Out of Date and Out of Reach:

Michigan's Unemployment System Needs Repair

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Unemployment insurance (UI) is a social insurance program that uses accumulated payroll taxes held in a trust fund reserve to pay UI benefits to unemployed workers and their families. In Michigan, the UI system is no longer doing the job it was designed to do. It is out of date, unable to respond adequately to the needs of Michigan's unemployed working families. As discussed in detail in this report, many workers whose incomes are vital to their families are not covered, benefit amounts for covered workers have deteriorated to unacceptable levels, and the trust fund does not meet accepted standards of solvency and cannot sustain benefits through a serious bout of unemployment.

In the summer of 2001, roughly half of Michigan's unemployed workers received UI benefits, with average weekly benefits of only $262. These average benefits replaced only 37 percent of Michigan's average weekly wage of $710, ranking Michigan 31 out of the 53 U.S. jurisdictions with UI programs (all states, plus Washington, D.C., Puerto Rico, and Virgin Islands) in terms of wage replacement in the second quarter of 2001.

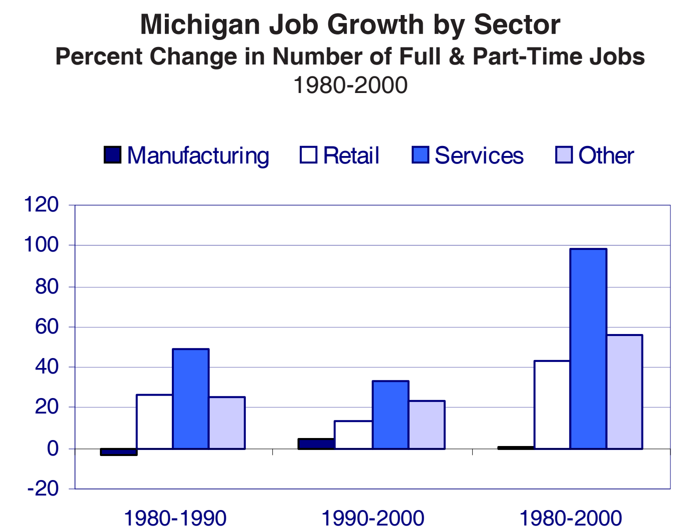
In October 2001, Michigan's UI trust fund had reserves of $2.8 billion. As a comparison of this level of reserves to UI benefit payments, Michigan paid over $346 million in UI benefits in the 3rd quarter of 2001 alone. Among the 53 U.S. jurisdictions with UI programs, Michigan's trust fund ranked 42nd on the federal UI solvency scale.

Overview: Michigan's UI System and Recent Economic and Policy Changes

Michigan's economy has undergone significant changes since the early 1980s when large numbers of manufacturing jobs began to disappear and be replaced with lower paying jobs in the retail and service sectors. The trend continued through the 1990s, with only one in five jobs in Michigan being in the manufacturing sector by 2000, compared to one in three two decades earlier. In addition to a shift toward a greater number of lower paying jobs, today's economy also includes more part-time and temporary jobs, and, more job changes over the life of a worker. Also, today's labor force includes more single mothers who are the sole support of the family, as well as more two-parent families with a part-time worker whose earnings are essential to the family's well-being.

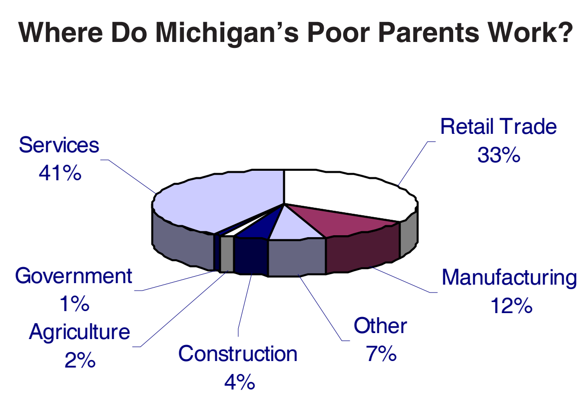
Michigan UI Statistics
QTR 3, 2001

Total unemployment rate	4.9%
Insured unemployment rate	2.6%
Insured unemployed as percent of total unemployed	53%
Average weekly benefit	$261
Average weekly wage in 2000	$714
Average weekly benefit as percent of average weeky wage	37%



Source: Bureau of Economic Analysis, Table SA25

This same time period saw a dramatic reduction in public assistance caseloads as sweeping federal welfare legislation was signed into law and former welfare recipients filled the jobs created by an unprecedented economic expansion. Nationally, one-third of former welfare recipients found work in the retail sector (in Michigan, one-third of working poor parents work in this sector), with nearly half working in eating and drinking establishments where the average weekly pay in Michigan is 36 percent lower than for the sector as a whole.



