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A State Unemployment Insurance Safety Net Briefing Paper

**Unemployment Insurance in Washington:
A Positive Impact for Working Families and the Economy**

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ABOUT THIS REPORT

This report was prepared by the National Employment Law Project (NELP). NELP is a non-profit policy and legal organization based in New York City. NELP has advocated on behalf of low-wage and unemployed workers for over 30 years, and is particularly concerned with assisting these workers in overcoming barriers to employment and government systems of support. For further information about NELP, visit our website at www.nelp.org or contact our Communications Director Sarah Massey at (212) 285-3025, ext. 109.

NELP's Unemployment Insurance Safety Net Project supports constituent groups working with and on behalf of unemployed workers in state unemployment insurance reform efforts, especially those directed at barriers to UI eligibility for low-wage, women, and part-time workers. To carry out this work, NELP provides technical assistance and advice to legislators and their staff, advocates, unions, and other policy makers involved in state-level unemployment insurance (UI) reform efforts. NELP also monitors federal UI legislative and administrative developments. For copies of other reports and materials on unemployment insurance and related NELP projects, visit our website's publications page at www.nelp.org.

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Introduction

Unemployment insurance is our nation's first line of economic defense in a recession. Unemployment insurance is designed to pay adequate weekly benefits so that jobless workers and their families can maintain essential family spending. In addition, by using accumulated payroll taxes from trust funds, unemployment insurance (UI) automatically boosts our economy by maintaining consumer spending during a recession.

From the period July 2000 through mid-September 2002, the Washington economy lost 99,000 jobs, including relatively high-paid jobs in aerospace and high technology.¹ In the ongoing recession, Washington's unemployment insurance program is helping large numbers of families as well as the state's economy. This briefing paper provides an overview of Washington's UI program and its positive impact on the state's economy and citizens.

Positive Economic Impacts of Unemployment Insurance

The economic benefits of unemployment insurance programs are widely acknowledged by economists, but not understood or discussed enough by the business community or general public. For this reason, UI programs are too often discussed in legislatures or the media solely as a "cost" to business. This one-sided "business climate" approach is like analyzing a stock's value by only looking at corporate expenses and not considering income.

- **UI benefit payments to workers are not a loss to our economy, but a benefit to business as well as to working families.**

Virtually every dollar of UI benefits is immediately spent by laid off workers on expenses of daily living, including rent, mortgage payments, utility bills, groceries, gasoline, and medical bills. In other words, UI benefits are tantamount to payments to Washington businesses for goods and services.

Critics of unemployment insurance essentially view UI benefits as disappearing after the checks are sent to jobless workers. This, of course, is nonsense. In the last year, for example, both Nobel prize winner Joseph Stiglitz and *New York Times* "Economic Scene" columnist Jeff Madrick have called for extending UI benefits to stimulate the economy. These calls are supported by many economic studies through the years.

- **Every dollar spent on UI translates into \$2.15 of economic activity in the states.**

A recent study of UI's economic impact, commissioned by the U.S. Department of Labor in 1999, found that UI benefits produced \$2.15 of increased economic activity (GDP) for every \$1.00 in UI benefits paid to laid off workers.² Focusing on the last five recessions in the United States, the report's authors estimated that these recessions were 15 percent milder and had fewer layoffs than otherwise would have occurred if not for UI's contribution toward consumer spending.³ The report employed a widely-used Wharton economic forecasting model for the national economy. While the degree of economic stimulation from UI benefits estimated by economists has varied from study to study, a positive economic impact of UI benefits is invariably reported.

