

**FINAL REPORT OF THE
SUBCOMMITTEE STUDYING**

**The Funding
Requirements of the
Virginia Unemployment
Compensation Act**

**TO THE GOVERNOR AND
THE GENERAL ASSEMBLY OF VIRGINIA**



SENATE DOCUMENT NO. 27

**COMMONWEALTH OF VIRGINIA
RICHMOND
1993**

MEMBERS OF THE JOINT SUBCOMMITTEE

Senator Elliot S. Schewel, Chairman
Senator Robert C. Scott
Senator Richard J. Holland
Senator John H. Chichester
Senator Robert E. Russell, Sr.
Delegate W. Tayloe Murphy, Jr.
Delegate Jerrauld C. Jones
Delegate Ward L. Armstrong
Delegate Richard L. Fisher
Delegate S. Vance Wilkins, Jr.

STAFF

DIVISION OF LEGISLATIVE SERVICES - Legal and Research

Arlen K. Bolstad, *Senior Attorney*
Mark C. Pratt, *Research Associate*
Cynthia G. Liddy, *Executive Secretary*

SENATE OF VIRGINIA - Administrative and Clerical

Thomas C. Gilman, *Chief Committee Clerk, Virginia Senate*
Aubrey J. Stewart, *Committee Clerk, Virginia Senate*

Table of Contents

	Page
I. Introduction.....	1
II. The UI Trust Fund.....	2
III. Advisory Board Recommendations.....	3
IV. Carry-over Legislation.....	4
V. Conclusions.....	5
VI. Appendices.....	6
1. Senate Joint Resolution No. 14.....	A-1
2. Virginia Employment Commission Presentation to the SJR 14 Joint Subcommittee.....	A-2
3. Summaries and Texts of 1992 Carry-over Bills.....	A-31
4. Joint Subcommittee Proposal.....	A-42

**Report of the
Joint Subcommittee Studying
The Funding Requirements of the
Virginia Unemployment Compensation Act
To
The Governor and the
General Assembly of Virginia
Richmond, Virginia
1993**

TO: The Honorable L. Douglas Wilder, Governor,
and
the General Assembly of Virginia

I. INTRODUCTION

The 1992 General Assembly passed Senate Joint Resolution 14 (Appendix 1) establishing a joint subcommittee of the House of Delegates and the Senate to review the funding needs of the Virginia Unemployment Compensation System. Declining reserves in the Unemployment Trust fund resulting from the current prolonged economic recession prompted the General Assembly to call for this study.

This subcommittee formally continues the work of a subcommittee chaired for many years by former Senator Elmon Gray. That subcommittee, comprised of members from the House Labor and Commerce Committee and the Senate Committee on Commerce and Labor subcommittee customarily met each year to receive a report from the Virginia Employment Commission (VEC) about the Unemployment Insurance (UI) Trust Fund's then current and projected solvency. The subcommittee also served as a vehicle for discussions between business and labor concerning UI taxes and benefit levels.

The following Senate members were appointed to the SJR-14 joint subcommittee pursuant to the resolution; Senators Schewel from Lynchburg, Scott from Newport News, R.J. Holland from Windsor, Chichester from Fredericksburg, and Russell from Bon Air, and Delegates Murphy from Warsaw, Jones from Norfolk, Armstrong from Martinsville, Fisher from Vienna and Wilkins from Amherst.

Senator Elliot S. Schewel was elected Chairman, and Delegate W. Tayloe Murphy was elected vice-chairman. The Subcommittee adopted the following study plan: (i) devote the first meeting to the VEC's trust fund solvency report together with any recommendations from the VEC's advisory board; and (ii) convene a follow-up meeting in October to vote on any issues presented by the VEC, and to review several UI bills carried over from the 1992 Session and referred to this subcommittee for comment.

The subcommittee learned that the UI Trust Fund's solvency is expected to decline from 65% to less than 60% in 1993. The VEC projects that improving unemployment levels will result in an 86% solvency level by 1996. That projection corresponds to a projected Virginia unemployment rate of 4.5% in 1994 through 1996.

The VEC briefed the subcommittee on three recommendations from the VEC's advisory boards: (i) lower the minimum UI tax rates for new employers, (ii) off-set UI pool costs with trust fund generated interest at a 75% solvency level rather than the current 50%, and (iii) lower the minimum weekly benefit from the current \$65 to \$30. None of these advisory group recommendations were endorsed by the subcommittee.

The subcommittee also reviewed three bills carried over from the 1992 to 1993 Sessions with requests from their assigned committees that this subcommittee review them. The subcommittee recommended to the Senate Commerce and Labor Committee that it PBI SB-428, a bill proposing to index maximum UI benefits to 60% of the Commonwealth's average weekly wage. A similar recommendation was made to the House Labor and Commerce Committee concerning HB 773. HB 733, as introduced, proposes to permit accumulation of the one-week waiting period currently required by statute. Finally, the subcommittee made no recommendation on the merits of HB 774, which would have eliminated current restrictions on the VEC's ability to off-set severance pay against UI benefits.

The subcommittee received no recommendations for changing the current benefits or tax structure other than those outlined above. Accordingly, it makes no recommendations for changes in the UI tax and benefit levels at this time.

II. THE UI TRUST FUND

The UI trust fund is the source of unemployment compensation benefits paid to unemployed Virginians. It is generated primarily by employer-paid taxes on employee wages up to \$8,000. The current rate of taxation ranges from .1% to 6.2%, depending on each employer's experience rating. The rate of taxation is proportionate to UI benefit payments attributable to each employer. Put another way, the more lay-offs, the higher the tax rate. One exception: new employers are charged a minimum 2.5% for three years. Experience rating can push this rate up, but it cannot go lower during that period.

Employers are also charged a "pool" tax sufficient to cover certain benefits paid out of the fund that are not charged to specific employers. Pool costs include benefits paid resulting from firms going out of business and the difference between taxes paid by maximum-rated employers (6.2%) and the cost of benefits attributable to them. Commissioner Ralph Cantrell of the Virginia Employment Commission (VEC) told the subcommittee that pool costs have been 20 - 50% of total benefits for the past six years. The pool tax amount is offset, however, by interest earned by the trust fund whenever solvency exceeds 50%.

Finally, employers are called on to pay a fund-building tax of .2% (added to their experience-based rate) whenever the fund's solvency drops below 50%. The aggregation of all trust fund taxes results in an average per-employee tax of \$70 per year.

Commissioner Cantrell told the subcommittee that VEC analysts project a \$428 million trust fund balance by December 31, 1992. Solvency stood at 66.8% at the end of 1992's second quarter. However, each employer's cost per employee increased 25.7% from 1991 to 1992. Moreover, the average tax is projected to increase 37.5% in 1993 for three reasons: declining trust fund solvency, worsening employers' experience, and adding a pool tax of .06% to all employers' tax rates.

The VEC projects that with no changes in the current tax or benefits structure, the trust fund's solvency is adequate. While it is expected to dip down to 59% in 1993, it is projected to begin an upward climb thereafter, reaching 86% solvency in 1996. These projections rest on one key assumption: a declining unemployment rate. The VEC projects an average Virginia unemployment rate of 6.7% for 1992; 5.4% in 1993; and 4.5% in 1994-1996. The VEC recommended no changes in taxes or benefits relative to solvency.

III. ADVISORY BOARD RECOMMENDATIONS

The VEC is assisted by two advisory groups: the nine-member State Advisory Board (VEC Board), and the Trust Fund Advisors. The former has three representatives from each of the following categories: business, labor, and the public. Commissioner Cantrell reported three recommendations from the advisory groups.

Both groups recommended that the new-employer tax rate's (2.5%) duration be reduced from three to two years. If implemented, new employers' taxes would be reduced by as much as 80% after the second year, from approximately \$200 per employee to \$40. The recommendation apparently rested on hope that it would help attract new business to the Commonwealth. However, the VEC reported, information received from the Department of Economic Development suggested that unemployment tax rates are, at best, a marginal factor in business site selection. The VEC also concluded this proposal would cost the trust fund an estimated \$2.4 million annually in lost revenue.

The VEC Board further recommended amending the pool-tax provisions in the Virginia Code to offset pool costs with trust-fund generated interest whenever solvency exceeds 75%. Currently, 50% solvency triggers the interest offset. The VEC reported that this fund-building proposal would generate significant amounts of additional trust fund revenue. A 75% threshold in 1992, for example, would have created an additional \$38 million in employer-paid taxes.

Finally, the VEC Board recommended lowering the minimum benefit from \$65 per week to \$30. The Trust Fund Advisors, in contrast, recommended lowering the minimum to \$50. Both groups recommended that the change in minimum commence in 1994. Assuming a constant 16% wage replacement at the lower benefit levels, the \$30 benefit would lower qualifying two-quarter earnings to \$1,500; the \$50 benefit lowers it to \$2,500.

Both advisory groups apparently felt that the growing number of minimum-wage workers regularly employed in jobs providing fewer than 40 hours per week warranted lowering the minimum benefit. However, business representatives reminded the subcommittee that the current benefit tables presume greater workplace attachment than that built into either advisory group's proposal. For example, to qualify for the \$30 benefit, a minimum-wage employee could earn the qualifying \$1,500 two-quarter earnings by working 14 hours per week for 26 weeks or 15 hours per week for 24 weeks. VEC representatives also noted that each \$1 reduction in the minimum benefit amount results in an annual \$500,000 trust fund cost increase.

The subcommittee took no action on any of the advisory groups' proposals, tabling them for this year. Copies of the VEC presentations to the subcommittee concerning trust fund solvency, the advisory group's proposals, and miscellaneous matters are annexed as Appendix 2.

IV. CARRY-OVER LEGISLATION

SB 420 proposes to index the maximum weekly unemployment compensation benefit to 60% of the Commonwealth's average weekly wage. The VEC's analysis of SB-420's trust-fund impact showed additional benefit outlays resulting from this proposal would increase annually to \$61 million in 1998, with a commensurate drop in trust fund solvency. The bill was supported by labor and opposed by business community representatives. The subcommittee recommended that the Senate Committee on Commerce and Labor vote to PBI the bill.

HB 774 eliminates current statutory provisions limiting the VEC's ability to offset employer-paid severance pay against unemployment compensation benefits. Under current law, severance pay offsets are permitted only to the extent severance pay is received within the first 30 days following employment termination. Any severance pay received thereafter cannot be used to reduce benefits. VEC analysis showed that eliminating the 30-day bar would increase trust fund revenues by approximately \$200,000 annually. The subcommittee suggested a technical amendment to the bill, but will return it to the House Labor and Commerce Committee without formal recommendation.

HB 773 modifies the one-week waiting period currently provided by statute. Current law provides no payment of benefits during an individual's first week of eligibility. HB 773 permits individuals who are furloughed from their jobs for less than one week at a time to credit accumulated days off without pay against the waiting-week requirement. The subcommittee learned that the proposal would generate significant administrative work for the VEC. However, the subcommittee also learned that the bill may be modified to introduce a concept permitted by federal law and currently in place in 17 other states: work sharing.

Work sharing authorizes extended periods of working hours reductions to be compensated through proportionate benefits payments. For example, if an employer reduced his workforce's hours by 20%, the employees could receive 20% of the UI benefits they would be entitled to receive for actual unemployment. The subcommittee voted to recommend that the House Labor and Commerce Committee PBI HB-773 as introduced.

These carry-over bills, their summaries, and suggested changes to HB-774 are attached as Appendix 3.

V. CONCLUSIONS

The subcommittee makes no recommendations for changes in the UI tax or benefit structure at this time. However, in light of the continuing economic uncertainties attending the ongoing recession, the subcommittee recommends that the UI Trust Fund be monitored closely and that this subcommittee's work continue in 1993. A study resolution continuing the subcommittee in 1993 is attached as Appendix 4.

VI. APPENDICES

1. Senate Joint Resolution 14 (1992).
2. Virginia Employment Commission presentations to the SJR-14 Joint Subcommittee.
3. Summaries and text of carry-over bills received by the subcommittee: HB 773, 774 and SB 420. Includes technical amendment to HB 774 suggested by the subcommittee.
4. Joint subcommittee proposal: Resolution continuing the subcommittee in 1993.

