HOUSE COMMITTEE ON APPROPRIATIONS

FISCAL NOTE

HOUSE BILL NO. 403 **PRINTERS NO.** 1389 **PRIME SPONSOR**: **Grove**

COST / (SAVINGS)

FUND	FY 2012/13	FY 2013/14
Administration Fund	**See "Fiscal Impact"**	**See "Fiscal Impact"**
Job Training Fund	**See "Fiscal Impact"**	**See "Fiscal Impact"**
Special Administration Fund	**See "Fiscal Impact"**	**See "Fiscal Impact"**
Unemployment Compensation Trust Fund	**See "Fiscal Impact"**	**See "Fiscal Impact"**

SUMMARY: Amends the Unemployment Compensation (UC) Law to increase penalties for willful fraud and to prevent incarcerated individuals from receiving UC payments. This legislation would take effect immediately and would be applicable to offenses committed on or after the bill's effective date.

ANALYSIS: This legislation makes several changes to the Unemployment Compensation Law with respect to claimant and employer fraud as well as preventing incarcerated individuals from receiving UC payments.

Increased Department/Board/Employer Monetary Penalties: This legislation increases monetary penalties assessed to individuals or officers employed by the Department of Labor and Industry or the Unemployment Compensation Board of Review, or any other public employees who violate the requirements of Section 206 (Record of and Reports by Employers). The new penalty will be $100 - $300 upon conviction.

The legislation also increases penalties on employers who fail, neglect, or refuse to comply with Section 206 of the UC Law. Employers will be subject to a penalty of 15% of the total amount of contributions paid or payable to the department. The penalty may not be less than $125 or more than $450.

Monetary Penalty for Improper Employee Financing or Forced Employee Waivers: This legislation increases monetary penalties for employers who violate Section 701 of the UC Law. The new penalty will be $500-$1,500 upon conviction.

Monetary Penalty for False Statements: This legislation increases the monetary penalty assessed to claimants who knowingly make false statements or representations to obtain or increase UC benefits. The new penalty will be $500 - $1,500 for each separate offense.

Increased Penalty Weeks; Removal of Statute of Limitations: This legislation increases the minimum number of penalty weeks that can be imposed upon fraudulent claimants from two to 10, and removes the current four-year statute of limitations on the imposition of penalty weeks.

Additional 15% Monetary Penalty: This legislation creates subsection 801(c) to impose an additional fine on claimants who knowingly make false statements or fail to disclose material facts to obtain or increase UC benefits. The penalty will be 15% of the amount that was fraudulently received, and will be payable to the UC Trust Fund. The legislation will allow this amount to be collected through liens, civil actions or any other means available under federal or state law, for up to 12 years after the end of the benefit year.

Fraud Conducted By Incarcerated Individuals: This legislation creates subsection 801(d) to impose a penalty of 52 weeks for claimants who are incarcerated and who commit willful fraud to collect benefits while in jail.

Monetary Penalty: False Statements by Employers: This legislation raises the minimum fine on employers who are convicted of committing several acts of willful fraud enumerated in Section 802(a) of the UC Law. The new minimum fine will be $500.

Additional Monetary Penalty: The legislation amends Section 803 to raise fines assessed to claimants who willfully violate a provision of the law for which a penalty is not specifically prescribed. The new penalty will be $500-$1,500 for each separate offense.

UC Benefit Prevention for Incarcerated Individuals: This legislation also amends Section 402.6 of the Unemployment Compensation Law to require the Department of Labor and Industry to utilize any necessary means to prevent the payment of UC benefits to incarcerated individuals who are already disqualified. At a minimum, the means shall include a cross-check of county prison inmate records with records kept by the Department. Any expenses incurred under this new subsection are declared administrative and shall be an expense paid from the Administrative Fund.

FISCAL IMPACT: According to the Department of Labor and Industry, increasing the minimum number of penalty weeks from 2 to 10, would save the Unemployment Compensation Trust Fund about $9 million annually. The provision to place a penalty of 15% on fraudulently obtained benefits would save the Unemployment Compensation Trust Fund about $6 million annually. Increasing other penalties would result in increased revenues to the Special Administration Fund. Surplus balances within the Special Administration Fund from this new revenue could then potentially be passed on to the Job Training Fund per statute. Those revenues are indeterminable at this point. It is anticipated that no additional expenses would be incurred by the Department of Labor & Industry from these provisions. In the event that expenses did occur, they could be offset by the new penalty revenue in the Special Administration Fund or by the federally-funded Administration Fund.

The U.S. Department of Labor's (USDOL) UI Integrity Rates-State Improper Payment and Integrity Initiative data shows that, between July 1, 2011 and June 30, 2012, Pennsylvania had a UC fraud rate of 5.22%. Estimated regular state-provided benefits are expected to be about $2.2 billion in FY 13-14. In the event that all UC fraud could be eradicated, applying the 5.22% fraud rate to the $2.2 billion in expected regular benefits would save the Unemployment Compensation Trust Fund about $117 million in FY 13-14.

The requirement for the Department of Labor and Industry to utilize any reasonable means to prevent the receipt of benefits to incarcerated individuals would have no adverse fiscal impact on the Department's budget. The Department recently started utilizing the data system called the "Pennsylvania Justice Network", at no cost, to terminate those payments. The Network allows the state to cross-match inmate data with unemployment records to identify unemployment beneficiaries in county prisons and stop the payments. The department projects an annual savings of about $6 million for every 1,000 unemployment compensation claimants identified. The savings are calculated using average unemployment payouts and duration.

PREPARED BY: Tim Rodrigo
House Appropriations Committee (R)

DATE: April 8, 2013

Estimates are calculated using the best information available. Actual costs and revenue impact incurred may vary from estimates.