at the same time as SUTA taxes. The OA is calculated by multiplying an employer's SUTA tax rate by the OA Ratio (derived by dividing outstanding bond obligations and related expenses by the estimated state total SUTA tax revenue) and adding the product to the quotient of the base assessment and the employer's taxable wages.

$$\begin{aligned} & \textbf{Obligation Assessment (OA)} \\ & \textbf{OA Ratio = } \frac{\textbf{Outstanding Bond Obligations and Related Expenses}}{\textbf{Estimated State Total SUTA Tax Revenue}} \\ & \textbf{OA = (SUTA Tax Rate x OA Ratio) + (Base Assessment} \\ & \quad \textbf{Employer's Taxable Wages)} \end{aligned}$$



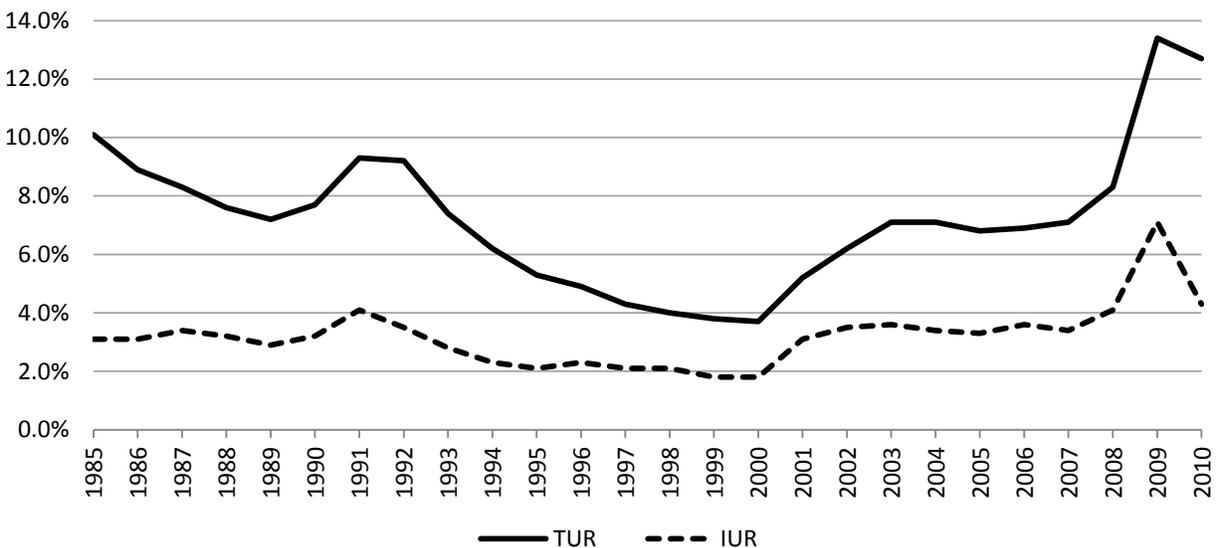
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# WORKER BENEFITS

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Unemployment benefits are paid by the UIA and can be collected by workers covered under the unemployment insurance system.<sup>8</sup> Between 1985 and 2010, an additional 4.0% of employed workers became insured, while an average of 89.2% of employment was insured over this period. Both measures of employment significantly expanded during the 1990s, continuously declined throughout the 2000s, and recently stabilized in 2011. The total (TUR) and insured (IUR) unemployment rates are presented in Figure 4; the TUR in 2010 was 12.7% with the IUR at 4.3% and between 1985 and 2010 the IUR was less than half of the TUR on average.<sup>9</sup> Both the TUR and the IUR peaked in 2009 after remaining at elevated rates since 2001.

**Figure 4**  
**Unemployment Rate**



SOURCES: US DOL, ETA, *Financial Data Handbook 394, 2011* and US DOL, BLS, *Local Area Unemployment Statistics*.

The MESA specifies that workers are considered unemployed for any week during which they do not work or weeks in which they work less than full-time and earn wages less than a multiple of 1.5 their weekly benefit amount.<sup>10</sup>

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<sup>8</sup> Workers excluded from the unemployment insurance system include: certain agricultural and domestic workers (see footnote no. 3); students working for their school or working for school credit; workers under 18 enrolled in high school; most workers at religious organizations; real estate, investment, insurance, and home remodeling salespersons primarily paid on commission; public or private school employees between academic terms, athletes between sports seasons, and other seasonal employees; elected and appointed government officials; prison inmates; and workers legitimately classified as independent contractors. There are restrictions on the benefits of family members working for family businesses and various other employees.

<sup>9</sup> The TUR is the ratio of involuntary unemployed persons to the civilian labor force expressed as a percent. The IUR is calculated by dividing the average weekly number of claimants eligible for benefits (regardless of whether they actually collect benefits) by the average monthly insured employment for a given year.

<sup>10</sup> Beginning after October 1, 2015, the multiple increases to wages of 1.6 of workers' weekly benefit amount.

***Unemployed if...***  
**No work during the week**  
***or***  
**Work < full-time and earn weekly wages < 1.5 x WBA**

In order to collect benefits, unemployed workers begin by filing a claim with the UIA, either online, over the phone, or in person. The UIA examines the claim and issues a determination as to whether the claimant satisfies various eligibility requirements stipulated in the MESA and is "certified" to collect benefits. The determination is mailed to the claimant and to Base Period and separating employers, notifying them of the reason for separation and earned wages the claimant reported and the maximum amount of benefits that could be charged to each employer's experience account. The determination also states whether the claimant satisfies the eligibility requirements and, if so, the amount and duration of benefits for which the claimant qualifies. Claimants, employers, and other interested parties have the right to 1) request a redetermination by the UIA, 2) appeal the redetermination within the Michigan Administrative Hearing System (MAHS), first to an administrative law judge, then to the Michigan Compensation Appellate Commission, and 3) ultimately, appeal within the judicial system.

