

Testimony of
Maurice Emsellem
National Employment Law Project

Hearing Before the
U.S. House of Representatives,
Ways & Means Committee,
Subcommittee on Income Security & Family Support

March 15, 2007

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Chairman McDermott and members of the Committee, thank you for this opportunity to testify on the critical subject of economic insecurity in the United States and respond to legislative proposals to modernize the nation's unemployment insurance program and create a new national wage insurance program.

My name is Maurice Emsellem, and I am the Policy Director for the National Employment Law Project (NELP), a non-profit research and advocacy organization that specializes in economic security programs, including unemployment insurance (UI), Trade Adjustment Assistance (TAA) and the workforce development system. We have a long history serving families hard hit by economic downturns by helping them access their benefits and promoting innovative state and federal policies that deliver on the nation's promise of economic opportunity.

We testify today in strong support of the draft bill providing \$7 billion in incentive funding to help states modernize their unemployment insurance (UI) programs. The bill responds to a documented and desperate need to fill the gaps in the UI program that deny or restrict benefits for millions of deserving workers and their families. It also takes the best of the bold new policies adopted by the states over the past decade and creates a structure to promote, not mandate, broader reform. While we strongly support the incentive structure of the draft bill and the specific state reforms that qualify for funding, we also urge that the bill incorporate several critical improvements that better target jobless families and the long-term unemployed.

With regard to the draft wage insurance proposal, we appreciate the concern about the needs of those workers and their families whose lives have been thrown into disarray when they lose a good job and find themselves with no other options but to take a job that requires a major cut in pay. For nearly 20 years, it has been my job at NELP to help these and other workers get back on their feet and generate resources to rebuild their communities. But wage insurance is the wrong solution. Rather than encourage workers to forgo their long-term interests for a wage insurance job, Congress should focus on more meaningful solutions described below that create genuine economic security and more family-friendly sustaining jobs in our economy.

I. Unemployment Insurance Modernization Incentive Proposal

Today's draft UI legislation represents a potential watershed moment in the evolution of the nation's UI program. Despite decades of mounting evidence documenting the need for reform, this is the first Congressional forum where serious federal proposals are being debated to expand and modernize the UI program. Our estimates indicate that the proposal providing Reed Act incentive grants to the states could help more than half a million workers each year, which is well worth the investment of \$7 billion from the UI trust funds.

Chairman McDermott, we greatly appreciate your leadership and the hard work of the subcommittee staff to move this critical and timely discussion.

A. The Critical Functions of the UI Program

Before we address the need for reform of the UI program, it is important to reflect on the critical role that it plays in the lives of the seven to eight million workers each year who collect benefits and their communities. Despite its limitations, the UI program still serves its core function as the “first line of defense” to help prevent financial hardship to unemployed families while also stabilizing the economy during recessions and thus preventing more unemployment.

Consider the experience of the last recession, which was relatively less severe compared to prior economic downturns. From 2000-2003, the UI program paid over \$50 billion in additional state benefits and more than \$20 billion in federal extended benefits received by 7.25 million workers. If doubled to account for the documented multiplier effect when UI benefits circulate in the economy, state and federal UI benefits generated about \$140 billion in economic stimulus.¹ Of course, the stronger the state’s UI benefits, the greater the stabilizing impact on local businesses.

In addition, UI benefits played a significant role alleviating the financial hardship caused by the recession. In 2003, the average worker who collected both 26 weeks of state benefits and the 13-week federal extension received over \$10,000 in UI benefits. According to a national poll of unemployed workers conducted in 2003, 78% of those surveyed said that their unemployment benefits were “very important” to help them meet their family’s “basic needs.”² Thus, the Congressional Budget Office concluded that during the last recession UI benefits “played a substantial role in maintaining the family income of recipients who experienced a long-term spell of unemployment.”³

Although too often overlooked, unemployment benefits also maintain U.S. labor standards and promote economic opportunity. Indeed, one of the few federal eligibility mandates requires that a worker not be denied state UI for refusing a job offer that does not satisfy the “prevailing conditions” of work in the community.⁴ Like the federal minimum wage laws, this UI federal mandate sets the labor standards floor governing the prevailing “wages, hours and other conditions of work” (including fringe benefits and health insurance) of relevant jobs in the community. Thus, the UI program helps sustain meaningful wages and benefits, especially in those communities experiencing large numbers of layoffs.

The federal law also exempts workers from having to be available for work while they participate in state-approved training, thereby encouraging workers to upgrade their skills.

¹ Chimerine, et al. *Unemployment Insurance as an Economic Stabilizer: Evidence of Effectiveness Over Three Decades*, U.S. Department of Labor, Unemployment Insurance Occasional Paper 99-8 (1999).