The way UI works to boost the national economy can be viewed on a smaller scale in Washington. Washington's unemployment rate was 5.0% in December 2000. At that time, Washington's UI trust fund had a balance of \$ 1.963 billion. Payments of benefits increased as unemployment rose and the trust fund balance made up the difference between current UI payroll taxes and increased UI benefit payments. By July 2002, Washington's trust fund balance had fallen to \$ 1.493 billion as continuing high claims payments arising from the recession have been paid. In August 2002, Washington's unemployment rate was the second highest in the country, at 7.2 percent.⁴

- **From January 2001 through June 30, 2002, the net gain to the Washington economy from state UI benefits was eight hundred million dollars.**

When we compare state UI taxes paid by employers to benefits paid to employees, (Table 1), we can see how Washington's Unemployment Insurance system is helping the state's economy during the hard times experienced this year. By subtracting current trust fund revenues, (the taxes paid by employers) of \$ 1.4 billion from regular state UI benefits of \$ 2.2 billion, a net of about \$800 million in additional spending from state UI benefits has boosted Washington's economy from January 2001 through July 2002.

Table 1: Net Benefit from Regular State UI Program⁵

Regular State Program Net Benefit	January 1, 2001 - June 30, 2002
State UI Benefits Paid	\$2,274,364,669
Trust fund Revenues	-\$1,478,475,101
Net Benefit	\$795,889,568

- **From January 1, 2001 through June 2002, federally funded UI benefits added over two hundred million dollars in spending.**

Because Washington's unemployment rate is among the highest in the nation, benefit extensions, financed in whole or in part by federal dollars, have been in place as well. Beginning in January 2002, Washington

"triggered on" and started paying 13 weeks of federal-state Extended Benefits (EB). An additional 26 weeks of Temporary Emergency Unemployment Compensation (TEUC) began in March 2002.

EB benefits are financed 50-50 by both federal and state payroll taxes. Each time that benefits trigger on during recessions, additional federal dollars come in to the state. TEUC benefits are 100% federally financed benefits. Federally financed benefit extensions will not be recovered from Washington's employers through future state UI payroll taxes. Only the state's share of EB is paid from Washington's UI trust fund.⁶ These extensions have been available, in large measure, because Oregon and Washington have taken advantage of optional Extended Benefits triggers available under federal law. While not enough states have taken advantage of these optional triggers in our view, states that do so provide superior protection to long-term unemployed workers and their economies.⁷

As shown by the table below, benefit extensions have already added at least an additional \$208 million in federal spending to Washington's economy this year.

Table 2: Net Benefit of all UI programs in Washington State⁸

	January 1, 2001- June 30, 2002
State UI Benefits Paid	\$2,274,364,669
Federal Portion of Benefit Extensions	\$208,050,202
State Payments for Extended Benefits	\$26,180,500
Less Taxes Paid by Employers	-\$1,478,475,101
Net Benefit of UI Programs⁹	\$1,003,939,770

The above table summarizes the impact of UI benefits in Washington during calendar year 2001 and the first half of 2002. As shown, we calculate that federal support and regular and extended state benefit payments have given Washington's economy a net injection of at least \$1 billion in this current downturn.¹⁰

Washington's Unemployment Insurance Program

Washington has a good unemployment insurance program. By good, we mean that UI benefits are adequate in relation to wages and salaries in Washington and UI benefits reach a significant minority of laid off workers. Washington has a good UI program in comparison to many other states as well, a fact for which Washington should not be asked to apologize.¹¹ Let's examine some features of Washington's UI program in more detail.

- **Too generous? Washington's benefits replace less than half of the average workers' wages.**

Are Washington's UI benefits too generous, as some claim? If you believe that high wages are a problem, then you should be concerned about high UI benefits in Washington. Washington is a high wage state, and largely for that reason, Washington pays higher UI benefits than lower-wage states like North Carolina (which was selected for comparison with Washington in a recent case study). However, if you compare UI benefits to each of these state's wage levels, Washington's UI benefits are not out of line with North Carolina's.

