MINUTES OF THE HOUSE COMMITTEE ON LABOR AND INDUSTRY

Held in Room 521-S, at the Statehouse at 9:30 a. m./~~p.m.~~,

on January 27, 1983.

All members were present except:

All members were present.

The next meeting of the Committee will be held at 9:15 a. m./~~p.m.~~,

on January 28, 1983.

These minutes of the meeting held on ____________, 19____ were considered, corrected and approved.

Arthur W Douville
Chairman

The conferees appearing before the Committee were:

Dr. Harvey Ludwick
Mr. Arnold Berman

Chairman Douville called the meeting to order at 9:32 a.m.

Chairman Douville called Dr. Ludwick to the speakers stand. Dr. Ludwick gave testimony dated January 27, 1983 (Attachment #1), and also handed out a copy of a letter to Representative Douville dated January 25, 1983 to the committee (Attachment #2).

Chairman Douville questioned Dr. Ludwick as to how much money would be the total payout for calendar year 1983. Dr. Ludwick told the committe the total payout for 1983 would be $305,000,200.00, which was calculated using the figures on Table One of Attachment #1.

A discussion followed.

Chairman Douville adjourned the meeting at 10:15 a.m.

Guest List

Rob Hodges	Topeka	KAC
Tom Vittitow		Post Audit
Cyndra Ternes	Topeka	Speaker's office
Wayne Maichel -	Top	Kans. AFL-CIO
Steve Goodman	Overbrook	Dept. Human Resources
Harvey S. Ludwick		"
Bill Abbott	Wichita	Boeing
Barry Swanson	Lawrence	Gov. office
David Kah	Topeka	"
Amy Carter	Topeka	
Ralph McGee	"	KS AFL-CIO
Charles W Sessler	Ellinwood, Ks	Barton Co Comm
Arnold Berman		Human Resources
Bud Grant	Topeka	KACI

1-27-83 #1

TESTIMONY OF
THE KANSAS DEPARTMENT OF HUMAN RESOURCES
BEFORE THE HOUSE LABOR AND INDUSTRY COMMITTEE
JANUARY 27, 1983

Mr. Chairman and members of the House Labor and Industry Committee, we appear before you today on behalf of the Employment Security Advisory Council and bring to you their recommendations.

We want to, at the outset, assure you that the Department and the Employment Security Advisory Council have no intention of raising a single dollar more than is required to maintain the solvency of the Unemployment Compensation Trust Fund. No matter whose figures or statistics are used for optimistic or pessimistic projections of unemployment rates and numbers of beneficiaries for the next eighteen months, the critical issue is not numbers, but the ability of the Department to meet its financial obligations to the unemployed workers of Kansas.

The key element of this package of proposals requires the Department and the Employment Security Advisory Council to review the status of the fund on a quarterly basis and make a determination whether or not additional income is needed. This requirement will permit the Council and the Department to make accurate, short-range projections based on quarterly fluctuations in the economy, instead of attempting to project unemployment rates and fund depletion over a year in advance.

When one looks at income versus payments of the State Unemployment Compensation Trust Fund, it is obvious that over the last three calendar years, the fund's balance has been steadily and significantly reduced. The chart below compares facts that we know to exist and shows the impact of the statewide unemployment rate for CY 1982.

Year	Payments	Fund Balance on December 31	Average Statewide Unemployment Rate
1980	$117.7 m.	$218,719,546	3.9%
1981	112.3 m.	220,886,267	3.7%
1982	217.8 m.	135,057,409	5.5%

The Department of Human Resources has made projections of when the Trust Fund balance will be at its lowest point, assuming least favorable, moderately

Atch. 1

favorable, and most favorable unemployment rates. Unemployment rates for future months or years are difficult to estimate and impossible to control. Therefore, the only solution to a dwindling balance is a combination of payment controls and financing controls.

These controls are contained in a package of proposals unanimously recommended by the Employment Security Advisory Council on January 19, 1983. The Department of Human Resources concurs with these proposals and presents them today for your consideration. It should be remembered that most of these proposals for change in the Employment Security Law are recommended to be emergency measures designed to insure the continued solvency of the Unemployment Compensation Trust Fund during the next eighteen months.

Perhaps the most critical fact to face up to is that the fund has been drawn down to its lowest level in nine years by the highest rate of unemployment in Kansas since 1940. The Department has attempted to project the income that is necessary to maintain the viability of the fund through June of 1984. Even in our most optimistic projection, it is expected that during the third and fourth quarters of CY 1983 and the first two quarters of CY 1984, the fund will experience its greatest payment rate. This expectation is due to the seasonal or cyclical influence of unemployment and also due to U. S. Department of Labor estimates that the national average unemployment rate will probably remain at or near ten percent during CY 1983.

