July 2002

Written Statement of the

National Employment Law Project

On the Subject of

Unemployment Insurance in Kansas

Presented to
Kansas Joint Committee on Economic Development
Kansas State Legislature

Topeka, Kansas

August 15, 2002

National Office:
National Employment Law Project
55 John Street, 7th Floor
New York, New York 10038
Phone: (212) 285-3025
Fax: (212 285-3044
Website: www.nelp.org

Rebecca Smith
National Employment Law Project
407 Adams St. SE, Suite 203
Olympia, WA 98501
Phone: (360) 534-9160
Email: rsmith@nelp.org

Rick McHugh
National Employment Law Project
P.O. Box 369
Dexter, Michigan 48130
Phone: (734) 426-6773
Email: rmchugh@nelp.org

July 2002

Statement of the National Employment Law Project
About NELP

The National Employment Law Project (NELP) is a nonprofit law and policy organization based in New York City. NELP has advocated on behalf of low wage and unemployed workers for nearly 30 years. NELP's Unemployment Insurance Safety Net Project provides public education and technical assistance to community organizations, labor federations, policy makers, and legislators concerned with unemployment insurance reform. Given the recent economic downturn, there has been unprecedented interest in over the past year in changing unemployment insurance programs to better assist laid off workers and their families. NELP has been involved in these efforts in over 20 states, including Colorado, New Mexico, and Oklahoma. NELP appreciates the opportunity to submit this statement to the Joint Committee. We regret that our schedules do not permit us to be present in person to present our views.

Executive Summary

The unemployment rate in Kansas was 4.4 percent in June 2002, up from 3.7 percent in May 2000. This amounts to 63,900 unemployed Kansans. In the week of June 8, 2002, there were over 26,500 individuals receiving weekly unemployment insurance (UI) benefits in Kansas, up by over 7,000 claims from the same period one year ago. About 7,500 of these individuals were receiving extended benefits under the federally financed Temporary Emergency Unemployment Compensation program (TEUC). Workers in Kansas and across the country began losing these 13-week extensions on June 9, 2002.

While we all hope that our economy rebounds quickly, few are predicting a turnaround this year. Long-term unemployment (6 months or more) has increased faster in the current recession than in any of the past five recessions. In June 2002, long-term unemployment reached 1.7 million individuals, or 19.6 percent of all laid off workers. Half of all unemployed workers are now searching for work for more than 11 weeks, and half of laid off workers in Kansas can be expected to exhaust their UI benefits without finding new jobs.

The recession and jobless recovery is affecting Kansans, who are exhausting unemployment benefits at a rate much greater than in other times, exhausting the federal extension of benefits, and receiving less from the federal extension than what was promised. Middle class workers are being affected by the relatively low levels of wage replacement represented by any unemployment insurance system and by the length of their unemployment. Two-thirds of laid-off workers in Kansas never even qualify for a UI check in the first place. Many of these are shut out of the system because it fails to credit their wages for the most recent three to six months of their employment.

Now is the time to enact measures to help these workers weather the recession. Like many other states, Kansas can increase benefit levels and waive the “waiting week.” Like six other states, it can enact a state-funded extension of benefits for those unemployed Kansans who are running out of benefits. To increase access to its system, it can begin to count workers’ more recent earnings. The infusion of 78 million dollars in the trust fund has made the expansion of benefits affordable. Like its neighbors, Kansas should act now to help its unemployed workers.

July 2002

Unemployment Insurance Benefits as Economic Stimulus.

Unemployment insurance has two related goals: (1) promptly replacing lost wages for involuntarily unemployed individuals and (2) automatically stimulating our economy by using accumulated trust fund balances to pay these benefits. In 2001, Kansas's UI program paid out $241 million in UI benefits. These benefits helped unemployed workers and their families, and few would deny that this was beneficial to households impacted by unemployment and the communities where they were located.