**1992 SESSION
ENGROSSED**

SP4040733

SENATE JOINT RESOLUTION NO. 14

Senate Amendments in [] - February 5, 1992

Continuing the Joint Subcommittee of the Senate Commerce and Labor Committee and the House of Delegates Labor and Commerce Committee Studying the Funding Requirements of the Virginia Unemployment Compensation Act.

Patrons—Schewel, Chichester and Scott; Delegates: Ealey, Fisher, Murphy and Wilkins

Referred to the Committee on Rules

WHEREAS, the reserves in the Unemployment Trust Fund have been declining due to the extended recession and high unemployment in Virginia; and

WHEREAS, the reserves in the Fund continue to be significantly less than the adequate fund balance amount defined in the Virginia Unemployment Compensation Act; and

WHEREAS, the Joint Subcommittee and several state employer and labor interest groups have reviewed the current status and long-term projections for the Fund which led to several issues which require further study; and

WHEREAS, the economic forecasts for the next year are very cautious in projecting the strength or weakness of a recovery which could have further negative impact on the Fund's solvency and growth; now, therefore, be it

RESOLVED by the Senate, the House of Delegates concurring, That the Joint Subcommittee of the Senate Commerce and Labor Committee and the House of Delegates Labor and Commerce Committee Studying the Funding Requirements of the Virginia Unemployment Compensation Act be hereby continued.

The Joint Subcommittee's current membership, comprised of five members appointed from the House Committee on Labor and Commerce and five members from the Senate Committee on Commerce and Labor, shall continue to serve. Vacancies shall be filled by appointment of the appropriate committee chairperson. Vacancies shall be filled by the Senate Committee on Privileges and Elections and the Speaker of the House, as appropriate.]

All state agencies are requested to cooperate by providing any information and assistance that the Joint Subcommittee may require for the purpose of conducting this study.

The Joint Subcommittee shall complete its study by December 1, 1992, and shall submit its recommendations to the Governor and 1993 Session of the General Assembly pursuant to the procedures of the Division of Legislative Automated Systems for the processing of legislative documents.

The indirect costs of this study are estimated to be \$5,860; the direct costs shall not exceed \$3,600.

Implementation of this resolution is subject to subsequent approval and certification by the Joint Rules Committee. The Committee may withhold expenditures or delay the period for the conduct of the study.

OCT 02 1992



COMMONWEALTH of VIRGINIA
Virginia Employment Commission

Ralph G. Cantrell
Commissioner

703 East Main Street

P. O. Box 1358
Richmond, Virginia 23211
(804) 371-8050 Voice/TDD

September 28, 1992

MEMORANDUM

TO: Members of the Joint Subcommittee Examining the
Unemployment Compensation Trust Fund

FROM: Ralph G. Cantrell, Commissioner

SUBJECT: Unemployment Compensation Trust Fund Data

In follow-up to the September 14, 1992 Joint Subcommittee meeting, I have enclosed annotated charts from my presentation on the trust fund at the request of Senator Schewel.

In addition, we have prepared responses to several specific questions from members of the subcommittee for which data was not available during the meeting.

1. What is the exhaustion rate for the federal Emergency Unemployment Compensation (EUC) program?

See attached chart entitled "Extended Benefits Final Payments."

2. What is the distribution of benefit charges by industry for those employers at the maximum tax rate?

See attached charts entitled "Estimated Benefits Paid by Industry."

3. How do the Initial Claims data for 1991 and 1992 compare to a normal year like 1988?

See attached chart entitled "U.I. Initial Claims."

Please note that because the EUC program has been in effect for a relatively short period of time, an exhaustion rate cannot be



Members of Joint Subcommittee

Page 2

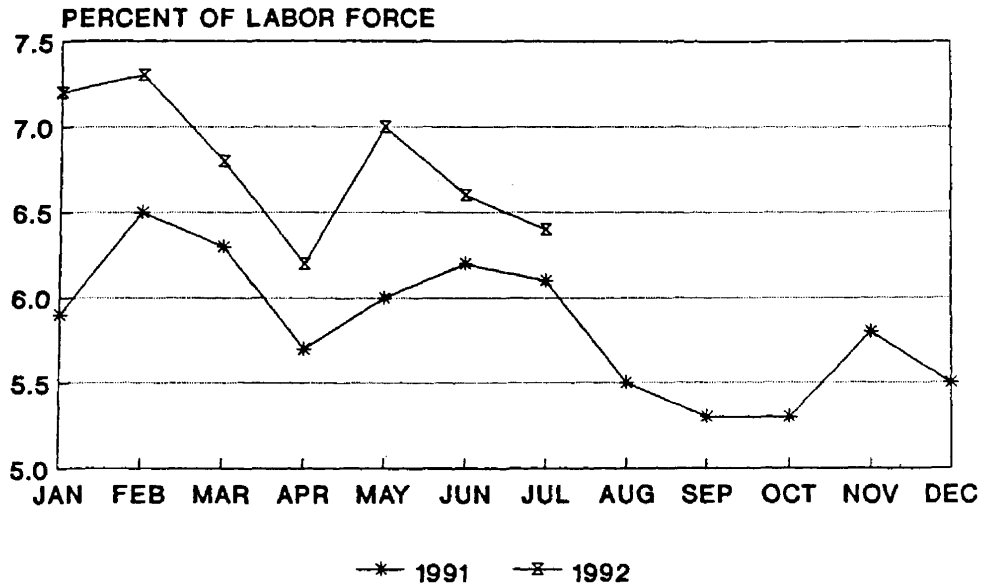
September 28, 1992

accurately computed. Benefit charges by industry for maximum tax employers are unavailable until we have modified our computer programs.

Enclosures

C: ✓ Mr. Arlen K. Bolstad, Senior Staff Attorney, Division of
Legislative Services
Mr. Thomas C. Gilman, Chief Committee Clerk, Senate Clerk's
Office

VIRGINIA'S UNEMPLOYMENT RATE 1991 VS. 1992

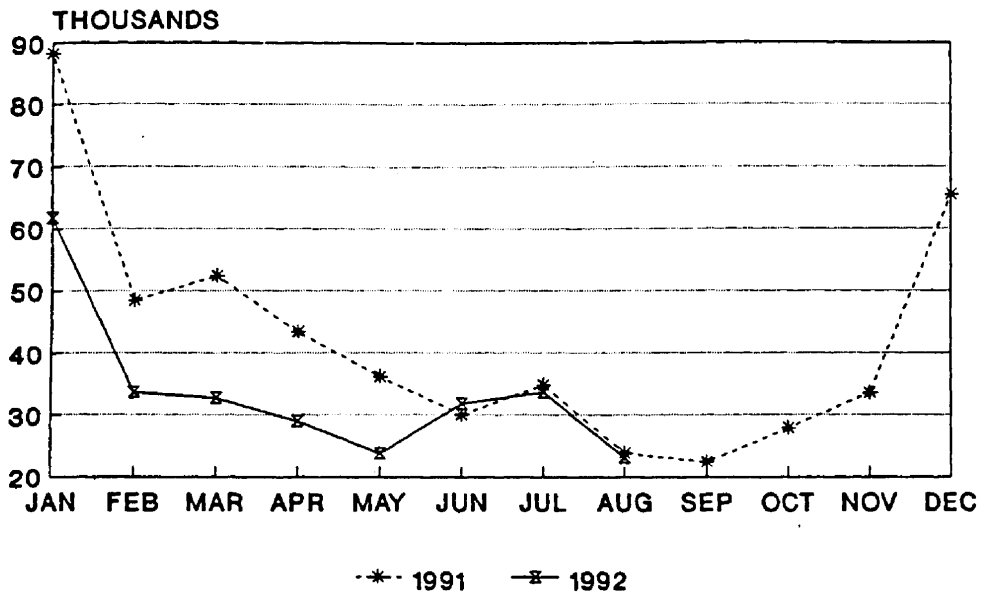


NOT SEASONALLY ADJUSTED

.....

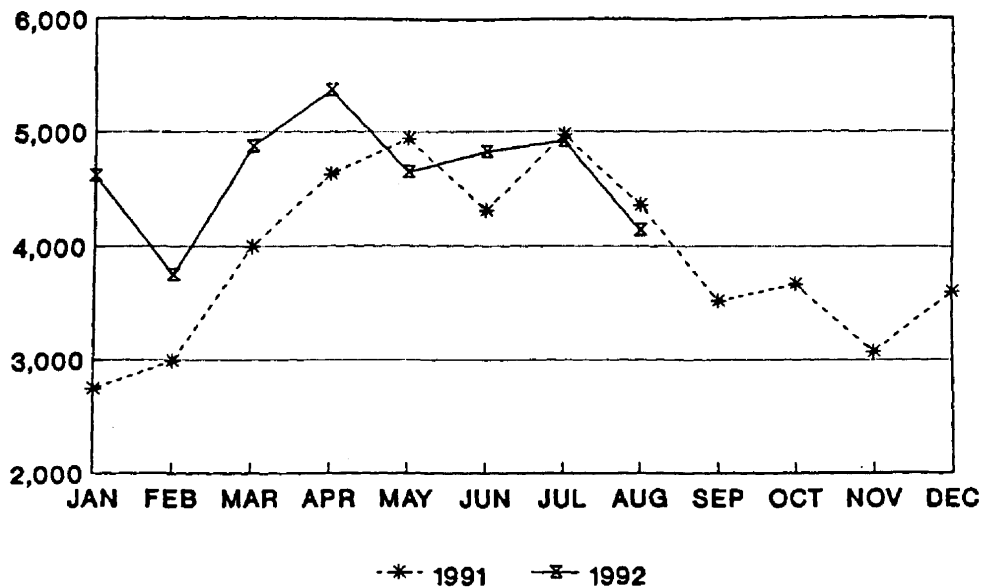
- Average unemployment for 1992 projected to be 6.7%.
- August rate projected to be around 6.0%.

U.I. INITIAL CLAIMS 1991-1992



-
- August average duration down to 13.2 weeks from the recession's peak of 14.0 weeks in January - March 1992.
 - August 1991 average duration was 11.1 weeks.

U.I. FINAL PAYMENTS 1991 VS. 1992



-
- Exhaustion rate is the percent of claimants who use up their entitlement of 12 to 26 weeks.
 - August exhaustion rate of 35.5% is higher than peak exhaustion rate of the 1981-82 recession, 31.3%.
 - All-time high exhaustion rate of 42.9% occurred in June 1975.

CURRENT LAW

- TAX BASE - \$8,000
 - MINIMUM TAX RATE - 0.1%
 - MAXIMUM TAX RATE - 6.2%
 - NEW EMPLOYER TAX RATE - MIN. 2.5% FOR 3 YEARS
 - POOL TAX - VARIABLE, OFFSET BY INTEREST WHEN SOLVENCY EXCEEDS 50%
 - FUND BUILDING TAX - 0.2% ADDED WHEN SOLVENCY BELOW 50%
 - MINIMUM BENEFIT - \$65
 - MAXIMUM BENEFIT - \$208
-

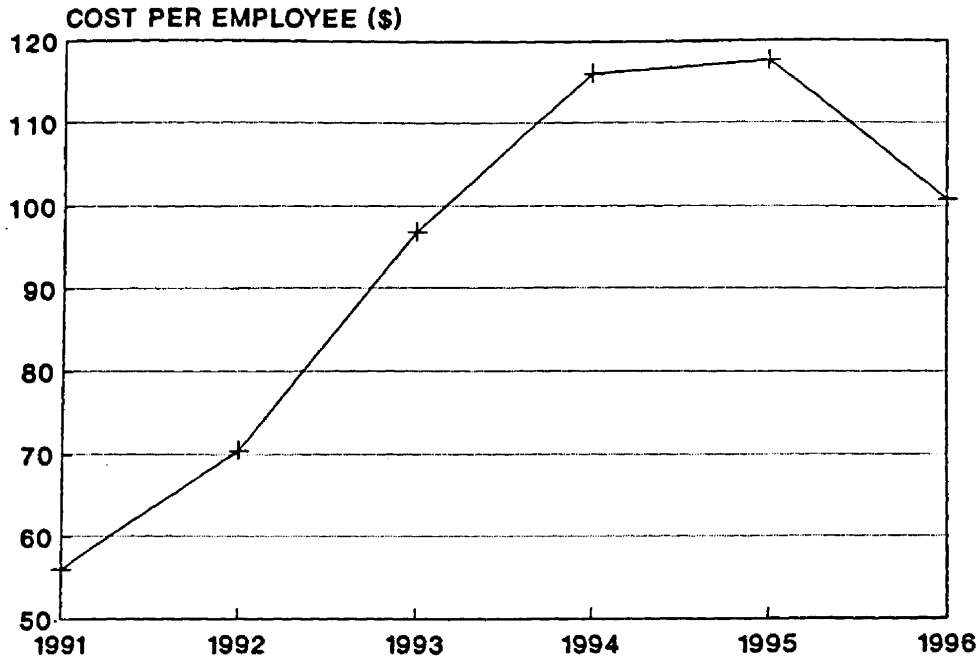
- Minimum tax rate = \$8 per employee per year
- Maximum tax rate = \$496 per employee per year
- New Employer tax rate = \$200 per employee per year
- Pool tax added to all employers' tax rates under 2 circumstances:
 - a) Trust Fund solvency less than 50%
 - b) Pool Costs more than interest earnings (even if solvency above 50%).

