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Christopher J. O'Leary
W.E. Upjohn Institute for Employment Research, oleary@upjohn.org

Stephen A. Wandner
W.E. Upjohn Institute for Employment Research

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W.E. UPJOHN INSTITUTE
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Researching the causes and consequences of unemployment

An Illustrated Case for Unemployment Insurance Reform

Upjohn Institute Working Paper 19-317

Christopher J. O'Leary
W.E. Upjohn Institute for Employment Research
email: Oleary@upjohn.org

Stephen A. Wandner
W.E. Upjohn Institute for Employment Research

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ABSTRACT

We present a graphic case for unemployment insurance (UI) program reform. Through a series of illustrations summarizing historical trends, we show how the UI system has diverged from its intended purposes. Our figures show the decline of the program in addressing its essential aims of paying adequate unemployment compensation during involuntary unemployment and providing reemployment services. We illustrate the big differences in UI programs that have emerged because of the broad discretion afforded states to determine benefit generosity. We also illustrate declines in the financial means for providing benefits and reemployment services and a widening divergence among states in the quality of UI programs. Our concluding section presents a list of reforms that would restore UI as a pillar of social insurance and the labor market.

JEL Classification Codes: J65, H71, J68

Key Words: unemployment insurance, benefit eligibility, benefit adequacy, wage replacement ratio, recipiency rate, forward funding, taxable wage base, experience rating, reemployment services, program administration

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The unemployment insurance (UI) program exists to provide temporary income support to workers who are unemployed through no fault of their own while they are actively searching for new jobs. As shown below, the UI program is intended to pay adequate weekly UI benefits to eligible workers for reasonable periods of time. To have sufficient funds to pay for a reasonable level of benefits, sufficient UI taxes must be paid on a reasonable taxable wage base. However, over time UI tax rates and taxable wage bases eroded in many states to the point of not being sufficient to fund adequate UI benefits. Because of insufficient funding, many states have made it more difficult to apply for and be eligible to receive UI, resulting in a declining percentage of unemployed workers collecting benefits. Similarly, for unemployed workers who do collect benefits, they receive lower benefit amounts and for shorter periods of time, despite the increasing need for benefits as the average duration of unemployment has increased in the United States.

The decline of the UI system has been uneven across states. Some pay adequate benefits and collect sufficient taxes to pay for them. In many other states, this has not been the case. In many states, taxable wages and tax rates have been inadequate for many years. Those states have responded to insufficient taxation by reducing or not increasing weekly benefit levels, and some have reduced the duration of benefits.

We have argued elsewhere that it is necessary to reform the UI program and have presented evidence-based recommendations for reforms (O'Leary and Wandner 2018). This paper presents more specific evidence showing the need for reform.

Our paper begins with some background about the UI program, including its basic provisions and how they work. We then examine some factors that demonstrate the need for reform—economic, demographic, administrative, and legislative. We show the importance of a

healthy UI program during recessions as well as how the program responded to the Great Recession. Finally, we illustrate the decline of the UI program in recent decades and the wide variation in the program among the states, differences so wide as to endanger the integrity of the program in many states, making it inadequate for a large number of unemployed American workers.

UNEMPLOYMENT INSURANCE: THE BASICS

The unemployment insurance program was established under Titles III and IX of the Social Security Act of 1935.[1] In 1936, employers began paying taxes into state accounts in the Unemployment Trust Fund (UTF), but, to allow the UTF to accumulate reserves, payments of UI benefits did not begin until 1938.

Administratively, the UI system was established as a federal-state program. The federal government sets the broad legislative and administrative framework for the 50 states plus the District of Columbia, Puerto Rico, and the Virgin Islands. States administer their own programs under conforming state laws that set almost all of the parameters of state UI programs, including eligibility criteria, benefit amounts and durations, tax levels and taxable wage bases, and the level and type of reemployment services provided to UI claimants.

Responsibilities for the UI program are divided between Congress, the U.S. Department of Labor (USDOL), and the states.

- The federal legislative framework is established by Congress.
- USDOL determines whether individual state UI programs are in conformity and compliance with federal law and regulations. USDOL also provides guidance and direction to state UI agencies for operating and managing their programs.

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[1] For a more extensive discussion of the UI program, see O'Leary and Wandner (1997) and Wandner (2018).

- Within the federal framework, state UI laws and procedures determine most of the specifics of the program, e.g., benefit eligibility, levels, and duration, as well as state tax rates and taxable wage base. As a result, programs vary widely across the country.

The UI program has the twin goals of providing adequate benefits to qualified unemployed workers and maintaining a robust U.S. economy.

- The microeconomic goal with respect to individual unemployed workers is to provide adequate, temporary income support.
- The macroeconomic goal for the economy as a whole is to exert countercyclical pressure on the state and U.S. economies by providing income and encouraging consumption during periods of high unemployment.

The UI system is commonly defined as a social insurance program that pays temporary, partial wage replacement to experienced covered workers who are unemployed through no fault of their own and are actively searching for work. Following is an examination of the components of that defintion and what they mean:

- Temporary benefits: Benefits for the basic ("regular") UI program are paid for up to 26 weeks in most states. Since the Great Recession, however, 10 states have reduced benefit durations below 26 weeks, and there has been other tightening of eligibility and benefit payment provisions.
- Partial wage replacement: Benefit amounts are generally set at half of an unemployed worker's prior wage up to a maxium amount, generally set by the states once a year.
- Experienced workers: To be eligible for UI benefits, unemployed workers must have had recent attachment to the labor force, measured by minimum earnings in a recent four-quarter period, called the "UI base period."
- Covered employment: While coverage was limited in 1935, federal law has expanded coverage, especially in the areas of agricultural, state and local government, nonprofit employees, and household workers. Today nearly all wage and salary employees are covered by UI.

- No fault unemployment: Qualifying workers have to have been laid off for lack of work. They cannot have quit their job or been fired for cause. They also cannot be new entrants to the labor force, and they cannot be reentrants to the labor force unless they were out of the labor force for a short period and have sufficient recent earnings during their base period to qualify.
- Actively searching for work: UI has a work search requirement. UI recipients must demonstrate that they are able, available, and actively searching for work while receiving benefits. The work test is generally administered by the state Employment Services office.

Thus, there are two sets of eligibility requirements to qualify for UI benefits:

- Monetary eligibility: Workers have to have earned sufficient wages in a recent benefit year period to be eligible for benefits.
- Nonmonetary eligibility: Workers have separated from work involuntarily, are searching for work, and may not refuse suitable work.

Program cyclicality and responsiveness: Looking at the number of individuals receiving UI and the amount of benefits paid out by the UI program, it is apparent that the UI program is highly cyclical, meaning that total benefit payments vary greatly between a relatively small aggregate amount when the economy is doing well and a much higher amount during recessionary periods (see Table 1). While layoffs occur throughout the business cycle, many more workers become unemployed during recessions. As a result, the number of unemployed workers tends to surge at the beginning of a recession and then decline rapidly as the recession ends. Also, during recessions, UI recipients are much more likely to exhaust their entitlement to all of their regular UI benefits, up to 26 weeks of benefits in most states.

Extended benefits: Since UI recipients are much more likely to exhaust all of their entitlement to regular benefits during recessionary periods, many of these workers will be in very difficult economic straits by the time they exhaust their regular benefits and likely will need

more financial assistance before they find work. Over the past five decades, the UI program has usually provided benefit extensions through two types of programs during recessionary periods: the permanent Extended Benefits program and temporary emergency benefit programs:

- Permanent Extended Benefits (EB) program: This program was enacted in 1970. It is a federally authorized state-by-state program that is "triggered" on and off by state unemployment rate measures such that it pays additional needed UI benefits when unemployment increases sharply. However, it was not originally well designed, not paying benefits during appropriate high-unemployment periods, and the design has not been improved in the past five decades. As a result, it has not been effective at paying additional benefits, even during periods of high unemployment.
- Temporary emergency benefits programs: Temporary programs have been enacted by Congress in every recession since 1958. Congress responds to constituent complaints about the inadequacy of regular UI benefits, and this inadequacy is magnified when the permanent EB program is ineffective in high-unemployment states. The temporary emergency program has had many names, but in recent recessions it has been named Emergency Unemployment Compensation (EUC). Legislation enacting temporary emergency programs also have frequently made temporary changes to the permanent EB program so that it too adds benefit durations for the long-term unemployed.

