

MINUTES OF THE HOUSE COMMERCE AND LABOR COMMITTEE.

The meeting was called to order by Chairman Donald Dahl at 9:00 a.m. on February 19, 2003 in Room 243-N of the Capitol.

All members were present:

Committee staff present: Jerry Ann Donaldson, Kansas Legislative Research Department
Renaë Jefferies, Revisor of Statutes
June Evans, Secretary

Conferees appearing before the committee: Rebecca Smith, National Employment Law Project, Washington State
Jim DeHoff, Executive Secretary, Kansas AFL-CIO
Dr. Ernie Pogge, AARP
Sandy Barnett, Kansas Coalition Against Sexual and Domestic Violence
Jim Garner, Acting Secretary, Kansas Department of Human Resources
Terry Leatherman, Vice President, Legislative Affairs, Kansas Chamber of Commerce and Industry
Hal Hudson, State Director, National Federation of Independent Business

Others attending: See attached sheet

The Chairman called the meeting to order at 9:00 a.m.

The Chairman opened the hearing on **HB 2281 - Employment security law; waiting period, benefit, exception.**

Representative Dale Swanson, a proponent to **HB 2281** introduced Rebecca Smith (Attachment 1).

Rebecca Smith, National Employment Law Project (NELP), which is a nonprofit law and policy organization based in New York City. NELP has advocated on behalf of low wage and unemployed workers for nearly 30 years. NELP's Unemployment Insurance Safety Net Project provides public education and technical assistance to community organizations, labor federations, policy makers, and legislators concerned with unemployment insurance reform. Given the current economic downturn, there has been unprecedented interest in the past two years in changing unemployment insurance programs to better assist laid off workers and their families. NELP has been involved in these efforts in over 20 states, including Colorado, New Mexico, and Oklahoma.

The unemployment rate in Kansas was 4.6 percent in December 2002, up from 3.7 percent in March 2000. The recession and continuing jobless recovery is affecting Kansans who are exhausting unemployment benefits at a much greater rate, exhausting the federal extension of benefits, and receiving less from the federal extension than what was promised.

Unemployment benefits are set according to a formula based on a fraction of the worker's prior earnings. The Advisory Council on Unemployment Insurance (ACUC) recommends that average benefits amount to fifty percent of the state's average weekly wage. Few states provide sufficient benefits to meet the needs of low-wage workers. In Kansas, average benefits amount to 47% of the state's average weekly wage. Dependents' benefits could mean a substantial boost in income, targeted to families, and especially benefitting the 22% of Kansans who receive \$200 or less in weekly UI benefits.

Domestic violence is widespread in America. Each year 1.5 million women are physically or sexually assaulted by an intimate partner. Job loss and the threat of job loss prevent many battered women from escaping violent relationships by removing their ability to sustain themselves and their children. Some

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victims of domestic violence, who leave their jobs due to violence, are already entitled to benefits. The provisions proposed in **HB 2281** would establish a clear definition of “domestic violence” and a clear process for proving that a woman is entitled to benefits.

The recession and jobless recovery is affecting millions of American workers and their families. Middle class workers are being affected by the relatively low levels of wage replacement represented by any unemployment insurance system and by the length of unemployment. Many women and low-wage workers are cut out of the system entirely. **HB 2281** is a comprehensive bill designed to help families in Kansas weather the recession, and pump needed dollars into their hands and into the state’s economy. The infusion of 78 million dollars in the trust fund has made the expansion of benefits affordable (Attachment 2).

Jim DeHoff, Executive Secretary, Kansas AFL-CIO, testified saying that **HB 2281** makes some significant changes in the Kansas Employment Security Law. The AFL-CIO recommends that **HB 2281** be referred to the Employment Security Council for complete review and action. The Council would report back to the House Commerce & Labor Committee with their recommendations (Attachment 3).

Dr. Ernie Pogge, Chair of the Topeka Advocacy Satellite Group for AARP Kansas, testified supporting **HB 2281**. Kansas is one of 20 states, plus the District of Columbia, that reduces unemployment benefits for workers collecting Social Security even though they have become unemployed through no fault of their own and intend to return to work when that becomes possible. This practice penalizes older workers who need or wish to remain productive and continue to receive earnings from employment beyond the time when most Americans are retired (Attachment 4).

Sandy Barnett, Executive Director, Kansas Coalition Against Sexual and Domestic Violence, testified in support of **HB 2281**. **HB 2281** does not create new law; it just clarifies that when a person must leave employment due to domestic violence, they are not ineligible for unemployment benefits. Currently a victim could make application for unemployment insurance because of special circumstances, but it isn’t well known. This would just make it clear that unemployment insurance may be an option if all other requirements are satisfied (Attachment 5).

Jim Garner, Acting Secretary, Kansas Department of Human Resources (KDHR), stated he was part proponent and part opponent to **HB 2281**. This bill contains six major features that would modify the current Kansas Employment Security Law. This modifies the wage base period and creates a new alternate wage base period. Minimum and maximum weekly benefits paid to unemployed claimants are modified. Dependent children would receive a weekly benefit. The elimination of the waiting week and a social security deduction is new. Present law currently states that a worker who leaves voluntarily due to a “personal emergency” is not disqualified from receiving unemployment benefits. This existing exemption has been interpreted by the agency to apply to persons dealing with domestic violence. The proposed changes would have significant administrative costs to KDHR. Additional staff would have to be hired and that cost has been estimated at \$470,700. The Employment Security Council does deal with this and would be glad to call a meeting and deal with it as quickly as possible and report back to this committee. This should also cover railroad retirement (Attachment 6).

Representative Ruff stated the committee would be hearing and working **HB 2353 - Employment Security Insurance Act for Domestic Violence** on Monday and wanted to make sure the issue of being able to leave a job and collecting unemployment because of domestic violence is covered. Should we look at social security?

The Chairman stated that Huff’s bill covers social security.

Terry Leatherman, Vice President–Legislative Affairs, Kansas Chamber of Commerce, testified in opposition to **HB 2181**. The benefit increases and changes to the unemployment compensation structure proposed in **HB 2281** are coming at a time of unprecedented stress on the Kansas Employment Security Fund and on Kansas employers due to the current state of the economy (Attachment 7).

Hal Hudson, State Director, National Federation of Independent Business, testified as an opponent to **HB**

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2281. Small business owners already are overburdened with regulations and red tape. Enactment of this bill would make it more expensive for small employers to hire and pay employee benefits to those who are working. Provisions of **HB2281** go far beyond what is contemplated in current law (Attachment 8).

The meeting adjourned at 10:30 a.m. The next meeting will be February 20, 2002.

HOUSE OF
REPRESENTATIVES

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DALE A. SWENSON

Statement of Rep. Dale Swenson, 97th District To the House Commerce & Labor Committee Kansas State Legislature

Mr. Chairman, members of the committee, I want to begin by thanking you for this opportunity to speak to this prestigious committee.

The issue before you this afternoon is very important to me. As a worker in the aircraft industry, I've seen the impact of the economic downturn on our regional economy and my co-workers. Unemployment insurance is a lifeline that can and should be strengthened benefiting our workforce, our employers and our entire community.

In this economy, unemployment benefits are a crucial lifeline for many working families.

But I am not here today to talk to you about the importance of unemployment insurance for individual workers. Instead, I am here to discuss the importance of unemployment for our entire community as a tool of economic stimulus as we seek to fight off a deepening recession. In this regard, I am here to specifically ask you to support an increase in the unemployment insurance benefit as envisioned by HB2281.

First, I will speak generally about unemployment insurance as an economic stimulus, an important weapon in our fight to avoid a double-dip recession. Second, I will talk specifically about HB 2281 and my proposal to increase benefits for unemployed workers. Finally, I will address some specific objections to the bill.

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Atch # 1

Let's begin by considering the impact of unemployment insurance on our economy. This is especially important as we rally against the prospect of a long-term downturn in our regional economy.

In these circumstances, we owe it to our constituents to seriously consider measures we can take that will help put our economy back on the road to recovery. In this regard, I urge you to consider the impact of unemployment insurance.

Economists are in agreement that unemployment insurance stimulates the economy and counteracts the effects of economic recession. A 1999 study by the United States Department of Labor found that unemployment insurance continues to be an effective, automatic, stabilizer of the U.S. economy.

- Specifically, the study found that recessions, as measured by declines in real GDP (Gross Domestic Product), would be about 15 percent deeper if UI programs did not exist.
- Secondly, the study found that the cushioning impact of injecting UI dollars comes not only from the direct impact of benefits, but also from the spread of those dollars through the economy-the multiplier effect. Specifically, every single UI dollar injected into the economy increases the overall GDP by \$2.15!
- Looking at every major recession since 1969, the study found that without UI, an additional 131,000 jobs per recession year would have been lost.
- Finally, simulations project that the impact on future recessions will be essentially the same.

Similarly, a 1999 study by the Federal Reserve Board found that Unemployment Insurance is a "virtually automatic, income stabilizer for unemployed individuals." Furthermore, Unemployment Insurance "damps" the impact of "demand shocks" that occur during a recession. Translated into normal English, this means that Unemployment Insurance shores up consumer spending during recessions, benefiting the economy.

Those are the benefits of Unemployment Insurance. But what about the costs? The evidence shows that, when compared to the benefits, the costs of the program are extremely modest.

In calendar year 2000, the average UI premium charged Kansas employers, was only 6/10 of a percent of total payroll! Employers in Kansas pay state UI premiums only on the first \$8,000 of a worker's annual earnings. According to the National Employment Law Project, Kansas ranked 26 out of 53 jurisdictions with respect to its tax rate on total wages.

As you can see, unemployment insurance is extremely cost effective.

During the last session of the Legislature, I proposed HB 2728 to enhance the benefits of the Unemployment Insurance program to our Kansas economy. HB2281 is a new improved version that further addresses problems of our unemployment insurance program.

Briefly, HB 2281 would change the formula used to compute unemployment insurance benefits in order to raise the current cap on benefits paid to the insured. Currently, the maximum weekly benefit is capped at 60 percent of the average weekly wage paid all Kansas employees.

This means that no matter how much money a worker regularly earns each week, his or her benefit is capped at 60 percent of the average wage for all Kansas employees. At the present time, the maximum weekly benefit is \$345.00.

The weekly benefit is based on a formula that is a percentage times wages earned during three months of the individual's base period. An employee must earn about \$31,000 a year to receive the maximum weekly benefit. Workers who earn more than \$31,000 a year do not receive any additional benefit, even though their debt obligations may be significantly greater.