² Peter D. Hart Research Associates, “Unemployed in America: The Job Market, the Realities of Unemployment, and the Impact of Unemployment Benefits,” conducted April 17-28, 2003 (commissioned by the National Employment Law Project).

³ Congressional Budget Office, *Family Incomes of Unemployment Insurance Recipients* (March 2004).

⁴ 26 U.S.C. Section 3304(a)(5)(B).

As a result, workers who collect unemployment benefits are also more likely to find a better-paying job (by a factor of \$240 a month according to one study)⁵ and employment with health care coverage.⁶

B. The Decline of the UI Program

That's the good news. But what about the gaps in the UI program which the draft federal legislation seeks to correct? As documented by several leading authorities, including a bi-partisan panel of experts created by Congress in 1991 (the Advisory Council on Unemployment Compensation),⁷ the UI program has failed to evolve to meet the demands of a changing economy and a changing workforce.

The workforce is now dominated more by low-wage and women workers and a changing economy which has produced more long-term unemployment experienced by workers of nearly all income and education levels.⁸ Thus, there are two major groups of workers who are falling through the cracks of the current UI program – those who fail to qualify because of outdated eligibility rules and those who qualify for UI benefits but end up receiving far too limited assistance as they struggle to find work over longer periods of time.

The statistics paint a vivid picture of these dual challenges. According to the GAO study, low-wage workers were twice as likely to be unemployed as higher wage workers, but they were half as likely to collect unemployment benefits (even when they previously worked full-time).⁹ As a result of the last two “jobless recoveries,” many more unemployed workers run out of their limited jobless benefits, now exceeding 35% of those who collect state benefits. During the last recession, the UI “exhaustion rate” peaked at a record 44% and remained above 40% for a record 28 months.

Given these disturbing trends, the UI system has reached a crisis point requiring serious federal action. Indeed, the percent of the unemployed collecting jobless benefits has fallen to dramatically low levels, with just 35% of the unemployed receiving jobless benefits in 2006. That's down from nearly 50% in the 1950's, and over 40% in the 1960s and 1970s. In nine states, less than 25% of unemployed workers collect jobless benefits today.

But the tragic story of the decline of the UI program is not merely a function of the changing economy or the changing workforce. It is also the direct result of state and federal policies that have deprived the program of funding and produced devastating cuts in benefits.

⁵ Kiefer, Neumann, “An Empirical Job Search Model with a Test Constant Reservation Wage Hypothesis,” *Journal of Political Economy*, Vol. 87, No. 1, 89-107.

⁶ Boushey, Wenger, “Finding the Better Fit: Receiving Unemployment Increases Likelihood of Re-Employment with Health Insurance” (Economic Policy Institute, April 14, 2005).

⁷ Advisory Council on Unemployment Compensation, *Collected Findings and Recommendations: 1994-1996* (1996).

⁸ Allegretto, Stettner, “Educated, Experienced and Out of Work: Long-Term Joblessness Continues to Plague the Unemployed” (National Employment Law Project & Economic Policy Institute, March 2004).

⁹ U.S. General Accounting Office, *Unemployment Insurance: Role as Safety Net for Low-Wage Workers is Limited* (December 2000), at pages 13-16.

Of special significance, employers have successfully lobbied the states to dramatically cut UI payroll taxes, thus undermining the fundamental principle of “forward financing” of the UI program (where sufficient reserves are built up during good economic times to pay benefits during recessions). During the decade of the 1990s, the average UI tax on employers decreased by 33%, falling to a record low in 2001 of just half of one percent (0.51%) of total wages. Given the more limited revenue, nine states had to take out federal UI loans to pay their UI benefits thus creating significant pressure to restrict UI benefits when workers need the help most.

In addition, the states have been deprived of the federal resources necessary to cover the basic costs of administering their UI programs. As a result, they have cut back on critical services like in-person claims assistance and job counseling, now relying almost exclusively on menu-prompted phone systems and the Internet to process their claims. The states have also been forced to raise their own revenues (to the tune of about \$150 million a year) to fill the federal void.¹⁰

Since 2001, federal UI administrative funding has been cut back by \$305 million in inflation adjusted dollars, despite the intervening recession and other increased demands on the state UI programs.¹¹ The U.S. Employment Service, which provides the critical labor exchange functions matching workers with available jobs, has also been cut by over \$300 million since 2001. According to the National Association of State Workforce Agencies, there is now a \$500 million annual gap between the workload needs of the state agencies that administer the UI program and the amount appropriated by Congress.¹²

Finally, as a result of devastating cuts by Congress in the 1980s, both the federal program of Extended Benefits (EB) and federal Disaster Unemployment Assistance (DUA) are failing to provide critical benefits to the nation’s families hardest hit by recessions, disaster and terrorist events. For example, the permanent federal program of “Extended Benefits” (EB) – created in 1970 to provide an extra 13 to 20 weeks of benefits – is so outdated in how it measures unemployment that it only provided benefits to workers in five states during the 2001 recession.¹³ As a result, Congress created another temporary extension of UI benefits that did not become law until March 2002, when the number of long-term unemployed had already doubled in just one year. In addition, Congress shut down the program just as a record three million workers were scheduled to run out of their state benefits.¹⁴

The DUA program is also failing as evidenced by the limited relief it provided in response to the unprecedented terrorist attacks and disasters of the last five years. In 1988,

¹⁰ Power Point Presentation, National Association of Workforce Agencies, “Unemployment Insurance State Administration” (2007).

