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Details:

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**WISCONSIN STATE LEGISLATURE ...
PUBLIC HEARING - COMMITTEE RECORDS**

2007-08

(session year)

Senate

(Assembly, Senate or Joint)

**Committee on ... Labor, Elections and Urban
Affairs (SC-LEUA)**

COMMITTEE NOTICES ...

- Committee Reports ... **CR**
- Executive Sessions ... **ES**
- Public Hearings ... **PH**

INFORMATION COLLECTED BY COMMITTEE FOR AND AGAINST PROPOSAL

- Appointments ... **Appt** (w/Record of Comm. Proceedings)
- Clearinghouse Rules ... **CRule** (w/Record of Comm. Proceedings)
- Hearing Records ... bills and resolutions (w/Record of Comm. Proceedings)
 - (**ab** = Assembly Bill) (**ar** = Assembly Resolution) (**ajr** = Assembly Joint Resolution)
 - (**sb** = Senate Bill) (**sr** = Senate Resolution) (**sjr** = Senate Joint Resolution)
- Miscellaneous ... **Misc**

* Contents organized for archiving by: Mike Barman (LRB) (October/2010)



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TO: Members of the Senate Labor, Elections and Urban Affairs Committee
Members of the Assembly Labor and Industry Committee

FROM: James Buchen, Vice President, Government Relations, WMC
Phillip Neuenfeldt, Secretary/Treasurer, Wisconsin State AFL-CIO

DATE: February 14, 2008

RE: Support for SB 431/AB 757 – Unemployment Insurance Reform Bills

Packet

Background

The Wisconsin Unemployment Insurance Advisory Council (UIAC) conducted an in-dept review of various performance measures of the Wisconsin Unemployment Insurance system over the past two years. The analysis revealed that over the last 15 years, revenue growth to the system has not kept pace with the modest growth in wages and benefits. Absent any changes, the system is likely to become insolvent if the economy undergoes even a modest recessionary period.

Trust Fund Solvency

This reform package is designed to maintain the solvency of Wisconsin's Unemployment Trust fund. It is a balanced package in which both the employer and employee communities contribute to maintaining the systems' solvency.

The legislation adjusts the taxable wage base for all Wisconsin employers and shifts revenues to the systems' solvency fund. The bill increases the amount of time that UI claimants must have worked in order to qualify for unemployment insurance benefits under this legislation. In addition, UI benefit levels are frozen at current levels through 2008. In 2009, maximum benefit levels increase by \$8 a week, slightly over two percent.

The attached summary provides information on all of the provisions of SB 431/AB 757. Further, we have included an in-dept analysis of the Wisconsin UI System's performance that provides a fifteen-year review of various UI System measures.

Conclusion

WMC and the Wisconsin State AFL-CIO support this package of Unemployment Insurance reforms that are designed to maintain the system's solvency throughout the economic cycle.

Unemployment Insurance Advisory Council
 Agreed Bill Provisions
 January, 2008

	Issue	UI Agreed Bill
1	<p>UI taxes are levied against the first \$10,500 of an employee's earnings. Despite increases in wages, the "wage base" has remained unchanged for 20 years, limiting UI revenues.</p>	<p>The wage base is increased as follows: 2009 - \$12,000 2011 - \$13,000 2013 - \$14,000</p>
2	<p>Most UI benefits are charged to individual employers under the experience rating system. Some benefits are charged to the overall insurance pool. "Solvency taxes" are charged to all employers to cover these benefits. In recent years, solvency taxes have been insufficient to cover the costs of the benefits charged to the pool.</p>	<p>.2% of the experience-rated (basic) tax rate of employers with positive account balances will be shifted to the solvency tax. .4% of the basic tax rate of employers with overdrawn accounts will be shifted to the solvency tax.</p>
3	<p>One of the requirements for receiving UI benefits is that a claimant must have wages during the base period equal to at least 30 times his or her weekly benefit rate.</p>	<p>Tightens eligibility standards by raising the qualifying threshold to 35 times the weekly benefit rate.</p>
4	<p>Absenteeism: the current standard for being disqualified for benefits is 5 absences without notice or 6 tardies without notice. The statute has caused some confusion concerning the relationship between the absenteeism provisions and those governing misconduct. The absenteeism provisions have a sunset of April 3, 2010.</p>	<p>Updates the statute to reflect recent legal decisions concerning the relationship between absenteeism and misconduct. Allows for the disqualification under misconduct to be considered if disqualification conditions under absenteeism are not met. Removes the sunset on the absenteeism/tardiness provisions.</p>
5	<p>Currently, adult children with little or no ownership in the family corporations of their parents are allowed full UI benefits when eligible whereas parents with little or no ownership interest in the family corporations of their children may receive only 4 weeks of benefits.</p>	<p>Treat parents and adult children the same for purposes of benefits so that parents with little or no ownership interest do not have benefits reduced.</p>
6	<p>Workers can be classified as employees who are eligible for Unemployment Insurance and Workers Compensation or as "independent contractors" who have no such eligibility. Misclassification of employees as independent contractors is common in industries such as construction, logging, trucking, etc. As the labor market changes and different business models evolve, it is increasingly difficult to precisely define employee and independent contractor.</p>	<p>Establish a study group to assess and suggest changes to the provisions of UI law dealing with independent contractors. The study group will report to the Unemployment Insurance Advisory Council by June 30, 2009.</p>

7	Currently the maximum weekly benefit for UI claimants is \$355 per week.	2008 - No increase in maximum weekly benefit 2009 - \$8 increase in maximum weekly benefit
8	Currently companies with more than \$5000 in tax liability in the first quarter can defer some of their taxes until later in the year. The deferral is automatic if an employer underpays for the first quarter.	Move the threshold for deferring liability from \$5000 to \$1000. Employers who chose this option must file electronically and "elect" the deferral. This makes the deferral option available to many more small employers.
9	Penalties apply to UI claimants who commit benefit fraud, usually by concealing wages while receiving benefits. Current penalties range from 1/4 to 4 times the weekly benefit rate for each act. Penalties also apply to employers who aid and abet such concealment. Employers can be penalized up to the amount of benefits the claimant received.	Increase the forfeitures for claimants who commit UI fraud. 1 st offense= 1 x benefit rate for each act 2 nd offense = 3 x benefit rate for each act 3 rd offense = 5 x benefit rate for each act Increase penalties for employers that aid and abet fraud. 1 st offense = \$500 for each act 2 nd offense = \$1000 for each act 3 rd offense = \$1500 for each act
10	Current UI law requires that UI claimants be "able and available" to work. The UI Council and the legislature this year approved new administrative rules governing the proper interpretation of able and available.	Consolidate and streamline the able and available provisions of the UI statute.
11	Since 1999 a fee has been assessed for administrative expenses. This revenue, approximately \$2 million annually, has been used primarily for needed upgrades of the UI information technology systems. It expired on December 31, 2007.	Extends the administrative assessment until June 30, 2010.
12	During the current biennium the UI Division has had access to \$1,000,000 in Reed Act funds if needed for administrative expenses. This contingency was created because of the uncertainty surrounding Federal funding for UI administrative expenses. The Division did not draw on these funds in 2006 and 2007.	Extends the option of utilizing \$1,000,000 in Reed Act funds in 2008 and 2009.
13	During the last session of the Legislature the UI bill included an "employer fault" provision requiring that employers that fail to provide "correct and complete" information during adjudication and prevail during an appeal hearing are liable for benefits paid up until the time of the appeal. The change has been effective in improving the quality of information provided at adjudication and in reducing overpayments to claimants. The provision had a sunset date of June 28, 2008.	Removes sunset date and clarifies the admissibility of department records in appeals decisions on employer fault.
14	Currently employers with 50 or more employees must file their wage and tax information electronically. Employer agents	Beginning with reports due for the third quarter of 2008, employers with 25 or more employees must file their wage and tax information

	<p>must file electronically in a format prescribed by the department; agents filing on behalf of 25 or more employers may file using magnetic media (e.g., disks) and agents filing on behalf of less than 25 employers must file using the department's tax and wage reporting application.</p>	<p>electronically. The department will allow employer agents filing on behalf of 10 or more employers to file using magnetic media. Employers who file using the department's tax and wage reporting application do not need to file contribution reports. For payments due for the first quarter 2009, all employer agents and employers with contributions greater than \$10,000 must pay contributions electronically.</p>
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**Wisconsin
Unemployment Insurance
Program**

Unemployment Insurance Reserve Fund Stability

**Report prepared for the
Unemployment Insurance Advisory
Council, pursuant to Section 72(1),
2005 Act 86.**

Wisconsin Department of Workforce Development

July 2007

UCT-15666-P (N. 07/2007)

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Executive Summary

The Unemployment Reserve Fund declined from \$1.815 billion at the end of 2000 to \$719 million at the end of 2006. The decline in the balance during the 2001 recession and the slow-growth period that followed was expected; the Reserve Fund traditionally declines during a recession. However, the balance continued to drop in 2005, 2006 and the first months of 2007, a period during which the state's economy was performing well. If Wisconsin were to experience a significant recession in the near future, it is unlikely that the Unemployment Reserve Fund would have sufficient resources to pay the additional benefits that are required during an economic downturn.

Failure to fund benefits during a recession can lead to borrowing from the federal government. In turn, borrowing from the federal government can cause a sharp increase in taxes, decreases in benefits, or a reduction in federal tax credits for employers.