FACTORS SUGGESTING THE NEED FOR UI REFORM

There are four broad categories of factors that suggest the need for comprehensive UI reform. First, Congress has neglected the UI program, failing to update and improve its legislative framework. The last major reform of the UI program was over four decades ago in 1976 and was not really comprehensive. Congress considered a large number of issues that they could not agree upon and left a number of controversial issues for a UI study commission (National Commission on Unemployment Compensation 1980). Later, Congress authorized another UI study commission, which also made recommendations for program reform (Advisory

Council on Unemployment Compensation 1996). The reports of these two commissions were never considered legislatively. Many of the issues considered by the two commissions still need to be addressed at the federal level (Wandner 2018). By contrast, Congress has enacted many changes to the provisions of the Social Security old age assistance program, and many advisory council reports have resulted in legislative updates and improvements to the program (Ball 1985).

Second, the U.S. economy has changed significantly since the 1976 UI legislative reforms. The industry and occupational mix of employment has changed. During recessions, employers respond differently than they did before 1976. Layoffs are much more likely to be permanent, and the durations of unemployment have been increasing. Thus, among the major changes are the following:

- A decline in temporary layoffs, an increase in permanent layoffs, and an increase in the durations of unemployment (Groshen and Potter 2003). All of these factors adversely affect UI claimants and call for adjustments to the current UI program.
- A change in the industrial mix of the U.S. economy, reflected in the decline in the goods-producing sector and replacement with service sector jobs, where service workers are less likely to collect UI benefits (O'Leary and Wandner 2019), particularly since service workers are less likely to know about the UI system and how to apply for benefits.

Third, the demographics of the U.S. labor force have changed significantly, but the UI program has not fully adapted. These changes include:

- increased female labor force participation,
- steadily increasing older worker labor force participation since the 1990s,
- more households with two or more workers, and
- increase in voluntary part-time employment, fueled in part by the influx of mothers, care givers, and older workers into the labor force.

Some of these demographic changes have not been accompanied by UI program changes to accommodate the new demographic reality.

Fourth, policy decisions and policy failures at the federal and state levels of government have substantially weakened the UI program over the past four decades:

- Congress has largely ignored the UI program, as reflected by its lack of enactment of any major federal legislative reform for over four decades.
- The leadership and oversight role of the U.S. Department of Labor has weakened, leaving the states to determine the scope and nature of their state UI programs (Wandner 2019).
- For many years, state UI laws, programs, and policies have varied and generally weakened benefit payment and tax collection systems. These changes can be seen in the figures presented below.

The rest of this paper deals primarily with the results of this fourth issue, the negative impact of federal and state policy decisions that have weakened the UI program. The main intervention by the federal government has been to provide longer durations of benefit payments during recessions. Congress has largely ignored the program during good times and failed to make needed reforms. Lacking federal guidance or federal mandates, the states have been left on their own, with many states deciding to sharply curtail their state UI programs.[2]

HOW DOES THE UI PROGRAM WORK? LOOKING AT THE NUMBERS BEFORE, DURING, AND AFTER THE GREAT RECESSION

The following table begins the story of how the UI system works over the business cycle, in this case before, during, and after the Great Recession, which officially started in December 2007 and ended in June 2009. Looking at select years from 2006 to 2018, the data for these years show

[2] We have dealt elsewhere with the issues of economic and demographic change of the U.S. economy (Wandner 2018).

the status of the UI program before the Great Recession in 2006, during the Great Recession years of 2008 and 2009, during the "jobless recovery" that extended through 2012, and in the strong recovery after 2012.

Table 1 Unemployment Insurance First Payments, Exhaustions, and Expenditures, Selected Fiscal Year

	2006	2008	2009	2010	2011	2012	2015	2018
Unemployment rate (%)	4.8	5.3	8.6	9.8	9.2	8.2	5.4	4.0
Program participants (millions)								
First payments	7.4	8.8	14.4	11.3	9.7	8.7	6.6	5.3
Regular exhaustions*	2.7	3.1	6.4	7.0	5.1	4.4	2.6	2.0
Payments ($ billions)								
Regular benefits	30.2	38.1	75.3	63.0	48.5	44.3	31.7	27.6
Extended benefits	0.0	0.0	4.1	8.0	11.9	0.2	0.0	0.0
Emergency benefits**	0.0	3.5	39.1	83.8	54.6	0.0	0.0	0.0
All program payments***	31.5	43.1	119.7	156.4	116.8	90.4	32.6	28.3
State tax collections	35.9	32.2	31.1	38.3	49.3	59.4	42.2	36.4

NOTE: * = Exhaustees of the regular 26-week UI benefits. ** = Includes temporary federal additional benefits. *** = Includes benefits under Unemployment Compensation for Federal Employees, ex-military, and Trade Adjustment Assistance.
SOURCES: USDOL (2019); Wandner (2012, p. 8).

Here are some of the things that the table shows:

- The Current Population Survey (CPS) conducted by the Bureau of Labor Statistics (BLS) reveals that the unemployment rate nearly doubled from 2006 to 2010 and then slowly declined after 2010, falling below the 2006 level in recent years.
- The number of UI recipients (called "first payments" in the UI system) also nearly doubled from 2006 to 2009 and began declining in 2010, falling well below the 2006 level in recent years.
- The number of UI recipients who exhausted their entitlement to regular UI benefits more than doubled from 2006 to 2010, and then declined below the 2006 level in recent years.
- While benefit payments for the regular UI program more than doubled from 2006 to 2010, the enormous increase in UI payments during and after the Great Recession was due to congressional action that altered and made the permanent EB program much more

generous and 100 percent federally funded instead of 50-50 sharing with states. Congress also enacted a EUC program that vastly increased the duration of UI benefits—up to a total of 99 weeks in some states.

- While the number of UI recipients only doubled, the total UI payments increased fivefold.
- The enormous increase in UI payments was due to the lack of job openings during the period during and after the Great Recession, which meant that durations of unemployment increased substantially.
- Nonetheless, after the jobless recovery period that extended through 2012, job openings increased, the number of UI recipients declined significantly, and total UI benefit payments returned to prerecession levels by 2015.

Thus, we can see that the UI program is highly cyclical and highly responsive to distress in the U.S. economy. The number of people entering the UI program increases rapidly during a recession, but then declines quickly after the height of a recession. Nonetheless, the need for additional durations of UI benefits increases during and (frequently) after recessions. The reason for the need for longer durations of benefits in the period immediately after a recession is that job openings increase slowly, and many UI recipients experience prolonged periods of unemployment well after the end of a recession.

WEAKNESSES OF THE UI PROGRAM

The following points prelude our paper by briefly overviewing the series of eleven figures we present to illustrate the decline in the U.S. UI system.

- An overall decline in the UI program over time, especially regarding benefit payments and tax collections. This decline is shown with national time series data.
- Wide variation in state programs, which continues over time because of lack of federal standards for UI benefit payments and tax collections. A comparison of state programs reveals wide differences between states in the adequacy of benefits and collection of

taxes. While some states have adequate UI benefit and tax systems, other states avoid raising tax rates and taxable wage bases by keeping benefit generosity low and making it more difficult to qualify for benefits.

- Other graphical presentations show wide difference over time between the needs of the unemployed and the availability of benefits.

The Federal Unemployment Tax Act (FUTA) of 1939 requires the federal government to set the FUTA taxable wage base that is used to raise federal UI taxes, which pay for UI and Employment Service (ES) administration, a portion of the permanent Extended Benefit program, and loans to states when UI state trust fund accounts go broke.