The economic stimulus provided by UI programs is perhaps less well appreciated by legislators and economic development policy makers. In recent years, "supply-siders" and some representatives of business groups have generally portrayed UI taxes and benefits as a drain on state economies, sort of a "lose-lose" proposition.

Basic supply and demand theory teaches that consumer demand plays an important role in determining the growth of our economy. For that reason, maintaining consumer demand by providing adequate UI benefits helps the economy by permitting unemployed workers to pay essential bills without assuming excessive debts.

Economists have long studied the role of unemployment insurance in boosting the economy during downturns. While economists have quarreled about the magnitude of their estimates of the positive impact of UI on the economy, few argue with the proposition that UI is an effective automatic economic stabilizer. The role of UI cannot be fairly evaluated by policy makers unless its role as an economic stimulus is taken into account.

A 1999 study published by two researchers for the Federal Reserve Board confirmed that UI plays a role in assisting unemployed workers and the economy. Applying the Board's econometric tools to the post-World War II economy, the researchers found that the "unemployment insurance program appears to operate as an effective, virtually automatic, income stabilizer for unemployed individuals."

The U.S. Department of Labor released a major study in 1999 that used the Wharton Econometric Forecasting Quarterly model to simulate the impact of UI on the economy in past recessions. The study found that over the most recent five U.S. recessions every $1 dollar in UI benefits increased Gross Domestic Product by $2.15. In addition, the study found that recessions were about 15 percent shallower and job loss was reduced through the economic stimulus provided by UI benefits. Based upon this study, we can expect that the Kansas economy will experience about $500 million in higher economic output as a result of the $241 million in UI benefits paid out last year. Of course, this estimate is only a snapshot of the continuing positive impact arising from your UI program.

The positive economic stimulus of UI benefits is curtailed when weekly benefits are too low or UI qualifications are too strict. While there's certainly a point at which the costs of UI benefits exceeds their benefits to the economy, the Kansas UI program is not in danger of reaching that point.

July 2002

Unemployment Insurance Reform in 2002.

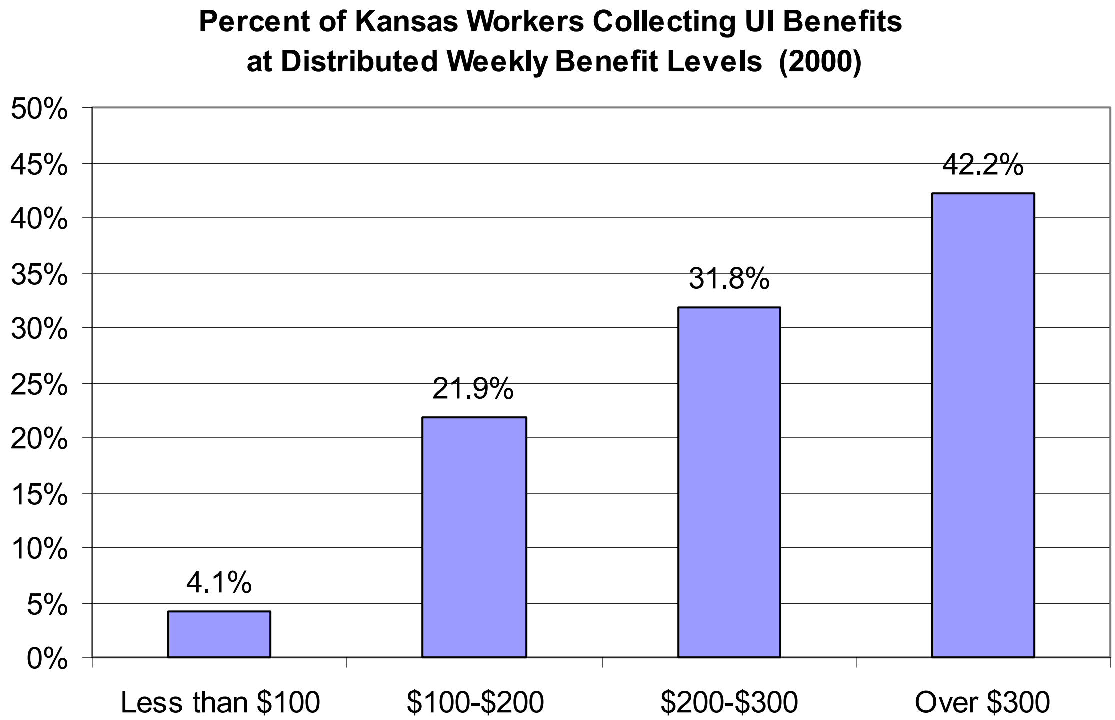
The unemployment insurance program in Kansas has a number of good features in terms of providing adequate protection to laid off workers and their families. Weekly UI benefits replace about one half of lost wages up to the weekly maximum benefit of $345. Kansas provides unemployment insurance benefits to part-time workers, an admirable feature that recognizes the importance of part-time work to employers and our economy. Kansas had adopted optional Extended Benefits triggers that are permitted under federal law, although at current unemployment levels there is little chance that these benefits will take the place of TEUC when that program stops at the end of calendar year 2002. Having said this, there are remaining elements that could improve the protection provided by UI benefits to unemployed workers, their communities, and the Kansas economy.

