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Helping the Jobless Helps Us All

The Central Role of Unemployment Insurance in America's Economic Recovery

Maurice Emsellem, Andrew Stettner, Lisa Donner, and Alexandra Cawthorne

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Introduction and summary

The first line of defense in a recession for workers and their families is our nation's unemployment insurance program. The anticipated severity of the economic downturn now facing employers and employees alike will test the UI program after years of federal neglect. The federal government's ability to boost the economy and support jobless families, as intended when the program was created during the Great Depression, will depend largely on the decisions of Congress later this month and the new Congress and President-elect Obama. The new national leadership will have an opportunity to implement necessary reforms and build on the best of what's working in the states to create a strong and vibrant unemployment insurance system.

Immediate action and fundamental reform are needed if the unemployment insurance system is to work as intended. This report will detail the critical role that the unemployment insurance program can and should play in helping our country cope with a likely deep and prolonged recession. An unemployment rate of 6.5 percent in October, a 14-year high, means that more people are collecting unemployment benefits than at any time in the past 25 years, yet economists estimate unemployment could rise to eight percent or more in the coming year. This is sure to strain the unemployment insurance program as never before.

Unemployment Insurance Facts

- Only 37 percent of unemployed workers collect state jobless benefits.
- More than 1 million workers will run out of their limited 13 weeks of federal extended benefits (in addition to their state assistance) before the end of the year.
- The average worker receives $293 a week in benefits, replacing 35 percent of the average weekly wage in the United States.
- The average worker who runs out of state assistance receives 23 weeks of benefits.
- In September, 39 percent of workers reached the end of their state assistance (over 3 million workers in the past year) without finding work.
- Employers pay $56 per worker in federal unemployment taxes. (The federal tax is limited to the first $7,000 of each employee's wages, which has remained unchanged since 1983.)

The challenges facing the program are many, but two top priorities for reform would significantly boost the economy in those communities hardest hit by layoffs while also investing in a 21st-century economic security system. First, the current Congress and President Bush should significantly expand the limited extension of jobless benefits passed in June. According to the latest estimates prepared for this report, if no action is taken by the end of this year, 1.16 million workers will exhaust all their federal benefits before they are able to find new work. By June 2009, when the current program expires, 2.12 million struggling U.S. workers will have run out of their federal jobless benefits.

Second, Congress and President Bush should enact the Unemployment Insurance Modernization Act—the House of Representatives has already passed the bill—but if this is not accomplished this year, then the new Congress and the incoming Obama administration should do so as soon as possible. The reason: under current law only an average of 37 percent of unemployed workers actually collect benefits at all, with low-wage, part-time, and female workers particularly harmed by outdated state eligibility rules. Passage of the Unemployment Insurance Modernization Act would provide $7 billion in incentive funding for states to cover more than 500,000 workers who now fall through the cracks of the unemployment program and to support those states already doing a better job with coverage. Also, significantly, the measure provides all states with $500 million to address the administrative demands of properly serving the growing number of workers applying for and collecting unemployment benefits.

In the pages that follow, we will detail the benefits of immediate action for the rising number of jobless people in our economy and the economy as a whole. As we will demonstrate, helping the unemployed helps all of us.

A strong unemployment insurance program is critical to the nation's economy

When President Franklin D. Roosevelt sent the Social Security Act to Congress for consideration in January 1935, his vision for the unemployment insurance program was clear and compelling. Unemployment insurance, he explained, "should be constructed in such a way as to afford every practical aid and incentive toward the larger purpose of employment stabilization."[1] The accompanying report of the Committee on Economic Security provided the details of a new program to serve as the "first line of defense" to address immediately the desperate needs of unemployed families and the struggling economy.[2]

As the law moved toward passage in August 1935, an ambitious new unemployment insurance program was established that was part a creature of federal policy and part a creation of the states. Today, the federal-state program includes a federal payroll contribution of $56 per worker, which pays for administration of the state programs, along with federal extended benefits and loans to the states when they can no longer pay benefits. There is also a state payroll tax that covers the costs of state jobless benefits. The rules that determine the scope of the program and the amount of benefits are primarily the responsibility of the states, although the federal government sets important minimum standards that govern eligibility for the program as well.