Source: Center on Budget and Policy Priorities Tabulation of U.S Census Bureau's March Current Population Survey Data for Years 1997-99.

This shift in the nature of jobs available to Michigan's workers undermined the growth of family incomes during the unprecedented period of economic growth that stretched across the 1990s. In 2000, average weekly pay was only $333 in the retail sector and only $624 in the service sector, compared to $1,052 in the manufacturing sector. Wages for most workers grew very little in real terms (until the very end of the expansion), fueling a significant growth in the number of families in Michigan who, despite work, have difficulty making ends meet.

By the late 1990s, having a full-time, year-round worker was not enough to lift twenty-three percent of Michigan families with children out of the ranks of the poor. One in five working parents in Michigan had hourly earnings that, on a full-time basis would produce annual earnings below the poverty level for a family of four. And, over one-third of working poor parents worked part-time or part-year, even though they wanted full-time employment. Cash savings, which can be used to help sustain a family through a period of unemployment, did not grow and consumer debt increased dramatically.

Now, more than ever, the earnings of every family member are vital to a family's well being. The loss of the part-time earnings of a family member is a substantial blow to the finances of most working families, especially those families that have moved from reliance on public assistance to reliance on wages in recent years. Most vulnerable are the working families at the lowest income levels where Earned Income Tax Credit (EITC) amounts decrease as earnings decrease.

In addition to these developments, national and state policies regarding low-income families changed in very important ways. Welfare reform, which began in the early 1990s in Michigan, has dramatically increased the number of low income families that are expected to and required to support themselves, at least in part, through employment. Entitlement to cash assistance during periods of unemployment has ended. Eligibility rules are tighter and time limits on receiving federally funded cash assistance have been put in place.

Despite the changes in Michigan's economy and the substantial increase in the level of harm that a period of unemployment can bring to Michigan's working families, the UI system has not been updated to maintain traditional levels of protection. Indeed, changes in the mid-nineties weakened the system. Payments into the trust fund were reduced and benefits were curtailed precisely when good economic times provided an opportunity to build a solvent trust fund and adjust benefits to meet the changing needs of Michigan's unemployed families.

The current recession is bringing years of inattention from policymakers and the press and ill-conceived policy decisions into sharp focus. Michigan's economy is now in decline. The unemployment rate reached 6 percent in December 2001, climbing rapidly from a record state low of 3.3 percent that was reached in March 2000. Unemployment insurance claims have climbed even faster than the unemployment rate, with over 130,000 weekly claims paid during November 2001, an increase of nearly 70,000 over November 2000 levels. In the third quarter (June through August 2001), over 32,000 Michigan claimants exhausted their unemployment insurance benefits, an 87 percent increase from the third quarter of 2000. The trust fund, already inadequate, is beginning to shrink.

Role of UI in a Recession

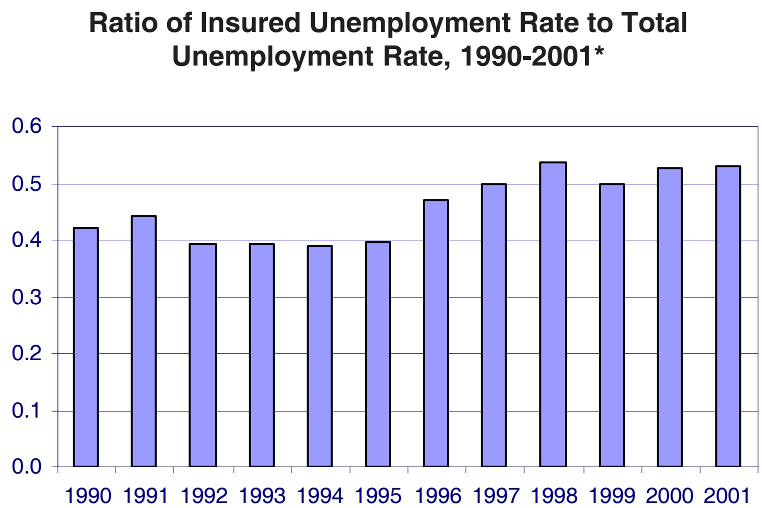
Unemployment insurance is a social insurance program that uses accumulated payroll taxes held in trust fund reserves to pay UI benefits. The current recession brings Michigan's UI program into greater focus because increasing numbers of laid-off workers and their families are turning to UI for immediate, partial wage replacement to meet basic needs while unemployed. This income maintenance role is the most commonly understood purpose of UI benefits. Without UI benefits, many families would suffer hunger and poverty, while others would accumulate debt that would burden their families for years to come. The availability of UI also helps reduce the pressure on social service agencies and food banks, as well as on publicly funded programs such as Food Stamps and cash assistance during periods of economic decline.