This report describes the reasons behind the decline in the Reserve Fund. They include:

- A tax system that does not adequately reflect growth in the economy
- A decline in the importance of "experience" in determining tax rates

Benefits and Taxes: A claimant's eligibility for benefits is based on the amount of his or her earnings during the "base period", the first four of the most recently completed five calendar quarters. In addition, the claimant must be able to work, available for work, and looking for work. Benefits are financed through a payroll tax on employers, based on the wages they pay. Taxes are paid on the first \$10,500 of each employee's wages and tax rates are determined in part by the experience of each employer in laying off workers. Over the long term it is the interplay of the benefit and tax systems that determine the

status of the Unemployment Reserve Fund. Over the last fifteen years or so, benefits have grown steadily, though at a rate only about 2/3 that of the rate of growth in wages. Reserve Fund revenues have grown at a much slower pace, because the wage base has not changed and fewer benefits are charged directly to employers.

Expenditures and Revenues: In the last fifteen years or so the growth in tax revenues has been less than the growth in benefits. Taxes have lagged benefit payments in large part because of the declining importance of "experience" in determining tax rates. Increasingly, benefits have been charged to an account in the Fund, the balancing account, without any corresponding adjustments in revenue. These charges create unfunded liabilities for the Unemployment Insurance system. Solvency tax revenues and interest have not provided enough income to the Reserve Fund to offset the cost of these charges. As a result, the balancing account has been showing a larger and larger deficit.

Reserves: In 2001, as the result of the long economic expansion of the 1990's, the Unemployment Reserve Fund had reserves of \$1.8 billion. Since late 2001 the reserves have been steadily declining notwithstanding the generally excellent performance of the Wisconsin economy since 2004. In 2006 the likelihood of Wisconsin borrowing to cover its Unemployment Insurance expenses in the event of a recession was 79%. This risk is unacceptably high and carries with it the probability of federally mandated tax increases and benefit reductions.

Alternatives for Restoring Reserves: There is a wide variety of alternatives available to address the solvency of the Unemployment Reserve Fund. They include increasing the Unemployment Insurance wage base, adjusting tax rates, redesigning the thresholds which drive tax rates and schedules, and adjusting benefits. Ideally the policy choices the Unemployment Insurance Advisory Council makes will reflect the need to create a system that will be stable over the long term and not require constant adjustment.

Introduction

At the close of 2006 the Unemployment Insurance Reserve Fund was 40% of its level before the most recent recession in 2001. The balance in the Reserve Fund has declined every year since 2001.

During the recession of 2001 the annual average insured unemployment rate reached 3.4%. This relatively modest insured unemployment rate is the second lowest among recessions since passage of the federal Full Employment Act of 1948. During the same 59-year period the highest annual insured unemployment rate was 6.8%.

The financing of Wisconsin's Unemployment Insurance program has experienced limited change since 1990. Financing strategies that may have been appropriate for the economy of the 1990s are not working now. In its reports to the Legislature and the Governor in 2005 and 2007 on the financial outlook for the Unemployment Insurance program, the Department of Workforce Development described these trends and made clear the need for attention to improving the solvency of the Reserve Fund.

In response to those warnings the Wisconsin Legislature in 2005 Wisconsin Act 86 required that "the department of workforce development shall study the long-term fiscal stability of the unemployment reserve fund and shall determine what measures, if any, are required to maintain that stability. The department shall report its findings and recommendations to the council on Unemployment Insurance no later than July 1, 2007." This is that report.

This report addresses the following questions:

- How are a claimant's benefits determined?
- How are an employer's taxes determined?

- **What is the relationship between a claimant's benefits and an employer's taxes?**
- **What is Wisconsin's experience in financing Unemployment Insurance benefits?**
- **How adequate are Wisconsin's Unemployment Insurance reserves?**
- **What are the alternatives for restoring reserves after a recession?**

Section 1 of the following report briefly notes the historical significance of Wisconsin's program, describes the objectives of the program, and identifies the respective roles of state and federal governments. Section 2 sets forth the basic elements of a claimant's benefit eligibility, an employer's tax liability, and the relationship between the two. Section 3 describes the revenues and expenditures of the Fund, the reasons why they increase and decrease, and the relationship between total revenue and expenditure. Section 4 assesses the purpose and adequacy of unemployment insurance reserves. Section 5 identifies alternative financing strategies for strengthening the Unemployment Reserve Fund.

Section 1. Background

History. Wisconsin enacted the nation's first Unemployment Compensation Law on January 28, 1932, effective July 1, 1933. Two years later the federal Social Security Act of 1935 established a similar framework for the Unemployment Insurance program that has been adopted throughout the United States. 2007 marks the seventy-fifth anniversary of the program; it is fitting that the Wisconsin State Legislature reconsider the financing of that program to meet current conditions.

Several prominent economists and legislators led the initial effort to establish the Unemployment Insurance program. Among these was John R. Commons, University of Wisconsin Professor of Economics. Commons assisted in drafting early legislation that was first introduced in 1921 by Senator Henry Huber. Commons and his university students continued to research and play an active role in developing legislation over the next ten years. During 1931, a Legislative Committee on Unemployment was created for study of the issue. Arthur Altmeyer, later the nation's first Commissioner of Social Security, chaired the committee. Two young economists assisting the committee in researching, drafting language, and developing the conceptual framework for the program were Paul Raushenbush and Elizabeth Brandeis Raushenbush. They subsequently played key roles in drafting federal legislation on unemployment compensation, promoting the development of the federal program, and extending it to all states. In June 1931, Representative Harold Groves, introduced Wisconsin's landmark bill, passed with minor modifications and signed by Governor Phillip La Follette on January 28, 1932.

Within months of the signing, the State Industrial Commission established a State Advisory Committee on Unemployment Compensation, consisting of three labor representatives nominated by the Wisconsin State Federation of Labor and three employer representatives nominated by the Wisconsin Manufacturers' Association. The Council in slightly modified and

expanded form continues today to negotiate agreements for recommending changes in the law to the Wisconsin State Legislature.

Program Objectives. The primary purpose of the Unemployment Insurance program is to provide cash payments that partially and temporarily replace wages to recently employed workers who involuntarily become unemployed. Unemployment Insurance payments mitigate the burdens of the unemployed worker and permit him or her to afford life's necessities. By helping unemployed workers maintain their standard of living, Unemployment Insurance benefits sustain the demand for goods and services provided by employers. During recessions, Unemployment Insurance may help to stabilize the economy and prevent a worsening of economic conditions.

Federal requirements about the way in which the program is financed may also help in stabilizing employment. Federal law requires that state tax systems must impose taxes in accordance with employers' experience with unemployment. This requirement can provide an incentive for employers to reduce layoffs.

Roles of State and Federal Governments. A major function of the federal government is to assure that state laws are in concert with federal law, principally, provisions of the Federal Unemployment Tax Act and the Social Security Act. In return, the federal government distributes a portion of federal employer taxes to states for administration of the program. It also makes loans to states with depleted reserve funds and establishes programs of extended benefits to workers who exhaust all regular state benefits during times of high unemployment.

Each state establishes its own laws setting forth most of the specific requirements for benefit eligibility and payment amounts. States also specify by statute how state Unemployment Insurance taxes are determined, what tax rates are in effect, and when taxes are due and collected. In Wisconsin, the Department of Workforce Development is responsible for administering the State's Unemployment Insurance program.

Section 2. A Claimant's Benefits and Employer's Taxes

This section provides more detailed information about Wisconsin's Unemployment Insurance program as it affects claimants and employers. Specifically, it addresses the following questions:

- What are the basic requirements affecting an individual's benefits?
- How are an employer's taxes calculated?
- What is the relationship between an individual's benefits and an employer's taxes?

A Claimant's Benefits

Weekly Benefit Rates, Eligibility Criteria, and Total Entitlement. Weekly Unemployment Insurance benefit rates in Wisconsin are based on wages paid during a one year base period, typically the first four of the most recently completed five calendar quarters. Subject to a statutory minimum and maximum, a claimant's weekly benefit rate is 4% of the highest quarter of wages paid during the base period. For 2007 the statutory minimum is \$53 and the maximum is \$355.

Benefit eligibility in Wisconsin also requires total wages equal to at least thirty times the weekly benefit rate and wages paid outside the highest paid quarter equal to four times the weekly benefit rate. The total amount of benefits that an individual may receive in the fifty-two week period beginning with the establishment of a valid new claim, a period known as the benefit year, is the lesser of twenty-six times the claimant's weekly benefit rate or 40% of base period wages.

A claimant who meets the monetary or wage requirements for benefits must also satisfy a number of other conditions. In general, the claimant must be able to work, available for work, and looking for work. In addition, a claimant may be disqualified from receiving benefits if the most recent unemployment resulted from quitting a job, refusing suitable work, or discharge for misconduct. A claimant remains disqualified until "requalified" by new work and wages earned.

An Employer's Taxes

Taxable Wages and Tax Rates. To fund Unemployment Insurance benefits, employers pay taxes. Employer taxes are the primary source of revenue for the Unemployment Reserve Fund.

Unemployment Insurance taxes are payroll taxes, based on wages paid to employees. More specifically, taxes are computed by applying tax rates to each employee's taxable wages. Taxable wages are sometimes called the wage base. Since 1986 Wisconsin's taxable wage base has been statutorily defined as the first \$10,500 of wages paid to each employee during a calendar year.