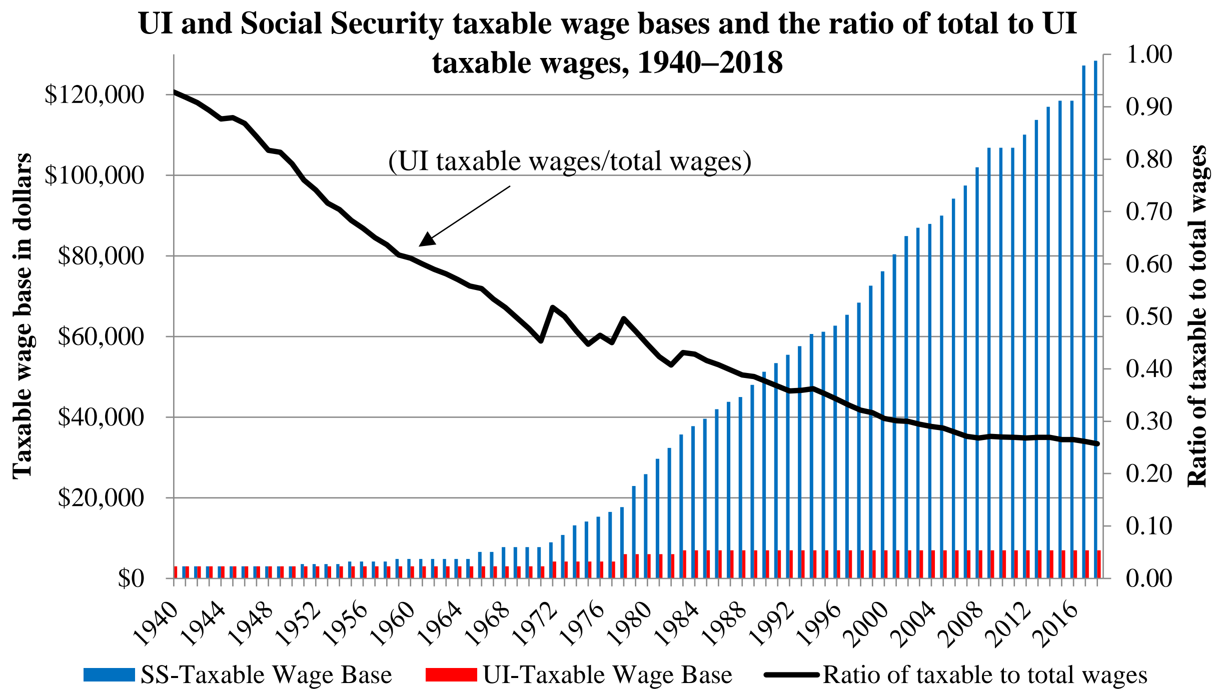
To pay for regular UI benefits, under federal UI law, states must have a taxable wage base at least as high as the FUTA wage base. While states can set their taxable wage base higher than the federal level, many states set their tax base at or not much higher than the FUTA taxable wage base.

The ability of the UI system to pay adequate UI benefits depends on the two features that determine how much money the UI system raises: the UI tax rate and the UI taxable wage base. The fact that both the average state UI tax rate and the taxable wage base are low in many states makes it likely that UI benefits are inadequate in those states. The fact that the federal taxable wage base has remained low allows many states to set their own low UI taxable wage bases.[3] Currently, the federal UI taxable wage base is $7,000. It has increased only three times since 1940. By contrast, the Social Security taxable wage base has increased steadily since the 1960s, first by discretion, then, since 1975, by annual adjustment according to a national wage index (Whitman and Shoffner 2011). In 2019, the Social Security taxable wage base reached $132,900.

[3] The UI taxable wage base started at total wages and was in effect in 1937 and 1938. In 1939 amendments to Social Security and UI included a reduction in the UI taxable wage base to $3,000 to make it the same as for Social Security (Balducchi and O'Leary 2018, p. 94).

About 94 percent of all workers have annual earnings below the Social Security taxable wage base and about 86 percent of all earnings are below the base (Whitman and Shoffner 2011).

Figure 1



SOURCES: U.S. Department of Labor, Employment and Training Administration, ET Financial Data Handbook 394; and www.ssa.gov.

While there are policy debates about whether the Social Security taxable wage base is itself adequate and whether it should be raised further for tax equity and adequacy purposes, it is clear that higher state taxable wage bases and tax rates are necessary to fund adequate state benefit programs. The UI federal taxable wage base of $7,000 is completely inadequate. Examining Figure 1, it is apparent that the current inadequacy of the UI federal tax base has been caused by congressional neglect. Since FUTA set the taxable wage base at $3,000 effective in January 1940, the ratio of UI taxable to total wages has gradually declined such that the percent of total wages that are currently taxable is about 25 percent. Figure 1 shows that, from a public finance perspective, the federally mandated UI taxable wage base has remained at a very low level and is insufficient to fund adequate benefits not increasing with wages over time. The

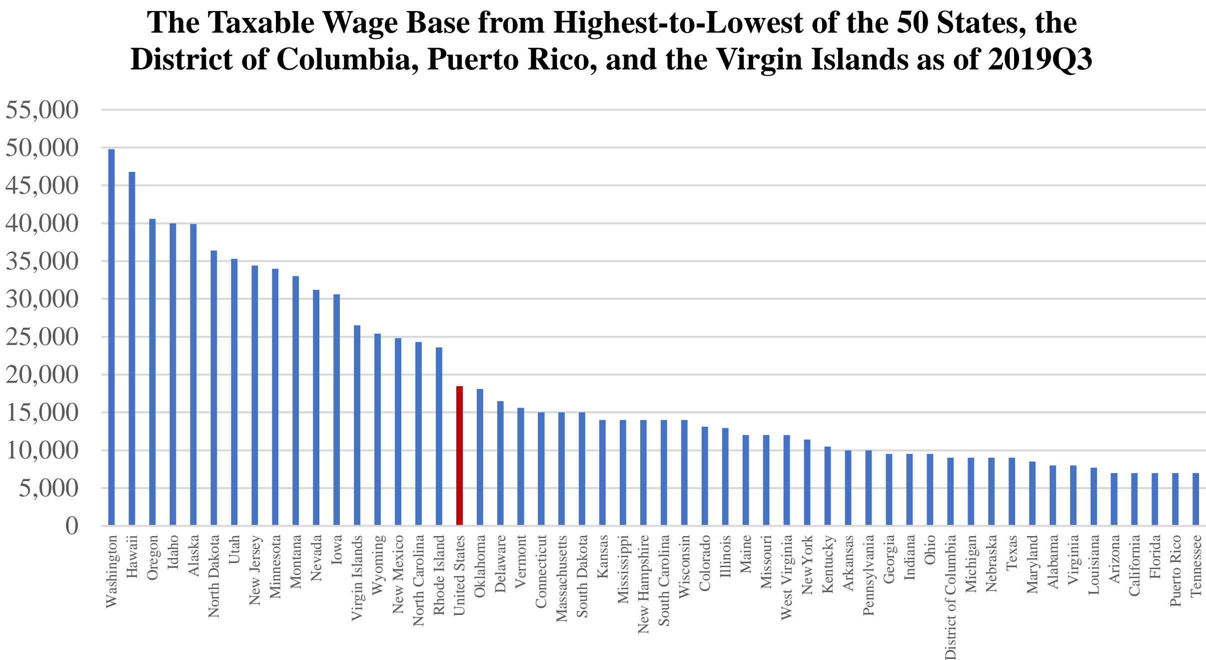
relatively static UI taxable wage base can be compared to the Social Security wage base that has automatically increased annually.

To address the problem of inadequate UI funding, the UI taxable wage base should be increased substantially and then indexed like the Social Security taxable wage base. While the federal taxable wage base is used to generate federal UI tax receipts and acts as a floor for state UI taxable wage bases, states are free to set their own taxable wage base for paying state UI benefits using a taxable wage base at least equal to or greater than the federal rate.

Given this flexibility, most states have elected to maintain low taxable wage bases that are not much higher than the federal minimum rate of $7,000.

- 18 states have taxable wage bases of $10,000 or less.
- 14 states have taxable wage bases greater than $25,000.

