



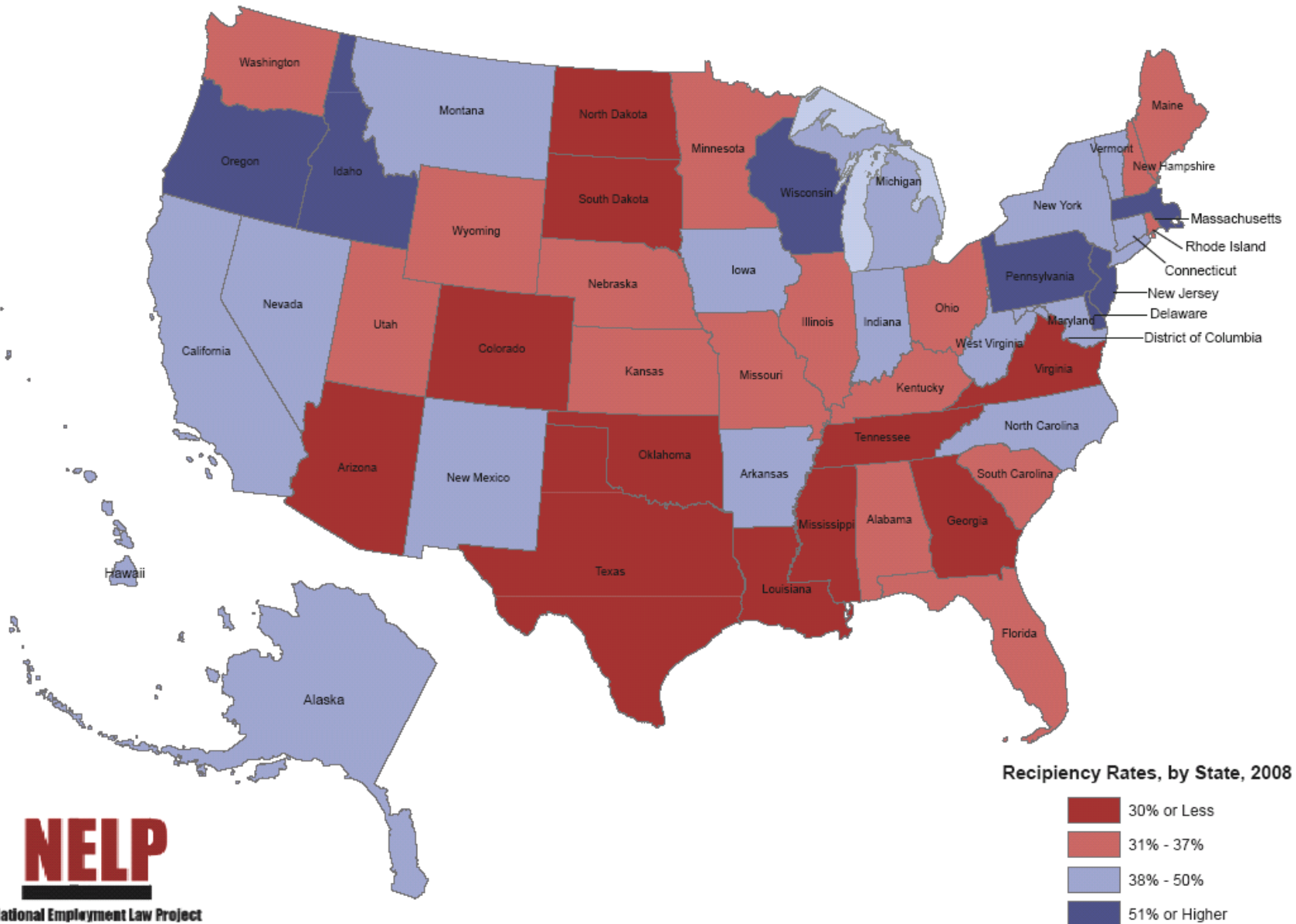
# Modernizing the State Unemployment Insurance Systems: The Basics of the Recovery Act's Federal Incentive Funding Program

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# *Filling the Gaps in the Unemployment Program*

- Only 41 percent of unemployed workers collect state unemployment benefits (3<sup>rd</sup> Quarter, 2009).
- Low-wage workers are twice as likely to be unemployed but one-third as likely to collect state unemployment benefits.
- The Recovery Act helps modernize the state unemployment insurance programs by filling the gaps in laws that deny benefits to low-wage, women and part-time workers.
- The Recovery Act builds on the state reform movement of the past decade and the recommendations of the Advisory Council on Unemployment Compensation.