When the Department of Human Resources announced its CY 1983 employer tax rates in December of 1982, the income those rates were expected to provide for CY 1983 was $133.4 million. Those tax rates were based on a $6,000 wage base and were calculated in accordance with K.S.A. 44-710 (a), et seq. It is thus apparent that even if unemployment payments are substantially lower from now until June 1984, the fund will enter the third quarter of CY 1984 with a very small balance.

Beginning with the anticipated income during CY 1983 of $133.4 million if no changes were made to the law, each proposal is briefly outlined below and each includes estimated additional income:

1. An increase in the annual wage base on which unemployment compensation taxes are collected from the current $6,000 per employee up to a new level of $7,000.
   Note: This is the minimum wage base under recent changes to national law.
   Anticipated additional income to the fund: $10,500,000

2. An increase in the maximum tax rate from the current 4.3% up to 5.4%.
   Note: This is the maximum tax rate which must be adopted by all states by January, 1985, to comply with recent changes in national law.
   Anticipated additional income to the fund: None during CY 1983.

3. Change the size of fund control schedule, Scheduled III (K.S.A. 44-710 (a)(3)), to more adequately reflect the needs of the Unemployment Compensation Trust Fund.
   Anticipated additional income to the fund: $10,500,000

4. Elimination of the surcharge currently assessed on negative account employers. All negative account employers would be assessed at the proposed maximum tax rate of 5.4%.

   Anticipated additional income to the fund: $2,900,000

5. That a 20% surcharge be assessed all Kansas employers in an attempt to maintain the solvency of the Unemployment Compensation Trust Fund through the first quarter of CY 1984.
   Anticipated additional income to the fund: $27,600,000

6. That the increase in the state's maximum weekly benefit amount, as prescribed by K.S.A. 44-704 (c) be abated for FY 1984.
   Note: This proposal will not generate additional income to the fund but will have the beneficial effect of reducing the drawdown on the fund during FY 1984 by an estimated $20,000,000.

7. That the benefit formula provide that benefits be rounded down to the next lowest multiple of $1.00.

   Note: This is to comply with recent changes in national law.

   Anticipated additional income to the fund: $1,300,000

8. That the successorship provisions in the law be amended to provide for more equity to succeeding employers without interruption of coverage.

   Note: This proposal is not anticipated to provide additional income to the fund.

9. That K.S.A. 44-717(c) be changed to include "probate proceeding" and "interpleader" status for the Department to collect contributions from an estate.

   Note: This proposal is anticipated to provide very little additional income to the fund.

10. That the Department of Human Resources be permitted to charge and to collect the costs of copying information requested by nongovernmental persons, along the lines found in K.S.A. 45-204.

    Note: This proposal is not anticipated to provide additional income to the fund. However, it is expected to reduce the rate of growth of administrative costs.

11. That the Employment Security Advisory Council and the Department of Human Resources conduct quarterly reviews of the status of the fund and that appropriate authority be given the Department to levy additional surcharges, if necessary, to maintain the solvency of the fund, subject to approval of the State Finance Council. Additional income to the fund cannot be estimated at this time. However, this provision can insure that the fund will remain solvent during the next eighteen months.

12. That amendments to the law as results of proposals #3, #4, #5, #6 and #11 be designed to expire at midnight on June 30, 1984. This is in anticipation of a study to be conducted by the Employment Security Advisory Council and the Department of Human Resources in consultation with the Legislature immediately after adjournment of the 1983 Kansas Legislative Session.

13. That all amendments, whether designed to expire on June 30, 1984, or not, be effective upon their publication in the official state paper.

The following chart reflects the anticipated total income to the fund during various periods of the next eighteen months.

Estimated income generated by proposal #1	=	$10,500,000	(during CY 1983)
Estimated income generated by proposal #2	=	0	(during CY 1983)
Estimated income generated by proposal #3	=	$10,500,000	(during CY 1983)
Estimated income generated by proposal #4	=	$ 2,900,000	(during CY 1983)
Estimated income generated by proposal #5	=	$27,600,000	(during CY 1983)
Estimated savings generated by proposal #6	=	$20,000,000	(during FY 1984)
Estimated income generated by proposal #7	=	$ 1,300,000	(during CY 1983)
Total Estimated Adjustments	=	$72,800,000	

The following tables represent three scenarios of unemployment that were presented to this committee on January 16, 1983. These tables now project the effects of adoption of today's proposals.