Figure 2



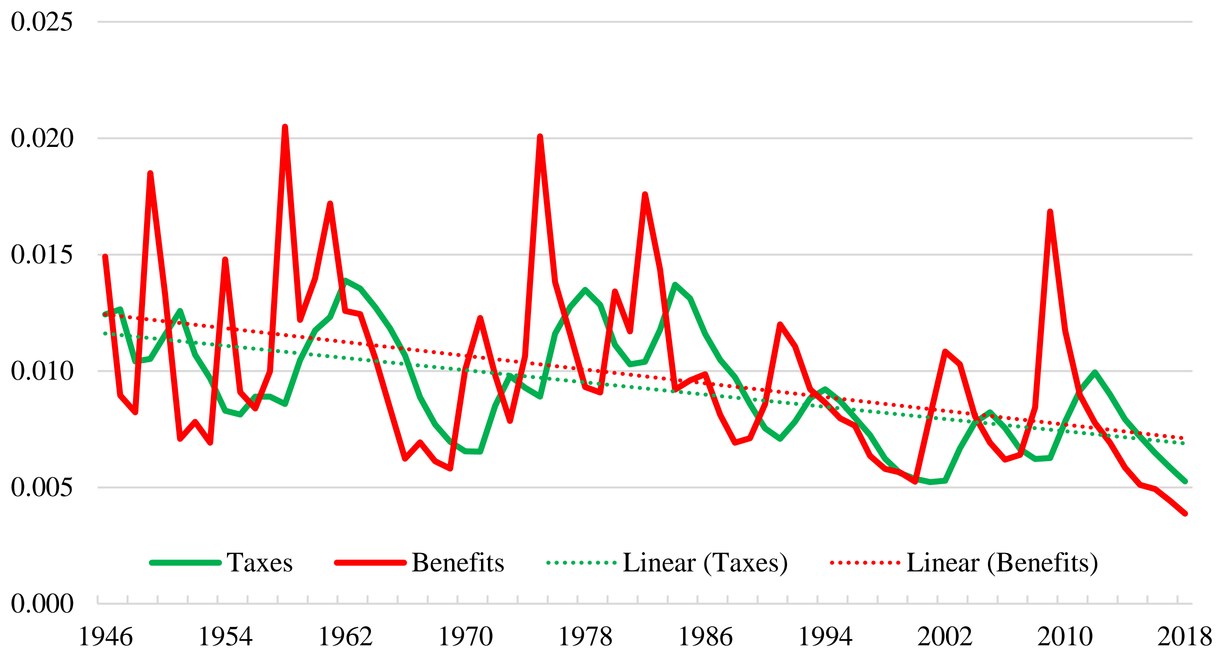
SOURCE: U.S. Department of Labor, Employment and Training Administration, Quarterly UI Data Summary.

Thus, the great majority of states have low and inadequate taxable wage bases, with more than 40 states having taxable wage bases less than $25,000.

In the post–World War II period, there has been a downward trend in UI taxes as a percentage of total wages. The decline in financial support for the UI system has inevitably been accompanied by a downward trend in UI benefits as a percentage of total wages. Figure 3 shows that, since 1946, there has been a downward trend in UI taxes and benefits as a percentage of total wages. Both benefits and taxes are less than one percent of total wages. In this graph and in some of the following graphs, a trend line is fitted to the data in each time series. The tax and benefit trend lines are both declining and converging. A structural deficit is emerging across the collection of state UI benefit financing systems, and inadequate financing is putting downward pressure on UI benefits in many states.

Figure 3

UI Taxes and Benefits as Percentage of Total Wages in the United States, 1946–2018



SOURCE: U.S. Department of Labor, Employment and Training Administration, ET Financial Data Handbook 394.

Figure 3 also shows that UI benefits are highly procyclical, increasing sharply when the unemployment rate increases—note the red spikes. Because UI benefits are paid from the Unemployment Trust Fund (UTF), over time UI taxes must replenish the fund. We see, however, that taxes tend to increase only after a recession, then quickly decline.

The result is inadequate long-term funding for the UI program, and many individual state accounts in the Unemployment Trust Fund go broke in recessions. As a result, because of their inadequate funding, state UI programs can and do borrow heavily from the Treasury-maintained Unemployment Trust Fund.

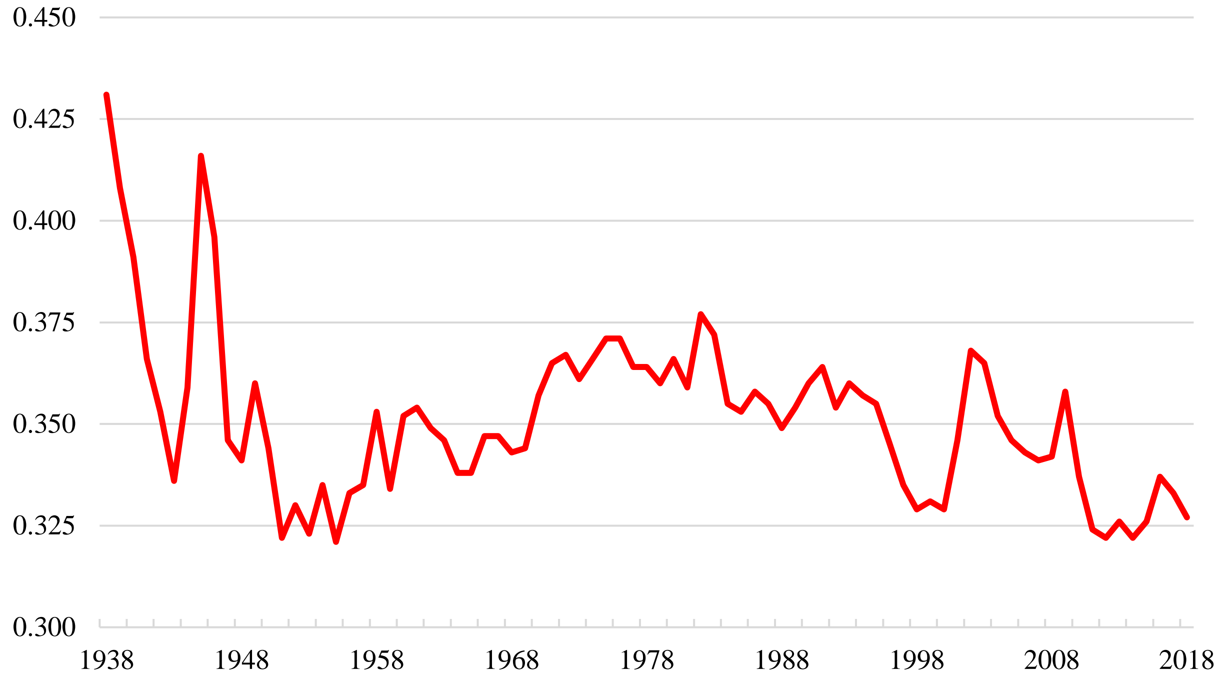
The original expectation for the UI program was that states would build up reserves in their state UTF accounts during good times, such that they would have adequate funds to pay for high, recessionary UI benefits during economic downturns. In actuality, few states build up adequate reserves during good economic times. Many state reserve balances go negative during recessions, and it often takes several years for states to rebuild reserves.

UI benefits generally are set at 50 percent of the UI recipient's prior weekly wages up to a maximum set annually by each state.

Because many states set the benefit maximums at low levels, during most of the post–World War II period, the nationwide average wage replacement has tended to be approximately 35 percent.

There has been a downward trend in the UI wage replacement rate since the mid-1970s (Figure 4). In many states the average replacement rate had declined because the state maximum weekly benefit amount has not been increased for many years (Vroman 2018).

Figure 4



SOURCE: U.S. Department of Labor, Employment and Training Administration, ET Financial Data Handbook 394.

