


MEMO

To: Members of the Michigan House Appropriations Committee
From: David Q. Worthams – Director, Human Resources Policies 
Date: 1/27/2021
Re: Unemployment Insurance Trust Fund (UITF)

On behalf of the members of the Michigan Manufacturers Association (MMA) who are all hardworking employers helping invigorate Michigan's economy, I write to express our appreciation for the Committee's willingness to look at the health of Michigan's Unemployment Insurance Trust Fund (UITF).

As you will hear from House Fiscal Agency staff and from other witnesses, the UITF is completely funded by employers. Small, medium, and large companies all pay unemployment taxes into the fund and this is typically the fund's sole source of revenue. General fund dollars are not normally appropriated to the UITF.

Part of the formula that determines how much an employer pays into the UITF includes a \$9,000 taxable wage base per employee. If the fund has a balance of at least \$2.5 billion, the wage base remains at that level for the following calendar year. However, if the fund drops below \$2.5 billion, the base increases to \$9,500 per employee for the next calendar year. Further, the \$9,500 base remains in place until the balance of the fund exceeds \$2.5 billion and the Unemployment Insurance Agency (UIA) projects that it will remain or exceed that level for the next quarter. This mechanism was designed to protect the fund during relatively normal cyclical economic circumstances. Unfortunately, that tax increase was wholly ineffective in the face of the pandemic. If anything, it was counterproductive to the economy as it increased economic burdens on job providers by incentivizing employees to stay away from the workplace for enhanced and extended benefits.

When the pandemic began, Michigan's trust fund balance was over \$4 billion dollars. We had a strong balance because the state has just come out of a long-term refinancing plan. Businesses across the state joined together to craft a strategy that salvaged a broken unemployment system that was hemorrhaging money in part due to paying off federal unemployment loans. MMA and others agreed to support a plan that used bonds to bring the balance up from insolvency while working with the Legislature to make changes to unemployment policies. These changes improved unemployment programs and moved people away from the unemployment line to good paying jobs. The bonds were completely paid off about two years in advance due to the cooperation of Michigan businesses (large and small) and a growing economy.

Then COVID hit and, while no one could predict how the pandemic would impact the state, the UITF flipped from being robust to insolvent in less than a year. At the end of 2020, the fund dropped to \$797.1 million and it is projected to continue to drop well into this year. This is problematic because it will likely lead to direct tax impact on employers. As we look over the horizon to pandemic solutions, we need your partnership in crafting and implementing solutions that will rescue the trust fund from insolvency.

Today, employers in every industry face serious cash flow issues. Orders with 90 – 120-day payment terms are not paid immediately making liquidity a major problem. On top of that, employers continue to have increased spending to comply with CDC safety standards to provide both employees and the public with personal protection equipment so that the virus does not spread quickly.

Now that we have the release of two different COVID-19 vaccines and with more versions being reviewed by medical professionals, we are coming to the time when discussions about restoring a healthy balance to the UITF appropriate. We have asked staff within UIA and the Department of Labor and Economic Opportunity (LEO) to share with us their timeline on these discussions. The last time borrowing was necessary, production conversation between the Agency and business leaders led to a solution that not only address the health of the UITF but also incorporate strong policies to help people get back to work. We look forward to hearing from them when we can talk about this pressing issue.

As we see a light at the end of the pandemic, our members are noticing a growing irony. As we seek to bring workers back, the number of workers remaining in the unemployment system remains high. We offer several suggestions for your consideration that we believe, when implemented, will address both the employment gap that exists, as well as bringing solvency to the UITF.

Firstly, it is vital that the impact of fraudulent unemployment benefit claims be addressed. Too much money was lost to fraud and as the agency takes swift action to recover the lost dollar to fraud, the stronger the fund will be. We understand that this will be a difficult task. Nevertheless, to restore the trust of employers and those Michigander's whose identification and credit have been harmed by these criminal actions, the Agency must continue to press the matter. Additionally, the lost unemployment dollars should be restored by the state rather than to pass this burden to employers who had nothing to do with the violations.

Secondly, we must get people back to work. Unemployment benefits are designed to be a temporary solution to unforeseen and unfortunate circumstances. It is also designed to get people back to work and back to proudly providing for their loved ones. Including work search requirements is an effective way to accomplish this. Enforcing the requirement in the statute must be a priority urged by the Committee on the agency.

Thirdly, the Legislature must protect against artificially increasing the demand on the UITF by avoiding expansions to available benefits. Not bending to the pressure of continuing enhanced and expanded benefits beyond what is called for by the pandemic is a strong foundation to grow the UITF so that it remains solvent and available for those claimants who temporarily need it.

Lastly, it is important to not place overly burdensome tax-based solutions on employers to restore the fund. Policy makers should remember that the fund was drained by the pandemic through no fault of Michigan employers. Employers have already been hit with the mandated tax increase of the taxable wage rate to \$9,500. Adding to that tax burden with additional taxes related to borrowing funds from the federal government (even at a zero or low interest rate) will hamper our ability to grow future jobs.

These policy solutions are credible options. We are ready to work with you and the Administration to find strong policies that will rebuild the health of the trust fund, while ensuring employers will be able to fill available positions, grow new job opportunities and allow Michigan businesses and Michiganders compete effectively in the global economy.

We are grateful for the opportunity to share our views and look forward to answering any questions you have. Thank you for your leadership on this issue.