While UI benefits help cushion the economic blow that unemployed workers experience, UI benefits also maintain economic activity in communities affected by layoffs. The Federal Reserve recognizes that unemployment insurance serves as an automatic stabilizer of the nation's economy, with accumulated payroll taxes flowing into the economy immediately as layoffs take place. A 1999 economic study of the six most recent recessions commissioned by the U.S. Department of Labor found that UI had reduced the depth of recessions by an estimated 15 percent while every $1 of UI benefits increased gross domestic product by $2.15. Undeniably, UI benefits help business during a recession by permitting laid off workers to pay their bills and continue essential household spending. As a result, recessions with UI are less severe in depth and duration than recessions would be without UI.

UI benefits also have a role in permitting laid off workers to find new jobs that match their skills and experience and pay wages comparable to their prior work. This "job matching" function promotes overall economic efficiency while maintaining the living standards of laid off workers and their families. For all these reasons, UI has a number of important roles to play in Michigan's economy, and these roles take on increased importance in a recession.

Evaluating Michigan's UI Program

Michigan's unemployment insurance (UI) program is largely a creature of state policy, with eligibility requirements, benefit levels, and disqualification penalties set by state law. The effectiveness of UI as social insurance requires that it serve its dual goals as an economic stabilizer and income support. Its ability to serve these goals is determined by the extent of both UI recipiency and the adequacy of UI benefits. If too few unemployed workers are paid UI benefits, or if those getting UI are paid inadequate benefit amounts, then UI will not serve its social insurance goals.



Source: Ratio calculated using insured unemployment data from the U.S. Office of Workforce Security and total unemployment data from the U.S. Department of Labor
* Quarter 3, 2001; annual rate all other years.

How Many Unemployed Workers Get UI Benefits in Michigan?

Many workers who are covered by UI do not receive UI benefits when they become unemployed. Funds are remitted to the trust fund for these workers, but they never see those funds as benefits.

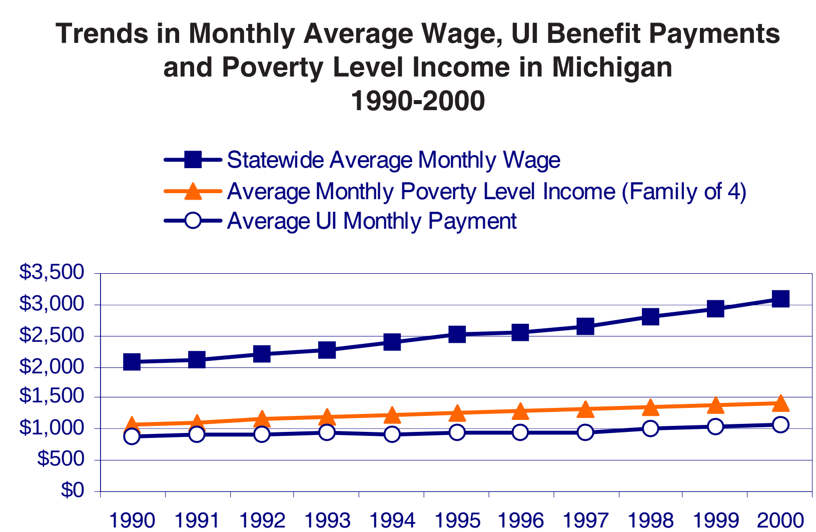
UI recipiency is typically measured by comparing the insured unemployment rate (IUR) to the total unemployment rate (TUR). This IUR/TUR ratio approximates the percentage of unemployed workers receiving UI benefits. Since a low point of about .3 in the early 1980s, the IUR/TUR ratio has slowly risen. In recent years it has ranged from about .39 to about .53.

State law regarding who is covered by UI and who among the unemployed is eligible for UI benefits largely determines this ratio. State law is biased in favor of higher wage, full-time workers, so the ratio tends to rise when lay-offs among those workers increase. Michigan law explicitly excludes part-time workers from UI eligibility and effectively bars most low-wage workers from UI benefits.

Are UI Benefits Adequate to Support Laid Off Workers in Michigan?

