

Testimony before Senate Commerce Committee
House Bill 2105- Unemployment Insurance
Presented by Eric Stafford, Senior Director of Government Affairs



Tuesday, March 19, 2013

Madam chair and members of the committee:

My name is Eric Stafford. I am the Senior Director of Government Affairs for the Kansas Chamber. The Kansas Chamber appreciates the opportunity to testify in support of Substitute for House Bill 2105.

The last few years have been a difficult time for employers and employees. The state's employment security trust fund has borrowed over \$300 million. Employers faced significant rate increases and thanks to help from the legislature, HB 2676 established rate caps and offered flexibility to employers in paying their UI taxes in 2010. In 2011, the legislature passed SB 77 which continued those rate caps through 2014 and expanded the negative balance category to include 10 new rate groups.

These steps, while important, have lessened the financial impact felt by employers, but were seen as short-term fixes to the fund. As our economy slowly recovers, we must look at ways to improve our UI system through a combination of structural changes, and clarifying statute to protect the intent and integrity of the fund. It is important that we state the intent of unemployment insurance- allowing those who lose their job by no fault of their own to supplement the loss of income. We must also get back to a system which is based on experience rating, one in which rates reflect an employer's usage of the system.

The House heard testimony on HB 2105 and HB 2124 and ultimately merged both bills into the substitute bill before you. Sub for HB 2105 makes many positive changes to our unemployment insurance system. One of the first steps is to state that both employers and employees are entitled to a neutral interpretation of the law. HB 2105 also addresses several items from last year's legislation which unfortunately did not pass the legislature, including clarifying holiday and vacation pay provisions.

Additional changes proposed in this bill work to eliminate inconsistencies in the UI system, such as with severance pay. Today, depending on how one's severance pay is treated, some are immediately eligible for unemployment while others are not. New language in the bill does not allow one to collect unemployment until their severance expires to avoid double-dipping.



The Kansas Chamber, with headquarters in Topeka, is the leading statewide pro-business advocacy group moving Kansas towards becoming the best state in America to do business. The Chamber represents small, medium and large employers all across Kansas.

Leading up to this session, we worked with the department of labor on various scenarios to reinstate the employer experience rating which has essentially been eroded during the session. After running millions of data cells, the department recommended an increase in the taxable wage base from \$8,000 to \$16,000 beginning in 2015. This does not bring any additional money into the fund, it simply allocates contributions based on the employer's experience and reserve accomplishing our goal of an experience rated system.

Some concern has been expressed to us on a proposal which immediately doubles the wage base and the department has offered a proposal which starting in 2015, increases the wage base by \$2,000 per year through 2018 when it reaches \$16,000. We would support this delayed approach.

To help offset the wage base increase, we also have proposed a reduction in the fund's high cost multiple from 1.2 to 1.0. This number provides an estimate to the length of time the current reserve in the trust fund can pay out benefits at a historically high payout rate. Last summer we received feedback from experts on the national level who informed us that there is no reason to have our rate higher than 1.0. All this does is build unnecessary reserves into the fund. At 1.2, Kansas was the highest in the country.

One item the House did not include from HB 2124 when the two bills were merged into HB 2105 modified how benefits were awarded. That language stated if the state's unemployment rate is less than 6%, 20 weeks of state benefits would be available. If the state unemployment rate rises over 6%, 26 weeks of benefits would be made available. Under today's law, no matter how strong or weak the economy, Kansas provides a static 26 weeks. We would request that this language be reinstated into the bill.

Across the country, states have modified their UI system to encourage reemployment, instead of long-term unemployment. This provision would restore the intent of the UI system- providing supplemental income between jobs, not replacing income to avoid work. The Kansas economy is better off when more people are employed.

HB 2105 puts in statute a requirement by the department to notify employers of their upcoming contribution rates by November 30. In prior years, there were instances where employers were not notified of their new contribution rates until the last week of December, making it impossible for employers to plan and budget accordingly. Having an extra six weeks of time is extremely helpful.

HB 2105 also reduces the new employer contribution rate from 4.0% to 2.7% except for the construction industry. Kansas' new employer rate is one of the highest in the country. Lowering this rate will lower the tax burden for new businesses in the state which will help foster growth and investment. Most states keep the construction industry at a higher rate and the department of labor strongly encouraged that 6% rate to remain unchanged. This was an acceptable request.

Finally, HB 2105 eliminates the Employment Security Advisory Council (ESAC). This committee is composed of business representatives, employee representatives and academia. ESAC would make recommendations on how to improve the UI trust fund but has not met for over two years. We simply feel this council is not effective and should be eliminated.



In closing, we feel these changes will go a long way toward improving the integrity of the Kansas UI trust fund as our state begins to experience economic recovery. Thank you for the opportunity to speak in support of Substitute for House Bill 2105 and I would be happy to answer any questions.