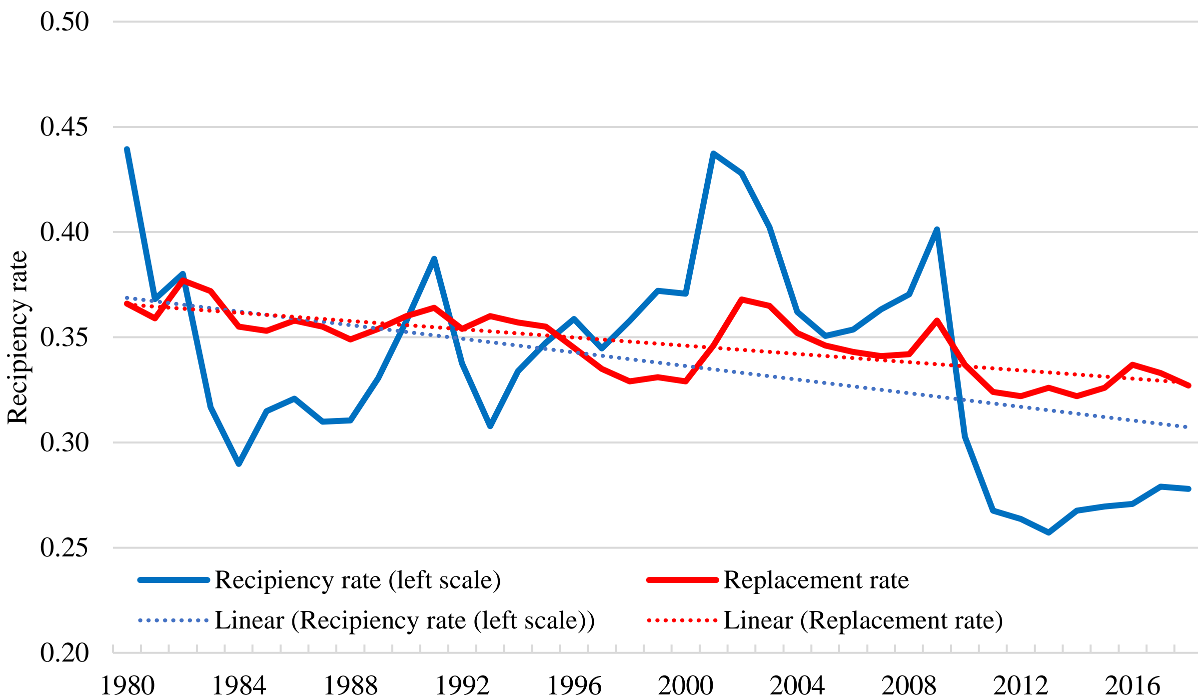
The UI benefit program has been weakening since 1980. It serves a smaller percentage of the unemployed (the UI recipiency rate), and, for the unemployed workers whom it does serve, it pays a smaller percentage of the wages that they have lost (the wage replacement rate). Figure 5 shows the downward trend in both the regular UI program recipiency rates and the wage replacement rates since 1980. Thus:

- Far fewer unemployed workers have been collecting UI in recent years than in the 1980s: the recipiency rate measures the percent of the unemployed who receive UI benefits. Recipiency rates tended to hover around 40 percent until a decade ago; more recently they have declined to not much above 30 percent.

Unemployed workers who receive UI benefits receive less than half their prior weekly wages, and they have been receiving a smaller percentage of their prior wages over time (the wage replacement rate). In the period from 1980 through 1995, wage replacement rates were

greater than 35 percent. Over the past three decades, wage replacement rates have been below 35 percent except during recessionary periods.

Figure 5



SOURCES: U.S. Department of Labor, Employment and Training Administration, ET Financial Data Handbook 394 and U.S. Department of Labor, Bureau of Labor Statistics, Current Population Survey, Employment Status of the Civilian Non-Institutional Population.

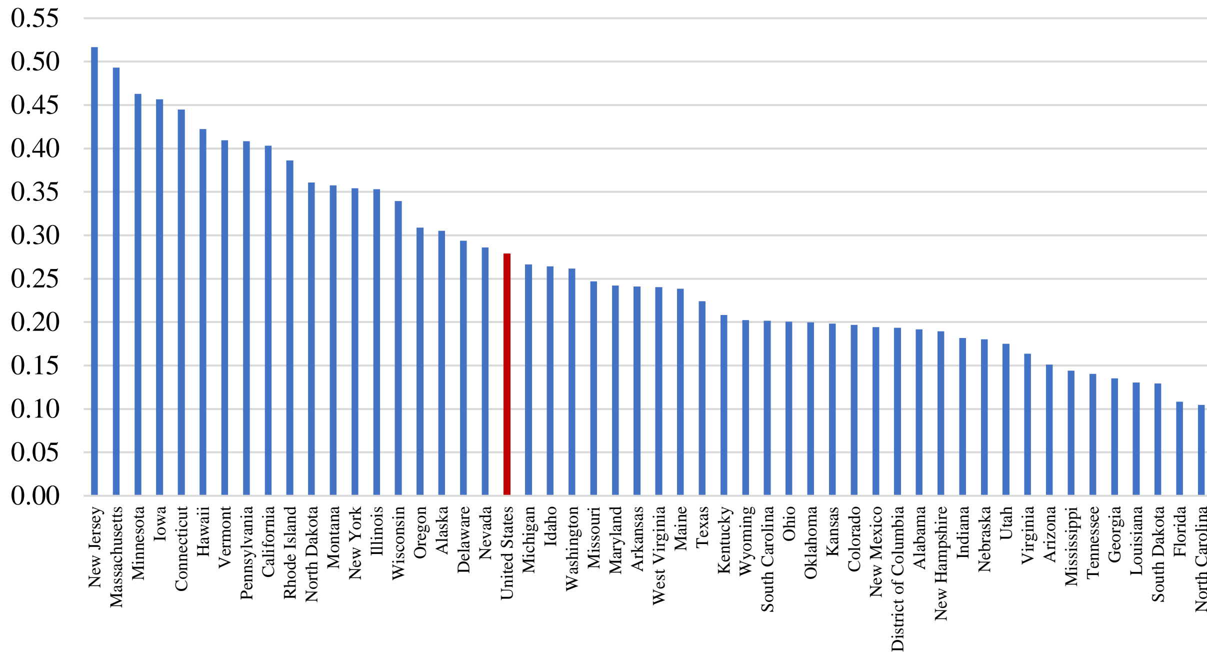
While the national UI recipiency rate has been declining, the UI recipiency rate varies greatly among the states:

- Nine states have recipiency rates of greater than 40 percent.
- Twenty-nine states have recipiency rates of less than 25 percent.
- North Carolina's recipiency rate is the lowest in the nation at 10.5 percent.

At 51.7 percent, New Jersey's recipiency rate is nearly five times as big as North Carolina's. Figure 6 illustrates this 2018 UI recipiency rates for all states.

Figure 6

UI Recipiency Rates in the 50 States plus the District of Columbia for 2018



SOURCES: U.S. Department of Labor, Employment and Training Administration, ET Financial Data Handbook 394 and U.S. Department of Labor, Current Population Survey, Employment Status of the Civilian Non-Institutional Population.

Over half of all unemployed workers tend to be on layoff—as opposed to workers unemployed because of quitting their prior job or being new entrants or reentrants to the labor force. Since nearly all workers who work in covered employment have substantial attachment to the workforce, if they are on layoff, then they should be eligible for UI.

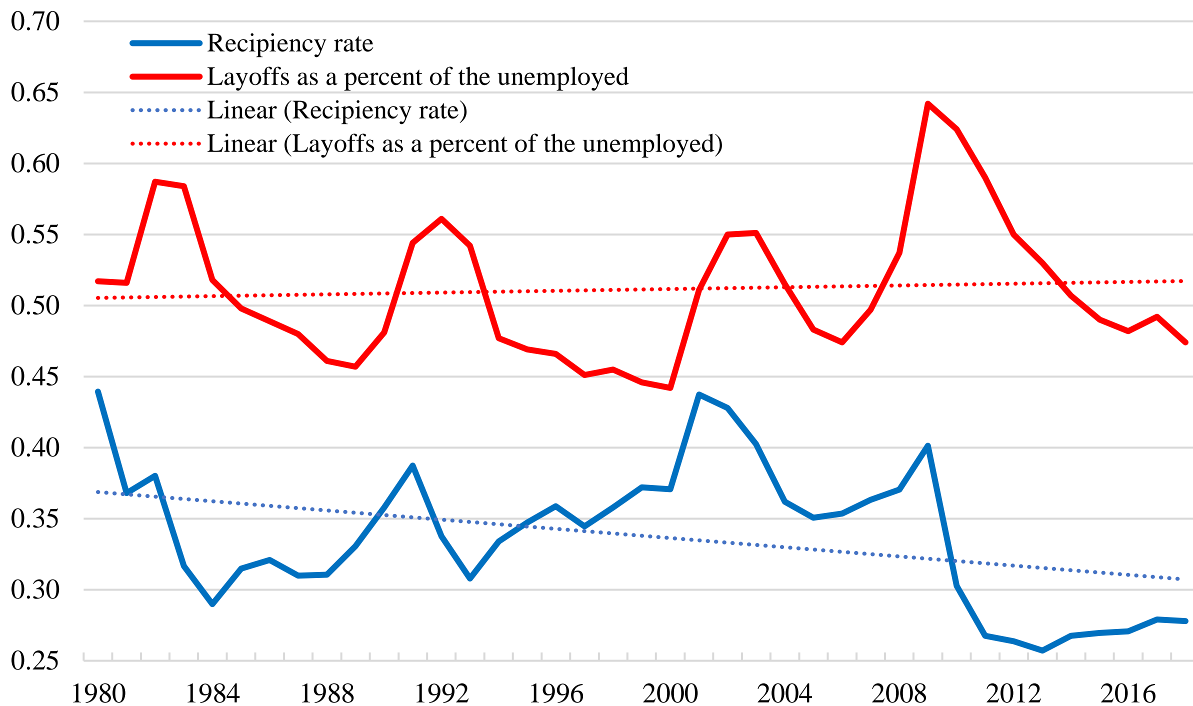
If states generally have layoff rates of approximately 50 percent, the 29 states with recipiency rates of less than 25 percent are serving only a small percent of the potentially eligible workers on layoff.