HB 2281 makes the following changes to address this and other problems to enhance the economic stimulus impact of our unemployment insurance program:

- HB 2281 would raise the cap to 100% of the statewide average

weekly wage. This would increase the maximum weekly benefit to \$575.00. The bill expands the number of those eligible for unemployment benefits by .2% (two-tenths of a percent) by *decreasing* the amount of base period wages required for eligibility from \$2,580 to \$1,710. Together with the increase in the weekly benefit cap, this part of the bill pumps an additional \$56.6 million (over FY 2002) in economic stimulus into our sagging state economy.

- The bill eliminates the one-week waiting period now required before unemployment benefits begin. This would result in an estimated \$13.9 million in economic impact over FY2002.
- The bill provides for an increase in the weekly benefit amount due to dependent children. If enacted, the bill increases the weekly benefit amount by \$30 for each dependent child. The stimulatory impact of this provision is an additional \$2.7 million over total benefits paid out in FY 2002.
- HB 2281 eliminates disqualification for Social Security earnings. This portion of the bill would boost benefit payments by an estimated \$1.2 million over FY 2002.
- A domestic violence clause in the bill provides that workers who are forced to give up employment as a result of domestic violence will be eligible for unemployment. While no specific numbers are available, it is estimated that the impact of this change will be negligible.

The cost of raising benefits is extremely modest. At my request, KDHR prepared an estimate of the impact HB 2281 would have on both employees and employers. The impact on employers is extremely modest. Under current law, employers pay a minimum premium rate of .05 percent—that is, five/one hundredths of a percent. If enacted, my bill raises this minimum to .07 percent, an increase of only two-tenths of a percent.

Employers now pay a maximum rate of 4.27 percent of payroll. Under my proposal, the maximum would increase to 5.23 percent of payroll—an extremely modest premium increase. Moreover, because premiums for unemployment insurance are based on experience, as are all insurance premiums, employers with better experience will continue to pay less and may see no increase in their premiums at all.

KDHR estimates that this tiny increase in premiums would enable the UI fund to pay out an additional \$88.8 million in increased benefits. This money would first go to consumers, and then into the hands of merchants, small businesses, realtors, banks and credit unions here in Kansas.

Remember, that every dollar paid out in UI benefits to unemployed workers results in \$2.15 in benefits to the entire economy. Increasing UI benefits by \$88.8 million will pump more than \$190 million into our Kansas economy. What other economic stimulus program can promise such a huge return from such a minimal investment?

No doubt, you will hear objections from some who may not have considered the benefits of improving our unemployment insurance program. Let us look at two of these objections.

First, it may be objected that increasing the benefit will provide a disincentive for people to work. Let us be clear on this. We are not talking about an entitlement program. People EARN their eligibility for unemployment benefits by working. Unemployment insurance is NOT an entitlement program. Folks who are unemployed and receiving benefits are hard working Kansans like many of my co-workers at Boeing. They will not stay out of the workforce if there is another alternative for them.

I have heard unemployed workers talk about leaving our community to take jobs elsewhere. Unemployment insurance will help us KEEP the skilled workforce we have. This recession will end and skill workers will again be in demand. It was not so long ago that businesses were taking extreme measures to bring skilled employees to Kansas. If we are to keep the employers we have, and entice new businesses to locate in our community, we have to maintain a base of skilled workers for business to draw on. Unemployment insurance encourages skilled workers to remain in Kansas and look for work here, confident that they can outlast the downturn.

Second, it may be objected that by increasing the cost of doing business, raising premiums for unemployment insurance will prolong the recession, making businesses less likely to recall employees or hire new ones.

However, as I have argued here, unemployment insurance benefits help businesses by putting money in the hands of consumers. Employees benefit, and they give back to the business community by putting the money into circulation. Unemployment benefits help businesses keep the doors open during a downturn-they help make sure that car payment, that house mortgage and other bills are paid. The primary, immediate beneficiaries are the employees. Small businesses are next. Eventually, the entire economy benefits.

Moreover, the amount of increase we are talking about is tiny compared to the benefits that will follow.

In conclusion, I hope that I have convinced you that unemployment insurance is an important economic stimulus that is both low-cost and effective. Moreover, unemployment insurance benefits are earned; they are not an entitlement. Finally, once enacted, the program is automatic, that is, it automatically adjusts to the business cycle. When times are good, fewer workers receive benefits, costs go down, and the economy works its miracle. But when times are bad, it provides a safety net and a stimulus that moderates the downturn.

I hope that you will support HB 2281 and increase the unemployment insurance benefit for Kansas workers, at a tiny cost to employers based on experience. This legislation will help not only employees but also businesses that depend on consumers. It will help inoculate Kansas against the effect of a stagnating economy. It is something we can do, in the state of Kansas, to put our economy back on the road to recovery.

Thank you.

**Center for Full Employment and Price Stability
University of Missouri-Kansas City**

February 19, 2003

Representative Dale Swenson
Kansas State Capitol Office
Room Number: 556-N
Topeka, KS 66612

Dear Representative Swenson:

As you know, more than two million Americans have lost their jobs during the current slowdown of our economy. The percent of the unemployed who have remained jobless for more than six months has risen, and is likely to continue to increase. While the recession officially ended many months ago, business spending remains depressed and few firms plan to increase hiring. State and local governments are reeling from an unprecedented fiscal crisis that is forcing them to lay-off workers and increase taxes at precisely the wrong time (Wray, 2002). And American consumers are starting to feel the burden of mountains of debt run-up during the 1990s. It is only a matter of time before consumption runs out of steam, the economy double-dips back into recession, and job loss accelerates.

It is in this context that we examine the provisions of HB 2281. This bill would increase the maximum weekly benefit to 100% of the statewide average weekly wage (up from 66%), repeal the waiting week, add a \$30 weekly dependent's allowance, change the base period, repeal the offset of Unemployment Insurance (UI) benefits when Social Security retirement benefits are received, and provide that domestic violence and sexual

harassment are justified causes for leaving a job. We will describe the major economic benefits that would result from these provisions.

This bill would significantly reduce the loss of income that results from qualifying unemployment by increasing maximum benefits, repealing the waiting period, and adding a dependent allowance. The median weekly wage in Kansas is \$575. When a worker loses her job, that \$575 is lost from the economy. Actually, the loss is likely to be larger, because other business spending associated with employing her will fall. While it is true that Kansas will not bear the full brunt of this loss of income and spending (since much of the spending would have gone to purchase products made outside the state), it must be recognized that job loss is occurring throughout the nation, lowering demand for products made in Kansas. As the newly unemployed worker and her employer cut back their spending, sales, employment, and income fall further in a vicious cycle. Fortunately, a number of private and public sources kick-in to break this cycle. The unemployed worker might receive benefits from her employer or union. She may be able to draw-down savings and liquidate wealth. Perhaps relatives can provide relief. And, if her employment qualified, she may be able to collect UI benefits. Together, these resources prevent the job loss from reducing income and spending by the full amount of the lost wages.

Estimates show that the UI program alone provides significant relief to the newly unemployed and that it accounts for a large and important countercyclical force to prevent job losses from snowballing. Careful study by Corson, et al. (1999) found that during the recession of the early 1990s, without UI benefits, over 70% of UI recipients would have fallen into poverty. Other studies find that without UI benefits, workers would spend 22% less on food and 23% less on rents and mortgages, and more of them would be forced to sell homes and go further into debt. Chimerine, et al. (1999) has shown that UI saved an average of 131,000 jobs during each of the previous five recessions, and the drop of GDP was reduced by 15% in each downturn. There can be little doubt that UI reduces suffering and helps to dampen economic fluctuation-preventing recessions from deteriorating into something much worse.

HB 2281 will increase the amount of income restored by UI by raising benefits and reducing the waiting period. Gruber (2001) has shown that the average worker only had sufficient financial assets to cover an average of 5.4 weeks of unemployment. It makes no sense to force a worker to use up nearly one-fifth of her resources waiting for UI benefits to start. Hence, we support the provisions of HB 2281 that would eliminate the waiting period. Raising benefits, especially for those households with dependents, will help to alleviate pressures on families, and will help to maintain demand and thereby limit the spread of job losses.

HB 2281 would allow payment of UI benefits if a worker is forced from her job due to domestic violence or sexual harassment. No worker should have to choose to remain in an abusive condition simply because she could not qualify for benefits if she left her job. Another important provision concerns the receipt of Social Security retirement benefits. Over the past decade, our nation has successfully reduced the barriers to working that used to keep those of retirement age out of the workforce. In the long run, one of the best ways to reduce the burden of caring for our aging population is to encourage healthy seniors to continue to work. As such, we support recent changes that have allowed many Social Security retirees to work without reducing their Social Security benefits. HB 2281 would continue to reduce barriers to participation in the labor force by allowing Social Security retirees to collect UI benefits should they lose their jobs-without facing a reduction of UI benefits as an offset to Social Security benefits.

The final point we want to make about the UI program concerns the contribution it makes to maintaining and enhancing labor market flexibility. From the perspective of employers, many features of the UI program provide for greater flexibility. Many states allow employers to retain workers while cutting back hours when sales are slack, with UI benefits compensating for some of the lost wages. This reduces costly turnover and helps preserve labor skills. UI also helps to keep workers attached to the labor force when they lose their jobs (or face reduced hours of work). The UI program makes it easier for employers to put workers on temporary lay-off as necessary to adjust to market conditions. Since the pioneering work of Larry Summers and others in the early 1980s,

we have known that most workers who lose their jobs do not show up in official unemployment statistics (Wray and Pigeon, 2000). Rather, they leave the labor force. UI benefits as well as the program requirements that encourage job search help to keep job losers in the labor force. When market conditions improve, it is easier for firms to locate good employees from among the pool of job seekers. Further, the UI benefits received by unemployed workers allow them to look for good job matches, rather than being forced out of economic necessity to take unsuitable jobs. All of these considerations lead to the conclusion that the UI program actually increases labor market efficiency.

The improvements to UI embodied in HB 2281 will enhance the program's ability to prevent severe economic deprivation that can result from job loss. The provisions will also improve equity and reduce disincentives to work currently experienced by retirees. And the increased benefits will reduce the negative impacts that job loss has on our local communities. Thus, HB 2281 is an important first step in helping to put our nation back on track toward renewed long-term economic growth.

Before concluding, let us indicate some additional concerns we have. By its very nature, the UI program is limited in its scope and in its ability to solve the unemployment problem. UI benefits must be temporary and must be kept modest in order to avoid undesirable disincentive effects on working. If generous and permanent UI benefits were offered to all workers, too many would avoid serious search for employment. At the same time, many workers see their UI benefits expire before they find a job even if they do look hard to find one-especially in an economic downturn. And because UI benefits cannot fully substitute for lost wages, aggregate demand, sales, income, and employment fall whenever jobs are lost. For these reasons, UI is only a partial solution.