Benefit adequacy is usually judged by calculating the wage replacement rate (average weekly benefits as a proportion of state average weekly wages). The historic rule of thumb for wage replacement calls for weekly UI benefits equal to one half of pre-layoff wages up to a maximum benefit equal to two-thirds of the state average weekly wage.

When evaluating Michigan's UI program, it should be kept in mind that Michigan's economy is among the nation's largest, with its total wages and



Sources: Michigan Unemployment Insurance Agency (Average UI weekly payment, Average weekly wage), U.S. Department of Health and Human Services (annual poverty guidelines).

labor force ranking 9th in the country. At the same time, Michigan is a high wage state, with its average weekly wage of $710, ranking 8th in the country.

For the twelve months ending with the third quarter of 2001, Michigan's average weekly UI benefit was only $258, only 36% of the average weekly wage and well below the federal 2001 poverty guideline of $1,471 per month for a family of four. The cap on benefits is currently $300 per week, 42% of the average weekly wage. Even the proposed increase to $415 per week would not have put the cap at the recommended two-thirds of the average weekly wage.

Average weekly benefit levels have not kept pace with recommended wage replacement because the maximum weekly benefit has been frozen at $300 since 1996, and because legislation passed in 1995 (Public Act 25) reduced the weekly benefit calculation from 70% of after tax wages to 67% of after tax wages. In October 2000, Michigan adopted a new "wage record" system of administering its UI program. At this point, the formula for calculating the weekly benefit amount was adjusted to 4.1 percent of high calendar quarter wages. Under the initial legislation adopting the "wage record" system, the weekly benefit calculation was set at 4.2 percent. As a result, all UI claimants suffer a weekly benefit reduction with every UI check.

Unemployment Insurance Eligibility and Low-Wage Workers in Michigan

Eligibility for UI benefits consists of three elements. Each of these general elements of UI law is found in specific provisions of the Michigan Employment Security Act. First, an individual must meet *monetary eligibility* requirements by earning sufficient wages in his or her "base period," which is a one-year period starting from 18 to 15 months before the individual's initial UI claim is filed. Second, a laid off individual must meet the eligibility provisions of Michigan law, which basically require that the individual is *able and available* for suitable, full-time work and that he or she seeks such work. Third, the individual must be separated from his or her work for non-disqualifying reasons, commonly expressed as *involuntarily unemployed*.

Each state creates statutory provisions that put substance into these broad categories of UI eligibility. The quintessential non-disqualifying reason for involuntary unemployment is a layoff, while discharges for misconduct, quits without good cause, and refusals of suitable work are most often disqualifying. However, these generalities differ in their application to specific situations, and thousands of appeals are heard each year in Michigan to resolve conflicts regarding the proper application of the broad statutory categories to individual claims. So, for example, an individual fired for incompetence or inadvertent mistakes is generally not disqualified from benefits, as these actions don't constitute misconduct. Individuals who quit their work with good reasons that are related to their employment are likewise not disqualified. Many valid reasons for quitting work–like unavailable childcare, personal illness, lack of transportation, or need to care for a sick child or relative–are treated as unrelated to work and are disqualifying in Michigan.

As a general rule, laid off workers represent the lion's share of UI recipients, and in a recession this is even more true. Michigan's recent increase in UI recipiency is, at least in part, a result of the recession, which is raising the proportion of newly unemployed laid off workers filing claims. This trend will reverse itself as the business cycle continues and the proportion of UI claimants that have quit or been fired grows and the number of claimants with sufficient wages to establish UI eligibility falls.

Monetary Eligibility

Monetary eligibility is the first hurdle to receipt of UI benefits. Monetary eligibility is intended to ensure that some minimum labor market attachment is required for UI eligibility. While two states (Oregon and Washington) use hours of work to determine monetary eligibility, an overwhelming majority of states have adopted earnings requirements expressed as a dollar amount as their means of judging labor market attachment. The time period over which states apply those earnings requirements (a 12-month period starting up to18 months prior to layoff) is called the base period. Current monetary eligibility requirements (expressed as a flat dollar amount) range from $400 in

Hawaii to $3,400 in Florida. In addition, most states require that workers earn wages in at least 2 calendar quarters, or that they have some multiple of high quarter earnings in their base periods.

Michigan's monetary eligibility standard is among the nation's sternest, especially when looked at from the perspective of minimum wage or lower-wage workers. Michigan currently requires that claimants earn $1,998 in one calendar quarter. This is equivalent to 30 hours of work at the minimum wage of $5.15 an hour for each of the 13 weeks of a quarter. In addition, workers must have 1.5 times their high quarter wages, or $2,997 in Michigan. This places Michigan's monetary eligibility requirement among the highest five in the nation, exceeded only by Washington, Florida, North Carolina, and Ohio.