The UIA administers multiple unemployment benefit programs; both under the state's statutory liability and as an agent for the federal government:

- Regular Benefits are solely supported by SUTA taxes and reimbursements and are the primary source of income support paid to claimants during the first 20 weeks of their unemployment regardless of macroeconomic conditions.
- Extended Benefits are triggered during periods of high and rising unemployment and are statutorily supported by a 50/50 funding split between the state and the federal government for benefits paid to former workers of contributing employers.<sup>11</sup> Extended benefits are available for up to 50.0% of the claimants' total Regular Benefit amount and are distributed in the same manner and amount as Regular Benefits.
- During periods of persistent and extensive unemployment, Congress has expanded the Extended Benefit program and has enacted special federal extension programs that temporarily extend unemployment benefits beyond the duration of Extended Benefits and fully funded by the federal government.<sup>12</sup>

The UIA also acts as the agent for the federal government in the distribution of unemployment benefits for federal employees, ex-service members, and railroad workers. The procedures and calculations described below specifically pertain to Regular Benefits administered by the UIA.

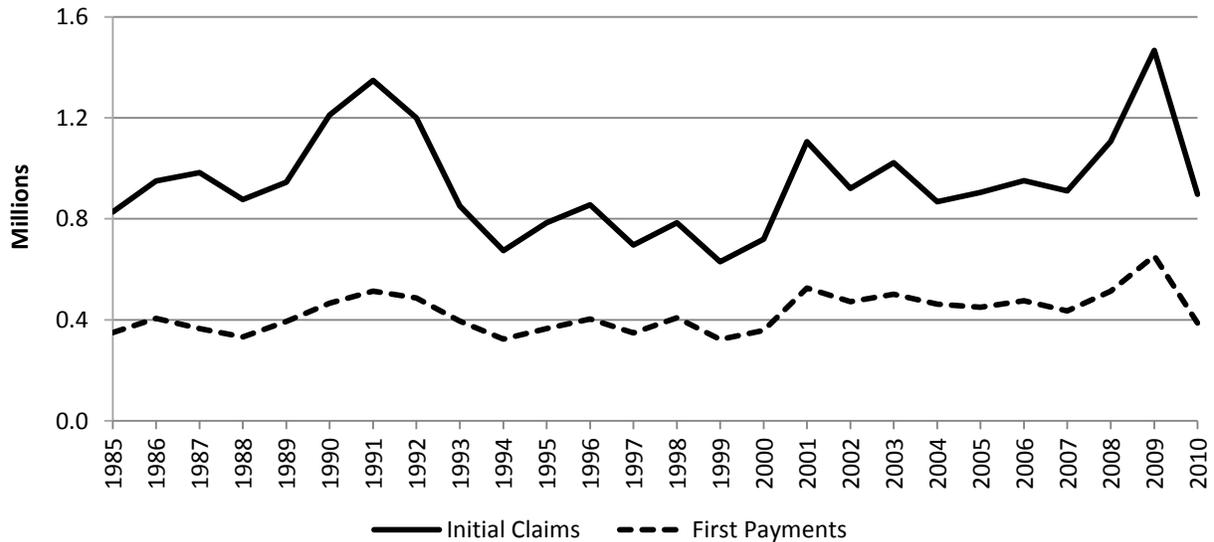
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<sup>11</sup> Generally, Extended Benefits are "triggered on" when the average insured unemployment rate (IUR) over a 13-week period equals or exceeds 5.0% and is at least 120.0% of the average IUR over the corresponding 13-week period in each of the past 2 years. 2011 PA 14 enacted additional triggers which were in effect during the recent economic constriction.

<sup>12</sup> During the recent economic constriction and until January 2012, the federal government financed 100.0% of Extended Benefits for up to 20 benefit weeks and established the Emergency Unemployment Compensation program which extended benefits for up to an additional 53 weeks.

As a social insurance program, claims for unemployment benefits reflect countercyclical peaks and troughs. As macroeconomic conditions improve, and employers intensify hiring, claims decline. As conditions worsen and layoffs multiply, such as during a recession, claims escalate with benefits paid to eligible claimants, stabilizing their purchasing power. Figure 5 exhibits the annual number of initial claims (both new and additional) filed with the UIA and the number of those claims which resulted in payment of regular benefits. The troughs of national recessions occurred in 1991, 2001, and 2009. Between the peak in 1990 and the trough in 1991, initial claims rose 11.3% and first payments rose 10.2%. Initial claims and first payments increased 53.8% and 46.7%, respectively, between 2000 and 2001 and the number of initial claims and first payments remained elevated throughout the 2000s as Michigan's economy eschewed the national recovery. The state economy was, however, ominously affected by the "Great Recession", and between 2007 and 2009 initial claims climbed 61.1% while first payments escalated by 49.9%. Between 1985 and 2010, 45.9% of initial claims resulted in first payments of regular benefits on average; initial claims are not certified if the UIA determines that the claimant is ineligible or disqualified from receiving unemployment benefits.

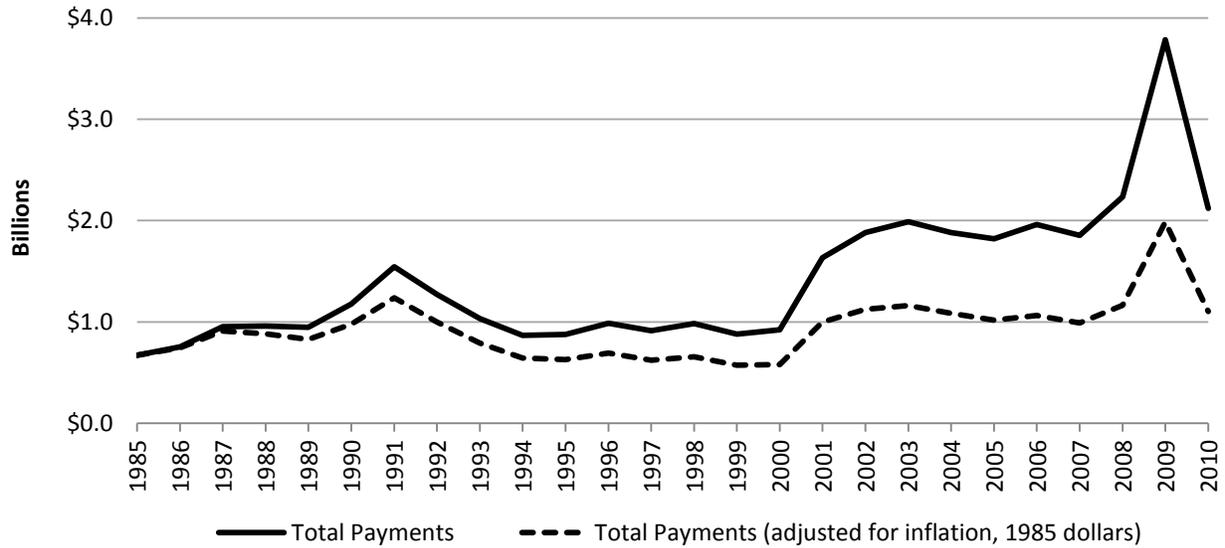
**Figure 5**  
**Initial Claims and First Payments**



