Fiscal Note

BILL # SB 1167

TITLE: unemployment insurance; benefit amounts; definition

SPONSOR: Kaiser

STATUS: Senate Engrossed

PREPARED BY: Chandler Coiner

Description

The bill, as engrossed by the Senate, would reduce the duration of unemployment insurance (UI) benefits an individual is entitled to per benefit year. When the unemployment rate in the state is 5% or less, the bill reduces the maximum duration from 24 weeks to 12 weeks. When the unemployment rate is greater than 5%, the bill reduces the maximum duration from 26 weeks to 13-20 weeks. The Department of Economic Security (DES) administers the UI benefits program.

Estimated Impact

We estimate the bill would reduce UI benefits payments by $(49) million annually in the short term as weekly UI claims decrease by 22.1%. This estimate assumes the unemployment rate remains below 5%.

DES estimates the bill would cost $133,000 in the first year of implementation to update the UI computer system, of which a portion would be an ongoing expense. The department also anticipates costs associated with manually identifying the impacted population, wage protests, and overpayment appeals hearings, but it does not yet have an estimate for these costs. The department did not provide an estimate of the impact of the bill on UI benefits spending.

Both the savings from benefits payments and the associated administrative costs would accrue to UI-related funds as opposed to the General Fund.

Analysis

The UI benefits program offers weekly benefits payments to workers who have recently become unemployed through no fault of their own. The benefits are funded through state and federal taxes on employers. Arizona's UI Trust Fund balance is currently $1.5 billion.

Individuals are limited to a maximum duration of benefits per benefit year based on the state's unemployment rate. Given the current unemployment rate is less than 5%, the maximum duration of benefits is 24 weeks. This would be reduced to 12 weeks as a result of this bill if the unemployment rate remains below 5%.

We estimate this would result in fewer weekly UI claims. However, the decrease in claims would not be proportional as most beneficiaries find employment before they claim the maximum duration of benefits. Using unemployment duration data from the U.S. Bureau of Labor Statistics, we estimate 45.3% of beneficiaries receive benefits for less than 5 weeks, 36.9% for 5-14 weeks, and 17.7% for 15-26 weeks in Arizona. Assuming an even distribution across weeks within each band, we estimate 22.1% receive benefits for 13-24 weeks. These claims would no longer be eligible as a result of this bill.

According to the DES UI Data Dashboard, $220 million of benefits were paid for 1,176,916 total weekly claims from April 2022 through March 2023. Applying the 22.1% reduction, this results in $(49) million of annual savings to the UI Trust Fund.

(Continued)

However, if the unemployment rate were to increase above 5%, the maximum duration of benefits would instead be reduced from 26 weeks to 13-20 weeks as a result of this bill. *Table 1* provides more details on how the bill would modify the maximum duration schedule.

Table 1

SB 1167 Changes to Maximum Duration of UI Benefits

Unemployment Rate	Current Maximum Duration (weeks)	Maximum Duration Under SB 1167 (weeks)
<5.0%	24	12
5.0-5.5%	26	13
5.5-6.0%	26	14
6.0-6.5%	26	15
6.5-7.0%	26	16
7.0-7.5%	26	17
7.5-8.0%	26	18
8.0%-8.5%	26	19
>8.5%	26	20

We believe the bill could generate savings above the $(49) million when the unemployment rate is above 5% if the base number of claims increases substantially. However, these additional savings may eventually be offset by an increase in the maximum duration of benefits. If the increase in maximum duration outpaces the increase in the base number of claims, then the savings could even be reduced. We do not have the sufficient data to quantify the impact or determine with any level of certainty whether savings would increase above the $(49) million or decrease.

Local Government Impact

None

4/6/23