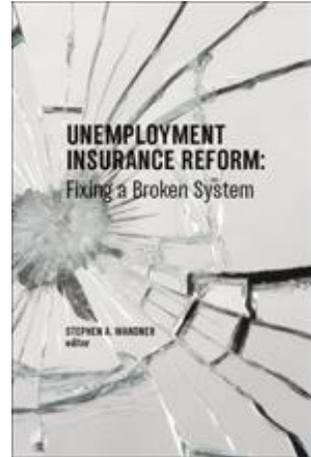


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Chapter 5

Unemployment Insurance Reform

Evidence-Based Policy Recommendations

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The federal-state unemployment insurance (UI) system was established under provisions in the Social Security Act of 1935. The last set of comprehensive system reforms addressing both benefits and financing was enacted in 1976. The labor market has undergone dramatic changes in the intervening 40 years, and the UI system has not kept pace. There have been major declines in the shares of total employment in manufacturing, union members in the labor force, and full-time work as a share of all work, while there have been large increases in employment in the services, occupational licensing, and part-time and temporary work. Some federal UI statutory provisions that worked in an earlier time have not aged well. This chapter reviews UI policy reforms suggested by research evidence in the context of current labor market conditions. We examine the adequacy of benefit amounts, durations, and access for experienced workers who become unemployed through no fault of their own. We also consider the sufficiency of funding rules to support adequate income replacement. In this context, it must be noted that the federal UI taxable wage base has not been increased from \$7,000 since 1983, and tax rates have eroded with the declining effectiveness of the experience-rated tax rate system. This chapter takes a fresh look at the UI research and

policy issues covered in our earlier work, *Unemployment Insurance in the United States: Analysis of Policy Issues* (O'Leary and Wandner 1997).

The chapter starts with a research-informed review of policy issues, followed by a presentation of a comprehensive package of suggested UI reforms. Our core proposals aim to renew the social insurance principles upon which the UI system was based, programmatic incentives, and the financing structure underpinning UI so that it can serve workers and employers over the long term. We also recommend updating the program to accommodate the realities facing American workers in twenty-first century labor markets. An essential element of assuring long-term stability of the system involves balancing UI benefits and taxes over time, while also establishing a countercyclical financing structure based on forward funding. Our recommendations reflect the principle of shared responsibilities of all partners in the system. In particular, we address benefit eligibility, regular and extended benefits, benefit financing, administrative financing, reemployment services, and employment incentives.

On the benefit payment side, adequate benefits should be paid to eligible workers who are unemployed through no fault of their own. Eligibility should be offered to bona fide labor force members involuntarily separated from work, who are engaged in an active search for reemployment. Benefits levels should provide socially adequate income replacement that does not introduce excessive disincentives for reemployment. Benefit durations should accommodate an energetic and exhaustive search for new work with sufficient reemployment supports.

Sufficient benefit standards will increase costs for regular UI benefits in some states. As a balance, we propose that the federal government should partially offset increased state costs by taking full responsibility for financing an improved permanent Extended Benefit (EB) program. Reflecting the increased risk of long-term unemployment in the U.S. economy today, experience-rated employer financing should be limited to the regular benefit program, with the Federal

Unemployment Tax Act (FUTA) levy covering the full cost of EB during high unemployment periods. It is appropriate that any future temporary emergency unemployment compensation continue to be funded from federal general revenues. We also discuss effective mechanisms for improved experience rating and forward funding of benefits together with a strengthened emphasis on reemployment of beneficiaries. We restrict the scope of our recommendations to the UI program and its extensions and do not consider any means-tested unemployment assistance programs of the type recently proposed (e.g., West et al. 2016).

BENEFIT PAYMENTS

Federal UI law leaves it to the states to make their own statutory determination about eligibility, benefit levels, and duration of the basic “regular UI” program. Federal law is mostly silent about benefit provisions. The federal government occasionally has responded, however, to perceived misuse of state UI programs, placing restrictions on benefit receipt by groups, such as professional athletes, school employees, and individuals collecting pensions.

Eligibility

Monetary eligibility requirements are relatively modest in most states for experienced workers who work full time and full year. UI claimants generally have to have had minimum earnings in their “base period”—the first four of the last five completed calendar quarters—before they became unemployed and have had earnings in more than one quarter. Prior earnings by UI applicants are considered evidence of labor force attachment, as well as an indication that tax contributions have been made to the system by prior employers to finance the benefit system. Most states consider only prior earnings for eligibility, but some states also consider prior hours worked. An eligibility rule

based on earnings is easiest to apply. Most states have a high quarter earnings requirement and an earnings dispersion requirement. That is, at least one quarter in the base period must have earnings above a minimum level, and a sufficient amount of earnings must be outside the high earnings calendar quarter. Some states require no more than about \$1,000 in the high quarter of the base period and at least \$500 in the second highest quarter.

Monetary eligibility is harder to achieve by workers who are recent entrants to the labor force or who are low-wage or part-time workers. Recent entrants to the labor force may not have sufficient wages to qualify for UI because their base period lags, and they would qualify only if their most recent earnings were used to determine if they are monetarily eligible. A number of individual states dealt with this issue by introducing an alternate base period (ABP), which uses all earnings in the four most recently completed calendar quarters.

As participation in the labor force has changed over time, more people work part time. States have generally required unemployed workers to search for full-time work to qualify for UI. This restriction particularly affects older workers.

In February 2009, Congress enacted the American Recovery and Reemployment Act (ARRA) that included UI Modernization provisions that provided states with financial incentives to change provisions of their state UI laws in ways that would increase participation in the UI program. A \$7 billion incentive fund was established, with each state's grant amount set in proportion to the state share of national unemployment. States were paid one-third of their allocation for having an ABP for monetary determination of UI eligibility that includes the most recently completed calendar quarter. States were paid the remaining two-thirds of their allocation for having two of the following four additional program features: 1) UI eligibility while seeking only part-time work, 2) UI eligibility after job separations due to harassment or compelling family reasons, 3) continuation of UI benefits for at least 26 additional weeks after exhaustion of regular

benefits while in approved training, and 4) dependents' allowances of at least \$15 per dependent up to \$50 (O'Leary 2011).

The UI Modernization effort was successful at more than doubling the number of states with ABPs from 19 to 41 and increasing the number of states adopting part-time work provisions from 6 to 28. Because states did not commit to permanently maintaining their UI Modernization provisions, one state later rescinded its ABP provision, and two states removed their part-time work provisions (Table 5.1).

Nonmonetary eligibility conditions cover both job separation and continuing eligibility. Rules require that the job separation must be involuntary, that is, not resulting from a voluntary quit, discharge for misconduct, or other causes justifiable by an employer. A notable exception has been earlier state legislation and a federal option for states in the UI Modernization incentives section of the ARRA of 2009. That exception resulted in a total of 21 states permitting initial nonmonetary eligibility when leaving a job for compelling family reasons.¹ For benefit eligibility to continue for each weekly claim, the UI claimant must be able, available, and actively seeking full-time work. Furthermore, to satisfy both the initial and continuing non-monetary eligibility rules, beneficiaries may not refuse an offer of suitable work, including any bona fide job offer resulting from an Employment Service (ES) job referral.

Table 5.1 Unemployment Insurance Modernization: States with Provisions before and after ARRA

UI Modernization provisions	Number of states with provisions before ARRA	Number of states with provisions as of 7/1/2016
Alternative base period	19	40
Part-time work	6	26
Compelling family reasons	0	20
Dependents allowance	4	6
Training extension	0	13

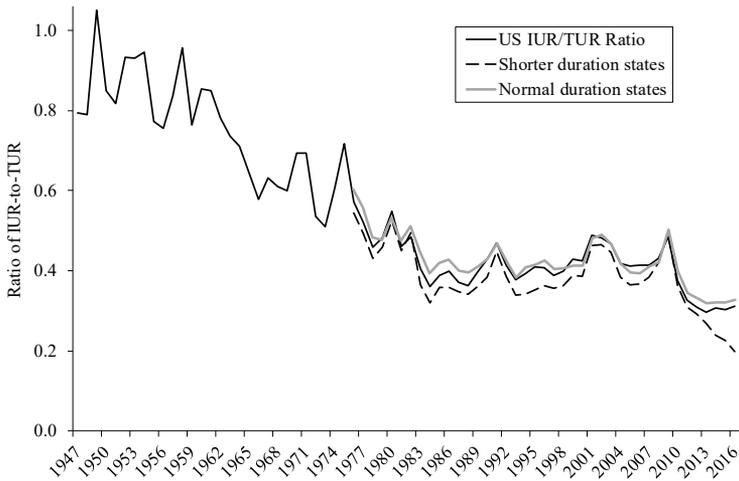
SOURCE: www.workforcsecurity.doleta.gov/unemploy/laws.asp#modernandupdates from Suzanne Simonetta, USDOL, September 2016.

High levels of state UI borrowing during the double-dip recession in the early 1980s led to tightening of eligibility requirements, and a falling share of unemployed persons who were insured receiving UI benefits (Burtless 1983).² A common measure of UI reciprocity is the ratio of the insured unemployment rate (IUR) to the total unemployment rate (TUR). Figure 5.1 shows that this ratio declined from around 60 percent prior to 1980 to about 40 percent through the most recent recession. Since then, the reciprocity rate has fallen to about 30 percent nationwide, and several states now have reciprocity rates far below 30 percent. A new dimension of the recent drop in reciprocity results from reductions from the normal maximum potential duration of 26 weeks of regular UI benefits to shorter potential durations in eight states (see Chapter 4). Reasonable duration provisions are discussed below, but state eligibility rules and the fairness of their enforcement also are relevant.

State policy and procedures have a substantial effect on UI receipt. It is possible that new automated systems for accepting UI applications and for qualifying continued claims are depressing reciprocity rates. In fact, the U.S. Department of Labor (USDOL), Civil Rights Center, filed an initial determination supporting Florida complainants suing the Department of Economic Opportunity for discrimination because of the imposition of access and language barriers to the successful filing of initial and continuing UI claims for benefits (USDOL 2013). The 2015 IUR/TUR ratio in Florida was 0.148, one of the lowest in the United States. Florida law requires Internet-only applications for benefits, its UI application call centers have been closed, and UI is no longer a required partner in local One-Stop employment centers.

In 1976, the federal government enacted retirement income offset provisions, two decades before the surge in labor force participation by older workers in the mid-1990s. The legislation reflected the expectation that older workers were likely to retire and would not really be looking for new employment. Today, however, older workers are the only U.S. demographic group with a continued increasing labor force participation rate, and public policymakers are looking for

Figure 5.1 Ratio of IUR to TUR (Reciency Rate) in the United States and among Normal and Shorter Potential UI Duration States, 1947 to 2016



ways to continue this upward trend. Although states have discretion in applying the federal retirement offset provisions, they continue to work at cross purposes to the policy of encouraging older workers to stay in the labor force (Agbayani et al. 2016).

Suitable work provisions in state laws generally allow UI claimants to search for work in their customary occupation at their customary wage. With the increasing severity of worker dislocation and the upward trend in the duration of unemployment, however, the likelihood of returning to a customary occupation at the prior wage has been decreasing.

Recommendations

Eligibility provisions should encourage unemployed workers to remain in the labor force and increase future employment and earnings in the economy. Six recommendations are discussed below.

Initial eligibility. Initial eligibility requirements should require moderate earnings in more than one-quarter of UI claimants' benefit year. For example, some states require that earnings in the high quarter of the base period should be at least \$1,000, and earnings in the second highest earning base period quarter must be at least \$500.

Alternative base period. Applicants for UI must demonstrate attachment to the labor force by demonstrating monetary eligibility, that is, evidence of sufficient recent earnings. The standard base period (SBP) for determining UI monetary eligibility is the first four of the previous five calendar quarters completed before application for benefits. For UI applicants who are not eligible based on the SBP, all states should apply a more recent ABP, which should be the four most recently completed calendar quarters. The ABP broadens eligibility to include a group of UI applicants who have earned sufficient UI earnings but are excluded simply by the timing of their application. The UI Modernization provisions of the 2009 federal economic stimulus bill, the ARRA, provided financial incentives for states to adopt an ABP (Table 5.1; GAO 2007). The ABP has been estimated to have a relatively low cost, at about 1.2 percent of regular benefit payments (O'Leary 2011).

Part-time work provisions. All states should allow workers to collect UI while seeking part-time work if their base period earnings were from part-time work. Similar to the ABP, adoption of a part-time job search rule would broaden eligibility to a significant group of American workers who have earned entitlement through labor force participation and earnings. This provision is estimated to have a cost on par with that of the ABP, at about 1.2 percent of regular benefits (O'Leary 2011). It also should be noted that part-time workers often hold multiple jobs for which UI taxes may be payable on their full wage base for each job. As a result, it is possible that the tax contributions for these workers actually exceed those for full-time job holders with much higher wages and salaries. Without this reform, many part-time workers will continue to shoulder a disproportionate share of

UI benefit financing without enjoying the benefits of income security available through the program.

