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FISCAL IMPACT STATEMENT

LS 6676

BILL NUMBER: HB 1457

NOTE PREPARED: Jan 31, 2013

BILL AMENDED: Jan 29, 2013

SUBJECT: Unemployment Insurance.

FIRST AUTHOR: Rep. Leonard

FIRST SPONSOR:

BILL STATUS: 2nd Reading - 1st House

FUNDS AFFECTED: **GENERAL**
 DEDICATED
 FEDERAL

IMPACT: State & Local

Summary of Legislation: (Amended) The bill includes the following provisions:

- (1) Provides that an employer's experience account may not be relieved of charges for benefit overpayments if the overpayments resulted from the employer's failure to respond in a timely or adequate manner to the Department of Workforce Development's (DWD) request for information related to the claim and the employer has a pattern of failure to respond to department requests for information.
- (2) For employers in the construction industry, establishes a new employer contribution rate equal to the greater of 5% or the average of the contribution rates paid by all employers in the construction industry subject to the unemployment law during the 12 months preceding the computation date.
- (3) Provides that 15% of the interest and civil penalties collected from a claimant who knowingly failed to disclose or falsified any fact that if accurately reported would disqualify the individual from receiving a benefit or that would reduce the benefit are deposited in the Unemployment Insurance Benefit Fund (also known as the UI Trust Fund). Currently, all of the interest and civil penalties for fraudulent overpayments are deposited in the Special Employment and Training Services Fund.
- (4) Requires an employer to report to the Directory of New Hires (Directory) the same information reported for a new hire for an employee who resumes employment after at least a 60-day break in service and establishes a civil penalty of \$25 for an employer that fails to report information about new hires to the directory.
- (5) Requires an individual receiving unemployment benefits to participate in reemployment and eligibility assessment activities when directed to do so by DWD. The bill permits DWD to require an individual to provide proof of identity to participate in the activities.

Effective Date: July 1, 2013.

Explanation of State Expenditures: *Impact on State as Employer* - The impact on the state would be as an employer and is expected to be minimal, as the state is a reimbursable employer for the purposes of unemployment insurance.

Employer Experience Accounts - The bill may increase employer premium rates for some employers, if they are at fault for overpayments to previous employees due to a failure to respond to DWD's requests for information. If some employer premiums do increase due to the provision, premiums collected (as well as the state surcharge on those premiums) would increase, which would ultimately increase the amount of funds in the Unemployment Insurance Trust Fund.

New Construction Industry Employer Premium Rate - The bill creates a new employer premium rate for employers in the construction industry. For these employers, the rate is equal to the greater of 5% or the average of the premium rates paid by all employers in the construction industry. In 2012, employers in the construction industry paid a weighted merit employer premium rate of 5.9%.

Total taxable payroll for new employers in the construction industry was \$66.4 M in the 2012 rating year. Changing the new employer tax rate for these employers from 2.5% to the weighted industry average of 5.9% would have increased premiums due from \$1.66 M to \$3.94 M. This provision therefore would have resulted in \$2.3 M in additional employer premiums into the UI Trust Fund.

(Revised) Reemployment and Eligibility Assessment Activities - The bill requires that all individuals receiving UI benefits must, at the direction of DWD, take part in programs at the individual's local WorkOne center. These programs may include assessment, career counseling, training, and other career services. Currently, individuals who receive federally extended UI benefits must participate in these activities. The provision will expand this requirement to individuals in the first 26 weeks of receiving UI benefits. Individuals will only be required to undertake this requirement once while receiving benefits.

Impact on Department of Workforce Development (DWD) - The bill would also impact the DWD, which administers Indiana's Unemployment Insurance Program. The bill's requirements are within DWD's routine administrative functions.

Background: *UI Employer Accounts, Experience Record, and Premium Rates* - Indiana employers pay state unemployment insurance premiums which have rates that are experience-based. An employer's experience account consists of all UI premiums, voluntary payments, reimbursements, and mutualized benefit charges, as well as money drawn from the employer's account for UI benefits paid to former employees, employees working reduced hours, and laid-off employees. The experience account and whether it has a credit reserve (where premiums paid exceed benefits paid) or debit reserve balance (where benefits paid exceed premiums paid) has a direct impact on the amount of UI premiums paid by employers. Employers who have an experience account with a credit reserve balance will pay lower UI premiums than those with a debit reserve balance. Employers who are late in reporting or paying premiums will also pay a higher premium rate. New employers in 2012 paid a standard rate of 2.5% until such time as they are deemed eligible for the experience-based rate system.

Explanation of State Revenues: *(Revised) Distribution of Portion of Fraudulent Overpayment Penalties to*

Unemployment Insurance Trust Fund - Current law directs all fraudulent overpayment penalties collected by DWD to the Special Employment and Training Services Fund. The bill changes the distribution so that 85% continues to go into the Special Employment and Training Services Fund, while 15% goes to the UI Trust Fund. In CY 2012 fraudulent penalty revenues into the fund totaled \$253,000. Under the new distribution, \$215,050 would go into the Special Employment and Training Services Fund and \$37,950 would go to the UI Trust Fund.

In FY 2012, a total of \$9.5 M in penalties (fraud, nonfraud, and interest) were deposited into the Special Employment and Training Services Fund.

New Hire Directory - The state shall assess a \$25 civil penalty for an employer who fails to report information about new hires or re-hires (after a 60-day break) to the state new hire directory. The number of employers who may not comply with this provision is unknown. This is a new civil penalty in addition to the \$500 civil penalty on the employer if the failure to report is the result of a conspiracy between the employer and the employee.

Explanation of Local Expenditures: The impact on local units would be as employers.

Explanation of Local Revenues:

State Agencies Affected: Department of Workforce Development, All.

Local Agencies Affected: All.

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