What is UI Modernization & Why Is It Important?

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Quiz

- Are part-time workers an important part of your company’s workforce?
- Are work-family balance issues important for your workforce and your company?
- Do you have a hard time finding skilled workers when your company has openings?
- Do you worry about competitors that get an unfair advantage by breaking the rules?
Making Up for Lost Purchasing Power

- **Why stimulus?** A loss of consumer demand is the primary culprit of economic recessions. Stimulus plans only work if impacted consumers quickly receive aid and spend rather than save.

- **Stimulus impact of UI:** UI is tailor made for stimulus. Most recently, Mark Zandi of Moody’s Economy.com (January 2008) founded a $1.64 per dollar multiplier effect for UI compared to $1.02-$1.29 for tax cuts.

- **Bottom Line:** UI program pumped more than a $100 billion of stimulus during the last recession and will be needed again if the economy continues to stall.
Purposes of the UI Program

"The related goals of the UI program are providing involuntarily unemployed workers with adequate, temporary income replacement as well as automatically stabilizing the economy by using accumulated trust funds to maintain consumer spending during an economic downturn. Secondary goals include supporting the job search of unemployed individuals by permitting them to find work that matches their prior experience and skills…” Advisory Commission on Unemployment Compensation, 1996

"UI modernization means meeting these goals in the 21st Century
The Rising Stakes of Job Loss

- **Long-term unemployment**: 17.8% of the unemployed have been out of work for six months or more in April 2008, compared to just 10.7% at the beginning of the decade (April 2000).

- **Weak job growth**: Payrolls only grew 6.3% in the post-2001 recession recovery, compared to 22.4% in the post-1991 recession recovery.

- **Pay cuts**: Among experienced workers displaced between 2003-2005, only 70 percent had found work as of January 2006 and only 40 percent of those found jobs paying as much.
Low Recipiency Limits the Effectiveness of the UI program

UI Recipiency Rate (Insured Unemployment / Total Unemployment) with recessions shaded.

Source: US DOL
Changing Workforce Struggle to Access the UI Safety Net

- **Low-wage workers**: Low-wage workers twice as likely to be unemployed as high wage workers
  - Low-Wage workers only $\frac{1}{3}$ as likely as higher wage workers to receive UI benefits when they are laid off.

- **Part-time workers**: 1 in 6 U.S. employees work a part-time schedule.
  - Only 28% of jobless part-time workers collect UI benefits, compared to 50% of jobless full-time workers.

- **Women workers**: In 2007, 69% of married and 77% of unmarried mothers are in the labor force.
  - In 41 states, unemployed men are more likely than unemployed women to receive UI benefits.
Major Shift Toward State Reforms
Filling the Gaps in the UI Program

- Since 1996, a trend has emerged with more than half the states filling the gaps in the UI program to benefit low-wage, part-time and women workers.
- State Reform Highlights:
  - 13 new states (21 total) passed legislation which counts a worker’s recent earnings to qualify for benefits (“alternative base period”).
  - 8 new states (24 total) allow workers to collect unemployment while seeking part-time (not just full-time) work.
  - 29 states have adopted coverage for workers who leave their jobs due to domestic violence and other “family friendly” reforms.
UI Modernization Act: Federal Help in Closing UI System Gaps

- **Unemployment Insurance Modernization Act:** S. 1871 / H.R. 2233 would provide:
  - $7 billion in federal unemployment funds in incentive awards to states that modernize their safety nets
  - $500 million to all states to improve UI administration.

- **Incentive awards would flow to states that:**
  - Pass an Alternative Base Period (ABP) – 1/3 of award
    - 20 states would immediately qualify for funding.
  - States that have an ABP and pass 2 of the 5 additional reforms would qualify for their full award.
    - UI eligibility for part-time workers
    - Extended benefits for workers in training courses
    - Key family issues are considered good cause to voluntarily quit
    - Have 26 weeks of UI duration for all workers
    - Add a dependent benefit to worker’s UI checks
Reed Act Funding from the UI Modernization Act

- **Reed Act**: Withdrawn from the federal unemployment trust fund through special authority under the Reed Act. Reed Act funds can be used to bolster state UI trust funds or be allocated to administrative improvements if approved by a state legislature.
  - USDOL projects Federal UI trust funds will have $40 billion at end of FY 2008.

- **UIMA funds could moderate state UI tax pressures**: Funds could be used to moderate UI financing problems in many larger states that would immediately qualify for incentive act funding (including New York, Illinois, Michigan, Ohio, North Carolina and New Jersey).
  - **Example** - New York would receive $432 million in federal UI funds if the UIMA passes, based on existing law. Money would be a windfall to the UI fund, saving employers from additional tax payments associated with trust fund insolvency.
Financing UI Modernization

- **Surcharge**: Financed out of UI trust fund and tied to five year reauthorization of the FUTA tax surcharge ($14 of the $56 per worker tax).