While the economy has changed dramatically in the past 70 years, the prospect of another severe economic downturn reminds us of the critical importance of President Roosevelt's "employment stabilization" mandate for the unemployment program. And his vision has indeed met the test of time. Economists of all persuasions applaud the "counter cyclical" nature of the program and its documented impact on economic growth. In fact, a major study of several recent recessions found that unemployment benefits contribute $2.15 in economic growth for every dollar of benefits circulating in the economy.[3]

With the health of the U.S. economy so dependent on consumer spending, unemployment benefits are especially important to maintain purchasing power and to boost spending in those communities hit hard by unemployment. Economist Mark Zandi of Moody's Ecomony.com emphasized this concern when Congress debated whether to extend jobless benefits early in 2008. "The benefit of extending unemployment insurance goes beyond simply providing financial aid for the jobless, to more broadly shoring up household confidence," he explained. "Nothing is more psychologically debilitating, even to those still employed, than watching unemployed friends and families lose benefits."[4]

Stabilize housing

Of special significance to today's economic crisis, unemployment benefits contribute to stabilizing the housing market in the growing numbers of communities devastated by layoffs and foreclosures. In June 2008, 45.5 percent of delinquencies reported by Freddie Mac were due to unemployment or loss of income, up significantly from 36.3 percent in 2006.[5]

Families of jobless workers spend more of their unemployment benefits on their mortgages and rent than for any other household expense. A state study found that 41 percent of expenditures paid for with unemployment benefits were applied to housing costs.[6] Another national study found that the availability of unemployment benefits reduced the chances that a worker will be forced to sell the family home by almost one-half.[7]

Alleviate economic hardship

Even for families earning middle-class wages, a layoff in today's economy will often result in extreme economic hardship, including incomes that fall below the poverty level. Unemployment benefits reduce the number of workers who end up in poverty.[8]

Before becoming unemployed, only seven percent of unemployment recipients report family incomes below the official poverty level. When these workers become unemployed and collect state jobless benefits for a period of at least four months, one-quarter of the families find themselves destitute, according to the official poverty guidelines. Without the help of unemployment benefits, one-half of these families would end up in poverty.

Promote quality jobs and strong labor standards

Unemployment benefits also help maintain U.S. labor standards and promote economic opportunity. Indeed, one of the few federal mandates of the program requires that a worker cannot be denied state benefits for refusing work that brings down labor standards in the community.[9] Like federal minimum wage laws, this federal requirement sets the floor governing the prevailing "wages, hours, and conditions of work" of relevant jobs in the community, including fringe benefits and health insurance.

The unemployment system also promotes productivity by allowing workers to better match their skills to the best available job, which means they ultimately earn more as well—$240 a month more for those who collect benefits compared to those who do not.[10] Since unemployment benefits allow workers the extra time they need to seek quality jobs, families are also far more likely to find work that provides employer-sponsored health insurance.[11]

The special challenges posed by the new recession

Reform of the unemployment insurance system is particularly urgent because of the severity of the economic challenge in the coming year and its impact on working families. Economist Nouriel Roubini captured the magnitude of the forces bearing down on the economy when he offered this sobering assessment at a recent Congressional hearing: "a housing bubble, a mortgage bubble, an equity bubble, a bond bubble, a credit bubble, a commodity bubble, a private equity bubble and a hedge funds bubble are all now bursting simultaneously."[12]

One of the nation's most respected economic forecasters, Professor Roubini also concluded that it is a "certainty that this will be a long and protracted U-shaped recession, possibly lasting at least two years in the United States and close to two years in the rest of the world."[13] By comparison, the last two "V-shaped" recessions (in 1990–91 and 2001) lasted eight months, while the average post–World War II recession has lasted 10 months.

Even if economic growth turns the corner in the next two years, there is still a very real chance that the job market will not. Recent recessions have featured very slow labor-market recoveries. Indeed, in the early 1990s, the unemployment rate did not peak at 7.8 percent until 15 months after the recession ended in March 1991. And after the 2001 recession, the unemployment rate continued upward until reaching its 6.3 percent maximum 19 months later.

These are unusually long periods of labor-market recovery. Under the best of circumstances, it still takes an average of two years after a recession ends before private-sector employment returns to pre-recession levels.[14] Thus, a prolonged recession will produce several years, if not more, of serious labor-market troubles.

Most economists are forecasting a recession that is not only prolonged but also deep. For U.S. workers, that means unemployment rates of at least eight percent, and likely higher, rivaling the severe economic downturn of the 1980s, which eventually produced double-digit unemployment rates of 10.8 percent. Already, the unemployment rate has surged to 6.5 percent, the highest rate in 14 years. Taking into account the record numbers of part-time workers who would prefer to be employed full-time and those too discouraged to keep looking for work, the unemployment rate now stands at 11.8 percent, the highest rate since these figures were first reported in 1994."[15] Already, the number of workers collecting state jobless benefits reached 3.9 million, a 25-year record.[16] Just this week, unemployment claims rose by another 32,000 to 516,000, the largest number since just after the September 11th attacks. It is only the third week in the past 16 years when weekly unemployment claims surpassed 500,000.