Retirement income offset. The UI benefit offset for retirement income should be repealed, given the great increase in the labor force participation rate of older workers. There should be no benefit reduction for receipt of payments from defined benefit pensions or for withdrawals from defined contribution pension accounts (e.g., 401k, 403b, IRA, Roth, and Keogh plans) for beneficiaries age 59.5 years or older, regardless of who made the original deposits to the defined contribution plan. UI applicants who have been involuntarily separated from their jobs through no fault of their own and are actively seeking return to work should not be denied benefits or have their benefit levels reduced because they are entitled to draw benefits from another source. Benefits from UI are an earned entitlement to be paid with regard to job separations, not a means-tested income transfer.

Suitable work. Refusal of suitable work requirements in state UI statutes should specify a schedule for the acceptable wage by which the adequate replacement rate of prior earnings declines as the duration of unemployment rises. Unemployment caused by involuntary separations from employers is beyond the control of the worker. Under UI benefit provisions, jobless workers are expected to seek return to alternate comparable employment as soon as possible. The wage rate on a particular job is normally determined by market forces in the occupation and individual factors associated with unique features associated with the employer, the job, and the workers. It is not unreasonable to expect full wage replacement at the start of job search, but it is important to recognize that unique skills associated with a particular employer or job may be worth less in new employment settings. It is reasonable to lower wage demands below prior earning levels after an initial period of search that yields no offers at the old wage rate, because of the loss in value of firm-specific skills. Prolonged unemployment could indicate a decline in job demand for the prior occupation. Naturally, vigorous in-person reemployment and job placement

services should be available to all UI beneficiaries from the time they first apply for benefits. The possibility of job training, particularly in incremental job skills that are in demand, also should be available.

Nine states currently have nonmonetary eligibility rules that change the definition of suitable work during the benefit year.³ For example, in Montana, suitable work after 13 weeks of benefit receipt is a job that pays 75 percent of the prior wage. Of course, no unreasonably low wage levels are acceptable under any circumstances, but the realities of the job market should inform reemployment efforts.

Employment service staffing levels. An active work search is expected of all UI beneficiaries, and efforts should be undertaken by the state agency to ensure this is the case. These include conducting the UI work test, the Worker Profiling and Reemployment Services (WPRS) system procedures, and eligibility review procedures (ERPs) or reemployment and eligibility assessments (REAs). Based on past experimental evaluations, there are a combination of eligibility review procedures and reemployment services that should be used, for example, as under the recently implemented Reemployment Services and Eligibility Assessment (RESEA) program. Key to undertaking these efforts is a vital and active public ES funded through the Wagner-Peyser Act by the FUTA tax.

Improved job search technologies are available through the Internet, but economies gained through these systems have not replaced the professional human resources lost by ES since the 1980s. A fully competent and professionally staffed ES is essential to providing effective reemployment services for all UI recipients, yet total staffing levels in ES service delivery has declined steadily over the past 30 years. One reflection of the decline in the availability of ES services is the decline in the number of local offices in which reemployment services are provided. As of May 2018, there were 1,478 full service One-Stop centers and 973 affiliate offices.⁴ ES should be a full partner in every One-Stop center with staffing of at least four full-time persons.

Funding for ES staffing should be restored to the real 1984 level. Funding was \$740 million in 1984 and has fallen to only \$644 million in 2016—or about 45 percent of the 1984 level in real terms. To reach full ES funding, the budget should have been \$1.5 billion in 2017 or \$856 million above the 2016 level (see Chapter 3 by Balducchi and O’Leary). Since ES is funded through Wagner-Peyser by the FUTA tax, reform of the FUTA wage base would support improved ES funding. The UI program should be restored as an on-site partner in One-Stop centers, with ES administering an active UI work test and UI eligibility assessments. Furthermore, every state should have a central office administrative unit with at least 10 full-time staff for program administration, including program management and program evaluation. This central office unit would support a number of functions, including monitoring work-test enforcement, supporting reemployment services, and WPRS development and management. To support these and other uses of FUTA tax revenue, the FUTA wage base and tax rate should be sufficient to accommodate ongoing financing of both 15,000 ES staff and UI administration.

Regular Benefits: Levels and Durations

The setting of both levels and durations of UI benefits has been affected by the fact that UI beneficiaries respond in their labor supply behavior to the availability, level, and duration of UI benefits. Economists have made several efforts to measure the size of these “disincentive effects.”

Public policy to change the UI program benefit structure should take disincentive effects into consideration. Decker notes, however, that even though researchers have found UI work disincentive effects, they have not reached consensus on the size and importance of these effects (Decker 1997, pp. 295–298). Woodbury and Rubin (1997, pp. 272–273) have a more definitive assessment in their review of the literature. They note that research on benefit adequacy and consumption smoothing suggests that UI recipients are overcompensated in

the short run and undercompensated in the long run, pointing toward variable replacement rates as a possible improvement in the system. They also report on evidence that shows increasing the potential duration of UI benefits by one-week results in an increase in unemployment benefit duration of one day or less, and that this small response suggests that the average UI recipient is not abusing the system.

Benefit levels

The U.S. UI system is based on a consensus that the program should replace approximately one-half of lost wages. This level was not determined empirically. Rather, it was set low enough to encourage workers to search for work quickly and by taking into consideration that unemployed workers would not have expenses that they would incur when they were working. Nonetheless, USDOL sponsored a number of benefit adequacy studies in the 1950s. Early analysis of benefit adequacy revealed that benefits would be adequate if they equaled half or more of wages, prevented “too much” hardship, kept beneficiaries from collecting welfare benefits, and would cover “non-deferrable expenditures” (Haber and Murray 1966).

More recently, economists have tried to determine how benefit rules for the UI program should be structured. One line of inquiry has aimed to determine the optimal level of benefits to balance program goals for income replacement against work disincentives. Economists have agreed that UI benefits should replace considerably less than all lost income, because of work disincentives and the fact that added leisure time is valuable. However, there still is no agreement on the optimum wage replacement rate. Estimates have ranged from 20 to 65 percent, with rates depending on assumptions about adequate levels of precautionary savings and forced borrowing by workers (Nicholson and Needels 2006, pp. 55–58).

Practical considerations require that there be a maximum benefit level governed by social adequacy considerations. High wage workers (e.g., earning \$5,000 a week) are not going to get weekly benefit amounts of \$2,500. States set the maximum benefit amount either as a

fixed amount that must be adjusted periodically by the state legislature or an amount that automatically increases over time, generally tied to the state average weekly wage (AWW) in UI-covered employment. The federal Advisory Council on Unemployment Compensation recommended a benefit standard such that the maximum benefit level would be indexed to two-thirds of a state's average weekly wage in UI-covered employment (ACUC 1996, p. 242). No such standard has been enacted, and most states would not meet the proposed standard.

Duration of benefits

When states first paid UI benefits under the Social Security Act in 1938, weekly benefit amounts were small, and durations were short because the program was new and actuarial estimates were uncertain as the Great Depression continued.

Fortunately, the actuarial estimates of the mid-1930s were overly pessimistic. The potential entitled duration of UI increased steadily among states from the program origins in the 1930s through the late 1950s (O'Leary 2013). After World War II, states found that they could afford to pay more benefits, and by the mid-1970s, an "American consensus" had emerged (O'Leary and Wandner 1997). All states paid at least 26 weeks of regular UI benefits to experienced workers who were unemployed through no fault of their own. Eligibility conditions varied by state, but states paid UI in the amount of approximately half of a worker's prior wage up to a maximum benefit amount to workers who were actively seeking reemployment. Benefit payment provision generosity varied by state and by region.

By 2010, all states had provided potential UI durations of at least 26 weeks for more than 50 years.⁵ In response to the Great Recession, starting in December 2010, however, the American consensus broke down. A substantial minority of states have raised eligibility standards and lowered potential durations to less than 26 weeks. The eight states that cut maximum potential durations were primarily motivated by the heavy levels of UI debt that they had incurred during the Great Recession.⁶ The new state legislation was designed to cut

future UI costs, not because there was agreement that paying benefits for a shorter duration would be sufficient for workers to search for and find employment.

During normal economic conditions, most transitions to new jobs, after involuntary job loss, occur within 13 weeks, and almost all transitions happen within 26 weeks. The high exhaustion rates of UI benefit entitlements during and after the long and deep Great Recession led to historically high average durations of benefit receipt and caused massive state borrowing to pay regular UI benefits. Thirty-six of 53 state UI programs needed loans to pay regular UI benefits during the Great Recession. At the end of 2010, the system was \$29 billion in debt. The federal unemployment trust fund reached a modest \$2 billion net surplus at the end of 2013, but as of January 2016, 10 states still had outstanding private market loans or bond debts, declining to 5 states by January 2018.⁷ The eight states that cut potential durations improved their reserve positions faster than they otherwise would have, but the reductions in potential durations in these states have eroded the fundamental intent of UI to provide temporary partial wage replacement to involuntarily unemployed workers. The shorter limits on potential durations could curtail productive job search and result in inferior job matches, resulting in lower productivity and states failing to fully benefit from the talents of their citizens.

Recommendations

Benefit levels. Consistent with earlier proposals for benefit level standards, states should pay benefits that replace 50 percent of lost wages up to a maximum set at two-thirds of the state AWW in UI-covered employment. Having a maximum of two-thirds of the AWW will ensure that approximately 80 percent of beneficiaries will receive at least one-half wage replacement while receiving regular UI benefits. This standard was most recently endorsed by the Advisory Council on Unemployment Compensation (1996). However, no standard for the weekly benefit amount has ever been set in federal statute as a state conformity requirement (Blaustein 1993, pp. 211–212, p. 241).

Several strands of research support the 50 percent wage replacement standard as the proper balance of adequate wage replacement while avoiding excessive work disincentives. For example, literature on household expenditures, consumption smoothing, optimal UI, compensating wage differentials, and consumer choice theory all support 50 percent wage replacement (O'Leary 1998, pp. 65–75).⁸

Duration. States should provide adequate regular weekly UI benefit payments for at least 26 weeks through employer financing. Eligibility provisions should accommodate modern workforce patterns including increased part-time work and sharply increased rates of labor force participation by older workers. Benefit provisions also should accommodate labor market realities, particularly for persons in part-time, low wage, and low skill jobs.

Permanent Extended Benefits and Temporary Emergency Compensation

The basic 26-week regular UI program can be considered adequate in periods of low unemployment. Starting in the 1950s, however, Congress found regular UI to be inadequate when unemployment rises and more workers exhaust their entitlement benefits. Congress reacted in 1958 and 1961 by enacting emergency EB programs to fill a temporary need for additional UI benefits during a recession. In 1970, Congress enacted a permanent EB program designed to eliminate the need for temporary extensions. The EB program set triggers for payments based on the level of unemployment, and the benefits were equally financed by the state and federal governments. Unfortunately, the EB program has not actively functioned as originally intended for the past 40 years.

Originally, the EB program was a good example of federal-state cooperation.⁹ However, for many years, because of low UI reciprocity rates, the triggers based on insured unemployment rarely activated EB as total unemployment rose (Nicholson and Needels 2006). Under the original 1970 law, EB could be activated by a national trigger

affecting all states or a state-level trigger affecting EB only in that particular state. In the early 1980s, cost-cutting federal legislation eliminated the national trigger, and the state trigger threshold was raised from 4.0 to 5.0 percent insured unemployment rate (Woodbury and Rubin 1997). Additionally, increasing eligibility requirements in some states resulted in low UI reciprocity rates and low IURs that failed to trigger EB even when the TUR had risen quite high (Blank and Card 1991). In response to this failure in more than a few states during the early 1990s recession, Congress enacted legislation in July 1992 allowing states to adopt an alternative trigger based on TUR as estimated by the Current Population Survey.

In the 1990s and 2000s, emergency federal UI extensions were structured to be paid before any EB that might be available. The ARRA of 2009 provided temporary 100 percent federal reimbursement of EB payments for states that adopted alternative EB triggers based on the TUR. The 100 percent EB payment was continued through December 31, 2013, in states with conforming TUR triggers. During the Great Recession, EB became effective in all states that adopted TUR triggers, but a survey of states revealed that almost all TUR adopters said they would return to IUR triggers after the 100 percent federal funding ended (Mastri et al. 2016).

Despite the fact that EB is a permanent program with a statutory basis, Congress has enacted additional emergency programs in response to all six economic recessions since 1971. These discretionary emergency extensions were similar to Congressional actions in 1958 and 1961 and were preferred by states over EB, because all were fully federally funded. Both the EB and the emergency extensions lengthened the potential duration of benefits, but until 2009 the total was never greater than 72 weeks and was frequently not greater than 52 weeks.