In recent years, policy makers in the states have actively debated unemployment insurance (UI) reform to fill the gaps in the program that penalize low-wage, women and part-time workers. In 2002, as a result of the recession, state legislative activity increased even more significantly. According to a survey of the National Conference of State Legislatures, UI reform topped the list of active employment legislation in 2002, resulting in substantial policy reforms.

1. Recommendations to increase the economic stimulus effect of a UI check.

Weekly benefit amount increases.

A worker in Kansas receives UI benefits calculated as 4.25% of the person's wages in the highest quarter counted. When compared to many other states, Kansas' benefit levels are relatively good. The average weekly benefit received by an unemployed person was $270.00 in the first quarter of 2001, slightly above the national average of $254. Due to yearly indexing, benefits in Kansas were increased slightly, from $333 to $345 maximum weekly benefit amount on claims filed after July 1, 2002.



As the above chart, compiled from Bureau of Labor Statistics data, shows, almost half of all Kansas who collect UI receive benefits at the maximum level. This distribution suggests that maximum benefit levels may nonetheless be set too low in Kansas.

Recognizing that long-term unemployment such as occurs in a recession can throw even middle-class workers into poverty, six states and jurisdictions enacted significant increases in the weekly amount of UI of benefits during the 2001-2002 session. (California, District of Columbia, Michigan, New Hampshire, Vermont, Virginia). Several others enacted more moderate benefit increases (Alabama, Georgia, Maryland, Oregon).

In California, a weekly benefit increase of up to $100 took effect January 2002. As a result of the law enacted in 2002, the increase in benefits will also be paid retroactively to all workers who collected unemployment starting after September 11th. In Michigan, the maximum weekly benefit was increased from $300 to $362, and in Virginia, benefits were increased by over 37%, from a maximum of $268 to $368, lasting through January 2003 (also reaching back to September 2001 to March 2002). In New Hampshire, benefits were increased significantly as well, from a maximum of $331 to $372 a week.

In Vermont, all workers were provided with an $18 increase in their weekly benefit and the maximum benefit was increased by 13% increase (to $369), with both provisions lasting for one year. Thereafter, the maximum benefit will increase permanently by 7.5% in Vermont. Weekly benefits in the District of Columbia were increased for the period from September 2001 to March 2002 by 25%. Alabama's increased its maximum benefits from $190 to $210, moving Arizona to last place in the national rankings with the lowest maximum weekly benefits at $205 a week.

Like these other states, Kansas could increase weekly benefit amounts in order to strengthen the economic stimulus effect of unemployment compensation. Kansas could adopt one of several of the models mentioned here: either through a one-time increase, (either by means of an increase in dollar amounts or an increase in its indexing of UI benefits, currently set at 60%), or an on-going increase of either of these types. In any event, an increase would strengthen the economic stimulus effect of UI benefits.