Michigan UI Monetary Eligibility Changes

1980	14 weeks of work at 20 times the state minimum wage in the previous 52 weeks
1981	18 weeks of work at 30 times the state minimum wage
1982	20 weeks of work at 30 times the state minimum wage
1992	Sunset of 1982 law moves from 30 times to 20 times the state minimum wage
1995	Legislature moves back to 30 times the state minimum wage
1998	Legislature raises state minimum wage from $3.35 an hour to $5.15 an hour
2000	State moves to "wage record" system and converts existing eligibility standard to $1,998 in high quarter earnings with 1.5 high quarter earnings in base period.

Monetary earnings requirements of the sort used in Michigan necessarily disadvantage low wage workers, since higher paid workers can satisfy the labor market attachment test with fewer units of work. So, a worker earning $25 an hour can satisfy Michigan's monetary eligibility standard with 80 hours of work, while a minimum wage worker needs at least 388 hours—nearly five times more hours—to do so. Accordingly, minimum wage workers must work nearly five times as many hours to gain monetary eligibility in Michigan as a $25 an hour worker.

The requirement that earnings exceed 1.5 times his or her high quarter wages to satisfy Michigan's monetary eligibility requirement imposes a second hurdle for monetary eligibility under Michigan UI law. While hypothetically this translates to only $2,997 in base period wages (1.5 times the minimum high quarter earnings of $1,998), this amount would apply only to individuals with a precise minimum of $1,998 in high quarter earnings. An individual with $7,500 in high quarter earnings, for example, would have to have total base period wages of at least $11,250 to meet this 1.5 times multiple requirement. For this reason, individuals with fluctuating earnings substantially above the minimum earnings requirements can still run afoul of this second component of Michigan's monetary eligibility standards.

As shown by a review of its legislative history, Michigan's monetary eligibility standard has increased dramatically over the years and has been a sharply contested political question. Prior to Michigan's recent conversion to a "wage record" UI program, the monetary eligibility standard was 20 weeks of work with earnings equal to 30 times the state minimum wage in each of those weeks. The state's current monetary eligibility standard in Michigan is roughly equivalent to 30 hours a week at the minimum wage over the entire 13-week calendar quarter, with the 1.5 high quarter multiple requirement intended to mimic the prior statutory requirement of 20 weeks of work at 30 times the state minimum wage. In other words, Michigan is one of the few states in the country in which a minimum wage worker working 27 hours each week year round would not meet the monetary eligibility standards for UI.

Full Time Availability

Availability is a UI eligibility condition requiring an unemployed worker's willingness to accept a range of jobs sufficient to demonstrate a meaningful attachment to the labor market. Seventeen states, including Michigan, explicitly require, in statute or regulation, that UI claimants maintain availability for full time work as a condition for UI eligibility. An additional twelve states require full time availability by administrative interpretation or court rulings.

A total of twenty states have more favorable policies toward part-time work, paying workers available for part-time work in certain circumstances. Ten states permit workers with a history of part-time work to limit their availability for part-time jobs, and two states permit workers with good cause for limiting their availability to part-time jobs to do so. Seven additonal states have never differentiated between part-time and full-time work, while others have adopted more favorable measures toward part-time workers after initially restricting eligibility to those available for less than full-time work.

The basic rationale for restricting availability to full-time jobs is that part-time jobs are fewer in number and do not demonstrate sufficient attachment to the labor market to merit UI eligibility. The arguments against restricting UI to individuals with full-time availability include the inequity of subjecting part-time wages and employers to UI taxation while prohibiting payment of UI benefits to part-time workers, and the need to recognize the enhanced role of part-time work in today's economy.

In particular, part-time availability has been widely identified as a reform that assists lower wage and women workers, who disproportionately fall into the ranks of part-time workers. California and Minnesota adopted more liberal part-time availability requirements during 2001. During the debates regarding a federal economic stimulus package in the fall of 2001, a number of proposals included expanded UI eligibility for part-time workers. Part-time workers should not be categorically excluded from UI benefits, if they have sufficient earnings to establish monetary eligibility. Part-time workers laid off from their jobs should be required to establish availability by demonstrating that they are available for a sufficient number of part-time jobs to satisfy UI eligibility rules. Like all other claimants, availability should be judged on a case-by-case basis for each individual unemployed part-time worker.