Just as the Great Recession was unprecedented in its severity, the extension durations also were unprecedented. During the Great Recession, the combination of the three UI programs yielded a maxi-

imum potential duration of benefits that reached 99 weeks in some states from early 2009 through late 2012 (USDOL n. d.).

Research

Research evidence suggests that the EB system should be revised. IUR triggers operated effectively for a brief period in the early 1970s, but given the low UI reciprocity rates nationwide, IUR triggers are no longer responsive to surges in unemployment. Even though Congress enacted an optional TUR trigger, not all states have adopted or retained it because states pay for half the EB costs, thus increasing state UI expenditures.

Because maximum potential UI durations were raised to as high as 99 weeks during and after the Great Recession, some policy analysts and politicians have raised old concerns about the moral hazard effect of UI benefits unnecessarily prolonging unemployment (Decker 1997). That is, UI benefits act as a disincentive to return to work. Although good estimates of the magnitude of this effect have been known for many years, concern about it was magnified by the unprecedented increase in the potential duration of UI benefits during the Great Recession.

Estimates of the labor supply disincentive effects suggest that reduced job search efforts by UI recipients may have contributed to an increase in the unemployment rate.¹⁰ The estimated effects of the UI expansions on the unemployment rate, however, are somewhat modest, ranging from 0.3 percentage point of the 5.5 percentage-point recessionary increase in the unemployment rate (Rothstein 2012) to approximately 1 percentage point (Mazumder 2011). Another study (Elsby, Hobijn, and Sahin 2010) essentially split the difference, suggesting that the 2008 emergency unemployment benefits program increased the unemployment rate by approximately 0.7 percentage point.

It is important to distinguish between UI's effect on the unemployment rate and its effects on unemployment and economic activity.

For example, part of the rise in the unemployment rate is caused by the increased labor force participation of UI recipients. Without UI benefits, some jobless workers would have stopped looking for work and thus would not have been counted as unemployed. Katz (2010) cites a number of positive offsetting impacts of the UI program, including consumption smoothing effects for unemployed workers, spillover effects of shorter spells of unemployment for workers not receiving UI benefits, the macroeconomic stimulation of the economy from expenditures made with UI benefits, and long-term positive impacts of UI by keeping workers in the labor force rather than encouraging them to leave.

The UI program had a significant macroeconomic effect on the U.S. economy during the Great Recession. The increase in UI benefit payments during the recession represented a significant portion of the economic stimulus provided by the ARRA and other UI extensions. The Congressional Budget Office (2012) estimated that each dollar spent on extended UI benefits generated \$1.90 in increased economic activity. Burtless and Gordon (2011) state that UI is a particularly effective form of targeting economic stimulus funds for both equity and practical reasons. The equity argument is that unemployed workers suffer the biggest income loss, while the practical argument relates to effectiveness, since these individuals are more likely to spend and spend quickly. Burtless and Gordon also point out that even though potential UI benefit durations reached unprecedented levels during the recession, the United States normally is at the bottom of the list of industrial nations with respect to UI duration. Even at 99 weeks, the U.S. potential duration was approximately equal to that of Spain, Portugal, Norway, Finland, and France, and below Australia, New Zealand, and Belgium.

Recommendations

During the Great Recession, the federal government agreed to pay the full cost of EB initiated and ended by a TUR trigger. This practice should be a permanent feature of the federal-state UI system,

but it should be conditional upon states providing adequate amounts and durations of regular UI benefits. Making the federal partner permanently responsible for the cost of EB should establish a quid pro quo with the states responsible for paying the full cost of up to 26 weeks of regular UI benefits, that is, enacting federal UI benefit standards.¹¹ The EB program would then be fully funded by the federal share of revenues from the FUTA tax. The EB program is currently 50 percent financed by states, with the federal partner paying the other half with revenues from the federal share of FUTA taxes. The result of changing the EB program in this manner would be the provision of more adequate UI benefits in good and bad economic times, without unduly burdening state financial resources.

Permanent EB, with federal financing from FUTA, should provide benefits of up to an additional 52 weeks to provide adequate benefits during periods of high unemployment. The maximum available duration should vary, depending on the severity of unemployment in a state. Under the current formula for a state to be EB eligible, there is both an IUR trigger level and a duration stipulation requiring unemployment to be at least 120 percent of the level 12 months earlier, with an optional TUR trigger that has not been adopted by many states. Future state triggers should be based on a state's TUR because the IUR triggers have proven ineffective. Under the 2009 ARRA, states had the option to switch from an IUR to a TUR trigger. We propose a simple TUR trigger with the following schedule of EB durations:

- 7 weeks EB are available when TUR reaches 6.5 percent,
- 13 weeks EB are available when TUR reaches 7 percent,
- 26 weeks EB are available when TUR reaches 8 percent,
- 39 weeks EB are available when TUR reaches 9 percent, and
- 52 weeks EB are available when TUR reaches 10 percent.

States that have objected to a TUR trigger in the past when they have paid part of EB costs should have no objections to such a trigger mechanism once the costs are fully federally financed.

Naturally, the creation of an improved EB program would not inhibit the right of Congress and the President to provide emergency extended unemployment compensation in times of severe labor market surplus. However, in times of normal labor markets, 26 weeks of regular UI benefits, when accompanied by vigorous provision of ES reemployment services, will accommodate successful job search by the majority of UI beneficiaries. In times of high unemployment, the EB program will support extended job search, with the length of support increasing with the severity of labor market conditions. Finally, when economic conditions are extremely severe and widespread, Congress and the President may act on an emergency basis to supplement the regular and EB programs. This approach would provide more timely provision of adequate durations of UI benefits when recessions occur, since the current system depends on Congressional action that often lags behind the deterioration of economic conditions.

BENEFIT FINANCING

Most economic research on UI financing has concerned the effect of experience-rated UI tax rates on employment stability. Woodbury (2014) summarized research results that suggest experience rating encourages employment stability when tax rates are responsive to benefit charges. However, the evidence indicates that employers at tax rate maximums are not induced to avoid layoffs and instead have their benefit costs subsidized by employers with stable employment. Experience rating in setting UI tax rates is a feature unique to the American UI system; it was essential in establishing the system and is unlikely to be eliminated, but it can be improved. A more pressing issue in UI finance is the failure of the system to adequately forward fund benefit reserves in anticipation of recessions. This failure has compromised the fundamental mission of the system to provide adequate income replacement to the involuntarily unemployed.

The original intent of the UI financing provisions in the Social Security Act and FUTA was that state UI programs should be self-financing in good times and bad. States were to forward fund benefits by generating positive net system revenues in times of economic expansion to provide sufficient reserves for paying benefits in years of high unemployment. Forward funding is countercyclical, while the alternative of raising taxes to pay for benefits in the depth of a recession is pro-cyclical, driving the economy into a lower level of economic activity.

Each state was expected to have a range of tax schedules from which they could select each year, depending on the reserve balance in the state unemployment trust fund account. A higher tax schedule would be selected in years when system reserves were low relative to expected future needs. By experience rating, the tax rates in each schedule were to vary directly with each employer's UI benefit charge experience—usually measured by either a reserve history ratio to payrolls or a benefit charge ratio to payrolls. The UI taxable wage bases (TWBs) in states and for the FUTA were to be sufficient to raise adequate resources for the states and federal UI accounts. Many of these expectations are currently not being met by existing state UI tax systems because of policy decisions at both the state and federal levels that affect both the TWB and the structure and application of tax rate schedule alternatives.

Reserves generated by the FUTA tax are kept in federal Unemployment Trust Fund (UTF) accounts at the U.S. Treasury to pay for state and federal UI program administration, loans to states that become insolvent paying regular benefits, extended benefits, and employment services through the Wagner-Peyser program. The FUTA tax rate is applied to the federal UI TWB to fund the federal unemployment accounts. The FUTA tax base is also the minimum TWB that states can set to pay for regular state UI benefits. The UI TWB was originally set at the same level as that for the Social Security TWB for public pensions. The Social Security TWB became indexed in 1972 and has increased steadily to \$128,400 in 2018, or about 18

times the size of the FUTA TWB, which is not indexed and has only increased three times, with the last increase effective in 1983. At only \$7,000, the FUTA TWB is less than half the annualized federal minimum wage, essentially making it a flat tax per employee. It is inadequate to generate sufficient revenues for federal and state use. States can set their TWB at any level at or above \$7,000. Most states keep their tax bases relatively low—more than half have TWBs of less than double the FUTA level. Those with tax bases of more than double the FUTA level are much more likely to avoid debt problems in periods of high unemployment (Vroman 2016).

Low TWBs also might depress hiring in the low wage labor markets. In many states, employers face the same UI tax bill for one worker paid \$10,000 in a year and another paid \$90,000 in that same year. Whereas the latter might provide a living wage, the former worker might be a multiple job holder earning \$10,000 at each of two jobs. Each employer pays UI taxes on the full TWB every year, and that amount is paid multiple times on behalf of multiple job holders.¹² This discourages adding low-wage workers against the alternative of expanding hours for higher wage workers.

Having adequate levels of UI reserves to weather recessions depends upon raising enough revenue over the business cycle. States have multiple tax schedules, and state laws usually specify movement to a higher tax schedule that raises more revenue when state reserve balances are low. However, state legislatures often override their UI statutes and do not allow higher schedules to go into effect because of employer resistance to higher UI taxes. In addition, some states have tax schedules with an insufficient range in rates to sufficiently translate employer unemployment experience into tax rates that adequately distinguish experience. There are no federal requirements on the range of rates other than the residual statutory FUTA range from 0.0 to 5.4 percent. Since the FUTA maximum is 6.0 percent with a 90 percent reduction to employers in states with conforming UI systems, the FUTA tax is 0.6 percent and the lowest allowable state maximum rate is the difference, or 5.4 percent applied to a state tax base of

at least \$7,000. Furthermore, some states have a small number of tax rates in their schedules and often include a zero rate, with many employers assigned the zero rate. The most extreme case is for states to have only two rates—a zero rate and a 5.4 percent rate, with large numbers of employers assessed the zero rate. In practice, such a system is not truly experience-rated because the tax rate is unresponsive to benefit charges over large ranges.

To achieve adequate forward funding, the Advisory Council on Unemployment Compensation found that state accounts in the federal UTF should maintain balances “sufficient to pay at least one year of unemployment insurance benefits at levels comparable to its previous high cost” (ACUC 1996, p. 11). In 2010, this rule was established as a federal requirement for interest-free loans from the loan account in FUTA. The rule requires states to hold one year of reserves in the UTF based on the average of the three highest-cost rates experienced in the prior 20 years. This rate is known as the average high-cost rate (AHCR). The rule becomes fully effective in 2019; in 2014, it started to be phased in at a target rate of 50 percent of the AHCR, and it increases 10 percentage points each year until it will reach the AHCR in 2019.¹³

Recommendations

- State UI tax rate schedules should be sufficient to provide forward funding of reserves so that ongoing benefit charges can be paid while building reserves for future periods of high unemployment. Regular UI benefits must be financed by a tax system with rates that vary directly with an employer’s layoff experience. The degree of experience rating must be more than nominal, such that each tax schedule has a substantial number of rates—we recommend at least 10 rates in each schedule that vary from the maximum to the minimum by uniform amounts. The minimum should be a small positive value to maintain employer involvement in the system (such as 0.1 percent). Avoiding a zero minimum will help maintain a broad tax base

for funding UI benefit payments. The maximum can remain at 5.4 percent, provided that the TWB levels are sufficient.

- As average weekly earnings or average annual wages (AAW) increase over time, UI benefits and taxes should increase in tandem to maintain long-term balance between system inflows and outflows. A key to financing is the definition of the TWB. With the weekly benefit amount (WBA) and maximum WBA definitions based on average wages in UI-covered employment, the TWB must be linked to the AAW in UI-covered employment to create a balanced system. A formula that has proven reliable is for the TWB to be two-thirds of the AAW in the prior year.¹⁴ Vroman (2016) reports that 19 states currently index the TWB, and he finds that an indexed TWB is essential for balance in financing if the maximum WBA is also indexed to the AAW.
- An adequate FUTA TWB should be set at 26 times the national AWW in UI-covered employment. Alternatively, the TWB could be pegged at 33 percent of the Social Security TWB. This would index the UI wage base to change in step with the Social Security base and ensure that FUTA revenues increase in step with aggregate earnings, while setting the UI TWB at a modest but adequate level.

