Unemployment Insurance in West Virginia: A Good System With Room For Improvement

While the U.S. economy is flashing signs of a potential economic downturn in the future, West Virginia's unemployment insurance system is in a precarious situation that needs immediate attention. Unemployment insurance (UI) is more than just a lifeline to people who find themselves involuntarily unemployed. UI is also an economic stabilizer during larger economic downturns, giving workers money to spend in the local economy. There are two ways that states can be prepared for a downturn: One is by having sufficient funds in the UI trust fund, and the other is by making sure that sufficient benefits are available to enough workers to maintain spending power. West Virginia's system is in the bottom tier of states in terms of trust fund solvency but has reasonable benefits that are largely in line with its neighbors and the nation. Benefits could be improved to ensure that workers have spending power in a recession and that employers continue to have access to a well-trained workforce.

The Good News: Benefits Are Reasonable

In West Virginia, the average benefit is $321.26, and replaces an average of 41% of income. Income replacement is key to making sure that workers who involuntarily lose employment can retain enough buying power to keep themselves and their families afloat; it's also key to providing real counter-recessionary benefits in case of an economic downturn.

West Virginia's replacement rate is comparable to that of neighboring states. Ohio's is at 42%, Pennsylvania's is 52%, Kentucky's is 49%, Maryland's is 42%, and Virginia's is 41%. It is important to remember, however, that with a maximum benefit in place, states with a number of higher-income claimants are going to have less income replaced. Furthermore, the lower a worker's income, the more important it becomes to replace more income. If workers are living paycheck to paycheck, there is less maneuver room in terms of benefits. According to Census Bureau data, median income in West Virginia is $50,573. In Ohio, it's $61,633; in Pennsylvania, $64,524; in Kentucky, $54,555; in Maryland, $86,223; and in Virginia, it is $77,151. Overall, looking at maximum potential benefits, West Virginia ranks 36th in terms of generosity.[1]

The Challenge: Funding Issues

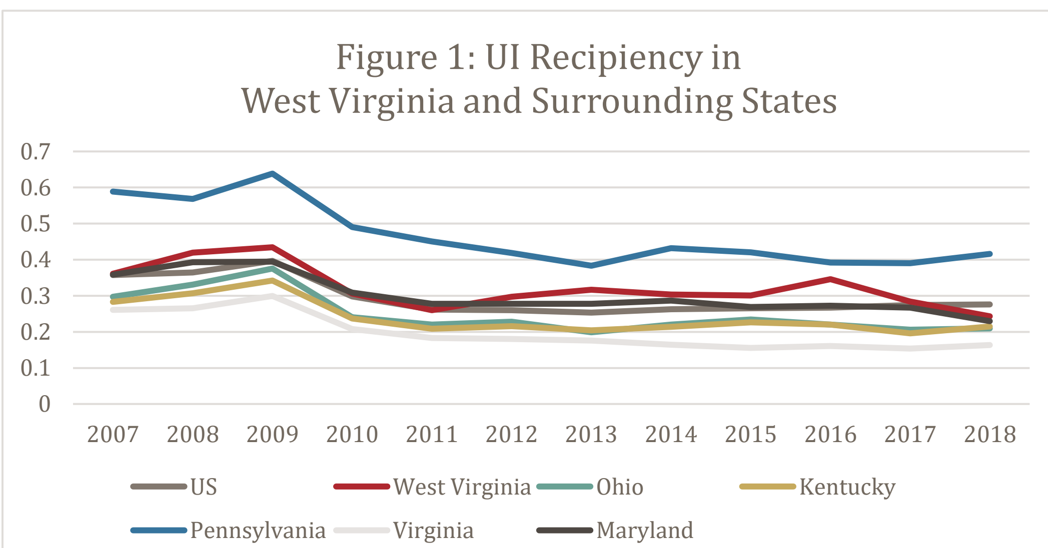
West Virginia does have funding challenges. While it is in the bottom 10 states in terms of funding, West Virginia is edging ahead of where it was in the lead-up to the Great Recession. The state is making steady progress in restoring the UI trust fund without resorting to the kinds of practices adopted by other states that make them less recession-ready on the benefits side. The standard for recession readiness is to have an “Average High Cost Multiple” of 1.0, which means that the state has enough money in the trust fund to pay the average of the top three “High Cost Benefit Rate” years in the past 20 years. West Virginia is currently at 0.48, or about half of where it needs to be. (See **Figure 2**.) Nonetheless, this represents a serious improvement in just the past few years, for the state’s solvency level was only 0.26 as of 2017.

