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THE MIDWESTERN OFFICE OF THE COUNCIL OF STATE GOVERNMENTS
The Council of State Governments

STATELINE MIDWEST

BY LAURA KLIEUER (KLIEUER@CSG.ORG)

Benefits in doubt
Turbulent period in unemployment-insurance program has led to many changes in state and federal policies

In Minnesota, state legislators have created a new program to better help displaced workers turn a lost job into an entrepreneurial opportunity.

Meanwhile, that state and a growing number of others in the Midwest are trying to keep more people from losing their jobs in the first place — by reworking unemployment-insurance programs in ways that encourage employers not to lay off workers when business is slow, but to instead reduce their hours.

Across the country, policymakers are re-examining and, in some cases, reshaping unemployment insurance. The safety-net program has been around since 1935, but it has received heightened attention ever since the Great Recession hit in 2007.

That severe economic downturn triggered a rise in the number of displaced workers as well as a financial crisis in many states’ unemployment-insurance trust funds. Today, even as state economies recover and jobless rates fall, the attention being paid to unemployment insurance has not waned.

In Washington, D.C., much of the focus has been on whether to extend benefits for the long-term unemployed — a policy decision that has important implications for states (see sidebar article on page 6).

In some state capitols, the long-term solvency of trust funds remains a concern, and lawmakers across the country are also exploring a host of policies related to unemployment insurance.

For example, how many weeks should the state provide benefits to the unemployed? And how should the state tax its businesses, the source of revenue for unemployment-insurance trust funds?

Changes in jobless benefits, taxes
In Kansas last year, the Legislature made changes (they took effect this year) that link the duration of unemployment insurance benefits to the state’s jobless rate. Instead of automatically using a 26-week maximum (the time period traditionally used by Kansas and other states), the maximum can now fall to as low as 16 weeks when the unemployment rate drops below 4.5 percent.

Starting on Jan. 1, the maximum number of weeks unemployed Kansans can receive benefits fell to 20, based on the unemployment rate for the preceding quarter falling between 4.5 percent and less than 6 percent.

“We felt like if we cut back the weeks, it would help people who are used to being on the rolls to get back to work,” Kansas Senate Assistant Majority Leader Julia Lynn says.

The same 2013 measure, HB 2105, also increased Kansas’ taxable wage base, which helps determine the amount that businesses pay into the unemployment-insurance trust fund. Kansas’ current taxable wage base is $8,000, but starting in 2015, the first $12,000 of each worker’s earnings will be subject to the unemployment-insurance tax; that then increases to $14,000 in 2016.

(According to the Center for Budget and Policy Priorities, the median state taxable wage base in 2012 was $12,000.)

And then there are some of the newer innovations that have taken root in states, such as Minnesota’s Contracting Layoffs into Minnesota Businesses program, or CLIMB, and the Short Term Compensation Program.
Many recent state changes in unemployment insurance have been hastened by federal incentives

CLIMB was included as part of a broader measure (HJ 729) passed by the Minnesota Legislature in 2013. It offers entrepreneurial training, business consulting and technical assistance to displaced workers trying to start or expand a business. Participants are eligible for unemployment benefits while participating in the program.

The federal government has authorized states to offer such entrepreneurial training to displaced workers since 1992 and to pay a “self-employed allowance” to those who qualify. Two years ago, the U.S. Congress passed a law aimed at helping states expand help for these budding entrepreneurs and fund such programs.

That same law also provides new incentives for states to implement a Short Term Compensation Program. Also known as “work sharing,” the program gives employers an alternative to laying off workers when business is slow or temporary cuts are needed. Instead, workers are kept on the job at reduced hours. To replace the lost income, these employees are eligible for partial unemployment benefits.

Proponents of work sharing say it is a “win-win.” Employers weather economic downturns by reducing payrolls but are able to retain skilled workers. Workers, meanwhile, are able to stay on the job (albeit at reduced hours), maintain their skills, and often retain health and retirement benefits.

Iowa, Kansas and Minnesota had a Short Term Compensation Program in place before passage of the new federal law. Michigan, Ohio and Wisconsin are among the states that have more recently adopted the work-share model.

Why unemployment insurance?

A mid all of these policy changes, and the volatile financial period in trust funds that states had to weather, it is important to remember the underlying purpose of the nation’s nearly 80-year-old unemployment insurance program, says Chad Stone, a chief economist for the Center on Budget and Policy Priorities.

One of the more troubling trends since the national economic downturn has been a rise in the long-term unemployed.