SOURCES: US DOL, ETA, Series C Program Statistics and Financial Data Handbook 394, 2011.

Figure 6 presents the total amounts of regular unemployment benefits paid by the UIA. The countercyclicality of unemployment benefits, measured in the percent increases in the actual benefit payments during recessions, is even starker than the claims and payment data. Adjusted for inflation, 26.6% more regular benefits were paid in 1991 than in 1990, while between 2000 and 2001 inflation-adjusted regular benefits paid surged 72.5%. Those extraordinary benefit outlays became the new norm within the state until 2009 when inflation-adjusted regular benefit payments doubled (a 100.9% increase) from 2007 levels. Since 2011, total regular benefits have returned to the levels that persisted through the 2000s.

**Figure 6  
Regular Unemployment Benefit Payments**



SOURCE: US DOL, ETA, *Financial Data Handbook 394*, 2011.

Claimants' monetary eligibility is based on their employment and earnings during the Base Period. The Base Period is the first four of the last five completed calendar quarters immediately preceding a filed claim or, alternatively, the last four completed calendar quarters immediately preceding a filed claim.

***Base Period***

**First 4 of last 5 completed calendar quarters preceding claim filing**

**or**

**Last 4 completed calendar quarters preceding claim filing**

Claimants' length of employment and level of earnings (defined as their monetary eligibility) are considered as a proxy for their attachment to the workforce and are applied to ascertain whether they are eligible to collect benefits and, if so, to determine their weekly benefit amount and duration of benefits. In order to be eligible for unemployment benefits, the UIA must determine that a claimant, at a minimum, either earned wages 388.06 times the state hourly minimum wage in one calendar quarter (currently \$2,871.64) and earned 1.5 times the wages earned in the calendar quarter in which they earned the highest wages (designated High Quarter Wages, or HQW) throughout the entire Base Period (currently \$4,307.46), or earned Base Period Wages (BPW) totaling at least 20 times the State Average Weekly Wage (SAWW) (\$17,200.80 in 2011) in at least two calendar quarters of the Base Period.<sup>13</sup>

<sup>13</sup> The 388.06 factor was derived to maintain an equivalent qualifying amount for benefits after the conversion to the wage-record system in 2001 with the qualifying amount before the conversion.

**Monetary Eligibility**

**HQW  $\geq$  388.06 x state minimum wage *and* BPW 1.5 x HQW**

*or*

**BPW earned in  $\geq$  2 quarters *and*  $\geq$  20 x SAWW**

If claimants are eligible for benefits based on either monetary eligibility tests during either of the Base Periods, a Benefit Year is established beginning the week in which a claim was first initially filed and continuing for 52 consecutive weeks. A Benefit Year is the period for which Base Period employment and earnings qualify claimants for up to 20 weeks of unemployment benefits. Only one Benefit Year may be established at any given time and qualifying employment and earnings during a given Base Period cannot be used to establish multiple Benefit Years. Claimants collecting all of the benefits to which they are entitled within their Benefit Year are said to have exhausted their claim, whereas benefits to which claimants are entitled but have not collected expire at the end of a Benefit Year. After the expiration of their Benefit Year, claimants must file a new initial claim and requalify for benefits based on a new Base Period with earnings of at least five times their Weekly Benefit Amount (WBA) of the first Benefit Year. Claimants who stop collecting within their Benefit Year because they return to work but are subsequently unemployed must reopen their initial claim (via an "additional" claim).

The amount and duration of benefits paid to claimants during their Benefit Year is determined by the UIA through a series of calculations specified by the MESA. The UIA calculates claimants' Weekly Benefit Amount (WBA) by multiplying their High Quarter Wages (HQW) by a factor of 0.041, which results in a wage replacement rate of 53% of claimants' average weekly HQW.<sup>14</sup> An allowance of \$6 per dependent, up to a maximum of \$30, may be added to the wage replacement. Claimants' WBA is rounded down to the next lower dollar and cannot exceed a maximum of \$362. The UIA determines the duration for which claimants are eligible to collect regular benefits by calculating their total benefit entitlement, which is their Base Period Wages (BPW) multiplied by a factor of 0.43 (43% of BPW).<sup>15</sup> Total benefit entitlement is then divided by claimants' WBA to derive the number of weeks that claimants are eligible to collect regular benefits, ranging between a minimum of 14 and a maximum of 20 weeks.<sup>16</sup> Contingent on the distribution of wages, claimants with similar total wages within the Base Period could qualify for dissimilar WBAs and benefit durations; for instance, claimants with wages concentrated in their HQW would have a higher WBA but a shorter duration.