Partial Benefits Restrictions

In 1995, Michigan amended its partial UI benefits provision, making two significant restrictions. Partial benefits pay workers that have earnings while claiming UI benefits according to a formula offsetting wages from the weekly benefit amount otherwise payable for total unemployment. Prior to the 1995 amendment, Michigan permitted workers that had earnings while receiving UI benefits to receive up to half their weekly benefit amount without penalty, and one-half their weekly benefit rate so long as their earnings were less than the weekly benefit rate. In other words, wages were offset under a partial benefits formula that encouraged UI claimants to work by permitting them to receive wages equal to one-half their weekly benefit amount without a reduction in their UI check. As a result, workers could get up to one and one-half their weekly benefit amount as a combination of wages and UI benefits. Partial UI benefits could be drawn for as many weeks as were required for the worker to receive all the benefits that he or she had coming for the year following his or her valid initial claim.

Since the amendment, Michigan offsets 50% of all wages earned from the first dollar earned up to an amount equal to one and one-half times the weekly benefit for total unemployment. Once earnings reach the level of one and one-half the weekly benefit amount, they offset UI benefits dollar for dollar. In addition, any week of partial UI benefits, no matter how small, reduces the total number of weeks of benefits available under the claim by one week.

Under the 1995 amendment, Michigan's partial benefits formula became one of the strictest in the nation, offsetting UI benefits from the first dollar of earnings and reducing the total UI benefits available on a claim by a full week whenever a partial week was paid. Most states encourage UI claimants to accept work by disregarding some amount of income in their partial benefits' formulas, and few, if any, reduce the total weeks of benefits by a full week whenever a partial week of benefits is paid. Michigan's punitive policy undoubtedly discourages workers from finding part-time work or accepting interim employment, resulting in more weeks of full unemployment benefits paid and increasing the duration of unemployment claims.

Seasonal Work Exclusion

Another change adopted in 1995 was an exclusion for seasonal employers. Under this amendment, employers with seasonal work patterns can elect seasonal employer status and effectively opt out of the UI system. The exclusion works by barring UI claims filed by employees outside the seasonal employment period, which is their usual period of unemployment. Employers in the amusement and recreational fields have been among the main users of the provision in Michigan as well as some agricultural processors and growers. About 14,000 employees have been impacted on an annual basis.

Similar seasonal work measures are found in fourteen states. The rationale for seasonal work exclusions is that the employee elects to work in a seasonal job and should not get UI benefits in the off-season period when the employer is not at fault for the unemployment. However, fault is not the basis for payment of UI benefits, and seasonal employees can hardly be more at fault for their seasonal employment patterns than their employers. In the mid-90s, a federal advisory council recommended repeal of seasonal worker exclusions. The fact is that seasonal employees, many of whom are lower-wage workers, are involuntarily unemployed during their off-seasons and should draw UI benefits so long as they search for work and meet all UI eligibility criteria.

Temp Agencies and UI

The method of handling UI claims following assignments from temporary employment agencies also changed with Public Act 25. Prior to the change, an unemployed worker could accept a temporary job, work until completion of the assignment, and then resume his or her UI claim and search for permanent employment. Following the amendment, the temporary employee is furnished with a notice advising him or her to call in to the temporary agency at the end of the assignment. Failure to call in and accept further offers of temporary work results in a disqualification. In many situations, a claim by a temporary agency that the employee failed to call results in a voluntary leaving disqualification as well.

Michigan law is similar to "model" legislation promoted by the temporary services industry. This legislation has been adopted by seventeen states. The impact of this amendment is to lock employees into temporary employment once a temporary job is accepted. Jobs in the temporary sector have higher turnover, little or no fringe benefits, and little job security. Michigan's temporary work provision can have a negative effect on workers prevented from finding permanent jobs.

Restoring the UI Safety Net for Low-wage Workers in Michigan

To a large degree, changes adopted in Michigan's unemployment insurance program have hurt low-wage workers. In particular, Michigan's monetary eligibility rules prevent many minimum wage employees working on part-time or part-year schedules from getting UI benefits. In this regard, Michigan is one of only a handful of states in which a minimum wage employee working 20 hours per week is ineligible for UI. Michigan has a number of UI eligibility rules that hurt part-time workers. Michigan requires availability for full-time work and maintains partial UI benefit rules that limit the weeks of unemployment paid on partial UI claims. Michigan's rules regarding employees in seasonal employment and working for temporary agencies also hurt low-wage workers.