In the 11-state Midwest, for example, 35 percent of the officially unemployed in 2013 (those actively looking for a job) had been out of work for 27 weeks or longer. The national rate was 38 percent. And as the accompanying bar graph shows, when compared to pre-recession figures, long-term-unemployment rates are much higher in most of the 11-state Midwest. In fact, in eight of the region’s states (all but Iowa, North Dakota and South Dakota), the average duration of unemployment was 27 weeks or longer.

This trend has implications both on individual workers (lost income and job skills, for example, as well as the stigma of being without a job for an extended period) and on the costs borne by the state-federal unemployment insurance program. It also has become a central part of an ongoing debate in Washington, D.C.

The U.S. Congress enacted the Emergency Unemployment Compensation program in 2008 and extended it 11 times—on the last time through the end of 2013.

Under the last extension, workers across the country who exhausted their regular round of benefits (26 weeks in most, but not all, states) and had not yet found a job could receive up to 14 additional weeks of benefits. In states with higher jobless rates, more weeks of unemployment were provided. These emergency extensions were 100 percent federally funded.

Federal lawmakers have now allowed the Emergency Unemployment Compensation Program to lapse, and as of early March, measures to extend it once again did not appear close to congressional passage.

Proponents of such measures point to the unusually high number of people who are long-term unemployed and who will lose jobless benefits without another extension (see map for state-by-state estimates).

Chad Stone, a chief economist for the Center on Budget and Policy Priorities, says the nation’s current long-term-unemployment situation is unprecedented. When the last Emergency Unemployment Compensation program expired (at the end of 2013), 4.2 percent of the nation’s workforce had been out of work for 27 weeks or longer.

“Every other time Congress has let the program expire, it was 1.3 percent or lower,” Stone notes.

Federal law does allow for automatic triggers that extend benefits in a state with high unemployment figures. However, those triggers rarely, if ever, kick in.

“(Right now) we’re in the situation where a lot of the relief for unemployed workers in a recession comes through a temporary federal program,” Stone says.

One potential federal reform, he adds, would be changing the criteria for when the automatic triggers take effect.

Joseph Hencnach, vice president of legal and state projects at the Tax Foundation, hopes that this challenging period will lead state and federal lawmakers to re-examine a host of the policies in the nation’s unemployment-insurance program.

“There are some things states can do with job-search requirements and benefit restrictions,” he says.

“Ultimately I think the focus should be on how do we make sure the system is not just administratively cutting checks in the most efficient way possible, but actually focusing on trying to find people employment.”

Larger numbers of long-term unemployed impacted by end of federal jobless-benefits extension

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<thead>
<tr>
<th>State</th>
<th>% of unemployed population was unemployed for 27 or more weeks (2007 vs. 2013)</th>
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<tbody>
<tr>
<td></td>
<td>2007</td>
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<td>Illinois</td>
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<tr>
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<tr>
<td>Wisconsin</td>
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% of unemployed population that was unemployed for 27 or more weeks (2007 vs. 2013)

<table>
<thead>
<tr>
<th>State</th>
<th># of people in 2014 estimated to lose benefits without extension of federal Emergency Unemployment Program</th>
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<td>South Dakota</td>
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<td>Wisconsin</td>
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Source: Center on Budget and Policy Priorities
Hard times, tough policy decisions

States have considerable latitude to shape their unemployment-insurance programs within broad federal guidelines. In response to the economic downturn that strained unemployment-insurance trust funds, for example, some states such as Illinois and Michigan moved to cut the maximum duration of benefits. In Illinois, the cut was only temporary, and the benefit has since been restored to 26 weeks (this is the maximum in most states). In 2011, the Michigan Legislature made changes that allow the long-term unemployed to continue to receive extended benefits (paid by the federal government) but that also cut the number of weeks available to displaced workers under the state’s regular unemployment-insurance program (20 weeks instead of 26 weeks).

Illinois and Michigan were among the many states nationwide that had to make other changes to shore up their trust funds. At the height of the Great Recession, 36 states (including all but Iowa, Nebraska and North Dakota in the Midwest) had to borrow money from the Federal Unemployment Account. The rises in unemployment may have prompted this fiscal emergency, but Stone says state policies that preceded the national economic downturn also contributed to the problem.

“What states have done in good times is stop contributing [to the trust funds] or reduce the tax rate, giving tax cuts to businesses,” Stone says. “The fact that states didn’t prepare well enough to get through an especially bad time.

Henchman notes, too, that unlike in other areas of budget planning, not enough attention is paid to how lawmakers can provide their state trust funds with the necessary cushion. Policy deliberations over state general/fund budgets, for example, include an understanding about the need for a rainy-day fund, and even how much it should be.

That is not necessarily the case when it comes to unemployment-insurance trust funds.