**TRUST FUND DATA
(MILLIONS OF DOLLARS)**

	<u>1991</u>	<u>1992</u>
JANUARY 1 BALANCE	\$702.5	\$573.0
TAX REVENUE	\$140.4	\$168.3
INTEREST REVENUE	\$58.0	\$45.7
BENEFITS	\$328.0	\$304.3
DECEMBER 31 BALANCE	\$573.0	\$482.7
SOLVENCY LEVEL (6/30)	83.5%	66.8%

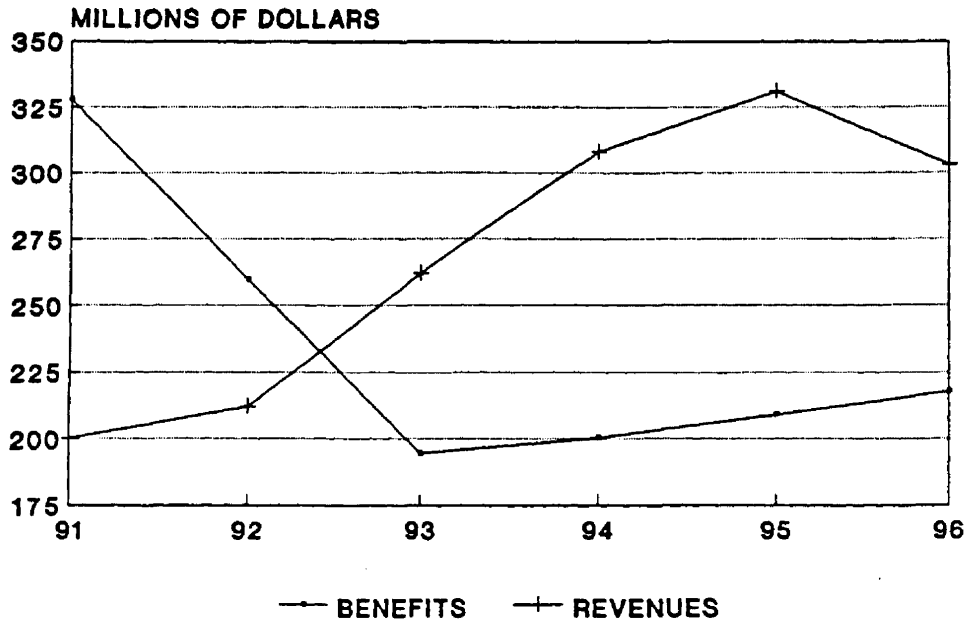
-
- Higher tax rates in 1992, the result of lower Trust Fund Solvency in 1991 (83.5%) compared to 1990 (98%), have produced higher tax revenue this year.
 - Interest revenue is down due to lower balances and interest rates.
 - Although lower than 1991, benefits are still high because 1) average exhaustion rate and duration are above last year and 2) a large number of claimants are receiving benefits near the maximum amount.

AVERAGE TAX



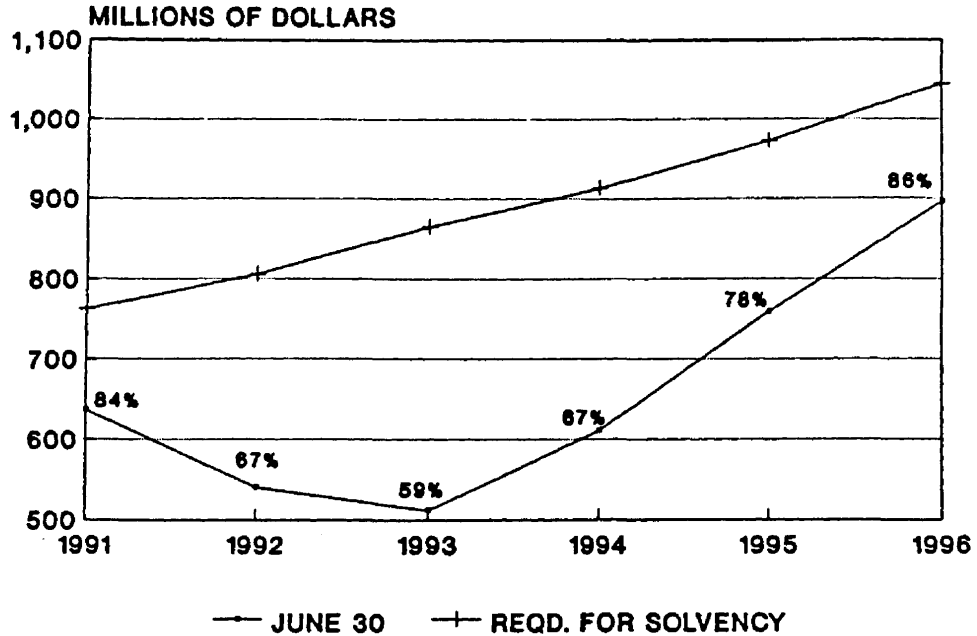
-
- Cost per employee increased 25.7% from 1991 to 1992.
 - Average tax will increase 37.5% in 1993 for 3 reasons:
 - a) declining Trust Fund Solvency; higher tax rates
 - b) employers' experience worse
 - c) pool tax of 0.06% added to all employers' tax rates.

BENEFITS VS. REVENUES



-
- Assumed no change in current benefit amounts or tax revenue system.
 - Revenues include regular taxes, pool taxes, and interest income.
 - Projected pool tax rates are: for 1993 (0.06%), 1994 (0.14%), 1995 (0.19%), 1996 (0.13%), and 1997 (0.05%).
 - Assumed unemployment rates are: for 1992 (6.7%), 1993 (5.4%), 1994-96 (4.5%).

TRUST FUND BALANCES



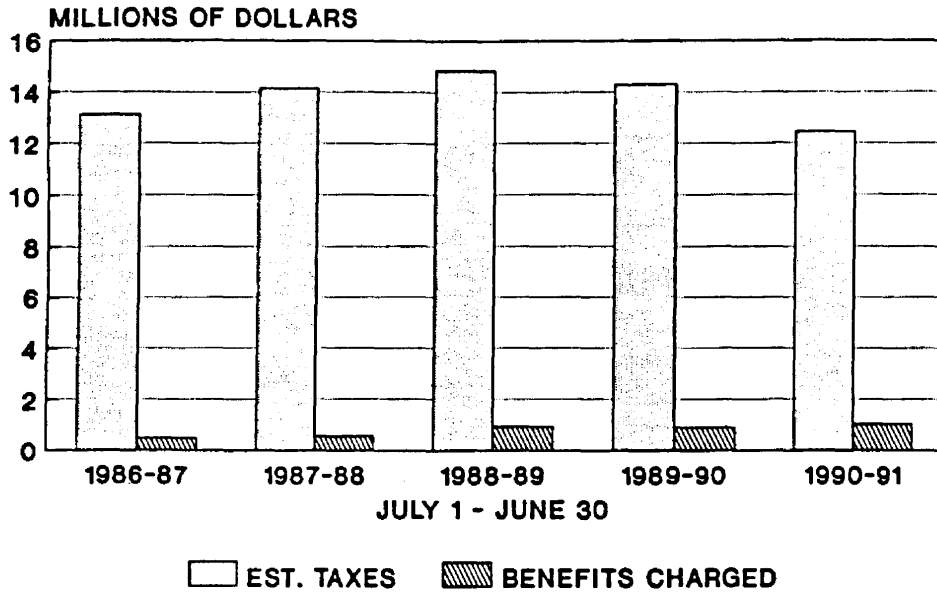
-
- In 1992, the gap between actual balance and adequate fund balance, or solvency requirement, is \$267 million.
 - Gap will widen in 1993 to \$354 million and then narrow to \$149 million in 1996.

CURRENT LAW

- TAX BASE - \$8,000
 - MINIMUM TAX RATE - 0.1%
 - MAXIMUM TAX RATE - 6.2%
 - NEW EMPLOYER TAX RATE - MIN. 2.5% FOR 3 YRS.
 - POOL TAX - VARIABLE. OFFSET BY INTEREST WHEN SOLVENCY EXCEEDS 50%
 - FUND BUILDING TAX - 0.2% ADDED WHEN SOLVENCY BELOW 50%
 - MINIMUM BENEFIT - \$65
 - MAXIMUM BENEFIT - \$208
-

- Items underlined were issues raised by the Trust Fund Advisory Committee and the VEC Advisory Board.

NEW EMPLOYERS TAXES VS. BENEFITS



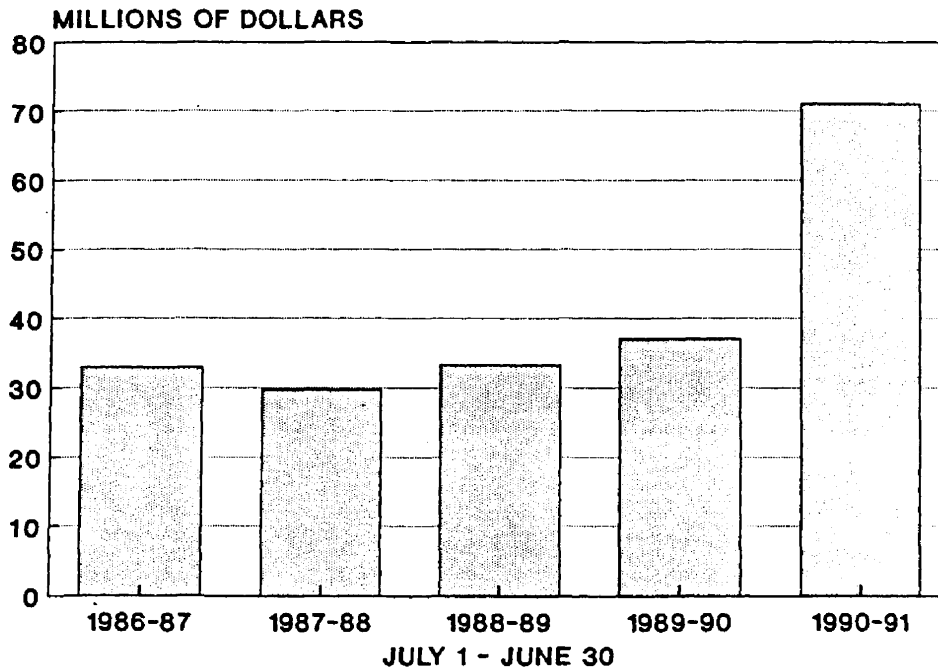
- Data does not include employers that have gone out of business.
- Also excluded are employers that have earned a tax rate greater than 2.5% in less than 3 years.
- Question of equity: do new employers pay too much in taxes relative to benefits charged to them?