Today's economy has also produced far more suffering in the form of long-term joblessness compared to prior economic downturns, which translates into extreme economic hardship. Already this recession, 22.3 percent of all unemployed workers have been actively looking for work for more than six months. That's 2.26 million workers, the most in 25 years. In contrast, long-term joblessness did not reach 20 percent until a full year after both the last two recessions had ended. And those who find themselves jobless long term now include workers from the entire spectrum of the nation's diverse workforce, of every education, age, and industry.[17]

Meanwhile, as the Joint Economic Committee of Congress recently reported, far fewer families have the means to survive tough times, especially if the downturn proves to be prolonged and more workers find themselves unemployed for much longer periods of time.[18] The share of families with enough resources to cover a spell of unemployment declined to 44.1 percent in 2007 from 51 percent in 2004 and likely has gone down further since then.[19] Combined, these and other forces are expected to significantly increase U.S. poverty. Economist Jared Bernstein projects that the percentage of the population living in poverty will increase to 14.3 percent by the end of 2009 from 12.5 percent in 2007, and that the real average income of low-income families will fall by five percent over this period. According to Mr. Bernstein, "if past patterns persist regarding these income and poverty measures, losses could continue for another few years."[20]

The serious limitations of the unemployment insurance program

While the unemployment program has served the nation well for over 70 years, especially in times of recession, it's no secret that the program also has major limitations that seriously undermine its effectiveness. First and foremost is the fact that most jobless workers are unable to collect benefits because of serious deficiencies in the program. As documented by several leading authorities, including a bipartisan panel of experts created by Congress in 1991, the Advisory Council on Unemployment Compensation, the unemployment program has failed to evolve to meet the demands of a changing economy and the new workforce.[21]

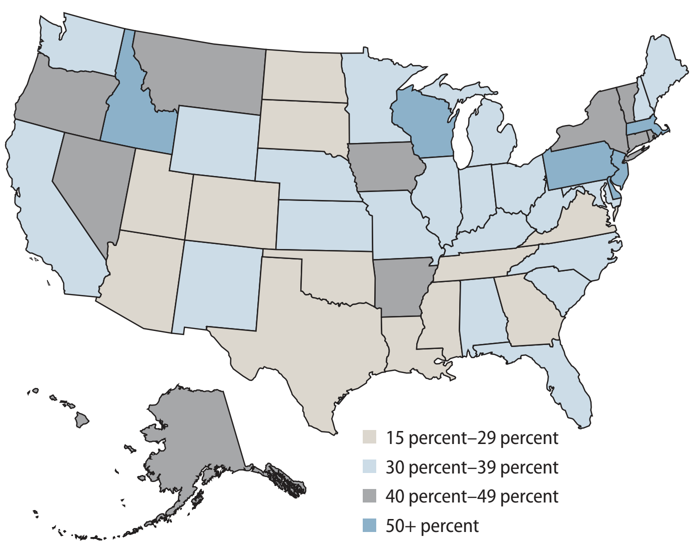
In contrast to 1935, when the program was established, today's workforce includes substantially greater numbers of part-time and female workers, often employed in low-wage, high-turnover, service-sector jobs. But the rules of the program have not been adjusted to make sure these workers are also eligible for benefits. According to the Government Accountability Office, low-wage workers are now twice as likely as higher-wage workers to find themselves unemployed, but they are only one-third as likely to collect jobless benefits.[22]

Indeed, the proportion of the unemployed receiving jobless benefits has fallen to dramatically low levels, with just 37 percent of unemployed workers collecting jobless benefits this year. And the rate has actually risen in recent months, as it does during every recession, because more workers qualify for benefits. Today's rates are down dramatically from nearly 50 percent in the 1950s and over 40 percent in the 1960s and 1970s.

These disparities are even more pronounced at the state level, given the wide variation in state rules that determine who qualifies for benefits combined with other factors, such as unionization, which have a major impact on the state take-up rates. As the map

Percent of the unemployed collecting jobless benefits

Unemployment insurance data summary, 2nd quarter 2008
(12 months ending June 2008)



Source: U.S. Department of Labor, UI Quarterly Data Summary.

on page 7 illustrates (and see table on page 17 for recipiency rates for each state), only six states now pay unemployment benefits to more than half of all unemployed workers. And 35 states provide unemployment benefits to less than four in ten unemployed workers. Major regions of the country with severe unemployment are falling far behind, especially the South and Midwest.

Those who fall through the cracks of the unemployment system, including large numbers of low-wage workers and female workers with families, are also the least prepared to handle the loss of a job. Their limited savings to cover housing, health care, and other basic necessities leave them vulnerable to irreversible hardship and the vagaries of limited government programs that serve the nation's destitute.

Not enough help for the long-term jobless

Today's workers are unemployed for much longer periods of time, which means that many more workers also run out of their jobless benefits before finding new work. That, in turn, contributes to the low state collection rates since more unemployed workers fall off the rolls.