**Weekly Benefit Amount (WBA)**

**WBA = (HQW x 0.041) + \$6 per Dependent**

***Not to Exceed \$362***

**Benefit Duration**

**Benefit Duration = (BPW x 0.43) / WBA**

***Not Less Than 14 Weeks nor Exceeding 20 Weeks***

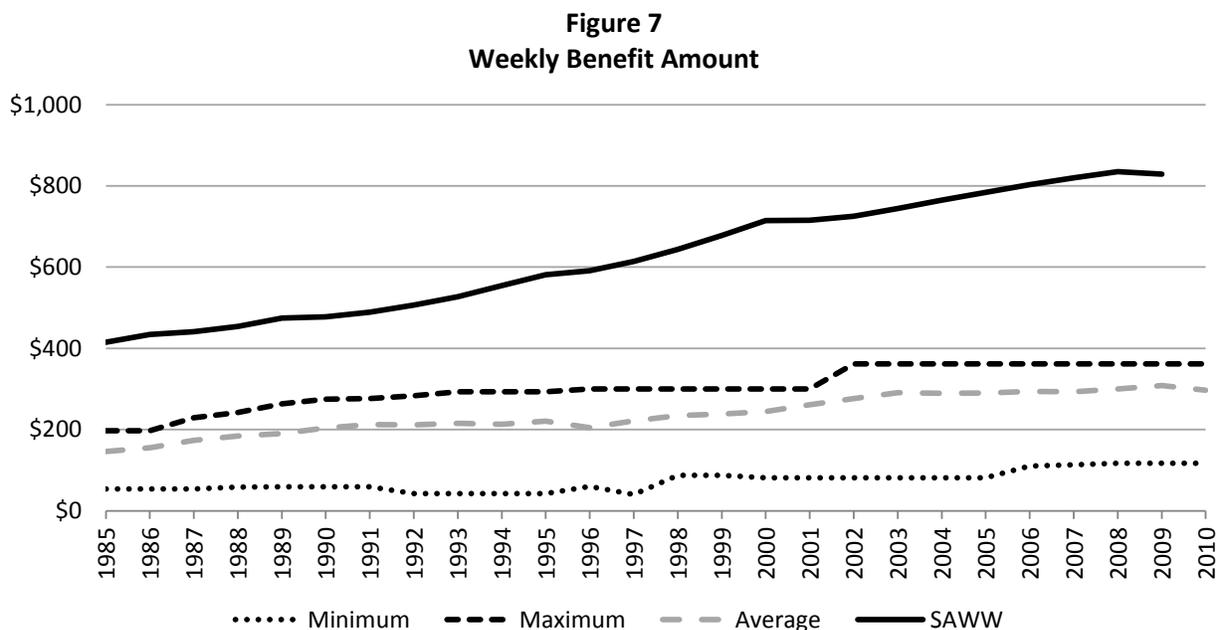
<sup>14</sup> The 0.041 factor is derived by dividing the HQW by 13 (the approximate number of weeks in a calendar quarter) to calculate the average weekly wage, and then dividing the average weekly wage by 1.89 (the divisor resulting in a ratio of 0.53 of the dividend) to calculate 53.0% of the average weekly wage in the HQW.

<sup>15</sup> The 0.43 factor was derived to maintain an equivalent maximum benefit entitlement amount after the conversion to the wage-record system in 2001 with the qualifying amount before the conversion.

<sup>16</sup> 2011 PA 269 reduced the maximum benefit duration from 26 to 20 weeks for claims established after January 15, 2012.

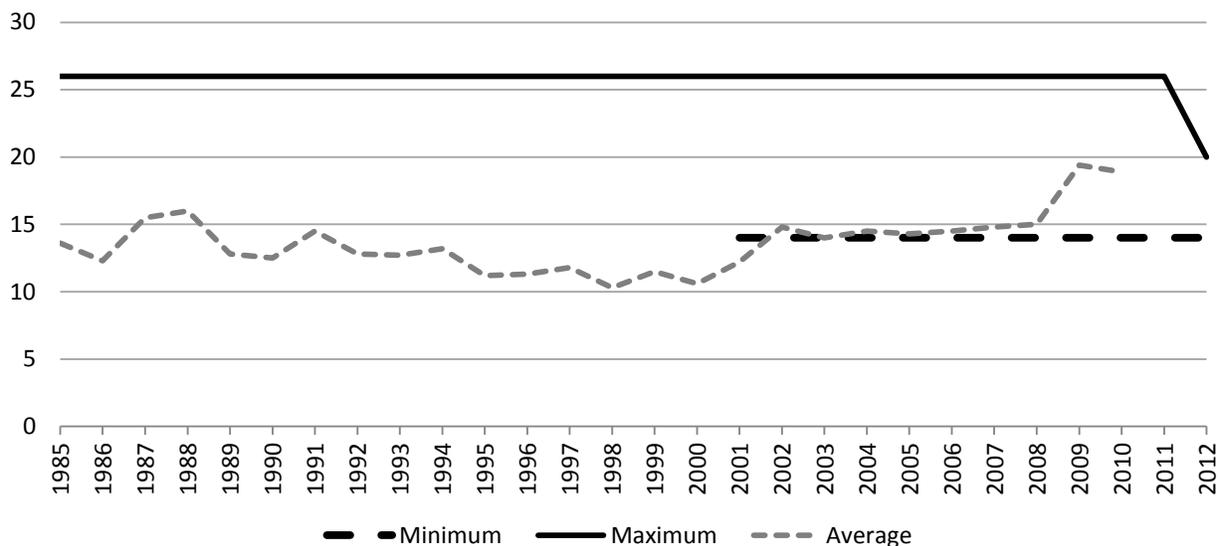
- In 2010, the average WBA was \$296.62, the average duration during which regular benefits were collected was 18.9 weeks, and the total regular benefits collected by an average claimant were approximately \$5,606.
- Between 1985 and 2010, the average collected WBA ranged from a low of 34.2% (in 2000) to a high of 43.4% (in 1991) of the SAWW, and was 36.0% in 2010.
- Between 1985 and 2010, the statutory maximum WBA ranged from a low of 42.0% (in 2000 and 2001) to a high of 57.6% (in 1990) of the SAWW, and was 44.0% in 2010.
- Between 1985 and 2010, the average duration during which regular benefits were collected ranged from a low of 10.3 weeks (in 1998) to a high of 19.4 weeks (in 2009).
- Between 2000 and 2010, the average duration during which regular benefits were collected increased by 78.3%.
- Year to date in 2012, approximately 39.9% of claimants are eligible for the maximum WBA and 59.2% are eligible for the maximum duration of regular benefits.

Figures 7 and 8 illustrate historical WBAs and benefit durations, respectively.