CHANGE NEW EMPLOYER TAX
SUPPORTED BY VEC BOARD & TRUST FUND ADVISORS

- **CURRENT LAW: NEW EMPLOYER TAX RATE -
MINIMUM 2.5% FOR 3 YEARS**
- **OPTION: NEW EMPLOYER TAX RATE -
MINIMUM 2.5% FOR 2 YEARS**
- **ANNUAL TRUST FUND IMPACT:
\$4.2 MILLION IN LOST REVENUE**

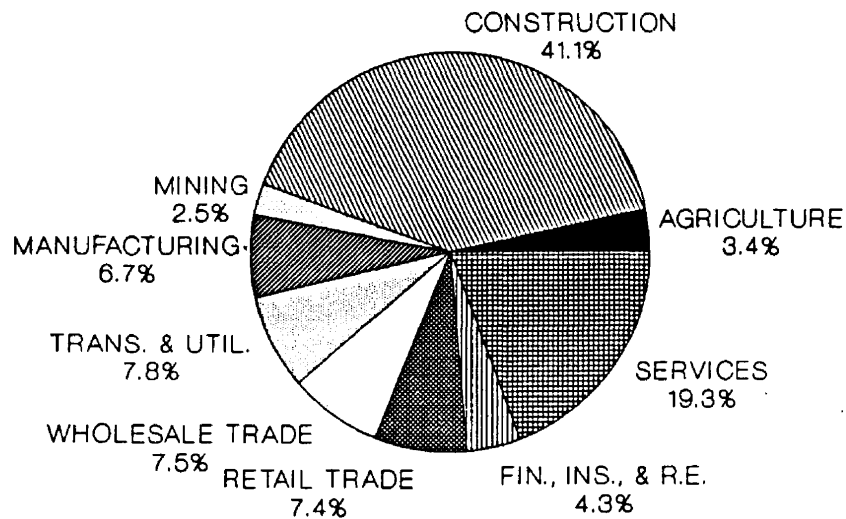
-
- **If new employers paid experience-based tax after 2 years, instead of the current 3 years, their average tax would be reduced by as much as 80% (from \$200 per employee to \$40).**

POOL COSTS



- Pool costs are benefits that cannot be charged to a specific employer.
- Pool costs include benefits paid resulting from firms going out of business and the difference between taxes paid by maximum tax employers and benefits charged to those employers.
- Pool costs have been 20% - 25% of total benefits for the last six years, but have been as high as 35% (1982-83) and as low as 7.5% (1983-84).

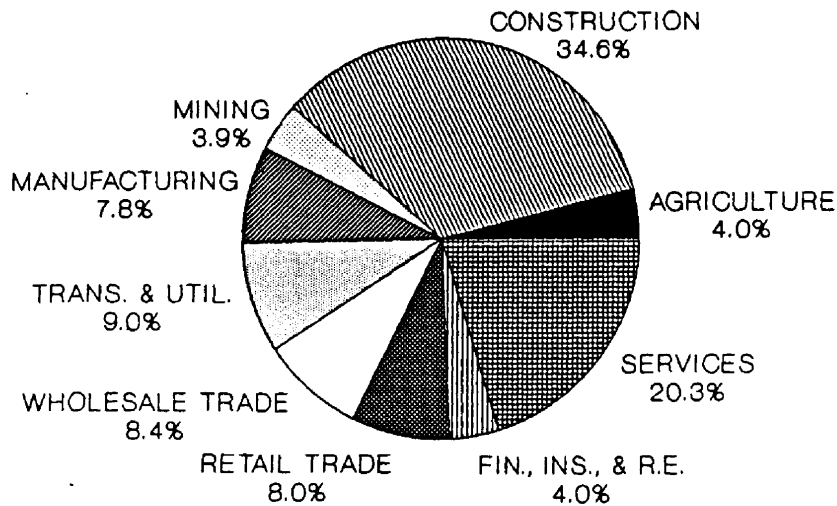
EMPLOYERS PAYING MAXIMUM TAX 1992



EXPERIENCE RATED ONLY

- Almost 46% of pool costs in the July 1990 to June 1991 period were attributable to the excess of benefits-paid over taxes-collected for maximum tax employers.
- Only 3% of all firms are paying the maximum tax in 1992.
- Data indicates number of employers paying the maximum tax, NOT the benefits charged to those employers.

EMPLOYERS PAYING MAXIMUM TAX 1991



EXPERIENCE RATED ONLY

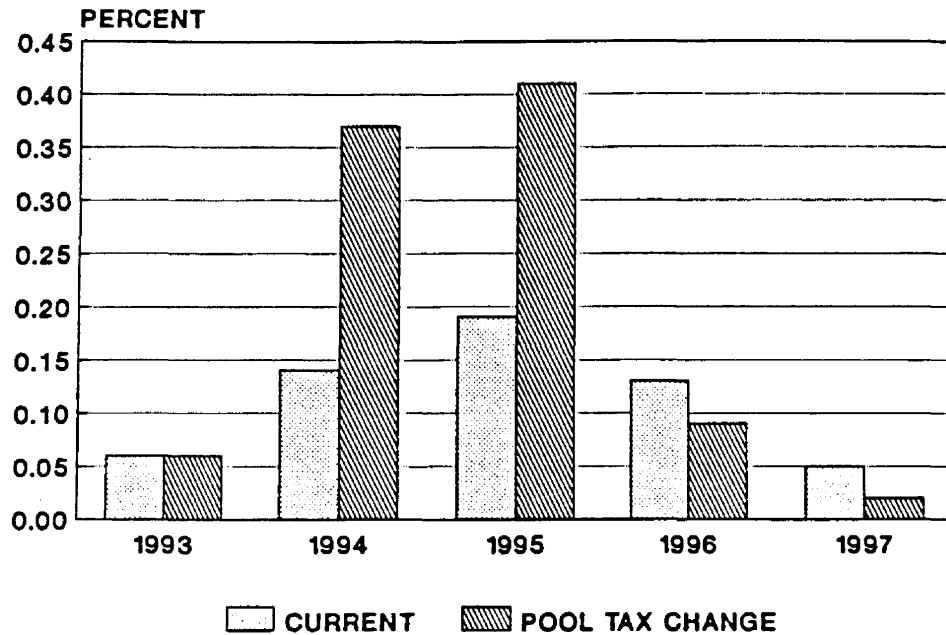
- Almost 29% of pool costs in the July 1989 to June 1990 period were attributable to the excess of benefits-paid over taxes-collected for maximum tax employers.
- Only 1.7% of all firms paid the maximum tax in 1991.
- Data indicates number of employers paying maximum tax, NOT the benefits charged to those employers.

CHANGE POOL TAX SUPPORTED BY TRUST FUND ADVISORS

- CURRENT LAW: POOL TAX - VARIABLE, OFFSET BY INTEREST WHEN SOLVENCY EXCEEDS 50%
- OPTION: POOL TAX - VARIABLE, OFFSET BY INTEREST WHEN SOLVENCY EXCEEDS 75%

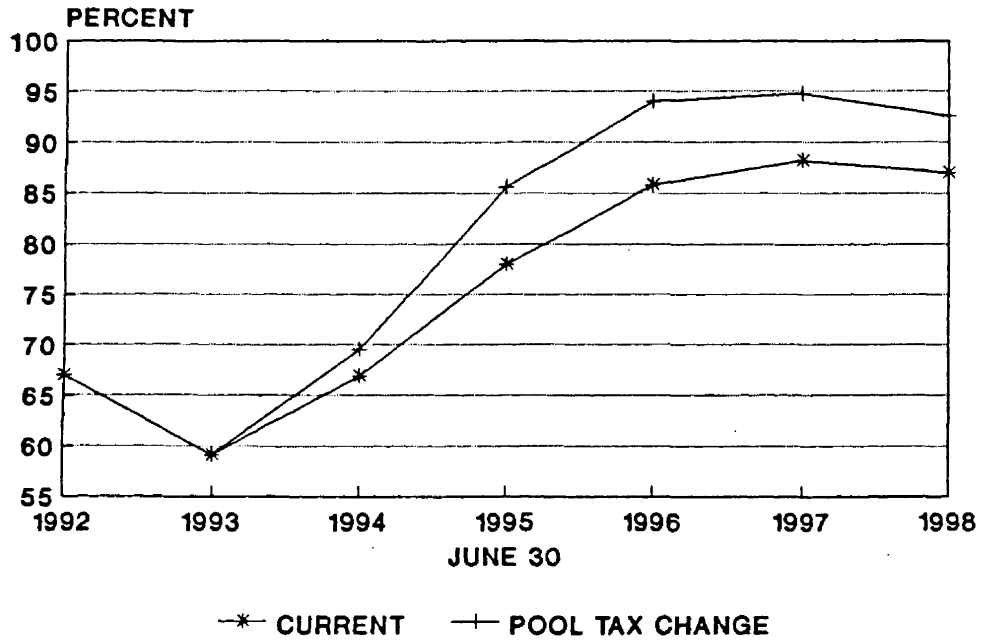
-
- Change would be effective in 1994.
 - Option would change pool tax mechanism in only one way: when solvency drops below 75%, instead of current 50%, pool tax add-on would be automatic. Option would not effect pool tax being added when pool costs exceed interest earnings.

POOL TAX RATES



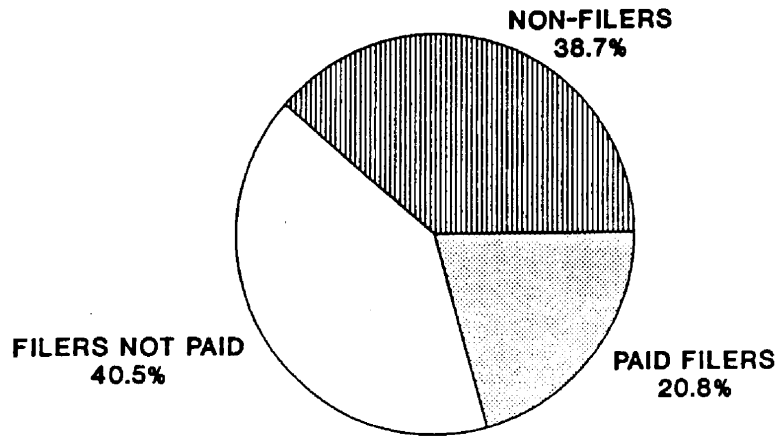
-
- Pool taxes added in 1994 and 1995 would be higher under the option because solvency is less than 75% in 1993 and 1994; therefore interest could not be used to offset pool costs.
 - Because solvency exceeds 75% in 1995 & 1996, interest can be used to offset pool costs; therefore the option results in lower pool tax rates in 1996 & 1997.

TRUST FUND SOLVENCY



- Higher pool tax revenue from the option causes significantly higher solvency levels from 1995 to 1998.

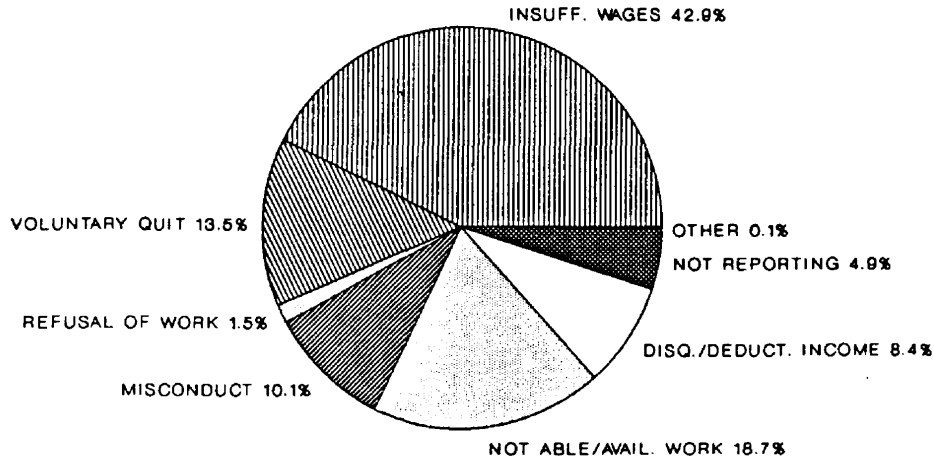
VIRGINIA'S UNEMPLOYED 1991



Source: VEC estimates

- Benefits were paid to 33.9% of all FILERS.
- For those unemployed who DID NOT file for benefits, the VEC cannot determine how many would have been paid or why they chose not to file a claim.

U. I. FILERS NOT PAID 1991



Source: VEC estimates

- **Insufficient Wages** means the claimant did not earn at least \$3,250 over 2 quarters in the base period.
- **Disqualifying/Deductible Income** includes severance pay, social security, holiday pay, vacation pay, and pensions from the base period employer.
- For clarification, some of the other categories are Refusal of Suitable Work, Discharge for Misconduct, and Not Reporting to UI Office as Requested.