2. Recommendations to help Kansans weather the recession.

A. State-funded extended benefits.

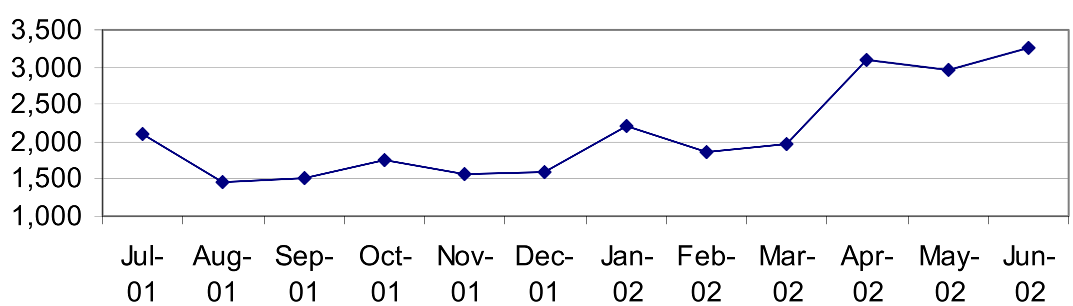
In most states, unemployed workers receive up to 26 weeks of regular unemployment insurance benefits. During the time that workers are receiving benefits, they are obligated to conduct a search for "suitable work." In Kansas, this entails engaging in a systematic and sustained effort to obtain work during such week; and furnishing tangible evidence of the job search.

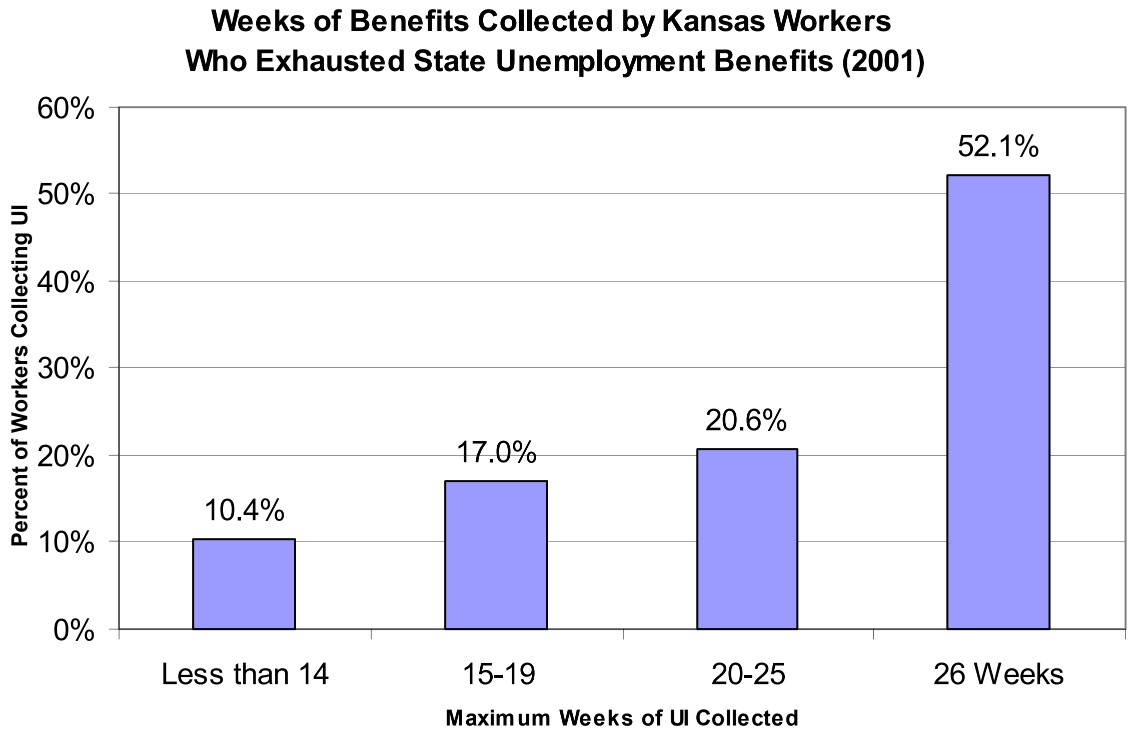
Kansas pays up to 26 weeks of regular UI benefits. As in many states, some proportion of workers exhausts benefits before receiving the full 26 weeks; because of the way benefits are calculated. As in many other states, the percentage of unemployed workers who run out of benefits is increasing, due to the "jobless recovery." Currently, fifty-five per cent of unemployed Kansans run out of regular benefits before they can find a job. As the recession continues, greater proportions of Kansas are exhausting their initial, state-funded, benefits.

