Approved Stephen R. Cloud
Date 1-13-84

MINUTES OF THE HOUSE COMMITTEE ON GOVERNMENTAL ORGANIZATION.

The meeting was called to order by Rep. Stephen R. Cloud, Chairperson, at

9?07 a.m./p.m. on January 12, 1984 in room 522-S of the Capitol.

All members were present except:

Rep. Louis - Excused

Committee staff present:

Avis Swartzman - Revisor of Statutes Office
Carolyn Rampey - Legislative Research
Julian Efird - Legislative Research
Russ Mills - Legislative Research
Jackie Breymeyer - Committee Secretary

Conferees appearing before the committee:

The meeting of the House Governmental Organization Committee was called to order at 9:07 by Rep. Cloud, Chairman. He introduced Mr. Steve Goodman, Assistant Secretary For Employment, Department of Human Resources, who was present to offer an overview of unemployment insurance services. Copies of Assistant Secretary Goodman's testimony were distributed (Attachment I). This included a summarization of services provided by the Department, a chart showing the Unemployment Insurance Services, Computation of employer tax rates, Unemployment Insurance Compensation--Benefit Payment Control Unemployment Insurance Compensation-- Ramdom Audit (Quality Control) and Unemployment Insurance Benefits.

A Memorandum from the Legislative Research Department regarding the Explanation of Formula for Computing Annual Unemployment Insurance Tax Rates was also distributed (Attachment II).

Assistant Secretary Goodman read from his testimony and directed the Committee's attention to the chart which outlined the Department and its services. He briefly outlined the services of benefits and contributions administration, cited many statistics and answered questions from the Committee.

After Assistant Secretary Goodman finished his presentation, the Chairman thanked him and asked him to be present tomorrow to speak for a few minutes after the guest speaker was finished.

The Chairman told the Committee that tomorrow's conferee would give a "real world" view of how the unemployment compensation area works.

The meeting was adjourned at 10:30 a.m.

SAC

GUEST LIST

COMMITTEE: GOVERNMENTAL ORGANIZATION DATE: Jan. 12, 1984

NAME (PLEASE PRINT)	ADDRESS	COMPANY/ORGANIZATION
CHARLES BELT	350 W. DOUGLAS WICHITA, KS 67202	WICHITA CHAMBER OF COMMERCE
Rob Hodges	Topeka	KACI
Bill Layes	"	Ks. Dept. Human Resources
WAYNE MAICHEL	"	KANSAS AFL-CIO
Pat Schafer	"	BUDGET
D. WAYNE ZIMMERMAN	"	THE ELECTRIC COS ASSOC. OF KS.

ATTACHMENT I

TESTIMONY BEFORE THE HOUSE COMMITTEE ON GOVERNMENTAL ORGANIZATION
JANUARY 12, 1984 1984 LEGISLATURE

APPEARING ON BEHALF OF THE SECRETARY OF HUMAN RESOURCES JERRY SHELOR ARE ASSISTANT SECRETARY FOR EMPLOYMENT SECURITY STEVE GOODMAN AND STAFF.

THE DEPARTMENT APPEARS TODAY TO OFFER THE COMMITTEE AN OVERVIEW OF UNEMPLOYMENT INSURANCE SERVICES PROVIDED TO THE CITIZENS OF KANSAS. THE SERVICES MAY BE CONCEPTUALIZED IN TWO MAJOR COMPONENTS: BENEFITS AND CONTRIBUTIONS. FOR THE COMMITTEES' REVIEW, THE ATTACHED DOCUMENTS ILLUSTRATE AND DESCRIBE THE UNITS WITHIN EACH COMPONENT. FOR EACH COMPONENT DESCRIBED THERE IS INFORMATION ABOUT EACH UNIT'S PRIMARY MISSION AND AN EXPLANATION OF THE TYPE(S) OF SERVICES ADMINISTERED BY THE UNIT.

IN ORDER TO AVOID A LENGTHY AND DETAILED EXPLANATION OF EACH UNIT, PLEASE ALLOW ME TO BRIEFLY SUMMARIZE THE SERVICES:

I. BENEFITS

A. WITHIN THE OVERALL COMPONENT ARE SEVERAL UNITS:

1. BENEFITS ADMINISTRATION IS RESPONSIBLE FOR ENSURING THAT UNEMPLOYMENT CLAIMS ARE RECEIVED AND PROCESSED AS TIMELY AS POSSIBLE IN ACCORDANCE WITH FEDERAL AND STATE REQUIREMENTS. BENEFITS STAFF PRIMARILY RECEIVE BOTH INTERSTATE AND INTRASTATE CLAIMS FOR UNEMPLOYMENT COMPENSATION, CONDUCT FACT-FINDING INTERVIEWS, AND MAKE BASIC DETERMINATIONS OF ELIGIBILITY.

Atch. I

2. BENEFITS FIELD OPERATIONS IS RESPONSIBLE FOR ANALYZING AND MAINTAINING ADEQUATE BENEFITS STAFF LEVELS STATEWIDE, CONDUCTING TRAINING, PERFORMING VARIOUS PERSONNEL FUNCTIONS, AND COORDINATING PROPER PAYMENT PROCEDURES.
3. COST MODEL IS RESPONSIBLE FOR THE STATISTICAL ANALYSIS AND REPORTING OF THE UNEMPLOYMENT WORKLOAD. VARIOUS FUNCTIONS OF THE CLAIM INTAKE PROCESS ARE QUANTIFIED AND BENEFITS STAFF ARE "EARNED" ACCORDING TO THE STATEWIDE WORKLOAD. THIS ANALYSIS IS USED BY MANAGEMENT IN ALL UNITS TO DETERMINE APPROPRIATE STAFFING AND BUDGETING THE PROGRAMS.
4. BENEFIT PAYMENT CONTROL IS RESPONSIBLE FOR INVESTIGATING UNEMPLOYMENT BENEFIT OVERPAYMENTS. OVERPAYMENTS ARE DETECTED BY AGENCY USE OF COMPUTER CROSS-MATCH, TIPS BY EMPLOYERS OR NEIGHBORS, AND BY CLAIMANT ADMISSION. INVESTIGATIONS THAT INDICATE POSSIBLE FRAUD ARE REFERRED TO LOCAL COUNTY ATTORNEYS FOR PROSECUTION.
5. RANDOM AUDIT IS A QUALITY CONTROL UNIT WHICH INVESTIGATES BENEFIT PAYMENTS SELECTED AT RANDOM

TO DETERMINE IF PROPER PAYMENT PROCEDURES WERE FOLLOWED IN SELECTED CASES. IRREGULARITIES OR INDICATIONS OF OVERPAYMENT ARE REFERRED TO MANAGEMENT AND BENEFIT PAYMENT CONTROL FOR FURTHER INVESTIGATION.

