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Restoring Unemployment Insurance as Social Insurance

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Restoring Unemployment Insurance as Social Insurance

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Prepared for the annual state unemployment insurance directors conference organized by the National Association of State Workforce Agencies
November 7, 2017, Orlando, Florida.
Overview

• Unemployment Insurance enacted under the Social Security Act of 1935, operated under laws in all states by June 1937.
• In 1939 FUTA replaced title IX establishing an IRS statutory basis to fund Wagner-Peyser (ES) and federal UI programs.
• Original goals of the UI program:
  – Partial income replacement during involuntary joblessness.
  – Preventing descent into poverty.
  – Automatic stabilizer for the macroeconomy.
  – Maintaining employer attachments and reducing layoffs.
  – Promoting reemployment.
• Ideally, UI is self-financed with benefits = taxes over cycle.
Social Security Act, 1935
Partial Income Replacement

• Provide socially adequate weekly benefits while involuntarily unemployed and seeking work.
  – Replace half lost earnings between limits.
  – Minimum a multiple of state minimum wage.
  – Maximum at two-thirds average weekly wage.
• Eligible if normally part-time seeking same.
• No special eligibility tests.
• Require high quarter earnings a multiple of AWW, and base period earnings $\geq 1.5 \times HQE.$
UI Recipiency by State, 2017Q2
Prevent Descent into Poverty

• In the Great Recession 19 percent of households with unemployment slipped into poverty, without UI 24 percent would (CBO).
• UI benefits are an earned entitlement.
• Adequate benefit amounts and durations.
• Validate active work search.
• Provide effective reemployment services.
• RESEA requires updated WPRS models.
Automatic Macroeconomic Stabilizer

- When unemployment rises, UI injects spending to consumers with a high propensity to spend.
- As unemployment falls, reserves are rebuilt.
- UI income multiplier estimate 2.5 over prior 6 recessions (Chimerine et al. USDOL 1999).
- Regular UI eroded; EB triggers ineffective.
- Forward funding is insufficient.
- Counter-cyclical strength is weaker than 2008.
Benefit levels and durations rose and declined with financing adequacy

<table>
<thead>
<tr>
<th>Year</th>
<th>LE16</th>
<th>GE 26</th>
<th>Waiting Weeks</th>
<th>Taxable Wages</th>
<th>Avg. Tax Rates</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Low</td>
<td>High</td>
<td>Low</td>
<td>High</td>
<td>Low</td>
</tr>
<tr>
<td>1939</td>
<td>43</td>
<td>0</td>
<td>2</td>
<td>4</td>
<td>3,000</td>
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<tr>
<td>1959</td>
<td>0</td>
<td>51</td>
<td>0</td>
<td>1</td>
<td>3,000</td>
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<tr>
<td>1979</td>
<td>0</td>
<td>51</td>
<td>0</td>
<td>1</td>
<td>6,000</td>
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<tr>
<td>1999</td>
<td>0</td>
<td>51</td>
<td>0</td>
<td>1</td>
<td>7,000</td>
</tr>
<tr>
<td>2012</td>
<td>2</td>
<td>46</td>
<td>0</td>
<td>1</td>
<td>7,000</td>
</tr>
<tr>
<td>2014</td>
<td>2</td>
<td>45</td>
<td>0</td>
<td>1</td>
<td>7,000</td>
</tr>
</tbody>
</table>

Low FUTA taxable wage base contributed to inadequate forward funding, cuts in durations and benefit levels, and reduced countercyclical strength.
### States That Reduced the Maximum Duration of Unemployment Insurance Benefits to Fewer Than 26 Weeks Since 2011

<table>
<thead>
<tr>
<th>State</th>
<th>Maximum benefit duration before reduction (weeks)</th>
<th>New maximum benefit duration (weeks)</th>
<th>Change became effective (year)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Arkansas</td>
<td>26</td>
<td>25</td>
<td>2011</td>
</tr>
<tr>
<td>Florida</td>
<td>26</td>
<td>12-23</td>
<td>2011</td>
</tr>
<tr>
<td>Georgia</td>
<td>26</td>
<td>14-20</td>
<td>2012</td>
</tr>
<tr>
<td>Illinois</td>
<td>26</td>
<td>25</td>
<td>2011</td>
</tr>
<tr>
<td>Kansas</td>
<td>26</td>
<td>16-26</td>
<td>2013</td>
</tr>
<tr>
<td>Michigan</td>
<td>26</td>
<td>20</td>
<td>2011</td>
</tr>
<tr>
<td>Missouri</td>
<td>26</td>
<td>20</td>
<td>2011</td>
</tr>
<tr>
<td>North Carolina</td>
<td>26</td>
<td>12-20</td>
<td>2013</td>
</tr>
<tr>
<td>South Carolina</td>
<td>26</td>
<td>20</td>
<td>2011</td>
</tr>
</tbody>
</table>

Source: DOL, Comparison of State Unemployment Laws, selected years, and GAO analysis of relevant state laws. | GAO-15-281
Automatic Macroeconomic Stabilizer

Projected UI Benefit Payments under Existing and Alternative Declining Max WBA and Potential Duration ($ millions)
Options for Forward Funding and Countercyclical Financing

• Set state targets for Average High Cost Multiple.
• Apply a FUTA credit reduction to states with an AHCM less than 0.5.
• Reward states that maintain a 1.0 AHCM.
• Pay incrementally higher interest rates to states with balances greater than the target AHCM.
• Index the FUTA taxable wage base to a proportion of the Social Security taxable wage base.
• At least 10 steps in rate schedules; no zero rate.
UI and Social Security taxable wage bases and the ratio of total to UI taxable wages, 1937-2015

(UI taxable wages/total wages)
Experience rating of employer UI taxes is intended to discourage layoffs.