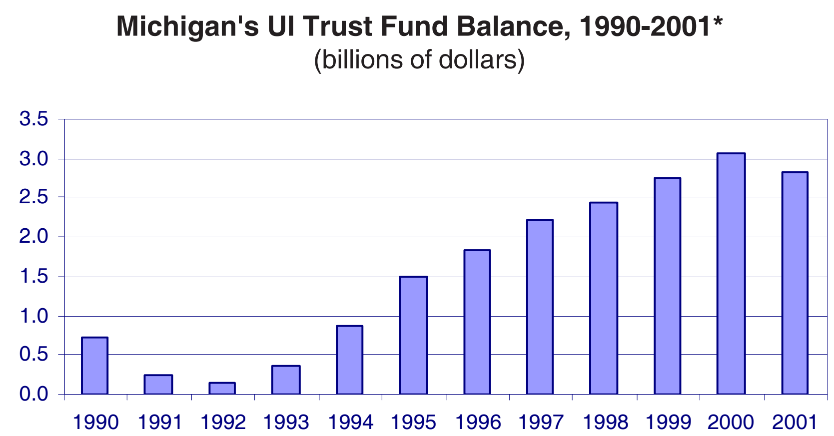
Steps Needed to Restore Michigan's UI Safety Net

- Lower monetary eligibility to 20 times minimum wage, or $1,339
- Replace base period multipe of 1.5 times high quarter wages with wages in 2 quarters
- End discrimination against part-time workers
- End freeze on maximum weekly benefit amount
- Adopt reasonable partial benefits formula
- Repeal seasonal worker exclusion
- Repeal temporary agency "quit" legislation

Restoring Michigan's UI safety net for low-wage workers requires that Michigan address these provisions by repealing or modifying their punitive impacts.

Can Michigan Afford a Better UI Program?

Michigan's UI trust fund has grown significantly in recent years. Its balance was $2.6 billion at the end of December 2001. The fund ranked 3rd in terms of overall size of the 53 U.S. jurisdictions with UI programs (all states, plus Washington, D.C.,



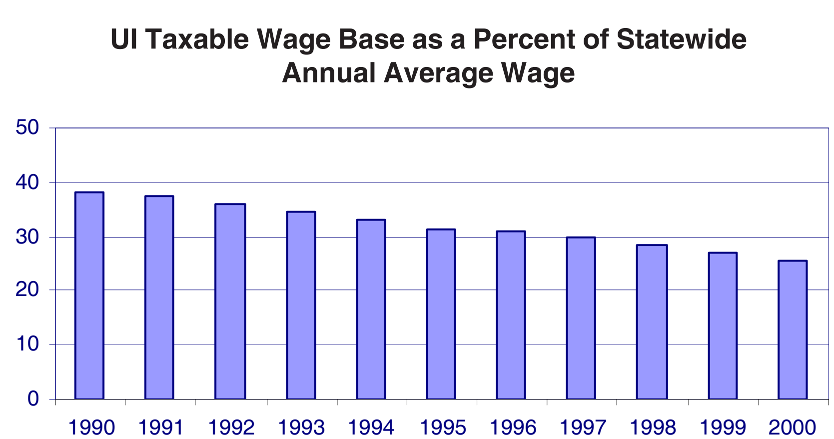
* Quarter 3, 2001; end of year all other years
Source: Michigan Unemployment Agency

Puerto Rico, and Virgin Islands), and 20th in terms of the percentage of total wages covered by trust fund reserves in the third quarter. Michigan earned a little less than $47 million in federal interest on its trust fund in the third quarter.

This represents a dramatic reversal of the trust fund's health during the economic downturns of the 1970s and 1980s. During those hard times, Michigan responded with restrictions on UI benefit levels and eligibility while employers were subjected to significant UI payroll tax increases and solvency taxes to restore the fund balances, as well as surcharges to repay federal loans to the state's trust fund. The 1990s saw steady improvement in the UI trust fund balance.

Although in dollar amount Michigan's UI trust fund seems big, it still ranks lower than a commonly used measure of UI trust fund solvency (called "cost multiples"). Michigan's trust fund solvency ranking improved only modestly, from dead last in the early 1980s to 42nd out of 53 UI programs in 2000. Michigan could have reaped millions of dollars in additional federal interest on its trust fund balances during the 1990s, had its fund been larger. Certainly, as a matter of public policy, maintaining higher levels of remittances during the period of economic expansion in order to raise the UI trust fund to a higher level of solvency prior to a recession would have been prudent. Strengthening the trust fund is now imperative. Improvements in benefit levels and expansions in UI eligibility, combined with increased costs flowing from rising UI benefit claims during this recession, will result in increased costs to the trust fund. Meeting those costs requires growth in tax revenues and interest earnings on the trust fund balance.