Table One
Estimated Beneficiaries, Payments, Income, and Balance of the Reserve Fund 1/
Least Favorable Unemployment Rate 2/

Month	Beneficiaries	Payments	Income	Balance
January, 1983	50,000	$23,300,000	$ 10,000,000	$121,300,000
February	50,000	23,400,000	3,700,000	101,600,000
March	53,000	24,700,000		76,900,000
April	51,000	24,000,000	73,900,000	126,800,000
May	48,000	22,500,000	2,700,000	107,000,000
June	55,000	25,900,000		81,100,000
July	55,000	25,900,000	40,000,000	95,200,000
August	52,000	24,500,000	2,900,000	73,600,000
September	56,000	26,400,000		47,200,000
October	52,000	24,500,000	21,700,000	44,400,000
November	49,000	23,100,000	2,000,000	23,300,000
December	67,000	31,600,000		-8,300,000
January, 1984	70,000	33,000,000	16,800,000	-27,500,000
February	70,000	33,000,000		-60,500,000
March	74,000	34,900,000		-95,400,000
April	72,000	34,200,000	115,200,000	-14,400,000
May	68,000	32,000,000		-36,400,000
June	78,000	36,800,000		-73,200,000

1/ The payment and income figures in these tables are based on the assumptions that the following changes will be made in the E.S. law:

a. Increase the taxable wage base from $6,000 to $7,000.
b. Increase maximum tax rate to 5.4%.
c. Eliminate negative balance surcharge but place all at 5.4%.
d. Change the size-of-fund control schedule.
e. Add a 20% surcharge to all employers.
f. Cancel the increase of the maximum wba.
g. Round benefits to next lowest multiple of $1.00.

2/ The unemployment rate for this table is based on current unemployment changing at the average rate for the last three years, or 6.3 per cent.

Kansas Department of Human Resources
Research and Analysis Section
Division of Staff Services
January 1983

Table Two
Estimated Beneficiaries, Payments, Income, and Balance of the Reserve Fund 1/
Moderate Unemployment Rate 2/

Month	Beneficiaries	Payments	Income	Balance
January, 1983	50,000	$23,300,000	$ 10,000,000	$121,300,000
February	47,000	21,900,000	3,700,000	103,100,000
March	50,000	23,300,000		79,800,000
April	48,000	22,400,000	73,900,000	131,300,000
May	45,000	21,000,000	2,700,000	113,000,000
June	52,000	24,200,000		88,800,000
July	52,000	24,200,000	40,000,000	104,600,000
August	49,000	22,800,000	3,100,000	84,900,000
September	53,000	24,700,0-0		60,200,000
October	49,000	22,800,000	21,700,000	59,100,000
November	46,000	21,400,000	2,300,000	40,000,000
December	63,000	29,300,000		10,700,000
January, 1984	66,000	30,700,000	16,800,000	-3,200,000
February	66,000	30,700,000	1,000,000	-32,900,000
March	70,000	32,600,000		-65,500,000
April	68,000	31,600,000	115,200,000	18,100,000
May	64,000	29,800,000		-11,700,000
June	73,000	34,000,000		-45,700,000

1/ The payment and income figures in these tables are based on the assumptions that the following changes will be made in the E.S. law:

a. Increase the taxable wage base from $6,000 to $7,000.
b. Increase maximum tax rate to 5.4%.
c. Eliminate negative balance surcharge but place all at 5.4%.
d. Change the size-of-fund control schedule.
e. Add a 20% surcharge to all employers.
f. Cancel the increase of the maximum wba.
g. Round benefits to next lowest multiple of $1.00.

2/ The payment figures for this table are based on the average unemployment rate for the calendar year 1983 being the same as its current level, 6.1 per cent.

Kansas Department of Human Resources
Research and Analysis Section
Division of Staff Services
January 1983

Table Three

Estimated Beneficiaries, Payments, Income, and Balance of the Reserve Fund 1/

Most Favorable Unemployment Rate 2/

Month	Beneficiaries	Payments	Income	Balance
January, 1983	50,000	$23,300,000	$ 10,000,000	$121,300,000
February	47,000	21,900,000	3,700,000	103,100,000
March	50,000	23,300,000		79,800,000
April	41,000	19,000,000	73,900,000	134,700,000
May	38,000	17,900,000	2,700,000	119,500,000
June	44,000	20,600,000		98,900,000
July	43,000	20,100,000	40,000,000	118,800,000
August	41,000	19,200,000	3,200,000	102,800,000
September	44,000	20,600,000		82,200,000
October	40,000	18,700,000	21,700,000	85,200,000
November	37,000	17,300,000	2,800,000	70,700,000
December	53,000	24,800,000		45,900,000
January, 1984	55,000	25,700,000	16,800,000	37,000,000
February	55,000	25,700,000	1,800,000	13,100,000
March	58,000	27,200,000		-14,100,000
April	56,000	26,200,000	115,200,000	101,100,000
May	55,000	25,700,000		75,400,000
June	62,000	29,000,000		46,400,000

1/ The payment and income figures in these tables are based on the assumptions that the following changes will be made in the E.S. law:

a. Increase the taxable wage base from $6,000 to $7,000.
b. Increase maximum tax rate to 5.4%.
c. Eliminate negative balance surcharge but place all at 5.4%.
d. Change the size-of-fund control schedule.
e. Add a 20% surcharge to all employers.
f. Cancel the increase of the maximum wba.
g. Round benefits to next lowest multiple of $1.00.