For each employee two tax rates are applied to taxable wages. These are a basic rate and a solvency rate, which result in a basic tax and a solvency tax. Basic rates are the same for all employers with the same layoff experience. However, solvency rates are less for employers with less than \$500,000 in taxable payroll than for employers with \$500,000 or more in taxable payroll.

All income to the Fund is deposited by law in an account of the United States Treasury and pooled for the purpose of making benefit payments. However, the amount of the basic tax is credited to an individual employer's account in the Fund while solvency tax payments are credited to the Fund's balancing account. There will be an in depth discussion of the balancing account later in this report.

The Relationship between a Claimant's Benefits and an Employer's Tax Rates

Federal law requires that benefit payments resulting from each employer's experience with unemployment affect that employer's future tax rate. Wisconsin implements this requirement by establishing an account for each employer and debiting it with a share of each weekly benefit payment attributed to employees it laid off. The share attributed to each employer is proportional to wages paid by that employer during the base period. For example, 70% of each benefit payment would be attributed to an employer paying 70% of a claimant's wages during the base period and 30% to a second employer that paid the remaining 30% of wages during the base period, assuming that each of the two employers laid off the claimant.

In addition to debits from employer accounts, these accounts are credited with that portion of each tax payment known as the basic tax. As of June 30 of each year, each employer's previous June 30 account balance is added to the net of the most recent four quarters of basic tax payments less benefit charges. The result is divided by the total of the employer's most recent four quarters of taxable wages. The quotient is expressed as a percentage known as the employer's reserve percentage. In turn, the employer's reserve percentage determines each employer's tax rate for the next year as set forth in a schedule of tax rates found in the statutes.

The basic calculation looks like this:

Account Balance
----- = Reserve Ratio
Taxable Payroll

Reserve Ratio → Tax Rate (from rate schedule)

The higher an employer's reserve percentage (or account balance in relation to its taxable wages), the lower its basic tax rate is. The rationale for this approach is that higher account balances in relation to taxable wages provide a larger reserve for payment of benefits if layoffs occur. However, it should be noted that these employer "accounts" are established solely for the purpose of establishing tax rates and do not represent any employer's vested interest or equity in the Fund.

Wisconsin's tax system creates exceptions to experience rating by establishing maximum and minimum tax rates. When its reserve percentage reaches -6%, an employer receives the maximum tax rate regardless of the amount of benefits paid with respect to the wage credits earned by its workers. At a maximum basic tax rate of 8.9% on \$10,500 (the maximum yearly earnings subject to tax) the maximum basic tax payment per employee would be \$934.50. In contrast, if that employee were laid off and became a claimant qualifying for the maximum weekly benefit rate of \$355 per week for the maximum 26 weeks of eligibility, the claimant could receive \$9,230 - almost ten times as much as the tax paid on the claimant's behalf. Similarly, at the minimum tax rate of zero, the employee may receive \$9,230 even though no tax is paid in a given year on behalf of that employee. The major difference between the two situations is that the employer paying nothing has a positive account balance resulting from previous tax payments whereas the employer paying the maximum tax rate has a negative balance, which means that its account has already been charged with more in benefit payments than it has been credited with basic tax payments.

In addition to the basic tax, Wisconsin employers pay solvency taxes. Solvency tax revenues are intended to fund benefit charges that are not charged to any employer account and those that are initially charged to an employer account but later removed from it. Slightly lower solvency rates are applied to employers with less than \$500,000 in taxable payroll.

Revenues raised through solvency taxes are treated as income to the balancing or solvency account, an accounting mechanism that serves as one indicator of the overall health of the Reserve Fund. Charges to the balancing account come from benefits that are paid, but not charged to a particular employer. The most common instance of such a charge occurs when a claimant quits one job, is subsequently hired by another employer, and then is laid off. All benefit charges based on work for the employer with respect to which the claimant resigned or quit are charged to the balancing account. In addition, when an employer has a negative balance in its account of more than 10% of its taxable payroll, the amount over 10% is "written off" and charged to the balancing account. If income and charges were equal, the balancing account balance would be \$0; however, in recent years charges to the balancing account have exceeded income by a substantial margin.

This section has described some of the most important elements in determining a claimant's benefit eligibility, an employer's tax liability, and the relationship between them. Before considering the implications of the relationship between benefit charges and tax liabilities for the system as a whole, the next section describes more fully the total expenditures and revenue from all sources available to the Fund.

Section 3. Unemployment Insurance Expenditures and Revenues

This section looks at various types of expenditure that may be made from the Unemployment Reserve Fund and the types of revenue that the Fund receives. The section considers total expenditures and revenues of each type and the factors affecting each. It answers the following questions.

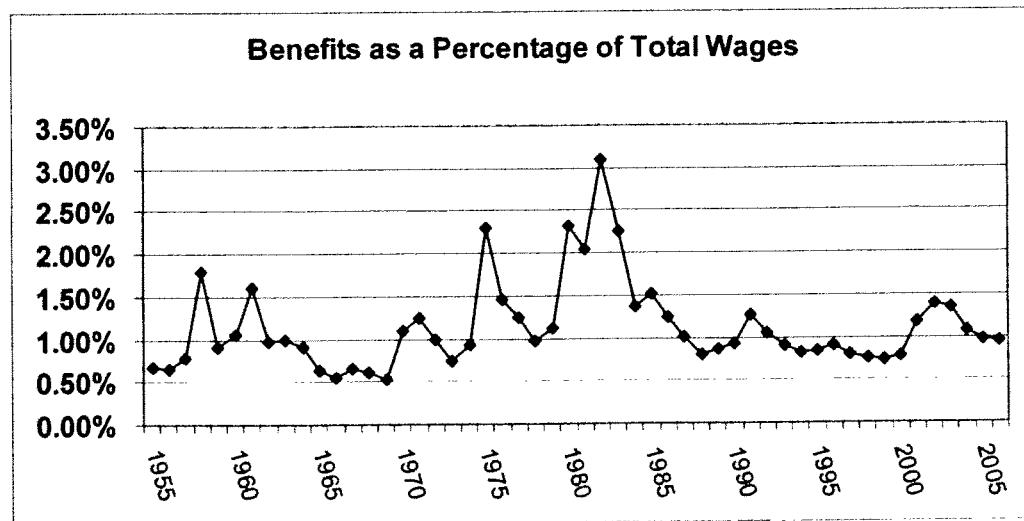
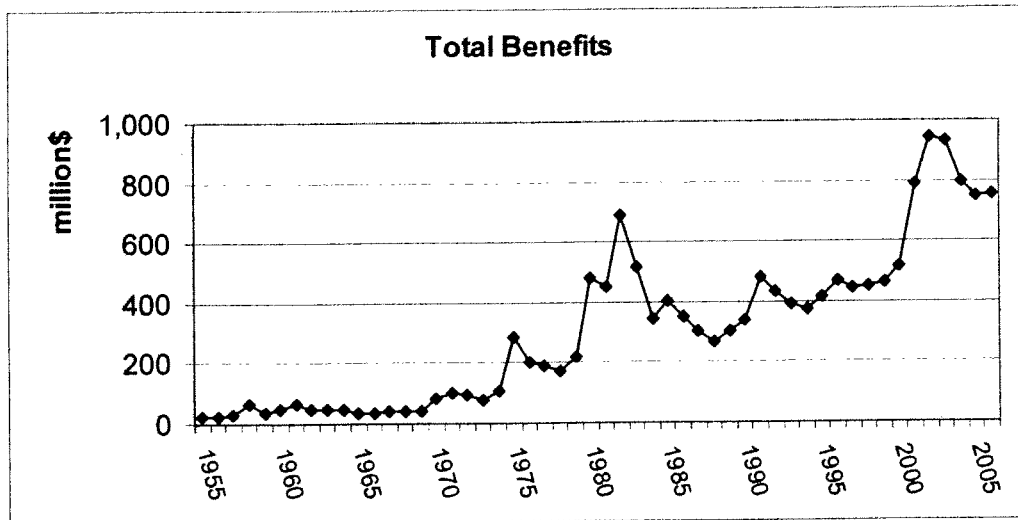
- **What expenditures may be made from the Fund?**
- **What are the Fund's sources of revenue?**
- **Why do revenues and expenditures increase and decrease?**
- **What is the relationship between total revenue and total expenditure?**
- **How does revenue compare with expenditures charged to employer accounts?**
- **How does revenue compare with expenditures charged to the balancing account?**

Expenditures

The primary purpose for expenditure from the Fund is to pay weekly benefits to individuals who have been laid off from work recently performed. Under special federal rules, a limited amount of a one time distribution of federal employer taxes in 2002 has been used for administration of the program and other expenses.

The primary expenditures from the Fund are Unemployment Insurance benefits. Benefit expenditures are driven by increases

in wages and employment, the insured unemployment rate, and changes in policies increasing or decreasing benefits. Total benefits have increased since 1955 as federal law has added more workers to the program and as these workers receive higher wages. However, the cost rate, or benefits expressed as a percentage of total wages covered by the program, is very similar for the periods between 1955 and 1975 and between 1991 and 2006. Benefits as a percentage of total wages spiked during the early and mid 1980s, when the Reserve Fund slipped into insolvency.

