

ISSUE BRIEF

Unemployment Insurance

The Unemployment Insurance (UI) system has fallen into serious disrepair and is failing to address the needs of millions of laid-off workers. Today fewer than half of jobless workers collect unemployment benefits, and their benefits replace about one-third of their lost income. Congress should update the UI system to cover more workers and provide more benefits and oppose the Bush administration's "New Balance" proposal that would weaken the federal safety net and result in fewer benefits for fewer workers.

The percentage of unemployed workers receiving UI benefits has fallen from 75 percent in 1975 to 42 percent in 2001. Most states have failed to update their UI eligibility rules to reflect the massive entry of women, contingent workers and part-time workers into the labor force over the past 30 years. Even worse, in the 1990s many states lowered UI taxes on employers by tightening eligibility criteria and cutting benefit levels.

Congress must continue and repair extended benefits (EB) programs. In recent recessions, Congress has created temporary programs to provide extended federal benefits—beyond the 26 weeks states typically provide—because the permanent program designed to provide extended benefits during recessions is largely dysfunctional. Congress should provide additional weeks of benefits for laid-off workers, including the one million jobless who have already exhausted federal benefits. Congress should also repair the permanent program.

Congress should implement stakeholder consensus reforms. A multi-year stakeholder process involving employers, workers, state UI administrators and the Labor Department produced a consensus package of UI reforms, including a 25 percent reduction of the federal unemployment tax, expanded eligibility for low-wage and part-time workers and mandatory administrative financing.

Congress should expand eligibility for low-wage workers. Low-wage workers are twice as likely to be unemployed as other workers, but half as likely to receive UI benefits. In all but 12 states, low wage workers are ineligible to receive UI benefits—or they receive fewer benefits—because their most recent earnings are not counted. The stakeholder package includes federal funding for states to use an alternative base period to count most recent earnings.

Congress should expand eligibility for part-time workers. Unemployed workers who cannot work full time—mostly women, many of them caregivers—are ineligible for UI benefits in 33 states. The stakeholder package includes federal funding for states to cover part-time workers.

Congress should increase unemployment insurance benefits. UI benefits average about \$231 per week, which replaces only one-third of lost wages for most workers. The stakeholder package includes federal funding for states to increase benefit levels.

Congress should make administrative funding mandatory. Though UI benefits are an entitlement, federal funding of UI administrative costs is discretionary. To protect states against chronically inadequate appropriations, the stakeholder package makes administrative funding mandatory.

Congress must oppose the Bush plan. The Bush administration's "New Balance" plan cuts the Federal Unemployment Tax Act (FUTA) tax by 75 percent and gradually shifts responsibility to the

states for funding UI administration and the Employment Service. The Bush plan preempts the stakeholder process by giving employers a larger tax cut while ignoring reforms that benefit workers.

The Bush plan leaves states with funding shortfalls. Under the Bush plan, states ultimately would have to make up for the loss of \$3.6 billion in federal administrative funding every year. Yet employers generally have been very successful keeping state unemployment taxes low. Employer groups already oppose increasing state employer taxes to make up more than two-thirds of the Bush plan's shortfall, which would leave states like California with less administrative funding than under the current system—and far less than under the stakeholder proposal.

The Bush plan puts downward pressure on UI benefits. States unwilling to increase employer taxes enough to make up for the Bush plan's shortfall may opt to cut UI benefits instead. More generally, by tearing down the firewall between UI benefits and UI administration, the Bush plan would lead many states to cut benefits or restrict eligibility in order to keep down administrative costs. UI benefits would be especially vulnerable during recessions, when higher caseloads drive up administrative costs.

The Bush plan eliminates incentives for eligibility expansion. Eligibility expansion will be less politically feasible if states have to shoulder the associated administrative costs themselves. By doing away with the current workload-based allocation of administrative funding, the Bush plan eliminates a critical incentive for states to maintain high reciprocity levels and penalizes states with higher levels.

The Bush plan undermines the federal safety net. By cutting the FUTA tax 75 percent, the Bush plan depletes federal UI trust funds and undermines the federal government's ability to respond to recessions. And without the leverage of administrative funding, the federal government cannot enforce core national standards, such as prompt and accurate payment of UI benefits.

Sources: Kruger, Dr. Alan, *Fix Unemployment First*, National Employment Law Project (November 2001); Coven, Martha, *Introduction to Unemployment Insurance*, Center on Budget and Policy Priorities (Jan. 9, 2003); National Employment Law Project, *Unemployment Insurance Fact Sheet* (November 2002).