2/ The payment figures for this table are based on the average unemployment rate for the calendar year 1983 declining to approximately 5.0 per cent.

Kansas Department of Human Resources
Research and Analysis Section
Division of Staff Services
January 1983

Previously, the Department's testimony has been based on the known history of benefit payments in CY 1980, 1981 and 1982 projected for CY 1983 and the first half of CY 1984 on the basis of average increases of unemployment during the past three years. The Department would like very much to assume that the state will not experience during 1983 what was experienced in 1980, 1981, and 1982. In spite of U.S. Department of Labor forecasts for unemployment in 1983, we indeed hope that the unemployment rate and thus the total payments to unemployed will be less than during CY 1982.

However, as guardians of the fund, the Department's duty is to bring to the Legislature's attention the depletion of the fund as a direct result of the recession. The alternative to immediate increased financing of the fund is to consider borrowing federal dollars at a 10% interest rate to pay benefits to those who are unemployed--a course now being followed by 22 states. In the final analysis, however, employer tax rates would ultimately have to be greatly increased to repay this borrowed money.

Mr. Chairman, the Council's proposals presented today are solely designed to provide for maintenance of the fund should economic conditions fail to dramatically improve by the summer of 1984. During the interim the Legislature in conjunction with the Council and Human Resources will have the opportunity to develop a long-range plan for financing of the fund.

Mr. Chairman, the Department of Human Resources endorses the philosophy of the Employment Security Advisory Council's enclosed recommendations and is ready to assist you and your committee in translating these recommendations into a program of action so critically needed to maintain the fund's solvency.

Thank you for your attention.

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1-27-83 #2

KANSAS DEPARTMENT OF
Human Resources
DIVISION OF EMPLOYMENT

401 TOPEKA AVENUE TOPEKA, KANSAS 66603
913-296-5000

HLL:WHL:csm

January 25, 1983

Honorable Arthur W. Douville, Representative
20th District
Kansas House of Representatives
State Capitol Building
Topeka, Kansas 66612

Dear Representative Douville:

In response to your request we have prepared selected tables listing tax schedules based upon various tax bases from $7,000 to $13,500 for calendar year 1983. These tables also include adjustments for the following proposals:

1. Increase in maximum rate from 4.3 to 5.4 per cent.
2. Elimination of surcharge on negative balance accounts.
3. Change in size of fund control schedule.
4. A 20 per cent surcharge added to all rates.
5. Any increase in the average weekly wage reflected in upward weekly benefit amounts would be eliminated.

The second question concerned total covered wages paid during calendar years 1980-1982. The table below lists total wages (all wages paid to workers covered by the law) and taxable wages. Taxable wages include only that portion up to the $6,000 base on each employer. It should be noted that numbers for 1982 are estimated since only six months of actual information is available.

Calendar Year	Total Wages	Taxable Wages
1982 (est.)	$13,430,300,000	$6,885,300,000
1981.	$12,706,313,198	$6,592,364,659
1980.	$11,507,728,172	$6,258,761,917

Finally, some discussion has centered about what one would consider as a minimum level of reserves available for the payment of benefits. In many instances a level is quoted in "dollars" at which a state would retain sufficient funds to make payments. However, a stated dollar value is impractical since it rapidly becomes insufficient since it is unresponsive to inflation and gains in total wages. A more actuarially sound approach is one in which the level of reserves is measured in terms of the potential for draw down during recessionary times. Most experts agree that reserves should be held at some "multiple" of the worst payout period or high cost era of the last 15 years since this may be indicative of the reoccurrence of such a period. In this manner a state would have sufficient funds to meet the high

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cost period and rebuild reserves during better times. This measure maintains that a state should be financially capable of "weathering a storm" of unemployment equal to 1½ times the worst 12 months experienced during the last 15 years. Ideally a range of between 1.5 and 3.0 is felt adequate and has been endorsed since 1959 by the U. S. Department of Labor as the best indicator of fund adequacy. It should be noted that of nearly all states which were forced to borrow from the "Fed", nearly all lacked the 1.5 minimum level of adequacy. Charts depicting recent history of the multiple for Kansas and other key measures are attached.