This level of underfunding is not far off for the region; many of West Virginia’s neighbors are also only about halfway funded or less. Ohio is only at 0.33, Pennsylvania is at 0.55, and Kentucky is at 0.52. Maryland fares better at 0.84, with only Virginia fully funded at 1.03.

Recipiency: A Mixed Bag

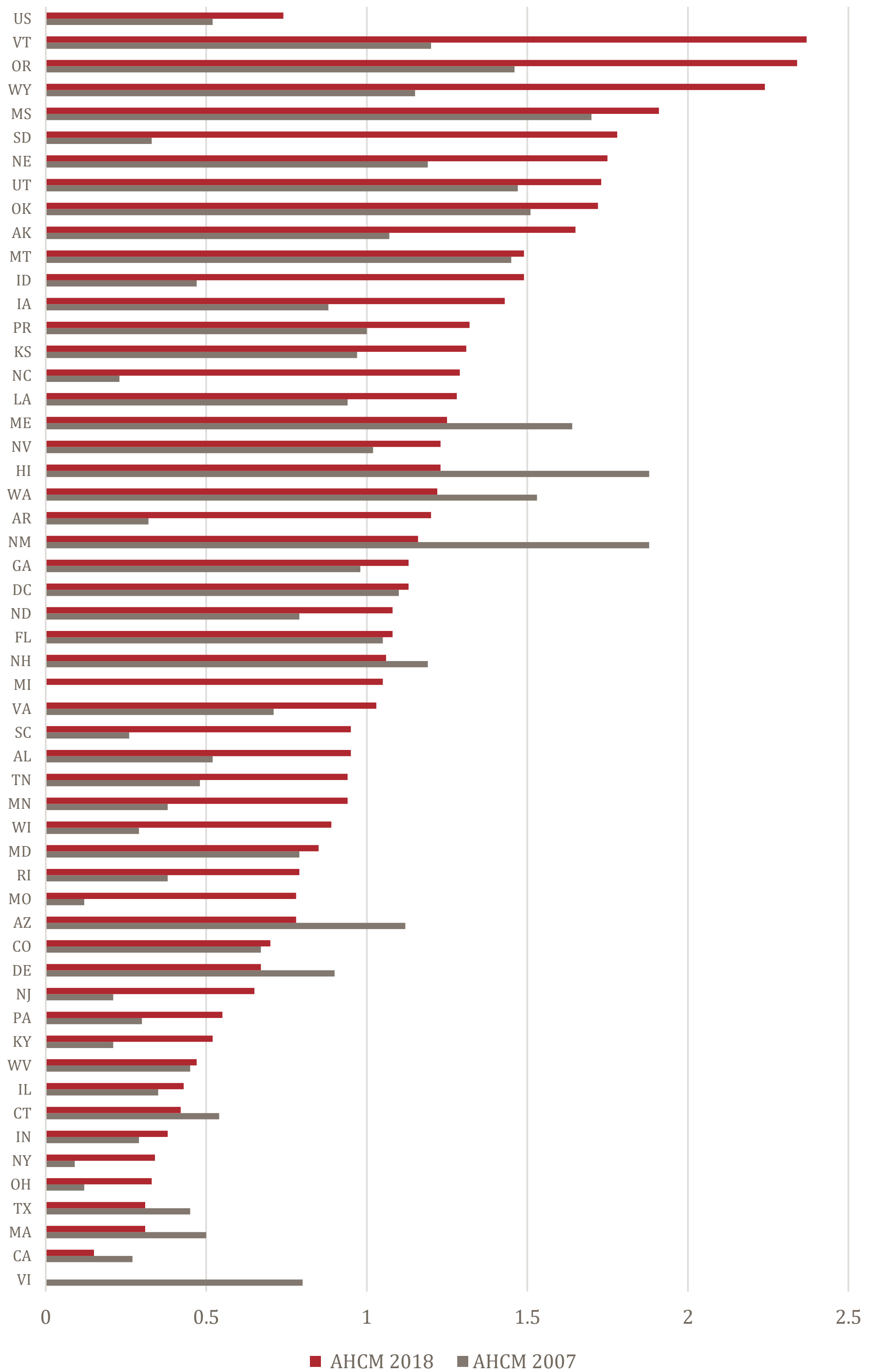
Recipiency is the percentage of unemployed workers who get benefits. Because unemployment is not designed to cover every person who is unemployed indefinitely, historically around 50% of workers who are unemployed have gotten benefits. Before the last recession, in West Virginia, recipiency was at 35%, but that has dropped to 24% today. (See **Figure 1**.) This is similar to the national trend—the national average is just 26%. This rate also compares favorably to West Virginia’s neighboring states, with the exception of Pennsylvania, which is at 41% (a dramatic decline from Pennsylvania’s 61% in 2007). In order for West Virginia, its neighbors, and the nation to be prepared for the next recession, recipiency needs to improve.