Moreover, while Congress made available extended benefits beginning in March of 2002, nearly 850,000 workers around the country are now exhausting those benefits as well. In Kansas in June, nearly 7,500 unemployed workers were collecting the federal UI extension, known as TEUC. Of these, over 4,000 are expected to exhaust their benefits. See, NELP's "Time to Fix the Federal Unemployment Benefits Program," Table 1 (July 2002) available at http://www.nelp.org/pub150.pdf

Finally, in Kansas as in other states, many workers eligible for TEUC run out of benefits before they actually receive the full 13 week extension of benefits. Almost 50% (47.9%) collect less than the maximum 13 weeks of TEUC due to the state's method of calculating the maximum weeks of UI, and more than one in five workers (27.4%) collect a maximum of less than 9.5 weeks of TEUC.

Number of Kansas Workers Exhausting State UI Benefits Per Month





Barring an additional federally funded extension, workers will run out of their regular state benefits and the extension, and still be without financial support. In 2001-2002, six states (including Hawaii, Minnesota, New Jersey, Oregon, Vermont and Wisconsin) enacted state-funded extended benefits programs for the long-term unemployed.

The Hawaii extension lasts from September 11th to June 2002, providing up to 13 weeks of additional UI. However, workers who became eligible for federal extended benefits (which began March 10th and expire December 2002) do not qualify to receive the Hawaii extension. In Oregon, the extension lasts from April 2002 to December 2002, also providing up to 13 weeks of benefits. Oregon workers may collect the state-funded extension after their federal extended benefits run out. Wisconsin's law also runs from March 2002 to December 2002, providing up to eight weeks of UI to those individuals who have run out of all state and federal UI benefits.

In contrast, New Jersey's law provided 10 weeks of extended benefits, paid retroactively to all workers who exhausted their state benefits between December 2001 and March 9, 2002 (that is, just before the federal extension went into effect). Minnesota and Vermont enacted laws providing extended benefits to workers who collected regular UI but failed to qualify for the federal extension of benefits because of the federal rule requiring at least 20 weeks of work during the base period of employment. In addition, Minnesota enacted a new temporary extension, lasting through 2003 and providing an additional 13 weeks of benefits to workers in selected industries hardest hit by the recession.

B. Repeal or temporary suspension of the "waiting week."

A "waiting week" prevents workers from receiving UI benefits during the first week of their unemployment, which means that they receive one week less in benefits unless they stay on regular UI for the full 26 weeks. Seventeen states either impose limits on their "waiting week" or have no waiting week. Kansas imposes a "waiting week."

Prior to September 11th, twelve states (Alabama, Connecticut, Delaware, Georgia, Iowa, Kentucky, Maryland, Michigan, Nevada, New Hampshire, Vermont and Wisconsin) limited or eliminated their waiting week. In the aftermath of September 11th, a number of states (California, District of Columbia, New Jersey, New York, Virginia) responded immediately by suspending their "waiting week" temporarily. In 2002, New Jersey eliminated the waiting week permanently, and similar legislation was considered in several other states (Arizona, Colorado, Florida, Indiana, Mississippi, New Mexico, Virginia and Washington).