SOURCES: US DOL, ETA, Financial Data Handbook 394, 2011 and the Unemployment Insurance Agency.

**Figure 8**  
**Regular Benefit Duration**  
**(in weeks)**



SOURCES: HFA analysis and US DOL, ETA, *Financial Data Handbook 394*, 2011.

In addition to meeting the monetary eligibility requirements above, claimants must remain unemployed or earn part-time wages no more than 1.6 times their WBA and continually satisfy the following three nonmonetary eligibility requirements during weeks in which they collect benefits:

- Claimants must be physically and mentally *able to work* full-time at jobs consistent with their previous employment, experience, training, and education.
- Claimants must be *available to work* full-time by being ready and willing to accept "suitable work" on any shift.
- Claimants must *actively seek work* by engaging in a systematic and sustained search for full-time jobs and reporting their work search efforts to the UIA monthly. To satisfy the work search requirement, claimants must either register at their local Michigan Works! agency or a union hiring hall, unless they are temporarily laid off for less than 45 days, and apply for, interview for, and accept offers of suitable work.

"Suitable work" entails jobs which are consistent with claimants' prior employment, experience, training, physical fitness, education, and earnings, as well as taking into consideration the distance from claimants' residence, and the risks to claimants' health, safety, and morals. Wages of at least 70.0% of gross wages received immediately before unemployment are considered sufficient for otherwise suitable work. As the period of claimants' unemployment lengthens and the probability of finding employment consistent with their previous experience, training, and education lessens, the more willing claimant must be to accept dissimilar work and/or lower pay. After receiving 50.0% of their total benefits within the Benefit Year, claimants must accept work, regardless of consistency with previous experience or training, if the job offers wages above the state minimum wage, at least equal to the prevailing wage for similar work in the locality, and at least 120.0% of claimants' WBA. However, work is never suitable if it is available directly due to a labor dispute; offers substantially worse hours, wages, or conditions than those prevailing in the locality; or requires claimants to join or refrain from joining a labor union. The work search requirement may be waived if claimants participate in vocational training

courses with approval from the UIA. Claimants may become disqualified for ceasing, without good cause, to continually satisfy the work search requirement by failing to diligently apply for suitable work after receiving notice from the UIA of that work, failing to apply with employers reasonably expected to have suitable work available, failing to timely report to their former employers after being notified of the availability of suitable work, failing to accept suitable work offered or return to customary self-employment when directed to do so by Michigan Works! or the UIA.

#### ***Nonmonetary Eligibility***

- Remain unemployed or earn part-time wages  $\leq 1.6 \times$  WBA
- Able to work full-time, both physically and mentally
- Available to work full-time on any shift
- Actively seeking work via a systematic and sustained search

Claimants who are otherwise eligible for unemployment benefits may be disqualified from collecting benefits for various reasons, most frequently for voluntarily leaving their job without good cause attributable to the employer. Claimants who left their job are assumed to have done so voluntarily without good cause attributed to the employer and have the burden of proof to establish their involuntary leaving attributable to the employer. Claimants who were absent from work for three days without notifying their employers are considered to have voluntarily left without good cause attributable to the employers as are claimants who become unemployed as a result of negligently losing a known requirement for their job. Failing to notify a temporary employment firm within seven days that claimants' employment assignments are complete is considered voluntary leaving.<sup>17</sup> Good cause attributable to the employer may include persistently unsafe or unhealthy working conditions, sexual or racial harassment, or other causes as determined through the appeals process within the Michigan Administrative Hearing System (MAHS) or judicial system.

Claimants may also be disqualified from benefits for being discharged or suspended for work-related misconduct, assault and battery in connection with work, willful destruction of property in connection with work, theft in connection with work, absence due to conviction and incarceration, intoxication while at work, possession or use of controlled substances at work, refusal to submit to a drug test or testing positive for controlled substances, directly involved in a labor dispute or participates in a strike in violation of their collective bargaining agreement or in a wildcat strike not authorized by their bargaining representative.<sup>18,19</sup>

Disqualification begins the week in which the disqualifying act or discharge occurs. In order to requalify for benefits, claimants are required to earn either 13 or 26 weeks of wages, depending on the reason for

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<sup>17</sup> Claimants are not disqualified for leaving due to any of the following reasons: have a medical condition that a medical professional attests is exacerbated by their job and for which the employer would not offer alternative work or permit a leave of absence, are the spouse of a full-time member of the United States armed forces and leaves work due to military duty reassignment to a different location, leaving within 60 days during their established Benefit Year, or leaving a concurrent part-time job and subsequently being laid off by the other part-time job. Benefits paid to these claimants are charged to the Nonchargeable Benefit Account.

<sup>18</sup> As defined through unemployment insurance case law, "misconduct" means actions that are harmful to the interests of the employer, either committed intentionally or in disregard for the employer's interests, including out of gross negligence.

<sup>19</sup> Disqualification due to theft can also occur if the claimant committed the theft after being discharged but before the effective date of the discharge or is convicted of theft within 2 years of the discharge.

the disqualification, of at least 1/13 of the minimum amount required in a calendar quarter of the Base Period to qualify for a Benefit Year (currently \$220.90). Moreover, again depending on the reason for the disqualification, claimants' duration of benefits, within the Benefit Year, is reduced by either the number of weeks the claimant must work to requalify, or 13 weeks plus any weekly benefit payments attributable to Base Period wages earned from employers involved in the disqualification. The above does not apply if claimants voluntarily left work or were dismissed for workplace misconduct or intoxication; in such cases, they must earn either 12 or 17 times their WBA, respectively, to requalify. Claimants obtaining benefits because of intentional false statements, misrepresentations, or concealments of material information, will have all of their benefits cancelled within their Benefit Year. Claimants, employers, and other interested parties may protest UIA determinations of disqualification, requalification, or cancellation, further appeal the UIA redetermination within the Michigan Administrative Hearing System (MAHS) and, ultimately, appeal within the state judicial system.

