PROTECTING THE SOLVENCY OF THE UNEMPLOYMENT COMPENSATION FUND

Report of a Study by the

UNEMPLOYMENT COMPENSATION FUND STUDY COMMISSION

to the

111th Maine Legislature

January, 1984

Committee Members:

Sen. Dennis Dutremble, Chairman
Rep. Edith Beaulieu
Rep. Dana Swazey
Edward Gorham, Organized Labor Representative
Christine Hastedt, Organized Labor Representative
Francis Dorsey, Business Community Representative
Shepard Lee, Business Community Representative
Patricia McDonough, Expert Representative
Stephen Crockett, General Public Representative

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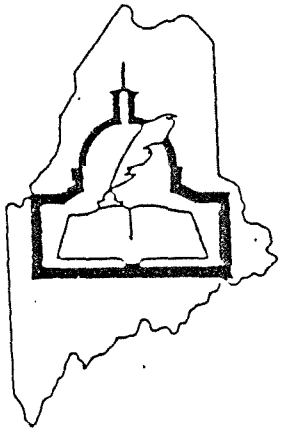


TABLE OF CONTENTS

I. Introduction

This study of the financial condition of the Unemployment Compensation Fund was authorized by LD 1561, reported out by the Labor Committee and enacted by the Legislature as P&S 1983, chap. 46. (See Appendix A) The bill established a 9-member Unemployment Compensation Fund Study Commission to study the fiscal integrity of the Fund, to be assisted by the Department of Labor and the Office of Legislative Assistants. The Commission's membership is as follows:

Sen. Dennis Dutremble, Chairman
Rep. Edith Beaulieu
Rep. Dana Swazey
Edward Gorham, Organized Labor Representative
Christine Hastedt, Organized Labor Representative
Francis Dorsey, Business Community Representative
Shepard Lee, Business Community Representative
Patricia McDonough, Expert Representative
Stephen Crockett, General Public Representative

The Commission held six meetings, all open to the public, and obtained input from the public, members of lobbying groups, practicing attorneys and the Department of Labor.

II. Background Information on Fund

A. General Background

The solvency of Maine's Unemployment Compensation Trust Fund was never seriously threatened until the recession of the mid-1970's. (See Appendix B, Chart 1) At the end of the 1970's, Trust Fund reserves were in the $40 million range but were not sufficient to offset the increased unemployment in 1971 and again in 1975. The Fund became insolvent as a result and the state obtained $36.4 million in federal loans during 1975-1978 to pay benefits. Even though federal loans were interest-free at that time, the State still did not completely repay them until the fall of 1983 and employers will still be assessed a .6% surtax in 1984 as a consequence of the past borrowing. More recently a cash-flow loan of $1.4 million was needed to keep the Fund solvent in the spring of 1983, though it has since been repaid.

B. Solvency Indicators

Although the situation did not reach crisis proportions until the 1970's, Maine Department of Labor statistics reveal that other indicators did show an overall decline in solvency over the years. For example, Trust Fund reserves measured as a percent of total wages have declined steadily since 1945. (See Appendix B, Chart 2)

A better indicator of the Fund's adequacy is its reserve multiple, which provides a means of statistically gauging a Trust Fund's ability to meet future benefit costs by comparing this ability against some measure of past liabilities. The reserve multiple is determined by dividing the reserve ratio by the highest benefit cost rate.

$$\text{Reserve Multiple} = \frac{\text{Reserve Ratio}}{\text{Highest Benefit Cost Rate}}$$

The reserve ratio is determined by dividing the year-end Trust Fund reserves by total wages of contributing employers for that year.

$$\text{Reserve Ratio} = \frac{\text{Year-end Trust Fund Reserves}}{\text{Total Wages of Contributing Employers For That Year}}$$

The highest benefit cost rate is defined as benefit costs (regular benefits and State's share of extended benefits, excluding direct reimbursables) for a 12-month period divided by total wages of contributing employers for that same period.

$$\text{Highest Benefit Cost Rate} = \frac{\text{Benefit Costs for a Year}}{\text{Total Wages of Contributing Employers For That Year}}$$

Usually a severe period of unemployment extends for at least 18 months and the cost averages one and one-half to two times the cost of the 12 consecutive months in which benefit payments have been highest. A reserve sufficient to pay 18 months of benefits is commonly called the "1.5 reserve multiple" and is recommended by the Federal Government as the minimum reserve a State should have on hand at the start of a recession. /1/ Appendix B, Chart 9 illustrates this calculation using 1982 data which results in a (-).03 reserve multiple, far below the recommended minimum safety level.

The calculations show that not only does the Maine Fund not have a 1.5 reserve multiple, which would probably finance the costs of a severe spell of unemployment, but the reserve multiple has been declining since the late 1960's (See Appendix B, Chart 3) and is now a negative number.

/1/ For further information on the reserve multiple, see State Dept. of Labor Technical Services Monograph DSCR-7, prepared by the Division of Economic Analysis and Research.

C. Projections of Future Insolvency and Federal Requirements

The Department of Labor projects that under Maine's current law and Federal law changes required to be made by 1985, Trust Fund reserves would decline and result in a deficit balance of (-) $103.1 million by the end of 1990. Federal loans would be needed each year with only the 1984-1985 loans being repaid in time to avoid the new 10% interest rates which were enacted by the Federal government to discourage the frequent interest-free state borrowing that occurred in the 1970's. Interest penalties on the estimated $120.6 million in necessary loans for the 1986-1990 period would be an estimated $36.4 million, and these would be borne by the State's General Fund or direct employer taxation because Federal law does not allow interest charges to be financed from Trust Fund reserves.

The Federal government may impose heavy monetary sanctions if States do not properly discharge their interest liabilities. Maine now has no statutory mechanism for making interest payments which may arise from future Federal loans that are not timely repaid.

Another new Federal requirement aimed at stabilizing the states' Funds is that by 1985 each employer contribution tax rate schedule must have a maximum rate of no lower than 5.4%. Maine's present rate schedules do not meet this standard as the maximum rate ranges from 3.1% to 5.0%.

D. Factors That Brought About This Solvency Crisis

While the Fund's insolvency is obviously the result of outgo exceeding income plus accumulated reserves, it is difficult to determine the exact causes of this situation. The Department of Labor attributes it to several factors affecting both benefit and contribution. /2/

/2/ See State Dept. of Labor Technical Services Monograph DSCR-18, prepared by the Division of Economic Analysis and Research.

1. Contribution Levels

Each employer's state contribution tax is determined by the state's taxable wage base (currently, the first $7,000 of a covered employee's wages are taxable), the employer's experience rating (whether he has laid off few or many covered employees), and the amount of reserves in the Unemployment Compensation Fund (if reserves are low, employers' tax rates increase). These factors are incorporated into the statutory tax tables. (See Appendix B, Chart 10 for an example.)

The employer's total tax rate is a combination of the state contribution tax rate, paid quarterly to the State, and the federal FUTA (Federal Unemployment Tax Act) tax which is paid annually to the federal government. For example:

The state now uses Schedule P because of the Low Fund reserve multiple. Employer X has a good experience rating and a consequently high reserve ratio of 18%. His contribution tax rate is 2.5%. The federal government now assesses a 0.8% FUTA tax. His total tax is:

2.5% state tax
.8% federal FUTA tax

3.3% total tax rate applied against the taxable wage base (the first $7,000 of employee's wages)

In addition, employers now are assessed a federal loan repayment tax to pay off the 1975-1978 loans. This surtax was 0.3% in 1980, 0.6% in 1981, 0.9% in 1982, and 0.6% in 1983 and 1984. This surtax will expire at the end of 1984.

One of the primary factors contributing to insolvency is the failure of taxable wages, on which contributions are levied, to keep up with total wages, on which benefit payments are based. (See Appendix B, Charts 4-6) At the start of the unemployment insurance program in 1938-39, all wages paid were taxable while from 1940-1971 only the first $3,000 in wages paid to each employee were taxable. This taxable wage base was raised to $4,200 in 1972, to $6,000 in 1978, and starting in 1983, an employer pays in contributions based on the first $7,000 paid to each of his employees. Even with these federally-mandated increases, the percentage of payrolls that is taxable is less than 50%, compared to the 70-90% levels experienced up to the 1960's. (See Appendix B, Chart 6)

One factor leading to insolvency in the past has since been remedied by the adoption of the reserve multiple system in 1974. Previously, employer contribution tax rate schedules were determined solely by the absolute dollar amount in the Fund. The reserve multiple system is more responsive because schedules with higher tax rates apply when the reserve multiple drops. For example, the schedule with the highest rates is now in effect because of the insufficient reserves and resulting low multiple.

However, the 1974 changeover did not provide enough time for the new system to build up sufficient reserves for the 1975 recession.

The unemployment insurance (UI) system operates on the experience rating system. The more UI eligible employees the employer lays off, the more benefits are changed against his experience rating and consequently, the higher his contribution tax rates. Ideally, all benefits paid are assessed to an employer, assuring that benefit expenditures stay in balance with contributions and that employers with bad records are held responsible rather than forcing those with good records to subsidize them. However, in actuality, not all benefits are charged to individual employer ratings because it would be inequitable to charge an employer in some cases, such as a discharge for misconduct or voluntary quit. In other cases, benefits are ineffectively charged when assessed against an employer already paying the maximum contribution rate. It is ineffective to charge more benefits to such a negative-balance employer with many lay-offs, whose former employees draw more benefits than the employer contributed in UI taxes, because additional benefits paid do not trigger a corresponding increase in contributions. Noncharged and ineffectively charged benefits make up over 50% of benefits paid, limiting the effectiveness of experience rating and contributing to insolvency.

2. Benefit Levels

The Department of Labor points out that ever since the early 1970's, contributions have not kept pace with the rise in benefits paid. (See Appendix B, Chart 7)

Beginning in 1966, the maximum weekly benefit amount (WBA) was based on the average weekly wage in the State in order to provide a benefit payment that rises if costs in the economy rise, and declines with declining costs. This has provided automatic annual increases in the WBA and maximum benefit amount (MBA). (See Appendix B, Chart 8)

Another benefit cost that has contributed to the Fund's insolvency is the federal extended-benefits (EB) program, established by federal law in 1971. Half of the costs of EB benefits must be financed by the state. No provisions have ever been enacted to raise reserves to finance these extra benefits.

The Department also points out that dependent's allowances increase both regular costs and the State's share of EB costs.

Another factor affecting solvency was the low monetary eligibility requirements previously needed to qualify for benefits. As late as 1975 only $600 in earnings was needed to qualify, though current provisions automatically revise the amount annually and require wages to have been earned equal to or exceeding 2 times the annual average weekly wage in each of 2 different quarters in his base period and total wages equal to or exceeding 6 times the annual average weekly wage in his base

period.