¹¹ AFL-CIO, “President Bush’s FY 2008 Budget Proposal.”

¹² Resolution, National Association of State Workforce Agencies, Reed Act Distribution Resolution, adopted September 7, 2006.

¹³ National Employment Law Project, “Nation’s Highest Unemployment States Face Major Cuts in Unemployment Benefits Due to Flawed Extension Program” (November 4, 2003).

¹⁴ Center on Budget and Policy Priorities, “Number of Unemployed Who Have Gone Without Federal Benefits Hits Record 3 Million (October 13, 2004).

the DUA was restricted to those workers who do not qualify for regular state UI, mostly including the self-employed. By shifting the responsibility from federal FEMA to the individual state UI programs, jobless families are often left with extremely limited assistance, especially in Southern states like Louisiana.¹⁵ Moreover, employers and disaster states are left paying the extra costs of the benefits when they can least afford to do so.

C. The States Pave the Way for the Federal UI Modernization Legislation

Despite the magnitude of the challenge, the states have been at the forefront of major reforms during the past decade building on the recommendations of the federal Advisory Council on Unemployment Compensation (ACUC) and other authorities to modernize their UI programs. Since 1996, nearly half the states have adopted bold new policies to fill the gaps in the UI system.¹⁶

The UI modernization legislation before the subcommittee today takes the best of what has already made its way into these state UI laws and provides the necessary incentive funds to help more states fundamentally improve their programs. In addition, the proposal correctly rewards those states that have been leaders in building strong UI programs. With a reasonable investment of \$7 billion, the federal legislation could help at least 500,000 workers a year.

1. The 33% Incentive Payment for the “Alternative Base Period”

In 1995, after detailed study, the bi-partisan ACUC recommended that “All States should use a moveable base period in cases in which its use would qualify an Unemployment Insurance claimant to meet the state’s monetary eligibility requirements.”¹⁷ Since that time, another 12 states have adopted this policy, now covering 20 states and nearly half of the nation’s unemployment claims (Table 1). This critical reform fills the most significant gap in the UI program denying benefits to low-wage workers. The draft bill correctly conditions Reed Act incentive funding on a state first adopting this policy.

Why is this policy so critical to qualify for special treatment under the draft UI bill? Most low-wage workers, especially those who have recently returned to work, need to use all their earnings to meet the state work history requirements necessary to qualify for unemployment benefits. But that is not the policy of many states that still fail to count a worker’s latest 3 to 6 months of wages. These states instead rely on eligibility rules that date back to when an individual’s wages were collected in paper form from the employer and hand processed by the state agency.

For example, if a worker applied for benefits today (March 15th), the only earnings considered by the state would date from October 2005 to September 2006 under the

¹⁵ National Employment Law Project, “Rising Hurricane-Related Jobless Claims Trigger State Cuts in Limited Jobless and Training Benefits” (Revised October 17, 2005).

¹⁶ National Employment Law Project, *Changing Workforce, Changing Economy: State Unemployment Insurance Reforms for the 21st Century* (October 2004), at page 4.

¹⁷ Advisory Council on Unemployment Compensation, *Collected Findings and Recommendations*, at page 19.

traditional base period, thus not counting 5.5 months of recent wages. As shown below, if that worker was employed at the minimum wage for 20 to 30 hours a week for the past 8.5 months (since July 2006), she would not qualify for benefits even if the state required just \$1,500 in base period earnings.

Example: Traditional Base Period In a State Requires \$1,500 In Earnings, But a Worker Filing March 15th Earning \$4,635 Over 8.5 Months Does Not Qualify for UI

<u>First Quarter</u> (Oct. 2005- Dec. 2005)	<u>Second Quarter</u> (Jan. 2006 to March 2006)	<u>Third Quarter</u> (April 2006 – June 2006)	<u>Fourth Quarter</u> (July 2006 – Sept. 2006)	<u>Completed “Lag” Quarter</u> (Oct. 2006 - Dec. 2007)	<u>Time of Layoff- “Filing Quarter</u> (Jan. 2007 - March 15 th).
No Earnings	No Earnings	No Earnings	\$1,236 (working 20 hours a week at \$5.15 an hour)	\$1,854 (working 30 hours a week at \$5.15 an hour)	\$1,545 (working 30 hours a week at \$5.15 an hour)

These are workers who have paid into the UI system like everyone else and earned the same qualifying wages, but three to six months of earnings have been disregarded under the state’s outdated UI law. Now, with the help of computers, the states are able to readily capture these more recent wages. Thus, when a worker’s prior earnings are not sufficient to qualify for UI using the old wage records, the states with the “alternative” (or “movable”) base period (ABP) will also consider the most recent completed calendar quarter of wages. In the example above, the individual would therefore be eligible for UI using her latest completed “lag quarter” of earnings.