Only about 20 percent of UI claimants get the maximum weekly benefit amount in Washington. For that reason, average weekly benefits are a fairer standard of measurement than maximum benefits. In 2001, Washington paid an average weekly benefit of \$311.27, or 43.9 % of its average weekly wage of \$708.71.¹² In other words, average UI benefits in Washington do not replace even one half of average wages, as is recommended by the US Department of Labor. North Carolina paid an average benefit of \$248 in 2001, or 40.8 percent of its average weekly wage of \$607.23.¹³ Compared to North Carolina's wages and benefits, Washington's benefit levels are higher in the absolute, but proportionate in their effect on working families and the state economy. Both North Carolina and Washington are replacing roughly the same level of wages in their respective states. Both fall short of program goals of 50% of lost wages.¹⁴

Higher wages are good for employees and employers in Washington. Employees have higher standards of living. Businesses that sell consumer goods and services can sell more of those things in a high-wage state than they can in a low-wage state. Productivity of higher wage employees is generally higher than that of low wage employees. Washington ranks in the top 10 states in terms of wages, so Washington should rank as a top 10 states in benefits as well.

- **Lower Benefits Are Not "Good" for workers or for the businesses their wages support.**

Critics claim that other state's UI benefits are "better" because they are lower than UI benefits in Washington, or that Washington's UI benefits are too high when compared with national averages. These critics ignore the fact that UI benefits are much too low in many other states. For example, Alabama pays maximum weekly benefits of \$210.¹⁵ The payment of very low benefits in many Southern and Southwestern states skews comparisons between Washington and national averages or with other specific states' benefit levels, making high-wage states like Washington look out of line. In fact, many states fall far below the accepted standard of replacing one half of lost wages up to a maximum weekly benefit level that reflects statewide wage levels. Washington should not adopt bad policy and pay poverty level UI benefits just because other states do so.

Reducing Washington's UI benefits to a national average means a higher debt load for laid off workers, increased stress on working families, and higher demands on social services and charities in affected communities. Lower benefits mean less consumer spending and economic activity in Washington. Benefit reductions or freezes would not be a wise economic policy for Washington's citizens or its business community.

- **UI Payroll Tax Provisions Are Subject to Ongoing Debate and Legislative Activity**

UI payroll tax provisions, including many features of experience rating, are the subjects of ongoing contention in Washington. The November ballot includes a referendum aimed at overturning portions of a recent legislative adjustment in payroll tax arrangements in Washington. Washington's UI payroll taxes include a relatively higher taxable wage base (the proportion of wages and salaries subject to UI taxes in Washington is \$28,500). This taxable wage base is in line with other states in our region (Oregon, \$25,500; Idaho, \$27,600; Alaska, \$26,000; Hawaii, \$ 29,300).¹⁶ Washington law also features 5.4 percent maximum tax rate, the lowest maximum state UI tax rate permitted under federal law.¹⁷ Half of the states use a higher maximum tax rate.¹⁸ In addition, Washington has specific non-charging provisions that some have questioned.

To a large degree, all these tax provisions are creatures of state UI law. Many could be changed, especially if business groups could agree on alternative arrangements. From the perspective of working families and the health of UI programs, adequate financing is critical. Adequate financing means maintaining trust fund balances sufficient for forward funding and supporting adequate benefit levels and eligibility provisions. For this reason, higher taxable wage bases and maximum tax rates are elements that we would generally favor. The degree of experience rating and methods of charging employers are less critical from this perspective. The current referendum 53 is essentially a contest between competing business interests, with the "losers" in the legislature trying to overturn what was done in the underlying legislation. Any change in UI payroll taxes will produce winners and losers. We believe that the referendum is a short-sighted effort to overturn the legislature's determination.

- **Some Shortcomings in Washington's UI Program: Another Way to Look at Generosity.**

While weekly UI benefit amounts are more adequate in Washington than in states with bad UI programs, Washington's UI program could use modest improvements to treat lower wage and part-time workers fairly. In particular, Washington's UI program does not follow best practices in its treatment of part-time workers and its monetary eligibility measure requires relatively higher earnings for UI eligibility than other states.