Sincerely,

Harvey L. Ludwick, Ed.D.
Secretary of Human Resources

Enclosures

Calendar Year 1983 Employer Contribution Rates
Under Alternate Wage Bases
With Proposed Law Changes

Rate Group	$7,000	$7,500	$8,000	$8,500	$9,000	$9,500	$10,000
1	.06%	.06%	.06%	.05%	.05%	.05%	.05%
2	.25	.24	.22	.21	.20	.18	.19
3	.50	.47	.45	.43	.41	.36	.37
4	.75	.70	.67	.64	.61	.55	.56
5	1.00	.94	.89	.85	.81	.73	.75
6	1.25	1.17	1.12	1.07	1.02	.91	.94
7	1.50	1.41	1.34	1.28	1.22	1.09	1.12
8	1.75	1.64	1.56	1.49	1.42	1.27	1.31
9	2.00	1.88	1.79	1.71	1.62	1.46	1.50
10	2.25	2.11	2.01	1.92	1.83	1.64	1.68
11	2.50	2.35	2.23	2.13	2.03	1.82	1.87
12	2.75	2.58	2.46	2.35	2.23	2.00	2.06
13	3.00	2.82	2.68	2.56	2.44	2.18	2.25
14	3.25	3.05	2.90	2.27	2.64	2.37	2.43
15	3.50	3.29	3.13	2.98	2.84	2.55	2.62
16	3.75	3.52	3.35	3.20	3.05	2.73	2.81
17	4.00	3.76	3.57	3.41	3.25	2.91	3.00
18	4.25	3.99	3.80	3.62	3.45	3.09	3.18
19	4.50	4.23	4.02	3.84	3.66	3.28	3.37
20	4.75	4.46	4.24	4.05	3.86	3.46	3.56
21	5.00	4.70	4.47	4.26	4.06	3.64	3.74

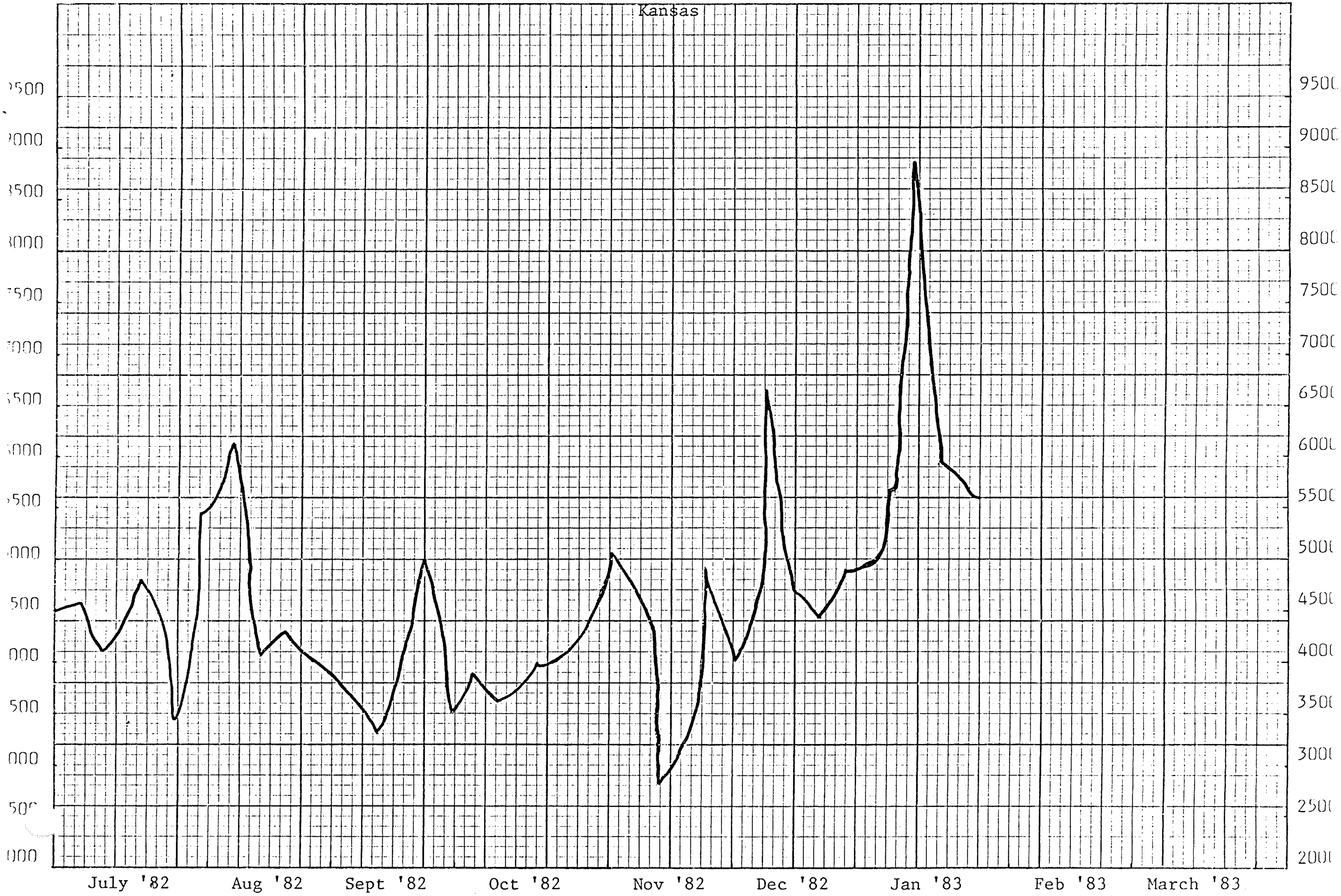
Kansas Department of Human Resources
Research and Analysis Section
Division of Staff Services
January 1983