About 40% of those who do not qualify for UI based on the traditional base period end up collecting in the those states that have adopted the ABP. They are mostly low-wage workers earning on average of \$9.58 an hour.¹⁸ For example, in Michigan, 17% of all low-wage workers who qualified for unemployment benefits did so solely because of the alternative base period. As a result, rather than being denied benefits, 26,000 workers a year are receiving an average UI payment of \$232 a week.¹⁹

According to NELP’s estimates, nearly 300,000 new workers will qualify for unemployment benefits if the remaining states adopt the alternative base period with the help of federal incentive grants. The annual estimated cost of \$550 million for the new ABP states compares favorably with the \$2.3 billion proposed by the UI modernization bill over five years. Given the significant impact of the ABP on low-wage workers and the

¹⁸ National Employment Law Project, Center for Economic and Policy Research, *Clearing the Path to Unemployment Insurance for Low-Wage Workers: An Analysis of Alternative Base Period Implementation* (August 2005).

¹⁹ NELP PowerPoint Presentation, “A Decade of Progress Expanding the Unemployment Insurance Safety Net” (December 10, 2006).

increased administrative efficiencies generated by the new states that have implemented the ABP, the draft bill correctly isolates the policy for special treatment.

2. The 66% Incentive Payment for Family-Friendly and UI-Training Reforms

Once a state has adopted the ABP as proposed by the draft bill, it qualifies to receive the remaining two-thirds share of the Reed Act distribution if it has adopted two out of three additional reforms that address major gaps in today's UI programs. Although we urge the committee to include additional provisions that better target jobless families and the long-term unemployed, we strongly endorse the general approach of this section of the bill.

a. Parity for Part-Time Workers, Mostly Women with Families

The draft UI modernization bill rewards those states that allow families to work part-time and collect UI benefits, thus removing the state eligibility provisions requiring workers to seek full-time work to qualify for UI benefits.

Part-time work has now become a necessity for many more workers to accommodate their family responsibilities or to find the time necessary to go back to school and improve their job skills. Today, one in six workers is employed part-time, and most of them are women workers. While working an average of 23 hours a week, only 23% of low-wage part-time workers collect jobless benefits.²⁰ Responding to this conspicuous inequity, Maine recently provided UI to workers seeking part-time work, and now more than 70% of those who qualify with the help of the new part-time worker protection are women workers (collecting an average of over \$2,000).²¹

Like the ABP provision, this reform was endorsed by the bi-partisan Advisory Council on Unemployment Compensation, which recommended that "Workers who meet a state's monetary eligibility requirements should not be precluded from receiving Unemployment Insurance benefits merely because they are seeking part-time, rather than full-time, employment."²² Twenty states (Table 1) now cover these workers, including seven new states that have reformed their laws in the past 10 years. If the remaining states allow jobless workers to seek part-time work and collect UI benefits, we estimate that about 200,000 more workers will collect \$280 million in UI benefits.

b. Recognizing Compelling Family Circumstances for Leaving Work

The states have also made significant progress in recent years accommodating those who have to leave work for compelling family reasons. A state study of UI eligibility rules found that 71% of those who leave work for domestic reasons are women.²³

²⁰ U.S. General Accounting Office, *Unemployment Insurance: Role as Safety Net for Low-Wage Workers is Limited* (December 2000), at page 16.

²¹ NELP PowerPoint Presentation, "A Decade of Progress Expanding the Unemployment Insurance Safety Net" (December 10, 2006).

²² Advisory Council on Unemployment Compensation, *Collected Findings and Recommendations, 1995-20*.

²³ Washington State Employment Security Department, *Study of Voluntary Quits* (2006).

More than 30 years ago, the Ford Administration issued a directive urging the states to “change by legislation the legal inequities between the sexes” in the operation of the UI laws.²⁴ Given the gender inequities that continue to plague the UI program, we strongly support the following “family friendly” provisions adopted by the UI modernization bill.