While most states provide up to 26 weeks of benefits, many workers reach their maximum assistance well before then because state rules significantly limit the weeks of benefits depending on the worker's earnings and work history. Indeed, the average unemployment insurance recipient runs out of state benefits after 23 weeks, not 26, and nearly a dozen states provide the average worker with less than 20 weeks of maximum unemployment benefits.

As a result of rising long-term unemployment and the state rules limiting the weeks of assistance, 39 percent of workers who collect a state unemployment check run out of their state assistance before finding new work. That adds up to 3 million workers who have run out of the state assistance in the past year alone. These are disturbing signs, given the devastating experience of the last recession, when the "exhaustion rate" peaked at a record 44 percent and remained above 40 percent for a record 28 months.

Inadequate state benefits

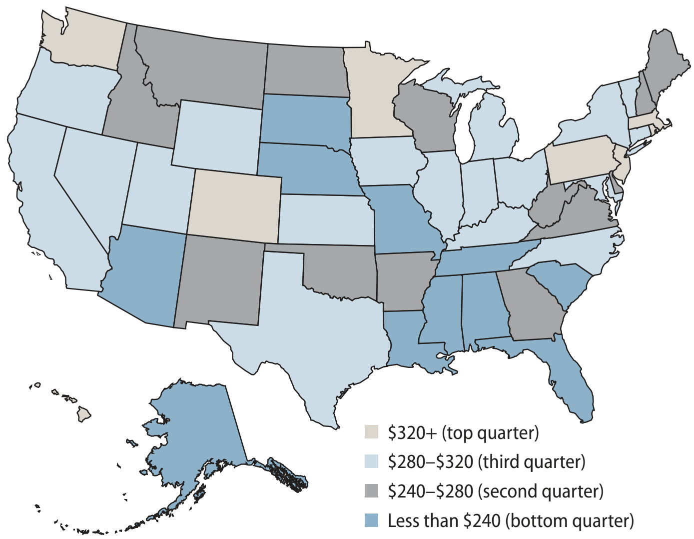
The value of state unemployment benefits also lags far behind what's needed to maintain even a modest means of support, especially with the volatile cost of basic necessities, including food, housing, gas, and utilities. The states determine the amount of weekly unemployment benefits, which once more produces incredible variation even among neighboring states. For instance, the maximum weekly benefit in Mississippi is just $230, the lowest in the nation, while Texas provides up to $378 in benefits, and Georgia provides up to $330. That compares with nine states (Connecticut, Hawaii, Illinois, Massachusetts, Minnesota, New Jersey, Pennsylvania, Rhode Island, and

Washington) that provide over $500 a week in maximum unemployment benefits. About a dozen states also provide an additional "dependent allowance" for workers who support minor children or elderly relatives.

Yet on average, U.S. workers collect just $293 per week in state unemployment benefits, which is nowhere near the maximum in most states (see map to the right). The typical unemployment check in the United States replaces just 35 percent of the average worker's wages, according to Department of Labor statistics. While federal commissions have called for benefits that replace 50 percent of a worker's wages, only a handful of states have come close to that modest goal if you compare the average weekly benefits in the states to workers' average weekly wages. In addition, unemployment benefits are subject to federal income tax, which affects 65 percent of unemployment insurance recipients and reduces the value of their benefits by an average of 11 percent.[23]

Average weekly unemployment benefits

Unemployment insurance data summary, 2nd quarter 2008
(12 months ending June 2008)



Source: U.S. Department of Labor, UI Quarterly Data Summary.

Neglected front-line unemployment services

With far more demand on the unemployment system, it is critical that the states thoroughly help workers navigate the program and receive the services necessary to get back on their feet and find quality work. Unfortunately, states have been deprived of the federal resources necessary to afford these basic services.

Most states have closed their unemployment offices, which means that many workers can no longer turn to an experienced employment official to help navigate their unemployment claims and their job searches. When the volume of claims increases, workers also confront busy signals from the new automated phone claims systems. And more states are having trouble paying benefits on time and processing the growing backlogs of appeals.

Since 2001, federal funding for states to provide these core services has been cut by $305 million in inflation-adjusted dollars, despite the intervening recession and other increased demands on state UI programs.[24] There is a $500 million annual gap between the workload needs of the state agencies that administer the unemployment program and the amount appropriated by Congress.[25] As a result, the vast majority of the states have been forced to tap scarce state revenues to help fill the federal void. Congress has only begun to address the shortfall with a one-time increase of $110 million in administrative funding for the coming year.

Priorities to boost the economic impact of unemployment insurance

The unemployment system faces significant challenges in this economic crisis. While many areas of federal reform require attention, especially after so many years of national neglect, several reforms deserve priority as Congress considers immediate measures to spur an economic recovery.