LOWER MINIMUM BENEFIT SUPPORTED BY VEC BOARD

- **CURRENT LAW: MINIMUM BENEFIT - \$65**
- **OPTION: MINIMUM BENEFIT - \$30**
- **ANNUAL IMPACT:**
ADDS 19,600 CLAIMANTS
COSTS \$9.7 MILLION IN ADDITIONAL BENEFITS
AVERAGE TAXES INCREASE 3%

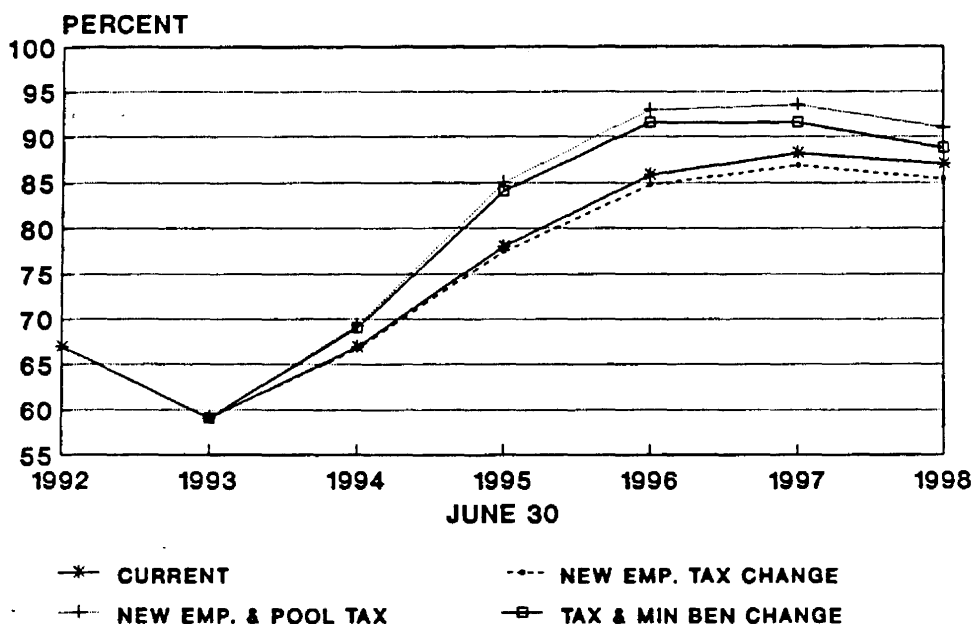
-
- Current minimum benefit requires 2 high quarter earnings of \$3,250. A minimum wage employee could earn this amount by working 30 hours per week for 26 weeks - or 32 hours per week for 24 weeks.
 - Change would be effective in 1994.
 - Option would lower the 2 high quarter earnings requirement to \$1,500. A minimum wage employee could earn \$1,500 by working 14 hours per week for 26 weeks - or 15 hours per week for 24 weeks.
 - Option would raise the percentage of unemployed receiving UI benefits from 21% to 31%.
 - Average taxes would increase by \$3 per employee per year.

LOWER MINIMUM BENEFIT SUPPORTED BY TRUST FUND ADVISORS

- CURRENT LAW: MINIMUM BENEFIT - \$65
- OPTION: MINIMUM BENEFIT - \$50
- ANNUAL IMPACT:
ADDS 10,300 CLAIMANTS
COSTS \$6.0 MILLION IN ADDITIONAL BENEFITS
AVERAGE TAXES INCREASE 2%

-
- Current minimum benefit requires 2 high quarter earnings of \$3,250. A minimum wage employee could earn this amount by working 30 hours per week for 26 weeks - or 32 hours per week for 24 weeks.
 - Change would be effective in 1994.
 - Option would lower the 2 high quarter earnings requirement to \$2,500. A minimum wage employee could earn \$2,500 by working 23 hours per week for 26 weeks - or 25 hours per week for 24 weeks.
 - Option would raise the percentage of unemployed receiving UI benefits from 21% to 26%.
 - Average taxes would increase by \$2 per employee per year.

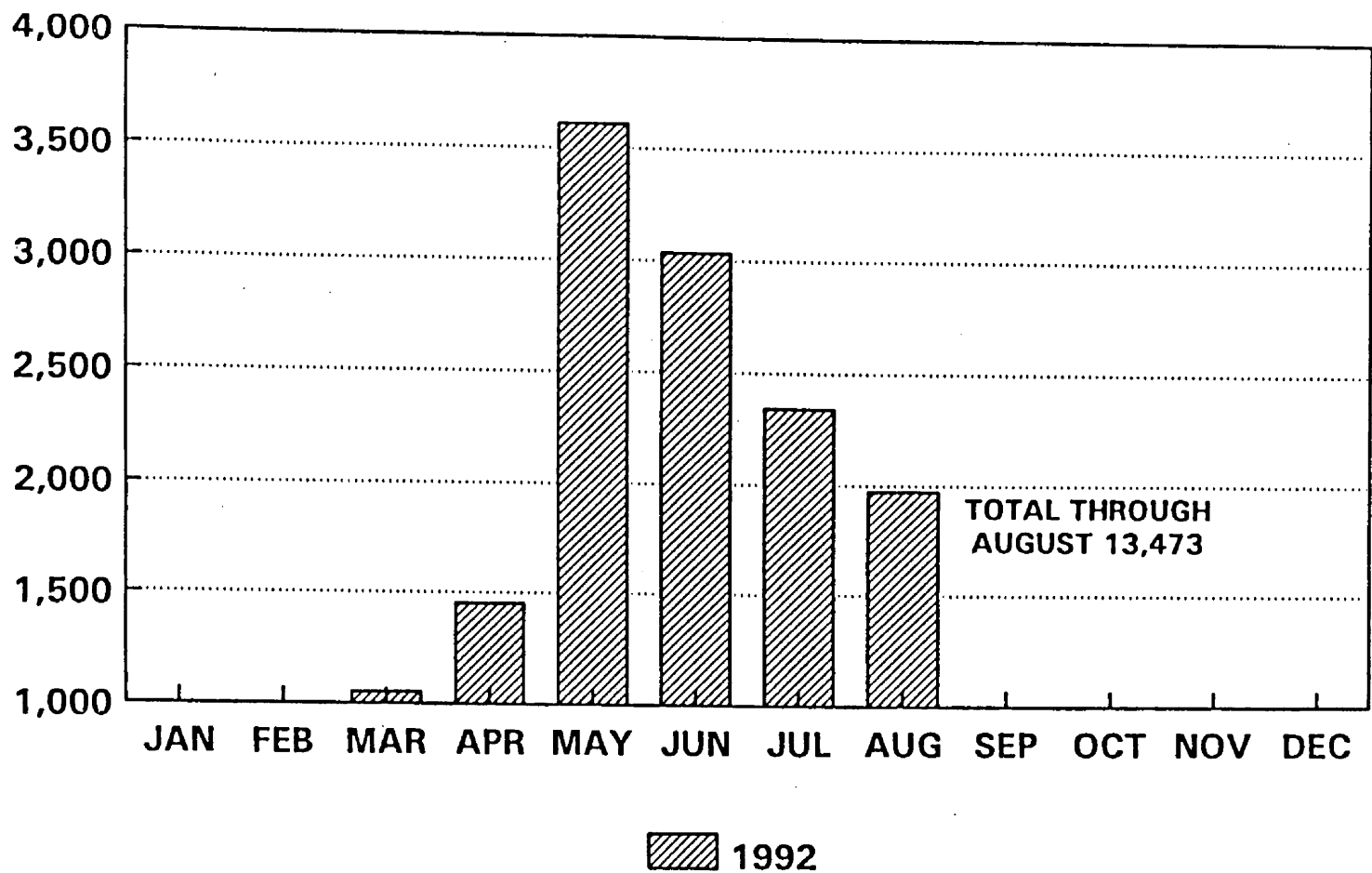
TRUST FUND SOLVENCY



-
- Current Law is compared to:
 - a) New Employer Tax Change - new employers pay minimum tax of 2.5% for 2 years instead of 3 years.
 - b) New Employer & Pool Tax Changes - a) plus pool tax imposed when solvency less than 75% instead of 50%.
 - c) New Employer, Pool Tax & Minimum Benefit Changes - a) & b) plus minimum benefit of \$50 instead of \$65.
 - By 1998, only the solvency level for combined New Employer and Pool Tax Changes (b) is significantly higher than current law.