- Domestic Violence: The draft proposal rewards the states that have made UI benefits available to those women who are forced to leave work for reasons related to domestic violence and provides federal incentive funding for the remaining states to follow their lead. In 1997, Maine was the first state to specifically provide “good cause” for leaving work as a result of domestic violence, and since then 28 more states have done so (Table 1). These states recognize that domestic violence is more than a safety and security issue for these families. It is also a societal and workplace concern that requires meaningful public policy solutions, including UI benefits for domestic violence survivors.
- “Trailing Spouse:” In addition, the bill addresses a fundamental inequity in state UI laws that deny UI benefits to those who leave their jobs when their spouse is forced to relocate by the employer to another area. This issue has played out most recently as more military families are transferred across the country, forcing spouses to leave their civilian jobs without qualifying for unemployment benefits. An analysis of Virginia’s law documented that nine out of 10 workers disqualified by these provisions are women.²⁵ Despite the 1975 guidance from the U.S. Department of Labor calling attention to the discriminatory impact of this policy, only 17 states provide UI benefits in this situation (Table 1).
- Family Illness & Disability: Half of all private sector workers in the United States do not have paid sick days on the job to help accommodate the illness of a child, a parent or other immediate family members.²⁶ These and other working families are routinely forced to leave their jobs to attend to emergency medical situations, regularly scheduled doctor visits, or to remain home to care for sick family members when child care or elder care falls through. Many of them remain available for work, but require accommodations for work, like shift changes, which their employers often fail to provide. The UI modernization bill would offer incentive funding to accommodate these compelling medical needs of working families, which have now made their way into the laws of nearly half the states (Table 1).

Combined, these reforms would benefit about 60,000 workers if adopted by the remaining states, generating an estimated \$200 million in UI benefits for these families.

²⁴ U.S. Department of Labor, Unemployment Insurance Program Letter No. 33-75 (December 8, 1975).

²⁵ *Austin v. Berryman*, 955 F. 2d 223, 226 (4th Cir. 1992).

²⁶ Testimony of Heidi Hartmann, Institute for Women’s Policy Research, before the U.S. Senate, Committee on Health, Education, Labor & Pensions (2006).

c. Extended UI Benefits While in Training

In response to the special employment challenges of dislocated workers, the draft legislation creates the option for states to provide extended UI benefits to workers participating in meaningful training in demand occupations. Without the extra income provided by unemployment benefits to participate in training, workers are left with no real options other than lower-pay jobs. Thus, we strongly support this proposed policy, which is modeled on the seven states that currently operate similar programs.

These programs have produced strong results and a significant return on the investment. When evaluated in 2002, Washington State's program provided an average of 27 weeks of UI benefits for dislocated workers to participate in state-approved training. Those who participate are mostly workers with just a high school degree who were laid off from manufacturing jobs in aerospace and other state industries.²⁷ 85% of them participated in community or technical colleges, with the largest numbers participating in information technology programs. By the third quarter after leaving the program, 72% of the more than 8,000 participants were employed, making an average of 92.6% of their pre-dislocation wages.²⁸

The studies also show that more extended training in community college programs geared toward skills development can have a meaningful impact on the wages of dislocated workers. For example, an evaluation of dislocated workers participating in Pennsylvania's community college programs found that men earned \$1,047 more per quarter by attending community college and women earned \$812 more.²⁹ Another evaluation of community college programs serving dislocated workers found that those workers who were able to participate longer periods of time and complete more technical courses experienced a 10% increase in their post-dislocation earnings.

While some evaluations of federal training have produced limited results, many states have developed successful new models of training and education, often based on sector initiatives that build partnerships between employers, unions and training providers. It is not training just for the sake of training. Instead the training is driven by quality state and local planning that helps build a growing economy. For example, California's Employment and Training Fund, which targets key state industries, provides a return on investment of \$5 for every \$1 spent on the program (measured by benefits to employers, workers and the California economy).³⁰

²⁷ Washington State Workforce Training and Education Coordinating Board, *Training Benefits Program Review* (December 2002).

²⁸ *Id.*, at page 8.

²⁹ Trutko, et al., *Final Report: Earnings Replacement Outcomes for Dislocated Workers: Extent of Variation and Factors Accounting for Variation in Earnings Replacement Outcomes Across State and Local Workforce Investment Boards* (Capital Research Corporation, March 2005), at page A-8.

³⁰ Press Release, California Employment and Training Panel, "State Investment in Training Workers is Paying Big Dividends for California Employers, Study Says" (June 28, 2000).

d. Dedicating the UI Surtax to the UI Modernization Program

The draft UI bill properly devotes most of the projected \$7.4 billion generated over five years from the FUTA surtax to the UI modernization program. The proposed Reed Act distribution is one-time funding that will not compromise the solvency of the federal UI trust funds (which are projected by the Administration to have nearly \$40 billion in reserves in 2008). The Bush Administration has proposed that Congress extend the surtax for the fifth time since it was established in 1977. Before 1977, employers were paying \$25.20 per worker in FUTA taxes. In current dollars, however, employers would be paying \$84.17, which is far more than the \$56 per worker they now pay despite the FUTA surtax. As described earlier, the employer community has benefited from record tax breaks since the 1990s, thus it is not burden to continue the UI surtax.

e. Key Limitations of the Draft UI Modernization Bill

While we strongly support the incentive funding structure of the bill and the specific state reforms that qualify for incentive grants, we urge that the bill incorporate the following critical improvements before it is finalized and introduced in the House of Representatives.