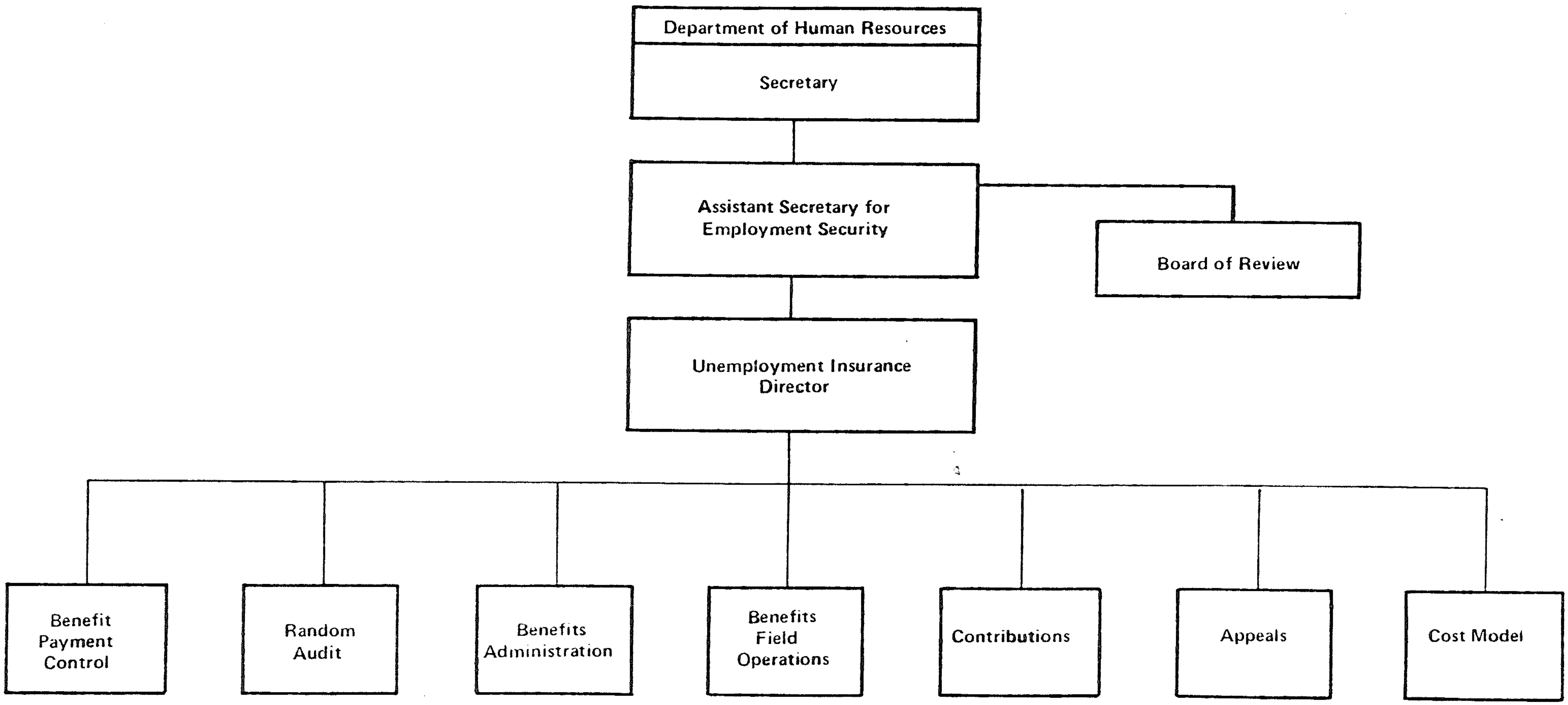
6. LOWER LEVEL APPEALS IS RESPONSIBLE FOR HEARING AND RULING ON APPEALS OF DETERMINATIONS BY BENEFITS ADMINISTRATION OR BENEFIT PAYMENT CONTROL. ANY PARTY AGGRIEVED BY A DETERMINATION MADE BY ANY UNIT WITHIN UNEMPLOYMENT INSURANCE SERVICES MAY FILE AN APPEAL.
7. HIGHER LEVEL APPEALS IS MORE COMMONLY REFERRED TO AS THE BOARD OF REVIEW WHICH IS RESPONSIBLE FOR REVIEWING AND RULING ON APPEALS OF RULINGS BY LOWER LEVEL APPEALS. THE THREE MEMBERS REPRESENT EMPLOYERS, EMPLOYEES AND THE PUBLIC.

II. CONTRIBUTIONS

A. CONTRIBUTIONS ADMINISTRATION IS RESPONSIBLE FOR NOTIFYING EMPLOYERS OF LIABILITY, COLLECTION OF THE STATE TAX, PERIODIC ROUTINE AUDITS OF EMPLOYER WAGE RECORDS, AND MAINTAINING A FIELD STAFF TO PERFORM THE ABOVE FUNCTIONS AND RESPOND TO INDIVIDUAL INQUIRIES.

IN ADDITION TO THESE MAJOR COMPONENTS IS A NON-GOVERNMENTAL ADVISORY BODY, THE EMPLOYMENT SECURITY ADVISORY COUNCIL. THE COUNCIL IS COMPOSED OF EQUAL REPRESENTATION BY EMPLOYERS, EMPLOYEES, AND THE PUBLIC. IT MEETS ON ALMOST A MONTHLY BASIS TO REVIEW UNEMPLOYMENT INSURANCE ISSUES AND ADVISE THE SECRETARY OF HUMAN RESOURCES AS TO THE ISSUES. THE COUNCIL IS CHAIRED BY THE ASSISTANT SECRETARY FOR EMPLOYMENT SECURITY.

UNEMPLOYMENT INSURANCE SERVICES



SOURCE OF FUNDS FOR THE UNEMPLOYMENT INSURANCE AND EMPLOYMENT SERVICE SYSTEMS

Employer Taxes

State UI Taxes

Authorized by individual state laws, collected by the state, transferred to Treasury, held in individual state trust fund accounts.

