Unemployment Insurance -

Options for Reform

Unemployment insurance (UI) is our nation's first line of defense in economic downturns, but millions of Americans are outside its safety net. UI reform is an urgent priority as benefit claims have reached levels not seen since the recession of the early 1990s. Several options for reform exist that would assist laid off workers.

★ 2004 POLICY SUMMARY ★

Unemployment Insurance - Options for Reform

Summary

- **Unemployment insurance (UI) is our nation's first line of defense in economic downturns, but millions of Americans fall outside the program's safety net.**
- **With unemployment benefit claims reaching levels not seen since the recession of the early 1990s, UI reform remains an urgent priority.**
- **States must avoid cutting UI benefits.**
- **Many states still have UI trust funds sufficient to expand their UI safety nets.**
- **A number of states with ample UI trust funds have accumulated those balances while operating limited UI programs that pay below-average benefits to a lower than average proportion of their unemployed workers.**
- **Suggested UI reforms include: raising weekly UI benefit amounts, adopting alternative base periods, providing equitable coverage of part-time workers, adopting extended benefit triggers, or adding state benefit extensions.**
- **The public strongly supports measures assisting laid off workers.**

Unemployment insurance (UI) is our nation's first line of defense in economic downturns, but millions of Americans fall outside the program's safety net.

By assisting laid off workers experiencing financial hardship while searching for employment, UI boosts the economy. But because UI programs in many states pay inadequate benefits and cover only a small proportion of unemployed workers, the UI safety net is eroded. As job losses have continued, some states face solvency challenges that can be used to attack benefit levels and program eligibility.

With unemployment benefit claims reaching levels not seen since the recession of the early 1990s, UI reform is an urgent priority.

The jobless rate is not expected to decline in coming months. State legislatures from New Mexico to Maine have already taken steps to improve UI in response to worsening economic conditions. States need to improve benefit levels and expand eligibility now, while the need is greatest.

States with low trust fund balances must avoid cutting UI benefits.

Some states, including IL, MA, MO, NY, ND, PA, TX and WV, will be under financial pressure to cut benefits in the coming months. Other states will join this list if job losses and UI claims continue.

Many states have UI trust funds sufficient to expand their UI safety nets and help the sinking economy.

Regular state UI benefits are financed through state payroll taxes and paid from state trust fund accounts maintained in the U.S. Treasury. State trust fund levels were boosted by an $8 billion transfer of federal funds in 2002. Despite current unemployment rates, many state UI trust funds can adequately meet the needs of the jobless in 2004.

A number of states with ample UI trust funds have accumulated those balances while operating limited UI programs that pay below-average benefits to a lower than average proportion of their unemployed workers.

Among the more solvent states paying lower than average weekly UI benefits are AK, AR, GA and LA, as well as the District of Columbia. Other states with lower than recommended weekly UI benefit amounts are AL, MS, MT, SC, SD and TN. States with restrictive UI program eligibility and above-average trust fund reserves include AZ, CO, FL, GA, LA, MS, NH, NM, OK and VA.

A series of options are available for states to boost their economies through UI reform:

■ **Raising weekly UI benefit amounts.** Too many states provide inadequate weekly UI benefits. The accepted formula calls for UI benefits to replace about one half of lost wages up to a maximum of two-thirds of the state average weekly wage. Many states need to update their UI benefit levels in order to protect laid off workers' standards of living. California increased its maximum weekly benefit from $230 to $330 in 2002, and to $370 in 2003. Also in 2002, Michigan raised its maximum weekly benefit from $300 to $362. AL, GA, MD, NH, OR and VT enacted more modest benefit increases in 2002.

■ **Adopting alternative base periods (ABPs).** These provisions take more recent wages into account when calculating UI eligibility and benefit levels than traditionally defined methods. ABPs promote UI eligibility expansion, especially among women, new entrants to the labor market (including former welfare recipients), re-entrants to the workforce, and low-wage workers. In 2003, Hawaii, New Mexico, and Virginia adopted the ABP. A total of 18 states (CT, GA, HI, ME, MA, MI, NH, NJ, NM, NY, NC, OH, OK, RI, VT, VA, WA, WI) and DC, representing over one-third of the nation's UI claims, have adopted ABPs.

■ **Providing equitable coverage of part-time workers.** Part-time workers account for nearly 20 percent of the workforce, but in a majority of states they do not qualify for UI benefits. These workers are predominantly women and disproportionately low-income. In 2003, Maine, New Jersey, New Mexico, and North Carolina passed significant expansions of UI eligibility for unemployed workers who had held part-time jobs, while Washington passed a limited measure.

■ **Adopting extended benefit triggers.** States can adopt triggers that extend UI coverage for an additional 13 weeks under the temporary federal extensions and the federal-state extended benefits program. Recognizing the inadequacy of UI benefit duration, seven states (AK, CT, KS, OR, RI, VT, WA) have adopted the Total Unemployment Rate trigger, while North Carolina and Michigan adopted temporary triggers in order to pay an additional 13 weeks of benefits.

■ **State benefit extensions.** Responding to the need to address long-term unemployment beyond the 13 weeks provided by the temporary federal extension program, seven states passed measures to pay additional benefits under state programs (KS, MA, NH, NJ, NM, OR, UT).

The public strongly supports measures assisting laid off workers.

A 2001 poll by Lake Snell Perry & Associates found that 76 percent of Americans supported increasing UI benefits for laid off workers.

This policy summary relies in large part on information from the National Employment Law Project.

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For more information...

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Unemployment Insurance Eligibility for Part-Time Workers Act

SECTION 1. SHORT TITLE

This Act shall be called the "Unemployment Insurance Eligibility for Part-Time Workers Act."

SECTION 2. EXTENSION OF UNEMPLOYMENT INSURANCE TO PART-TIME WORKERS

After section XXX, the following new section XXX shall be inserted:

1. An unemployed individual shall not be disqualified for eligibility for unemployment compensation benefits solely on the basis that he or she is only available for part-time work.

2. If an individual restricts his or her availability to part-time work, he or she may be considered to be able to work and available for work pursuant to [cite appropriate section], if it is determined that all of the following conditions exist:

a. The claim is based on the individual's part-time employment.
b. The individual is actively seeking, and is willing to accept, work under essentially the same conditions that existed while the wage credits were accrued.
c. The individual imposes no other restrictions, and is in a labor market in which a reasonable demand exists for the part-time services he or she offers.

SECTION 3. EFFECTIVE DATE

This Act shall take effect on July 1, 2004.