- **FUTA taxes levels are low historically**: In real dollars the FUTA tax is lower today ($56) than it was before the surtax was implemented. Before 1977, employers were paying $21 per worker in FUTA taxes, which is $79 in current dollars.

- **Keeping the surtax in the system**: There is bipartisan support for extending the FUTA surtax. If the surtax is not used for UI, it will be taken in a pay-go maneuver in Congress for an unrelated purpose.

- **BOTTOM LINE**: UI Modernization Act can be accomplished with no change to the federal UI taxes paid by employers today.
UI Taxes are at Historically Low Levels

UI Taxes as a Percent of Total Wages

- State UI Taxes
- Federal UI Taxes

Source: US DOL
Alternative Base Period

- **Alternative Base Period**: *Same* earning requirements for the *same* length of period as the SBP. But the shift helps low-wage, seasonal and part-time workers.

- **ABP is a low-cost reform**: ABP claims only qualify for half as much in UI benefits as standard claims.
Alternative Base Period Expands to 21 States Covering Half the Nation’s UI Claims

ABP Enacted (20 States & DC)

ABP Not Enacted (30 states)
Major Increase in Coverage Outweighs Increased UI Costs Due to the ABP

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<thead>
<tr>
<th>State</th>
<th>Percent of UI Claims</th>
<th>Percent of UI Costs</th>
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<tbody>
<tr>
<td>Michigan</td>
<td>5.5%</td>
<td>5.2%</td>
</tr>
<tr>
<td>Maine</td>
<td>6.5%</td>
<td>4.7%</td>
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<tr>
<td>New Jersey</td>
<td>6.2%</td>
<td>4.7%</td>
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<tr>
<td>Georgia</td>
<td>2.7%</td>
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<tr>
<td>Virginia</td>
<td>3.1%</td>
<td>1.4%</td>
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<tr>
<td>North Carolina</td>
<td>2.1%</td>
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Families Seeking Part-Time Work Qualify for UI in Nearly Half the States

UI Law for Part-time Workers

- **Equity (9 states)**
- **Favorable (14 States and DC)**
- **Unfavorable (27 states)**
Maine’s work-search rule permits history of part-time work or “good cause” related to child care or dependent care.

- 886 workers collected UI under Maine’s part-time UI law (2.7% of all UI claims).
- Collected $1.8 million in benefits, averaging $2,078 per worker.
- Another 920 part-time workers were paid UI after looking for full-time work.
UI for workers who leave a job due to compelling family circumstances

- UI Modernization Act supports reforms that make compelling family circumstances count as a good cause reason to leave work under UI law.
  - Leaving a job because of domestic violence. (29 states)
  - Leaving work to follow a spouse who is transferred to a new location. (15 states)
  - Leaving work to care for an ill child or family member. (16 states)
- Different than family leave: Workers must be available for work and benefits are normally non-charged.
Domestic Violence Survivors Qualify for UI in 29 States
Extended Benefits for Workers in Training

- Long-term unemployment statistics indicate that job matching is harder for today’s unemployed.
- **Seven states** provide additional weeks of unemployment benefits to claimants who need extra time to complete an approved training course. 18-26 weeks of extended benefits.
  - **Washington State** – 72% of dislocated workers receiving extended benefits found work after training, replacing 92.6% of their prior wages.
More on Impacts and Cost of the UI MA

- UIMA could help as many as 500,000 workers collect UI each year.
- UI modernization act funds would cover years of state implementation costs for these reforms, before any state funds were required.
- In 18 states needing to pass the ABP to qualify for funds, incentive awards would pay for more than 3 years of benefits.
UIMA goes hand in hand with other elements to restore integrity of the UI system.

- **SUTA Dumping**
  - PL 108-295 required states to pass laws that prevent firms from manipulating their experience rated taxes, through use of shell companies and paper transfers.
  - Has led to multi-million dollar recoveries of unpaid taxes, which lower tax bills for law abiding employers.

- **Worker Misclassification**
  - States lose between $12 million (Mass) to $170 million (NY) in UI taxes each year when employers misclassify employees as independent contractors. Raises taxes for everyone else.
More Common Ground Between Employers and Worker Advocates

- Closing of UI offices has made it harder for workers to access re-employment services and job search assistance.
- A revitalized Wagner-Peyser program (paid for by your FUTA taxes) could help reduce unemployment duration in a cost effective way.
- UI administrative funding is critical for states to carry out efforts that could reduce duration of unemployment and ensure accurate UI payments.