1. Guarantee 26 Weeks of Assistance for the Long-Term Jobless: Despite the common perception to the contrary, most unemployed workers in U.S. do not qualify for a maximum 26 weeks of state unemployment benefits. Indeed, only 12 states provide a maximum of 26 weeks to all workers (Table 1), leaving an estimated 700,000 workers each year who run out of their UI benefits before six months of job searching. Given the new realities of long-term unemployment, we believe the first priority before finalizing the bill should be to provide incentive funding to those states that offer a “uniform duration” of 26 weeks of UI benefits.

As discussed earlier, today’s workers have been exhausting their regular benefits at record rates, currently exceeding 35%. Although many workers apply for benefits assuming they qualify for 26 weeks, this is not the case because of the variety of state formulas that limit benefits based on an individual’s work history. Indeed, the average U.S. worker runs out of UI benefits after 23 weeks of looking for work (Table 2). In 14 states, the average is 20 weeks or less. Therefore, the raising rate of workers who exhaust their state benefits is not just a function of the economy. It is also a direct result of the state UI laws that limit the maximum weeks of benefits.

Worse yet, these same workers are also denied several weeks of federal extended benefits. That is because federal recession benefits typically cannot exceed half the individual’s state UI. Thus, if a worker received just 20 weeks of regular state UI, she can only qualify for a maximum of 10 weeks of a 13-week federal extension. That compares with the 39 weeks of benefits available to those workers in the 12 “uniform duration” states (i.e., 26 weeks state UI, plus 13 weeks federal extension).

This situation creates a serious hardship for working families, especially during recessions. Their limited state benefits, which now average \$270 a week, are already insufficient to cover the unprecedented gas prices, a mortgage and health care for the family.

In addition, the limited weeks of state UI forces more workers into low-pay jobs before they have a sufficient opportunity to pursue better paying jobs or take part in meaningful training to compete in today's job market.

2. Support "Dependant Allowances": Unemployment benefits should be sufficient to cover the basic necessities for workers who lose their jobs and have to support a family. In most states, UI benefits replace only one-third of the state's average weekly wage, which is far less than what's needed to care for most U.S. families. Moreover, low-income families spend far more on basic necessities, thus their unemployment benefits should represent a more reasonable share of the prior earnings. To help address this serious concern, 13 states now provide a "dependant allowance," which augments an individual's weekly unemployment benefits by up to \$25 for each dependent in the family. We urge that the draft UI bill incorporate these dependent allowances into the proposed state incentive grants.

3. Substantially Increase the State Incentive by Distributing the Carryover Funding: As currently drafted, a significant proportion of the \$7 billion incentive funds will remain unspent unless literally all the states meet all the bill's requirements to collect their full Reed Act distribution. To maximize the incentive for the states to modernize their UI programs, we urge that the bill provide for an additional Reed Act distribution in the final year of the program to those states that have enacted the required reforms. By distributing the remaining Reed Act funds, the legislation will significantly increase the incentive for many more states to reform their UI programs. The final payments could be capped, if necessary, at a reasonable percentage of the state's original Reed Act distribution.

4. Increase the State Funding to Pay for Claimant Services: Federal funding cuts to state UI administration have deprived the states of the critical resources they need to properly serve the unemployed, especially the large numbers of dislocated workers who often require additional assistance. In addition, the specific provisions of the draft UI bill require more intensive services than the states routinely provide (e.g., the processing of ABP claims, the outreach necessary for women workers to qualify for UI domestic violence benefits, and counseling to explore career options for those who qualify for UI while in training). Thus, we also urge that the bill significantly increase the amount of funding (now capped at \$100 million a year) provided to the states for these critical claimant services.

II. Wage Insurance Draft Proposal

With regard to the draft wage insurance proposal, we appreciate the concern being articulated by many about the needs of workers and their families whose lives are thrown into disarray when they lose a good job and find themselves with no other options but to take a major cut in pay on a new job. For nearly 20 years, it has been my job at NELP to help these and other workers to get back on their feet and generate resources to rebuild their communities.

But wage insurance is the wrong solution. Rather than encouraging workers to forgo their long-term interests for a wage insurance job, Congress should focus on more meaningful solutions that create genuine economic security and more family-friendly

sustaining jobs in our economy. We have seen it work in the states, which have created subsidized health insurance for the unemployed that runs alongside the UI program and self-sustaining “home protection funds” that provide no interest loans to laid-off families in high unemployment areas.³¹ The states have also been at the forefront of new models of training that help make their local economies more competitive and save good-paying jobs.