Our nation needs to rethink its approach to the unemployment problem. We are committed to developing a solution to unemployment that does not have the undesirable features of compensation for unemployment alone. First, it is important to recognize the value of work. Any general and permanent solution must emphasize payment for working over payment for unemployment. It must recognize that when unemployment rises in the

nation as a whole, the problem is a general lack of jobs-not a problem of inadequate job search, low levels of education or training, excessive wage demands, or inadequate incentives. It must accept that business cycles are a normal feature of our economy and that the private sector, alone, cannot provide exactly the right supply of jobs all through thick and thin market conditions. When ten dogs are sent out to find nine bones, it is certain that at least one dog will come home boneless. No amount of punishment, training, or motivational seminars will improve the result-the only solution is to ensure there are at least ten bones for every ten dogs. When the economy loses two million jobs in a matter of a few months, it does no good to tell job seekers to be more diligent in their search unless we restore those lost jobs.

Unemployment is costly and wasteful, both for the individual and for the society as a whole (Forstater, 2002). Unemployment insurance helps to reduce the cost and might even alleviate some of the waste. But employment is the real solution. We would be happy to meet with you to work toward a proposal that would ensure that the supply of jobs equaled the number of job seekers (Wray, 1998; 2000). With such an employment program in place, UI could focus on meeting the need for a temporary safety net. We have been working out the details of such a program for the past eight years, and would like to share our ideas with you, at your convenience.

Sincerely,

Mathew Forstater
Executive Director, C-FEPS

L. Randall Wray
Professor, Economics Department

Notes on Sources

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19 February 2003

Representative Dale Swenson
Kansas State Capitol Office
Room Number: 556-N
Topeka, KS 66612

Dear Representative Swenson:

Although the national recession is officially over, experts predict that the economy in the Wichita area will lag behind the rest of the nation and remain economically challenged for a period of months and possibly years to come. Approximately 12,000 workers in the aerospace industry alone have lost their jobs during the last 20 months and aircraft manufacturers continue to make announcements of workforce reductions. The detrimental effects of layoffs in the aircraft industry have spilled over, contributing to layoffs in small business and other sectors of the south central Kansas economy. Thousands more of the area's workers have been victims of nationwide workforce reductions instituted by large retail and service firms. Unfortunately, predictions of continued slow growth, cost cutting, restructuring, and layoffs in the aircraft industry suggests more unemployment for south central Kansas in the foreseeable future.

HB2281 proposes to make improvement in unemployment insurance law which I believe will soften the impact of layoffs in south central and other areas in Kansas. It will also provide a much needed economic stimulus for the state's economy. The bill's provisions include the following: 1) an increase in the earnings cap to 100 percent of the recipient's average weekly wage; 2) an additional \$30.00 of benefits per dependent child; 3) elimination of the waiting week; 3) creation of an alternative base period for benefits computation; 4) repeal of the social security offset; 5) benefits for those forced from their jobs due to sexual harassment and domestic violence.

As the testimony of Matthew Forstater and L. Randall Wray clearly explains, unemployment insurance is an effective and imperative form of income replacement for displaced workers. I would also like to point out that unemployment insurance shields states and communities from the social costs of mass job loss. A study by Harvey Brenner (1992) found that unemployment leads to the following social problems: increases in poverty and homelessness; economic decline; increased homicides, domestic battery, arrests, and prisoners; increased death and injury from alcohol and drug abuse, suicide, heart attack, and mental illness. The costs of these social problems-both monetary and other-are not only absorbed by individual displaced workers, but also by communities forced to expend scarce tax dollars and provide social services at a time they can least afford to do so. The costs of addressing these problems are not investments but liabilities.

While unemployment insurance cannot remedy all of the negative effects associated with job loss, the benefits can soften the impact and thereby serve as a preventative to the above stated problems. As a safety net, it provides a temporary source of income that aids recipients in coping with and recovering from job loss and helps move them through a course of action that will lead to another job. When unemployment insurance significantly “cushions the fall” of job loss, states and communities do not have to bear costs associated with “picking up broken pieces.” Thus, unemployment insurance is not only an important form of income replacement for the recipient, but also provides vital protection for states and communities.

Increasing the benefits of unemployment insurance will not under current conditions deter people from working. The current reality of the south central Kansas (especially Wichita) and other areas in Kansas is that there are more unemployed workers than available jobs. In other words, unemployment insurance cannot be a deterrent to work, if there is no work to be had. In Wichita, vastly more jobs are being eliminated than created, leaving potentially thousands more unemployed workers than jobs. While unemployment insurance cannot deter people from taking jobs that do not exist, it can help workers to control the damage of job loss and to advantageously position themselves for the next

available job. Those without sufficient benefits and without job opportunities, may feel compelled to leave Wichita and others locations in Kansas. Research indicates that nationally, about 10 percent of displaced workers move to look for or take another job (Hipple, 1999). Professionals and those with specialized skills are most likely to relocate (Leventman, 1981). This raises concerns about potential problems of “brain drain” and “skills shortage” that may put the Kansas labor market at a competitive disadvantage.

Unemployment insurance also provides exactly what the Kansas economy needs: customers. In his testimony before the United States Senate Committee on Health, Education, Labor and Pensions (September 12, 2002), Larry Mishel, President of the Economic Policy Institute, explained:

The problem we face is that businesses do not have enough customers - they need more sales. As sales rise, so will profits and so will the number of workers hired. Investment in plants and equipment will follow. In economic terms, we have excess *supply* - plenty of available workers and productive capacity (industry is now working at 76.1 percent capacity, down from 81.8 percent in 2000) - but insufficient *demand*.

According to Mishel, unemployment insurance is one of the ways policy makers “can both cushion the impact of a recession on individuals and provide a counter-cyclical stimulus that will moderate the recession.” Unemployment insurance allows jobless workers to continue in their economic role as consumers during a period when consumption is desperately needed by the economy.

The benefits of this bill are not limited to the present period; they will also help those affected by future layoffs and spells of joblessness which have become prevalent features of the “new economy” in periods of both economic expansion and contraction. During the 1970s and 1980s, plant closings and displacement of manufacturing workers were largely *reactive* measures that occurred as a response to economic recessions, drops in product demand, and the failure of US companies to compete globally (Bluestone and Harrison 1982). However, during the 1990s, the downsizing of not only manufacturing workers, but also service, managerial, and professional workers, became a *proactive* measure, a management strategy that companies in a variety of industries used in attempts to be more competitive, profitable, or to increase their stock market value (Downs 1995).

Thus, in times of economic expansion and contraction, workforce reductions and job loss have become defining features of the new economy under which *all* types and classes of workers are at risk of losing their jobs (Smith 2001; Budros 1998; Sennett 1998).

For these reasons, I therefore strongly urge representatives of the house to endorse HB281 and to provide a stronger unemployment insurance program.

Sincerely,

Charles S. Koeber
Assistant Professor of Sociology

Notes on Sources

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Testimony of the

National Employment Law Project

On the Subject of

Unemployment Insurance in Kansas and HB 2281

Presented to
Committee on Commerce and Labor
Kansas House of Representatives

Topeka, Kansas

February 19, 2003

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Commerce
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Statement of the National Employment Law Project About NELP

The National Employment Law Project (NELP) is a nonprofit law and policy organization based in New York City. NELP has advocated on behalf of low wage and unemployed workers for nearly 30 years. NELP's Unemployment Insurance Safety Net Project provides public education and technical assistance to community organizations, labor federations, policy makers, and legislators concerned with unemployment insurance reform. Given the current economic downturn, there has been unprecedented interest in the past two years in changing unemployment insurance programs to better assist laid off workers and their families. NELP has been involved in these efforts in over 20 states, including Colorado, New Mexico, and Oklahoma. NELP appreciates the opportunity to submit this statement to the Committee.

Executive Summary

The unemployment rate in Kansas was 4.6 percent in December 2002, up from 3.7 percent in March 2000. The average number of persons receiving unemployment rose sharply during the recession, up about 38 % between 2001 and 2002 (from 20,500 to 28,300 per week). In the first three weeks of 2003, there were over 4,000 new initial claims for unemployment insurance benefits per week in Kansas. Total claims per week have been over 35,000 in nearly every week of 2003.

The recession and continuing jobless recovery is affecting Kansans, who are exhausting unemployment benefits at a much greater rate, exhausting the federal extension of benefits, and receiving less from the federal extension than what was promised. Middle class workers are being affected by the relatively low levels of wage replacement represented by any unemployment insurance system and by the length of their unemployment. Two-thirds of laid-off workers in Kansas never even qualify for a UI check in the first place. Many of these are shut out of the system because it fails to credit their wages for the most recent three to six months of their employment.

Now is the time to enact measures to help these workers weather the recession. Like many other states, Kansas can increase benefit levels and waive the "waiting week." To increase access to its system, it can begin to count workers' more recent earnings, and clarify the entitlement to unemployment insurance for victims of sexual harassment and domestic violence who are forced to quit their jobs. To help unemployed families, it can pay a small benefit to families with dependents. The infusion of 78 million dollars in Federal Reed Act dollars into the trust fund has made the expansion of benefits affordable. Like its neighbors, Kansas should act now to help its unemployed workers.

Unemployment Insurance Benefits as Economic Stimulus

Unemployment insurance has two related goals: (1) promptly replacing lost wages for involuntarily unemployed individuals and (2) automatically stimulating our economy by using accumulated trust fund balances to pay these benefits. In 2002, Kansas's UI program paid out \$ 268 million in UI benefits. These benefits helped over 83,000 unemployed workers and their families, and few would deny that this was beneficial to households impacted by unemployment and the communities where they were located.

The economic stimulus provided by UI programs is perhaps less well appreciated by legislators and economic development policy makers.

Basic supply and demand theory teaches that consumer demand plays an important role in determining the growth of our economy. For that reason, maintaining consumer demand by providing adequate UI benefits helps the economy by permitting unemployed workers to pay essential bills without assuming excessive debts.

Economists have long studied the role of unemployment insurance in boosting the economy during downturns. While economists have quarreled about the magnitude of their estimates of the positive impact of UI on the economy, few argue with the proposition that UI is an effective automatic economic stabilizer. The role of UI cannot be fairly evaluated by policy makers unless its role as an economic stimulus is taken into account.

A 1999 study published by two researchers for the Federal Reserve Board confirmed that UI plays a role in assisting unemployed workers and the economy. Applying the Board's econometric tools to the post-World War II economy, the researchers found that the "unemployment insurance program appears to operate as an effective, virtually automatic, income stabilizer for unemployed individuals."