A TWB that is too low sets up a tax that is essentially a flat per-capita amount that creates all the inequities associated with a regressive tax system. The current excessively low TWB (the first \$7,000 of each worker's annual earnings) falls more heavily on employers of low wage workers for whom the UI tax is often a significantly larger proportion of the wage bill. FUTA revenues must be sufficient to support UI administration, the permanent EB program, necessary loans to states, and administration of a well-staffed and effective ES to enforce the work test and promote reemployment of UI beneficiaries and other ES-registered job seekers.

- Financial incentives should be created to encourage forward funding of benefits. This goal can be encouraged by paying graduated interest rates on trust fund balances. That is, higher rates of interest would be paid to state accounts with higher reserve balances. At the same time, the rates of interest charges to states that must borrow to pay benefits should be closer to the private sector alternatives many states have used recently. Under no circumstances should the federal interest charges exceed market rates for short-term U.S. Treasury debt.
- To address the exemption of government and nonprofit employers from FUTA taxation, a 3 percent premium should be assessed on reimbursements of benefit charges to state and local government employers and nonprofit firms that choose to operate as reimbursing employers. This FUTA payment would contribute to financing UI administrative costs and ES reemployment services available to job seekers formerly employed by those employers.
- Maintaining a UI system that pays adequate benefits to experienced workers who become unemployed through no fault of their own has met resistance both at the state and federal levels from employers who directly pay the full cost of UI taxes. This resistance is not likely to fade in the future. However, economic studies show that the UI tax burden also falls indirectly on workers, and public finance studies have shown that employees directly pay a considerable amount for UI coverage (Anderson and Meyer 2006).

We suggest that half or more of the UI payroll taxes to finance benefits be directly paid by employees. Workers paying tax contributions would be in a much stronger position to advocate for UI benefits with adequate amounts and durations. Employee contributions would improve benefit financing by broadening the tax base. Furthermore, benefit reciprocity would most likely be higher with employee UI taxes, as has been the experience in other countries (Card and Riddell

1993). Even a low tax rate for workers would increase tax revenues because average UI tax rates on employers are also low—less than two-thirds of one percent (USDOL 2016).

ADMINISTRATIVE FINANCING

The administration of the UI, ES, and other federal-state labor market programs is funded by the FUTA tax. Administrative funding is divided among three accounts: Employment Security Administrative Account (ESAA), Extended Unemployment Compensation Account (EUCA), and Federal Unemployment Account (FUA). ESSA funds UI and ES administrative costs and the cost of some labor market information programs. USDOL provides these funds to the states based on Congressional approval of a formula involving state employment and unemployment data. In recent years, the ESAA has received 80 percent of FUTA funds. Of the other accounts, EUCA normally pays for half of the costs of the permanent EB program. FUA is the loan account from which states can borrow if their state UI trust fund accounts are insufficient to pay regular state UI benefits.

States have had severe problems in the administration of their UI, ES, and related labor market programs. Funding has been inadequate for UI computer systems automation and staffing of ES service delivery, and this problem has become more severe over time. The balances in the accounts have been inadequate. Moreover, Congress has appropriated a declining percentage of the tax revenues that are deposited into the ESAA. These low appropriations from the federal unemployment accounts to the states have been a long-term phenomenon.

At the beginning of the UI program, employer FUTA tax payments were recorded as general revenues of the U.S. government, and UI administrative expenses were paid for out of general revenues.¹⁵ By the early 1950s, it was estimated that FUTA revenues exceeded appropriated UI administrative grants to states by between \$500 million and \$1 billion annually. The Employment Security Administra-

tive Financing Act of 1954 requires that any excess amount of FUTA revenues over UI administrative grants to states be deposited into the UTF in FUA to make loans to states when their reserves were insufficient to pay UI benefits. This act, commonly known as the Reed Act, set a limit on the level of reserves in the loan account and provided that reserves above that ceiling level be distributed to states for payment of regular benefits, program administration, or ES delivery. Motivated by the desire to control annual deficits in the unified federal budget, Congress raised the Reed Act ceiling from 0.33 percent of total payrolls in UI-covered employment in 1982 to 1.02 percent of covered payrolls today. Consequently, the incentive supplied by the Reed Act for Congress to adequately appropriate money from the UTF for UI administration has diminished. Increased revenues from the FUTA tax and new rules for Congressional appropriation of funds to the states could improve UI administration and funding of ES reemployment services.

Recommendations

Although payment of UI benefits is an entitlement and does not require appropriations from Congress, payment of administrative funds to the state agencies for UI and Wagner-Peyser Act programs is discretionary and must be appropriated. UI administrative funding includes a formula for additional (contingency) funding when unemployment increases above anticipated levels, but the Wagner-Peyser Act program has been underfunded for decades, and reemployment services are no longer directly funded, including for mandated reemployment services provided under the WPRS initiative.

Unemployment Insurance administration

Congress should annually appropriate adequate funds for UI administration from the ESAA in the UTF. Beyond funding for benefit payment administration and tax collection, separate funding should be appropriated for integrity efforts, including benefit

payment control and reemployment services and eligibility assessments. Although benefit payment control can pay for itself by collecting overpayments, the formal eligibility review and reemployment process—recently renamed Reemployment Services and Eligibility Assessments (RESEA)—can also pay for itself by helping to reduce the duration of UI compensated unemployment.

It is important that administrative funding be sufficient to support the UI administrative process, especially during periods of high unemployment. Consideration should be given to making UI administration funding an entitlement, so that it can rise and fall to support the UI program in periods of high and low unemployment. An automatic funding formula could be developed and distributed based on each state's share of FUTA contributions.

Employment Service administration

FUTA/ESAA should fully pay for the following Wagner-Peyser Act functions: 1) UI work test enforcement, 2) provision of labor exchange services to all ES applicants, and 3) provision of reemployment services for permanently separated UI claimants. Each of these functions is statutorily assigned to ES by the Wagner-Peyser Act. In addition, these functions have been evaluated and found to be cost effective (Jacobson et al. 2004).

Wagner-Peyser Act program funding under ESAA should be restored to a more robust level (e.g., the 1984 level in real terms) and then indexed to grow at the rate of the Social Security TWB (O'Leary and Eberts 2009).

Alternatively, given that the UI work test and the provision of reemployment services require mediated/in-person services, ESAA should provide funding for an adequate number of Wagner-Peyser positions, and then index funding to the Social Security TWB.

EMPLOYMENT AND REEMPLOYMENT SERVICES

Background

In its early history, the UI program focused heavily on temporary, cyclical unemployment. It mainly paid unemployment benefits until demand for workers picked up in the firms for which they had previously worked, and they were called back to their prior jobs. However, during the 1970s the incidence of permanent worker layoffs greatly increased, and that trend has continued and expanded. Permanent layoffs spread from blue collar jobs to white collar jobs and became a larger share of total unemployment. Temporary layoff rates have declined and become less sensitive to the business cycle (Groshen and Potter 2003). During the Great Recession, permanent layoffs reached an all-time high at more than 55 percent of the unemployed (O'Leary 2010). Current Population Survey data reveal an upward trend in unemployment duration, with more workers unemployed for 27 weeks or longer. The UI program burden increased as compensated durations and exhaustion rates increased, and UI beneficiaries correspondingly needed increased assistance in finding new jobs.

USDOL responded to the growing worker dislocation problem by conducting demonstration projects in the 1970s, 1980s, and early 1990s to test methods of assisting dislocated workers to return to work. Federal UI legislation responded to the growing worker dislocation problem in the early 1990s. Permanent work-sharing legislation was enacted in 1992, permitting states to establish work-sharing programs as part of their state UI laws. In 1993, similar permissive legislation was enacted allowing states to pay self-employment allowances in lieu of UI benefits for workers who work full time to establish a small business (Wandner 2010).

Worker Profiling and Reemployment Services

Most significantly, WPRS was enacted in 1993, requiring that all states establish early job search assistance referral programs for UI beneficiaries most likely to exhaust benefits as part of their state UI programs. States developed methods to target services to dislocated workers using WPRS models. They then began referring selected UI claimants to employment services that often included orientation to the job seeker resource room, job referral, assessment and counseling, job search workshops, and occasionally referral to job training or Self-Employment Assistance (SEA) programs. The WPRS system represents the formal recognition of the adverse effect of worker dislocation on UI claimants and the need to supplement referrals to jobs with a major initiative to train workers to search for their own jobs.

The UI, ES, and the public job training system adapted to these 1990s employment and reemployment provisions in federal and state UI laws.¹⁶ At the national level, the Employment and Training Administration of USDOL provided extensive guidance to states about WPRS, developing a systems approach for state UI, ES, and Workforce Investment Act (WIA; now called the Workforce Innovation and Opportunities Act [WIOA]) programs to work together to provide reemployment and training services. The national UI program has provided model state legislation and continuing technical assistance regarding WPRS methods (Wandner 2010). Ongoing technical assistance and guidance was provided throughout the 1990s and has been renewed recently as part of the RESEA initiative. The ES and WIA provided early guidance for these innovations, but funding was not stable or sufficient to support increased reemployment rates.

Work sharing

The national UI program provided model state legislation and guidance for the 1982 temporary work-sharing program, but not for the 1992 permanent work-sharing program because of concerns about possible technical flaws in that legislation. A new round of technical

assistance followed clarification of the rules and incentives for work sharing in the Middle Class Tax Relief and Job Creation Act of 2012. In a boost to labor demand similar to that of work sharing, model legislation and guidance were provided to states in 1994 to support establishment of state SEA programs (Wandner 2010).

UI, ES, and reemployment services

In the mid-1990s, the UI program updated its mission and function statement to take responsibility for supporting workers' efforts to return to work, as well as for properly paying UI benefits and collecting UI taxes. Similarly, the national ES program responded to the WPRS system's referral of UI claimants to Wagner-Peyser Act programs for the provision of reemployment services. Starting in the mid-1990s, state ES programs provided a substantial increase in the number of "reportable services" to UI recipients, assisting them to search for and find work (Wandner 2010).

As a result, both the UI and ES programs have become responsible for helping workers return to work, and both programs should continue to speed the return to work and raise reemployment rates. The WIA/WIOA Adult and Dislocated Worker programs participate in WPRS by receiving about one-third of their training referrals from workers receiving reemployment services in the WPRS system. Since UI claims taking has increasingly occurred outside the One-Stop career centers, state UI programs have little ability to directly provide UI eligibility reviews or referral to job openings or reemployment services. In response, ES has been providing most of these services.

Research and Recommendations

Reemployment Services and Eligibility Assessments (RESEA)

Research. Since the 1970s, many studies have shown the effectiveness of UI eligibility reviews, including the Charleston Claimant Placement and Work Experiment, the Washington State Alternative

Work Experiment, and the Maryland UI Work Search Demonstration (Corson, Long, and Nicholson 1985; Johnson and Klepinger 1991, 1994; Klepinger et al. 1998). The Charleston Experiment also found that providing reemployment services as well as eligibility reviews can further shorten durations of UI compensated unemployment.

The original UI eligibility review program (ERP) of the 1970s was allowed to wither until the early 2000s with the establishment of Reemployment and Eligibility Assessments (REAs). The REA initiative combines one-on-one in-person UI eligibility reviews, labor market information, and referral to reemployment services. A series of REA evaluations in four states found evidence that the REA programs were effective in reducing UI duration and generating savings for the UI Trust Fund (Benus et al. 2008; Poe-Yamagata et al. 2011). Because the Nevada program generated substantially larger impacts than the other study states' programs, the Nevada REA program study was extended to confirm those findings. The results confirmed the earlier results—the Nevada REA program was very effective in assisting claimants to exit the UI program sooner than they would have in the absence of the program (Michaelides et al. 2012). Based on these results, the study concluded that the combination of REA and reemployment services is a highly effective model for reducing UI duration and assisting UI claimants to return to productive employment.

In 2015, USDOL changed the name of the REA program to RESEA to make clear that reemployment services were expected to be provided as well as UI eligibility reviews. Based on positive results from the Nevada evaluation of REA, the Obama administration proposed significant increases in program funding as part of its FY 2017 budget request. An additional increase in RESEA funding was placed in the President's FY 2018 budget proposal (White House 2017). However, the proposed increase was at the expense of ES funding, which is a counterproductive plan because RESEA requires adequate ES staffing to be effective.

Recommendations. REAs should be established and monitored in all states. The eligibility review process is an essential component of the UI work test process, so it is critical to assure that the UI program operates as an insurance program, reducing concern about moral hazard that can occur in the absence of incentives to encourage UI claimants to actively search for work. ERPs also speed the return to work.

Eligibility reviews also should be conducted in conjunction with the provision of reemployment services for unemployed workers in need of these services. As a result, ERPs should be fully funded so they can be provided in person whenever possible, rather than through a voice response or computer claims process.

The RESEA program emphasizes the equal importance of reemployment services and eligibility assessments. Funding for RESEA, however, was to be through the UI program. The provision of reemployment services has been done by ES, and funding should be provided directly to ES for the WPRS initiative, which remains a part of federal law.