Research shows experience rating does reduce layoffs, but only if it is effective.

Many states cluster employers at the maximum that sometimes is low, and the minimum that often is zero.

Work sharing is available in 29 states and should be an employer option in all states.
“I had told [President Roosevelt] that the Employment Service was practically non-existent although its name was still on a letterhead… He said, “Resurrect the Employment Service right away…”

Frances Perkins, Secretary of Labor
Describing ES revitalization in 1933
Wagner-Peyser Act, 1933
Promoting Reemployment

• UI and ES are complementary programs, but the current linkage between UI and ES is weak.
• The ES is chronically underfunded despite employer FUTA tax contributions.
• The biggest loss from overpayments is due to inadequate enforcement of the work test (ES).
• The RESEA restores the work test and provides employment services for the WPRS profiled.
• Worker Profiling and Reemployment Services models must be updated, and Wagner-Peyser Act (ES) should be funded to deliver services.
Worker Profiling, 1993
Wagner-Peyser Act Funding for Employment Services in Millions of Nominal and Real Dollars (1984=100)
Employment Services

• Adequately fund the Employment Service.
• The ES administers the UI work test.
• The RESEA needs a strong ES and WPRS.
• Funding the ES will activate reemployment through comprehensive reemployment services.
• Statutory funding for the ES comes from the FUTA levy; appropriations are not sufficient.
• Restore ES funding to the 1984 level in real terms. Reagan last to increase FUTA in 1983.
Extended Benefits

• States should provide potential durations of at least 26 weeks regular UI regardless of the TUR level.
• EB should have TUR triggers.
• EB should be 100 percent paid by the federal government from the UTF and, if necessary, from general revenues.
• Congress, may exercise discretion to provide emergency extended benefits to supplement regular UI and EB.
Federal Shares of Total Unemployment Insurance Benefit Costs in Recession Years

<table>
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</tr>
</thead>
<tbody>
<tr>
<td>Rate</td>
<td>7.9%</td>
<td>15.0%</td>
<td>6.3%</td>
<td>20.3%</td>
<td>5.4%</td>
<td>9.6%</td>
<td>35.2%</td>
<td>20.5%</td>
<td>38.3%</td>
<td>47.7%</td>
<td>55.7%</td>
</tr>
</tbody>
</table>
Emergency Unemployment Compensation

- 1958 - Eisenhower (R)
- 1961 - Kennedy (D)
- 1971 - Nixon (R)
- 1975 - Carter (D)
- 1980 - Reagan (R)
- 1982 - Reagan (R)
- 1992 - H.W. Bush (R)
- 2002 - W. Bush (R)
- 2008 - W. Bush (R) -- EUC08 ammended 11 times
- 2009 - Obama (D)
Emergency Unemployment Compensation
Restoring UI as Social Insurance

- Improve benefit access.
- Improve benefit amounts and duration.
- Improve forward funding.
- Institute sensitive TUR triggers for EB along with 100% federal financing of EB.
- Fund ES and RESEA for return to work.
- Improve state WPRS models.
- Universal access to Work Sharing and SEA.
- Allow states to offer reemployment bonuses.
Benefit and Tax Features

• Eligibility: HQE: a multiple of AWW; and BPE: 1.5*HQE
• Potential duration: 26 weeks in all states based on prior earnings.
• Benefit formulas: 50% wage replacement.
• Maximum weekly benefit amount: two-thirds of the average weekly wage (AWW) in UI covered employment.
• UI Taxable wage base: one-third of the Social Security taxable wage base (i.e., $42,400), and indexed to the SS taxable wage base.
• Index and balance benefit and tax provisions.
• Experience rated tax rate: no state allowed to include a zero-rate in any tax table and must have at least 10 rates in each tax schedule.
• States should adhere to the appropriate tax schedule under state law.
2018 Budget UI Proposals

• Establish a federal-state paid parental leave benefit program in UI paid for by reducing payment errors.

• Reduce UI payment errors through integrity efforts by helping states target more tools and resources toward the problem.

• Expand Reemployment Services and Eligibility Assessments (RESEA). Provide all states funding for RESEAs to one-half of eligible UI claimants, plus all ex-military service members.

• Establish a minimum solvency standard, such that states with an Average High Cost Multiple (AHCM) of less than 0.5 on two or more consecutive January firsts (currently AHCM<0.0) would face Federal Unemployment Tax Act (FUTA) credit reductions.
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