“Before the recession,” Henchman says, “it would have been nice for states to have two or three years [worth of reserves] in their trust fund. I’m pretty sure [many] don’t have that now.”

Still, these state funds are in better shape than they were only a few years ago, due in large part to some of the policy decisions taken by legislatures. Michigan, which at one point owed the federal government $3.9 billion in loans to support its unemployment-insurance program, issued revenue bonds in order to stave off the solvency of its trust fund. Illinois lawmakers issued revenue bonds as well, and they also temporarily increased the taxable wage base (thus increasing taxes on businesses).

Planning for future downturns

The fact that states found themselves in the position of raising taxes on businesses during an economic recession underscores one of the points made by Stone and Henchman — the importance of planning for future economic downturns.

Michigan lawmakers established a new “triggering mechanism” that aims to avoid future deficits by developing and maintaining a surplus in the state trust fund. Under a bill passed in 2011 (SB 806), the Legislature increased the taxable wage base from $9,000 to $9,500. It could only fall back to $9,000 when the balance in Michigan’s unemployment-insurance trust fund reached $2.5 billion.

As of February, Indiana, Ohio and Wisconsin were among the 16 states that still had outstanding loans in the Federal Unemployment Account. The result is a higher federal unemployment tax rate for these states’ businesses.

In Ohio, concerns about the impact on state employers have led to proposals to pay down the loan — tapping into rainy-day funds, for example, or using estimated state savings from the federally funded expansion of Medicaid.

Federal stimulus led many states to expand eligibility for unemployment benefits

Five years ago, with passage of the U.S. American Recovery and Reinvestment Act, states were given new incentives to broaden the base of individuals who qualify for benefits under unemployment-insurance programs. The various provisions of the federal Unemployment Insurance Modernization Act have since taken hold in many Midwestern states. For example, most now allow for an “alternative base period” — a provision that allows for more flexibility in which periods are used to determine whether someone is qualified for unemployment benefits and how much the benefits will be.

Iowa, Kansas, Nebraska and South Dakota added alternative base periods following passage of the Recovery Act, according to a 2012 study done by the National Employment Law Project. Illinois, Michigan, Minnesota, Ohio and Wisconsin had such laws in place. Adoption of alternative base periods was required for states to get the first one-third of enhanced federal funding in the Recovery Act. The remaining two-thirds was contingent on states making two of four additional changes to their unemployment-insurance programs.

States’ ability to provide benefits to past-time workers who were denied benefits because they were required to actively seek full-time employment.

In Iowa, Kansas, Minnesota, Nebraska and South Dakota, states have considerable latitude to shape their unemployment-insurance programs within broad federal guidelines. In response to the economic downturn that strained unemployment-insurance trust funds, for example, some states such as Illinois and Michigan moved to cut the maximum duration of benefits. In Illinois, the cut was only temporary, and the benefit has since been restored to 26 weeks (this is the maximum in most states). In 2011, the Michigan Legislature made changes that allow the long-term unemployed to continue to receive extended benefits (paid by the federal government) but that also cut the number of weeks available to displaced workers under the state’s regular unemployment-insurance program (20 weeks instead of 26 weeks).

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Below are those four changes, along with the states that adopted them in time to receive federal incentives, according to the National Employment Law Project study.

• Provide benefits to part-time workers who were denied benefits because they were required to actively seek full-time employment.
• Provide benefits to individuals who leave work for compelling family reasons, including: domestic violence or sexual assault, caring for a sick family member, or moving because a spouse has relocated to another location for employment. Illinois, Minnesota, Nebraska, South Dakota and Wisconsin extended benefits in these cases; South Dakota provides benefits in cases of domestic violence.

• Provide benefits to workers with dependent family members. This extension applies to workers who qualify for $15 or more in weekly benefits per dependent (up to a total of $50) to help cover the added expenses associated with dependent care. Illinois adopted a “dependent allowance” provision; Iowa, Michigan and Ohio also provide for one, but their rules were not compliant with the Recovery Act.

• Provide an extra 26 weeks of unemployment benefits to permanently laid-off workers who require access to training in order to improve their skills. Iowa, Kansas, Nebraska, South Dakota and Wisconsin also extend benefits to laid-off workers in training. Iowa and Minnesota also have wholly state-funded jobless-extension programs. In Iowa, benefits may be extended 13 weeks for those who are unemployed due to their last employer going out of business. In Minnesota, employees from companies that permanently laid off at least 50 percent of their workforce are able to qualify for an additional 13 weeks of benefits. As part of legislation (HF 729) passed last session, too, Minnesota now provides an additional 26 weeks of benefits for individuals who have stopped working because of a lockout.

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