FUTA Taxes

Authorized by Social Security (Title IX), collected by the IRS, transferred to the Employment Security Administration Account (ESAA) to finance SESAs and the federal share of EB.

Tax equals 0.8% of the first $7,000 in wages except where tax credits are lost due to loan repayments.

Note: For 1983 and 1984 FUTA tax rate is 3.5%. Employers in a state with approved state programs receive a 2.7% offset credit, so the standard net Federal tax is 0.8%. Beginning in 1985 the gross Federal tax rate increases to 6.2%; however, the offset credit also increases to 5.4%, so the standard net Federal tax remains at 0.8%.

DEPOSITED INTO UI TRUST FUNDS

DEPOSITED INTO ESAA

Employment Security Administration Account (ESAA)

1. A. Automatic transfer of .2 of the .8% to the Extended Unemployment Compensation Account (EUCA). The extra .2 of FUTA is a temporary rate increase enacted in P.L. 94-566 to repay the EB and FSB debts incurred by the federal and state governments during the 74-75 recession. Once these debts are repaid, the .2 expires and the FUTA rate returns to .6%.

   B. Automatic transfer of .12 of the remaining .6% to EUCA (P.L. 91-373); permanent transfer to finance the current costs of the federal share (50%) of EB.

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2. Of the original .8%, .48 remains available to finance the administrative costs of the state employment security programs and part of the costs of federal administration of UI and ES. Of this amount, up to 95% is available for regular state programs and 5% is available for part of ETA administrative costs.

TO SESAs

Automatic Transfers

Lump Sum Transferred to EUCA (.32%)

Extended Unemployment Compensation Account (EUCA)

A. Repayments to General Revenue

B. Current Costs of EB (federal share of 50%)

DEPOSIT FEDERAL SHARE HERE

State UI Trust Funds

Individual state accounts dedicated to the payment of:

--regular UI benefits
--state share of EB (50%)
--reimbursable federal share of EB (50%)

TO CLAIMANTS

DEPOSIT LOANS HERE

Federal Unemployment Account (FUA)

Loan fund from which SESAs may borrow if their trust funds are insufficient to meet current outlays.

LOWER AUTHORITY APPEALS

All examiner determinations are appealable and any party aggrieved by a decision may appeal to a referee. The claimant and the claimant's most recent employing unit are notified of the examiners decision. An appeal must be filed within 16 calendar days after the mailing of notice to the last known addresses of the claimant and employing unit or if notice is not by mail, within 16 calendar days after the delivery of the notice to the parties.

Interested parties are notified in writing of a scheduled hearing to be held in person or by telephone and after affording the parties reasonable opportunity for a fair hearing a referee will affirm or modify the decision of the examiner. The parties are notified in writing of the referees decision.

HIGHER AUTHORITY APPEALS

If either or both parties are aggrieved by the referees decision an appeal may be filed to the Board of Review within 16 calendar days after the mailing of the decision to the parties last-known addresses or if notice is not by mail, within 16 calendar days after delivery of the decision.

The Board of Review may affirm, modify or set aside any referees decision on the basis of evidence previously submitted in the case. They may direct the taking of additional evidence, or may permit any of the parties to initiate further appeal before it.

The Board shall notify interested parties of its findings and decision.

1. Computation of employer tax rates

The following is a brief description of the method used in the computation of employer rates.

A planned yield is determined by the following method:

$$\frac{\text{Trust Fund Balance 7/31/83}}{\text{Total Payrolls for FY 1983}} \quad \frac{\$\ \ 166.2 \text{ million}}{\$10{,}725.0 \text{ million}} = 1.55\% \text{ (Reserve Fund Ratio)}$$

Reserve Fund Ratio	Planned Yield
5.00% and over	0.40%
4.75 but less than 5.00	0.50
4.50 but less than 4.75	0.60
4.25 but less than 4.50	0.70
4.00 but less than 4.25	0.80
3.75 but less than 4.00	0.85
3.50 but less than 3.75	0.90
3.25 but less than 3.50	0.95
3.00 but less than 3.25	1.00
2.75 but less than 3.00	1.05
2.50 but less than 2.75	1.10
2.25 but less than 2.50	1.15
2.00 but less than 2.25	1.20
1.75 but less than 2.00	1.30
----1.50 but less than 1.75	1.40----
1.25 but less than 1.50	1.50
1.00 but less than 1.25	1.60
Less than 1.00	1.70

$$\frac{\text{Total Payrolls for FY 1983}}{\text{Taxable Wages for FY 1983}} \quad \frac{\$10{,}725.0 \text{ million}}{\$\ 4{,}427.7 \text{ million}} = 2.42\%$$

2.42	Ratio of Total to Taxable Wages
x1.40	Planned Yield
3.39%	Adjusted Planned Yield Percentage

Taxable Wages for FY 1983	$4,427.7 million
Adjusted Planned Yield	x 3.39%
Amount of taxes to be generated from employers	$ 150.1 million

Approximately $150,100,000 represents the total income determined to be required for calendar year 1984. Since accounts "ineligible" for a normal rate computation are assigned a fixed rate it is necessary to subtract income produced from these from the total yield of $150.1 million. Negative balance accounts also produce a fixed income and must also be subtracted from the total requirement. The remaining accounts' tax rates can then be "adjusted" to produce the required income. This is accomplished as follows:

Planned Yield Amount....................	$150,100,000
less:	
Ineligible.........................	$ 7,331,089
Negative Balance Accounts...........	$ 22,335,302
Required Yield from the Array...........	$120,433,609

In order to acheive this amount each "experience factor" is adjusted upward by a factor of 3.342 which results in the following rate schedule shown below.

Rate Group	Reserve Ratio (lower limit)	Experience Factor	Number of Employers	Contribution Rate
1	.16359	.025%	6,138	.08%
2	.15444	.1	3,027	.33
3	.15015	.2	2,099	.67
4	.14780	.3	1,462	1.00
5	.14559	.4	1,567	1.34
6	.14387	.5	1,404	1.67
7	.14269	.6	1,030	2.01
8	.14105	.7	1,250	2.34
9	.13910	.8	1,294	2.67
10	.13696	.9	1,329	3.01
11	.13507	1.0	1,041	3.34
----12	.13250	1.1	1,307	3.68----
13	.12917	1.2	1,402	4.01
14	.12431	1.3	1,678	4.34
15	.11856	1.4	1,535	4.68
16	.11044	1.5	1,649	5.01
17	.10599	1.6	714	5.35
18	.09147	1.7	1,997	5.40
19	.06715	1.8	2,807	5.40
20	.04195	1.9	2,141	5.40
21	.00000	2.0	2,951	5.40

Each employer in the array will then be assigned a rate based upon their individual reserve ratio. The reserve ratio for an individual employer is determined as follows:

$$\frac{\text{Contributions (all past periods) - Benefits (all past periods)}}{\text{Annual Average Taxable Wages (3 years)}} = \text{Reserve Ratio}$$

or:

$$\text{Employer A} \quad \frac{\$300{,}000 - \$100{,}000}{(\$1{,}000{,}000)(\$1{,}500{,}000)(\$2{,}000{,}000)} = \frac{\$\ 200{,}000}{\$1{,}500{,}000} = .13333$$

In this example Employer A would have an individual reserve ratio of .13333. This would locate the firm in rate group 12 which would receive a 1984 tax rate of 3.68 per cent.

