

EMPLOYMENT SECURITY LAW STUDY COMMITTEE

Report to the Legislative Council
and the Members of the
Second Session of the Sixty-sixth General Assembly
State of Iowa
1976

F I N A L R E P O R T

EMPLOYMENT SECURITY LAW STUDY COMMITTEE

January, 1976

The Employment Security Law Study Committee was established under the directive of House Concurrent Resolution 80 (attached at appendix A) to study and report recommendations for changing the employment security law to the Sixty-sixth General Assembly, 1976 Session. In addition to the Chairperson, Senator Eugene Hill, the Study Committee was composed of the following members:

Representative Richard L. Byerly, Vice Chairperson
Senator Lucas J. DeKoster
Senator Calvin O. Hultman
Senator Fred W. Nolting
Senator Cloyd E. Robinson
Representative Glenn F. Brockett
Representative Dale M. Cochran
Representative John H. Connors
Representative Willis E. Junker

The Employment Security Law Study Committee met eight times soliciting information concerning the present structure of the Employment Security Commission, and the problem of generating sufficient revenues to meet the current unemployment compensation benefits which are approximately equal to \$101,743,197 for the calendar year 1975.

The Committee originally convened under the Chairmanship of Senator Hill and solicited information concerning the present unemployment compensation system from the Employment Security Commission. Information in response to Committee members' requests has been furnished by Mr. John Peters, Mr. Fred Porter, Mr. Dick Sampson and Mr. Dave Beard of the Employment Security Commission. The Committee questioned the data provided in previous legislative sessions which often resulted in substantial differences in data furnished in response to questions submitted to the Employment Security Commission staff. The Committee determined that the complex nature of employment security law and the data available on unemployment benefits and unemployment in the labor force must be carefully analyzed taking careful consideration of the kind of information requested. The Committee concluded that questions to the Employment Security Commission should be in writing with each response titled by the question and the response given specifically to the question asked to avoid possible communication shortcomings.

At the November 13, 1975 meeting, the Committee tentatively finalized recommendations for bill drafts in two areas:

1. Substantive law changes to the organization and distribution of unemployment compensation and the generation of revenue sufficient to meet unemployment compensation benefits.

2. A reorganization of the Employment Security Commission changing the three-member commission to a single executive director.

Changes to Unemployment Compensation
Funding and Benefits

The Committee's decision in this area was influenced by the following information:

Trust fund balance, from which unemployment compensation benefits are drawn, contained on December 31, 1974	\$123,283,751
Trust fund on November 10, 1975 contained	\$ 76,000,000
Anticipated contributions to the date December 31, 1975 will total approximately	(+) \$ 8,600,000
Additional benefits from November 16, 1975 through December 31, 1975 will be approximately	(-) <u>\$ 20,000,000</u>
Leaving a trust fund balance on December 31, 1975 of	\$ 64,600,000
Additional, benefit payments through April 30, 1976 prior to any additional contributions from the increased contribution rate enacted by the Sixty-sixth General Assembly, 1975 Session, will equal approximately	\$ 39,300,000
Leaving an anticipated trust fund balance on April 30, 1976, of	\$ 25,300,000
The Committee noted that the unemployment compensation benefits were increased on July 1, 1975 and the current figures for payments do not accurately reflect payments based on the increased benefit levels. Additionally, benefits will be recomputed as the average state wage changes.	
Employer contributions during the 1974 calendar year were approximately	\$ 29,300,000

During the 1975 calendar year,
employer contributions will equal
approximately \$ 42,000,000

Through July 31, 1975, \$32,542,881.64 was collected in
contributions.

The trust fund balance on January 1, 1976 was
approximately \$64,600,000 and the emergency measures adopted by the
Sixty-sixth General Assembly, 1975 Session--that is an increase in
the taxable wage base from \$4200 to \$6000 and an add-on tax of 0.7
percent to each employer's tax rate--are estimated, based on 1974
employer data, to bring in approximately \$70,000,000. If benefit
payments remain the same as in calendar year 1975, the trust fund
on January 1, 1977 could be as low as \$36,100,000.

(January 1, 1976, trust fund balance	\$ 64,600,000
Estimated income during 1976	(+) \$ 70,000,000
Interest	(+) \$ <u>3,500,000</u>
Total	\$138,100,000
Estimated benefit payments	(-) <u>\$102,000,000</u>
January 1, 1977 trust fund balance	\$ 36,100,000)

However, contributions to be received in the 1977 calendar
year will not begin to supplement the unemployment trust fund until
April of 1977. Thus, the \$36,100,000 must finance the unemployment
benefits to be paid in the first four months of 1977. If the bene-
fit payments increase the trust fund could be dangerously close to
a zero balance just prior to receipt of the first employer
contributions in April of 1977.

Faced with the tremendous expansion of unemployment com-
pensation benefits due to the rise in the benefits paid and the
number of unemployed, the Study Committee recommends that a bill
draft be prepared to be considered by the appropriate standing
committees in the House and Senate as a working bill draft. The
bill prepared for the Study Committee will effect the following
changes:

Section 1 changes partial unemployment benefits to
require a dollar for dollar reduction of unemployment benefits
for each dollar in excess of fifteen earned while partially
employed.

Sections 2, 3, and 4 changes terms from "computation date" to "percentage of excess computation date", and "year" to a "rate period" which is a six-month period. Section 4 raises the initial contribution rate from 1.5 percent to 2.0 percent for nonconstruction employers.