The U.S. Department of Labor released a major study in 1999 that used the Wharton Econometric Forecasting Quarterly model to simulate the impact of UI on the economy in past recessions. The study found that over the most recent five U.S. recessions every \$1 dollar in UI benefits increased Gross Domestic Product by \$ 2.15. In addition, the study found that recessions were about 15 percent shallower and job loss was reduced through the economic stimulus provided by UI benefits. Based upon this study, we can expect that the Kansas economy will experience about \$ 600 million in higher economic output as a result of the \$ 268 million in UI benefits paid out last year. Of course, this estimate is only a snapshot of the continuing positive impact arising from your UI program.

The positive economic stimulus of UI benefits is curtailed when weekly benefits are too low or UI qualifications are too strict. While there's certainly a point at which the costs of UI benefits exceeds their benefits to the economy, the Kansas UI program is not in danger of reaching that point.

Unemployment Insurance Reform in 2003 in Kansas – HB 2281

The unemployment insurance program in Kansas has a number of good features in terms of providing adequate protection to laid off workers and their families. Weekly UI benefits replace about one half of

lost wages up to the weekly maximum benefit of \$ 345. Kansas provides unemployment insurance benefits to part-time workers, an admirable feature that recognizes the importance of part-time work to employers and our economy. Kansas had adopted optional Extended Benefits triggers that are permitted under federal law. Having said this, there are remaining elements that could improve the protection provided by UI benefits to unemployed workers, their communities, and the Kansas economy.

HB 2281 is one of the most comprehensive UI reform bills pending in any legislature in the U.S. in 2003. It contains many elements that will provide better wage replacement to families currently receiving unemployment insurance, increase access to the system for more families, and support the communities in which these families live.

The exact mix of reforms that the Kansas state legislature chooses to adopt is in the hands of the legislature. My testimony today will focus on the data that supports enactment of each of the reforms that benefits low wage workers and women.

In recent years, policy makers in the states have actively debated unemployment insurance (UI) reform to fill the gaps in the program that penalize low-wage, women and part-time workers. In 2002, as a result of the recession, state legislative activity increased even more significantly. According to a survey of the National Conference of State Legislatures, UI reform topped the list of active employment legislation in 2002, resulting in substantial policy reforms.

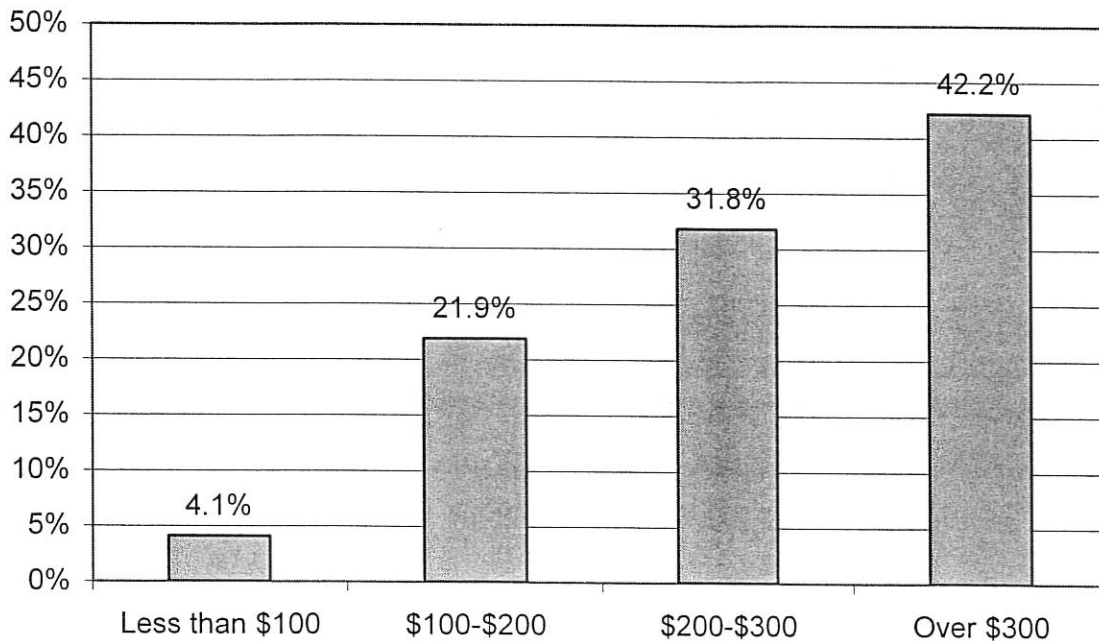
1. Increasing the economic stimulus effect of a UI check.

A. Weekly benefit amount increases.

A worker in Kansas receives UI benefits calculated as 4.25% of the person's wages in the highest quarter counted. When compared to many other states, Kansas' benefit levels are relatively good. The average weekly benefit received by an unemployed person was \$ 268.67 in 2002 slightly above the national average of \$254. Due to yearly indexing, benefits in Kansas were increased slightly, from \$333 to \$345 maximum weekly benefit amount on claims filed after July 1,

2002.

**Percent of Kansas Workers Collecting UI Benefits
at Distributed Weekly Benefit Levels (2000)**



As the above chart, compiled from Bureau of Labor Statistics data, shows, almost half of all Kansas who collect UI receive benefits at the maximum level. This distribution suggests that maximum benefit levels may nonetheless be set too low in Kansas.

Recognizing that long-term unemployment such as occurs in a recession can throw even middle-class workers into poverty, six states and jurisdictions enacted significant increases in the weekly amount of UI of benefits during the 2001-2002 session. (California, District of Columbia, Michigan, New Hampshire, Vermont, Virginia). Several others enacted more moderate benefit increases (Alabama, Georgia, Maryland, Oregon).

In California, a weekly benefit increase of up to \$100 took effect January 2002. As a result of the law enacted in 2002, the increase in benefits will also be paid retroactively to all workers who collected unemployment starting after September 11th. In Michigan, the maximum weekly benefit was increased from \$300 to \$362, and in Virginia, benefits were increased by over 37%, from a maximum of \$268 to \$368, lasting through January 2003 (also reaching back to September 2001 to March 2002). In New Hampshire, benefits were increased significantly as well, from a maximum of \$331 to \$372 a week.

In Vermont, all workers were provided with an \$18 increase in their weekly benefit and the maximum benefit was increased by 13% increase (to \$369), with both provisions lasting for one year. Thereafter, the maximum benefit will increase permanently by 7.5% in Vermont. Weekly benefits in the District of Columbia were increased for the period from September 2001 to March 2002 by 25%. Alabama's increased its maximum benefits from \$190 to \$210, moving Arizona to last place in the national rankings with the lowest maximum weekly benefits at \$205 a week.

Like these other states, Kansas could increase weekly benefit amounts in order to strengthen the economic stimulus effect of unemployment compensation. Kansas could adopt one of several of the models mentioned here: either through a one-time increase, (either by means of an increase in dollar

amounts or an increase in its indexing of UI benefits, currently set at 60%), or an on-going increase of either of these types. In any event, an increase would strengthen the economic stimulus effect of UI benefits.

B. Eliminating the Offset of UI Benefits Due to Receipt of Social Security Benefits.

Kansas is one of twenty states that reduce unemployment insurance benefits because of the receipt of Social Security and Railroad Retirement benefits. These twenty states include states that offset 100% of Social Security benefits, as in Kansas, along with a few states that offset half or less of these retirement benefits. The rest of the states have totally eliminated the offset of UI benefits due to the receipt of Social Security and Railroad Retirement benefits.

The offset of UI benefits due to the receipt of pension benefits is required by federal law in all cases in which the pension payment is from a base period or contributing employer that is also financially responsible for the UI benefit. In other words, the offset provision is designed to keep an individual from "double dipping" by receiving UI benefits and pension benefits financed by the same employer. HB 2281 does not change these requirements and Kansas's retirees will remain ineligible to draw UI benefits and a retirement pension financed by their former employers.

This "double dipping" rationale does not apply to the many Social Security retirees who have remained in the labor market in today's economy. These retirees are productive participants in our economy. When they are laid off, the offset of their UI benefits eliminates an important income source to unemployed jobless workers without reducing their former employers' obligations to continue paying FICA contributions under federal law.

The concept of "double dipping" has little application where a lifetime of employment, including employee contributions, has produced the Social Security pension. Federal law permits Kansas to join the majority of states that do not offset UI benefits due to the receipt of Social Security and Railroad Retirement benefits. We recommend that Kansas eliminate this offset as provided in HB 2281.

2. Recession-related provisions of HB 2281.

Repeal or temporary suspension of the "waiting week."

A "waiting week" prevents workers from receiving UI benefits during the first week of their unemployment, which means that they receive one week less in benefits unless they stay on regular UI for the full 26 weeks. Seventeen states either impose limits on their "waiting week" or have no waiting week. Kansas imposes a "waiting week."

Prior to September 11th, twelve states (Alabama, Connecticut, Delaware, Georgia, Iowa, Kentucky, Maryland, Michigan, Nevada, New Hampshire, Vermont and Wisconsin) limited or eliminated their waiting week. In the aftermath of September 11th, a number of states (California, District of Columbia, New Jersey, New York, Virginia) responded immediately by suspending their "waiting week" temporarily. In 2002, New Jersey eliminated the waiting week permanently, and similar legislation was considered in several other states (Arizona, Colorado, Florida, Indiana, Mississippi, New Mexico, Virginia and Washington).

3. Increasing access to unemployment benefits for Kansans.

Historically, roughly a third of unemployed workers receive UI benefits in Kansas. While that percentage has climbed during the recent recession, it has generally been well below the national rate for the U.S. This means that historically, one-half to two-thirds of unemployed workers in Kansas have no safety net at all when they lose their jobs.

There is no specific study on how families who do not qualify for UI make ends meet. However a comprehensive study conducted by Mathematica Policy Research chronicled the experience of the unemployed who collected benefits as part of the last extension of unemployment benefits enacted to respond to the recession of the early 1990s.⁶

The Mathematica study concluded that the extension of the 1990s, called Emergency Unemployment Compensation (EUC), "kept a substantial portion of families from experiencing poverty-level incomes during the period of EUC collection." It is estimated that without federal extended benefits, 77% of the unemployed who applied for UI would have ended up with family incomes below poverty. Average weekly earnings were \$676 when these workers first became unemployed, and earnings would have been just \$183 a week without federal extended benefits. For workers who never qualify for UI at all, the effects are even more immediate and devastating.