Like the AFL-CIO and several major unions that have expressed concerns with wage insurance, we also believe that there are far too many unanswered questions that convince us it is not the right time to move ahead with a national wage insurance program.³²

First, it is important to ask whether wage insurance will promote more downward mobility for the nation’s most vulnerable workers, since by definition wage insurance jobs pay far less? Thus, wage insurance jobs are also less likely to provide health insurance and other critical benefits. We believe that the limited federal resources devoted to the economic security of America’s workers should promote good employment outcomes and quality jobs, but that is not the case with wage insurance.

We are also not aware of any empirical evidence that wage insurance jobs will provide transferable skills or other meaningful training. Because workers are required to be employed full-time to qualify for wage insurance under the draft bill, the program may actually preclude most workers from pursuing the education and training they need to compete for better jobs in today’s economy.

Second, does the experience with actual wage insurance programs make a convincing case that now is the time to create a new national program? What we know from the only major evaluation of a wage insurance program, the Canadian pilot program, is that it failed in most areas to achieve its intended results. Thus, the Canadians never adopted wage insurance.³³ And we are still waiting for the results from the U.S. pilot program serving trade impacted workers over age 50, although we know that participation in the trade program has been limited.

Another question that has not received enough attention is what impact will the program have on other workers who are competing for similar jobs with those collecting wage insurance? A leading researcher with the Upjohn Institute found that “virtually all the employment gains experienced by dislocated workers as a result of the wage subsidy come at the expense of other workers.”³⁴ Will this “crowding out” effect be even more severe in those communities in the Midwest and elsewhere where there are already large concentrations of dislocated workers?

³¹ For a more detailed discussion of these and other state programs, see Emsellem, “Innovative State Reforms Shape New National Economic Security Plan for the 21st Century” (National Employment Law Project, December 2006), at pages 10-11.

³² For a more detailed treatment of NELP’s concerns with wage insurance, Testimony of Maurice Emsellem Before the U.S. Congress, Joint Economic Committee on February 28, 2007.

³³ Bloom, et al., *Testing a Re-Employment Incentive for Displaced Workers: The Earnings Supplement Project* (Social Research & Demonstration Corporation: May 1999).

³⁴ Davidson, Woodbury, “Wage-Rate Subsidies for Dislocated Workers” (Upjohn Institute Staff Working Paper 95-31, January 1995), at page 22.

In addition to the research questions, there is also the concern that wage insurance could undermine those federal programs that now provide some measure of economic security to U.S. workers. For example, will major funding and support for wage insurance take precedence over long-delayed reforms of the UI program, not limited to the state reforms provided for in the draft UI bill?

The draft bill creates a new \$44 payroll tax on employers to be deposited in a special wage insurance trust fund. While technically separate funding from UI, we are not convinced that employers will see it that way when they lobby against more resources for necessary federal UI reforms, like a functional permanent Extended Benefits program. We are also not convinced that the significant new funding required by the state UI agencies to administer wage insurance will not compete with the additional funding desperately needed to pay for existing UI services.

We are also concerned with the precedent wage insurance will set when hostile groups like the Heritage Foundation are on record strongly supporting wage insurance as a “rapid reemployment” substitute to dismantle the TAA program.³⁵ Will wage insurance set the stage for more attacks on TAA, which is up for reauthorization this year?

And when the next recession hits, will the Heritage Foundation and others argue for a more limited federal extension of jobless benefits when workers can qualify instead for wage insurance by taking jobs that require a significant pay cut? Already, the Bush Administration has called for waivers of federal UI law to authorize states to experiment with wage insurance with their UI funds.

These are some of the difficult questions that leave many of us who work with these programs convinced that wage insurance could do far more harm than good.

So what are some of the other priorities for federal reform to create a reemployment system that promotes quality jobs? The first priority of the 110th Congress should be to fulfill the promise of economic security to the nation’s workers and their communities that have suffered major job losses due to federal trade policies. Given the record trade deficits and the devastating loss of good-paying manufacturing jobs resulting from federal trade policies, Congress should move boldly to create a more robust TAA program.

Congress should start by establishing an entitlement to TAA training, thus removing the \$220 million cap on funding that now deprives training to thousands of deserving workers who have been certified as TAA eligible. The entire TAA program is funded at \$1 billion a year, which compares with the \$3.5 billion in funding being proposed to create a new wage insurance initiative. A serious new investment of funding in the TAA program could also pay for coverage of service workers, a new system of TAA certification that applies to whole industries and regions suffering dislocations due to trade, and other necessary reforms.

³⁵ Denise Fronig, “Trade Adjustment Assistance: A Flawed Program” (The Heritage Foundation: July 31, 2001).