3. Recommendations to increase access to unemployment benefits for Kansans.

Roughly a third of unemployed workers receive UI benefits in Kansas. The national rate for the U.S. is 45%. This means that two-thirds of unemployed workers in Kansas have no safety net at all when they lose their jobs.

There is no specific study on how families who do not qualify for UI make ends meet. However a comprehensive study conducted by Mathematica Policy Research chronicled the experience of the unemployed who collected benefits as part of the last extension of unemployment benefits enacted to respond to the recession of the early 1990s.6

The Mathematica study concluded that the extension of the 1990s, called Emergency Unemployment Compensation (EUC), "kept a substantial portion of families from experiencing poverty-level incomes during the period of EUC collection." It is estimated that without federal extended benefits, 77% of the unemployed who applied for UI would have ended up with family incomes below poverty. Average weekly earnings were $676 when these workers first became unemployed, and earnings would have been just $183 a week without federal extended benefits. For workers who never qualify for UI at all, the effects are even more immediate and devastating.

Due to outdated methods of processing UI claims, most states ignore three to six months' of a worker's most recent earnings when a worker's eligibility for UI is determined. As a result, many low-wage workers with recent earnings are denied UI even though they may have worked and had substantial recent earnings that would otherwise be sufficient to qualify for UI.

Use of an "alternate base period" (ABP, which counts the workers' more recent wages when needed to qualify for UI, was recommended for state adoption by the federal Advisory Council on Unemployment Compensation in 1995. ABPs permit the consideration of more recent wages in the calculation of monetary eligibility. ABPs recognize that for purposes of measuring an unemployed person's attachment to the labor force, wages earned in a recent quarter are at least as relevant as wages earned over a year earlier. ABPs have been found by several studies to especially assist low-wage and women workers who are new entrants or re-entrants to the labor force, or whose work is seasonal. Fourteen states, including Georgia, Maine, Massachusetts, Michigan, New Hampshire, New Jersey, New York, North Carolina, Ohio, Oklahoma, Rhode Island, Vermont, Washington and Wisconsin).

In 2002, at least 10 states proposed adoption of the ABP. The legislation was enacted in Kansas' neighboring Oklahoma (effective November 2002) and Georgia (creating an 18-month pilot program beginning in January 2003). A bill is also still pending in the District of Columbia. Alternative base period legislation was actively debated in Arizona, Colorado, Florida and Minnesota, where bills passed at least one House of their respective state legislatures. In California, legislation was enacted late last year creating a commission to study the alternative base period and provide recommendations to the Legislature by December 2002.

Studies of ABPs have found that they have expanded UI eligibility from six (6) to eight (8) percent without creating excessive costs for either UI benefits or program administration. According to the "principal finding" of a multi-volume study by Planmatics commissioned by the U.S. Department of Labor in 1997, the "costs of implementing the alternative base period are not significant when compared with the benefits offered to a wider range of claimants." Executive Summary, Planmatics, Inc., Summary of Findings on the Alternative Base Period (Vol. I) (October 1997). Most studies have found that benefit costs to the trust fund rose from 4 to 6% a year upon implementation of an ABP. In addition, estimated costs of ABPs are further reduced when consideration is given to the proportion of claimants that would have received UI eventually, by filing for UI benefits in a later quarter. For example, Washington State found that 39% of workers helped by their ABP law would have eventually filed a valid claim in a later quarter.
Administrative costs have not proven to be a significant barrier to ABP implementation.
The Planmatics study surveyed administrative costs and found that actual costs of ABP implementation have been far lower than many cost estimates produced by state agencies in the past. For example, New Jersey, which kept the best records concerning its administrative costs, found that its one-time implementation costs were $1.4 million, including the costs of software changes, personnel training, and hardware purchases. New Jersey estimated its ongoing costs at $1.26 million. Washington State estimated its annual costs at $528,175. Ohio found it incurred $563,312 in charges for manual processing of claims while implementing computer changes, and estimated its ongoing costs at $328,570. The Texas Workforce Commission in 1999 estimated its ongoing costs of ABP implementation at $153,000 a year. While these administrative costs are undoubtedly not trivial, they are far from excessive, given the substantial benefits to claimants and their families arising from ABPs.