For example, if North Carolina—with the nation's lowest recipiency rate—has a layoff rate of about 50 percent, then only approximately one in four workers on layoff collect UI.

The Bureau of Labor Statistics' unemployment data demonstrate that the layoff rate is cyclical, but it tends to vary around 50 plus percent. There is a small upward trend in the layoff rate (Figure 7). Since it is the job of the UI program to provide UI benefits to strongly attached unemployed workers on layoff, one would expect that the UI recipiency rate also would be increasing to accommodate the rising layoff rate. However, while the regular UI recipiency rate also varies with the business cycle, from 1980 to 2018 it has been declining substantially from approximately 35–40 percent to less than 30 percent.

Figure 7

Regular UI Recipients and Layoffs as a Percent of the Unemployed, 1980–2018



SOURCES: U.S. Department of Labor, Employment and Training Administration, ET Financial Data Handbook 394 and U.S. Department of Labor, Bureau of Labor Statistics, Current Population Survey, Employment Status of the Civilian Non-Institutional Population.

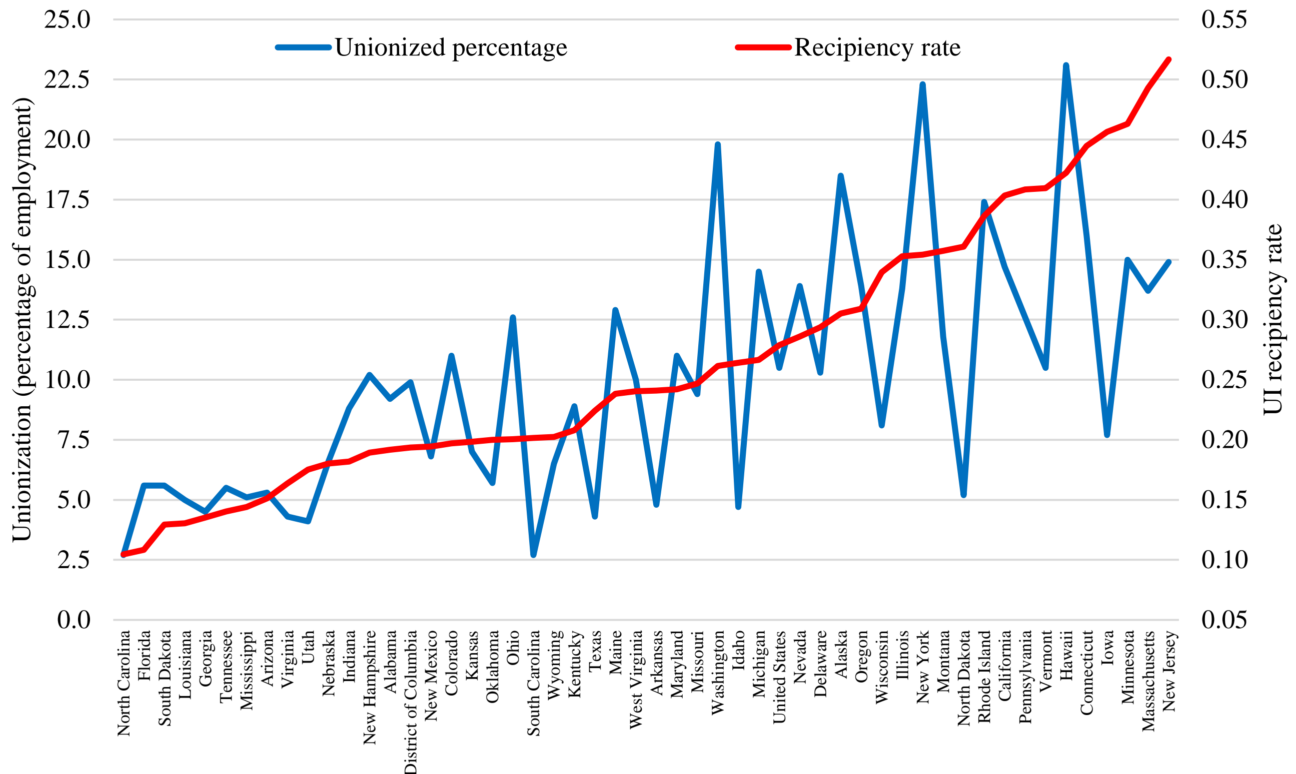
The decline in the UI recipiency rate nationally is determined by individual state UI programs that make it easier or harder to receive UI benefits. Let's turn to why recipiency varies

so much by state. State governments determine UI eligibility conditions, levels of benefits, and duration of benefits. They also determine how hard or easy it is to apply for and receive benefits.

The making of rules to determine how easy or hard it will be to receive UI benefits is part of a political process that goes on in each state capital. The major players in determining how generous UI benefits will be in the state are employer and employee representatives.

Figure 8

Union Membership as a Percentage of Employment by State Ordered by Lowest-to-Highest Regular UI Recipiency Rate for 2018

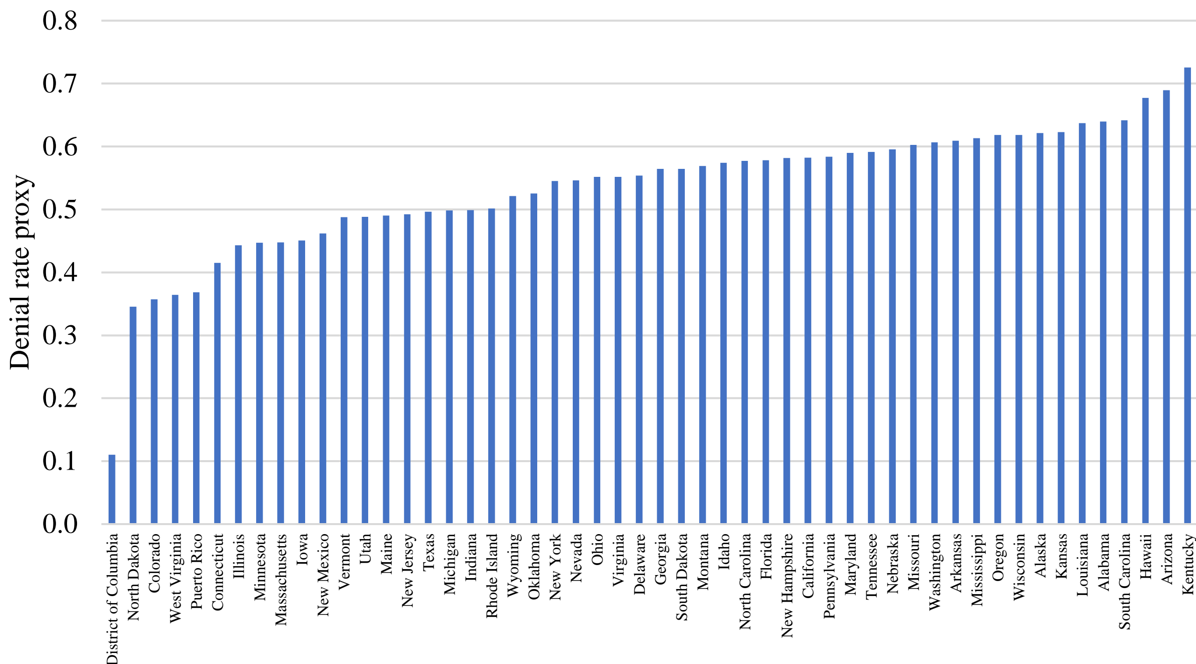


SOURCES: U.S. Department of Labor, Bureau of Labor Statistics, Current Population Survey, "Table 5. Union affiliation of employed wage and salary workers by state"; U.S. Department of Labor, Employment and Training Administration, ET Financial Data Handbook 394 and U.S. Department of Labor, Bureau of Labor Statistics, Local Area Unemployment Statistics.