Worker Profiling and Reemployment Services (WPRS)

Research. While there have been a number of studies of the effectiveness of reemployment services since the 1970s, the WPRS initiative was enacted based on evaluation findings regarding job search assistance treatment in the final report of the New Jersey UI Reemployment Demonstration Project (Corson et al. 1989). The findings were strengthened by a five-year follow-up study (Corson and Haimson 1996) that found positive second year effects from the job search assistance treatment. A Job Search Assistance Demonstration supported the New Jersey results (Decker et al. 2000), and random trials in Kentucky provided further evidence in support of targeting attention to those most likely to exhaust their UI entitlements (Black et al. 2003). Early implementation of WPRS was rigorously evaluated (Dickinson et al. 1999).

Recommendations. WPRS should be fully funded through FUTA, including regular financial support to states for updating WPRS statistical selection models. Specifically, sufficient funding should be provided to maintain timely systems for selection and referral of claimants most likely to exhaust UI, and have ES conduct in-person/mediated reemployment services to at least a substantial percentage of workers who would benefit from these services.

Under the WPRS system, nearly all UI beneficiaries without a definite employer recall date are profiled, and 10 to 15 percent of these workers are referred to services. This referral rate appears to reasonably reflect the capacity of the workforce system to provide reemployment services. However, the reemployment services currently provided to participants are limited in quantity and quality. WPRS funding should be increased by about \$300 million per year, which should be provided through Wagner-Peyser Act ES programs (Wandner 2010).

In addition, ES is underfunded throughout the country. Its funding level has remained almost constant in nominal terms, but declined dramatically in real terms, over the past 25 years. For example, Minnesota received \$14 million per year in Wagner-Peyser grants in 1984 and employed 485 workers. In 2017, its annual grant was still \$14 million, but that amount only funded 120 workers. The overall funding for ES should be increased to about \$1.5 billion per year to restore its funding in real terms to its early 1980s levels.¹⁷ Without improved funding, the states will continue to reduce mediated/in-person services and replace them with automated services (Wandner 2013a).

The above recommendations are consistent with a 1999 report by a WPRS work group composed of national, regional, and state experts that reviewed the system based on early operational experience. The work group made seven recommendations to improve the WPRS system, including that state agencies should provide more extensive reemployment services to participating UI claimants and that USDOL should separately fund these reemployment services (Wandner and Messenger 1999).

Work sharing/short-time compensation

Research. California enacted the first work-sharing program in the United States. The federal government enacted temporary work-sharing legislation in 1982 and then permanent legislation in 1992 and 2012. As a result, California conducted an early evaluation of its program (Employment Development Department 1982), and USDOL followed, conducting two national evaluations of the work-sharing program, one in the 1980s and another in the 1990s (Kerachsky et al. 1986; Walsh et al. 1997). Other industrialized countries have evaluated their work-sharing programs, analyzing program operation as well as effectiveness and efficiency. For example, Canada has conducted several evaluations (Ekos Research Associates 1993; HRSDC 2005), as has Germany (Crimmann, Wiessner, and Bell 2010) and other European countries (Vroman and Brusentsev 2009). Although none of these studies has been as rigorous as the experimental evaluations of other reemployment services, a consensus has developed among researchers and policy analysts that work sharing helps prevent unemployment and does so at a modest cost, because in the absence of the program, an equivalent expenditure would be made to pay UI benefits to workers who become totally unemployed.

The Middle Class Tax Relief and Job Creation Act of 2012 (MCTRJCA) was enacted into law on February 22, 2012. The act's work-sharing subtitle D describes the Short-Time Compensation (STC) program and required the Secretary of Labor to report to Congress and the president on the implementation of the STC provisions by February 2016. It expanded and clarified the definition of STC, and that definition has been adopted by all states with a conforming STC program. MCTRJCA provided the Secretary of Labor with sufficient flexibility to guide states through the interpretation of their laws and assist them in bringing their state laws into conformity with the new federal definition.

To implement the provisions of the act, USDOL initiated two work-sharing studies, a survey of employers and a study of the implementation of the 2012 act. The employer survey was conducted in

four states for both participating and nonparticipating employers: Kansas, Minnesota, Rhode Island, and Washington (Balducci et al. 2015). The survey findings include:

- Work-sharing employers overwhelmingly were very satisfied with their state's program, with many employers believing it was instrumental in allowing them to retain highly skilled workers.
- Awareness of the work-sharing program is limited.
- Usage was greatest among manufacturing employers, larger employers, employers who had been in business for longer periods than nonparticipating employers, and employers with more skilled workers.
- From 43 to 65 percent of the work-sharing employers were repeat users.
- From 16 to 21 percent of the work-sharing employers eventually laid off some participating employees because of lack of work.
- From 60 to 70 percent of participating employers found that work sharing imposed an increased administrative burden compared to the regular UI program. The burden was primarily associated with the continued claim process, because the great majority of employers found it easy to apply for the program.

The second MCTRJCA study (Bennicci and Wandner 2015) reported that states found enacting conforming work-sharing legislation to be easy because most of the changes were minor. In addition, USDOL facilitated the process by reviewing each state's law and communicated directly with the states about the necessary changes to their state laws to achieve conformity. For states enacting legislation to implement a new or revised work-sharing program, USDOL provided model legislation and guidance, including reviewing drafts of legislation. In enacting new STC legislation, most study states

faced little public opposition to the legislation, although the effort to achieve enactment was lengthy and contentious in some states. For study states with existing STC laws, implementing changes to their programs for conformity to the MCTRJCA was not a significant challenge. The changes were primarily focused on revisions to the STC application, state STC policies and procedures, and educating employers about the changes. One major administrative challenge for state agencies was getting ready to scale up the program during the next recession. A few states were better prepared than others because they had automated systems for applications and claims filing.

In February 2016, Secretary of Labor Perez transmitted a report to Congress based on the findings of Bennicci and Wandner (2015) and Balducchi et al. (2015). USDOL also supported a field experiment to evaluate ways to inform employers about the availability of the work-sharing program as an alternative to layoffs.

Recommendations. A number of changes to the work-sharing program should be considered:

- Work sharing should be extended to all states, and program use should be expanded within states during recession periods. USDOL should encourage states to adopt work-sharing legislation and make use of the program.
- States enacting new work-sharing legislation should be provided with funding to implement and initially market the program.
- USDOL should increase administrative funding for work-sharing program administration because the program requires more staff time than the regular UI program.
- Congress should consider legislation to relieve employers from paying for the costs of work sharing, instead paying for the program from FUTA or federal general revenue—not state trust fund accounts. Congress should also consider having STC benefits not reduce participants' future potential duration

for regular UI benefits. These reforms would greatly encourage employers, workers, and states to participate in the STC program.

Self-Employment Assistance (SEA)

Research. SEA is a small but effective program in several states. It has been actively used in Maine, New Jersey, New York, and Oregon. SEA is also a statutory option in Delaware, Maryland, and Pennsylvania. Although similar programs serve considerably more workers in other major industrial nations, it is not clear that the SEA in its present form will expand to other states in the United States. The program is not likely to be adopted by other states unless sufficient funding for entrepreneurial counseling and training is provided to unemployed workers participating in the program. States with SEA programs frequently have no steady source of funding for training in the basic management, accounting, and marketing skills needed to run a successful business.

Before enacting a federal SEA statute, USDOL conducted two self-employment allowance experiments in Washington and Massachusetts (Benus et al. 1995). The Washington experiment involved a one-time lump-sum payment, while the Massachusetts experiment involved weekly payments like regular UI. The Massachusetts demonstration project was found to be cost effective, whereas the Washington program was not. The Massachusetts experiment estimated that the program reduced participants' spells of unemployment and increased their total time in employment. Participation also had a positive impact on participants' earnings. When placed in a benefit-cost framework, the Massachusetts experiment provided net benefits to participants, society, and the government sector. This meant that the cost of the program was exceeded by the benefits to the government, especially in the form of increased tax payments, since participants were found to earn a great deal more than nonparticipants.

The Massachusetts experimental program with weekly payments was chosen as the design for the federal SEA program. On the basis

of an interim evaluation report (Benus et al. 1991), Congress enacted a temporary program in late 1993 with a five-year sunset provision as part of the North American Free Trade Act (NAFTA). The final evaluation (Benus et al. 1995) provided strong findings of cost effectiveness and was the basis for making the federal SEA program permanent in 1998.

Because of dissatisfaction with the small size of the SEA program, proposals were developed to make administrative and legislative changes to it, including the provision of administrative funds and federal technical assistance. Under the MCTRJCA, new SEA provisions were adopted to encourage state adoption and expansion of SEA. However, no new states adopted the program, even though USDOL provided guidance and model legislation to the state workforce agencies in 2012 (Employment and Training Administration 2012). Even states that were interested in adopting the SEA program did not do so because they were overburdened with operating their own UI programs during a period of continued high unemployment after the Great Recession.

Although the SEA program has been open to adoption to all states since it was included as a displaced worker alternative in NAFTA, few states have chosen to establish and use SEA programs. Even in the seven states with SEA programs, participation is limited because only a small percentage of the UI claimants want to set up their own businesses. Moreover, few of the workers who are ready to participate are actually given a chance, largely because of difficulty in securing funds for entrepreneurial training. Participation was low before the Great Recession, and program use increased somewhat after its onset in Maine, New Jersey, New York, and Oregon.

Recommendations. SEA should be made available to unemployed workers in all states. The program should become a part of all state UI laws. Eligibility for SEA should continue to be limited to UI claimants who are permanently separated from their jobs and have a high probability of exhausting their UI benefits as indicated by their WPRS profiling score.

The principal impediment to offering SEA participation in states with SEA programs has been a lack of funding for entrepreneurial training that prepares unemployed workers to establish their own businesses. The state SEA programs should partner with state WIOA and Small Business Development Centers to have them fund and/or provide such entrepreneurial training. The federal government also should encourage and fund these partnering arrangements.

Reemployment bonuses

Research. Between 1984 and 1989, four reemployment bonus experiments were conducted in the states of Illinois, New Jersey, Pennsylvania, and Washington. All four experiments involved providing lump-sum payments to permanently separated workers who took new, full-time jobs within 6 to 12 weeks after becoming unemployed and held those jobs for at least three to four months. These experiments were conducted to find a strategy to overcome the work disincentive effect of cash UI payments to unemployed workers. The reemployment bonus design was intended to speed the return to work of dislocated workers in a way that would benefit employees and be cost effective. The concept behind these experiments was that UI claimants would be better off if they went back to work sooner and took jobs similar to the jobs they would have taken in the absence of their bonus offers. Bonus offers were tested to see if they would be cost effective to the government sector, that is, if the cost of offering bonuses was offset by a decrease in UI payments to unemployed workers and an increase in tax receipts during their longer period of employment.

An analysis simulating profiling reemployment bonuses was conducted with data from the Pennsylvania and Washington state experiments, the two experiments that appeared to have the greatest policy relevance (O'Leary, Decker, and Wandner 2005). This analysis was conducted for two reasons. First, reemployment bonuses seemed to be policy appropriate only for permanently separated dislocated workers, a conclusion that had already been recognized by a 1994

Clinton administration proposal to implement targeted reemployment bonuses.¹⁸ Second, the Pennsylvania and Washington state results were rather small across the 10 treatments tested, with five of the treatments in those two states found to be cost effective to society and to the government sector, but only two treatments were cost effective for the UI system (Corson et al. 1992; O’Leary, Spiegelman, and Kline 1995). In the absence of profiling, no optimum reemployment bonus design emerged from the experimental results.

Analysis of the profiled reemployment bonus data suggested that profiling improved the cost effectiveness from the perspective of the UI program. In all treatments in both states, impact estimates with profiling generally were stronger than those without it. Offering bonuses to the top 50 percent of the profiled distribution—that is, the half identified as most likely to exhaust UI benefits—was more cost effective than setting the threshold at either 25 percent or 75 percent. The results comparing bonus amounts (high and low in Pennsylvania and high, medium, and low in Washington) and eligibility periods (short and long in both states) suggested that a low bonus amount combined with a long eligibility period was most cost effective. These estimates “suggest that such a targeted bonus offer would yield appreciable net benefits to the UI trust funds if implemented as a permanent program” (O’Leary, Decker, and Wandner 2005, p. 279). Their recommendation was for a bonus amount of about three times the weekly benefit and a qualification period of about 12 weeks offered to the 50 percent of profiled UI beneficiaries most likely to exhaust their UI entitlements. Using the national average weekly benefit amount for the 12 months ending in February 2018, the bonus would average \$1,057. Even though the reemployment bonus experiments were completed in the early 1990s, reemployment bonuses have not yet been implemented as part of U.S. labor market policy.