2. Trust Fund Balances

Week Ended	Actual	Projected on December 3, 1983
December 10, 1983	$159.5M	$159.2M
December 17, 1983	$157.2M	$156.7M
December 24, 1983	$154.9M	$153.6M
December 31, 1983	$152.2M	$150.8M
January 7, 1984	$149.7M	$147.8M

Trust Fund Balances (Uncertified)

August 31, 1980 (peak)	$245,701,383
Quarter Ending	
December 31, 1982	$135,057,407
March 31, 1983	$ 93,895,835
June 30, 1983	$134,480,947
September 30, 1983	$150,217,858
December 31, 1983 (estimated)	$152,200,000

Projected Trust Fund Balances

January 31, 1984	$137.4M
February 28, 1984	$148.2M
March 31, 1984	$135.5M
April 30, 1984	$132.2M

3. 1983 Amendments to Employment Security Law
Estimated Additional Income or Savings in 1983

	Amendment	Additional Income or Savings
1.	Increase wage base to $7,000	$10,000,000
2.	New size-of-fund control schedule	$10,000,000
3.	Twenty (20) per cent surcharge	$20,000,000
4.	"Freeze" maximum weekly benefit amount (start July 1)	$ 3,000,000
5.	Rounding down of weekly benefit amounts	$ 600,000
		$43,600,000

Actual Fund Balance, December 31, 1983	$152.2M
Estimated 1983 funds due to law changes	$ 43.6M
Estimated fund balance, no law changes	$108.6M

A total of $152.2 million was in the Kansas Unemployment Insurance Trust Fund at the close of the 1983 calendar year. This represents a 61 per cent increase from the end-of-the month total for March 1983 when the Fund was at its lowest level since 1973. This improvement can be attributed to two major factors. The first of these was the amendments by the 1983 Legislature. A surcharge tax was added to the contribution rates of employers and resulted in an additional $20 million in revenues. An increase in the taxable wage base from $6,000 to $7,000 brought in nearly $10 million as did a change in the size-of-fund control schedule. These law changes accounted for approximately 65 per cent of the Fund's increase. The other major factor in the improvement is that the insured unemployment rates for the weeks during the last half of 1983 were substantially lower than those for the same period of 1982. The rate declined to 2.0 per cent for the week of November 12, 1983 after it had peaked at 5.0 per cent to end the 1982 calendar year.

Even with these improvements, the fund balance is well below its peak level of $250.9 million attained during May 1980. The economy must continue to improve if the fund is to remain stable.

In recent years the fund balance has steadily dwindled. As the following table shows, contributions have steadily been less than benefits in recent years.

Year	Benefits (000,000's)	Contributions (000,000's)
1980	117.7	83.3
1981	112.3	88.2
1982	217.8	105.7
1983	165.9	153.4 (est.)

UNEMPLOYMENT INSURANCE COMPENSATION -- BENEFIT PAYMENT CONTROL

Benefit Payment Control's chief responsibility is the detection, investigation and referral for prosecution of fraud in unemployment insurance. In addition, it has the chief responsibility for the recovery of all unemployment overpayments, both fraud and nonfraud. It's overall goal is to provide an effective deterrent to the fraudulent claiming of unemployment insurance benefits through prosecution as well as public education.

The Benefit Payment Control unit's primary fraud detection technique is the computer cross-match. Each quarter all benefits paid to claimants are matched with wages reported by covered employers. This activity yields approximately twenty thousand (20,000) "raw hits" per quarter for investigation. In addition, we complete a quarterly border check with the state of Missouri. As a result of our investigations, the Benefit Payment Control establishes nearly three quarters of a million dollars in fraud overpayments per annum. We are currently annually forwarding six hundred (600) to eight hundred (800) flagrant fraud cases to County and District Attorneys under the direction of the Attorney General as directed under K.S.A. 44-720(b). Prosecution of felony cases has provided an effective deterrent to fraudulent claiming of unemployment insurance benefits as evidenced by a very low percentage of fraudulent benefits paid when compared to the total dollar amount of benefits paid in all programs. The percentage amounted to only 0.24 percent. Benefit Payment Control implemented field visits to County Attorneys in 1982 that have a history of prosecuting a very low percentage of our referral in an effort to obtain diligent and agressive prosecution. Such visits continue.

For illegal alien detection purposes Benefit Payment Control works with numerous reports furnished by Immigration and Naturalization Service. Benefit Payment Control has established a system whereby its computer files are manually searched for illegal aliens who are receiving or have previously received

(over)

unemployment insurance benefits to which there was no entitlement. As a result of this detection activity, Benefit Payment Control fraud investigators have uncovered about seventy-five (75) fraudulent claims in FY 1983.

For illegal alien fraud prevention, Benefit Payment Control has established an alien clearing house in its central office. Local offices now contact the clearing house each time an alien files a claim to verify that the documents presented by the alien are not forged or otherwise invalid. The Department expects to prevent a possible three hundred thousand dollars ($300,000.00) in fraudulent claims utilizing this activity in FY 1984.

A manual search of agency files is now implemented in which it is determined if an illegal alien has an employer report of wages under which a claim could be filed. The computer is programmed to refer those claimants to Benefit Payment Control personnel upon filing an initial claim. This activity will prevent a potential one million dollars ($1,000,000.00) in fraudulent claims in federal fiscal year 1984.

For collection purposes, Benefit Payment Control utilizes automated collection procedures through the implementation of a computer tracking system. Collection efforts have been enhanced by the increased efficiency as well as improved follow-up of cases after fraud prosecution. Personnel are assigned to contact probation officers, diversion officers and claimants in order to recover court ordered restitution.