Not all workers that are unemployed get UI benefits. "Reciency rates" are a measure of how many unemployed workers receive UI benefits. The most common way to report on UI reciency rates is to compare a state's total unemployment rate with its insured unemployment rate. This is the IU/TU ratio, or reciency rate. In Washington, the 2001 reciency rate was 49, somewhat higher than the national ratio of 45, but well below leading states like Massachusetts (75), Connecticut (68), Alaska (65), Pennsylvania (63), and New Jersey (62).¹⁹ A further concern is raised by a gender disparity in Washington, with men drawing UI benefits at a reciency rate 10 percentage points higher than women according to a recent report.²⁰

Washington disfavors part-time workers. At least one reason for Washington's lower ranking on UI reciency, particularly for women, is its harsh treatment of part-time workers. Washington denies UI benefits to laid off part-time workers, requiring availability for full-time work (as do 29 other states). Since women work part-time jobs in a higher proportion than men do, this rule undoubtedly has a bigger negative impact on women than men in Washington. *Twenty states' UI programs have favorable policies on part-time work*, with Delaware, Kansas, Nebraska, Pennsylvania, South Dakota, Vermont, and Wyoming essentially treating part-time work on a par with full-time work.²¹ Adopting a similar policy in Washington would recognize that part-time workers have a significant role in today's economy and boost UI reciency as well. This reform would have a modest cost impact in Washington, given that part-time employees have lower-than-average wages and would draw lower-than-average weekly benefit amounts.

Washington State has the most stringent monetary eligibility requirements in the country. Under Washington's system, workers must work 680 hours in order to qualify for unemployment compensation. As of January 1, 2003, a minimum wage worker in Washington State must therefore earn \$4,766.80 in order to qualify. In 47 states, the amount of earnings needed to qualify for UI is \$3,000 or less.²² Washington should consider lowering its hourly requirement to 500 hours, as in neighboring Oregon.

Conclusion

Every state's UI program is a combination of history and economics arising from political compromises and practical considerations. As we have shown, Washington's UI program provides substantial help to our economy and our laid off workers and their communities. For these reasons, Washington's UI program deserves the support of its public officials, citizens, and business community.

A Comedy of Errors--The Association of Washington Business Case Study

A September 2002 case study released by the Association of Washington Business promotes restrictions in the Washington unemployment insurance program and argues that Washington's UI program is too costly for Washington business. The report avoids any mention of the positive aspects of UI for business or for laid off workers and their communities. AWB's study contains errors of fact that contributed to its unfounded arguments for cutbacks in UI. Here are some of the worst examples:

- UI Taxes for most Washington businesses are less than half of that reported.** The AWB case study vastly inflates the amount of UI taxes paid by Washington employers. According to AWB, Washington pays \$556.50 per worker in unemployment taxes. The calculation method, apparently taken from an average tax rate on \$28,500 wage base, has been termed misleading by national business groups and the U.S. Department of Labor. Tax rates are difficult to calculate because many employers are taxed at well below the "average" rate, and many are not taxed at \$28,500 because their employees earn less than that per year. What can be said is this: in Washington, 67,000 businesses, over one half of all qualified Washington businesses, are in rate classes 1-5, with tax rates ranging from .47% to .92%. As shown in Table 3, the minimum tax rate in rate 1 is \$67.45 per employee/per year (.47% tax on a full-time minimum wage employee—\$14,352 per year). The maximum tax rate in this range is \$262.20 per employee/per year (\$28,500—the maximum taxable wage base x .92%).²³

Table 3: Majority of Washington Employers Pay \$262.20/employee or less in UI taxes²⁴

	Percent of All Employers	Minimum Tax	Maximum Tax	Max Tax Rate
Rate 1	42.8%	\$67.45	\$133.95	.47%
Rates 1-5	53.5%	\$67.45	\$262.20	.92%

