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Federal Stimulus Funding Produces Unprecedented Wave of State Unemployment Insurance Reforms

On February 17th, President Obama signed the American Recovery and Reinvestment Act (ARRA) into law, thus launching a bold new initiative to modernize state unemployment insurance programs with the help of $7 billion in federal incentive funds. To date, the federal stimulus legislation has produced an unprecedented wave of state reforms, bringing tens of thousands of deserving workers into the unemployment system to get back on their feet and contribute to economic recovery.

What follows is a summary of the unprecedented reforms thus far adopted by the states as a result of the ARRA, including these highlights:

- Twenty-eight states have already enacted unemployment insurance policies targeting those groups who have been left out of the system, including low-wage workers, women, part-time workers and the long-term unemployed.

- These reforms will help deliver unemployment benefits to tens of thousands of workers a year, and once certified by the U.S. Department of Labor, they will generate $3.9 billion to support the state unemployment trust funds. Already the DOL has certified the distribution of $2.8 billion to the states.

These federal funds for modernization and will make their way to the states just when they need the help most to pay benefits—and help more jobless families weather an extremely difficult jobs market.

The ARRA's Unemployment Insurance Modernization Incentive Funding Program

The ARRA addresses the outdated gaps in the unemployment insurance program that have been documented for decades by leading authorities, including the bi-partisan Advisory Council on Unemployment Compensation that called for fundamental reform of the system in the 1990s.

Of special significance, the ARRA targets low-wage workers who are unfairly denied benefits in large numbers, not because they failed to work enough to qualify but simply because of the antiquated eligibility rules that ignore their most recent earnings. Indeed, low-wage workers are twice as likely as higher-wage workers to find themselves unemployed, but they are only one-third as likely to collect jobless benefits.

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To remedy these and other inequities that have long plagued the unemployment insurance program, the ARRA created financial incentives for the states that adopt a set of proven policy reforms. Thus, to qualify for the first one-third of the ARRA's incentive funding, a state must adopt the "alternative base period," which allows workers to count their recent earnings when needed in order to qualify for unemployment benefits.

To qualify for the remaining two-thirds of the ARRA incentive funding, states are provided a menu of options that target other major groups who fall through the cracks of the unemployment system, including part-time workers, women with families, and the long-term unemployed. Specifically, to qualify for the additional ARRA incentive funds, a state must provide benefits to workers in a least two of the following four categories:

- Part-time workers who are denied benefits because they are required to actively seek full-time employment;
- Individuals who leave work for compelling family reasons, specifically including domestic violence, caring for a sick family member or moving because a spouse has relocated to another location for employment;
- Workers with dependent family members who would qualify for up to $15 or more in weekly benefits per dependent (up to a total of $50) to help cover the added expenses associated with dependent care;
- Permanently laid-off workers who require access to training in order to improve their skills with the help of an extra 26 weeks of additional unemployment benefits.

The states have until August 2011 to submit their applications to the U.S. Department of Labor to certify that they comply with these specific provisions of the ARRA's incentive funding program. Although the ARRA precludes the states from qualifying for the incentive funding if their required reforms are expressly limited in duration (or "sunset"), the states are not precluded from eventually repealing their laws after they receive the federal incentive funding.