Recommendations. Reemployment bonuses speed the return to work of dislocated workers by increasing their work search efforts. Bonuses do not have an adverse economic effect on workers because,

as research shows, workers do not take jobs that pay less than those that they would have taken (later) in the absence of a reemployment bonus offer. Reemployment bonuses tend to be cost effective if they are offered to dislocated workers with a high probability of exhausting their UI benefit entitlements as measured by their WPRS profiling score. Reemployment bonuses should be enacted into federal law using the language of the proposed Reemployment Act of 1994. The result would be a permissive program that states could adopt, offering modest reemployment bonuses to targeted UI beneficiaries who have been permanently separated from their prior jobs.

Education and training

The UI program has declined in its ability to provide benefits to experienced, covered workers who become unemployed through no fault of their own. Declining benefit adequacy has resulted from insufficient forward funding of the system. Nonetheless, there have been numerous proposals to fund education and training programs from state and federal UI funds. Despite prohibitions on the use of UI funds for anything other than the payment of UI benefits and the administration of UI and related programs, the substantial size of the program makes it a target for attempts to use UI funds for non-UI purposes. Specifically, the existence of the large (but dedicated) UI Trust Fund makes the UI program a target for funding other programs. The public finance literature shows that dedicated trust funds frequently have been targets of budgetary raiders.

Recommendations. The integrity of the UI system must be maintained. To that end, FUTA reserves should be limited to supporting UI and ES administration and services. While FUTA funding should support the provision of more and better reemployment services, FUTA funds should continue to be limited to funding UI and ES administration. Specifically, education and training for the long-term unemployed should not be funded from either FUTA reserves or state accounts in the UTF. Congress should consider funding training

from U.S. Department of Education grants and loans because WIOA grants to states are not adequate to provide even the amount of job training currently needed.

CONCLUSION

The recommendations presented in this chapter are part of our attempt to develop a comprehensive UI reform proposal that would create a program that would be adequately funded and would help speed the return to work for all UI recipients.

In Appendix 5A, our recommendations are compared to three other sets of recommendations: the recommendations in the 2017 budget request by President Obama (WHO); a proposal by the authors from the Center for Law and Social Policy, Georgetown University, and the National Employment Law Project (CGN); and recommendations from the 2018 budget request by President Trump (WHT). A detailed summary of the elements of the proposals is given in Appendix 5B. Our recommendations are the most comprehensive with respect to the reform of UI as a social insurance program across the full range of issues that relate to the UI program. By contrast, although the WHO proposals try to enhance the basic role of UI as a social insurance program, they are incomplete and would not create an adequate, balanced, and effective UI system. Similarly, the CGN is not comprehensive and fails to respect social insurance principles and financing challenges. The WHT proposal is the most limited approach to UI reform of the three programs compared.

Comprehensive UI reform is urgently needed. The UI program is out of balance today, and it is not prepared or preparing for the next recession. Despite the urgent need for reform, it is difficult to believe that comprehensive reform is likely to occur at the state or national level, given widespread employer opposition to expanding the unemployment benefit system and raising taxes to fund these benefits. We suggest that the most likely route to comprehensive UI reform

involves reducing or eliminating employer taxes by instead having employees directly fund much or all of the UI program.

Notes

We thank David Balducchi and Wayne Vroman for constructive comments on an earlier version of this chapter.

1. The three main separation reasons covered by the ARRA concern: 1) domestic violence, 2) illness or disability of an immediate family member, and 3) moving to accompany a spouse who relocates to a distance impractical for commuting to the job.
2. Gary Burtless (1983) also described how the lower reciprocity ratio weakened the countercyclical strength of the UI system to dampen economic downturns.
3. The states are Florida, Iowa, Idaho, Georgia, Maine, Mississippi, Missouri, Montana, and North Dakota.
4. There has been a sharp downward trend in the number of local offices from nearly 3,600 in 2003 and 2004 to 2,451 in May 2018. (A temporary increase in the number of offices occurred in 2009 and 2010 with funding from the ARRA.) Most of the decline has occurred in the affiliate offices, which has disproportionately affected ES (compared to the WIA) and reduced public workforce services in less densely populated parts of the United States.
5. Two states offer slightly longer potential durations; Massachusetts provides up to 30 weeks while Montana offers up to 28 (USDOL 2016).
6. The states are Arkansas, Florida, Georgia, Kansas, Michigan, Missouri, North Carolina, and South Carolina. In Kansas, the potential duration is 26 weeks if state unemployment is 6 percent or higher, but 20 weeks when the unemployment rate averaged over the prior 3 months is below 6 percent at the time of UI benefit application.
7. In 2013, four UI programs (California, Connecticut, Ohio, and the U.S. Virgin Islands) were still paying on loans from the U.S. Treasury, while six other states (Colorado, Illinois, Michigan, Nevada, Pennsylvania, and Texas) were still repaying other loans or bond debts from UI benefit payments (O'Leary and Kline 2016, p. 1).
8. Note, however, that applicants qualifying for the minimum weekly benefit amount usually receive higher than 50 percent wage replacement per week.
9. This discussion is drawn from O'Leary and Barnow (2016). In January 2018, California and the Virgin Islands were still repaying loans to the

Treasury, and Michigan, Nevada and Pennsylvania were still repaying other loans or bond debts (USDOL 2018).

10. The rest of this section draws on Wandner (2012).
11. Suggestions for federal benefit standards are fully described below.
12. Despite having multiple employers make tax payments on their behalf, multiple job holders have difficulty accessing UI in many states when they lose one of their jobs because work search rules require availability for full-time work. As we assert above, eligibility rules should permit seeking part-time work if employment has customarily been part time.
13. This paragraph draws on O’Leary and Barnow (2016, pp. 21–22).
14. Among the 19 states with indexed TWBs, the average rate is 72 percent of the average annual wage in UI-covered employment.
15. This paragraph is drawn from O’Leary and Barnow (2016).
16. When WPRS started operations in 1994, job training was delivered under the Job Training Partnership Act (1982), which later was reorganized as the Workforce Investment Act (1998), and now is the Workforce Innovation and Opportunity Act (2014). In areas where funding was sufficient, ES provided WPRS services; elsewhere the training partners helped starting with JTPA. The WIA program established one-stop centers where all services were available under one roof, and WIOA continued the one-stop model.
17. This is discussed in greater detail in Chapter 3 by Balducchi and O’Leary.
18. The proposed Reemployment Act of 1994 was never enacted into law.

Appendix 5A

Comparison of UI Reform Proposals

This Appendix considers UI system reforms that should be addressed before the next recession. Three comprehensive UI system reform proposals are reviewed. We start with our own (O’Leary and Wandner or OW), based on the principles and research reviewed in this chapter. We then describe the main elements of two other proposals from governmental and nongovernmental sources: the Obama Administration FY 2017 Presidential Budget Request (White House-Obama or WHO) and a consortium led by the Center for American Progress and including Georgetown University and the National Employment Law Project (CGN).¹ Table 5A.1 provides an overview of the areas where each of the groups proposes reforms. An expanded version of this summary is given in Appendix 5B, which includes details of each proposal.

We also discuss a list of proposals for reforming four UI features made by the Trump administration.

COMPARATIVE SUMMARIES OF PROPOSALS

The three recent UI reform proposals differ in many of their details, but they all propose reasonably comprehensive system-wide reform—with the WHO proposal being the least comprehensive of the three—while placing a different emphasis on some issues, including the commitment to maintaining the social insurance character of the UI program and the use of federal standards versus financial incentives for state action. In this section, the programs are compared with a focus on the topic areas listed in Table 5A.1.

O’Leary-Wandner (OW) Proposal

The following is a summary of the UI reform proposals we believe should be set as federal conformity requirements for state UI programs.

Initial eligibility: Requires states to have an alternate base period (ABP). Permits suitable work to be limited to part-time work if that was customary, and lets the minimum acceptable wage for suitable work decline with the duration of benefit receipt. Sets a low minimum monetary eligibility requirement such as having one base period quarter with earnings of at least \$1,000 and a second base period quarter with at least \$500.

Table 5A.1 Comparison of Unemployment Insurance (UI) Reforms Proposed by O’Leary and Wandner (OW), the Obama White House (WHO), and the Center for American Progress/Georgetown University/National Employment Law Project (CGN)

Proposals by UI feature	OW	WHO	CGN
Initial eligibility (number of states)	Dollars and HQ	Dollars and HQ	Weeks and HQ
Alternate base period (40)	Yes	Yes	Yes
Seeking part-time work (26)	Yes	Yes	Yes
Good cause quits—family (20)		Yes	Yes
Definition of suitable work	Declining wage		
Extended base period			Yes
Continuing eligibility			
Work search and employment services	Yes		RESEA
High quality reemployment services	Yes		
Benefit standards	50%, max 2/3 AWW	50%, max 2/3 AWW	50%, max 2/3 AWW
Duration of regular benefits	26 earnings related	26 uniform	26 uniform
Partial UI benefits			Yes
Retirement income offset	Eliminate		
Training allowance (13)			Yes
Dependents allowance (6)			
Disaster unemployment assistance			Expand
Stipends in OJT and apprenticeships			Add
Extended benefits—reform EB system	TUR triggers fed-state	TUR triggers fed-state	TUR triggers fed-state
Emergency extended compensation	Federal discretion		

Financing features			
Minimum tax rates	Yes	Yes	Yes
Number of rates	Yes		
Range of rates	Yes		
Taxable wage base (FUTA) reforms	Yes	Yes	Yes
Forward funding standards	Yes	Yes	Yes
Payroll tax year end rebates	Yes		Yes
Funding EB and EUC	Yes		Yes
Fund ES and UI administration	Yes		Yes
Special programs			
Work sharing/STC	All states	All states	All states
Self-employment assistance	All states	All states	All states
Reemployment bonuses	Proposed-targeted		
Wage insurance	Research	Proposed	Proposed
Relocation allowances			Proposed
Supportive services			Proposed
Direct job creation			Proposed
Unemployment assistance			Proposed
UI program policy research	Proposed		Proposed

NOTES: A more detailed comparison is given in Appendix 5B. OJT: on-the-job training; HQ: high-quarter earnings; AWW: average weekly wage; TUR: total unemployment rate; EB: Extended Benefits; FUTA: Federal Unemployment Tax Act; STC: Short-Time Compensation.

SOURCE: O’Leary and Wandner (this paper), the White House (2017), and West et al. (2016).

Continuing eligibility: Requires continuous active work search monitoring and federally fund quality reemployment services for all UI beneficiaries.

Benefit standards: Sets a maximum potential duration of at least 26 weeks, with actual duration increasing with base period earnings. Makes the wage replacement rate at least 50 percent of the maximum weekly benefit amount (WBA), and sets the state maximum WBA at two-thirds of the state average weekly wage (AWW) in UI covered employment.

Extended benefits: Each state should have a schedule of benefit durations for state extended benefits (EB) based on total unemployment rate (TUR) triggers, paid from federal funds. Emergency Unemployment Compensation (EUC) would be provided during high unemployment periods by the federal government at the discretion of Congress, paid from general revenue.

Financing features: The taxable wage base (TWB) should be equal to one-third of the Social Security base and be indexed to increase in proportion to the Social Security TWB. State tax schedules would not include a zero tax rate and must have at least 10 different rates in each tax schedule, resulting in all employers supporting UI system costs. Both employers and employees should pay UI taxes, with employees paying at least half of the total tax contributions to increase political support and assure full engagement with the UI program. Annual UI tax schedule waivers may not be granted; that is, states should adhere to the appropriate tax schedule under state law, without any legislative deferral for movement to higher schedules. States with insufficient forward funding would be subject to loss of UI offset credits. The tax schedule would be selected annually based on the adequacy of system reserves. USDOL would set required standards for reserve adequacy.

Special programs: All states would have programs for work-sharing and self-employment assistance. USDOL would permit states to establish targeted reemployment bonus programs and sponsor several different state random trials to evaluate wage insurance.

Administrative financing: Provides adequate federal funding for administration and Reemployment Services and Eligibility Assessment (RESEA).

White House Obama (WHO) Proposal: Differences from the OW Proposal

Initial eligibility: Requires all ARRA UI modernization features, including family reasons for good-cause quit, does not specify base period earnings requirements, and recommends a high quarter earnings rule, but does not reduce the value of suitable wage with duration of unemployment.

Continuing eligibility: Requires RESEA during EB receipt.

Benefit standards: Sets a uniform potential duration of 26 weeks with the same wage replacement rate and same maximum weekly benefit amount formula as OW. Calls for TUR triggers for state EB and offers an EB program that makes use of a TUR schedule. EB is funded from EUCA or general federal revenues, and there is no mention of a discretionary EUC program.