E. Summary

The factors discussed above make it obvious that action is required soon to meet federal requirements and to avert the projected crisis that will render the Fund insolvent and, by 1981, unable to repay Federal loans needed to stay afloat. If current law is not changed, Maine will owe the Federal government $120.6 million by 1990, an intolerable situation.

III. Findings and Recommendations

A. General

1. 3 Year Proposals

The Commission's proposals are expressly oriented toward solving the Fund's immediate financial difficulties, not problems projected years into the future. The members believe it wiser to limit the reach of changes made in revenue-generating mechanisms and benefit calculations because the futher ahead financial projections are made, the more speculative are the facts underlying those projections. In addition, there are many uncontrollable variables affecting the Fund's balance, including the overall economy, unemployment rates, state and national policies, and other bills enacted by the Legislature. These proposals therefore target the years 1985 through 1987. If enacted they will avert the financial crisis projected for the immediate future and avoid large-scale borrowing from the federal government with consequent interest charges.

2. Interest Funding Mechanism

Federal law prohibits financing of interest liabilities on unpaid federal loans from Trust Fund reserves but Maine has no mechanism in place to fund interest payments. The Commission recommends that the Department of Labor introduce a separate bill to reform State law to meet this federal requirement rather than include such a provision in the study legislation which is focussed on solvency of the Trust Fund itself.

B. Report 1

1. Increase Taxable Wage Base

The Commission recommends that Maine join the 25 other states with taxable wage bases greater than the $7,000 federal minimum base. An estimated $17.9 million more in contributions would be generated by increasing the base to $7,400 in 1985, $7,900 in 1986, and $8,500 in 1987 and thereafter. This graduated increase would be more easily borne by employers than a sudden large increase. This increased amount is a realistic reflection of actual wages paid, and thus narrows the gap between the taxable wage base, on which contributions are based, and total wages paid

on which benefits are based. (See proposed statute in Appendix C, sections 1 and 2.)

2. Increase Maximum Contribution Tax Rates for Negative Balance Employers

Former employees of negative balance employers draw more unemployment benefits than the employer contributed in taxes. The current schedules tax all negative balance employers at the same rates, even those with large negative balances. This in effect forces employers with good experience ratings to subsidize those with poor ratings and weakens the incentives provided by the experience rating concept.

The Commission recommends a permanent increase in contribution tax rates for negative balance employers. (See Appendix C, section 3) Graduated step increases would apply as the employer's balance drops to a lower level. For example, an employer with a reserve ratio below 0% now pays a 5% tax rate whether his ratio is -2% or -12%. Under the Commission's proposal, an employer with a -2% ratio would pay taxes at a 5.1% tax rate while one with a -12% ratio would pay at a 7.1% rate.

This accomplishes two goals: (1) Employers with a poor experience record would pay in contributions more likely to cover the costs of benefits paid to their former employees. This is fairer to employers with better experience ratings as well as providing more incentive to negative balance employers to maintain more stable work forces in their businesses. (2) This increase also would bring Maine law into compliance with the federal requirement that by January 1, 1985, all states must raise their maximum unemployment compensation tax rates to at least 5.4% in all schedules. Currently, Maine's maximum rate ranges from 3.1% (Schedule A, when the Fund's reserve multiple is over 2.5) to 5% (Schedule P, when the reserve multiple is under .45% as it is presently). The proposed maximums would range from 5.4% to 7.3%.

3. Enact New "Sliding Scale" Surtax and Allow Current 0.6% Flat Rate Surtax to Lapse

The Commission recommends enactment of a new "sliding scale" surtax equal to 16% of an employer's contribution tax rate. (See Appendix C, section 4.) This would work as follows:

Ex.A) Employer A has a good experience rating (reserve ratio between 18-19%) and therefore pays a low tax rate of 2.5%. His surtax will be 16% of his 2.5% tax rate, or 0.4%. Added together, his total tax rate will equal 2.9%.

Ex.B) Employer B has a poorer experience rating (reserve ratio between 0-1%) and therefore pays a higher tax rate of 4.7%. His surtax will be 16% of his 4.7% tax rate, or 0.752%. Added together, his total tax rate will equal 5.452%.

Initially the Commission considered the possibility of extending the 0.6% federal loan repayment surtax now assessed by the federal government and set to expire at the end of 1984. However, this is a flat rate tax charged to all employers regardless of their experience ratings and the members believe it provides no incentive for employers to maintain stable employment at their workplaces. Employers with high reserve ratios pay the same surtax as do negative balance employers.

Therefore the Commission recommends the "sliding scale" surtax which taxes employers with good reserve ratios at a lower rate than those with poor ratios, thus strengthening the experience rating incentives for stable employment. Employers with reserve ratios of 6.0% or more will pay a lower surtax under this system than under the flat 0.6% surtax, while those with reserve ratios of less than 6.0% will pay more.

This surtax is repealed on January 1, 1988. The extra surtax will not automatically remain on the statute books; a future Legislature would have to re-enact it if they felt the Fund was still in serious jeopardy at that time.

4. Increase Requirements to Requalify for Benefits after Disqualification for Voluntary Quit, Misconduct or Crime

State law disqualifies workers from receiving benefits under certain circumstances when it is believed their conduct renders them undeserving of benefits. However, these employees may requalify by earning a specified amount of wages, thereby proving themselves to again be deserving of benefits if they become unemployed in the future. These penalties vary depending on the type of disqualification.

a. Voluntary Quit. Because the unemployment compensation system is intended to compensate workers involuntarily out of work, an employee who voluntarily leaves his job is not entitled to receive unemployment benefits unless he has "good cause attributable to such employment". If disqualified because there was no good cause for his voluntary quit, an employee must now earn 4 times his weekly unemployment benefit amount to requalify for benefits.

b. Misconduct. An employee discharged for misconduct connected with his work must earn 4 times his weekly benefit amount to requalify.

c. Crime. A worker discharged for conviction of a felony or misdemeanor in connection with his work now remains disqualified until he has earned not less than $400.

The Commission recommends raising the penalties for all three types of disqualification; a claimant would remain disqualified until he has earned 8 times his weekly benefit amount. This has the advantage of uniformity. Also, the employees who thereby shoulder part of the burden of strengthening the Fund are those disqualified for

their own choice of conduct, not those more typical claimants who are unemployed through no fault of their own.

C. Report 2

1. Background on Seasonality Provisions

Under Maine law, procedures are established whereby industries or certain operations of an industry may be defined as seasonal. The overall definition of a "seasonal industry" is an industry which, because of its seasonal nature, customarily operates only during a regularly recurring period or periods of less than 40 weeks in a calendar year.

Designation of an industry as seasonal through a Departmental determination means principally that the payment of benefits to workers unemployed from the industry is restricted. An individual whose wage credits during his base period are all from seasonal work is entitled to benefits only for seasonal unemployment, that is, unemployment during the predetermined "season" when he would normally be performing that kind of labor. If the claimant has no seasonal wages during his base period, there can be no seasonal determination and it is treated like regular unemployment. (Ex: An individual cans blueberries for the first time in 1983, and the plant closes down 2 weeks earlier than the season would normally end. This would be treated as regular unemployment, whereas his co-worker who canned berries last season too would be restricted to treatment under the seasonal unemployment provisions.)

An individual with wage credits from both seasonal and non-seasonal work is treated as follows: The weekly benefit amount is determined on the basis of wages earned from both seasonal and non-seasonal employment. When unemployed during the seasonal period, benefits are payable based on wages earned from both seasonal and non-seasonal employment. However, when unemployed during a non-seasonal period, the weekly benefit amount remains the same but the maximum amount of benefits payable is determined solely on the basis of wages earned from non-seasonal employment.

Thus, the effect of the present restrictions is to make the maximum amount of benefits paid to claimants from seasonal industries less than would be the case if the seasonal provisions were removed. These laws also affect which employer's experience rating is charged for benefits paid. If the season ends and the claimant is paid his benefit, the seasonal employer cannot be charged since it is now outside the seasonal period, so it is charged to the last subject employer for whom the claimant worked more than 5 weeks. However, if the worker is laid off during the season, the last seasonal employer is charged until the end of the seasonal period, even if the employee only worked there for 1 day. (The 5-week requirement does not apply.) At the end of the season, the regular laws come into effect and the last subject employer for whom the employee worked more than 5 weeks is charged.

The Treatment of Seasonal Unemployment Under Unemployment Insurance, the only definitive study of seasonality laws, was written by Merrill Murray in 1972. Murray makes the following arguments for and against special seasonality provisions:

a. Arguments for Seasonality

- Unemployment at the season's end is generally highly predictable and not truly involuntary. If a worker wishes to avoid this unemployment, he can choose to stay out of seasonal work.

- The high predictability of seasonal unemployment removes the element of uncertainty inherent in the concept of insurance.

- Employers with good experience ratings would otherwise be forced to subsidize seasonal workers. Restrictions prevent unfair subsidy.

- Benefit restrictions effectively prevent abuse of the UI system by workers who do not make a real effort to find other work.

b. Arguments Against Seasonality

- Provisions restricting benefits are inequitable.

- The provisions are complicated to administer.

- Benefit cost savings are small relative to the administrative costs of enforcing provisions.

Murray recommends repeal of all seasonality laws, believing that employer and employee abuses can be curbed by other provisions that are better at screening claimants and minimizing costs without the inequities and administrative costs cited above. Between 1936 and 1945, 33 states enacted some form of seasonality provision but 23 states have repealed their provisions, while only 10 continue to administer them. A survey of seven of these 23 states done by the Washington Senate Committee Services Staff revealed that the primary reasons for repeal were the additional administrative burden, the fact that few eligible employers choose this option, the inequities involved and that other statutory provisions exist to deal with many of the problems that seasonality provisions were meant to eliminate.

2. Recommendation: Repeal Seasonality Provisions

The commission recommends that Maine's seasonality provisions be completely repealed. This recommendation is based on the same reasoning that led two-thirds of those states with seasonality laws to repeal them. These reasons include:

a. Seasonal provisions are inequitable and cause arbitrary,

artificial discrimination among industries and employers. It is unfair to single out certain industries as seasonal, allowing them to improve their experience ratings and lessen their tax rates, when many employers in other industries also close down for part of the year and their workers are eligible for benefits with no seasonal restrictions. Many workers who find only seasonal employment would like to get other employment during the off-season but cannot due to lack of alternative employment in their area. If they cannot find other work they should be entitled to benefits, for their unemployment is not truly voluntary. The real test of whether unemployment should be compensated is not whether it is unpredictable, but whether it is involuntary.

b. Other existing provisions in the law adequately protect against abuses by seasonal workers. The law already contains qualifying requirements that the claimant must have served a waiting period of one week of unemployment and must have earned wages equal to or exceeding 2 times the annual average weekly wage in each of 2 different quarters in his base period and total wages equal to or exceeding 6 times the annual average weekly wage in his base period. In addition, the statutes contain work search requirements. The claimant must register at an employment office and continue to report there each week, plus he must be able and available for work and actively seeking work. These requirements insure that claimants have sufficient attachment to the workforce to be entitled to full coverage.

c. Seasonal provisions are complicated to administer. First, there must be a determination that an employer is seasonal and a determination of the length of his season. Next is the problem of distinguishing between those workers for a seasonal employer who are seasonal workers and those who are available for work the year round. It is also cumbersome to distinguish between workers who work only for a seasonal employer and those who also have some nonseasonal employment during the year. The difficulty and expense of administration further support the Commission's recommendation to repeal the provision.

