

Index Weekly Benefit Amounts



What is it?

Maximum state unemployment insurance benefit amounts should be indexed to the growth of wages in the state so that jobless workers have adequate resources to meet their basic expenses. Indexing is accomplished by setting the maximum weekly benefit each year to equal to a set percentage (preferably two-thirds) of the state's average weekly wage.



Key arguments in favor

Indexing the weekly benefit amount is the best way to ensure that unemployment benefits keep pace with current expenses of a state's jobless workers. Average wages increase each year with much of the growth reflecting changes in the cost of living in a state. If weekly unemployment benefit amounts don't increase along with worker pay, laid-off workers will have insufficient resources to meet even basic expenses, especially expenses such as housing that are established based on a prior salary. In states that have indexed maximum benefit amounts, the UI benefits replace a greater share of a jobless worker's lost wages than in states that have not indexed maximum benefit amounts.

Without indexed maximum weekly benefit amounts, UI will replace less than half of prior wages for too many unemployed workers. Since the 1950s, replacing half of prior wages has been recognized as the adequate weekly level of insurance for unexpected unemployment—enough to pay for necessities but not so much as to discourage re-employment. Many states have benefit formulas that generally grant workers half of their prior weekly wage in benefits, but benefits are capped. If the cap, or maximum weekly benefit, is low, the UI benefits will not replace half of prior weekly wages for many workers. For example, in a state with a low maximum weekly benefit amount of \$250, workers earning as little as \$26,000 would receive an unemployment check of less than half of their last paycheck.

Most states using indexing provide a maximum weekly benefit amount equal to 60 percent or greater of the state's average weekly wage. The bipartisan Advisory Council on Unemployment Compensation (1995) recommended that the maximum weekly benefit equal two-thirds of the state's average weekly wage. Instituting this recommendation would assure that all low and moderate-wage workers (making up to 130 percent of the state's average weekly wage) receive fair jobless benefits. The indexing formula adopted by most states using indexing – replacing 60 percent or greater of prior wages – more closely approaches the ACUC recommendation than the 50 or 55 percent formula used in states with less generous indexing policies.



Key arguments against and responses to them

Opponents say: Indexed maximum weekly benefit amounts will be too high and drain the trust fund.

Response: Without adequate jobless benefits, the core function of the unemployment insurance program is compromised. Thus, state UI revenue systems should be designed to ensure that the program's benefits can keep pace with inflation. Sensible policies like having an indexed taxable wage base can ensure that state UI revenues increase in proportion with growth in the economy.

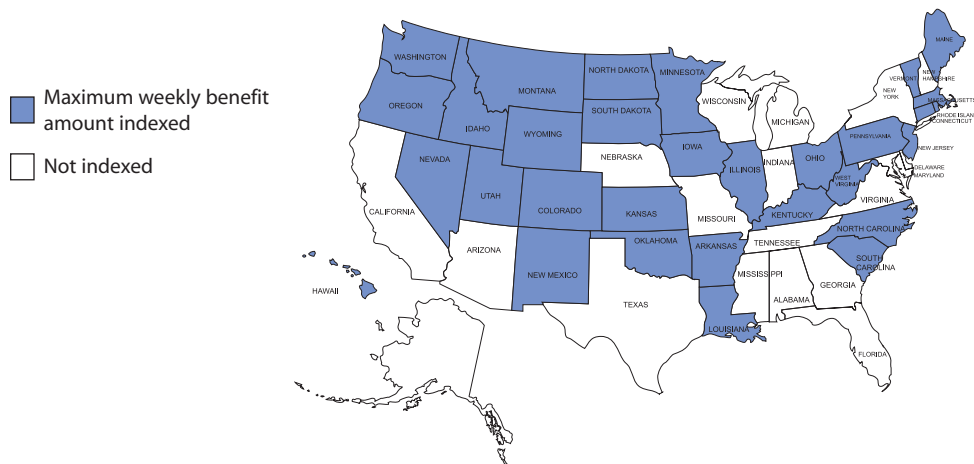
Opponents say: Workers eligible for the maximum have other savings to supplement low UI benefits.

Response: Jobless workers do not have substantial savings. A leading economist found that the average worker only had sufficient financial assets to cover 5.4 weeks of unemployment. Low-wage workers are even less likely to have savings set aside. With little other resources to turn to, adequate UI benefit payments are crucial to helping families avoid serious financial distress during unexpected unemployment.



Which states do it?

Some 32 states index weekly benefit amounts to keep pace with growth in wages, with most of these states using an index of 60 percent or greater of average state wages.





Model legislation

North Carolina

(b)(2) Each August 1st, the Agency shall calculate the maximum weekly benefit amount available to an individual. The maximum weekly benefit amount is sixty-six and two-thirds percent (66 2/3%) of the average weekly insured wage rounded, if the amount is not a whole dollar, to the next lower whole dollar. The maximum weekly benefit amount set on August 1 of a year applies to an individual whose benefit year begins on or after that date and before August 1 of the following year.

N.C. GEN. STAT. § 96-12

References

Jonathan Gruber, *The Wealth of the Unemployed: Adequacy and Implications for Unemployment Insurance*, NBER Working Paper 7348 (1999).



Watch Out For: Changes to the Way UI Benefit Amounts Are Calculated

A number of states calculate a worker's weekly UI benefit amount based on the wages the worker earns in their highest-earning quarter. Changing the formula to calculate benefit amounts based on wages from two quarters or across the entire base period can amount to a significant cut in the amount of weekly UI benefits an unemployed worker receives.

Here's the difference. Take a worker who earned \$7,500 in his or her highest quarter and \$2,500 in his or her second highest quarter and a total of \$12,500 in his or her entire base period. Under a high-quarter formula used in 33 states, the worker would receive half of their average high-quarter weekly wages in UI benefits, in this case \$288 per week. However, under an alternative two-quarter formula, the same worker would only receive \$192 per week; under a four-quarter formula he or she would only receive \$120 per week.

The workers most affected by this change are those who work for only part of the year or have uneven earnings due to seasonal fluctuations. Such workers frequently count on adequate jobless benefits to provide for their families during periodic unemployment.