Calendar Year 1983 Employer Contribution Rates
Under Alternate Wage Bases
With Proposed Law Changes

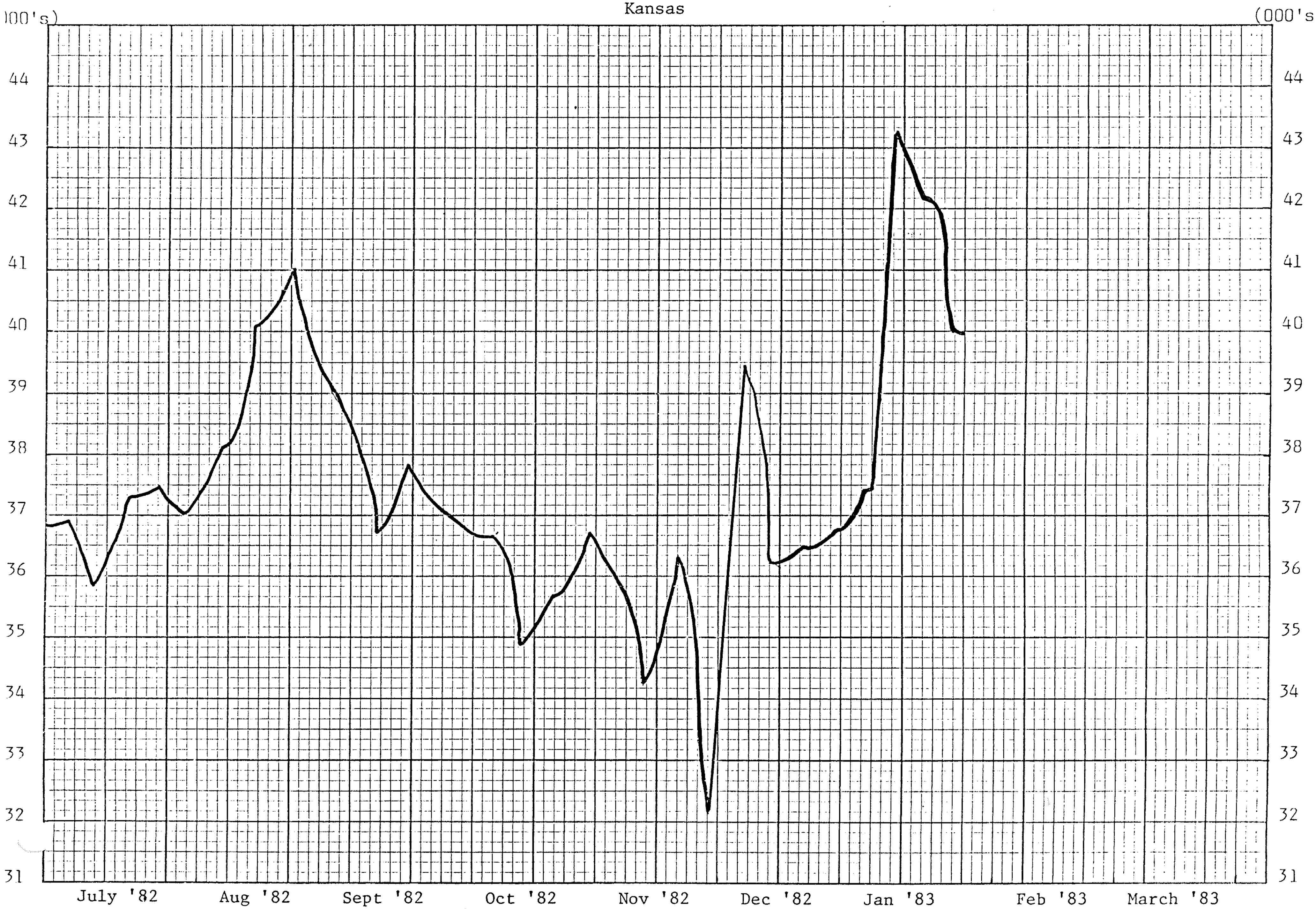
Rate Group	$10,500	$11,000	$11,500	$12,000	$12,500	$13,000	$13,500
1	.04%	.04%	.04%	.04%	.04%	.04%	.04%
2	.18	.17	.17	.16	.16	.15	.15
3	.36	.35	.33	.32	.31	.30	.30
4	.54	.52	.50	.49	.47	.46	.45
5	.72	.69	.67	.65	.63	.61	.59
6	.90	.87	.84	.81	.78	.76	.74
7	1.08	1.04	1.00	.97	.94	.91	.89
8	1.26	1.22	1.17	1.14	1.10	1.07	1.04
9	1.44	1.39	1.34	1.30	1.25	1.22	1.19
10	1.61	1.56	1.50	1.46	1.41	1.37	1.34
11	1.79	1.74	1.67	1.62	1.57	1.52	1.49
12	1.97	1.91	1.84	1.79	1.72	1.67	1.64
13	2.15	2.08	2.00	1.94	1.88	1.83	1.78
14	2.33	2.26	2.17	2.11	2.04	1.98	1.93
15	2.51	2.43	2.34	2.27	2.19	2.13	2.08
16	2.69	2.61	2.51	2.44	2.35	2.28	2.23
17	2.87	2.78	2.67	2.60	2.51	2.44	2.38
18	3.05	2.95	2.84	2.76	2.66	2.59	2.53
19	3.23	3.13	3.01	2.92	2.82	2.74	2.68
20	3.41	3.30	3.17	3.09	2.98	2.89	2.83
21	3.59	3.47	3.34	3.25	3.13	3.04	2.97