A. Alternative Base Period.

Due to outdated methods of processing UI claims, most states ignore three to six months' of a worker's most recent earnings when a worker's eligibility for UI is determined. As a result, many low-wage workers with recent earnings are denied UI even though they may have worked and had substantial recent earnings that would otherwise be sufficient to qualify for UI.

Use of an "alternate base period" (ABP), which counts the workers' more recent wages when needed to qualify for UI, was recommended for state adoption by the federal Advisory Council on Unemployment Compensation in 1995. ABPs permit the consideration of more recent wages in the calculation of monetary eligibility. ABPs recognize that for purposes of measuring an unemployed person's attachment to the labor force, wages earned in a recent quarter are at least as relevant as wages earned over a year earlier. ABPs have been found by several studies to especially assist low-wage and women workers who are new entrants or re-entrants to the labor force, or whose work is seasonal. Sixteen states, including Connecticut, the District of Columbia, Georgia, Maine, Massachusetts, Michigan, New Hampshire, New Jersey, New York, North Carolina, Ohio, Oklahoma, Rhode Island, Vermont, Washington and Wisconsin, now have ABPs.

In 2002, at least 10 other states proposed adoption of the ABP. The legislation was enacted in Kansas' neighboring Oklahoma (effective November 2002) and Georgia (creating an 18-month pilot program beginning in January 2003). Alternative base period legislation was actively debated in Arizona, Colorado, Florida and Minnesota, where bills passed at least one House of their respective state legislatures. In California, legislation was enacted late last year creating a commission to study the alternative base period and provide recommendations to the Legislature by December 2002.

Studies of ABPs have found that they have expanded UI eligibility from six (6) to eight (8) percent without creating excessive costs for either UI benefits or program administration. According to the "principal finding" of a multi-volume study by Planmatics commissioned by the U.S. Department of Labor in 1997, the "costs of implementing the alternative base period are not significant when

compared with the benefits offered to a wider range of claimants." Executive Summary, Planmatics, Inc., Summary of Findings on the Alternative Base Period (Vol. I) (October 1997).

Most studies have found that benefit costs to the trust fund rose from 4 to 6% a year upon implementation of an ABP. In addition, estimated costs of ABPs are further reduced when consideration is given to the proportion of claimants that would have received UI eventually, by filing for UI benefits in a later quarter. For example, Washington State found that 39% of workers helped by their ABP law would have eventually filed a valid claim in a later quarter.

Administrative costs have not proven to be a significant barrier to ABP implementation. The Planmatics study surveyed administrative costs and found that actual costs of ABP implementation have been far lower than many cost estimates produced by state agencies in the past. For example, New Jersey, which kept the best records concerning its administrative costs, found that its one-time implementation costs were \$1.4 million, including the costs of software changes, personnel training, and hardware purchases. New Jersey estimated its ongoing costs at \$1.26 million. Washington State estimated its annual costs at \$528,175. Ohio found it incurred \$563,312 in charges for manual processing of claims while implementing computer changes, and estimated its ongoing costs at \$328,570. The Texas Workforce Commission in 1999 estimated its ongoing costs of ABP implementation at \$153,000 a year. While these administrative costs are undoubtedly not trivial, they are far from excessive, given the substantial benefits to claimants and their families arising from ABPs.

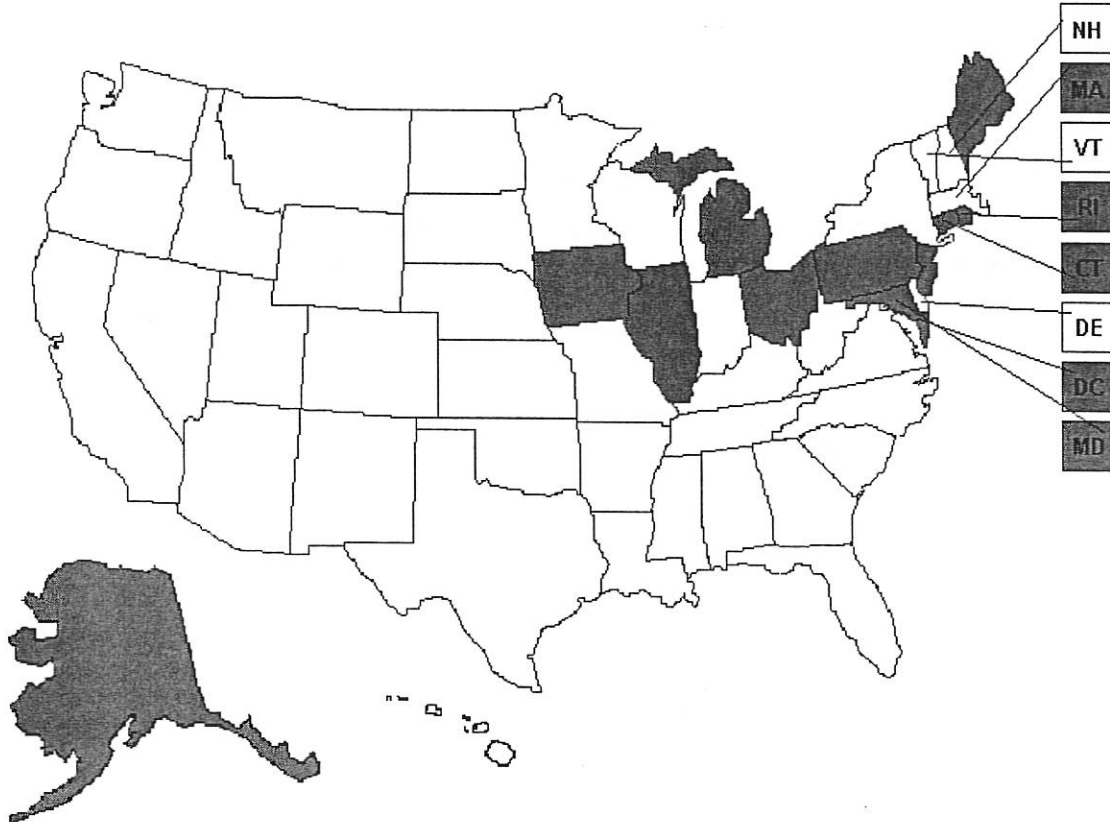
B. Dependents' Benefits.

Unemployment benefits are set according to a formula based on a fraction of the worker's prior earnings. The Advisory Council on Unemployment Insurance (ACUC) recommends that average benefits amount to fifty percent of the state's average weekly wage. Few states provided sufficient benefits to meet the needs of low-wage workers. In Kansas, average benefits amount to 47% per cent of the state average weekly wage. Dependents' benefits could mean a substantial boost in income, targeted to families, and especially benefiting the some 22% of Kansans who receive \$200 or less in weekly UI benefits.

For example, the ACUC found in 1995 that those families earning less than \$15,000 spent sixty-five percent of their income on necessities, while only three states paid sufficient benefits to meet this level of need.

Twelve states, plus the District of Columbia, address the special hardships for families trying to subsist on an unemployment check by paying a regular weekly dependent allowance to at least some workers as part of a UI check. These are Alaska, Connecticut, Illinois, Iowa, Maine, Maryland, Massachusetts, Michigan, New Jersey, Ohio, Pennsylvania, and Rhode Island. Each pays benefits for dependent children up to a certain age. All but Maryland's also pays benefits for older children who are not able to work. Many also cover spouses, and the Iowa and Michigan statutes cover dependent parents and brothers and sisters as well.

States that offer Dependents' Benefits



HB 2281 offers benefits to dependent children only. Under the bill, a dependent child is a resident unmarried child under the age of eighteen, certain students under the age of twenty three, and disabled children of any age.

C. Clarifying coverage for victims of Domestic Violence.

Domestic violence is widespread in America. Each year, 1.5 million women are physically or sexual assaulted by an intimate partner. Job loss and the threat of job loss prevent many battered women from escaping violent relationships by removing their ability to sustain themselves and their children. Domestic violence follows its victims to work – Many who remain at work have difficulty functioning because of the violence they are experiencing at home.¹ Ninety-six per cent of employed domestic violence victims in one survey stated that the domestic violence in their lives interfered with their ability to work. A woman may be harassed by threatening phone calls at work or may need to miss days of work because of injuries or attempts to seek legal remedies for the abuse. In the worst cases, the perpetrator may attack a victim at work.

Nationally, between thirty-five and fifty-six percent of employed battered women were harassed at work by their batterers; fifty five to eighty five percent missed work because of domestic violence; and twenty-four to fifty-two percent lost their jobs as a result of the abuse.

It is this connection between domestic violence and work, and the failure of UI systems to address this quintessential example of "good cause" for leaving a job that has led eighteen states in the past six years to adopt legislation specifically covering domestic violence as "good cause" to leave work. These are California, Colorado, Connecticut, Delaware, Maine, Massachusetts, Minnesota, Montana, Nebraska, New Hampshire, New Jersey, New York, North Carolina, Oregon, Rhode Island, Washington, Wisconsin and Wyoming. In the 2001 and 2002 legislative sessions, bills were introduced in Arizona, Georgia, Hawaii, Iowa, Maryland, New Mexico, North Dakota, Tennessee, Vermont and West Virginia. States that have adopted DVUI laws have found that the cost of providing benefits to domestic violence victims is minimal.

Kansas's state UI law currently already covers those who must leave their jobs due to a personal emergency of such nature and compelling urgency that it would be contrary to good conscience to impose a disqualification. Kans Stat. Ann. § 44-706(11). Some victims of domestic violence who leave their jobs due to the violence are already entitled to benefits. The provisions proposed in HB 2281 would establish a clear definition of "domestic violence" and a clear process for proving that a woman is entitled to benefits.

These provisions would clarify coverage without undue burden on the UI system, as many states have found. In fall and winter of 2000-2001, advocates in Washington State telephoned state unemployment agencies throughout the country to get data on numbers of domestic violence unemployment claims in each state. The following is a sample of the estimated information provided to the Washington advocates: Minnesota had 21 claims over four years, Nebraska had five in 2000, and Oregon had about 20 claims per year. Administrative personnel in Colorado told legal services interviewers in Washington that they had denied 58 claims and granted 63 claims between the passage of that state's law in 1999, and the time of their interview in January 2001. In June 2001, the National Association of Unemployment Insurance Appeals Boards (NAUIAB) conducted a survey of states with regard to domestic violence and unemployment insurance. This survey showed that only one state, Connecticut, formally tracked its domestic violence unemployment cases. Statistics on the usage of the domestic violence unemployment legislation in Connecticut have been kept since the October 1999 effective date of the legislation. Between October 1, 1999, and April 1, 2001, 47 domestic violence cases were handled by the Connecticut Department of Labor with an average weekly benefit amount of \$397.00 at an approximate total cost of \$169,850 over that time period. Since Kansas already covers domestic violence victims, the cost to its system of clarifying coverage should be negligible.