3. Recommendation: Freeze Maximum Weekly Benefit Amount During Calendar Years 1985 and 1986

The Commission's proposed legislation freezes the maximum weekly benefit amount during calendar years 1985 and 1986 at the level in effect on December 31, 1984. Currently, the maximum is determined every June 1st as 52% of the annual average weekly wage during the previous calendar year. Due to inflation, this leads to an automatic increase in the maximum WBA each year. This freeze is projected to save $4.7 million in benefits paid out of the Unemployment Compensation Fund over the 2 year period. The normal method of calculation will resume in 1987.

sjh-111

APPROVED
JUN 30 '83
BY GOVERNOR

CHAPTER
46
P & S LAW

STATE OE MAINE

IN THE YEAR OF OUR LORD
NINETEEN HUNDRED AND EIGHTY-THREE

H.P. 1174 - L.D. 1561

AN ACT to Protect the Integrity of the Unemployment Compensation Fund.

Emergency preamble. Whereas, Acts of the Legislature do not become effective until 90 days after adjournment unless enacted as emergencies; and

Whereas, Maine's Unemployment Compensation Fund is presently in serious financial trouble; and

Whereas, the Federal Government has placed interest charges and other stringent standards on state borrowing to discourage reliance on federal loans to rescue state unemployment funds; and

Whereas, the Department of Labor's long-range projections indicate that by fiscal year 1987-88 the fund may again be in difficult enough circumstances to require another large federal loan of the magnitude of the debt incurred in the 1974-75 recession, which has still not been fully repaid; and

Whereas, unemployment benefits are of critical importance to the Maine workers and the health of the unemployment system directly affects the state's economy; and

Whereas, the seriousness and persistence of these concerns make it vitally important to deal with this problem directly and comprehensively; and

Whereas, in the judgment of the Legislature, these facts create an emergency within the meaning of

the Constitution of Maine and require the following legislation as immediately necessary for the preservation of the public peace, health and safety; now, therefore,

Be it enacted by the People of the State of Maine as follows:

Sec. 1. Commission established. There is created an Unemployment Compensation Fund Study Commission for the purpose of studying the fiscal integrity of the Unemployment Compensation Fund.

Sec. 2. Staff and assistance. The Department of Labor shall provide research, clerical and computer assistance to the commission and give unrestricted access to its records, rules, policies and data, except for those items which the department is legally obligated to keep confidential. The Office of Legislative Assistants shall provide further assistance to the commission.

Sec. 3. Membership. The commission shall have 9 members, as follows:

1. Three members of the Legislature, including one Senator and 2 Representatives;

2. Two members representing organized labor;

3. Two members representing the business community;

4. One member familiar with administration of the Unemployment Compensation Fund; and

5. One member representing the general public.

Sec. 4. Appointment. The members of the commission shall be appointed by the Speaker of the House of Representatives and the President of the Senate.

Sec. 5. Duties. The commission shall inquire into the fiscal integrity of the Unemployment Compensation Fund, including, but not limited to, the following areas of inquiry:

1. The financial condition of the fund from both short-term and long-range perspectives in order to adequately fund unemployment benefits and avoid the need to borrow money from the Federal Government;

2. The amount and type of employer contributions, the standards used in determining who will receive benefits and the method used to collect them;

3. The amount and type of employee unemployment benefits, the standards used in determining who will receive benefits and the method of payment;

4. Possible changes to the seasonal unemployment provisions of the law;

5. The efficiency of program operations, adequacy of staffing and improvements in utilization of resources that are possible while remaining in compliance with federal law; and

6. Methods used successfully in other states's unemployment programs that could improve this state's system.

Sec. 6. Reports. The commission shall present its findings, together with any suggested legislation, to the Second Regular Session of the 111th Legislature.

Sec. 7. Appropriation. The members shall serve without pay, but the following funds shall be appropriated from the General Fund to reimburse members for reasonable and necessary travel and other expenses and to cover the per diem expenses of the Legislators. Any unexpended balance shall not lapse, but may remain a continuing carrying account until the purpose of this Act has been accomplished.

1983-84

UNEMPLOYMENT COMPENSATION FUND
STUDY COMMISSION

All Other	$2,000

Emergency clause. In view of the emergency

cited in the preamble, this Act shall take effect when approved.

In House of Representatives, ... 1983

Read twice and passed to be enacted.

..... Speaker

In Senate, ... 1983

Read twice and passed to be enacted.

..... President

Approved 1983

..... Governor

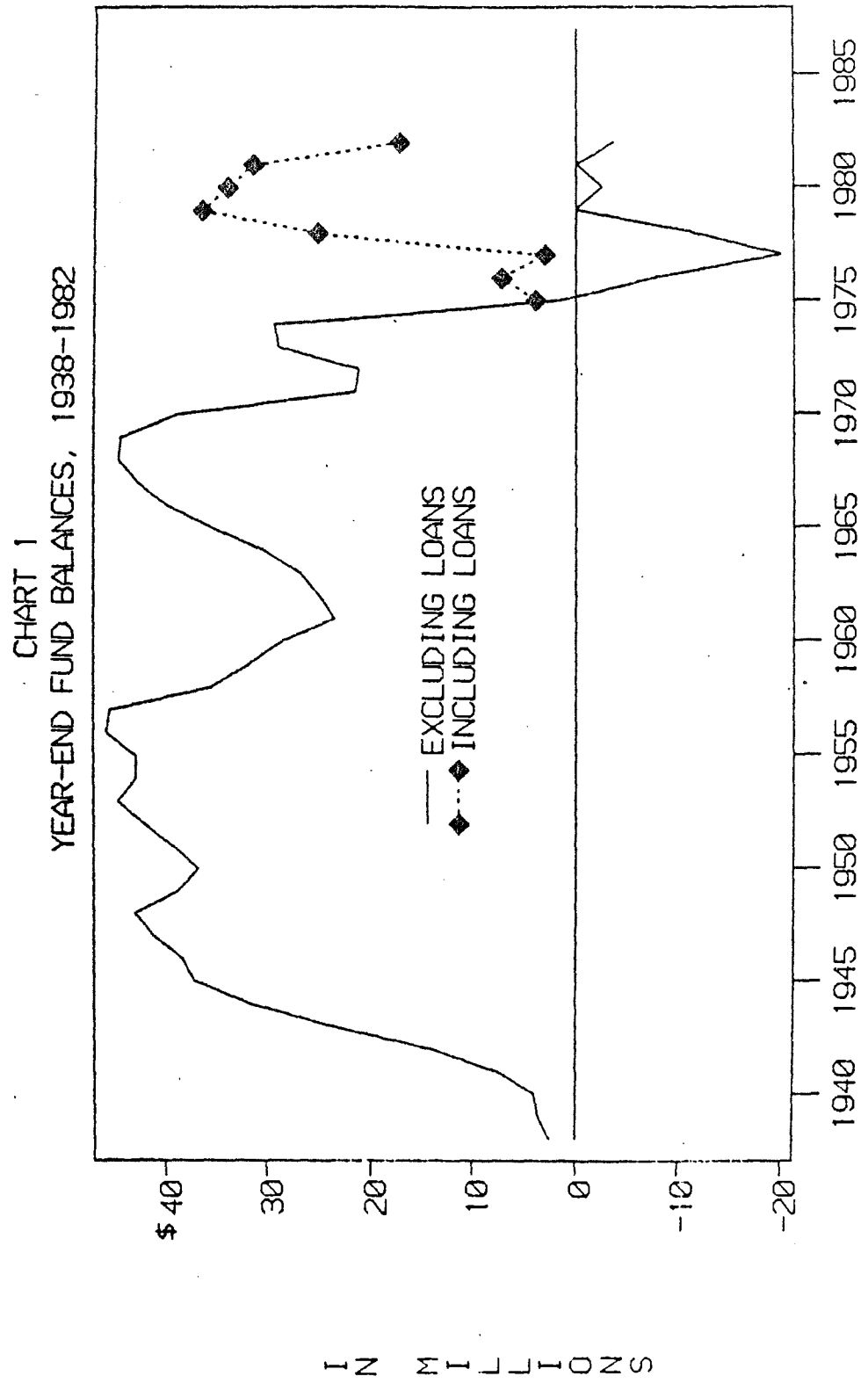


CHART 1
YEAR-END FUND BALANCES, 1938-1982
EXCLUDING LOANS
INCLUDING LOANS
$ 40
30
20
10
0
-10
-20
1940
1945
1950
1955
1960
1965
1970
1975
1980
1985
IN MILLIONS

TRUST FUND RESERVES ÷ Total Wages of Contributing Employers = TRUST FUND RESERVES Measured as % of Total Wages
For that Year