Financing features: TWB is raised to \$40,000 and indexed, and the FUTA tax rate is reduced to be revenue neutral. State tax schedules are not addressed. The forward funding criterion is a 0.5 Average High Cost Multiple (AHCM) subject to a reduction in UI offset credits. The tax schedule would be selected annually based on the adequacy of system reserves. USDOL should set required standards for reserve adequacy.

Special programs: Requires that work sharing be available and provides wage insurance.

Administrative financing: Not addressed.

CGN: Differences from the OW Proposal

Initial eligibility: Permits compelling family reasons for good-cause quits. Specifies base period earnings as 300 times state minimum hourly wage and requires hours worked in at least two calendar quarters. Recommends a move toward hours-based eligibility. State UI agency notifies potentially eligible unemployed workers. Sets standards for automated monetary eligibility procedures. Does not reduce the value of suitable wage with duration of unemployment.

Continuing eligibility: Requires providing RESEA to UI recipients during EB receipt.

Benefit standards: Requires a uniform potential duration of 26 weeks. Federal government pays 25 percent of the cost for benefits between 27 and

39 weeks. Calls for TUR triggers for state EB, similar to the OW EB-TUR schedule. EB is funded from FUTA or general federal revenues. Provides a 26-week job stipend during classroom job training, on-the-job training, or apprenticeship. Does not mention discretionary EUC.

Financing features: TWB raised to one-half the Social Security TWB and then indexed. Require a minimum UI tax rate greater than zero for states. Standardize experience rating across states. Year-end rebates for multiple job holders.

Special programs: Requires that work sharing be available and provides wage insurance.

Administrative financing: Proposes adequate federal funding for administration and RESEA.

MAJOR DIFFERENCES BETWEEN PROPOSALS

The U.S. labor market has changed dramatically since the inception of the UI program in 1935. Nonetheless, there has been no systematic updating of coverage and eligibility provisions at the state level. Some needed changes have been made by individual state initiatives and others were encouraged by the 2009 UI Modernization program. However, the weakness of UI Modernization is revealed by the fact that five of the states that received incentive payments for introducing elements of UI Modernization have already repealed the new features. The following contrasts the three main reform proposals on the important policy areas.

The OW proposals are based on the assertion that the current UI program is broken. The regular UI benefit system and the benefit financing system does not support a self-sustaining program that pays adequate benefits for sufficient durations to support reemployment. Similarly, the aim of the WHO proposal is to introduce balance between the basic benefit and financing provisions of the regular UI program, such that the regular program provides adequate UI benefits that are fully funded over the business cycle. The CGN program contains several elements in the OW and WHO proposals, but the CGN presses many dimensions of proposed UI reforms beyond social insurance principles and toward social welfare aims.

Eligibility and Benefits

In contrast to WHO and CGN, the OW proposal recommends fewer changes to be mandated by federal law, with states free to choose among reform options. The OW proposed changes would:

- require states to provide for an Alternative Benefit Period,
- permit part-time workers to search for part-time work,
- remove retirement income offset, and
- permit states to reduce suitable reemployment wage rates as the duration of unemployment increases.

The WHO and CGN proposals require states to allow voluntary quits for compelling family reasons. CGN includes all the above plus some changes that would go beyond social insurance principles to add elements of social welfare to UI, with benefits based on means or household composition. For example, it proposes means-tested benefits for very long-term unemployed persons no longer eligible for regular UI.

Extended Benefits

The OW proposal would introduce a schedule for EB potential durations tied to the state or federal TUR level and would require 100 percent federal financing of EB. The WHO and CGN proposals are similar to those of OW, and all three require EB to be fully paid by the federal government from the UTF, with any necessary supplements from general revenues.

All three EB proposals presume that states provide potential durations of at least 26 weeks of regular UI benefits regardless of the TUR level. The OW proposal also recognizes that Congress, in times of deep recessions, may exercise discretion to provide emergency EB to supplement state regular UI and EB programs.

Benefit Financing

The OW proposal aims to restore the UI program as an automatic stabilizer for the macro-economy—injecting spending during high unemployment and withdrawing tax contributions during economic recoveries. The financing system is countercyclical if benefits are paid through a forward funding mechanism, that is, by having adequate state trust fund reserves at the beginning of recessions. Spending is injected immediately, but tax rates rise

only after experience-rating systems factor in increased benefit charges. The OW proposal incentivizes forward funding of benefits by paying increasingly higher rates of interest on reserves as balances increase, and by increasing the credit offset penalties as negative balances increase.

The main WHO incentive to accomplish forward funding is paying states higher interest rates when their trust fund accounts reach higher AHCM levels. This goes beyond the existing USDOL policy of offering zero-interest short-term loans when AHCMs reach specified levels. The WHO proposal would apply a FUTA credit reduction to states with an AHCM of less than 0.5. A FUTA credit reduction is the way states currently pay back borrowed funds when they prefer not to adjust state tax rates or TWBs or to issue bonds.

The CGN proposal requires states to achieve a 1.0 AHCM within 5 years and also requires USDOL to establish minimum rates below which states' tax revenues cannot fall. The plan would pay differentially high interest rates to states with balances greater than the target AHCM.

The CGN and WHO proposals would probably achieve sound counter-cyclical financing. However, the outcome of the CGN's setting of the AHCM target is uncertain because it depends on annual discretionary administrative action.

Reemployment

The OW proposals argue that a strong ES is necessary to implement the UI work test to ensure that UI recipients are able, available, and actively searching for work. ES needs to refer UI recipients to jobs and provide labor market information. Additionally, OW proposals cite evidence that job search assistance and other reemployment services (RES) have been shown to be highly cost effective in promoting return to work and shortening durations of UI benefit receipt. Nonetheless, UI claimants currently receive inadequate reemployment services both because of general underfunding of ES and because of inadequate funding of UI reemployment services (Wandner 2015). The OW proposal is to fund both from FUTA. This could be accomplished by increasing and indexing the FUTA TWB. At a minimum, ES funding should be returned to the 1984 level in real terms.

WHO also recommends expansion of other complementary reemployment and unemployment prevention services, including STC, SEA, and targeted reemployment bonuses. A new federal law would be required to make reemployment bonuses a legally permissible use of UTF reserves.

WHO and CGN also recognize the need for enhanced ES and reemployment services funding, but they deal with this issue in different ways. The WHO proposal leaves this entire issue to a new UI Modernization program with no additional federal funding, which would most likely result in inadequate implementation. WHO proposes a financial incentive to states for adopting and implementing STC. It also proposes a new wage insurance program outside the UI program and recommends a field experiment to evaluate the possible cost effectiveness and take-up rate under this type of program. Wage insurance has been a little-used feature of the Alternative Trade Adjustment Assistance program for older displaced workers (age 50 or more) (Wandner 2013b).

CGN recommends increased funding for ES and RES. They would require state implementation of STC and SEA programs. They also propose providing relocation allowances, apprenticeship stipends, referral to national service jobs, and SEA services, all funded from a portion (up to 10 percent) of an enhanced ES budget.

The WHO proposal recognizes statutory funding for ES through the Wagner-Peyser Act. The proposal would 1) not yield adequate funding for ES or for UI RES, 2) add potentially expensive and unproven wage insurance, and 3) not address SEA or reemployment bonuses. The CGN proposal for ES/RES is sound, but the proposed use of enhanced ES funding (up to 10 percent of a new fund) is an unprecedented funding source for these initiatives. CGN does not propose reemployment bonuses.

Special Programs

All three proposals recommend that all states have statutory authorization to permit employers to provide work-sharing payments through the UI system and that self-employment assistance be available for targeted UI beneficiaries.

The CGN proposal for a Job Seekers' Allowance, which would programatically be a form of unemployment assistance, is not social insurance but rather a means-tested benefit. Indeed, several CGN proposals for expanding the UI system go beyond the social insurance approach and, in some cases, look more like public assistance than social insurance.

TRUMP WHITE HOUSE PROPOSALS

The following set of four UI reform legislative recommendations were presented in the Trump administration's FY 2018 Budget (USDOL 2017b, p. 4):

- 1) A proposal to establish a federal-state paid parental leave benefit program within the UI program that provides six weeks of benefits for mothers, fathers, and adoptive parents to help families recover from childbirth and to bond with their new children.
- 2) A proposal to reduce improper payments in the UI program with a package of reforms that would allow states to target more tools and resources toward the problem.
- 3) An expansion of RESEA. This proposal would provide mandatory funding for states to provide RESEA to one-half of eligible UI claimants, as well as all ex-military service members.
- 4) A minimum solvency standard that would apply the FUTA credit reduction rules to states that have an AHCM of less than 0.5 on January 1 of two consecutive years (rather than the current zero trust fund balance). This proposal would strengthen states' ability to adequately fund their UI systems.

Because these proposals were briefly described in a budget document, have not been fleshed out, and were presented without analysis by the Trump administration, we have considered them separately from the other more developed recent UI reform proposals.

Parental Leave Proposal

Most OECD countries offer parental leave benefits, and they have been found to be an effective policy to increase fertility (Lalive and Zweimuller 2009). The proposal for parental leave therefore might be very good social policy, but paying benefits from the UTF for parental leave is currently not an allowable use of UI program funds. To protect the integrity of the UTF, state trust fund account reserves are paid by employer taxes on payrolls and may only be used to pay UI benefits. During periods of recession, state reserves are often not even sufficient to pay regular benefits to eligible UI applicants. Parental leave benefits would be a new entitlement with simple eligibility conditions, but for a parental benefit to be sustainable, a new tax would be

required. Furthermore, either the UTF withdrawal rules would have to be statutorily revised, or a separate fund would have to be established with a new tax and a dedicated revenue stream. Actuarial computations of revenue adequacy for such a fund would require new behavioral analysis. Rough estimates suggest that parental leave payments would have increased fund payments by at least 25 percent, or about \$8 billion dollars, if it had been in place in 2017.²

Improper Payment Proposal

Improper UI payments are a serious problem, but they are inherent in any social insurance system and impossible to eliminate entirely. In a recent 12-month period, 11.2 percent of all regular UI payments involved errors, and 10.6 percent of payments were incorrectly high (Gilbert 2011). However, even if all overpayments were eliminated, the savings would not be enough to pay for the proposed parental leave program.³ Overpayment errors have become a structural component of the UI system because of the federal rules relating to the initial eligibility of applicants. These rules are based on a 1970 California state Supreme Court decision that ordered payment of benefits during appeal periods. USDOL has complied with this decision by applying it nationwide, such that administrative performance targets for timeliness require UI benefit payments to be made when due and not delayed (O’Leary and Barnow 2016).

The biggest cause of overpayment errors on continuing claims is the failure to fully comply with the UI work test (Burgess and Kingston 1987; Clarkwest et al. 2012). Expanded ES funding by USDOL to provide one-on-one eligibility reviews to UI beneficiaries should reduce work test overpayments through the RESEA program, but since the Trump proposal would only provide RESEA to half of the WPRS group, RESEA still would not entirely eliminate overpayments.

RESEA Proposal

USDOL increased funding for the RESEA program in 2017 and provided grants to all states starting that year. The White House 2018 proposal aims to provide RESEA to the top 50 percent of WPRS-eligible UI beneficiaries—that is, those neither awaiting employer recall nor union hiring hall members. Earlier research suggested that shorter UI durations from WPRS result from the unwelcome prospect of having to participate in services rather

than the actual content of those services (Black et al. 2003), but a more recent evaluation of the RESEA predecessor, REA, estimated significantly shorter UI durations resulting from the RES component of REA (Michaelides et al. 2012). RESEA offers the prospect of reducing, but not eliminating, overpayments on continuing UI claims. About half of UI recipients are subject to referral to WPRS services, and only about half of these will get RESEA. Furthermore, most state WPRS profiling systems have not been updated in many years, so the top half of the profiling distribution does not necessarily include those most likely to exhaust UI.

Minimum Solvency Standard

The Trump proposal would institute a federal rule that would reduce a state's FUTA credit if the state's AHCM for its reserves in the UTF is lower than 0.5 on two consecutive January firsts, which would nudge states toward forward funding of regular UI benefits. However, this would be only a partial and probably an inadequate solution. The accepted standard for forward funding is an AHCM of 1.0. Relying on the FUTA credit reduction would be a slow mechanism to restore reserves. For example, after borrowing to pay benefits during the recent recession, 25 states experienced FUTA credit reductions in one or more year since 2009. In fact, 13 states had credit reductions in three or more consecutive years, with negative reserve balances on January first.⁴ It is reasonable to conclude that these states consciously chose to let the FUTA credit reduction mechanism improve reserves instead of reforming their state benefit financing mechanisms. Credit reduction is a slow way to improve reserves because the FUTA TWB is only \$7,000, and the statewide annual increment in the federal tax rate is only 0.3 percentage point. In fact, since 2011, two states have had FUTA credit reductions in place for seven consecutive years. The proposed USDOL solvency mechanism would be more effective if the FUTA TWB were increased. This also would improve benefit financing in states with TWBs below any new higher required federal level. A 0.5 AHCM is an inadequate forward funding standard and could prolong reliance on the federal credit reduction mechanism by some states.