From the period May 1, 1982 through June 30, 1983, an amount of one million eight hundred thirty nine thousand four hundred thirty seven dollars and sixty eight cents ($1,839,437.68) was collected in fraud and nonfraud overpayments. This amounted to a total collection percentage of seventy two (72%) percent. The U. S. Department of Labor's standard for collection is 55%.

7-14-83

<u>UNEMPLOYMENT INSURANCE COMPENSATION -- RANDOM AUDIT (QUALITY CONTROL)</u>

Random Audit is a program designed to <u>estimate</u> a detectable error rate of Unemployment Insurance payments. This purpose is achieved by taking weekly random samples from paid Unemployment Insurance benefit population files and through a comprehensive investigation, establish a statistical count of proper and improper payments according to state law and policy.

The article which appeared in the June 27, 1983 issue of the <u>Wall Street Journal</u> was based on Random Audit pilot tests. These tests were conducted from April 1981 through March 1982 in Illinois, Kansas, Louisiana, New Jersey and Washington.

In the pilot tests, comprehensive investigations of eight (8) weekly U.I. payment samples provide the basis for estimation of statewide errors. The findings for the compiled data of the five (5) states are:

(1) The percent of week paid statewide that had an overpayment or underpayment varied between 12 and 52 percent. Kansas estimated rate was 15% or 2nd lowest of the 5 states.

(2) Overpayments as a percent of U.I. benefits paid statewide varied from 7.3% to 24.3%. Kansas ranked 3rd with 12.9%.

(3) It is estimated that the total dollar amount of overpayments was $392 million or 14.2% of the $2.754 billion total of U.I. benefits paid in the 5 states combined. Kansas was 3rd with 12.9%.

(4) Fraud overpayments as a percent of statewide U.I. benefit payment ranged from 0.2% to 2.7%. Kansas was by far the lowest among the 5 states in this category.

(5) Overpayments due solely to unemployment claimant error (ex: incorrect earnings reported) accounted for between 2/3 and 9/10 of dollars overpaid in 5 states. Kansas was 2nd in this category. [See also (3)].

(Over)

(6) Work search that was determined to be inadequate on the basis of written law/policy in each state was by far the most important single issue responsible for the overpayment detected. It was very difficult to definitely verify whether contacts listed by claimants actually represented valid attempts to seek work. Kansas ranked among the lowest of the five states. No funding is provided for staff to verify work search except on a limited basis.

The Random Audit Program is now a fully-funded operational unit compiling data on a current basis. It has been expanded to include 35 states with anticipation of adding the remaining states in FY 1984.

The Random Audit works closely with Benefit Payment Control in the handling of fraud and overpayments but does not assume the responsibilities of the Benefit Payment Control. Since Random Audit provides estimates based on actual case samples, it is interesting to note that Kansas Random Audit 0.2% fraud estimate coincides with the actual 0.24% fraud rate reported by the Benefit Payment Control from April 1981 through March 1982. Any indications of possible fraud uncovered by Random Audit are referred to Benefit Payment Control for investigation.

It is the hope of all concerned that Random Audit can be an effective management tool to provide information which can be utilized to improve U.I. services. It is also a good public relations technique to deter fraud and abuse of U.I. benefits by letting claimants know that their case may be subject to exhaustive review.

For informational purposes, Kansas is funded for three (3) investigative positions and one (1) supervisor to cover the entire state.

7-14-83

UNEMPLOYMENT INSURANCE BENEFITS

In Kansas, we have the regular state U.I. benefit program; EB, (Extended Benefits), which is a joint State-Federal program; UCFE (Unemployment Compensation for Federal Employees); UCX (Unemployment Compensation for Ex-Servicemembers); FSC (Federal Supplemental Compensation), which is additional benefits when regular benefits are exhausted; DUA (Disaster Unemployment Assistance), which pays benefits to individuals who are directly involved in a natural disaster and have no other regular benefits available; and, TRA (Trade Readjustment Assistance), which includes allowances, subsistence, training, transportation and other benefits to those individuals who are unemployed as a result of trade imports.

The Unemployment Insurance programs pay benefits to qualified workers who are unemployed and looking for work. All programs are Federal-State cooperative programs. Benefits are paid as a matter of right and are not based on need. To receive regular unemployment insurance benefits, an individual must have worked under covered employment in at least two quarters of their base period and earned wages in an amount equal to 30 times their weekly benefit amount. The base period is the first four of the last five completed calendar quarters. The maximum weekly benefit amount is $163.00, and the minimum $40.00. To receive benefits, an individual must have had in two quarters of their base period, a total wage in a range of $1200.00 to $4890.00 to meet the minimum requirements. The maximum entitlement amount is $4,238.00 or 26 times the maximum weekly benefit amount. The Federal Supplemental Compensation Law permits up to 8 additional weeks of benefits.

An individual receiving benefits must be able to work, be available for work, and be actively seeking work. The individual must be free of any disqualification or other ineligibility conditions. The Kansas Law provides for disqualifications if an individual has left work voluntarily without good cause or is discharged for a breach of a duty reasonably owed an employer, or refuses to accept suitable work when offered. These disqualifications require an individual to forfeit an amount of ten times their weekly benefit amount from their entitlement, and payments are denied for an eleven week period of time. Other disqualifications require the individual to return to work and earn eight times their weekly benefit amount when an individual leaves work and withdraws from the labor market because of domestic or family responsibilities, self-employment, to retire because of disability and old age, or to return to school. The same disqualification is applied when an individual is discharged for gross misconduct in connection with the work. Other disqualifications include the denial of benefits if an individual is unemployed due to a stoppage of work, because of a labor dispute that exists at the place of their employment.

An individual is also disqualified from unemployment insurance benefits for one year if the individual has knowingly made a false statement or representation or knowingly failed to disclose a material fact to obtain benefits. Other disqualifications deny former employees of educational institutions for the period of time between academic years or terms or during regularly scheduled vacation period or holiday recesses. Other disqualifications relate to professional athletes and illegal aliens.

An individual may be disqualified for their entire weekly benefit amount or part of their weekly benefit amount if an individual is receiving a pension that is attributable to a base period employer who may have contributed to the individual's pension.

An individual files an initial claim at any unemployment insurance office in this state or states and territories of the United States and Canada. At the time the individual files their initial claim for unemployment insurance, they are required to be registered with a Job Service Center. An individual files weekly claims at a District Job Insurance Office or through the liable interstate unit in our Administrative Office, if living in another state, in person or by mail and by completing the required certifications that would permit eligibility decisions on the weekly certifications.