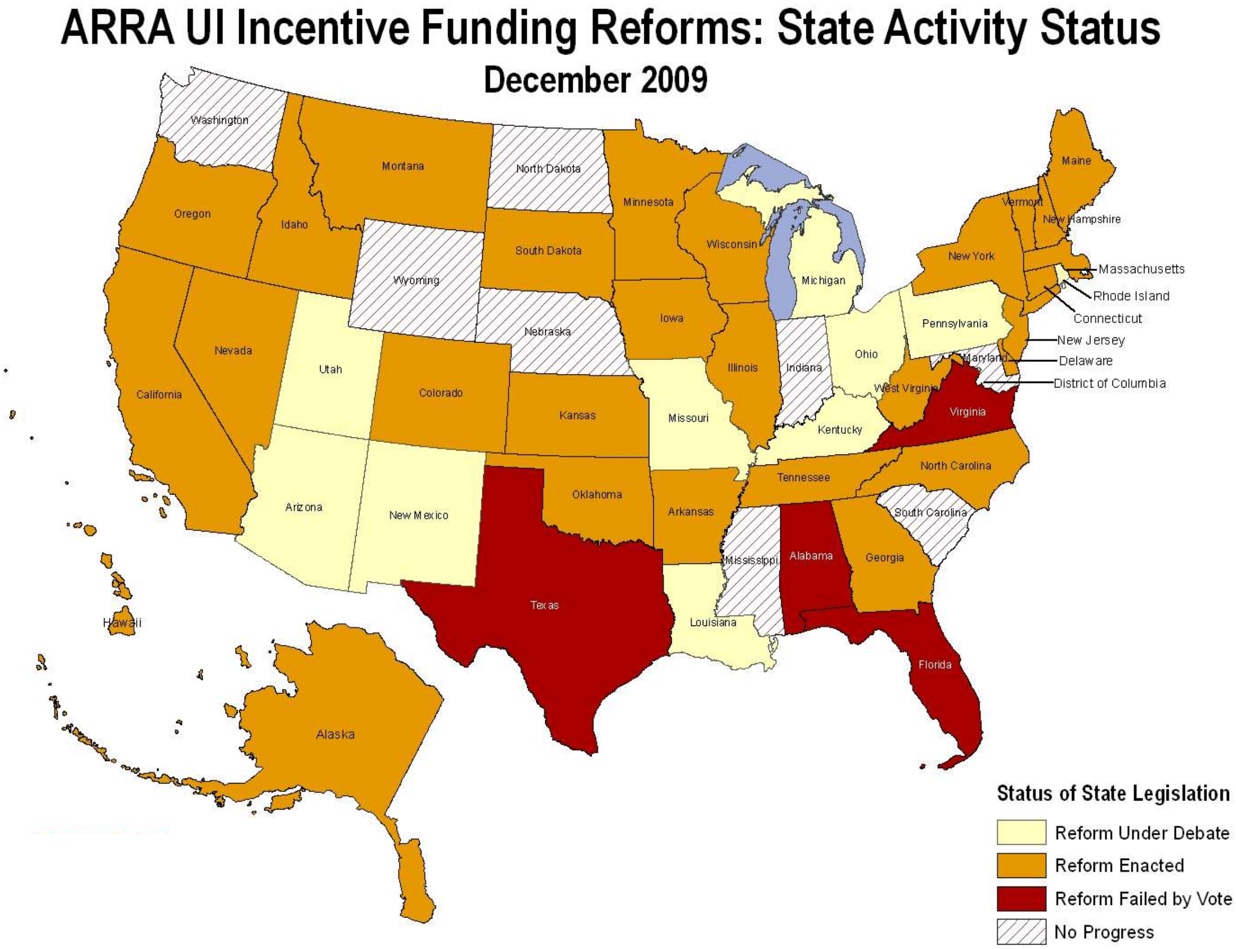
With Broad Bi-Partisan Support, Over Half the States Enacted Incentive Funding Reforms

- Since the enactment of the ARRA, 28 states have enacted unemployment insurance reforms that qualify for incentive funding, representing every region of the U.S., from the Western states (Alaska, California, Hawaii, Idaho, Nevada, Oregon,) to the Central states (Colorado, Kansas, Montana, Oklahoma, South Dakota), to the Midwest (Illinois, Iowa, Minnesota, Wisconsin), to the South (Arkansas, Georgia, North Carolina, Tennessee), and to the Northeast (Connecticut, Delaware, Maine, Massachusetts, New Hampshire, New York, New Jersey, Vermont, West Virginia).[1] (See Map 1.)

- Despite opposition to the ARRA unemployment insurance incentive funding initially expressed by a very small but vocal group of governors (primarily from Louisiana, South Carolina, and Texas), when the time came to seriously debate the reforms, most governors and state legislatures crossed party lines take up the reforms. In the end, the ARRA funded expansions were supported by numerous Republican governors and Republican controlled legislatures. Examples of Republican governors supporting UI modernization include Sonny Perdue (Georgia), Jim Gibbons (Nevada), Mike Rounds (South Dakota), Sarah Palin (Alaska), Arnold Schwarzenegger (California), Jodi Rell (Connecticut), and Tim Pawlenty (Minnesota).

