

# Use an Alternative Base Period to Count Recent Earnings



## What is it?

In measuring whether a worker has sufficient recent attachment to the workforce to qualify for UI, states look at a worker's earnings during a past four-quarter "base period." A majority of states do not count a worker's most recent earnings towards unemployment insurance eligibility. Many low-wage workers and others with uneven labor market earnings are thus denied benefits even though they actually have earned enough to qualify. The alternative base period (ABP) allows workers who fail the typical base period test to count more recent earnings on their claim for benefits. Adopted in 20 states, the ABP substantially helps low-wage workers receive UI benefits at the time they need them most – when they become unemployed – at a modest cost to states.



## Key arguments in favor

**The traditional base period year limits access to UI by not considering all recent work experience.** A base period is typically four calendar quarters. Most states define their base periods as the first four of the last five completed calendar quarters. In other words, workers filing UI claims cannot use wages earned in the current quarter (the "filing quarter") or the most recently completed quarter (the "lag quarter").

**The traditional base year is one reason why low-wage workers receive state benefits at half the rate of higher wage workers.** The exclusion of recent earnings makes it difficult for low-wage workers to have sufficient earnings on their application to meet the minimum required to qualify. This is especially true for those who have sporadic earnings or have recently entered (or re-entered) the workforce, such as former welfare recipients or workers in the retail or tourism industries. Low-wage workers make up nearly two-thirds (58.3%) of those who need the ABP to qualify for UI benefits. High and moderate wage workers (like construction workers) with uneven earnings are also disqualified when the traditional base period is the only qualification option.

**ABP simply shifts the timing of the base period year.** Some workers don't have sufficient earnings in their traditional base period to qualify. The alternative base period year allows those workers who miss the regular earnings requirements to use wages from their lag quarter (and in some states the filing quarter). The ABP simply allows workers to use earnings from a more recent period to be considered so they can get benefits sooner – when they become unemployed. These workers have sufficient earnings to qualify for UI, but might need to wait for up to six months before the earnings can be counted. Denying UI to employed workers under the traditional base period test undermines the goal of unemployment insurance which is to provide temporary income support to workers when they

lose their jobs. In states with the ABP, six to eight percent of all UI claimants become eligible under the ABP, a meaningful increase in the percentage of workers receiving benefits in a timely fashion.

**In many states, the most important way to increase low-wage worker access to unemployment benefits is to pass the ABP.** Measuring earnings using an ABP expands UI coverage to low-wage or part-time workers—especially people of color and new entrants to the labor market such as former welfare recipients. The average hourly wage of workers who qualify for UI benefits using a standard base period is \$13.08; for those who qualify using the ABP, it is \$9.58. In Georgia, more than half of ABP recipients earned less than \$9.00/hour in their prior jobs. In its first year of implementation, 53 percent of all ABP recipients in Virginia were African-American, even though they made up only 38 percent of the state's total unemployed population. Seasonal workers, such as those in the building trades, also benefit from ABPs, because these workers often earn wages in concentrated periods.

## How an Alternative Base Period Helps Low-wage Workers Receive Unemployment Insurance

Here is how Alternative Base Periods can provide UI benefits to workers who have sufficient earnings to qualify only if more recent earnings are considered.

Consider a worker who loses a job and files for UI in April. Under a traditional base period approach, only earnings from January through December of the prior year are considered and the five months of earnings in the current calendar year (from January through April) are not counted at this time. If the worker remains unemployed and some months pass, eventually the more recent earnings would be considered and the worker could receive UI based on these earnings, but benefits are denied at the time the worker needs them most.

Under an Alternative Base Period, if a worker cannot qualify under the traditional measure, the more recent earnings can be considered. Typically, the last completed quarter (lag quarter) is considered although some states also consider earnings from the current quarter (filing quarter). When the earnings from January, February and March (lag quarter in this example) are considered, a worker who has sufficient earnings to qualify can receive benefits right away.

### Traditional Base Period

First Quarter	Second Quarter	Third Quarter	Fourth Quarter	Completed Lag Quarter	Time of Layoff - Filing Quarter
---------------	----------------	---------------	----------------	-----------------------	---------------------------------

### Lag Quarter Alternative Base Period

First Quarter	Second Quarter	Third Quarter	Fourth Quarter	Completed Lag Quarter	Time of Layoff - Filing Quarter
---------------	----------------	---------------	----------------	-----------------------	---------------------------------

### Filing Quarter Alternative Base Period

First Quarter	Second Quarter	Third Quarter	Fourth Quarter	Completed Lag Quarter	Time of Layoff - Filing Quarter
---------------	----------------	---------------	----------------	-----------------------	---------------------------------



## Key arguments against and responses to them

**Opponents say:** Adopting the ABP would deplete our state's trust fund.

**Response:** Low-wage workers qualifying for the ABP get relatively small UI checks. ABP claims represent from 2.1 to 6.5% of eligible claims in states that have implemented the change, but only 1.1 to 5.2% of monetary payouts. In addition, the cost estimates do not take into account that a fair proportion of newly-included recipients would have remained unemployed and filed valid UI claims at a later date (up to 40 percent according to one state's study).

**Opponents say:** ABPs are too expensive and difficult to administer.

**Response:** ABP implementation requires one-time changes to computer systems and training of personnel, but those costs can be minimized by using internal staff for the modest changes needed. In states that have implemented the ABP, programming has taken about 1,000 work hours plus a one-half day training, with programming costs as low as \$64,000. Only half of lag quarter ABP claims require wage data beyond the state's regular records. To keep costs low, most states only allow wages from the completed lag quarter, with annual costs running at only half a million dollars per year. Employers frequently raise concerns about the additional paperwork required for ABP administration. While such paperwork is sometimes required, the burden presented by the volume of ABP claims is not substantial. Moreover, families that can receive UI through ABP may be able stay off of welfare rolls. California estimated that two-thirds of the new benefits that would be associated with ABP would be paid to families that otherwise would have qualified for Temporary Assistance for Needy Families (welfare).

**Opponents say:** ABP claimants are not sufficiently attached to the labor market.

**Response:** ABP claimants must meet the same earnings requirements used to establish labor force attachment (such as the requirement of having total base period earnings that are 1.5 times the high quarter) as other claimants. ABP does not lessen the amount of work history required; it just changes the period that is examined for work history. ABP allows those workers with sufficient labor force attachment to receive UI benefits to support their families at the time they need the help the most.



## What states do it?

Nineteen states plus the District of Columbia now use an Alternative Base Period, with Illinois set to implement the ABP in 2008. Most of the states have adopted the ABP in the last five years, with the proportion of claims covered by the ABP doubling. Three states allow workers to use wages from the filing quarter; the rest of the states only allow wages from the lag quarter.