CHART 2
NET FUND BALANCE AS A PERCENT OF TOTAL WAGES, 1938-1982

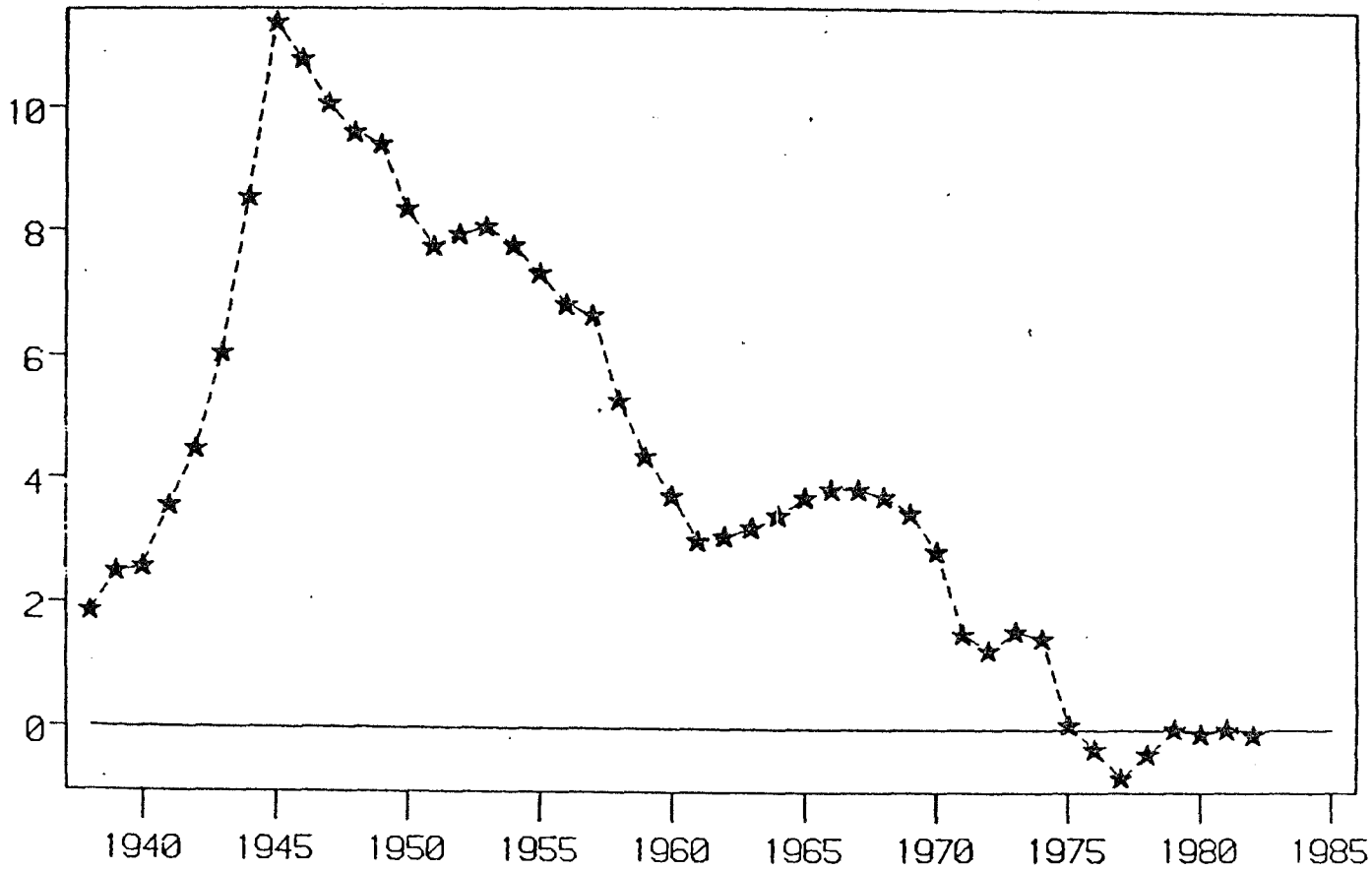
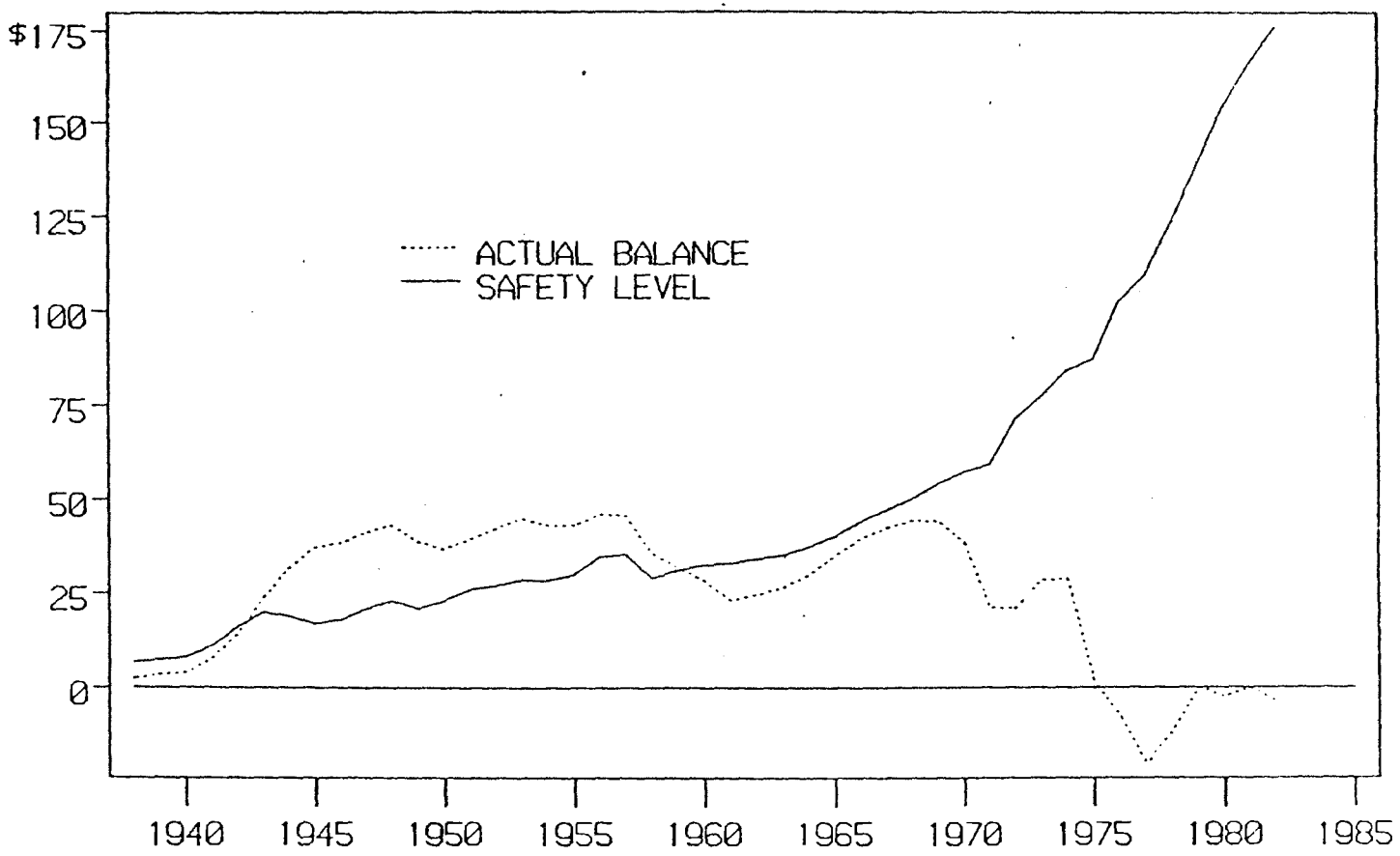


CHART 3

FUND BALANCES: ACTUAL AND MINIMUM SAFETY LEVEL, 1938-1982



NOTE: Actual balances exclude loans received.

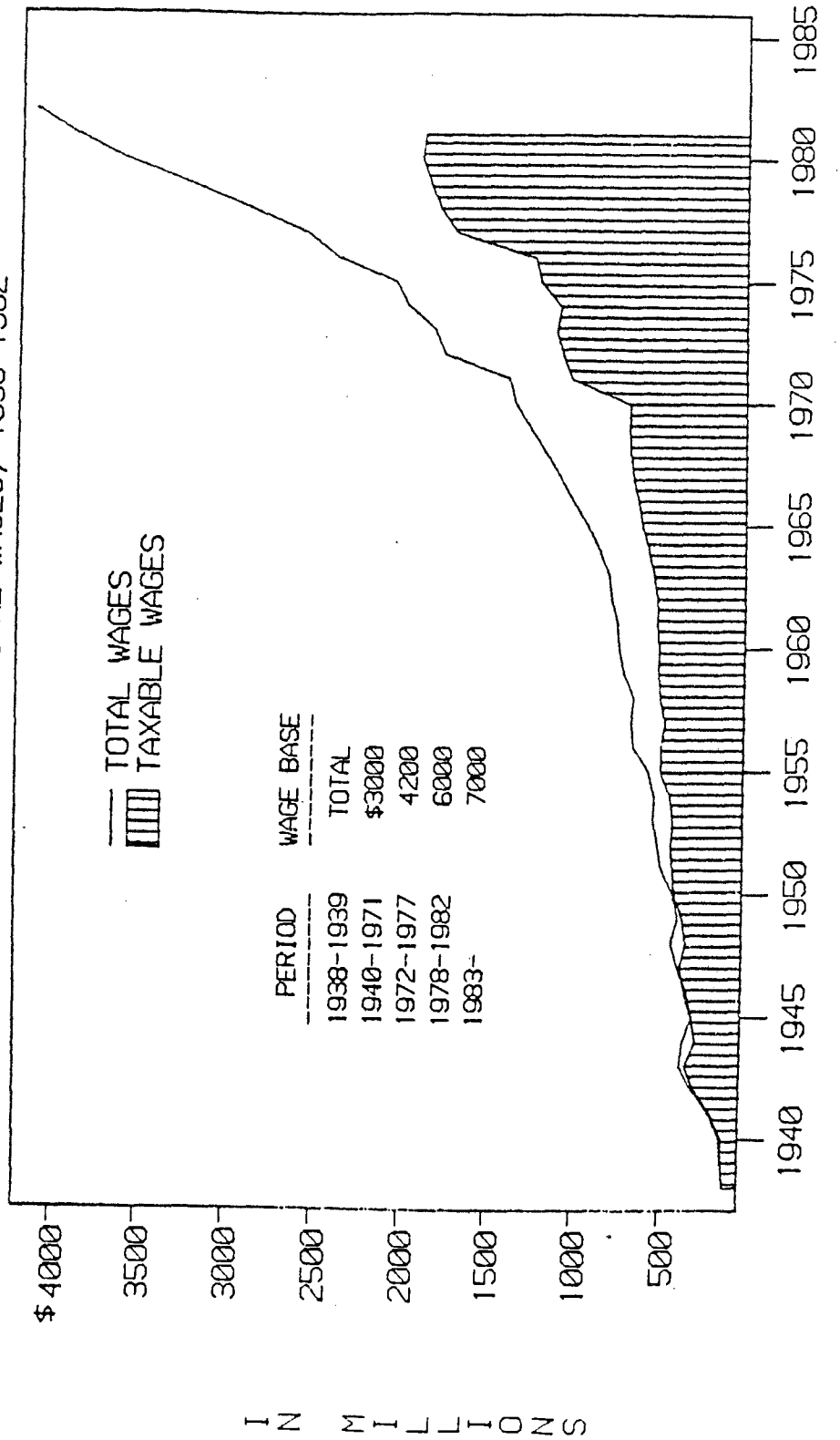
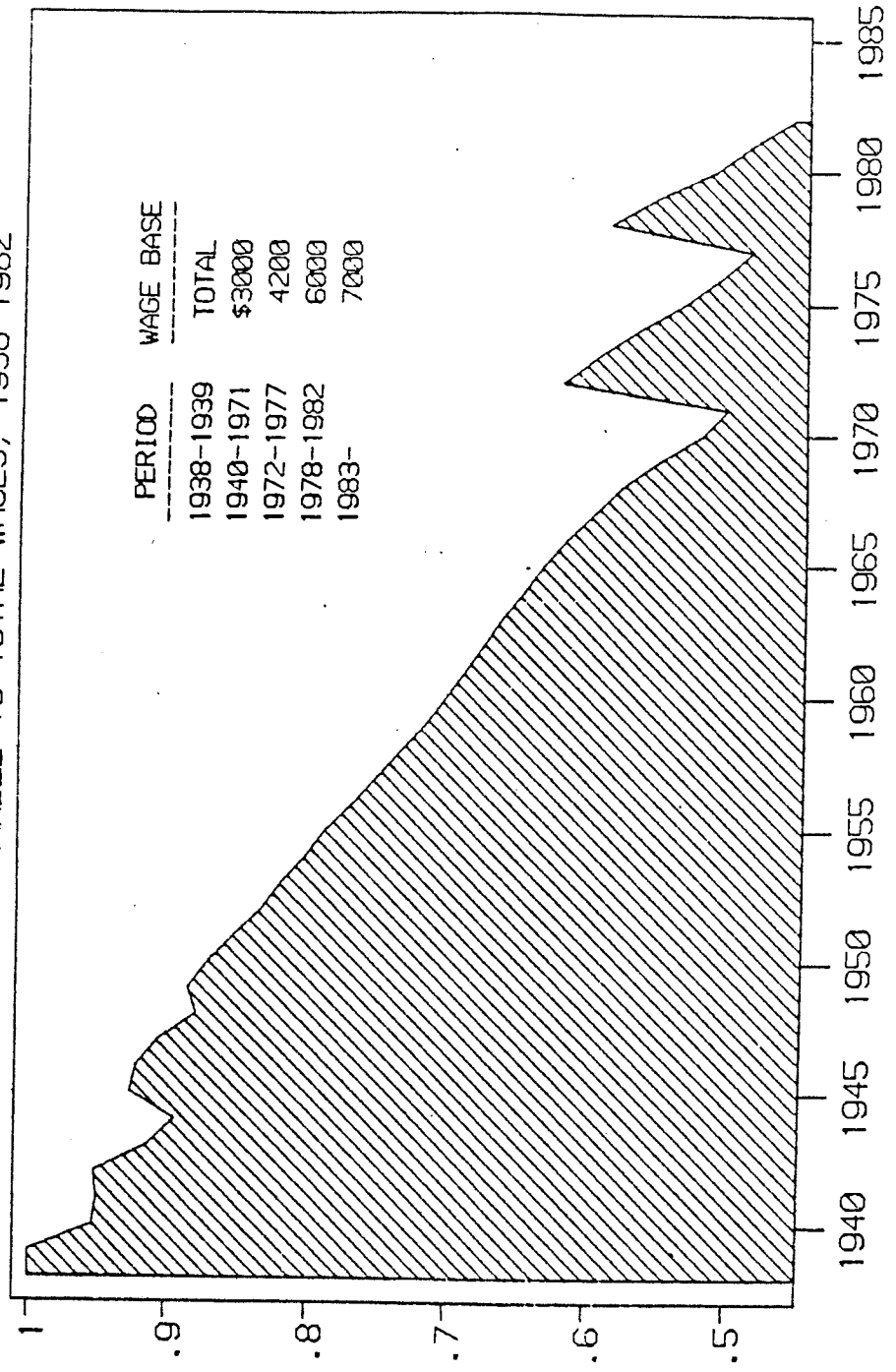