Because employers directly pay nearly all UI taxes, state employer organizations try to keep UI benefits and UI taxes as low as possible. By contrast, state organized labor groups try to maintain a high level of state UI benefits and to have state UI tax rates and tax bases sufficient to

fund state UI benefits. Organized labor in the U.S., however, is weak and has been declining over time. Nationally, less than 10 percent of wage and salary workers are union members, and union membership varies greatly by state. Thus, one would expect that there would be a relationship between the extent of union membership and UI recipiency rates. Figure 8 shows that indeed there is such a relationship. Since the determination of UI benefit provisions is a political decision arrived at by state political officials, where unionization is strong, organized labor appears to have more power to influence state UI policy.

Figure 9



NOTE: The UI payment denial rate is calculated by states as initial claims minus first payments as a share of initial claims for states and territories, excluding the District of Columbia.
SOURCE: U.S. Department of Labor, Employment and Training Administration, Unemployment Insurance Weekly Claims data; U.S. Department of Labor, Employment and Training Administration, ET Financial Data Handbook 394.

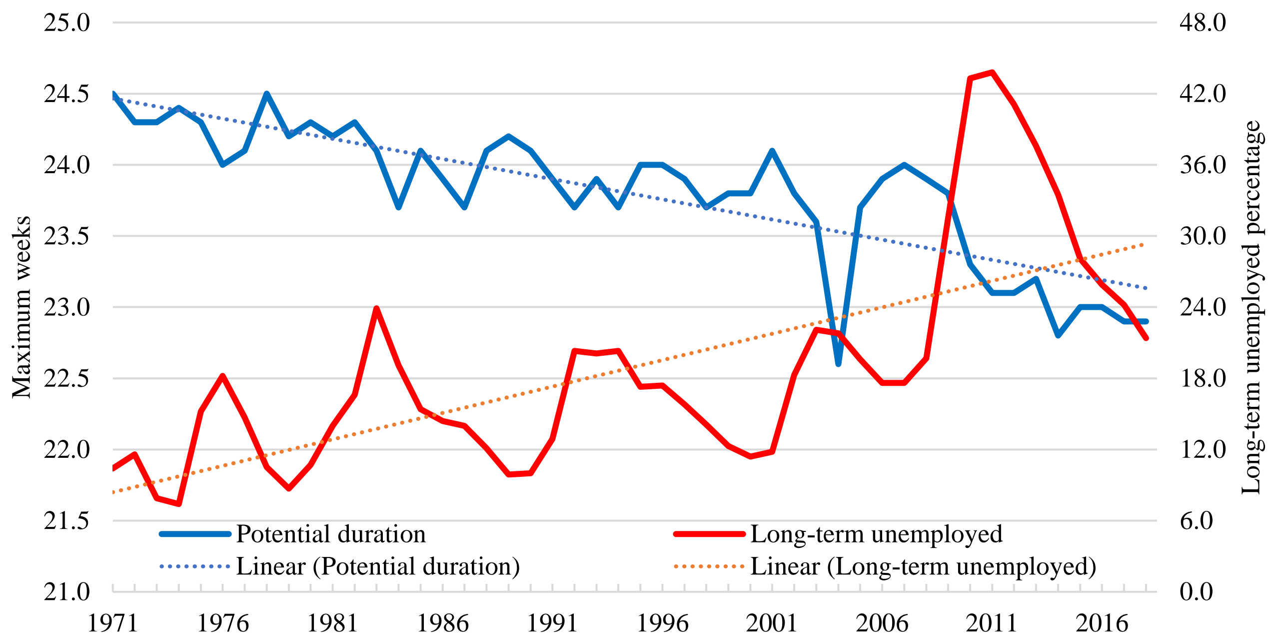
Unemployed workers can apply for UI benefits. Once they submit an initial claim for UI benefits, those applications are reviewed by state UI staff members. The applications are

approved or denied, and they can be denied for a variety for reasons. Workers may not have had enough earnings in their base year, resulting in denials for monetary reasons. Workers also may be denied because of factors relating to their separations (nonmonetary reasons), such as misconduct or having quit their job without cause.

The denial rate is the percentage of workers who apply for UI but are denied benefits for a variety of reasons. The denial rate varies widely between states. It can be an important reason for differences in recipiency rates between the states (Figure 9).

Figure 10

Average Potential Weeks Duration of Regular UI Receipt for Workers Fully Unemployed and the Percentage of Unemployed Who Are Jobless for 27 Weeks or Longer in the United States, 1971–2018



SOURCES: U.S. Department of Labor, Employment and Training Administration, ET Financial Data Handbook 394; U.S. Department of Labor, Bureau of Labor Statistics, Current Population Survey, Characteristics of the Unemployed.

Since the early 1970s, most states have set the usual maximum potential duration of regular UI benefits at 26 weeks, although most states provide maximum potential durations that

vary by individual UI beneficiary based on eligibility requirements. Those maximums have been reduced in some states, especially since the Great Recession.

The Bureau of Labor Statistics defines long-term unemployment as a duration of 27 weeks or more, so the exhaustion of UI recipients' potential duration and the BLS measure of long-term unemployment are closely related.

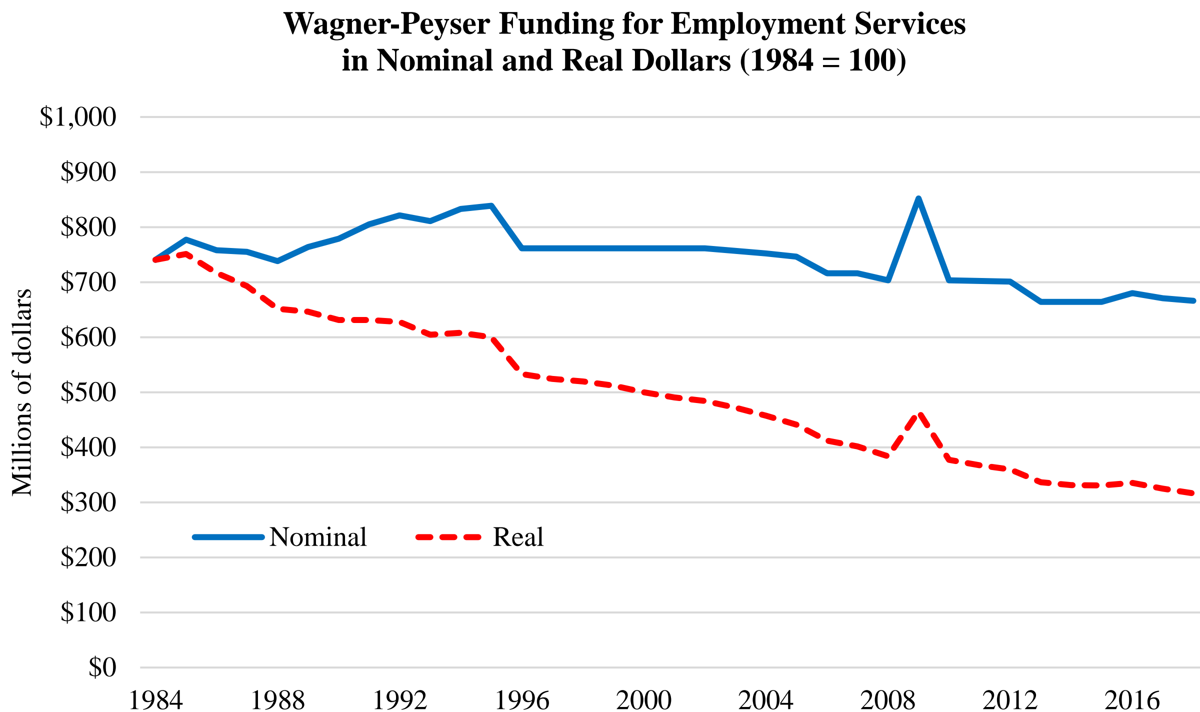
The goal of the UI program should be to attempt to provide a sufficient number of potential weeks of UI benefits such that most workers can find new jobs before they exhaust their entitlement to regular UI benefits. Given that the number of long-term unemployed workers—workers continuing to remain unemployed after their twenty-sixth week of unemployment—has been increasing, it would be expected that the potential duration of UI benefits would have increased over time rather than declining. Instead, as the need for UI benefits has increased, the availability of weeks of benefits has declined.