The first priority should be to expand the program of federal jobless benefits enacted in June, thus responding to the desperate need of over 1 million workers whose limited 13 weeks of federal benefits are scheduled to expire this year—just in time for the holiday season. Next, Congress needs to address the underlying gaps of the program so that many more hard-working families have unemployment benefits available in times of need. Federal legislation to help modernize the state unemployment programs, called the Unemployment Insurance Modernization Act, or UIMA, would provide $7 billion in incentive funding for the states—money that would also prevent a deeper and longer economic downturn. In addition, the measure contains $500 million in federal funding to help restore critical services to the unemployed when they apply for benefits and seek re-employment.

Expand the limited 13-week extension of jobless benefits

With an economy that has produced record rates of long-term unemployment, an effective and reliable program of extended jobless benefits is more necessary than ever. What we have instead is a permanent federal program called "Extended Benefits" that is so out-dated in how it measures unemployment that only two states (North Carolina and Rhode Island) qualify for extended benefits, while nearly a dozen states already have surging rates of joblessness exceeding seven percent.

Because the extended benefits program is so flawed, Congress has temporarily extended federal jobless benefits during the past five recessions, including the latest program, called Emergency Unemployment Compensation, which expires in March 2009. EUC provides an extra 13 weeks of federally funded jobless benefits to all workers who run out of their maximum 26 weeks of state benefits. No additional benefits are provided to workers in states with especially high rates of unemployment.

Since June, when the EUC program was enacted, unemployment nationally and in the states has surged, as has the number of workers exhausting their state jobless benefits. Eighteen states'—doubled since June—unemployment rates exceed six percent, and far more workers (300,000 in September alone) are now exhausting their state benefits, according to the latest monthly reports. These devastating indicators are likely to increase significantly before the EUC program is scheduled to wind down.

For the first wave of workers who qualified for the EUC program beginning in July, their limited 13 weeks of benefits ran out in early October, leaving an estimated 800,000 workers without additional federal assistance to support their families during this difficult labor-market contraction. That number will increase to over 1 million by the end of 2008—in the midst of the holiday season. More than 2 million people will exhaust their benefits if the program is not expanded before the March 2009 deadline (see the table to the right).

Thus, there is a compelling case for significantly expanding the limited 13 weeks of EUC benefits. Before recessing for the elections, the House of Representatives voted overwhelmingly (368-to-28) in support of a bill, the Unemployment Compensation Extension Act of 2008 (H.R. 6867), to boost the EUC program. The measure provides 20 weeks of benefits for long-term jobless workers in all states (up from the current 13 weeks) and 33 weeks of benefits for workers in states hardest hit by unemployment (those with unemployment rates exceeding six percent). The Senate, however, failed to pass the measure due to conservative objections when the bill came up for a "unanimous consent" motion.

There is abundant precedent to expand the EUC program under economic circumstances like those we now face. For example, in February 1992, Congress took into account the significant increase in unemployment to extend further the jobless benefits that

Estimated number of workers exhausting the 13-week program of Emergency Unemployment Compensation (EUC)

State	Workers Exhausting EUC Benefits by December 31, 2008	Workers Exhausting EUC Benefits by the End of the Program (June 2009)
Alabama	13,523	23,776
Alaska	5,220	8,853
Arizona	15,674	34,502
Arkansas	11,506	20,855
California	188,865	367,886
Colorado	11,074	20,678
Connecticut	16,000	28,078
Delaware	3,692	6,245
District of Columbia	2,822	6,184
Florida	78,118	153,864
Georgia	39,135	69,387
Hawaii	2,409	5,429
Idaho	5,333	9,381
Illinois	56,076	94,026
Indiana	30,249	56,129
Iowa	8,137	14,307
Kansas	7,681	13,170
Kentucky	10,874	18,082
Louisiana	9,611	19,296
Maine	3,941	6,771
Maryland	14,413	26,213
Massachusetts	31,672	54,536
Michigan	67,886	112,815
Minnesota	18,153	29,672
Mississippi	7,005	14,198
Missouri	17,358	30,599
Montana	2,697	4,639
Nebraska	5,092	8,948
Nevada	14,565	28,196
New Hampshire	2,126	3,723
New Jersey	61,319	105,564
New Mexico	4,958	9,469
New York	78,225	132,598
North Carolina	42,424	81,738
North Dakota	1,325	2,259
Ohio	33,140	57,124
Oklahoma	5,800	10,984
Oregon	18,515	32,635
Pennsylvania	55,169	95,852
Rhode Island	6,874	11,858
South Carolina	24,504	41,548
South Dakota	309	488
Tennessee	23,111	42,580
Texas	41,157	86,106
Utah	4,023	7,561
Vermont	1,530	2,644
Virginia	15,843	28,592
Washington	13,499	24,675
West Virginia	3,816	6,134
Wisconsin	26,456	44,104
Wyoming	1,087	1,866
Total	1,163,995	2,116,815

Source: Estimates prepared by the National Employment Law Project based on U.S. Department of Labor data reported by the states.

were expanded just a few months earlier. At the time, Congress enacted a program providing 26 weeks of benefits in all states and 33 weeks of benefits in high-unemployment states.