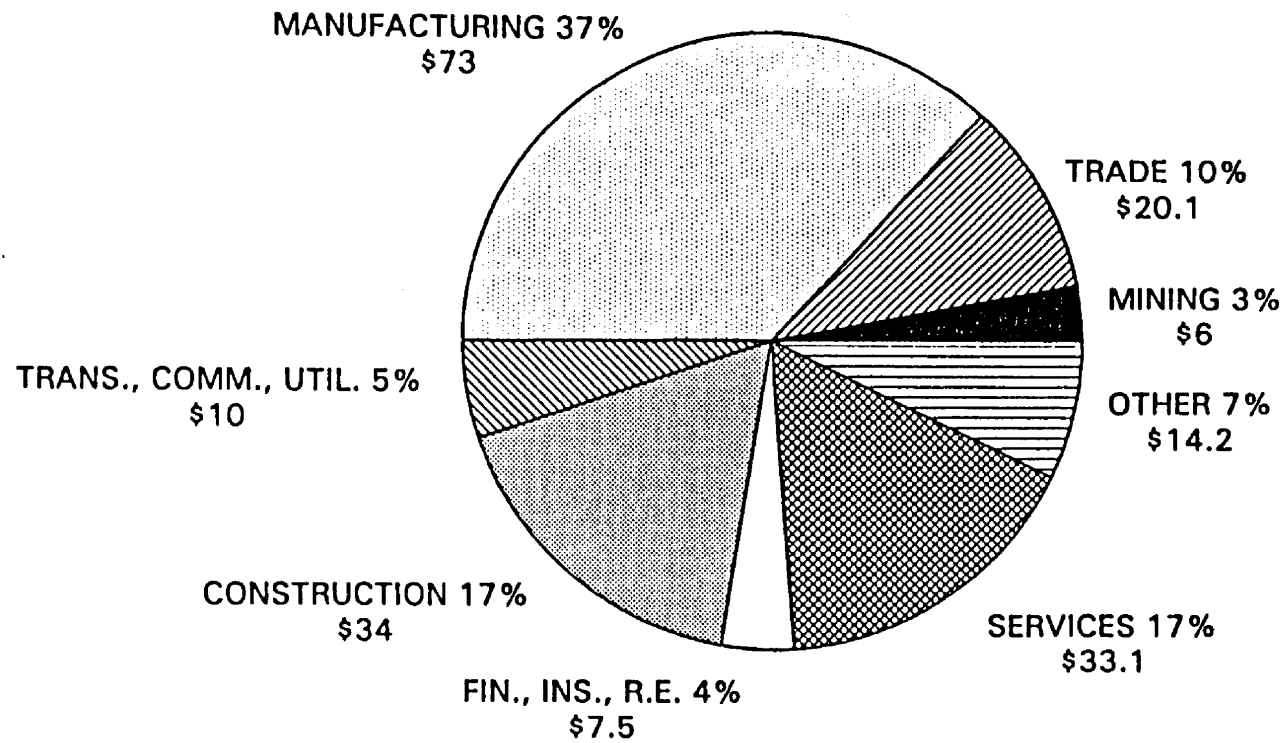
EXTENDED BENEFITS FINAL PAYMENTS

EMERGENCY UNEMPLOYMENT COMPENSATION ACT



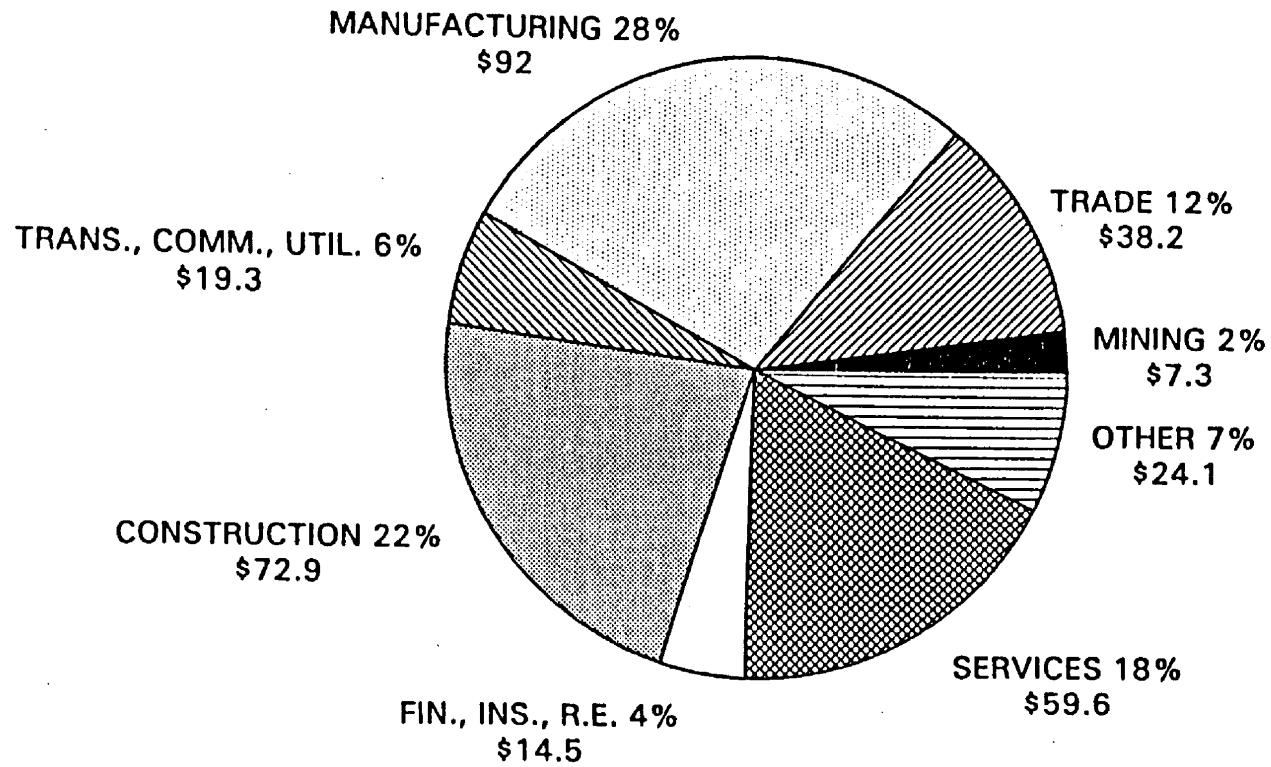
100% FEDERAL FUNDING

ESTIMATED BENEFITS PAID BY INDUSTRY 1990



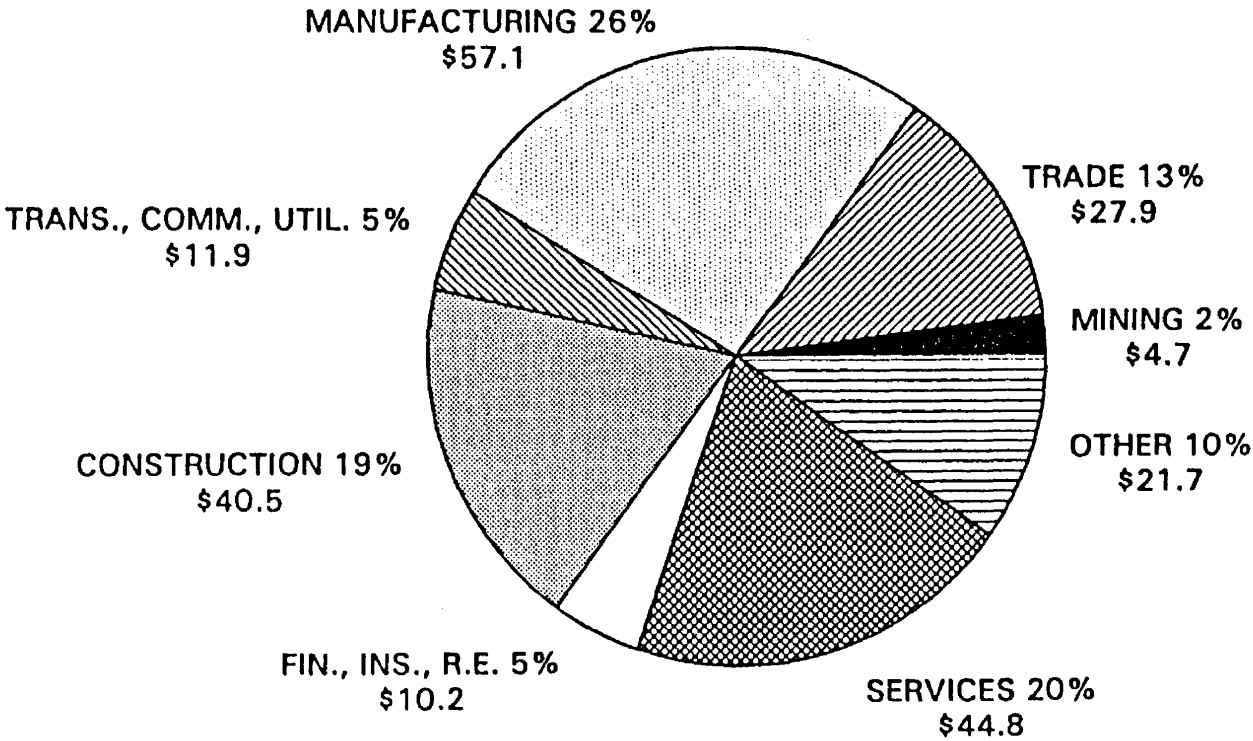
\$198 MILLION TOTAL

ESTIMATED BENEFITS PAID BY INDUSTRY 1991



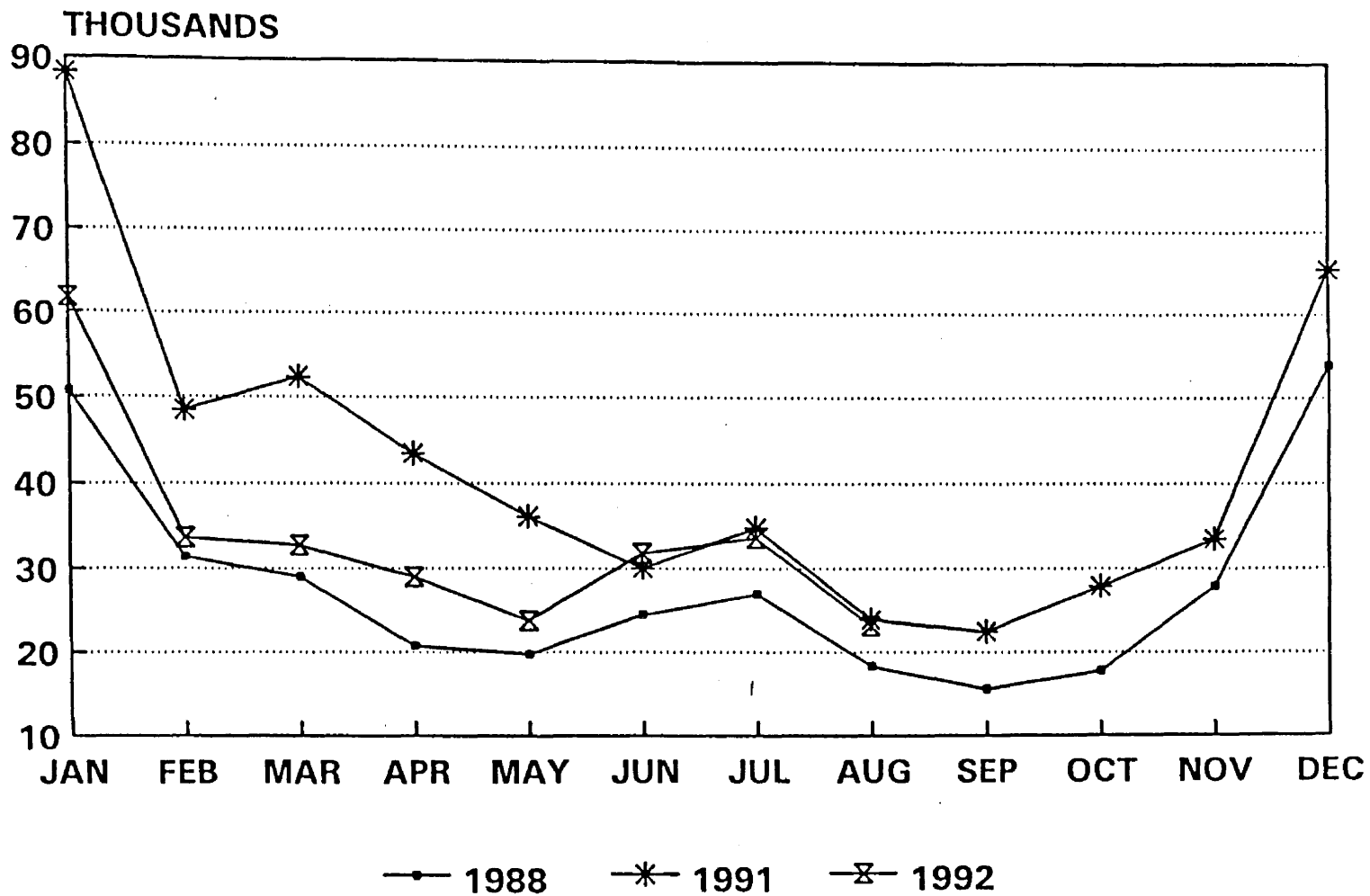
\$328 MILLION TOTAL

ESTIMATED BENEFITS PAID BY INDUSTRY JANUARY - AUGUST 1992



\$219 MILLION TOTAL

U.I. INITIAL CLAIMS



SJR 14**Funding Requirements of the Virginia Unemployment Compensation Act****1992 Carryover Legislation****BILL NUMBER:** House Bill 773**PATRON:** Delegate Giesen

SUMMARY: *Unemployment compensation; benefit eligibility-waiting week.* Permits employees to accrue the one-week waiting period required under the Virginia Unemployment Compensation Act. The waiting period, effective January 1991, is an interval during which an individual eligible for unemployment compensation benefits receives no benefits during his first week of eligibility. This bill permits individuals who are furloughed from their jobs for less than one week at a time to credit accumulated days off without pay against the waiting-week requirement. When employers require days off without pay for less than one week's duration, such employers may avoid the operation of § 60.1-226. That section provides that an individual is deemed unemployed (thus eligible for benefits) if (i) he does not work or receive any pay for one week, or (ii) in any week of less than full-time work, his wages drop below his weekly unemployment compensation benefit amount.

BILL NUMBER: House Bill 774**PATRON:** Delegate Giesen

SUMMARY: *Unemployment compensation; determination of wages.* Allocates severance pay and other such pay triggered by employment termination to the calendar quarters immediately following such termination. The result: employees' severance pay is treated the same as weekly wages for purposes of unemployment compensation eligibility. The bill accomplishes this by dividing the gross payment received on termination by the employee's gross average weekly wage for the 30-day period immediately preceding termination. The resulting quotient is the number of weeks that the employee will be deemed earning wages for the period immediately following termination. Consequently, the employee's eligibility for unemployment compensation will not commence until that period has elapsed.

BILL NUMBER: Senate Bill 420**PATRON:** Senator Scott

SUMMARY: *Unemployment compensation.* Indexes the unemployment compensation maximum weekly benefit amount to 60 percent of the average weekly wage in the Commonwealth. Currently, unemployment compensation rates are established by biennial legislation reflecting negotiations between employee and employer representatives under the auspices of the joint subcommittee overseeing the unemployment compensation trust fund. The resulting compensation tables are not linked to any economic index or floating bench mark. Thus, under current law, wage increases do not result in automatic, upward adjustments to unemployment compensation rates such as is provided in this bill.

1992 SESSION

LD2776244

HOUSE BILL NO. 773

Offered January 21, 1992

A BILL to amend and reenact § 60.2-612 of the Code of Virginia, relating to unemployment compensation; benefits eligibility conditions.