This is not an easy problem to solve. While some aspects of recipiency are directly under the control of the state, via direct legislation or administrative action that undermines benefits, it can also be a function of larger challenges in the economy. The move to less stable employment, the need to balance numerous part-time jobs, gig economy work, and even general attitudes about the UI program can prevent people from applying or being eligible when they do apply.



Source: U.S. Department of Labor, Employment and Training Administration

Figure 2: Solvency in 2007 Versus 2018



Source: U.S. Department of Labor, Employment and Training Administration

Conclusion and Recommendations

So far, West Virginia has resisted the trend to pass legislation that deliberately reduces benefits. Last session, for example, legislation was introduced that would have made it easier to classify workers as independent contractors. This would only have exacerbated problems contributing to reduced recipiency. Fortunately, that bill did not advance.

It is worth mentioning that the employer tax rate per worker in West Virginia is higher than average, and higher than in neighboring states. Given that benefits and recipiency are not out of step with its neighbors, it is difficult to say with certainty what the cause of the problem is. However, employers freeloading on the UI system creates a huge burden for those that play by the rules. At the end of 2018, 210 random audits in West Virginia revealed 242 misclassified workers.[2] While random audits are not a good measure of the scope of the problem, this is an indication that there could be widespread gaming of the system by employers. A good first step in addressing solvency, sharing the tax burden more equitably, and increasing recipiency would be to crack down on employers that misclassify workers as independent contractors.

The next step is to be more inclusive of a changing future of work. Rather than exempting more workers from a social safety net, policymakers must be creative about ensuring that more workers are able to participate in the system. Legislation or administrative efforts to hold gig employers accountable for paying their fair share will help spread the tax burden and keep West Virginia's traditional employers afloat in future downturns.

Enacting model "SUTA dumping" legislation can also help close loopholes through which employers evade liability. Employers pay a State Unemployment Tax (SUTA) based on their experience with the unemployment system—so employers that lay off a larger percentage of workers pay a higher rate. To avoid a higher tax rate, some employers use a scheme in which they set up multiple accounts and shuffle their workforce to a new entity or a successor employer to evade the higher rates.

Another great improvement would be to add work-sharing. Work-sharing (also referred to as "shared work" or "short-time compensation") is a type of unemployment benefit. Work sharing provides employers with an alternative to layoffs when they are faced with a temporary decline in business. Instead of laying off a portion of the workforce to cut costs, an employer may reduce the hours and wages of all employees or a particular group of workers. Workers with reduced hours and wages are eligible for pro-rated unemployment benefits to supplement their paycheck. Because work-sharing is voluntary, employers can make decisions about participation in the program based on their unique circumstances.

Work-sharing is a win-win-win for workers, employers, and the state. Workers can retain most of their employment while replacing some of their lost income. Employers are provided a tool they can use at their discretion to retain experienced workers who can easily be restored to full time without additional training. (This also maintains economic stability in the greater economy by reducing turnover, friction, and post-recession downward pressure on wages.) And states only need to pay partial unemployment claims.

Finally, we laud West Virginia for passing legislation that creates greater flexibility in transferring general Revenue Shortfall Fund dollars to the UI system. If it is the case that SUTA dollars are insufficient to get the UI trust fund to solvency, the flexibility to use other emergency dollars to avoid borrowing during a recession is a logical solution.

Endnotes

[1] https://oui.doleta.gov/unemploy/large_carousel.asp?slide=7

[2] https://oui.doleta.gov/unemploy/pdf/UI_taxinfo/2018/MisclassifiedEmployees.pdf