Appendix 5B
Detailed Comparison of Unemployment Insurance Reform
Proposals by O’Leary and Wandner (OW), the White
House-Obama (WHO), and the Center for American
Progress–Georgetown University–National Employment
Law (CGN)

Proposals by UI feature	OW	WHO	CGN
Initial eligibility (number of states with this provision, if applicable)			
Monetary criteria	Dollars and high-quarter earnings (HQ)	Dollars and HQ	Weeks and HQ Federal requirement that workers are eligible if they earn at least 300 times the state’s hourly minimum wage during base period and worked in at least 2 quarters. In the long run, require state to adopt an alternative federal standard of hours-based eligibility.
Alternate base period (ABP) (40)	Require states to have an ABP	Require states to have an ABP	Require states to have an ABP

(continued)

Proposals by UI feature	OW	WHO	CGN
Seeking part-time work (26)	Encourage adoption by all states for part-time workers seeking part-time work	Require adoption by all states for part-time workers seeking part-time work	Require adoption by all states for previously part-time workers seeking part-time work; also require adoption for previously full-time workers seeking part-time work due to "major life change." Part-time benefit formula: allow claimants working part time to collect benefits as long as they are earning less than 150% of their weekly benefit amount (WBA), disregarding from this calculation part-time wages equal to 50% of the WBA (p. 63).

Proposals by UI feature	OW	WHO	CGN
Good cause quits—family (20)		Require adoption by all states for workers leaving jobs for compelling family reasons	<p>Require states to adopt for workers leaving jobs for compelling personal and family reasons, including domestic violence, caring for themselves or family member during illness or injury, providing child care when no alternative arrangement is available, and following spouse, partner, or co-parent. Federal government pays for these benefits and employers are not charged (pp. 52, 77).</p> <p>Require states to expand definition of good cause separations to include employer introduction of erratic job schedules or cut in hours and pay.</p> <p>Require all states to eliminate eligibility restrictions for both temporary and seasonal workers.</p>

(continued)

Proposals by UI feature	OW	WHO	CGN
Good cause quits—family (<i>cont.</i>)			<p>Require state UI programs to provide methods for employer-filed initial and continued claims for short-term layoffs and business shut-downs, as well as work sharing (pp. 67, 70).</p> <p>Require states to notify all employees of potential UI eligibility following separation from an employer (p. 70).</p> <p>Require states’ automated claims filing systems to comply with federal standards (p. 71).</p>
Definition of suitable work	<p>Encourage states to gradually reduce suitable wage level during regular UI benefit period as duration of benefit receipt increases.</p>		
Extended base period			<p>Require states to adopt an extended base period for workers with qualifying conditions, e.g., illness or injury. Also require an 18-month base period for workers with an erratic work schedule.</p>

Proposals by UI feature	OW	WHO	CGN
Continuing eligibility			
Work search requirements and Employment Services (ES)	Worker Profiling and Reemployment Services (WPRS)-selected UI beneficiaries who are likely UI exhaustees are required to participate in Reemployment Services and Eligibility Assessment (RESEA)	All EB recipients required to participate in RESEA	Provide RESEA to every EB recipient
Quality of reemployment services and sufficiency of ES staffing	FUTA should fund ES at 1984 levels in real terms. Supplementary funding for RESEA and other initiatives should be provided to all states.		
Benefit standards			
Benefit standards	Require all states to replace 50% of lost wages, with maximum WBA of 2/3 of average weekly wage (AWW).	Encourage states to adopt federal benefit standard using a new UI Modernization program. \$5 billion in grants for 1) benefit expansion and 2) "pro-work reforms." Benefit expansions: 1) UI payments while in training and 2) maximum WBA of at least 2/3 AWW; improve eligibility for temporary workers.	Encourage states to adopt a 50% wage replacement standard, with an indexed WBA equal to two-thirds of the state's AWW (pp. 61-62). Additional duration: federal government pays 25% of regular duration greater than 26 weeks up to 39 weeks (p. 61).

(continued)

Proposals by UI feature	OW	WHO	CGN
Benefit standards (<i>cont.</i>)			Require elimination of waiting week (p. 61). Require lump-sum payments of UI benefits for "qualifying reasons" (p. 61). Disaster Unemployment Assistance: improve and extend (p. 63).
Duration of regular benefits	Encourage adoption of at least 26 weeks of benefits	Require states to have a maximum duration of at least 26 weeks	Require all states to have uniform maximum duration (p. 60)
Partial UI benefits			Allow claimants working part time to collect benefits as long as they are earning less than 150% of their WBA, disregarding from this calculation part-time wages equal to 50% of the WBA (p. 63)
Retirement income offset	Eliminate pension income as a federally required benefit reduction		
Training allowance (13)			Fund up to 26 weeks of additional UI benefits for workers in training

Proposals by UI feature	OW	WHO	CGN
Stipends for on-the-job training (OJT) and apprenticeships			If otherwise eligible, continue to receive UI benefits while in OJT, other job training, or apprenticeship
Extended benefits (EB)—reform EB system	Federal TUR triggers variable EB: 7 weeks when 6.5% TUR 13 weeks when 7% TUR 26 weeks when 8% TUR 39 weeks when 9% TUR 52 weeks when 10% TUR	Federal TUR triggers variable EB: 13 weeks when 6.5% TUR 26 weeks when 7.5% TUR 39 weeks when 8.5% TUR 52 weeks when 9.5% TUR	Federal TUR triggers variable EB: 13 weeks when 6.5% TUR 26 weeks when 7.5% TUR 39 weeks when 8.5% TUR 52 weeks when 9.5% TUR Additional 6 weeks of EB would be payable in states for each added one percentage point of TUR after 9.5. Also a national TUR EB trigger should be enacted: 13 weeks when 7% TUR 26 weeks when 8% TUR 39 weeks when 9% TUR 52 weeks when 10% TUR
Emergency extended compensation	Discretionary and effective upon Congressional action		

(continued)

Proposals by UI feature	OW	WHO	CGN
Financing features			
Minimum tax rates	Encourage states to have a non-zero minimum rate	Impose a minimum tax per employee of 0.175%	Require a minimum tax rate for all states (p. 78)
Number of rates	Encourage states to have at least 10 steps in every UI tax rate schedule		Standardize experience-rating practices across states (p. 78)
Range of rates	Encourage states not to override triggers moving to higher schedules in response to higher costs, e.g., use responsible countercyclical financing		
Taxable wage base (TWB) Federal Unemployment Tax Act (FUTA) reforms	Congress should enact a FUTA TWB equal to 33% of the Social Security TWB and then tie it to the Social Security index	Effective 2018, the TWB would be \$40K and thereafter indexed to inflation; federal tax reduced to 0.167% to be cost neutral in 2018	Over 6 years, raise UI TWB to one-half the SS TWB and thereafter growing at the rate of the SS TWB; federal tax reduced, while raising sufficient revenue to support an expanded role for ES (pp. 75–76, 78)
Forward-funding standards	Vary interest payment rates depending on state reserve balance in their trust fund accounts, increasing the rate above the 10-year T-bill rate as the state high cost multiple (HCM) increases	FUTA credit reduction: apply FUTA credit reduction rules to states with average HCM < 0.5 in two consecutive years	HCM of 1.0 required of all states within 5 years. Federal policymakers establish minimum rate below which states' tax revenue cannot fall (p. 76). Pay differentially higher interest rate payments to states that exceed the target average HCM (p. 78).

Proposals by UI feature	OW	WHO	CGN
Year-end payroll tax rebates	Year-end rebates proportionate to calendar year wages to employers of multiple job holders		At end of year, reconcile tax payments for workers who have held more than one job during the tax year (p. 61)
Funding EB and extended unemployment compensation	FUTA payment of EB costs	Funding from Extended Unemployment Compensation Act when sufficient, otherwise from General Fund	Full funding of EB by federal government
Funding ES and UI administration	Congress should provide adequate funding for UI administration, including all components of the program, including funding for eligibility reviews/reemployment eligibility assessments in all states. FUTA funds ES in real terms at the 1984 level, then indexed at the rate of increase of the Social Security TWB.	Require adoption of UI Modernization features in American Recovery and Reemployment Act (ARRA)	Fully fund UI administrative funding by increasing by \$600 million over the next 3 years. After 3 years, implement updated administrative formula reflecting the cost of administration (pp. 69, 71). Improve UI administrative technology by appropriating and providing one-time grants of \$300 million for IT upgrades and updating worker profiling models. Increase federal oversight of UI IT systems and institute federal UI IT audits (pp. 69–71).

(continued)

Proposals by UI feature	OW	WHO	CGN
Funding ES and UI administration <i>(cont.)</i>	Reemployment Services (RES) funding should be about \$400–500 million, then indexed at the rate of increase of the Social Security TWB. Funding as part of WPRS from FUTA provided to ES.		Appropriate a total of \$1.68 billion (an additional \$1 billion) for ES for FY 2017 (p. 21). Appropriate \$650 million (an additional \$535 million) for RE-SEA for FY 2017 (p. 21)
Special programs			
Work sharing/ short-time compensation (STC)	All states should be encouraged to adopt and make use of STC programs. New states should be provided with implementation and marketing funds. Congress should increase administrative funding for STC and consider relieving employers of the cost of STC.	Incentives to adopt or expand for 2 years, similar to provisions under ARRA Reimbursement of benefits, \$100 million in implementation grants While on EB, 50–50 split of costs between federal and state and non-charge of the federal share	Require all states to create an STC program. Provide federal grants for implementation and marketing for new states. 100% federal funding for at least 1 year when states are on EB. Federal STC automation grants. States encouraged not to have STC benefits reduce maximum potential duration. State encouraged to adopt best practices. Full funding of STC by federal government whenever EB trigger is on, whether state or nationally triggered. States should not experience rate STC benefits during federal reimbursement period.

Proposals by UI feature	OW	WHO	CGN
Self-employment assistance (SEA)	All states should be encouraged to adopt and use SEA programs. Workforce Innovation and Opportunities Act and Small Business Administration should be required to provide entrepreneurial training to SEA participants.	All states should establish SEA programs.	All states should be required to maintain SEA programs and connect participants to Small Business Development Centers. SEA participants could claim up to half of their remaining UI entitlement upfront (p. 23, 25).
Reemployment bonuses	Congressional legislation similar to the Reemployment Act of 1994 should permit states to adopt targeted reemployment bonus programs using WPRS models.		
Wage insurance	USDOL should conduct a wage insurance demonstration project for this untested initiative.	For workers with 3 years of tenure, earning less than \$50,000. Pay half of wage reduction up to \$10,000 over 2 years.	
Relocation allowances			Use ES funding to fund relocation allowances, as a lump sum up to 3 times the average WBA, capped at a maximum of \$2,000 per year.

(continued)

Proposals by UI feature	OW	WHO	CGN
Supportive services and direct job creation			Connect UI recipients to apprenticeships, national service jobs (funding source not specified), and traditional employment opportunities and SEA. Relocation allowances and supportive services could be funded with up to 10% of ES funds.
Unemployment assistance			Available to new entrants, re-entrants, UI exhaustees, self-employed workers, and intermittent workers with limited resources.
UI program policy research			
	USDOL should support field tests of policy innovations, establish a repository for state administrative data to support program policy research, and establish 6 regional research hubs for research including biennial revisions of state WPRS models.		

SOURCE: Authors’ compilation; White House (2017); West et al. (2016).

Appendix Notes

1. The White House-Obama (WHO) proposal was published in White House (2017), and the Center for American Progress (CAP) proposal was published in West et al. (2016).
2. There were just under 4 million live births in the United States in 2015, the average UI weekly benefit amount was \$347 in the 12 months preceding April 1, 2017, and assuming every child had one parent collect 6 weeks of parental leave benefits, the payments would total \$8.3 billion per year. Total UI payments in the year prior to April 1, 2017, were \$31.2 billion. Parental leave payments would be higher if more than one parent draws benefits, and payments would be lower if the duration of parental leave were less than six weeks or if the take-up rate were less than 100 percent (as it is for regular UI payments). Our computations are based on figures from cdc.gov/nchs/fastats/births.htm and oui.doleta.gov/unemploy/content/data.asp (accessed April 26, 2018).
3. For 2016, overpayments were estimated to total \$3.4 billion (USDOL 2017a).
4. See the Table of States with FUTA Reductions, 2009–2017 at: https://oui.doleta.gov/unemploy/futa_credit.asp (accessed April 26, 2018).

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Stephen A. Wandner
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