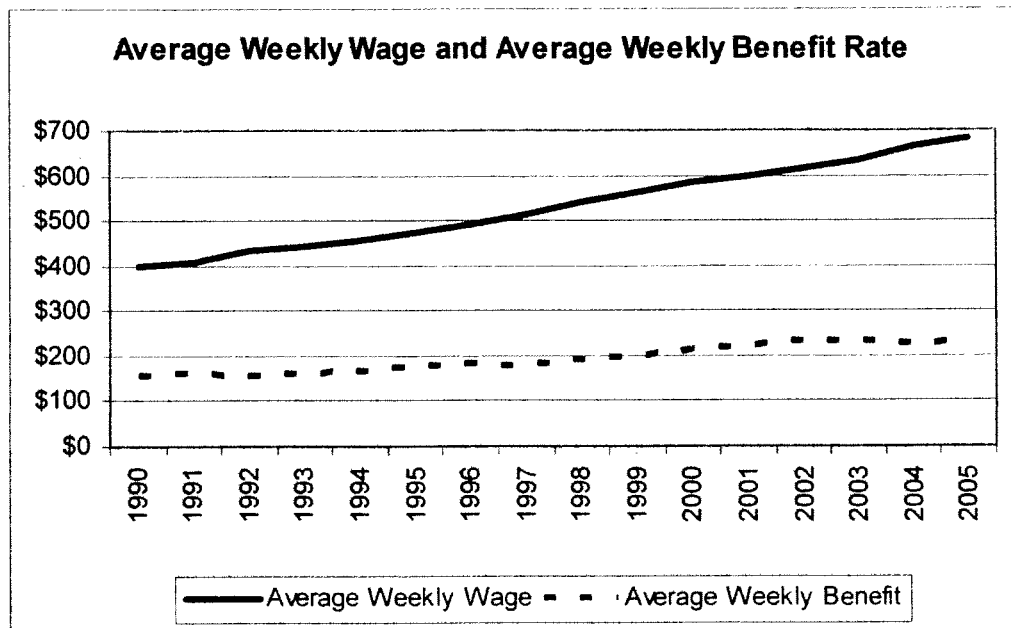


From 2004 through 2006 a portion of the one time distribution of federal employer taxes was spent on program administration and the apprenticeship program administered by the Department of Workforce Development. The sum of the three

years of expenditure for this purpose was approximately \$10 million.

As benefits are the primary source of expenditure from the Fund, a more thorough analysis was made of the factors that have affected them between 1990, when benefits appeared to be adequately financed, and 2005, when it became apparent that financing could be inadequate for a future recession.

Between 1990 and 2005 the average weekly wage of workers covered by the Unemployment Insurance program increased from \$397.38 to \$684.94, approximately 72% in total or 3.7% per year. Although the weekly benefit rate is based on wages, it is limited by a statutory maximum. Consequently, the average weekly benefit increased only 49% in total or 2.7% each year from \$154.03 to \$229.84 between 1990 and 2005. This increase includes the effects of legislated increases in the statutory maximum from \$225 to \$329, approximately 2.6% per year during this period. Overall, increases in benefits have not kept up with gradually rising wages as shown in the graph below.



Growth in employment is another major factor affecting benefit expenditures. Between 1990 and 2005 the number of jobs in private taxable employment increased from 1,784,000 to 2,160,000, an increase of 21%. If there are more workers, unemployment benefit expenditures will be higher at a given rate of unemployment.

A third determinant of benefit expenditures is the insured unemployment rate. As the insured unemployment rate increases or decreases, so do benefit expenditures. Relatively small changes in the insured unemployment rate can drive substantial changes in benefit expenditures.

Changes in policies other than the increase in the maximum weekly benefit rate may also affect total benefit expenditures. Policy changes have been responsible for a relatively small proportion (less than 6%) of benefit increases since 1990.

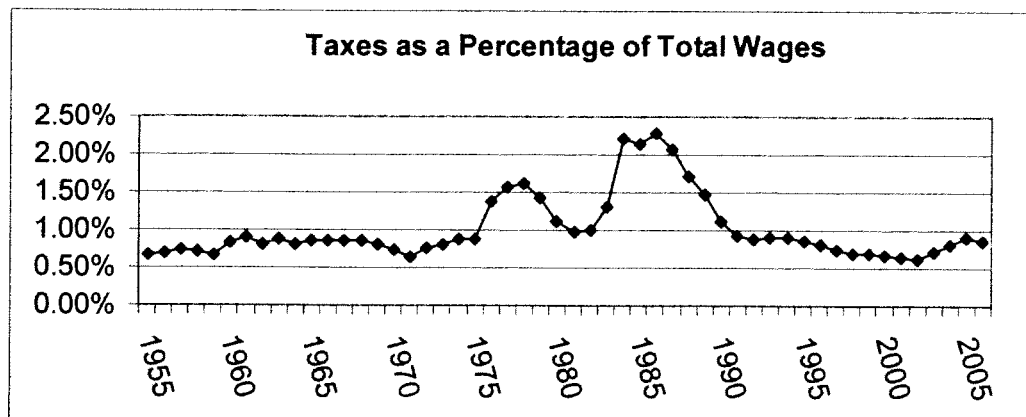
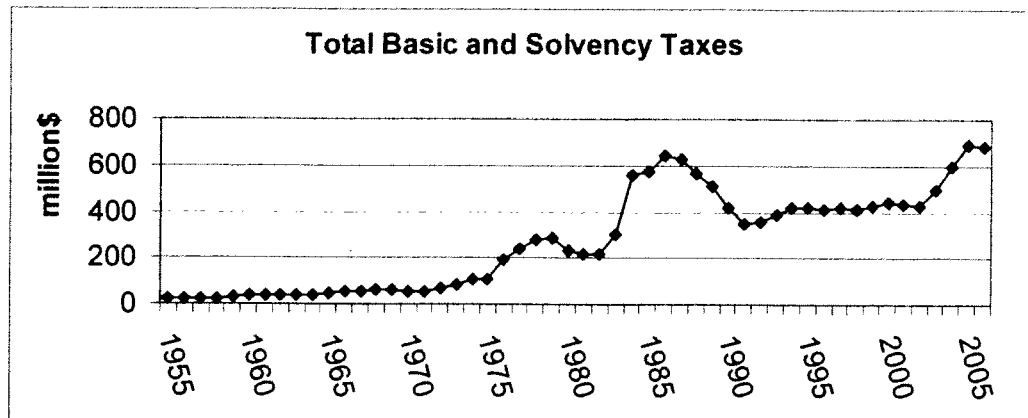
While each of the major factors has been discussed so far as if each were the only factor responsible for increases in benefit expenditures, the factors affect each other. For example, if the average weekly benefit increases between 1990 and 2005 and there are more workers in 2005 than in 1990, the additional workers will receive benefits at 2005 rates, not those in effect in 1990. Similarly, a higher insured unemployment rate will affect the additional workers and they will receive benefits at higher rates. After taking into account the way in which the factors affect each other, the portion that each contributed to the difference between 1990 and 2005 benefits is as shown below. As indicated, most of the increase in benefits is due to the growth of the average weekly wage and adjustments in the weekly benefit rate.

Benefits, 1990 and 2005 (million\$)	
1990 Benefits	\$341
2005 Wages/Benefit Rates	241
2005 Employment	89
2005 Insured Unemployment Rate	61
2005 Policy Framework	<u>+ 20</u>
2005 Benefits	\$752

Revenue

The ongoing sources of revenue to the Reserve Fund are state taxes on employers and interest earned on the balance in the Reserve. In 2002 there was also a one time \$166 million distribution from the federal Unemployment Insurance Trust Fund, otherwise known as a "Reed Act distribution."

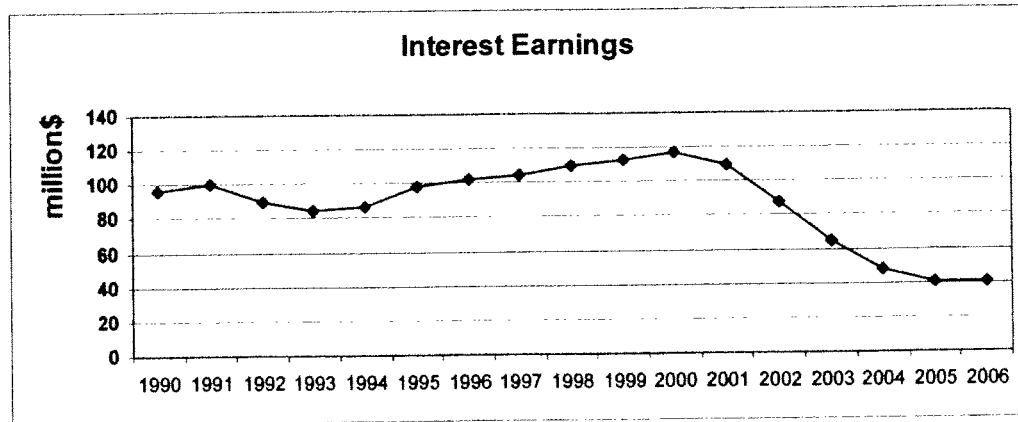
The State's basic and solvency taxes are the primary source of revenue to the Reserve Fund. Total taxes have increased since 1955 as federal law has added more workers to the program and as these workers receive higher wages. However, as a percentage of total wages covered by the program, taxes have stayed fairly consistent, with the exception of the period in the eighties when Wisconsin was forced to borrow from the federal government.