Patron—Giesen

Referred to the Committee on Labor and Commerce

Be it enacted by the General Assembly of Virginia:

1. That § 60.2-612 of the Code of Virginia is amended and reenacted as follows:

§ 60.2-612. Benefit eligibility conditions.—An unemployed individual shall be eligible to receive benefits for any week only if the Commission finds that:

1. He has, in the highest two quarters of earnings within his base period, been paid wages in employment for employers that are equal to not less than the lowest amount appearing in Column A of the "Benefit Table" appearing in § 60.2-602 on the line which extends through Division C and on which in Column B of the "Benefit Table" appears his weekly benefit amount. Such wages shall be earned in not less than two quarters.

2. a. His total or partial unemployment is not due to a labor dispute in active progress or to shutdown or start-up operations caused by such dispute which exists (i) at the factory, establishment, or other premises, including a vessel, at which he is or was last employed, or (ii) at a factory, establishment or other premises, including a vessel, either within or without this Commonwealth, which (a) is owned or operated by the same employing unit which owns or operates the premises at which he is or was last employed and (b) supplies materials or services necessary to the continued and usual operation of the premises at which he is or was last employed. This subdivision shall not apply if it is shown to the satisfaction of the Commission that:

(1) He is not participating in or financing or directly interested in the labor dispute; and

(2) He does not belong to a grade or class of workers of which, immediately before the commencement of the labor dispute, there were members employed at the premises, including a vessel, at which the labor dispute occurs, any of whom are participating in or financing or directly interested in the dispute.

b. If separate branches of work which are commonly conducted as separate businesses at separate premises are conducted in separate departments of the same premises, each such department shall, for the purposes of this subdivision, be deemed to be a separate factory, establishment or other premises. Membership in a union, or the payment of regular dues to a bona fide labor organization, however, shall not alone constitute financing a labor dispute.

3. He is not receiving, has not received or is not seeking unemployment benefits under an unemployment compensation law of any other state or of the United States; however, if the appropriate agency of such other state or of the United States finally determines that he is not entitled to such unemployment benefits, this subdivision shall not apply.

4. He is not on a bona fide paid vacation. If an individual is paid vacation pay for any week in an amount less than the individual's weekly benefit amount his eligibility for benefits shall be computed under the provisions of § 60.2-603.

5. He has registered for work and thereafter has continued to report at an employment office in accordance with such regulations as the Commission may prescribe. The Commission may, by regulation, waive or alter either or both of the requirements of this subdivision for certain types of cases when it finds that compliance with such requirements would be oppressive, or would be inconsistent with the purposes of this title.

6. He has made a claim for benefits in accordance with regulations the Commission may prescribe.

7. a. He is able to work, is available for work, and is actively seeking and unable to

1 obtain suitable work. Every claimant who is totally unemployed shall report to the
 2 Commission the names of employers contacted each week in his effort to obtain work. The
 3 Commission may determine that an individual, whose usual and customary means of
 4 soliciting work in his occupation is through contact with a single hiring hall which makes
 5 contacts with multiple employers on behalf of the claimant, meets the requirement that he
 6 be actively seeking and unable to obtain suitable work by contacting that hiring hall alone.
 7 In areas of high unemployment, as determined by the Commission, the Commission has the
 8 authority to adjust the requirement that he be actively seeking and unable to obtain
 9 suitable work. This information may be subject to employer verification by the Commission
 10 through a program designed for that purpose.

11 b. An individual who leaves the normal labor market area of the individual for the
 12 major portion of any week is presumed to be unavailable for work within the meaning of
 13 this section. This presumption may be overcome if the individual establishes to the
 14 satisfaction of the Commission that the individual has conducted a bona fide search for
 15 work and has been reasonably accessible to suitable work in the labor market area in
 16 which the individual spent the major portion of the week to which the presumption applies.

17 8. He has given notice of resignation to his employer and the employer subsequently
 18 made the termination of employment effective immediately, but in no case to exceed two
 19 weeks for which he would have worked had the employee separated from employment on
 20 the date of termination as given in the notice; provided, that the claimant could not
 21 establish good cause for leaving work pursuant to § 60.2-618 and was not discharged for
 22 misconduct as provided in § 60.2-618.

23 9. Beginning January 6, 1991, he has served a waiting period of one week during which
 24 he was eligible for benefits under this section in all other respects and has not received
 25 benefits, except that only one waiting week shall be required of such individual within any
 26 benefit year. *A claimant who is otherwise eligible may accumulate days during which he*
 27 *performs no services and with respect to which no wages are payable to him during*
 28 *weeks for which benefits have been claimed to satisfy the waiting-week period. Such days*
 29 *must be accumulated during a current benefit year.*

30
31
32
33
34
35
36
37
38
39
40
41
42
43
44
45
46
47
48
49
50
51
52
53
54

Official Use By Clerks	
Passed By The House of Delegates without amendment <input type="checkbox"/> with amendment <input type="checkbox"/> substitute <input type="checkbox"/> substitute w/amdt <input type="checkbox"/>	Passed By The Senate without amendment <input type="checkbox"/> with amendment <input type="checkbox"/> substitute <input type="checkbox"/> substitute w/amdt <input type="checkbox"/>
Date: _____	Date: _____
Clerk of the House of Delegates	Clerk of the Senate

1992 SESSION

LD2777244

1 HOUSE BILL NO. 774

2 Offered January 21, 1992

3 A BILL to amend and reenact § 60.2-229 of the Code of Virginia, relating to determination
4 of wages under the Virginia Unemployment Compensation Act.

5
6 Patron—Giesen

7
8 Referred to the Committee on Labor and Commerce

9
10 Be it enacted by the General Assembly of Virginia:

11 1. That § 60.2-229 of the Code of Virginia is amended and reenacted as follows:

12 § 60.2-229. Wages.—A. 1. "Wages" means all remuneration payable for personal services,
13 including commissions, bonuses, tips, back pay, dismissal pay, severance pay and any other
14 payments made by an employer to an employee during his employment and the next thirty
15 days thereafter and the cash value of all remuneration payable in any medium other than
16 cash. Notwithstanding the other provisions of this subsection, wages paid in back pay
17 awards shall be allocated to, and reported as being paid during, the calendar quarter or
18 quarters in which such back pay would have been earned. The reasonable cash value of
19 remuneration payable in any medium other than cash shall be estimated and determined
20 in accordance with rules prescribed by the Commission.

21 2. *Dismissal pay, severance pay and any other similar remuneration paid in connection*
22 *with any employee's termination from employment shall be deemed wages earned in the*
23 *calendar quarter or calendar quarters immediately following such termination. The quotient*
24 *resulting from the division of all such sums paid to an employee, including all deductions*
25 *or withholdings therefrom, upon termination, by the employee's average weekly gross*
26 *wage, exclusive of employee benefits, earned during the 30-day period immediately*
27 *preceding termination, shall be the number of consecutive weeks following termination*
28 *during which the employee shall be deemed to have received wages for the purposes of*
29 *this title.*

30 B. The term "wages" shall not include:

31 1. Subsequent to December 31, 1990, for purposes of taxes only, that part of the
32 remuneration, other than remuneration referred to in the succeeding subdivisions of this
33 subsection, that is greater than \$8,000 and is payable during any calendar year to an
34 individual by any employer with respect to employment in this Commonwealth or any
35 other state. If an employer, hereinafter referred to as "successor employer," during any
36 calendar year acquires substantially all of the property used in a trade or business of
37 another employer, hereinafter referred to as a "predecessor," or used in a separate unit of
38 a trade or business of a predecessor, and immediately after the acquisition employs in his
39 trade or business an individual who immediately prior to the acquisition was employed in
40 the trade or business of such predecessor, then, for the purpose of determining whether
41 remuneration, other than remuneration referred to in the succeeding subdivisions of this
42 subsection, with respect to employment equal to \$8,000 is payable by the successor to such
43 individual during such calendar year, any remuneration, other than remuneration referred
44 to in the succeeding subdivisions of this subsection, with respect to employment payable, or
45 considered under this subdivision as payable, to such individual by such predecessor during
46 such calendar year and prior to such acquisition shall be considered as payable by such
47 successor employer;

48 2. The amount of any payment, including any amount paid by an employer for
49 insurance or annuities, or into a fund, to provide for any such payment, made to, or on
50 behalf of, an employee or any of his dependents under a plan or system established by an
51 employer which makes provisions for (i) his employees generally, (ii) for his employees
52 generally and their dependents, (iii) for a class or classes of his employees, or (iv) for a
53 class or classes of his employees and their dependents, on account of:

54 a. Retirement;

1 b. Sickness or accident disability payments which are received under a workers'
2 compensation law;

3 c. Medical or hospitalization expenses in connection with sickness or accident disability;

4 d. Death; or

5 e. Unemployment benefits under any private plan financed in whole or in part by an
6 employer;

7 3. The payment by an employer, without deduction from the remuneration of the
8 employee, of the tax imposed upon an employer under § 3101 of the Federal Internal
9 Revenue Code;

10 4. Any payment on account of sickness or accident disability, or medical or
11 hospitalization expenses in connection with the sickness or accident disability, made by an
12 employer to, or on behalf of, an employee after the expiration of six calendar months
13 following the last calendar month in which the employee worked for such employer;

14 5. Remuneration paid in any medium other than cash to an employee for service not in
15 the course of the employer's trade or business; or

16 6. Any payment, other than vacation or sick pay, made to an employee after the month
17 in which he attains the age of sixty-five, if he did not work for the employer in the period
18 for which such payment is made.

19
20
21
22
23
24
25
26
27
28
29
30
31
32
33
34
35
36
37
38
39
40
41
42
43
44
45
46
47
48
49
50
51
52
53
54

Official Use By Clerks	
Passed By The House of Delegates without amendment <input type="checkbox"/> with amendment <input type="checkbox"/> substitute <input type="checkbox"/> substitute w/amdt <input type="checkbox"/>	Passed By The Senate without amendment <input type="checkbox"/> with amendment <input type="checkbox"/> substitute <input type="checkbox"/> substitute w/amdt <input type="checkbox"/>
Date: _____	Date: _____
Clerk of the House of Delegates	Clerk of the Senate

HB-774 technical amendment as suggested by SJR-14 Subcommittee. This language is proposed in lieu of current language in bill amending § 60.2-229.

§ 60.2-229. Wages.

A. "Wages" means all remuneration payable for personal services, including commissions, bonuses, tips, back pay, dismissal pay, severance pay and any other payments made by an employer to an employee during his employment and ~~the next thirty days~~ thereafter and the cash value of all remuneration payable in any medium other than cash. Notwithstanding the other provisions of this subsection, wages paid in back pay awards shall be allocated to, and reported as being paid during, the calendar quarter or quarters in which such back pay would have been earned. The reasonable cash value of remuneration payable in any medium other than cash shall be estimated and determined in accordance with rules prescribed by the Commission.