CHART 4
TAXABLE AND TOTAL WAGES, 1938-1982
TOTAL WAGES
TAXABLE WAGES
PERIOD
WAGE BASE
1938-1939
TOTAL
1940-1971
$3000
1972-1977
4200
1978-1982
6000
1983-
7000
$4000
3500
3000
2500
2000
1500
1000
500
IN MILLIONS
1940
1945
1950
1955
1960
1965
1970
1975
1980
1985

CHART 5

RATIO OF TAXABLE TO TOTAL WAGES, 1938-1982

PERIOD	WAGE BASE
1938-1939	TOTAL
1940-1971	$3000
1972-1977	4200
1978-1982	6000
1983-	7000



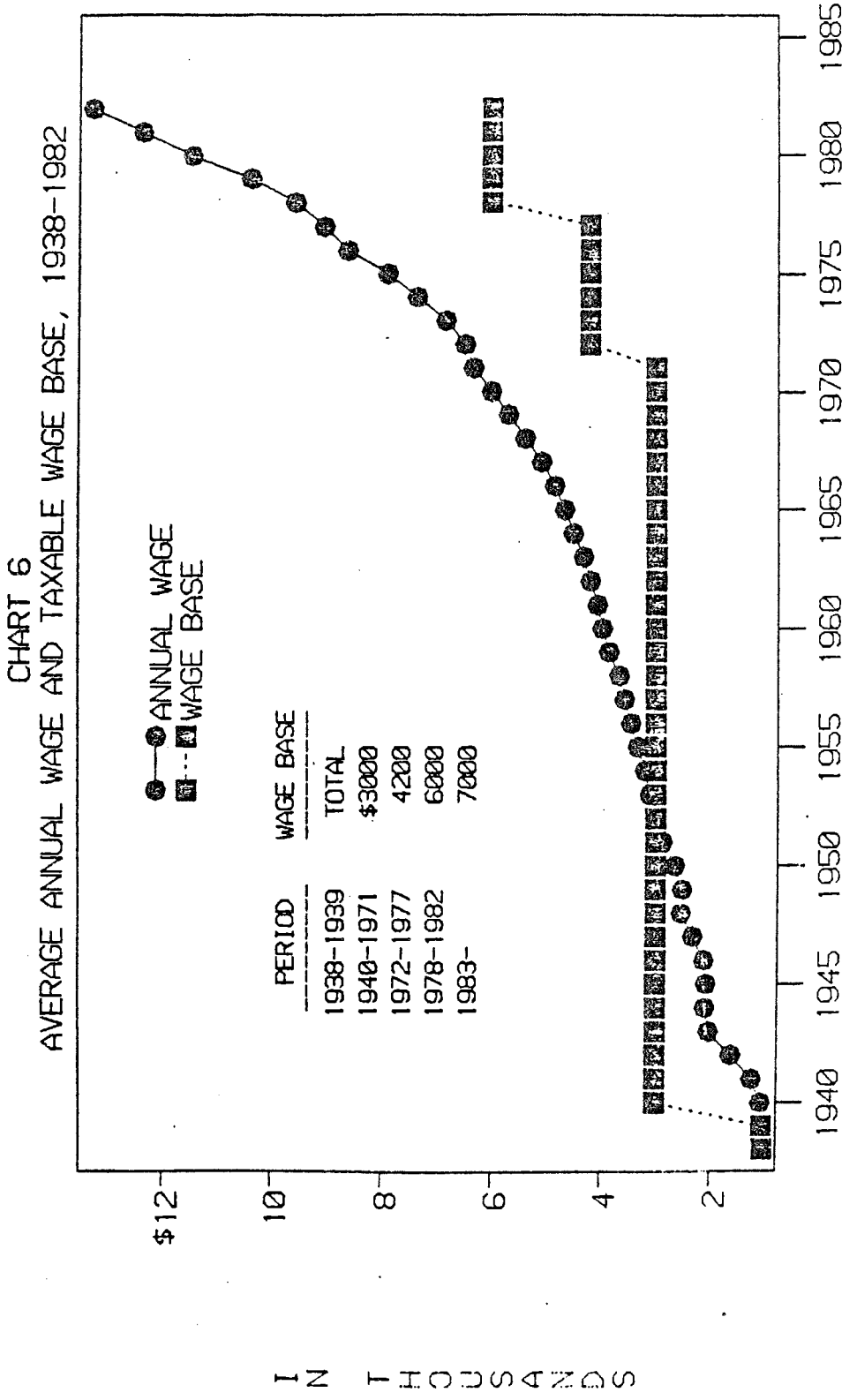
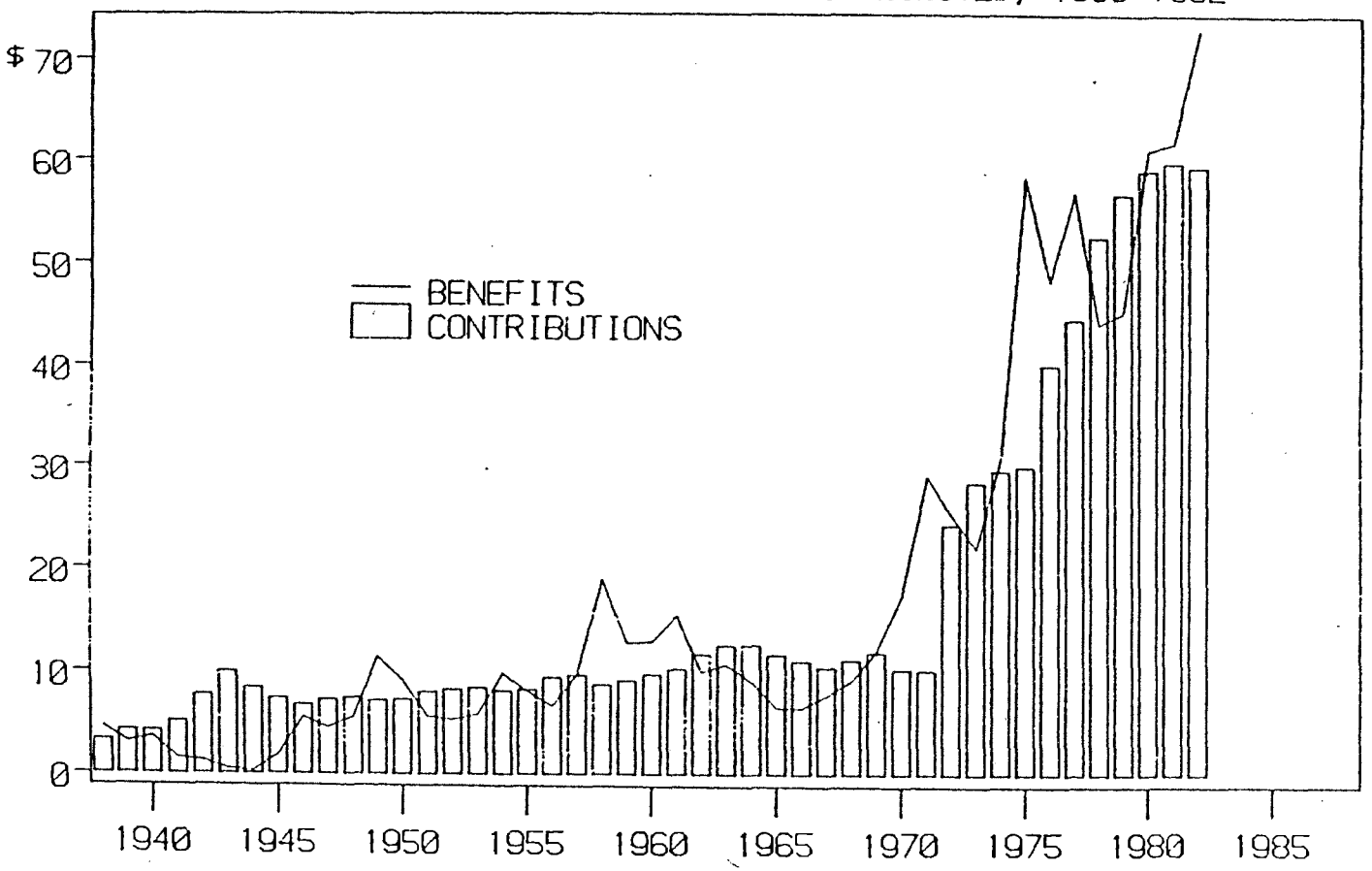