As described above, there are a number of priorities for reform to the UI program, not limited to the state improvements proposed in the draft bill. For example, to prepare for the next recession and the next federal disaster or terrorist event, Congress should make it priority to fix the Extended Benefits and Disaster Unemployment Assistance programs. Congress should also explore dedicated health care subsidies for the unemployed, which is a concept that President Bush supported during the last recession but it never made its way into federal law.³⁶ Massachusetts has such a program that provides major subsidies for health care for those who qualify for jobless benefits. These and other programs can go a long way to provide more long-term economic security.

* * *

These are tough times for many more working families, full of concern that they will not share in the promise of the American dream, or worse, that they will end up destitute despite a lifetime of hard work. Mr. Chairman, we greatly appreciate your commitment to a discussion of these critical issues and we look forward to the opportunity to continue working together as the draft bills develop.

³⁶ President's Radio Address, "Senate Must Act on Economy" (January 5, 2002) ("I'm calling on Congress to act immediately to help the unemployed workers. I've proposed extending unemployment benefits by 13 weeks and I've supported tax credits to protect health insurance of workers who have been laid off.")

Table 1: Selected Unemployment Insurance State Provisions*

States	Alternative Base Period	Uniform 26 Weeks of UI Benefits (or the maximum UI may exceed more than half of base period earnings)	Extended UI While in Training	Part-Time Worker Coverage**	Weekly Dependent Allowance of \$15 ("O" indicates states with less than \$15)	Compelling Family Reasons for Leaving Work***		
						Domestic Violence	Spouse Relocates	Illness and Disability
Alabama								
Alaska					X		X	
Arizona						X	X	X
Arkansas								X
California		X (1/2)	X	X		X	X	X
Colorado				X		X		X
Connecticut	X (sunsets 12/08)	X			X	X		X
Delaware		X (1/2)		X		X		
District of Columbia	X			X		X		
Florida								X
Georgia	X							
Hawaii	X	X		X			X	
Idaho								
Illinois	X (effective 2008)	X			O	X		X
Indiana						X	X	X
Iowa				X	O			
Kansas				X		X	X	X
Kentucky							X	
Louisiana				X				
Maine	X	X	X	X	O	X	X	X
Maryland					O			X
Massachusetts	X		X		X	X		
Michigan	X				O			
Minnesota				X		X		X
Mississippi								
Missouri								
Montana						X		X
Nebraska				X		X	X	X
Nevada							X	
New Hampshire	X	X				X		X
New Jersey	X		X	X	O	X		
New Mexico	X	X (3/5)		X	X	X		
New York	X	X	X	X		X	X	
North Carolina	X			X		X	X	X
North Dakota								X
Ohio	X				O			
Oklahoma	X (capped funding)					X	X	X
Oregon			X			X	X	X
Pennsylvania				X	O		X	
Rhode Island	X				O	X	X	
South Carolina						X		
South Dakota				X		X		
Tennessee								
Texas						X	X	X
Utah								
Vermont	X	X		X		X		
Virginia	X							
Washington	X		X			X		X
West Virginia		X						
Wisconsin	X					X		X
Wyoming				X		X		
Totals	20	11	7	20	13	29	17	23

*Prepared by the National Employment Law Project, this table is based on an analysis of state laws, regulations and decisions.

**State law provisions that require the entire work history to include part-time work are not counted for the purposes of this survey.

***State law provisions that include specific "good cause" exemptions for the categories listed and those exempt "personal" reasons for leaving work are counted for the purposes of the survey.

**Table 2: Average Weeks of UI Collected When
Workers Exhaust State Benefits (2005)**

State	Average Weeks of State UI Collected When Workers Exhaust Benefits
Alaska	20.5
Alabama	23.3
Arkansas	21.9
Arizona	21.8
California	23.2
Colorado	17.3
Connecticut	26
District of Columbia	18.8
Delaware	25.9
Florida	20.4
Georgia	19.2
Hawaii	26
Iowa	21.2
Idaho	18.4
Illinois	25.2
Indiana	18.6
Kansas	22.1
Kentucky	26
Louisiana	22
Massachusetts	26.2
Maryland	26
Maine	17.5
Michigan	23.9
Minnesota	21.5
Missouri	22.1
Mississippi	22.1
Montana	18.8
North Carolina	21
North Dakota	15.8
Nebraska	17.8
New Hampshire	25.7
New Jersey	24
New Mexico	24.9
Nevada	22.9
New York	26
Ohio	25.4
Oklahoma	22.5
Oregon	24.1
Pennsylvania	25.8
Rhodes Island	21.1
South Carolina	20.8
South Dakota	23.8
Tennessee	21.1
Texas	20.3
Utah	19.2
Virginia	19.9
Vermont	25.8
Washington	25.3
Wisconsin	21.5
West Virginia	25.5
Wyoming	19.4
U.S. Average	22.9