Interest earnings are the second major source of revenue to the Fund. Interest is paid by the federal government on each state's average daily balance in its Unemployment Reserve Account, which is maintained by the United States Treasury. Earnings accrue at the average coupon rate paid on all United States Treasury debt outstanding.

Interest earnings totaled \$1.3 billion and averaged approximately \$100 million annually during the period from 1990 through 2002. These earnings reduced the need for revenue from taxes. For 2006, however, interest earnings

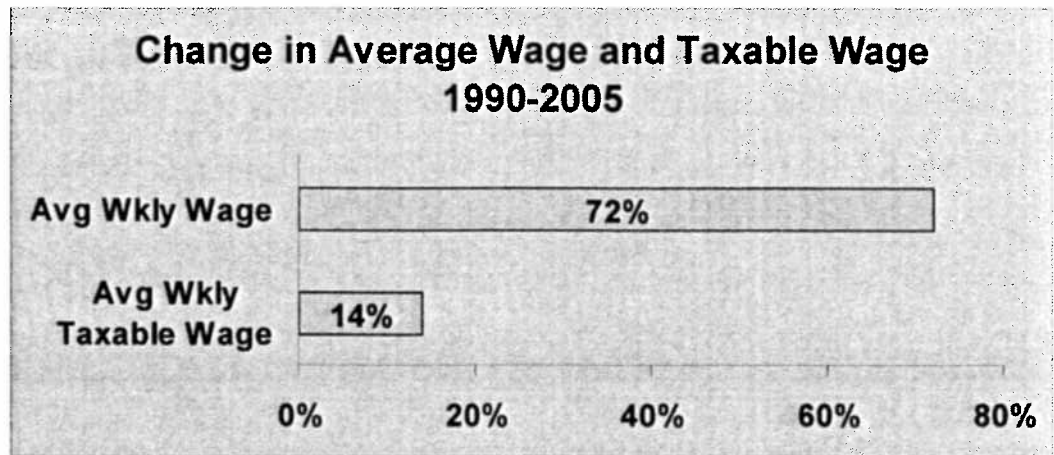
declined to \$41 million, primarily because of the lower balance in the Reserve Fund.



A final source of revenue to the Fund in 2002 was a one time distribution of federal employer taxes in the amount of \$166 million. These taxes were transferred to the Fund's balancing account from federal Unemployment Insurance accounts that had reached statutory limits. Additional transfers to the states from the federal Trust Fund are unlikely for the foreseeable future. The unspent portion of this distribution comprises 22% of the Wisconsin's 2006 year end Reserve Fund balance.

The primary factors affecting increases in total state taxes between 1990 and 2005 were analyzed in a manner similar to the analysis of increased benefit expenditures during that time period. The major determinants of increases in state tax revenue were wage and employment growth and increases in the average tax rate resulting from higher unemployment and benefit rates.

As previously noted, the average weekly wage increased by 72% between 1990 and 2005. However, taxable wages are limited by a statutory maximum, the wage base, which has been \$10,500 since 1986. Consequently, the average weekly wage subject to the unemployment insurance tax increased by only 14%.



A second major factor affecting revenue from taxes is the 21% increase in jobs. If there are more workers, more unemployment taxes will be collected at any given tax rate.

A third factor affecting tax revenue is the tax rate itself. In 1990 the average tax rate on taxable wages was 2.47%. In 2005 that rate was 2.93%. If the wage base had grown during this period, the tax rate increase would have been smaller.

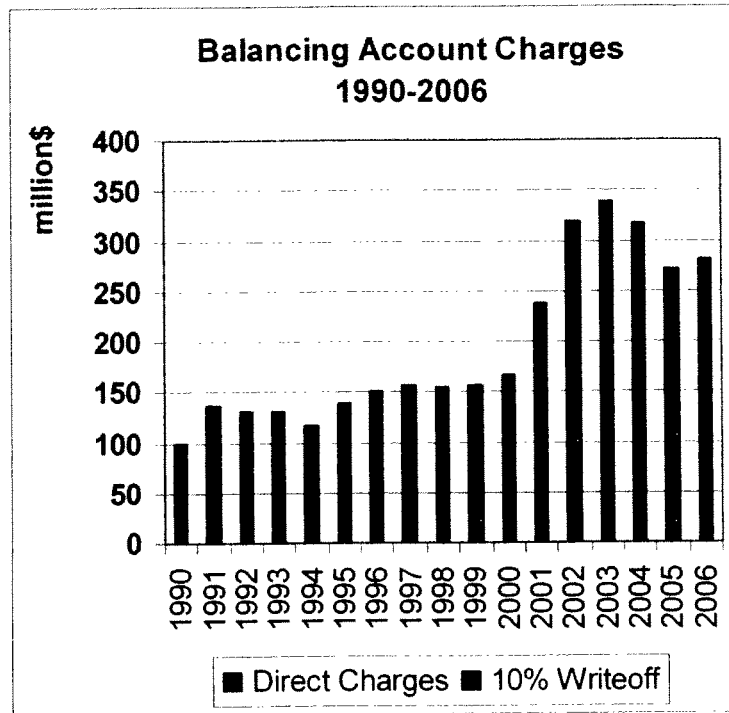
As was the case with benefit expenditures, the determinants of tax revenue affect each other. For example, the higher tax rate in 2005 must be applied not only to the number of workers in 1990 but also to the additional employees at work in 2005 when determining the full impact of each factor. After taking into account the way in which the principal factors affect each other, the portion that each contributed to the difference in taxes between 1990 and 2005 is shown below.

1990 Taxes	\$ 417
2005 Wages Subject to Tax	82
2005 Employment	103
2005 Average Tax Rate	<u>+ 78</u>
2005 Taxes	\$ 680

The 1.2% difference between actual taxes collected and those computed here may be attributed primarily to the necessity of treating tax rates for this purpose as a continuous variable ranging from 0 to 9.80% in increments of .01% rather than as twenty-four discreet table rates that vary from each other by uneven intervals of more than .01%.

Between 1990 and 2005 there were no significant changes in policies that would increase taxes. However, two policies were adopted that reduced revenue directly. The first changed the criterion for small employers eligible for lower solvency rates from \$300,000 in taxable payroll to the present \$500,000. The second transferred revenue from the balancing account to an administrative account. If the criterion for lower solvency rates for small employers had remained at \$300,000, an additional \$19 million would have been received in tax revenue in 2005. The transfer of tax revenue to modernization of computer systems, payment of banking fees, and the apprenticeship program reduced tax revenue available for payment of benefits by \$3 million annually.

In addition to policies that directly reduced taxes between 1990 and 2005, benefit expenditures were increasingly charged to the balancing account during that period. The recurring situations that lead to balancing account charges were previously described in the section entitled "A Claimant's Benefits and An Employer's Taxes". In 1990 benefit charges to the balancing account were \$42 million; in 2005 they were \$118 million. In 1990 the 10% write off created a \$57 million charge to the balancing account; in 2005 those charges were \$158 million. The percentage of total benefits directly charged to the balancing account increased from 12.1% to 15.7%. The percentage of benefits charged to the balancing account as a result of the 10% write off increased from 17% to 21%.



When benefits are charged directly to the balancing account instead of an employers' account, an employer's account balance is not decreased despite the payment of benefits. In other words, benefits are paid without generating revenue as usually occurs when benefits are charged to an employer account. If nothing changes between two points in time other than charging the balancing account with a higher percentage of the benefits attributable to the wage credits of each employer, employers' account balances will increase, taxes will decrease, and the system as a whole will become less able to sustain itself.

When benefit charges are removed from an employer's account under the 10% write off, an employer's account balance is also increased despite the payment of benefits. An employer's tax rate does not decrease at the time of the write off because the write off establishes a -10% reserve percentage instead of the -6% associated with the maximum tax rate. However, an increasing percentage of total benefits included in the 10% write off means that more benefits are being paid by employers at a basic tax rate that does not fund those benefits. During the period from 1990 through 2005 there were no corresponding increases in solvency tax rates to fund the increasing portion of benefits that were charged to the balancing account.

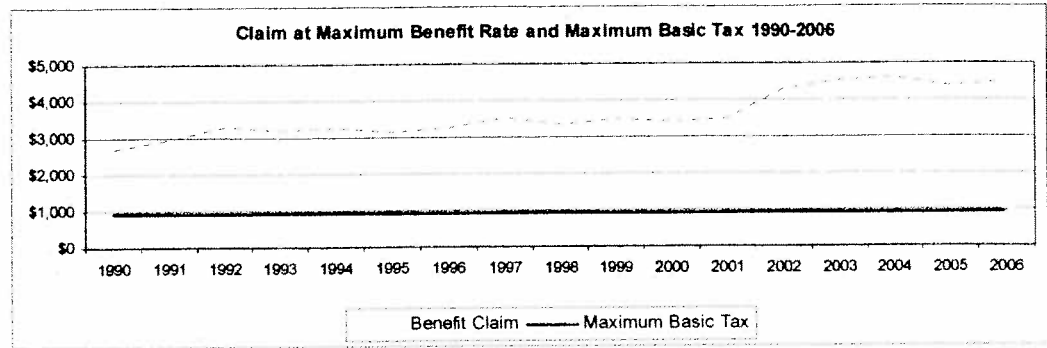
To illustrate the nature of this problem, the maximum weekly benefit rate was multiplied by average “duration” or total weeks paid in a year divided by the number of benefit years opened in that year. The result was used as a measure of benefits that a claimant receives if at the maximum weekly benefit rate. This hypothetical benefit claim was compared with the maximum tax that would be paid at the highest tax rate. From 1990 through 2006 the percentage of a benefit claim paid by the maximum tax rate declined from 35% to 21%. As benefits are gradually increased without a corresponding increase in the maximum tax rate, employers that have the maximum tax rate and lay off individuals for 3 weeks or more are likely to have more and more benefits removed from employer accounts and charged to the balancing account with no increase in the revenue available to pay for these benefits.