# Percent of Unemployed Population Receiving UI Benefits By State, 2008



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# *The Basics of the Recovery Act's UI Modernization Program*

- Incentive Funding: \$7 billion in federal incentive funds available to states that adopt a menu of reforms. The share of funding is based on the federal unemployment taxes contributed by the state.
- Administrative Funding: \$500 million in new administrative funding to help states implement the reforms, improve outreach and perform other administrative functions.
- Mandatory Reform (1/3 funding): “Alternative Base Period” (ABP)
- Two Optional Reforms (2/3 funding):
  - Part-time worker eligibility
  - Quits for compelling family reasons
  - Extra 26 weeks UI while in training
  - Dependent allowances

# *Key Recovery Act Provisions*

- Sunsets Prohibited: The state law must not be subject to discontinuance but it can be repealed at a future date (“good faith” certification required).
- DOL Certification: Applications for funding must be certified for compliance with the law by U.S. Dept. of Labor (DOL). Review conducted within 30 days.
- Certification Deadline: Process to apply for Recovery Act incentive funds open until August 22, 2011.
- Front-Loaded Funding: All the federal incentive funding is awarded to the state’s trust fund at once provided the laws take effect within one year of applying for certification by DOL.

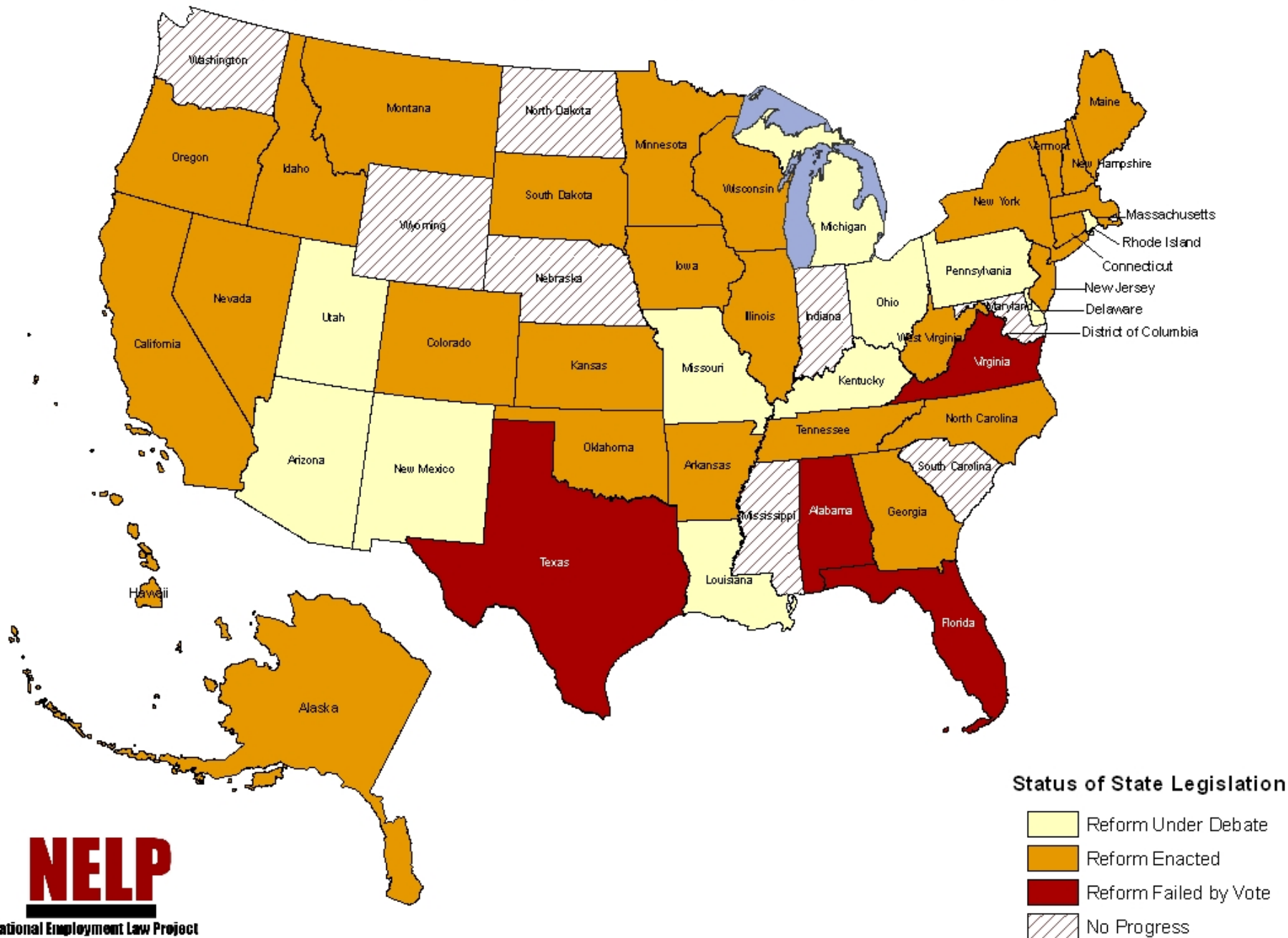
# *The Recovery Act's UI Reforms*

- Alternative Base Period: State recognizes the latest 3 to 6 months of earnings to qualify for UI.
- Part-Time Eligibility: State cannot benefits to workers seeking only part-time work.
- 26 Weeks UI While in Training UI: State pays 26 weeks of extra UI to workers in approved training leading to high demand jobs.
- Dependent Allowance: State pays an additional \$15 per week per dependent (capped at \$50).
- Compelling Family Reasons - Cannot be denied benefits for leaving work due to all the following:
  - Domestic violence or "sexual assault" (NEW!) of immediate family member verified by reasonable documentation.
  - Spouse relocates to a new location where it's impractical to commute.
  - Illness or disability of a member of the individual's immediate family.

# *Recovery Act Produces Historic Wave of State UI Reforms*

- Since February, 28 states passed new laws complying with the Recovery Act's incentive program.
- All but three states (AK, SD, WV) enacted all the reforms, not just the ABP.
- Republican Governors in nine states (AK, CA, CN, GA, HA, MN, NV, SD, VT) signed Recovery Act legislation.
- 32 states have so far been certified by DOL (CA, NC, and RI, will likely qualify but have not yet applied for certification).

