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Restoring Unemployment Insurance as Social Insurance

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Restoring Unemployment Insurance as Social Insurance

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## Social versus Private Insurance

<table>
<thead>
<tr>
<th>Social Insurance</th>
<th>Private Insurance</th>
</tr>
</thead>
<tbody>
<tr>
<td>Compulsory</td>
<td>Voluntary</td>
</tr>
<tr>
<td>Social minimum income replaced</td>
<td>Amounts dependent on willingness to pay</td>
</tr>
<tr>
<td>Provide socially adequate benefits</td>
<td>Emphasis on individual equity</td>
</tr>
<tr>
<td>Benefits prescribed by law</td>
<td>Benefits established by legal contract</td>
</tr>
<tr>
<td>Government monopoly</td>
<td>Competition</td>
</tr>
<tr>
<td>Costs difficult to predict</td>
<td>Costs actuarially predictable</td>
</tr>
</tbody>
</table>
Emergence of UI

• Widespread hardship in the 1930s made public relief palatable
• Involuntary unemployment was recognized as an unavoidable risk
• Economic loss from unemployment establishes a presumed need
• Unemployment insurance (UI) was regarded as superior to relief for experienced workers
Economic Rationale for UI

Market failure—private UI markets would collapse
• Low risk pools—profitable
• High risk pools—uninsurable
  – Would generate a social assistance problem

UI as a public good
• Reduces unemployed becoming a social burden
• An automatic stabilizer for the macroeconomy
UI in Social Security Act of 1935

• Established federal-state UI under Title III where states administer programs under state rules
• Federal tax incentive for state UI laws
  – Employer tax reduced by 90% in conforming states
• Title IX established Unemployment Trust Fund and Employment Security Admin Account
• Title XII provides crisis loans to states for UI
• Federal Unemployment Tax Act (FUTA) 1939
  – Title IX taxing provision moved to Internal Revenue Service (IRS) code chapter 23
Social Security Act, 1935
Original UI Policy Goals

- Partial income replacement during unemployment
- Prevent descent into poverty
- Automatic stabilizer for the macroeconomy
- Maintain employer attachments through benefits
- Reduce layoffs through experience rating of taxes
- Promote reemployment via required work search (work test) and employment services
- Finance through independent reserves with benefits equal to tax contributions over business cycles
Restoring UI

- Eligibility – recipiency has declined
- Benefits – wage replacement rates have fallen
- Forward financing – has deteriorated
- Experience rating – is less effective
- Automatic stabilizer – is weaker
- Extended benefits – are not automatic
- Reemployment initiatives – are not available in all states Work Sharing and Self-Employment
UI Recipiency by State, 2017
Regular UI Recipients and Layoffs as Shares of the Unemployed, 1980-2017

- Recipiency rate
- Layoff-rate
- Linear (Recipiency rate)
- Linear (Layoff-rate)
Suggested Eligibility Rules

- Involuntarily unemployed
- Actively seeking work
- Attached to the labor force – accessible threshold
  - High quarter earnings at least $1,000
  - Base period earnings $\geq 1.5 \times HQE = $1,500$
- Base period 4 of previous 4 or 5 quarters (ABP)
- If usually full- or part-time and seeking same
- Allow personal and family good cause quits
- No income or household size rule – no means test
Regular UI Recipiency and Wage Replacement Rates in the United States, 1980-2017
Average Potential Weeks Duration of Regular UI and the Share of Total Unemployed who are Jobless for 27 Weeks or Longer in the United States, 1971-2017
Adequate Income Replacement

• Socially adequate benefits while involuntarily unemployed and seeking work.

• Proposed reforms:
  – Replace half of lost earnings between limits.
    • Minimum at a higher replacement rate.
    • Maximum at two-thirds average weekly wage in state.
  – Potential duration at least 26 weeks.
<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>9-16</td>
<td>2011</td>
</tr>
<tr>
<td>Florida</td>
<td>26</td>
<td>12-23 (12)</td>
<td>2011</td>
</tr>
<tr>
<td>Georgia</td>
<td>26</td>
<td>6-20 (14)</td>
<td>2012</td>
</tr>
<tr>
<td>Illinois*</td>
<td>26</td>
<td>25 (26)</td>
<td>2012</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>2012</td>
</tr>
<tr>
<td>Missouri</td>
<td>26</td>
<td>8-20</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>13-20</td>
<td>2011</td>
</tr>
</tbody>
</table>

Automatic Macroeconomic Stabilizer

• When unemployment rises UI injects spending to consumers with high propensities 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 2010.
Automatic Macroeconomic Stabilizer

Projected UI Benefit Payments under Existing and Alternative Declining Max WBA and Potential Duration ($ millions)

