



BILL SUMMARY

Unemployment Modernization HF 623 and SF 197

Status of Bill: SF 197, Passed on File, Passed Senate 47-0
Committee: Economic Growth (14-7)
Floor Manager: Representative Ford
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BACKGROUND:

With the passage of the Federal Unemployment Insurance Modernization Act, Iowa would receive \$71 million in incentives through federal Reed Act payments if it makes changes to, or “modernizes” its unemployment insurance system. These dollars would go into the Unemployment Trust Fund. SF 197 has passed the Senate, and HF 623 (with a conforming amendment), would accomplish these changes so Iowa would be eligible for these dollars. Based on a formula of workers’ wages in Iowa, and the experience of how often a company lays off, Iowa’s unemployment system has a tax table with 8 tables possible with table 8 being the lowest tax rate. Iowa is currently at table 6, and has been at table 6 since 2002. If the current unemployment rate continues to escalate, estimates are that for next year we will probably go to table 5. With the infusion of \$71 million, the bill would prevent Iowa from dropping to table 4.

The federal stimulus package dollars, NOT contained in the Modernization Act, includes \$5 million for unemployment administration. The Department of Workforce Development (WFD), will more than likely use these dollars to replace very outdated computers that produced peoples unemployment checks.

H-1138 to HF 623 by Ford (D): Conforming amendment.

The amendment would make HF 623 like SF 197, that has passed the Senate, available for substitution. The amendment changes the title page regarding the appropriation.

SUMMARY OF SF 197:

Extended Unemployment Benefits if Enrolled in a Training Program

SF 197 would provide an additional 26 weeks in unemployment benefits, if the individual participates in a department approved training program. The individual would have to be from a declining occupation or has been involuntarily separated from employment by a permanent reduction in operations at their last job. A declining occupation is one which there is a lack of sufficient demand in the individual’s labor market for the individual’s training and experience or the individual lacks current physical or mental capacity. An individual could also qualify if there was lack of employment opportunities in the area that will likely continue for an extended period of time, or the individual’s occupation is seasonal. The training would have to be for a high demand or a targeted industry. This means an occupation in the labor market area in which the department determines there would be work opportunities available, but there is a lack of applicants. The training extension benefits end upon the completion of the training course, even if the individual has unemployment benefit weeks left over. By rule, an individual would

have to maintain regular job search activities during a summer break. SF 197 requires that the individual be enrolled and be making satisfactory progress towards completing the training program to remain qualified for unemployment benefits.

Individual employers would not be affected by this change, since it would not be a charged to their account. It would be charged to the Unemployment Trust Fund. The estimated cost for this provision is \$7.8 million to the Unemployment Trust Fund.

There are 131 companies that have announced a WARN notice in the last four years that involved a lay-off under the current regulations of 100 or more. Those company's employees would most likely be eligible for extended unemployment benefits. Those benefits of 26 extra weeks would come on the backend of their current benefits, so there would be very few of those employees that would probably receive an extra 26 weeks, since they more than likely have found another job. The Department of Workforce Development (WFD) estimates that 5,000 individuals would be eligible for the extended unemployment benefits if they take part in a training program. The training provision has a special effective date of July 5, 2009.

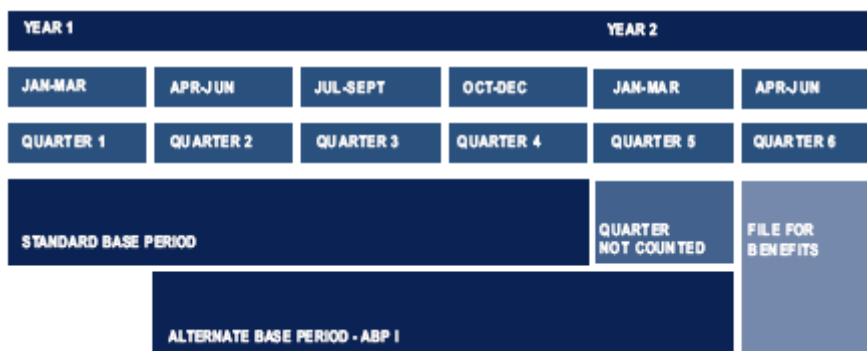
Part-Time Worker Provision

This provision codifies existing rule to ensure Iowa qualifies for the Federal funds. Under the provision, part-time workers do not have to accept full-time work to remain eligible for unemployment benefits. Without this, they would have to take a full-time job when it is offered, even if the are not looking to work full-time. The provision helps more part-time unemployed people take a part-time job. This is not an additional expense to the Unemployment Trust Fund, since it is being offered now.