# New UI Modernization Law: State Activity Status

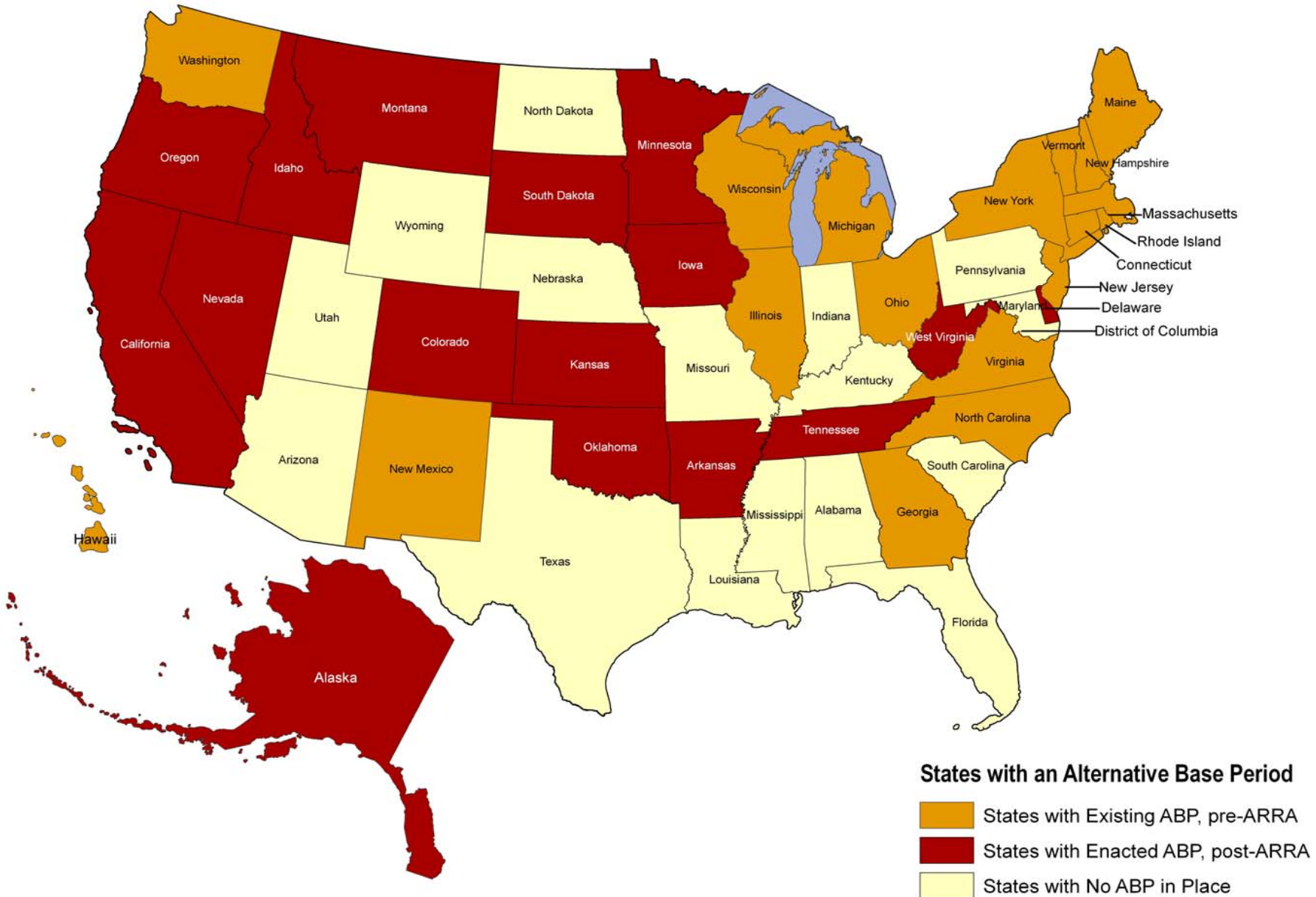


# *New Reforms Reshape the State Unemployment Programs*

- Alternative Base Period: 16 new states (2 “technical fixes”), 35 states total.
- Part-Time: 6 new states (6 fixes), 27 states total
- 26 Weeks UI While in Training: 7 new states (4 fixes), 12 total.
- Dependent Allowance: 1 new state (1 fix), 6 states total
- Compelling Family Reasons (19 states)
  - Domestic Violence: 2 new states (10 fixes), 31 states total
  - Spouse Relocates: 10 new states (4 fixes), 24 states total
  - Illness & Disability: 3 new states (9 fixes), 21 states total

# States with an Alternative Base Period Implemented Before and After the ARRA

December 2009



# *The Road Ahead in the States*

- 25 states left to qualify for federal funding:
  - ABP States Require Optional Reforms: 6 states (plus D.C.) have the ABP but need the optional reforms to qualify for full funding (AK, MI, OH, SD, VA, WA, WV).
  - Only ABP Required: Nebraska qualifies for full funding with the ABP.
  - Some Reforms, But No ABP: 5 states (AZ, LA, MD, PA, WY) must adopt both the ABP and one optional reform.
  - No Reforms, No ABP: 10 states have to adopt the ABP, plus two optional reforms, although some of these have selected compelling family provisions (AL, FL, IN, MS, MO, ND, SC, TX, UT).

# *The Federal Incentive Funding Provides a Big Bang for the Buck*

- For the average state, the federal Recovery Act funding is enough to pay for 5 years of the required state reforms.
- ABP/Part-Time Eligibility: These are especially low-cost relative to the number of workers benefiting because the workers collect much lower than average benefits.
- 26 Weeks of UI Training: This an especially low cost reform now that federal extensions are available for workers running out of their state benefits. The reform is also “non-charged,” meaning it does not directly affect the employer’s UI tax rate.
- Compelling Family Reasons: The three specific reforms cover relatively small numbers of workers, especially now during a period of major layoffs and high claims. These benefits are also “non-charged,” which reduces the impact on employers.

# *The Debate Over UI Modernization Reforms & Unemployment Taxes*

- Louisiana Governor Bobby Jindal: *“Our businesses pay for [UI]. I don't think it makes sense to be raising taxes on Louisiana businesses during these economically challenging times.”*