While today's unemployment rate is not as high as it was in 1992, the recent increase in the unemployment rate and the incidence of long-term unemployment now surpass the levels that led to the 1992 extension. During the 2001 recession, which was far less severe than what's expected next year, workers in high unemployment states were provided with 26 weeks of federal benefits.

Accordingly, when Congress reconvenes on November 17 for a lame-duck session, the Senate should immediately take up the House measure and extend the available weeks of benefits. The House-passed extension should be part of a larger economic recovery package, or it should be enacted on its own if a more comprehensive measure is not passed. If time permits, both the House and the Senate should also extend the EUC program until at least the fall of 2009 (the House bill goes through March 2009) in order to avoid another serious disruption or discontinuation of benefits for large numbers of deserving workers. The reason: workers who exhausted their benefits in October cannot collect benefits retroactively; they only qualify for benefits prospectively if they are still unemployed and still actively looking for work when the program is expanded.

Modernizing the unemployment insurance program

In addition to the extension of jobless benefits, the economic crisis calls for serious measures to modernize the program so that a larger proportion of workers, especially more low-wage and part-time workers, receive benefits. The Unemployment Insurance Modernization Act has already passed the House of Representatives (H.R. 3920, Title IV), and the Senate measure (S. 1871) enjoys strong bipartisan support

Many states have been at the forefront of major unemployment insurance reforms during the past decade, following the recommendations of the blue ribbon Advisory Council on Unemployment Compensation and other authorities to modernize the system. Since 1996, nearly half the states have adopted innovative policies to help fill the gaps in the unemployment system.[26]

The Unemployment Insurance Modernization Act takes the best of what has made its way into these state laws in recent years and provides the necessary incentive funds to help more states fundamentally improve their programs. In addition, the legislation rewards those states that have been leaders in building strong unemployment programs by providing them with the funding to innovate further, which takes on special significance given the recession.

With a reasonable investment of $7 billion, the federal legislation will leverage new benefits for at least 500,000 deserving workers a year.[27] Federal funding pays for the UIMA program by reauthorizing a limited unemployment surtax on employers that has been in place for more than 30 years. These funds are already earmarked for the unemployment trust funds; thus they would be reinvested in modernizing the program. Because UIMA is paid for by revenue that will be coming into the federal unemployment trust funds, the program does not contribute to the federal deficit.

UIMA requires states that seek this incentive funding first to reform their programs to cover more low-wage workers by adopting the "alternative base period," or ABP. This reform addresses antiquated eligibility rules that antedate computers, when unemployment claims were hand processed and the states were not able to retrieve workers' recent wage records to determine if they earned enough to qualify. As a result, the latest three- to six-months of wages are still not counted toward eligibility by most states, and this disproportionately affects low-wage workers who need all their wages to qualify.

In the 19 states that have adopted the ABP (see table on following page), the individual's recent wages are taken into account if needed for the individual to qualify for benefits. In these states, about 40 percent of the workers who did not originally qualify for benefits because of inadequate wages end up receiving unemployment insurance with the help of the ABP. These newly eligible workers are mostly employed in low-wage jobs, earning an average of $9.58 an hour.[28] In Michigan, for example, 17 percent of all low-wage workers who qualified for unemployment benefits did so solely because of the alternative base period. This measure provided an average of $232 a week to 26,000 Michigan workers. Making this reform national will benefit over 300,000 workers.

Once a state has adopted the ABP, it qualifies to receive the remaining two-thirds share of the federal incentive payments under UIMA if it also has several other reforms serving the major groups that have fallen through the cracks of the unemployment system, including part-time workers, women with families, and the long-term unemployed. Specifically, to qualify for additional incentive grants under the Senate UIMA bill, a state must provide unemployment benefits to workers in at least two of the following five situations:[29]

- Part-time workers who are denied state benefits because they are required to actively seek full-time employment
- Individuals who leave work for compelling family reasons, such as domestic violence
- Workers with dependent family members who qualify for state benefits but whose benefits should be increased to account for the added expenses associated with their dependents
- Permanently laid-off workers who require access to training with the help of extra unemployment benefits
- The long-term unemployed who fail to collect a full 26 weeks of state benefits.