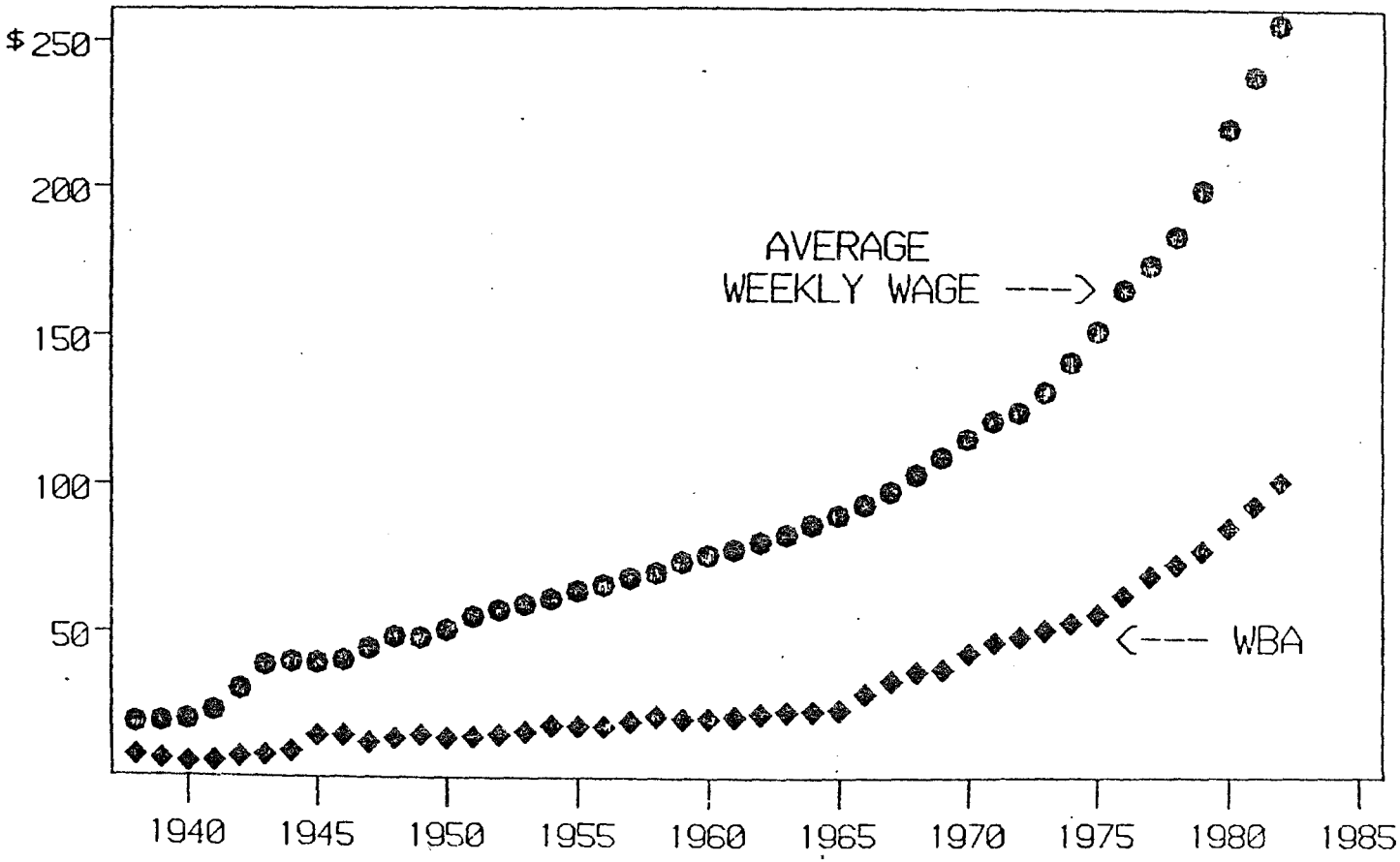
CHART 6
AVERAGE ANNUAL WAGE AND TAXABLE WAGE BASE, 1938-1982
ANNUAL WAGE
WAGE BASE
PERIOD
WAGE BASE
1938-1939
TOTAL
1940-1971
$3000
1972-1977
4200
1978-1982
6000
1983-
7000
$12
10
8
6
4
2
1940
1945
1950
1955
1960
1965
1970
1975
1980
1985
IN THOUSANDS

CHART 7
BENEFITS PAID AND CONTRIBUTIONS RECEIVED, 1938-1982



NOTE: Benefits paid includes State share of extended benefits.
Contributions received includes interest earnings.

CHART 8
AVERAGE WBA AND AVERAGE WEEKLY WAGE, 1938-1982



NOTE: Weekly Benefit Amount (WBA) refers to total unemployment and includes dependency allowances beginning in 1976.

MAINE DEPARTMENT OF
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Division of Economic Analysis and Research

RESERVE MULTIPLE

Trust Funds are usually analyzed in terms of their ability to meet future benefit costs. The reserve multiple provides a means of statistically gauging this ability by comparing a Trust Fund's capacity to meet its future benefit costs against some measure of past liabilities.

In making this comparison, the reserve multiple utilizes two measures: (1) the reserve ratio and (2) the highest benefit cost rate for a prior period.

The reserve ratio is determined by dividing the year-end Trust Fund reserves by total wages of contributing employers for that year.

The highest benefit cost rate for a prior period is usually defined as benefit costs (regular and state share of extended benefits, excluding direct reimbursable) for a 12-month period divided by total wages of contributing employers for that same period.

Expressed mathematically, the reserve multiple takes the following form:

$$\text{Reserve Multiple} = \frac{\text{Reserve Ratio}}{\text{Highest Benefit Cost Rate}}$$

The reserve multiple calculations are based on the premise that total wages provide the most stable measure of Trust Fund adequacy. The use of total wages has been found to be actuarially sound as it inherently adjusts for changes in employment growth and wage inflation over time.

A severe spell of unemployment usually is not confined to a single 12-month period but typically extends 18 months or more. On average, the cost of such a period of unemployment is approximately one and one-half to two times the cost of the 12 consecutive months in which benefit payments have been the highest. This, then, is commonly referred to as the 1.5 reserve multiple and is the minimum recommended Trust Fund reserve a state should have at the onset of a recession. Trust Fund reserves, expressed as a percentage of total wages, are considered inadequate if they are less than 1.5 times the highest benefit cost rate experienced during a 12-month period.

To demonstrate how this would apply using Maine data for 1982, consider the following two-part example. First, the actual reserve multiple is calculated to measure Trust Fund adequacy. Second, the recommended minimum level of Trust Fund reserves is determined based on the highest previous benefit cost rate.

$$\text{1982 Reserve Multiple} = \frac{\text{(December 31, 1982 Trust Fund)/(Total Wages for 1982)}}{\text{(Highest Benefit Costs for 12-month Period*)/(Total Wages for Same Period*)}}$$

$$= \frac{(\$-3,763,573)/(\$4,131,054,808)}{(\$58,330,903)/(\$2,055,161,391)}$$

$$= -.03$$

Thus, the actual reserve multiple of (-).03 for 1982 is considerably below the recommended minimum level of 1.5 which indicates that the 1982 Trust Fund reserves are inadequate according to U.S. Department of Labor standards.

Using the 1.5 reserve multiple concept, the 1982 minimum reserve for Maine's Trust Fund can be determined as follows:

$$\text{1982 Minimum Trust Fund Reserve} = 1.5 \times (\text{Highest Benefit Cost Rate*}) \times (\text{1982 Total Wages})$$

$$= 1.5 \times (.0284)\ (\$4,131,054,808)$$

$$= \$176,000,000$$

*Calendar year 1975 is the highest benefit cost rate for a 12-month period.

APPENDIX B, CHART 10
(Table from Title 26, §1221)

The Unemployment Fund's Reserve Multiple is a measure of its ability to meet future liabilities based on past records. (See part II-B of this report for explanation.) As reserves drop, employer tax rates increase. Currently the Fund has a reserve multiple under .45, so employers are charged the maximum rates in Schedule P.

The Employer Reserve Ratio indicates an employer's experience rating - the more stable the employment at his work place, the better his experience rating. For each employer, benefits paid to his laid-off employees are subtracted from his unemployment contributions, then divided by his 3 year average annual taxable payroll to obtain his reserve ratio.