The fact that Michigan's trust fund solvency is not higher and that UI benefit levels are inadequate are directly due to the UI tax reductions passed in Public Act 25 of 1995. Employer tax reductions granted in that legislation dramatically reduced the growth of the trust fund. Average unemployment insurance taxes fell from $446 per employee in 1994 to $237 in 2001.



Source: Michigan Unemployment Agency

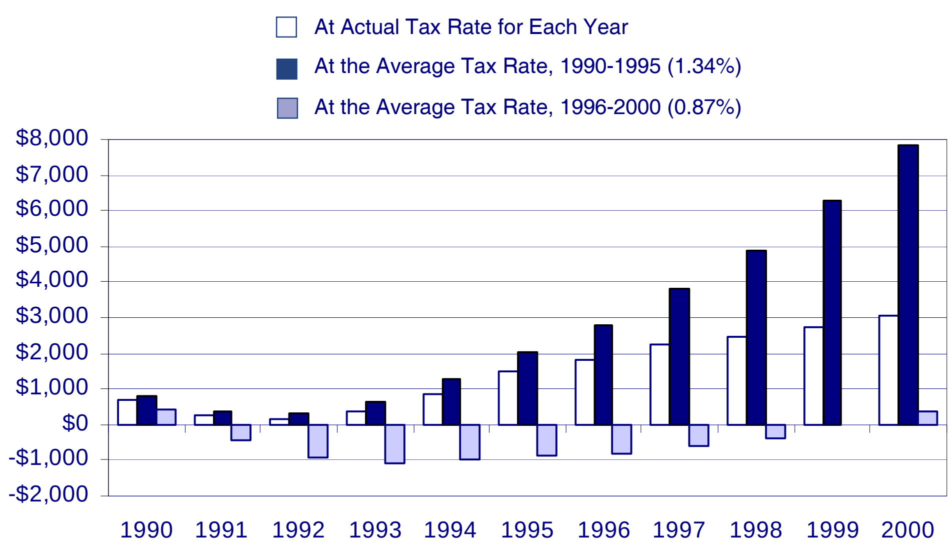
In Michigan, employers pay UI payroll taxes on the first $9,500 of calendar year wages. Recent tax reductions under Act 25 were achieved by reducing a number of components that make up the overall UI payroll tax rate for each employer. The maximum tax rate was reduced from nine percent to 8.1 percent. The non-chargeable benefit component (NBC) of the payroll tax rate fell from a minimum rate of one percent to .1 percent for employers that have no UI claims filed against their account. The account building component (ABC) maximum rate was cut by one-third (from 3 percent to 2 percent). These tax cuts were triggered by trust fund balances that exceeded specified levels of covered payrolls.

To maintain the trust fund, the tax cuts were offset with freezes and reductions in UI benefit amounts, continuations of earlier UI eligibility restrictions, and newly imposed eligibility requirements. As a result, sacrifices of $800 million in benefits by unemployed workers contributed significantly to the restoration of Michigan's UI trust fund to its anemic level of solvency, while employers received $1.2 billion in tax reductions.

Restoring UI tax revenue to a more realistic level is required to raise the trust fund balance to an adequate level and fund long overdue increases in benefit levels and changes in eligibility. A comparison of actual trust fund growth in the 1990s to estimated trust fund growth at alternate tax rates demonstrates the need for tax rate increases (see chart). The actual tax rates kept the fund balance in the black, but failed to bring it up to federally defined solvency levels, even though economic growth was very strong and UI claims were low. Had the average tax rate of 0.87 percent in effect from 1996 through 2000 been in effect since 1990, the trust fund would have fallen into the red in 1991 and not returned to a positive balance until 2000. However, continuation of the average tax rate in effect in the first half of the 1990s (1.34 percent) would have produced a fund balance more than twice the actual fund balance in 2000. Had the recent recession been more severe, the actual fund balance would have been strained, even with the currently inadequate benefit levels.

While the exact size of tax increases needed cannot be estimated at this time, reversing the tax cuts in Public Act 25 of 1995 will be a step in the right direction. The economic impact of modestly higher payroll wages on employers is minimal and is more than offset by the benefits to families and local communities of paying adequate UI benefits to both full- and part-time laid off workers and by the boost to our economy that results.

Yearly Trust Fund Balances and Estimates* at Two Different Tax Rates, 1990-2000
(millions of dollars)



*Estimated fund balances are calculated using interest earnings estimated on the basis of reported interest earnings. Reported benefit expenditures are used in all balance calculations.

Sources: Data underlying calculations from the Michigan Unemployment Agency and the Workforce Security Office, U.S. Department of Labor.

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