[1] Missouri also passed a law enacting the ARRA reforms, but its law contained a sunset provision which prevents the U.S. Department of Labor from certifying the measure to receive federal incentive funds.

Map 1



- In addition to the 28 states that implemented reforms to their UI programs since February, 7 states had adopted the "alternative base period" prior to the enactment of the ARRA. As a result, at least 35 states are now positioned to qualify for full or partial incentive funding under the ARRA once certified by the U.S. Department of Labor (DOL). Thus far, 32 states have been certified by DOL for all or part of their ARRA incentive funding.

- About a dozen states actively debated measures to enact the required reforms to qualify for ARRA funding, including Louisiana, Michigan, and Rhode Island, where bills passed at least one chamber of the state legislature or required committees.

- The incentive funding proposals were defeated in four state legislatures, including Alabama, Florida, Texas, and Virginia. However, they were defeated by narrow margins. Indeed, the measures passed one chamber of the legislature in Texas and Virginia, while the governors supported the bills in Florida and Virginia.

- In several other states, the ARRA incentive funding measures were never introduced or brought up for committee or floor votes before sessions ended for the year (Maryland, Mississippi, Nebraska, North Dakota, South Carolina, Washington, and Wyoming).[2]

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[2] In Maryland and Washington, laws were enacted that move the states closer to qualifying for incentive funding, but they did not go far enough this legislative session (Maryland enacted part-timer worker protections but not the required alternative base period, and

Unemployment Insurance Incentive Funding Produces Fundamental Reform & Major Influx of Federal Funding When the States Need the Help Most (Table 1)

- Of the states that enacted new laws since the enactment of the ARRA, all but three of them (Alaska,[3] South Dakota, and West Virginia) adopted reforms that will allow the state to qualify for their full federal incentive grant under the ARRA once certified by the U.S. Department of Labor.

- States that now qualify for the full incentive award are slated to draw down $3.6 billion. States that have only adopted the alternative base period are set to pull down another $308 million. This list includes 7 states that qualified for this 1/3 allotment based on reforms passed prior to the recovery act.

- As a result of the ARRA, 14 new states have adopted the alternative base period (two more adopted legislative fixes to fully comply with the ARRA), bringing the total number of such states to 35. As a result, an estimated 158,000 workers a year - mostly low-wage workers - will qualify for unemployment benefits. As reflected in the map below, the Western states have now uniformly adopted the alternative base period (effective 2011 in California), while many of the Central and Southern states still have serious gaps in coverage. (See Map 2.)

- Seven new states enacted measures authorizing part-time workers to collect benefits even if they are not looking for full-time work (six more states adopted legislative fixes to qualify for federal incentive funding), bringing the total to 27 states that have adopted this significant reform. As a result, at least 30,000 workers a year will qualify for unemployment benefits while seeking part-time employment.

- Seven states adopted new laws providing workers with an extra 26 weeks of benefits to participate in training and education, bringing the total number of states that have the required ARRA training provisions to 12 (another four states enacted fixes to qualify for federal incentive funding).