As shown in Figure 10, since 1971 states have been reducing the average potential number of weeks that workers can receive UI benefits. Thus, the application of eligibility requirements has become more restrictive and results in more workers becoming eligible only for lower potential durations of benefits.

Low maximum potential durations of benefits lower not only the duration of benefits received but, if the maximum is low enough, can actually discourage unemployed workers to apply for UI benefits. Thus, the lower the potential duration of UI benefits, the less likely unemployed workers will apply for UI benefits. An extreme example of low maximum potential duration is North Carolina, where in 2018 the potential duration reaches only ten weeks when the state unemployment rate is low.

While there are severe problems with the benefit payment and tax collection aspects of the UI program, UI claimants also face inadequate assistance in helping them finding new jobs, assistance that is supposed to be provided by the Employment Service in local workforce offices around the United States.

Figure 11



SOURCE: U.S. Department of Labor, Employment and Training Administration.

Very few unemployed workers are temporarily laid off. Instead, most laid-off workers are permanently laid off. Since UI recipients generally do not return to their prior jobs, they almost all need to search for new work.

Traditionally the Employment Service has provided job matching services and job search training—for example, short training sessions on how to search for work. These services have been critical to successfully returning UI recipients back to work in a timely fashion. However,

funding for the Employment Service has been reduced sharply since the mid-1980s in nominal terms, and the reduction has been especially great in real terms—adjusted for inflation.

What this means to UI recipients is that when they go to a public workforce one-stop center, they are not likely to receive in-person one-on-one reemployment services. Instead, they are likely to be sent to a resource room where they are expected to use a personal computer to search for labor market information, take aptitude and other tests, search for job openings, and conduct other activities on their own. There may or may not be staff available to help them navigate the on-line products. They are not likely to get personal assistance in developing a résumé or learning how to successfully take a job interview.

The result is that the provision of reemployment services is very limited. Technology-savvy, professional workers may do well searching for work on their own. Others—especially less educated, older, those who speak English as a second language or have a disability, and others—have a much harder time searching for and finding work.

CONCLUSIONS AND OVERVIEW OF RECOMMENDATIONS

The UI program has declined over time for several reasons, including the following: 1) not adapting to the changing economic characteristics of the U.S economy and the demographic mix of the labor force, 2) no significant reforms since 1976 and not addressing issues that Congress anticipated even then but could not agree upon, 3) a federal partner in the UI system that has not exerted strong leadership, and 4) state UI systems that have eroded over many years in response to political forces that have mostly reduced the effectiveness of the UI program.

In sum, the UI system has weakened over the past four decades, and it needs substantial reform in order for it to meet the program goals first established in 1935. To restore social insurance principles and reemployment incentives, and to accommodate current labor market

needs, we suggest expansive UI reform. In this paper, we have suggested a number of needed reforms (also detailed in in O'Leary and Wandner 2018), which we summarize below.

Eligibility

- Eligibility should be offered to bona fide labor force members involuntarily separated from work and who are engaged in an active search for reemployment.
- Labor force attachment (monetary eligibility) should be demonstrated by earnings in the high quarter base period (the first four quarters of the last five completed calendar quarters) equal to at least twice the state average weekly wage in UI-covered employment plus earnings of at least the average weekly wage outside the high quarter base period.
- For claimants found not monetarily eligible based on the standard base period, all states should consider earnings in an alternate based period of the four most recently completed calendar quarters.
- All states should allow workers to collect UI while seeking part-time work, if their base period earnings included part-time work.
- The UI benefit offset for retirement income should be repealed.
- Refusal of suitable work requirements concerning the reservation wage for reemployment should specify a schedule for an acceptable wage as a proportion of prior earnings which declines as the duration of unemployment rises.
- An active work search is expected of all UI beneficiaries, and efforts by the public employment service should actively support the search for return to work.
- Since the FUTA tax supports the Wagner-Peyser public employment service, revenues from the FUTA tax should be increased and automatically appropriated by Congress annually to the states.

Benefit Levels and Durations

- Benefits levels should provide socially adequate income replacement that does not introduce an excessive disincentive for employment.
- Benefit durations should accommodate an energetic and exhaustive search for new work with sufficient reemployment supports.

- States should replace 50 percent of prior earnings up to the state maximum weekly benefit amount.
- The state maximum weekly benefit amount should be set at two-thirds the state average wage in UI-covered employment. At least 26 weeks of benefits should be available.

Extended Benefits

- Revenues from the FUTA tax should pay for 100 percent of extended benefits (EB) for all states that adequately fund 26 weeks of regular state UI benefits in all economic periods.
- The EB trigger should be based simply on state unemployment rate levels, with no relative measure limiting EB availability. EB should pay up to 26 weeks, with the understanding that Congress may act on an emergency basis to supplement the permanent EB program.

Benefit Financing

- The FUTA taxable wage base should be set to 25 percent of the Social Security taxable wage base and indexed to change in step with the latter.
- Employer financing should be limited to the state responsibility for regular benefits, with the FUTA levy covering the full cost of program administration and extended benefits during high-unemployment periods.
- States should hold UI reserves in Unemployment Trust Fund (UTF) accounts at the U.S. Treasury sufficient to pay at least one year of benefits at the average of the three highest cost rates experienced in the prior 20 years.
- The U.S. Treasury should pay states with sufficient reserves interest rates at least 25 basis points higher than the rate charged to states borrowing to pay UI benefits. States with positive reserve balances should be paid at least the rate charged to borrowing states.
- Nonprofit employers should be required to pay FUTA taxes to fund program administration and employment services.

Administrative Financing

- Congress should annually appropriate adequate funds for UI administration from the employment security administrative account in the UTF, or Congress should change this mechanism to an automatic funding formula based on state share of FUTA contributions.
- Funding for the Wagner-Peyser public employment service should be restored to the 1984 level in real terms and indexed to the Social Security taxable wage base.

Employment Service and Reemployment Services

- Effective mechanisms for forward funding of state benefits and an emphasis on reemployment of beneficiaries are essential features.
- The Worker Profiling and Reemployment Services (WPRS) system should be fully funded.
- The Reemployment and Eligibility Assessment and Reemployment Services (RESEA) program should pay for the work test and services to WPRS-profiled and referred UI beneficiaries.
- Funding for WPRS should come from RESEA if Wagner-Peyser funding to WPRS is insufficient.
- To provide services to the remainder of non-job-attached UI beneficiaries, the Employment Security Administration Account should pay for UI work test enforcement, eligibility reviews, labor exchange services, and reemployment services for all other beneficiaries.
- Education and training for the long-term unemployed should be funded from a source other than the UTF to preserve the integrity of the UI system.
- Short Time Compensation—work-sharing programs—should operate in all states.
- Self-Employment Assistance should be available in all states, and these opportunities could be targeted with state WPRS models.
- States should have the option to offer reemployment bonuses through UI. Bonuses should be implemented with a five-year sunset, and federal subsidies provided to states willing to conduct field experiments evaluating their effectiveness.

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