

COMMITTEE ON LEGISLATIVE RESEARCH
OVERSIGHT DIVISION

FISCAL NOTE

L.R. No.: 2332H.01I
Bill No.: HB 1074
Subject: Unemployment Compensation; Labor and Management; Employment Security;
Labor and Industrial Relations, Department of; Retirement Systems and Benefits -
General; Veterans
Type: Original
Date: March 1, 2021

Bill Summary: This proposal modifies provisions relating to employment security.

FISCAL SUMMARY

ESTIMATED NET EFFECT ON GENERAL REVENUE FUND			
FUND AFFECTED	FY 2022	FY 2023	FY 2024
Total Estimated Net Effect on General Revenue	\$0	\$0	\$0

ESTIMATED NET EFFECT ON OTHER STATE FUNDS			
FUND AFFECTED	FY 2022	FY 2023	FY 2024
Total Estimated Net Effect on <u>Other</u> State Funds	\$0	\$0	\$0

Numbers within parentheses: () indicate costs or losses.

ESTIMATED NET EFFECT ON FEDERAL FUNDS			
FUND AFFECTED	FY 2022	FY 2023	FY 2024
Unemployment Compensation Administration Fund (0948)	\$0 or (\$33,400,000)	\$0 or (\$33,400,000)	\$0 or (\$33,400,000)
Job Development and Training Fund (0155)	\$0 or (\$11,500,000)	\$0 or (\$11,500,000)	\$0 or (\$11,500,000)
Total Estimated Net Effect on <u>All</u> Federal Funds*	\$0 or (\$44,900,000)	\$0 or (\$44,900,000)	\$0 or (\$44,900,000)

*Officials from the Department of Labor and Industrial Relations state the proposal may put Missouri out of Federal compliance. Non-conformity with federal law will jeopardize the certification of Missouri's UI program. If the program fails to be certified, Missouri could lose approximately \$33.4 million in federal funds the state receives each year to administer the UI program. Additionally, Missouri could lose the approximately \$11.5 million in federal funds each year the Department of Higher Education and Workforce Development uses for Wagner-Peyser reemployment services.

ESTIMATED NET EFFECT ON FULL TIME EQUIVALENT (FTE)			
FUND AFFECTED	FY 2022	FY 2023	FY 2024
Total Estimated Net Effect on FTE	0	0	0

☒ Estimated Net Effect (expenditures or reduced revenues) expected to exceed \$250,000 in any of the three fiscal years after implementation of the act or at full implementation of the act.

☐ Estimated Net Effect (savings or increased revenues) expected to exceed \$250,000 in any of the three fiscal years after implementation of the act or at full implementation of the act.

ESTIMATED NET EFFECT ON LOCAL FUNDS			
FUND AFFECTED	FY 2022	FY 2023	FY 2024
Local Government	\$0	\$0	\$0

FISCAL ANALYSIS

ASSUMPTION

Officials from the **Department of Labor and Industrial Relations (DOLIR)** assume the proposal amends section 288.040, which indicates that a military pension or retirement benefit will not result in a reduction of Unemployment Compensation (UC) for any week such benefit is paid.

Review of this bill has identified an issue that may affect certification of Missouri's unemployment insurance (UI) program. This bill would amend the state law to remove the requirement that an individual be disqualified from receiving benefits for any week they receive certain military retirement payments. Federal unemployment compensation law requires a reduction of unemployment insurance benefits when the individual is in receipt of a pension maintained by (or contributed to) a base period or chargeable employer, the bill raises an issue with the requirements of federal law.

Section 3304(a)(15) of the Federal Unemployment Tax Act (FUTA) requires, as a condition for employers in a state to receive credit against the federal tax, that state law require that UC be reduced due to receipt of "governmental or other pension, retirement or retired pay, annuity, or any other similar periodic payment which is based on the previous work of such individual."

Unemployment Insurance Program Letter (UIPL) No. 22-87 provided guidance to state workforce agencies regarding the treatment of pensions and eligibility for UC. Section 6.b provides a list of plans subject to the pension offset requirement. It provides, in part, "Based on the broad language of Section 3304(a)(15), FUTA, payments provided for under the programs listed below are subject to the pension offset requirements: ... 6. Military retirement pensions and disability retirement pensions."

The result is that payments from retirement plans (including military pensions and disability retirement pensions) which have been maintained or contributed to by a base period or chargeable employer, and to which the individual made no contribution, must cause a reduction in UC.

Each year, on October 31, the Secretary of Labor certifies the state unemployment insurance programs that conform and comply substantially with federal law. (26 U.S.C. § 3304.) If, and only if, a state's unemployment insurance program is certified to be in conformity with Federal requirements, employers within the state are eligible to receive a credit against their Federal Unemployment Tax Act (FUTA) taxes. (26 U.S.C. § 3302.)

Non-conformity with federal law will jeopardize the certification of Missouri's UI program. If the program fails to be certified, Missouri could lose approximately \$33.4 million in federal funds the state receives each year to administer the UI program. Additionally, Missouri could

lose the approximately \$11.5 million in federal funds each year the Department of Higher Education and Workforce Development uses for Wagner-Peyser reemployment services.

