

SUBJECT: Social security and annuity reductions of unemployment benefits

COMMITTEE: Economic Development — favorable, without amendment

VOTE: 6 ayes — Oliveira, Yarbrough, Luna, Moffat, Shields, Solomons
0 nays
3 absent — Davis, Raymond, Van de Putte

WITNESSES: For — Emmett Sheppard
Against — None
On — John C. Jennings, Texas Employment Commission

BACKGROUND: The Texas Employment Commission (TEC) administers the Unemployment Trust Fund created by the Texas Unemployment Compensation Act. The current maximum benefit is \$252 per week, for up to 26 weeks. The TEC must administer the funds in accordance with state and federal law.

A reduction of benefits based on the receipt of old age social security benefits has been required by the Texas Unemployment Compensation Act since 1936. The state provision once tracked a similar federal Unemployment Tax Act provision, but federal law now allows states to provide the full unemployment benefit without reducing the amount by any pension payments if the payee contributed to the pension plan.

DIGEST: HB 1086 would no longer require unemployment benefits to be reduced dollar-for-dollar by old-age social security benefits. The bill would also prohibit the TEC from reducing unemployment benefits by the amount of periodic pension or annuity payments if the person contributed to the payment. The bill would take effect immediately if approved by a two-thirds vote of the membership of each house. The bill would specify that if requirements of federal law change, the new requirements would be applicable to the extent needed to get the full federal tax credit.

**SUPPORTERS
SAY:**

HB 1086 would alleviate discrimination against older citizens with regard to unemployment benefits. Generally, older people work for the same reasons as younger people do — to put food on the table and to pay the rent. Thus, when older workers lose a job, their standard of living goes down. The Unemployment Tax Act requires employers to pay the same percentage of unemployment tax for their older employees as for any other employee, so the older employees should also get the intended benefit of that tax.

Unemployment benefits constitute an insurance system rather than a welfare system. Generally, no means test is used when distributing insurance benefits, and no such test should be used in distributing unemployment benefits. Furthermore, a person drawing income from a large trust fund would still receive unemployment benefits if laid off from a job. Why should the state deduct the few hundred dollars of benefits from a person who is on social security?

The bill would make it clear that only benefits from a pension to which the worker has contributed would not count against unemployment. Since most federal pensions are funded only by the government, unemployment benefits would still be offset by these payments.

TEC estimates that if the agency had not deducted social security and contributed-to-pension benefits from unemployment benefits in 1993, it would have paid out an additional \$6,437,702 in benefits — \$2,166,586 for social security and the rest in pension benefits. This is a tiny fraction of the approximately \$1.3 billion paid out annually in total benefits and the \$400 million balance in the Unemployment Tax Fund. Money to fund the additional benefits would be recouped through the regular taxing mechanism, which TEC estimates would not change over all.

Even if increased claims raised the unemployment tax of a few employers who hire a larger proportion of older workers, that would no justification for denying those workers the full benefits that they are due.

**OPPONENTS
SAY:**

HB 1806 could raise the tax of employers who employ a large proportion of older workers. A higher number of unemployment claims against an employer increases the employer's unemployment tax rate. Under current

law, if social security and pension benefits more than offset any unemployment benefits older employees might receive, they have no reason to file a claim.

NOTES: HB 2534 by Campbell, similar to this bill, passed the House in the 73rd Legislature but died in the Senate.