These additional reforms will have a major impact on workers who are now paying into the unemployment system but may not draw benefits due to the outdated state rules. Part-time workers, for example, are almost half as likely as full-time workers to collect

Estimated state distributions under the Unemployment Insurance Modernization Act (in thousands)

State	Does the state have an Alternative Base Period (ABP)?	Estimated Allotment			UIMA Administrative Allocation
		One-third UIMA incentive payment for the ABP	Two-thirds UIMA incentive payment	Total share of the $7 billion UIMA distribution	
Alabama		$32,866	$65,731	$98,782	$7,056
Alaska		$4,966	$9,932	$14,898	$1,071
Arizona		$46,130	$92,259	$138,389	$10,370
Arkansas		$19,014	$38,027	$57,041	$4,043
California		$281,221	$562,441	$843,662	$60,256
Colorado		$40,772	$81,544	$122,316	$8,790
Connecticut	Yes	$27,998	$55,996	$83,994	$5,965
Delaware		$7,710	$15,420	$23,130	$1,633
District of Columbia	Yes	$7,024	$14,048	$21,072	$1,734
Florida		$145,413	$290,825	$436,238	$31,591
Georgia	Yes	$72,102	$144,204	$216,306	$15,477
Hawaii	Yes	$9,866	$19,732	$29,598	$2,135
Idaho		$10,030	$20,059	$30,089	$2,236
Illinois	Yes	$105,490	$210,981	$316,471	$22,453
Indiana		$49,429	$98,858	$148,287	$10,356
Iowa		$24,110	$48,220	$72,330	$5,148
Kansas		$22,771	$45,542	$68,313	$5,824
Kentucky		$29,893	$59,786	$89,679	$6,346
Louisiana		$30,546	$61,092	$91,638	$6,574
Maine	Yes	$9,442	$18,883	$28,325	$1,975
Maryland		$43,385	$86,771	$130,156	$9,238
Massachusetts	Yes	$54,264	$108,529	$162,793	$11,541
Michigan	Yes	$77,786	$155,573	$233,359	$16,060
Minnesota	Partial ABP	$47,012	$94,023	$141,035	$9,961
Mississippi		$18,132	$36,263	$54,395	$3,936
Missouri		$43,581	$87,163	$130,744	$9,693
Montana		$5,913	$11,826	$17,739	$1,292
Nebraska		$14,146	$28,292	$42,438	$2,986
Nevada		$23,751	$47,502	$71,253	$5,228
New Hampshire	Yes	$11,173	$22,346	$33,519	$2,310
New Jersey	Yes	$71,253	$142,505	$213,758	$15,116
New Mexico	Yes	$12,120	$24,241	$36,361	$2,671
New York	Yes	$134,534	$269,067	$403,601	$28,451
North Carolina	Yes	$68,410	$136,821	$205,231	$14,761
North Dakota		$4,704	$9,409	$14,113	$1,018
Ohio	Yes	$93,860	$187,720	$281,580	$19,695
Oklahoma	Capped funding	$23,849	$47,698	$71,547	$5,235
Oregon		$28,455	$56,911	$85,366	$6,172
Pennsylvania		$97,192	$194,385	$291,577	$19,842
Puerto Rico		$14,505	$29,011	$43,516	$2,966
Rhode Island	Yes	$8,135	$16,269	$24,404	$1,720
South Carolina		$31,069	$62,138	$93,207	$6,621
South Dakota		$5,587	$11,173	$16,760	$1,212
Tennessee		$46,718	$93,435	$140,153	$9,600
Texas		$176,710	$353,421	$530,131	$38,646
Utah		$18,850	$37,701	$56,551	$4,197
Vermont	Yes	$4,737	$9,474	$14,211	$997
Virginia	Yes	$65,111	$130,221	$195,332	$13,737
Virgin Islands		$653	$1,307	$1,960	$141
Washington	Yes	$48,384	$96,768	$145,152	$10,557
West Virginia		$10,748	$21,497	$32,245	$2,303
Wisconsin	Yes	$47,828	$95,657	$143,485	$10,122
Wyoming		$4,018	$8,037	$12,055	$917
Total	19	$2,333,333	$4,666,667	$7,000,000	$500,000
Total Immediate Investments		$711,259	$648,722	$1,359,972	$500,000

unemployment benefits.[30] Yet 19 states now provide benefits to more part-time workers by removing the requirement that they be available for full-time (as opposed to part-time) work in order to collect weekly unemployment benefits. If the remaining states adopt similar reforms with the help of the incentive funding provided by UIMA, then an estimated 200,000 workers a year will qualify for unemployment benefits.[31]

Enacting UIMA as part of the economic recovery program will have an immediate and long-lasting impact on the unemployment system and the state economies. States would immediately receive $500 million in grants to address the serious demands on state agencies to serve workers applying for unemployment benefits. Of the $7 billion available in incentive payments for the states that adopt the reforms, 19 states with the alternative base period automatically qualify for their one-third share of funding.

