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

Doughton, NC
Wagner, NY
Perkins
Harrison, MS
Lewis, MD

Dingell, MI
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 $\geq 1.5\times\text{HQE}$.
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></td>
<td></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>
</tr>
<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.
<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 Wage Base**
- **SS-Taxable Wage Base**
- **Tax/total ratio**

- **1937**: $3,000
- **1941**: $3,600
- **1955**: $4,200
- **1959**: $4,800
- **1966**: $6,600
- **1968**: $7,800
- **1972**: $9,000
- **1983**: $7,000
- **2015**: $118,500


- **Y-axis**: $0 - $120,000
- **X-axis**: 1937-2015

Graph shows the progression of UI and Social Security taxable wage bases from 1937 to 2015, with a notable increase in taxable wage bases over time.
Employer Attachment—Avoid Layoffs

• 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.
Promoting Reemployment

“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
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

- 1958: 7.9%
- 1961: 15.0%
- 1971: 6.3%
- 1975: 20.3%
- 1980: 5.4%
- 1982: 9.6%
- 1992: 35.2%
- 2002: 20.5%
- 2009: 38.3%
- 2010: 47.7%
- 2011: 55.7%
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 amended 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.
• 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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