EMPLOYER'S CONTRIBUTION RATE IN PERCENT OF WAGES

Employer Reserve Ratio Equal to or more than	Less than	When Reserve Multiple is: over 2.50	2.37-2.50	2.23-2.36	2.09-2.22	1.95-2.08	1.81-1.94	1.67-1.80	1.53-1.66	1.39-1.52	1.25-1.38	1.11-1.24	.97-1.10	.83-.96	.68-.82	.45-.67	under .45
Column A		Schedules A	B	C	D	E	F	G	H	I	J	K	L	M	N	O	* P
19.0%	and over	0.5%	0.8%	0.7%	0.8%	0.9%	1.0%	1.1%	1.2%	1.3%	1.4%	1.5%	1.6%	1.7%	1.8%	1.9%	2.4%
18.0%	19.0%	0.6%	0.7%	0.8%	0.9%	1.0%	1.1%	1.2%	1.3%	1.4%	1.5%	1.6%	1.7%	1.8%	1.9%	2.0%	2.5%
17.0%	18.0%	0.7%	0.8%	0.9%	1.0%	1.1%	1.2%	1.3%	1.4%	1.5%	1.6%	1.7%	1.8%	1.9%	2.0%	2.1%	2.6%
16.0%	17.0%	0.8%	0.9%	1.0%	1.1%	1.2%	1.3%	1.4%	1.5%	1.6%	1.7%	1.8%	1.9%	2.0%	2.1%	2.2%	2.7%
15.0%	16.0%	0.9%	1.0%	1.1%	1.2%	1.3%	1.4%	1.5%	1.6%	1.7%	1.8%	1.9%	2.0%	2.1%	2.2%	2.3%	2.8%
14.0%	15.0%	1.0%	1.1%	1.2%	1.3%	1.4%	1.5%	1.6%	1.7%	1.8%	1.9%	2.0%	2.1%	2.2%	2.3%	2.4%	2.9%
13.0%	14.0%	1.1%	1.2%	1.3%	1.4%	1.5%	1.6%	1.7%	1.8%	1.9%	2.0%	2.1%	2.2%	2.3%	2.4%	2.5%	3.0%
12.0%	13.0%	1.2%	1.3%	1.4%	1.5%	1.6%	1.7%	1.8%	1.9%	2.0%	2.1%	2.2%	2.3%	2.4%	2.5%	2.6%	3.1%
11.0%	12.0%	1.3%	1.4%	1.5%	1.6%	1.7%	1.8%	1.9%	2.0%	2.1%	2.2%	2.3%	2.4%	2.5%	2.6%	2.7%	3.2%
10.0%	11.0%	1.4%	1.5%	1.6%	1.7%	1.8%	1.9%	2.0%	2.1%	2.2%	2.3%	2.4%	2.5%	2.6%	2.7%	2.8%	3.3%
9.0%	10.0%	1.5%	1.6%	1.7%	1.8%	1.9%	2.0%	2.1%	2.2%	2.3%	2.4%	2.5%	2.6%	2.7%	2.8%	2.9%	3.4%
8.0%	9.0%	1.6%	1.7%	1.8%	1.9%	2.0%	2.1%	2.2%	2.3%	2.4%	2.5%	2.6%	2.7%	2.8%	2.9%	3.0%	3.5%
7.0%	8.0%	1.7%	1.8%	1.9%	2.0%	2.1%	2.2%	2.3%	2.4%	2.5%	2.6%	2.7%	2.8%	2.9%	3.0%	3.1%	3.6%
6.0%	7.0%	1.8%	1.9%	2.0%	2.1%	2.2%	2.3%	2.4%	2.5%	2.6%	2.7%	2.8%	2.9%	3.0%	3.1%	3.2%	3.7%
5.0%	6.0%	1.9%	2.0%	2.1%	2.2%	2.3%	2.4%	2.5%	2.6%	2.7%	2.8%	2.9%	3.0%	3.1%	3.2%	3.3%	3.8%
4.0%	5.0%	2.0%	2.1%	2.2%	2.3%	2.4%	2.5%	2.6%	2.7%	2.8%	2.9%	3.0%	3.1%	3.2%	3.3%	3.4%	3.9%
3.0%	4.0%	2.2%	2.3%	2.4%	2.5%	2.6%	2.7%	2.8%	2.9%	3.0%	3.1%	3.2%	3.3%	3.4%	3.5%	3.6%	4.1%
2.0%	3.0%	2.4%	2.5%	2.6%	2.7%	2.8%	2.9%	3.0%	3.1%	3.2%	3.3%	3.4%	3.5%	3.6%	3.7%	3.8%	4.3%
1.0%	2.0%	2.6%	2.7%	2.8%	2.9%	3.0%	3.1%	3.2%	3.3%	3.4%	3.5%	3.6%	3.7%	3.8%	3.9%	4.0%	4.5%
0%	1.0%	2.8%	2.9%	3.0%	3.1%	3.2%	3.3%	3.4%	3.5%	3.6%	3.7%	3.8%	3.9%	4.0%	4.1%	4.2%	4.7%
Negative balance		3.1%	3.2%	3.3%	3.4%	3.5%	3.6%	3.7%	3.8%	3.9%	4.0%	4.1%	4.2%	4.3%	4.4%	4.5%	5.0%

19.0% reflects an employer with a good experience rating (few layoffs and few unemployment benefits charged against his account). His tax rate is 2.4%, the lowest rate in Schedule P.

Negative balance employers are at the other extreme, with many layoffs and whose former employees draw more benefits than the employer contributed in taxes. His tax rate is 5.0%, the highest rate in Schedule P.

BILL #1

"AN ACT to Provide for Financial Solvency in the Unemployment Compensation Fund."

Be it enacted by the People of the State of Maine, as follows:

Sec. 1. 26 MRSA §1043, sub-§2, is amended as follows:

2. Annual payroll. "Annual payroll" means the total amount of wages paid by an employer during a calendar year, not meaning, however, to include that part of individual wages or salaries in excess of $3,000 in any calendar year through 1971, $4,200 in any calendar year through 1977, $6,000 in any calendar year through 1982, ~~and~~ $7,000 in any ~~subsequent~~ calendar year through 1984, $7,400 in 1985, $7,900 in 1986, and $8,500 in any subsequent calendar year.

Sec. 2. 26 MRSA §1043, sub-§19, paragraph A is amended to read:

A. For purposes of section 1221, the term "wages" shall not include that part of remuneration which after remuneration equal to $3,000 through December 31, 1971, $4,200 through December 31, 1977, $6,000 through December 31, 1982, ~~and on and after January 1, 1983, that part of remuneration equal to~~ $7,000 through December 31, 1984, $7,400 through December 31, 1985, $7,900 through December 31, 1986, and on and after January 1, 1987, that part of remuneration equal to $8,500 has been paid in a calendar year to an individual by an employer or his predecessor with respect to employment during any calendar year, is paid to the individual by the employer during that calendar year, unless that part of the remuneration is subject to a tax under a federal law imposing a tax against which credit may be taken for contributions required to be paid into a state unemployment fund. The wages of an individual for employment with an employer shall be subject to this exception whether earned in this State or any other state when the employer-employee relationship is between the same legal entities;

Sec. 3. 16 MRSA §1221, sub-§4, paragraph B-(Table "Employer's Contribution Rate in Percent of Wages") is amended as follows:

EMPLOYER'S CONTRIBUTION RATE IN PERCENT OF WAGES

Employer Reserve Ratio Equal to or Less than		When Reserve Multiple Is: over 2.50	2.37- 2.50	2.23- 2.36	2.09- 2.22	1.95- 2.08	1.81- 1.94	1.67- 1.80	1.53- 1.66	1.39- 1.52	1.25- 1.38	1.11- 1.24	.97- 1.10	.83- .96	.68- .82	.45- .67	under .45
Column A		Schedules A	B	C	D	E	F	G	H	I	J	K	L	M	N	O	P
19.0% and over		0.5%	0.6%	0.7%	0.8%	0.9%	1.0%	1.1%	1.2%	1.3%	1.4%	1.5%	1.6%	1.7%	1.8%	1.9%	2.4%
18.0%	19.0%	0.6%	0.7%	0.8%	0.9%	1.0%	1.1%	1.2%	1.3%	1.4%	1.5%	1.6%	1.7%	1.8%	1.9%	2.0%	2.5%
17.0%	18.0%	0.7%	0.8%	0.9%	1.0%	1.1%	1.2%	1.3%	1.4%	1.5%	1.6%	1.7%	1.8%	1.9%	2.0%	2.1%	2.6%
16.0%	17.0%	0.8%	0.9%	1.0%	1.1%	1.2%	1.3%	1.4%	1.5%	1.6%	1.7%	1.8%	1.9%	2.0%	2.1%	2.2%	2.7%
15.0%	16.0%	0.9%	1.0%	1.1%	1.2%	1.3%	1.4%	1.5%	1.6%	1.7%	1.8%	1.9%	2.0%	2.1%	2.2%	2.3%	2.8%
14.0%	15.0%	1.0%	1.1%	1.2%	1.3%	1.4%	1.5%	1.6%	1.7%	1.8%	1.9%	2.0%	2.1%	2.2%	2.3%	2.4%	2.9%
13.0%	14.0%	1.1%	1.2%	1.3%	1.4%	1.5%	1.6%	1.7%	1.8%	1.9%	2.0%	2.1%	2.2%	2.3%	2.4%	2.5%	3.0%
12.0%	13.0%	1.2%	1.3%	1.4%	1.5%	1.6%	1.7%	1.8%	1.9%	2.0%	2.1%	2.2%	2.3%	2.4%	2.5%	2.6%	3.1%
11.0%	12.0%	1.3%	1.4%	1.5%	1.6%	1.7%	1.8%	1.9%	2.0%	2.1%	2.2%	2.3%	2.4%	2.5%	2.6%	2.7%	3.2%
10.0%	11.0%	1.4%	1.5%	1.6%	1.7%	1.8%	1.9%	2.0%	2.1%	2.2%	2.3%	2.4%	2.5%	2.6%	2.7%	2.8%	3.3%
9.0%	10.0%	1.5%	1.6%	1.7%	1.8%	1.9%	2.0%	2.1%	2.2%	2.3%	2.4%	2.5%	2.6%	2.7%	2.8%	2.9%	3.4%
8.0%	9.0%	1.6%	1.7%	1.8%	1.9%	2.0%	2.1%	2.2%	2.3%	2.4%	2.5%	2.6%	2.7%	2.8%	2.9%	3.0%	3.5%
7.0%	8.0%	1.7%	1.8%	1.9%	2.0%	2.1%	2.2%	2.3%	2.4%	2.5%	2.6%	2.7%	2.8%	2.9%	3.0%	3.1%	3.6%
6.0%	7.0%	1.8%	1.9%	2.0%	2.1%	2.2%	2.3%	2.4%	2.5%	2.6%	2.7%	2.8%	2.9%	3.0%	3.1%	3.2%	3.7%
5.0%	6.0%	1.9%	2.0%	2.1%	2.2%	2.3%	2.4%	2.5%	2.6%	2.7%	2.8%	2.9%	3.0%	3.1%	3.2%	3.3%	3.8%
4.0%	5.0%	2.0%	2.1%	2.2%	2.3%	2.4%	2.5%	2.6%	2.7%	2.8%	2.9%	3.0%	3.1%	3.2%	3.3%	3.4%	3.9%
3.0%	4.0%	2.2%	2.3%	2.4%	2.5%	2.6%	2.7%	2.8%	2.9%	3.0%	3.1%	3.2%	3.3%	3.4%	3.5%	3.6%	4.1%
2.0%	3.0%	2.4%	2.5%	2.6%	2.7%	2.8%	2.9%	3.0%	3.1%	3.2%	3.3%	3.4%	3.5%	3.6%	3.7%	3.8%	4.3%
1.0%	2.0%	2.6%	2.7%	2.8%	2.9%	3.0%	3.1%	3.2%	3.3%	3.4%	3.5%	3.6%	3.7%	3.8%	3.9%	4.0%	4.5%
0%	1.0%	2.8%	2.9%	3.0%	3.1%	3.2%	3.3%	3.4%	3.5%	3.6%	3.7%	3.8%	3.9%	4.0%	4.1%	4.2%	4.7%
~~Negative balance~~		~~3.1%~~	~~3.2%~~	~~3.3%~~	~~3.4%~~	~~3.5%~~	~~3.6%~~	~~3.7%~~	~~3.8%~~	~~3.9%~~	~~4.0%~~	~~4.1%~~	~~4.2%~~	~~4.3%~~	~~4.4%~~	~~4.5%~~	5.0%
-1.0%	.0%	3.0%	3.1%	3.2%	3.3%	3.4%	3.5%	3.6%	3.7%	3.8%	3.9%	4.0%	4.1%	4.2%	4.3%	4.4%	4.9%
-2.0%	-1.0%	3.2%	3.3%	3.4%	3.5%	3.6%	3.7%	3.8%	3.9%	4.0%	4.1%	4.2%	4.3%	4.4%	4.5%	4.6%	5.1%
-3.0%	-2.0%	3.4%	3.5%	3.6%	3.7%	3.8%	3.9%	4.0%	4.1%	4.2%	4.3%	4.4%	4.5%	4.6%	4.7%	4.8%	5.3%
-4.0%	-3.0%	3.6%	3.7%	3.8%	3.9%	4.0%	4.1%	4.2%	4.3%	4.4%	4.5%	4.6%	4.7%	4.8%	4.9%	5.0%	5.5%
-5.0%	-4.0%	3.8%	3.9%	4.0%	4.1%	4.2%	4.3%	4.4%	4.5%	4.6%	4.7%	4.8%	4.9%	5.0%	5.1%	5.2%	5.7%
-6.0%	-5.0%	4.0%	4.1%	4.2%	4.3%	4.4%	4.5%	4.6%	4.7%	4.8%	4.9%	5.0%	5.1%	5.2%	5.3%	5.4%	5.9%
-7.0%	-6.0%	4.2%	4.3%	4.4%	4.5%	4.6%	4.7%	4.8%	4.9%	5.0%	5.1%	5.2%	5.3%	5.4%	5.5%	5.6%	6.1%
-8.0%	-7.0%	4.4%	4.5%	4.6%	4.7%	4.8%	4.9%	5.0%	5.1%	5.2%	5.3%	5.4%	5.5%	5.6%	5.7%	5.8%	6.3%
-9.0%	-8.0%	4.6%	4.7%	4.8%	4.9%	5.0%	5.1%	5.2%	5.3%	5.4%	5.5%	5.6%	5.7%	5.8%	5.9%	6.0%	6.5%
-10.0%	-9.0%	4.8%	4.9%	5.0%	5.1%	5.2%	5.3%	5.4%	5.5%	5.6%	5.7%	5.8%	5.9%	6.0%	6.1%	6.2%	6.7%
-11.0%	-10.0%	5.0%	5.1%	5.2%	5.3%	5.4%	5.5%	5.6%	5.7%	5.8%	5.9%	6.0%	6.1%	6.2%	6.3%	6.4%	6.9%
-12.0%	-11.0%	5.2%	5.3%	5.4%	5.5%	5.6%	5.7%	5.8%	5.9%	6.0%	6.1%	6.2%	6.3%	6.4%	6.5%	6.6%	7.1%
and under	-12.0%	5.4%	5.5%	5.6%	5.7%	5.8%	5.9%	6.0%	6.1%	6.2%	6.3%	6.4%	6.5%	6.6%	6.7%	6.8%	7.3%