B. The term "wages" shall not include:

1. Subsequent to December 31, 1990, for purposes of taxes only, that part of the remuneration, other than remuneration referred to in the succeeding subdivisions of this subsection, that is greater than \$8,000 and is payable during any calendar year to an individual by any employer with respect to employment in this Commonwealth or any other state. If an employer, hereinafter referred to as "successor employer," during any calendar year acquires substantially all of the property used in a trade or business of another employer, hereinafter referred to as a "predecessor," or used in a separate unit of a trade or business of a predecessor, and immediately after the acquisition employs in his trade or business an individual who immediately prior to the acquisition was employed in the trade or business of such predecessor, then, for the purpose of determining whether remuneration, other than remuneration referred to in the succeeding subdivisions of this subsection, with respect to employment equal to \$8,000 is payable by the successor to such individual during such calendar year, any remuneration, other than remuneration referred to in the succeeding subdivisions of this subsection, with respect to employment payable, or considered under this subdivision as payable, to such individual by such predecessor during such calendar year and prior to such acquisition shall be considered as payable by such successor employer;

2. The amount of any payment, including any amount paid by an employer for insurance or annuities, or into a fund, to provide for any such payment, made to, or on behalf of, an employee or any of his dependents under a plan or system established by an employer which makes provisions for (i) his employees generally, (ii) for his employees generally and their dependents, (iii) for a class or classes of his employees, or (iv) for a class or classes of his employees and their dependents, on account of:

- a. Retirement;
- b. Sickness or accident disability payments which are received under a workers' compensation law;

c. Medical or hospitalization expenses in connection with sickness or accident disability;

d. Death; or

e. Unemployment benefits under any private plan financed in whole or in part by an employer;

3. The payment by an employer, without deduction from the remuneration of the employee, of the tax imposed upon an employer under § 3101 of the Federal Internal Revenue Code;

4. Any payment on account of sickness or accident disability, or medical or hospitalization expenses in connection with the sickness or accident disability, made by an employer to, or on behalf of, an employee after the expiration of six calendar months following the last calendar month in which the employee worked for such employer;

5. Remuneration paid in any medium other than cash to an employee for service not in the course of the employer's trade or business; or

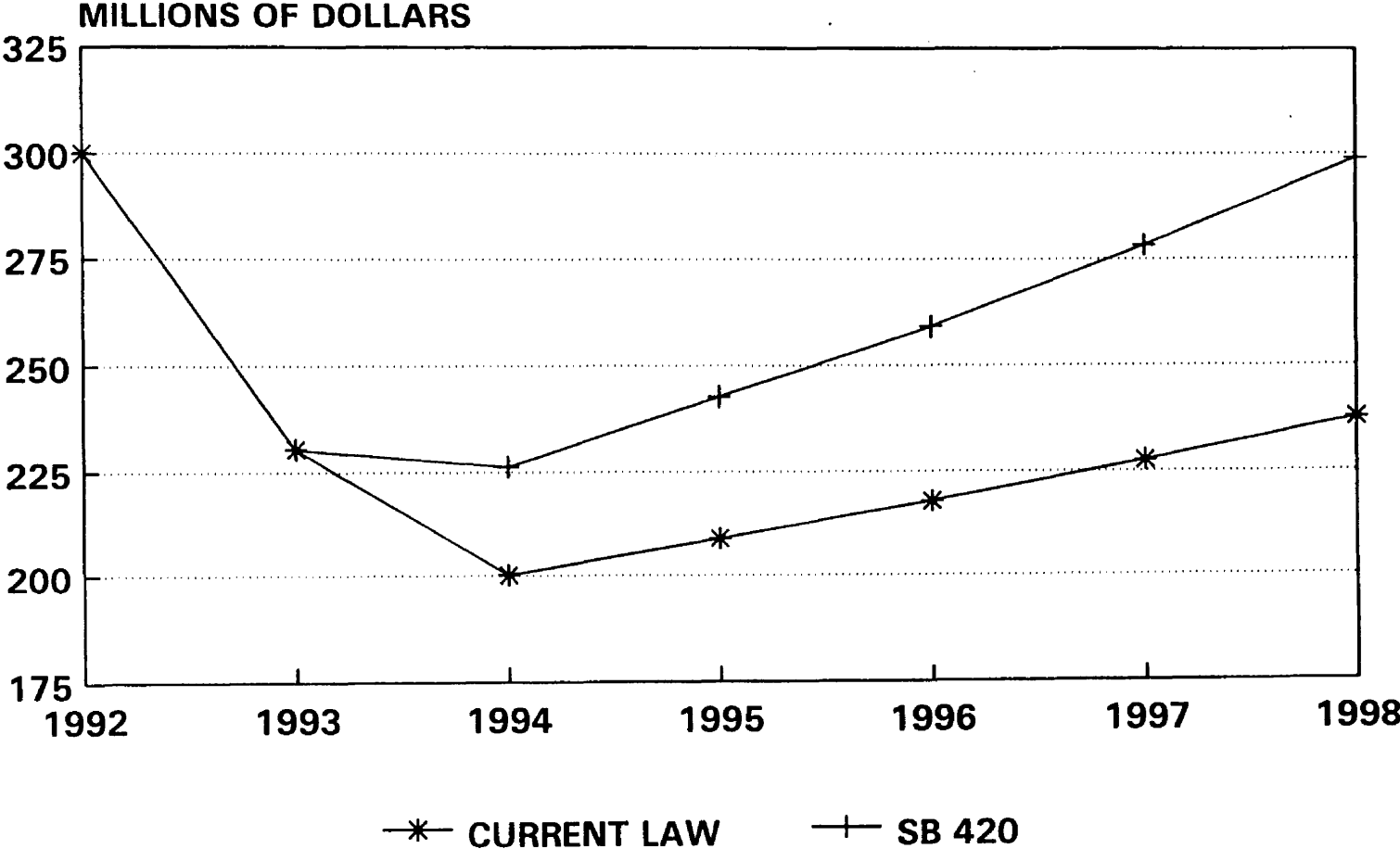
6. Any payment, other than vacation or sick pay, made to an employee after the month in which he attains the age of sixty-five, if he did not work for the employer in the period for which such payment is made.

EXTENSION OF SEVERANCE PAY OFFSET HB 774

- **CURRENT SEVERANCE PAY OFFSET PROVISION SAVED:
\$0.9 MILLION IN BENEFITS IN 1991;
\$0.5 MILLION IN BENEFITS JANUARY-AUGUST 1992**
- **OFFSETTING SEVERANCE PAY INDEFINITELY WOULD
SAVE AN *ADDITIONAL \$0.2 MILLION* PER YEAR**

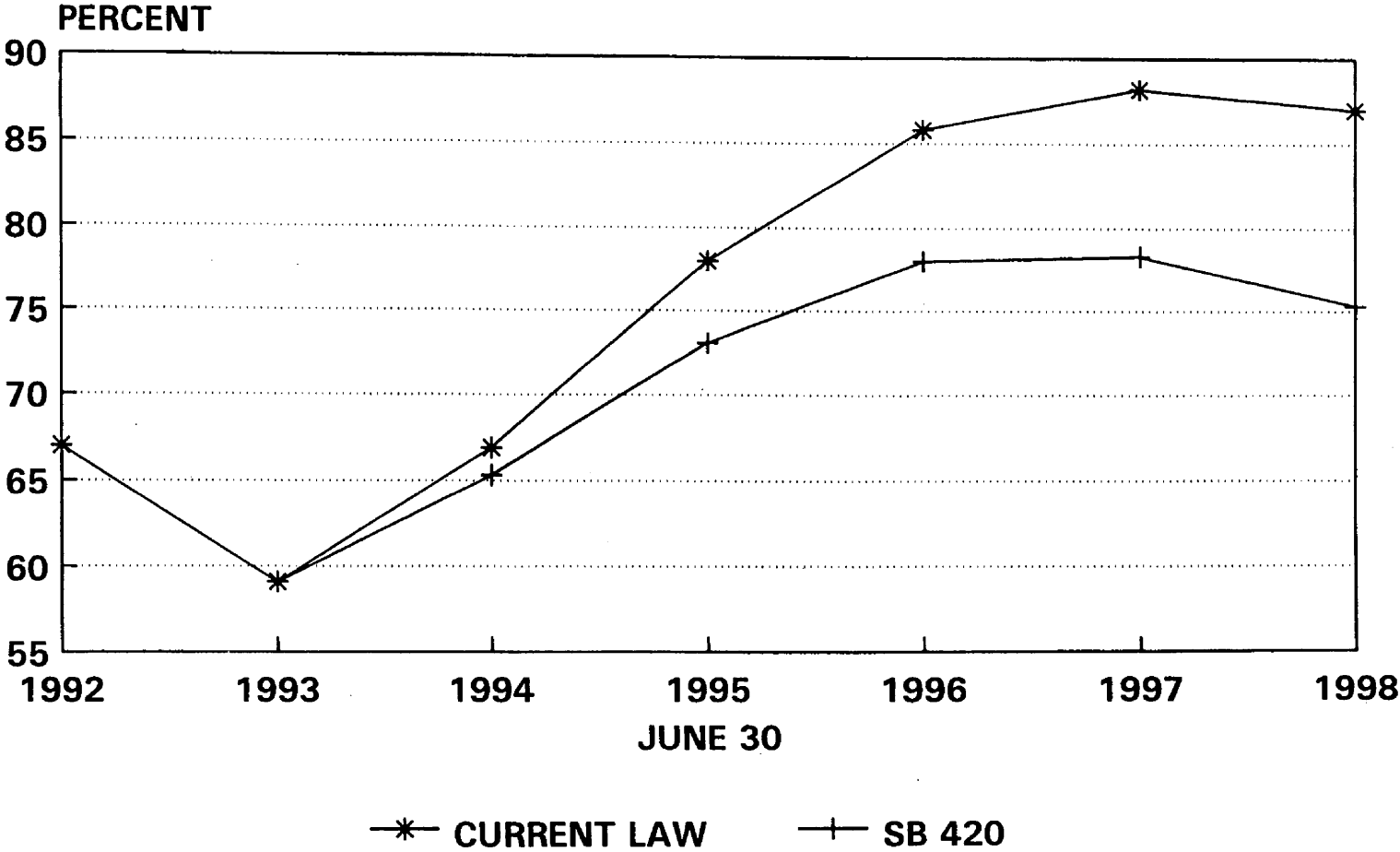
BENEFITS

CURRENT LAW VS. SB 420



TRUST FUND SOLVENCY

CURRENT LAW VS. SB 420



1992 SESSION

LD0014

SENATE BILL NO. 420
Offered January 21, 1992

A BILL to amend and reenact § 60.2-602 of the Code of Virginia, relating to unemployment compensation.

Patron—Scott

Referred to the Committee on Commerce and Labor

Be it enacted by the General Assembly of Virginia:

1. That § 60.1-602 of the Code of Virginia is amended and reenacted as follows:

§ 60.2-602. Weekly benefit amount.—For claims filed on or after January 6, 1991, an eligible individual's weekly "benefit amount" shall be the amount appearing in Column B in the "Benefit Table" in this section on the line on which in Column A of such table, there appears the total wages for insured work paid to such individual in the two quarters of his base period in which such total wages were highest.

For claims filed prior to January 6, 1991, an eligible individual's weekly "benefit" shall be computed under the provisions of this section in force on the date such claim was filed.

The maximum weekly benefit amount shall be increased each year to reflect a dollar value equal to sixty percent of the average weekly wage during the prior calendar year ending on June 30 of such year immediately preceding the calendar year for which a benefit amount is being determined.

Official Use By Clerks

Passed By The Senate

- without amendment
- with amendment
- substitute
- substitute w/amdt

Date: _____

Clerk of the Senate

Passed By

The House of Delegates

- without amendment
- with amendment
- substitute
- substitute w/amdt

Date: _____

Clerk of the House of Delegates

SJR-14 Subcommittee D R A F T

LD0000000

12/19/92

Arlen K. Bolstad

1

SENATE JOINT RESOLUTION NO.....

2

Continuing the Joint Subcommittee Studying the Funding Requirements of the

3

Virginia Unemployment Compensation Act.

4

5

WHEREAS, the reserves in the Unemployment Trust Fund have been declining due to the extended recession and high unemployment in Virginia; and

7

WHEREAS, the reserves in the Fund continue to be less than the adequate Fund balance amount defined in the Virginia Unemployment Compensation Act; and

9

WHEREAS, the Joint subcommittee, the Virginia Employment Commission, and business and labor representatives met in 1992 to review the current status and long-term projections for the Fund; and

12

WHEREAS, continuing economic uncertainty warrants continuing legislative oversight of the Unemployment Trust Fund to ensure its sustained solvency; now, therefore, be it

15

RESOLVED, by the Senate, the House of Delegates concurring, that the Joint Subcommittee Studying the Funding Requirements of the Virginia Unemployment Compensation Act be hereby continued.

18

The Joint Subcommittee's current membership shall continue to serve.

19

Vacancies shall be filled by the Senate Committee on Privileges and Elections and the Speaker of the House, as appropriate.

21

All state agencies are requested to cooperate by providing any information and assistance that the Joint Subcommittee may require for the purpose of conducting this study.

24

The Joint Subcommittee shall complete its study by December 1, 1993, and shall submit its recommendations to the governor and the 1994 Session of the General

25

SJR-14 Subcommittee D R A F T

LD0000000

12/19/92

Arlen K. Bolstad

1 Assembly pursuant to the procedures of the Division of Legislative Automated Systems
2 for the processing of legislative documents.

3 The indirect costs of this study are estimated to be \$5,860; the direct costs shall
4 not exceed \$3,600.

5 Implementation of this resolution is subject to subsequent approval and
6 certification by the Joint Rules Committee. The Committee may withhold expenditures
7 or delay the period for the conduct of the study.

8 #