- Washington's Weekly Benefit Formula Is Not a Problem.** AWB wrongly claims that Washington is "one of only eight states" basing its weekly benefit amount on a formula using two quarters of wages. This claim is wrong. According to the U.S. Department of Labor (Significant Provisions of State Unemployment Laws July 2002), 31 states use the single highest quarter of earnings in calculating weekly benefits, while ten more use a two-quarter formula like Washington's.²⁵ AWB advocates a formula based upon "four-quarter averaging" of earnings, saying this as a more accepted weekly benefit formula. There is no reason for Washington to move even further from the benefit formula used by forty-one other states toward a formula employed by only six states.
- Washington's "Able and Available" and Work Search Standards Are Not Out of Line with Other States.** AWB's case study charges that "most states" do not have legal provisions in their UI laws permitting workers to search for jobs related to their usual occupations or prior training or experience, as does Washington. In fact, all states permit workers to refuse unsuitable jobs. In fact, federal law prohibits states from conditioning UI eligibility upon the acceptance of jobs that pay wages, or offer hours or working conditions, substantially below those prevailing in the local labor market.²⁶ AWB also overlooks the positive effects in terms of productivity and earnings in permitting unemployed workers sufficient time to find jobs matching their skills, training, and experience.
- Washington's Maximum Weekly Benefit Is Adjusted by Statewide Average Weekly Wages.** AWB incorrectly says that Washington's maximum weekly benefit amount is "tied to the Seattle-Everett consumer price index (CPI)." In fact, Washington's maximum weekly benefit has nothing to do with consumer prices. It is tied to the statewide average weekly wage as reported by employers, which is calculated annually by the state agency under RCW 50.04.355.