D. Clarifying coverage for victims of Sexual Harassment.

Sexual harassment significantly disrupts the lives of working women. For example, thirty one percent of women surveyed had been forced to take drastic action related to their labor force attachment because of sexual harassment. On a lifetime basis, ten percent quit trying for a job because they were harassed, and over five percent transferred within the company. Perhaps most importantly for the purposes of this paper, studies find that six percent of women surveyed had lost a job because they refused sex and nine percent of women have quit a job in their lifetime because of sexual harassment.

Finally, it is important to recognize that for a variety of reasons ranging from self-blame to a desire to move on, a majority of women do not report sexual harassment or make a complaint. An extensive

survey of federal workers found that only thirty-one percent of women who had experienced sexual harassment reported it to their supervisors, and only two to three percent pursued formal institutional remedies. As evidenced by the study, sexual harassment victims have few effective means of recourse – only half of the women who reported sexual harassment thought it made a difference and even less found that ignoring it made things better.

Thus, like victims of domestic violence, women who have been sexually harassed on the job face obstacles to pursuing legal remedies to protect them against harassment, including the stigma of reporting harassment, employers who are unresponsive to their complaints, the fear of a retaliatory discharge, and the risk, expense, and emotional turmoil of litigation. Frequently, the most reasonable course of action is for a victim of sexual harassment to quit her job and seek a better work environment elsewhere.

HB 2281 clarifies current law, which already provides that individuals who must leave work because of “unwelcome harassment,” of which the employer had knowledge, will qualify for UI. The bill specifies that “harassment” includes “sexual harassment.” Like DVUI, this provision would add very little in the way of cost to the system, but would clarify entitlement for victims of harassment. In addition to the fourteen other states that have general “good cause” provisions similar to Kansas, thirteen states have specific provisions on sexual harassment built in to their UI systems.

Can Kansas Afford the Changes?

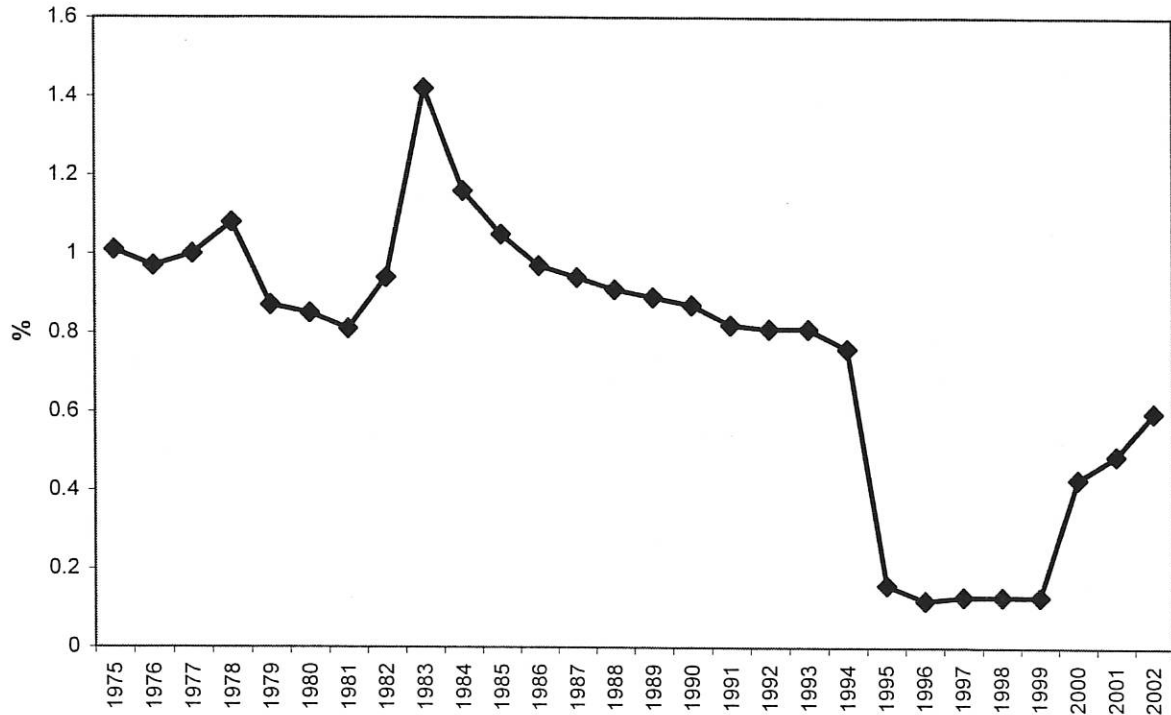
Yes. Kansas’ payroll taxes are lower than many states, and the balance in its trust fund is higher than most states. At the same time, Kansas received an infusion of 78 million dollars of federal funds into its trust fund at the same time that Congress enacted the Temporary Extended Unemployment Compensation law in March, 2002. It can afford to use that money to finance some of the proposals outlined here.

Kansas’s trust fund had a balance of nearly \$472 million at the end of the 3rd quarter of 2002. As of Fall 2002, Kansas would be able to pay maximum UI benefits for about eight months without any added revenue. Many states are, at present, below the one-year level recommended for trust fund solvency due to the recession.

By contrast, in calendar year 2002, the average UI tax on Kansas’s employers is low, at present only .6 percent of total wages. Employers in Kansas pay state UI taxes only on the first \$ 8,000 of a worker’s earnings. After a recent tax holiday of several years, Kansas’s tax rates are higher than in the past, but still amount to just over one-half of one percent of total wages paid to any given worker.

Kansas’s UI fund received a boost of \$78 million in March of 2002. This money represents about 42% of the total tax revenues paid into the fund for the entire year of 2001. This money, called a “Reed Act” disbursement, went directly into the UI fund and may be used for expansion of benefits to workers. The law that authorized the distribution of Reed Act funds specifically stated that these funds could be used to enact the alternate base period (ABP) outlined above. It can also be used to finance the other reforms mentioned here. In Georgia, where the legislature enacted the Alternate Base Period legislation in 2002, Reed Act money is financing the program.

Kansas UI Taxes as a Percent of Total Wages, 1975-2002



Conclusion

The recession and jobless recovery is affecting millions of American workers and their families. Middle class workers are being affected by the relatively low levels of wage replacement represented by any unemployment insurance system and by the length of unemployment. Many women and low-wage workers are cut out of the system entirely. Now is the time to enact measures to help these workers weather the recession, and to increase access to the system for the two-thirds of Kansas workers who pay into it, but do not benefit by it. HB 2281 is a comprehensive bill designed to help families in Kansas weather the recession, and pump needed dollars into their hands, and into the state's economy. The infusion of 78 million dollars in the trust fund has made the expansion of benefits affordable. Like its neighbors, Kansas should act now to help its unemployed workers.

References for Further Information

Available from NELP at www.nelp.org/ui/publications:

Time to Fix the Federal Unemployment Benefits Program. This report by NELP policy director Maurice Emsellem and Economic Policy Institute economist Jeff Wenger focuses on increased levels of long-term unemployment in the current economic downturn and highlights the limitations of the Temporary Emergency Unemployment Compensation program passed by Congress in March 2002. Describes an agenda for Congress to fix our benefit extensions program for the current and future recessions. (July 18, 2002).

2002 UI State Legislative Highlights. In light of the recession, many states actively debated measures to expand unemployment benefits in 2002. This overview highlights the past year's changes in state legislation of special interest to low-wage, women and part-time workers. (June 3, 2002).

Failing the Unemployed. Our patchwork of unemployment benefits programs fails to meet the needs of out-of-work Americans and is in urgent need of repair. This national report by researchers from the Economic Policy Institute, the Center on Budget and Policy Priorities, and the National Employment Law Project provides a state-by-state report card in five key areas, grading each state on its eligibility requirements, benefit levels, employer taxes, funding adequacy, and recession preparedness. It's conclusion: twenty-three states fail to provide even basic safety net protection to unemployed workers. (March 12, 2002).

Unemployment Insurance and Domestic Violence: Learning from our Experiences. Over the last six years, eighteen states have enacted changes to their unemployment insurance laws to protect domestic violence victims who leave work because of the violence. This paper reviews the efforts of advocates to make change through litigation and legislation, and outlines the text and legislative strategies that make a good law. (Revised May 2002)

Available from other websites:

Unemployment Insurance as an Automatic Stabilizer: Evidence of Effectiveness Over Three Decades. Lawrence Chimerine, Theodore S. Black, and Lester Coffey, UI Occasional Paper 99-8 (U.S. Department of Labor, Office of Workforce Development, July 1999). Review of the economic literature on UI as an economic stimulus and applications of Wharton economic models to estimate these effects.

The Automatic Fiscal Stabilizers: Quietly Doing Their Thing, Darrel Cohen and Glenn Follette, (Division of Research and Statistics, Federal Reserve Board, December 1999). Uses Federal Reserve Board econometric models to measure the impact of UI and income taxes as automatic fiscal stabilizers.

□ _____

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February 18, 2003

House Commerce & Labor Committee
Representative Don Dahl, Chairman
HB 2281
Wednesday, February 19, 2003 9:00 AM - 11:00 AM

Chairman Dahl and Committee Members,

I am Jim DeHoff, Executive Secretary of the Kansas AFL CIO. I represent 100,000 members in the State of Kansas.

HB 2281 makes some significant changes in the Kansas Employment Security Law. We support and encourage the positive changes for workers who lose their job through no fault of their own. However, as a member of the Kansas Employment Security Council I strongly recommend that HB 2281 be referred by your Committee to the Employment Security Council for complete review and action. We would report back to the House Commerce & Labor Committee with our recommendations.

Your support of this request would continue the relationship business - labor and the general public members have established in reviewing all Employment Security Law changes.

Thank you.

Jim DeHoff



Commerces & Labor
2-18-03
Atch # 3

Kansas Employment Security Advisory Council

(revised July 16, 2002)

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February 19, 2003

Representative Don Dahl
Chairman House Commerce and Labor

Good morning Representative Dahl and Members of the House Commerce and Labor Committee. My name is Dr. Ernie Pogge and I am the Chair of the Topeka Advocacy Satellite Group for AARP Kansas. AARP Kansas represents the views of our more than 348,000 members in the state of Kansas. Thank you for this opportunity to express our *support* and comments on House Bill 2281.

Kansas is one of 20 states, plus the District of Columbia, that reduces unemployment benefits for workers collecting Social Security, even though they have become unemployed through no fault of their own and intend to return to work when that becomes possible.