Kansas Department of Human Resources
Research and Analysis Section
Division of Staff Services
January 1983

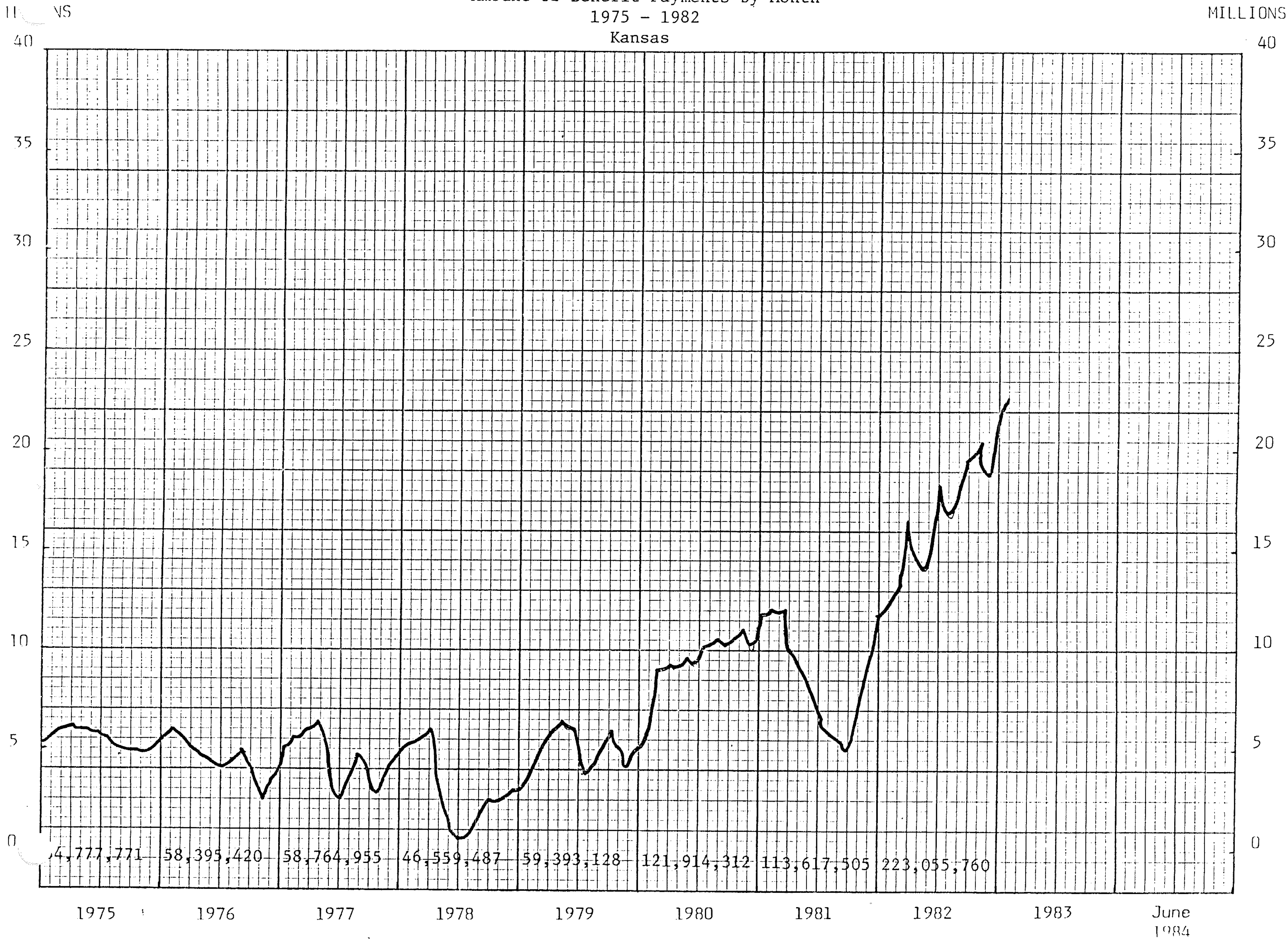
Initial Claims
(New and Additional)
July 1982 - January 1983
Kansas



