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Michigan Senate Resumes Attack on State's Unemployment Insurance System

Statement by Christine Owens, Executive Director, National Employment Law Project:

Yesterday, Michigan's State Senate passed legislation that continues the attack on the state's unemployment insurance system that began earlier this year. Senate Bill 806 attempts an unprecedented rewrite of the state's unemployment insurance laws with more than 30 proposed modifications, each designed to ensure that fewer unemployed workers are covered by unemployment insurance.

One of the more egregious provisions would reward businesses that misclassify employees as independent contractors—an illegal ploy that businesses use to avoid paying taxes and offering employee benefits. Under the guise of a one-year amnesty program, businesses that illegally misclassify employees would escape accountability—they would face no state penalties and not have to pay back taxes. Adding insult to injury, the work history of misclassified employees would not count toward establishing their unemployment insurance eligibility.

Other provisions in the bill would undercut court decisions decided in favor of unemployment insurance claimants. As a result, employers would be emboldened to contest claims, creating more hurdles for unemployed workers while tying up the system with costly disputes.

The intended consequence of this new legislation is to tilt the balance of power in favor of business at a time when only one in four unemployed workers in Michigan qualifies for state benefits. If enacted into law, many thousands of unemployed workers would be shut out from unemployment insurance coverage in 2012.

Earlier this year, state lawmakers and the governor reduced the maximum duration of state benefits from 26 to 20 weeks—the shortest coverage in the nation. The latest Senate bill, which was recommended by the Snyder administration, seeks to prevent unemployed workers from claiming benefits in the first place. Proponents of a watered-down program claim that such sacrifices are necessary to replenish Michigan's insolvent unemployment insurance trust fund. They ignore the fact that the solvency woes are largely the result of irresponsible tax giveaways to businesses over the past two decades that depleted the state's rainy-day fund before the recession even began. The Senate bill does little to address the inadequate contributions, increasing the amount of wages subject to the state unemployment insurance tax by only \$500 to \$9,500, and generating only \$85 million annually in new revenue.

Additionally, the Senate passed two related bills that would clear the way for Michigan to issue bonds and establish a special employer assessment to meet bond obligations. Bonds would be used to pay back federal loans that were needed to finance state unemployment benefits during the recession, thereby enabling the state to avoid interest and penalties on federal loans, while potentially taking advantage of lower interest rates available in the private market. Texas and Idaho have already issued bonds to pay back federal loans, and Illinois lawmakers recently gave the state the authority to issue debt. Past experience in other states has shown that private-market borrowing does not always lower interest costs relative to federal loans or necessarily lead to a well-financed unemployment insurance system in the long term.

The State House is expected to take up all three bills next week. Whereas all attempts by the minority to amend the bill were blocked in the Senate, it is still possible for the House to make amendments or vote down the measure entirely. Absent substantial revisions, thousands of individuals who would be eligible for benefits today will be left hanging in 2012.

NELP Reports:

Coming Back for More: Michigan Lawmakers Aim to Cut Unemployment Insurance for 2nd Time in 6 Months:
http://www.nelp.org/page/-/UI/2011/MI_UI_Report_Back_for_More.pdf?nocdn=1

Can't Get There From Here: Facing Reality in Financing Michigan's Unemployment Insurance System:
http://www.nelp.org/page/-/UI/2011/MI_UI_Report_Cant_Get_There_From_Here.pdf?nocdn=1

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