### ***Benefit Disqualifications***

- Failure to "diligently" apply for suitable work
- Failure to accept offers of suitable work
- Voluntarily leaving without good cause attributable to the employer
- Work-related misconduct
- Assault and battery at work
- Willful destruction of property at work
- Theft at work
- Conviction and incarceration
- Possession or use of controlled substances
- Refusal or positive result of drug test
- Intoxication at work
- Direct involvement in labor dispute, unsanctioned strike, or wildcat strike

### ***Benefit Cancellation***

- Obtaining benefits because of intentional false statements, misrepresentations, or concealments of material information

Claimants working part-time during a week in which they are claiming unemployment benefits are still eligible for partial unemployment benefits but must report the hours worked and wages earned to the UIA. Currently, claimants' weekly benefits are reduced by \$0.40 for every dollar of gross wages earned below or equal to their WBA and wages above which result in a dollar-for-dollar reduction of weekly benefits. Beginning on October 1, 2015, weekly benefits will be reduced \$0.50 for every dollar of gross wages earned below or equal to their WBA and wages above which will result in a dollar-for-dollar reduction of weekly benefits. During either period, claimants' benefit duration is reduced by the number of weeks that partial unemployment benefits are paid, while claimants retain benefit weeks if no benefits are paid during weeks in which they work part-time.

In 2012, Michigan enacted Public Act 216 amending the MESA to permit short-time compensation (STC), also known as work sharing, which permits workers whose hours are reduced, in lieu of layoffs, to collect unemployment benefits in proportion to that reduction. Fundamentally, a STC program allows workers, both novice and senior, to "share the pain" of economic constriction while remaining attached to the labor force and enables employers to more rapidly ramp-up production, mitigating rehiring and

retraining costs, as the economy recovers. In terms of unemployment insurance law, this requires authorizing the payment of unemployment benefits to individuals not entirely unemployed and excluding these individuals from the typical work search and work availability requirements. For example, if an employer restricts production by 20.0%, instead of laying off 20.0% of the workforce who would then be eligible for regular unemployment benefits, the employer could reduce all workers' hours by 20.0% and those workers would be able to claim 20.0% of their regular unemployment benefits.<sup>20</sup> As an example, a worker who normally earned \$500 per week working 40 hours would work 32 hours and be paid \$400 by their employer and, under Michigan law, receive \$53 in prorated unemployment benefits.<sup>21</sup>

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<sup>20</sup> However, the percent reduction in hours could be greater than the percent reduction of employees if employers are required to maintain health and retirement benefits (fixed costs) since a reduction in hours reduces only variable costs while layoffs reduce total costs (variable + fixed); thus a given reduction in staff could be equivalent to a greater reduction in hours, if the costs of health and retirement benefits are greater than the payroll savings of reducing the hours of all employees (including senior) rather than laying off novice employees.

<sup>21</sup> For more information pertaining to short-time compensation programs, please see the HFA memo entitled "Work Sharing and Short-Time Compensation as Unemployment Insurance Strategy" at <http://www.house.mi.gov/hfa/PDFs/STC%20Memo.pdf>.

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# FINANCIAL CONDITIONS

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This report has surveyed the elements of the unemployment insurance system in general and how the program is administered in Michigan by the UIA in particular, and will now review the financial condition of unemployment insurance in Michigan.<sup>22</sup> The financial health of unemployment insurance programs is customarily measured by the level of funds available in states' accounts within the UTF (the reserve). The unemployment insurance system is a countercyclical macroeconomic stabilizer, but it may be more accurate to conceptualize the system as distinguished into two components: 1) the benefits component and 2) the taxation component. While the benefits component is certainly countercyclical, distributing benefits to unemployed workers and thus bolstering purchasing power during recessions, the taxation component is theoretically cyclical. The balance of the UTF is synchronized with the business cycle; anticipated to accrue a substantial surplus during economic expansion as employer hiring and hence taxable wages increase, this surplus is then depleted as the macroeconomy constricts, layoffs proliferate, and benefits are withdrawn.

However, to the extent that SUTA tax rates are experience rated, tax revenue may decline during prolonged periods of economic expansion as unemployment wanes. Additionally, amendments made to the MESA in 1995 reduced SUTA tax rates, reducing tax revenue by an estimated \$748 million between 1996 and 2000 (14.1% of total collections over that period), even as the economy and employment expanded.<sup>23</sup> As the labor market and the number of individuals employed expands so does the number of the potentially unemployed; consequently, reducing SUTA tax revenue during times of economic expansion may subject the state's UTF reserves to greater risk of insolvency during economic constrictions.

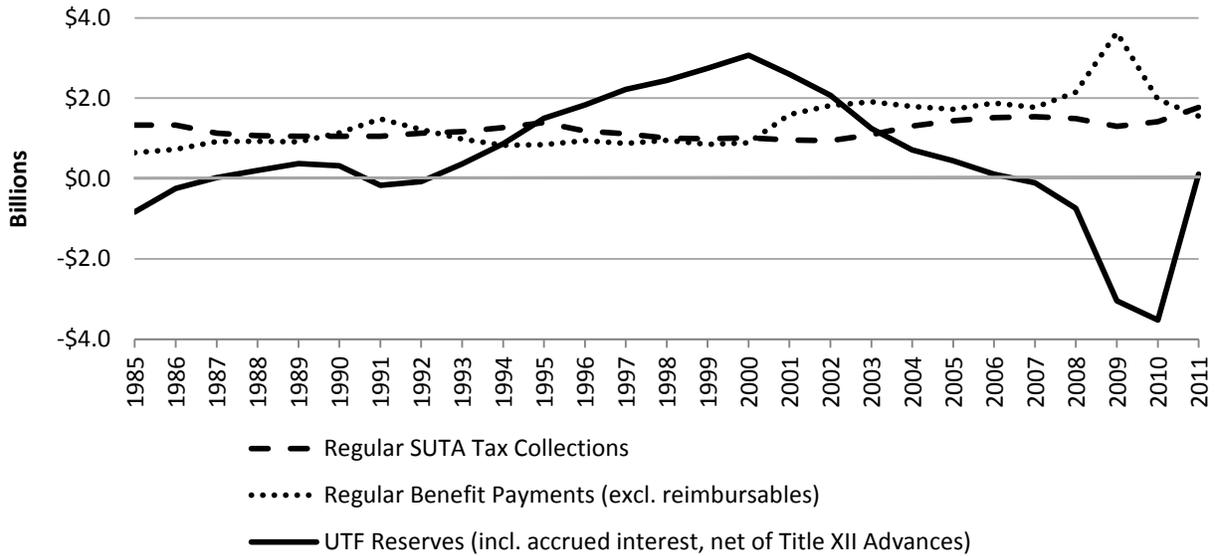
The data presented in Figure 9 supports the cyclical conception of unemployment financing. Following the 1991 recession and subsequent depletion of the state's UTF reserves, those reserves grew precipitously during the macroeconomic expansion of the 1990s and regular SUTA tax collections exceeded regular benefit payments due to high levels of employment and thus taxable wages and correspondingly low levels of unemployment and thus benefit payments. Peaking in 2001 just as the "Dot-Com Bubble" burst and the ensuing recession took hold, UTF reserves were depleted as Michigan employers and workers struggled with the ensuing economic restructuring and unemployment benefit payments consistently outpaced tax collections. Michigan was already receiving loans from the federal government in 2007 when the onset of the "Great Recession" further aggravated the state's already inadequate UTF reserves with the extensive loss of employment that followed.