Percentage of Benefit Claim Paid if Claimant at Maximum Weekly Benefit Rate, Employer at Maximum Tax Rate

Year	Maximum Weekly Benefit Rate	Average Duration (weeks)	Benefit Claim	Maximum Basic Tax per Employee	Percent of Benefit Claim Paid
1990	225	12.0	2700	935	34.63%
1991	225	13.2	2970	935	31.48%
1992	240	13.8	3312	935	28.23%
1993	243	13.2	3208	935	29.15%
1994	256	12.7	3251	935	28.76%
1995	266	11.9	3165	935	29.54%
1996	274	11.9	3261	935	28.68%
1997	282	12.6	3553	935	26.31%
1998	290	11.5	3335	935	28.04%
1999	297	11.8	3505	935	26.68%
2000	305	11.2	3416	935	27.37%
2001	313	11.5	3600	935	25.98%
2002	324	13.3	4309	935	21.70%
2003	329	13.8	4540	935	20.59%
2004	329	14.0	4606	935	20.30%
2005	329	13.3	4376	935	21.37%
2006	341	13.2	4501	935	20.77%

The following graph shows the relationship between the basic tax and the average benefit claim in the table above. Taxes have remained static during a period of modest legislated

benefit increases and more recently a few more weeks of duration.

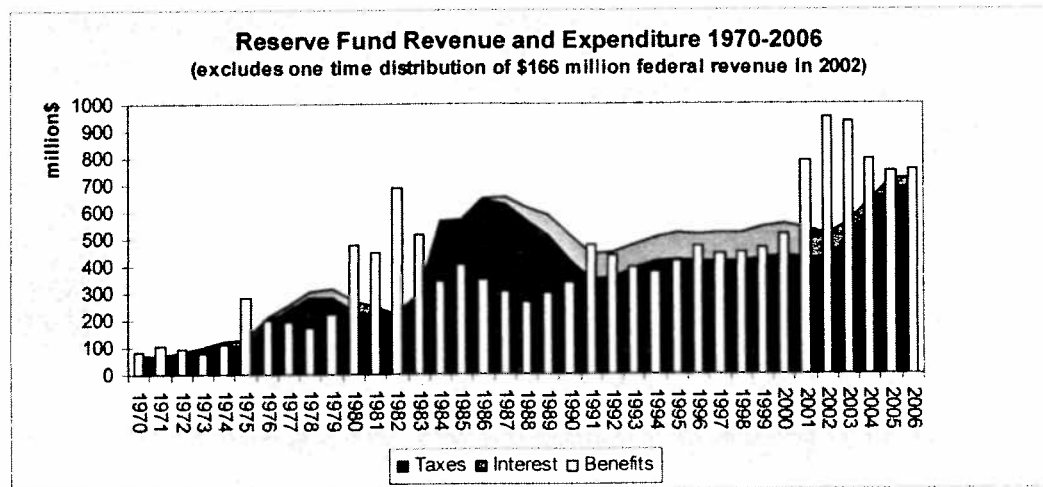


The Relationship between Unemployment Insurance Expenditures and Revenues

The preceding section examined major factors affecting each of the components of expenditure and revenue. The present section compares expenditures and revenues with each other.

Total Revenue and Expenditures

The relationship between Reserve Fund revenue and expenditure is shown below.

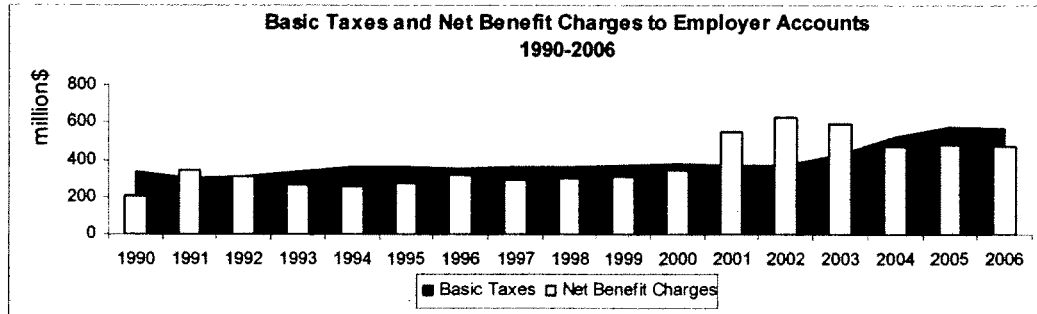


To account for total expenditures of all types, the \$3 million in expenditures for administrative expenses in 2004, 2005, and 2006 were added to benefits. Since the recession of 2001, the light columns representing expenditures have exceeded both the darkest shaded area representing taxes and the intermediate shaded area which adds interest to tax revenue.

Employer Account Revenue and Expenditures

Examining revenue and expenditure patterns in employer and solvency accounts offers a complementary perspective on the Reserve Fund. For this purpose the period under consideration is 1990 to the present.

Basic taxes and net benefit charges to employer accounts are shown below. Net benefit charges are benefit charges after the 10% write off has removed benefit charges from employer accounts and charged them to the balancing account. From the graph it is apparent that basic taxes following the increased expenditures in 2001-2003 did not generate sufficient revenue to pay for the higher benefits that resulted from the recession of 2001, even though basic taxes in 2004 through 2006 did cover benefit charges in that period.



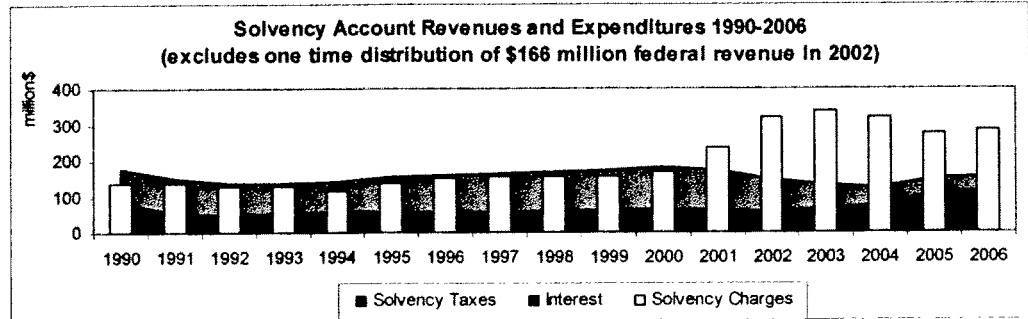
Additional detail is found in the following table. For the period as a whole net benefit charges exceeded taxes by \$368 million.

Employer Accounts - Revenue and Expenditure 2001-2006 (All amounts in million\$)

Year	Basic Taxes	Net Benefit Charges	Surplus or Deficit
2001	366	554	-188
2002	371	630	-259
2003	430	593	-163
2004	521	474	47
2005	577	482	95
2006	569	469	100
TOTALS	2934	3202	-368

Balancing Account Revenue and Expenditures

Solvency taxes and charges to the balancing account are shown below.



The discrepancy between revenue and expenditure in the balancing account is even greater than that between basic taxes and charges to employer accounts. And, in the case of the balancing account, even current expenditures are not being funded by existing revenue.

Additional detail is found in the following table. After taking interest earnings into account, the net deficit for the period is \$891 million.

Balancing Account - Revenue and Expenditure 2001-2006 (All amounts in million\$)

Year	Solvency Taxes	Solvency Charges	Taxes Minus Charges	Interest	Deficit
2001	64	237	-173	110	-63
2002	59	319	-260	88	-172
2003	67	339	-272	65	-207
2004	75	320	-245	48	-197
2005	111	276	-165	41	-124
2006	115	284	-169	41	-128
TOTALS	491	1775	-1284	393	-891

The recurring annual deficits in the balancing account need to be addressed in order to protect the integrity of the Reserve Fund over the long term. There are a variety of possible strategies and they will be addressed in Section 5.

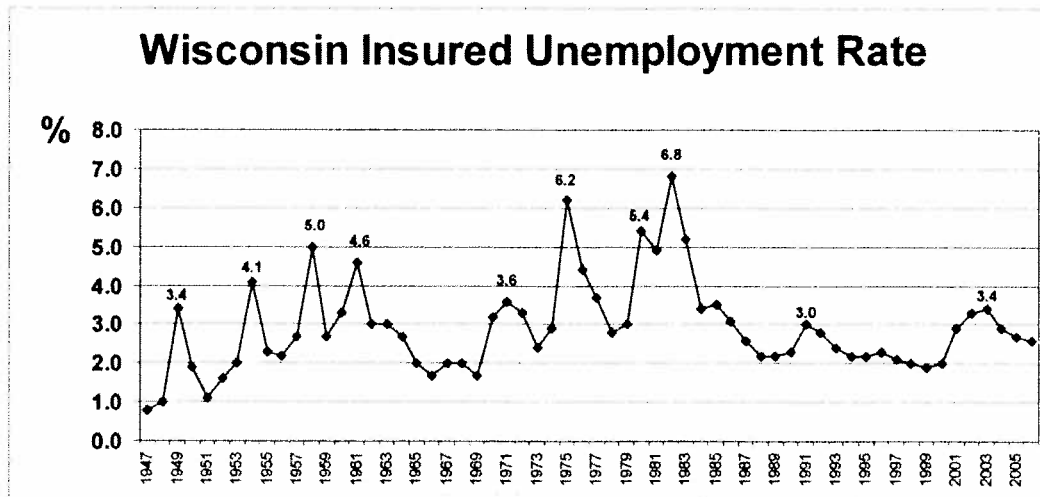
Section 4. Unemployment Insurance Reserves

This section assesses the purposes and adequacy of unemployment reserves. It addresses the following questions.

