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FISCAL IMPACT REPORT

SPONSOR Larranaga ORIGINAL DATE 2/25/15
LAST UPDATED _____ HB 482
SHORT TITLE Reduce Some Unemployment Benefits SB _____
ANALYST Klundt

ESTIMATED ADDITIONAL OPERATING BUDGET IMPACT (dollars in thousands)

| | FY15 | FY16 | FY17 | 3 Year Total Cost | Recurring or Nonrecurring | Fund Affected |
|--------------|-------|---------|-------|----------------------|------------------------------|------------------|
| Total | \$0.0 | \$200.0 | \$0.0 | \$200.0 | Nonrecurring | Federal |

(Parenthesis () Indicate Expenditure Decreases)

SOURCES OF INFORMATION

LFC Files

Responses Received From

Workforce Solutions Department (WSD)

SUMMARY

Synopsis of Bill

House Bill 482 proposes three adjustments to the amount of benefits available to unemployment insurance claimants. First, it reduces an individual claimant's weekly benefit from 53.5 percent to 45 percent of the average weekly wage earned in the highest quarter of the claimant's base period. The base period constitutes the first four of the previous five quarters before the date of an individual's claim for benefits. Second, HB482 reduces the maximum available weekly benefit amount for all claimants from 53.5 percent to 45 percent of the state's average weekly wage. Third, this bill proposes to amend the maximum total benefit available by stating that a claimant's maximum total benefit is the lesser of the claimant's weekly benefit amount multiplied by 26 percent or 33 percent of the claimant's total base period earnings. Currently law caps total benefits at the lesser of total base period earnings time 26 percent or 60 percent of the total base period earnings.

FISCAL IMPLICATIONS

There is no appropriation contained in this bill. However, the Workforce Solutions Department (WSD) states the agency would be required to re-program its Unemployment Insurance Tax and Claims system to calculate the reduced weekly benefit amounts and potentially reduced total benefit amounts. The information technology changes would entail an approximate cost of \$200 thousand. However, the department believes this cost could be covered out of existing federal funds.

SIGNIFICANT ISSUES

The reduction of unemployment compensation benefits contained in this bill applies only to claims established after July 1, 2015; Existing claims not subjects to this bill.

DWS has conducted preliminary analysis of the effect of the benefit reductions set forth in HB 482. Using 2014 data and applying HB 482’s parameters for calculating weekly and maximum benefit amounts. The agency estimates that the provisions of HB 482 would constitute an overall cut of approximately 20 percent to unemployment benefits. However, this analysis does not mean that every claimant would receive a 20 percent reduction, although every claimant would see some reduction in benefits.

DWS also reports the agency has reviewed benefit calculation provisions applied by other states and notes that several states similarly limit total benefits to the lesser of the claimant’s weekly benefit amount or some percentage of total base period earnings. The policy goal of limiting benefits to a percentage of base period earnings is to assure that individuals who worked in only one quarter and have low or no earnings in other quarters receive a maximum benefit that is reflective of their attachment to the workforce.

When compared to other States, New Mexico is currently among the most generous in its provision for maximum benefits as a percentage of base period earnings. Nearly all other states limit the award to a lower percentage of base period earnings. Most states use 33 percent of base period earnings as the limit for a total benefit award. HB482 therefore brings New Mexico into line with other states with respect to the percentage of base period earnings figure for calculating total available benefits for an individual.

PERFORMANCE IMPLICATIONS

WSD has performance measures regarding the timeliness and accuracy for unemployment benefit payments.

OTHER SUBSTANTIVE ISSUES

As of the fourth quarter of FY14, WSD began additional reporting on the solvency of the unemployment insurance trust fund including fund balance, quarterly revenues, and benefits paid out. Due to the Great Recession many state UI funds, including New Mexico’s, were in danger of becoming insolvent. During this time period states went into debt by \$47 billion nationwide to pay unemployment benefits. As of March 2014, the New Mexico fund balance was down to \$49 million from \$557 million in March 2008 and prior to the recent recession.

| FY15 Unemployment Insurance Trust Fund Balances | | |
|--|-----------------|-----------------|
| Quarter | Q1 | Q2 |
| Beginning of Quarter | \$66,310,266.58 | \$78,115,649.60 |
| End of Quarter | \$78,115,649.60 | \$74,172,534.88 |
| Total Contributions Revenue Received for Quarter | \$62,453,678.59 | \$40,605,558.69 |
| Total Benefits Payout for Quarter | \$50,648,295.57 | \$44,548,673.41 |