w language

Sec. 4. 26 MRSA §1221, sub-§2, paragraph C is enacted to read:

Each employer subject to this chapter, other than those liable for payments in lieu of contributions, shall pay, in addition to an amount based on his contribution rate as prescribed in subsection 4, a surtax equal to 16% of his contribution rate multiplied by the wages paid by him with respect to employment during the calendar years 1985, 1986 and 1987. This paragraph is repealed January 1, 1988.

Sec. 5. 26 MRSA §1193, sub-§1, paragraph A is amended as follows:

A. For the week in which he left his regular employment voluntarily without good cause attributable to such employment, or to a claimant who has voluntarily removed himself from the labor market where presently employed to an area where employment opportunity is less frequent, if so found by the deputy, and disqualification shall continue until claimant has earned ~~4~~ 8 times his weekly benefit amount in employment by an employer; provided no disqualification shall be imposed if the individual establishes that he left employment in good faith and accepted new employment on a permanent full-time basis and he became separated from the new employment for good cause attributable to employment with the new employing unit. Leaving work shall not be considered voluntary without good cause when it is caused by the illness or disability of the claimant or of his immediate family and the claimant took all reasonable precautions to protect his employment status by having promptly notified his employer as to the reasons for his absence and by promptly requesting reemployment when he is again able to resume employment; nor shall leaving work be considered voluntary without good cause if the leaving was necessary for the claimant to accompany, follow or join his spouse in a new place of residence and he can clearly show within 7 days upon arrival at the new place of residence an attachment to the new labor market and is in all respects able, available and actively seeking suitable work;

Sec. 6. 26 MRSA §1193, sub-§2 is amended as follows:

2. Discharge for misconduct. For the week in which he has been discharged for misconduct connected with his work, if so found by the deputy, and disqualification shall continue until claimant has earned ~~4~~ 8 times his weekly benefit amount in employment by an employer.

A. For the duration of any period for which he has been suspended from his work by his employer as discipline for misconduct, if so found by the deputy, or until the claimant has earned ~~4~~ 8 times his weekly benefit amount in employment by an employer.

Sec. 7. 16 MRSA §1193, sub-§7 is amended as follows:

7. Discharged for crime. For the period of unemployment next ensuing with respect to which he was discharged for conviction of felony or misdemeanor in connection with his work. The ineligibility of such individual shall continue for all weeks subsequent until such individual has thereafter earned ~~not less than $400~~ 8 times his weekly benefit amount in employment by an employer.

STATEMENT OF FACT

This legislation is one of two bills implementing the Unemployment Compensation Fund Study Commission's recommendations to restore solvency to the Trust Fund. The Dept. of Labor projects that under Maine's current law, Trust Fund reserves will decline and result in a deficit balance of (-)$103.1 million by the end of 1990. Federal loans will be needed each year with only the 1984-1985 loans being repaid in time to avoid the new 10% federal interest charges, even though the older interest-free 1975-1978 loans took until 1983 to be totally paid off. Interest penalties for the 1986-1990 period would be an estimated $36.4 million and would be borne by the State's General Fund or direct employer taxation because Federal law does not allow financing from Trust Fund reserves. Obviously, current law must be changed to prevent this result.

The Commission did not attempt a permanent cure of the Fund's ills because there are so many uncontrollable variables that will affect it, including the overall economy, unemployment rates, state and national policies, and other bills enacted by the Legislature. Instead, these recommendations will avert the financial crisis projected for the immediate future and avoid incurring a large federal debt.

The bill does the following:

Sections 1 and 2 raise the taxable wage base to which an employer's tax rates are applied. Currently, the first $7,000 of a covered employee's wages are taxable, which is the federal minimum base. Under this bill, Maine would join the 25 other states with higher bases by raising the base to $7,400 in 1985, $7,900 in 1986, and $8,500 in 1987 and thereafter, unless amended to change after 1987.

Section 3 amends the employer's tax rate contribution schedules by raising rates for negative balance employers whose former employees draw more benefits than the employer has paid in taxes. Presently, all negative balance employers are taxed at the same rate, even those with large negative balances, in effect forcing employers with better experience ratings to subsidize those with poor ratings. This weakens the incentives provided by the experience rating system. This change also meets the new federal requirement that the maximum tax rate in all schedules be at least 5.4%.

Section 4 adds a "sliding scale" surtax on 16% of an employer's contribution rate applied to covered wages. For example, an employer with a 3.4% tax rate would pay a .5% surtax, resulting in a total rate of 3.9%, while an employer with a 6.5% tax rate would pay a 1% surtax, resulting in a 7.5% total rate. This is more equitable than continuing the current flat experience rating system by taxing those with better records at a lower rate. The surtax is repealed after 1987.

Sections 5 and 6 increase the penalties for a disqualification for voluntary quit or misconduct. Under this bill a claimant remains disqualified until he has earned 8 times his weekly benefit amount, rather than only 4 times the WBA.

Sec. 7. increases the penalty for a disqualification for crime connected with work. The claimant would remain disqualified until he earns 8 times his WBA rather than the current $400.

BILL #2

"AN ACT Concerning Benefits under the Unemployment Compensation Act"

Be it enacted by the People of the State of Maine, as follows:

Sec. 1. 26 MRSA, Chap. 13, subchapter VIII is repealed.

Sec. 2. 26 MRSA §1191, sub-§2 is amended as follows:

2. Weekly benefit amount for total unemployment. Each eligible individual establishing a benefit year on and after October 1, 1983, who is totally unemployed in any week shall be paid with respect to that week, benefits equal to 1/22 of the wages, rounded to the nearest lower full dollar amount, paid to him in the high quarter of his base period, but not less than $12. The maximum weekly benefit amount for claimants requesting insured status determination beginning October 1, 1983, and thereafter from June 1st of a calendar year to May 31st of the next calendar year shall not exceed 52% of the annual average weekly wage, rounded to the nearest lower full dollar amount, paid in the calendar year preceding June 1st of that calendar year~~.~~, except that during calendar years 1985 and 1986 the maximum weekly benefit amount shall remain at the level in effect on December 31, 1984. The amount of benefits payable to an eligible individual with respect to any week of total unemployment shall be reduced by the amount of any holiday pay which the individual has received or is entitled to receive for that week.

STATEMENT OF FACT

This bill contains two recommendations of the Unemployment Compensation Fund Study Commission.

Sec. 1. repeals the seasonality provisions of state unemployment compensation laws, among the most liberal in the nation. A Department of Labor determination that an industry is seasonal means that the payment of benefits to workers unemployed from the industry is restricted. An individual whose base period wage credits are all from seasonal work is entitled to benefits only for unemployment during the predetermined season when he normally would be performing that kind of labor, and no benefits outside the season. This is inequitable because another individual performing exactly the same work but with no seasonal wages during his base period (i.e., he has not done seasonal work in his recent past) is not treated under the more restrictive seasonality law, but under the regular unemployment law. Additional confusion results if the employee's base period wage credits are from both seasonal and non-seasonal work, for his weekly benefit amount is determined based on wages from both types of employment.

The only definitive study on seasonality laws, done by Merrill Murray in 1972, recommends repeal of all seasonality laws because of their inequities and increased administrative burdens. Because of these reasons and because other provisions are better

at screening claimants and minimizing costs without these undesirable results, only 9 other states now have seasonality laws in effect.

Sec. 2. freezes the maximum weekly benefit amount during calendar years 1985 and 1986 at the level in effect on Dec. 31, 1984. Currently, the maximum is determined every June 1st as 52% of the annual average weekly wage during the previous calendar year. Due to inflation, this leads to an automatic increase in the maximum WBA each year. This freeze is projected to save $4.7 mil. in benefits paid out of the Unemployment Compensation Trust Fund over the 2 year period. The normal method of calculation will resume in 1987.