Section 5 changes the terms to reflect a rate table determination date to be changed twice a year and adds new tables. This section provides that red balance employers (those with a negative percentage of excess) shall pay a minimum of 3.5 percent and a maximum of 5.0 percent over the present range of 3.0 percent to 4.0 percent. The initial contribution rate for construction employers is raised from 4.0 percent to 4.5 percent. This section also eliminates the 2.7 percent contribution limit on the first \$10,000 of wages each quarter for employer contributions by "red balance" employers (negative percentage of excess employers). These tables are designed to raise an amount equal to the benefit payments for unemployment compensation in the previous year plus an amount to build up a reserve in the unemployment trust fund equal to 1.75 times the highest annual benefit payment made in the last ten years. If the fund goes broke, a 0.5 percent tax shall be added to the contribution rate of each employer.

Section 6 changes terms--"computation date" to "percentage of excess computation date".

Section 7 provides, by striking an exception, that all school employees under contract for the following year shall be ineligible for unemployment compensation benefits.

Section 8 excludes from eligibility for unemployment compensation state employees whose employment is contingent upon the legislature being in session.

Section 9 defines partial employment to clarify eligibility for an employee reduced in hours by his full-time employer.

Section 10 changes the wage upon which unemployment taxes are paid from the emergency level of \$6,000 for 1976 only, to 75 percent of the statewide average wage, calculated annually rounded to the next highest \$100, or to the federal taxable wage base if higher.

Sections 11 and 12 strike the definition of "computation date" and define "rate period", "percentage of excess computation date", and "rate table determination date".

Section 13 is the effective date provision.

The Committee also suggested that the standing committees consider the following recommendations:

1. The emergency employer contribution measures presently found in section 96.7, subsection 3, paragraph e which provide for

a minimum flat rate for all employers are inadequate to meet the current benefit demands. These emergency measures should be carefully reassessed by the appropriate standing committees.

2. Recently the Employment Security Commission considered whether or not teachers are eligible for temporary unemployment benefits under amendments to section 96.19, subsection 10 paragraph c which reads:

c. An individual shall be deemed temporarily unemployed if for a period, verified by the commission, not to exceed four consecutive weeks, he is unemployed due to a plant shutdown, vacation, inventory, lack of work or emergency from his regular job or trade in which he worked full time and in which he will again work full time, if his employment, although temporarily suspended, has not been terminated.

The Committee suggested that this language should be examined to determine if a clarifying change is warranted to assure ineligibility of employees under contract during periods of temporary unemployment.

3. The Committee recommends that the appropriate standing committees review the methods by which revenue is raised from employers to meet benefit payments. The Study Committee suggested that the following alternatives should be considered:

a. Review of the rate tables in working draft IV and provide for implementation of tables based on 1975 experience when the data becomes available in the latter part of January, 1976.

b. Study the implementation of a flat rate for all employers sufficient to meet current benefit payments and build up an unemployment trust fund account reserve to meet future emergency unemployment situations.

c. Evaluation of a fixed table with various fixed added percentage contribution rate increases to be implemented based upon the level of assets in the unemployment trust fund account.

d. Implementation of a directive to the Employment Security Commission to develop an employer contribution table within specified percentage of contribution limitations and designed to raise an amount sufficient to meet current benefit payments plus build up the unemployment trust fund account to 1.75 times the highest benefit payments made in any calendar year in the preceding ten calendar years.

A copy of the bill draft prepared plus copies of alternatives that the Committee considered are to be forwarded to the appropriate standing committees.

Reorganization of Employment
Security Commission

The Committee heard testimony from the three Commissioners and from each division head concerning the advisability of retaining the commission approach or of abolishing the commission and providing for a single director. The testimony overwhelmingly favored abolishing the commission.

The Committee recommends that a Department of Employment Security be established to be administered by a Director of Employment Security who is appointed by the Governor with the approval of two-thirds of the members of the Senate to serve at the pleasure of the Governor. The Director's salary will be set by the General Assembly.

An appeal board is established to hear and decide disputed claims. The appeal board will consist of three members appointed by the Governor with the approval of two-thirds of the members of the Senate to serve staggered six-year terms. One member will represent the general public, one member will represent employers and one member will represent employees. They will meet as often as necessary and will receive forty dollars per day plus expenses.

An advisory council is also established to advise the director on matters within the jurisdiction of the department, except matters relating to the investment of retirement funds. The advisory council consists of nine members, three representing employers, three representing employees, and three representing the general public appointed by the Governor with the approval of two-thirds of the members of the Senate. The members of the advisory council will serve staggered six-year terms.

APPENDIX A

HOUSE CONCURRENT RESOLUTION 80

By Connors, Drake, Byerly, Jesse and West

1 *Whereas*, the standing committees in the House of
2 Representatives and the Senate are deeply concerned
3 about the entire funding structure of the Iowa
4 employment security commission; and
5 *Whereas*, there is serious concern about the
6 determination of contributions to the Iowa employment
7 security fund; and
8 *Whereas*, there is also serious concern about the
9 determination of benefits under the existing Iowa
10 employment security law; *Now Therefore*,
11 *Be It Resolved by the House of Representatives,*
12 *the Senate Concurring*, That the legislative council
13 is authorized to create a study committee as provided
14 by law, composed of members of the Senate and the
15 House of Representatives representing both political
16 parties, to conduct a study during the 1975 interim
17 to review the employment security law; and
18 *Be It Further Resolved*, That the study committee
19 shall prepare a report of its findings and
20 recommendations and submit it to the legislative
21 council and the members of the Sixty-sixth General
22 Assembly, 1976 Session, accompanied by legislative
23 bill drafts designed to carry out the recommendations
24 of the study committee.