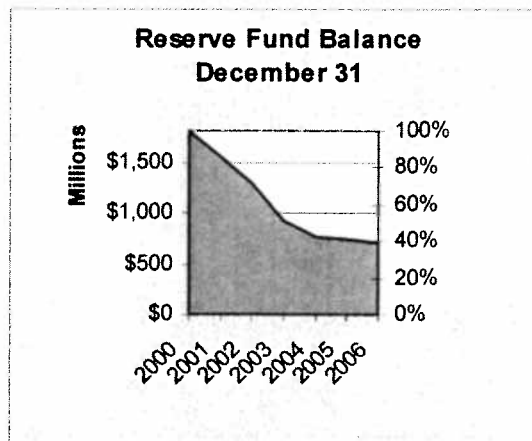
- **What is the purpose of a reserve?**
- **What is the current status of the Wisconsin Unemployment Reserve Fund?**
- **How do unemployment reserves differ from other reserves?**
- **How adequate is the reserve in relation to nationally suggested benchmarks?**
- **How likely is borrowing from the federal government?**
- **What was the State's previous experience with borrowing?**

The purpose of a reserve is to fund a future known liability of uncertain amount. In the case of unemployment reserves, that liability consists of benefit payments that can increase sharply when there is a downturn in the economy.

The graph below portrays Wisconsin Insured Unemployment Rates from 1947 through 2006. The peak unemployment rate during the most recent recession was far below peaks in past recessions.



In each of the most recent six years expenditures exceeded revenues. The net impact on the Wisconsin Unemployment Reserve Fund is shown below. At the end of 2006 the Reserve Fund was at 40% of its peak before the most recent recession. The balance has been lower in each year since 2000 and is not recovering. This is in marked contrast to most other states, whose reserve fund balances are growing.



The table below contains the specific amounts by which the balance has declined as well as the insured unemployment rates for each year. From 2001 through 2006 the balance declined by a total of \$1.09 billion.

Year	Decline (million\$)	Insured Unemployment Rate
2001	-\$249	2.9%
2002	-\$265	3.3%
2003	-\$370	3.4%
2004	-\$154	2.9%
2005	-\$27	2.7%
2006	-\$31	2.6%
TOTAL	-\$1096	Not Applicable

Unemployment reserves differ from other reserves such as Social Security, retirement funds, and accident and health funds. Expenditures from all of these other funds fluctuate less from year to year or fluctuate more predictably over long periods of time than do expenditures from unemployment reserves. Expenditures from many of the other types of funds respond more to long term population trends than to shorter term fluctuations in the business cycle.

Because unemployment reserves differ significantly from other reserve funds, actuarial standards call for higher reserves in relation to expenditures in a year of economic expansion than is characteristic of other funds. The actuarial standard offered by the United States Department of Labor and the General Accountability Office seeks to reduce substantially the probability of insolvent state reserve funds and the need to borrow. The conservative federal reserve standard suggests that states should have no more than a 15% probability of borrowing during a downturn in the economy.

Wisconsin's reserves increased throughout the 1990s and kept the probability of borrowing to less than 35%. The decline in reserves since 2000 has increased the probability of borrowing to 79%.

Year	Probability of Borrowing	Year End Reserves (million\$)
1990	.28	1204
1991	.30	1174
1992	.33	1185
1993	.32	1267
1994	.31	1395
1995	.30	1496
1996	.31	1542
1997	.32	1621
1998	.33	1693
1999	.34	1771
2000	.35	1815
2001	.42	1566
2002	.51	1301
2003	.65	931
2004	.74	777
2005	.77	750
2006	.79	719

During the early 1980s Wisconsin borrowed \$737 million from the federal government. In order to repay this debt, taxes were increased substantially and benefits were reduced. In addition, Wisconsin employers paid approximately \$125 million in interest on the debt.

Reserves help in avoiding tax increases and benefit reductions during recessions when these outcomes are least desirable in terms of stabilizing the economy. When the economy begins to expand again, interest earnings on reserves restrain tax increases and moderate changes in taxes from year to year. Reserves also support a system that requires less revenue from employers that have the most stable employment because reserves tend to avert shifts in the incidence of taxation to industries that ordinarily have the fewest layoffs: those that maintain wages at a constant level during the business cycle or are the first to recover from a downturn.

Finally, reserves strengthen a state's control over its own tax and benefit policies. When a state does not borrow, it is not subject to federal requirements that specify the timing and amount of state tax increases and/or benefit reductions

necessary for avoiding increased federal taxes and potential penalties related to the borrowed funds. As a result, reserves enhance the quality of planning, promote constructive resolution of other employer/employee issues, and provide greater opportunity for the creation of political consensus, which is extremely difficult to obtain if taxes must be increased or benefits reduced to meet federal requirements associated with borrowing during or immediately after an economic downturn.

Section 5. Alternatives for Restoring Reserves

The following alternatives address a variety of issues raised in this report. The best solution to the problem of Reserve Fund solvency would come from a combination of steps that provide a timely increase in revenues to guard against a potential recession while seeking over the long term to address the deficit in the balancing account. Though a combination of the alternatives listed below would be sufficient to strengthen the solvency of the Reserve Fund, this list is not exhaustive. Other alternatives are possible and the staff of the Unemployment Insurance Division stands ready to provide support to the Advisory Council as it explores additional options.

Alternatives

Increase the wage base. The average weekly wage has increased from \$343.55 in 1986 to \$684.94 in 2005. However, wages subject to the state Unemployment Insurance tax in any given year have remained at \$10,500.

In general, raising the \$10,500 wage base would have two effects on revenue. First, it would increase revenue in the short run when the wages subject to tax are increased. The increased taxes would be temporary for most employers as the higher taxes would lead to higher employer account balances, which in turn would result in lower future tax rates. Second, raising the wage base would result in greater revenue each year from any employer with employees paid more than the amount of wages currently subject to tax and consistently receiving more in benefits than their employer pays in taxes.

A 2005 study indicated that tax revenue over 5 years would be expected to increase by \$210 million for each \$1,000 increase in the wage base up to \$15,000, given the official economic forecast at that time. About half of this amount would be paid by employers that pay less in taxes than their employees

receive in benefits. The remainder would be paid by employers that would receive lower tax rates as a result of their increased contributions. Revenue per \$1,000 increase in the wage base was estimated to increase in the following pattern: Year 1, \$39 million; Year 2, \$58 million; Year 3, \$48 million; Year 4, \$38 million; Year 5, \$26 million. In that study the tax schedule in effect during the first five years did not change when using the \$10,500 wage base.

If the wage base were indexed to reflect the annual changes in wages, revenues to the Reserve Fund would move in tandem with wage-driven benefit charges. Year-to-year changes in revenues would be relatively small, but would cumulatively have a significant effect in strengthening the solvency of the Reserve Fund.

Change criteria for moving from one tax schedule to another.

Wisconsin statutes contain a tax table with four schedules of basic and solvency rates applicable to large and small employers. Each schedule becomes effective when the Unemployment Reserve Fund reaches specified fixed dollar levels. The schedules are structured to raise more revenue as the Fund's balance decreases. Over the years these fixed thresholds in combination with the existing tax schedules have not generated enough revenue to protect the solvency of the Reserve Fund. Most states that use multiple tax schedules tie the change in schedules to criteria relating to growth in wages or benefit payments.

Under our current system the schedule with the highest tax rates is in effect when the balance in the Reserve Fund is less than \$300 million on June 30 of the year preceding the year for which tax rates go into effect. The second highest is in effect when the balance is between \$300 million and \$900 million; the third when the balance is between \$900 million and \$1.2 billion; and the lowest tax schedule, when the balance is greater than \$1.2 billion. Wisconsin's balance on June 30, 2006 was approximately \$750 million.

When four schedules were initially included in the tax table affecting 1984, the criterion for changing from one schedule to another related reserves to total wages paid by employers covered by Wisconsin's Unemployment Insurance program. Specifically, the highest tax schedule was in effect for the following year if the June 30 cash balance in the Fund was less than 1.5% of the previous calendar year's total wages. With

total wages at approximately \$75.7 billion for calendar year 2005, the highest tax schedule would be in effect for 2007 if the June 30, 2006 cash balance in the Unemployment Reserve Fund was less than \$1.1 billion, a point at which the next to lowest tax schedule would be in effect under current Wisconsin law.

The fixed dollar criteria for changing tax schedules were adopted in 1986 and have not been changed since that time. The criteria do not reflect the growth in the economy that has occurred from the tripling of wages from \$25 billion in 1984 to \$76 billion in 2005.