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<sup>22</sup> In the discussion of the Unemployment Trust Fund in this section, this report will limit consideration only to *regular* unemployment benefit payments, disregarding the payments of partially or entirely federally-funded extended or emergency benefits.

<sup>23</sup> \$748 million estimated by the UIA in 1995 and cited in HLA analysis of HB 5763 which can be accessed at: <http://www.legislature.mi.gov/documents/2001-2002/billanalysis/House/pdf/2001-HLA-5763-d.pdf>.

**Figure 9  
Michigan Unemployment Trust Fund Account Reserves**



*SOURCES: US DOL, ETA, Financial Data Handbook 394, 2011 and ETA, Unemployment Insurance Data Summary, 2011 Q4.*

While there is no federal statutory requirement stipulating what constitutes adequate trust fund reserves in state UTF accounts, the DOL recommends that states' reserves should provide enough funding for one year of projected benefit payments equivalent to the average cost of the three most costly years of benefit payments in a state's recent history. The, so-called, Average High Cost Multiple (AHCM) is expressed as a ratio calculated by dividing the Reserve Ratio by the average Benefit Cost Rates of the three highest benefit cost years over the previous 20 years, or a period covering three recessions, whichever is longer. The Reserve Ratio is the balance of the state's UTF account, net of federal loans, divided by 12 months of total insured wages paid within the state. The Benefit Cost Rate (BCR) is the quotient resulting from dividing the total amount of benefits paid in a year with the total insured wages paid during that year. An AHCM ratio of 1.0 signifies that a state's UTF account reserves are sufficient to support a year of benefit payments at historically high levels. At the close of 2011, Michigan's UTF account had a balance of \$113.9 million, a Reserve Ratio near zero (.00067), and an AHCM of .03 (significantly below the DOL's recommended AHCM of 1.0). In order to have had an AHCM of 1.0 in 2011, Michigan's UTF account would have had to have a balance of \$3.67 billion.

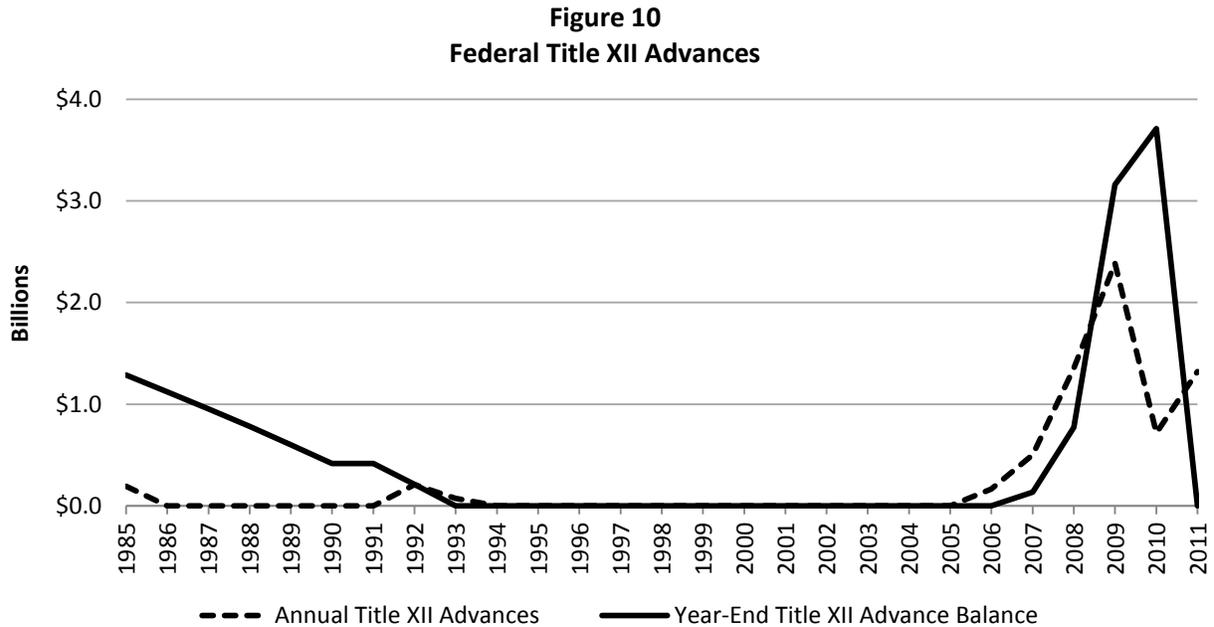
***Average High Cost Multiple (AHCM)***

**Reserve Ratio =  $\frac{\text{State UTF Balance} - \text{Federal Loans}}{12 \text{ Months of State Total Insured Wages}}$**

**BCR =  $\frac{12 \text{ Months of State Total Benefit Payments}}{12 \text{ Months of State Total Insured Wages}}$**

**AHCM = Reserve Ratio /  $\frac{(3 \text{ Highest BCRs})}{3}$**

As noted above, the protracted recession of the 2000s leading up to the recent "Great Recession" severely strained the state's UTF account; beginning in 2001 benefit payments exceeded tax collections. Between 2006 and 2011, Michigan received \$6.5 billion in federal loans (Title XII Advances); these advances enabled the state to continue distributing unemployment benefits to entitled claimants. Figure 10 presents Michigan's borrowing from the federal government and the year-end balance of outstanding Title XII Advances.