- Existing System
- Benefit Reductions
- Multiple Changes
Benefit levels and durations rose and declined with financing adequacy

<table>
<thead>
<tr>
<th>Year</th>
<th>State Maximum Durations</th>
<th>Waiting Weeks</th>
<th>Taxable Wages</th>
<th>Avg. Tax Rates</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>LE16</td>
<td>GE 26</td>
<td>Low</td>
<td>High</td>
</tr>
<tr>
<td>1936</td>
<td>100%</td>
<td>100%</td>
<td>0.90</td>
<td>0.90</td>
</tr>
<tr>
<td>1937</td>
<td>100%</td>
<td>100%</td>
<td>1.80</td>
<td>1.80</td>
</tr>
<tr>
<td>1938</td>
<td>100%</td>
<td>100%</td>
<td>2.70</td>
<td>2.70</td>
</tr>
<tr>
<td>1939</td>
<td>43</td>
<td>0</td>
<td>2</td>
<td>4</td>
</tr>
<tr>
<td>1959</td>
<td>0</td>
<td>51</td>
<td>0</td>
<td>1</td>
</tr>
<tr>
<td>1979</td>
<td>0</td>
<td>51</td>
<td>0</td>
<td>1</td>
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<tr>
<td>1999</td>
<td>0</td>
<td>51</td>
<td>0</td>
<td>1</td>
</tr>
<tr>
<td>2012</td>
<td>2</td>
<td>46</td>
<td>0</td>
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<tr>
<td>2014</td>
<td>2</td>
<td>45</td>
<td>0</td>
<td>1</td>
</tr>
<tr>
<td>2018</td>
<td>3</td>
<td>45</td>
<td>0</td>
<td>1</td>
</tr>
</tbody>
</table>
UI Taxes and Benefits as shares of Total Wages in the United States, 1946-2016

Structural Problem: Taxes 0.7 percentage points lower than benefits.
UI and Social Security taxable wage bases and the ratio of total to UI taxable wages, 1937-2017

- **UI taxable wages/total wages**
- **SS-Taxable Wage Base**
- **UI-Taxable Wage Base**
- **Tax/total ratio**


Wages: $3,000, $3,600, $4,200, $4,800, $6,600, $7,800, $9,000, $4,200, $6,000, $7,000

- 2017: $127,200

Graph showing the UI and Social Security taxable wage bases and the ratio of total to UI taxable wages from 1937 to 2017.
Restore Forward Funding

Index the FUTA taxable wage base
- The FUTA base is the minimum for states
- Recommendation: peg the FUTA wage base to a proportion of the Social Security tax base

Average High Cost Multiple (years of recession level benefits in state reserves) target is 1.0
- Raise state Average High Cost Multiples
  - Reward: Pay higher rates if AHCM > 1.0
  - Penalty: FUTA credits if AHCM < 0.5
Summary of State Trust Fund Status
Average High Cost Multiple as of 1/1/2018

Recommended Minimum Adequate Solvency Level
Likely Borrowers in a Recession

Number of States that Would have Negative UI Reserves after a Recession Trough if a Mild, Average, or Severe Recession Followed peak Reserves in 2017

- Mild recession: States include CA, CT, DE, IL, IN, MA, MO, NJ, NY, OH, PA, TX, VI (12 states)
- Average recession: States include all previous 22 states plus AZ, CO, KY, MI, MN, RI, SC, WV, WI (24 states)
- Severe recession: All previous states plus Nevada (NV) (26 states)

Recession following year-end 2017 levels

Negative reserve states
Enhance Employer Attachment

• Experience rating of employer UI taxes is intended to discourage layoffs
• Research shows experience rating reduces layoffs if tax rates respond to layoffs
• Many states have few rates and often cluster employers at low minimum and maximums
• Require at least 10 rates and prohibit zero
• Work sharing is available in 29 states, but should be an employer option in all states
Renew the Employment Service

- The Employment Service (ES) administers the UI work test and provides reemployment services.
- ES has statutory Wagner-Peyser Act funding but has had inadequate appropriations for decades.
- Reemployment Services and Eligibility Assessments (RESEA) are not a substitute for ES.
- RESEA has depended on inconsistent funding and inadequately maintained and poorly funded profiling models.
Wagner-Peyser Funding for Employment Services in Nominal and Real Dollars (1984=100)
Reform Extended Benefits

• States should provide potential durations of at least 26 weeks regular UI regardless of the TUR level.
• The Extended Benefits (EB) program should have TUR triggers that extend durations in crises.
• EB should be 100 percent federally financed from ESAA, and if necessary, from general revenues.
• Congress may exercise discretion to provide emergency extended benefits on top of regular UI and the permanent EB program.
Summary of Reforms

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