The Federal Unemployment Tax Act (FUTA) imposes a 6.0% payroll tax on employers. Most employers never actually pay the total 6.0% due to credits they receive for the payment of state unemployment taxes and for paying reduced rates under an approved experience rating plan. FUTA allows employers tax credits up to a maximum of 5.4% against the FUTA payroll tax if the state UI law is approved by the Secretary of Labor. However, if this bill causes Missouri's program to be out of compliance or out of conformity, Missouri employers could pay the full 6.0%, or approximately an additional \$1.0 billion per year.

Oversight notes that DOLIR assume the proposal could have a direct effect on their organization. Oversight notes that under Unemployment Insurance Program Letter (UIPL) No. 22-87 notes: "Section 3304(a)(15), FUTA, reflects the minimum requirements for deduction which must be contained in State law. Although a State may, broaden the scope of deduction for pension payments beyond the requirements of the FUTA, it may not adopt less stringent conditions."

Oversight does not have any information to the contrary. Therefore, Oversight will reflect the potential fiscal estimates provided by DOLIR and range the impact \$0 (Secretary of Labor find the Missouri statue in compliance with federal law), or (\$44,900,000) (Secretary of Labor finds the Missouri statue out of compliance with federal law).

Officials from the **Office of the Governor, Missouri Department of Conservation, Missouri Department of Transportation, and Office of Administration** each assume the proposal would not have a direct fiscal impact on their organization.

Officials from the **University of Missouri, Missouri State University, State Technical College, and University of Central Missouri** each assume the proposal would not have a direct fiscal impact on their organization.

Officials from the **City of Corder, City of Kansas City, City of O'Fallon, City of Springfield, City of Saint Louis – Budget Division, and Springfield R-XII School** each assume the proposal would not have a direct fiscal impact on their organization.

Officials from the above organizations each assume the proposal will have no fiscal impact on their respective organizations. **Oversight** does not have any information to the contrary. Therefore, Oversight will reflect a zero impact in the fiscal note for above respective organizations. **Oversight** only reflects the responses that we have received from state agencies and political subdivisions; however, other cities and counties were requested to respond to this proposed legislation but did not. A general listing of political subdivisions in our database is available upon request.

<u>FISCAL IMPACT – State Government</u>	FY 2022 (10 Mo.)	FY 2023	FY 2024
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FEDERAL FUNDS			
UNEMPLOYMENT COMPENSATION ADMINISTRATION FUND			
<u>Loss - DOLIR</u> If UI program fails to be certified	<u>\$0 or</u> <u>(\$33, 400,000)</u>	<u>\$0 or</u> <u>(\$33, 400,000)</u>	<u>\$0 or</u> <u>(\$33, 400,000)</u>
ESTIMATED NET EFFECT ON UNEMPLOYMENT COMPENSATION ADMINISTRATION FUND	<u>\$0 or</u> <u>(\$33, 400,000)</u>	<u>\$0 or</u> <u>(\$33, 400,000)</u>	<u>\$0 or</u> <u>(\$33, 400,000)</u>
JOB DEVELOPMENT AND TRAINING FUND (0155)			
<u>Loss - DED - If found to be</u> out of compliance - Wagner-Peyser reemployment services	<u>\$0 or</u> <u>(\$11, 500,000)</u>	<u>\$0 or</u> <u>(\$11, 500,000)</u>	<u>\$0 or</u> <u>(\$11, 500,000)</u>
ESTIMATED NET EFFECT ON JOB DEVELOPMENT AND TRAINING FUND	<u>\$0 or</u> <u>(\$11, 500,000)</u>	<u>\$0 or</u> <u>(\$11, 500,000)</u>	<u>\$0 or</u> <u>(\$10, 500,000)</u>

<u>FISCAL IMPACT –</u> <u>Local Government</u>	FY 2022 (10 Mo.)	FY 2023	FY 2024
	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>

FISCAL IMPACT – Small Business

If found to be out of federal compliance, this could change the unemployment tax rate paid by small businesses.

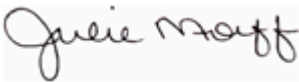
FISCAL DESCRIPTION

This bill exempts military pension payments and other military benefits from calculations used to reduce certain unemployment benefits under Chapter 288, RSMo, that are specified in the bill.

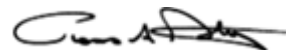
This legislation is not federally mandated, would not duplicate any other program and would not require additional capital improvements or rental space.

SOURCES OF INFORMATION

Department of Labor and Industrial Relations
Office of the Governor
Missouri Department of Conservation
Missouri Department of Transportation,
Office of Administration
University of Missouri
Missouri State University
State Technical College
University of Central Missouri
City of Corder, City of Kansas City
City of O'Fallon, City of Springfield
City of Saint Louis – Budget Division
Springfield R-XII



Julie Morff
Director
March 1, 2021



Ross Strobe
Assistant Director
March 1, 2021