References and Endnotes

- ¹ David Ammons, *Forecasters: State's tax collections expected to drop another \$299 million*, SEATTLE TIMES (Sep. 17, 2002).
- ² Lawrence Chimerine, et al., UNEMPLOYMENT INSURANCE AS AN ECONOMIC STABILIZER: EVIDENCE OF EFFECTIVENESS OVER THREE DECADES, U.S. Department of Labor, Employment and Training Administration, UI Occasional Paper 99-8, Table 3, p. 67-68 (1999) available at <<http://workforcesecurity.doleta.gov>>
- ³ Id., at 56.
- ⁴ Unemployment figures come from Bureau of Labor Statistics, available at <<http://www.bls.gov>>; statistics on fund balance from U.S. Department of Labor, Office of Workforce Security, QUARTERLY UI PROGRAM DATA, for quarters 2000.4 and 2002.2 available at <<http://www.workforcesecurity.doleta.gov/unemploy/content/data.asp>>
- ⁵ State UI benefit totals come from QUARTERLY UI PROGRAM DATA, 2001.1, 2001.2, 2001.3, 2001.4, 2002.1 and 2002.2 State Revenue data come from 2001.4 quarterly data, and from the State of Washington Employment Security Department for 2002.1 and 2002.4.
- ⁶ Federal UI funds are derived from a .8 percent uniform federal tax on all private employers that is imposed on the first \$7000 in annual wages--amounting to a maximum of \$56 per employee. These funds pay for state agency (ESD) administration, the federal share of EB, and a loan fund for insolvent state UI trust funds. In the case of the temporary extensions currently available, federal trust funds are also the source of these benefit payments. These federal funds were also the source of a one-time federal "Reed Act" distribution of \$168 million deposited in Washington's UI trust fund in March 2002.
- ⁷ In brief, federal law requires states to adopt an EB trigger consisting of a 5 percent "Insured Unemployment Rate." In addition, states have an option to adopt an IUR trigger of 6 percent and/or a Total Unemployment Rate of 6.5 percent. All EB triggers require that state unemployment rates also exceed prior levels of unemployment. For a full explanation, see National Employment Law Project, Background Paper on Extended Benefits (March 2001) available at <<http://www.nelp.org/pub66.pdf>>
- ⁸ QUARTERLY UI PROGRAM DATA,; Data on 2002 TEUC payments comes from U.S. Department of Labor, Office of Workforce Security, available at <http://www.workforcesecurity.doleta.gov/unemploy/content/data_stats/datasum02/2ndqtr/teuc.asp>
- ⁹ We report the state share of EB separately as a conservative feature of our estimate. In coming years these payments will be recovered from employers through payroll taxes. When calculating the impact of current benefits and taxes there is no good way to account for the impact of future taxes or benefits. Since benefit dollars are already in the economy, their positive impact is included here and current taxes are subtracted. This approach provides a fair snapshot of the impact of UI benefits, in our view.
- ¹⁰ Some states, including Illinois and Texas, have abandoned the long-accepted "advance financing" model for state UI programs for "pay as you go" financing of their UI programs. This risky approach to UI financing means states deliberately lower UI tax rates and maintain low trust fund balances during non-recessions. Pay-as-you go financing then relies upon payroll tax increases and benefit cuts during a recession to finance higher benefit claims, rather than accumulated trust fund balances. Of course, tax increases and benefit cuts further contract economic activity, not a desirable policy in recessions, in our view. In addition, pay-as-you go states forego millions in federal interest on trust fund balances during good times and face federal borrowing to maintain benefits as well as federal interest payments during recessions.
- ¹¹ Unemployment insurance is one program for which the business community advocates that states should rank as "average" or "middle of the road," rather than first in the nation. For this reason, interstate comparisons for UI programs are commonly efforts to enforce a "lowest common denominator" against any UI program or feature that is above average. Few would argue that a state's highways or public health system should not be above average and we do not believe that any different approach is warranted with respect to UI.
- ¹² QUARTERLY UI PROGRAM DATA, 2001.1, 2001.2, 2001.3, 2001.4, 2002.1, and 2002.2.
- ¹³ Ibid.
- ¹⁴ Advisory Council on Unemployment Insurance, *Unemployment Insurance in the United States* (1995) pp. 126-127(citing that this wage replacement rate has been the standard of adequacy since 1935).
- ¹⁵ U.S. Department of Labor, SIGNIFICANT PROVISIONS OF STATE UNEMPLOYMENT LAWS, (July 2002), available at <<http://ows.doleta.gov/unemploy/sigpro72002.asp>>
- ¹⁶ National Foundation for Unemployment Compensation & Workers' Compensation, *Highlights of State Unemployment Compensation Laws*, Table 3 (January 2002)("Highlights"); U.S. Department of Labor, *Comparison of State UI Laws*, (January 2002) available at <<http://workforcesecurity.doleta.gov>>
- ¹⁷ Should HB 2901 as recently passed by the legislature survive the pending referendum challenge, the maximum rate in the highest tax schedule will rise to 6.0 percent.
- ¹⁸ U.S. Department of Labor, *Comparison of State UI Laws*, Table 205 (January 2002)("UI Comparison") available at <<http://workforcesecurity.doleta.gov>>
- ¹⁹ Id., Quarterly UI Program Data, 2001.4.

²⁰ National Employment Law Project, Economic Policy Institute, and Center on Budget and Policy Priorities, *FAILING THE UNEMPLOYED*, TABLE 1 (March 12, 2002) *available at* <<http://www.nelp.org>.>

²¹ National Employment Law Project, Economic Policy Institute and Program on Gender, Work & Family, Washington College of Law at American University, *LAI D OFF AND LEFT OUT*. (February 12, 2002) *available at* <<http://www.nelp.org>.>

²² *Id.*, *Highlights*, Table 17; *UI Comparison*, Table 301.

²³ Washington State Employment Security Department.

²⁴ This does not mean that the majority of employees are charged a tax rate of \$262.20. Rather, the majority of individual businesses fall into the rate categories as described here.

²⁵ *Id.*, *Highlights*, Table 18; *UI Comparison*, Table 304.

²⁶ 26 U.S.C. § 3304(a)(5). No matter what the provisions of state law, this federal law takes precedence. For a discussion of the role of prior training or experience, and “suitable work,” see U.S. Department of Labor, Unemployment Insurance Program Letter No. 101, *Principles Underlying the Suitable Work Disqualification*, (1945), *available at* <<http://www.workforcesecurity.doleta.gov/dmstree>.>