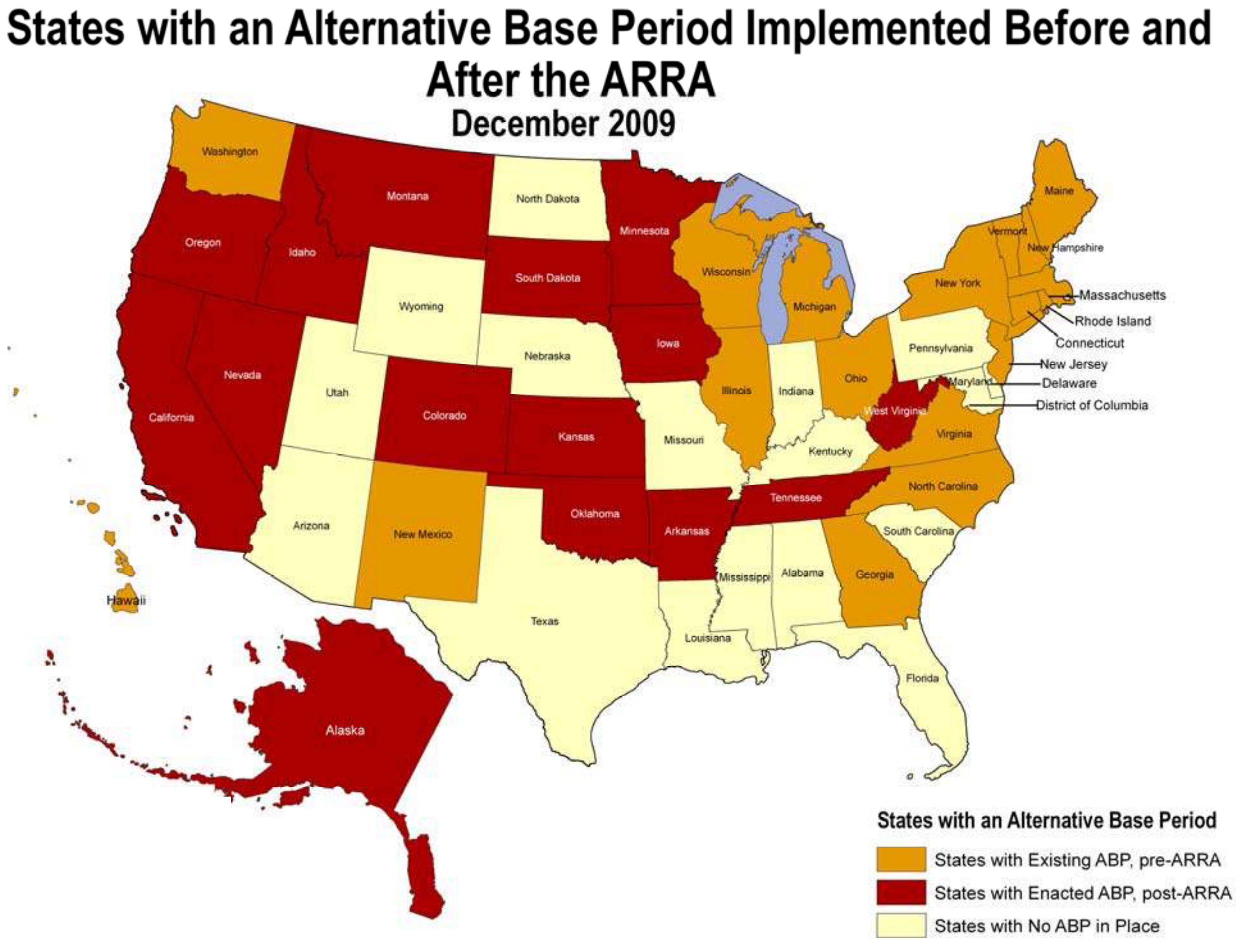
- Fifteen states adopted new reforms required to provide benefits to workers who can establish compelling family reasons for leaving work (most of them also adopted technical fixes to these disqualification rules to comply with the ARRA). All of these states now have each of the required compelling family reasons for leaving work provisions necessary to qualify for incentive funding under the ARRA, which brings the total to 17 states that now comply with the ARRA. Of special significance, ten new states allow workers to collect unemployment benefits when they leave work to follow a spouse to another location ("trailing spouse").

- Only Tennessee adopted dependent allowances, while Illinois increased its benefits to comply with the $15 weekly minimum benefit that qualifies for incentive funding under the ARRA. The perceived higher costs associated with increasing the weekly benefit may explain the more limited state activity in this area.

Washington, which has the alternative base period, enacted some but not all of the compelling family reasons for leaving work protections).

[3] Alaska's legislation only adopted the alternative base period, and the state currently provides dependent allowances which qualify for incentive funding. Thus, the state may be seeking regulatory changes to the part-time or "compelling family reason" policies as part of their application for certification to DOL to qualify for full incentive funding.