SOURCES: US DOL, ETA, Financial Data Handbook 394, 2011 and the Unemployment Insurance Agency.

In response to the structural insolvency of the state's UTF account, the Legislature enacted Public Acts 14 and 269 of 2011 substantially amending the MESA; generally raising tax collections and reducing benefit payments.

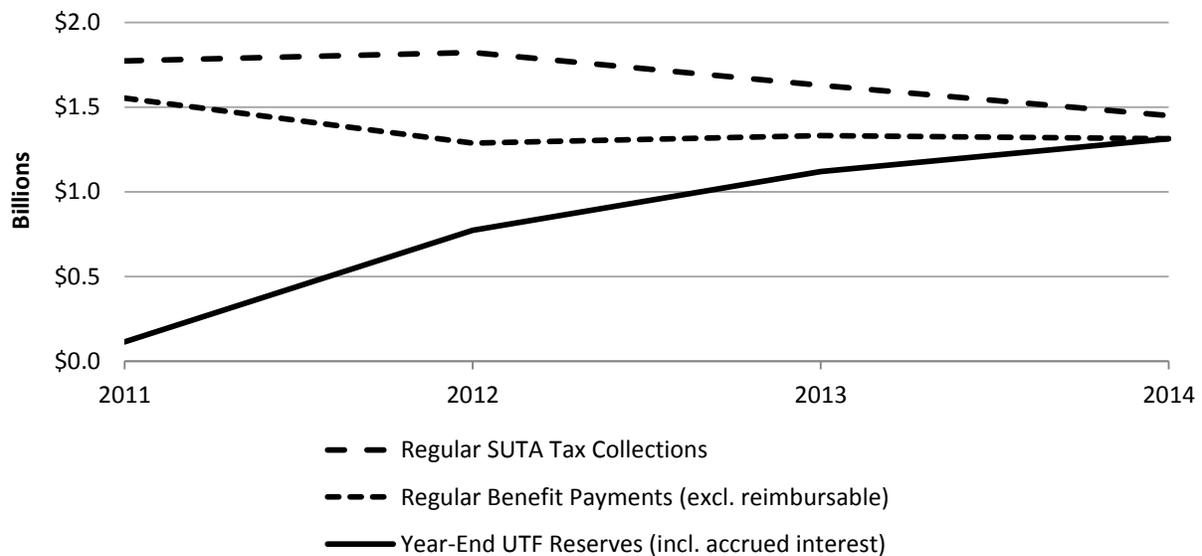
- PA 14 reduced the maximum duration that claimants can collect unemployment benefits from 26 to 20 weeks.
- PA 14 increased interest collections on benefit overpayments, administrative fines for certain violations of the MESA, and double damages imposed for subsequent violations.
- PA 269 increased the taxable wage base from the first \$9,000 to the first \$9,500 of wages paid.
- PA 269 reduced the period of time during which employers' experience-rated SUTA tax rate is determined and Chargeable Benefit Component is calculated from five to three years; thus increasing the responsiveness of SUTA tax collections to recent economic conditions.
- PA 269 also reduced some workers' eligibility to collect benefits while increasing the work availability, work search, and work suitability requirements for workers collecting benefits and the circumstances in which workers are disqualified from collecting benefits.
- PA 269 expanded and increased various penalties and fines for employer noncompliance and benefit fraud while expanding and increasing the UIA's authority to impose assessments, interest, and penalties for violations of the MESA and to obtain restitution of unpaid taxes and improperly paid benefits.

The acts changed various other provisions intended to improve the administration of the UIA and the solvency of the state's UTF account.<sup>24</sup>

The Legislature also enacted Public Acts 267 and 268 of 2011 to address the insolvency of the state's UTF account by authorizing the Michigan Finance Authority (MFA) to issue bonds on behalf of the UIA. The MFA issued short-term bonds amounting to \$3.3 billion in December 2011; entirely repaying outstanding Title XII Advances and eliminating the FUTA tax credit reductions for Michigan employers and the levying of the Solvency Tax. In June of 2012, the MFA closed long-term fixed-rate bonds refinancing the state's UTF debt at historically low interest rates and saving employers an estimated \$1.0 billion in future FUTA credit reductions and state solvency taxes. Consequently, the UIA will levy a quarterly Obligation Assessment on all employers to cover the bond obligations and related expenses and contingencies.

With the payoff of outstanding Title XII Advances, Michigan's UTF account closed CY 2011 with \$113.9 million in reserves. In September 2012, the UIA released short-term projections of SUTA tax collections, regular benefit payments, and reserves in the state's UTF account. These projections are exhibited in Figure 11. Between 2011 and 2012, the UIA estimates that SUTA tax collections will increase slightly, after which tax collections decrease 10.1% in 2013 and again in 2014. Benefit payments are estimated to decrease by 17.2% in 2012, generally leveling off throughout 2013 and 2014. The UIA estimates that reserves in the state's UTF account will dramatically increase during 2012 and grow to \$1.3 billion by 2014, an increase exceeding an order of magnitude from 2011 reserves.

**Figure 11**  
**Michigan Unemployment Trust Fund Projections**



SOURCES: US DOL, ETA, *Unemployment Insurance Data Summary, 2011 Q4* and *Unemployment Insurance Agency, 09/15/2012*.

<sup>24</sup> For more information pertaining to 2011 PAs 14 and 269, please see the SFA bill analysis at <http://www.legislature.mi.gov/documents/2011-2012/billanalysis/Senate/pdf/2011-SFA-4408-N.pdf> and <http://www.legislature.mi.gov/documents/2011-2012/billanalysis/Senate/pdf/2011-SFA-0806-N.pdf>, respectively.



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