Ohio Legislative Service Commission

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Fiscal Note & Local Impact Statement

Bill: Sub. S.B. 8 of the 130th G.A. **Date**: August 8, 2013

Status: As Passed by the Senate **Sponsor**: Sen. LaRose

Local Impact Statement Procedure Required: Yes

Contents: Extends unemployment eligibility to spouses of military members who are transferred and declares an emergency

State Fiscal Highlights

- The bill would result in an increase in benefits issued from Ohio's Unemployment Compensation Trust Fund. The increase in benefits would be funded by the state's mutualized account in the trust fund for contributory employers.
- State agencies and other government entities (state hospitals, universities, etc.), which are reimbursing employers, may experience an increase in reimbursements made to the state's trust fund for benefits issued to military spouses.

Local Fiscal Highlights

- Local government entities may experience an increase in reimbursements made to the state's trust fund for benefits issued to military spouses.

Detailed Fiscal Analysis

The bill extends eligibility for unemployment compensation benefits to an individual who quits work to accompany the individual's active-duty military spouse who is transferred. The bill includes an emergency clause, which would make the bill effective immediately upon the Governor's signature.

Impact on unemployment benefits

Based on estimates made by to the U.S. Department of Defense (USDOD), the bill could increase unemployment benefits issued in Ohio by about $237,600 each year. This amounts to about a 0.02% increase over the $1.13 billion in unemployment benefits issued in 2012. The estimate assumes that about 44 military spouses would claim benefits each year and that they would receive $5,185 in benefits, based on the average weekly unemployment benefit amount ($305) and the average number of weeks of unemployment (17 weeks).[1] USDOD states that the actual cost per individual may be lower, because military spouses tend to make less than the average wage and usually find employment shortly after relocating. The actual cost of extending eligibility will depend on the number of spouses eligible to receive benefits, the number of weeks spouses receive benefit payments, and the amount of weekly benefits for those spouses.

The estimated 44 individuals that would claim benefits each year in Ohio was based on the number of current military spouses in Ohio and the number of military spouses that have claimed benefits in other states. According to USDOD Defense Manpower Data Center, a statistics agency within USDOD, it is estimated that about 4,350 spouses of active duty military members reside in Ohio. Of that number, an estimated 2,240 (51.5%) were in the labor force. Then, based on the number of military spouses that have claimed unemployment benefits in other states, USDOD estimates that about 2% of the 2,240 spouses (44 individuals) would claim benefits.

Funding military spousal unemployment benefits

Contributory employers

USDOD estimates that most military spouses (70%) are employed by contributory employers. Contributory employers are mostly private employers (there are about 213,300 contributory employers in the state). In most cases, if a contributory employer has a layoff, payment of the unemployment benefit is paid from the employer's account in the state's trust fund. As the balance in an employer's account goes down, the rate of contributions in future years for the employer will increase to replenish those losses. However, under the bill, benefits to military spouses would be issued from the mutualized account in Ohio's trust fund. This account is separate from employer accounts in the trust fund and is mainly used to recover the costs of

[1] Source: Ohio Department of Job and Family Services, Ohio Labor Market Information.

unemployment benefits that were paid and not chargeable to individual employers for a variety of reasons. Benefits issued to military spouses from the mutualized account would not reduce the balance in individual employers' accounts. Therefore, contributory employers would not be charged additional amounts for their own accounts for military spouses that claim benefits under the bill. Due to the estimated small number of claimants, it is unlikely that contributory employers would be required to pay additional amounts into the mutualized account.

Employer contributions to the trust fund are based on state unemployment tax rates that range from 0.3% to 8.4% on the first $9,000 of each employee's taxable wage. In 2012, the total average state unemployment tax rate was about 3.52% (or $317 paid per employee). As part of their state unemployment taxes, employers pay a minimum safe level (MSL) tax. This tax, included in the experience rates, ranges from 0.2% to 1.9%, and is charged to employers when the trust fund balance is 40% or less of the minimum safe level. The minimum safe level of the trust fund, as defined by state law, is $2.45 billion (as of July 2012); therefore, 40% of that level is $980.3 million. This tax is currently in effect, as the trust fund has been well below this threshold. Half of the amount collected from this tax is credited to an employer's account and the other half is credited to the state's mutualized account. At the end of FY 2012, the state's mutualized account had a positive balance of $107.3 million.

Reimbursing employers

USDOD estimates that 30% of military spouses are employed by reimbursing employers. Reimbursing employers generally include public employers (state agencies, local government entities, etc.) and nonprofit organizations that have elected to be reimbursing employers instead of contributory employers. Reimbursing employers are billed once a month, after the fact, for the amount of benefits paid to the employer's former employees from the trust fund. Benefits issued under the bill to military spouses by reimbursing employers would be financed through the employer reimbursing the trust fund. There are about 4,900 reimbursing employers in the state.

Administration

Extending eligibility to individuals married to active-duty military members would minimally increase administrative costs for the Ohio Department of Job and Family Services (ODJFS). Administrative costs will likely be fully funded by the federal government. Ohio receives a federal grant each year to administer unemployment programs. The amount of the grant is based on workload estimates made by the U.S. Department of Labor (USDOL). In addition, each quarter USDOL provides "above-base funding" for costs that exceed the estimated costs. However, based on guidance from USDOL,[2] regular federal administrative grants for unemployment

[2] Unemployment Insurance Program Letter No. 13-13, Implementation of Sequestration under the Budget Control Act of 2011 for the Unemployment Insurance Programs for Fiscal Year 2013.

compensation are subject to the automatic federal spending reductions, referred to as "sequestration," for the remainder of federal fiscal year 2013 (until the end of September 2013). USDOL expects that the required spending reduction could be absorbed by reducing above-base funding to states. Federal dollars for administration of unemployment programs are deposited into the Unemployment Compensation Fund (Fund 3V40) and are expended from line item 600678, Federal Unemployment Programs.

Ohio's Unemployment Compensation Trust Fund

On January 12, 2009, Ohio's trust fund balance was depleted and the state began borrowing from the federal government to pay unemployment benefits. As of June 24, 2013, the loan balance was $1.55 billion. Ohio must pay back borrowed amounts from the trust fund and pay interest on borrowed amounts from state funds. ODJFS anticipates borrowing intermittently for cash flow purposes in subsequent years. Though the benefits extended to military spouses under the bill may reduce the amount available to pay other unemployment benefits from the mutualized account, these benefits are not expected to affect the state's current borrowing situation with the federal government.

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