Alternate Base Period

The current base period for which an individual's wages are determined to make someone eligible for unemployment consists of four calendar quarters. The quarter immediately proceeding the quarter which the worker files, or "lag quarter," is not used, and the base period consists of the four quarters prior to the "lag quarter." If an individual does not qualify under the current system, SF 197 moves the base period one quarter closer to when the claim is filed and eliminates the "lag quarter". This provides a more accurate base period to determine the workers' benefit. Electronic commerce and modern computer technology makes this change feasible. There are 19 states that currently have an alternative base period. Individuals that qualify under this provision are charged to the employer's account. This provision has a special effective date of July 5, 2009.

This chart shows the current law, and how the bill would apply to an Alternate Base Period.



Source: Stettner, Andrew, Heather Boushey, and Jeffrey Wagner. *Clearing the Path to Unemployment Insurance for Low-Wage Workers: An Analysis of Alternative Base Period Implementation*. Center for Economic Policy Research and National Employment Law Project, 2005.

Other Estimated Fiscal Impact Information

Workforce Development receives federal funds from this act of \$359,000 in FY 10 for an additional 7.7 FTEs, and \$343,000 in FY 11, which would reduce the FTEs to 7.5.

Additional Unemployment Provision, Military Non-Charge

SF 197 also contains an unemployment change not related to the modernization efforts. It would not affect the draw down of federal Reed Act dollars. It deals with unemployment of a replaced temporary worker due to the return of a military service person. An employer would not have their account charged for unemployment benefits for such a person. The Unemployment Trust Fund would cover the cost. This provision applies when the permanent employee, who is a member of the national guard, or United States armed forces reserves, ordered to temporary duty, returns to work or for any purpose and who has completed the duty, or who is a member of the civil air patrol.

Even though the bill would help replaced temporary workers, it would also be an incentive for employers to hire members of the national guard, armed forces or civil air patrol people, since their account would not be charged for unemployment.

AMENDMENT SUMMARY

H-1130 by Upmeyer (R) Career Readiness Certificate

The amendment would require the individual enrolled in a training program to complete a career readiness certificate program at the end of the training program. WFD has a commitment to the Career Readiness Certificate (CRC) by piloting it in 5 regions (of 15 regions) and requesting funding for an additional 5 regions, which the Governor placed in his budget. WFD believes strongly in the CRC but believes that a blanket application to all of those receiving extended unemployment benefits would be a non-strategic, shotgun approach. They may attempt to do this by rule, for the training provision, but at this time, do not want the requirement in statute. The amendment, however is unclear as to what action the department takes if a recipient of extended unemployment benefits successfully completes the training, but does not successfully complete the CRC. The requirement in the amendment **may** throw Iowa out of compliance with the federal requirements.

H-1133 by Soderberg (R) Required Restitution to the Fund

Under the amendment, an individual would be required to pay restitution to the Unemployment Trust Fund if they do not complete the training on time. The period of time would be determined by the department. The amendment makes no provisions for health reasons if the training course is not completed. Also, perhaps they did their best to complete the training course, but failed. Under the amendment the individual would have to repay the Unemployment Trust Fund, even if they put a good-faith effort. WFD currently cuts the student off of benefits if they quit the course initially. The requirement in the amendment **may** throw Iowa out of compliance with the federal requirements.

H-1133 by Horbach (R) Alternate Funding

After two years or after the \$71 million has been expended, whichever is later, the state shall fund the benefit obligations initially created in this act from a source other than the Unemployment Trust Fund. The amendment attempts to pay for more people qualifying for unemployment, that are permanent changes, with some type of other funding in the out years.

More than the others, this amendment **may** throw Iowa out of compliance with the federal requirements. The federal economic stimulus law forbids sunset provisions, and this amendment could be construed as a sunset appropriation. This is because it implies ending the benefit provisions at some definite point in the future. It may create a legal conflict in that the amendment enacts benefit provisions which could operate without a state appropriation, which would raise a legal question. This would

ultimately need to be resolved by the Attorney General. It may also create a federal conformity issue because all funds used to pay benefits must be present and paid out of the Trust Fund.