If the criteria for changing tax schedules relate to both benefit expenditures and the growth of wages, this type of system can be structured to maintain the substantial reserves that relate to potential expenditures in recessions as well as the growth of the economy. These reserves make it less likely that taxes will increase during and immediately after a recession while assuring that revenue is available to meet expenditures.

Change the maximum solvency tax rate. Each 1% that is added to the solvency tax rate of employers at the maximum rate would increase revenue by \$12 million. However, employers at the maximum rate have only 5% of the taxable payroll to which a higher rate would be applied. Consequently, while an increased maximum rate could raise a substantial amount of revenue, it would not be reasonable to solve the whole problem with this strategy. It would not seem fair to rely solely on the maximum rate for revenue as maximum rated employers are not the sole source of charges to the balancing account.

Change the lowest solvency tax rates. Charges to the balancing account in 2006 were about \$130 per employee. About \$60 of that amount was for direct charges to the balancing account, not specifically relating to employers at the maximum tax rate. An employer at the lowest tax rate for 2007 contributes no more than \$5.25 per employee for offsetting these charges. If solvency rates were increased from 1/20 of 1% to 1/2 of 1% or no more than \$52.50 per employee for employers with solvency rates that are currently less than 1/2 of 1%, there would be additional Reserve Fund revenue of \$25 million. The change would mean that all employers are making a meaningful contribution to the cost of the program.

Adopt a solvency surtax on all employers. A solvency account surtax applicable to all employers would spread the cost evenly

among all. For each increment of 1/10 of 1%, a solvency surtax would increase revenue by approximately \$24 million.

A variation of this practice is found in many states which set a surtax each year when needed to eliminate any negative balance in any account within the fund. The surtax is based on the negative balance at the end of the second year preceding the year of its application. If such a surtax had been in effect in Wisconsin, a surtax of approximately ½ of 1% would have been charged to each employer beginning in 2006. This approach can have the advantage of not imposing the tax until recovery from a recession, provided that there is an initial positive balance in all accounts.

Eliminate the distinction between solvency rates for large and small employers. If the solvency rates applicable to large employers were also applied to small employers, an additional \$7 million in revenue would be generated in 2007. Large employers are those with \$500,000 or more in taxable payroll. Those that continued in business in 2005 had \$61 million removed from employer accounts and transferred to the solvency account as a result of the 10% write off. Small employers continuing in business had \$76 million transferred from employer accounts to the solvency account. (Another \$14 million was transferred on behalf of employers that were not actively in business in 2005.) In contrast, large employers paid \$83 million in solvency taxes while small employers paid \$28 million in solvency taxes in 2005. Small employers are not covering their charges to the balancing account and are therefore contributing directly to the Reserve Fund's solvency problem.

Eliminate "quit" charges to the balancing account. In 2005 37% of all benefits or \$276 million were charged to the balancing account. 12% of all benefits or \$89 million were charged to the balancing account when individuals quit an employer, subsequently earn enough in requalifying wages to overcome the disqualification for quitting, and are laid off by at least one employer more recent than the one quit. If benefits were charged to employer accounts in quit situations, only 25% of all benefits would be charged to the balancing account through the 10% write off or other provisions that lead to direct balancing account charges. Assuming that 25% of quits no longer directly charged to employer accounts would eventually be charged to the balancing account as a result of the 10% write off or other remaining direct charging provisions, additional revenue of \$67

million would have resulted in 2005 from shifting charges for quits from the balancing account to employer accounts. The actual amount in any given year would depend on the extent of unemployment and the phase of the business cycle. While charging employer accounts in quit situations could increase revenue substantially, it would obtain the revenue from employers that had not laid off the claimants involved and would raise questions about the fairness of such a provision.

Eliminate miscellaneous charges to the balancing account.

The elimination of direct charges to the balancing account from situations involving misconduct, refusal of suitable work, agency error, and employers continuing to employ a claimant (usually part time) after the claimant is laid off from another (usually full time) job raise the same kinds of questions about fairness as would eliminating charges in quit situations. The charges from these four situations combined amounted to a little more than 1% of total benefits in 2005. If charged to employer accounts instead of the balancing account, additional revenue of approximately \$5 million might have been expected in 2005, using the same kinds of assumptions as in considering additional revenue from transferring quit charges from the balancing account to employer accounts.

Eliminate second benefit year charges to the balancing account. Questions about fairness are less prominent in eliminating the charges that arise when a claimant uses wages from the quarter of a layoff and the immediately preceding quarter for which wage records are often not available when eligibility and benefits are computed. The claimant was laid off and earned the wage credits resulting in the payment of benefits. Moreover, at the time of their adoption the formulas by which eligibility and benefits are computed were reduced to reflect the possibility that some employers might be charged in two benefit years following one layoff. Approximately 3% of total benefits were charged to the balancing account in 2005 in this situation. Returning these charges to employer accounts would have resulted in an estimated \$15 million in additional revenue in 2005 with revenue in other years depending primarily on total benefit expenditures.

End the 10% writeoff and/or the rate increase limiter. Ending the 10% write off is by itself unlikely to have any immediate impact on revenue. Although employer accounts would become more negative, they are already overdrawn to the extent that employers that receive the 10% write off usually receive the

maximum tax rate. However, eliminating the 10% write off could lead to increased revenue after a recession in which benefits were sharply higher for employers that usually do not experience layoffs. Under these conditions some employers that usually do not receive the 10% write off would benefit from it, but, without it would continue to fund benefits for which their employer accounts were charged during the recession.

In a simulation of a severe recession with a 6% insured unemployment rate and no write offs, taxes increased by \$10 million in the fourth year after the recession and could increase by more in following years. The delay in increased revenue is due to another feature of present law, called the "limiter". According to this provision, no employer with a positive employer account balance may have more than 1% added to its rate in any succeeding year and no employer with a negative balance may have more than 2% added to its rate in any succeeding year (except that the rate may be increased to the tax schedule rate next higher than the previous rate plus the applicable 1% or 2%). In a simulation in which neither write offs nor limiters were permitted in a severe recession, taxes increased by \$38 million in the year following the recession and by \$30 million in the year after that before declining by \$5 million as more positive balances were restored. Eliminating just the limiter in this scenario increased revenue by comparable amounts but reduced revenue by \$17 million after more positive balances had been restored. Removing both the write off and the limiter in a scenario that corresponds to the official forecast of the economy as used in state budget and revenue estimates increased revenue by \$9 million in one year before leveling off. As indicated, freezing the write off alone had little effect.

Change the order of charging. As indicated in Section 2, charges to the balancing account are based on a proportional share of the wage credits from each employer in the claimant's base period. If there are wage credits from more than one employer and the claimant has quit one or more of them, a proportional share of wage credits from employers that experience the quit is charged to the balancing account. Alternatively, it would be possible to keep all of the rules for eligibility, the weekly benefit rate, and total entitlement the same but to charge all employers that laid off a claimant for their share of the total entitlement before charging the balancing account. Charges could either be made in inverse order of layoff with charges to the employer most recently

laying off the claimant first, or, all employers that laid off the claimant could be charged simultaneously with the proportional share of their entitlement before charging the balancing account. The alternative method of charging would increase charges to employer accounts by approximately \$20 million in a year in which benefits were \$750 million and the net increase in revenue after the 10% write off would be approximately \$15 million.

Retain reserves by implementing a one week waiting period. A waiting week would provide for a waiting period of one week before benefits become payable in each benefit year. A waiting week is estimated to result in an average annual cost reduction of \$54.1 million over the average business cycle of five years with reductions ranging from \$47.2 million in a late expansion year in the cycle to \$71.3 million in a downturn. During a five year business cycle that includes a severe recession, it is estimated that a waiting week would result in an average annual increase in federal reimbursement of \$5.6 million, ranging from nothing in years when extended benefits are not paid to \$17.3 million in a downturn.

Retain reserves by increasing qualifying requirements. To qualify, a claimant must have total wages equal to at least 30 times his or her weekly benefit rate and wages equal to at least 4 times the benefit rate in calendar quarters other than the quarter in which wages are highest. If either or both of these requirements were increased, fewer claimants would qualify and expenditures would be reduced for 2008, given increases in various wage requirements. In the following table the present requirements for 30 times total wages and 4 times wages other than in the highest quarter of wages are expressed as 30/4. The variation to continue the requirement for 30 times total wages but increase wages outside the highest quarter of wages is expressed as 30/14, etc. The amounts that are shown first in the table are those that would appear in a fiscal note for 2008, given the official economic forecast prepared by the Wisconsin Department of Revenue. Then, the amounts of expenditure reduction in years of a typical business cycle are shown for each option. All amounts are in millions of dollars.

**Full Year Expenditure Reduction from Increasing
Selected Qualifying Requirements**

Qualifying Requirement	30/4	30/14	40/4	40/14
DOR & Fiscal Note	0	-17	-17	-20
Early Expansion Year	0	-29	-28	-33
Middle Expansion Year	0	-20	-20	-23
Late Expansion Year	0	-13	-13	-15
Downturn	0	-37	-37	-43
Weighted Cycle Average	0	-23	-23	-27

Retain reserves by increasing requalifying requirements following disqualifying quits and refusals of suitable work. A 2005 study increasing requalifying requirements from waiting four weeks and earning four times the weekly benefit rate to waiting eight weeks and earning eight times the weekly benefit rate reduced expenditures an estimated average of about \$600 for 5,200 claimants. Total estimated reduction in expenditure was \$3.1 million.