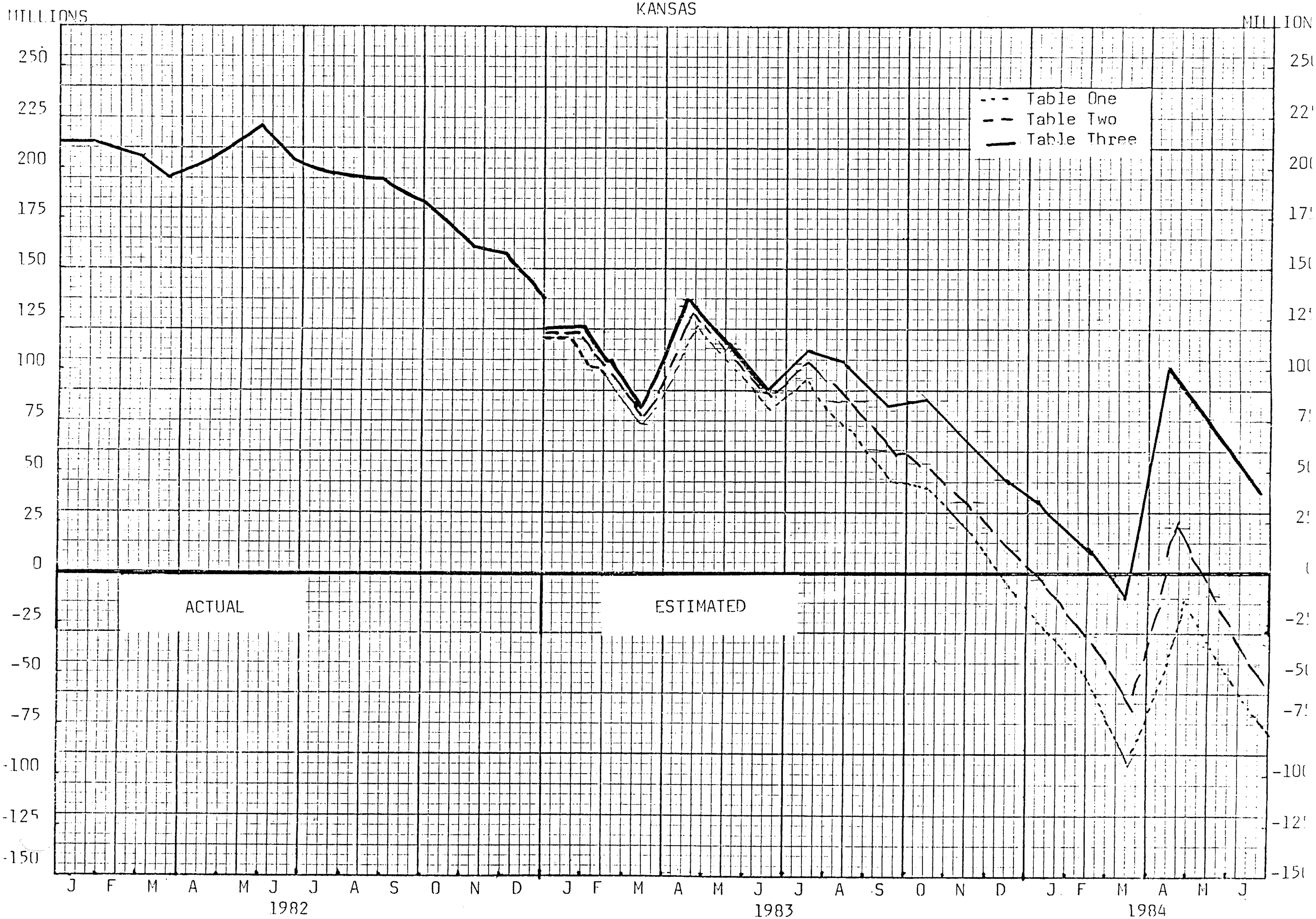
Continued Weeks Claimed
July 1982 - January 1983
Kansas



Amount of Benefit Payments by Month
1975 - 1982
Kansas



Reserve Fund Balance
Actual January 1982-December 1982
Estimated January 1983-July 1984
KANSAS



HIGH COST MULTIPLE
1973 - 1982
Kansas