This practice penalizes older workers who need or wish to remain productive and continue to receive earnings from employment beyond the time when most Americans are retired. These are people who have earned their Social Security retirement benefits based on their past work experience and have chosen to receive them as early as age 62; they have also, based on their work experience, earned the right to receive unemployment compensation when they are laid off due to employer difficulties or economic recession.

Kansans today are confronted with two fundamental facts:

- They are going to have to work longer, on average, than their parents' generation did.
- They are going to have to do more saving for their own retirement and rely relatively less on employer pensions and public programs such as Social Security.

The Kansas law K.S.A. 44-706 (n) that reduces unemployment benefits because of Social Security retirement benefits forces people to spend more of their own resources during bouts of unemployment, thereby reducing the savings available to them when they finally do stop working. And it deprives them of an earned benefit that comes with employment—a reduction that does not apply to workers who are not receiving Social Security.

In Kansas, during fiscal year 2002 this law affected 754 claimants. So we are not talking huge numbers here. Perhaps more important, though, is that the current law in Kansas and other states makes little sense in the context of an aging population, and aging workforce, and significant changes in how long we work and how we pay for retirement.

Solution:

- Kansas has the authority to stop the reductions of unemployment insurance benefits of retired workers receiving Social Security and certain other retirement benefits.
- Legislation should be passed to eliminate reductions in unemployment benefits due to the receipt of Social Security benefits.

Therefore AARP supports language in HB 2281 that would eliminate the Social Security/ Unemployment Insurance offset for Kansans. We respectfully ask for your support on this issue.

Thank you for this opportunity to express our opinions and support.

I will stand for questions.

Dr. Ernie Pogge
Chair, Topeka Advocacy Group



UNITED AGAINST VIOLENCE

KANSAS COALITION AGAINST SEXUAL AND DOMESTIC VIOLENCE

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Commerce and Labor Committee
Testimony: HB 2281
February 19, 2003

Chairman Dahl and Members of the Committee:

Thank you for the opportunity to speak this morning in support of HB 2281.

The Kansas Coalition Against Sexual and Domestic Violence is a private non-profit group representing victims of domestic and sexual violence and the advocacy programs serving them. The 27 member programs reported serving more than 1,000 sexual assault victims, 21,250 domestic violence victims and sheltering 4,621 people during 2001. In the same time period the program hotlines responded to more than 29,000 crisis calls. Domestic violence and sexual assault are just as much of an issue in Kansas as they are everywhere else in the United States.

This morning you are considering amendments to the Kansas unemployment laws, which include a section on page 27 and 28 clarifying that victims of domestic violence are not disqualified from eligibility for unemployment benefits if they left work for reasons associated with domestic violence. Page 21 of HB 2281 contains the definition of domestic violence.

Domestic violence impacts the workplace in numerous ways. Today we will focus on those that are specifically related to why unemployment benefits are so important to the safety of some victims.

There are only 23 shelters in Kansas. Their geographic distance necessitates women and their children leaving their home communities, jobs, and schools to be able to seek safety in a shelter. Having to leave a job, often suddenly, creates significant problems from being labeled irresponsible to difficulties in locating new employment.

In some cases the batterer is a work colleague of the victim, which means that her batterer has easy access to her during work hours, sometimes putting at risk other co-workers. It is not unusual for victims to be stalked and battered in the parking lots of their employment sites. In a recent case in Garden City, the victim worked for the batterer's family. After leaving the batterer, the family created a very hostile work environment and let him know her work schedule so he was mysteriously waiting for her each day when she got off work.

When victims have been able to safely leave, batterers know the one place they can still find the victim – at work. Batterers follow their victims from work to learn where they are living or staying, or they come to the workplace because they know she will be there. A recent informal survey of domestic violence programs indicated that in 2001 almost 40% of women were already employed at the time they originally contacted the program for help. One of the Wichita programs stated that of those, only 88 women, approximately 6%, had serious safety concerns that caused them to leave their employment.

Given that batterers prefer their behavior to be private, it is believed that domestic violence spilling into the work place may be an indicator of increased risk to victims and those around them. Victim safety becomes paramount.

Two years ago a batterer waited for his wife to leave her home to go work because he knew she would be alone – he shot and killed her. Some years ago a nurse was shot and killed in the lobby of the nursing home where she worked. While these cases are the not the most common outcome, they are not entirely isolated either. Twenty to thirty people die every year in Kansas because of domestic violence. Serious injury or death is most likely to occur within months after victims try to leave abusive situations.

When domestic violence comes to work – the safety of victims and their co-workers is at risk. When such a risk does exist, victims need options.

HB 2281 does not create new law, it just clarifies that when a person must leave employment due to domestic violence, they are not ineligible for unemployment benefits. Currently a victim could make application for UI because of special circumstances, but it isn't well known. None of the programs in Kansas recollect anyone who has applied under that condition. HB 2281 will just make clear that UI may be an option if all other requirements are satisfied.

KCSDV supports HB 2281.

Respectfully,

Sandy Barnett
Executive Director

Testimony Before the House Commerce and Labor Committee
On House Bill 2281
by Acting Secretary Jim Garner
Kansas Department of Human Resources
February 19, 2003 – 9:00 a.m. – Room 243-N

Good morning, Chairman Dahl and members of the Committee. Thank you for the opportunity to appear today. My name is Jim Garner, Acting Secretary of the Kansas Department of Human Resources. I appear before you this morning to discuss House Bill 2281. This bill contains six major features that would modify the current *Kansas Employment Security Law*. I would like to briefly discuss each of these proposals.

The first change modifies the wage base period and creates a new alternate wage base period. Currently, eligibility for benefits is determined by reviewing an individual's wages earned during the first four of the last five completed quarters. This bill changes the base wage period to the last four completed quarters. It also allows for an alternative wage base period for those not qualifying under the regular base period, if they meet the eligibility requirements during the last three completed quarters and any weeks in the incomplete current quarter.

There are advantages to modifying the wage base period. The current system does keep some deserving workers off unemployment benefits. It is particularly detrimental to low wage workers and to those who have recently re-entered the workforce and are then laid off through no fault of their own. Some states are changing their base wage period to reflect changes in and the realities of the new economy. The wage base period has kept some low income workers from qualifying for benefits.

However, the changes proposed would have significant administrative costs to our agency. Worker earning information collected from the employers is not immediately available to the agency for the last completed quarter, or for any weeks in the incomplete current quarter. During calendar year 2002, the agency processed 124,000 new claims. If this change in base period were adopted, the agency would have to implement a way to gather wage earning information in a quick manner to make determinations on eligibility. This would create the most significant

administrative cost in the bill. The agency would have to hire additional staff to contact employers to gather this information concerning earnings. In addition, there would be the need for computer programming time to implement the change in determining eligibility. Our staff has estimated this to result in an additional administrative cost of \$470,700. Alternatively, the agency could invest in new technology and require employers to electronically transfer wage information immediately to the agency. But, this, also, would require programming and training costs and getting employers comfortable with the new reporting system. Either way, the employers in our state would be impacted by this change in responding to the agency and getting the wage information filed.

The second modification concerns the minimum and maximum weekly benefit paid to unemployed claimants. During fiscal year 2003, the weekly benefit amount ranges from a minimum of \$86 to a maximum of \$345. House Bill 2281 would amend the law by dropping the minimum to \$57 and increasing the maximum to \$575. There are strong policy reasons to lower the minimum weekly benefit. This would allow more low-income workers to qualify for unemployment benefits. The reality of the new economy is that there are more workers who are marginally attached to the labor force. Changing the minimum weekly benefit recognizes this reality. The more significant change, cost-wise, is the increase in the maximum weekly benefit. This is a policy decision to be made by the Legislature. However, if you wish to adopt this proposal, you should be mindful of the impact this change will have on the Unemployment Trust Fund. Researchers in our agency estimate this change would have increased benefit payments during fiscal year 2002 by \$55.6M. This would require an accompanying increase in contributions by employers to the Trust Fund to keep it adequately funded.

The third feature of House Bill 2281 is to increase the weekly benefit amount paid to claimants due to dependent children. This feature would increase individual weekly benefit amounts by \$30 per week per dependent child. This is sort of a stipend per child. The research folks in our agency estimate this change would have increased benefit payments by \$2.7M for fiscal year 2002. I have concerns regarding this proposed change in that it moves the unemployment insurance program into more of a poverty program rather than an employment insurance program. It is a new and different direction for the program. In addition, this change would

create major new administrative challenges for the agency. New hearings would be required to address issues of child custody and dependency. While the intention of this proposed change is very good, the result would be a change in the concept and philosophy of unemployment insurance.

The fourth change is the elimination of the waiting week. Current Kansas law requires the first week of unemployment serve as a "waiting week" and, as such, the recently unemployed worker is unable to receive monetary benefits for the week. The waiting week is an anachronism from a time before computers. There was a time when claims were manually processed and the technology did not exist for the speedy processing of unemployment claims and thus the need existed for the waiting week. Technology has now greatly diminished this need. It would be good policy to eliminate this waiting week for the newly unemployed. The researchers in our agency estimate that the elimination of the waiting week would have increased payments by an estimated \$13.9M for fiscal year 2002. Again, this would place additional pressure for increased contributions to the Trust Fund by employers to keep it adequately funded.

The fifth option is elimination of the Social Security deduction. Under current procedure, 50 percent of all Social Security benefits are deducted from weekly benefits payable to each individual claimant. The Employment Security Advisory Council has expressed support for eliminating the Social Security deduction. Again, the realities of the new economy and the fact that many seniors are living longer and more productive lives leads to more retired citizens re-entering the work force, either out of desire to work and to stay active, or out of necessity to pay bills. Eliminating this deduction responds to and recognizes this change. It would be good public policy to adopt this proposed change. Removal of this deduction represents an increase in benefit payments of \$1.2M for fiscal year 2002.

The final option is a domestic violence provision. Under House Bill 2281 an individual experiencing domestic violence would be entitled to unemployment insurance. While numbers are not available to measure the impact, it is estimated this feature would only have a limited effect on increasing benefit payments. Present law currently states that a worker who leaves voluntarily due to a "personal emergency" is not disqualified from receiving unemployment benefits. This existing exemption has been interpreted by the agency to apply to persons dealing

with domestic violence. Also, our legal department has expressed concern about the proposed language and how it fits within with the current structure of our Employment Security Law.

Mr. Chairman, and members of the Committee, thank you again for this opportunity to provide input on this legislation. I would be happy to stand for any questions you may have.