ATTACHMENT II

MEMORANDUM

January 11, 1984

FROM: Kansas Legislative Research Department and Department of Human Resources

RE: Explanation of Formula for Computing Annual Unemployment Insurance Tax Rates

The main purpose of this memorandum is to provide an explanation of the formula contained in the Kansas employment security law that is used in the annual computation of taxes that contributing employers must pay in the next year to meet unemployment benefit entitlements and to maintain the solvency of the state's Employment Security Trust Fund. The memorandum also discusses briefly the provisions of the law relating to governmental employers and nonprofit organizations that opt to become reimbursing employers.

Amendments to this law adopted by the 1983 Legislature included a provision for a 20 percent surcharge on employer tax rates in 1984 in the event that the balance in the Employment Security Trust Fund available to pay benefits at the close of business on April 30, 1984, is less than $80 million. Under certain conditions, additional surcharges shall be imposed on a quarterly basis in 1984 to ensure that the balance in the Employment Security Trust Fund at the end of any ensuing calendar quarter is at least $35 million. This memorandum discusses the determination of unemployment insurance tax rates without reference to surcharges that could be imposed in 1984. At the time this memorandum was prepared, the prevailing view was that the surcharges would not be imposed in 1984.

TAXES FOR CONTRIBUTING EMPLOYERS

Annual Tax Requirement

The first question that must be answered before the rates of individual employers are determined each year is: How much money, in total, is needed next year in order to maintain the solvency of the fund? Initially, the answer to this question is expressed in terms of a reserve fund ratio. Later, the reserve fund ratio is translated into dollar amounts.

The reserve fund ratio is computed each year by dividing total assets* in the Employment Security Trust Fund (less amounts credited to the state pursuant to Sec. 903 of the Social Security Act for benefits and administration) on July 31 by the total of the payrolls of all taxed employers for the fiscal year ending on June 30, just one month earlier.

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* Subject to legislative appropriations. Traditionally, the Legislature has placed no limit on this fund.

Atch. II

Example

Trust Fund Balance 7/31/83 equals $ 166.2 million
Total of Payrolls for FY 1983 equals $10,725.2 million equals 1.55% (Reserve Fund Ratio)

As a general principle, the lower the reserve fund ratio in any year the greater the peril to fund solvency and vice versa. Thus, when the reserve fund ratio is low, adjustments must be made in the taxing structure for the next year to increase tax revenues with the objective of increasing the reserve fund ratio. Conversely, in any year in which the reserve fund ratio is regarded as being higher than necessary, adjustments will be made to reduce somewhat tax contribution rates.

The basis for making such adjustments from one year to the next is specified in the statute. Inherent in the schedule used for this purpose are actuarial principles and experience as to reserve levels that are needed to protect the solvency of the fund. Shown below is the schedule used as the basis for generating adequate revenues for the operation of the fund:

SCHEDULE III — FUND CONTROL

Ratios to Total Wages

Column A Reserve Fund Ratio	Column B Planned Yield
5.00% and over	0.40%
4.75 but less than 5.00	.50
4.50 but less than 4.75	.60
4.25 but less than 4.50	.70
4.00 but less than 4.25	.80
3.75 but less than 4.00	.85
3.50 but less than 3.75	.90
3.25 but less than 3.50	.95
3.00 but less than 3.25	1.00
2.75 but less than 3.00	1.05
2.50 but less than 2.75	1.10
2.25 but less than 2.50	1.15
2.00 but less than 2.25	1.20
1.75 but less than 2.00	1.30
1.50 but less than 1.75	1.40
1.25 but less than 1.50	1.50
1.00 but less than 1.25	1.60
Less than 1.00	1.70

Under this schedule, as the reserve fund ratio (Col. A) decreases, the planned yield (Col. B) increases. The planned yield percentages serve as an important factor in the preparation of the annual adjustments in individual employer tax rates so that an adequate fund balance can be maintained.

As noted above, for 1983, the reserve fund ratio was 1.55 percent. The schedule (Col. B) reveals that for such a ratio the planned yield rate is 1.40 percent.

The next step is to adjust the planned yield (Col. B) percentage. Remember that this Col. B percentage really reflects the ratio of the necessary tax revenue to the total payroll of employers. In fact, taxes are not assessed against the total payroll — they are assessed against taxable wages. Taxable wages (referred to in the law simply as wages) includes employee compensation up to an annual limit per employee of $7,000. This $7,000 is a "minimum" threshold established by federal law.* The Kansas law allows for immediate incorporation of changes in the federally-prescribed wage base. States may exceed this amount if they so desire, and some have chosen to do so.

The adjustment to the Col. B rate translates the Col. B percentage from a percentage of the total payroll to the percentage of the taxable payroll; i.e., that payroll amount which actually is subject to taxation. This adjustment for 1983 is shown below:

FY 1983 Total Wages	equals	$10,725.2 million	equals	2.42 x 1.40	equals	3.39% (Adjusted Planned Yield Percentage)
FY 1983 Taxable Wages (Subject to the $7,000 limit)	equals	$ 4,427.7 million				

What this procedure is saying is that since the taxable wage base was only 41.3 percent of total wages, a factor of 3.39 percent is required to produce the number of dollars represented by 1.40 percent of total wages.

What is the amount to be generated from employers during 1984? It is $150.1 million — the result of applying 3.39 percent to the taxable wages of $4,427.7 million.

Employer Tax Rates

Although it applies imperfectly, the principle upon which the actual employer tax rates are based is to provide an incentive for employers to achieve low turnover, that is, to reduce unemployment. This means that employers who have the most favorable employment records also have the most favorable (lowest) unemployment compensation tax rates. Conversely, those with the least favorable experience have the highest tax rates. The procedures that are used to accomplish this objective and to produce the $150.1 million that is needed in 1984 are described below.

Adjustments. Two types of adjustments are made preceding the further refinement of the factor that is used in the formula to determine the tax rates for most employers. These are:

1. New Industries. An employer is not eligible for his or her own separate tax rate computation until 24 consecutive months have passed during which unemployment benefits could have been charged against the employer's account. (As a practical matter, a new employer may not have his or her own experience rating for three or four years, depending upon when eligibility is established.) These

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* A provision of the federal Tax Equity and Fiscal Responsibility Act of 1982 raised the taxable wage base from $6,000 to $7,000, beginning in 1983.

employers must pay contributions of 1 percent plus the greater of the average rate in the preceding year assigned to all employers in such industry division or the average rate assigned to all covered employers in the preceding calendar year.* The rate may not be less than 2.0 percent in any event.

