Information for Public Officials on Mandatory Unemployment Insurance

New federal legislation (Public Law 94-566) requires extension of unemployment insurance coverage to virtually all employees of state and local governments, effective January 1, 1978. Corresponding changes will be made in the Massachusetts Employment Security Law during the 1977 legislative session.

The information below is offered for early consideration by public officials who will have principal responsibility for developing plans and making necessary budgetary provisions. It reflects the interaction of federal and state laws as they are now expressed. Estimates and plans of public officials should be developed with full awareness of the fact that federal law can be changed at any time. Similarly, except for those provisions that are required for federal certification, our Employment Security Law is subject to frequent change.

I. Possible Exclusions from Coverage

The federal law requires coverage of most employees of state and local governments. It allows exemption of the following under state law:

(1) Elected officials, and those in certain policy-making and advisory positions.

(2) Members of a legislative body or of the judiciary.

(3) Members of the State National Guard or Air National Guard.

(4) Emergency employees hired in case of disaster.

(5) Inmates in custodial or penal institutions.

II. Financing Benefit Costs

A. Each governmental entity must be given the choice of reimbursing the state unemployment compensation fund for the actual cost of benefits paid to its employees, or of paying contributions based on the taxable wages of each employee.

Those entities electing reimbursement will be billed monthly for the cost of any benefits paid to former employees during the preceding month. Contributions are payable quarterly, in April, July, October, and January.

B. A governmental entity, such as a city or town, is commonly regarded as a single employer. Federal interpretation of P.L. 94-566 indicates that the enabling state legislation could allow a municipality to subdivide itself into two or more separate units for unemployment insurance purposes. In this event, there could be different financing provisions within the same political subdivision.

III. Estimating the Cost of Contributions

For governmental entities electing this method of financing, the first $6000 of wages paid each year to each employee will be taxable, beginning January 1, 1978. Under current provisions of the Employment Security Law, an entity newly subject in 1978 would pay contributions at the rate of 3% in both 1978 and 1979.

In subsequent years, the rate would vary according to the status of the account of the governmental entity and the level of the unemployment compensation fund. This year, for example, employers are paying at one of three rates - 3.9%, 4.7%, or 5.1%.

IV. Estimating Reimbursement Costs

Under current provisions of law, the weekly amount of benefits payable to an individual can range between $12 and $108. By 1978, the maximum amount will undoubtedly be higher. The precise amount for each individual depends on the quarterly distribution of wages paid to him in the 52-week period preceding the effective date of his claim for unemployment benefits. In general, the benefit amount is about half the average weekly wage.

Some claimants are entitled to an additional allowance of $6 a week for each approved dependent child. The total allowed for dependent children may not exceed half of the basic amount of weekly benefits.

If an individual has had sufficient base period wages, and he remains unemployed and otherwise eligible, he may receive benefits for as long as thirty weeks. If the rate of insured unemployment is high enough to establish an "extended benefit period", he may be paid at the same weekly rate for nine more weeks. The claim of one individual, therefore, could conceivably cost the former governmental employer a total of $6318, if he were entitled to both the maximum benefit rate and the limit of dependency allowance.

Not all claimants, of course, will qualify for the maximum rate, nor will most of them be entitled to dependency allowance. Neither will they necessarily receive benefits for a prolonged period. Not all terminated employees will file claims, and of those who do, some may not receive any unemployment benefit.

For workers subject to seasonal layoff and rehire, the possible duration of claims can be estimated fairly accurately, and individual weekly benefits computed as half of the average weekly wage, up to the maximum amount of $108 noted above. The product of these two numbers should give a fairly accurate indication of the possible total benefit cost for such a seasonal worker during the year.

For other employees, personnel records indicating the rate of turnover and the reasons for termination of employment are the necessary basis for any realistic projection of probable benefit costs.

V. Special Restrictions for School Personnel

The new federal law prohibits payment of benefits to certain school employees. Those who have worked in instructional, research, or principal administrative capacities during an academic year or term, and who have reasonable assurance of such work in the next year or term, may not be paid benefits for periods between such academic years or terms.

The law allows the state to enact a similar provision to deny benefits to non-professional employees of primary and secondary schools. Such action by the legislature would greatly reduce the cost of benefits to governmental entities which elect to reimburse the Division of Employment Security rather than to pay contributions.

VI. Factors Bearing on Eligibility of Retirees

An individual whose retirement is mandatory, and who meets the general requirements of the Employment Security Law, may be paid benefits. The amount of his benefits may be reduced because of receipt of a pension financed in part by a base period employer. In such cases, fifty percent of the weekly pension amount is deducted from the weekly benefit amount.

An individual who retires voluntarily would generally be denied unemployment benefits. He might remove such disqualification, however, by obtaining new work lasting four weeks or more. Should he subsequently establish eligibility for benefits, the account of his former public employer might then become liable for benefit costs. In this event, also, receipt of a pension could affect the amount of weekly benefits.

For weeks beginning after September 30, 1979, the new federal law specifies that the full weekly amount of a pension must be deducted from the weekly unemployment benefit.

VII. Transition Provisions - Timing of Costs

The legislation to be enacted in Massachusetts in 1977 may be written to cover service of state and local employees on and after January 1, 1978. In that event, the volume of claims and payments would not be significant for most governmental entities until about midway in that year.

The legislature, however, may choose to extend coverage to service performed in 1977. Should that occur, benefit costs for weeks beginning before July 1, 1978 will be borne by the federal government. Costs for later weeks will be partially reimbursed, to the extent they were based on 1977 wages.

The Commonwealth of Massachusetts

Division of Employment Security

Charles F. Hurley Employment Security Building

Government Center, Boston, Mass. 02114

Office of the Director

Appropriations Committee
Mr. Francis H. Duehay
795 Massachusetts Avenue
Cambridge, Mass. 02139

Dear Sir:

Newly enacted Federal legislation will require permanent extension of unemployment insurance coverage to most state and municipal employees.

The Massachusetts Legislature may enact corresponding legislation during the 1977 legislative session. Public officials should be aware of all aspects of the law.

Administrators who will have principal responsibility for budgetary provisions should begin to make plans for the funding of the program on the assumption that this legislation will be enacted.

To assist with that planning the Division of Employment Security will provide, periodically, detailed information on changes in the law as they are enacted and how these changes will affect each governmental entity involved.

Attached is some preliminary information on coverage of employees and on methods of financing.

In addition, representatives of the Division will be available, in the future, to meet with public officials to advise them and to answer any questions that may arise as a result of this new legislation.

For additional information or assistance, please call the Information Department in the Hurley Building at 727-6560.

Sincerely,

John D. Crosier

John D. Crosier, Director

Attachment

11. S- 15

Comm. from the City Clerk transmitting a letter from John D. Crosier, Director, Division of Employment Security of the Commonwealth of Massachusetts, re: to the newly enacted Federal legislation which will requi permanent extension of unemployment insuranc coverage to most state and municipal employees.

In City Council,
January 17, 1977

1/17/77

Referred to the City Manager - for report.

Copy sent to City manager 1/19/77 dl.