LEGISLATIVE TESTIMONY



The Unified Voice of Business

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HB 2281

February 19, 2003

KANSAS CHAMBER OF COMMERCE AND INDUSTRY

Testimony before the House Committee on Commerce and Labor
By Terry Leatherman, Vice President – Legislative Affairs

Mr. Chairman and members of the Committee:

I am Terry Leatherman, with the Kansas Chamber of Commerce and Industry. Thank you for this opportunity to explain why KCCI urges this Committee reject HB 2281, which calls for massive changes to the Kansas Employment Security Law.

For background purpose, please realize the benefit increases and changes to unemployment compensation structure proposed in HB 2281 are coming at a time of unprecedented stress on the Kansas Employment Security Fund and on Kansas employers, due to the current state of the economy. The table below shows the dramatic increase in benefits that are being paid to workers through unemployment compensation, as well as unemployment tax increases on Kansas employers and the changing condition of the Kansas Employment Security Trust Fund.

Year	U.C. Benefits Paid	U.C. Taxes Collected	Year End Trust Fund Balance
1995	\$149.6	\$54.9	\$692.4
1996	\$148.3	\$34.3	\$640.9
1997	\$133.7	\$36.0	\$596.7
1998	\$130.6	\$39.4	\$549.1
1999	\$157.3	\$42.5	\$476.7
2000	\$175.7	\$143.0	\$488.0
2001	\$240.8	\$172.9	\$466.0
2002	\$359.8	\$182.4	\$410.9
2003	?	\$217.7	\$386.4 (2/8/03)
2004	?	\$270.3 (estimate)	?

Commerce &
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There are several important notes to draw from this table to consider regarding the current challenges for the unemployment compensation system, which would be greatly increased by the impact the system would feel from enactment of HB 2281.

- Last year's \$360 million in benefits paid is staggering. In just the last two years, benefit payments have increased by 105%. For four straight years, unemployment benefits have increased by double digits.
- The unemployment taxes employers pay respond to the trust fund's condition. In other words, when the trust fund is low, employer taxes are pushed to higher levels. This year, employer taxes for unemployment will increase by 19%, a \$35 million tax hike. KDHR estimates next year's employer taxes will take even a larger jump, a \$53 million increase. That will mean a 24% tax jump next year.
- While benefits and taxes soar, the condition of the Employment Security Trust Fund continues to worsen. It is important to note there remains significant reserves in the Trust Fund, in excess of a year's benefit amount. However, it is also important to add the Trust Fund's health has been helped by last year's \$78 million federal Reed Act appropriation, which is currently being held in the Trust Fund.

In general, today's unemployment situation is of concern. Employer taxes are increasing, and will increase more in the short term. If unemployment continues at last year's levels, those ever-increasing employer taxes will not be significant to keep the trust fund solvent. In light of this, KCCI is very concerned about the potential cost impact HB 2281 would present to the challenging situation we face today.

- The increase in the maximum and minimum benefit amounts would produce around a 29% increase in total unemployment benefit payments, according to the Kansas Department of Human Resources. Last calendar year, that would have meant an additional \$102 million dollars in unemployment, and would demand even higher increases in employer taxes than is currently being experienced.
- The elimination of the "waiting week" would also fiscally impact Kansas employers. It should be noted that the waiting week, which establishes the employee's separation from the workplace, is required in 38 states, including Kansas.
- According the KDHR, the domestic violence component of HB 2281 would produce a significant increase in benefits (\$15.4 million in FY 2002). This is surprising because KCCI's inquiries into current practice in cases involving domestic violence is individuals would qualify under "voluntary quit" provisions. It might be

appropriate to consider amending this portion of HB 2281 to simply codify what KDHR has expressed its current practice.

- The social security offset elimination of HB 2281 is opposed by KCCI. The simultaneous collection of unemployment and social security benefits weakens return to work incentives and does not recognize the employer match in social security payments.
- On page 22 of the bill, benefits paid to the unemployed appear to be increased by \$30 per child, per week. The cost impact of this change is unknown, but likely significant. Of the 12 states which currently permit a dependent allowance, the one proposed in HB 2281 would be the most generous in the country. KCCI would also question whether Kansas should take this step down the path of altering benefit amounts for societal purposes.

Finally, it is important to note that current Kansas unemployment benefits are higher than most states in our region. Attached to my testimony is information on maximum and weekly benefit amounts paid by states in the midwest. In both categories, Kansas was second highest in the region, trailing only Colorado.

Mr. Chairman, the changes proposed in HB 2281 are significant and come at a very challenging time for the state's employment security system. KCCI would strongly urge the Committee reject HB 2281. Thank you for this opportunity to comment. I would be happy to attempt to answer any questions.

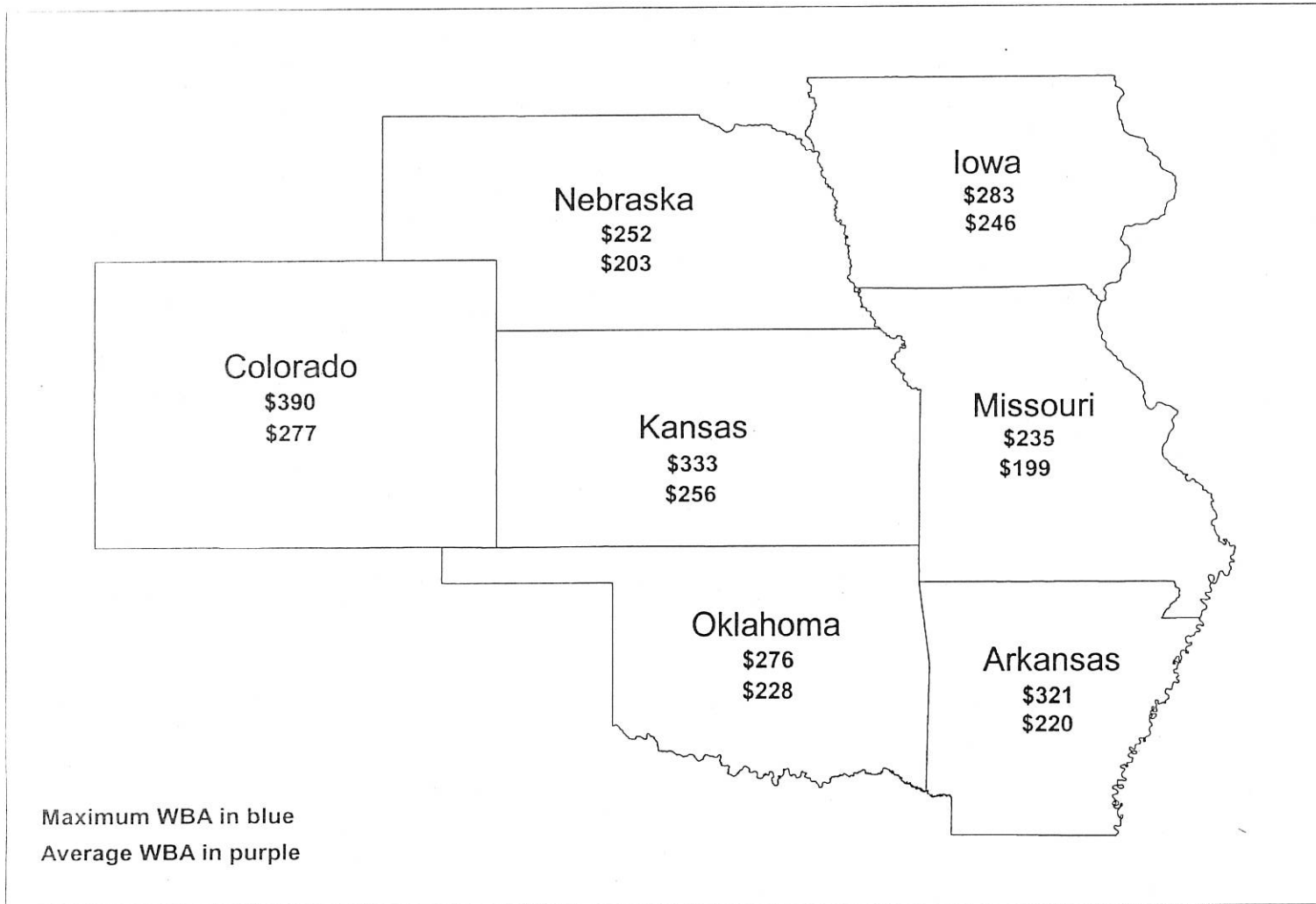
About the Kansas Chamber of Commerce and Industry

The Kansas Chamber of Commerce and Industry (KCCI) is the leading broad-based business organization in Kansas. KCCI is dedicated to the promotion of economic growth and job creation and to the protection and support of the private competitive enterprise system.

KCCI is comprised of nearly 2,000 businesses, which includes 200 local and regional chambers of commerce and trade organizations that represent more than 161,000 business men and women. The organization represents both large and small employers in Kansas. KCCI receives no government funding.

The KCCI Board of Directors establishes policies through the work of hundreds of the organization's members who make up its various committees. These policies are the guiding principles of the organization and translate into views such as those expressed here.

Maximum and Average Weekly Benefit Amount (WBA) for Selected States 2001 Current



Source: *UI Interstate Handbook; UI Data Summary*

KANSAS

**Statement by Hal Hudson, State Director
National Federation of Independent Business
Before the House Committee on Commerce and Labor
On House Bill 2281
February 19, 2003**

Mr. Chairman and Members of the Committee:

Thank you for allowing me this opportunity to speak to you. My name is Hal Hudson, and I am the State Director for the National Federation of Independent Business. I appear before you today to oppose enactment of HB 2281.

Small business owners already are overburdened with regulations and red tape, and they want no more mandates from state or federal government. HB 2281 would be just another mandate that would add another cost, and make it harder for them to operate their businesses successfully.

The Kansas Employment Security Law is designed to help workers who, through no fault of their own, lose their jobs. It is not intended to fully replace a paycheck. It is to help out while they seek other employment.

HB 2281 would result in a "raid" on the Unemployment Compensation fund, and would result in higher unemployment taxes being charged against employers.

Provisions of HB 2281 go far beyond what is contemplated in current law. If employees believe that unemployment compensation is an entitlement to be used for any purpose, perhaps it is time to consider having the cost of this tax, like Social Security, deducted from their wages.

Enactment of HB 2281 would make it more expensive for small employers to hire and pay employee benefits to those who are working. It also would make Kansas less attractive to those considering expanding their business, or to anyone seeking to locate a business in Kansas.

At a time when our State's economy is floundering because business profits are down, we don't need new legislation to make it harder for Kansas firms to stay in business.

I urge you to reject HB 2281