- Georgia Governor Sonny Perdue: *“Signing [this UI modernization bill] will help prevent tax increases on Georgia businesses so they can grow and create jobs. The changes in our unemployment rules and regulations are relatively minor, and I appreciate the General Assembly’s willingness to approve additional benefits for unemployed Georgians.”*



# *How Federal Incentive Funds Interact with UI State Taxes*

- How does the federal incentive funding impact employer taxes in states with insolvent unemployment trust funds?
  - Many insolvent states are already paying the maximum UI taxes, which means the addition of the Recovery Act reforms will not increase employer taxes.
  - Some insolvent states tie tax increases to the shortfall in the state unemployment trust fund, so additional of Recovery Act funds can help limit UI tax increases.
- How does the federal incentive funding impact employer taxes in states that have solvent trust funds?
  - The Recovery Act funds can significantly limit tax increases by boosting the trust fund before the scheduled date when employer tax rates are computed for 2011.

# *Solvent State Example (Nebraska)*

- Nebraska's UI trust fund has fallen below the fund balance that triggers a tax increase (a balance of 1% of total wages)
- Because of the drop in funding, UI employer taxes are subject to a 10% "solvency adjustment" on top of an already large tax increase due in 2010.
- The Recovery Act reforms would bring \$46 million to the Nebraska trust fund while the reforms cost \$2 million per year.
- When employer taxes are computed for 2011 (in September 2010), the Recovery Act funds will raise the trust fund level and save employers \$17-\$18 million in 2011 taxes.

# *Insolvent State Example (Florida)*

- Florida UI taxes will increase by \$1 billion a year from 2008 to 2011 (150 percent increase).
- The “positive adjustment factor” is calculated to make up the difference between the actual and desired trust fund balance.
- If the \$444 million in Recovery Act funds are accessed by June 2010, Florida will reduce the “positive adjustment” and save employers \$110 million with additional savings in future years (taking into account that the reforms cost the fund \$165 million a year).
- Texas and other states apply a similar mechanism to increase employer taxes when the trust fund is insolvent.