

Approved Arthur Douville 4-22-86
Date

MINUTES OF THE House COMMITTEE ON Labor and Industry

The meeting was called to order by Representative Arthur Douville at
Chairperson

9:30 a.m. on March 31, 1986 in room 526-S of the Capitol.

All members were present except:

Representative Patrick, excused.

Committee staff present:

All present. Revisor Jim Wilson, Research Jerry Donaldson
Secretary Beth James.

Conferees appearing before the committee:

Secretary Larry Wolgast, DHR
Mr. Bill Clawson, DHR
Rob Hodges, KCCI
Wayne Maichel, KS AFL-CIO

S.B. 376 was the discussion for the hearing. Secretary Wolgast passed out to the committee attachment #1, which is an explanation of changes to the extended benefits provisions of the Kansas Employment Security Law permitted by implementation of Public Law 99-177. He and Bill Clawson went over the handout with the committee. A question and answer period followed. Rob Hodges and Wayne Maichel said that they could move on the bill now with the 3rd option, as referred to on page three of the handout. Representative Acheson made a motion to pass out S.B. 376 favorably. The motion was seconded by Representative Cribbs. There was no further discussion. A vote was taken and the motion passed.

The meeting was adjourned at 9:55 a.m.

**Explanation of Changes to the Extended Benefits Provisions
of the Kansas Employment Security Law Permitted by
Implementation of Public Law 99-177**

Preface:

Administration of the United States unemployment insurance program is accomplished through a federal/state partnership. The federal government sets broad guidelines regarding administration of the program. The states in turn establish specific state legislation which falls within the guidelines and administers each state program independently of any other state's operations.

Program funding is provided through two sources. Administrative funding and funds for payment of the federal share of extended benefits are generated through the Federal Unemployment Tax Act (FUTA). FUTA is a federal payroll tax collected by the Internal Revenue Service. Revenues generated by the states through the state employment security laws are used exclusively for payment of unemployment insurance at the state level.

Two devices are available to the federal government under the law to ensure that state laws conform to federal requirements. The first is withholding of funds for administration. The second involves withholding of tax credits. Every employer liable under the federal law may take credit for all or part of state unemployment insurance tax payments against their federal tax liability. The federal tax is 6.2% of the first \$7,000 in earnings for each covered employee. The employer may tax credit for 5.4% of the first \$7,000 in earnings for state taxes properly paid leaving a balance due of .8% of the first \$7,000 in earnings for each employee.

History of the Extended Benefits Program:

Public Law 91-373, passed in 1970, provided the enabling legislation for the extended benefit program. The 1971 Kansas Legislature passed conforming legislation providing for extended benefit payments in Kansas. The law, in its current form, is the product of several conforming amendments made over its 16 year history.

The basic state unemployment insurance law provides for a maximum of 26 weeks of benefits. In periods of economic unrest, the extended benefits program allows for payments beyond the basic 26 weeks.

The extended benefit law provides for payments in addition to the basic program in an duration equal to the lesser of (a) 13 weeks at the weekly benefit amount, or (2) one-half the total benefit amount from the original claim entitlement. If a claimant did not qualify for 26 weeks under the basic state unemployment insurance program, the entitlement for extended benefits will be less than 13 weeks. Costs for the extended benefit program are shared by the states and the federal government.

Extended benefits may be paid only if the program "triggers on" as a result of increasing unemployment. The program may "trigger on" if either of two conditions are met. The first condition occurs when the unemployment rate (not seasonally adjusted) equals or exceeds 5% and the rate for a thirteen-week period is equal to or exceeds

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120% of the corresponding thirteen-week period in each of the preceding two years. For example, if the current rate in 1986 for the last thirteen-weeks is 5.8% and the rate for the same period in 1985 was 4.3% and the rate for the same period in 1984 was 3.9%, Kansas would "trigger on" as the 5.8% exceeds 120% of both 4.3% and 3.9%. The second condition which would automatically "trigger on" benefits in Kansas is if the unemployment rate equals or exceeds 6%. The 120% factor is not used if the rate exceeds 6%.

Benefits "trigger off" when the rate again drops below 5% or when the rate for a thirteen-week period is less than 120% of the rate for the corresponding period in each of the preceding two years.

Kansas is not currently paying extended benefits nor is there a possibility of "triggering on" the benefits in the foreseeable future.

Explanation of Current Legislation:

Public Law 99-177, the Balanced Budget and Emergency Deficit Control Act of 1985 (also known as Gramm-Rudman-Hollings), mandates that the federal share of extended benefits payments be reduced beginning in Fiscal Year 1986 (10-1-85 to 9-30-86) and continuing through 1991. The amount of the reduction shall be equal to the sequestration rate established each year with the rate for Fiscal Year 1986 being 6.1%. The law requires that reductions be applied to the total benefit amount and the amount of each weekly benefit payment.

Public law 99-177 does not raise a conformity issue, per se. If action is not taken, however, the amount of federal reimbursements for extended benefits will be reduced with no commensurate reduction in benefits thus forcing employers to pay a disproportionate benefit cost. In any event, language changes will be required to address the issue of employer charging.

States have three options available in reaction to passage of Public Law 99-177. The first option is to do nothing in regard to reducing payments. In this event, weekly benefit amounts will not be reduced, but the federal share of benefit charges will be reduced thus raising benefit costs to Kansas employers. For example, if the weekly benefit amount for a claimant is \$100, the amount of the reduction will be \$4 (6.1% of the federal share of \$50 reduced to the next lower whole dollar). Therefore, Kansas employers would receive a benefit charge for each week of payments equaling \$54 and the federal government would be billed \$46. In essence, Kansas employers would be paying for the federal reduction. This option would require a change in the charging language of the law.

The second option is to apply the reductions to both the federal and state share of benefits. For example, if the claimant's weekly benefit amount is \$100, the reduction in 1986 would be \$7 (6.1% rounded to the next lower dollar). The weekly benefit amount would thus become \$93. This option would require modifications to K.S.A. 44-704 only.

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A third option is to apply the reduction to only the federal share of extended benefits. The \$100 weekly benefit amount would become \$96 (the state share of \$50 plus the federal share of \$46 (\$50 reduced by 6.1% rounded to the next lower dollar). Implementation of this option would necessitate changes to K.S.A. 44-704 and massive revisions to the charging provisions of K.S.A. 44-710 in each fiscal year for the duration of Public Law 99-177.

Conclusion:

Some action is necessary by the Kansas legislature to modify the Employment Security Law to bring it into line with federal statutes prior to Kansas again paying extended benefits. Should Kansas "trigger on" without changes in legislation, there would be no administrative vehicle for allocation of benefit costs as the law currently calls for a 50%-50% split for the federal and state share.

The question then becomes, does the Kansas Legislature wish to address this issue through an overall reduction in the weekly and total benefit amount through changes in K.S.A. 44-704 or does the Legislature wish to allow for reductions in only the federal share with sweeping changes in both K. S. A. 44-704 and K.S.A. 44-710? It is important to note the second option will also incur considerable additional administrative costs for which the Department of Human Resources will not be compensated.