Industry divisions are determined by the Secretary of Human Resources in accord with a standard classification system. The industry divisions and the calendar year 1982 average rates for each industry division are shown below:

Industry Division	1 Percent Plus the Calendar Year 1982 Average Rate
Agriculture, Forestry and Fishing	4.09%
Mining	3.05
Contract Construction	4.38
Manufacturing	3.88
Public Utilities	3.34
Wholesale Trade	3.15
Retail Trade	2.91
Finance, Insurance and Real Estate	2.80
Services	3.07
Government	3.34

The overall average rate was 3.37 percent. Therefore, in 1984, that rate applies to mining; public utilities; wholesale trade; retail trade; finance, insurance, and real estate; services; and government. The actual industrial division averages apply in agriculture, forestry, and fishing; contract construction; and manufacturing. The 2.0 percent minimum had no relevance to the 1984 rate determination.

Based on these rates, it was determined that in 1984, some $7.3 million of the total of $150.1 million will be generated by these "new" industries.

2. Negative Balance Accounts. In some instances, an employer has had charged to his or her account unemployment benefits that exceed the taxes paid to support the program. These employers are known as negative account balance employers. They are required to pay a tax rate of 5.4 percent. In addition, such employers must pay a surcharge that ranges from .1 percent of taxable payroll to 1.0 percent,

* In fact, data for the second preceding calendar year are used because industry averages for the immediately preceding calendar year are not available when the rate computations for the ensuing calendar year are determined.

depending upon the size of the employer's negative reserve ratio. The schedule for such surcharges is shown below:

SCHEDULE II - SURCHARGE ON NEGATIVE ACCOUNTS

Column A Negative Reserve Ratio	Column B Surcharge as a Percent of Taxable Wages
Less than 2.0%	.10%
2.0 but less than 4.0	.20
4.0 but less than 6.0	.30
6.0 but less than 8.0	.40
8.0 but less than 10.0	.50
10.0 but less than 12.0	.60
12.0 but less than 14.0	.70
14.0 but less than 16.0	.80
16.0 but less than 18.0	.90
18.0 and over	1.00

It is estimated that in 1984, negative account balance employers, taxed at the 5.4 percent rate, will contribute $22.3 million in taxes toward meeting the $150.1 million that is needed.

The surcharge is expected to produce $3.0 million in 1984 taxes. However, this amount is not included in the calculation of resources in meeting the $150.1 million planned yield level in 1984. In effect, this amount will be used to enhance the growth of Employment Security Trust Fund balance.

Recapitulation

$150.1	million needed for 1984
-7.3	million — new industries
-22.3	million — negative balance employers at the 5.4 percent rate
$120.4	million* — to be secured from all other ratepayers

The Basic Rate Determination Schedule. The key to the lowest possible unemployment compensation rate is a high reserve ratio. The reserve ratio for each employer is calculated as follows:

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* Total does not balance due to rounding.

Unemployment Insurance Contributions for All Past Years	minus	All Benefits That Have Been Charged to the Employer's Account	equals	Employer's Reserve (Employer's Account Balance)

then

$\frac{\text{Employer's Reserve (Employer's Account Balance)}}{\text{Employer's Average Annual Payroll for the Last Three Years}}$	equals	Employer's Reserve Ratio

After the reserve ratio for each employer is computed, the positive balance employers are, in effect, ranked from high to low in the order of their computed reserve ratios. This ranking is preliminary to the actual rate computation exercise, which involves the following schedule:

SCHEDULE I — ELIGIBLE EMPLOYERS

Column A Rate Group	Column B Cumulative Taxable Payroll	Column C Experience Factor (Ratio to Total Wages)
1	Less than 4.76%	.025%
2	4.76 but less than 9.52	.1
3	9.52 but less than 14.28	.2
4	14.28 but less than 19.04	.3
5	19.04 but less than 23.80	.4
6	23.80 but less than 28.56	.5
7	28.56 but less than 33.32	.6
8	33.32 but less than 38.08	.7
9	38.08 but less than 42.84	.8
10	42.84 but less than 47.60	.9
11	47.60 but less than 52.36	1.0
12	52.36 but less than 57.12	1.1
13	57.12 but less than 61.88	1.2
14	61.88 but less than 66.64	1.3
15	66.64 but less than 71.40	1.4
16	71.40 but less than 76.16	1.5
17	76.16 but less than 80.92	1.6
18	80.92 but less than 85.68	1.7
19	85.68 but less than 90.44	1.8
20	90.44 but less than 95.20	1.9
21	95.20 and over	2.0

The schedule, which is fixed by the Legislature, contains 21 divisions for rate determination purposes (Col. A).

As mentioned above, for the purpose of computing the 1984 tax rates the eligible positive balance employers are ranked from high to low according to their reserve ratios. Based on the amount of each employer's taxable payroll in the preceding fiscal year, the employers are placed in the 21 groups. Each group (Col. B) represents 4.76 percent of the total taxable payroll of all such employers. In other words, those employers with the highest reserve ratios are placed in group 1, until the combined taxable payroll reaches 4.76 percent. In 1983, this group included employers having a reserve ratio of 16.359 percent or more. When this threshold is reached, the next highest reserve ratio employers are placed in group 2 until an additional 4.76 percent of the combined taxable payroll is accounted for. In 1983, this group included employers with reserve ratios ranging from 15.441 percent to 16.359 percent. This procedure continues through the 21 groups until the payrolls of all positive balance employers are included.*

In Col. C, the experience factor is merely a graded scale which, except for group 1, is divided into intervals of one-tenth. This scale is used as the basis for modifying the yield adjustment factor so that employers with the most favorable employment experience will be rewarded with the lowest tax rates and vice versa.

Further Adjustments. Earlier in this memorandum, we explained how the 3.39 percent adjusted planned yield percentage for 1984 was computed. In fact, that factor must be modified to accommodate certain other requirements of law. For example:

1. As discussed above, the required basic contribution rate for negative balance employers is 5.4 percent. (In addition, such employers also pay the surcharge described herein.) If the 1984 negative balance employer tax rates had been determined exclusively on the basis of the experience rating principle, such rates would have exceeded 5.4 percent. In effect, negative balance employers, at the 5.4 percent level, do not as a group, contribute as much as otherwise would be required under the Schedule I principle. This "shortfall" is offset by the surcharge only partially and indirectly. As a result, an additional adjustment of the planned yield percentage is needed to raise the full amount of the required tax revenue.

