

Paid to Upgrade: Modernizing Unemployment Insurance

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The American Recovery and Reinvestment Act (ARRA) of 2009, the federal government's sweeping response to the recent economic crisis, includes an array of provisions designed to save and create jobs, stimulate economic recovery and growth, and ensure transparency and accountability in the process. One of the ways the act seeks to protect jobless workers is by encouraging states to modernize their unemployment systems. Under the portion of ARRA known as the **Unemployment Insurance Modernization Act (UIMA)**, Alabama could get a \$100 million boost for unemployed workers simply by making some common-sense changes to the way we calculate unemployment benefits. Yet, for two years running, Alabama policymakers have declined the offer. This fact sheet will examine how our current unemployment insurance (UI) system works and what's at stake as legislators get one last chance to consider the proposed changes – and the major funding that would accompany them.

Background

One lasting legacy of the massive unemployment of the 1930s is our national unemployment insurance program. Established by the Social Security Act of 1935, the UI system provides temporary partial compensation for lost earnings of people who become unemployed through no fault of their own.

As they have for 75 years, the newly unemployed rely on the UI system, in which the federal government cooperates with the states to provide temporary assistance to unemployed workers by replacing a portion of lost wages. (The average weekly benefit in Alabama is around \$206 – a modest sum by any measure.) Each state maintains a pool of money (funded through employer taxes) from which it pays UI benefits. These reserves are kept in accounts that are called **UI trust funds**.

Each state designs its own program within the framework of federal requirements. Thus, policies set in Montgomery determine the period of work used to determine who in Alabama qualifies for UI benefits, what the weekly benefit should be, and the maximum amount that a worker can collect in a year.

During the latest economic downturn, business closings and industry “downsizing” have rumbled

across our region, putting hopes and dreams on hold. Nearly 217,000 Alabama workers were unemployed as of June 30. As home foreclosures spread and more households reach their credit limits, as charities struggle to serve the growing ranks of the unemployed, Alabama's unemployment insurance system is showing its age.

Stuck in a pre-computer age

The main defect in the system is its use of outdated rules to determine worker eligibility. Determining eligibility for unemployment compensation relies on verifiable data about prior earnings. (Otherwise, anyone could claim to be a laid-off investment banker or college football coach!) State law requires employers to report earnings data to the state.

As UI was originally designed, employers submitted wage records a quarter-year behind because of the time it took to calculate and transmit the data by hand. In the computer age, this data is more readily available, yet Alabama, like 11 other states, continues to calculate prior wages using a **standard base period** typically defined as the first four of the most recently completed five calendar quarters of work. This calculation excludes the most recent work a worker has done, thus potentially shortchanging the UI benefit.

Keywords

alternate base period (ABP) – a one-year time period used to calculate unemployment compensation eligibility, taking into account the most recent completed quarter of employment for workers who don't qualify using the *standard base period*.

standard base period (also called *base year*) – the one-year time period (excluding the most recent completed calendar quarter) used to determine prior wages for unemployment compensation eligibility.

Unemployment Insurance Modernization Act (UIMA) – a component of 2009's American Recovery and Reinvestment Act (ARRA) that provided \$7 billion in financial incentives to the states, encouraging reforms of state unemployment systems.

Unemployment Insurance trust fund – reserve account, funded by employer taxes, from which the state pays unemployment benefits.

Thirty-nine states have addressed this problem by adopting an alternate base period (ABP), allowing them to factor in more recent work to compute eligibility for UI. The Modernization Act offers a new incentive for using the ABP, which four states adopted in 2010. For making this simple adjustment, the federal government would give Alabama's UI trust fund \$33.5 million. In addition to the cash bonus, the change would assist low-wage workers who have been found to be twice as likely as higher-wage workers to face a layoff, but only one-third as likely to qualify for UI.

Making it to 100 (million dollars)

Alabama could gain another \$67 million windfall by making two additional family-friendly UI changes, selected from these four options laid out in the UIMA:

1. Stop denying UI to part-time workers. Currently, a part-time worker who is only available for part-time work does not qualify for UI, even though employers pay UI taxes for part-time workers just as they do for full-time workers. The labor force has moved from predominantly "breadwinner" manufacturing jobs to increasing numbers of part-time, service-oriented jobs, many held by the second household wage-earner. Part-time work may provide the best schedule for a mother juggling her responsibilities at work and home. More than half of the states, including Georgia and Tennessee, cover part-time workers.

2. Extend UI benefits to workers who leave work for compelling family reasons. Specifically, some workers leave their jobs because they are caring for a sick family member or because their spouse has taken another job in another place and they have to move. Another example would be a worker who can document that they had to leave their job because of being a victim of domestic violence. A focus on these battered workers was instrumental in convincing Georgia to adopt the UIMA reforms. Alabama has thus far been less sympathetic.

3. Slightly increase benefits for unemployed workers with dependent family members. This change recognizes that having extra mouths to feed stretches benefits thin. UIMA calls for an increase of \$15 per week per dependent, with states allowed to cap a worker's total dependent benefit at \$50 per week

or 50 percent of the weekly benefit amount, whichever is less.

4. Extend the benefit period for laid-off workers who exhaust their regular UI benefits while enrolled in a state-approved job training program. This option adds a low-cost workforce development component to the UI system by providing permanently laid-off workers with 26 additional weeks of benefits while they retrain for a job in a high-demand industry.

The opposition

Gov. Bob Riley and several business leaders have publicly opposed making the UIMA changes.

Although creating jobs and improving circumstances for Alabama's working families remain prominent themes in this election season, UIMA opponents have thus far held fast against reform. They cast the changes as a "tax increase" that would expand the ranks of those who qualify for UI and penalize employers by raising their required contributions.

While it's true that several of the reforms would expand eligibility, it is reasonable to expect that the expansion will

be offset in the next few years by decreasing numbers of UI claims as the economy improves. Of more urgent concern is the ongoing solvency of Alabama's UI trust fund. Over the last year, the state has borrowed nearly \$300 million from the federal government to replenish the fund, the first time Alabama has borrowed for this purpose since 1983. By approving the UIMA changes, state leaders could reduce Alabama's UI trust fund debt by \$100 million, thus delaying or reducing necessary increases in employer contributions.

Alabama – one of a handful of states that have made none of the UIMA reforms – has until August of 2011 to modernize its UI system and collect the federal funds. Previous legislative efforts have failed. With nearly 50,000 sidelined Alabama workers standing to benefit from the proposed changes, the cost of doing nothing is too high. It's time to update our antiquated UI system and give struggling Alabama workers their due.

Alabama stands to gain \$100 million for modernizing its unemployment insurance system with more timely reporting and more family-friendly benefit policies.