Map 2



Conclusion: Even though the Recovery Act was passed in the middle of most state legislative sessions and was met with initial resistance by some Governors, the incentive provisions were tremendously successful. Less than one year into a 2 and half year program, more than half the states had put themselves in the position to claim their share of recovery dollars. With states able to claim their recovery act funds through August 2011, further positive reforms are anticipated as more and more states appreciate the fiscal and policy value of making these reforms and drawing down badly needed funds for their unemployment program.

Table 1: ARRA Incentive Reforms Enacted by State, December 2009

State	ARRA Incentive Funding State Reforms						
					Compelling Family Reasons		
	ABP	Part-Time	Training	Dependent Allowance	Domestic Violence	Spouse Relocates	Illness & Disability
Alabama							
Alaska	Enacted			X		X	
Arizona					X	X	X
Arkansas	Enacted	Enacted			Enacted	Enacted	Enacted (Fix)
California	Enacted (2011)	X	X		X	X	X
Colorado	Enacted	Enacted (Fix)	O		Enacted (Fix)	Enacted	Enacted (Fix)
Connecticut	X			X	Enacted (Fix)	Enacted	Enacted (Fix)
Delaware	Enacted	X			X	Enacted	Enacted
District of Columbia	X	O			X		
Florida							
Georgia	X	Enacted	Enacted				
Hawaii	X	Enacted (Fix)			Enacted	Enacted	Enacted
Idaho	Enacted	Enacted	Enacted				
Illinois	X			Enacted (Fix)	Enacted (Fix)	Enacted	Enacted (Fix)
Indiana					X	X	
Iowa	Enacted	Enacted (Fix)	Enacted	O			
Kansas	Enacted	Enacted (Fix)	Enacted		X	X	
Kentucky							
Louisiana		X					
Maine	X	X	Enacted (Fix)	O	Enacted (Fix)	Enacted (Fix)	Enacted (Fix)
Maryland		Enacted		O			X
Massachusetts	X		Enacted (Fix)	X	X		
Michigan	X			O			
Minnesota	Enacted (Fix)	Enacted (Fix)			Enacted (Fix)	Enacted (Fix)	Enacted (Fix)
Mississippi							
Missouri							
Montana	Enacted	Enacted	Enacted		X		
Nebraska		X			X	X	X
Nevada	Enacted	X			X	X	X
New Hampshire	X	X			Enacted (Fix)	Enacted	Enacted
New Jersey	X	X	Enacted (Fix)	O			
New Mexico	X	X		X	X		
New York	X	Enacted (Fix)	O		Enacted (Fix)	Enacted (Fix)	Enacted (Fix)
North Carolina	X	X			X	Enacted	X
North Dakota							
Ohio	X			O			
Oklahoma	Enacted (Fix)	Enacted			Enacted (Fix)	Enacted (Fix)	Enacted (Fix)
Oregon	Enacted		Enacted (Fix)		Enacted (Fix)	X	X
Pennsylvania		X		O		X	
Rhode Island	X			O	X	X	
South Carolina					X		
South Dakota	Enacted	X			X		
Tennessee	Enacted	Enacted		Enacted			
Texas					X		X
Utah							
Vermont	X	X	Enacted		X		
Virginia	X						
Washington	X		O		X	Enacted	X
West Virginia	Enacted						
Wisconsin	X		Enacted		Enacted (Fix)	Enacted	Enacted (Fix)
Wyoming		X			X		
Total	***35***	***27***	***12***	***6***	***31***	***24***	***21***
Newly Enacted - incl. fix	***16***	***13***	***11***	***2***	***12***	***14***	***12***

Key: X Provision enacted pre-ARRA O Provision exists in some form, although not ARRA-compliant Enacted Provision enacted post-ARRA

Note that the analysis may vary in some cases from information produced by the states due to variations that relate to the specific requirements of the ARRA necessary to qualify for incentive funding, while state many policies are also subject to interpretation by the courts and administrative law judges.