2. As described above, "new industries" are given assigned rates. The estimated contributions from these employers reduced the amount of the $150.1 million that had to be generated from the Schedule I employers.

3. The law establishes a legal maximum contribution rate of 5.4 percent for the rates computed under Schedule I. In making the computations for 1984, it was determined that applying the average rate to the Schedule I, Col. C factors resulted in a rate of 5.4 percent for groups 18-21. In effect, were it not for the 5.4 percent cap on rates, at least some of the tax rates in these groups would have been higher in order for the experience rating concept to work correctly. Since a 5.4

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* In fact, these cutoffs are not so precise. The law provides that if an employer's taxable payroll falls into more than one rate group, the experience factor in the lower-numbered rate group will apply. Also, if one or more employers have reserve ratios identical to the last employer included in the next lower numbered rate group, the experience factor of the lower numbered rate group applies.

percent rate does apply, it was necessary to make an adjustment of the rates applicable to groups 1-17 in order to produce the total of $150.1 million.

For 1983, the taxable payroll of employers in groups 1-17 was $3,051.3 million. The amount of the $150.1 million that had to be produced from this remaining group of employers was $81.7 million. Thus:

$$\frac{\$81.7 \text{ million}}{\$3{,}051.3 \text{ million}} \text{ equals } 2.677\% \text{ (Adjusted Average Rate Percentage)}$$

When this factor was applied throughout groups 1-17 of Schedule I, it was determined that only about 80.1 percent of the $81.7 million actually would be produced. This was due to the experience factor difference between groups 1 and 2 and to the actual break of taxable wages in each wage group. An adjustment of the average rate (a technical adjustment) was made so that, in fact, the $81.7 million of revenue could be produced. The factor derived was 3.342 percent.

Application of the Finally Adjusted Average Rate to Group 1-17 Employers. For Group 1-17 employers, the 1984 rate was computed by multiplying the Schedule I, Col. C factor for the employer's rate group by 3.342 percent. Thus, the rate for a group 1 (highest reserve ratio) employer is .025 percent times 3.342 percent equals .08 percent; for a group 5 employer, it is .4 percent times 3.342 percent equals a 1.34 percent rate; for a group 15 employer, it is 1.4 percent times 3.342 percent equals a 4.68 percent rate; and so on.

Note: The law allows employers to make voluntary contributions to improve their reserve ratios. However, such contributions may not result in the lowering of the assigned rate group by more than two steps.

GOVERNMENTAL EMPLOYERS

Governmental employers (includes the state, political subdivisions and other public instrumentalities or governmental entities) are subject to some alternative provisions of law.

Generally, governmental entities may elect to pay contributions, become rated governmental employers or become reimbursing employers.

Special provisions apply to the state to make it a reimbursing employer who makes quarterly payments at a fiscal year rate determined by the Secretary of Human Resources. This rate takes into account December 31 balances in the state's reimbursing account, the historical unemployment experience of covered state agencies, estimated total covered wages in the ensuing calendar year, and actuarial and other information provided by the Secretary of Administration.

Contributing governmental employers are subject to the same rate determination procedures as most private employers.

Rated governmental employers who are eligible for a rate computation make quarterly payments at a calendar year rate determined by the experience of all rated governmental employers and the individual employer's experience. An adjustment factor is computed for all rated governmental employers by dividing total benefits paid by total benefits charged to all rated governmental employers for the preceding fiscal year. An experience factor for each employer is computed separately. It is computed by dividing benefits charged to such employer's account for the preceding fiscal year by the average of such employer's total wages reported for the two preceding fiscal years. The individual employer's rate for the next calendar year is computed by multiplying the experience factor by the adjustment factor. No such rate may be less than 0.1 percent. Rated governmental employers are taxed on total wages. Rated governmental employers may not have individually determined rates until they have been subject to benefit charges for 24 consecutive months preceding the rate computation date. Such employers make payments at a rate based upon the actual cost experience (benefits paid divided by total wages) of all rated governmental employers during the prior fiscal year ending March 31.

Reimbursing public employers simply pay for the benefits that have been charged to their accounts. This is, in effect, a form of self-insurance.

NONPROFIT ORGANIZATIONS

Nonprofit organizations exempt under Section 501(a) and described in Section 501(c)(3) of the Internal Revenue Code may be contributing or reimbursing employers.

An alternative required by the federal law to be available to such nonprofit organizations is for them to become reimbursing employers. As noted above, reimbursement is simply a form of self-insurance. The reimbursing employer pays for the benefits that have been charged to his or her account.

APPENDIX

ADJUSTED RATES FOR 1984

(Application of the 3.342 adjustment to rate groups 1 through 17, rounding to the nearest one-hundredth of 1 percent, gives the following adjusted rates for calendar year 1984)

Rate Group	Reserve Ratio (lower limit)	Number of Employers	FY 1983 Taxable Wages (1	Experience Factor	Contribution Rate
1	.16359	6,138	$ 184,341,578	.025%	.08%
2	.15444	3,027	174,853,671	.1	.33
3	.15015	2,099	180,006,902	.2	.67
4	.14780	1,462	180,624,348	.3	1.00
5	.14559	1,567	178,779,316	.4	1.34
6	.14387	1,404	178,024,657	.5	1.67
7	.14269	1,030	181,817,985	.6	2.01
8	.14105	1,250	177,589,944	.7	2.34
9	.13910	1,294	180,486,200	.8	2.67
10	.13696	1,329	191,951,631	.9	3.01
11	.13507	1,041	166,292,007	1.0	3.34
12	.13250	1,307	178,637,172	1.1	3.68
13	.12917	1,402	180,458,550	1.2	4.01
14	.12431	1,678	178,340,074	1.3	4.34
15	.11856	1,535	179,873,347	1.4	4.68
16	.11044	1,649	178,839,561	1.5	5.01
17	.10599	714	180,387,150	1.6	5.35
18	.09147	1,997	178,453,472	1.7	5.40
19	.06715	2,807	179,577,833	1.8	5.40
20	.04195	2,141	179,350,729	1.9	5.40
21	.00000	2,951	180,071,653	2.0	5.40

1) The average payroll amount per rate group was computed to be $179,430,558.