Several states qualify for their entire share of UIMA funds. That will immediately generate about $1.4 billion in state payments under the House bill and $1.5 billion under the Senate bill, not including the $500 million in separate administrative funding.

With nearly every state's legislature scheduled to convene in early 2009, and most states likely to consider measures to respond to the recession, the states that have not yet adopted UIMA reforms can move quickly to capture additional UIMA funding. Indeed, many states have been actively debating UIMA reform priorities, among them Arizona, California, Colorado, Florida, Iowa, Maryland, Oregon, and Texas. The funding provided by UIMA will go a long way to help generate an even more active debate and move large numbers of states to reform their programs and get unemployment benefits into the hands of hundreds of thousands of additional unemployed workers.

Clearly UIMA would help stimulate and stabilize the economy by providing resources to cash-strapped states and by expanding benefits for large numbers of struggling families whose spending will, in turn, support their local economies. State can enact these new benefits in time to help mitigate the impact of this downturn while also providing the kind of serious investment required to build a 21st-century unemployment insurance program. Finally, UIMA payments will infuse resources into those states that are now approaching low unemployment-trust reserves and otherwise face the prospect of automatic tax increases.

Additional reform priorities

Beyond the immediate priorities discussed above, a range of other areas of reform require serious consideration. Case in point: during the last recession, Congress and the president seriously debated proposals to subsidize health care coverage for jobless families[32]—something the new Congress should consider alongside providing additional income for unemployed workers to participate in education and training as provided by the Trade Adjustment Assistance program.

After years of neglect, it's also time for a new Secretary of Labor to advocate for funding and model policies for the states to best serve workers as they seek to navigate a hostile labor market and receive their unemployment benefits. New federal leadership is critically important to ensure that Congress appropriates adequate funds to support the growing demands on the states that administer the program. In return, stronger federal oversight by the Labor Department should ensure that state services are driven foremost by the needs of unemployed workers, that the state systems are up to the task of delivering timely and high-quality services, especially during periods of high demand, and that limited federal dollars go where the help is needed most.

In addition, the Labor Department can play a major role to improve the program's take-up rate, especially among low-wage workers who often fail to apply even though they likely qualify for benefits. For instance, far too few workers (24 percent) who have found work after previously collecting benefits under the Temporary Assistance for Needy Families program and then lose their jobs end up applying for unemployment benefits.[33] The new administration should swiftly work with the states to step up model outreach and education efforts and monitor compliance to ensure that all eligible workers have access to their benefits. The Labor Department should also evaluate the factors that contribute to increased take-up rates (and those which militate against them), especially for low-wage workers.

Also, significantly, more states will face their unemployment trust funds' insolvency, requiring these states to borrow from the federal unemployment funds to pay benefits.[34] In most cases, these are the same states that cut unemployment taxes significantly over the past decade and thus failed to generate sufficient reserves during good times to pay benefits during recessions. There is a significant national interest in protecting the integrity of the state trust funds so as to preserve strong benefits and not undermine the stimulant impact of the program. Thus, federal policy should promote responsible financing of the state unemployment programs.

Conclusion

The unemployment insurance system has served the nation well since the program was created in response to the Great Depression. But it has been neglected for far too long, while the workforce has changed fundamentally. The current economic crisis creates an opportunity for Congress and President-elect Obama to honor President Roosevelt's vision and reform the program to meet the challenges of the 21st century.

Unemployment Insurance Data Summary: Recipeincy Rates

2nd Quarter 2008 (12 months ending June 2008)

States	Recipiency Rates	States	Recipiency Rates
Alabama	35%	Montana	48%
Alaska	48%	Nebraska	32%
Arizona	29%	Nevada	41%
Arkansas	43%	New Hampshire	31%
California	39%	New Jersey	57%
Colorado	21%	New Mexico	37%
Connecticut	45%	New York	40%
Delaware	55%	North Carolina	38%
District of Colombia	24%	North Dakota	29%
Florida	32%	Ohio	31%
Georgia	28%	Oklahoma	22%
Hawaii	42%	Oregon	48%
Idaho	69%	Pennsylvania	58%
Illinois	38%	Rhode Island	43%
Indiana	39%	South Carolina	34%
Iowa	41%	South Dakota	18%
Kansas	30%	Tennessee	28%
Kentucky	30%	Texas	20%
Louisiana	28%	Utah	26%
Maine	31%	Vermont	48%
Maryland	38%	Virginia	26%
Massachusetts	57%	Washington	34%
Michigan	39%	West Virginia	36%
Minnesota	39%	Wisconsin	53%
Mississippi	25%	Wyoming	30%
Missouri	30%		
National Average	37%		

Source: US Department of Labor, UI Quarterly Data Summary.

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