Can Kansas afford the changes?

Yes. Kansas' payroll taxes are lower than many states, and the balance in its trust fund is higher than most states. At the same time, Kansas received an infusion of 78 million dollars of federal funds into its trust fund at the same time that Congress enacted the Temporary Extended Unemployment Compensation law in March. It can afford to use that money to finance some of the proposals outlined here.

Kansas's trust fund had a balance of nearly $475 million at the end of the 4th quarter of 2001. As of Spring 2002, Kansas would be able to pay maximum UI benefits for about eight months without any added revenue. Many states are, at present, below the one-year level recommended for trust fund solvency due to the recession.

By contrast, in calendar year 2001, the average UI tax on Kansas employers is low, only .6 percent of total wages. Employers in Kansas pay state UI taxes only on the first $8,000 of a worker's earnings. Average taxes on taxable wages in 2001 were at 1.8 percent ($144).

In early March, the Kansas trust fund received an infusion of $78 million dollars from the federal government. This money may be used for benefit increases to Kansas' unemployed workers, and for the specific benefit enhancements recommended here. In Georgia, where the legislature enacted the Alternate Base Period legislation this year, Reed Act money is financing the program.

Conclusion

The recession and jobless recovery is affecting millions of American workers and their families. Kansas are exhausting unemployment benefits at a rate much greater than in other times. Middle class workers are being affected by the relatively low levels of wage replacement represented by any unemployment insurance system and by the length of unemployment. Now is the time to enact measures to help these workers weather the recession, and to increase access to the system for the two-thirds of Kansas workers who pay into it, but do not benefit by it. The infusion of 78 million dollars in the trust fund has made the expansion of benefits affordable. Like its neighbors, Kansas should act now to help its unemployed workers.

References for Further Information

Available from NELP at www.nelp.org/ui/publications:

Time to Fix the Federal Unemployment Benefits Program. This report by NELP policy director Maurice Emsellem and Economic Policy Institute economist Jeff Wenger focuses on increased levels of long-term unemployment in the current economic downturn and highlights the limitations of the Temporary Emergency Unemployment Compensation program passed by Congress in March 2002. Describes an agenda for Congress to fix our benefit extensions program for the current and future recessions. (July 18, 2002).

2002 UI State Legislative Highlights. In light of the recession, many states actively debated measures to expand unemployment benefits in 2002. This overview highlights the past year's changes in state legislation of special interest to low-wage, women and part-time workers. (June 3, 2002).

Failing the Unemployed. Our patchwork of unemployment benefits programs fails to meet the needs of out-of-work Americans and is in urgent need of repair. This national report by researchers from the Economic Policy Institute, the Center on Budget and Policy Priorities, and the National Employment Law Project provides a state-by-state report card in five key areas, grading each state on its eligibility requirements, benefit levels, employer taxes, funding adequacy, and recession preparedness. It's conclusion: twenty-three states fail to provide even basic safety net protection to unemployed workers. (March 12, 2002).

Available from other websites:

Unemployment Insurance as an Automatic Stabilizer: Evidence of Effectiveness Over Three Decades. Lawrence Chimerine, Theodore S. Black, and Lester Coffey, UI Occasional Paper 99-8 (U.S. Department of Labor, Office of Workforce Development, July 1999). Review of the economic literature on UI as an economic stimulus and applications of Wharton economic models to estimate these effects.

The Automatic Fiscal Stabilizers: Quietly Doing Their Thing, Darrel Cohen and Glenn Follette, (Division of Research and Statistics, Federal Reserve Board, December 1999). Uses Federal Reserve Board econometric models to measure the impact of UI and income taxes as automatic fiscal stabilizers.